

THE 2026-27 AUSTRALIAN GOVERNMENT BUDGET – AN ASSESSMENT

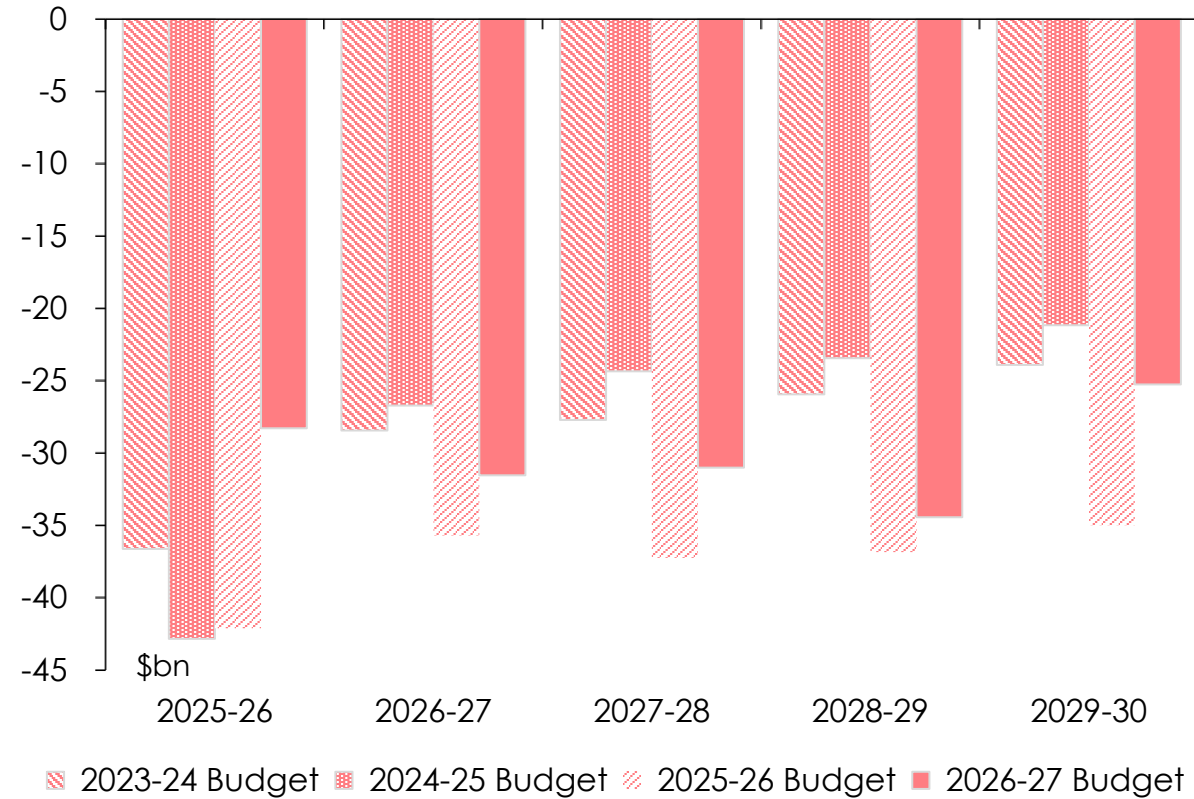
12TH MAY 2026

SAUL ESLAKE

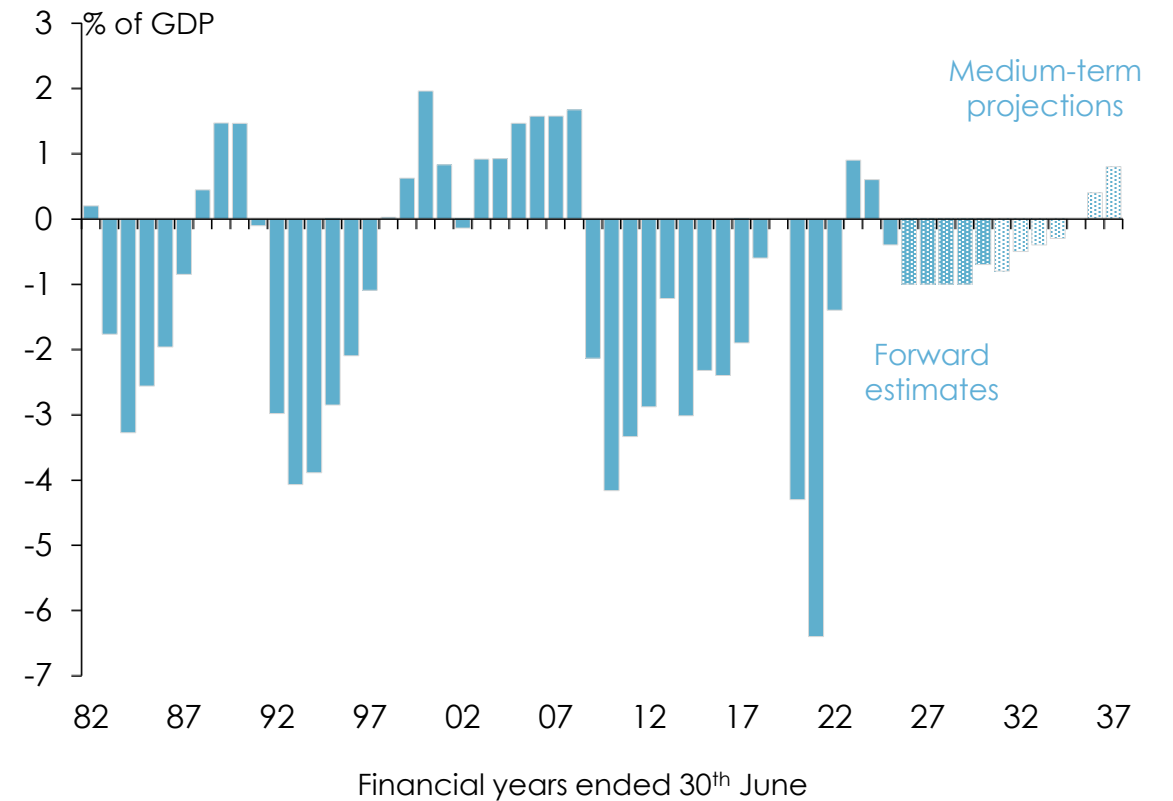
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

The 2026-27 Budget projects smaller deficits over the next four years, and ultimately a return to 'underlying' surpluses by 2035-36

Successive forward estimates of the 'underlying' cash balance



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



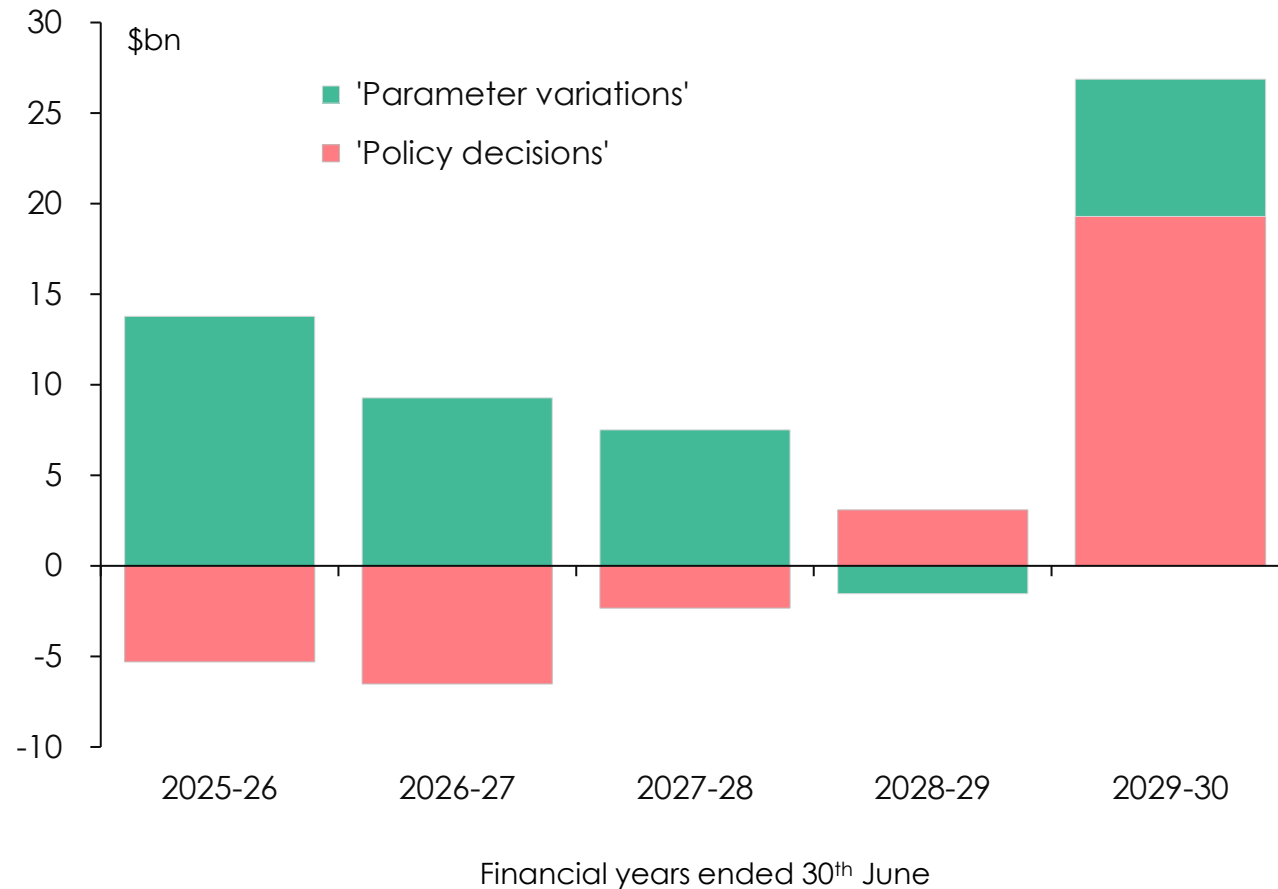
'Underlying' cash balances over the five years to 2029-30 now sum to \$151bn, compared with \$192bn in last December's MYEFO

The Budget is now projected to return to 'underlying' surplus by 2035-36 – an improvement compared with the MYEFO forecast of ten years of deficits

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, [2026-27 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#) and [Statement 11: Historical Australian Government Data](#).

The improvements in the 'bottom line' over the five years to 2029-30 are mostly due to 'windfall' revenue gains, rather than conscious savings

Drivers of movements in the 'underlying' cash balance between the December 2025 Mid-Year Economic & Fiscal Outlook (MYEFO) and the 2026-27 Budget



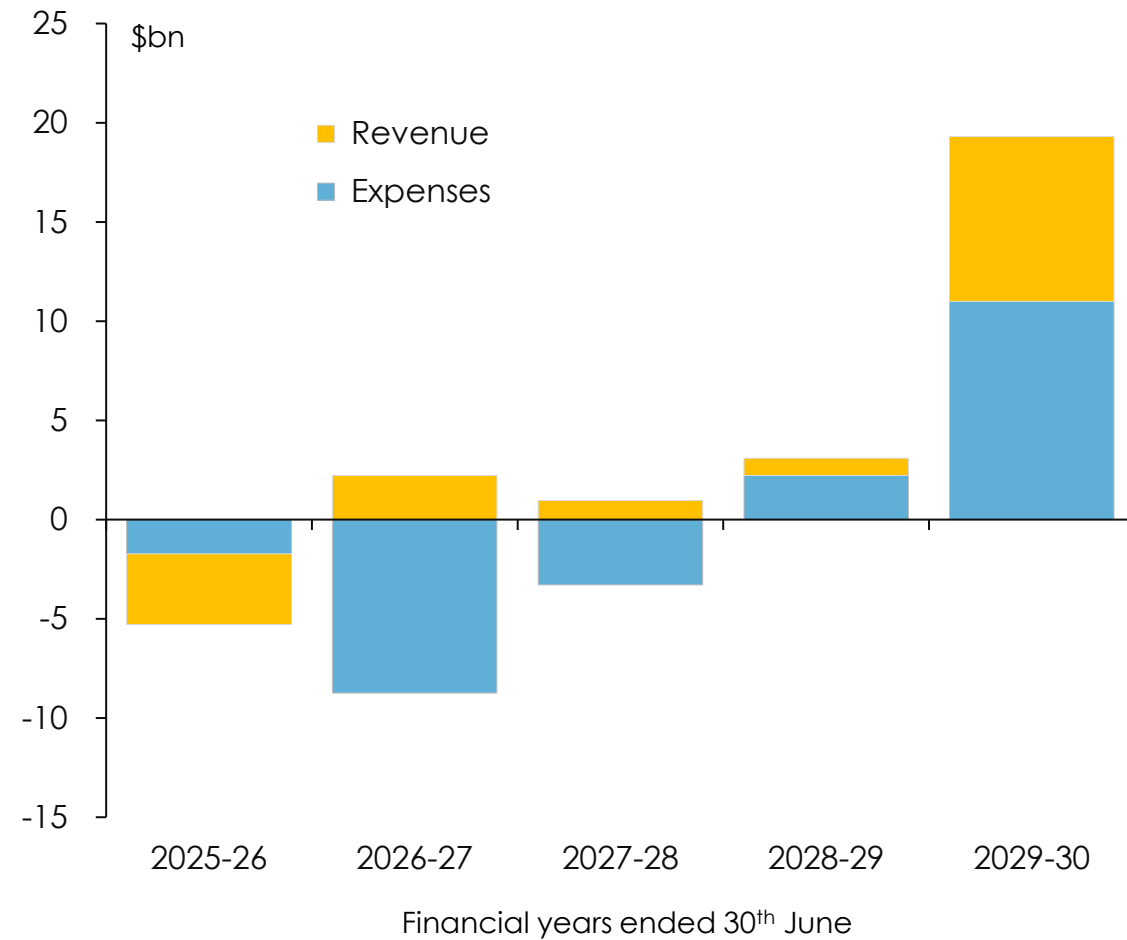
- This year's Budget has benefited from favourable 'parameter variations' – the impact of changes in economic and other assumptions – worth a total of \$36.6 billion over the five years to 2029-30
 - of which \$41 billion was from upward revisions to estimates of revenues (including \$14 bn from personal income tax, \$14 bn from taxes in superannuation funds, and \$8.2 bn from company tax)
 - partly offset by upward revisions to estimates of payments totalling \$4.5 billion over the five years to 2029-30
- More surprisingly, 'policy decisions' improved the 'bottom line' by only \$8.2 billion, on net, over the five years to 2029-30
 - 'policy decisions' actually worsen the 'bottom line' by \$14.1 bn over the three years 2025-26 through 2027-28, but then improve it by \$22.4 bn in the last two years of the forward estimates period
 - although this is still the first budget cycle in which 'policy decisions' have improved the 'bottom line' since the Albanese Government was elected in 2022

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, [2026-27 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#) and previous issues.

