Statement 3:
Fiscal Strategy and Outlook

Following a $22.1 billion surplus in 2022–23, a $9.3 billion surplus is now forecast for 2023–24 – the first back-to-back surpluses in nearly two decades. The Government's responsible economic and fiscal management has returned the budget to surplus faster than any major advanced economy.

This Government is continuing to support monetary policy, keeping pressure off inflation by targeting a second surplus and returning over 96 per cent of tax upgrades to the budget in 2023–24. Since the Pre-election Economic and Fiscal Outlook 2022 (PEFO), 82 per cent of tax upgrades have been returned to the budget over the forward estimates period.

Real payments growth has been limited since coming to government and over the forward estimates period to 1.4 per cent per year, compared to around 3.2 per cent over the past 30 years. The Government has identified $32.2 billion in budget improvements in this Budget, bringing the total to $104.8 billion since coming to government.

The Government is delivering cost-of-living relief, with energy bill relief and rent assistance estimated to directly reduce headline inflation by ½ of a percentage point in 2024–25. This could see headline inflation return to the target band by the end of 2024, slightly earlier than expected at the Mid-Year Economic and Fiscal Outlook (MYEFO).

Inflation is the primary focus of the Budget in the near term. As inflation moderates, fiscal policy will shift emphasis towards promoting sustainable economic growth and public finances over time. This is achieved through a balanced approach that manages near-term risks to inflation and growth, puts in place reforms to build a stronger and more resilient economy, and safeguards fiscal sustainability.

The underlying cash balance forecast for 2023–24 has improved by $10.5 billion since MYEFO and $65.9 billion since the PEFO. A deficit of $28.3 billion is forecast in 2024–25. The larger deficit is driven by the Government's cost-of-living relief and addressing unavoidable spending pressures including the extension of funding for terminating health measures and frontline services. The underlying cash balance has improved by a cumulative $214.7 billion over the six years to 2027–28 compared to the forecasts at the PEFO. Gross debt is projected to be $183.0 billion lower at 30 June 2025 than forecast in the PEFO, saving around $80 billion in interest costs over the decade.

In line with the Economic and Fiscal Strategy, the Government is on track to stabilise and reduce gross debt as a share of the economy. Gross debt as a share of the economy is lower than at MYEFO and the PEFO in every year of the forward estimates and medium term. Gross debt is projected to peak at 35.2 per cent of GDP at 30 June 2027, 9.7 percentage points lower than the peak forecast in the PEFO.

The underlying cash balance improves over the medium term. However, Australia faces long-term fiscal challenges due to climate change, an ageing population, regional security and rising demand for care and support services.

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The Government's responsible economic management has delivered a surplus in 2022–23, and a second surplus of $9.3 billion (0.3 per cent of GDP) is forecast in 2023–24 (Table 3.1). This is an improvement in 2023–24 of $10.5 billion since MYEFO and $65.9 billion since the PEFO.

This Government is continuing to support monetary policy, keeping pressure off inflation by targeting a second surplus and returning over 96 per cent of tax upgrades to the budget in 2023–24. Since the PEFO, 82 per cent of tax upgrades have been returned to the budget over the forward estimates period.

A deficit of $28.3 billion (1.0 per cent of GDP) is forecast in 2024–25. The larger deficit is driven by the Government's cost-of-living relief and addressing unavoidable spending including the extension of funding for terminating health measures and frontline services.

The upgrades to receipts in this Budget are much smaller than recent budget updates, at around a fifth of the average of the previous three Budgets. This Budget sees tax receipts, excluding GST and policy decisions, increasing by $8.2 billion in 2024–25 and $27.0 billion over the forward estimates.

Real payments growth has been limited since coming to government and over the forward estimates period to 1.4 per cent and 2.1 per cent between 2024–25 and 2027–28, compared to around 3.2 per cent over the past 30 years. The Government has identified $32.2 billion in budget improvements in this Budget, bringing the total to $104.8 billion since coming to government.

The underlying cash balance is projected to improve over the medium term. Gross debt as a share of the economy is projected to be lower than at MYEFO and PEFO in every year of the forward estimates and medium term, helping to rebuild fiscal buffers to prepare for future challenges.

Gross debt as a share of the economy is expected to peak one year earlier and 0.2 percentage points lower than projected in MYEFO. By 30 June 2034, gross debt is 31.5 per cent of GDP, 0.6 percentage points lower than projected at MYEFO. Gross debt is projected to be $183.0 billion lower at 30 June 2025 than at PEFO, and these improvements save around $80 billion in interest costs over the decade.

Table 3.1: Australian Government general government sector budget aggregates

	Actual	Estimates						Projections
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total(a)	2034-35
	$b	$b	$b	$b	$b	$b	$b	% of GDP
Underlying cash balance	**22.1**	**9.3**	**-28.3**	**-42.8**	**-26.7**	**-24.3**	**-112.8**	
Per cent of GDP	0.9	0.3	-1.0	-1.5	-0.9	-0.8		-0.1
Receipts	**649.5**	**692.3**	**698.4**	**719.4**	**760.0**	**801.8**	**3,671.9**	
Per cent of GDP	25.3	25.8	25.3	25.1	25.1	25.2		26.2
Tax receipts	**601.3**	**638.8**	**642.5**	**661.6**	**702.3**	**742.3**	**3,387.5**	
Per cent of GDP	23.5	23.8	23.3	23.1	23.2	23.3		24.5
Non-tax receipts	**48.2**	**53.6**	**55.9**	**57.8**	**57.7**	**59.5**	**284.5**	
Per cent of GDP	1.9	2.0	2.0	2.0	1.9	1.9		1.7
Payments(b)	**627.4**	**683.0**	**726.7**	**762.2**	**786.7**	**826.2**	**3,784.8**	
Per cent of GDP	24.5	25.4	26.4	26.6	26.0	26.0		26.3
Gross debt(c)	**889.8**	**904.0**	**934.0**	**1,007.0**	**1,064.0**	**1,112.0**		
Per cent of GDP	34.7	33.7	33.9	35.1	35.2	34.9		30.2
Net debt(d)	**491.0**	**499.9**	**552.5**	**615.5**	**660.0**	**697.5**		
Per cent of GDP	19.2	18.6	20.0	21.5	21.8	21.9		18.7
Net interest payments(e)	**11.9**	**12.3**	**14.5**	**18.8**	**20.8**	**26.0**	**92.4**	
Per cent of GDP	0.5	0.5	0.5	0.7	0.7	0.8		1.1

a) Total is equal to the sum of amounts from 2023–24 to 2027–28.
b) Equivalent to cash payments for operating activities, purchases of non-financial assets and principal payments of lease liabilities.
c) Gross debt measures the face value of Australian Government Securities (AGS) on issue.
d) Net debt is the sum of interest-bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).
e) Net interest payments are equal to the difference between interest payments and interest receipts. The increases in 2025–26 and 2027–28 primarily reflect Treasury Indexed Bonds maturing in those years.

Economic and Fiscal Strategy

The Government's Economic and Fiscal Strategy is making the economy and the budget stronger, more resilient and more sustainable over the medium term (Box 3.1). The strategy is consistent with the requirements of the *Charter of Budget Honesty Act 1998*, with progress reviewed each budget update.

Box 3.1: The Government's Economic and Fiscal Strategy

The Government's Economic and Fiscal Strategy will make the economy more resilient and put the budget on a more sustainable footing over time.

The Strategy is focused on the objectives of strong, inclusive and sustainable economic growth, full employment, growing real wages, ensuring women's economic participation and equality, and improving living standards for all Australians.

The Government will improve the budget position in a measured way, consistent with the overarching goal of reducing gross debt as a share of the economy over time. This approach enables fiscal policy to respond to changes in economic conditions to support macroeconomic stability, including in times of high inflation.

These objectives will be achieved by investments that grow the economy and expand productive capacity, and budget discipline that restrains spending growth and enhances the quality of spending. The budget will be improved in a manner consistent with the objective of maintaining full employment, while continuing to deliver essential services.

Putting the budget on a more sustainable footing will ensure the Government has the fiscal buffers to withstand economic shocks and better manage the fiscal pressures from an ageing population and climate change.

These commitments will be underpinned by the following elements:

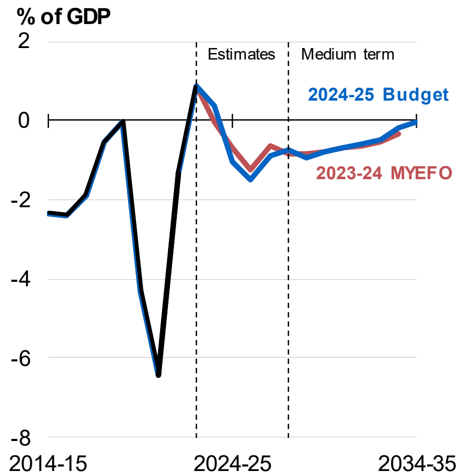
- Allowing tax receipts and income support to respond in line with changes in the economy and directing the majority of improvements in tax receipts to budget repair.
- Limiting growth in spending until gross debt as a share of GDP is on a downwards trajectory, while growth prospects are sound and unemployment is low.
- Improving the efficiency, quality and sustainability of spending.
- Focusing new spending on investments and reforms that build the capability of our people, expand the productive capacity of our economy, and support action on climate change.
- Delivering a tax system that funds government services in an efficient, fair and sustainable way.

Delivering on the Economic and Fiscal Strategy

This Budget delivers on the Government's Economic and Fiscal Strategy by:

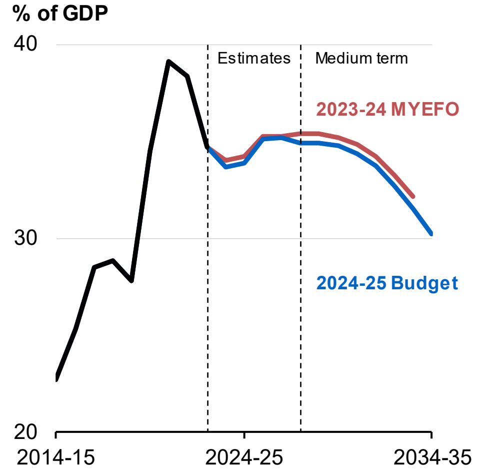
- Forecasting a $9.3 billion surplus in 2023–24 – this would be the first time a government has delivered back-to-back surpluses in nearly two decades (Chart 3.1).
- Reducing debt as a share of the economy over time. Gross debt-to-GDP is projected to peak at 35.2 per cent at 30 June 2027, before declining to 30.2 per cent at 30 June 2035 (Chart 3.2).
- Returning 96 per cent of tax receipt upgrades (excluding GST) to the budget in 2023–24, keeping pressure off inflation.
- Returning 82 per cent of revenue upgrades to the budget since coming to government over the forward estimates period.
- Repairing the budget through $27.9 billion in savings and spending reprioritisations and $3.1 billion in improvements to the tax system.
  - This brings total savings and spending reprioritisations to $77.4 billion and total budget improvements to $104.8 billion since the PEFO.
- Limiting spending, with real payments growth since coming to government and over the forward estimates period estimated to be 1.4 per cent.
  - This compares to the 3.2 per cent average over the past 30 years.

Chart 3.1: Underlying cash balance



Source: Treasury.

Chart 3.2: Gross debt



Source: Australian Office of Financial Management, Treasury.

The Government is keeping the pressure off inflation and supporting monetary policy by targeting a second consecutive surplus and continuing to bank the majority of revenue upgrades in 2023–24 (Box 3.2). The Government is directly reducing inflation through responsible cost of living measures. In 2024–25, extension of energy bill relief and increases to rental assistance are estimated to directly reduce inflation by ½ of a percentage point and are not expected to add to broader inflationary pressures.

Compared to the PEFO:

- The underlying cash balance has improved by a cumulative $214.7 billion over the six years to 2027–28.
- Gross debt is lower every year of the projection period. At 30 June 2025, gross debt is projected to be $183.0 billion (11.0 percentage points of GDP) lower than at the PEFO.
- The improvements to the Budget position over the 11 years to 2032–33 are expected to save around $80 billion in interest payments over this period.

