SAUL ESLAKE

CORINNA ECONOMIC ADVISORY

The 2025-26 Tasmanian Budget puts fiscal sustainability off to another day

The financial position of Tasmania's public sector continues to deteriorate, according to the numbers presented in the 2025-26 State Budget presented by Treasurer Guy Barnett today.

Although the Treasurer contends that his first Budget "provides a clear and sensible pathway to surplus", and that the Government is "on track to deliver a Net Operating Surplus by 2029-30", there are no surpluses shown anywhere in the forward estimates set out in today's Budget Papers.

On the contrary, the Budget Papers show that, for the 'general government' sector (which comprises government departments and agencies funded through the Public Account, and which is the main focus of the Budget documents):

- the government will incur **net operating deficits** totalling $3.5 billion over the four years to 2027-28, $1.5 billion more than foreshadowed in the Revised Estimates Report (RER) published in February this year (and $1.8 billion more than forecast in last year's Budget), with a further net operating deficit of $236 million projected for 2028-29;
- excluding one-off grants from the Federal Government for capital purposes (which are included in the revenue side of the 'net operating balance' even though the spending of those grants isn't included on the expense side) the government will incur **'underlying' net operating deficits** totalling $5.3 billion over the four years to 2027-28, $1.2 billion more than forecast in February, with a further $582 million 'underlying' net operating deficit forecast for 2028-29;
- more importantly, from the perspective of being able to stem the on-going rise in (let alone start repaying) debt, the government will incur **cash deficits** totalling $5.1 billion over the four years to 2027-28, $441 million more than projected in February (and $1.2 billion more than forecast in last year's Budget), with a further cash deficit of $498 million projected for 2028-29;
- as a result of which, **net debt** is now forecast to reach $10.2 billion by 30th June 2028, $562 million more than forecast in February (and $1.6 billion more than projected in last year's Budget), and to rise further $10.8 billion by 30th June 2029.

In other words, the outlook for all the key Budget aggregates continue to get worse, as shown Charts 1-3 on the following pages.

The projected declines in the net operating and cash deficits between 2024-25 and 2028-29 rely on a projected slowdown in the average rate of growth in 'operating expenses' to just 0.3% per annum over the four years to 2028-29 – by far the lowest over any four-year interval this century (the previous slowest was 2.1% over the four years to 2014-15 – as well as a decline in capital spending averaging 2.8% per annum over the next four years, something that hasn't happened over any four-year period since that ended 2015-16.

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Chart 1: Successive estimates of the general government 'underlying net operating balance'

