



Economic Update

Too many shocks

Too little slack

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May 2026

Budget headlines – no (additional) surprises

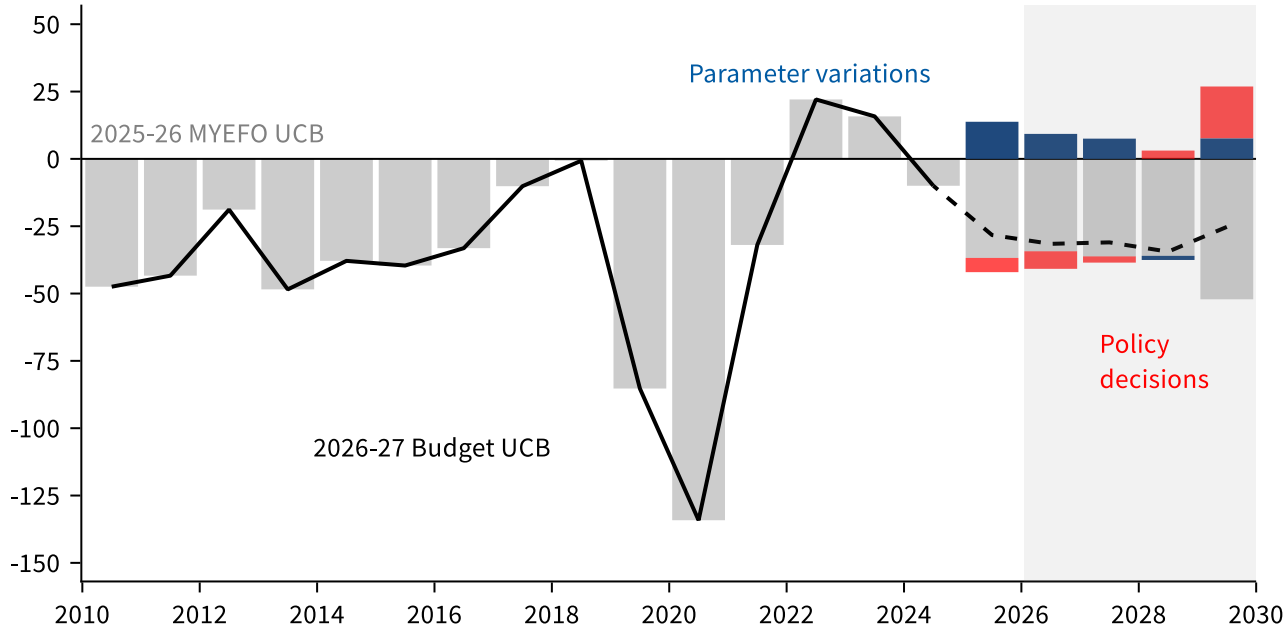
Key points

- Relative to MYEFO, the deficits have improved by \$45b over the forward estimates, as the government has elected to bank a portion of the improved revenue flows.
- The Budget forecasts that the underlying cash balance is likely to remain in deficit for the foreseeable future. The expected deficit for 2026-27 is \$31.5bn.
- The headline cash balance, which accounts for “off balance sheet” expenditure or investment, is forecast to be \$64bn in 2026-27, around 2.1% of GDP.
- Reform, restraint and resilience were the three self-nominated pillars that were used by the Treasurer to frame the budget. Generally speaking, the Budget addresses all of these.
- Reforms were largely as pre-announced. The government has been relatively restrained on cost of living measures, with the tax offset for working Australians small and not starting until July 2027.
- The government’s economics forecasts are broadly in line with the RBA’s and our own numbers. Growth will slow, inflation will rise and the unemployment rate will drift higher.
- We assess the stance of fiscal policy as neutral for the coming financial year, although this represents a change from expansionary fiscal policy in 2025/26. As such, the change in fiscal settings will better align with the RBA’s monetary policy ambitions.

The windfalls from a better economy...

Have not been all spent

Reasons for change in underlying cash balance (\$)

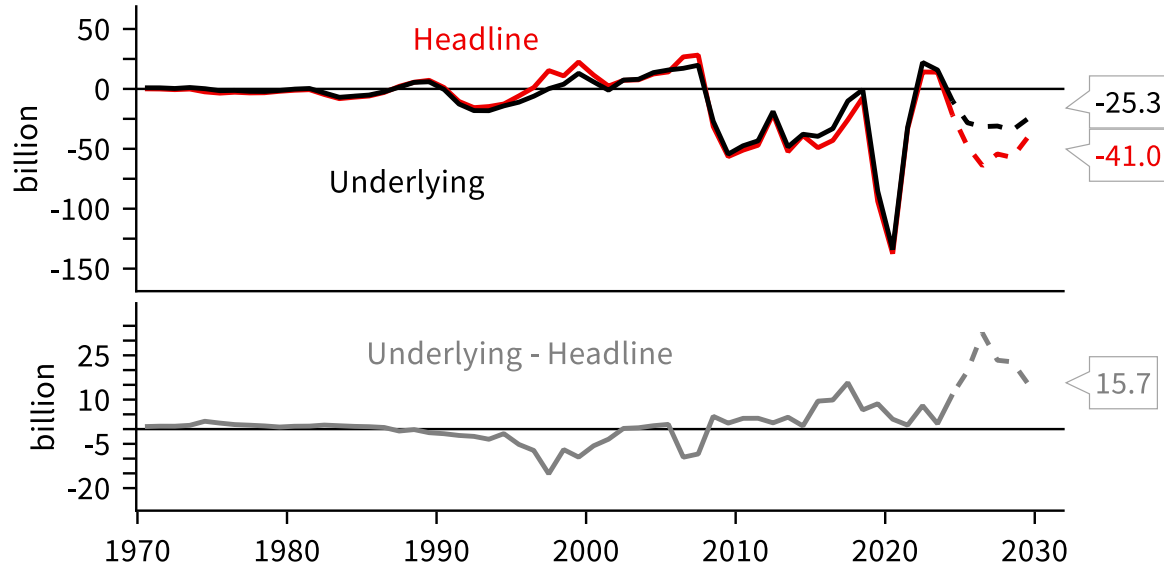


Source: National Australia Bank, Commonwealth Treasury, Macrobond
X axis shows first year of the financial year.

The gap between the headline cash balance and the UCB is growing...

