



2026/27 Federal Budget

Insights



FY27 Federal Budget Overview



The BURRITO budget

Somehow, we've landed in a world where Mexican-inspired acronyms have become mainstream shorthand descriptors for complex geopolitical circumstances.

First was the TACO trade, a reference to the “**Trump Always Chickens Out**” pattern of on again / off again changes to US tariffs for different trading partners. Then there was NACHO, “**Not A Chance Hormuz Opens**”—Bloomberg’s Javier Blas’ single-word prognosis for the current war in the Middle East.

And on Tuesday night, Treasurer Chalmers delivered us the BURRITO budget ... **Borrowings Underwritten by Reluctant Revenue Increases and Treasury Optimism.**

With a (nearly) decade of deficits, Treasury projects the Federal Government’s gross borrowings will increase to around \$1.05 trillion next year and continue to grow over the forward estimates.

Australia is not expected to return a budget surplus until perhaps 2034–35, even with projected revenue growth outpacing restrained public sector expenditure. According to Treasury, government spending is expected to grow at only 1.5% above inflation for the next 8 years, around half the 30-year average rate of spending growth.

And those medium-term projections are entirely reliant on a rapid return to benign geopolitical conditions—inflation returning to mid-target band as quickly as next financial year—and reversing decades of lagging productivity growth.

If hope is not a strategy—so the adage goes—does optimism count as one?



Policy coherence or political convenience?

Modern budget strategy is a complex patchwork of trade-offs and compromises, the demands of expenditure portfolios always outnumber the means of revenue generation, and **difficult choices need to be made.**

Budget commentators naturally focus on fiscal aggregates and major new policy announcements. But an equally important consideration is policy coherence: **whether the combined effect of budget measures supports stated economic, social and environmental objectives**, or whether different elements operate at cross-purposes.

In an environment of structural change—particularly across energy systems, housing markets and infrastructure—the alignment of incentives across the budget can be as important as the scale of individual measures.

Budgets also are not developed in a political vacuum. The Treasurer no-doubt was keenly aware of demographic shifts which could figure prominently in the next election.

By 2028—when the next Federal election will be held—younger Australian voters (Millennials, Gen Z and Gen Alpha) will for the first time outnumber their elders (Generation X, Boomers and Builders).

The Treasurer will be reckoning that this shift provides a narrow political pathway to reorient the budget’s revenue settings more towards capital, and in a way that addresses, at least partially, the housing affordability challenges felt most acutely by those younger voters.

Demographics, politics and fiscal realities have shaped the Budget's headline tax and spending initiatives

Domestic and geopolitical uncertainty

Mid-way through its second term, the Albanese Government's 5th Budget was introduced by the Treasurer as its most important and ambitious, and labelled as **responsible, reforming and resilient**.



Labor was returned to Government after securing a 94-seat majority in the lower house in the 2025 federal election.



Once on the fringe, One Nation's primary vote has surged, challenging the major parties amid falling institutional confidence.

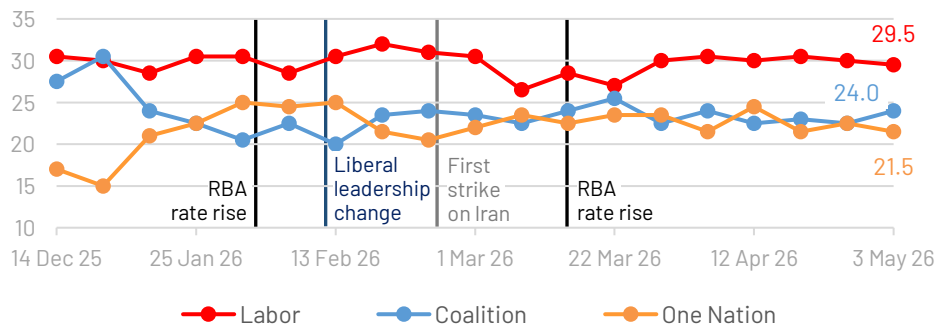


The Budget was expected to be ambitious and potentially include some big changes – which arguably it delivered.



The conflict in Iran and change in inflationary expectations have brought unexpected Budget headwinds.

Federal primary vote share, per cent (%)



Source: Roy Morgan, *Federal Voting Intention*

Early announcements show the impact of rising cost pressures...



