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Budget Monitor

Fiscal cracks, political plaster

16 March 2025

Deloitte
Access Economics

Budget Monitor is a source of independent projections of the Federal Budget, including detailed estimates of future spending and revenues.

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Based on updated economic parameters and policy announcements to 6 March 2025 – and assuming no further material increases in spending – Deloitte Access Economics estimates an underlying cash deficit of $26.1 billion in 2024-25, $0.8 billion above the expected outcome in the 2024-25 Mid-Year Economic and Fiscal Outlook (MYEFO). Net debt is expected to increase to 19.6% of GDP in 2024-25, broadly in line with the estimate of 20.0% in the 2024-25 MYEFO.

Budget forecasts

$ billion	2024-25	2025-26	2026-27	2027-28
Underlying cash balance	-26.1	-49.6	-42.0	-39.3
% of GDP	-0.9%	-1.7%	-1.4%	-1.3%
Fiscal balance	-45.1	-52.4	-40.0	-37.8
% of GDP	-1.6%	-1.8%	-1.3%	-1.2%
Revenue	719.7	741.3	777.7	815.0
% of GDP	26.1%	26.0%	26.1%	26.1%
Expenses	759.2	785.3	809.2	843.3
% of GDP	27.6%	27.5%	27.2%	27.0%
Net debt	540.8	616.1	684.9	747.4
% of GDP	19.6%	21.6%	23.0%	23.9%

Source: Deloitte Access Economics. Forecasts incorporate policy announcements to 6 March 2025 and updated economic parameters.

Economic drivers

The last two consecutive budget surpluses were driven by a boost in commodity prices and inflation. With commodity prices off their peak and inflation moderating, that marks the end of cyclical revenue windfalls. Additionally, the revenue upgrades resulting from stronger-than-expected population and employment growth are expected to unwind over the forward estimates.

Revenue

The 2025-26 Budget is expected to reveal $11.3 billion in downward revisions to revenue over the four years to 2027-28, compared to what was forecast in the 2024-25 MYEFO handed down in December.

Expenses

Parameter variations and policy decisions to 6 March 2025 (plus an adjustment for the expected change in the distribution of the GST to the states and territories) are expected to increase spending over the four years to 2027-28 by $1.5 billion relative to forecasts in the 2024-25 MYEFO.

Budget backdrop

Recent editions of *Budget Monitor* have offered a consistent warning on the Federal Budget position: governments need to stop relying on 'unforeseen' revenue upgrades in place of a sustainable fiscal strategy.

That warning is particularly relevant in 2025.

Released on the eve of what is set to be a tightly contested federal election, the 2025-26 Budget is unlikely to reveal much by way of revenue upgrades over the forward estimates. That will be a reality check for politicians wanting to announce election sweeteners in the weeks ahead.

The Budget to be handed down on 25 March is an unusual one, coming as somewhat of a surprise (even, presumably, to many within government) despite having been pencilled in since October last year.

With uncertainty around election timing now settled, the Treasurer has the task of delivering a budget which provides enough good news for voters to support a re-election push, deals with emerging challenges of the need for more private sector investment, and responds to the imperative of investments in supply chain resilience, and the criticality of rethinking our defence and security needs, all while carefully managing some fraying purse strings.

The recent recipe for a smooth budget update has involved the use of conservative 'technical assumptions' for commodity prices, which set a low bar for revenues and prime the forward estimates for upward revisions. Some luck on economic developments helps too.

But that recipe may fail this time. Treasury's commodity price assumptions look less conservative than they have for some time. And there are some genuine economic surprises on the downside that mean revenues are simply not going to measure up this time around.

Over the course of its term, the current government's budget updates have revealed an average of around $84 billion in revenue writeups over the four year forward estimates period. But Deloitte Access Economics expects a revenue write-down in the upcoming Budget, representing a significant shift in the narrative at a time when political spending pressures are at their most intense.

Or, in other words, the economics is not aligning with the politics.

And the politics might be about to get trickier.

It's worth noting that a minority government of either persuasion would present further political challenges for the budget. Crossbenchers have strong incentives to be associated with spending promises but can place the blame for the resulting deficits on the government of the day. That pattern of negotiation is not favourable to a sustainable improvement in the budget bottom line. That said, in the current parliament, it is the crossbenchers who have advocated for the most sensible reforms to the tax system.

Plotting a path back to surplus will require hard decisions – including around how to best raise revenues to pay for the promises that both sides of politics want to keep. Today, the Australian conversation about the right level of revenue and the right mix of taxes is barely a murmur. It's an increasingly important conversation for the nation's future, and the volume needs to be turned all the way up.

One reason Australia's longer-term fiscal health might not get the attention it deserves is because it's too easy for politicians to paint the numbers any colour they feel. Even voters who care deeply about the country's finances can be forgiven for not knowing what to believe. It's no longer as simple as reading the bottom line of the budget papers.

These days, a whole raft of measures can – to varying degrees – be used to measure the budget's health. That's a great outcome for politicians, but a bad outcome for taxpayers.

Quoting these various measures can obscure the debate around Australia's long-term fiscal outlook and detract from an honest conversation about the fiscal challenge.

Ultimately, there is only one measure that taxpayers really need to assess the sustainability of Australia's finances. And on that metric, regardless of what political stripes you wear, Australia's budget has a problem.

Net debt is projected to grow from 19.6% of gross domestic product (GDP) in 2024-25 to 23.9% of GDP by 2027-28. And while near-term revenue windfalls have held net debt lower than expected this year, projections for the later years are moving in the wrong direction.

The medium-term budget outlook is getting worse, not better.

Add to that the parlous nature of most state finances, in large part driven by unchecked vertical fiscal imbalance, and the structural view of the national balance sheet gets even worse.

Budget forecasts

Deloitte Access Economics' forecasts for key budget aggregates are shown in Table i.

The key to the size of the tax take is the size of the nominal economy. Nominal GDP growth is expected to decelerate from 4.2% in 2023-24 to 3.0% in 2024-25, below Treasury's official forecast of 3.25% in the 2024-25 MYEFO. Economic growth in the latter years of the forward estimates is also expected to disappoint. Deloitte Access Economics is forecasting nominal GDP growth of 4.4% and 4.8% in 2026-27 and 2027-28 compared to Treasury's projections of 5.0% and 5.5%.

Unexpected strength in both the labour market and the fortunes of major companies is set to drive some revenue upgrades in 2024-25. Indeed, monthly tax collections for the financial year to date show some areas of key strength.

But there will be some misses too. High expectations for individual taxes on non-wage income in the 2024-25 MYEFO forecasts appear unlikely to be realised, while there are some gaps emerging in the indirect tax take. That means that any overall upgrade in revenue for 2024-25 is likely to remain modest.

Further ahead, Deloitte Access Economics expects slower economic growth and a softer period for company profits compared to the official forecasts. That means revenue is expected to be downgraded in later years.

Income tax withholding is the largest slice of government revenue. It is closely tied to the size of the national wage bill, which in turn depends on employment and wage growth.

A labour market that keeps outperforming expectations has been supporting upgrades for this head of revenue, and there is likely to be a little more good news ahead.

Overall, Deloitte Access Economics anticipates income tax withholding will be a cumulative $3.5 billion higher than the official forecasts over the next four years, with more than half of that total occurring in 2024-25.

Company tax may not be the largest source of revenue, but its relative volatility and can make or break a budget.

Deloitte Access Economics' forecasts of company tax revenue are a cumulative $2.3 billion below the latest official projections over the next four years, with that downgrade largest in the final years of the forward estimates. As always, company taxes remain an area to watch.

Any budget released just before an election would be expected to contain a 'cash splash' of campaign promises. But the extent of the cash splash this time around will very likely be smaller than usual. That is in part because a March 2025 Budget appears to fall into 'Plan B' of the Government's election timing strategy, and in part because the forecast fiscal position is likely to be softer than anticipated at the time of the 2024-25 MYEFO.

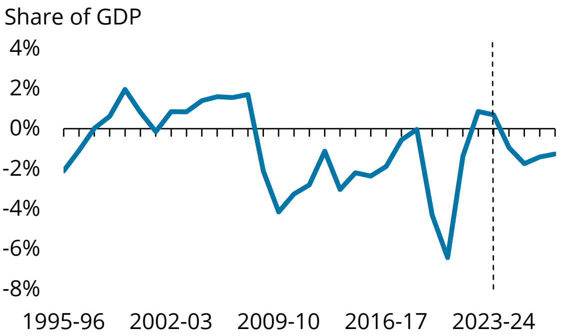
Following an underlying cash surplus of $15.8 billion in 2023-24, Deloitte Access Economics anticipates that 2024-25 will see an underlying cash deficit of $26.1 billion, representing a worsening of $41.9 billion in the space of 12 months.

The magnitude of this turnaround illustrates the extent to which surpluses in recent years were the result of a cyclical revenue gains rather than structural improvements in the budget. Those surpluses still required fiscal discipline – surprise revenue upgrades were mostly saved rather than mostly spent. But banking on revenue to surpass Treasury's forecast does not make for a sound fiscal strategy.

This sharp downswing in the budget bottom line indicates that longer-term spending challenges are becoming increasingly more present.

Spending pressures are expected to increase markedly over the coming years – especially across health, aged care, the NDIS, defence and interest costs. This increase is not expected to be matched with an equivalent lift in revenue.

