

Labor Government 2022-23 Federal Budget Overview

BUDGET OVERVIEW

Key messages

In his Budget Speech Treasurer Jim Chalmers said, “this is a responsible Budget that is right for the times and readies us for the future.

“It delivers on the priorities of the Australian people, and it repays their faith in a new government.

“It provides cost of living relief which is responsible, not reckless – to make life easier for Australians, without adding to inflation.

“It targets investments in a stronger, more resilient, more modern economy.

“And it begins the hard yards of Budget repair.

“It delivers on our commitments:

- Cheaper child care, and more Paid Parental Leave.
- Better access to health care, cheaper medicines, and a better standard of aged care.
- Fee-free TAFE and more university places.
- Cheaper and cleaner energy.
- More affordable housing, and a future made in Australia.”

He said, “This Budget does more than end a wasted decade – “It begins to put things right.”

Budget outcome

The Budget shows the forecast Budget deficit (the Government’s underlying cash balance) for 2022-23 has improved by \$41 billion since the pre-election, March Budget, producing a forecast Budget deficit of \$36.8 billion, compared to \$78 billion in March.

Economic growth

The Budget Papers say Australia’s economic growth is expected to slow from 3¼ per cent in 2022–23, to 1½ per cent in 2023–24, a downgrade of ½ of a percentage point from the July Ministerial Statement and 1 percentage point from the Pre-election fiscal outlook.

Employment and unemployment

Employment growth is forecast to slow over the next 2 years as economic growth slows. Employment growth is still forecast to remain positive, at ¾ per cent in 2023–24.

Floods

In his Budget Speech Treasurer Jim Chalmers said, “\$3 billion has been provisioned as a response to recent floods. We will fund Disaster Relief Australia to help deploy more than 5,000 extra volunteers when future disasters strike.”

Cost of living

The Budget does not contain specific cost of living measures. However it lists as “Cost of living relief” which the Budget provides, a number of previously announced Government programs which have been funded in the Budget, including its expanded child care program and expanded Paid parental Leave scheme.

Small business

In his Budget Speech Treasurer Jim Chalmers said the Government was “Supporting small business with new energy efficiency grants, and extending tailored mental health and financial counselling programs.”

Tax collections

The Budget forecasts that tightening up on a number of tax measures will net the Government \$4.1 billion over four years.

These include

- Tax Avoidance Taskforce (\$1.7 billion over four years).
- Shadow Economy Program (\$1.4 billion).
- Multinational Tax (\$715 million)
- Changes to off-market share buy-back rules (\$550 million)
- Reversing the measure allowing taxpayers to self-assess the effective life of intangible depreciating assets (\$550 million).

Aged care

The Government's Aged Care package is one of the most expensive expenditure items in the Budget, costing \$183 million in 2023-24 and \$2.5 billion over the Forward Estimates and a further \$540 million for aged care reforms; followed by the funding of the previous Government's spending commitments at \$259 million and \$1.6 billion.

THE BUDGET'S KEY INITIATIVES

As widely expected, the Budget's key initiatives are the Labor Government's major spending promises from the May election: expanded child care, increased funding for aged care and savings from the scrapping and proceeding with some of the Morrison Government's spending priorities where the previous Government had not committed funds.

(The Budget also contains a series of major savings where the Albanese Government will not proceed with projects – especially but not only – infrastructure projects announced by the Morrison Government, where funding had not been committed by the previous Government – see under Savings.

The Budget Papers show the largest of the Government's initiatives is its expansion of child care, costing \$1.35 billion in 2023-24 and \$4.69 billion over the four-year forward estimates (2022-23 to 2026-26).

Next most expensive is the Government's Aged Care package, costing \$183 million in 2023-24 and \$2.5 billion over the Forward Estimates and a further \$540 million for aged care reforms; followed by the funding of the previous Government's spending commitments at \$259 million and \$1.6 billion.

Other major new spending includes Foreign Aid (\$1.4 billion over four years), Fee-Free TAFE and Technology Fund (\$852 million) and a range of COVID related expenditures (\$2.2 billion.)

Budget outcome

The Budget shows the forecast Budget deficit (the Government's underlying cash balance) for 2022-23 has improved by \$41 billion since the pre-election, March Budget, producing a forecast Budget deficit of \$36.8 billion, compared to \$78 billion in March.

The changes are mostly a result of higher government revenue from the effect of higher inflation on tax revenue and higher commodity prices. Despite some savings from the scrapping of the previous Government's programs, spending is actually forecast to be \$15 billion higher than forecast in March.

The Budget papers said, "This Budget begins the difficult task of repairing the budget and ensures fiscal policy does not add to inflationary pressure. As a first step, the Budget makes significant savings from redirecting spending to priorities, unwinding wasteful spending to support budget repair, better aligning infrastructure investment with market capacity, and improving the fairness and integrity of the tax system.

