

Forty Years Out

The 2026 Intergenerational Report, and how Australia has fared against the six that came before it

A briefing paper

21 September 2026

1.0 Executive Summary

The 2026 Intergenerational Report (IGR) is the **most optimistic of the seven IGRs to date** on the budget. Treasury's own description is that the long-term deficits in it are "*smaller than in most previous intergenerational reports*". Compared with the 2023 report, the underlying cash balance (UCB) is 1.2 ppts of GDP better by 2062-63, gross debt is 7.2 ppts lower, and projected growth in payments over the forty years has been cut from 3.8 ppts of GDP to 1.1 ppts.

Optimistic is a relative term, and it is worth being precise about what it is relative to. The 2026 report still projects a budget that worsens over its own horizon. The UCB is a deficit of 1.0% of GDP in 2025-26, narrows to 0.3% by 2036-37, then widens to 1.8% by 2065-66. Gross debt traces the same shape, falling to a trough of 22.2% of GDP in the mid-2050s before turning back up to 27.4%. **The net deterioration over the forty years is therefore 0.8 ppts of GDP on the cash balance.** That figure is the benchmark against which the rest of this paper judges the report's own uncertainty.

That improvement (UCB 1.2 ppts of GDP better when compared to the 2023 report) is real but narrow. Almost all of it is on the payments side, and the report says so: "*most of the improvement in the fiscal position is driven by lower payments*". The tax assumption was cut at the same time, from 24.4% to 24.2% of GDP. Within payments, the single **largest change is a reduction in projected National Disability Insurance Scheme (NDIS) spending**, from 2.1% to 1.5% of GDP in the end year. That is a projection of reform being delivered rather than a result already banked, and it is the line to watch.

The largest substantive revision in the report is not artificial intelligence. It is fertility. The long-run assumption has been cut from 1.62 to 1.34 births per woman, which alone removes 1.7 million people and adds 1.7 years to the projected median age by 2065-66. For the **first time in any of these reports, deaths are projected to outnumber births**, and to do so in every non-capital-city area except the Northern Territory.

On the historical record, the reports show a consistent pattern that is worth more than any single projection: they have been close to right on aggregate GDP while being wrong about every component, with the errors offsetting each other. The 2002 report projected real GDP growth of 2.3%/yr for the 2010s and the actual outcome was 2.37%. On real GDP per capita it projected 1.5%/yr and the outcome was 0.81%. It got the total right for the wrong reasons: **far more people and far more participation than it assumed, cancelling far less productivity than it assumed.**

Two conclusions follow. The first is that these are conditional projections, not forecasts, and three of the four assumptions carrying them have an error band at least as wide as that 0.8 ppt UCB deterioration itself. The second is that the sharpest risk in the report for a regional audience is not the national fiscal position at all. It is the widening gap between capital cities and the rest of the country, which is already part of the historical record and which the report projects to widen further.

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2.0 What the 2026 Report Says

The horizon for the 2026 IGR is 2065-66. Over the forty years the economy is projected to be more than twice its current real size, with real gross national income per person 55% higher. **Average annual real GDP growth of 2.0% is projected, against 3.0% over the past forty years**.

The population is projected to reach 39.3 million, growing 0.9% a year against 1.4% over the past forty years. Life expectancy at birth by 2065-66 is projected at 86.1 years for men and 89.5 for women, and the **population aged 85 and over triples.**

The participation rate peaks at 67.7% in 2039-40 and then eases to 64.7% by 2065-66. The underlying cash deficit narrows to 0.3% of GDP in 2036-37 before widening to 1.8% by 2065-66. Gross debt falls from 33.1% of GDP to a trough of 22.2% in the mid-2050s, then rises to 27.4%.

One projection seems to cut against the theme of an ageing population, and it's worth highlighting why. **Age and Service Pension spending is projected to fall from 2.3% to 1.8% of GDP despite population ageing**, **because the superannuation system is maturing.** Australia is unusual among advanced economies in projecting that line down.

3.0 What Has Changed Since 2023

Four changes matter. The ranking below is ours and it differs from the report's own presentation, which leads with artificial intelligence. We lead with fertility, because fertility is already in the data, is effectively irreversible on a forty-year view, and changes the size of the labour force rather than only the growth rate.

3.1 Fertility

The long-run total fertility rate assumption has been cut from 1.62 to 1.34 births per woman. The total fertility rate is the average number of births per woman over a lifetime at current age-specific rates, and replacement is about 2.1, so both figures sit well below it. That single revision removes 1.7 million people from the 2065-66 population and raises the projected median age by 1.7 years. The projected median age for 2062-63 is now 45.0 years, against 43.1 in the 2023 report.

Two consequences follow. **Deaths are projected to outnumber births nationally by the 2060s**, which no previous report has projected, and to do so in every non-capital-city area except the Northern Territory. Australia is not unusual in reaching that point; Japan, Germany, Italy and Korea have already passed it. What is new is that the report now expects Australia to get there too, and to get there unevenly across the country.

3.2 The fiscal improvement, and what it rests on

Commonwealth NDIS spending in the end year falls from 2.1% of GDP in the 2023 report to 1.5% in this one. More striking is the near term: the scheme is projected to fall as a share of GDP over the next decade, from 1.3% to 1.1%. That is a strong call on a programme that has not previously undershot its projections, and **the improved bottom line depends on it.**

Aged care also improves, from 2.5% to 2.3% of GDP in the end year, on the shift towards home-based care and higher co-contributions. Health does not improve at all: 6.2% of GDP in both reports. Ageing

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accounts for only about a third of the projected increase in health spending, with the balance coming from technology, wages and service quality.

Defence requires care in quotation. The report says spending rises to approximately 3% of GDP in the long run on the methodology used by NATO, while its own payments table shows 2.5% on the Australian Government payments basis. These are two different constructs and quoting them interchangeably would be wrong.

