



Federal Budget 2023-24

Taxpayers deliver a
surplus, now the
Government must deliver
9 May 2023

From the Chief Economist

A surge in tax collections has provided space for the Government to help out the most vulnerable and move towards a surplus for 2022-23, while forecasting much healthier cash balances over the coming four years.

Almost \$30 billion of this surge has come from additional company tax collections - but business didn't get much in return.

Business now needs fiscal discipline to ensure inflation isn't higher than it needs to be, while resources are free to be used for their most efficient purpose, especially as we head into a period of slower economic growth.

The Government plans to spend more than it saved in the short term. While this will lower the out-of-pocket costs for some households by directly helping with their electricity, medicine and health bills, it will still add to aggregate demand. The pay rises for aged care workers, subsidies for energy efficient homes and higher welfare payments will boost consumer spending.

In normal times the economy would easily absorb this stimulus. But inflation is already running at an annual rate of 7 per cent and more than one in every four dollars spent in the Australian economy is by a state, territory, local or federal government. The Budget measures in themselves won't trigger a rate hike, but the Reserve Bank will need to consider the additional spending in its inflation view.

With the focus firmly on helping the household sector, the productivity enhancing reforms that would in themselves ensure the Budget remains on a good long-term footing were absent.

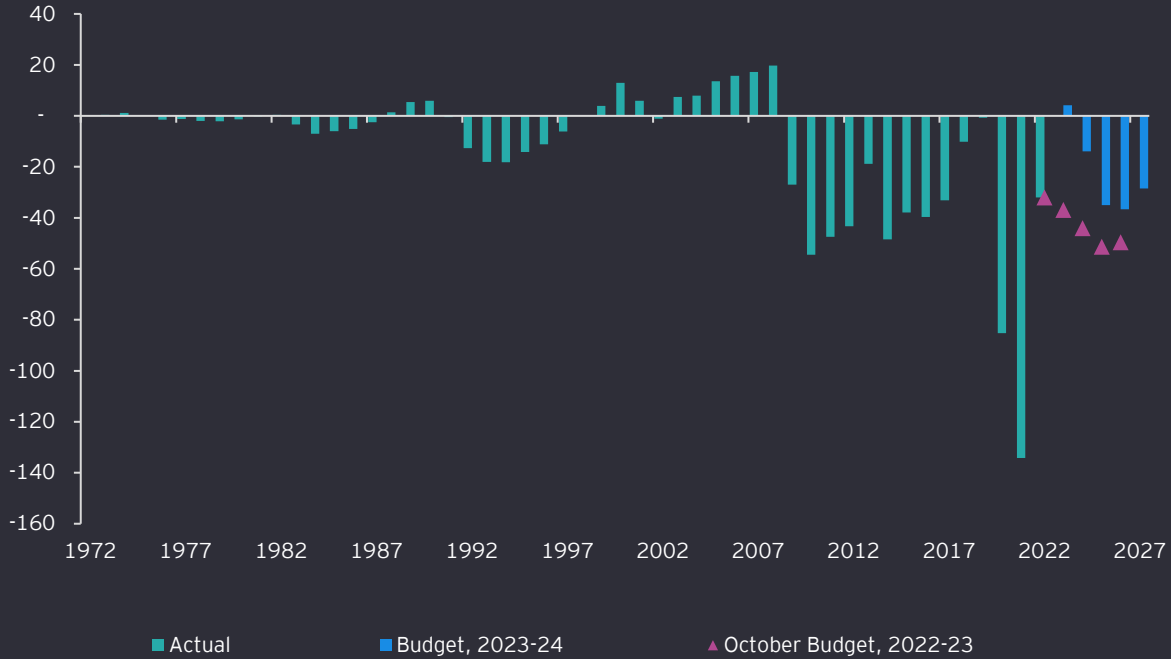
Cherelle Murphy | EY Oceania Chief Economist

