

## 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.

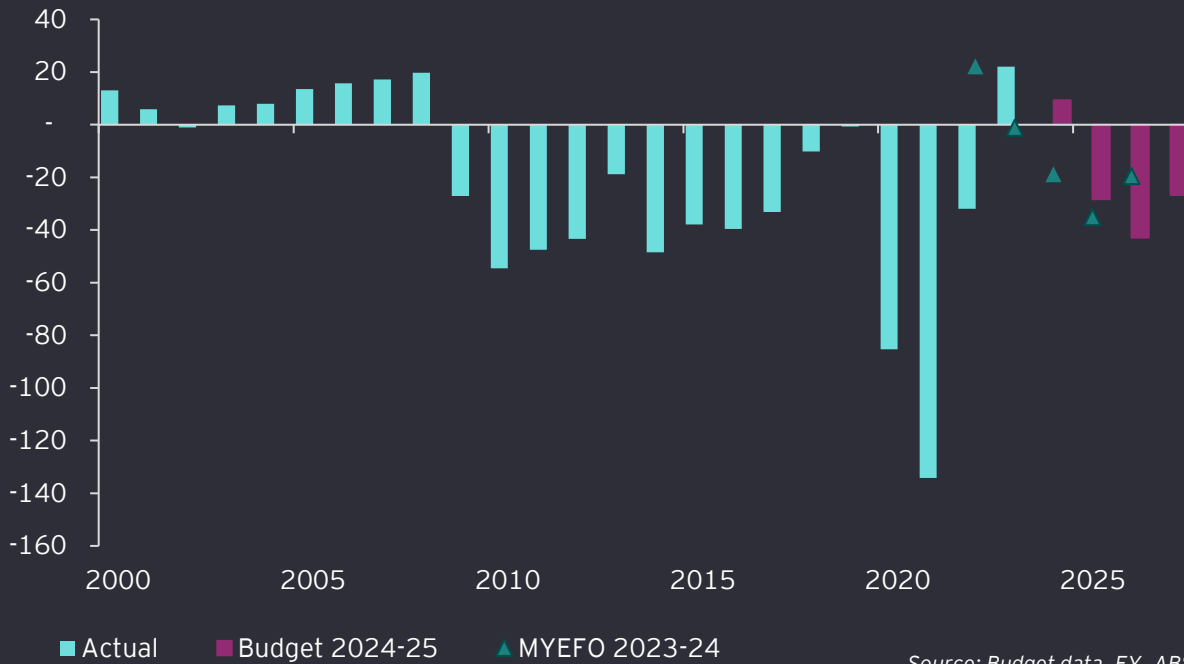
Given Australia's flailing productivity growth we were left disappointed by the lack of reform measures in this Budget. The changes put in place for business were insignificant compared to the spending on the household sector, with little to promote substantial ongoing reform to power up productivity.

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

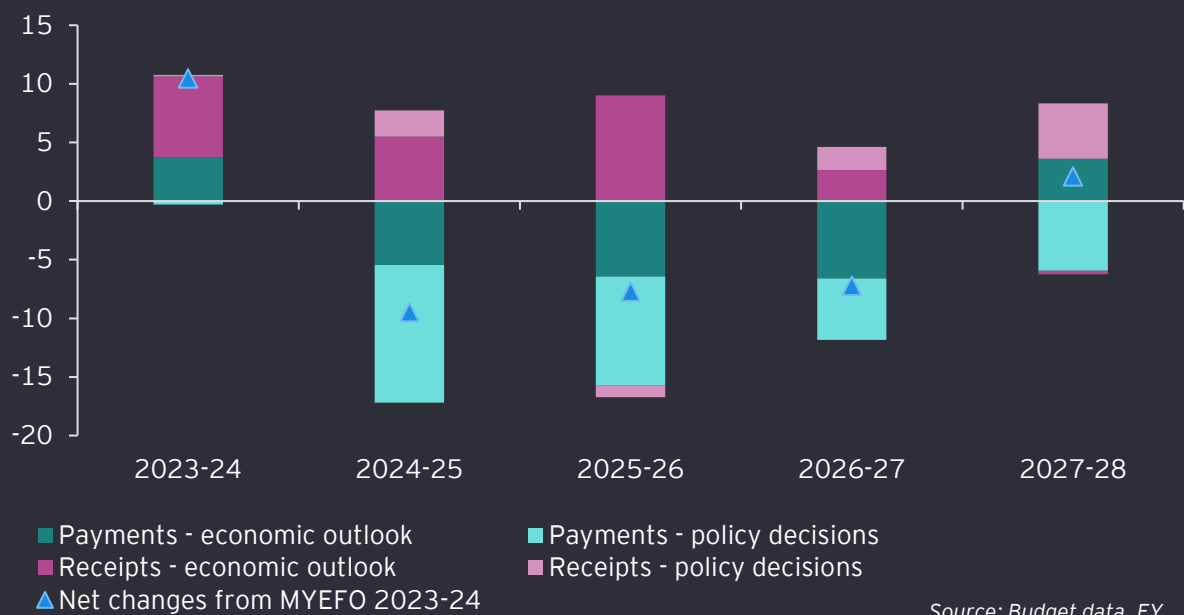
## 1. The improvement in the underlying cash balance is temporary, with deficits expected to return from 2024-25

