



Australian Government

Intergenerational Report 2026

Australia's future to 2066



Treasury acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community.

We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.



Australian Government

Intergenerational Report 2026

Australia's future to 2066

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Treasurer's foreword

The Albanese Government's second Intergenerational Report examines Australia's economic trajectory and the transitions that will define the next 40 years. It's all about identifying the big opportunities and challenges in our economy so we can secure prosperity and higher living standards for current and future generations.

This report finds that the pace of change is accelerating – across artificial intelligence, geopolitics, energy, population ageing and industrial composition. At the same time, intergenerational pressures have intensified with many younger Australians locked out of home ownership. Democratic disruption is putting pressure on societies and trust in institutions.

Whether it's our advantages in AI and clean energy, our universal healthcare and universal superannuation systems that are the envy of the world, our strong institutions, resilient labour market or the progress we've made on the Budget – Australia confronts the major transitions underway from a position of relative strength.

We are better placed, better prepared and have a better plan than most countries to deal with what's coming at us and what's ahead of us. The Government has an ambitious agenda to make the most of our advantages by boosting productivity and resilience, improving the sustainability of the Budget, lifting living standards and helping generations of Australians get ahead.

We have made important progress in our economy but there's more work to do and this report helps to inform that work. I thank my ministerial colleagues for their contributions, officials from across government for their help, and the hard-working Treasury team who put this report together.



A handwritten signature in blue ink, appearing to read 'Jim Chalmers'. The signature is fluid and stylized, with a long horizontal line extending to the right.

The Hon Jim Chalmers MP
Treasurer

Executive summary

Overview

The pace of change is accelerating and intensifying, here in Australia and around the world. These five most consequential transformations will have profound implications for our economy and society:

- Artificial intelligence (AI) is developing rapidly, and will be a defining influence on the economy over the next 40 years.
- Geopolitical fragmentation is increasing as conflict and competition have flared and broadened.
- The energy transition is becoming more important and urgent.
- The population is ageing more quickly, accelerated by falling fertility rates.
- Australia's industrial base is evolving further towards services, influenced by AI and the other major transitions.

At the same time, concerns about intergenerational equity have deepened, particularly regarding housing affordability for younger Australians. This has occurred against the backdrop of increasing democratic disruption, political polarisation and a declining trust in institutions.

Australia is better placed, better prepared and has a better plan than most countries to deal with accelerating change, but we cannot be complacent. We have substantial advantages but face serious challenges.

Despite volatile global conditions, the Australian economy has outperformed other advanced economies in recent years. Over the next 40 years, the economy is expected to continue to grow and living standards rise. In real terms, the economy is projected to be more than twice as large and income per capita 55 per cent higher by 2065–66.

Consistent with previous intergenerational reports, growth is projected to slow, primarily due to slowing population growth and ageing. Average annual growth in real gross domestic product (GDP) is projected to be 2 per cent over the next 40 years, below the 3 per cent experienced over the past 40 years. A more productive, dynamic and competitive economy will be key to lifting living standards over that time.

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Overview (continued)

Since the 2023 Intergenerational Report (IGR), the fiscal position has improved noticeably. The underlying cash balance (UCB) is projected to improve over the medium term, to a deficit of 0.3 per cent of GDP in 2036–37, then widen over the long term to reach a deficit of 1.8 per cent of GDP in 2065–66. Compared to the 2023 IGR, the UCB is projected to improve by 1.2 percentage points of GDP by 2062–63, but fiscal pressures over the next 40 years remain.

The Australian economy is one of the best placed to benefit from the major transitions that will unfold over coming decades. We have a resilient economy, a highly skilled workforce, a stronger and more sustainable budget position than most advanced economies and a younger population compared to other comparable nations. We have enormous strengths when it comes to the energy transition and AI revolution, and geostrategic advantages as a stable middle power in the Asia–Pacific region. Our unique and maturing superannuation system is supporting higher retirement incomes and taking pressure off pensions as our population ages.

Making the most of this exceptional combination of advantages and securing higher living standards for current and future generations is at the heart of the Government’s ambitious reform agenda. This is all about boosting productivity and resilience, cutting income taxes, boosting wages and superannuation, helping with the cost of living, improving the sustainability of the budget, helping Australians into home ownership and making investments in better services. This is how we make current and future generations of Australians the beneficiaries, not victims, of the changes detailed in this IGR.

Accelerating global change

The global economy is experiencing a period of remarkable change and the pace of this change is accelerating.

The 2023 IGR outlined the major transitions confronting Australia and the global economy, with a focus on technological change and digitalisation, geopolitical fragmentation, the energy transition, population ageing and the transformation of the industrial base, including the ongoing shift towards services.

These transitions will only intensify, especially, but not only, in relation to the rapid acceleration of technological and digital transformation that has followed breakthroughs in AI.

Geopolitical fragmentation is gathering pace. Already, the majority of G20 countries have changed leaders, conflict has become more common, and strategic competition has become more intense. The energy transition will become even more urgent in the context of competition and conflict, and the increased importance of energy security. Lower fertility rates mean that the population is projected to age more quickly, although Australia's fertility rate remains higher than most comparable advanced economies. In addition, an increase in Australia's projected participation rate, which is already higher than other countries, will support our economic growth.

As the population ages, increased demand for care and support services will reinforce shifts in the economy towards services. This long-run trend towards services and the care economy will coincide with the adoption and diffusion of AI and broader changes in the industrial base.

Against this backdrop, intergenerational equity is being strained by the long-term decline in home ownership and the pressures that an ageing population and structural trends in the tax base are placing on working-age Australians. Democracies around the world are also under increasing pressure as economic anxieties lead to fracturing and fragmentation. Discontent is driving political upheaval at faster rates than in recent decades. This underscores the urgency of governments responding to the real pressures and concerns in the community through ambitious reform and long-term planning.

The AI revolution

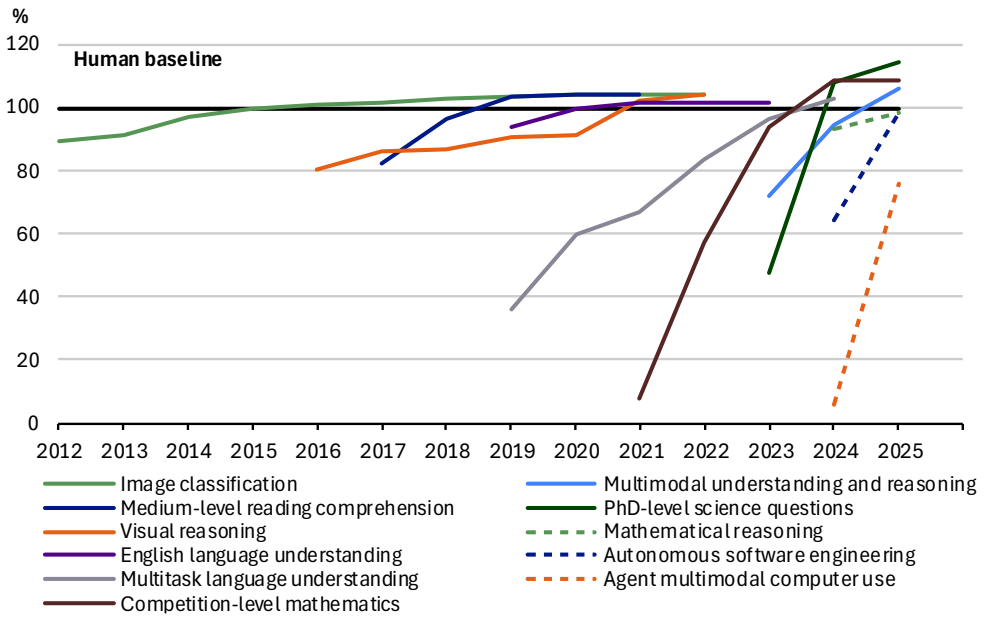
AI will be a defining influence on our economy over the coming decades. AI technological advancements, adoption and investment are accelerating rapidly, fuelling expectations that AI will prove to be a genuinely ‘general-purpose’ technology. AI can now complete a wide range of cognitive routine and non-routine tasks to a level that surpasses human-level performance benchmarks and its capabilities are expected to keep advancing at a rapid pace. This has been a driver of substantial capital investment by hyperscale cloud computing providers, which has quadrupled since the 2023 IGR (Chart 1).¹

The economic and social impacts of AI will be profound, but their nature and magnitude will depend on how broadly and deeply AI is adopted, Australia’s position in global supply chains and specific AI use cases. For these reasons, estimates of AI’s potential productivity benefits vary widely.² The Productivity Commission estimates that AI could boost multifactor productivity in Australia by at least 2.3 per cent over 10 years.³

Labour market impacts of AI are not yet fully evident but are expected to be uneven. While some tasks will be automated using AI, demand for labour is expected to increase in other areas – including tasks that can be performed to a higher standard by workers equipped with AI tools. Many jobs will be redesigned to realise these benefits, with the tasks that can be automated unbundled from other parts of roles that require human coordination, judgement and relationships.

Australia is well positioned to benefit from the global AI revolution, given our stable institutions, abundant renewable energy potential and well-developed international connectivity, including in the Indo-Pacific region. We are a leading destination globally for data centre investment, which has seen a near doubling of capital expenditure in this area since the 2023 IGR, and there is potential to capture value in other parts of global AI supply chains. This will build on existing strengths in areas like quantum computing and business services. Ensuring AI investment and adoption is aligned with Australia’s national interests will improve Australia’s competitiveness, resilience and wellbeing in the decades ahead.

Chart 1 Measures of AI capability



Note: Image classification (ImageNet Top-5), Visual reasoning (VQA), Medium-level reading comprehension (SQuAD 2.0), Multitask language understanding (MMLU), competition-level mathematics (MATH), English language understanding (SuperGLUE), PhD-level science questions (GPQA Diamond), Agent multimodal computer use (OSWorld), Autonomous software engineering (SWE-bench Verified), Multimodal understanding and reasoning (MMMUI) and Mathematical reasoning (AIME).

Source: Stanford AI Index.

Geopolitical fragmentation

Conflict and competition between countries is intensifying as geopolitical fragmentation has flared and broadened. The number of conflicts between countries has risen from two in 2023 to eight in 2025, with conflict in 2026 causing another global energy shock.⁴ At the same time, governments are imposing new restrictions on goods, services and emerging technologies, such as AI, and redirecting trade along geopolitical lines. Half of the G20 leadership has changed since 2023, with some countries taking dramatically different political paths.

Economic relationships will increasingly be shaped by security and strategic alignment as well as efficiency. These shifts are making global trade and supply chains even more unpredictable than in 2023, increasing the importance of resilience where disruption could have severe economic or security consequences.

Economic openness will continue to deliver growth, put downward pressure on inflation and drive productivity in Australia, but countries and companies will need to balance supply chain efficiency with national security and resilience. Future economic performance will rely on remaining open to the benefits of well-functioning markets, while guarding against the volatile impacts of geopolitical instability.

Australia is well placed to benefit in a more uncertain world relative to other nations. Our stable institutions, skilled workforce, deep pools of capital and reputation as a reliable trading partner will become more valuable as governments and businesses seek trusted partners. Australia's strong international relationships, including with our Asian and Pacific neighbours, will support Australian businesses and investors in a future where unpredictable geopolitics can upend commercial agreements.

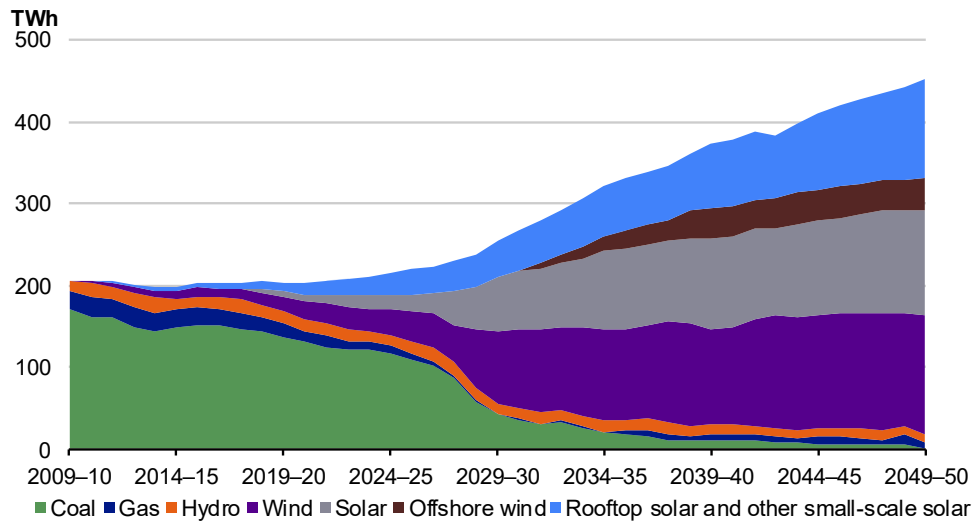
Energy transition

The energy transition will be more important and urgent as global energy supply chains face disruption, the savings from reliable renewable energy become clearer, and the associated industrial opportunities expand.

The share of renewable energy in the electricity grid will continue to increase in Australia, supporting continued competitiveness in energy-intensive industries (Chart 2). Energy demand from data centres is now expected to make up almost 10 per cent of the National Electricity Market by 2050, and exports of renewable energy industrial opportunities like green aluminium and critical minerals could increase by more than \$68 billion over the same period.⁵

The energy build-out is occurring fastest among households looking to unlock electrification savings. Average household energy costs are expected to decline by around 40 per cent from 2030 to 2050 as households electrify, with a solar-powered household that electrifies their home and vehicles reducing costs by around \$4,300 a year.⁶ As a result of these savings, Australia's uptake of rooftop solar and household batteries is already the highest in the world, and is expected to increase further.⁷

At the same time, historic reforms to Australia's gas markets and liquid fuel reserves will boost Australia's energy resilience. In the second quarter of 2026, east coast wholesale gas prices were 26 per cent lower than a year earlier despite conflict in the Middle East contributing to price increases of 29 per cent in Asia and 18 per cent in Europe.⁸ Building new energy assets efficiently over the coming decade will be critical to Australia's lasting competitiveness and orderly decarbonisation.

Chart 2 Electricity generation by source

Note: TWh stands for terawatt-hours.

Source: Australian Energy Market Operator (AEMO) Integrated System Plan 2026, Step Change Scenario. Annual generation in the National Electricity Market.

Ageing and the care economy

Australia's population will age more quickly and grow more slowly than projected in the 2023 IGR, due primarily to lower fertility rates – a trend common across advanced economies. Deaths are projected to outnumber births by the 2060s – the first time this has been forecast in an IGR – at which point natural increase will no longer be a driver of population growth. This is a milestone that many advanced economies have already surpassed, including Japan, Germany, Italy and the Republic of Korea, with most of the rest expected to do so over coming decades.⁹

Australians will continue to have among the longest life expectancies in the world, projected to be 89.5 years for women and 86.1 years for men by 2065–66 and supported by ongoing improvements in health care, healthy lifestyles and medical innovation. The number of Australians aged 65 and over is projected to continue growing, with the fastest growth occurring for the 85-plus cohort, which is expected to triple by 2065–66. This will drive demand for care economy supports and reinforce the broader shift in Australia's industrial base towards service provision.

Participation projections have been substantially upgraded, and are projected to continue rising until 2039–40, particularly among women and older Australians. In particular, the participation rate for people aged 65 and over is around 1 percentage point higher than projected in the 2023 IGR. Despite these gains, population ageing is expected to weigh on overall labour force participation over the long term and contribute to the ongoing shift towards a more service-based economy.

Australia's industrial transformation

Australia's industrial base will be transformed by the scale of the technological, international and demographic structural changes that are unfolding. The long-run shift towards services is expected to continue, with growth in household services and the care economy underpinned by population ageing and rising incomes. Business services will likely experience significant growth within industries as AI transforms business models and expands the range of activities that can be traded across borders.

Australia's comparative advantages will continue to change as global demand shifts away from fossil fuels towards critical minerals, renewable energy, and AI-related infrastructure, goods and services. Concerns about economic security and supply chain resilience are also increasing the attractiveness of Australia as a trusted trading partner, especially where it can offer secure strategic supply chains. Adjusting to these shifts will support ongoing improvements to productivity, the development of new comparative advantages, and access to more affordable and higher quality goods and services.

Intergenerational equity

Intergenerational equity pressures are intensifying due to long-term challenges in housing, demographic change and other structural economic trends. Young Australians have been locked out of the housing market as house prices have risen faster than incomes over decades. If home ownership rates had remained at their 1981 levels, the most recent data available indicates around 250,000 more households aged 25–34 would own their own home.

Without further reform, fiscal pressures from an ageing population and trends in the tax base will add to pressures on working-age Australians. Salary and wages are the largest source of taxable personal income. Indirect taxes are projected to keep declining, which will increase the share of tax receipts from personal income taxes. At the same time, Australia's maturing superannuation system will continue to help younger Australians to build wealth, with the median superannuation balance for individuals aged 65–69 set to rise from \$204,000 in 2024 to approach \$450,000 in nominal terms by the end of the medium term. Superannuation will support a higher standard of living for older Australians in retirement, with superannuation drawdowns projected to rise to almost 6 per cent of GDP by 2065–66, as well as reducing reliance on the Age Pension.

The Government is working to improve intergenerational equity by making the budget more sustainable and delivering reforms in a range of areas including tax, housing and superannuation. These actions, alongside the Government's wider focus on productivity and fiscal sustainability, will help Australians into home ownership, take pressure off workers and support higher living standards for current and future generations.

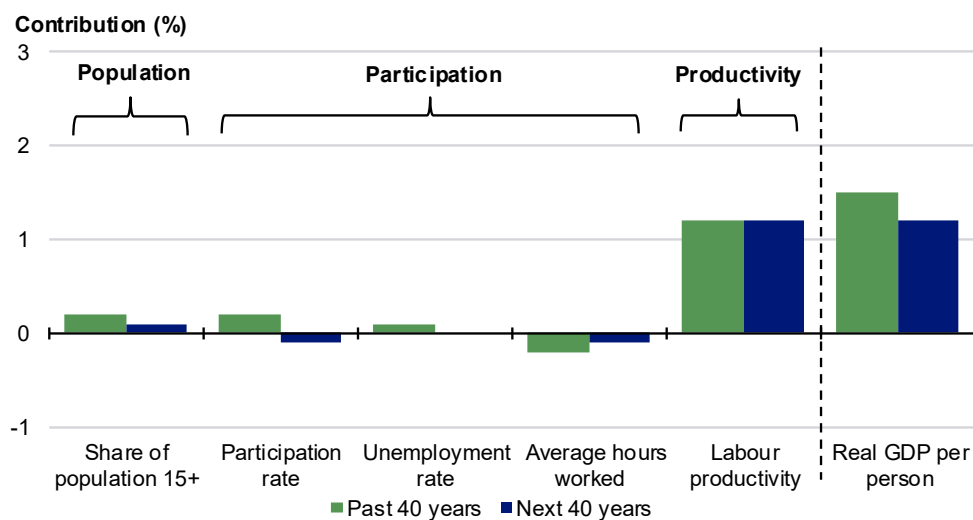
Part I of this IGR explores these transitions and intergenerational equity and identifies how Australia can secure future prosperity in the decades ahead.

The economy over the next 40 years

The Australian economy is well positioned to confront the challenges and make the most of opportunities over coming decades. The Australian economy is projected to continue to grow and living standards will improve over the next 40 years. By 2065–66, the real economy is expected to be more than twice the size and real per capita gross national income to rise by 55 per cent.

Labour force participation is projected to continue to rise, peaking at 67.7 per cent in 2039–40. While the labour force participation rate is then projected to modestly decline due to the ageing population, it is still projected to be 1.4 percentage points higher than in the 2023 IGR by 2062–63. The unemployment rate is projected to settle at the non-accelerating inflation rate of unemployment (NAIRU) estimate of 4¼ per cent.

While the projections for economic growth over the next 40 years are lower than the average of the previous 40 years, this is consistent with the experience of many other advanced economies. The average growth of 2 per cent over the next 40 years is lower than the average annual growth rate of 3 per cent over the past 40 years. This moderation in growth primarily reflects the ageing of the population (Chart 3).

Chart 3 Contributions to growth of real GDP per person

Note: A positive contribution to real GDP per person from the unemployment rate represents a decline in the unemployment rate.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; National, state and territory population; and Treasury.

Australians are expected to continue living longer and remain healthier to an older age. Population growth is expected to be 0.9 per cent per year over the next 40 years, down from 1.4 per cent over the past 40 years, primarily driven by a lower fertility rate. Australia's working-age population is projected to continue growing modestly, making it more demographically resilient than many other Organisation for Economic Co-operation and Development countries.

The rise and adoption of AI is likely to support the achievement of Treasury's long-term labour productivity growth assumption over time. This IGR assumes long-term labour productivity growth of 1.2 per cent a year, consistent with the 2023 IGR and the long-term assumptions of many peer economies. As a medium-sized economy, Australia's productivity performance will depend on adopting innovation, supporting investment, developing skills and delivering regulatory reforms that improve the efficient operation of the economy.

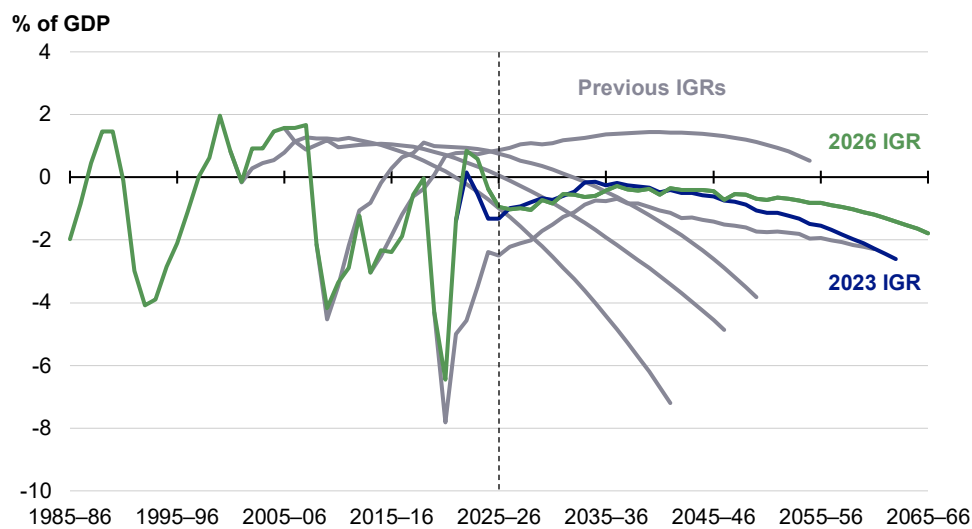
Part II discusses the economy and 3Ps over the next 40 years.

The budget over the next 40 years

The fiscal outlook over the next 40 years has improved since the 2023 IGR, as the Government has taken action on the fastest growing fiscal pressures, including through reforms to the National Disability Insurance Scheme (NDIS) and aged care.

The UCB is expected to improve over the medium term, to a deficit of 0.3 per cent of GDP in 2036–37, and then the deficit is anticipated to widen over the long term to reach 1.8 per cent of GDP in 2065–66. Compared to the 2023 IGR, the UCB is projected to improve by 1.2 percentage points of GDP in 2062–63 (Chart 4). However, Australia will not be immune from global and domestic pressures on the budget, which are intensifying rather than easing.

Chart 4 Underlying cash balance projections across intergenerational reports



Source: Treasury.

Gross debt as a share of GDP is projected to decline from 33.1 per cent of GDP in 2025–26 to a low of 22.2 per cent of GDP in the mid-2050s. Rising spending pressures and widening deficits result in gross debt increasing again to 27.4 per cent by 2065–66. Compared to the 2023 IGR, gross debt is 7.2 percentage points of GDP lower in 2062–63.

Population ageing and increasing community expectations for services are expected to see payments rise to 27.7 per cent of GDP over the next 40 years. By 2062–63, payments as a share of GDP are 1.3 percentage points lower than in the 2023 IGR. Additional pressures such as further spending on defence, the impacts of climate change and the rise of AI are more difficult to quantify and present risks to the fiscal outlook.

Tax receipts are projected to reach their historical high (reached in 2004–05 and 2005–06) of 24.2 per cent of GDP in 2032–33 and are then assumed to remain there. This is lower than the 2023 IGR assumption, meaning that the vast majority of the improvement in the projected fiscal position since the 2023 IGR is driven by lower projected payments.

Part III presents Budget projections over the next 40 years.

Positioning Australia for the future

Australia is well placed to embrace emerging opportunities and manage future risks. Australia has a stronger budget position, lower debt, a more resilient labour market and a younger population compared to many advanced economies. We have substantial strengths when it comes to AI and energy transition, and as a stable middle power in the Asia-Pacific region we have strategic advantages in an unpredictable world. Our maturing superannuation system will continue to contribute to deeper capital markets and support higher retirement incomes and living standards.

The Government is building on these strengths with a broad reform agenda to lift living standards for current and future generations, manage risks and prepare for unexpected shocks in a volatile world. This agenda has a focus on:

- **Boosting productivity across the economy.** The Government is delivering the broadest productivity agenda in a generation, which will make it easier to build, invest and do business. The Government is streamlining approvals processes, reducing unnecessary regulation, building a single national market, providing targeted tax relief for businesses, promoting the uptake of AI, implementing landmark reforms to energy markets and making important investments in science, innovation, education and skills development. Combined, the Government's reforms will reduce regulatory costs by \$10.2 billion each year, boost long-run GDP by around \$13 billion a year and promote \$400 million more investment in research and development by young firms each year.

- **Improving budget sustainability to fund the services Australians rely on.** The Government's actions are making the budget more sustainable and addressing some of the fastest growing structural fiscal pressures. This is helping to reduce the debt burden borne by future generations and sustainably fund services that Australians will increasingly rely on into the future, with investments to deliver better health care, aged care, and disability services. By taking steps to return the NDIS to its original intent of supporting people with permanent and significant disability, the Government is securing the scheme for future generations. The Government's reforms to shift aged care towards the home setting and increase co-contributions from those with the capacity to pay will help to moderate long-term expenditure growth. Reforms to make superannuation concessions fairer will contribute to structural budget repair, and efforts to strengthen the superannuation system will help take pressure off the Age Pension in the decades ahead.
- **Lifting lifetime incomes:** The Government's reforms will help current and future generations earn more and keep more of what they earn over their lifetime. In addition to supporting strong and sustainable wages growth, the Government is cutting income taxes five times in three different ways. The Government's combined tax cuts will reduce taxes for an Australian worker on average earnings by up to \$2,800. Reforms to superannuation will continue to help secure higher living standards for Australians in retirement, including through increases to the superannuation guarantee, ensuring superannuation is paid on payday, paying superannuation on Government paid parental leave, and boosting the Low Income Superannuation Tax Offset. Other government policies that encourage greater workforce participation will also support higher incomes.
- **Helping more Australians into home ownership:** The Government's policies to boost housing supply, support first home buyers, and reduce tax concessions for investors will help more Australians into home ownership. Reforms to negative gearing and capital gains tax will support an additional 75,000 owner occupiers over the next decade. The Government will boost housing supply including through its investments in enabling infrastructure, speeding up housing approvals and cutting red tape, and increasing the skilled construction workforce.
- **Harnessing AI in Australia's interests:** The Government's National AI Plan sets out the Government's vision for an AI-enabled economy and will help make Australia more competitive, productive and resilient. This involves backing domestic AI capability, attracting global investment, spreading the benefits through widespread AI adoption, supporting and training Australian workers and improving public services. It is also about keeping Australians safe by mitigating AI harms, promoting widespread responsible practices and international engagement that upholds Australia's values.

- **Delivering cheaper and cleaner energy.** The Government is catalysing growth in renewable energy, storage and transmission infrastructure across the country through the Capacity Investment Scheme and Rewiring the Nation. These programs efficiently incentivise investment in productive renewable energy generation, storage and transmission assets, unlocking \$90 billion of investment in the modernisation of our energy system and enabling green industries to mature. The Government's Net Zero Plan sets out how Australia will achieve a fair, orderly and efficient transition to net zero that builds on Australia's strengths and ensures all Australians benefit from the improved resilience of the energy system.
- **Building resilience and more secure supply chains.** The Government's investments in resilience and security will reduce Australia's exposure to risks stemming from a more uncertain geopolitical environment, while still maintaining benefits of an open economy. The Government is investing in a more modern and resilient energy system, stronger supply chains and critical technologies, while also cutting nuisance tariffs and supporting stronger and more diversified trade. The Government is bolstering Australia's defence capability through major investments in military capabilities and deepening partnerships and engagement with the region.

The Government's ambitious reform agenda is all about making the most of the defining decades ahead and ensuring Australians can be the beneficiaries of change.

Endnotes

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Part I: Major transitions over the next 40 years

1 The artificial intelligence (AI) revolution

Overview

AI will be a defining influence on the economy over the next 40 years. The rapid improvement in AI capabilities represents the biggest observable shift since the 2023 Intergenerational Report (IGR) and this progress is fuelling expectations that AI will prove to be a genuinely ‘general-purpose’ technology with potential to drive the biggest economic transformation of our lifetimes.

The accelerated pace of AI-related technological developments is likely to continue. Investment has now accelerated to meet expected demand for AI in the coming years, with capital investment by ‘hyperscale’ cloud computing providers set to exceed \$1 trillion in 2026.

The economic and social implications of AI are expected to be profound but the specific impacts will depend on the evolution of the technology, how deeply and broadly AI is adopted, and how it will be used. Australia is a leading destination globally for data centre investment and has seen a near doubling of capital expenditure in this area since the 2023 IGR. Australia also has potential to capture value in other parts of global AI supply chains, building on existing strengths in areas like quantum computing and business services. The investment boom in AI infrastructure will have substantial implications for resource management and this will require coordination and smart planning.

AI will likely boost productivity, by improving efficiency and unlocking new innovations, but there are a wide range of potential future outcomes. Whether the productivity impacts of AI follow the path typical of general-purpose technologies over time will depend on the long-term rates of innovation and adoption, and how Australian businesses, workers and governments engage. AI adoption is currently in its early stages, with only 10 per cent of Australian businesses having adopted AI in ways they would describe as significant so far.

While there is not yet evidence of significant labour market impacts, it is expected that productivity gains will arise from some tasks being automated using AI, and that demand for labour will increase and change in other areas. AI has the potential to drive significant social progress, as well as amplify risks such as cybersecurity and misinformation.

Australia is well positioned to benefit from the AI technological revolution if we get the settings right. Australia’s National AI Plan outlines the Government’s plan to capture the opportunities, manage the risks and share the benefits that AI presents.

1.1 The AI technological revolution

AI will have a transformative impact on the global economy

The rapid improvement in AI is one of the most significant developments since the 2023 IGR. Over this period, AI systems, particularly generative and agentic AI, have become significantly more capable, accurate, autonomous and widely used (Box 1.1). Across multiple benchmarks, including PhD-level science questions, AI systems have progressed from basic capabilities to surpassing human-level performance in a short period (Chart 1.1). These results demonstrate the breadth of tasks AI systems can perform and the extraordinary pace at which their capabilities are improving.

Box 1.1 What is AI?

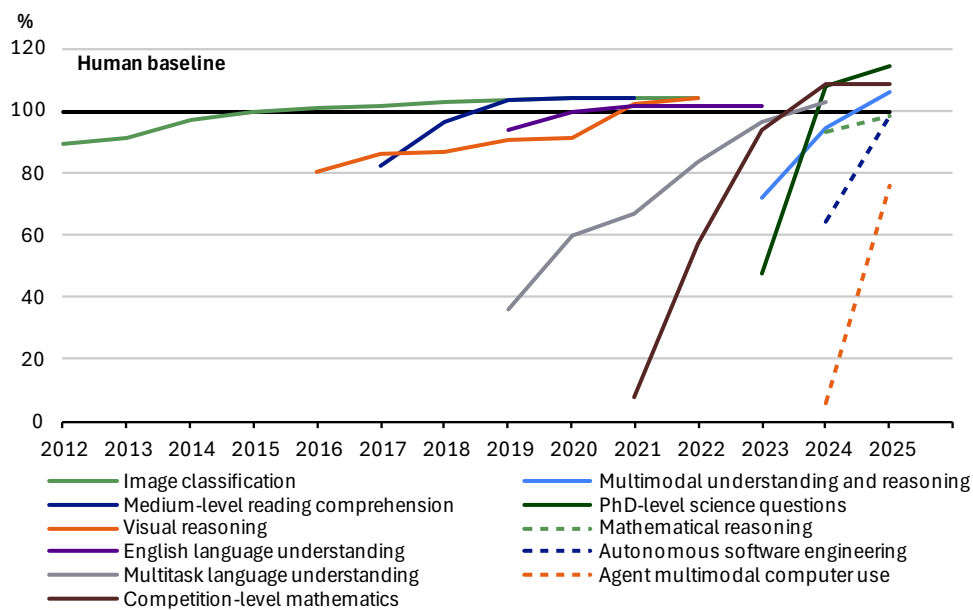
AI refers to systems that can perform tasks that normally require human intelligence, such as recognising patterns, solving problems and making predictions. A subset of AI, known as generative AI, can create new content including text, images, audio and computer code. More recently, agentic AI systems have emerged that can plan, reason and carry out multi-step tasks with limited human direction.

Recent developments in AI are enabling wider adoption by firms and consumers across an increasing number of activities including customer service, content creation, health care and scientific research. These developments are also expanding the scope for AI to augment and automate more complex cognitive and physical tasks. However, human oversight will remain important, particularly for activities involving judgement, accountability and risk.

AI has been described as a technological revolution partly due to the pace and scope of these developments. The growing range of applications for AI means that it is increasingly being viewed as a general-purpose technology like steam power, electricity and the internet. The presence of existing digital infrastructure means that AI adoption is not expected to be slowed by firm-level infrastructure constraints to the same extent as earlier technologies, although data centre capacity may limit the overall diffusion and impact of AI in the near term. AI is expected to have broader applications, given its relevance to high-skilled cognitive tasks, enabling increases in productivity in some non-tradable sectors such as health care and education. There is also potential for AI to accelerate innovation more broadly, by generating and evaluating new ideas more autonomously.

AI has the potential to reshape the economy and society more significantly and more rapidly than previous technologies, although the scope and timing of AI's effects are uncertain. Faster diffusion risks amplifying adjustment pressures, which would require businesses, workers, and governments to adapt more quickly to the changing environment.

Chart 1.1 Measures of AI capability



Note: Image classification (ImageNet Top-5), Visual reasoning (VQA), Medium-level reading comprehension (SQuAD 2.0), Multitask language understanding (MMLU), Competition-level mathematics (MATH), English language understanding (SuperGLUE), PhD-level science questions (GPQA Diamond), Agent multimodal computer use (OSWorld), Autonomous software engineering (SWE-bench Verified), Multimodal understanding and reasoning (MMMUI) and Mathematical reasoning (AIME).

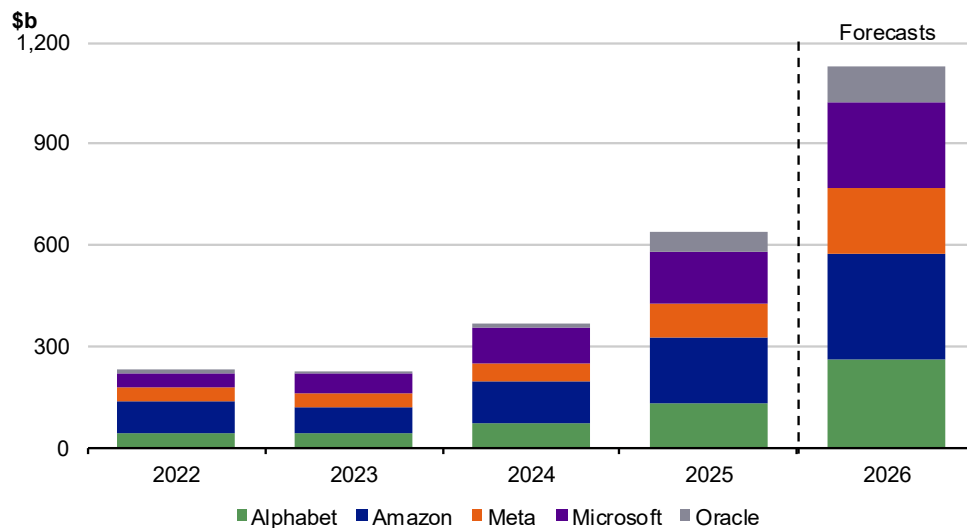
Source: Stanford AI Index.

The global AI investment boom will be a significant driver of growth

The rapid rise in AI capabilities is driving an investment boom, which is expected to support the outlook for global growth. It has been sustained by expectations of continued progress, intense competition among a small number of global AI firms and growing demand for AI services. This is particularly evident in AI-related capital expenditure by the 'hyperscale' large-scale cloud computing providers, which spans the servers, chips, equipment and construction required to facilitate the AI rollout. The capital expenditure of the five largest hyperscalers is forecast to more than quadruple from \$230 billion in 2023 to \$1,131 billion in 2026 (Chart 1.2).

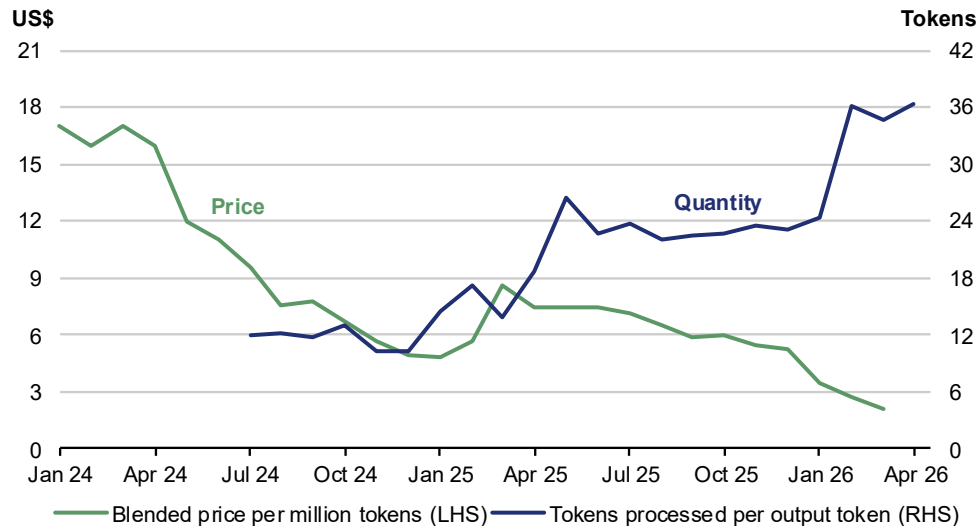
Investment in data centres and chip technologies is expected to continue strongly going forward. One reason for this is that data centre investment is reducing the cost of producing AI outputs, as measured in tokens (units of data, equivalent to roughly three-quarters of a word). Over time, the declining cost of tokens is expected to fuel further demand for computing infrastructure, as it will reduce the cost of existing AI capabilities and encourage the uptake of more capable models, that use more tokens to produce each output (Chart 1.3).

Chart 1.2 Global capital expenditure of the five largest hyperscalers



Note: Values originally reported in US dollars have been converted to Australian dollars using the Reserve Bank of Australia average exchange rate for 2026 of AUD 1 = USD 0.7024 at 27 August 2026. The forecasts for 2026 use capital guidance, taking mid-range estimates where required. The forecast for Oracle is based on Financial Year 2026 actuals and guidance for Financial Year 2027.

Source: Epoch AI (from United State Securities and Exchange Commission filings); company guidance; reporting on company guidance; and Treasury.

Chart 1.3 AI outputs prices and token use

Note: The blue line represents the number of tokens processed by an AI model per output token.

Source: Exponential View analysis, based on Epoch AI data, in A. Azhar et al., *The State of the AI Economy 2026* (Exponential View, 2026), p. 43.

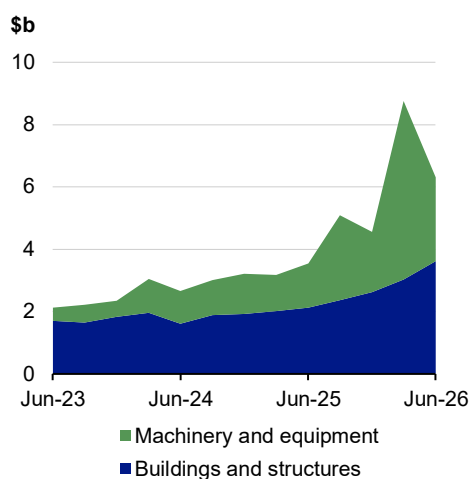
The economic effects of the investment boom are already visible. Economies with a competitive advantage in upstream segments of the AI value chain are growing particularly strongly. For example, Taiwan, which accounts for more than 90 per cent of global advanced chip production, is experiencing its strongest multi-quarter economic performance since the late 1980s. Similarly, the Republic of Korea has experienced some of its strongest growth in goods exports in 15 years (excluding the pandemic period), with semiconductor production more than doubling since January 2020.

More broadly, the International Monetary Fund (IMF) estimates that AI-related demand and technology investment could add around 0.3 percentage points to global growth in 2026. AI-related spending has been a significant source of domestic demand in the United States, with technology-related investment in the United States over the last year representing 4.8 per cent of nominal GDP (compared with 4.4 per cent at the height of the dot-com bubble in 2000).

In Australia, the impacts of the AI investment boom are currently most pronounced in physical infrastructure. Current industry estimates suggest Australia's data centre pipeline could support more than \$150 billion in investment by 2030, the equivalent of 5 per cent of today's nominal GDP.¹

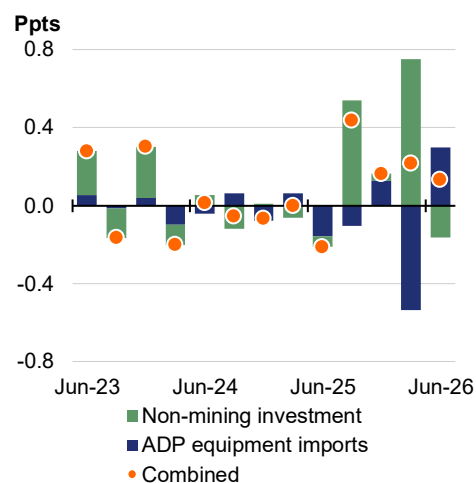
Like the mining investment boom, the surge in AI and digital infrastructure investment will have implications for Australia's broader economy. New capital expenditure on buildings and structures in the Information Media and Telecommunications sector, which includes data centres and related infrastructure, increased to around \$11.6 billion in 2025–26 (Chart 1.4), nearly double the level of investment observed when the last IGR was released in 2023. Given its high import intensity, around one-third of this data centre investment is expected to directly support domestic economic activity (Chart 1.5). Data centre construction will also increase competition for capital and resources and add to demands for skills, increasing the importance of addressing capacity constraints across the economy.

Chart 1.4 Nominal expenditure in the Information Media and Telecommunications sector



Source: Australian Bureau of Statistics (ABS) Private New Capital Expenditure and Expected Expenditure.

Chart 1.5 Non-mining business investment and ADP equipment contribution to GDP growth



Note: ADP is Automatic Data Processing equipment. Non-mining investment represents non-mining, non-dwelling construction and non-mining machinery and equipment.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; ABS Balance of Payments and International Investment Position, Australia; and Treasury.

The acceleration of AI capabilities is set to continue

The scale of investment in AI signals strong market expectations that the technology will be transformative. Even without further advances, existing AI capabilities are likely to support significant economic change as they are adopted and integrated across the economy. The full benefits will take time to emerge, as firms invest in the skills, processes and organisational capabilities needed to use AI effectively, and adapt to the disruptions associated with its implementation.

Investment in new AI capabilities is set to continue. AI is distinctive because current systems are increasingly being used to support the development of subsequent generations of the technology. It is already, for example, providing 80 per cent of the code to support the development of one frontier model.² This creates the potential for a reinforcing cycle in which improvements in AI accelerate further innovation.

AI progress is also accelerating in areas beyond generative language models, including robotics, and being applied in areas such as biotechnology, drug discovery and energy management. Some researchers and developers expect continued progress towards artificial general intelligence, capable of performing a wide range of cognitive tasks at or above human level. Ambition to develop models that achieve artificial general intelligence appear to be intensifying competition among leading firms and helping to drive continued investment in frontier AI capabilities.

1.2 The economic and social impacts of AI

Over the next 40 years, AI is expected to have a profound effect on our economy and society. The direct value of AI markets and related supply chains is already growing significantly, with implications for Australia's export opportunities and import costs. AI will transform Australia's broader industrial base, as new technologies lift workplace productivity and change the skills in demand. These foundational economic dynamics, together with decisions about how AI is applied, will have broader implications for Australia's comparative advantages, labour market dynamics and consumer welfare.

AI also has the potential to make essential services more accessible, affordable and responsive to individual needs.

The timing and extent of these changes is uncertain, as it depends on the rate of technical innovation and its adoption. The challenge for Australia is to harness and share these benefits widely whilst mitigating its potential to generate societal harms such as misinformation, scams and malicious cyber operations.

Australia is well positioned to capture value in global AI supply chains

AI products and services will become a more significant part of the global economy over the next 40 years. Global expenditure on generative AI tools surpassed \$100 billion in 2025–26 and is growing rapidly.³ Subscription payments by AI consumers are providing revenue bases for firms selling AI applications, which is in turn, growing the market for foundational AI models and datasets powering the applications, computation, and the physical chips and energy used to power them.

The competitive dynamics across market segments will evolve as the technology changes and matures. The AI value chain exhibits significant concentration and vertical integration in some areas, while creating highly competitive markets in others. Business models are expected to adjust over time in response to where there are the greatest opportunities to capture value in these markets, and reduce costs for Australian consumers.

Currently, a small number of firms control the compute and cloud infrastructure layer, frontier foundation model development and, increasingly, the same firms are integrating downstream into applications and distribution channels. Barriers to entry created by capital intensity, network effects, and compounding competitive advantages due to factors like the value of user data can create risks of long-term market concentration that would increase consumer prices and reduce consumer choice. However, other layers of the AI stack remain dynamic, with open-weight models and the high level of specialisation of applications and some hardware products introducing competitive pressure.

Over time, broad AI adoption and active engagement in global supply chains across the AI stack is expected to improve countries' potential to capture a greater share of the value of AI markets. For example, the development of AI infrastructure, models and applications can support innovation and commercialisation and provide more opportunities to retain value within the domestic economy.

Australia's resources will provide strategic advantages in capturing value in these markets and reducing costs for Australian consumers. These are particularly strong in Australia's strategic assets of location, land, energy and water, which have made Australia an attractive destination for data centre investment. To capture the benefits of this investment, Australia is implementing AI standards to ensure that data centre construction aligns with Australia's broader national interest (Box 1.2).

Australia's capabilities are also expected to expand across more of the AI value chain, complementing AI adoption and retaining greater value, including profits and jobs, within Australia. Access to capital and talent, a dynamic domestic market and industrial capability in adjacent areas, like quantum computing and business software, are key components of an innovation ecosystem that enables local inventions to compete internationally. To become a leading geography for the development of AI businesses, Australia will also need to ensure competitive access to data, compute and foundational models.

The nature of Australia's access to foundational models is likely to have a significant impact on domestic AI innovation. Greater domestic access to computing capacity could support Australian researchers and firms to develop, adapt and deploy AI systems, and may help attract technical talent and AI-enabled businesses. Currently, foundational model developers vary in whether they charge for access to their proprietary models or provide models without charge through open-source distribution channels. These models can differ significantly in terms of their cost, extent of integration with other AI applications, and security. Ensuring competitive access to a variety of foundational models is expected to reduce costs for consumers and improve integration with global markets. In some cases, hosting training activity in Australia may strengthen Australia's access to foundational models. In other instances, affordable access to advanced compute at competitive prices may be a more significant factor.

Australia's approach to data access is expected to be equally important. The degree to which public and private sector data can be responsibly mobilised to train and adapt models for Australian-relevant use cases (health, agriculture, public services, local languages and context) will shape whether Australia is a genuine developer of AI capability or substantially just a consumer of models built elsewhere. Getting this balance right – supporting access to and adaptation of models and data, while respecting intellectual property rights and managing privacy and safety risks – is foundational to building a competitive Australian AI sector and to Australian firms developing specialised and Australian-tailored applications.

Increasing the value of AI to the Australian economy and benefits to individuals will not require domestic Australian firms to produce an entire final product or compete across every layer of the AI technology stack. Over 70 per cent of global trade is in products that are produced using goods and services sourced from multiple countries, and this trend towards global value chains has increased over time.⁴ As AI markets mature, there will likely be opportunities for Australian firms to capture market share in specialised components of the AI stack, with targeted sovereign capability making Australia indispensable to global value chains. Australia's software industry is growing quickly and is well placed to capture these opportunities with local suppliers generating approximately \$30 billion in market size in 2025.⁵

Contributing specialised capabilities to global AI value chains will support Australia to capture value from the growing market for AI products and services. Developing distinctive intellectual property and specialised products that complement technologies produced around the world will also equip Australia with the technical expertise and trade partnerships required to adopt AI in sophisticated ways across the economy, supporting broad based productivity improvements.

Box 1.2 Data centre growth will increase demand for key inputs

The Australian Energy Market Operator (AEMO) projects data centre electricity consumption to rise by 32 per cent per annum to reach 15 terawatt-hours by 2029–30.⁶ This is equivalent to 7 per cent of National Electricity Market (NEM) demand. Over the subsequent two decades it is estimated that this growth rate will slow to 5 per cent per annum, to reach 44 terawatt-hours or 10 per cent of NEM demand by 2049–50.⁷ These forecasts signal the increased importance of energy supply and network capacity as enablers of AI adoption.

Increased electricity demand from data centres is expected to support further renewables investment and more efficient use of the grid but, if not properly managed, risks placing pressure on generation and network capacity (Chapter 3).

Investment in data centres will impact water resources with one report suggesting these developments could increase annual demand from 5.5 gigalitres – less than half a per cent of current water use – to 17 gigalitres by 2030.⁸ These pressures will depend on data centre location, cooling technology and operating practices. While new cooling technologies and improved operating practices may reduce water consumption, they often increase demand for energy, creating a trade-off between water efficiency and energy supply pressures.

Industry estimates suggest that data centre construction has directly and indirectly supported more than 9,000 jobs to date and this could grow by an additional 18,930 jobs through to 2030.⁹ Large facilities also require land with access to transmission, fibre, transport and cooling infrastructure.

Effective planning and coordination with states and territories is essential for making sure data centre construction contributes towards regional infrastructure, local workforce and industry capabilities, and supports broader development priorities.

The Government is developing Australia’s mandatory national AI standards that will ensure Australia is an attractive destination for investment in AI whilst managing pressure on domestic resources and supporting the national interest.

AI will underpin the next phase of significant productivity growth

AI is shaping how the next phase of global productivity growth will unfold. Substantial investment is currently being directed towards realising AI's potential to become the next general-purpose technology that unlocks economy-wide productivity improvements.¹⁰ If these efforts are successful, AI's productivity benefits may follow the J-curve typical of general-purpose technologies: a period of slow or modest realisation of productivity benefits while firms invest in the complementary capabilities needed to use the technology effectively, followed by fast and sustained economy-wide productivity improvements.

Estimates of the effect of AI on productivity vary widely because we are still in the early stages of AI development and use. For example, there is a near ten-fold range in the estimated effect of AI on the level of multifactor productivity in the US, from 0.7 to 6.8 per cent over the next decade.¹¹ The divergence in these estimates reflects two types of uncertainty.

Firstly, there are a wide range of studies on how much AI will improve productivity. Most treat AI as a temporary shock that lifts productivity for a period of time, with higher estimates usually assuming that AI can profitably automate a large share of economic activity.¹² Lower estimates tend to assume slower adoption, more limited automation opportunities, and greater implementation challenges.¹³ A further important difference is whether AI's effects are considered one-off uplifts in efficiency or having a compounding effect over time. Some studies explore optimistic upside scenarios in which AI accelerates the rate of innovation, leading to more persistent effects on productivity growth.¹⁴

Secondly, there are a wide range of views on how quickly AI will improve productivity. There is almost always a lag between the invention of a frontier technology and its productivity impacts. This can reflect the need for complementary investment and business reorganisation. Other constraints include bottlenecks in sectors that are difficult to automate and limits to the range of tasks for which adoption is economically viable.¹⁵ One view is that, as with previous general-purpose technologies, it will take time for this to occur with AI. In contrast, the specific characteristics of AI may set it apart from historic benchmarks that could lead to an unprecedented rate of transformation.¹⁶ Estimates comparing generative AI with previous digital technologies suggest that adoption in its early years has outpaced both personal computers and the internet.¹⁷ This may partly reflect the low barriers to entry and the rapid decline in the cost of AI services.¹⁸

In the Australian context, the Productivity Commission considers that AI could increase the level of multifactor productivity by more than 2.3 per cent over the next decade.¹⁹ That is broadly in the middle of the range of international estimates. If realised, these gains would help achieve Treasury's long-term productivity growth assumption of 1.2 per cent per year. AI-related capital deepening, along with complementary structural reforms that support adoption and diffusion, would also contribute to productivity outcomes. Box 1.3 outlines a range of alternative scenarios for AI's impact on Australian productivity.

Box 1.3 Scenarios for productivity growth

Scenario analysis can illustrate a range of plausible AI-driven outcomes and identify the key indicators that may signal which outcomes are emerging.

Internationally, the Organisation for Economic Co-operation and Development (OECD), the World Economic Forum (WEF) and the United Kingdom Government have all explored how different assumptions about technological progress and preparedness could shape outcomes to 2030.²⁰ These studies suggest a range of plausible AI futures. In some scenarios, AI would primarily augment tasks and improve productivity while allowing labour markets and institutions to adapt. In others, AI capabilities are more transformative. In these scenarios, AI could surpass human performance across a broad range of cognitive tasks and make substantial progress in robotics and physical tasks. This could accelerate productivity growth, bring forward broader social benefits and risks, and intensify the challenges associated with adapting to technological change.

Treasury considers three stylised productivity scenarios for Australia over the coming decades, anchored to different segments of the literature. As discussed previously and in Chapter 10, the baseline scenario is anchored to Treasury's long-term productivity assumption of 1.2 per cent.

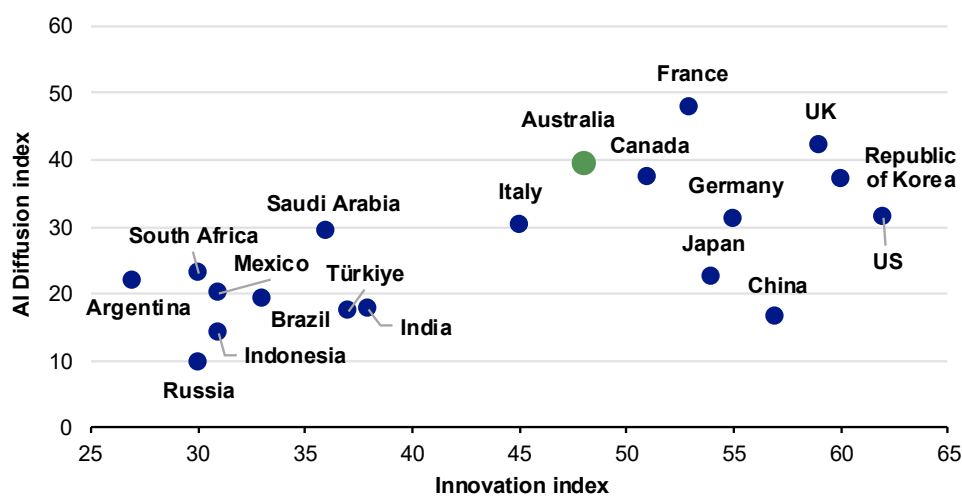
The upside scenario draws on the more expansive estimates of the proportion of tasks that can be automated and the potential for AI accelerating the production of ideas itself. This would allow gains to compound and reinforce each other, potentially leading to productivity growth that materially exceeds the current long-term assumption, in the range of 1.5 to 2.0 per cent. In this scenario, the most transformative effects of AI growth would be more likely to occur toward the end of the 40-year projection period.²¹

By contrast, a downside scenario could see AI contributions remain modest due to slower-than-expected diffusion and constraints on task-level automation in labour-intensive services and materials sectors. In this scenario, gains from AI could be further offset by a range of domestic and global headwinds that continue to weigh on productivity growth, leaving Australia's productivity performance meaningfully below the long-term assumption.

Key indicators of which pathway the economy is on include trends in AI adoption by businesses and households, business investment, firm entry and exit rates, labour market adjustment, and the productivity performance of frontier economies. While it remains early and uncertainty is high, current indicators are broadly consistent with the baseline scenario. These indicators are discussed further in Chapter 10, while Chapter 11 explores the implications of alternative productivity scenarios for the budget.

Over the next 40 years, AI adoption is expected to expand significantly. Globally, Australia already ranks highly on measures of AI diffusion through consumer use (Chart 1.6). For example, Australia is among the leading adopters of Claude, with usage more than four times higher than our population share would suggest. Claude usage in Australia spans work, personal and educational settings, mirroring the usage profile of other high-income English-speaking economies.²²

Chart 1.6 Innovation and AI diffusion by country



Note: Based on data for G20 countries. The innovation index is an assessment of innovation ecosystems of countries. The diffusion index is from Microsoft data based on AI diffusion weighted measure of the share of people between ages 15 and 64 who have used a generative AI product.

Source: World Intellectual Property Organization Global Innovation Index; and Microsoft AI Economy Institute AI Diffusion Index.

AI is becoming more deeply incorporated into business operations over time. Early survey evidence indicates that initial experimentation is well-underway but deep integration of AI into business processes is in its early stages. While two-thirds of Australian businesses reported adopting AI in some form, fewer than 10 per cent described that adoption as significant.²³ There are similar results across small and medium enterprises.²⁴ Australians' trust in AI is also low, which reduces willingness by workers, consumers and businesses to engage with AI technologies. This helps to explain why economy-wide impacts on measured productivity have been very modest so far, despite the rapid growth in AI-related investment.

AI adoption is expanding across industries at different paces. Adoption is occurring fastest in the Information and Communication Technology (ICT), financial and professional services industries and at a more gradual pace across agriculture, construction, trade and distribution services.²⁵ Small and medium enterprises with digital and data maturity and clear use cases, such as finance and insurance sectors, are adopting AI quickly. Other sectors, like transport and manufacturing, are expected to adopt AI over a longer period as legacy systems, cost pressures and the complexity of use cases are navigated.²⁶

The ways that AI is adopted across industries over the next 40 years will be a key factor in determining the structural impacts that AI has on the Australian economy, including changes in labour demand, occupational composition and the distribution of employment across industries.

AI will change the skills in demand and expand access to capabilities

Over the next 40 years, generative AI will change the economics of information in ways that transform the nature of work. The capacity of AI to complete many of the cognitive tasks that characterise ‘white-collar’ work is expanding, altering the types of human capabilities that are expected to be scarce relative to the demand for them.

The capabilities of AI will vary widely across different types of work. AI has already exceeded human benchmarks for some tasks – such as computer coding and well-defined scientific questions. For other tasks, human judgement, coordination, accountability, tacit knowledge and relationships will continue to be integral.²⁷

As a consequence, the impact of AI on labour demand will vary by task:

- AI is likely to ‘automate’ many tasks for which it is a direct substitute for human labour.
- For other tasks, such as detailed personalisation, AI will ‘augment’ human labour so that they can be completed more efficiently, potentially creating new demand for some human skills.

AI is expected to lift productivity through these channels, alongside its effects on the creation of new types of economic activity, capital deepening and the reallocation of resources across tasks and industries. This will increase the amount of output for each hour of work in ways that support wage growth.

The majority of current jobs bundle together tasks within AI’s potential capabilities with tasks requiring human skills. Within jobs that will continue to require human expertise, the pace of AI adoption will depend on both AI’s capability to complete a task, and how readily tasks within AI’s capabilities can be ‘unbundled’ from other tasks.

As AI becomes widely adopted, it is expected to drive increases in productivity and incomes, supporting lower prices and higher consumer demand and employment. Increases in labour productivity would occur in the context of an ageing population, which in general is increasing workforce pressures across the economy.

Against this backdrop, there is likely to be an increase in the relative scarcity of some human skills. The magnitude of the change will depend on the relative extent to which AI substitutes or creates new demand for particular human skills, which is likely to vary across occupations and industries. Impacts will also depend on the extent to which supply of skills in the labour force can keep pace with changing demand.

The ways that workplaces, workers and skills systems adopt and respond to AI will have a significant influence on the nature of labour market changes observed in response to AI, globally and in Australia. Innovation will be required to apply AI to certain tasks, especially in ways that create new value for customers or enable workers to augment their skills and achieve more at work. Organisational redesign will be required to expose more tasks to AI capabilities if workers are to be freed up to complete more valuable tasks. Effective labour market planning, training provision and skills development is required to ensure workers share in the benefits, maximise their skills and reduce labour shortages.

Labour market impacts are likely to vary across cohorts of workers, with outcomes varying by factors such as occupation, industry, skill level, age, gender, geographic location and access to training and support (Box 1.4).

Box 1.4 Labour market impacts from AI are likely to differ from past technologies

Previous waves of technological change transformed Australian workplaces by automating labour intensive tasks, augmenting existing work and reshaping production processes. Electric motors in manufacturing allowed more efficient factory design, leading to productivity gains, while digital technologies have automated many routine tasks, allowing workers to focus on more complex activities.²⁸ Despite the significant shifts in the composition of jobs and tasks in the economy from previous technological change, the total amount of work available has not decreased.²⁹ These transitions often involved periods of adjustment as workers, businesses and institutions adapted to changing technologies and skills requirements.

Recent technological change has generally complemented more complex cognitive work, increasing relative demand for non-routine cognitive occupations, including those requiring a bachelor's degree. During the ICT wave, for example, desktop publishing reduced demand for typographers but increased demand for graphic designers.³⁰

AI is likely to differ from earlier digital technologies because it can perform some non-routine cognitive tasks rather than simply supporting them. This contrasts with previous general-purpose technologies which primarily automated physical and routine work and may allow AI to affect a broader range of high-skilled work. Although it is too early to tell what new tasks and occupations will emerge, AI is already showing strong capabilities in areas such as helping scientists and medical researchers to find patterns in data, run studies, and interpret results, potentially leading to new discoveries.³¹

Some workers will require additional support to transition to new roles or to acquire new skills. These skills will evolve and may range from foundational AI literacy to occupation-specific capabilities and specialist technical expertise. Complementary capabilities such as critical thinking, communication and change management will also be in demand. AI may also introduce new risks to job quality, work health and safety, and worker wellbeing, with impacts varying across workplaces and occupations depending on differences in AI adoption and operating environments.

Over time, AI is expected to shift the division of labour across occupations and sectors, depending on exposure, skills and capacity to adapt.³² For example, IMF research has highlighted that AI automation exposure is disproportionately associated with white collar, highly educated occupations and that these occupations are also more likely to be able to adapt to and see the productivity benefits of AI.³³ Labour market flexibility will remain critical to enabling adjustment to any shifts in the demand for particular skills and occupations, ensuring people are able to transition into newly created jobs.

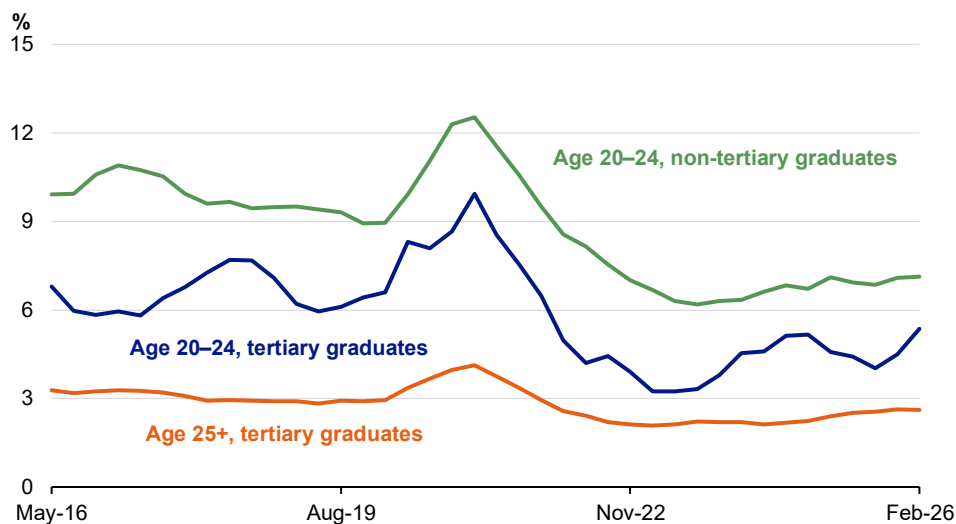
Australia's labour market is well placed to respond to change. It is dynamic and constantly adjusting, adapting and reorganising in response to a range of factors, including new technologies. Workers switching between jobs is a feature of a well-functioning, flexible labour market and rates of job-switching are often used as indicators of labour market mobility and dynamism. Mobility can lead to better job matches and wage increases for both job-switchers and incumbent workers, improving overall productivity by reallocating workers to more productive firms.

While AI has the potential to dramatically reshape the labour market, most Australian and international studies have found limited effects to date. In Australia, the Department of Employment and Workplace Relations (DEWR) is monitoring the impacts of AI on employment and, as yet, has not found evidence of broad impacts. This is consistent with measured productivity trends, as well as other evidence, that notes that AI is still at a relatively early stage of enterprise-wide adoption and is still being deeply integrated into business processes.³⁴ Jobs and Skills Australia (JSA) modelling suggests a greater potential for occupations to experience augmentation than automation.³⁵

Generative AI's capability to augment knowledge work and automate tasks like data analysis, means some occupations will be exposed more than others.³⁶ DEWR has found some early indications of modest slowing of employment growth in highly exposed occupations in recent years.³⁷ Some of the most highly exposed occupations include accountants, receptionists and advertising and marketing professionals.³⁸ In contrast, some of the least exposed occupations are aged and disability carers, electricians and truck drivers. JSA indicates that around 4 per cent of the current workforce are in occupations that have high automation exposure to AI, whereas 79 per cent has low automation exposure.³⁹

Some early international evidence indicates declines in employment for young workers in occupations that are highly exposed to AI, such as software developers and customer service representatives.⁴⁰ It is difficult to isolate these effects from other labour market changes, such as working from home and the effects of the business cycle.⁴¹ In Australia, the labour market for young workers and young graduates overall is not showing measurable impacts (Chart 1.7).⁴²

Chart 1.7 Unemployment rate by age and level of highest educational attainment



Note: Four-quarter moving average of non-seasonally adjusted data.

Source: ABS Labour Force (Detailed); and DEWR.

Beyond the labour market, AI is expected to impact all areas of society and the economy including equality, competition between firms, the demand for capital and Australia's comparative advantage in global markets.

Transformative technological change will have implications for the broader economy

Widespread adoption of AI will have broad economic ramifications and is expected to usher in a period of heightened change.

There is a risk that developments in AI increase inequality if the economic gains accrue primarily to a small number of firms, individuals, workers or regions that are better placed to develop or adopt the technology. Conversely, it could reduce inequality by lowering costs for consumers and making some expertise and services more widely available. The overall effect will depend on factors such as how AI capabilities evolve, which workers and industries are most affected, how the technology diffuses and how society responds.

Businesses that successfully develop or adopt AI are expected to experience faster productivity growth, stronger profitability and increased market shares, reducing the competitiveness of firms that are slower to adapt. Small and medium enterprises can find it more difficult to access the resources needed to adopt AI and overcome barriers to implementation, increasing the potential productivity benefits of AI embedded in business software. The benefits of AI are likely to vary across regions. Areas with strong digital infrastructure, skilled workforces or the ability to attract AI-related investment are expected to experience larger productivity and income gains than other regions.

AI will also have broader implications for investment and financing conditions. AI-related investment is increasing demand for capital, while expectations of higher productivity and returns could encourage further investment and reinforce that demand. This could place upward pressure on the price of capital globally and increase the importance of making Australia a competitive destination for investments. These effects are uncertain and could be moderated by higher household saving, weaker-than-expected productivity gains or broader economic and geopolitical risks weighing on investment.

AI is expected to reshape patterns of trade and comparative advantage by changing how goods and services are produced and delivered. By expanding the range of business services that can be delivered across borders, AI is expected to make a larger share of economic activity internationally contestable and create new opportunities for Australian firms to participate in global markets. It is also likely to lift productivity in traditionally non-tradable industries such as construction and health care. As discussed in Chapters 2, 3 and 5, access to new reliable and competitively priced energy infrastructure and to advanced technologies supplied through geopolitically contested supply chains may also increasingly shape Australia's comparative advantage.

AI's expected positive effects on productivity and economic growth would generally strengthen the budget through higher incomes and tax receipts. As outlined in Chapter 10, expectations about AI's productivity benefits inform the long-term productivity assumption, although their scale and timing remain uncertain. AI could also reduce the cost or improve the quality of public services. These benefits may be partly offset if productivity gains flow through to lower prices rather than higher incomes, labour market transitions increase demand for government support, stronger investment puts upward pressure on borrowing costs, or from changes to the distribution of income as tax rates differ across sources of income.

AI's potential to drive greater social progress or disruption

The overall impact of AI on Australia's society will depend on what AI is used to achieve, with significant potential for the technology to drive large improvements in social outcomes or cause disruption.

AI has significant potential to improve the delivery of essential services, including to make them more accessible, affordable and responsive to individual needs. In health and aged care, it is expected to support earlier diagnosis, more personalised care and routine administrative tasks, allowing workers to spend more time with patients and care recipients. In education, AI-enabled tools are expected to provide tailored learning support at greater scale. It will also help people navigate government services and access basic financial and legal information by translating information across languages, explaining complex material in more accessible terms and lowering the cost of routine assistance.

Beyond improving the delivery of essential services and raising economy-wide productivity, AI will drive social progress by accelerating scientific discovery. For example, Sir Demis Hassabis and John Jumper were jointly awarded half of the 2024 Nobel Prize in Chemistry for developing Google DeepMind's AlphaFold2, an AI model that solved a 50-year problem by predicting complex three-dimensional structures of protein. The AlphaFold Protein Structure Database is freely available and being used by researchers in over 190 countries, making it easier to develop treatments for a wide range of diseases.

The broader diffusion of AI also amplifies risks that could impact Australia's national security and economic resilience. AI is enhancing the efficiency and sophistication of malicious cyber operations, which will enable actors to execute attacks on a larger scale and at a faster rate.

AI will also increase the scale, speed and sophistication of information weaponisation and radicalisation. At the same time, it is expected to lower barriers to harmful biological and chemical activity and simplify criminal and terrorist activity planning.

National security challenges, including foreign interference, could arise from dependence on foreign developed and owned frontier models. Australia benefits when it gains early access to these AI models to better understand AI-enabled risks and bolster defences.

The increasing capability of AI-enabled information operations may create risks for social cohesion and trust in institutions. Ongoing improvements in generative AI will reduce the cost of producing convincing misinformation, scams and other forms of deception to be disseminated at an unprecedented scale and speed. This could make it harder for Australians to distinguish between authentic and manipulated information, potentially undermining confidence.⁴³

Beyond information-related risks, AI is also expected to enable a broader range of harms. Women and girls currently experience disproportionate harm from AI-facilitated abuse, including deepfakes and targeted harassment. AI tools may also be misused to generate and personalise harmful content, lowering the barriers to perpetrating abuse and increasing its reach.

Over time, increasingly capable AI systems are expected to contribute to a more fragmented information environment that reinforces existing views and reduces exposure to alternative perspectives. This would weaken the shared information base that supports democratic debate and collective decision making, undermining social cohesion by reducing society's capacity to build consensus and respond effectively to national challenges.⁴⁴

The impact and management of AI-enabled threats will depend on future AI capabilities and action taken by governments, industry and the community. The Government and private sector are increasing investment in critical sectors with the highest security and resilience requirements. This includes working with industry and trusted international partners on the development and deployment of defensive AI tools to detect vulnerabilities, prioritise risk and aid recovery from cyber incidents.

1.3 Positioning Australia for the future

Australia is well positioned to benefit and manage the risks of the AI technological revolution, given our stable institutions, abundant renewable energy potential and international connectivity, including in the Indo-Pacific region. Ensuring AI investment is aligned with Australia's national interests will improve Australia's competitiveness, resilience and wellbeing in the decades that follow.

The private sector will be the primary driver of AI-enabled economic and social gains. Businesses and workers will steward the pace of adoption, how work is reorganised to incorporate AI, and whether technological advances translate into higher productivity and new products and services. As the primary implementers of AI adoption, firms will play a central role in ensuring workers also benefit from and can adapt to technological change. This will occur through investments in training, job redesign, skills development, appropriate protections, and measures that support safe, fair and productive AI adoption in workplaces.

Governments have an important role in shaping the conditions for successful AI adoption. This includes adopting AI within the public sector itself, to build public trust in the technology, ensure its benefits are widely shared and make services more affordable, accessible and responsive. This also includes providing the appropriate regulatory and institutional frameworks that create well-functioning markets, characterised by competition and incentives for firms to innovate. In times of major structural change, or nascent technologies, governments can also have an important role providing direct investment to further Australia's national interest and economic resilience. Governments may also influence the competitiveness of product markets through their procurement choices.

The National AI Plan sets out the Australian Government's vision for an AI-enabled economy that is more competitive, productive and resilient (Box 1.5). The Government has begun implementing initiatives to support the Plan. This includes releasing expectations for data centres and AI infrastructure developers and supporting AI adoption and workforce capability. It has established an Australian AI Safety Institute to monitor emerging AI risks and capabilities and the National AI Centre continues to support responsible AI adoption.

Box 1.5 National AI Plan

The National AI Plan aims to position Australia as a leader in responsible, inclusive and innovative AI development and use by:

- capturing the opportunity by building smart infrastructure, backing domestic AI capability and attracting global investment;
- spreading the benefits through widespread AI adoption, supporting and training Australian workers and improved public services; and
- keeping Australians safe with legislative and regulatory frameworks that mitigate AI harms, while promoting widespread responsible practices and international engagement that upholds Australia's values.

As AI develops, policy makers will need to manage a range of trade-offs. For example, policies that accelerate innovation and adoption may increase exposure to safety, privacy, security and misinformation risks. Likewise, policies that maximise economic efficiency may not distribute benefits evenly across workers, industries and regions. Dependence on global AI providers may improve access to leading technologies and lower costs, while greater domestic capability can support resilience, sovereignty and national security. AI-driven economic growth is expected to strengthen the budget overall, although the fiscal effects will depend on how productivity gains flow through the economy and affect government revenue and expenditure.

Given the uncertainty surrounding future AI capabilities and impacts, policy frameworks will need to remain flexible and adaptive. The Government is prioritising actions designed to deliver benefits under a wide range of future scenarios, including investment in skills, digital infrastructure and research capability. The Government will also continue to create the conditions for AI-driven productivity growth and higher living standards. This is being done in ways that support the broad distribution of benefits and maintaining proportionate safeguards to manage risks to workers, communities, security and social cohesion.

Encouraging innovation in critical technologies

Australia can build on its research and industrial strengths to capture the significant opportunities presented by critical technologies, including AI. The Government is backing Australian research, development and innovation to maximise the value of these technologies while managing their risks.

The Government is investing more than \$39 billion in research and development over the forward estimates, including through the Medical Research Future Fund, the Advanced Strategic Capabilities Accelerator, national science agencies and the research and development corporations. The Research and Development Tax Incentive (R&DTI) is being reformed to simplify and better target Government support for business R&D. The Government is also launching a \$50 million AI Accelerator funding round under the Cooperative Research Centres (CRC) Program to help businesses and researchers across Australia accelerate AI development and commercialisation in key areas, and is targeting \$1 billion of National Reconstruction Fund Corporation investment in critical technologies that advance the national interest.

Work is underway to establish the National Science and Resilience Council, which will better coordinate and align public investment in innovation with Australia's economic objectives. This includes supporting progress in key critical technology fields such as AI and quantum which will be important to Australia's future prosperity.

Making it easier for workers and businesses to adopt AI

As AI adoption grows and roles change, the Government is ensuring businesses have the tools and digital infrastructure to adopt AI. The Government has established the National AI Centre (NAIC) to provide Australian industry with practical support to adopt AI safely and secure productivity benefits. It continues to work with NBN Co to enhance the National Broadband Network, ensuring Australia has the world-class digital infrastructure and connectivity needed for businesses to leverage the full potential of AI technologies.

