



Victorian Budget  
**2026/27**

**26**  
**27**

# Easier. Safer. More Affordable.

**Strategy and Outlook**

**BUDGET PAPER NO. 2**

Presented by Jaclyn Symes MP  
Treasurer of the State of Victoria



# ACKNOWLEDGEMENT OF COUNTRY

The Victorian Department of Treasury and Finance acknowledges that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history. We proudly acknowledge Victoria's Aboriginal communities and recognise the value and ongoing contribution of Aboriginal people and communities to Victorian life. We pay our respect to Elders past and present and emerging.

As we work to ensure Victorian Aboriginal communities continue to thrive, the Government acknowledges the invaluable contributions of generations that have come before us, who have fought tirelessly for the rights of their people and communities towards self-determination. We reflect on the continuing impact of government policies and practices and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples towards improved cultural, social and economic outcomes.



*'lim-ba nindee thana warn-ga-ilee'*  
(Preserve our Dreaming Lore) – Gunnai Language  
Bitja (Dixon Patten Jnr) Yorta Yorta, Gunnai,  
Gunditjmara and Dhudhuroa of Bayila Creative

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Authorised by the Victorian Government  
1 Treasury Place, Melbourne, 3002

Printed by Valiant Doculink, Mulgrave

This publication makes reference to the 2026/27 Budget paper set which includes:  
Budget Paper No. 1 – Treasurer's Speech  
Budget Paper No. 2 – Strategy and Outlook  
Budget Paper No. 3 – Service Delivery  
Budget Paper No. 4 – State Capital Program  
Budget Paper No. 5 – Statement of Finances  
(incorporating Quarterly Financial Report No. 3)

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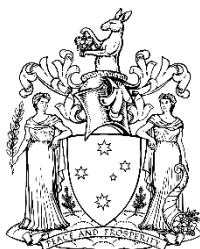
ISSN 2204-9185 (print)  
ISSN 2204-9177 (online)

Published May 2026

# Strategy and Outlook

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## 2026-27



Presented by

**Jaclyn Symes MP**

Treasurer of the State of Victoria

for the information of Honourable Members

**Budget Paper No. 2**



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# CHAPTER 1 – ECONOMIC AND FISCAL OVERVIEW

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## VICTORIA'S RESILIENT ECONOMY AND HEALTHY LABOUR MARKET

Current national and global challenges mean the economic outlook is subject to a high degree of uncertainty, but the economy enters this period on a firm footing. Victoria's economy continues to grow, and the labour market is healthy, with the state in a resilient position to withstand current global challenges. Economic activity picked up during 2025, and the economy has continued to generate new jobs. The share of Victorians in employment remains historically high and the unemployment rate, at 4.8 per cent, remains below its long-term pre-pandemic average.

In the short term, national and global economic headwinds are resulting in heightened cost-of-living pressures, especially for Victorians on lower incomes. Inflation increased strongly in the second half of 2025 and early 2026, nationally and in Victoria. In response to rising inflation, the Reserve Bank of Australia (RBA) increased the cash rate in both February and March 2026 and is expected to increase the cash rate further this year, placing added pressure on households.

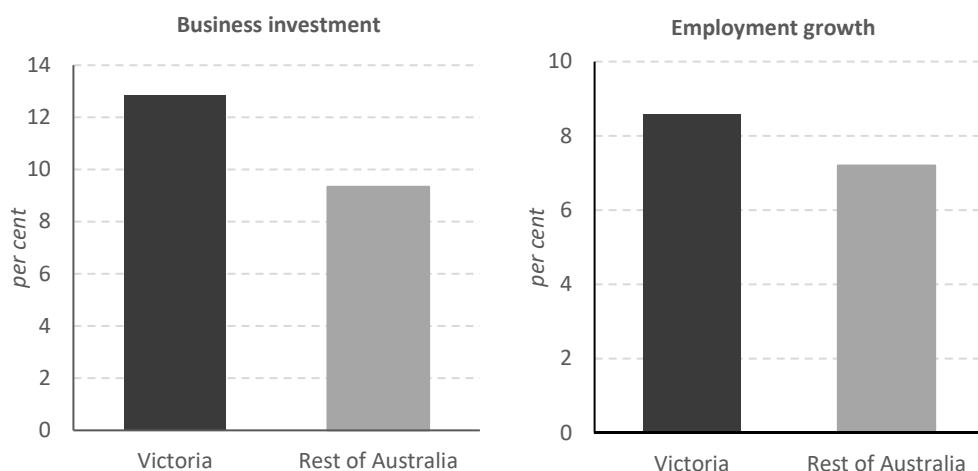
Since late February 2026, the Middle East conflict has also led to a surge in global oil prices, which is intensifying cost-of-living pressures on households. Victorian petrol prices reached an average of \$2.50 per litre in late March 2026, an increase of 85 cents per litre compared with mid-February 2026. Following the reduction in the fuel excise from 1 April, petrol averaged about \$2.25 per litre in the first half of April – though the cost of filling a 55-litre tank of petrol was still about \$35 higher compared with February prices. Petrol and diesel, along with agricultural fertilisers and various industrial chemicals that are also facing trade disruptions due to the Middle East conflict, are key contributors to the cost of production for the freight, agriculture, manufacturing and construction sectors. A spillover of higher energy costs into higher prices for goods and services – such as food and household utilities – is forecast to add further to cost-of-living pressures.

While these developments and risks are material, Victoria's economy has navigated challenging periods in recent years and enters this current period of uncertainty with the labour market healthy, and economic activity, business investment and employment all growing. Victoria's skilled workforce, elevated business investment, diverse industry mix and growing population also contribute to the economy being in a good position to navigate this uncertainty and continue growing in the years ahead.

In 2025-26, Victoria’s economy is expected to grow by 1.75 per cent in real terms. This is higher than the growth in the previous two years. This represents a continued recovery from the earlier period of high national inflation and elevated interest rates in 2023 and 2024. The recent pickup in economic activity has been driven by consumer spending and dwelling investment. In annual terms, the most recent data show that dwelling investment is at a six-year high. Business investment is also elevated and rose to a record level in the December quarter 2025. Real gross state product (GSP) is currently estimated to be almost 15 per cent higher than it was in 2018-19, before the onset of the COVID-19 pandemic. This underscores the state economy’s ability to recover from economic shocks.

Recent strength in business investment builds on momentum over recent years, during which time Victoria outpaced the nation on this measure. Victorian business investment has risen by 13 per cent over the three years to 2025, compared with 9 per cent in the rest of Australia (see Chart 1.1). Reflecting this strong growth, business investment per worker reached its highest share on record in 2023-24; it remained near that level in 2024-25 and is expected to continue to be elevated over coming years.

**Chart 1.1: Growth in business investment and employment over the three years to 2025, Victoria and the rest of Australia <sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Growth in business investment and employment are in year-average terms from 2022 to 2025 calendar years.

Victoria’s economic outlook remains positive, but growth will be tempered by the national and global economic challenges that have recently emerged. Elevated inflation and higher interest rates, along with cost pressures and uncertainty associated with the Middle East conflict, are forecast to put downward pressure on economic activity across key components of GSP. Moreover, risks to the Victorian economic outlook are elevated, as they are to all economies worldwide. The effects of the Middle East conflict, and the trajectory of inflationary pressures and interest rates, remain key sources of uncertainty.

Nonetheless, the fundamentals of Victoria's economy remain strong, and the Victorian economy is forecast to grow by 1.50 per cent in 2026-27. Growth is expected to be driven by household consumption, underpinned by further modest growth in real incomes and elevated household savings. Dwelling investment is expected to increase, supported by an elevated pipeline of construction work scheduled to be completed. Business investment is expected to grow strongly, notably in data centres and the renewable energy transition, consistent with investment intentions reported by surveyed firms.

The economy has generated strong employment growth in recent years (see Chart 1.1). Nearly 3.8 million Victorians are currently employed and the proportion of Victorians in work is historically high. The workforce participation rate is also elevated, including female participation which reached a record high in 2025. Meanwhile, the youth unemployment rate remains below pre-pandemic levels. This labour market strength has been felt across regional cities and communities, with Victoria's regional unemployment rate remaining low in 2025, averaging 3.5 per cent – the lowest regional rate of the states.

The labour market outlook remains positive. Employment is forecast to increase by 1.50 per cent in 2025-26 and grow by a further 1.25 per cent in 2026-27, extending the solid gains recorded in recent years. The unemployment rate is expected to average 4.75 per cent in 2026-27, unchanged from the estimated 2025-26 outcome. This remains below the state's 20-year pre-pandemic average of 5.5 per cent.

Inflation increased in the second half of 2025, nationally and in Victoria. Year-ended Victorian inflation increased to 4.6 per cent in March 2026, up from a low of 1.7 per cent in June 2025, in line with the national average. Although inflation remains well below the post-pandemic peak of 7.9 per cent in December 2022, the recent increase is adding to cost-of-living pressures for Victorian households. The conflict in the Middle East and accompanying surge in global oil prices since the end of February is intensifying these pressures. In year-average terms, inflation is forecast to be 3.50 per cent in 2025-26 and 2026-27, before returning to the RBA's target band by 2027-28, averaging 2.75 per cent.

Wages have grown solidly in recent years, alongside the strong labour market, and this is expected to continue. Victorian wages are forecast to increase by 3.25 per cent in both 2025-26 and 2026-27. This will mitigate some of the impact of re-emerging cost-of-living pressures. Wages growth is forecast to exceed inflation from 2027-28 onwards.

## RESPONSIBLE FINANCIAL MANAGEMENT

In response to the COVID-19 pandemic, the Government developed a comprehensive fiscal strategy in the *2020-21 Budget* to protect Victorian households and businesses and provide a strong foundation for recovery. This initially involved a four-step plan to support Victorians, grow the economy and return to surpluses over the medium term.

The Government has consistently reported on its progress over the last five years and updated the plan in the *2024-25 Budget* to introduce a fifth step. This plan provides a clear framework:

- **Step 1:** creating jobs, reducing unemployment and restoring economic growth
- **Step 2:** returning to an operating cash surplus
- **Step 3:** returning to operating surpluses
- **Step 4:** stabilising net debt levels as a proportion of GSP
- **Step 5:** reducing net debt as a proportion of GSP.

### Progress towards achieving the Government's fiscal strategy

The first step – creating jobs, reducing unemployment and restoring economic growth in the aftermath of the pandemic – has been achieved, with Victoria's economy continuing to grow and unemployment having declined to below pre-pandemic levels.

The second step in the Government's fiscal strategy – returning to an operating cash surplus – means the State is generating sufficient cash inflows to exceed its cash outflows on operating activities, a key pillar of fiscal sustainability. The Government has delivered an operating cash surplus for the past three years, including a \$3.2 billion surplus in 2024-25. The Government continues to forecast an operating cash surplus of \$6.9 billion in 2025-26, with average surpluses of \$6.4 billion forecast across the budget and forward estimates.

The third step – returning to an operating surplus – means the Government generates sufficient revenues to cover its cash expenditure and support the ongoing replacement of existing assets. The Government remains on track to deliver an operating surplus of \$0.7 billion in 2025-26, the first surplus since the COVID-19 pandemic began. The operating surplus is then estimated to be \$1.0 billion in 2026-27 and then improve to an average surplus of \$1.9 billion across the three years of the forward estimates 2027-28 to 2029-30.

The fourth and fifth steps – stabilising and then reducing net debt as a percentage of GSP – involves progressively improving operating cash surpluses while growing the economy. These surpluses help fund capital expenditure, reducing the reliance on borrowings. The *2026-27 Budget* continues to forecast the achievement of these steps, with net debt as a proportion of GSP projected to reach 24.9 per cent at June 2027 before declining to 24.8 per cent by June 2028, 24.6 per cent by June 2029 and then further declining to 24.4 per cent by June 2030.

## Financial position

The net result from transactions for the general government sector is forecast to be in surplus by \$0.7 billion in 2025-26 and \$1.0 billion in 2026-27 (see Table 1.1). The operating surplus is then forecast to improve to an average surplus of \$1.9 billion across the three years of the forward estimates 2027-28 to 2029-30.

The Government continues to forecast an operating cash surplus of \$6.9 billion in 2025-26, with average operating cash surpluses of \$6.4 billion forecast across the budget and forward estimates.

**Table 1.1: General government fiscal aggregates**

	<i>Unit of measure</i>	<i>2024-25 actual</i>	<i>2025-26 revised</i>	<i>2026-27 budget</i>	<i>2027-28 estimate</i>	<i>2028-29 estimate</i>	<i>2029-30 estimate</i>
Net result from transactions	\$ billion	(2.6)	0.7	1.0	1.9	1.9	2.0
Net cash flows from operating activities	\$ billion	3.2	6.9	6.5	6.3	6.5	6.5
Government infrastructure investment <sup>(a)(b)</sup>	\$ billion	23.5	21.4	19.4	15.9	15.5	15.3
Net debt	\$ billion	150.9	165.3	175.6	183.2	191.1	199.3
Net debt to GSP <sup>(c)</sup>	per cent	23.7	24.7	24.9	24.8	24.6	24.4

*Notes:*

(a) Includes general government net infrastructure investment and the estimated cash flows for public private partnership projects.

(b) Includes the estimated private sector construction-related expenditure associated with the North East Link held in the public non-financial corporations (PNFC) sector.

(c) The ratios to GSP may vary between publications due to revisions by the Australian Bureau of Statistics to GSP data.

Total revenue for the general government sector is expected to be \$115.6 billion in 2026-27. Revenue growth is then expected to average 2.7 per cent a year over the forward estimates, reaching \$125.4 billion in 2029-30.

Total general government sector expenditure is expected to be \$114.5 billion in 2026-27 and grow by an average of 2.5 per cent a year over the forward estimates, reaching \$123.4 billion in 2029-30.

Government infrastructure investment (GII) peaked at \$24.2 billion in 2023-24. GII is projected to be \$21.4 billion for 2025-26 and moderate to \$15.3 billion by 2029-30. GII averages \$16.5 billion a year over the budget and forward estimates, which is around the 2015-16 to 2029-30 average of \$16.1 billion. The Government is committed to a sustainable infrastructure program and returning infrastructure investment to pre-COVID levels.

A sustainable pipeline of infrastructure projects will continue to provide certainty to the construction industry and maintain a steady flow of investment in social and economic infrastructure for all Victorians.

Net debt is expected to be \$175.6 billion at June 2027 and increase to \$191.1 billion by June 2029. Compared with the *2025-26 Budget Update*, this is an improvement in all years across the budget and forward estimates, including an improvement of \$1.5 billion by June 2029. Net debt is then forecast to increase to \$199.3 billion by June 2030.

As a proportion of GSP, net debt is projected to reach 24.9 per cent at June 2027 before declining each year across the forward estimates to 24.4 per cent by June 2030. Compared with the *2025-26 Budget Update*, net debt to GSP is lower across all published years.

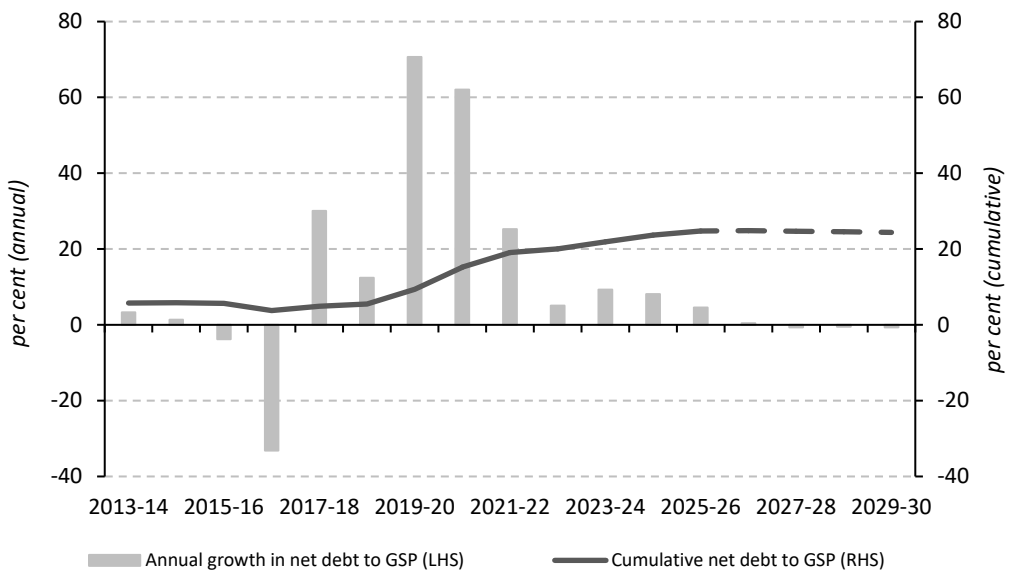
## Debt reduction

Steps 4 and 5 of the fiscal strategy are to stabilise and then reduce net debt as a percentage of GSP by the end of the forward estimates. These steps involve progressively improving the operating cash surpluses while growing the economy. These surpluses will fund a higher proportion of capital expenditure, reducing the use of borrowings to fund the State’s capital program.

Nominal net debt is lower in each year across the budget and forward estimates compared with the *2025-26 Budget Update*.

The net debt to GSP ratio is a measure of the size of the State’s debt compared with the size of the economy. Chart 1.2 shows that the annual growth rate of net debt to GSP increased during the three years from 2019-20 due to the impact of the pandemic, and that the Government’s fiscal strategy is working to stabilise then reduce net debt to GSP across the budget and forward estimates.

**Chart 1.2: Annual net debt to GSP growth (a)(b)**



**Notes:**

- (a) The decrease in 2016-17 largely reflects the receipt of proceeds from entering into a medium-term lease over the operations of the Port of Melbourne.
- (b) The increase in 2019-20 reflects the impact of changes to accounting standards. The step-change increase in net debt includes the requirement to classify operating leases as debt and the treatment for service concession arrangements, including certain public private partnerships.

## Longer-term objectives and targets

The *2026-27 Budget* reflects the Government's long-term financial management objectives – as set out in Table 1.2, and these remain unchanged from the *2025-26 Budget Update*.

**Table 1.2: Long-term financial management objectives**

<b>Priority</b>	<b>Objective</b>
<b>Sound financial management</b>	Victoria's finances will be managed in a responsible manner to provide capacity to fund services and infrastructure and support households and businesses at levels consistent with sound financial management.
<b>Improved services</b>	Public services will improve over time.
<b>Building infrastructure</b>	Public infrastructure will grow steadily over time to meet the needs of a growing population.
<b>Efficient use of public resources</b>	Public sector resources will be invested in services and infrastructure to maximise the economic, social and environmental benefits.
<b>A resilient economy</b>	Increase economic resilience by supporting an innovative and diversified economy that will unlock employment growth, long-term economic growth and productivity in Victoria.

Progress towards these long-term financial management objectives is supported by the measures and targets in Table 1.3. These measures and targets are also unchanged from the *2025-26 Budget Update*.

**Table 1.3: Financial measures and targets**

<b>Financial measures</b>	<b>Target</b>
<b>Net debt to GSP</b>	General government net debt as a percentage of GSP to stabilise and reduce in the medium term.
<b>Interest expense to revenue</b>	General government interest expense as a percentage of revenue to stabilise in the medium term.
<b>Superannuation liabilities</b>	Fully fund the unfunded superannuation liability by 2035.
<b>Operating cash surplus</b>	A net operating cash surplus consistent with maintaining general government net debt at a sustainable level.

## SUMMARY OF INITIATIVES

The *2026-27 Budget* responsibly invests in frontline services; in providing time-limited cost-of-living relief; and in making medium- to long-term investments in housing, energy and transport upgrades to make life easier for Victorians. This budget also continues to implement measures aligned with the Independent Review of the Victorian Public Service, refocusing investment to support the State's fiscal strategy without compromising service delivery.

### **Box 1.1: Immediate cost-of-living relief and initiatives to make life more affordable**

The conflict in the Middle East is driving up fuel prices and putting more pressure on household budgets, which follows two interest rate rises in early 2026 and rising inflation across the nation. The *2026-27 Budget* provides \$2.5 billion in cost-of-living supports, and housing and energy initiatives to make life more affordable. This includes:

#### **Reducing costs for families with children**

\$120 million in cost-of-living supports to help families with kids at kinder and school. Key initiatives include:

- \$28 million for the Affordable School Uniforms Program
- \$24 million for outside-of-school-hours care for young Victorians with disability
- \$16 million to continue and expand the Glasses for Kids Program
- \$15 million for free admission for under 16s to Melbourne Zoo, Healesville Sanctuary, Kyabram Fauna Park and Werribee Open Range Zoo on weekends, public holidays and during school holidays
- \$14 million for the School Breakfast Clubs Program
- \$11 million for 55 000 more Get Active Kids Vouchers to help cover the cost of sports enrolment and equipment.

#### **Reducing the cost of transport**

In response to rising fuel prices caused by the conflict in the Middle East, this budget provides \$1.2 billion in initiatives to ease transport-related costs for Victorians, including:

- \$759 million to provide 20 per cent rebates for the cost of up to two light vehicle registrations per person in the 2025-26 financial year
- \$433 million to provide free public transport in April and May, then half-price fares on trams, trains and buses across Victoria until 1 January 2027
- \$5 million for the Fair Fuel Plan, increasing monitoring of fuel retailers and allowing consumers to compare fuel prices from more than 1 500 registered fuel retailers.