Federal Budget 2023-24 | EY Oceania Economics

1. A small Budget surplus is forecast for the first time in 15 years

Underlying cash balance

\$, billion

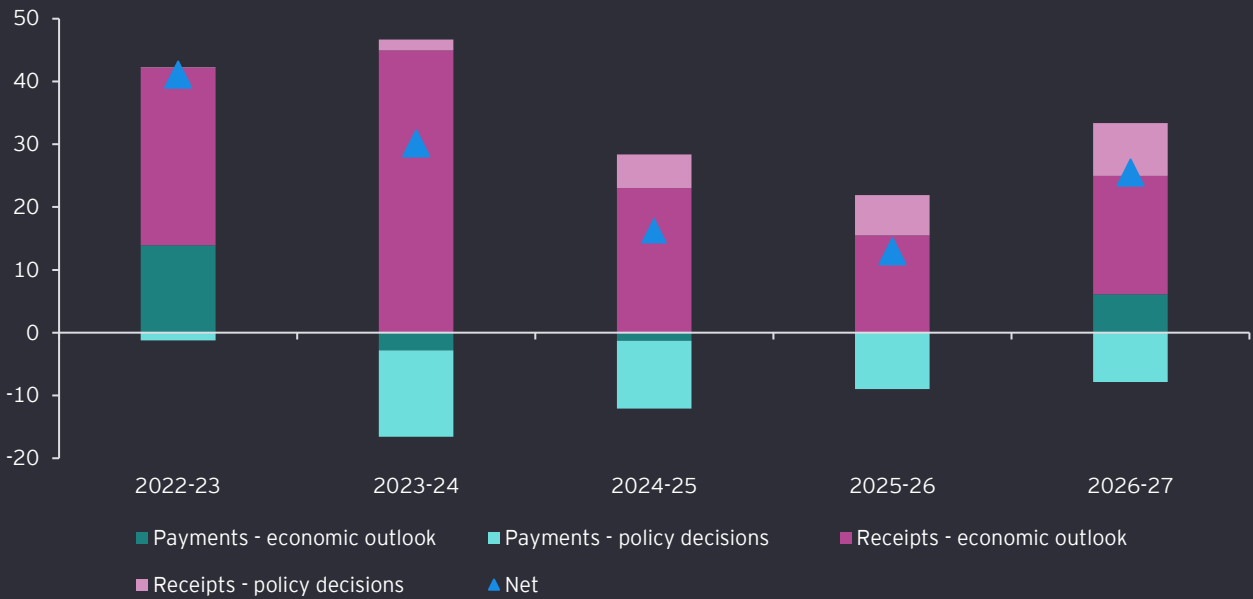


Source: Budget data, EY

2. The improved cash balance estimates are mainly due to tax receipts

Impact of receipts and payments on the underlying cash balance; changes from 2022-23 October Budget

\$bn

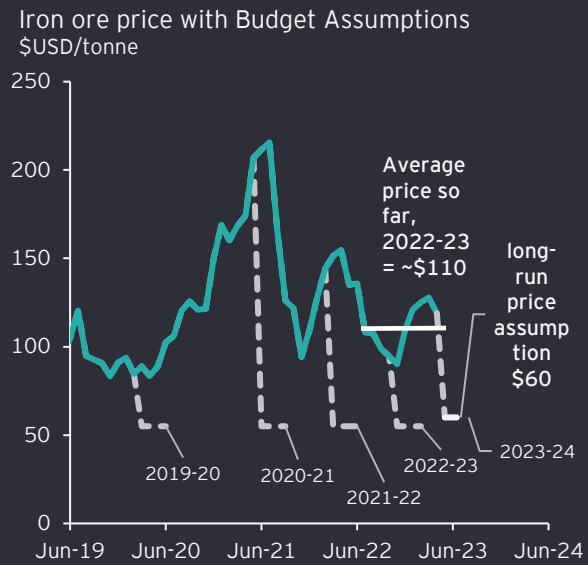


Source: Budget data, EY

3. The budget improvements were driven by strong commodity prices and a tight labour market and higher wages boosting tax receipts

