

# Federal Budget in Brief

## 2023–24 Budget

### NAB Group Economics



## Summary

The significant budget announcements were in line with media reporting and repositioning over recent days. The key headlines, in a budget sense, are the expectations for a small surplus (\$4.2bn) this financial year, driven by strong employment and better than expected nominal wage growth, as well as very high commodity prices. The Government is claiming around 82% of cyclical benefits have been saved. Going forward, the surplus turns back to a deficit of \$13.9bn in 2023/24 and around \$35bn in the out years of the forward estimates as the impact of cyclical factors fade and a persistent – albeit improving – structural deficit continues. Nonetheless, the cumulative deficit over 5 years is now expected to be around \$125bn lower. Gross debt is also expected to peak at a lower 36.6% of GDP in 2025/26.

Cost of living measures (totalling \$14.6bn) take the focus on the expenditure side, including \$3bn of energy bill relief, \$3.5bn on Medicare bulk billing incentives, \$4.9bn for an across-the-board Jobseeker increase and increasing rent assistance by 15%. Other areas of focus include Medicare, improving aged care services (including \$11.3bn for a 15% award pay increase) and supporting the energy transition through incentives to small business for green investments and a \$2bn Hydrogen HeadStart program to develop the industry.

Key revenue measures were as expected, with increased collections from the PRRT, tobacco excise and previously announced reductions in superannuation concessions. Elsewhere, Phase 3 Tax cuts stay – and will be needed if our forecasts are accurate, while the Low and Middle Income Tax Offset (LMITO) will end as expected.

Based on our early analysis of the budget, the impact on the economy is expected to be broadly neutral over coming years, notwithstanding a widening in the structural deficit in 2023/2024 before it levels off over the forward estimates. Further out the government projects a gradual tightening, with the structural deficit expected to narrow over the medium term. Consequently, we see little implication for monetary policy in the near term, with the RBA likely to continue to focus on the ongoing passthrough of rates and the pace of moderation in inflation.

The trajectory of the key economic forecasts matches our own outlook, albeit with a more optimistic outlook for growth in the near-term. For unemployment, wage growth and the CPI, the budget is only slightly more optimistic but sees a similarly shaped profile for each variable.

## Economic outlook

In terms of the economic outlook, the expected pattern of forecasts is broadly similar to ours, albeit slightly more optimistic, particularly on growth. GDP is expected to grow below trend over each of the next two years at 1.5% and 2.25%, (around 0.75ppt stronger than our outlook on the back of stronger consumption growth). Unemployment is expected to rise from current lows to 4.25% by 2023/24 and 4.5% by 2024/25. Our expectations for wage growth are broadly similar, with an acceleration to 4% in the near-term before easing further out, while the outlook for inflation is broadly similar.

## Fiscal & Debt Outlook

A budget surplus of \$4.2b is expected for 2022/23, a \$41b improvement on the October 2022-23 Budget estimate. If realised, it would be the first surplus since 2007-08. However, the budget is expected to return to deficit in 2023-24 (and subsequent years). Similarly, reflecting the improvement in the budget position, the net debt profile has been lowered and net debt (as % of GDP) is expected to fall in 2022-23 before rising in subsequent years.

## Key Policy Measures

### Income support changes

The Government will expand eligibility for the Parenting Payment (Single) to those whose youngest child is under 14 years old (from 8 years old at present). This will provide recipients with an extra \$176.90 per fortnight compared to the current JobSeeker payment and allow recipients to earn more money before losing the payment, at a cost of \$1.9 billion over five years.

The Budget also increases the basic rate of JobSeeker and Youth Allowance by \$40 per fortnight (over and above existing indexation arrangements) at a cost of \$4.9 billion over five years. In addition, single individuals aged 55-59 will be made eligible for a higher rate of JobSeeker (currently limited to those over 60).

### Energy price relief

The Budget includes \$3 billion towards electricity bill rebates, delivered through energy bills in conjunction with the states, targeted at concession card holders, recipients of family and carer payments and other concession recipients.

An additional \$1 billion will be provided for the CEFC to provide low-interest loans for energy efficiency upgrades, including upgrades to social housing energy performance.

### Medicare and medicine costs

The Government will triple the bulk billing incentive for children, pensioners and other concession card holders, at a cost of \$3.5 billion. There is also \$358.5 million in additional funding for Medicare Urgent Care Clinics, including 8 more clinics by the end of 2023.