'Policy decisions' actually increase spending by \$1/2bn over the five years to 2029-30, but raise \$8¾bn of additional revenue

Impact of revenue and expense 'policy decision' taken between last December's MYEFO and the 2026-27 Budget on the 'underlying' cash balance



- ❑ Spending 'policy decisions' actually increased payments by \$537 million over the five years to 2029-30
 - 'policy decisions' add \$13.8 bn to payments over the three years 2025-26 through 2027-28
 - which are almost, but not completely, offset by savings totalling \$13.2 billion over the last two years of the forward estimates period, of which \$11bn are in 2029-30
- ❑ By contrast, revenue policy decisions improve the 'bottom line' by \$8.8 bn over the four years to 2029-30
 - revenue policy decisions worsen the 'bottom line' by \$3.6 bn in 2025-26 (entirely due to the temporary halving of fuel excise)
 - but then improve the 'bottom line' by a total of \$12.3 bn between 2026-27 and 2029-30
 - of which \$4.5 bn comes from the introduction of a minimum 30% tax rate on discretionary trusts (all of it in 2029-30), and \$3.6 bn from changes to negative gearing and capital gains tax (in 2028-29 and 2029-30)

\$58.6 bn in savings measures and tax increases are offset by \$58.6 bn in new spending and tax cuts

Major savings measures

Initiatives ^(a)	2025-26 (\$m)	2026-27 (\$m)	2027-28 (\$m)	2028-29 (\$m)	2029-30 (\$m)	Total (\$m)
Securing the National Disability Insurance Scheme for Future Generations ^(b)	-2.5	1,002.8	7,161.7	11,663.4	16,393.4	36,218.9
Tax Reform – introducing a minimum tax on discretionary trusts ^(b)	-	-1.3	-11.6	-28.4	4,445.3	4,404.0
Tax Reform – Boosting Home Ownership – reforming negative gearing and capital gains tax ^(b)	-	-16.4	-45.0	1,326.1	2,266.3	3,531.0
Modernising Private Health	-	206.0	870.3	931.0	987.4	2,994.7
Reducing Spending on Consultants, Contractors and Labour Hire, and Non-wage Expenses – one year extension	-	-	-	-	2,718.8	2,718.8
Reinvesting in Health, Disability and Ageing Programs	548.9	542.4	528.7	540.0	546.0	2,705.9
Electric Car Discount – more sustainable fringe benefits tax treatment of electric cars ^(b)	-	-10.0	40.0	290.0	1,420.0	1,740.0
Boosting Productivity – Promoting Research, Development and Innovation (inc. Australia's Economic Accelerator program) ^(c)	108.9	96.6	178.5	193.5	182.4	759.9
Uplift of the Passenger Movement Charge ^(b)	-	89.3	210.0	225.0	230.0	754.3
Climate Change, Energy, the Environment and Water – Savings	118.9	122.2	73.3	286.9	125.6	727.0
Tax Reform – better targeting the Research and Development Tax Incentive ^(b)	-	-	-1.3	-30.8	679.2	647.2
Continuing to Support Veterans and their Families	0.7	-10.1	157.1	209.1	249.8	606.6
Education Portfolio – schools reform	-	7.7	82.5	150.9	185.0	426.1
Employment and Workplace Relations and Skills – reprioritisation ^(b)	20.3	5.4	63.1	102.0	107.2	297.9

New spending measures

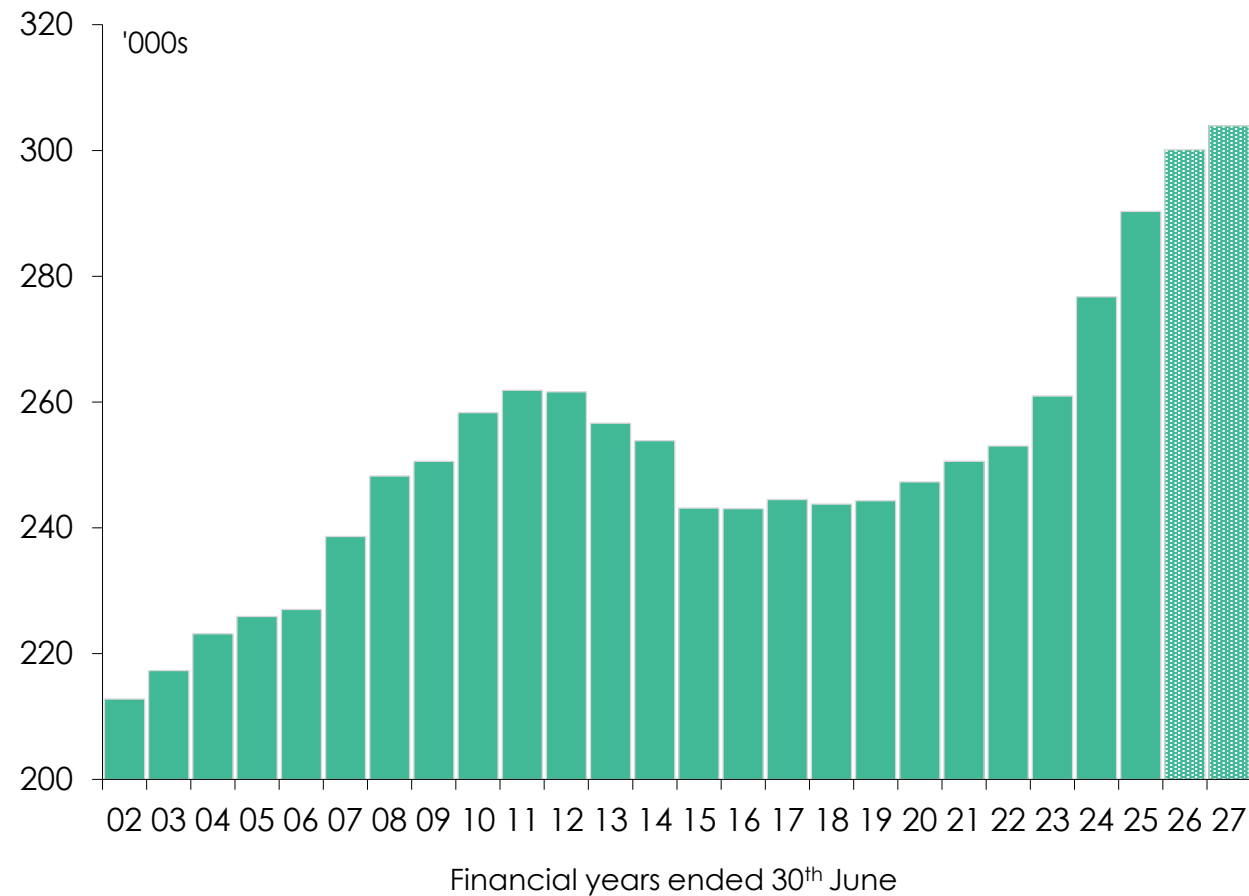
Initiatives ^(a)	2025-26 (\$m)	2026-27 (\$m)	2027-28 (\$m)	2028-29 (\$m)	2029-30 (\$m)	Total (\$m)
National Health Reform Agreement – hospital funding and Commonwealth investment in the public hospital system	-	-3,456.8	-4,008.7	-4,862.2	-5,799.1	-18,126.8
2026 National Defence Strategy and Integrated Investment Program	-30.0	-2,164.7	-2,616.0	-1,318.1	-704.6	-6,833.4
Tax Reform – cutting taxes with a Working Australians Tax Offset ^(b)	-	-1.5	-6.0	-3,021.5	-3,361.0	-6,390.0
Pharmaceutical Benefits Scheme New and Amended Listings ^(c)	-457.4	-1,432.4	-1,353.6	-1,284.9	-1,354.8	-5,883.1
Tax Reform – loss refundability reforms for businesses and start-ups ^(b)	-	-8.7	-911.0	-733.0	-1,075.5	-2,728.2
Taking Pressure off Australians – Temporary reduction of fuel excise and heavy vehicle road user charge ^(b)	-3,020.0	475.0	-	-	-	-2,545.0
Services Australia – additional resourcing ^{(b)(c)}	-1.0	-1,109.4	-1,004.2	-3.7	0.2	-2,118.1
Boosting Home Ownership	-	-262.0	-523.6	-614.0	-652.1	-2,051.7
Strengthening Medicare	-15.1	-655.7	-536.7	-347.0	-313.2	-1,867.7
Thriving Kids	-	-427.4	-436.0	-396.9	-368.1	-1,628.4
Boosting productivity – better selecting migrants and recognising their skills ^(b)	-	-114.8	-322.8	-508.4	-662.1	-1,608.1
Improving Access to Home Care	-	-408.6	-296.5	-327.9	-361.5	-1,394.5
Building a Better Future through Considered Infrastructure Investment ^(c)	-	1,569.8	817.7	-1,286.4	-2,067.8	-966.7
Tax Reform – making tax simpler for businesses ^(b)	-	-11.4	-323.5	-361.5	-135.9	-832.2
Community Infrastructure ^(b)	113.0	-60.4	-170.5	-306.4	-303.8	-728.1
Boosting Productivity – Digital ID	-	-157.9	-166.0	-163.9	-166.6	-654.3
Residential Aged Care Supply and Equity of Access	-	-68.8	-119.3	-179.6	-238.9	-606.5
Enhancing Defence Cooperation in the Indo-Pacific	-	-74.3	-186.2	-189.5	-149.9	-600.0
Improving Access and Uptake of Medicines and Vaccines	-105.5	-237.7	-109.8	-72.8	-64.5	-590.3
Preventive Health	-	-123.5	-123.7	-110.9	-107.8	-465.8

Note: Positive (negative) numbers indicate improvement (deterioration) in the 'bottom line', ie reductions (increases) in the budget deficit.

Source: Australian Government, [Budget 2026-27 - Resilience and Reform](#), Appendixes C and D.

