Federal Budget in Brief
2025-26 Budget
NAB Economics

Summary

This is clearly an election related budget – and probably one the Government wasn't sure was necessary a few weeks ago – with further election related spending yet to come.

Accordingly, the measures contained in the Budget are mainly ones that have been signalled previously. The one surprise was an extra tax cut – essentially the Government lowered the bottom tax bracket from 16% to 14% over two years from July 2026. The expected other changes include the $7.9bn program to boost bulk billing (albeit mainly in the out years – with around $2.4bn in the next 4 years), the further extension of cost of living support – via an extension of the electricity subsidies to end this year (around $1.8bn). And the usual additional infrastructure spend (albeit mainly back ended and relatively moderate in terms of new near term promises). No new money for Defence over the 10-year program but around $1bn has been brought forward into 2026-27 and 2027-28 Budget years.

Overall, not a lot of new announcements by usual budget standards. However clearly there will be more spending in the election campaign. And clearly there are still real levels of uncertainty as to what will actually be delivered post the election.

Looking at the outlook, it is clear that this Budget sees some further deterioration in the headline budget position in the near term. While there is some improvement in the structural budget position beyond 2025-26, a structural budget deficit is expected to persist. There seems to be no attempt to start to return to Budget balance any time in the next decade – and certainly not, in the more meaningful, forward estimates period. Basically, the Budget is spending nearly everything that the economy gives them. This lack of progress in addressing the structural deficit comes at a time of increased uncertainty globally and likely lower commodity prices.

Economic outlook & implications

The global economy is still weak and geopolitical uncertainty is very high (especially Trump and tariff related). No one really knows what Trump will do and how others will react. Business and consumer confidence effects will be critical. Generally, we are just assuming that whatever Trump has announced will be enacted. That might take ¼ of a point off global growth (at 3% not necessarily terrible) and modestly increased inflation (Treasury at 3¼%).

Domestically, we still see growth increasing to around 2¼% (Treasury at 2½%) with unemployment around 4¼% over the next few years. So, our forecasts are broadly in line with what Treasury are expecting. We do see core inflation at around 2½% by mid 2025 – which is lower than the RBA expects.

The direct implications of the budget are minimal in our view. After a reasonable fiscal impulse in 2024-25 – where growth in the economy has been supported substantially by the public sector – the structural budget balance implies a relatively neutral impulse for 2025-26 and at a face value will be a drag on the economy the year after. The RBA will continue to focus on recovery in private sector growth and the wage pressure in the labour market with unemployment still relatively low. However, we see the RBA easing a further 25bps in May, and a gradual series of cuts taking the cash rate to 3.1% by 2026 contingent on inflation easing as we expect.

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Budget Position and Fiscal Impulse

Summary of Key Budget Metrics

As expected, the Budget estimates that there is likely to be an underlying cash deficit in the current financial year. It is estimated to be $27.6b or 1.0% of GDP (little changed from MYEFO) and this follows two years in which the budget was in surplus.

The underlying cash balance (UCB) is likely to remain in deficit in 2025-26 and through the forward estimates period. For 2025-26 an underlying cash deficit of 42.1b (-1.5% of GDP) is expected. The annual deficit is then expected to ease to around $36-37b over 2026-27 to 2028-29.

The return to deficit in 2024-25 reflected strong growth in payments (8.9%) while at the same time growth in receipts was soft at 2.2% (reflecting the impact of stage 3 tax cuts). The deficit peaks in 2025-26 as payments are again expected to grow solidly in 2025-26 (6.3%) before moderating in subsequent years. Receipts growth between 2025-26 and 2028-29 is expected to be relatively steady (at between 4.1 to 5.5%).

The deficit in 2025-26 is expected to be a bit smaller than projected at MYEFO (-$42.1b c.f. -$46.9b). While policy decisions made in this Budget act to increase the deficit, they are more than offset by 'parameter variations'.

The Budget papers note that the main driver of upgraded estimates (parameter variations) for taxation receipts is the continuing strength in the labour market. Spending parameter variations are even more positive for the budget outlook (including lower than previously expected NDIS and road and rail infrastructure spending payments.