#### **Support for those most vulnerable**

- \$26 million for additional emergency accommodation and nine new outreach teams to expand support for rough sleepers and help connect them to the help they need
- \$15 million to boost allowances for kinship, foster and permanent carers to keep pace with the cost of living
- \$15 million to provide stable housing and wraparound support to people experiencing homelessness

- \$11 million for community organisations to deliver food relief
- \$6.3 million to continue the VET transport fund, helping rural and regional students get to VET classes during school
- \$6.1 million for support for vulnerable renters to maintain tenancies.

### **More affordable housing**

This budget invests over \$1 billion for housing support across Victoria. Key investments include:

- \$860 million estimated investment into the Social Housing Growth Fund over the next five years, to support delivery of 7 000 new social housing homes over the next decade
- \$97 million to continue delivering housing reforms, as well as \$37 million to unlock better uses of Victorian land.

### **More affordable energy**

- \$28 million to extend the Solar Victoria hot water rebate program
- \$10 million to support action on energy efficiency by the community housing sector, and \$0.9 million to support reforms to the Victorian Energy Upgrades program
- \$1.1 million to extend the Energy Assistance Program, to support vulnerable customers to maximise their energy bill savings.

## **Transport**

The *2026-27 Budget* invests \$2.2 billion into upgrading Victoria's public transport network and roads.

This includes \$1.6 billion invested into public transport to deliver a safer, more reliable network of trains, trams, buses and ferry services for Victorians.

Building on the opening of the Metro Tunnel in 2025, this budget is headlined by \$674 million for 25 additional six-car X'Trapolis 2.0 trains on the metropolitan train network. The budget also provides \$92 million to maintain and uplift capacity on the Shepparton and Wyndham Vale Lines, continue additional Seymour peak timetable services and uplift for Clifton Hill and Burnley group services.

The budget also invests \$105 million to deliver new and improved bus services across Victoria and to maintain ferry services. A further investment of \$76 million is provided for infrastructure works to improve tram network performance across Melbourne.

The *2026-27 Budget* includes \$560 million in new funding for road maintenance to fix potholes and resurface roads. The budget also provides \$29 million for planning and delivery of new and upgraded roads in metropolitan Melbourne and \$73 million for planning and delivery of regional road upgrades across Victoria.

## Health

The *2026-27 Budget* invests a further \$3.9 billion to meet Victoria's healthcare needs and make it easier for Victorians to access high-quality health care

This budget provides \$1.6 billion for hospital staffing, medicines and resources to allow Victoria's health services to continue delivering current services and meet increasing demand, as well as \$76 million to strengthen Victoria's health workforce.

An investment of \$284 million is provided to open and operate hospitals and wards, including one new community hospital and planning for future service delivery. The budget also invests \$145 million in hospital infrastructure and equipment upgrades, including \$75 million for the Regional Health Infrastructure Fund and \$15 million for the Metropolitan Health Infrastructure Fund.

The Budget also includes \$133 million to deliver hospital-level care in patients' homes through home visits and virtual care.

A further \$10 million is provided to maintain nine state-run Urgent Care Clinics to treat patients who require urgent, non-emergency care.

The budget commits \$299 million to support new families, including \$249 million for maternity services in Melbourne's western suburbs and \$43 million in IVF support. An additional \$109 million is provided to improve paediatric planned surgery and paediatric specialist appointment access.

This budget commits an additional \$80 million to continue support for residential aged care facilities and services and \$30 million to strengthen palliative care. It also invests \$133 million to deliver hospital-level care in patients' homes through home visits and virtual care.

This budget includes a range of initiatives that improve mental health services and facilities, provide culturally safe support for First Peoples and strengthen suicide prevention. This includes \$30 million for new and existing mental health Hospital in the Home beds to enable more people to access home-based acute inpatient mental health care.

This budget also provides \$104 million to reduce alcohol and drug harm.

### **Box 1.2: Disability services**

An investment of \$2.5 billion is provided for disability supports. This includes \$2.4 billion over five years, with the Commonwealth, to fund Victoria's commitments under the National Agreement on Foundational Supports. It also includes \$42 million for advocacy, support and liaison services for Victorians with disability, as well as \$20 million to support people in home and aged care outside of the NDIS and \$17 million to make sure wheelchair users can get a taxi when they need one.

This, along with disability supports investments in the schools sector, brings this budget's total investment to \$4.7 billion for people with disability.

## Education

The *2026-27 Budget* invests \$5.5 billion in schools and early childhood education to ensure all Victorian children can access high-quality learning opportunities.

This budget provides \$1.6 billion for new schools, school upgrades and maintenance to support our growing communities across the state, with \$420 million provided to build four new schools and campuses, additional stages at three recently opened schools and planning and early works for an additional three new schools and campuses.

The budget invests \$158 million in quality teaching and learning to boost educational outcomes, including \$49 million to boost leadership skills through the Victorian Academy of Teaching and Leadership, \$21 million to deliver critical school workforce reforms, \$24 million to support best practice teaching and learning, and \$62 million to provide interpreting and translating services through the English as an Additional Language program.

The *2026-27 Budget* invests \$222 million to implement reforms to the Victorian Curriculum and Assessment Authority as recommended in the Blacher Review.

An investment of \$137 million is provided to enhance vocational learning, including \$69 million for vocational education and training (VET), vocational and applied learning in secondary schools and \$46 million to continue the Head Start program.

This budget provides a further \$541 million to boost early childhood education programs, build and expand kindergartens and deliver state-run Early Learning Victoria centres.

An investment of \$2.2 billion is provided to support children with disabilities in schools. This includes \$2.1 billion to ensure disability inclusion in schools for students with complex needs, \$39 million for students with disabilities transport program, \$29 million for accessible school buildings and \$24 million for High Intensity Outside School Hours Care at specialist schools. This, along with other disability supports, brings this budget's total investment to \$4.7 billion for people with disability.

## Justice and community safety

The *2026-27 Budget* invests \$1.7 billion to strengthen the justice and community safety system, protect children and families, respond to family violence, address youth crime and target repeat offending.

The budget invests \$512 million for community safety measures to support the reformed justice system and to address youth crime. This includes:

- \$397 million to continue implementing Victoria's bail laws and keeping Victorians safe. This includes increasing custodial capacity in youth justice and adult corrections systems and delivering programs to reduce reoffending
- \$81 million will respond to and prevent youth crime, providing support to at-risk young people and students and reducing their contact with the justice system
- \$33 million to support the Violence Reduction Unit, delivering initiatives for gang violence intervention and connecting Victoria Police with communities.

The budget also delivers \$222 million in policing and community safety, including recruiting up to 200 police reservists, delivering 50 new protective services officers, and upgrading critical technology infrastructure and information systems. A further \$155 million is invested to improve efficiency in the court system so that cases can be dealt with more quickly.

This budget invests \$392 million for services and interventions to protect children from harm. This includes \$165 million for family support services to support children who are at risk of abuse or neglect. It also includes \$126 million to modernise digital systems that support services for at-risk children, young people and families.

A further \$100 million is invested to prevent and respond to family and sexual violence. This includes \$74 million for family violence refuges, crisis accommodation, support packages and trauma-informed counselling recovery programs for children and young people. It also includes \$23 million to continue the Central Information Point which provides information about perpetrators to family violence practitioners so they can keep women and children safe.

The budget also invests \$154 million to strengthen cyber security and data protection, helping keep sensitive information secure and helping government run more efficiently. This includes \$41 million to refresh Victoria Police's information technology infrastructure and cyber security, and \$37 million to maintain cybersecurity measures for Victorian public health services and Ambulance Victoria.

## **Business and workers**

The budget includes \$459 million to help Victorians train for in-demand skills. This includes \$244 million to deliver government-subsidised training, and Free TAFE in up to 80 priority courses, supporting around 59 000 additional places of which around 15 000 are Free TAFE places. This also includes \$87 million for the TAFE Services Fund to improve student wellbeing and completion, provide training delivery in thin markets and support upgrades to TAFE facilities, equipment and shared ICT platforms and services.

In partnership with the Commonwealth, the budget invests \$101 million to build a skilled Victorian workforce through the establishment of three new national TAFE centres of excellence, including:

- \$50 million for a Victorian Renewable Energy TAFE Centre of Excellence at Gippsland TAFE
- \$30 million for a Digital, AI and Technology TAFE Centre of Excellence
- \$21 million for a Home and Community Care TAFE Centre of Excellence.

An additional \$10 million is provided for Victoria's contribution to the Commonwealth co-funded National Training Centre in New Energy Skills to reskill plumbers and gas fitters for the changing energy system.

The budget also invests \$14 million into Victoria's AI Investment Package, including \$8.2 million to fund the Digital Jobs – AI Career Conversion Support program.

The Government is investing \$217 million to strengthen Victoria's position as a sporting and culture capital. Investments in Victoria's sporting facilities and community sport programs include:

- \$92 million to operate and maintain the State Sport Centres Trust and Kardinia Park Stadium Trust
- \$25 million for community sport infrastructure and participation.

A further \$48 million will support businesses, create jobs and invest in emerging industries, including \$19 million to deliver new initiatives supporting business capability and transition and providing equal opportunity, including for small businesses.

## Regional investment

The *2026-27 Budget* builds on continued investment in our regions with more than \$2.7 billion provided for regional Victoria.

The budget includes investment of \$481 million in regional transport networks, including \$318 million for upgrades that will reduce delays and improve reliability on the regional passenger rail network, \$127 million to improve freight rail infrastructure, \$30 million for additional train services on the Shepparton Line, \$3.9 million for continued regional ferry services, and \$2 million for safety improvements at regional stations.

This budget provides a further \$277 million in regional education and healthcare. This includes \$95 million for upgrades to nine schools across regional Victoria. Funding is also provided for the Education Benalla program, led by the Tomorrow Today foundation, to engage and support children and families on their education journey.

An investment of \$75 million in the Regional Health Infrastructure Fund is provided to renew and upgrade infrastructure at rural and regional hospitals and health services. Additional funding for regional healthcare includes \$10 million to continue Hospital in the Home beds operated by Barwon Health, and \$4.2 million to continue supports for parents with children being treated for mental illness. Funding is also provided for investments in mental health, aged care and chronic disease prevention programs.

The budget commits a further \$95 million to support strong and thriving regional economies, by investing in community, culture and outdoors. This includes \$13 million to operationalise and attract events and conferences to the Nyaal Banyul Geelong Convention and Event Centre, \$10 million to continue the Future Forests program to assist in the management of over 1.8 million hectares of state forest, and \$7.9 million for restorations and upgrades within the Great Ocean Road coast and parks.

An investment of \$84 million is also provided to help Victoria's farmers and agricultural industries, including \$62 million for support in response to the January 2026 bushfires, including through primary producer grants, concessional loans and emergency fodder support. \$5.9 million is provided for health and wellbeing initiatives including the National Centre for Farmer Health and Rural Financial Counselling Service, \$5 million to improve on-farm energy efficiency and \$2.2 million to extend the Fox Bounty program. \$7.6 million is also provided to continue protecting Victoria's agriculture sector from biosecurity threats.



## CHAPTER 2 – ECONOMIC CONTEXT

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- Victoria’s economy has continued to grow, supporting jobs growth and placing Victoria in a resilient position to weather current global economic headwinds.
- Economic activity picked up during 2025 alongside strong growth in real household income and declining interest rates. Private sector demand, particularly consumer spending and dwelling investment, drove the increase. Business investment also grew strongly from mid-2025.
- However, national cost-of-living pressures are persisting as inflation picked up in the second half of 2025. In response, the Reserve Bank of Australia (RBA) lifted interest rates twice in early 2026 and is widely expected to raise rates further in calendar 2026. In addition, the Middle East conflict has triggered a sharp increase in global energy prices since end-February, posing significant challenges and risks for the global, Australian and Victorian economies.
- Victoria’s economic outlook nonetheless remains positive, although growth over the coming year will be tempered by higher inflation, rising interest rates and the effects of the Middle East conflict. Real economic growth is forecast to be 1.50 per cent in 2026-27, supported by household consumption and private investment.
- Employment has risen significantly over the past few years, with the share of Victorians in a job at historically high levels. Employment is expected to grow by a further 1.25 per cent in 2026-27 and unemployment is forecast to average 4.75 per cent, remaining below its long-term pre-pandemic average.
- Inflation is forecast to peak in the June quarter at around 4.5 per cent due to rising global energy prices, coupled with rising domestic price pressures, and average 3.50 per cent in 2025-26 and 2026-27. Global energy prices are assumed to return to near pre-conflict levels by the end of 2026, with inflation returning to within the RBA’s 2 to 3 per cent target in 2027-28.
- Risks to all economies worldwide have increased and are rapidly evolving. A prolonged or escalating Middle East conflict could weigh significantly further on economic growth. The trajectory of domestic inflationary pressures and interest rates also remain a key source of uncertainty to the outlook.

## VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

Victoria's economy continues to grow and the labour market is resilient. Economic activity picked up during 2025, with growth in real household income and declining interest rates supporting an increase in private sector demand. Employment has continued to grow and the unemployment rate remains historically low. Growth in real gross state product (GSP) in 2025-26 is expected to be higher than in the previous two years, rising to 1.75 per cent, and the economy is estimated to be almost 15 per cent larger in 2025-26 than it was in 2018-19, before the COVID-19 pandemic.

However, new economic challenges have emerged in recent months. Domestically, national consumer price pressures re-emerged since mid-2025, which has resulted in the RBA raising interest rates. In addition, the conflict in the Middle East, which began with the US–Israeli strikes on Iran on 28 February, has led to a surge in global oil and gas prices and energy supply disruptions for some countries, particularly in Asia. The duration of the conflict, and its longer-term impacts on oil and gas infrastructure in this key energy-producing region, are highly uncertain (see Box 2.1). Nonetheless, Victoria enters this current period of uncertainty on a solid footing, with a growing economy supported by private sector demand and a healthy labour market.

Overall, Victoria's economy, as measured by real GSP, is forecast to grow by 1.50 per cent in 2026-27, following the estimated growth of 1.75 per cent in 2025-26. The main driver of GSP growth in 2026-27 is expected to be household consumption, supported by further modest growth in real household income and elevated household savings. Growth in business investment is forecast to remain strong, underpinned by higher investment intentions reported by surveyed firms, and investment in data centres and the renewable energy transition. Public demand and dwelling investment are both expected to grow, while net international trade is forecast to weigh on GSP growth, alongside the economic impact of drought and the early 2026 bushfires.

Employment is forecast to increase by 1.25 per cent in 2026-27, following a period of very strong employment growth over the past few years. The unemployment rate is forecast to average 4.75 per cent from 2025-26 onwards, which remains lower than the 20-year average prior to the COVID-19 pandemic of 5.5 per cent.

Inflation has picked up again, nationally and in Victoria, adding to cost-of-living pressures for Victorian households. Annual Victorian inflation increased to 4.6 per cent in March 2026, after previously falling in June 2025 to a low of 1.7 per cent, and is in line with national inflation. Recent price growth has been largely driven by rising goods prices, including increased housing and utilities costs. More recently, the conflict in the Middle East has resulted in a sharp increase in global energy prices and is adding further to cost-of-living pressures. Given uncertainty about the extent and length of the conflict, the economic impacts remain highly uncertain.

The current global environment means the outlook for the Victorian and Australian economies is subject to heightened risks and uncertainty. Nevertheless, Victoria’s economy is resilient and has demonstrated its ability to navigate challenging periods in recent years. This includes the recent period of high national inflation in 2022 and 2023 and the resulting sharp increase in interest rates. During this period, Victoria’s labour market proved resilient, with job creation remaining strong and the unemployment rate low.

Table 2.1 sets out the economic forecasts for the *2026-27 Budget*. Risks to the outlook are discussed later in this chapter.

**Table 2.1: Victorian economic forecasts** <sup>(a)</sup>

	2024-25 <i>actual</i>	2025-26 <i>forecast</i>	2026-27 <i>forecast</i>	2027-28 <i>forecast</i>	2028-29 <i>projection</i>	2029-30 <i>projection</i>
Real gross state product	1.1	1.75	1.50	2.00	2.50	2.50
Employment	2.5	1.50	1.25	1.50	1.75	1.75
Unemployment rate <sup>(b)</sup>	4.4	4.75	4.75	4.75	4.75	4.75
Consumer price index <sup>(c)</sup>	2.4	3.50	3.50	2.75	2.50	2.50
Wage price index <sup>(d)</sup>	3.3	3.25	3.25	3.25	3.00	3.00
Population <sup>(e)</sup>	1.8	1.70	1.70	1.70	1.70	1.70

Sources: Australian Bureau of Statistics; Department of Treasury and Finance

Notes:

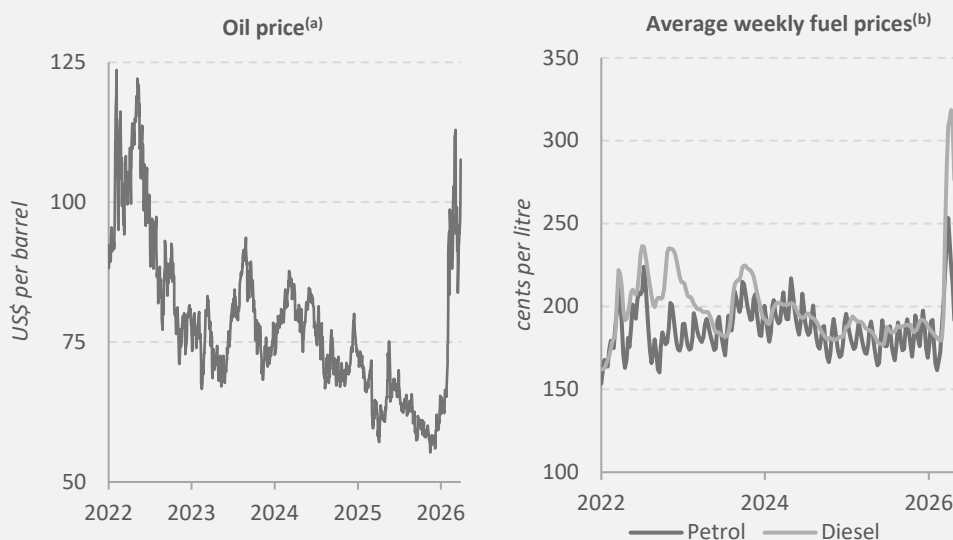
- (a) Percentage change in year-average terms compared with the previous year, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)). The key assumptions underlying the economic forecasts include interest rates that broadly follow market economists’ expectations (see Chart 2.3) and an Australian dollar trade-weighted index of 64.8. Oil prices (West Texas Intermediate) are assumed to average US\$100/barrel in the June quarter 2026. Prices then gradually decline to around US\$70/barrel by December 2026 and to around US\$65/barrel by June 2027, broadly in line with the path suggested by oil futures.
- (b) Year average.
- (c) Melbourne consumer price index.
- (d) Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).
- (e) Percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.

### Box 2.1: The economic impacts of the Middle East conflict

The current Middle East conflict began on 28 February 2026 when the US and Israel commenced air strikes on Iran. The conflict has extended across the broader region, and energy facilities have been damaged, air traffic disrupted, and the Strait of Hormuz – a pivotal global shipping route for liquid fuels – effectively closed to commercial traffic for most of this period.

The immediate impact on the global and Australian economies has been from large increases in global energy prices due to the closure of the Strait of Hormuz, coupled with damage to some regional energy facilities. The price of West Texas Intermediate crude oil, for example, rose to a peak of over US\$110 per barrel, up from US\$66 in mid-February (see Chart 2.1). This has flowed through to higher prices in Australia for refined petroleum products, including petrol, diesel and jet fuel. Beyond the disruption to energy supplies, the Strait of Hormuz also carries other key inputs of production that derive from fossil fuels, including agricultural fertilisers and various industrial chemicals.

**Chart 2.1 Crude oil price and Victorian petrol and diesel prices**



Sources: Haver Analytics; Australian Institute of Petroleum

**Notes:**

(a) West Texas Intermediate (WTI) oil prices. Last observation as of 29 April 2026.

(b) Last observation as of 26 April 2026.