Cancelled:
Inland Rail link to Brisbane

Inland Rail will now end at Parkes, Central NSW Return \$4.4B to budget



Tightened eligibility and cuts:
NDIS

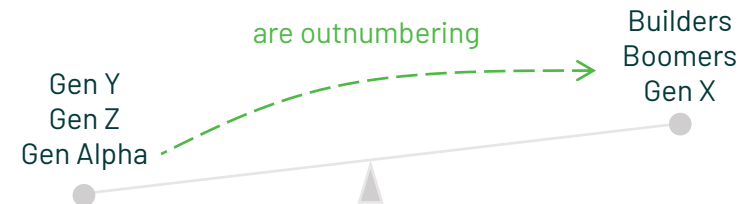
Reforms to cut 160,000 participants, control growth to 2% vs 10%



Managing headcount:
across APS Depts

Targeting 1% growth this year, down from 5% YoY since 2021

...but long-term demographic changes broaden support for other reforms



Boomers taxed:
GST on aged care



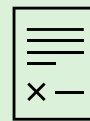
From Nov 26, services no longer GST exempt

Investment Property Incentives: Reduced



CGT discount reduced, negative gearing ends

Over 65 Insurance Rebates: Scrapped



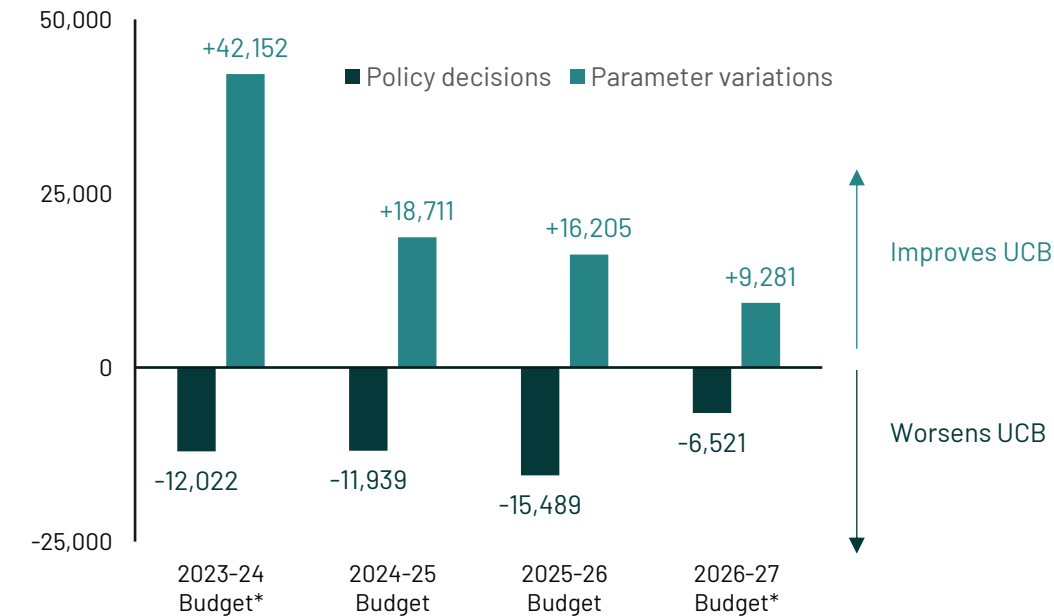
Private health insurance rebates cut

While Budget language espouses fiscal discipline, drivers of change point more to good fortune, and debt costs continue to pressure the bottom line

While responsible economic management is touted, as with prior budgets, the improvement in the underlying cash balance from a \$34.3bn deficit to a \$31.5bn deficit in FY27 is driven by parameter variations (e.g., updated demographic projections, upward revisions in tax receipts), not policy decisions

