Fiscal outlook

The fiscal outlook has not materially changed since the publication of the 2025–26 Budget.

The underlying cash balance is expected to be a deficit of $27.9 billion (1.0 per cent of GDP) in 2024–25 and $42.2 billion (1.5 per cent of GDP) in 2025–26.

Table 3 provides estimates of key fiscal aggregates.

Table 3: Australian Government general government sector budget aggregates

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Estimates | | | | |  |  |  | Projections |
|  | 2024‑25 | 2025‑26 | 2026‑27 | 2027‑28 | 2028‑29 |  | Total |  | 2035‑36 |
|  | $b | $b | $b | $b | $b |  | $b |  | % of GDP |
| **Underlying cash balance** | **‑27.9** | **‑42.2** | **‑35.4** | **‑37.1** | **‑37.0** |  | **‑179.5** |  |  |
| Per cent of GDP | ‑1.0 | ‑1.5 | ‑1.2 | ‑1.2 | ‑1.1 |  |  |  | 0.0 |
|  |  |  |  |  |  |  |  |  |  |
| **Receipts** | **703.9** | **735.4** | **766.0** | **797.4** | **840.8** |  | **3,843.5** |  |  |
| Per cent of GDP | 25.3 | 25.5 | 25.6 | 25.3 | 25.3 |  |  |  | 26.8 |
|  |  |  |  |  |  |  |  |  |  |
| **Tax receipts** | **645.2** | **676.1** | **707.6** | **735.9** | **778.3** |  | **3,543.1** |  |  |
| Per cent of GDP | 23.1 | 23.5 | 23.6 | 23.4 | 23.4 |  |  |  | 24.9 |
|  |  |  |  |  |  |  |  |  |  |
| **Non‑tax receipts** | **58.7** | **59.3** | **58.4** | **61.4** | **62.6** |  | **300.4** |  |  |
| Per cent of GDP | 2.1 | 2.1 | 2.0 | 2.0 | 1.9 |  |  |  | 1.9 |
|  |  |  |  |  |  |  |  |  |  |
| **Payments(a)** | **731.8** | **777.5** | **801.3** | **834.5** | **877.9** |  | **4,023.0** |  |  |
| Per cent of GDP | 26.3 | 27.0 | 26.8 | 26.5 | 26.4 |  |  |  | 26.8 |
|  |  |  |  |  |  |  |  |  |  |
| **Gross debt(b)** | **940.0** | **1,022.0** | **1,092.0** | **1,161.0** | **1,223.0** |  |  |  |  |
| Per cent of GDP | 33.7 | 35.5 | 36.5 | 36.9 | 36.8 |  |  |  | 31.9 |
|  |  |  |  |  |  |  |  |  |  |
| **Net debt(c)** | **556.3** | **620.7** | **676.3** | **713.9** | **768.2** |  |  |  |  |
| Per cent of GDP | 20.0 | 21.6 | 22.6 | 22.7 | 23.1 |  |  |  | 20.2 |
|  |  |  |  |  |  |  |  |  |  |
| **Net interest payments(d)** | **14.9** | **18.5** | **21.2** | **26.9** | **28.1** |  | **109.6** |  |  |
| Per cent of GDP | 0.5 | 0.6 | 0.7 | 0.9 | 0.8 |  |  |  | 1.1 |

1. Equivalent to cash payments for operating activities, purchases of non‑financial assets and principal payments of lease liabilities.
2. Gross debt measures the face value of Australian Government Securities (AGS) on issue and is presented as at the end of the financial year. The change in the underlying cash balance since the 2025–26 Budget has not materially changed the Government’s financing requirement. Gross debt estimates therefore remain unchanged since the 2025–26 Budget.
3. 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) and is presented as at the end of the financial year.
4. Net interest payments are equal to the difference between interest payments and interest receipts.

### Underlying cash balance estimates

Table 4 provides a reconciliation of the underlying cash balance estimates from the   
2025–26 Budget to the 2025 PEFO.

