Tasmanian Fiscal Sustainability Report 2026

Summary and Key Findings

February 2026

Department of Treasury and Finance

Tasmanian Government

The 2026 Fiscal Sustainability Report (FSR) has been prepared by the Department of Treasury and Finance in accordance with the provisions of the *Charter of Budget Responsibility Act 2007.*

This Report differs from previous FSRs as it:

- presents alternative budget repair scenarios;
- models the economic impacts of budget repair; and
- includes projections of total State debt, including estimates of Government business debt.

The Report has been prepared recognising Tasmania's specific circumstances. For example, its greater reliance on Australian Government grants than other states, and its large unfunded superannuation liability.

The projections presented in the Report show outcomes relating to different scenario assumptions. The projections are **indicative** and are **not forecasts**.

KEY FINDING

Tasmania's finances are projected to rapidly deteriorate

- Tasmania's public finances have worsened significantly since the previous FSR in 2021. The 2026 FSR confirms Tasmania's financial position is unsustainable and that, if unaddressed, the Budget's structural problem will rapidly deteriorate.
- Government spending is growing faster than State revenues and Treasury's projections show that, without action, the gap will widen and Net Operating Balance deficits will become increasingly unmanageable.
- The structural deficit will drive significant growth in Government debt, which will accelerate over time due to increased interest payments. Modelled debt servicing costs would grow from two per cent of revenue to more than 50 per cent over 15 years, becoming the second largest operating expenditure item if the Historical Growth Scenario occurred.
- Treasury's projection of recent trends in revenue and expenditure shows that GFS Net Debt for the General Government Sector could grow from \$4.0 billion in 2024-25 to \$129.5 billion (\$89.4 billion in 2024-25 dollars) by 2039-40 if action is not taken.
- Public Non-Financial Corporations Sector GFS Net Debt is projected to grow from \$4.3 billion to \$16.8 billion over the same period. As a result, Total Non-Financial Public Sector GFS Net Debt is projected to reach \$146.3 billion by 2039-40.

KEY FINDING

Doing nothing is not a responsible option

- Without action, the annual growth in debt servicing costs is projected to exceed the growth in State revenue within ten years. Beyond this point, budget repair would be exceedingly difficult.
- In effect, Tasmania will be borrowing significantly more money just to pay the interest on existing debt. Eventually the growth in interest expenses will become so great that no reasonable reduction in services will be capable of achieving budget repair.
- Tasmania has recently been downgraded to the equal-lowest credit rating of any Australian jurisdiction (Aa3/AA). Without financial improvement, there is an increased probability that Tasmania's credit rating will be further downgraded, increasing interest costs.
- High debt levels also leave the State exposed to economic or financial shocks. Tasmania's financial buffers have been depleted and the State is poorly positioned to adequately respond to a shock, such as a pandemic or a natural disaster.
- Ongoing deterioration will cause increasing community concern and risk external intervention. International experience shows that such external intervention usually only occurs when the situation has reached a crisis point and can result in a loss of financial autonomy and onerous long-term impacts.

KEY FINDING

Immediate action is required to stabilise debt before it becomes unmanageable

- Immediate and sustained action is needed to reach peak debt as soon as possible, and return Tasmania's finances to a sustainable position. Peak debt is achieved when all operating and capital expenses are fully funded from operating revenue on a cash basis so that the Net borrowing requirement for the year is zero. If this does not happen, Tasmanians will be faced with difficult ongoing choices about essential services and infrastructure.
- Budget repair can be achieved through actions such as increasing revenue, and reducing capital and operating expenditure, as well as efficiencies in service delivery and productivity improvements.
- No single action will be sufficient on its own, and all measures are needed to return the State to a sustainable pathway.
- Improvements to productivity and the planning and delivery of services can be beneficial. However, they are not sufficient on their own and will take time to have an effect. The repair task needs greater and more urgent action.
- Growing the economy won't fix the problem. Government revenues correlate poorly with economic growth, and Tasmania's major revenue sources are largely outside the State's control (GST and Commonwealth grants).

KEY FINDING

Budget repair is required over the next five to 10 years

- Treasury has modelled the level of budget repair needed to achieve peak debt over five, 10 and 15 years.
- These scenarios require significant cumulative financial corrections relative to the Historical Growth Scenario of between $3.3 billion (five-year scenario) and $11.3 billion (15-year scenario), resulting in debt peaking at between $7.6 billion and $16.1 billion.
- There is a balance to be achieved between the rate of repair, and the intergenerational inequity of a higher level of peak debt.
- Treasury has not modelled the reduction of debt from its peak level, as stopping the projected growth in State debt is the current priority and the rate of debt reduction in the future is a policy choice for government.
- Whilst achieving peak debt within five to 10 years is a credible timeframe, further delay will result in larger financial corrections being required that lead to unacceptable impacts on essential services and higher risks.
- Economic modelling of five- and 10-year repair scenarios show the impact on the Tasmanian economy is manageable, and that budget repair is best achieved through a mix of increased revenue and reduced operating and capital expenditure.
- While economic growth under each repair scenario is reduced, the Tasmanian economy does not contract under any of the scenarios, even after adjusting for inflation.

KEY FINDING

Budget repair is achievable if action is taken

- The challenge facing the State is large but not insurmountable.
- Budget repair will be difficult in the initial years but, if implemented broadly, can minimise the impacts on any one part of the community.
- The sooner peak debt is reached, the lower the ongoing impact of debt servicing costs and the faster the State becomes more resilient to future shocks.
- The benefit of taking action now outweighs the costs of inaction. Rising debt and debt servicing costs will impose far greater costs on the community if the situation is left to deteriorate further, leaving an unreasonable burden on future generations.

	Peak Debt in Five Years (2029-30)	Peak Debt in 10 Years (2034-35)	Peak Debt in 15 Years (2039-40)
GFS Net Debt (GGS)	**$7.6 billion** $3.6 billion increase from 2024-25	**$12.1 billion** $8.1 billion increase from 2024-25	**$16.1 billion** $12.1 billion increase from 2024-25
GFS Net Debt (PNFC)	**$8.3 billion** $4.0 billion increase from 2024-25	**$12.2 billion** $7.9 billion increase from 2024-25	**$16.8 billion** $12.5 billion increase from 2024-25
Debt servicing costs	**$0.6 billion** $0.4 billion increase from 2024-25 (5% of Revenue in the Historical Growth Scenario)	**$1.2 billion** $1.1 billion increase from 2024-25 (9% of Revenue in the Historical Growth Scenario)	**$1.8 billion** $1.7 billion increase from 2024-25 (10% of Revenue in the Historical Growth Scenario)
Cumulative correction to budget position required (relative to the Historical Growth Scenario)	**$3.3 billion** by 2029-30 (equivalent to 25% of projected expenditure on government services)	**$6.5 billion** by 2034-35 (equivalent to 35% of projected expenditure on government services)	**$11.3 billion** by 2039-40 (equivalent to 43% of projected expenditure on government services)
Economic impacts	Across nine modelled scenarios, growth slows but remains positive, averaging between 1.7 and 1.9 per cent in real terms, somewhat below the long-term average of 2.3 per cent. In all scenarios, economic impacts are smallest when fiscal repair is shared between: • lower operating expenditure; • higher State taxation; and • lower infrastructure expenditure.		

Risk of shocks

Sensitivity analysis show that a shock could derail the State's pathway to fiscal repair under all scenarios.

Longer fiscal repair pathways increase the risk that the repair is derailed by a shock.

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