Federal Budget 2024-25

Discipline discarded as business left searching for reform and restraint

14 May 2024

From the Chief Economist

We said the 2024-25 Federal Budget needed to do three things: not add to spending, unless offsetting it elsewhere; change existing policy to lower spending and find new revenue that will persist over time to close the structural balance; and put in place policies to assist the private sector to maximise productivity growth.

Unfortunately, we were left disappointed on all three fronts.

With billions being spilled into the economy from 1 July, and without offsetting new spending with cuts elsewhere, the Budget has thwarted the task of tightening the structural deficit.

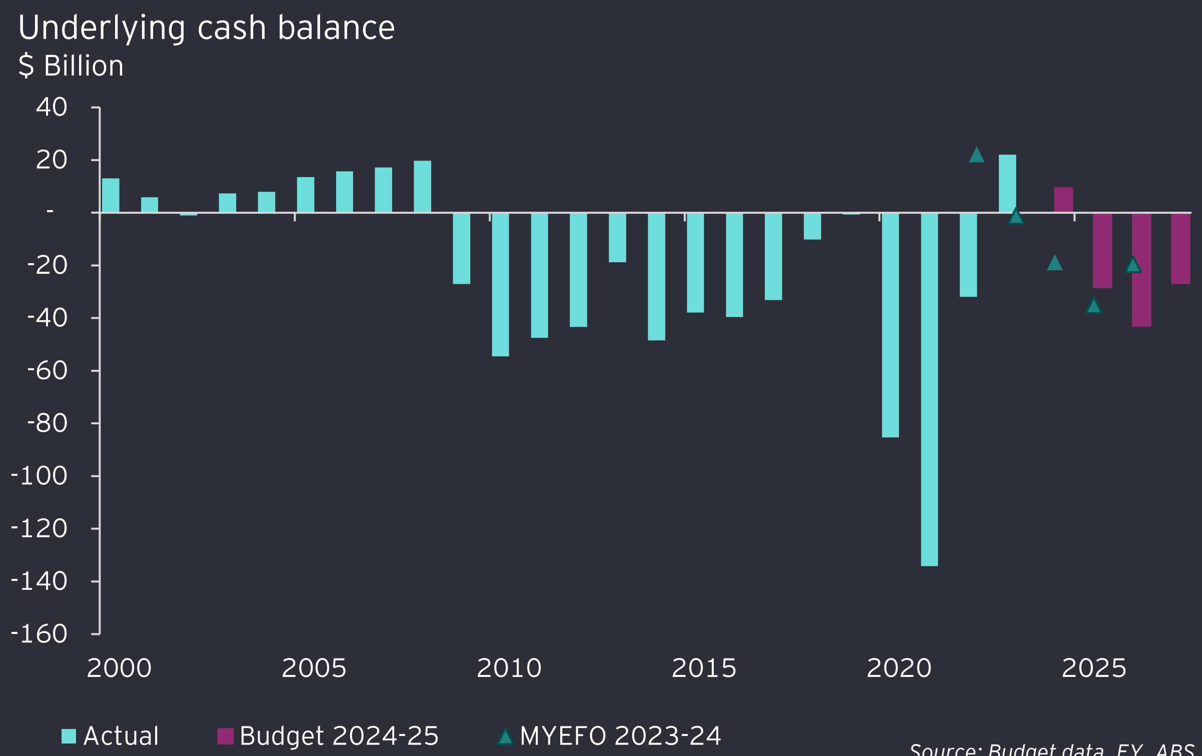
Significant policy loosening quickly turns the estimated $9.3 billion surplus into a projected $28.3 billion deficit in 2024-25, as increases in spending are not matched to new receipts. The situation gets worse in 2025-26 as the cash deficit grows to $42.8 billion.

Given Australia's flailing productivity growth we were left disappointed by the lack of reform measures in this Budget. The changes put in place for business were insignificant compared to the spending on the household sector, with little to promote substantial ongoing reform to power up productivity.

With an election less than a year away, the Government failed to use its Budget narrative as a starting point to convince voters why a more ambitious reform agenda is needed in its second term.

