

A woman with her hair in a bun, wearing a light-colored short-sleeved top and jeans, stands in a kitchen. She is looking down at a receipt or document she is holding. The kitchen has white cabinets and a window in the background. A yellow graphic element, consisting of a large bracket-like shape, frames the text on the left side of the image.

Federal Budget 2026-27

A budget that steadies the ship,
but falls short on structural reform

12 May 2026



Shape the future
with confidence

From the Chief Economist

The 2026–27 Budget is bolder than we have seen in recent years. It narrows the fiscal deficit by pulling back on spending and lifting revenue, while benefiting from stronger company tax receipts driven by higher commodity prices and inflation linked to the Middle East conflict.

While the measures are directionally sound, they still fall short of what we would term significant reform. Treasury has lowered its productivity growth assumptions over the forward years, underscoring a more challenging outlook.

These changes come against a difficult economic backdrop, with inflation expected to rise to an uncomfortable annual pace of 5 per cent this quarter. Although near-term tax receipts are higher, the 2026–27 GDP forecast has been revised down to 1¾ per cent from 2¼ per cent.

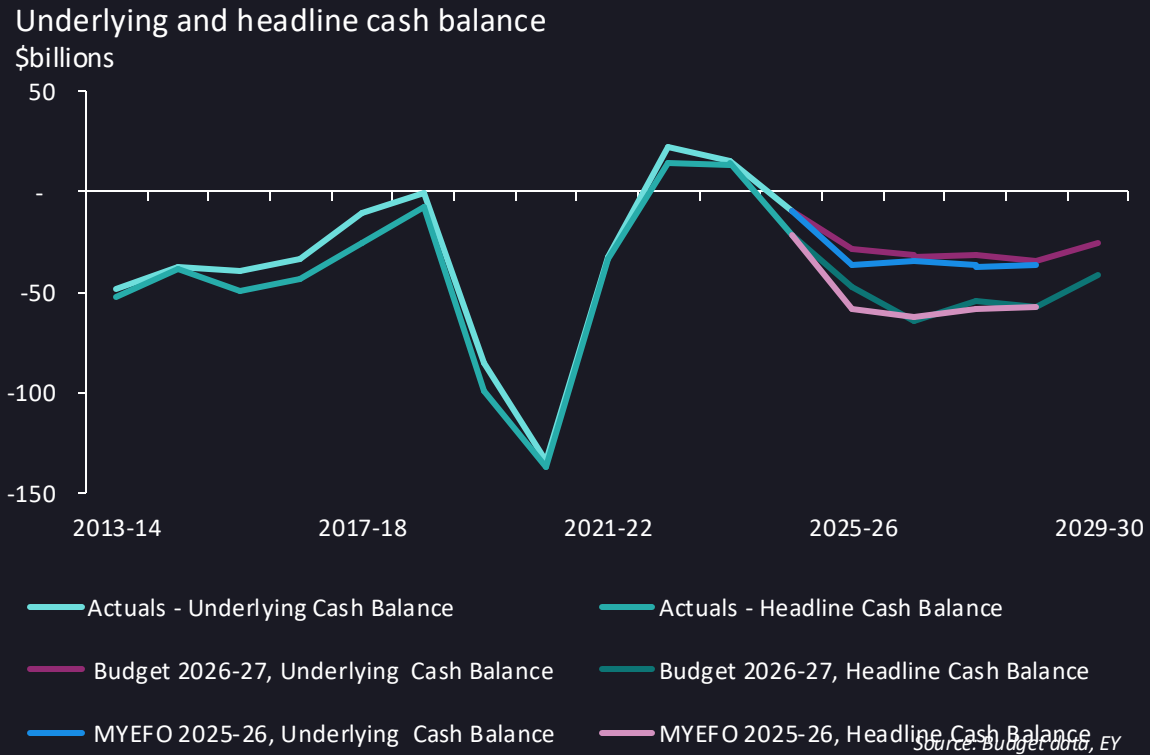
New cost-of-living measures for households are temporary and limited, including the \$2.6 billion three-month fuel excise reduction and the \$250 “Working Australians Tax Offset” (WATO). The latter costs around \$3 billion annually but will not be realised by households until tax lodgements in 2027–28.