The Government is also supporting an AI-ready workforce through skills, training, lifelong learning and AI literacy, while continuing to work with unions, industry and governments to promote the transparent, safe and inclusive adoption of AI and ensure workers share in its benefits.

The Australian Framework for Generative Artificial Intelligence in Schools (the Framework) is guiding the responsible and ethical use of generative AI tools in ways that benefit students, schools and society. The Framework aims to recognise how the appropriate use of generative AI tools can enhance teaching and learning outcomes and help jurisdictions and sectors align existing approaches and support future work.

The Future Skills Organisation (FSO) has been established as a tripartite Jobs and Skills Council, and is leading the response to skills gaps related to emerging AI capabilities. In partnership with the NAIC, the FSO presented the National AI Skills Forum, bringing together more than 250 leaders from government, industry, unions, education and the technology sector. The FSO has launched the FSO Skills Accelerator-AI 2.0 as a community hub designed to accelerate the sharing and adoption of AI capability across the education and training sector, with a focus on connecting people, scaling proven approaches and enabling organisations to learn from each other.

There is strong tripartite engagement through the AI Employment and Workplaces Forum (AIEWF). The AIEWF brings together government, employers and unions to address the impact of AI in the workplace focussing on how workers can share in the benefits and consider the impacts of AI on jobs and workplace conditions.

The tripartite forum is developing best practice guidance for the adoption of AI in the workplace to provide practical guidance on how to adopt AI in a way that builds trust in the workplace. These efforts will help ensure workers are well placed for AI adoption in the workplace.

The Government's role complements the efforts of others in the community. For example, the Australian Council of Trade Unions with Microsoft have agreed to jointly develop and deploy resources to support workers' access to training and new skills development for working with AI systems and products.

Promoting infrastructure investment aligned with Australia's national interests

To ensure AI delivers benefits in Australia's national interest, the Government is establishing the policy and regulatory settings needed to support investment, jobs and innovation on Australia's terms.

The Government is developing AI standards to provide a clear, nationally-consistent regulatory framework that supports investment where it aligns with the national interest. As part of the AI standards, the Government is collaborating with the states and territories to set minimum requirements for large AI data centres, including on energy, water and location, with additional expectations on AI training infrastructure relating to national security, safety and support for domestic skills, innovation and research capability.

The Government is pursuing collaborative arrangements with leading international and domestic AI and technology companies to strengthen national AI capability, support innovation, and uphold Australian values. In April 2026, the Government announced it had signed memoranda of understanding with Anthropic and Microsoft.

Driving improvements to service quality and productivity across public services

The Government's AI Plan for the Australian Public Service (APS AI Plan) sets out how the APS will harness AI to deliver better services faster, for all Australians. The Plan is built on the three pillars of trust, people and tools. It will help to improve delivery of the services that matter most to Australians, including education, healthcare, energy and government services.

As part of the APS AI Plan, the Government is supporting uptake of AI by government agencies through the GovAI platform. GovAI provides a secure, APS-only environment for exploring AI tools, experimenting safely with AI and data, and sharing use cases and lessons learned across government.

The Government is leading the development of a consistent whole-of-government framework for the use of automated decision-making (ADM). This framework will support the efficient delivery of government services and include robust and strong safeguards to ensure transparency and accountability for the use of ADM in government.

These initiatives form part of the Government's broader ambition, outlined in the National AI Plan, to back Australian AI capability and scale AI adoption. The Government, through the National AI Centre, is supporting initiatives such as the Buy Australian AI Partnership to help Australian AI companies connect with major customers and grow their businesses.

Improving access to relevant, high-quality data can support innovation and competition among businesses. Some datasets held by government agencies can offer significant value to businesses, when made available with appropriate protections for privacy and security. The statutory review into the *Data Availability and Transparency Act 2022*, highlighted issues around data sharing under the Act.⁴⁵ The Government is considering its response to the review.

Keeping Australians safe

The Government is taking a proactive approach to AI-enabled harms so that Australia can respond quickly and effectively to emerging risks and keep Australians safe.

Australia's AI Safety Institute analyses emerging AI capabilities to ensure Australia's robust legislative and regulatory frameworks continue to protect Australians from AI-enabled harms. The Government is also developing best practice guidance and tools to support Australian industry to adopt AI safely and securely.

As AI-enabled threats transcend borders, strong institutions and partnerships are increasingly important. Australia is working with trusted international partners to shape global norms and standards in Australia's interests. Australia is already a reliable, responsible and trusted leader in the Indo-Pacific region. Australia will continue to work closely with our partners to build their capability and ensure the benefits of AI are shared across the region.

Monitoring AI developments

As outlined in the National AI Plan, the Government will track progress on AI using a flexible, evidence-based approach, reflecting the rapid evolution of the technology and its impacts across the economy and society. The Government will draw on national data, sector-specific reporting and stakeholder feedback to monitor progress, identify emerging opportunities, risks, gaps and priorities, and refine its approach as needed. This whole-of-government approach is reflected in action across a range of policy areas, including reforms to the Privacy Act and work through the Council on Federal Financial Relations to consider regulatory approvals for data centres.

The Government continues to monitor the economic and labour market impacts of AI on the Australian economy. In July 2026, DEWR's Office of the Chief Economist published the 'AI and employment in Australia: Monitoring framework and evidence to date' report, examining whether there is evidence that AI is already affecting employment in Australia. Jobs and Skills Australia has also published work that considers exposure to generative AI at the task, occupation and industry level. Treasury is investing in developing further tools and analysis to monitor and understand the short and long-term implications of AI for the Australian economy.

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2 Geopolitical fragmentation

Overview

Geopolitical competition is intensifying. The number of conflicts between nations has risen from two in 2023 to eight in 2025. At the same time, governments are imposing restrictions on goods, services and emerging technologies, such as artificial intelligence (AI), and are redirecting trade along geopolitical lines.

The global economy will become even more fragmented and less predictable if these trends continue. Economic and business decisions will increasingly be shaped by considerations of economic and national security, resilience and strategic alignment.

Economic activity is expected to tilt towards greater diversification of trade and supply chains, more investment in resilience and reliability, and, in specific cases, targeted investment in domestic capabilities that insure against severe disruptions. These actions provide insurance against vulnerability to supply disruptions and economic coercion but have costs.

Australia stands to benefit from its reputation as a reliable supplier and partner as countries place greater weight on security and resilience. Demand for secure and diversified supply chains provides economic opportunities in areas where Australia has competitive strengths.

The Government is positioning Australia to prosper in a more fragmented world by better identifying vulnerabilities, strengthening resilience where it matters most, building on Australia's competitive strengths and remaining open to trade, investment and ideas.

2.1 Geopolitical fragmentation

Geopolitical fragmentation will reshape the global economy

Rising geopolitical fragmentation will have long term impacts on the global economy, with trade, investment and technology flows increasingly aligning with strategic and geopolitical objectives.

This fragmentation does not imply global economic integration will unwind. Global trade as a share of gross domestic product (GDP) reached a historic high of 68 per cent in 2025.¹ Instead, evidence shows that the global economy is being reorganised. Governments are using trade, investment and industrial policies to pursue strategic objectives, while firms are adjusting their supply chains and investment decisions in response to changing geopolitical risks.²

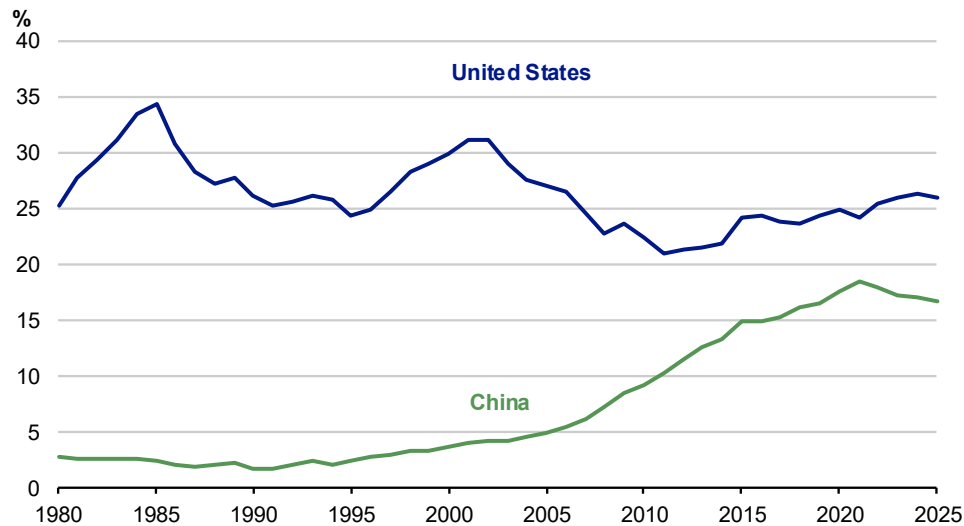
Strategic competition is intensifying

Strategic competition between major powers, combined with increasing global conflict, is driving geopolitical fragmentation. Armed confrontation between governments increased from two in 2023, to four in 2024, then to eight in 2025, the highest level since World War II.^{i 3}

China's rapid rise, vast manufacturing capability and huge military build-up is reshaping the global distribution of military and economic power.⁴ At the same time, the United States' appetite for trade liberalisation and support for some global economic institutions has waned.⁵ This convergence in the economic weight of the world's two largest economies will see competition for technological leadership, influence over global rules and standards, and access to critical inputs and strategic industries continue to intensify (Chart 2.1).

i The Uppsala Conflict Data Program (UCDP) defines an interstate conflict as a state-based armed conflict in which both parties are governments and the conflict results in at least 25 battle-related deaths in a calendar year. Data from 2026 is not yet available.

Chart 2.1 United States and China share of world GDP



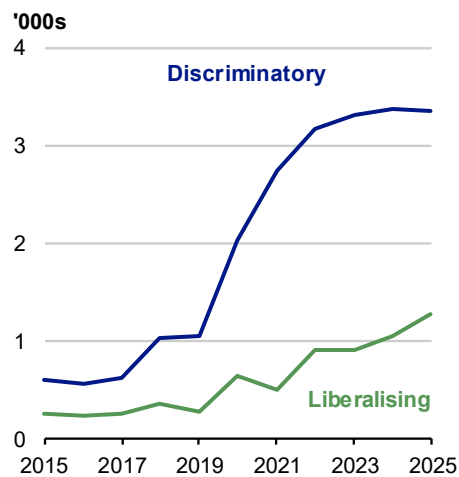
Note: Shares are calculated as a percentage of world GDP based on market exchange rates.

Source: International Monetary Fund, *World Economic Outlook Database*, 'Gross domestic product, current prices (US dollars)' series for China, the United States.

Policy will change global trade and investment

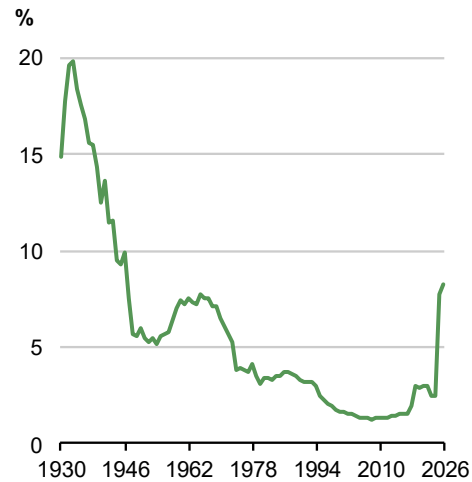
Countries are taking action to reshape their trade and investment, with far reaching consequences. Approximately 18,000 discriminatory trade measures have been introduced globally since 2020. The United Nations Conference on Trade and Development (UNCTAD) estimates that around two-thirds of global trade is now affected by technical regulations. Some measures reflect broader protectionist pressures, while others are more directly linked to strategic competition (Chart 2.2).⁶ Governments will likely increasingly use export controls, investment restrictions and other measures to limit access to critical minerals, advanced semiconductors and AI technologies.

Chart 2.2 Trade measures



Source: UNCTAD based on Global Trade Alert.

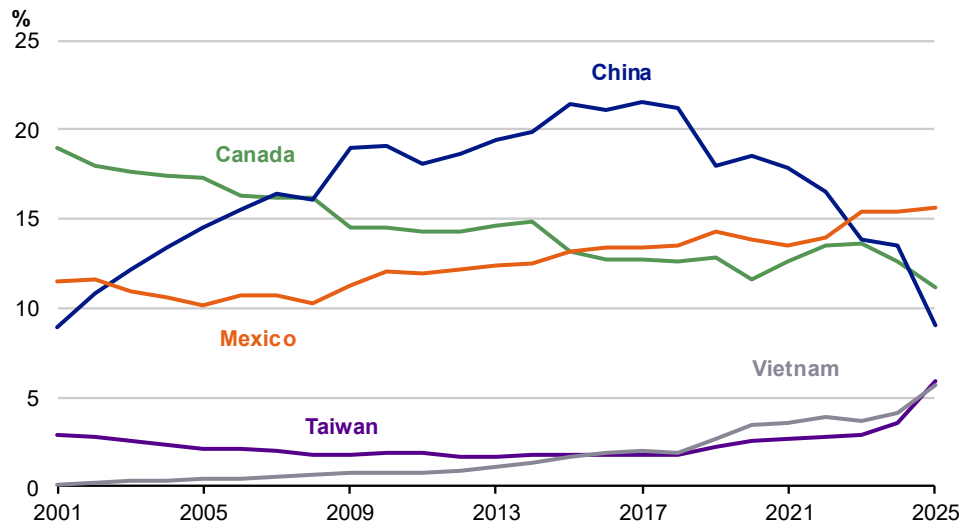
Chart 2.3 United States annual average effective tariff rate



Source: Yale - The Budget Lab.

Note: Data shows The Budget Lab's projected post substitution effective tariff rates for 2025 and 2026, released on 8 April 2026.

The United States has increased effective tariff rates to their highest levels since the 1940s (Chart 2.3). While it is too early to be definitive, recent research has found that the pass through of tariff costs to United States producers and consumers has been high and that these measures have accelerated changing trade patterns.⁷ China's share of United States' imports has fallen markedly since 2017, amid rising strategic competition and trade tensions, and is now back to levels last seen in 2001 when China joined the World Trade Organization.⁸ At the same time, the United States' import shares from Mexico, Vietnam and Taiwan have increased (Chart 2.4).⁹ China has also reoriented exports towards economies in Asia, Latin America, the Middle East and Africa.¹⁰

Chart 2.4 Share of United States goods imports

Note: Partner import share = United States goods imports from partner divided by total United States goods imports.

Source: United States Census Bureau.

As trade between the world's two largest economies has declined, global supply chains have reconfigured. Manufactured exports from the Association of Southeast Asian Nations increased by around 14 per cent in 2025 as the region expanded its role in manufacturing and assembly. China, meanwhile, is increasingly supplying the machinery, components and industrial inputs used by those manufacturers.¹¹

Geopolitical fragmentation will be increasingly visible in foreign investment, with strategic and economic security considerations playing a growing role in investment decisions alongside traditional drivers.¹² International Monetary Fund analysis finds that foreign direct investment is becoming more concentrated among geopolitically aligned economies and is particularly pronounced in strategic sectors such as semiconductors, critical minerals and telecommunications infrastructure.¹³

In recent years, jurisdictions including Australia, the United Kingdom, Japan, European Union and the United States have strengthened their foreign direct investment (FDI) screening regimes to address risks associated with foreign ownership and control of strategic infrastructure, assets and technologies.¹⁴

While the reorganisation of trade and investment flows in the face of geopolitical fragmentation has mitigated some adverse macroeconomic effects in recent years, over time, more restrictive trade of goods, services and ideas are expected to be a drag on longer term growth and prosperity.¹⁵

International competition in critical technology will accelerate

Growing interconnectedness between critical digital and physical systems will create new vulnerabilities.¹⁶ In 2024–25, the Australian Signals Directorate’s Cyber Security Centre notified entities more than 1,700 times of potentially malicious cyber activity, an 83 per cent increase over the previous year.¹⁷ Connected vehicles, industrial control systems, logistics platforms and digital infrastructure are increasingly embedded in households, businesses and critical infrastructure. If cyber security or system integrity is weak, vulnerability to malicious activity increases, with major disruption spreading quickly through the systems that firms and households rely on.

Frontier technologies such as semiconductors, AI, biotechnologies and quantum computing will be increasingly important to both productivity growth and military capability, and economic security.¹⁸ Concerns about technological dependence and vulnerability to coercion have led governments and businesses to place greater weight on securing access to the inputs, infrastructure, data and specialist skills that underpin these technologies. As a result, competition for technological leadership has intensified, increasingly blurring the distinction between economic and national security policy.

China’s restrictions on critical minerals and rare earth exports and the United States’ measures limiting access to advanced AI technologies are examples of this trend. Governments are investing heavily to strengthen domestic capabilities while increasingly using export controls, investment restrictions and other measures to influence access to frontier technologies and critical inputs.¹⁹

International economic governance is under pressure

The rules and institutions that support predictable trade, investment and financial flows will be under increasing pressure. Multilateral rules and dispute settlement arrangements are increasingly being bypassed or contested.²⁰ In addition to trade and investment, geopolitical fragmentation will increasingly affect cross-border financial flows and payment arrangements.²¹ Enforceable global rules and stable relationships are important because they promote predictability and openness to trade, investment and long-term planning.

2.2 Implications of geopolitical fragmentation

Geopolitical fragmentation will alter the direction of investment, skills and technology flows

Geopolitical considerations will increasingly influence how governments and firms assess different sources of capital. This will occur even while economic growth, productivity and integration with global markets remain central to foreign investment policy.²² Foreign investment has been an important source of capital, technology and competition throughout Australia's development.²³ Historically, policy debate has focused on how foreign investment supports economic growth, productivity and integration with global markets. While this openness continues to deliver significant benefits, it also exposes Australia to shocks that can flow rapidly across borders.

Long-term projects including in energy, resources, infrastructure, housing and digital systems are capital intensive. Investment in these projects depends on confidence about the future. In a more contested global environment, greater volatility from shocks to energy, inflation and demand, alongside uncertainty about future policy settings will make firms and investors more cautious about where they invest. The cost of capital is another key consideration and disruptions to trade, energy markets and supply chains can add to inflation and risk premiums, increasing interest rates and financing costs.²⁴

Geopolitical fragmentation will also add frictions to the global flow of people and knowledge. Skilled migration, research collaboration and professional networks across borders add to labour supply, deepen Australia's skills base and help ideas move between economies.²⁵ Technology and knowledge diffusion have been central to Australia's productivity growth. Benefits flow when firms can draw on technologies, standards and business practices developed overseas and adapt them to domestic conditions, as well as locally developed technologies. This will be particularly important for AI, where Australia's ability to realise productivity gains will depend partly on continued access to frontier technologies and specialist expertise.

Australia's prosperity will continue to depend on attracting the foreign investment needed to support growth and national priorities. Australia's role as a middle power, along with having a reputation as a stable jurisdiction with strong institutions and predictable policy settings will be increasingly important in attracting investment. The challenge is to remain an attractive investment destination while managing risks to national interests in a targeted and proportionate way (Box 2.1).

Box 2.1 Foreign investment reforms

Foreign investment is crucial to Australia's prosperity and remains a core element of the Government's agenda for a more productive, dynamic and resilient economy. Foreign capital supports economic growth, creates skilled jobs, improves access to international markets, and drives competition and innovation across the economy.

Australia's foreign investment framework encourages investment while managing risks. Since its establishment in 1975, the framework has been successful in maintaining Australia's attractiveness as an investment destination while managing risks to the national interest, with low sovereign risk and a strong rules-based system that provides the opportunity to safely and consistently invest capital. Under the foreign investment framework, the Government reviews foreign investment proposals on a risk-based and case-by-case basis, to ensure that they are not contrary to the national interest. This approach maximises investment flows, while protecting Australia's interests.

New and emerging threats to national interest and security demand vigilance to ensure that the foreign investment framework remains fit-for-purpose, proportionate and effective.

The framework has evolved in response. As part of the 2026–27 Budget, the Government streamlined and strengthened the foreign investment framework to attract the investment needed while bolstering economic security. The legislative, policy and practice reforms will ensure regulatory settings are well-calibrated to attract and enable low-risk investment, while providing stronger, more flexible tools to identify, manage and respond to high-risk investment, non-compliance and avoidance.

A more streamlined framework will reduce regulatory burden for investors, support more efficient administration of the framework by regulators, and be easier for investors and stakeholders to navigate. A stronger framework will manage risk, deter bad actors and appropriately penalise serious non-compliance with strong and flexible powers to manage high-risk investments, ensuring Australia's national interests and security are protected.

The reforms include expanding the approval requirements for certain investments in current and emerging sensitive sectors of the Australian economy, where investment is critical, but can also carry high national security risks. The approach will be targeted and proportionate, balancing the regulatory burden on investors and the need for innovative firms to access growth capital with the importance of protecting Australia's national security in these sensitive sectors.

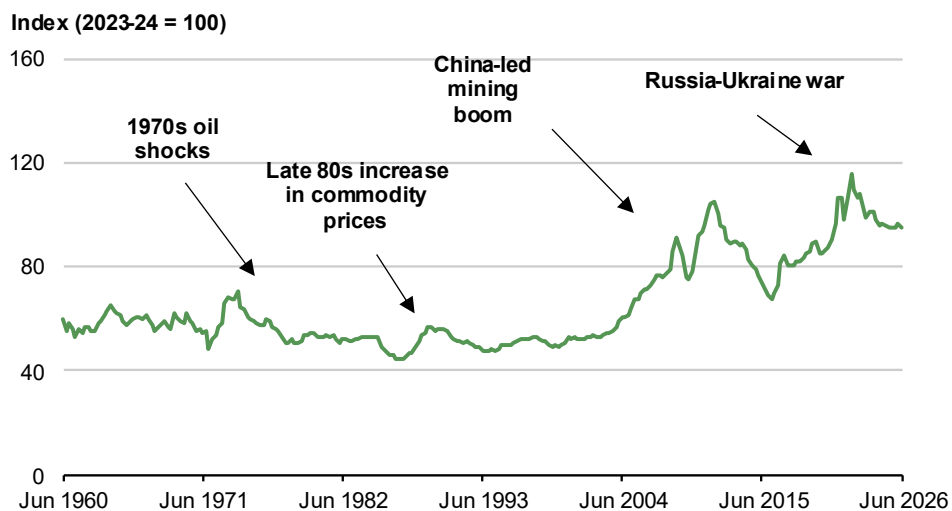
Adapting to new trading patterns

Other structural changes across the global economy will continue to reshape patterns of trade. The maturing of large economies, especially China, and their transition towards net zero, are expected to alter global trade dynamics. Demand may wane for some of Australia's traditional exports, while new opportunities emerge in areas such as critical minerals, clean energy and other industries.

Geopolitical fragmentation will reinforce these adjustment pressures. As governments and firms place greater weight on security, resilience and strategic alignment, trade and production patterns will continue to evolve as supply chains become more diversified and production shifts towards trusted partners or locations perceived as more reliable. Cross-border trade will remain substantial, but economic relationships will increasingly be influenced by considerations beyond short-term cost minimisation.

Australia is constantly adapting to changing trade dynamics, with historical movements in the terms of trade illustrating how significant global events have shaped our economic fortunes (Chart 2.5). Global shocks have affected Australia's terms of trade in different ways, at times strengthening national income and at others facilitating the adjustment of firms and households.²⁶

Chart 2.5 Australia's terms of trade



Source: Australian Bureau of Statistics (ABS) Balance of Payments and International Investment Position.

Australia has a role as a middle power to demonstrate the benefits of openness versus restrictions on trade or economic coercion. Some nations have taken policy measures to increase the barriers to trade or reshape trade flows, risking lower growth and higher inflation. In contrast, Australia has avoided imposing reciprocal tariffs in response to restrictive measures and has continued to reduce nuisance tariffs.

Shocks will become more consequential

Deepening global trade and financial flows have heightened vulnerability to sudden shocks and disruptions, even while they have driven prosperity. These shocks may stem from a range of sources, including natural hazards, pandemics, conflict, sabotage, cyber incidents and disruptions to critical infrastructure. However, geopolitical fragmentation may also increase the risk of sudden shocks, including those arising from coercive economic measures, sanctions, export restrictions or disruptions to major shipping and energy routes.

Energy markets provide an important example of how geopolitical shocks can affect economic outcomes well beyond the countries directly involved. Conflict and instability can disrupt global energy supplies, affecting fuel prices, inflation and business costs across the world, including in Australia (Box 2.2), and consequently firms well beyond the directly exposed sectors.²⁷

Australia's dynamic and competitive market settings and strong international linkages position it well to adapt to such events, but acute disruptions may nevertheless impose significant economic costs.

Box 2.2 Global energy markets transmit geopolitical shocks

Energy markets are a significant channel through which geopolitical events affect economic outcomes. Because oil, gas and refined fuels are traded globally, conflicts, sanctions and other disruptions can affect prices well beyond the countries directly involved. Geopolitical shocks influence inflation, household budgets and business costs even where direct trade exposure is limited.

Russia's invasion of Ukraine disrupted global energy markets and contributed to sharp increases in oil and gas prices. More recently, conflict in the Middle East renewed concerns about energy supply and market stability, highlighting the interconnected nature of global energy markets (Chart 2.6).

As a major exporter of liquified natural gas (LNG) and other energy commodities, Australia's stability positions us to benefit from stronger global demand for our products.

However, Australian households and businesses remain exposed to developments in international energy markets through fuel prices and broader cost pressures across the economy. Diversified international energy markets remain Australia's primary source of energy security. To address this, the Government is adopting targeted measures to improve resilience and reduce exposure to severe disruptions or price shocks and is reducing reliance on imported fuels by supporting the growth of Australia's domestic Low Carbon Liquid Fuels (LCLF) industry.

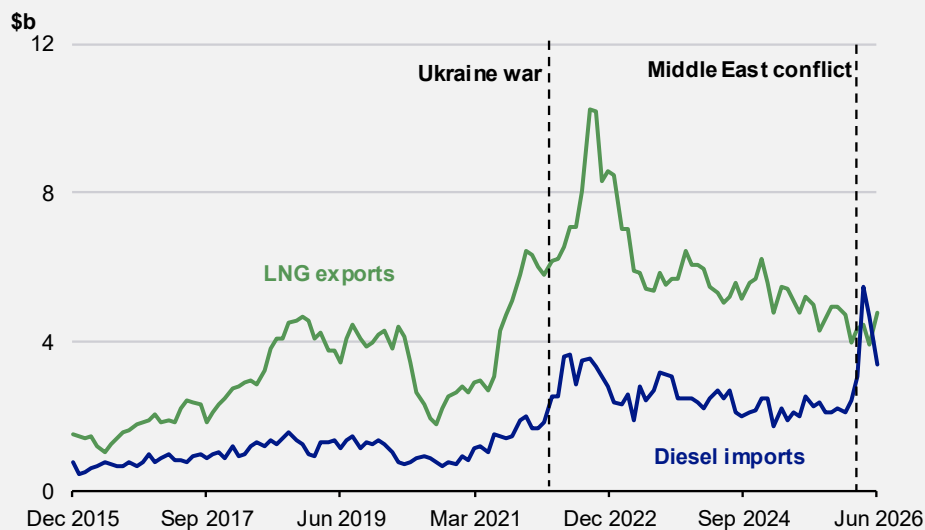
Following severe disruption to international oil markets from the conflict in the Middle East in 2026, the Government established the \$7.5 billion Fuel and Fertiliser Security Facility, which provided financial support to fuel and fertiliser importers to secure additional shipments. The Government is also establishing the \$3.2 billion Australian Fuel Security Reserve, which will secure around a billion litres of diesel and aviation fuel as a buffer against future fuel supply shocks.

In addition, the Government is implementing a Domestic Gas Reservation Scheme. LNG exporters will be required to supply the domestic market with the equivalent of up to 20 per cent of their LNG exports. The policy seeks to improve domestic gas availability and strengthen resilience to future energy market shocks while maintaining Australia's role as a reliable energy supplier to international partners.

continued on next page

Box 2.2 Global energy markets transmit geopolitical shocks (continued)

Chart 2.6 Australia's LNG exports and diesel imports



Source: Department of Climate Change, Energy, the Environment and Water (DCCEEW) Australian Petroleum Statistics.

Economic security risks are heightening

Geopolitical fragmentation will put Australia's economic security under pressure by hampering our access to certain technologies and putting critical supply chains at risk. Disruption may interrupt essential services or production, weaken confidence or limit Australia's ability to respond to shocks.

Economic security requires a targeted approach, focused on the precise areas where disruption would have severe economic, security or sovereignty consequences. For a medium-sized economy such as Australia, seeking to control every stage of important supply chains would be costly and impractical. Open market economies are highly adaptive, with firms routinely adjusting to changing prices, demand and supply.

Bottlenecks in critical inputs present significant risk. Loss of small upstream inputs matters if firms rely on them and cannot replace them quickly. For example, the refining of minerals critical to energy systems, advanced manufacturing, defence technologies and digital infrastructure are heavily concentrated with limited near-term substitution options.²⁸

Disruption to such capabilities could do more than just raise costs for individual firms, it could infringe Australia's sovereignty and ability to respond to shocks. Potential disruptions that are likely to be severe and hard to absorb or avoid may warrant closer attention from firms and governments.

Geopolitical fragmentation will increase the importance of countries that occupy trusted and difficult-to-replace positions in global supply chains. As economic relationships become more strategic, countries that can reliably provide critical goods, services or capabilities during periods of disruption will become particularly valuable partners. This will strengthen relationships, create mutual interests in continued cooperation, and help maintain access to markets, supply chains and international networks during times of strain.

Greater weight on resilience, reliability and agility

Resilience will be a more prominent consideration for businesses and governments, given the greater exposure to disruption inherent in concentrated production and just-in-time supply chains.

As geopolitical fragmentation adds to uncertainty, the lowest immediate financial-cost option may not be preferred if it carries greater exposure to disruption. Large institutional investors, including the Future Fund, have identified the geopolitical environment as increasingly important in shaping investment decisions and assessments of long-term risk.²⁹ Australian Industry Group's 2025 Trade and Supply Chains survey found that 47 per cent of industrial businesses were experiencing supply-chain disruptions, while 44 per cent of manufacturers intended to increase investment in supply-chain resilience in 2026.³⁰

A higher premium on resilience increases the value of capabilities that help firms manage operational risks. Supply-chain visibility, secure logistics, trusted digital systems and cyber resilience will become more important as firms place greater weight on continuity and flexibility.

2.3 Positioning Australia for the future

Strengthening Government capability

The Government is preparing for a more uncertain world by better understanding where vulnerabilities exist, how they could affect the economy and where resilience measures may be warranted. Monitoring, analysis and intelligence helps businesses and governments identify emerging risks earlier and respond more effectively when disruptions occur.

The Government is strengthening this capability through investments in economic security, intelligence and regulatory capability, and enhanced collaboration between policy and intelligence agencies.³¹

The Office of Supply Chain Resilience supports this effort through ongoing analysis of critical supply chains. By identifying vulnerabilities, assessing their potential impacts and evaluating the scope for industry adjustment, this analysis helps inform targeted and proportionate responses (Box 2.3).

Box 2.3 Critical inputs will create broader supply-chain vulnerabilities

The Australian Government is undertaking ongoing analysis of critical supply chains and strategic dependencies.

Many critical inputs are not visible to consumers and represent only a small share of production costs. Their importance comes from the role they play in supporting wider economic activity. Disruption to a single upstream input can affect multiple industries, essential services and supply chains before firms can identify alternatives or adjust production.

The ongoing analysis focuses on identifying inputs that are important to economic activity, difficult to substitute and vulnerable to disruption. The Office of Supply Chain Resilience has identified several areas where supply disruptions could have broader economic consequences, including fuel and fuel additives, pharmaceuticals and medical products, renewable energy technologies, semiconductors, agricultural and water treatment chemicals and telecommunications equipment.

These areas are monitored through ongoing analysis and engagement with industry to improve understanding of vulnerabilities, track emerging risks and identify opportunities to strengthen resilience where appropriate.

Diesel exhaust fluid is an example of how a disruption to a single input can have wider effects across the economy. Diesel exhaust fluid is required for many modern diesel engines fitted with selective catalytic conversion systems.³² Without it, those vehicles cannot operate. Most of Australia's diesel exhaust fluid is used by the long-haul road freight sector and is produced by blending technical-grade urea with deionised water.³³

This creates a chain of dependencies that extends well beyond the immediate users of urea. Technical-grade urea is needed to produce diesel exhaust fluid. Diesel exhaust fluid is needed to operate much of Australia's modern diesel transport fleet, and diesel transport supports freight, agriculture, construction and other activity across the economy. Diesel is Australia's most widely used transport fuel and plays an important role in moving food, equipment and medicines, supporting emergency services and providing backup power for critical services in some locations.³⁴

In response to recent concern over global urea supply, the Government is taking steps to strengthen this part of the supply chain, including establishing a strategic stockpile of technical-grade urea and improving visibility of domestic inventories through industry reporting. The Government will also extend the life of the 7,500-tonne technical-grade urea stockpile until 30 June 2030. Subject to domestic stocks being exhausted and a government decision to release the stock, it can be used to support domestic diesel exhaust fluid production during a national supply disruption.

Capitalising on our comparative strengths

Australia's stable institutions, skilled workforce, natural resources, and reputation as a reliable partner are comparative advantages in a world where economic relationships are increasingly shaped by trust, resilience and strategic alignment. As businesses and governments place greater weight on resilience, security and reliability, demand for diversified and trusted sources of supply for some goods, services and capital flows will increase.³⁵ Australia is well placed to benefit from these trends.

These opportunities are particularly evident in critical minerals, clean energy supply chains, energy exports, agriculture and services. The net zero transition will reinforce these trends as critical minerals and clean energy technologies become increasingly important to economic competitiveness and energy security.³⁶ The International Energy Agency notes that critical mineral markets remain exposed to concentration, trade restrictions and supply uncertainty.³⁷ Against this backdrop, Australia's geological reserves, production capability and institutional stability position it well to support efforts to diversify global sources of supply.

Government policy is driving investment to capitalise on Australia's critical minerals advantages. Critical minerals projects face technical risks from complex mineralogy, significant capital requirements, and market risks from concentrated supply chains. To address these challenges, the Government's \$5 billion Critical Mineral Facility provides government-backed loans and equity for projects like the Eneabba rare earths refinery. In addition, the Critical Minerals Production Tax Incentive will provide a 10 per cent tax offset for eligible processing costs. For strategic projects where private financing is not available, the Critical Minerals Strategic Reserve is securing supply for Australia and our partners, including by underpinning offtake for strategically significant projects.

The Government is also strengthening Australia's industrial capabilities in a range of areas aligned with Australia's national interest, through its Future Made in Australia agenda (Chapter 5). This is supported by significant investments in strengthening Australia's energy resilience and reducing Australia's exposure to global energy market volatility (Chapter 3).

Across all of Australia's relative strengths, seizing opportunities will require more than just relying on natural advantages. Australia will need to remain competitive, attract investment and continue building its capacity in areas of growing demand. By providing goods and services that partners value during periods of disruption, Australia can strengthen economic relationships, support growth and increase strategic importance within regional and global economic networks.

Targeted policies will make Australia more economically secure

Tightly targeted government intervention will be necessary to support domestic resilience and provide insurance against severe disruptions.

Interventions should focus on areas where supply is vulnerable to disruption, substitution is difficult and the consequences of failure would be significant. The strongest case for action is where disruption would affect essential services, economic stability, national security or sovereign decision-making, and where these broader risks are not fully reflected in private investment decisions.

The Government is applying this approach through measures that strengthen resilience in areas of strategic importance, including fuel security, critical supply chains and industrial capability (Box 2.4). The Government's *Future Made in Australia Act 2024* legislated the National Interest Framework to help identify where targeted intervention may strengthen economic resilience and security or support the net zero transition. Special investment vehicles such as the National Reconstruction Fund support the development of capabilities aligned with these priorities. The Clean Finance Energy Corporation and Capacity Investment Scheme drive investment in a cheaper and cleaner electricity grid that is helping to insulate us from shocks flowing from global energy trade. As part of the Fuel Security and Resilience Package in the 2026–27 Budget, \$10 million was allocated to feasibility studies for new oil refineries. The first study will be for a refinery in Karratha, Western Australia, which would be the only refinery on the west coast.

Promoting open markets and trade

Australia's prosperity is built on fair and open markets, competition and access to global flows of trade, investment, people and ideas.³⁸ These foundations will remain important to future growth and living standards. As trade, investment and production patterns change, openness will continue to support adaptation by allowing capital, labour and resources to move towards emerging opportunities.

Australia's resilience to shocks is greatly enhanced by our high levels of national income and reputation as a reliable trading partner, which mean that global supply chains are responsive to Australian needs in periods of stress.^{ii 39} Flexible market-based policy settings, including a floating exchange rate, strong institutions, competitive domestic markets and progressive tax-transfer system, underpin Australia's resilience to macroeconomic shocks, with only one recession in 35 years.⁴⁰

ii Australia used the Fuel and Fertiliser Security Facility and Strategic Reserve powers to support additional fuel and fertiliser shipments during the Middle East energy shock, while regional energy-security arrangements supported continued flows of refined fuels, LNG and other essential supplies.

Maintaining an open and attractive economic environment will be important as competition for global capital, talent and investment intensifies. The Government is building on these strengths by reducing unnecessary barriers to economic activity and supporting investment, including through the Investor Front Door, reforms to foreign investment processes and the removal of around 1,000 nuisance tariffs.⁴¹

The challenge for Australia will be to maximise the benefits of openness while strengthening resilience in the relatively small number of areas where disruption could have severe economic, security or sovereignty consequences. This means remaining open by default, while being deliberate about the risks that matter most and responding in ways that are targeted, proportionate and consistent with long-term prosperity. Successfully striking this balance will allow Australia to navigate a more contested world while supporting growth and living standards over the decades ahead.

Box 2.4 Disciplined responses in a more fragmented world

Fuel security provides a practical example of disciplined policy intervention. Fuel is a critical input for freight transport, mining, agriculture, construction and emergency services, making it an area where a prolonged disruption could have economy-wide consequences. Australia relies heavily on international supply chains, including routes such as the Strait of Hormuz, through which one-fifth of global oil typically transits. A prolonged disruption could therefore impose significant economic costs before markets are able to fully adjust.

Recent disruptions demonstrated both the strengths and limitations of market adjustment. Global fuel supplies were rerouted, governments coordinated strategic reserve releases and trusted and interdependent international relationships helped support supply continuity.⁴² These events showed that diversified international markets remain the first line of defence but that additional resilience measures were warranted where disruption could have severe consequences. Australia's response was multifaceted. International markets remained the primary source of fuel supply, complemented by measures such as fuel reserves, reducing fuel demand through encouraging electric vehicle uptake, minimum stockholding obligations and closer industry engagement.

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3 Energy transition

Overview

The global energy system is transforming in the face of energy security challenges, technological change and action to reduce emissions. Australia's energy transition is well underway, with cleaner, cheaper renewable energy increasing by 10 percentage points to 45 per cent of Australia's electricity grid in the three years since the 2023 Intergenerational Report (IGR), and over 60 per cent of Australia's coal-fired power capacity having announced their intention to retire within the next decade. Demand for energy is growing at the same time, fuelled by Australia's growing industrial opportunities, including data centres.

The expansion and modernisation of Australia's energy systems is supporting the orderly decarbonisation of Australia's economy, as part of a Net Zero Plan that supports continued growth, attracts investment, lifts wages, grows living standards and spreads economic opportunity around the country. The transition to lower-emissions energy systems will unfold over several decades, with the pace influenced by geopolitical developments, community engagement, energy security considerations and energy demand growth.

Renewable energy and electrification are putting downward pressure on energy costs for households and businesses and reducing their exposure to volatile global fossil fuel markets. Rooftop solar, household batteries, and electric vehicles and appliances can provide cleaner and cheaper energy than fossil fuel alternatives. As upfront costs fall and markets mature, average household energy expenditure is expected to decline, with a representative household that electrifies their home and invests in home solar and batteries able to reduce their costs by around \$4,300 per year.

Australia's renewable energy resources provide an opportunity for Australia to become a renewable energy superpower, realising opportunities in new export industries as part of the Government's Future Made in Australia agenda. Orderly action to reduce emissions and adapt to climate impacts will reduce Australia's exposure to physical damages from higher temperatures, strengthen trading partnerships and improve Australia's access to capital.

Realising the benefits of Australia's reliable renewable energy resources will require sustained investment by governments, businesses and households, supported by consistent policy settings that encourage long-term adaptation and planning.

3.1 The energy transition

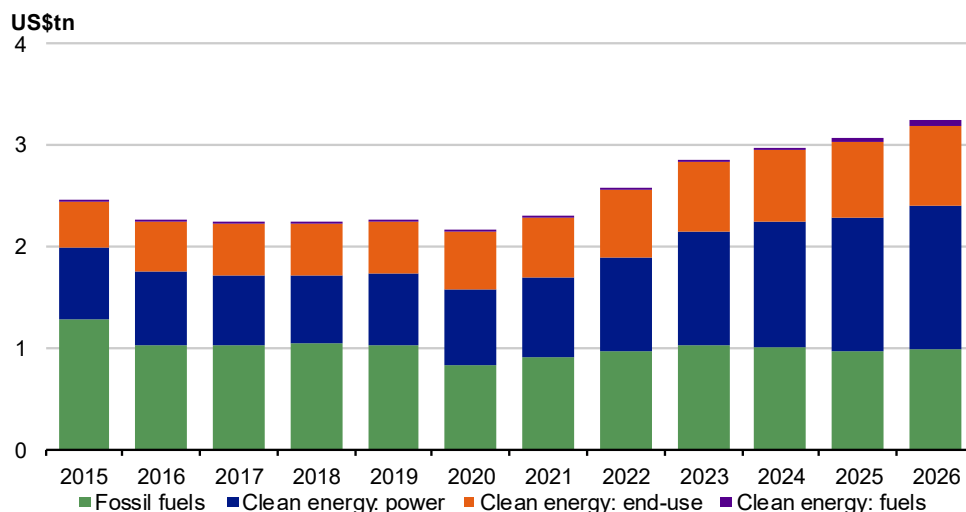
Global energy supply and use will be reshaped by cost competitiveness and energy security

Economies around the world will continue to change and adapt as they transition to reliable renewable energy and other low-emissions technologies. A key driver of this transition will be the substantial decline in the cost of many low-emissions technologies, which is helping to lower energy costs for households and businesses over time while improving domestic energy security and supporting emission reduction goals.

The costs of renewable energy technologies continue to decline over time. The cost of solar photovoltaic (PV) modules and battery energy storage systems have fallen by around 80 per cent since 2015, improving their competitiveness relative to traditional energy sources.¹ These cost reductions underpin the economic rationale for the energy transition and drive private investment into renewable energy infrastructure over coal-fired power stations. As a result, global investment in cleaner and cheaper energy is increasing over time, and is projected to account for the majority of new energy investment over the next 40 years as countries continue to lower their carbon emissions (Chart 3.1).²

The global electricity sector has been the main driver of this transition. The International Energy Agency (IEA) estimates that renewables accounted for 34 per cent of global electricity generation in 2025, up from 23 per cent a decade ago.³ Solar PV capacity increased by around 600 gigawatts (GW) in 2025 and now represents over 8 per cent of total global electricity generation.⁴ Other mature reliable renewable energy technologies such as wind, hydro and battery storage are also being deployed at scale to support the reliability and flexibility of electricity systems.

This progress is expected to continue over the coming decades as the world continues to transition towards net zero emissions. Around 170 countries, accounting for around 80 per cent of global gross domestic product (GDP), have adopted net zero commitments.⁵ Together with technological progress, these commitments are contributing to a global reallocation of capital towards cleaner and increasingly cost competitive energy systems.

Chart 3.1 Global energy investment

Note: 2026 is an estimate.

Source: International Energy Agency (IEA) World Energy Investment 2026.

Australia is particularly well-placed to take advantage of these global developments over the next 40 years, given its substantial endowment of high-quality renewable energy resources. Domestic energy investment patterns reflect this. Uptake of rooftop solar in Australia is the highest in the world, with installations on over 36 per cent of suitable dwellings in the National Electricity Market (NEM).⁶ Australia is leading the world in the uptake of household batteries, with more than half a million installed to date through the Cheaper Home Batteries program. Australia is also the third largest market for utility-scale battery storage in the world, behind China and the United States, and Australia's installation of batteries is accelerating over time.⁷

Improvements in the cost competitiveness of renewable technologies will continue to incentivise electrification. Global electric vehicle (EV) sales exceeded 21 million vehicles in 2025, or 25 per cent of new passenger vehicles sold.⁸ Falling battery costs, improved vehicle performance, greater choice and expanded charging infrastructure are all supporting continued adoption. More broadly, electrification can lower the energy costs faced by households and businesses while reducing exposure to fossil fuel price volatility.

Progress on emissions reduction is expected to be slower in sectors that are difficult to electrify, as the technologies required to decarbonise will be slower to mature and, in some instances, less available. Ongoing investment, market activation and innovation will be required to lower the cost of decarbonising liquid fuel use and some industrial processes, although the specific technologies remain uncertain.⁹

In 2022, Australia legislated its commitment to achieving net zero emissions by 2050, recognising the importance of action to limit global warming and safeguard Australia's prosperity. Australia has committed to ambitious and achievable near-term emission reduction targets to reduce emissions by 43 per cent in 2030 and 62 to 70 per cent in 2035 below 2005 levels. There is overwhelming evidence that human-induced climate change is occurring and with potentially increasing negative effects on economic outcomes – as outlined by the Intergovernmental Panel on Climate Change (IPCC).¹⁰ Coordinated global action remains crucial.

Treasury modelling for Australia's Net Zero Plan, released in 2025, found that Australia's ambitious and achievable plan to reduce emissions will support continued economic growth, higher living standards and employment. The economy was projected to be 28 per cent larger by 2035 and 81 per cent larger by 2050, relative to current levels under the Baseline Scenario modelled for the Net Zero Plan. The economy was expected to be \$2.2 trillion bigger by 2050, relative to current levels. Real GDP per capita was projected to be \$12,000 higher in 2035 and \$36,000 higher in 2050. Employment is projected to increase by 5.1 million people by 2050. Australia's exports were projected to grow over time, with declining global demand for fossil fuels counterbalanced by the emergence of new renewable energy export markets.

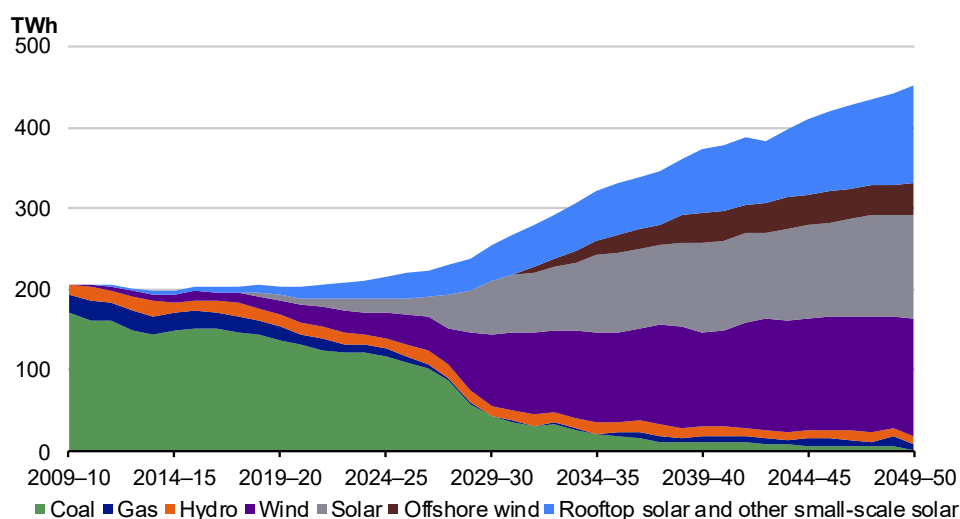
A disorderly approach to the net zero transition would cost investment, jobs and the economy. Under the Disorderly Transition Scenario modelled, the economy was projected to be up to a cumulative \$2 trillion smaller by 2050, compared to orderly scenarios. Real wages were projected to be up to 4 per cent lower in 2050, leading to lower participation and employment. Per capita GDP was projected to be \$2,100 lower in 2050, compared to the Baseline Scenario, and \$4,500 lower compared to the Renewable Exports Upside Scenario modelled. Cumulative investment is expected to be \$500 billion lower than under the Baseline Scenario.

Electricity supply is moving towards renewable sources

Domestic electricity demand will increase to fuel new growth industries, like artificial intelligence (AI), electrified transport, household energy and industrial processes. Australia's electricity supply is shifting towards mostly renewable sources to meet this growing demand and ensure the affordable, secure and reliable supply of electricity.

The share of the NEM powered by renewables has increased by 10 percentage points over the past three years to around 45 per cent (Chart 3.2). The pipeline of future generation and storage projects also continues to grow, increasing by 42 per cent over the past year to a total of 75.4 GW.¹¹ Australia is also modernising and expanding the electricity grid to meet future demand, with significant investment in new transmission and modernisation of Australia's distribution system.

Chart 3.2 Electricity generation by source



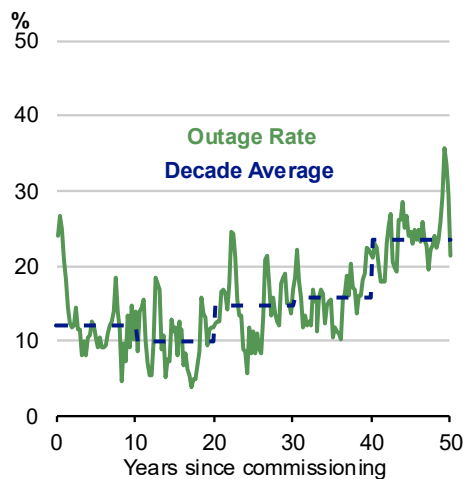
Note: TWh stands for terawatt-hours.

Source: Australian Energy Market Operator (AEMO) Integrated System Plan 2026, Step Change Scenario. Annual generation in the National Electricity Market.

Significant investment in new and existing grid infrastructure will be required to prepare for the retirement of Australia’s ageing coal-fired power stations, many of which are over 40 years old. These plants have become increasingly unreliable as they age, posing a significant risk to power system reliability and wholesale prices (Chart 3.3).

Treasury scenario modelling for the Net Zero Plan illustrated the potential consequence of ongoing reliance on ageing assets.¹² Under the Disorderly Transition Scenario included in this modelling, greater reliance on gas and coal-fired generation results in wholesale electricity prices being 17 per cent higher on average throughout the 2030s (compared to the Baseline Scenario). In addition, a failure of two of the oldest coal-fired generation units in 2032 could increase wholesale electricity prices by a further 13 percentage points on average in the early 2030s (Chart 3.4).

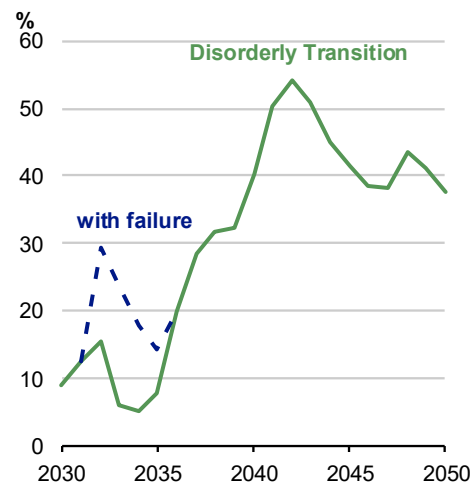
Chart 3.3 Outage rates of coal generators in the NEM by age, 2009–2026



Note: Outage rate measures the proportion of time a coal generator is unavailable to generate electricity, including both planned and unplanned outages.

Source: Simshauser (2026);¹³ Energy Edge analysis of NEM Web data from 2009 to 2026.

Chart 3.4 Disorderly Transition Scenario wholesale electricity price relative to Baseline Scenario



Note: Wholesale price projections are for the NEM.

Source: Treasury, Australia’s Net Zero Transformation: Treasury Modelling and Analysis.

Broader energy use in Australia is changing in line with global trends. Global investment and the cost competitiveness of reliable renewable energy technologies is driving economy-wide electrification, reducing reliance on fossil fuels.

Gas will still play a role in generating electricity to 2050, however overall gas demand is expected to decline over time as many industrial users and households electrify. Gas is increasingly being displaced in electricity generation by other firming and peaking technologies, especially batteries. High temperature industrial processes and chemical manufacturing will continue to require gas, while steel and alumina production are projected to use gas as a transition fuel. An Australian domestic gas reservation policy will secure the supply needed for these industries, helping them remain competitive in Australia as they transition.

Already, the Gas Market Code, alongside other energy supply measures, is improving Australia's gas security and reducing exposure to global energy market volatility. In the second quarter of 2026, east coast wholesale gas prices were 26 per cent lower than a year earlier despite conflict in the Middle East contributing to price increases of 29 per cent in Asia and 18 per cent in Europe.¹⁴ This marks a significant reduction in the pass-through of global shocks compared with 2022, when east coast wholesale gas prices rose by 142 per cent following Russia's invasion of Ukraine. The Code is also supporting domestic supply and investment, with producers committing around 604 petajoules (PJ) of gas through to 2033.

Demand for liquid fuels is expected to remain in some key sectors, such as aviation. Ongoing innovation and investment will be needed to support the development of decarbonisation options for these sectors. Low-carbon liquid fuels may offer an increasingly cost-effective pathway to reduce emissions in those sectors over the long term.

3.2 Implications of the energy transition

Electrification will reduce household energy expenditure

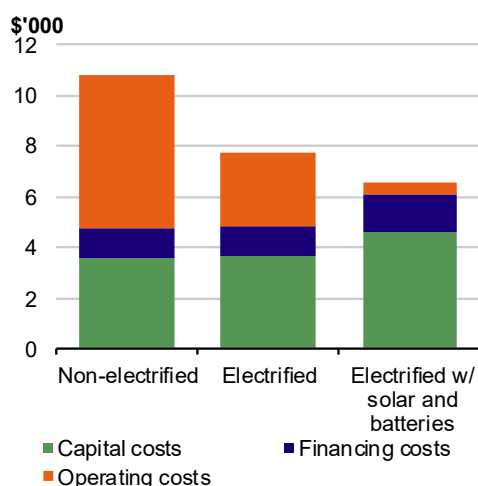
The energy transition will transform household energy consumption. The shift toward reliable renewable energy and more efficient appliances and transport are expected to drive reductions in ongoing household energy expenditure over the long term. Ensuring all Australians are the beneficiaries of these changes is essential to achieving an ambitious and orderly energy transition.

Geopolitical tensions in the Middle East have accelerated efforts to diversify energy sources in many countries. The recent period of intense volatility in oil and gas markets underscores the need to ensure reliable and affordable supply of energy, and the strategic importance of energy resilience and electrification.

Households that invest in solar panels, battery systems and efficient electric appliances can reduce their lifetime energy expenditure, accounting for capital costs. Treasury analysis for the Net Zero Plan showed that households that install efficient electric appliances and vehicles could reduce total energy expenditure by around \$3,100 per year over two decades (Chart 3.5).¹⁵ Households that also invest in solar and home battery systems could reduce these costs by a further \$1,200 per year.

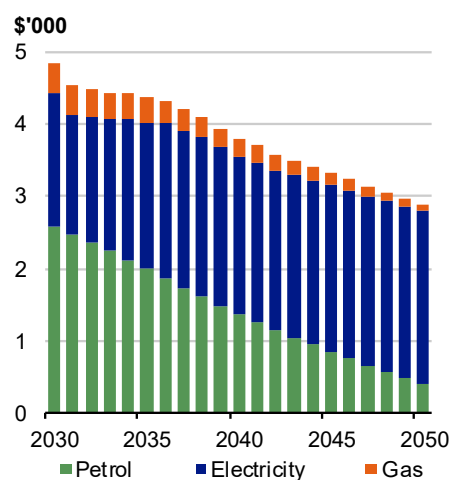
Average energy costs are expected to fall as households electrify appliances and shift away from using fossil fuels (Chart 3.6). Average annual household energy costs could decline by 40 per cent between 2030 and 2050 in real terms, if households electrify at the rate projected by the Australian Energy Market Operator, significantly reducing their petrol and gas bills.¹⁶

Chart 3.5 Annualised lifetime household energy expenditure



Note: Annualised real costs from 2030 to 2050. Assumes a typical household with two vehicles, average consumption for home heating, cooking and hot water, a 10.6kW solar system, and 10kWh battery.
Source: Treasury.

Chart 3.6 Average annual household energy costs



Note: Grattan Institute 'no new policy' scenario, 2025 dollars.
Source: Grattan Institute.

The global energy transition will provide new industrial opportunities

Demand for Australia's fossil fuel export commodities will likely plateau and then decline due to the global shift away from fossil-based energy sources. Treasury scenario analysis for the Net Zero Plan explored the impact on Australia's fossil-fuel exports if sustained global action limits global temperature increases to less than 2°C. Based on IEA scenarios, Australian coal production is projected to decline by 71 per cent by 2050. Australia's liquified natural gas (LNG) production is projected to decline by 68 per cent to 2050.¹⁷ Outcomes will depend on efforts by Australia's key trading partners to reduce their emissions.

Demand for upstream commodities, including critical minerals, will be strong in new energy supply chains. Global critical mineral demand for use in clean energy technologies is projected to increase substantially by 2040. The IEA's stated policies scenario projects total lithium demand to more than triple, with demand for nickel, graphite and rare earths forecast to increase by 50 to 90 per cent.¹⁸

The global energy transition could present a significant economic opportunity for Australian industry, with many prospective pathways for decarbonising industrial processes relying on an abundance of renewable electricity. This includes nascent green commodities such as green iron and green ammonia. Treasury's scenario modelling for the Government's Net Zero Plan projected the value of green exports to reach over \$100 billion per year by 2050 under the baseline scenario.¹⁹ Opportunities extend to Aboriginal and Torres Strait Islander people, such as through partnerships between industry and Native Title holders, and commercial opportunities, training and employment in regional areas.

Electrification can also support industrial competitiveness. Industrial transition through the adoption of technologies such as heat pumps and electric thermal energy storage can deliver operational benefits for industry, including improved energy efficiency and productivity improvements.

A key development since the publication of the Government's Net Zero Plan is the increase in projected energy demand from data centres. AEMO now projects that data centres will account for 10 per cent of electricity demand in the NEM by 2050.²⁰ The Government is taking action to manage data centre demand and to ensure they make a positive contribution to the energy transition. The way that data centres are required to contribute to the electricity market will determine the impact that this additional load has on other electricity customers, with the potential for data centres to help Australia realise its comparative advantage in clean energy.

The cost of providing transmission and distribution networks is recouped across all electricity users. The Australian Energy Market Commission is considering rule changes that will ensure data centres cover the additional network costs associated with their additional demand.

The wholesale cost of electricity is determined by the cost of the generation and storage technologies that are required to meet demand. Delays in the commissioning of new renewable energy generation and storage to support new demand could put upward pressure on electricity prices, by requiring greater reliance on more expensive sources of electricity, such as gas. The Government has announced Australia's AI standards, which will require large data centres to procure new renewable electricity capacity that covers their electricity use, so that growth in electricity demand from data centres will be met with timely additional electricity supply.

Treasury modelling for the Government's Net Zero Plan highlighted the potential for grid-connected industrial facilities to put downward pressure on wholesale electricity prices for all users, through providing demand flexibility. Shifting demand to periods of high renewable availability or reducing demand during extreme system conditions can reduce system build-out costs and wholesale electricity prices for all consumers. Treasury modelling showed this industrial demand flexibility could reduce projected wholesale electricity prices by around 20 per cent by 2050, relative to the baseline scenario.²¹

The Government has announced large data centres will be required to contribute flexibility services alongside new generation and firming capacity, as part of Australia's AI standards. The standards will ensure that data centres flexibly manage their demand, so that data centres are making a positive contribution to Australia's energy transition.

A disorderly global transition would increase economic costs

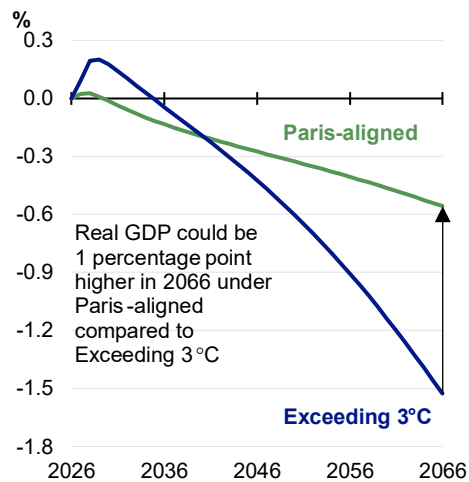
A disorderly global energy transition and failure to act on climate change would increase physical climate risks and their impacts on Australia. The 2025 National Climate Risk Assessment outlined many of these risks, including climate hazards such as heatwaves, floods and bushfires.²² This assessment also outlined that Australia is expected to experience significant physical climate impacts across all warming scenarios, with the severity of impacts increasing under higher emissions pathways.

Understanding how specific physical climate risks affect the economy under a range of plausible climate scenarios is important for assessing Australia's long-term challenges. Treasury's estimates show Australia benefits from timely, coordinated global action to transform the energy system and reduce emissions. Based on an assessment of four specific physical damage channels only, by 2066, Australia's real GDP could be 1 percentage point higher under the Paris-aligned scenario compared to the Exceeding 3°C scenario (Chart 3.7). The effect from the four physical damages varies across industries (Chart 3.8).

The impact pathways in this analysis were selected because of the availability of suitable data and analytical methods, but are not a comprehensive assessment of the material risks identified in the National Climate Risk Assessment. More comprehensive, but generalised, top-down damage estimates are significantly higher, such as impacts explored by the Network for Greening the Financial System (NGFS) which showed global GDP could be 5 to 44 per cent lower under 3°C of warming by 2100.²³

Any assessment of the impacts from climate change is highly uncertain. The pace of the global energy transition, climate outcomes for a given level of emissions and evolving methodologies are all key sources for uncertainty in these estimates (see Appendix A3).

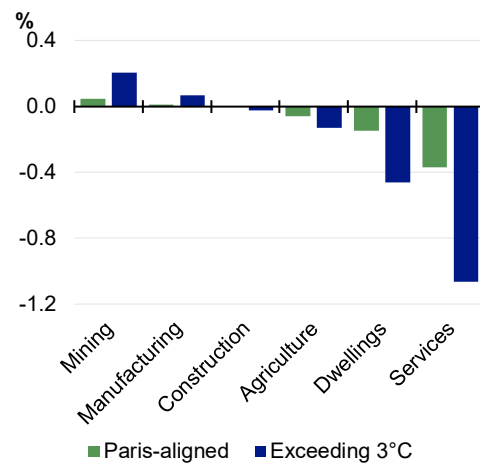
Chart 3.7 Change in real GDP from four physical damages



Note: Impacts are compared to a baseline with no further warming. Economic impacts are a partial assessment of the impacts of climate change for the four selected damages only. The increased activity in early years is from income-smoothing to reduce the negative impact of the future shock from physical risks.

Source: Treasury.

Chart 3.8 Contribution to change in total gross value added from four physical damages, 2066



Note: Impacts are compared to a baseline with no further warming. Economic impacts are a partial assessment of the impacts of climate change for the four selected damages only. The sectoral outcomes reflect economic reallocation within the modelling framework from significantly affected sectors.

Source: Treasury.

The four climate damages analysed for this work affect the economy through different channels with diverse impacts across industries and regions.

- Climate change is expected to cause sea levels to rise, with an increase in flooding, erosion and inundation risks for coastal and low-lying areas.²⁴ Damages are projected to vary by region, with economic damages highest in major cities with lower elevation.²⁵
- Higher temperatures can reduce the productivity of workers through reducing the pace of work and requiring more breaks.²⁶ Impacts would be felt most in industries with a higher proportion of workers in physically demanding jobs or who work outside.
- Agricultural crop yields could be lower with higher temperatures. Treasury modelling shows that by 2066, heat stress could reduce crop yields in Australia by 3.6 per cent under the Exceeding 3°C scenario, or 1.2 per cent under the Paris-aligned scenario, compared to no temperature change. Impacts are uncertain and could be offset by adaptation investment, other climate conditions, or higher export demand from other affected countries.²⁷
- Tourism could also be affected by climate change as tourists adjust where, and when, they decide to travel. Australia has many natural attractions at risk of environmental degradation which may attract fewer tourists in a world of higher global temperatures. However, there is significant uncertainty around the total impact on the sector given the wide range of factors that affect tourism demand.

Major financial institutions are exposed to the financial risks of climate damages, prompting more than 250 asset managers globally to commit to net zero, improving transparency in the management of climate-related financial risks and the availability of finance for investments that are aligned with net zero transition pathways.²⁸ Australia's orderly action to reduce emissions and adapt to climate impacts will reduce Australia's exposure to physical damages from higher temperatures and improve Australia's access to capital.

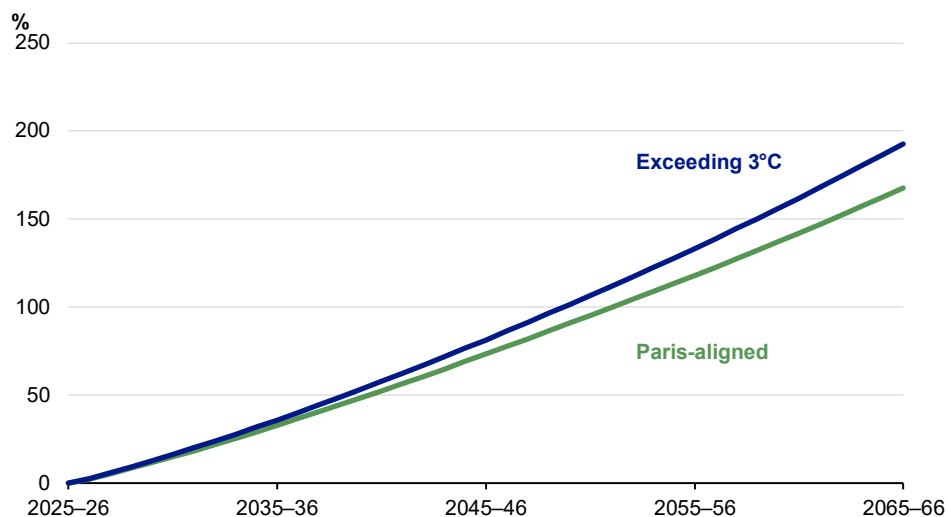
More frequent and severe natural disasters will reduce insurance affordability and increase fiscal expenditure

Over the next 40 years, increasingly frequent and severe natural disasters will pose a significant economic risk. Impacts include the loss of economic activity, infrastructure damage, and higher insurance costs. Growing disaster risk is driving higher insurance premiums and reduced insurance affordability and accessibility, particularly in high-risk areas. For example, one modelled outcome reported by the Insurance Council of Australia estimates only 23 per cent of the 242,000 households living in high flood risk areas have flood insurance.²⁹

The costs associated with disaster response, recovery and reconstruction will continue to rise as the severity and frequency of natural disasters increases. Government disaster assistance is primarily provided through the Disaster Recovery Funding Arrangements (DRFA), which would increase under all future climate scenarios (Chart 3.9). Global action to limit temperature increases will help reduce the impact on the DRFA, with the increase in annual expenditure projected to be about 25 percentage points lower in 2066 under the Paris-aligned scenario, compared to the Exceeding 3°C scenario.

Without effective intervention, the rising cost of disasters will place additional fiscal pressure on the budget over time, including through the DRFA and other channels. Investment in disaster risk reduction and resilience will be critical to reduce losses, improve insurance affordability and support faster recovery.

Chart 3.9 Modelled increase in DRFA expenditure



Note: Expenditure is projected in real terms. Due to data limitations, the Exceeding 3°C projection is a statistical estimate based on a linear interpolation between the Paris-aligned scenario and an Exceeding 4°C scenario.

Source: NEMA projections.

3.3 Positioning Australia for the future

Supporting the development of energy infrastructure

The Government's Net Zero Plan sets out how Australia will achieve a fair, orderly and efficient transition to net zero that builds on Australia's strengths and ensures all Australians benefit over the period to 2050.³⁰ It centres on five priority areas to meet the Government's emissions reduction targets: clean electricity across the economy, lowering emissions through electrification and efficiency, expanding clean fuel use, accelerating new technologies and scaling up net carbon removals. The Net Zero Plan is supported by six sector emissions reduction plans covering emissions across the economy in electricity and energy, industry, resources, transport, agriculture and land, and the built environment.

The Government is catalysing the growth in renewable energy, storage and transmission infrastructure across the country. The Capacity Investment Scheme is underwriting 40 GW of generation and storage while the Rewiring the Nation Program provides over \$20 billion of concessional finance for network infrastructure upgrades. Taken together, these initiatives have increased the share of renewable energy powering the NEM from 7 per cent in 2010 to around 45 per cent today.³¹

While Australia is rapidly deploying renewable generation and storage, the Climate Change Authority's 2025 Annual Progress Report notes that faster environmental approvals are needed to ensure the 82 per cent renewable target can be met by 2030. The Government has progressed legislative and regulatory reforms to strengthen environmental protection and streamline approval processes (Box 3.1).

Helping households navigate the energy transition

The Government is supporting households to benefit from the energy transition.

Australia's renewable energy targets have been a long-term driver in the uptake of both small and large-scale renewable energy assets. Over 4.5 million Australians already benefit from a household solar system, with the Small-scale Renewable Energy Scheme (SRES) catalysing a world-leading uptake over the past two decades. The Large-scale Renewable Energy Target has complemented this program and provided policy certainty to investors in utility-scale generation projects.

In 2025, the Government expanded the SRES to include household batteries, and through the Cheaper Home Batteries program Australians have now installed over half a million home battery systems, increasing Australia's household battery storage by 300 per cent. Cost-effective measures that provide incentives for rooftop solar, batteries and energy efficiency upgrades are lowering upfront costs and encouraging household uptake.ⁱⁱⁱ Targeted initiatives are also improving access for low-income households and those who rent or live in apartments to reduce their energy costs. The Commonwealth and states are working together to reduce energy inequality and ensuring all Australians can benefit from the energy transition.

At a household level, these programs include energy efficiency upgrades for over 100,000 social housing properties, shared access to community-scale renewable energy for up to 25,000 households without suitable rooftops and providing households with three hours of free solar power during the middle of the day to encourage demand shifting from peak periods.^{iv} There are Government-supported programs available that provide zero or low-interest loans for upgrading electric appliances and increasing energy efficiency, such as the Clean Energy Finance Corporation's Household Energy Upgrades Fund which has committed more than \$500 million in low interest loans. Together, these measures support participation in the energy transition across a range of income, location and housing types.

The Government's Electric Car Discount has supported the development of Australia's electric vehicle market, and the New Vehicle Efficiency Standard continues to encourage manufacturers to provide more efficient vehicles to reduce household fuel costs and usage.

iii Measures include Small-scale Renewable Energy Scheme and Cheaper Home Batteries Program.

iv Measures include Social Housing Energy Performance Initiative, Community Solar Banks measure and Solar Sharer Offer.

The energy transition will drive investment and shift exports

The energy transition will involve considerable investment in new infrastructure. The development of large-scale renewable energy and storage projects will create strong demand for a wide range of skills.

Government programs such as the Capacity Investment Scheme and Rewiring the Nation are efficiently crowding in investment in productive renewable energy generation, storage and transmission assets. Together, these programs are supporting over \$90 billion worth of investment to flow into the Australian economy, modernising our energy system and enabling green industries to mature.

The Safeguard Mechanism will continue to drive decarbonisation in Australia's largest industrial facilities. Covering almost one third of Australia's emissions, the Safeguard Mechanism was reformed in 2023 and is undergoing a scheduled review in 2026–27 to ensure settings remain appropriate and calibrated to Australia's emissions reduction targets.

The Government's Future Made in Australia agenda will also provide foundational support for potential new green industries. Australia's significant endowment of reliable renewable energy creates opportunities to export this energy through green energy embedded commodities. Key policies under this agenda supporting the establishment of clean industries for potential export include the Hydrogen Production Tax Incentive, the Hydrogen Headstart program and the \$1 billion Green Iron Investment Fund. While these industries are nascent, growing global demand for low-emissions products presents opportunities for their expansion and increase in their share of exports over time.

Effective planning and adaptation will help manage climate risks

Managing climate change risks will be important to ensure Australia is able to prosper in the face of unavoidable climate change impacts. Increasing severity and changing frequency of climate-related events will require stronger risk management approaches. This includes greater use of forward-looking analysis and climate-adjusted data, as historical trends are no longer reliable indicators of future conditions. Australia's environment will be increasingly shaped by the impacts of climate change over the coming decades (Box 3.1).

To help mobilise private sector investment for a sustainable economy, the Government is implementing initiatives under its Sustainable Finance Roadmap.³² The mandatory climate-related financial disclosure regime now supports greater transparency of Australia's largest companies' exposure to material climate-related financial risks and opportunities. Climate risk is increasingly being considered in decision-making across all levels of government in planning, infrastructure, asset management and by embedding climate resilience in service delivery.

Box 3.1 Environment adaptation to the impacts of climate change

Rising temperatures, more frequent and severe natural disasters, coastal erosion, and pressures on ecosystems, agriculture, infrastructure and tourism pose significant environmental and economic challenges. Government policies that support emissions reduction and climate adaptation, alongside global emissions reduction, are important to safeguarding our environment against these challenges. Continued action to address habitat loss, invasive species and changing land use will help protect biodiversity, support threatened species' recovery and strengthen environmental resilience.

The Government has progressed legislative and regulatory reforms to strengthen environmental protection, improve conservation outcomes and enhance accountability in environmental decision-making. These reforms include changes to national environmental laws, stronger compliance and enforcement arrangements, the establishment of a National Environmental Protection Agency and improved environmental data and reporting through Environment Information Australia.

Environmental approvals provide important safeguards to environmental values at a period where there needs to be an accelerated roll out of major infrastructure to support the energy transition. Continued implementation of the Threatened Species Action Plan 2022–2032, stronger protections for matters of national environmental significance, tighter controls on some land-clearing activities and ongoing investment in conservation and evidence-based decision-making will support the goal of a nature-positive Australia and ensure Australia's unique biodiversity is protected for future generations.

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4 Ageing and the care economy

Overview

The ageing of Australia's population is accelerating primarily due to declining fertility rates. Australia's median age is projected to increase from 38.6 years in 2025–26 to 45.0 years by 2062–63, 1.9 years above the 2023 Intergenerational Report (IGR) projection of 43.1 years by 2062–63. Falling fertility is expected to be driven by delayed family formation and smaller family sizes, underpinned by evolving social, economic and cultural trends common across advanced economies. Better health care, higher living standards and medical advances are also contributing to population ageing, with life expectancy expected to increase further.

The number of Australians aged 65 and over is projected to continue growing, with the fastest growth occurring for the 85-plus cohort which is expected to triple by 2065–66. This will drive demand for care economy supports and reinforce the broader shift in Australia's industrial base towards service provision. Since 2023, employment in the health care and social assistance sectors has grown by 13 per cent and is projected to grow a further 23 per cent by 2035.

As more people move into older age groups, a smaller share of the population will be in the traditional working ages, placing gradual pressure on labour supply. While participation rates among people aged 65 and over have increased by around 1 percentage point since the 2023 IGR, they remain more likely to work part-time and at lower rates overall than younger people. As a result, population ageing is expected to reduce overall labour force participation over time.

Australia is well placed compared with many advanced economies. The working-age population is projected to continue growing, supported by ongoing migration, while many Organisation for Economic Co-operation and Development (OECD) countries are projected to experience declines.

This demographic advantage provides an opportunity to adapt and plan for an older population. The Government's policies that support labour force participation, healthy ageing and a productive care workforce will help maintain living standards.