Chart i Underlying cash balance to GDP

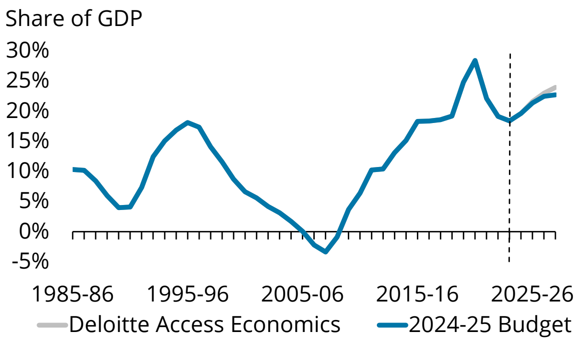


Source: Deloitte Access Economics, based on Commonwealth of Australia data

As Deloitte Access Economics has previously noted, the tax system – particularly its heavy reliance on personal and company income tax – is not fit for purpose now, let alone for the future. Australians will need to pay more tax in the years ahead in order for the budget to afford the raft of long-term spending promises that successive governments have made.

Overall, Deloitte Access Economics expects the underlying cash balance to be cumulatively $13.1 billion worse off over the four years to 2027-28 compared to the forecasts outlined in the 2024-25 MYEFO.

Chart ii Net debt to GDP



Source: Deloitte Access Economics, based on Commonwealth of Australia data

Table i Budget projections

	Outcome 2023-24	Forecast 2024-25	2025-26	2026-27	2027-28
Budget aggregates, $ billion					
Revenue (accrual)	704.5	719.7	741.3	777.7	815.0
% of GDP	26.3%	26.1%	26.0%	26.1%	26.1%
Taxation revenue	650.4	665.0	686.1	721.6	756.9
% of GDP	24.3%	24.1%	24.1%	24.2%	24.2%
Non-taxation revenue	54.1	54.6	55.2	56.1	58.1
% of GDP	2.0%	2.0%	1.9%	1.9%	1.9%
Expenses (accrual)	685.9	759.2	785.3	809.2	843.3
% of GDP	25.6%	27.6%	27.5%	27.2%	27.0%
Fiscal balance	12.0	-45.1	-52.4	-40.0	-37.8
% of GDP	0.4%	-1.6%	-1.8%	-1.3%	-1.2%
Official forecast of fiscal balance	12.0	-45.9	-49.7	-36.3	-33.4
Difference in fiscal balance	0.0	0.8	-2.7	-3.6	-4.3
Underlying cash balance	15.8	-26.1	-49.6	-42.0	-39.3
% of GDP	0.6%	-0.9%	-1.7%	-1.4%	-1.3%
Official forecast of underlying cash balance	15.8	-26.9	-46.9	-38.4	-31.7
Difference in underlying cash balance	0.0	0.8	-2.7	-3.6	-7.6
Net cash flows from investments in financial assets[1]	-1.8	-23.2	-25.7	-26.9	-23.2
Headline cash balance	14.0	-49.3	-75.3	-68.9	-62.5
% of GDP	0.5%	-1.8%	-2.6%	-2.3%	-2.0%
Official forecast of headline cash balance	14.0	-47.8	-70.3	-62.9	-52.5
Difference in headline cash balance	0.0	-1.5	-5.0	-6.0	-9.9
Net debt	491.5	540.8	616.1	684.9	747.4
% of GDP	18.4%	19.6%	21.6%	23.0%	23.9%
Official forecast of net debt (% of GDP)	18.4%	20.0%	21.5%	21.8%	21.9%
Economic forecasts, % growth					
Real GDP	1.4%	1.2%	1.9%	2.6%	2.7%
Employment^	2.2%	2.2%	1.2%	1.4%	1.5%
Unemployment rate*	4.1%	4.4%	4.5%	4.5%	4.5%
Consumer price index^	3.8%	2.1%	2.7%	2.5%	2.5%
Wage price index^	4.1%	3.3%	3.3%	3.4%	3.4%
Nominal GDP	4.2%	3.0%	3.6%	4.4%	4.8%

Rates of growth in all tables (unless otherwise indicated) are 'year average percentage changes' – the percentage change between the year indicated and the prior year. ^Employment, consumer price index and wage price index are through the year growth to the June quarter. *Unemployment rate is the rate for the June quarter. 'Official forecasts' refer to projections in the 2024-25 MYEFO. [1] Net cash flows from investments in financial assets for policy purposes. Prior to 1999-00 these flows were known as 'net advances'.
Source: Deloitte Access Economics, Commonwealth of Australia.

Budget backdrop

A critical fiscal debate fails to cut through the election noise.

This edition of *Budget Monitor*

Budget Monitor provides an independent view on the Federal Budget.

Unless otherwise indicated, the official forecasts shown in this issue of *Budget Monitor* are drawn from the 2024-25 Mid-Year Economic and Fiscal Outlook (MYEFO). To produce the budget forecasts presented in this report, Deloitte Access Economics has updated the 2024-25 MYEFO figures by incorporating:

- The latest actual Commonwealth Monthly Financial Statements data for 2024-25 published by the Department of Finance up to January 2025
- The effect of policy decisions announced by the Federal Government up to and including 6 March 2025
- The effect of changes in economic parameters based on Deloitte Access Economics' latest forecasts and therefore capturing any difference between those forecasts and Treasury's view of the economic outlook included in the 2024-25 MYEFO.

Deloitte Access Economics' latest economic forecasts were published in the December 2024 edition of *Business Outlook* and released on 28 January 2025.

The remainder of this backdrop describes a complex economic and policy context for the release of the 2025-26 Budget.

No revenue joy for the budget

Recent editions of *Budget Monitor* have put forward a consistent warning on the Federal Budget position: governments need to stop relying on 'unforeseen' revenue upgrades in place of a sustainable fiscal strategy.

That warning is particularly relevant in 2025.

Released on the eve of what is set to be a tightly contested federal election, the 2025-26 Budget is unlikely to reveal much by way of revenue upgrades over the forward estimates. That will be a reality check for politicians wanting to announce election sweeteners in the weeks ahead.

The Budget to be handed down on 25 March is an unusual one, coming as somewhat of a surprise (even, presumably, to many within government) despite having been pencilled in since October last year. With uncertainty around the election timing now settled, the Treasurer has the task of delivering a budget with enough good news for voters to support a re-election push, while carefully managing some fraying purse strings.

The recent recipe for a smooth budget update has involved the use of conservative 'technical assumptions' for commodity prices, which set a low bar for revenues and prime the forward estimates for upward revisions. Some luck on economic developments helps too.

But that recipe may fail this time. Treasury's commodity price assumptions look less conservative than they have for some time. And there are some genuine economic surprises on the downside that mean revenues are simply not going to measure up this time around.

Or, in other words, the economics is not aligning with the politics. Rather than a cozy set of revenue upgrades, Deloitte Access Economics expects the 2025-26 Budget to reveal net revenue downgrades to the tune of $11.3 billion over the four years to 2027-28.

Over the course of its term, the current government's budget updates have revealed an average of around $80 billion in revenue writeups over the four year forward estimates period. The projected write-down in the upcoming Budget represents a significant shift in the narrative at a time when political spending pressures are at their most intense.

Around half of the forecast revenue shortfall relates to taxes on individuals, where it seems unlikely that Treasury's high hopes for taxes on small businesses, interest, rents and capital gains will be met. Much of the remainder of the shortfall is due to a major hole in the indirect tax take caused by lower tobacco excise. That's partly due to lower smoking rates. But it's also due to the scourge of illegal tobacco and vape supply that has flourished amid the senseless combination of high taxes and low effort compliance.

The fiscal challenges facing the current government will be inherited by any incoming government. Ideally, the abrupt shift in the fiscal narrative would inspire a robust competition of ideas going into the election, with voters then having their say on meaningful proposals to put Australia on a firmer fiscal footing.

Unfortunately, the election is more likely to put an outsized focus on flashy proposals designed to woo voters who are focused on their day to day. This will distract from a pressing policy issue facing the nation: the fiscal holes in Australia's medium-term budget outlook are getting bigger, not smaller. And no politician is putting forward a credible plan to plug those holes.

It's worth noting that a minority government of either persuasion would present further political challenges for the budget. Crossbenchers have strong incentives to be associated with spending promises but can place the blame for the resulting deficits on the government of the day. That pattern of negotiation is not favourable to a sustainable improvement in the budget bottom line. That said, in the current parliament, it is the crossbenchers who have advocated for the most sensible reforms to the tax system.

In a world where global risks are rising, a sound budget position represents a form of insurance. Australians should want governments to have the capacity to ward off the big challenges that might emerge from a less friendly global economy. Mitigating the effects of tariffs and trade wars, or bolstering defence spending, for example, are only possible with a structurally sound budget.

Deficits will not fix themselves. Plotting a path back to surplus will require hard decisions – including around how to best raise revenues to pay for the promises that both sides of politics want to keep. Today, the Australian conversation about the right level of revenue and the right mix of taxes is barely a murmur.

It's an increasingly important conversation for the nation's future, and the volume needs to be turned all the way up.

Trouble hiding in plain sight

One reason Australia's longer-term fiscal health might not get the attention it deserves is because it's too easy for politicians to paint the numbers any colour they feel. Even voters who deeply care about the country's finances can be forgiven for not knowing what to believe. It's no longer as simple as reading the bottom line of the budget papers.

These days, a whole raft of measures can – to varying degrees – be used to measure the budget's health. That's a great outcome for politicians, but a bad outcome for taxpayers.

