Parliamentary Budget Office

19 August 2026

2026-27 National Fiscal Outlook

Overview

The Parliamentary Budget Office's (PBO's) National Fiscal Outlook (NFO) provides a national view of Australia's historical and forecast fiscal position by combining the latest published budget forecasts for the Commonwealth, state/territory (State) and local governments.

The national fiscal position is stable and improving over the forward estimates

Across the forward estimates, the aggregate national fiscal position is broadly unchanged compared to last year's outlook, with deficits expected to narrow and a small net operating surplus in 2029-30. The aggregate State net operating balance is forecast to return to surplus from 2027-28, while the Commonwealth remains in a deficit over the period.

Underlying this, forecast revenue has improved across jurisdictions, but these gains have generally been matched by higher forecast expenses.

National debt levels and interest payments are forecast to continue growing

Forecast national gross debt has improved since last year's NFO. However, debt is still forecast to increase steadily over the forward estimates – from 55.4% of GDP in 2026-27 to 58.0% by 2029-30. By 2028-29, it will be higher than the pandemic-era peak of 57.8% of GDP.

The interest costs of paying off debt are forecast to take up a larger share of government revenue, rising from 4.1% in 2024-25 to 6.2% in 2029-30.

Differences in State governments' own-source revenue and reliance on Commonwealth transfers shape budget outcomes across governments. Elevated debt levels, debt servicing costs and ongoing expenditure pressures contribute to varying fiscal risks among States.

Long-term fiscal outlook is sustainable, but risks remain

The PBO's fiscal sustainability analysis shows that in 24 out of 27 scenarios, national debt-to-GDP is expected to trend downwards over the 40-year period. This suggests that the national fiscal position is likely to remain sustainable except in the most extreme cases, where state budget balances do not improve while interest rates are high or GDP growth markedly slows.

Risks to this outlook vary across jurisdictions, reflecting differences in revenue sources, economic structures, debt burdens and expenditure pressures. Common risks include impacts from the Middle East conflict, infrastructure delivery, revenue volatility, dependence on Commonwealth funding and service demand pressures.

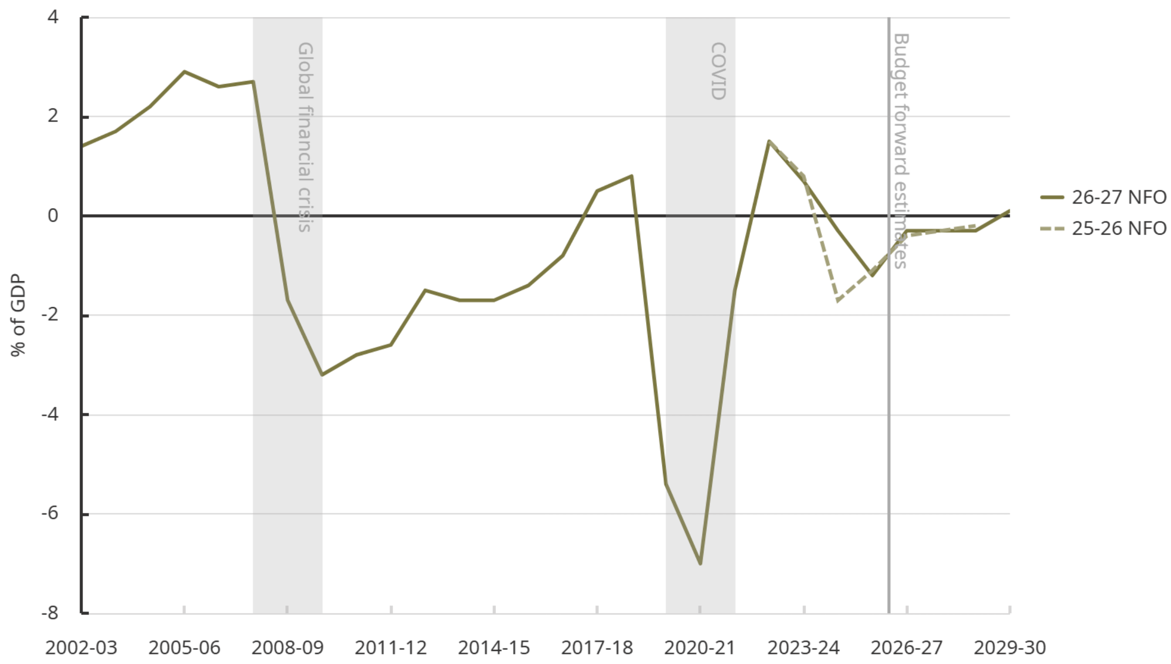
Information on the data sources and methods used in this report is available in the separate technical appendix. Additional data to those cited in this report, including newly compiled historical budget forecasts for all states and territories, is available at the PBO data portal.

The national operating balance is stable and improving over the forward estimates

The national net operating balance for the general government sector is forecast to return to a small surplus by the end of the forward estimates. Compared to last year's NFO, the national result is largely unchanged. The exception was 2024-25 where the final actual result improved to a deficit of -0.3% of GDP compared to last year's forecast deficit of -1.7% of GDP.[1, 2]

While substantially improved from the pandemic-era deficit in 2020-21, the national budget position remains well below the surpluses recorded in the early 2000s prior to the global financial crisis (Figure 1).

Figure 1: Net operating balance – National



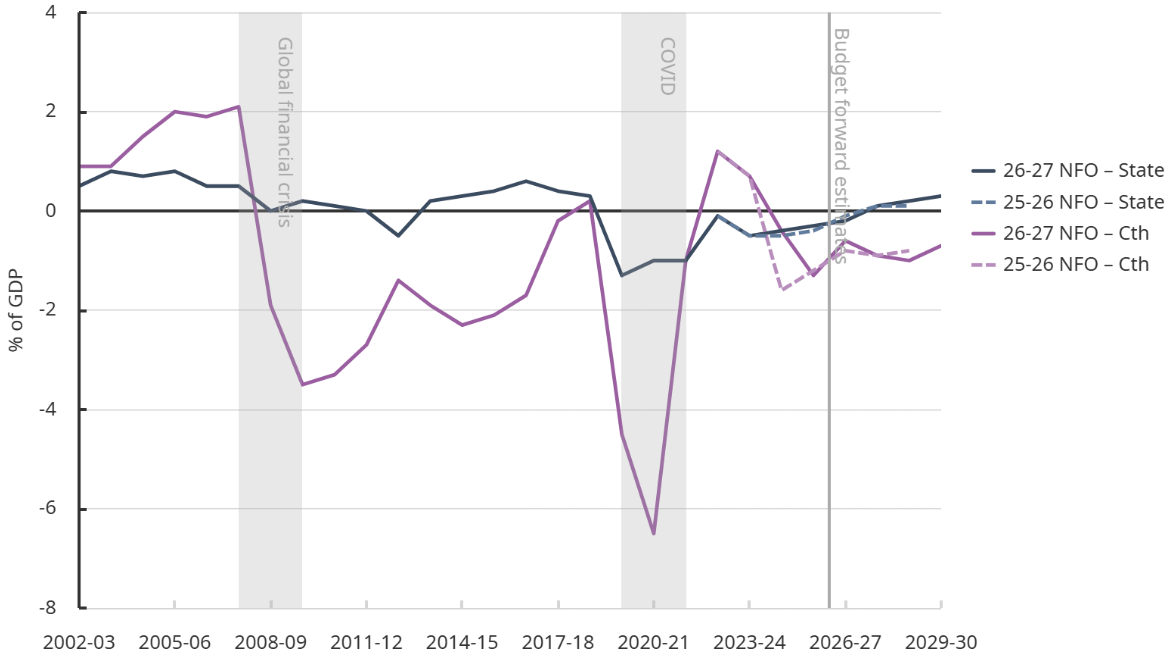
Source: Australian Bureau of Statistics, Commonwealth and State budget papers and PBO analysis.