In a capacity-constrained economy facing an energy price shock, the Government has been careful to avoid adding stimulus, so as not to complicate the Reserve Bank’s task. While the Treasurer flagged an ambition for further personal income tax cuts beyond the WATO, there are no firm commitments.

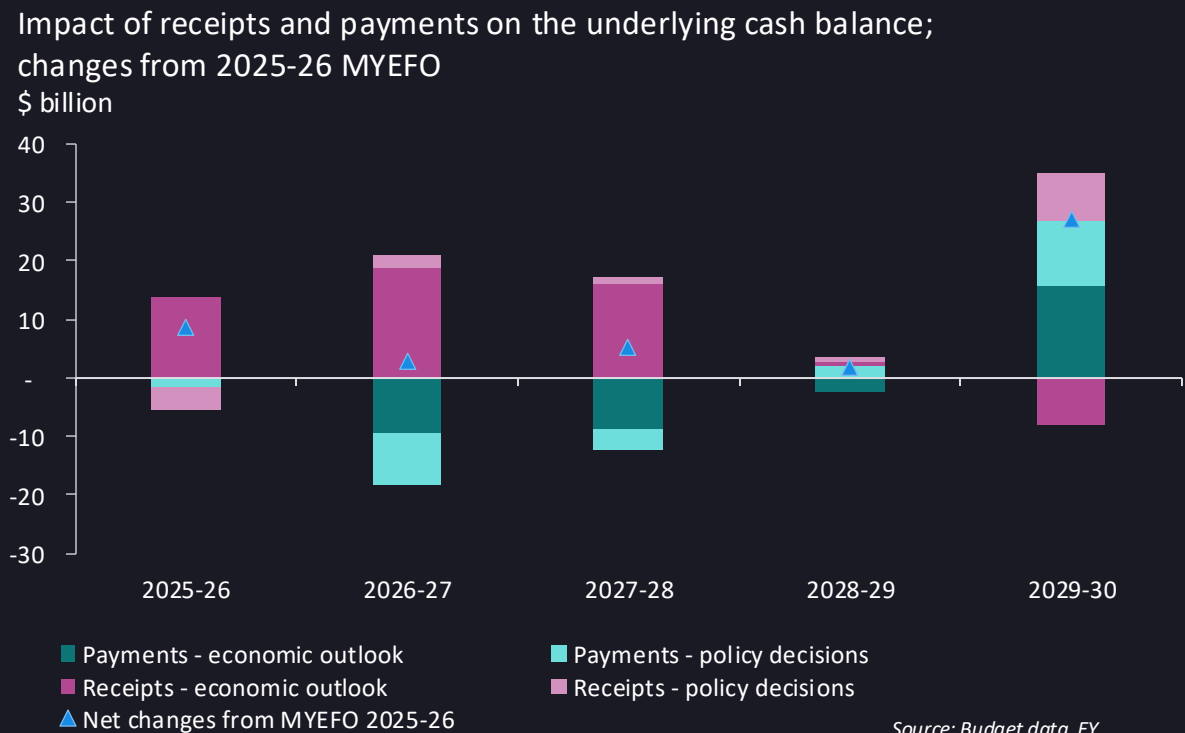
What the Budget does not do is materially reduce the tax burden on personal income or introduce significant corporate tax reform to lift investment and drive productivity.

Overall, this is a Budget that stabilises the near-term outlook and moves policy in the right direction, but stops short of the deeper, productivity-enhancing reform the economy ultimately requires.

1. Both the headline cash balance forecasts and the underlying cash forecasts were slightly better than at the last update

