2. Fiscal strategy and outlook

Features

- Respect for Queenslanders' money is a foundational commitment of the government. On coming to office, the government worked to identify funding shortfalls, known funding pressures in service delivery agencies and capital projects with cost overruns to create a baseline in the 2024–25 Mid-Year Fiscal and Economic Review (MYFER).
- In preparing the 2025–26 Budget the government has taken a calm and methodical approach to review and plan the ongoing robust management of spending.
- This has supported improvement in the outlook for key financial aggregates compared to the 2024–25 MYFER, and the first step towards sustained budget improvement.
- Relative to the 2024–25 MYFER, $6.1 billion in operating balance improvements are projected over the 4 years to 2027–28.
- In 2025–26, a net operating deficit of $8.581 billion is forecast compared to $6.926 billion in the 2024–25 MYFER. This results from the government's decisions to fund a range of programs announced but not funded by the former government, targeted funding to meet demand in priority service delivery areas including health, education, housing, child safety and victim support, and GST revenue being $1.3 billion lower than projected at the 2024–25 MYFER.
- Operating deficits are thereafter expected to progressively improve across the forward estimates as revenue improves from 2026–27 and grows faster than expenses. Operating cash flows are also expected to be positive from 2026–27 and contribute to funding capital purchases.
- The government's robust fiscal management and commitment to budget improvement will result in the Non-financial Public Sector's (NFPS) borrowing significantly improving compared to the 2024–25 MYFER forecast. NFPS debt is forecast to be $147.8 billion as at 30 June 2026, $8.3 billion lower than the 2024–25 MYFER forecast. In 2027–28, NFPS debt of $190.4 billion is forecast, $27.5 billion lower than forecast in the 2024–25 MYFER.
- The NFPS interest expenses have reduced by $2.3 billion across the 4 years to 2027–28 compared to the forecast in the 2024–25 MYFER.
- Fiscal Principles have been refreshed to support the government's focus on a sustainable balance sheet and driving productivity across the public and private sectors. The addition of the NFPS debt to revenue ratio in Fiscal Principle 1 increases focus on the gross debt the state needs to service. The new Fiscal Principle 6 recognises that productivity improvements are an important objective to drive better outcomes for Queensland's economy and living standards.

2.1 Fiscal outlook

The 2025–26 Queensland Budget is the start of a pathway towards sustained budget improvement. The first step is the delivery of a measurable improvement in the outlook for key 2025–26 Budget aggregates when compared to the 2024–25 MYFER.

The true state of Queensland's finances was presented in 2024–25 MYFER, which revealed significant funding shortfalls and under-funded service delivery, evidenced by an $11 billion deterioration in the net operating balance in 2027–28 compared to that presented in the 2024–25 Budget.

Over the 4 years to 2027–28, total key revenues (taxes, GST and royalties) are expected to improve by $2.7 billion compared to the 2024–25 MYFER. A portion of this revenue uplift will be used to fund some of the legacy issues from the previous government and introduce measures to reduce Queenslanders' tax burden, as outlined in Chapter 3.

Expenses growth over the forward estimates must also be sensibly managed to realise the operating balance improvements. Since the 2024–25 MYFER, the government has conducted a thorough review of programs and services to align funding with government priorities.

The capital program has also been assessed to meet critical investment priorities and enhancing on-time and on-budget deliverability.

The updated 4-year, $116.8 billion capital program has been underpinned by an assessment of the state's current and future infrastructure requirements, which addressed identified cost overruns and ensured revised costings are reliable and robust.

The governance framework for capital investment will be strengthened to ensure these gains continue in the future (see section 2.2.5).

Actions to reduce net operating deficits and configure a more sustainable capital program translate into lower projected levels of Non-financial Public Sector debt when compared to the 2024–25 MYFER (see section 2.2.6).

The government has also reviewed the Charter of Fiscal Responsibility to ensure the Fiscal Principles support a strong fiscal strategy and continuous improvement, given the legacy issues under the existing charter.

The refreshed Fiscal Principles have a renewed focus on addressing the state's gross debt, which best represents what the state must repay, and introduces an additional principle that targets productivity improvements to benefit Queensland's economy and living standards.

