Parliamentary Budget Office

31 October 2023*

National fiscal outlook: as at 2023-24 Budgets

Overview

With all state and territory 2023-24 Budgets now released, the Parliamentary Budget Office (PBO) has consolidated the forecasts from these budgets with the Australian Government's budget – released in May 2023 – to provide an aggregated outlook for the national fiscal position.

The national fiscal outlook has improved since our last report in October 2022, reflecting a stronger COVID-19 recovery than expected in most jurisdictions. Higher than expected commodity prices in 2022-23 improved budget balances, particularly for the Commonwealth, Western Australia (WA) and Queensland (Qld). The introduction of new revenue measures in other jurisdictions such as Victoria’s COVID debt levy and the increase in coal royalty rates in New South Wales (NSW) are also expected to increase revenue. The total state net operating balance is expected to be in surplus from 2024-25.

Stronger budget balances have reduced national net debt compared to last year, but national public debt interest payments have increased, reflecting changes in interest rates. Per capita net debt continues to increase with national net capital investment per capita approaching a peak.

For the first time, the PBO has expanded its’ fiscal sustainability analysis to apply to the national level. Using a dynamic framework, it shows that in most scenarios, the debt-to-GDP ratio is expected to trend downwards in the longer term. This suggests the national fiscal position is likely to remain sustainable, given prudent fiscal management, providing sufficient fiscal space to address key risks[1].

A complementary product, *National fiscal outlook 2023-24: interactive charts*, provides a graphical snapshot of the Australian government, state and territory budgets in addition to the national aggregates.

The charts allow users to select the budget aggregate, jurisdiction and unit of measurement they are interested in, as well as compare against the previous budget.

Further information on the data sources and method used in this report are available in the separate technical appendix. Additional data to those cited in this report is available at the PBO data portal.

* The contents of the explainer are the sole responsibility of the Parliamentary Budget Office.
[1] More discussion on Commonwealth fiscal sustainability and risks is contained in the PBO’s Beyond the budget 2023-24.

Trends in the budget aggregates[2]

At both the national and aggregate state and territory (state) level, all the main budget aggregates have improved compared to our 2022 report, except for national public debt interest payments.

Chart 1: National net operating balance

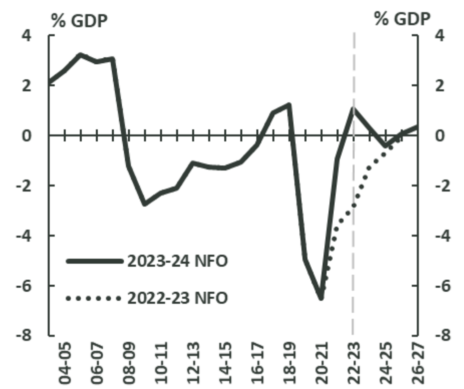


Chart 2: National net capital investment

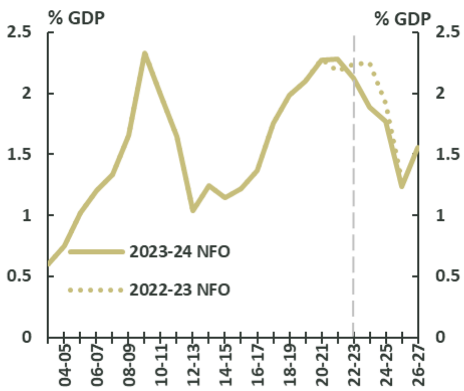
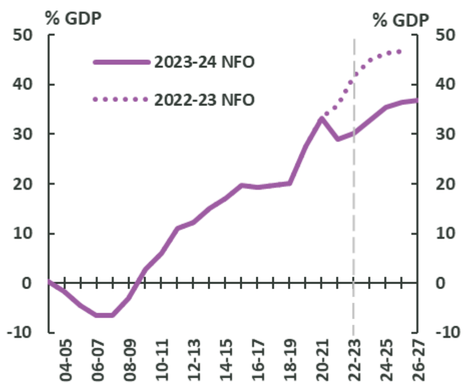


Chart 3: National net debt



Forecast **national net operating balance** – the difference between revenue and expenses – has improved over the forward estimates (Chart 1). The Commonwealth is driving the result (representing over 75% of revenue) due to stronger than expected labour market conditions and commodity prices. Higher commodity prices also improved Qld and WA balances in 2022-23, but both states and the Commonwealth expect commodity prices to moderate going forward. The state net operating balance is expected to be in surplus from 2024-25. The national position will be in surplus from 2025-26.

The Goods and Services Tax (GST) contributes around a quarter of total state revenue. This includes the temporary no-worse off payment[3] which represents around \$19.4 billion[4] (or 5% of the GST pool) across the forward estimates[5]. It is due to expire in 2027-28.

National net capital investment[6] – spending on infrastructure such as roads, schools, and hospitals – remains forecast to decline as a share of GDP over the forward estimates (Chart 2). This includes Qld using some of the revenue from higher commodity prices to lift infrastructure spending, including for the Olympic Games. Northern Territory (NT) has also increased infrastructure spending in 2023-24 to make it the largest spender on a per capita basis in that year.