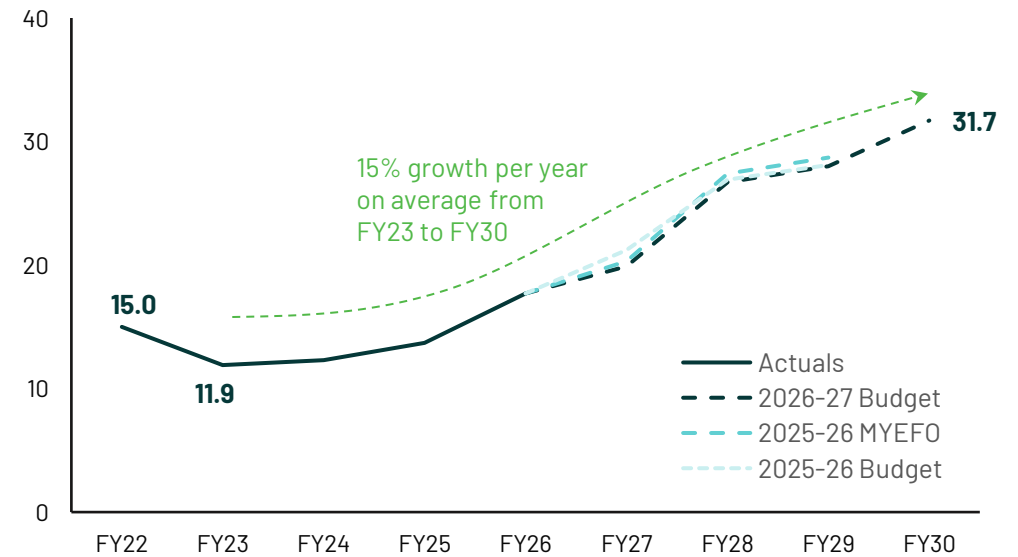
Net interest payments are forecast to hit almost \$32bn annually by FY30, approaching 1% of GDP. This is close to 2.5x the annual average over the decade to 2023-24 (\$13.0bn)

Figure: Drivers of changes in the estimated underlying cash balance between budgets (\$m)



Source: Create Advisory analysis of 2026 Budget Papers

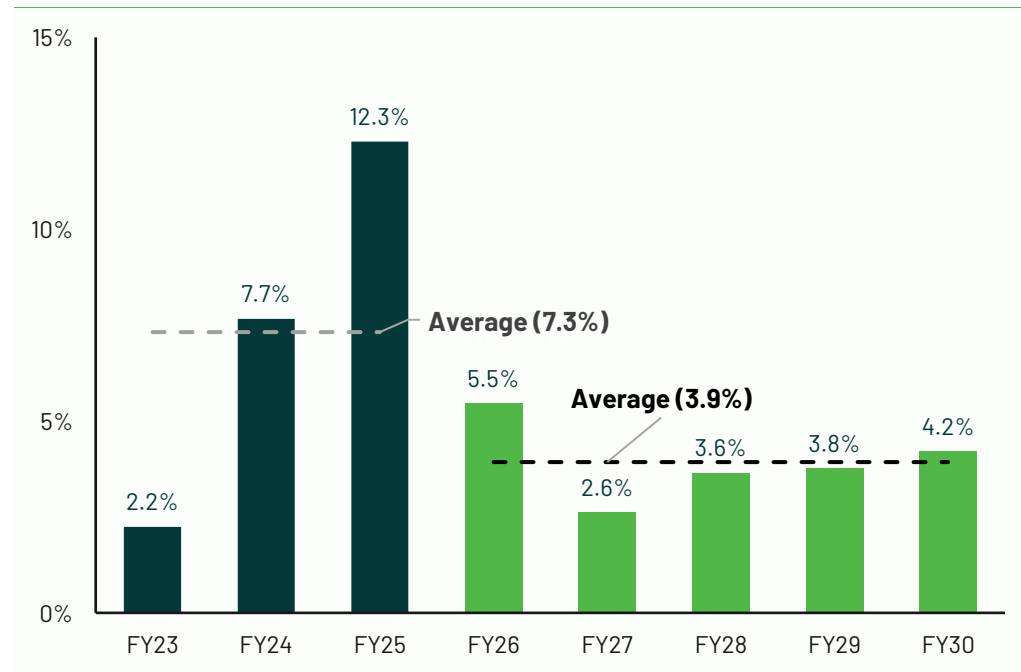
Figure: Growth in net interest payments (FY22 to FY30)(\$bn)



Forecast fiscal repair is highly reliant on tightly controlling spending growth, while infrastructure investment has been reprofiled

The forecast improvement to government finances in future years is highly reliant on achieving expense growth well below recent historical trends - 3.9% per year from FY26 to FY30 compared to 7.3% per year between FY22 and FY25