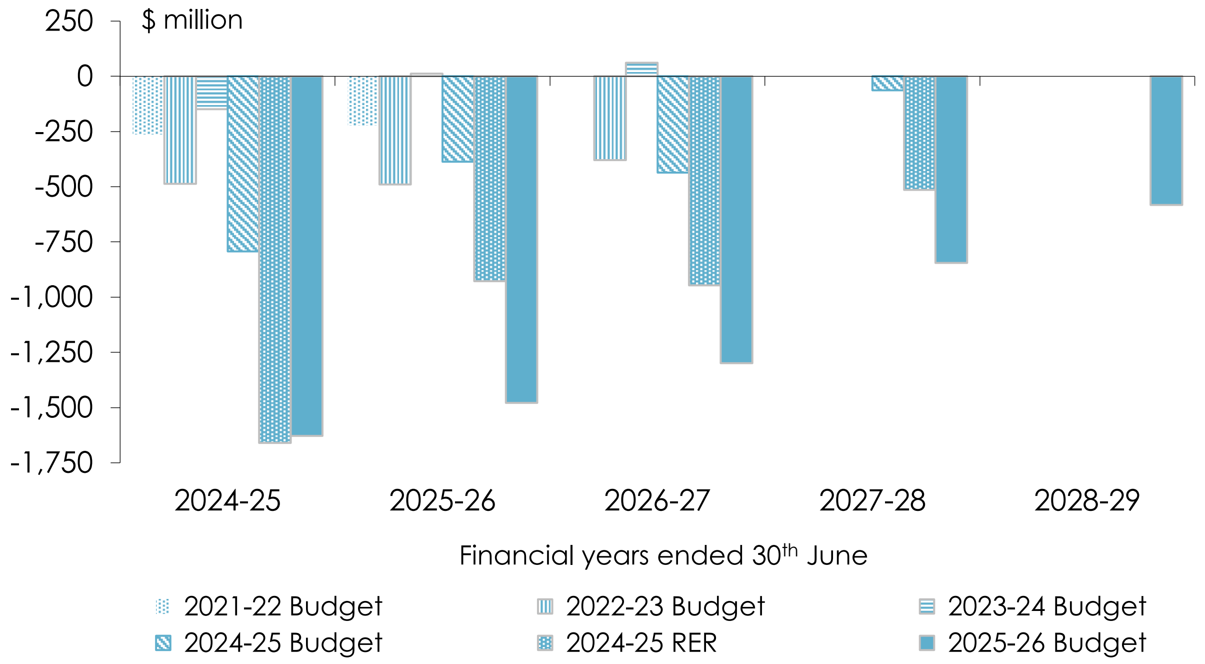


Chart 2: Successive estimates of the general government cash balance

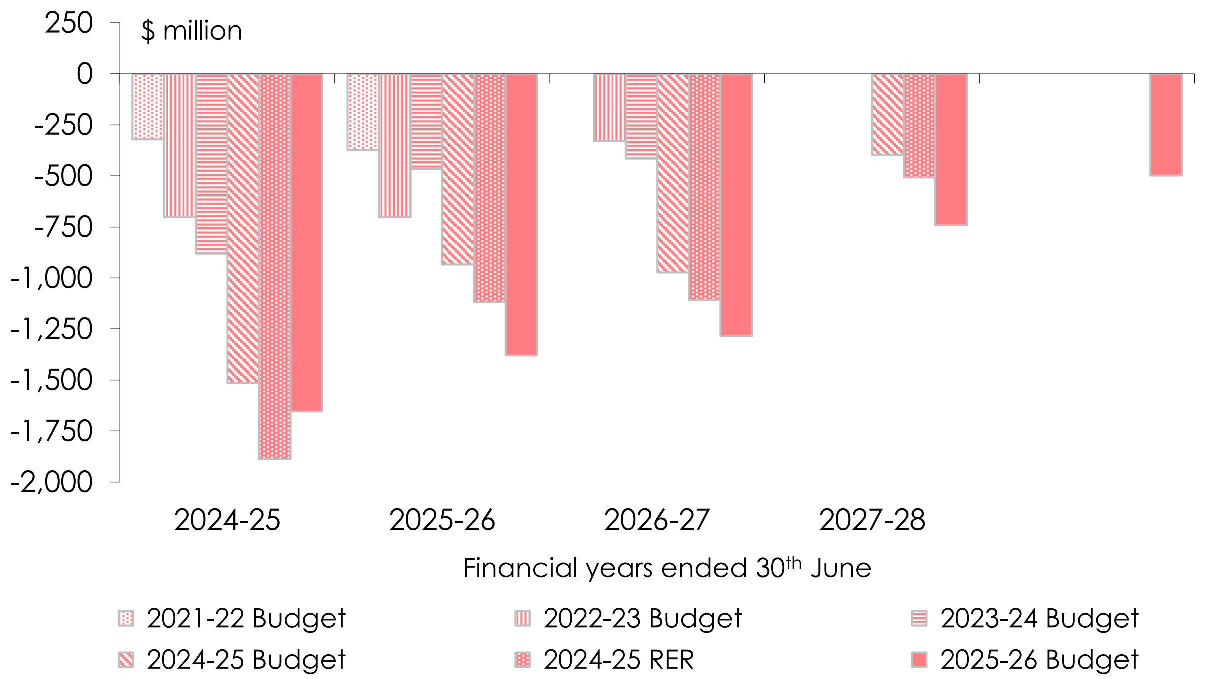
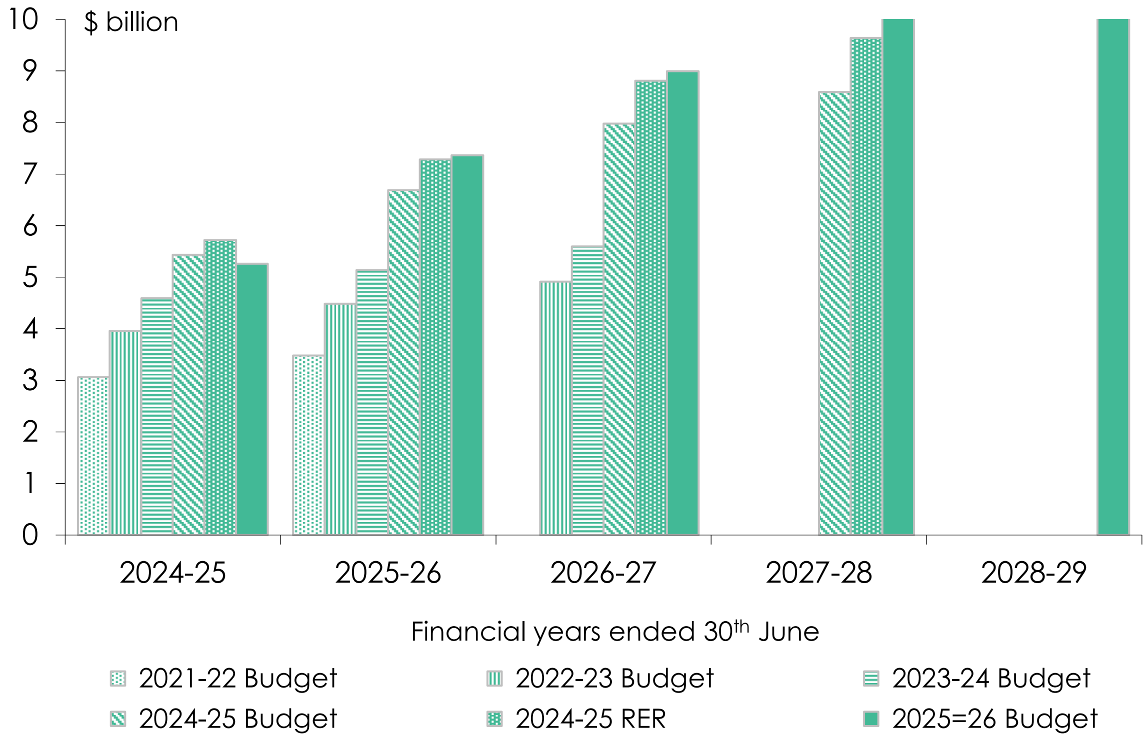