[1] The net operating balance (NOB) is revenue less expenses and provides the best indication of recurrent spending. Net capital investment (NCI) provides the best indication of infrequent purchases and sales of assets. The fiscal balance combines the 2 measures. Both NCI and the fiscal balance are available in the data pack.

[2] The data in this report includes the Commonwealth, State and Local General Government Sector (GGS). It excludes Government Business Enterprises (except for some aggregates such as GGS net financial worth) and tax expenditures. Local governments are included in National totals only for selected aggregates. See the technical appendix for further information.

With a larger and more volatile revenue base, the Commonwealth has historically been the main driver of trends in the national fiscal position. The Commonwealth's forecast deficits to 2029-30 are partly offset by the State position, forecast to be in surplus from 2027-28 (Figure 2).

Figure 2: Net operating balance – Commonwealth and State



Source: Australian Bureau of Statistics, Commonwealth and State budget papers and PBO analysis.

Both revenue and expense forecasts have increased

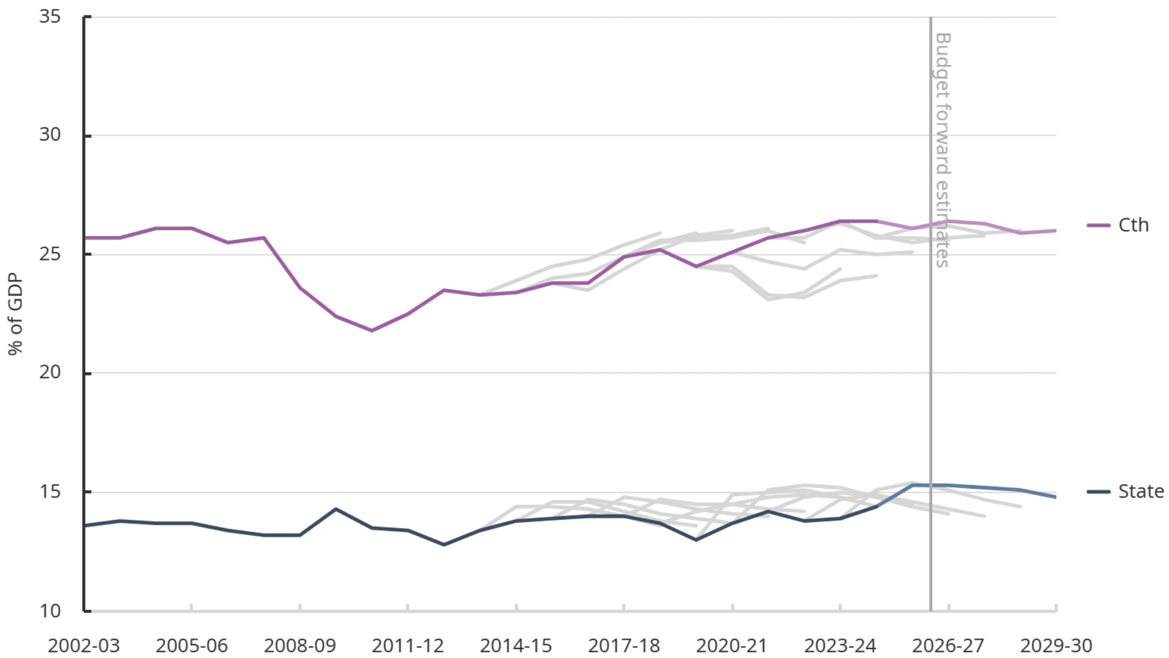
While the overall forecast national net operating balance is relatively unchanged in total across the forward estimates period compared to last year's NFO, both Commonwealth and State forecast revenues and expenses have increased as a share of GDP and remain elevated compared to pre-pandemic levels.

Revenue

Both State and Commonwealth revenue forecasts have been revised upward since the 2025-26 NFO, but the improvement is more pronounced for the States (Figure 3).

State revenue is forecast to rise to around 15% of GDP and remain above previous budget forecasts over the forward estimates. Commonwealth revenue is forecast to remain at around 26% of GDP.

Figure 3: Revenue – Commonwealth and State



Source: Australian Bureau of Statistics, Commonwealth and State budget papers and PBO analysis.
Notes: GST is effectively captured in both Commonwealth and State revenue as it is collected by the Commonwealth, but the amount is fully passed onto State governments as State revenue. Light grey lines show forecasts from previous budgets. Solid lines show historical actuals and forecasts from 2026-27 budgets.

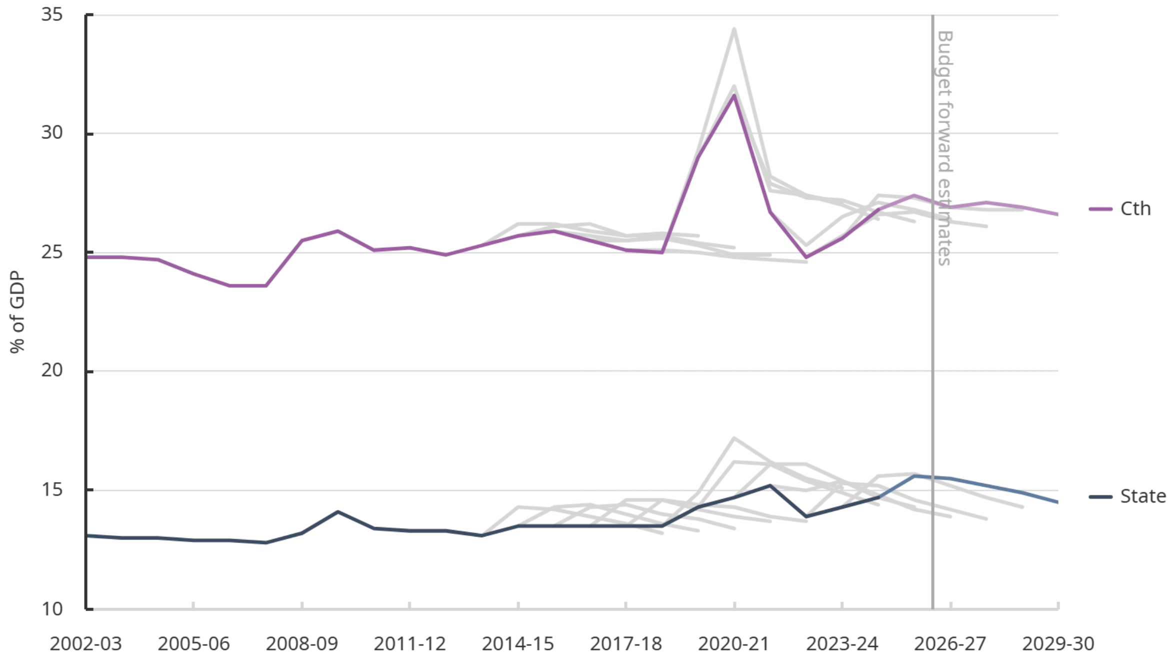
Expenses

Expense forecasts have also been revised up across both the State and Commonwealth since the 2025-26 NFO (Figure 4). State expense forecasts have been revised up by 4.2% and Commonwealth expense forecasts have been revised up by 2.4% for 2025-26 to 2028-29.

