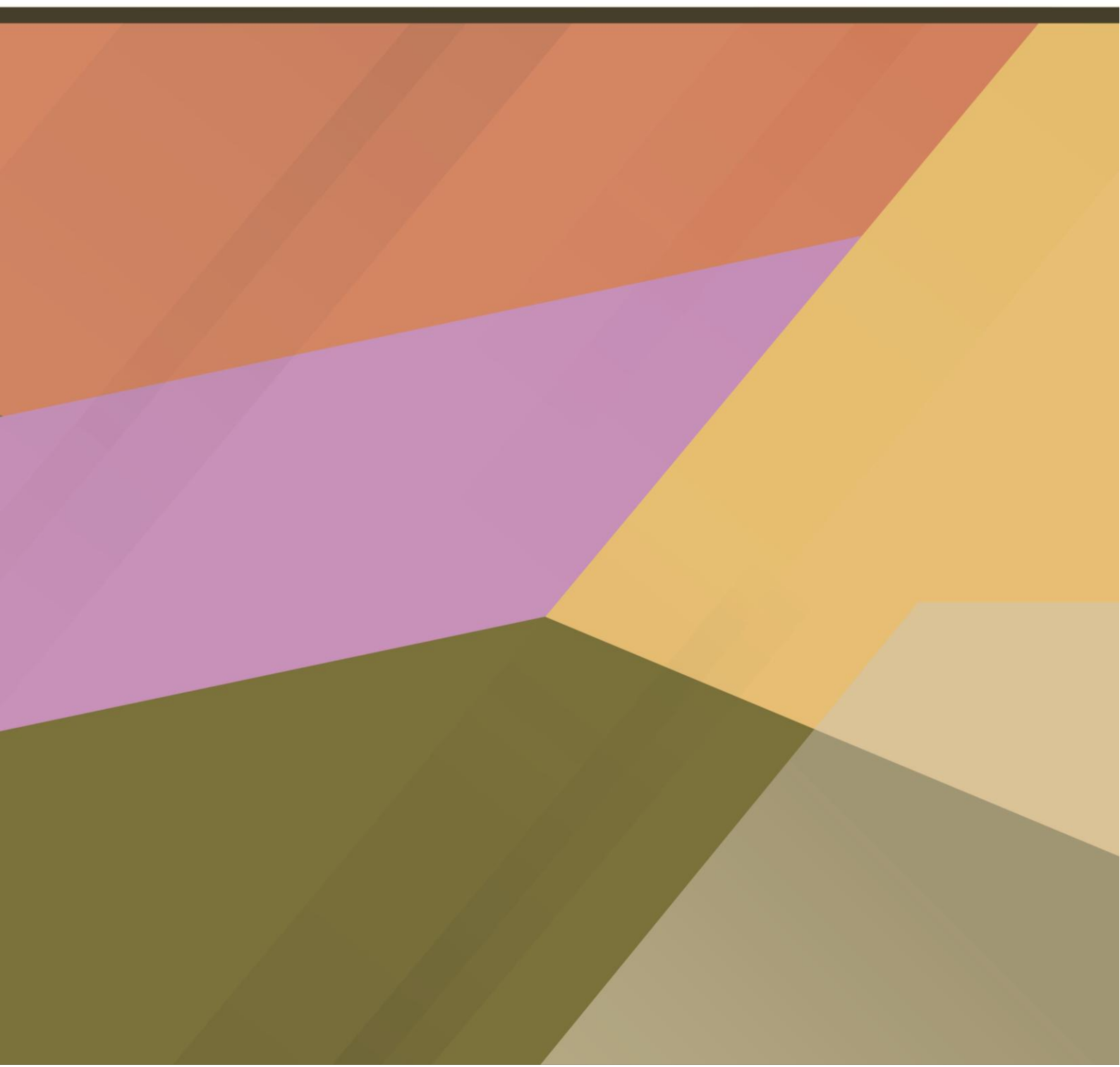




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GUIDE TO THE 2026 INTERGENERATIONAL REPORT



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Use of the Coat of Arms

The terms under which the Coat of Arms can be used are detailed on the following website: <https://www.pmc.gov.au/government/commonwealth-coat-arms>

Origins of this document

This document has been prepared in response to Recommendation 8 of the 2026 Independent post-election review of the Parliamentary Budget Office. This recommendation encouraged the PBO to provide analysis of the Intergenerational Report to the Joint Committee of Public Accounts and Audit.

Feedback

If you found this report useful, or have suggestions for improvement, please provide feedback to feedback@pbo.gov.au.

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Understanding and navigating the 2026 Intergenerational Report (IGR)

All chart data, projections, and table contents are from the 2026 and 2023 Intergenerational Reports. A data pack containing the relevant 2026 IGR data used for each chart in this Guide can be downloaded from the [PBO's website](#). The pack includes a summary of the 2026 IGR's data on sensitivity analyses for ease of comparison, including an interactive chart in excel.

The Intergenerational Report (IGR) is a government document that projects the outlook for the economy and the Budget over the next 40 years. The IGR highlights key spending and tax pressures and is intended to help the Australian Government, Parliament and Australian people understand long-term challenges for the Budget and the economy. This Guide aims to provide context and understanding of the IGR, giving readers a grounding to better support their engagement with the report.

The IGR examines long-term sustainability of the Budget and government policies and how structural changes affect the economy and the Commonwealth Budget. The first IGR was published in 2002, consistent with the *Charter of Budget Honesty Act 1998* (the Charter),¹ which stated that:

'An intergenerational report is to assess the long term sustainability of current Government policies over the 40 years following the release of the report, including by taking account of the financial implications of demographic change.'

The 2026 IGR projects the outlook for the Australian economy and the government's Budget out to 2065-66.² These projections are intended to assist the Australian Government, the Parliament and the Australian people understand the long-term implications of current policy settings and the challenges and opportunities that may emerge in future. The key pressures identified in the 2026 IGR are:³

- Population ageing which will drive growth in health and aged care spending. Despite projected structural savings due to policy changes in the 2026-27 Budget, the NDIS and aged care spending are expected to grow faster than gross domestic product (GDP) over the long term, driven by an ageing population and non-demographic factors that affect cost growth.⁴
- Changes to the composition of the revenue base, due to an ageing population, global fragmentation and the transition to net zero. Although the IGR adopts an assumption that total tax receipts to GDP will be 24.2% over the long term, longer-run trends will change the overall composition of the tax base.⁵ Personal income tax receipts will remain the largest share of tax receipts over the long term.
- Increased defence spending due to geopolitical fragmentation.
- Climate change.
- Higher debt servicing costs.
- A maturing of the superannuation system, leading to the Age Pension being projected to fall as a share of GDP.⁶

The IGR projections illustrate how economic and fiscal outcomes might evolve if policies remain consistent with current settings. Projections between IGRs can change materially as circumstances change, including because of external factors, or policy decisions taken by governments.