Additional funding commitments have been made towards after hours primary care, expanding team-based and multidisciplinary care, tackling fraud and non-compliance, and digital health records.

The Budget also includes \$2.2 billion for new and amended PBS listings as well as previously announced increases to the maximum dispensing quantities for more than 300 medicines.

### Aged care

The Budget includes the impact of the 15% increase to award and minimum wages for aged care workers, estimated at \$11.3 billion over four years.

\$487 million will extend disability support for older Australians, while \$166.8 million has been provided for 9,500 additional home care packages. Additional commitments have been made towards aged care regulations and accountability and transparency measures.

### Affordable housing

The Government will increase Rent Assistance payments by 15% (around \$30 per fortnight), at a cost of \$2.7 billion over five years.

Changes to taxation arrangements for new build-to-rent developments are also aimed at increasing the supply of rental housing, while changes to the National Housing Finance and Investment Corporation's liability cap are intended to increase financing for community housing providers.

An additional \$67.5 million has also been offered to the states to help address homelessness.

### Climate and energy transition

The Budget confirms that \$12 billion of the \$20 billion Rewiring the Nation investment has been allocated to projects including in Tasmania, Victoria and NSW.

A \$2 billion 'Hydrogen Headstart' program will support large-scale renewable hydrogen projects, alongside a new Guarantee of Origin scheme to track and verify emissions associated with low emissions products.

A \$57.1 million program will support commercial partnerships in critical minerals supply chains, while \$14.8 million is also provided for a Powering Australia Industry Growth Center. The Budget also provides \$83.2 million to fund the establishment of a Net Zero Authority with responsibility for promoting an orderly transition to net zero emissions.

### Cigarettes and vaping

The Government will raise the tax on tobacco by 5% per year for three years, raising \$280 million in revenue over four years.

The Budget also provides \$263.8 million for lung cancer screening, \$29.5 million to increase smoking and vaping cessation support, \$141.2 million to tackle Indigenous smoking and \$63.4 million for public health campaigns.

### PRRT and superannuation tax

The Budget includes \$2.4 billion in increased revenue over four years from changes to the Petroleum Resource Rent Tax in response to the Review of the PRRT Gas Transfer Pricing arrangements.

It also includes the impact of the introduction of a 30% tax rate on superannuation balances over \$3 million announced earlier in the year, which is expected to raise \$2.3 billion in 2027-28, the first full year of operation.

**Disability support**

The Budget formalises the decision of National Cabinet to limit annual growth in the NDIS to 8 percent from 1 July 2025, substantially curbing the medium-term costs of the scheme to the Budget.

The Budget also provides \$732.9 million towards initiatives to improve support for NDIS participants and fight fraud in the NDIS.

**Small business**

A \$20,000 instant asset write-off for small businesses with annual turnover below \$10 million will be in place from 1 July 2023 to 2024.

A new Small Business Energy Incentive will also be introduced, providing businesses with turnover less than \$50 million with a bonus 20% tax deduction for eligible depreciating assets up to \$100,000 for energy saving upgrades.

The Budget also provide \$23.4 million to support small businesses to build resilience to cyber threats.

## Economic Outlook and Forecast Comparison

### Global Context and Forecasts

Growth in the global economy slowed in 2022, as the benefits of reopening from COVID-19 restrictions in much of the advanced world started to fade while tighter monetary policy began to impact demand. Overall, the global economy expanded by 3.4% - broadly in line with the long-term average since 1980.

Consumer price inflation has retreated from multi-decade highs but has proved to be sticky, persisting at around 7% yoy in March, well above the targets of major central banks. This reflects a range of factors, with tight labour markets, along with accumulated savings over the course of the COVID-19 pandemic underpinning demand in most advanced economies, even as supply side pressures (particularly following the end of zero-COVID policies in China) and energy prices have eased.

In response to soaring prices, major central banks started to aggressively raise policy rates from early 2022. This has been led by the US Federal Reserve, which has lifted the fed funds rate by 500 basis points since March 2022.

Although inflation remains above target, we believe that we are near the peak of the rate cycle.

In part, this reflects the recent turmoil in financial markets. The rapid repricing of assets associated with the monetary policy hikes has strained the balance sheets of various financial institutions – leading to bank failures in the United States and Europe in March and May. Fears of financial contagion – which so far has not eventuated – have contributed to an increase in bond market volatility – which briefly rose to a post-GFC peak and has remained high by recent standards (as measured by the MOVE index).