"The Government has identified \$28.5 billion in budget improvements over the 4 years to 2025-26"

This includes:

- \$22.0 billion in spending reductions or reprioritisations, including \$6.5 billion in savings from reprofiling infrastructure
- \$3.7 billion from extending the ATO's Tax Avoidance
- \$952.8 million through comprehensive action to ensure multinationals

The Budget Papers say, "While this Budget has begun the critical task of budget repair, further work will be required in future budgets to rebuild fiscal buffers and manage growing cost pressures.

"The underlying cash balance has improved by a cumulative \$42.7 billion across the 4 years to 2025-26.

"However, in the final 2 years of the forward estimates, the improvement in tax receipts is not large enough to cover the growing spending pressures arising from higher prices, higher interest rates and cost pressures associated with essential services."

In his Budget Speech Treasurer Jim Chalmers said, "New policies have been largely offset across this year and next – to avoid

adding to inflation when price pressures are most acute.
“And nearly all of the tax upgrades over the forward estimates have been returned to the Budget, not spent:

- 99 per cent returned to the Budget over the next two years.
- And 92 per cent returned to the Budget over the next four years.

Budget balance

Table 1.2: Budget aggregates

| | Actual | Estimates | | | | | Projections | |
|--------------------------------|---------|-----------|---------|---------|---------|----------|-------------|--|
| | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Total(a) | 2032-33 | |
| | \$b | \$b | \$b | \$b | \$b | \$b | \$b | |
| Underlying cash balance | -32.0 | -36.9 | -44.0 | -51.3 | -49.6 | -181.8 | | |
| Per cent of GDP | -1.4 | -1.5 | -1.8 | -2.0 | -1.8 | | -1.9 | |
| Gross debt(b) | 895.3 | 927.0 | 1,004.0 | 1,091.0 | 1,159.0 | | | |
| Per cent of GDP | 39.0 | 37.3 | 40.8 | 42.5 | 43.1 | | 46.9 | |
| Net debt(c) | 515.6 | 572.2 | 634.1 | 702.8 | 766.8 | | | |
| Per cent of GDP | 22.5 | 23.0 | 25.8 | 27.4 | 28.5 | | 31.9 | |

- a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
 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).

The same table – Budget 2022-23 – March 2022

Table 1.2: Budget aggregates

| | Actual | Estimates | | | | | Projections | |
|--------------------------------|---------|-----------|---------|---------|---------|---------|-------------|---------|
| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Total(a) | 2032-33 |
| | \$b | \$b | \$b | \$b | \$b | \$b | \$b | \$b |
| Underlying cash balance | -134.2 | -79.8 | -78.0 | -56.5 | -47.1 | -43.1 | -224.7 | |
| Per cent of GDP | -6.5 | -3.5 | -3.4 | -2.4 | -1.9 | -1.6 | | -0.7 |
| Gross debt(b) | 817 | 906 | 977 | 1056 | 1117 | 1169 | | |
| Per cent of GDP | 39.5 | 39.5 | 42.5 | 44.6 | 44.9 | 44.7 | | 40.3 |
| Net debt(c) | 592.2 | 631.5 | 714.9 | 772.1 | 823.3 | 864.7 | | |
| Per cent of GDP | 28.6 | 27.6 | 31.1 | 32.6 | 33.1 | 33.1 | | 26.9 |

- (a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
 (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).

Government debt

Table 3.1: Australian Government general government sector budget aggregates

| | Actual | Estimates | | | | | Projections | |
|---------------------------------|---------|-----------|---------|---------|---------|----------|-------------|--|
| | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Total(a) | 2032-33 | |
| | \$b | \$b | \$b | \$b | \$b | \$b | % of GDP | |
| Underlying cash balance | -32.0 | -36.9 | -44.0 | -51.3 | -49.6 | -181.8 | | |
| Per cent of GDP | -1.4 | -1.5 | -1.8 | -2.0 | -1.8 | | -1.9 | |
| Receipts | 584.4 | 607.2 | 621.4 | 642.8 | 679.0 | 2,550.5 | | |
| Per cent of GDP | 25.4 | 24.5 | 25.3 | 25.1 | 25.2 | | 26.0 | |
| Tax receipts | 536.6 | 562.9 | 574.3 | 590.5 | 629.3 | 2,356.9 | | |
| Per cent of GDP | 23.4 | 22.7 | 23.3 | 23.0 | 23.4 | | 24.1 | |
| Non-tax receipts | 47.8 | 44.4 | 47.1 | 52.4 | 49.7 | 193.6 | | |
| Per cent of GDP | 2.1 | 1.8 | 1.9 | 2.0 | 1.8 | | 1.9 | |
| Payments(b) | 616.3 | 644.1 | 665.5 | 694.2 | 728.6 | 2,732.3 | | |
| Per cent of GDP | 26.8 | 25.9 | 27.0 | 27.1 | 27.1 | | 27.9 | |
| Gross debt(c) | 895.3 | 927.0 | 1,004.0 | 1,091.0 | 1,159.0 | | | |
| Per cent of GDP | 39.0 | 37.3 | 40.8 | 42.5 | 43.1 | | 46.9 | |
| Net debt(d) | 515.6 | 572.2 | 634.1 | 702.8 | 766.8 | | | |
| Per cent of GDP | 22.5 | 23.0 | 25.8 | 27.4 | 28.5 | | 31.9 | |
| Net interest payments(e) | 15.0 | 13.6 | 16.6 | 19.4 | 26.5 | 76.1 | | |
| Per cent of GDP | 0.7 | 0.5 | 0.7 | 0.8 | 1.0 | | 1.5 | |