State and Commonwealth expenses are forecast to decrease as a percentage of GDP across the forward estimates, but these forecasts are on a 'no policy change' basis, meaning terminating grant and other programs are assumed to end as planned without being either extended or replaced with other programs.

State expenses are forecast to steadily decline from a peak of 15.7% of GDP in 2025-26 to 14.5% of GDP in 2029-30, while Commonwealth expenses are forecast to decline slightly from 27.4% of GDP in 2025-26 to 26.6% of GDP in 2029-30.

Figure 4: Expenses – Commonwealth and State



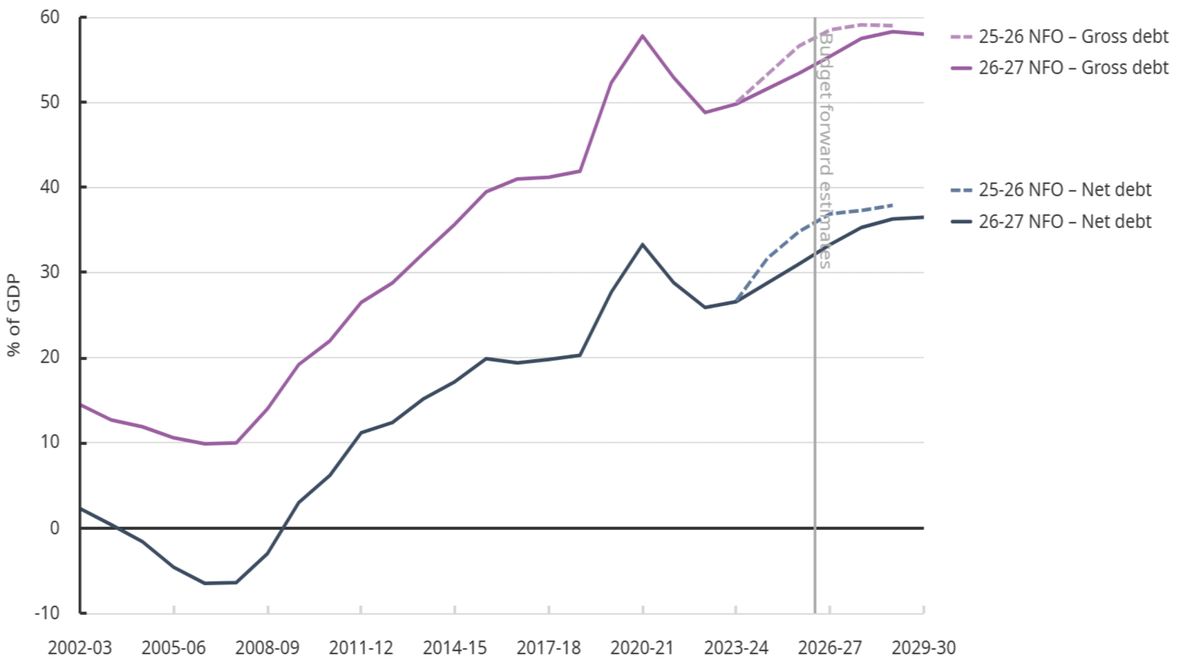
Source: Australian Bureau of Statistics, Commonwealth and state budget papers and PBO analysis.
Note: Light grey lines show forecasts from previous budgets. Solid lines show historical actuals and forecasts from 2026-27 budgets.

Debt levels and associated servicing costs are forecast to exceed levels experienced during the pandemic

National gross debt is forecast to increase steadily over the forward estimates, rising from 55.4% of GDP (or $1.7 trillion) in 2026-27 to 58.0% (or $2.0 trillion) by 2029-30. By 2028-29, national gross debt will be higher than the pandemic-era peak of 57.8% of GDP recorded in 2020-21.

National net debt is also forecast to rise from 33.3% of GDP to 36.5% over the same period. Although national gross debt and net debt are forecast to continue rising, both are expected to increase at a more gradual rate than in the 2025-26 NFO (Figure 5), partly owing to outcomes for 2024-25 being better than forecast.

Figure 5: Gross debt and net debt – Commonwealth and State

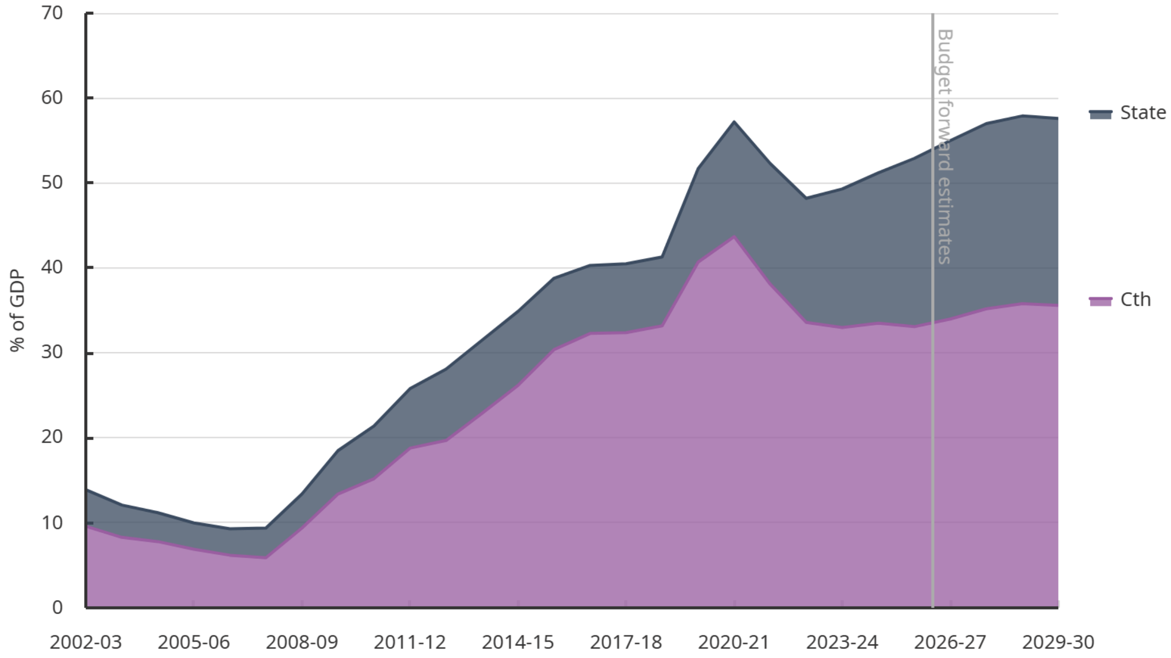


Source: Australian Bureau of Statistics, Commonwealth and State budget papers and PBO analysis.

The increase in national gross debt is being driven by both Commonwealth and State borrowing. In 2026-27, forecast State gross debt is around $650 billion (21% of GDP) while Commonwealth gross debt is around $1 trillion (34% of GDP). Commonwealth and State gross debt are both forecast to increase as a share of GDP over the 2026-27 Budget forward estimates period. By 2029-30, Commonwealth gross debt is estimated to be almost 36% of GDP while State gross debt is estimated to be 22% of GDP (Figure 6).