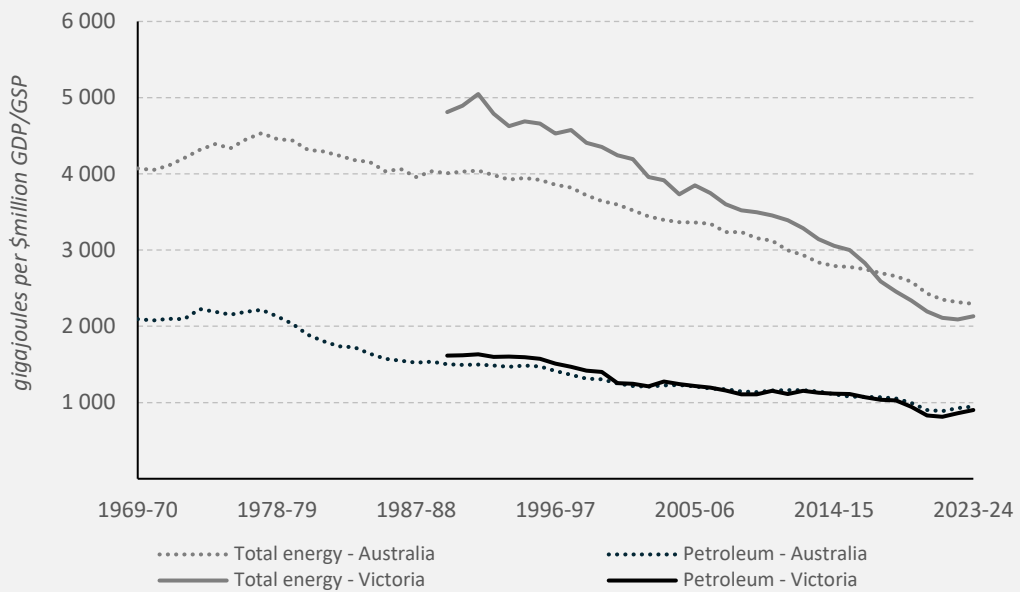
In the near term, the main direct impact on Victoria's economy is higher fuel prices. Victorian petrol prices reached \$2.50 per litre in late March, an increase of 85 cents per litre, or around 50 per cent, compared with prices in mid-February. Diesel prices have risen even further. Petrol and diesel, along with agricultural fertilisers and various industrial chemicals that are also facing trade disruptions due to the Middle East conflict, are key contributors to the cost of production for the freight, agriculture, manufacturing and construction sectors.

This is directly adding to the cost of doing business and the cost of living, which will likely weigh on consumer spending on other goods and services. Price pressures are being partially alleviated by a reduction in fuel excise agreed by the Victorian, Commonwealth and other state and territory governments. Between April and June, fuel excise will be 32 cents per litre lower. Heavy vehicle charges have also been reduced to zero over this period. The Government is also helping to reduce demand for fuel by providing additional cost-of-living relief through free public transport from 31 March 2026 to 31 May 2026, and half-price public transport from 1 June 2026 until 1 January 2027, to encourage switching from use of cars to public transport.

Higher fuel prices are also adding to businesses' costs, which are likely to be increasingly passed through to price rises for other goods and services. For instance, higher transport or manufacturing costs may be passed on as increased prices for food and other goods.

The broader impacts on the global, Australian and Victorian economies will ultimately depend on the duration and extent of the conflict, and any ongoing effects from damaged infrastructure. A temporary cease-fire was agreed in early April, which was later extended, but at the time of publication a longer-term resolution remains far from assured. An extended or more expansive conflict could result in persistent fuel supply disruptions, a further rise in fuel prices and inflation, and renewed falls in equity markets. This 'prolonged conflict' scenario could weigh heavily on national and global economic activity. However, the Victorian and Australian economies are now much less exposed to the price of oil than they were during the global oil shocks of the 1970s (see Chart 2.2). This should help contain any pass-through of higher petrol prices to broader prices relative to that time.

**Chart 2.2: Energy intensity of overall economic activity, Australia and Victoria**



Sources: Department of Climate Change, Energy, the Environment and Water; Department of Treasury and Finance

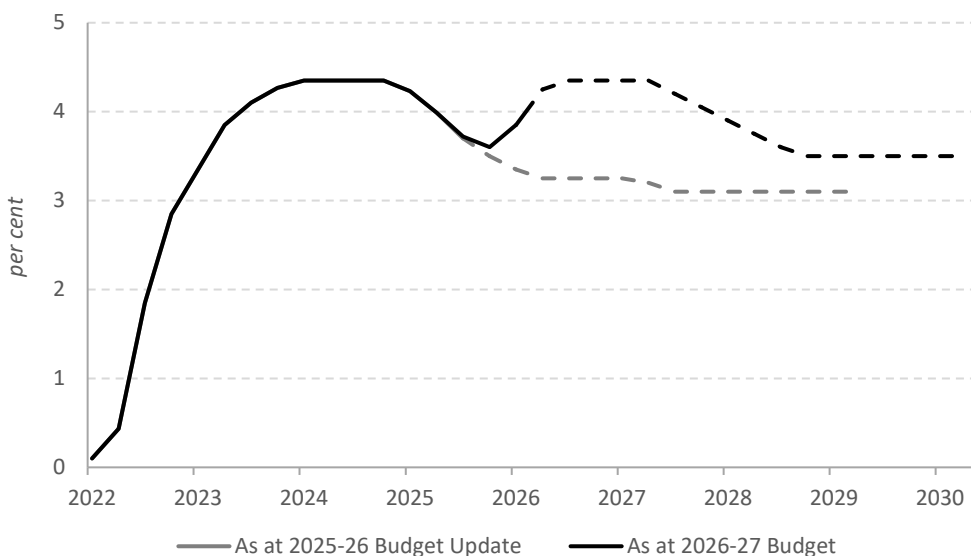
Even if the conflict ends soon, it is likely that it may take time for fuel production and supply chains to rebuild, due to damaged infrastructure and shuttered facilities. This means fuel prices could remain above pre-conflict levels for some time. Such price impacts are incorporated into the base case forecast, however, there remains a high degree of uncertainty around the duration and severity of those impacts. Chapter 6 *Sensitivity Analysis* provides estimated economic and fiscal impacts of a further weakening of domestic growth due to a more persistent global oil price shock and associated falls in domestic confidence than is assumed in the base-case forecast.

## Gross state product

Victoria’s real GDP is expected to grow by 1.50 per cent in 2026-27, down slightly from the 1.75 per cent growth forecast for 2025-26. This expected slowdown in growth is largely due to sharply rising interest rates, while the conflict in the Middle East and resulting surge in energy prices is also expected to weigh on activity. Following the RBA’s increases in interest rates in February and March this year, at least one more rate hike is expected by mid-year, which would bring interest rates to 4.35 per cent, the rate that Victoria faced in 2024-25. This amounts to interest rates being 1 to 1.25 percentage points higher in 2026 compared with market economists’ expectations reflected in the *2025-26 Budget Update* (see Chart 2.3).

Higher interest rates will place downward pressure on parts of the economy sensitive to interest rates, primarily household consumption and dwelling investment. While more subdued growth is expected, household consumption is still expected to make the largest contribution to growth in 2026-27, alongside a solid contribution from public demand and business investment (see Chart 2.4).

**Chart 2.3: Assumed RBA cash rate profile, quarterly average<sup>(a)</sup>**

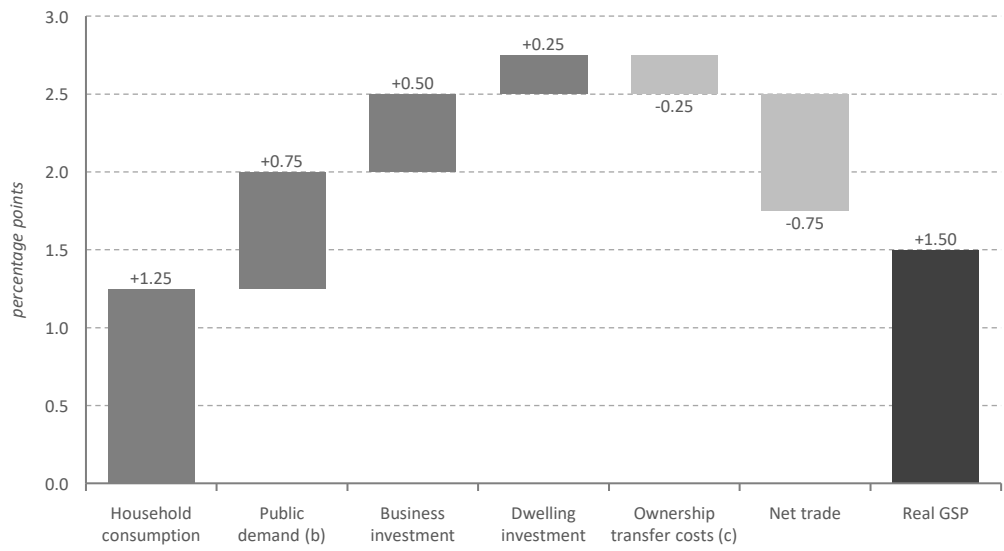


Sources: Reserve Bank of Australia; Department of Treasury and Finance

Note:

(a) Dashed lines denote the forecast cash rate profiles.

**Chart 2.4: Forecast contributions to real GDP growth, 2026-27 <sup>(a)</sup>**



Source: Department of Treasury and Finance

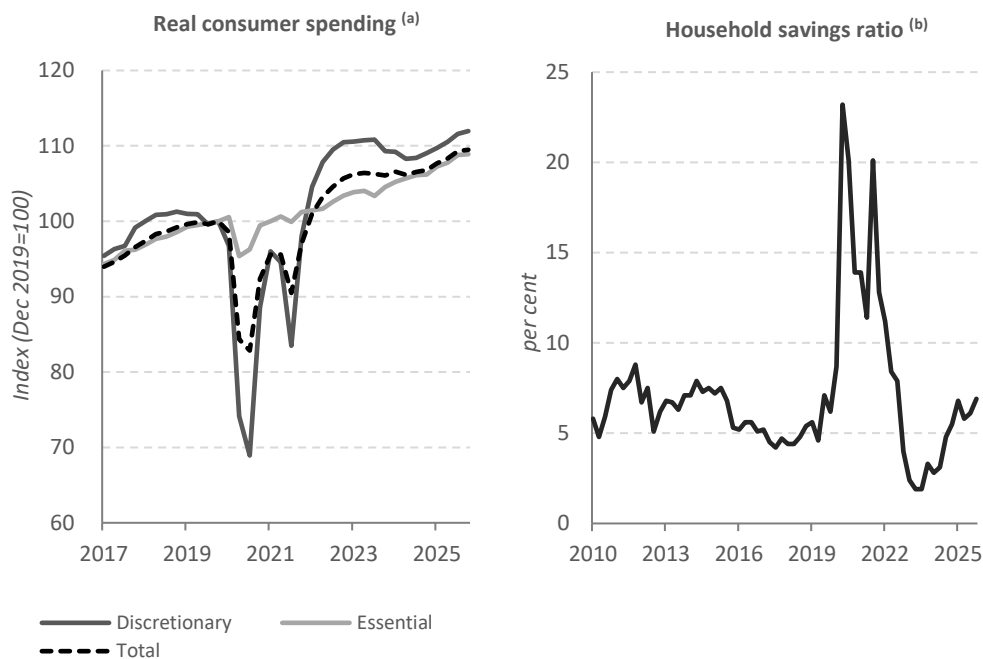
Notes:

- (a) Percentage-point contributions to growth, rounded to nearest 0.25 percentage points. Real GDP is per cent growth. Not shown are interstate trade, changes in inventories and a balancing item discrepancy; these components are forecast to net each other out and contribute 0.0 percentage points to GDP growth in 2026-27. Totals may not sum due to rounding.
- (b) Public demand includes Commonwealth, state and local government spending, and comprises both consumption and capital investment expenditure.
- (c) Ownership transfer costs are charges such as taxes or fees for services that enterprises incur on acquisition and disposal of assets.

Household consumption picked up during 2025, supported by further growth in real household disposable income. Spending rose by 2.5 per cent over the year to December 2025 and consumption is growing in per capita terms. Over the past year, spending on discretionary goods and services increased, including on clothing, hospitality services, and recreation and culture. Spending on essential items, such as food and insurance, also rose (see Chart 2.5).

The growth in households’ real disposable income has been driven by solid wages growth, reflecting ongoing strength in the labour market. Interest rate reductions during 2025 also added to household disposable income. While households have spent some of this income, they have also been adding to their savings, with the national household savings ratio rising further from its trough in 2023 when interest rates were at their recent peak (see Chart 2.5).

**Chart 2.5: Real Victorian consumer spending by category, and national household savings ratio**



Sources: Australian Bureau of Statistics; Department of Treasury and Finance

Notes:

(a) 'Transport services' and 'net expenditure interstate' are excluded from the discretionary and essential categories due to limitations in reliably allocating these items between categories, although they are included in the total.

(b) Data are for Australia; state data are unavailable.

Looking ahead, further moderate growth in real incomes is expected to continue to support household spending, with households' financial resilience aided by elevated savings reserves built up over recent years. Nevertheless, growth in household consumption is forecast to ease in 2026-27, as recent increases in inflation and rising interest rates weigh on disposable income and spending. In addition, surveyed consumer sentiment has recently deteriorated, with these domestic developments and the Middle East conflict weighing on household confidence and expectations for the year ahead, which may further impinge on household discretionary spending.

Business investment increased during the first half of 2025-26. Recent growth has been driven by machinery and equipment investment and non-residential building construction, as well as continued strong investment in intellectual property products such as computer software and activities such as research and development. Measures of business conditions and confidence improved in the past year, although both have declined more recently after the RBA increased interest rates and the onset of the conflict in the Middle East.

Nevertheless, business investment is expected to grow relatively strongly over the next few years. Victorian firms surveyed by the Australian Bureau of Statistics report strong growth in expected investment in 2025-26 and 2026-27. Investment related to data centre construction and the renewable energy transition are key factors driving the strong investment outlook (see Box 2.2). However, uncertainty and potential supply disruptions arising from the conflict in the Middle East, which arose since the latest survey of firms' intentions, may constrain near-term growth in business investment.

**Box 2.2: Trends in Victorian business investment**

Victorian business investment has grown strongly over the past few years, and real investment per worker remains near record levels (see Chart 2.6). This growth has been driven increasingly by structural transitions in the economy, including data centre investment and the transition to renewable energy. These factors are expected to remain key drivers of Victorian business investment over the next few years.

**Chart 2.6: Victorian business investment per worker**

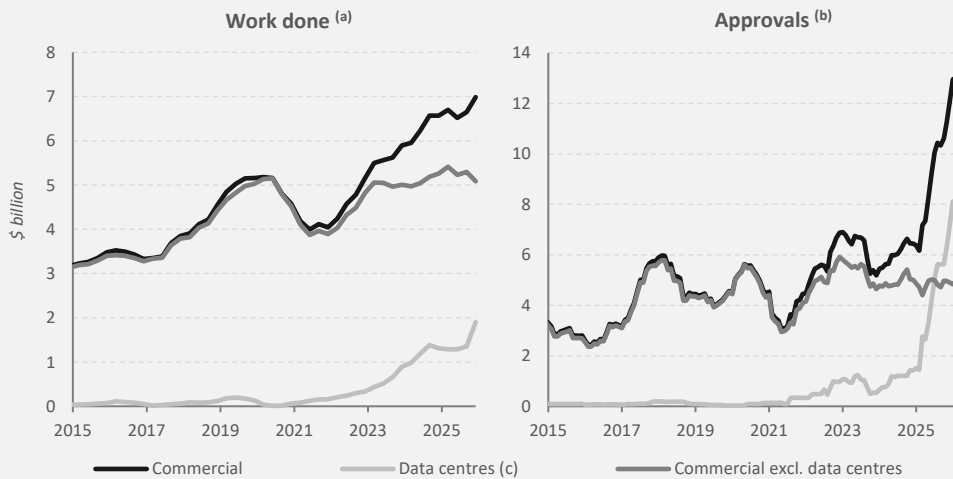


Sources: Australian Bureau of Statistics; Department of Treasury and Finance

Global investment in data centres has expanded rapidly, as the need for computer processing power has accelerated alongside rapid developments in artificial intelligence technology. Australia is a key data centre hub in the Asia-Pacific region, and Melbourne is in the top 10 markets in the region.

Data centre construction contributes to business investment through both the physical warehouses and the specialised computing equipment itself. The significant uptick in the construction of physical data centres is evident in data on building approvals and work done on Victorian building construction, where data centres are a rapidly growing proportion of overall commercial building investment (see Chart 2.7). Alongside this rise in building construction, investment in computing equipment has driven strong growth in machinery and equipment investment.

**Chart 2.7: Value of Victorian private commercial building work done and approvals**



Source: Australian Bureau of Statistics

**Notes:**

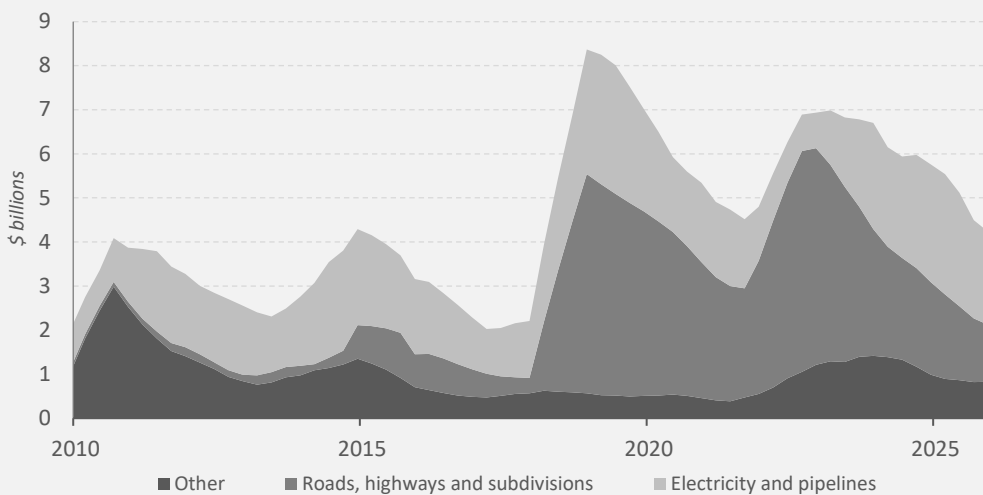
(a) Four-quarter sum.

(b) Twelve-month sum.

(c) Refers to the ABS classification 'commercial not elsewhere specified', which mainly comprises data centres.

The transition to renewable energy is also an important driver of Victoria’s business investment and will support engineering investment going forward. As major Victorian road projects reach completion, an increasing proportion of Victoria’s engineering construction pipeline will be driven by renewable energy projects, maintaining a pipeline of engineering work yet to be done (see Chart 2.8).

**Chart 2.8: Value of private engineering construction work yet to be done in Victoria (a)(b)**



Source: Australian Bureau of Statistics

**Notes:**

(a) The value of work remaining to be done on jobs under construction at the end of the period.

(b) Four-quarter moving average.

Dwelling investment grew strongly in 2025, reaching its highest level in six years. This increase was supported by an elevated pipeline of work to be done, ongoing improvement in labour availability, and declining interest rates.

Dwelling investment is forecast to grow again in 2026-27, as builders continue to work through the elevated pipeline of residential building projects. However, growth is expected to be tempered by lower demand for new dwellings due to rising interest rates, which are expected to weigh on house prices, as well as higher costs of construction inputs like fuel, concrete and PVC piping. Dwelling investment is expected to pick up from 2028-29 onwards, supported by an easing in interest rates once inflation pressures decline.

Public demand growth has moderated over the past year, and growth in 2025-26 and 2026-27 is forecast to be below the rates recorded in the past couple of years. This reflects more moderate growth in government consumption spending and relatively stable investment levels. Commonwealth consumption is expected to remain elevated due to spending across social benefits programs.

Net trade is forecast to detract from GSP growth in 2026-27, with growth in imports expected to exceed growth in exports. Imports of goods and services are expected to rise alongside a further increase in household spending and solid growth in business investment – including machinery and equipment investment linked to expanding data centre infrastructure, most of which is imported.

Goods exports are forecast to decline slightly in 2025-26, largely due to lower agricultural exports following drought conditions. This has occurred alongside the economic impact of the January 2026 bushfires (see Box 2.3). The Australian Bureau of Agricultural and Resource Economics and Sciences forecasts livestock slaughter rates and production to ease as farmers rebuild their herds following the earlier impacts of drought. A modest recovery in agricultural exports is expected in 2026-27 as the state recovers from dry conditions.

Services exports are forecast to grow modestly in 2026-27, reflecting growth in tourism and education exports. However, increased global uncertainty due to the Middle East conflict, fuel supply shortages, and rising airfare costs could discourage international travel in the near term.

**Box 2.3: The economic impact of the summer bushfires**

In January 2026, catastrophic fires in parts of Victoria devastated many regional communities. Major fire zones included areas in the northeast and central regions, notably Walwa, Longwood, Alexandra and Harcourt, as well as parts of the Otways, Gippsland and parts of the state's west. The fires burned through around 440 000 hectares of land, and more than 1 500 buildings as well as critical infrastructure.

The gross economic cost of the bushfires in affected regions is estimated at about \$1.3 billion in 2025-26, or about 0.2 per cent of real GSP (noting this estimate does not incorporate the significant social or environmental costs of the bushfires, including the negative effects on wellbeing and mental health). In terms of the agricultural industry, softwood plantations and livestock businesses were the most affected.

Over the medium term, recovery and reconstruction of communities and business is likely to contribute to economic activity. This includes the repair and rebuild of homes and structures, and an increase in government spending to repair infrastructure. The Victorian Government, with assistance from the Commonwealth, has provided \$421.5 million to help communities and businesses recover.

