

# THE 2024-25 AUSTRALIAN GOVERNMENT BUDGET – AN ASSESSMENT

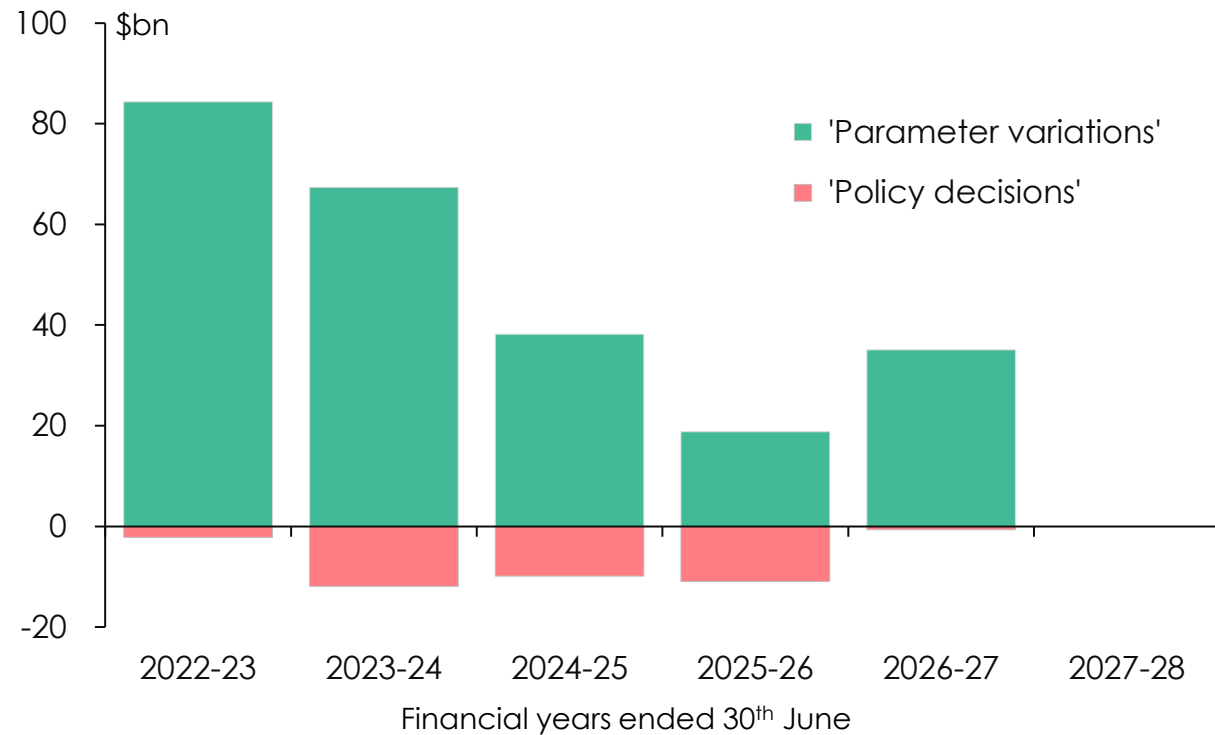
15<sup>TH</sup> MAY 2024

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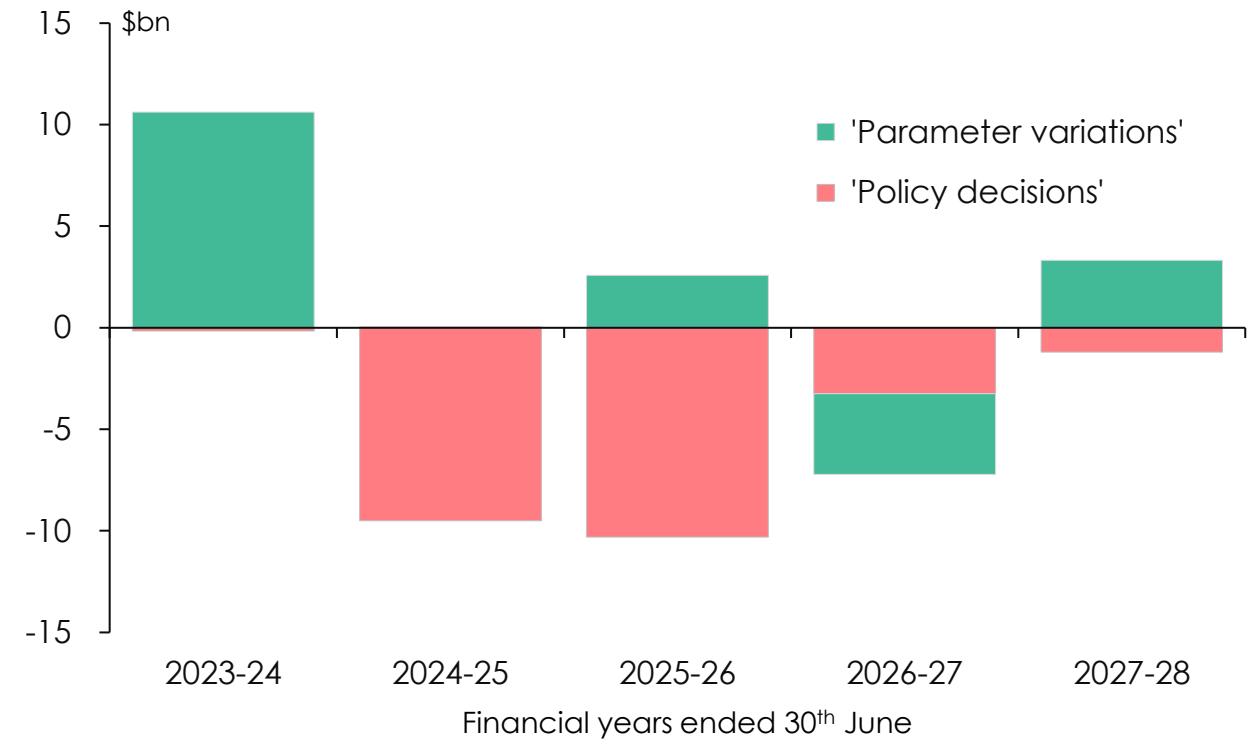
# In contrast to its first two Budgets, the 2024-25 Budget worsens the 'bottom line', by a total of \$24bn over the four years to 2027-28

Drivers of movements in the 'underlying' cash balance between the May 2022 Pre-election Economic & Fiscal Outlook (PEFO) and the December 2023 Mid-Year Economic & Fiscal Outlook (MYEFO)



From the PEFO to the 2023-24 MYEFO, 'windfall gains' improved the 'bottom line' by \$244bn, of which the Government 'banked' \$208bn and spent \$36bn

Drivers of movements in the 'underlying' cash balance between the December 2023 Mid-Year Economic & Fiscal Outlook (MYEFO) and the 2024-25 Budget



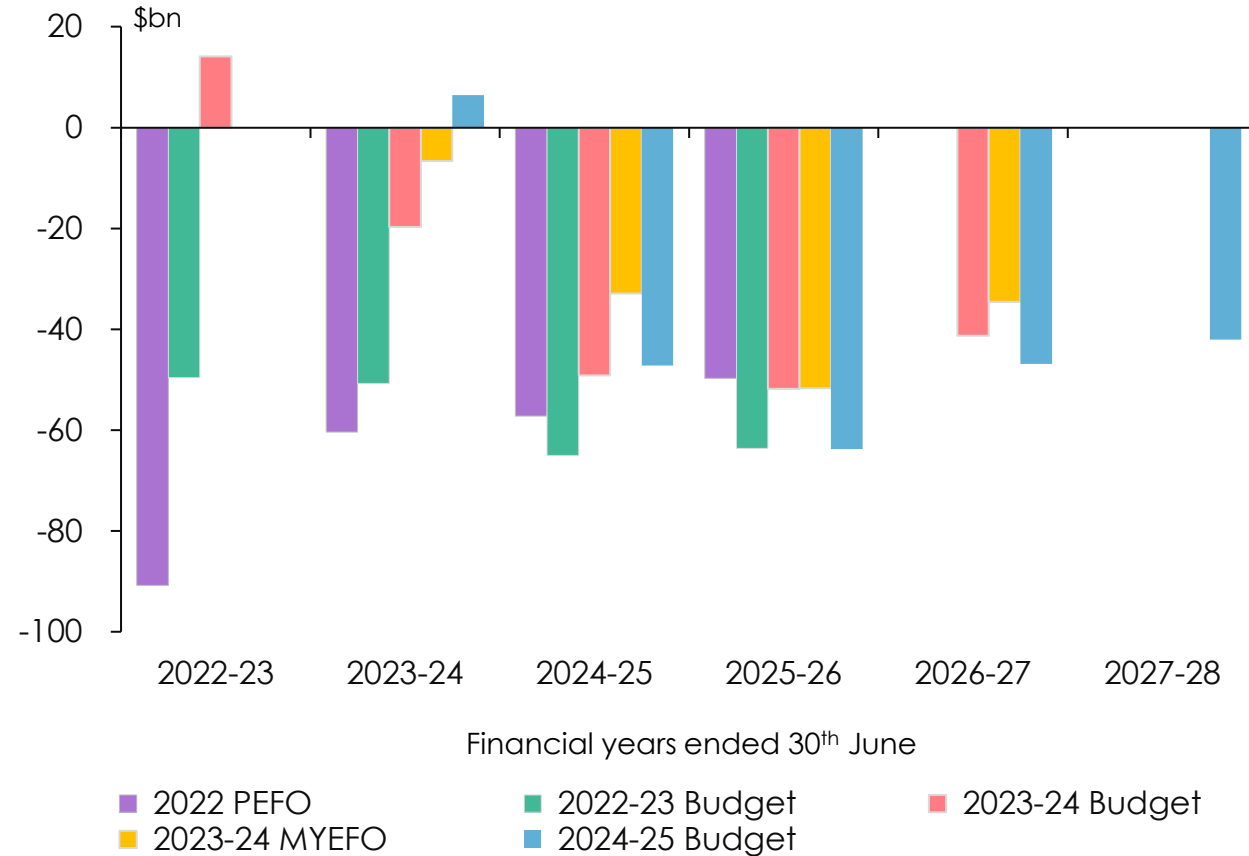
From the 2023-24 MYEFO to the 2024-25 Budget, 'windfall gains' improved the 'bottom line' by \$13bn, but 'policy decisions' worsened it by a total of \$24bn

Note: 'Parameter variations' are changes in estimates of payments or receipts resulting from changes in economic and other assumptions underpinning the forward estimates; 'policy decisions' are changes in estimates of payments or receipts resulting from decisions made by the Government.