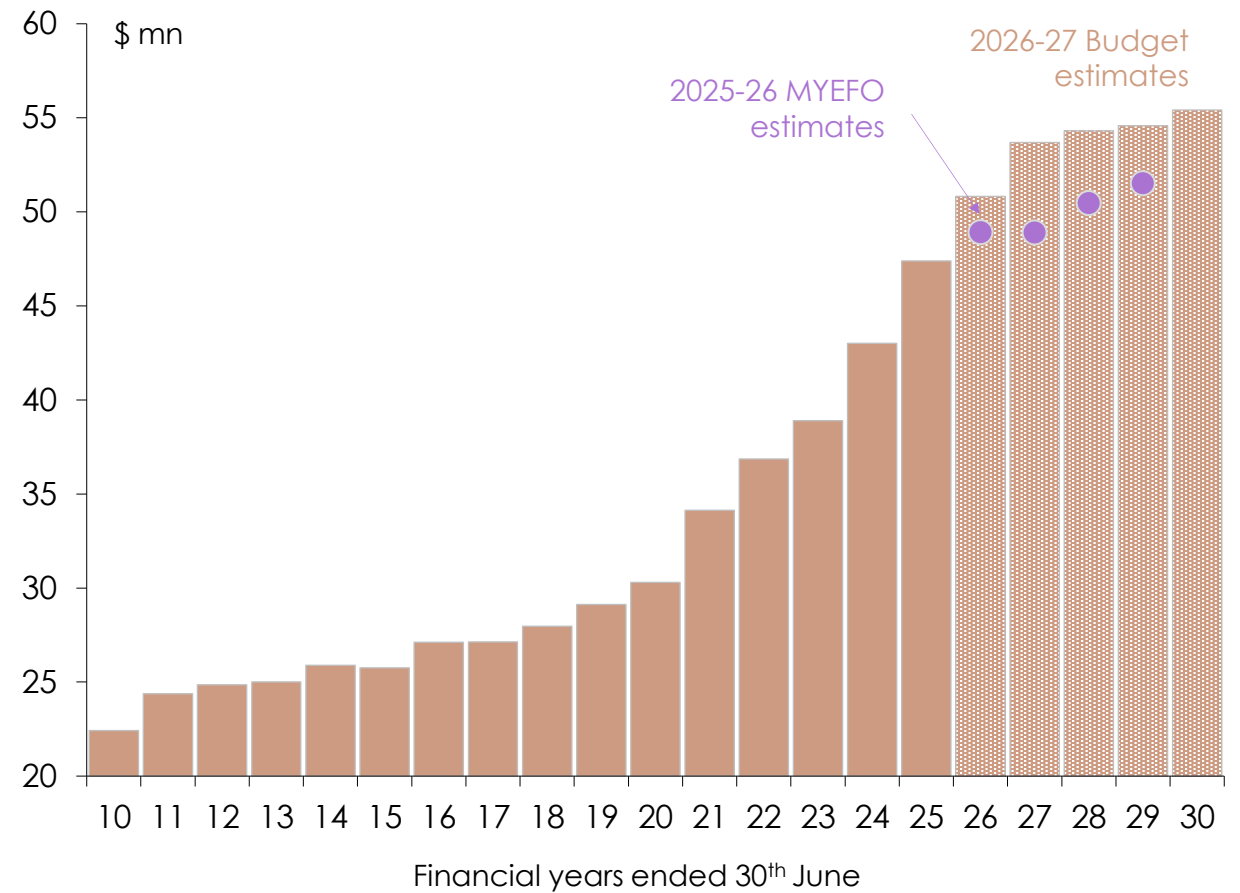
The Government doesn't appear to have halted the growth in public service staff numbers or salary costs

Average Australian Public Service staffing levels



Projected average staffing levels (excluding military personnel) for 2025-26 are 2% higher than forecast in the 2025-26 Budget

Cash payments to employees

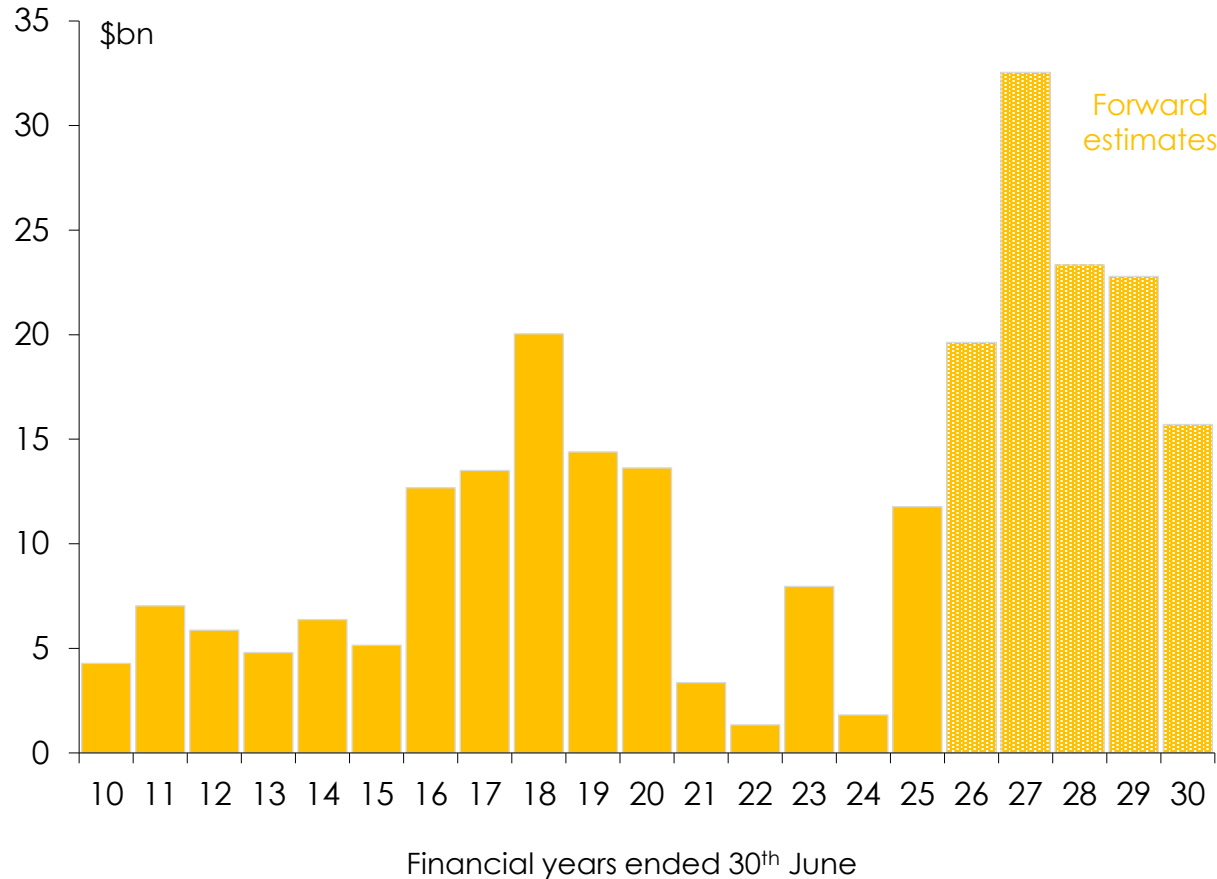


Cash payments to employees over the four years to 2028-29 are 6.8% higher than forecast in the 2025-26 MYEFO

Sources: Australian Government, [2026-27 Budget Paper No. 4: Agency Resourcing](#) and [2026-27 Budget Paper No. 1 - Statement 10: Australian Government Budget Financial Statements](#).

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

'Net investment in financial assets for policy purposes' (aka 'off-budget spending_



'Off-budget' spending is now forecast to total \$98 bn over the four years to 2028-29 - \$4½bn more than predicted last December – and \$114 bn over the five years to 2029-30

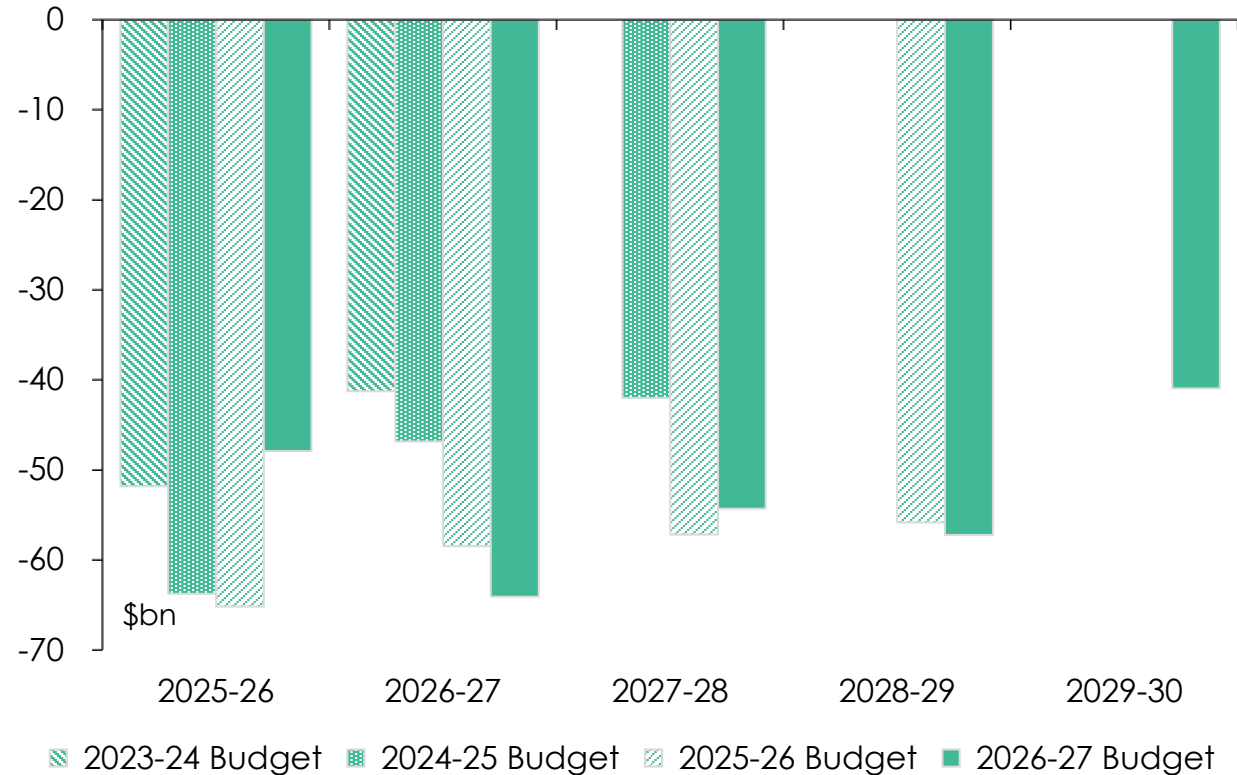
Components of 'net investments in financial assets for policy purposes'

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Student loans	-4,745	-5,272	-5,850	-6,299	-6,673	-28,839
NBN investment	-621	-902	0	0	0	-1,523
Snowy Hydro Limited loan	-1,450	-2,900	0	0	150	-4,200
Snowy Hydro Limited investment	-975	0	0	0	0	-975
Australian apprenticeship support loans	-101	-100	-86	-78	-69	-435
CEFC loans and investments Northern Australia Infrastructure Facility	-939	-4,143	-3,683	-5,712	-3,007	-17,483
NRFC loans and investments Australian Business Securitisation Fund	-575	-350	-361	-338	-122	-1,746
Drought and rural assistance loans	-2,093	-3,129	-2,964	-4,172	-2,530	-14,888
Official Development Assistance - Multilateral Replenishment	-311	-343	-101	-101	-2	-857
Finance Procurement Services	-356	-101	-114	34	710	173
Historical state and territory loans	-202	-149	-184	-195	-188	-919
Home Equity Access Scheme	-12	-84	-114	-94	-65	-368
Housing Australia	97	101	100	94	90	481
100,000 Homes for First Home Buyers	-232	-289	-335	-364	-381	-1,600
Indigenous Business Australia home and business loans	-2,455	-6,330	-3,915	-2,114	-1,076	-15,890
Marinus Link investment	-57	-768	-678	-670	-318	-2,491
National Interest Account loans and investments	-219	-95	-102	-106	-107	-629
COVID-19 Support for Indonesia — loan	-212	-53	0	0	0	-265
Financial Assistance to Papua New Guinea — loan	-696	-906	-624	5	143	-2,079
Rex Airlines	100	100	100	100	100	500
Net other(b)	169	169	169	169	169	846
	-65	-30	4	9	10	-72
	-3,678	-6,972	-4,597	-2,955	-2,537	-20,739
Total	-19,629	-32,544	-23,334	-22,785	-15,704	-113,997

Source: Australian Government, [2026-27 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#).

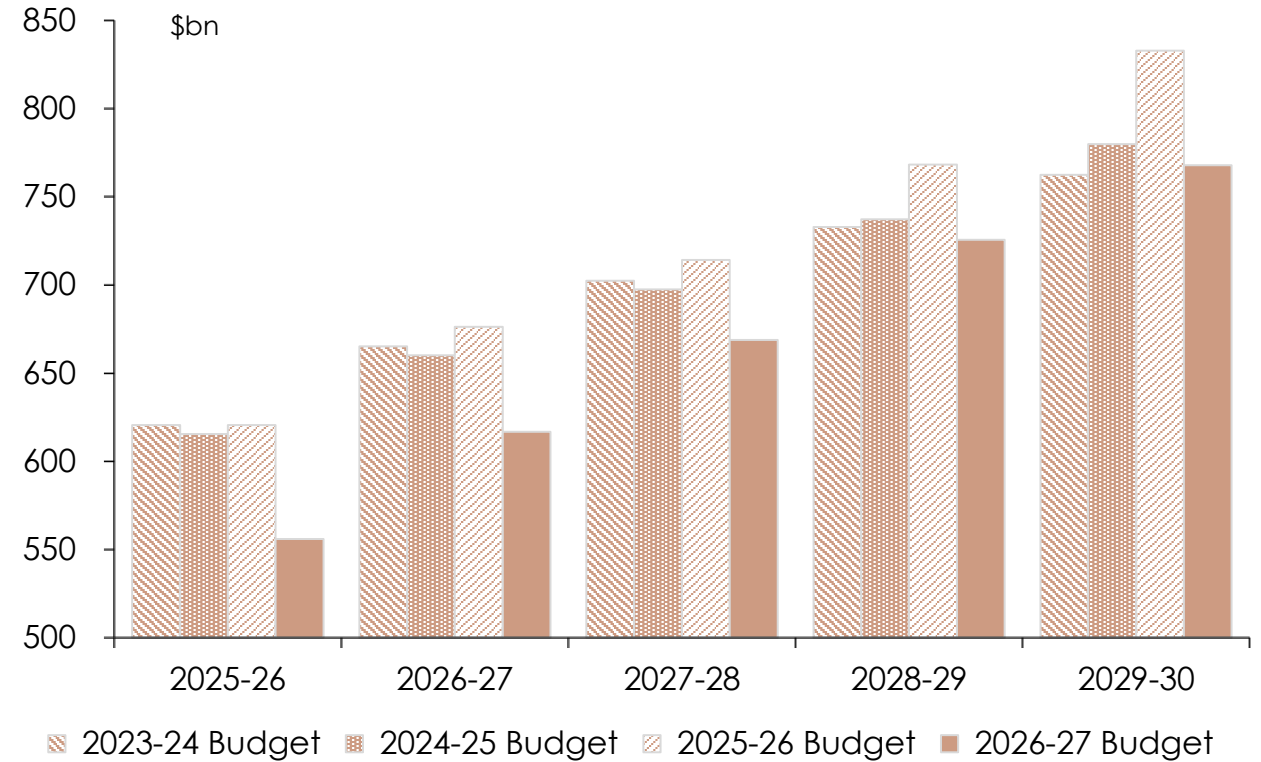
Because of this extra 'off-budget' spending, the headline deficit doesn't improve as much as the 'underlying' deficit, but net debt is still lower