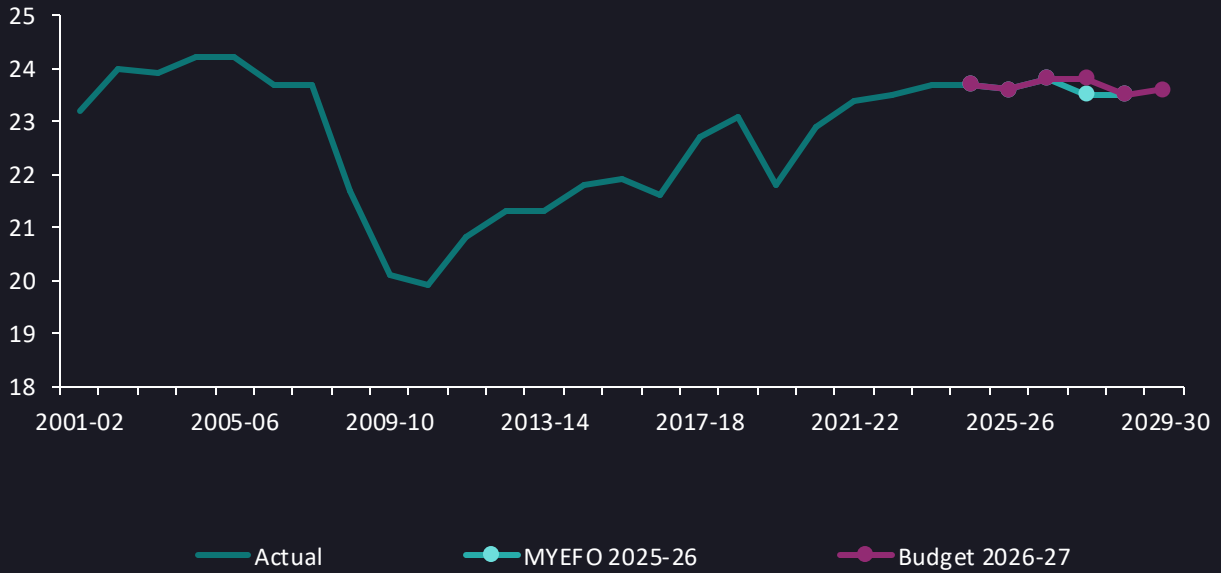


2. Commodity price gains, inflation and NDIS savings boost the bottom line, but most of the improvements are "spent"



3. Tax receipt projections increase due to commodity price gains, inflation and the increased investor housing tax take

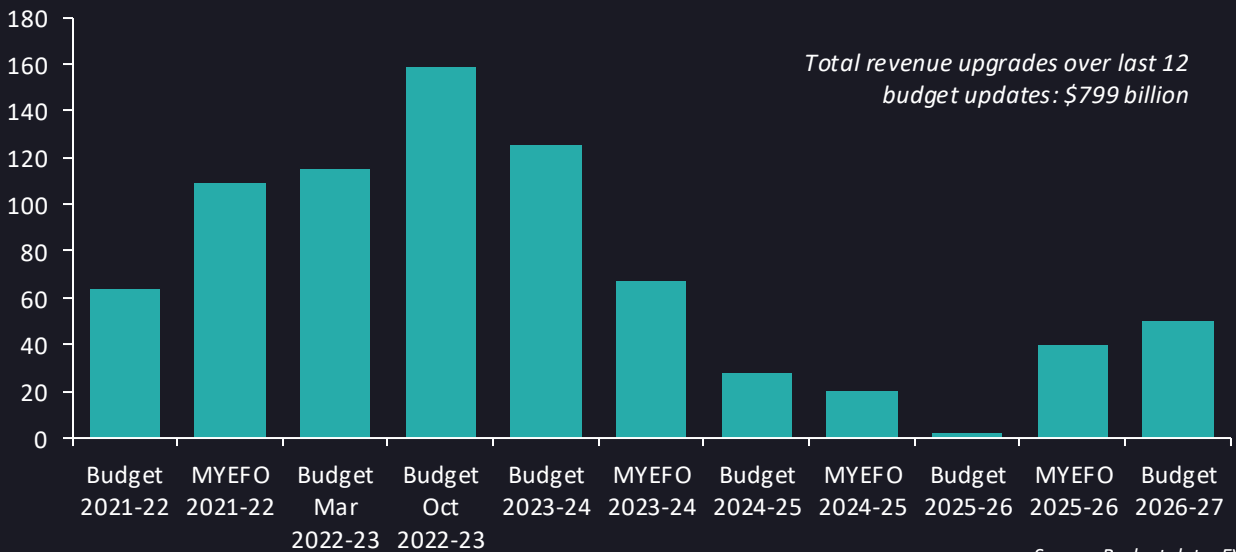
Tax receipts
% of nominal GDP



Source: Budget data, EY

