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Budget Monitor

Reform or regress

May 2026

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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Executive summary

Reform or regress.

Budget aggregates

Based on updated economic parameters and policy announcements to 22 April 2026, Deloitte Access Economics estimates an underlying cash deficit of \$33.2 billion in 2025-26, \$3.6 billion smaller than the expected outcome in the 2025-26 Mid-Year Economic and Fiscal Outlook (MYEFO). Net debt is expected to increase to 20.0% of GDP in 2025-26, broadly in line with the estimate of 20.1% in the 2025-26 MYEFO.

Budget forecasts

\$ billion	2025-26	2026-27	2027-28	2028-29
Underlying cash balance	-33.2	-27.6	-32.0	-32.8
% of GDP	-1.1%	-0.9%	-1.0%	-1.0%
Fiscal balance	-51.2	-29.1	-39.0	-40.5
% of GDP	-1.7%	-0.9%	-1.2%	-1.2%
Revenue	770.3	805.0	825.8	862.1
% of GDP	26.2%	26.2%	25.9%	25.8%
Expenses	810.3	823.7	854.8	892.3
% of GDP	27.5%	26.8%	26.8%	26.7%
Net debt	587.3	643.3	697.4	751.7
% of GDP	20.0%	21.0%	21.9%	22.5%

Source: Deloitte Access Economics. Forecasts incorporate policy announcements to 22 April 2026 and updated economic parameters.

Economic drivers

The conflict in the Middle East has intensified existing domestic capacity constraints, and led to a renewed uptick in inflation, anticipated to persist through the coming years. Increased commodity prices and elevated inflation are expected to lift revenue collections in the near term but weigh on growth in the longer term, while indexed payments are expected to drive expenditure higher.

Revenue

The 2026-27 Budget is expected to reveal \$19.2 billion in upgrades to revenue over the four years to 2028-29, compared to what was forecast in the 2025-26 MYEFO handed down in December.

Expenses

Parameter variations and policy decisions to 22 April 2026 (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 2028-29 by \$1.5 billion relative to forecasts in the 2025-26 MYEFO.

Budget backdrop

The 2026-27 Budget will be delivered against a backdrop of heightened global uncertainty.

The ongoing conflict in the Middle East and disruption to global energy markets are certain to loom large over the Government's fiscal strategy. The challenge will be to strike the right balance between the reactive policy responses that cushion the blow of global chaos, and the proactive structural reforms that are sorely needed to restore Australia's longer-term fiscal and economic outlook.

Despite the global disruption, the Treasurer continues to talk up the budget's reform potential. Expectations are high that the budget will include a significant focus on productivity, tax reform and fiscal repair.

It's critical that the budget lives up to its promised reform agenda, as Australia can ill afford a continuation of quick fixes and short-termism.

Australia's domestic growth challenge, rather than the chaotic global backdrop, must remain the priority. And the Treasurer must ensure that structural economic reforms are not derailed by day-to-day stresses at the petrol pump.

One of the uncomfortable implications of global conflict is that Australia's budget position usually comes out a winner. That's likely to be the case again as a result of the Middle East conflict, but the downside risks are also plentiful. Unlike the revenue windfalls from the Government's first term, the current conflict won't be enough to mask Australia's structural growth challenge or fiscal imbalance.

Higher energy prices will directly lift tax revenues via the petroleum resource rent tax (PRRT). Higher commodity prices more broadly will lift company tax revenues, as long as global demand remains resilient to the energy crisis. As higher inflation pulses through the economy, stronger nominal growth in output, wages and spending will also lift tax revenues.

But as the budget receives a near-term sugar hit on the revenue side, economic developments will jeopardise the budget's health elsewhere.

The implications of the oil shock for Australia's fragile growth outlook remain highly uncertain. A sustained supply shock could substantially slow global demand, while the Reserve Bank of Australia (RBA) may have to further curb domestic demand in response to higher inflation.

Slower medium-term growth will reduce income growth and weaken the tax take in the outer years of the forward estimates. With consumer and business confidence already fragile, there is a heightened risk of a broader pullback in consumption and investment.

As recent years have highlighted, elevated inflation will raise the cost of indexed payments and the cost of delivering government services. At the same time, higher interest rates lift the cost of servicing public debt, which now sits materially higher than a decade ago. Even with a relatively disciplined approach to new spending, the cost of existing spending is likely to offset a solid chunk of the budget's revenue windfalls.

Economic developments further complicate the monetary-fiscal policy mix. As inflation pressures re-intensify, the RBA may have to lean hard against demand. Any heavy-handed support for households in the 2026-27 Budget may force the RBA to lean harder still.

Despite the challenging economic landscape, this budget must be more than a crisis management exercise. The Government insists it is still working through an ambitious reform agenda, including addressing some much needed changes to the tax system.

That would be an overdue development. Australia's tax system is not equipped to efficiently or equitably raise the revenue needed to fund the country's growing spending needs. To do nothing is to increasingly rely on younger generations of wage-earning Australians to foot a greater share of the budget.

The current tax system already does too much damage to the incentives to work and invest, which is one reason behind Australia's downbeat productivity performance.

A related concern is that the budget's true fiscal position is increasingly obscured by accounting tricks. The widening gap between the headline fiscal balance and the underlying cash balance means the debt position is deteriorating faster than the commonly reported underlying budget measures suggest.

The difference between the headline and underlying balance – 'net investments for policy purposes' – is meant to reflect spending on funds, programs and investments that make a decent return on their operations. But off-budget spending has grown markedly. A lot of it no longer meets the definition above. This reinforces the need for better budget rules and greater scrutiny of where the cash is flowing, not just how the Government chooses to report the bottom line.

Looking through the accounting tricks, the need for fiscal repair is even more urgent than it first appears.

Budget forecasts

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

Where revenue upgrades in the Government's first term delivered surprise surpluses, the windfalls from the latest round of global conflict won't be enough to hide the budget's structural shortcomings. On balance, global conflict is still relatively good news for Australia's budget position. But the latest commodity price shock is not as unambiguously good for the budget as the commodity price shock observed in 2022.

Conflict in the Middle East has rapidly pushed up oil and gas prices. That's an obvious tailwind for revenues such as the PRRT – a tax on oil and gas profits. And as the inflationary pulse spreads through the rest of the economy, the tax base will grow more quickly. Everything else constant, stronger nominal growth means bigger profits, higher incomes, and more spending – all of which means more tax revenue.

But therein lies the risk. Everything else is not constant. Consumers are being hit with another round of cost-push inflation, only a year after the RBA's interest rate cutting cycle breathed some relief into household finances. They are now staring into a fresh rate hiking cycle.

Businesses already grappling with a supply-constrained economy now face heightened uncertainty, jittery supply chains, and rapidly rising input costs.

The longer the Strait of Hormuz remains closed, the more businesses will have to worry about the availability of inputs, not just the price of inputs.

The length and severity of the energy market crisis is still highly uncertain. As the turmoil drags on, global growth will be softer, interest rates will be higher for longer, consumer and business confidence will remain weak, and the Government may eventually have to impose restrictions on the use of fuel. In other words, the price tailwinds of today could quickly turn to severe growth headwinds tomorrow.

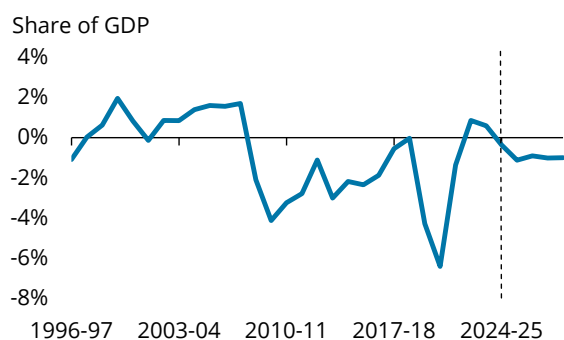
It's sometimes overlooked that the expenditure side of the budget is also susceptible to external shocks. The combination of higher inflation, higher interest rates, and higher unemployment is a bad one for those trying to keep spending in check.

Deloitte Access Economics projects that the net effect of economic parameter variations alone – that is, the effect of 'the economy' rather than policy decisions – will be a \$13.9 billion increase in spending over the four years to 2028-29 compared to the 2025-26 Mid-Year Economic and Financial Outlook (MYEFO).

As it stands, the Government has maintained a relatively tight grip on new spending measures in the lead up to the budget. The main response to the cost-of-living crunch has been a reduction in fuel excise, which hits the revenue side of the ledger.

But it remains to be seen whether the Treasurer can keep spending demands contained in the budget itself, and indeed over coming months if the economic outlook deteriorates further.

Chart i Underlying cash balance to GDP



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

The 2025-26 MYEFO released in December 2025 projected a \$36.8 billion underlying cash deficit in 2025-26. Deloitte Access Economics now expects a slightly more optimistic \$33.2 billion deficit.

Deloitte Access Economics' forecast for 2026-27 has also been revised upwards, with a deficit of \$27.6 billion expected. This result would be a \$6.7 billion improvement on the official forecast in MYEFO. That might feel underwhelming in the context of an \$11.4 billion upgrade to revenue in 2026-27, and a substantial cut to the growth of the national disability insurance scheme (NDIS). But that speaks to the breadth of spending pressures facing the Government. The revised economic outlook is expected to add \$5.3 billion to spending in 2026-27 alone.

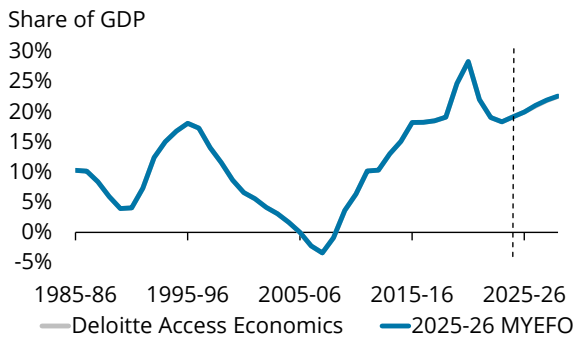
It would not require much of a deterioration in the domestic economy – and a commensurate policy response from a government looking to reassure voters – to quickly turn the projected improvement in the bottom line to a negative. Even a six month extension in the current reduction in fuel excise would come close to wiping out the \$6.7 billion improvement.