Successive forward estimates of the 'headline' cash balance



Whereas 'underlying' cash deficits over the four years to 2028-29 are now expected to be \$18bn lower than forecast last December, the 'headline' deficits are lower by only \$13½bn – and the 'headline' deficit for 2026-27 is actually \$1.4bn *higher* than previously forecast

Successive forward estimates of net debt

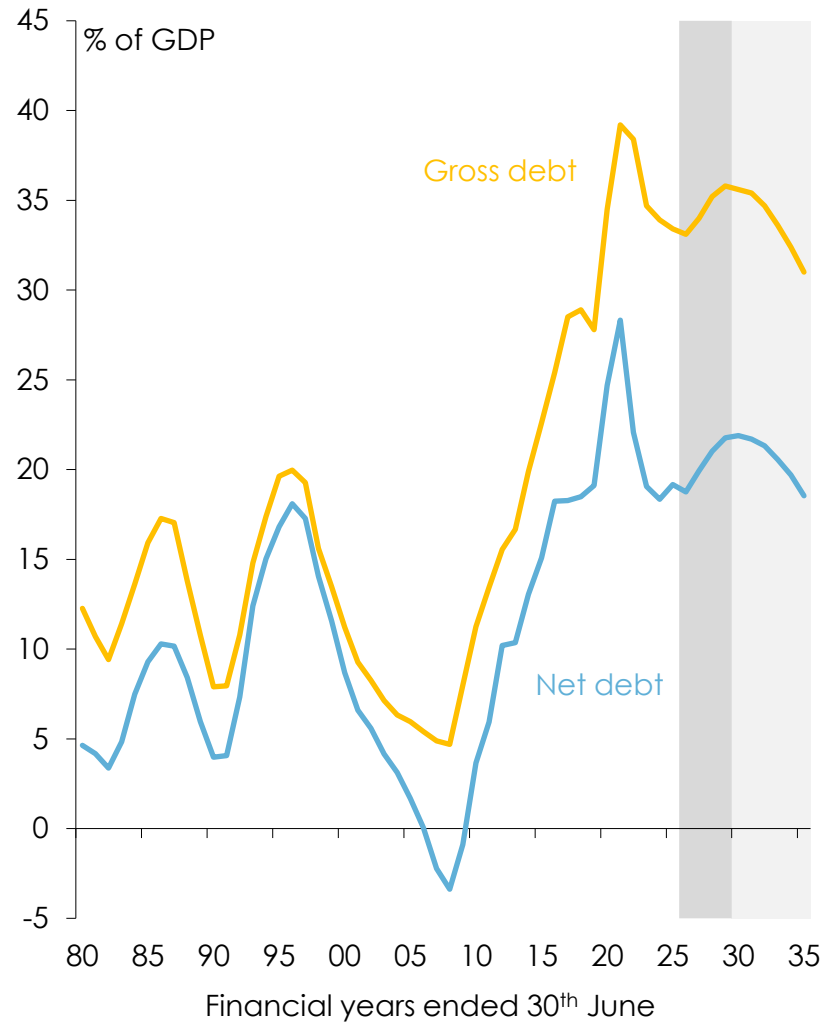


Forward estimates of net debt have been revised downwards by about \$30bn over the next four years, and by \$44bn for June 2030

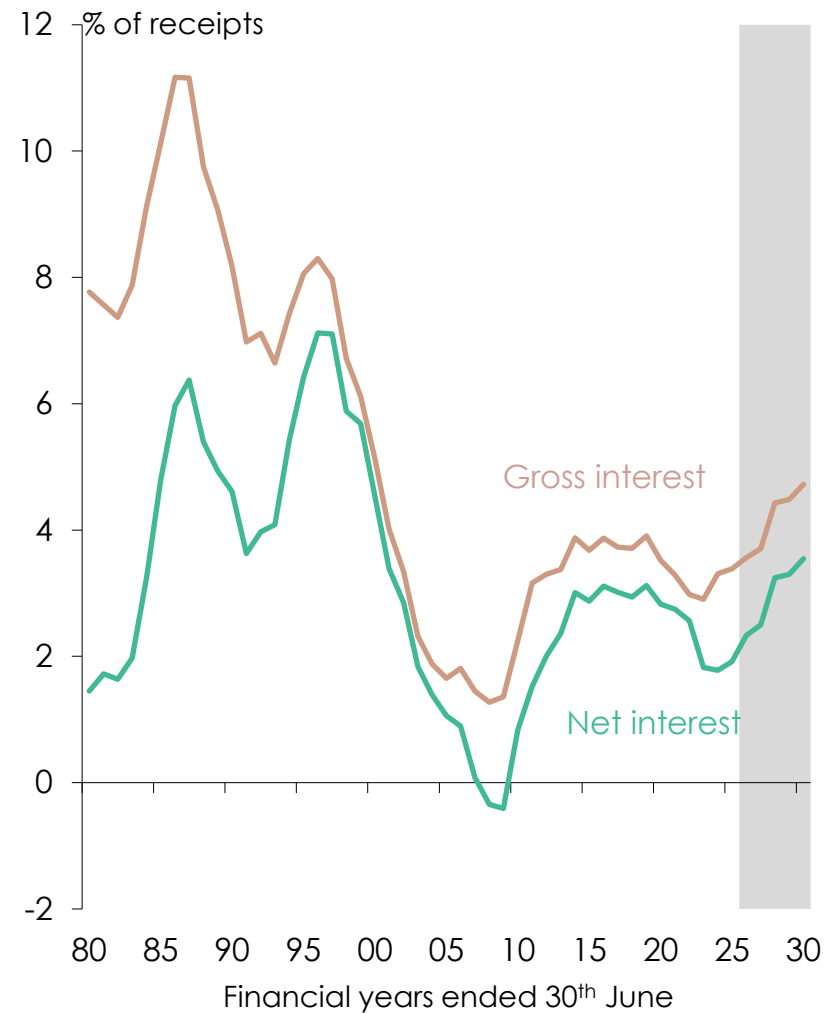
Source: Australian Government, [2026-27 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#).

Government debt remains high by historical standards, and interest payments are rising, but interest rates on debt are still relatively low

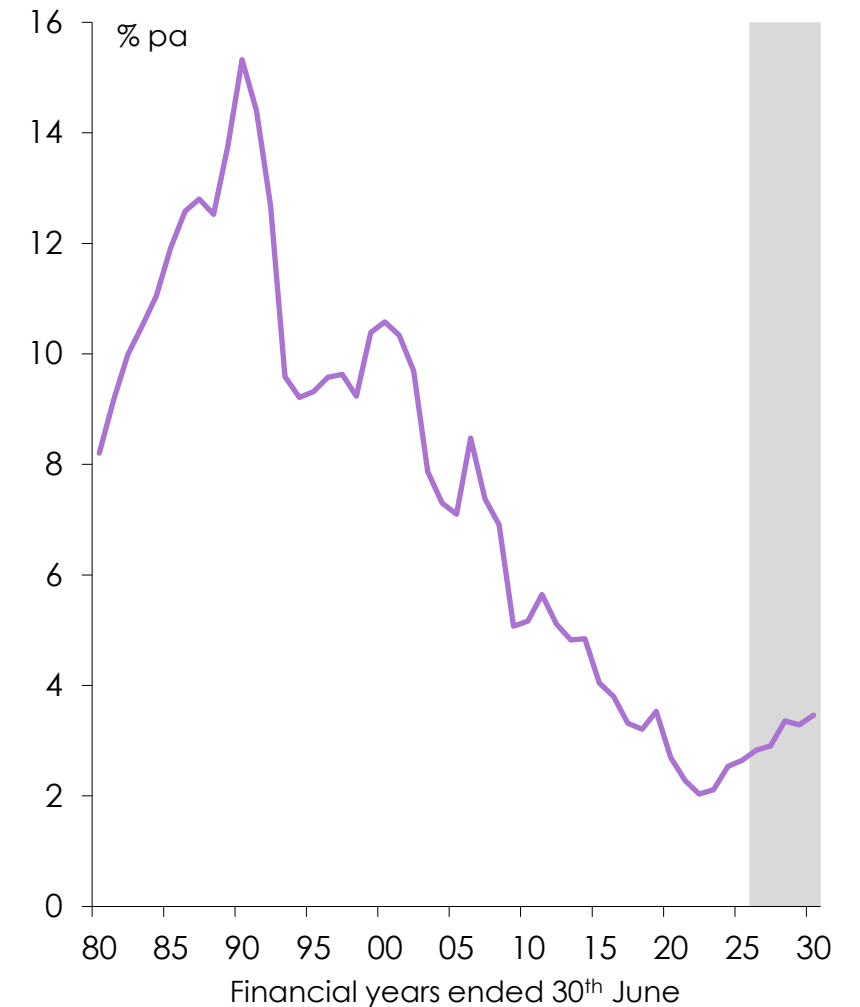
Australian Government debt as a pc of GDP



Interest payments as a pc of total receipts



Implied average interest rate on Australian Government debt



Sources: Australian Government, [2026-27 Budget Paper No. 1 - Statement 3: Fiscal Strategy and Outlook](#), and [Statement 7: Debt Statement](#).

Tax changes were the biggest feature of the Budget

Tax increases

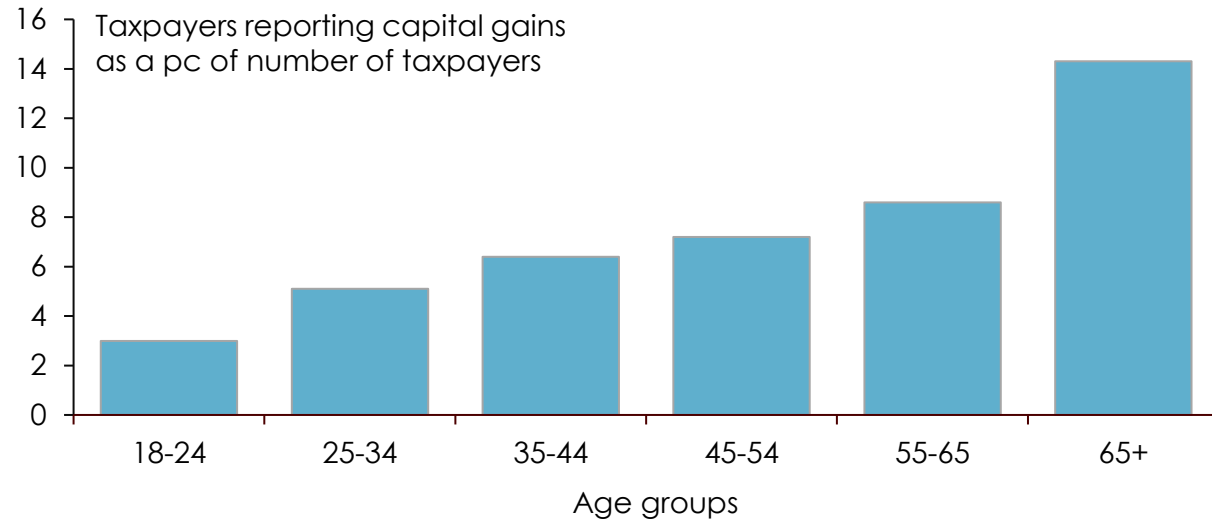
- ❑ **‘Negative gearing’ will be limited to ‘new builds’ from 1 July 2027**
 - properties acquired prior to this announcement will be ‘grandfathered’ (ie will continue to be eligible for negative gearing tax concessions)
 - investments in other assets (eg shares) will still be able to be negatively geared for tax purposes
- ❑ **The 50% capital gains tax discount will be replaced by cost-base indexation from 1 July 2027**
 - this change applies to all assets (not just housing)
 - including pre-1985 assets (previously exempt)
 - and there will be a minimum 30% tax on net capital gains
 - but these changes will only apply to capital gains accruing after 1 July 2027
 - and investors in new housing will be able to choose between the 50% discount and cost base indexation
- ❑ **A 30% minimum tax rate will apply to discretionary trusts from 1 July 2028**
 - beneficiaries will get a credit for tax paid by the trustee
- ❑ **A \$10 increase (to \$80) in the ‘departure tax’**

