The Mid-Year Economic and Fiscal Outlook

2024-25

18 December 2024

From the Chief Economist

It has long been long known that this financial year would be the one when the federal government's finances would worsen, and the Mid-year Economic and Fiscal update showed the outlook is worse too.

A small improvement in the deficit of $1.3 billion in the 2024-25 year- due mainly to the strong labour force - will be undone as the economic slowdown takes hold. There were $23.0 billion of downgrades to the underlying cash balance forecasts over the three years from 2025-26. Underpinning the deterioration over coming years is higher expenditure by government on everything from medicines to defence.

The frustration for Australian business is that, despite the long-held knowledge that the government's finances are becoming more structurally unsound, nothing is being done to reverse it.

It means the government is even further away from bringing its expenses and revenue back into balance than just six months ago when the 2024-25 Budget was released. It means the projected debt burden is larger and so flexibility to fix the problems of the future is more limited. It means that rather than taking pressure off inflation, the government is leaving it all to the Reserve Bank.

Monetary policy can indeed do all the work to bring inflation down, but not without consequence. The third of households with mortgages are being squeezed.

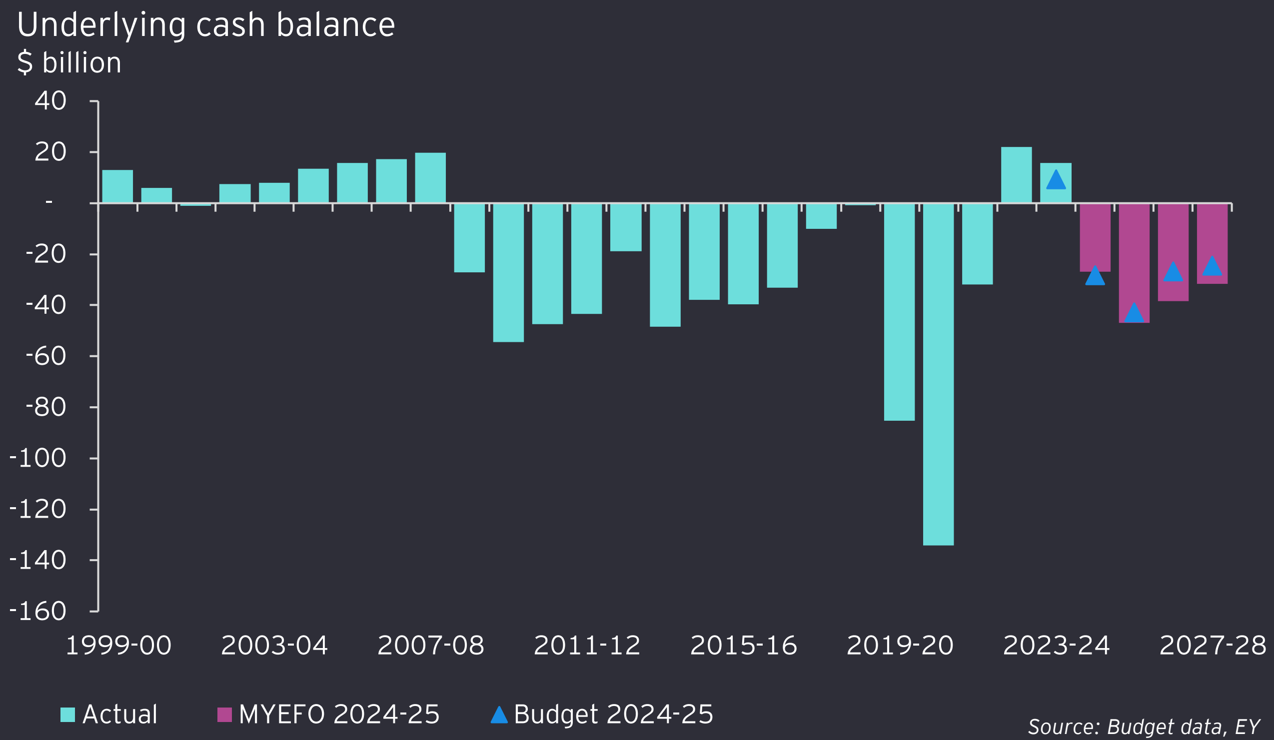
Frustratingly, the underlying cash balance is not even telling the full story of government spending. That's because 'investments in financial assets for policy purposes', or 'off-balance sheet' spending, have risen to a record high and are expected to stay close to these levels over the coming three years. It means, when everything is included, that the government will have to issue an additional $49 billion in debt in 2027-28. That is just the change over a six-month period.