The IGR can be best understood as a tool to support informed discussion about current policy settings, and which motivates policies that meet future challenges.

The economic and population projections are important because they help estimate future government revenues, expenditures and resulting government debt.

Presenting fiscal projections as a percentage of GDP provides a way to make comparisons over time and serve as a benchmark for analysing the sustainability of Australian Government finances.

The evolution of the IGR

The 2026 IGR is the 7th edition. The Charter requires that an IGR be publicly released at least once every 5 years.⁷ The government has committed to releasing an IGR once every 3 years in the middle of the parliamentary term.⁸

IGRs have tended to adopt similar structures, identifying the expected major driving forces of the economy, and producing analysis of impacts on the Budget over 40 years.

Over time the thematic focus of the key drivers that are explored in IGRs has shifted and grown. The primary concern of the 2002 IGR was to identify ‘emerging issues associated with an ageing population’, consistent with requirements in the Charter. The lens of the ageing population was used to assess future economic growth, anticipated spending pressures on health, Age Pension and aged care as well as the resulting impact on net debt. The focus on population ageing was also a feature of the 2007 IGR.

Since then, the subsequent 4 IGRs have added breadth and depth to the focus areas which are expected to have a material impact on Australia’s fiscal sustainability. These focus areas have included climate change, fiscal discipline, COVID-19 recovery, digital transformation, rising demand for care and support services and geopolitical risks and fragmentation.

The 2026 IGR identifies 5 major transitions occurring over the next 40 years that are likely to have economic and social impacts:

1. Artificial intelligence (AI) revolution
2. Geopolitical fragmentation
3. Energy transition
4. Ageing and the care economy
5. Australia’s industrial transformation.

Navigating the IGR

The IGR is split into 3 major sections:

- Part 1: Discusses 5 major transitions shaping Australia's economy, covering AI, geopolitical fragmentation, energy transition, ageing and the care economy, and Australia's industrial transformation, as well as a chapter on intergenerational equity.
- Part 2: Discusses the major forces that are expected to shape and influence the Australian economy, including the trajectory of Participation, Population and Productivity (the 3Ps framework).
- Part 3: Focuses on projections of the budget balance and debt, as well as detailed analysis of projected government spending and revenue.

Part 1 is a new section for an IGR, previously these transitions were included as general considerations within other parts of the IGR.

Headings are sorted by key drivers of change in the economy and by key budget aggregates (Figure 1).

Figure 1: Intergenerational Report 2026 – Structure

Contents	
	Treasurer's forewordv
	Executive summaryvii
Part 1: Explores the major transitions facing Australia over the next 40 years	Part I: Major transitions over the next 40 years 1 1 The artificial intelligence (AI) revolution 3 2 Geopolitical fragmentation 33 3 Energy transition 57 4 Ageing and the care economy 79 5 Australia's industrial transformation..... 99 6 Intergenerational equity..... 119
Part 2: Looks at the major forces shaping the economy (the 3Ps framework)	Part II: The economy over the next 40 years139 7 Economy 141 8 Population 153 9 Participation 171 10 Productivity 191
Part 3: Projections for the Budget, including spending and revenue projections	Part III: The budget over the next 40 years207 11 The budget..... 209 12 Government spending..... 225 13 Revenue..... 261 14 The balance sheet..... 279

Fiscal projections include the underlying cash balance and government debt

Spending projections include key drivers of increased expenditure and major spending pressures

Revenue projections include structural changes and shifts in the source of revenue (the tax mix)

The appendices provide further detail on methodology, key concepts and sensitivity analyses.

Figure 2: Intergenerational Report 2026 – Appendices

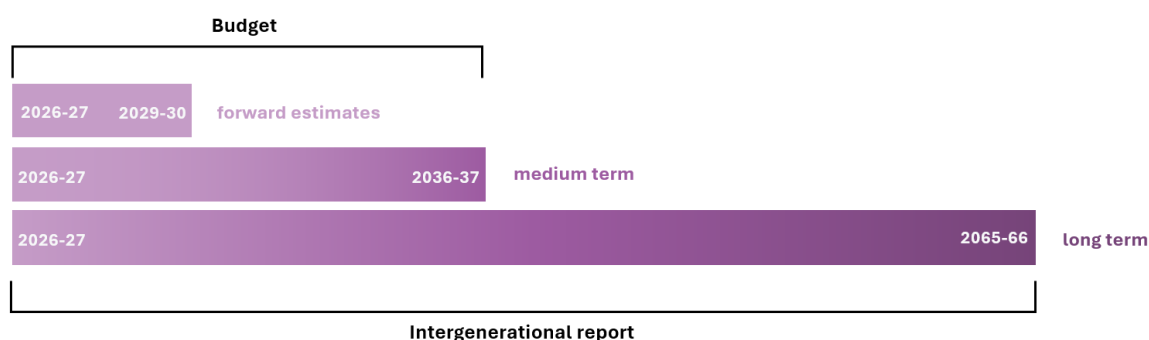
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How are things measured in the IGR?

The following concepts provide helpful context for understanding the analysis and projections presented in the IGR. This Guide will cover the time periods, forecasts versus projections, gross debt and the underlying cash balance and why percentage of GDP is used as the main measure.

For more explanations of key budget terms, see the IGR's glossary⁹ and the PBO's [Online budget glossary](#).

Time periods used in the 2026-27 Budget and 2026 IGR



- The **budget year**: 2026-27.
- The **forward estimates**: the budget year and the 3 following years (2026-27 to 2029-30).
- The **medium term**: the budget year and the 10 following years (2026-27 to 2036-37).
- The **long term**: covers 40 years to 2065-66.

Forecasts versus projections

Figures presented in the above timeframes are generally referred to as forecasts or projections. There are important distinctions between these terms.

Forecasts cover the forward estimates period and are based on detailed analysis of the economy and policy settings. The forecasts enable the production of the full suite of budget papers including financial statements, Portfolio Budget Statements and the annual Appropriation Bills.

Projections extend beyond the forward estimates period. Compared with forecasts, they are less detailed and rely on high-level assumptions about population, participation, productivity and other long-term trends.

Gross debt and the underlying cash balance

The underlying cash balance (UCB) is the Australian Government's primary budget measure. It shows the difference between cash receipts and cash payments in a financial year. A surplus occurs when receipts exceed payments, while a deficit occurs when payments exceed receipts.