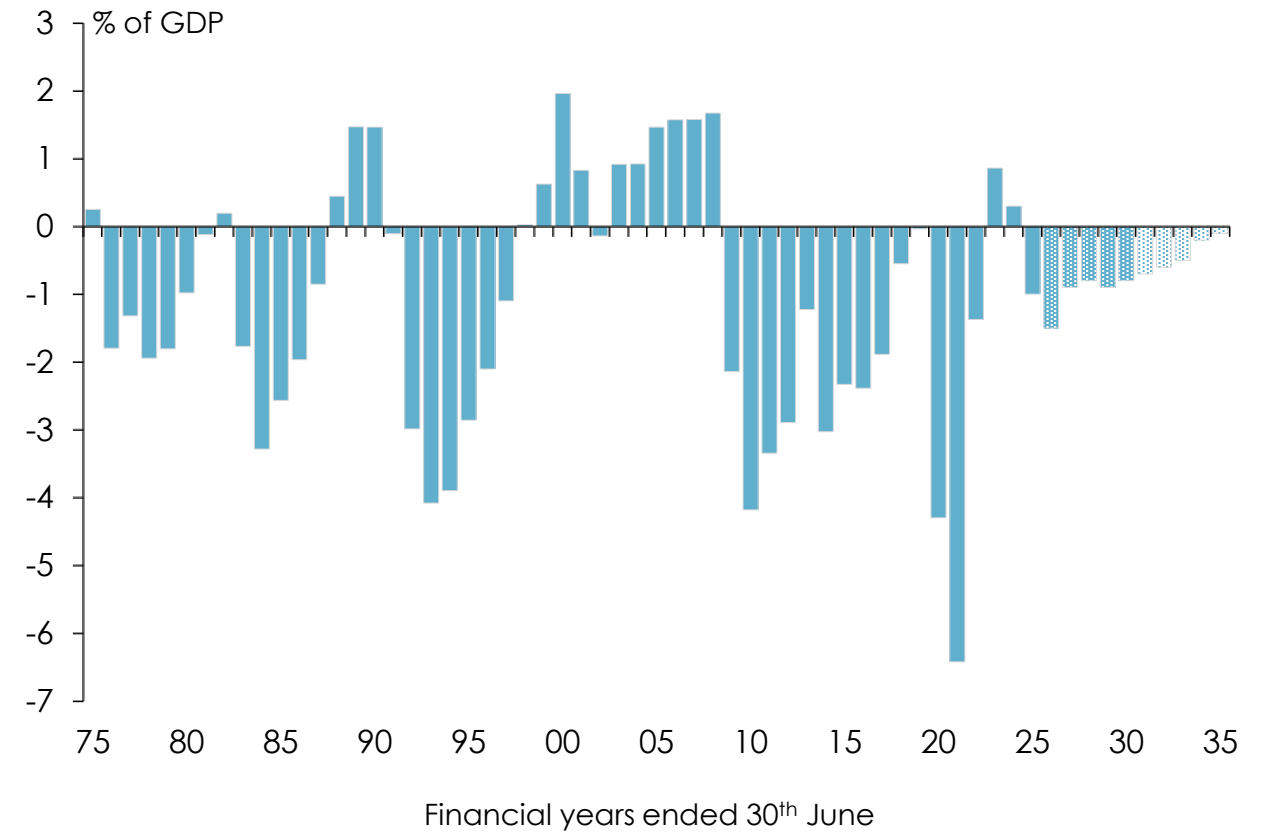
Source: Australian Government, [2024-25 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#).

# As a result, budget deficits over the next four years will be \$22bn larger than forecast in last December's Mid-Year Economic & Fiscal Outlook

## Successive forward estimates of the 'headline' cash balance



## Long-term actuals, forward estimates and 'projections' of the 'underlying' cash balance



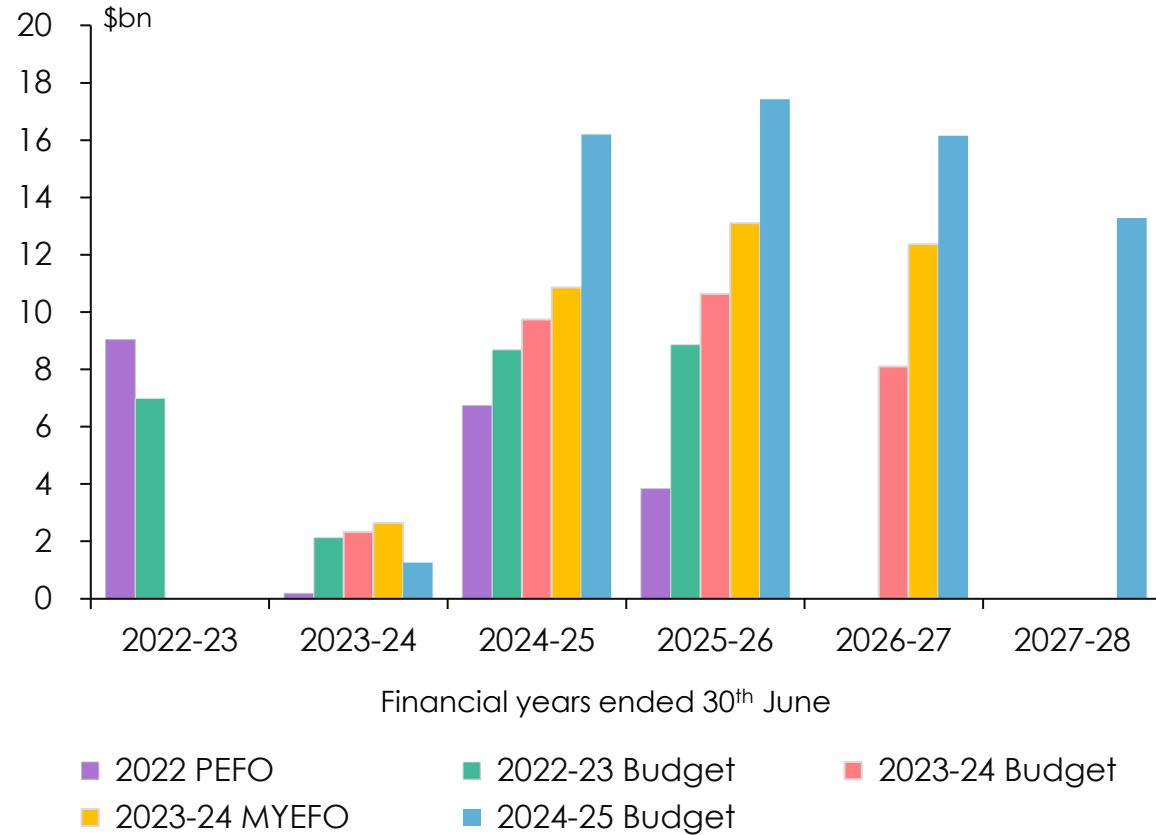
**'Underlying' cash balances over the four years to 2027-28 now sum to \$122bn, compared with \$100bn in last December's MYEFO**

**The Budget is expected to remain in deficit all the way through 2034-35 – although not nearly as much as had been projected two years ago**

Note: The 'underlying' cash balance is the difference between receipts and 'underlying' payments, which exclude 'net investment in financial assets for policy purposes' (see next slide). Source: Australian Government, [2024-25 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#) and [Statement 11: Historical Australian Government Data](#).

# This government is doing a lot of spending in a way that doesn't count towards the 'underlying' budget balance – but still needs to be funded

## Successive estimates of 'net investment in financial assets for policy purposes' (excluding student debt)



**'Spending' under this heading is now expected to average \$19.4bn per annum over the four years to 2027-28, compared with \$10.1bn over the past decade**

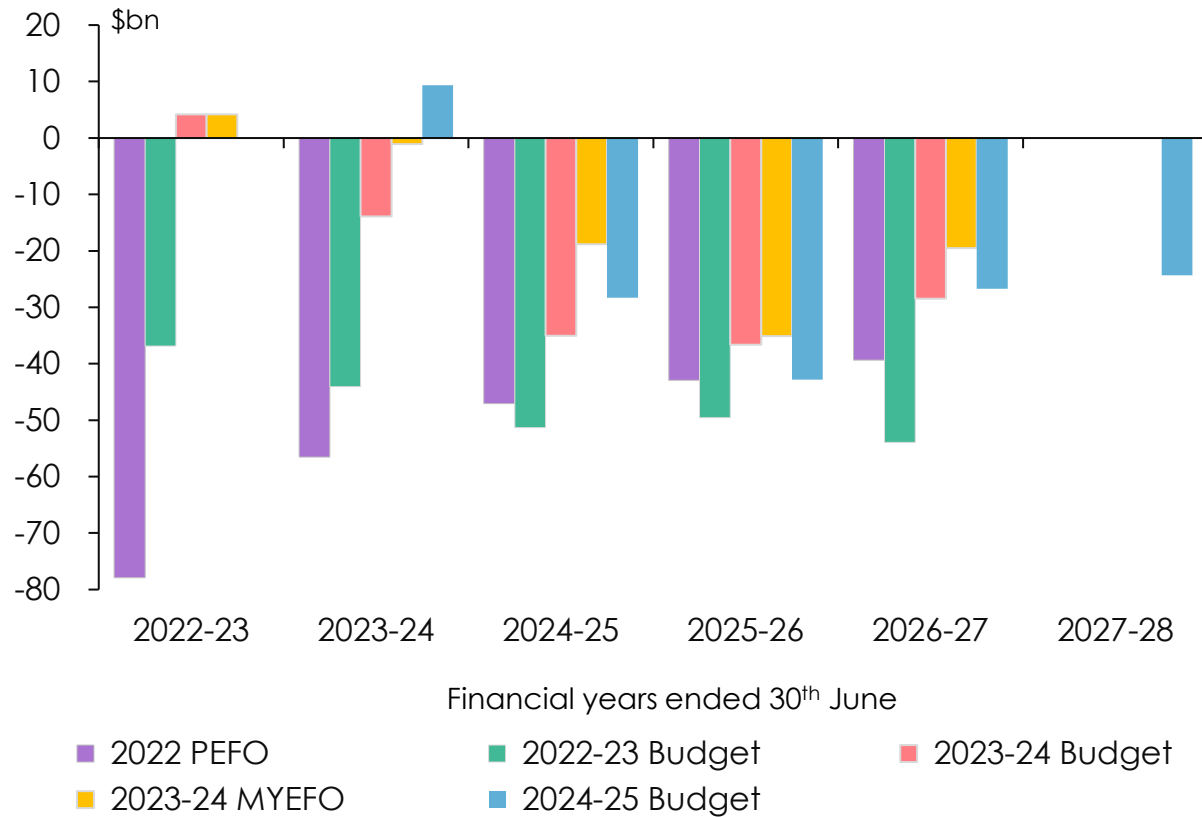
## Components of 'net investments in financial assets for policy purposes'

	Estimates				
	2023-24 \$m	2024-25 \$m	2025-26 \$m	2026-27 \$m	2027-28 \$m
Student loans	-1,626	-2,723	-3,511	-3,982	-4,393
NBN loan(b)	5,500	0	0	0	0
NBN investment	-771	-1,227	-97	0	0
Snowy Hydro Limited loan	0	-150	-1,450	-1,450	-1,450
Snowy Hydro Limited investment	-277	-1,625	-975	0	0
Australian apprenticeship support loans(c)	-112	-112	-102	-97	-95
CEFC loans and investments Northern Australia Infrastructure Facility	-762	-615	-747	-1,087	-940
NRFC loans and investments Australian Business Securitisation Fund	-50	-524	-1,076	-2,505	-3,050
Structured Finance Support Fund	63	-482	-151	-101	-102
Drought and rural assistance loans	178	122	55	0	0
Official Development Assistance - Multilateral Replenishment	-161	-302	-249	147	163
Home Equity Access Scheme Housing Australia(d)	-135	-142	-195	-170	-186
National Interest Account loans and investments	-141	-197	-255	-318	-368
COVID-19 Support for Indonesia – loan	-134	-2,848	-1,517	-1,800	-170
Financial Assistance to Papua New Guinea – loan	-469	-911	-991	-365	78
Net other(e)	100	100	100	100	100
	-474	141	141	141	141
<b>Total</b>	<b>-2,879</b>	<b>-18,916</b>	<b>-20,932</b>	<b>-20,130</b>	<b>-17,676</b>