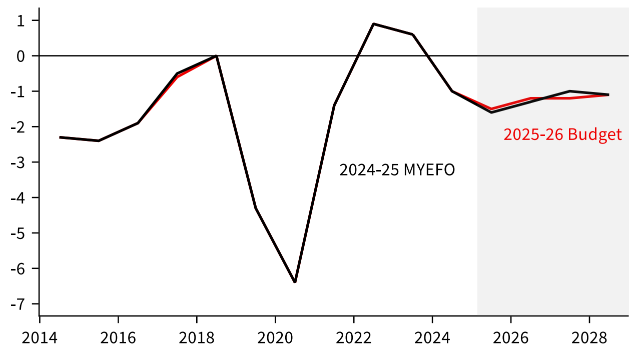
Parameter variations improve the budget position by a total of $36.4b over 2024-25 to 2028-29. This is largely offset by policy decisions which have a net cost to the budget of $34.8b. As a result, over the estimates period there is little substantive change in the expected UCB relative to MYEFO. The policy decisions over this period are split roughly evenly between higher net spending (+$20.7b) and lower net receipts (-$14.1b), the latter reflecting the personal income tax cuts announced in this Budget.

Table 1: Key Budget Metrics

	2024-25(e)	2025-26(e)	2026-27(e)	2027-28(e)	2028-29(e)
UCB, $bn	-27.6	-42.1	-35.7	-37.2	-36.9
% of GDP	*-1.0*	*-1.5*	*-1.2*	*-1.2*	*-1.1*
Net op. bal., $bn	-45.2	-35.4	-23.0	-27.5	-26.9
% of GDP	*-1.6*	*-1.2*	*-0.8*	*-0.9*	*-0.8*
Net cptl. inv. $bn	5.5	8.8	9.1	12.0	10.2
% of GDP	*0.2*	*0.3*	*0.3*	*0.4*	*0.3*
Fiscal bal., $bn	-50.6	-44.2	-32.2	-39.5	-37.1
% of GDP	*-1.8*	*-1.5*	*-1.1*	*-1.3*	*-1.1*
Net debt, $bn	556.0	620.3	676.3	714.1	768.2
% of GDP	*19.9*	*21.5*	*22.6*	*22.7*	*23.1*

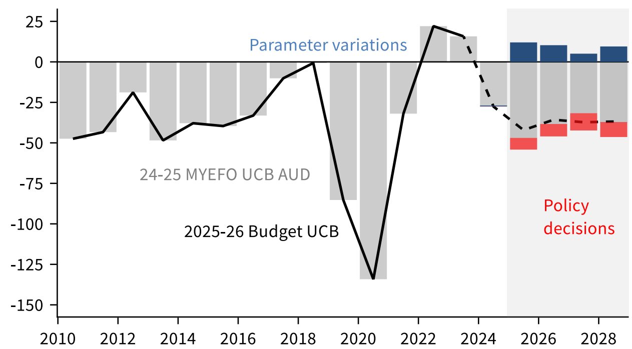
Source: Commonwealth Treasury.

Chart 1: Underlying Cash Balance (UCB) (% of GDP)



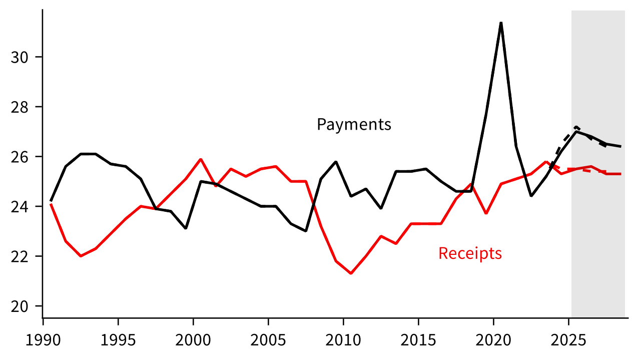
Source: National Australia Bank, Commonwealth Treasury, Macrobond
X axis shows first year of the financial year.

Chart 2: Reasons for Change in UCB ($b)



Source: National Australia Bank, Commonwealth Treasury, Macrobond
X axis shows first year of the financial year.