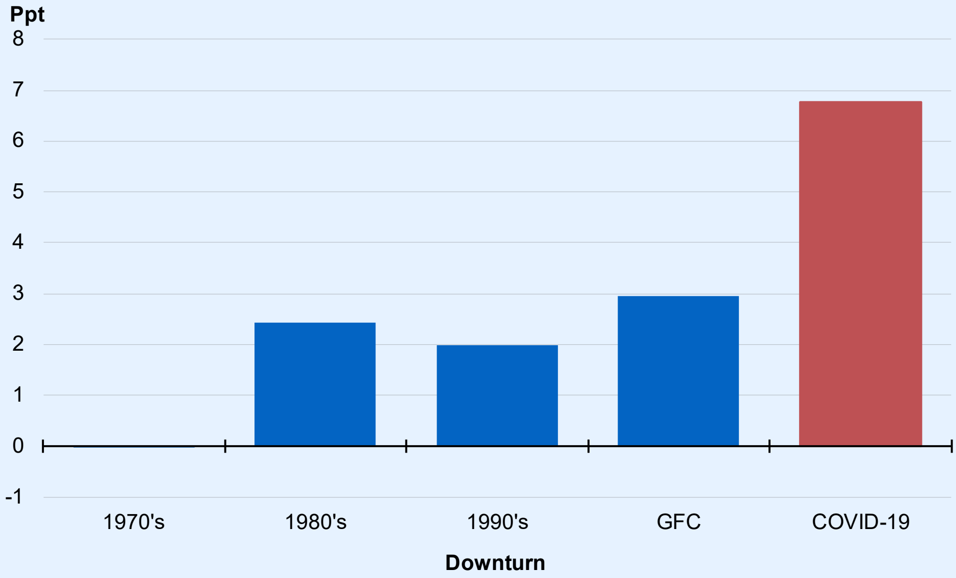
The Government's responsible economic and fiscal management has meant Australia's fiscal position has improved by more than any other G20 country since 2021. Australia remains one of only nine countries to retain a AAA credit rating from all three major credit rating agencies.

Box 3.2: Fiscal policy in a period of high inflation

In a high-inflation environment, fiscal policy can be used to reduce demand pressures while providing targeted cost-of-living support to those in need. This can help ease inflation and limit the adverse impact on household consumption and welfare relative to monetary policy working alone (IMF 2023).

In Australia, fiscal policy has tightened rapidly. Budget balance metrics – such as the underlying cash balance and net operating balance (as a per cent of GDP) – have increased by around seven percentage points since their pandemic trough. This is the fastest and largest tightening on record: typical improvements were around two to three percentage points in the three years coming out of recessions (Chart 3.3).

Chart 3.3 Budget balance to GDP improvements in economic recoveries



Source: Treasury.
Note: Cumulative underlying cash balance improvement over three years from the trough following an economic downturn.

This tightening was possible because of the Government's spending restraint, through returning the majority of upward revisions to tax receipts to the budget and keeping real spending growth low.

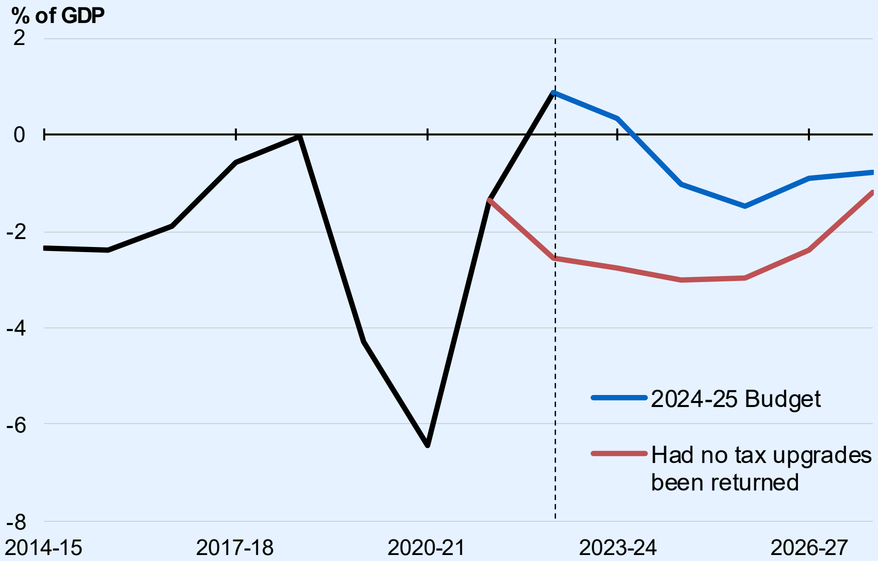
Continued on next page

Box 3.2: Fiscal Policy in a Period of High Inflation (continued)

Economic strength, a resilient labour market and high commodity prices drove an increase in personal income and company tax collections. This saw large upward revisions to tax receipts as the Australian economy rebounded from the pandemic.

Returning 91 per cent of tax receipt upgrades to the budget in 2022–23 and 2023–24 has allowed these improvements in receipts to help moderate demand in the economy. If the upgrades were instead spent, the underlying cash balance would be around 3 per cent of GDP worse in 2023–24 (Chart 3.4).

Chart 3.4 Underlying cash balance scenario



Source: Treasury.

Spending restraint – including by not continuing to extend temporary pandemic fiscal measures or replacing them with new spending measures – and structural budget improvements further added to the fiscal tightening.

Within a tightening budget position, the Government provided responsible relief to support households facing significant cost-of-living pressures. The impacts of high but moderating inflation and higher interest rates put households under pressure. In response, the Government undertook measures – including energy bill relief, child care subsidies, and rent assistance – to support households to pay for essentials.

By tightening fiscal policy in aggregate and providing responsible relief in the period of high inflation, the Government's approach to fiscal policy has helped to reduce inflation from its peak while reducing the burden of inflation on lower and middle-income households.

Fiscal outlook

Underlying cash balance estimates

The underlying cash balance is estimated to be a $9.3 billion surplus (0.3 per cent of GDP) in 2023–24, an improvement of $10.5 billion compared to MYEFO (Table 3.2). This follows a $22.1 billion surplus in 2022–23. This would be the first back-to-back surplus nearly two decades. Australia's fiscal position has improved by more than any other G20 country since 2021, according to IMF data (Box 3.3).

An underlying cash deficit of $28.3 billion (1.0 per cent of GDP) is forecast for 2024–25, $9.5 billion lower since MYEFO. The underlying cash deficit is expected to increase in 2025–26 before declining to $24.3 billion (0.8 per cent of GDP) in 2027–28. Over the five years to 2027–28, the underlying cash balance is lower by a cumulative $11.8 billion since MYEFO.

Policy decisions since MYEFO have reduced the underlying cash balance by $24.4 billion over five years to 2027–28. This includes $7.8 billion dollars in responsible cost-of-living relief and $15.4 billion in unavoidable spending. Parameter and other variations since MYEFO have improved the underlying cash balance by $12.6 billion over five years to 2027–28.

Addressing Unavoidable and Legacy Issues

Over five years to 2027–28, there is $15.4 billion in unavoidable spending, including to extend terminating programs and continue to address legacy issues left by the former Government. Investment in these critical areas ensures that we keep existing programs in place to prevent any cuts to the services that Australians rely on. This includes funding to:

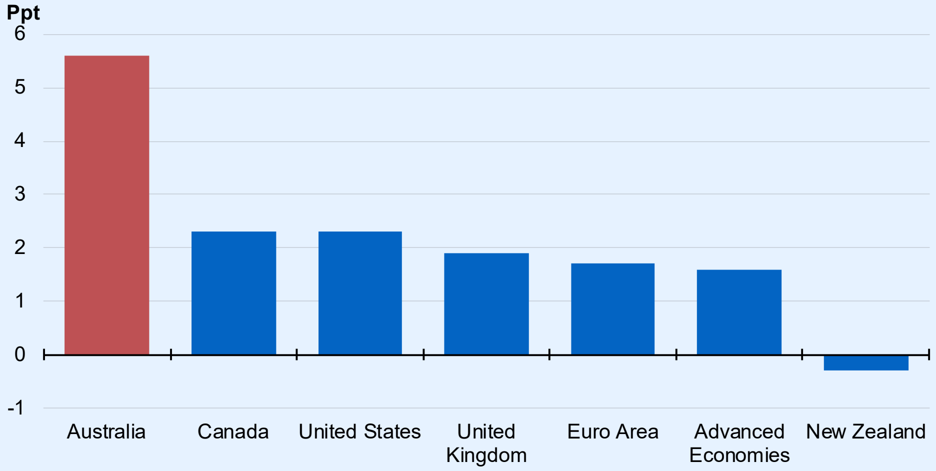
- address pressures at Services Australia, help stabilise claim processing performance and continue emergency response capability, continue to operate, maintain and enhance myGov, and improve safety for staff and customers.
- address unavoidable cost pressures for existing projects in the Infrastructure Investment Program.
- extend terminating health programs and continue the COVID-19 response.
- support digital capability and sustainment of aged care systems.
- address underfunding at Home Affairs and the Australian Border Force, helping to sustain operations and maintain capability to secure our borders.

Box 3.3: International fiscal comparisons

The Government's responsible budget management, where the proceeds from a resilient labour market and elevated commodity prices have been returned to the budget, has contributed to strong fiscal outcomes for Australia. Australia's budget balance as a share of GDP has continued to improve more quickly than in most countries, and gross debt-to-GDP remains at comparatively low levels.

Australia's general government fiscal deficit – which includes the fiscal positions of state and local governments – is expected to have narrowed to 0.9 per cent of GDP in 2023, from 6.5 per cent in 2021. This 5.6 percentage point improvement is much larger than the advanced-economy average of 1.6 percentage points over the same period (Chart 3.5). Australia had the second strongest fiscal balance in 2023 among G20 countries, up from fourteenth in 2021.

Chart 3.5: Change in fiscal balance to GDP (2021 to 2023)



Source: International Monetary Fund.
Note: International Monetary Fund fiscal data are produced on a consistent basis across countries. They are produced for calendar years and on a general government basis. They are not directly comparable with fiscal aggregates reported elsewhere in the Budget.

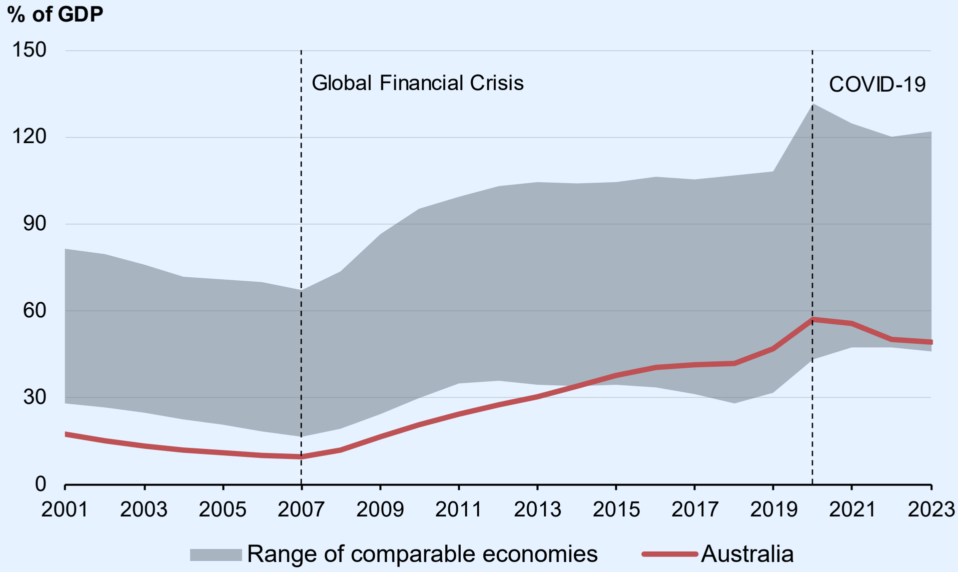
Debt-to-GDP has fallen faster and earlier than the IMF projected at the height of the pandemic. Between 2021 and 2023, Australia's general government gross debt-to-GDP fell by 6.1 percentage points. Australia's gross debt as a share of GDP has remained low compared to its international peers (Chart 3.6).