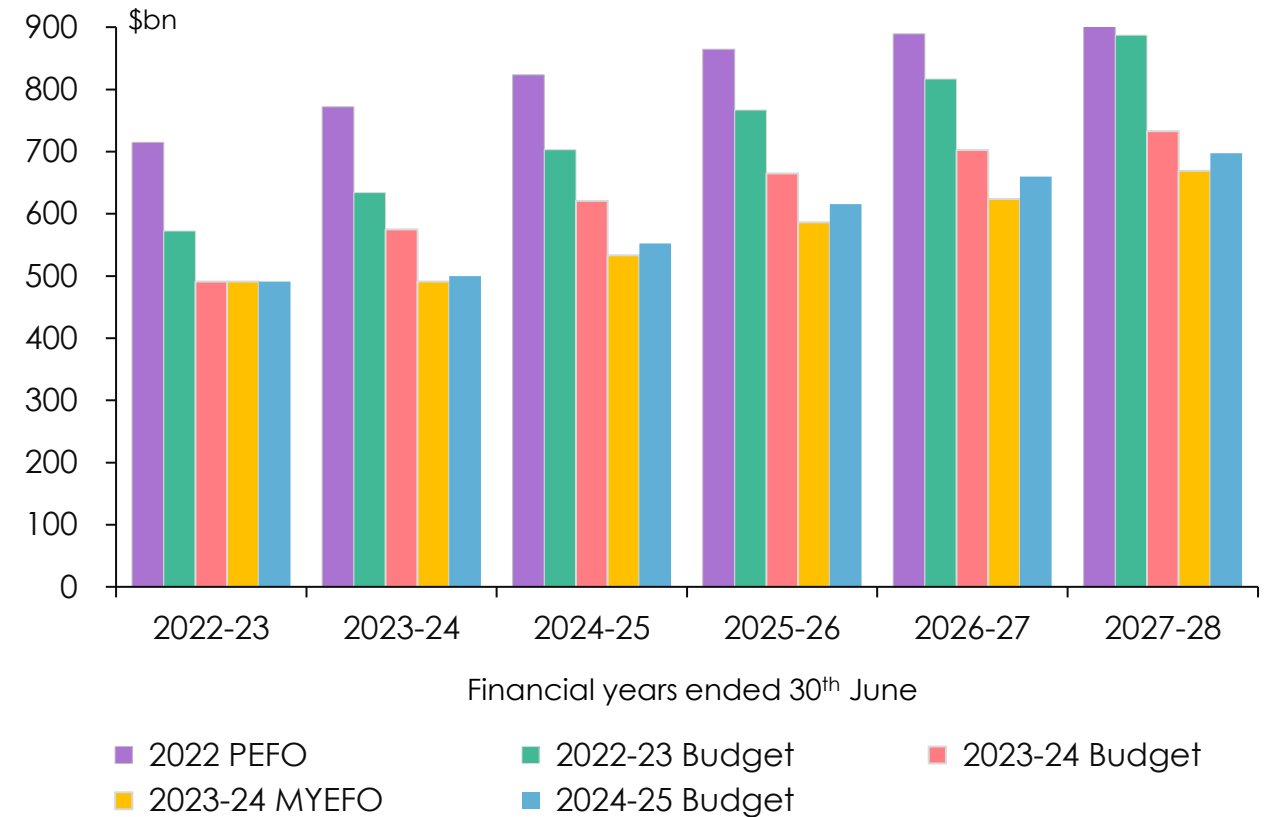
e) Net other includes amounts that have not been itemised for commercial-in-confidence reasons.

# It is movements in the 'headline' balance which drive movements in estimates of net debt

## Successive forward estimates of the 'underlying' cash balance



## Successive forward estimates of net debt



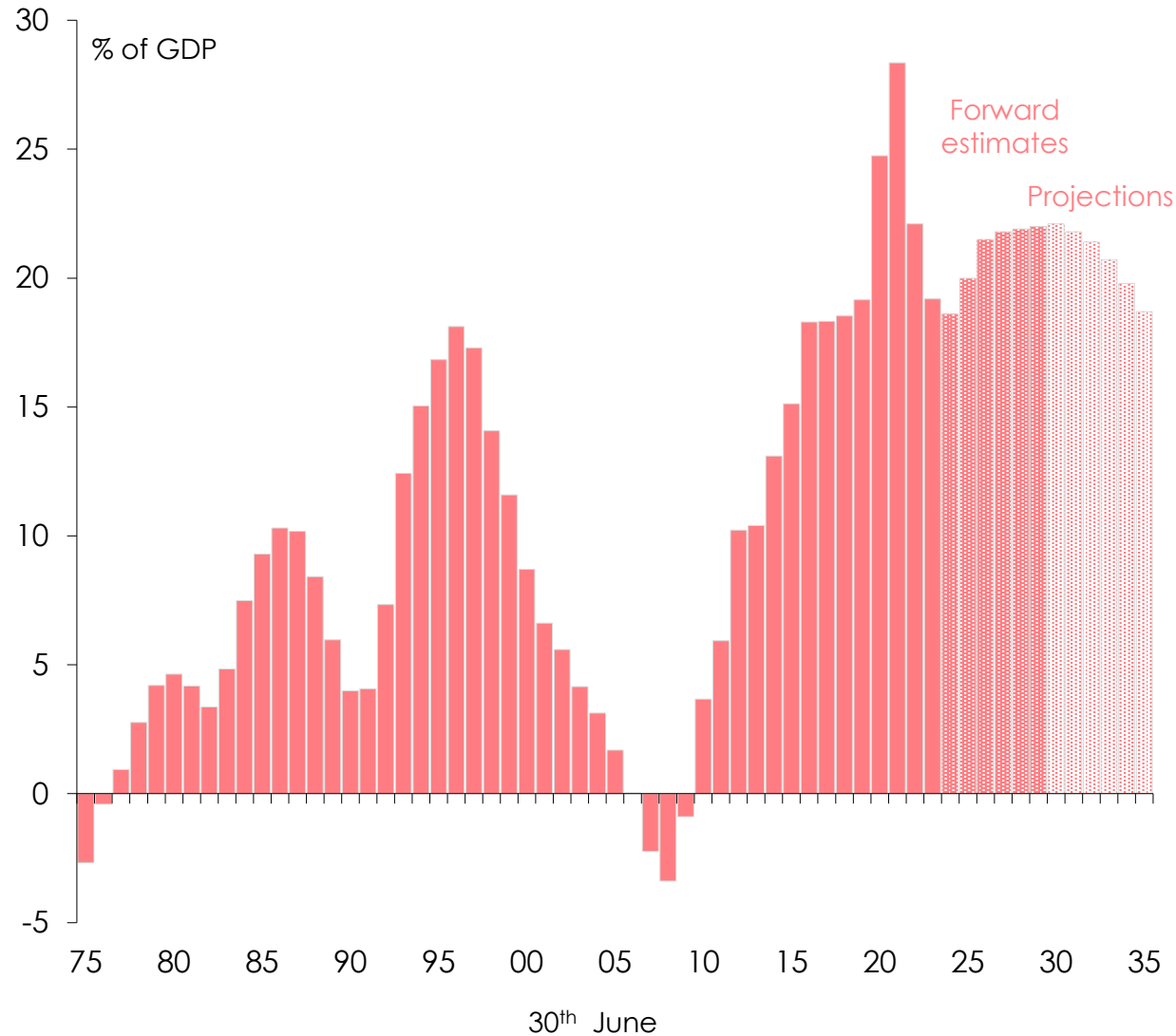
Whereas 'underlying' cash deficits over the three years to 2026-27 have been revised up by \$24bn, 'headline' deficits have been revised up by \$39bn

The forward estimate of net debt as at 30<sup>th</sup> June 2027 has thus been revised up by \$36bn (although the estimate for 30<sup>th</sup> June 2028 is up by 'only' \$28bn)

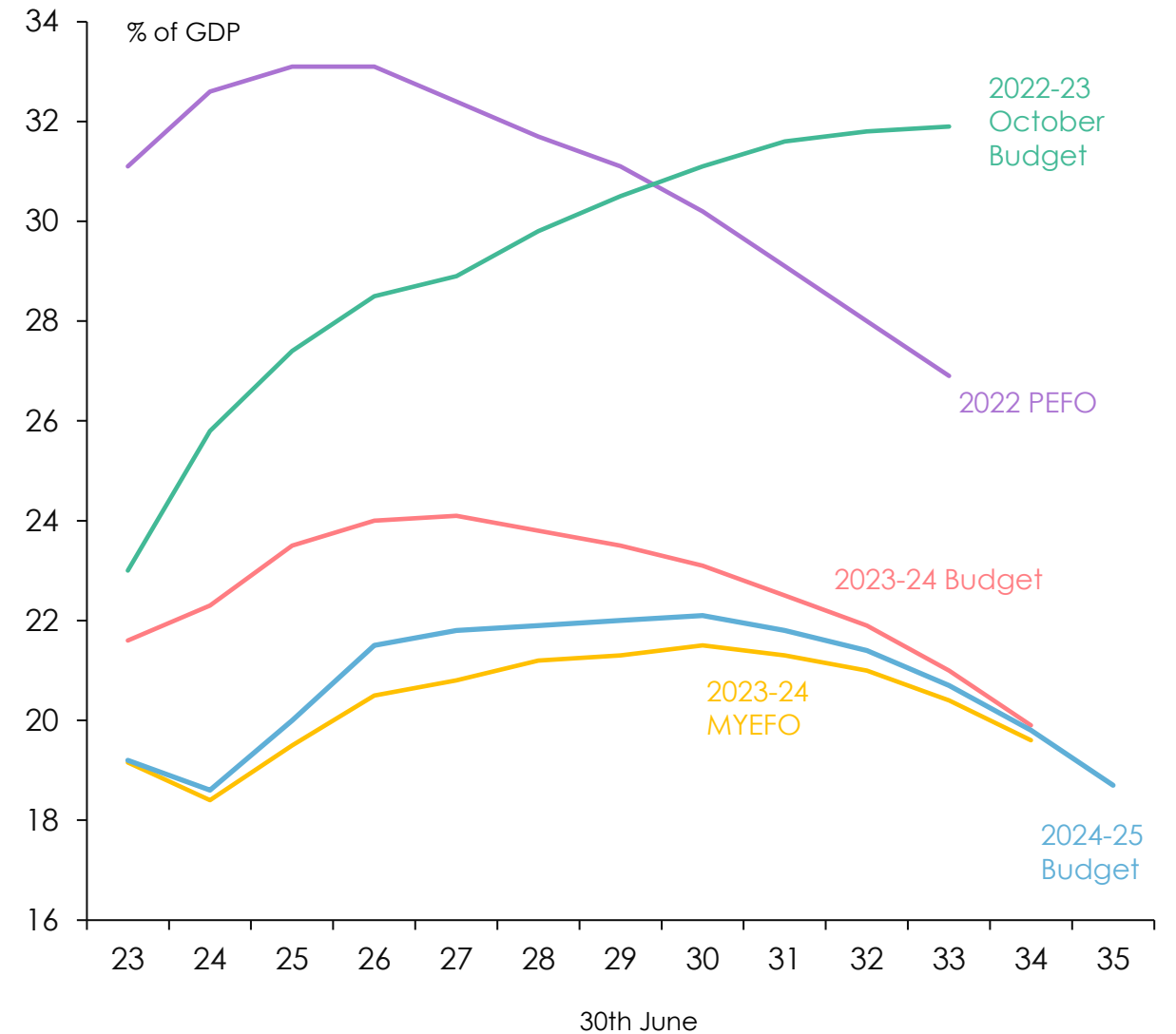
Source: Australian Government, [2024-25 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#).

# Although (thanks to those windfall revenue gains over the past two years) the outlook for net debt isn't nearly as bad as it seemed two years ago

## Forward estimates and 'projections' of net debt



## Successive medium-term projections of net debt



Source: Australian Government, [2024-25 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#), and [Statement 11: Historical Australian Government Data](#).