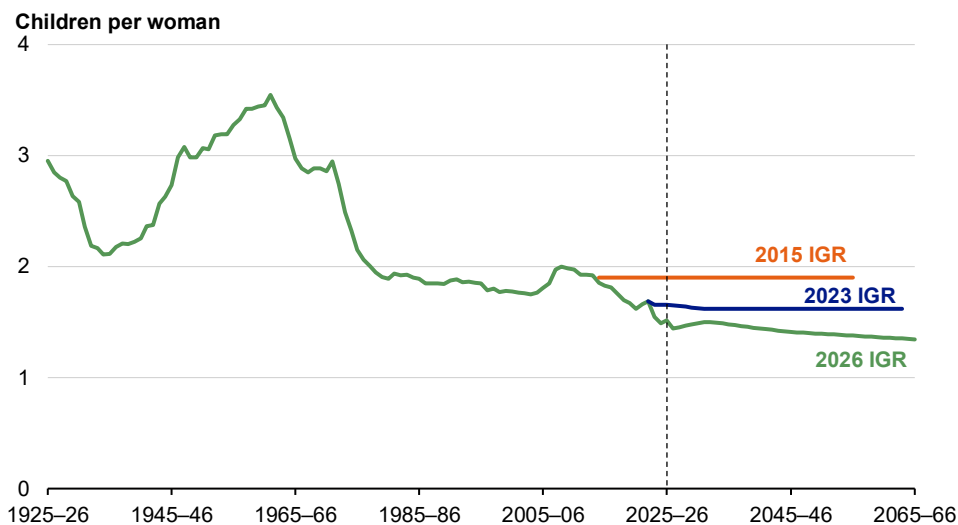
4.1 A population ageing more quickly

A lower fertility rate will drive faster population ageing

Population ageing is accelerating, driven mainly by a lower projected fertility rate. It is projected to occur more quickly than in the 2023 IGR.

Australia's fertility rate is higher than many of our international counterparts, but delayed family formation and smaller family sizes are contributing to a gradual decline that is expected to continue over the projection period, underpinned by evolving social, economic and cultural trends. The total fertility rate is expected to fall to 1.34 children per woman by 2065–66, lower than the previous assumption of 1.62 children per woman (Chart 4.1). This, as well as international fertility trends are explored further in Chapter 8.

Chart 4.1 Australia's past and future total fertility rate, previous long-term assumption vs new assumption



Source: Australian Bureau of Statistics (ABS) Historical population; ABS National, state and territory population; and Treasury.

Lower fertility means fewer children, a proportionally smaller future workforce and a larger proportion of older Australians. The lower fertility assumption results in an ageing impact that is considerably stronger than the fertility assumption in the 2023 IGR, increasing the projected median age by 1.7 years and reducing the population by 1.7 million people by 2065–66.

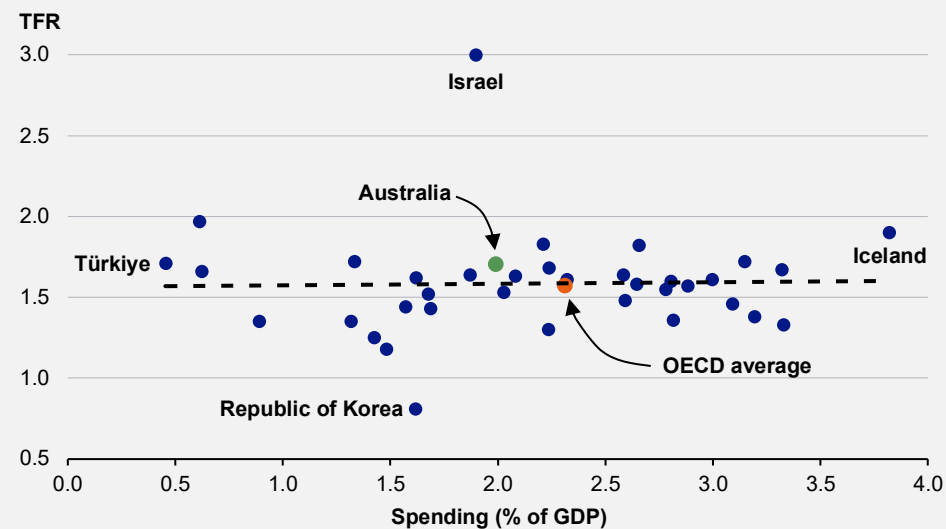
Box 4.1 Parental support and fertility rates

Public and private family and parental support policies can have a small but positive effect on fertility (Chart 4.2).

Policies that reduce the financial and career-related costs of childbearing and make it easier to combine work and family life can help parents remain attached to the workforce while raising children.¹ For example, paid parental leave, child care and flexible work arrangements such as working from home or flexible hours have been correlated with higher fertility outcomes for parents.² The Government has expanded Paid Parental Leave from 20 to 26 weeks, providing greater support for new parents and encouraging more equal sharing of caring responsibilities. It has also introduced the 3 Day Guarantee, giving all eligible families access to at least three days of subsidised early childhood education and care each week. These measures provide families with greater flexibility and support labour force participation.

Research highlights that cash payments alone have limited impact on fertility rates. Fertility outcomes tend to be stronger where a broader policy framework that promotes work-family balance and shared caregiving responsibilities is in place.³

Chart 4.2 Select OECD countries' public spending on family benefits and total fertility rates, 2021



Note: The dashed line represents the line of best fit of the relationship between spending (% of GDP) and the TFR; Highest and lowest values as well as significant outliers have been highlighted for illustrative purposes. Australia and OECD average is highlighted for comparison.

Source: OECD Family Benefits; OECD Fertility rates; and Treasury.

Growth in older age groups will significantly outpace that of younger cohorts

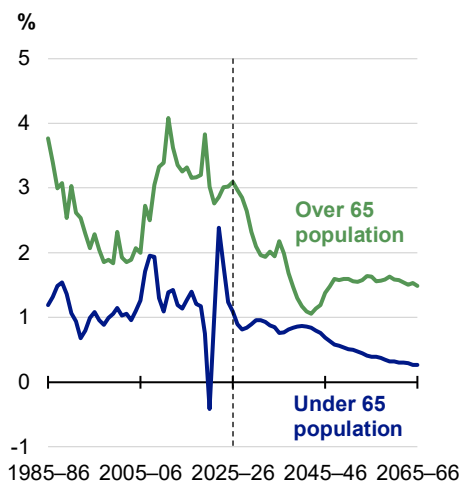
Australians are expected to live longer, with lower fertility and high life expectancy resulting in a declining share of the population being of traditional working age.

The population aged 0 to 20 is projected to grow by 10.4 per cent between 2025–26 and 2062–63, compared with 27.6 per cent in the 2023 IGR, largely reflecting lower assumed fertility rates. In contrast, the population aged 65 and over is projected to grow by 87.1 per cent, similar to the 2023 IGR projection of 88.5 per cent. Australia's median age is also projected to rise from 38.6 years to 45.0 years over the same period, 1.9 years above the 2023 IGR projection of 43.1 years by 2062–63.

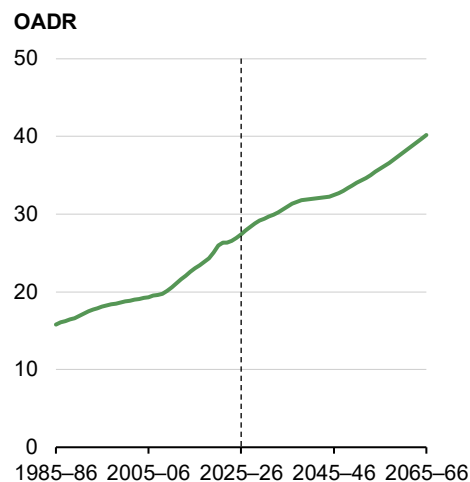
The old-age dependency ratio is projected to reach 38.8 people aged 65 and over for every 100 working-age people by 2062–63, up from 38.2 in the 2023 IGR, adding to fiscal and service delivery pressures over time (Chart 4.3).

Chart 4.3 Changes in age structure

Annual growth in different populations



Old-age dependency ratio



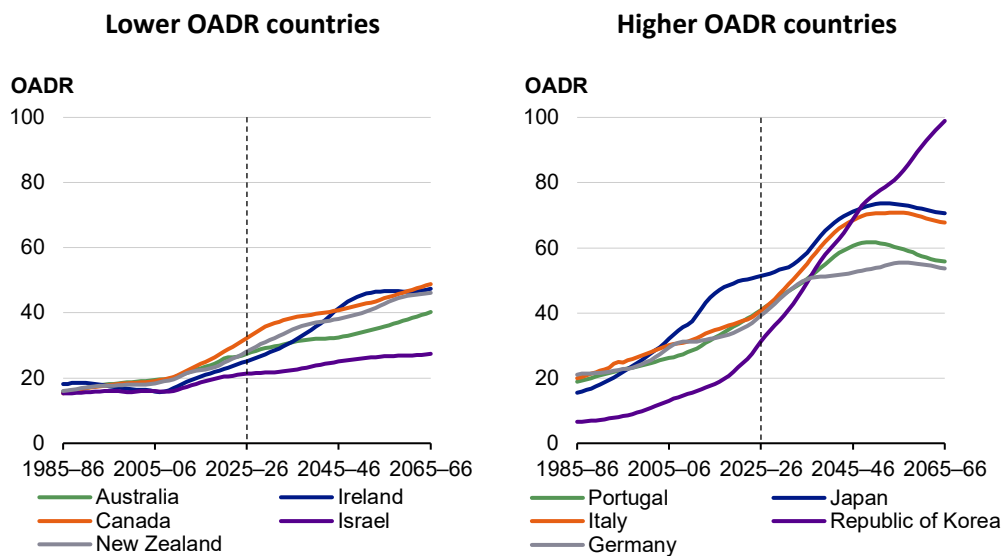
Note: The old-age dependency ratio measures the number of people aged 65 and over for every 100 people of working-age (15–64).

Source: ABS National, state and territory population; and Treasury.

However, Australia's old-age dependency ratio (OADR) remains low by international standards (Chart 4.4). Additionally, these comparisons use age 65 as the benchmark in measuring the old-age dependency ratio as it aligns with historical retirement patterns. As more people work beyond 65 and some retire earlier, it is increasingly less reliable as

an indicator of economic dependency. With people living longer and remaining healthier for longer, age-based measures alone may not fully reflect ageing and its economic impacts. Complementary indicators that consider labour force participation, health status or remaining life expectancy can provide a more comprehensive picture in the future.

Chart 4.4 Old-age dependency ratios of select OECD countries

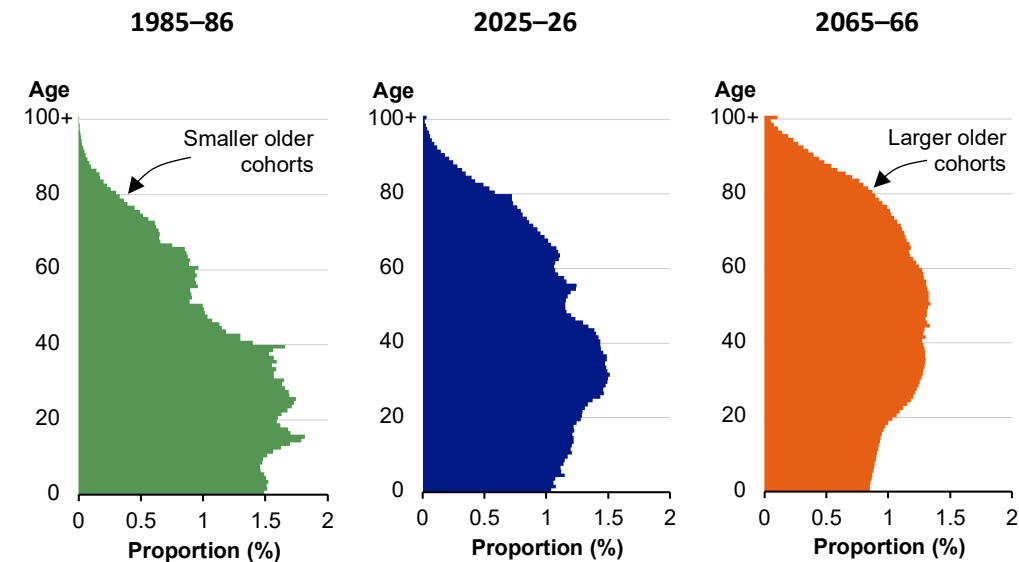


Note: The old-age dependency ratio measures the number of people aged 65 and over for every 100 people of working-age (15–64). Australian data is from ABS estimates and Treasury projections, while data from other countries are sourced from the United Nations World Population Prospects 2024. All data is based on financial years (30 June for Australia, and 1 July for other countries). Australian projections begin in 2025–26, while other countries begin in 2023–24.

Source: United Nations World Population Prospects, 2024; ABS National, state and territory population; and Treasury.

A smaller share of working-age Australians will need to support a growing number of retirees who are living longer (Chart 4.5). Alongside higher demand for health care and aged care services this will add to pressure on public finances.

Chart 4.5 Proportion of population at each age

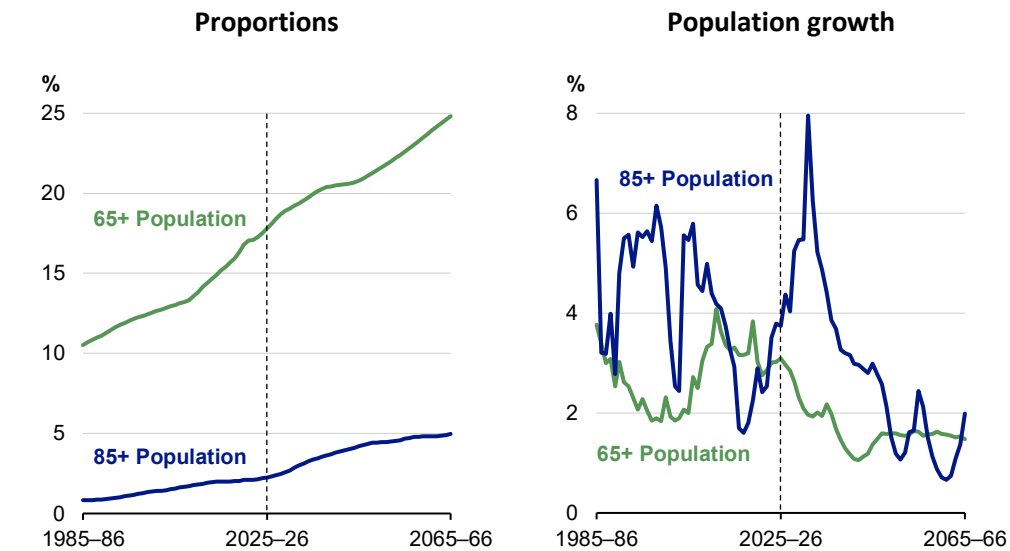


Source: ABS National, state and territory population; and Treasury.

The number of over 85s will triple in the next 40 years

Older Australians will make up a growing share of the population. The number of Australians in the 65-plus age group will continue to rise but growth will be even stronger among those aged 85 and over (Chart 4.6). By 2065–66, the population aged 85 and over is projected to reach 1.9 million, up from 625,000 today, with most of this growth occurring in the 2030s and 2040s.

Chart 4.6 Populations aged 65 and 85 and over



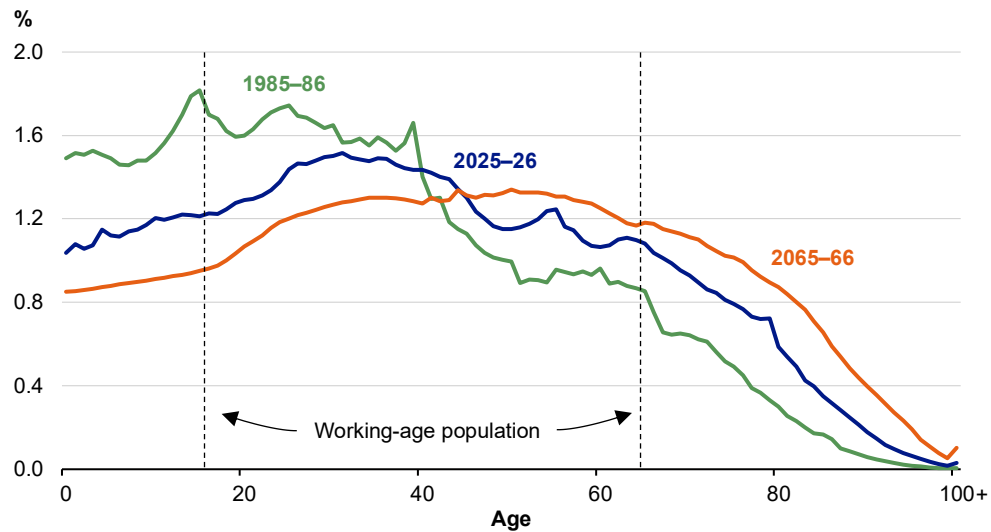
Source: ABS National, state and territory population; and Treasury.

4.2 Implications of an ageing population

Our working-age population will be proportionally smaller and older

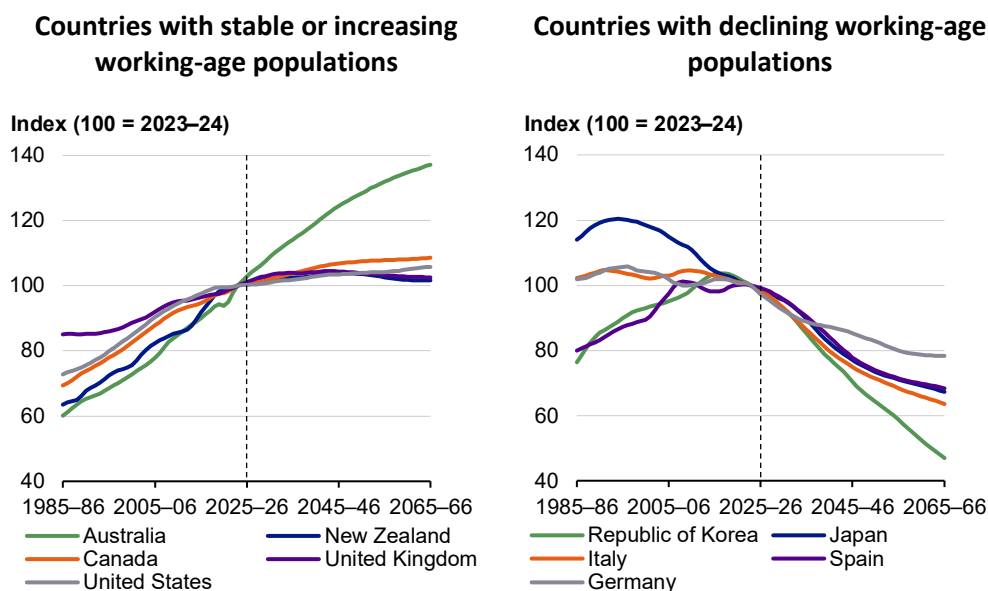
Population ageing will create long-term economic and fiscal challenges. The working-age population by the 2060s will be much older than it is today, with a larger share aged over 40 (Chart 4.7).

Chart 4.7 Working-age population



Source: ABS National, state and territory population; and Treasury.

However, unlike many OECD economies, Australia's working-age population is projected to keep growing, supported by skilled migration, providing a source of demographic resilience (Chart 4.8).⁴

Chart 4.8 Working-age population of select OECD countries

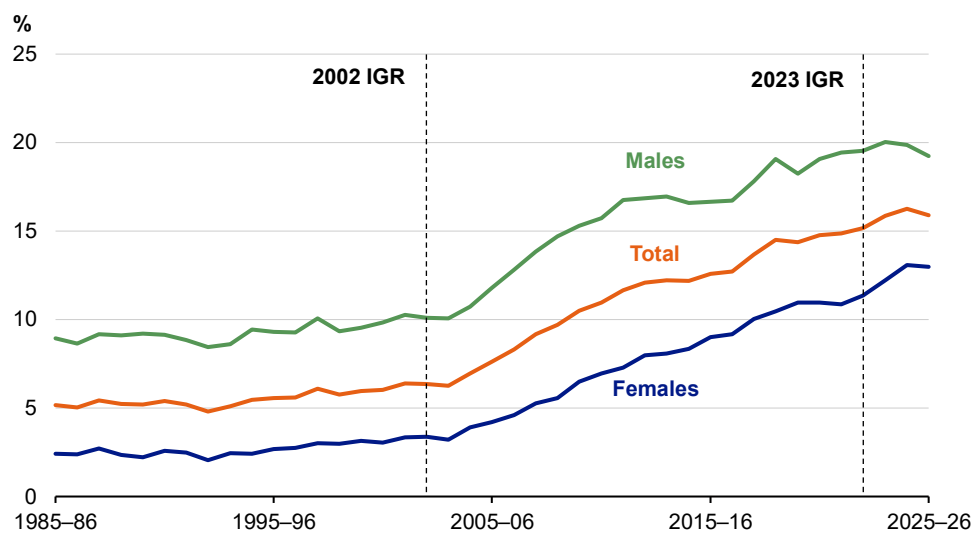
Note: Australian data is from ABS estimates and Treasury projections, while data from other countries are sourced from the United Nations World Population Prospects 2024. All data is based on financial years (30 June for Australia, and 1 July for other countries). Australian projections begin in 2025-26, while other countries begin in 2023-24. Data is indexed to 2023-24 for comparability.

Source: United Nations World Population Prospects, 2024; ABS National, state and territory population; and Treasury.

People are living longer, healthier lives and are participating in the labour force at higher rates than in the past. The labour force participation rate for people aged 65 and over has increased by around 1 percentage point since the 2023 IGR, and by 9.5 percentage points since the 2002 IGR (Chart 4.9). Better health, higher education levels and a shift towards less physically demanding work are supporting higher participation among older Australians.⁵ Changes in retirement behaviour and pension settings, together with stronger workforce attachment among women, are also contributing to this trend.⁶ As younger cohorts enter older age with higher skills and experience, and demand for workers in service industries grows, participation rates are expected to remain higher than in previous generations.⁷ However, older Australians remain less likely to work than younger people and are more likely to work part-time.

Delayed and lower fertility, increased use of formal and informal child care, changes in legislation and evolving social attitudes have supported higher female participation. A continuation of gains among women and older workers will offset the effects of population ageing on participation in earlier years of the projection period. However, population ageing is projected to reduce overall labour force participation by the end of the projection period.

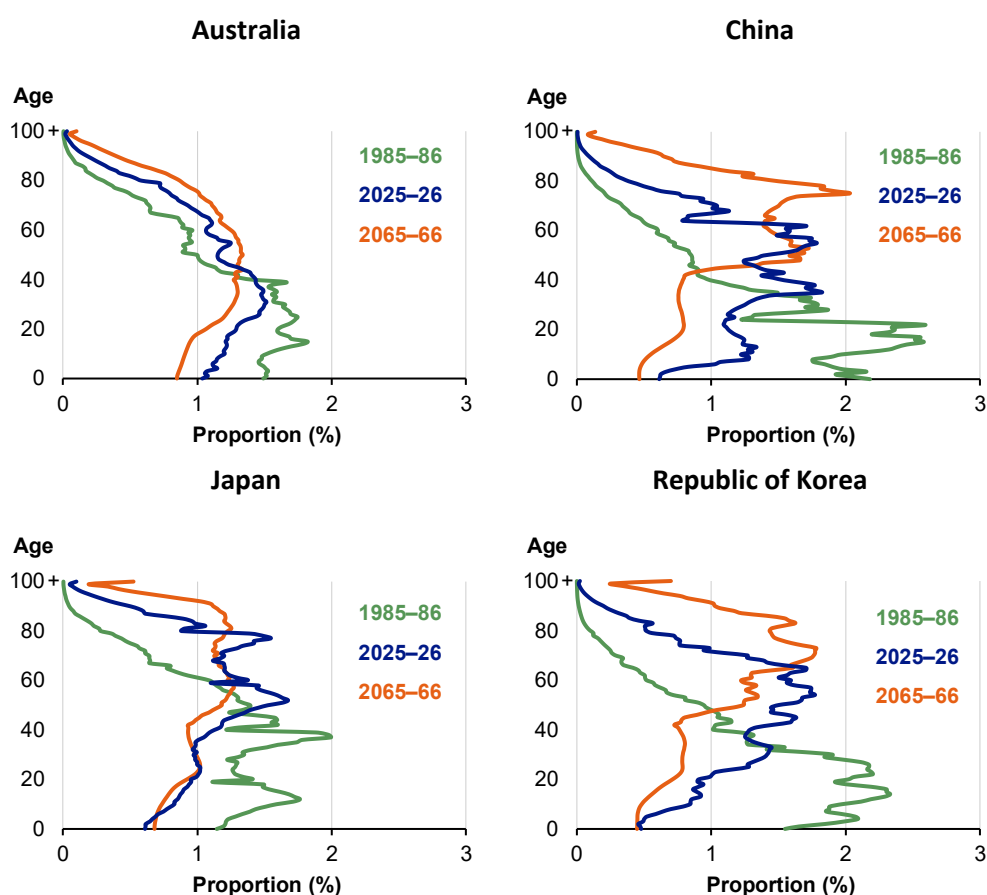
Chart 4.9 Participation rates, 65 years and over



Source: ABS Labour Force, Australia; and Treasury.

Ageing is occurring much more quickly in other parts of our region

Declining fertility is a major driver of population ageing around the world. Australia is experiencing the same trend, although ageing is occurring more slowly than in many East Asian countries (Chart 4.10). China, Japan and the Republic of Korea have seen fertility rates fall well below the replacement rate for decades. This has accelerated population ageing in these countries and led to population decline by 2024.⁸ As a result, they face smaller workforces, higher old-age dependency ratios and slower economic growth.

Chart 4.10 Population pyramids: China, Japan, Republic of Korea and Australia

Source: ABS National, state and territory population; UN World Population Prospects 2024; and Treasury.

Population ageing in East Asia has been reinforced by low levels of migration. China, Japan and the Republic of Korea have historically been less reliant on migration to support labour force growth.⁹ In contrast, Australia's migration program has helped moderate the pace of ageing and provided an important source of labour supply by increasing the number of working-aged people.

East Asia is a key source of trade, investment and regional economic activity, and slower population growth and ageing across the region could affect economic growth, and demand and supply chains, with flow-on effects for Australia.

An older working population will have implications for measured productivity

A worker's individual productivity level changes over their working life. Wages, used as a proxy for productivity, typically rise early in a career, level out in mid-career and decline as retirement approaches. However, this pattern varies across workers. People with higher levels of education often maintain productivity for longer, while those in physically demanding jobs may see earlier declines. Lower measured productivity at older ages may reflect changes in skills or physical capacity. It may also reflect personal choices, with some older Australians moving into less demanding roles as they transition to retirement.

Population ageing will increase the share of Australians in older age groups that have historically recorded lower average productivity. This is likely to place modest but ongoing pressure on overall productivity growth. The size of this effect will depend on how well Australia adapts to an older population.

Climate related health risks will be greater for older Australians

Climate change will present increased risks for older Australians with the impacts amplified by population ageing. A growing number of older people will experience harmful impacts from events such as extreme heat, severe weather and poor air quality. Age-related biological changes make it harder for older individuals to cope with heat and environmental stress. This can increase illness and death from climate-sensitive conditions.¹⁰ Some older people may find it harder to evacuate, access support or respond during emergencies. Others may face barriers to temperature regulation, health care or timely information.

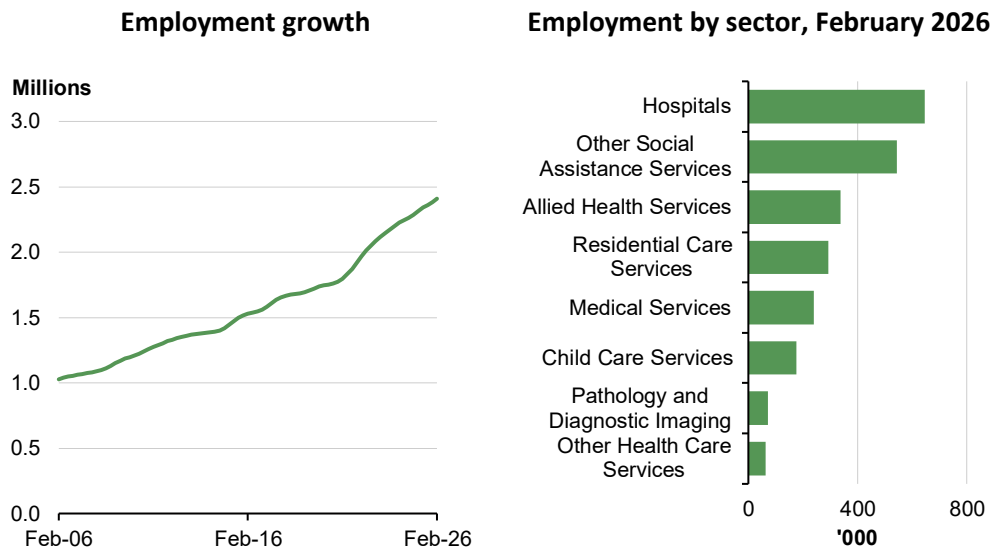
As the number of older Australians grows, so does the number of people exposed to climate hazards.¹¹ This highlights the need for targeted planning and support to help older Australians stay safe, connected and resilient as the climate changes.

Ageing will reinforce trends towards service provision, especially in the care economy

The ageing of the population, especially the strong growth projected in the 85-plus cohort, will have implications for service demand and government spending. While many people remain healthy and independent into their early 80s, people aged 85 and over are more likely to require health care, aged care and other support services.

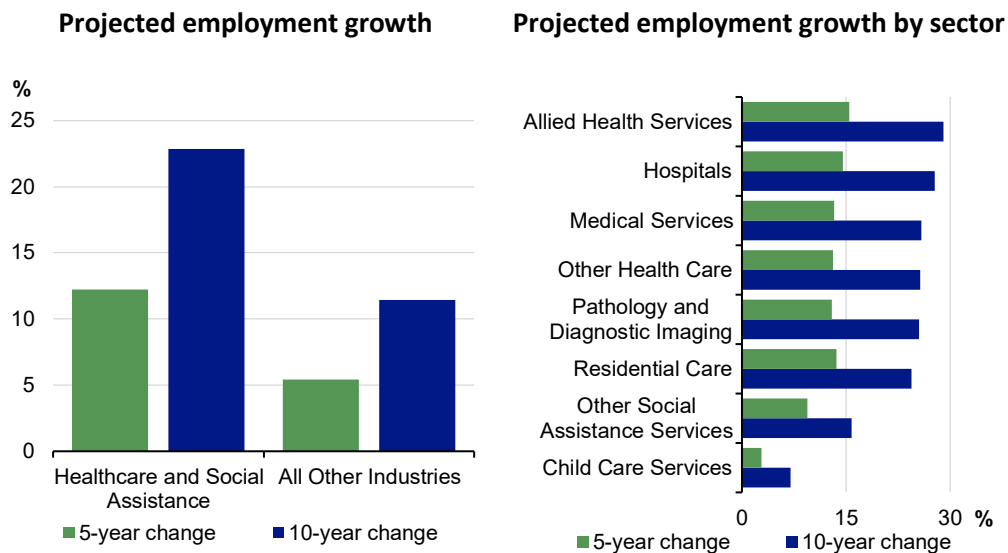
Australia's workforce has shifted towards service industries over recent decades, with strong growth in health care and social assistance. This is Australia's largest employing industry with around 2.4 million people, approximately 16 per cent of the workforce (Chart 4.11).¹² Women, especially those with dependent children, are a large share of the care workforce.

Chart 4.11 Health care and social assistance employment growth



Source: ABS Labour Force Survey; Jobs and Skills Australia trend data; and Treasury.

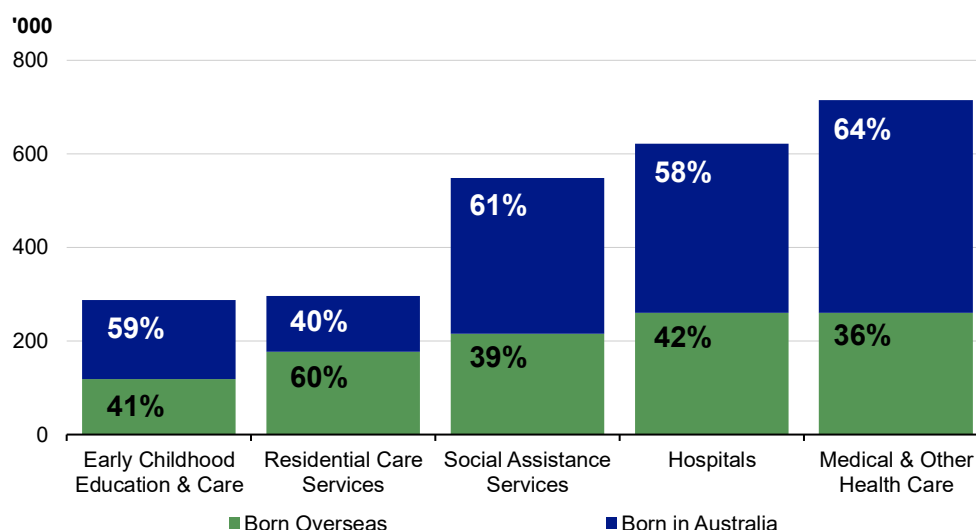
Demographic change will continue to make health care and social assistance one of the fastest-growing industries over the coming decade (Chart 4.12). Lower fertility is likely to slow growth in demand for child-related services. More than offsetting this, rapid growth in the population aged 85 and over is expected to drive stronger demand for health care and aged care.

Chart 4.12 Projected health care and social assistance employment growth

Source: Jobs and Skills Australia Employment Projections: May 2025 to May 2035; and Treasury.

At the same time, chronic health conditions are likely to remain common, supporting demand for disability and other support services. Together, these trends will increase pressure on services that support older people, people with disability, those living with chronic illness and, to a lesser extent, children.

Meeting this demand will require more workers with the right skills and qualifications, against the backdrop of a proportionally smaller future workforce due to population ageing. Migrants already make up a large and growing share of the health care and social assistance workforce (Chart 4.13).¹³ Skilled migration will continue to play an important role in the workforce, including in the care economy (Chapter 8).

Chart 4.13 Composition of health care and social assistance workforce

Note: The chart presents average employment levels for 2025.

Source: ABS Labour Force Survey; and Treasury.

Australia's care economy, particularly the health care sector is among the most productive in the world and will continue to be shaped by advances in healthcare technology and innovation.¹⁴ Continued adoption of digital technologies, including artificial intelligence, could help offset some of the pressures associated with population ageing by improving productivity and reducing administrative burdens.

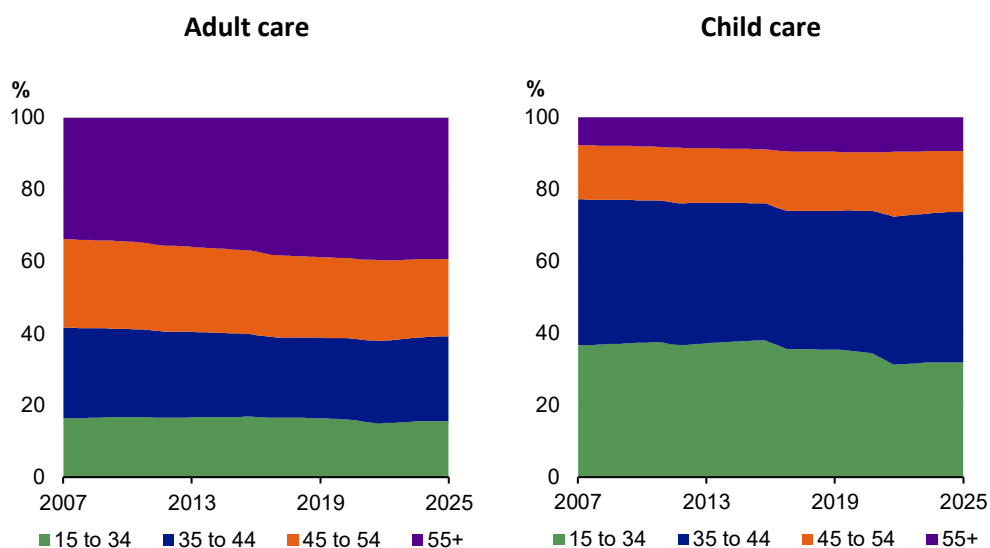
Productivity Commission estimates suggest that better integration of digital health technologies could generate more than \$5 billion in annual savings, while automating up to 30 per cent of healthcare tasks and allowing workers to spend more time providing direct patient care.¹⁵ International research also suggests that AI technology has significant potential to address workforce pressures in health care and aged care through health monitoring, disease management, and risk prevention.¹⁶

In Australia, digital health technologies such as electronic medical records, telehealth and remote patient monitoring are being used to support the care economy.¹⁷ Digital health technologies increase the quality and efficiency of information sharing across the health system in Australia.¹⁸

Increasing demand for unpaid care services

Unpaid care will continue to make a substantial social contribution, supporting families, communities and the formal care system. In the September quarter 2025, Australians provided around 12.3 billion hours of unpaid care, valued at \$461.1 billion.¹⁹ As the population ages and more Australians need support, demand on unpaid carers is likely to increase. Women provide most unpaid care, often alongside paid work.²⁰ Although around two-thirds of unpaid care hours are provided by people who are also employed, unequal distributions of care can be a barrier to labour force participation.²¹ Caring responsibilities also change over the life course. Younger people are more likely to care for children, while older people spend more time supporting adults with disability, chronic illness, frailty or age-related conditions – a trend that is intensifying as the population ages (Chart 4.14).

Chart 4.14 Proportion of hours spent on unpaid care by age



Source: ABS Update to measuring unpaid care in the Labour Account; and Treasury.

As care needs grow, access to affordable, high-quality care services will become even more important. Formal care services help meet growing demand and provide valuable support for unpaid carers. They also help carers, the majority of whom are women, to stay in paid work, supporting labour force participation and productivity.²² In this way, the care economy plays a dual role of meeting Australia's changing care needs while supporting economic growth and living standards. As Australia's population ages, the strength of the care economy will become increasingly important to national wellbeing and prosperity.²³

4.3 Positioning Australia for the future

Supporting choice and boosting participation

It will be important for governments to respond to the challenges of lower fertility and an older age structure, including by supporting choice and facilitating workforce participation.

The Australian Government has introduced reforms that are helping Australians to make their own decisions around family formation. These include 26 weeks of Paid Parental Leave plus superannuation, as well as cheaper child care, three rounds of tax cuts and a Working Australians Tax Offset (WATO). By lowering the cost of child care and increasing the financial return from work, these changes give families more choice and more flexibility when it comes to balancing work and care.

These reforms also form part of a broader drive to support participation, which will only become more important as the population ages. While Australia has achieved stronger participation outcomes than many of our international counterparts, ensuring we continue to support Australians – especially older people, women, carers and other underrepresented groups – to participate will help offset slower labour force growth.

The Government's three tax cuts are expected to increase total hours worked by about 1.3 million hours per week compared to 2023–24 tax settings, equivalent to more than 30,000 full-time jobs. This increase is driven mostly by women, who are expected to increase their labour supply by 900,000 hours per week compared to 2023–24 tax settings. The WATO will further enhance these incentives for low income tax payers.

The Government is also supporting higher participation through Free TAFE and more Commonwealth supported university places, as well as skills recognition for migrant workers, labour mobility reforms, and an enhanced Pension Work Bonus. Skilled migration will continue to help address workforce shortages, while employers can also support participation through flexible work, lifelong learning and age-inclusive workplaces.

Australia is well placed to adapt to demographic change. This will help sustain economic growth and living standards as the population ages.

Strengthening and reforming care

Population ageing will increase demand for health and aged care services, while child care and disability services will remain essential. The Australian Government is responding and adapting to the population ageing transition through reforms that support a strong care economy by lifting labour force participation, boosting productivity and maintaining sustainable public finances.

The Government is enabling more older Australians to access better care by supporting increases to residential aged care supply and providing more Support at Home packages. These reforms support the population ageing transition by improving affordability and access to home care supports.

The Government is also supporting healthy ageing through cheaper medicines, expanded access to care and additional funding for public hospitals. Healthy ageing helps people stay active, independent and productive for longer, which helps to moderate demand for health and aged care services.

The Government's focus on the care economy will improve the efficiency and effectiveness of health, aged care and disability services. This includes through additional funding for public hospitals and making Medicare Urgent Care Clinics a permanent part of the health system. The sustainability and strength of the care economy is also being supported through reforms to secure the National Disability Insurance Scheme for future generations.

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5 Australia's industrial transformation

Overview

Australia's industrial landscape is being transformed by powerful global and domestic forces including the artificial intelligence (AI) revolution, geopolitical fragmentation, the energy transition and ageing. These major transitions will reshape Australia's industrial base as firms and industries adapt to a changing economic environment. They will influence how the economy generates productivity growth and lifts living standards over the next 40 years.

The long-run expansion of the services sector is expected to continue, with growth in household services and the care economy underpinned by population ageing and rising incomes. Business services will also be transformed by AI as it reshapes business models and increases the share of economic activities that are contestable in international markets. This will create new opportunities for Australian firms and consumers to participate in global trade.

The energy transition is altering Australia's industrial base as businesses electrify to take advantage of declining costs of renewable and other low-emission technologies. Australia's comparative advantages are changing as global demand shifts away from fossil fuels towards the critical minerals required in emerging clean energy supply chains and AI-related infrastructure. If Australia seizes the export opportunities associated with the net zero transition and becomes a global renewable energy superpower, green exports could be \$68 billion higher in 2050 than would otherwise be the case.

Australia's prosperity will increasingly depend on its ability to adapt and seize new opportunities, with interactions between the major transitions creating a more complex global environment. Strong institutions, effective policy and economic partnerships with major economies will be critical to ensure Australian firms have access to frontier technologies, skills and markets, and can capture the local benefits of rapid global industrial transformation.

5.1 The industrial transformation

Structural change is transforming Australia's industry mix

The industrial mix of Australia's economy will transform gradually over time as workers and businesses adapt to evolving technologies, demographics and global economic conditions. Markets facilitate this adjustment by reallocating labour and investment towards emerging opportunities. Adjusting to these shifts supports ongoing improvements to productivity, the development of new comparative advantages and access to more affordable and higher-quality goods and services.

The pace of change in Australia's industrial mix is significant due to the extent of structural change underway in the global economy. Industries are exposed to global structural changes to different degrees, depending on their access to frontier technology and capital, exposure to global and domestic markets, and skill needs. The three broad sectors of the economy will respond differently to global structural changes:

- **Tradable commodity industries** will be most affected by global demand and access to global markets, as well as frontier innovations and their diffusion to local firms.¹ For commodity industries such as mining and agriculture, comparative advantage will continue to depend heavily on high-quality natural resource endowments.
- **Other tradable industries**, such as manufacturing, higher education and parts of business services, will be more influenced by the regulatory environment and skill composition of the workforce. In manufacturing, competitiveness will also be shaped by participation in large production networks and industrial ecosystems that support specialisation, scale and knowledge diffusion.
- **Non-tradable industries**, such as construction, health, and personal services, will be more affected by local factors. These include demographics, household incomes, consumer preferences, and government policies. Nevertheless, global innovations will still influence the technologies used by these industries. Technologies, including AI, can lead to some initially non-tradable services activities becoming more tradable over time.²

The ways that these three sectors respond to global structural changes will reshape Australia's industrial mix. In particular, Australia's tradable sectors will adjust to reflect Australia's comparative advantages, contributing to increased productivity and income growth. As incomes grow, a higher share of household expenditure is expected to be directed towards services, increasing the services share of the economy.

Income earned from tradable sectors is expected to increase

Productivity growth in traded industries is expected to continue to be a key driver of industrial change. Over the last 30 years, labour productivity growth in Australia has been strongest in manufacturing and agriculture, where technological diffusion, international competition and specialisation have accelerated innovation and efficiency gains.³ Going forward, productivity gains are expected to continue lowering the relative price of traded goods, boosting real incomes and living standards.

External demand has also been a dominant factor driving the expansion of Australia's mining sector in recent years and is expected to drive a diversification of mining exports over the coming decades. Productivity growth in Australia's mining sector has been more modest, reflecting the industry's already high level of productivity. Strong demand associated with China's rapid industrialisation supported high commodity prices and a substantial expansion of the sector during the first two decades of this century, making mining a major contributor to industrial change and national income.⁴ Going forward, critical minerals are expected to make up an increased share of Australia's commodity exports, as global demand for these commodities increases.⁵

Together, these developments reinforce trade complementarities between Australia and its major trading partners, shaping patterns of investment, production and trade that contribute to Australia's broader industrial transformation (Table 5.1). Australia's success in boosting productivity and growing incomes will depend not only on its own endowments and capabilities, but also on how effectively it leverages structural change occurring in its major economic partners.

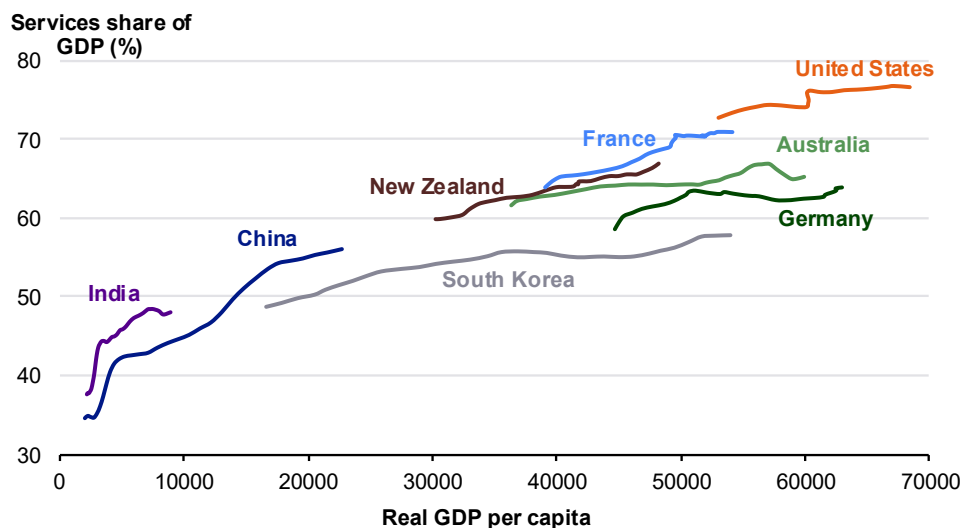
Table 5.1 Examples of evolving comparative advantage

Country	1990s	2010s	2020s and beyond
Australia	Land and resource endowment Broad-based sectoral productivity growth following economic reform	Chinese commodity demand Education and tourism exports sector growth	Renewable and critical minerals endowment Strong institutions and strategic partnerships AI-enabled services and clean-energy industries
China	Abundant low-cost labour Economic reform and opening allowing for technology upgrading and capital deepening	Further integration into global economy Economies of scale in manufacturing Integrated supply chains	Dominance in EVs, batteries and solar technologies Deepened innovation capability, including in robotics and AI
United States	Sophisticated capital markets, technology and research leadership Highly skilled and educated workforce	Research and design expertise Information and communications technology dominance	AI ecosystem dominance Continued deep capital markets and financial innovation

Source: Treasury.

The services share of the economy is expected to grow with incomes

Services are expected to continue to grow as a share of Australia's economy over time. This is consistent with global trends and Australia's experience over recent decades, with services accounting for a growing share of economic activity as incomes have grown (Chart 5.1).

Chart 5.1 Services share of economic activity across countries and time

Note: Gross domestic product (GDP) per capita is expressed as a 5-year moving average in constant 2021 international dollars, converted by purchasing power parity (PPP). Data for Australia, China, India, South Korea, France from 1990–2025; United States from 1997–2021; New Zealand from 1990–2023; Germany from 1991–2025.

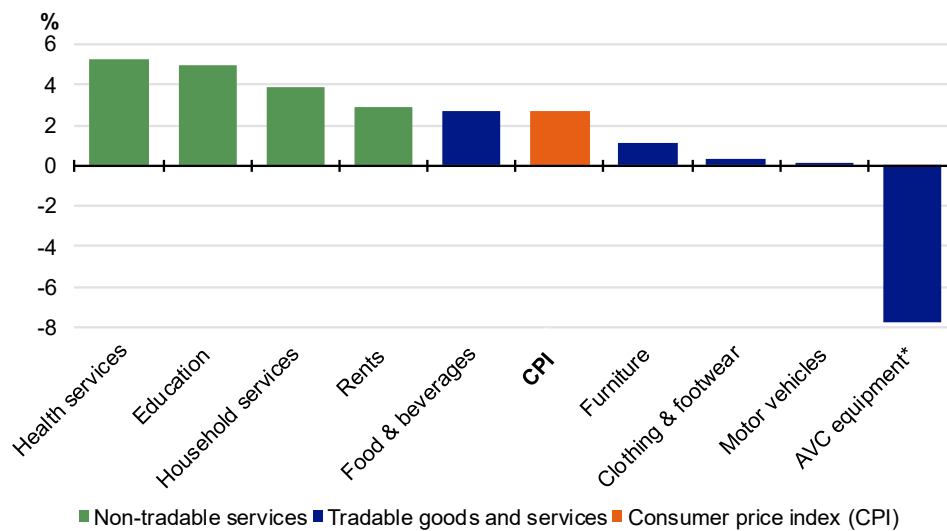
Service industries in this chart correspond to International Standard Industrial Classification (Rev. 4) divisions 45–99 and includes wholesale and retail trade, hotels and restaurants, transport, storage and communication, financial intermediation, real estate, renting and business activities, public administration and defence, education, health and social work, other community, and social and personal service activities. This differs from Chart 5.4, which includes utilities in the definition of services. Construction is not included in the definitions of services in this chapter.

Source: World Bank World Development Indicators.

Demand for health, education and other services is strongly linked with income.⁶ Further income growth from productivity gains in tradable sectors and demand for Australian exports is expected to support continued growth in demand for services.

Evolving household expenditure patterns are also linked to industrial transformation through shifts in relative prices. While productivity growth and global competition have reduced the relative cost of many traded goods, the prices of many services have increased over time (Chart 5.2). As a result, a greater share of household expenditure is being spent on services over time.⁷

Chart 5.2 Average annual consumer price price growth, selected goods and services between 1990 and 2026



Note: *AVC equipment stands for Audio, Visual and Computing equipment. Food & beverages includes manufactured foods and non-alcoholic beverages.

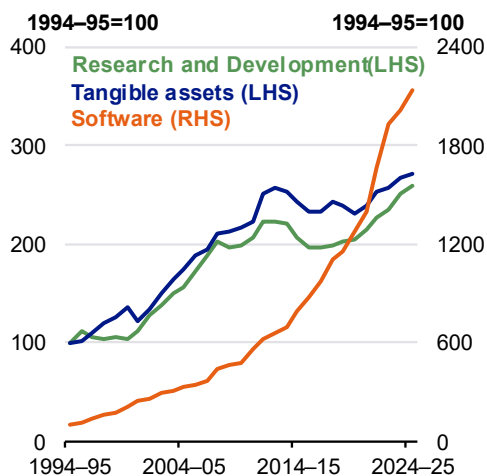
Tradable goods and services include all of manufacturing; non-tradable services are the remainder. The tradable and non-tradable categories are not absolute, some tradable categories include non-traded components while some non-tradable services are traded (e.g. education is partially traded).

The CPI aims to measure pure price change over time, reflecting the change in the cost of a fixed basket of goods and services of a constant quality. As a result, quality adjustments to the CPI are made to account for improvements in products that have new features or better services. These adjustments may exaggerate the relative price differences of tradable and non-tradable goods and services as more quality adjustments are made to consumer durables (traded goods in the chart) relative to services, where quality adjustments can be difficult to measure.

Source: Australian Bureau of Statistics (ABS) Consumer Price Index.

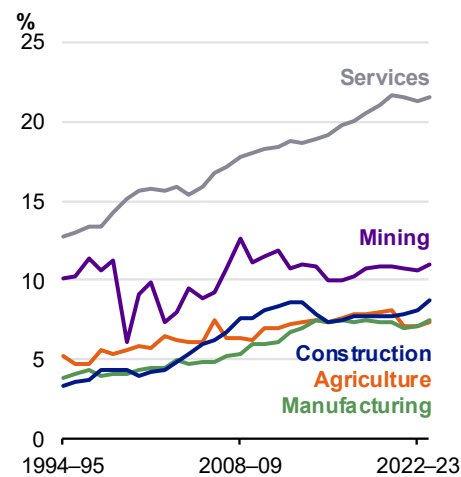
The labour market is also being reshaped by these changes in productivity and expenditure patterns. Employment opportunities are growing in response to increased demand for health, education, professional and other service industries. At the same time, the labour required to produce many goods is declining over time as a result of improvements in labour productivity. As incomes rise and population ageing accelerates, labour will increasingly shift towards service industries, particularly government-funded services, with workers adapting their skills to meet evolving patterns of demand. These shifts have already contributed to a sustained rise in the services share of employment, from close to 60 per cent in the early 1970s to around 80 per cent since 2020.⁸

Significant change has also occurred within industries, as businesses have adopted new technologies, invested in new forms of capital and altered how production is organised. In particular, investment in intangible assets such as software has increased significantly over the last decade (Chart 5.3). Over the same period, businesses expanded their use of specialist service inputs. Digital and professional services became increasingly important components of production across many industries (Chart 5.4).

Chart 5.3 Investment by asset type


Note: Research and Development includes intellectual property products - research and development. Tangible assets includes non-dwelling construction, machinery and equipment, cultivated biological resources, weapons systems, dwellings and ownership transfer costs. Software includes intellectual property products - computer software.

Source: ABS Australian System of National Accounts.

Chart 5.4 Digital and professional services share of intermediate inputs


Note: Digital and professional services includes computer systems design and related services; internet service providers, internet publishing and broadcasting, web search portals and data processing; professional, scientific and technical services.

Source: ABS Australian National Accounts: Supply use tables.

5.2 Implications of industrial transformation

Major transitions are reshaping Australia's industrial mix in both familiar and new ways

The major transitions identified in this IGR are shaping patterns of demand, production and specialisation across the economy. These dynamics are expected to reinforce four existing trends:

- The services share of output and employment will continue to increase. Demand for household services will grow in response to rising incomes and an ageing population, and AI will facilitate the creation of new service industries and jobs.
- Business services will become increasingly sophisticated and tradable. AI and digital delivery will increase the range of services that can be delivered across international borders. Greater specialisation and technological adoption will expand the contribution of business services to other sectors of the economy.
- The energy transition will drive changes in production, trade and investment. Electrification will intensify and clean and secure energy supply will become an even more important source of comparative advantage amidst increased geopolitical fragmentation.
- Tradable commodities will remain central to national income. Although services are likely to account for a larger share of employment and output, Australia's resource, renewable energy and agricultural endowments will be the foundation of export and trade relationships with other major economies.

The major transitions are also expected to affect tradable and non-tradable sectors in important new ways (Table 5.2). Economic security, supply chain resilience, institutional capability, and stable policy and investment settings will increasingly shape the ability to realise new sources of comparative advantage, sustain productivity growth and support rising living standards.

Table 5.2 Potential sectoral impacts of the major transitions

Major transition	Commodity sector	Other tradables sector	Non-tradable sector
Artificial intelligence	Higher demand for minerals and energy used in digital infrastructure. Improves exploration, extraction and logistics productivity.	Expands demand for digital and knowledge-intensive exports. Increases productivity and service tradability.	Increases demand for electricity and greater use of digital services. Improves service delivery and changes skill requirements.
Geopolitical fragmentation	Brief but major demand spikes from geopolitical shocks. Long-term greater demand for secure and diversified supply chains. Could limit access to equipment and new technologies; reshape supply chains. Shocks could drive up cost of liquid fuels.	Greater demand for secure and diversified supply chains. Could limit access to equipment and new technologies; reshape supply chains. Shocks could drive up cost of energy and manufactured inputs.	Stronger demand for trusted partners and strategic capabilities. Technology diffusion may slow and become more fragmented.
Energy transition	Shifts demand from fossil fuels towards minerals used as clean-energy inputs; reduces exposure to imported liquid fuels. New technologies reshape production costs and comparative advantage.	Increases demand for residential, transport and industrial clean-energy products. New technologies reshape production and comparative advantage.	Increases demand for electricity; lower liquid fuel imports. Greater use of clean technologies in energy and transport.
Ageing	Limited direct effect on demand. Labour scarcity increases value of productivity-enhancing technologies.	Higher demand for medical technologies and pharmaceuticals. AI supports labour supply to meet rising demand.	Higher demand for health, aged care and personal services. Labour scarcity increases value of productivity-enhancing technologies.
Potential net sectoral impact	Shift from fossil fuels towards critical minerals, supported by more technology-intensive production.	Expansion of knowledge-intensive, clean-energy and digitally tradable exports.	Strong growth in health, care, digital and energy-related services, increasing the importance of productivity growth.

Source: Treasury.

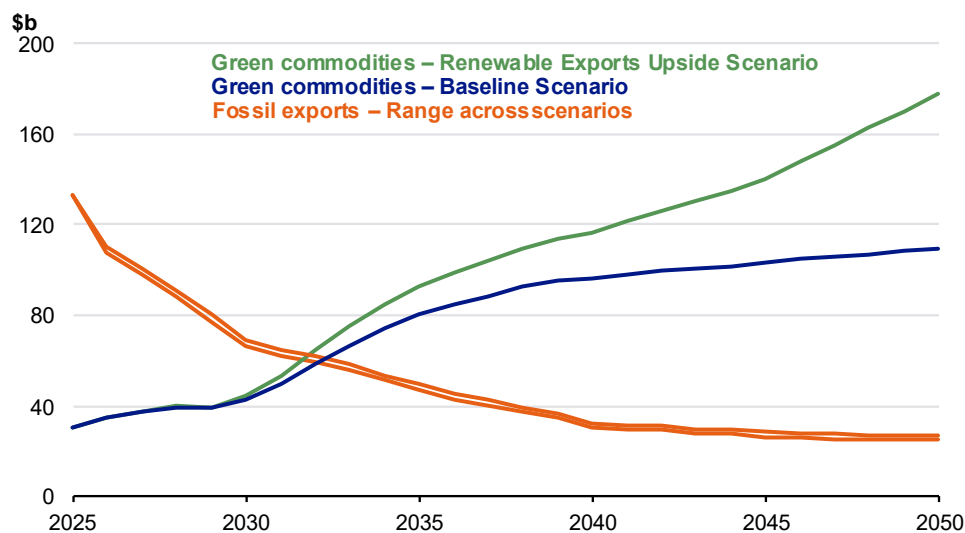
AI and the energy transition are strongly affected by frontier technology innovations and their diffusion across the economy. In the near term, their biggest influence will be on investment demand, with spending on data centres, renewable energy and electrification increasing demand for electricity, critical minerals, construction and related infrastructure.⁹

Over time, their deeper diffusion will have a larger impact on the economy's supply potential as they lift productivity, transform production and reshape demand for labour and skills. AI has the potential to increase the size of the services sector by creating demand for new services and increasing the role of tradable digital services. Population ageing will reinforce the long-run shift towards services by increasing demand for health, aged care and personal services, expanding household-facing activity within the non-tradable sector.¹⁰

The energy transition will alter patterns of trade, investment and specialisation. Global demand is shifting from fossil fuels towards the critical minerals, clean energy technologies and energy-intensive activities required for decarbonisation and digital infrastructure. Australia's resource endowments and access to reliable, low-cost clean energy position it well to adapt, with potential opportunities from growing demand for critical minerals. Greater electrification will also reduce exposure to volatility in global liquid fuel markets.¹¹

Modelling for the Government's Net Zero Plan showed that leveraging Australia's comparative advantages in renewable energy can deliver broad-based benefits to Australians and help grow exports. The Renewable Exports Upside Scenario projects that Australia's green exports could be \$68 billion higher in 2050 than in the Baseline Scenario, including exports of critical minerals, renewable hydrogen and green metals (Chart 5.5).¹²

In response to the projected increase in global demand for green exports, manufacturing's share of production is projected to grow from 5.8 per cent today to 6.2 per cent in 2050 in the Renewable Exports Upside Scenario. This growth is supported by the establishment of new clean-energy embedded industries. Some of this increase also reflects the projected redirection of mined critical minerals and iron ore to support domestic manufacturing, away from export.¹³

Chart 5.5 Projected Value of Australian Exports

Note: Fossil fuels include coal and LNG. Green commodities are those which are broadly covered by the Future Made in Australia agenda. These include green ammonia, green iron, alumina and aluminium, and raw and refined critical minerals. These projections reflect an assessment of Australia's export potential based on a range of sources.

Source: Treasury, Australia's Net Zero Transformation: Treasury Modelling and Analysis.

Geopolitical fragmentation will shape industrial structure through its effects on trade, investment, technology diffusion and market access. Economic security and supply chain resilience concerns are increasing demand for secure and diversified sources of strategic goods and commodities. Geopolitical shocks could reduce the global supply of minerals, agricultural products or natural gas and temporarily increase prices for Australian exports. Australia's stable institutions and reputation as a reliable trading partner may strengthen its position in critical minerals and clean energy, although fragmentation could also slow technology diffusion and increase adjustment costs.

Interactions between the major transitions create opportunities

Major transitions are also interacting in ways that will shape the future of Australia’s economy and its comparative advantages (Table 5.3).

Table 5.3 The major transitions will interact to shape comparative advantage

AI and geopolitical fragmentation	Access to technology, trusted trade relationships, reliability and security of digital ecosystems
Energy transition and geopolitical fragmentation	Access to technology, endowment of renewable energy and mineral resources, trusted supplier relationships
AI and energy transition	AI use in energy system performance, electricity costs and reliability, data centre grid integration, digital connectivity
Ageing and AI	Composition of workforce skills, automation capability, innovation in health services

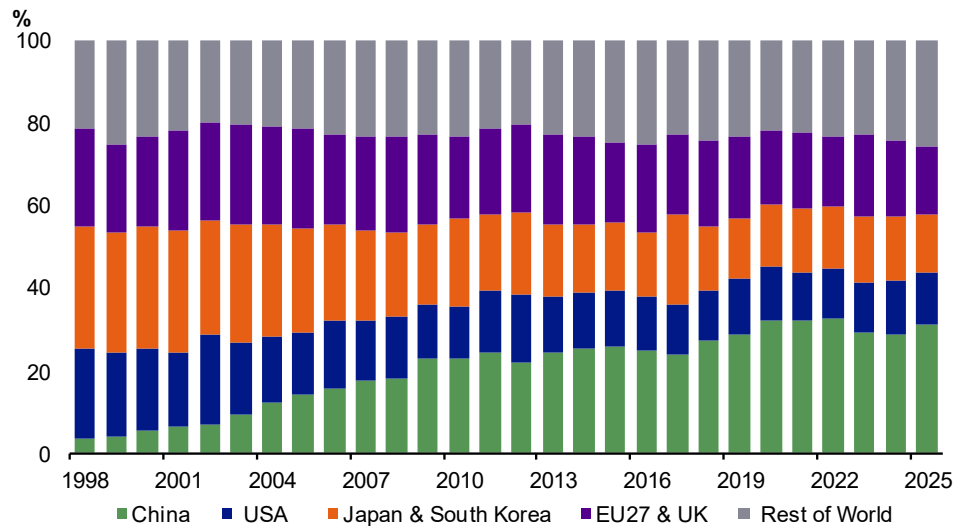
Source: Treasury.

AI and the energy transition will increasingly reinforce one another. Digital production requires substantial computing capacity and energy, meaning access to abundant, reliable and low-cost renewable energy will be an important source of competitiveness. As a result, some digital exports may increasingly embody energy in much the same way that manufactured goods embody the resources used in their production.

Population ageing will add a further dimension by placing greater pressure on labour supply and increasing demand for health and care services. These challenges may accelerate the adoption of AI and other technologies across the care economy, helping to improve productivity, support service delivery and augment a workforce facing growing demand.

Geopolitical fragmentation will interact in complex ways with both AI and the energy transition. This has the potential to influence economic partnerships and access to technologies that will shape industrial transformation, both globally and in Australia. Maintaining strong economic partnerships with a diverse set of major economies will remain a key element of Australia’s successful industrial transformation. Australia’s capital imports, a key source of technological diffusion and productivity growth, have remained highly diversified across the major economies. This has occurred even as China’s share has risen alongside its emergence as a major source of innovation and technological development (Chart 5.6).

Chart 5.6 Australia's capital goods imports by region



Note: Capital in this chart refers to the United Nations (UN) Broad Economic categories 'Capital goods, except transport equipment' and 'Transport equipment, industrial'.

Source: UN Comtrade Database; and Treasury.

Australia's experience of structural change shows that industrial transformation operates through a common set of mechanisms as structural change impacts demand for Australia's commodities, other tradable sectors and non-tradable sectors. Changes in technology, global demand and policy alter productivity, comparative advantage and relative prices. These changes affect incomes, consumption, investment, employment and trade, while also shaping the organisation of production within industries.

Australia's capacity to benefit from the major transitions will depend on how effectively firms, workers and governments invest in new capabilities, adapt institutions and support the movement of resources towards emerging opportunities.¹⁴

5.3 Positioning Australia for the future

Policy settings will shape how Australia captures new opportunities

Australia's ability to benefit from industrial transformation will depend on effective policy settings to support investment, skills development, business dynamism, and access to international markets and technologies. Effective policies can help firms and workers adapt to the major transitions by strengthening comparative advantage, building capabilities that support resilience and security, and reducing barriers to the movement of people, capital and ideas towards emerging opportunities.

The Government's policy initiatives support adaptation to industrial transformation through targeted investment, workforce capability, competitive and dynamic markets, and strong international economic partnerships that support trade, investment and technology diffusion.

Investing in comparative advantage and economic security

The energy transition is reshaping demand for critical minerals, clean energy technologies and low-emissions production. The Government's policy initiatives and targeted investments are overcoming barriers in areas where Australia has potential for sustained comparative advantage and where domestic capability supports economic resilience and security.

As part of the Future Made in Australia agenda, the Government has identified renewable hydrogen, green metals, low-carbon liquid fuels, critical minerals processing, clean energy manufacturing and forestry as priority sectors that align with the National Interest Framework established under the *Future Made in Australia Act 2024*. The Framework guides significant public investment decisions by considering Australia's competitiveness, economic resilience and security, contribution to the net zero transition, and the case for public intervention.

The Government's targeted investment measures are designed to help Australia capture the opportunities from industrial transformation by building capability in areas of comparative advantage and economic security. Under the Future Made in Australia agenda, the \$1.5 billion Innovation Fund supports green iron, clean energy technology manufacturing and low-carbon liquid fuels, while investment in the Boyne Aluminium smelter and the \$1 billion Green Iron Investment Fund supports green metals and steel transformation.

Production-linked Hydrogen and Critical Minerals Tax Incentives will support investment, alongside Export Finance Australia and the National Reconstruction Fund Corporation, which help crowd in private finance. The Investor Front Door further supports nationally significant projects by streamlining investment processes. Together, these measures support the investment needed to strengthen Australia's position in clean energy supply chains and capture opportunities from the net zero transition.

Skills and workforce mobility will support adaptation

The Government's skills agenda is helping to prepare workers to move into expanding sectors and adapt to the new technologies driving industrial transformation. Investments in schools, vocational education and training, and industry-led skills planning are helping build the capabilities needed for a more services-intensive, digital and low-emissions economy.

The Government is building an adaptive skills system to support industrial transformation through record investments and working with unions, employers and governments to find solutions to skills and workforce challenges. This includes an additional \$20.2 billion over the next 10 years for government schools and up to \$12.6 billion over 5 years for the National Skills Agreement to support students in the vocational education and training (VET) sector. The Government has established Jobs and Skills Councils, providing industry with a voice to ensure the VET sector delivers better outcomes for learners and employers.

The Government is making changes to better recognise skills for workers and students. University students with relevant VET qualifications will have the length and cost of their study reduced through the development of a National Credit Recognition Framework. The Government is investing \$85.2 million to deliver faster skills assessments for migrant trade workers and to accelerate occupational licensing. The Government is also reforming the permanent migration points test, to select better educated, higher-skilled and younger migrants overall.

Worker mobility is also a key element of the Government's efforts to boost productivity. Worker mobility allows Australia to make the most of its workforce, helping emerging industries to tap into the skills needed to grow and compete in a rapidly changing global economy while also supporting productivity and real wage growth. Research by the e61 Institute found that workers who switch jobs move to firms that are an average 13 per cent more productive than those they leave.¹⁵

To support job mobility, the Government is banning non-compete clauses for low- and middle-income employees, and prohibiting no-poach and wage-fixing agreements between businesses. These reforms are expected to commence in January 2027. Productivity Commission modelling suggests reforms to non-compete clauses could lift Australia's productivity and GDP by around 0.2 per cent.¹⁶ The Government is also delivering a national single market for workers by partnering with employers and unions to reform occupational licensing, starting with electricians and engineers.

Regulatory settings will support technology adoption and dynamism

The Government is supporting industrial transformation through its broad and ambitious productivity agenda, which is enabling workers, capital and ideas to move towards more productive and innovative activities. Competitive and dynamic markets encourage business entry, innovation and investment, helping new technologies diffuse across the economy and supporting the reallocation of resources towards emerging opportunities.

Some reforms in this ambitious agenda have now been implemented, such as the significant reforms to Australia's mergers and acquisition system that were legislated in 2024 and took effect on 1 January 2026. These reforms strengthen the Australian Competition and Consumer Commission's ability to prevent anti-competitive mergers while streamlining approvals for mergers that promote scale, innovation and access to new markets. By helping preserve competitive market structures, the reforms are intended to support business dynamism, technology diffusion and productivity growth over time.

Further reforms are in train, as discussed in Chapter 10. The Government has also tasked the Productivity Commission to undertake an inquiry into barriers to business dynamism in Australia to identify further reform opportunities. The inquiry will examine constraints on firm entry, growth and adaptation, and identify opportunities to support innovation, productivity growth and international competitiveness as Australia's industrial structure evolves.

Open and resilient trade and investment will remain critical

Successful industrial transformation will require international trade and investment for access to markets, technology and capital. Intensifying geopolitical fragmentation will mean this access is not assured. That is why the Government's trade agenda is focused on strengthening the rules-based trading system, diversifying markets and building necessary sovereign capabilities. This will preserve the benefits of openness while strengthening economic resilience, including through the Future Made in Australia agenda.

Trade facilitation makes Australia more prosperous by reducing frictions for exporters and importers and keeping firms connected to global markets and supply chains. The Government has removed almost 1,000 nuisance tariffs over two years, streamlining around \$23 billion of trade and saving businesses \$157 million in compliance costs each year. It is also providing \$7.6 million over four years to expand the Australian Trusted Trader program, reducing border frictions.

Trade agreements and the World Trade Organisation's (WTO) multilateral rules are a key part of this agenda. Once Australia's free trade agreement with the European Union enters into force, Australia's trade agreements will cover 88 per cent of the value of Australia's imports and exports.¹⁷ This includes newer deals like the US-Australia Critical Minerals Framework, the Australia-Singapore Green Economy Agreement, and the Australia-led WTO E-Commerce Agreement. Together, these agreements expand market

access, strengthen trusted supply chains and drive commercial relationships in strategically important sectors. This is particularly the case in the Indo-Pacific, the fastest growing region in the world, where the Government continues to promote regional economic integration through institutions such as Asia-Pacific Economic Cooperation and new regional agreements.¹⁸

Open, rules-based trade will remain central to Australia's future prosperity. In a more fragmented global economy, diverse trade and sources of investment will be increasingly important for resilience, as well as productivity growth, technology diffusion and rising living standards.

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6 Intergenerational equity

Overview

Long-term demographic and economic pressures will intensify concerns about intergenerational equity and present significant challenges for all governments and the broader community. Household wealth and incomes are expected to keep rising over time, but younger generations have not been experiencing the same gains as prior generations.

Younger Australians are finding it harder to get into home ownership. Long-term housing supply challenges and generous tax concessions for investors in housing have driven prices to rise faster than incomes for decades, reducing home ownership rates for younger generations and leaving people renting for longer. At the same time, an ageing population and pressures in the tax and transfer system will place increasing pressure on working-age Australians.

In contrast to these challenges, younger Australians will benefit from a maturing superannuation system that will play an increasingly important role in supporting them in retirement. By the mid-2040s, most retirees will have benefited from compulsory superannuation over a significant proportion of their working lives, making superannuation the primary source of retirement income for many retirees and reducing reliance on the Age Pension.

Nonetheless, without reform, the long-term pressures on housing, the tax system and from an ageing population will intensify concerns about intergenerational equity and risk eroding Australia's strong democratic and social cohesion as well as economic security.

The Government is taking action to address these challenges. Reforms across housing and the tax system will support home ownership and rebalance the tax system. The Government is also strengthening the superannuation system to boost financial security and incomes in retirement. Together with reforms to make the budget more sustainable and drive productivity growth, these reforms will support higher living standards for future generations.

6.1 Wealth and income across generations

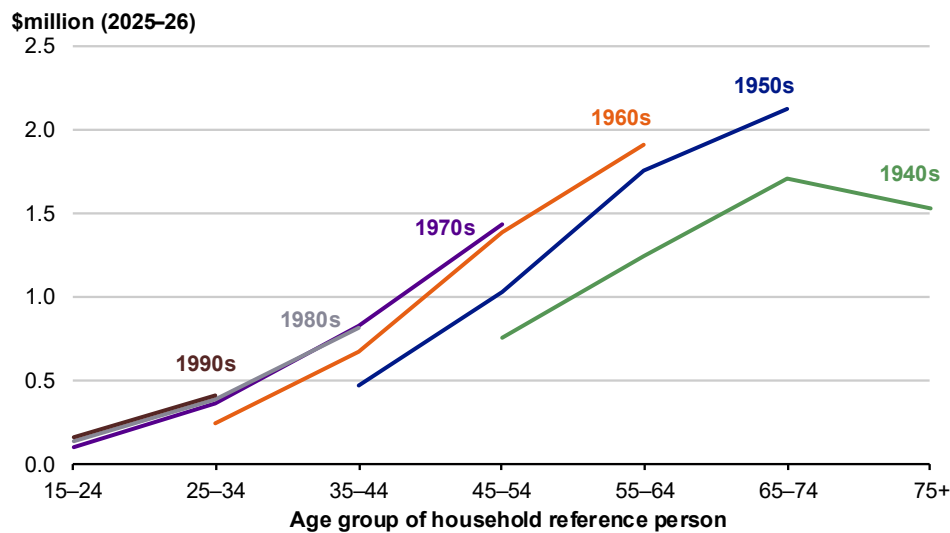
Intergenerational outcomes will be shaped by trends in household wealth

While household wealth is expected to keep rising over time, there is a risk that younger generations continue to see smaller gains compared to prior generations. Accumulated household wealth has grown substantially over recent decades but this is occurring unevenly across generations. Although the average household's real net worth has grown from \$0.5 million in 1993–94 to over \$1.3 million in 2019–20, growth in household wealth relative to prior generations has slowed for younger households (Chart 6.1). Historically, real household wealth has been higher for each generation at similar ages, but cohorts born in the 1980s and 1990s have not seen significant generational gains to date. Meanwhile, older households have experienced very strong wealth growth through their lifetimes.

Access to the housing market and the maturing superannuation system will continue to be key factors shaping wealth outcomes across the generations. Housing and superannuation are the biggest components of household wealth and have been the key drivers of overall rising wealth over recent decades. Gross housing wealth almost tripled in real terms between 1994 and 2020, while superannuation wealth grew five-fold.

The Government is focussed on improving access to the housing market for younger generations to support home ownership and improve economic security and wellbeing. The Government is also strengthening the superannuation system to provide income for a more dignified retirement for Australian workers.

Chart 6.1 Average real household wealth by age of household reference person and birth decade



Source: Australian Bureau of Statistics (ABS) Survey of Income and Housing microdata; and Treasury.

Productivity growth will drive income and living standards for future generations

Living standards and incomes are projected to continue to rise over the next 40 years, driven by productivity growth. Productivity growth underpins increasing incomes for future generations, and the tax base needed to maintain government services, and therefore is key to supporting intergenerational equity.

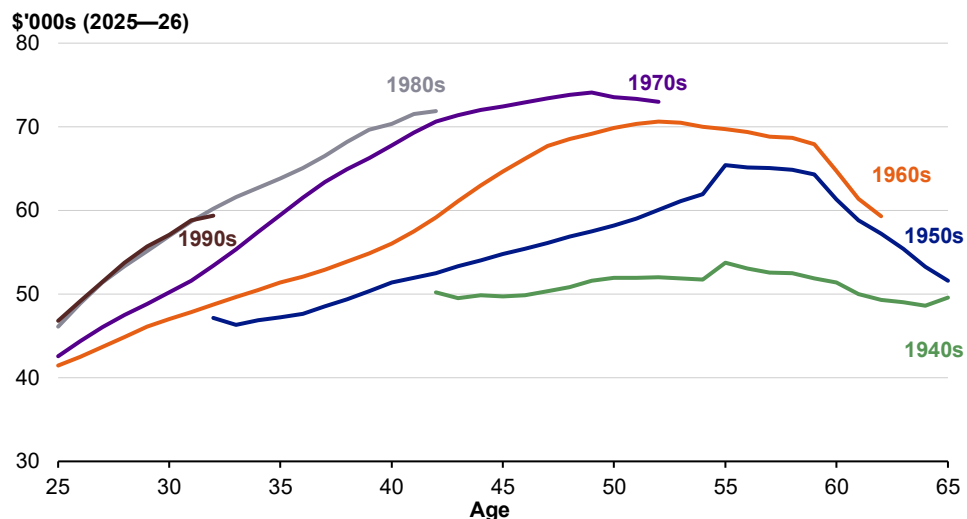
The benefits of productivity growth accumulate over time, giving every generation greater choice over how much they work and earn and forming the foundation for improving living standards from one generation to the next.

