



Tuesday, 12 May 2026

# 2026–27 AUSTRALIAN FEDERAL BUDGET

Comprehensive coverage and key impacts.

## Key points

- The budget forecasts an underlying cash deficit of \$28.3bn in FY2026 (1.0% of GDP), \$8.5bn smaller than forecast at MYEFO in December. Higher commodity prices have boosted corporate tax revenue; stronger nominal growth in domestic demand has also supported the near-term bottom line.
- The deficit is expected to widen by almost \$6bn in FY2027, to \$34.4bn (still 1.0% of GDP), as higher energy prices and interest rates crimp economic growth and revenues. The government has redistributed some of the windfall from high energy and other commodity prices by policy changes, including the earlier cuts to excise.
- Budget announces significant tax changes and shifts in spending priorities. CGT, negative gearing and trusts are all affected; concessions for SMEs and start-ups. NDIS savings measures start small but build to 0.5% GDP by FY2030 and higher thereafter.
- Execution is the key risk to the budget, given the scale of ambition of NDIS and other spending reforms.

**UNDERLYING CASH BUDGET  
DEFICIT SET TO WIDEN NEXT YEAR,  
WITH SAVINGS BACK-LOADED**

**2025–26: (-1.0% GDP)**

**-\$28.3bn**

**2026–27: (-1.0% GDP)**

**-\$31.5bn**

**POLICY CHANGES OVER FORWARDS:**

**+\$8.2bn**

**NDIS SAVINGS OVER FORWARDS:**

**+\$37.8bn**

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# A tale of two horizons

The main take-out from the top-line fiscal projections is of relatively small near-term changes but a big, back-loaded improvement as major initiatives mature.

The underlying cash deficit is expected to be \$28.3bn in FY2026 (an improvement of around \$8.5bn compared with the December MYEFO), increasing to \$34.4bn in FY2029, before improving to \$25.3bn in FY2030 as the tax measures and NDIS savings begin to mature. However, the savings are heavily back-loaded with the positive budget impacts ramping up over the medium term. Over the first three years of the forward estimates period (FY2026 to FY2028), discretionary measures add to the fiscal impulse, which remains slightly expansionary. Payments-to-GDP are expected to remain elevated, increasing from 26.2% in FY2025 to 26.6% in FY2026 and 26.8% in FY2027 and FY2028.

## Stronger starting point

Compared with the December 2025–26 MYEFO, there has been an improvement of around \$45bn across the five years to FY2030. As expected, revenue windfalls were the main driver of the improvement in the bottom line, delivering \$41.1bn over this period. This was partly offset by a \$4.5bn increase in payments, driven by higher inflation and interest repayments.

For the second consecutive budget update, discretionary policy measures deliver a net saving of around \$8.2bn over the forward estimates.

As expected, these savings are largely back-loaded and ramp up over the medium term. Over the first three years of the forward estimates period (FY2026 to FY2028), discretionary measures add around \$14.2bn to the fiscal impulse, mainly driven by higher government spending on health services, defence, and new and amended listings on the Pharmaceutical Benefits Scheme.

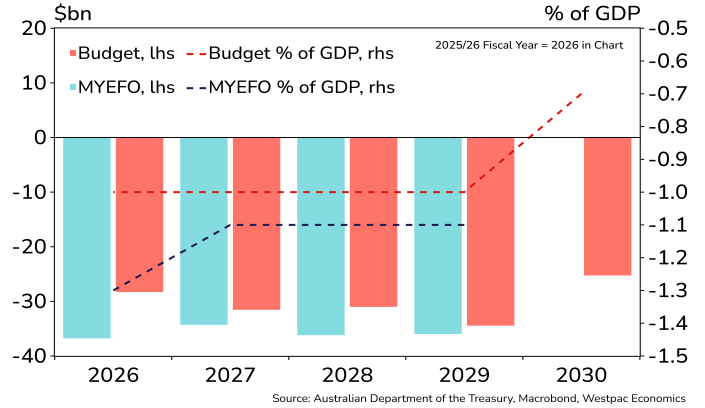
## Back-loaded savings measures

The savings package (mainly tax and NDIS) is one of the largest since the mid-1990s. It is significant both in nominal terms and as a share of GDP.