Underlying cash balance  
\$ Billion

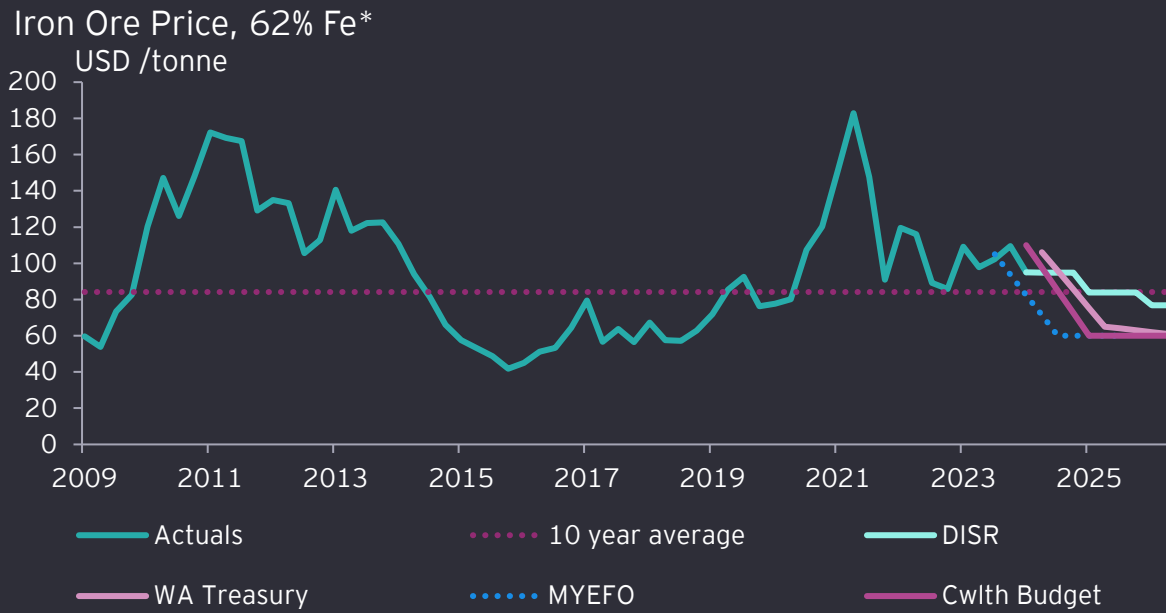


## 2. Most of the improvement in the underlying cash balance is due to upgraded receipts, but this impact is expected to fade

Impact of receipts and payments on the underlying cash balance; changes from MYEFO  
\$ billion