Reporting on Queensland's position will be clear and transparent and demonstrate continual progress towards the medium-term benchmarks.

2.2 Key fiscal aggregates

The key aggregates for the 2025–26 Queensland Budget are outlined in Table 2.1.

Table 2.1 Key fiscal aggregates[1]

	2023–24 Outcome $ million	2024–25 MYFER $ million	2024–25 Est. Act. $ million	2025–26 Budget $ million	2026–27 Projection $ million	2027–28 Projection $ million	2028–29 Projection $ million
GENERAL GOVERNMENT SECTOR							
Revenue	89,768	88,071	89,476	91,337	94,886	97,748	102,457
Expenses	88,087	92,983	94,852	99,918	100,751	102,033	103,543
Net operating balance	1,681	(4,911)	(5,376)	(8,581)	(5,864)	(4,285)	(1,086)
PNFA[2]	10,507	14,189	13,370	14,639	18,554	19,124	18,655
Fiscal balance	(4,001)	(14,394)	(13,794)	(17,632)	(17,472)	(15,948)	(11,720)
Borrowing[3]	58,773	77,627	74,843	95,480	114,301	131,696	145,176
Net debt	5,684	25,539	22,092	41,803	61,605	79,239	93,217
NON-FINANCIAL PUBLIC SECTOR							
Revenue	100,258	99,141	100,978	102,638	107,256	111,693	117,106
PNFA[2]	16,887	25,760	21,583	23,837	26,749	26,221	25,326
Borrowing[3]	106,397	128,085	124,118	147,840	170,484	190,360	205,660

Notes:
1. Numbers may not add due to rounding.
2. PNFA: Purchases of non-financial assets.
3. Comprised of borrowing with QTC, Leases and similar arrangements and Securities and derivatives line items in the Balance Sheet

2.2.1 Net operating balance

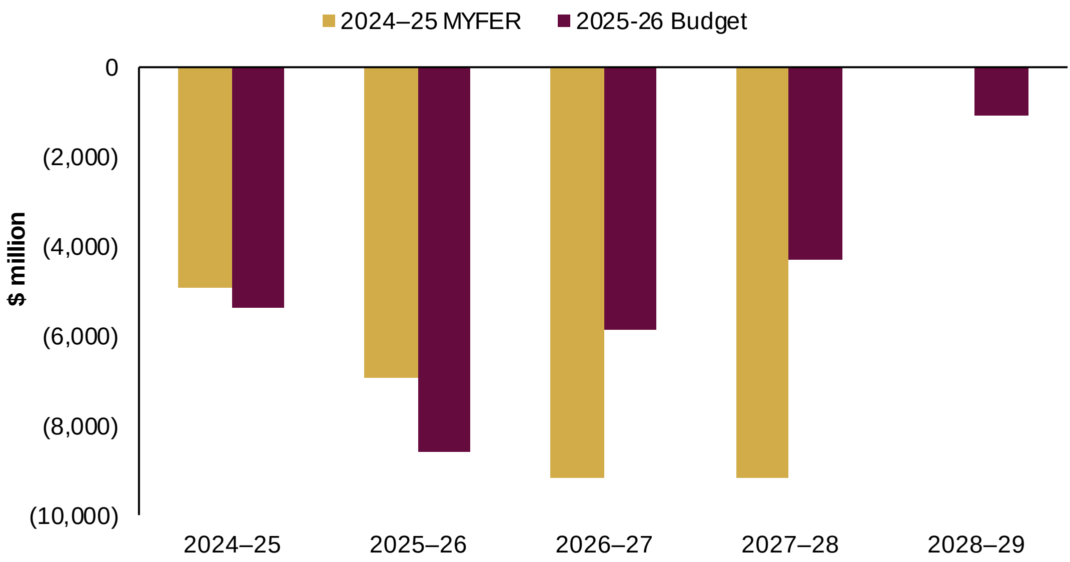
The General Government Sector 2025–26 net operating deficit has widened to $8.581 billion compared to $6.926 billion in the 2024–25 MYFER.

This is attributable to providing additional targeted funding not included in previous Budgets to support priority service delivery areas in health, housing, child safety and victim support, and GST revenue being $1.3 billion lower than projected at the 2024–25 MYFER.