Continued on next page

Box 3.3: International Fiscal Comparisons (continued)

The recent debt reduction is a welcome development. However, across the world, government debt remains well above its pre-Global Financial Crisis levels. In Australia, general government gross debt increased to a peak of 57 per cent in 2020. The Government's Economic and Fiscal Strategy focuses on reducing gross debt as a share of the economy. The IMF projects Australia's general government gross debt to GDP to continue to fall to 44 per cent of GDP by 2029. This will ensure Australia continues to have the fiscal space to respond to future economic shocks.

Chart 3.6: General government gross debt



Source: International Monetary Fund.

Note: International Monetary Fund fiscal data are produced on a consistent basis across countries. They are produced for calendar years and on a general government basis. They are not directly comparable with fiscal aggregates reported elsewhere in the Budget. The range has been calculated using a subset of comparable advanced economies: Canada, the Euro Area, New Zealand, United Kingdom and United States.

Table 3.2: Reconciliation of general government sector underlying cash balance estimates

	Estimates					
	2023–24 $m	2024–25 $m	2025–26 $m	2026–27 $m	2027–28 $m	Total $m
2023–24 Budget underlying cash balance	**-13,918**	**-35,058**	**-36,627**	**-28,450**	*	*
Per cent of GDP	-0.5	-1.3	-1.3	-1.0	*	
Changes from 2023–24 Budget to 2023–24 MYEFO						
Effect of policy decisions(a)	-650	-2,430	-1,025	-1,160	*	*
Effect of parameter and other variations	13,458	18,660	2,534	10,112	*	*
Total variations	**12,808**	**16,230**	**1,509**	**8,952**	*	*
2023–24 MYEFO underlying cash balance(b)	**-1,110**	**-18,828**	**-35,119**	**-19,498**	**-26,452**	**-101,007**
Per cent of GDP	0.0	-0.7	-1.2	-0.6	-0.8	
Changes from 2023–24 MYEFO to 2024–25 Budget						
Effect of policy decisions(a)(c)						
Receipts	*136*	*2,215*	*-1,000*	*1,989*	*4,725*	*8,064*
Payments	*298*	*11,724*	*9,304*	*5,243*	*5,934*	*32,503*
Total policy decisions impact on underlying cash balance	-162	-9,509	-10,304	-3,254	-1,209	-24,439
Effect of parameter and other variations(c)						
Receipts	*6,906*	*5,509*	*9,015*	*2,644*	*-298*	*23,776*
Payments	*-3,712*	*5,458*	*6,430*	*6,605*	*-3,614*	*11,167*
Total parameter and other variations impact on underlying cash balance	10,618	51	2,584	-3,961	3,316	12,609
2024–25 Budget underlying cash balance	**9,346**	**-28,286**	**-42,838**	**-26,713**	**-24,345**	**-112,837**
Per cent of GDP	0.3	-1.0	-1.5	-0.9	-0.8	

*Data is not available.

a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

b) 2027–28 as published in the medium-term projections, page 59 of the Mid-Year Economic and Fiscal Outlook 2023–24.

c) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

Primary balance estimates

The primary cash balance adjusts the underlying cash balance to exclude interest payments and interest receipts (as these are largely outside government control in the short term). This provides a more representative measure of the Government's fiscal decisions.

The primary balance is expected to be in surplus by $21.6 billion (0.8 per cent of GDP) in 2023–24 and in deficit in 2024–25. In 2027–28, the primary balance is expected to return to surplus, reflecting an improving underlying cash balance.

Since MYEFO, the primary balance has improved $10.1 billion in 2023–24 and deteriorated by $9.9 billion in 2024–25. Movements in the primary balance over the forward estimates period are broadly consistent with movements in the underlying cash balance.

The underlying cash balance is expected to improve more than the primary balance in 2023–24 because net interest payments (which are excluded from the primary balance calculation) are lower than forecast at MYEFO.

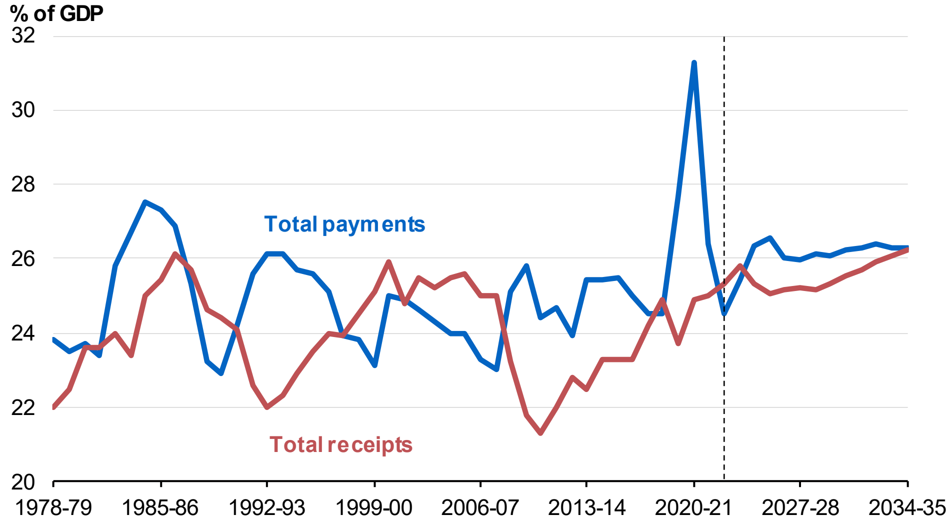
Medium-term projections

The medium-term fiscal outlook has slightly improved since the 2023–24 MYEFO. Modest underlying cash deficits of less than 1 per cent of GDP are projected over the medium term.

- The underlying cash balance in 2033–34 is expected to be a deficit of 0.2 per cent of GDP, a 0.1 percentage point improvement over that projected at MYEFO.
- The primary balance is expected to be in surplus from 2029–30. The primary surplus in 2033–34 is expected to be 0.9 per cent of GDP, 0.1 percentage points higher than projected at MYEFO.
- Gross debt-to-GDP is lower across the entire projection period compared to MYEFO. By 30 June 2034, gross debt is expected to be 31.5 per cent of GDP, 0.6 percentage points lower than projected at MYEFO.

Total receipts as a share of GDP are expected to increase from 25.2 per cent of GDP in 2027–28 to 26.2 per cent of GDP in 2034–35. Total payments as a share of GDP are expected to increase from 26.0 per cent of GDP in 2027–28 to 26.3 per cent of GDP in 2034–35 (Chart 3.7).

Chart 3.7: Payments and receipts



Source: Treasury.

Changes in the medium-term outlook since MYEFO

Receipts as a share of GDP are lower since MYEFO, including 0.1 percentage points lower in 2033–34.

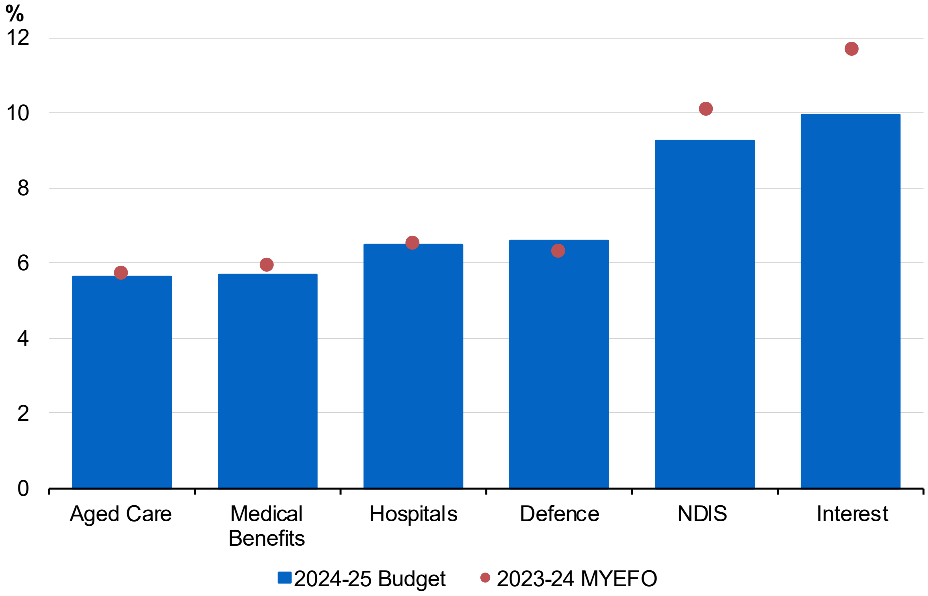
Payments are expected to be 0.3 percentage points of GDP lower than at MYEFO in 2033–34. Nominal GDP is also higher than at MYEFO, reducing receipts and payments as a share of the economy.

Payments over the medium-term

The fastest-growing major payments over the medium term are interest on government debt, the National Disability Insurance Scheme (NDIS), defence, health and aged care. Growth in some of these payments has changed since MYEFO (Chart 3.8).

- Interest payments growth is expected to average 9.9 per cent per year over the projections period (2024–25 to 2034–35) compared to 11.7 per cent at MYEFO (2023–24 to 2033–34).
- NDIS Commonwealth funded participant payments growth is expected to average 9.2 per cent per year over the projections period compared to 10.1 per cent at MYEFO. This largely reflects the shifting of the end of the projection period to 2034–35, which encompasses an additional year of moderation in scheme growth under the NDIS Financial Sustainability Framework. The Government's NDIS reforms are expected to moderate growth in NDIS expenditure from 2024–25 in line with MYEFO projections.
- Defence payments growth is expected to average 6.6 per cent per year over the projection period compared to 6.3 per cent at MYEFO. This reflects the introduction of the 2024 National Defence Strategy, which will increase defence payments as a share of GDP over the next decade (Box 3.4).
- Medical benefits payments growth is expected to be 5.7 per cent on average over the projection period, broadly similar to the 5.9 per cent at MYEFO.

Chart 3.8: Average annual growth in major payments 2024–25 to 2034–35



Source: Treasury.

Note: Shows major payments that are growing faster than nominal GDP over the projection period. Interest refers to interest payments on Australian Government Securities. NDIS refers to the Australian Government's contribution to payments for NDIS participant supports. Growth rate for the 2023–24 MYEFO is from 2023–24 to 2033–34. Growth rate for the 2024–25 Budget is from 2024–25 to 2034–35. Growth rates are consistent with parameters in current intergovernmental agreements.

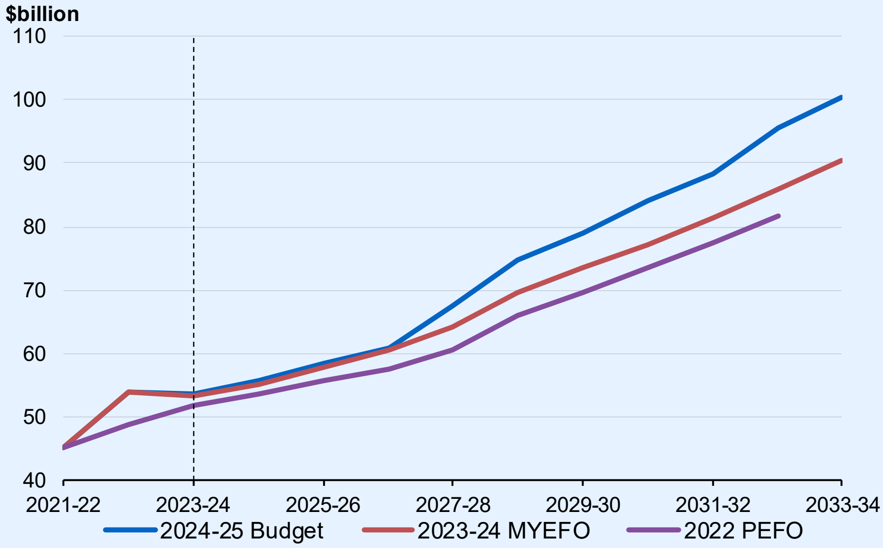
Box 3.4: Investing in our national defence

The Government is investing an additional $50.3 billion over the next decade, through the 2024 National Defence Strategy (NDS) to meet Australia's strategic needs. Defence's Integrated Investment Program has been rebuilt as part of the NDS to accelerate delivery of capability priorities, including the expansion of the Royal Australian Navy's surface combatant fleet. Defence funding will be higher in every year of the forward estimates and over the medium term compared to MYEFO and the PEFO (Chart 3.9). Total investment in defence will amount to $765 billion across 2024–25 to 2033–34.