Chart 3: Successive estimates of general government net debt



No net savings in the Budget

The increases in the forecast 'net operating' deficits are the result of:

- **policy decisions** to increase spending by a net $480 million over the five years to 2028-29 (of which $211 million are in programs administered by the Department of State Growth, only $92 million are in Health, and $28 million are for Tourism Tasmania; and
- **cost over-runs** totalling $2.5 billion over the four years to 2027-28, of which $1.3 billion were in health, $285 million in interest expense, and $271 million in State Growth expenses (which casts doubt on the Government's ability to keep expense growth down to just 0.3% per annum over the next four years;
- partly offset by **revenue windfalls** (compared with the projections in last year's Budget) totalling $1.1 billion over the four years to 2027-28, of which $600 million came from upward revisions to Tasmania's share of GST revenues, and $604 million from upward revisions to other grants from the Federal Government, against which projected revenue from GBEs was revised down by $151 million.

The increase in the forecast cash deficits result from these increases in the 'net operating deficits' partly offset by reductions in capital spending resulting from 'parameter variations' (ie, factors beyond the Government's direct control, as opposed to conscious decisions to reduce capital spending).

As I noted in my *Independent Review of State Finances* last August, the Government is in the financial pickle it's now in because it kept increasing spending without giving any thought as to how that spending (however justified) should be paid for.

And this Budget shows it still hasn't been able to break that habit.

I'm *not* saying that all the new spending is 'wasteful' or 'bad': rather, I'm saying (as I did last year) that this spending should be paid for, either by cutting spending in other places, or by raising additional revenue. But the Government is simply unwilling to do that.

Sensibly, the Government does appear to have backed away from pursuing across-the-board 'efficiency dividends', in line with one of the recommendations of my *Independent Review*, and will instead seek 'specific and targeted cost-saving measures', based on 'evidence-based savings and performance improvements … investing in technology and identifying better management practices', presumably on the advice of the new 'Efficiency and Productivity Unit' announced by the Treasurer in March. That sounds promising (assuming that EPU isn't a Tasmanian version of Elon Musk's DOGE): but the proof of the pudding will be in the eating. Elsewhere the Budget Papers suggest that the number of 'general government' FTEs will be reduced from 5,728 in the current financial year to 5,315 (ie by 7.2%) by 2032-33.