When a deficit occurs, governments usually raise additional funds by selling bonds, which are bought back by the government years later for a set amount, called the 'face value'. The government pays interest to the holders of the bonds. Gross debt is the face value of all the bonds on issue. Higher gross debt results in higher interest payments, which decreases the UCB.

Together, the UCB and gross debt provide a more complete picture of the government's finances. The UCB largely shows whether borrowing is increasing or decreasing in a given year, while gross debt reflects the accumulation of borrowing over time. Persistent deficits lead to higher debt.

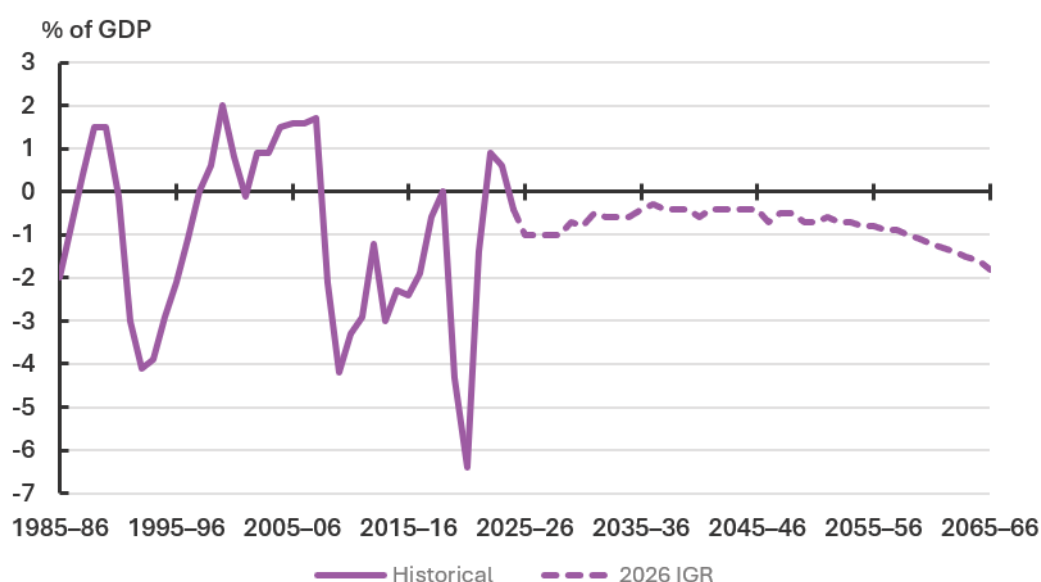
Why use percentage of GDP?

The IGR primarily presents most of its projections as a percentage of GDP. This allows figures to be considered relative to the size of the economy and allows comparison over time of how projections are growing compared to the economy.

For example, the 2026-27 Budget forecasts almost \$830 billion in government payments in 2026-27.¹⁰ This is equivalent to 26.8% of GDP. In 1986-87, 40 years ago, \$830 billion would have been equivalent to 289% of GDP.¹¹ In 2065-66, \$830 billion is projected to be around only 5.0% of GDP. Simple dollar figures are problematic to compare over longer time periods.

The 2026 IGR projects that the UCB will start at a deficit of 1.0% of GDP in 2026-27, improving to a deficit of 0.3% of GDP in 2036-37, then decline over the long term to reach a deficit of 1.8% of GDP in 2065-66 (Chart 1).¹²

Chart 1: Underlying cash balance as a share of GDP



Source: 2026 IGR, Chart 11.2, p. 212.

Drivers of real GDP growth – 3Ps framework

Central to the IGR and Budget projections, are assumptions for the three key drivers of the economy's sustainable productive capacity:

- Population
- Participation
- Productivity.

Collectively, these are referred to as the 3Ps framework. Potential GDP represents the amount of goods and services that can be produced when labour and capital are fully employed at normal levels, without creating inflationary pressures.

The IGR combines projections for real GDP with assumptions about prices to determine nominal GDP – the dollar value of goods and services produced. The IGR assumes prices grow by 2.5% each year, the middle of the Reserve Bank of Australia's inflation target band.¹³ Nominal GDP is a relevant point of comparison for government spending, revenues and debt.

Figure 3 sets out the 3Ps conceptual framework. The practical translation of these concepts is summarised in Table 1 below. The 2026 IGR also has a data pack and fact sheets available from the [Treasury's website](#).

