



Parliamentary Budget Office

# Net debt in the medium term

Scenario analysis

## Parliamentary Budget Office

We provide independent fiscal, economic and financial advice to all members of the Parliament of Victoria. Our objective is to inform policy development and public debate in parliament and the community.

Postal address Parliament House Spring Street East Melbourne Victoria Australia 3002

Email address [enquiries@pbo.vic.gov.au](mailto:enquiries@pbo.vic.gov.au)

Telephone 1300 615 862

Online [pbo.vic.gov.au](http://pbo.vic.gov.au)



© Victorian Parliamentary Budget Office 2023.

The Parliamentary Budget Office supports and encourages the dissemination of its information. The copyright in this publication is licensed under a Creative Commons Attribution-Non Commercial-No Derivatives (CC BY-NC-ND) 3.0 Australia licence.



To view this licence visit <https://creativecommons.org/licenses/by-nc-nd/3.0/au/>

Under this licence you are free, without having to seek permission from the Parliamentary Budget Office, to use this publication in accordance with the licence terms. For permissions beyond the scope of this licence contact [enquiries@pbo.vic.gov.au](mailto:enquiries@pbo.vic.gov.au)

Content from this work should be attributed as: Victorian Parliamentary Budget Office  
Net debt in the medium term | Scenario analysis, available under [CC BY-NC-ND 3.0 Australia](https://creativecommons.org/licenses/by-nc-nd/3.0/au/)

# Contents

<b>In brief</b> .....	<b>1</b>
<b>Context</b> .....	<b>3</b>
<b>Government net debt stabilisation</b> .....	<b>6</b>
<b>Projecting the net debt to GSP ratio</b> .....	<b>7</b>
<b>More ambitious scenarios</b> .....	<b>7</b>
<b>Less ambitious scenarios</b> .....	<b>8</b>
<b>Attachment A – Assumptions and approach</b> .....	<b>10</b>
<b>Attachment B – Data sources</b> .....	<b>11</b>

## In brief

To communicate its fiscal strategy, the Victorian Government sets fiscal objectives that it seeks to support with financial targets and measures in each state budget. The past 4 Victorian budgets have included a net debt target, specifically:

*General government net debt as a percentage of GSP to stabilise in the medium term.*

In the 2023–24 Victorian Budget, the government explains the merit of this target:

*The net debt to GSP ratio provides an indication of the size of the state's debt compared to the size of the economy. By comparing what the state owes with what it produces, the net debt to GSP ratio provides an indication of the state's ability to service its debt.*

We cannot assess the Victorian Government's performance against this target as it does not provide:

- a specific target for the net debt to GSP ratio
- a year by which it expects to achieve stabilisation
- estimates of net debt or the net debt to GSP ratio beyond 2026–27.

### Net debt to GSP ratio targets

In this advice, we analyse 4 scenarios for net debt beyond the current forecast period. These scenarios are constructed from current forecasts for Victoria and other Australian states.

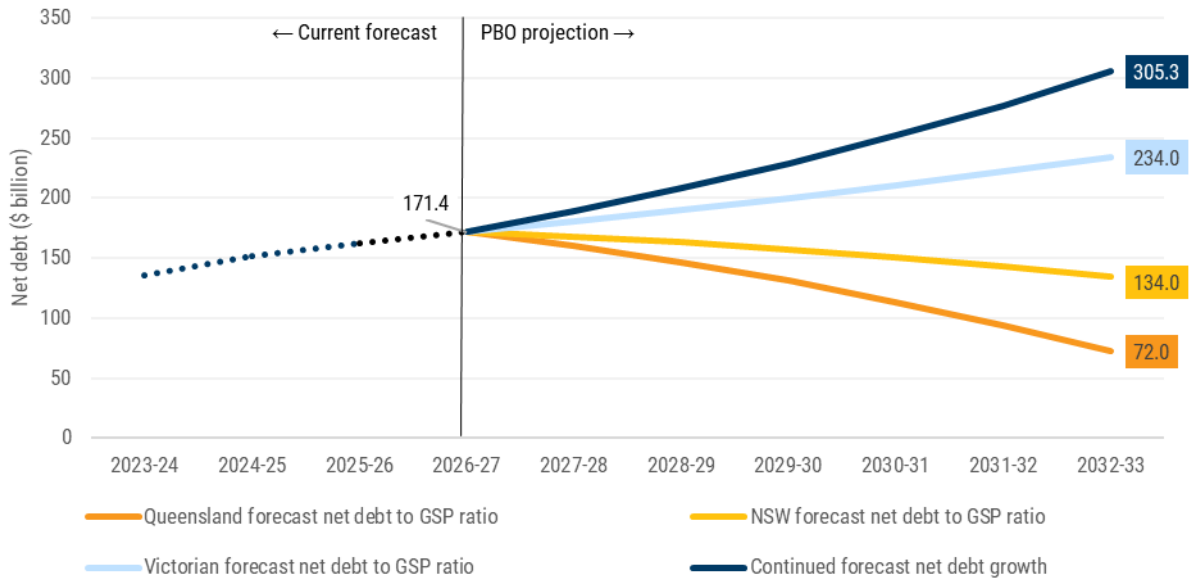
Three of these scenarios set a target for the net debt to GSP ratio in 2032–33, representing a 10-year horizon. The fourth scenario assumes net debt would continue to grow beyond the forward estimates to 2032–33.