The Government is reforming the Department of Defence's capability acquisition system to deliver capability more quickly while maximising value for money, transparency, and appropriate assurance mechanisms to support implementation of the NDS.

These investments and reforms will shift the Australian Defence Force to an integrated and focused force, strengthen cooperation with international partners, and enhance our capacity to address the complex strategic circumstances we face.

Chart 3.9: Defence payments at selected Budget updates

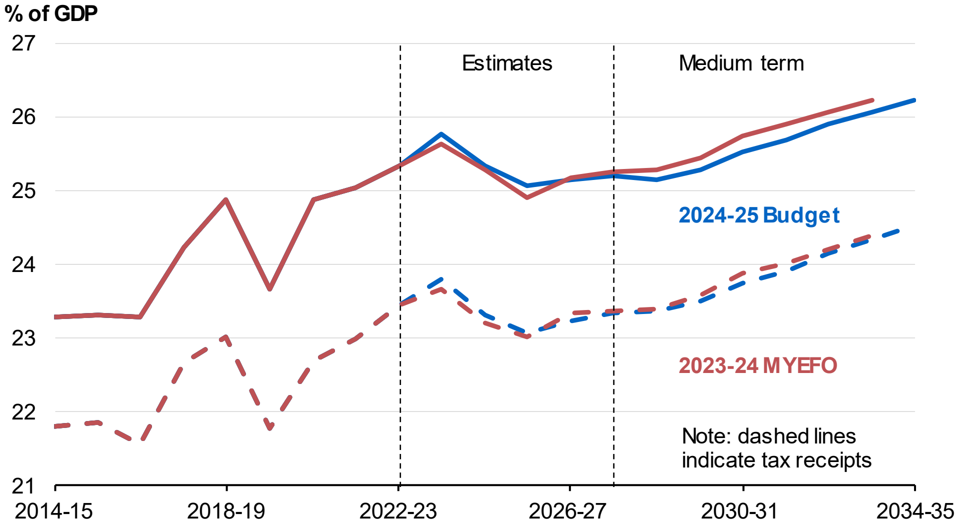


Source: Treasury.
Note: MYEFO figure does not include the provision made for the Defence Strategic Review at the 2023–24 Budget.

Receipts estimates and projections

Total receipts are expected to decrease from 25.8 per cent of GDP in 2023–24 to 25.2 per cent of GDP in 2027–28. This largely reflects changes in tax receipts, which are expected to decrease from 23.8 per cent of GDP to 23.3 per cent of GDP over this period (Chart 3.10).

Chart 3.10: Total receipts



Source: Treasury.

Receipts policy decisions over the forward estimates

Policy decisions in this Budget have increased total receipts by $2.2 billion in 2024–25 since MYEFO, and by $8.1 billion over five years to 2027–28.

Policy decisions since MYEFO have increased tax receipts by $4.9 billion over five years to 2027–28.

Key tax receipt measures include:

- delivering a tax cut for all 13.6 million Australian taxpayers from 1 July 2024. This measure is estimated to decrease receipts by $1.3 billion over the five years to 2027–28
- extending the ATO's Tax Avoidance Taskforce, Shadow Economy Compliance Program and Personal Income Tax Compliance Program. These measures are estimated to increase receipts by $4.5 billion over the five years to 2027–28, partially offset by an associated increase in payments of $1.8 billion, including GST payments to the states and territories of $0.4 billion
- strengthening the integrity of the foreign resident capital gains tax regime. This measure is estimated to increase receipts by $600 million over the five years to 2027–28, partially offset by an associated increase in payments of $8.0 million.

Since MYEFO, policy decisions are expected to increase non-tax receipts by $0.5 billion in 2024–25 and by $3.2 billion over the five years to 2027–28.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2024–25*.

Receipts parameter and other variations over the forward estimates

Parameter and other variations have increased total receipts since MYEFO by $6.9 billion in 2023–24, $5.5 billion in 2024–25 and by $23.8 billion over five years to 2027–28 (Table 3.3).

The increase in total receipts due to parameter and other variations primarily reflects tax receipts, which have been revised up by $7.3 billion in 2024–25 and by $21.1 billion over five years to 2027–28.

This Budget sees tax receipts excluding GST and policy decisions, increasing since MYEFO by $8.2 billion in 2024–25 and $27.0 billion over the forward estimates period. Higher employment and continuing strength in the labour market is a key driver of upgrades, accounting for $21.6 billion of the net $27.0 billion upgrade to tax receipts since MYEFO. Higher corporate profits make a broadly similar contribution to the upgrade to tax receipts. These have been partly offset by a weaker than expected outlook for tobacco excise and superannuation fund earnings.

Since MYEFO, parameter and other variations are expected to decrease non-tax receipts by $1.8 billion in 2024–25 and increase non-tax receipts by $5.6 billion over the five years to 2027–28. This movement is partially driven by the Commonwealth Superannuation Corporation reprofiling the transfer of funded benefits to the Consolidated Revenue Fund, higher earnings from the Future Fund and Australian Government Investment Funds, and higher interest on cash deposits.

Further information on expected receipts is provided in *Statement 5: Revenue.* Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in *Statement 8: Forecasting Performance and Sensitivity Analysis*.

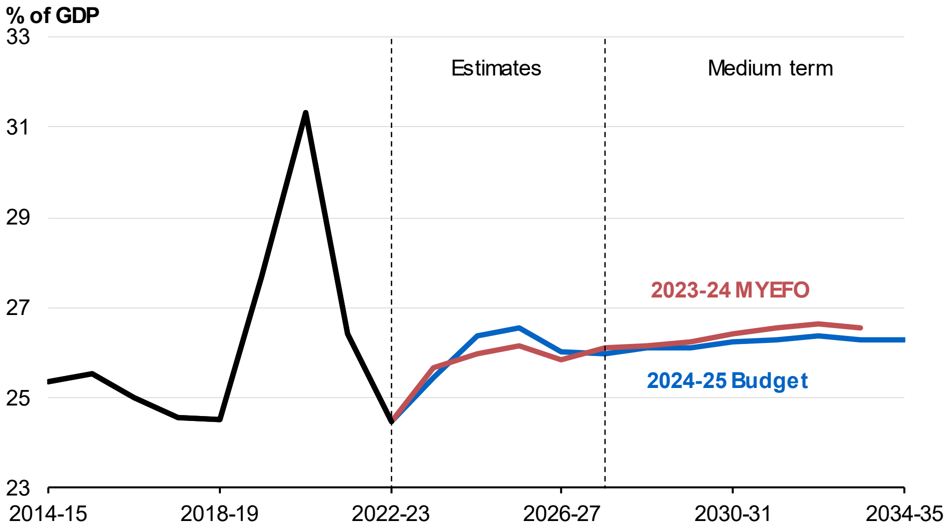
Payments estimates and projections

Since MYEFO, total projected payments have decreased by $3.4 billion in 2023–24 and increased by $43.7 billion over five years to 2027–28. Real payments growth since coming to government and over the forward estimates period is expected to be 1.4 per cent per year.

Payments due to parameter and other variations have been revised down by $3.7 billion in 2023–24, largely arising from delays in payments as a result of capacity constraints.

Payments as a share of GDP are lower from 2027–28 and in every year of the medium term compared to MYEFO. By 2034–35, payments are projected to be 26.3 per cent of GDP (Chart 3.11).

Chart 3.11: Total payments



Source: Treasury.

Payment policy decisions over the forward estimates

New policy decisions since MYEFO have increased total payments by $11.7 billion in 2024–25 and by $32.5 billion over five years from 2023–24 to 2027–28.

Major policy decisions since MYEFO that have increased payments include:

- the delivery of the 2024 National Defence Strategy and Integrated Investment Program, which is expected to increase payments by $5.7 billion over four years from 2024–25
- the extension and expansion of the Energy Bill Relief Fund to provide cost of living relief to all Australian households and eligible small businesses, which is expected to increase payments by $3.5 billion over three years from 2023–24
- funding for new and amended listing on the Pharmaceutical Benefits Scheme, which is expected to increase payments by $3.4 billion over five years from 2023–24
- funding towards priority road and rail infrastructure projects, consistent with the Government's more integrated, strategic and sustainable approach to infrastructure investment, which is expected to increase payments by $2.9 billion over five years from 2023–24
- funding to improve the way Services Australia delivers services to the Australian community, by maintaining frontline staff, enhancing safety and security at Services Australia centres and sustaining and enhancing the myGov platform, which is expected to increase payments by $2.8 billion over five years from 2023–24

- the delivery of the Government's Future Made in Australia agenda, which makes it easier to invest in Australia and promotes investment in key priority industries, including Australia's plan to become a renewable energy superpower, and investing in new digital capabilities, which is expected to increase payments by $2.6 billion over five years from 2023–24

- funding to continue aged care reforms, including in response to the Royal Commission into Aged Care Quality and Safety, which is expected to increase payments by $2.2 billion over five years from 2023–24

- increases to the maximum rates of Commonwealth Rent Assistance by 10 per cent to help address rental affordability challenges for recipients, which is expected to increase payments by $1.9 billion over five years from 2023–24

- increased investment in housing infrastructure to build more homes sooner, and support for social housing and homelessness services by states and territories under a new National Agreement on Social Housing and Homelessness, which is expected to increase payments by $1.5 billion over seven years from 2023–24

- funding to strengthen Medicare by supporting earlier discharge from hospital for older Australians, improving access to essential services, modernising Australia's digital health infrastructure, and ensuring the integrity of Medicare, which is expected to increase payments by $1.1 billion over five years from 2023–24

- strengthening of Australia's government-funded Paid Parental Leave scheme to improve women's retirement outcomes, which is expected to increase payments by $1.1 billion over five years from 2023–24

- funding for the first stage of reforms to Australia's tertiary education system to boost equity and access to higher education, progress tertiary harmonisation and drive future productivity growth, which is expected to increase payments by $667.6 million over five years from 2023–24

Major policy decisions since MYEFO that have decreased payments include:

- moderating the growth in NDIS participant support payments by $14.4 billion over four years from 2024–25, through the NDIS legislative reforms being undertaken by the Government as part of the *National Disability Insurance Scheme – Getting the NDIS back on track* measure, which will offset the expected increase in expenditure on supports for NDIS participants from 2024–25 based on the revised projections from the NDIS Actuary (see payment parameter and other variations below)

- further reducing spending on consultants, contractors and labour hire, will achieve a savings of $1.0 billion over four years from 2024–25

- funding for additional activities to strengthen the payment and accuracy of the Child Care Subsidy program, will achieve savings of $440.7 million over four years from 2024–25.

Payment parameter and other variations over the forward estimates

Parameter and other variations since MYEFO have increased payments by $5.5 billion in 2024–25 and by $11.2 billion over five years from 2023–24 to 2027–28.

This is primarily driven by higher estimates for payments related to the NDIS and for payments to veterans under the Military Rehabilitation Compensation Acts as the Government delivers on its commitment to clear the claims backlog. Offsetting this increase, in part, are an estimated decrease in GST payments to the states, a decrease in payments related to the Medical Benefits program, and lower expected recipient numbers for the Financial Support for Carers and Student Payments programs, reflecting continued strong labour market performance.