Many of the measures just fix the problems of today, and do not set the economy up for a productive future. We need a plan to jump start productivity growth through reforms. As we approach the election, this is where Australian business needs the political debate to be focused.

Cherelle Murphy | EY Regional Chief Economist, Oceania

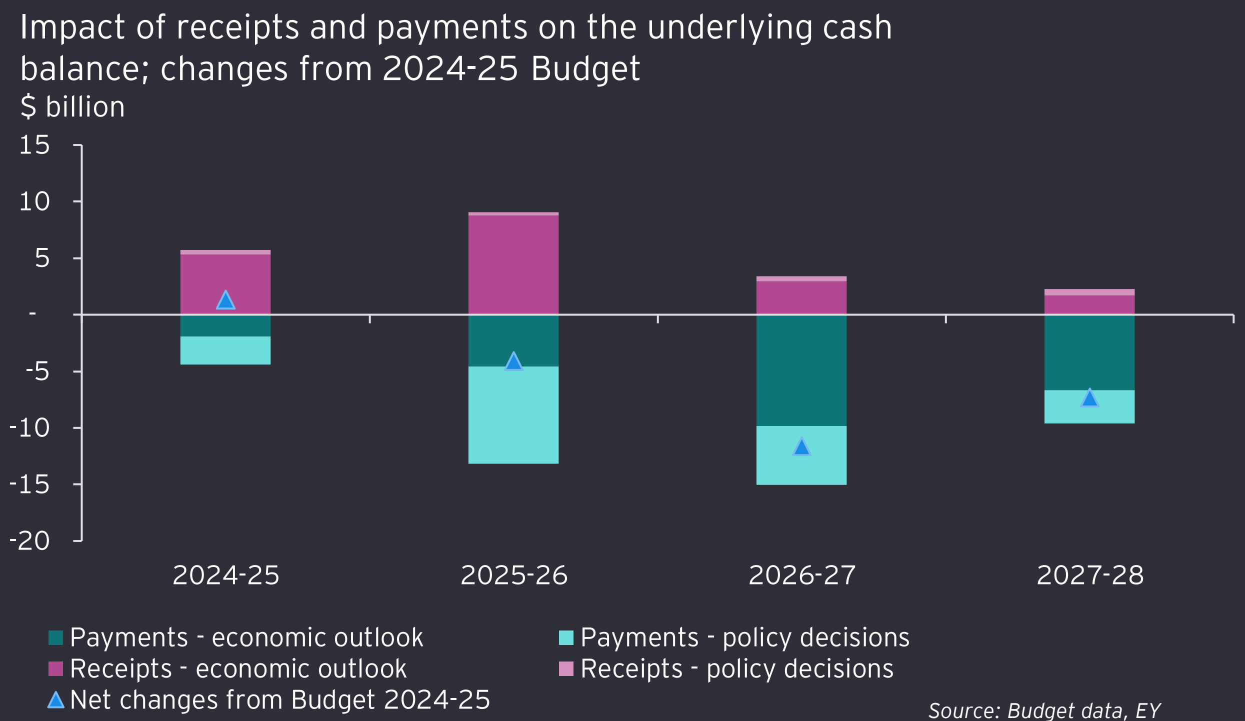
EY
Building a better working world

1. The underlying cash balance forecasts deteriorated further, apart from the slightly smaller deficit expected in 2024-25.