As near-term commodity price tailwinds fade into medium-term growth headwinds, Deloitte Access Economics projects nominal gross domestic product (GDP) growth to slow from 6.0% in 2025-26 to 4.0% in 2027-28 and 4.7% in 2028-29. The deterioration in the growth outlook is a reminder that the Australian economy faces challenges beyond just global commodity price shocks. Years of reform inertia has produced a sluggish and uncompetitive economy stuck in the slow lane. For example, the RBA's February Statement on Monetary Policy published a medium-term growth forecast of just 1.6% – the weakest outlook produced by the central bank for at least 36 years.

Easily disguised by global chaos, it is the downgrade to Australia's growth prospects that compounds the structural flaws in the budget position. By 2028-29, Deloitte Access Economics forecasts an underlying cash deficit of \$32.8 billion. While a \$3.2 billion improvement on MYEFO, that result is flattered by announced reforms to the NDIS, which are expected to save \$10.0 billion in 2028-29 alone.

Crucially, the forecasts in this edition of *Budget Monitor* assume the savings from the NDIS reforms are banked, rather than spent elsewhere in the budget. That assumption helps to keep the forecast for net debt relative to GDP in line with the latest official projection in MYEFO.

Chart ii Net debt to GDP



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

The current economic outlook is a harsh reminder to policymakers to make hay while the sun shines. While the need for fiscal repair and economic reform is clearer when times are bad, the required policy changes are a lot easier to impose when times are good.

There's little point dwelling on missed opportunities for reform in budgets past. The time for reform is now, and that case has only become more obvious.

The 'fast five' spending areas – defence, the NDIS, aged care, health and interest costs – are all essential, but their growth is outpacing revenue at an unsustainable rate. The Government has – at long last – announced substantial reforms to tackle the pace of NDIS spending growth head on.

However, it remains to be seen how much of those savings will be used to fund budget sweeteners elsewhere.

Alternative policy costings

While global turmoil has threatened to turn the budget strategy on its head, the Treasurer continues to talk up the 2026-27 Budget as a reform budget. That could not be more important.

The tax reforms reportedly being considered – including winding back the capital gains tax (CGT) discount and limiting access to negative gearing – are not individually of the scale required to solve Australia's productivity or fiscal challenges.

Indeed, they are, frankly, unlikely to make a dent in Australia's housing affordability challenge. Even so, the pursuit of tax reform is cause for optimism. There are sound economic arguments for reducing the CGT discount. While it may be politically easy to portray this as a housing fix, it is really a fairness fix.

The current discount of 50% is an overly generous way to compensate investors for inflation. The light taxation of capital gains relative to other income distorts asset markets and predominantly benefits wealthier, older Australians over younger, wage-earning Australians.

The case for changing negative gearing is less sound. Deloitte Access Economics' longstanding view is that if the CGT settings are fixed, negative gearing becomes far less problematic, as the incentive to run an annual loss on an investment property should be greatly diminished. Nonetheless, the Government is rumoured to be considering changes to both policy levers.

Beyond the arguments for or against changes to the CGT discount and negative gearing, the big question to be answered in the 2026-27 Budget is the transition design. That transition will reveal the seriousness of the Government's reform ambitions.

Implemented bravely, these two measures could create the fiscal headroom required to fund more wholesale tax reforms elsewhere – reforms that simplify the personal income tax system, create improved incentives for workers, and remove barriers to workforce participation.

Previous Governments have typically elected to make CGT changes applicable to future investments only – grandfathering existing investments into the rules that applied when an asset was purchased. That approach is politically attractive, but economically flawed.

Grandfathering entrenches a two-tiered market where different rules apply to different assets. It increases complexity and slows the pace of reform to a crawl at a time when reform momentum needs to accelerate. It also risks the revenue gains being squibbed away on short-term political fixes rather than underwriting durable, pro-growth policy changes.

A gradual transition is essential to avoiding a sudden and costly reaction in asset markets. But that can be achieved by phasing in the new CGT discount (and any changes to negative gearing) over a couple of years, rather than carving out a large portion of the tax base through grandfathering.

This edition of *Budget Monitor* sets out what an ambitious, broad-based transition for these tax changes would look like, and how it would enable the Government to pursue far more ambitious reforms elsewhere.

Table i Budget projections

	Outcome 2024-25	Forecast 2025-26	2026-27	2027-28	2028-29
Budget aggregates, \$ billion					
Revenue (accrual)	733.0	770.3	805.0	825.8	862.1
% of GDP	26.4%	26.2%	26.2%	25.9%	25.8%
Taxation revenue	677.2	714.5	748.1	766.7	800.8
% of GDP	24.4%	24.3%	24.4%	24.0%	24.0%
Non-taxation revenue	55.8	55.7	56.9	59.2	61.4
% of GDP	2.0%	1.9%	1.9%	1.9%	1.8%
Expenses (accrual)	770.1	810.3	823.7	854.8	892.3
% of GDP	27.7%	27.5%	26.8%	26.8%	26.7%
Fiscal balance	-44.8	-51.2	-29.1	-39.0	-40.5
% of GDP	-1.6%	-1.7%	-0.9%	-1.2%	-1.2%
<i>Official forecast of fiscal balance</i>	-44.8	-54.8	-35.8	-43.2	-43.7
<i>Difference in fiscal balance</i>	0.0	3.6	6.7	4.2	3.2
Underlying cash balance	-10.0	-33.2	-27.6	-32.0	-32.8
% of GDP	-0.4%	-1.1%	-0.9%	-1.0%	-1.0%
<i>Official forecast of underlying cash balance</i>	-10.0	-36.8	-34.3	-36.2	-36.0
<i>Difference in underlying cash balance</i>	0.0	3.6	6.7	4.2	3.2
Net cash flows from investments in financial assets ¹	-11.8	-21.8	-28.4	-22.1	-21.5
Headline cash balance	-21.8	-54.9	-56.0	-54.1	-54.3
% of GDP	-0.8%	-1.9%	-1.8%	-1.7%	-1.6%
<i>Official forecast of headline cash balance</i>	-21.8	-58.6	-62.7	-58.3	-57.5
<i>Difference in headline cash balance</i>	0.0	3.6	6.7	4.2	3.2
Net debt	532.3	587.3	643.3	697.4	751.7
% of GDP	19.2%	20.0%	21.0%	21.9%	22.5%
<i>Official forecast of net debt (% of GDP)</i>	19.2%	20.1%	21.4%	22.2%	22.6%
Economic forecasts, % growth					
Real GDP	1.3%	2.4%	1.9%	2.0%	2.3%
Employment [^]	2.1%	1.2%	0.9%	1.4%	1.4%
Unemployment rate [*]	4.2%	4.3%	4.9%	4.6%	4.6%
Consumer price index [~]	2.1%	4.9%	2.9%	2.5%	2.4%
Wage price index [^]	3.4%	3.1%	2.9%	3.1%	3.2%
Nominal GDP	3.6%	6.0%	4.3%	4.0%	4.7%

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 the wage price index are through the year growth to the June quarter. ^{*}Unemployment rate and participation rate is the rate for the June quarter. 'Official forecasts' refer to projections in the 2025-26 MYEFO. ¹Net 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

Will reform ambition be overtaken by events?

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 2025-26 Mid-Year Economic and Fiscal Outlook (MYEFO) released in December 2025. To produce the budget forecasts presented in this report, Deloitte Access Economics has updated the MYEFO figures by incorporating:

- The latest actual Commonwealth Monthly Financial Statements data published by the Department of Finance up to February 2026.
- The effect of policy decisions announced by the Federal Government up to and including 22 April 2026.
- 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 MYEFO.

Deloitte Access Economics' latest economic forecasts were published in the March 2026 edition of *Business Outlook* and released on 30 March 2026.

The remainder of this backdrop describes the economic and policy context surrounding the 2026-27 Budget.

A fuel crisis is far from a fiscal crisis

The 2026-27 Budget is scheduled to land as regional conflict in the Middle East continues to destabilise global energy markets and the effect of global uncertainty on the Australian economy dominates headlines.

Governments of all persuasions are fond of blaming the global economy for Australia's budget problems.

While it is true there is nothing the Treasurer can do to change what the global economy is throwing at Australia, it is also true that recent global events are far less of a concern for the budget than they are for Australian consumers.

An oil price shock hurts consumers directly at the petrol pump and indirectly as higher oil prices feed through supply chains and drive higher inflation throughout the economy. In contrast, the budget is largely a beneficiary of higher energy prices, which show up in three ways:

- Higher petroleum resource rent tax (PRRT) revenues as liquefied natural gas (LNG) export values rise.
- Higher company tax revenues as energy producers earn higher profits.
- Higher taxes more broadly as national income rises in nominal terms.

Unlike the incomes of most consumers, the Federal Government's receipts tend to be linked to inflation, meaning any broad-based price rises in the economy help, rather than hurt, tax revenue.

What would hurt the budget is a slowdown in growth. The longer that oil supplies are restricted, the more that global economic growth is likely to slow, with Australia – the world's largest importer of diesel – far from immune. With consumer and business confidence indicators already at crisis level lows, a pullback in consumption and investment are also a risk to the medium-term budget outlook.

Weighing the budgetary impact of the conflict in the Middle East means balancing the positive effect of higher inflation and the negative effect of slower growth. Given the Australian economy's starting point when the conflict started – with inflation already higher than desired, and with the Reserve Bank of Australia (RBA) having already started to lift interest rates – a further risk to the growth outlook is that persistent inflation may force the central bank to crimp activity by raising interest rates higher still.

This would spell budget trouble on two fronts, with slower growth hurting tax revenues while higher interest rates add to the cost of government debt. Yields on ten-year government bonds – already at a 15-year high in the last quarter – could climb higher.

The forecasts in this edition of *Budget Monitor* build on the macroeconomic outlook from the *Business Outlook* publication released in March 2026. While they include the effects of the energy crisis, the forecasts effectively assume that the conflict is resolved (and the Strait of Hormuz opened) relatively quickly. A longer conflict would put further pressure on the economy.

Courage under fire?

At a time of global turmoil, one might expect a budget that plays it safe. But indications are that the 2026-27 Budget will tackle policy changes that have long been on the to-do list.

Pre-budget speculation has been fanned by the combination of major announcements and hints at policy change. Beginning with the Economic Reform Roundtable hosted by the Treasurer in August 2025, the Government has given the distinct impression that the 2026-27 Budget will be one of ambition and reform.

It is critical that the Government delivers. Australia's economic challenges pre-date the fuel crisis, and substantial economic reform is overdue.

