

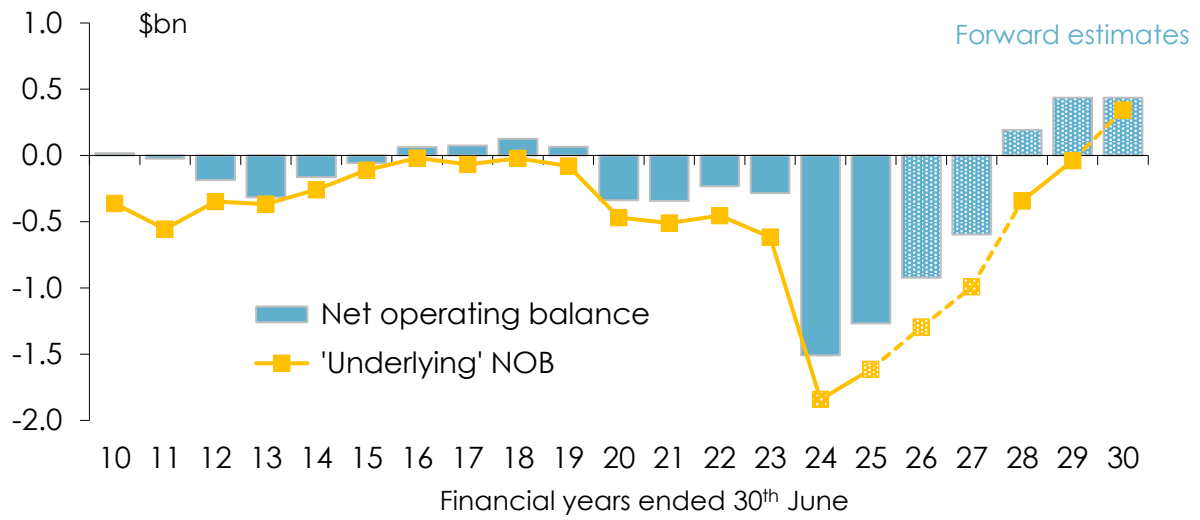
## The 2026-27 Tasmanian State Budget represents important progress towards putting Tasmania's finances onto a more sustainable trajectory – with a lot of help from the Federal Government

Today's 2026-27 Budget represents a meaningful first step towards putting Tasmania's public finances onto a sustainable trajectory:

