

VICTORIA'S ECONOMY AND PUBLIC FINANCES

PRESENTATION TO THE AUSTRALIAN PROPERTY DEVELOPERS'
ASSOCIATION VICTORIAN ELECTION DEBATE FORUM

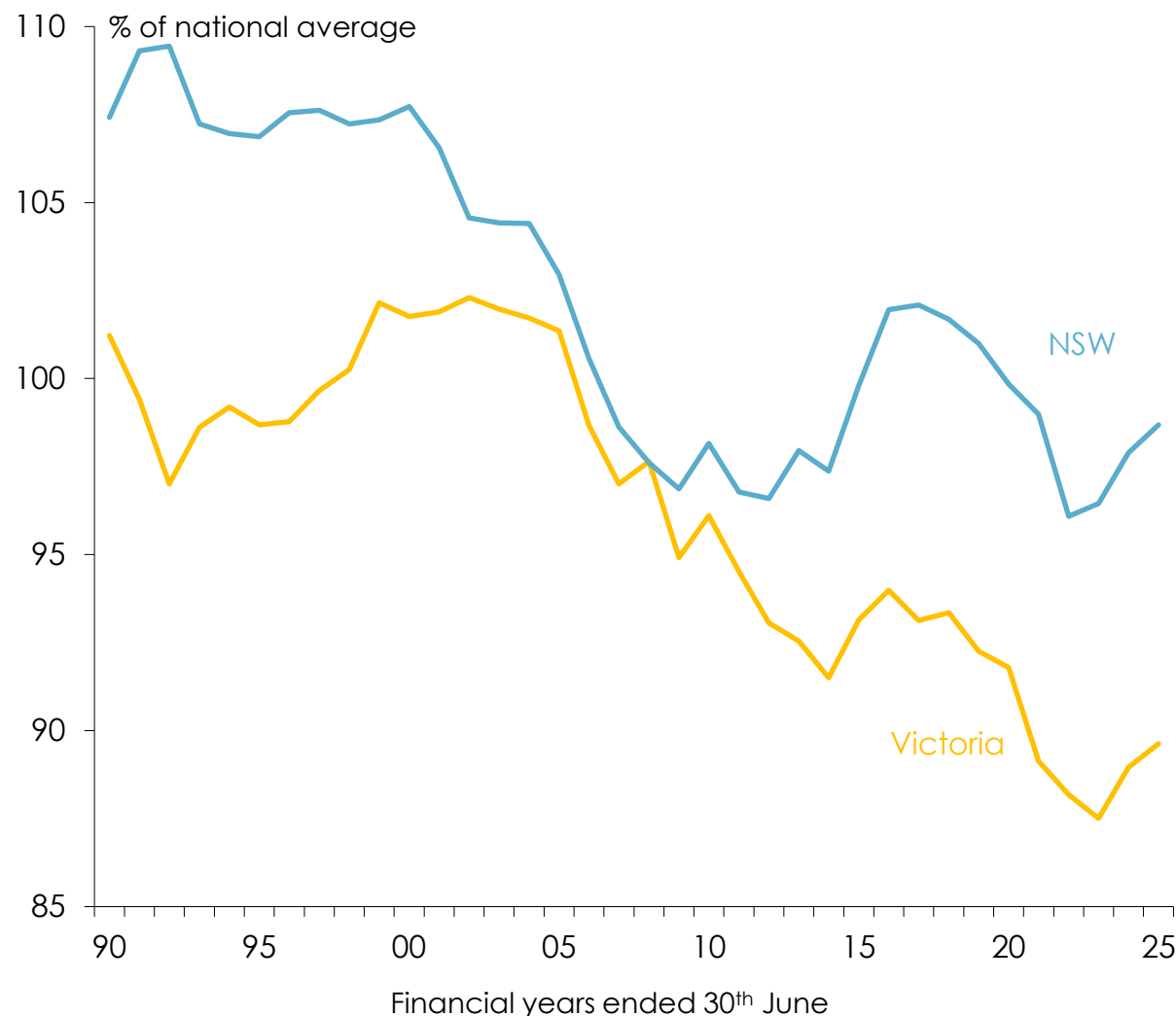
MELBOURNE CITY CONFERENCE CENTRE
29TH OCTOBER 2026

SAUL ESLAKE

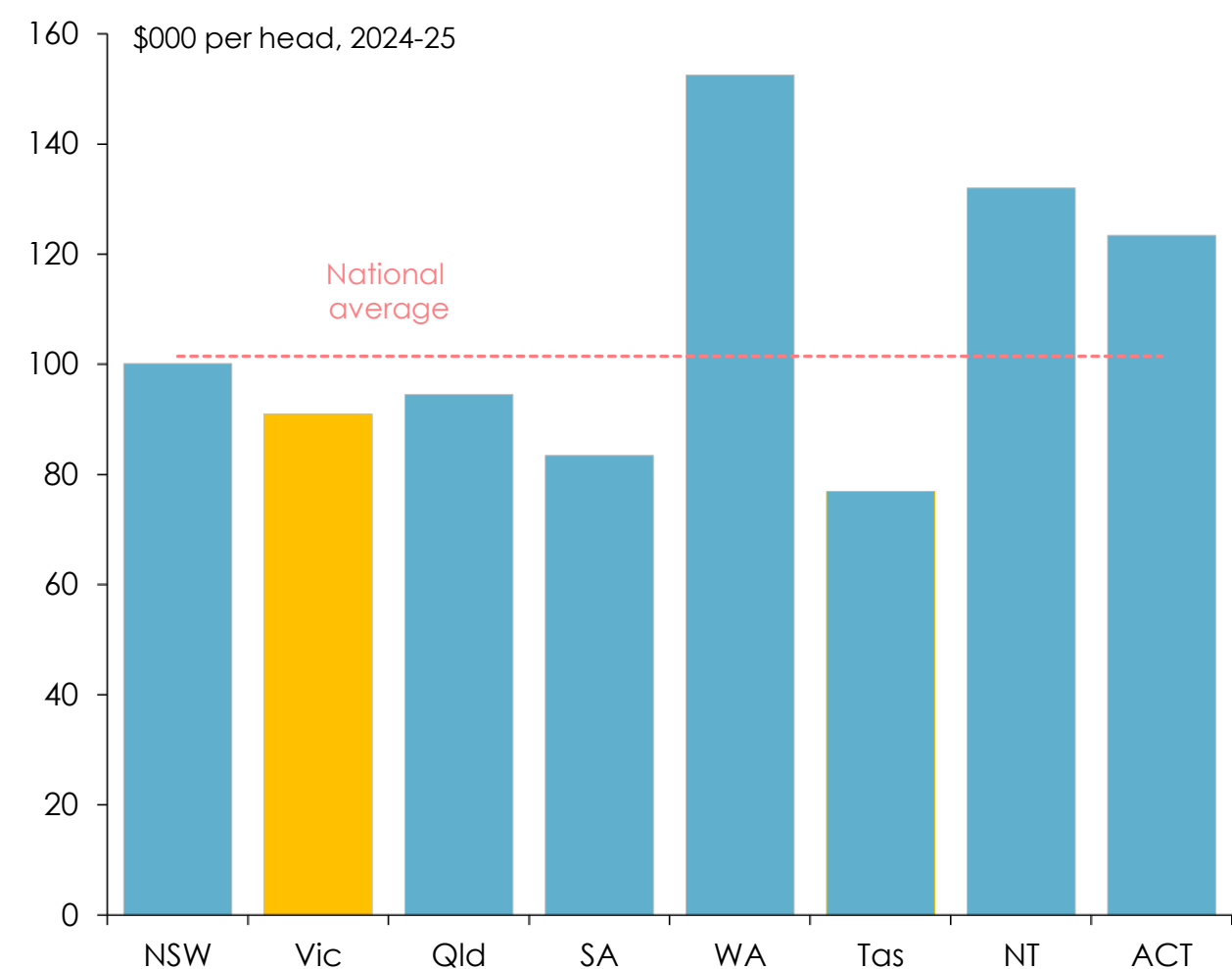
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Victoria has become a relatively ‘poor state’ over the past 25 years, as measured by per capita gross state product

Victoria’s (and NSW’s) per capita gross state product as a percentage of the national average



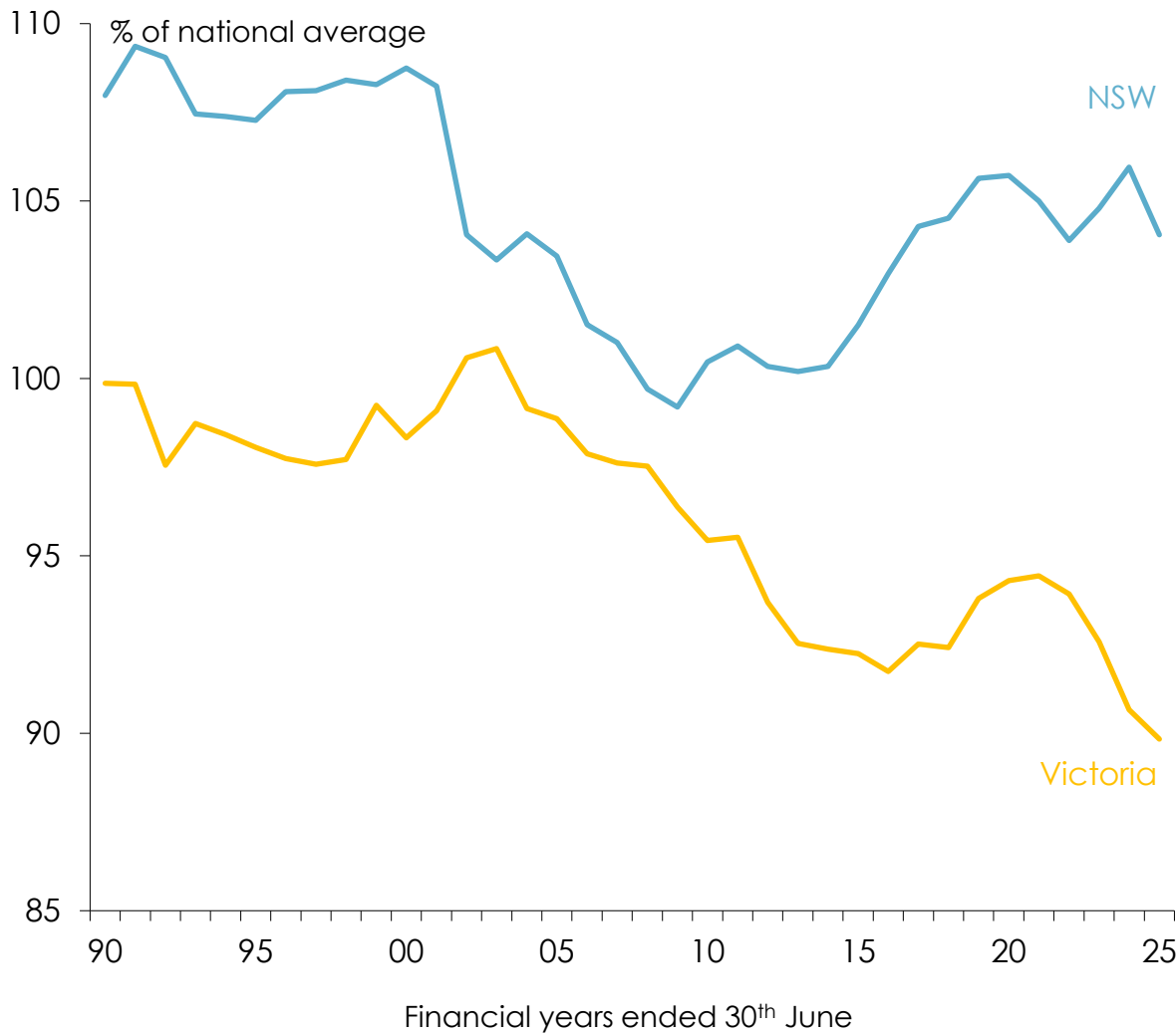
Per capita gross state product, states and territories, 2024-25



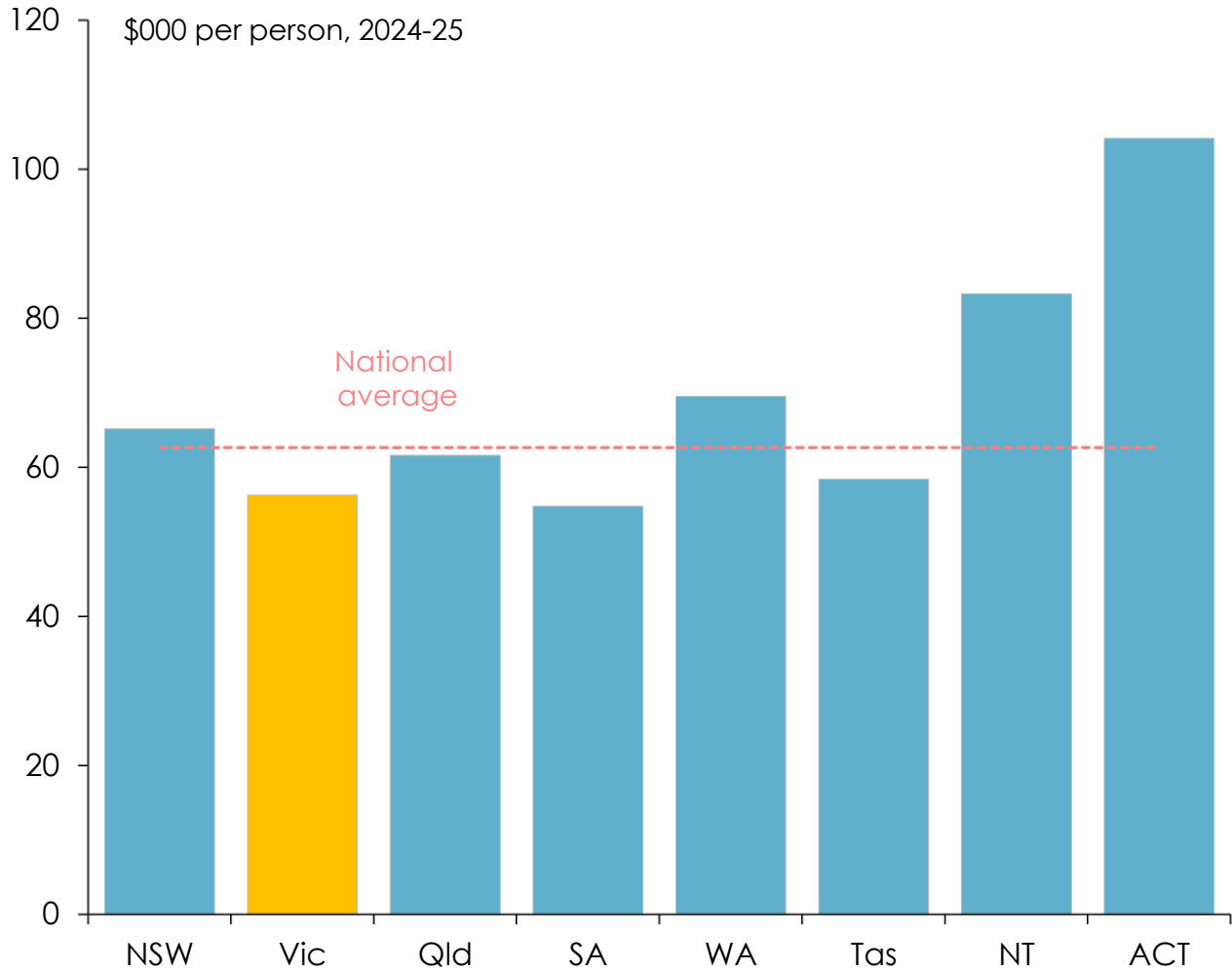
Sources: ABS, [Australian National Accounts: State Accounts](#), 2024-25. The 2025-26 edition will be published on 18th November.