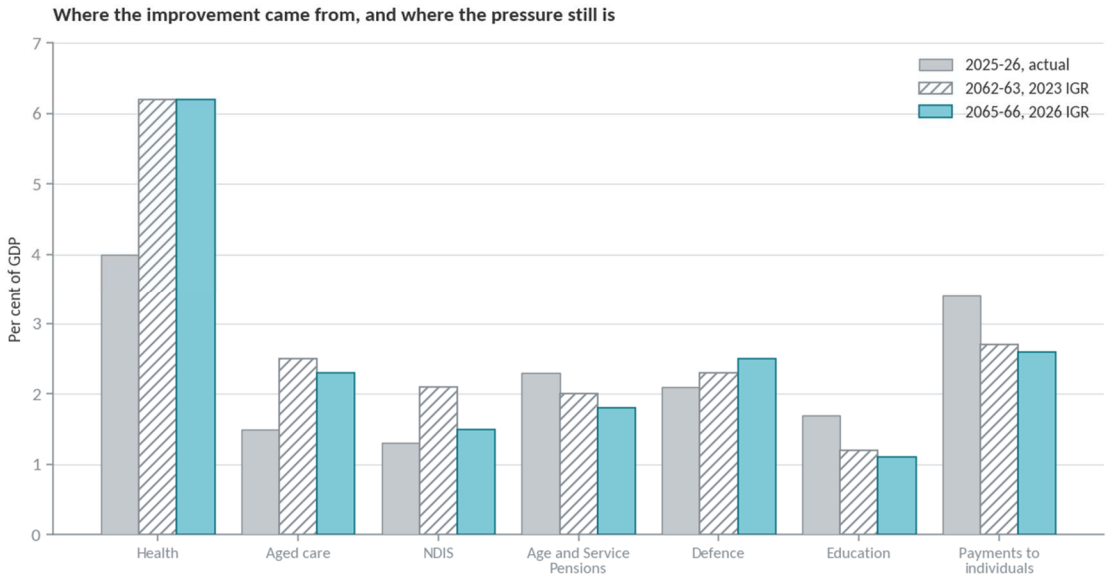


Figure 1: Major spending components as a share of GDP, now and at the end of the projection, against the 2023 report. The NDIS bar is where the improvement sits. Health is unchanged. Source: 2026 IGR Table A2.3; 2023 IGR Table A1.3.

3.3 Superannuation

Superannuation assets have grown from around $148 billion at the introduction of the Superannuation Guarantee in 1992 to around $4.8 trillion. The median balance at ages 65 to 69 rises from $204,000 in 2024 to approach $450,000 in nominal terms by the end of the medium term, and drawdowns reach almost 6% of GDP by 2065-66.

This is the clearest case in the whole lineage of reports of a long-run policy working as intended. The 2002 report argued that compulsory superannuation would "*lessen significantly the fiscal pressures on the Commonwealth over the next four decades*". Twenty-four years later, Age and Service Pension spending is projected to fall as a share of the economy while the population ages. **The projection that most needed to come true did.**

3.4 Artificial intelligence

The productivity assumption is unchanged at 1.2% a year. This matters for how the report should be read: **nothing in the fiscal projections assumes an artificial intelligence dividend**. The report's position is that AI is what gets Australia to the assumption already in use, not what beats it. Treasury's upside scenario of 1.5% to 2.0% is explicitly stylised and back-loaded towards the end of the forty years, and its own assessment is that current indicators are "*broadly consistent with the baseline scenario*".

Two figures are worth keeping straight. The Productivity Commission estimate the report leans on is at least 2.3% on the level of multifactor productivity over a decade, which is a level effect and not a

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growth rate. And adoption is currently wide but shallow: about two thirds of Australian businesses report adopting AI in some form, while fewer than 10% describe that adoption as significant.

Treasury does offer a useful ready reckoner. **Each additional 0.1 ppt that AI contributes to productivity growth from 2030-31 is worth about 0.07 ppts of GDP on the UCB and 0.3 ppts off gross debt by the end of a decade.**

4.0 The Assumptions Carrying the Fiscal Story

The projected deterioration in the UCB over the forty years is 0.8 ppts of GDP, from a deficit of 1.0% in 2025-26 to 1.8% in 2065-66. That number is the benchmark to keep in mind for everything in this section.

Assumption	Central case	Alternative tested	Effect on the UCB in 2065-66	Effect on gross debt
Tax receipts	capped at 24.2% of GDP from 2032-33	+/- 1.0pp	+2.3 / -2.4 ppts of GDP	26.8 / 34.0 ppts of GDP
Labour productivity growth	1.2% a year	+/- 0.4pp	+/- 2.3 ppts of GDP	25.0 ppts of GDP
Participation rate	64.7% in 2065-66	+/- 2.0pp	+/- 0.8 ppts of GDP	8.4 ppts of GDP
Population	net overseas migration 235,000 a year; fertility rate 1.34 births per woman	migration +/- 50,000 and fertility 1.24 to 1.44, together	+/- 0.6 ppts of GDP	4.8 ppts of GDP

Table 1: The four technical assumptions and the sensitivity Treasury itself publishes around each, ordered by the size of the effect. The projected deterioration over the forty years, for comparison, is 0.8 ppts of GDP. Source: 2026 IGR Boxes 13.2, 10.1, 9.1 and 8.1.

Three of the four bands are at least as wide as the entire projected UCB deterioration, and two are about three times as wide. Only the population band, at 0.6 ppts, is narrower, and that is the assumption we judge best anchored. The conclusion is not that Treasury has been careless but rather that the published central path sits inside its own error bars. **The 1.8% UCB by 2065-66 is not a forecast but instead the middle of a range of outcomes predicated on some assumptions; it's arithmetic rather than crystal-ball gazing.**

The participation row deserves particular attention because it is the one with a track record. A two percentage point participation surprise is worth 0.8 ppts of GDP on the end-year balance, which is the whole projected deterioration. Section 5.4 examines how likely that surprise is.

4.1 Productivity

The 1.2% per year assumption is almost exactly the forty-year average. But it only gets to 1.2% because it includes the 1990s, when productivity grew at 2.2% a year. Over the twenty years to 2025-26 the outcome is 0.8%. Over the last ten years it is 0.2%.

In fairness to the assumption, it is in line with international practice: the United Kingdom uses 1.5%, the United States 1.4%, New Zealand 1.0% and Canada 0.9%. Treasury is not an outlier. The honest framing is that the assumption is a return to the forty-year average, but that average has not been

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achieved for twenty years. That is not a criticism of the assumption so much as an acknowledgement that it is the **single largest risk to every figure downstream of it.**

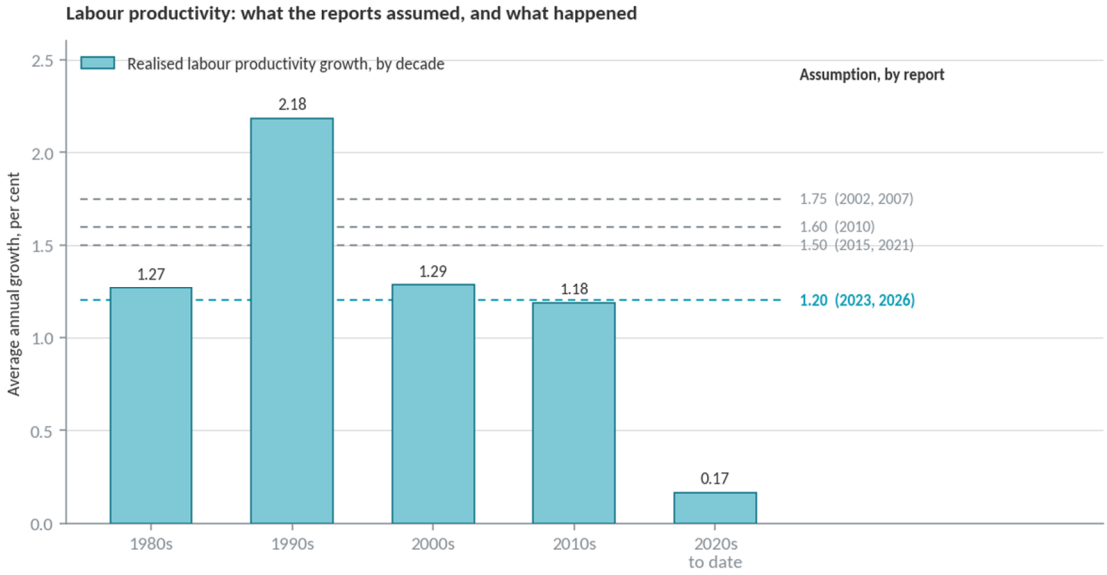


Figure 2: The productivity assumption in each of the seven reports, against what was realised in each decade. The assumption has been marked down three times, from 1.75% to 1.2%, and outcomes have still disappointed. Source: ABS 5206.0; the seven Intergenerational Reports.