The State share of national gross debt is forecast to continue to rise materially, from around 20% before the COVID-19 pandemic in 2018-19 to around 38% by 2029-30.

Figure 6: Gross debt – Commonwealth and State

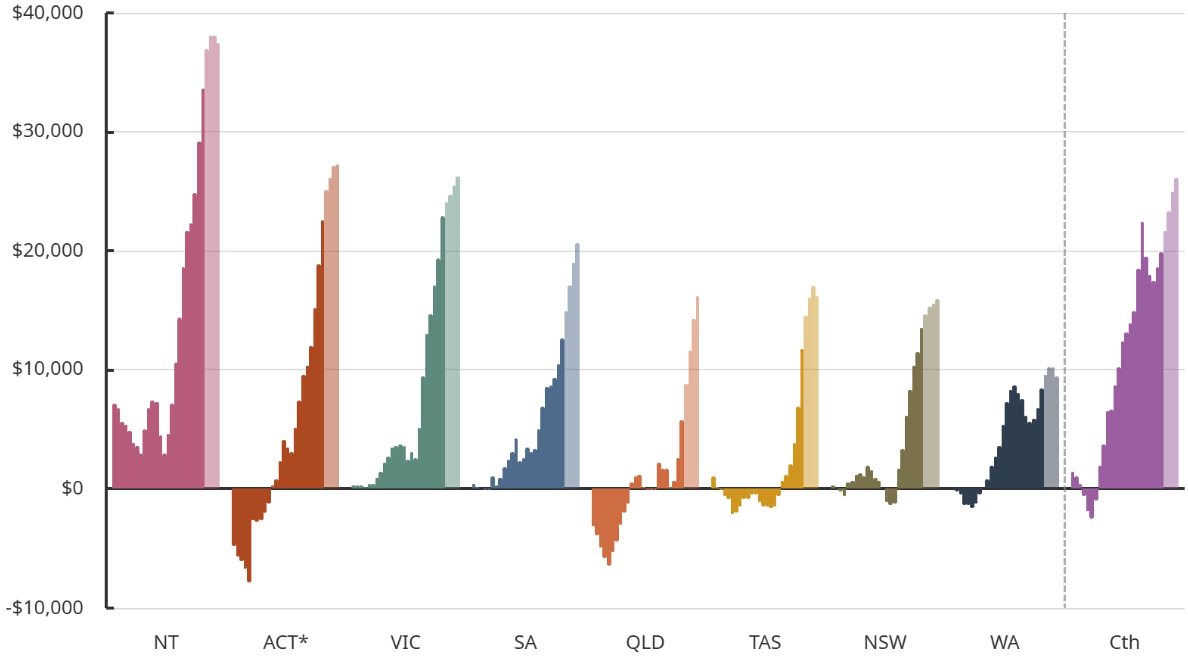


Source: Australian Bureau of Statistics, Commonwealth and State budget papers.

To account for differences in population size across jurisdictions, Commonwealth, state and territory net debt is compared on a per capita basis (Figure 7). Net debt per capita remains at historically high levels across most jurisdictions and is forecast to increase further over the forward estimates.

The Northern Territory continues to forecast the highest net debt per capita, followed by the ACT, Victoria and the Commonwealth, while Western Australia maintains the lowest forecast level. Prior to the pandemic, there were a number of jurisdictions (including ACT, Queensland and Tasmania) which recorded negative net debt per capita, reflecting financial assets exceeding debt obligations. Jurisdictions have since experienced a marked increase in net debt, driven by a combination of declining financial assets and higher borrowings, particularly during and after the global financial crisis and the COVID-19 pandemic.

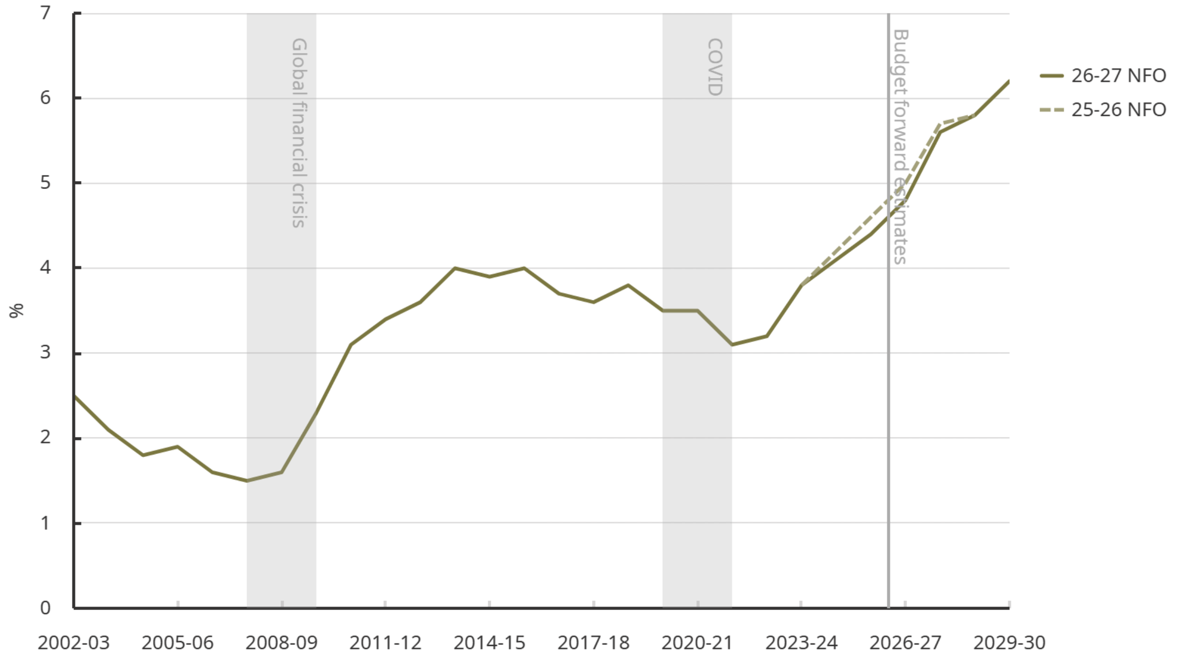
Figure 7: Net debt per capita – Commonwealth and States, 2003-2030



Source: Australian Bureau of Statistics, Commonwealth and State budget papers and PBO analysis.
Note: Darker shading shows actuals, while lighter shading shows forecasts from 2026-27 budgets.
* The ACT includes general rates, reflecting its responsibility for local government services.

Public debt interest represents the borrowing costs of debt and is set to increase to 2.2% of GDP by 2029-30. The proportion of government revenue dedicated to interest costs on debt is expected to increase steadily from around 4.1% in 2024-25 to 6.2% by 2029-30, reflecting the combined effects of higher debt levels and borrowing costs that remain above historical averages (Figure 8). This is a significant increase from the recent low of 3.1% in 2021-22 when interest rates were at an historic low. This rising ratio indicates that an increasing share of government revenue is being used to service debt. Over time, this may reduce fiscal flexibility by increasing the proportion of revenue committed to unavoidable interest costs.