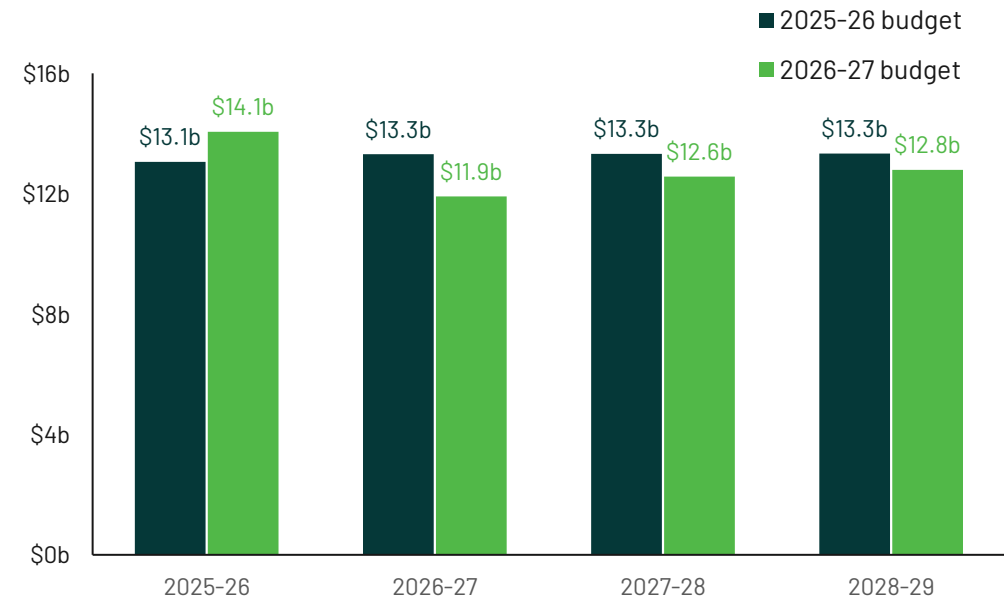
Figure: Expense growth - recent historicals and forecast



Source: Create Advisory analysis of 2026 Budget Papers

Infrastructure investment has increased in the current year, with the budget now forecasting a decrease in future years compared to the 2025-26 Budget (\$2.7bn decrease over three years from 2026-27 to 2028-29 compared to the prior budget)

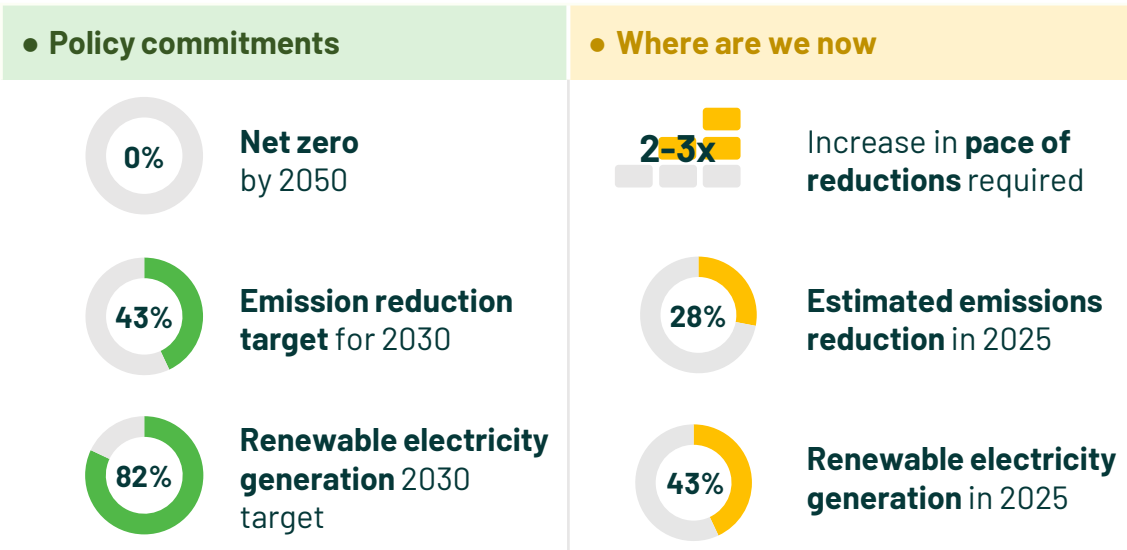
Figure: Total Infrastructure Investment Program (FY26 to FY29), current vs prior Budget



Conflicting policy signals are slowing Australia’s renewable transition, despite strong decarbonisation commitments

Policy incoherence can arise where spending programs, subsidies or tax settings may be well-intentioned in isolation but generate conflicting signals when viewed collectively.

Mixed incentives reduce certainty, slow adjustment, and weaken the effectiveness of public spending, even where there is broad agreement on long-term goals such as emissions reduction or renewable energy uptake.



The 2026 budget includes new or continued initiatives to support the uptake of household batteries, EV adoption and for investment in renewable energy generation and storage technologies. At the same time, mechanisms such as the diesel fuel tax credit act to dilute incentives to reduce fuel consumption in mining and agriculture, precisely the sectors where emissions reductions and productivity gains could be most durable.