## OTHER ECONOMIC INDICATORS

### The labour market

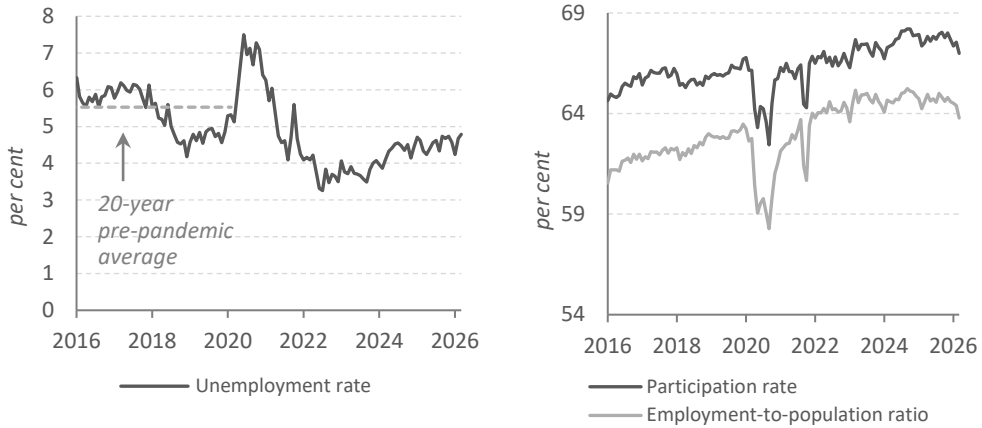
Victoria's labour market remains healthy, with employment increasing by 2.5 per cent in 2024-25 following very strong growth in previous years. The participation rate and the share of Victorians in work both remain at historically high levels, including for female workers (see Box 2.4).

Measures of spare capacity in the labour market, including the unemployment and under-employment rates, remain historically low (see Chart 2.9). Job vacancies, a key forward indicator of the labour market, have come down from very high levels but are still above pre-pandemic levels.

The outlook for the labour market remains positive, although employment growth is forecast to moderate over the coming year. This reflects the impacts of higher domestic inflation and interest rates on the economy, which are expected to weigh on aggregate demand and lead to some moderation in labour demand.

Employment in 2025-26 is expected to increase by 1.50 per cent and is forecast to grow by a further 1.25 per cent in 2026-27. The unemployment rate is expected to average around 4.75 per cent in 2026-27, unchanged from the estimated 2025-26 outcome. This remains well below Victoria's 20-year pre-pandemic average of 5.5 per cent and is around the rate estimated to be consistent with stable inflation within the RBA's target band.

**Chart 2.9: Victorian unemployment rate, participation rate and employment-to-population ratio**



Source: Australian Bureau of Statistics

**Box 2.4: Trends in female labour force participation**

Victorian employment has grown strongly in recent years, rising by more than 8 per cent over the three years to 2025. Solid economic growth, together with an increase in labour supply aided by strong population growth and rising workforce participation, have supported this outcome.

Victoria’s total participation rate remained near record levels during 2025, driven by a large increase in female participation. Participation of women in the workforce has risen significantly compared with pre-COVID levels (see Chart 2.10). This rise in female participation, coupled with strong demand for workers, has led to a significant rise in the share of Victorian women in employment to historically high levels.

Victoria’s strong female participation rate has been supported by key State policies that reduce barriers for women to enter the labour force. These include Best State Best Life reforms including Free Kinder, assisting skill development through Free TAFE, and work from home policies.

**Chart 2.10 Female participation rate and employment-to-population ratio**



Source: Australian Bureau of Statistics

## Prices

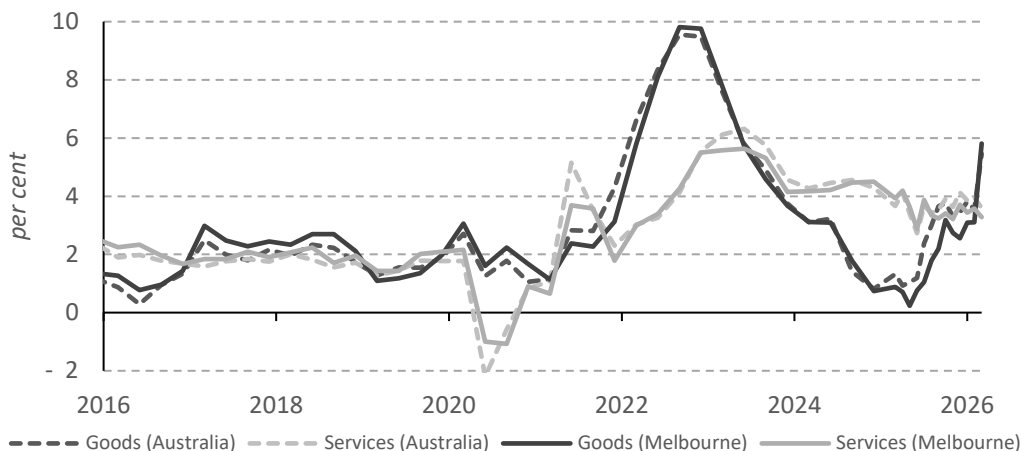
Inflation picked up in the second half of 2025, in Victoria and nationally. The recent uptick has primarily been driven by higher goods prices, though services inflation remains elevated (see Chart 2.11). In year-ended terms, Victorian inflation rose to 4.6 per cent in March 2026, up from a low of 1.7 per cent in June 2025, and is in line with national inflation. With national inflation back up above the RBA's 2 to 3 per cent target band, the RBA increased interest rates in both February and March 2026. Although inflation remains well below the recent, post-pandemic peak of 7.9 per cent in December 2022, higher inflation is adding to cost-of-living pressures for Victorian households (see Chapter 3, *Economic management for resilience and prosperity*, Box 3.1). The conflict in the Middle East and surge in global oil prices will intensify these pressures this year.

Higher goods prices have been partly driven by the recovery in household consumption in the second half of 2025, which permitted businesses to raise prices after a period of compression in profit margins during the previous period of weaker demand.

Housing costs, such as utilities, have also driven goods inflation higher. New dwelling prices have increased as project home builders have passed on higher material and labour costs. This comes after an earlier period of discounting from late 2024 to late 2025 when demand for new dwellings was lower. Electricity prices have risen recently due to the expiration of the Commonwealth energy rebates in December 2025, although this reflects prices returning to where they would have been in the absence of the temporary rebates.

Price growth for services has been persistent, partly due to the pickup in wages growth in recent years and most service sectors' high reliance on labour as a key input. Prices for education, health, and hospitality services have continued to grow over the past year. Rents inflation has slowed from its peak in 2023 but remains above pre-pandemic rates. Timely data show that growth in advertised rents has picked up so far in 2026, indicating that overall rental growth may persist above pre-pandemic rates for some time.

**Chart 2.11: Annual goods and services inflation, Melbourne and Australia <sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Inflation from April 2025 is calculated using monthly consumer price index (CPI) data; inflation prior to April 2025 is calculated from the previously published quarterly CPI data, as monthly data for this period are not available.

More recently, the surge in global oil prices is adding significantly to consumer inflation. Petrol prices surged in March, underpinning an increase in Victoria’s year-ended inflation rate from 3.3 per cent in February to 4.6 per cent in March. Inflation is forecast to remain around this level in coming months and average 4.5 per cent in the June 2026 quarter, driven primarily by the sharp rise in retail petrol prices. Higher petrol and diesel prices will raise business transport and other input costs for food and a range of other goods, and these higher costs are expected to be passed on to consumers.

In year-average terms, inflation is forecast to be 3.50 per cent in 2025-26 and 2026-27, assuming global crude oil prices average US\$100 per barrel in the June 2026 quarter and return to near pre-conflict levels by the end of 2026. Inflation is forecast to decline and return to within the RBA’s 2 to 3 per cent target band by 2027-28, averaging 2.75 per cent. However, there is a risk that global oil prices remain elevated beyond 2026 if the conflict in the Middle East is prolonged. This is discussed further in Chapter 6 *Sensitivity analysis* where a scenario is modelled that includes a more persistent Middle East conflict and the flow-on impacts via global oil prices.

## Wages

Victorian wages are forecast to increase by 3.25 per cent in both 2025-26 and 2026-27. This remains well above pre-COVID rates. A healthy labour market and ongoing inflation pressures are expected to continue to affect private and public sector wage negotiations.

Victorian wages grew by 3.2 per cent over the year to the December quarter 2025. Growth in private sector wages has been relatively strong in recent years, increasing by an average annual rate of 3.6 per cent over the past three years – compared with 2.8 per cent for the public sector. This relatively stronger growth partly reflects the greater responsiveness of private sector wage-setting methods to labour market conditions.

Private sector wages growth is expected to remain firm, supported by ongoing resilience in the labour market. At the same time, aggregate public sector wages are expected to strengthen as ongoing enterprise bargaining agreement negotiations are finalised.

While inflationary pressures are expected to remain elevated in the coming year, weighing on real wage growth until 2026-27, wages are forecast to exceed inflation from 2027-28 onwards, resulting in real wages growth.

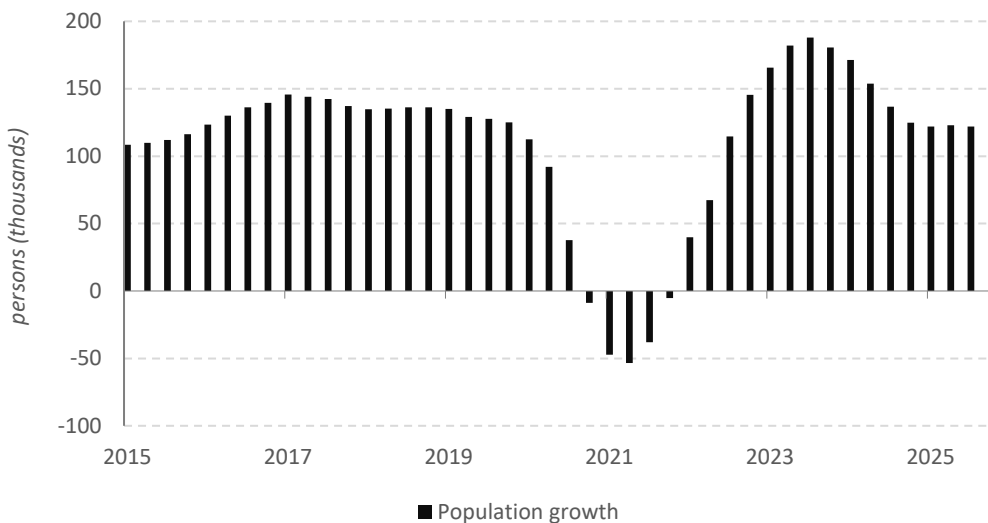
## Population

Victoria's population growth has eased to around its long-term average growth rate, following two years of strong increases. Over the year to September 2025, population growth was 1.7 per cent, well below the recent peak in September 2023 of 2.8 per cent (see Chart 2.12). The earlier strength in population growth was driven by a strong rebound in net overseas migration, primarily driven by international students, following the lifting of national pandemic-related migration restrictions.

More recently, international student arrivals have slowed, partly reflecting Commonwealth migration policy changes, including tighter student visa requirements. At the same time, international departures have increased as students who had arrived following the reopening of borders have since completed their studies. As a result, net overseas migration has made a smaller contribution to population growth over the past couple of years. Arrivals and departures of students are expected to stabilise at around pre-pandemic levels over the next two years.

Population growth is expected to remain at its long-term trend of 1.7 per cent from 2025-26 onwards.

**Chart 2.12: Annual population growth in Victoria <sup>(a)</sup>**



Source: Australian Bureau of Statistics

Note:

(a) Four-quarter rolling totals.

## AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

Australian economic activity picked up over 2025. The economy grew by 2.6 per cent over the year to December, supported by both private and public demand. Private sector activity strengthened as earlier interest rate reductions supported higher domestic demand. Labour market conditions also remained resilient, with employment continuing to grow and the unemployment rate remaining low by historical standards.

In its February 2026 *Statement on Monetary Policy*,<sup>1</sup> the RBA forecast the Australian economy to grow by 2.2 per cent in 2025-26, before slowing to 1.8 per cent in 2026-27. The RBA expected growth in private demand to remain relatively robust in the near term, with solid growth in household consumption, dwelling investment and business investment. However, activity was expected to slow from later this year as higher interest rates weigh on private demand. More recently, following the outbreak of the Middle East conflict, the Commonwealth Treasurer has released modelling indicating that the global oil crisis will likely weigh on Australian economic activity and add to inflation, with the range of possible outcomes depending on the severity and duration of the disruption to energy markets. For instance, in the ‘shorter term’ scenario, where oil prices return to pre-conflict levels by the end of 2026, inflation peaks at around 4.5 per cent in June 2026 and GDP is 0.2 per cent lower in mid-2026.

<sup>1</sup> The RBA’s February *Statement on Monetary Policy* was published before the initial US–Israeli strikes on Iran on 28 February.

Nationally, labour market conditions are expected to ease only modestly over the coming year. The RBA forecast employment growth of 1.2 per cent through the year to the June quarter 2027, while the unemployment rate was forecast to remain low, reaching 4.4 per cent in the June quarter 2027. The RBA expected unemployment to rise slightly over the following year, to be 4.6 per cent by June 2028.

Wages growth has slowed from recent highs but is expected to remain above pre-pandemic rates, consistent with ongoing strength in the labour market. The RBA forecast Australian wage growth of 3.1 per cent over the years to June 2026 and June 2027.

Inflation has picked up to be above the RBA's target of 2 to 3 per cent, due to stronger domestic demand as well as the end of government energy rebates. Inflation rose by 4.6 per cent over the year to March 2026 and the RBA expects inflation will remain above its target band for some time. Before the Middle East crisis commenced, the RBA had forecast headline inflation would rise to above 4 per cent by June 2026 and remain above the target band until 2027.

## **INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK**

Prior to the latest conflict in the Middle East, the global economy had remained resilient to the pressures of elevated inflation and ongoing trade tensions throughout 2025. United States' trade policy developments had less impact on global growth than was initially expected, with global trade flows adjusting relatively quickly to higher tariffs and uncertain policies. Global growth in 2025 is estimated to have been 3.4 per cent, unchanged from the 2024 outcome, and was supported by rising technology investment, fiscal and monetary support, and favourable financial conditions. This is below its historical (2000-2019) average of 3.7 per cent but is robust in the context of US tariff policy changes.

While the global economy entered 2026 growing more strongly than previously expected, the impact of the conflict in the Middle East is weighing on the outlook for global activity, with significant risks to the downside should the conflict persist or escalate. The conflict has led to energy supply disruptions for some countries, particularly in Asia, and global oil and gas prices have surged. Supply of other key production inputs, including agricultural fertilisers, has also been heavily disrupted.

The International Monetary Fund (IMF), in its April 2026 *World Economic Outlook*, expects global growth to slow to 3.1 per cent in 2026 and 3.2 per cent in 2027 (see Table 2.2). Global inflation is projected to increase to 4.4 per cent in 2026, up from 4.1 per cent in 2025, before falling to 3.7 per cent in 2027.

The outlook for advanced economies is mixed. Despite the Middle East conflict and global energy market disruptions, growth in the United States is expected to be a little higher in 2026 at 2.3 per cent, up from 2.1 per cent in 2025, supported by fiscal policy and the lagged effects of interest rate cuts in 2025 – even as the imposition of tariffs on US imports weighs on the level of activity. The outlook also reflects a relatively limited expected effect from the Middle East conflict, given the United States is a net energy exporter. US growth is forecast to ease to 2.1 per cent in 2027, alongside some moderation in technology-driven investment. In the euro area, growth is expected to decline from 1.4 per cent in 2025 to 1.1 per cent in 2026, and then pick up modestly to 1.2 per cent in 2027.

Economic growth in emerging market and developing economies is expected to slow, falling to 3.9 per cent in 2026 from 4.4 per cent in 2025. Growth in China is forecast to slow from an estimated 5.0 per cent in 2025 to 4.4 per cent in 2026, before growth moderates further to 4.0 per cent in 2027 due to structural headwinds, including a declining labour force. In India, growth is forecast to slow to 6.5 per cent in 2026 and 2027, from 7.6 per cent in 2025.

These forecasts assume the conflict is relatively short-lived, with the disruptions fading by mid-2026. Given the fluidity of the situation in the Middle East, the IMF also presents two alternative scenarios which assume a more prolonged and intense conflict, resulting in more marked slowdowns in global growth (see Chart 2.13).

**Table 2.2: Summary of the IMF’s global economic growth forecasts <sup>(a)(b)</sup> (per cent)**

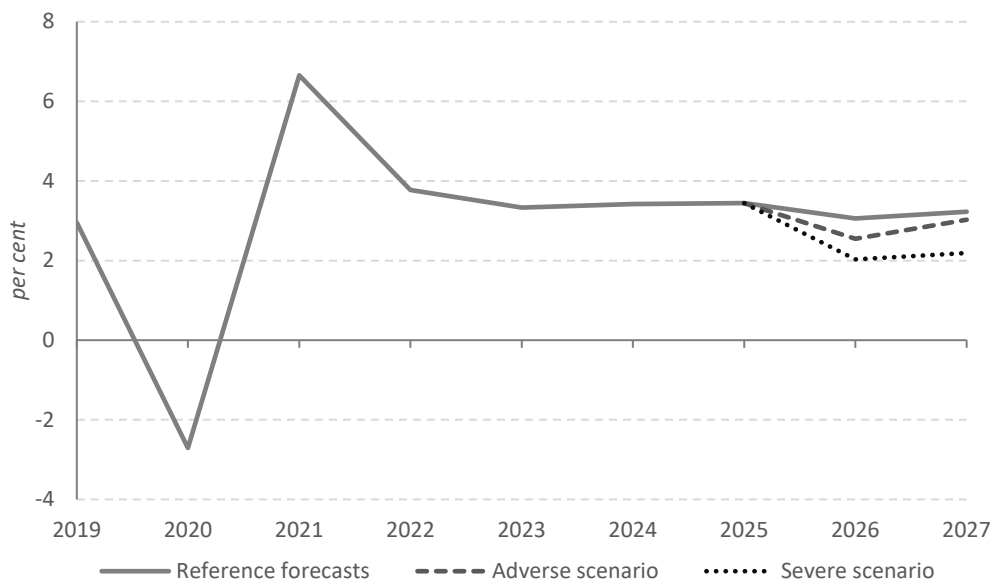
	2024 <i>actual</i>	2025 <i>estimate</i>	2026 <i>projection</i>	2027 <i>projection</i>
<b>World output</b>	<b>3.4</b>	<b>3.4</b>	<b>3.1</b>	<b>3.2</b>
<b>Advanced economies</b>	<b>1.8</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>
United States	2.8	2.1	2.3	2.1
United Kingdom	1.1	1.3	0.8	1.3
Euro area	0.9	1.4	1.1	1.2
Japan	-0.2	1.2	0.7	0.6
<b>Emerging market and developing economies</b>	<b>4.5</b>	<b>4.4</b>	<b>3.9</b>	<b>4.2</b>
China	5.0	5.0	4.4	4.0
India <sup>(c)</sup>	7.1	7.6	6.5	6.5
<b>ASEAN-5 <sup>(d)</sup></b>	<b>4.8</b>	<b>4.5</b>	<b>4.1</b>	<b>4.4</b>

Source: International Monetary Fund, *World Economic Outlook*, April 2026

Notes:

- (a) Not all countries or regions are listed in the table.
- (b) These forecasts are the IMF’s ‘reference forecasts’, which assume the Middle East conflict will have limited duration and intensity, with disruptions fading by mid-2026.
- (c) For India, data and projections are presented on a fiscal-year basis.
- (d) The ASEAN-5 economies are Indonesia, Malaysia, Philippines, Singapore and Thailand.

**Chart 2.13: IMF's world economic growth scenarios <sup>(a)</sup>**



Source: International Monetary Fund, World Economic Outlook, April 2026

Note:

(a) The 'reference forecast' assumes the conflict will be short-lived, with the disruptions fading by mid-2026. The oil price is assumed to average US\$82 per barrel in 2026. (The oil price used by the IMF is an average of Brent, Dubai Fateh and West Texas Intermediate crude, and the average price in 2025 was US\$68 per barrel.)

The 'adverse scenario' assumes: oil prices average around US\$100 per barrel in 2026, with the increase mostly unwinding in 2027 (average US\$75 per barrel); higher one-year-ahead inflation expectations; and a tightening in financial conditions.

The 'severe scenario' assumes: larger and more persistent shocks, with oil prices averaging US\$110 per barrel in 2026 and US\$125 in 2027, before dissipating in 2028; a larger rise in one-year-ahead inflation expectations; and a more significant tightening in financial conditions.

## RISKS TO THE VICTORIAN OUTLOOK

Risks to the Victorian economic outlook have increased and are elevated, arising from both international developments and domestic factors.

The conflict in the Middle East is affecting global energy markets, supply chains and asset markets. Energy prices have risen sharply as supply has been curtailed. However, the trajectory of the conflict is highly uncertain, including its duration, which means the magnitude of these economic impacts is unclear. A longer or more expansive conflict could result in persistent energy supply disruptions, increased energy prices and inflation, and renewed falls in equity markets. This prolonged conflict scenario could weigh heavily on global and national economic activity and would lead to lower economic and employment growth in Victoria.

The outlook for overall domestic inflationary pressure, and hence the outlook for interest rates, remains another key source of uncertainty. Inflation pressures were emerging even before the start of the Middle East conflict and the resulting spike in energy costs. If underlying inflation rises by more than currently expected, or if inflation expectations increase, the RBA could raise interest rates further than currently anticipated. This would weigh more on household consumption and dwelling investment, and hence reduce economic growth.