In times past, the simplest of measures – the headline cash balance – was the one that received the greatest attention. This measure is a pure reflection of cash flows in and cash flows out in any given financial year. It includes the flow of cash into and out of financial assets – including those used for policy purposes.

Over time the slightly more sophisticated 'underlying' cash balance became the standard. It measures net cash flows from operating activities, plus the purchase of assets that are used to produce goods and services. It's a good view of the ongoing operations of government.

The difference between these measures is 'net cash flows from investments in financial assets for policy purposes'. A mouthful, certainly. But not complicated. In practice it simply means parking money in a policy fund that is not reported as part of the underlying cash balance. That ability to keep spending off the underlying cash balance has seen this method of funding policy promises surge in popularity.

Regardless of the election result, expect the long list of funds to get longer. That is not good news for Australians interested in the transparency of government finances.

There are other ways that governments can spend money – and run up debt – faster than what might be implied by the underlying budget balance. Other 'off budget' spending and revenue decisions are also common, such as the recent changes to HECS debt repayments.

Government investments that are expected to earn a commercial return (such as the Clean Energy Finance Corporation) also avoid showing up in the underlying budget measures. All of these tricks obscure the debate around Australia's long-term fiscal outlook and detract from an honest conversation about the fiscal challenge. Ultimately, there is only one measure that taxpayers really need to assess the sustainability of Australia's finances. On that metric, regardless of what political stripes you wear, Australia's budget has a problem.

Net debt is projected to grow from 19.6% of gross domestic product (GDP) in 2024-25 to 23.9% of GDP by 2027-28. While near-term revenue windfalls have held net debt lower than expected this year, projections for the later years are moving in the wrong direction. The medium-term budget outlook is getting worse, not better.

Beware of the quick fixes

One of the problems with Australia's fiscal position is that temporary spending measures – put in place to fix yesterday's problems – are proving stickier than first intended. Ever since the COVID-19 pandemic pushed up prices and interest rates around the world, the cost of living has been front of mind for most Australians. Governments have responded with handouts to help ease the pain.

These handouts have a fundamental problem. If temporary support makes people better off, the end of that support inevitably makes people worse off. That means temporary handouts have a nasty habit of hanging around. Another year of electricity rebates threatens to be added to the list of 'not so temporary' handouts.

Making the problem worse is the fact that the Federal Budget has a built-in mechanism to stealthily raise taxes on individuals without requiring politicians to announce any tax hikes. Indeed, it is much more politically palatable to let bracket creep quietly erode the living standards of a large group of taxpayers than it is to announce the painful winding back of a temporary handout that will leave a smaller group of individuals worse off. As is often the case, good politics does not mean good policy. The habit of relying on bracket creep to fix political problems is not a healthy one.

The budget is the social compact through which Australians pay for policies that help the vulnerable, keep inflation contained, and support productivity and growth.

A key part of the compact is that the governments rigorously assess the trade-offs between spending and revenue, such that taxes can be kept as low and efficient as possible.

The bracket creep in Australia's income tax means those trade-offs are not being assessed as frequently as they should be. As quick fix spending continues to be funded under the cover of stealthily higher income taxes, Australia's medium-term budget problem gets kicked down the road, while income earners are asked to fund a rising share of a rapidly rising spending bill.

Indexing income tax thresholds to wage growth or inflation would require governments to more frequently evaluate the trade-offs between spending and revenue, and therefore whether Australia's social compact is working as intended.

Spend smarter not faster

Stopping the quick fixes from becoming permanent spending is one piece of the budget puzzle. Another piece of the puzzle is to find better fixes.

While temporary revenue tailwinds are slipping away, structural challenges are driving government spending needs steadily higher, especially in the areas of health, aged care, the National Disability Insurance Scheme (NDIS), and defence. Against this backdrop, it is critical that each new dollar of spending is delivering value for money. Unfortunately, in the lead up to a federal election, that is not the case.

For example, the $8.5 billion investment in Medicare will mean the government is spending an additional $2 billion per year to generate patient savings of $859 million per year by 2030. Separately, the proposal to wipe 20 per cent of all student loan debts is a backward-looking cash splash that fails to create any economic incentives to help build the workforce of the future. Meanwhile, the Whyalla Steelworks bailout includes around $500 million of near-term spending for the sole purpose of keeping money flowing to the Steelworks' 1,100 workers and 2,000 others who indirectly rely on the industry. Supporting affected workers is a critical part of the social compact. But the near-term support comes in at about $160,000 per job.

Value for money can be hard to come by in election years. But the long-term budget projections show deficits as far as the eye can see, and ineffective spending is the last thing Australia needs.

Economic outlook

Government spending takes the driver's seat.

The Australian economic outlook

Growth in the Australian economy slowed over the past year as persistent inflation kept interest rates higher than hoped, placing additional pressure on already stretched businesses and households. While private sector growth was slow through much of 2024, government spending has been healthy, keeping the pace of overall economic growth in positive territory.

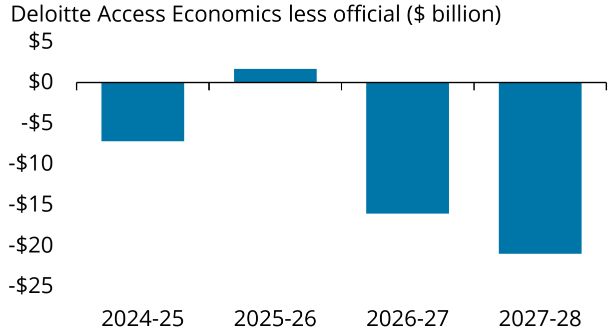
The latest data shows the economy has turned a corner. As interest rates continue to decline, household consumption picks up, and dwelling investment improves, conditions will continue to strengthen.

Generally, the pace of economic activity steers the level of government spending. However, over the past 12 months, those roles have reversed, with government spending a key proponent of economic growth. The government has been funnelling money into the economy through electricity rebates, tax cuts and other spending initiatives. In fact, if growth in public demand had matched the growth in private demand over the past year, Australia would have been in recession. To have the government drive economic growth is not sustainable for the budget. Not only does high public spending strain the expenditure side of the budget, but lower tax revenue from a less productive private sector exacerbates the problem.

The key to the size of the tax take is the size of the nominal economy. Nominal GDP growth is expected to decelerate from 4.2% in 2023-24 to 3.0% in 2024-25, below Treasury's official forecast of 3.25% in the 2024-25 MYEFO. Economic growth in the later years of the forward estimates is also expected to disappoint. Deloitte Access Economics is forecasting nominal GDP growth of 4.4% and 4.8% in 2026-27 and 2027-28 compared to Treasury's projections of 5.0% and 5.5%.

As a result, Deloitte Access Economics expects the nominal economy to be almost $10.6 billion smaller on average each year from 2024-25 to 2027-28 compared to the official forecasts (see Chart 1).

Chart 1 Difference in nominal GDP forecasts



Source: Deloitte Access Economics, based on Commonwealth of Australia data. Note: Data shows the difference between the latest Deloitte Access Economics forecasts and the official forecasts published in December 2024.

Some important positives – such as population and employment growth – have outperformed expectations and supported economic growth in the past year. This 'people power' has also bolstered the budget and will help to ameliorate revenue downgrades for taxes elsewhere.

Indeed, Australia's population increased by 2.1% over the year to June 2024 (the latest available data), driven by overseas migration. However, migration has peaked and is expected to revert to pre-pandemic levels by mid-2025 as net overseas migration slows.

The labour market has been surprisingly resilient despite the gradual easing of conditions last year. The unemployment rate remains historically low and employment growth has remained robust.

These combined factors have led to revenue upgrades to personal income tax, though those gains are likely to unwind over the forward estimates.

The Federal Government's crowning budget achievement is the consecutive budget surpluses recorded in 2022-23 and 2023-24. Those surpluses were thanks to high commodity prices and inflation (while banking most of those revenue upgrades also helped).

However, commodity prices have declined from their peaks and are expected to moderate further due to weaker demand from China, while inflation continues to track back to the 2-3% target range. In short, no longer can governments expect higher commodity prices – and the higher company tax receipts they help to support – to propel the budget to a healthier bottom line.

Even as economic conditions are projected to improve, there are many global risks to Australia's economic outlook, all which have the potential to affect the budget.

In addition to existing structural challenges, there are rising risks that China will be affected by US tariffs and any potential trade war.

A weaker outlook for China would put further downward pressure on commodity prices, with significant implications for tax receipts.

It is worth noting that the conservatism of Treasury's commodity price assumptions has softened in recent years. Commodity prices are likely to remain above budget assumptions, but that gap will be less marked than it has been in the past, leaving less room for upgrades to revenue.

Overall, Deloitte Access Economics expects real economic growth to slow to 1.2% in 2024-25 before accelerating to 2.7% by 2027-28.