However, the savings are back-loaded and ramp up over the medium term. By FY2037, these measures improve the bottom line by around 1.0% of GDP (and 1.3% including public debt interest impacts), up from 0.1% of GDP in the budget year (FY2027) and 0.5% in the final year of the forward estimates (FY2030).

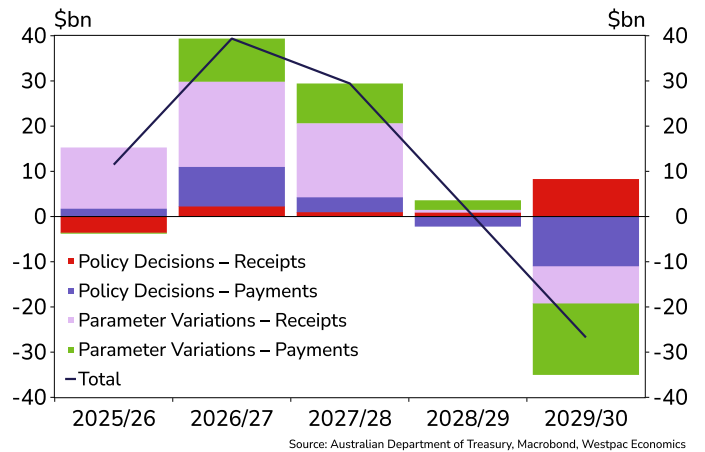
The net impact of the tax measures rises to around 0.3% of GDP over the medium term. This includes changes to negative gearing and the CGT discount, a minimum tax on discretionary trusts, the ongoing Australian Workers Tax Offset, and smaller measures such as the loss carry-back provisions and making the instant asset write-off permanent. NDIS savings are projected to rise to around 0.7% of GDP by FY2037.

## Underlying Cash Balance



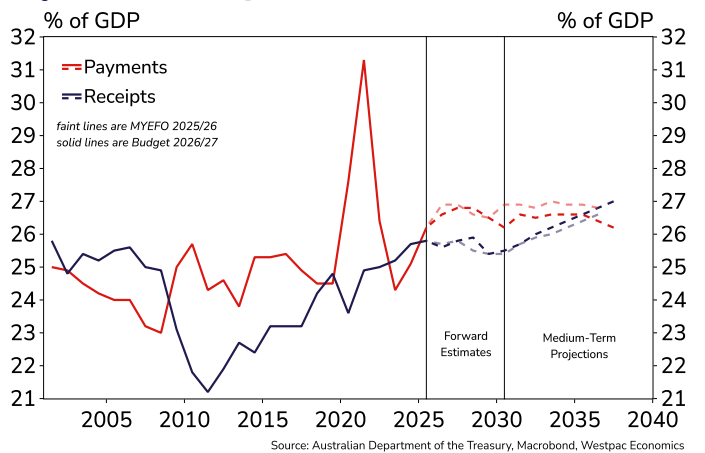
Source: Australian Department of the Treasury, Macrobond, Westpac Economics

## Revisions to Underlying Cash Balance



Source: Australian Department of Treasury, Macrobond, Westpac Economics

## Payments & Receipts



Source: Australian Department of the Treasury, Macrobond, Westpac Economics

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## Debt lower, interest unchanged

Both gross and net debt are lower than projected in the 2025–26 MYEFO. Gross debt is expected to be slightly lower over the forward estimates, reflecting smaller headline cash deficits, and is projected to peak at 35.8% of GDP in FY2029. This improvement becomes more pronounced over the medium term as the government’s savings measures mature.

Despite this, higher yields leave interest repayments broadly unchanged. Interest payments are estimated to peak at 1.6% of GDP in FY2033, broadly in line with MYEFO. The global bond sell-off, which pushed yields higher, has increased the assumed weighted average cost of borrowing to 4.8% over the forward estimates, up from 4.4% at MYEFO.

## Uncertainties

Risks to the budget projections are two-sided. Commodity price windfalls will fade but may decline more slowly than assumed given Treasury’s approach of adopting cautious assumptions. 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 around \$25.0bn better than forecasts over the four years to FY2030.