Victoria's per capita household disposable income is now the second-lowest in Australia, lower even than Tasmania's

Victoria's (and NSW's) per capita household disposable income as a pc of the national average



Per capita household disposable income, states and territories, 2024-25



Sources: ABS, [Australian National Accounts: State Accounts](#), 2024-25. 2025-26 data will be published on 18th November.

Victoria's economic growth has been largely driven by population growth (and it hasn't benefited from price increases as WA has done)

Real GSP growth, 2014-15 to 2024-25



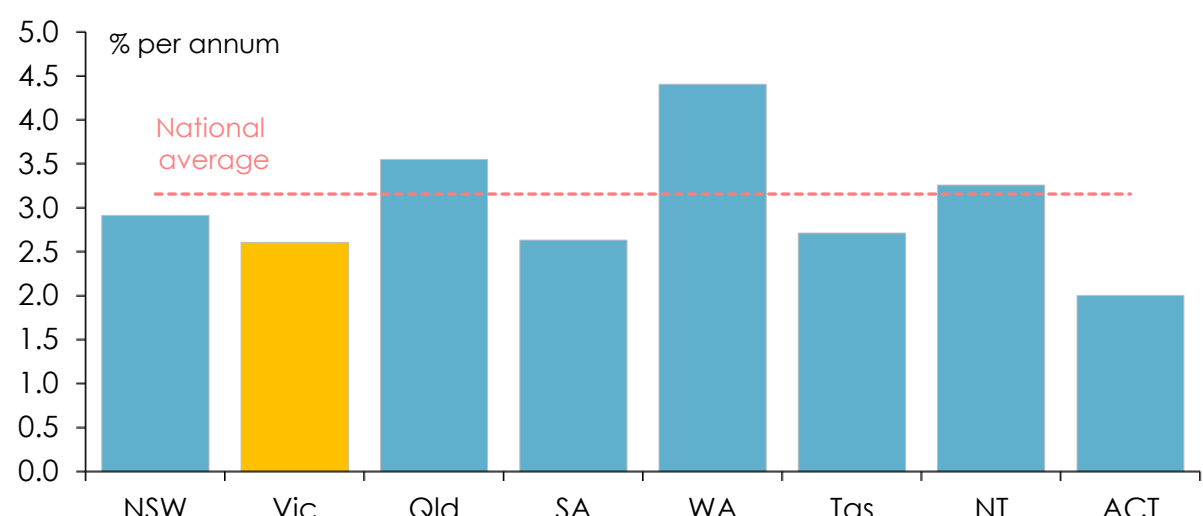
Real per capita GSP growth, 2014-15 to 2024-25



Population growth, 2014-15 to 2024-25



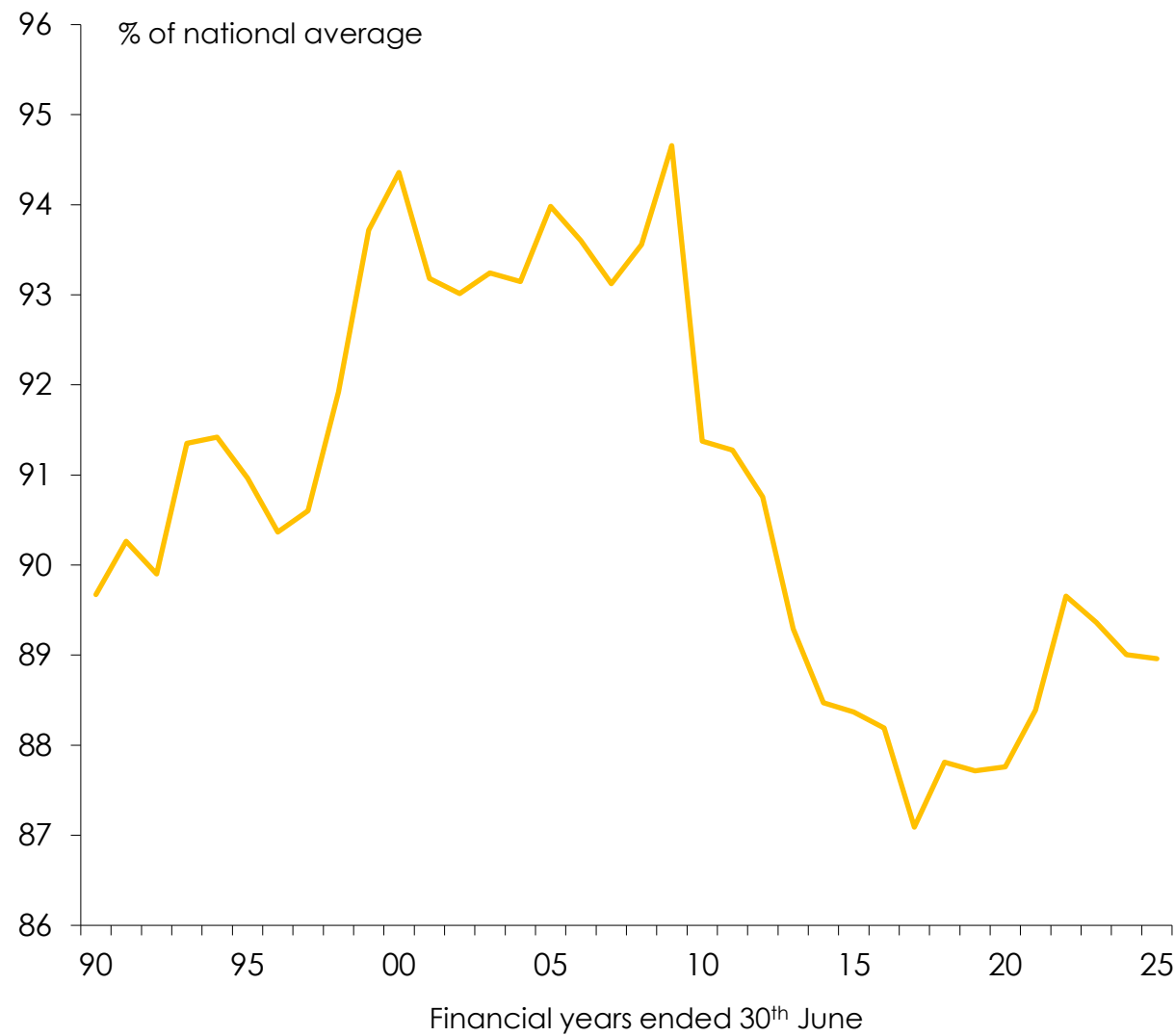
Increase in price deflator of GSP, 2014-15 to 2024-25



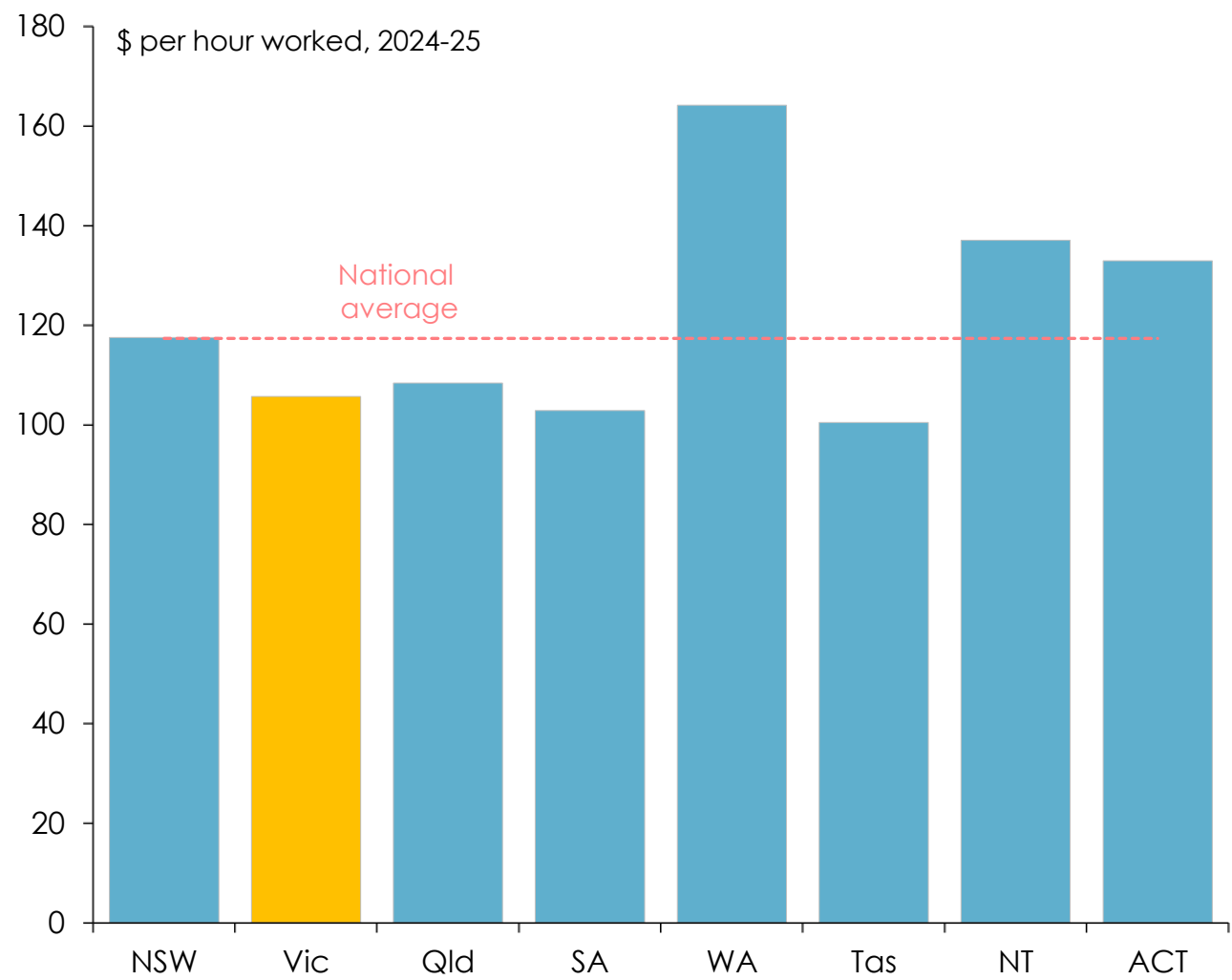
"GSP" is gross state product. Sources: ABS, [Australian National Accounts: State Accounts](#), 2024-25.

