

## Summary

- Australia's Budget was handed down on 25 October with a key focus on fiscal restraint. It acknowledges the global economic situation and pressures facing Australia, particularly from inflation. It also warns of the risk of further downturn in Australia with uncertain commodity export prices and spiralling debt servicing costs, and it resists calls for cash handouts to address cost-of-living pressures facing households.
- But the Budget does seek to implement Labor's key election commitments with measures to address **climate change** including the transition of Australia's **energy** sector to be cleaner, cheaper and with more renewables. It also looks to address **skills shortages** and **women in employment** across key sectors through immigration, skills development, and getting more parents back to work through measures such as higher child care subsidies. More **affordable housing** was another signature policy addressed through a number of initiatives including the build of 40,000 new homes and a new Housing Accord struck with state governments, superfund investors and the construction industry to build one million homes over five years beginning in 2024.
- \$900 million will deliver Labor's election commitment to increase **overseas development** and investment in the Pacific and Timor Leste, including through regional security, and growing temporary and permanent migration pathways to Australia. \$450 million in aid will go to South East Asia. \$134 million will be delivered for **biosecurity** measures to protect against biosecurity incursions such as foot and mouth disease plaguing its neighbour, Indonesia.
- The Budget acknowledges Australia's structural deficit "as far as the eye can see" that the Government avoided compounding in this Budget, but will be reviewing options to tackle this issue in future Budgets. Already the Government is laying the groundwork for the "hard conversations" to come, ahead of the next budget in May.

## Report

On Tuesday 25 October, Treasurer Jim Chalmers handed down Australia's federal Budget that laid bare the challenges confronting the nation's economy and the Government's balance sheet. The key message to the people of Australia was the imperative for fiscal restraint and budget repair owing to pressures resulting from a weaker global economic outlook, persistent inflation, rising interest rates, and a structural deficit "as far as the eye can see". Avoiding adding to inflation also meant not providing handouts the public have come to expect during difficult years past.

Just seven months have passed since the last Budget was delivered by the former Morrison Government. That pre-election budget included an \$8.6 billion cost-of-living package that halved fuel excise tax, gave 10 million low and middle-income earners a one-off bonus tax rebate of \$420 and provided six million pensioners and welfare recipients with \$250 cheques. But plenty has changed, including the Government. This was the first Labor Budget in nine years and the Albanese Government's opportunity to fund its election promises.

The Treasurer highlighted three core priorities for his inaugural budget:

- To provide some cost-of-living relief that provides an economic dividend;
  - To cut back on wasteful spending; and
  - To shore up the economy by addressing labour shortages and supply chain issues.
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## A “blunt and brutal” economic landscape

Revised economic forecasts were a key component of Tuesday’s Budget – and the narrative that sits behind decisions on spending and spending cuts.

(In percentage terms)	2021-22 (outcome)	2022-23 (forecast)	2023-24	2024-25	2025-26
Real GDP growth	3.9	3 ¼	1 ½	2 ¼	2 ½
Consumer price index (CPI)	6.1	5 ¾	3 ½	2 ½	2 ½
Wage price index	2.6	3 ¾	3 ¾	3 ¼	3 ½
Employment	3.3	1 ¾	¾	1	1 ¼
Unemployment rate	3.8	3 ¾	3 ¾	3 ¼	3 ½
Nominal GDP	11	8	-1	4 ¼	5
Gross debt to GDP	39	37.3	40.8	42.5	43.1

*Note: Real GDP and Nominal GDP are percentage change on the preceding year. The CPI, employment, and WPI are through the year growth to the June Quarter. The unemployment rate is the rate for the June quarter.*

The forecast for **real GDP growth** was revised down as protracted inflation and higher borrowing costs begin to weigh in on consumer spending, and as major overseas economies contract. GDP growth projections for 2022-23 fell from 3.5 percent forecast in April, to 3.25 percent; and from 2.5 percent to just 1.5 percent for 2023-24.