In recent decades, advanced economies have seen this pattern come under increasing strain. The likelihood that children grow up to enjoy incomes greater than their parents has declined significantly in many advanced economies, including Australia.¹ For those born in the 1950s, over 80 per cent had higher incomes than their parents in their early 30s. For those born from the 1960s onwards, this has been closer to two thirds.² On average in Australia, each generation has earned higher real disposable incomes than previous generations at the same ages (Chart 6.2). However, those born in the 1990s have not experienced gains in their early careers relative to those born in the 1980s.

This has coincided with a period of slower productivity growth since the mid-2000s. A slowing in productivity growth is not unique to Australia with similar experiences across most major advanced economies. Other factors may also be contributing to the trend in incomes, including delayed entry to the workforce due to higher rates of tertiary study, labour market scarring after the Global Financial Crisis and the COVID-19 pandemic.³

Previous periods of strong productivity growth, including in the 1990s, have often coincided with the emergence of new technologies. While the long-term outlook for productivity growth remains uncertain, the adoption and diffusion of AI across the economy presents a significant opportunity.

Chart 6.2 Average real disposable income by age and birth decade



Note: Includes total disposable income, not adjusted for hours worked. Top and bottom percentiles are winsorised.

Source: Australian Taxation Office (ATO) Alife and Treasury.

The tax and transfer system will be a key influence on intergenerational equity

Prospects for income and wealth accumulation will continue to be shaped, in part, by the circumstances people are born into. Australia has relatively high intergenerational mobility compared to similar countries, but children with parents in the top or bottom income decile, are more likely to remain in the top or bottom decile themselves.⁴ For example, 14.6 per cent of people born between 1976 and 1982 with parents in the bottom income decile, remained in the lowest 10 per cent of income earners later in their lives, while just 6.4 per cent of them ended up in the top 10 per cent. At the other end of the distribution, just 7.5 per cent of people with parents in the top decile ended up in the bottom decile, with 20.1 per cent remaining in the top decile. This highlights the persistence of disadvantage across generations, which is driven in part by trends in the distribution of wealth and income. A progressive and targeted tax and transfer system that appropriately balances the tax burden is an important mechanism through which the Government can support intergenerational equity.

6.2 Intergenerational trends in the housing market

Younger generations have been locked out of the housing market for decades

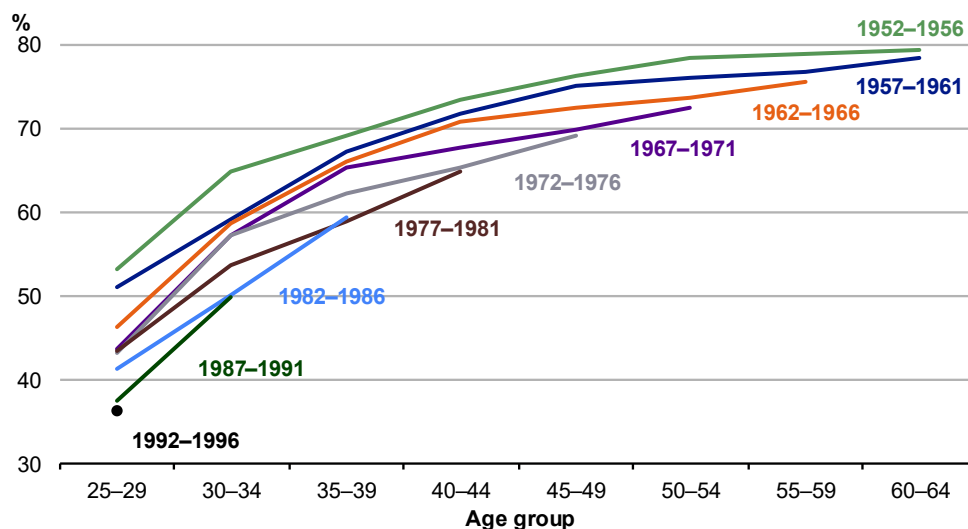
The divergence between incomes and house prices is making access to home ownership harder for younger Australians.⁵

The rapid increase in housing prices over recent decades has increased the wealth of incumbent owner-occupiers and property investors relative to those without housing assets, as housing prices have grown more rapidly than most other asset prices.

At the same time, there has been a decline in home ownership, particularly among younger generations (Chart 6.3). Home ownership for households aged 25–34 has fallen by 17 percentage points in the four decades from 1981 to 2021 and has resulted in housing falling as a share of total wealth for these age groups. In 2021, only half of households aged 30–34 and about one-third of those aged 25–29 owned their own home. If home ownership rates had remained at their 1981 levels, the most recent data available indicates around 250,000 more households aged 25–34 would own their own home.

While younger Australians will continue to accrue wealth over their lifetimes, higher initial asset prices also mean households are taking on greater liabilities when entering the housing market.

Chart 6.3 Home ownership rates by birth cohort and age group, 1952–1956 to 1992–1996



Note: Analysis excludes households who did not state whether they owned their home. Home ownership rates based on the age of the household reference person. 1991 data are interpolated from 1986 and 1996 Census data.

Source: ABS Census (various).

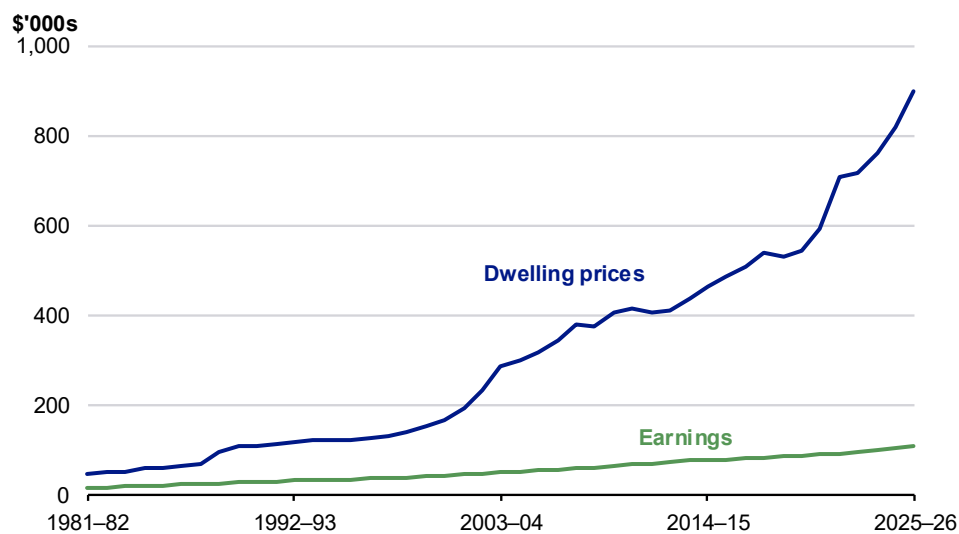
Boosting housing supply and reforming investor tax concessions are important to improve housing affordability

Housing supply will be the most important factor in tackling housing affordability. Strong population growth and lower average household sizes, due in part to an ageing population and slower family formation, have supported demand for housing. Meanwhile, new supply of housing relative to demand has slowed since 2001, which is a reversal of the trends that occurred over the preceding 25 years. In the early 2000s, Australia ranked around the middle across Organisation for Economic Co-operation and Development (OECD) countries in terms of housing stock per person, but by 2020, Australia had fallen to the sixth-lowest position.⁶ Australia now builds about half as many dwellings per housing construction hour worked compared to 30 years ago.⁷

Tax settings have exacerbated affordability issues. The combination of the 50 per cent capital gains tax discount and negative gearing reduce effective tax rates on investment properties, making housing assets particularly attractive investments. These tax advantages have increased the share of housing owned by investors, at the expense of Australians looking to buy a home. Property investments are typically in existing housing, with the share of new investor housing lending used for existing dwellings ranging from approximately 80 per cent to 90 per cent since 2019.⁸

These factors, among others, have combined to see housing prices rise by 400 per cent between May 1999 and May 2026 – more than twice as fast as average incomes. As a result, median housing prices have risen from around four times average full-time earnings in 1999–00 to around eight times in 2025–26 (Chart 6.4). The time required to save a 20 per cent deposit has increased from 7.1 years in December 2002 to 11.2 years in December 2025.⁹

Chart 6.4 Earnings and dwelling prices



Note: Dwelling prices are median sales AVM value (Cotality), financial year average; earnings are annualised full-time adult average weekly ordinary time earnings (ABS), financial year average.

Source: Cotality 2026 and ABS Average Weekly Earnings 2026.

Improving home ownership will support household economic security and financial wellbeing in retirement

Home ownership will continue to be an important contributor to living standards. Owner-occupied housing is a unique asset in that it provides both a place to live and longer-term financial benefit as a vehicle through which to store and accumulate wealth.

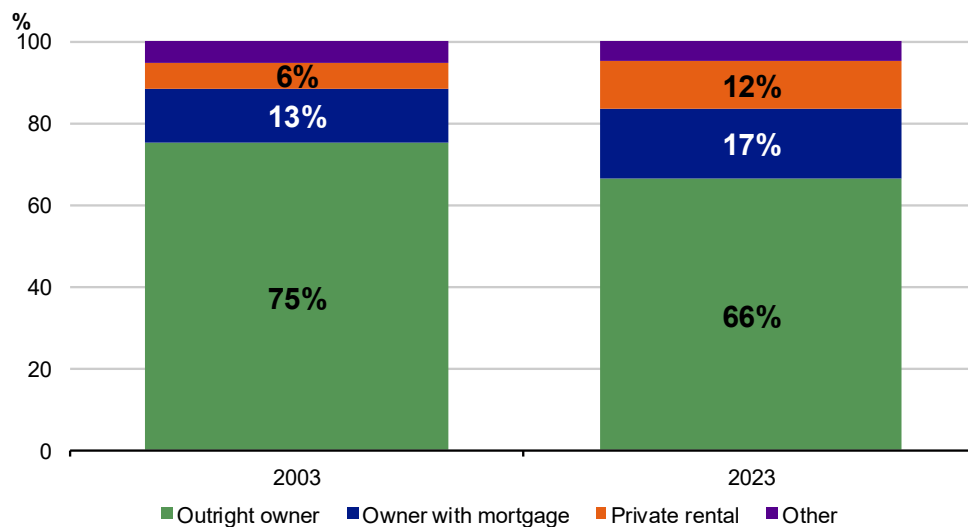
Research suggests owning a home is associated with stronger social connectedness, improved mental health outcomes and better educational outcomes for children.¹⁰ Owning a home provides significant advantages and spillover benefits from the stability and certainty it provides to the household. Non-homeowners are more likely to require greater support from the social security and health systems during their lifetime.

Home ownership is also a strong predictor of financial wellbeing in retirement. Outright homeowners benefit from lower housing costs through avoided rental payments and can draw on housing wealth to support living standards in retirement. By contrast, retiree renters face substantially higher housing cost pressures and poverty rates.

The share of retirees living in private rentals has doubled over the last 20 years (Chart 6.5). At the same time housing costs have increased and now represent 40 per cent of retiree renter household expenditure. The share of retirees who own their homes outright has declined from 75 per cent in 2003 to 66 per cent in 2023.¹¹ Only 11 per cent of retired homeowners live in poverty, compared with 67 per cent of retirees who rent in the private market.¹²

The Government is acting to improve housing affordability by supporting new supply and rebalancing the tax system. Giving young Australians access to the housing market will improve prospects of building wealth and help to improve wellbeing and financial security in retirement.

Chart 6.5 Housing tenure types among recent retirees, 2003 and 2023



Note: 'Recent retirees' are people who had retired in the previous four years. 'Other' housing tenure type includes those living in social housing and those living rent free. Data excludes people living in institutions including hospitals and other healthcare institutions and other non-private dwellings (such as hotels and motels).

Source: HILDA Survey, Statistical Report 2025.

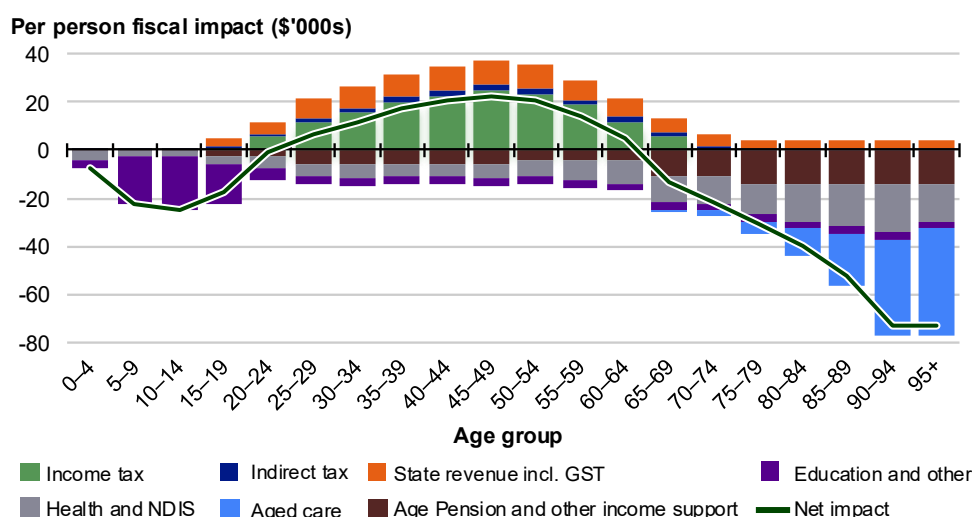
6.3 Pressures in the tax and transfer system

Working-age Australians will continue to be the main contributors to the budget

The effects of an ageing population will place increasing pressure on the tax and transfer system. Older Australians are substantial beneficiaries of government transfers, reflecting higher needs later in life. Support such as aged care and the Age Pension help maintain living standards, independence and quality of life as people age.

This pressure will be primarily borne by working-age Australians. Over an individual's lifetime, the tax and transfer system follows a broadly predictable pattern (Chart 6.6), with salary and wages the largest source of personal income tax. As indirect taxes face structural decline, the share of tax receipts from personal income taxes is projected to rise (Chapter 13). This combination of trends means that, over time, working-age Australians will support a growing number of older Australians who are living longer and driving demand for health and aged care services.

Chart 6.6 Average fiscal impact by age, 2023–24



Note: Treasury's Fiscal Impact of New Australians (FIONA) model is used to estimate key Commonwealth, State and Territory Government revenue and expenditure types by age for the Australian population in 2023–24. FIONA captures revenues and expenditures that can be attributed to individuals. The results do not include all revenue sources (such as company income tax) or expenses (such as defence) or local government.

Source: Treasury.

Longer term pressures from disability and an ageing population will continue to weigh on the Budget

Ageing will remain a key driver of increased spending. This will place increasing pressure on the tax and transfer system and increase the risk of higher debt, passing the cost of spending to future generations. These concerns form part of the rationale for reforms to moderate spending growth in aged care and the National Disability Insurance Scheme (NDIS), as outlined further in Chapter 12.

Population ageing will drive growth in spending on health services, aged care and the NDIS. Other social security and welfare spending, which is distributed more evenly across the lifecycle, has reduced as a share of total expenditure and is expected to continue on this trend.

Over the 20 years to 2024–25, drivers of growth have varied by age. The Disability Support Pension is the main source of growth in the 65–69 age group, while spending on the Age Pension has fallen. This in part reflects the Age Pension qualification age increasing from 65–67 and the maturing of the superannuation system. Among the 70–74 to 80–84 age groups, the Age Pension has been the largest contributor to growth. For 85 year olds and above, aged care has been the largest contributor to spending growth, reflecting high life expectancy and reforms resulting from the Royal Commission into Aged Care Quality and Safety.

The NDIS has been the largest contributor to real spending growth for younger age groups, but reforms will moderate this part of Scheme growth over the projection period. The NDIS has contributed to nearly 80 per cent of growth for the 0–4 age group, with school spending the next largest contributor for younger age groups.

Tax reform is needed to reduce the pressures on working age Australians

Reforming the tax concessions provided for income earned from assets will help to manage the pressures on taxable income from salary and wages. The tax arrangements for income earned from assets are inconsistent and often result in lower tax rates than the tax rates paid by workers. Compared to people who earn most of their incomes from salary and wages, people who earn a larger share of their income from non-wage sources (excluding benefits) generally pay significantly lower tax rates for the same level of gross income.¹³

These arrangements disproportionately benefit higher income earners and those who earn a larger share of their income from non-labour sources, who are most able to access opportunities to reduce their tax paid. This means that higher earning Australians can pay lower tax rates than those with lower means, substantially undermining the progressivity of the tax system.¹⁴

As structural spending pressures from an ageing population increase, longer-run trends in the economy will also affect the composition of tax receipts, increasing the burden on the working-age population. As outlined in Chapter 13, the projections in this Intergenerational Report (IGR) assume tax receipts remain constant at 24.2 per cent of GDP from 2032–33. Decarbonisation of the transport sector and changing consumer preferences are projected to erode the fuel and tobacco excise bases, and as these indirect taxes face structural decline, the share of tax receipts from personal income taxes is projected to rise.

As discussed further below, the Government’s reforms to rebalance the tax system will help to lower the tax burden on workers and create space for more tax relief in the future.

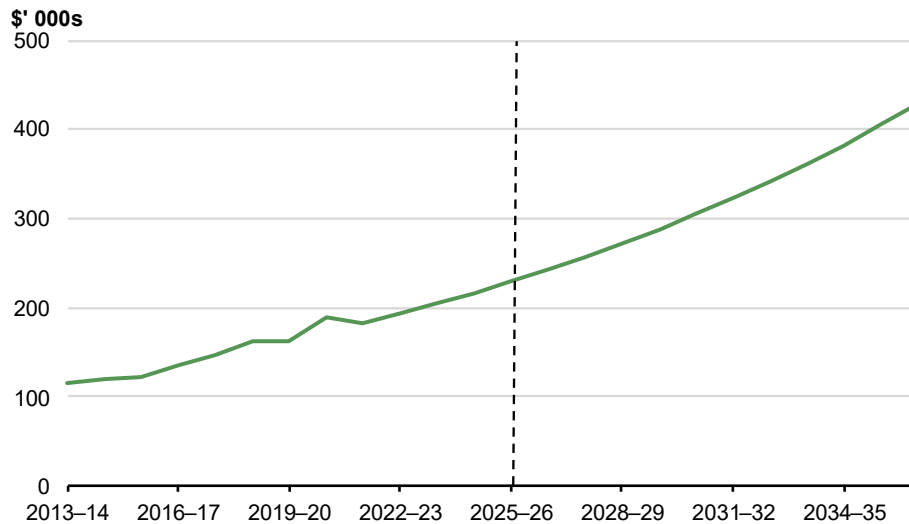
6.4 The role of superannuation in improving outcomes across generations

Retirement balances will rise significantly over time as the superannuation system matures

Superannuation is the second largest source of wealth for Australian households and will play an increasingly important role in supporting income in retirement. Australia currently has the fourth largest pool of retirement assets in the world and around 19 million Australians have a superannuation account. Since the introduction of the Superannuation Guarantee in 1992, superannuation assets have grown from around \$148 billion to around \$4.8 trillion.

Balances at retirement will continue increasing as the system matures. Between 2014 and 2024, the median superannuation balance for individuals aged 65–69 rose 77 per cent, from \$115,000 to \$204,000 in nominal terms. By the end of the medium term, this is projected to approach \$450,000. This reflects returns on superannuation balances and a growing number of individuals who can retire having benefited from compulsory superannuation over a significant portion of their working lives (Chart 6.7).

Chart 6.7 Median superannuation balance ages 65–69, 2014 to 2037

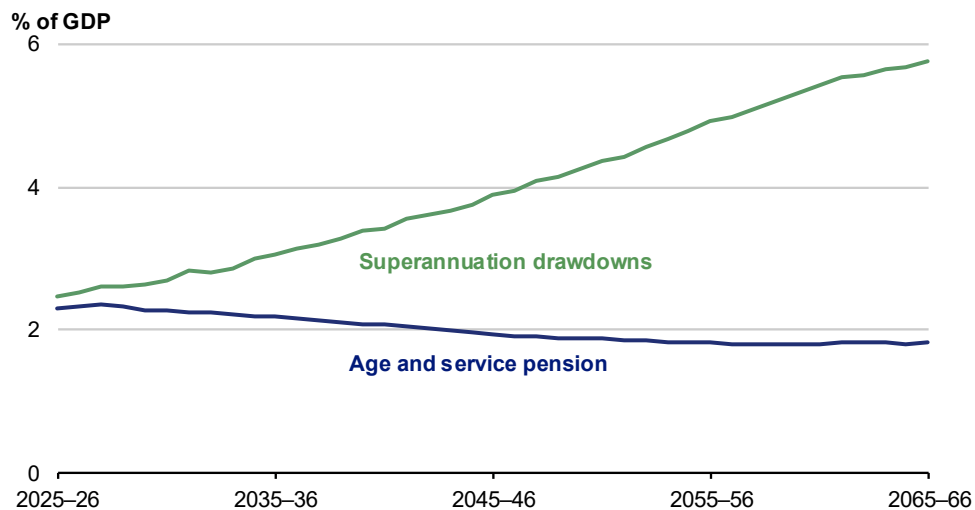


Source: Treasury.

The superannuation system will support a higher standard of living in retirement and reduce reliance on the Age Pension

Growing balances will result in superannuation becoming the primary source of retirement income for many retirees. By the mid-2040s, most retirees will have received the superannuation guarantee for the duration of their working lives. Drawdowns from superannuation are projected to increase to almost 6 per cent of gross domestic product (GDP) by 2065–66, allowing retirees to enjoy a higher standard of living than relying on the Age Pension alone, while also taking pressure off the Age Pension (Chart 6.8).

Government spending on the Age Pension is projected to decline as a share of GDP over the projection period despite an ageing population and in contrast to most other advanced economies, where public pension spending is expected to grow (Chapter 12).

Chart 6.8 Drawdowns from superannuation and Age and Service Pension expenditure

Source: Treasury

Making the most of superannuation in retirement will support living standards

Many recent retirees retain substantial superannuation balances at the end of their lives. This may be for multiple reasons, including complexities of navigating the superannuation system, the fear of exhausting savings and the 'nest egg' framing of superannuation. The median superannuation balance for people aged 65 and over in the year before death in 2022-23 was \$76,000, with around a quarter of balances exceeding \$250,000.

The Government is progressing reforms to support retirees make better use of their superannuation savings and strengthen the role of superannuation as a source of retirement income as the system matures. Over time, this is expected to improve living standards in retirement. By encouraging retirees to draw on their superannuation savings in retirement, the reforms help ensure that the benefits earned during working lives, and the tax concessions that support them, flow to the targeted generation.

6.5 Positioning Australia for the future

Reforming the tax system and supporting new supply will help more Australians into home ownership

The Government is helping more Australians into home ownership through policies which increase supply, support first home buyers and reduce tax concessions for investors.

In the 2026–27 Budget, the Government announced reforms to negative gearing and capital gains tax aimed at reducing tax advantages that have increased the share of housing owned by investors, at the expense of Australians looking to buy an owner-occupied home. These changes will help more Australians get into the housing market, adding an estimated 75,000 additional owner occupiers over a decade. This is approximately a 1 percentage point change in the home ownership rate and is equivalent to reversing around ten years of declines in that rate.

Through the \$47 billion Homes for Australia plan, the Government is supporting the construction of up to 420,000 new homes over the next decade. The plan invests in enabling infrastructure, construction workforce initiatives, productivity-enhancing reforms and home building programs in partnership with local and state government and industry.

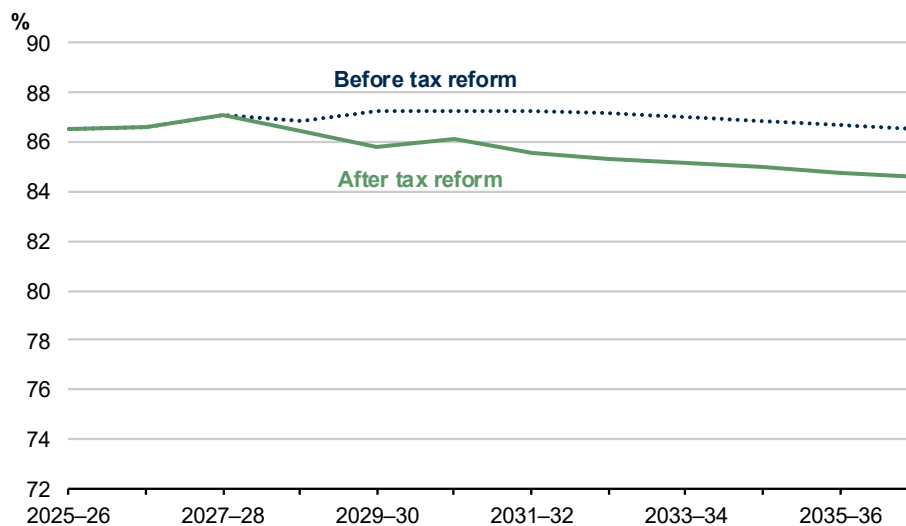
The Government is supporting more than half of the 110,000 first home buyers each year to enter the housing market including through the Help to Buy Scheme, 100,000 Homes for First Home Buyers, and the 5% Deposit Scheme. More than a quarter of a million Australians have purchased a home with support from the 5% Deposit Scheme since 2022, helping participants avoid paying more than \$2.3 billion in Lenders Mortgage Insurance.

Rebalancing the tax system will help to take the pressure off workers and young people

The Government's changes to personal income tax settings announced in the 2026–27 Budget will lower the tax burden on working-age Australians and better link tax paid to lifetime income by applying a fairer, more consistent tax treatment of income from assets.

Combined, the Government's tax reforms will rebalance the tax system and reduce the tax burden on workers. By the end of the medium term, the share of personal income tax burden on workers is expected to be 2 percentage points lower than it would have been without reform (Chart 6.9). Over time, this share is expected to fall further as an increasing share of property investment and capital gains will become subject to the new tax settings.

In addition, the Government's efforts to improve the budget position have created more room to provide further tax relief in future budgets.

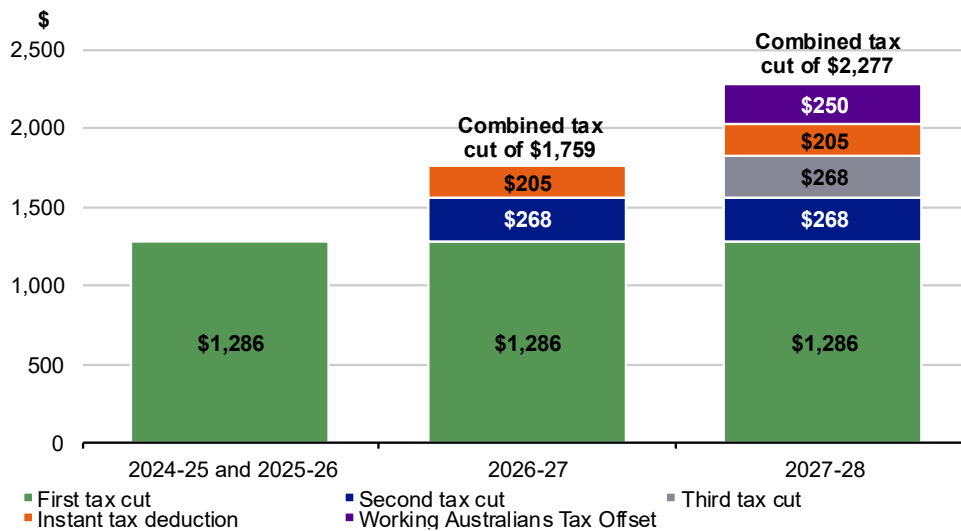
Chart 6.9 Taxes on workers as a share of personal income tax, before and after tax reform

Note: Taxes on workers are calculated based on income tax withholding and are adjusted to include the impact of the Working Australians Tax Offset and the Instant Tax Deduction (reported under the Refunds, Other individuals and Trusts heads of revenue). Taxes on workers does not account for taxes paid by sole traders, the impact of deductions against labour income (such as work-related expenses) or refunds of taxes withheld on salary and wages. This chart is based on tax receipts forecasts and reform measures as at the 2026-27 Budget. The chart does not include the impact of the Innovative Business Capital Gains Tax Concession or the Government's changes to the small business 50 per cent active asset reduction.

Source: Treasury.

Rebalancing the tax system to reduce the burden on workers is particularly important for younger Australians, who generally earn most of their income from salary and wages. In 2023-24, salary and wages accounted for around 90 per cent of income reported by tax filers aged 30. The median 30-year-old Australian worker is expected to receive a combined tax cut of \$2,277 in 2027-28, compared to 2023-24 tax settings (Chart 6.10).

Chart 6.10 Tax benefits of reform for the median 30-year-old Australian worker



Note: The combined tax cut is compared to 2023–24 tax settings. The median 30-year-old Australian worker is assumed to have annual taxable income equal to \$64,260 based on 2023–24 tax data (after incorporating an annual deduction for work-related expenses of \$388). From 2026–27 onwards, the worker's taxable income is further reduced by the instant tax deduction (providing a tax benefit of \$205). From 2027–28, the worker is assumed to benefit from the full Working Australians Tax Offset. Tax payable is calculated accounting for basic tax rates and thresholds, Low Income Tax Offset and the Medicare levy. The median 30-year-old Australian worker does not have any capital gains or net rental income.

Source: Treasury.

Strengthening the superannuation system will support a dignified retirement

The superannuation guarantee has now risen to 12 per cent, supporting workers to save across their working life to help secure a reasonable standard of living in retirement.

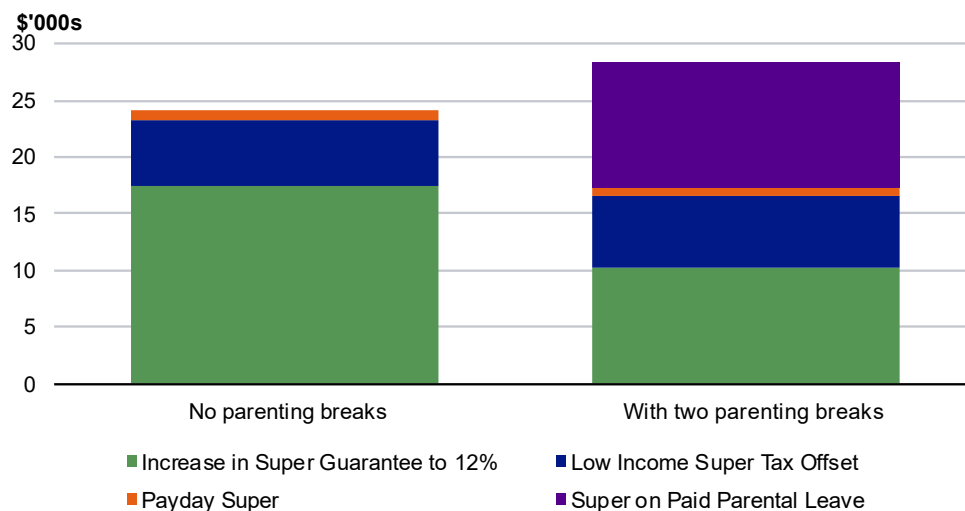
In addition, the Government has implemented significant reforms to strengthen the superannuation system, including legislating the objective of superannuation to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way. The Government has also legislated to require superannuation contributions to be paid at the same time as wages to help address the problem of unpaid superannuation and is now paying superannuation on Government paid parental leave to help close the gender superannuation gap.

Reforms to better target superannuation tax concessions and boost the low income superannuation tax offset will also make the system fairer, including by ensuring that low-income workers keep more of their superannuation for retirement. Over 1.3 million low-income workers will benefit when these changes take effect from 1 July 2027.

The Government has also announced reforms to make the superannuation system safer, provide better access to financial advice, and reform the retirement phase of superannuation as well as consulting on reforms to strengthen the superannuation performance test.

Together, these reforms will support workers to accumulate more and safeguard the system to ensure it continues to deliver on the promise of a better standard of living in retirement. Over ten years, the combined benefits of the Government's reforms to superannuation could leave a young single worker on a low income up to \$24,000 better off in retirement (Chart 6.11). If that worker takes time out of the workforce for a couple of periods of parental leave, the impact at retirement is even larger due to the additional benefit of superannuation paid on parental leave where no superannuation would otherwise have been paid, leaving them up to \$28,000 better off in retirement.

Chart 6.11 Cameo: Difference in retirement savings resulting from key reforms for a young low-income worker



Note: This cameo assumes a single 30-year-old individual who works part time for ten years with a starting salary of \$37,700. The profile on the right assumes the individual has two children and receives superannuation on Paid Parental Leave (PPL) during these two periods of parental leave.

Source: Treasury.

A wider focus on intergenerational equity will support democratic and social cohesion

Addressing the long-term pressures on intergenerational equity will not only support fairness and improve economic outcomes across generations, but also reinforce Australia's strong democratic and social cohesion.

That's why, in addition to significant reforms in housing and tax and measures to strengthen the superannuation system, the Government has had a focus on improving intergenerational outcomes across all policy areas.

As discussed in Chapter 12, the Government is putting the Budget on a more sustainable footing through significant savings including structural reforms to the NDIS, health and aged care. These reforms are a key driver of the improvement in the fiscal position compared to the 2023 IGR. This improvement means that gross debt is lower than it otherwise would be, helping to reduce interest costs borne by future generations.

Building on the Economic Reform Roundtable, the Government has also announced significant reforms to reduce regulatory burden, reduce compliance costs, facilitate the efficient allocation of labour and capital and encourage investment and innovation. As discussed in Chapter 10, these reforms allow businesses to focus on activities that drive productivity growth, supporting income growth and living standards.

The Government has also taken significant steps to support the opportunities of younger generations. This includes a one-off 20 per cent cut in student debt, the introduction of a 3 Day Guarantee for early childhood education and care, an additional \$20.2 billion invested in public schools over the next decade, and at least 100,000 Free TAFE places every year from 2027 to help address skills shortages that may constrain economic output.

These wider reforms can help ensure Australians are sharing in the opportunities generated by Australia's strong institutions and unique advantages. By acting now, the Government is seeking to ensure that future generations inherit an economy that is more productive, a budget that is more resilient and a tax and transfer system that remains fair, sustainable and fit for purpose.

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Note about data

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Part II: The economy over the next 40 years

7 Economy

Overview

Australia's economy is expected to grow and living standards are expected to rise over the next 40 years. By the end of the Intergenerational Report (IGR) projections, the real Australian economy is expected to be more than twice the size and living standards 55 per cent higher. Real gross domestic product (GDP) is projected to grow at an average annual rate of 2 per cent over the next 40 years.

The projections for economic growth over the next 40 years are lower than the average of the previous 40 years, consistent with the experience of many other advanced economies. The average annual growth rate of 2 per cent over the next 40 years is lower than the average of 3 per cent over the past 40 years. This moderation in growth primarily reflects the ageing of the population.

The Australian labour market is expected to remain resilient, with employment and the labour force continuing to grow over the next 40 years. Labour force participation is projected to continue to rise, peaking at 67.7 per cent in 2039–40, significantly later than projected in the 2023 IGR. The labour force participation rate is then projected to decline due to the ageing population. However, it is still projected to be 1.4 percentage points higher than projected in the 2023 IGR by 2062–63. The unemployment rate is projected to settle to 4¼ per cent over the long-run, consistent with the NAIRU estimate.

The pathway for future productivity is uncertain and will depend on a range of factors, including the evolution of the major transitions, our ability to keep pace with and adapt to technological progress, and how well policy settings manage risks and opportunities. Consistent with this outlook, this IGR maintains a long-term productivity growth assumption of 1.2 per cent per year.

These projections build on Australia's economic resilience and outperformance relative to many other advanced economies in recent years. Despite significant global volatility, the Australian economy is over 5 per cent larger than at the time of the 2023 IGR. Over the past three years, Australia's growth has been faster than almost every G7 economy and much faster than the G7 median. Unemployment has been low and participation has been high relative to history and many advanced economies. This puts Australia in a strong position to manage the challenges and maximise the opportunities in the decades ahead.

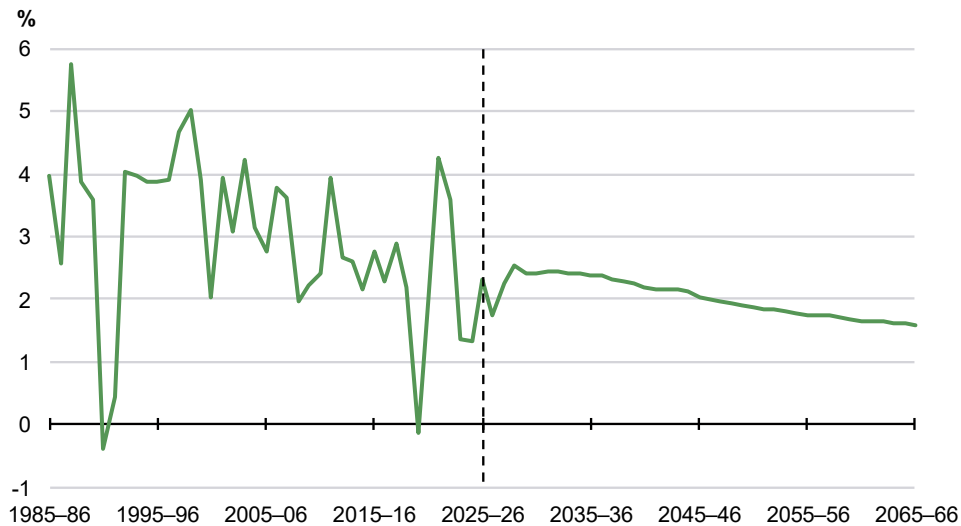
7.1 Economic projections

A growing economy and rising living standards

The economy is projected to continue to grow and living standards will rise over the next 40 years. This is expected to happen at a more moderate pace than in the past, consistent with the expectations for other advanced economies (Chapter 10). Over the next 40 years, Australia's real GDP is projected to grow at an average annual rate of 2 per cent. Growth is estimated to be 2.3 per cent through the remainder of the 2020s and 2030s before gradually declining to 1.6 per cent by 2065–66 (Chart 7.1). This compares to the previous 40 years, where the Australian economy grew at an average annual real rate of 3 per cent and living standards have increased by around 80 per cent, representing a close to doubling in output per capita.

Population ageing drives most of the projected slowing in real GDP growth over the longer run. This is similar to the projections in previous intergenerational reports but the impact in this IGR is more pronounced than in the 2023 IGR. Population ageing is mainly driven by falling fertility rates. An older population structure is expected to weigh on labour force participation, as older Australians typically participate less in the labour market, and work less hours when they do. However, this will be moderated by increases in participation within cohorts, particularly for women and older workers.

Even with projected slower growth, in real terms the Australian economy is expected to be around 2¼ times larger in 2065–66 than in 2025–26.

Chart 7.1 Growth of the Australian economy

Source: Australian Bureau of Statistics (ABS) Australian National Accounts: National Income, Expenditure and Product; and Treasury.

Underpinning the projections of real GDP are demographic and economic parameters (population, participation and productivity), which are combined to produce an estimate of potential output (Box 7.1). Potential output is the level of output the economy can sustain over time without generating inflationary pressures. Potential output depends on the number of people in the economy, the proportion of those who are part of the labour force, how many hours they work, how efficiently they work and the capital that they have to work with.

While these projections assume the economy operates at its potential, in practice, the economy will experience temporary shocks and fluctuations in the business cycle. These have become more common. For example, the economy has been impacted by multiple large shocks over the past 20 years, including the 2026 conflict in the Middle East, the COVID-19 pandemic and subsequent global inflationary pressures and the Global Financial Crisis.

Population growth is projected to slow and the population is expected to age

Population growth is expected to average 0.9 per cent per year over the next 40 years, down from 1.4 per cent over the past 40 years, primarily driven by lower fertility rates. Australia's population is expected to reach 39.3 million by 2065–66.

The population projections depend on natural population change and net overseas migration. Net overseas migration is assumed to be 235,000 people per year over the long run, consistent with the 2026–27 Budget. The fertility rate is projected to gradually decline to 1.34 children by 2065–66. This is lower than the previous assumption of 1.62.

These developments are projected to contribute to a marked shift in Australia's age structure. The number of Australians aged 65 and over will almost double, and the number of aged 85 and over will triple.

Chapter 8 contains more information on population trends.

Participation is high and will increase further

The participation rate is expected to increase to a peak of 67.7 per cent in 2039–40, before declining to 64.7 per cent in 2065–66. The increase represents a continuation of the trends seen over the previous 40 years, including increased participation for women and older workers. The improved outlook for labour force participation compared to the 2023 IGR contributes positively to the level of real GDP. Real GDP is expected to be 2.2 per cent higher in 2062–63 than if the participation rate outlook was unchanged from the 2023 IGR.

By the early 2040s the participation rate is expected to decline as these trends are expected to be more than offset by population ageing. Older Australians tend to participate less than younger cohorts, putting downward pressure on the participation rate over time.

Average weekly hours worked per employed person has been high in recent years relative to a longer-run downward trend. As a result, average hours are expected to cyclically ease over the near term, adding to the structural decline in average hours. Structural decreases in average hours are mainly associated with a greater number of part-time workers which are expected to drive much of the increase in the participation rate. However, average hours per employed person are expected to eventually stabilise and cease weighing on GDP growth in the later part of the projections. These factors combine to drive the detraction in average hours worked over the next 40 years (Chart 7.2).

The Non-Accelerating Inflation Rate of Unemployment (NAIRU) is estimated to remain at 4¼ per cent.

Chapter 9 contains more information on participation trends.

Lifting productivity will raise living standards

The outlook for productivity is uncertain, with a vast number of opportunities and challenges. The future pathway for productivity will be influenced by a range of factors including innovation, diffusion of technology, investment and policy settings, both domestically and globally. Harnessing these opportunities will allow Australia to lift our productivity performance.

Developments in productivity in recent years have added uncertainty to future productivity outcomes. Pandemic-related volatility in the first half of this decade has made underlying trends even harder to interpret. On the other hand, developments in artificial intelligence present opportunities for longer-term productivity growth.

The long-term assumption takes account of these factors. Long-term labour productivity growth is assumed to be 1.2 per cent per year. This is consistent with the 2023 IGR and is broadly consistent with the range used by other countries.^v

Further information on productivity trends can be found in Chapter 10 and Box 10.1 describes sensitivity analysis undertaken related to the long-term productivity assumption.

^v The UK's Office for Budget Responsibility uses a 1.5 per cent assumption, the US Congressional Budget Office uses a 1.4 per cent assumption, the New Zealand Treasury uses a 1 per cent assumption, and the Canadian Department of Finance uses a 0.9 per cent assumption (Chapter 10).

Box 7.1 3Ps framework

Long-run economic growth is driven by the expansion of supply capacity in the economy. Growth occurs when the supply of labour increases through population growth or higher labour force participation and hours worked, or when investment, improvements in technology and efficiency gains lift labour productivity, allowing more goods and services to be produced for a given set of inputs.

The three key drivers of growth are:

- population – change in the number of people in the working-age population
- participation – change in the proportion working and their working hours
- labour productivity – change in the output produced per hour worked.

Together, the 3Ps determine the potential quantity of goods and services that the Australian economy can produce, known as potential GDP. While economic activity may fluctuate in the short term, this IGR and previous intergenerational reports assume that, over the long run, real GDP converges to this potential level.

Treasury uses a macroeconometric model of the Australian economy that combines the projected trajectories of the 3Ps and trend inputs to generate projections for real GDP and GDP per capita. These are a key driver of future living standards. By combining real GDP and prices, the model also projects nominal GDP, which measures the nominal value of the output produced in Australia. Nominal GDP is the main determinant of the tax base and the Government's capacity to fund services.

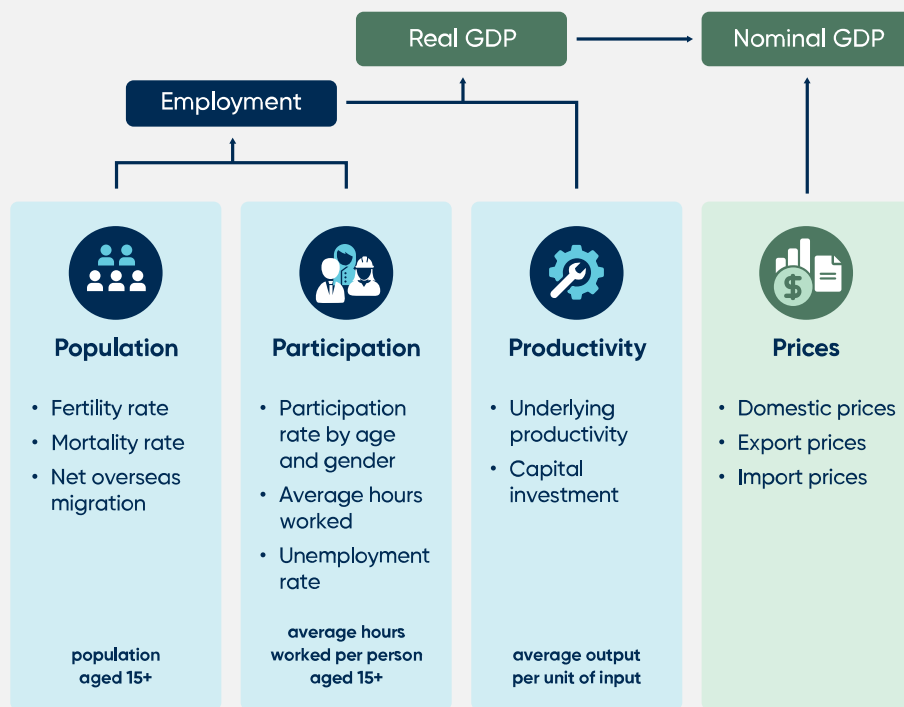
As with any economic model, the 3Ps framework has some limitations. Projections assume the long-run composition of the economy is broadly stable. As discussed in earlier chapters, there are major transitions including the rise of artificial intelligence, population ageing, geopolitical fragmentation and the energy transition that are expected to shape Australia's economy and labour market over coming decades. The structural effects of these transitions, and their impacts on productivity and participation, are highly uncertain and may mean outcomes differ from the projections in this model.

While GDP is widely used as a measure of the economic wellbeing of a society, it is not a holistic measure. Growth in GDP is therefore not the only objective of policy, nor the only measure of Australia's progress.

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Box 7.1 3Ps framework (continued)

Figure 7.1 The 3Ps framework



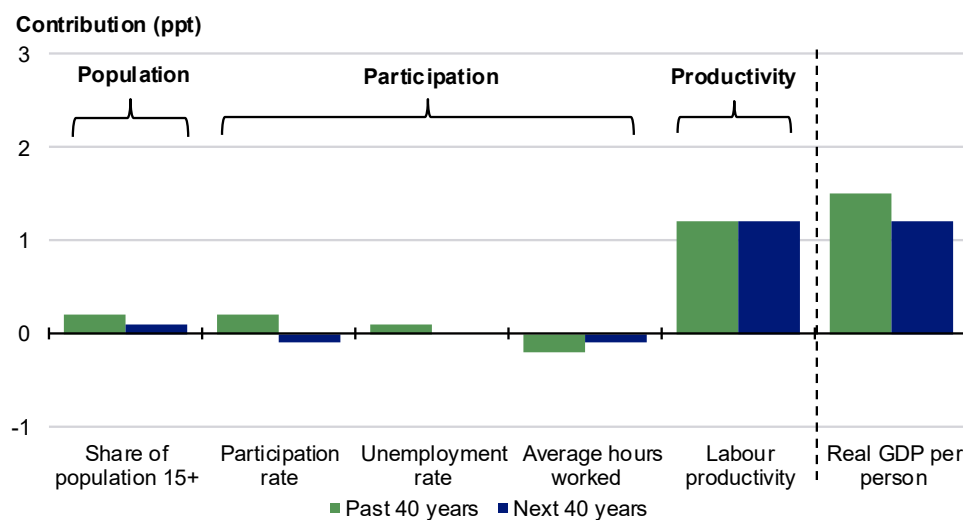
Source: Treasury

Living standards and income will continue to rise

By 2065–66, the level of real GDP per person is projected to be 59 per cent higher than in 2025–26. Real GDP per person is projected to grow at an average annual rate of 1.2 per cent compared to 1.5 per cent over the past 40 years (Chart 7.2).

Increased labour force participation can provide some contribution to growth in real GDP per person, but significant and ongoing gains require further productivity increases. As the population ages, declining workforce participation will also weigh on growth.

Chart 7.2 Contributions to growth in real GDP per person



Note: A positive contribution to real GDP per person from the unemployment rate represents a decline in the unemployment rate.

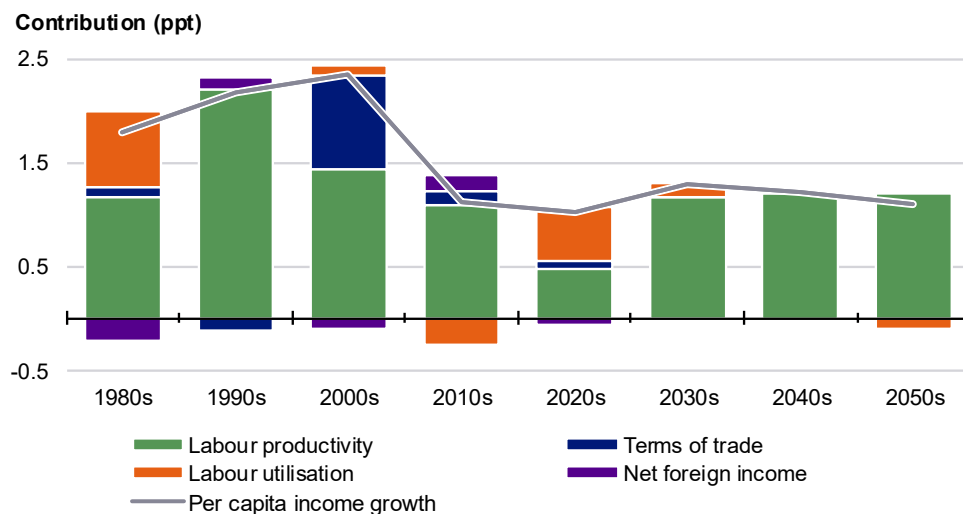
Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; National, state and territory population; and Treasury.

Real gross national income (GNI) per person – the average amount earned by each Australian domestically and overseas – is projected to increase by 55 per cent over the next 40 years. However, the average annual growth rate in GNI per person is projected to slow to 1.1 per cent over the next 40 years, compared to 1.9 per cent over the past 40 years.

National income is largely driven by real GDP per person which, as discussed above, is primarily driven by labour productivity. Relative international prices, measured by the terms of trade, and international income flows between Australia and the rest of the world also contribute (Chart 7.3). In recent decades, significant increases in key commodity prices have seen the terms of trade rise to record highs, which has boosted real GNI per person. However, key commodity prices and the terms of trade are assumed to decline over the medium term before stabilising, resulting in a much smaller contribution to real GNI growth than in the past. As a result, real GNI per person is projected to grow broadly in line with real GDP per person.

While an increase in the terms of trade would generally result in a larger economy and higher national income, a large and sustained increase would be required to materially change the outlook over the next 40 years.

Chart 7.3 Contributions to growth in real GNI per person



Note: Real income is defined as real gross national income. Labour utilisation refers to total hours worked per capita.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; unpublished ABS data; and Treasury.

Box 7.2 Gross national income and net foreign income

Real gross national income (GNI) per capita measures the average income available to each person living in Australia each year in real terms. It captures domestic and foreign income, including income generated by Australian businesses, individuals living in Australia and returns on Australian owned foreign investment. It is an important indicator of living standards.

Real GNI per capita is largely driven by real GDP per person. While productivity growth has played a key role, there has also been support from higher labour utilisation (Chart 7.3). Relative international prices and international income flows between Australia and the rest of the world also contribute to national income. Over the past 40 years, per capita real GNI growth has averaged 1.9 per cent a year.

Despite being volatile, growth in real foreign income inflows has increased over the last decade with the five-year average growth increasing from 1.5 per cent in June 2016 to 9.6 per cent in June 2026. Over the last ten years, annual foreign income inflows have increased \$1,300 per capita in real terms. Growth in income outflows also increased over the same period, which resulted in a limited contribution from net foreign income growth. While the economic projections assume net foreign income does not contribute to growth in national income beyond the medium term, if growth in real foreign income inflows continues to increase and begin to outpace outflows, higher net foreign income could have positive effects on real GNI per capita and broader living standards.

A key driver of increased net foreign income is the willingness of Australians to invest abroad. Over the last ten years, Australia's overseas portfolio investment has grown 170 per cent, driven by Australia's growing superannuation assets. The total pool of APRA-regulated superannuation assets grew by 146 per cent to around \$3 trillion in nominal terms over the ten years to 2025. In 2025, around \$1 trillion of superannuation assets were invested in international equities. Superannuation funds have contributed more than 60 per cent of net purchases in overseas portfolio equity in five of the past seven years.

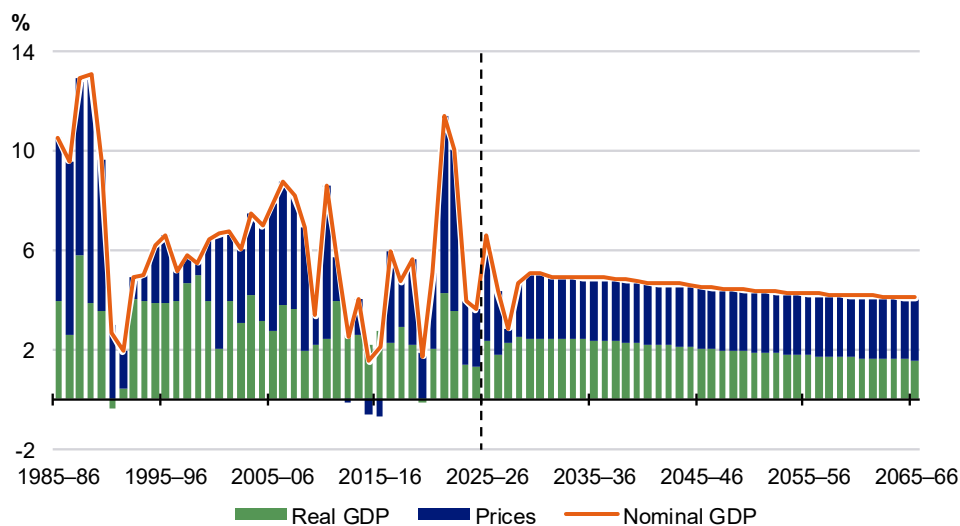
Australia's significant pool of superannuation fund assets invested overseas will continue to support national income over time.

Nominal GDP is expected to grow in line with real GDP

Nominal GDP measures the total nominal value of the output produced in Australia, by combining real GDP and prices. It is the main determinant of the tax base because taxes are levied on nominal incomes and expenditures and so is an important determinant of the Government's capacity to fund services.

Nominal GDP growth is projected to grow at an average annual rate of 4.5 per cent per year over the next 40 years (Chart 7.4), compared to the 6.3 per cent over the last 40 years. This reflects a combination of the projected real GDP growth rate, an assumption that the terms of trade will remain constant and a projection that long-run domestic price growth averages 2.5 per cent per year.

Chart 7.4 Nominal GDP growth



Source: ABS Australian National Accounts: National Income, Expenditure and Product; and Treasury.

8 Population

Overview

Australia's population is expected to be smaller and older compared with the 2023 Intergenerational Report (IGR).

The population is projected to grow from 28 million today to 39.3 million by 2065–66. Population growth is projected to average 0.9 per cent per year, 0.2 percentage points lower than the 2023 IGR, and around one third lower than the 1.4 per cent average recorded over the last 40 years.

Lower fertility will be the main driver of slower population growth and faster ageing. By 2065–66 the total fertility rate (TFR) of 1.34 is projected to be lower than assumed in all previous intergenerational reports. This continues the downward trend since the 1960s, as people have children later and have fewer children overall. For the first time, deaths are projected to outnumber births by the 2060s. This is a milestone that many advanced economies have already surpassed, including Japan, Germany, Italy and the Republic of Korea, with most of the rest expected to do so in coming decades.

Net overseas migration is continuing to fall, following volatility around the COVID-19 pandemic and is expected to stabilise in the coming years. Migration contributes to population growth and slows ageing, while supporting a multicultural society and strengthening the economy through skills, innovation and international connections.

Australians have among the longest life expectancies in the world, projected to be 89.5 years for women and 86.1 years for men by 2065–66. Ongoing improvements in health care, healthy lifestyles and medical innovation will continue to increase life expectancy.

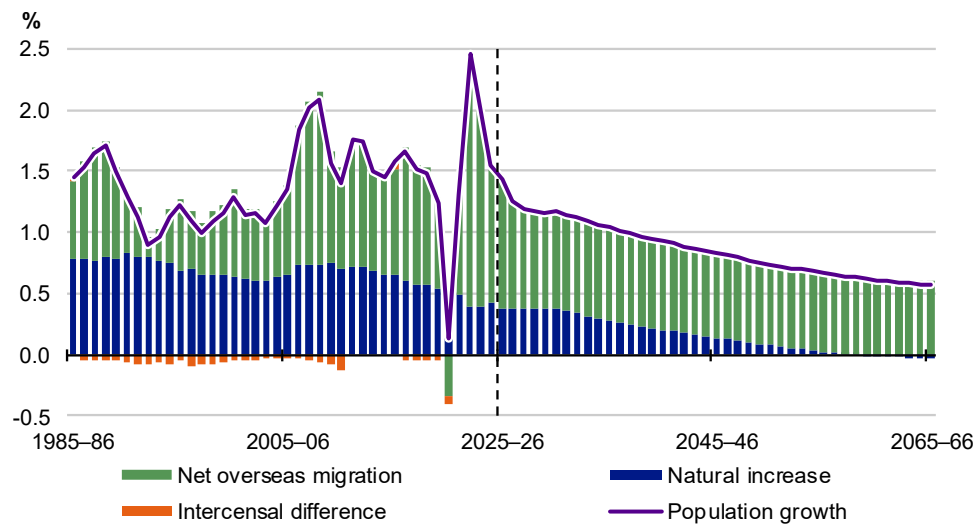
Population growth and ageing are projected to diverge across Australia, with capital cities growing faster and regional areas ageing faster. This trend has remained broadly similar since the 2023 IGR, although the gap between the capitals and regional areas has increased. These differences will drive varying demands for housing, infrastructure and public services. Regions with older populations may also face greater labour shortages in health care, aged care and other essential sectors.

8.1 Population projections

Population growth is projected to slow

Australia's population growth is projected to slow from an average of 1.4 per cent a year over the past 40 years to 0.9 per cent a year over the next 40 years (Chart 8.1). This is 0.2 percentage points lower growth compared with the projection period of the 2023 IGR.

Chart 8.1 Population growth



Note: Intercensal difference is the difference between the estimate of the population from the latest Census and the population implied by the previous Census and intercensal components of population change.

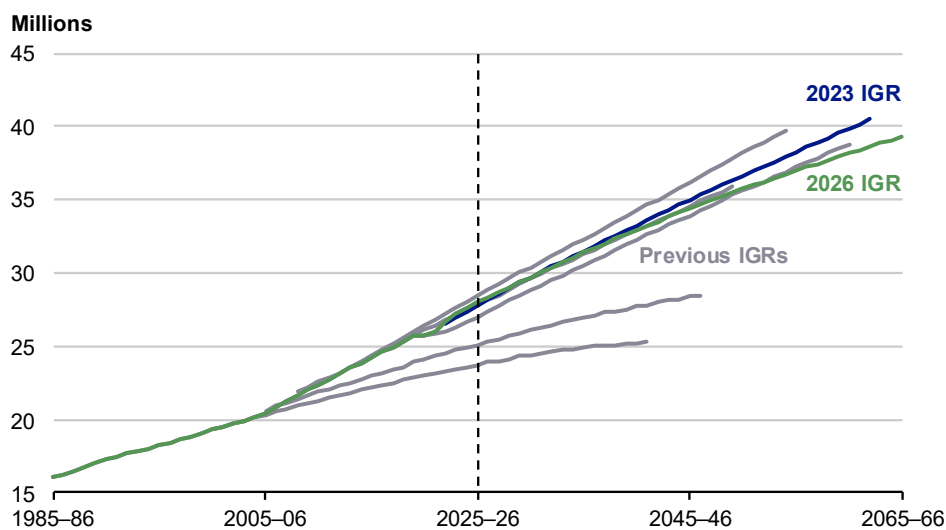
Source: Australian Bureau of Statistics (ABS) National, state and territory population; and Treasury.

The population is projected to reach 39.3 million by 2065-66. In 2062-63, the projected population is 1.8 million lower than projected in the 2023 IGR (Chart 8.2).

Slower population growth will be driven by lower fertility rates, with the fertility rate projected to decline to 1.34 by 2065-66. Lower fertility, combined with long life expectancy and an older age structure, will reduce rates of natural increase, the difference between births and deaths.

By the 2060s, deaths are for the first time projected to exceed births nationally – also the first time this outcome has been projected in an IGR. From this point, natural increase will no longer be a driver of population growth. This is a milestone that many advanced economies have already surpassed, including Japan, Germany, Italy and the Republic of Korea, with most others expected to do so in coming decades.¹

Chart 8.2 Population level projections across intergenerational reports



Source: ABS National, state and territory population; and Treasury.

Box 8.1 Population sensitivity analysis

Population growth is a key driver of Australia's economic and fiscal projections. This analysis examines how lower and higher population growth affect these outcomes. The lower scenario assumes net overseas migration is 50,000 lower each year from 2036–37 and the long-run fertility rate falls to 1.24 births per woman by 2065–66. The higher scenario assumes net overseas migration is 50,000 higher each year from 2036–37 and the long-run fertility rate increases to 1.44 births per woman by 2065–66. The effects of both scenarios are broadly symmetric.

Under the lower scenario, these assumptions reduce the population by 2.8 million people by 2065–66 and increase the median age by 1.5 years relative to the baseline.

A smaller and older population results in a working-age population that is 1.9 million people smaller and a level of real Gross Domestic Product (GDP) that is 7.4 per cent lower by 2065–66. Total payments are projected to be 0.6 percentage points higher as a share of GDP by 2065–66. A large share of payments, including those for infrastructure and defence, will fall in line with GDP, keeping them a constant share of the economy. However, ageing increases spending on Age and Service Pensions, health care, aged care and disability support as a share of the economy. With tax receipts unchanged as a share of GDP from 2032–33, the underlying cash deficit widens by 0.6 percentage points of GDP by 2065–66, increasing gross debt by 4.8 percentage points of GDP (Chart 8.3 and Chart 8.4).

Chart 8.3 Impact on UCB of population change

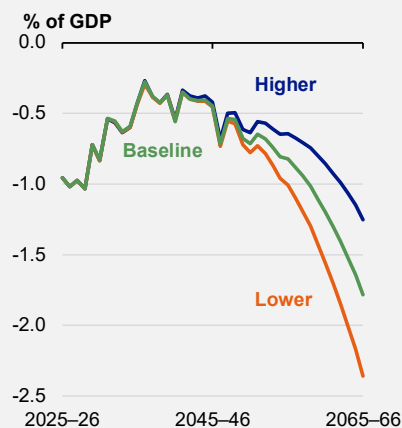
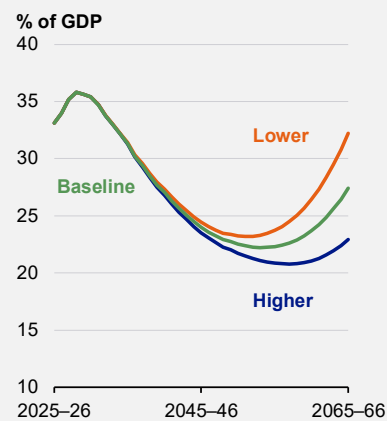


Chart 8.4 Impact on gross debt of population change



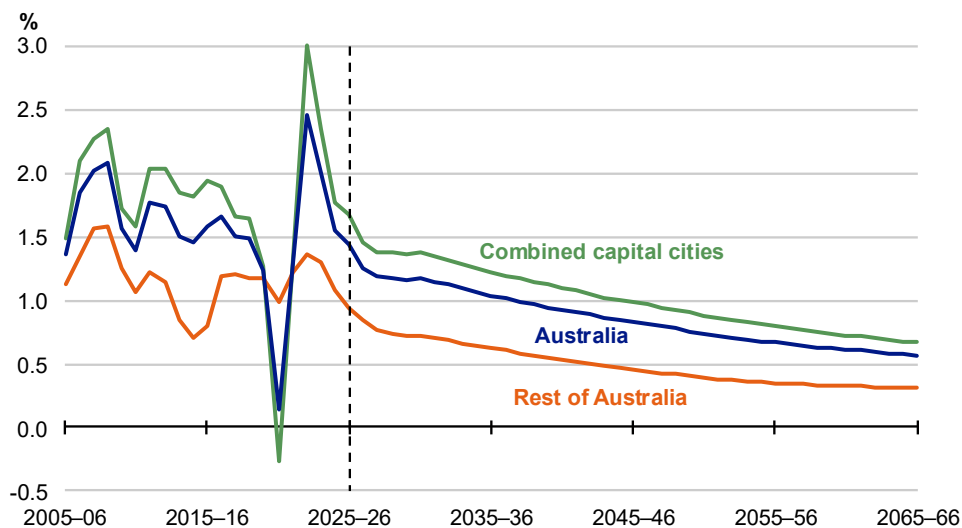
Note: The analysis excludes some effects, including migration-driven productivity gains, workforce skills and experience, environmental impacts, and costs to other levels of government.

Source: Treasury.

Population growth in capital cities is projected to outpace regional areas

Over the next 40 years, population growth is projected to be increasingly concentrated in Australia's major capital cities, driven by patterns of net overseas migration. This trend is broadly similar to what was observed in the 2023 IGR, but the gap between capital cities and regional areas has widened. Capital cities are projected to grow over twice as fast as the rest of Australia (Chart 8.5). In contrast, many regional areas are projected to experience slower population growth, older age structures and different service needs. This decline will not be uniform; some areas will continue to grow while others will experience population decline.

Chart 8.5 Population growth in Australia



Note: Greater Capital City Statistical Areas (GCCSAs) are geographic areas built from Statistical Areas Level 4 (SA4s). GCCSA boundaries represent labour markets and the functional area of Australian capital cities respectively.

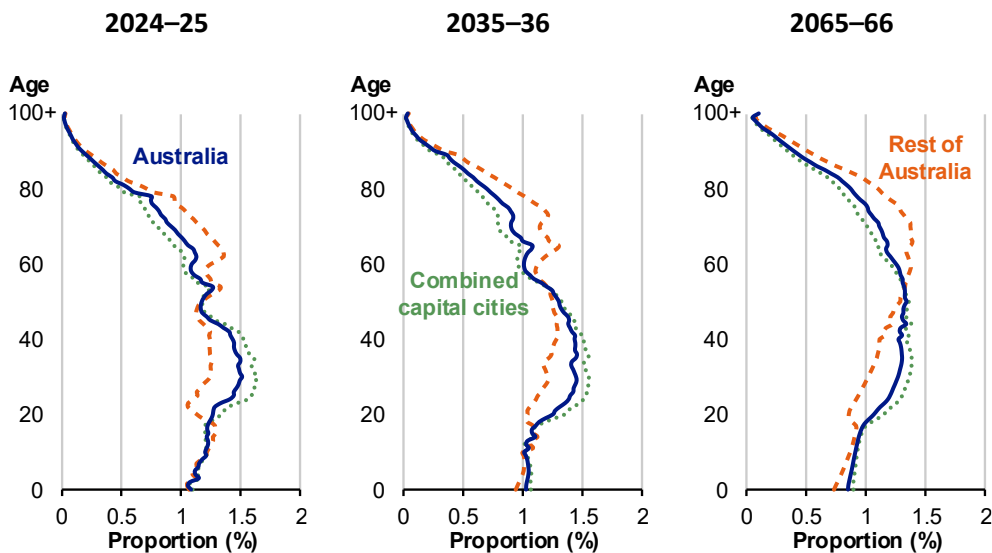
Source: ABS Regional population; and Treasury.

Populations outside capital cities are already older than those in capital cities in every state and territory except the Northern Territory. Net overseas migration to capital cities is higher compared with the rest of Australia. As migrants are typically younger than the existing population, this is projected to moderate ageing in metropolitan areas, whereas ageing is projected to occur more rapidly outside of capital cities (Chart 8.6). By 2065–66, the median age is projected to be 43.5 years in capital cities and 50.9 years in the rest of Australia.

Compared with the 2023 IGR, lower fertility and faster population ageing will further weaken natural increase outside the capital cities. Deaths are now projected to exceed births in all non-capital city areas except the Northern Territory by the 2060s, highlighting the growing demographic divergence between capital cities and regional Australia.

These different demographic trends mean that the outlook for economic growth, infrastructure demand and service delivery will vary across the country. Cities with strong population growth and modest population ageing will need to continue expanding housing, transport and other infrastructure to support larger populations. In contrast, regions with little population growth and rapid population ageing will need additional support in finding labour to support health care, aged care and other essential services.

Chart 8.6 Proportional age structures of Australia



Source: ABS Regional population; and Treasury.

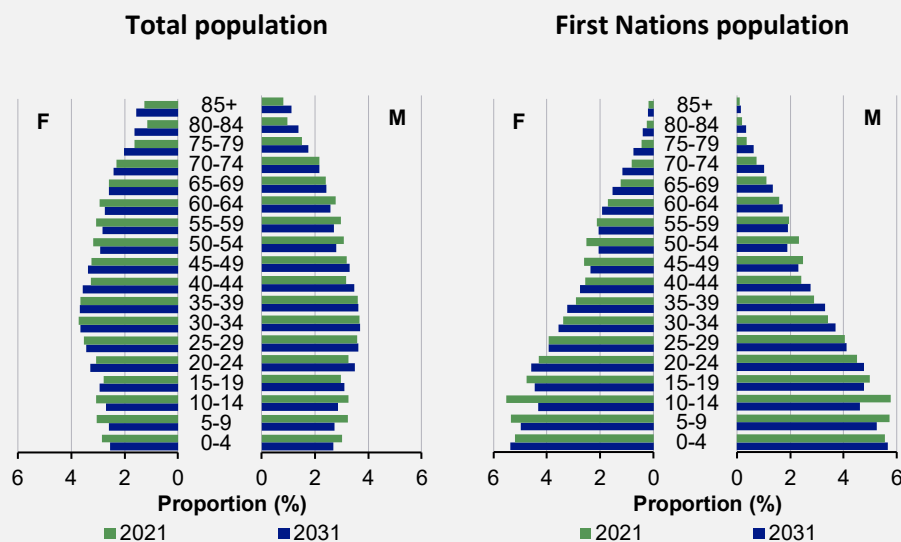
Box 8.2 Aboriginal and Torres Strait Islander peoples demographic trends

Over the next decade, the demographic profile of First Nations people is projected to change differently from that of the broader population. Fertility rates among First Nations women remain higher than the national average, contributing to faster population growth.

At the same time, First Nations people continue to have lower life expectancy than non-Indigenous Australians, reflecting differences in health outcomes and causes of death. Together, higher fertility and lower life expectancy mean the First Nations population is younger on average than the broader population (Chart 8.7).

This highlights the importance of improving health outcomes across the life course to support longer, healthier lives and ensure First Nations people can fully participate in economic and social opportunities.

Chart 8.7 Estimated and projected population



Note: The ABS Estimates and Projections include a high, medium and low series. This chart and the data in this box refer to the medium series. For projections of First Nations people, the ABS estimates do not factor in identification change and is not affected by net overseas migration.

Source: ABS Estimates and Projections, Aboriginal and Torres Strait Islander Australians.

8.2 Drivers of population trends

Fertility rates are projected to continue declining

The TFR is projected to reach 1.5 children per woman in 2030–31 before falling to 1.34 by 2065–66. Fertility rates have been below the replacement rate of 2.1 children per woman for 50 years.

Updating the long-run fertility assumption has significant implications for the size and age structure of Australia's future population. Lower fertility means fewer children over time, leading to a smaller and older population than previously projected. Compared with the 2023 IGR fertility assumption, the revised long-run fertility assumption reduces the projected population by 1.7 million and increases the projected median age by 1.7 years in 2065–66.

Fertility rates have fallen due to a combination of complex economic, social and cultural factors. These include greater access to contraception, more time spent in education, career establishment, longer periods living with parents, and delays in forming partnerships and having children.

The TFR projections are based on recent fertility trends in Australia and similar countries. Near-term and medium-term projections draw on analysis of fertility behaviour by cohort and number of previous children. They also incorporate Medicare data on pregnancy-related services as an early indicator of births (Appendix 3).² The new long-run assumption is based on research by the Australian National University School of Demography, who were commissioned to review the previous assumption of 1.62 children per woman.³

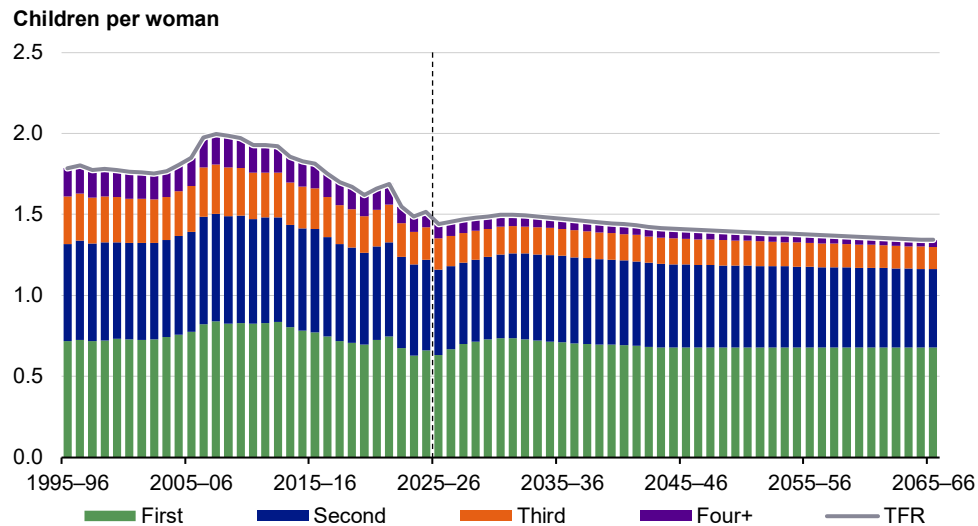
Fertility delay and smaller family sizes are driving declining fertility rates

The share of women having at least one child has remained relatively stable, but postponement of childbearing is contributing to smaller family sizes and driving the overall decline in fertility rates.

When people delay having children, they tend to have smaller families. In particular, they are less likely to have a third or subsequent child. As a result, overall fertility rates have fallen. This trend is projected to continue, with nearly half of the projected decline in the TFR being due to fewer people having three or more children (Chart 8.8).

Career establishment is a key reason for delaying childbearing, but other factors including the availability of formal and informal care, the burden of unpaid care, housing security and workplace flexibility also impact decisions to start a family or have more children.

Chart 8.8 Historical and projected fertility rate by birth order



Note: Birth order refers to the sequence in which a child is born within a family.

Source: Australian Institute of Health and Welfare custom data; ABS National, state and territory population; and Treasury.