Figure 3: 3Ps Framework

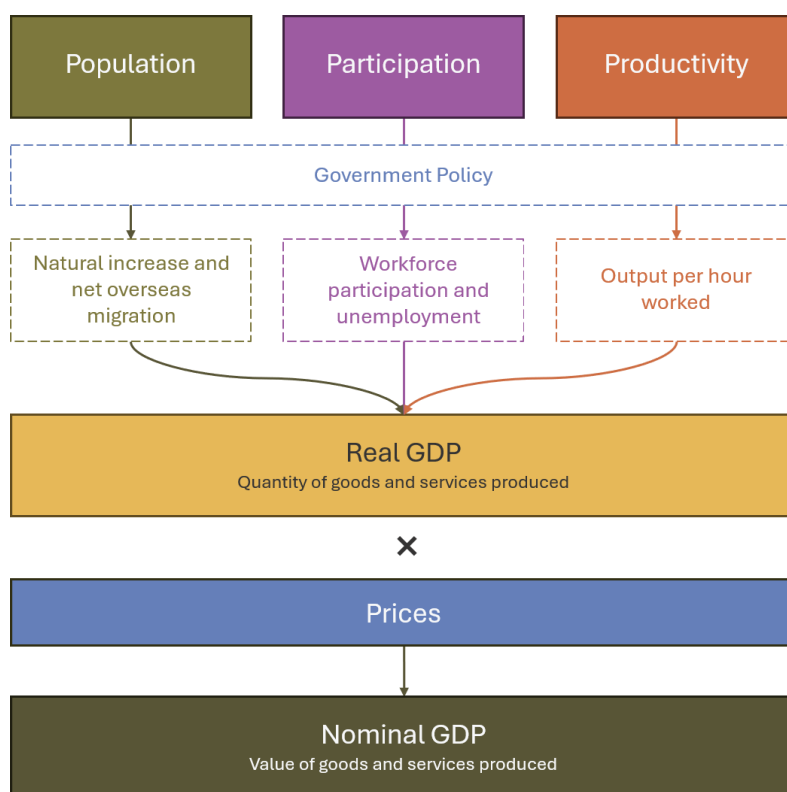


Table 1: Key economic parameters – the economy

Item	Long-term projection period		Comparison 2026 IGR and 2023 IGR
	2023 IGR	2026 IGR	
Labour force participation rate (15+) (%) (final year of projection period)	63.8	64.7	Participation rates have been successively revised upwards since the first IGR, and projections have been substantially upgraded in the 2026 IGR from the 2023 IGR. The difference between participation rates in the 2023 and 2026 IGR is shown in Chart 3. The participation rate in the 2026 IGR is projected to continue rising until 2039-40 (67.7%), driven by higher participation among women and older Australians, then decrease to 64.7% by 2065-66 due to population ageing.
Productivity (% growth)	1.2	1.2	Productivity growth is assumed to be 1.2% per year in the 2026 IGR, the same rate as the 2023 IGR.
Population growth (% per year; annual average over the long-term projection period) (a)	1.1	0.9	Long-run annual average population growth over the next 40 years is lower at 0.9% in the 2026 IGR, compared to 1.1% in the 2023 IGR. A lower fertility rate is identified in the IGR as the main driver of slower population growth and faster ageing. Longer life expectancy (higher than the 2023 IGR) and an older age structure will also contribute to the decrease in rates of natural increase (the difference between births and deaths).
Fertility (babies per woman; last year of long-term projection period) (b)	1.62	1.34	The long-term fertility rate used in the 2026 IGR is 1.34 births per woman. The long-term rate used in the 2023 IGR was 1.62 children per woman. The revised fertility rate is expected to be driven by both delayed family formation and smaller family sizes.
Mortality (annual deaths per year; last year of the projection period)	332,000	348,000	The Australian Government Actuary (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.
Net overseas migration (NOM) (per year; constant from 2031-32 in the 2023 IGR and from 2030-31 in the 2026 IGR)	235,000	235,000	Long-run NOM is the same as the 2023 IGR (and 2021 IGR), at 235,000 people per year. The average contribution to population growth from NOM is 0.7 percentage points, the same as the 2023 IGR.
Nominal GDP (% growth; average over the long-term projection period)	4.6	4.5	Annual nominal GDP growth over the long-term projection period is projected to be 4.5% in the 2026 IGR, lower than the 4.6% in the 2023 IGR. The downwards revision to nominal GDP growth reflects a decrease in projected real GDP growth. As productivity assumptions have been held constant and the labour force participation rate has been upgraded, the projected decrease in real GDP growth is driven by downgraded population growth assumptions.

Item	Long-term projection period		Comparison 2026 IGR and 2023 IGR
	2023 IGR	2026 IGR	
Inflation (CPI % growth)	2.5	2.5	Inflation growth is set at 2.5% in the long-term in 2023 and 2026 IGRs consistent with the RBA fulfilling its mandate for the target inflation band.
Wages (% growth)	3.7	3.7	Nominal wages growth is projected to converge to 3.7% per year in the 2023 and 2026 IGRs, consistent with the projection for domestic inflation and the long-run labour productivity growth assumption.
Terms of trade and commodity prices	High	Lower than 2023	The terms of trade measure export prices relative to import prices. In the 2023 IGR, the terms of trade were at a record high due to unusually high commodity prices caused by Russia's invasion of Ukraine and tight global supply conditions. In the 2026 IGR the terms of trade have declined from their 2023 peak (Chart 2.5, 2026 IGR, p. 41).

Source: 2026 IGR and 2023 IGR

- (a) In the 2026 IGR population growth is assumed to decline from 1.4% in 2025-26, to 0.8% by 2045-46 and 0.6% by 2065-66 (2026 IGR, Table A2.1). In the 2023 IGR, population growth is 1.1% on average and was assumed to decline from 2.0% in 2022-23, to 1.0% in 2042-43 and 0.8% by 2062-63 (2023 IGR, Table A3.1).
- (b) In the 2026 IGR the fertility rate is assumed to decline from 1.44 in 2025-26, to 1.41 by 2045-46 and 1.34 by 2065-66 (2026 IGR, Table A2.1). In the 2023 IGR, the fertility rate was assumed to decline from 1.66 in 2022-23, to 1.62 over the projection period from 2032-33.

Population

Population contributes to the economy's productive capacity by increasing the number of people available to work – the working-age population. Population growth is driven by 2 factors: natural increase (births minus deaths each year) and net overseas migration.

The effect of population growth on the long-term economic outlook also depends on the population's age profile.¹⁴ In particular, it depends on the proportion of the 65+ population relative to the working-age population (15-64 years old), as measured by the old-age dependency ratio.

More broadly, the size of the total population determines the potential workforce over time.

The 2026 IGR assumes the population grows at an average rate of 0.9% per annum,¹⁵ reaching 39.3 million by 2065-66.¹⁶ This is lower than the 1.1% annual average used in the 2023 IGR,¹⁷ largely reflecting a reduction in the assumed total fertility rate from 1.62 to 1.34 babies per woman at the end of the projection period.¹⁸

Net overseas migration is assumed to be 235,000 per year over the long run,¹⁹ unchanged from the previous IGR. For the first time in an IGR, deaths are projected to exceed births within the next 40 years.²⁰ As such, from the 2060s projected population increases are the result of net overseas migration.

Box 1: Population assumptions

Scenarios showing the impact of changes to population assumptions – fertility (1.34 babies per woman) and net overseas migration (235,000 per year) – are provided in the IGR.

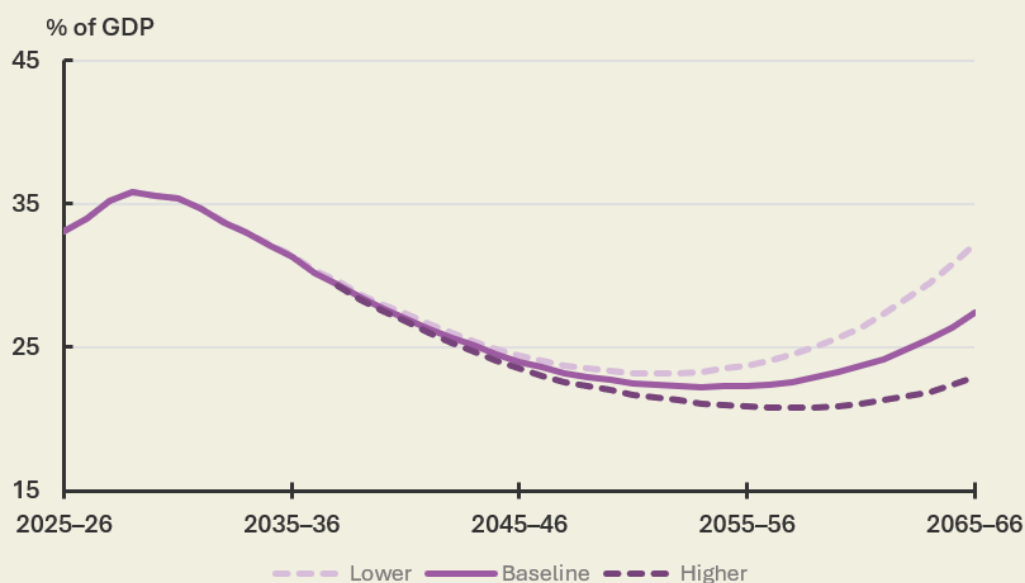
The lower population growth scenario assumes net overseas migration is 50,000 lower each year from 2036-37, and that the long-run fertility rate falls to 1.24 births per woman by 2065-66.²¹