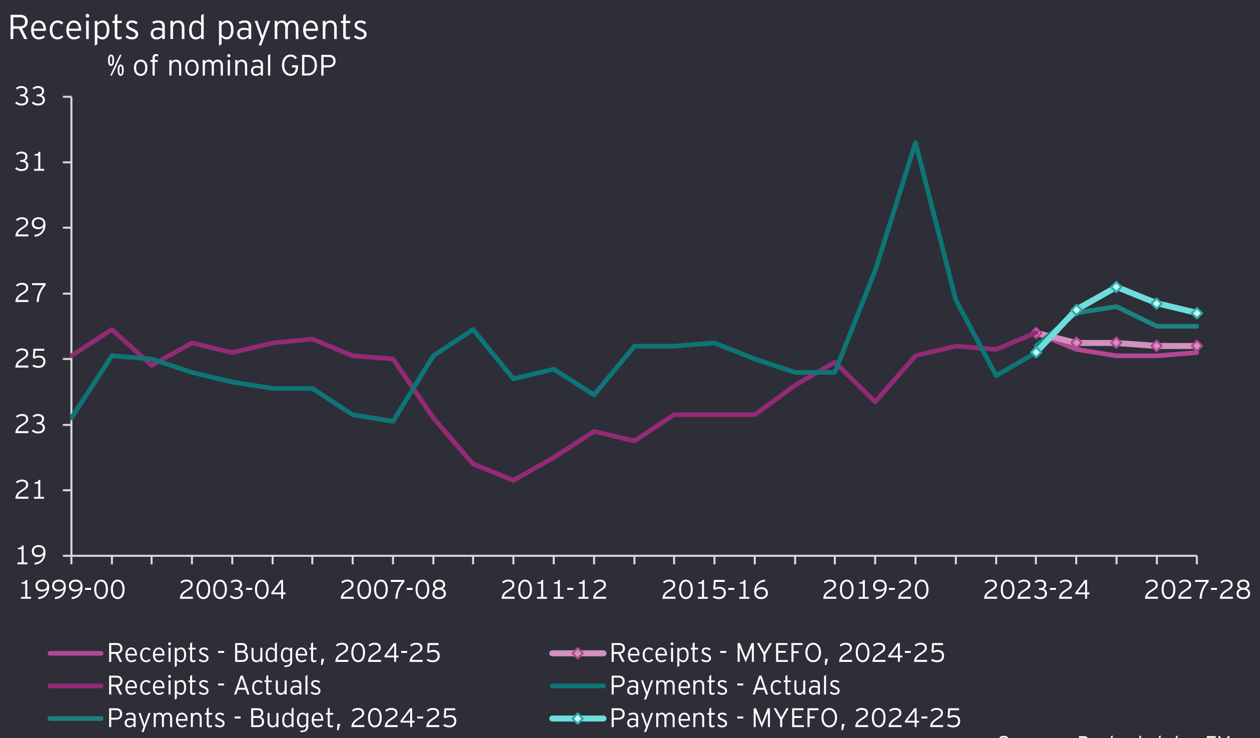
Source: Budget data, EY

2. Increased payments from policy decisions and changes in the economic outlook more than offset expected higher receipts.