Victoria's labour productivity has declined significantly relative to the rest of Australia since 2010

Victoria's labour productivity as a percentage of the national average



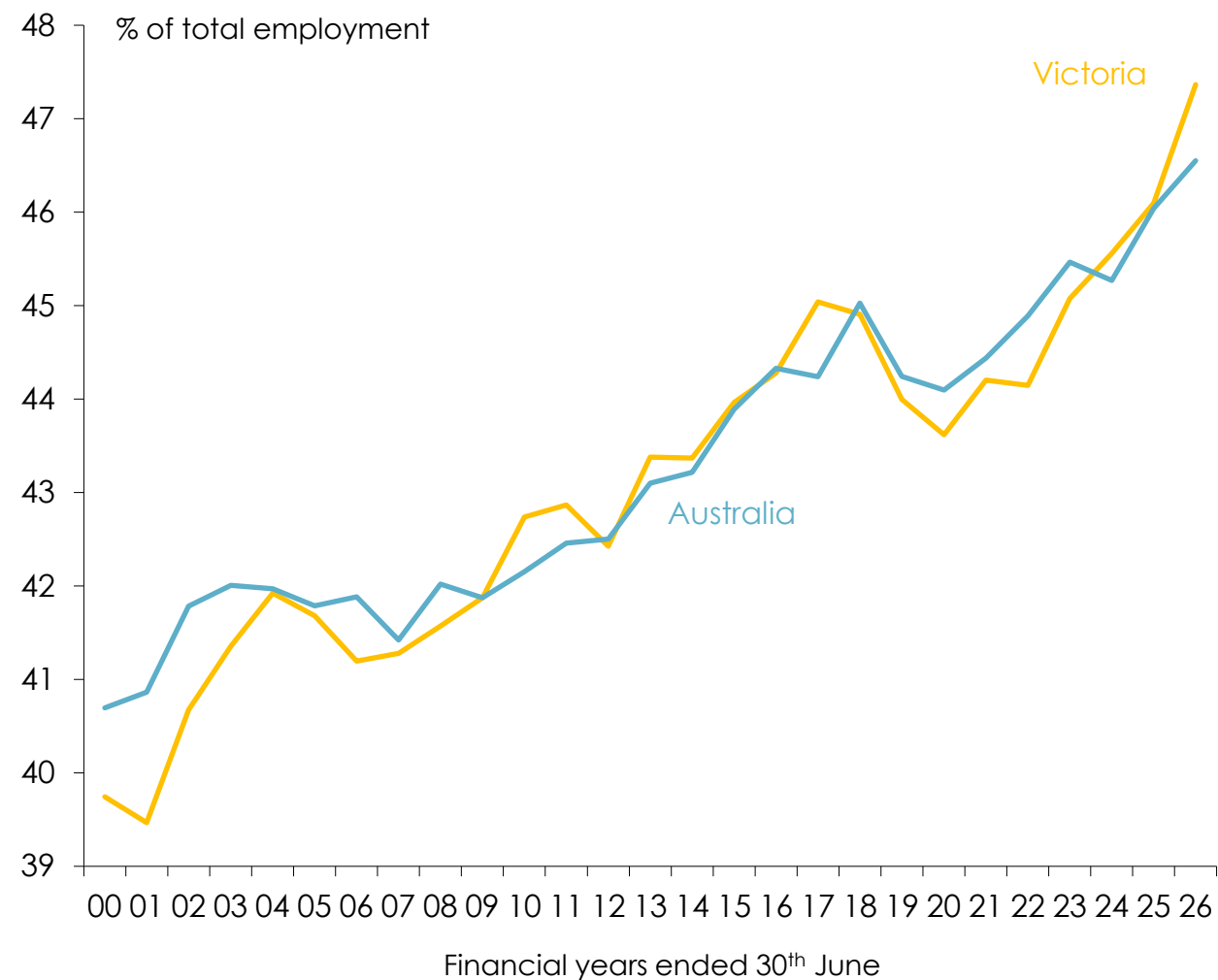
Labour productivity (gross product per hour worked), states and territories, 2024-25



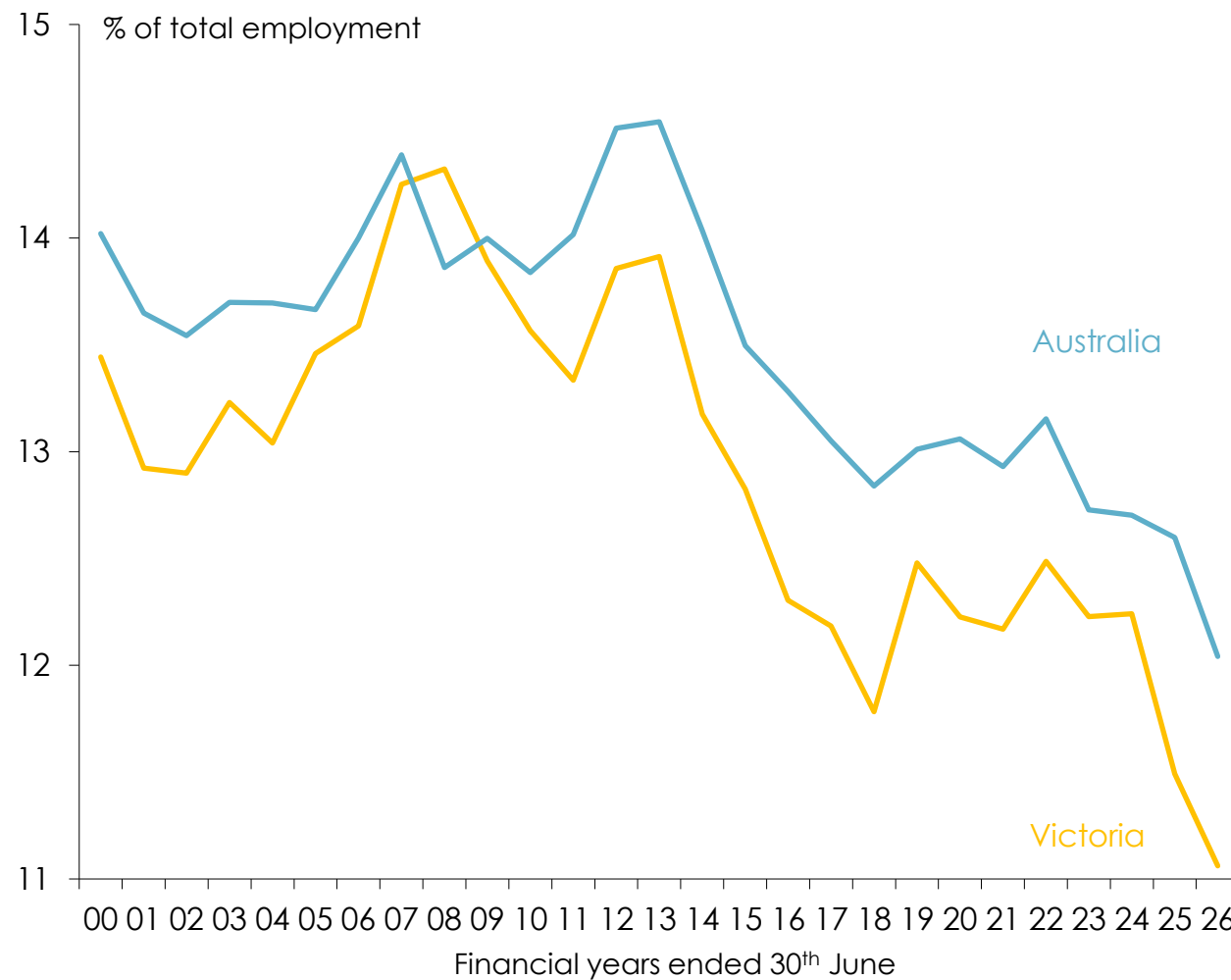
Sources: ABS, [Australian National Accounts: State Accounts](#), 2024-25; [Labour Force, Australia](#), July 2026.

Victoria's economic growth has been disproportionately dependent on intrinsically low-productivity industries

Employment in intrinsically 'low productivity' industries as a pc of total employment



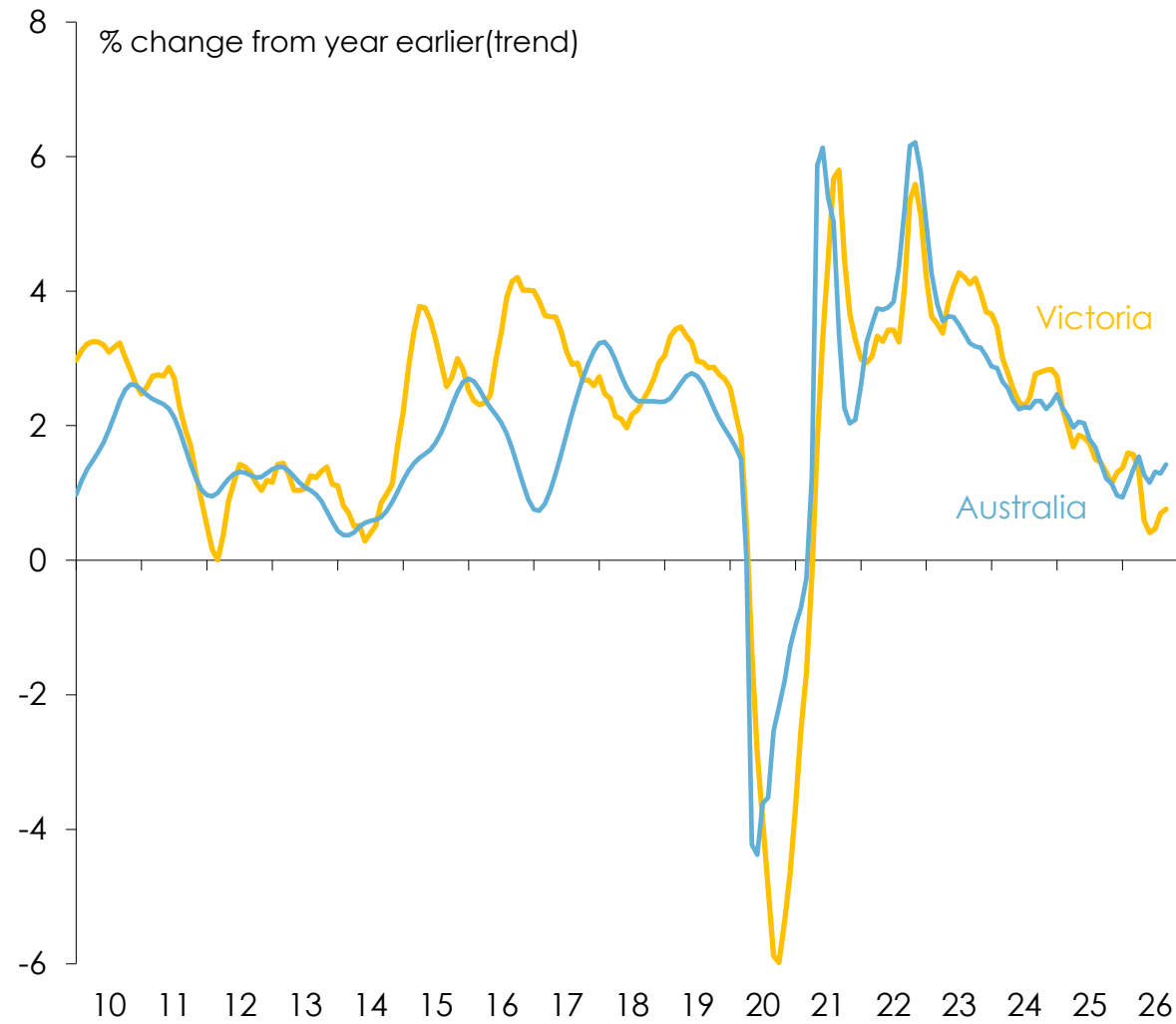
Employment in intrinsically 'high productivity' industries as a pc of total employment



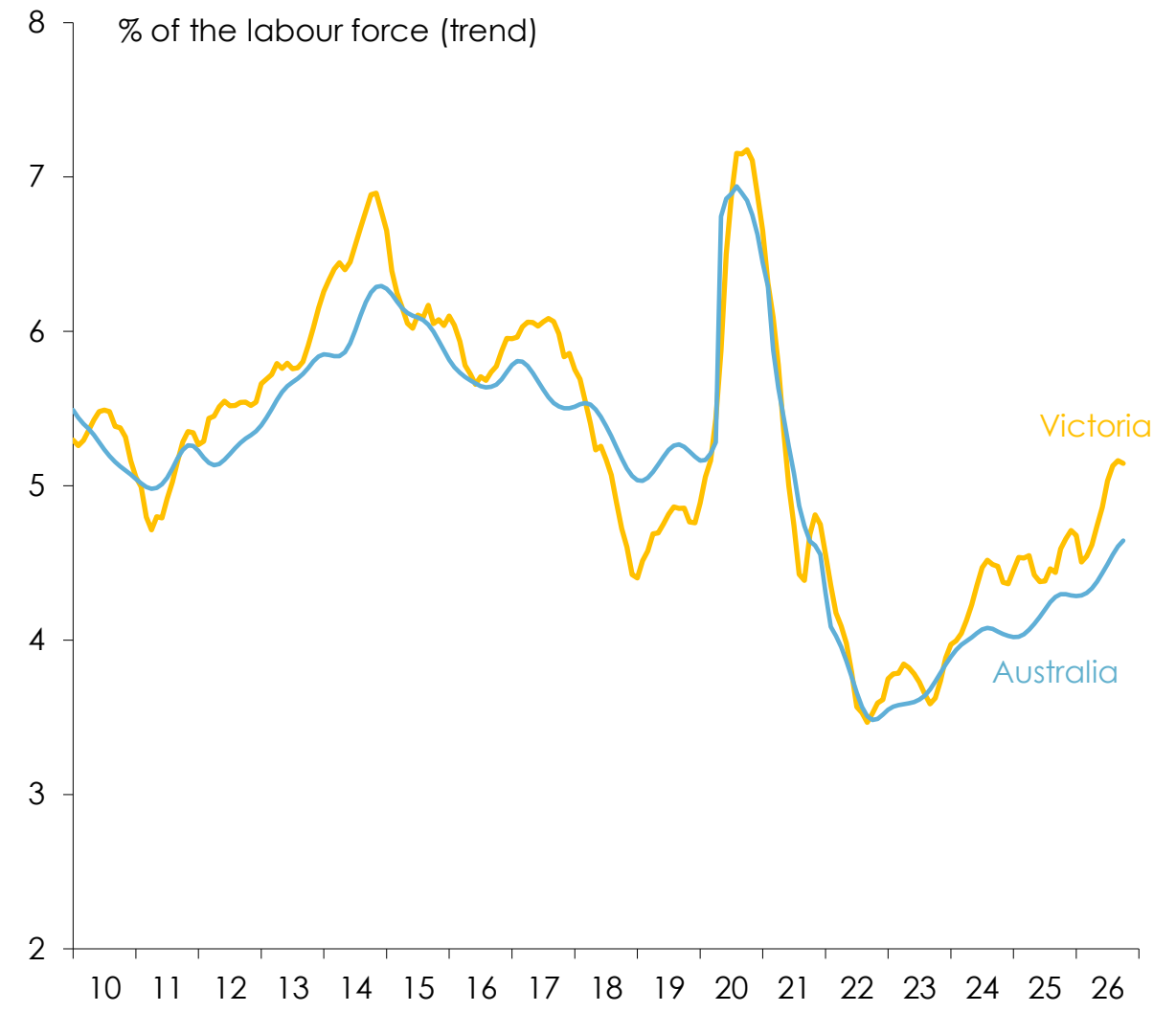
Note: 'Low-productivity industries' are education and training, health care and social assistance, retail trade, art and recreation services, accommodation and food services, and other services; 'high-productivity industries' are mining, finance and insurance services, utilities, information media and telecommunications services, rental hiring and real estate services, and wholesale trade. Sources: ABS, [Australian National Accounts: State Accounts](#), 2024-25; [Labour Force, Australia](#), July 2026.