We should not pay sole attention to the UCB as a measure of the fiscal position

Underlying vs Headline Cash Balance



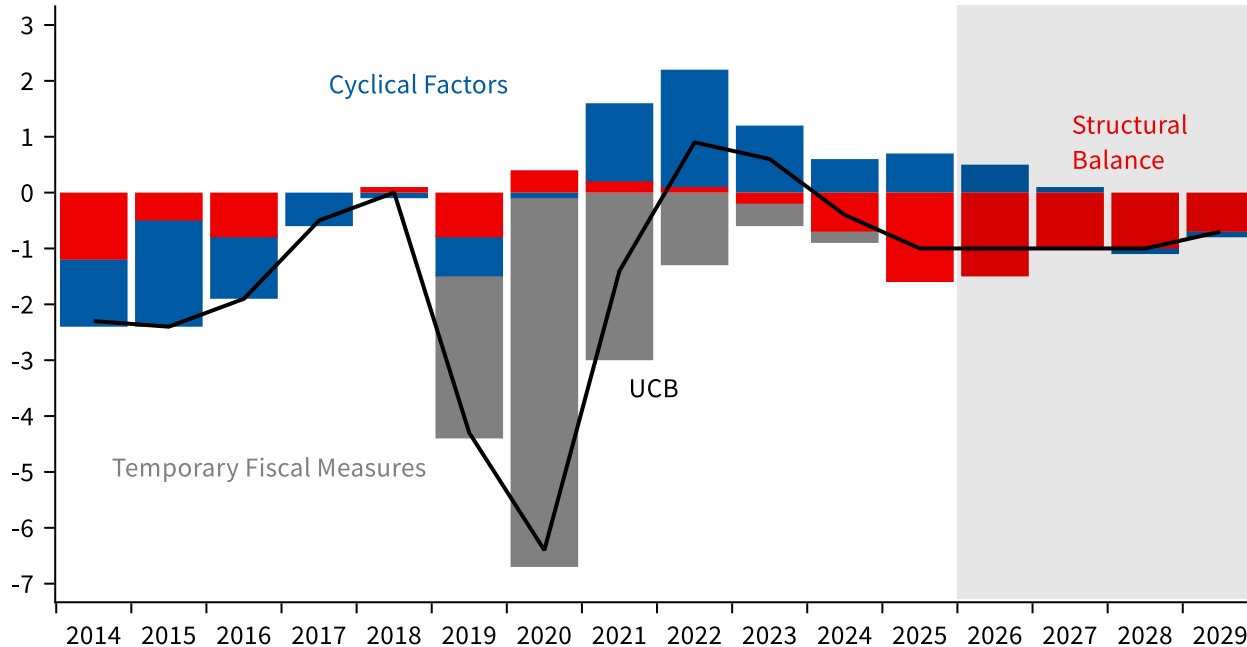
Source: National Australia Bank, Australian Department of the Treasury, Macrobond

Notes: Financial year; Dotted line represents forecasts.

The budget remains in structural deficit

Though as a share of GDP remains relative contained

Structural budget balance (% of GDP)

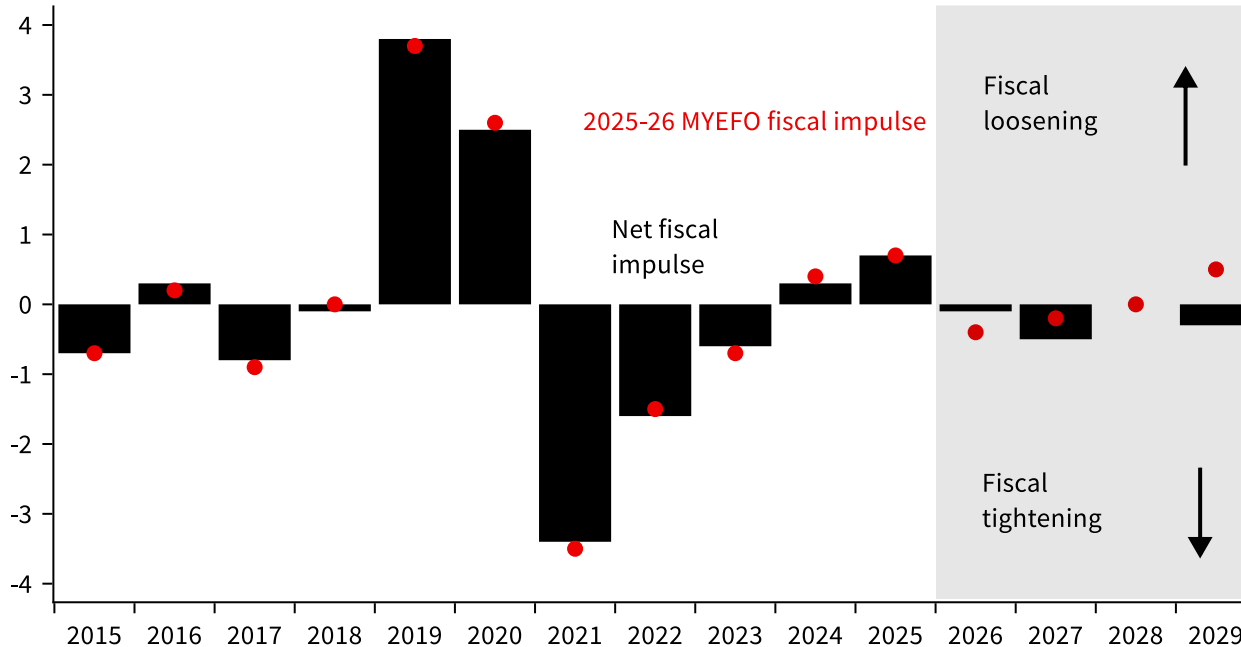


Source: National Australia Bank, Commonwealth Treasury, Macrobond
X axis shows first year of the financial year.

The fiscal impulse is broadly neutral next year after support this year

Better aligning with the stance of monetary policy

Fiscal Impulse (% GDP)

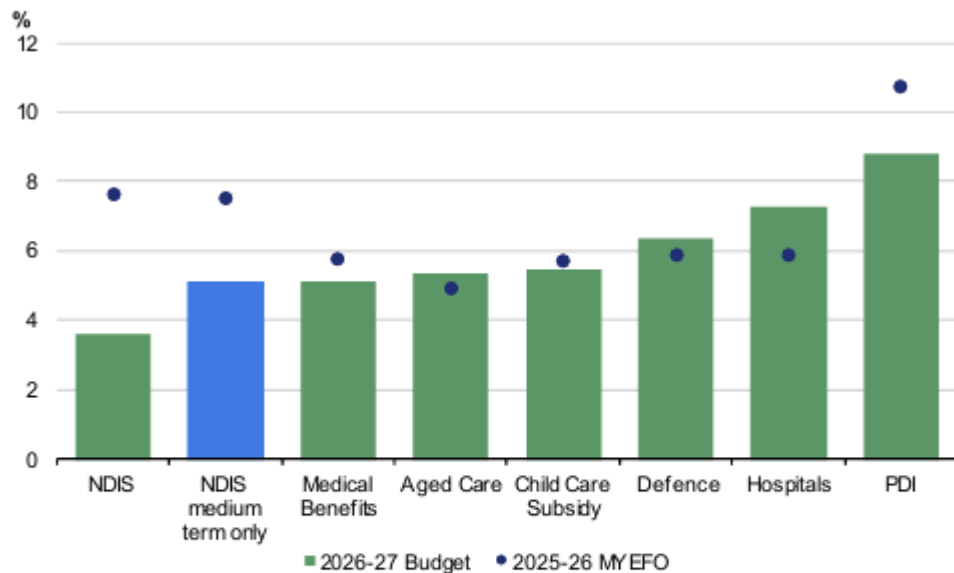


Source: National Australia Bank, Australian Department of the Treasury
X axis shows first year of the financial year.