Major increases in payments from parameter and other variations since MYEFO include:

- payments related to the NDIS were estimated to increase by $1.3 billion in 2023–24 and $15.9 billion over five years from 2023–24 to 2027–28 based on revised projections from the NDIS Actuary showing increased expenditure on supports for NDIS participants, as well as other accounting adjustments. The NDIS legislative reforms being undertaken by the Government as part of the *National Disability Insurance Scheme – Getting the NDIS back on track* measure are expected to offset the increase projected by the NDIS Actuary and moderate this additional growth in NDIS payments by $14.4 billion over four years from 2024–25. Taken together, payments related to the NDIS are expected to increase by $1.5 billion over five years from 2023–24 to 2027–28 and will ensure the NDIS remains on track to achieve the NDIS Sustainability Framework agreed by National Cabinet from 1 July 2026.

- payments related to the Military Rehabilitation Compensation Acts – Income Support and Compensation program are expected to increase by $892.7 million in 2024–25 and $6.5 billion over five years from 2023–24 to 2027–28, largely due to more claims being processed because of increased staffing levels that the Government has agreed to in order to deliver on its commitment to clear the backlog, which results in increased payments to veterans.

- payments related to National Partnership Payments – Natural Disaster Relief are expected to increase by $814.0 million in 2024–25 and $3.9 billion over five years from 2023–24 to 2027–28, largely due to higher-than-expected spending related to past disaster events including New South Wales flooding events between March 2021 and September 2022 and flooding associated with Tropical Cyclone Jasper in December 2023.

- payments related to the Child Care Subsidy are expected to increase by $621.1 million in 2024–25 and $3.2 billion over five years from 2023–24 to 2027–28, largely reflecting additional support flowing to families due to the higher costs of providing care.

- payments related to Job Seeker Income Support are expected to increase by $496.6 million in 2024–25 and $2.7 billion over five years from 2023–24 to 2027–28, largely due to upward revisions to the expected number of recipients and average payment rates driven by changes to the composition of payment recipients.

- payments related to the Research and Development Tax Incentive are expected to increase by $499.0 million in 2024–25 and $2.6 billion over five years from 2023–24 to 2027–28. This is due to increases in the overall number and value of expected claims, with higher-than-expected growth in claims by companies in the 'Professional, Scientific and Technical Services' sector.

- payments related to Defence Force Superannuation Benefits payments are expected to increase by $414.9 million in 2024–25 and $2.1 billion over five years from 2023–24 to 2027–28, largely reflecting changes to invalidity payment projections by the actuary for the Military Superannuation and Benefits Scheme and to align the accounting treatment of Defence superannuation schemes with whole-of-government arrangements.

- payments relating to Non Government Schools are expected to increase by $136.7 million in 2024–25 and $1.7 billion over five years from 2023–24 to 2027–28, primarily due to revisions to enrolment projections.

- payments related to Public Sector Superannuation Benefits are expected to increase by $325.7 million in 2024–25 and $1.6 billion over five years from 2023–24 to 2027–28, largely reflecting Consumer Price Index (CPI) outcomes.

- payments relating to Government Schools are expected to increase by $209.0 million in 2024–25 and $1.1 billion over five years from 2023–24 to 2027–28, largely reflecting an increase in the number of students eligible to attract a 'student with a disability' loading.

Major decreases in payments from parameter and other variations since MYEFO include:

- payments related to the provision of GST to the states and territories (including Horizontal Fiscal Equalisation transition payments) are expected to decrease by $987.8 million in 2024–25 and $3.5 billion over five years from 2023–24 to 2027–28. The decline in payments is a result of a decline in GST receipts, driven by lower discretionary consumption.

- payments related to the Medical Benefits Program are expected to decrease by $390.0 million in 2024–25 and $1.3 billion over five years from 2023–24 to 2027–28, largely reflecting lower-than-projected demand for medical services.

- payments relating to some road transport projects under the Infrastructure Investment Program are expected to decrease by $513.5 million in 2024–25 and $1.2 billion over five years from 2023–24 to 2027–28, to align with revised project delivery schedules and construction market conditions. This decrease is more than offset by decisions which have increased funding over the forward estimates by $1.3 billion.

- payments related to Financial Support for Carers are expected to decrease by $122.4 million in 2024–25 and $1.1 billion over five years from 2023–24 to 2027–28, largely due to lower-than-expected recipient numbers, reflecting continued strong labour market performance.

- payments related to Student Payments are expected to decrease by $193.3 million in 2024–25 and $903.2 million over five years from 2023–24 to 2027–28, largely due to a decrease in student numbers and average payment rates, reflecting continued strong labour market performance.

- payments related to Parents Income Support are expected to decrease by $134.8 million in 2024–25 and $639.5 million over five years from 2023–24 to 2027–28, largely due to lower-than-expected growth in recipient numbers reflecting a decline in recipients with a youngest child aged under 7 years old and a slightly lower-than-expected number of parents taking up the expanded Parenting Payment (Single).

- payments related to Paid Parental Leave are expected to decrease by $92.1 million in 2024–25 and $521.3 million over five years from 2023–24 to 2027–28, largely reflecting a reduction in expected recipient numbers driven by lower-than-expected births.

Consistent with past budgets, the underlying cash balance has been improved by regular draw down of the conservative bias allowance. Details in *Statement 6: Expenses and Net Capital Investment.*

Table 3.3: Reconciliation of general government sector payments estimates[a]

	Estimates					
	2023-24	2024-25	2025-26	2026-27	2027-28	Total
	$m	$m	$m	$m	$m	$m
2023-24 Budget payments	**682,060**	**706,296**	**737,549**	**763,569**	*	*
Changes from 2023-24 Budget to 2023-24 MYEFO						
Effect of policy decisions(b)	1,100	2,686	1,112	1,567	*	*
Effect of parameter and other variations	3,216	568	7,795	9,739	*	*
Total variations	**4,316**	**3,254**	**8,908**	**11,306**	*	*
2023-24 MYEFO payments(c)	**686,376**	**709,549**	**746,457**	**774,875**	**823,836**	**3,741,094**
Changes from 2023-24 MYEFO to 2024-25 Budget						
Effect of policy decisions(b)	298	11,724	9,304	5,243	5,934	32,503
Effect of parameter and other variations	-3,712	5,458	6,430	6,605	-3,614	11,167
Total economic parameter variations	1,612	-2,160	-4,241	-4,097	*	*
Unemployment benefits	*437*	*354*	*-237*	*45*	*	*
Prices and wages	*-375*	*-1,456*	*-1,781*	*-1,417*	*	*
Interest and exchange rates	*-144*	*-130*	*-133*	*-133*	*	*
GST payments to the States	*1,694*	*-928*	*-2,090*	*-2,591*	*	*
Interest payments on AGS	943	929	-1,996	143	*	*
Program specific parameter variations	1,991	7,980	12,950	12,999	*	*
Other variations(d)	-8,259	-1,291	-283	-2,440	*	*
Total variations	**-3,414**	**17,182**	**15,735**	**11,847**	**2,320**	**43,670**
2024-25 Budget payments	**682,961**	**726,732**	**762,192**	**786,722**	**826,157**	**3,784,764**

*Data is not available.

a) A positive number for payments worsens the underlying cash balance.

b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

c) 2027–28 as published in the medium-term projections, page 60 of the Mid-Year Economic and Fiscal Outlook 2023–24.

d) Includes changes in the conservative bias allowance component in the Contingency Reserve and impacts of changes in program payments for a range of reasons including movement of funds and re-profiling.

Headline cash balance estimates

The headline cash balance adjusts the underlying cash balance to include net cash flows from investments in financial assets for policy purposes. This includes Specialist Investment Vehicles which invest in projects that deliver public value and a financial return to taxpayers. For example, Clean Energy Finance Corporation loans reduce the headline cash balance but not the underlying cash balance. Table 3.4 provides details of differences between the underlying and headline cash balance estimates.

A headline cash deficit of $47.2 billion is estimated in 2024–25, compared to an estimated deficit of $32.9 billion in MYEFO. The lower headline cash balance compared to MYEFO is primarily driven by the change in the underlying cash balance. The headline cash balance moderates to an estimated deficit of $42.0 billion (1.3 per cent of GDP) in 2027–28.

Estimates for total net cash outflows from investments in financial assets for policy purposes increased by $11.6 billion over four years from 2023–24 to 2026–27 compared to MYEFO. This is primarily driven by additional equity and a loan provided to Snowy Hydro Limited and an increase in concessional finance for social and affordable housing projects from Housing Australia.

Net cash flows from student loans are expected to improve by $1.5 billion over the four years to 2026–27 compared to MYEFO. This largely reflects increased voluntary loan repayment forecasts, partially offset by the lower repayments resulting from reduced indexation under the 2024–25 Budget measure *Australian Universities Accord – tertiary education system reforms*.

Table 3.4: Reconciliation of general government sector underlying and headline cash balance estimates

	Estimates					
	2023-24	2024-25	2025-26	2026-27	2027-28	Total
	$m	$m	$m	$m	$m	$m
2024-25 Budget underlying cash balance	**9,346**	**-28,286**	**-42,838**	**-26,713**	**-24,345**	**-112,837**
***plus* Net cash flows from investments in financial assets for policy purposes(a)**						
Student loans	-1,626	-2,723	-3,511	-3,982	-4,393	-16,235
NBN loan(b)	5,500	0	0	0	0	5,500
NBN investment	-771	-1,227	-97	0	0	-2,095
Snowy Hydro Limited loan	0	-150	-1,450	-1,450	-1,450	-4,500
Snowy Hydro Limited investment	-277	-1,625	-975	0	0	-2,877
Australian apprenticeship support loans(c)	-112	-112	-102	-97	-95	-518
CEFC loans and investments	-799	-2,371	-5,097	-5,627	-5,419	-19,313
Northern Australia Infrastructure Facility	-762	-615	-747	-1,087	-940	-4,151
NRFC loans and investments	-50	-524	-1,076	-2,505	-3,050	-7,205
Australian Business Securitisation Fund	63	-482	-151	-101	-102	-773
Structured Finance Support Fund	178	122	55	0	0	355
Drought and rural assistance loans	-161	-302	-249	147	163	-402
Official Development Assistance - Multilateral Replenishment	-135	-142	-195	-170	-186	-829
Home Equity Access Scheme	-141	-197	-255	-318	-368	-1,277
Housing Australia(d)	-134	-2,848	-1,517	-1,800	-170	-6,470
National Interest Account loans and investments	-469	-911	-991	-365	78	-2,658
COVID-19 Support for Indonesia – loan	100	100	100	100	100	500
Financial Assistance to Papua New Guinea – loan	-474	141	141	141	141	89
Net other(e)	-2,808	-5,050	-4,814	-3,016	-1,985	-17,674
Total net cash flows from investments in financial assets for policy purposes	**-2,879**	**-18,916**	**-20,932**	**-20,130**	**-17,676**	**-80,532**
2024-25 Budget headline cash balance	**6,467**	**-47,202**	**-63,770**	**-46,843**	**-42,022**	**-193,369**

a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
b) The loan from the Government to NBN Co is due to be repaid in full by 30 June 2024.
c) In January 2024, trade support loans were renamed Australian apprenticeship support loans.
d) In October 2023, the National Housing Finance and Investment Corporation was renamed Housing Australia.
e) Net other includes amounts that have not been itemised for commercial-in-confidence reasons.

The Government's balance sheet

The balance sheet measures the value of the Government's assets and liabilities. Changes in the balance sheet reflect movements in the underlying cash balance, additional balance sheet commitments, and market valuation effects including from changes in yields.

Different balance sheet metrics measure different groupings of assets and liabilities.

- **Gross debt** measures the face value of Australian Government Securities (AGS) on issue. This is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.
- **Net debt** is measured at market value and incorporates specific financial assets and liabilities and provides a broader measure of the financial obligations of the Government than gross debt.
- **Net financial worth** is the sum of all financial assets less all financial liabilities. The assets of the Future Fund and the public sector superannuation liability that the Future Fund will finance are included in net financial worth.
- **Net worth** is the sum of all assets less all liabilities. It includes non–financial assets such as buildings and plant, equipment, and infrastructure.