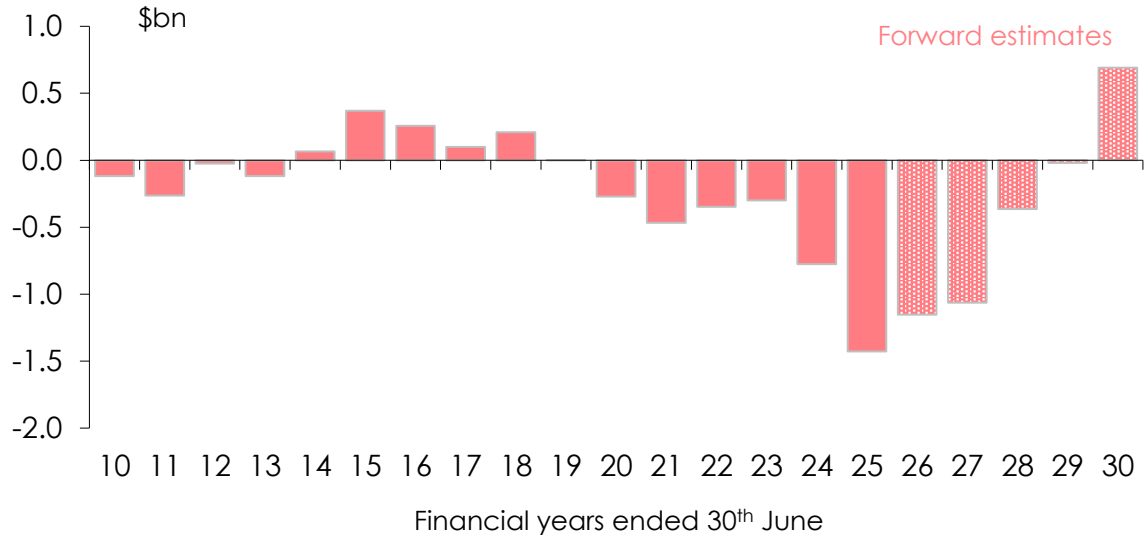
- it projects a return to 'general government' sector '**net operating surpluses**' by 2027-28 (a year earlier than in last year's Budget), and, more importantly, to an '**underlying**' net operating surplus (that is, excluding one-off grants for capital purposes from the Federal Government) by 2029-30 (Chart 1 on page 2);
- it projects a return to a **cash surplus** for the 'general government' sector by 2029-30, whilst in the meantime forecasting cash deficits over the four years to 2028-29 totalling \$1.9 billion, which is \$1.7 billion less than forecast in last year's Budget, and \$1.4 billion less than forecast in February's Revised Estimates Report (RER);
- as a result, 'general government' **net debt** is projected to peak at \$10.0 billion at the end of the 2028-29 financial year, which is \$414 million less than forecast in last year's Budget, and \$239 million less than forecast in February's RER – and then to decline to \$9.5 billion by the end of the 2029-30 financial year, which would be the first time that net debt has declined since 2016-17 (Chart 3);
- the **public non-financial corporations** sector is projected to record cash deficits totalling \$5.4 billion over the four years to 2028-29, \$368 million more than forecast in last year's Budget, but \$49 million less than forecast in February's RER, with a significant decline in the PNFC cash deficit predicted for 2029-30;
- as a result, the projected improvements in the 'general government' sector's financial position largely flow through to that of the **non-financial public sector as a whole**, for which the Budget predicts cash deficits totalling \$8.1 billion over the four years to 2028-29, \$665 million less than forecast in last year's Budget and \$748 million less than in February's RER, followed by a cash deficit of just \$65 million in 2029-30, which would be the best (least worst) result since 2017-18 (Chart 4);
- and that in turn means that total **non-financial public sector net debt** is projected to reach \$18.4 billion by the end of 2028-29, which is \$754 million less than forecast in last year's Budget and \$797 million less than in February's RER, and then to rise by a further \$111 million to \$18.5 billion by the end of 2029-30;
- finally, thanks to the downward revisions to forecasts of net debt, and of Tasmania's unfunded superannuation liability (largely as a result of future liabilities being discounted at higher interest rates), Tasmania's non-financial public sector **net financial liabilities** are expected to reach \$28.2 billion by the end of 2028-29, \$1 billion less than forecast in both last year's Budget and the February RER, and then rise by a further \$228 million to \$28.4 billion a year later (Chart 6).

This is the first State Budget since 2016-17 which *hasn't* presented a *deterioration* in Tasmania's financial position over the four year forward estimates period which it covers.

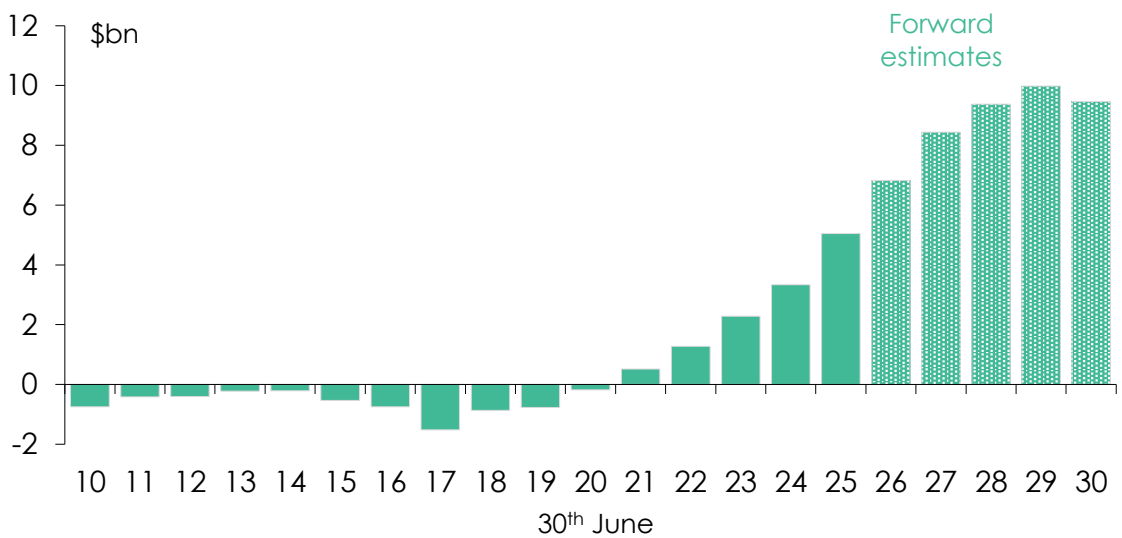
**Chart 1: 'General government' net operating balances**