Interest remains the fastest growing expense

NDIS spending growth now projected to slow sharply

Chart 3.8: Average annual growth in major payments over the medium term



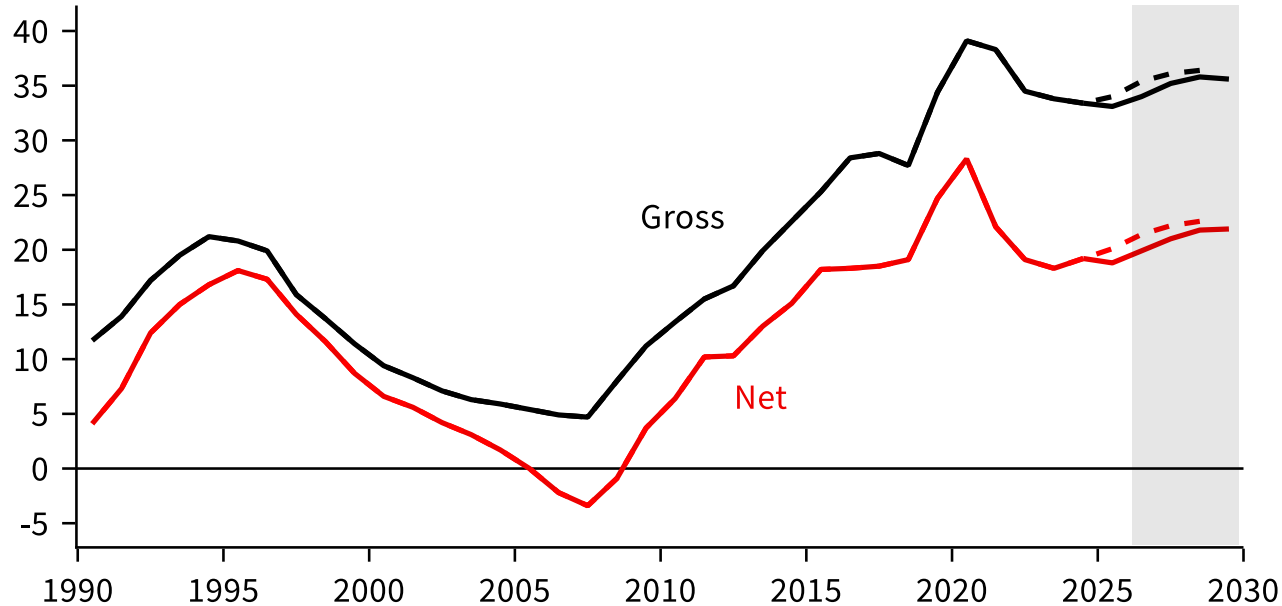
Note: Shows major payments that are growing faster than nominal GDP over the projection period, and the NDIS for comparison. PDI refers to interest payments on AGS. NDIS refers to the Australian Government's contribution to payments for NDIS participant supports. Growth rate for MYEFO is from 2025–26 to 2035–36. Growth rate for the 2026–27 Budget is from 2026–27 to 2036–37. Growth rate for NDIS medium term only is from 2029–30 to 2036–37 in Budget and from 2028–29 to 2035–36 in MYEFO.

Source: Treasury.

The debt burden is increasing alongside the deficit

But remains very low by international standards (dotted line is MYEFO)

Federal budget: debt measures (% of GDP)



Source: National Australia Bank, Commonwealth Treasury, Macrobond
X axis shows first year of the financial year. Dashed lines show 2025-26 MYEFO

What drove the U-turn?



4 surprises, all in the same direction, and then Iran

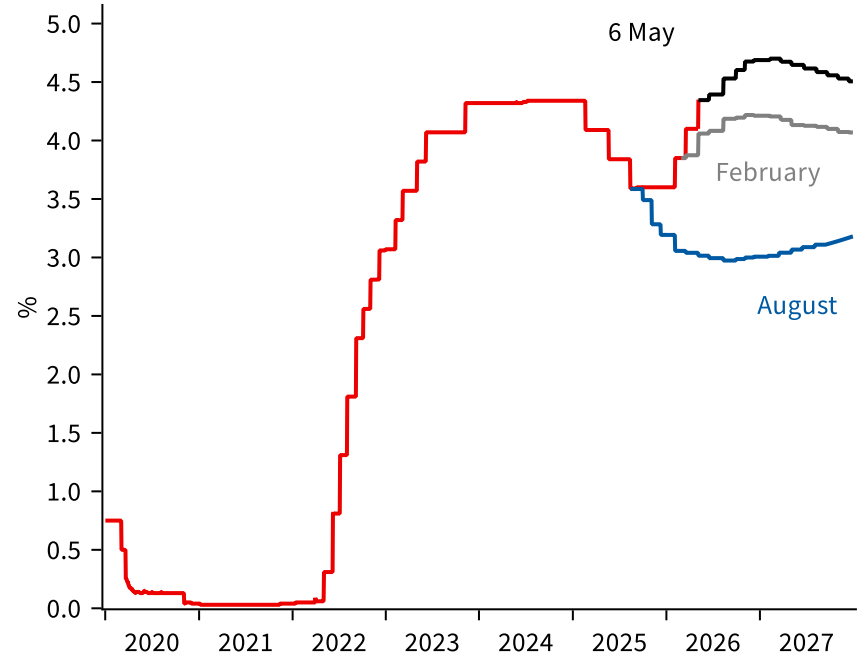
August to February

- Pickup in growth stronger
- Supply constraints binding sooner
- Broader financial conditions easier
- Global backdrop not a headwind