Victoria's labour market is now clearly softer than that of the rest of Australia

Employment growth



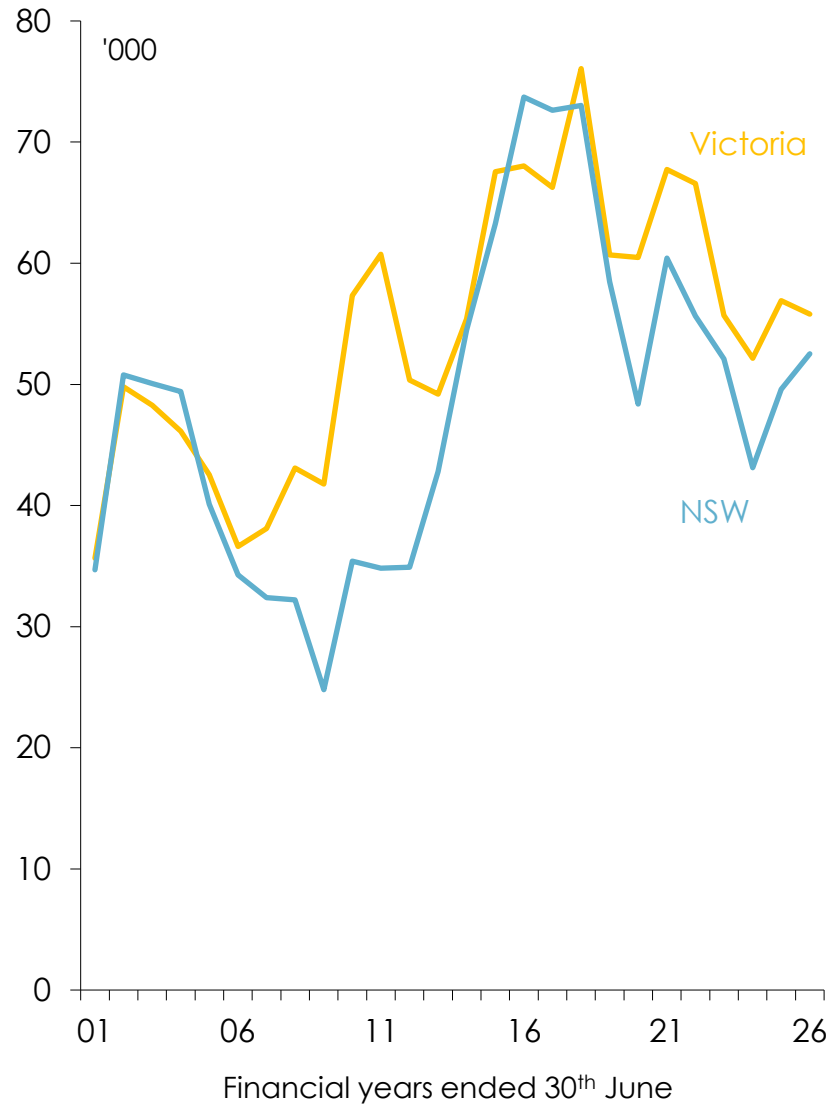
Unemployment rate



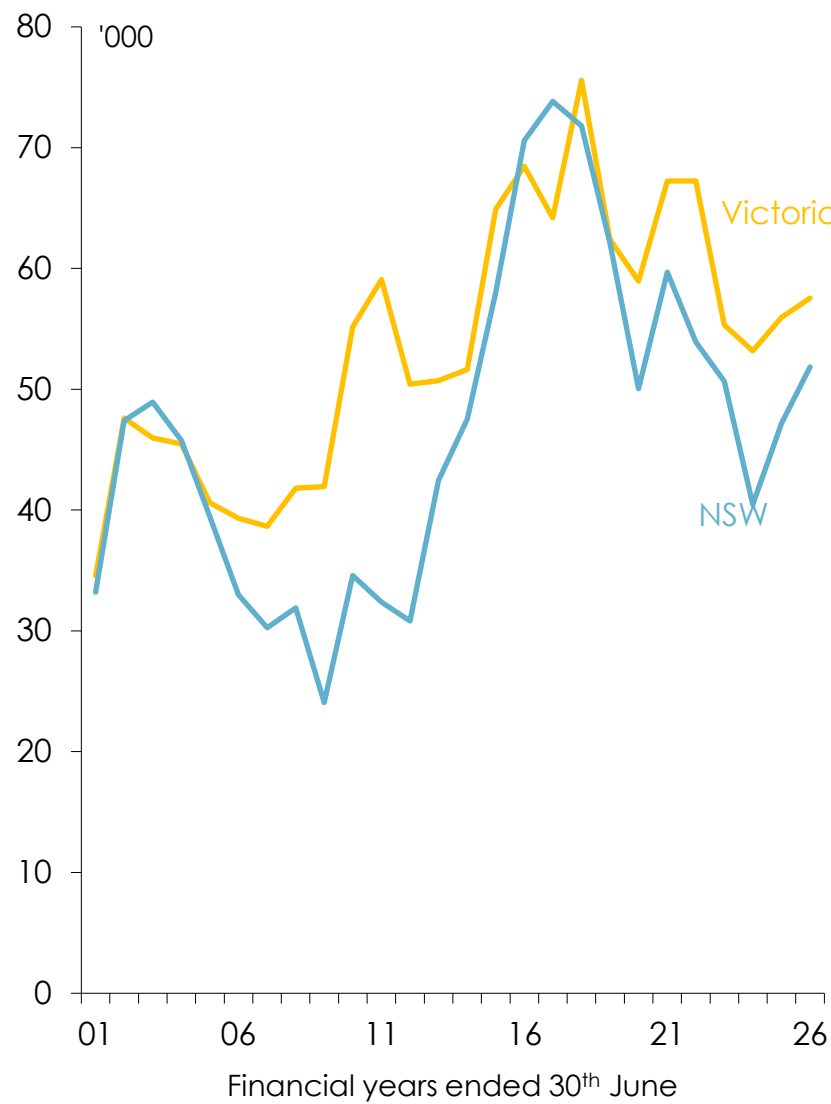
Source: ABS, [Labour Force, Australia](#), September 2026.

One thing Victoria has ‘got right’, at least relative to New South Wales, is housing supply

Residential building approvals



Dwelling commencements



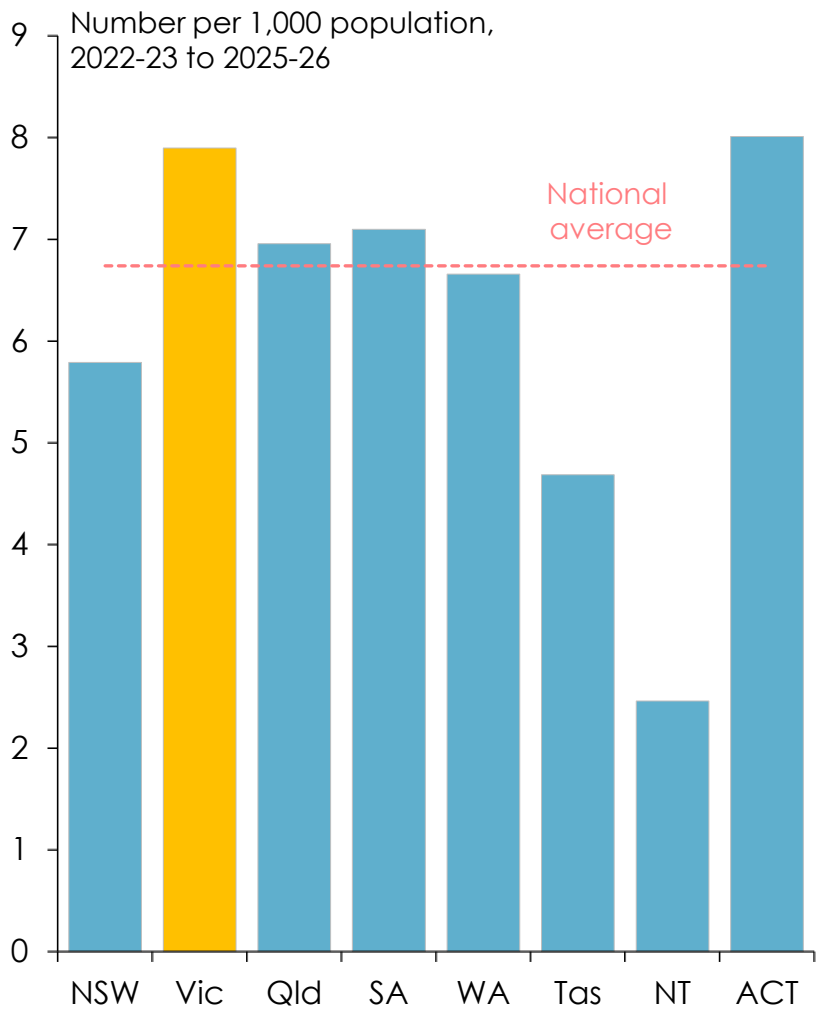
Dwelling completions



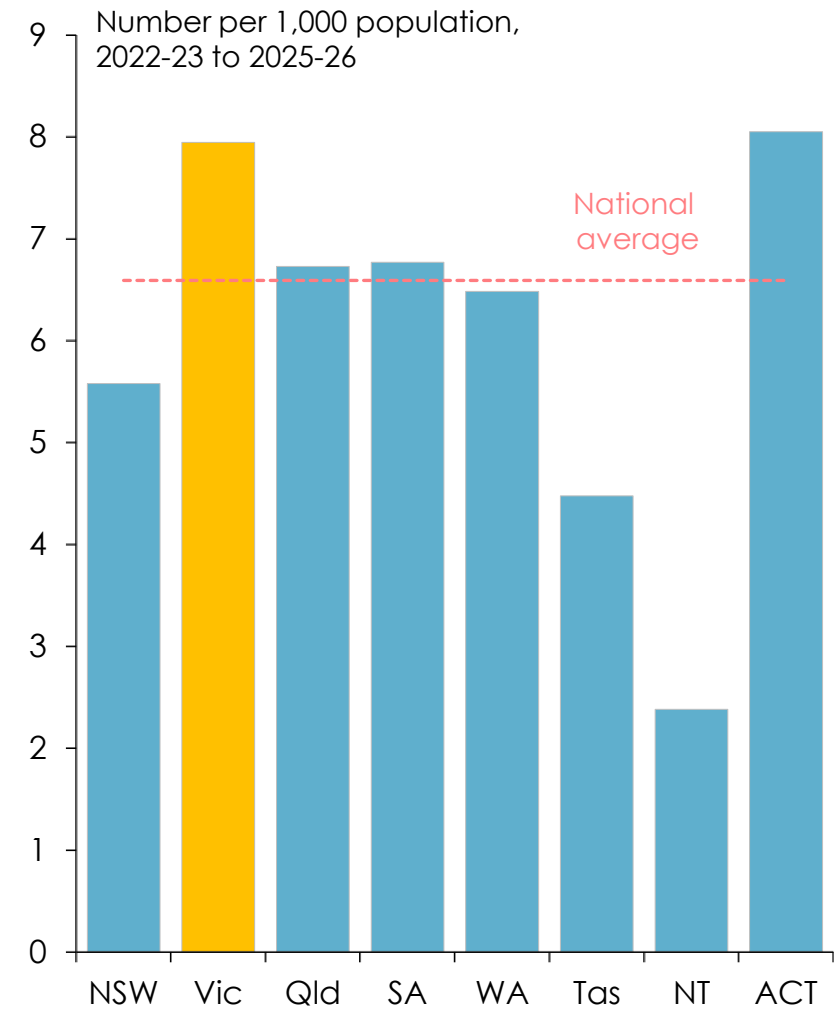
Sources: ABS, [Building Approvals](#), August 2026, and [Building Activity](#), June quarter 2026.

Per head of population Victoria has built more new housing than any other jurisdiction except the ACT over the past four years

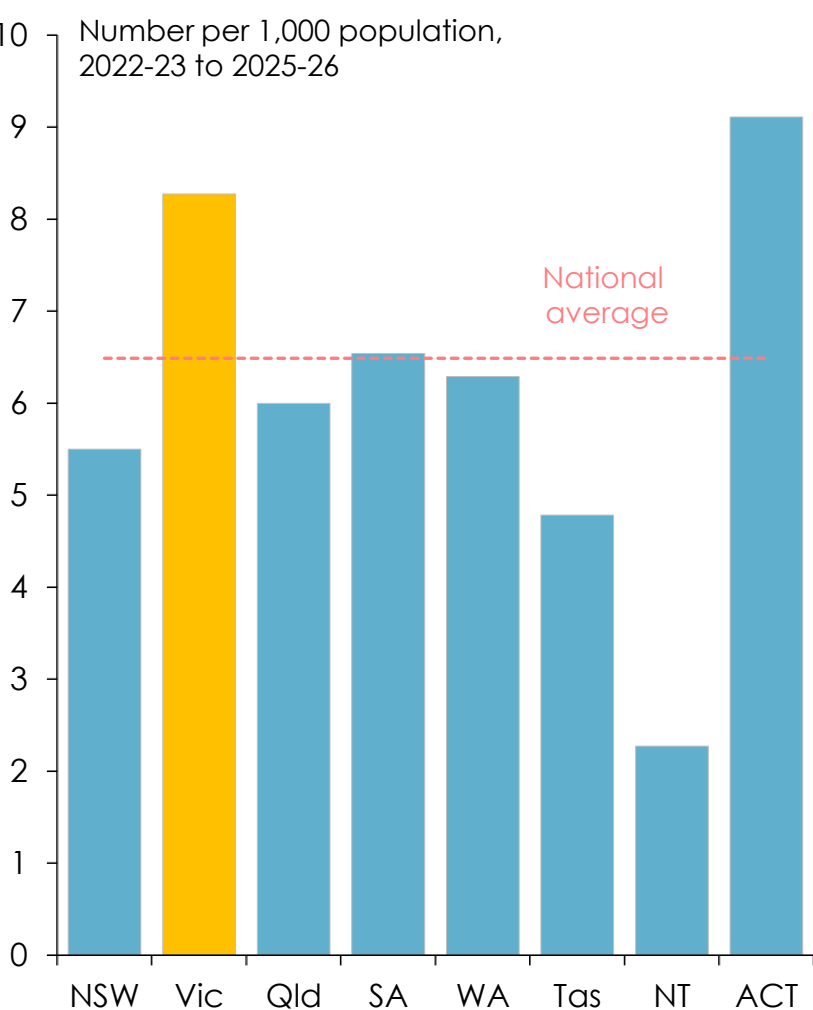
Residential building approvals
per 1,000 population