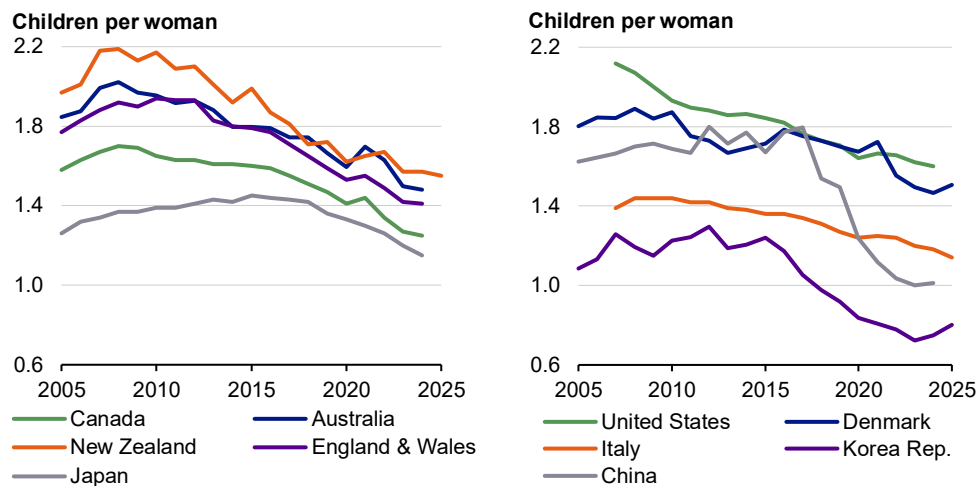
Annual births are forecast to increase from 291,000 in 2025–26 to 334,000 in 2065–66. However, growth in births is projected to decline over time as the population ages and people have fewer children on average, with little increase in the number of births between 2045–46 and 2065–66. This reflects a declining share of the population being in the peak childbearing ages of 26 to 37 as well as the effects of delayed and smaller family formation.

Australia's fertility rate remains higher than many comparable countries

Australia is not alone in experiencing declining fertility rates (Chart 8.9). Fertility rates have declined in most countries and, in some countries, fertility has fallen to levels that demographers consider difficult to reverse. Many of these countries with 'ultra-low' fertility have introduced policies to help stabilise the decline.

As in Australia, delayed parenthood is a key driver of declining fertility rates globally. In 2023, more than one in three births worldwide were to women aged 30 years and over, compared with one in four in 1990.⁴

Chart 8.9 Fertility trends, selected countries

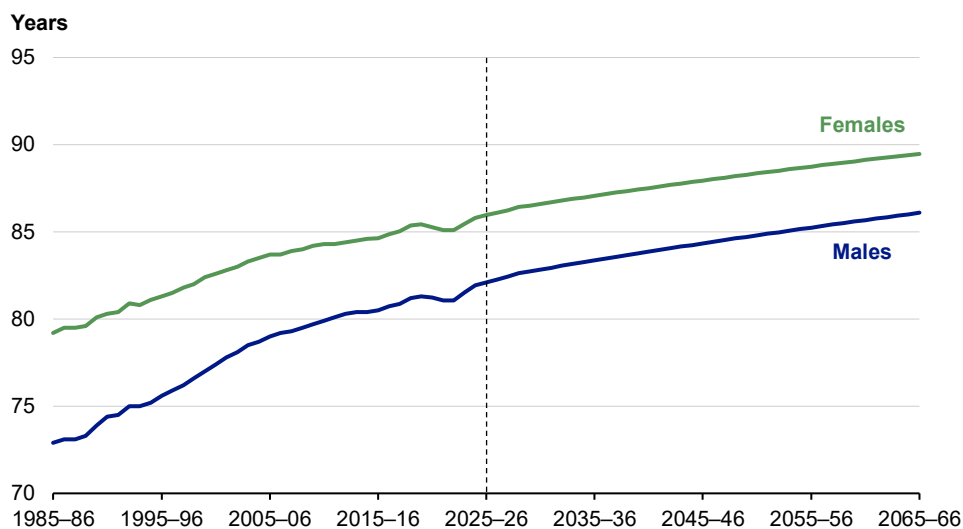


Source: Statistics Canada; the Centers for Disease Control and Prevention, Istituto Nazionale di Statistica, United Nations, Korean Statistical Information Service, ABS and Stats New Zealand; Centre for Population; Office for National Statistics, United Kingdom; Statistics Denmark; and Japanese Government Statistics.

Life expectancy will remain high

Australians have one of the longest life expectancies in the world. Life expectancy is projected to reach 89.5 years for women and 86.1 years for men by 2065–66 (Chart 8.10). The gap between female and male life expectancy remains small by international standards, at around 4 years.

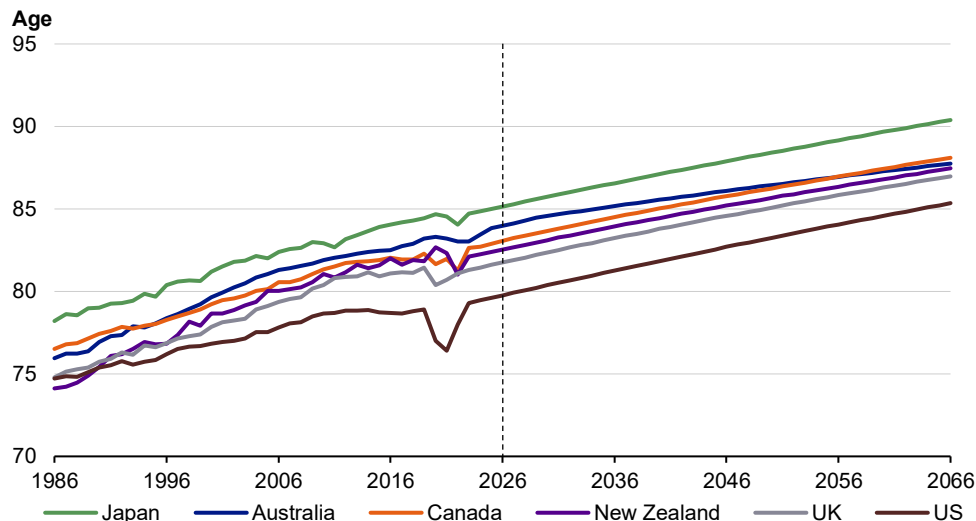
Chart 8.10 Life expectancy at birth



Source: Australian Government Actuary custom data; ABS Life Expectancy; and Treasury.

Medical advances, better access to health care and rising living standards have helped Australians live longer.⁵ Longer life expectancy contributes to an ageing population, with younger cohorts living longer than earlier ones.

Most countries are expected to see further gains in life expectancy, although these gains are likely to moderate, particularly for high-income countries (Chart 8.11). Not everyone will benefit equally and inequalities across income groups and communities are likely to persist.⁶

Chart 8.11 Life expectancy, selected countries

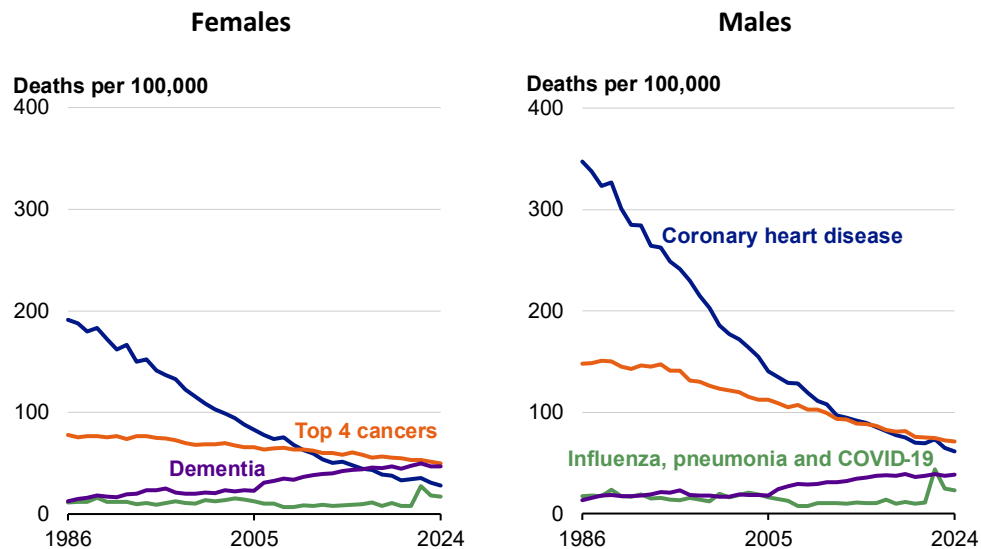
Source: United Nations Population Division, World Population Prospects 2024; ABS Life Expectancy; and Treasury.

Note: Australia's projected life expectancy is based on Treasury projections, while projections for other countries are sourced from the United Nations World Population Prospects 2024.

Annual deaths are projected to reach 348,000 by 2065–66, compared with an average of 186,000 deaths per year in the near-term. The increase in total deaths reflects population growth and ageing.

Higher quality healthcare treatment and prevention are expected to see further long-run declines in mortality rates. These improvements have also contributed to a shift in Australia's disease profile. Chronic conditions now account for around 90 per cent of all deaths.⁷ Cancer remains the leading cause of premature death and dementia has emerged as a major cause of mortality, reflecting the combined effects of population ageing and longer lives.⁸

While people have longer and healthier lives, many spend more years managing chronic conditions, placing increasing pressure on the health and care systems. More people will die from chronic diseases as the population ages. While people have longer lives, many spend more years managing long-term health conditions which can lead to death later in life. Men generally experience higher rates of chronic disease and earlier death than women (Chart 8.12). Women tend to live longer but may spend more years in poor health (Chapter 12). These differences highlight distinct health challenges faced by women and men across the life course.

Chart 8.12 Age standardised death rates

Note: Age-standardised death rates measure mortality after adjusting for differences in the age structures of populations over time.

Source: Australian Institute of Health and Welfare General Record of Incidence of Mortality books.

Overseas migration will continue to be an important driver of population growth

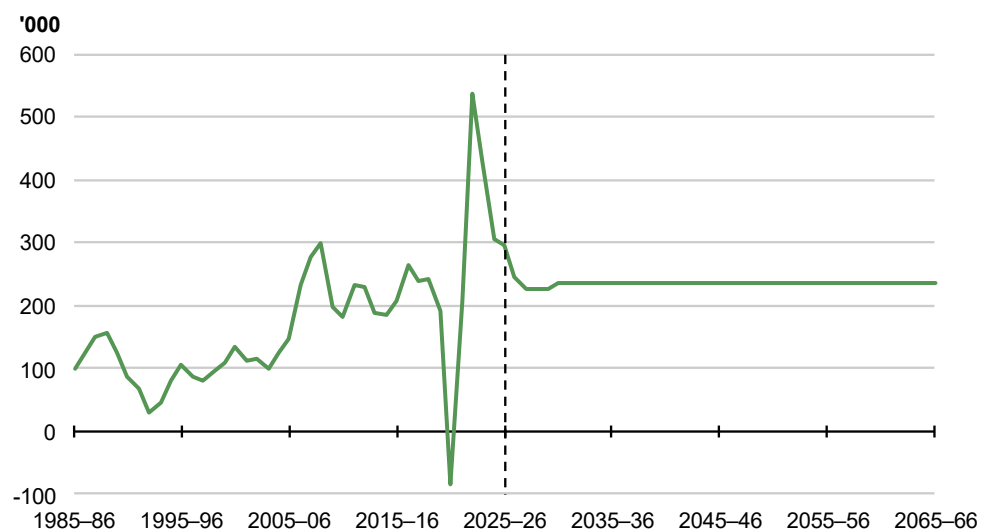
Net overseas migration will continue to be an important driver of population growth over the projection period, just as it has been for most of the last 20 years.

Net overseas migration has fallen well below its peak of 538,000 in 2022–23 (Chart 8.13), largely due to fewer temporary migrant arrivals, and is forecast to fall further to 225,000 by 2027–28 and remain at that level over the forward estimates.

Beyond the forward estimates, the projection reflects a technical assumption for the level of net overseas migration. Long-run net overseas migration is assumed to be 235,000 persons per year, the same as in the 2021 IGR and 2023 IGR, consistent with the 2026–27 Budget and similar to the average of the last 20 years. Net overseas migration is assumed to transition to this long-run level from the end of the forward estimates. Net overseas migration outcomes over coming decades will depend on several factors including the future migration policy of successive governments and future economic conditions in Australia and overseas.

Australia attracts some of the most educated migrants in the OECD.⁹ Skilled migration is also associated with lower rates of part-time work and unemployment, and contributes to positive macroeconomic outcomes and productivity (Box 8.3).¹⁰

Chart 8.13 Net overseas migration



Source: ABS National, state and territory population; and Treasury.

Box 8.3 Economic benefits of migration and multiculturalism

Multiculturalism is an important part of Australia's society. Decades of migration have helped shape our multicultural and diverse society. Today, Australia has one of the most diverse populations in the Organisation for Economic Co-operation and Development (OECD) and around half of Australians have at least one parent born overseas.¹¹

Australia's multicultural society supports a dynamic and innovative economy. People from diverse backgrounds bring different perspectives, skills and experiences that can help drive innovation. The OECD found that a one percentage point increase in the share of highly educated migrants in an Australian region is associated with a 4.8 per cent increase in patent applications over the medium term.¹² This shows the role of diversity in strengthening Australia's ability to develop and adopt new technologies.

Cultural diversity can support a more adaptable and productive workforce.¹³ Drawing on a wider pool of skills, experiences and talent can support productivity and long-term growth.¹⁴ OECD research found that Australian regions with a 10 per cent higher migrant share have wages that are, on average, 1.3 per cent higher.¹⁵ This highlights the positive contribution of diversity to productivity and economic performance.

Multiculturalism strengthens Australia's global connections through diaspora networks, language skills and cultural knowledge. These links can support business connections, trade, investment and other overseas economic opportunities.¹⁶ International research shows that migrants help build social and business networks across countries which facilitates economic exchange, including foreign direct investment.¹⁷ These networks create spillover benefits that support both the quality and quantity of economic activity.

Migration will slow ageing and contribute to higher average life expectancy

Migration plays a role in shaping Australia's population and workforce. New migrants are generally younger, with a median age of 26 years compared with 38 years for the resident population in 2024–25.¹⁸ This has the effect of slowing population ageing and increasing the working-age population quicker than natural increase alone. In contrast, countries with low fertility and limited migration, such as China, Japan and the Republic of Korea, are experiencing much more rapid population ageing (Chapter 4).

Australia's overseas-born population also influences population health. Migrants often arrive in good health, which contributes to higher life expectancy overall.¹⁹

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9 Participation

Overview

The participation rate is projected to rise further over coming years, peaking at 67.7 per cent in 2039–40, before declining to 64.7 per cent in 2065–66. This reflects increases for women and older Australians, with population ageing more than offsetting these gains from the early 2040s. The peak is projected to occur significantly later and 1.1 percentage points higher than expected in the 2023 Intergenerational Report (IGR). This projection has been substantially upgraded due to further participation gains across most age groups since the 2023 IGR and an expectation that gains will continue in the projection period.

Growth in participation will be a key driver of Australia’s potential economic growth rate and tax revenue. The improvements in participation since the 2023 IGR, alongside the projected upgrades, are expected to result in the level of real GDP being around 2.2 per cent higher in 2062–63.

Australia’s labour force participation rate remains well above the long-run average and many other comparable economies, reaching a record-high of 67.2 per cent in January 2025. Higher participation has been driven primarily by women, facilitated by growth in part-time and other flexible working arrangements. It has also been supported by higher educational attainment, high life expectancy, changing social norms, a more flexible and inclusive labour market, and the rise of the formal care economy for children and in aged care.

Part-time work is expected to grow further relative to full-time work, which will see a decline in average hours worked per week among those employed. Average hours worked per person will also decline as the population ages.

9.1 Participation projections

Participation growth will continue to contribute to economic growth

Australia's participation rate is expected to be an important driver of our economic performance in coming years. The improvements in participation since the 2023 IGR, alongside the projected upgrades, are expected to result in the level of real GDP being around 2.2 per cent higher in 2062–63.

Australia's participation outcomes have exceeded that of many comparable economies, including all G7 countries. The Organisation for Economic Cooperation and Development's (OECD) 2026 Employment Outlook found that Australia's employment and participation performance place Australia 'among the strongest performers across the OECD'.¹

Further increases in participation rates within age groups are expected to persist, continuing trends observed over the past 40 years. At the same time, Australia's population growth is projected to slow, with Australians expected to be older due to lower fertility and high life expectancies (Chapter 8). These demographic changes are expected to weigh on participation growth in the longer term.

'Participation' in the 3Ps framework captures the average hours worked in the Australian economy among the population aged 15 years and over (Chapter 7). It includes how many people are in the labour force (participation rate), how many of those people are working, and how many hours those in employment work on average.

Participation is a key determinant of potential economic growth and tax revenues, as changes in participation contribute to the economy's productive capacity. Engaging in the labour market also improves people's living standards by strengthening financial security, establishing social connections and contributing to a sense of purpose.²

Treasury projects participation by combining labour force participation rate projections with estimates of the non-accelerating inflation rate of unemployment (NAIRU) and average hours worked per employed person.^{vi} Participation rate projections are anchored to structural participation rate estimates which capture the social, demographic and economic trends associated with long-running labour force participation trends. Over the projection period, participation rate projections converge to the structural estimates on the assumption that shorter-term fluctuations due to the business cycle diminish in the long run.

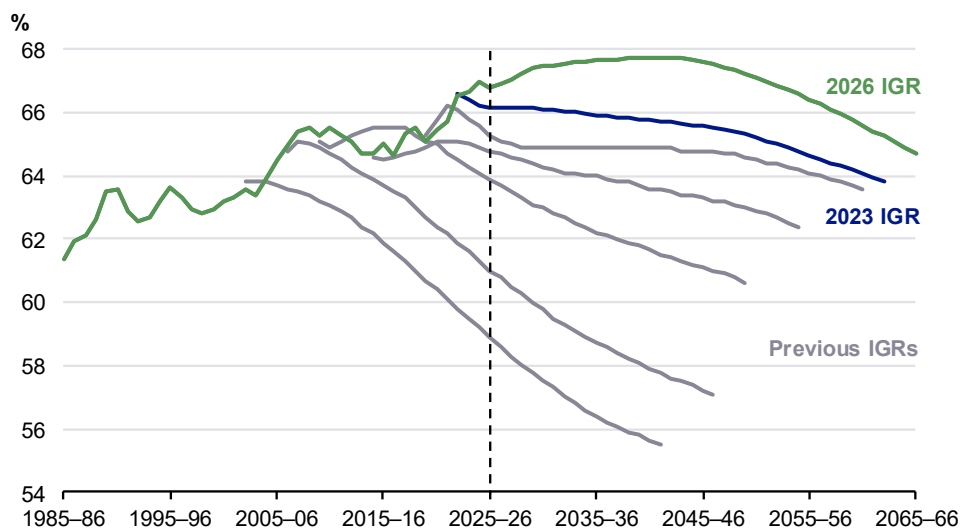
vi Participation in the 3Ps framework measures the labour supply the economy can sustainably achieve. It does not capture potential supply from the unemployed, marginally attached or those wanting more hours. In the long run, it is assumed these estimates of actual and potential supply are equal.

The participation rate projection has been substantially upgraded

Australia's participation rate is expected to continue rising to 67.7 per cent in 2039–40, before declining to 64.7 per cent in 2065–66 (Chart 9.1). This is a substantial upgrade compared to the 2023 IGR, with the participation rate projected to peak later and 1.1 percentage points higher than previously expected. By 2062–63, it is 1.4 percentage points higher.

Projection upgrades reflect a shift in approach to address persistent underestimation of the extent and persistence of within-cohort participation increases, most notably among women and older Australians. As noted in the 2023 IGR, the actual participation rate has tended to exceed the projections made in each successive report. This reflected an assumption that population ageing would be the dominant factor underpinning participation rate changes while historical shifts in participation rates within population cohorts would not continue through the projection period.

Chart 9.1 Projected participation rates across intergenerational reports



Source: Australian Bureau of Statistics (ABS) Labour Force, Australia; and Treasury.

This report expects economic, demographic and social trends to continue to enable more Australians to engage in paid work over the next 40 years, particularly if unpaid care continues to convert to formal care. Higher labour force participation in recent decades has been supported by higher educational attainment, high life expectancy, changing social norms, and more flexible and inclusive job opportunities. Delayed and lower fertility have also been associated with higher female participation. The resilience of the labour market, combined with strong labour demand and more working-from-home opportunities in recent years create greater job opportunities, encouraging more people to participate in paid work.³

Further within-cohort gains will support the participation rate remaining above the levels previously projected and continue moderating the effects of population ageing. However, the effect of these participation gains is expected to eventually be outweighed by population ageing from the early 2040s onwards. This results in the participation rate gradually declining over the remainder of the projection period. A lower fertility assumption also contributes to a steeper decline in participation towards the end of the projection period compared with earlier reports.

The depth, breadth and speed of artificial intelligence (AI) uptake will also have implications for participation. Projections are consistent with assumptions in the baseline scenario in Chapter 1, under which AI supports productivity improvements by supporting workers to achieve more at work and driving broader innovation across the economy. The impacts of AI on the labour market are expected to be uneven. While some tasks will be automated using AI, demand for labour is expected to increase in other areas – including tasks that can be performed to a higher standard by workers equipped with AI tools. The nature of work will evolve as jobs will be redesigned to realise these benefits, with the tasks that can be automated unbundled from other parts of roles that require human coordination, judgement and relationships.

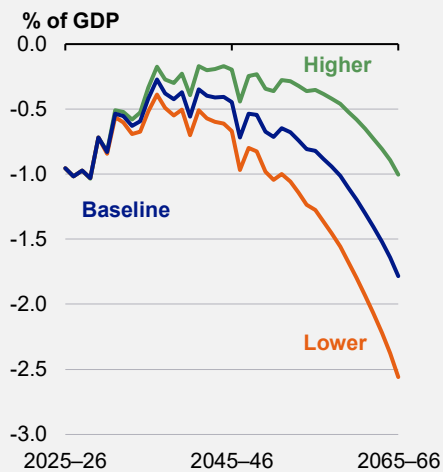
Box 9.1 Participation sensitivity analysis

This sensitivity analysis examines the effects of a higher and lower labour force participation rate on economic and fiscal projections (see Appendix A.4 for more detail). The higher scenario is an increase of 2 percentage points and the lower scenario is a decrease of 2 percentage points. The effects of both scenarios are broadly symmetric.

More people participating in the labour market results in the levels of real and nominal GDP both being around 3 per cent higher in 2065–66. Higher labour force participation generally leads to lower total government spending as a share of GDP. However, as more people actively seek work, the nominal value of some payments is projected to increase, such as for unemployment benefits. Tax receipts remain unchanged as a share of GDP from 2032–33.

The net effect is that the underlying cash balance (UCB) deficit narrows by 0.8 percentage points of GDP in 2065–66 (Chart 9.2). Smaller deficits cumulatively reduce gross debt by 8.4 percentage points of GDP in 2065–66 (Chart 9.3).

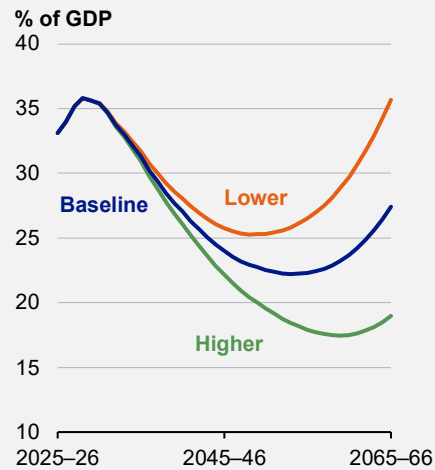
Chart 9.2 Impact on UCB of participation rate



Note: Illustrates impact on underlying cash balance of 2 percentage points higher and lower participation rates.

Source: Treasury.

Chart 9.3 Impact on gross debt of participation rate



Note: Illustrates impact on gross debt of 2 percentage points higher and lower participation rates.

Source: Treasury.

Employment is expected to remain relatively strong

Employment as a share of the labour force is expected to remain high by historical standards, reflecting the assumption that the economy can achieve a low rate of unemployment with stable wage growth and inflation. For a given participation rate, the lower the rate of unemployment that the Australian economy can sustainably achieve, the more Australians will benefit from economic participation and the greater potential economic output will be.

The unemployment rate is projected to settle at Treasury's assumption for the NAIRU of 4¼ per cent by 2029–30 and remain at that level for the rest of the projection period. The NAIRU represents the level of the unemployment rate associated with stable wage growth and inflation.

While the NAIRU remains a useful tool to assess spare capacity in the labour market and to inform long-run projections, it is inherently uncertain. The Government's White Paper on Jobs and Opportunities emphasised that it is also only one component of a broader framework for understanding modern labour market conditions.⁴

Together, the unemployment and underemployment rates capture a broader perspective of spare capacity in the labour market. Australia has enjoyed a period of historically low unemployment in recent years, with the unemployment rate at 4.3 per cent in 2025–26. In 2025–26, the underemployment rate – the share of people in the labour force who want, and are available, to work more hours than they currently do – was low by historical standards at 6 per cent. In some cases, workers that would prefer more hours than their primary job offers may seek a second or third job. The share of workers holding multiple jobs in Australia has increased from around 5.7 per cent in 1995–96 to 6.5 per cent in 2025–26.⁵

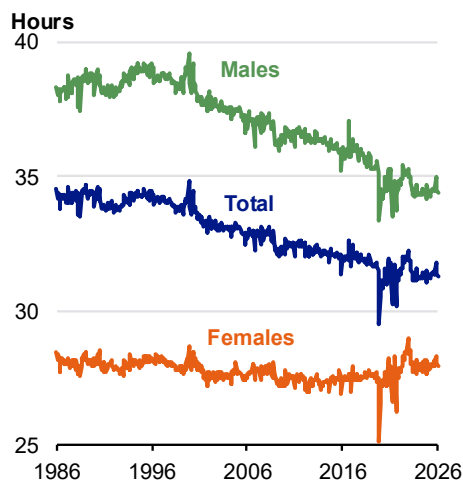
Average hours worked are projected to decline with growth in part-time work

Average hours worked among those employed is expected to decline from 31.4 hours per week in 2025–26 to 30.6 hours per week in 2065–66. Average hours worked per capita is projected to decline gradually from 20.1 hours per week to 18.9 hours in 2065–66. This reflects a higher prevalence of part-time work and larger proportion of the population aged over 15 transitioning to age groups with lower participation rates.

Growth in the availability of part-time and other flexible work arrangements, alongside an older workforce, has contributed to declines in average hours worked among those with jobs over the past 40 years. Average hours worked among those employed fell 2.8 hours per week between 1985–86 to 2025–26 (Chart 9.4).

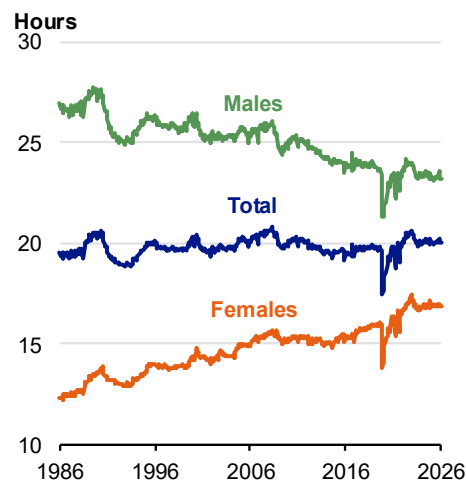
Combined with substantial gains in the participation rate, the downward trend in average hours worked per employed person has resulted in relative stability in average hours worked per head of total population aged 15 years and over (Chart 9.5).

Chart 9.4 Average weekly hours worked per employed person aged 15 years and over



Source: ABS Labour Force, Australia.

Chart 9.5 Average weekly hours worked per capita of population aged 15 years and over



Source: ABS Labour Force, Australia.

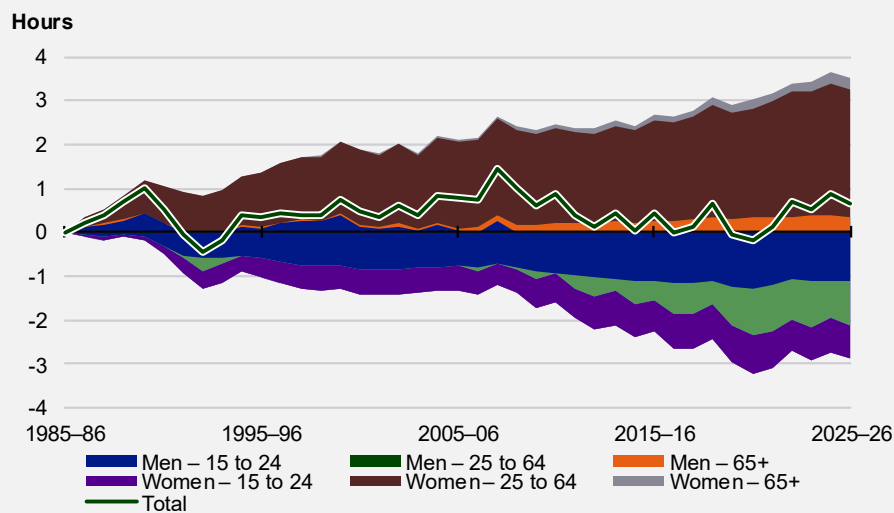
Box 9.2 Drivers of average hours worked per capita

Population ageing is expected to continue weighing on average hours worked per capita. Further gains in propensity to work among women and people aged 65 years and over may partially but not fully offset this effect.

Average hours worked per capita for the population aged 15 years and over has remained broadly stable at around 20 hours per week, over the past 40 years. This stability has endured alongside significant changes to the economy. Stable hours worked per person is common across other countries, at least among the peak working-age population.⁶

Population ageing has weighed on average hours worked per capita, but this has been offset by gains in the number of Australians in employment. Decomposing these trends by age and sex reveals that gains in employment have largely stemmed from structural increases in hours worked among women aged 25 to 64 and people aged 65 years and over (Chart 9.6). These cohorts have lifted total average hours worked per capita by 3.5 hours per week over the past 40 years and have offset the effect of population ageing, the decline in male full-time participation, and younger people shifting towards part-time work as they study.

Chart 9.6 Drivers of changing average hours worked per capita

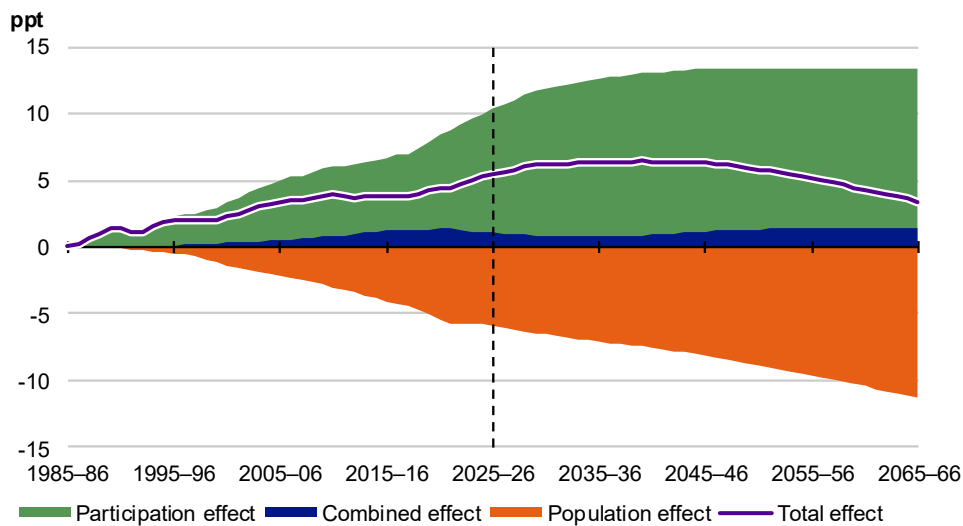


Source: ABS Labour Force microdata; and Treasury.

9.2 Drivers of participation trends

Rising participation within age groups is expected to more than offset the effect of population ageing until 2039–40, driven by increases among women and older people (Chart 9.7). After this, the effects of population ageing are projected to outweigh further gains in age-specific participation rates, driven by lower fertility and higher life expectancies.

Chart 9.7 Structural changes in the participation rate



Note: Participation effects reflect changes in age-specific participation rates, population effects reflect changes in age structure, and combined effects reflect both occurring simultaneously. The total effect is the cumulative sum of these three effects.

Source: ABS Labour Force, Australia; and Treasury.

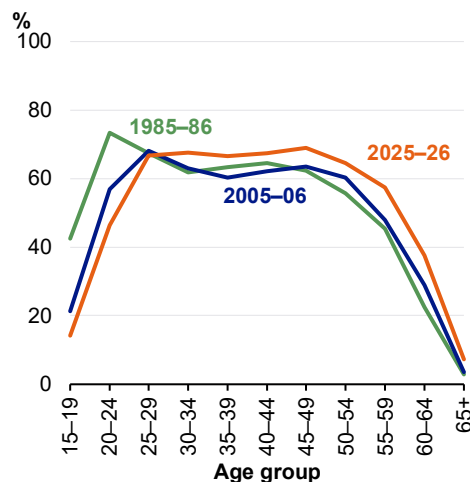
Changes in the total participation rate reflect shifts in how people participate at different points of their lives, as well as changes in the age structure of the population. The analysis of these trends is based on estimates of the structural participation rate which remove the effects of temporary economic conditions, such as cyclical fluctuations in labour demand. The structural participation rate captures the underlying social, demographic and economic factors that drive long-running participation trends.

Higher participation is expected across nearly all age groups

By 2065–66, gains within age groups are expected to increase the structural participation rate by 3.0 percentage points. Participation rate gains within age groups have lifted the total structural participation rate by 10.3 percentage points since 1985–86, more than offsetting the negative effects of population ageing (Chart 9.7). When considered alongside downward pressure from population ageing, the net effect is a smaller decline in the total structural participation rate than otherwise expected.

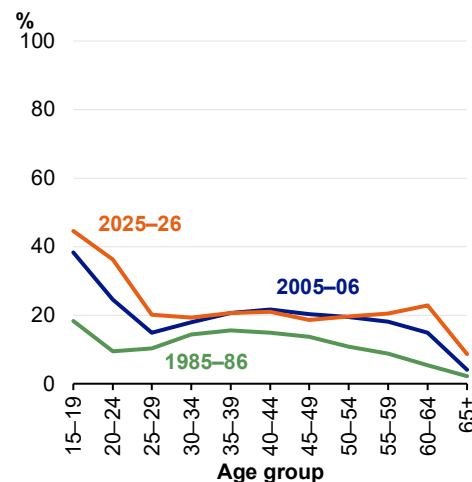
Recent generations of Australians are participating in the labour market at higher rates than earlier generations across most of their lives (Chart 9.8 and Chart 9.9). Participation rates have increased for nearly every age group over the past 40 years. Despite these increases, participation rates continue to follow familiar lifecycle trends. It is typically lower during years of full-time education, peaks in core working years and then tapers as people transition into retirement.

Chart 9.8 Full-time participation rate



Source: ABS Labour Force, Australia; and Treasury.

Chart 9.9 Part-time participation rate



Source: ABS Labour Force, Australia; and Treasury.

Differences in participation rates that persist throughout the lifecycle can emerge between generations, owing to a range of long-running economic, demographic and social factors. For example, younger Australians are spending longer in education, delaying their entry into the full-time labour force.⁷ This helps position them for more and better employment opportunities over their lifetimes. It also opens pathways into higher-skilled, service-based roles, which tend to be more flexible and less physically demanding than other jobs.

The rise of part-time and flexible employment has allowed younger people to combine work and study and has also contributed to extended working lives for older Australians. With less physically demanding and more flexible job opportunities alongside improved health outcomes, Australians can remain attached to the labour force for longer, should they wish to continue working. The maturation of the superannuation system, increases in the preservation age, and changes to Age Pension eligibility have also likely influenced older Australians' retirement intentions.⁸

Long-run participation rate trends across generations are expected to continue over the projection period but will moderate over time. The continued rise in the part-time participation rate increases the total part-time employment share over the projection period. These trends contribute to relative stability in average hours worked per total head of population aged 15 years and over. However, population ageing weighs on average hours worked per capita over the long run (Box 9.2).

Population ageing will moderate gains in the long run

Population ageing weighs on the total participation rate since older Australians (aged 65 years and over) are less likely to participate in the labour force than younger age groups, even when older Australians are participating at higher rates than previous generations. Other factors equal, a larger population share in older age groups will lower the total participation rate.

Over the past 40 years, gains in participation among older Australians have outweighed the effects of population ageing. Those aged 65 and over have driven a net increase of 2.8 percentage points to the total structural participation rate. The share of Australia's population aged 65 years and over has risen from 10.5 per cent in 1985–86 to 17.8 per cent in 2025–26, contributing to shifts in the population age structure that reduced the total structural participation rate by 5.9 percentage points since 1985–86 (Chart 9.7).

The population share of older Australians is projected to increase further to 24.8 per cent in 2065–66 driven by lower fertility and higher life expectancy (Chapter 8). As the population continues to age, these shifts are expected to further reduce the structural participation rate by 5.4 percentage points over the next 40 years.

Strong gains in female participation rates are set to continue

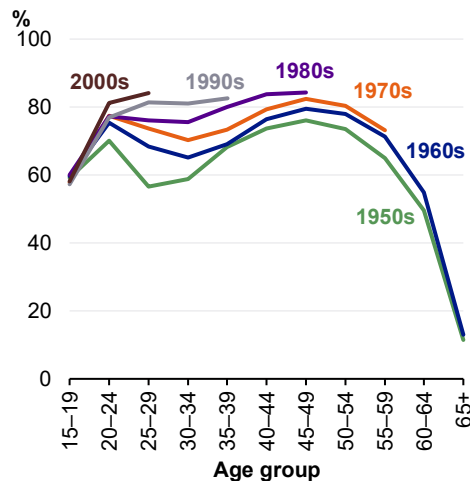
The structural female participation rate is expected to continue increasing before declining gradually from 2044–45 as the effects of ageing become more pronounced. While lower fertility is associated with higher female participation rates, it is also projected to contribute to population ageing over time. In contrast, the structural male participation rate is expected to continue declining over the next four decades, reflecting the effects of population ageing and persistent generational declines in full-time participation rates.

Over the past 40 years, women have participated at higher rates and have remained in the labour force for longer than earlier generations (Chart 9.10). Delayed and lower fertility, increased use of formal and informal child care, changes in legislation and evolving social attitudes have supported greater female participation rates, particularly full-time participation rates for women of childbearing ages.

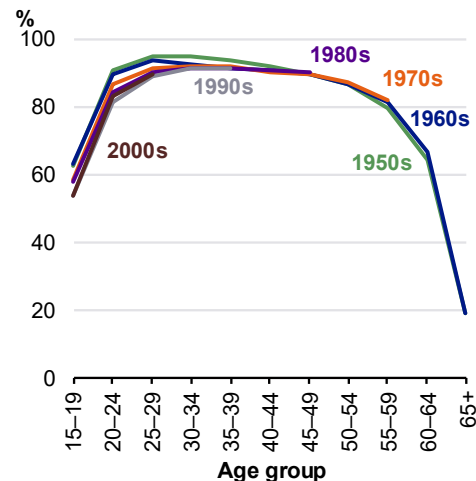
In contrast, younger generations of men are less likely to participate full-time, or to participate in the labour force at all, than earlier generations (Chart 9.11). This trend has been observed across comparable economies.⁹

Structural shifts in employment demand over the past 40 years have resulted in fewer job opportunities for men that have lower levels of education and lower labour demand in traditionally male-dominated industries such as manufacturing.^{vii 10} These shifts have resulted in a structural decline in full-time employment opportunities in these industries and, with it, full-time participation rates among men. Falls in male full-time participation rates have outweighed the gains in male part-time participation rates.

vii Male-dominated industries are defined as the following Australian and New Zealand Standard Industrial Classification (ANZSIC) industry divisions: mining; electricity gas, water and waste services; construction; transport, postal and warehousing; and manufacturing.

Chart 9.10 Female participation rate


Source: ABS Labour Force, Australia; and Treasury.

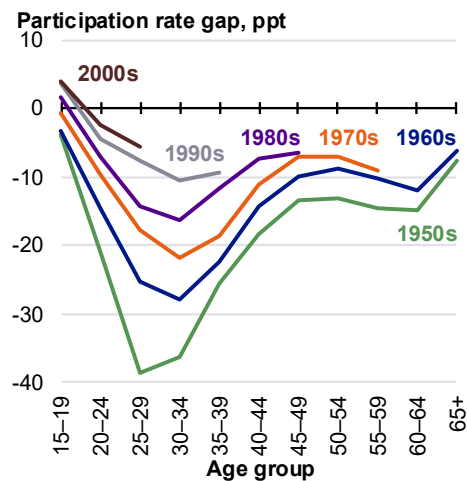
Chart 9.11 Male participation rate


Source: ABS Labour Force, Australia; and Treasury.

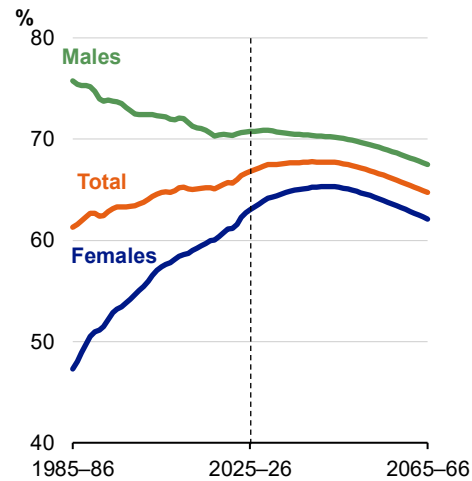
More recent generations of Australian women are, on average, having fewer children and having them later in life (Chapter 8). Lower fertility rates are associated with higher female participation rates during childbearing years as women take less time out of the labour force for caring responsibilities. Career establishment is also a factor associated with the decline in fertility rates since 1961.

As a result, the participation rate gap between men and women at childbearing ages has narrowed substantially across generations (Chart 9.12). Among people aged 25 to 29, women born in the 1950s had participation rates 38 percentage points lower than men born in the same decade. For those born in the 1990s, the gap has narrowed to 8 percentage points.

More broadly, the rise in female participation rates and decline in male participation rates have narrowed the structural gender participation rate gap from 28.4 percentage points in 1985–86 to 7.7 percentage points in 2025–26 (Chart 9.13). The gap is projected to narrow further to 5.4 percentage points by 2065–66, driven by continued participation rate gains for women aged 30 to 49. Female participation gains have been broad-based across occupations, with women accounting for a growing share of employment in high-skilled occupations and among the highest income quintiles.¹¹

Chart 9.12 Gender participation rate gap, by birth decade

Source: ABS Labour Force, Australia; and Treasury.

Chart 9.13 Structural participation rate, by sex

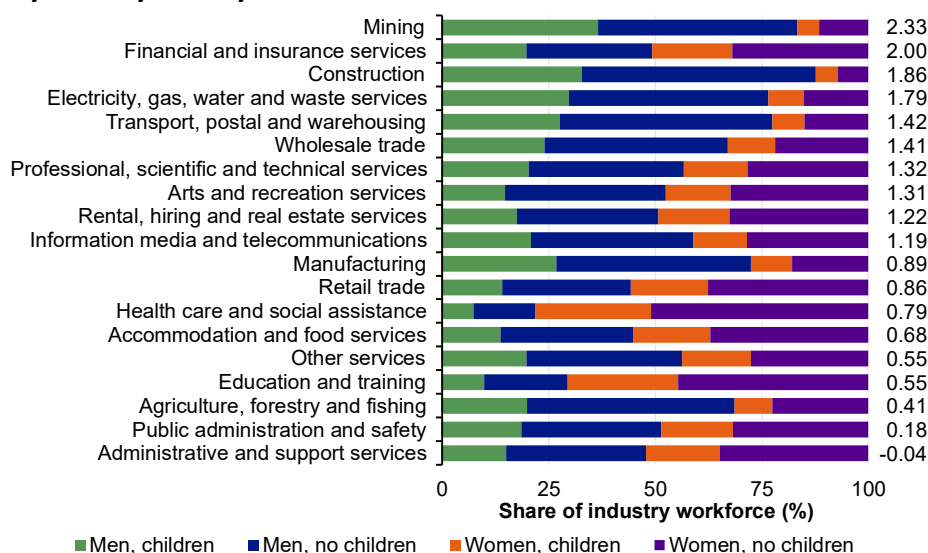
Source: ABS Labour Force, Australia; and Treasury.

A more inclusive and flexible labour market boosts participation

Over recent decades, strong participation gains have been supported by the reduction or removal of many barriers that have historically inhibited labour market engagement. Greater access to child care, aged care and paid parental leave is expected to continue to enable more Australians to participate in paid employment while balancing work with care.

Looking ahead, high-quality healthcare services will continue to support older Australians in maintaining their health and productivity, enabling longer and more flexible working lives. Australia has already experienced strong growth in participation rates among people aged 55 years and older, from 22 per cent in 1985–86 to 37 per cent in 2025–26, with gains expected to continue over coming decades.

As the population ages and demand for care and support services continues to increase, employment in health care and social assistance is expected to grow further (Chapter 4). Further increases in labour demand in this industry due to long-running demographic factors may reduce the cyclical sensitivity of total employment, supporting job stability for Australian workers – including the many women with dependent children who are overrepresented in care-related roles (Chart 9.14).

Chart 9.14 Share of workers by sex, children status and industry employment cyclicity

Note: Cyclicity scores for each industry's employment are on the right of the plot, calculated following the approach used in Chudik and Mau (2025). A score of one indicates that the industry grows the same as overall employment growth. A score greater than one indicates a more cyclical industry.¹²

Source: ABS Labour Force, Australia; and Treasury.

The expansion of formal care has supported higher female participation, particularly during child-raising years. Over the past 40 years, the participation rate gap between women of peak childbearing ages with and without children has narrowed substantially, from 20 percentage points in 1984 to 8 percentage points in 2024.

Greater availability of inclusive and flexible employment opportunities, alongside expanded access to parental leave, has also enabled women to remain connected with the labour market during the early years of parenthood. In 1991, only 30 per cent of women with a child under the age of one maintained a connection with employment (either working full-time, part-time or on leave). By 2021, this share increased to 57 per cent.¹³ The share of mothers with older children who remain employed has also increased.

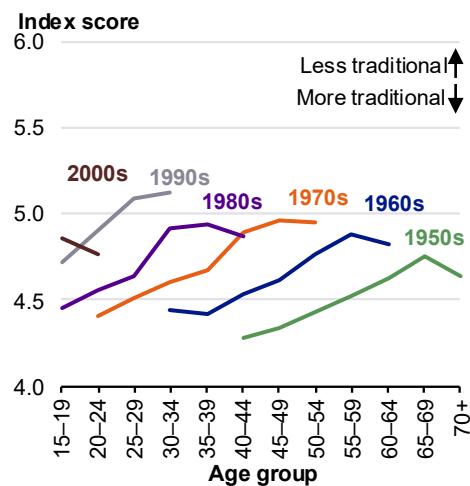
There is also evidence in Australia and abroad that fathers are spending more time engaging with child care compared with fathers in earlier decades. In Australia, this is reflected in a notable uptake in men taking parental leave in recent years. Men's share of the employees taking primary carer's parental leave has increased from 7 per cent in 2019–20 to 20 per cent in 2024–25.¹⁴ However, the increase has been modest relative to the time women devote to care.¹⁵ While women continue to undertake most unpaid care, these trends suggest a gradual shift towards a more equal sharing of care responsibilities. Access to formal aged care also enables those with dependent elderly relatives to remain in paid work.

Evolving social attitudes have supported higher female participation

Social norms and attitudes influence labour supply decisions and the division of paid and unpaid work within households. Traditional gender-based attitudes typically associate paid employment with men and caring responsibilities and other household duties with women, shaping participation outcomes even as formal barriers have diminished.¹⁶

Across generations, traditional attitudes towards gender and work within the household have become less common for both men and women (Chart 9.15 and Chart 9.16). These trends are consistent with higher female participation and larger involvement in unpaid work from men.

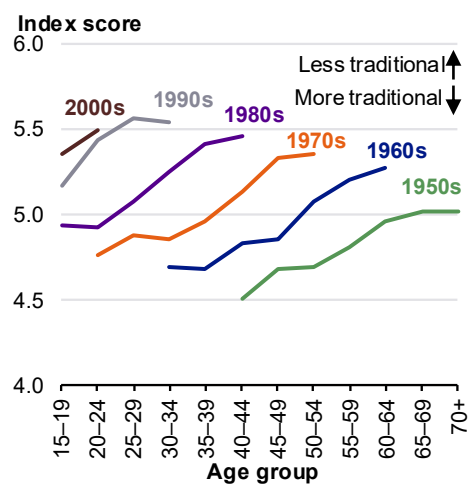
Chart 9.15 Attitudes towards gender and work, males



Note: Index scores are the average of responses given to statements on gender roles and caring responsibilities, such as 'a father should be as involved in care as mothers.' Lower values indicate more traditional attitudes, with one representing 'strongly disagree' and seven representing 'strongly agree'.

Source: Household, Income and Labour Dynamics in Australia (HILDA) Survey Restricted Release 24.0; and Treasury.

Chart 9.16 Attitudes towards gender and work, females



Note: Index scores are the average of responses given to statements on gender roles and caring responsibilities, such as 'a father should be as involved in care as mothers.' Lower values indicate more traditional attitudes, with one representing 'strongly disagree' and seven representing 'strongly agree'.

Source: HILDA Survey Restricted Release 24.0; and Treasury.

Shifts in social attitudes may reflect a combination of economic and social factors, including changing labour market conditions, evolving perceptions of gender roles, exposure to external social influences such as migration, policies that support shared care, flexible work arrangements and equal opportunities to engage in paid work.¹⁷

It is too early to know if the recent shift to more traditional attitudes about gender among younger males is temporary or permanent. A permanent and significant shift in social attitudes may unwind some of the participation gains observed over the past 40 years, particularly among women.

Despite these shifts, women continue to undertake a larger share of unpaid work, including within households where the partners believe mothers and fathers should share child care equally. In 2024, women who engaged in unpaid work performed an average of 4 hours and 53 minutes of unpaid work each day, compared with 3 hours and 52 minutes for men.¹⁸ The difference is particularly large for parents of children under 5 years of age but persists even among couples without children.

Differences in access to parental leave between men and women also continue to shape decisions about how unpaid care is shared within households. In many cases, men are less likely to be eligible for, or make use of, parental leave entitlements – particularly as primary carers – which can limit their ability to take on a greater caring role.¹⁹ This can, in turn, contribute to women bearing a larger share of unpaid care, affecting their capacity to participate in paid work and reinforcing entrenched social norms.

Further participation gains remain possible

Opportunities remain to broaden labour force participation further, beyond what this IGR anticipates, extending on substantial progress made over the past 40 years.

Many women continue to face barriers to engaging in work or working their preferred hours. Care responsibilities and other home duties are the most common reasons for women not participating in the labour force or working part-time, particularly during childbearing years and later in life. This reflects preferences for some families, but for others it may reflect barriers to accessing care. In 2024–25, around 25 per cent of women who were unable to start work or increase their hours reported the availability or cost of child care as the main constraint.²⁰

Older Australians also continue to face barriers to finding work or working their preferred hours. Age is the most common reason people aged 55 to 75 found it difficult to find work or more hours when they were available and looking for a job or for more hours. In 2024–25, 38 per cent of people aged 55 to 75 reported this reason as a difficulty. Other reasons for these difficulties included their own ill health or disability, lacking the necessary training or experience and competition with too many other applicants.²¹

Despite significant progress, barriers to occupational choice remain for men and women, contributing to persistent occupational gender segregation and limiting participation. The female share of employment remains below 20 per cent in most engineering occupations. Some construction roles have female shares of around 1 per cent. Men also remain underrepresented in many service-sector jobs, such as those in the care sector, even as employment opportunities expand and workforce shortages arise.

Social norms about what jobs are appropriate for men and women and entrenched perceptions of job suitability, alongside lower pay and status in some of these roles remain persistent barriers to participation.²² Barriers to occupational choice for women also stem from their disproportionate undertaking of unpaid work and caring responsibilities. For example, job characteristics such as inflexible work may inhibit women from entering many high-paying but time-demanding occupations.²³ Similarly, women tend to prefer working closer to home than men, reflecting their unpaid work responsibilities.²⁴

The Government's investment in cheaper child care, more Paid Parental Leave, higher quality healthcare services as well as reducing the tax burden on Australian workers, will extend on the gains made over recent decades that have enabled more people to enter paid work. The Government's commitments through the Australian Skills Guarantee, Building Women's Careers Program, Free TAFE, and the Future Made in Australia agenda will further reduce barriers to occupational choice over the coming decades.

Technological change, including the adoption of AI, may have implications for the labour market and participation (Chapter 1). While these impacts remain uncertain, skills development and lifelong learning will be central to ensuring workers can adapt and benefit from these emerging opportunities.

The National AI Plan sets out the Government's ambitions for harnessing AI in Australia and ensuring its advantages are equitably shared by all Australians.²⁵ This includes supporting lifelong learning through skills and training, embedding digital literacy across education, and addressing digital literacy gaps to prevent deepening inequalities.

Ensuring Australians can update skills throughout longer working lives, access high-quality formal care, and participate in flexible, inclusive work arrangements will be central to realising these opportunities and sustaining strong participation over time.

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10 Productivity

Overview

Productivity growth is the key driver of living standards. It has slowed across advanced economies since the mid-2000s, including in Australia, owing to a combination of international and domestic factors. These include:

- diminishing returns from previous technological waves
- the slower spread of frontier innovations across firms
- weaker global growth in physical and human capital
- declining business dynamism
- reduced gains from globalisation.

The outlook for global productivity growth remains uncertain. This reflects downside risks such as population ageing and geopolitical fragmentation, as well as opportunities and challenges associated with climate change, digitalisation and artificial intelligence (AI).

Australia's future productivity growth will be shaped by the major transitions in train, our ability to keep pace with technological progress at the global frontier, and how well we manage risks and opportunities. Consistent with this outlook, this Intergenerational Report (IGR) maintains a long-term productivity assumption of 1.2 per cent per year.

Many factors shape Australia's capacity to benefit from leading innovations.

- Private businesses drive productivity through investment, innovation and the adoption of new ways of working.
- New technologies are more likely to spread through the Australian economy if firms invest in new capital and skills.
- Competitive pressures encourage the adoption, scaling and efficient use of new technologies.

Governments play an important role through investment in human capital and the effective delivery of public goods and services. Policy and institutional settings also shape the environment in which firms operate, influencing incentives to invest, innovate, compete and diffuse new technologies. The Government has a broad and ambitious productivity agenda to support higher living standards for Australians.

10.1 Productivity projections

Productivity growth is key to long-term prosperity

Productivity measures how efficiently inputs are transformed into outputs using capital, labour, and other resources. Policymakers typically focus on labour productivity (hereafter, 'productivity') as a key driver of real wages and national income growth. Productivity growth expands the economy's supply capacity, by enabling more output to be produced for a given amount of labour.

For businesses, higher productivity supports more efficient production of goods and services. By lowering unit costs or enabling higher quality output, it improves firm performance, supports reinvestment, and facilitates expansion. In competitive markets, these gains are passed through to consumers as lower prices or better quality products.¹

For individuals, higher productivity enables workers to generate more value per hour worked, supporting higher real wages. This can lead people to achieve greater flexibility in balancing work, income and leisure.²

For governments, productivity growth supports a stronger fiscal position by increasing national income and tax revenues.

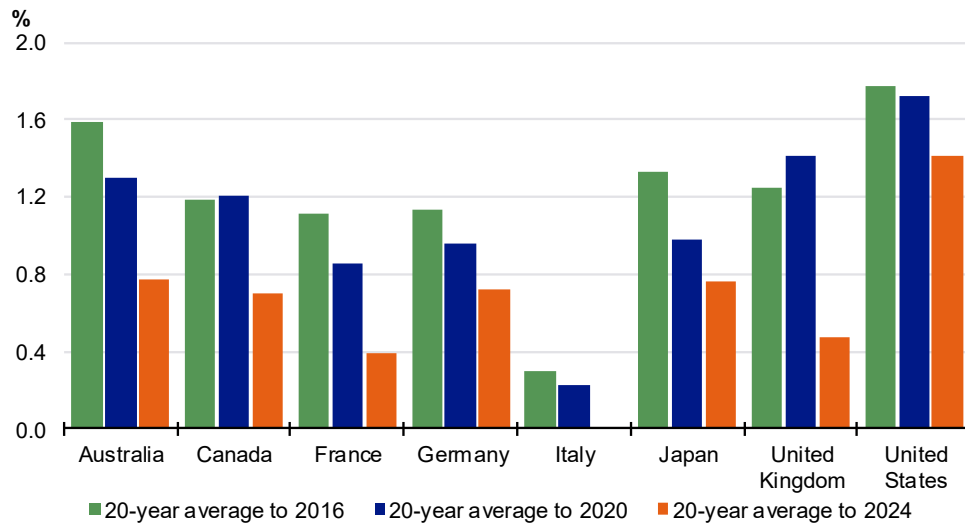
Ultimately productivity growth is largely shaped by decisions across the economy, particularly by firms and workers investing, innovating and adopting more efficient production techniques and ways of working. Government also plays a direct role including through investments in human capital, such as education and health and the provision of non-market services including public research and development (R&D), funding and procurement.^{viii}

Productivity growth has slowed across the developed world including in Australia

Since the mid-2000s, productivity growth has slowed across most advanced economies (Chart 10.1). This reflects a combination of structural drivers, many of which are common across advanced economies, including slower technological innovation and diffusion, population ageing, and a long-term shift towards services-based sectors in the economies.

viii The non-market sector is defined as the three industries of education and training, health care and social assistance, and public administration and safety, consistent with ABS classification.

Chart 10.1 Long-term productivity growth across advanced economies



Note: Averages are calculated using a compounding average growth rate.

Source: Organisation for Economic Co-Operation and Development (2026), Gross Domestic Product (GDP) per hour worked, Organisation for Economic Co-Operation and Development (OECD) Data Explorer, 1996–2024; and Treasury.

Australia's productivity slowdown reflects global and domestic factors

Australia's productivity has experienced periods of stronger and weaker growth over time, often coinciding with the emergence and diffusion of general-purpose technologies.³

Strong productivity growth in the 1990s reflected the widespread adoption of information and communications technology (ICT), supported by significant competition and other reforms.⁴ Growth began to moderate from the mid-2000s as those gains diminished, partly offset by strong mining investment and associated capital deepening.

Productivity growth weakened further in the 2010s in the absence of a fresh wave of general-purpose technology with economy-wide benefits, the unwinding of the mining investment cycle, and a range of domestic and global factors.

Globally, the common factors weighing on productivity across economies include slower global investment since the Global Financial Crisis (GFC), slower rates of human capital accumulation, weakening competitive pressures, declining business dynamism, reduced gains from globalisation, diminishing returns on existing technology, and the fact that emerging technological advances are yet to generate the productivity improvements seen in earlier waves.⁵

In the 2020s, the COVID-19 pandemic led to a temporary cyclical increase in measured productivity, as hours worked fell more than output. These effects unwound with the lifting of public health restrictions, and supportive monetary and fiscal policy settings.⁶ However, capital investment growth lagged the recovery in labour input following the pandemic, resulting in capital shallowing. Private investment has strengthened more recently, but sustaining this improvement and broadening it across the economy will be necessary to support future productivity growth through ongoing capital deepening.

Long-term productivity outcomes are uncertain

The long-term outlook for productivity is subject to considerable uncertainty. As outlined in Part I, Australia will face a number of major transitions over the coming 40 years, including downside risks associated with rising geopolitical fragmentation and adjustments to the impact of climate change, and the potential for more rapid progress in adoption and diffusion of AI.

As set out in the 2026–27 Budget, the technical assumption for Australia’s long-term productivity growth remains unchanged from the 2023 IGR, at 1.2 per cent. This assumption falls within a range of expectations globally for frontier growth rates over the longer term. It also allows for historic rates of diffusion of new technology, including AI, through the Australian economy. Treasury projects that underlying productivity growth transitions to its long-term growth assumption over around five years.^{ix} Chapter 1 sets out alternative stylised scenarios for long-term productivity growth, focused on the potential effects of AI, and discusses the key upside and downside risks in more detail.

Australia’s long-term productivity assumption is within the range of those used by other advanced economies. In February 2026, the United States Congressional Budget Office increased its assumption for underlying productivity growth from 1.3 to 1.4 per cent, implying a slightly stronger outlook for the frontier.⁷ It is also lower than the United Kingdom (1.5 per cent) and slightly higher than the assumptions used by New Zealand (1.0 per cent) and Canada (0.9 per cent).⁸

Small changes in long-term productivity growth can compound into sizeable differences in future wages and living standards, shaping Australia’s economic trajectory over 40 years (Box 10.1).

ix This is set out in more detail in Box 2.4 of 2026–27 Budget Paper 1.

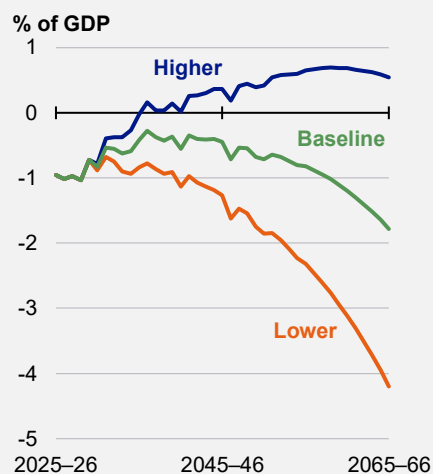
Box 10.1 Productivity sensitivity analysis

This productivity sensitivity analysis examines the effects of higher and lower underlying productivity growth on long-term economic and fiscal projections. Further details are in Appendix A4. The higher scenario is an increase of 0.4 percentage points, and the lower scenario is a decrease of 0.4 percentage points. The effects of both scenarios are broadly symmetric.

The effect of a 0.4 percentage point increase in productivity growth is higher real and nominal GDP and higher wages. Under this scenario, they are all projected to be around 15 per cent higher in 2065–66.

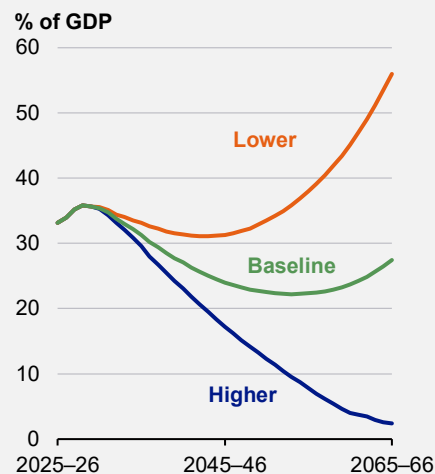
Total payments are projected to be 2.3 percentage points lower as a share of GDP by 2065–66. However, some payments are higher in nominal terms due to higher wages and a larger economy. Total receipts are unchanged as a share of GDP from 2032–33. The net effect is an improvement in the underlying cash balance of 2.3 percentage points of GDP by 2065–66 (Chart 10.2). Smaller deficits cumulatively reduce gross debt by 25.0 percentage points of GDP in 2065–66 (Chart 10.3).

Chart 10.2 Impact on underlying cash balance of productivity



Source: Treasury

Chart 10.3 Impact on gross debt of productivity



Source: Treasury

10.2 Drivers of productivity trends

Over the next 40 years, Australia's productivity growth outcomes will partly depend on the major transitions set out in Part I. These will contribute to the pace of technological change at the global frontier, and how effectively new technologies are adopted and diffused through the Australian economy.

Australia's productivity outcomes will also depend on a range of factors that shape its ability to remain close to the global frontier, including investment in physical and human capital, and the dynamism of firms and markets. Together, these factors influence the capacity of businesses and workers to adopt new technologies, innovate and improve productivity over time.

Consistent with this, the Government's productivity agenda focuses on creating a more dynamic and resilient economy, building a skilled and adaptable workforce, harnessing data and digital technology, delivering quality care more efficiently, and investing in cheaper, cleaner energy and the net zero transition. The Government built on this agenda through the productivity package announced in the 2026–27 Budget (Box 10.2).

Box 10.2 Making it easier to build, invest and do business

The Government's productivity package announced in the 2026–27 Budget places competition and structural reforms at the centre of efforts to lift long-term productivity. It is the broadest productivity push in a budget since the 1990s.

The productivity package includes \$3.8 billion of new measures that lower taxes for businesses. Loss carry back for companies up to \$1 billion in turnover, loss refundability for start-ups, expanded tax incentives for venture capital and making the \$20,000 instant asset write-off permanent will lower the effective tax rate on new, risky investments.

The Government is refining and simplifying the Research and Development Tax incentive to better incentivise additional business R&D investment and increase R&D by young firms by around \$400 million per year.

The Government is also delivering ongoing regulatory reform and reducing red tape, including reducing financial sector regulation costs by \$780 million a year, developing regular Regulatory Reform Omnibus Bills, and removing barriers to trade by abolishing another 497 nuisance tariffs. National Competition Policy (NCP) reforms being negotiated with the states and territories, including building a single national market, will make it easier to work and do business nationwide and save an estimated more than \$2 billion in regulatory costs a year. Further Government investment in Digital ID and 'tell-us-once' reforms will make it easier to engage with Government.

continued on next page

Box 10.2 Making it easier to build, invest and do business

The Government is making it easier to build. Accelerating approvals through the legislated reforms to the *Environment Protection and Biodiversity Conservation Act 1999* is estimated to save up to \$6.9 billion in regulatory costs per year. In addition, the Government is working with states and territories to speed up and simplify approvals, to make more land available and ready for new homes and modernise the National Construction Code. These changes are estimated to deliver a regulatory save of up to \$3 billion a year, based on a scenario in which regulatory costs are reduced by 10 per cent. This is complemented by reforms which remove barriers to the uptake of modern methods of construction.

Reforms to the National Electricity Market are about providing the right incentives for a range of generation technologies and secure a supply of affordable energy. The Government is also helping to unlock the data and AI opportunity under the National AI Plan, and making significant investments in science and innovation, with more than \$39 billion committed to support R&D over the forward estimates.

Work is underway to make it easier for business to access the skills and capital they need to maximise productivity. This includes better recognising skills by accelerating skills assessments for migrant trades workers and developing pathways for quicker degrees for university students with VET qualifications in the same area. Reforms to strengthen the superannuation performance test will support the efficient flow of capital, while the new Investor Council as part of the Investor Front Door will help better coordinate government investment.

These reforms will reduce regulatory burden by \$10.2 billion each year and boost long-term GDP by \$13 billion a year via work underway in National Competition Policy.

Productivity rises as the global frontier advances and ideas spread

The global frontier is the highest level of productivity achieved by the most efficient firms, industries and countries, given available technologies, organisational practices and skills. The frontier expands as leading firms and economies develop new-to-the-world innovations, reorganise production and improve their capabilities.

Over the long run, the frontier tends to grow at a variable pace. Periods of stronger growth are often associated with the emergence and diffusion of general-purpose technologies that reshape production and enable the development of new business models. AI is emerging as a new general-purpose technology that is expected to advance the global frontier.⁹ However, the timing, scale and distribution of its productivity impacts are difficult to predict. For countries like Australia that are not at the frontier, the benefits of new advances also depend on how effectively AI and other technologies are adopted and diffused throughout the economy.

The Australian economy generally operates behind the global productivity frontier. Most Australian businesses lift productivity by adapting overseas technologies and best practices to local conditions.¹⁰ However, evidence suggests diffusion of technologies to Australian firms has weakened over time. This pattern is evident across areas of the market sector and is more pronounced in services industries where competitive pressures are lower.¹¹

Strengthening diffusion will be critical to sustaining productivity growth and ensuring Australia retains or narrows its distance to the global frontier. This will shape how effectively the economy responds to major transitions. For example, firms' and economies' adoption of productivity-enhancing technologies may ease labour supply pressures associated with population ageing, supporting continued gains in output and living standards.¹² Increased geopolitical fragmentation may slow the diffusion of ideas, technologies and expertise across borders. This could reduce access to frontier innovations and make it more difficult for Australia to converge toward the global productivity frontier.¹³

Governments also have an important role in supporting diffusion by maintaining competitive and dynamic markets, investing in skills and other enabling capabilities, and ensuring regulatory and institutional settings support innovation and adaptation. The Productivity Commission has found that competition-enhancing reforms were central to Australia's productivity acceleration in the 1990s because they strengthened incentives and opportunities for firms to adopt and use ICT in productivity-enhancing ways.¹⁴

Private investment will support capital deepening

Investment supports productivity by increasing the amount and quality of capital available to each worker. Generally, capital deepening allows tasks to be completed faster and to a higher standard. Investment can also embody new technologies or provide the enabling infrastructure through which technological progress occurs, which generally raises what can be produced from given inputs. This also increases expected returns and can induce further investment.

In Australia, business investment as a share of nominal GDP fell from 18 per cent in the late 1960s to 11.5 per cent in 2021–22. Business investment picked up over 2025 to reach around 13 per cent of GDP in the first half of 2026 – the highest in a decade. The recent strength has been multi-faceted, supported by data centre investment, the rollout of renewable energy and battery storage and ongoing business digitisation. As production becomes more digitally intensive, a larger share of investment is likely to shift toward intangible assets, such as software, data, organisational capital and skills, alongside the physical infrastructure that supports them.

This pick up in business investment reflects some of the major transitions unfolding globally, with significant opportunities in Australia due to our combination of economic strengths, energy resources, geography and local industries. The investment environment will be critical to capitalise on these major transitions over the long term. Continued strong institutions and ongoing reforms to better facilitate investment will underpin further productivity growth and incentivise capital to flow towards their most effective uses.

Human capital and skills matching will be essential

Human capital lifts productivity by enabling workers to perform tasks more efficiently and adapt to changing job requirements. It also supports technological diffusion and adoption, since these processes can only happen if workers can adjust their work practices and learn new skills. Human capital is a key ingredient for business dynamism, with more skilled workforces associated with stronger firm growth, innovation and survival.¹⁵

Productivity growth also depends on how well workers' skills match job requirements, with better alignment improving efficiency and output. Job mobility helps workers to move to roles that better use their skills and, in aggregate, to more productive firms.¹⁶

Human capital has been a significant driver of Australia's productivity growth, with improvements in workforce skills accounting for around one-third of productivity growth over the past three decades.¹⁷

Going forward, population ageing will weigh on labour supply and will place greater reliance on productivity improvements to support living standards. At the same time, major economic and technological transitions are expected to increase demand for a skilled and adaptable workforce capable of moving across tasks, occupations and industries.

Responding to these challenges will require education and training systems that better align with labour market demand, including in occupations facing persistent shortages and industries critical to Australia's future growth. It will also require education and skills development to remain relevant as AI and other technologies reshape workplaces and skill requirements. More broadly, improving educational attainment and expanding access to tertiary education can help more Australians develop and deploy their skills productively throughout their working lives.

Economic dynamism will support productivity growth

Economic dynamism reflects the economy's capacity to reallocate labour and capital towards more productive firms and activities. Strong competition is often associated with higher levels of entry, expansion and resource reallocation. Firms operating in more competitive environments also tend to exhibit higher levels of efficiency, investment, innovation and technology adoption. In fact, firms facing five or more competitors have predicted innovation probabilities that are around 10 to 15 percentage points higher than those operating as monopolies.¹⁸

In Australia, a range of indicators point to weaker competitive pressure over recent decades. Firm entry and turnover rates declined between the mid-2000s and early 2010s, alongside a slowdown in the reallocation of labour and market share toward more productive firms.¹⁹ At the same time, increasing concentration and mark-ups point to reduced competitive intensity, dampening incentives for investment, innovation and efficiency.²⁰ Consistent with this, Australian firms have become slower to adopt leading technologies and practices.²¹

Looking at other indicators of dynamism, the number of business owners as a share of total employment in Australia has decreased from around 20 per cent in early 2000s to 15 per cent in 2025.²² At the same time, rates of job creation have been weaker in small businesses compared to their larger counterparts.²³

Competition is in part influenced by broader institutional and policy settings. Regulatory burdens, barriers to entry in key sectors, and constraints on labour mobility can weaken competitive pressure, slowing the flow of resources to more productive firms.

Recognising the role of these settings, the Government is working with the states and territories to revitalise NCP through a 10-year reform agenda. NCP provides a coordinated framework for governments to boost productivity and long-term economic growth by strengthening competition, reducing unnecessary regulatory barriers and supporting a more integrated national market. Supported by a \$900 million National Productivity Fund, it rewards states and territories that implement productivity-enhancing, evidence-backed reforms.

A major focus of the new NCP reform program is making it easier to work and do business across states and territories. This includes supporting a single national market for workers so Australians can use their skills where they are most valuable without needing to wait for a new license or pay a new fee. A new tripartite implementation group will progress occupational licensing reforms, and governments are working together on a national approach to worker screening in the care and support economy. There are also reforms that support a single national market for goods by harmonising regulations and standards that apply to the supply and use of products in Australia. Once implemented, NCP reforms are expected to increase long-term GDP by around \$13 billion per year.

Industrial composition will have a significant effect on productivity

Changes in Australia's industrial composition affect productivity because industries have different productivity levels. Goods and capital-intense service industries historically have higher productivity levels and growth rates. In contrast, productivity gains can be harder to identify in service industries that are labour intensive.²⁴ This is particularly true for the care sector, where prices are often regulated and employment growth includes the formalisation of previously unpaid services and an ageing population.²⁵ Measurement issues in non-market sectors can mean that actual improvements in the quality of services and outcomes in these industries are not captured in productivity statistics.²⁶

Australia, like many advanced economies, has experienced a structural shift towards services and non-market industries, consistent with rising incomes and population ageing (Chapter 5). This change in industry composition has reduced aggregate productivity growth. The growth in non-market employment alone has lowered productivity growth by an average of 0.15 percentage points each year for a decade since the late 2000s, before doubling to 0.30 percentage points each year from 2017–18 to 2023–24.²⁷ The broader shift of Australia's economy towards service industries is likely to have also had a dampening effect on aggregate productivity.

As the role of services in Australia's economy continues to increase, higher rates of productivity growth within industries will be required to achieve the levels of aggregate productivity growth observed historically. Although some services industries such as finance, ICT and transport have outpaced productivity in goods, others have persistently low rates of productivity and investment.²⁸ This is often due to intrinsic characteristics, such as their reliance on in-person delivery, lack of prices or quality indicators that weaken incentives for improvement, and measurement issues. Improving this

performance will be vital to lifting Australia's overall productivity outcomes, as these industries grow as a share of the economy.

Over the next 40 years, the major transitions will continue reshaping the composition of the economy and provide opportunities to generate new sources of productivity growth. An example is the potential productivity impact of AI, where its exposure is expected to impact the cognitive and non-routine jobs that characterise large parts of the service and non-market sector (Chapter 1). Over the long run, productivity growth will also depend on reforms that remove unnecessary barriers to efficiency, improve service quality in the care sector, support more efficient models of care delivery, accelerate technological adoption and workforce capability and improve productivity measurement frameworks.

Positioning Australia for future productivity growth

Australia is well positioned to drive ongoing productivity growth including by strengthening the competitiveness and dynamism of our economy as it transforms.

Businesses are already responding to the changes in Australia's industrial opportunities (Chapter 5). Business investment has increased, with total capital expenditure up 11.3 per cent over 2025–26 and firms expecting further growth in 2026–27. The latest survey points to continued investment momentum across the economy. Workers are responding to the economy's transformations by building skills in areas in demand.

As the economy responds to the major forces shaping Australia's industrial future, firms, industries and workers will need to adapt to a changing economic environment. The industrial transformation will be supported by strong institutions, effective policy and economic partnerships with major economies. This will ensure that Australian firms have access to the technology, skills and markets needed to improve productivity and invest in the necessary capital and capabilities.

The Government is taking action to position Australian firms and workers to realise these opportunities, including by:

- **Creating a dynamic and resilient economy** by reducing compliance costs and making it easier to invest and innovate. The Government announced a package of reforms in the 2026–27 Budget that delivers \$10.2 billion per annum in regulatory savings, including abolishing an additional 497 nuisance tariffs (bringing the total to around 1,000 nuisance tariffs abolished) and continuing reforms to build a single national market for goods and workers.
- **Building a more skilled and adaptable workforce** to enhance the productive capacity of the economy. The Australian Tertiary Education Commission is developing pathways for quicker degrees for university students with VET qualifications in the same area through a National Credit Recognition Framework. The Government is reforming the permanent migration points test to better target skilled, younger and more highly educated migrants and improve recognition of migrant skills.

- **Harnessing data and digital technology** to foster innovation and ensure that Australians benefit from the digital transformation. The National AI Plan sets out the Government's vision for an AI-enabled economy that is more competitive, productive and resilient (Chapter 1). The Government has also committed to driving a comprehensive data and digital agenda to deliver simple, secure and connected public services by 2030.
- **Delivering quality care more efficiently** to ensure formal care is safe, high quality and accessible. This includes establishing a national approach to worker screening, making aged care and disability programs more sustainable, and investing in primary care and alternative pathways for acute care. These approaches use resources more efficiently and effectively to achieve better outcomes for care recipients.
- **Investing in cheaper, cleaner energy and the net zero transformation** to meet Australia's emissions target in an efficient way and by facilitating affordable, timely and reliable energy supply. This includes standardising technical requirements for consumer energy resources such as solar panels, batteries and electric vehicle chargers to support a more productive electricity grid.