Further information on definitions is available in *Statement 10: Australian Government Budget Financial Statements*.

Gross debt estimates and projections

The Government's responsible budget management is lowering debt as a share of the economy compared to MYEFO and the PEFO in every year of the forward estimates period and medium term.

Gross debt is estimated to be 33.7 per cent of GDP ($904.0 billion) at 30 June 2024, 0.3 percentage points lower than the estimate of 34.0 per cent of GDP ($909.0 billion) at MYEFO. This primarily reflects the 2023–24 underlying cash surplus and lower yields on debt. The gross debt-to-GDP position also benefits from upgrades to nominal GDP.

In line with the Economic and Fiscal Strategy, the Government is on track to stabilise and reduce gross debt as a share of the economy. Gross debt is now projected to peak at 35.2 per cent of GDP at 30 June 2027, 0.2 percentage points lower and one year earlier than the peak at MYEFO. Gross debt is then projected to decline to 30.2 per cent at 30 June 2035.

Over the forward estimates period, bond yields are assumed to remain fixed at a recent average of daily spot rates at the time of the budget update. Since MYEFO, the assumed weighted average cost of borrowing for future issuance of Treasury Bonds has decreased from 4.7 to 4.2 per cent. This remains significantly above the 2.2 per cent at the PEFO.

Information on the impact of movements in yields on the underlying cash balance and gross debt is provided in *Statement 8*: *Forecasting Performance and Sensitivity Analysis*.

Total interest payments are estimated to be 0.9 per cent of GDP in 2024–25 before rising to 1.3 per cent of GDP by 2034–35.

Further information on government debt, yield assumptions and interest payments are provided in *Statement 7: Debt Statement*.

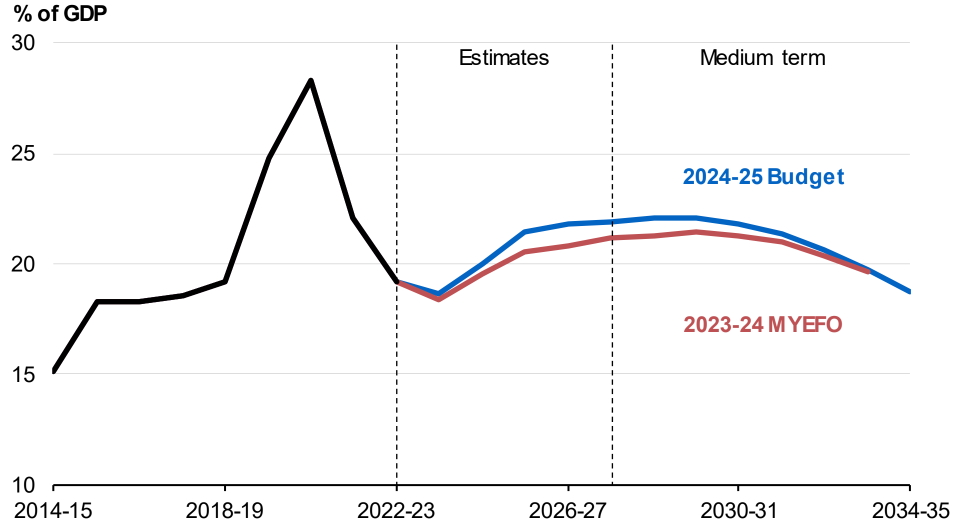
Net debt estimates and projections

Net debt is estimated to be 20.0 per cent of GDP ($552.5 billion) at 30 June 2025 (Table 3.5); slightly higher than the estimate of 19.5 per cent of GDP ($533.3 billion) at MYEFO.

The increase since MYEFO primarily reflects the increase in the market value of existing debt resulting from lower yields on government debt. Yields have fallen since MYEFO, making the fixed income stream from existing bonds relatively more attractive to investors. This increases the market value of existing bonds and hence net debt.

Net debt remains higher than estimated at MYEFO over the entire projection period. Net debt is projected to be 18.7 per cent of GDP at 30 June 2035 (Chart 3.12).

Chart 3.12: Net debt



Source: Treasury.

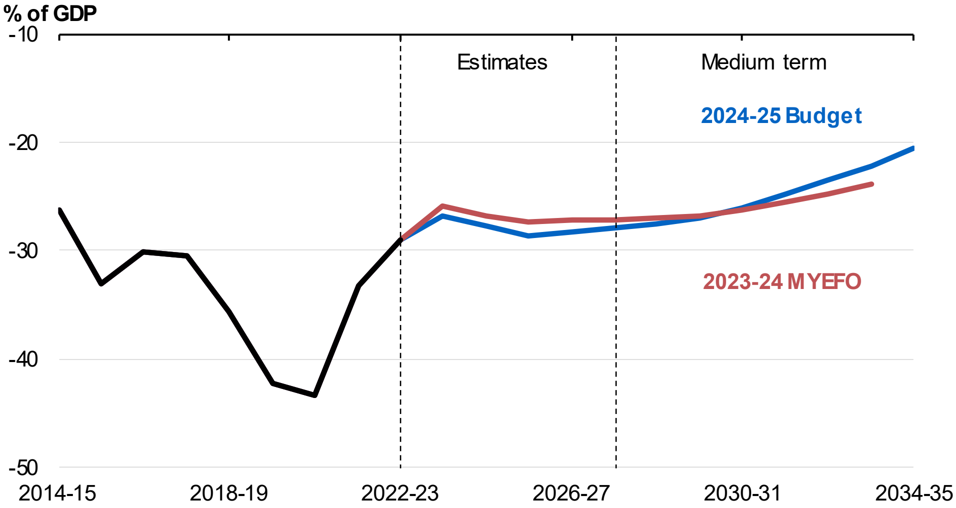
Further information on gross debt and net debt estimates across the forward estimates period is provided in *Statement 7: Debt Statement*.

Net financial worth and net worth estimates and projections

Net financial worth is estimated to be minus 27.7 per cent of GDP (minus $764.5 billion) at 30 June 2025 (Table 3.5), compared with the estimate of minus 26.9 per cent of GDP (minus $733.6 billion) at MYEFO.

Net financial worth is projected to deteriorate to minus 27.9 per cent of GDP at 30 June 2028 before improving to minus 20.6 per cent of GDP at 30 June 2035 (Chart 3.13).

Chart 3.13 Net financial worth



Source: Treasury.

Net worth is estimated to be minus 19.8 per cent of GDP (minus $545.1 billion) at 30 June 2025 (Table 3.5), compared with the estimate of minus 18.7 per cent of GDP (minus $510.3 billion) at MYEFO.

Net worth is projected to deteriorate to minus 20.7 per cent of GDP at 30 June 2026 before improving over the medium term.

The reduction in net worth and net financial worth over the forward estimates period relative to MYEFO largely reflects an increase in the market value of existing debt due to lower bond yields and an upward revision to the value of the Government's unfunded superannuation liability.

Net worth and net financial worth as a share of the economy increase over the medium term as debt-to-GDP is reduced.

Table 3.5: Australian Government general government sector balance sheet aggregate

	Actual	Estimates				
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
	$b	$b	$b	$b	$b	$b
Financial assets	**585.5**	**614.2**	**618.2**	**650.6**	**685.1**	**717.5**
Per cent of GDP	22.8	22.9	22.4	22.7	22.7	22.5
Non-financial assets	**204.9**	**211.7**	**219.4**	**226.5**	**234.6**	**245.7**
Per cent of GDP	8.0	7.9	8.0	7.9	7.8	7.7
Total assets	**790.4**	**825.9**	**837.6**	**877.1**	**919.6**	**963.2**
Per cent of GDP	30.8	30.8	30.4	30.6	30.4	30.3
Total liabilities	**1,328.8**	**1,334.6**	**1,382.7**	**1,470.2**	**1,541.8**	**1,606.2**
Per cent of GDP	51.8	49.7	50.1	51.2	51.0	50.5
Net worth	**-538.4**	**-508.6**	**-545.1**	**-593.1**	**-622.1**	**-643.0**
Per cent of GDP	-21.0	-18.9	-19.8	-20.7	-20.6	-20.2
Net financial worth(a)	**-743.3**	**-720.3**	**-764.5**	**-819.6**	**-856.7**	**-888.7**
Per cent of GDP	-29.0	-26.8	-27.7	-28.6	-28.3	-27.9
Gross debt(b)	**889.8**	**904.0**	**934.0**	**1,007.0**	**1,064.0**	**1,112.0**
Per cent of GDP	34.7	33.7	33.9	35.1	35.2	34.9
Net debt(c)	**491.0**	**499.9**	**552.5**	**615.5**	**660.0**	**697.5**
Per cent of GDP	19.2	18.6	20.0	21.5	21.8	21.9
Total interest payments	**18.9**	**22.7**	**23.8**	**27.5**	**29.8**	**35.6**
Per cent of GDP	0.7	0.8	0.9	1.0	1.0	1.1
Net interest payments(d)	**11.9**	**12.3**	**14.5**	**18.8**	**20.8**	**26.0**
Per cent of GDP	0.5	0.5	0.5	0.7	0.7	0.8

a) Net financial worth equals total financial assets minus total liabilities.

b) Gross debt measures the face value of Australian Government Securities (AGS) on issue.

c) Net debt is the sum of interest-bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

d) Net interest payments are equal to the difference between interest payments and interest receipts. The increases in 2025–26 and 2027–28 primarily reflect Treasury Indexed Bonds maturing in those years.

Fiscal impacts of the net zero transformation

Climate change and global climate action will have profound impacts on the economy, reshaping Australia's industry mix and requiring effective mitigation and adaptation to manage climate impacts like more severe bushfires and floods. At the same time, the renewable energy economic transformation is well underway. It will continue to drive down energy costs and has the potential to help traditional and emerging industries compete internationally. Other sectors are also transforming as demand from domestic consumers and export destinations shifts to more sustainable products.

This net zero transformation presents opportunities for Australia's economy, regions, industries, and communities. Achieving Australia's emissions reduction commitments and realising the opportunities that accompany the transition will require significant investment by governments and the private sector.

Uncertainty about the physical impacts of climate change and the global transition to net zero emissions poses risks to the fiscal outlook. The global energy transition will bring new opportunities. Industries and jobs emerging from the net zero transformation will impact the structure of the economy and, in turn, the tax base. At the same time, the physical impacts of climate change and the associated cost for communities, business and government remain uncertain.

The 2024–25 Budget continues the practice introduced in the October 2022–23 and May 2023–24 Budgets of transparently reporting new climate-related spending, and builds on these budgets by further reporting on new spending that enables the net zero transformation. In the 2024–25 Budget there is $5.0 billion in net zero spending commitments over the forward estimates period and $24.3 billion over the medium term. This is in addition to the $4.6 billion in new climate-related spending announced in the May 2023–24 Budget and the historic $24.9 billion in new climate-related spending announced in the October 2022–23 Budget.

The Government's approach to reporting climate-related spending is informed by the climate reporting practices of international peers and is presented within the context of international best practice, as well as contributing to work underway to strengthen transparency in future budgets.

Physical Impacts of Climate Change

Global warming continues to change Australia's weather and climate, and over the course of this century this will drive changes in Australia's economy – with respect to both its size and structure. This includes impacts on human health, biodiversity, the location and movement of populations, the types of structures we live in, and the way we work.

Rising temperatures will also present new economic challenges, impacting labour productivity, capital investment, and demand for our exports. As shown in the 2023 Intergenerational Report (IGR), rising temperatures are expected to result in reductions in labour productivity and hours worked, particularly for employees who work outdoors such as in agriculture, construction and manufacturing. Agricultural yields are expected to decline with climate change. The increased frequency and severity of natural disasters will also lead to reductions in output through disruptions to economic activity and destruction of property and infrastructure.