- a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
 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).

The same table – Budget 2022-23 – March 2022

Table 3.2: Australian Government general government sector budget aggregates

| | Actual | Estimates | | | | | Projections | |
|---------------------------------|---------|-----------|---------|---------|---------|---------|-------------|---------|
| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Total(a) | 2032-33 |
| | \$b | \$b | \$b | \$b | \$b | \$b | \$b | \$b |
| Underlying cash balance | -134.2 | -79.8 | -78.0 | -56.5 | -47.1 | -43.1 | -224.7 | |
| Per cent of GDP | -6.5 | -3.5 | -3.4 | -2.4 | -1.9 | -1.6 | | -0.7 |
| Receipts | 519.9 | 556.6 | 547.6 | 585.2 | 615.2 | 643.9 | 2,392.0 | |
| Per cent of GDP | 25.1 | 24.3 | 23.8 | 24.7 | 24.7 | 24.6 | | 25.8 |
| Tax receipts | 473.9 | 512.5 | 508.4 | 541.8 | 566.6 | 598.2 | 2,215.0 | |
| Per cent of GDP | 22.9 | 22.4 | 22.1 | 22.9 | 22.8 | 22.9 | | 23.9 |
| Non-tax receipts | 46.1 | 44.1 | 39.2 | 43.5 | 48.6 | 45.7 | 177.0 | |
| Per cent of GDP | 2.2 | 1.9 | 1.7 | 1.8 | 2.0 | 1.7 | | 1.9 |
| Payments(b) | 654.1 | 636.4 | 625.6 | 641.7 | 662.3 | 687.0 | 2,616.6 | |
| Per cent of GDP | 31.6 | 27.8 | 27.2 | 27.1 | 26.6 | 26.3 | | 26.5 |
| Gross debt(c) | 817.0 | 906.0 | 977.0 | 1,056.0 | 1,117.0 | 1,169.0 | | |
| Per cent of GDP | 39.5 | 39.5 | 42.5 | 44.6 | 44.9 | 44.7 | | 40.3 |
| Net debt(d) | 592.2 | 631.5 | 714.9 | 772.1 | 823.3 | 864.7 | | |
| Per cent of GDP | 28.6 | 27.6 | 31.1 | 32.6 | 33.1 | 33.1 | | 26.9 |
| Net interest payments(e) | 14.3 | 14.9 | 15.1 | 16.9 | 18.0 | 22.4 | 72.3 | |
| Per cent of GDP | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.9 | | 0.8 |

- (a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
 (b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net cash flows from financing activities for leases.
 (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 increase in 2025-26 primarily reflects a Treasury Indexed Bond maturing in that year (details can be found in *Statement 6: Debt Statement*).

References

- Budget Paper No 1 Statement 1 – Budget Overview
- Budget Paper No 1 Statement 3 – Fiscal Strategy and Outlook
- Budget Paper No 1, Statement No 6 – Debt Statement, Assets and Liabilities
- Budget Speech

ECONOMIC OUTLOOK AND FORECASTS

Economic overview

The economy is expected to grow by 3¼ per cent in 2022-23, before slowing to 1½ per cent in 2023-24.

The Budget Papers say, “The Australian economy is facing headwinds from a deteriorating global economy, a global price shock, natural disasters, high inflation and rising interest rates.

“While more Australians are in jobs, wages growth is not keeping pace with price rises, and higher interest rates are placing even more pressure on many households.”

They say, “Employment growth is expected to ease, but jobs will continue to be created and the unemployment rate is expected to stay low by historical standards, at 4½ per cent in June 2024.

“Supply constraints and high global energy prices are persisting and are being exacerbated by recent floods. Inflation is forecast to peak at 7¾ per cent by the end of 2022, before easing gradually over the next 2 years. As wages grow more strongly and inflation moderates, we expect real wages to start growing again in 2023–24.”