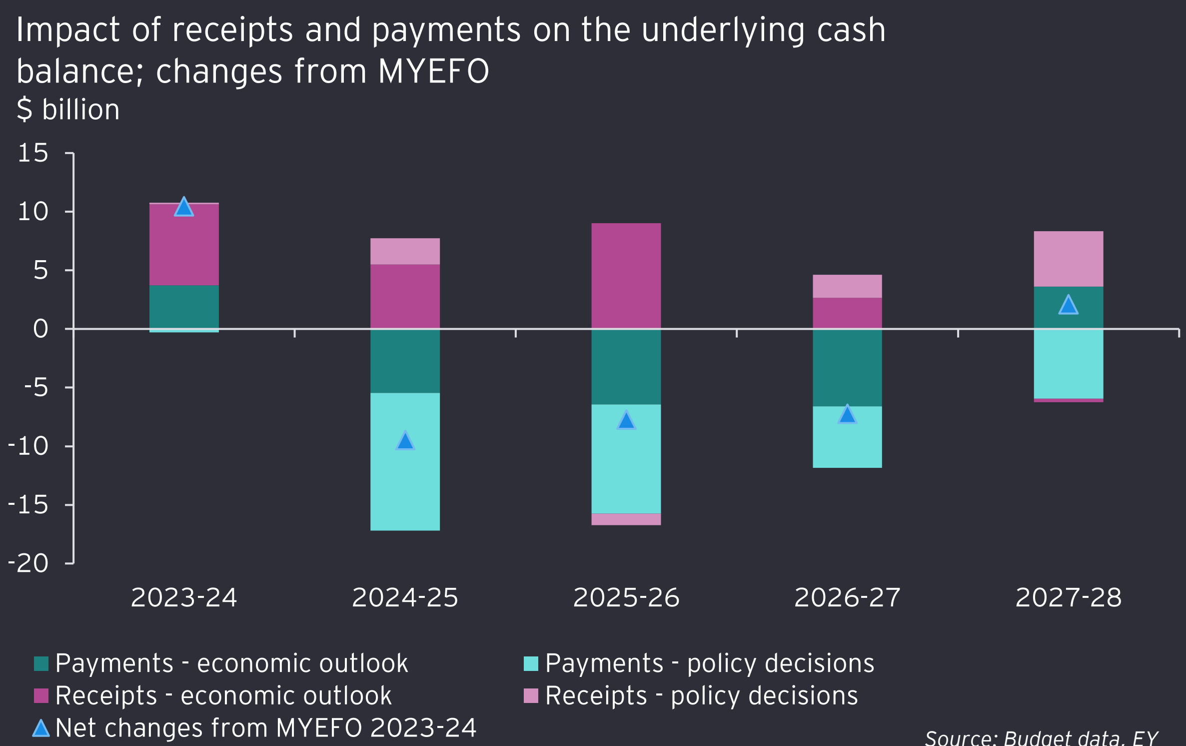
Cherelle Murphy | EY Regional Chief Economist, Oceania