Chart 3: Receipts & payments (% of GDP)



Source: National Australia Bank, Commonwealth Treasury, Macrobond
X axis shows first year of the financial year. Dashed lines show 2024-25 MYEFO

Estimated Fiscal Impulse

Chart 4 shows the Treasury's estimates of the structural budget balance (the UCB adjusted for cyclical economic conditions). This suggests that after a 1ppt of GDP deterioration in the structural balance (including the temporary measures) in 2024-25, the structural deficit is broadly stable over 2025-26 before a small improvement in 2026-27.

The change in the estimated structural budget balance from year-to-year – the 'fiscal impulse' – provides an indication of the Budget's macroeconomic impact (Chart 5). A positive impulse indicates the underlying budget balance is becoming more expansionary, and vice-versa.

After a relatively expansionary move in 2024-25 (following the unwinding of the large temporary measures through the pandemic) the fiscal impulse is expected to be broadly neutral in 2025-26 and is expected to weigh slightly on growth in 2026-27.

At face value, this suggests there will be less support to economic growth in the coming year, after a year where government spending (including at the state level) has been an important support to overall activity and employment. For the RBA, the neutral outcome of the budget will help, though their focus will remain on the rebound in household consumption and the trajectory of the labour market with growth picking up and a relatively tight starting point for the unemployment rate.

Government Debt

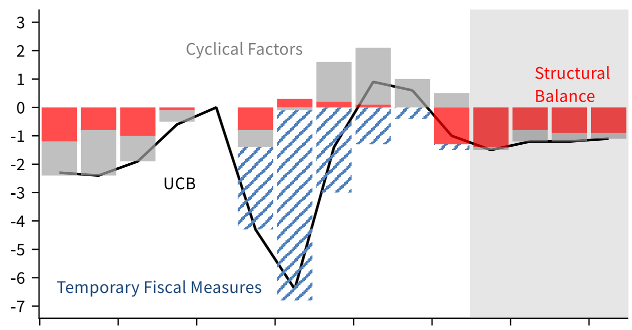
The gross debt burden as a share of GDP is estimated to have remained broadly unchanged in 2024-25 at 33.7% while net debt has increased more to 19.9% of GDP (owing to revaluation of the market value of debt). With the budget remaining in deficit, both gross and net debt are expected rise further over each of the next three financial years.

The gross debt profile has been revised down by $6bn in 2025-26 and is marginally lower as a share of GDP in the first 3 years of the forward estimates, owing to improvements in the headline cash balance and upward revisions to GDP. Gross debt is expected to peak at 37% of GDP in 2030.

Net debt as a share of GDP is expected to be marginally higher than the estimate at MYEFO, largely owing to a revaluation of the fair value of gross debt and changes on the asset side (the Future Fund). Net debt is expected to peak just below 25% around 2030 and then decline back to 20% by 2036.

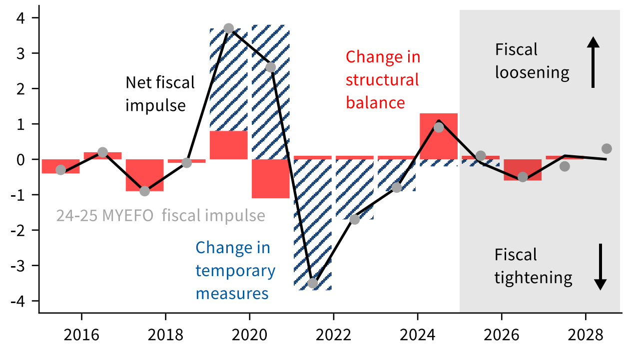
Internationally, Australia remains a low debt country. This reflects a relatively low starting position prior to the pandemic, as well as greater fiscal discipline post the pandemic than in many other countries, on top of two large, unexpected surpluses driven by a large tax take due to high commodity prices.

Chart 4: Structural Budget Balance (% of GDP)



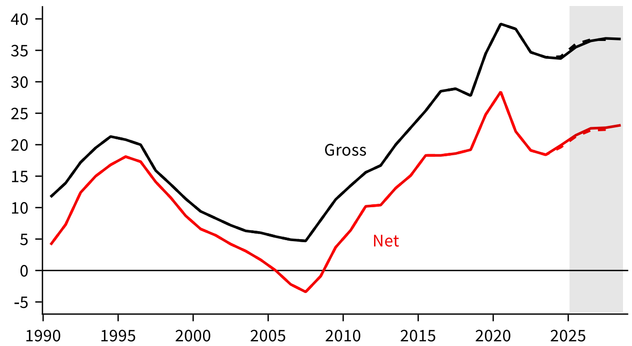
Source: National Australia Bank, Commonwealth Treasury, Macrobond
X axis shows first year of the financial year.

