



Friday, 8 May 2026

2026–27 AUSTRALIAN FEDERAL BUDGET PREVIEW

Budget to show \$13bn improvement in FY2026

Key points

- We expect a \$23.8bn underlying cash deficit in FY2026, an improvement of around \$13bn relative to the 2025-26 MYEFO. Parameter variations, primarily reflecting higher-than-assumed commodity prices, are expected to deliver a net boost of around \$27bn over the four years to FY2029.
- Policy decisions are expected to subtract around \$2bn from the bottom line over the same period (and deliver a small net save over the five years to FY2030). While the net impact is modest, the underlying measures are significant, including major reforms to the NDIS and further investment in defence capability.
- Execution will be critical. Delivering on structural spending commitments,

particularly in defence, without achieving offsetting savings in areas such as the NDIS risks a material deterioration in the fiscal position. Productivity gains will help reduce any risk of a deterioration with measures aimed at reducing red tape, harmonising occupational licensing across states, and accelerating approvals processes all helping to boost productivity.

- As a net energy exporter, higher energy commodity prices will unambiguously boost national income. Governments can use the tax and transfer system to redistribute some of these gains within the existing fiscal envelope. **However, any additional net stimulus risks adding to inflation pressures and complicating the monetary policy outlook.**

Table 1: Budgets Aggregates

	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30
Payments (\$bn)	726.9	785.8	816.7	846.4	883.0	943.0
% of GDP	26.2	26.7	26.7	26.6	26.9	27.0
Receipts (\$bn)	717.0	762.0	786.4	814.8	850.8	902.0
% of GDP	25.8	25.9	25.7	25.6	25.9	25.8
Underlying cash balance (\$bn)	-10.0	-23.8	-30.2	-31.6	-32.1	-41.0
% of GDP	-0.4	-0.8	-1.0	-1.0	-1.0	-1.2
Gross debt (\$bn)	928.6	980.0	1051.9	1120.3	1187.4	1257.0
% of GDP	33.4	33.3	34.4	35.2	36.2	36.0

*2024-25 are actuals. 2029-30 estimate is based on the medium term aggregates as at 2025-26 MYEFO.

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Budget 2026: another narrow path?



Pat Bustamante
Senior Economist, Westpac Group

Every budget update reflects two forces: estimate variations (driven by the economy and commodity prices) and policy decisions. Historically, estimate variations dominate.

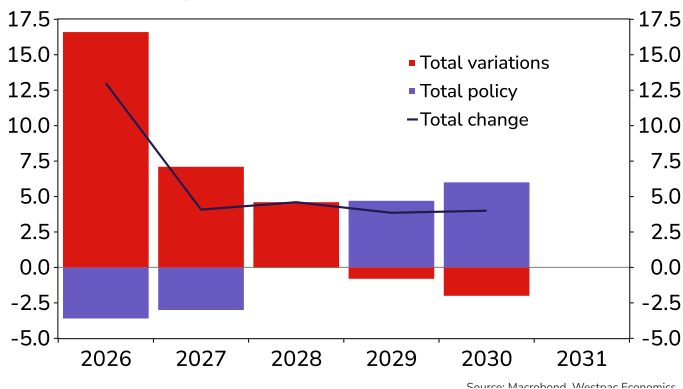
We expect estimate variations in next week’s Budget to improve the bottom line by around \$27bn over the four years to FY2029, largely driven by elevated commodity prices ([see here](#)). This will be partially offset by rising costs and spending pressures ([see here](#)).

The energy supply shock from the Middle East conflict is the dominant issue shaping this year’s Budget. The policy packages unveiled next week will likely look very different to what was envisaged earlier in the year. Recent messaging suggests a dual focus: near-term cost-of-living and business support, alongside medium-term reforms centred on boosting economic resilience, productivity, intergenerational equity and sustainability.

On policy, we estimate net discretionary measures of around \$2bn over the four years to FY2029, based on announced and foreshadowed decisions (including measures such as extending the instant asset write-off). The profile is front-loaded negative, reflecting near-term support, before turning positive in the outer years as structural savings, particularly from NDIS reforms, take effect.

Change in the underlying cash balance*

\$Billion, Financial years.



While the net impact is modest, the underlying measures are anything but. They include:

- NDIS reform, if the stated goals are fully achieved, will save around \$19bn over the forwards from FY2027;

- Defence investment as part of the National Defence Strategy will amount to \$15bn in additional spending over the forward estimates and \$53bn over the decade;
- Health measures include permanent funding for urgent care clinics (\$1.8bn); Additional funding for older Australians (\$4.2bn); and Expanded PBS/MSBS and Medicare levy threshold changes (unknown but usually around \$3bn);
- Cost-of-living support including the temporary fuel excise cut worth \$2.6bn and potential tax cuts;
- Energy security including \$3.2bn to establish a 1 billion litre state-owned diesel and jet fuel reserve; and
- Business support, with calls for the \$20k instant asset write-off to be made permanent not just extended for another year as has been the case over the life of this government.