4.2 The tax cap

Tax receipts are assumed not to exceed 24.2% of GDP, the level recorded in 2004-05 and 2005-06. Over the past four decades the ratio has ranged from 19.8% to 24.2%, so the cap has never been tested rather than met or missed. A one percentage point change either way moves the end-year balance by about 2.3 ppts of GDP and gross debt by 27 to 34 ppts, which is larger than everything else in the report combined.

The report is candid about why the cap exists. Without it, "*personal income tax would rise significantly as a share of GDP over the projection period*", which "*would not be realistic*". That is a statement that the **projection embeds a judgement about what future parliaments will do**. It follows that 'the budget returns to a deficit of 1.8% of GDP by 2065-66' would be more precisely stated as: if tax is never allowed to rise above its 2005 peak, the budget returns to a deficit of 1.8% of GDP.

4.3 Migration

Long-run net overseas migration (NOM) is assumed at 235,000 a year, unchanged across the 2021, 2023 and 2026 reports. This is the assumption most often attacked and it is the best anchored in the document. **The actual mean over the twenty financial years to 2024-25 is 235,059**.

The qualification is that the twenty-year mean spans a border closure and the catch-up that followed. Financial years 2022-23 to 2024-25 averaged 423,025, while the pre-pandemic mean over 2005-06 to 2018-19 was 222,601. The number is not wrong, but given current political realities it may be difficult to justify simply maintaining a twenty-year average for the next forty years.

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5.0 How the Reports Have Fared

5.1 Three different kinds of miss

The Intergenerational Report is required by the Charter of Budget Honesty to assess "*the long term sustainability of current Government policies*". **It is a projection under no policy change, not a forecast**. That distinction governs the whole of this section, because a projection that did not eventuate can be any of three quite different things.

It can be **forecast error**, where the world turned out differently: fertility, productivity, participation and migration are all in this category. It can be **a warning that worked**, where the projection was overturned by policy precisely because it was published, of which the Pharmaceutical Benefits Scheme is the textbook case. Or it can be a **technical assumption that was never a forecast at all**, as with the tax cap.

The short verdict is that these reports have been **good at demography** in aggregate, **poor at prices and behaviour**, that their **loudest single warning was defused by the policy response** it provoked, and that their **fiscal projections have been moved far more by crises and cycles** than by the ageing they exist to model.

Report	Horizon	Labour productivity assumed, % a year	Fertility rate assumed, births per woman	Population at horizon	Participation rate 15+ at horizon, %
2002	2041-42	1.75	1.60	25.3m	about 56
2007	2046-47	1.75	1.70	28.5m	57.1
2010	2049-50	1.60	1.90	35.9m	60.6
2015	2054-55	1.50	1.90	39.7m	62.4
2021	2060-61	1.50	1.62	38.8m	63.6
2023	2062-63	1.20	1.62	40.5m	63.8
2026	2065-66	1.20	1.34	39.3m	64.7
Outcome to date	**2024-25**	**0.23 (10yr)**	**1.48 (2024)**	**27.6m (30 Jun 2025)**	**67.0**

Table 2: The seven reports on one page. The last row is the outcome to date, not a projection. Replacement fertility is about 2.1. The productivity and fertility columns are each report's long-run assumption; the population and participation columns are its projection for the end of its own horizon. Sources: the seven reports; ABS 5206.0, 6202.0, 6291.0.55.001, 3101.0 and Births, Australia 2024.

5.2 Participation

The participation rate (PR) for people aged 15 and over hit a record 67.0% in 2024-25. Every report from 2002 to 2023 projected it to fall, and we are now above even the 2026 report's projection for 2065-66.

The 2002 report projected about 56% by the second half of the 2030s, and we are 11.0 ppts above that. The 2007 report projected 57.1% by 2046-47, and we are 9.9 ppts above. The 2010 report projected 60.6% by 2049-50, 6.4 ppts below where we are. The 2015 report projected 62.4% by 2054-55, 4.6 ppts below. The 2021 and 2023 reports projected 63.6% and 63.8% for their own horizons, 3.4

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ppts and 3.2 ppts below. The 2026 report projects 64.7% for 2065-66, which the outcome already exceeds by 2.3 ppts.

The same pattern holds on the traditional working-age measure. The 2007 report projected 15 to 64 participation of 78.1% by 2046-47. It is 80.6% now, twenty years early.

The size of the gap is the symptom rather than the argument. **What matters is whether the mechanism behind the projected fall is credible, and that is section 5.4.**

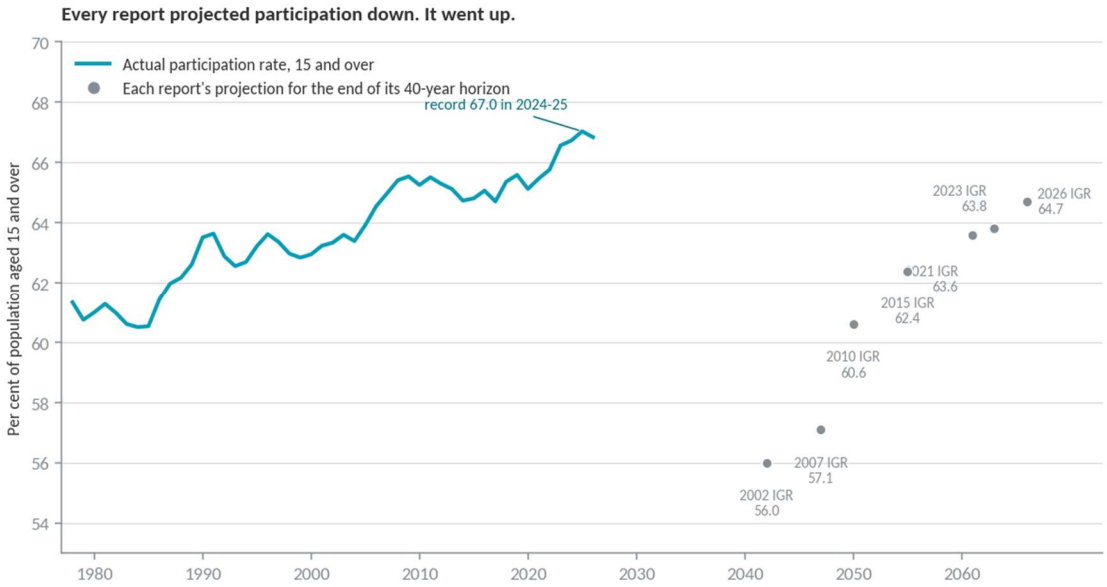


Figure 3: The participation rate for people aged 15 and over, against each report's projection for the end of its own forty-year horizon. Source: ABS 6202.0 Table 1, financial-year means of the Original series; the seven reports.

