

Federal Budget 2025

What does this mean for Business



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 and 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 $\frac{1}{4}$ of a point off global growth (at 3% not necessarily terrible) and modestly increased inflation (Treasury at $3\frac{1}{4}\%$).

Domestically, we still see growth increasing to around $2\frac{1}{4}\%$ (Treasury at $2\frac{1}{2}\%$) with unemployment around $4\frac{1}{4}\%$ over the next few years. So, our forecasts are broadly in line with what Treasury are expecting. We do see core inflation at around $2\frac{1}{2}\%$ 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.



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.

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.