In addition, the Government has announced around \$15bn in off-budget support, targeted at businesses impacted by the conflict, alongside measures to help refiners and importers increase minimum fuel stockholdings by a further 10 days.

Response to the economic fallout from the Middle East conflict

Judging the scale of the shock and calibrating the appropriate policy response will be challenging. Pre-Budget speculation points to the possibility of crisis-style measures, including the reintroduction of “loss carry-back” provisions, “cash-flow boost” style support for impacted industries, and additional targeted assistance to support economic resilience and self-sufficiency. Speculation suggests these could be complemented by more cost-of-living support for households, including tax cuts. There are, however, several important considerations.

First, as a net energy exporter, higher energy commodity prices will unambiguously boost national income. This positive income shock is large but highly concentrated, with gains flowing primarily to the mining sector and, via the tax system, to the Commonwealth. While there is a clear case for governments to redistribute some of these gains, doing so through a material net expansion in fiscal policy risks leaving the overall stance more expansionary than is consistent with returning inflation to target (see here).

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Second, our work highlights that discretionary fiscal policy in Australia is highly sensitive to labour market conditions (see here). Historically, policy has tended to become more activist as employment risks emerge. However, these measures have also been characterised by poor timing, typically arriving late in the cycle and proving slow to unwind. As a result, the peak fiscal impulse has often occurred after the economy has already begun to recover.

The implication is that large-scale, crisis-style interventions carry a material risk of amplifying the cycle rather than stabilising it. In the current environment, where a negative real shock is coinciding with a positive nominal income shock, this risk is particularly acute.

Is the tax mix right?

Changes to the taxation of housing are increasingly likely. It remains unclear whether this will be confined to adjustments to the capital gains tax (CGT) discount for housing, broadened across all asset classes, or extended to negative gearing arrangements. The extent of any grandfathering is also uncertain, although the Treasurer has signalled that transitional arrangements will be required.

The broader question is whether the tax mix is appropriately aligned with policy objectives. If the goal is to improve intergenerational equity, there is a case for broadening the tax base on housing and lowering effective tax rates elsewhere, particularly on labour income, where the burden falls disproportionately on younger cohorts. A clear link between base-broadening and tax relief will also help securing public support for what are likely to be among the most consequential tax reforms in recent years.

Implementation of reform is critical

NDIS reforms are substantial and essential for medium-term sustainability. But delivery risk is high. With the Greens stating that they will oppose any legislative changes required to implement the reforms, it is implementation, not design, will determine the fiscal payoff.

Boosting labour productivity

Stronger productivity growth is central to sustaining our living standards. While extending the instant asset write-off would support business cash flow, its impact on capital deepening and productivity is uncertain, with the evidence mixed.

In our view, the greater priority is better utilisation of existing resources, rather than simply trying to expand available resources. Australia has high and rising labour force participation and the highest population growth rate in the OECD, so it's not a resource endowment challenge we face. This means focusing on practical, system-wide improvements: cutting red tape, reducing regulatory overlap, accelerating approval processes, and ensuring the automatic mutual recognition of occupational licences is fully national and fit for purpose.

These “nuts and bolts” reforms may lack headline appeal, but they offer a disproportionately large payoff for productivity.

What does this mean for the bottom line?

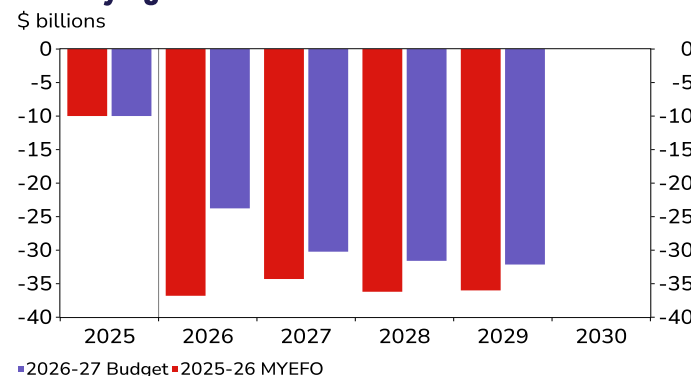
Including policy changes announced since the 2025-26 MYEFO, we expect the revised Budget year (2025-26) to be in deficit of around \$23.8bn. As the temporary boost to revenue from higher commodity prices dissipates, we expect the bottom-line to shift back to a deficit of \$30.3bn in the Budget year (2026-27). Government payments are then forecast to outpace receipts, with the deficit growing slightly to \$31.8bn in 2027-28 and \$32.2bn in 2028-29.

