

Post-COVID debt explosion a major challenge for all states, bar one

Every state and territory government bar one will have to start cutting key services because of the size of the interest bill on their debt, which is growing twice as fast as federal debt and is on track to surpass \$1 trillion by the turn of the decade.

Data compiled by ratings agency S&P Global for this masthead show the interest on state debt is now so large and growing so quickly that premiers and state treasurers will have to make politically difficult trade-offs that could hit services or infrastructure.



Ratings agency S&P Global predicts service cuts across Australia as interest bills on record debts finally start to bite. JAMIE BROWN

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Ahead of COVID lockdowns, all states and territories had relatively small levels of gross debt, amounting to about \$270 billion compared to the federal government's \$542 billion. The state dealing with the biggest increase ahead of the pandemic was Western Australia, which owed \$51 billion.

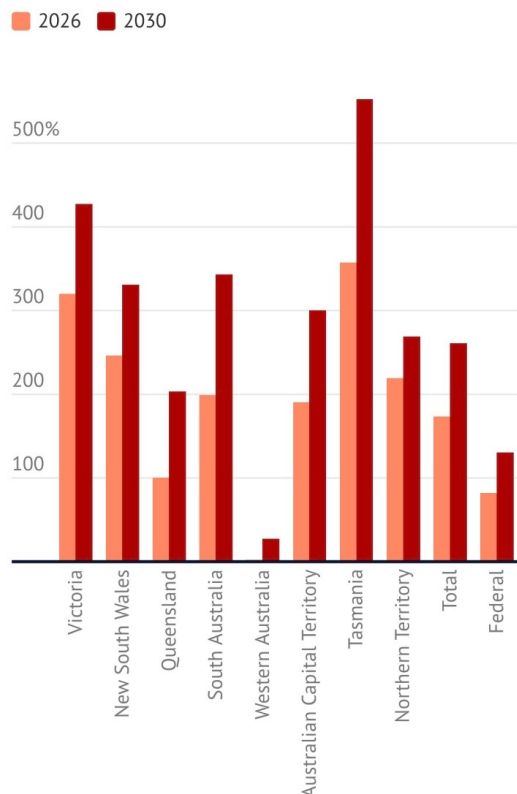
But a pandemic-era spending binge that is only just easing for some, a collapse in revenue, higher interest rates and a blowout in the cost of large infrastructure projects now means every part of the country bar WA is facing interest rate pressure on their budgets.

According to S&P, which tracks gross debt levels, the biggest increase since 2019 has been overseen by Tasmania's Coalition government. By the 2026-27 financial year, it will have climbed by 357 per cent. It is expected to accelerate to 552 per cent by 2030.

Victoria's debt level is on track to soar by 427 per cent to almost \$291 billion in 2030, the interest bill for which will swallow almost \$12 billion or 9.4 per cent of its total outlays. In 2019, its gross debt was \$55.2 billion. The interest bill was just \$2.2 billion, or 3.2 per cent of spending.

The state debt tsunami

Change in debt since 2019



Source: S & P Global, Federal budget papers, Parliamentary Budget Office, NT budget papers

Queensland and NSW, which released their budgets last week, now face the same issues that have hurt the Victorian bottom lines.

Queensland's gross debt is on track to climb to \$216.5 billion by the end of the decade. Interest costs will account for \$7.7 billion or 6.9 per cent of its expenditures.

NSW's debt is forecast to grow by 331 per cent between 2019 and 2030, reaching almost \$273 billion. Interest costs by the end of the decade are tipped to hit \$11 billion.

Gross debt by state and territory

S&P Global directors Anthony Walker and Martin Foo said a fiscal reckoning was coming for all states and territories.