Tax reductions

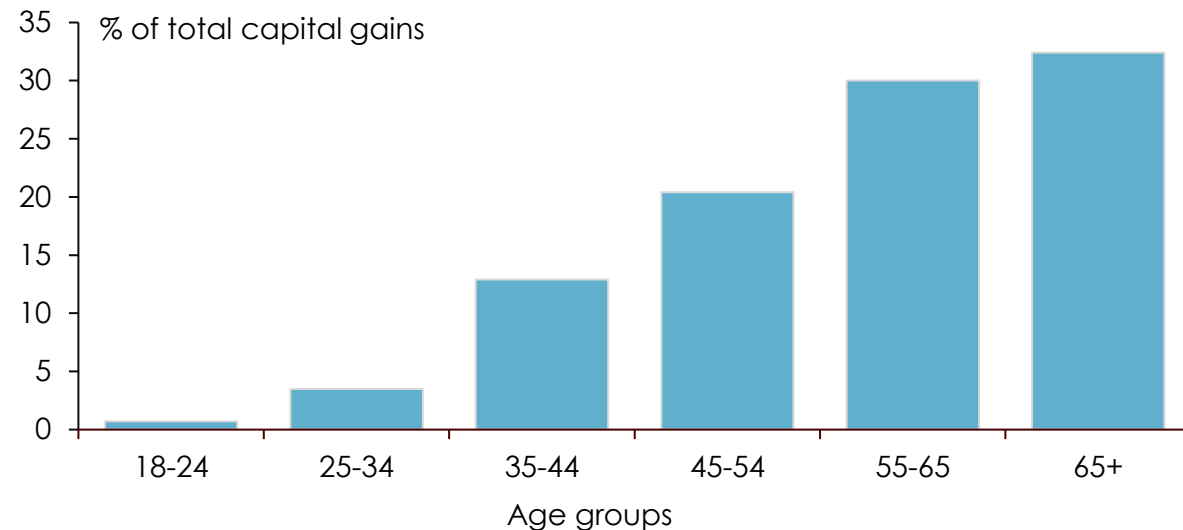
- ❑ **A ‘Working Australians Tax Offset’ (WATO) of up to \$250 for income from wages & salaries**
 - which in effect amounts to an increase in the tax-free threshold of almost \$1,800 (from 2027-28)
 - this is likely to be the vehicle through which any future income tax cuts are delivered
- ❑ **A \$1,000 ‘instant tax deduction’ (in effect replacing claims for work-related expenses, without requiring receipts)**
 - worth an average of \$205 per annum
- ❑ **A permanent two-year loss carry-back for companies with annual turnover of less than \$1 bn**
 - allowing companies with a tax loss to receive a refund of tax paid in prior years
- ❑ **The \$20,000 ‘instant asset write-off’ for businesses with annual turnover of less than \$10 million will be made permanent**

Older Australians have been the major beneficiaries of generous negative gearing and capital gains tax concessions

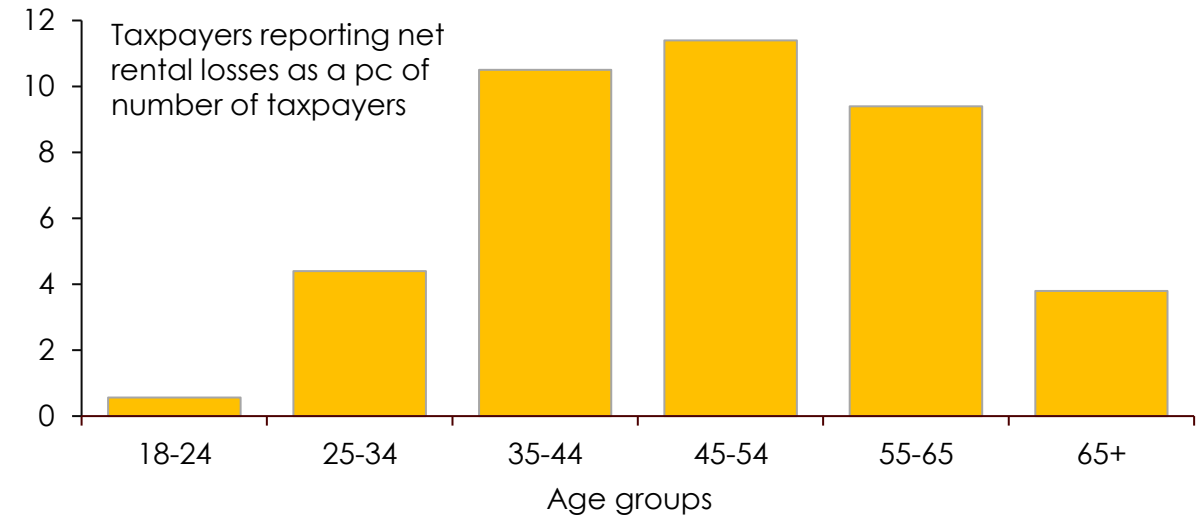
Taxpayers with capital gains, by age group, 2022-23



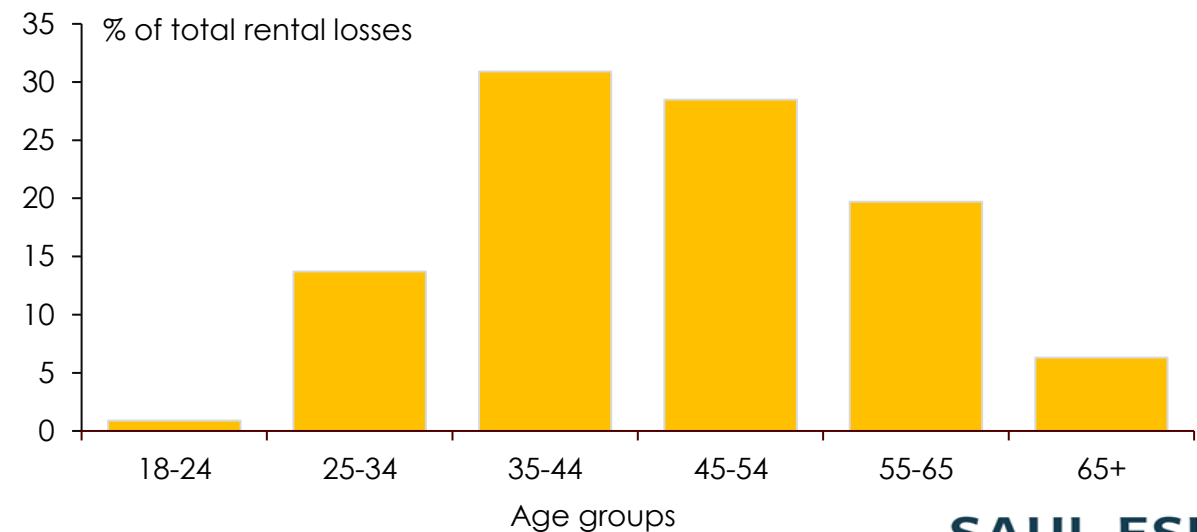
Capital gains, by age group, 2022-23



Taxpayers with net rental losses, 2022-23



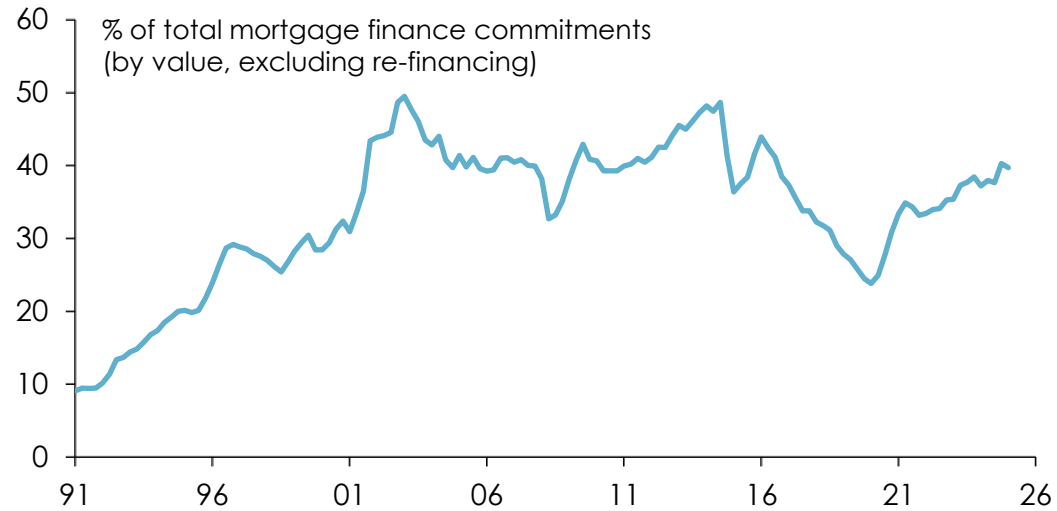
Net rental losses, by age group, 2022-23



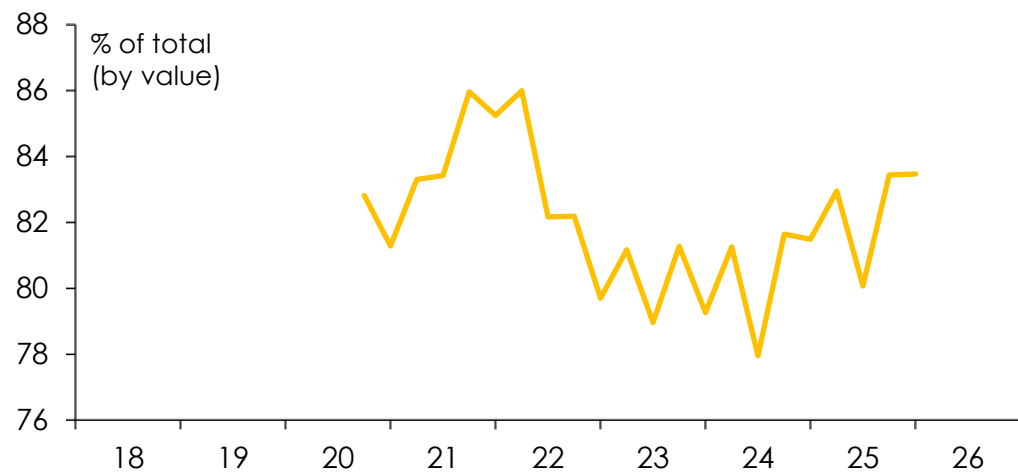
Source: Australian Taxation Office, [Taxation Statistics - Individuals detailed tables](#), 2022-23, Table 3B.

Treasury modelling suggests that the tax changes will have a small but positive impact on housing affordability and home ownership

Investor share of housing finance



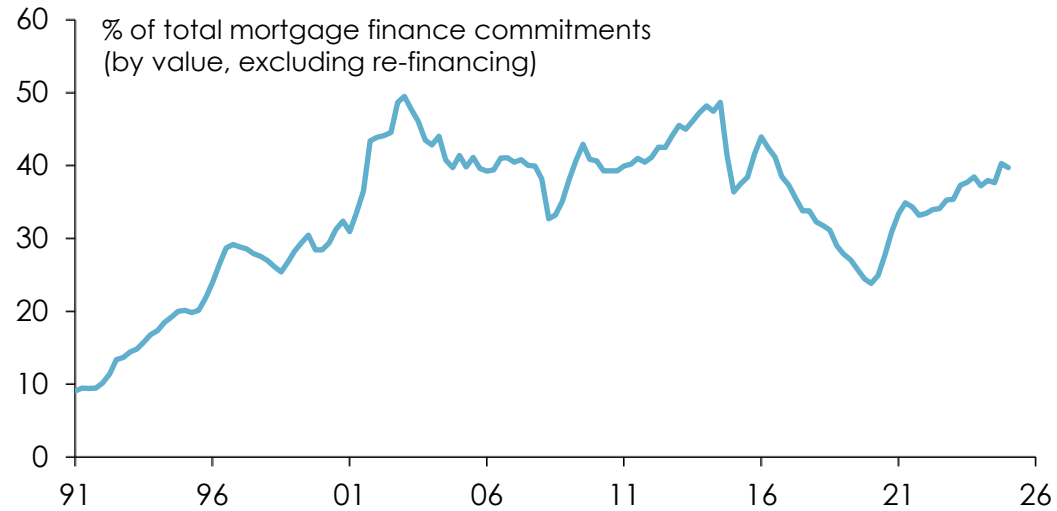
Lending to investors for purchase of established housing