Inflation

In his Budget Speech Treasurer Jim Chalmers said, “Inflation is expected to peak at 7¾ per cent later this year, before moderating over time, to 3½ per cent through 2023–24, and returning to the Reserve Bank’s target range in 2024–25.”

The Budget papers say that consumer price inflation is forecast to peak at 7¾ per cent in the December quarter of 2022, the same peak as forecast in the Albanese’ Government’s July Ministerial Statement, but high inflation is now expected to persist for longer than previously expected largely because of higher energy prices. Inflation is expected to ease gradually to 3½ per cent by June 2024 and then to fall.

The Budget Papers also note, “While inflation in Australia has been driven by these global factors, domestic weather events and supply constraints combined with strong demand in residential construction and consumer goods, have also contributed to price growth.”

They also warn, “Significant risks remain to the inflation outlook. There may be further or prolonged disruptions in global energy markets as a result of Russia’s ongoing invasion of Ukraine. Recent flooding could drive food prices higher.

Tighter labour market conditions than forecast could also add to underlying pressures. In contrast, tighter monetary policy in Australia and globally than is currently expected could have a faster than expected impact, resulting in a quicker return of inflation to target.”

Economic Forecasts – Budget 2022-23 – October 2022

Table 2.2: Domestic economy – detailed forecasts^(a)

| | Outcomes | Forecasts | |
|--|------------|--------------|--------------|
| | 2021-22 | 2022-23 | 2023-24 |
| Real gross domestic product | 3.9 | 3 1/4 | 1 1/2 |
| Household consumption | 4.1 | 6 1/2 | 1 1/4 |
| Dwelling investment | 2.8 | -2 | -1 |
| Total business investment ^(b) | 5.2 | 6 | 3 1/2 |
| <i>By industry</i> | | | |
| Mining investment | -1.7 | 4 | 5 1/2 |
| Non-mining investment | 7.4 | 6 1/2 | 3 1/2 |
| Private final demand ^(c) | 4.5 | 5 1/4 | 1 1/4 |
| Public final demand ^(c) | 6.5 | 1 | 1 1/2 |
| Change in inventories ^(c) | 0.1 | 0 | -1/4 |
| Gross national expenditure | 5.2 | 4 | 1 |
| Exports of goods and services | 0.0 | 7 | 5 |
| Imports of goods and services | 7.7 | 11 | 3 |
| Net exports ^(c) | -1.5 | -3/4 | 1/2 |
| Nominal gross domestic product | 11.0 | 8 | -1 |
| <i>Prices and wages</i> | | | |
| Consumer price index ^(d) | 6.1 | 5 3/4 | 3 1/2 |
| Wage price index ^(d) | 2.6 | 3 3/4 | 3 3/4 |
| GDP deflator | 6.9 | 4 3/4 | -2 1/4 |
| <i>Labour market</i> | | | |
| Participation rate (per cent) ^(e) | 66.6 | 66 3/4 | 66 1/2 |
| Employment ^(e) | 3.3 | 1 3/4 | 3/4 |
| Unemployment rate (per cent) ^(e) | 3.8 | 3 3/4 | 4 1/2 |
| <i>Balance of payments</i> | | | |
| Terms of trade ^(f) | 12.2 | -2 1/2 | -20 |
| Current account balance (per cent of GDP) | 2.2 | 1/2 | -3 3/4 |
| Net overseas migration ^(g) | 150,000 | 235,000 | 235,000 |

a) Percentage change on preceding year unless otherwise indicated.

b) Excluding second-hand asset sales between the public and private sector.

c) Percentage point contribution to growth in GDP.

d) Through-the-year growth rate to the June quarter.

e) Seasonally adjusted rate for the June quarter.

f) Key commodity prices are assumed to decline from current elevated levels by the end of the March quarter 2023: the iron ore spot price is assumed to decline from US\$91/tonne to US\$55/tonne free on board (FOB); the metallurgical coal spot price is assumed to decline from US\$271/tonne to US\$130/tonne FOB; the thermal coal spot price is assumed to decline from US\$438/tonne to US\$60/tonne FOB; the oil price (TAPIS) is assumed to decline from US\$108/barrel to US\$100/barrel; and the LNG price is assumed to decline from US\$934/tonne to US\$630/tonne.

g) The figure for 2021–22 consists of 3 quarters of preliminary outcomes and one quarter of forecasts. Net overseas migration is assumed to continue in line with pre-pandemic trends at 235,000 from 2022–23.

Note: The exchange rate is assumed to remain around its recent average level – a trade-weighted index of around 61 and a \$US exchange rate of around 65 US cents. Interest rates are informed by the Bloomberg survey of market economists. Population growth is forecast to be 1.1 per cent in 2021–22 and 1.4 per cent in 2022–23 and 2023–24.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Balance of Payments and International Investment Position, Australia; National State and Territory Population; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; unpublished ABS data and Treasury.