1. **Queensland forecast net debt to GSP ratio:** estimates the net debt consistent with Victoria reducing its net debt to GSP ratio from 24.5% in 2026–27 to 7.5%, the current forecast for Queensland in 2025–26, in 2032–33.
2. **New South Wales forecast net debt to GSP ratio:** estimates the net debt consistent with Victoria reducing its net debt to GSP ratio from 24.5% in 2026–27 to 14.0%, the current forecast for New South Wales in 2025–26, in 2032–33.
3. **Victorian forecast net debt to GSP ratio:** estimates the net debt consistent with Victoria maintaining its net debt to GSP ratio at 24.5% from 2026–27 to 2032–33.
4. **Continued forecast average net debt growth:** estimates net debt in 2032–33 consistent with it continuing to grow at 10.1% per year, the average forecast growth rate in the latest budget.

### Implications for net debt

For scenarios 1 to 3, we derive the level of net debt from the target net debt to GSP ratio and assumed trend growth in the size of the economy. For scenario 4, we derive the level of net debt from the assumed growth rate.

Figure 1 – Net debt in the medium term



Source: Parliamentary Budget Office.

We estimate that these 4 scenarios would result in net debt in 2032–33 of between \$72.0 billion and \$305.3 billion. Compared to current forecasts, net debt would fall in the two most ambitious scenarios – which target the forecast net debt to GSP ratios expected in Queensland and New South Wales.

# Context

## Request

On 25 May 2023, Mr John Pesutto MP, Member for Hawthorn, asked the Parliamentary Budget Officer to provide independent advice about the net debt in the medium term by estimating net debt in 2032–33 consistent with:

- Victoria’s net debt to GSP ratio in 2032–33 aligning with:
  - Queensland’s forecast for net debt to GSP ratio in 2025–26
  - New South Wales’ forecast for net debt to GSP ratio in 2025–26
  - Victoria’s forecast for net debt to GSP ratio in 2026–27
- continued growth in net debt at the average growth rate over the budget forecast period.

## Scope

In this advice we consider the Victorian Government’s financial target to stabilise net debt as a share of GSP. We discuss its usefulness in public assessment of the fiscal sustainability of the budget and the government’s performance against its own targets.

## Limitations

We prepared this advice based on public information, to ensure our estimates are a reasonable interpretation of the information the Victorian Government publishes on its net debt as a share of GSP target.

The government does not provide information on what its net debt to GSP target is, what achieving it looks like or when it will be achieved. We therefore make assumptions about net debt to GSP ratios that might satisfy this target, when the targets would be achieved and how quickly the economy would grow beyond the budget and forward estimates period (to 2026–27). We then project the levels of net debt consistent with achieving the targets.

We have not assessed the likelihood that any of these scenarios are realised.

We prepared this advice on 4 June 2023.

## Background

The Victorian Government maintains several financial targets and measures, intended to indicate the fiscal sustainability of the Victorian budget. We released a detailed examination of these targets and measures in our 2021 paper, ‘Fiscal objectives, targets and risks – options to improve Victoria’s fiscal framework’ (available [here](#)).