Australia is currently experiencing its highest **inflation** rate in 32 years – and it will get worse before it gets better with the Treasurer confirming “inflation will be higher, for longer”. Annual inflation for the 2022-23 year will nearly double from an average of 3.0 percent expected back in March to 5.75 percent, and next year’s inflation figures, though lower, will also be revised up from 2.75 percent to 3.5 percent. Inflation is still expected to peak in the December quarter at 7.75 percent, as forecast by the Reserve Bank of Australia, but officials now predict Australia’s cost of living squeeze will be more protracted, largely due to high energy costs. On Wednesday, just after the Budget, the September quarter Consumer Price Index rate was revealed – it had risen to an annual rate of 7.3 percent following a spike in electricity prices. This was up from 6.1 in the June quarter and higher than most economists had predicted.

Recovery from Australia’s latest **devastating floods** is also expected to cost billions and it is feared the heavy impact on agricultural production will only increase grocery prices further.

Australia has experienced **interest rate hikes** for the past six consecutive months, rising from a record low of 0.1 percent in May to 2.6 percent today (and expected to rise further). Last week it was revealed the Reserve Bank of Australia (RBA) has predicted house and unit **property prices would plunge** 11 percent by the middle of next year and up to 20 percent by 2024, wiping out all gains made in the 2021 boom. The same RBA report predicts Sydney and Melbourne property prices could drop by 1.5 percent every month over the coming months. National Australia Bank predict a brutal hit over 2022 and 2023 to house prices across most Australian capital cities, with an overall drop over the two years of 23 percent in some states.

Australia’s **unemployment** rate remained in October on 3.5 percent but is forecast by Treasury to rise to 4.5 percent by next year. Participation rates have so far continued at around 66.6 percent according to figures released by the Australian Bureau of Statistics last week. Meanwhile, despite high inflation and a tight labour market impacting for some time, just-released figures for **wages growth** (which has been sluggish for years in Australia) for the year to June 2022 show growth at 2.6 percent. While this is the highest annual wage growth rate since September 2014, it remains well below inflation.

**National debt** (gross) is sitting at “nearly \$1 trillion” (over \$892 billion), or around 40 percent of GDP. The Treasurer highlighted that with rising interest rates, the cost of servicing government debt is rising, with payments growing at 14.4 percent annually. This represents Australia’s largest spending pressure. Though debt high for Australia, this is well below the OECD average. Net debt is lower than previously expected and currently sits at 22.5 percent.

**Headline spending pressures** on the Budget were (i) interest payments on government debt which are growing at 14.4% annually, followed by (ii) spending on Australia's National Disability Insurance Scheme which is increasing by 13.8% per annum, and (iii) hospital spending, rising by 6.5% each year.

### **The impact of overseas economies**

Following the G20 Finance Ministers meeting in Washington in October, the Australian Treasurer returned to **downgrade international growth forecasts** for key major economies. Treasury's forecast for China shifted from April's forecast of 5.25 percent down to 4.5 percent; the US from 2.5 to 1.0 percent; the UK from 2.0 to 0.25 percent; and the Eurozone from 2.25 to 0.5 percent.

Australia's economy is especially reliant on sales of key commodities, particularly iron ore, to China. On average, 35-40 percent of Australia's total exports go to China. As China's economy continues to slow, this is expected to play into Australia's export profits and associated tax revenue.

### **Revenues and savings look good...**

Record high commodity prices boosted the value of Australia's **mineral exports** (including coal, gas, and iron ore) and delivered a large tax revenue windfall. This, coupled with high employment and some lower than expected payments more than halved this year's projected **budget deficit to \$36.9 billion**. While this was a flicker of positive news in an otherwise gloomy narrative, the Government warned Australia cannot rely on continued high export prices given global demand for Australia's commodities is anticipated to drop. But economists have pointed out that the Government's modelling is based on very conservative commodity prices that are well below market expectations.

The Government also identified \$28.5 billion in budget improvements over four years. This included \$22 billion in spending cuts, reductions or reprioritisations, \$3.7 billion from boosting tax compliance measures, and nearly \$1 billion from action to ensure multinationals pay their tax by clamping down on excessive deductions, profit-sharing and closing loopholes on the use of intangibles and intellectual property.

### **...but the windfalls will be used to pay down debt.**

The Budget revealed the Government's decision not to utilise any of the revenue windfall to cushion rising cost-of-living pressures. Over the next two years, 99 percent of the revenue upgrade will be used to begin the task of budget repair by paying down some of the nearly \$1 trillion in debt to lower interest servicing costs. The Treasurer highlighted this was particularly necessary to ensure fiscal policy did not add to inflationary pressures.