The higher population growth 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 2065-66.²²

Changes in population assumptions have flow-on effects for population size and median age, which translates into impacts on the working-age population, real GDP, government spending and gross debt.

Chart 2 shows the effect on gross debt from changing the population assumption. Lower population growth results in a smaller and older population. This increases spending on the Age and Service Pensions, health care, aged care and disability support as a share of the economy. As a result, budget deficits and gross debt are higher than they would otherwise be. A higher population growth scenario has the opposite effect.

Chart 2: Impact on gross debt of population change scenarios



Source: 2026 IGR, Chart 8.4, p. 156.

Participation

Participation refers to the proportion of the population that participates in the workforce and the number of hours they work. Increasing workforce participation increases the economy's ability to supply goods and services and increases output and incomes.

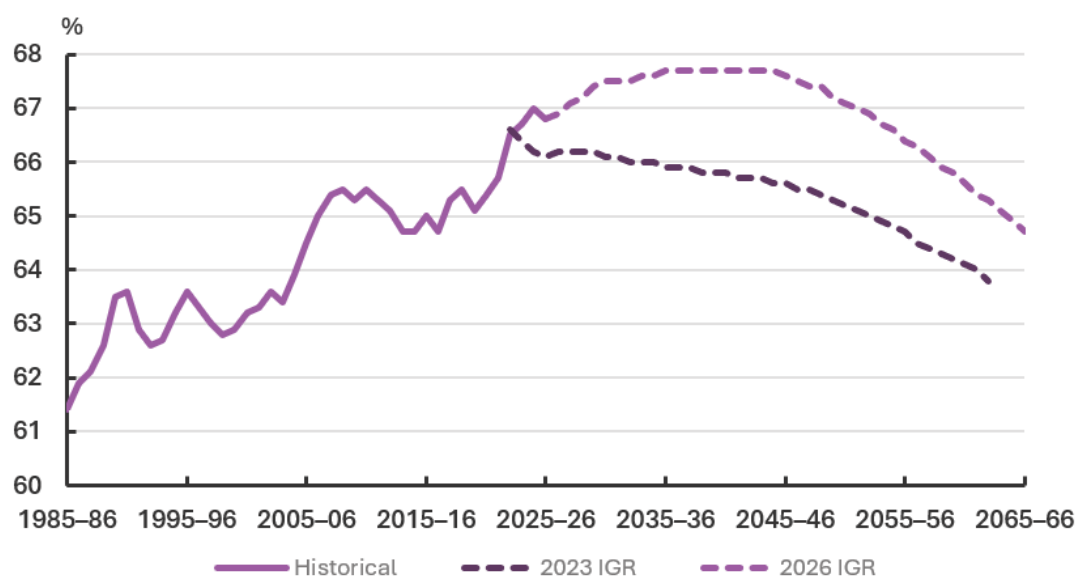
The 2026 IGR projects that the participation rate will rise to 67.7% by 2039-40, before declining to 64.7% by 2065-66 (see Chart 3).²³ Compared to the 2023 IGR, it is projected to peak later and 1.1 percentage points higher than previously expected.²⁴

The participation rate is affected over time by 2 contrary forces: the higher participation of some age and gender cohorts and the ageing population and rising old-age dependency ratio.

The effects of higher participation of older Australians and of women outweigh the effect of an ageing population until 2039-40. The 65+ participation rate is projected to be 1 percentage point higher in the 2026 IGR than the 2023 IGR.²⁵ The ageing of the population outweighs the cohort participation effects from 2039-40, and projected participation rates decline.

Average hours worked among those employed is projected 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 2065-66.²⁶ This reflects a higher prevalence of part-time work and population ageing.

Chart 3: Projected participation rate 2026 and 2023 IGR



Source: 2026 IGR, Chart 9.1, p. 173.

Productivity

Productivity refers to the amount of economic output generated from a given level of inputs and is commonly measured as real GDP per hour worked. Productivity expands the economy's capacity to produce goods and services without requiring a proportional increase in labour or capital inputs. Productivity gains can also be reflected in improvements in the quality of goods and services available in the economy. In the long run, it is the primary source of higher living standards.

In the IGR, productivity improvements are projected to be driven by technological advancements (including AI adoption), innovation, greater access to information, improved organisational practices, improved workforce skills and more efficient use of resources.

The 2026 IGR assumes long-term productivity growth of 1.2%.²⁷ This is the same as the 2026-27 Budget and 2023 IGR. See Box 2 for more detail on productivity assumptions.

Government policy can support productivity by promoting investment in people, capital and innovation. It can facilitate the diffusion of new technologies and ideas and provide efficient infrastructure. The IGR identifies investment in people, capital, innovation and infrastructure, and measures supporting competition, as factors that can support productivity.

Box 2: Productivity assumption

Productivity growth has slowed in Australia and most advanced economies since the mid-2000s. This reflects a combination of long-term trends, including slower innovation and uptake of new technologies, an ageing population, and a growing share of economic activity occurring in service industries, where productivity growth can be more difficult to achieve and measure.

The 2026 IGR assumes long-term productivity growth of 1.2%. This rate factors in a technological change assumption, of which AI is a part of. AI adoption is treated as an important factor underpinning future productivity growth, but is a source of uncertainty for those growth estimates.

