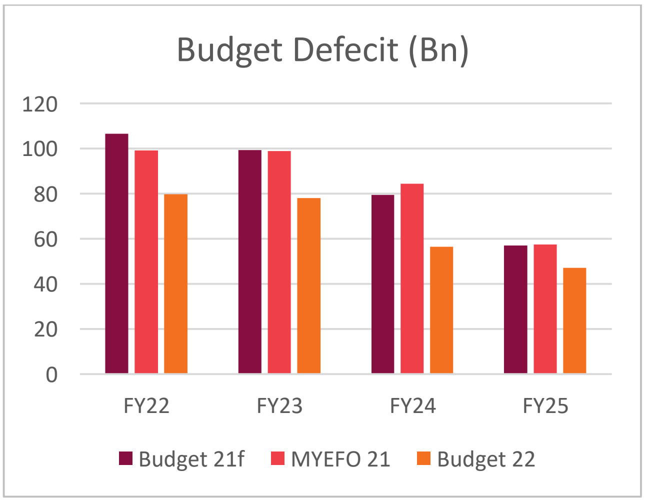
2022/23 Federal Budget Summary

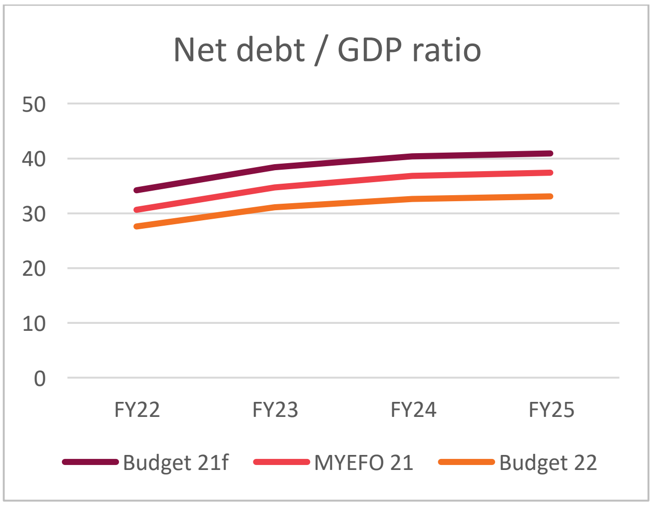
Like many aspects of the 2020's pandemic era this year's Australian Budget was unique: in its timing, its economic context and its intent. An early Budget due to the timing of the Federal Election (likely to be announced in the coming days for mid-May) – our first Budget ever held in March; an unemployment rate set to fall below four percent just two years since our first recession in 30 years; and a $73 Bn improvement in our fiscal position over the next three financial years. The intent of the budget naturally has a link to the impending election, but more recent events with the surge in inflation coinciding with economic recovery and tight labour markets meant the emphasis also had to be on relief from living costs, addressing skills shortages and housing affordability.

The following table and charts summarise the budget deficits for the 'forward estimates' and the more benign debt profile ahead.

	Actual	Estimates					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$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	
Gross debt(b)	**817**	**906**	**977**	**1,056**	**1,117**	**1,169**	
Per cent of GDP	39.5	39.5	42.5	44.6	44.9	44.7	

Source: Budget Overview





The windfall from the brighter economic outlook and the recent surge in commodity prices gave the government the opportunity to cement our AAA credit rating by projecting a peak in gross debt to GDP of 45 % (and net debt to GDP of only 33 %) but still lift spending to meet its policy objectives. This comes with the risk that fiscal support will only add to inflationary pressures, making RBA rate hikes more imminent and perhaps a higher peak in the tightening cycle; but the need to support stretched household budgets is compelling, and in many respects this approach is entirely consistent with recent RBA statements.

Spending measures were well telegraphed ahead of the Budget, and concentrated on:

- Relief from living costs:
  - A six-month 50 % reduction in the fuel excise (until the end of September- estimated cost of $3 Bn)
  - A one-off $250 payment to eligible pensioners and welfare recipients
  - An extension to and increase of the Low and Middle Income Tax Offset (an extra $420)
- Skills shortages:
  - A further $2.8 Bn over 5 years to upskill apprentices via the Apprenticeship Incentives Scheme
  - $3.7 Bn for 800 000 additional training places (the National Skills Agreement)
- Housing affordability:
  - Extension of the Home Guarantee Scheme to another 50 000 places per year
  - 10 000 of these places under a new Regional Home Guarantee
- SME businesses and the Digital Economy
  - Cash flow support for small businesses (GST and PAYG instalments only rising to 2 per cent)
  - For every $100 spent by businesses on training and digital transformation a $120 tax deduction
  - Investment of $500 m for 'modern manufacturing' and $200 m for supply chain resilience.

The allocation to infrastructure investment had a greater focus on regional areas than previous budgets with $7.1 Bn for 'transformative infrastructure projects' including four regions that have recorded the highest population growth rate. Given the challenge of lifting real wages these productivity enhancing measures are critical especially with recent population trends , although capacity to complete new projects given labour shortages will be tested. The role of regional Australia in providing more sustainable economic growth will be crucial, and similarly the growing housing affordability issue can only be solved by increased supply (via developable available land i.e. regional hubs) in parallel with First Home Owner Schemes.

The economic assumptions in the budget appear to be conservative in terms of GDP growth (only 3.5 % growth for FY23) and wages growth (only 3.25 % for FY23, despite very tight labour markets at present) but have maintained the unemployment rate down at 3.75 % through to the end of FY24. The path to this rate is likely to be much faster (perhaps by April) but maintaining 'full employment' while the RBA hike rates to 1.5 % (or higher) by mid-2023 may see a shorter cycle. Net migration is forecast to return to 235 000 by FY25: a faster return to this pace would be more welcome ethically and for the economy. The price assumptions for key commodities are (like previous years) overtly conservative, including the iron ore price falling back to US$55 per tonne (it is currently $155 per tonne)- but this gives wriggle room on inflation 'only' rising to 4.25 %.

In summary, the budget delivered on protecting our coveted AAA sovereign credit rating and simultaneously providing some support to living cost stress with 'temporary, targeted' spending. Its aspirations for dealing with housing affordability may be forlorn depending on the extent of a correction in this market in 23/24, but its intent for promoting innovation and more rapid technology adoption to help with wages growth and productivity is encouraging. To achieve more lasting success there (and similarly for energy and climate imperatives) these budget allocations will need to be matched by meaningful structural reform.

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