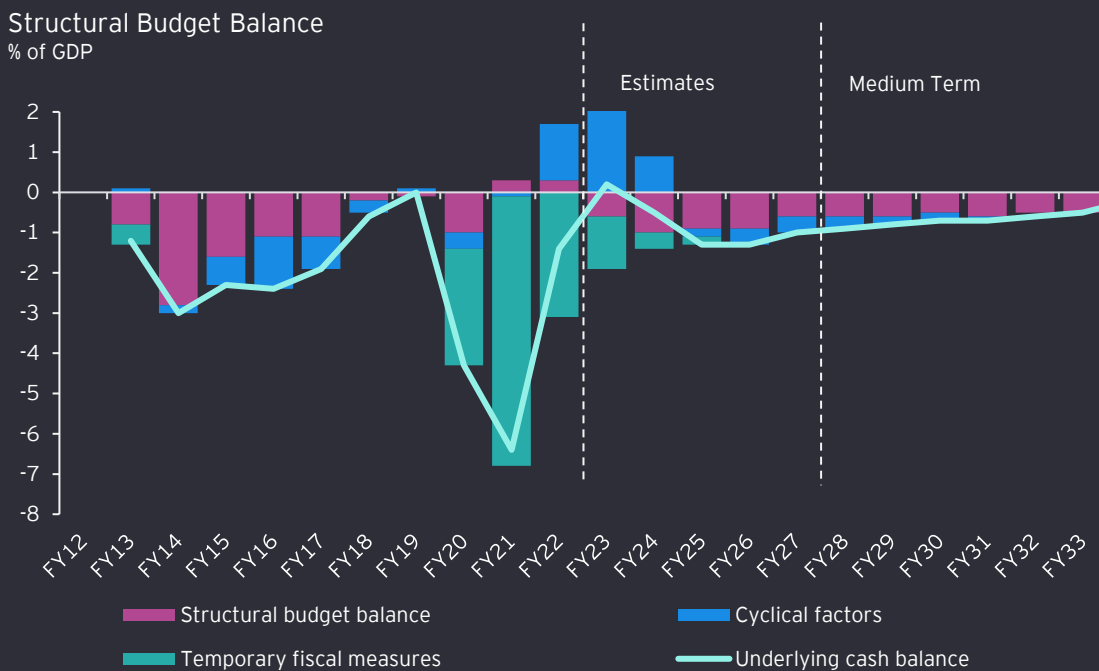


Source: Budget data, EY, ABS



Source: EY, Hamburg Institute of International Economics & Commonwealth Treasury forecast free on board (FOB) instead of cost, insurance & freight (CIF) prices

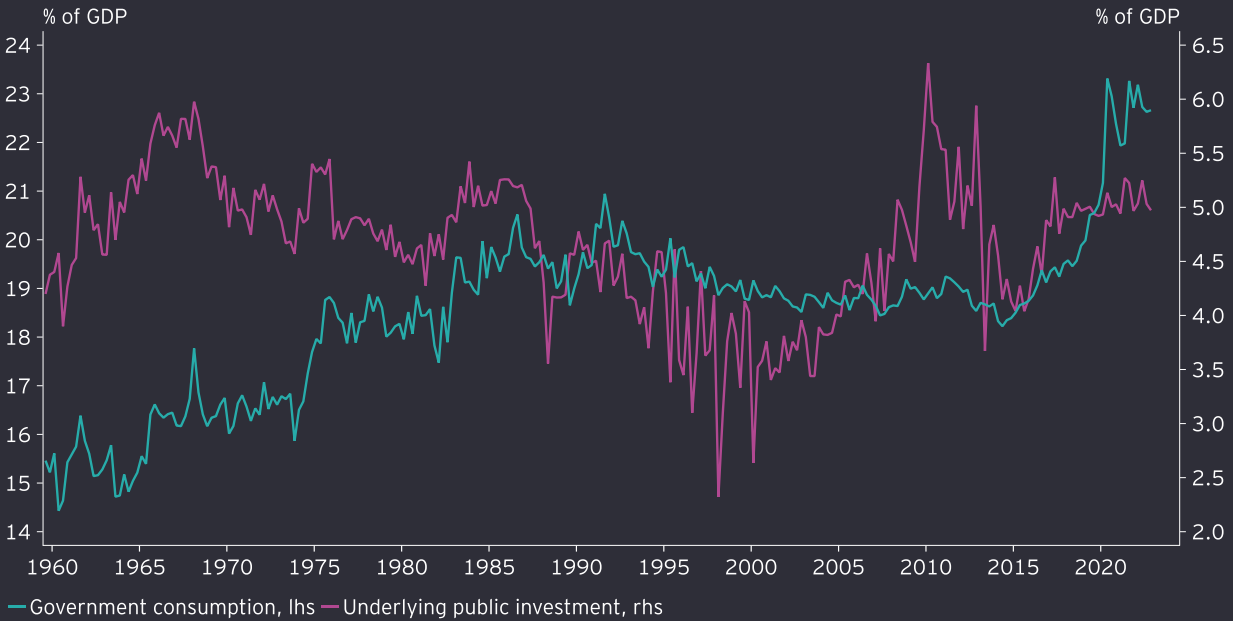
4. The structural deficit is expected to narrow to less than 1 per cent of GDP by 2024-25