February to now

- Energy price shock

RBA Market Expectations



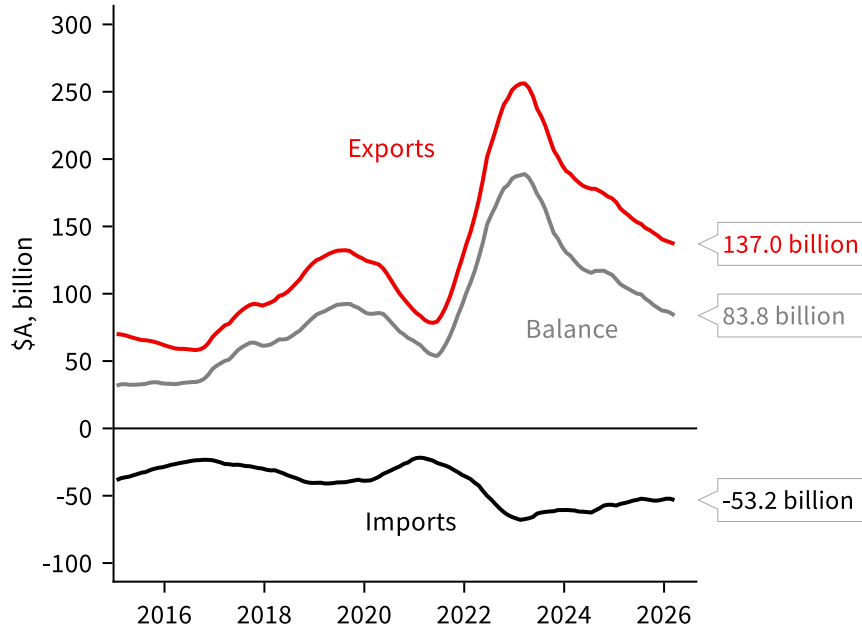
Source: National Australia Bank, Bloomberg

Australia an oil importer, but net energy exporter



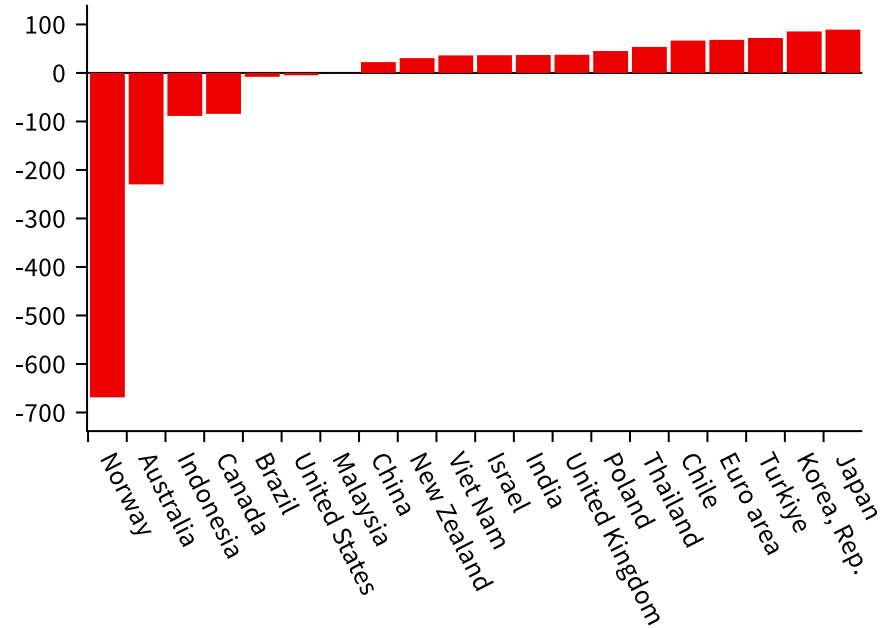
Oil-derivate products drive short term inflation shock, but export revenues an offset

Energy trade balance (rolling annual)*



*includes mineral fuels, lubricants and related materials.
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond, Bloomberg

Net energy imports (% of energy use)*



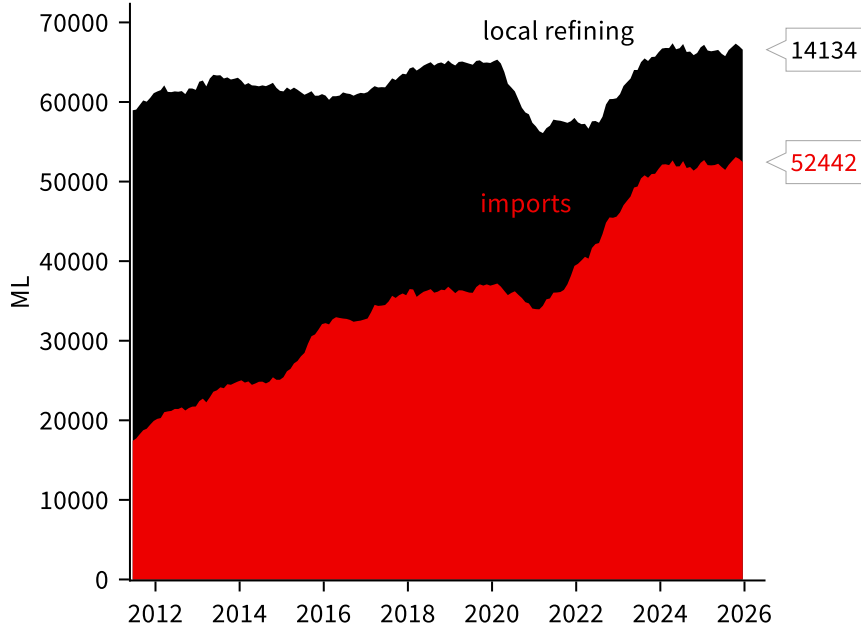
*2019-2023 average
Source: National Australia Bank, World Bank

Australia fuel



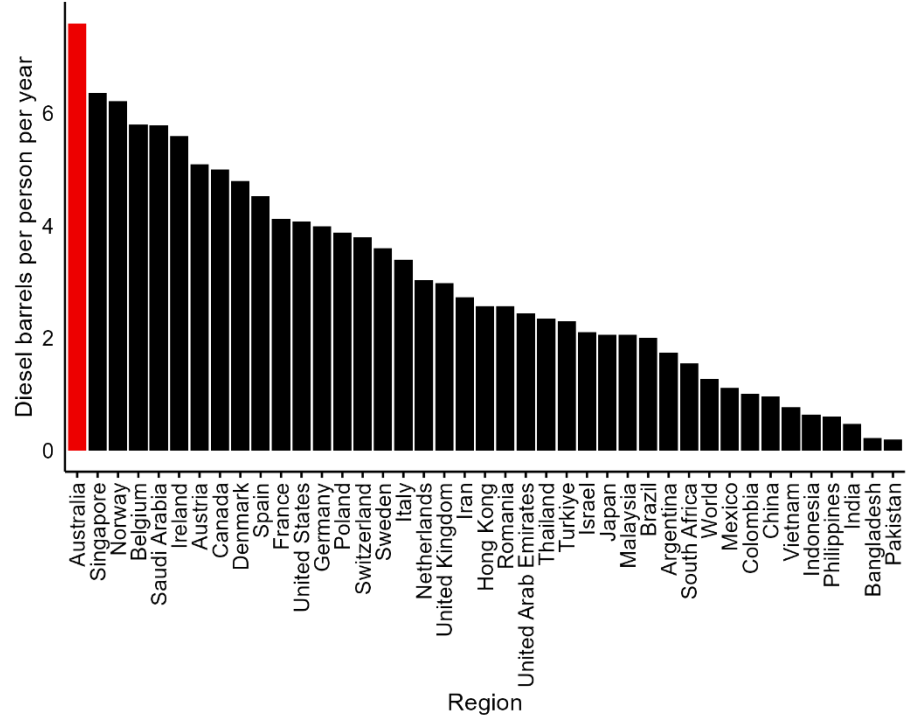
It comes from Asia's refineries, it is used in road transport, mining and agriculture