1. The improvement in the underlying cash balance is temporary, with deficits expected to return from 2024-25



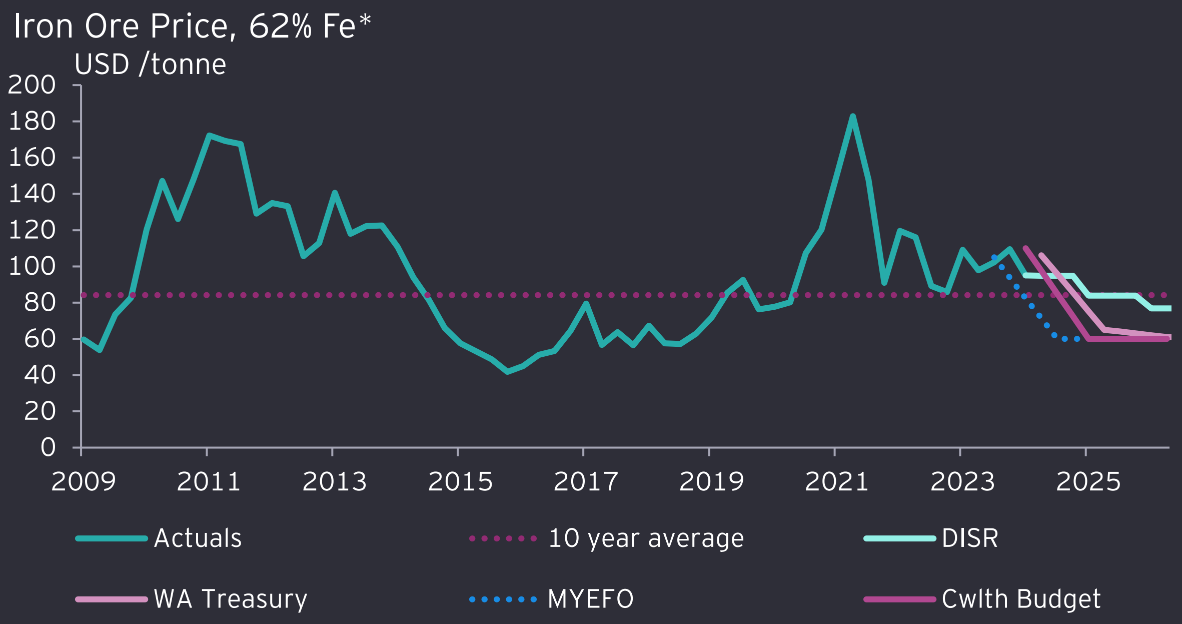
Source: Budget data, EY, ABS

2. Most of the improvement in the underlying cash balance is due to upgraded receipts, but this impact is expected to fade



Source: Budget data, EY

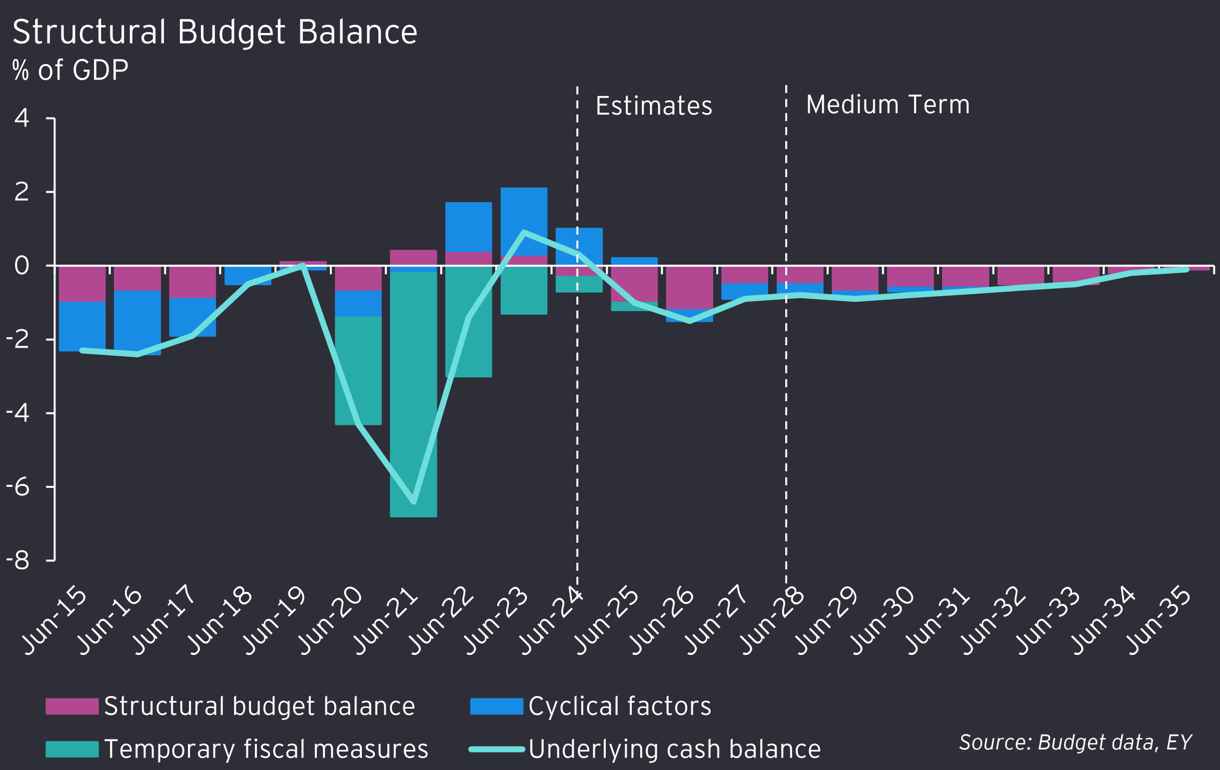
3. Recovering supply and peak steel demand from China is forecast to push iron ore prices below their long-term average