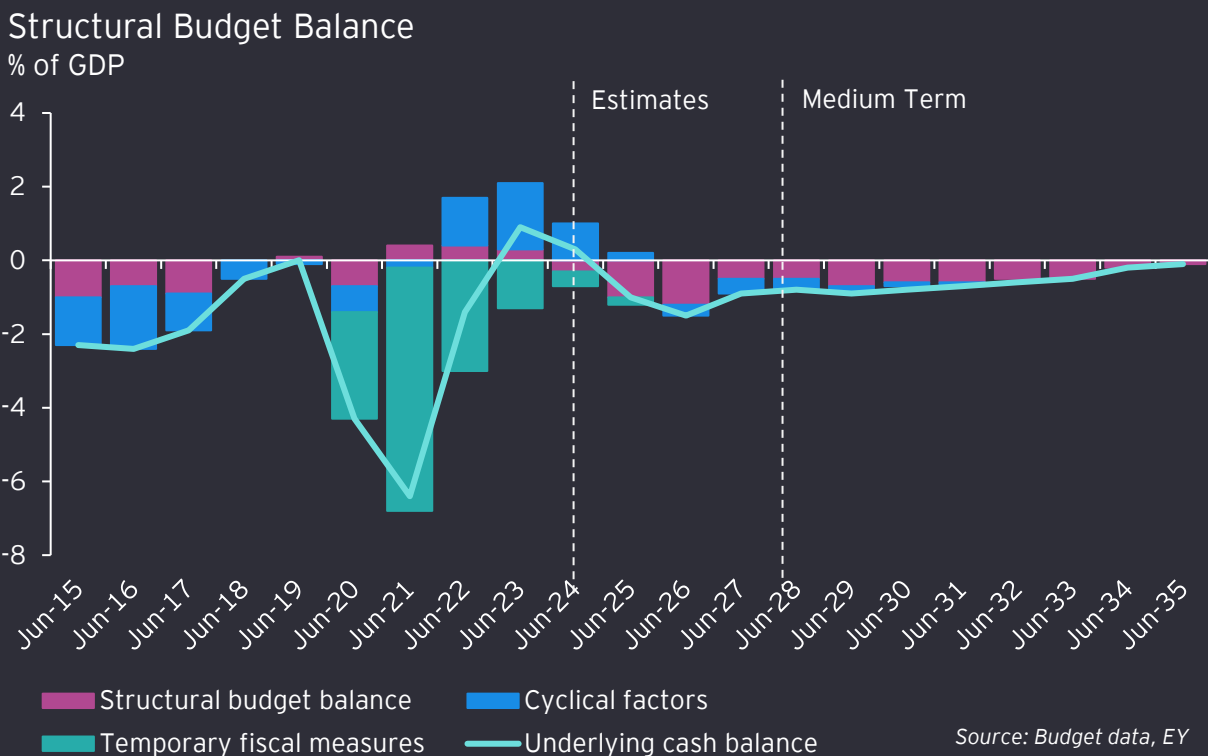
### 3. Recovering supply and peak steel demand from China is forecast to push iron ore prices below their long-term average



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

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

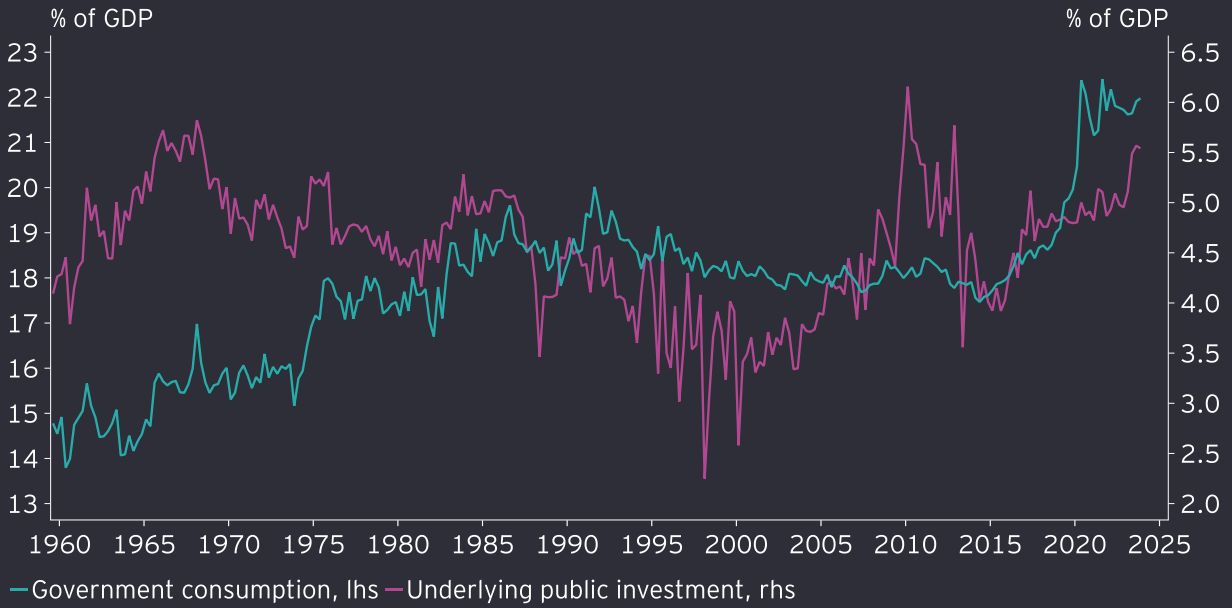
### 4. The long-term structural outlook for the budget has worsened