4. The Government's fiscal position continues to be boosted by significant revenue upgrades

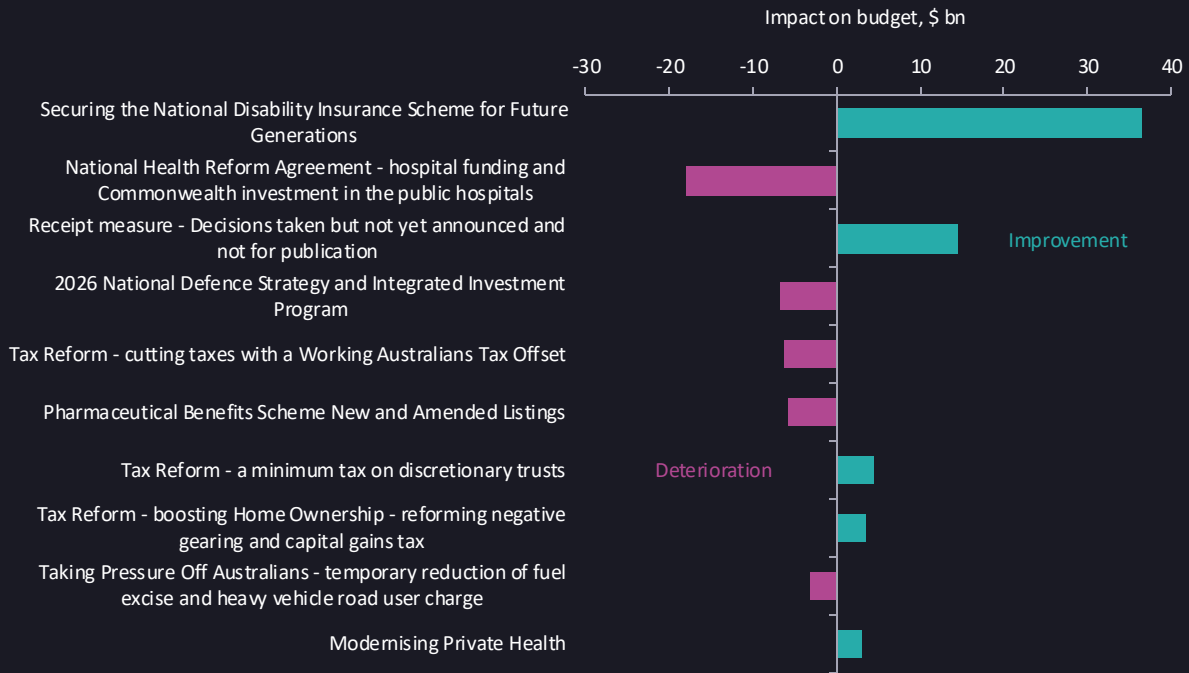
Total revenue upgrades over four year budget horizon
\$ billion



Source: Budget data, EY

5. NDIS cuts were the single largest policy change in the Budget, followed by increased hospital funding

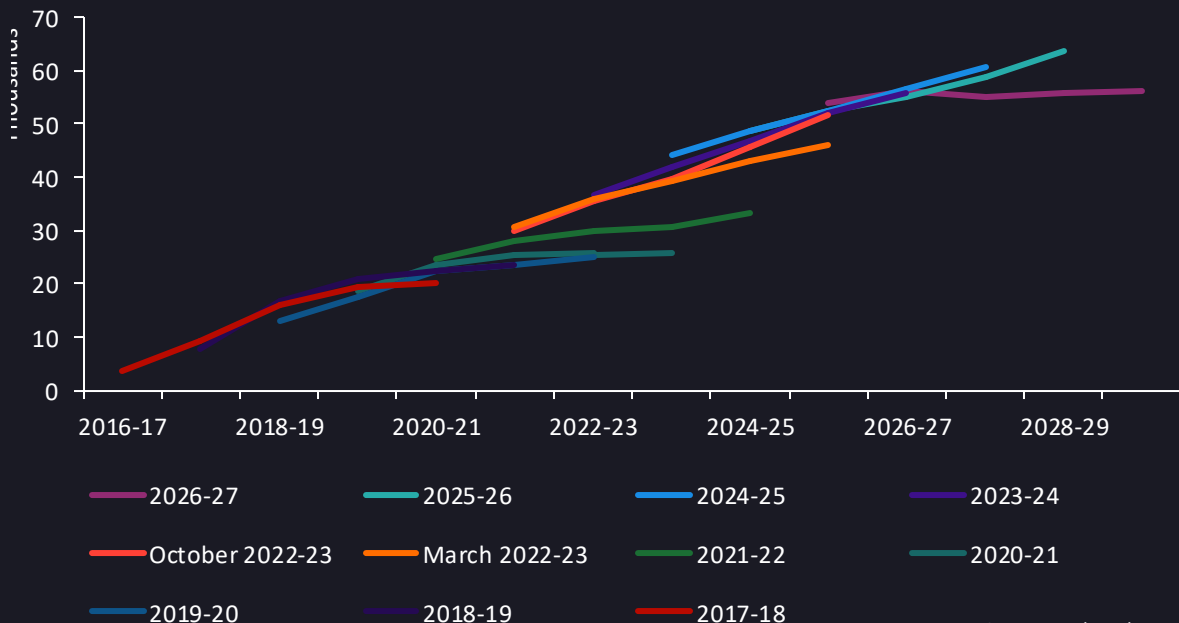
Top 10 policy decisions from the 2025-26 MYEFO, payment and receipt measures, 2025-26 - 2029-30