* DISR and Commonwealth Treasury forecast free on board (FOB), WA Treasury forecasts have been adjusted for cost and freight.

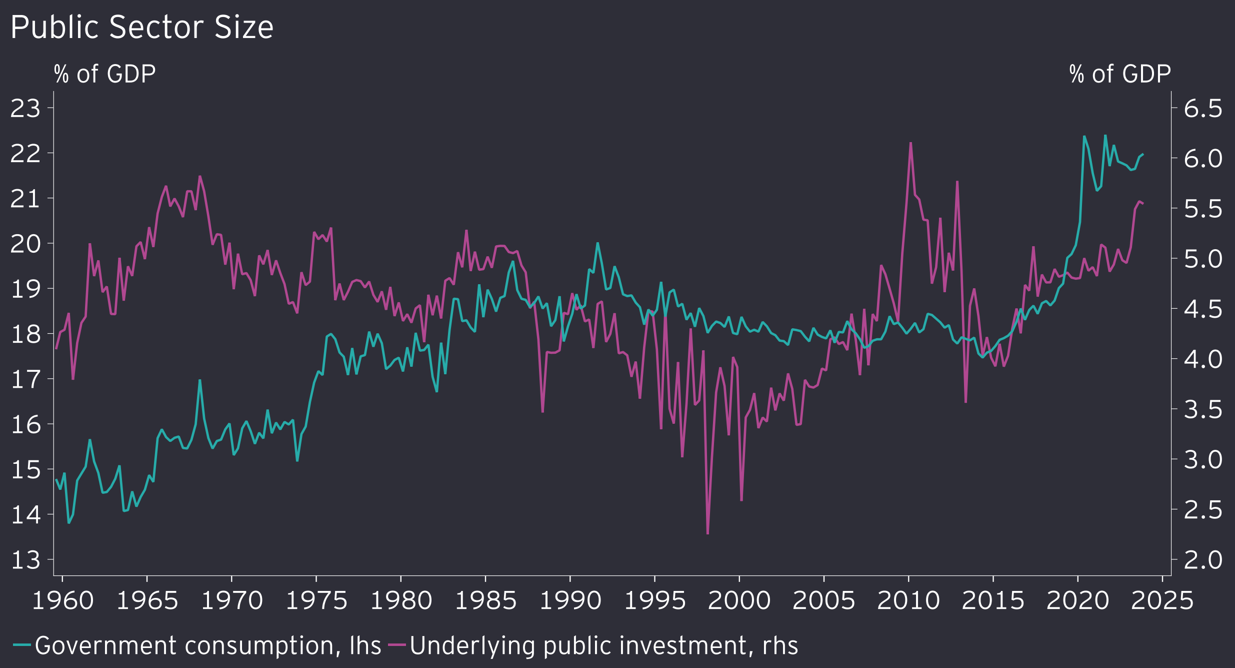
Source: DISR (March 2024), Cwlth MYEFO 2023-24, Cwlth Budget 2024-25, WA Budget 2024-25, EY