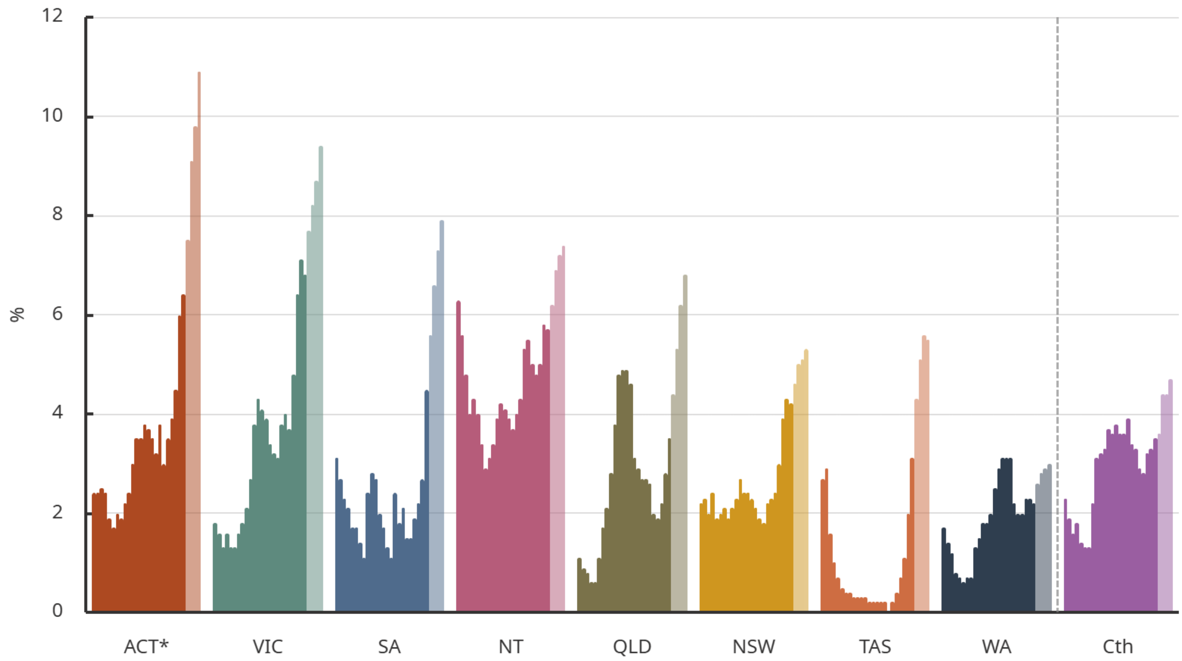
Figure 8: Public debt interest as % of revenue – National



Source: Australian Bureau of Statistics, Commonwealth and State budget papers and PBO analysis.

Consistent with the net debt outlook, public debt interest costs are forecast to increase across all jurisdictions. The ACT, Victoria and South Australia are expected to face the highest debt servicing burden relative to revenue, while Western Australia remains at comparatively lower levels (Figure 9).

Figure 9: Public debt interest as % of revenue – Commonwealth and States, 2003-2030



Source: Australian Bureau of Statistics, Commonwealth and State budget papers and PBO analysis.
Note: Darker shading shows actuals, while lighter shading shows forecasts from 2026-27 budgets.
* The ACT includes general rates, reflecting its responsibility for local government services.

Each jurisdiction is facing a range of fiscal risks

Each government faces different budget challenges, but their 2026-27 budget papers identify several common fiscal risks. These include:

1

Middle East conflict, persistent inflation and higher interest rates

All jurisdictions identify geopolitical instability, particularly conflict in the Middle East, as a key downside risk due to higher fuel and energy prices, supply chain disruption, inflationary pressure and weaker economic activity. With persistent high inflation, many budgets note this could prompt tighter monetary policy and higher interest rates, which would weigh on household consumption, housing activity, employment, borrowing costs and budget outcomes.

2

Infrastructure delivery and cost overruns

A number of jurisdictions, including South Australia, Queensland, Victoria and the ACT, have identified infrastructure cost escalations (such as delays, supply chain issues and input costs) as a key risk.

3

Revenue volatility

The New South Wales, Queensland, Western Australian and ACT budget papers noted the potential risk of a housing market slowdown on property tax revenue, particularly stamp duty, from declines in property transactions and house prices. The Queensland and Western Australia budget papers highlighted risks associated with fluctuations in commodity prices and mining royalties.

4

Dependence on Commonwealth funding and GST

All jurisdictions noted the uncertainty surrounding the potential expiry of the *GST No Worse Off Guarantee* beyond 31 December 2030 as a fiscal risk to future budget revenues.

Tasmania and the Northern Territory raise comparatively less own-source revenue than other jurisdictions, with around 32% and 23% of their revenue from own sources, respectively, in 2024-25. These jurisdictions have a higher exposure to changes in GST revenue and tied Commonwealth funding agreements.

5

Service demand pressures, particularly for health and disability

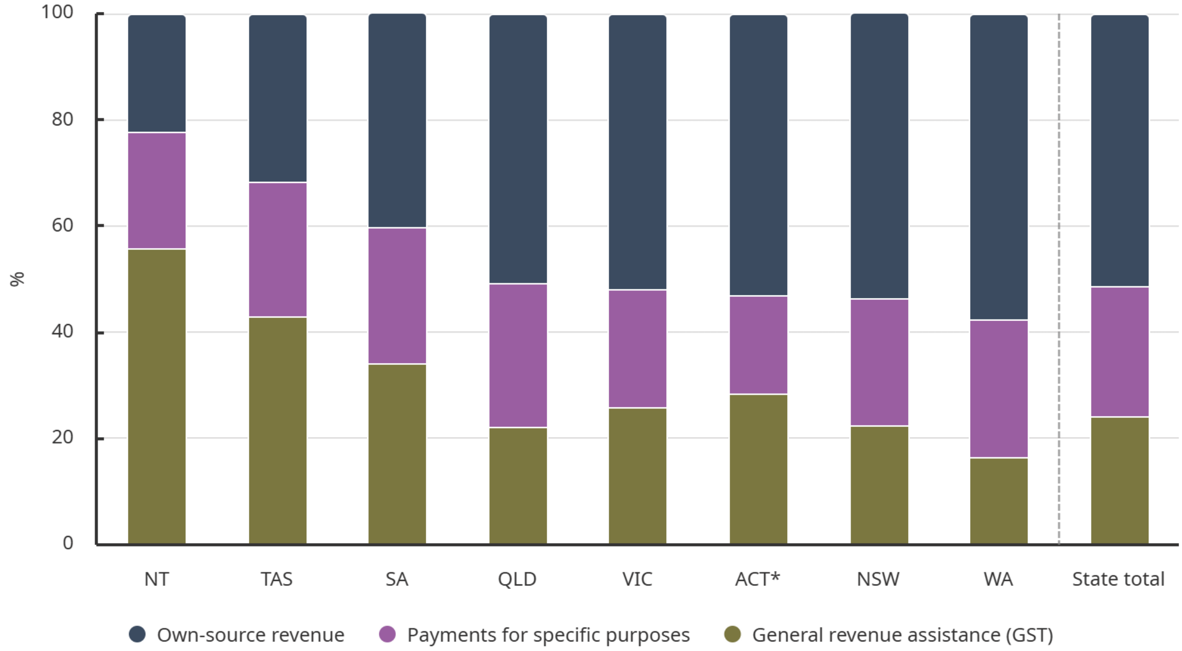
A number of jurisdictions' budgets also noted the pressures on expenditure associated with an ageing population, healthcare demand as well as uncertainty around disability reforms and implementation of foundational supports.