Regulators in both the US and Europe intervened quickly to reduce risks in the financial sector, although they have not been eliminated. The best-case scenario is likely to see banks and other financial institutions continuing to tighten lending standards and exhibit more caution regarding counterparty risk in interbank markets. This may provide enough tightening to broader financial conditions to slow economic activity (and bring inflation lower) without the need for further monetary policy hikes.

Global economic activity has appeared to be relatively robust in Q1 2023. In large part, this reflected the faster-than-anticipated transition phase in China, following the end of its economically damaging zero-COVID policies. Overall, Q1 growth for the major advanced economies is expected to be only modest, but showing more resilience than had been expected, including Europe which looks to have (if only barely) defied earlier expectations of recession.

The relatively robust trend is not expected to continue, with the impact of tighter financial conditions restricting

Chart 11: Global consumer price index

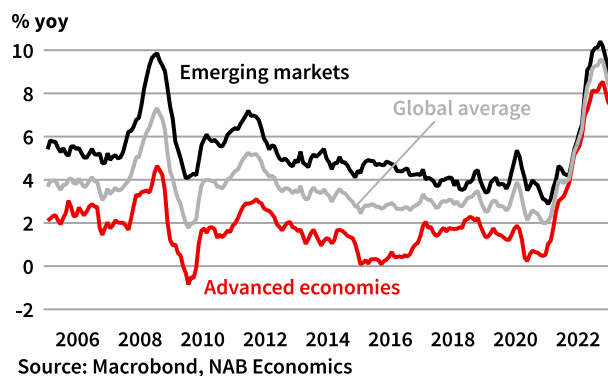


Table 2: Treasury vs NAB Forecasts, Key Economies

Comparison of Treasury Budget Forecasts and NAB Forecasts						
	2023		2024		2025	
	Treasury	NAB	Treasury	NAB	Treasury	NAB
US	1.0	1.0	0.8	0.9	2.3	1.9
Euro-zone	0.5	0.8	1.0	0.7	1.8	1.2
Japan	1.3	0.8	0.8	0.6	1.0	0.8
China	5.8	5.6	4.5	4.5	4.5	4.8
India	5.5	5.0	6.3	6.0	6.8	6.3
Other East Asia	3.3	2.7	4.0	3.7	4.3	4.3
World	2.8	2.7	3.0	2.7	3.5	3.2
Major trading partners	3.3	3.1	3.3	3.0	3.5	3.5

demand in advanced economies in coming quarters, which will flow on to weaker exports from emerging markets (where growth is typically more trade dependent).

In addition, there remain a range of factors that present risk to our global outlook. Overall, the stickiness of inflation means that its path forward remains uncertain. This increases the risk that central banks could continue to tighten policy rates above our expectations, which could drive economic activity lower and further destabilise the financial sector.

There are also a range of geopolitical factors that could negatively impact the global economy. The Russia-Ukraine conflict persists – with potential flow on impacts on European energy markets and global agricultural trade. Similarly, tensions between China and United States have persisted – reflecting a range of issues, including China’s spy balloons over the US mainland and the Biden Administration’s efforts to restrict China’s access to high-tech semi-conductors.

We expect global economic to slow to 2.7% in 2023 and remain around this rate in 2024, before picking up to around 3.2% in 2025. Overall, Treasury’s global forecast is broadly similar for 2023 but marginally stronger for both 2024 and 2025, largely reflecting more robust growth expectations for India, the Euro-zone and the United States. In contrast, Treasury forecast a flat growth profile for China across 2024 and 2025, whereas NAB forecasts a modest pickup in 2025.

## Australian Outlook and Forecasts

Overall, the expectations for the real economy contained over the forward estimates appear reasonable, and although slightly more optimistic than NAB's expectations, are broadly in line with the evolution we expect for the economy over the next couple of years.