Conversely, the economic parameters underpinning the fiscal estimates appear stronger than Westpac Economics’ forecasts for the labour market and real economy. Treasury expects the unemployment rate to peak at 4.5% in FY2027, whereas we forecast a sharper increase to around 5%, which could lead to higher costs than expected.

Finally, there are political risks. The legislative path to implement the saving measures is unlikely to be straightforward. The Greens have already indicated they will not support key elements of the NDIS changes, while the Coalition has signalled opposition to reforms to housing taxation and discretionary trusts. This raises the risk of delays or dilution to the measures.

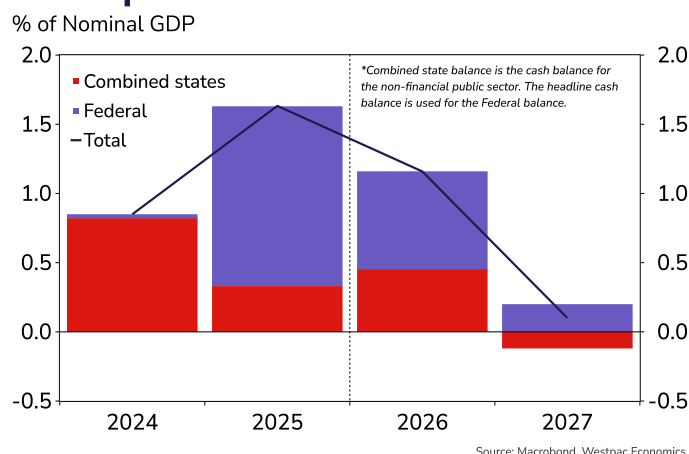
## Fiscal impulse remains slightly expansionary

As noted, the savings from policy decisions take some time to impact. Over the first three years of the forward estimates (to FY2028), discretionary measures add to the fiscal impulse, which remains slightly expansionary.

The headline deficit (including off-budget spending) is expected to widen from 0.8% of GDP in FY2025 to 1.6% in FY2026 and 2.1% in FY2027. This points to a positive impulse of 0.8ppts of GDP in FY2026 and 0.5ppts of GDP in FY2027. These are smaller than the +1.3ppts in FY2025, meaning fiscal policy is adding considerably less momentum to growth than in recent years, but is still providing a boost.

Part of this impulse is driven by higher payments with the payments-to-GDP ratio expected to remain elevated, increasing from 26.2% in FY2025 to 26.6% in FY2026 and 26.8% in FY2027 and FY2028.

## Fiscal impulse



**Table 1: Key Fiscal Aggregates**

	2024–25(a)	2025–26	2026–27	2027–28	2028–29	2029–30
Underlying cash balance*, \$bn	-10.0	-28.3	-31.5	-31.0	-34.4	-25.5
% of GDP	-0.4	-1.0	-1.0	-1.0	-1.0	-0.7
Receipts, % GDP	25.8	25.6	25.8	25.9	25.4	25.5
Expenses, % GDP	26.2	26.6	26.8	26.8	26.5	26.2
Headline cash balance, \$bn	-21.8	-47.9	-64.1	-54.3	-57.3	-41.0
% of GDP	-0.8	-1.6	-2.1	-1.7	-1.7	-1.2
Net debt, \$bn	523.3	556.0	616.6	668.8	725.5	767.8
% of GDP	19.2	18.8	19.9	21.0	21.8	21.9
Gross debt, \$bn	928.6	982.0	1051.0	1120.0	1193.0	1249.0
% of GDP	33.4	33.1	34.0	35.2	35.8	35.6

\* Underlying cash balance = Revenue less Expenses. Sources: ABS, Budget papers, Westpac Economics

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# Budget delivers downpayment on reform agenda

The seeds for this Budget were planted in late last year, when the government convened a series of economic reform roundtables. Since then, it has consistently framed reform as central to lifting productivity and increasing the economy's speed limit. It has also focused on intergenerational equity and ensuring more Australians can enter the housing market.

The Middle East conflict has, if anything, accelerated that agenda. It has broadened from a productivity focus to encompass energy and fuel security, reinforcing economic resilience as a core policy objective.