Table 1 Australian economic forecasts (% growth)

	History 2023-24	Forecast 2024-25	2025-26	2026-27	2027-28
Gross domestic product					
Household consumption	1.1%	0.8%	2.1%	2.4%	2.6%
Dwelling investment	-1.4%	1.6%	2.0%	7.4%	8.5%
Business investment	5.7%	1.3%	2.8%	3.5%	3.5%
Public final demand	4.2%	4.7%	3.1%	3.1%	3.0%
Gross national expenditure	1.9%	1.8%	2.4%	3.0%	3.2%
Real GDP	1.4%	1.2%	1.9%	2.6%	2.7%
Nominal GDP	4.2%	3.0%	3.6%	4.4%	4.8%
Prices and wages					
Consumer price index^	3.8%	2.1%	2.7%	2.5%	2.5%
Wage price index^	4.1%	3.3%	3.3%	3.4%	3.4%
GDP deflator	2.7%	1.8%	1.6%	1.8%	2.1%
Terms of trade	-6.3%	-5.2%	-2.6%	-1.8%	-0.8%
Labour market and population					
Participation rate*	66.8%	67.0%	66.9%	66.7%	66.7%
Employment^	2.2%	2.2%	1.2%	1.4%	1.5%
Unemployment rate*	4.1%	4.4%	4.54%	4.52%	4.5%
Population	2.3%	1.8%	1.5%	1.3%	1.4%

Note: Base year for real data is 2021-22. Rates of growth in all tables (unless otherwise indicated) are 'year average percentage changes' – the percentage change between the year indicated and the prior year. ^Employment, consumer price index and wage price index are through the year growth to the June quarter. *Unemployment rate and participation rate is the rate for the June quarter. Source: Deloitte Access Economics, Australian Bureau of Statistics

Revenue

Revenue set to be downgraded over the forward estimates.

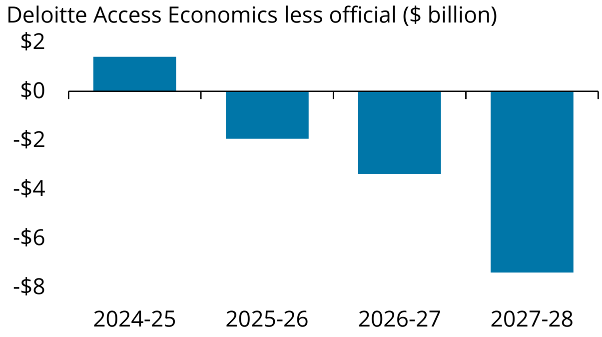
Overview

Unexpected strength in both the labour market and the fortunes of major companies is set to drive some revenue upgrades in 2024-25. Indeed, monthly tax collections for the financial year to date show some areas of key strength.

But there will be some misses too. High expectations for individual taxes on non-wage income in the 2024-25 MYEFO forecasts appear unlikely to be realised, while there are some gaps emerging in the indirect tax take. That means that any overall upgrade in revenue for 2024-25 is likely to be modest.

Further ahead, Deloitte Access Economics expects slower economic growth and a softer period for company profits compared to the official forecasts. That means revenue is expected to be downgraded in later years, as shown in Chart 2.

Chart 2 Revenue forecast compared to 2024-25 MYEFO



Source: Deloitte Access Economics, based on Commonwealth of Australia data

Table 2 Accrual revenue estimates ($ billion)

	2024-25		2025-26		2026-27		2027-28	
	Official estimate	*Budget Monitor*	Official estimate	*Budget Monitor*	Official estimate	*Budget Monitor*	Official estimate	*Budget Monitor*
Individuals[1]	344.3	341.8	356.5	356.2	376.6	376.8	407	403.6
Company tax	135.5	137.8	139	138.7	147.1	145.2	151.1	148.7
Superannuation fund taxes	21.9	24.4	23.2	23.5	25.2	25.5	23.5	23.8
Other income tax[2]	6.4	7.0	7.0	7.1	6.7	6.9	6.8	7.0
Total income tax	508.2	511.1	525.7	525.6	555.5	554.3	588.4	583.1
GST	94.8	95.0	99.3	99.5	104.7	105.0	110.7	111.1
Excise and customs duty	44.0	42.4	45.5	43.7	46.8	44.6	46.8	44.6
Other indirect tax[3]	16.7	16.6	17.3	17.3	17.6	17.6	18.0	18.0
Total indirect tax	155.4	153.9	162.1	160.5	169.1	167.3	175.4	173.8
Total taxation revenue	663.6	665.0	687.9	686.1	724.6	721.6	763.8	756.9
Non-taxation revenue[4]	54.6	54.6	55.4	55.2	56.4	56.1	58.6	58.1
Total revenue	718.3	719.7	743.2	741.3	781.0	777.7	822.4	815.0

Note: Official estimate refers to the 2024-25 MYEFO. 1 Individuals includes gross income tax withholding, gross other individuals less refunds. 2 Other income tax includes fringe benefits tax and petroleum resource rent tax. 3 Other indirect tax includes wine equalisation tax, luxury car tax, major bank levy, agricultural levies, and other taxes. 4 Non-taxation revenue includes sales of goods and services, interest, dividends and distributions, other non-taxation revenue. Source: Deloitte Access Economics, The Commonwealth of Australia

Lower expected revenues from 2025-26 will mean any new election spending will add to growing deficits. They also make any plans to return to surplus in the medium term more difficult.

Overall, Deloitte Access Economics expects the 2025-26 Budget to show a modest $1.4 billion upgrade to revenue in 2024-25 before a series of shortfalls from $1.9 billion in 2025-26 to $7.4 billion in 2027-28. The total anticipated write-down of $11.3 billion over the forward estimates is not enormous in the context of a budget with annual revenue of more than $700 billion. But it is not the sort of outcome any government would want to unveil just before an election campaign.

Deloitte Access Economics' revenue forecasts are compared to the latest official estimates in Chart 2 and Table 2 on the previous page.

Individuals and other withholding tax

Gross income tax withholding

Income tax withholding is the largest slice of government revenue. It is closely tied to the size of the national wage bill, which in turn depends on employment and wage growth.

A labour market that keeps outperforming expectations has been supporting upgrades for this head of revenue, and there is likely to be a little more good news ahead.

The official forecast in the 2024-25 MYEFO included a drop in collections of income tax withholding in the current financial year, with the substantial effect of the Stage 3 tax cuts reducing the average rate of income tax paid by all Australians. Collections for the financial year to January suggest a rising national wage bill is more than offsetting the revenue hit from tax cuts, with revenue expected to increase slightly as a result.

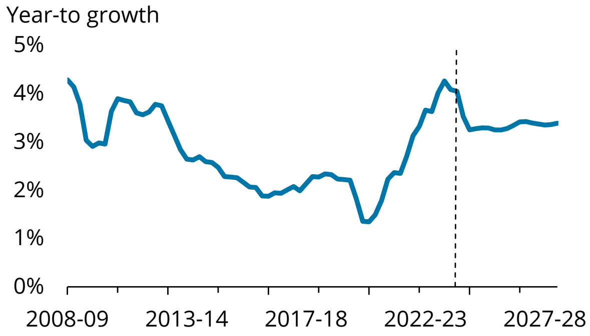
That lift mostly reflects developments in the labour market, with unemployment remaining low, and strong growth in the Australian population supporting job gains.

Wages are also expected to slightly outpace Treasury's expectations, even with wage growth easing from the elevated pace seen in 2023-24. That adds further support for growth in the tax base.

Deloitte Access Economics' forecast for growth in the total wage bill is 0.7% above the official forecasts in 2024-25.

That said, Treasury's latest projections for personal income tax appear to have been made with some further labour market strength in mind and show strong revenue growth throughout the forward estimates.

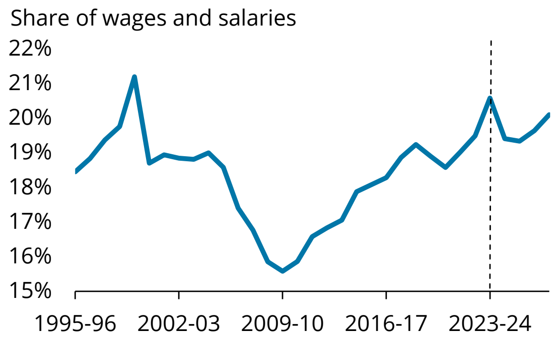
Chart 3 Wage Price Index



Source: Deloitte Access Economics, Australian Bureau of Statistics

Overall, Deloitte Access Economics anticipates income tax withholding will be a cumulative $3.5 billion higher than the official forecasts over the next four years, with more than half of that total occurring in 2024-25.

Chart 4 Average rate of personal income tax



Source: Deloitte Access Economics, Australian Bureau of Statistics

With tax cuts now firmly in the rear-view mirror and no further changes to personal income tax rates on the horizon, bracket creep is once again taking hold to lift average tax rates. Personal income tax is expected to once again hit a record share of GDP by 2027-28.

Gross 'other individuals' tax

'Other individuals' taxes are collected on a basket of wages and similar earnings, returns on assets (including interest, dividends and capital gains) and profits from small businesses. That combination is rather more volatile than PAYG collections, with closer links to the economic cycle.

This head of revenue was a big winner from the post-pandemic bout of inflation and an extended sharemarket rally. Revenue increased by more than 20% in 2021-22 and 2022-23.

Lower interest rates during the pandemic itself limited interest deductions while boosting capital gains, while higher interest rates seen since then have helped to propel returns on savings.

Revenue growth has since eased but remains solid, though Treasury's projections of collections for 2024-25 pencil in another substantial lift of close to 12%. That feels optimistic in an economy that's not firing on all cylinders. Actual collections have been running well behind where they would need to be to hit that mark, while the sharemarket's retreat in recent weeks adds further doubt.

Overall, that suggests a firm but not fabulous result for 2024-25, and a revenue disappointment relative to the high hopes of Treasury. Deloitte Access Economics expects revenue growth of 6.3% this financial year compared to the 11.8% growth set down in the 2024-25 MYEFO.

Looking further forward the balance between some good news on wage income and a poorer outlook for profit-related income will mean a more challenging period ahead.