A further risk is the potential for demand for tertiary education from international students to be lower than forecast. A greater easing in international student visa lodgements, or changes to Commonwealth policy settings, could result in lower student arrivals and weaker than forecast net overseas migration. Fewer international student arrivals would weigh on growth in services exports.

Finally, the pace at which inflation eases from its elevated levels depends in part on how soon unemployment approaches its trend rate. This is because the unemployment rate affects labour costs, a significant determinant of domestic inflation. The trend rate of unemployment in Victoria is not directly observable but is an important forecasting assumption since it is the rate at which strong labour market conditions do not add to inflationary pressure (i.e. the non-accelerating inflation rate of unemployment, or NAIRU). The trend unemployment rate may be lower than currently estimated, possibly due in part to labour market strength. This would lead to higher employment and GSP growth without generating unsustainable pressures on labour cost growth or inflation.

Chapter 6 *Sensitivity analysis* provides further information on some key risks to the economic outlook, and presents estimated economic and fiscal impacts of less probable scenarios that differ from the baseline economic forecasts presented in this chapter. In particular, Chapter 6 models the impacts of a scenario of a more persistent Middle East conflict and more elevated global oil prices than assumed in the baseline economic forecasts, as well as the impacts of an upside scenario of a lower trend unemployment rate.



## **CHAPTER 3 – ECONOMIC MANAGEMENT FOR RESILIENCE AND PROSPERITY**

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Victorians are facing cost-of-living challenges related to higher domestic inflation, rising interest rates and high global oil prices. The Victorian Government, along with the Commonwealth – which has the primary responsibility for addressing the national economic and household impacts of the current disruptions to global and national energy markets – is taking further action to respond to the cost-of-living challenges facing Victorian household budgets.

The Government is temporarily reducing the cost of public transport and providing cost-of-living support for people who drive – with travel an essential expense for most Victorians, including those on lower incomes – through cheaper public transport and vehicle registration rebates. The Government is also legislating the right to work from home, which will provide more Victorians with access to jobs, and ease commuting costs for many households.

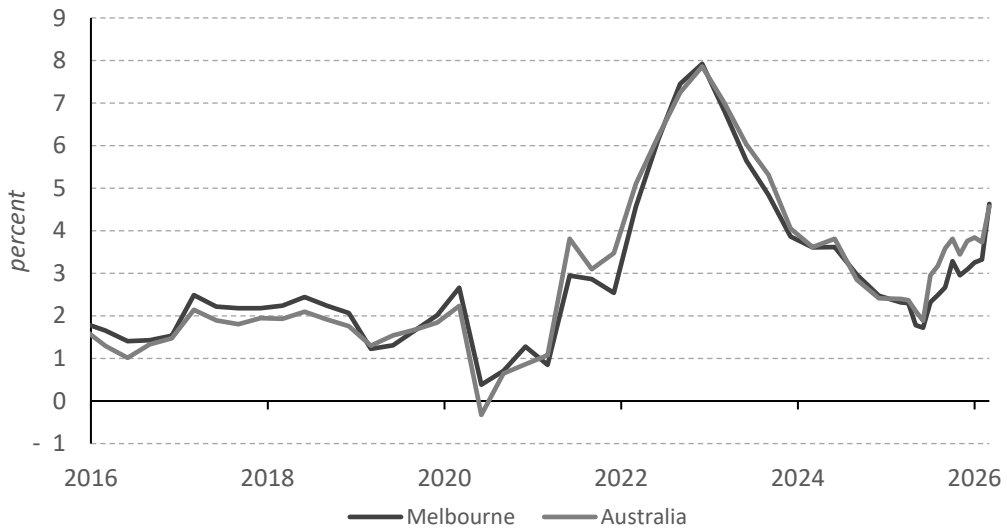
The Government remains committed to implementing its fiscal strategy and in recent years has taken steps to return the budget to surplus. This commitment has allowed the Government to provide this cost-of-living relief now – and support Victorians when they need it the most – while continuing to deliver its fiscal strategy.

### **COST-OF-LIVING CHALLENGES ARE WEIGHING ON VICTORIAN HOUSEHOLDS**

As discussed in Chapter 2 *Economic context*, inflation both nationally and in Victoria has picked up again since the second half of 2025, and the more recent surge in global oil prices is adding further to Victorian households' cost of living.

Victorian inflation picked up in the second half of 2025 and is currently 4.6 per cent, in line with national inflation, and materially above the Reserve Bank of Australia's (RBA) 2 to 3 per cent target (see Chart 3.1). Chapter 2 *Economic context* provides further detail on recent trends affecting Victorian and national inflation rates.

**Chart 3.1: Annual headline inflation, Melbourne and Australia**



Source: Australian Bureau of Statistics

The RBA has begun to raise interest rates to rein in domestic inflationary pressure. In the near term, this will add further pressure on household budgets for the roughly one third of households with mortgages in Victoria.

The latest pickup in inflation comes not long after the surge in global and national inflation in 2022 and 2023 following the COVID-19 pandemic. Those earlier price rises had already left the costs of many consumer essentials at elevated levels relative to workers' wages, even before the latest re-emergence of domestic price pressures and the global oil crisis (see Box 3.1).

**Box 3.1: Recent trends in inflation**

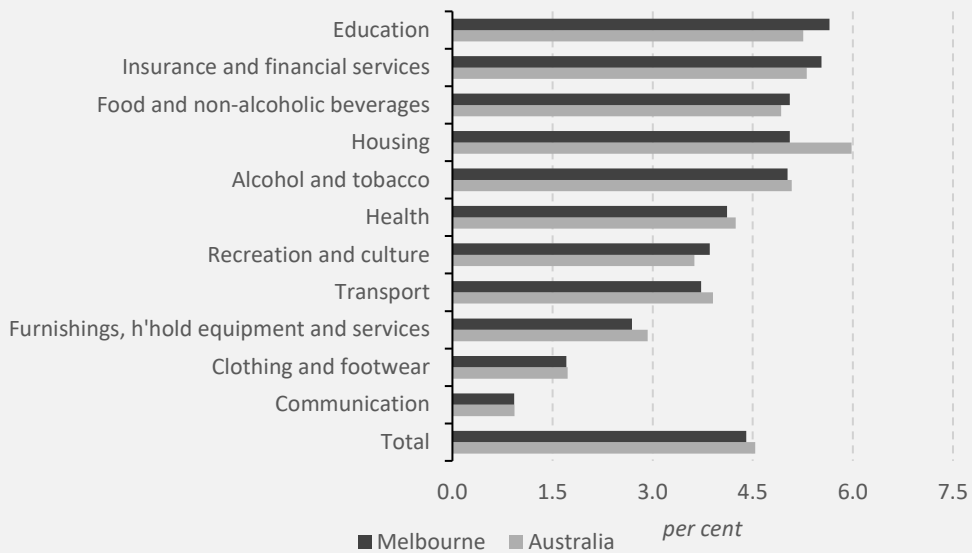
The pickup in inflation since mid-2025, coupled with the recent surge in global oil prices, is adding to cost-of-living pressures that already existed following the period of high global and national inflation during 2022 and 2023.

The sharp rise in inflation was initially driven by global supply chain disruptions that emerged during the COVID-19 pandemic and higher commodity prices due to Russia's invasion of Ukraine in early 2022. These global pressures were compounded by the domestic inflation that emerged following the post-pandemic surge in consumer demand and disruptions in global supply chains. This strong national demand contributed to price rises across a broad range of market goods and services, as firms were able to pass on higher input costs. Rent inflation also picked up during this period in response to tight rental market conditions. The RBA lifted interest rates rapidly from mid-2022 in an effort to contain the increase in inflation.

Annual price growth in Victoria and Australia peaked at nearly 8 per cent in December 2022. Inflation declined over the next couple of years in response to sharply higher interest rates and as global supply chain disruptions resolved. However, as discussed in Chapter 2 *Economic context*, national inflation pressures have picked up again since the second half of 2025.

Overall, prices of consumer goods and services in Victoria, as measured by the consumer price index (CPI), rose by an average annual rate of 4.4 per cent over the four years to 2025 (see Chart 3.2). National prices rose by an annual rate of 4.5 per cent over the same period.

**Chart 3.2: Average annual inflation by category over the four years to 2025, Melbourne and Australia** <sup>(a)(b)</sup>



Source: Australian Bureau of Statistics

**Notes:**

(a) The annual average change in the CPI from 2021 to 2025 calendar years (year-average terms).

(b) The housing component includes rents, utilities, purchases of new dwellings, property rates, and house repair and maintenance, but excludes mortgage payments, which are not captured by the consumer price index.

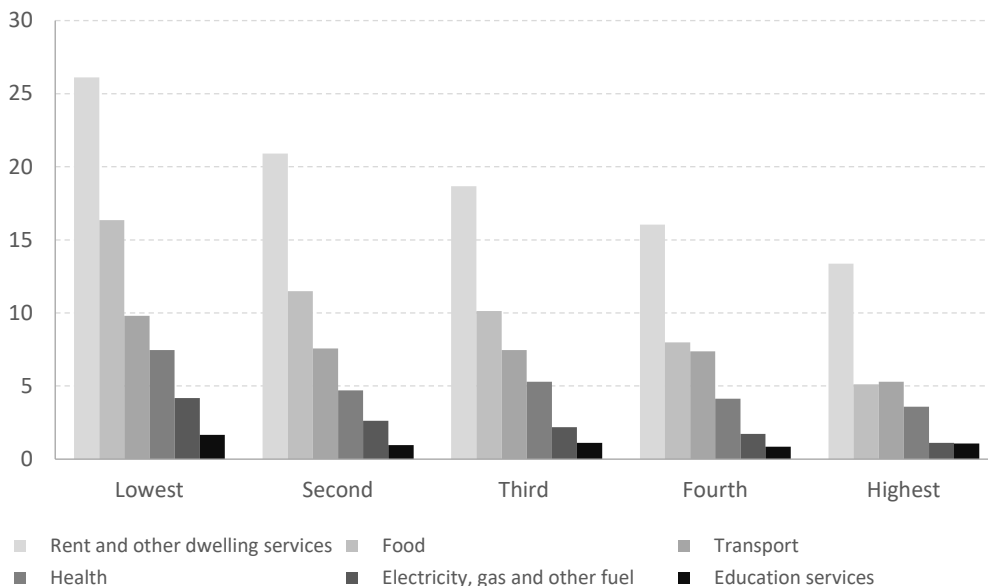
The prices of some essentials have risen further. This includes food prices, which rose by an average annual rate of 5.1 per cent over the four years to 2025, insurance and financial services prices, which rose by an average rate of 5.5 per cent, and education prices, which rose by an average rate of 5.6 per cent. Housing inflation – which includes rents, purchases of new dwellings, and utilities – has risen by an average annual rate of 5.1 per cent, substantially lower than the Australian average at 6.0 per cent, mainly due to higher national growth in rents and new dwelling prices.

As outlined above, some of these price rises reflect global developments since the pandemic. For example, global supply chain disruptions affected building materials that contributed to the increase in new dwelling prices, while supply chain disruptions and the Russia–Ukraine conflict also contributed to higher food prices due to rising costs for fertiliser, transport and energy. The increase in building materials prices, and higher vehicle replacement and repair costs, which partly resulted from the disruptions to global supply chains, also pushed up the prices of insurance premiums for homes and vehicles.

Although wages have grown solidly in recent years, national wage growth since the end of 2021 has been outstripped by these large increases in consumer prices. The wage price index measures changes in wage rates for a fixed set of jobs and excludes bonuses. Real labour income per employee provides a broader, more complete measure of workers' incomes than the wage price index, by also capturing changes in employment, hours worked and employer superannuation contributions. Real labour income per employee has grown more strongly than wages have and is a little above what it was in December 2021. Looking ahead, the increase in inflation means that real wages are now expected to decline in 2025-26 and 2026-27, before growing over the remainder of the forward estimates. Given the steep increase in prices over recent years, it will take some time for wage growth to offset these past price increases.

Lower-income households are least well-positioned to manage these higher living costs. Low-income households already spend a larger share of their income on essentials (see Chart 3.3), the prices of which have risen by more than discretionary goods and services since the end of 2021 (as noted in Box 3.1). These lower-income households include the unemployed and other income support recipients, young workers and single-parent households. Low-income households tend to have lower savings which contributes to their vulnerability to price shocks.

**Chart 3.3: Shares of gross disposable income spent on essentials, by equivalised disposable income quintile, Australia, 2021-22 <sup>(a)(b)</sup>**



Source: Australia Bureau of Statistics

Notes:

(a) 'Equivalised disposable income' is the total disposable income of a household adjusted by an equivalence scale to facilitate comparison of income levels between households of differing size and composition. It provides an indicator of the economic resources available to a standardised household.

(b) 2021-22 is the latest available data.

## EASING LIVING EXPENSES AND SUPPORTING ACCESS TO JOBS

The Government is taking new actions to directly ease cost-of-living pressures and provide relief to strained household budgets when they need it most. These build on the cost-of-living actions of recent budgets, and complement action underway in partnership with the Commonwealth Government and other states and territories to reduce the excise on petrol and diesel by a total of 32 cents per litre from April to June, which is helping to cut the cost of filling up for Victorians.

Transport is essential for most workers to get to their jobs, and for Victorians to access education, healthcare and other essential services. Low-income households spend proportionally more on transport and will find rising fuel and other prices more challenging to manage than most other households. For example, households in the bottom fifth of income recipients spend one tenth of their income on transport, which is double the share spent by households in the top fifth of the income distribution (see Chart 3.3).

Transport costs also vary by where people live. Households living further from the city, and households in regional Victoria, face materially higher private vehicle costs, which is a reflection of the longer travel distances, lower public transport accessibility, and a greater need to own and use cars. The Bureau of Infrastructure and Transport Research Economics found that the share of household expenditure devoted to owning and operating vehicles was around 93 per cent higher in regional Victoria and around 70 per cent higher in outer Melbourne than in inner Melbourne.

## **Discounted public transport until the end of the year**

To help Victorians with the significant increase in transport costs due to the ongoing conflict in the Middle East, the Government will provide half-price public transport from June 2026 until the end of the year. This is a temporary measure which will follow free public transport in April and May.

Cheaper public transport will provide direct cost-of-living relief, including to lower-income households who use trains, trams and buses to travel to work and study. This includes workers on award wages who commute to the CBD and inner Melbourne – such as hospitality and retail workers. In regional areas, discounted fares will particularly benefit concession card holders, with 63 per cent of bus ‘touch-ons’ in the regions made by concession card holders.

The cost of transport affects those accessing education as well. Data from the Victorian Integrated Survey of Travel and Activity show that 85 per cent of TAFE and university students living in outer Melbourne rely on public transport to attend study.

Discounted public transport fares, along with the high cost of petrol, will encourage some workers to shift from driving to public transport. This should reduce demand for petrol and may put some downward pressure on fuel prices for those Victorians who still need to drive. It could also reduce congestion on the road network for Victorians who need to drive to work and to access essential services, as well as for freight vehicles. This could support faster journeys and greater fuel efficiency, through decreased idling, less stop-start driving and smoother traffic flow for private and commercial vehicles.

## **Rebates for car registration in 2025-26**

The Government is also providing cost-of-living relief for Victorians who drive, many of whom do not have the option to use public transport to travel to work or to access essential services. This budget delivers a 20 per cent rebate on the annual cost of up to two light vehicle registrations per person paid in 2025-26. For those who pay registration in metropolitan Melbourne, this equates to a rebate of up to \$186 per vehicle.

This provides important relief to those in outer Melbourne and regional Victoria, who are much more reliant on cars than those who live in inner Melbourne – and who tend to earn less too. Because of their more limited access to public transport and greater reliance on private vehicles, households in outer Melbourne and regional Victoria have higher rates of vehicle ownership – around 1.8 to 2.0 vehicles per dwelling – compared with around 1.1 vehicles per dwelling in inner Melbourne. Those who live in outer Melbourne use private vehicles for 85 per cent of trips, compared with just 52 per cent for those in inner Melbourne.

This is not just a matter of personal choice: Victorians on lower incomes are less able to afford to live in inner Melbourne where there are more public transport options. The median household in inner Melbourne earns about 10 per cent more than the median household in outer Melbourne – and about 45 per cent more than households in regional Victoria.

## **Cutting the cost of petrol and diesel by reducing the fuel excise**

The fuel excise cut is making driving temporarily cheaper for Victorians by cutting the cost of both petrol and diesel. On 30 March 2026, the Commonwealth Government announced it would temporarily halve the fuel excise tax on petrol and diesel from April to June 2026. States and territories also agreed to support a further reduction in the fuel excise by 5.7 cents per litre over the same period, meaning an overall excise reduction of 32 cents per litre for motorists. This has contributed to lowering the price of fuel, with the Australian Competition and Consumer Commission reporting that between 31 March 2026 and 22 April 2026, the average price of petrol in Melbourne dropped by 66.7 cents per litre, while the average price for diesel dropped by 41.6 cents per litre.

The temporary excise cut is providing broad and immediate cost-of-living relief to Victorian motorists, including for lower-income Victorians. The largest direct dollar savings will accrue to households and businesses that purchase the most fuel, including those that travel longer distances, have limited access to public transport, or rely on vehicles for work, caring responsibilities and essential services. Analysis from the Tax and Transfer Policy Institute found that lower-income households tend to own older, less fuel-efficient vehicles and spend a greater proportion of their income on fuel. The Bureau of Infrastructure and Transport Research Economics research also found that middle and outer suburban residents tend to have higher rates of fuel consumption than inner city residents, as the latter group tends to own smaller, more fuel-efficient vehicles. The excise reduction will also benefit households in regional Victoria who are more reliant on their vehicles than those living closer to the city.

## **Protecting work from home benefits Victorian families**

Having a job is foundational for Victorian households' financial wellbeing and is particularly important when cost-of-living pressures are high. By protecting the right to work from home with new legislation, the Government is helping more Victorians access work, meaning more Victorians can earn a wage. It also means saving Victorians time and money by cutting their commutes – further helping to ease cost-of-living challenges.

The number of Victorians reaping the benefits of employment is growing. Around 300 000 jobs have been created over the last three years to 2025 – a higher percentage increase than the rest of Australia. The proportion of the Victorian working-age population in the labour force is also elevated. Over the past 10 years, participation grew by an average of 0.3 percentage points annually in Victoria and 0.2 percentage points in Australia. More women are entering the workforce aided by increased working-from-home opportunities and structural reforms such as Best Start, Best Life. Women's participation reached a record high of 64.0 per cent in November 2025.

With Victorians facing cost-of-living challenges, it is important that all Victorians can access work opportunities. The new work from home laws will support work opportunities for people who may find it otherwise challenging to enter the labour market, including carers, parents of young children, people with disability, and people living in remote or regional areas where there are often fewer job opportunities in close physical proximity. The Productivity Commission has noted that, before the COVID-19 pandemic, these groups were all less likely to be employed compared with the overall Australian population. The ability to work from home can help these groups access a job, improve equity in economic security, and provide Victorian employers access to a wider pool of talent. CEDA has found that, between 2019 and 2023, participation in jobs where people could work from home rose by nine percentage points for women with young children and by 4.4 percentage points for people with a disability or health condition.

The Government intends to introduce legislation to protect the right to work from home. Under this proposed law, Victorian workers who can reasonably do their job from home will have the right to do so for at least two days a week, regardless of workplace size or industry. Embedding this right in the Equal Opportunity Act will enable many Victorian workers to adopt or increase their work from home practices.

Working from home enables workers to save money on commuting, which is even more important for Victorian families facing significant transport costs. It also frees up extra time for work, leisure and caregiving. According to the Committee for Economic Development of Australia (CEDA), Australian workers save an average of 3.4 hours a week in commuting time when working from home. CEDA estimates the value of this time saving at \$5 308, with further savings through lower fuel use and avoided public transport costs. In addition, reduced emissions and congestion on Victorian roads also benefit all Victorians. And less need to drive to work or to the nearest train station saves fuel and money.

## **PROGRESS ON THE FISCAL STRATEGY WHILE PROVIDING COST-OF-LIVING RELIEF FOR VICTORIANS**

The Government's economic management, including its response to the COVID-19 pandemic to protect Victorian households and businesses, has provided a strong foundation for recovery and a healthy labour market. Victorians face the current challenges of elevated national inflation and the surge in global oil prices with a historically high share of the population in employment.

Through responsible decisions, the Government has made significant progress towards achieving its fiscal strategy, as discussed in Chapter 1 *Economic and fiscal overview*.

This continued focus on delivering its fiscal strategy, including further decisions in this budget to deliver responsible savings through back of house efficiencies, has given the Government the capacity to provide further time-limited cost-of-living support to vulnerable households when they need it most.

