Victoria’s profligacy is a problem for all of us

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Labor’s profligacy in Victoria is a problem for all of us

Ratings agencies assume the federal government stands behind the states’ debts, so if Victoria is downgraded because of its ballooning debt that has national implications.

Saul Eslake
Contributor

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The clear message from today’s 2025-26 Victorian Budget is that the Victorian Government has no intention of putting Victoria’s state finances onto a sustainable trajectory.

Victoria’s version of the ‘table of truth – the table on page 49 of the principal Budget Paper which shows how the forward estimates of the Victorian Government’s preferred measure of the budget ‘bottom line’, the ‘net operating surplus’, have changed since the mid-year review presented late last year by out-going Treasurer Tim Pallas – shows that ‘parameter variations’ (developments over which the State Government has no direct influence or control) would have improved the net operating surplus by $4.2 billion over the three years to 2027-28, compared with what had been foreshadowed last December. That’s mainly thanks to an additional $4.7 billion in Victoria’s share of revenue from the GST (partly offset by what the Budget Papers call ‘administrative variations’.

Yet in fact, the net operating balance over the three years to 2027-28 will actually be $335 million worse than had been foreshadowed by Tim Pallas last December.

Why? Because Jaclyn Symes’ first Budget contains almost $5 billion (over the three years to 2027-28) of net new spending (or ‘output initiatives’, as the Budget Papers like to call them).

In other words, the Victorian Government has consciously chosen not to use the windfall gains handed to it by the Commonwealth Grants Commission to improve its financial position – but rather to apply them to providing on-going ‘cost of living relief’, even though the need for such relief is clearly passing (as underscored by the Reserve Bank’s decision to cut interest rates again, and further to lower its forecasts for inflation) and to pursuing other spending initiatives (or, as it calls them, ‘investments’).

And although the Victorian Government appears not to have added any more to its already substantial infrastructure spending program, nor has it chosen to reconsider the justification for any of those projects, or to spread them out over a longer period.

As a result – and notwithstanding the 'operating surpluses' which the Budget projects Victoria will accrue from 2025-26 onwards – Victoria will incur cash deficits totalling $32.5 billion over the four years to 2028-29, on top of the $112 billion of cash deficits it will have incurred between 2016-17 and 2024-25. Indeed, after declining from $10 billion in 2025-26 to just under $7 billion in each of 2026-27 and 2027-28, the cash deficit is projected to widen again, to $8.7 billion in 2028-29.

Those cash deficits will in turn push Victoria's net debt up to just over $200 billion by 30th June 2029 – or almost $235 billion including the debt of its GBEs.

The Government asserts that this is nonetheless consistent with Victorian non-financial public sector debt stabilizing as a percentage of gross state product at just over 30% from 2026-27 onwards.

But that's only because it assumes that Victoria's nominal gross state product will grow by 0.8 percentage points per annum faster than the Federal Treasury projects for Australia's nominal GDP over the five years to 2028-29 – as a result of assuming that Victoria's real GSP will grow 0.2 percentage points per annum faster than Australia's real GDP, and that the average prices of goods and services produced Victoria will rise at a 0.5 percentage points per annum faster rate than the national average over the same period.

And as a result of the inexorable rise in Victoria's debt, driven by its persistent cash deficits, Victoria's interest bill will increase from $6.8 billion in 2024-25 to $10.6 billion in 2028-29 – or, for the state public sector as a whole, from $7.4 billion to $11.9 billion over this period. As a percentage of total revenue (one of the metrics to which the rating agencies pay particular attention) that represents an increase from 6.8% to 9.4%.

The Victorian Government's conscious decision to prioritise spending its way to a fourth electoral victory in November 2026 at the expense of stabilizing its financial position increases the risk of a further downgrade to Victoria's credit rating. That would likely mean that the Victorian Government will have to pay higher interest rates when it rolls over maturing debt, and when it issues new debt to finance its recurring cash deficits. That in turn means that the interest bill may rise further than forecast in this Budget.

And because the rating agencies assume that the Federal Government implicitly 'stands behind' the debts of the states and territories, that prospect also adds to the risk of a downgrade to Australia's AAA credit rating.

In other words, Victoria's on-going profligacy is not just a concern for Victorians. It potentially has national implications as well.

Saul Eslake
Corinna Economic Advisory