Economic Forecasts

The same table – Budget 2022-23 – March 2022

Table 2.1: Domestic economy – detailed forecasts^(a)

| | Outcomes | | Forecasts | |
|--|------------|--------------|--------------|--------------|
| | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
| Real gross domestic product | 1.5 | 4 1/4 | 3 1/2 | 2 1/2 |
| Household consumption | 1.0 | 3 1/2 | 5 3/4 | 3 3/4 |
| Dwelling investment | 3.2 | 5 | 3 1/2 | -1/2 |
| Total business investment ^(b) | -1.5 | 5 1/2 | 9 | 1 |
| <i>By industry</i> | | | | |
| Mining investment | -1.4 | 1/2 | 9 1/2 | 1 1/2 |
| Non-mining investment | -1.5 | 7 | 9 | 1 |
| Private final demand ^(b) | 1.2 | 4 1/4 | 5 3/4 | 2 3/4 |
| Public final demand ^(b) | 5.8 | 7 1/4 | 1 1/4 | 1 1/2 |
| Change in inventories ^(c) | 0.7 | -1/2 | 1/2 | 1/4 |
| Gross national expenditure | 3.2 | 4 1/2 | 5 | 2 3/4 |
| Exports of goods and services | -8.3 | 2 | 5 | 6 |
| Imports of goods and services | -2.8 | 4 1/2 | 12 1/2 | 7 |
| Net exports ^(c) | -1.4 | -1/2 | -1 1/2 | -1/4 |
| Nominal gross domestic product | 4.4 | 10 3/4 | 1/2 | 3 |
| Prices and wages | | | | |
| Consumer price index ^(d) | 3.8 | 4 1/4 | 3 | 2 3/4 |
| Wage price index ^(d) | 1.7 | 2 3/4 | 3 1/4 | 3 1/4 |
| GDP deflator | 2.9 | 6 1/2 | -3 | 1/2 |
| Labour market | | | | |
| Participation rate (per cent) ^(e) | 66.2 | 66 1/2 | 66 1/2 | 66 1/2 |
| Employment ^(e) | 6.5 | 2 3/4 | 1 1/2 | 1 1/2 |
| Unemployment rate (per cent) ^(e) | 5.1 | 4 | 3 3/4 | 3 3/4 |
| Balance of payments | | | | |
| Terms of trade ^(f) | 10.4 | 11 | -21 1/4 | -8 3/4 |
| Current account balance (per cent of GDP) | 3.3 | 3 3/4 | -3 1/4 | -6 |
| Net Overseas Migration ^(g) | -89,900 | 41,000 | 180,000 | 213,000 |

(a) Percentage change on preceding year unless otherwise indicated.

(b) Excluding second-hand asset sales between the public and private sector.

(c) Percentage point contribution to growth in GDP.

(d) Through-the-year growth rate to the June quarter.

(e) Seasonally adjusted rate for the June quarter.

(f) Key commodity prices are assumed to decline from current elevated levels by the end of the September quarter 2022: the iron ore spot price is assumed to decline from US\$134/tonne to US\$55/tonne free on board (FOB); the metallurgical coal spot price is assumed to decline from US\$512/tonne to US\$130/tonne FOB; the thermal coal spot price is assumed to decline from US\$320/tonne to US\$60/tonne FOB; and oil prices (TAPIS) are assumed to decline from US\$114/barrel to around US\$100/barrel.

(g) The figure for 2020-21 is a preliminary outcome.

Note: The exchange rate is assumed to remain around its recent average level – a trade-weighted index of around 60 and a US exchange rate of around 72 US cents. Interest rates are assumed to move broadly in line with market expectations. Population growth is forecast to be 0.7 per cent in 2021-22, 1.2 per cent in 2022-23 and 1.3 per cent in 2023-24.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Balance of Payments and International Investment Position, Australia; National State and Territory Population; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; unpublished ABS data and Treasury.

Economic growth

In his Budget Speech Treasurer Jim Chalmers said, “Our economy is expected to grow solidly this financial year, by 3 ½ per cent – before slowing to 1 ½ per cent growth for 2023–24, a full percentage point lower than what was forecast in March.

The Budget Papers say Australia’s economic growth is expected to slow from 3 ¼ per cent in 2022–23, to 1 ½ per cent in 2023–24, a downgrade of ½ of a percentage point from the July Ministerial Statement and 1 percentage point from the Pre-election fiscal outlook.

The Papers say, “A rebound in household spending on services following the pandemic and strong employment growth is contributing to solid growth in 2022–23. The return of international students and tourists following the reopening of international borders is expected to further boost the services recovery.”

Employment and unemployment

The Budget Papers said that ““in the face of global and domestic headwinds, the unemployment rate is forecast to rise to 4 ½ per cent in June 2024, but remain below pre-pandemic levels of around 5 per cent. The participation rate is also expected to fall slightly to 66 ½ per cent, from its recent historical highs.”