## CHAPTER 4 – BUDGET POSITION AND OUTLOOK

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- In the *2026-27 Budget*, the Government continues to deliver on its five-step fiscal strategy to restore the State's finances following the COVID-19 pandemic.
- Net cash flows from operating activities for the general government sector are forecast to be in a \$6.5 billion surplus in 2026-27 and remain in surplus over the forward estimates, with a \$6.5 billion surplus in 2029-30.
- The net result from transactions for the general government sector is forecast to be in surplus by \$0.7 billion in 2025-26 and \$1.0 billion in 2026-27. The operating surplus is then forecast to further improve to an average surplus of \$1.9 billion across the three years of the forward estimates 2027-28 to 2029-30.
- Net debt is expected to be \$175.6 billion at June 2027 and increase to \$191.1 billion by June 2029. Compared with the *2025-26 Budget Update*, this is an improvement in all years across the budget and forward estimates, including an improvement of \$1.5 billion by June 2029. Net debt is then forecast to increase to \$199.3 billion by June 2030.
- As a proportion of GSP, net debt is projected to reach 24.9 per cent at June 2027 before declining each year across the forward estimates to 24.4 per cent by June 2030. Compared with the *2025-26 Budget Update*, net debt to GSP is lower across all published years.
- Government infrastructure investment (GII) is expected to average \$16.5 billion a year over the budget and forward estimates (moderating to \$15.3 billion by 2029-30), reflecting the continuation of Victoria's Big Build and the Government's commitment to a moderating and sustainable infrastructure program.
- Interest expense as a share of total revenue is expected to average 8.6 per cent a year over the budget and forward estimates.
- The Government is on track to fully fund the State's unfunded superannuation liability by 2035.

This chapter outlines the budget position of the general government sector. The budget takes into account the financial impacts as at 23 April of all policy decisions made by the Government, as well as other information that may have a material impact on the financial statements. This includes all known Commonwealth funding decisions, especially those related to infrastructure projects, based on information available to the State. This chapter also reconciles and explains any movements since the *2025-26 Budget Update* that affect the estimated net result from transactions.

## GENERAL GOVERNMENT SECTOR

### Overview

As first outlined in the *2020-21 Budget*, the Government developed a fiscal strategy in response to the COVID-19 pandemic and to provide a strong foundation for recovery. It involved a four-step plan to support Victorians through the pandemic and to restore the budget over the medium term.

In the *2024-25 Budget*, the Government updated the plan to introduce a fifth step. This updated plan continues to provide a clear framework:

- **Step 1:** creating jobs, reducing unemployment and restoring economic growth
- **Step 2:** returning to an operating cash surplus
- **Step 3:** returning to operating surpluses
- **Step 4:** stabilising net debt levels as a proportion of GSP
- **Step 5:** reducing net debt as a proportion of GSP.

Economic indicators demonstrate the success of step 1. The Victorian economy continues to grow, and unemployment has declined to below pre-pandemic levels.

The Government has achieved step 2 of the fiscal strategy with operating cash surpluses achieved for the past three years, including an operating cash surplus of \$3.2 billion in the *2024-25 Financial Report*. The Government continues to forecast an operating cash surplus of \$6.9 billion in 2025-26, with average operating cash surpluses of \$6.4 billion forecast across the budget and forward estimates (see Table 4.1).

The net result from transactions for the general government sector remains on track to be an operating surplus of \$0.7 billion in 2025-26 (step 3), the first surplus since the COVID-19 pandemic began. The operating surplus is then estimated to be \$1.0 billion in 2026-27 and then further improve to an average surplus of \$1.9 billion across the three years of the forward estimates 2027-28 to 2029-30.

The *2026-27 Budget* continues to forecast the achievement of steps 4 and 5 of the Government's fiscal strategy, with net debt as a percentage of GSP stabilising and then declining by the end of the forward estimates. Net debt as a proportion of GSP is projected to reach 24.9 per cent at June 2027 before declining to 24.8 per cent by June 2028, 24.6 per cent by June 2029 and then declining to 24.4 per cent by June 2030.

**Table 4.1: General government fiscal aggregates**

	<i>Unit of measure</i>	<i>2024-25 actual</i>	<i>2025-26 revised</i>	<i>2026-27 budget</i>	<i>2027-28 estimate</i>	<i>2028-29 estimate</i>	<i>2029-30 estimate</i>
Net result from transactions	\$ billion	(2.6)	0.7	1.0	1.9	1.9	2.0
Net cash flows from operating activities	\$ billion	3.2	6.9	6.5	6.3	6.5	6.5
Government infrastructure investment <sup>(a)(b)</sup>	\$ billion	23.5	21.4	19.4	15.9	15.5	15.3
Net debt	\$ billion	150.9	165.3	175.6	183.2	191.1	199.3
Net debt to GSP <sup>(c)</sup>	per cent	23.7	24.7	24.9	24.8	24.6	24.4

*Notes:*

(a) Includes general government net infrastructure investment and the estimated cash flows for public private partnership projects.

(b) Includes the estimated private sector construction-related expenditure associated with the North East Link held in the public non-financial corporations (PNFC) sector.

(c) The ratios to gross state product (GSP) may vary between publications due to revisions by the Australian Bureau of Statistics to GSP data.

Total revenue for the general government sector is expected to be \$115.6 billion in 2026-27, an increase of \$4.2 billion from the *2025-26 Budget Update*. Revenue growth is then expected to average 2.7 per cent a year over the forward estimates, reaching \$125.4 billion in 2029-30.

Total general government sector expenditure is expected to be \$114.5 billion in 2026-27 and is expected to grow by an average of 2.5 per cent a year over the forward estimates, reaching \$123.4 billion in 2029-30. This estimated average annual growth in expenditure is slower than average annual economic growth of 5.1 per cent a year over the forward estimates, as measured by nominal GSP. Total expected expenditure includes the impact of all relevant government decisions, including those relating to service delivery and savings.

Government infrastructure investment (GII) peaked at \$24.2 billion in 2023-24 and remains projected to progressively moderate across the forward estimates from \$21.4 billion in 2025-26 to \$15.3 billion by 2029-30, consistent with a return to pre-COVID levels of investment. GII averages \$16.5 billion a year over the budget and forward estimates period.

Net debt is expected to be \$175.6 billion at June 2027 and increase to \$191.1 billion by June 2029. Compared with the *2025-26 Budget Update*, this is an improvement in all years across the budget and forward estimates, including an improvement of \$1.5 billion by June 2029. Net debt is then forecast to increase to \$199.3 billion by June 2030.

As a proportion of GSP, net debt is projected to reach 24.9 per cent at June 2027 before declining to 24.8 per cent by June 2028, 24.6 per cent by June 2029 and then declining further to 24.4 per cent by June 2030. Compared with the *2025-26 Budget Update*, net debt to GSP is lower across all published years.

Interest expense as a share of total revenue is expected to average 8.6 per cent a year over the budget and forward estimates.

## BUDGET AND FORWARD ESTIMATES OUTLOOK

Table 4.2 summarises the operating statement for the general government sector. A comprehensive operating statement is presented in Budget Paper No. 5, Chapter 1 *Estimated financial statements for the general government sector*.

**Table 4.2: Summary operating statement for the general government sector <sup>(a)</sup> (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	actual	revised	budget	estimate	estimate	estimate
<b>Revenue and income from transactions</b>						
Taxation	38 942	41 518	43 179	46 345	47 960	50 175
Dividends, TER and interest <sup>(b)</sup>	3 830	3 483	3 810	2 629	3 506	3 458
Sales of goods and services	6 893	7 682	8 307	8 731	8 799	8 973
Grants	47 304	55 230	56 366	55 679	57 030	58 946
Other revenue and income	4 411	4 001	3 903	3 675	3 726	3 806
<b>Total revenue and income from transactions</b>	<b>101 380</b>	<b>111 914</b>	<b>115 564</b>	<b>117 059</b>	<b>121 022</b>	<b>125 358</b>
% change		10.4	3.3	1.3	3.4	3.6
<b>Expenses from transactions</b>						
Employee expenses	38 515	40 225	41 134	42 874	44 402	45 504
Superannuation <sup>(c)</sup>	5 307	5 503	5 463	5 646	5 736	5 810
Depreciation	5 462	6 243	6 497	6 597	6 741	6 949
Interest expense	6 774	7 853	8 904	9 672	10 660	11 820
Grant expense	17 221	18 315	19 466	18 434	18 772	19 262
Other operating expenses	30 726	33 048	33 052	31 972	32 774	34 041
<b>Total expenses from transactions</b>	<b>104 006</b>	<b>111 186</b>	<b>114 516</b>	<b>115 194</b>	<b>119 085</b>	<b>123 386</b>
% change		6.9	3.0	0.6	3.4	3.6
<b>Net result from transactions – net operating balance</b>	<b>(2 626)</b>	<b>727</b>	<b>1 048</b>	<b>1 864</b>	<b>1 936</b>	<b>1 972</b>
<b>Total other economic flows included in net result <sup>(d)</sup></b>	<b>596</b>	<b>(697)</b>	<b>(155)</b>	<b>86</b>	<b>(91)</b>	<b>(55)</b>
<b>Net result</b>	<b>(2 030)</b>	<b>30</b>	<b>892</b>	<b>1 950</b>	<b>1 846</b>	<b>1 916</b>

*Notes:*

(a) Figures in this table are rounded to the nearest million and may not add up to totals.

(b) Comprises dividends, income tax and rate equivalent revenue (TER) and interest.

(c) Comprises superannuation interest expense and other superannuation expenses.

(d) This typically includes gains and losses from the disposal of non-financial assets, adjustments for bad and doubtful debts and revaluations of financial assets and liabilities.

## Revenue outlook

Total revenue for the general government sector is forecast to be \$115.6 billion in 2026-27. Total revenue is then expected to grow by an average of 2.7 per cent a year over the forward estimates, reaching \$125.4 billion in 2029-30.

## Taxation

Taxation revenue is forecast to be \$43.2 billion in 2026-27 and grow by an average of 5.1 per cent a year over the forward estimates.

- Revenue from taxes on employers' payroll and labour force, inclusive of payroll tax, the COVID Debt Levy Payroll 10m+, and the Mental Health and Wellbeing Levy, is forecast to be \$12.5 billion in 2026-27, and is expected to grow by an average of 5.0 per cent a year over the forward estimates. The Victorian labour market remains healthy and continues to support the near-term revenue outlook, with growth in employment and solid wages growth expected in 2026-27. Over the forward estimates, employment is expected to continue to grow and, in combination with continuing wages growth, support revenue growth at around trend levels.
- Revenue from land taxes, comprising land tax, the Absentee Owner Surcharge, Vacant Residential Land Tax and the COVID Debt Levy – Landholdings, is forecast to be \$7.7 billion in 2026-27 and grow by an average of 5.0 per cent a year over the forward estimates. Land taxes revenue in 2026-27 is expected to rebound, consistent with the increase in land values across 2025. Revenue growth is expected to increase more modestly in 2027-28 before returning to trend by 2028-29. Non-residential land values are expected to increase, driven by prevailing strength in the industrial sector and the continued recovery of CBD retail and office sectors.
- Revenue from land transfer duty is forecast to be \$10.0 billion in 2026-27 and grow by an average of 7.4 per cent a year over the forward estimates. Revenue is forecast to decrease in 2026-27, reflecting a cyclical decline in property market activity amid higher interest rates. Over the forward estimates, Victorian dwelling prices are forecast to return to historical average growth rates and, in combination with population and income growth, support land transfer duty revenue at around historical trend levels.
- Revenue from gambling taxes is forecast to be \$2.9 billion in 2026-27 and grow by an average of 0.4 per cent a year over the forward estimates. Over the forward estimates, sustained growth in lotteries revenue is expected to be largely offset by a decline in electronic gaming machine revenue as gambling harm minimisation measures take effect in hotels and clubs.
- Revenue from motor vehicle taxes, including vehicle registration fees and duty on registrations and transfers, is forecast to be \$3.9 billion in 2026-27 and grow by an average of 6.1 per cent a year over the forward estimates. Over the forward estimates, duty on vehicle registrations and transfers is expected to be driven by vehicle price inflation and wage growth. Additionally, the Government is providing cost-of-living relief to provide a 20 per cent rebate for the cost of up to two light vehicle registrations per person in the 2025-26 financial year.

- Revenue from the short stay levy is expected to be \$87 million in 2026-27. Short stay levy revenue is expected to grow by an average of 2.6 per cent a year over the forward estimates, reflecting forecast growth in booking fees. All revenue raised by the levy is transferred to Homes Victoria to support social and affordable housing across the state, with 25 per cent invested in regional Victoria.
- Revenue from insurance taxes is forecast to be \$2.3 billion in 2026-27 and grow by an average of 4.6 per cent over the forward estimates. Growth in insurance taxes over the budget and forward estimates is expected to be driven by growth in insurance premium prices returning to its long-term trend, offset by the implementation of a gradual reduction in the business insurance duty rate.

### **Dividends, income tax equivalent and interest**

Dividends and income tax equivalent revenue is projected to be \$2.2 billion in 2026-27 and moderate to \$2.0 billion by 2029-30.

Note 1.2.2 of Budget Paper No. 5, Chapter 1 *Estimated financial statements for the general government sector* contains further details of dividends and income tax equivalent revenue by sector and entity.

Interest revenue is received on the cash and deposits held by the Government. Total interest is expected to be \$1.6 billion in 2026-27 before moderating to \$1.4 billion by 2029-30. The movement in interest income is, in part, due to an estimated decline in the net Centralised Banking System (CBS) balance from 2026-27 to 2029-30.

### **Sales of goods and services**

Revenue generated by the sales of goods and services is expected to increase to \$8.3 billion in 2026-27 and grow by an average of 2.6 per cent a year over the forward estimates, reaching \$9.0 billion in 2029-30.

### **Grants**

Total grant revenue is expected to be \$56.4 billion in 2026-27 and increase by an average of 1.5 per cent a year over the forward estimates, reaching \$58.9 billion in 2029-30.

General purpose grants (or GST) revenue is Victoria's largest source of grant revenue and is forecast to be \$29.2 billion in 2026-27, and then grow by an average of 0.5 per cent a year over the forward estimates. This is primarily driven by growth in the national GST pool across the forecast period, which is offset by expected declines in Victoria's GST relativity. The Commonwealth Grants Commission (CGC) has recommended that Victoria's GST relativity (GST relativity under the new GST distribution system) decline in 2026-27. This reflects a reduction in Victoria's assessed GST needs, primarily owing to COVID-19 spending dropping out of the assessment period, and lower mining royalty revenues in Western Australia and Queensland in 2024-25, with these factors being partly offset by data revisions that have increased Victoria's share of national expenses.

Victoria's GST relativity is forecast to continue to decline over 2027-28 and 2028-29, due to further declines in other jurisdictions' assessed mining royalty revenues and an increase in Victoria's share of assessed Commonwealth payments driven by increased funding for road and rail infrastructure.

## Other revenue and income

Other revenue and income includes fines, royalties, donations and gifts, assets received free of charge and other miscellaneous revenues. Other revenue and income is expected to be \$3.9 billion in 2026-27, moderating to \$3.8 billion in 2029-30.

Budget Paper No. 5, Chapter 4 *State revenue* contains further details of expected movements in the major categories of general government revenue.

## Expenses outlook

Total expenses for the general government sector are forecast to be \$114.5 billion in 2026-27 and increase by an average of 2.5 per cent a year over the forward estimates to \$123.4 billion in 2029-30.

Moderation of expenditure growth over the forward estimates supports the Government's fiscal strategy to achieve an operating surplus by 2025-26 and beyond.

- Employee expenses (including superannuation) are forecast to be \$46.6 billion in 2026-27. Average growth over the forward estimates of 3.3 per cent a year is forecast, consistent with the requirements of service delivery and enterprise bargaining agreements.
- Depreciation expense is forecast to grow to \$6.5 billion in 2026-27, and by an average of 2.3 per cent a year over the forward estimates, to \$6.9 billion by 2029-30. Growth in depreciation is broadly in line with continuing significant investment in infrastructure and the size of the State's asset base.
- Interest expense is forecast to grow to \$8.9 billion in 2026-27, and to \$11.8 billion by 2029-30, as the Government continues to borrow to invest in infrastructure as set out in the Capital Expenditure section below. Interest expense as a share of total revenue is expected to average 8.6 per cent a year over the budget and forward estimates.
- Grant expenses are forecast to grow to \$19.5 billion in 2026-27, largely due to new government initiatives announced as part of this budget. Grant expenses are then expected to decline by an average of 0.4 per cent a year over the forward estimates.
- Other operating expenses are forecast to be \$33.1 billion in 2026-27. Other operating expenses are then expected to increase by an average of 1.0 per cent a year over the forward estimates.

Budget Paper No. 5, Chapter 1 *Estimated financial statements for the general government sector* contains further details of major components of expenditure incurred by the State for the delivery of services.

## Reconciliation of estimates with the 2025-26 Budget Update

Relative to the 2025-26 Budget Update, the net result from transactions has been revised down by \$896 million in 2026-27 and by \$534 million in 2027-28, and revised up by \$388 million in 2028-29 (see Table 4.3).

**Table 4.3: Reconciliation of estimates with the 2025-26 Budget Update <sup>(a)</sup> (\$ million)**

	2026-27	2027-28	2028-29
	<i>budget</i>	<i>estimate</i>	<i>estimate</i>
<b>Net result from transactions: 2025-26 Budget Update</b>	<b>1 943</b>	<b>2 398</b>	<b>1 549</b>
<b>Policy variations</b>			
Revenue policy initiatives	(2)	..	(7)
Output policy initiatives <sup>(b)</sup>	(3 574)	(1 438)	(1 592)
	<b>(3 576)</b>	<b>(1 438)</b>	<b>(1 599)</b>
<b>Economic/demographic variations</b>			
Taxation	(876)	(474)	(443)
Investment income <sup>(c)</sup>	659	(39)	772
	<b>(216)</b>	<b>(513)</b>	<b>329</b>
<b>Commonwealth grant variations</b>			
General purpose grants	1 912	1 163	608
Specific purpose grants <sup>(d)</sup>	1 567	1 145	3 148
	<b>3 480</b>	<b>2 308</b>	<b>3 756</b>
<b>Administrative variations</b>			
Contingency offset for new policy initiatives <sup>(e)</sup>	550	350	300
Other administrative variations	(1 133)	(1 241)	(2 398)
	<b>(583)</b>	<b>(891)</b>	<b>(2 098)</b>
<b>Total variation since 2025-26 Budget Update</b>	<b>(896)</b>	<b>(534)</b>	<b>388</b>
<b>Net result from transactions: 2026-27 Budget</b>	<b>1 048</b>	<b>1 864</b>	<b>1 936</b>

*Notes:*

- (a) Figures in this table are rounded to the nearest million and may not add up to totals.
- (b) This is represented in Table 4.4 as the 2026-27 Budget output policy initiatives.
- (c) Comprises dividends and income tax and rate equivalent revenue.
- (d) Reflects the change in grant revenue as per Note 1.2.4 of Budget Paper No. 5, Chapter 1 Estimated financial statements for the general government sector less associated expense movements.
- (e) Represents releases from the provisions for future services demand allocation included in the 2026-27 Budget new output initiatives. Further information on total output contingencies can be found at Note 1.3.7 of Budget Paper No. 5, Chapter 1 Estimated financial statements for the general government sector.

## Policy variations

Policy variations reflect specific initiatives by the Government that have a fiscal impact and are related to a new policy or represent a change in the Government's existing policy position since the *2025-26 Budget Update*.

The *2026-27 Budget* funds \$13.8 billion in new output initiatives over the five years to 2029-30. Table 4.4 shows the impact of the new output initiatives in this budget from 2026-27 to 2029-30.

Details of specific new output, savings and revenue policy initiatives are contained in Budget Paper No. 3, Chapter 1 *Output, asset investment, savings and revenue initiatives*.

**Table 4.4: Net impact of the 2026-27 Budget new output initiatives<sup>(a)</sup> (\$ million)**

	2026-27 budget	2027-28 estimate	2028-29 estimate	2029-30 estimate
<b>New output initiatives</b>	<b>4 274</b>	<b>3 033</b>	<b>2 332</b>	<b>2 254</b>
Less:				
Reprioritisations and revenue offsets <sup>(b)</sup>	432	159	70	139
Adjustments <sup>(c)</sup>	231	1 216	502	321
Savings <sup>(d)</sup>	38	220	167	183
<b>2026-27 Budget output policy initiatives</b>	<b>3 574</b>	<b>1 438</b>	<b>1 592</b>	<b>1 611</b>
Less: contingency offset for new policy <sup>(e)</sup>	550	350	300	300
<b>Net impact</b>	<b>3 024</b>	<b>1 088</b>	<b>1 292</b>	<b>1 311</b>

Notes:

(a) Figures in this table are rounded to the nearest million and may not add up to totals.

(b) This includes the reprioritisation of resources previously allocated to departments and revenue offsets.

(c) Primarily incorporates the net impact of the specific creation and release of contingencies held for decisions made but not yet allocated.

(d) Includes output savings only.

(e) Represents releases from the provisions for future services demand allocation associated with 2026-27 Budget new output initiatives. Further information on total output contingencies can be found at Note 1.3.7 of Budget Paper No. 5, Chapter 1 Estimated financial statements for the general government sector.

## Economic and demographic variations

Since the *2025-26 Budget Update*, Victoria's taxation revenue has been revised down by an average of \$598 million per year from 2026-27 to 2028-29, largely due to downgrades in property taxes in the context of higher interest rates.

Variations in dividends and income tax equivalent revenue by sector and entity are contained in Note 1.2.2 of Budget Paper No. 5, Chapter 1 *Estimated financial statements for the general government sector*.