Source: Budget data, EY

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

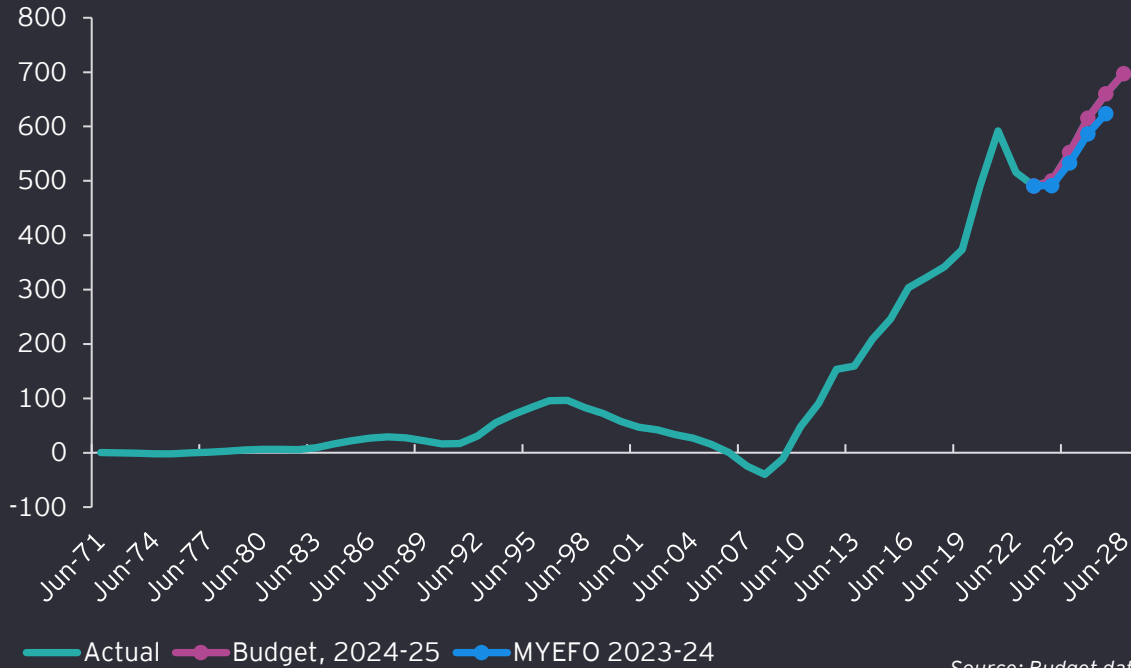
Public Sector Size



Source: ABS, Macrobond, EY

## 6. Net debt has been revised higher

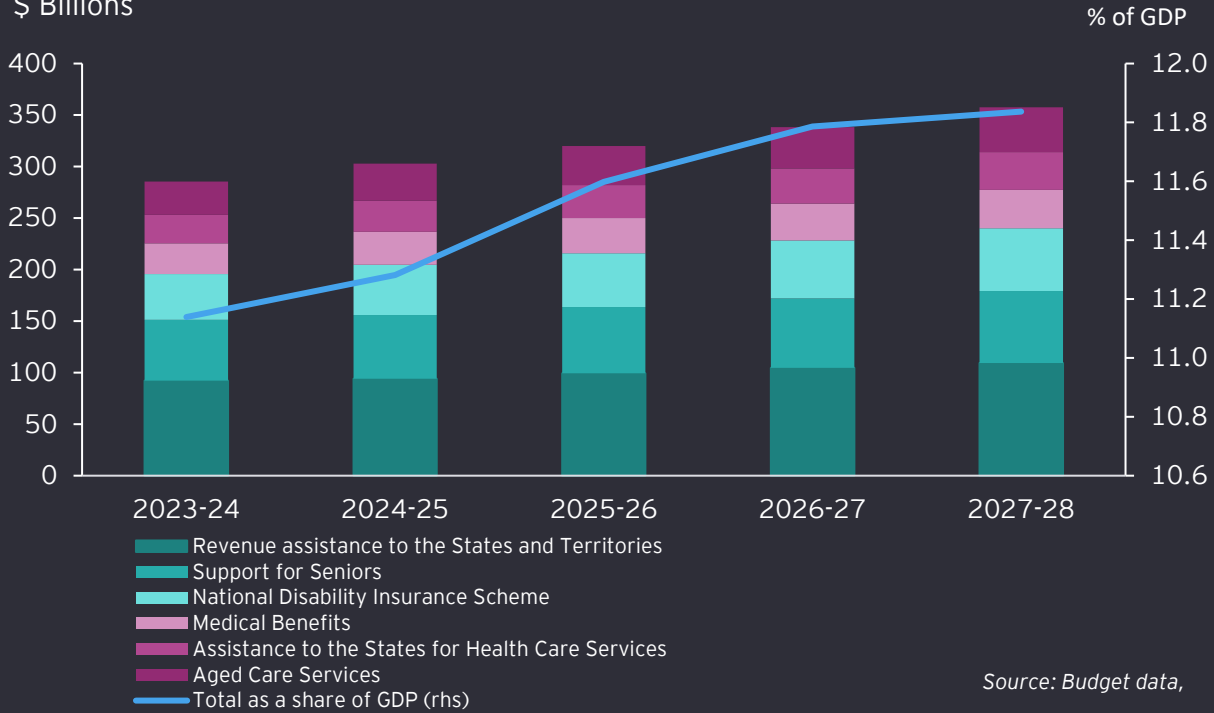
General Government net debt  
\$ Billions