Table 2: Change in underlying cash balance*

	2025-26	2026-27	2027-28	2028-29	2029-30
2025-26 MYEFO	-36.8	-34.3	-36.2	-36.0	
Total variations	16.6	7.1	4.6	-0.8	-2.0
Total policy	-3.6	-3.0	0.0	4.7	6.0
2026-27 Budget	-23.8	-30.2	-31.6	-32.1	-41.0
%of GDP	-0.8	-1.0	-1.0	-1.0	-1.2

2029-30 estimate is based on the medium-term aggregates as at 2025-26 MYEFO.

Underlying cash balance estimates*



Source: ABS, 2025-26 MYEFO, Macrobond, Westpac Economics
*2026-27 Budget are Westpac estimates.

What if we use Westpac's less conservative commodity price assumptions?

As we highlighted in our previous note (see here), it is well-known that Treasury adopts conservative commodity price assumptions when forecasting. While Westpac Economics' commodity price forecasts are also conservative, they give more weight to currently elevated prices on the expectation they will prove more persistent due to underlying demand and supply conditions.

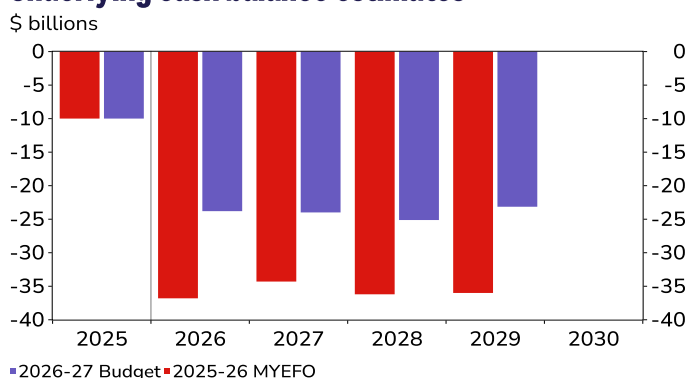
When using the less conservative commodity price assumptions, we expect the bottom line to be a deficit of \$23.8bn in 2025-26, and remain around this level across the forward estimates.

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Table 3: Change in underlying cash balance using Westpac Commodity price assumption*

	2025–26	2026–27	2027–28	2028–29	2029–30
2025–26 MYEFO	-36.8	-34.3	-36.2	-36.0	
Total variations	16.6	13.3	11.1	8.2	8.0
Total policy	-3.6	-3.0	0.0	4.7	6.0
2026–27 Budget	-23.8	-24.0	-25.1	-23.1	-31.0
%of GDP	-0.8	-0.8	-0.8	-0.8	-0.9

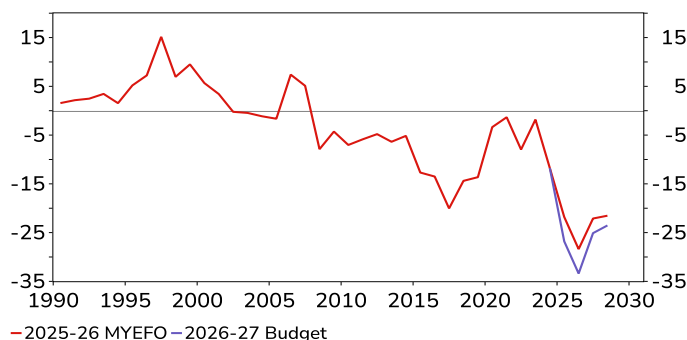
Underlying cash balance estimates*



Source: ABS, 2025-26 MYEFO, Macrobond, Westpac Economics
*2026-27 Budget are Westpac estimates based on Westpac's commodity price assumptions.

Investment in financial asset for policy

\$Billion, Financial years.



Source: ABS, 2025-26 MYEFO, Macrobond, Westpac Economics
*2026-27 Budget are Westpac estimates.

What about the “off-budget” or “balance sheet transactions”?

Economic resilience and security will be a key pillar of the budget. Some of the policy changes to deliver on this objective will be in the form of loans and equity injections to third parties who spend the capital to deliver on the Government’s policy objective. These policy changes do not impact the bottom line – they instead will show up in the headline cash balance which includes investment in financial assets for policy purposes.

There is no corresponding flow in the accrual accounts. These initiatives amount to a balance sheet transaction: the loan or equity will show up as an asset on the government’s balance sheet while the borrowing to provide the loan or equity will show up as a liability. Based on announcements to date, we estimate around \$15 billion of additional balance sheet transactions in this year’s budget - \$7.5bn to enable refiners and importers to boost their minimum required stocks by another 10 days; and \$6.5bn concessional capital to support Australian businesses.

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