The 'general government' sector isn't the whole story

There is more to the Tasmanian public sector than 'general government'. Tasmania's 'public non-financial corporations sector' is large, relative to the size of Tasmania's economy, by comparison with most other states and territories, in part reflecting the fact that Tasmania is (along with Western Australia) the only jurisdiction where the state government owns the entire electricity supply chain, and also that the Tasmanian Government operates businesses which no other state does (such as TT-Line).

Hence in order to get a complete picture of Tasmania's state finances it's important to look at the numbers for the 'non-financial public sector as a whole' – which includes GBEs like Hydro Tasmania, Tas Networks, Aurora Energy, TT-Line, Homes Tasmania and (since it will be taking on quite a bit of debt over the next few years) the Macquarie Point Development Corporation.

And when you do that, the picture looks even worse:

- over the four years to 2027-28, Tasmania's public non-financial corporations will incur **net operating deficits** totalling $576 million ($314 million more than forecast in last year's Budget), and will spend $7.8 billion on 'purchases of non-financial assets' ($619 million more than forecast in last year's Budget) and so will incur **cash deficits** totalling $5.9 billion ($1.0 billion more than forecast in last year's Budget), pushing their combined **net debt** up to $8,2 billion by 30th June 2028 (which, perhaps surprisingly given the blow-out in their cash deficits, is only $124 million more than forecast in last year's Budget), a figure which will increase to $9.8 billion by 30th June 2029;

- as a result of the deterioration in the condition of the non-financial corporations sector, the **non-financial public sector as a whole** is expected to incur **net operating deficits** totalling $4.1 billion over the four years to 2027-28 ($1.7 billion more than forecast in February's RER and $2.2 billion more than in last year's Budget), and **cash deficits** totalling $10.9 billion over the four years to 2027-28 ($1.1 billion more than forecast in the RER and $2.3 billion more than forecast in last year's Budget), with a further cash deficit of $2.2 billion forecast for 2028-29 (see Chart 4 below);
- which in turn means that the **net debt** of Tasmania's non-financial public sector is now forecast to reach $17.6 billion by 30th June 2028 ($1 billion more than forecast in last year's Budget), and $19.9 billion (that's $34,000 per head of projected population) by 30th June 2029 (see Chart 5 on the next page);
- and that in turn means that the non-financial public sector's **net interest** payments will increase from $227 million in the 2023-24 financial year to $854 million by 2028-29, or from 1.9% of total non-financial public sector revenues to 6.0% by 2028-20 (and compared with less than 1.0% of total revenues in 2017-18 and 2018-19).

Based on these sorts of numbers, there must be a significant risk that Tasmania's credit rating, currently AA+ from S&P and Aa2 from Moody's, but on 'negative watch' from both agencies, could be downgraded – which would likely result in Tasmania having to pay higher interest rates on new debt and when 'rolling over' maturing debt.

Chart 4: Successive estimates of the total non-financial public sector cash balance