Looking ahead, net operating deficits are projected to improve significantly, with $6.094 billion in operating balance improvements projected across the 4 years to 2027–28 compared to the 2024–25 MYFER.

Chart 2.1 shows the improved outlook for the General Government Sector net operating balance since the 2024–25 MYFER.

Chart 2.1 Outlook for General Government Sector net operating balance



The improvement in the outyear trajectory reflects positive changes in the outlook for revenue, net of reductions in GST revenue (see section 2.2.3), and expense growth to be responsibly managed below revenue growth (see section 2.2.4).

The timing of payments under disaster recovery arrangements has also affected the outlook for the net operating balance (see Table 2.3).

Table 2.2 explains variations in the operating position from 2024–25 MYFER to the 2025–26 Budget.

Table 2.2 Reconciliation of net operating balance, 2024–25 MYFER to 2025–26 Budget[1]

	2024–25 $ million	2025–26 $ million	2026–27 $ million	2027–28 $ million
2024–25 MYFER net operating balance	**(4,911)**	**(6,926)**	**(9,173)**	**(9,190)**
Taxation revisions[2]	31	146	495	903
Royalty and land rent revisions	(70)	1,417	1,759	1,493
GST revisions	(62)	(1,287)	(972)	(1004)
Updated service funding assumptions[3]	887	3,370	5,998	6,301
Revenue measures[4]	..	(77)	(16)	(6)
Expense measures[4]	(305)	(4,165)	(3,650)	(3,854)
Other parameter adjustments[5]	(947)	(1,059)	(305)	1,071
2025–26 Budget net operating balance	**(5,376)**	**(8,581)**	**(5,864)**	**(4,285)**

Notes:

1. Numbers may not add due to rounding. Numbers indicate the impact on the operating balance. A number in brackets indicates a negative impact on the operating balance.
2. Taxation revisions exclude impact of revenue measures contained in Budget Paper 4 (BP4).
3. Adjustment to reflect re-assessment of under-funded legacy issues and approach to savings based on 2025–26 budget principles.
4. Reflects the operating balance impact of government measures since the 2024–25 MYFER (refer to BP4 Budget Measures).
5. Other parameter adjustments reflect Australian Government funding revisions, net impact of Disaster Recovery Funding Arrangements, net flows from Public Non-financial Corporation and Public Financial Corporation entities and non-policy adjustments including changes in interest, depreciation, swaps, lapses and deferrals.

The timing of payments from the Australian Government under disaster recovery arrangements do not always match timing of the state's outlays for disaster recovery activities and works, and can have a material effect on the net operating balance.

Table 2.3 details the impact of disaster expenses and Australian Government payments for Disaster Recovery Funding Arrangements on the net operating balance as well as disaster related capital purchases.

Table 2.3 Impact of disaster funding on the net operating balance[1]

	2024–25 $ million	2025–26 $ million	2026–27 $ million	2027–28 $ million	2028–29 $ million
Net operating balance	(5,376)	(8,581)	(5,864)	(4,285)	(1,086)
less Disaster revenue	1,231	2,368	1,714	48	81
add Disaster expenses	1,969	2,020	1,722	468	60
Underlying net operating balance	**(4,638)**	**(8,929)**	**(5,856)**	**(3,865)**	**(1,107)**
Disaster capital expenditure	763	462	656	608	162

Note:
1. Numbers may not add due to rounding.

2.2.2 Fiscal Principles

Having robust fiscal principles and related targets is the strong basis needed for transparent and effective fiscal management. The government has approved amendments to the Charter of Fiscal Responsibility to ensure it allows for an honest and credible analysis of the fiscal position, and a renewed focus on pursuing policy settings which reduce total government debt and drive productivity improvements across the economy.

Box 2.1: Revised Charter of Fiscal Principles

Amended Fiscal Principle 1

Queensland relies on borrowings to fund its infrastructure investment. If borrowings do not stabilise as a share of revenue, a higher level of borrowing costs will consume an increasing share of the budget over time. The previous measure of General Government Sector net debt does not address the government's call on financial markets.

The net debt measure also assumes that superannuation assets could be available in full to limit borrowing requirements, but this would conflict with Fiscal Principle 5 to target the full funding of long-term liabilities such as superannuation.