## Swathe of reforms adds up to material total

Measures to boost housing supply and level the playing field are meaningful, particularly on tax settings. Concessional capital gains tax (CGT) has long been recognised as encouraging leveraged investment in rental properties, particularly in the way it interacts with negative gearing. Reforming this part of the tax system had previously been considered too controversial. Despite that, this year's budget tackles both CGT and negative gearing, as well as taxation of trusts, and does so in a way that still encourages new construction.

The Budget papers anticipate that these reforms will enable an additional 75,000 Australians to buy their own home over the next decade and support the construction of up to 30,000 new homes over the same period; this is modest relative to the roughly 11 million dwellings in Australia, with more than 160,000 added each year. The grandfathering of existing holdings means that the implications for the housing market will be drawn out. In the short term, the interest rate environment will be a more consequential influence.

The government has also progressed its productivity reform agenda. Announced measures address the myriad of little things that hold the economy back, rather than a few headline-grabbers. Importantly, and appropriately, the government did not claim the tax reforms as productivity measures. The net impact of the productivity measures adds up to potentially

significant change. Red-tape reductions and harmonisation of regulation across states and territories feature prominently, including national licencing of key occupations; this follows previous efforts to create an automatic mutual recognition regime, which Queensland did not sign up to. The Budget also announces funding to support previously announced reforms, for example streamlining environmental assessments.

A range of other small measures complement the productivity agenda by encouraging new businesses. These include reforms to R&D tax incentives, loss carry-back for small businesses and refunds of tax losses for early-stage start-up firms. While it received less coverage on budget night, the savings mooted in the NDIS also add up to a significant reform, if they can be realised.

Most of the tax and productivity measures will have a slow-burn impact on the economy. Fuel security is a shorter-term priority, which the government has address with a range of initiatives to secure fuel supply and increase local inventory holdings. Here, too, though, there are longer-term measures working in the same direction. These include making the tax breaks for EVs permanent and regulatory measures and funding for charging infrastructure to encourage electrification of other parts of the transport system.

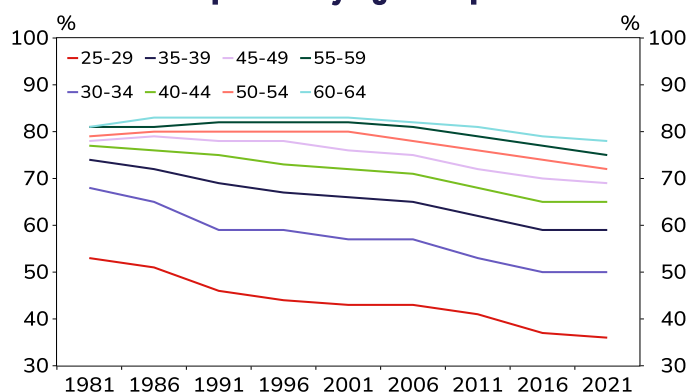
## Do the measures take pressure off demand?

This year's budget occurs in the context of an economy that was already contending with high inflation. Boosting demand further would have made the RBA's inflation-control task even harder. The budget does have a positive fiscal impact – the headline deficit increases across years in FY2026 and FY2027 – but it is moderate. Expressed as a per cent to GDP, the underlying cash deficit is flat at 1.0% between FY2026 and FY2029, before narrowing to 0.7% in FY2030. Estimates of the structural deficit show gradual improvement both in the forward estimates and through the medium-term forecasts.

This bottom-line result stems from the fact that the policy decisions are adding to the underlying cash deficit by considerably less than the economic environment is reducing it. In the short run, the cycle is helping the budget bottom line. Revenues have increased relative to the expectations at MYEFO as higher energy and other commodity prices have boosted corporate tax revenue. FY2026 and FY2027 also see positive parameter variations, dominated by higher receipts.

Further out in the forward estimates, policy decisions are expected to reduce spending relative to the MYEFO projections. The principal save comes from recently announced reforms to the NDIS. By contrast, spending continues to rise across health, education and childcare, with limited evidence of system-wide review into whether outcomes are improving in line with resources or whether NDIS-style savings can be achieved.