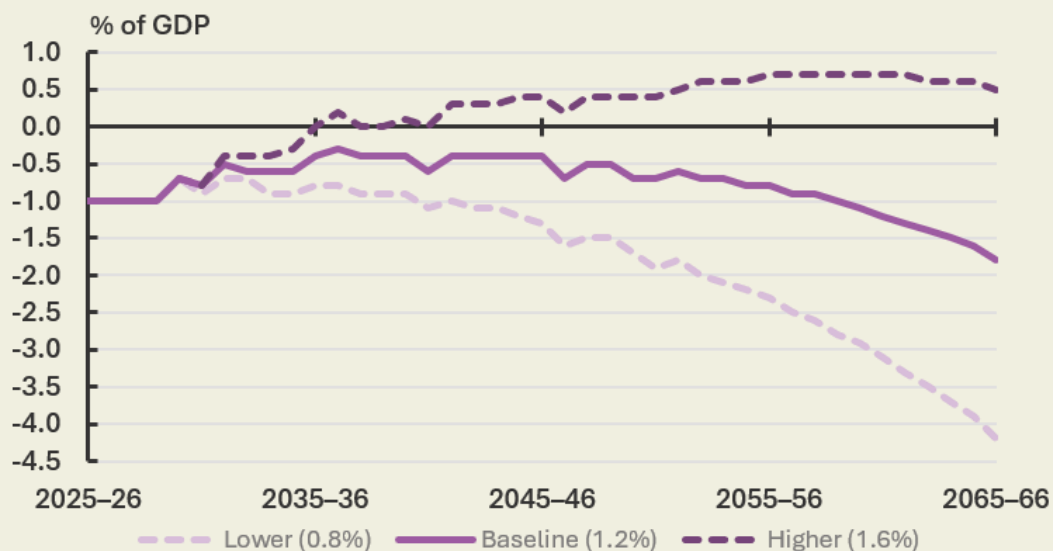
Productivity growth is difficult to predict and assumptions are highly uncertain. It is possible that productivity could deviate materially from the projected 1.2%, though 1.2% is consistent with Australia's position relative to the US projections, which are often described as at the 'productivity frontier'.

Other governments and independent fiscal authorities have adopted a range of productivity assumptions, the IGR noted:

- United States 1.4% (over the next 30 years)
- United Kingdom 1.5% (over the next 50 years)
- New Zealand 1.0% (historical 30-year average)
- Canada 0.9% (historical 25-year average).

The 2026 IGR has included sensitivity analysis which considers scenarios under higher and lower productivity (1.6% and 0.8%, respectively). Changes in the productivity assumption have impacts on real and nominal GDP and wages, with flow-on impacts to the government's fiscal position (see Chart 4).

Chart 4: Impact on underlying cash balance of productivity sensitivity analysis



Source: 2026 IGR, Chart 10.2, p. 195.

Fiscal sustainability: What is it and why does it matter?

Fiscal sustainability refers to the government's ability to maintain its long-term fiscal policy settings without the need for major remedial policy interventions. To achieve fiscal sustainability, governments need to structure the Budget and the fiscal strategy to ensure historical approaches to borrowing and repaying debt can generally be maintained, while keeping taxation and spending within reasonable and expected bounds.

Achieving fiscal sustainability does not imply that budget surpluses are inherently desirable or that budget deficits are necessarily problematic. Rather, it refers to the government's ability to manage its finances over time. Deficits can be sustainable where economic growth and revenue growth outpace increases in government debt.

The IGR is a tool that supports the government in assessing long-run fiscal sustainability. The IGR projects current policy settings forward. The IGR is intended to communicate where there are pressure points on the Budget in the long term, arising from large-scale demographic, structural, technological and environmental changes and other major changes.

The 2026 IGR suggests that fiscal sustainability could face headwinds from the ageing population, slower economic growth, and emerging structural challenges such as climate change and geopolitical instability. These factors are expected to increase spending and create risks to future revenue, contributing to ongoing deficits and higher debt over time.

How are IGR projections calculated?

Methodology and assumptions

The calculations and key assumptions of IGR projections are included in the 2026 IGR's appendix in section A3. This Guide provides a summary of how spending and tax receipts are modelled.

Broadly, the projections in the IGR are based on the following methods:

- **Program-specific:** Items that are explicitly modelled, which are projected using the specific drivers that directly influence them. Most receipts, spending and balance sheet items are modelled.
- **Constant percentage of GDP:** Items that are projected using a technical assumption and are held constant as a share of the economy.

As described in *Drivers of real GDP growth – 3Ps framework* in this Guide, the IGR is based on projections for the population, which leads to projections for the economy and many government payments. The future composition of the population is based on assumptions on birth and mortality rates, as well as net overseas migration.

Many of the IGR projections for the budget aggregates (spending and tax) follow from the population and economy. For example, projections for the number of older people leads to projections for the cost of the Age Pension. Similarly, Commonwealth spending on health and education depends on the composition of the population. The IGR is based on program-specific models for these items.

Other government payments are not modelled based on demographics, because they do not directly relate to the size of the population or the economy. For example, spending on defence is a decision of government unrelated to other demographic or economic factors. For these items, the IGR generally takes a technical assumption of holding the spending constant as a share of GDP, meaning that the spending is simply assumed to grow with the size of the economy. State budget positions are not included in the IGR beyond Commonwealth payments to states and territories.

Government revenue is treated differently. The 2026 IGR makes a technical assumption that total government tax revenue does not exceed 24.2% of GDP, which applies from 2032-33 onwards. The 2023 IGR assumed total tax receipts would be held constant at 24.4% of GDP, which applied from 2033-34 onwards.²⁸ Total tax receipts include personal income taxes, company taxes, the goods and services tax (GST) and excise revenue. Tax receipts are held constant as a share of GDP because in the absence of changes to tax thresholds, personal income tax would increase over time while taxpayers' income levels keep rising and eventually shift into the highest-taxing threshold. In reality, this does not happen because governments periodically increase tax thresholds. Box 3 explores the results of this assumption and how it differs from the Budget.

Tables 2 and 3 detail a non-exhaustive list of expense and revenue items for the long-term forecasts and projections for the 2026 IGR and how they are modelled.

Table 2: Program-specific components of the Budget

PROGRAM-SPECIFIC	
Component of the Budget	
Receipts (Revenue)	Tax receipts (a) • GST • Excise • Personal income • Company tax Future Fund earnings • Interest receipts • Dividends Interest receipts • Term deposits • AOFM investments • Other Funds Other receipts • Returns on financial assets
Payments (Expenses)	Health • Public hospital funding • Medical benefits scheme (MBS) • Pharmaceutical benefits scheme (PBS) • Private Health Insurance Rebate • Other health spending Aged care • Residential care • At-home care Income support payments and benefits • Age and Service Pensions • Austudy • Child Care Subsidy • Carer Payment • Disability Support Pension • Family Tax Benefit • JobSeeker Payment • Paid Parental Leave • Parenting Payment • Youth Allowance NDIS (Commonwealth share) Public debt interest (PDI) Education • Higher Education • Schools • Vocational education and training GST payments to states (assumed to equal GST receipts plus the GST pool boost)
Balance sheet items	• Investment funds and government-financed investment vehicles • Australian Government Future Fund • Higher Education Loan Program (HELP) • Government employee superannuation

Source: 2026 IGR

(a) While tax receipts are modelled individually, a technical assumption is made that the total tax-to-GDP ratio does not exceed 24.2% from 2032-33.