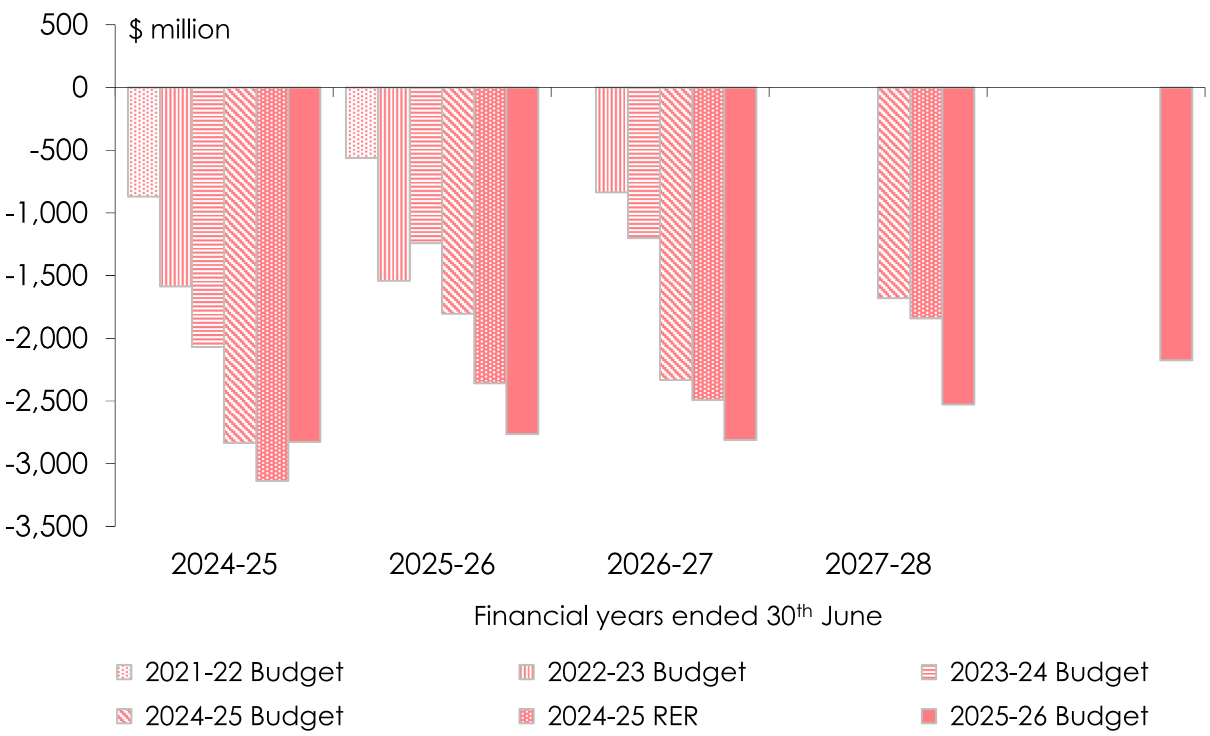


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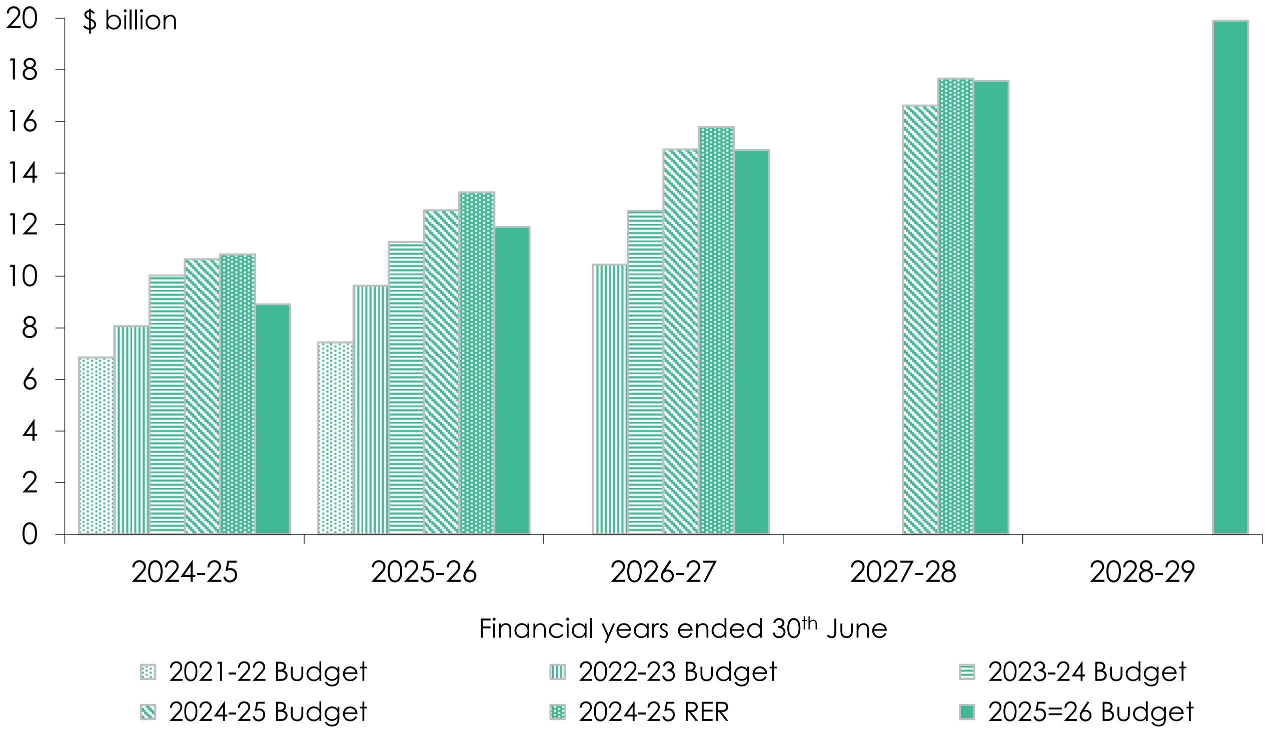
Chart 5: Successive estimates of the total non-financial public sector net debt