One area of focus in the budget is likely to be the way Australia's tax system currently benefits wealth over wages – a system which has become increasingly generous to older Australians while placing a heavier burden on younger, working-age Australians. The imbalance is most evident in places like the housing market, where deteriorating affordability has locked young Australians out of ownership. An outsized tax burden on workers also harms the incentive to work, and weighs on productivity growth, which has been languishing at historical lows. This budget could be a first step in remedying these problems.

Two of the most discussed reforms are a change to the capital gains tax (CGT) discount and the phasing out of negative gearing on residential investment properties. Other initiatives that may form part of a larger tax package on budget night are more speculative, but could include:

- Moves to introduce a road user charge to ensure drivers of electric vehicles pay for roads alongside those who use fuel.

- Changes to the fringe benefit tax (FBT) concessions that tend to benefit relatively wealthy Australians.
- Potential changes to better tax windfall profits in the energy sector (either through changes to the PRRT or via a temporary export levy).
- Revenue-neutral changes to the company tax system designed to lift the level of business investment in the economy.
- Income tax cuts, depending on what is made possible by the other components of the tax package. This could also include a 'standard deduction' designed to simplify tax returns at a cost to the budget.

In addition, some significant announcements have already been made on the spending side of the budget.

Minister for Health and Ageing, Mark Butler, recently outlined major changes to the eligibility rules for the national disability insurance scheme (NDIS) at the National Press Club.

In a speech that was unusually heavy on detail, the Minister outlined a new direction for the NDIS that will mark a severe departure from the rapid growth in the scheme over the past decade. Rather than continuing to attempt to constrain growth under the current rules, the Government has commendably decided to tackle some of the design flaws that have plagued the scheme since its inception. The proposed changes include:

- A new approach to assessment and eligibility, which moves away from lists of diagnoses and toward assessments of functional limitations (which have, for example, long been used in aged care). This will substantially limit growth in participant numbers.
- Limiting reassessments, which had become a key driver of higher costs over time as a result of financial incentives rather than changes in circumstances.
- Applying fundamental payment rules that most Australians would expect for the spending of tens of billions of taxpayer dollars.

While tackling fraud and rorting is an important component, the scheme's flaws run deeper. This proposed package of measures finally faces those problems head on. It has also avoided 'grandfathering' participants. As such, the changes will create a substantial list of people and providers who will be worse off – a stark reminder that worthwhile reform results in both winners and losers.

Some vulnerable and deserving participants are likely to lose support that they value. Many providers will face greater scrutiny and drastically slower growth.

But these proposed changes were unavoidable given that the status quo was a budget disaster so bad that even everyday Australians started to notice. If this package achieves the Government's goals, it will see the cost of the NDIS shrink in real terms for four years.

It will also save some \$19 billion between 2026-27 and 2028-29 by addressing one of the budget's fastest growing spending buckets.

Whether those savings are banked by the Government, or 're-prioritised' into sweeteners elsewhere, will be a key test of fiscal discipline.

Follow the cash

Budget night will no doubt see the Treasurer and most commentators focused on the underlying cash balance. Seen as the 'bottom line' of the budget, the underlying cash balance is the budget measure that many observers believe is the clearest indication of Australia's fiscal fortunes.

But there is another budget measure that is more important than ever and deserves to be front and centre in any conversation around deficits. That's the headline cash balance. The headline balance is what matters for debt, as it determines the amount of borrowing required to pay for spending commitments.

However, as the headline balance is rarely reported, governments have increasingly been favouring so-called 'off budget' funding mechanisms.

'Off budget' is a misnomer, of course. Just as driving 'off road' does not mean becoming airborne, spending 'off budget' does not mean that the dollars are excluded from the budget papers. They show up on the headline balance but do not affect the underlying measure.

The gap between the headline and underlying cash balances has widened substantially in recent years, and they are now further apart than ever. This trend will continue for as long as the headline balance goes under-reported.

Where is all the money going? The Commonwealth Government's off budget spending can be broadly categorised as follows:

- Policy funds and special investment vehicles. This includes the Clean Energy Finance Corporation, Housing Australia Future Fund, and the National Reconstruction Fund. This is the biggest and fastest growing component of off budget spending. It represents areas where urgent action is required, including the clean energy transition and the need to boost housing supply. Look for this part of the ledger to expand further in years to come.
- Investment in government enterprises and infrastructure delivery, such as the National Broadband Network and Snowy 2.0.
- A range of concessional interest or interest free loan programs, including those to support businesses with drought and disaster relief.
- Lending to the states and other countries. This type of spending, through loans that support infrastructure development, not only drive domestic infrastructure goals, but also allow the Government to broaden and deepen its foreign policy influence. Geopolitical ructions may put a floor under spending within this category over coming years.
- Concessional loans to households. These include income contingent student loans (and changes in those loans, such as the recent decision to forgive a portion of existing student debt) and interest-free loans to support the purchase of essential goods and services for eligible households.

Traditionally, off budget spending has been relatively predictable. In more recent times, policy funds established by both sides of politics have included considerable discretion regarding how and when money is used, meaning they are more exposed to political influence than ever. That deserves more scrutiny than it gets.

Considering the headline balance – and its implications for debt – highlights that the budget position is not as rosy as the underlying balance would have Australians believe.

That makes the case for fiscal and economic reform even more urgent.

Economic outlook

Stagflation nation.



The Australian economic outlook

The economic outlook has shifted significantly since the previous edition of *Budget Monitor* was released at the end of 2025. At that time, the RBA had yet to start its current tightening cycle, and optimism was still high that 2026 would be a year of strengthening economic conditions in Australia.

That optimism has largely vanished. Conflict in the Middle East has disrupted energy flows, lifted input costs, and added to inflation pressure, while heightened uncertainty has undermined the outlook for global growth. At the time of writing, a fragile, extended ceasefire is in place. However, even if tensions eased quickly from here, slow-to-adjust supply chains and damaged infrastructure are likely to keep energy prices elevated and growth subdued for some time.

Inflation had already started to re-accelerate in Australia even ahead of the conflict. A modest lift in demand late last year outstripped a sluggish expansion in the supply side of the economy, prompting the RBA to lift rates in February and March. A further hike is expected in May, and higher-for-longer interest rates may be required to squash inflation expectations and slow the economy over the coming year.

The stagflationary combination of higher inflation and weaker growth poses a challenge for the coherence of fiscal and monetary policy. The RBA's actions to rein in inflation risk slowing the economy further and lifting unemployment higher, while the Government's efforts to boost growth and insulate consumers may add further to price growth and make the RBA's task even more difficult.

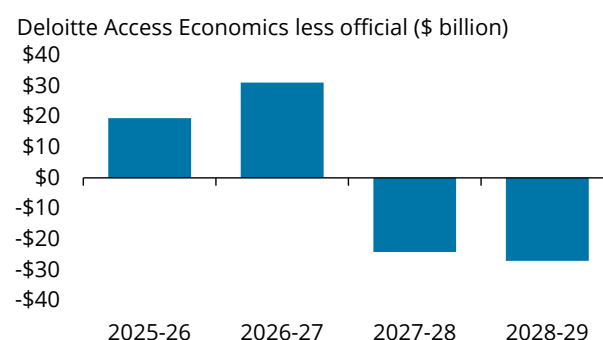
Further escalation in the Middle East is a significant risk to the outlook. The longer the conflict drags on, the more likely it is that fuel supply shortages will curtail the pace of economic growth. The Government would then face a difficult choice between injecting fiscal stimulus – at the cost of higher-for-longer inflation – or letting the economic cycle play out.

While high inflation is a drag for the economy, it is typically good news for the budget. What matters most to the budget is the nominal economy. When prices rise, the overall economic 'pie' grows, lifting tax receipts (often, even if real activity slows).

Deloitte Access Economics expects nominal gross domestic product (GDP) growth to reach 6.0% in 2025-26, before dropping to 4.3% in 2026-27. Those growth rates are well above Treasury's official forecasts of 5.25% and 3.25% published in MYEFO. But in later years, Deloitte Access Economics expects nominal GDP growth of 4.0% and 4.7% in 2027-28 and 2028-29, considerably below Treasury's MYEFO forecast of 4.75% and 5.5% respectively.

While that difference in nominal GDP forecasts will largely balance out over the forward estimates period, the timing matters. Indeed, the near-term budget position may benefit from recent developments. However, the medium-term budget position will face headwinds.

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 2025.

Higher commodity prices – particularly for LNG and coal – are expected to translate into higher tax revenue in the near term. As conflict drives prices higher, local producers reap greater profits, translating into increased company tax revenue for the government.

On the other hand, the oil supply shock also has the potential to see global industrial activity soften.

Slower global growth would weigh on iron ore and other metals. And as usual, the outlook for Australian exporters would largely depend on China, which is still grappling with structural domestic challenges. Stimulus measures announced in China to date have largely focused on infrastructure and advanced manufacturing, but the struggling property sector may continue to weigh on steel and iron ore demand.

On balance, Australia's terms of trade should be stronger in the near term, before stabilising in the medium term, providing a partial cushion to national income and government revenue.

In the medium term, domestic conditions are expected to lead to higher unemployment and slower wage growth, driving a modest reduction in the projected wage bill relative to expectations at the time of MYEFO.

But further support to wage growth could come in the form of mooted real wage increases for minimum wage workers, which would flow through to a considerable segment of the labour force.

Unemployment is forecast to reach 4.9% in 2026-27 as demand for workers softens, likely putting upward pressure on government spending while also reducing the pool of tax paying wage earners.

Overall, the deterioration in the global and domestic economic outlook is an untimely reminder of the lack of budget discipline in recent years.

While the Middle East conflict is likely to provide a near-term sugar hit to revenue, the damage to the domestic economy could yet require an injection of stimulus from the Government.

That would be a lot more palatable coming from a more structurally sound budget position.