4. The long-term structural outlook for the budget has worsened



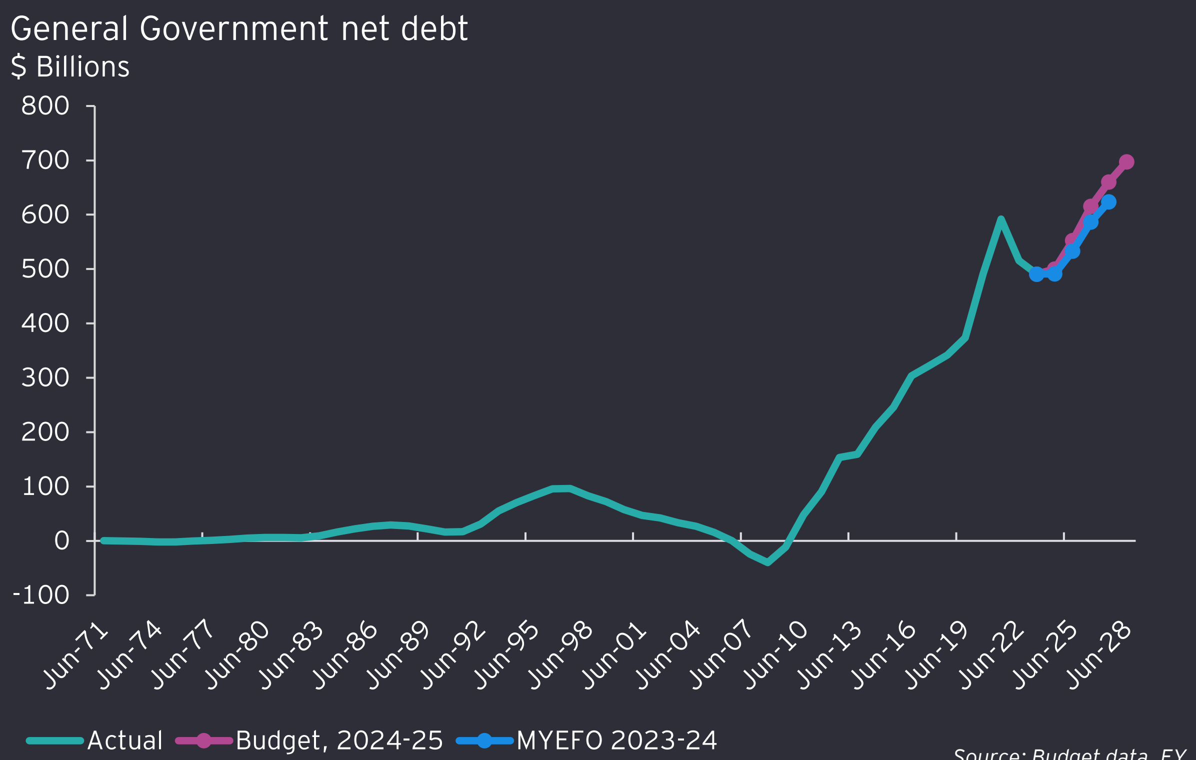
Source: Budget data, EY

5. Government spending (federal, state, territory and local) is close to post-war records as a share of the economy



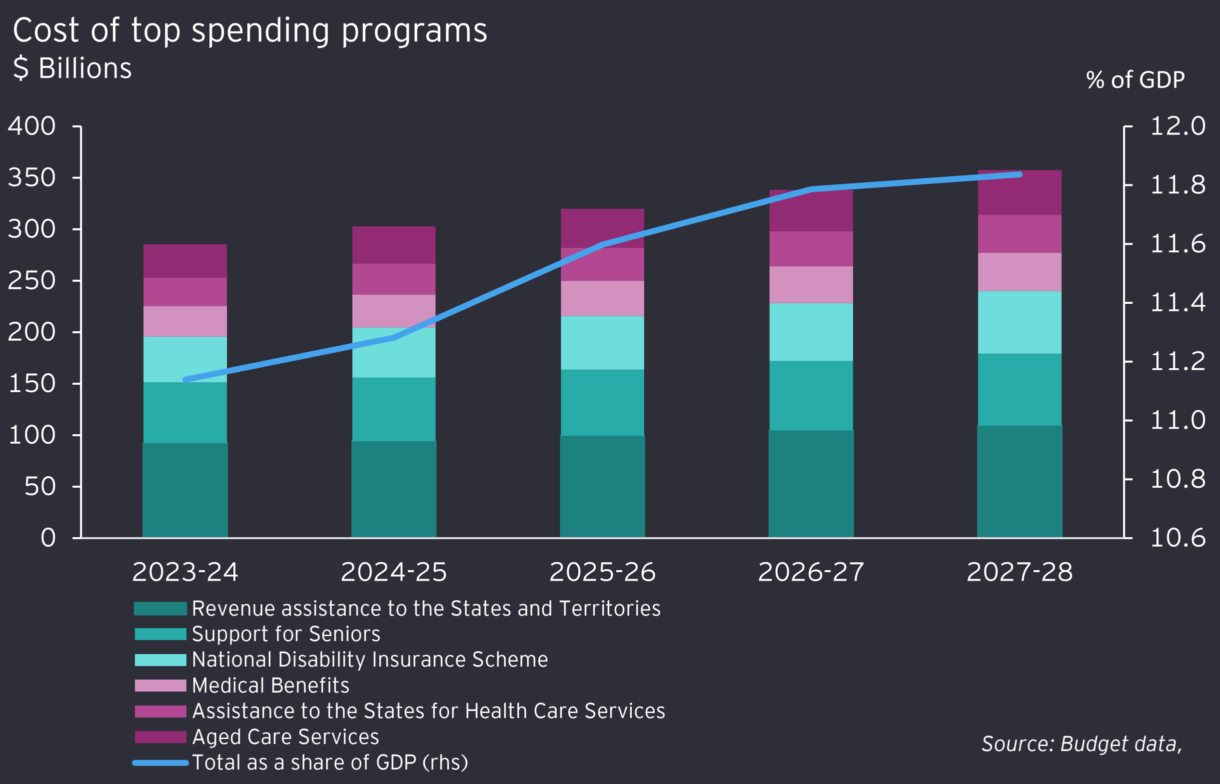
Source: ABS, Macrobond, EY

6. Net debt has been revised higher