Deloitte Access Economics expects growth in other individuals tax revenue to slow in both 2025-26 and 2026-27, but only slightly behind Treasury's expectations in those years. The following year, 2027-28, is a different story. Treasury is again expecting double-digit growth in that year, while the forecasts contained in this edition of *Budget Monitor* take a more measured view.

Overall, Deloitte Access Economics anticipates that revenue from 'other individuals' will be a cumulative $8.9 billion lower over the four years to 2027-28 than was forecast in the 2024-25 MYEFO.

Income tax refunds for individuals

The recent rise in the popularity of 'rebates' as a way of handing back money to voters has seen the tax system take a back seat in this regard. As a result, policy is less of an influence on refunds than it has been in times past.

Still, the recent strength in income tax withholding will translate into higher refunds too, particularly in 2024-25.

Changes in employment matters for refunds because the PAYG system immediately starts taxing new employees as if they worked all year.

A year where a significant number of jobs are gained or lost – such as during the pandemic recovery – tends to boost refunds in the following year.

The labour market remains very strong, but the forward estimates period is likely to see employment growth below 2% per year. That suggests refunds will be a little stronger than expected in 2024-25, before returning closer to official projections in later years.

Overall, slightly higher refunds will act to trim the revenue gains from income tax by around $0.6 billion over the forward estimates.

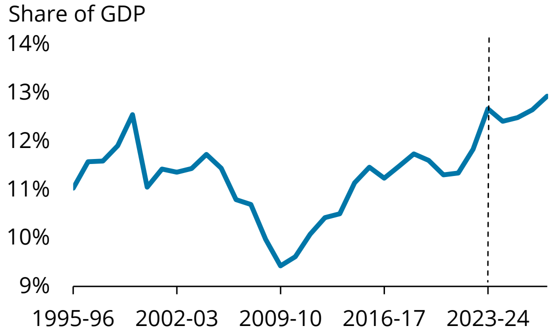
Total revenue from taxes on individuals

A labour market that continues to impress in the face of a relatively weak economy is helping to boost PAYG collections, particularly in 2024-25.

But a substantial disappointment in more volatile components of personal income tax will more than offset those positives to leave total taxes on individuals weaker than expected in the 2024-25 MYEFO.

Total revenue from taxes on individuals is forecast to underperform the official forecasts by a cumulative $6.0 billion over the forward estimates.

Chart 5 Taxes on individuals as a share of GDP



Source: Deloitte Access Economics, Australian Bureau of Statistics

While that does represent a hit to the bottom line, it will still see taxes on individuals continuing to climb as a share of the economy. That's a reminder of the budget's ongoing (and increasing) reliance on personal income tax over time.

Company and other (non-personal) income tax

Company income tax

Company tax may not be the largest source of revenue, but its relative volatility and can make or break a budget.

Company tax surprises typically come from two sources:

- Conservative assumptions baked into the forecasts to ensure all news is good news
- Genuine surprises in the economy – particularly in commodity prices – which shift the profitability of companies.

While many of the 'surprises' of recent years have been the result of careful planning, those unveiled in the 2025-26 Budget are likely to be more genuine.

In part, that's because the forecasts in the 2024-25 MYEFO had company taxes falling in the current financial year, following a solid fall the year before. That fall was consistent with expectations at the time of challenging conditions for Australian businesses amid weak economic growth, higher interest rates, slower consumer spending and elevated input costs, while commodity prices were also under pressure as the Chinese economy faced a range of challenges.

The December quarter of 2024 showed some positive developments for company profits. Global commodity prices may have remained subdued, but a fall in the value of the Australian dollar helped to boost prices measured in the local currency.

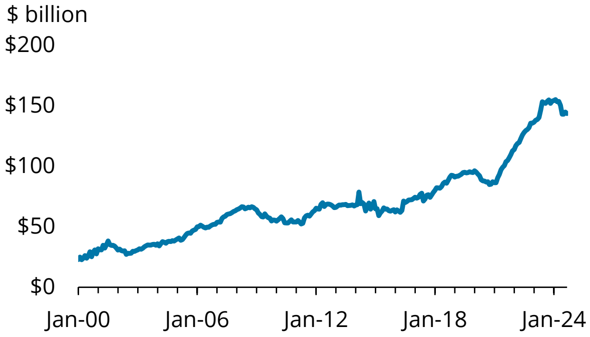
Non-mining profits have also surprised on the upside recently – recording a 5.9% increase in the December quarter alone (even if some of that strength was due to technical adjustments by the Australian Bureau of Statistics).

That pickup in profits has already started to translate into higher company tax collections, with revenues running well ahead of the official projection for this year.

So, while company taxes are still headed backward, they will outperform expectations in 2024-25.

Ongoing challenges for profitability will continue to weigh on revenue over the forward estimates. An economy growing slightly below Treasury forecasts but producing more jobs and higher wages suggests companies will be feeling a profit squeeze, even as the economy begins to pick up speed.

Chart 6 Company tax, rolling 12 month total



Source: Deloitte Access Economics

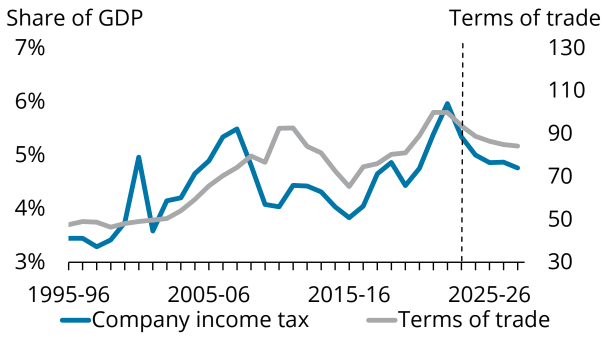
At the same time, expectations for softer economic growth than the projections in the 2024-25 MYEFO will show up in lower profits as well.

Commodity prices will also hold back growth in profits. The forecasts in the 2024-25 MYEFO assumed that the price of iron ore would fall to US$60 per tonne by the September quarter of 2025, while metallurgical and thermal coal prices would reach US$140 per tonne and US$70 per tonne, respectively, over the same period. Those assumptions are not as conservative as they have been in the past, but they remain well below official forecasts from the Department of Industry. The latter forecasts suggest iron ore prices could be 32% higher, metallurgical coal 47% higher, and thermal coal 81% higher in September 2025.

Deloitte Access Economics' commodity price forecasts are stronger than the Treasury assumptions, but they do see mining profits fading as a source of growth in company tax revenue over the period to 2026-27.

Deloitte Access Economics' forecasts of company tax revenue are a cumulative $2.3 billion below the latest official projections over the next four years, with that downgrade largest in the final years of the forward estimates. As always, company taxes remain an area to watch.

Chart 7 Company tax and terms of trade



Source: Deloitte Access Economics, Australian Bureau of Statistics

Fringe benefits tax

Fringe benefits tax (FBT) is a tax on substitutes for cash income, designed to remove (or, for those not on the top personal tax rate, to penalise) any incentive to receive remuneration not in the form of wages and salaries.

FBT collections have been strong to date this financial year. This partly reflects the strength of the wage bill and the increased availability of vehicles.

On the policy front, the FBT exemption for plug-in hybrid vehicles (PHEVs) ends on 31 March. Though vehicles registered prior to this date, and EVs, will remain FBT exempt going forward.

EV sales have slowed in recent months with Australian motorists increasingly opting for PHEVs. This is likely due to the launch of relatively inexpensive Chinese PHEVs and persistent concerns around range anxiety and limited charging infrastructure (which are less concerning if your vehicle has a battery paired with a traditional internal combustion engine).

Growth in FBT collections is projected to slow in 2025-26 as the softer outlook for the wage bill and tighter operating environment for businesses offsets the effect of the PHEV exemption ending. FBT revenue is then forecast to increase at modest rates in 2026-27 and 2027-28 alongside gains in the wage bill. Deloitte Access Economics' forecasts of FBT collections are a cumulative $1.2 billion above the latest official projections over the next four years.

Petroleum resource rent tax

The petroleum resource rent tax (PRRT) is complex, with a range of operational factors, timing issues and accounting rules influencing collections.

That complexity is designed to ensure resource companies are making decisions based on the fundamentals of particular projects rather than to optimise their tax liabilities.

The 2023-24 Budget announced a package of reforms aimed at lifting PRRT collections. It introduced a 90% cap on the proportion of PRRT assessable income that can be offset by deductions, as well as several integrity measures. Recent tax collections under the PRRT suggest the reforms may already be bearing fruit. Collections so far in 2024-25 show a sizeable lift – enough to suggest revenues may beat expectations in MYEFO by as much as one quarter.

But while a lift in the effective rate of tax is good news in 2024-25, forward production levels are weighing on the size of the tax base. That will see an easing of revenues for 2026-27 and 2027-28.

Deloitte Access Economics expects a $300 million writeup in PRRT revenue in 2024-25 to be more than offset by a $370 million shortfall across the following three years.

Superannuation fund taxes

Superannuation taxes are levied on contributions to and earnings from super. Those two components link this head of revenue both to the size of the wage bill and to the performance of asset markets – particularly Australian equities.

Some known policy changes in this area are adding to collections. The superannuation guarantee rate will increase by 0.5% in both 2024-25 and 2025-26, while a 15% tax on earnings from balances over $3 million is expected to add around $2 billion to annual revenues from 2025-26.

Growth in superannuation tax revenue is set to be quite incredible in 2024-25. The official forecasts predicted a 73% jump in collections, and already that result looks likely to be surpassed.