Table 1 Australian economic forecasts (% growth)

	History 2024-25	Forecast 2025-26	2026-27	2027-28	2028-29
Gross domestic product					
Household consumption	1.2%	2.3%	2.0%	2.0%	2.0%
Dwelling investment	4.3%	4.7%	1.9%	3.5%	5.1%
Business investment	-0.3%	5.1%	2.9%	2.4%	2.5%
Public final demand	4.1%	2.5%	2.9%	3.2%	3.1%
Gross national expenditure	2.0%	2.7%	2.3%	2.4%	2.5%
Real GDP	1.3%	2.4%	1.9%	2.0%	2.3%
Nominal GDP	3.6%	6.0%	4.3%	4.0%	4.7%
Prices and wages					
Consumer price index [^]	2.1%	4.9%	2.9%	2.5%	2.4%
Wage price index [^]	3.4%	3.1%	2.9%	3.1%	3.2%
GDP deflator	2.2%	3.5%	2.4%	1.9%	2.3%
Terms of trade	-4.1%	0.6%	0.9%	-0.8%	0.3%
Labour market and population					
Participation rate [*]	67.0%	66.7%	66.8%	66.5%	66.5%
Employment [^]	2.1%	1.2%	0.9%	1.4%	1.4%
Unemployment rate [*]	4.2%	4.3%	4.9%	4.6%	4.6%
Population	1.6%	1.5%	1.3%	1.2%	1.2%

Note: Base year for real data is 2023-24. 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 the 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

Global windfalls tempered by domestic challenges.

Overview

Much of the outlook for revenue is being driven by the economic developments emerging from the crisis in the Middle East.

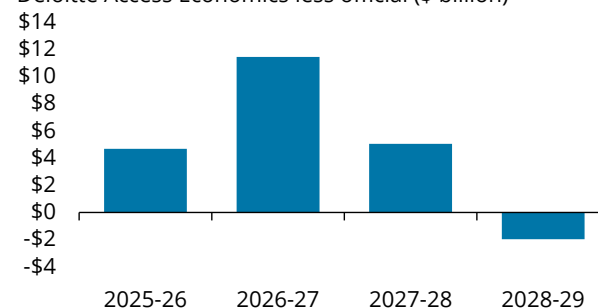
In part that is by choice, such as the Government's decision to temporarily reduce fuel excise by more than half.

Policy is not the main driver here, however. Higher prices for Australia's LNG exports will combine with higher inflation across the economy to substantially lift revenue from profit-based taxes, particularly in 2026-27. Combined with the momentum evident in recent monthly tax collections, that should see an immediate boost to the bottom line.

Beyond the positive near-term fiscal consequences of the crisis, revenue is set to be weighed down in the medium term by slower real growth and a weaker labour market compared to the forecasts in MYEFO.

Chart 2 Revenue forecast compared to 2025-26 MYEFO

Deloitte Access Economics less official (\$ billion)



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

Table 2 Accrual revenue estimates (\$ billion)

	2025-26		2026-27		2027-28		2028-29	
	Official estimate	Budget Monitor	Official estimate	Budget Monitor	Official estimate	Budget Monitor	Official estimate	Budget Monitor
Individuals ¹	366.8	369.7	384	386.2	403.7	403.4	430.0	426.1
Company tax	147.8	149.6	150.5	159.4	150.2	155.9	154.1	157.5
Superannuation fund taxes	29.9	32.3	29.1	29.3	28.1	28.4	30.3	30.6
Other income tax ²	7.4	7.5	7.2	8.1	7.0	7.4	7.2	7.5
Total income tax	551.9	559.2	570.9	583.0	589.0	595.1	621.6	621.6
GST	101.0	100.5	107.2	107.1	112.9	112.4	120.2	119.2
Excise and customs duty	40.5	38.2	41.8	41.0	42.2	41.7	42.4	41.9
Other indirect tax ³	16.6	16.7	17.0	17.0	17.4	17.4	18.1	18.1
Total indirect tax	158.1	155.3	166.1	165.2	172.5	171.5	180.8	179.2
Total taxation revenue	710.0	714.5	736.9	748.1	761.5	766.7	802.4	800.8
Non-taxation revenue⁴	55.6	55.7	56.7	56.9	59.2	59.2	61.7	61.4
Total revenue	765.6	770.3	793.6	805.0	820.8	825.8	864.1	862.1

Note: Official estimates refers to the 2025-26 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.

Overall, Deloitte Access Economics expects the 2026-27 Budget to reveal a total increase in revenue of \$19.2 billion over the four years to 2028-29, compared to the forecasts in MYEFO.

That's a handy windfall, no doubt. But unlike the revenue windfalls received in the Government's first term, the current bout of global conflict will not be enough to cover up the structural flaws in the budget position.

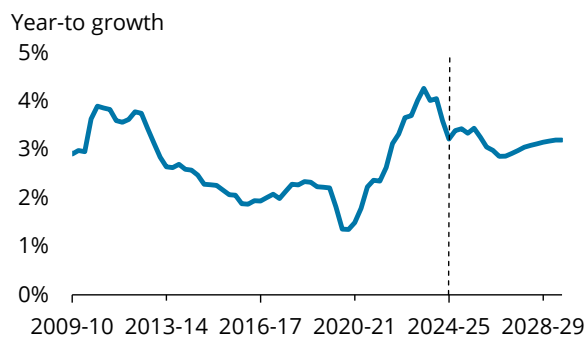
Individuals and other withholding tax

Gross income tax withholding

Income tax withholding continues to be the largest and most stable revenue source. Growth in the national wage bill is the primary driver of revenue here, meaning both nominal wage growth and jobs growth play important roles.

Despite a labour market which remains relatively tight, wage growth looks set to fall short of the forecasts included in MYEFO in the near term. Indeed, Deloitte Access Economics' forecasts show real wages headed backwards over the course of 2025-26 amid a spike in inflation driven by the Middle East conflict.

Chart 3 Wage Price Index



Source: Deloitte Access Economics, Australian Bureau of Statistics

Similar wage outcomes are expected across the forward estimates, with the economic consequences of higher oil prices and higher interest rates weighing on wage growth.

The outlook on jobs is also relatively weak, with employment growth set to fall to its lowest level since the pandemic in 2026-27 before further downgrades in the final two years of the forward estimates.

Higher inflation will lead to greater bracket creep, but that will be more than offset by weakness in real wages.

Chart 4 Average rate of personal income tax



Source: Deloitte Access Economics, Australian Bureau of Statistics

The combination of weaker wage growth and weaker jobs growth will see the national wage bill grow by 5.7% in 2025-26 before weakening to 4.7% in 2026-27 – well below the 6.0% averaged since the turn of the century.

Growth in the wage bill is expected to recover in both 2027-28 and 2028-29 but remain below longer-term averages.

That outlook sees pay as you go (PAYG) collections falling short of the forecasts in MYEFO by \$8.5 billion over the forward estimates, with those downgrades growing over time as the Australian economy struggles with the aftermath of a global supply shock.

Gross 'other individuals' tax

'Other individuals' taxes capture income earned outside the PAYG system, including investment returns, capital gains and small business profits. This mix makes the category more volatile than wages-based collections, with receipts that rise and fall closely in step with the economic cycle.

This head of revenue has been a standout performer in recent years, buoyed by high inflation, strong asset price growth and solid investment returns. Collections have risen at an average annual rate of more than 14% so far this decade. That is also true of collections to date in 2025-26, which are pointing to a substantial revenue upgrade relative to the forecasts in MYEFO.

This revenue stream was supported by the low interest rates of 2022, which limited interest deductions, while higher business profitability flowed through to tax collections.

Those drivers will be less favourable through 2026. Interest rates are higher and rising.

The weakness of the economic outlook also means that profit margins for some small businesses may come under pressure, even though higher profits for bigger businesses will flow through to revenue here via dividends.

Capital gains also fall into this revenue stream. And while rising interest rates are placing downwards pressure on asset prices, inflation has lifted nominal asset prices which will support revenue in the category.

Overall, the inflationary bump will outweigh the drag from the real economic slowdown in the short term, with other individuals collections forecast to lift by 9.1% in 2025-26 before slowing markedly in 2026-27.

Yet the slowing trend in capital gains amid rising interest rates was anticipated by Treasury in MYEFO, leaving some positives from profits providing an upside surprise over the forward estimates.

Revenue growth is projected to surpass Treasury forecasts in each year of the forward estimates to sit \$8.4 billion higher over the four years.

Income tax refunds for individuals

Refunds move broadly in line with overall income tax collections. More tax paid during the year generally means larger refunds once returns are lodged. The timing and size of refunds also depend on labour market dynamics and policy settings.

Two influences on refunds are expected to emerge in the years ahead. First, higher unemployment and increased job churn amid a weaker than expected labour market will tend to lift refunds, as PAYG withholding assumes a full year of working. However, slightly stronger than expected incomes outside the PAYG system will tend to reduce refunds.

On balance, income tax refunds are forecast to come in slightly softer than MYEFO in the outer years of the forecast, adding a total of \$1.1 billion to the budget across the forward estimates.

Total revenue from taxes on individuals

Strong momentum in both the labour market and key profit related incomes for individuals saw total income tax collections build momentum prior to the conflict in the Middle East.

That momentum will see a strong result in 2025-26 before the economic impact of the Middle East conflict results in a more mixed picture from 2026-27.

That is expected to see the wage-based PAYG tax take struggling somewhat, while collections focused on profits, capital gains and interest may provide some positives.

On balance, Deloitte Access Economics expects the 2026-27 Budget to deliver a modest \$1.0 billion increase in revenue collected from individuals across the forward estimates, though both 2027-28 and 2028-29 will see collections disappoint relative to official forecasts.

Chart 5 Taxes on individuals as a share of GDP



Source: Deloitte Access Economics, Australian Bureau of Statistics

An ongoing series of small personal income tax cuts have helped to temporarily arrest the long running increase in taxes on individuals as a share of the economy. But more will be needed to stop that ratio drifting higher over time.

Mooted changes to CGT and negative gearing could push up the effective tax rate on individuals, but it remains to be seen whether those reforms are packaged with broader tweaks to the personal income tax system.

Company and other (non-personal) income tax

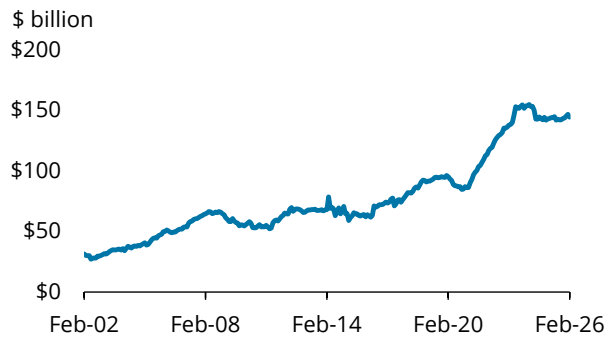
Company income tax

Company tax is an important revenue source and a frequent source of budget surprises due to its relatively volatile tax base. As has been the case in recent years, company tax revenues look set to provide a substantial boost to the bottom line in the 2026-27 Budget.