## Commonwealth grants variations

Commonwealth general purpose grants revenue (or GST grants) has been revised up by an average of \$1.2 billion a year from 2026-27 to 2028-29 compared with the *2025-26 Budget Update*. These changes were driven by an upgrade to the national GST pool forecast, largely reflecting stronger than expected receipts in 2025-26 reflecting a new, stronger starting point for future growth. The forecast profile for Victoria's GST sharing relativity has also been revised up, principally in 2026-27 and 2027-28, mainly reflecting the outcomes of the Commonwealth Grants Commission's 2026 Update and updates to forecast commodity prices.

Net changes to specific purpose grants are expected to improve the operating result by an average of \$2.0 billion a year from 2026-27 to 2028-29 compared with the *2025-26 Budget Update*. The movements primarily reflect increased grant revenue expected from the Commonwealth for existing infrastructure projects as well as the latest, recently signed five-year National Health Reform Agreement (NHRA).

## Administrative variations

Other administrative variations are expected to reduce the operating result by an average of \$1.6 billion a year from 2026-27 to 2028-29 compared with the *2025-26 Budget Update*. The variations include:

- adjustments to the provisions for future services demand allocation that are outlined in Note 1.3.7 of Budget Paper No. 5, Chapter 1 *Estimated financial statements for the general government sector*
- an increase in Treasury Corporation of Victoria (TCV) interest expense estimates due to an increase in TCV bond yields
- adjustments to the classification of expected payments from the public financial corporations (PFC) sector.

## Capital expenditure

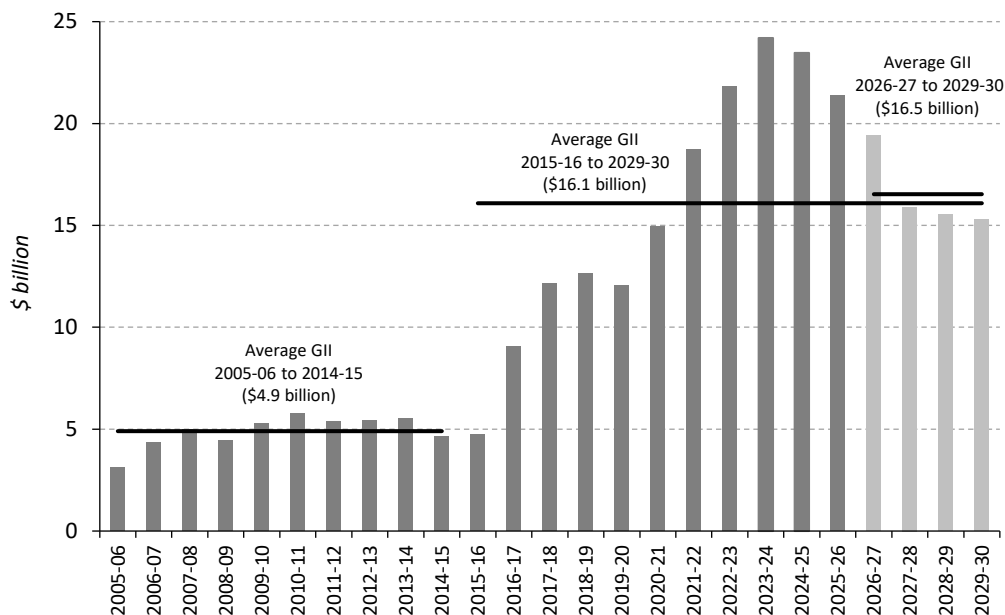
Government infrastructure investment (GII) measures investment funded by the Government and estimated private sector construction-related expenditure on public private partnership projects.

The *2026-27 Budget* includes \$4.4 billion total estimated investment (TEI) for targeted new capital investment in critical areas including new and upgraded schools, new trains, maintaining the State's road and rail networks, and essential health and emergency services infrastructure and equipment.

The Government's infrastructure program delivers the necessary level of capital investment for Victoria's future and provides a clear forward pipeline to the engineering, construction and manufacturing sectors involved in building new infrastructure.

Budget Paper No. 3, Chapter 1 *Output, asset investment, savings and revenue initiatives* provides details of new individual asset initiatives committed since the *2025-26 Budget Update*.

**Chart 4.1: Government infrastructure investment <sup>(a)(b)(c)</sup>**



**Notes:**

- (a) Includes general government net infrastructure investment and the estimated cash flows for public private partnership projects.
- (b) Includes the estimated private sector construction-related expenditure associated with the North East Link held in the PNFC sector.
- (c) Excludes the impact of the medium-term lease over the operations of the Port of Melbourne and the divestment of Victoria's share of Snowy Hydro Limited.

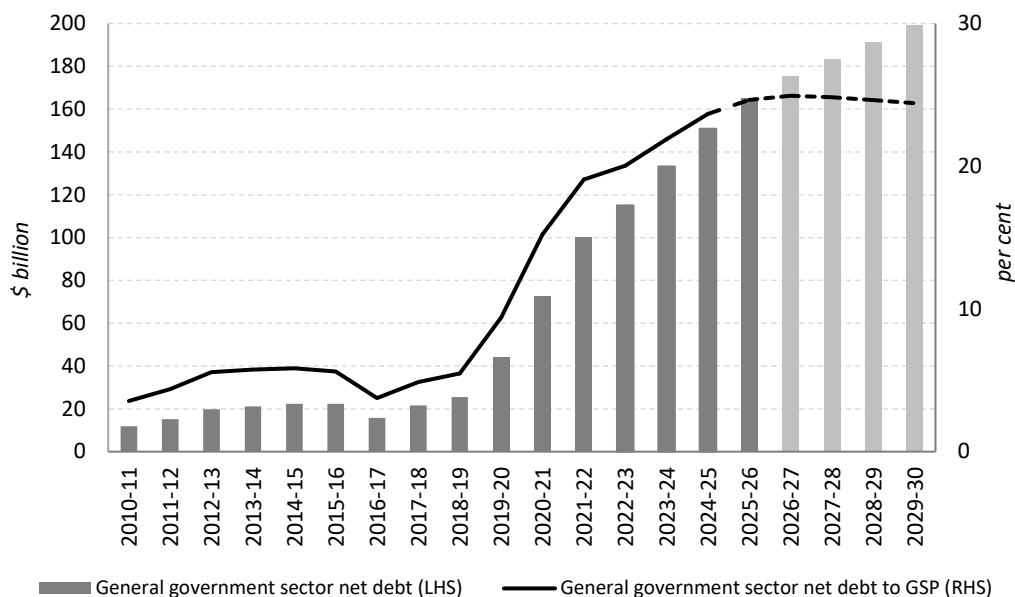
## Net debt

Throughout the pandemic, the Government prioritised the use of its balance sheet to support the Victorian community and economy. This approach was consistent with stimulus approaches elsewhere in Australia and around the world.

Stabilising and reducing net debt as a percentage of GDP – the fourth and fifth steps in the Government’s fiscal strategy – are important objectives for the Government. Net debt is expected to be \$175.6 billion at June 2027 and increase to \$199.3 billion by June 2030. Compared with the 2025-26 Budget Update, net debt is lower across all published years.

As a proportion of GDP, net debt is projected to reach 24.9 per cent at June 2027 before declining to 24.8 per cent by June 2028, 24.6 per cent by June 2029 and then declining further to 24.4 per cent by June 2030. Compared with the 2025-26 Budget Update, net debt to GDP is lower across all published years.

**Chart 4.2: General government net debt to GDP**



The application of cash resources for the general government sector (see Table 4.5) outlines the annual movements in net debt.

**Table 4.5: Application of cash resources for the general government sector <sup>(a)</sup> (\$ million)**

	2024-25 <i>actual</i>	2025-26 <i>revised</i>	2026-27 <i>budget</i>	2027-28 <i>estimate</i>	2028-29 <i>estimate</i>	2029-30 <i>estimate</i>
<b>Net result from transactions</b>	<b>(2 626)</b>	<b>727</b>	<b>1 048</b>	<b>1 864</b>	<b>1 936</b>	<b>1 972</b>
Add back: Operating cash flows not recognised in the net operating balance <sup>(b)</sup>	5 858	6 210	5 429	4 427	4 515	4 566
<b>Net cash flows from operating activities</b>	<b>3 233</b>	<b>6 937</b>	<b>6 477</b>	<b>6 291</b>	<b>6 451</b>	<b>6 538</b>
<b>Less: Total net investment in fixed assets <sup>(c)</sup></b>	<b>19 619</b>	<b>19 840</b>	<b>16 817</b>	<b>13 736</b>	<b>14 304</b>	<b>14 661</b>
<b>Surplus/(deficit) of cash from operations after funding net investment in fixed assets</b>	<b>(16 387)</b>	<b>(12 903)</b>	<b>(10 340)</b>	<b>(7 445)</b>	<b>(7 853)</b>	<b>(8 123)</b>
Less:						
Leases and service concession arrangements <sup>(d)</sup>	2 413	1 576	581	589	583	478
Other movements	(1 169)	(1)	(707)	(424)	(481)	(422)
<b>Decrease/(increase) in net debt</b>	<b>(17 630)</b>	<b>(14 478)</b>	<b>(10 215)</b>	<b>(7 610)</b>	<b>(7 956)</b>	<b>(8 180)</b>

Notes:

- (a) Figures in this table are rounded to the nearest million and may not add up to totals.
- (b) Includes depreciation, prepayments and movements in the superannuation liability and liability of employee benefits for the year, and the progressive unwinding of the grant of a right to the operator liability.
- (c) Includes total purchases of plant, property and equipment, and net capital contributions to other sectors of government net of proceeds from asset sales.
- (d) Includes most operating leases, which are required to be recognised as lease liabilities, and also includes the financial liabilities relating to public private partnership projects.

## Unfunded superannuation liability

The Government is on track to fully fund the State's unfunded superannuation liability by 2035. Note 1.3.3 of Budget Paper No. 5, Chapter 1 *Estimated financial statements for the general government sector* shows information on the reported superannuation liability.

## FISCAL RISKS

This section discusses a number of risks that, if realised, are likely to affect the State's financial position and budget outcomes.

Details of specific contingent assets and liabilities, defined as possible assets or liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, are contained within Budget Paper No. 5, Chapter 6 *Contingent assets and contingent liabilities*.

### General fiscal risks

There are risks to Victoria's economic outlook and the forecasts are subject to uncertainty. These risks have increased in recent months and are elevated.

Risks to the Victorian outlook from the global environment have increased amid a highly uncertain geopolitical backdrop. The conflict in the Middle East is affecting global energy markets, supply chains and asset markets. Energy prices have risen sharply as supply has been curtailed. This will lead to higher global and national inflation, which will weigh on economic growth. However, the trajectory of the conflict is highly uncertain, including its duration, which means the magnitude of these economic impacts is uncertain. A longer or more expansive conflict could weigh heavily on global and national economic growth.

The outlook for overall domestic inflationary pressure, and hence the outlook for interest rates, remains a key source of uncertainty. The re-emergence of inflation pressures in Australia led the Reserve Bank of Australia (RBA) to raise interest rates twice in early 2026, and at least one further rate increase in 2026 is widely expected. Inflation pressures were emerging even before the start of the Middle East conflict and the resulting spike in fuel costs. If inflation rises more than expected, the RBA could raise rates further than currently anticipated. The stance of monetary policy will affect the outlook for economic activity and employment growth, with flow-on impacts on revenue and expenditure. For example, GST revenue, land transfer duty revenue and interest expense are linked to changes in economic growth, inflation and/or interest rates.

The Government's forecast revenues, expenses and borrowings are predicated on a series of assumptions, including those related to the global economy. If these assumptions do not eventuate, the actual financial outcomes may differ from the Government's current budget.

Chapter 6 *Sensitivity analysis* contains information on the impact of variations in the macroeconomic outlook on the Government's key fiscal aggregates. Chapter 6 models the impacts of a more protracted Middle East conflict with higher global oil prices than assumed in the baseline economic forecasts, as well as the impacts of an upside scenario of a lower trend unemployment rate.

Further detail on the economic outlook and risks to the outlook is included in Chapter 2 *Economic context*.

## **State taxes**

State tax forecasts are primarily modelled on the relationships between taxation revenue and projected economic variables. As a result, the main source of uncertainty for state taxation estimates is unforeseen changes in the economic outlook.

Uncertainty in global conditions, particularly the conflict in the Middle East, is a risk to the Victorian economy and state taxation revenue. A longer or more severe conflict could put further upward pressure on global energy prices. Higher prices and prolonged uncertainty may cause households and firms to defer spending and business expansion decisions, posing downside risks to tax revenues. Conversely, higher than expected inflation may increase the nominal value of Victoria's tax bases which could drive higher revenues.

Victoria's labour market remains healthy, and a higher inflationary environment could factor into wage negotiations, leading to higher than expected wage growth and bolstering the revenue outlook for taxes on employers' payroll and labour force. However, there remain risks around employers' responses to the expected moderation in economic growth, where lower than expected hours worked or lower employment growth could weigh on taxes on employers' payroll.

## **Property-related taxes**

Revenue from property-based taxes is subject to unique risks, and historically has been volatile, as property markets can exhibit large cycles typically related to changes in interest rates and buyer sentiment.

Property prices and transaction volumes reached cyclical peaks in late 2025, shortly before interest rates began to rise. Both prices and volumes approached pandemic-era highs and have since declined moderately. However, borrowing costs may rise more than expected in the near term, or remain elevated for longer, presenting risks to revenue from land transfer duty in the near term and land tax in the medium term. Market activity for non-residential properties is also at risk of slowing, with accelerated inflationary pressures possibly pausing investment decisions. If investors delay purchasing decisions, this could lead to lower transaction volumes. At the same time, stronger income growth and improving interstate migration, combined with the relative affordability of Victorian dwellings, pose upside risks to property-related taxes.

## **Interest expenses**

The State's debt portfolio is made up predominantly of fixed-interest debt, which means that most of the interest expense on existing debt is not exposed to movements in interest rates. However, typically 6 to 10 per cent of this debt matures each year and must be refinanced at the prevailing market interest rate. The interest expense on the refinancing of maturing debt, along with new borrowings and a small proportion of floating-rate notes in the portfolio, are subject to changes in interest rates.

The interest rate forecasts used in the estimates for interest expenses are based on the forward interest rates derived from the yield curve for the Treasury Corporation of Victoria (TCV) bonds traded in financial markets. Currently, TCV's yield curve is upward sloping, implying that future interest rates will be higher than current interest rates. Consequently, the interest expense estimates assume that the average interest rate on new and refinanced borrowings will increase over time.

## **Employee expenses**

Employee expenses are the State's largest expense. Two important determinants of employee expenses are wages growth and the number of employees. Wages growth is primarily driven by enterprise bargaining agreements, which are subject to the Government's Wages Policy. Other factors contributing to projected employee expenses include the anticipated composition and profile of the workforce.

## **Demand for government services**

Another key uncertainty is whether growth in demand for government services will be lower or higher than current projections. This can occur, for example, as a result of higher than forecast population growth or expenditure in response to unforeseen events such as natural disasters, including bushfires and floods.

The estimates incorporate contingency provisions to mitigate the impacts of expenditure risks that may be realised during the next four years. The contingency provisions are sized to allow for growth in Victoria's population and the derived increased demand for government services.

Note 1.3.7 and Note 1.3.8 of Budget Paper No. 5, Chapter 1 *Estimated financial statements for the general government sector* disclose general government output and asset contingencies not allocated to departments.

## Capital program risks

Commonwealth investment in the joint infrastructure program included in the *Commonwealth Budget 2025-26* and *Mid-Year Economic and Fiscal Outlook 2025-26* continued the positive trend in strengthening the partnership to fund nationally significant projects.

Victoria and other jurisdictions across Australia have addressed challenges with the supply of labour and materials by moderating their major public transport infrastructure expenditure and investing in programs to increase the supply of skilled workers. While materials cost growth was easing prior to the start of the conflict in the Middle East, nationwide shortfalls in skilled labour across the construction industry remain a challenge.

Recent cost increases in fuel and other key supply chain inputs will create escalation pressure across the construction program of all jurisdictions. The potential for such cost pressures to materialise during construction is the reason projects include provisions for cost escalation.

## Specific fiscal risks

### Commonwealth schools funding

In January 2025, Victoria signed the 10-year multilateral Better and Fairer Schools (BFS) head agreement. It will run from 1 January 2025 to 31 December 2034. The multilateral agreement will be supported by a bilateral agreement which sets out the agreed trajectory in Schooling Resource Standard (SRS) funding. On 8 December 2025, Victoria signed an interim bilateral agreement that outlines SRS commitments for 2026 while negotiations continue with the Commonwealth on a long-term bilateral agreement.

Estimates of funding required to acquit the SRS target each year are based on estimated student numbers and profile projections and are subject to indexation.

As expenditure targets are based on actual rather than forecast student data, there is a risk that allocated funding does not meet final expenditure targets.

### Commonwealth housing funding

The National Agreement on Social Housing and Homelessness (NASHH) was signed by the Commonwealth, states and territories in May 2024 for the term 1 July 2024 to 30 June 2029.

Commonwealth funding contributions are indexed annually by wage inflation and funding is allocated among the states on a population basis; therefore, annual payments may vary from estimates.

Victoria is required to match the Commonwealth's funding contribution towards the homelessness component of funding. The matched funding requirement could vary from estimates due to actual indexation and population share diverging from budget estimates.

## **Disability funding arrangements**

The National Cabinet meeting on 30 January 2026 agreed to significant changes to Australia's disability services and funding, outlined in the Heads of Agreement on the National Health Reform Agreement, NDIS reforms and Foundational Supports.

These included:

- an increase in Victoria's NDIS contribution rate from 4 per cent to be in line with actual NDIS growth, capped at 8 per cent, from 1 July 2028, to be reviewed before 1 July 2031
- a new National Agreement on Foundational Supports (NAFS) to strengthen the broader support system outside the NDIS for agreed cohorts.

The Heads of Agreement included that Thriving Kids would be the initial focus of Foundational Supports, with a bilateral schedule specifying the details to be subsequently agreed. Thriving Kids will support children aged 8 and under with developmental delay and autism with low to moderate support needs. Some services will commence from 1 October 2026, with full implementation by 1 January 2028.

Foundational Supports for further specific cohorts will be negotiated as bilateral schedules to the NAFS, with the potential financial and service delivery impacts for Victoria to be considered as part of agreeing to future schedules.

In line with Victoria's Bilateral agreement with the Commonwealth on the NDIS, a reallocation of all state and territory contributions will occur on 1 July 2028 in line with each state and territory's share of the national population. This will likely result in increased NDIS contributions for Victoria.

## **Commonwealth health funding**

The National Health Reform Agreement (NHRA) sets out joint responsibility between the states and territories and the Commonwealth for supporting Australia's public hospital system. On 3 February 2026, Victoria signed a new five-year NHRA Addendum for the period 1 July 2026 to 30 June 2031.

Commonwealth funding under the new agreement is calculated based on eligible activity delivered, multiplied by the National Efficient Price and the Commonwealth Contribution Rate up to an annual funding cap.

The new agreement includes a minimum funding guarantee (MFG), which amounts to a locked-in trajectory of revenue that was previously contingent on the level of additional activity delivered in public hospitals each year. The MFG guarantees a minimum level of revenue for Victoria in each year of the agreement, irrespective of activity delivered, reducing forward uncertainty from variation in Commonwealth revenue. Commonwealth funding contributions above the MFG, but below the NHRA revenue cap are still contingent on eligible activity delivered.

## National Skills Agreement

The National Skills Agreement (NSA) commenced on 1 January 2024 and expires on 31 December 2028.

The NSA provides access to up to \$3.2 billion in funding to Victoria over the five-year term of the agreement. This includes up to \$231 million in funding to Victoria for specific policy initiatives, subject to matched funding. Victoria has signed overarching implementation plans for all seven specific policy initiatives under the NSA. Finalisation of specific initiatives under implementation plans may vary Victoria's revenue under the agreement in the forward estimates.

## Victoria's GST revenue

Victoria's goods and services tax (GST) revenue is broadly determined by three factors:

- the amount of GST collected by the Commonwealth (the national GST pool)
- Victoria's GST relativity
- Victoria's share of the national population.

The national GST pool is dependent on nominal consumption across Australia, and its outlook is influenced by macroeconomic conditions. Uncertainty from global conditions, particularly geopolitical developments, presents risks to the outlook for national consumption. There is uncertainty around the national inflation outlook and the path for the RBA cash rate. Higher consumer prices would support higher nominal household consumption. Conversely, higher than expected interest rates could weigh on household disposable income and weigh on household consumption.

GST relativities are used to distribute the national GST pool and are sensitive to a broad range of factors, including demographics, infrastructure needs, property market outcomes and global commodity prices (particularly for iron ore, thermal coal and coking coal). These factors are exacerbated by the conflict in the Middle East and the consequential impacts on the Australia economy; further details can be found in Chapter 2 *Economic context*.

Victoria's population share is affected by evolving migration patterns that might result in a decline or an increase in Victoria's population growth compared with other states, which would affect Victoria's share of GST.