# The major 'initiatives' in the 2024-25 Budget are 'cost of living relief' and (further out) the 'Future Made in Australia' agenda

## Major spending & revenue 'initiatives' in the Budget

Initiatives <sup>(a)</sup>	2023-24 \$m	2024-25 \$m	2025-26 \$m	2026-27 \$m	2027-28 \$m	Total \$m
2024 National Defence Strategy and Integrated Investment Program	0.0	-400.0	-770.0	-730.0	-3,800.0	-5,700.0
Energy Bill Relief Fund – extension and expansion	-0.1	-2,617.4	-872.2	0.0	0.0	-3,489.8
Building a Better Future Through Considered Infrastructure Investment	15.8	-322.9	-645.4	-904.4	-1,003.5	-2,860.5
Services Australia – additional resourcing	-105.0	-1,200.3	-1,146.5	-152.6	-153.6	-2,758.0
Improving Aged Care Support	15.8	-1,467.9	-655.9	-49.9	-19.4	-2,177.2
Commonwealth Rent Assistance – increase the maximum rates	-6.2	-384.3	-493.5	-503.2	-518.0	-1,905.1
Future Made in Australia – Making Australia a Renewable Energy Superpower <sup>(b)</sup>	28.8	-192.9	-349.2	-358.1	-1,010.4	-1,881.9
Personal Income Tax – Cost-of-Living Tax Cuts	0.0	1,260.0	-1,630.0	-920.0	-10.0	-1,300.0
Housing Support	-1,000.2	-134.9	-142.4	34.0	10.7	-1,232.8
Strengthening Medicare <sup>(b)</sup>	-0.2	-366.3	-252.2	-260.7	-244.8	-1,124.2
Commonwealth Government-Funded Paid Parental Leave – enhancement <sup>(b)</sup>	0.0	-12.4	-26.8	-375.0	-499.9	-914.1
Australian Universities Accord – tertiary education system reforms <sup>(b)</sup>	-22.1	-174.2	-204.2	-235.0	-270.7	-906.2
The Leaving Violence Program – financial support for victim-survivors of intimate partner violence	0.0	-200.1	-186.7	-252.9	-259.1	-898.8
Remote Jobs and Economic Development Program	-3.9	-129.4	-145.5	-218.6	-255.5	-753.1

(a) Impact on underlying cash balance. Figures may not sum due to rounding.

## 'Savings' measures in the Budget

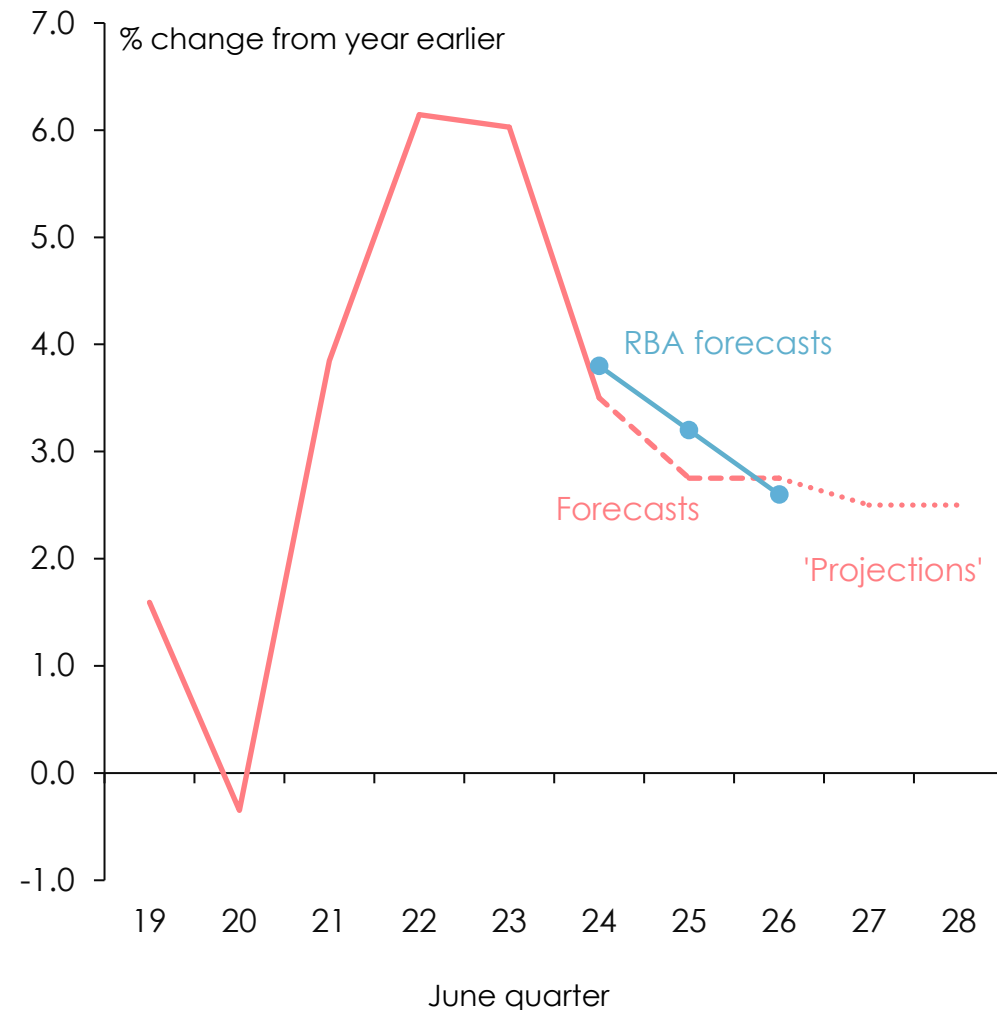
Initiatives <sup>(a)</sup>	2023-24 \$m	2024-25 \$m	2025-26 \$m	2026-27 \$m	2027-28 \$m	Total \$m
National Disability Insurance Scheme – getting the NDIS back on track <sup>(b)</sup>	0.0	1,902.9	3,729.3	4,061.0	4,413.4	14,106.7
Strengthening Tax Compliance – extending the Shadow Economy Compliance Program <sup>(c)</sup>	0.0	0.0	0.0	436.7	829.9	1,266.6
Strengthening Tax Compliance – extending the Tax Avoidance Taskforce <sup>(c)</sup>	0.0	0.0	0.0	250.0	1,015.5	1,265.6
Savings from External Labour – extension	0.0	93.8	93.8	93.8	718.8	1,000.2
Strengthening the foreign resident capital gains tax regime <sup>(c)</sup>	0.0	-0.1	196.7	197.0	198.5	592.0
National Water Grid Fund – responsible investment in water infrastructure for the regions	42.5	-62.1	112.1	159.2	248.3	500.0
Child Care Subsidy Reform – further measures for strong and sustainable foundations	0.0	-2.2	137.6	141.4	133.9	410.7
Migration – Mobility Arrangement for Talented Early-professionals Scheme (MATES) and extending the validity of the Business Visitor visa for Indian nationals <sup>(c)</sup>	0.0	11.9	73.7	139.3	139.3	364.2
Strengthening Tax Compliance – extending the Personal Income Tax Compliance Program <sup>(c)</sup>	0.0	0.0	0.0	0.0	136.0	136.0
Strengthening Tax Compliance – Australian Taxation Office Counter Fraud Strategy <sup>(c)</sup>	0.0	-6.7	43.0	55.0	23.5	114.8

(a) Impact on underlying cash balance. Figures may not sum due to rounding.

Source: Australian Government, [Budget overview - Cost of living help and a future made in Australia](#).

# As a result of the Budget's 'cost-of-living relief' measures, Treasury is forecasting lower inflation than the Reserve Bank

## Treasury and RBA forecasts of inflation

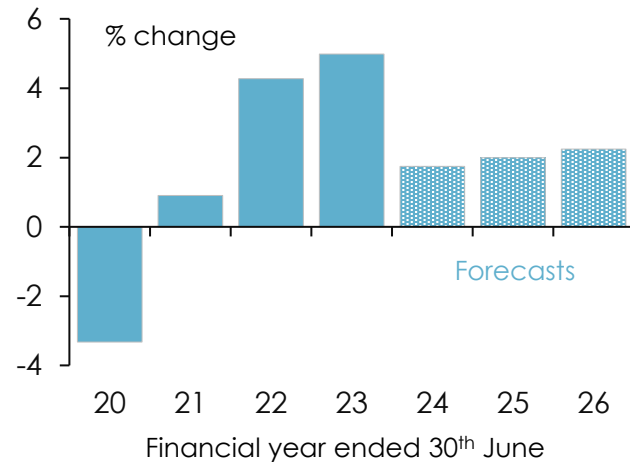


- ❑ Treasury is forecasting 'materially' lower inflation over the next 18 months than the RBA in its most recent *Statement on Monetary Policy*
  - Treasury expects inflation to fall to 3.5% over the year to the June quarter 2024, and to 2.8% (ie, within the RBA's 2-3% target range) over the year to the June quarter 2025
  - that compares with the RBA's forecasts of 3.8% and 3.2%, respectively
- ❑ Treasury estimates that the 'cost-of-living' relief measures in the Budget will reduce inflation as measured in the CPI by ½ pc pt over the course of 2024-25
  - that follows a ¾ pc pt reduction in measured inflation over the course of 2023-24 flowing from the 'cost-of-living' relief measures in last year's Budget
  - these reductions stem from the fact that the CPI measures what consumers actually pay for the goods and services included in the CPI, rather than the prices quoted for those goods and services
- ❑ The RBA did not include any allowance for these measures in its inflation forecast issued the week before the Budget
- ❑ Although these 'mechanical' reductions in the CPI 'purchased' by the Budget are intrinsically 'one-off', they can have an on-going impact
  - via its impact on other prices that are indexed to the CPI, and on wages (including through the FWC minimum wage decision)
- ❑ Whatever impact increased spending by households benefiting from these measures has on inflation is unlikely fully to offset it

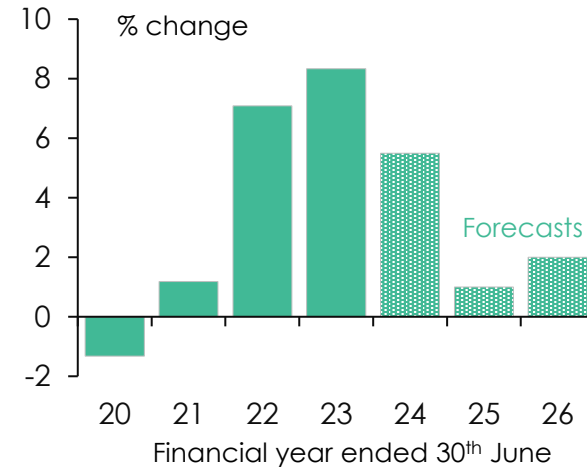


# Treasury is forecasting slower growth in the economy, as a result of slower growth in the population, household spending and business investment