### **There's little to be seen of handouts in this Budget...**

Treasurer Chalmers reiterated the Government's need to ensure that any cost-of-living relief provided doesn't fuel inflation and has an economic dividend. As a result there was no direct cost-of-living support payments for households.

The Budget did however include a \$32.8 billion **increase to social security payments** over the next four years. This increase is mostly the result of inflation on which the payments are pegged. These include higher age pension payments, Jobseeker payments, increased family assistance, and support for carers and people with a disability. This is the largest indexed increase to allowances in more than 30 years and pensions in over 12 years. The criteria for such payments appears unaltered, so any New Zealanders receiving these payments, will also receive the increase.

The Budget also included **disaster assistance** payments at a cost of \$3 billion for victims of the recent devastating floods across multiple states, and a further \$200 million a year has been allocated for disaster prevention and resilience through the Disaster Ready Fund.

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## ...but the Government's commitments aim to assist with the cost-of-living.

As anticipated, the Budget largely focuses on implementing Labor's election commitments. A number of these commitments were crafted into what the Treasurer described as a "Five-point plan for cost-of-living relief".

**(1) Cheaper childcare:** Reducing the cost of childcare by increasing the existing Child Care Subsidy rates, was one of Labor's hallmark pledges going into the election. The aim is to support greater workforce participation, particularly for women, by benefiting all families with a total income under \$530,000. Chalmers highlighted this spend would provide an economic dividend by addressing workforce shortages and more employment, referring to a statistic that last year 73,000 people who wanted to work didn't because they couldn't make the childcare costs work. The policy, which will cost \$4.6 billion over the forward estimates, is expected to help an estimated 37,000 full-time workers return to the workforce. ([Media release](#)). **Women's workforce participation** and representation in leadership positions will also benefit from \$15.8 billion in funding towards [six projects](#), to directly benefit 5,000 women nationwide.

**(2) More parental Leave:** Government paid parental leave will be increased from 20 to 26 weeks. The increase will be gradual, with the addition of one fortnight each year from July 2024 until it reaches 26 weeks in July 2026. This will amount to an additional \$6499 per household. The leave will become more flexible, so it can be shared more equitably between parents regardless of gender or taken in total by a single parent. ([More information available here](#))

**(3) Cheaper medicines:** Labor's signature health announcement is the lowering of prescription costs for publicly funded medicines from \$42.50 to \$30. This is anticipated to cost the Government around \$200 million annually and was implemented through legislation this week ([media release](#)).

**(4) More affordable Housing:** The Government will deliver 40,000 new social and affordable homes, including 30,000 from the Housing Australia Future Fund and an additional 10,000 dwellings in a new Housing Accord struck between federal and state governments, investors (including the big super funds) and construction industry announced in the Budget. Under the Housing Accord, parties committed to an aspiration to build one million well located, but affordable, homes over five years from 2024 when capacity constraints are expected to ease. Funding will largely come from industry but innovative financing arrangements will help facilitate cost-effective investment, including by the large super funds. ([media release](#))

**(5) Getting wages moving again:** In June the Government made a submission to the Fair Work Commission supporting increases to the minimum wage. The Fair Work Commission gave a 5.2 percent wage increase to minimum wage and award workers, affecting around 2.7 million workers, mostly women. It is also making collective and multi-bargaining easier, introducing changes to improve job security by limiting the use of fixed term contracts and is improving claims procedures to protect wages ([media release](#)).

## Cheaper, cleaner energy and acting on climate change...

As part of the Albanese Government's commitment to addressing climate change and transforming the energy sector towards the use of cleaner, cheaper and more secure energy, a number of initiatives were included in the Budget.

The most significant energy commitment is the Government's \$20 billion investment to "Rewiring the Nation", which commits to modernising the electricity grid so more renewable power generation can enter it. As a first step the Government has announced its support for deals with Victoria for offshore windfarms and to accelerate construction of the long awaited \$3.5 billion Marinus Link sub-sea electricity cable to connect Tasmania and Victoria. The cable will allow the transmission of renewable energy from Tasmania to Victoria cutting an estimated 140 million tonnes, at least, of Co2 to 2050 while providing cheaper, more reliable energy ([Media release](#)).