Australia refined oil supply (rolling annual)



Source: National Australia Bank, Department of Climate Change, Energy, the Environment and Water

Diesel use per person



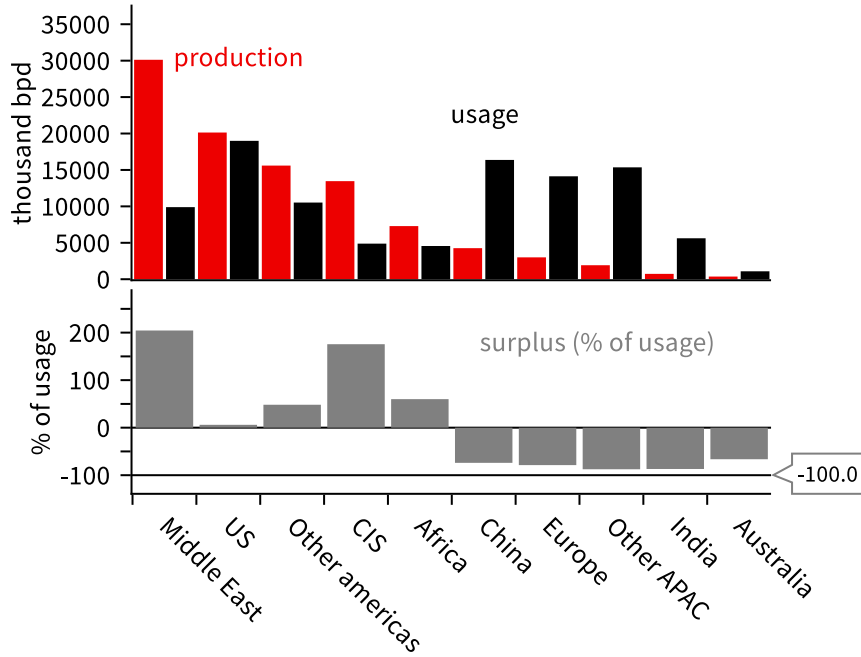
Source: National Australia Bank, IEA, World Bank

Oil and Oil products

Middle Eastern surplus goes to APAC

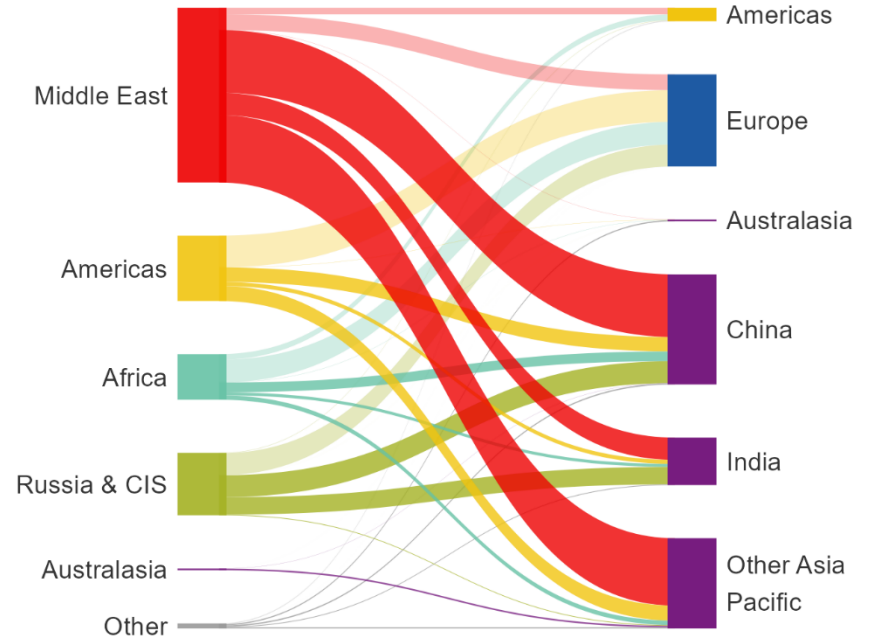


Oil balance



Source: National Australia Bank

Inter-area movements 2024 – Crude trade flows from exporters (left) to importers (right)



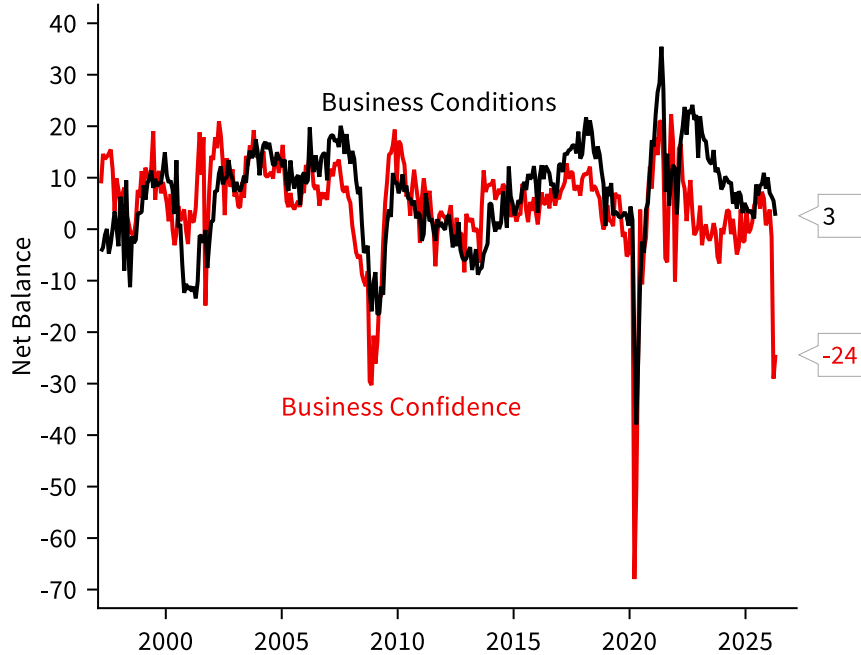
Source: National Australia Bank, Energy Institute Statistical Review of World Energy