The identified risks highlight the impact of differing revenue compositions across the States, which comes from 3 sources: revenue from the States' own sources; general revenue assistance from the Commonwealth, where the GST is distributed amongst the States; and other payments from the Commonwealth which are linked to specific purposes such as infrastructure, schools and health reform.

In 2024-25, Western Australia derived the largest share of its revenue from its own sources (around 58%), while the ACT and New South Wales also obtain around 53% of their revenue from their own tax and non-tax sources. By contrast, the Northern Territory and Tasmania rely more heavily on assistance from the Commonwealth from GST revenue, which accounts for around 56% and 43% of their total revenue respectively, reflecting their relatively small own-source revenue bases.

Across the States as a whole, own-source revenue accounted for around 51% of total revenue in 2024-25, while GST and payments for specific purposes account for around 24% each, highlighting the continued importance of Commonwealth transfers in funding State service delivery (Figure 10).

Figure 10: State revenue shares, 2024-25



Source: Australian Bureau of Statistics, Final Budget Outcome 2024-25.[3]
* The ACT includes general rates, reflecting its responsibility for local government services.

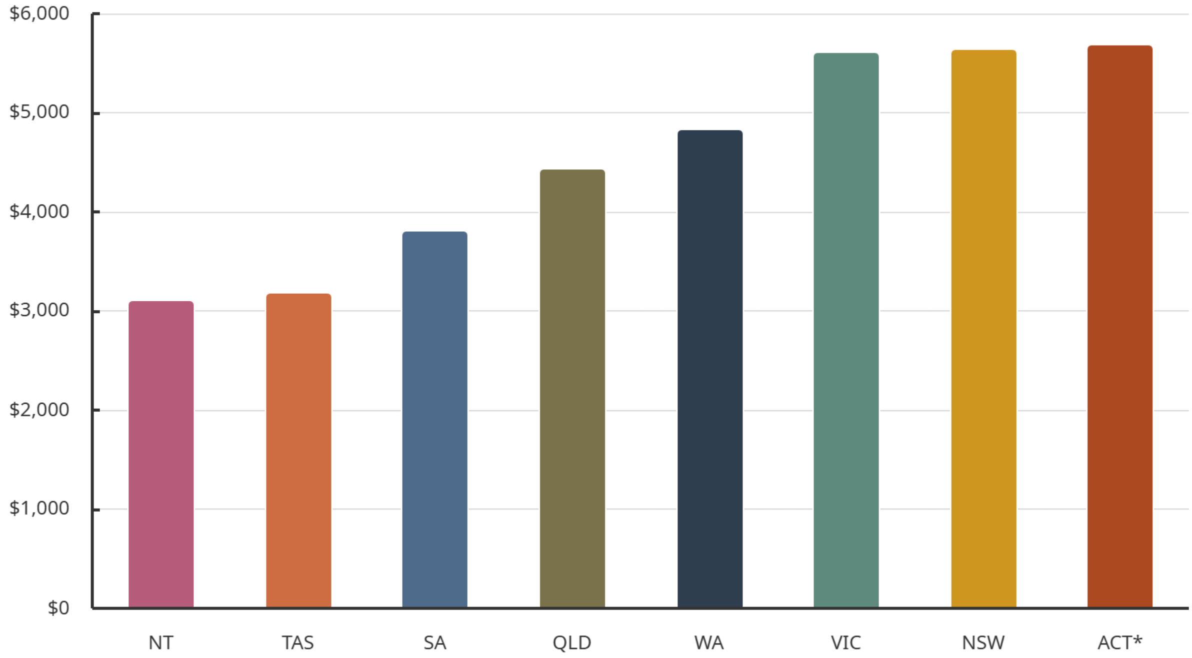
Own-source revenue structures vary between States.[4] Western Australia relies heavily on mining royalties, contributing around 30% of total own-source revenue in 2024-25. New South Wales and Victoria are more dependent on property-related taxes such as stamp duty, with around 32% and 35% of total own-source revenue respectively in 2024-25, making revenue sensitive to housing market conditions. Queensland is exposed to volatility on royalty income, while South Australia, Tasmania and

[3] Payments for specific purposes and general revenue assistance are sourced from the Commonwealth Final Budget Outcome. Total revenue for each jurisdiction is sourced from ABS Government Financial Statistics. Consequently, the own-source revenue ratios reported in this analysis may differ slightly from analysis using ABS Government Financial Statistics only.
[4] While the GST is collected by the Commonwealth, the amount is entirely distributed to the States and Territories. The analysis here has not considered the GST as 'own-source revenue' for the States.

the Northern Territory have narrow own-source revenue bases and greater reliance on Commonwealth transfers.

Within States' own-source revenue, tax revenue is a major contributor. State tax revenue includes property taxes and payroll taxes, but excludes other revenue such as royalties, fines, user charges, dividends and interest. On a per capita basis, the Northern Territory, Tasmania and South Australia collect relatively less tax revenue than the other States (Figure 11).

Figure 11: Tax revenue per capita, 2024-25



Source: Australian Bureau of Statistics and PBO analysis.
* The ACT includes general rates, reflecting its responsibility for local government services.

Box 1: Vertical fiscal imbalance remains significant for most States

What is Vertical Fiscal Imbalance?

Vertical Fiscal Imbalance (VFI) arises where the spending of the State governments is greater than the revenue raised by the States, with the balance met by the Commonwealth Government. VFI in the Australia context is a function of history, the application of the constitutional taxing rights and a reflection of where accessible tax bases are exercised.

The Commonwealth Government raises a larger share of total government revenue, some of which is then transferred to States for the delivery of services. In 2026-27, the Commonwealth Government provided $207.8 billion to State governments, 24.9% of total Commonwealth Government expenditure. This included $110.3 billion of general revenue assistance, 99.6% of which was GST revenue and $97.5 billion of specific purposes payments including for hospitals, schools and infrastructure.[5]

One advantage of the Commonwealth Government dominance in revenue raising is its ability to manage short-term revenue volatility, effectively cushioning States, businesses and households from the full impact of economic shocks. There are also economies of scale in the administration of taxes by a single level of government. On the other side of the ledger, expenditure may be considered more effectively delivered closer to users (the public) and therefore often at lower levels of government (State and local). Some have argued that VFI can undermine accountability to the public, as a single level of government is not required to justify the direct link between how revenue raised is then spent.

While VFI exists in many economies, including Canada, Germany and Switzerland, it is important to understand the underlying drivers and monitor how VFI changes over time and by State and how this may affect fiscal risks and delivery of services.

Vertical Fiscal Imbalance in Australia

One measure of VFI compares a jurisdiction's own-source funding ratio.[6,7] A ratio below 100% indicates that own-source revenue is insufficient to fund own-purpose expenses and that the jurisdiction relies on transfers or other funding sources. However, the ratio does not measure fiscal sustainability or budget performance directly and may change in response to policy decisions affecting either revenue or expenditure.

In 2024-25, the Commonwealth's own-source funding ratio was around 212%, compared with around 65% for the States (Figure 12). Both levels of government recorded lower own-source funding ratios than in 1999-2000, indicating that own-purpose expenses have grown more quickly than own-source revenue over the period.