The addition of the Non-financial Public Sector gross debt to revenue ratio to Fiscal Principle 1, broadens the focus on the state's debt burden that needs to be serviced and closely aligns with credit rating agency measures of debt burden.

New Fiscal Principle 6

As productivity growth is a key means of achieving sustained improvement in living standards, a new Fiscal Principle has been introduced reflecting how improvements in productivity can ultimately benefit Queensland's economy and living standards, measured in terms of real Gross State Product (GSP) per capita.

Fiscal Principle 6 complements the other fiscal principles. Productivity growth generally leads to increased revenue or revenue raising capacity, which strengthens the state's fiscal position and can reduce reliance on external borrowing over time.

Productivity improvements in the public sector, including the efficient delivery of the capital program, can also reduce the risk of crowding out private sector activities and allow the government to invest in essential services. This creates greater net benefits for the community.

Fiscal Principle 1 — Stabilise the Non-financial Public Sector debt to revenue ratio and General Government Sector net debt to revenue ratio at sustainable levels in the medium term, and target reductions in the debt to revenue ratio in the long term.

Stabilising the ratios at sustainable levels restores capacity to respond to future external shocks. Both ratios have improved significantly against the 2024–25 MYFER but are still rising over time.

In 2025–26 the Non-financial Public Sector debt to revenue ratio is expected to be 144 per cent compared to 155 per cent in the 2024–25 MYFER. Similarly, by 2027–28 the ratio will be 170 per cent compared to 198 per cent.

The General Government net debt to revenue ratio will be 46 per cent in 2025–26 compared to 54 per cent in the 2024–25 MYFER and 81 per cent in 2027–28 compared to 103 per cent in the 2024–25 MYFER.

Fiscal Principle 2 — Ensure that average annual growth in General Government Sector expenditure in the medium term is below the average annual growth in General Government Sector revenue to deliver fiscally sustainable operating surpluses.

Maintaining a lower rate of expenses growth than revenue growth supports improvements in the operating position that, in turn, can assist with debt stabilisation.

Across the 4 years to 2028–29 average revenue growth is expected to be 3.4 per cent, compared to expenses growth of 2.2 per cent.

Fiscal Principle 3 — Target continual improvements in net operating surpluses to ensure that, in the medium term, net cash flows from investments in non-financial assets will be funded primarily from net cash inflows from operating activities. The capital program will focus on supporting a productive economy, jobs, and ensuring a pipeline of infrastructure that responds to population growth.

Funding a large capital program primarily through operating cash surpluses rather than additional borrowings is key to stabilising borrowing. However, volatility in revenue and expense growth combined with the uneven profile of capital expenditure can impact this fiscal principle on an individual year basis.

The government's efforts to address legacy funding issues identified in the 2024–25 MYFER relating to key service delivery areas has put pressure on operating cash flows. However, as the operating position improves, net cash inflows will increasingly fund the capital program.

The metric is expected to reach 33 per cent by 2028–29 as revenue growth outpaces growth in expenses and the government's capital program moderates. The government will continue to target budget improvements to increase net operating cash flows, in addition to responsible management of the capital program.

Fiscal Principle 4 — Maintain competitive taxation by ensuring that, on a per capita basis, Queensland has lower taxation than the average of other states.

Queensland's taxation per capita is highly competitive compared to other jurisdictions. The government is committed to delivering stable and competitive tax settings in Queensland, noting early decisions of the government to reduce Queensland's tax burden by abolishing transfer duty for first home buyers on new builds and providing a full payroll tax exemption for general practitioners. It is estimated that Queenslanders will pay around $800 less tax per person than the average of other jurisdictions in 2025–26.

Fiscal Principle 5 — Target the full funding of long-term liabilities such as superannuation and workers' compensation in accordance with actuarial advice.

Full funding of superannuation and other long-term liabilities is a long-standing priority and a key element of financial management.

The 2024 triennial actuarial investigation of the defined benefit scheme determined an asset coverage of liabilities of approximately 143 per cent, or $10 billion in surplus as at 30 June 2024. The proposed transfer of $3 billion in surplus defined benefit investments to the Debt Retirement Fund to facilitate debt repayments over the next 4 years has been carefully designed to ensure the defined benefit scheme remains in a very strong surplus position. Chapter 5 provides further information on this transfer of financial assets.