Table 4: Reconciliation of general government sector underlying cash balance estimates

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Estimates | | | | |  |  |
|  | 2024‑25 | 2025‑26 | 2026‑27 | 2027‑28 | 2028‑29 |  | Total |
|  | $m | $m | $m | $m | $m |  | $m |
| **2025‑26 Budget underlying cash** |  |  |  |  |  |  |  |
| **balance** | **‑27,605** | **‑42,122** | **‑35,706** | **‑37,247** | **‑36,854** |  | **‑179,534** |
| Per cent of GDP | ‑1.0 | ‑1.5 | ‑1.2 | ‑1.2 | ‑1.1 |  |  |
|  |  |  |  |  |  |  |  |
| **Changes from 2025‑26 Budget** |  |  |  |  |  |  |  |
| **to 2025 PEFO** |  |  |  |  |  |  |  |
| Effect of policy decisions(a)(b) |  |  |  |  |  |  |  |
| *Receipts* | *0* | *0* | *0* | *0* | *0* |  | *0* |
| *Payments* | *4* | *226* | *380* | *276* | *223* |  | *1,109* |
| Total policy decisions impact on |  |  |  |  |  |  |  |
| underlying cash balance | ‑4 | ‑226 | ‑380 | ‑276 | ‑223 |  | ‑1,109 |
|  |  |  |  |  |  |  |  |
| Effect of parameter and other variations(b) |  |  |  |  |  |  |  |
| *Receipts* | *‑1* | *5* | *4* | *4* | *5* |  | *17* |
| *Payments* | *279* | *‑178* | *‑715* | *‑432* | *‑44* |  | *‑1,090* |
| Total parameter and other variations |  |  |  |  |  |  |  |
| impact on underlying cash balance | ‑280 | 183 | 720 | 436 | 49 |  | 1,107 |
|  |  |  |  |  |  |  |  |
| **2025 PEFO underlying cash** |  |  |  |  |  |  |  |
| **balance** | **‑27,890** | **‑42,165** | **‑35,366** | **‑37,087** | **‑37,028** |  | **‑179,537** |
| Per cent of GDP | ‑1.0 | ‑1.5 | ‑1.2 | ‑1.2 | ‑1.1 |  |  |

1. Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
2. A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

The outlook for receipts is unchanged since the 2025–26 Budget, consistent with the unchanged economic outlook. The outlook for payments over the forward estimates is largely unchanged since the 2025–26 Budget, with some changes to the profile of payments between years.

Policy decisions since the 2025–26 Budget have had a negative underlying cash balance impact of $225.8 million in 2025–26 and $1.1 billion over the five years to 2028–29.

This primarily reflects policy decisions to: contribute to hospital and health care infrastructure projects in Western Australia, South Australia and New South Wales; provide funding for new and existing projects under the Infrastructure Investment Program in Western Australia, New South Wales and Queensland; and provide additional funding to lift the Commonwealth’s contribution of the Schooling Resource Standard to   
25 per cent by 2034–35 for government schools in Queensland under the Better and Fairer Schools Agreement (Full and Fair Funding 2025–2034).

Details of all policy decisions taken since the 2025–26 Budget are provided at Appendix B.

Parameter and other variations since the 2025–26 Budget have had a positive underlying cash balance impact of $182.9 million in 2025–26 and $1.1 billion over the five years to   
2028–29, largely reflecting the drawdown of a Contingency Reserve provision for future policy priorities ($1.0 billion over three years from 2025–26) and the drawdown of the Contingency Reserve provision to lift the Commonwealth’s contribution of the Schooling Resource Standard to 25 per cent by 2034–35 for government schools in Queensland under the Better and Fairer Schools Agreement (Full and Fair Funding 2025–2034).

Payments under the Australian Government Disaster Recovery Payment and Disaster Recovery Allowance are expected to be $281.1 million higher in 2024–25 relative to the estimates in the 2025–26 Budget due to recent major disaster determinations, including in relation to ex-Tropical Cyclone Alfred in March 2025. These costs have been drawn down from the $1.2 billion Contingency Reserve provision for disaster recovery costs included in the 2025– 26 Budget. At the 2025 PEFO, $0.9 billion of this provision remains available to contribute to future costs arising from natural disasters.

In line with normal practice, the forward estimates in the 2025 PEFO do not incorporate additional funding for matters where the Government has agreed to them being time limited or that are considered on a year-by-year or more frequent basis. These include defence operations, costs for new and amended Pharmaceutical Benefits Scheme listings and contributions to states and territories in relation to any future natural disasters under the Disaster Recovery Funding Arrangements.