By some metrics Tasmania's finances are the worst of any state or territory (despite what the Budget Papers assert)

The Budget Papers seek to make some flattering comparisons between Tasmania's financial condition and that of other states and territories, stating that "Tasmania has the lowest nominal level of net debt" (conveniently ignoring that Tasmania has a smaller economy and population than any other jurisdiction apart from the Northern Territory), the "fourth lowest general government sector net debt as a percentage of gross state product" (conveniently ignoring Tasmania's outsized unfunded superannuation liability – which it claims is "the second lowest nominal value across all jurisdictions", again ignoring that Tasmania has the second-smallest economy and population), and that "as a percentage of GSP net debt plus superannuation liability is … ranked sixth across all jurisdictions"(which means Tasmania actually has the third-highest ratio of net debt plus superannuation of the eight states and territories).

All of these comparisons also conveniently ignore the debt of Tasmania's non-financial public corporations.

The cash deficits and net financial liabilities (which includes the unfunded superannuation liability) of Tasmania's non-financial public sector as a whole will be the worst of any jurisdiction over the next four years, as shown in Charts 6 and 7.

Chart 6: Total non-financial public sector cash balances, states and territories

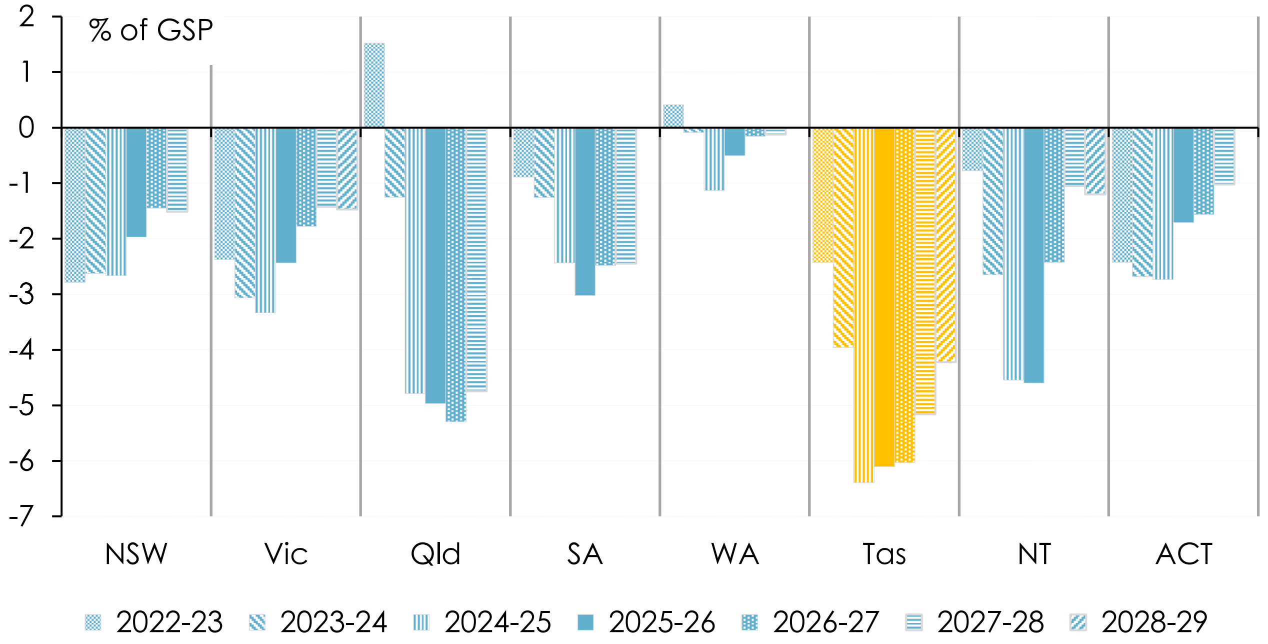
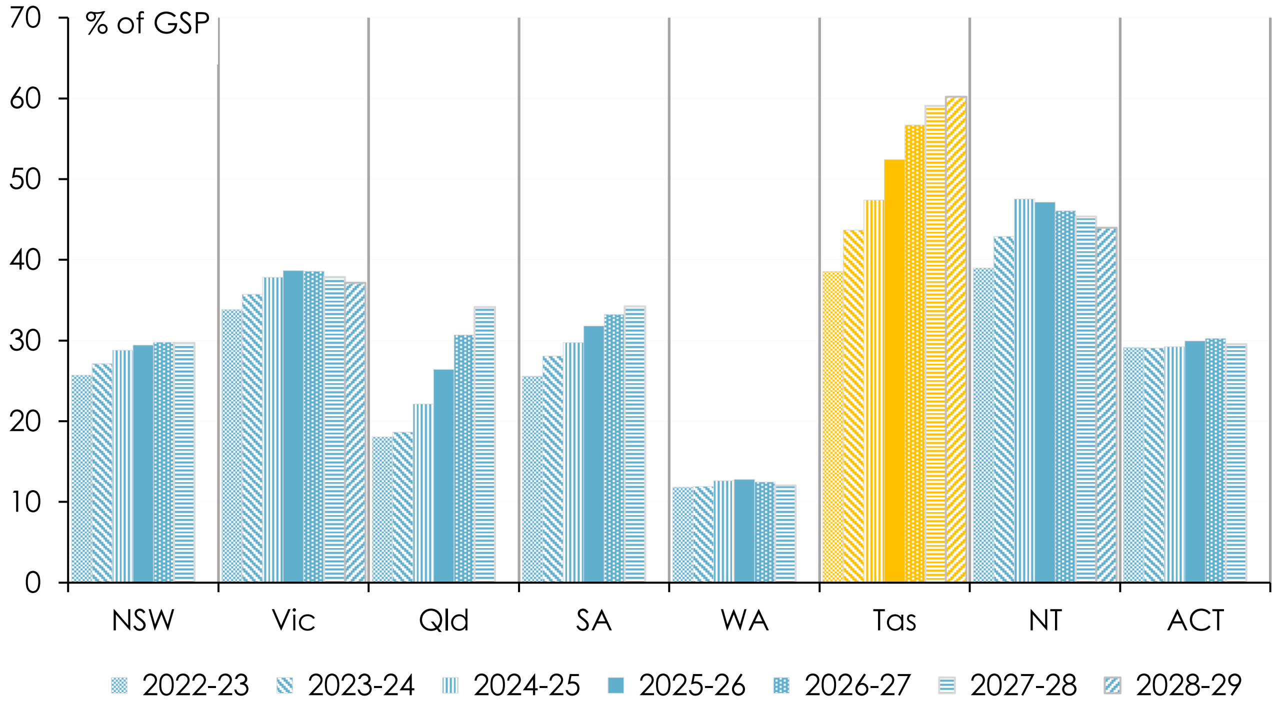