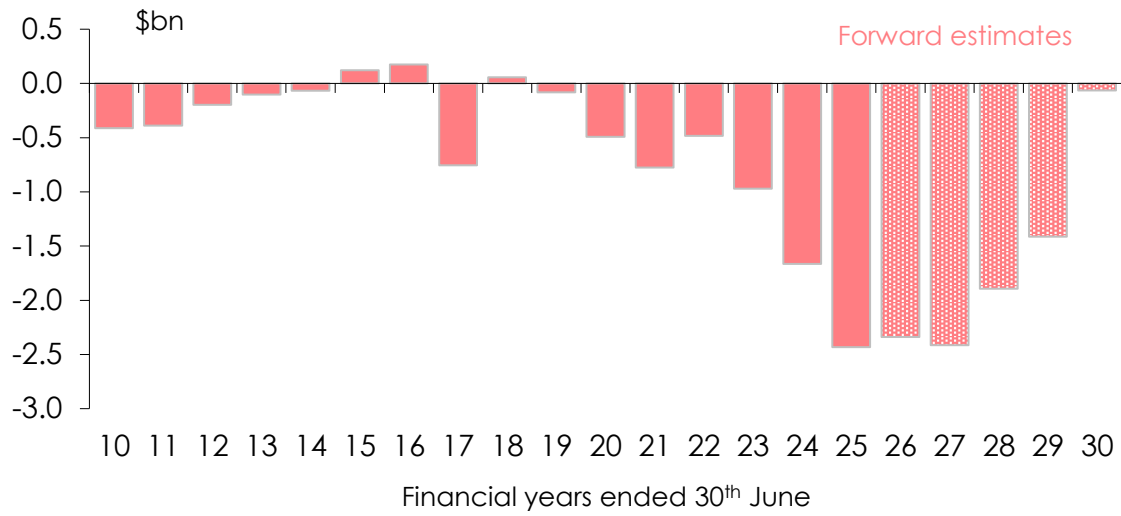
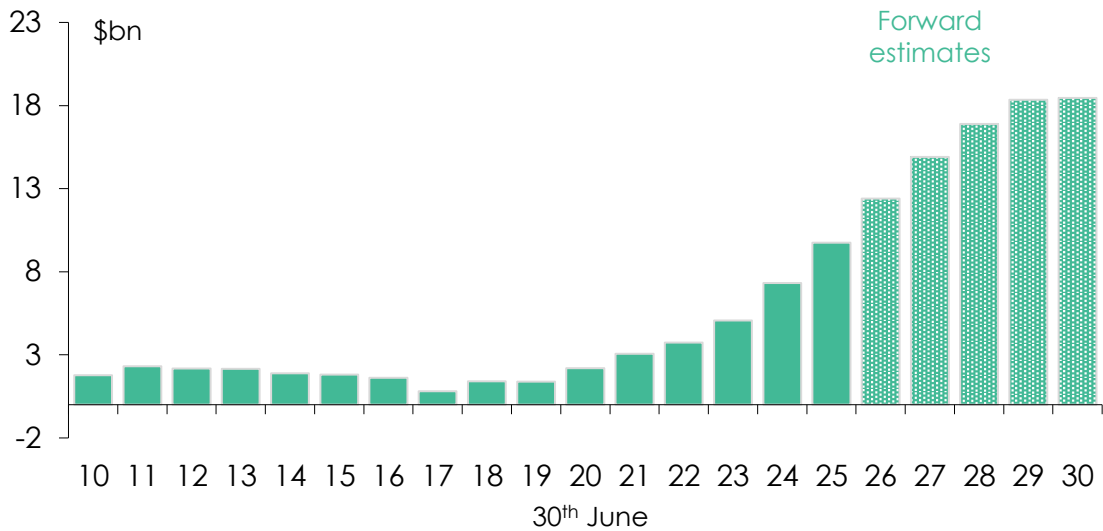
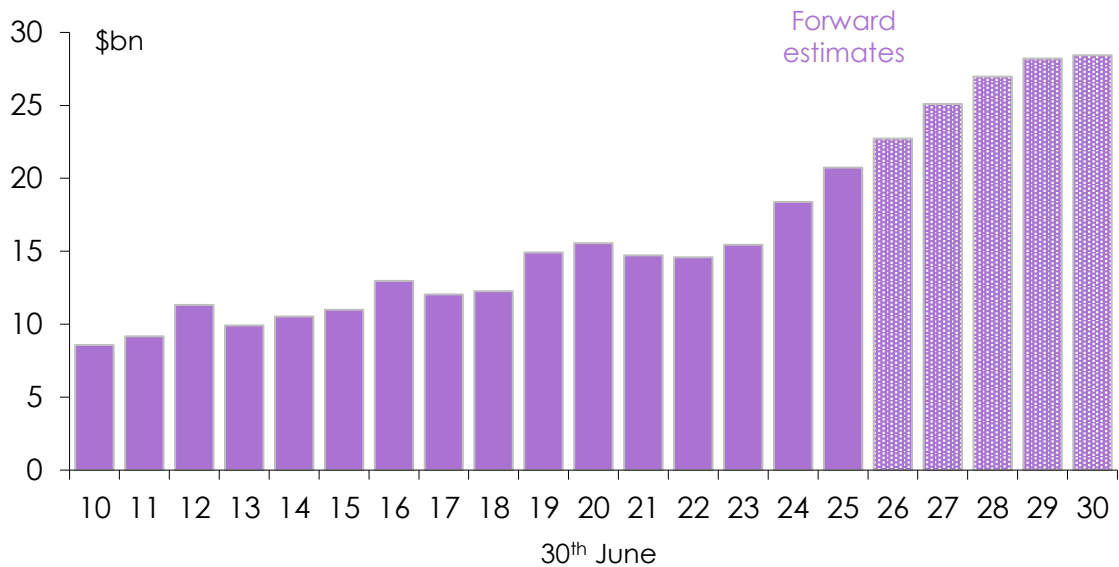