In this advice we focus on the net debt as a share of GSP financial target:

*General government net debt as a percentage of GSP to stabilise in the medium term.*

### History of this target

This financial target has changed twice since the version presented in the 2012–13 Victorian Budget. Each change has softened the target, from an explicit reduction in net debt as a share of GSP over the decade, as recently as 2014–15, to the current target.

**Figure 2 – Net debt as a share of GSP – financial targets and sustainability objectives**

	2012–13 to 2014–15 budgets	2015–16 budget	2016–17 to 2018–19 budgets	2019–20 budget	2020–21 to 2023–24 budgets
Financial target	General government net debt reduced as a percentage of GSP over the decade to 2022	General government net debt as a percentage of GSP to be maintained at a sustainable level over the medium term			General government net debt as a percentage of GSP to stabilise in the medium term
Sustainability objective	None	Net debt as a percentage of GSP reducing from the commencement of the budget year to the end of the forward estimates period	Net debt to GSP no greater than its peak over the last 5 years by the end of the forward estimates	Net debt to GSP will be no greater than 12% over the medium term	None

Notes: Financial measures and targets are those formally identified in Table 1.3 of the Strategy and Outlook budget paper from the past 12 budgets. Sustainability objectives are those formally identified in Chapter 2 of the Statement of Finances from the past 12 budgets. Neither includes goals that budgets mention in discussion of fiscal strategy that are not identified in the relevant sections.

Source: Parliamentary Budget Office.

Since the 2015–16 Victorian budget, this target has sought to achieve or maintain a sustainable level of net debt to GSP over the medium term. The Victorian Government has not articulated specifically when it expects to achieve this stabilisation, providing no clear definition of the medium term. Historically, however, it has provided some context on what it considers a sustainable level of net debt as a share of GSP.

Some recent budgets included a sustainability objective which provided greater insight into the Victorian Government's view of a sustainable level of net debt as a share of GSP. Like the financial targets, the government has softened and ultimately abandoned this objective in subsequent budget papers.

## Net debt in the medium term

The last time the budget included a version of this sustainability objective was the 2019–20 Victorian Budget, which stated net debt as a share of GSP would stabilise at 12.0% over the medium term. At the time, the budget forecast that net debt as a share of GSP would reach 10.0% at the end of the forward estimates period (2022–23). The financial target, while vague on timing, combined with this sustainability target allowed readers of the budget papers to conclude:

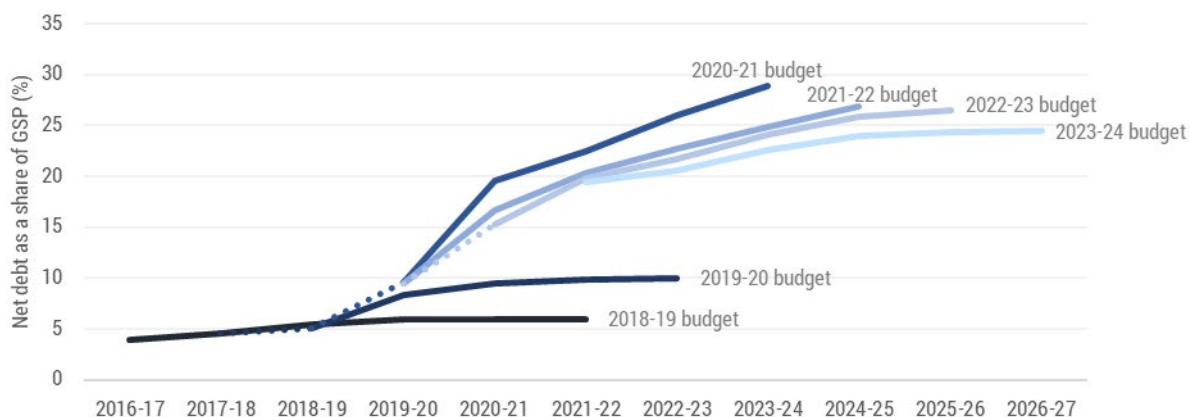
- net debt as a share of GSP would peak at 12.0%
- the Victorian Government considered 12.0% a sustainable level for net debt as a share of GSP.

In the 2020–21 budget, the Victorian Government again softened the financial target to its current wording and removed of the relevant sustainability objective. This means that in addition to being vague on when this stabilisation will be achieved, the budget is silent on the stabilised level of net debt as a share of GSP.