Solid growth in the wage bill is a part of that story, with good returns across 2024 also flowing through to a boost in earnings taxes.

However, a correction in global markets looks set to sour earnings in the second half of the financial year, though much of that impact will show up in 2025-26 and beyond.

Still, superannuation taxes are a bright spot in overall revenue growth at present and Deloitte Access Economics expects revenue to be some $3.4 billion higher that Treasury's projections across the forward estimates, with much of that occurring in 2024-25.

Goods and services tax

Goods and services tax (GST) revenues are closely tied to consumer spending and dwelling construction. This presents a challenge for collections as these components of the Australian economy have struggled over the past year.

Consumption growth has been modest amid higher prices, soft real wage growth, elevated interest rates and subdued consumer confidence. The mix of consumption growth has been working against GST collections as well. Growth in public sector expenditure and a shift toward health care spending have been key drivers of economic growth of late, and both have seen more money flowing into areas where the GST does not apply.

That said, GST is charged on nominal consumption, meaning ongoing price rises help to expand the size of the tax base and offset some of the weakness in sales volumes.

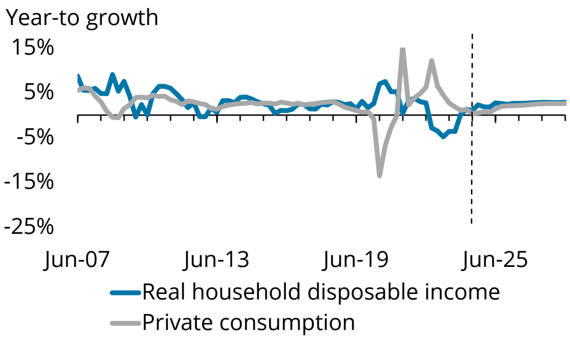
That combination of factors saw growth in GST collections slump in 2023-24, leading to revenue weakness even relative to modest expectations.

A rebound is expected in 2024-25, with Treasury expecting growth of 4.9% over the previous year (and Deloitte Access Economics broadly in line, with a lift of 5.1% pencilled in). That stands below the average annual growth rate of 6.2% across the past decade but betters the pace seen when consumption growth was weakest.

Deloitte Access Economics' forecasts of GST collections across the forward estimates are more or less in line with Treasury's. In total, a cumulative $1.3 billion in GST revenue over and above the official figures has been included in this edition of *Budget Monitor* from 2024-25 to 2027-28.

Of course, GST revenues are immediately handed off to the states. As they also show up on the spending side of the budget, the net effect on the bottom line is a wash.

Chart 8 Consumer spending and real household disposable income



Source: Australian Bureau of Statistics, Deloitte Access Economics

Excise and custom duties

Excise duties apply to a range of products, most notably petroleum products, beer, spirits and tobacco. The excise is paid on the volume of products manufactured in Australia and rates are typically indexed twice per year in line with the CPI. Customs duty – equivalent to the excise duty – is charged where these goods are imported.

Australia has one of the highest taxes on tobacco in the world. The tax per cigarette has increased from around $0.26 in 2010 to $1.40 in 2024 – almost four times as fast as the rise in broader consumer prices over the same period.

In one sense, tobacco excise is one revenue head where the government would be happy to collect no tax at all. As a 'sin tax', this form of excise is designed to reduce smoking rates as much as possible.

Recent increases in the rate of excise have been partially successful in this effort, with smoking rates continuing to decline over time in Australia.

There have been unintended consequences too. High taxes on cigarettes encouraged a vaping trend that has become a particular problem among young people. Recent changes to the law have pushed this issue underground, meaning the situation has improved but is far from fixed.

Access to illegal tobacco has also become more widespread than anyone but the cigarette companies had predicted. The so called 'tobacco wars' in parts of the country are a clear indicator of the profitability of that trade for organised crime groups. They are also a clear indicator that current enforcement measures are not working. While the government has just announced a $157 million package of measures designed to strengthen enforcement at the border, more will be needed – and gains to revenue will come at the cost of higher spending. Indeed, history suggests that prohibition of a widely used and easily available item is a great way to increase crime.

The tax base for tobacco excise is fading rapidly for two reasons – one good and one bad. Overall, that fall in collections is punching a hole in revenue that will be an ongoing impact on the budget bottom line.

Elsewhere, excise rates for all goods are slowing alongside inflation, while ongoing trends in consumption are putting pressure on the volume of both fuel and alcohol.

While electric vehicle (EV) sales are yet to take off, the shift into hybrids is likely to accelerate with the New Vehicle Efficiency Standard to support meaningful improvements in the average fuel efficiency of the passenger fleet and moderate growth in petroleum excise.

Beer and spirits volumes are also under pressure. Rapid increases in excise rates have hastened both the shift toward wine and the shift away from alcohol altogether.

Deloitte Access Economics expects excise revenue to continue to grow over time, but only at a modest pace.

At a global level, customs duties are, unfortunately, back in vogue as the world reacts to higher tariffs in the United States. That said, it is difficult to see Australia joining the list of countries that are imposing new tariffs and raising existing ones.

Deloitte Access Economics' forecasts for excise and customs duty revenue are a cumulative $7.8 billion below the official figures over the forward estimates, with shortfalls in tobacco representing most of that total.

Other indirect tax

Other indirect taxes include the major bank levy, the Wine Equalisation Tax (WET), the luxury car tax (LCT), agricultural levies and broadcasting fees, as well as other tax revenues collected by Commonwealth agencies.

Other indirect tax collections have grown strongly since 2021-22. The post-pandemic inflationary surge added to indexation rates for several taxes, while the recovery in migration supported double-digit increases in revenue from visa application charges. Yet both drivers of recent growth – inflation and migration – are now adding less to this area of the budget. Strong gains are expected this financial year, though these gains will be smaller than previously anticipated and will slow over subsequent years.

Revenue from visa application charges has grown to approximately $4 billion per annum or around one quarter of other indirect taxation. The forward estimates period will see fewer migrants arrive in Australia compared to recent years. This will place downward pressure on collections but is likely to be more than offset by an increase in fees.

Elsewhere, the recovery in household income and changes to LCT – including tightening the definition of fuel-efficient vehicles (which are subject to a higher LCT threshold) – should add to collections from 2024-25. Weaker crop yields will constrain agricultural levies, WET collections will increase modestly as prices rise – albeit at slower rates – and higher household disposable income supports consumption of more expensive wine, while the major bank levy will continue to increase alongside bank liabilities.

Deloitte Access Economics expects other indirect taxes to broadly track in line with official forecasts in each year to 2027-28.

Non-taxation revenue

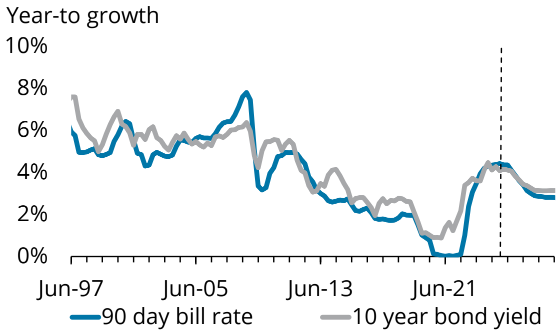
Interest receipts

Interest receipts on loans by the federal government – for example to the states – are recognised as non-taxation revenue.

Interest rates have started to fall and further cuts are likely through the remainder of this financial year and next. Deloitte Access Economics expects a sharper rate cutting cycle compared to Treasury, consistent with the weaker outlook for growth in the economy.

Deloitte Access Economics' forecasts for interest receipts are a cumulative $900 million below the official figures over the forward estimates.

Chart 9 Interest rates



Source: Deloitte Access Economics

Dividend receipts

The Reserve Bank of Australia (RBA) was one of the main sources of dividend revenue for the government until the post-pandemic surge in inflation. Yet stimulus during the pandemic and the subsequent surge in inflation and bond yields has wrought havoc on the bank's balance sheet. The RBA is now $20 billion in the red and hasn't paid a dividend since 2020-21.

The 2023-24 Annual Report showed a $4 billion shortfall that takes the cumulative accounting losses from pandemic stimulus measures to more than $50 billion. This has happened as returns on many RBA assets were fixed at low rates in 2020 and 2021, while the cost of liabilities has increased alongside interest rates.

The RBA is also grappling with a blowout in the cost of renovating its head office. The project is now expected to cost $1.1 billion from an initial estimate of $260 million.

The situation is improving. Lower interest rates are likely to reduce the mismatch between the return on pandemic-era assets and the cost of other liabilities. However, it will likely take several years to restore the bank's balance sheet to positive equity. As a result, Deloitte Access Economics does not expect the RBA to pay a dividend for many years.

The Federal Government also receives dividends from government business enterprises (GBEs). Australia Post recorded a healthy lift in profit in the first half of the current financial year, Defence Housing Australia and Snowy Hydro are making smaller profits, while Australian Rail Track Corporation posted losses.

Deloitte Access Economics expects dividend receipts to grow at an annual rate of approximately 1% over the forward estimates, in line with the official forecasts.

Other non-taxation revenue

Other non-tax revenue includes revenue from the direct provision of goods and services and amounts paid by the states to the Commonwealth for the provision of GST collections, as well as earnings from the Future Fund.

Collections have been running hot for several years now, in part due to the government's efforts to improve cost recovery. But revenue is forecast to fall in 2024-25 as the effect of this trend fades. Deloitte Access Economics expects other non-tax revenue to grow modestly, broadly matching official forecasts, over the forward estimates.