Forecast **national net debt** has improved compared to our 2022-23 NFO but remains on an upward trajectory. It is estimated to reach 37% of GDP by 2026-27 (Chart 3). Commonwealth net debt as a share of GDP is expected to remain below its 2020-21 peak reflecting improved projected budget balances. Forecast **national public debt interest payments** have been revised up by \$1.4 billion for 2022-23 and \$3.8 billion for 2025-26.

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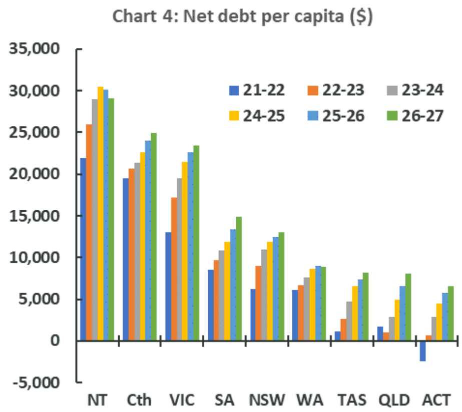
[2] The forecast for GDP has been revised up slightly across the forward estimates when compared to the 2022-23 NFO. Consequently, an unchanged or slightly higher dollar amount will appear as a smaller proportion of GDP.
[3] When the new GST distribution system was introduced in 2018, a legislated no-worse off payment was included to ensure no state was worse-off than under the previous system. The payment is set to expire in 2027-28. See Commonwealth Grants Commission 2023, Occasional Paper 9 - GST distribution to states and territories in 2023-24
[4] Commonwealth Budget 2023-24, Budget Paper No. 3: Federal Financial Relations, Table 3.1 and PBO calculations.
[5] NSW noted in their budget papers that future forecasts will assume the continuation of the payment.
[6] Net capital investment measures the change in non-financial assets (such as infrastructure, land or equipment) over a period of time. See the PBO's online glossary for further definitions of budget terms. National net capital investment excludes government business, as forecasts are not available beyond the budget year.



Net debt in most other jurisdictions remains at record high levels over the forward estimates. On a per capita basis, NT continues to have the highest net debt, however, along with WA, it is the only jurisdiction to forecast a decline in net debt in 2026-27 (Chart 4).

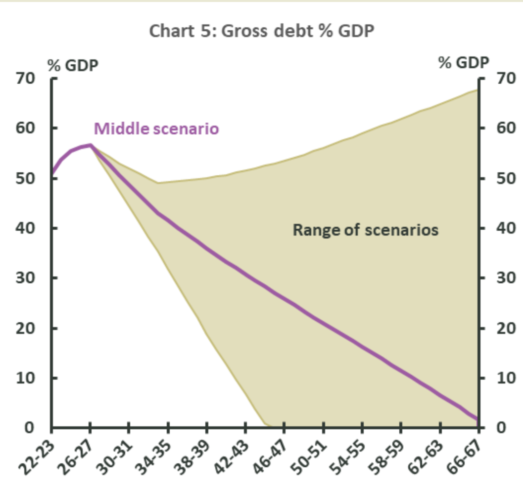
Despite the estimated increases in net debt, the PBO's fiscal sustainability analysis shows in most scenarios, the debt-to-GDP ratio is expected to trend downwards over the long term (Box 1).

Box 1: National fiscal sustainability over the long term

The PBO has applied its' fiscal sustainability framework to the aggregate of the Commonwealth and state budgets to analyse governments' ability to maintain long-term fiscal policy settings indefinitely, without the need for major remedial policy interventions. If debt-to-GDP is declining, it is more likely to be sustainable.

In our fiscal sustainability analysis, we examine 27 possible scenarios for the consolidated national debt-to-GDP ratio over a 40-year period. Each scenario reflects historical data to project upper, middle, and lower variations from 2026-27 in the consolidated national **budget balance** (headline cash balance before interest payments); the prior stock of debt and the **interest rates** that apply to this debt; and **economic growth** (nominal GDP). The results are shown in the shaded area of Chart 5.

Each scenario represents a possible future trajectory for the consolidated national debt-to-GDP ratio based on historical data, but we do not make any judgement as to which scenario is most likely. Each scenario allows flexibility for governments to respond to changes in economic conditions, including downturns, either through automatic or discretionary mechanisms. No specific scenario should be considered as a baseline or most likely trajectory. Instead, we are illustrating what the path could be under a range of plausible economic and policy conditions. For further methodological details and analysis, please see our Technical Appendix.



In all except 3 long-term scenarios, the consolidated national debt-to-GDP ratio is expected to trend downwards (Chart 5). This suggests that the fiscal position is likely to be sustainable in all but 3 scenarios.

In our middle scenario, the debt-to-GDP ratio is projected to trend downwards across the entire scenario period to reach 2% of GDP in 2066-67. In our best scenario, the debt-to-GDP ratio trends sharply downwards and reaches nil by 2045-46, while in our worst scenario, the debt-to-GDP ratio trends upwards over the scenario period.