## Recent trends in net debt

Net debt and net debt as a share of GSP have grown in recent years. In 2018–19, net debt as a share of the economy was 5.5%, and in the 2023–24 budget, it was forecast to be around 4.4 times that figure by 2026–27.

**Figure 3 – Historic and forecast net debt as a share of the economy**



Source: Department of Treasury and Finance.

It remains unclear, however, whether net debt and net debt as a share of GSP will increase beyond the current budget and forward estimates. Forecasts of net debt as a share of GSP have moderated with each budget and budget update, however:

- historical growth of net debt was 57.7% per year from 2019–20 to 2021–22
- forecast growth of net debt is 11.4% per year from 2021–22 to 2026–27.

These periods of rapid growth in net debt are, at least partially, driven by the Victorian Government's historically large capital program and its response to the COVID-19 pandemic. Victoria's capital program, which includes several large and long-term projects, is likely to continue to drive growth in net debt beyond 2026–27.

# Government net debt stabilisation

**In this section** We discuss the Victorian Government's financial target on net debt – to stabilise net debt as a share of the economy – and highlight the problems with this target.

## Victorian Government target

In the 2023–24 budget, the government outlined its financial measures and targets. This included a target for net debt as a share of GSP.

*General government net debt as a percentage of GSP to stabilise in the medium term.*

## Interpreting this target

A reasonable interpretation of 'stabilisation' could be that the Victorian Government means to prevent ongoing growth in net debt as a share of GSP. By targeting the 'medium term', it can be inferred that the government's peak in the net debt to GSP ratio will be achieved at some point beyond the current budget forward estimates period (i.e. beyond 2026–27).

This means net debt would grow at the same rate as the economy (nominal GSP). While net debt would become larger over time, its burden relative to the size of the economy would be constant, meaning in real terms that it would remain unchanged.

## Assessing performance against this target

The Victorian budget does not provide the necessary information to enable assessment of the government's performance against this target. It lacks:

- a specific target at which net debt as a share of GSP will stabilise
- precise timing for when stabilisation will occur
- sufficiently long-term estimates of net debt or the net debt to GSP ratio.

# Projecting the net debt to GSP ratio

**In this section**

We present scenarios which project net debt to 2032–33. Three of these scenarios target net debt as a share of GSP, consistent with Victorian forecasts, and forecasts from other Australian states. The fourth target assumes net debt continues to grow at its average growth rate over the forecast period.

These scenarios fall into 2 categories:

1. More ambitious scenarios – by 2032–33, net debt as a share of GSP would fall and net debt would be under \$150.0 billion.
2. Less ambitious scenarios – by 2032–33, net debt as a share of GSP would stabilise or rise but net debt would be above \$200.0 billion.

The government’s latest budget forecasts net debt would grow from \$116.7 billion in 2022–23 to \$171.4 billion in 2026–27 – an annual average growth rate of 10.1%. Our scenarios project net debt to 2032–33, representing a 10-year forecast horizon.

## More ambitious scenarios

In these scenarios, the net debt to GSP ratio in 2032–33 would be:

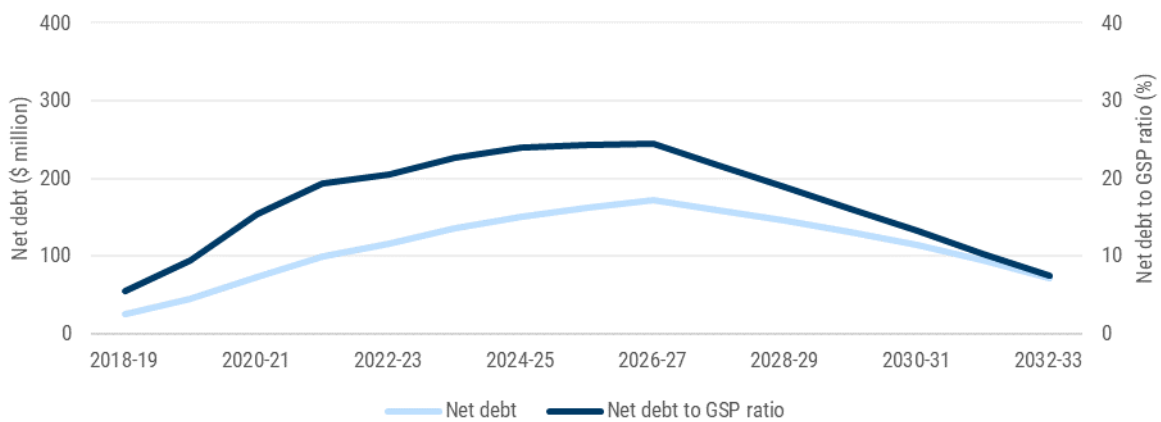
- 7.5%, consistent with Queensland’s forecast ratio for 2025–26
- 14.0%, consistent with New South Wales’ forecast ratio for 2025–26.