Dwelling commencements
per 1,000 population



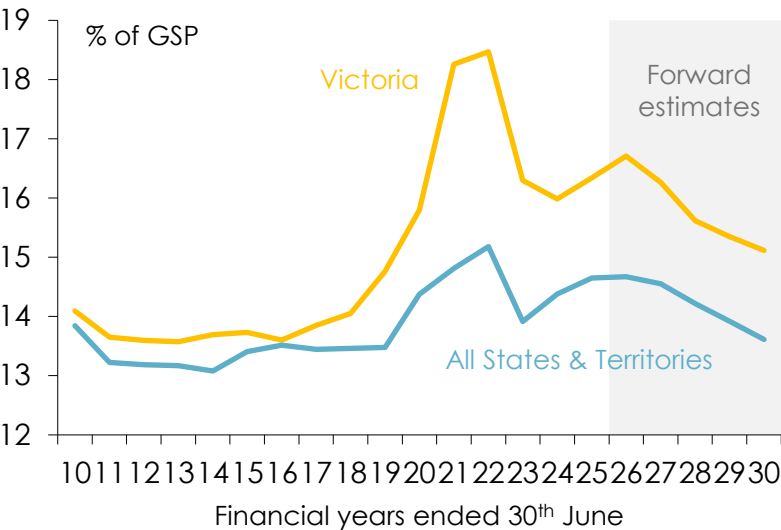
Dwelling completions
per 1,000 population



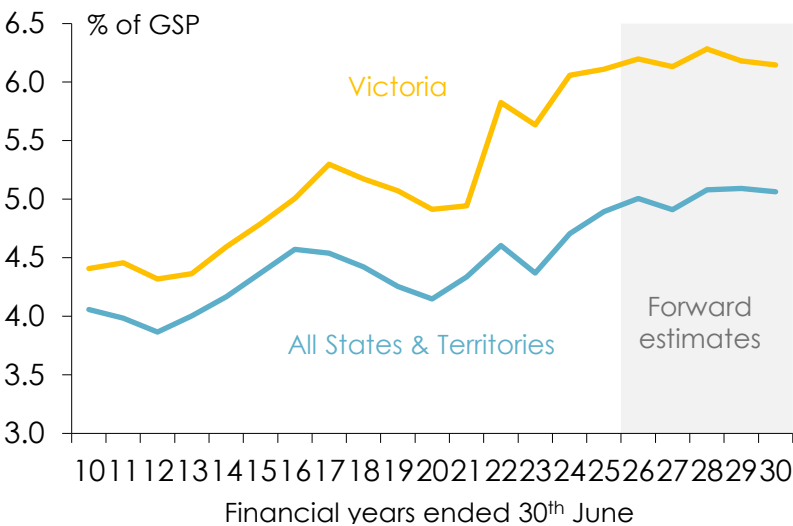
Sources: ABS, [Building Approvals](#), August 2026, and [Building Activity](#), June quarter 2026.

Victoria has made a complete hash of its state finances

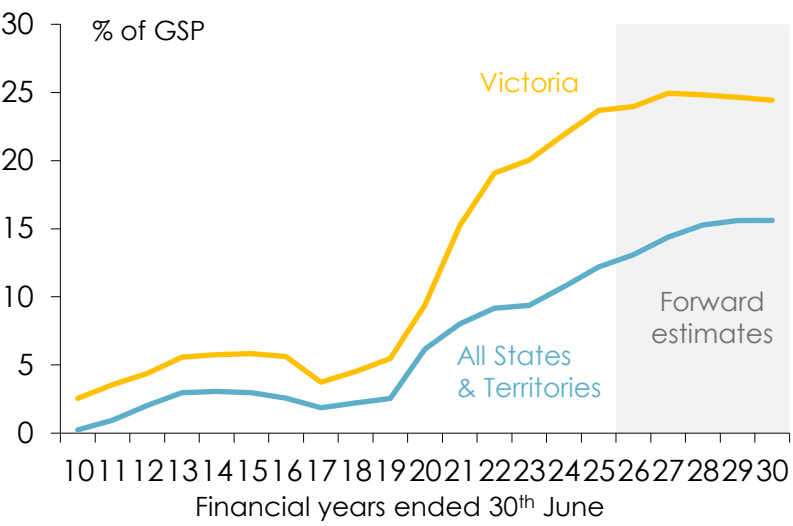
'Operating' expenses



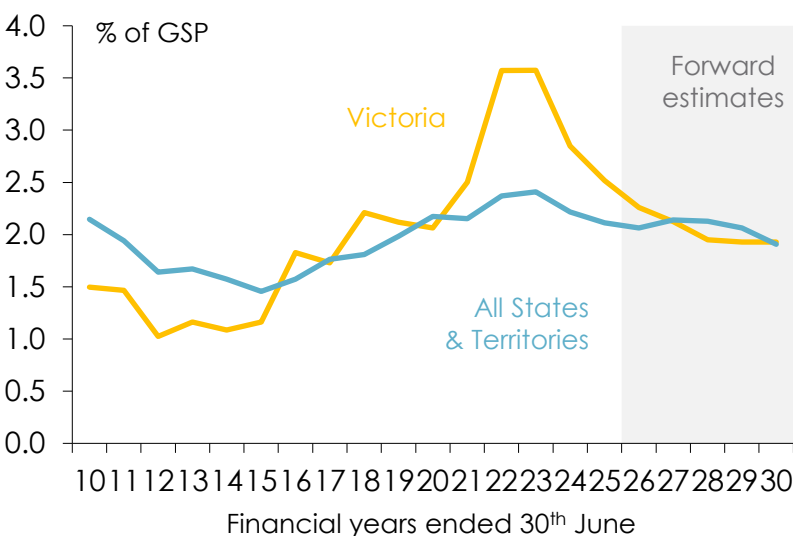
State taxation revenue



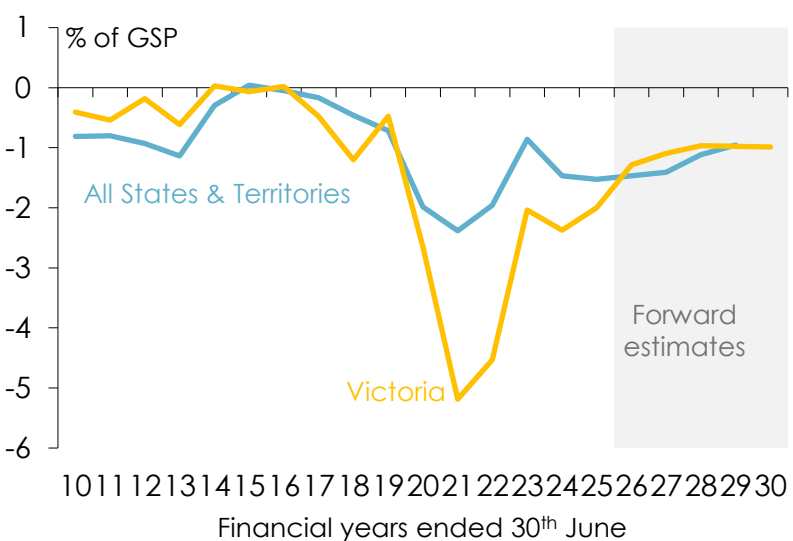
Net debt



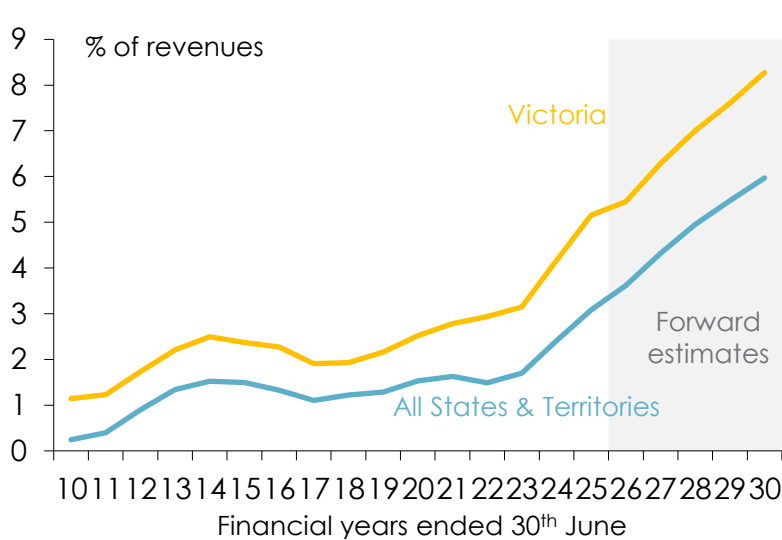
'Purchases of non-financial assets'



Cash surplus (+) or deficit (-)