To support transition in regions reliant on high-carbon industry (e.g. areas where coal fired power plants are situated), \$1.9 billion has been dedicated to support the **transition of regional industries** to net zero while harnessing the economic opportunities from decarbonisation.

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Under the Government's Powering Australia Plan, the Government has committed over \$800 million to:

- Cut import tariffs and fringe benefit tax on **electric vehicles** to encourage uptake (separately, the federal Government will also ensure its fleet purchases and leases will be 75 percent electric by 2025 to contribute to a market for second-hand EVs);
- Build a **national EV charging network** and **hydrogen refuelling stations** on highways.
- Provide community **solar battery storage** across Australia for up to 100,000 homes that have existing solar panels but no storage; and to enable renters and apartment owners to utilise this cheaper stored solar energy.

**...cannot come soon enough for the electricity crisis Australia is already facing**

Electricity and gas prices have increased sharply and will continue to do so over the next 18 months. Australia is a gas exporter and prices have been impacted by the war in Ukraine. In turn, the gas prices affect electricity prices. Electricity set to increase by 56 percent and gas by 44 percent. By Christmas this year, electricity prices will have increased by 20 percent. At a time when grocery, rent and mortgage costs continue to rise, this is expected to hit households and businesses. There was no provision in the Budget to alleviate these increases but the Prime Minister has since confirmed the Government will consider the possibility of regulatory intervention in the electricity and gas markets and is looking at options.

### **Addressing skills shortages**

Australia, like New Zealand, is experiencing a shortfall of certain skilled workers following the pandemic and limited immigration. Unemployment levels remain very low. Recognising this issue, the Budget includes funding to establish a consultative independent body, *Jobs and Skills Australia*, to strengthen workforce planning and combat skills shortages.

In addition, the Government has made the following commitments to address worker shortages:

- Increasing the cap on permanent migration visas from 160,000 to 195,000 places in 2022-23.
- Providing an additional \$42.2 million to accelerate visa processing, clear the backlog (including for submitted *Skilled Independent visa – New Zealand* applications which are to be given priority), and raise awareness of opportunities for high skilled migrants.
- Extend the relaxation of work restrictions for student visa holders until 30 June 2023.
- Add 500 places in 2022-23 to the aged care training pathway for Pacific Australia Labour Mobility scheme participants.
- Support return to the workforce through more supportive childcare policies (as above)
- Federal and state governments have together agreed to deliver in 2023, 180,000 fee-free TAFE and community based vocational education places (\$1 billion in 2023 collectively).
- The Government will deliver 20,000 additional university places across 2022-23 to support under-represented groups attend university in areas of skills shortages such as nursing, teaching, engineering, and technology.
- A range of apprenticeships, particularly in clean energy and digital/tech are also included.

### **Other areas of interest**

#### Foreign Affairs/ Overseas Development

- A \$900 million overseas development package will build on Labor's elections commitments to invest in regional security, increase the overall development envelope and grow temporary and permanent migration pathways for Pacific and Timor Leste. The Department of Foreign Affairs and Trade (DFAT) package reflects the Government's intention to meaningfully deepen Australia's relationships in the Pacific and South East Asia regions.
  - A \$470 million overseas development package for Southeast Asia.
  - Funding has also been allocated to prioritise processing the "on hand" applications of 11,700 New Zealanders who have applied to become Australian Permanent Residents through the Skilled Independent Visa–New Zealand stream. Further details have been reported in CBA's FM of 26 Oct.
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## Trade

- Establishment of a *Future Made in Australia Office* and a commitment to a 10-point plan *Buy Australian Plan* to support Australian businesses to compete more effectively, increase employment and build resilience in supply chains.
- Up to \$100 million for Australia's participation in the World Expo 2025 hosted in Osaka, Japan.
- \$19.6 million for initiatives to implement the Singapore-Australia Green Economy Agreement signed on 18 October.
- \$4 million for DFAT to support Australia's trade diversification.
- \$49.5 million over 4 years for Diesel Exhaust Fluid. Of which, \$45 million to secure a stockpile of 5 weeks of emergency supply of technical grade urea and to create a grant program for small-scale manufacturing projects and \$4.6 million for an online data collection and reporting mechanism.
- Establishing a Jet Zero style council to inform the development of policy settings to encourage emissions reduction in the aviation industry.