As at 30 June 2024, WorkCover Queensland was fully funded.

Fiscal Principle 6 — Target productivity improvements across the private and public sectors to increase living standards for Queenslanders over the medium term.

Improvements in productivity ultimately benefit Queensland's economy and living standards. As such, this principle will be measured in terms of Queensland's real GSP per capita. The official data is released by the Australian Bureau of Statistics, as part of its *Australian National Accounts: State Accounts* publication on a financial year basis. Queensland Treasury estimates of real GSP per capita are presented in Table 2.4.

Table 2.4 Queensland real Gross State Product per capita estimates

	2024–25	2025–26	2026–27	2027–28	2028–29
Real GSP Per Capita (2022–23 $)	93,639	94,708	95,728	96,798	97,938
Real GSP Per Capita Growth Rate	½	1¼	1	1	1¼

Sources: Australian Bureau of Statistics Annual State Accounts, National, State and Territory Population and Queensland Treasury

2.2.3 Revenue

Queensland's revenue outlook across the forward estimates faces significant challenges from negative impacts of the Commonwealth Grants Commission's (CGC) 2025 GST Review, global economic uncertainty and the normalisation of commodity prices from record high levels.

Across the 4 years to 2027–28, total revenue is expected to improve by $9.1 billion, or around 2.5 per cent, compared to the 2024–25 MYFER.

However, the main drivers behind the change in outlook are uplifts in Australian Government specific purpose grants and other grants and contributions. These revenue improvements are largely offset by associated expenses.

Key revenues are expected to improve by $2.7 billion, attributable to upgraded royalties revenue and higher taxation revenue, partially offset by lower GST revenue.

The redistribution of GST revenue away from Queensland to other states because of the CGC's Review is estimated to result in a reduction of $2.292 billion in 2025–26 compared with 2024–25, the largest GST redistribution in history. Across the 3 years to 2027–28, the negative impact on Queensland of the CGC's Review is estimated to be over $5 billion.

The 2025–26 Budget also incorporates revenue measures to reduce Queenslanders' tax burden. Further details are discussed in Chapter 3.

2.2.4 Expenses

While a portion of the revenue uplift has been used to fund some legacy issues from the previous government, over the forward estimates the government's management of recurrent spending reflects a strategy to control expenses growth through:

- a thorough review of programs and services identified at the 2024–25 MYFER as being under-funded
- aligning spending across the forward estimates with core government objectives.

The government has an ongoing commitment to drive efficiency in service delivery from departments, reflecting the commitment to restore respect for Queenslanders' money.

A starting point is the capping of the number of non-frontline senior executives in the public service at current levels, and the establishment of Queensland Government Consulting Services to provide in-house advice to agencies. Further details are discussed in Chapter 4.

General Government expenses are expected to grow by an average of 2.2 per cent over the 4 years to 2028–29.

Across the 4 years to 2027–28, General Government expenses are expected to be $3.0 billion higher than 2024–25 MYFER forecasts, reflecting additional funding from the Australian Government including for disaster recovery, and a decision to not allocate savings measures included in the 2024–25 MYFER to agencies given the quantum of under-funded services.

2.2.5 Investment

The updated 4-year capital program has been closely scrutinised by government. In doing so, the government is setting realistic ambitions that support an improving budget position, critical investment priorities and on-time and on-budget delivery.

The capital program is forecast to total $116.8 billion over 4 years to 2028–29. The 2025–26 Budget 4-year capital program is underpinned by considered analysis of the government’s current and future infrastructure requirements to provide for a growing and productive economy. This analysis addresses cost overruns identified in the 2024–25 MYFER, incorporating more robust and reliable costings, and focusing on key priorities for Queensland.

Key areas of focus in the forward estimates period and over the medium term include:

- the Hospital Rescue Plan
- providing the transport infrastructure to keep the state moving and the economy growing
- delivering on our commitment to the Brisbane 2032 Olympic and Paralympic Games
- supporting sustainable delivery of Queensland's Housing Investment Pipeline.