Responsible fiscal management enables the Government to continue to deploy targeted policies such as those above. The Government's approach to fiscal management is set out in its economic and fiscal strategy which includes a commitment to improve the quality of spending, focusing spending on investments and reforms to make the economy more productive and improve resilience. This is discussed further in Part III.

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Part III: The budget over the next 40 years

11 The budget

Overview

Australia's fiscal outlook for the next 40 years has improved noticeably since the 2023 Intergenerational Report (IGR), but fiscal pressures remain.

The underlying cash balance (UCB) is projected to improve over the medium term, to a deficit of 0.3 per cent of gross domestic product (GDP) in 2036–37, then widen over the long term to reach 1.8 per cent of GDP in 2065–66. Compared to the 2023 IGR, the UCB is projected to improve by 1.2 percentage points of GDP by 2062–63.

Gross debt is projected to decline over the coming decades from 33.1 per cent of GDP in 2025–26 to 22.2 per cent of GDP in the mid-2050s. Rising spending pressures and widening deficits later in the projection period result in gross debt increasing again to 27.4 per cent by 2065–66. Compared to the 2023 IGR, gross debt is 7.2 percentage points of GDP lower in 2062–63. Gross debt as a share of GDP remains lower than every major advanced economy and the projected peak remains much lower than current gross debt across comparable economies.

Spending as a share of the economy is much lower than the 2023 IGR, although it is still expected to increase over the next 40 years. Spending was around a third of the economy at the beginning of the decade during COVID-19, fell to under a quarter a couple of years later and is now slightly above a quarter of the economy. Spending is projected to increase by 1.1 percentage points of GDP over 40 years, driven by the ageing of the population. This increase is around a quarter of that projected in the 2023 IGR. Tax receipts are assumed to not exceed the historical high of 24.2 per cent of GDP, the level recorded in 2004–05 and 2005–06. This is lower than the 2023 IGR assumption, meaning that most of the improvement in the fiscal position is driven by lower payments.

The ageing population will result in the workforce shrinking as a proportion of the population. Together with structural trends in the tax base, this will add to pressures on working-age Australians. The ageing population will also increase demand for health and aged-care services, increasing government spending. Other spending pressures also pose a risk to the budget, including defence, the energy transition and impact of the rise of artificial intelligence (AI).

The Government's responsible fiscal management is rebuilding fiscal buffers including by tackling the structural pressures on the budget, such as reforms that are making the National Disability Insurance Scheme (NDIS) and aged care more sustainable.

11.1 The budget over the next 40 years

Structural shifts will intensify fiscal pressures

Over the next 40 years, Australia's fiscal outlook will be shaped by rising demand for government services, mounting pressures on the tax base and a slowing economy.

Population ageing is projected to drive significant growth in health and aged-care expenditure as demand for services and care workers increase. Further spending pressures that are difficult to quantify but represent a risk to the fiscal outlook are defence spending in the face of increasing global fragmentation; physical damages from climate change; and responding to the rise of AI.

The revenue base will also be affected by structural changes in the economy. Major transitions such as the ageing population, global fragmentation and the transition to net zero are likely to reshape Australia's revenue base over the next 40 years. Demand for goods subject to excise, such as tobacco and fuel, are also expected to decline in line with shifts in consumption trends. At the same time, new opportunities in clean energy, critical minerals and other emerging industries support future economic growth contributing to tax revenue.

In addition to these broader structural shifts, a high interest burden is projected to remain a persistent element of the budget. This reflects the substantial accumulation of debt before and during the pandemic at lower yields, which will require refinancing at higher prevailing market rates.

As the scale and interaction of these structural trends intensify, maintaining a sustainable budget position will require policies and ongoing reforms that manage growing spending and revenue challenges.

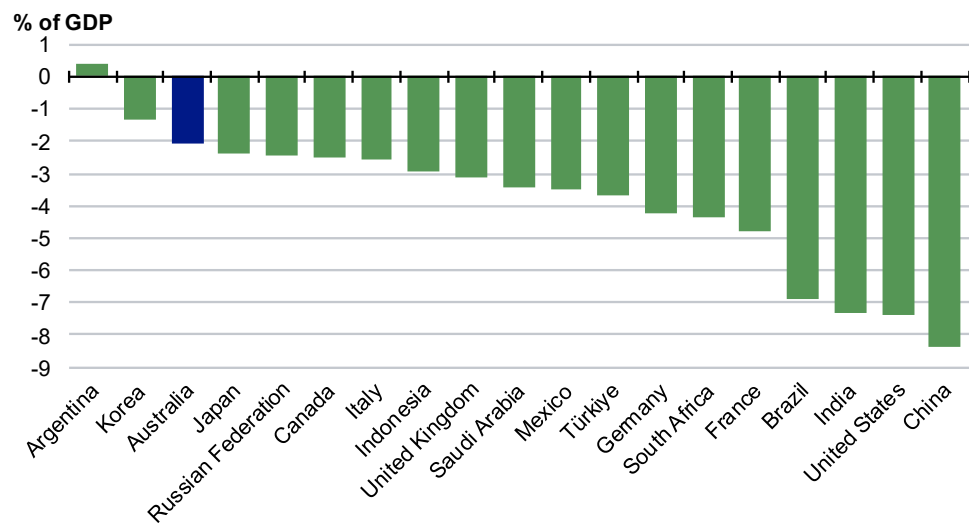
Spending is expected to exceed revenue over the next 40 years, resulting in underlying cash deficits. These deficits remain modest for much of the projection period, reflecting revenues that are broadly sufficient to fund spending apart from interest. As a result, gross debt as a share of GDP is projected to decline until the early 2050s. From then, growing spending pressures contribute to widening deficits and rising gross debt.

11.2 Budget balance projections

The fiscal outlook has improved since the 2023 IGR

The fiscal outlook has improved and long-term underlying cash deficits in this report are smaller than in most previous intergenerational reports. According to the International Monetary Fund (IMF) projections, in 2027, Australia is expected to have the third strongest consolidated budget position compared to G20 nations (Chart 11.1). Compared to the 2023 IGR, the fiscal outlook has improved with smaller deficits projected over the long term (Chart 11.2). This reflects structural improvements to the Budget, particularly reforms to the NDIS. Chapter 12 explores the spending projections in greater detail. Since the 2023 IGR, developments in AI have advanced rapidly, but there is significant uncertainty around the impact these will have on the Budget (Box 11.1).

Chart 11.1 Fiscal balance comparisons among G20 countries in 2027

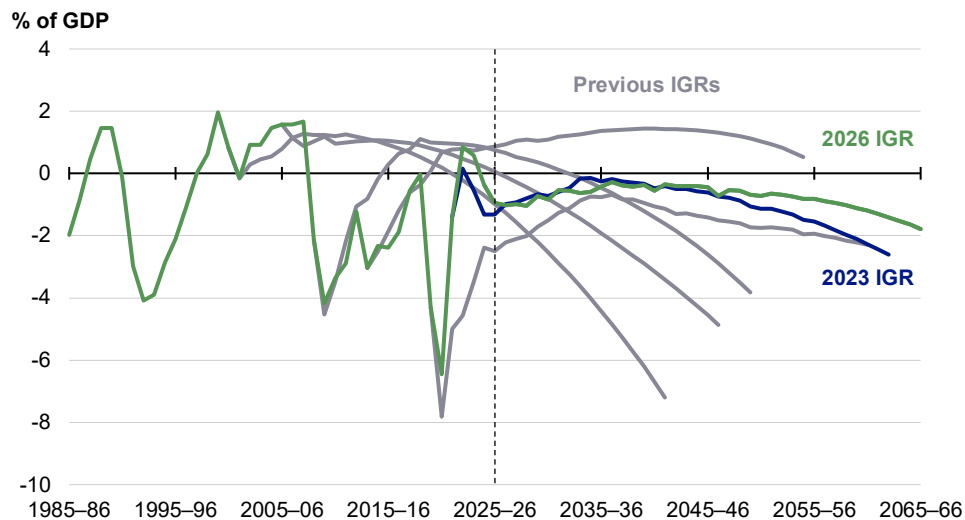


Note: International Monetary Fund fiscal data are produced on a consistent basis across countries. They are produced for calendar years and on a general government basis, which includes state, territory and local governments. They are not directly comparable with fiscal aggregates reported elsewhere in the IGR.
Source: IMF Fiscal Monitor (April 2026) and Treasury.

Large scale fiscal support during the COVID-19 pandemic made a substantial contribution to the ongoing accumulation of debt. When factoring in higher yields on government borrowing, this fiscal support has increased interest payments compared to previous projections, which has placed downwards pressure on the budget position.

Over the next 40 years, the underlying cash balance is expected to be in deficit across the projection period. While the deficit remains between 0 and 1 per cent of GDP for most of the projection period, rising spending pressures mean the deficit is projected to widen from the 2050s, reaching 1.8 per cent of GDP in 2065–66.

Chart 11.2 Underlying cash balance projections across intergenerational reports



Source: Treasury.

Box 11.1 Impact of AI on the budget

AI has the potential to make a significant contribution to achieving productivity outcomes over the next 40 years (Chapter 1). Productivity growth improves the budget as it generally translates into higher GDP growth and higher tax receipts.

The 2026 IGR assumes long-term productivity growth of 1.2 per cent and expectations about the benefits from AI inform this assumption. However, there is significant uncertainty about the impact of AI and a correspondingly large range of estimates of its productivity growth implications.

It is plausible that AI results in higher ongoing productivity growth than assumed. For each additional 0.1 percentage point AI contributed to productivity growth from 2030–31 onwards, it would also be expected to contribute 0.07 percentage points to the underlying cash balance as a percentage of GDP and reduce gross debt by 0.3 percentage points of GDP by the end of a decade.

While the effect of AI on productivity is expected to be positive, there may be some partially offsetting effects on how that growth flows through to the budget.

Productivity improvements from AI may be reflected in lower prices rather than higher incomes. Previous information technology (IT) transformations have seen a sharing of benefits between these two channels. This would mean the tax receipts might be lower than expected for the amount of GDP growth. Lower prices also have the potential to decrease government expenditure needs by making services lower cost to deliver or higher quality for the same cost.

Sustained periods of productivity growth are usually associated with a lift in the neutral rate of interest that would result in higher bond yields on average. This impact would be less pronounced for Australia given the low level of gross debt compared to other advanced economies but may result in higher interest payments on that debt.

Finally, AI is expected to transform markets, with potential implications for where income is earned and what government services are needed. There may be offsetting impacts to tax revenue depending on how the distribution of wages and capital income changes overall, as tax rates differ across capital and labour income, and across income levels. There could also be changes in demand for related government programs. For example, access to income support, training programs and employment services could increase if increased job switching was observed. Similarly, claims for the Research and Development Tax Incentive could increase if firms lifted the intensity of research and development activities. As discussed in Chapter 6 and Chapter 13, the Government is rebalancing the tax system as part of a significant tax reform agenda.

Long-run pressures on payments are intensifying

Budget deficits are projected to widen from the 2050s, with receipts broadly stable as a share of the economy while payments continue to grow (Chart 11.3).

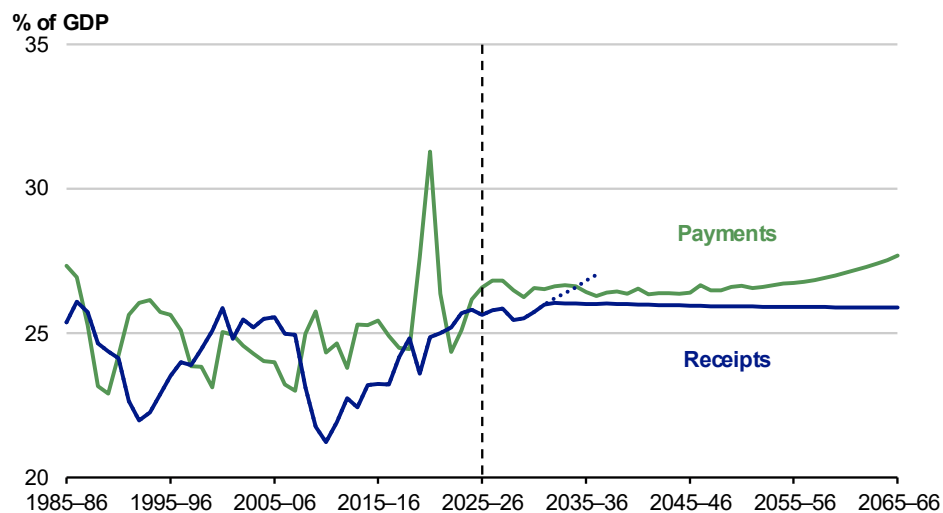
Receipts over the last 40 years have typically moved cyclically with economic conditions, falling during economic downturns and rebuilding during recoveries. Tax receipts, which constitute over 90 per cent of total receipts, have remained between 19.8 and 24.2 per cent of GDP over the past 40 years.

Over the next 40 years, total receipts are projected to increase from 25.6 per cent of GDP in 2025–26 to 26.1 per cent of GDP in 2032–33, before falling to 25.9 per cent of GDP by 2065–66. Tax receipts are assumed to not exceed the historical high point from 2004–05 and 2005–06 of 24.2 per cent. This assumption starts from 2032–33. The slight decline in total receipts as a share of GDP over the period reflects declining non-tax receipts. Chapter 13 explores the drivers behind Australia’s changing revenue base over the next 40 years.

Long-run spending pressures are increasing government spending over time. Demographic change, rising demand for health and care services, and higher debt servicing costs will contribute to higher payments as a share of the economy. Historically, payments have remained between 22.9 and 27.3 per cent of GDP outside major economic shocks.

Over the next 40 years, total payments are projected to increase further, rising from 26.6 per cent of GDP in 2025–26 to 27.7 per cent in 2065–66 (Chapter 12).

Chart 11.3 Payments and receipts



Note: The dotted line indicates receipts at the 2026–27 Budget, where a tax-to-GDP technical assumption was not applied. The payment projections are the same as the 2026–27 Budget except for interest payments that results in a difference in total payments of 0.1 percentage points of GDP in 2036–37.

Source: Treasury.

The primary cash balance is stronger than the 2023 IGR

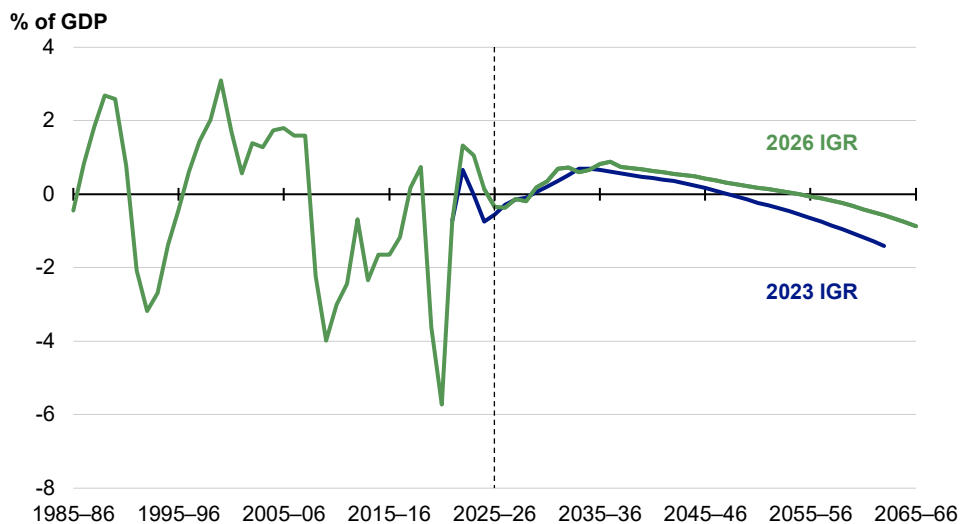
The primary cash balance adjusts the underlying cash balance by excluding interest payments and receipts (net interest payments). By excluding obligations on the stock of debt previously accrued, the primary cash balance can highlight imbalances between non-interest receipts and payments.

The primary cash balance has moved through clear cycles over the past four decades, shifting from consolidation in the late 1980s and deficit in the early 1990s recession, to a long period of surpluses through the late 1990s and 2000s (Chart 11.4). Following the Global Financial Crisis and a record deficit during the COVID-19 pandemic, the primary cash balance has improved, returning to balance in recent years.

The primary cash balance is expected to be a deficit of 0.4 per cent of GDP in 2025–26. After returning to surplus in 2029–30, the primary cash balance is projected to reach a surplus of 0.9 per cent of GDP in 2036–37 and remain in surplus until 2054–55. It then turns to a deficit of 0.9 per cent of GDP by 2065–66.

The primary cash balance is stronger than projected in the 2023 IGR in every year of the long term, reaching an upgrade of 0.8 percentage points of GDP by 2062–63.

Chart 11.4 Primary cash balance



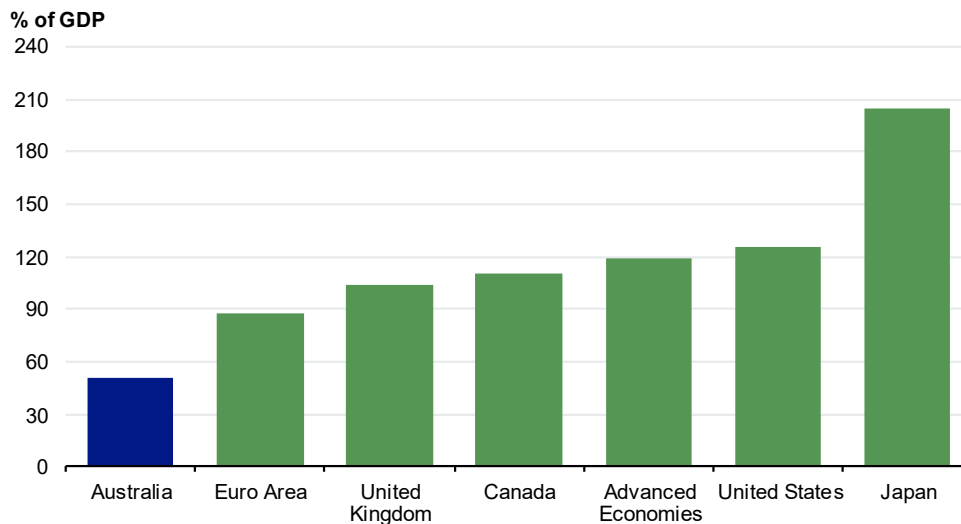
Source: Treasury.

11.3 Debt projections

Total debt remains low internationally

Total debt across all levels of government remains low internationally. According to IMF projections, Australia's general government gross debt-to-GDP is less than half the advanced economy average and more than 75 percentage points below the United States (Chart 11.5). Australia is also one of only nine countries with a AAA sovereign credit rating from all three major credit rating agencies.

Chart 11.5 General government gross debt in 2026



Note: International Monetary Fund fiscal data are produced on a consistent basis across countries. They are produced for calendar years and on a general government basis, which includes state, territory and local governments. They are not directly comparable with fiscal aggregates reported elsewhere in the IGR.

Source: IMF Fiscal Monitor (April 2026).

Gross debt and net debt will be lower at the end of the projection period

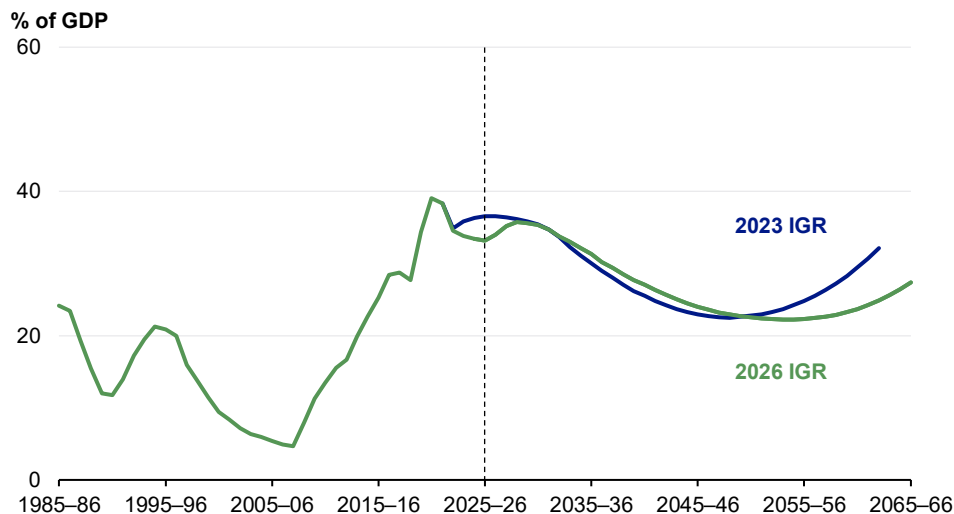
Fiscal buffers will be gradually rebuilt through structural improvements to the budget over coming decades, with gross debt as a share of GDP projected to decline from its peak of 39.1 per cent in 2020–21.

Gross debt is expected to fall to 22.2 per cent of GDP in 2053–54, almost half of the 2020–21 COVID-19 pandemic peak. Long-run spending pressures result in gross debt-to-GDP rising again from the late 2050s to reach 27.4 per cent of GDP in 2065–66 (Chart 11.6).

In previous intergenerational reports, projections of gross debt as a share of the economy have also shown periods of reduction, followed by accumulation as spending pressures increase towards the end of the long term.

Compared to the 2023 IGR, gross debt is 7.2 percentage points of GDP lower by 2062–63. While the projections are slightly higher until the 2050s, this is solely due to the impact of higher yields. The primary cash balance is projected to remain in surplus longer, which result in lower additional borrowing requirements and lower gross debt as a share of GDP towards the end of the projection period. Chapter 14 explores changes to Australia's balance sheet over the next 40 years.

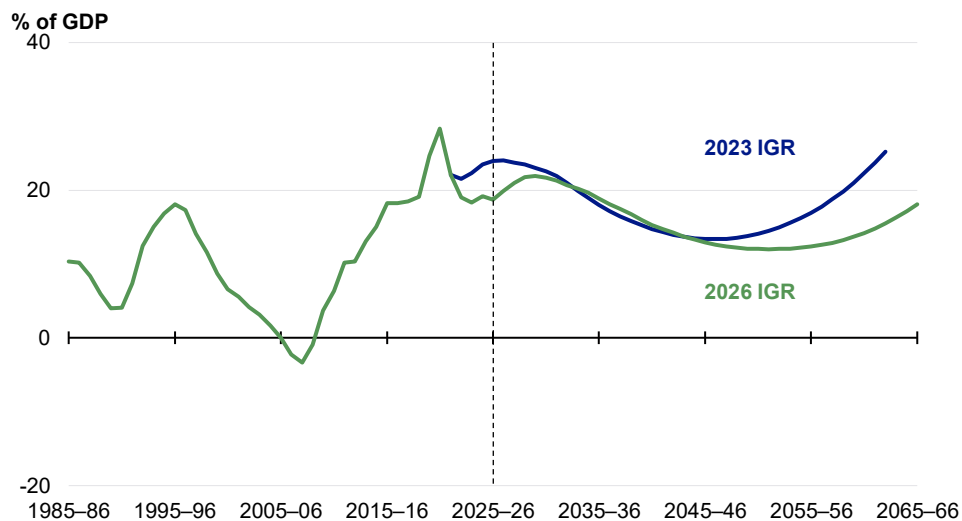
Chart 11.6 Gross debt



Source: Treasury.

Net debt measures the Government's financial obligations by netting selected liquid financial assets (cash and deposits, advances paid and investments, loans and placements) against interest bearing liabilities (including the market value of Australian Government Securities on issue). Driven by the same fundamentals as gross debt, it is projected to peak in 2029–30 and then decline in the medium term, falling to 12 per cent in 2051–52, before rising again to 18.1 per cent of GDP in 2065–66. This pattern is consistent with projections of previous intergenerational reports, which also showed periods of reduction, followed by accumulation (Chart 11.7). Nonetheless, Australia's debt-to-GDP ratio can be influenced by international forces beyond its control. Box 11.2 illustrates the impact of one potential negative shock.

Chart 11.7 Net debt



Source: Treasury.

Box 11.2 Impact of international shocks on debt

Government debt as a share of GDP remains low compared to most advanced economies. However, as an open economy, Australia's debt-to-GDP ratio can be influenced by international forces beyond its control. Changes in global financial conditions can affect domestic borrowing costs and economic growth, with flow-on effects for debt.

Scenarios can help to analyse potential future debt paths and articulate risks under alternative economic conditions, particularly those triggered by adverse external shocks.

The analysis in this box uses a macroeconomic model to assess the impact of a stylised external shock on the trajectory of domestic debt. This model accounts for interactions between fiscal and monetary policy and the broader economy. It does this by incorporating three decades of historical data that cover the period where the Reserve Bank of Australia has been independent and had its price stability mandate to keep consumer price inflation between the 2 and 3 per cent target range.

Negative shock scenario

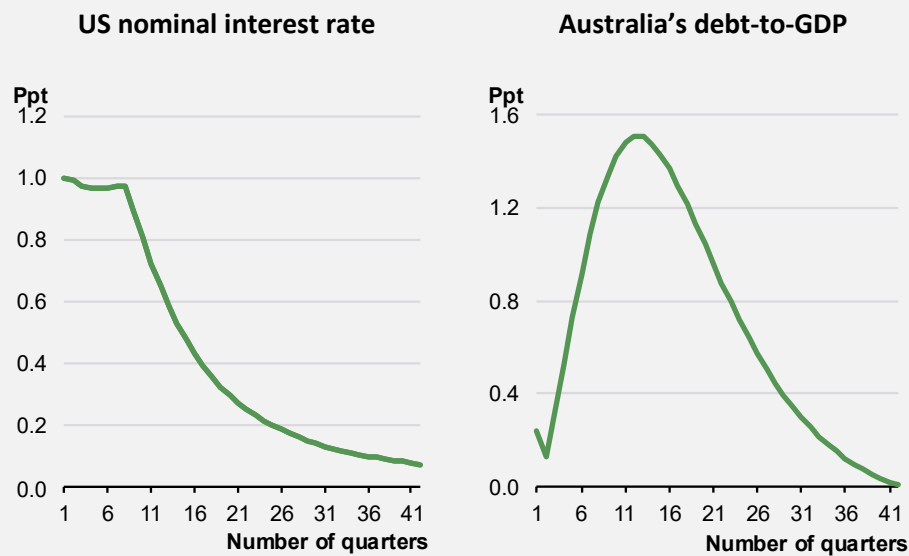
The following scenario illustrates the impact of one potential negative shock: a rise in the cost of capital driven by increases in United States (US) bond yields, often the global benchmark for government borrowing costs. The size of the US interest rate shock reflects a significant but not unprecedented scenario. Historical episodes in the US have seen long-term yields rise sharply as markets repriced inflation risks and the outlook for monetary policy, such as during the high-inflation period of the 1980s before inflation targeting was introduced by the US Federal Reserve.

The model demonstrates several effects of the shock. First, the US interest rate shock flows through financial markets, increasing the Australian 10-year interest rate to maintain relative attractiveness in a context of deep financial integration and open capital markets. Compared to the baseline, an increase in government bond yields raises economy-wide borrowing costs, as sovereign yields serve as a benchmark for private lending rates. Gradually, higher capital costs weigh on domestic GDP, dampening investment, and reducing the long-run capital stock. Monetary policy responds to this contractionary effect on economic activity by lowering interest rates, partially offsetting the adverse effects on GDP. Higher Australian government bond yields affect the debt-to-GDP ratio through both direct and indirect channels: directly through higher interest payments on debt, and indirectly by reducing economic activity, which lowers nominal GDP and weakens the primary balance (Chart 11.8).

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Box 11.2 Impact of international shocks on debt (continued)

Chart 11.8 Quarterly responses to a 1 percentage point increase in US 10-year bond yields sustained for 8 quarters on average



Source: Treasury.

Overall, the debt-to-GDP ratio is estimated to increase by around 1.5 percentage points at its peak, relative to the model's baseline. The significant shock to the US long-term bond yield dissipates relatively quickly after the shock subsides, but its effects on Australia's public debt are more persistent. While US yields revert over time, higher borrowing costs and tighter financial conditions reduce investment and economic activity, leading to a slower recovery in GDP. Because the debt-to-GDP ratio depends on both debt dynamics and the level of nominal GDP, this delayed recovery in output causes the ratio to remain elevated for longer, even after interest rates normalise.

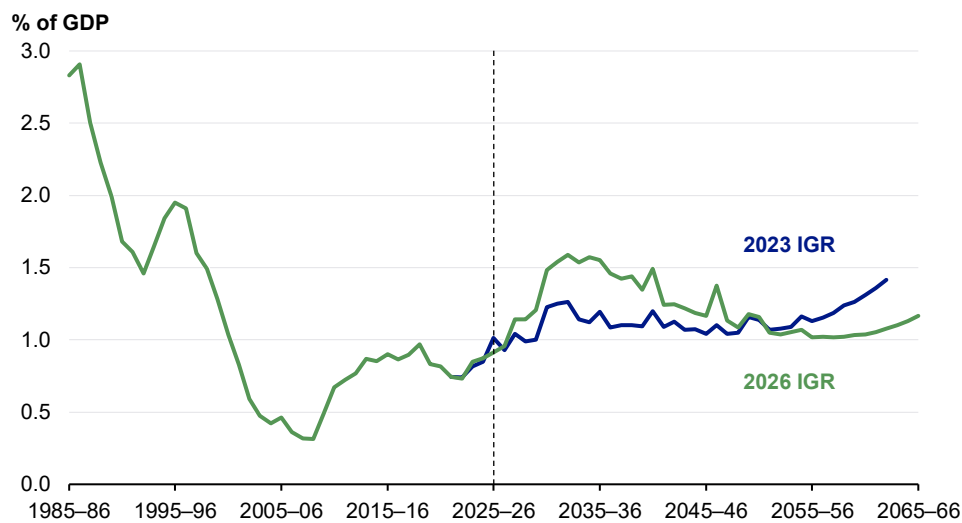
This scenario analysis provides a way to assess debt risks and offers a quantitative framework for understanding the direct impact of shocks on the evolution of the debt-to-GDP ratio. In the current environment, it is noted that the modelling is stylistic and does not capture interactions that can occur during periods of sudden and heightened risk and uncertainty.

Higher yields will increase interest payments but are expected to be offset by structural savings

Total interest payments on Commonwealth Government debt are projected to increase from 0.9 per cent of GDP in 2025–26 to 1.6 per cent of GDP in 2032–33, before declining to 1 per cent of GDP in the early 2050s. By 2065–66, interest payments increase to 1.2 per cent of GDP (Chart 11.9).

Relative to the 2023 IGR, interest payments are higher until the early 2050s due to the impact of higher yields on borrowing costs. In 2062–63, interest payments are 0.3 percentage points lower than in the 2023 IGR. Debt accumulated before and during the pandemic is gradually refinanced at higher market rates. Structural improvements to the Budget, from NDIS and aged-care reforms, slow the accumulation of debt, leading to lower interest payments relative to the 2023 IGR from the 2050s onwards.

Chart 11.9 Interest payments

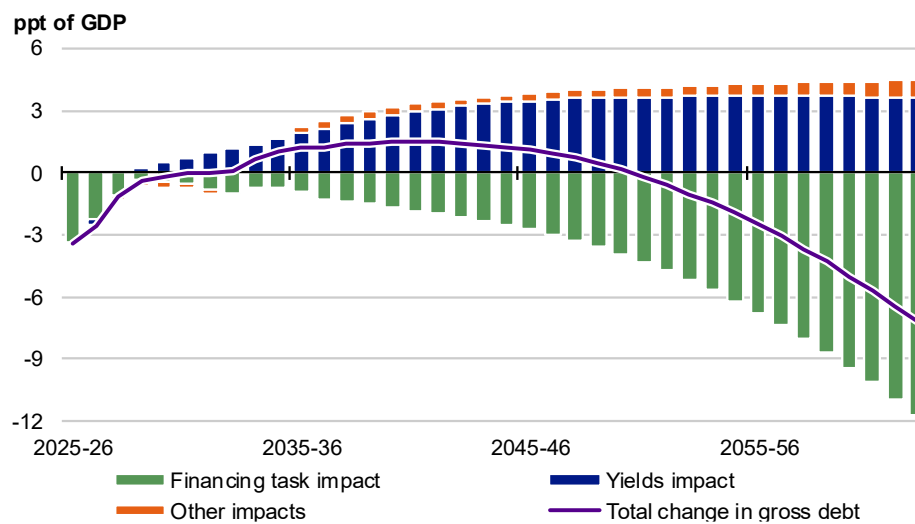


Note: Interest payments include interest on Australian Government Securities, as well as other interest payments.

Source: Treasury.

The accumulation of debt before and during the COVID-19 pandemic has made the long run fiscal position more sensitive to yields relative to the impact of the primary balance. While improvements in the primary cash balance place downward pressure on debt over time, higher public debt interest payments post-pandemic on a larger stock of debt entirely offset these improvements until the early 2050s, compared to the 2023 IGR (Chart 11.10).

Chart 11.10 Decomposition of changes to gross debt since the 2023 IGR



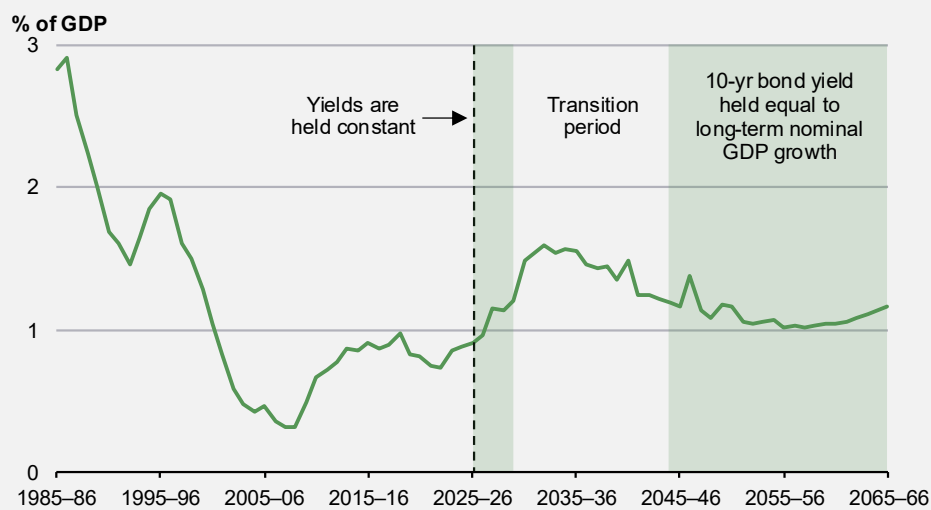
Source: Treasury.

Box 11.3 Sensitivity of the fiscal position to borrowing costs

While interest payments were 0.9 per cent of GDP in 2025–26 (Chart 11.11), this will rise as debt issued at low yields before and during the pandemic requires refinancing at higher prevailing market rates. Rising yields will be offset by a declining stock of debt as a share of the economy from the 2030s to the mid-2050s, resulting in total interest payments declining to 1 per cent of GDP by the mid-2050s. Gross debt rises again in the late 2050s, so interest payments increase, reaching 1.2 per cent of GDP by 2065–66.

This IGR adopts the same bond yield assumption as the 2026–27 Budget over the budget forward estimates. It then assumes the 10-year bond yield decreases linearly over 15 years from 2029–30 to equal nominal GDP growth, around 4.4 per cent on average over the long-term projection period.

Chart 11.11 Interest payments on Government debt



Note: Interest payments include interest on Australian Government Securities, as well as other interest payments.

Source: Treasury.

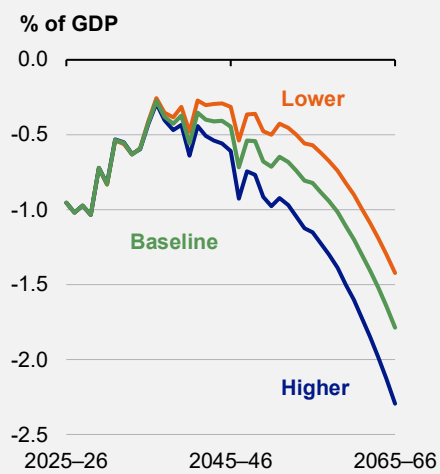
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Box 11.3 Sensitivity of the fiscal position to borrowing costs (continued)

This scenario analysis illustrates the sensitivity of fiscal projections to higher and lower yields. The lower yield sensitivity assumes the 10-year bond yield converges to be 100 basis points below nominal GDP growth. The higher yield assumption assumes convergence to 100 basis points above nominal GDP.

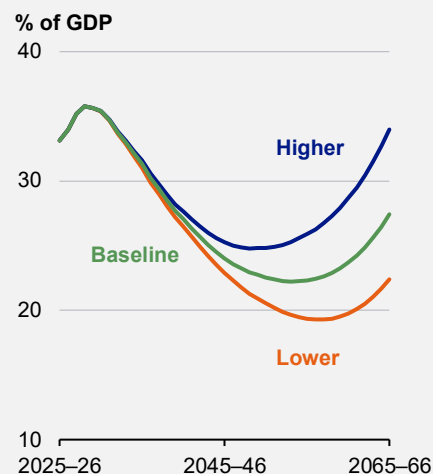
As lower yields reduce interest payments on the same amount of debt, a decrease in yields decreases total payments which improves the fiscal position. The lower yield sensitivity reduces the underlying cash deficit by 0.4 percentage points of GDP (Chart 11.12) and gross debt by 5 percentage points by 2065–66 (Chart 11.13). The higher yield sensitivity increases the underlying cash deficit by 0.5 percentage points and gross debt by 6.6 percentage points of GDP by 2065–66.

Chart 11.12 Impact on UCB of borrowing costs



Source: Treasury.

Chart 11.13 Impact on gross debt of borrowing costs



Source: Treasury.

12 Government spending

Overview

The 40-year outlook for spending is lower than the 2023 Intergenerational Report (IGR), driven by the Government's structural savings, especially the National Disability Insurance Scheme (NDIS) reforms. These improvements will significantly reduce interest costs in the long term.

The Government's structural improvements to the budget are important given the significant long term spending pressures on the budget, particularly population ageing, health, aged care and defence.

Spending is projected to increase from 26.6 per cent of gross domestic product (GDP) in 2025–26 to 27.7 per cent in 2065–66, an increase of 1.1 percentage points. While substantial long-term pressures on the budget remain, this represents a significant improvement from the 2023 IGR where spending as a share of GDP was projected to increase by 3.8 percentage points over 40 years. In 2062–63, spending as a share of GDP is 1.3 percentage points lower than the 2023 IGR.

Spending on health and aged care is influenced by population ageing and cost pressures such as new healthcare treatments, wage increases and investments in care quality. Health expenditure is expected to reach 6.2 per cent of GDP by 2065–66, 2.2 percentage points higher than in 2025–26. Ageing is estimated to account for around one-third of the projected increase in health spending.

Increased investment in Defence in the face of geopolitical uncertainty will see defence spending increase over the next decade to approximately 3 per cent of GDP in the long run under the common methodology used by the North Atlantic Treaty Organization (NATO).

Unlike many advanced economies, expenditure on the Age and Service Pension is projected to fall from 2.3 per cent to 1.8 per cent of GDP in 2065–66 despite the ageing population. This is due to the growing maturity of the superannuation system, which will increasingly fund retirements.

Income support and family payments are projected to grow slower than GDP, reflecting a lower share of young and working age cohorts and indexation settings.

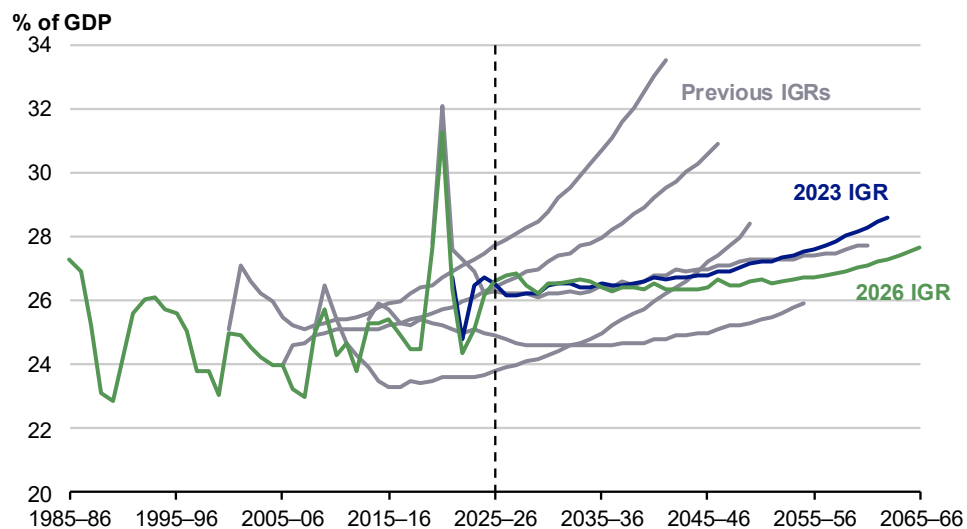
12.1 Spending projections

Government reforms have lowered the outlook for spending but long-term pressures remain

Government spending is lower over the projection period compared to the previous intergenerational reports (Chart 12.1). Spending as a share of GDP is projected to increase by 1.1 percentage points over the next 40 years, around a quarter of the 3.8 percentage points projected in the 2023 IGR. Despite this significant improvement, there are many long-run spending pressures that will continue to weigh on the budget over the long term.

Spending as a share of GDP has fallen in recent years from its COVID-19 peak of 31.3 per cent in 2020–21 to around a quarter of the economy in 2023–24. Spending is projected to increase from 26.6 per cent of GDP in 2025–26 to 27.7 per cent of GDP by 2065–66, which is 0.9 percentage points lower than the peak in the 2023 IGR.

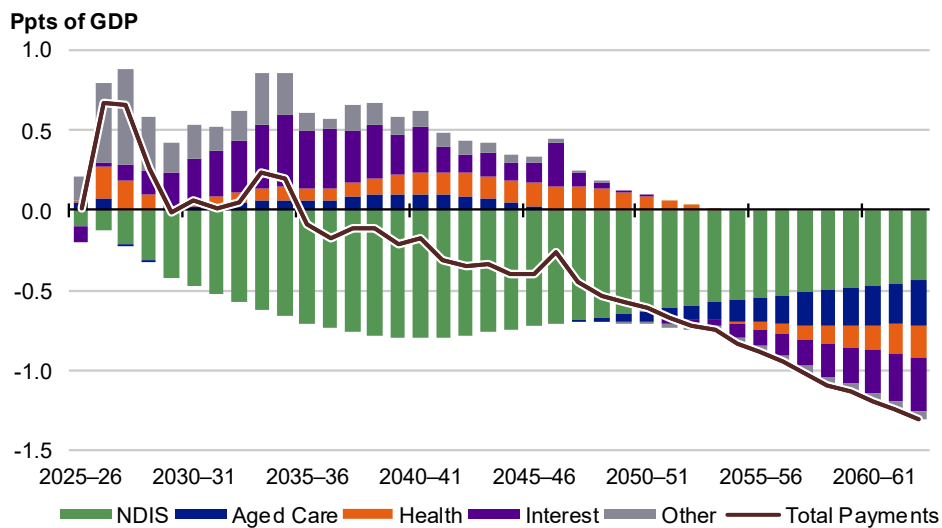
Chart 12.1 Government spending across intergenerational reports



Source: Treasury.

The improved outlook has been driven by structural improvements to the budget, particularly from reforms to the NDIS and aged care, which are expected to reduce the growth in spending over the long term. This results in a more sustainable fiscal trajectory compared to the 2023 IGR, with lower projected debt levels and substantially reduced interest costs over time (Chart 12.2).

Chart 12.2 Changes in payments relative to the 2023 IGR between 2025–26 and 2062–63



Note: 'Interest' includes interest payments on Australian Government Securities (AGS), loans and other borrowing, as well as interest payments on lease liabilities. 'Other' contains all payments not listed.

Source: Treasury.

Sensitivity analysis was undertaken to test the sensitivity of the projections to key assumptions and assess the reliability of the results (Box 12.1). Further details are in Appendix A4.

Box 12.1 Sensitivity analysis to higher or lower aggregate spending

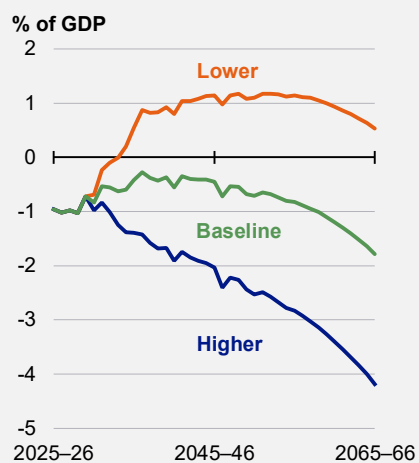
This sensitivity analysis considers the impact of persistently higher or lower aggregate spending on the long-run fiscal outlook. The shock is phased in gradually over the medium term, staying 1 percentage point of GDP higher or lower in the long term.

An increase in spending worsens the underlying cash balance (UCB) and increases government borrowing, leading to higher gross debt. The higher debt leads to higher interest payments, further worsening the underlying cash balance. As a result, the long-run impact on fiscal aggregates is larger than the initial change in spending alone.

Under the higher aggregate spending scenario, the UCB deteriorates by 2.4 percentage points of GDP in 2065–66, and gross debt increases by 34.6 percentage points of GDP in 2065–66 (Chart 12.3 and Chart 12.4).

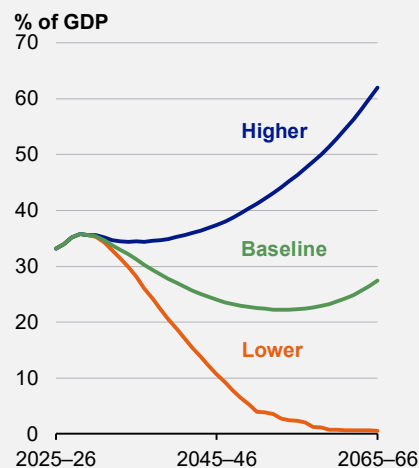
Under the lower aggregate spending scenario, the UCB improves by 2.3 percentage points of GDP in 2065–66, and gross debt decreases by 26.8 percentage points of GDP in 2065–66.

Chart 12.3 Impact on UCB of spending



Source: Treasury.

Chart 12.4 Impact on gross debt of spending



Note: The lower payments scenario assumes a minimum level of gross debt is maintained to support a liquid Australian Government bond market.

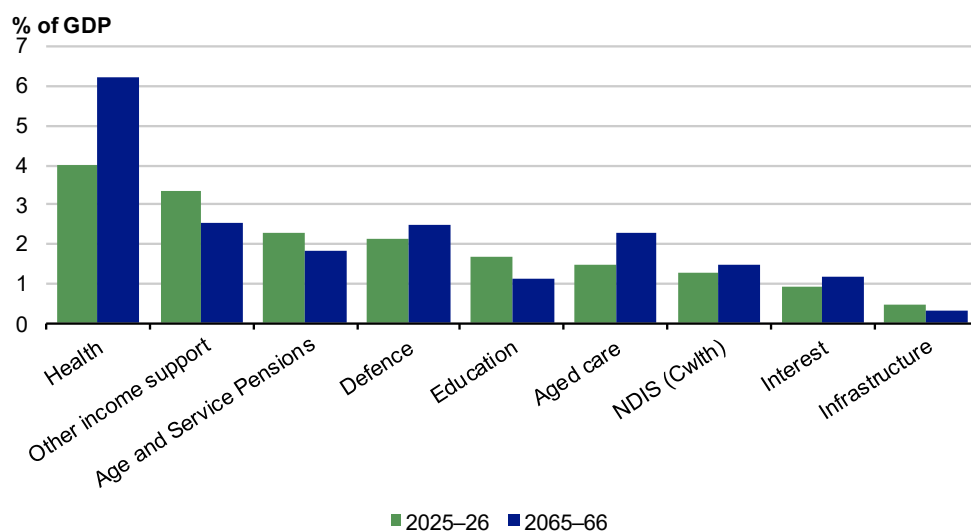
Source: Treasury.

Major transitions will reshape government spending

Trends in government spending will be closely linked to the major transitions. Over the 20 years to 2024–25, spending on younger and older Australians has increased as a share of total government spending. As Australians live longer, they will spend more years drawing on government-funded services. As a result, some of the fastest growing areas of projected government spending are in age-related care services, particularly health and aged care, continuing changes seen over the past 20 years (Chart 12.5 and Box 12.2).

Despite these pressures, projected spending as a share of GDP is lower across age-related care services than in the 2023 IGR (Chart 12.6). Adding to demographic pressures are rising care costs and continued pressure to raise quality and safety in the care sector.

Chart 12.5 Government payments by major category



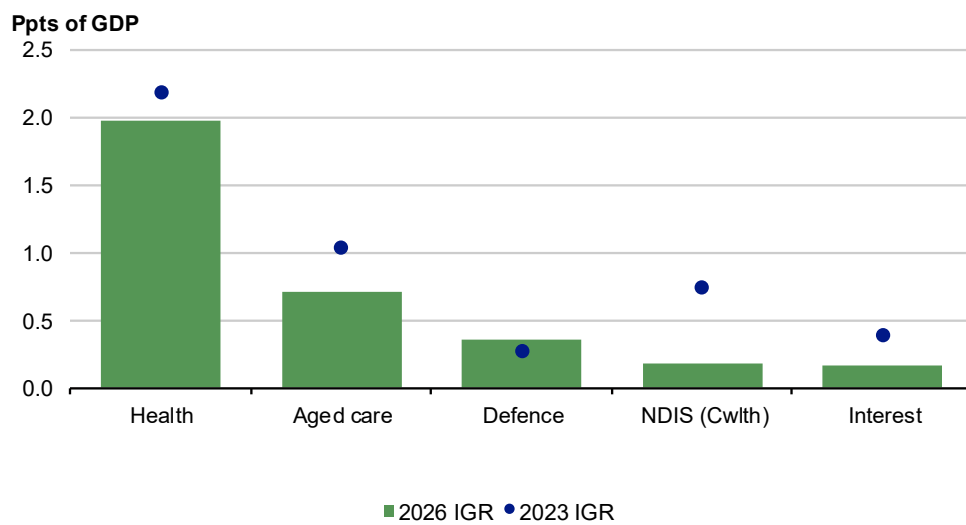
Source: Treasury.

Defence spending as a share of the economy is expected to increase over the next decade, reflecting growing global uncertainty and geopolitical fragmentation. This follows gradual falls since the end of the Cold War in the early 1990s through to the mid-2010s.

Interest payments will remain a fiscal pressure, driven by higher yields. Total interest payments increase from 0.9 per cent of GDP in 2025–26 to 1.6 per cent of GDP in 2032–33, before declining to 1.2 per cent of GDP in 2065–66 (Chapter 11 and Chart 11.9). Compared to the 2023 IGR, interest payments are 0.3 percentage points lower in 2062–63.

Spending on education and payments to individuals and families is projected to fall from a combined 5 per cent of GDP in 2025–26 to 3.7 per cent of GDP by 2065–66. Population ageing will result in a declining share of younger and middle-aged people, which means a lower share of the population studying, caring for children or receiving income support.

Chart 12.6 Change in projected GDP shares of major pressures between 2025–26 and 2062–63



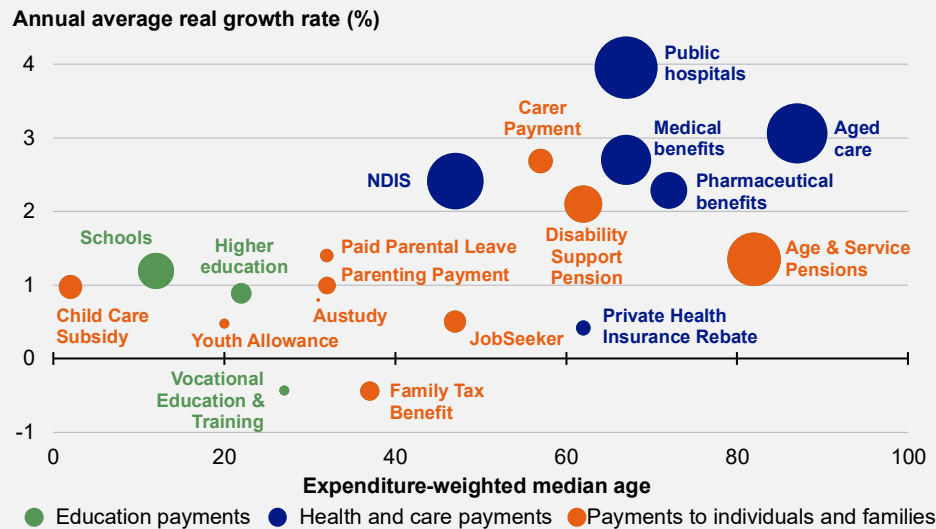
Source: Treasury.

Box 12.2 Ageing will be a key driver of increased spending

Population ageing in Australia is accelerating, driven by falling fertility rates. The proportion of the population aged 65 or over is expected to increase from 17.8 per cent today to reach 24.8 per cent in 2066.

Population ageing is a key driver of the projected increase in government spending. While high life expectancy is resulting in more older people working, it is also increasing the number of years spent in retirement and accessing government services. Moreover, older people typically use more health care and aged care services, which are among the most costly to provide (Chart 12.7). For instance, older Australians often present to healthcare services with multiple, complex and chronic conditions, as well as palliative care needs. By comparison, younger groups are more likely to present with single conditions that require less intensive care. This trend is consistent across other types of services.

Chart 12.7 Projected government payments by size, growth and recipient age



Note: The expenditure-weighted median age for each payment is the estimated age at which 50 per cent of projected government expenditure in 2065–66 is spent on people below that age and 50 per cent is spent on people above that age. The annual average real growth rate is calculated from 2025–26 to 2065–66. The size of the bubble represents the payment’s projected total size in 2065–66.

Source: Treasury.

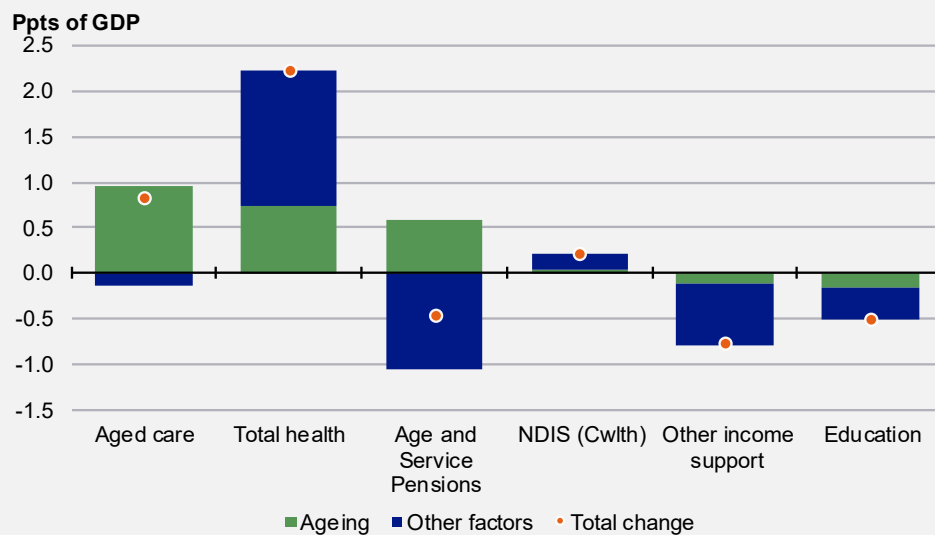
continued on next page

Box 12.2 Ageing will be a key driver of increased spending (continued)

To estimate the contribution of ageing alone to higher payments, Treasury modelled selected payments using a hypothetical counterfactual. This assumes the age and gender distribution in the population is fixed at June 2026 shares over the projection period.

Population ageing has the largest effect on aged care spending, adding nearly an additional percentage point of GDP by the end of the projection period. This is followed by spending on health and Age and Service Pensions (Chart 12.8).

Chart 12.8 Contributions to growth in major payments between 2025–26 and 2065–66



Source: Treasury.

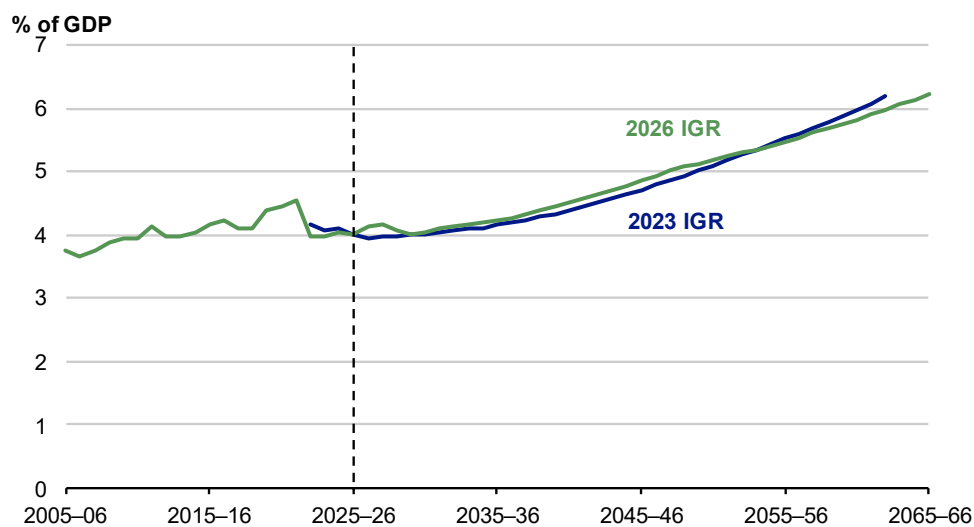
12.2 Health

Health will continue to be the single largest budget pressure

Commonwealth health spending has risen steadily over the past 20 years, increasing by 0.3 percentage points to 4 per cent of GDP in 2025–26. Spending is projected to grow strongly over the next 40 years, reaching 6.2 per cent of GDP by 2065–66 (Chart 12.9). The expected pace of expenditure growth is broadly in line with the 2023 IGR.

Growth in projected health spending is driven by both population ageing and increased government spending to improve quality and affordability. Recent investments have included additional bulk billing incentives and more funding for public hospitals through the new National Health Reform Agreement (NHRA) Addendum.

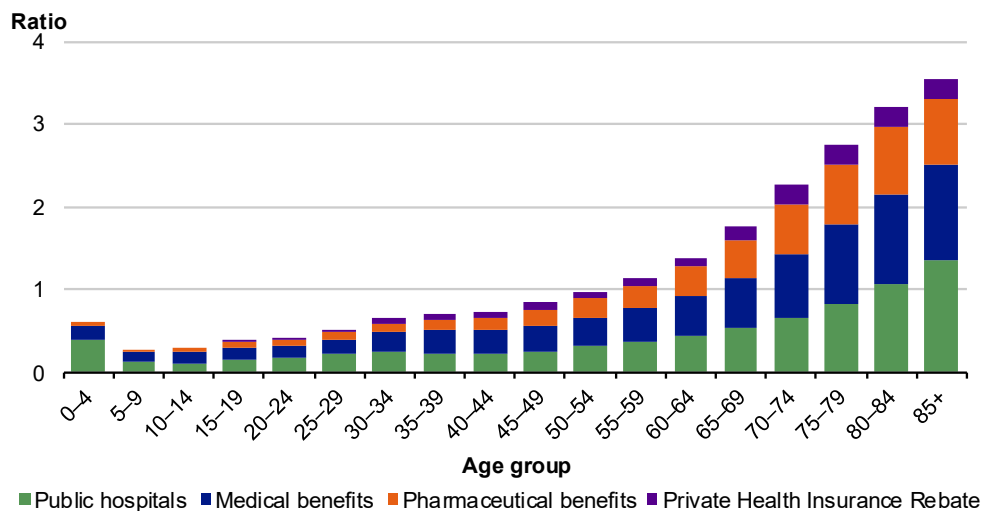
Chart 12.9 Commonwealth health spending as a share of GDP



Source: Treasury.

Around 33 per cent of the projected increase in health spending as a share of GDP is attributable to population ageing. Compared with previous generations, Australians are living longer and experiencing better health at older ages. However, demand for health care generally increases with age, reflecting greater service usage and more complex care needs. This is reflected in higher average government spending on health at older ages (Chart 12.10).

Chart 12.10 Average Commonwealth spending per person on major health components by age, 2025–26



Note: The height of each column represents a ratio comparing the average spending per person in each age group relative to the population average. A ratio of one indicates that average spending on a person at that age is equal to the population average, while a ratio of two indicates average spending on a person at that age is twice the population average.

Source: Department of Health, Disability and Ageing (DHDA); and Treasury.

Other drivers of health spending include the provision of higher-quality healthcare services and government decisions to subsidise a broader range of health services and new health technologies. While these investments will result in higher expenditure over time, they support improvements to care and can contribute to better health outcomes.

Public hospitals are the fastest growing component of health spending

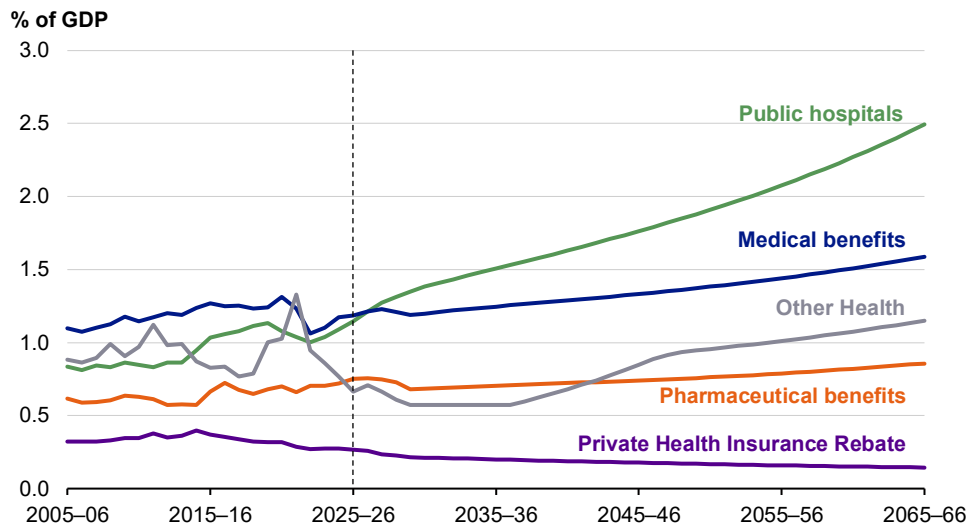
Public hospitals are projected to be the largest health spending pressure over the next 40 years, contributing to over 60 per cent of the increase in health spending as a share of GDP (Chart 12.11).

Health is a shared responsibility between the Commonwealth and the states and territories. The Commonwealth administers and funds health programs, including the Medicare Benefits Schedule and the Pharmaceutical Benefits Scheme. It also contributes to the funding of public hospital services provided by the states and territories and subsidises the cost of private health insurance.

In addition, the Commonwealth funds other health programs, grants and initiatives. These include veterans' health care, Medicare Urgent Care Clinics, mental health, First Nations health, medical research and health workforce development. For the purposes of this Report, spending on these areas is aggregated into the 'Other Health' category.

Growth in Commonwealth public hospital spending will be strong in the near term, reflecting \$25 billion in increased funding agreed in the 2026–2031 NHRA. The agreement supports a transitional catch-up period during which the Commonwealth's funding will grow by 8 per cent per annum. Reflecting this significant increase in the Commonwealth funding base and population ageing, public hospitals are projected to continue experiencing the highest cost growth among all health payments.

Chart 12.11 Components of health spending as a share of GDP



Source: Treasury.

Since its peak during the COVID-19 pandemic, spending on 'Other Health' has fallen as a share of GDP, partially due to temporary health payments terminating. Other Health is projected to return to its pre-pandemic average as a share of GDP before growing at the rate of broader health spending for the remainder of the projection period.

The Government's changes to how Commonwealth hospital funding and the Medicare Benefits Schedule interact are expected to limit near-term growth in medical benefits spending. Similarly, the Government's changes to the Private Health Insurance (PHI) Rebate will contribute to lower total health spending (Box 12.3), with spending on PHI rebates expected to fall as a share of GDP. Spending on pharmaceutical benefits is projected to grow more slowly than health spending as a whole.

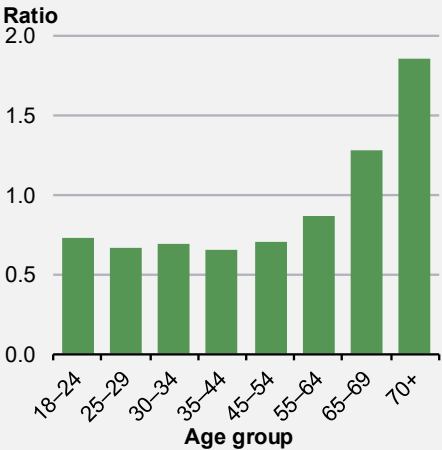
Box 12.3 Modernising the Private Health Insurance Rebate

In 2005, higher PHI rebate rates were introduced for individuals aged 65 and over. The average rebate paid for an insured individual aged over 70 was around two and a half times that paid for an insured individual aged 25–29 (Chart 12.12). This reflects both the age-based uplift and higher average levels of cover among older Australians.

Unlike most insurance, which is risk rated, private health insurance is required to be community rated. This means the same premium is charged for a particular policy regardless of health status, age or claims history, which helps support access to insurance. As health care usage increases with age, average benefits received also increase substantially with age (Chart 12.13).

Removing the age-based uplift will allow the Government to make critical investments in aged care and better support older Australians. It returns the rebate for older Australians back to the level paid for everyone else and ensures the level of government support is determined solely by income and not age. The rebate will remain an important incentive for Australians to purchase private health insurance, which supports the capacity and sustainability of the public health system.

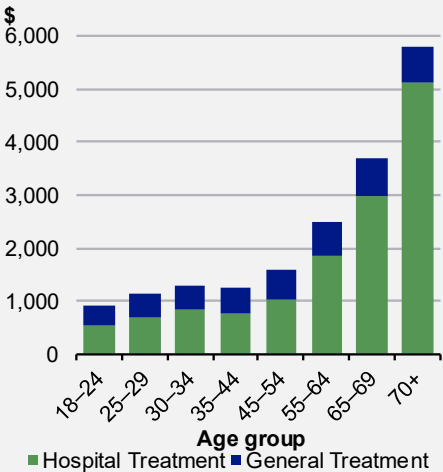
Chart 12.12 Average PHI rebate per insured person, 2023–24



Note: The ratio shows the average rebate for each age group relative to the population average.

Source: DHDA; and Treasury.

Chart 12.13 Average PHI benefits per insured person, 2025



Source: Australian Prudential Regulation Authority; and Treasury.

Building a sustainable healthcare system for future generations

Australia has one of the most productive healthcare sectors in the world, reflecting strong investments in the sector. The Productivity Commission found that Australia's health sector ranked third out of 28 peer nations for healthcare productivity, after controlling for age and risk factors.¹

The Government's investment in Australia's healthcare sector will contribute to higher-quality care and high life expectancy relative to comparable Organisation for Economic Co-operation and Development (OECD) nations. Expenditure on medicines and other health technologies, affordable primary care and workforce support have all contributed to better health outcomes.

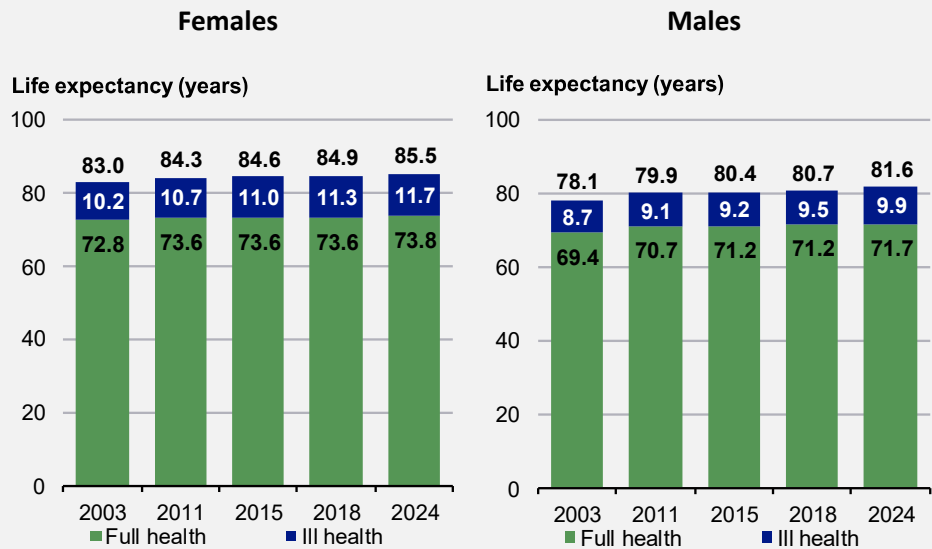
Maintaining high productivity alongside ageing and cost pressures will require continued attention. There could also be gains from future reforms, such as the better integration of digital technologies, including telehealth, and applying AI to administrative and clinical activities.

As Australia's population ages, and chronic conditions become more prevalent, a greater focus on preventative care will be needed (Box 12.4). Already, 61 per cent of Australians have a chronic health condition and this burden is estimated to account for around \$100 billion in annual disease spending.² Reducing modifiable risk factors (such as smoking, obesity and high alcohol use) and detecting disease early can reduce the long-term fiscal impact of caring for a growing number of people living with chronic conditions.

Box 12.4 Health-adjusted life expectancy

Health-adjusted life expectancy is the average number of years people can expect to live in full health, free from injury or disability. In 2024, Australian females could expect to live an average of 73.8 years (86 per cent of their lives) in full health while males could expect to live 71.7 years (88 per cent of their lives) in full health (Chart 12.14). These proportions of life spent in full health have fallen slightly since 2003.

Chart 12.14 Health-adjusted life expectancy at birth, 2024



Note: The number of years lived without disability is calculated using Sullivan's method, which applies age-specific rates of health loss (years lived with disability) to life expectancy data from standard life tables.

Source: Australian Institute of Health and Welfare (AIHW), *Australian Burden of Disease Study 2024*; and Centre for Population.

As Australians live longer, the number of years lived in both full health and ill health is growing. The additional years spent in ill health are increasing demand for, and expenditure on, health and aged care services.

The increase in years spent in ill health is driven by factors including chronic health conditions and lifestyle. The burden of disease has increased by almost 40 per cent over 2003 to 2024, and around 61 per cent of Australians are now living with at least one chronic health condition.³ Policies promoting lifelong health, disease prevention and health care access can improve both the quality and length of a person's life.

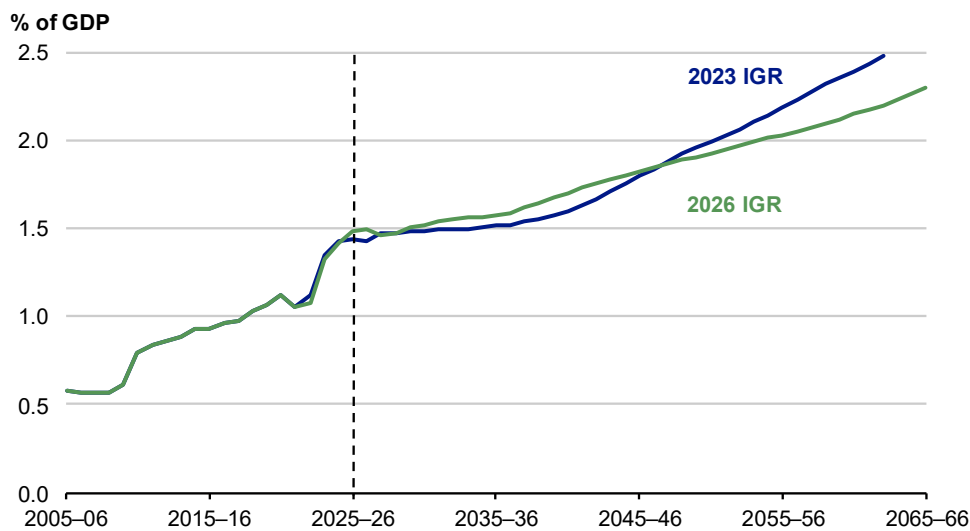
12.3 Aged care

Strengthening aged care through targeted investment

Over the past 20 years, government expenditure on aged care has increased by 10 per cent per year, growing from 0.6 per cent of GDP in 2005–06 to 1.5 per cent in 2025–26 (Chart 12.15). This increase primarily reflects the ageing of the population. It has also been driven by government investments to improve aged care quality, partly in response to the Royal Commission into Aged Care Quality and Safety.

At the same time, there has been a marked shift in how Australians use aged care. The government funds aged care primarily through support for residential care and at-home care. More people are receiving care at home. This reflects, in part, a preference of older people to live in their own home, closer to their family and community.

Chart 12.15 Aged care spending as a share of GDP



Source: Treasury.

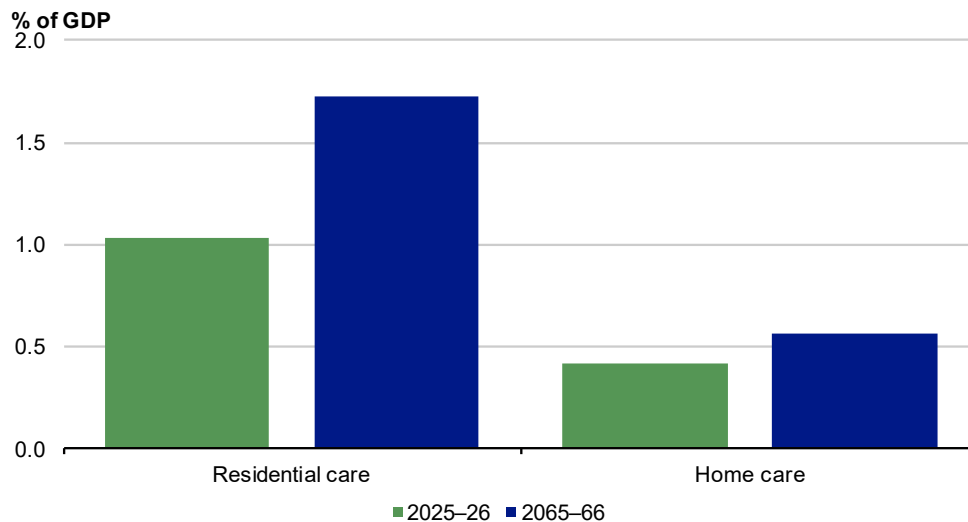
Aged care expenditure will continue to grow

Spending on aged care is projected to increase as a proportion of GDP from 1.5 per cent in 2025–26 to 2.3 per cent in 2065–66 (Chart 12.15).

At-home care growth, consistent with policy settings in the Support at Home program, is expected to be largely in line with overall growth in the economy (Chart 12.16). Despite

this growth, aged care spending is expected to be around 0.3 percentage points of GDP lower in 2062–63 than it was in the 2023 IGR, partly due to the Government’s reforms.

Chart 12.16 Residential care and at-home care spending as a share of GDP



Source: Treasury.

The projected growth in aged care spending is driven by population ageing and higher rates of residential aged care use among older Australians.⁴ Advances in health care, including progress made in the treatment and prevention of dementia, would help mitigate the expected growth in residential care usage.

The Aged Care Taskforce Report made clear that by 2050, the residential aged care sector will need significant capital funding to meet the needs of the growing number of older Australians. To address the future growth in residential aged care spending, the recent aged care reforms included higher means-tested contributions from new entrants, higher maximum room prices, and providers retaining a small share of refundable accommodation deposits.

Growth in residential aged care spending is also expected to be moderated by higher take up of at-home care. Over time, residential care use has fallen in relative terms, while at-home care support has expanded.⁵ This shift is expected to continue, which should limit growth in overall aged care expenditure since at-home care entails significantly lower costs than residential care for individual users and the government.⁶

Assets and incomes at retirement have increased significantly over the past 20 years, and the reforms to the aged care system introduced by the *Aged Care Act 2024* increase the role of private contributions to improve sustainability over time.