## Home Ownership Rates by Age Group



Source: ABS, Treasury, Macrobond, Westpac Economics

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**Table 2: Major policy initiatives in Budget 2026/27**

AUDbn	2026/27	5 Years*	Description
<b>Spending Measures – Expenses</b>			
National Health Reform Agreement	3.5	18.1	Commonwealth funding for hospital services with the states as part of the Addendum to the NHRA, announced in January. Includes \$24.4bn through to 2030/31 (slightly beyond forward horizon) through the higher funding cap and uplift in funding base.
Energy Sovereignty – Fuel Security <sup>^</sup>	–	11.9	\$7.5bn for establishment of a Fuel and Fertiliser Security Facility and \$3.2bn for the establishment of the Australian Fuel Security Reserve in combination with an increase to the Minimum Stockholding Obligation (MSO) to 50 days.
2026 National Defence Strategy & Integrated Investment Program	2.2	6.8	Broader \$53bn package as part of the Integrated Investment Program, supporting domestic development of drone technology. \$35.6bn earmarked as spending for delivery of the National Defence Strategy, including \$12bn to the Henderson Defence Precinct for docking and maintaining the AUKUS nuclear submarines.
Pharmaceutical Benefits Scheme – New & Amended Listings	1.4	5.9	Numerous new and amended listings to improve access to a range of medicinal treatments, including but not limited to: liver bile flow disruption, juvenile arthritis, multiple sclerosis, advanced stage prostate cancer, lung and bladder cancer.
Considered Infrastructure Investment	-0.8	1.0	Providing \$8.6bn over 11 years for road and rail infrastructure projects, including \$3.8bn for the Suburban Rail Loop East in Vic over the next four years, and \$1.8bn over the next nine years for projects across the states.
Boosting Home Ownership	0.5	2.1	Directed to Housing Support Program – Local Infrastructure Fund, providing funding via the states and territories to expedite the delivery of housing enabling infrastructure. Contingent on state commitment to productivity reforms in the housing sector.
Strengthening Medicare	0.7	1.9	Building on earlier initiatives for affordable access to health care services and increasing access to bulk billing initiatives; key announcement is an increase in funding for Medicare Urgent Care Clinics across Australia.
<b>Spending Measures – Taxes</b>			
Tax Reform – Working Australians Tax Offset	0.0	6.4	Introduces a permanent \$250 tax offset for working Australians (including sole traders), increasing the effective tax-free threshold by nearly \$1.8k. Effective from 2028.
Tax Reform – Loss Refundability for Businesses and Start-ups	0.0	2.7	Support for investment, risk-taking and resilience, the policy reintroduces loss carry-back for eligible firms and introducing loss refundability for small start-ups.
Fuel Excise & Heavy Vehicle Road User Charge Reduction	-0.5	2.5	Temporary cut in fuel excise rates by 32¢/L for three months from 1 April 2026, with the heavy vehicle road user charge reduced to zero. States and territories are contributing up to \$400mn to support the cut via redirected GST revenue.
Tax Reform – Making Tax Simpler for Businesses	0.0	0.8	A permanent extension to the \$20k instant asset write-off for small businesses and flexible PAYG instalment arrangements, with aims to reduce compliance costs and administrative burden.
<b>Saving Measures – Expenditure</b>			
Securing the National Disability Insurance Scheme for Future Generations	1.0	36.2	Major savings on the NDIS through a rapid slowdown in cost growth and removal of 160,000 existing participants from the Scheme. Projected to reduce growth in NDIS payments by \$37.8 billion over four years from 2026–27.
Electric Car Discount	0.0	1.7	From April 2029 EVs will receive a 25% fringe benefit discount, a continuation in policy from the current full exemption.
<b>Saving Measures – Taxes</b>			
Minimum Tax on Discretionary Trusts	0.0	4.4	Introduction of a 30% minimum tax rate on the taxable income of trusts. Beneficiaries will receive non-refundable tax credits for tax paid by the trustee.
Reforming Negative Gearing and CGT	0.0	3.5	From 1 July 2027, the existing 50% CGT discount for individuals, trusts and partnerships is replaced with cost-base indexation, combined with a 30% minimum tax on net capital gains.
<b>Net Total Change in Spending (including other and not yet announced)</b>	<b>6.5</b>	<b>-8.2</b>	

\* Includes 2025/26 through to 2029/30.

<sup>^</sup> \$11.9bn announced but distribution over the horizon is not for publication.