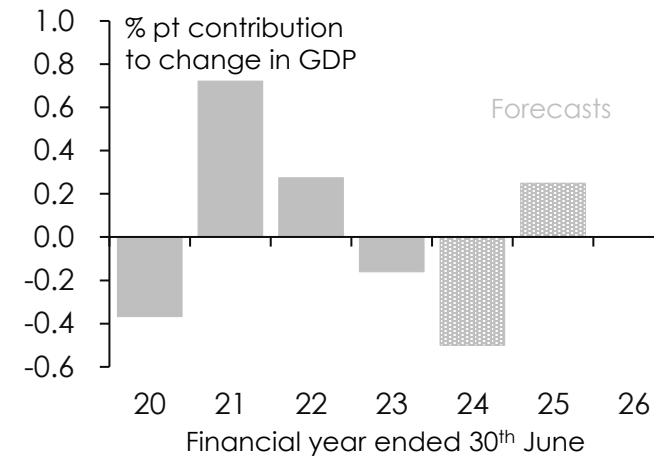
## Household consumption



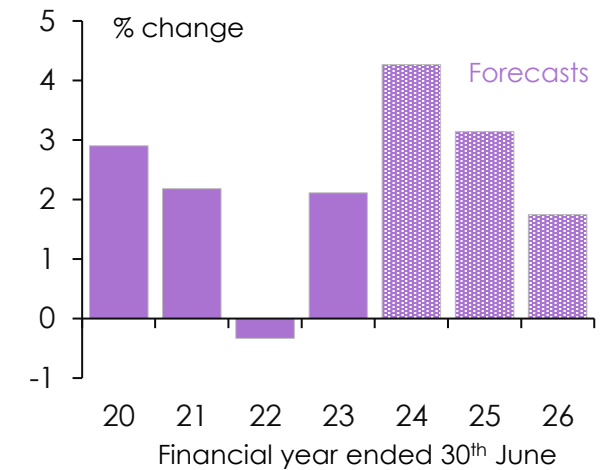
## Business investment



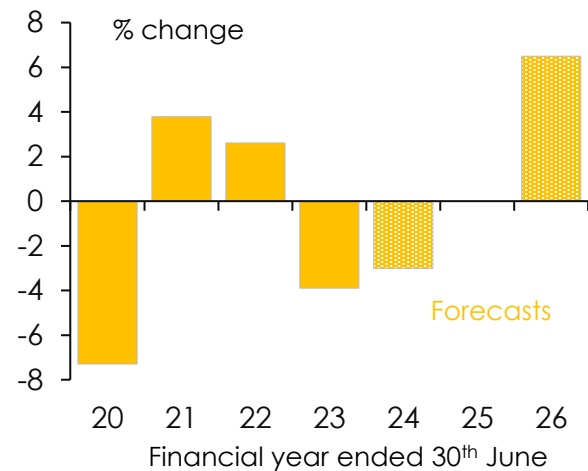
## Change in stocks



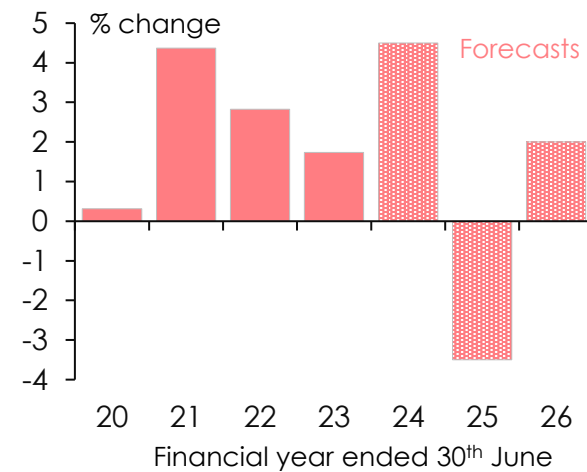
## Real GDP



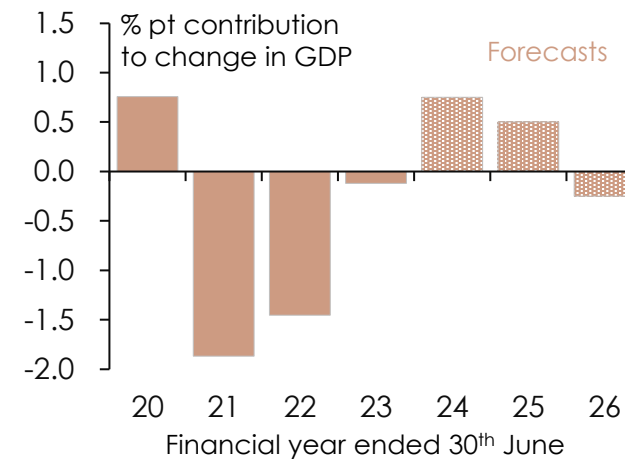
## Dwelling investment



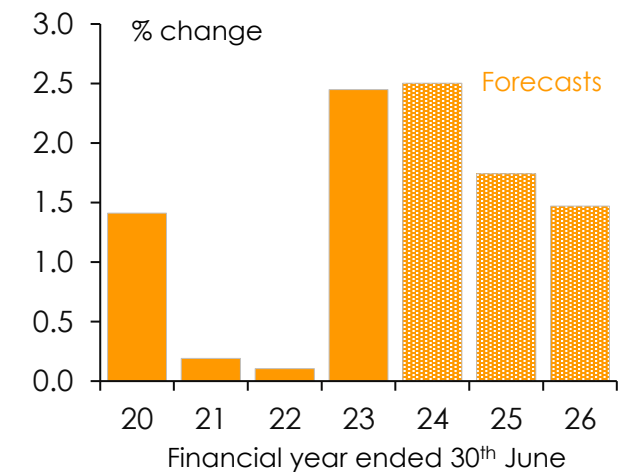
## Public spending



## Net exports



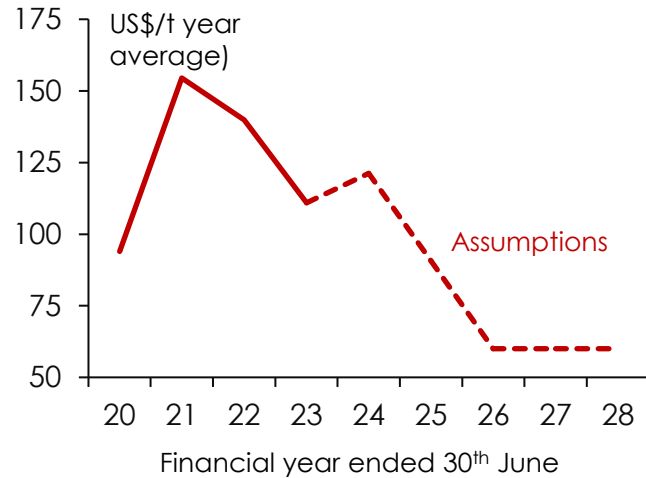
## Population



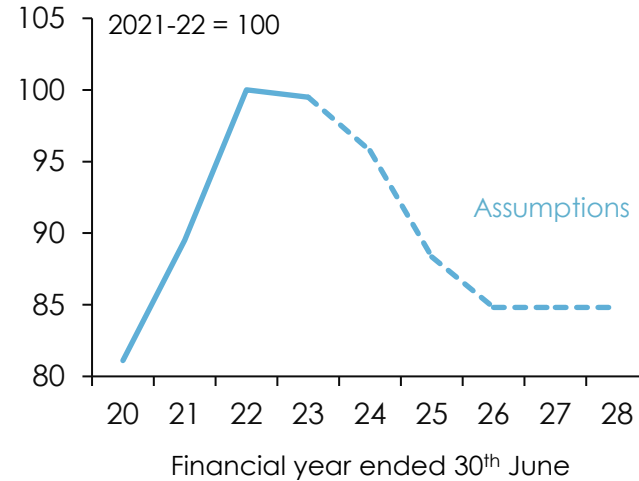
Source: Australian Government, [2024-25 Budget Paper No. 1, Statement 2: Economic Outlook](#), and [2024-25 Budget Paper No. 3: Federal Financial Relations, Appendix A: Parameters and further information](#).

# Treasury makes very conservative assumptions about commodity prices (as it always does), and expects the labour market to soften a bit

