2024-25 Federal Budget



What does this mean for Business?

Summary

The significant budget announcements were in line with media reporting and pre-positioning over recent days. In many ways the Budget is much more interventionist in its strategy – aiming to boost growth in critical areas and directly easing cost of living pressures.

In terms of new policy announcements, the key headlines include the Future Made in Australia program (including solar panel manufacturing in the Hunter Valley and Quantum computing investments) and the extension of the small business instant asset write-off applicable to around 4 million businesses. There is also a health package with around \$3.4bn for new PBS medicines and a freeze in the price of PBS medicines for a year for all individuals and 5 years for pensioners.

The education sector sees some significant policy announcements with cuts to HECS debts (around \$3bn on 2023 indexation). A student cap has been introduced but the exact amount will depend on a formula including how much accommodation each university provides for their students.

In addition to the stage 3 tax cuts, cost of living relief comes via the Energy bill relief packages (\$3.4bn) and the rental assistance package (\$2bn). Beyond that there are large spending programs on funding wage increases in aged-care and childcare sectors.

With added spending in these areas and the increased drag from lower commodity prices and a weaker labour market alongside the stage 3 tax cuts the Budget surplus of around \$9.3bn in 2023-24 quickly returns to deficits of around \$28.3bn in 2024-25 and nearer \$43bn in 2025-26. The potential for more election-related spending remains a risk.

Overall, the budget is expected to see a small structural deterioration over the next few years but with some claw back into 2026-27 and beyond. The Government's own parameter estimates suggest that just about all the deterioration in the budget position is from new expenditure. Meaningful attempts to address structural deficits have been pushed out though Australia's debt position remains low by international standards.

Economic outlook & implications

While the decisions taken in this year's budget are on balance a loosening in policy, they only marginally add to the RBA's difficulty in returning inflation to target and our initial assessment is they do not have a material impact on our expectations for the growth outlook or the path of inflation and monetary policy.

In terms of the economic outlook, the expected pattern of forecasts is broadly similar to ours with Treasury expecting GDP growth around 2% in 2024/25 and 2.3% in 2025- 26. We are at 1.9% and 2.3% in 2025-26. We are however more concerned about the very short run outlook (Treasury 1¾%, NAB 1.5%). Our labour market outlook is similar to the Treasury with unemployment peaking around 4½% by mid-2024, and likewise we see wage growth peaking around current growth rates (4¼%) and edging down somewhat in the out years.

Notably, the Budget forecasts a more rapid improvement in inflation in the near term than we or the RBA have been expecting, seeing headline inflation of 2.75% by mid-2025 (NAB 3.0%, RBA 3.2%). This largely reflects the impact of energy and rent subsidies on measured inflation – an effect which the RBA is certain to look through when setting monetary policy. Nonetheless, at this stage we don't see the fiscal deterioration as being sufficient to change our rate view, still seeing rates on hold until late this year.

New Policy Measures Since MYEFO

Housing Affordability

Headlining the government's focus on housing affordability was increasing the maximum rate of Commonwealth Rent Assistance by 10% (worth \$1.9bn over 5 years).

The government announced new measures and increased spending worth \$1.5bn over 7 years "increasing investment in infrastructure to build more homes sooner" and to support state and territory governments under a new agreement on social housing.

Energy bill relief for Households and Small Business

An extension and expansion of the Energy Bill Relief Fund to all households (\$300 per household, paid on 1 July 2025) and eligible small businesses worth \$3.5bn.

Pharmaceutical Benefits Scheme

Funding for the inclusions of new medicines on the PBS worth \$3.4bn over 5 years. The government is also freezing the price of medications under the PBS for a year for all individuals and 5 years for pensioners and concession cardholders.

Further funding in response to the Royal Commission in to Aged Care Quality and Safety worth around \$2.2bn over 5 years.

Medicare

A \$1.1bn for early discharge from hospital and improving access to essential services (clinics) and modernising digital health infrastructure.

Services Australia Funding

\$2.8bn for sustaining and enhancing the MyGov platform and security and enhancements to Services Australia centres and maintenance of frontline staff.

Parental Leave

\$1.1bn extra for superannuation payments on government paid parental leave payments over the 5 years.

Small business

The \$20,000 instant asset write-off for all small businesses with annual turnover below \$10 million will be extended for another year, covering around 4 million small businesses and worth around \$290m.

Road and Rail Infrastructure

An additional \$2.9bn on priority infrastructure including a direct rail connection from Brisbane to the Sunshine Coast, road and transport initiatives for Western Sydney as well as a range of regional road projects.

Future made in Australia

Delivering the government's Made in Australia agenda promoting investment in key priority industries, including Australia's plan to become a renewable energy superpower (including last year's around green hydrogen), and investing in new digital capabilities, which is expected to increase payments by \$2.6 billion over five years from 2023–24.

Tonight's announcements include additional focus on critical minerals, supply chains and the transition to net zero over the longer term.

Defence

\$5.7bn over 4 years additional spending on the Integrated investment program and National defence strategy – expanding capabilities of the armed services and building the critical defence industry infrastructure and workforce skills ahead of the adoption of new technologies.

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