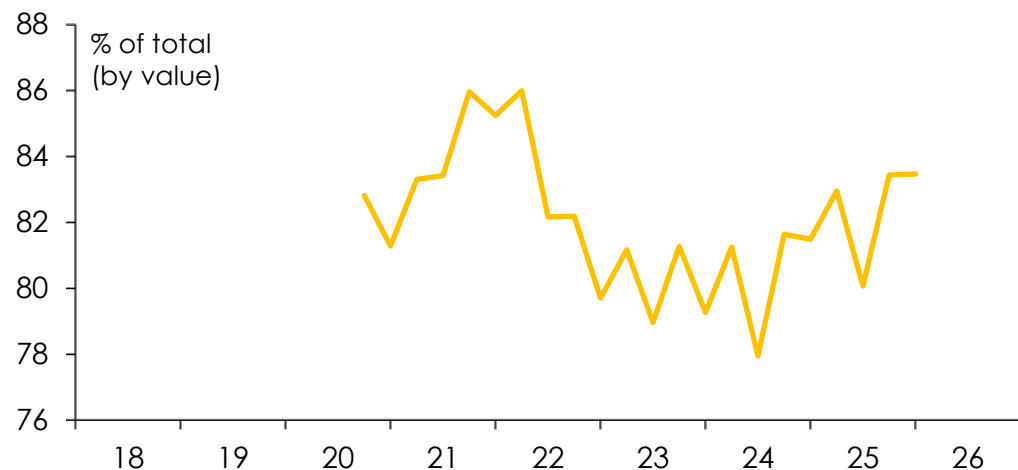
- ❑ Treasury modelling suggests that the proposed changes to negative gearing and capital gains tax will result in
 - house prices rising by ‘around 2% less over a couple of years’ than they would otherwise
 - around 75,000 more people being able to buy their own home over the next decade than otherwise
 - around 35,000 fewer new dwellings being completed over the next decade than otherwise – because lower house prices are assumed to detract from incentives to build
- ❑ However Treasury modelling also suggests that other housing policy measures in the Budget – in particular the additional \$2bn for housing-related infrastructure projects – will support up to 65,000 additional new homes being built
 - more than offsetting the purported adverse impact of lower housing prices on new builds
- ❑ This modelling doesn’t appear to make any allowance for the impact of retaining negative gearing and CGT discount for ‘new builds’ in redirecting investment towards new builds
 - and while a slower pace of price increases may discourage new builds by investors, it could encourage new builds for owner-occupiers

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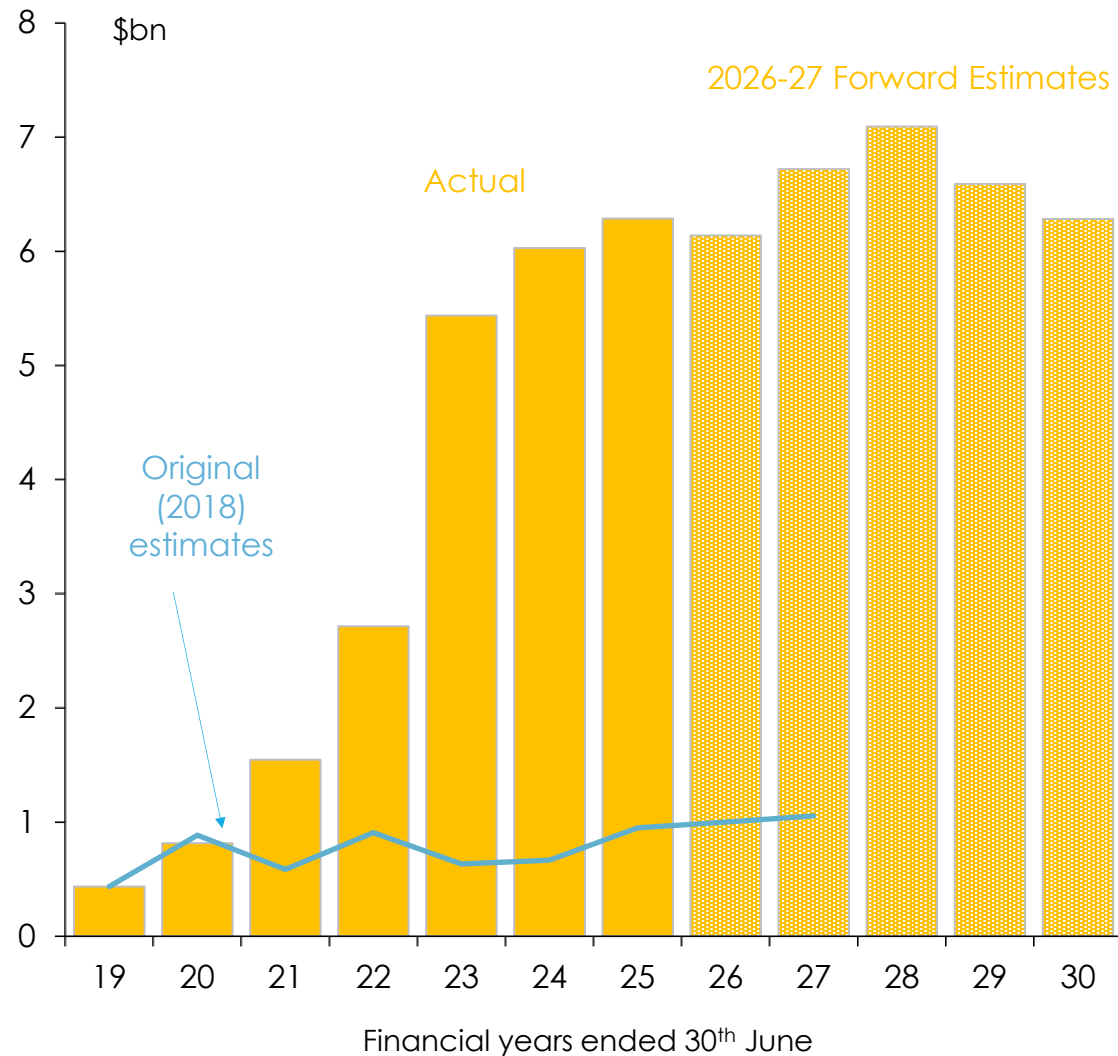
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The Worst Policy Decision of the 21st Century (the WA GST deal) will cost the Federal budget \$56 bn over the eleven years to 2029-30

Additional GST received by Western Australia

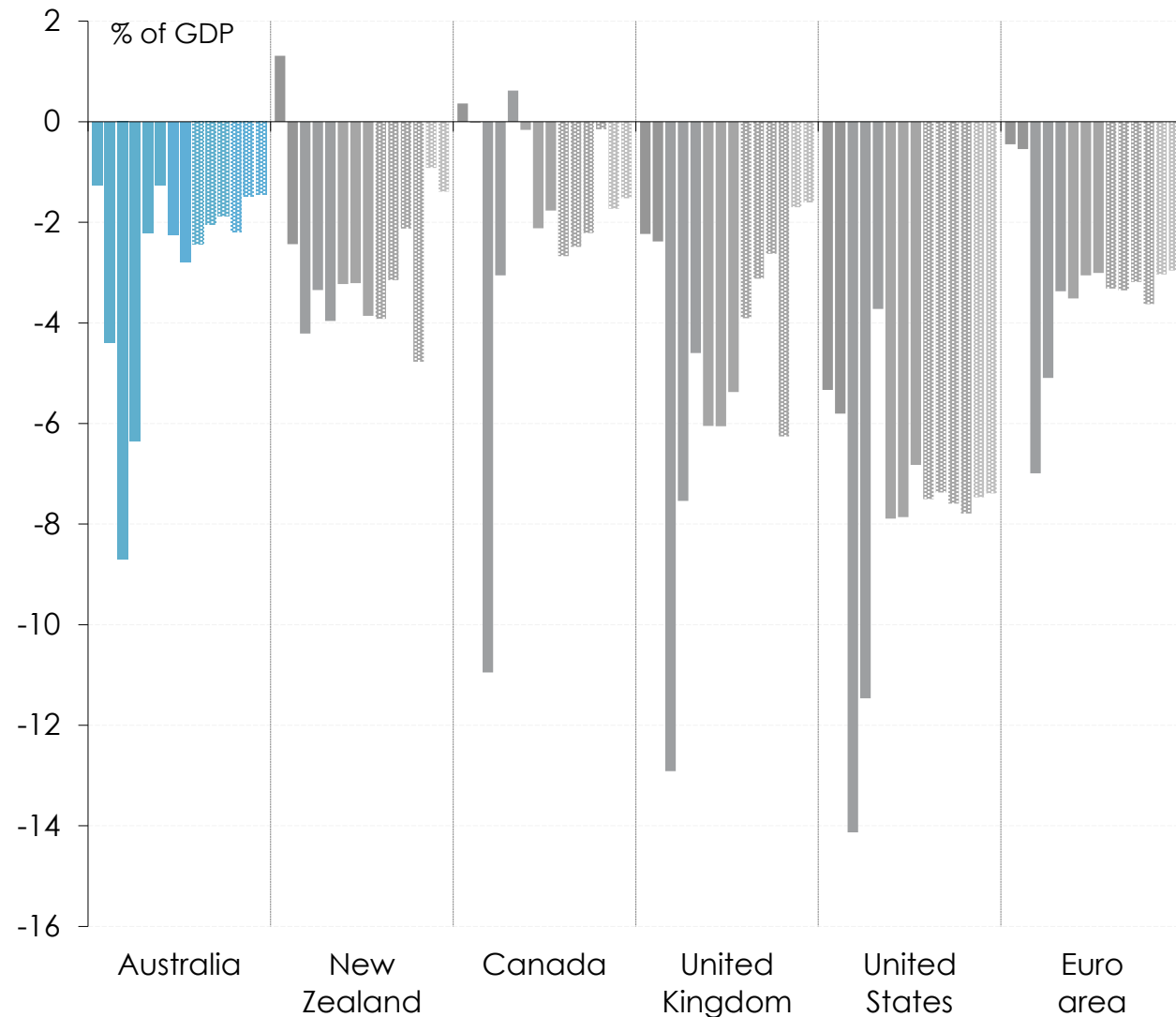


- ❑ The changes to the principles governing the distribution of revenue from the GST among the states and territories, made by the Morrison Government in 2018 with the support of the then Labor Opposition, and extended by the Albanese Government in 2024, are now estimated to cost the Federal Budget \$56 bn over the 11 years to 2029-30
 - this represents a slight reduction (of about \$1 bn) from the estimates in December 2025's MYEFO
 - but a massive blow-out from the original 2018 estimate of \$8 bn over the eight years to 2026-27
- ❑ These excess GST payments to Western Australia – over and above what WA objectively needs in order to be able to provide its population with the average level of public services whilst levying on them the average level of state taxes – are under-writing the surpluses which WA is uniquely running, while every other government in Australia is running deficits
- ❑ The Albanese Government should ideally break its promise to continue these payments, for the same reasons it has broken its promise not to change negative gearing or capital gains tax

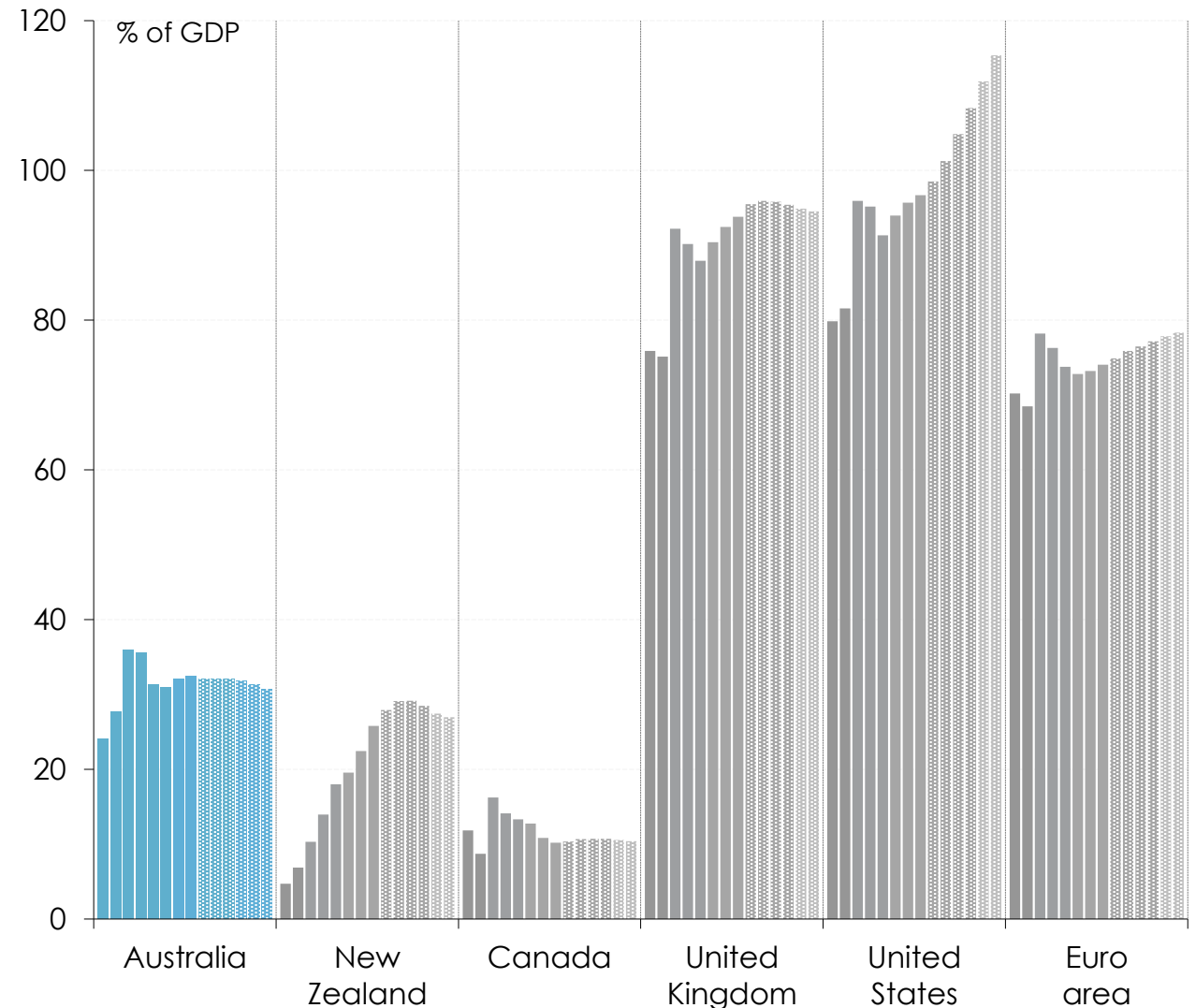
Sources: Australian Government, [2026-27 Budget Paper No. 3: Federal Financial Relations](#).