Source: Budget data, EY

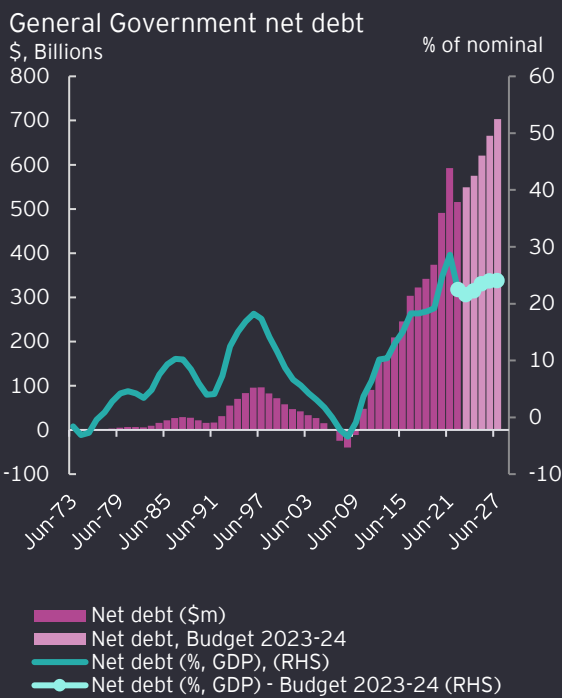
5. Total public sector spending makes up 28 per cent of GDP, compared to 22 per cent back in 2000