Revisions to company tax typically reflect either conservative assumptions embedded in official forecasts, or genuine surprises in the economy – particularly around commodity prices.

The first of these will sound like a familiar story to budget watchers, as Treasury's assumptions for key commodity prices like iron ore and coal will once again prove too conservative.

Chart 6 Company tax, rolling 12 month total



Source: Deloitte Access Economics

The 2025-26 MYEFO assumed iron ore would fall to US\$60 per tonne, metallurgical coal to US\$140 per tonne and thermal coal to US\$70 per tonne over four quarters. Spot prices for all three commodities have held up well over the past six months, and official forecasts from the Department of Industry, Science and Resources continue to indicate prices remaining well above the 2025-26 MYEFO assumptions. Other things equal higher commodity prices will flow through to upward revenue revisions across the forward estimates.

In addition to the usual technical revisions to commodity prices, there have been major real world surprises this time around.

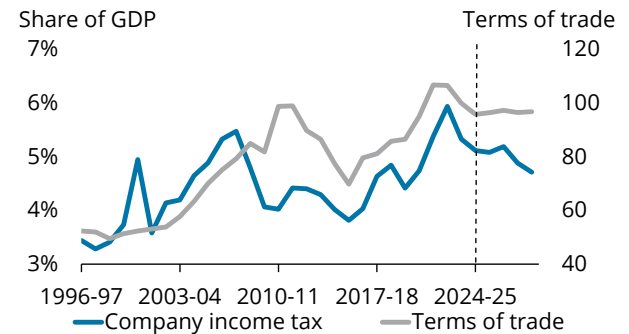
The Iran conflict has rocked energy markets and will be a major driver of revised company tax forecasts on budget night. This time it is LNG prices rather than iron ore driving the change, but the result is the same – an improvement in Australia's terms of trade. That will increase national income, with the biggest beneficiaries being gas companies achieving higher prices against relatively fixed costs. Some of those higher profits will be subject to the PRRT, but company tax will apply over and above that to deliver further revenue windfalls.

Finally, the broader price effects of the energy shock will also play a major role. As inflation pulses through the economy, the nominal value of profits will rise, providing a further boost to revenues starting in 2026-27.

Beyond the short-term positives of higher gas prices, the economic consequences of a lingering global energy crisis will also provide some downside risks to company profits.

Deloitte Access Economics' forecasts for 2027-28 and 2028-29 show an economy growing more slowly than Treasury expected before the crisis. That will feed through to slower growth in company tax collections, which are forecast to taper back toward the MYEFO forecasts throughout the forward estimates.

Chart 7 Company tax and terms of trade



Source: Deloitte Access Economics, Australian Bureau of Statistics

Still, the near-term positives here are notable, and Deloitte Access Economics expects company tax revenue to be a cumulative \$19.8 billion above official projections across the forward estimates, with that upgrade concentrated in 2026-27 and 2027-28.

Fringe benefits tax

FBT is a tax on substitutes for cash income, designed to remove or penalise any incentive to receive remuneration not in the form of wages and salaries.

The most commonly salary packaged benefit in Australia is a car, meaning developments in the vehicle market remain central to the FBT outlook. The impact of the FBT exemption for electric vehicles (EVs) has been striking. According to the National Automotive Leasing and Salary Packaging Association, battery electric vehicles (BEVs) and plug-in hybrid vehicles (PHEVs) accounted for less than 1% of new novated leases before the exemption was introduced, a share that rose to over 50% by December 2025. Notably, the removal of PHEVs from the exemption on 1 April 2025 has not materially reduced that share, with BEVs simply absorbing those sales. EV sales more broadly continue to surge, up 39% in the first quarter of 2026 compared to a year earlier according to the Electric Vehicle Council.

The exemption is now the subject of a formal government review, with a report due by mid-2027. Treasury estimates the revenue forgone at \$1.35 billion in 2025-26 alone, some 15 times the original forecast.

While no changes have been announced, any winding back of the exemption would have a meaningful impact on FBT collections, given vehicles' share of the tax base.

Deloitte Access Economics' forecasts have FBT collections growing by less than 5.0% per annum over the forward estimates, broadly in line with Treasury. A softer outlook for wages and employment growth will place some downward pressure on collections, though growth remains positive. These forecasts do not incorporate any potential changes to the EV exemption given the review's findings are yet to be handed down.

The broader trend remains one of declining use of fringe benefits, likely resulting in FBT collections growing more slowly than personal income tax over time.

Petroleum resource rent tax

PRRT collections are the part of the budget that is most sensitive to energy prices – particularly LNG exports into Asia.

While much of the country suffers from the effects of conflict in the Middle East, higher oil and gas prices are a clear win for Australia's LNG producers. Higher prices without major increases in costs mean higher profits, and the PRRT will see a share of those profits go to the Commonwealth.

It is tempting to think of higher gas profits as a short-term windfall, but there are reasons to expect a slightly slower burn in practice.

The destruction of key gas infrastructure in the gulf states means gas prices are likely to remain elevated for longer than oil prices even if the Strait of Hormuz reopens quickly.

Most Australian LNG exports are traded on long term contracts rather than spot markets. That will see the benefits of higher prices delayed until contracts are renegotiated and potentially lingering as those new contracts play out.

And the design of the tax itself also tends to delay increases in revenues. Higher profits will eat through deductions associated with project investment first, before turning into an uplift in PRRT collections.

That means that while there is a windfall to come from PRRT revenues, it will take time to emerge. Deloitte Access Economics expects revenues in 2025-26 to be \$200 million higher than forecast in MYEFO, before higher energy prices deliver a \$900 million boost in 2026-27.

An additional \$400 million in each of 2027-28 and 2028-29 is expected, resulting in a 35% boost to collections across the four years.

At least, that's the theory. The PRRT is a complex beast and has a long history of underperforming against its aims. The current boost to the profits of oil and gas companies will provide an important test of a tax which has not appeared fit for purpose for some time.

The Government is already facing calls to reform the way gas exports are taxed. Any underperformance of the PRRT in capturing the current windfalls will only add fuel to that fire.

That said, it is worth noting that oil and gas companies also pay company tax, meaning a portion of underperformance in the PRRT will still find its way into government coffers via profits at some point.

Superannuation fund taxes

The key tax bases for superannuation fund taxes are contributions to and earnings from super. In turn that links revenues to both growth in the wage bill and the performance of asset markets – particularly Australian equities.

The Government's watered-down package of superannuation tax changes has now passed Parliament. New earnings tax rates and thresholds for those with large super balances will start to add to tax collections from 1 July 2026, while a more generous low-income superannuation tax offset will pull in the other direction.

Deloitte Access Economics estimates that the revised superannuation tax package will raise some \$2.4 billion in revenue over the forward estimates to 2028-29.

Meanwhile super taxes are continuing their surprising run of strength so far in 2025-26 and look set to provide a handy revenue windfall this financial year. But developments in the economy and in asset markets mean tougher times may lie ahead.

The impact of the Middle East conflict on global growth and supply chains is likely to result in some dislocation in asset markets over the next 12 to 18 months.

Together with the effect of higher-than-expected interest rates that should weigh on super earnings in 2026-27, though that weakness may take some time to show up in tax collections.

By 2027-28 slower growth in the wage bill will also drag on growth in taxes on super contributions.

While much depends on the inherent unpredictability of asset markets, Deloitte Access Economics expects super taxes to be \$3.1 billion higher than Treasury's expectations over the four years to 2028-29, with majority of the increase concentrated in 2025-26.

Super taxes remain a good news story in the budget – stabilising at levels well above those seen in previous years.

Goods and services tax

Goods and services tax (GST) revenues are closely tied to consumer spending and dwelling construction.

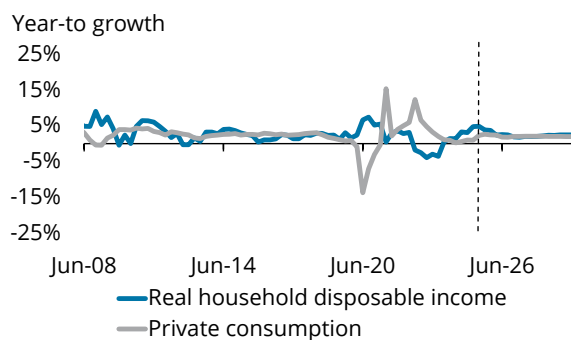
GST collections have so far disappointed in the financial year to date. And because GST is paid on the pump price of fuel – which includes the fuel excise – cuts to fuel excise in the final quarter of 2025-26 will also reduce GST collections. Overall, Deloitte Access Economics expects GST collections to miss the MYEFO forecast by half a billion dollars in 2025-26.

In 2026-27, GST collections will be subject to a tug of war between price and volume effects. As higher oil prices bleed through the economy, and businesses look to protect profit margins, consumer price growth is expected to be higher than forecast in MYEFO.

At the same time, real consumption growth will face stronger headwinds. Households are facing another round of cost-of-living pain, as inflation reaccelerates and the RBA hikes interest rates. Consumer confidence is in the doldrums, and the financial squeeze is likely to see households pull back on discretionary spending.

Higher interest rates will similarly act to cool dwelling construction in coming years, particularly as recent data suggests house price growth in Sydney and Melbourne has moved into negative territory.

Chart 8 Consumer spending and real household disposable income



Source: Australian Bureau of Statistics, Deloitte Access Economics

The delayed recovery in household consumption is expected to result in GST revenues slightly below official forecasts in both 2027-28 and 2028-29. Across the forward estimates, GST revenue is forecast to come in cumulatively \$2.1 billion below the MYEFO forecasts. As GST is fully distributed to the states and territories, this has no net effect on the Commonwealth bottom line.

Excise and custom duties

Excise duties are levied on petroleum products, beer, spirits and tobacco, while equivalent customs duties apply to imported goods. Rates are generally indexed twice annually to the CPI.

In response to the energy crisis, the government halved fuel excise for three months from 1 April 2026 and provided an additional modest cut to offset any additional GST on fuel, reducing prices by a combined 32 cents per litre. This is estimated to cost around \$3.0 billion in lost excise revenue in 2025-26. At this stage, the cut is set to be reversed on 1 July 2026, though this type of policy is always challenging to unwind.