Chart 7: Total non-financial public sector net financial liabilities, states and territories



Note: New South Wales, Queensland, South Australia, Western Australia and the ACT are yet to present their 2025-26 Budgets; data for these jurisdictions are from their 2024-25 Mid-Year Budget Reviews and are only available up to 2027-28.

The Budget Papers present an upbeat view of Tasmania's economy – which may not come to pass

One very welcome feature of this year's Budget Papers is that they include a much more detailed and thorough analysis of the current state of and outlook for Tasmania's economy (as my *Review* recommended that they should).

It starts with the observation that Tasmania's economy has "grown steadily, though at a more moderate rate, over the past two years", and after (quite properly) noting that "global trade policies … [are now] the primary concern for the outlook for the Tasmanian economy", suggests that "the Tasmanian economy is expected to remain resilient [but] subdued, with growth rates generally below long-term averages over the forecast period".

Specifically, it forecasts that growth in Tasmania's economy will slow from 2¼% in 2024-25 to 1½% per annum in 2025-26 and 2026-27, before returning (by assumption) to the longer-run average of 2½% per annum in 2027-28 and 2028-29. It expects **business investment** to decline in 2024-25 and 2025-26 (from relatively high levels in 2023-24), partly offset by a gradual pick-up in **private consumption** and **dwelling investment**, along with continued strong growth in **government spending**, before public investment turns down in 2026-27 (after the delivery of the two new *Spirits of Tasmania* expected in 2025-26) and with an expected slowing in government consumption spending. It mentions that US tariffs will have both "direct and indirect effects on the Tasmanian economy", particularly if those tariffs "cause slowdowns in economies that are major trading partners for Tasmania, such as China".