We assume a linear transition of the net debt to GSP ratio to the targeted levels in 2032–33.

### Queensland forecast net debt to GSP ratio

In this scenario, we project the net debt to GSP ratio falling to 7.5% in 2032–33.

**Figure 4 – Net debt and net debt as a share of the economy – Queensland 2025–26 forecast**



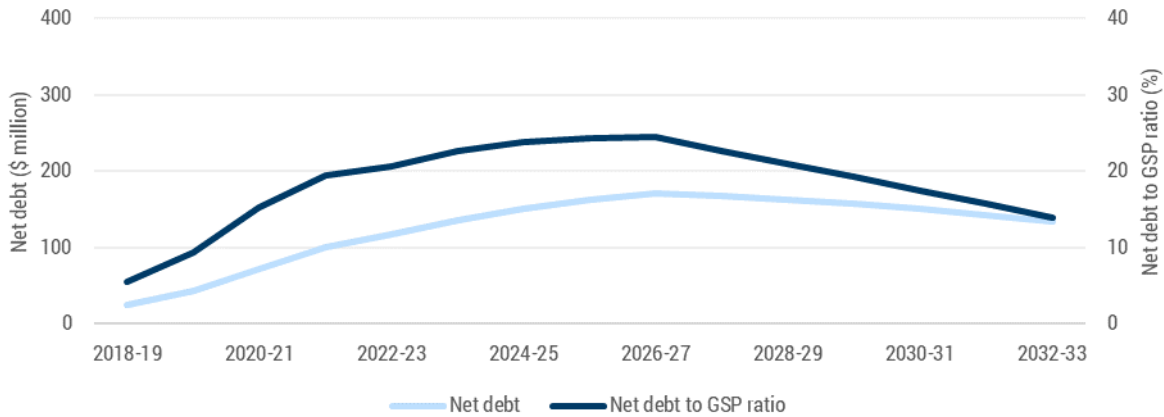
Source: Parliamentary Budget Office.

To achieve this target, net debt would need to fall by 13.5% per year from 2026–27, and would be \$72.0 billion in 2032–33.

### New South Wales forecast net debt to GSP ratio

In this scenario, the net debt to GSP ratio would decline to 14.0% in 2032–33.

**Figure 5 – Net debt and net debt as a share of the economy – NSW 2025–26 forecast**



Source: Parliamentary Budget Office.

To achieve this target, net debt would need to fall by 4.0% per year from 2026–27 and would be \$134.0 billion in 2032–33.

## Less ambitious scenarios

In these scenarios:

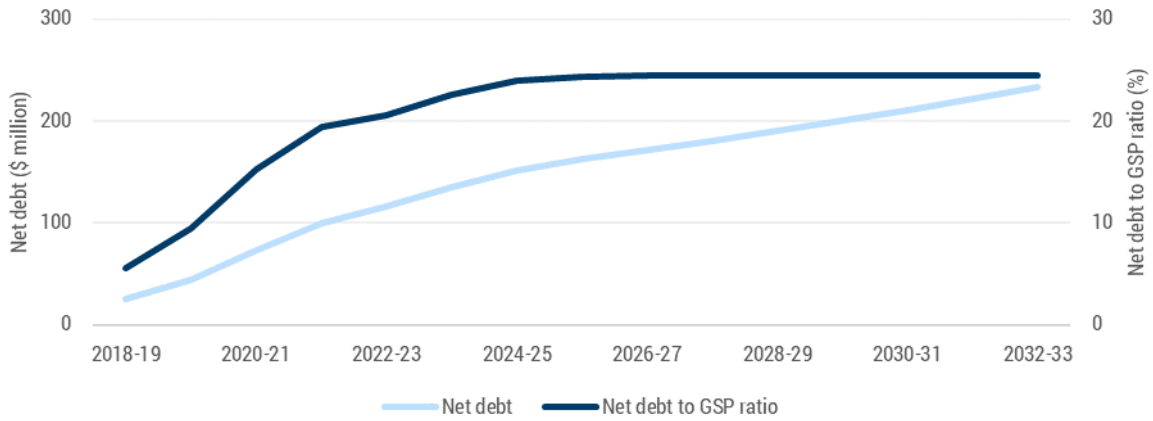
- the net debt to GSP ratio would be 24.5% in 2032–33, consistent with the latest Victorian Budget forecast for 2026–27
- net debt would continue to grow at its average rate over the forecast period to 2032–33.