Chart 5: Year-to-year Fiscal Impulse



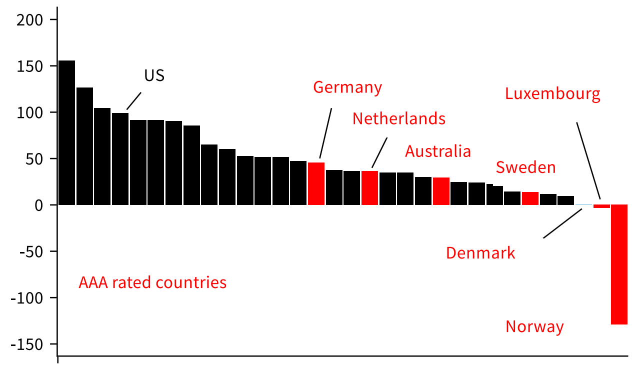
Source: National Australia Bank, Commonwealth Treasury, Macrobond
X axis shows first year of the financial year.

Chart 6: Fed. Government Net Debt (% GDP)



Source: National Australia Bank, Commonwealth Treasury, Macrobond
X axis shows first year of the financial year. Dashed lines show 2024-25 MYEFO

Chart 7: Govt Net Debt, Adv. Economies, 2024 (% GDP)



Source: National Australia Bank, International Monetary Fund (IMF), Macrobond

Implications for the Bond Market

Changes to the path of Australian Government Securities (AGS) issuance since December's MYEFO are all but imperceptible. AGS on issue at the end of 2027-28 is expected to reach $1,161bn, exactly in line with MYEFO.

Net issuance of about $280bn is expected across the forward estimates to 2028-29, or about $70bn per year. (Net AGS issuance for 2022-23 to 2024-25 has averaged only $15bn per year.)

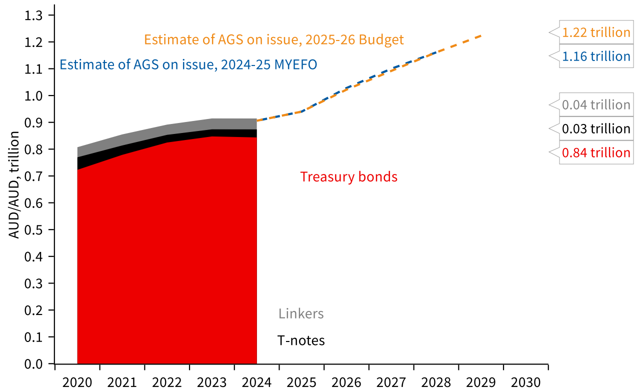
The Budget confirms that net funding across all instrument types will be over $80bn for the coming fiscal year; we assume nearly all of this will be in nominal ACGBs. With about $80bn of maturing stock to refinance, we expect a nominal bond program of about $160bn to be announced by the AOFM.

This big step up in issuance for 2025-26 is a byproduct, in part, of revenue tailwinds in recent fiscal years fading. It's long been expected and concession for the supply has been one reason that the yield premium of ACGBs over swap spreads has widened in the past year, but this Budget won't add to pressures for further relative increases in bond yields relative to swap.

The increase in AGS to GDP ratios foreshadowed in media articles ahead of the Budget thus comes primarily from lower nominal growth estimates, rather than higher debt. Gross debt to GDP now reaches almost 37% in 2028-29.