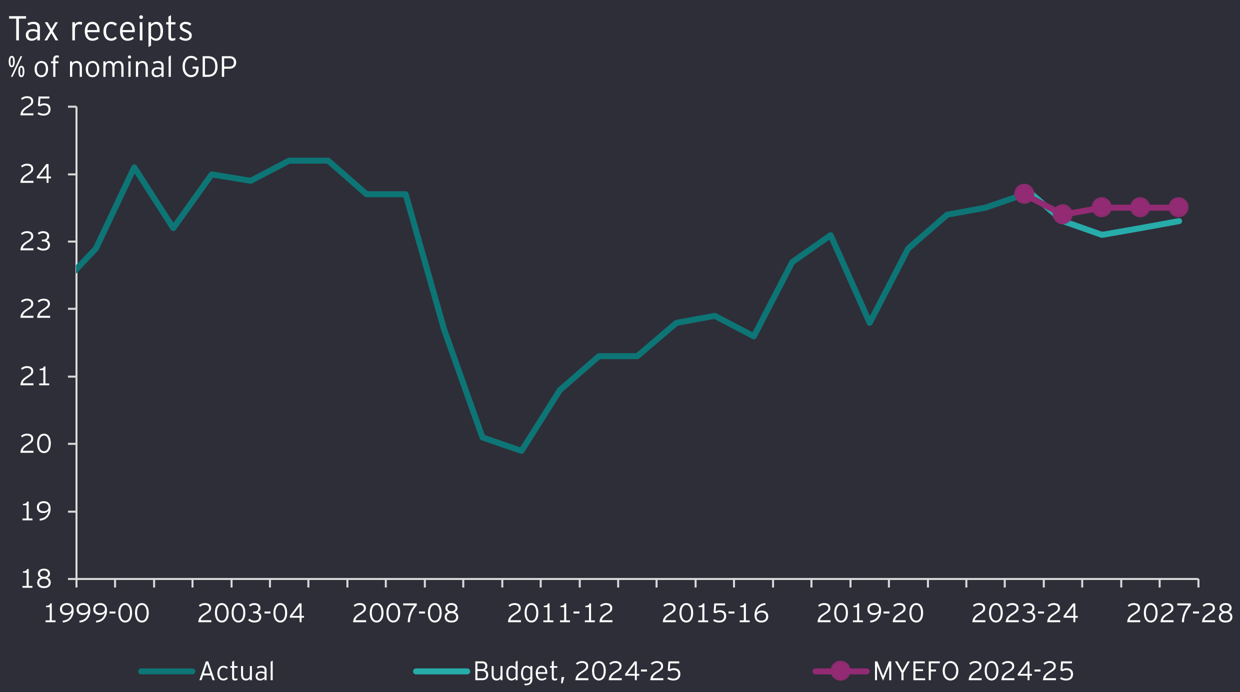
Source: Budget data, EY

3. Payments will continue to exceed receipts over coming years, and structural budget pressures will continue to build



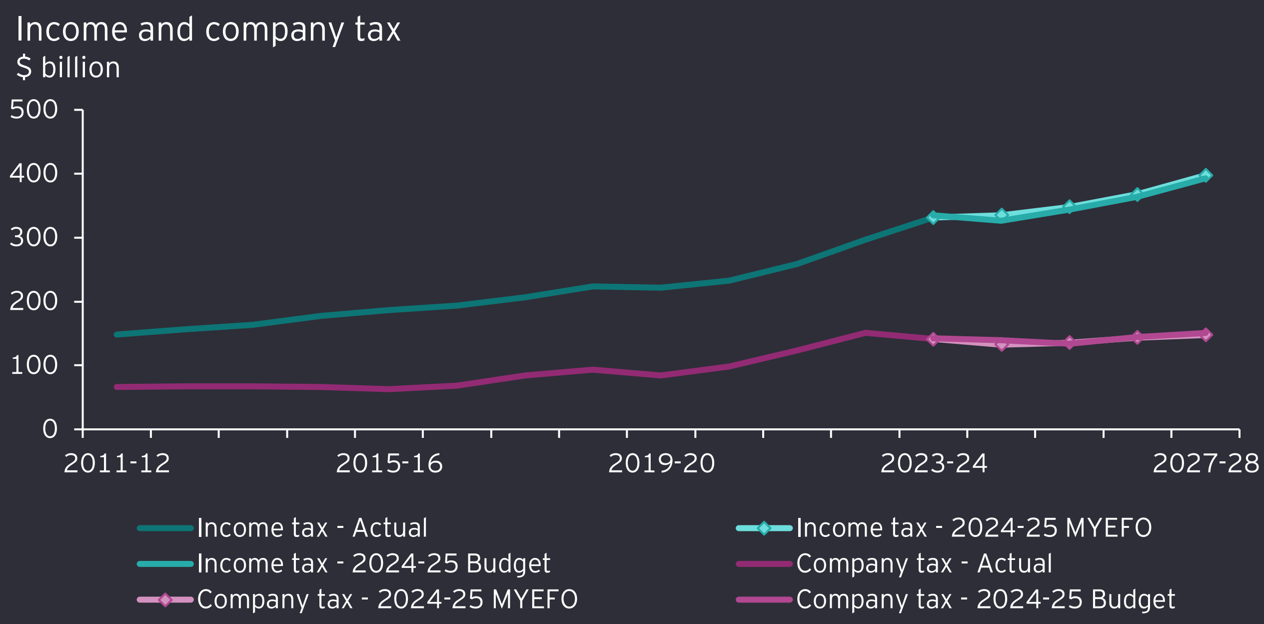
Source: Budget data, EY

4. Tax receipts are high as a share of GDP and expected to remain elevated, despite the Stage 3 tax cuts which began on 1 July