Public Sector Size

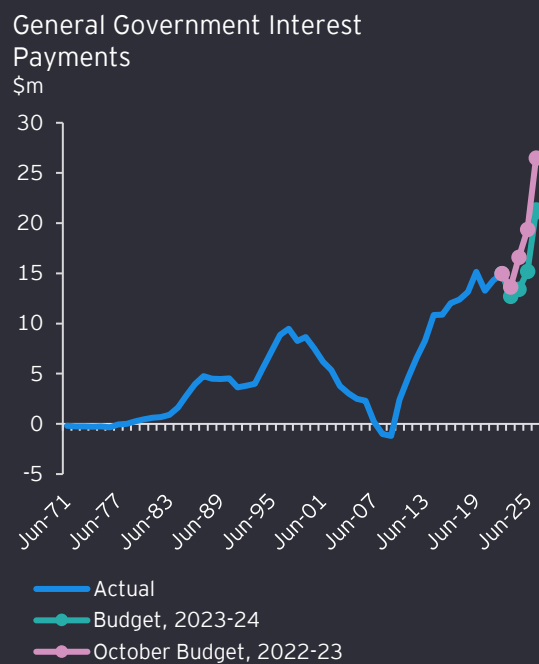


Source: ABS, Macrobond, EY

6. The improved budget position has lowered net debt and interest costs

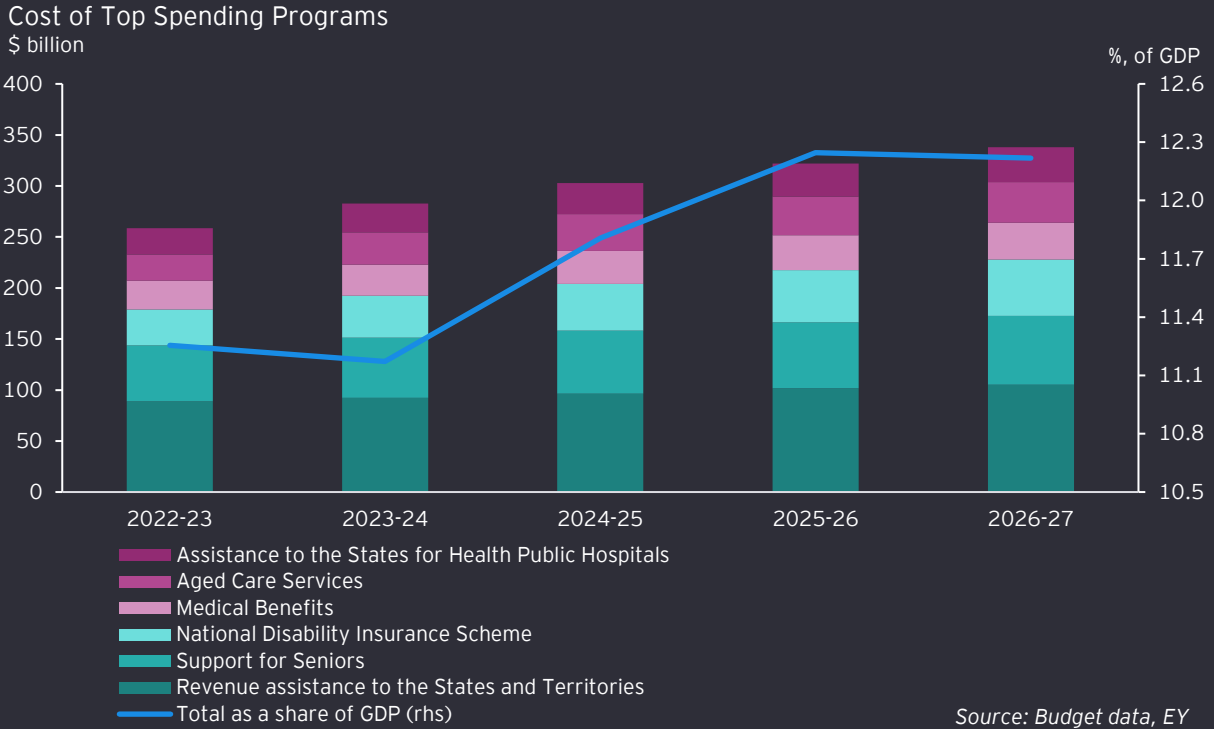


Source: Budget data, EY

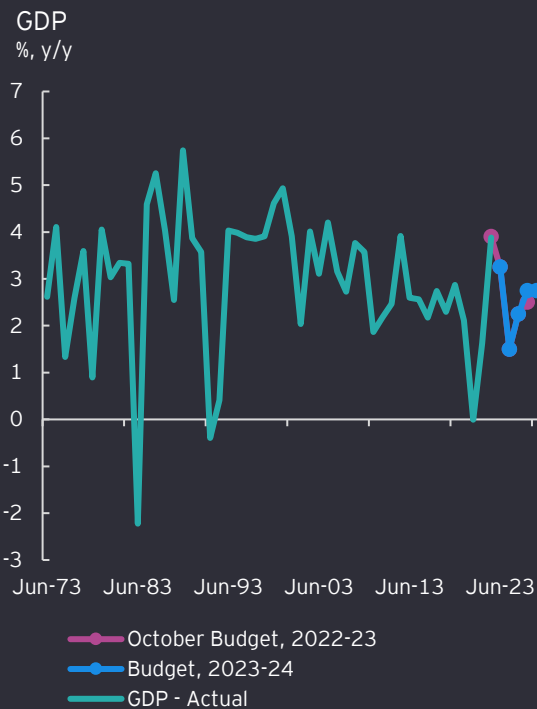


Source: Budget data, EY

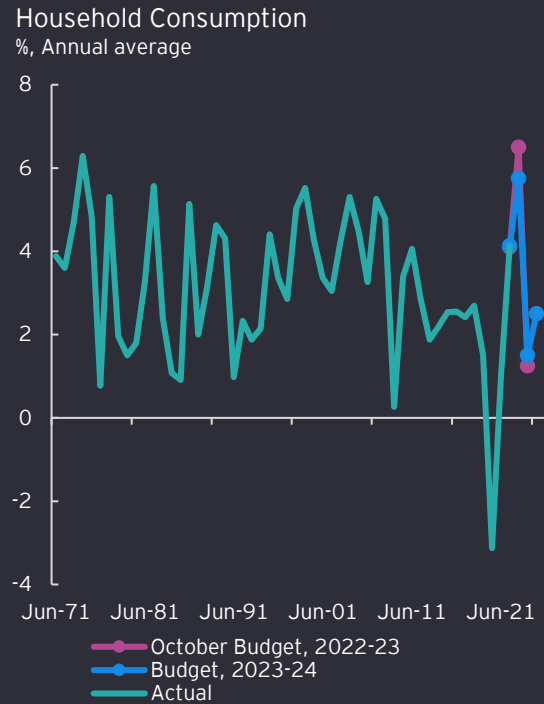
7. The top spending programs continue to rise as a share of GDP