**Chart 2: 'General government' cash balances**



**Chart 3: 'General government' net debt**



**Chart 4: Total non-financial sector cash balances****Chart 5: Total non-financial sector net debt****Chart 6: Total non-financial sector net financial liabilities**

## **The improvement in Tasmania's financial position owes more to 'windfall gains' in grants from the Federal Government than to Tasmanian Government 'policy decisions'**

The general government 'net operating balances' projected in today's Budget for the years 2025-26 through 2027-28 represent an improvement of \$1.2 billion over those forecast in last year's "interim" Budget (delivered last November).

Of that \$1.2 billion improvement, \$884 million is due to what the Budget Papers call '**parameter variations**' – that is, things over which the Government has no direct control, such as the economic assumptions that underpin forecasts of revenues from state taxes, the 'demand' for services such as health and education, and (importantly) grants from the Federal Government – while only \$328 million is due to conscious decisions by the Government, since last year's Budget, to cut spending or raise additional revenues.

The \$884 million improvement in the 'operating balance' over the four years to 2028-29 reflects 'windfall gains' on the revenue side of the Budget totalling \$2.2 billion, partly offset by upward revisions to forecasts of spending totalling \$1.3 billion.

Of the upward revisions to forecasts of revenues, \$1.7 billion is attributable to increased **grants from the Federal Government** – an additional \$738 million over the four years to 2028-29 from Tasmania's share of GST revenues (compared with what was predicted in last November's Budget), and an additional \$938 million in grants for specific purposes.