Beyond the near term, fuel excise continues to face structural headwinds from fuel-efficiency gains and the rapid uptake of electric and hybrid vehicles. According to the Federal Chamber of Automotive Industries, EVs accounted for around 15% of new vehicle sales in March 2026, around double the share seen a year earlier. The rapid rise in petrol and diesel prices in early 2026 has only accelerated this long-run trend.

Tobacco excise remains under enormous pressure from a thriving black market that authorities have yet to topple. Revenue has collapsed from a peak of over \$16 billion in 2019-20 to around \$7 billion in 2024-25, even as excise rates have risen sharply. The Australian Transaction Reports and Analysis Centre has worked with banks to close over 1,000 accounts linked to illicit tobacco sales, and new legislation before Parliament would strengthen penalties for those involved. But the black market remains vast.

Growth in alcohol excise continues to be held back by the ongoing freeze on draught beer indexation and by shifting consumption patterns. Younger Australians are drinking less than previous generations and are more likely to choose wine — which is taxed by value under the wine equalisation tax (WET) rather than by volume.

On the trade front, the Australia-European Union Free Trade Agreement signed in March 2026 will eliminate the 5% import tariff on European vehicles.

While this is modestly negative for customs duty collections, the broader shift towards freer trade is a welcome development for the economy. Over the forward estimates, Deloitte Access Economics expects excise and customs duty to fall around \$4.3 billion short of official forecasts, driven primarily by the fuel excise cut and weakness in tobacco collections.

Other indirect tax

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

The new Australia-European Union Free Trade Agreement includes an increase in the LCT threshold for zero emissions vehicles, which will be magnified by the current shift toward EVs.

Higher inflation will lead to faster indexation of a range of levies, and to faster growth in tax bases for WET and the bank levy. But volumes growth is expected to be slowed by a weaker economy and softer discretionary spending on the likes of fine wines and fast cars.

On balance Deloitte Access Economics expects other indirect taxes to fall \$100 million short of official forecasts across the forward estimates.

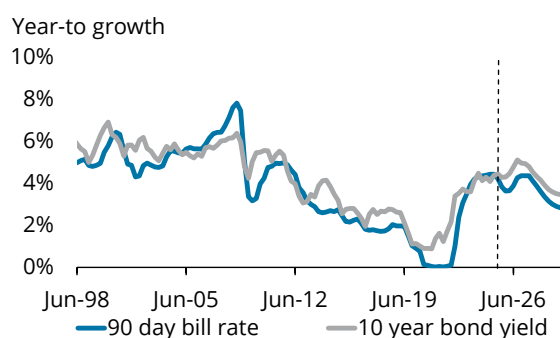
Non-taxation revenue

Interest receipts

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

As the loan balances are relatively steady over time it is interest rates that determine the outlook. MYEFO followed Treasury’s usual approach of holding recent market rates flat over the forward estimates.

Chart 9 Interest rates



Source: Deloitte Access Economics

Deloitte Access Economics expects long-term bond rates to move higher over both 2025-26 and 2026-27 before a rate cutting cycle commences in the latter half of the forward estimates. That will see stronger than expected revenue over the first two years but weaker revenues thereafter.

Dividend receipts

Unlike most government agencies the RBA’s role in the financial system means it has major holdings of assets and liabilities on its balance sheet – and meaningful exposure to the performance of asset markets.

Inflation is a source of income for the RBA, with many of its liabilities fixed in level terms while assets grow with inflation. Other factors matter for underlying earnings too. Since the pandemic, the RBA’s assets have mostly been made up of Australian Government bonds. Liabilities have primarily been exchange settlement balances – cash kept on behalf of banks for transactions. That combination had been leading to losses, with interest paid to banks outpacing the earnings on bond holdings.

Looking forward, underlying earnings should stabilise over the forward estimates, but further interest rate rises create a risk that market losses persist. That will mean no dividends from the RBA in the years ahead, with past losses needing to be overcome first.

The Commonwealth also receives dividends from government business enterprises (GBEs), though payments from most large entities are limited. NBN Co is gradually becoming profitable, but the Government has agreed to further ongoing equity injections which make dividends unlikely. The Australian Rail Track Corporation continues to post losses, while Defence Housing Australia has a dividend moratorium to allow reinvestment in new housing.

Overall, Deloitte Access Economics expects dividend receipts to grow broadly in line with official forecasts.

Other non-taxation revenue

Other non-taxation revenue comprises payments for goods and services provided by the Commonwealth, contributions from the states for GST collection, and earnings from the Future Fund. Collections in this category have been relatively strong in recent years, but revenue is expected to moderate over the forward estimates.

Expenses and budget aggregates

A tug of war between reform and relief.

Overview

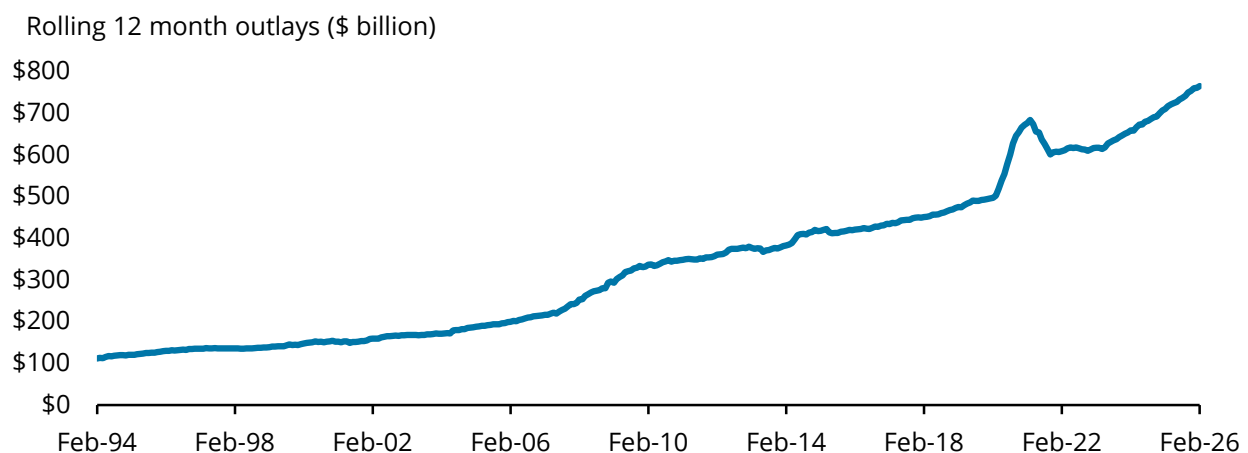
Just two months ago, the economic backdrop to the 2026-27 Budget was markedly different. Resurgent inflation had reignited debate over the appropriateness of record-high government spending and calls for economic and fiscal reform could no longer be ignored.

The Treasurer responded with promises of substantial savings packages and productivity-focused reforms. Following last year's decisive election, and combined with the Economic Reform Roundtable in August, the upcoming budget had been primed to deliver real reform.

How quickly priorities have shifted. The outbreak of conflict in the Middle East introduced a new set of challenges that continue to risk drawing the focus away from structural reform and towards reactive cost-of-living supports.

But any substantial cost-of-living supports must be constrained, or else risk further entrenching high inflation and requiring a more aggressive policy response from the RBA. A further challenge is that higher inflation already drives existing government spending higher, putting pressure on the spending bill.

Chart 11 Federal spending, rolling 12 month total



Source: Based on Commonwealth of Australia data

This occurs through higher indexed payments, fast growing costs of goods and services, and higher interest payments. A softer labour market, a likely result of the required monetary policy response, also puts some upward pressure on payments. While global conflict may help lift revenue, so too does it worsen expenditure.

To date, the Government has responded relatively cautiously to the fuel crisis, while remaining focused on much needed structural reforms. The main feature in the relief package to date – more than halving the fuel excise for three months – is in fact a revenue measure, rather than new spending.

Chart 10 Accrual spending as a share of GDP



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

The \$1 billion in interest-free loans for manufacturing and fuel businesses affected by the conflict is being provided through the existing \$15 billion National Reconstruction Fund Corporation. And the \$2 billion allocated to the Minister for Finance only sets aside funds for possible use over the next three months, rather than immediate expenditure.

While these last two announcements do not immediately affect the budget bottom line, they still highlight the Government's willingness to inject fiscal support in response to the fuel shock, even if that same fuel shock is adding to inflation.

This report has already flagged the risk of a more severe or protracted closure of the Strait of Hormuz. And if the Government is eventually forced to choose between avoiding recession or stoking higher inflation, it is almost certain to choose the latter. The bad news is that the budget is not in a position for a large fiscal stimulus package.

Under current policy settings, Australia already faces decades of sizeable budget deficits ahead. Even the cost of existing programs has failed to be contained with the 2025-26 MYEFO projecting an extra \$4.9 billion for the Cheaper Home Batteries program, \$3.0 billion for Support for Seniors, \$2.3 billion for NDIS payments, and another \$2 billion for child care subsidies over the forward estimates due to increased spending revisions.

Australia simply cannot afford for reform to be put on the back burner. The 'fast five' spending areas – health, aged care, the NDIS, defence and interest costs – are placing increasing pressure on the budget and are expected to become even more costly over time.

Recent announcements suggest that the Government is willing to meet this challenge head on. The plan to reduce the pace of NDIS spending growth to 2% per annum for four years is highly ambitious. If successful, these efforts are estimated to save some \$19 billion over the forward estimates period. If these savings are banked rather than spent or 'reallocated', it will mean a meaningful improvement to the budget bottom line.

Expenses

Effect of parameter variations

The differences between Deloitte Access Economics' latest economic forecasts and those in the 2025-26 MYEFO – 'parameter variations' – are expected to put upward pressure on spending.

The reconciliation of Deloitte Access Economics' expenses forecast is shown in Table 3 below.