5.3 The two drivers

Between 1978-79 and 2024-25 the aggregate PR rose 6.3 ppts. The composition of that rise is the interesting part. **Participation among women aged 15 and over rose 19.6 ppts**, from 43.5 to 63.1%, while male participation fell 7.4 ppts, from 78.5% to 71.1%. The entire net gain is female participation, and then some.

The older-worker channel is the second driver and it is larger than the headline suggests. **Participation among people aged 55 to 64 rose 23.9 ppts**, from 45.6% to 69.4%. Among women aged 55 to 64 it rose 42.7 ppts, from 21.7 to 64.4%, which is the largest single movement in the record. Participation among people aged 65 and over went from 6.4% to 16.2%, and among women in that group from 2.6% to 13.1%, a fivefold increase.

The 2002 report considered this channel and dismissed it. It calculated that a 10 ppts rise in the participation rate of men aged 55 and over "*would be required to lead to an increase in the overall participation rate of at most 2 percentage points*", and judged that such a rise "*would not have a large impact on the overall participation rate and hence economic growth*". **What actually happened was larger than the hypothetical it dismissed, and it came substantially from women rather than men.**

Two policy changes are plausible contributors, without overclaiming causation: the Age Pension qualifying age rising from 65 to 67, and the maturing of compulsory superannuation changing the economics of staying in work.

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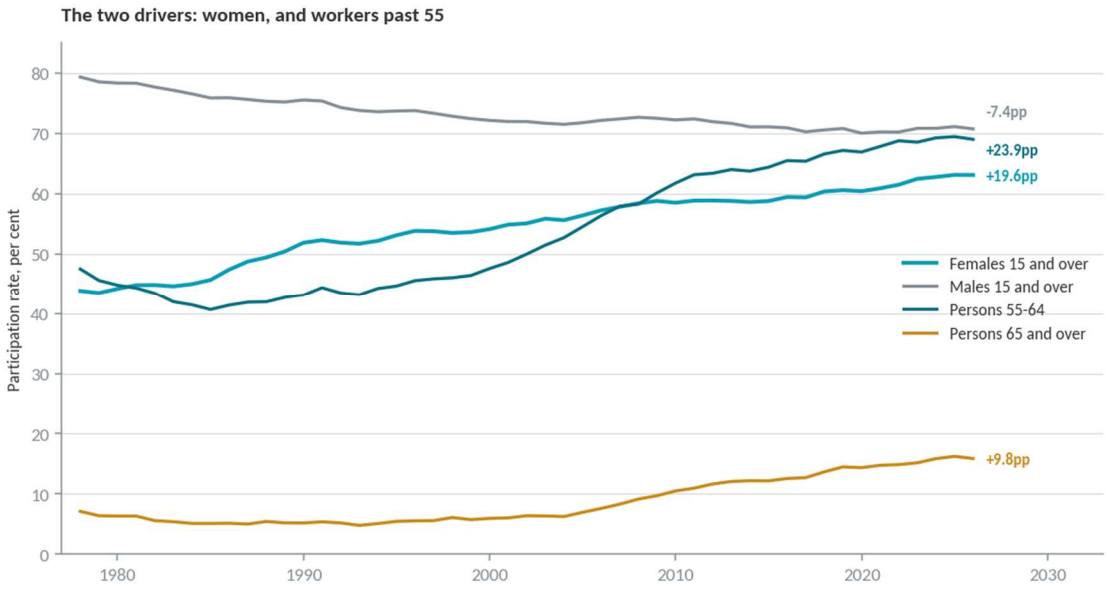


Figure 4: Participation rates by sex and age group since 1978-79, with the change over the period. Source: ABS 6202.0 Table 1 and 6291.0.55.001 Table 1, financial-year means of the Original series.

5.4 Why the 2026 report still projects a fall

The report is more candid on this than most of the coverage will be. It says the upgrade "*reflect[s] a shift in approach to address persistent underestimation of the extent and persistence of within-cohort participation increases, most notably among women and older Australians*", and that "*the actual participation rate has tended to exceed the projections made in each successive report*". **Treasury has named the error, attributed it correctly and changed method**. The methodological fix is worth 1.4 ppts by 2062-63 against the 2023 report, with the peak both later and 1.1 ppts higher.

The projected fall is also composition rather than behaviour, and the report says so: "*Further increases in participation rates within age groups are expected to persist, continuing trends observed over the past 40 years.*" **The aggregate falls because the weight on the low-participation age groups rises**.

Our own decomposition puts some numbers to that commentary. The headline PR is a weighted average of the 15 to 64 rate and the 65-plus rate, weighted by each group's share of the population aged 15 and over. Over the forty years both the weights and the rates move, and the change splits into two parts. The composition effect is minus 4.57 ppts: what the headline PR does from the change in the age mix alone, holding each group's own rate unchanged. A larger share of the population sits in the 65-plus group, where only about 17% are in the labour force, so the weighted average falls. The within-group rate effect is plus 2.47 ppts: what the headline rate does from the change in each group's own rate alone, holding the age mix unchanged. **The two sum exactly to the 2.10 ppts fall the report projects, so ageing pulls down about 1.9 times as hard as rising age-specific rates push up.**

This is where any criticism of the IGR's assumption really bites. If we back out the 65-plus rate that reproduces the report's published aggregate PR we find the IGR is assuming it remains essentially flat, about 16.9% now to 16.6% in 2065-66, after a half-century in which the measured rate rose from 6.4% to 16.2%. (These implied rates are derived residuals rather than published figures and should be described that way.) To hold the aggregate PR at today's 66.8%, the 65-plus rate would need to reach about 24.0% by 2065-66, which is roughly 71% of the historical gain repeated over a slightly shorter period.