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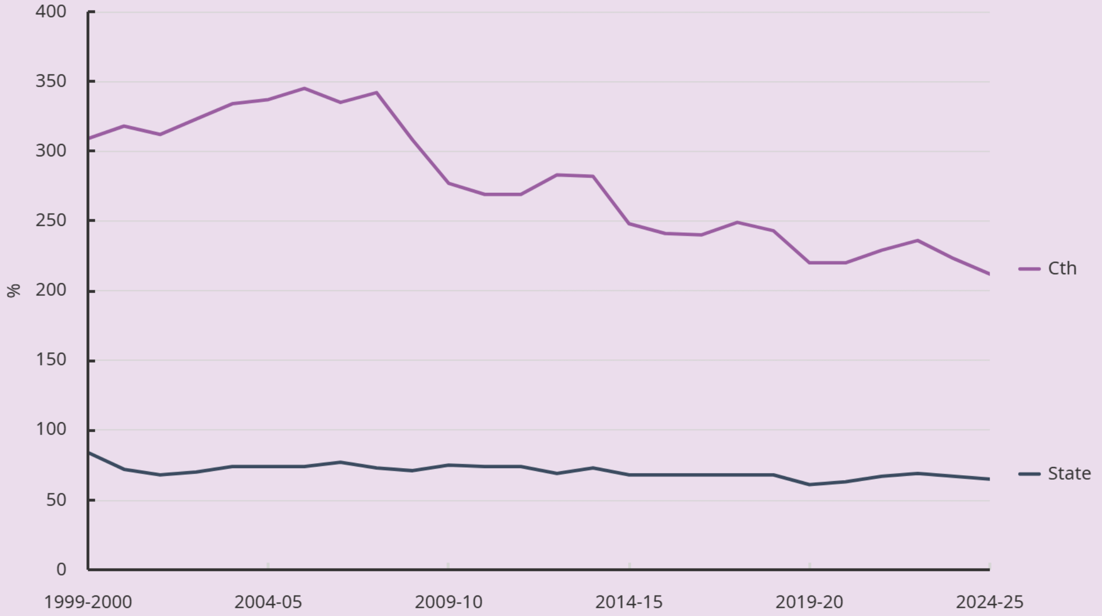
[5] 2026-27 Budget Paper 3 (2026). Australian Government.
[6] To enable a consistent comparison between Commonwealth and States, the PBO uses an own-source funding ratio as the VFI metric. The own-source funding ratio is calculated as own-source revenue (revenue less current and capital grants) as the proportion of own-purpose expenses (expenses less current and capital transfers). This metric differs to the Commonwealth Grants Commission and the OECD which consider a VFI metric of transfers received as a proportion of expenses.
[7] Prior to 2017-18, total state own-source funding includes capital grants because the ABS Government Finance Statistics did not report these separately. The PBO estimates that excluding capital grants would have a negligible effect on the results and would not alter the overall trends.

Figure 12: Own-source funding ratio – Commonwealth and State

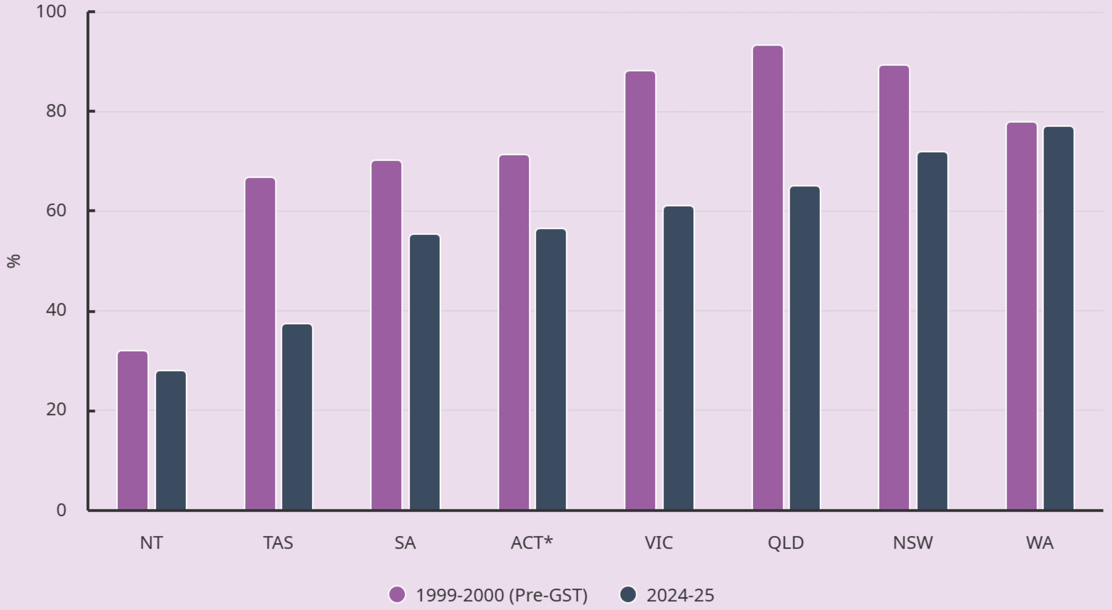


Source: PBO modelling based on ABS Government Finance Statistics.

The degree of VFI varies considerably across jurisdictions (Figure 13). Western Australia recorded the highest own-source funding ratio at around 77%, followed by New South Wales (72%) and Queensland (65%), while the Northern Territory (28%) and Tasmania (38%) recorded the lowest ratios.

Compared with the period immediately before the introduction of the GST in 1999-2000, all jurisdictions now have lower own-source funding ratios in 2024-25. Tasmania, Queensland and Victoria experienced the largest declines, showing an increased reliance on Commonwealth funding over time. In contrast, Western Australia had the smallest decline reflecting its higher resource revenue base.

Figure 13: Own-source funding ratio – States, 1999-2000 and 2024-25



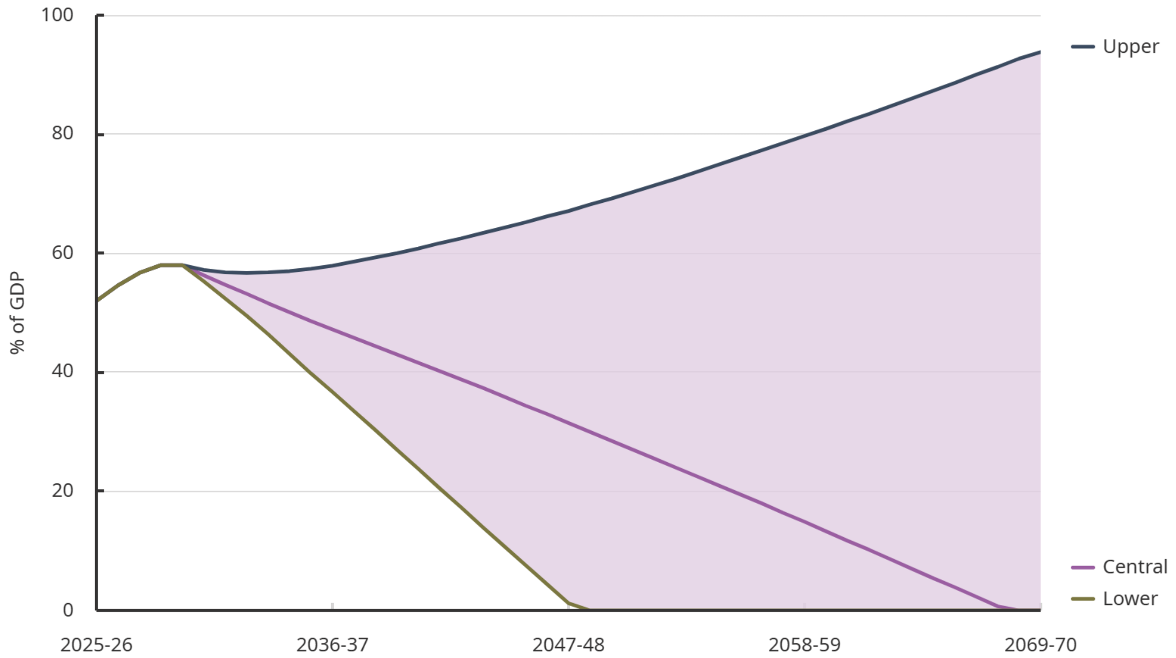
Source: PBO analysis based on ABS Government Finance Statistics.