In his Budget Speech Treasurer Jim Chalmers said, “The hit to growth will have an effect on employment, but jobs will continue to be created, and unemployment is expected to stay low by historical standards – at 4 ½ per cent in 2023–24 and 2024–25.”

Employment growth is forecast to slow over the next 2 years as economic growth slows. Employment growth is still forecast to remain positive, at ¾ per cent in 2023–24. This is ½ a percentage point slower than forecast in the July Ministerial Statement and half the growth rate forecast at PEFO. The easing of border restrictions is expected to return annual growth of the working age (15+) population to 1.6 per cent in 2023–24.

Wages

The Budget forecasts that wages growth will pick up, with wages increasing by 2.6 per cent in 2022–23 and 3 ¼ per cent in both 2022–23 and 2023–24, stronger than expected at PEFO, but still well below the forecast inflation rate (6.1, 5 ¾ and 3 ½ per cent).

The Budget papers say “This would mark the fastest pace of wage growth since 2012, around the height of the mining investment boom. In combination with an expected moderation in inflation, real wages are forecast to rise in 2023–24 for the first time since early 2021.”

In his Budget Speech Treasurer Jim Chalmers said, “Wages are growing faster now than they were before the election, but that welcome news is tempered by rising electricity prices and grocery bills eating into pay packets.”

Household consumption

Household consumption is forecast to grow by 6 ½ per cent in 2022–23, underpinned by the ongoing rebound in services spending. An increasing share of household spending is expected to shift back to discretionary services as the impact of the pandemic continues to wane. In particular, spending on overseas travel is expected to rise sharply in 2022–23.

Housing

The Budget forecasts that housing investment will be weaker than forecast at PEFO and is now expected to fall by 2 per cent in 2022–23. “Rising interest rates and falling housing prices will see activity fall by a further 1 per cent in 2023–24 even as the backlog of houses under construction is worked off.” (See also the Government’s Housing Package).

Investment

Non-mining investment is expected to grow by 6½ per cent in 2022–23. As supply constraints ease, commercial building activity is expected to rise, reflecting a large backlog of work. Growth is then forecast to ease to 3½ per cent in 2023–24 as overall demand in the economy softens.

Mining investment is expected to strengthen over coming quarters and is forecast to grow by 4 per cent in 2022–23 and 5½ per cent in 2023–24.

References

- i. Budget Paper No 1 - Statement No 2 Economic Outlook
- ii. Budget Speech
- iii. Budget Glossy: Building a better future

GOVERNMENT’S HOUSING PACKAGE

One of the major announcements in the Budget was a series of measures designed to boost housing supply, packaged as the Government’s “Housing Reform Agenda”, of which the key element is a “Housing Accord.”

The Accord sets “an initial, aspirational target of one million new, well-located homes over 5 years from 2024”.

The Budget Papers say that “Under the Accord, state and territory governments will undertake expedited zoning, planning and land release to deliver on a joint commitment to improve the availability of social and affordable housing in well-located areas, including looking for immediate opportunities to free up well-located state land.

“The Australian Local Government Association will work with state and territory local government associations to advocate for a commitment from Australia’s councils to support the delivery of social and affordable housing.”

The Federal Government is also “committing \$350 million over 5 years to deliver 10,000 affordable dwellings at an energy efficiency rating of 7 stars or greater (or a state or territory’s minimum standard). This commitment is in addition to the 30,000 new social and affordable dwellings delivered through the Housing Australia Future Fund.”

The Papers also say, “The Australian Government has secured endorsement from institutional investors, including superannuation funds, for the Accord. Investors will work constructively with Accord parties to optimise policy settings that facilitate institutional investment in affordable housing.”

The Albanese Government is also

- Establishing the \$10 billion Housing Australia Future Fund to provide sustainable funding source to increase housing
- Expanding the remit of the \$1 billion National Housing Infrastructure Facility to more flexibly deploy up to \$575 million to unlock over 5,500 projected new dwellings
- The Regional First Home Buyer Guarantee will provide fund 10 regional first homebuyers to buy new or existing homes with a deposit from 5 per cent.

In his Budget Speech Treasurer Jim Chalmers said, “ We don’t pretend that this Accord solves every issue, nor do we pretend we can solve this problem overnight. But this is a serious start – a serious agenda that will lead to more Australians knowing the security of a good job and decent housing.”

References

- i. Budget Speech
- ii. Budget Fact Sheet: Improving Housing Supply and Affordability

BUDGET SAVINGS

The Budget contains almost \$20 billion of savings measures over four years, of which the largest savings come from changes to the Morrison Government’s infrastructure program (\$4.7 billion over four years) and changes to the use of consultants, and cuts to Government advertising, travel and legal costs (\$3.6 billion over four years.