Table 3: Constant share of GDP components of the Budget

CONSTANT % OF GDP	
Component of the Budget	
Receipts (Revenue)	• Tax receipts (a) • Non-taxation receipts • Sales of goods and services
Payments (Expenses)	Other payments (b) • Australian Public Service • Tourism • Community development • Payments to states and territories (Specific Purpose and National Partnership, excluding Commonwealth public hospital funding which is modelled specifically) • Official Development Assistance (foreign aid) Defence spending (c) Infrastructure Investment Pipeline (d)
Balance sheet items	• Some smaller components are held constant

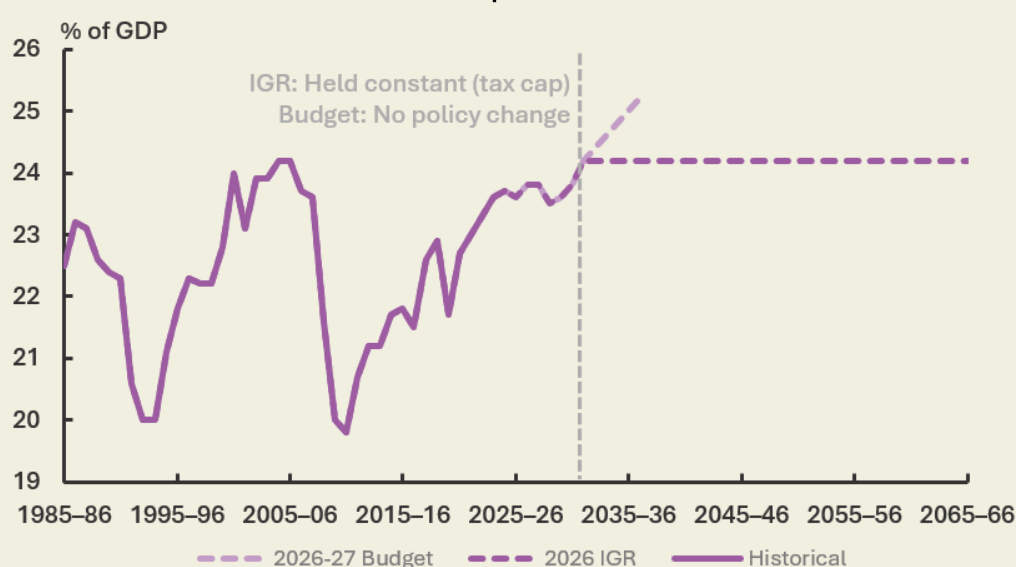
Source: 2026 IGR

- (a) While tax receipts are modelled individually, a technical assumption is made that the total tax-to-GDP ratio does not exceed 24.2% from 2032-33. Company tax and GST and other income tax receipts are held constant as a proportion of GDP from 2036-37.
- (b) 'Other payments' includes spending on things like the Australian Public Service, tourism and community development. It is calculated as the residual of the difference between total program specific 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.
- (c) Defence spending is modelled until 2033-34, then held constant at 2.5% of GDP to 2065-66.
- (d) Expenditure under the Infrastructure Investment Pipeline (IIP) is not modelled over the long term. Instead, it is assumed to be at least 0.33% of GDP through the medium term and held at that level through to the end of the long-run projection period (2026 IGR, p. 257).

Box 3: Methodology and tax receipts

Decisions on how to forecast and project figures across a 40-year period have a material impact on the results. For example, the UCB projections for the medium term differ between the 2026-27 Budget and the 2026 IGR. This is largely due to a different approach to projecting tax receipts. In contrast to the 2026-27 Budget, which assumes no policy changes, the 2026 IGR adopts a technical assumption that from 2032-33 the tax-to-GDP ratio does not exceed 24.2% (Chart 5).²⁹ As a result, while the 2026-27 Budget projects a budget surplus by 2035-36, the 2026 IGR does not project a surplus across the 40-year period.

Chart 5: Tax receipts as a share of GDP



Source: 2026 IGR, Chart 13.1, p. 264.

Sensitivity analysis

Long-term projections are based on assumptions which are inherently uncertain. Sensitivity analyses are used in the IGR to test how projected outcomes change when key assumptions are varied. This helps illustrate the range of plausible outcomes and identify which parameters set in the assumptions have the greatest effect on the results.

Historically IGRs have included sensitivity analyses focussed on differing assumptions for population, participation and productivity (the 3Ps) and yields (borrowing costs). The 2026 IGR includes these, as well as new sensitivity analyses covering the tax-to-GDP assumption and aggregate spending.

Sensitivity analyses are included in Boxes throughout the IGR. There are detailed breakdowns of the results of the 3Ps sensitivity analyses, including impacts on GDP growth, spending and fiscal projections, in Table A4.2 in Appendix A4 (page 324).

Part 2 of the IGR considers the following sensitivity analyses:

- higher and lower population projections (Box 8.1, page 156)
- higher and lower trend participation rate (Box 9.1, page 175), and
- higher and lower trend productivity growth (Box 10.1, page 195).

Part 3 of the IGR includes sensitivity analyses on:

- higher and lower government bond yields (Box 11.3, page 223-224)
- higher and lower aggregate spending (Box 12.1, page 228), and
- higher and lower tax assumption (Box 13.2, page 266).

The results of these analyses are summarised below in Tables 4 and 5. A full summary of sensitivity analysis data, including all years and a charting tool, is available in the PBO's *Guide to the 2026 IGR data pack*. The 2026 IGR has a data pack with all chart data and fact sheets available from the [Treasury's website](#).