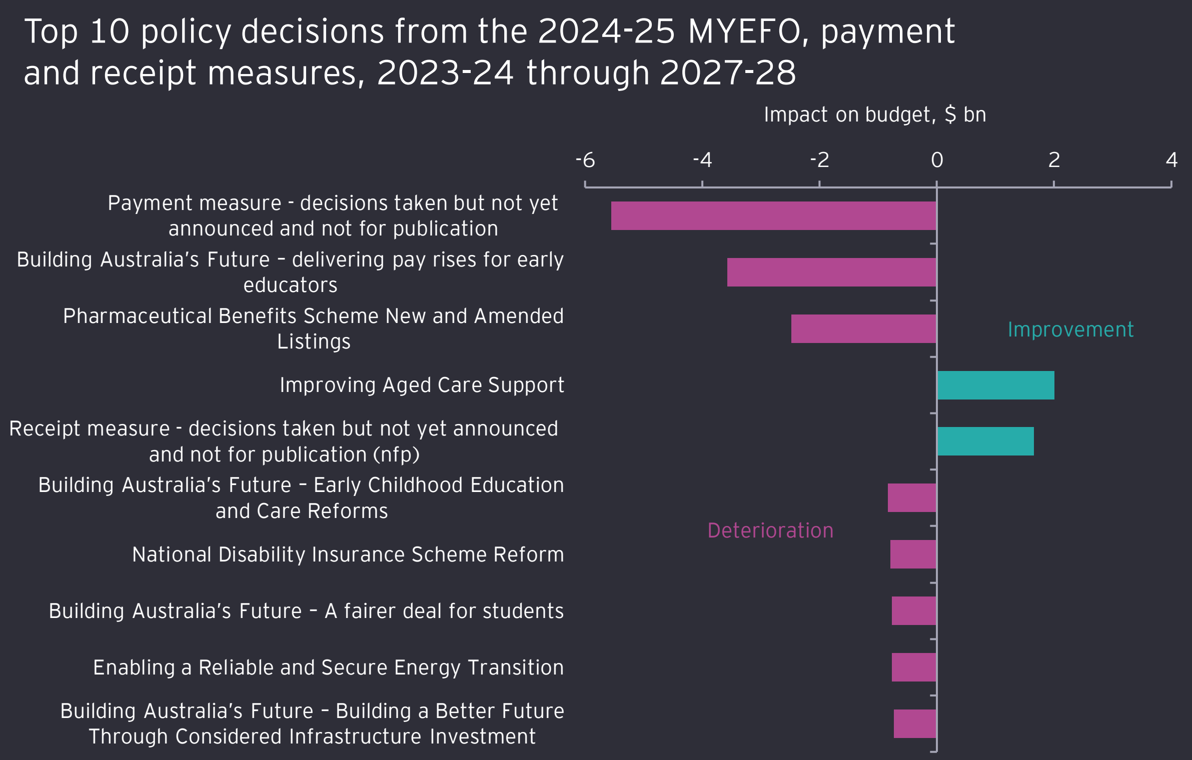
Source: Budget data, EY

5. Company tax receipts have been downgraded for the first time since 2020 reflecting weaker commodity exports



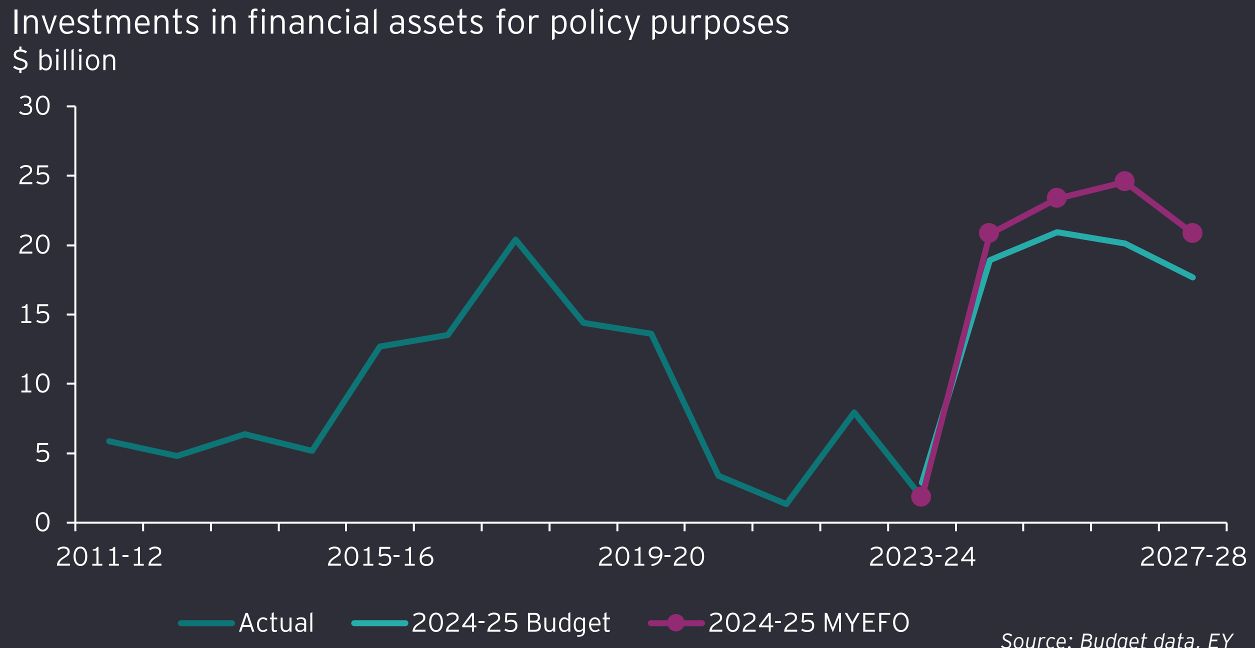
Source: Budget data, EY