Business confidence falls and prices rise in March



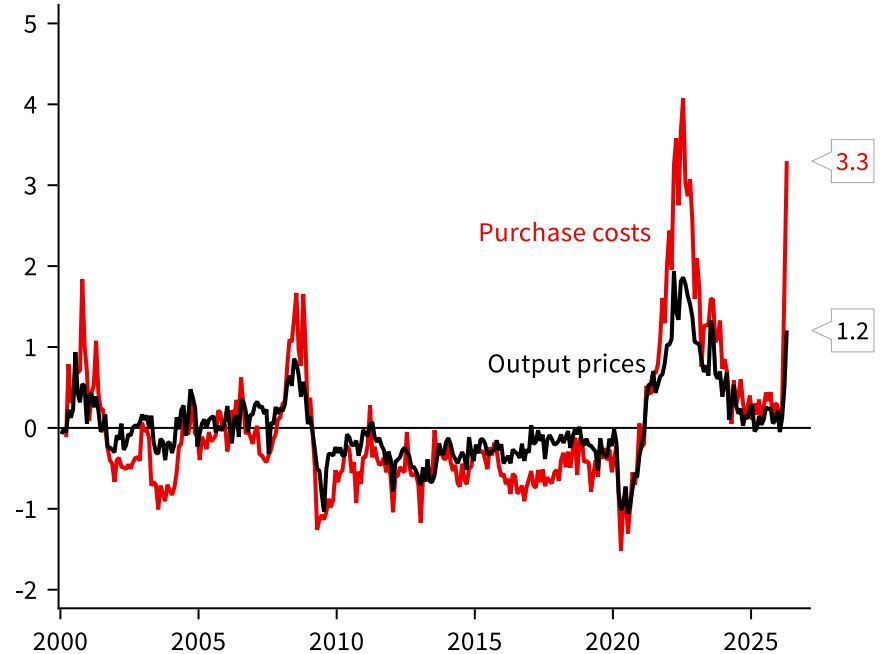
Confidence plunged in March

NAB Business Survey



Source: National Australia Bank

NAB Survey Prices (deviation from average)



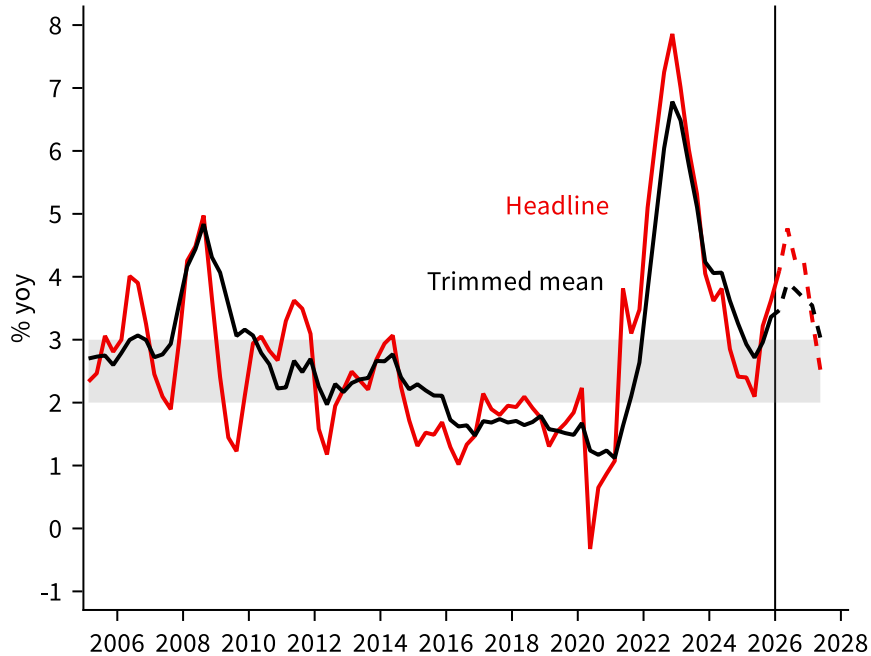
Source: National Australia Bank

Inflation was broad based before energy shock



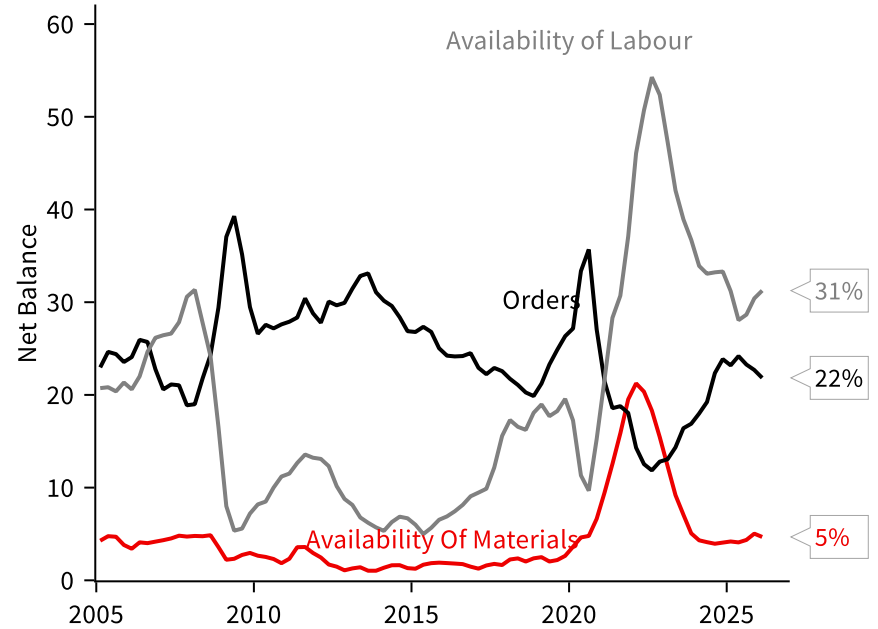
Inflation could peak around 5% in Q2

CPI and NAB forecasts



Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Significant Constraints on Output



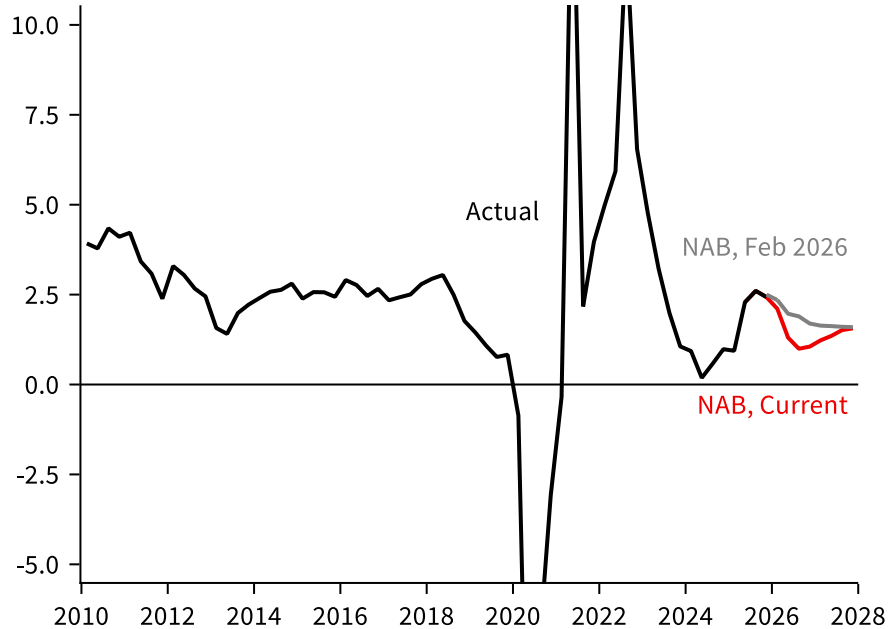
2 quarter moving average
Source: National Australia Bank