12.4 National Disability Insurance Scheme

Reforms to the NDIS will moderate spending growth and ensure the scheme can continue to provide life-changing support

The NDIS was created to fund critical supports for Australians with permanent and significant disability. The NDIS provides insurance for all Australians who are born with or acquire a significant and permanent disability, and are younger than 65 when they make an NDIS application.

While the NDIS provides life-changing support, its size and scope have grown significantly larger than projected during its design. NDIS payments were estimated to reach \$49.8 billion in 2025–26, or 1.7 per cent of GDP, higher than the full scheme projection of 1.1 per cent of GDP included in the 2015 IGR.⁷

The Government announced measures in the 2026–27 Budget to restore the NDIS to its original intent and secure the NDIS for future generations of Australians with permanent and significant disability. These reforms moderate NDIS cost growth in line with the annual growth target of 5 to 6 per cent or lower as agreed by National Cabinet. Average annual cost growth is expected to moderate to around 2 per cent over the forward estimates (2025–26 to 2029–30) and 5 per cent over the medium term (2030–31 to 2036–37). Once implemented, these reforms are expected to reduce future NDIS spending growth, with spending now projected to be 2 per cent of GDP in 2065–66.

Australia's spending on disability services and supports (including pensions) as a share of government expenditure is currently nearly double the OECD average and is expected to remain significantly above the current OECD average following implementation of reforms.⁸ Nonetheless, Australia is not alone in experiencing faster-than-expected disability support expenditure. Other OECD countries, including Denmark and the United Kingdom, have faced similar challenges containing the costs of their disability support programs.⁹

Government reforms are restoring the scheme to its original intent

The Government's NDIS reforms are focused on restoring the scheme to its original intent of supporting people with permanent and significant disability, while responding to growth pressures that would likely make the scheme unsustainable.

The NDIS has grown much larger than projected in terms of both the number of participants on the scheme and participant plan sizes over time. In its original design of the NDIS, the Productivity Commission expected it would support 411,000 participants at full scheme maturity.¹⁰ There are currently over 782,000 NDIS participants.

This has been partly driven by more children with developmental delay and autism joining the NDIS than anticipated, leading to very high numbers of participants at younger ages.

In 2024–25, participants with autism and developmental delay were 78 per cent of all new entrants to the scheme.¹¹

To provide access to evidence-based supports outside the NDIS, the Commonwealth and state governments are implementing Thriving Kids, a national system of supports for children aged eight and under with developmental delay and/or autism with low to moderate support needs. From 1 January 2028, NDIS access changes will be supported by the rollout of Thriving Kids. The Government is also setting clearer eligibility requirements, by introducing standardised, evidence-based assessments of functional capacity at the core of determining access to the NDIS.

State and territory governments have also committed to increasing their financial contribution to the NDIS to grow in line with actual scheme growth, capped at 8 per cent, from 1 July 2028.

Average payments per person have also grown significantly since the NDIS was established. The increase is due to inflation in participant support costs occurring at a much faster rate than growth in wages or prices. The Government has introduced new rules to assist participants to manage their budgets and is rolling out new framework planning, which is expected to deliver more equitable, consistent and sustainable participant plans from April 2027. The Government is also tightening criteria around plan reassessments and strengthening guidance about what are reasonable and necessary supports. Budgets for social, civic and community participation, and capacity building daily activities will be reset. The reforms will also seek to fight fraud in the NDIS and ensure funds are being used to legitimately support NDIS participants.

Once implemented, these reforms will ensure the NDIS continues to be there to support people with the most significant and permanent disabilities by providing reasonable and necessary supports.

Reforms are expected to constrain growth, but demographic pressures remain

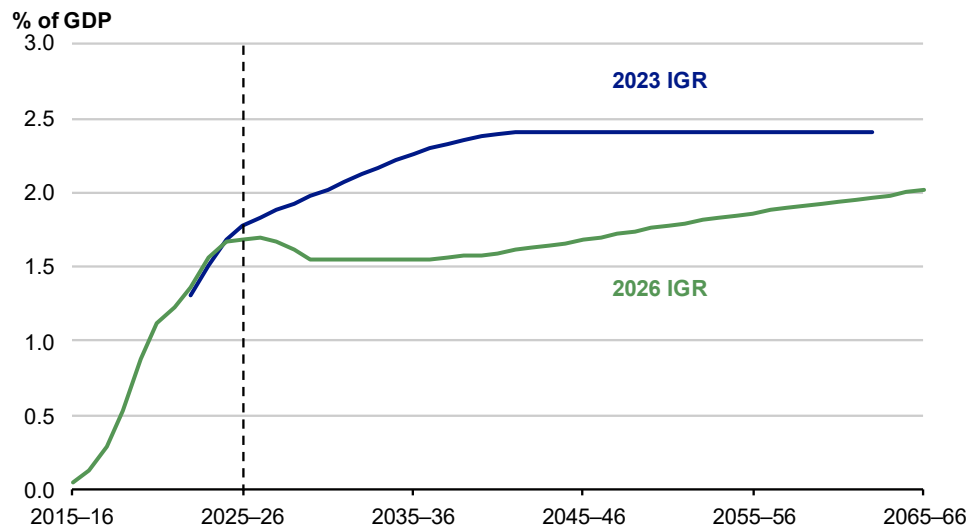
Since the 2023 IGR, valuable additional information about how the NDIS is functioning has become available. This has enabled an improved modelling approach that extends the 2026–27 Budget projections and the National Disability Insurance Agency projections of future scheme expenses to be implemented in this Report.

Updated projections show the expected impact of recent reforms to reduce scheme growth, with NDIS expenditure as a share of GDP below the previous projections throughout the projection period (Chart 12.17). The reforms result in the moderation of growth in the scheme to 5 per cent through to 2036–37.

In the longer term, growth is expected to be faster than GDP, driven by ageing of participants in the scheme and cost growth. Older participants have higher average plan values. As such, a higher proportion of older participants is expected to contribute to

continued growth in the scheme. More generally, costs are expected to grow faster than inflation, similar to trends in other care sectors such as health and aged care.

Chart 12.17 Total NDIS spending as a share of GDP



Source: Treasury.

12.5 Age Pension Payment and Superannuation

Spending on Australia's retirement income system is expected to remain relatively stable beyond the medium term

The aggregate cost of the retirement income system – age pensions and tax concessions on superannuation – is expected to remain relatively stable beyond the medium term at 4.5 per cent of GDP, despite population ageing.

The retirement income system is comprised of three pillars from which Australians generally fund their retirement: the compulsory Superannuation Guarantee, the Age Pension and voluntary savings. The Government provides retirement income support by funding the Age Pension and providing various tax concessions on superannuation, as well as mandating the Superannuation Guarantee.

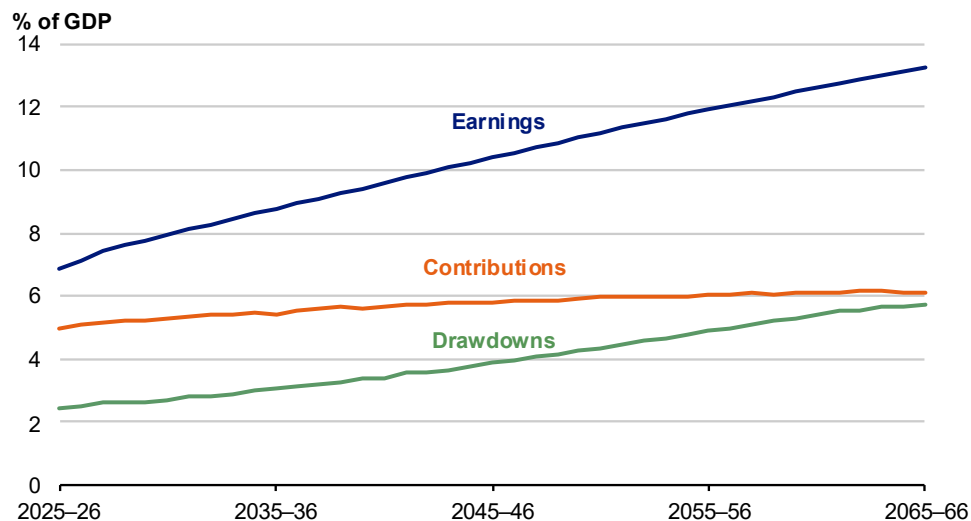
The rise in projected costs of tax concessions over this period is broadly offset by a fall in projected spending on the Age Pension. The continued maturing of the superannuation system will result in more Australians retiring with more superannuation, having

received the Superannuation Guarantee for most or all of their working life. As a result, the proportion of people at or over 67 receiving the Age Pension or other form of government pension or other income support payment (including Disability Support Pension, Carer Payment and Service Pension) is expected to decline.

Conversely, drawing down accumulated superannuation will become an increasingly significant part of retirement income for many retirees. Drawdowns from superannuation are estimated to increase over time from 2.5 per cent of GDP in 2025–26 to 5.8 per cent of GDP in 2065–66 (Chart 12.18). The proportion of people with accounts in the retirement phase, from which they are drawing a superannuation pension, will increase 13.9 percentage points (from 11.6 per cent in 2025–26 to 25.5 per cent in 2065–66). By comparison, the proportion of the population over 65 will increase by only 7 percentage points (from 17.8 per cent to 24.8 per cent).

The purpose of the superannuation system is to ensure a dignified retirement. A continued policy focus that encourages accumulated superannuation savings to be drawn on effectively during retirement will help to fulfill the goal of supplementing the Age Pension as a source of retirement income and drive higher living standards in retirement.

Chart 12.18 Flows of superannuation monies



Note: Earnings are net of fees and superannuation fund tax. Contributions are net of superannuation fund tax.

Source: Treasury.

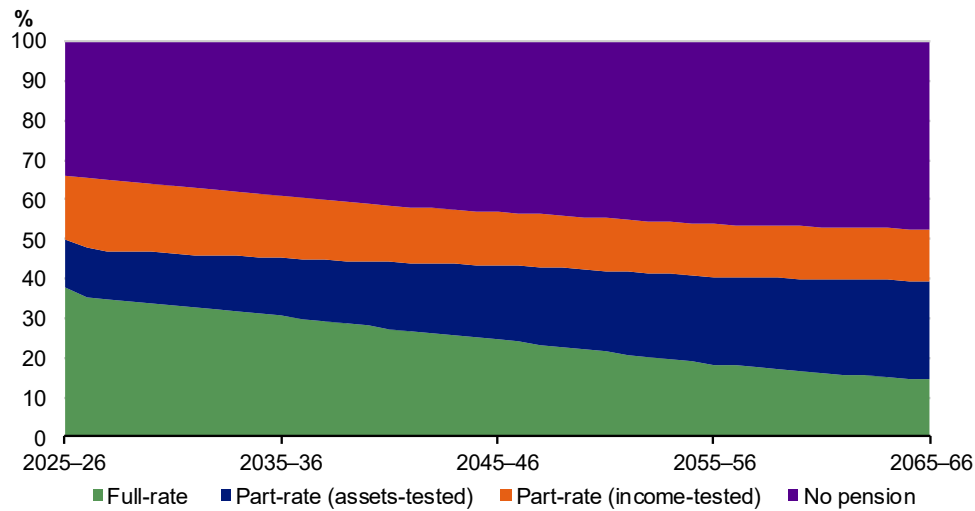
Government expenditure on the retirement income system is spread across multiple generations. Age Pension spending directly supports current retirees, whereas a significant proportion of superannuation tax concessions (that is, contributions tax concessions) support future generations of retirees to accumulate superannuation during their working life. The costs incurred now will result in reduced Age Pension spending in the future when current working life cohorts reach retirement. As superannuation balances tend to grow with age, a greater proportion of earnings tax concessions supports those approaching retirement rather than younger generations.

Despite ageing, spending on the Age Pension will fall as a share of GDP as the superannuation system matures

Spending on Age and Service Pensions is projected to fall from 2.3 per cent of GDP in 2025–26 to 1.8 per cent of GDP in 2065–66. This is despite the number of people over Age Pension age being projected to double to around 9 million by 2065–66. Age Pension spending will also be affected by the evolution of key economic parameters, as pension payments and means testing thresholds are indexed to prices (payments and thresholds) and wage growth (payments only). Means testing will continue to ensure government spending on the Age Pension is targeted to those most in need.

The Age Pension provides a safety net for older Australians who do not have the financial means to support a minimum standard of living in retirement. Sixty-one per cent of Australians over the eligibility age (67) received the Age Pension in 2025–26, and 5 per cent received some form of government pension or other income support payment (including Disability Support Pension, Carer Payment and Service Pension recipients over 67 years old).

The share of older Australians receiving a pension or income support payment is expected to decline from 66 per cent in 2025–26 to 52 per cent by 2065–66 (Chart 12.19). Of those receiving a pension, the share receiving a part-rate pension is projected to continue to rise, reaching over 70 per cent in 2065–66. This trend, which reflects the maturing of the superannuation system, will contribute significantly to long-term fiscal sustainability, particularly as the Age Pension is among the government's largest spending programs.

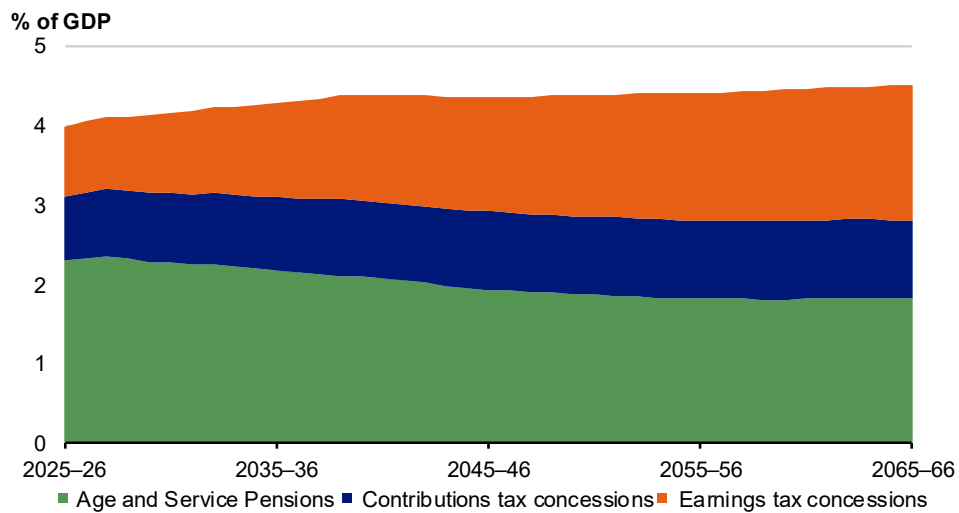
Chart 12.19 Persons of Age Pension age or over, by pension category

Source: Treasury.

Spending on Age and Service Pensions in Australia is projected to fall by 0.5 per cent of GDP over the next 40 years. In contrast, average public pension spending across OECD countries is expected to grow by 1.5 per cent of GDP from 8.8 per cent in 2023–24 to reach 10.3 per cent by 2060. In 2060, Australia is projected to have the lowest public pension expenditure in the OECD as a percentage of GDP.¹²

Superannuation tax concessions as a proportion of GDP are projected to increase from around 1.7 per cent in 2025–26 to 2.7 per cent in 2065–66, driven by earnings tax concessions. The value of revenue forgone from superannuation tax concessions is projected to overtake expenditure on the Age Pension in the late 2030s (Chart 12.20).

As superannuation assets are assumed to grow faster than GDP growth, earnings concessions are projected to increase as a share of GDP in the long term, rising from around 0.9 per cent of GDP in 2025–26 to 1.7 per cent of GDP in 2065–66. In comparison, contributions concessions (such as employer contributions and voluntary pre-tax contributions) represent a more stable share of GDP. They are driven by the same factors that drive Australia's GDP, wage growth and the size of the workforce.

Chart 12.20 Fiscal impact of superannuation tax concessions and Age and Service Pensions

Source: Treasury.

The Government's recent superannuation reforms improve the sustainability of superannuation tax concessions. From 2026-27, earnings on superannuation balances between \$3 million and \$10 million will attract a concessional headline tax rate of 30 per cent, and those above \$10 million a headline tax rate of 40 per cent, rather than 15 per cent. These changes complement other reforms to superannuation over the past decade that have reduced the ability for people to make post-tax contributions.

12.6 Education and training

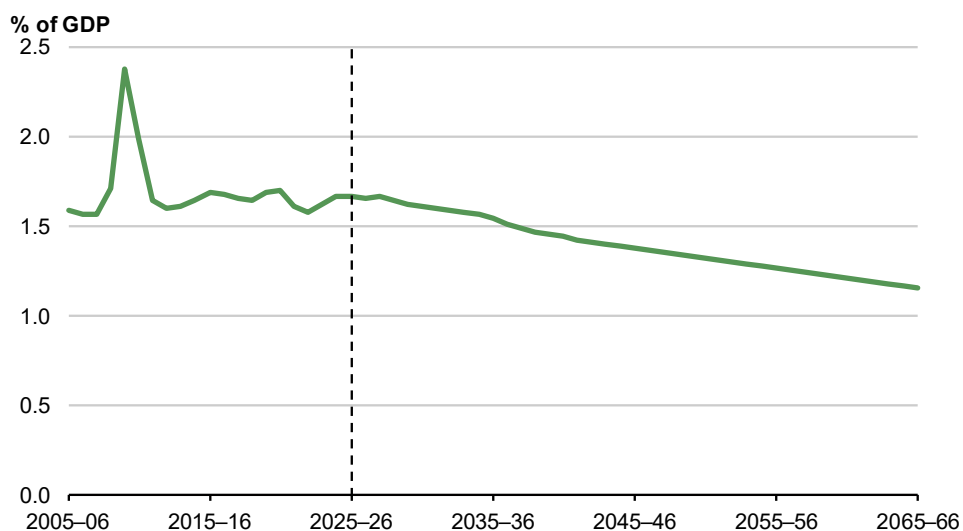
An ageing population will slow spending growth in education

Education spending as a proportion of GDP is projected to decrease by 0.5 percentage points to 1.1 per cent of GDP by 2065–66, driven by population trends. Over the projection period, real education spending per person is projected to increase by 6.4 per cent.

Education spending remained relatively stable as a share of GDP over the 15 years to 2025–26 (Chart 12.21). This is because increases in school funding were partially offset by a decline in the proportion of the overall population enrolled in education.

Lower fertility rates are expected to slow the growth in the number of young people enrolled in education. As a result, Commonwealth expenditure on schools is projected to fall by 0.3 percentage points as a share of GDP over the next 40 years, while combined expenditure on higher education and Vocational Education and Training (VET) is expected to decline by 0.2 percentage points as a share of GDP over the same period. Despite these trends, the proportion of the working age population with a tertiary qualification is expected to increase as older Australians, who are less likely to have a tertiary qualification, exit the workforce and the proportion of younger Australians with a tertiary qualification increases.

Chart 12.21 Education spending as a share of GDP



Source: Treasury.

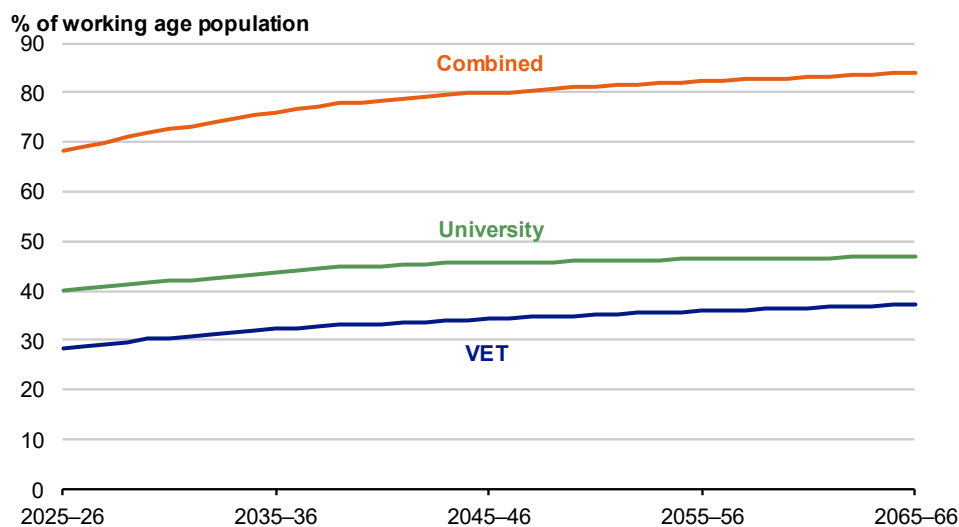
A more skilled and educated workforce will be essential to meet the economic needs of the future

An adaptable workforce with strong transferrable skills and well-developed specialist skills will be essential if Australia is to grasp the opportunities and manage the challenges presented by the major transitions.

Projections from Jobs and Skills Australia show that 90 per cent of the employment growth in the next decade will require a qualification at Certificate II or above.¹³ Reflecting this, the Government has set an ambitious target for 80 per cent of the working age population to have a tertiary qualification (Certificate III or above) by 2050.

The Government is investing in education and skills to meet future workforce needs and drive tertiary attainment towards the 2050 target. This investment enables workforce participation and skilling, which will contribute to long-run growth and productivity.

Chart 12.22 Share of the workforce with tertiary qualifications will grow



Source: Treasury.

Recent reforms will allow the university sector to grow, increasing the number of graduates from historically underrepresented backgrounds and supporting evolving workforce demands. This will lead to significant increases in the share of the workforce with university degrees, with an expected additional 230,000 students commencing university studies over the next decade. In 2025-26, 40 per cent of the working age population (25-64) had a degree. This is projected to increase to 47 per cent by 2065-66.

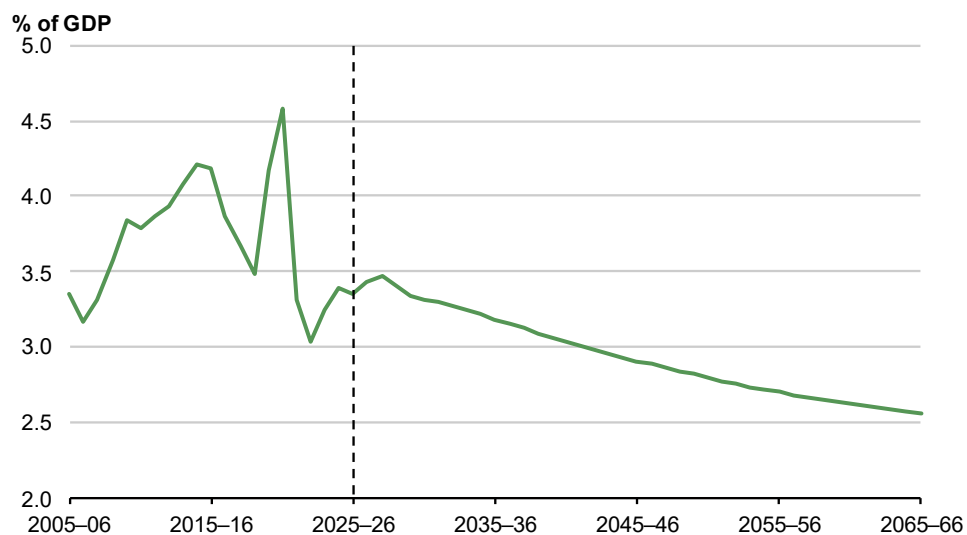
The Government is investing up to \$12.6 billion through the National Skills Agreement to strengthen the VET system, addressing critical skills shortages and supporting the sector to meet changing workforce needs. Separately, the Government is supporting the VET sector by making Free TAFE a permanent feature, supporting at least 100,000 places a year from 2027. In 2025–26, 28 per cent of the working age population (25–64) had a Certificate III or IV qualification. This is projected to increase to 37 per cent by 2065–66 (Chart 12.22).

12.7 Income support and family assistance payments

Changing composition of income support and family assistance payments

Income support and assistance to families (excluding the Age Pension) averaged 3.7 per cent of GDP over the last 20 years, falling by 0.4 percentage points to 3.4 per cent of GDP in 2025–26. In the absence of policy change, these payments are expected to decline to 2.6 per cent of GDP by 2065–66 (Chart 12.23). Lower fertility rates are expected to result in slower growth in payments to families with children.

Chart 12.23 Income support and family assistance spending (excluding Age Pension) as a share of GDP



Source: Treasury.

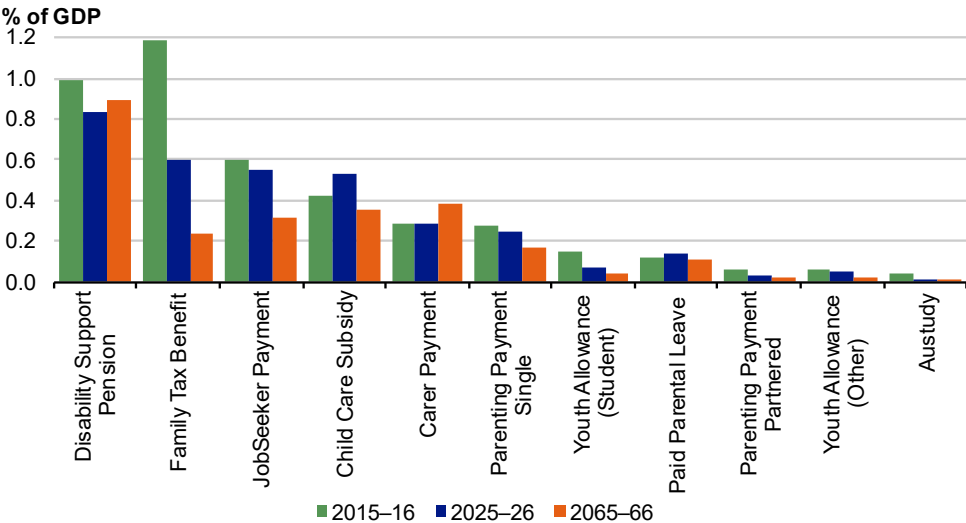
Indexation settings will shape the composition of income support

Payments such as Disability Support Pension and Carer Payment are indexed to the higher of the Consumer Price Index (CPI) or the Pensioner and Beneficiary Living Cost Index, and benchmarked to Male Total Average Weekly Earnings (MTAWE). Parenting Payment (Single) is also CPI-indexed and benchmarked to MTAWE. Most working-age payments (including JobSeeker Payment, Parenting Payment Partnered, Youth Allowance and Austudy) are indexed to CPI only.

Demographics will continue to limit growth in these payments. Working-age and family-related payments are expected to experience slower growth, or decline, as the share of the population studying, having children or seeking work declines with an ageing population. Conversely, total expenditure on Disability Support Pension and Carer Payment is expected to increase as a share of GDP, because the share of individuals with disabilities or requiring care will likely increase as the population ages (Chart 12.24).

Policy choices can alter this path. For example, the Government lifted base rates for JobSeeker, Youth Allowance and several related payments in September 2023. It has also expanded eligibility to the higher single rate for select cohorts with higher barriers to workforce participation. Such decisions improve adequacy but add to long-term spending. As an illustration, if JobSeeker maintained its current relativity to MTAWE, spending would be over 0.5 per cent of GDP in 2065–66, adding over 0.2 percentage points to total spending as a share of GDP.

Chart 12.24 Income support and family assistance payments



Source: Treasury.

Family assistance payments will reflect demographic changes

The Child Care Subsidy, an in-kind transfer, is projected to increase over the medium term, from 0.5 per cent of GDP in 2025–26 to 0.6 per cent in 2036–37. The increase largely reflects policy changes and higher use. It is then projected to ease to 0.4 per cent of GDP over the longer term as the share of children in the population falls and expenditure per child grows more slowly than the economy.

At the same time, cash-based Family Tax Benefit (FTB) is projected to decline from 0.6 per cent of GDP to 0.2 per cent over the projection period. The decline is in line with lower fertility rates and income growth reducing eligibility. It reinforces the broader trend toward in-kind transfers surpassing cash benefits across the welfare system (Box 12.5).

Box 12.5 Social benefits spending has shifted towards in-kind rather than cash payments

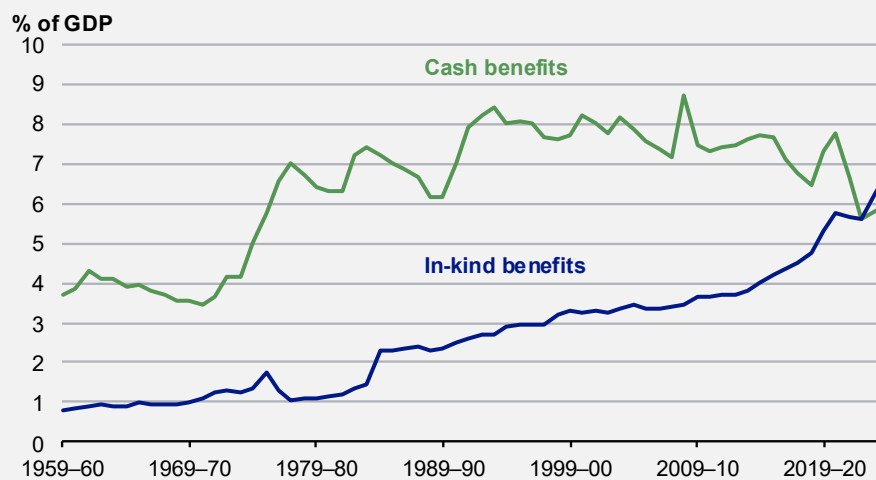
Social benefits to households can take the form of either a monetary transfer (cash benefit) or the provision of goods and services (in-kind benefit). Cash benefits spiked in the early 1970s but have been relatively stable since then, averaging 7.2 per cent of GDP from 1973–74 to 2013–14 (Chart 12.25). However, they have fallen in nominal terms over the past decade (notwithstanding a COVID policy-induced spike) to 6 per cent of GDP in 2024–25. This largely reflects reduced demand for the Age Pension alongside a maturing of the superannuation system, and much lower FTB spending.

In-kind benefits constituted only 0.8 per cent of GDP in 1960 and increased gradually until the mid-2010s to reach 3.8 per cent of GDP by 2013–14. Growth has accelerated since then, adding 2.5 percentage points of GDP over the last decade. The acceleration in growth has been driven by the NDIS, aged care and child care. Spending on in-kind benefits overtook spending on cash benefits for the first time in 2023–24.

continued on next page

Box 12.5 Social benefits spending has shifted towards in-kind rather than cash payments (continued)

Chart 12.25 In-kind vs cash social benefits payments



Source: Australian Bureau of Statistics Australian System of National Accounts.

Growth in in-kind services is expected to remain a long-term feature of government expenditure, with ongoing growth expected for the NDIS, aged care and child care. These compositional changes have distributional and intergenerational implications. Australia's targeted transfer system has historically played a significant role in reducing income inequality. In-kind services support living standards, but their cost effectiveness varies by program design and cohort. They are less likely to be means-tested and are less targeted towards lower income cohorts.¹⁴

12.8 Defence and veterans spending

A challenging global strategic environment is driving defence spending

Australia faces an environment increasingly characterised by fracture, rivalry, and disorder (Chapter 2). The 2026 National Defence Strategy identified an increasingly contested geostrategic environment.

In response, and aligned with increased defence spending across the globe, the Australian Government is investing significantly more in national security.

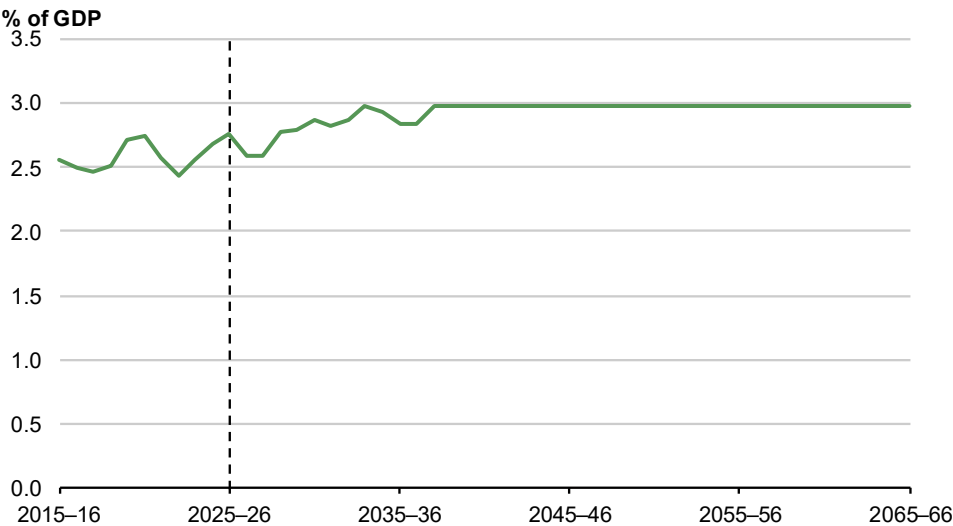
In line with the common methodology adopted by NATO allies to measure defence expenditure, Defence funding is now projected to rise to approximately 3 per cent of GDP by 2033–34 (Chart 12.26). Consistent with this methodology, this includes all forms of Commonwealth investment in Defence, including portfolios delivering defence capabilities particularly in the National Intelligence Community, investments in Defence infrastructure, operations, Defence housing and some administered benefits for Australian Defence Force personnel.

This funding is the highest total amount spent on defence in Australian history and the highest share of GDP since the end of the Cold War.

This includes a significant increase in direct expenditure within the Defence portfolio alone, rising from 2.1 per cent of GDP in 2025–26 to 2.5 per cent of GDP in 2033–34. For long-term modelling purposes, Defence portfolio expenditure is assumed to be 2.5 per cent.^x

x Table A2.3 provides information on defence expenditure consistent with the approach taken for Budget accounting purposes.

Chart 12.26 Defence spending as a share of GDP (NATO methodology)



Note: This series estimates spending using NATO’s methodology, which includes spending accounted for elsewhere in the IGR projections. Beyond 2036–37, expenditure under the NATO methodology is assumed to be constant as a share of GDP.

Source: Treasury; and the Department of Defence.

Box 12.6 Spending on veterans' support is growing

Australia provides support to veterans and their families in recognition of their military service and its impacts on them. This is delivered through the Department of Veterans' Affairs and includes income support, compensation, and health, rehabilitation and other care services. The broad-ranging nature of these supports and the uncertainty around future demand and cohort size mean that future spending on veterans is generally assumed to remain stable as a share of GDP.

Spending on veterans has increased from \$10.7 billion in 2020–21 to \$15.1 billion in 2025–26. This has been driven by strong growth in veterans' compensation payments, which increased more than threefold to \$6.1 billion in 2025–26, largely reflecting the Government's efforts to clear a backlog of claims.

Upward revisions in projected spending on veterans' compensation are also adding upwards pressure to payments projections. The Australian Government Actuary (AGA) publishes an annual valuation of the Commonwealth's future veterans' compensation liabilities.¹⁵ This represents the estimated present value of all future payments for injuries sustained prior to the valuation date. As at 30 June 2024, the future liability of the primary compensation schemes was valued at \$98.4 billion, 41 per cent higher than one year earlier.^{xi} The AGA projected that, as at 2032–33, this would grow to \$190.4 billion.

As at 30 June 2025, this had grown to \$152 billion, as reported in the Department of Veterans' Affairs 2024–25 Annual Report.¹⁶ This amount includes the impact of expected changes from the Government's harmonisation of existing compensation schemes to better support veterans.

xi Primary compensation schemes refer to those provided by the *Military Rehabilitation and Compensation Act 2004* (MRCA) and the *Safety, Rehabilitation and Compensation (Defence-related Claims) Act 1988* (DRCA).

12.9 Infrastructure

A sustainable transport infrastructure pipeline will support an economy in transition

Transport infrastructure will continue to be essential for Australia's prosperity. It supports economic growth by connecting markets, enabling labour participation and ensuring the efficient flow of trade around the country. A systemic and long-term approach to investment in transport infrastructure improves our economic resilience, helping to secure critical domestic and international supply chains.

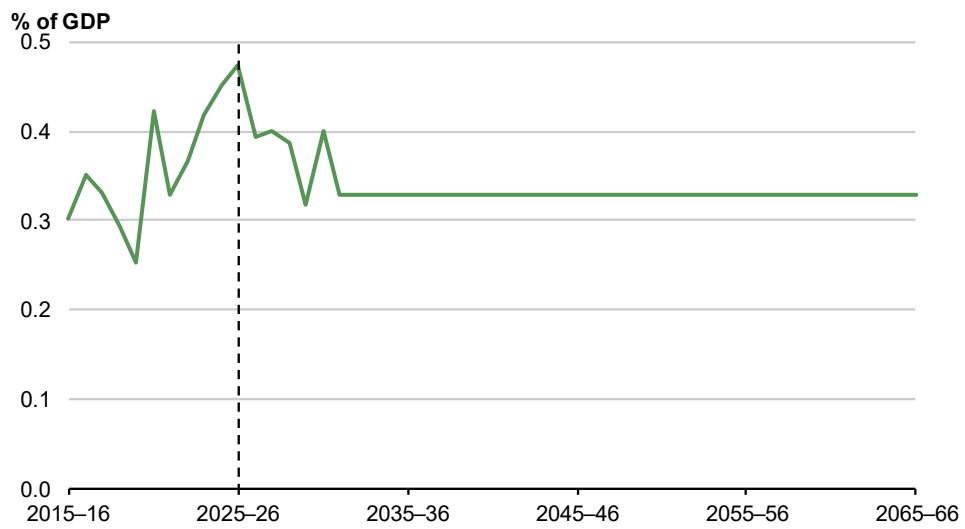
The Infrastructure Investment Program (IIP) is the largest component of the Government's transport infrastructure investment pipeline. The IIP has grown from 0.3 per cent of GDP in 2015–16 to an estimated 0.5 per cent in 2025–26. The Commonwealth's commitments complement investments made by the states, which are responsible for the majority of transport infrastructure investment.¹⁷

Expenditure under the IIP is not modelled over the long term. Instead, it is assumed to be at least 0.33 per cent of GDP through the medium term and held at that level through to the end of the long-run projection period. This is broadly consistent with average expenditure for the IIP since 2015–16 (Chart 12.27).

Transport infrastructure investment is an intergenerational investment. By expanding productive capacity, improving connectivity, increasing resilience and supporting liveable communities, transport infrastructure delivers benefits that accrue over decades and contribute to the wellbeing of future generations.

The Government will continue to make sustainable investments in transport infrastructure. This includes prioritising nationally significant projects with robust business cases that have been assessed by Infrastructure Australia. The Government will also continue to work closely with the states and territories to identify and deliver infrastructure priorities.

Chart 12.27 Infrastructure Investment Program spending as a share of GDP



Source: Treasury.

Endnotes

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13 Revenue

Overview

An efficient, fair and sustainable tax system underpins Australia's capacity to fund essential public services over the long term.

In the 2026–27 Budget, the Government announced the most significant tax reform package in a quarter of a century to support workers, businesses and future generations. The reforms include measures that will reduce the tax burden on 13 million workers and support an additional 75,000 owner occupiers to enter the housing market. The package also makes the tax system simpler and includes reforms to the taxation of business that support investment, innovation and dynamism.

The Government's personal income tax cuts have led to lower taxes as a share of the economy, compared to what they would otherwise have been.

This Intergenerational Report (IGR) assumes that tax receipts as a share of gross domestic product (GDP) do not exceed the historical high of 24.2 per cent of GDP recorded in 2004–05 and 2005–06. Assuming tax-to-GDP is constant over the long-run is a longstanding feature of previous intergenerational reports.

The composition of tax receipts will change over the long term. Without policy action, personal income tax receipts are projected to increase due to income and wages growth and continued employment growth. Meanwhile, indirect tax receipts are expected to decline as a share of total tax receipts, largely reflecting the decarbonisation of the transport sector and changing consumer preferences eroding the fuel and tobacco excise bases. Company tax receipts are expected to moderate from their current level and remain stable as a share of total tax receipts, largely due to the assumed decline in commodity prices.

Non-tax receipts are projected to gradually decline as a share of the economy over the long-term projection period. This reflects a projected decrease in earnings from the Future Fund and other Australian Government Investment Funds as a share of the economy.

13.1 Australia's tax system

Ensuring a sustainable tax system

An efficient, fair and sustainable tax system underpins Australia's capacity to fund essential public services over the long term. To support fiscal sustainability, governments need to continue to evaluate and adjust the tax system as the economy, tax base and demand for government services evolves.

The Government announced in the 2026–27 Budget a tax reform package aimed at rebalancing Australia's tax system to reduce the burden on workers and promote a fairer, more consistent treatment of income from assets. Over the long term, these reforms will also help support fiscal sustainability (Box 13.1).

Major transitions affecting the tax base

Major transitions including the artificial intelligence (AI) revolution, geopolitical fragmentation, the energy transition, ageing population and industrial transformation are expected to reshape Australia's economy and industry and tax base over the next 40 years. To the extent these major transitions affect the broader economy, this will carry through into aggregate tax receipts. Where these transitions relate to specific taxable activity (such as fuel consumption), they are directly incorporated into the tax projections. Other transitions (such as the AI revolution) have a more uncertain impact on revenue and are not directly incorporated.

Box 13.1 Summary of the Government's tax reform measures

The Government is delivering the most significant transformation of Australia's tax system in more than a quarter of a century by cutting taxes for workers, delivering a fair go for first home buyers, and better aligning the tax paid on income from assets and work.

The Government's reform measures announced in the 2026–27 Budget include:

- a new \$250 Working Australians Tax Offset (WATO) and a \$1,000 instant tax deduction, on top of three legislated rounds of tax cuts
- improving the efficiency of investment decisions through reforms to negative gearing and capital gains tax. This is expected to support productivity over time as decisions are more likely to be made for economic reasons rather than tax outcomes
- more closely aligning the tax rates for trusts with the rates paid by workers who earn a living from wages
- over \$3.5 billion in new measures that lower taxes for businesses to reward investment and innovation
- supporting investment and resilience for 85,000 businesses by permanently reintroducing loss carry back
- backing innovation with loss refundability for start-ups, expanding incentives for venture capital and better targeting the Research and Development Tax Incentive
- making the \$20,000 instant asset write-off permanent for small business
- making the tax system simpler and more sustainable, with a simplification package that delivers a combined annual compliance savings of over \$500 million for workers and businesses.

The Government has also extended the eligibility of the 50 per cent active asset reduction to more businesses by increasing the turnover threshold, and has announced an Innovative Business CGT Concession, to incentivise early-stage investment in innovative start-ups.

These reforms build on the Government's tax reforms in previous budgets including three rounds of tax cuts for every taxpayer, better targeting superannuation tax concessions, tax incentives to support build to rent and a Future Made in Australia, and reforms to ensure large companies and multinationals pay their fair share of tax.

The Government's tax reform package announced in the Budget is broadly revenue neutral over the forward estimates. Over the medium term, the reforms will support fiscal sustainability and create room for further tax relief.

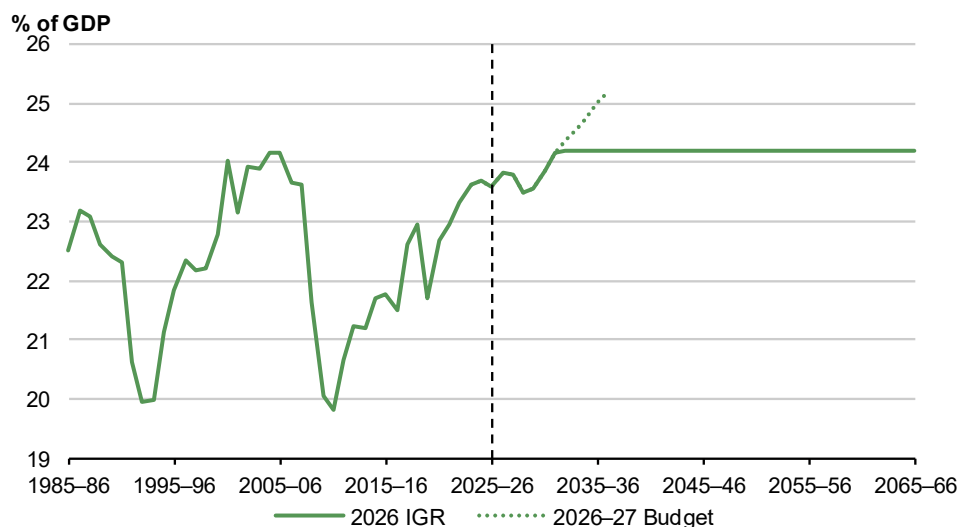
Chapter 6 provides further analysis on the effect of the Budget reforms on taxpayers.

Tax receipts are assumed to remain constant over the long term

The 2026 IGR assumes that tax as a share of the economy does not exceed the historical high of 24.2 per cent of GDP. The tax-to-GDP ratio has ranged from 19.8 to 24.2 per cent of GDP over the past four decades (Chart 13.1). Year-to-year fluctuations in tax-to-GDP have largely reflected changes in economic conditions. For example, after reaching a historical high of 24.2 per cent in the mid-2000s, tax-to-GDP fell to 19.8 per cent in 2010–11 due to a series of tax cuts and the fallout from the global financial crisis (GFC).

The tax-to-GDP assumption does not take into account policy decisions that may be taken by governments into the future. Technical assumptions that limit the tax-to-GDP ratio have been a feature of all previous intergenerational reports and the long-term fiscal projections are sensitive to this assumption (Box 13.2). Without this assumption, personal income tax would rise significantly as a share of GDP over the projection period due to ongoing income and wages growth in the context of a progressive personal income tax system, which would not be realistic.

Chart 13.1 Total tax receipts

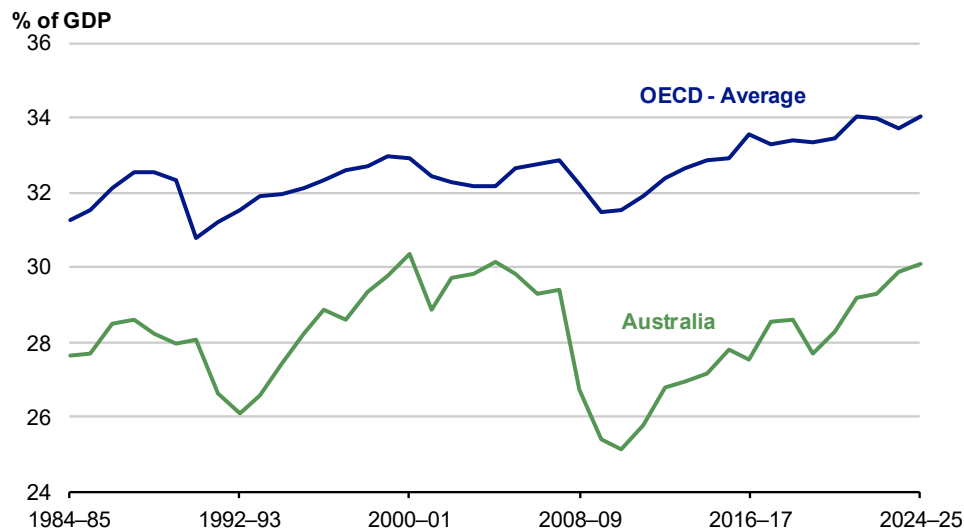


Source: Treasury.

Australia has lower tax than the international average

Australia’s tax-to-GDP ratio remains below the Organisation for Economic Co-operation and Development (OECD) average (Chart 13.2). Australia’s tax mix does not include Social Security Contributions (SSC). Australia’s compulsory superannuation contributions are similar in many ways to SSCs levied in most other OECD countries but are not included as a tax in the ratio, as the benefits are owned by the individual.

Chart 13.2 International comparison of total tax revenue – all levels of government



Note: State and local government taxes account for one fifth of total Australian tax revenue on average, or around 5 to 6 per cent as a share of GDP.

Source: Treasury; OECD Revenue Statistics 2025; and Australian Bureau of Statistics.

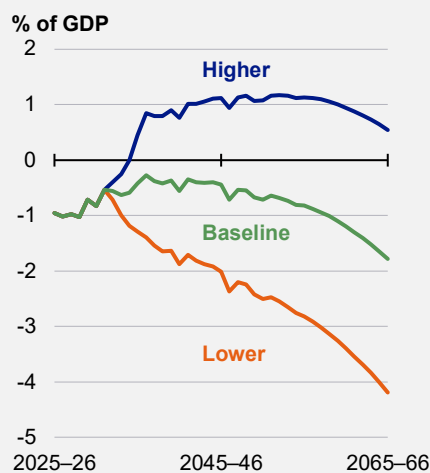
Box 13.2 Sensitivity analysis to higher or lower tax assumption

This sensitivity analysis looks at the impact of a higher or lower tax-to-GDP assumption. A higher tax-to-GDP assumption improves the underlying cash balance (UCB) by increasing tax receipts. This reduces the amount of borrowing required to fund the Government's expenditure, improves the trajectory of gross debt and decreases interest payments. Conversely, a lower tax-to-GDP assumption deteriorates the UCB and increases gross debt.

If the tax-to-GDP assumption followed the 2026–27 Budget trajectory and increased by 1 percentage point to 25.2 per cent of GDP at the end of the medium term and was held at this level, in 2065–66 the UCB would improve by 2.3 percentage points of GDP, and gross debt would decrease by 26.8 percentage points of GDP (Chart 13.3 and Chart 13.4).

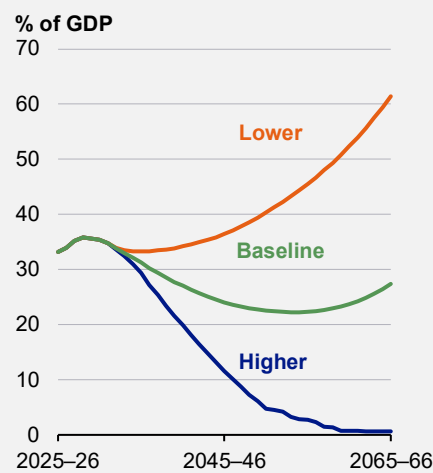
Conversely, if the tax-to-GDP assumption decreased by 1 percentage point of GDP at the end of the medium term to 23.2 per cent of GDP and was held at this level, in 2065–66 the UCB would deteriorate by 2.4 percentage points of GDP and gross debt would increase by 34.0 percentage points of GDP.

Chart 13.3 Impact on UCB of different tax assumptions



Source: Treasury.

Chart 13.4 Impact on gross debt of different tax assumptions



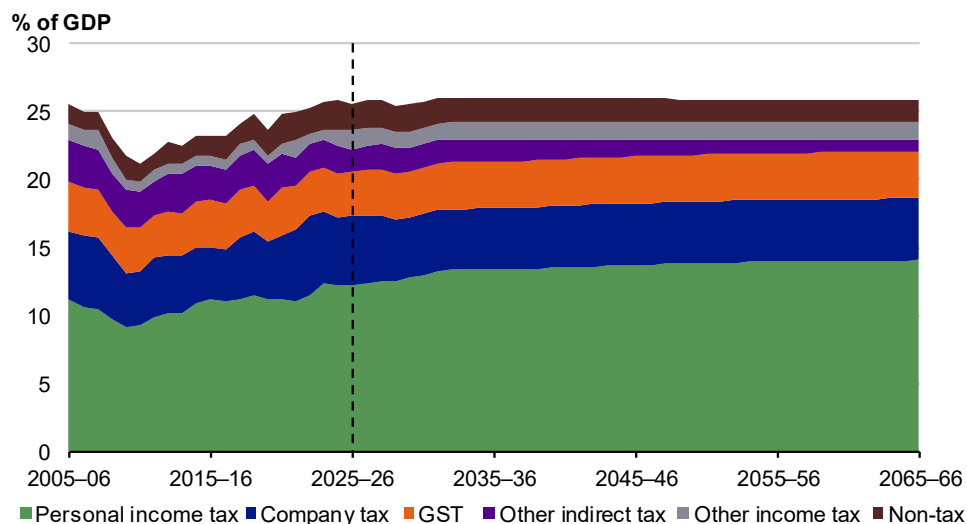
Source: Treasury.

The composition of taxes is projected to change

Total tax receipts as a share of the economy are forecast to be 23.6 per cent of GDP in 2025–26. They are assumed to not exceed the historical high of 24.2 per cent of GDP across the projections. This assumption starts from 2032–33 (Chart 13.5).

Tax receipts comprise income taxes (including personal and company income tax) and indirect taxes (including the goods and services tax [GST], excise and customs duties). Tax receipts are estimated to be 92.1 per cent of total receipts in 2025–26. This proportion is projected to rise slightly to 93.5 per cent over the next 40 years as non-tax receipts decline as a share of GDP over time.

Chart 13.5 Australian Government receipts



Source: Treasury.

While tax-to-GDP is assumed to remain constant, longer-run trends will continue to affect the composition of tax receipts. Lower excise due to increased take-up of more fuel efficient and electric vehicles will result in declining indirect taxes as a share of GDP. As indirect taxes decline, the share of tax receipts from income taxes will rise (Chart 13.6).

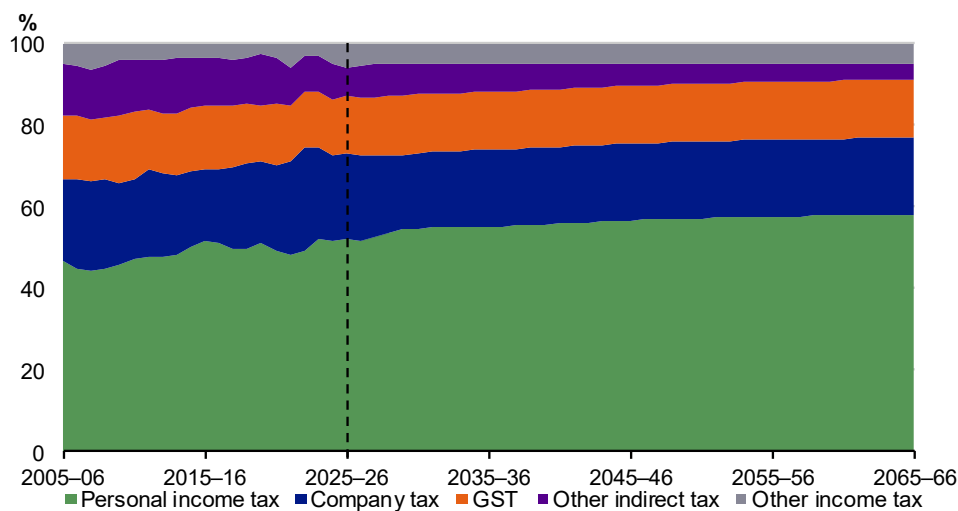
Personal income tax receipts represent the largest share of total tax receipts. Without policy change, personal income taxes will rise as a share of GDP. Personal income tax receipts are projected to grow from 12.3 per cent of GDP in 2025–26 to 14.1 per cent in 2065–66.

Company tax receipts are projected to fall from 5 per cent of GDP in 2025–26 to 4.6 per cent by 2036–37 and remain at that level over the long run. GST receipts are

expected to increase from 3.2 per cent of GDP in 2025–26 to 3.4 per cent by 2029–30 and remaining at that level until 2065–66.

Tax receipts from other indirect taxes (including excise and customs duties) are projected to decline from 1.7 per cent of GDP in 2025–26 to 0.9 per cent in 2065–66.

Chart 13.6 Composition of tax receipts



Source: Treasury.

13.2 Income taxes

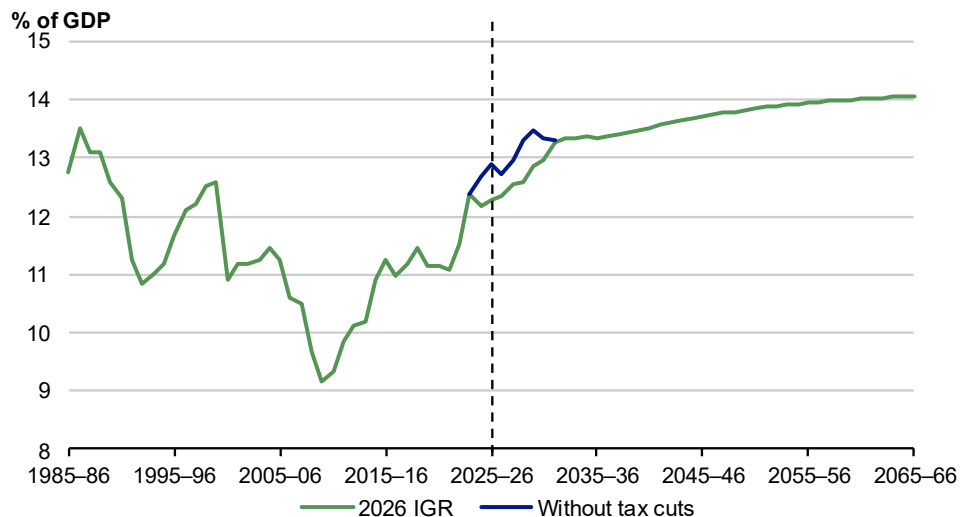
Personal income tax receipts have been reduced by the Government's tax cuts but will rise without further policy change

Personal income tax receipts have fallen as a result of the Government's tax cuts. They were 12.4 per cent of GDP in 2023–24 and are now forecast to be 12.3 per cent of GDP in 2025–26. This is before the additional tax cuts including the reduction in the marginal tax rates in 2026–27 and 2027–28, the \$250 WATO and \$1,000 instant tax deduction.

The decline in indirect taxes and long-run tax-to-GDP assumption, together with the progressive nature of personal income tax and ongoing income and wages growth result in personal income tax as a share of GDP reaching 14.1 per cent by the end of the projection period in 2065–66 (Chart 13.7). The tax-to-GDP assumption is a technical

assumption that does not consider policy decisions that may be taken by governments into the future in response to the evolving economic circumstances.

Chart 13.7 Personal income tax receipts



Note: 'Without tax cuts' projects receipts under 2023–24 tax settings, constrained by the technical assumption.
Source: Treasury.

The largest component of personal income tax is income tax withholding, which captures tax withheld on salary and wages. Personal income tax also includes pay-as-you-go instalments and the payment of amounts owing on tax returns and other liabilities.^{xii} As a result of the Government's tax reforms in the 2026–27 Budget to negative gearing, capital gains tax, discretionary trusts and the WATO, the share of personal income tax receipts from taxes on workers is projected to be 2 percentage points lower than it would have been without reform by the end of the medium term (Chapter 6).

xii Includes the minimum tax on discretionary trusts announced in the 2026–27 Budget and taxes relating to superannuation imposed by Divisions 293 and 296 of the *Income Tax Assessment Act 1997*.

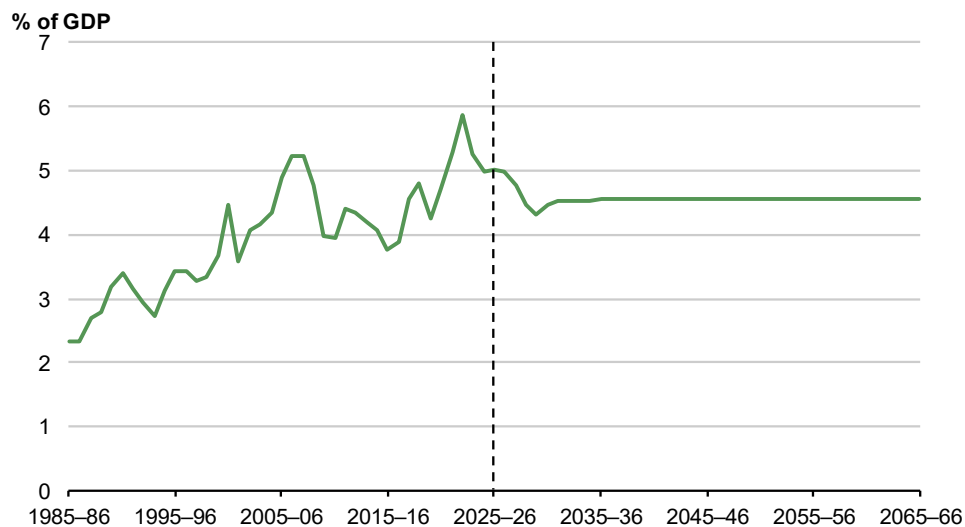
Company tax is projected to be stable as a share of GDP

Company tax receipts have increased in the past 40 years and are forecast to be 5 per cent of GDP in 2025–26. Company tax receipts are exposed to sharp swings in corporate profits related to commodity price fluctuations. Other factors such as depreciation, carry-forward losses and royalty payments by mining companies also affect effective tax rates, making company tax more volatile.

Temporary business support measures and strong commodity prices have increased volatility in company tax receipts. Commodity prices are assumed to return to long-run levels by 2027–28 resulting in a projected decline in company tax receipts to 4.6 per cent of GDP in 2036–37.

Company tax receipts remain at this level until the projections period ends in 2065–66, consistent with company profits maintaining a constant share of GDP (Chart 13.8).

Chart 13.8 Company tax receipts



Source: Treasury.

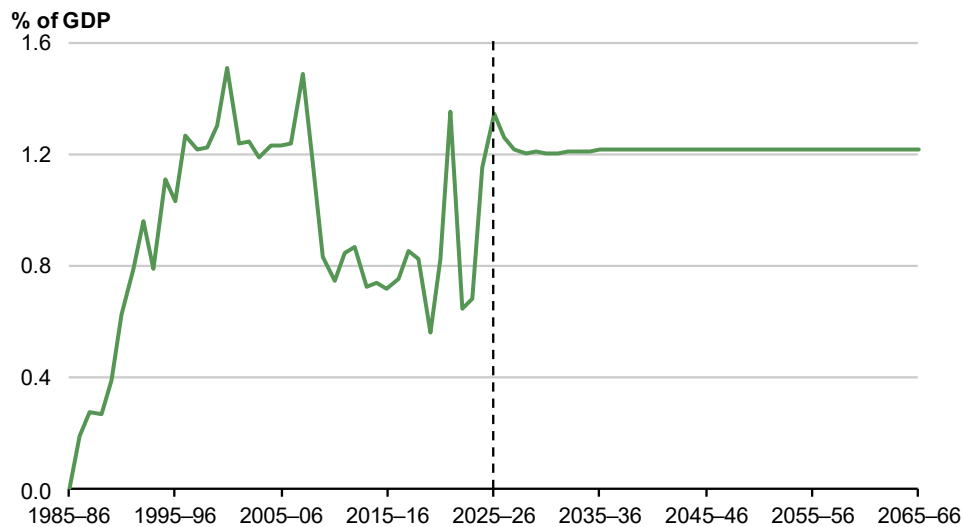
Company tax is also affected by structural or compositional changes in the economy not captured by the assumed steady profit share of GDP. For example, company tax will be exposed to any changes in the value or composition of Australia's resources exports due to the global energy transition and global political tensions.

Other income taxes are projected to be stable as a share of GDP

Other income taxes, which include fringe benefits tax, petroleum resource rent tax (PRRT) and superannuation fund taxes, are projected to be stable at 1.2 per cent of GDP beyond the forward estimates, remaining at this level until 2065–66 (Chart 13.9).

PRRT receipts are assumed to remain constant as a share of GDP beyond the forward estimates. PRRT receipts may vary substantially from this central case due to the small number of projects and the lumpiness this causes when projects cease or commence. Decommissioning credits claimed by PRRT projects no longer producing are particularly lumpy which may result in sharp fluctuations. The PRRT is also sensitive to volatile global oil and gas prices. High oil prices in the 2026–27 Budget brought on by the Middle East conflict are assumed to be temporary, but future shocks are not predictable. Such shocks could have a major effect on profits and the rate existing carry-forward expenditure is used up. Further, any decline in sales of liquefied natural gas due to a reduction in global demand driven by the energy transition would reduce PRRT in the long term.

Chart 13.9 Other income tax receipts



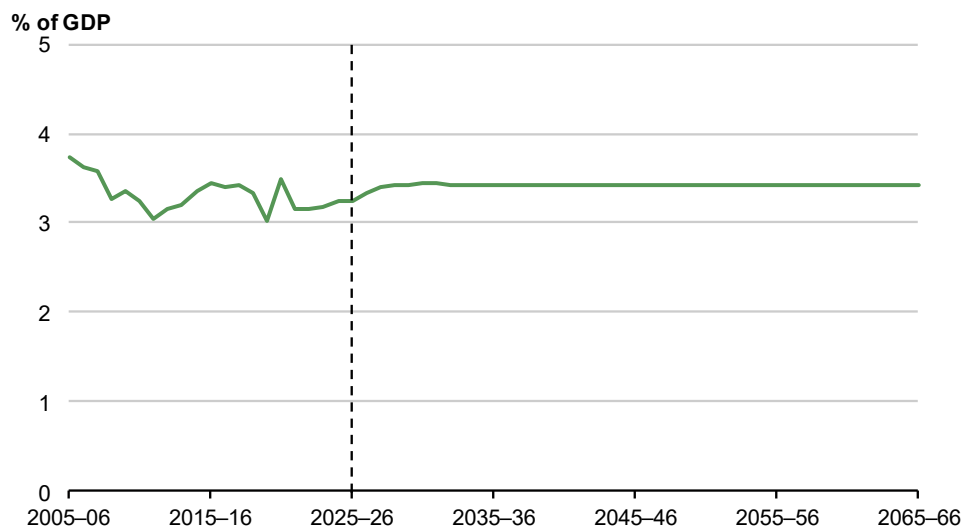
Source: Treasury.

13.3 Indirect taxes

GST is projected to be stable as a share of GDP

GST receipts are estimated to increase slightly to 3.4 per cent of GDP over the forward estimates period and are projected to remain stable as a share of the economy over the projection period (Chart 13.10). The increase in the GDP share over the near-term is driven by a higher nominal consumption share of GDP.

Chart 13.10 Goods and services tax receipts



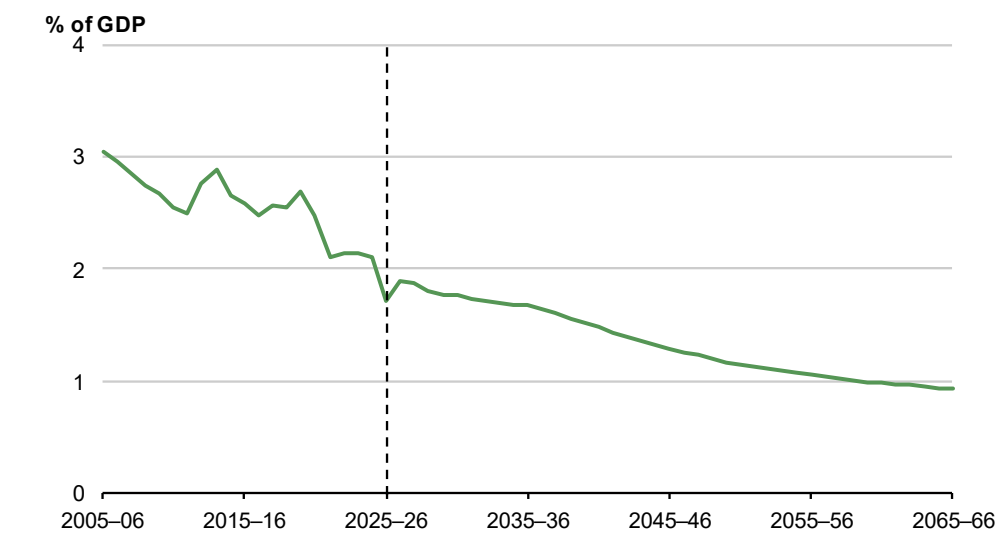
Source: Treasury.

Over the projection period, GST receipts will be influenced by changing future consumption patterns. For instance, as the population ages and demand for GST-free care and support services increases, the share of consumption subject to GST could fall. Changes in private spending on GST-exempt education, and the broader impacts of climate change and technological transformation are also likely to affect future consumption patterns. The net effect of these potential changes on GST is uncertain.

Other indirect taxes are projected to decline as a share of GDP

Indirect taxes (excluding GST) are projected to gradually decline over the medium and long term, reflecting changing consumption patterns and structural changes in the economy.^{xiii} By 2065–66, indirect taxes (excluding GST) are projected to be 0.9 per cent of GDP (Chart 13.11).

Chart 13.11 Indirect tax receipts (excluding GST)

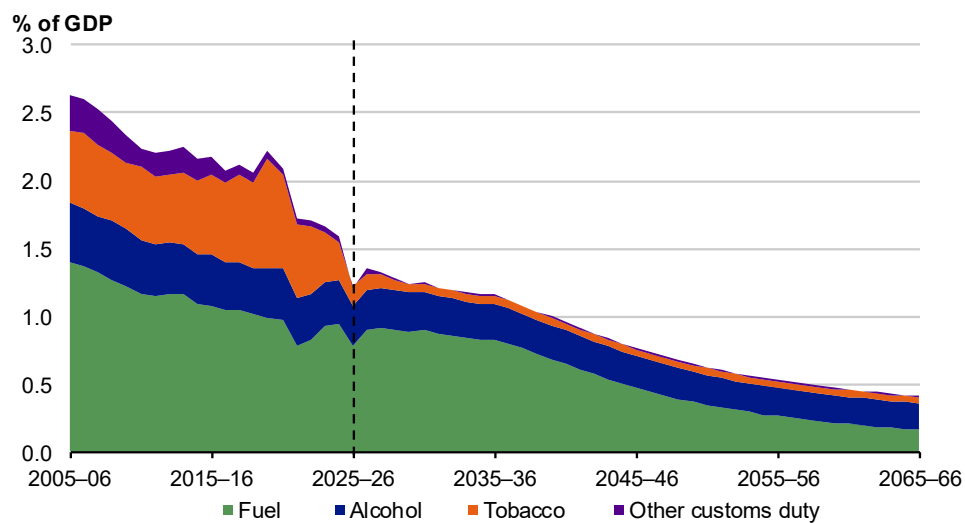


Source: Treasury.

^{xiii} Indirect taxes include excise and customs duties, the major bank levy, luxury car tax, wine equalisation tax, agricultural levies and visa application charges.

The projected decline in excise and customs duty receipts as a share of GDP is driven by consumption trends affecting alcohol and tobacco excise, and increased electric vehicle penetration, which decreases fuel excise as a share of GDP (Chart 13.12). Net fuel excise (fuel excise tax receipts net of fuel tax credits) is expected to fall more quickly than gross fuel excise as a share of GDP, as growth in on-road use of fuel slows more quickly than off-road use (Box 13.3).

Chart 13.12 Excise and customs duty receipts



Note: 'Alcohol' includes the wine equalisation tax.

Source: Treasury.

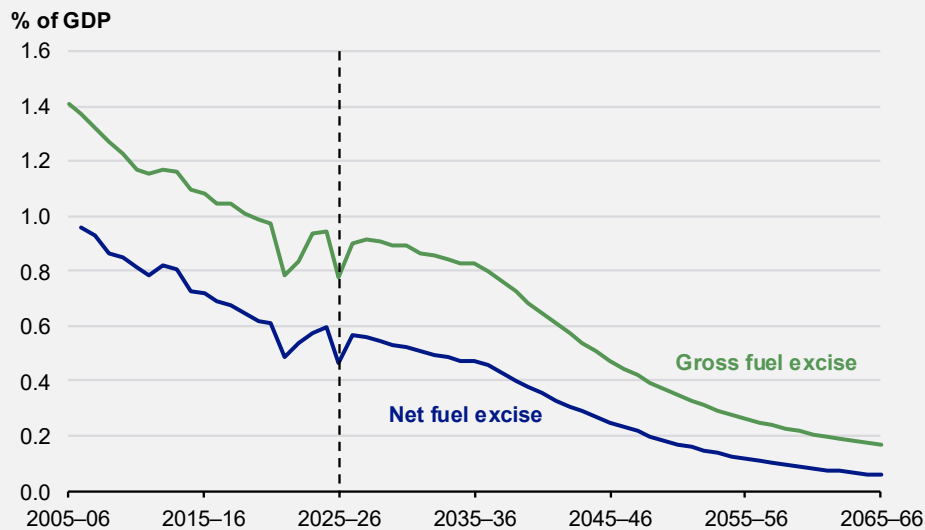
Box 13.3 Fuel excise – projections of gross and net fuel excise

Fuel excise receipts are projected to decline to 0.8 per cent of GDP in 2036–37, before falling to 0.2 per cent by 2065–66. Net fuel excise is projected to decline to 0.5 per cent of GDP in 2036–37, before falling to 0.1 per cent by 2065–66 (Chart 13.13).

Faster decarbonisation of light internal combustion engine vehicles relative to heavy vehicles and off-road fuel uses is the key driver of the faster decline in net fuel excise relative to gross fuel excise. This is because heavy vehicles and off-road fuel uses are generally eligible for fuel tax credits, which offsets the effect of these fuel uses on net excise. Fuel tax credits provide businesses with a payment equivalent to the fuel excise included in the price of fuel used in heavy vehicles, vehicles that travel off public roads and for machinery and equipment. For heavy vehicles travelling on public roads, fuel tax credits are reduced by the Heavy Vehicle Road User Charge.

With net fuel excise declining, Commonwealth, state and territory Treasurers have agreed to work on road user charging for electric vehicles. This aims to bolster productivity through more efficient use of the road network.

Chart 13.13 Gross and net fuel excise



Note: The Fuel Tax Credits scheme commenced on 1 July 2006. Payments projections in the 2026 IGR treat fuel tax credits as a non-modelled payment.

Source: Treasury.

13.4 Non-tax receipts

Non-tax receipts are a small and declining share of revenue

Over the next 40 years, non-tax receipts are projected to fall as a share of the economy from 2 per cent of GDP in 2025–26 to 1.7 per cent in 2065–66 (Chart 13.14). The projected fall in non-tax receipts will reduce total receipts as a share of GDP over time.

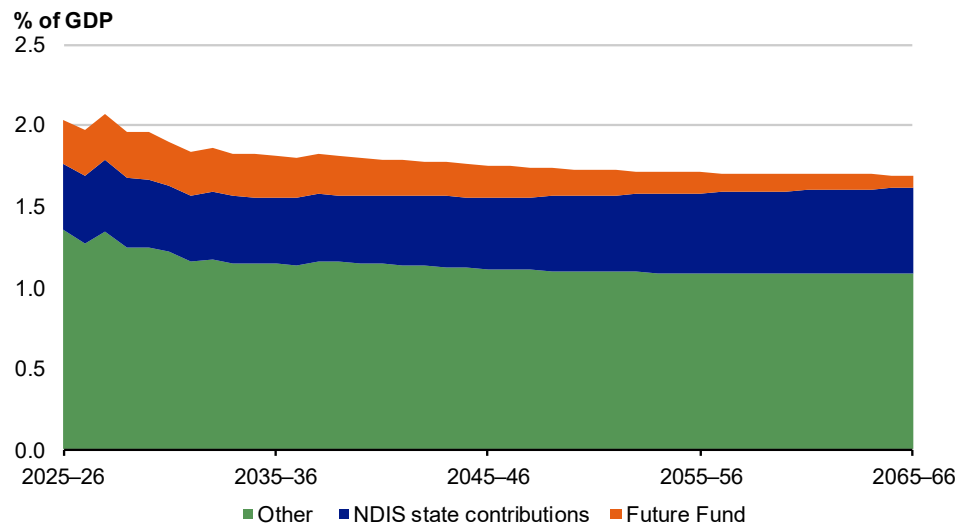
Non-tax receipts include interest received on government loans, interest and dividends from government investments such as the Future Fund and user charges for government services.

As the Future Fund is anticipated to be drawn down from the 2030s, earnings from the fund are projected to decline as a share of the economy thereafter. Net Future Fund earnings are expected to fall from 0.3 per cent of GDP in 2025–26 to 0.1 per cent of GDP by 2065–66. This contributes to a decline in non-tax receipts as a share of GDP, partially offset by an increase in state and territory contributions to the National Disability Insurance Scheme (NDIS) relative to GDP.

State funding contributions to the NDIS are assumed to grow over the projection period in line with bilateral agreements, at 4 per cent per year until 30 June 2028, with NDIS state contributions to grow at the lesser of 8 per cent or total scheme growth thereafter. State contributions are projected to increase from 0.4 per cent of GDP in 2025–26 to 0.5 per cent of GDP by 2065–66.

Other non-tax receipts, such as interest earnings on smaller investment funds, remain relatively stable over the long run.

Chart 13.14 Non-tax receipts



Source: Treasury.

14 The balance sheet

Overview

Australia's balance sheet is projected to be stronger at the end of the projection period than in the 2023 Intergenerational Report (IGR) and remains strong compared to other advanced economies. This supports the Government's capacity to manage long-term spending pressures, sustain economic resilience and invest for growth.

The Government is leveraging balance sheet investments to build a more productive economy, alleviate supply constraints and fund key government priorities including the energy transformation.