Australia's public finances are in better shape than most of our peers – although that's not a great source of comfort

Government net lending / borrowing, 2018-2031



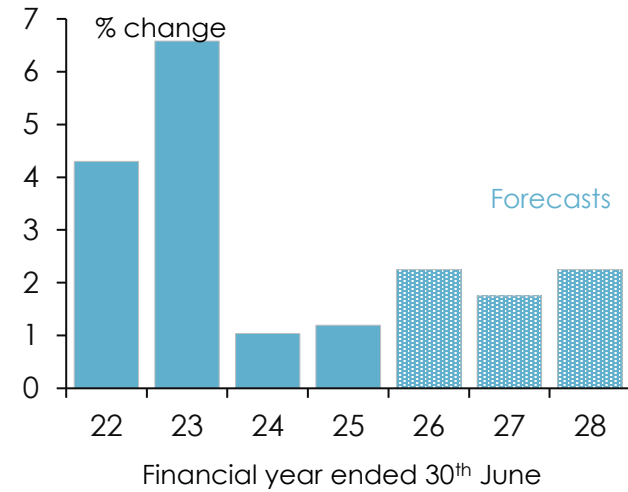
Government net debt, 2018-2031



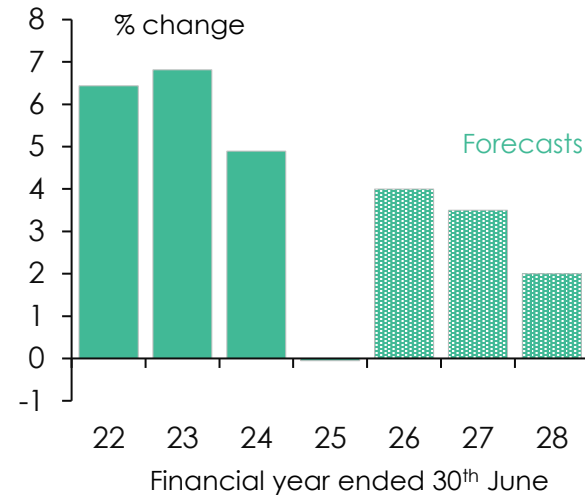
Source: International Monetary Fund, [Fiscal Monitor](#), April 2026.

Treasury is forecasting only slightly slower economic growth in 2026-27, with a modest pick-up in 2027-28, assuming that oil prices come down to US\$80

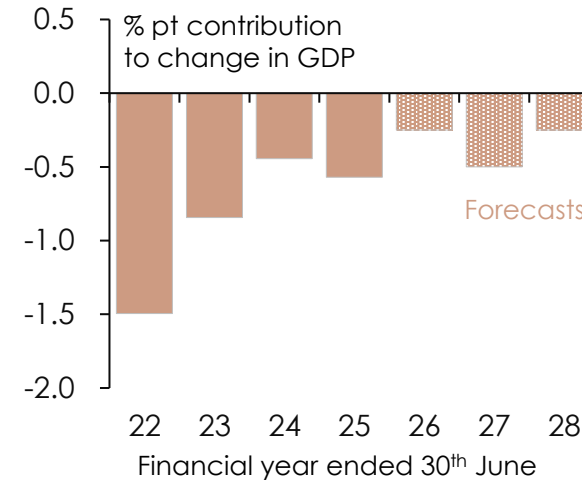
Household consumption



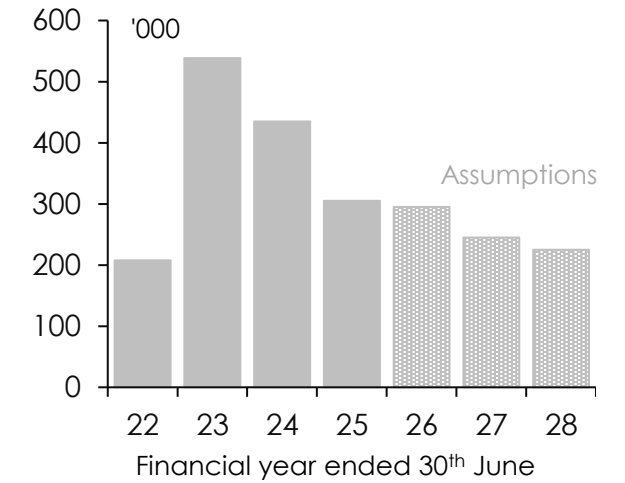
Business investment



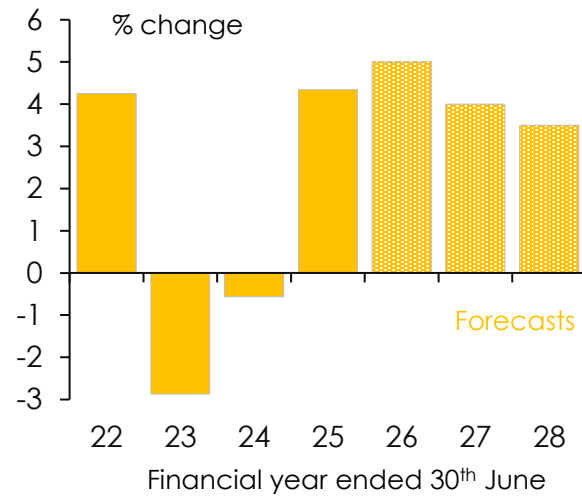
Net exports



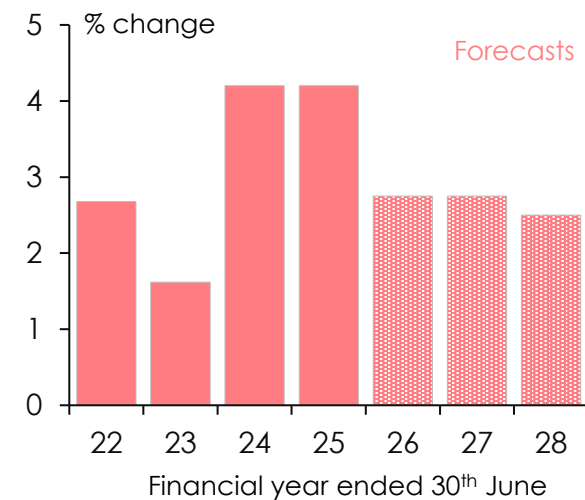
Net migration



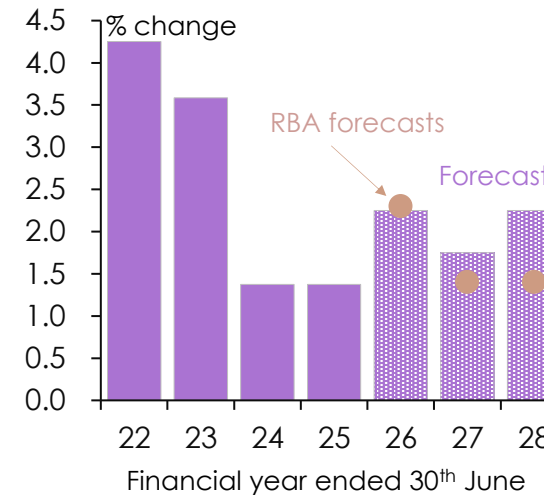
Dwelling investment



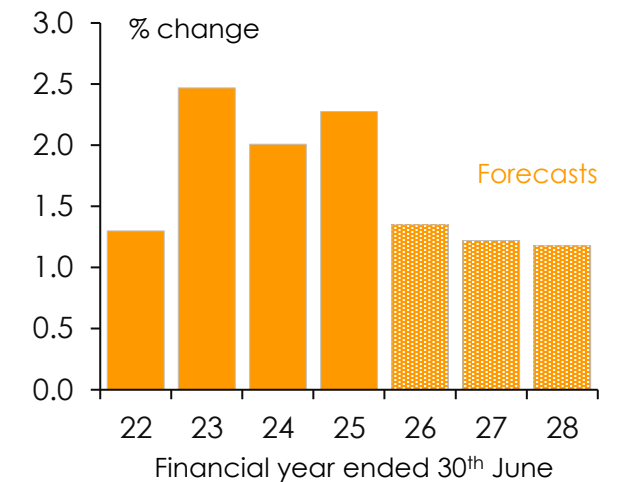
Public spending



Real GDP



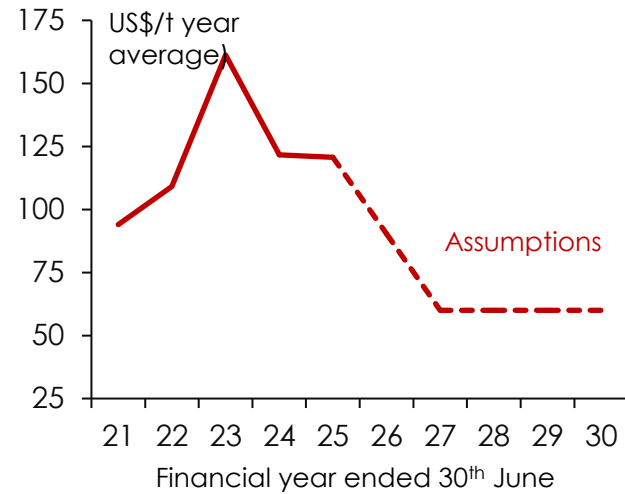
Population



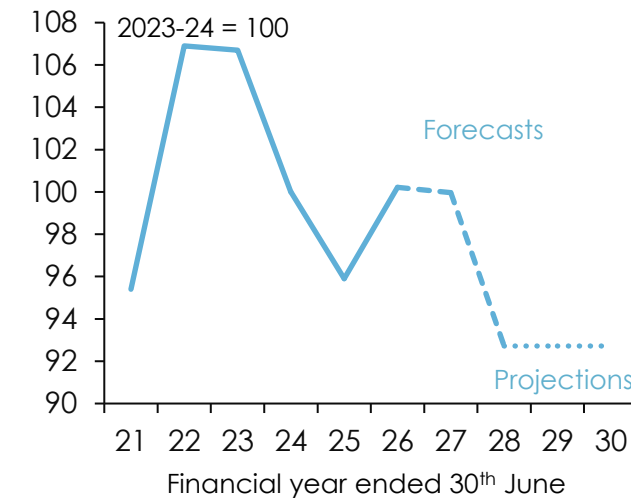
Source: Australian Government, [2026-27 Budget Paper No. 1, Statement 2: Economic Outlook](#), and [2026-27 Budget Paper No. 3: Federal Financial Relations, Appendix A: Parameters and further information](#); Reserve Bank of Australia, [Statement on Monetary Policy - May 2026](#).