Households to drive GDP slowdown



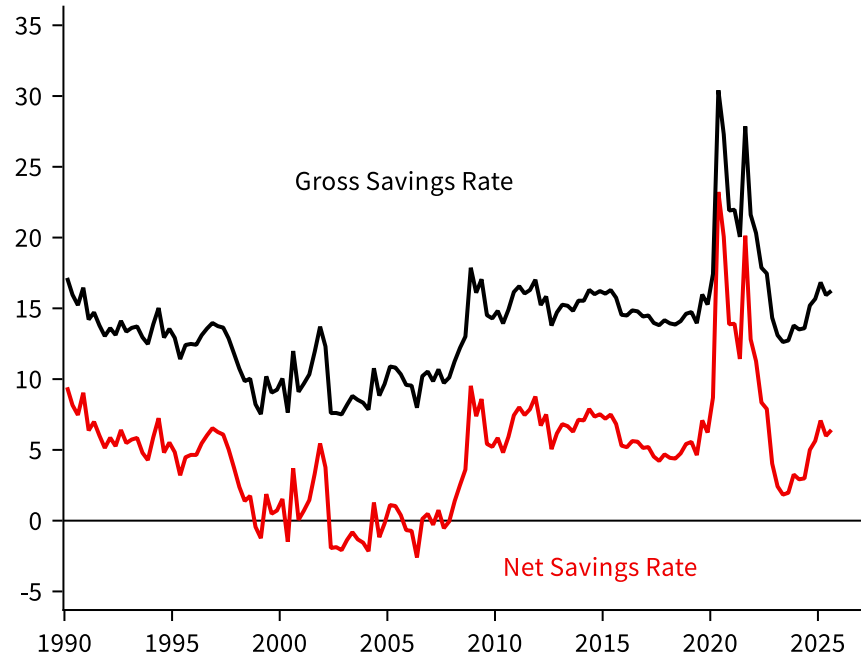
We expect consumption growth to slow towards 1% over 2026

Real Household Consumption % yoy



Source: National Australia Bank, Australian Bureau of Statistics, Account in-house, Macrobond

Household Saving Rate (% disposable income)



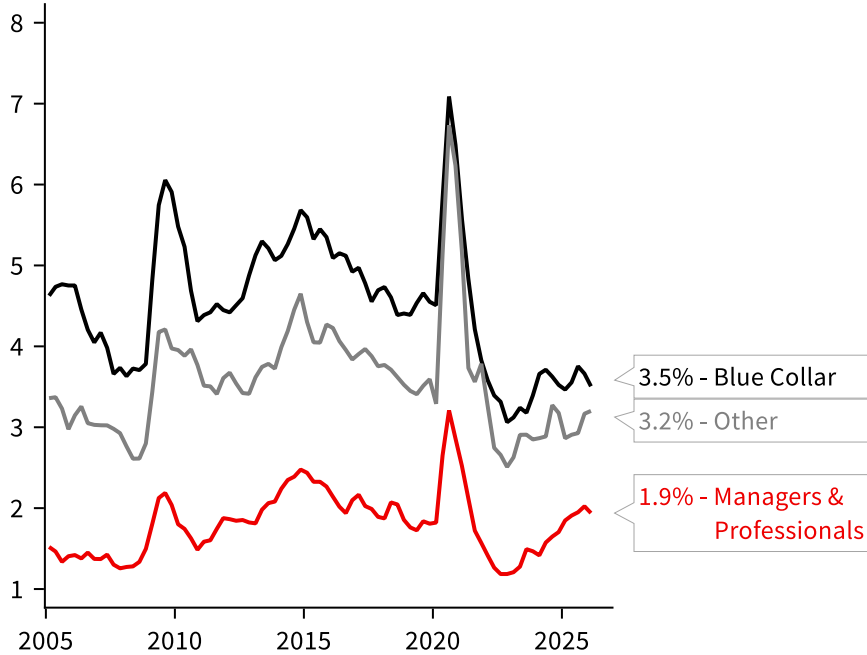
Source: National Australia Bank, Australian Bureau of Statistics, Macrobond