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There is however a strong argument for the flat assumption, and it is worth making. The 65-plus group is not a fixed group. The 85-plus cohort triples, and almost nobody works at 85. The 85-plus share of the 65-plus population rises from 12.0% to 19.6%, so a flat headline 65-plus rate already embeds a rise of about 1.3 ppts in the 65 to 84 rate, from about 19.1% to 20.4%. **Treasury is not assuming that older Australians stop joining the workforce. It is assuming that the shift towards the very old (85-plus) offsets most of the gain, which would seem defensible.**

Stated simply: This most recent IGR, in common with all its predecessors, is projecting PR to fall; and yet PR has continued to increase. Given the ageing of the population, in order to merely hold the aggregate PR flat, the 65 to 84 rate would need to reach about 29.6% against about 20.4% in the projection, a gap of roughly nine ppts over forty years. For scale, the measured 55 to 64 rate rose 23.9 ppts and the 65-plus rate 9.8 ppts over the past forty-six years, so a nine ppts gap sits well inside what the last half-century has delivered.

There are at least two reasons to expect the trend to slow. The Age Pension age is legislated at 67 with no further increase scheduled, and the cohort effect from women who worked through their prime years is maturing, because those cohorts are already entering their 60s and 70s. One reason to expect it not to is raised by the report without being quantified: participation gains would be supported "*particularly if unpaid care continues to convert to formal care*".

The answer as to whether we should believe the projected fall in PR is more of a probability statement than a verdict. Believe the composition arithmetic, because the people are already born and the ageing is close to certain. Treat the flat 65-plus assumption as the soft part of the projection, because it is not defended in the report and the only comparable half-century of evidence points the other way. Treasury's own sensitivity puts two ppts more participation at 0.8 ppts of GDP on the 2065-66 balance, which is the entire projected deterioration, and every report for twenty-four years has been surprised in that direction.

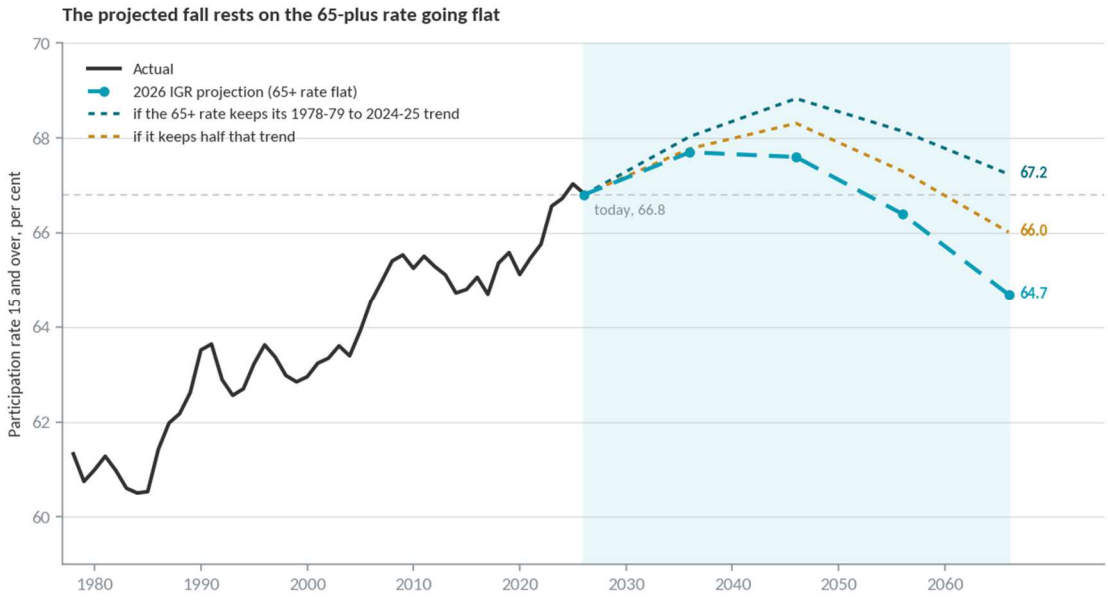


Figure 5: The 2026 report's projection against two counterfactuals in which the 65-plus participation rate continues its measured trend, or half of it. The 15 to 64 projection is Treasury's own in every case; only the 65-plus rate is varied. Source: ABS 6202.0 and 6291.0.55.001; 2026 IGR Tables A2.1 and A2.2; Conus calculations.

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5.5 Population and fertility

The 2002 report projected a population of 25.3 million in 2042. Australia passed 25 million in 2019, twenty-three years early. That report assumed net overseas migration of 90,000 a year against a twenty-year mean to 2024-25 of 235,059.

Then the direction of the error reversed. The 2015 report projected 39.7 million by 2054-55. The 2026 report projects 39.3 million by 2065-66, eleven years later.

Fertility is where the reports went most consistently wrong. The 2010 and 2015 reports both assumed the rate would hold at 1.90 births per woman, the level then prevailing at the peak of the baby bonus era. The actual rate in 2024 was 1.481. The 2021 and 2023 reports both assumed 1.62 indefinitely while the rate was already falling through it. **The 2026 report has cut the long-run assumption to 1.34, below every previous report, which is a substantial correction rather than a marginal one.**

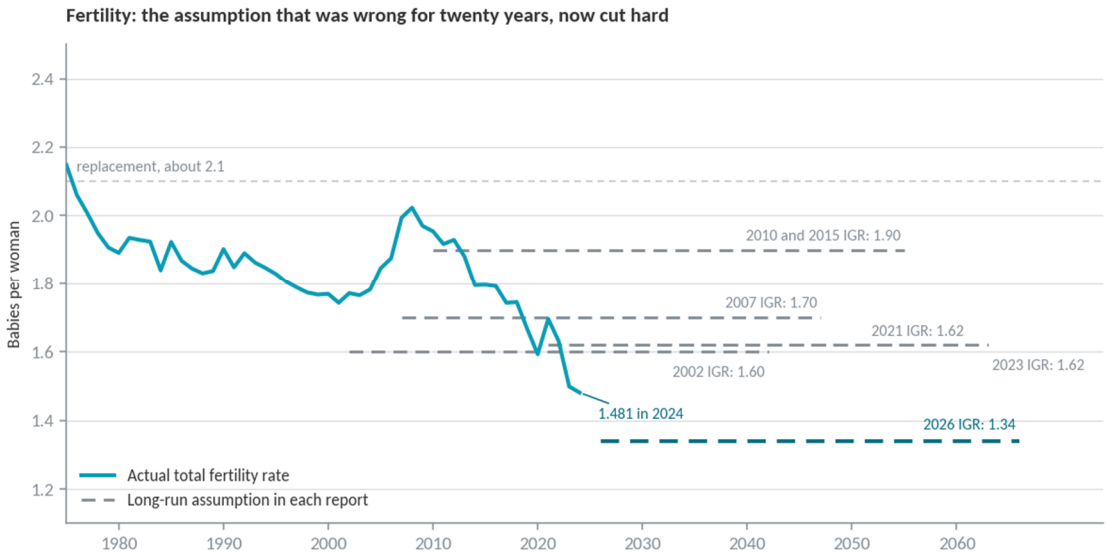


Figure 6: The total fertility rate since 1975 against the long-run assumption in each report. Source: ABS Births, Australia 2024; the seven reports.