The duration and complexity of the approvals process is key to de-risking renewable projects

\$500 million allocated to **speed up approvals** for housing, energy and critical minerals projects. This follows part of last year’s reforms to the *Environment Protection and Biodiversity Conservation Act* aimed at streamlining and improving the assessment and approval pathways.



Mixed signals as fuel subsidies push against the Government’s EV ambitions

Labor is extending its EV fringe benefits tax discount to accelerate the shift away from fossil fuels yet simultaneously spending **\$2.55 billion** to **cut fuel excise**. With EV interest surging amid Middle East tensions, measures to reduce the impact of fuel costs risk undermining the National Electric Vehicle Strategy.




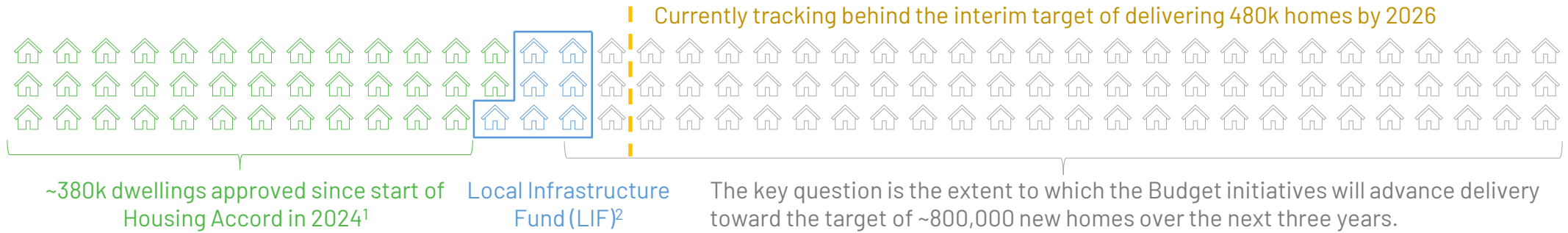
CIS to be retained & expanded, though changes to improve scheme effectiveness yet to be defined

The Budget reaffirms the Government’s commitment to the Capacity Investment Scheme (CIS) as the primary mechanism for contracting renewable energy generation and firming. Yet **projects contracted under the current scheme**—an auction-based revenue floor mechanism seeking to de-risk new renewable energy investment—**have struggled to secure FID**.

Home ownership for many Australians remains a distant aspiration – Budget measures which moderate investor demand will help affordability, but the challenge remains building enough new dwellings

The Housing Accord targets 1.2 million homes by 2029

Key  = 10,000 homes



- › The \$2.0bn LIF in this Budget is designed to support trunk infrastructure for housing development.
- › The Government forecasts the initiative will support 65,000 dwelling over 10 years, which assumes a cost per dwelling of ~\$31k.
- › However, industry benchmarks suggest trunk infrastructure costs could be higher which would reduce the number of supported dwellings.³
- › Access is **conditional** on states and territories committing to planning, approvals and productivity reforms.

- + The Government’s positive steps to support supply should be acknowledged**
 - › Continued emphasis on planning, productivity and approvals reform is encouraging, with measures aimed at accelerating assessments, expanding digital approvals systems and supporting greater housing density near transport and existing infrastructure corridors.
 - › Continued expansion of the Housing Bond Aggregator (\$1.4b over 5 yrs) is encouraging, helping attract greater institutional capital into social and affordable housing delivery.
- ? It remains to be seen how the CGT and negative gearing reforms will impact supply**
 - › At this stage, the reforms appear more likely to influence housing prices and investor behaviour than materially boost housing supply in the short to medium term.
 - › Canada previously proposed CGT reforms before Mark Carney cancelled the idea stating: “Canada is a country of builders. Cancelling the hike in capital gains tax will catalyze investment across our communities and incentivize builders, innovators and entrepreneurs ...”

¹The Housing Accord commenced in July 2024, with dwelling approvals measured from April 2024 to account for construction lead times. Source: abs.gov.au

²The LIF is forecast to support 65,000 homes over 10 years, whereas the Housing Accord is over a 5-year period. As such, the blue houses likely represent an upper-bound estimate of homes supported within the first 5 years.

³Steffan Harries (2026) Infrastructure charges. Available: [steffanharries.com.au](https://www.steffanharries.com.au)

Delivery of major infrastructure is becoming increasingly challenging, with project delays and slippage seeing expenditure \$5.8bn lower over five years

There is reluctant recognition in Canberra that even if capital is available and government is willing to invest, there are **real and growing constraints on the economy's ability to deliver projects within existing timeframes** and budgets.