6. New spending across a range of areas has contributed to the budget deterioration



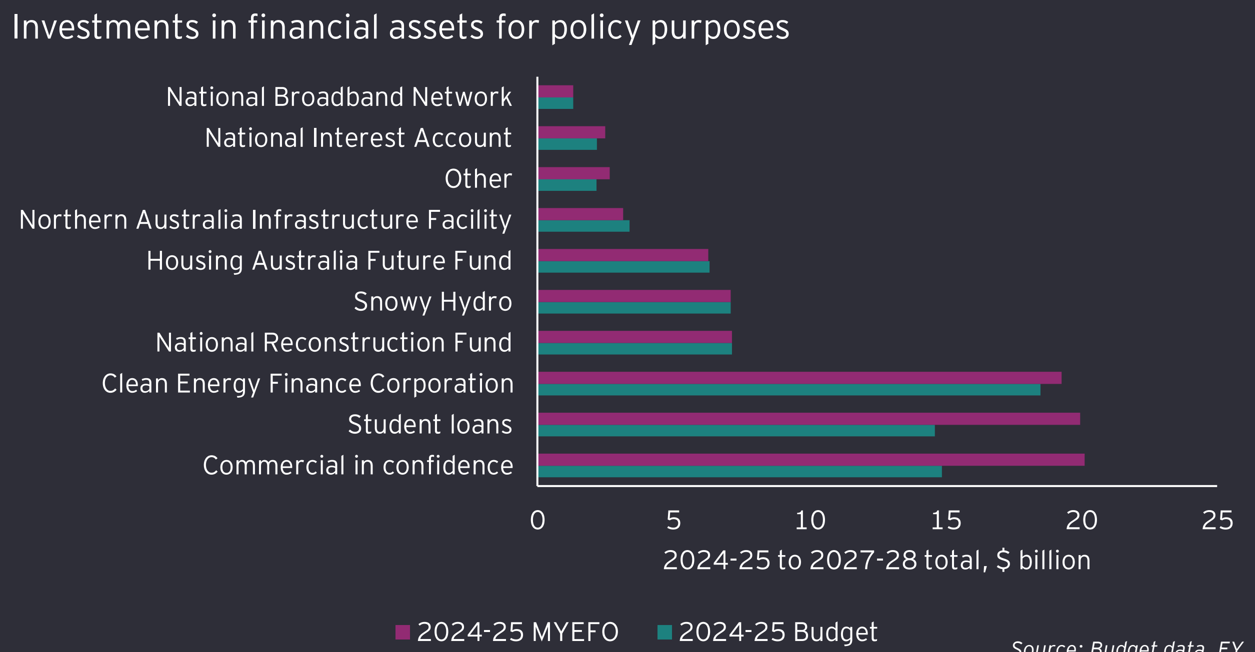
Source: Budget data, EY

7. 'Off-balance sheet' spending is expected to move to a record high and remain elevated. This contributes to the debt level.