Labour market tighter for blue collar workers

Labour market easing led by white collar workers

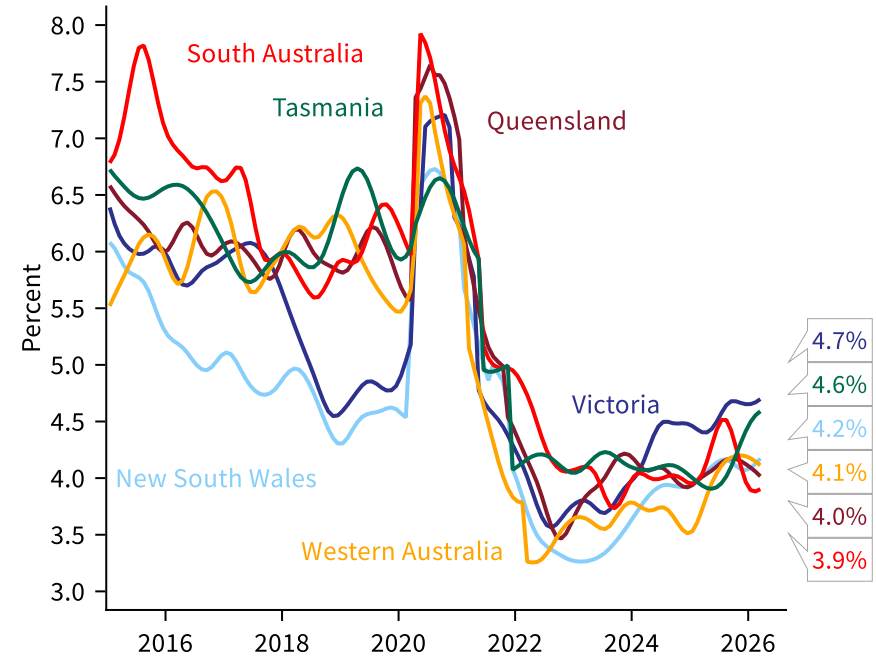


Unemployment ratio by occupation



Source: National Australia Bank, Account in-house, Macrobond

Unemployment Rates by State



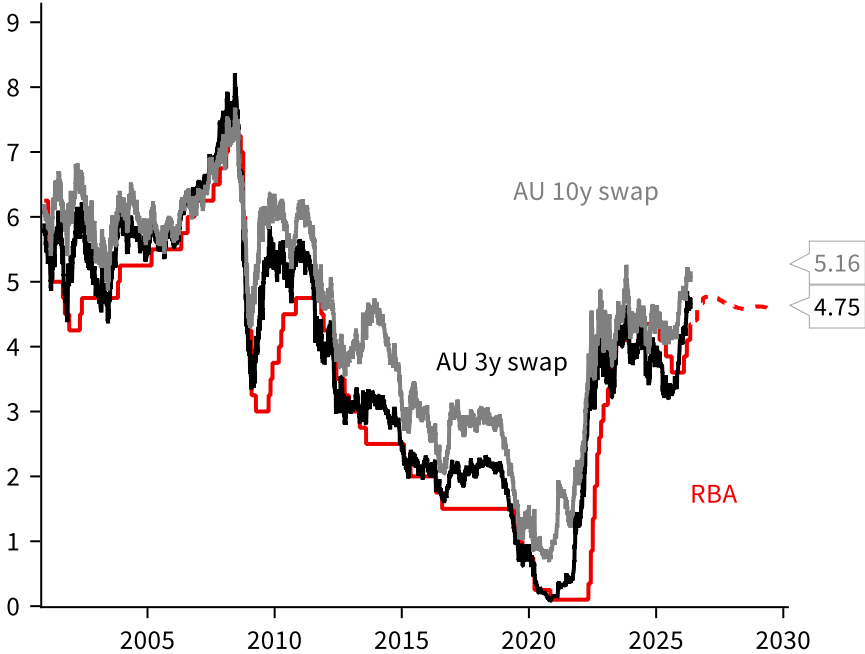
Source: National Australia Bank, ABS

RBA tightening well priced

More upside for 10yr than 3yr over the next 12-18 months

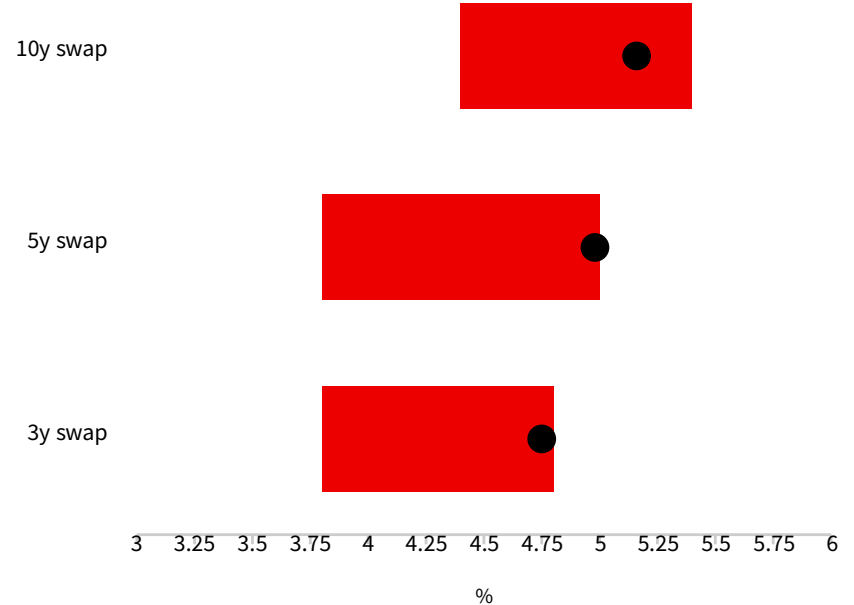


RBA Policy Rate and Swap Rates



Source: National Australia Bank, Bloomberg

Expected trading range over 12-18 months



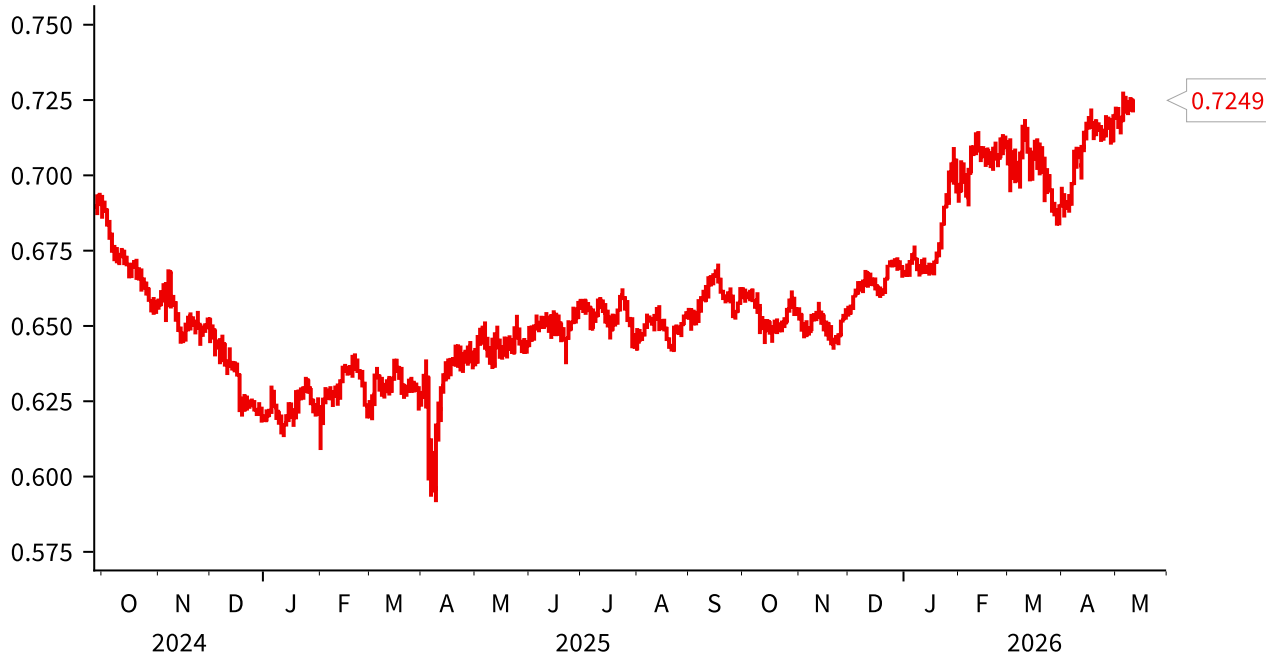
Source: NAB, Bloomberg

The Australian dollar



Terms of trade support limiting downside, but rate differential and risk off less supportive

AUDUSD



Source: National Australia Bank, Bloomberg

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