There were also upward revisions to forecasts of state taxation revenue totalling \$254 million, almost entirely as a result of higher-than-previously-forecast stamp duty collections.

\$773 million (or 60%) of the upward revisions to forecasts of expenses was attributable (as it usually is) to health spending, with most of the rest coming from the Departments of State Growth and Education, Children and Young People.

With the Premier having over-ruled the Treasurer's preparedness – albeit reluctantly – to contemplate revenue measures as a contribution to improving the State's financial position, the '**policy decisions**' in this year's Budget were, inevitably, concentrated almost completely on the expenditure side. In net terms, policy decisions taken since last year's Budget are expected to reduce 'operating expenses' by \$320 million over the four years to 2028-29, or by \$605 million including savings projected for 2029-30.

The key component of these reductions in spending are what the Budget Papers describe as "operational efficiencies", which are predicted to amount to almost \$1.4 billion in savings over the four years 2026-27 through 2029-30 – of which \$703 million are expected to come from Health, \$230 million from State Growth (to be re-branded as 'Build Tasmania') and \$203 million from Education, Children and Young People, and smaller amounts from other departments and agencies.

Partly offsetting these projected savings, the Budget drops the \$300 million in savings which had been expected from the 'Productivity and Efficiency' measure included in the 2024-25 Budget – so the net savings from 'operational efficiencies' are about \$1.1 billion.

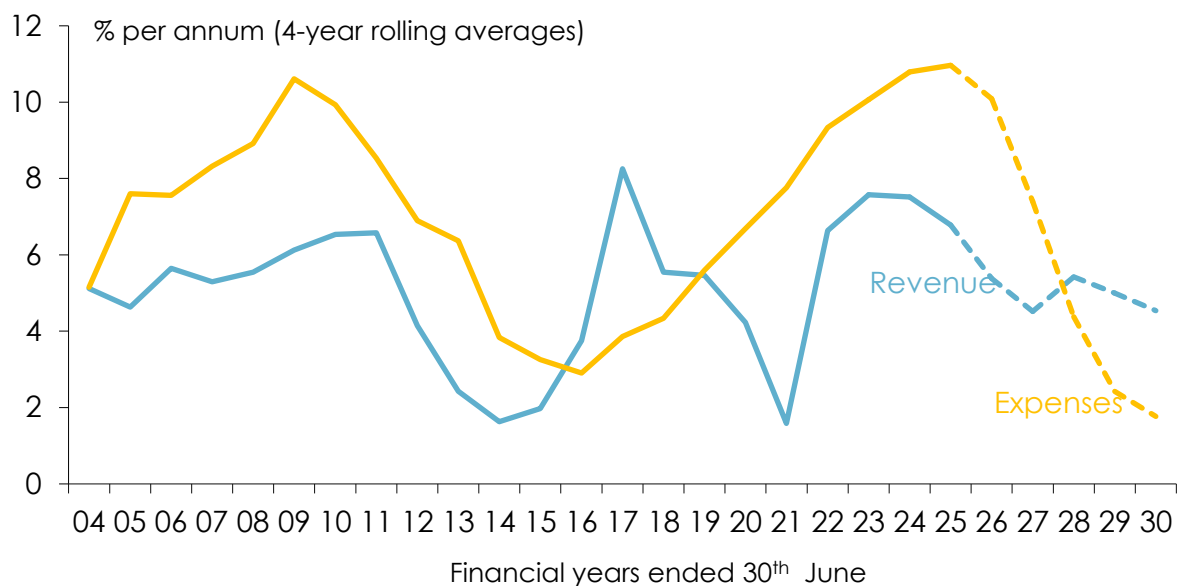
According to the Budget Papers, these 'operational efficiencies' are to be achieved through

- "streamlining administrative and enabling functions and reducing unnecessary duplication;
- strengthening procurement, contract management and purchasing practices to better reflect contemporary service delivery requirements;
- improving workforce planning and deployment, including greater use of shared capability and clearer alignment between staffing profiles and service demand; and
- modernising systems, processes and digital platforms to improve consistency, reliability and cost effectiveness".