Fast Facts

National (Commonwealth and State combined)	State
National fiscal balance is forecast to improve from a deficit of 1.6% of GDP ($40.2 billion) in 2023-24 to a deficit of 1.2% of GDP ($35.3 billion) in 2026-27. Compared to our previous NFO, forecast national fiscal balance has improved, being revised up by $89.9 billion for 2022-23 and $3.1 billion for 2025-26.	**State** fiscal balance is forecast to improve from a deficit of 1.6% of GDP ($40.2 billion) in 2023-24 to a deficit of 0.6% of GDP ($18.3 billion) in 2026-27. Compared to our previous NFO, forecast state fiscal balance is mixed, being revised up by $11.4 billion for 2022-23 but down by $3.1 billion for 2025-26.
National net operating balance is forecast to be in surplus of 0.3% of GDP in 2023-24 ($8.4 billion) and 2026-27 ($10.2 billion). Compared to our previous NFO, forecast national operating balance is mixed, being revised up by $92.5 billion for 2022-23 for a stronger surplus but down by $3.9 billion for 2025-26.	**State** net operating balance is forecast to improve from a deficit of 0.5% of GDP ($11.7 billion) in 2023-24 to a surplus of 0.2% of GDP ($6.9 billion) in 2026-27. Compared to our previous NFO, forecast state operating balance has improved, being revised up by $14.9 billion for 2022-23 and $0.5 billion for 2025-26.
National revenue is forecast to fall from 36.6% of GDP ($944.2 billion) in 2023-24 to 35.3% of GDP ($1,031.3 billion) in 2026-27. Compared to our previous NFO, forecast national revenue has improved, being revised up by $115.9 billion for 2022-23 and $66.0 billion for 2025-26.	**State** revenue is forecast to fall from 15.0% of GDP ($385.6 billion) in 2023-24 to 14.1% of GDP ($412.2 billion) in 2026-27. Compared to our previous NFO, forecast state revenue has improved, being revised up by $25.1 billion in 2022-23 and $20.5 billion in 2025-26.
National expenses are forecast to fall from 36.3% of GDP ($935.8 billion) in 2023-24 to 35.0% of GDP ($1,021.2 billion) in 2026-27. Compared to our previous NFO, forecast national expenses have increased, being revised up by $23.4 billion for 2022-23 and $62.0 billion for 2025-26.	**State** expenses are forecast to fall from 15.4% of GDP ($397.2 billion) in 2023-24 to 13.9% of GDP ($405.3 billion) in 2026-27. Compared to our previous NFO, forecast state expenses have increased, being revised up by $10.2 billion in 2022-23 and by $20.0 billion in 2025-26.
National net debt is forecast to increase from 32.9% of GDP ($847.8 billion) in 2023-24 to 36.9% of GDP ($1,077.2 billion) in 2026-27. Compared to our previous NFO, forecast national net debt has improved, being revised down by $190.9 billion for 2022-23 and $211.2 billion for 2025-26.	**State** net debt is forecast to increase from 11.6% of GDP ($298.2 billion) in 2023-24 to 13.8% of GDP ($403.7 billion) in 2026-27. Compared to our previous NFO, forecast state net debt has improved, being revised down by $24.1 billion in 2022-23 and $11.1 billion in 2025-26.
National net financial worth is forecast to fall from -35.7% of GDP (-$920.5 billion) in 2023-24 to -37.9% of GDP (-$1,106.1 billion) in 2026-27. Compared to our previous NFO, forecast national net financial worth has improved, being revised up by $176.3 billion for 2022-23 and $199.1 billion for 2025-26.	**State** net financial worth is forecast to fall from -6.8% of GDP (-$174.8 billion) in 2023-24 to -8.0% of GDP (-$233.8 billion) in 2026-27. Compared to our previous NFO, forecast state net financial worth has improved, being revised up by $67.5 billion for 2022-23 and $57.9 billion for 2025-26.
National net capital investment is forecast to fall from 1.9% of GDP ($48.7 billion) in 2023-24 to 1.6% of GDP ($45.4 billion) in 2026-27. Compared to our previous NFO, forecast national net capital investment has increased, being revised up by $2.7 billion for 2022-23 and $0.8 billion for 2025-26.	**State** net capital investment is forecast to fall from 1.1% of GDP ($28.5 billion) in 2023-24 to 0.9% of GDP ($25.2 billion) in 2026-27. Compared to our previous NFO, forecast state net capital investment has increased, being revised up by $3.6 billion for 2022-23 and 2025-26.
National public debt interest payments are forecast to increase from 1.4% of GDP ($35.5 billion) in 2023-24 to 1.6% of GDP ($48.1 billion) in 2026-27. Compared to our previous NFO, forecast national public debt interest payments have been revised up by $1.4 billion for 2022-23 and $3.8 billion for 2025-26.	**State** public debt interest payments are forecast to increase from 0.6% of GDP ($14.5 billion) in 2023-24 to 0.7% of GDP ($21.0 billion) in 2026-27. Compared to our previous NFO, forecast state public debt interest payments have been revised up by $0.5 billion for 2022-23 and $1.9 billion for 2025-26.