The opportunity to review capital funding has further demonstrated the magnitude and pace of the former government’s Queensland Energy and Jobs Plan was unrealistic and not achievable.

As the capital program is the biggest driver of the Non-financial Public Sector debt, the government is focused on robust oversight and monitoring for a more affordable and sustainable capital program spend.

The pause to Best Practice Industry Conditions and the decision for the Queensland Productivity Commission to review the construction industry will have a renewed focus on productivity that will yield benefits for the state’s capital program in terms of efficiency and sustainability, in addition to benefits in the broader economy.

2.2.6 Borrowings

Non-financial Public Sector borrowings are estimated to be lower than at the 2024–25 MYFER. NFPS debt is forecast to be $147.8 billion as at 30 June 2026, $8.3 billion lower than forecast in the 2024–25 MYFER. By 2027–28 NFPS debt of $190.4 billion will be $27.5 billion lower.

NFPS debt to revenue is expected to be 144 per cent in 2025–26 (11 percentage points lower than 2024–25 MYFER) and 170 per cent in 2027–28 (28 percentage points lower than 2024–25 MYFER). Chart 2.2 shows trends in the NFPS borrowings to revenue ratio.

The NFPS interest to revenue ratio is expected to rise from 4.2 per cent in 2024–25 to 8.4 per cent in 2028–29. Although borrowings are lower than the 2024–25 MYFER, they are still rising over time and this is reflected in rising interest expenses.

Reduced borrowings arise from decisions the government has taken to improve the operating balance and rigorous assessment of the capital program, further supported by prudent utilisation of the investment asset mix.

The Debt Retirement Fund was established in 2020–21 to repay debt but has not been used for this purpose to date. Consolidation of investments into the Debt Retirement Fund will support debt reduction with repayments commencing in 2025–26. Consequently, borrowings by 30 June 2029 are estimated to be $4.8 billion lower.

This measure will restructure the government's investment assets in a methodical manner, to deliver on the stated purpose of the Debt Retirement Fund.

Compared to the 2024–25 MYFER, the outlook for NFPS debt has improved noticeably with the rate of increase to the debt to revenue ratio moderating significantly in 2027–28 and 2028–29.

Chart 2.3 demonstrates that Queensland's NFPS borrowings to revenue ratio although increasing over time, is now expected to remain significantly lower than New South Wales and Victoria.