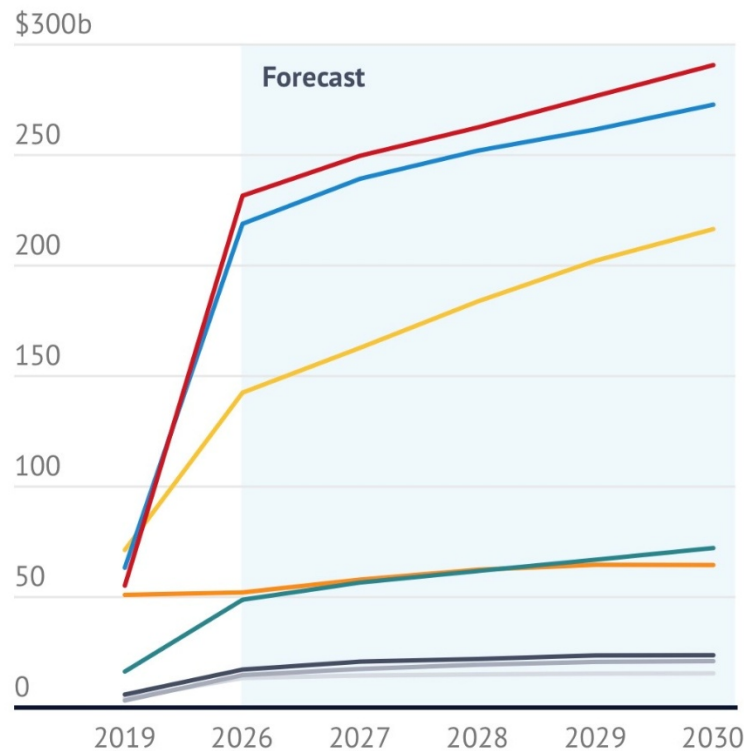
Walker said the cost of government debt for all administrations bar WA was heading towards 8 to 10 per cent of revenue. Before the pandemic, it was about 3 per cent.

He said Queensland, which is due to host the 2032 summer Olympics, would face particular problems as government was unable to alter the scope or the timing of the Games.

Gross debt by state and territory

- Victoria
- New South Wales
- Queensland
- South Australia
- Western Australia
- Australian Capital Territory

- Tasmania
- Northern Territory



Source: S&P Global, Federal budget papers, Parliamentary Budget Office, NT budget papers

"With the Olympics, you've got to deal with the cost, the scope and timing. You can't control the scope and the timing is set. The only thing that can give is cost, which is what we will see," he said.

"Every government underestimates the cost of building a stadium."

Foo said the big lift in state debt due to the pandemic had continued through the past five years. He said the Victorian government was already having to find cuts to make space for its increased interest bill.

"That's going to be the same situation for every east coast state government. They're going to have to make a judgment or the choice about the trade-offs they're about to make," he said.

Overall state and territory debt is forecast to climb by 261 per cent between 2019 and 2030, from \$270.5 billion to \$976.9 billion.

It would have been much worse but for WA, which is benefiting from its long-standing GST deal. Debt there is expected to climb by 27 per cent.

Over the same period, federal government debt is expected to increase by 130 per cent to almost \$1.3 trillion.

Queensland Treasurer David Janetzki, in announcing his budget, said projects were being delivered on time and on budget thanks in part to a lift in productivity.

"It's all about that efficient use of capital to make sure we're delivering the projects on time and budget, that it's being put to the best use," he said.

NSW Treasurer Daniel Mookhey said his state had delivered controlled spending since 2023 better than any government, which meant debt levels were stabilising.

"I feel that you can see that we are stabilising debt at the second-lowest share of [gross state product] in the federation, and West Australia doesn't count. We are keeping debt under control," he said.

There is one piece of economic sunshine for the states and territories.

On Sunday, Treasurer Jim Chalmers revealed that inflation, which in his May budget was forecast to hit 5 per cent by June, is likely to come in much lower at 4.25 per cent.

Tasmania's economy is going south, and it will hit the hip pockets of every Australian

Monthly headline inflation figures had already suggested that price pressures, while still elevated, were not nearly as strong as either the federal Treasury or the Reserve Bank had feared. The RBA had forecast inflation to peak at 4.8 per cent in June.

Federal debt is also tracking slightly lower than had been expected in the budget.

Finance Department figures show that to the end of May, the budget was in deficit to the tune of \$10.9 billion. It had been expected to be at \$18.8 billion by the end of last month.

About \$2 billion in extra tax revenue and a shortfall in infrastructure spending, road and rail projects that have yet to be signed off with state governments, mean the budget deficit for the full financial year is likely to be well short of the \$28.3 billion predicted in the budget.

The smaller deficit also means total government debt will end the financial year well short of what had been forecast.

Gross debt will finish 2025-26 around \$973 billion. In May, Chalmers forecast it would hit \$982 billion.

Despite the improvement, gross debt is still likely to top the \$1 trillion mark in October or November.

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Source: The SMH