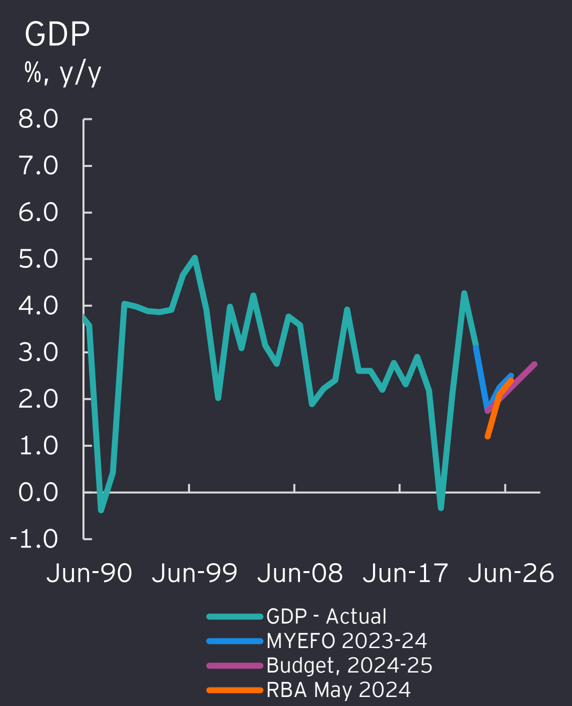
Source: Budget data, EY

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

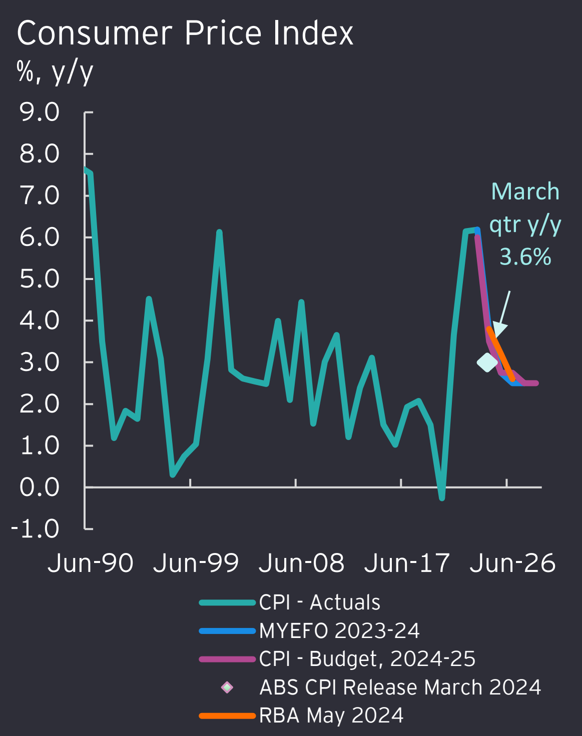


Source: Budget data,

8. Inflation is expected to fall below 3 per cent in 2024

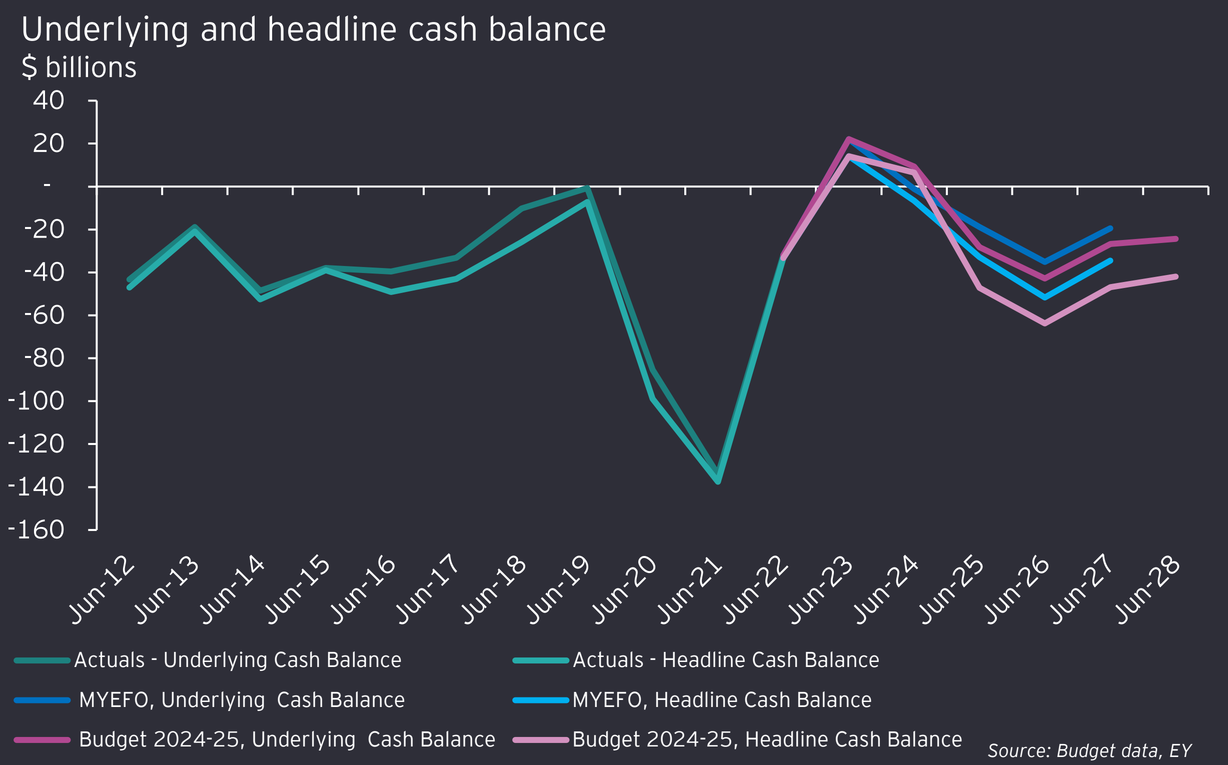


Source: Budget data, EY, ABS



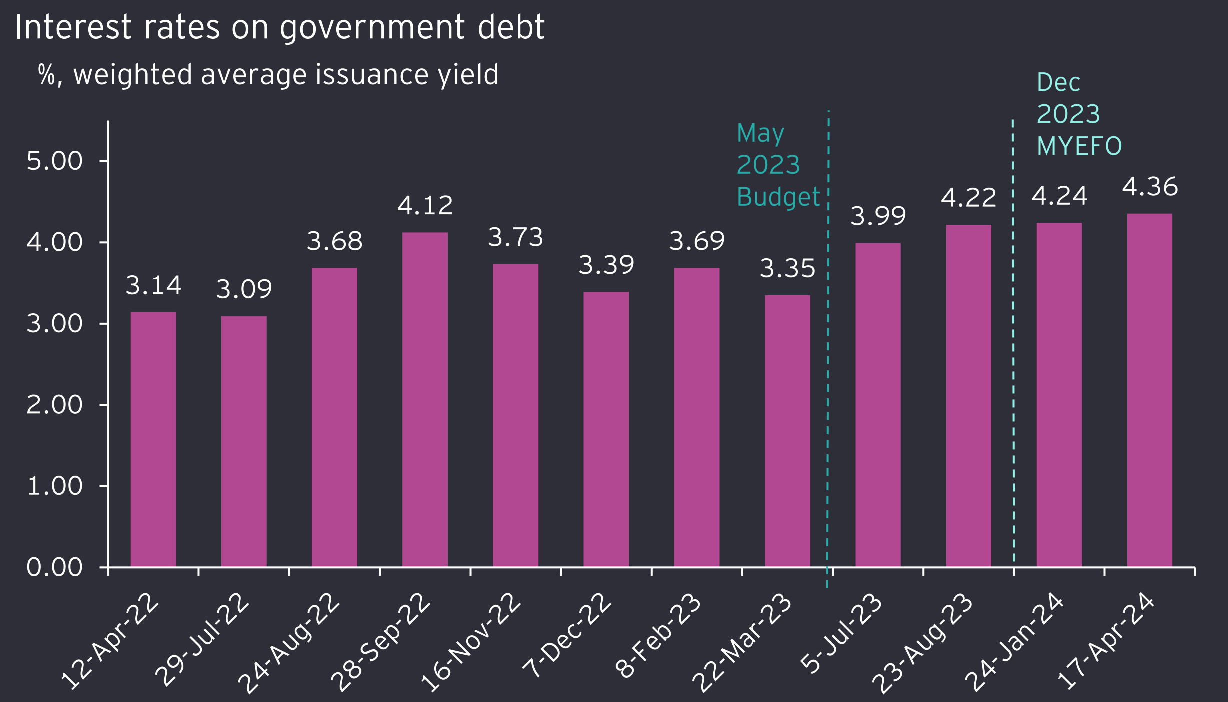
Source: Budget data, EY, ABS

9. Both the underlying and headline cash deficit forecasts have been revised lower



Source: Budget data, EY

10. Interest rates on government debt are rising



Source: AOFM, EY, 21-Nov-2033 bond line

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Key contacts

Cherelle Murphy | EY Reginal Chief Economist Oceania | Associate Partner, EY Australia | Canberra
cherelle.murphy@au.ey.com

Paula Gadsby | Senior Economist
EY Economics | Perth
paula.gadsby@au.ey.com

Nicholas Hordern | Senior Economist
EY Economics | Sydney
nicholas.hordern@au.ey.com

Neelaabh Gupta | Consultant
EY Economics | Sydney
neelaabh.gupta@au.ey.com

Shannon N Perera | Consultant
EY Economics | Perth
shannon.perera@au.ey.com

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