These 'operational efficiencies' are expected to reduce public sector staffing numbers by about 1,700 full-time roles by 2029-30, to be achieved by "natural attrition, workforce renewal and voluntary redundancies, consolidation of functions and reduced reliance on higher-cost staffing arrangements".

The savings projected in this year's Budget appear more credible than those outlined in the two previous Budgets, because they have been allocated to specific departments and agencies – in contrast to the 'productivity and efficiency' savings assumed in the past two Budgets. Nonetheless, they do imply an unprecedented degree of expenditure restraint over the next four years, from a Government which has found it difficult to restrain itself from spending money in recent years – as shown in Chart 7.

**Chart 7: Growth in revenues and operating expenses**



Today's Budget Papers indicate that the Government will actually spend slightly more - \$3.56 billion on 'infrastructure' investment over the four years to 2028-29 than the \$3.39 billion projected in last year's Budget, although the annual spend drops substantially in 2029-30 to \$639 million – which would represent the smallest such spend since 2019-20 (unless the Government commits to new projects between now and then, which it may well do given that an election is due by July 2029).

### **Sensible changes to the Government's fiscal strategy**

The 2026-27 Budget includes sensible changes to the Government's fiscal strategy targets.

It gets rid of some targets that were superfluous or meaningless, such as those for gross debt (unnecessary if there is also a target for net debt) and 'improving public sector efficiency, productivity and transparency' (virtually impossible to measure).

It retains previous targets that were important indicators of fiscal sustainability (such as net debt to gross state product, interest and superannuation costs as a percentage of revenue, and own-source revenues as a percentage of total revenue).

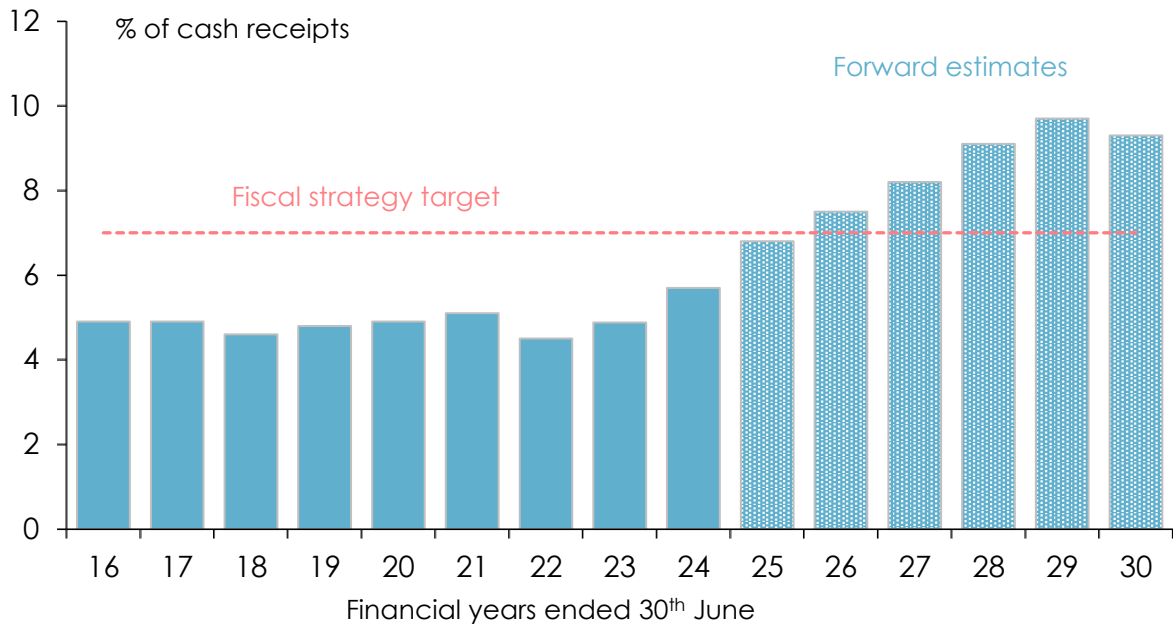
And it includes three new targets which – if the Government adheres to them – will materially assist in restoring Tasmania's finances to a sustainable position over the medium term:

- maintaining annual growth in operating expenses at a lower rate than average annual growth in revenues – which will ensure that the 'operating balance' remains in surplus;
- keeping employee expenses below 44% of total revenue - although it's not clear where the 44% figure comes from, adhering to this target will be a useful constraint on growth in overall spending; and
- balancing (ie, avoiding a deficit on) the general government fiscal balance (the accrual accounting equivalent of the cash balance) plus equity injections (into GBEs) over a rolling four-year average – requires the Government to take into account the calls which GBEs make on its finances in shaping decisions affecting the finances of the 'general government' sector and approving major capital expenditure decisions of GBEs.

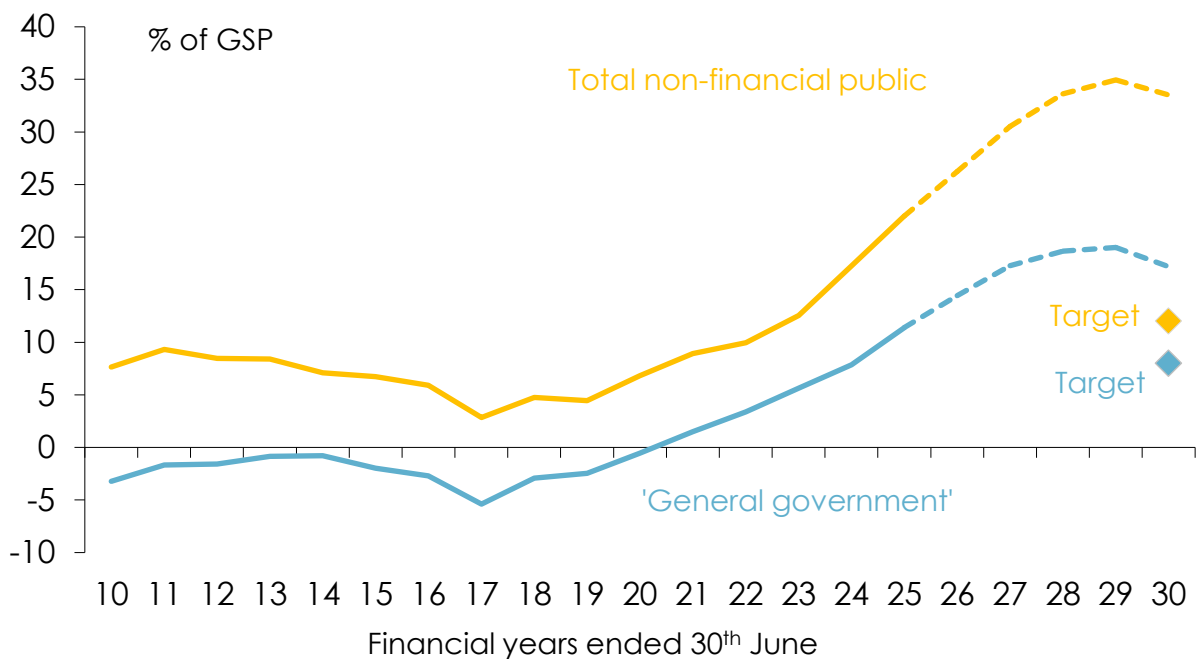
Importantly, the fiscal strategy set out in the Budget Papers recognizes that there is more work to be done in order to achieve many of these targets by 2032-33 (the year in which most of them are due to be met), in particular:

- reducing the cost of debt (interest and defined benefit superannuation payments) as a percentage of cash revenues – which is currently forecast to reach 9.3% by 2029-30 – to less than 7% (Chart 8);
- reducing the ratio of 'general government' net debt to gross state product (GSP) – which is forecast to peak at 19% in 2028-29 – to less than 8% (Chart 9);

**Chart 8: Interest and defined benefit superannuation payments as a percentage of cash receipts**



**Chart 9: General government and total non-financial public sector net debt as percentages of gross state product**



- reducing the ratio of total non-financial public sector debt – which on the projections in this Budget will peak at around 35% of GSP in 2028-29 – to less than 12% by 2032-33 (Chart 9); and
- achieving at least a one-notch upgrade to Tasmania's credit rating by 2032-33 – which should be attainable if the first three objectives are met.