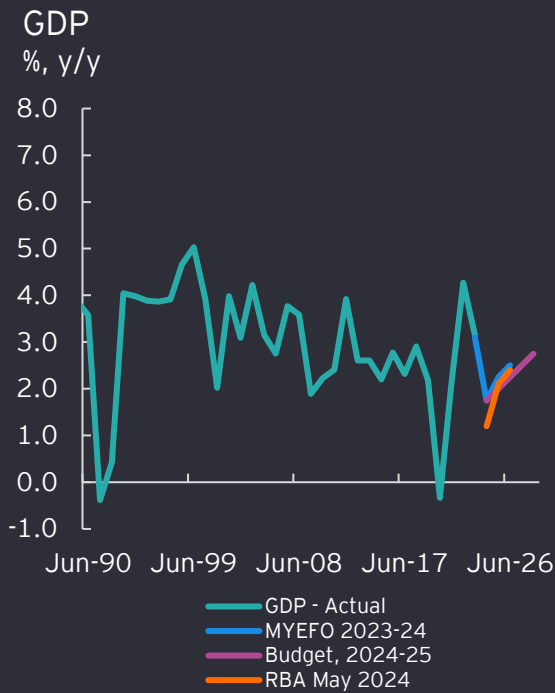
Source: Budget data, EY

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

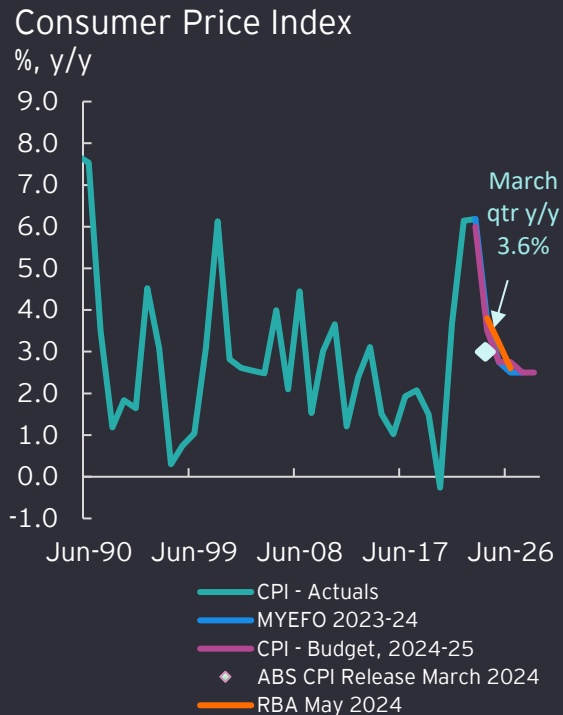
Cost of top spending programs  
\$ Billions