Treasury's economic forecasts are predicated on an assumption that growth in Tasmania's **population** will pick up from an expected 0.5% in 2024-25 to 0.6% per annum in 2025-26 and 2026-27, and to 0.7% per annum in 2027-28 and 2028-29, "due to its improved relative affordability for housing and its strong, albeit easing, labour market".

By contrast, the Federal Government's Budget Papers (published in March) assume that Tasmania's population will grow by only 0.3% per annum in 2025-26, 2026-27 and 2027-28, before increasing to 0.5% in 2028-29.

I suspect Federal Treasury's forecasts will prove closer to the mark. Although Tasmania's **housing affordability** has improved over the past two years (after a marked deterioration, for both buyers and renters, between 2017 and 2022), when account is taken of Tasmania's lower wages and salaries, Tasmanian housing is still relatively unaffordable compared with most other states and territories, and the outlook for employment growth in Tasmania is relatively poor. (

And although the Budget Papers highlight the fact that Tasmania's unemployment rate is at historic lows, they don't mention that this is due to a renewed decline in Tasmania's **labour force participation rate** (from 62.5% to 60.4% in trend terms over the past two years, cf. an increase from 66.6% to 67.0% for Australia as a whole over the same interval, and that **employment** in Tasmania has *fallen* by 1.7% over the past two years, as against a 4.8% *increase* for Australia as a whole. They're not the sort of comparisons that are likely to prompt a return to positive net interstate migration to Tasmania any time soon.

Another potential risk which the Budget Papers don't mention is the possibility that Tasmania's deteriorating fiscal position – and the Government's unwillingness, thus far, to take decisive action to correct it – will adversely impact perceptions of Tasmania as a destination for investment and employment creation. There are signs of this happening in Victoria – and of course Tasmania had a lengthy experience of this in the 1990s.

A long way to go before there is a credible 'fiscal strategy'

I've already noted that the Government has, in this Budget, picked up a couple of the recommendations from the *Independent Review of Tasmania's State Finances* which I undertook last year – namely, backing away from 'efficiency dividends' as a way of constraining growth in spending, and a much improved analysis and discussion of the Tasmanian economy.

It also included some changes to its Fiscal Strategy – in particular presenting a new set of Fiscal Performance Initiatives. However at this stage there is less to this than I would have hoped. Although Section 3 of Budget Paper No. 1 (which deals with 'Fiscal Strategy' refers to 'ten-year (2032-33) Strategic Targets' – and leaving aside that 2032-33 is actually only eight years away – it doesn't actually present ten-year projections of any of the targets which it nominates. It merely says that they "will be reviewed in 2026-27 in the context of the economic and fiscal environment existing at that time".

Contrary to the *Independent Review*'s recommendations, the Government's Fiscal Strategy still includes eleven separate targets – which the *Independent Review* said was too many. And as the *Independent Review* noted, some of those targets are either too undemanding or not really relevant – for example, having one for gross debt per capita as well as for net debt as a percentage of gross state product, or requiring that infrastructure investment exceed provisions for depreciation.

More importantly, of the eleven targets which the Government has set in its Fiscal Strategy, *only one* of them is clearly being met - the requirement that infrastructure investment exceed depreciation, and that is arguably contrary to what *should* be an objective of any credible fiscal strategy given Tasmania's current position, namely, returning the 'bottom line' to a cash surplus.

The Treasurer's Budget Speech appeared to indicate that the Government is looking to the prospective "divestment of some government businesses and surplus Crown Land" as the most feasible path to ensuring that it "returns to surplus sooner and pays down debt". As most readers will be aware, I've been tasked by the Government with providing some "high level advice" on that subject: my final report to the Government on it is due to be presented by 30th June. (The Treasurer also noted in his Budget Speech that the Government had accepted the recommendations in my first report that it not consider privatising the Port Arthur Historic Site Management Authority, Tascorp, TasRail, Tasracing, Entura, and the Public Trustee, and also that it had ruled out divestment of TT-Line).

One final welcome development

One final welcome announcement in the Treasurer's Budget Speech today was his announcement that the Government was providing $100,000 to "investigate the establishment of a Parliamentary Budget Office" for Tasmania, as recommended by my *Independent Review*. The Treasurer said that he was "a strong supporter of giving all Members of Parliament the resources and support they need to effectively and efficiently participate in the Budget process".

A Tasmanian Parliamentary Budget Office would certainly represent a significant step towards achieving that worthy objective.

Saul Eslake
Corinna Economic Advisory
29th May 2025.