The contributors to this challenge are vast and complex—major inflationary shocks across the economy, key input shortages, a dwindling supply of skilled labour (and growing political pressure to restrain migration) and productivity growth in the construction sector that continues to flatline.

While previous budgets have included a 'general slippage' adjustment for major infrastructure investment (reflect historical trends and delivery complexities), these are now being accompanied by a 'Fuel and Other Materials Disruption slippage' for the next three years given uncertainties associated with the Middle East Conflict.

An example of this impact can be seen by looking at state and territory breakdown of the of the Infrastructure Investment Program. Summing the eight jurisdictional estimates for the road component (which are not subject to slippage adjustments) equals to \$10.7bn for 2026-27, whereas the national total (which has the slippage adjustments applied) sums to only \$8.2bn—a \$2.5bn difference in 2026-27 alone.

Energy



- **\$14.8bn** in new fuel security and resilience initiatives brought on by the current Middle East conflict (funded in part by a \$1.0bn saving in the wind-down of the Hydrogen Headstart program)
- **\$7.2bn** over four years to continue the Cheaper Home Batteries Program
- The Net Zero Fund receives **\$3.2bn** over the forward estimates and \$6.1bn to the end of the medium term – the largest single net zero industry investment in the budget
- Continuation of the **Capacity Investment Scheme**, though the specific funding envelope is not disclosed to not impair the Government's position in negotiating underwriting contracts with new renewable energy developers
- Much of the Government's energy infrastructure support otherwise is "off budget"—meaning it is not reported in the Budget underlying cash balance—including a further **\$5.1bn in loans and investment to Snowy Hydro** and **\$17.5bn in CEFC-administered loans and investments.**

Transport



- **\$3.8bn** in additional funding for Victoria's Suburban Rail Loop project from FY27 (on top of \$2.2bn previously committed, bringing total to \$6bn).
- **\$1.8bn** in equity to the Australian Rail Track Corporation's (ARTC) Network Investment Program (on top of \$1bn already committed), to improve the efficiency of the East Coast Network.
- **\$1.7bn** (over nine years) for new Infrastructure Investment Program projects, including **\$812.5m for the Bruce Highway – Gateway Motorway to Dohles Rocks Road upgrade** in Queensland.
- **\$659.6m** over three years (from 2025–26) for development works for the **Newcastle to Sydney high speed rail project.**
- Across the **road and rail components** of the Infrastructure Investment Program, the current budget commits \$41.6bn over the forward estimates compared to the 2025-26 budget's forwards (\$46.8bn).

Interesting commitments you may have missed

2025/26 Budget

UPDATE



Commitment to **ban debit card surcharges** pending further advice from RBA

> In March 2026, the RBA confirmed it will remove surcharges on debit and credit cards. Most of the reforms are due to take effect from October.



Some foreign investors will benefit from **fast-tracked Front Door** scheme for “transformational projects”

> In April 2026, the first 4 projects for the Investor Front Door pilot were chosen, including projects for fuel security, critical minerals and supply chain resilience.



Foreign buyers banned from **buying existing homes** for another 2 years

> Extended until 30 June 2029, foreign persons are banned from purchasing established dwellings; foreign buyers restricted to off-the-plan and new dwellings.



Non-compete clauses banned for workers earning less than \$175,000

|| Legislation is yet to be passed to enact the ban. Government consultation regarding the proposal concluded in September 2025, but the reform scope remains unknown.

2026/27 Budget

NEW



Reducing the speculative potential of **tax concessions on asset income**

> Reducing the tax benefit of speculative land holding with reforms to improve the flow of development ready sites into the construction pipeline.



Better recognition of migrant skills through faster, more flexible skills assessments

> \$85.2 million to deliver faster assessments for migrant trades workers and accelerate occupational licencing – aiming to get 4,000 skilled workers into the workforce each year



Removing a second tranche of **497 tariffs** to streamline trade and reduce compliance costs

> Abolishing ‘nuisance’ tariffs, if you are in the market for imported goods such as wine glasses, tyres, air conditioners, margarine and bitumen – you are in luck!



Surge in people accessing the **5% deposit scheme** since property price caps were lifted in 2025

> The 5% Deposit Scheme supported over 1 in 3 first homebuyers nationally in 2024–25 and issued 22,921 guarantees since its expansion in October 2025.

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