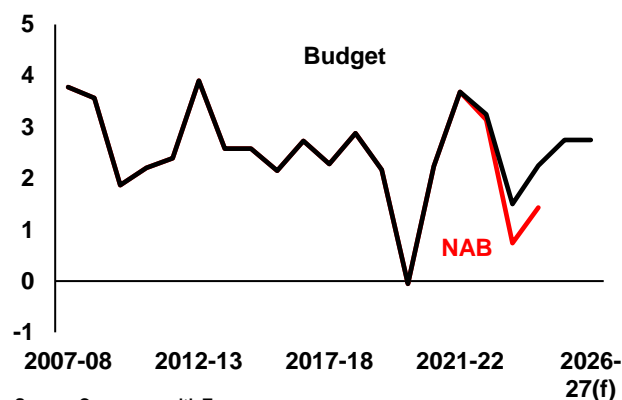
For us, the key story is that headline growth will be well below trend in 2023/24 (NAB: 0.7%, Budget: 1½%) and 2024/25 (NAB: 1.4%, Budget: 2¼%). The pattern of growth will be driven mainly by a slowing in consumption growth, as the impact of higher rates and inflation weigh on household budgets. That said, the outlook for the smaller dwelling and business investment components is also clouded. Dwelling approvals have fallen to their lowest level in around a decade, suggesting that as the existing pipeline of work is completed, the level of dwelling investment will decline, though we see a smaller decline this year and larger decline next year than what is in contained in the budget forecasts. We have a notably weaker outlook for business investment growth for each of the next two years.

Well-below trend growth is likely to see labour demand growth slow substantially from the rates seen over the past year or so. We see employment growth of 0.7% over 2023/24 and 1.4% 2024/25, slightly softer than budget estimates of 1% over each of the next two years. Importantly, both sets of forecasts see labour demand outstripped by population growth (expected to be around 2.0% in the current year, 1.7% in 2023/24 and 1.5% in 2024/2025 based on Treasury estimates) and therefore see an increase in the unemployment rate. We see the unemployment rate rising from the currently low of 3.5% to 4.5% by end 2023 (Budget: 4.25%) and drifting higher over 2024 to around 4.7% (Budget: 4.5%).

For policy makers this outlook will have notable implications for wage growth (important on the revenue side in the budget, and for domestic inflation for the RBA). The tightness in the labour market over the past year or so is expected to feed into strengthening wage growth in the near-term, with wage growth according to the WPI expected to reach 4% y/y at its peak in late 2023, before easing back to around 3.6% y/y by end 2024.

We see a similar trajectory for headline inflation, with trimmed-mean inflation easing to around 4% in 2023 before slowing to the top of the RBA's target range by end 2024. We remain optimistic that goods price inflation will moderate in the near term (or even see outright falls in prices) as goods demand moderates globally and the impact of healing supply chains is passed through to domestic prices. There is some early evidence of a moderation in goods demand, with real goods spending declining in H2 2022 according to the national accounts and retail sales volumes for Q1 pointing to a further decline.

Chart 12: Real GDP Growth Forecast Comparison (%)



Of increasing importance will be the evolution of services inflation pressures, which are typically more reflective of domestic conditions and wages. For now, we expect wage growth to remain consistent with a return to “at-target” inflation. However, other components such as rents growth will continue to build in the near term. Inflation expectations also remain anchored but are a risk should inflation moderate more slowly given the extended period over which we expect inflation to remain above target.

This is crucial for monetary policy. We see rates at or around their peak, with the risk of further increases in the near term should upcoming wage or inflation data push the RBA. That said, the impacts of the rapid series of rate rises to date, which have taken the cash rate to a 12-year high of 3.85%, are continuing to flow through to households and the economy more broadly. Rates are now somewhat into restrictive territory but may need to become more restrictive should inflation remain stickier than expected – as a result of a strong rise in wage growth or a de-anchoring in inflation expectations for example.

In terms of the broader macroeconomic impact we see the budget as having a broadly neutral impact on the economy over the forward estimates with the structural deficit broadly stable. Of note, however, is the projected narrowing of the structural deficit over the medium term.

On the nominal side we expect slightly stronger GDP growth over each of the next two years – 3.5% and 4.2%, respectively (Budget 1¼% and 2½%) with the Treasury assuming a very sharp pull-back in commodity prices (concentrated in the year to March 2023).

Elsewhere of note are the Treasury projections for population growth. The rapid rebound in population growth over the past year has continued to a tightening in the rental market with vacancy rates falling to very low levels and new rents growth accelerating. It has also likely eased the tightness in the labour market at the margin, therefore the ongoing dynamic will be important. For now, the government has assumed that the surge in population growth will largely be temporary (reaching 2% in the current year) before easing back to 1.5% over the next two years to be around its pre-COVID rate.

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