Discussion of the sensitivity of fiscal estimates to changes in economic assumptions is unchanged since the 2025–26 Budget and can be found in 2025–26 Budget Statement 7: Forecasting Performance and Sensitivity Analysis.

#### Contingency Reserve

The Contingency Reserve estimates in the 2025 PEFO have been reduced since the   
2025–26 Budget by $4.3 billion over the five years to 2028–29. Significant decreases since the 2025– 26 Budget include:

* the drawdown of a $1 billion provision for future policy priorities and the provision for the Better and Fairer Schools Agreement.
* the partial drawdown of the $1.2 billion provision included in the 2025–26 Budget for disaster recovery costs associated with recent natural disasters, including ex‑Tropical Cyclone Alfred.
* the removal of decisions taken but not yet announced (DTBNYAs) from the 2025– 26 Budget or prior rounds, which have now been reflected against entity estimates.[[1]](#footnote-2) These movements do not impact the underlying cash balance as funding for DTBNYA items has already been reflected in the estimates in the previous budget rounds. The estimates for the 2025–26 Budget measure Protecting Our Environment have also been moved from the Contingency Reserve to the relevant entity estimates.

In the 2025 PEFO, the Contingency Reserve estimates reduce expenses by $2.0 billion in 2024–25, and increase expenses by $0.3 billion in 2025–26, $6.3 billion in 2026–27, $11.7 billion in 2027–28 and $20.0 billion in 2028–29. The largest components of the Contingency Reserve are:

* an underspend provision in 2024–25 that reflects the tendency for budgeted expenses for some entities or functions not to be met
* the conservative bias allowance, which makes provision for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years ($3.5 billion in 2026–27, $7.3 billion in 2027–28 and $15.3 billion in 2028–29, unchanged since the 2025–26 Budget)
* a provision to reflect the effects of economic parameter revisions received too late in the 2025–26 Budget process for inclusion in entity estimates
* a provision of $9.6 billion over the five years to 2028–29 for future payments to the states and territories once negotiations have been finalised for the new National Health Reform Agreement (NHRA) and Disability Foundational Supports. This is consistent with the Government’s offer to states and territories of $17.8 billion over five years for the NHRA, some of which falls outside of the forward estimates period.

The Contingency Reserve contains estimates or funding for a number of items that cannot be disclosed for commercial‑in‑confidence or national security reasons. It also includes measures which have been announced but cannot yet be included in entity estimates, usually due to some uncertainty as to their final cost and/or outcomes, such as expected disbursements from the Housing Australia Future Fund, the Disaster Ready Fund and the Green Iron Investment Fund.

#### Medium-term fiscal outlook

There has been no change to the medium‑term projections since the 2025–26 Budget. The underlying cash balance is projected to improve over the medium term and is expected to return to balance in 2035–36 (Chart 1).

Gross debt is expected to peak at 37.0 per cent of GDP at 30 June 2030, before declining to 31.9 per cent of GDP by 30 June 2036 (Chart 2).

|  |  |
| --- | --- |
| Chart 1: Underlying cash balance | Chart 2: Gross debt |
|  |  |
| Source: Treasury. | Source: Australian Office of Financial Management, Treasury.  Note: 2025 PEFO gross debt projections are unchanged since the 2025–26 Budget. |

Chart 3 shows total payments and total receipts projected to 2035–36.

Chart 3: Payments and receipts



Source: Treasury.

Total receipts are expected to be 25.5 per cent of GDP in 2025–26 and are projected to reach 26.8 per cent of GDP in 2035–36.

Total payments are expected to be 27.0 per cent of GDP in 2025–26 and are projected to reach 26.8 per cent of GDP in 2035–36.

The structural budget balance is expected to return to deficit in 2024–25 and remain in deficit throughout the forward estimates. The structural budget position is then expected to gradually improve towards balance over the medium term. More details can be found in 2025–26 Budget Statement 3: Fiscal Strategy and Outlook.

Treasury’s medium‑term fiscal projections outline the broad trajectory of the fiscal position under current policy settings. They use the forward estimates as a base. Therefore, they are subject to risks and uncertainties similar to those affecting the forward estimates. However, the longer timeframes across the medium term mean these risks and uncertainties can be amplified.