Chart 2.2 Queensland NFPS debt to revenue ratio

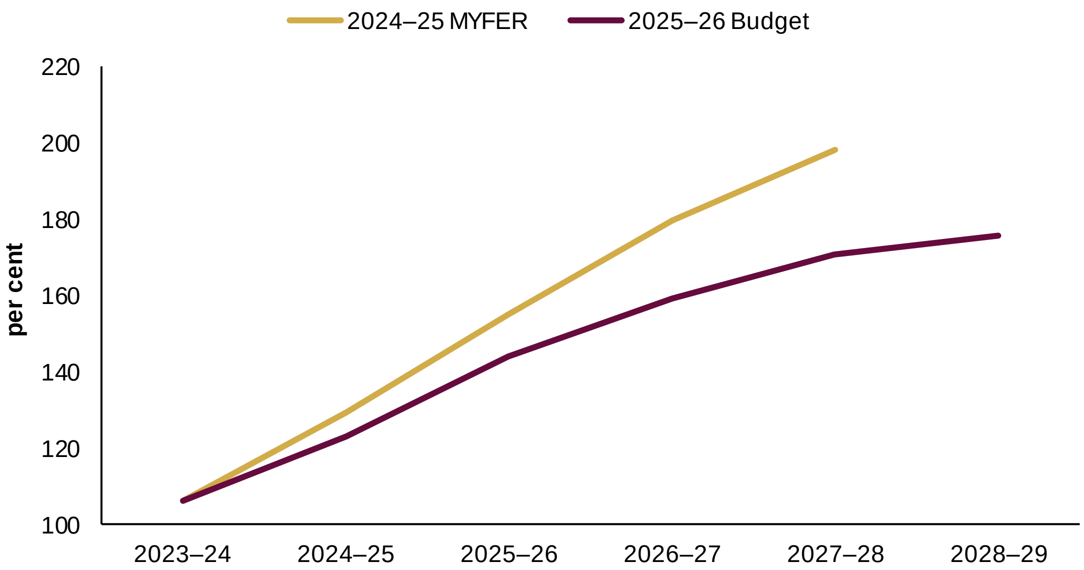
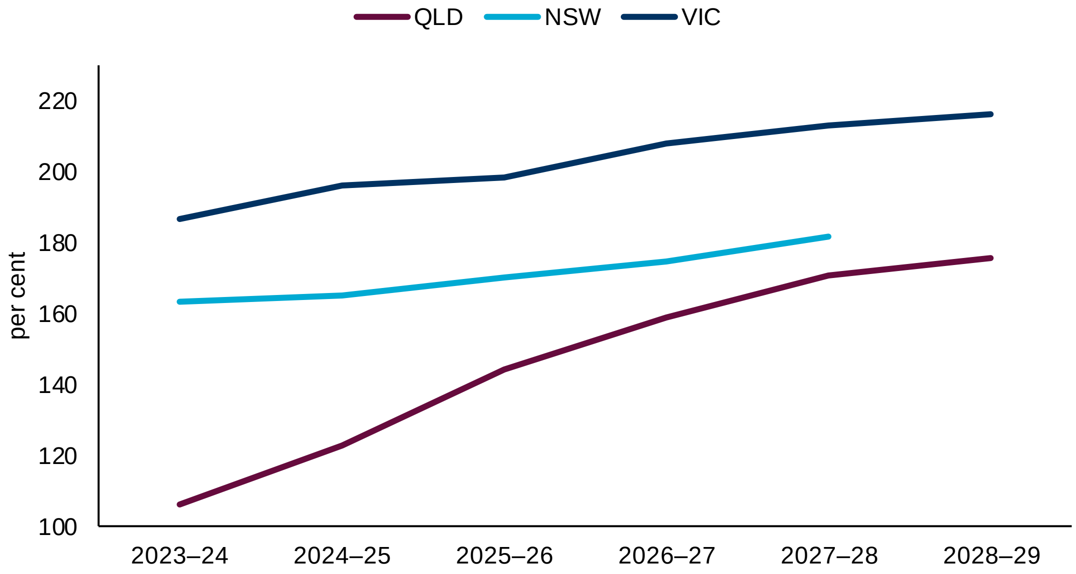


Chart 2.3 State comparison of NFPS debt to revenue ratio



Sources: 2025–26 Budgets for Queensland and Victoria, New South Wales 2024–25 Half-Yearly Review

The current credit ratings for Queensland are:

- Moody's Ratings: Aa1 (stable)
- S&P Global: AA+ (negative)
- Fitch Ratings: AA+ (stable).

Identified strengths that feature consistently across Queensland's credit ratings include a strong and diversified economic base, robust liquidity and effective and experienced financial management. Actions identified in the budget to consolidate investments into the Queensland Future Fund – Debt Retirement Fund demonstrates a commitment to active debt management and support Queensland's credit rating.

Queensland's AAA credit rating from S&P Global was downgraded to AA+ in 2009. Following the release of the 2024–25 MYFER, in which the true state of Queensland's finances under the policy settings of the previous government was presented, Queensland's credit rating outlook was downgraded from stable to negative by S&P Global. A rating downgrade would risk a further increase in the interest burden on the budget.

A long-term deterioration of Queensland's fiscal position has increased the likelihood of further heightened interest payments across the forseeable future. The outlook downgrade, that followed the release of the 2024–25 MYFER, shows ratings agencies have set a path toward higher interest payments.

2.2.7 Emerging fiscal pressures

Beyond general uncertainties related to parameter assumptions, emerging fiscal issues include:

- servicing the needs of a growing state, especially health and child safety services, and maintenance of state assets
- adverse weather events which may impact state infrastructure and services, noting disaster-related expenses are shared with the Australian Government under the Disaster Recovery Funding Arrangements
- uncertainty around Queensland's future GST entitlement, including potential impacts of the forthcoming Productivity Commission inquiry on horizontal fiscal equalisation, and the status of the GST no worse off guarantee beyond 2029–30.