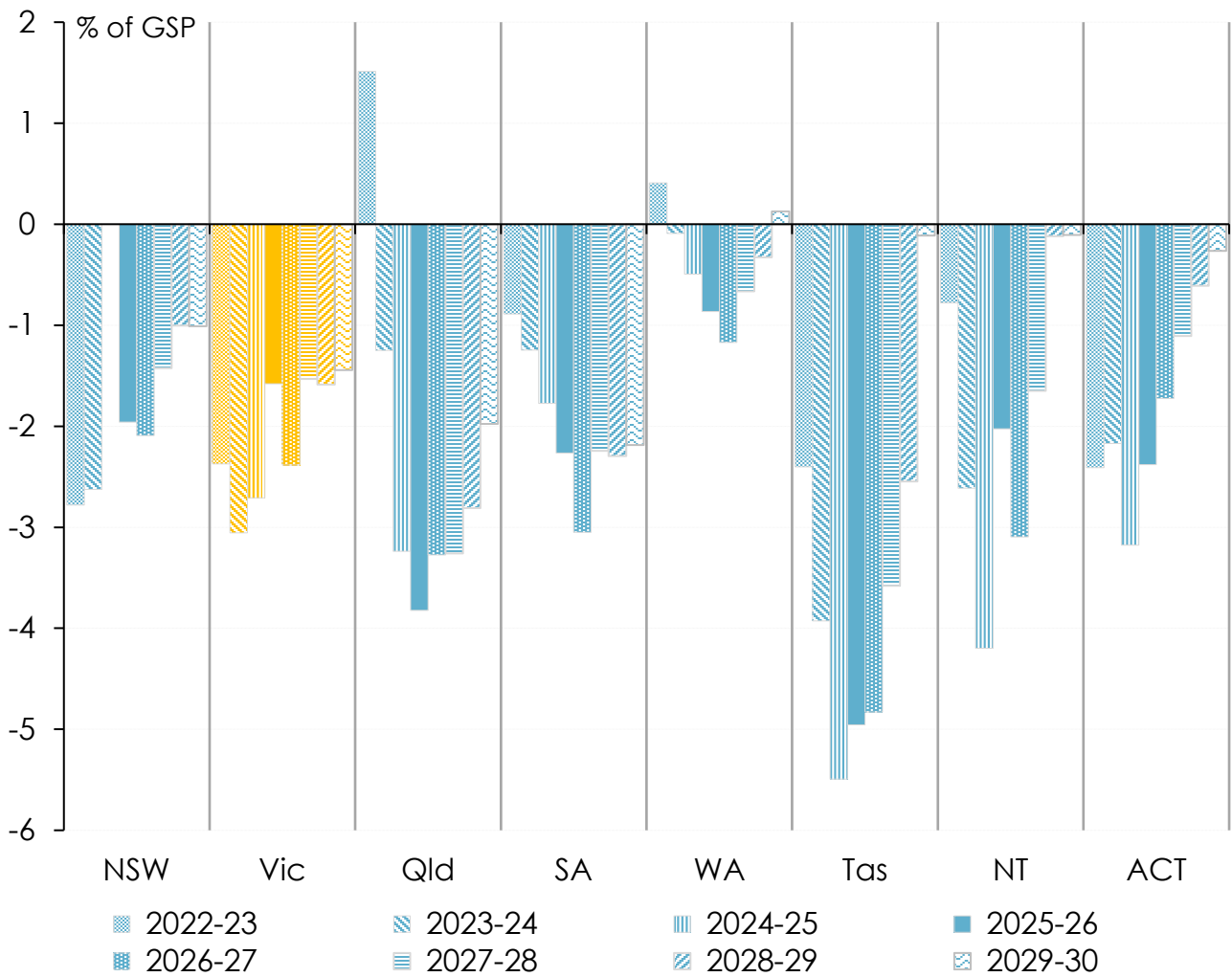
Interest expense



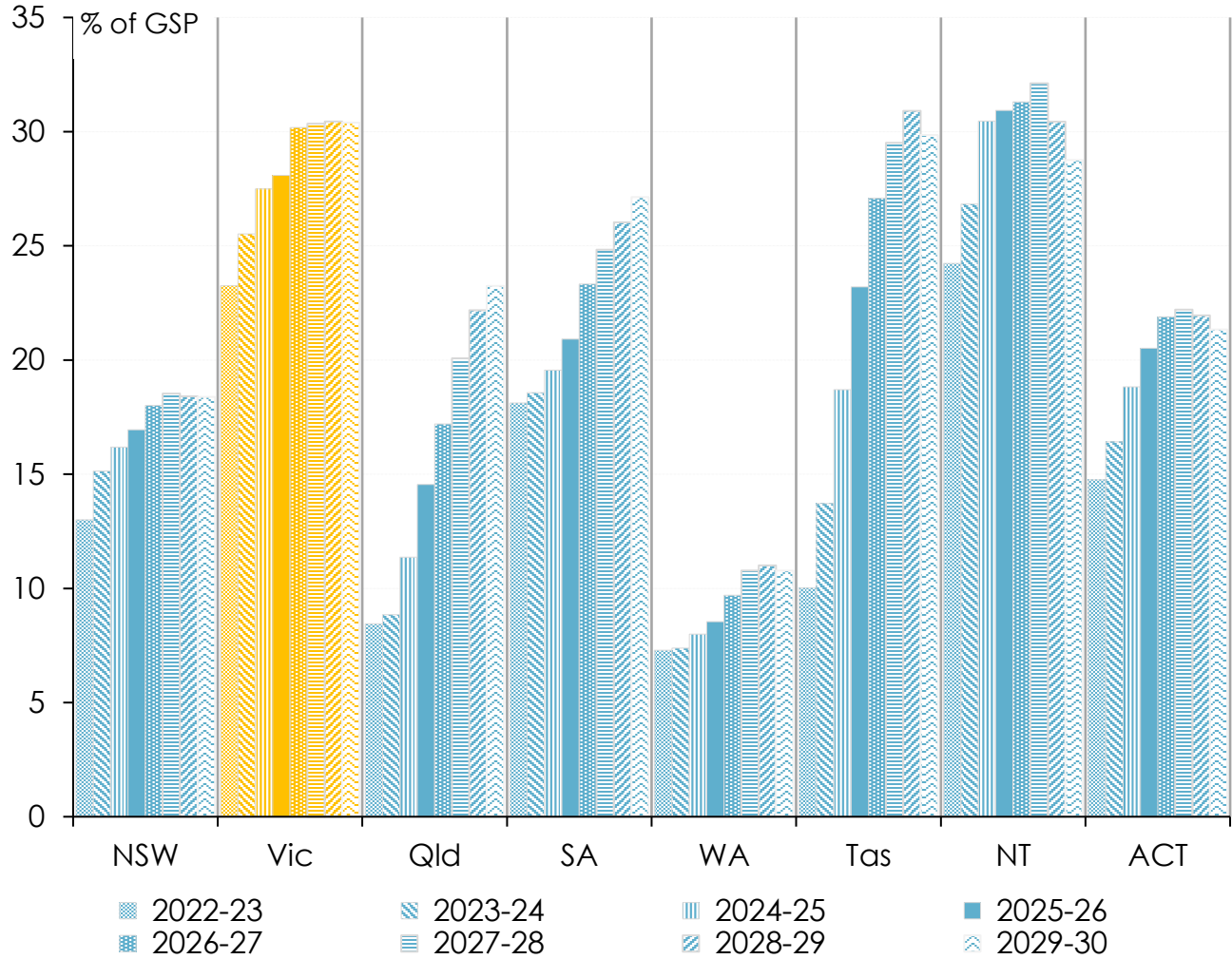
Note: data shown in these charts are for the 'general government sector', ie excluding government business enterprises. Sources: Victorian Department of Treasury & Finance, [2025-26 Financial Report](#) and previous issues, and [2026-27 State Budget - Statement of Finances](#); and equivalent publications by other states and territories.

On most indicators Victoria's finances are the second- or third-worst of any state or territory

State and territory non-financial public sector cash balances



State and territory non-financial public sector net debt



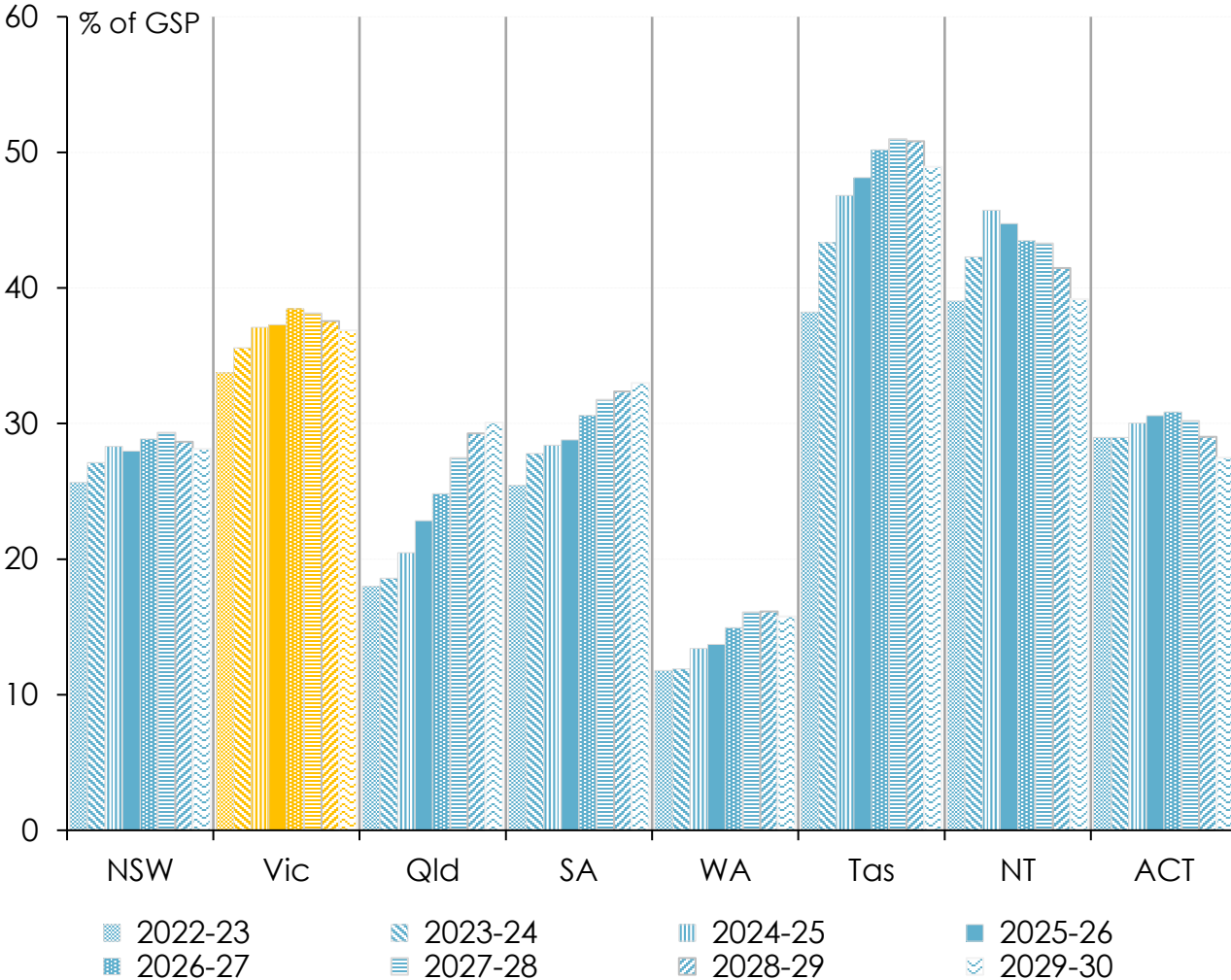
Note: These charts are for the non-financial public sector as a whole, ie including public non-financial corporations. 'GSP' = gross state product.
Sources: Victorian Department of Treasury & Finance, [2025-26 Financial Report](#) and previous issues, and [2026-27 State Budget - Statement of Finances](#); and equivalent publications by other states and territories.

On most indicators Victoria's finances are the second- or third-worst of any state or territory

State and territory non-financial public sector net interest expenses



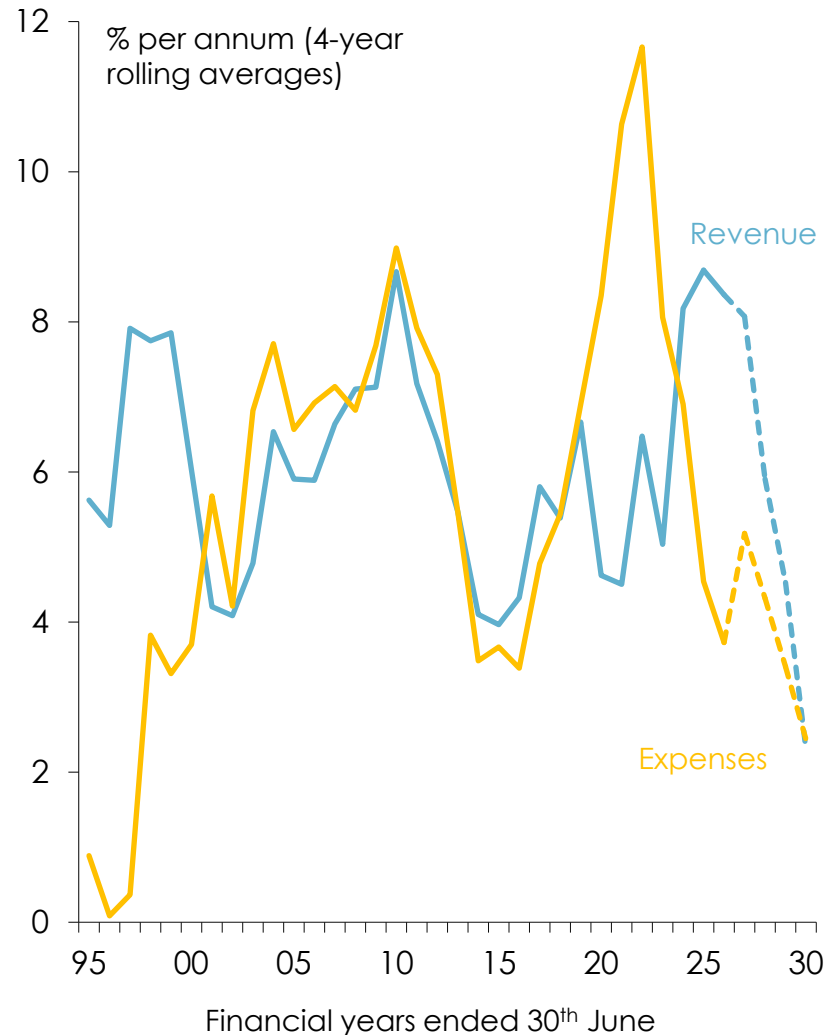
State and territory non-financial public sector net financial liabilities



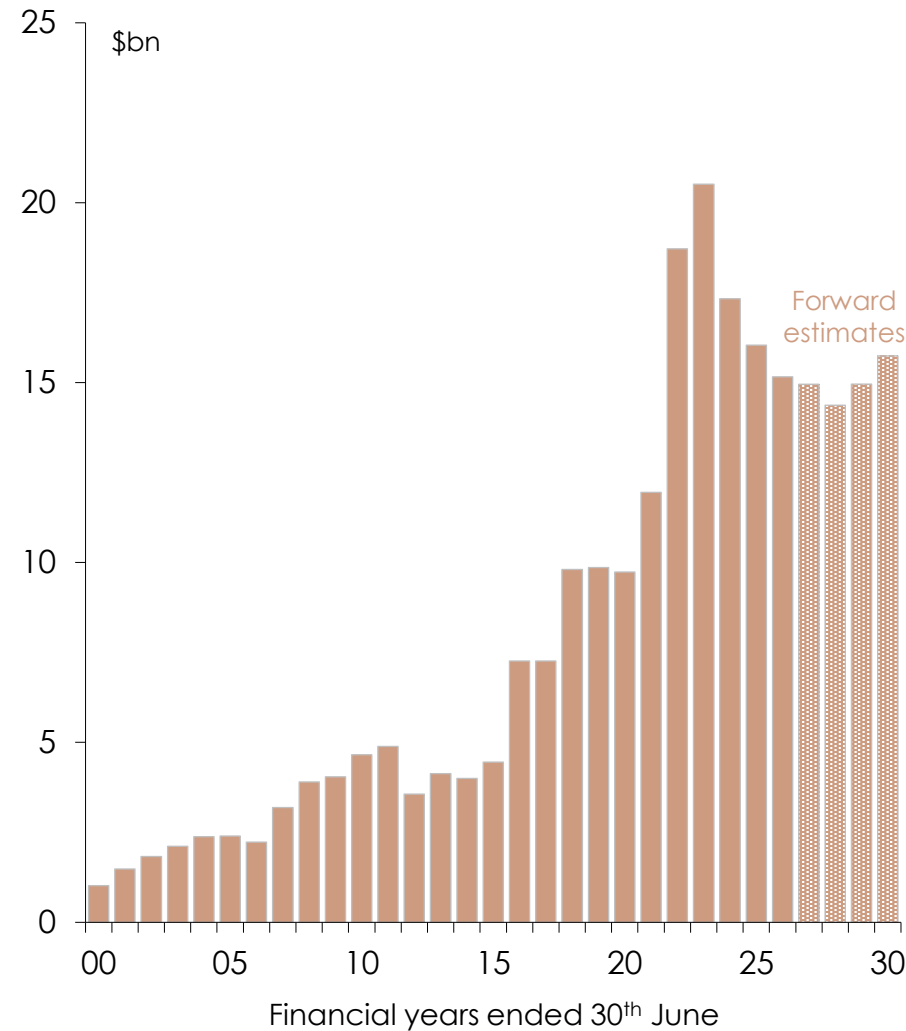
Note: These charts are for the non-financial public sector as a whole, ie including public non-financial corporations. Net financial liabilities includes unfunded superannuation liabilities as well as debt. Sources: Victorian Department of Treasury & Finance, [2025-26 Financial Report](#) and previous issues, and [2026-27 State Budget - Statement of Finances](#); and equivalent publications by other states and territories.