Expenses and budget aggregates

Short-term politics, long-term deficits.

Overview

Any budget released just before an election would be expected to contain a 'cash splash' of campaign promises. The extent of the cash splash this time around will very likely be smaller than usual. That is in part because a March 2025 Budget appears to fall into 'Plan B' of the Government's election timing strategy, and in part because the forecast fiscal position is likely to be softer than anticipated at the time of the 2024-25 MYEFO.

Nonetheless, additional cost-of-living relief is anticipated to be announced on budget night, with the Treasurer already hinting at further relief if finances permit. An extension of electricity rebates are likely to feature.

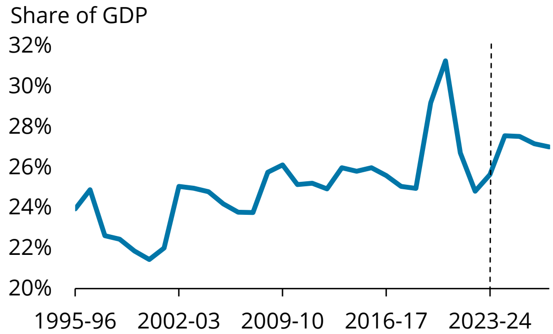
A budget coming in the middle of a de facto election campaign is a tricky situation – especially when future budgets involve a wave of deficits. Regrettably, that may be an incentive to find ways to spend money without worsening the underlying cash balance.

That is true of some of the promises announced to date. An additional the $3 billion for the National Broadband Network, the $1.7 billion Whyalla Steelworks rescue package and the $16 billion wiping of student debt are all expected to mostly show up not in the underlying cash balance, but in the far less reported headline cash balance.

This continues a recent trend that has caused the difference between the headline and underlying cash balances to balloon over the forward estimates.

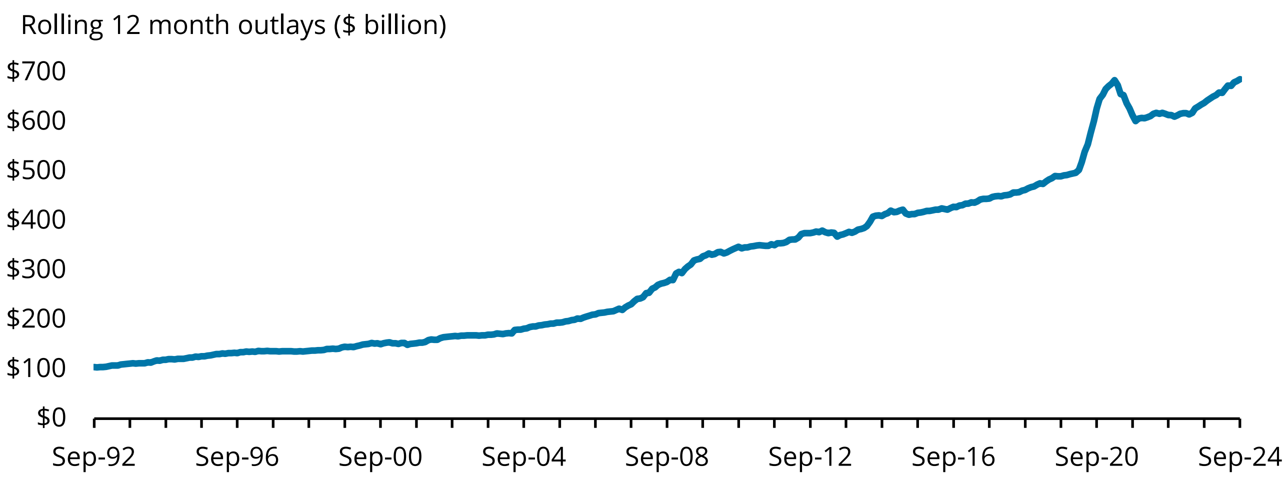
That's not to say that the underlying cash balance is in a good position. Following a surplus of $15.8 billion in 2023-24, Deloitte Access Economics anticipates that 2024-25 will see an underlying cash deficit of $26.1 billion, representing a worsening of $41.9 billion.

Chart 10 Accrual spending as a share of GDP



Source: Deloitte Access Economics, based on Commonwealth of Australia data

Chart 11 Federal spending, rolling 12 month total



Source: Based on Commonwealth of Australia data

The magnitude of this turnaround illustrates the extent to which surpluses in recent years were the result of cyclical revenue gains rather than structural improvements in the budget. Those surpluses still required fiscal discipline – surprise revenue upgrades were mostly saved rather than mostly spent. But banking on revenue to surpass Treasury's forecast does not make for a sound fiscal strategy.

This sharp downswing in the budget bottom line indicates that longer-term spending challenges are becoming increasingly more present. Spending pressures are expected to increase markedly over the coming years – especially across health, aged care, the NDIS, defence and interest costs. This increase is not expected to be matched with an equivalent lift in revenue.

As Deloitte Access Economics has previously noted, the tax system – particularly its heavy reliance on personal and company income tax – is not fit for purpose now, let alone for the future. Australians will need to pay more tax in the years ahead in order for the budget to afford the raft of long-term spending promises that successive governments have made.

Overall, Deloitte Access Economics expects the underlying cash balance to be cumulatively $13.1 billion worse off over the four years to 2027-28 compared to the forecasts outlined in the 2024-25 MYEFO.

Expenses

Effect of parameter variations

Differences between Deloitte Access Economics' latest economic forecasts and those in the 2024-25 MYEFO – so-called parameter variations – provide the basis for some of the adjustments from the official forecasts. The expenses reconciliation is shown in Table 3 below.

The net effect of parameter variations is expected to result in a $6.1 billion decline in spending over the four years to 2027-28 compared to the 2024-25 MYEFO.

The bulk of that decline in spending is due to Deloitte Access Economics' lower inflation forecasts compared to Treasury's expectations, which is expected to result in $7.0 billion less in spending over the forward estimates.

Meanwhile wages are expected to work in the opposite direction. Deloitte Access Economics expects wage growth to be stronger than Treasury had forecast in the 2024-25 MYEFO, adding $3.5 billion to spending over the forward estimates.

In terms of specific drivers:

- Activity: Deloitte Access Economics uses the unemployment rate as a proxy for the impact of economic activity on government spending. Treasury anticipates the unemployment to remain at 4.5% over majority of the forward estimates before falling to 4.25% in 2027-28. Deloitte Access Economics forecasts a slightly lower unemployment rate than Treasury for 2024-25 before stabilising at 4.5%. The divergence in 2027-28 is expected to add to spending.
- Exchange rates: Differences in exchange rates affect the budgeted cost of interest payments, defence purchases, foreign aid, and embassy spending. Deloitte Access Economics' exchange rate forecasts are slightly above Treasury's, leading to a modest increase in spending.
- Prices: Deloitte Access Economics expects inflation to ease to 2.1% in 2024-25. This is slower than the 2.75% anticipated by Treasury at 2024-25 MYEFO. Slower price growth results in lower-than-expected spending for the range of payments that are indexed to consumer prices.
- Wages: Variations in wages affect outlays both directly (via higher wages for the public service) and indirectly (via programs that are effectively partly indexed to wage costs). Wage growth is expected to be higher than Treasury's forecasts between 2024-25 and 2026-27, and slightly slower in 2027-28. The result is increased spending over next four years.
- Interest rates and the budget balance: The cost of public debt interest (PDI) can vary due to changes in the size of the debt, and changes in the interest rate charged on that debt. Deloitte Access Economics is expecting lower government interest rates than were assumed in the 2024-25 MYEFO. That results in lower interest payments than otherwise anticipated.

Effect of policy decisions

Although the government has announced major election promises, much of this funding was already included in the 2024-25 MYEFO, extends beyond the forward estimates, or does not show up in the underlying cash balance. Consequently, it won't be reflected here.

Table 3 Expenses reconciliation ($ billion)

	Forecast 2024-25	2025-26	2026-27	2027-28
Official accrual spending	758.6	784.6	809.0	843.3
Budget Monitor accrual spending	759.2	785.3	809.2	843.3
Difference:	0.6	0.7	0.2	0.0
Effect of parameter variations (net, including PDI)	*-1.3*	*-1.6*	*-2.0*	*-1.1*
Effect of policy decisions (net)	*1.7*	*2.1*	*1.9*	*0.6*
GST adjustment	*0.2*	*0.3*	*0.4*	*0.4*
Effect of parameter variations				
Unemployment	-0.3	0.1	0.0	0.8
Exchange rates	0.1	0.2	0.1	0.1
Consumer price index	-1.5	-1.8	-1.8	-1.9
Wages	0.4	0.9	1.2	1.0
PDI variation	0.0	-1.0	-1.6	-1.2
Effect of parameter variations (net, including PDI)	-1.3	-1.6	-2.0	-1.1
Effect of policy decisions				
Agriculture, Environment and Water	0.1	0.0	0.0	0.0
Attorney-General's, Defence, Home Affairs, Emergency Management and Veterans' Affairs	0.4	0.4	0.2	0.2
Child Care, Education, Skills, Training and Youth	0.0	0.0	0.0	0.0
Climate Change and Energy	0.0	0.0	0.0	0.0
Communications and the Arts	0.0	0.0	0.0	0.0
Families, Social Services, NDIS and Government Services	0.0	0.0	0.0	0.0
First Nations	0.0	0.0	0.0	0.0
Foreign Affairs and Trade	0.0	0.0	0.0	0.0
Health and Aged Care	1.0	1.2	1.2	0.3
Infrastructure	0.0	0.4	0.5	0.1
Secure Jobs and Industry	0.1	0.0	0.0	0.0
Treasury, Finance, Housing and the Public Service	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total effect of policy decisions (net)	1.7	2.1	1.9	0.6

Note: Effect of policy decisions taken since election have been identified by Deloitte Access Economics from public sources and include decisions announced to 6 March 2025. While the intention is to include all announcements, the list may not be exhaustive.