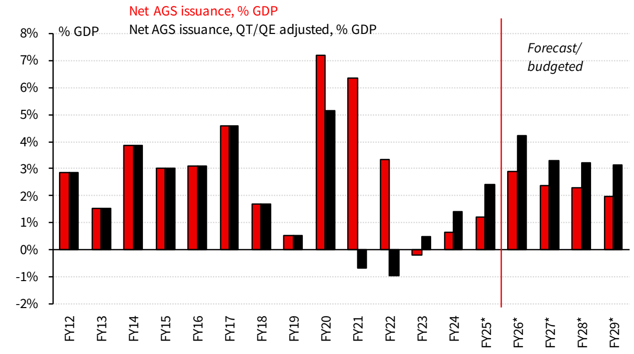
We expect a brief update from the AOFM on 26 March covering progress on the 2024-25 program (we don't expect any change) and a 2025-26 issuance target. We don't expect details on new bond lines or more detailed issuance strategy until early July 2025.

Chart 8: Australian government securities on issue ($tn)



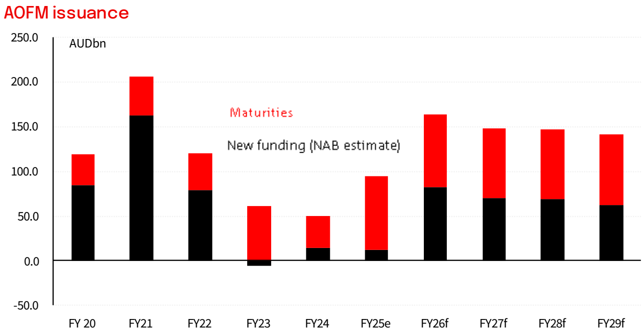
Source: National Australia Bank, Account in-house

Chart 9: Net AGS issuance, QT/QE adjusted (% GDP)



Source: NAB, AOFM

Chart 10: AOFM issuance programs, with NAB estimates



Source: AOFM and NAB estimates from budget

New Policy Measures

Tax cuts

New tax cuts were a surprise policy announcement in this Budget. Under the policy, the 16% tax rate applicable to incomes between $18,201 and $45,000 will be reduced to 15% from 1 July 2026 and then further reduced to 14% from 12 July 2027.

The tax cuts are fairly modest and are described as a 'top-up' to previous tax cuts. These tax cuts are estimated to cost $17.1 billion over the five years from 2024-25.

Health and Medicare

The headline policy announcement ahead of the Budget and upcoming federal election was the $7.9 billion put towards expanding bulk billing incentives from 1 November 2025. Public hospitals will receive an additional $1.8 billion in 2025-26 as part of the extension to the National Health Reform Agreement.

The Pharmaceutical Benefits Scheme (PBS) will receive $1.8 billion over 5 years for new and amended listings, along with a further $689 million has been announced to reduce the maximum cost of most medicines listed on the PBS from $31.60 to $25.

Energy bill relief

The electricity rebates announced in the previous budget will be extended until the end of 2025, with households and eligible small businesses receiving $75 per quarter in Energy Bill Relief. This will cost $1.8 billion over the forward estimates (mostly in 2025-26).

Disaster support and recovery

An additional $1.2 billion has been allocated to the Contingency Reserve towards rebuilding affected communities impacted by ex-tropical cyclone Alfred.

Infrastructure

An additional $7.2 billion has been put towards upgrading and fixing the Bruce Highway in Queensland, to bring it to a minimum three-star safety rating.

NBN

A further $3 billion over 7 years will be provided to finish the rollout of the national NBN, with NBN Co to contribute $800 million.

Defence

$1 billion of the previously announced $10.6 billion increase for defence spending over the next four years has been pulled forward, to accelerate Australia's capability and development.

Student debts

Announced as part of MYEFO, a one-off 20% student debt reduction for over 3 million Australians will cost approximately $16 billion. This in addition to the $3 billion change to student debt indexation (announced in the previous budget).

Childcare

Announced as part of MYEFO, an additional $1 billion was put towards building new early childcare centres across Australia.

Around $427 million was also announced for the 3 Day Guarantee (which will replace the current Activity Test from January 2026).

Education funding

Though this has been in the works for some time, all states and territories have now signed the Heads of Agreement, with the Commonwealth to contribute an additional $16.5 billion to funding public schools across the country over the next 10 years.

This funding will be tied to education reforms, which include providing more individualised support for students, mandating evidenced-based teaching practices and more mental health support in schools.

Economic Outlook and Forecast Comparison

Global Context and Forecasts

NAB's global economic outlook and forecasts can be accessed here.