Savings from infrastructure changes are forecast at \$2.9 billion in 2022-23 and \$4.6 billion in 2023-24.

The Budget forecasts that tightening up on a number of tax measures will net the Government \$4.1 billion over four years.

These include

- Tax Avoidance Taskforce (\$1.7 billion over four years).
- Shadow Economy Program (\$1.4 billion).
- Multinational Tax (\$715 million)
- Changes to off-market share buy-back rules (\$550 million)
- Reversing the measure allowing taxpayers to self-assess the effective life of intangible depreciating assets (\$550 million).

Other major savings in the Budget include:

- Changes to the national Water Grid Fund (\$1.7 billion over four years)
- Changes to regional investment programs (\$1.4 billion)
- Changes to environment and water programs (\$700 million).

In his Budget Speech Treasurer Jim Chalmers said, “Tonight, we take the first step – with a budget repair package that delivers \$28.5 billion in improvements over the next four years.”

He said, “Our Spending Audit has helped identify \$22 billion in savings over the next four years.

“This includes our election commitment to reduce spending on external contractors, consultancies, advertising, travel and legal services – expecting to save the Budget \$3.6 billion.”

The Budget Papers also say, “This Budget begins the difficult task of fiscal repair with \$28.5 billion in budget improvements. In the first 2 years, it also returns 99 per cent of tax receipt upgrades to the budget and largely offsets new policies, when inflationary pressures are greatest.”

References

- Budget Speech
- Budget Glossy: Building a better future

SPENDING

Major spending initiatives

The main areas of government spending

Table 6.3.1: Top 20 programs by expenses in 2022–23

| Program(a) | Function | Actual | Estimates | | | |
|--|---|----------------|----------------|----------------|----------------|----------------|
| | | 2021-22 \$m | 2022-23 \$m | 2023-24 \$m | 2024-25 \$m | 2025-26 \$m |
| Revenue assistance to the States and Territories | Other purposes | 77,531 | 88,451 | 91,548 | 94,562 | 96,427 |
| Support for Seniors | SSW | 51,299 | 55,293 | 59,780 | 62,562 | 65,744 |
| National Disability Insurance Scheme(b) | SSW | 29,868 | 35,497 | 39,757 | 45,460 | 51,784 |
| Medical Benefits | Health | 28,988 | 31,289 | 32,214 | 34,011 | 35,806 |
| Aged Care Services | SSW | 23,102 | 27,084 | 29,741 | 32,773 | 34,728 |
| Assistance to the States for Public Hospitals | Health | 24,230 | 26,575 | 28,325 | 30,030 | 31,982 |
| Commonwealth Debt Management | Other purposes | 18,517 | 22,421 | 24,165 | 27,701 | 31,993 |
| Family Assistance | SSW | 18,380 | 20,550 | 22,284 | 23,404 | 24,503 |
| Financial Support for People with Disability | SSW | 18,375 | 19,392 | 20,919 | 21,653 | 22,372 |
| Pharmaceutical Benefits | Health | 15,532 | 18,077 | 17,033 | 17,145 | 17,220 |
| Non-Government Schools | Education | 15,385 | 16,385 | 17,259 | 17,949 | 18,578 |
| National Support | SSW | 15,866 | 14,006 | 14,700 | 15,560 | 15,537 |
| Job Seeker Income Support | SSW | 9,807 | 10,633 | 12,768 | 13,489 | 14,133 |
| Child Care Subsidy | SSW | 9,837 | 10,568 | 11,497 | 12,163 | 12,787 |
| Financial Support for Carers | SSW | 9,837 | 10,568 | 11,497 | 12,163 | 12,787 |
| Government Schools National Support | Education | 9,671 | 10,420 | 11,025 | 11,511 | 12,007 |
| Defence Force Superannuation – Benefits(c) | Other purposes; General public services | 10,503 | 9,571 | 9,254 | 9,637 | 10,075 |
| Public Sector Superannuation – Benefits(c) | Other purposes; General public services | 8,541 | 9,435 | 9,471 | 9,469 | 9,833 |
| National Partnership Payments – Road Transport | Transport and communication | 5,496 | 8,330 | 10,085 | 10,327 | 9,660 |
| Fuel Tax Credits Scheme | Fuel and energy | 7,058 | 7,762 | 9,852 | 10,532 | 11,288 |
| Army Capabilities | Defence | 7,368 | 7,611 | 8,393 | 8,469 | 8,619 |
| Sub-total | | 405,332 | 449,311 | 480,070 | 508,527 | 534,978 |
| Other programs | | 217,717 | 201,611 | 186,395 | 193,726 | 195,982 |
| Total expenses | | 623,050 | 650,922 | 666,465 | 702,253 | 730,960 |

a) The entry for each program includes eliminations for inter-agency transactions within that program.
b) This program is a combination of agency costs, support for participants and administered expenses.
c) This program is a combination of superannuation nominal interest and accrual expenses.