As always, Treasury makes conservative assumptions about commodity prices – but it expects higher inflation and unemployment in the near term

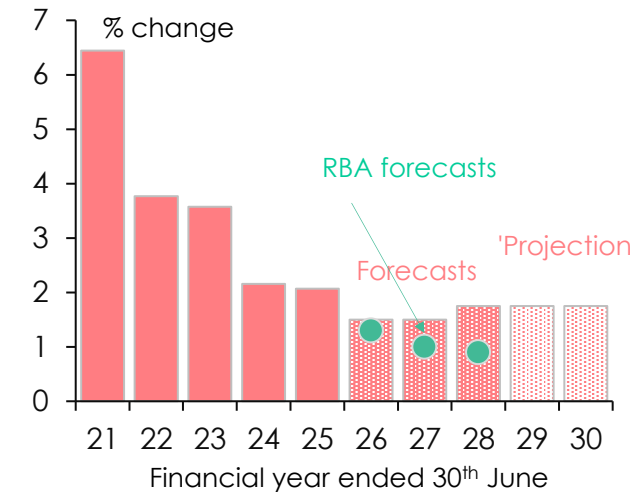
Iron ore prices



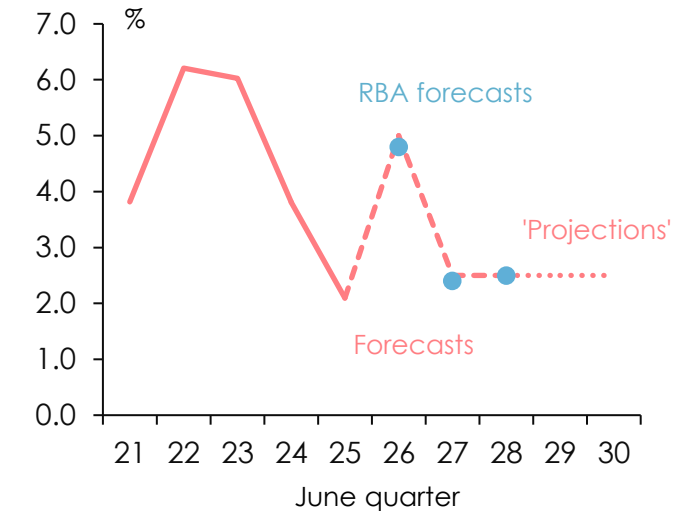
Terms of trade



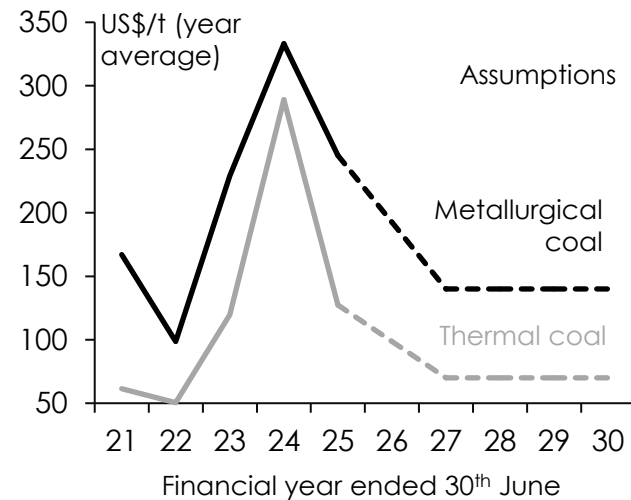
Employment



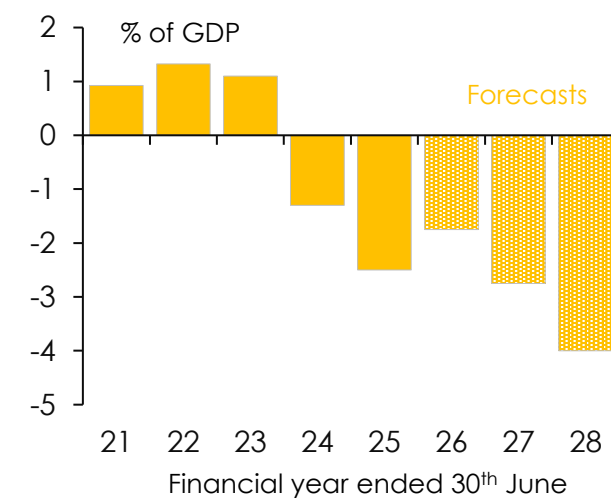
Consumer price index



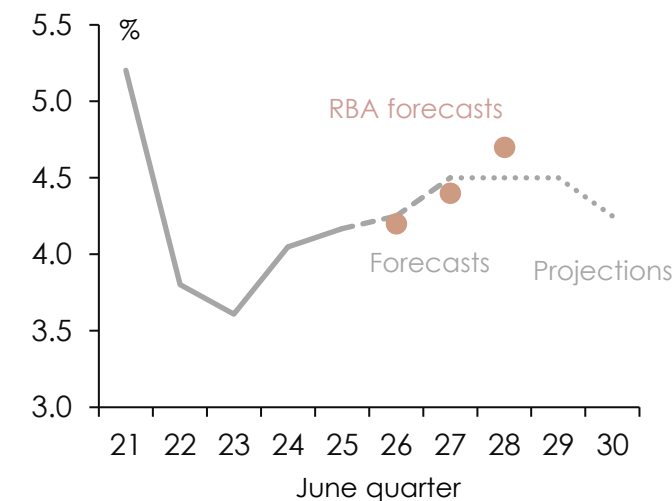
Coal prices



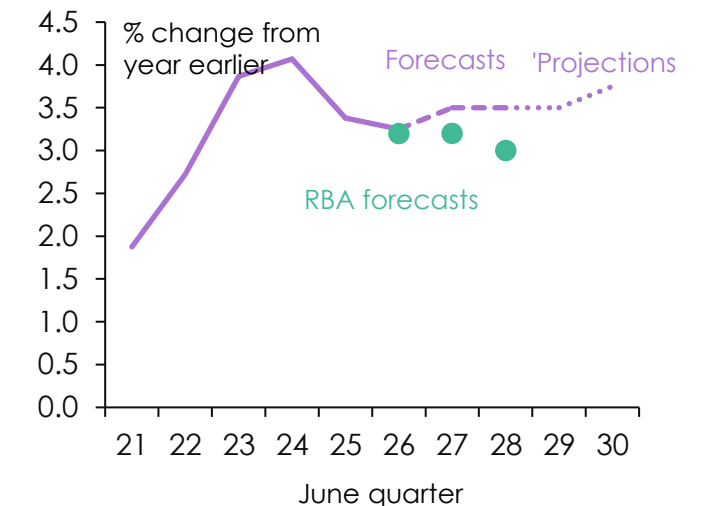
Current account balance



Unemployment



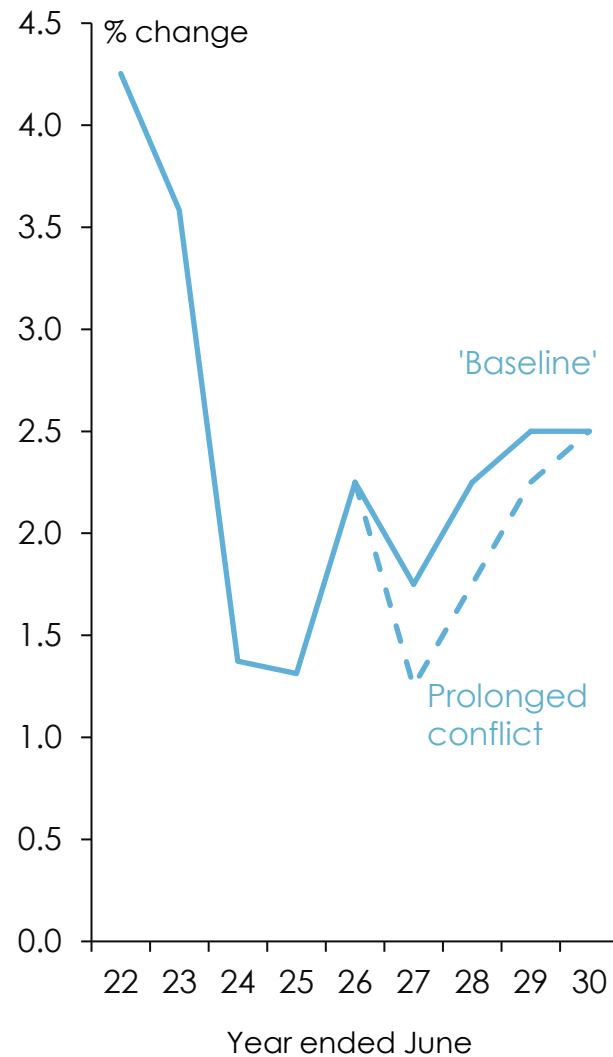
Wage price index



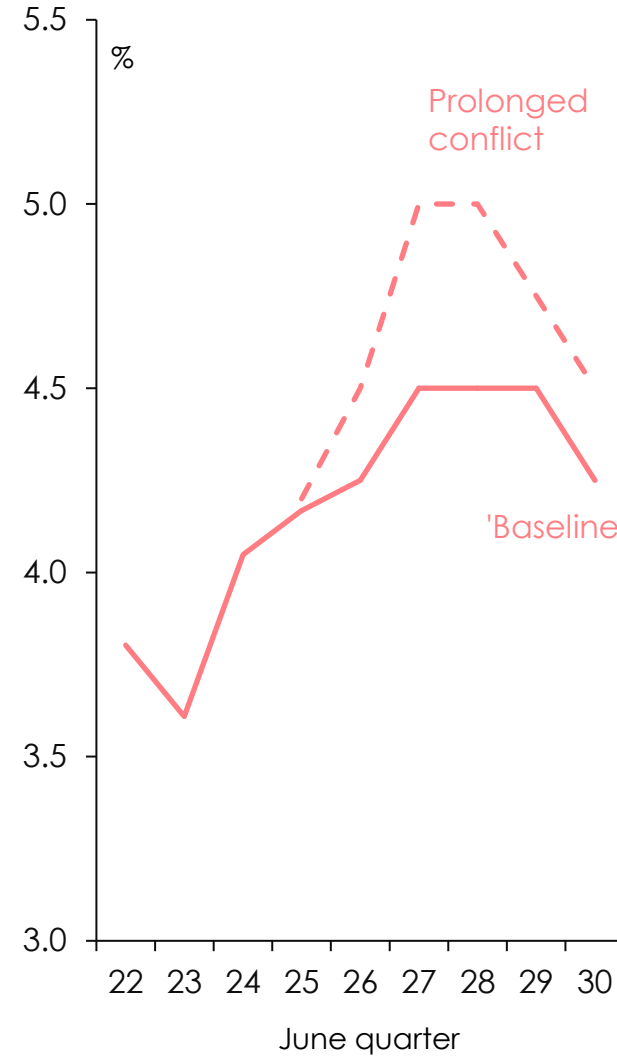
A prolonged conflict in the Middle East would result in weaker economic growth, higher unemployment and higher inflation

- ❑ Treasury's 'baseline' economic scenario assumes that oil prices decline from current levels to US\$80/barrel by mid-2027
- ❑ But they also model a scenario in which oil prices peak at US\$200/barrel in the September quarter of this year, and don't fall back to US\$80/barrel until the June quarter of 2029

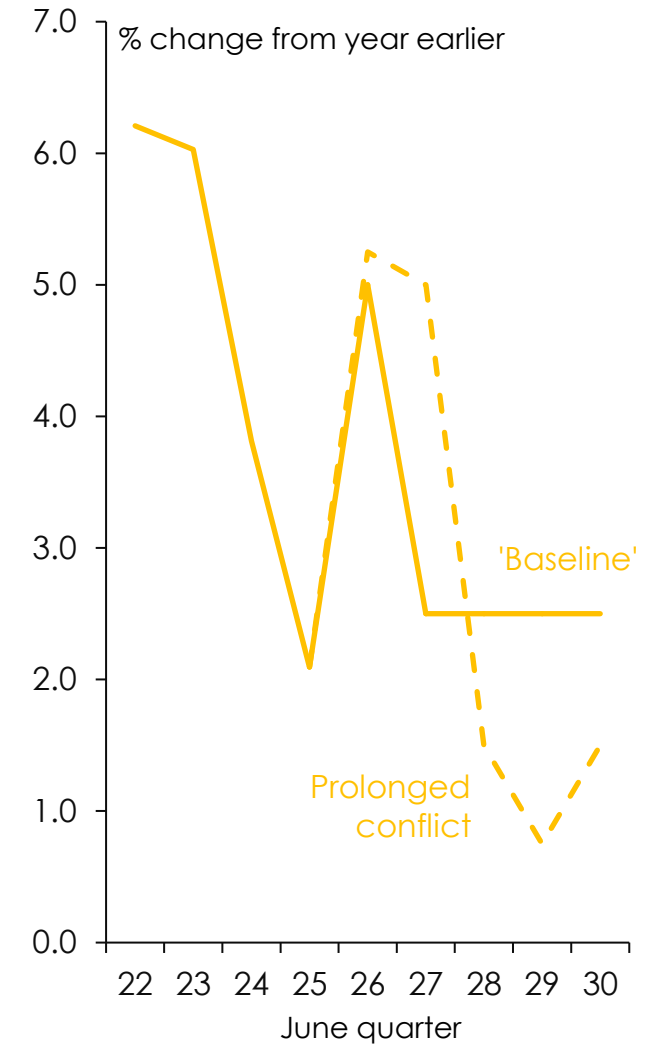
Real GDP growth



Unemployment



Inflation



Conclusions

- ❑ This is the most ambitious of the five Budgets which the Albanese Government has presented thus far – and probably the most consequential since the first Budget of the Abbott Government in 2014
 - unlike that Budget, most if not all of the measures in this Budget are likely to pass the Parliament
- ❑ The tax reforms in this Budget are nowhere near as comprehensive as those of the Hawke-Keating Government in the mid-1980s, or the Howard-Costello Government's of 2000 – but they constitute the most adventurous effort at tax reform so far this century
- ❑ The changes to negative gearing and the capital gains tax discount are political controversial (not least because they breach election promises not to make them) – but they will make a contribution to improving housing affordability
 - they will result in less investment in established housing – but that's a Good Thing
 - and there's a reasonable chance (although it's not guaranteed) that they could ultimately lead to more investment in new housing – which would also be a Good Thing
 - together with other tax changes they represent an attempt to reduce the disparities between the tax treatment of income from labour versus income from capital
- ❑ Although the Budget foreshadows lower deficits and debt over the next four years, and the following six years, that's mostly down to 'parameter variations', not to conscious policy decisions
 - surprisingly, 'policy decisions' actually worsen the 'bottom line' by \$14 bn over the three years to 2027-28
- ❑ The Budget therefore doesn't do anything to lessen the risk of further rate hikes

Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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