Source: Budget data, EY

6. NDIS spending levels out due to major reshaping of the policy framework, but spending is still more than double 2020-21 levels

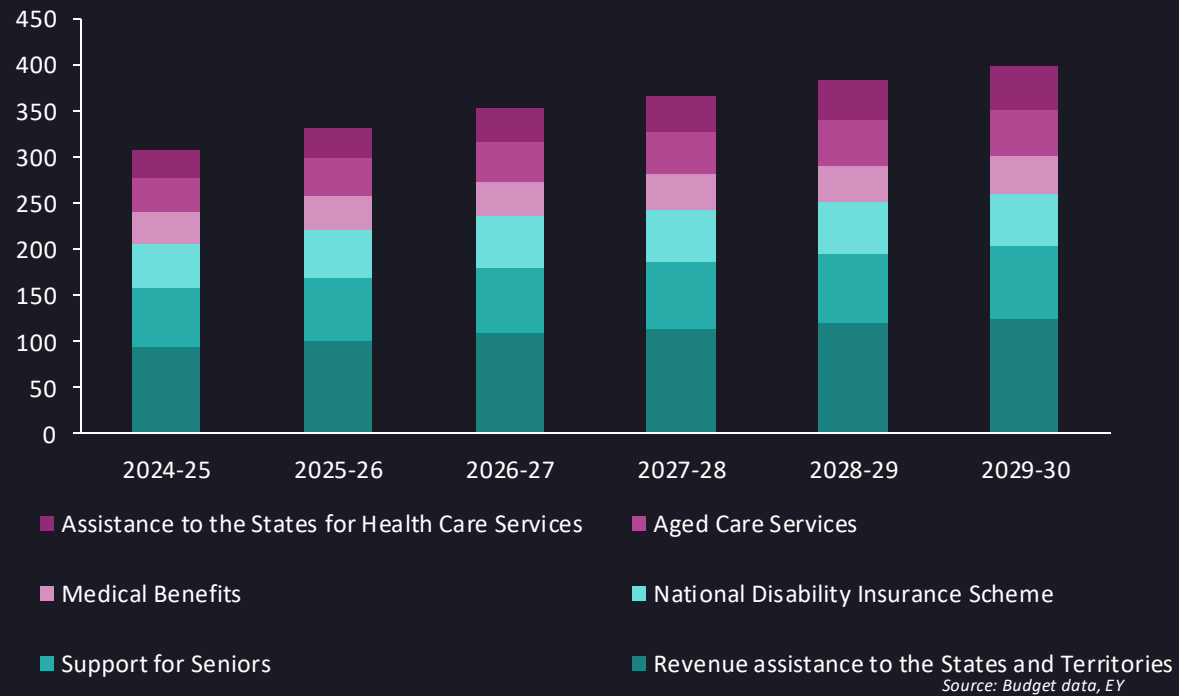
Projected spending on NDIS in recent Budgets
\$ billion