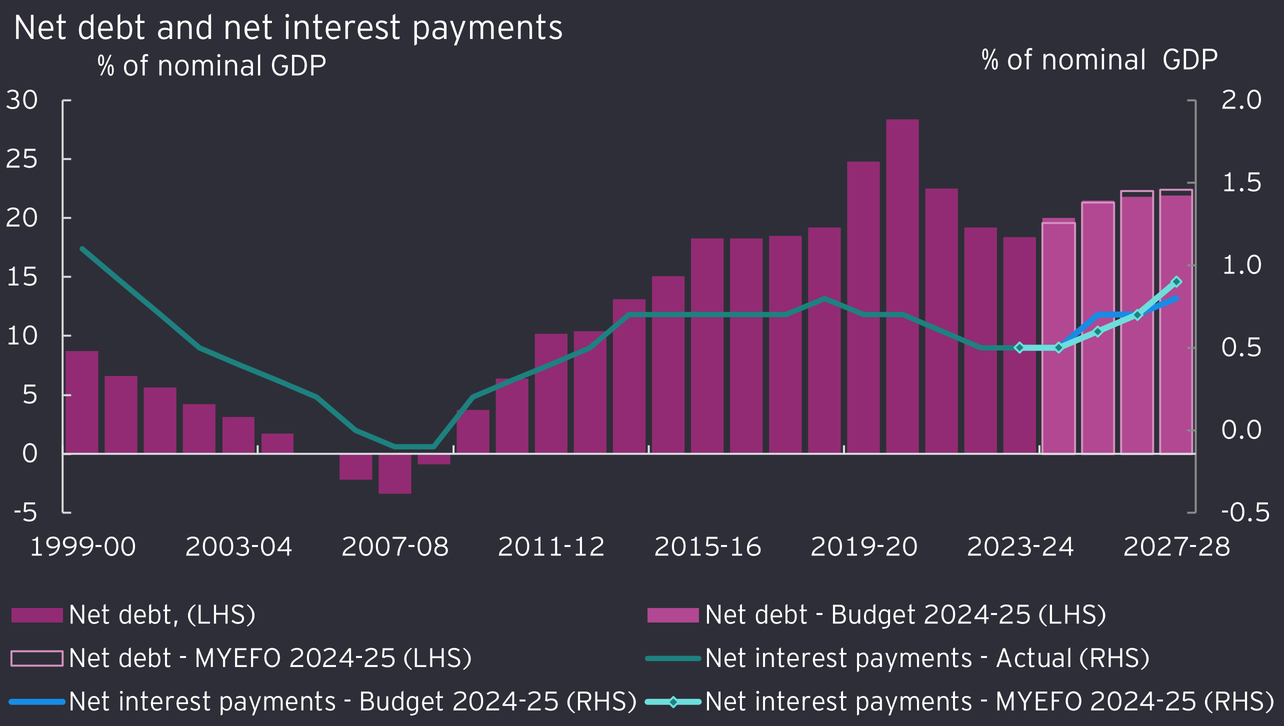
Source: Budget data, EY

8. Student loan 'off-balance sheet' spending rose as the government reduced students' Higher Education Loan Program debt by 20 per cent



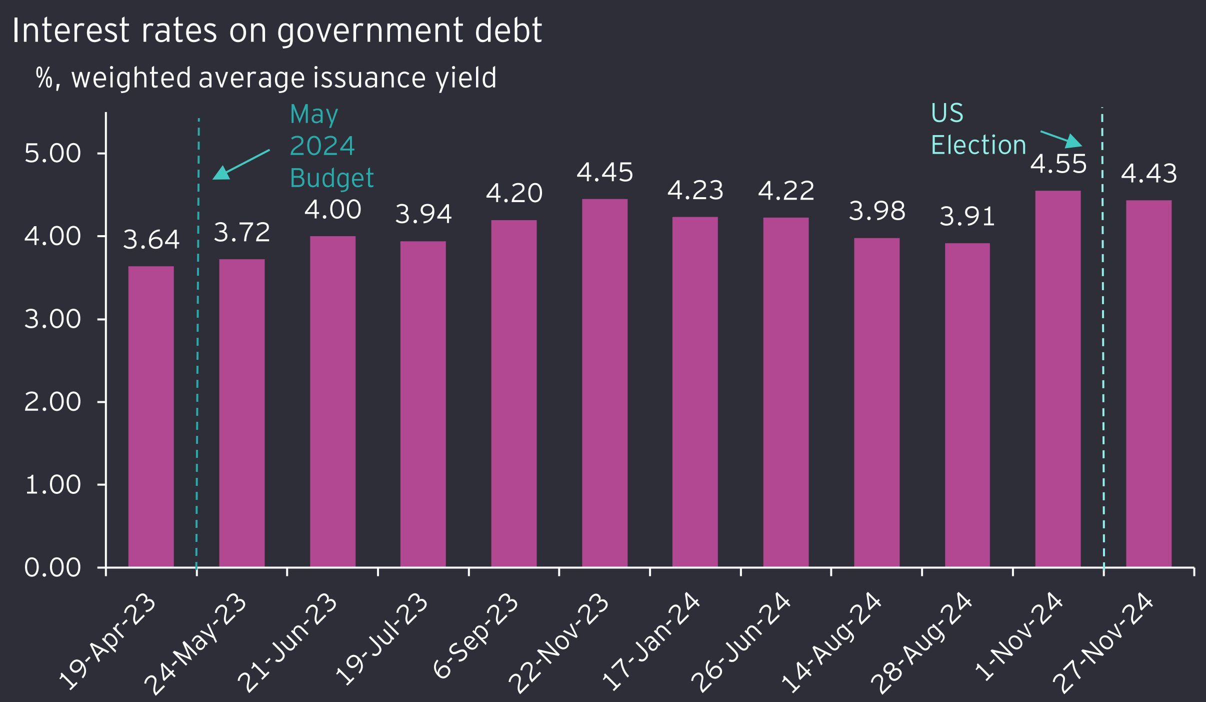
Source: Budget data, EY

9. Interest payments continue to grow as a share of the economy, diverting funding away from other priorities



Source: Budget data, EY

10. Interest rates on government debt continue to rise with risks that yields remain elevated due to the US Trump administration's policies



Source: AOFM, EY, 21-Dec-2034 bond line

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

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

Copyright ©2024 Ernst & Young, Australia. All Rights Reserved.

EYSCORE 010886-24-AUNZ

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