Slower growth in spending than in revenues, and modest reductions in capex aren't enough to get the budget back to a cash surplus

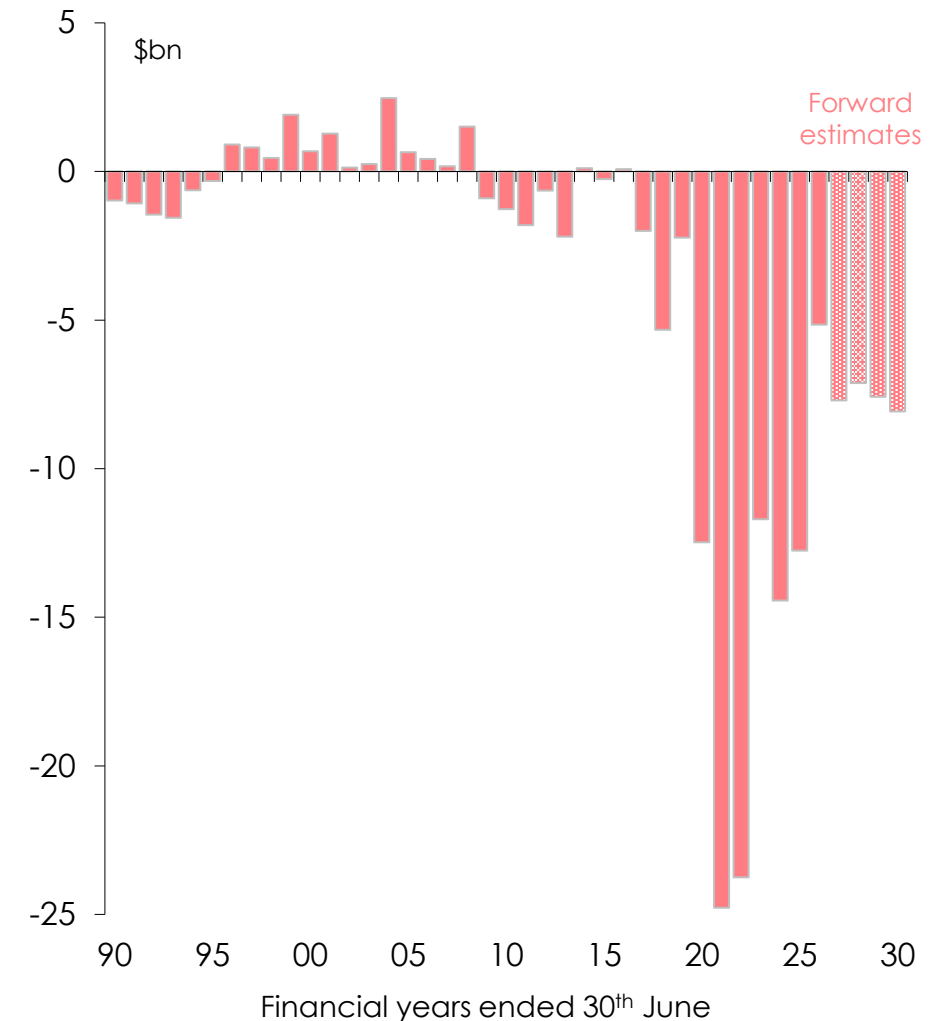
4-year rolling average growth in 'operating' expenses & revenues



'Purchases of non-financial assets' (aka 'capex')



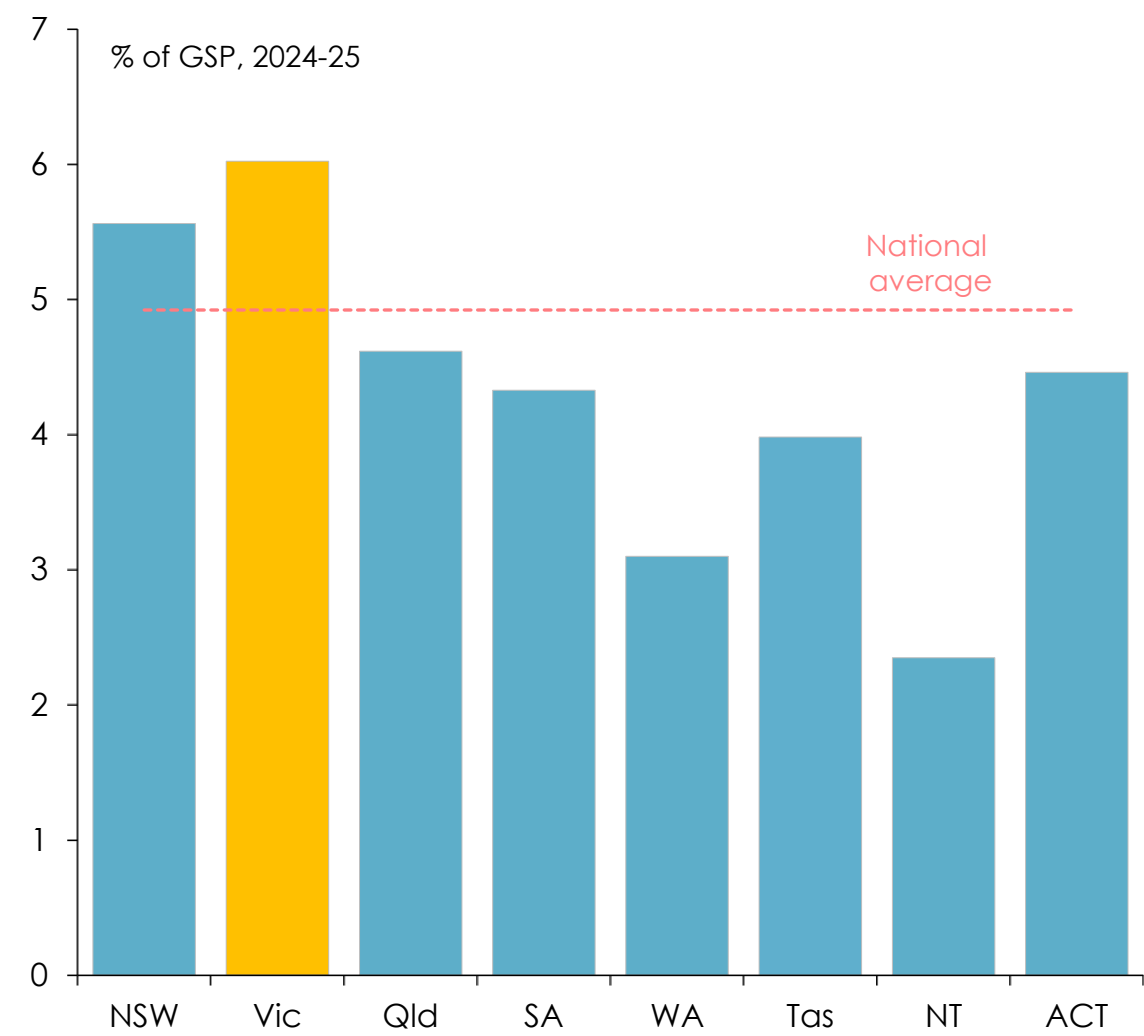
Cash surplus (+) or deficit (-)



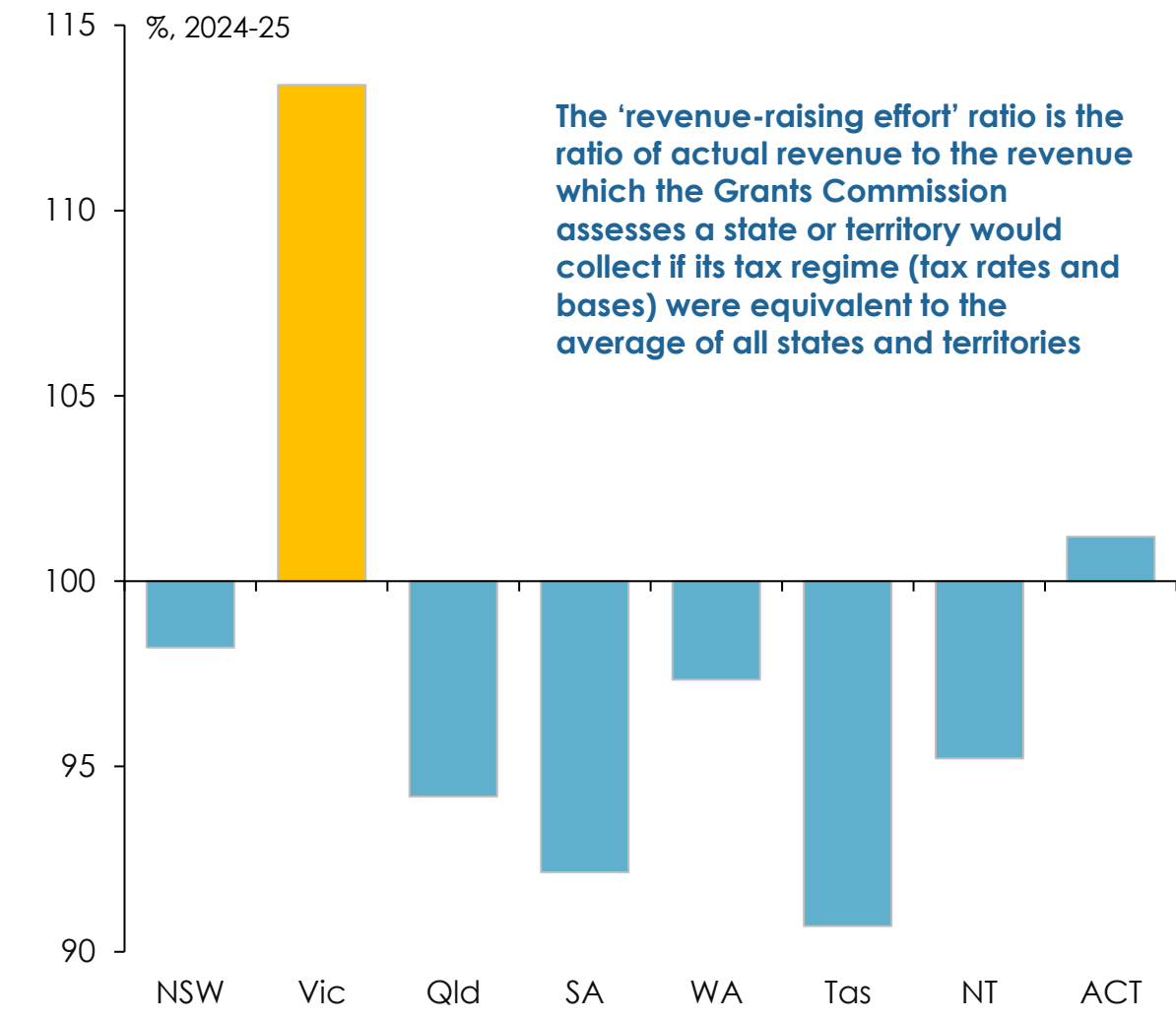
Sources: Victorian Department of Treasury & Finance, [2025-26 Financial Report](#) and previous issues, and [2026-27 State Budget - Statement of Finances](#).

There isn't really any scope to repair Victoria's budget through further increases in state taxes

State taxation revenue as a percentage of gross state product, 2024-25



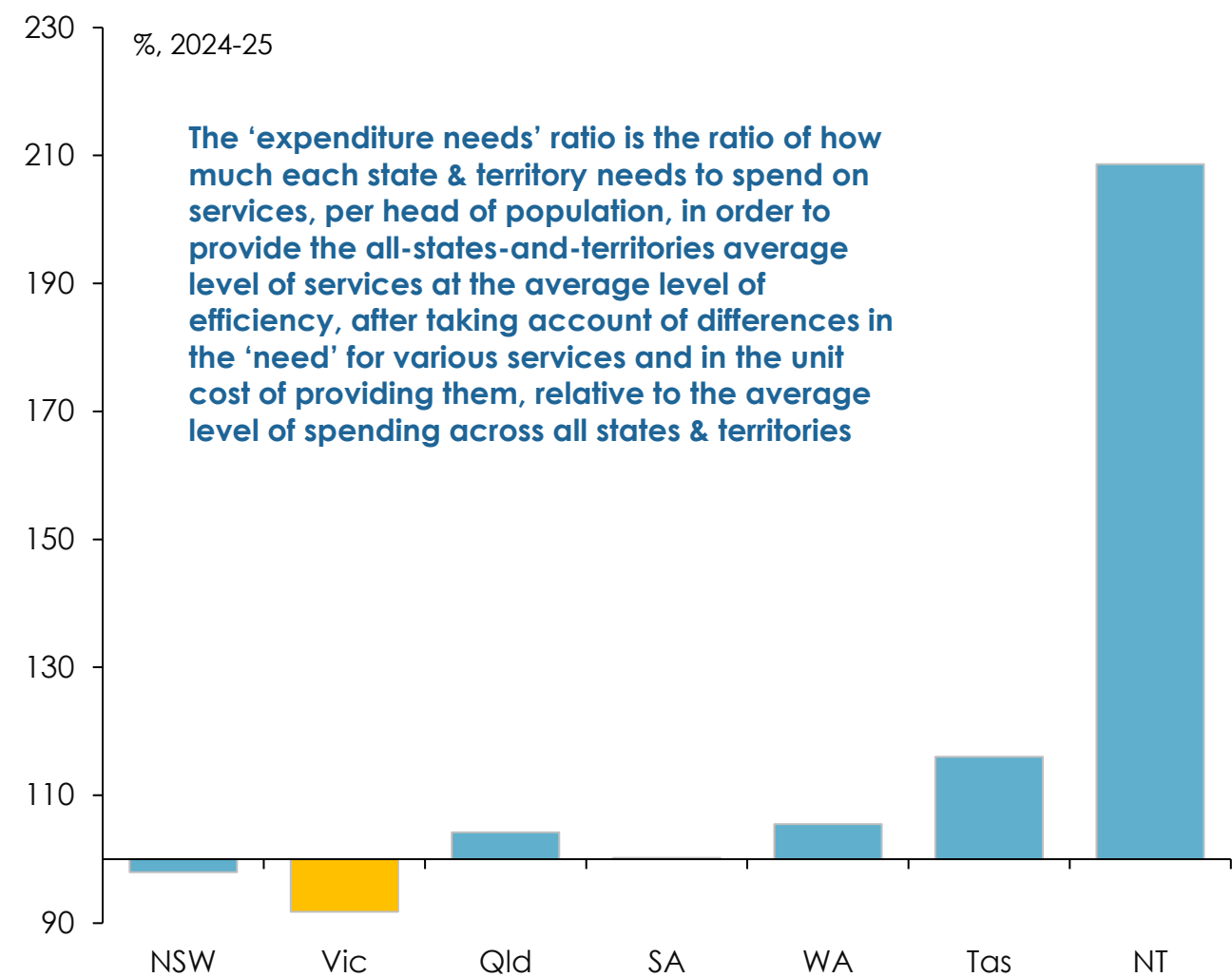
'Revenue-raising effort' ratios as assessed by the Commonwealth Grants Commission, 2024-25