Table 4: Sensitivity analysis - 3Ps (% of GDP)

Item	Aggregate	Scenario	Assumption	2025-26 (% of GDP)	2036-37 (% of GDP)	2050-51 (% of GDP)	2065-66 (% of GDP)	Change 2025-26 to 2065-66 (percentage points)
Population (IGR Box 8.1)	Underlying cash balance	Lower	Long-run NOM, 185,000; Long-run fertility rate 1.24	-1.0	-0.3	-0.8	-2.4	-1.4
		Baseline	Long-run NOM, 235,000; Long-run fertility rate 1.34	-1.0	-0.3	-0.7	-1.8	-0.8
		Higher	Long-run NOM, 285,000; Long-run fertility rate 1.44	-1.0	-0.3	-0.6	-1.3	-0.3
	Gross debt	Lower	Long-run NOM, 185,000; Long-run fertility rate 1.24	33.1	30.3	23.2	32.2	-0.9
		Baseline	Long-run NOM, 235,000; Long-run fertility rate 1.34	33.1	30.2	22.5	27.4	-5.7
		Higher	Long-run NOM, 285,000; Long-run fertility rate 1.44	33.1	30.1	21.7	22.9	-10.2
Participation (IGR Box 9.1)	Underlying cash balance	Lower	Participation rate (15+) (%), 62.7	-1.0	-0.4	-1.0	-2.6	-1.6
		Baseline	Participation rate (15+) (%), 64.7	-1.0	-0.3	-0.7	-1.8	-0.8
		Higher	Participation rate (15+) (%), 66.7	-1.0	-0.2	-0.4	-1.0	0.0
	Gross debt	Lower	Participation rate (15+) (%), 62.7	33.1	30.7	25.3	35.7	2.6
		Baseline	Participation rate (15+) (%), 64.7	33.1	30.2	22.5	27.4	-5.7
		Higher	Participation rate (15+) (%), 66.7	33.1	29.8	19.6	19.0	-14.1
Productivity (IGR Box 10.1)	Underlying cash balance	Lower	Productivity growth (%), 0.8	-1.0	-0.8	-1.9	-4.2	-3.2
		Baseline	Productivity growth (%), 1.2	-1.0	-0.3	-0.7	-1.8	-0.8
		Higher	Productivity growth (%), 1.6	-1.0	0.2	0.4	0.5	1.5
	Gross debt	Lower	Productivity growth (%), 0.8	33.1	32.6	33.5	55.9	22.8
		Baseline	Productivity growth (%), 1.2	33.1	30.2	22.5	27.4	-5.7
		Higher	Productivity growth (%), 1.6	33.1	28.0	12.3	2.4	-30.7

Source: 2026 IGR

Table 5: Sensitivity analysis - Bond yields, spending and taxation receipts (% of GDP)

Item	Aggregate	Scenario	Assumption	2025-26 (% of GDP)	2036-37 (% of GDP)	2050-51 (% of GDP)	2065-66 (% of GDP)	Change from 2025-26 to 2065-66 (percentage points)
Government bond yields (IGR Box 11.3)	Underlying cash balance	Lower	Average long-term bond yield (%), 3.4 (a)	-1.0	-0.3	-0.5	-1.4	-0.4
		Baseline	Average long-term bond yield (%), 4.4 (a)	-1.0	-0.3	-0.7	-1.8	-0.8
		Higher	Average long-term bond yield (%), 5.4 (a)	-1.0	-0.3	-1.0	-2.3	-1.3
	Gross debt	Lower	Average long-term bond yield (%), 3.4 (a)	33.1	29.8	20.5	22.4	-10.7
		Baseline	Average long-term bond yield (%), 4.4 (a)	33.1	30.2	22.5	27.4	-5.7
		Higher	Average long-term bond yield (%), 5.4 (a)	33.1	30.6	24.8	34.0	0.9
Aggregate spending (IGR Box 12.1)	Underlying cash balance	Lower	Aggregate spending (% GDP long-run), 26.7 (b)	-1.0	0.9	1.1	0.5	1.5
		Baseline	Aggregate spending (% GDP long-run), 27.7 (b)	-1.0	-0.3	-0.7	-1.8	-0.8
		Higher	Aggregate spending (% GDP long run), 28.7 (b)	-1.0	-1.4	-2.5	-4.2	-3.2
	Gross debt	Lower	Aggregate spending (% GDP long run), 26.7 (b)	33.1	26.0	4.0	0.6	-32.5
		Baseline	Aggregate spending (% GDP long run), 27.7 (b)	33.1	30.2	22.5	27.4	-5.7
		Higher	Aggregate spending (% GDP long run), 28.7 (b)	33.1	34.4	41.2	62.0	28.9
Tax assumption (IGR Box 13.2)	Underlying cash balance	Lower	Tax receipts (% GDP), 23.2 (c)	-1.0	-1.4	-2.5	-4.2	-3.2
		Baseline	Tax receipts (% GDP), 24.2 (c)	-1.0	-0.3	-0.7	-1.8	-0.8
		Higher	Tax receipts (% GDP), 25.2 (c)	-1.0	0.8	1.1	0.5	1.5
	Gross debt	Lower	Tax receipts (% GDP), 23.2 (c)	33.1	33.2	40.3	61.5	28.4
		Baseline	Tax receipts (% GDP), 24.2 (c)	33.1	30.2	22.5	27.4	-5.7
		Higher	Tax receipts (% GDP), 25.2 (c)	33.1	27.2	4.8	0.6	-32.5

Source: 2026 IGR

- (a) The 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% on average over the long-term projection period. 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.
- (b) 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.
- (c) Tax receipts as a percentage of GDP are held constant from the end of the medium term to the end of the projection period.

Endnotes

¹ [Charter of Budget Honesty Act 1998](#).

² State and territory budget positions are not included in the IGR beyond Commonwealth payments to states and territories.

³ 2026 IGR, p. 210

⁴ 2026 IGR, p. 242-243

⁵ 2026 IGR, p. 267

⁶ 2026 IGR, p. 245

⁷ The 2021 IGR was due in 2020, this requirement was adjusted by the government in 2020 as part of its COVID-19 legislative amendments.

⁸ In 2022, Treasurer [announced](#) the government's intention to release the IGR in the middle year of each parliamentary term.

⁹ 2026 IGR, p. 291-295

¹⁰ [Budget 2026-27 Overview](#), p. 58

¹¹ [PBO - Historical Fiscal Data - 2026-27 Budget](#).

¹² 2026 IGR, p. xvii

¹³ 2026 IGR, p. 303

¹⁴ 2026 IGR, p. 83-84

¹⁵ 2026 IGR, Chart 8.1

¹⁶ 2026 IGR, Chart 8.2

¹⁷ 2023 IGR, p. xi

¹⁸ 2026 IGR, p. 80 Chart 4.1

¹⁹ 2026 IGR, p. 144

²⁰ 2026 IGR, p. 153

²¹ 2026 IGR, p. 156

²² 2026 IGR, p. 156

²³ 2026 IGR, p. 144

²⁴ 2026 IGR, p. 171

²⁵ 2026 IGR, p. xiv

²⁶ 2026 IGR, p. 177

²⁷ 2026 IGR, p. xvi

²⁸ 2023 IGR, p. 235

²⁹ 2026 IGR, p. 209