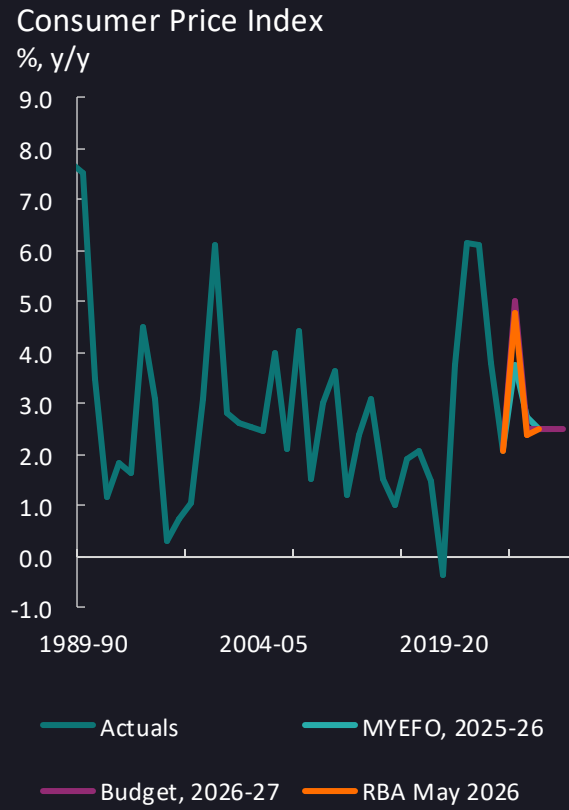
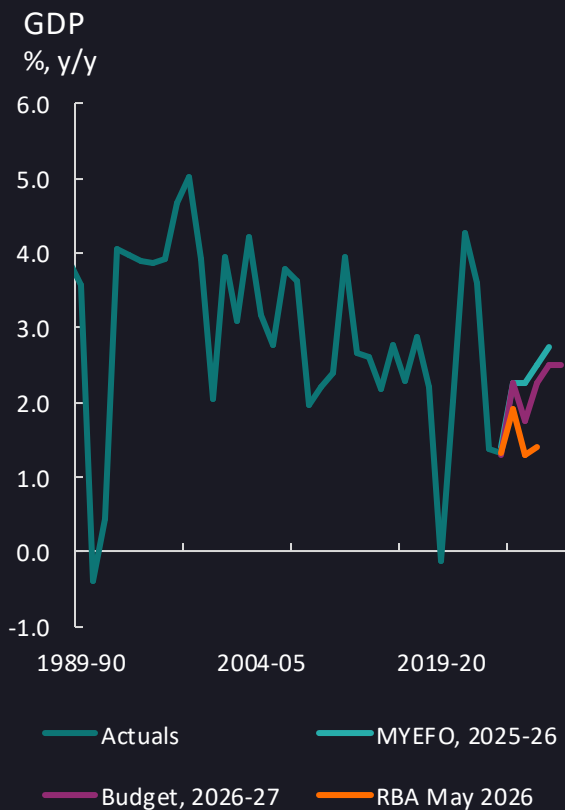
Source: Budget data, EY

7. The cost of the biggest spending programs continue to rise

Cost of top spending programs
\$ Billions



8. GDP forecasts were revised down and inflation forecasts were revised higher, with the domestic outlook highly uncertain