Achieving these targets will almost certainly require further conscious policy actions (to raise additional revenues and/or to cut 'operating' or capital spending), and/or further favourable outcomes with regard to grants from the Federal Government.

Conversely, an inability or unwillingness to take further policy decisions to restrain expenditures or raise additional revenues, or unfavourable outcomes regarding grants from the Federal Government (for example, a failure to renew the guarantee that the 'eastern' states and territories will not be any worse off as a result of the corruption of the GST revenue-sharing arrangements at the behest of Western Australia, which is due to expire at the end of 2029-30), would make it very difficult to achieve these targets.

### **Plausible economic assumptions**

The economic forecasts and assumptions on which the 2026-27 Budget is based appear to be reasonable.

Treasury expects that **growth in real gross state product** will slow from 2¼% this financial year to just ¾% in 2026-27 – largely as a result of the oil price shock triggered by Gulf War III and (although it's not mentioned explicitly) the reversal of last year's reductions in interest rates – before picking up to 2¾% per annum in 2027-28 and beyond. The 2026-27 forecast is well below Federal Treasury's forecast – in this month's Federal Budget papers – for growth in the national economy of 1¾%, as it should be, given Tasmania's much slower rate of population growth (½% compared with 1¼% for Australia as a whole).

Treasury expects **employment** to decline by an average of ½% in 2026-27, resulting in an increase in Tasmania's **unemployment rate** to an average of 5% (from 4¼% in 2025-26) – although the increase in measured unemployment may be less than this if the **labour force participation rate** falls (as it usually does in Tasmania when the labour market weakens) rather than remaining unchanged at 60¾%, as Treasury assumes. Employment growth is expected to turn positive again in 2027-28, in line with the forecast pick-up in economic growth, bringing the unemployment rate back down slightly to 4¾%, despite a small increase in the participation rate to 61%.

Thankfully, therefore, the Government isn't assuming it can "grow its way out" of the difficult financial position in which it has found itself, as a result of the egregious lack of fiscal discipline it has exhibited over the past nine years.

### **In conclusion**

This year's State Budget hopefully marks a 'turning point' in the management of Tasmania's finances. For the first time in a decade, Treasurer Eric Abetz has made a genuine, serious and for the most part credible attempt to impose some restraint on the Tasmanian Government's spending and borrowing.

Yes, the improvements in the Forward estimates of deficits and debt owe more to 'windfall gains' courtesy of the Federal Government than they do to conscious policy decisions taken in the lead-up to this Budget.

But at least the Government hasn't spent those windfalls, but rather has directed them towards improving the 'bottom line'.

Treasurer Abetz will need to ensure that his Cabinet colleagues keep their spending to within the amounts projected in the Forward Estimates – something which his predecessors have been unable or unwilling to do – and that they and their departmental and agency heads deliver the 'operational efficiencies' which they have been assigned in this Budget.

And if he wants to meet the appropriately ambitious longer-term fiscal strategy targets laid out in this Budget, he will need to go further, in next year's Budget, than he has been able to this year, in finding savings in 'operating' expenses and in curbing his colleagues' enthusiasm for launching new, expensive, infrastructure investment programs. If he can't do that, or if his colleagues won't let him do it, then he might need to look for additional sources of revenue.

Tasmania's finances – when properly measured, to include its outsized unfunded superannuation liability and its relatively large public enterprise sector – are still the worst in the nation, relative to the size of Tasmania's economy.

But at least Mr Abetz – unlike his Victorian counterpart – has made a serious effort, in this Budget, to begin the task of putting this state's finances onto a more sustainable footing.

---

*My thanks to the Treasurer and his office for making the Budget Papers available to me on an embargoed basis (as previous Treasurers have also done) which has allowed me to undertake this analysis in a more timely fashion than is possible with the Federal Budget.*