Effective adaptation and investment in resilience can reduce the impacts of some climate change-related disruptions. However, the extent of economic disruption will increase significantly with greater temperature increases. This means mitigating further climate change through effective global action by way of decarbonisation has significant economic value to Australia.

Net zero spending

The Government is committed to improving the transparency of public money committed to climate action. It recognises the importance of identifying, disclosing, and tracking net zero spending in improving Australia's response to climate change and aligning with international efforts. Accounting for net zero spending comprehensively is challenging as it cuts across many portfolios, ranging from energy to health. Existing budget systems also do not readily facilitate reporting net zero spending on established programs. For this reason, reporting of net zero spending focuses on new measures.

Australia's classification approach

The October 2022–23 and 2023–24 Budgets report climate-related measures up until June 2030. This Budget builds on this approach by extending the reporting period to over the forward estimates period and medium term, and additionally reporting investments in *Strengthening net zero industries and skills* (Box 3.5).

The Government's action on climate change is not limited to the four categories used in the previous two budgets, but also includes measures that enable net zero industries of the future. The new category of *Strengthening net zero industries and skills* highlights plans to transform Australia into a renewable energy superpower and other measures associated with the transformation of the economy to net zero by 2050.

These changes reflect the government's focus on developing a Net Zero Plan which considers the role all sectors will play in reducing emissions and transforming Australia's economy.

This reporting framework maintains alignment with international best practice and recent budgets. It will continue to evolve over time as the Government works with and learns from reporting entities and partners around the world. Australian Government Green Bonds will contribute to financing measures within the first and third categories of Box 3.5.

The reporting of climate-related categories in the budget process is complementary to the Australian Government Green Bond Framework, and to allocation and impacts reporting under this Framework, which aligns with international best practice in green bond financing.

Box 3.5: Defining and categorising net zero spending

The Government is currently investing in the net zero transformation in five ways:

- Reducing emissions in Australia's energy system and broader economy.
- Strengthening net zero industries and skills.
- Adapting to climate change and improving climate and disaster resilience (spending to support Australia manage the physical impacts of climate change).
- International climate leadership (spending to support how we engage through international fora and with other jurisdictions).
- Building Australian Government climate capability (spending on the capabilities of Government to ensure it effectively delivers on its objectives and to enable a national approach on climate change).

These categories provide a simple to understand framework for why each measure has been classified as contributing to net zero action. These categories are expected to evolve over time as Australia's approach to net zero budget transparency matures. Policies may contribute to multiple net zero or non-net zero objectives; spending is classified into the most appropriate category based on its primary purpose. Some policies may contribute indirectly to net zero objectives; these have not been included in the current approach.

In addition to direct funding towards programs, net zero spending may also include balance sheet and tax expenditure items. For example, a tax concession does not require an appropriation of funds, but reflects foregone revenue, and is classified as spending for this purpose.

Indirect benefit example

Health system funding supports responses to the health effects of climate change, such as more extreme heat days. It also supports services for existing health conditions. There are different ways the spending could be classified, the whole amount, none, or a proportion could be classified as net zero spending.

In this Budget, spending with only an indirect contribution to net zero action is excluded. If there is a specific program in health related to climate impacts, that would be counted (for example the 2022–23 October Budget measure: National Health and Climate Strategy).

Table 3.6

Australian Net Zero Action Category	Australian Definition
Reducing emissions in Australia's energy system and broader economy	Spending that supports emissions reduction within Australia. *Example: New Vehicle Efficiency Standard Implementation*
Strengthening net zero industries and skills	Spending that enables emissions reduction through strengthening workforce, critical supply chains or enabling decarbonisation *Example: Future Made in Australia – Workforce and Trade Partnerships for Renewable Energy Superpower Industries*
Adapting to climate change and improving climate and disaster resilience	Spending that supports better management of the physical impacts of climate change including adaptation, improving climate resilience, and reducing our vulnerability. *Example: Future Drought Fund – better support for farmers and communities to manage drought and adapt to climate change*
International climate leadership	Spending that relates to the above categories but is primarily targeted overseas. Including international partnerships and involvement in forums and initiatives. *Example: Australia's International Climate Change Engagement*
Building Australian Government climate capability	Spending that enables the Government to better act on climate change and the net zero transformation, supporting the categories above. *Example: Net Zero in Government Operations – Emissions Data Platform*

The role of net zero enabling industries in emissions reduction

Delivering net zero requires significant action to produce renewable energy and sustainable fuels, and reduce emissions from heavy industry, buildings and agriculture. Australia's abundant renewable energy resources will also support the once-in-a-generation opportunity to reposition the economy for future prosperity by supporting global decarbonisation. Achieving these changes at pace requires investing in secure and resilient net zero supply chains and a skilled workforce.

The Government is investing in these industries to prepare the economy for a net zero transformation. Targeted investments to ensure a resilient clean energy manufacturing supply chain and expanding the supply of scarce inputs, such as critical minerals, are essential to enable the net zero transformation. Moreover, investments to prepare the workforce for clean industries will also give Australia an enduring comparative advantage domestically and globally.

The Government's focus on these industries reflects the fact that Australia's exports will be increasingly comprised of low carbon products. Over 97 per cent of Australia's trading partners have set net zero targets. Australia is expected to be competitive in products that have renewable energy as an input, reflecting the low cost and growing abundance of our renewable electricity supply. This means Australia's net zero industrial transformation can also support major trading partners to reduce their emissions, making Australia an indispensable part of global net zero supply chains.

For instance, exports of critical minerals, renewable hydrogen and green metals could reduce global emissions significantly. In this way, pursuing Australia's industrial net zero opportunities could position Australia to make an outsized contribution to global climate mitigation and build resilience to changes in trade patterns due to a shift away from emissions-intensive resources.

The 2023–24 Budget identified $40 billion of industrial and energy commitments related to the Government's renewable energy superpower ambitions. In addition to that spending, a further $3.0 billion was announced in the 2023–24 MYEFO. This Budget contains $3.6 over the forward estimates period and $22.5 billion over the medium term in new spending on these new industries.

The emissions-reduction measures that are part of the Governments overall investment to establish Australia as a renewable energy superpower contribute to a broader set of climate-related spending, which includes measures that are related to adaptation, international engagement and public sector climate capability. Box 3.6 below explains the complementary scope of renewable energy and other net zero spending.

Box 3.6 Investing in our plan to become a Renewable Energy Superpower

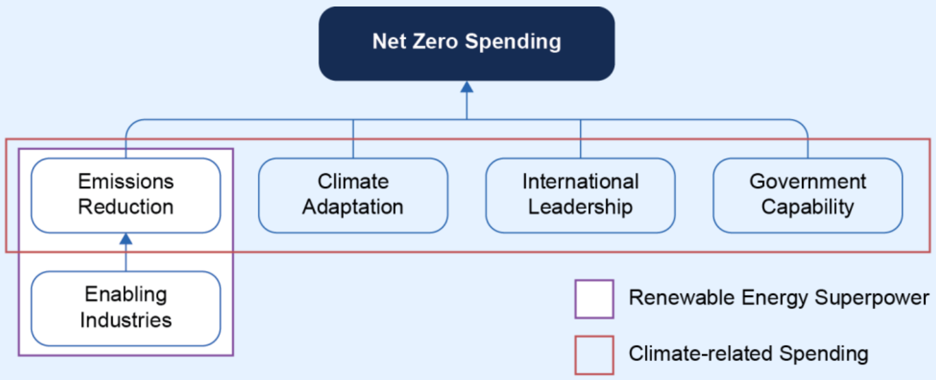
Australia's ambition to become a Renewable Energy Superpower will require investment into low emission industries and their underlying enablers that play an indirect yet important role in the net zero transformation. In particular:

- Critical minerals are essential for many low emissions technologies, including electric vehicles, solar panels, wind turbines and batteries. Investment will allow a sovereign supply chain resilient to external shocks.
- Low emissions fuels will be key to propelling clean industry and decarbonising hard to abate sectors and the broader economy.
- Decarbonising Australia's exports will assist global efforts to reduce emissions.

Spending towards measures that are directly related to climate change overlaps with the Government's investments to become a renewable energy superpower. However, these figures relate to a different yet complementary scope of activities, as highlighted in the figure below.

Of the five categories in Australia's climate reporting framework, items in the emissions reduction and enabling net zero industries categories contribute to the estimate of Australia's investment in becoming a renewable energy superpower.

Figure 3.1 Net Zero Spending Sub-Categories



New net zero spending measures

Table 3.7 sets out $5.0 billion in net zero spending commitments over the forward estimates period and $24.3 billion over the medium term. This is in addition to climate-related spending of $4.6 billion (to 2030) committed in the 2023–24 Budget and the $24.9 billion (to 2030) committed in the 2022–23 October Budget.

Classification of spending is informed by the net zero spending framework defined in Table 3.6 above. The total commitment includes spending, balance sheet and tax expenditure measures and therefore presents a broader view than the impact on the underlying cash balance.

Reporting new net zero spending measures supports transparency around the fiscal impacts of climate change and the net zero transformation. However, it does not provide a complete summary of climate action. Only measures that entail funding commitments or foregone revenue (such as tax concessions) are captured. Therefore, measures without spending, such as regulatory reforms to the Safeguard Mechanism, are not captured. Measures that may contribute to climate action but have a different primary purpose are not included.

Australia's approach to reporting net zero spending commitments is a separate and independent framework to the established functional expense tables in *Budget Statement 6: Expenses and Net Capital Investment*, which aligns with international standards. These cannot be combined for analysis of government spending.

This summary focuses specifically on new net zero spending commitments in this Budget. The Government is developing an approach to presenting transparent spending information on existing spending commitments. Over time, this will provide a more holistic view of the total amount of Government spending, not just what is new in each budget.

Table 3.7 – New measures

Total[1]	Forward Estimates ($m)	Medium Term ($m)
Reducing Emissions in Australia's energy system and broader economy	**834.80**	**952.10**
New Vehicle Efficiency Standard Implementation[2]	551.0	629.0
Agriculture and Land Sectors – low emissions future	56.0	64.8
Improving the Australian Carbon Credit Unit Scheme[3]	48.0	48.0
Boosting Consumer Energy Resources[4] (component of (Harnessing the Energy Transition to Benefit Consumers)	27.7	32.6
Future Made in Australia – Promoting Sustainable Finance Markets[5]	17.3	38.7
Future Made in Australia – Strengthening Approvals Processes[6]	134.8	139.0
Strengthening net zero industries and skills	**2,751.9**	**21,577.0**
Future Made in Australia – Making Australia a Renewable Energy Superpower[7,8]	1,881.9	19,705.4
Net Zero Economy[9]	399.1	1015.9
Resourcing Australia's Prosperity (component of Future Made in Australia – Investing in Innovation, Science and Digital Capabilities)	200.3	566.1
Future Made in Australia – Workforce and Trade Partnerships for Renewable Energy Superpower Industries[10]	204.5	223.5
Future Made in Australia – Attracting Investment in Key Industries[11]	66.1	66.1
Adapting to climate change and improving climate and disaster resilience	**1,150.1**	**1,507.7**
Australian Antarctic Program – additional funding[12]	290.5	498.3
Sustaining Water Functions	262.2	262.2
National Water Grid Fund – responsible investment in water infrastructure for the regions[13]	150.8	174.6
Murray-Darling Basin Plan – continuing delivery[14]	48.5	48.5
Tourism Reef Protection Initiative – continuing delivery[15]	5.0	5.0
Future Drought Fund – better support for farmers and communities to manage drought and adapt to climate change	393.1	519.1
International climate leadership	**226.2**	**226.6**
Australia's International Climate Change Engagement[16]	76.2	76.6
International Climate Finance[17]	150.0	150.0
Building Australian Government climate capability	**2.1**	**3.3**
Net Zero in Government Operations – Emissions Data Platform (component of Finance Portfolio – additional resourcing)[18]	2.1	3.3
Total Net Zero Spending	**4,965.10**	**24,266.70**