## Agriculture and forestry

- **Biosecurity:** \$134 million to bolster biosecurity, including \$75.6 million for Australia's border biosecurity systems, \$11.7m for more detector dogs to intercept biosecurity threats in mail, cargo and air, and \$46.7 million for livestock traceability systems and promote on-farm biosecurity.
- **Agriculture emissions:** An additional \$5 million has been provided for R&D to reduce methane emissions in livestock through feed supplements for grazing animals ([Media release](#)).
- **Forestry:** A \$204.8 million investment to improve the global competitiveness of Australia's forestry industry. This includes \$100 million to fund a *National Institute for Forest Products and Innovation* to increase Australia's long term supply of wood and wood products.

## Defence and Security

- Defence spending will increase by 8 percent in 2022-23 and rise to more than 2 percent of GDP over the forward estimates. There were no new significant spending announcements in the Budget.
- \$31.3 million was committed to extend the Australian Public Service cyber hubs pilot to harden cyber defences of Government agencies.

## Infrastructure and Industry

- An investment pipeline of more than \$120 billion in transport infrastructure over the next decade. This includes \$9.6 billion over the next four years towards election commitments for **road, rail and electric bus** network projects across Australia.
- Improving Australia's **National Broadband Network** (NBN) was also a key election commitment, and the Government has announce a \$2.4 billion equity investment over four years to deliver 1.5 million premises with full-fibre access by 2025. ([Media release](#))
- The \$15 billion **National Reconstruction Fund** will help finance projects that expand Australia's industrial base, diversify its economy, and creates jobs in the following sectors: clean energy manufacturing, medical manufacturing, new technologies, agriculture, and critical minerals.

## Indigenous Australians

- \$75.1 million to prepare for delivery of a referendum to enshrine a First Nations Voice to Parliament in the Constitution.
- \$5.8 million to commence work on establishing an independent Makarrata Commission.
- \$314.8 million to support the Government's commitment to closing the gap for First Nations peoples' health and well-being, housing, infrastructure and justice outcomes.
- An initial \$9.4 million to trial a new indigenous jobs programme.

## Health

- **COVID-19 response measures** will be extended by a further three months until 31 December 2022 at a cost of \$1.4 billion. This includes \$35 million for PCR testing, \$115 million for rapid antigen tests and \$235 million for
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PPE.

- Video **telehealth psychiatry consultations** will be reinstated for rural and regional areas through a \$47 million investment.
- \$39 million will go towards **medical research** grants for brain cancer and for 41 projects relating to heart disease and strokes, while \$700,000 will go to research investigating the impact of endometriosis.

Within the Defence budget lines, \$0.1 million in 2022–23 has been allocated to fund research into the history of soccer matches between Australia and New Zealand that were held between 1923 and 1954 (the Soccer Ashes).

### **But this is just the beginning**

The Government has been clear that this Budget was the first of many iterations that will be needed to address Australia’s structural deficit. The high and rising costs associated with the National Disability Insurance Scheme (NDIS) will be scrutinised ahead of the next Budget in May. Growing at a rate of 13.8 percent per annum, the programme will cost “hundreds of billions” over the next decade according to the Treasurer. Within four years, the NDIS has been costed at \$51.8 billion as both the number of participants and the average cost per participant continue to rise faster than anticipated. By comparison, the costs of Medicare will be \$35.8 billion in 2025-26, and aged care \$24.7 billion.

Though not a well-being budget, this Budget contained a chapter on well-being indicators to begin a national conversation on how the government should measure success. It includes reference to well-being indicators used overseas including New Zealand’s own Wellbeing Budget.

## **Comment**

Though the Budget painted a less than rosy picture of Australia’s economy, its fiscal restraint has generally been accepted in light of the inflation rate. The ground had been well prepared by the Treasurer, so its austere nature came as little surprise. There has been very little opposition by commentators to the hard decisions made in the Budget. Analysts from S&P Global Ratings and Moody’s Investor Services said the Budget supported Australia’s rating remaining AAA-stable.

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