# Challenges, but coming from a position of strength

## Energy shock

The government expects disruptions from the conflict in the Middle East to weigh on activity but sees the economy coming from a position of strength and well-placed to withstand these pressures.

The shock is expected to 'dent' activity but growth is expected to be slow rather than weak: GDP forecasts revised ½ppt lower to 1.75% in FY2027 but with a solid and relatively quick rebound to 2.25% in FY2028.

The profile partly reflects conditioning assumptions. Oil prices are taken to peak at US\$100/bbl mid-year and decline from there. For comparison, Westpac's baseline forecast has an oil price peak of around US\$118/bbl on the same, Tapis oil price, basis but looks to track a similar decline to the government's assumed path.

Key positives assessed for Australia coming into this shock are: the robust starting point for growth (running faster than every major advanced economy), low unemployment remains, high labour force participation, solid wages growth and solid public finances.

However, the real tipping point is around the scale and duration of the energy shock. The budget sets out an alternative scenario that has oil peaking at US\$200/bbl and a much slower descent. This is estimated to take another ½ppt off growth in both FY2027 and FY2028.

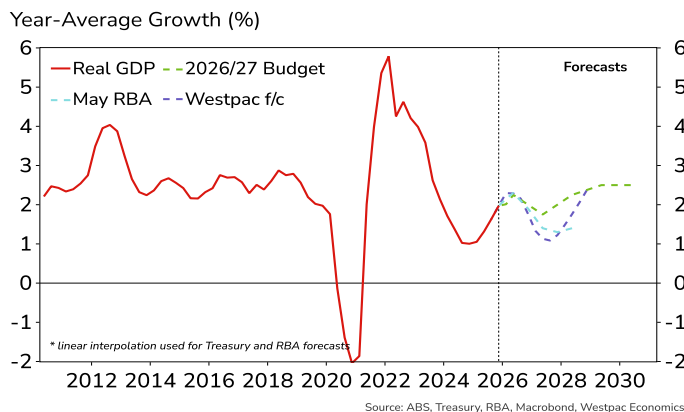
While Westpac's baseline assumptions are not nearly as bleak, our path for the crisis carries bigger negatives for the economy, particularly around inflation and consumer demand. This in turn has a more pronounced knock-on impacts via interest rate policy and the labour market.

## Labour market unperturbed

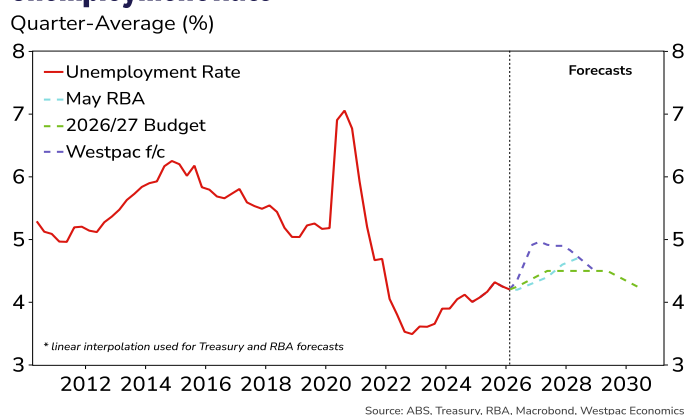
Indeed, the government is particularly sanguine on labour market prospects. The budget forecasts have employment growth sustaining at 1.5%yr in FY2026, lifting to 1.75% in FY2027 and the unemployment rate only nudging up slightly to 4.5%. Notably, the labour participation rate stays relatively high, lifting above its starting point in FY2028, suggesting Treasury have reassessed underlying trends in the aspect of the labour force. Upward revisions to net migration inflows also suggest population growth may be slightly more supportive.

However, the key point of difference between Westpac and the government forecasts is really around the price and volume split to growth. Our forecasts for nominal GDP growth are very similar. The main difference is that, compared to the government, we see price increases (i.e. inflation) making up about ½ppt more of the gains and growth in the real economy about ½ppt less.