8. The economy will continue to slow as consumers pull back



Source: Budget data, EY, ABS

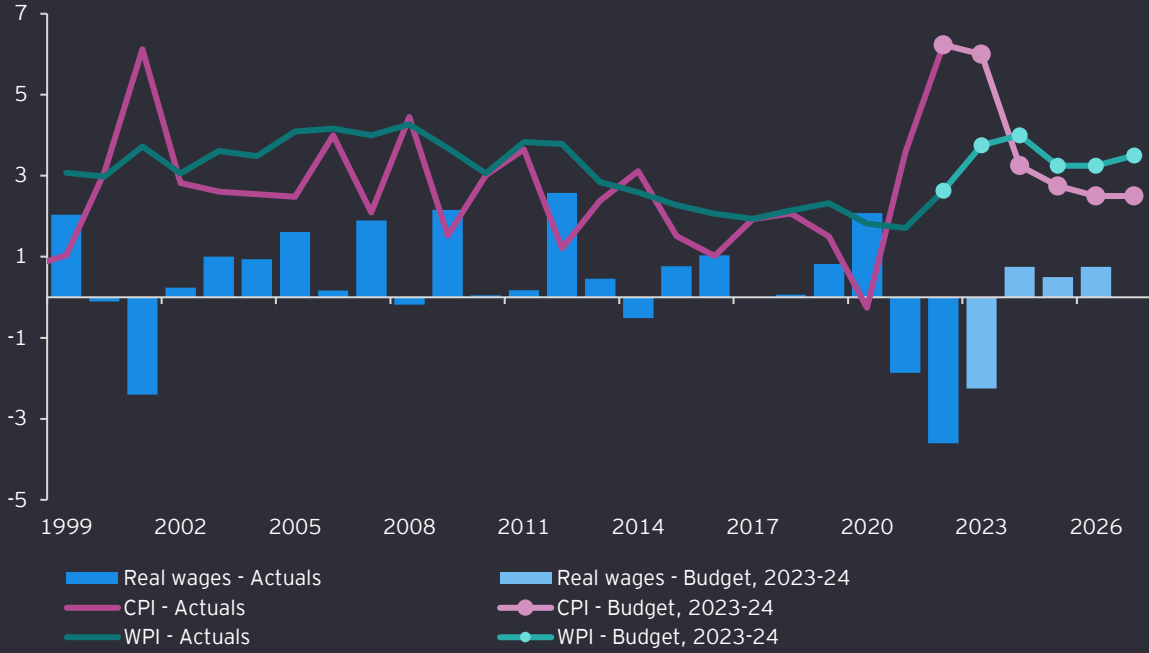


Source: Budget data, EY, ABS

9. Forecasts for wages were revised up, and real wages growth is expected to turn positive again

Wages and prices

%, y/y



Source: Budget data, EY, ABS

10. Population is forecast to grow strongly driven by net overseas migration

Population growth

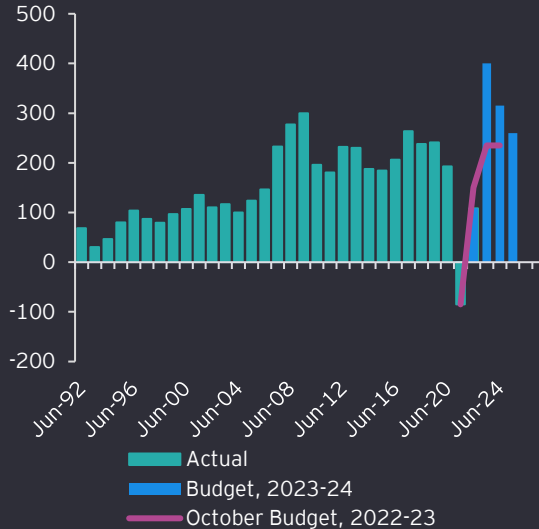
%, y/y



Source: Budget data, EY, ABS

Net overseas migration

Thousands



Source: Budget data, EY, ABS

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