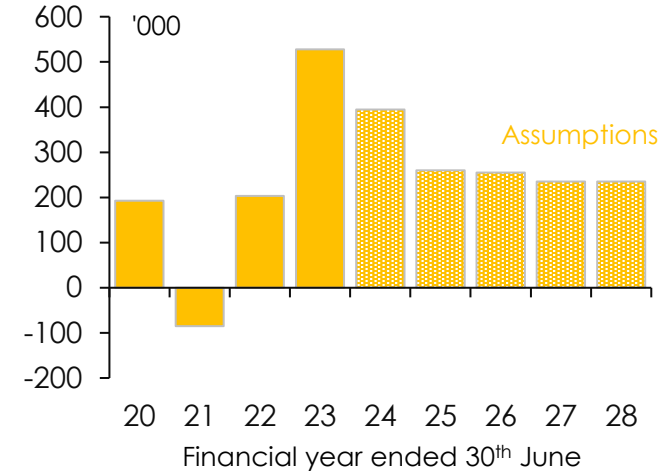
## Iron ore prices



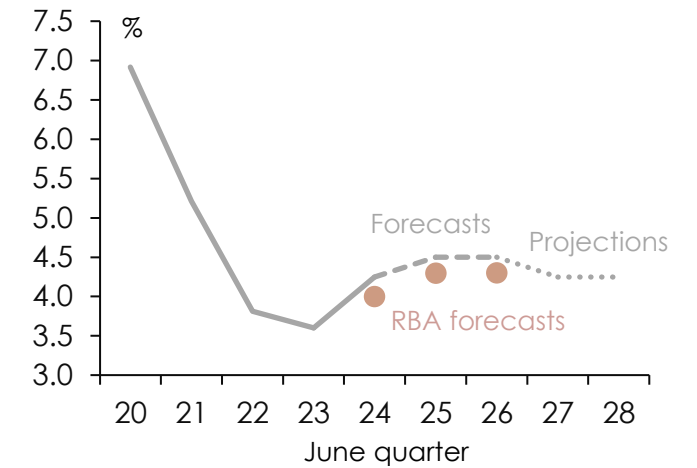
## Terms of trade



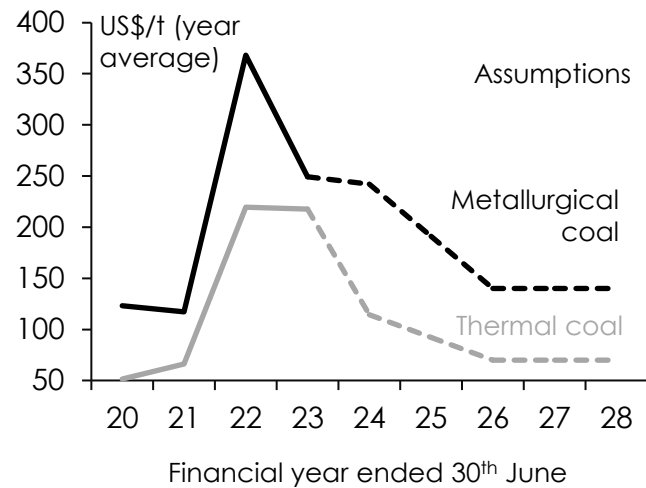
## Net migration



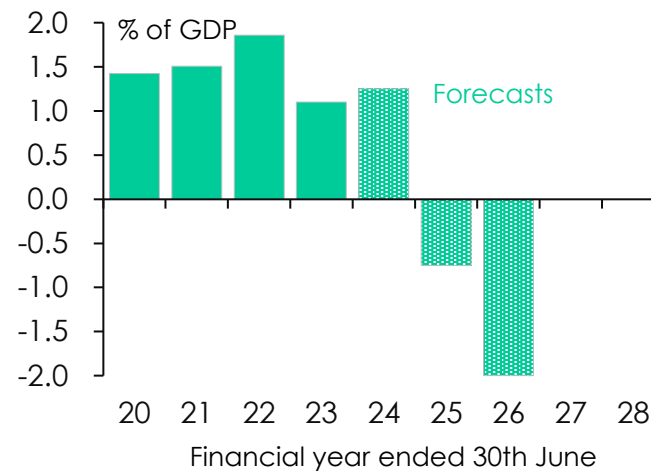
## Unemployment rate



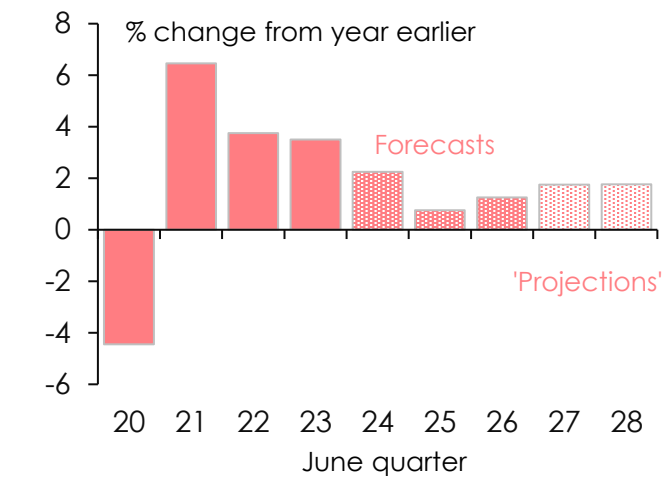
## Coal prices



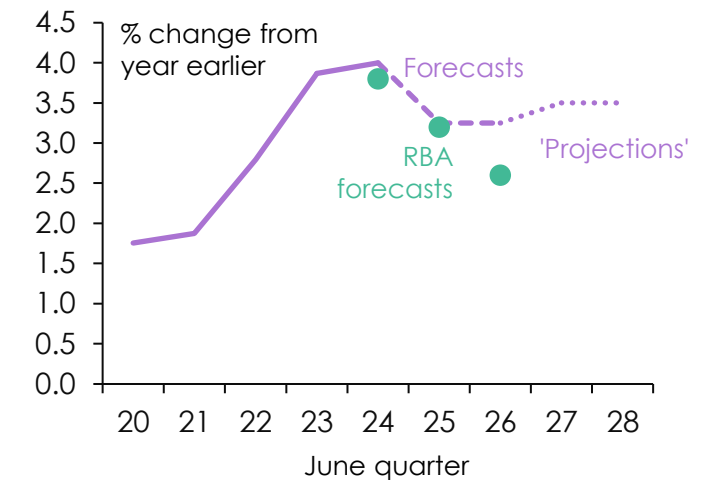
## Current account balance



## Employment



## Wage price index

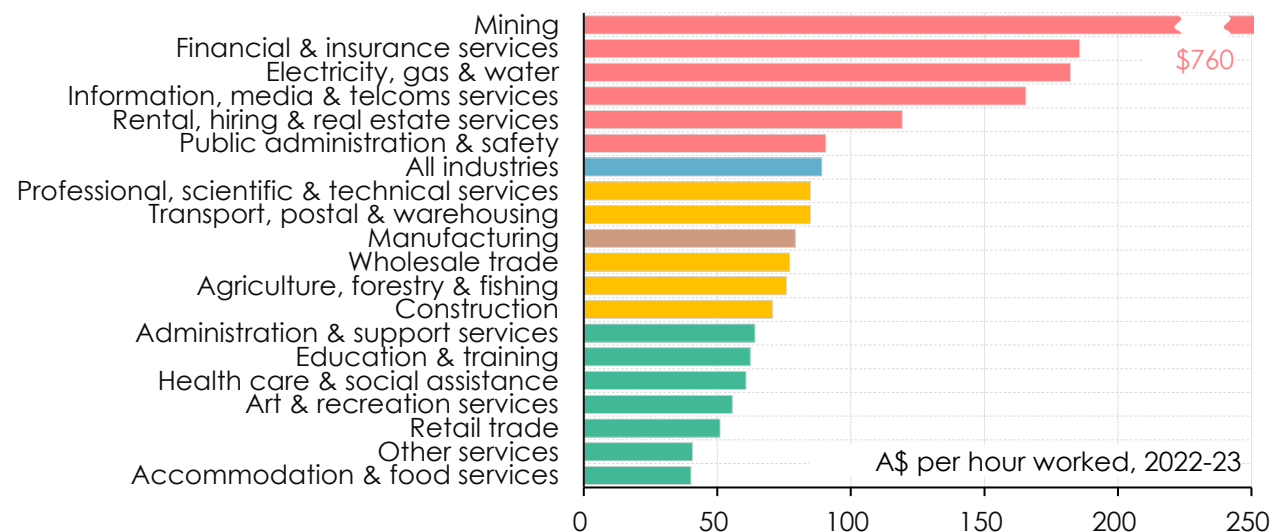


# Worrying aspects of 'Future Made in Australia'

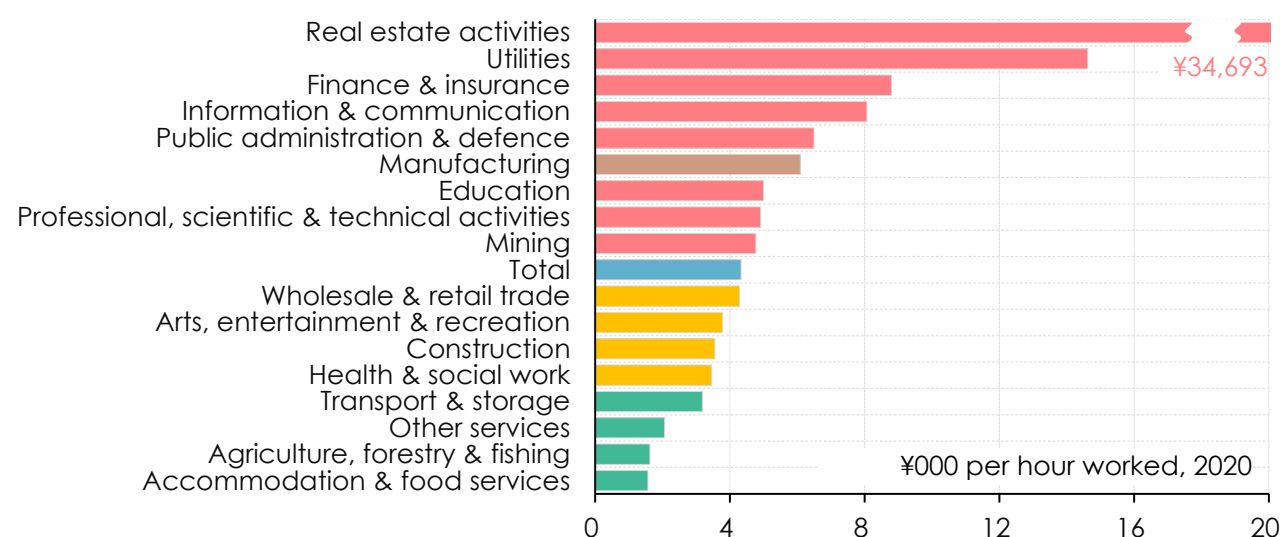
- ❑ **There's no argument (from me, anyway) that the transition to a 'net zero' carbon emissions economy won't happen as quickly as the science tells us (unambiguously) it needs to without some active government involvement**
  - the scale of investment necessarily entailed, and the risks associated with that investment, are too great for it to be realistic to expect the private sector to undertake it all, of its own volition, in expectation of profit commensurate with that risk
  - ideally, the most important form of government intervention would have come through the establishment of a carbon price – but Australian politics didn't allow that to happen
  - so other interventions (tax breaks, subsidies, concessional loans, and even in some circumstances equity investments) are unavoidable
- ❑ **However I'm much more skeptical of the argument that government needs to spend lots of taxpayers' money (\$22.7bn of it over a decade beginning in 2026-27) inducing more investment in manufacturing**
  - the argument that “we've got to do it because everyone else is doing it” is silly and wrong
  - apart from anything else, it ignores the fact that in Australia (unlike the other countries that are “doing it”) manufacturing is a low-labour-productivity industry – so encouraging labour and capital to move into manufacturing will (all else being equal) result in lower overall labour productivity and hence lower living standards (see next slide)
  - while the desire to reduce Australia's dependence on a single source (with whom we may at some point find ourselves in conflict) for 'critical products' is understandable, if our 'friends' are willing to spend squillions of *their* taxpayers' dollars subsidizing the manufacture of, eg, solar panels, why don't we buy them from them, rather than spending squillions of *our* taxpayers dollars subsidizing something that we'll probably never be competitive at
- ❑ **The IMF's recent *Fiscal Monitor* explicitly cautioned about some of the risks associated with 'industrial policy'**
  - “historical experience suggests that getting industrial policy right is a tall order”
  - “an abundance of failed programs in countries with strong institutions shows that it is difficult to avoid policy mistakes”
  - “welfare gains from industrial policy easily turn negative if subsidies are misdirected (for example towards politically connected sectors”
- ❑ **The Budget includes some 'guardrails' to reduce these risks, but their effectiveness very much remains to be seen**

# In Australia, unlike many other 'advanced' economies, manufacturing is a below-average productivity form of economic activity

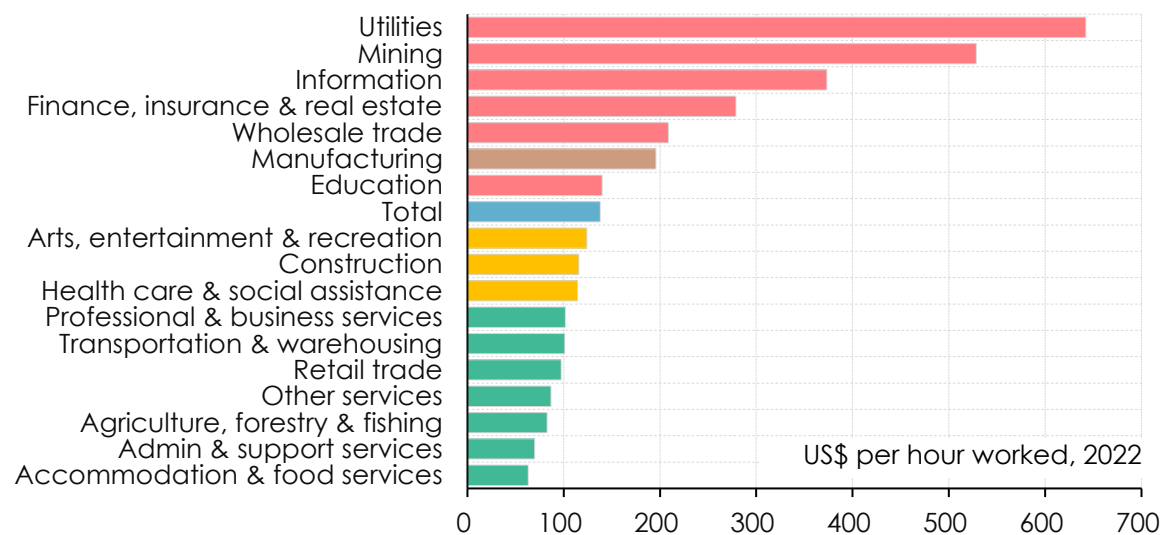
## Labour productivity by industry - Australia



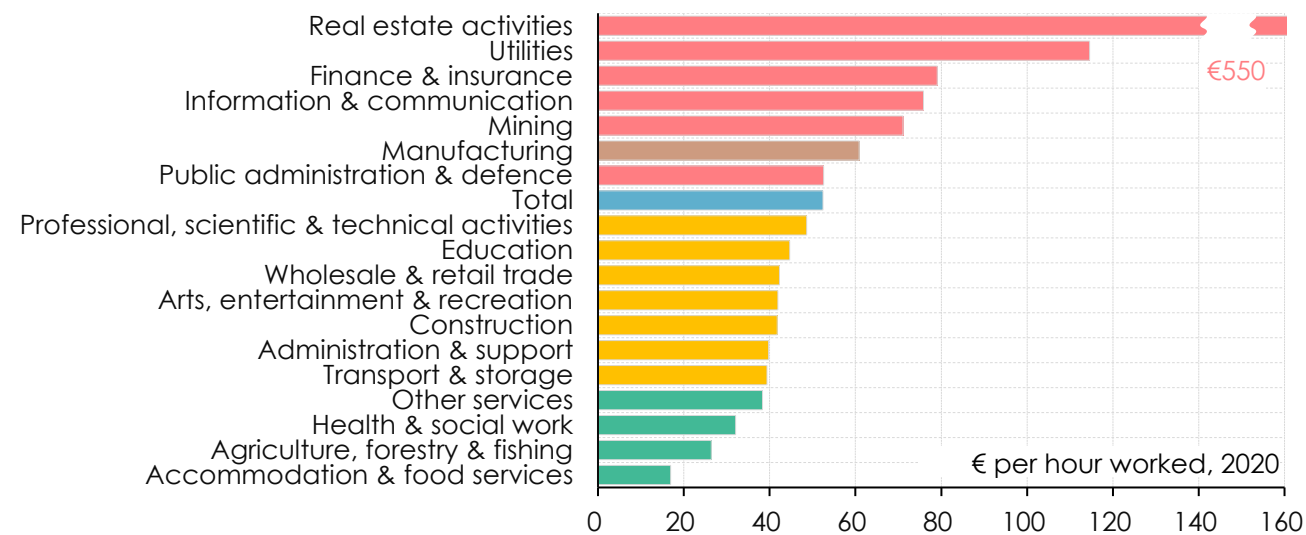
## Labour productivity by industry - Japan