### Victorian forecast net debt to GSP ratio

In the 2023–24 budget, the Victorian Government forecast the net debt to GSP ratio would grow to 24.5% in 2026–27. In this scenario, we project this ratio to remain at 24.5% in the years to 2032–33.

Net debt in the medium term

**Figure 6 – Net debt and net debt as a share of the economy – latest budget**



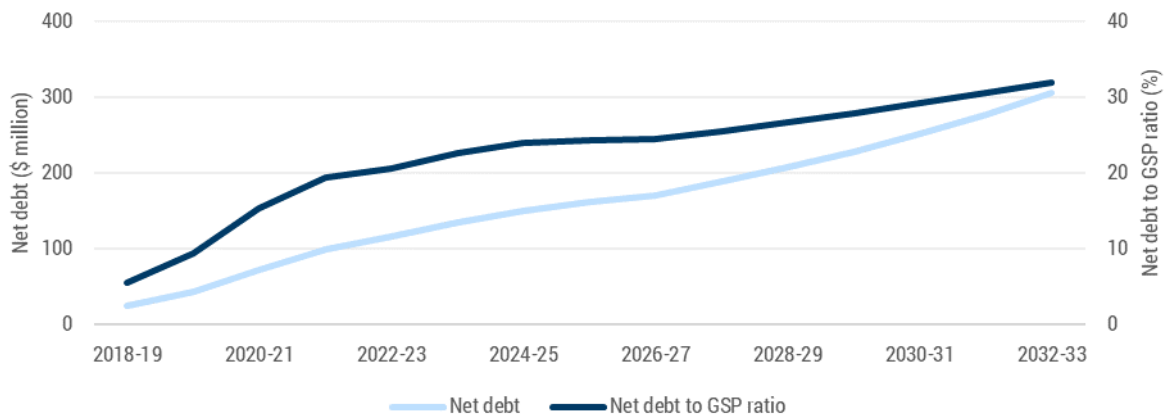
Source: Parliamentary Budget Office.

To achieve this target, net debt would grow by 5.3% per year from 2026–27 (that is, the same rate as assumed nominal economic growth) and would be \$234.0 billion in 2032–33.

**Continued forecast average net debt growth**

In the 2023–24 budget, the Victorian Government forecast net debt to increase by 10.1% per year on average from 2022–23 to 2026–27. In this scenario, we project net debt to continue to grow at this rate to 2032–33.

**Figure 7 – Net debt and net debt as a share of the economy – 2022–23 budget**



Source: Parliamentary Budget Office.

In this scenario, net debt would grow by 10.1% per year from 2026–27 and would be \$305.3 billion in 2032–33. The net debt to GSP ratio would be 31.9% in 2032–33.

# Attachment A – Assumptions and approach

In this section we provide the assumptions and approach we used to project each scenario.

## Assumptions

When preparing this advice, we made the following assumptions:

1. Stabilisation in the net debt to GSP ratio means that net debt would grow at the same rate as nominal GSP.
2. The net debt to GSP ratio would linearly transition to its stabilisation target by 2032–33.
3. Consistent with the latest budgets estimates for 2026–27, nominal GSP would grow by 5.3% per year beyond 2026–27.

## Approach

When preparing this advice, we:

- forecast nominal GSP in line with our assumed growth rate
- projected 3 scenarios for the net debt to GSP ratio based on current forecasts for Victoria and other Australian states, and applied a linear transition between the 2026–27 ratio and the target ratio in 2032–33.
- projected a fourth scenario for net debt based on the average growth rate over the forward estimates.