The majority of long-term fiscal scenarios are sustainable

The PBO has applied its fiscal sustainability framework to analyse the Commonwealth and State 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.[8]

In 24 out of the 27 scenarios, the consolidated debt-to-GDP ratio is expected to trend downwards, suggesting likely sustainable fiscal positions except in the 3 most extreme scenarios. The debt-to-GDP ratio in the lower scenario is expected to reach zero by 2048-49, whereas the central scenario is expected to reach zero by 2068-69.

Figure 14: Gross debt scenarios – Commonwealth and State



Source: PBO analysis.

Table A1: Cases for central, lower and upper scenarios

Cases	Interest rates	Nominal GDP	Consolidated primary cash balance
Downside	Interest rates at 5.0% by 2069-70	Nominal GDP growth reaches 3.7% by 2069-70	A sustained minor surplus is maintained from 2030-31 through to 2069-70
Middle	Interest rates at 4.4% by 2069-70	Nominal GDP growth reaches 4.4% by 2069-70	A sustained modest surplus is maintained from 2029-30 through to 2069-70
Upside	Interest rates at 3.7% by 2069-70	Nominal GDP growth reaches 5.0% by 2069-70	A sustained stronger surplus is maintained from 2029-30 through to 2069-70

[8] For further methodological details and analysis, please see our technical appendix.

Snapshot

National (Commonwealth, State and Local combined)	State
Overall budget position	
National net operating balance is forecast to improve from a deficit of 0.3% of GDP ($9.6 billion) in 2026-27 to a surplus of 0.1% of GDP ($2.5 billion) in 2029-30. Compared to the previous NFO, forecast national net operating balance has worsened by $1.8 billion in 2025-26 and $4.1 billion in 2028-29.	**State net operating balance** is forecast to improve from a deficit of 0.2% of GDP ($6.1 billion) in 2026-27 to a surplus of 0.3% of GDP ($9.9 billion) in 2029-30. Compared to the previous NFO, forecast State net operating balance has improved by $1.7 billion in 2025-26 and $1.5 billion in 2028-29.
National fiscal balance is forecast to improve from a deficit of 2.2% of GDP ($67.0 billion) in 2026-27 to a deficit of 1.4% of GDP ($50.7 billion) in 2029-30. Compared to the previous NFO, forecast national fiscal balance has worsened by $2.3 billion in 2025-26 and by $6.5 billion in 2028-29.	**State fiscal balance** is forecast to improve from a deficit of 1.2% of GDP ($38.0 billion) in 2026-27 to a deficit of 0.5% of GDP ($18.5 billion) in 2029-30. Compared to the previous NFO, forecast State fiscal balance has improved by $3.9 billion in 2025-26 and slightly worsened by $0.3 billion in 2028-29.
Debt and interest costs	
National net debt is forecast to increase from 33.3% of GDP ($1,031.2 billion) in 2026-27 to 36.5% of GDP ($1,279.2 billion) in 2029-30. Compared to the previous NFO, forecast national net debt has improved by $82.5 billion in 2025-26 and $45.5 billion in 2028-29.	**State net debt** is forecast to increase from 14.4% of GDP ($446.1 billion) in 2026-27 to 15.6% of GDP ($548.1 billion) in 2029-30. Compared to the previous NFO, forecast State net debt has improved by $18.4 billion in 2025-26 and $3.0 billion in 2028-29.
National gross debt is forecast to increase from 55.4% of GDP ($1,714.1 billion) in 2026-27 to 58.0% of GDP ($2,034.3 billion) in 2029-30. Compared to the previous NFO, forecast national gross debt has improved by $45.7 billion in 2025-26 and $15.2 billion in 2028-29.	**State gross debt** is forecast to increase from 21.0% of GDP ($649.2 billion) in 2026-27 to 22.0% of GDP ($770.9 billion) in 2029-30. Compared to the previous NFO, forecast State gross debt has improved by $6.0 billion in 2025-26 and worsened by $14.3 billion in 2028-29.
National public debt interest payments are forecast to increase from 1.8% of GDP ($54.2 billion) in 2026-27 to 2.2% of GDP ($77.2 billion) in 2029-30. Compared to the previous NFO, forecast national public debt interest has improved by $0.5 billion in 2025-26 but slightly worsened by $0.7 billion in 2028-29.	**State public debt interest payments** are forecast to increase from 0.8% of GDP ($24.7 billion) in 2026-27 to 1.0% of GDP ($35.0 billion) in 2029-30. Compared to the previous NFO, forecast State public debt interest has slightly worsened by $0.3 billion in 2025-26 and $0.9 billion in 2028-29.
Infrastructure, defence and other capital spending	
National net capital investment is forecast to decrease from 1.9% of GDP ($57.4 billion) in 2026-27 to 1.5% of GDP ($53.2 billion) in 2029-30. Compared to the previous NFO, forecast national net capital investment has been revised up by $0.6 billion in 2025-26 and $2.5 billion in 2028-29.	**State net capital investment** is forecast to decrease from 1.0% of GDP ($31.9 billion) in 2026-27 to 0.8% of GDP ($28.4 billion) in 2029-30. Compared to the previous NFO, forecast State net capital investment has been revised down by $2.3 billion in 2025-26 but up by $1.8 billion in 2028-29.
Revenue and expenses	
National revenue is forecast to decrease from 36.7% of GDP ($1,135.6 billion) in 2026-27 to 35.7% of GDP ($1,251.6 billion) in 2029-30. Compared to the previous NFO, forecast national revenue has improved by $29.2 billion in 2025-26 and $15.4 billion in 2028-29.	**State revenue** is forecast to decrease from 15.3% of GDP ($473.4 billion) in 2026-27 to 14.8% of GDP ($519.5 billion) in 2029-30. Compared to the previous NFO, forecast State revenue has improved by $12.4 billion in 2025-26 and $22.4 billion in 2028-29.
National expenses are forecast to decrease from 37.0% of GDP ($1,145.2 billion) in 2026-27 to 35.6% of GDP ($1,249.1 billion) in 2029-30. Compared to the previous NFO, forecast national expenses have worsened by $31.0 billion in 2025-26 and $19.5 billion in 2028-29.	**State expenses** are forecast to decrease from 15.5% of GDP ($479.5 billion) in 2026-27 to 14.5% of GDP ($509.6 billion) in 2029-30. Compared to the previous NFO, forecast State expenses have worsened by $10.7 billion in 2025-26 and $20.9 billion in 2028-29.