The following table summarises NAB's and Treasury's global forecasts. We expect the global economy to slow to 3.0% in 2025 and 2.9% in 2026 – reflecting the negative impact of growing trade protection and general policy uncertainty. In contrast, Treasury's forecast is stronger – at 3¼% in both 2025 and 2026.

Table 2: Treasury vs NAB Forecasts, Key Economies

Comparison of Treasury Budget Forecasts and NAB Forecasts	2025		2026		2027	
	Treasury	NAB	Treasury	NAB	Treasury	NAB
US	2.0	1.8	2.0	1.6	2.0	-
Euro-zone	1.0	1.0	1.3	1.4	1.3	-
Japan	1.3	1.2	1.0	0.6	0.8	-
China	4.8	4.6	4.5	4.2	4.3	-
India	6.8	6.0	6.5	6.2	6.5	-
Other East Asia	4.0	3.6	4.0	3.5	4.0	-
World	3.3	3.0	3.3	2.9	3.3	-
Major trading partners	3.5	3.4	3.3	3.2	3.3	-

In particular, Treasury forecast much stronger growth than NAB for India in 2025, while their growth forecasts are higher for the US, China and other East Asia in 2026.

Global commodity prices – particularly those of bulk commodities such as iron ore and coal – have an influence on the Federal Government's income via tax receipts. The following table summarises Treasury's assumed prices for key commodities in March 2026, compared with NAB's forecasts.

Table 3: Treasury vs NAB Forecasts, key commodities

Comparison of Treasury Budget Forecasts and NAB Forecasts			
Quarterly average	Q1 2025 ytd	Mar-26	
US$	Actual	Treasury *	NAB
Iron ore	103	60	85
Metallurgical coal	188	140	168
Thermal coal	109	70	90
Liquefied natural gas (LNG)	14	10	11

* end of period, versus quarterly average for NAB

Our weaker outlook for the global economy should result in commodity prices falling from their current levels. However, our forecasts are higher than the relatively conservative assumptions made by Treasury. Should higher than assumed commodity prices eventuate, this would provide additional revenue to the government.

Australian Outlook and Forecasts

NAB's Australian economic outlook and forecasts can be accessed here.

Treasury forecasts on the domestic macroeconomic outlook are largely aligned with NAB's forecasts. GDP growth is expected to pick up further over 2024-25 (Budget 1.5%, NAB 1.4%) before returning closer to trend growth in 2025-26 (Budget 2.3%, NAB 2.2%).

This is expected to be driven by a recovery in private demand, with household consumption expected to pick-up with continued improvement in real household disposable income growth. Budget forecasts for household consumption see growth picking up from ¾% in 2024-25 to 2¼% 2025-26, which is slightly stronger than NAB forecasts (2% in 2025-26). To date this improvement has been supported by easing inflation, tax cuts and a robust labour market – all factors that are expected to continue (including with the modest tax cuts announcement in this budget).

Similar to NAB, business investment growth is expected to moderate from recent highs seen post-pandemic but remain elevated in level terms. Business investment growth is expected to be driven by non-mining industries, with key investments focussed on renewable energy infrastructure, warehouses and data centres (continuing current trends).

Treasury expects public demand growth to moderate (though growth in 2024-25 has been revised up) over the forward estimates, which they put to "structural reforms to Commonwealth programs taking effect, including the National Disability Insurance Scheme and Aged Care, and the working through of the strong pipeline of infrastructure projects."

Labour market resilience is expected to continue in both sets of forecasts. Treasury have revised down forecasts of the unemployment rate (4½% for 2024-25 to 2026-27 in MYEFO) to now 4¼% across the forward estimates. NAB forecasts are similar, with the unemployment rate expected to rise to 4.2% in 2025-26 and 4.3% in 2026-27. Employment growth forecasts were revised up in the Budget but remains a bit weaker than NAB forecasts in 2024-25 (Budget 2.8%, NAB 3.1%) and 2025-26 (Budget 1.0%, NAB 1.5%).

Nominal wage growth forecasts are broadly aligned in 2024-25 (Budget 3.0%, NAB 3.3%) and 2025-26 (Budget 3.3%, NAB 3.3%). Upward pressure from changes in aged care and childcare worker rates which have begun to flow through in early 2025 will be relevant here.