The net effect of parameter variations is expected to result in a \$13.9 billion increase in spending over the four years to 2028-29 compared to the 2025-26 MYEFO. This is significantly stronger than in previous years, and mostly due to inflation, which is now forecast to be much higher than in MYEFO. Higher inflation alone is expected to add \$14.9 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 rate will rise to 4.5% in 2025-26 and 2026-27, before declining to 4.25% in the final two years of the forward estimates. Deloitte Access Economics now expects the unemployment rate to rise to 4.3% in 2025-26, before surging to 4.9% in 2026-27 and stabilising at 4.6% in the two following years. This divergence is expected to see lower spending in the current financial year but add to expenses over the remaining years of the forward estimates.
- **Prices:** Deloitte Access Economics expects inflation to reach 4.9% over the year to June 2026, well above the 3.75% anticipated by Treasury in the 2025-26 MYEFO. Faster price growth results in higher-than-expected spending for the range of payments that are indexed to consumer prices.
- **Wages:** Variations in wages affect outlays directly (via higher public service wages) and indirectly (via programs that are at least partly indexed to wage costs). Wage growth is expected to be slightly below Treasury's forecasts in 2026-27, with the gap widening through 2028-29. The result is a modest decrease in spending over the 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 debt. Deloitte Access Economics is expecting higher bond yields (interest rates) than were assumed in the 2025-26 MYEFO for 2025-26 and 2026-27, before falling below official forecasts in the two following years. This is reflected in the profile of the PDI parameter variations.

Table 3 Expenses reconciliation (\$ billion)

	Forecast 2025-26	2026-27	2027-28	2028-29
Official accrual spending	809.2	819.0	854.0	897.5
Budget Monitor accrual spending	810.3	823.7	854.8	892.3
Difference:	1.1	4.7	0.8	-5.2
<i>Effect of parameter variations (net, including PDI)</i>	1.3	5.3	4.1	3.1
<i>Effect of policy decisions (net)</i>	0.3	-0.4	-2.9	-7.3
<i>GST adjustment</i>	-0.5	-0.1	-0.4	-1.0
Effect of parameter variations				
Unemployment	-0.7	1.4	1.2	1.4
Consumer price index	2.0	3.8	4.5	4.6
Wages	0.0	-0.1	-0.3	-0.5
PDI variation	0.0	0.2	-1.3	-2.4
Effect of parameter variations (net, including PDI)	1.3	5.3	4.1	3.1
Effect of policy decisions				
Agriculture, Environment and Water	0.0	0.0	0.0	0.0
Attorney-General's, Defence, Home Affairs, Emergency Management and Veterans' Affairs	0.2	2.0	2.9	2.2
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 and Government Services	0.1	0.0	0.0	0.0
First Nations	0.0	0.0	0.0	0.0
Foreign Affairs and Trade	0.1	0.0	0.0	0.0
Health, Disability and Ageing	0.3	-2.5	-5.8	-9.5
Infrastructure	0.0	0.0	0.0	0.0
Secure Jobs and Industry	0.0	0.0	0.0	0.0
Treasury, Finance, Housing and the Public Service	-0.4	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total effect of policy decisions (net)	0.3	-0.4	-2.9	-7.3

Note: Effect of policy decisions taken since election have been identified by Deloitte Access Economics from public sources and include decisions announced to 22 April 2026. While the intention is to include all announcements, the list may not be exhaustive.

Effect of policy decisions

With the government focused on controlling existing spending, there have been relatively few new spending announcements between the 2025-26 MYEFO and the 2026-27 Budget. The commitment to controlling spending was evident in the recent NDIS changes, which

are expected to save \$19 billion between 2026-27 and 2028-29.

A substantial \$53 billion in spending over the coming decade was announced as part of the 2026 National Defence Strategy, with \$14.3 billion in the forward estimates.

However, the \$12 billion investment in the Henderson Defence Precinct is included in the announced cost, and this was already factored into the 2025-26 MYEFO.

Notably, the National Defence Strategy outlined that around \$15 billion of this funding would be sought to be financed through alternative financing options, or more clearly, off budget spending.

Health, Disability and Ageing has been the second largest area for new spending, excluding the proposed changes to the NDIS. The Government reversed its decision on at-home aged care personal services funding, adding \$1 billion to the forward estimates. An additional \$1 billion was also announced to support the expansion of Australia's General Practitioner and Rural Generalist workforce through to 2030.

The \$400 million in forgone GST revenue for states and territories on fuel transactions will also be recorded as a reduction in federal expenditure, bringing down the effect of policy decisions in 2025-26.

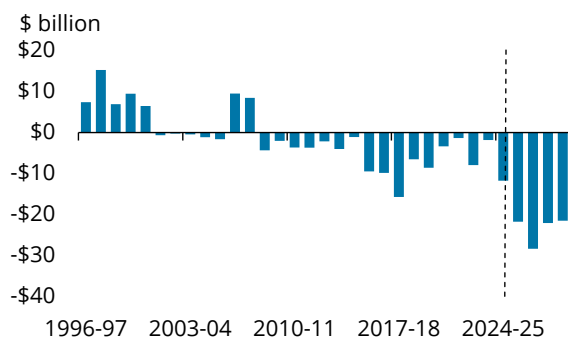
Costs associated with new policy measures in *Budget Monitor* are only those that have been announced between the 2025-26 MYEFO and 22 April 2026. In total, policy measures are expected to save an estimated \$10.3 billion in net spending over the forward estimates, overwhelmingly driven by the NDIS changes.

Total accrual spending

The overall impact on accrual spending is shown in Table 3 above. Together, parameter variations and policy decisions (plus an adjustment for the distribution of the GST to the states and territories) are expected to increase spending over the four years to 2028-29 by \$1.5 billion relative to forecasts in the 2025-26 MYEFO.

Net advances and other matters

Chart 12 Difference between the headline and underlying cash balance



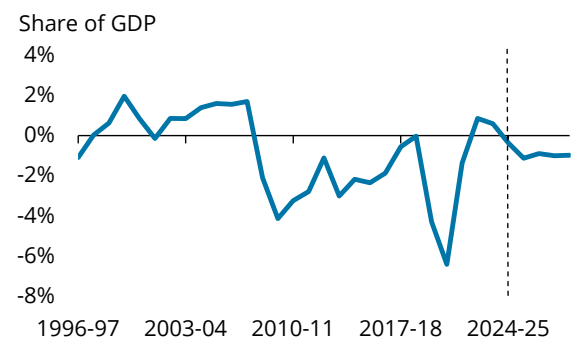
Source: Deloitte Access Economics, based on Commonwealth of Australia data

Net advances are the final element needed to estimate the headline cash balance, which has been worse than underlying balance for the past decade. This trend is expected to continue as governments continue to use 'off budget' entities to finance large spending promises.

The budget balance

Projections of the budget aggregates are shown in Table 4 on the following page. Overall, Deloitte Access Economics forecasts a \$33.2 billion underlying cash deficit for 2025-26, \$3.6 billion better off than the deficit projected in the 2025-26 MYEFO.

Chart 13 Underlying cash balance share of GDP



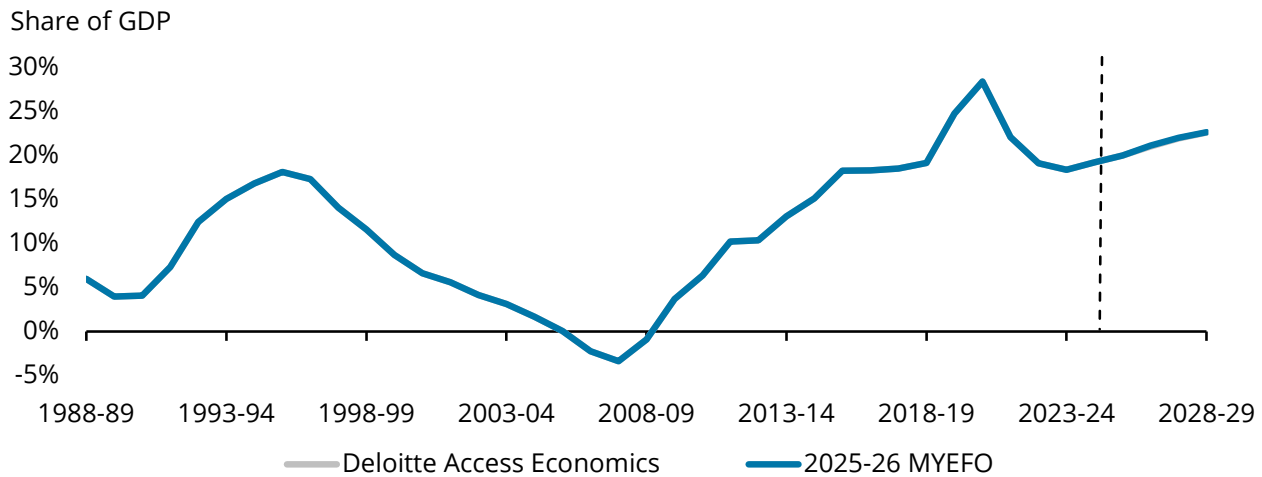
Source: Deloitte Access Economics, based on Commonwealth of Australia data

Over the four years to 2028-29, Deloitte Access Economics expects a cumulative improvement in the underlying cash balance of \$17.7 billion compared to the latest official forecast, largely due to the NDIS spending changes. The improvement in the bottom line tapers significantly in the outer years due to the weaker outlook for revenue.

Net debt is expected to reach 20.0% as a share of GDP in 2025-26, broadly in line with the official forecasts in the 2025-26 MYEFO. Net debt to GDP is expected to grow to 21.0% in 2026-27 and 21.9% in 2027-28, which are both improvements on the MYEFO projections (albeit still trending in the wrong direction).

Deloitte Access Economics expects net debt to GDP in 2028-29 to be just slightly below the official projection of 22.6%, even after a substantial reduction in NDIS spending changes.

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 2024-25	Forecast 2025-26	2026-27	2027-28	2028-29
Budget aggregates, \$ billion					
Revenue (accrual)	733.0	770.3	805.0	825.8	862.1
% of GDP	26.4%	26.2%	26.2%	25.9%	25.8%
Expenses (accrual)	770.1	810.3	823.7	854.8	892.3
% of GDP	27.7%	27.5%	26.8%	26.8%	26.7%
Operating balance	-37.1	-40.0	-18.7	-29.0	-30.2
% of GDP	-1.3%	-1.4%	-0.6%	-0.9%	-0.9%
Fiscal balance	-44.8	-51.2	-29.1	-39.0	-40.5
% of GDP	-1.6%	-1.7%	-0.9%	-1.2%	-1.2%
<i>Official forecast of fiscal balance</i>	-44.8	-54.8	-35.8	-43.2	-43.7
<i>Difference in fiscal balance</i>	0.0	3.6	6.7	4.2	3.2
Underlying cash balance	-10.0	-33.2	-27.6	-32.0	-32.8
% of GDP	-0.4%	-1.1%	-0.9%	-1.0%	-1.0%
<i>Official forecast of underlying cash balance</i>	-10.0	-36.8	-34.3	-36.2	-36.0
<i>Difference in underlying cash balance</i>	0.0	3.6	6.7	4.2	3.2
Net cash flows from investments in financial assets ¹	-11.8	-21.8	-28.4	-22.1	-21.5
Headline cash balance	-21.8	-54.9	-56.0	-54.1	-54.3
% of GDP	-0.8%	-1.9%	-1.8%	-1.7%	-1.6%
<i>Official forecast of headline cash balance</i>	-21.8	-58.6	-62.7	-58.3	-57.5
<i>Difference in headline cash balance</i>	0.0	3.6	6.7	4.2	3.2
Net debt	532.3	587.3	643.3	697.4	751.7
% of GDP	19.2%	20.0%	21.0%	21.9%	22.5%
<i>Official forecast of net debt (% of GDP)</i>	19.2%	20.1%	21.4%	22.2%	22.6%

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'.