References

- Budget Paper No 1, Statement No 1 – Overview
- Budget Paper No 1, Statement No 6 – Expenses
- Budget Speech
- Budget Glossy: Building a better future

COST OF LIVING MEASURES

The Budget does not contain specific cost of living measures. However it lists as “Cost of living relief” which the Budget provides, a number of previously announced Government programs which have been funded in the Budget, including its expanded child care program and expanded Paid parental Leave scheme.

In his Budget Speech Treasurer Jim Chalmers said Australian “need us to be responsible, reasonable and targeted – with policies that are affordable, fair and future-focused, delivering a long-term economic dividend.

“That’s what this Budget does – with a five-point plan for cost-of-living relief:

- Cheaper child care;
- Expanding Paid Parental Leave;
- Cheaper medicines;
- More affordable housing;
- And getting wages moving again.

References

- i. Budget Paper No 1, Statement No 1 – Budget Overview
- ii. Budget Speech

CLIMATE CHANGE AND FLOODS

In his Budget Speech Treasurer Jim Chalmers said, “\$3 billion has been provisioned as a response to recent floods.

“We will fund Disaster Relief Australia to help deploy more than 5,000 extra volunteers when future disasters strike.

“And this Budget also invests up to \$200 million a year in disaster prevention and resilience through the Disaster Ready Fund.”

The Budget Papers said, “To provide transparency on Australia’s progress, the Government is investing \$42.6 million to restore the Climate Change Authority, introducing an Annual Climate Change Statement to Parliament and increasing transparency around climate-related spending in the Budget.”

The Government will provide \$105.2 million to support First Nations people to respond to climate change in their communities.

The Government will invest \$7.1 million to begin reducing its

own emissions to net zero by 2030. A further \$39.1 million will improve the Australian Public Service’s climate expertise, including by rebuilding Treasury’s climate modelling capability.

The Budget Papers also said, “There is \$3 billion in the contingency reserve to meet the disaster recovery costs from the flooding events this year.”

References

- i. Budget Speech
- ii. Budget Glossy: Building a better future

WAGES AND INDUSTRIAL RELATIONS

The Budget does not include any new specific measures to increase wages but in its Budget papers the Government said, “The Fair Work Commission delivered a minimum pay rise of \$40 per week for full-time workers, benefitting around 2.7 million workers.

“The Government has also supported a pay rise for aged care workers and will provide funding to support any resulting increases to award wages decided by the Commission.

“In this Budget, the Government is taking further steps to boost wages and improve job security, delivering on election commitments and outcomes of the Jobs and Skills Summit.

“The Government is supporting increased pay for women in low-paid sectors, including through the introduction of a statutory equal remuneration principle which will reduce barriers to pay equity claims.

The Government will also revitalise the workplace relations system to boost wages by simplifying and expanding access to the enterprise bargaining process. These changes will help employers and employees come together to reach agreements on better pay and conditions, especially in low-paid occupations.”

The Budget says, “Workplace bargaining will be reinvigorated through targeted and balanced changes to the workplace relations system. This will support more businesses to reach agreements with their employees that improve pay outcomes, especially in low-paid occupations.

“The single enterprise agreement making process will be simplified and the Better Off Overall Test will be changed to ensure it is simple, flexible and fair.

“The Government will also provide additional support to help employers and employees reach agreements and resolve disputes, with improved access to arbitration for intractable disputes. This will be complemented by enhanced access to multi-employer bargaining. Together with increased bargaining support for small business and an investment in the Fair Work Commission’s expertise, more businesses will be supported to reach agreements with their employees that improve pay outcomes.”

References

- i. Budget Speech
- ii. Budget Glossy: Building a better future

WELL-BEING BUDGET

The Budget Papers say, “Better measuring what matters can provide an important foundation for Australia’s efforts to lift living standards, boost intergenerational mobility, and create more opportunities for more people.

While Australia does not currently have an integrated approach to measuring what matters, it does publish a wide range of indicators through specialised reporting, such as Closing the Gap and the State of the Environment reports. An overarching framework could complement these processes by providing a fuller perspective and improving visibility of progress.

This Budget starts the conversation about how to better measure what matters to Australians and provides the beginnings of an Australian framework. The Treasury will continue to work and consult with a range of stakeholders to inform the development of a stand-alone Measuring What Matters Statement in 2023.”

References

- i. Budget Glossy: Building a better future

Links to all Budget documents

All Budget 2022 – October 2022 documents referred to above under references can be found at the following official Budget 2022-23 page [here](#).

We are available to discuss your specific circumstances with you and to assist with any decisions you might be considering. Don't hesitate to get in touch with your Prosperity Adviser today or give us a call on 1800 855 844.