Notably, the $8.5 billion boost for bulk-billing incentives and the $7.2 billion upgrade for Queensland's Bruce Highway were included in the 2024-25 MYEFO but are likely to extend beyond current forward estimates.

For the bulk-billing incentives, which are supported by both parties, only an additional $2.4 billion will be allocated in the 2025-26 Budget (for 2028-29). The proportion of the $7.2 billion for the Bruce Highway included in the 2024-25 MYEFO is unclear. However, given the magnitude of the project, additional funding is expected to appear in the forthcoming budget documents from 2028-29 onwards.

Health and aged care, defence and infrastructure are estimated to have received the largest increases in spending over the forward estimates due to announced policy decisions.

New health and aged care spending includes an additional $2.6 billion to fund a pay rise for aged care workers, and $575 million to strengthen Medicare for additional support for women's health.

Meanwhile, additional spending in defence includes investing in Australian-made radars ($272 million), boosting the country's stock of long-range missiles ($650 million), and supporting Australian industry to join AUKUS supply chains ($262 million).

Costs associated with new policy measures shown in *Budget Monitor* are only those that have been announced between the 2024-25 MYEFO and 6 March 2025. These measures are expected to add an estimated total of $6.3 billion to net spending over the forward estimates.

Total accrual spending

The overall impact on accrual spending is shown in Table 3 above.

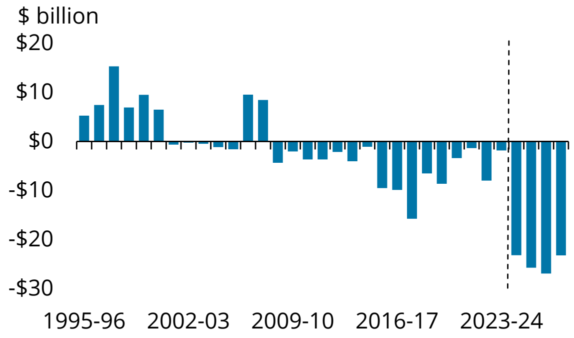
Taken together, parameter variations and policy decisions (plus an adjustment for the expected change in the distribution of the GST to the states and territories) are expected to increase spending over the four years to 2027-28 by $1.5 billion relative to forecasts in the 2024-25 MYEFO. That result broadly reflects decreases in spending due to parameter variations offset by increases from policy decisions and GST outlays.

Net advances and other matters

Net advances are the final element needed to estimate the headline cash balance. Headline deficits have been worse than underlying deficits over the past decade. As seen in Chart 12, this trend is expected to deteriorate further in the near term due to governments' growing use of 'off budget' entities to finance large spending promises. Notably, this growing difference is entirely due to spending rather than revenue.

'Off budget' is a misnomer; it means the money appears on the balance sheet and in the headline cash balance, but not in the underlying cash balance – the widely reported figure.

Chart 12 Difference between the headline and underlying cash balance



Source: Deloitte Access Economics, based on Commonwealth of Australia data

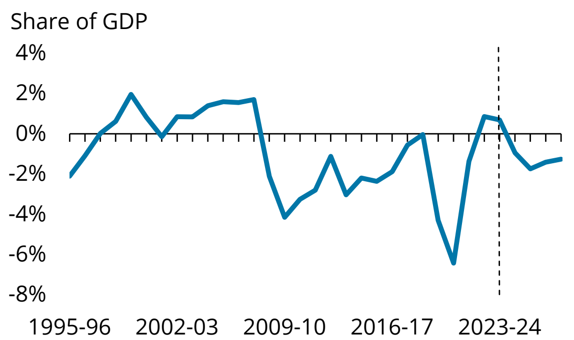
The budget balance

Overall budget aggregate projections are shown in Table 4 below.

Deloitte Access Economics forecasts a $26.1 billion underlying cash deficit for 2024-25, marking a $0.8 billion improvement from the projected $26.9 billion deficit in the 2024-25 MYEFO, primarily driven by revenue upgrades. However, starting in 2025-26, this trend is expected to reverse, with deficits projected to worsen. Over the four years to 2027-28, Deloitte Access Economics expects a cumulative deterioration in the underlying cash balance of $13.1 billion compared to the latest official forecast.

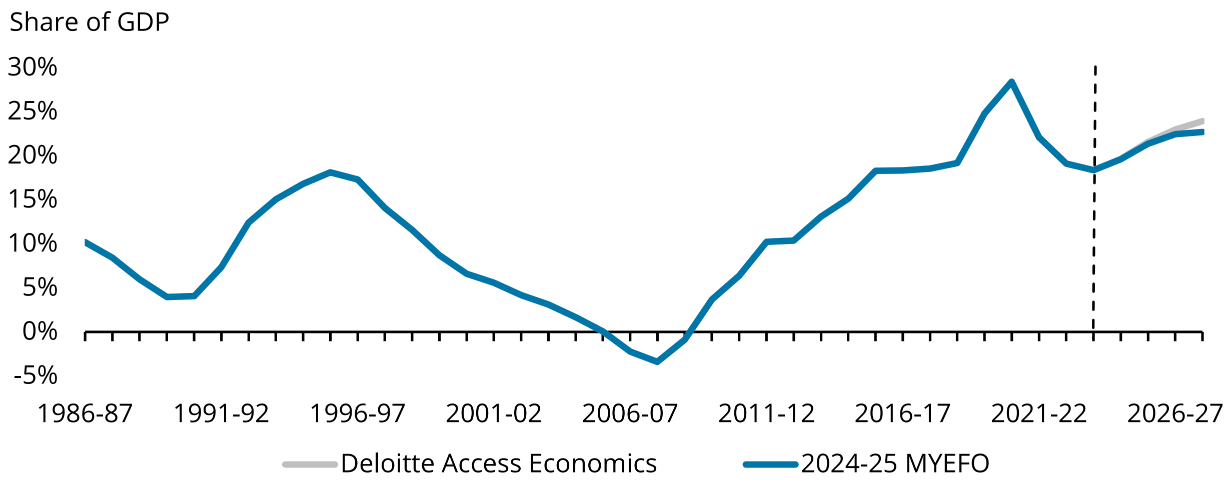
Net debt as a share of GDP is expected to be broadly in line with official forecasts from the 2024-25 MYEFO over the first two years of the forecast period. However, Deloitte Access Economics expects net debt to worsen through 2026-27 and 2027-28. Official forecasts assumed net debt would reach 21.9% as a share of GDP by 2027-28, while Deloitte Access Economics expects this figure to be 23.9%.

Chart 13 Underlying cash balance share of GDP



Source: Deloitte Access Economics, based on Commonwealth of Australia data

Chart 14 Net debt as a share of GDP



Source: Deloitte Access Economics, based on Commonwealth of Australia data

Table 4 Overall budget projections

	Outcome 2023-24	Forecast 2024-25	2025-26	2026-27	2027-28
Budget aggregates, $ billion					
Revenue (accrual)	704.5	719.7	741.3	777.7	815.0
% of GDP	26.3%	26.1%	26.0%	26.1%	26.1%
Expenses (accrual)	685.9	759.2	785.3	809.2	843.3
% of GDP	25.6%	27.6%	27.5%	27.2%	27.0%
Operating balance	18.6	-39.6	-44.1	-31.6	-28.2
% of GDP	0.7%	-1.4%	-1.5%	-1.1%	-0.9%
Fiscal balance	12.0	-45.1	-52.4	-40.0	-37.8
% of GDP	0.4%	-1.6%	-1.8%	-1.3%	-1.2%
Official forecast of fiscal balance	12.0	-45.9	-49.7	-36.3	-33.4
Difference in fiscal balance	0.0	0.8	-2.7	-3.6	-4.3
Underlying cash balance	15.8	-26.1	-49.6	-42.0	-39.3
% of GDP	0.6%	-0.9%	-1.7%	-1.4%	-1.3%
Official forecast of underlying cash balance	15.8	-26.9	-46.9	-38.4	-31.7
Difference in underlying cash balance	0.0	0.8	-2.7	-3.6	-7.6
Net cash flows from investments in financial assets[1]	-1.8	-23.2	-25.7	-26.9	-23.2
Headline cash balance	14.0	-49.3	-75.3	-68.9	-62.5
% of GDP	0.5%	-1.8%	-2.6%	-2.3%	-2.0%
Official forecast of headline cash balance	14.0	-47.8	-70.3	-62.9	-52.5
Difference in headline cash balance	0.0	-1.5	-5.0	-6.0	-9.9
Net debt	491.5	540.8	616.1	684.9	747.4
% of GDP	18.4%	19.6%	21.6%	23.0%	23.9%
Official forecast of net debt (% of GDP)	18.4%	20.0%	21.5%	21.8%	21.9%

Source: Deloitte Access Economics, The Commonwealth of Australia

1 Net cash flows from investments in financial assets for policy purposes. Prior to 1999-00 these flows were known as 'net advances'.

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