## Labour productivity by industry - United States



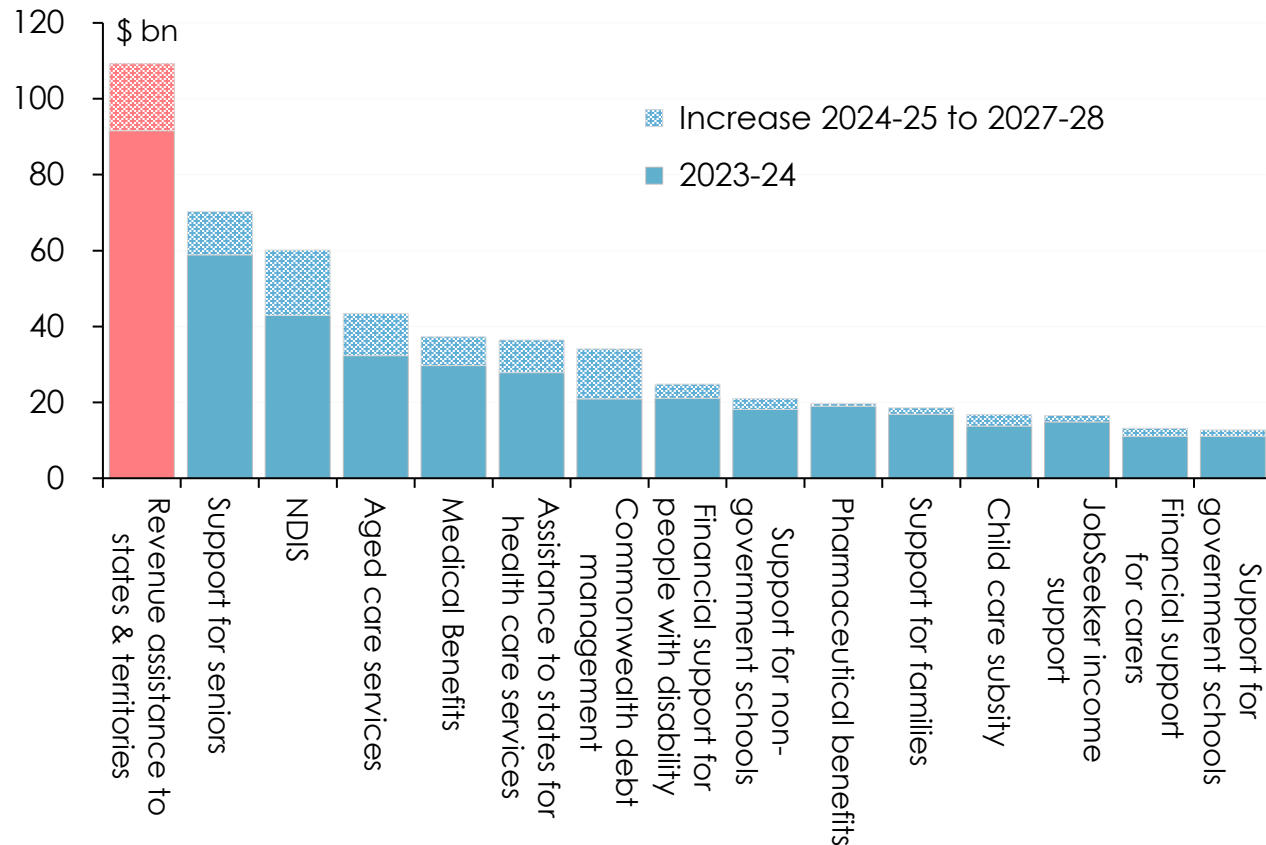
## Labour productivity by industry - Germany



Sources: Australian Bureau of Statistics, [Australian National Accounts: National Income, Expenditure and Product](#) and [Labour Account](#), December 2023; US Bureau of Labor Statistics, [Labor productivity and costs measures - Detailed Industries](#), 2022; Luiss Lab of European Economics, [EUKLEMS and Intanprod](#), 2020.

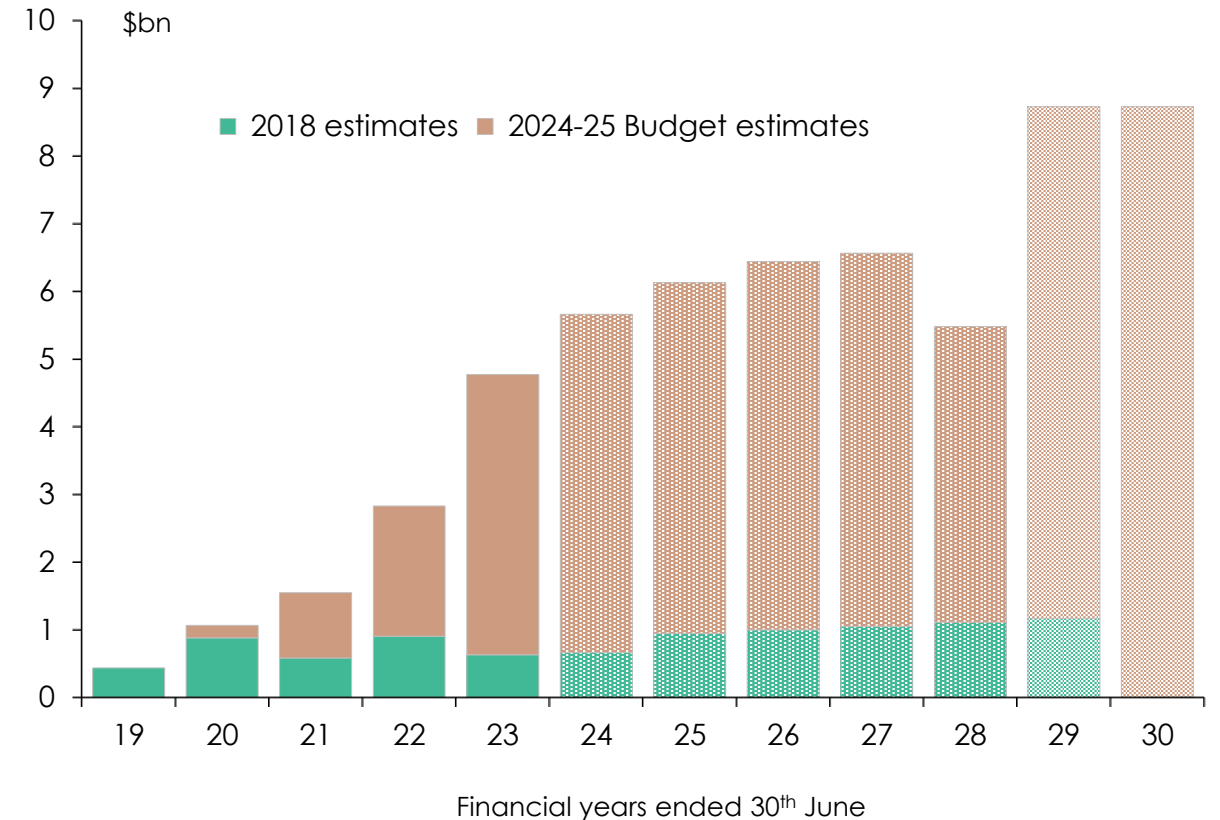
# The cost of the Worst Policy Decision of the 21<sup>st</sup> Century (the WA GST deal) has blown out to \$53bn over 11 years!

## The Budget's 20 largest spending programs



- ❑ **Distribution of GST revenue to the states & territories is the biggest single spending program in the budget**
  - its long-standing purpose (to equalize the 'fiscal capacity' of the states & territories) has been corrupted by the 'WA GST deal'

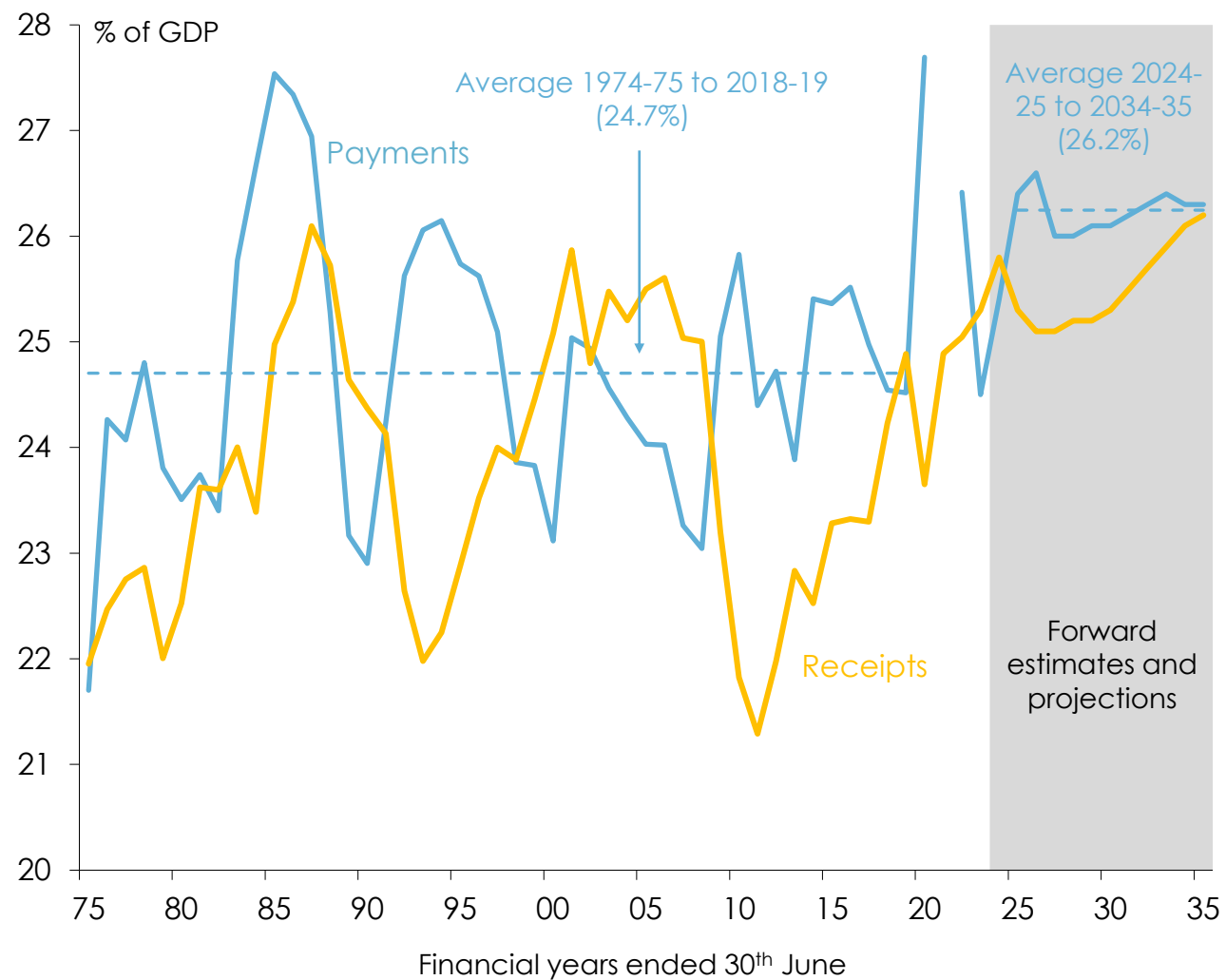
## Successive medium-term projections of net debt