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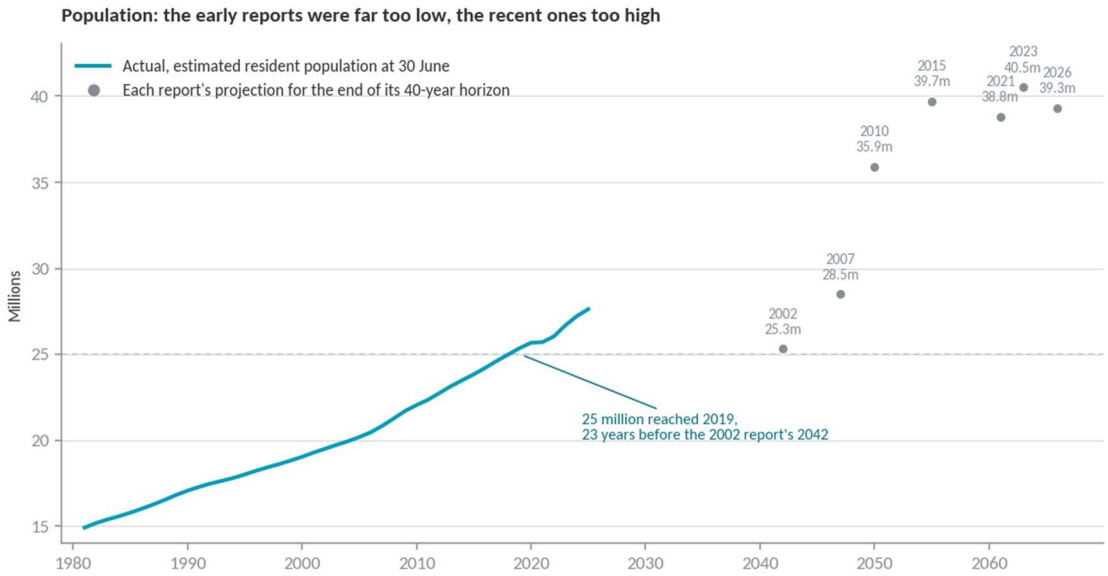


Figure 7: Estimated resident population against each report's projection for the end of its own horizon. The early reports were far too low and the recent ones too high. Source: ABS 3101.0 series A2133251W; the seven reports.

5.6 The health and pharmaceuticals warning

The 2002 report's loudest warning was pharmaceuticals. It projected Pharmaceutical Benefits Scheme (PBS) spending rising from 0.60% of GDP in 2001-02 to 1.31% by 2021-22 and 3.35% by 2041-42, which it described as "*more than a five fold increase in its share of the economy*". It projected all Commonwealth health spending rising from 3.96% to 5.20% of GDP by 2021-22 and 8.13% by 2041-42.

Neither happened. Treasury's own published figure for the Health function has stayed within 0.7 ppts of its 2001-02 share for twenty-four years: 4.2% in 2014-15, 4.6% in 2020-21, 4.2% in 2022-23 and 4.0% in 2025-26. PBS expenditure in 2024-25 was $19.32 billion, or 0.7% of GDP before special pricing arrangement revenue and 0.45% after it. Against a nearer checkpoint of 1.31% for 2021-22, that is roughly half; against the 3.35% end point, roughly a fifth. One caveat belongs with those figures: the Department's accrual PBS expense and the 2002 report's "PBS subsidy" projection are not certified as the same construct, so the direction and rough magnitude are safe but a decimal-place comparison is not.

Why it did not happen is the point. The 2002-03 Budget PBS reforms, later price disclosure arrangements for generics, and two decades of listing discipline overturned the projection. It failed because it succeeded, and scoring it as a Treasury error is the wrong reading.

The contrast that makes the analytical point is aged care, the most demographically driven item in the report. It was projected at 1.0% of GDP for 2021-22 and Treasury put it at 1.1% in 2022-23. The demographic projection came in; the price and technology projection did not. **Generalised carefully, these reports are much better at counting people than at forecasting what things will cost.**

5.7 The fiscal projections themselves

These are fiscal sustainability documents, so the obvious test is whether their fiscal projections came true. They have missed in both directions, and for reasons largely outside the mechanism the reports are built to capture.

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Start with the most specific timing prediction in the lineage. The 2002 report said that "*after about 15 years, Commonwealth spending is projected to exceed revenue*", which puts the crossover at about 2017-18. Payments first exceeded receipts in 2008-09, nine years early, and then stayed there for ten unbroken years to 2017-18. **But the cause was the global financial crisis, not the ageing the projection was built on.** The timing was roughly right by accident and the mechanism was wrong.

That is the pattern for the whole fiscal back-cast. The budget has repeatedly been moved by things these reports are not designed to see. Financial crises, a pandemic, commodity cycles and an employment surprise have each done more to the bottom line over twenty-four years than demography has.

The 2021 report is the clearest miss, and it runs in the optimistic direction. Written during the pandemic, it projected gross debt of 51.2% of GDP by 2030-31; the current estimate for 2029-30 is 35.6%, about 16 ppts lower. It projected an underlying cash deficit of 1.5% of GDP in 2030-31 against an estimate of 0.7% for 2029-30. Gross debt in fact peaked at 39.1% in 2020-21, below the 40.8% that report projected for 2060-61, forty years out.

Both the 2021 and 2023 reports also missed their own base years, which gives one an idea of just how much precision to read into any of this. The 2021 report projected minus 7.8% of GDP for 2020-21 against an outcome of minus 6.4%. The 2023 report projected plus 0.2% for 2022-23 against an outcome of plus 0.9%. **Neither projected the surpluses actually delivered in 2022-23 and 2023-24.**

One piece of context the "return to deficit" framing needs. Across the fifty-six years of record the budget was in surplus in twenty of them. **Deficits are the norm rather than the exception**, and a projected deficit of 1.8% of GDP in 2065-66 sits well inside the historical range.