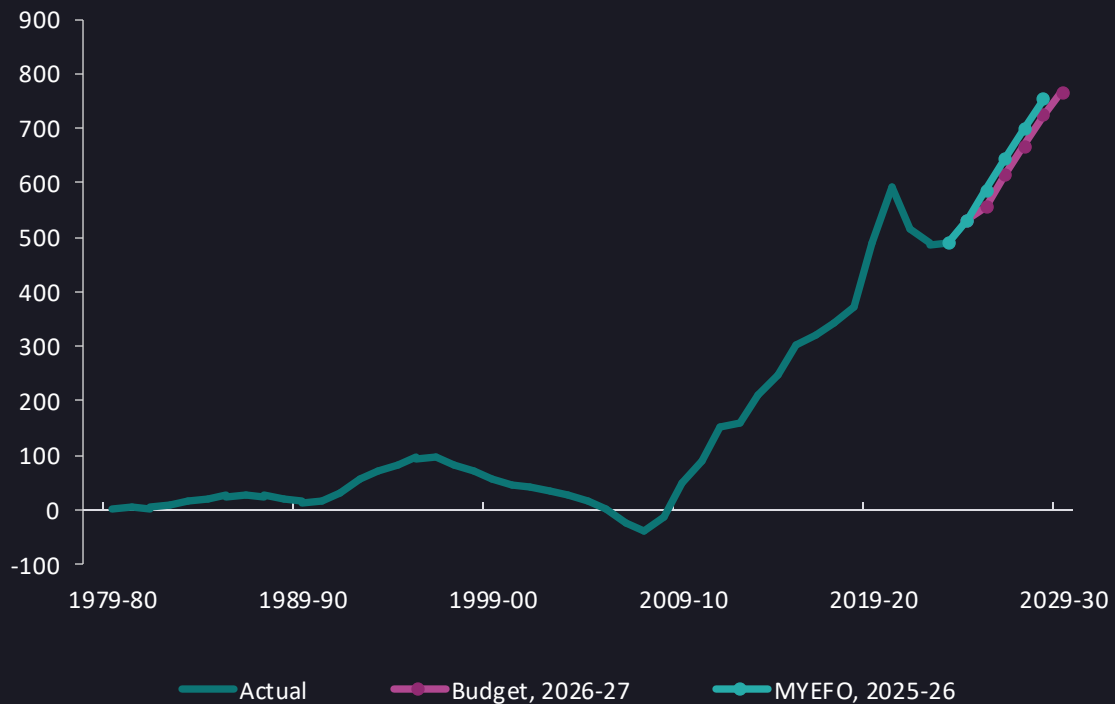


Source: Budget data, EY, ABS, RBA

Source: Budget data, EY, ABS, RBA

9. Net debt has been revised down slightly, but continues to grow and is projected to reach 21.9 per cent of GDP by 2029-30

General Government net debt
\$ Billions

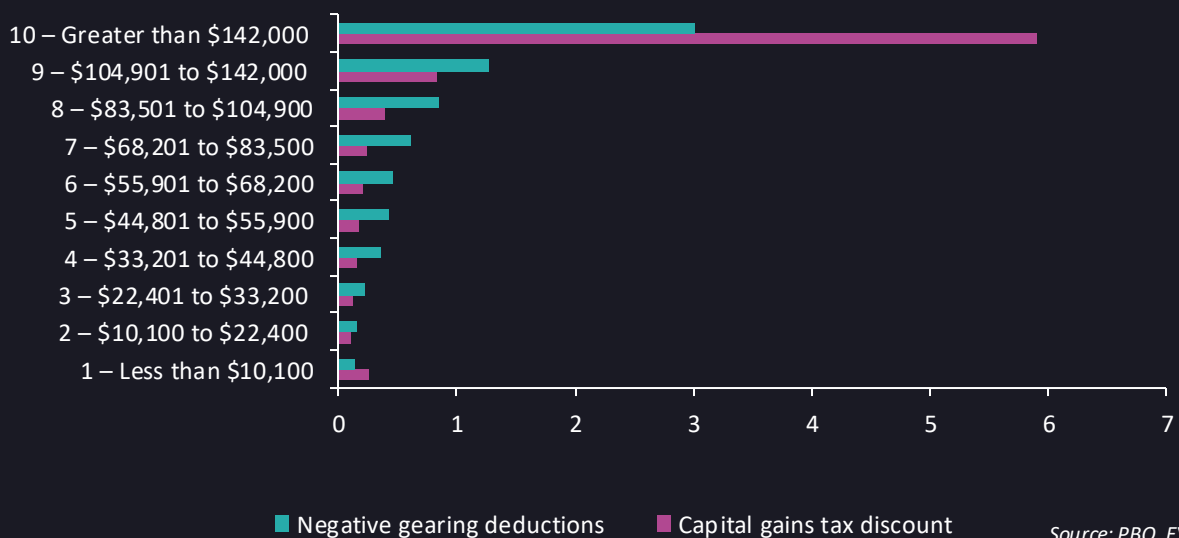


Source: Budget data, EY

10. Residential investment property tax breaks (which will be changed from 2027) benefit those on higher incomes most

Revenue forgone for residential investment properties, by taxable income decile - 2025-26

\$ billion



Source: PBO, EY

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