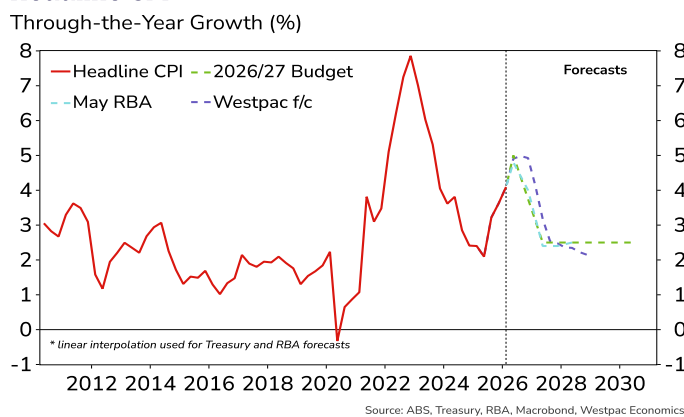
## Real GDP



## Unemployment Rate



## Headline CPI



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### Table 3: Budget Economic Forecasts

	2024–25		2025–26		2026–27			2027–28
	Actual	Budget	MYEFO	Chg.	Budget	MYEFO	Chg.	Budget
Household consumption	1.2	2¼	2½	–¼	1¾	2¼	–½	2½
Dwelling investment	4.3	5	5½	–½	4	6	–2	3½
Business investment*	–0.1	4	3	1	2½	1½	1	2
Private final demand*	1.3	3	3	–	2	2½	–½	2½
Public final demand*	4.2	2¾	2¾	–	2¾	2¼	½	2½
Inventories, contribution ppts	–0.1	0	–¼	¼	0	0	–	0
GNE	1.9	2¾	2¾	–	2¼	2½	–¼	2½
Net exports, contribution ppts	–0.6	–¼	–½	¼	–½	–¼	¼	–¼
Exports	0.7	3½	2½	1	1	1½	–½	2
Imports	3.3	5	4½	½	3½	2½	1	3
Real GDP	1.3	2¼	2¼	–	1¾	2¼	–½	2¼
Nominal GDP	3.6	6¾	5¼	1½	4¼	3¼	1	2¾
GDP Deflator	2.3	4¼	2¾	1½	2½	1	1½	½
Terms of trade	–4.1	4½	0	4½	–¾	–6	5¾	–7¼
Employment (Jun qtr)	2.1	1½	1¼	¼	1½	1½	–	1¾
Unemployment rate (Jun qtr)	4.2	4¼	4½	–¼	4½	4½	–	4½
Participation rate (Jun qtr)	67.0	66¾	67	–¼	67	67	–	67¼
CPI (Jun qtr)	2.1	5	3¾	1¼	2½	2¾	–¼	2½
WPI (Jun qtr)	3.4	3¼	3¼	–	3½	3¼	¼	3½
Current account, % of GDP	–2.5	–1¾	–2¾	1	–2¾	–4¾	2	–4
Net overseas migration, '000	305	295	260	35	245	225	20	225

\* business investment and government spending excluding the effect of private sector purchases of public sector assets.

^2025/26 economic forecasts not provided in the 2023/24 MYEFO

### Table 4: Westpac's Economic Forecasts

	2025–26	2026–27	2027–28		2025–26	2026–27	2027–28
Private consumption	2.2	1.3	2.3	Nominal GDP	6.6	4.2	2.5
Dwelling investment	5.3	4.2	3.6	GDP deflator	4.2	3.1	0.8
Business investment*	4.8	1.6	2.2	Terms of trade	2.0	–0.4	–3.3
Private final demand*	3.1	1.6	2.4	Employment	1.4	1.3	1.8
Public final demand*	2.6	2.5	2.4	Unemployment rate	4.3	4.9	4.8
Inventories (ppts cont'n)	–0.2	0.0	0.0	Participation rate	66.8	67.0	67.1
GNE	2.8	1.9	2.4	CPI	4.0	4.3	2.4
Net exports (ppts cont'n)	–0.3	–0.7	–0.6	WPI	3.3	3.2	3.1
Exports	4.5	2.0	2.4	Current account (% GDP)	–2.7	–3.3	–3.8
Imports	6.2	5.2	5.0				
Real GDP	2.3	1.1	1.8				

\* business investment and government spending excluding the effect of private sector purchases of public sector assets.

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