Alternative policy settings

As reform gains momentum, the transition is critical.

Recent editions of *Budget Monitor* have used the final section of this report to cost a range of tax reform proposals. As the economic challenges facing Australia have grown more complex in recent months, tax reform is more important than ever.

The Federal Budget is structurally flawed. The revenue windfalls of recent years – a result of soaring commodity prices and surging inflation – temporarily papered over Australia's precarious fiscal position. But even the latest commodity price driven windfall cannot cover up the fiscal cracks. At the same time, the last six months have exposed the supply-side of the economy struggling to keep up with even a modest rebound in demand. The pace of inflation picked up uncomfortably even prior to the outbreak of conflict in the Middle East. And Australia's cumbersome tax system – among other challenges – continues to drag on productivity growth.

The case for bold and ambitious economic reform is urgent. In its absence, Australia's growth prospects will continue to be downgraded. The RBA has lowered its trend productivity growth assumption to 0.7% per annum. As a result, the medium-term growth forecasts published in February Statement on Monetary Policy were the weakest on record.

This is not an environment that calls for tinkering. It is one that calls for bold, structural reform that meets the urgency of Australia's economic challenges.

The momentum is building

Prior to conflict in the Middle East, the momentum behind tax reform was building steadily. With housing affordability and intergenerational equity front of mind, the CGT discount and negative gearing had once again found their way to the limelight.

Deloitte Access Economics has long argued that the CGT discount is too large. Sound in theory, the discount is a poor proxy for inflation and generally overcompensates investors for the price growth that erodes real returns on investment.

An overly generous CGT discount – combined with the ability to negatively gear property investments – misallocates capital into Australia's supply constrained housing markets, marginally pushes up house prices, and weighs on home ownership rates.

Deloitte Access Economics has previously made clear that reducing the CGT discount is not a single-handed fix for housing affordability. But gently tipping the market away from investors and toward owner-occupiers is a nice side-effect from a reform that is primarily about fairness and budget repair.

Similarly, tweaking the size of the CGT discount and introducing some limitations on negative gearing is no panacea for Australia's productivity woes. But designed in the right way, property tax reforms could be a critical building block for more ambitious, productivity-enhancing tax reforms.

This edition of *Budget Monitor* does not re-prosecute the economic merits and flaws of reforming CGT and negative gearing. There is no shortage of reading material – including in previous editions of *Budget Monitor* – to that end. Rather, this section will dive into an equally important decision in the 2026-27 Budget. Indeed, maybe the main indicator of just how serious the government is about reform, will not be *if* property tax reforms are introduced, but *how* they are introduced.

The transition from old tax settings to new tax settings is a critical design element for any reform. In this case, it will determine whether mooted property tax reforms are able to meaningfully improve the budget position and fund a suite of bolder reforms, or whether they end up looking more like a rounding error.

Grandfathering slows reform to a crawl

Grandfathering has long been the default transition mechanism when it comes to CGT in Australia.

That is why, for example, the Australian Taxation Office has to display different rules for different assets depending on when an asset was acquired.

The political motivation to protect investors from unanticipated tax policy changes is understandable. But the primary economic implication of grandfathering is to blunt the effectiveness of reform.

As noted in some of the arguments put to the *Select Committee on the Operation of the Capital Gains Tax Discount* earlier this year, the Government must avoid grandfathering investors into pre-existing capital gains tax settings if it hopes to pursue meaningful reform.

Grandfathering investors into existing tax rules creates two-tiered asset markets. It increases the complexity of the tax system, introduces a 'lock-in' effect that weighs on turnover, delays the economic benefits of the reform, and hugely reduces the fiscal benefits.

A gradual transition is important to ensure the smooth functioning of asset markets. But a far more potent transition mechanism exists that would still give existing investors plenty of time to adapt.

Rather than grandfathering assets into the old rules, the new CGT discount should be phased in incrementally over several years. That gives existing investors enough time to adjust their portfolios as they see fit, without abruptly distorting asset markets.

Critically, an incremental transition avoids locking the entire stock of pre-existing investment properties into a system that the Government is seeking to reform. The economic benefits are brought forward, and the fiscal benefit is large enough to underpin other meaningful tax reforms that are sorely needed to lift Australia's economic and fiscal outlook.

An ambitious transition can underwrite a more ambitious reform agenda

To demonstrate this point, Deloitte Access Economics has estimated the revenue impact of two hypothetical property tax reforms:

- (a) reducing the CGT discount to 33%; and
- (b) removing the deductibility of rental losses on residential investment properties from other income (i.e. abolishing the negative gearing of residential investment properties).

Assuming these two reforms are introduced on 1 July 2026, but fully grandfathering existing investors into the existing system, these reforms would raise less than half a billion dollars over the first four years.

A more potent transition would see both policy changes phased in over three years and applied to everyone.

The CGT discount would step down from 50% to 44.3%, then to 38.7%, and then to 33% in the third year of the reform. A cap would be placed on the share of rental losses that can be deducted against other income, such that the cap falls from 100% to 67% to 33% to zero.

The winding back of concessions is still gradual enough to allow investors time to adjust. But critically, the fiscal impact of the reforms would increase to a total of \$18.8 billion over four years.

That difference is monumental for a government that is serious about pursuing a meaningful economic reform agenda while balancing a structurally broken budget.

For context, the recently announced decision to halve fuel excise for three months from 1 April 2026 is expected to cost just over \$2.5 billion. A grandfathered reform of CGT and negative gearing would likely take closer to a decade to claw back that revenue alone. That's not befitting of the urgency that Australia's economic and fiscal challenges demand.

With public finances under structural pressure and the economy in a weak-productivity, supply-constrained rut, small and slow revenue measures do not create the headroom required to make big, bold, and meaningful policy changes elsewhere.

Mooted tax reforms must be a part of something bigger

Twelve months ago, the 2025-26 Budget announced 'top-up income tax cuts', which would lower the bottom marginal tax rate from 16% to 14% by 1 July 2027. It was a welcome but modest move to arrest the effects of bracket creep for at least a couple of years.

The \$18.8 billion raised through an ambitious transition of property tax settings would be enough to cut the bottom marginal tax rate to 13% in 2026-27 instead – an additional saving of around \$500 per year to everyone Australian earning at least \$45,000 per year.

This approach would mirror the Government's recent approach to personal income tax policy in recent years. But property tax reform could also fund something bolder.

The previous edition of *Budget Monitor* already pointed in a different direction, arguing for a simpler, flatter and lower personal income tax schedule as a means to restore stronger tax incentives for workers.

For example, a much more wholesale redesign of the personal income tax system – working within the budget envelope created by non-grandfathered changes to CGT and negative gearing – could look something like the following:

- A tax-free threshold of \$35,000
- A 33% marginal rate on all income earned up to \$300,000
- A 40% marginal rate on all income earned above \$300,000.

The higher tax-free threshold is an important design feature. The current threshold of \$18,200 means that many low-income workers today face highly punitive effective tax rates on any additional hour of work, while the government is inefficiently collecting tax with one hand and handing out income-based support payments with the other hand. A tax-free threshold of \$35,000 would greatly improve (though not solve) the incentives for low-income and part-time workers to take on additional work.

The simplified structure above would simultaneously reduce the top marginal tax rate on high earners – who are the most likely to be affected by changes to the CGT discount – and create a consistent marginal tax rate for the vast majority of Australia's labour force.

Taken together, a reduction in the CGT discount, a paring back of negative gearing, and a wholesale redesign of the personal income tax system would be a much more meaningful economic reform package.

But funding such a package would require any changes to CGT and negative gearing to be introduced with more courage than previous Governments have shown.

A reform opportunity that should not be wasted

The current debate around the CGT discount and negative gearing is about more than housing. In fact, most economic analysis has shown that the impact on house prices is minimal at best.

However, the package that gets revealed in the 2026-27 Budget will be a critical test of whether the Government is prepared to pursue meaningful change with the urgency that is needed.

Grandfather everything, and the budget gets a token revenue stream that arrives too slowly to fund much beyond the next round of short-termism.

Phase-in the changes across the entire stock of assets, and the reform looks like something more serious: a genuine contributor to structural budget repair, a cleaner tax base, and a plausible source of funding for a simpler and smarter personal income tax system.

In that sense, the transition is doing most of the heavy lifting. One path produces a politically softer version of reform, but very little change for a very long time. The other path asks for more political courage, but its economic impact hits harder and faster.

That's exactly what Australia's economic outlook demands.

Table 5 Revenue impact of alternative tax reform proposals over the forward estimates

	2025-26	2026-27	2027-28	2028-29	Forward Estimates
Full grandfathering of existing assets					
Reduce CGT discount to 33% (\$b)	0.00	0.00	0.01	0.04	0.06
Abolish negative gearing on residential investment properties (\$b)	0.00	0.02	0.06	0.10	0.18
Total revenue impact (\$b)	0.00	0.02	0.07	0.14	0.24
Phased introduction, no grandfathering of existing investments					
Reduce CGT discount to 33% (\$b)	0.0	3.7	3.4	3.2	10.4
Abolish negative gearing on residential investment properties (\$b)	0.0	1.8	3.0	3.6	8.4
Total revenue impact (\$b)	0.0	5.5	6.4	6.8	18.8
Cut the lowest personal income tax rate to 13%					
Total revenue impact (\$b)	0.0	-9.0	-4.6	-4.7	-18.2
Simpler and lower personal income tax system					
Total revenue impact (\$b)	0.0	-8.8	-4.5	-4.8	-18.0

Source: Deloitte Access Economics

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