### Balance sheet aggregates

Estimates of gross debt, net debt, net financial worth, net worth and net interest payments have not changed materially since the 2025–26 Budget, as reported in 2025–26 Budget Statement 3: Fiscal Strategy and Outlook. A breakdown of Australian Government Securities on issue was reported in 2025–26 Budget Statement 6: Debt Statement.

2025–26 Budget Statement 7: Forecasting Performance and Sensitivity Analysis presents analysis about the impact that higher and lower yield assumptions have on the underlying cash balance and gross debt estimates and projections.

Table 5 provides a summary of the Australian Government general government sector balance sheet aggregates.

Table 5: Australian Government general government sector balance sheet aggregates(a)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Estimates | | | | |
|  | 2024‑25 | 2025‑26 | 2026‑27 | 2027‑28 | 2028‑29 |
|  | $b | $b | $b | $b | $b |
| **Financial assets** | **636.7** | **677.5** | **715.0** | **752.9** | **789.2** |
| Per cent of GDP | 22.8 | 23.5 | 23.9 | 23.9 | 23.8 |
|  |  |  |  |  |  |
| **Non‑financial assets** | **220.6** | **228.3** | **236.4** | **247.6** | **257.3** |
| Per cent of GDP | 7.9 | 7.9 | 7.9 | 7.9 | 7.8 |
|  |  |  |  |  |  |
| **Total assets** | **857.3** | **905.8** | **951.4** | **1,000.4** | **1,046.5** |
| Per cent of GDP | 30.8 | 31.5 | 31.8 | 31.8 | 31.5 |
|  |  |  |  |  |  |
| **Total liabilities** | **1,427.8** | **1,527.6** | **1,610.6** | **1,701.0** | **1,786.6** |
| Per cent of GDP | 51.2 | 53.1 | 53.8 | 54.0 | 53.8 |
|  |  |  |  |  |  |
| **Net worth** | **‑570.5** | **‑621.8** | **‑659.2** | **‑700.5** | **‑740.1** |
| Per cent of GDP | ‑20.5 | ‑21.6 | ‑22.0 | ‑22.3 | ‑22.3 |
|  |  |  |  |  |  |
| **Net financial worth(b)** | **‑791.1** | **‑850.1** | **‑895.6** | **‑948.1** | **‑997.4** |
| Per cent of GDP | ‑28.4 | ‑29.5 | ‑29.9 | ‑30.1 | ‑30.0 |
|  |  |  |  |  |  |
| **Gross debt(c)** | **940.0** | **1,022.0** | **1,092.0** | **1,161.0** | **1,223.0** |
| Per cent of GDP | 33.7 | 35.5 | 36.5 | 36.9 | 36.8 |
|  |  |  |  |  |  |
| **Net debt(d)** | **556.3** | **620.7** | **676.3** | **713.9** | **768.2** |
| Per cent of GDP | 20.0 | 21.6 | 22.6 | 22.7 | 23.1 |
|  |  |  |  |  |  |
| **Total interest payments** | **24.4** | **27.9** | **30.2** | **36.7** | **38.2** |
| Per cent of GDP | 0.9 | 1.0 | 1.0 | 1.2 | 1.2 |
|  |  |  |  |  |  |
| **Net interest payments(e)** | **14.9** | **18.5** | **21.2** | **26.9** | **28.1** |
| Per cent of GDP | 0.5 | 0.6 | 0.7 | 0.9 | 0.8 |

1. Assets, liabilities, net worth, net financial worth, gross debt and net debt are presented as at the end of each financial year.
2. Net financial worth equals total financial assets minus total liabilities.
3. Gross debt measures the face value of AGS on issue and is presented as at the end of the financial year. The change in the underlying cash balance since the 2025–26 Budget has not materially changed the Government’s financing requirement. Gross debt estimates therefore remain unchanged since the 2025–26 Budget.
4. 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).
5. Net interest payments are equal to the difference between interest payments and interest receipts.

1. DTBNYA items removed since the 2025–26 Budget are included in Appendix B, with the financial impact included in the relevant footnote. [↑](#footnote-ref-2)