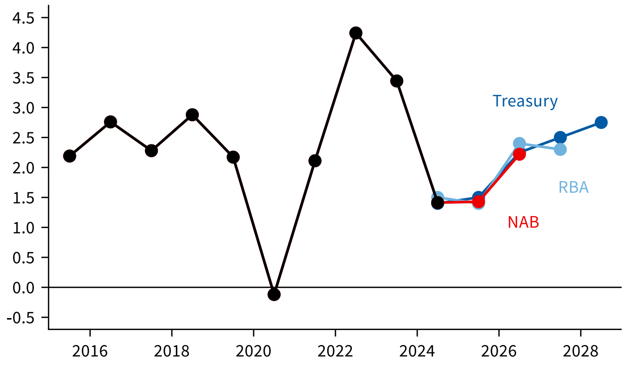
Unsurprisingly, given the recent stream of inflation data, Treasury have revised down their inflation forecasts in the Budget. While headline inflation will continue to be impacted by energy rebates (which have been extended until the end of 2025), Treasury does note that 'abstracting from the impact of fuel and energy rebates', inflation is expected to be sustainably in the target band from the middle of 2025 – aligning with NAB's own forecasts which see underlying inflation at 2.5% in Q2 2025.

The Budget flags that the extension of electricity rebate is expected to reduce headline inflation by ½ of a percentage point in the year to the December quarter of 2025. The unwinding of electricity rebates will lead to some bumpiness in headline inflation in 2026 and beyond (which is reflected in Budget forecasts).

All in all, the domestic economic outlook in the Budget closely aligns to NAB and RBA forecasts. We do not expect the Budget to impact monetary policy decisions over the course of this year. The Board will continue to look through subsidies and with the fiscal impulse largely flat (see discussion above), we estimate that there will be little change to the inflation outlook.

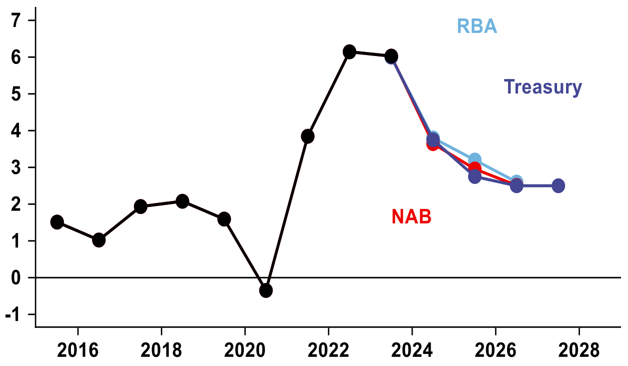
We continue to expect four more rate cuts through to February 2026, which will bring the cash rate to 3.1%. As highlighted in the Budget, the key risk to the outlook rests with global uncertainty around tariffs and the performance of key trading partners. However, the key pillars needed to support stronger household consumption are in place (with a robust labour market, easing inflation and further tax cuts) which will be key to supporting stronger growth in 2025 and 2026.

Chart 11: Real GDP Growth Forecasts (%, yr-ave to June)



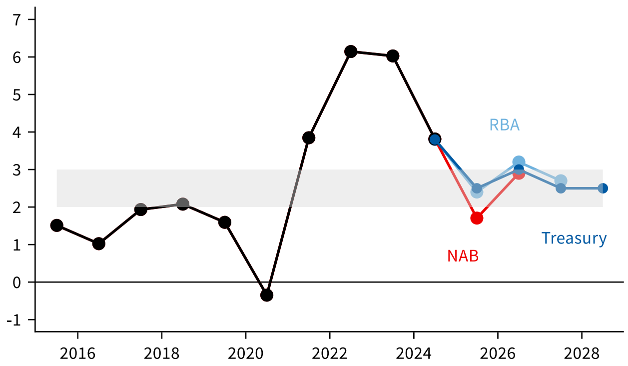
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond, Account in-house

Chart 12: Unemployment Rate Forecasts (%, June Qtr)



Source: Macrobond, NAB Economics

Chart 13: Headline Inflation Forecasts (%, June Qtr)



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond, Account in-house

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