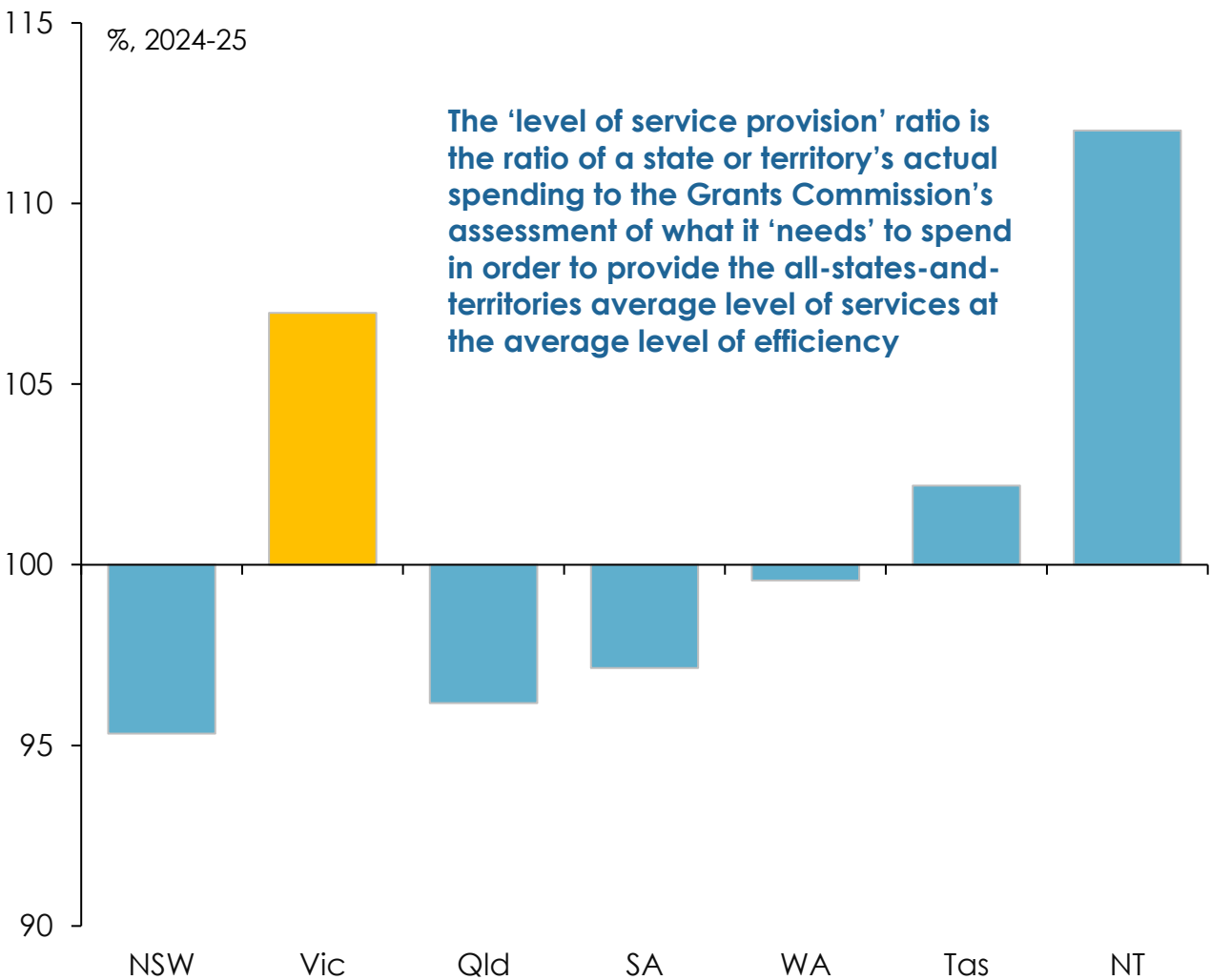
Sources: 2026-27 state and territory budget papers and ABS, [Australian National Accounts: State Accounts](#), 2024-25; Commonwealth Grants Commission, [2026 Update - Distribution of GST revenue - Tables, charts and supporting data](#). Note 'revenue' in the second chart includes payroll tax, stamp duties, land tax, insurance tax, motor taxes, and mining revenue, but excludes 'other revenue' so as to avoid distortions arising from the ACT Government's levying of municipal rates.

However there appears to be considerable scope for budget repair through expenditure savings

Grants Commission's assessments of state and territory expenditure 'needs', 2024-25



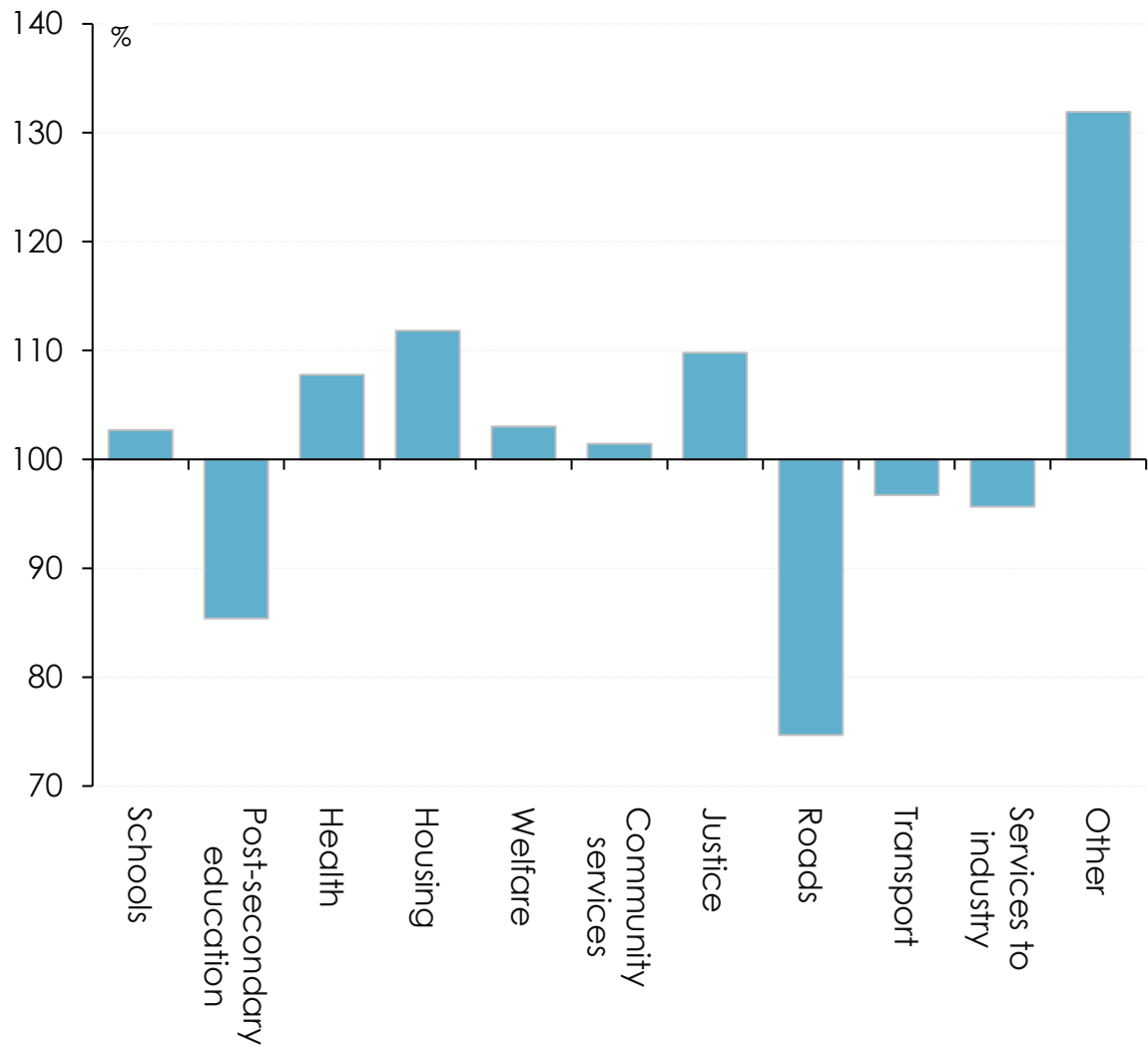
Grants Commission's assessment of state and territory 'level of service provision ratios, 2024-25



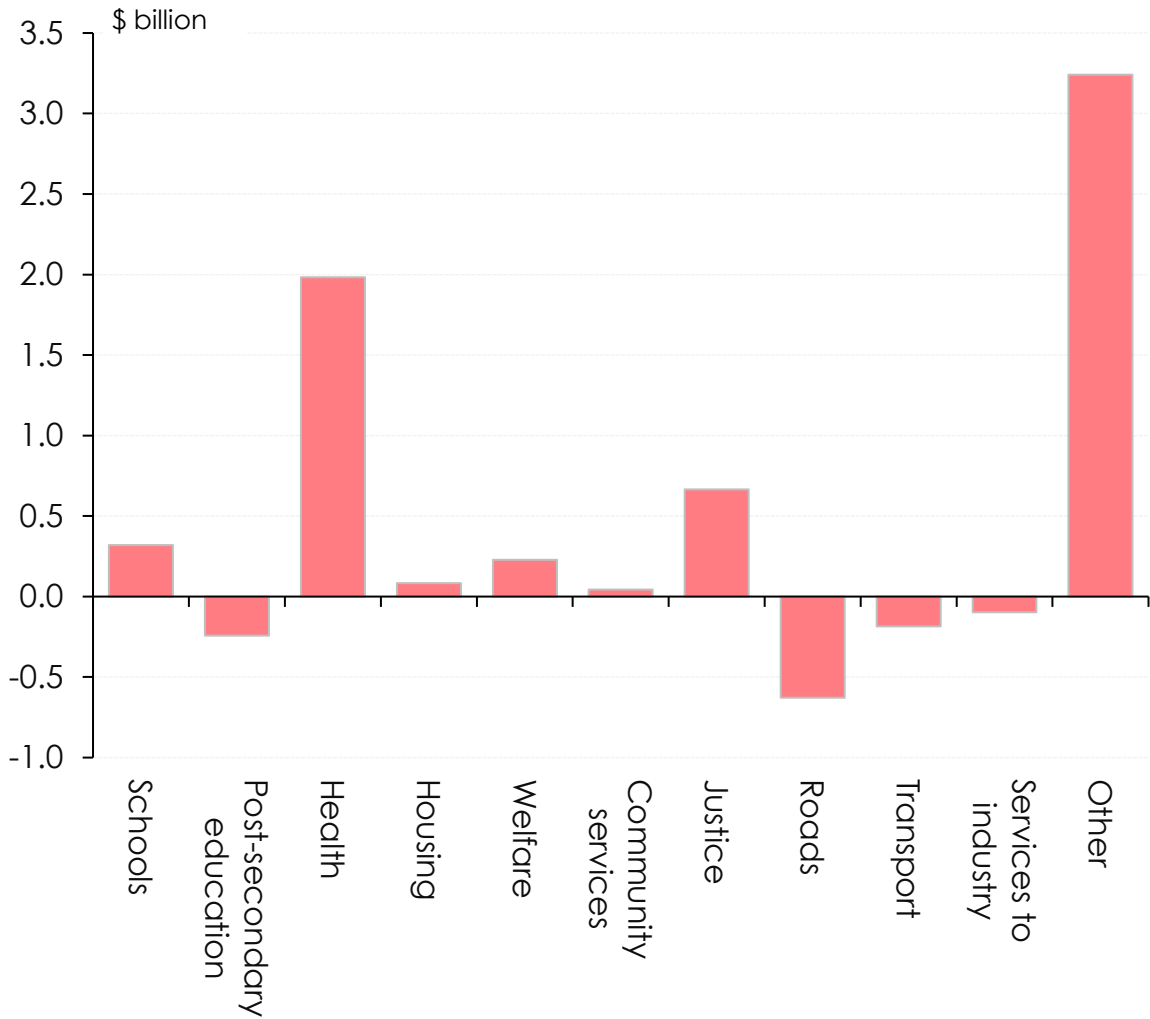
Source: Commonwealth Grants Commission, [2026 Update - Distribution of GST revenue - Tables, charts and supporting data](#). ACT is excluded to avoid distortions caused by the ACT's expenditures on provision of municipal (local government) services.

The Grants Commission's assessments give a 'first pass' indication of where savings are most likely to be found

Victorian 'level of service provision ratios' by categories of services, 2024-25



Potential savings based on 2024-25 'level of service provision ratios



Source: Commonwealth Grants Commission, [2026 Update - Distribution of GST revenue - Tables, charts and supporting data](#).

What any party seeking to form the next Victorian Government needs to do, during the campaign and after it

- ❑ **Set out a coherent, challenging and credible fiscal strategy**
 - which should include numerical targets for key fiscal indicators such as the cash balance and net debt (and possibly other measures as well), and dates by which those targets will be achieved
 - and commit to regular reporting to the Parliament of progress against those targets
- ❑ **Be honest with the Victorian people about the task ahead**
 - don't pretend that it's possible to “grow our way out” of the financial position Victoria is now in (it isn't)
 - and don't pretend that repairing Victoria's finances won't involve some ‘pain’, or that there are any ‘simple solutions’
- ❑ **Avoid further increases in state taxes – but also avoid commitments to cutting taxes until a ‘cash surplus’ has been achieved**
 - but also avoid commitments to cutting taxes until a ‘cash surplus’ has been achieved
- ❑ **Make it clear that there will need to be cuts in both ‘operating’ and capital spending ...**
 - which should be achievable without requiring Victorians to accept lower standards of public services than in other states and territories
 - but will require a detailed and careful examination of spending across multiple programs to identify the scope for efficiency gains and productivity improvements
 - as [Helen Silver's report](#) says, “Done well, spending reductions can lead to better outcomes”
 - without some kind of electoral ‘mandate’, spending cuts may prove impossible to achieve

Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

This document does not purport to constitute investment advice. It should not be used or interpreted as an invitation or offer to engage in any kind of financial or other transaction, nor relied upon in order to undertake, or in the course of undertaking, any such transaction.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all financial instruments referred to herein. None of Saul Eslake, Corinna Economic Advisory Pty Ltd nor Independent Economics however makes any representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. Saul Eslake, and Corinna Economic Advisory Pty Ltd expressly disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Any opinions expressed herein should not be attributed to any other organization with which Saul Eslake is affiliated.