## Attachment B – Data sources

- Australian Bureau of Statistics. 2022. Australian National Accounts: State Accounts, 2021–22 financial year. [ONLINE] Available at: <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-state-accounts/latest-release>. [Accessed 2 March 2023]
- Department of Treasury and Finance. Victorian Government. 2011. Victorian Budget 2011–12. [ONLINE] Available at: <https://www.dtf.vic.gov.au/previous-budgets/2011-12-state-budget>. [Accessed 14 February 2023]
- Department of Treasury and Finance. Victorian Government. 2012. Victorian Budget 2012–13. [ONLINE] Available at: <https://www.dtf.vic.gov.au/previous-budgets/2012-13-state-budget>. [Accessed 14 February 2023]
- Department of Treasury and Finance. Victorian Government. 2013. Victorian Budget 2013–14. [ONLINE] Available at: <https://www.dtf.vic.gov.au/previous-budgets/2013-14-state-budget>. [Accessed 14 February 2023]
- Department of Treasury and Finance. Victorian Government. 2014. Victorian Budget 2014–15. [ONLINE] Available at: <https://www.dtf.vic.gov.au/previous-budgets/2014-15-state-budget>. [Accessed 14 February 2023]
- Department of Treasury and Finance. Victorian Government. 2015. Victorian Budget 15/16. [ONLINE] Available at: <https://www.dtf.vic.gov.au/previous-budgets/2015-16-state-budget>. [Accessed 14 February 2023]
- Department of Treasury and Finance. Victorian Government. 2016. Victorian Budget 16/17. [ONLINE] Available at: <https://www.dtf.vic.gov.au/previous-budgets/2016-17-state-budget>. [Accessed 14 February 2023]
- Department of Treasury and Finance. Victorian Government. 2017. Victorian Budget 17/18. [ONLINE] Available at: <https://www.dtf.vic.gov.au/previous-budgets/2017-18-state-budget>. [Accessed 14 February 2023]
- Department of Treasury and Finance. Victorian Government. 2018. Victorian Budget 18/19. [ONLINE] Available at: <https://www.dtf.vic.gov.au/previous-budgets/2018-19-state-budget>. [Accessed 14 February 2023]
- Department of Treasury and Finance, Victorian Government. 2019. Victorian Budget 19/20. [ONLINE] Available at: <https://www.dtf.vic.gov.au/state-budget/2019-20-state-budget>. [Accessed 14 February 2023]
- Department of Treasury and Finance. Victorian Government. 2020. Victorian Budget 2020/21. [ONLINE] Available at: <https://www.dtf.vic.gov.au/state-budget/2020-21-state-budget>. [Accessed 14 February 2023]
- Department of Treasury and Finance. Victorian Government. 2021. Victorian Budget 2021/22. [ONLINE] Available at: <https://www.dtf.vic.gov.au/state-budget/2021-22-state-budget>. [Accessed 14 February 2023]

- Department of Treasury and Finance. Victorian Government. 2022. Victorian Budget 2022/23. [ONLINE] Available at: <https://www.dtf.vic.gov.au/previous-budgets/2022-23-state-budget>. [Accessed 14 February 2023]
- Department of Treasury and Finance. Victorian Government. 2023. Historical Financial Tables – Operating Statement General Government. [ONLINE] Available at: [https://www.dtf.vic.gov.au/sites/default/files/document/1.1\\_2022-23-PEBU-Consolidated-GG-Comprehensive-Operating-Statement.xlsx](https://www.dtf.vic.gov.au/sites/default/files/document/1.1_2022-23-PEBU-Consolidated-GG-Comprehensive-Operating-Statement.xlsx). [Accessed 14 February 2023]
- Department of Treasury and Finance. Victorian Government. 2023. Victorian Budget 2023/24. [ONLINE] Available at: <https://www.budget.vic.gov.au/budget-papers>. [Accessed 26 May 2023]
- NSW Treasury. 2023. 2023 Pre-election Budget Update. [ONLINE] Available at: [https://www.budget.nsw.gov.au/sites/default/files/2023-03/20230308-2023\\_pre-election-budget-update.pdf](https://www.budget.nsw.gov.au/sites/default/files/2023-03/20230308-2023_pre-election-budget-update.pdf). [Accessed 31 May 2023]
- Queensland Treasury. Queensland Government. 2022. 2022–23 Budget Update. [ONLINE] Available at: <https://budget.qld.gov.au/files/2022-23%20Budget%20Update.pdf>. [Accessed 31 May 2023]