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



Source: Budget data, EY, ABS

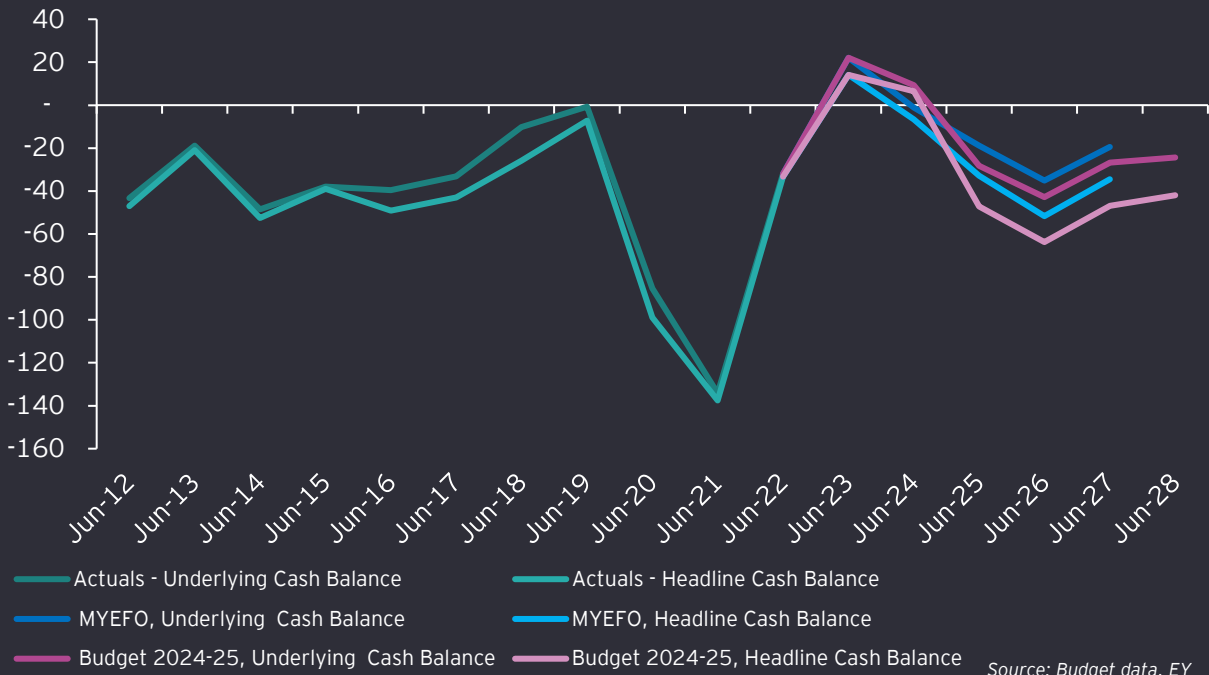


Source: Budget data, EY, ABS

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

Underlying and headline cash balance

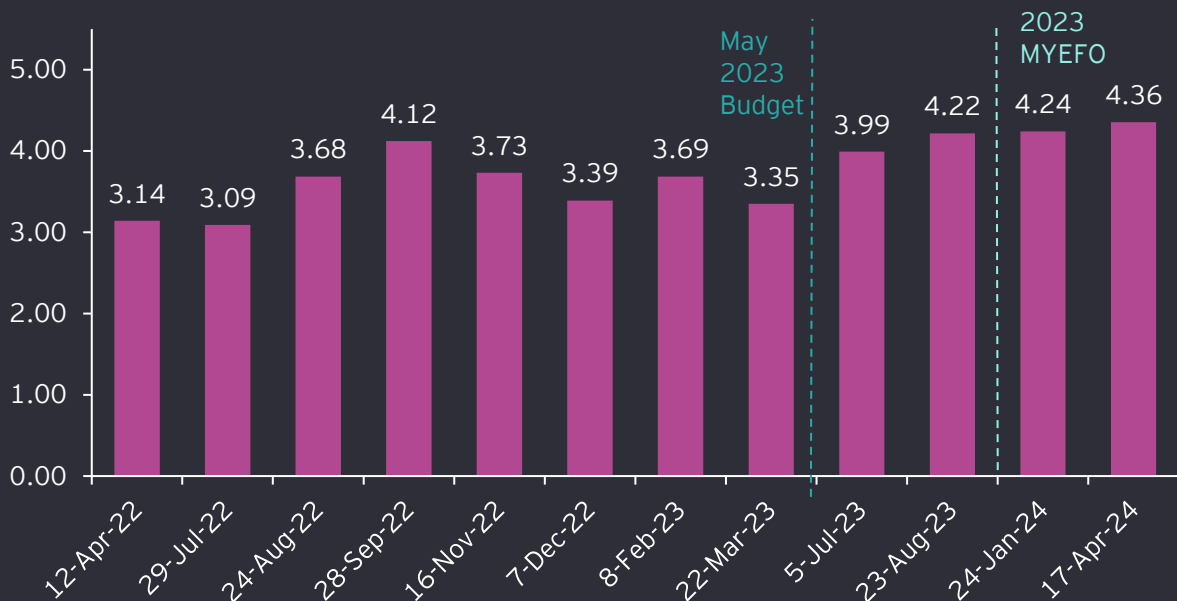
\$ billions



## 10. Interest rates on government debt are rising

Interest rates on government debt

% , weighted average issuance yield



## EY can help

The future is uncertain, but the path there doesn't need to be.

EY Oceania Economics is an economic advisory practice specialising in applied quantitative analysis, combining the elements of Economics, Policy and Strategy to provide insights through modelling and data visualisation.

We have a deep knowledge of the Australian economy and the business environment, offering a unique perspective in a rapidly changing world.

We deliver:

- ▶ Economic scenario modelling and economic impact assessments
- ▶ Macroeconomic modelling and forecasting
- ▶ Tailored Economic Insights
- ▶ Bespoke economic models and tools
- ▶ Deep labour market modelling capabilities
- ▶ Economic Policy Development
- ▶ Climate change modelling

For updates and analysis, and to subscribe, visit [www.ey.com/en\\_au/economics](http://www.ey.com/en_au/economics)

## Key contacts



**Cherelle Murphy** | EY Regional Chief Economist  
Oceania | Associate Partner, EY Australia |  
Canberra  
[cherelle.murphy@au.ey.com](mailto:cherelle.murphy@au.ey.com)



**Paula Gadsby** | Senior Economist  
EY Economics | Perth  
[paula.gadsby@au.ey.com](mailto:paula.gadsby@au.ey.com)

**Nicholas Hordern** | Senior Economist  
EY Economics | Sydney  
[nicholas.hordern@au.ey.com](mailto:nicholas.hordern@au.ey.com)

**Neelaabh Gupta** | Consultant  
EY Economics | Sydney  
[neelaabh.gupta@au.ey.com](mailto:neelaabh.gupta@au.ey.com)

**Shannon N Perera** | Consultant  
EY Economics | Perth  
[shannon.perera@au.ey.com](mailto:shannon.perera@au.ey.com)

## **EY | Building a better working world**

**EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.**

**Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.**

**Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.**

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

© 2024 Ernst & Young, Australia  
All Rights Reserved.

This communication provides general information which is current at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk. Liability limited by a scheme approved under Professional Standards Legislation.

[ey.com](https://ey.com)

EYSCORE 004444-24-AUNZ