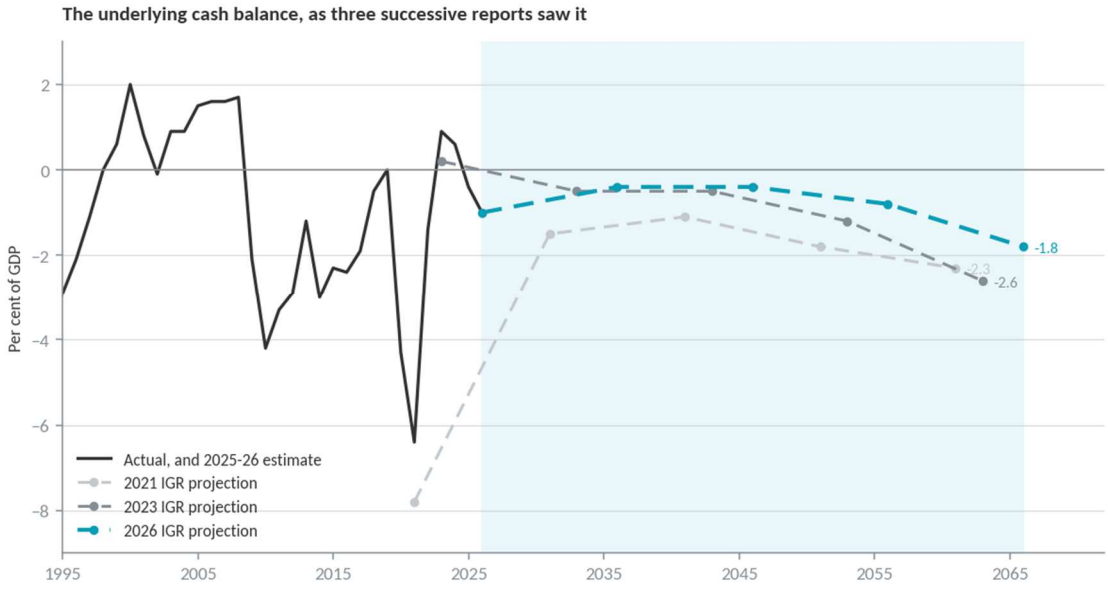


Figure 8: The UCB, actual since the mid-1990s, and as projected by the 2021, 2023 and 2026 reports. The 2021 projection starts from the pandemic trough and never recovers to where the budget actually got. Source: Budget Paper No. 1 2026-27 Statement 11 Table 11.1; the three reports.

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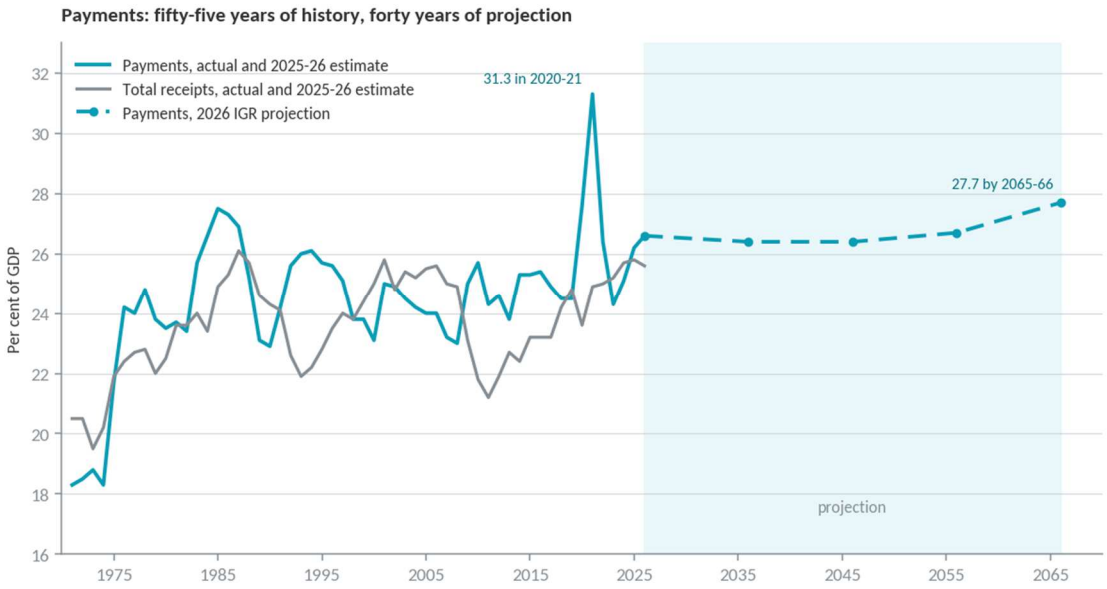


Figure 9: Payments and total receipts as a share of GDP, fifty-five years of outcomes and forty years of projection. The gap between the lines is the deficit. Note the ten unbroken deficit years from 2008-09, the 2020-21 payments peak of 31.3%, and how modest the projected rise to 27.7% looks against that record. Source: Budget Paper No. 1 2026-27 Statement 11 Table 11.1; 2026 IGR Table A2.3.

The judgement cuts both ways for the 2026 report. Its fiscal projection may well prove wrong, but the historical reason to doubt it is not that Treasury is too optimistic about ageing. **It is that the things which actually move the budget over a decade do not appear in the model at all.**

5.8 The pattern

The 2002 report's decadal projections for real GDP growth were close to right. It projected 3.1% for the 2000s against an outcome of 3.08%, 2.3% for the 2010s against 2.37%, and 2.0% for the 2020s against 2.48% to 2025-26.

Its projections for real GDP per person were not. It projected 2.1% for the 2000s against an outcome of 1.59%, 1.5% for the 2010s against 0.81%, and 1.4% for the 2020s against 1.01%.

Both statements are true at once but quoting either one alone misleads. **The aggregate came in because two errors ran the right way, on population and participation, and cancelled a third running the wrong way, on productivity.** The implication is blunt: "the economy grew as projected" and "living standards grew far slower than projected" describe the same forty years, and only the second is about whether people got better off.

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6.0 Regional Australia

The sharpest risk in the 2026 report for a regional audience is not the national fiscal position. It is the divergence between the capital cities and the rest of the country, which the report treats in a handful of paragraphs and which we think deserves more weight than it is given.

The report projects capital cities growing more than twice as fast as the rest of Australia over the forty years. By 2065-66 the median age is projected at 43.5 years in the capitals and 50.9 years outside them. Deaths are projected to exceed births in every non-capital-city area except the Northern Territory by the 2060s, at which point **natural increase stops contributing to population growth in regional Australia altogether**. The mechanism is straightforward: NOM is concentrated in the capitals and migrants are younger than the resident population, so migration moderates ageing in the cities and does much less outside them.

6.1 The divergence is already on the record

This is not a projection that has to be taken on trust. ABS regional data confirms that between 2001 and 2025 the capital cities grew 1.69% a year and the rest of Australia 1.14%, so the capitals grew about 1.48 times as fast. The capital city share of the population rose from 65.0% to 67.9%. Over the most recent decade the rates were 1.66% and 1.15%, so the gap is not closing.

The ageing gap has widened faster. The median age outside the capitals was 1.6 years above the capital city median in 2001. By 2025 the gap was 5.1 years, with a median of 42.1 years outside the capitals against 37.1 within them. The report projects that gap reaching 7.4 years by 2065-66, which extends an established trend rather than inventing one.

The share of the population aged 65 and over is now 21.9% outside the capitals against 15.5% within them.