1 This table summarises the Government's key net zero spending commitments in this Budget over the medium term, and presents a broader view than the impact on the underlying cash balance. Some measures extend beyond the end of the medium term or include both initial and ongoing funding to the end of the medium term. Figures align with the timeframes for measures reported in Budget Paper No. 2, but may differ in some instances due to exclusions described in footnotes. Measures may not add with measures in Budget Paper No. 2 due to rounding. Figures do not account for the reallocation of funds from previous Budgets to finance measures this Budget.
2 This measure contains $60.0 million for the installation of electric vehicle charging infrastructure with funding redirected from the 2022–23 October Budget Measure titled Powering Australia – Driving the Nation Fund – establishment. This measure also contains $10.0 million for a national communications campaign with funding already provided for by the Government.
3 Costs of this measure will be met from the Powering the Regions Fund.
4 Costs for this measure will be partially met from existing resources of the Department of Climate Change, Energy, the Environment and Water.
5 The spending outlined in this measure for the purposes of this table excludes receipts received by the Australian Securities and Investment Commission.
6 The spending outlined in this measure for the purposes of this table excludes funding for cultural heritage reform and the foreign investment framework.
7 This measure includes tax concessions which do not require an appropriation of funds, but reflect foregone revenue, and is classified as spending.
8 The cost of this measure will be partially met through funding from the Strategic International Partnerships Investment Stream and from savings identified in the Department of Industry, Science and Resources.
9 Costs of this measure will be partially offset by a reduction in the Labour Market Support Scheme.
10 Costs of this measure will be partially met through funding from the Strategic International Partnerships Investment Stream and savings identified in the Department of Industry, Science and Resources.
11 The spending outlined in this measure for the purposes of this table excludes funding for independent statutory review of the Northern Australia Infrastructure Facility Act 2016.
12 Costs of this measure will be partially met from a reprioritisation of the Macquarie Island Research Station Modernisation Project.
13 Costs of new water infrastructure projects in this measure will be met by reallocating existing funding within the National Water Grid Fund and funding allocated to improve water security for remote First Nations communities under the 2023–24 Budget measure titled Closing the Gap – further investment.
14 Costs of this measure will be met from funding within the Water for the Environment Special Account and Sustainable Rural Water Use and Infrastructure Program.
15 Costs of this measure will be met from a reprioritisation of funding from the 2022–23 March Budget measure titled Strengthening the Great Barrier Reef through Stewardship and Leadership.
16 Costs of this measure will be offset by redirecting funding from savings identified in the Strategic International Partnerships Investment Stream.
17 Costs of this measure will be partially met from within the existing resourcing of the Department of Foreign Affairs and Trade.
18 Costs of this measure will be partially met from within the existing resourcing of the Department of Finance.

Appendix A: Other fiscal aggregates

Accrual aggregates

Accrual accounting records income and costs at the time they are incurred. Cash accounting records income and costs at time of associated actual cash flow. Differences in estimates arise where there is a difference between the timing of an activity and the associated cash flow.

Net operating balance estimates

The net operating balance is an accrual measure, reflecting revenue minus expenses. It excludes the fiscal impact of the Australian Government's net new capital expenditure.

The net operating balance is expected to be a surplus of $15.8 billion (0.6 per cent of GDP) in 2023–24 (Table 3.8). It is then expected to be a deficit of $23.0 billion (0.8 per cent of GDP) in 2024–25, compared to an expected deficit of $15.7 billion in MYEFO.

Fiscal balance

The fiscal balance is the accrual equivalent of the underlying cash balance and equals the net operating balance plus net new capital investment.

The fiscal balance is expected to be a surplus of $8.1 billion (0.3 per cent of GDP) in 2023–24 (Table 3.8). It is then expected to be a deficit of $29.3 billion (1.1 per cent of GDP) in 2024–25, compared to an expected deficit of $24.8 billion in MYEFO.

Table 3.8: Australian Government general government sector accrual aggregates

	Actual	Estimates					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Revenue	**668.4**	**706.9**	**711.5**	**732.7**	**776.2**	**819.6**	**3,747.0**
Per cent of GDP	26.1	26.3	25.8	25.5	25.7	25.8	
Expenses	**637.0**	**691.1**	**734.5**	**767.3**	**793.8**	**829.8**	**3,816.4**
Per cent of GDP	24.8	25.7	26.6	26.7	26.3	26.1	
Net operating balance	**31.4**	**15.8**	**-23.0**	**-34.5**	**-17.5**	**-10.1**	**-69.4**
Per cent of GDP	1.2	0.6	-0.8	-1.2	-0.6	-0.3	
Net capital investment	**9.4**	**7.8**	**6.3**	**8.1**	**9.0**	**11.9**	**43.0**
Per cent of GDP	0.4	0.3	0.2	0.3	0.3	0.4	
Fiscal balance	**21.9**	**8.1**	**-29.3**	**-42.6**	**-26.5**	**-22.0**	**-112.4**
Per cent of GDP	0.9	0.3	-1.1	-1.5	-0.9	-0.7	

a) Total is equal to the sum of amounts from 2023–24 to 2027–28.

Table 3.9 provides a reconciliation of fiscal balance estimates, including the impact of policy decisions and parameter and other variations on revenue and expenses since MYEFO. The drivers of movements in the fiscal balance estimates are largely the same as for the underlying cash balance.

Table 3.9: Reconciliation of general government sector fiscal balance estimates

	Estimates					
	2023-24	2024-25	2025-26	2026-27	2027-28	Total
	$m	$m	$m	$m	$m	$m
2023-24 Budget fiscal balance	**-14,144**	**-45,278**	**-35,035**	**-32,813**	*	*
Per cent of GDP	-0.5	-1.7	-1.3	-1.1	*	
Changes from 2023-24 Budget to 2023-24 MYEFO						
Effect of policy decisions(a)	-1,012	-2,488	-781	-823	*	*
Effect of parameter and other variations	17,577	22,992	2,842	10,770	*	*
Total variations	**16,565**	**20,503**	**2,061**	**9,947**	*	*
2023-24 MYEFO fiscal balance	**2,421**	**-24,775**	**-32,974**	**-22,866**	*	*
Per cent of GDP	0.1	-0.9	-1.2	-0.8	*	
Changes from 2023-24 MYEFO to 2024-25 Budget						
Effect of policy decisions(a)(b)						
Revenue	*54*	*2,267*	*-956*	*3,366*	*5,972*	*10,702*
Expenses	*292*	*12,049*	*7,893*	*4,523*	*1,923*	*26,680*
Net capital investment	*12*	*1,587*	*1,843*	*1,028*	*3,980*	*8,449*
Total policy decisions impact on fiscal balance	-250	-11,369	-10,691	-2,186	69	-24,427
Effect of parameter and other variations(b)						
Revenue	*6,201*	*8,945*	*7,652*	*2,521*	*	*
Expenses	*1,472*	*6,480*	*7,453*	*5,705*	*	*
Net capital investment	*-1,153*	*-4,362*	*-862*	*-1,722*	*	*
Total parameter and other variations impact on fiscal balance	5,882	6,827	1,061	-1,461	*	*
2024-25 Budget fiscal balance	**8,053**	**-29,316**	**-42,604**	**-26,514**	**-22,026**	**-112,408**
Per cent of GDP	0.3	-1.1	-1.5	-0.9	-0.7	

*Data is not available.

a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

b) A positive number for revenue improves the fiscal balance, while a positive number for expenses and net capital investment worsens the fiscal balance.

Revenue estimates

Revenue is the accrual accounting equivalent of cash-based receipts. Changes in revenue are generally driven by the same factors as receipts. Revenue amounts can be higher or lower than the cash equivalents as they include amounts that a taxpayer is liable to pay but has not paid. The differences between the accrual and cash amounts generally reflect timing differences.

Total revenue since MYEFO has been revised up by $11.2 billion in 2024–25 and by $30.0 billion over four years from 2023–24 to 2026–27.

Expense estimates

Expenses are the accrual accounting equivalent of cash-based payments.

Total expenses since MYEFO have been revised up by $18.5 billion in 2024–25 and by $45.9 billion over four years from 2023–24 to 2026–27.

Movements in expenses over the forward estimates period are broadly consistent with movements in cash payments. The key exceptions include:

- the NDIS program, where there is an expected time lag between the receipt of reasonable and necessary support services and the lodgement of claims relating to those services
- superannuation benefits programs (civilian and military), where there is a timing difference with the expense accruing during employment and cash payments occurring during retirement
- purchases of nonfinancial assets, which are included in cash payments but not in accrual expenses. The expense estimates include depreciation of non-financial assets rather than recognising the impact at the time of purchase.

Detailed information on expenses can be found in *Statement 6: Expenses and Net Capital Investment.*

Structural budget balance estimates

The structural budget balance estimate adjusts the underlying cash balance to remove the estimated effects of cyclical factors that have a temporary impact on receipts and payments. These factors include deviations in commodity prices and economic activity from their long-run levels. The structural budget balance can provide insight into the sustainability of fiscal settings.

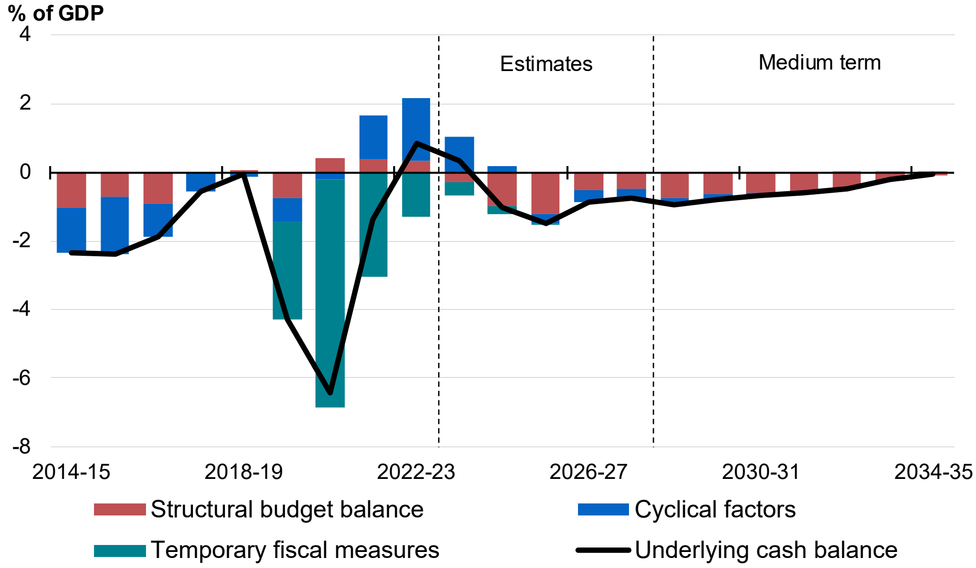
The structural balance is estimated rather than observed, so it is sensitive to the assumptions and parameters that underpin it. Commodity price volatility has increased the uncertainty around the estimate.

The estimated structural budget balance has been revised up in 2023–24 but is lower in most years over the forward estimates period compared to MYEFO (Chart 3.14). These changes largely reflect revisions to the underlying cash balance.

The contribution of cyclical factors to the underlying cash balance is estimated to remain positive in 2023–24 and 2024–25. The smaller contribution in 2023–24 compared to MYEFO in large part reflects revisions to the terms of trade (see *Budget Statement 2: Economic Outlook* for more information on developments in commodity prices and the terms of trade).

Over the medium term, the structural budget balance is projected to improve gradually towards balance.

Chart 3.14: Structural budget balance



Source: Treasury.

Note: The approach separating the budgetary impact of cyclical factors from structural measures follows the methodology detailed in Treasury Working Paper 2013–01. Cyclical factors measure the estimated impact on the underlying cash balance from automatic stabilisers and cyclical movements in asset and commodity prices. Temporary fiscal measures comprise direct economic and health support measures initiated between the onset of the COVID-19 pandemic and the 2022–23 October Budget. Underspends in these direct economic and health support measures are not captured in the derivation of the structural budget balance, which may result in an improved structural budget balance estimate.