Gross debt as a share of gross domestic product (GDP) is expected to initially decline, before rising again from 2054–55 as long-run spending pressures intensify. Net worth and net financial worth follow a similar trajectory, reflecting the same underlying dynamics.

Consistent with previous intergenerational reports, total assets are projected to gradually decline as a share of the economy, largely reflecting the assumed drawdown of Future Fund assets to meet public sector superannuation liabilities.

Government liabilities are primarily driven by borrowing through Australian Government Securities (AGS). Consistent with the path of AGS issuance, total liabilities are projected to decline until 2056–57 before rising to around 37 per cent of GDP by 2065–66.

14.1 The balance sheet

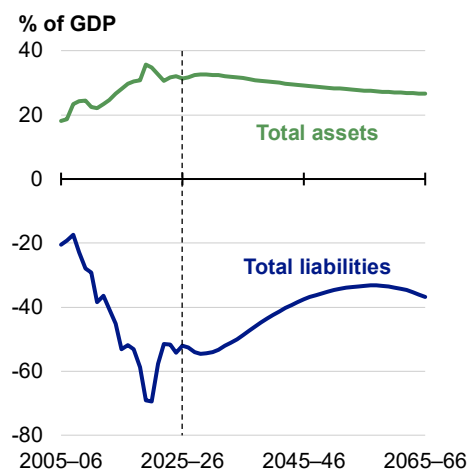
Transitions reshaping the balance sheet

The balance sheet sets out the Australian Government's assets and liabilities. Assets include investments such as the Future Fund, other government investment funds and government-financed investment vehicles. Liabilities include debt in the form of AGS and the public sector superannuation liability.

Australia's balance sheet has been increasingly used as a tool to support national priorities. Balance sheet investments will help Australia navigate major long-term transitions, in particular, the energy transformation including the build out of clean, low-cost energy generation.

Over the next 40 years, total assets are projected to gradually decrease as a share of the economy as the Government is assumed to draw down from the Future Fund. Similarly, total liabilities are projected to decline as debt and unfunded public superannuation liabilities reduce over time. Liabilities rise again towards the end of the projection period as structural pressures lead to rising government borrowing (Chart 14.1). These trends result in net worth (total assets minus total liabilities) initially increasing over the projection period before falling in the longer term (Chart 14.2).

Chart 14.1 Total assets and liabilities



Note: Total liability values are shown below zero to reflect their negative effect on the Government's balance sheet aggregates.

Source: Treasury.

Chart 14.2 Net worth



Source: Treasury.

14.2 Net financial worth

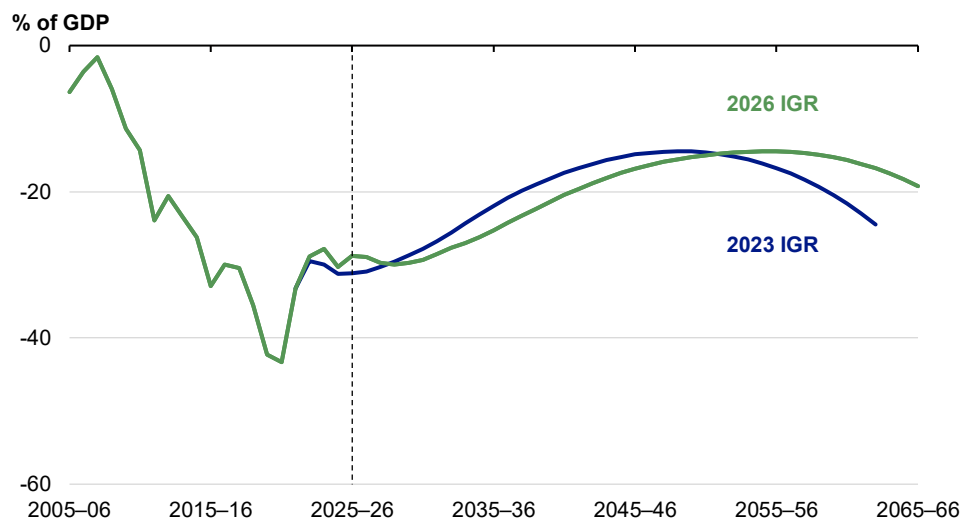
Net financial worth will improve in the medium term

Net financial worth is the value of financial assets minus the value of liabilities. A negative net financial worth means that a government holds more liabilities than financial assets.

Net financial worth is projected to improve from -28.9 per cent of GDP in 2026–27 to -14.5 per cent of GDP in 2054–55 (Chart 14.3). It will then deteriorate to -19.2 per cent of GDP by 2065–66 in line with movements in debt.

Together, the projected paths for net worth and net financial worth show the balance sheet strengthening in the medium term as liabilities fall relative to financial assets, before declining in the long term as borrowing needs rise.

Chart 14.3 Net financial worth



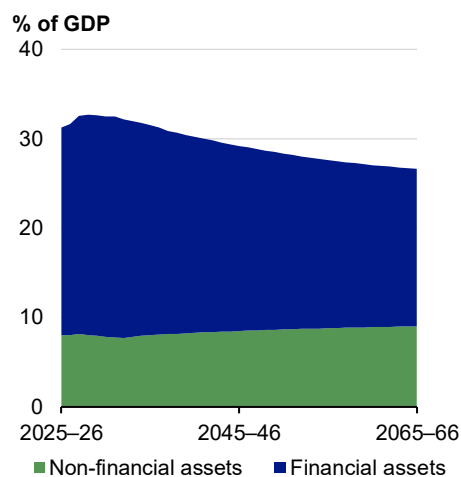
Source: Treasury.

14.3 Assets

Future Fund drawdowns will drive the asset position

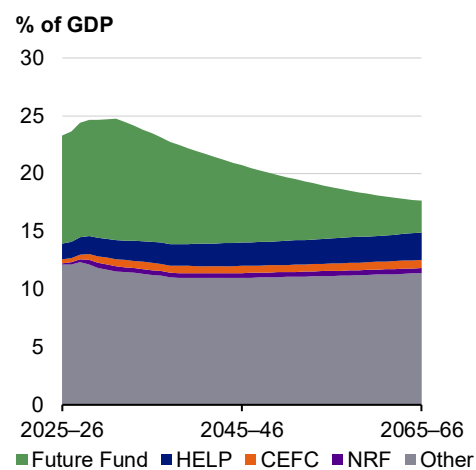
Assets are projected to decline over the long run as the composition of the balance sheet shifts. Total assets are projected to gradually decline from 31.7 per cent of GDP in 2026–27 to 26.7 per cent by 2065–66 (Chart 14.4), driven by a decline in financial assets which are expected to shrink as a share of total assets as the Future Fund is drawn down over the projection period (Chart 14.5). This is consistent with previous intergenerational reports.

Chart 14.4 Composition of assets



Source: Treasury.

Chart 14.5 Composition of financial assets



Note: Clean Energy Finance Corporation (CEFC) assets include those associated with the Rewiring the Nation program. Other includes cash, term deposits at the Reserve Bank of Australia (RBA) and investments in other public entities not otherwise listed.

Source: Treasury.

Financial assets

Financial assets include investments expected to earn a financial return in the form of interest, dividends or capital gains. They may be held for a range of purposes – to make returns for the Government, including through the Future Fund and other Australia Government Investment Funds (AGIFs); to support policy objectives through loans and equity investments; or for liquidity purposes, such as term deposits held by the government with the RBA.

Financial assets are projected to decline from 23.6 per cent of GDP in 2026–27 to 17.6 per cent of GDP in 2065–66. This is largely driven by the projected reduction in the value of the Future Fund due to assumed drawdowns to meet public sector superannuation liabilities.

Over the next 40 years, the composition of financial assets is expected to change. The share of government assets held in AGIFs is expected to decline. The share of investments held by Specialist direct Investment Vehicles (SIVs) is expected to increase over the projection period. SIVs make investments for policy purposes in infrastructure, clean energy and industry transformation.

Australian Government Investment Funds

AGIFs invest to generate earnings which are used to fund specific policy objectives. They support intergenerational equity by building assets to help meet future costs.

AGIFs make up a large portion of the Government's financial assets, with a total value of \$356 billion at 30 June 2026. There are seven AGIFs with the largest being the Future Fund, with financial assets of \$289.7 billion at 30 June 2026. The other AGIFs are:

- Medical Research Future Fund
- Disability Care Australia Fund
- Housing Australia Future Fund (HAFF)
- Future Drought Fund
- Disaster Ready Fund
- Aboriginal and Torres Strait Islander Land and Sea Future Fund.

Future Fund

The Future Fund was established to strengthen the Australian Government's long-term financial position by meeting unfunded public sector superannuation liabilities as the population ages. As the ratio of working-age Australians to retirees continues to decline, drawdowns from the Fund will reduce the call on future budgets and taxpayers. Since inception, the Fund has more than quadrupled in value.

In November 2024, the Government refreshed the Fund's governance settings and deferred drawdowns until at least 2032–33, providing the Fund the certainty it needs to continue building its portfolio. This IGR assumes that Future Fund drawdowns will begin in 2032–33. Previous intergenerational reports assumed that Future Fund drawdowns would begin when the opening balance of the Future Fund was projected to reach the projected value of the public sector superannuation liability.

Under the Fund's refreshed Investment Mandate, the Future Fund Board of Guardians must consider Australia's national priorities in its investment decisions, where possible, as appropriate and consistent with strong returns. This enables the Fund to support investments that also build national capability and resilience without diluting returns. Since the mandate was updated the Fund's returns have improved. The Fund's average annual returns have been 14.8 per cent and 12.2 per cent in the two financial years after the mandate was updated, compared to 9.1 per cent in the financial year just before it was updated.

Specialist direct Investment Vehicles

SIVs are corporate Australian Government entities established by legislation and governed by independent boards. They invest to deliver both policy outcomes and financial returns. Through loans, guarantees and equity, SIVs help manage early-stage project risks and crowd in private investment where market financing is limited.

The number of SIVs and the value of assets they hold have increased markedly in recent years. SIVs are expected to account for a larger share of the Government's financial assets over the coming decades (Box 14.1).

Higher Education Loan Program

The Higher Education Loan Program (HELP) is an income-contingent loan program that assists eligible higher and vocational education students with the cost of their student contribution amounts and tuition fees. HELP loans represent a financial asset on the Government's balance sheet as they are expected to be repaid by students in the future.

At 30 June 2026, the fair value of HELP was estimated to be \$41 billion, lower than expected in the 2023 IGR. This largely reflects the 20 per cent debt reduction applied to outstanding student loans in 2025.

Students are only required to make repayments of HELP loans if their incomes exceed repayment thresholds. Around 14 per cent of issued HELP debt is not expected to be repaid, which is higher than expected in the 2023 IGR and reflects the move to a marginal repayment system and increases in repayment thresholds. HELP loans are projected to increase from 1.4 per cent of GDP in 2026–27 to 2.3 per cent of GDP in 2065–66.

Box 14.1 Increasing investment in key priority areas

The Government is leveraging its balance sheet to crowd in private investment in long-term national priorities such as social and affordable housing, clean energy, critical minerals and regional resilience. Through concessional loans and equity injections, the Government's SIVs are making it more attractive to invest in priority areas, which expands the private capital available for these projects. As projects are delivered, the Government's investments are repaid, returning capital to the Government's balance sheet. Current investment priorities include:

- **Clean energy:** The CEFC has led investment in renewable energy since its establishment in 2012. The CEFC has now unlocked over \$105 billion of investment in clean energy by attracting around \$3 in private investment for each dollar of public capital it invests. As Australia's specialist climate and clean-energy investment vehicle, the CEFC continues to update its investment priorities to facilitate increased flows of finance into clean energy and help achieve national emissions reduction targets. Current priorities include investing in transmission projects that connect interstate electricity grids, such as the Marinus Link (Tasmania-Victoria Interconnector), supporting households to improve energy efficiency, and developing fuels of the future, including low carbon liquid fuels.
- **Housing investments:** The Government is investing in a range of programs to support 55,000 social and affordable homes such as the Housing Australia Future Fund Social and Affordable (HAFF SA) programs and \$2 billion under the Social Housing Accelerator to deliver around 4,000 new and refurbished social homes across Australia. The HAFF SA programs are administered by Housing Australia and include the \$10 billion HAFF, the single biggest investment to support social and affordable rental housing in over a decade, the National Housing Accord facility (NHAF), the National Housing Infrastructure Facility – Social and Affordable Housing stream, and the Affordable Housing Bond Aggregator (AHBA). Together with the NHAF, the HAFF will support the delivery of 40,000 new social and affordable homes. The Government is also providing \$9.3 billion under the National Agreement on Social Housing and Homelessness to support state and territory operation of Australia's social housing and homelessness services sectors.
- Housing Australia is delivering a suite of the Government's home ownership programs to help first home buyers (and others with barriers to access) own a home sooner with a smaller deposit and with smaller mortgages. The 5% Deposit Scheme has helped more than a quarter of a million Australians purchase a home sooner with a smaller deposit and without paying Lenders Mortgage Insurance since 2022. The Help to Buy Scheme is also supporting home buyers through a Government contribution of up to 40 per cent of a property's purchase price. Since launching in December 2025, over 5,000 applications have been approved, supporting almost 7,000 Australians to buy a home with lower mortgage repayments.

continued on next page

Box 14.1 Increasing investment in key priority areas (continued)

- **Supporting a Future Made in Australia:** The National Reconstruction Fund Corporation (NRFC) invests to support, diversify and transform Australia's industry and economy, and drive sustainable economic growth. As of 30 June 2026, investments have spanned areas such as quantum computing, semiconductor manufacturing, cyber security, robotics, space technologies, neuro-technologies and advanced manufacturing, and refining of critical minerals. These investments target the NRFC's eight priority areas including industrial manufacturing and critical supply chains, defence capability, renewables and low-emission technologies, medical science, transport, and value add in agriculture, forestry, fisheries, and resources. Export Finance Australia's Critical Minerals Facility is additionally investing \$5 billion in resources projects that are building Australia's economic security.

Non-financial assets

Non-financial assets include assets such as property, plant and equipment. The largest component of non-financial assets is defence acquisitions, which are included in overall defence spending (Chapter 12).

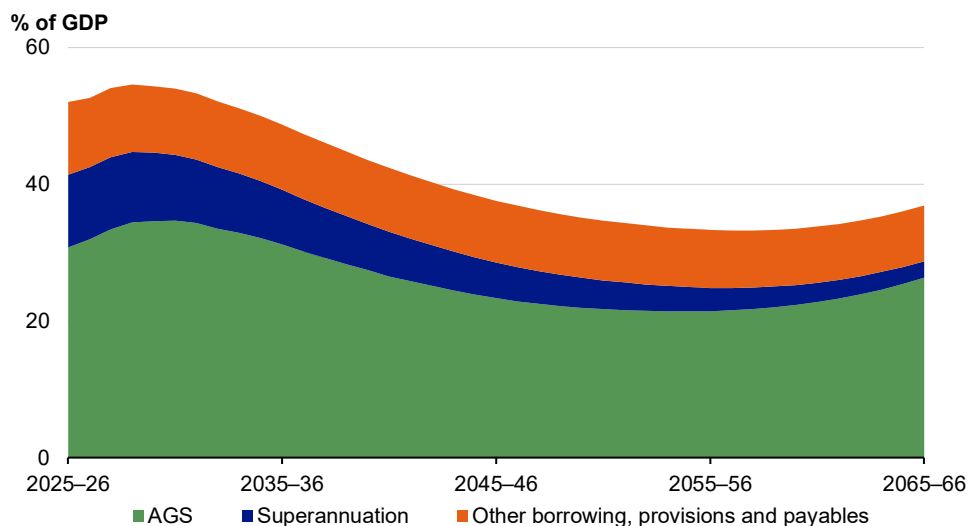
Non-financial assets are projected to grow from 8 per cent of GDP in 2026–27 to 9 per cent of GDP in 2065–66 as purchases of non-financial assets exceed sales and depreciations.

14.4 Liabilities

Total liabilities decrease as a share of the economy

Total liabilities are projected to decrease as a share of the economy before rising over the long term (Chart 14.6). Australian Government liabilities are largely comprised of AGS. Over the next 40 years, liabilities are projected to decline from 52.6 per cent of GDP in 2026–27 to 33.2 per cent in 2056–57, reflecting lower borrowing requirements and the gradual reduction in unfunded public sector superannuation. Consistent with previous intergenerational reports, total liabilities increase again towards the end of the projection period as structural spending pressures increase the demand for new AGS issuance.

Chart 14.6 Composition of liabilities



Note: Other borrowing, provisions and payables include a range of categories such as other employee liabilities, provisions (including subsidies), lease liabilities and loans.

Source: Treasury.

Australian Government Securities

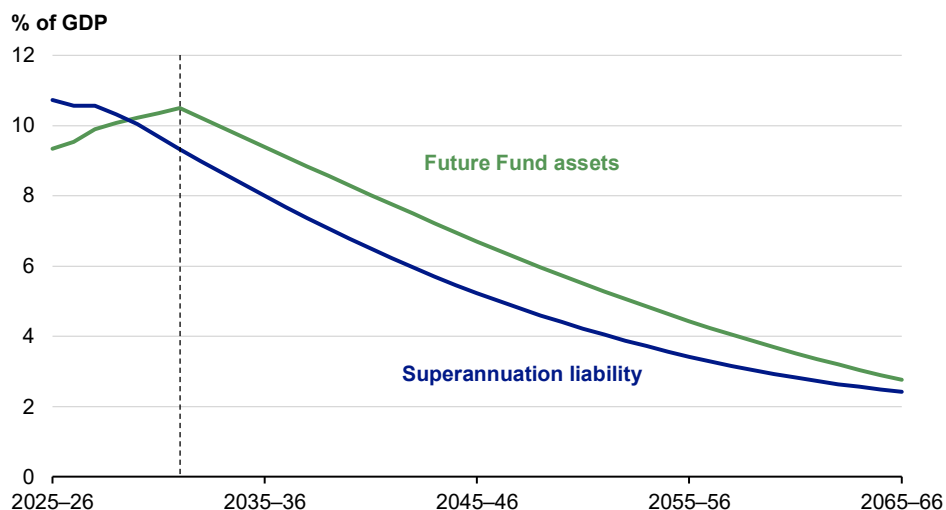
AGS are the primary instrument used to finance government activities when receipts fall short of payments. AGS are recorded on the balance sheet at their market value. The market value of AGS represents the value of securities as traded on the secondary market, which changes with movements in market prices. The total value of AGS on the balance sheet is determined by the amount of government borrowing (gross debt) and the impact of prevailing yields. The total value of AGS is expected to peak at 34.7 per cent of GDP in 2030–31, before declining to a low of 21.4 per cent of GDP in 2054–55 consistent with lower borrowing requirements. It then rises again to 26.3 per cent of GDP by the end of the projection period as structural spending pressures increase the amount of AGS on issue.

Government employee superannuation liability

The Government's employee superannuation liability arises from historical defined benefit superannuation schemes that commit to pay eligible beneficiaries an annual pension on retirement. While these were once the principal form of superannuation for public servants and military personnel, almost all defined benefit schemes are now closed to new members. Instead, new employees enter defined contribution schemes where drawdowns are limited to what has been accumulated.

As a result, superannuation liabilities are projected to fall from 10.6 per cent of GDP in 2026–27 to 2.4 per cent of GDP in 2065–66 (Chart 14.7), with financial liabilities gradually declining as the eligible cohort diminishes over time.

Chart 14.7 Future Fund assets and superannuation liability



Note: Dashed line represents the assumed start of Future Fund drawdowns to meet superannuation liabilities.
Source: Australian Government Actuary and Treasury.

Appendices

A1 Glossary

Agentic artificial intelligence (AI) refers to AI systems that can plan, reason and carry out multi-step tasks with limited human direction.

AI refers to systems that can perform tasks that normally require human intelligence, such as recognising patterns, solving problems and making predictions.

AI stack refers to how AI is built through a layered ecosystem, comprising computing infrastructure, data, models, software and applications.

Assets are monetary and non-monetary resources that an entity owns.

Government financial assets include investments, loans, equity, advances and cash.

Government non-financial assets include equipment, buildings, heritage and cultural assets, land, inventories and intangibles.

Comparative advantage refers to a country's ability to produce a particular good or service at a lower opportunity cost relative to trading partners. Trade becomes mutually beneficial when countries specialise in producing goods and services where they hold a comparative advantage.

Consumer price index measures the prices of a representative basket of goods and services consumed in Australia.

COVID-19 pandemic was a global health emergency and economic crisis that prompted unprecedented public health measures and government intervention.

Decarbonisation refers to the reduction of carbon emissions in the atmosphere through sustainable systems and practices.

Employed means a person completed one hour or more of paid work in a given reference week.

Fiscal sustainability is the government's ability to manage its finances so it can meet its spending commitments, now and in the future, without large and sudden adjustments to policy settings.

General-purpose technology is a term coined to describe a technology that has a potentially transformative impact on a wide range of industries and activities across the economy, rather than being limited to a single use or sector.

Generative AI refers to AI systems that can create new content, such as text, images, audio, video or software code in response to prompts or other inputs.

Gross debt is the face value of Australian Government Securities on issue.

Gross domestic product (GDP) measures the output (goods and services) produced in the Australian economy in a given period.

Gross national income (GNI) is used as an indicator of Australia's standard of living. GNI measures the total income, including domestic and foreign income, received by Australia's residents and businesses. It can be measured in real or nominal terms similar to GDP.

Growth rate of a variable indicates its rate of change as a percentage of its starting value. For example, a growth rate of 5 per cent in real GDP means that GDP increases in size by 5 per cent per year. This is a measure of 'how quickly' the size of the economy is changing over time.

Health-adjusted life expectancy considers the number of years a person of a particular age could expect to live in full health (without disease and/or injury) and in ill health (with disease and/or injury).

Heat stress refers to the physiological stress brought about by excessive heat.

Home ownership refers to owning a dwelling outright, owning a dwelling with a mortgage or purchasing a dwelling under a shared equity scheme.

Home ownership rate is the percentage of private dwellings that are owned outright, owned with a mortgage or being purchased under a shared equity scheme relative to the total number of private dwellings.

Hyperscalers are firms that provide the large-scale computing infrastructure, cloud platforms and related services that support the development, deployment and use of AI systems and other digital applications.

Labour force is the sum of employed and unemployed people aged 15 years and over.

Labour force participation rate is the percentage of the population aged 15 years and over in the labour force.

Labour productivity is a measure of output per hour worked. Growth in labour productivity can be decomposed into capital deepening and multifactor productivity (MFP) growth. **Capital deepening** refers to an increase in the amount of capital available per hour worked. **MFP** measures how efficiently labour and capital are combined to produce output and is generally regarded as the main source of sustained productivity growth over the long term.

Level of a variable indicates its absolute size. For example, the level of real GDP indicates 'how big' the economy is.

Liabilities are present obligations arising from past events that are expected to result in financial outflows. They represent the financial obligations of government.

Life course is the path a person takes from birth to death, including the events, roles and changes they experience over time.

Life expectancy measures how long a person at a specific age is expected to live if they experienced the age and sex-specific mortality rates for a given year for the rest of their life. In this report, 'life expectancy' refers to 'life expectancy at birth' unless otherwise specified.

Natural increase or **natural decrease** is the population change resulting from the number of births minus deaths in a given year.

Net debt is a measure of the strength of the government's balance sheet. It is equal to interest-bearing liabilities at current value minus the value of liquid financial assets.

Net financial worth is a more comprehensive measure of the strength of the government's balance sheet. It is equal to the value of financial assets minus the value of liabilities. A negative net financial worth means that a government holds more liabilities than financial assets.

Net overseas migration is the net gain or loss of population through immigration to, and emigration from, Australia. It is measured by counting people who stay in Australia for 12 months or more over a 16-month period. This includes individuals on both permanent and temporary visas, as well as returning and departing Australian citizens.

Net zero refers to a time when the amount of greenhouse gas emissions into the atmosphere are equal to the amount of greenhouse gases being removed from the atmosphere.

Net zero transformation refers to the decarbonisation, economic and social changes being undertaken to reach net zero.

Nominal GDP measures the value of output produced in Australia at current prices. For example, nominal GDP in 2024–25 is calculated using prices for goods and services in 2024–25. Nominal GDP has a significant implication for tax revenue and the fiscal position.

Non-Accelerating Inflation Rate of Unemployment (NAIRU) is the rate of unemployment that can be sustained without generating inflationary pressures.

Old-age dependency ratio is the number of people aged 65 and over for every 100 people of working age (15 to 64) in the population.

Potential GDP estimates the highest sustainable level of economic output or the economy's productive capacity. Potential GDP grows through the accumulation of factors that expand the economy's productive capacity. Potential GDP is estimated based on an analysis of trends in population, productivity and participation. As spare capacity in the economy is absorbed over time, real GDP converges towards its potential level.

Primary cash balance adjusts the underlying cash balance to exclude interest receipts and interest payments. As, in the short term, interest payments are largely determined by the size of previous budget deficits, the primary balance can be viewed as a budget balance that is more directly within the government's control.

Productivity generally refers to the efficiency with which inputs are transformed into outputs using capital, labour and other resources. Productivity growth occurs when an economy can produce more output from a given level of input, maintain the same level of output using less inputs, or a combination of both. Consistent with the national accounts and most analyses of Australia's productivity performance, the most common measure of productivity is labour productivity.

Purchasing power parity indicates the price level differences across countries for a basket of comparable goods and services. It is used to adjust economic indicators to enable comparison across different countries by eliminating price level differences created by fluctuations in currency exchange rates.

Real GDP measures the total value of output produced in Australia using the prices of a chosen base year. It removes the effect of price changes, focussing on changes in quantities of output.

Real GDP per person measures the average level of output produced per person, which is the most widely used comparative indicator of economic performance and an indication of average living standards.

Real GNI per person is often used as a measure of a country's economic prosperity. It captures a country's average real income per person from the economic activity of its residents and businesses. Changes in the terms of trade have a direct impact on real incomes and hence GNI per person.

Sea level rise is the long-term increase in sea level caused by the thermal expansion of ocean water and melting of glaciers and ice sheets as a result of global warming.

Structural labour force participation rate measures the labour force participation rate once the effects of temporary economic conditions, such as cyclical fluctuations in labour demand, are removed from the long-term outlook. It captures the underlying social, demographic and economic factors associated with the long-running labour force participation trends.

Terms of trade measures export prices relative to import prices. They have a significant influence on Australia's GNI and nominal GDP. Favourable terms of trade, or periods when export prices are high relative to import prices, imply that Australia is able to buy more imports for a given amount of exports.

Total fertility rate estimates the number of children a woman would have during her lifetime if she experienced the age-specific fertility rates for a given year at each age of her reproductive life. In demography, the total fertility rate is used to measure the rate of childbearing in a population and is not a measure of biological or medical fertility.

Underemployment rate is the share of people in the labour force who want, and are available, to work more hours than they currently do.

Underlying cash balance (UCB) is a cash measure of the fiscal position that shows whether the government has to borrow from financial markets to cover its operating activities and net investments in non-financial assets used in the provision of goods and services. A negative value (or deficit) means the government needs to borrow from financial markets to fund its activities.

Unemployed means a person is actively looking for and is available to work but has not found employment.

Unemployment rate is the percentage of the labour force who are unemployed.

Working-age population is the number of people in the population aged 15 to 64.

Yield is the annual rate of return from investing in a bond as a percentage of the price of the bond.

A2 Projections summary

Table A2.1 Demographic projections

		2025–26	2035–36	2045–46	2055–56	2065–66
Population (millions)		28.0	31.4	34.4	37.0	39.3
	0–14	4.8	4.9	5.2	5.3	5.3
	15–64	18.2	20.2	22.0	23.3	24.3
	65–84	4.4	5.2	5.7	6.6	7.8
	85+	0.6	1.1	1.4	1.7	1.9
Life expectancy at birth (years)						
	Male	82.1	83.4	84.3	85.2	86.1
	Female	86.0	87.1	87.9	88.7	89.5
Total fertility rate		1.44	1.47	1.41	1.37	1.34
Old-age dependency ratio		27.4	31.0	32.5	35.8	40.2
Population growth		1.4	1.0	0.8	0.7	0.6
Net overseas migration (contribution to population growth, percentage points)		1.1	0.8	0.7	0.6	0.6

Note: Life expectancy figures are calculated using the period method. The old-age dependency ratio refers to the number of people aged 65 and over for every 100 people of traditional working age (15 to 64) in the population.

Source: Australian National University; and Treasury.

Table A2.2 Economic and fiscal projections

	2025–26	2035–36	2045–46	2055–56	2065–66
Economic projections					
Real GDP growth (%)	2.3	2.4	2.0	1.8	1.6
Real GDP per person (\$)	99,200	111,600	126,700	141,700	157,300
Real GDP per person growth (%)	0.9	1.3	1.2	1.1	1.0
Real GNI per person (\$)	96,500	106,000	120,300	134,700	149,500
Real GNI per person growth (%)	2.1	1.3	1.2	1.1	1.0
Structural participation rate 15–64 (%)	80.5	83.3	84.2	84.1	83.9
Structural participation rate 15+ (%)	66.8	67.7	67.6	66.4	64.7
Male 15+	70.8	70.5	70.1	69.0	67.5
Female 15+	63.0	64.9	65.3	64.0	62.1
Fiscal projections (% of GDP)					
Underlying cash balance	-1.0	-0.4	-0.4	-0.8	-1.8
Primary cash balance	-0.4	0.8	0.4	-0.1	-0.9
Gross debt	33.1	31.3	24.0	22.3	27.4
Net debt	18.8	18.9	12.9	12.4	18.1
Net financial worth	-28.8	-25.2	-16.9	-14.5	-19.2

Note: 2025–26 economic projections are as at the 2026–27 Budget. Growth rates are percentage change on preceding year. Participation rates presented in the table are year average structural participation rates. The structural participation rate is an important indicator in the Intergenerational Report context since it removes the effects of temporary economic conditions, such as cyclical fluctuations in labour demand, on the long-term outlook. Instead, it captures the underlying social, demographic and economic factors associated with the long-running labour force participation trends.

Source: Treasury.

Table A2.3 Projections of major components of Australian Government payments (% of GDP)

	2025–26	2035–36	2045–46	2055–56	2065–66
Payments to individuals					
Disability Support Pension	0.8	0.8	0.8	0.9	0.9
Family Tax Benefit	0.6	0.5	0.4	0.3	0.2
Child Care Subsidy	0.5	0.6	0.5	0.4	0.4
Parenting Payment Single	0.2	0.2	0.2	0.2	0.2
Parenting Payment Partnered	0.0	0.0	0.0	0.0	0.0
Paid Parental Leave	0.1	0.1	0.1	0.1	0.1
JobSeeker Payment	0.6	0.5	0.4	0.4	0.3
Youth Allowance	0.1	0.1	0.1	0.1	0.1
Carer Payment	0.3	0.3	0.3	0.4	0.4
Austudy	0.0	0.0	0.0	0.0	0.0
Total payments to individuals	3.4	3.2	2.9	2.7	2.6
Health	4.0	4.2	4.9	5.5	6.2
Age and Service Pensions	2.3	2.2	1.9	1.8	1.8
Defence	2.1	2.4	2.5	2.5	2.5
Education	1.7	1.5	1.4	1.3	1.1
Aged care	1.5	1.6	1.8	2.0	2.3
National Disability Insurance Scheme (Commonwealth)	1.3	1.1	1.2	1.4	1.5
Total payments	26.6	26.4	26.4	26.7	27.7
Total payments (excl. interest)	25.7	24.9	25.2	25.7	26.5

Source: Treasury.

Table A2.4 Projections of major components of Australian Government payments (real spending per person, 2025–26 dollars)

	2025–26	2035–36	2045–46	2055–56	2065–66
Payments to individuals					
Disability Support Pension	884	953	1,085	1,256	1,460
Family Tax Benefit	638	545	489	434	386
Child Care Subsidy	557	705	667	617	584
Parenting Payment Single	261	251	266	273	279
Parenting Payment Partnered	34	40	38	35	33
Paid Parental Leave	148	169	176	177	184
JobSeeker Payment	586	522	524	519	511
Youth Allowance	120	115	108	106	103
Carer Payment	305	371	457	539	627
Austudy	14	15	15	14	14
Total payments to individuals	3,547	3,686	3,823	3,970	4,180
Health	4,244	4,899	6,389	8,060	10,181
Age and Service Pensions	2,428	2,519	2,540	2,664	2,960
Defence	2,260	2,726	3,287	3,680	4,085
Education	1,767	1,783	1,805	1,862	1,879
Aged care	1,574	1,821	2,397	2,993	3,750
National Disability Insurance Scheme (Commonwealth)	1,345	1,321	1,623	2,016	2,421
Total payments	28,133	30,589	34,714	39,343	45,235
Total payments (excl. interest)	27,167	28,791	33,182	37,843	43,331

Note: Real spending per person refers to spending per head of total population, not per payment recipient. Changes in real spending per person reflect changes in the recipient population as a share of the total population due to ageing.

Source: Treasury.

A3 Methodology and assumptions

A3.1 Economic projections

Potential GDP

This Intergenerational Report (IGR) uses the same medium-term projection methodology for population, participation, productivity and prices as the 2026–27 Budget and extends the projection horizon to 2065–66.

Together, these fundamentals determine the supply side potential of Australia's economy. Treasury uses a macroeconomic model that combines these trends to generate a projection for potential gross domestic product (GDP).

The size of the economy in current prices (nominal terms) is determined by potential GDP and the trajectory of the price of Australia's output. Key export commodity prices are assumed to track in line with long-term fundamentals. Domestic price growth is assumed to remain at the midpoint of the Reserve Bank of Australia's (RBA) inflation target band of 2.5 per cent over the longer-term projection period. The macroeconomic model combines these assumptions and trend inputs to generate a projection for nominal GDP.

The output is then used to inform the assessment of Australia's long-term fiscal position.

Population projections

The population projections in this Report use the cohort component method outlined in the 2025 Population Statement.¹ The assumptions for the components of population growth are the same as for the 2026–27 Budget but extend to 2065–66.

Population projections are estimated for each single year of age (0 to 120) and sex from 2025–26 to 2065–66.

Fertility

Future births are estimated by applying age-specific fertility rate assumptions to the female population aged 15 to 49 in each year. For the first time, the projections also consider how fertility rates vary by the number of children a woman already has.

The near-term fertility forecasts have been formulated using data on pregnancy scans as a leading indicator. The leading indicator model is used to forecast to the end of 2025–26.

Between 2026–27 and 2042–43, the projections have been anchored to lifetime fertility outcomes, based on cohort births estimates constructed using Australian Bureau of Statistics (ABS) and Australian Institute of Health and Welfare (AIHW) data. This more robustly captures the delays and catch-ups in childbearing observed in historical data.

From 2043–44, the projections are based on long-run projections prepared by demographers from the Australian National University. These projections lower the long-term total fertility rate assumption to 1.34 births per woman by 2065–66 (down from the previous projection of 1.62 for 2031–32 and beyond). The projections incorporate both historical fertility trends and expert judgement. Further detail is available on the Centre for Population website.

Mortality

Future deaths are estimated by applying age and sex-specific mortality rate assumptions to the population.

Assumptions about future mortality rates are based on life tables produced by the ABS, to which the Australian Government Actuary's (AGA) mortality improvement factors are applied. The AGA has reviewed the mortality improvement factors since the 2023 IGR and has lowered the rate of increase in life expectancy. This reflects evidence that the large improvements seen for those born 1930–1950 are unlikely to continue.

Mortality rates have been adjusted through to 2027–28 to account for the impact of COVID-19.

Net overseas migration

Forecasts of net overseas migration incorporate data on international border crossings, offshore visa grants, and overseas migration from the Department of Home Affairs and the ABS. The projections in this report build on those presented in the 2026–27 Budget.

Beyond the forward estimates, the projection reflects a technical assumption for the level of net overseas migration. Long-run net overseas migration is assumed to be 235,000 persons per year, the same as in the 2021 IGR and 2023 IGR, consistent with the 2026–27 Budget and similar to the average of the last 20 years. Net overseas migration is assumed to transition to this long-run level from the end of the forward estimates. Net overseas migration outcomes over coming decades will depend on several factors including the future migration policy of successive governments and future economic conditions in Australia and overseas.

Participation rate projections

The participation rate projections in this Report are largely based on the methodological framework explained in detail in Treasury Working Paper 2021–02 *Australian Labour Force Participation: Historical Trends and Future Prospects*. This methodology considers how participation rates vary with changes in the age structure of the population, over the lifecycle of cohorts, and between different generations.

A generation's participation rates later in life partly depend on their observed participation at younger ages. This Report assumes that historical differences between generations will persist in younger and future generations, reflecting a continuation of the economic, social and demographic factors underpinning past changes across generations.

Productivity projections

The projections in this report assume labour productivity growth converges to 1.2 per cent per year.

As detailed in Box 2.4 of the 2026–27 Budget, Treasury forecasts are based on an assumption that underlying productivity growth transitions to its long-term growth rate over time. Underlying productivity is the persistent component of labour productivity, abstracting from cyclical fluctuations and temporary changes in the amount of capital available per worker. It is the force that drives productivity growth over the long run.

Treasury projects that underlying productivity growth transitions to its long-term growth assumption over around five years (Chapter 10).

Prices and wages

Output prices are a volume-weighted average of the price received for goods and services sold domestically and internationally.

High export prices often occur in periods of strong foreign demand for Australia’s bulk commodities. For example, from the mid-2000s to 2011, strong demand for Australia’s major commodity exports, particularly from China, drove a significant increase in the prices of iron ore and thermal and metallurgical coal. From 2011–12 to 2015–16, key commodity prices retreated from these record highs as new supply came online. This resulted in large falls in the terms of trade.

Consistent with the approach to commodity prices in the 2026–27 Budget, key bulk commodity prices are assumed to decline to their long-run anchors. Commodity prices are assumed to remain at these levels in real terms over the projection period. The terms of trade are projected to remain around their 2027–28 level over the projections.

Price pressures are expected to moderate gradually with inflation forecast to return to the RBA’s inflation target band of 2 to 3 per cent in the middle of 2027, in line with the 2026–27 Budget forecasts. Inflation is assumed to be at 2.5 per cent per year for the duration of the long-term projection period. Nominal wages growth is projected to converge to 3.7 per cent per year, consistent with the projection for domestic inflation and long-run labour productivity growth assumption.

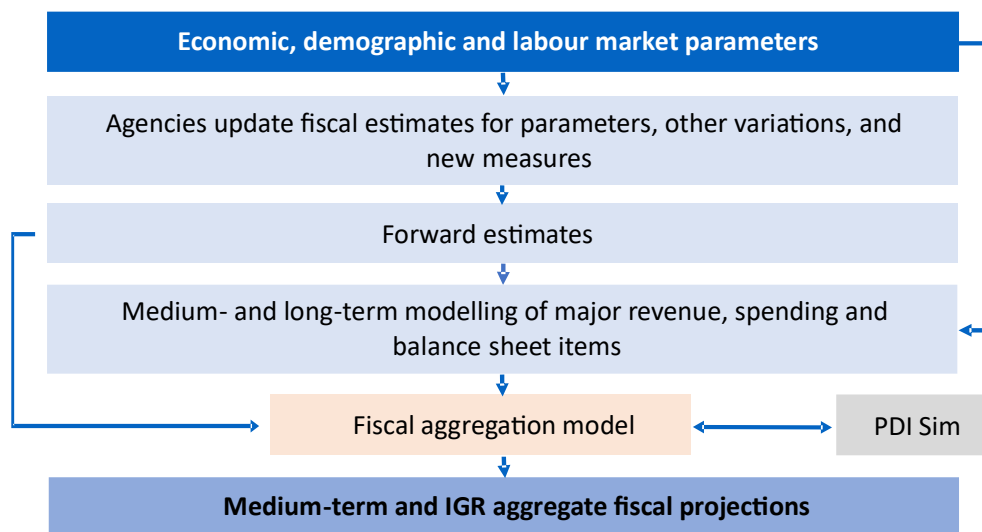
A3.2 Aggregate fiscal projections

The IGR fiscal projections use the 2026–27 Budget medium-term projections as the base for the long-term projections.

Aggregate fiscal projections in this Report are produced using Treasury’s fiscal aggregation model. The model combines the outputs of separate but consistent models that project economic parameters, tax and other receipts, payments, and balance sheet items (Figure A3.1).

The model uses an internally consistent cash and accrual accounting system. This approach links the Australian Government’s operating statement, the cash flow statement, and the balance sheet.

Figure A3.1 Preparing fiscal aggregates



Source: Treasury.

In the fiscal aggregation model, the forward estimates are grown by relevant economic and demographic parameters to create long-term projections.

- The majority of receipts, spending and the Government’s balance sheet items are modelled and aggregated in the model.
- Smaller components of receipts, payments, and balance sheet items are grouped and grown by aggregate growth factors, such as nominal GDP.

Those components are then combined to calculate the financing task in each year of the projection period. The financing task comprises the underlying cash balance excluding interest payments on Australian Government Securities (AGS) and reinvested interest from the Government investment funds, plus investments in the Government's financial assets.

The financing task, the level of AGS on issue at the end of the forward estimates, and the yield curve in each year are inputted into a separate model, the Public Debt Interest Simulator (PDI Sim). PDI Sim combines these inputs to project interest payments and the level of AGS on issue in the medium and long term. These outputs are then fed back into the aggregation model.

A technical assumption is made about the path of yields on Government debt over the forward estimates, medium term and the long run. The yield curve on AGS is taken from a recent snapshot of observed yields and held constant over the forward estimates. Over 15 years from the end of the forward estimates the 10-year bond rate is assumed to converge to equal nominal GDP growth. Other yield tenors converge to historical relativities to the 10-year bond rate. The 10-year bond rate remains equal to nominal GDP growth over the rest of the long run. This assumption is used as an input in PDI Sim and other models of balance sheet items.

A3.3 Revenue projections

The projection methodology for tax receipts in this Report relies on the broad correlation between major elements of nominal GDP (such as compensation of employees, gross operating surplus and nominal consumption) and their respective tax bases (personal income tax, company tax and goods and services tax (GST)). This is consistent with previous intergenerational reports. Projections of fuel, alcohol and tobacco excise receipts take account of structural shifts, which are expected to result in their decline as a share of GDP over time.

Non-tax receipts are a relatively small component of total receipts and are projected based on assumptions. Sales of goods and services are assumed to remain constant as a share of GDP, and returns on financial assets are modelled using assumptions regarding interest rates and investment returns.

Long-term assumption to constrain tax receipts

A technical assumption is made that the tax-to-GDP ratio does not exceed the historical high (reached in 2004–05 and 2005–06) of 24.2 per cent. This assumption starts from 2032–33. This assumption follows similar practices in past intergenerational reports where the tax-to-GDP ratio has been limited or held constant on the basis that a strict no-policy-change scenario would not be realistic.

A strict no-policy-change scenario over the long run would result in the tax-to-GDP ratio growing indefinitely due to the progressivity of the personal income tax scale and because personal income tax thresholds are set in nominal terms. Indefinite growth in the tax-to-GDP ratio through higher personal income tax is inconsistent with historical experience.

A3.4 Spending projections

Population ageing impact on government spending

The impact of ageing on major government payments is estimated by comparing baseline projections of spending in 2065–66 to a counterfactual scenario. This counterfactual uses an alternative population projection in which the age distribution is held constant at June 2026 shares. Total population in the counterfactual grows at the same rate as the total population in the baseline. Payments modelled using this population projection represent the level of spending expected in the absence of population ageing.

The estimated impact of population ageing is the difference between payments modelled on the baseline population and those modelled on the population with no ageing. Only selected payments have been modelled in this way, as population ageing is not expected to directly affect all government payments.

Government payments modelled as part of this analysis are:

- Age and Service Pensions
- Aged care
- Education, which includes higher education, schools and Vocational Education and Training (VET)
- Health
- NDIS (Commonwealth share)
- Other income support, which includes Austudy, Carer Payment, Child Care Subsidy, Disability Support Pension, Family Tax Benefit, JobSeeker Payment, Paid Parental Leave, Parenting Payment and Youth Allowance.

Health

Projections beyond the forward estimates are obtained by separately modelling the largest four spending components. These are the Commonwealth's share of public hospital funding, medical benefits, pharmaceutical benefits and the Private Health Insurance Rebate. All remaining health spending is aggregated into the 'Other Health' component.

Public hospitals, medical benefits and pharmaceutical benefits

Spending on public hospitals, medical benefits and pharmaceutical benefits in the medium and long term is projected using a common model, but with a non-demographic growth rate specific to each program.

Spending in the final year of the forward estimates is disaggregated into age and sex cohorts using historical administrative data. Per capita spending by cohort is calculated using estimated population data and adjusted to 2024–25 dollars. This serves as the base for projections over the IGR period. The base is projected forward each year by applying an estimate of the non-demographic growth rate. Aggregate spend on each program is then reconstructed by converting per capita spending to nominal terms, and applying the estimated population of each cohort, for each year over the IGR period.

Non-demographic growth captures cost pressures that are not explained by population growth or ageing. Historical data are used to obtain an estimate of the non-demographic growth rate. Data are first disaggregated by age and sex. Using historical population and inflation data, real per capita spending is calculated and annual growth rates in spending are obtained. These are aggregated using population share weights to produce an annual measure of non-demographic growth pressure. The series is chained to form a Törnqvist index over the historical period. A log-linear regression is applied to the index to produce an estimate of the non-demographic growth rate.

Private Health Insurance Rebate

The Private Health Insurance Rebate is indexed annually by a Rebate Adjustment Factor (RAF), which represents the difference between CPI inflation and the industry-weighted average increase in premiums. The RAF helps to ensure the Government's contribution to an individual's private health insurance through the Rebate grows in line with CPI during periods where premiums are growing faster than inflation. Accordingly, the model projects spending based on CPI inflation and population forecasts.

The insurance coverage rate of each age and sex cohort is from the Australian Prudential Regulatory Authority (APRA) and held constant over the IGR period. Non-demographic growth does not feature in this model. This reflects the RAF which constrains growth in the Rebate to be in line with inflation.

Other Health

Other Health spending includes all other Commonwealth spending on health, including veterans' health care, medical research and health workforce development.

Other Health is assumed to remain stable as a share of GDP through the medium term to 2036–37. It is then projected to increase to a level consistent with its 25-year historical average as a share of GDP, before growing at the same rate as the rest of health spending for the remainder of the projection period.

Aged care

The two major components of aged care spending are residential care, and support provided to people to age at home.

The aged care model has been updated to project the spending on residential care and home care separately, with services modelled by age and gender to better reflect the distinct cost pressures associated with these factors. These enhancements improve the policy insights that can be derived from the projections while also ensuring greater consistency with the modelling approaches taken for other care sectors.

Projections of aged care spending over the next 40 years are based on the cost of care services by age and gender, combined with projected population changes, care usage rates, CPI growth, and an estimated non-demographic cost growth rate for residential aged care.

The model includes an estimate of how much residential care costs rise beyond what is explained by population growth and general price increases (that is, non-demographic cost growth). This is done by first adjusting historical residential care spending data for CPI growth and changes in the size and age structure of the population to derive a series of real, age-adjusted residential care spending per person. The non-demographic cost growth rate is then determined by fitting an exponential trend to this series. The approach used in this Report assumes that this estimated non-demographic cost growth commences after the medium term, from 2037–38.

National Disability Insurance Scheme (NDIS)

NDIS projections in this IGR focus on reasonable and necessary supports for participants.

Long-term modelling for the NDIS is complicated by the scheme's short history relative to other Australian Government programs, its recent rapid growth, and significant policy reforms in recent years. The methodology used to model NDIS spending has been updated since the 2023 IGR. It now reflects the reforms announced in the 2026–27 Budget, incorporates recent experience on actual spending, and better aligns with the modelling approach taken for other care sector programs, which attempt to project the number of recipients and the average cost per recipient.

The number of NDIS participants projected over the next 40 years is substantially informed by outputs from the National Disability Insurance Agency Scheme Actuary's Original Cohort Model, which projects scheme participants based on expected entrants, exits, and past experience. This takes into account the effect of the 2026–27 Budget reforms. From the end of the medium term, growth in the average cost per participant by age and disability type transitions over five years to growth in line with projected average weekly earnings. This reflects expectations for unit cost growth in excess of general inflation, consistent with other care sector programs.

The Commonwealth and states and territories jointly fund the NDIS. State funding contributions to the NDIS are assumed to grow at 4 per cent per year until 1 July 2028, with the Australian Government responsible for the balance of the scheme costs. Beginning 1 July 2028, NDIS State contributions grow at the lesser of 8 per cent or total scheme growth, reflecting National Cabinet's December 2023 decision on NDIS reform.

Income support payments

Age and Service Pensions

Age and Service Pension expenditure, as well as other projections related to the retirement income system, are generally produced using Treasury's Model of Australian Retirement Incomes and Assets (MARIA). MARIA is a long-term, population level, dynamic microsimulation model of Australia's retirement income system. MARIA begins with 2019–20 administrative base data supplemented with survey data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey and the ABS Survey of Income and Housing (SIH). The model is run on a representative sample of this complete dataset.

MARIA uses Treasury analysis to develop input parameters that simulate the characteristics of each individual for every year of the model run, based on their characteristics in the previous year. These characteristics include household composition, labour force participation, income, and compulsory and voluntary superannuation contributions. Some characteristics are not modelled dynamically year-on-year but rather imputed at the point of retirement. These characteristics include home ownership status and non-superannuation savings. The imputation is based on factors such as age, education level, work experience and superannuation balance.

MARIA's key output is defined contribution superannuation amounts held by individuals, both accumulation throughout working life and drawdown in retirement. MARIA can, therefore, also project the aggregate defined contribution funds under management in the superannuation system.

MARIA projects Age Pension spending and coverage based on the simulated superannuation assets, imputed non-superannuation assets and deemed income of individuals and their partners.

Long-run estimates of superannuation tax concessions

The long-run value of superannuation tax concessions is estimated using MARIA on a revenue forgone basis. The cost of tax concessions is estimated independently each year (that is, there is no dynamic impact of the removal of concessions over time).

These estimates broadly replicate the methodology and benchmark used in the Tax Expenditures and Insights Statement (TEIS). These include combined estimates of capital gains and earnings tax concessions provided to superannuation funds (reflecting a combined C1 and C4 estimate from the TEIS), and contributions tax concession estimates (reflecting a combined C2 and C3 estimate from the TEIS).

The long-run estimates in MARIA have been constructed on an additive basis to facilitate analysis of trends. The value of superannuation tax concessions is estimated by adding contributions and earnings to taxable income in two stages and applying the progressive income tax rates at each stage. This allows the benchmark scenario to be calculated, where superannuation concessions are included in personal taxable income and taxed at marginal rates.

From 2037–38, several personal income tax thresholds and offsets that comprise the benchmark are assumed to align with wage growth, as was the case in the 2023 IGR.

Coverage trend models

Coverage trend models are used where spending is related to the number of recipients and unit cost growth is linked to a price index. These models are used to project spending on Disability Support Pension, Parenting Payment Single, Parenting Payment Partnered, JobSeeker Payment, Youth Allowance (Student and Other), Austudy, Carer Payment, Family Tax Benefit, Parental Leave Pay, and Child Care Subsidy.

The approach projects future recipients by payment by assuming that recipients remain a constant share of the broader population or unemployed persons (by age). This is used in combination with a projection of average costs per recipient to project future spending. The average cost is usually independent of age or gender and assumed to grow in line with either wages or CPI growth (or a combination) in the future. Projections may use non-linear techniques such as logistic functions (Table A3.1).

Table A3.1 Coverage trend model projection methodologies

	Coverage rates	Future trends	Unit cost growth outside the forwards estimates
Disability Support Pension	Based on age and gender	Logistic function used to predict future take-up	The higher of Average Weekly Earnings and CPI
Parenting Payment Single	Based on age and gender	Based on current and historical recipient shares	The higher of Average Weekly Earnings and CPI
Jobseeker Payment	Based on age and gender	Based on age and gender unemployment growth	CPI
Youth Allowance (Other)	Based on age and gender	Based on age and gender unemployment growth	CPI
Parenting Payment Partnered	Based on age and gender	Based on age and gender unemployment growth	CPI
Carer Payment	Based on age and gender	Logistic function used to predict future take-up	The higher of Average Weekly Earnings and CPI
Youth Allowance (Student)	Based on age and gender	Based on constant recipient shares	CPI
Austudy	Based on age and gender	Based on constant recipient shares	CPI
Family Tax Benefit	Based on age	Based on constant recipient shares	CPI
Parental Leave Pay	Based on births	Based on current take-up and birth projections	10 year historical weekly minimum wage
Child Care Subsidy	Based on age	Based on constant recipient shares, child care hours and unit price growth	Assumes prices trend to CPI, and hours growth to zero, by end of the medium term

Source: Treasury.

Education

Higher education

Higher education spending is consistent with the medium-term projections presented in the 2026–27 Budget. Beyond the medium term, spending is projected by modelling components separately. These are the Commonwealth Grants Scheme (CGS), Needs-based Funding (NBF) and non-CGS payments.

CGS funding projections are obtained by indexing the average CGS funding per student to CPI and adjusting student numbers in line with changes to the population most likely to attend university. Growth in the NBF component comprises both CPI indexation and changes to student numbers consistent with those used for CGS projections. Non-CGS payments grow at the same rate as the rest of higher education.

Schools

Commonwealth spending on schools is consistent with the medium-term projections presented in the 2026–27 Budget. Beyond the medium term, average funding per student is grown by a rate comprising 25 per cent growth in CPI and 75 per cent growth in wages. This is consistent with the legislated indexation rate of the Schooling Resource Standard (SRS). The number of students in each year of the projection period is estimated using the projected school-aged population.

Vocational Education and Training (VET)

VET spending is consistent with the medium-term projections presented in the 2026–27 Budget. Beyond the medium term, average funding per student is grown by a wage cost index. The number of students is projected to grow in line with the general population aged 18 to 64.

GST payments

As the GST is passed on to the states, GST payments are assumed to equal GST receipts plus the GST pool boost in the long run.

Other spending

Some government spending such as on the Australian Public Service, tourism, and community development are not explicitly modelled. The ‘other spending’ component is calculated as the residual of the difference between total modelled payments and total payments over the forward estimates from Australian Government financial statements. This component is indexed to nominal GDP growth for the medium and long term.

A3.5 Balance sheet items

Investment funds and government-financed investment vehicles

New investment funds and government-financed investment vehicles are financed from the consolidated revenue or through additional borrowing when the budget is in deficit. This will increase gross debt. Public debt interest associated with this additional borrowing increases the underlying cash deficit.

The impact on net debt depends on the nature of the asset acquired. Debt-like financial assets, such as loans, are included as assets in net debt and offset the increases in debt issuance. Acquisition of non-debt-like financial assets, such as equity investments, will increase net debt.

The acquisition of financial assets for policy purposes decreases the headline cash balance (HCB). The HCB does not capture investments in financial assets for liquidity purposes (such as the Disaster Ready Fund). However, those are included in the financing task and thus they impact gross debt.

Balance sheet investments which earn a market rate of return do not change net financial worth when they are established. This is because an increase in liabilities is offset by an equal increase in financial assets. However, where the value of the asset acquired is less than the amount borrowed (for example in concessional loans) net financial worth is reduced.

In this Report, investment funds and government-financed investment vehicles are modelled over the projection period based on indexation assumptions, such as CPI, and investment mandates.

Australian Government Future Fund

The Future Fund is the Government's largest investment fund. It is modelled based on the Government's current investment mandate. This states that the benchmark annual average return is equal to at least CPI plus 4 to 5 per cent per year.

In 2024, the Government postponed drawdowns from the fund until at least 2032–33 to support its role in covering unfunded superannuation liabilities.² By 2032–33, the Future Fund is expected to grow to around \$415.2 billion.

Modelling assumes that the holdings of the Future Fund are allocated between two financial asset classes: investment, loans and placements (cash and other liquid assets such as interest-bearing investments) and equity holdings.

Interest and dividend receipts less management expenses make the Future Fund grow below the mandate. To ensure the Future Fund model achieves its mandate, capital gains act as a balancing factor.

Higher Education Loan Program (HELP)

HELP projections depend on a microsimulation model of incomes and repayment parameters. The Department of Education's forward estimates are the base for the long-term projection. Key inputs are data on the income and transactions of HELP debtors provided by the Australian Taxation Office alongside demographic variables.

The model simulates future incomes for each individual with an outstanding HELP debt. Future repayments against the outstanding debt, as well as debt that is not expected to be repaid, can then be estimated. The repayment pattern generated by the model for debt incurred in the most recent financial year is applied to debt expected to be incurred in future years.

Around 14 per cent of new debt is not expected to be repaid, reflecting the income contingent nature of the loans. This is around 2 percentage points higher than at the 2023 IGR, reflecting the 2024–25 HELP reforms which increased repayment thresholds and reduced repayment amounts. This increase is partly offset by the 20 per cent reduction in HELP balances.

Government Employee Superannuation

The Government's employee superannuation liability arises from government defined benefit superannuation schemes. Projections of the unfunded defined benefit liability and the associated Australian Government cash outlays rely on actuarial valuations, demographic and economic assumptions.

The four major Australian Government defined benefit superannuation schemes are closed to new members. This includes the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme.

Australian Defence Force Cover remains open to new members and is projected to continue to grow while the liability associated with the four major defined benefit superannuation schemes declines over time.

A3.6 Energy transition and climate change modelling

This section explains key concepts, methodological approaches and assumptions underpinning the climate change-related analyses referenced in Chapter 3. It also provides further details on modelling results and limitations.

Household energy costs

The illustrative effect of investment choices on household energy expenditure for hypothetical households is assessed using Treasury’s Australian Lifecycle Energy Expenditure (ALEX) model.

ALEX calculates energy expenditure of representative households. ALEX draws on a range of information including appliance energy consumption, household consumption behaviour and appliance costs obtained from external sources and Treasury analysis developed for the Net Zero Plan.

The hypothetical household in ALEX can be set to purchase electric or gas appliances, install solar panels and home batteries, and purchase either electric vehicles or internal combustion engine vehicles. The model then estimates the capital and financing costs, ongoing energy costs, and emissions for a given period (typically 2030 to 2050).

Physical impacts of climate change on the economy

This section details scenarios and methodology used to estimate the physical impacts of climate change on the economy in Chapter 3.

Global climate scenarios

Global climate scenarios are a basis for modelling and analysing how countries, sectors and regions may be affected by climate change and the net zero transition. These scenarios provide an indication of the range of plausible outcomes for emissions, global temperatures, and regional climate conditions. They should not be considered forecasts of future outcomes.

Analysis in Chapter 3 uses two scenarios based on internationally standard emissions pathways from the Intergovernmental Panel on Climate Change (IPCC) (Table A3.2) to analyse the plausible range of emissions, global temperature, and climate outcomes. These range from outcomes broadly consistent with the Paris Agreement to those consistent with no further changes to current policy settings. The two scenarios were chosen after consultation with experts and review of the available data.

Table A3.2 Global climate scenarios

Scenario	Description
Paris-aligned	This scenario is based on the IPCC SSP1-2.6 emissions pathway. SSP1-2.6 is a scenario with rapid reductions in greenhouse gas emissions, leading to net-zero CO ₂ emissions in the second half of the century, and limiting global warming to around 2°C or less by 2100. SSP1-2.6 includes a lower bound limit of approximately 1.5°C, and therefore spans a range of Paris Agreement consistent outcomes. This scenario is consistent with the global scenario used in <i>Australia's Net Zero Transformation: Treasury Modelling and Analysis</i> .
Exceeding 3°C	This scenario is based on the IPCC SSP3-7.0 emissions pathway. SSP3-7.0 is a high-emissions scenario with slow technological progress in clean energy, reliance on fossil fuels, and relatively high greenhouse gas emissions. SSP3-7.0 encompasses a range of warming outcomes that includes an upper bound limit of more than 4°C by 2100. SSP3-7.0 is based on continuing increases in global emissions throughout the century and is useful for considering a high-emission future.

Source: Treasury.

There is considerable uncertainty around the impact of emissions scenarios on the climate. The two scenarios considered each have a range of plausible climate outcomes, and this contributes to a range of possible impacts on the economy. Future climate changes and their impact on the economy also have significant uncertainty due to outcomes that go beyond the range expected from standard projections, including 'high impact, low likelihood' outcomes (Box A3.1).

Box A3.1 Acknowledging the full range of possible future climates

Analysis in this Intergenerational Report considers two standard future emissions scenarios and likely climate responses, drawing on projections from the Australian Climate Service and other authoritative sources.

However, there are plausible alternative futures and outcomes outside even these standard projections. Research by the National Environmental Science Program Climate Systems Hub and the Australian Climate Service is helping to build our understanding of these ‘uncharted climate futures’ and the potential impacts on Australia.

These include futures arising from future greenhouse gas concentration pathways affected by strong carbon cycle feedbacks, or large-scale CO₂ removal. They also include futures arising from climate responses to greenhouse gases, such as changes to ocean and atmosphere circulations, that are currently challenging to model.³

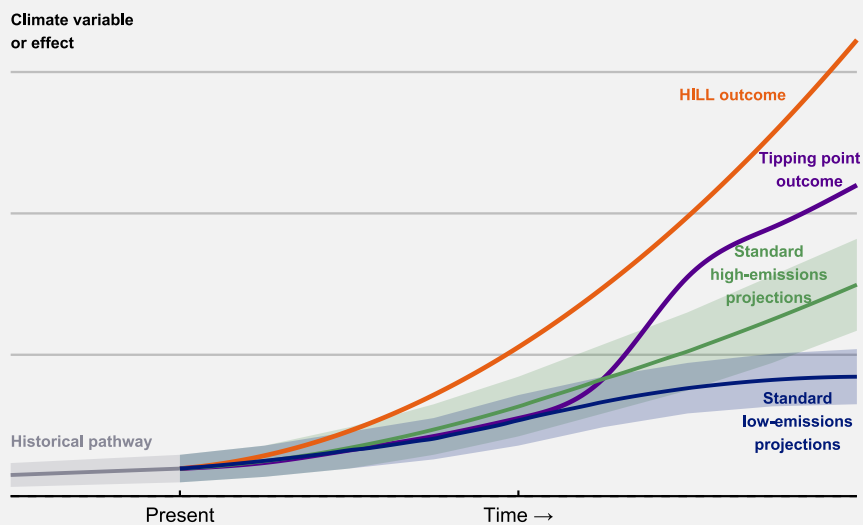
Of particular relevance to managing risk is the chance of ‘high impact, low likelihood’ events and outcomes. These include feedback loops that cause global temperature increases and other changes beyond the range expected from standard projections. The probability of these eventuating is greater for higher emissions of greenhouse gases. Higher emissions also increase the chance of triggering global climate tipping points, with abrupt and largely irreversible impacts. This includes the accelerated loss of ice from large ice sheets, causing faster-than-expected sea level rise. Ocean circulation patterns could also be affected by changes in global temperatures, with potentially significant consequences for global weather patterns.⁴

While many of these outcomes are considered unlikely (or have unknown likelihood), they cannot be ignored. Their probability generally increases under higher emissions scenarios, so global action to reduce emissions minimises the risk of these outcomes occurring.

continued on next page

Box A3.1 Acknowledging the full range of possible future climates (continued)

Figure A3.2 Two pathways to high impact outcomes



Note: Idealised trajectories of a climate variable under standard low-emissions and high-emissions projections, with hypothetical overlays of possible high impact low likelihood (HILL) cases, including those from triggering global climate tipping points.

Source: Australian Climate Service Exploring a comprehensive range of possible future climates; and Changing views on very high and very low emissions scenarios.

Modelling the economic impacts of selected physical climate damages

Treasury has used bottom-up estimates to allow robust and detailed analysis including by industry. Variations of the bottom-up approach have been applied in Australia by the New South Wales Treasury, Deloitte, Kompas et al and McKibbin et al, among others.⁵

This IGR expands analysis from the 2023 IGR to include sea level rise and storm inundation drawing on modelling by Professor Tom Kompas.⁶ It improves or maintains the methodology for all other physical climate damage channels examined in the 2023 IGR, including through collaboration with the Australian Climate Service.

Disaster Recovery Funding Arrangements (DRFA)

This IGR projects future Australian Government expenditure under the Disaster Recovery Funding Arrangements (DRFA) by applying changes in natural hazard risk and exposure, to historical average DRFA expenditure. The approach is broadly consistent with the 2023 IGR, but uses updated expenditure data, hazard risk inputs, and climate scenarios.

The methodology is represented as:

$$F_T = \sum_{i=1}^N (D_i \times \Delta H_{i,T} \times \alpha_T)$$

where F_T is the expected fiscal costs of the DRFA in year T , D is the historic average DRFA expenditure for hazard category i , H refers to a specific natural hazard risk and α is the exposure risk factor.

The analysis covers bushfire, tropical cyclone and flood. Historical average expenditure is calculated using DRFA expenditure data from 2018–19 to 2024–25 for each included hazard. Exposure is estimated using Treasury’s annual long-term real GDP projections, which provide a proxy for the increasing stock of assets at risk by capturing changes in population and economic activity. Actual exposure will also depend on factors outside the scope of the analysis, including land use planning and building standards.

Treasury received projected DRFA expenditure from the National Emergency Management Agency, which administers the DRFA. The estimates represent expected Australian Government DRFA expenditure only.

The projections are expected costs, not actual costs or funding commitments. Actual expenditure may differ substantially because natural disasters are volatile and difficult to predict. The modelling also does not account for DRFA funding thresholds, which may affect the Australian Government’s share of eligible state and territory expenditure. Historical expenditure data may understate costs from low-frequency, high-severity hazards, such as earthquakes and cyclones.

A3.7 Other models and data

Lifetime fiscal impact, as estimated using the FIONA model

Treasury uses the Fiscal Impact of New Australians (FIONA) model to estimate the average fiscal impact by age in 2023–24, shown in Chapter 6, Chart 6.6. FIONA is a demographic cohort model that estimates the lifetime fiscal impact of permanent migrants and the Australian population.⁷ This IGR incorporates recent data on the 2023–24 permanent migrant cohort and reflects changes in Australia’s economic and fiscal projections and migration policy settings.

FIONA captures key Commonwealth, State and Territory Government revenue and expenditure types that can be attributed to individuals (Table A3.3). The results do not include all revenue sources (such as company income tax and the sale of goods and services) or expenses (such as defence and costs related to the justice system) or fiscal impacts at the local government level.

Table A3.3 Government revenue and expenses modelled in FIONA

	Commonwealth	State and territory
Revenue	Excise (fuel, alcohol, tobacco) Personal income tax Visa application charge (VAC)	GST Land tax Stamp duty Motor vehicle taxes Payroll tax
Expenses	Aged care Education Health NDIS Infrastructure Transfers (including Age Pension and child care subsidies) Settlement services	Education Health Infrastructure NDIS

Source: Treasury.

Box A3.2 Limitations around First Nations' data

Aboriginal and Torres Strait Islander population estimates and projections are underpinned by Census data, as well as registered births and deaths. Changes over time, including differences in data collection practices across jurisdictions and periodic updates to population estimates, can affect measured population size and structure. Infrequent data collections and delays between data collection and release can also reduce the usefulness of some indicators for analysis and monitoring. As a result, some population series are not directly comparable over time and short-term changes should be interpreted with caution.

Differences observed across remoteness categories may reflect variation in service availability, access or delivery models, rather than differences in underlying population characteristics alone. This can complicate comparisons of outcomes between remote, regional and metropolitan areas, particularly where services are delivered through different systems. Smaller population sizes, especially in remote areas, can also increase sampling errors and limit the ability to produce detailed breakdowns or detect changes in trends over time.

In addition, some key datasets do not consistently identify Aboriginal and Torres Strait Islander peoples, including administrative data such as births or deaths. Data availability also varies across policy domains, with more regular and consistent data for some areas (such as health and population) than for others (such as economic participation or wellbeing). Limited coverage of linked datasets further constrains the ability to analyse data patterns and outcomes.

Ongoing efforts in First Nations data governance and capability, including through the Data Policy Partnership under the National Agreement on Closing the Gap, aim to improve data quality, availability and use over time, supporting more informed analysis and decision-making.

Information involving Aboriginal and Torres Strait Islander peoples should therefore be interpreted with an understanding of these limitations and reported with appropriate care, particularly when drawing comparisons across time, regions or policy areas.

Endnotes

- 1 Centre for Population (CPOP) (Commonwealth of Australia), '2025 Population Statement Technical Appendix,' *CPOP* (9 Jan. 2026), <https://population.gov.au/sites/population.gov.au/files/2026-01/population-statement-2025-tech-appendix.pdf>, accessed 3 July 2026.
- 2 Chalmers MP, J., & Gallagher MP, K., 'Future of the Future Fund', [media release] (21 Nov. 2024), <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/future-future-fund>, accessed 1 Sep. 2026.
- 3 Australian Climate Service, 'Exploring a Comprehensive Range of Possible Future Climates', *Australian Climate Service* (2026), <https://www.acs.gov.au/documents/1277960dbfed4b27978eefea9a0a7a9e/about>, accessed 4 Sep. 2026.
- 4 Australian Climate Service, 'Changing Views on Very High and Very Low Emissions Scenarios', *Australian Climate Service* (2026), <https://www.acs.gov.au/documents/793b99814554455394969c5ff5cad73a/about>, accessed 4 Sep. 2026.
- 5 Treasury (New South Wales Government) '2021-22 NSW Intergenerational Report,' *Treasury* (2021), <https://www.treasury.nsw.gov.au/nsw-economy/2021-22-nsw-intergenerational-report>, accessed 8 Aug. 2023; Deloitte Access Economics, 'Counting the Costs: Economic Impacts on the NSW Economy from Climate Change', *Net Zero Commission NSW* (Jan. 2026), <https://www.netzerocommission.nsw.gov.au/sites/default/files/2026-06/NZC-EconomicCost-Deloitte-Report.pdf>, accessed 2 July 2026; Kompas, T., Pham, V. H., & Che, T. N., 'The Effects of Climate Change on GDP by Country and the Global Economic Gains From Complying With the Paris Climate Accord', *Earth's Future*, 6/8, (July 2018), 1153–1173, DOI:10.1029/2018EF000922; Fernando, R., Liu, W., & McKibbin, W.J., 'Global Economic Impacts of Climate Shocks, Climate Policy and Changes in Climate Risk Assessment', *Crawford School of Public Policy*, https://crawford.anu.edu.au/sites/default/files/2025-06/37_2021_Fernando_Liu_McKibbin%2800%29.pdf, accessed 3 July 2026.
- 6 Kompas, T., Che, T. N., & Grafton, R. Q., 'Nationwide economic impacts of sea level rise and storm surge from global warming in Australia,' *Scientific Reports*, 16/27235 (9 Sep. 2026), <https://doi.org/10.1038/s41598-026-67957-1>.
- 7 Varela, P et al., 'The lifetime fiscal impact of the Australian permanent migration program,' *Treasury* (Dec. 2021), <https://treasury.gov.au/publication/p2021-220773>, accessed 1 Sep. 2026.

A4 Sensitivity of projections to economic and demographic assumptions

Long-term projections necessitate judgements and technical assumptions. Sensitivity analysis assesses the uncertainty inherent in these projections by considering alternative assumptions. The analysis in this appendix illustrates the impact of small changes in assumptions on economic and fiscal projections.

The following sensitivity analyses are considered:

- higher and lower population projections (Box 8.1)
- higher and lower trend participation rate (Box 9.1), and
- higher and lower trend productivity growth (Box 10.1).

Part III of this Report also includes several other scenarios exploring how alternative outcomes could impact the fiscal position:

- higher and lower aggregate spending (Box 12.1)
- higher and lower tax assumption (Box 13.2), and
- higher and lower Government bond yields (Box 11.3).

Table A4.1 Assumptions underlying sensitivity analyses

	Baseline	Lower	Higher
Population			
Long-run annual net migration (no. of people per year)	235,000	185,000	285,000
Long-run total fertility rate (babies per woman)	1.34	1.24	1.44
Participation			
Labour force participation rate (15+) (%)	64.7	62.7	66.7
Productivity			
Labour productivity growth (%)	1.2	0.8	1.6

Source: Treasury

Table A4.2 Sensitivity analyses results

	Baseline		Population		Participation		Productivity	
	2025–26	2065–66	Higher 2065–66	Lower 2065–66	Higher 2065–66	Lower 2065–66	Higher 2065–66	Lower 2065–66
Economic								
Real GDP growth (%)	2.3	1.6	1.8	1.3	1.7	1.5	2.0	1.2
Real GDP per person growth (%)	0.9	1.0	1.1	0.9	1.1	0.9	1.4	0.6
Real GDP per person (\$)	99,200	157,300	157,400	156,900	162,100	152,500	181,000	136,600
Real GNI per capita (\$)	96,500	149,500	149,600	149,100	154,100	144,900	172,000	129,800
Labour force participation (%)	66.8	64.7	65.6	63.8	66.7	62.7	64.7	64.7
Labour force size (millions)	15.3	21.9	23.6	20.3	22.6	21.3	21.9	21.9
Old-age dependency ratio	27.4	40.2	37.8	43	40.2	40.2	40.2	40.2
Spending (% of GDP)								
Aged care	1.5	2.3	2.2	2.5	2.2	2.4	2.0	2.6
Age and Service Pensions	2.3	1.8	1.7	1.9	1.7	1.9	1.9	1.8
Education	1.7	1.1	1.2	1.1	1.1	1.2	1.1	1.2
Health	4.0	6.2	6.1	6.4	6.1	6.4	5.5	7.1
NDIS (Commonwealth)	1.3	1.5	1.4	1.6	1.4	1.5	1.4	1.5
Payments to individuals	3.4	2.6	2.6	2.5	2.5	2.6	2.4	2.7
<i>Total payments</i>	26.6	27.7	27.1	28.3	26.9	28.5	25.4	30.1
Fiscal projections (% of GDP)								
Underlying cash balance	-1.0	-1.8	-1.3	-2.4	-1.0	-2.6	0.5	-4.2
Primary cash balance	-0.4	-0.9	-0.5	-1.3	-0.4	-1.3	0.4	-2.4
Gross debt	33.1	27.4	22.9	32.2	19.0	35.7	2.4	55.9

Note: 2025–26 economic projections are as at the 2026–27 Budget. Growth rates are percentage change on preceding year.

Source: Treasury.

A5 2026 Intergenerational Report consultation

Treasury consulted a wide range of stakeholders to inform development of the 2026 Intergenerational Report (IGR). Treasury would like to thank all stakeholders who took the time to review or discuss the IGR. This feedback has shaped the 2026 IGR and will inform preparation of future intergenerational reports.

Stakeholders are listed in Table A5.1.

Table A5.1 Stakeholders consulted

Stakeholders
Academy of the Social Sciences
Actuaries Institute
Attorney-General's Department
Australian Banking Association
Australian Bureau of Statistics
Australian Chamber of Commerce and Industry
Australian Climate Service
Australian Council of Social Services
Australian Council of Trade Unions
Australian Government Actuary
Australian Industry Group
Australian Institute of Family Studies
Australian Institute of Health and Welfare
Australian Office of Financial Management
Australian Population Association
Bureau of Meteorology
Business Council of Australia
Centre for Population Ageing Research (University of New South Wales)
Commonwealth Scientific and Industrial Research Organisation
Council of Small Business Organisations Australia
Crawford School of Public Policy (Australian National University)
Deloitte Access Economics
Department of Agriculture, Fisheries and Forestry
Department of Climate Change, Energy, the Environment and Water
Department of Defence

Table A5.1 Stakeholders consulted (continued)

Stakeholders
Department of Education
Department of Employment and Workplace Relations
Department of Finance
Department of Foreign Affairs and Trade
Department of Health, Disability and Ageing
Department of Home Affairs
Department of Industry, Science and Resources
Department of Infrastructure, Transport, Regional Development, Communications, Sport and the Arts
Department of Social Services
Department of the Prime Minister and Cabinet
Department of Veterans' Affairs
e61 Institute
EmPr Peter McDonald AO FASSA (Australian National University)
Grattan Institute
Intergenerational Fairness Coalition
National Disability Insurance Agency
National Emergency Management Agency
National Security College (Australian National University)
New South Wales Treasury
New Zealand Treasury
Nigel Ray PSM
Office of National Intelligence
Productivity Commission
Professor Tom Kompas (University of Melbourne)
Queensland Centre for Population Research (University of Queensland)
Queensland Productivity Commission
Reserve Bank of Australia
School of Demography (Australian National University)
School of Regulation and Global Governance (Australian National University)
School of Social & Political Sciences (University of Sydney)
Services Australia
Source: Treasury