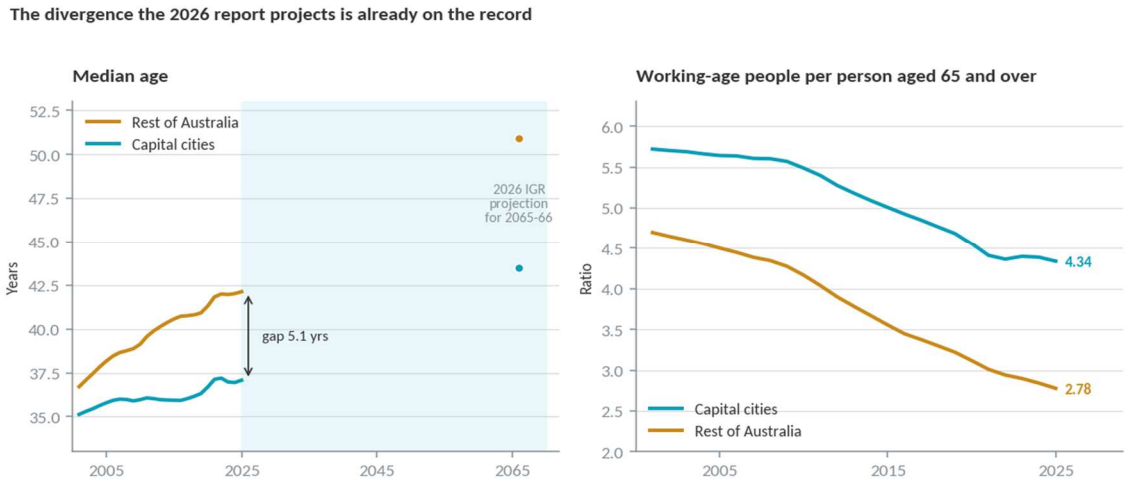


Figure 10: Median age and working-age people per person aged 65 and over, capital cities against the rest of Australia, 2001 to 2025, with the 2026 report's projection for 2065-66 marked. Capital cities are the Greater Capital City Statistical Areas plus the Australian Capital Territory. Median age is interpolated within the five-year band holding the median. Source: ABS Regional population 2024-25 and Regional population by age and sex 2025; 2026 IGR.

6.2 Why it matters, in one ratio

The number that matters operationally is the count of working-age people for each person aged 65 and over. In 2001 the capitals had 5.72 and the rest of Australia 4.70. By 2025 the capitals had 4.34

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and the rest of Australia 2.78. Both fell, but the gap widened from about one person to more than one and a half.

That ratio is the local labour pool available to staff health care, aged care and every other service an older population needs. The report identifies the constraint in its own terms, noting that regions with little population growth and rapid ageing "*will need additional support in finding labour to support health care, aged care and other essential services*", and that demand is growing hard: employment in health care and social assistance has grown 13% since 2023 and is projected to grow a further 23% by 2035.

The contrast that states the risk needs no projection at all. Between 2001 and 2025 the share of the national population living outside the capital cities fell from 35.0% to 32.1%, while its share of Australians aged 65 and over rose from 38.2% to 40.0%. **Regional Australia holds a falling share of the population, a rising share of the people who need care, and a shrinking local workforce with which to provide it.**

6.3 What follows for regional businesses and governments

Four implications follow, and none of them require the projection to be exactly right.

- **Labour, not demand, is the binding constraint in the regional care economy**. Demand growth is close to certain because the cohorts already exist. Supply is not, and it cannot be met locally on current trends.
- **Migration policy matters more to regional Australia than to the capitals, and in the opposite direction to the usual debate**. Regional populations depend on NOM for growth to a degree the aggregate national figure hides, because natural increase is heading to zero outside the capitals sooner than nationally. Given current political discussion this is a reality that cannot be overstated.
- **Infrastructure and service planning built on national averages will be wrong in both directions.** A median age of 50.9 against 43.5 is a different operating environment, not a slower version of the same one, and it changes the mix of what is needed rather than only the quantity.
- **Any regional workforce plan assuming people retire at 65 is repeating the 2002 report's error.** Participation among those aged 55 to 64 has risen 23.9 ppts in forty-six years and among the over-65s from 6.4% to 16.2%. In regions with the thinnest working-age base, that channel is not just a nice-to-have but an essential.

From a regional perspective there are two important caveats. The report publishes its projections at the capital city and rest-of-state level, not by region, so applying them to a particular area requires local data rather than a share of the national number. And the divergence is not uniform: the report is explicit that some non-metropolitan areas will continue to grow while others decline, so "regional Australia" is a category that hides as much as it reveals.

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7.0 What It Means

Read the fiscal numbers as a conditional statement. The deterioration projected over forty years is 0.8 ppts of GDP against an error band of 2.3 ppts on the productivity assumption alone.

Treat the improvement since 2023 as announced rather than delivered. The NDIS line carries most of it, and it is testable annually against the scheme's own reporting.

The participation surprise is the one to learn from and it is still live. It ran for forty years, every official projection missed it, and it came from women and from workers past 55. On the arithmetic in section 5.4, a continuation of the 65-plus trend would remove the projected fall in participation altogether, which on Treasury's own sensitivity would remove the projected fiscal deterioration with it.

The regional divergence is the sharpest risk in the report and the least covered. It is already measurable, it is widening, and the report projects it to widen further.

On artificial intelligence, separate the narrative from the arithmetic. Nothing in the fiscal projections assumes an AI dividend, so if one arrives it is upside, and Treasury has published a ready reckoner for sizing it.

Two policy changes now sit in the baseline and should be known: reforms to negative gearing and capital gains tax, which the report expects to support an additional 75,000 owner occupiers over the next decade, and the aged care and NDIS reforms that carry the fiscal improvement.

Where we would push back on the report:

- it is more confident about the delivery of announced savings than about the productivity assumption those savings are measured against
- the tax cap does a great deal of work for something described as technical
- the regional demographic material is thinner than its significance warrants

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8.0 Sources and Method

Sources are the seven Intergenerational Reports; ABS 5206.0 (June 2026), 6202.0 (July 2026), 6291.0.55.001 (March 2026), 3101.0 (March 2026), Regional population 2024-25, Regional population by age and sex 2025, and Births, Australia 2024; Budget Paper No. 1 2026-27 Statement 11; and the Department of Health, Disability and Ageing PBS Expenditure and Prescriptions Report 2024-25.

Three gaps are stated rather than ignored. PBS spending cannot be placed on the exact construct the 2002 report projected, because that definition is not published, so only direction and order of magnitude are quoted. ABS Births for 2025 is not yet released, so the fertility rate for 2025-26 is Treasury's estimate rather than an outcome. And ABS 6291.0.55.001 currently ends in March 2026, so the 2025-26 figures for the 15 to 64, 55 to 64 and 65-plus participation series are nine-month means, while the 15-plus series is a full twelve months.

Two derived figures carry a further caveat. The implied 65-plus and 65 to 84 participation rates in section 5.4 are residuals, backed out of the report's published population and 15 to 64 figures so that they reproduce its published 15-plus rate. Treasury does not publish them, and they should not be quoted as Treasury figures.

This paper has been created with research assistance and data analysis from Anthropic's Claude AI using Opus 5.

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