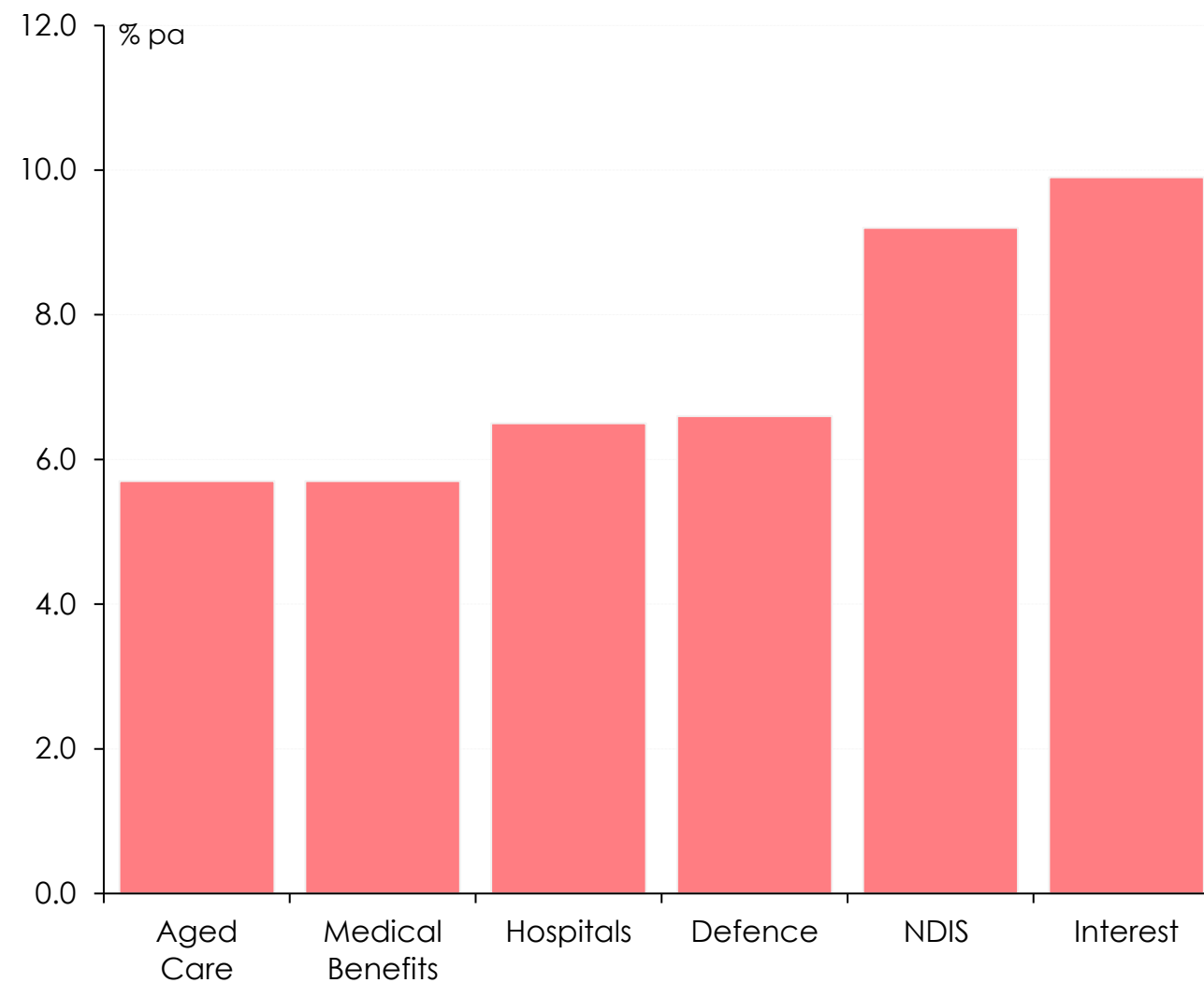
- ❑ **The cost to the Federal Budget of this 'deal' has now blown out to \$52.9bn over the eleven years to 2029-30**
  - from \$39.8 billion as at last December's MYEFO, and the originally estimated cost (back in 2018) of \$8.9bn over eight years

# Commonwealth Government spending seems to have settled on a plane that's 1½ pc pts of GDP above the average for 1974-75 through 2018-19

Forward estimates and 'projections' of 'underlying' payments and receipts



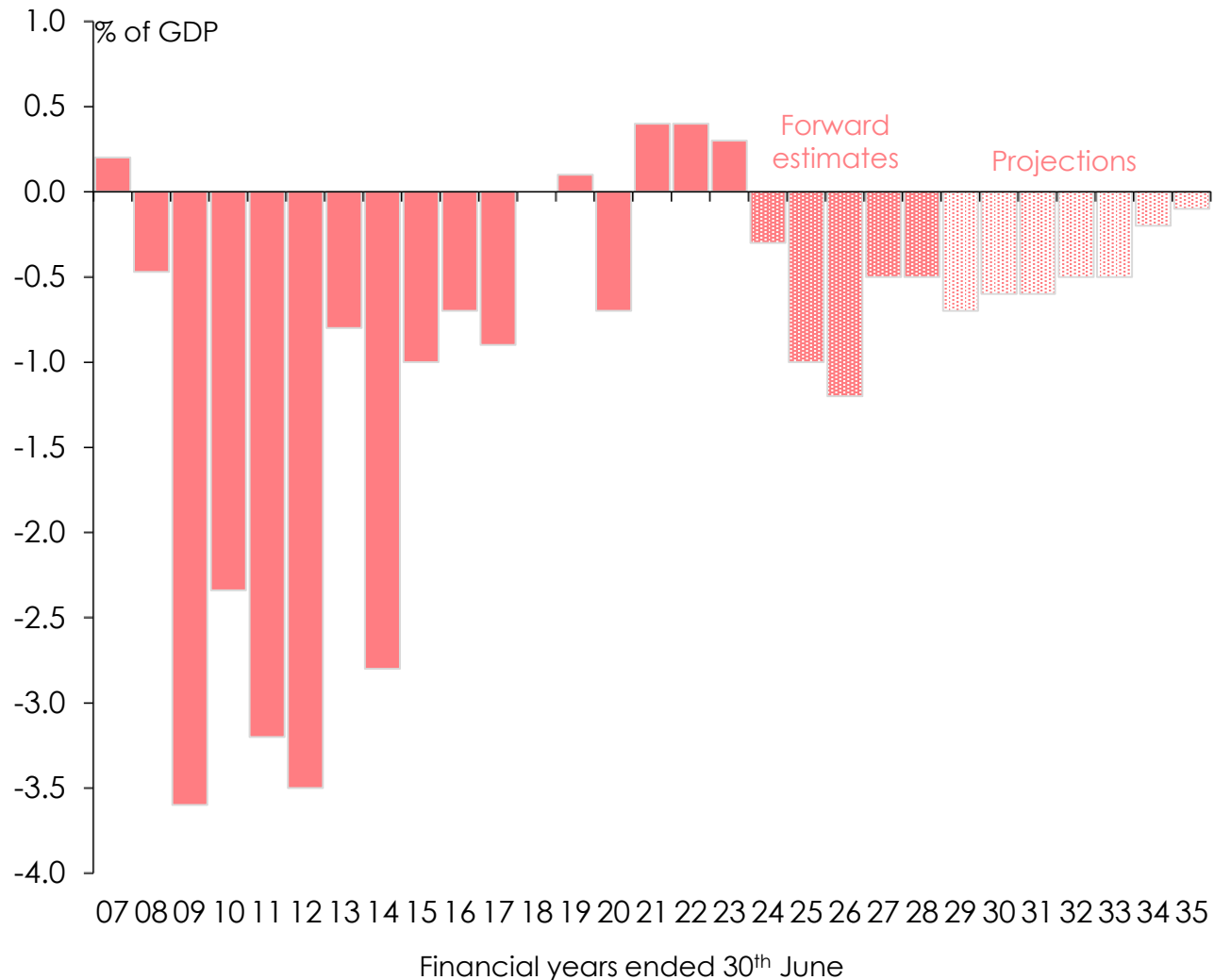
Projected growth in spending, 2024-25 to 2027-28



Source: Australian Government, [Statement 11: Historical Australian Government Data](#), and [2024-25 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#).

# A decade's worth of structural deficits can realistically only be eliminated from the revenue side of the budget – but no-one wants to talk about that

## The 'structural' budget balance



- ❑ The 2024-25 Budget Papers indicate (as has every set of Budget Papers since the pandemic) that the budget is likely to remain in 'structural deficit' for the foreseeable future
  - the declines in the structural deficit towards the end of the next decade is largely attributable to the return of 'bracket creep'
- ❑ It's very difficult to think of politically feasible ways of eliminating these structural deficits by cutting government spending in other areas
  - well, the 'WA GST deal' should be scrapped, but as WA Treasurer Rita Saffioti has very candidly pointed out, that would also carry a high political cost
- ❑ So the structural deficits will only ever be eliminated from the revenue side – with 'bracket creep' as the 'default option'
- ❑ Tax reform therefore has to be about not just improving the efficiency and equity of the tax system, but also about raising additional revenue – which means making at least some people worse off
  - that's very hard to do without an electoral mandate
  - but the Government appears to show very little appetite for seeking such a mandate at the next election

Note: the 'structural' budget balance strips out the impact of 'cyclical' factors on payments and receipts, such as deviations in economic activity from 'potential GDP' or 'full employment', and movements in asset and commodity prices, and the impact of temporary fiscal measures implemented during the global financial crisis and in response to the Covid-19 pandemic. Source: Australian Government, [2024-25 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#).

# Conclusions

- ❑ **The 2024-25 Budget does make a ‘reasonable fist’ of providing ‘cost-of-living relief’ without materially adding to inflation pressure**
  - although it would have been better if the electricity bill relief was targeted rather than being universal
  - the RBA is unlikely to raise rates again unless ‘underlying’ inflation goes back up (‘materially’) – it will respond to inflation taking longer to come down by delaying the start to cutting rates, not by raising them
- ❑ **The other centre-piece of the Budget, the ‘Future Made in Australia’ program, is very much a ‘mixed bag’**
  - government involvement in accelerating the transition to ‘net zero’ [emissions] is both necessary and desirable, so long as there are appropriate ‘guardrails’ around who gets what and on what terms
  - but subsidizing manufacturing simply because ‘everyone else is doing it’ is both risky and unwise, not least because in Australia (unlike the other countries who are ‘doing it’), manufacturing is a low-productivity form of economic activity
  - a lot of this spending is being funnelled through a part of the Budget that traditionally attracts very little scrutiny
  - while there is a legitimate rationale for reducing our dependence on a single source (with which we may at some point be in conflict) of imports, it would be smarter to source ‘critical products’ from our ‘friends’ if they want to subsidize their manufacture
  - and are we doing anything to reduce our dependence on that country as an export market?
- ❑ **The cost of the Worst Policy Decision of the 21<sup>st</sup> Century Thus Far (the ‘WA GST deal’) has blown out to almost \$53bn**
  - how the Government can reconcile giving \$53bn to the government of the richest state in the country, so that it can run bigger budget surpluses and (ultimately) provide its citizens with better public services and lower state taxes than other Australians, with their professed commitments to fiscal prudence and equity, is (to put it mildly) very hard to discern
- ❑ **The Budget does nothing about the longer-term structural deficits which Australia confronts**
  - indeed at the margin it makes those deficits worse (by adding to them with additional spending)
  - those deficits will likely only be eliminated by increasing revenues – which would be best achieved through tax reform, rather than the ‘default option’ of bracket creep, but it seems no-one wants to talk about that



## Important information

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