### ***Commonwealth no-worse-off guarantee for GST entitlement***

In 2018, the Commonwealth changed the GST distribution system. During a six-year transition period commencing in 2021-22, each state or territory is entitled to receive additional Commonwealth financial assistance to ensure it is no worse off compared with its GST entitlement had the Commonwealth not changed the system. The no-worse-off guarantee was legislated until the end of the transition period in 2026-27. On 29 November 2024, the Council on Federal Financial Relations signed an agreement to extend the guarantee for three years to 2029-30, to provide funding certainty for states and territories for that period.

The Commonwealth's *Mid-Year Economic and Fiscal Outlook 2025-26* projects that, without the guarantee, Victoria would lose \$8.3 billion in GST revenue between 2025-26 and 2028-29. The 2018 changes are currently the subject of a Productivity Commission inquiry, through which Victoria is advocating for a return to the former GST distribution system of full horizontal fiscal equalisation. The final report from the inquiry must be provided to the Commonwealth Treasurer by 31 December 2026. More information on Victoria's submission to the Inquiry is presented in Budget Paper No. 5, Chapter 4 *State Revenue*, Box 4.3: *The Victorian Government is fighting for Victoria's fair share of GST*.



## CHAPTER 5 – POSITION AND OUTLOOK OF THE BROADER PUBLIC SECTOR

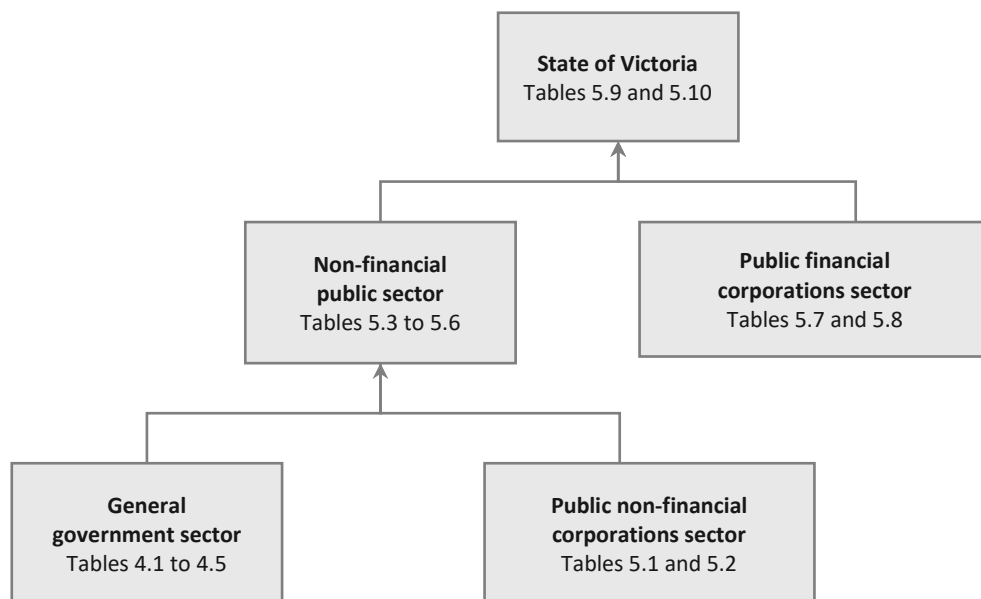
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- The net result from transactions of the public non-financial corporation (PNFC) sector is expected to be a deficit of \$1 billion in 2026-27 and remain in deficit over the forward estimates. Once non-cash items are removed, such as depreciation and movements in liabilities for employee benefits, the operating cash flow surplus of the PNFC sector is expected to average \$1.6 billion a year over the budget and forward estimates period.
- The net result from transactions of the non-financial public sector (NFPS), which includes both the general government and the PNFC sectors, is expected to improve from a deficit of \$2.9 billion in 2026-27 to a deficit of \$2.3 billion in 2029-30. The sector improvement mainly reflects the improved operating performance of the general government sector, which is outlined in Chapter 4 *Budget position and outlook*.
- The net result from transactions of the public financial corporations (PFC) sector is expected to deteriorate from a deficit of \$1.8 billion in 2026-27 to a deficit of \$2.1 billion in 2029-30. After allowing for other economic flows, which primarily relate to unrealised capital gains on the investments held by the State's insurance agencies and movements in deferred tax assets, the net result for the PFC sector is expected to improve from a surplus of \$504 million in 2026-27 to a surplus of \$1.1 billion in 2029-30.
- The net result from transactions of the State of Victoria, which combines the NFPS and PFC sector, is projected to improve from a deficit of \$5.7 billion in 2026-27 to a deficit of \$5.1 billion in 2029-30.
- As a proportion of gross state product (GSP), NFPS net debt is estimated to average 30.3 per cent over the budget and forward estimates.

This chapter provides an overview of the activities of the broader public sector, comprising:

- the NFPS, which consolidates the general government and the PNFC sectors. The general government sector is discussed in Chapter 4 *Budget position and outlook*. The PNFC sector comprises a wide range of entities that provide services that are primarily funded by user charges and fees. The main services provided by PNFCs include water, housing and transport
- the State of Victoria, which consolidates the NFPS and the PFC sector. PFCs can be categorised into two broad types: those that provide services to the general public and businesses (such as WorkSafe Victoria, the Transport Accident Commission, Breakthrough Victoria and State Trustees Limited), and those that predominantly provide financial services to other government entities (such as the Victorian Funds Management Corporation, Treasury Corporation of Victoria and the Victorian Managed Insurance Authority).

The following chart shows the relationship between the various sectors of the State and indicates the relevant tables that disclose the data on these sectors within this budget paper.



## PUBLIC NON-FINANCIAL CORPORATIONS SECTOR

Tables 5.1 and 5.2 summarise the operating statement and financial position for the PNFC sector. A comprehensive operating statement and balance sheet are presented in Budget Paper No. 5, Chapter 2 *Supplementary uniform presentation framework tables*.

**Table 5.1: Summary operating statement for the PNFC sector <sup>(a)</sup>** (\$ million)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	actual	revised	budget	estimate	estimate	estimate
<b>Revenue and income from transactions</b>						
Taxation	..	..	..	..	..	..
Interest income	140	145	115	100	107	113
Dividend income	29	34	31	32	35	35
Sales of goods and services	8 093	8 847	9 246	9 757	10 504	11 315
Grants	2 597	2 784	2 685	2 113	2 083	2 108
Other revenue and income	843	658	712	765	815	870
<b>Total revenue and income from transactions</b>	<b>11 701</b>	<b>12 468</b>	<b>12 788</b>	<b>12 767</b>	<b>13 545</b>	<b>14 440</b>
<i>per cent change</i>	5.6	6.6	2.6	-0.2	6.1	6.6
<b>Expenses from transactions</b>						
Employee expenses	2 114	2 294	2 391	2 356	2 402	2 485
Superannuation:						
Net superannuation interest expense	2	4	4	4	4	4
Other superannuation	225	243	255	259	265	272
Depreciation	2 360	2 540	2 526	2 565	2 794	3 017
Interest expense	1 052	1 225	1 477	1 638	1 953	2 296
Grant expense	578	614	715	486	499	524
Other operating expenses	5 302	6 357	6 344	5 979	6 203	6 579
Other property expenses	189	171	116	118	201	176
<b>Total expenses from transactions</b>	<b>11 822</b>	<b>13 449</b>	<b>13 829</b>	<b>13 406</b>	<b>14 320</b>	<b>15 353</b>
<i>per cent change</i>	6.7	13.8	2.8	-3.1	6.8	7.2
<b>Net result from transactions – net operating balance</b>	<b>(121)</b>	<b>(981)</b>	<b>(1 040)</b>	<b>(638)</b>	<b>(776)</b>	<b>(913)</b>
Total other economic flows included in net result	(12 947)	(25 575)	(2 178)	(4 906)	(3 138)	(2 244)
<b>Net result</b>	<b>(13 068)</b>	<b>(26 557)</b>	<b>(3 218)</b>	<b>(5 545)</b>	<b>(3 914)</b>	<b>(3 157)</b>

Note:

(a) This is a summary operating statement. The comprehensive operating statement is presented in Budget Paper No. 5, Chapter 2 *Supplementary uniform presentation framework tables*.

PNFC sector total revenue is forecast to increase from \$12.8 billion to \$14.4 billion over the budget and forward estimates. This is primarily driven by estimated revenue from the sales of goods and services by the water corporations, together with forecast higher demand. Higher sales of goods and services is offsetting reduced transfers to Homes Victoria in 2027-28.

PNFC sector total expenses from transactions is also forecast to increase from \$13.8 billion to \$15.4 billion over the budget and forward estimates. This is largely driven by higher interest expenses, depreciation and other operating expenses over the budget and forward estimates.

Overall, the net result from transactions of the PNFC sector is projected to remain in deficit over the budget and forward estimates period, reporting a deficit of \$1 billion in 2026-27 and reducing over the estimates period.

Other economic flows for the PNFC sector largely reflect the derecognition of the rail assets under AASB 16 Leases at nominal value. Budget Paper No. 5, Chapter 1 *Estimated financial statements for the general government sector* contains more information on this arrangement. Other economic flows are expected to be negative \$25.6 billion in 2025-26, largely due to the derecognition of completed Metro Tunnel assets transferred to VicTrack from the Department of Transport and Planning. Other economic flows stabilise from 2026-27 to an average of negative \$3.1 billion over the forecast period.

**Table 5.2: Financial position of the PNFC sector** (\$ billion)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	<i>actual</i>	<i>revised</i>	<i>budget</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>
<b>Assets</b>						
Financial assets <sup>(a)</sup>	6.5	6.3	5.2	5.2	5.3	5.3
Non-financial assets <sup>(b)</sup>	135.8	145.2	154.7	160.0	164.7	168.1
<b>Total assets</b>	<b>142.2</b>	<b>151.5</b>	<b>159.9</b>	<b>165.2</b>	<b>170.0</b>	<b>173.4</b>
<b>Liabilities</b>						
Borrowings	26.5	30.8	37.1	40.7	44.9	48.5
Other provisions	23.7	23.9	23.8	23.8	23.8	23.7
Other liabilities <sup>(c)</sup>	14.6	14.5	14.4	15.0	15.2	15.3
<b>Total liabilities</b>	<b>64.7</b>	<b>69.3</b>	<b>75.3</b>	<b>79.5</b>	<b>83.9</b>	<b>87.5</b>
<b>Net assets</b>	<b>77.5</b>	<b>82.2</b>	<b>84.6</b>	<b>85.7</b>	<b>86.1</b>	<b>85.9</b>

*Notes:*

- (a) *Financial assets include cash and deposits, advances paid, investments, loans and placements, receivables, and investments accounted for using the equity method.*
- (b) *Land, buildings, infrastructure, plant and equipment, and other non-financial assets.*
- (c) *Other liabilities consist of payables, employee benefits, deposits held and advances received, superannuation, contract liabilities, unearned income and grant of a right to the operator liability.*

The PNFC sector is projected to report a net asset position of \$84.6 billion at 30 June 2027, before increasing to \$85.9 billion at 30 June 2030. This is primarily due to capital investments to be undertaken by the metropolitan water corporations, State Tolling Corporation and Homes Victoria. The increase in total assets is partly offset by an increase in borrowings to fund a proportion of the capital works to be undertaken by the water corporations. In addition, the increase in total assets is also partly offset by the progressive recognition of State Electricity Commission right of use liability and the service concession liability for the State Tolling Corporation as part of the North East Link project.

## NON-FINANCIAL PUBLIC SECTOR

This section provides a summary of the key performance indicators for the NFPS by combining the PNFC sector and the general government sector, noting that adjustments are made for transactions between the two sectors.

The net result from transactions of the NFPS is expected to improve from a deficit of \$2.9 billion in 2026-27 to a deficit of \$2.3 billion in 2029-30. The sector improvement mainly reflects the improved operating performance of the general government sector, which is outlined in Chapter 4 *Budget position and outlook*.

**Table 5.3: Summary operating statement for the non-financial public sector <sup>(a)</sup> (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	<i>actual</i>	<i>revised</i>	<i>budget</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>
<b>Revenue and income from transactions</b>						
Taxation	38 389	40 944	42 567	45 712	47 473	49 654
Interest income	1 081	1 128	1 164	1 006	998	1 000
Dividends, income tax equivalent and rate equivalent income	1 997	1 558	2 019	984	1 753	1 729
Sales of goods and services	14 615	16 250	17 194	18 113	18 896	19 865
Grants	47 324	55 255	56 392	55 693	57 052	58 968
Other revenue and income	5 250	4 659	4 614	4 440	4 541	4 675
<b>Total revenue and income from transactions</b>	<b>108 656</b>	<b>119 794</b>	<b>123 949</b>	<b>125 948</b>	<b>130 713</b>	<b>135 892</b>
<i>per cent change</i>	<i>8.8</i>	<i>10.3</i>	<i>3.5</i>	<i>1.6</i>	<i>3.8</i>	<i>4.0</i>
<b>Expenses from transactions</b>						
Employee expenses	40 510	42 398	43 399	45 102	46 673	47 856
Superannuation:						
Net superannuation interest expense	785	788	811	796	737	676
Other superannuation	4 748	4 962	4 911	5 113	5 268	5 410
Depreciation	9 265	11 429	11 714	11 955	12 438	13 075
Interest expense	7 298	8 569	9 901	10 855	12 164	13 679
Grant expense	15 042	15 992	17 344	16 643	17 015	17 504
Other operating expenses	35 280	39 007	38 725	37 243	38 403	39 999
<b>Total expenses from transactions</b>	<b>112 928</b>	<b>123 144</b>	<b>126 805</b>	<b>127 708</b>	<b>132 699</b>	<b>138 200</b>
<i>per cent change</i>	<i>7.2</i>	<i>9.0</i>	<i>3.0</i>	<i>0.7</i>	<i>3.9</i>	<i>4.1</i>
<b>Net result from transactions – net operating balance</b>	<b>(4 273)</b>	<b>(3 351)</b>	<b>(2 856)</b>	<b>(1 760)</b>	<b>(1 985)</b>	<b>(2 308)</b>
Total other economic flows included in net result	589	(755)	(98)	186	(60)	(42)
<b>Net result</b>	<b>(3 683)</b>	<b>(4 105)</b>	<b>(2 954)</b>	<b>(1 574)</b>	<b>(2 046)</b>	<b>(2 351)</b>

Note:

(a) This is a summary operating statement. The comprehensive operating statement is presented in Budget Paper No. 5, Chapter 2 Supplementary uniform presentation framework tables.

## Application of cash resources

Table 5.4 shows the net cash flows from operating activities of the NFPS is projected to improve slightly from a surplus of \$7.6 billion in 2026-27 to a surplus of \$8.0 billion by 2029-30. The surplus net cash flows from operating activities funds 31 per cent of the projected net investment in fixed assets in 2026-27, with this expected to increase to 41 per cent by 2029-30. The remaining investment in fixed assets is largely funded by borrowings.

**Table 5.4: Application of cash resources for the non-financial public sector (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	<i>actual</i>	<i>revised</i>	<i>budget</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>
Net result from transactions	(4 273)	(3 351)	(2 856)	(1 760)	(1 985)	(2 308)
Add back: operating cash flows not recognised in the net operating balance <sup>(a)</sup>	8 972	10 651	10 426	9 947	9 879	10 297
<b>Net cash flows from operating activities</b>	<b>4 699</b>	<b>7 300</b>	<b>7 570</b>	<b>8 188</b>	<b>7 894</b>	<b>7 989</b>
Less: Total net investment in fixed assets <sup>(b)</sup>	22 126	23 553	24 395	18 724	19 785	19 702
<b>Surplus/(deficit) of cash from operations after funding net investments in fixed assets</b>	<b>(17 427)</b>	<b>(16 253)</b>	<b>(16 825)</b>	<b>(10 536)</b>	<b>(11 891)</b>	<b>(11 713)</b>
Less:						
Leases and service concession arrangements <sup>(c)</sup>	3 716	3 094	1 438	1 198	819	577
Other movements	(1 221)	(64)	(313)	(337)	(369)	(391)
<b>Decrease/(increase) in net debt</b>	<b>(19 922)</b>	<b>(19 283)</b>	<b>(17 949)</b>	<b>(11 397)</b>	<b>(12 341)</b>	<b>(11 899)</b>

*Notes:*

- (a) *Includes depreciation, prepayments and movements in the superannuation liability and liability of employee benefits for the year, and the progressive unwinding of the grant of a right to the operator liability.*
- (b) *Includes total purchases of plant, property and equipment, and capital contributions to other sectors of government net of proceeds from asset sales.*
- (c) *Includes most operating leases which are now required to be recognised as lease liabilities. It also includes financial liabilities relating to public private partnerships including the Frankston Hospital Redevelopment, the High Capacity Metro Trains, the Homes Victoria Ground Lease Model Project 2, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital, the North East Link – Primary Package (Tunnels), the Nyaal Banyul Geelong Convention and Event Centre, and the West Gate Tunnel.*

## Infrastructure

Table 5.4 also provides estimates of the net investment in fixed assets and shows investments in infrastructure that are not funded by the NFPS operating surplus or the proceeds of fixed asset sales. The total net investment in fixed assets by the NFPS is projected to average \$20.7 billion a year over the budget and forward estimates.

The infrastructure projects under development in the PNFC sector are outlined in Budget Paper No. 4, Chapter 3 *Public non-financial corporations capital program*.

Significant infrastructure projects in the PNFC sector include:

- investment in transport infrastructure and rolling stock to meet patronage growth and improve network performance. This includes the new metropolitan trains, trams and stabling and maintenance facilities for rolling stock
- the State Electricity Commission's investments in the Renewable Energy Park – Horsham and the Delburn Wind Farm
- investment to deliver the North East Link – Primary Package (Tunnels) by the State Tolling Corporation
- various water and sewer-related infrastructure projects, such as the Western Treatment Plant primary treatment capacity augmentation, the Western Treatment Plant 5 West nutrient removal plant, the rollout of digital water meters, and the Gisborne recycled water plant upgrade.

## Non-financial public sector net debt and net financial liabilities

Table 5.5 details the NFPS net debt and superannuation liabilities. It shows that NFPS net debt is expected to increase from \$212.5 billion at 30 June 2027 to \$248.1 billion by 30 June 2030. The increase in net debt is predominately due to additional borrowings required by the general government sector to fund the State's infrastructure investment program. As a proportion of GSP, NFPS net debt is expected to increase slightly from 30.2 per cent at 30 June 2027 to 30.4 per cent at 30 June 2030.

The NFPS superannuation liability, which primarily resides in the general government sector and largely relates to the former State Superannuation Fund, is projected to decrease over the budget and forward estimates. This reduction reflects the Government's ongoing commitment to fully fund the State Superannuation Fund's unfunded superannuation liability by 2035.

Overall, the net financial liabilities to GSP ratio is projected to decrease slightly from 38.5 per cent in 2026-27 to 36.9 per cent in 2029-30.

**Table 5.5: Non-financial public sector net debt and net financial liabilities** (\$ billion)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	actual	revised	budget	estimate	estimate	estimate
<b>Assets</b>						
Cash and deposits	15.9	15.8	14.7	14.6	15.1	15.7
Advances paid	0.5	0.4	0.4	0.3	0.3	0.3
Investment, loans and placements	18.7	20.8	22.2	23.7	25.1	26.5
<b>Total</b>	<b>35.2</b>	<b>37.0</b>	<b>37.3</b>	<b>38.6</b>	<b>40.5</b>	<b>42.5</b>
<b>Liabilities</b>						
Deposits held and advances received	1.9	1.8	1.9	1.8	1.8	1.8
Borrowings	208.5	229.7	247.9	260.6	274.9	288.8
<b>Total</b>	<b>210.4</b>	<b>231.6</b>	<b>249.7</b>	<b>262.4</b>	<b>276.7</b>	<b>290.7</b>
<b>Net debt</b> <sup>(a)</sup>	<b>175.2</b>	<b>194.5</b>	<b>212.5</b>	<b>223.9</b>	<b>236.2</b>	<b>248.1</b>
Superannuation liability	18.3	16.1	16.3	15.2	14.0	12.8
Net debt plus superannuation liabilities	193.5	210.6	228.8	239.0	250.2	260.9
Other liabilities (net) <sup>(b)</sup>	43.0	43.2	42.0	42.2	41.2	40.1
<b>Net financial liabilities</b> <sup>(c)</sup>	<b>236.5</b>	<b>253.8</b>	<b>270.8</b>	<b>281.2</b>	<b>291.4</b>	<b>301.1</b>
	<b>(per cent)</b>					
<b>Net debt to GSP</b> <sup>(d)</sup>	<b>27.5</b>	<b>29.0</b>	<b>30.2</b>	<b>30.4</b>	<b>30.4</b>	<b>30.4</b>
<b>Net debt plus superannuation liability to GSP</b> <sup>(d)</sup>	<b>30.4</b>	<b>31.4</b>	<b>32.5</b>	<b>32.4</b>	<b>32.2</b>	<b>32.0</b>
<b>Net financial liabilities to GSP</b> <sup>(d)</sup>	<b>37.1</b>	<b>37.8</b>	<b>38.5</b>	<b>38.1</b>	<b>37.6</b>	<b>36.9</b>
<b>Net debt plus superannuation liability to revenue</b> <sup>(e)</sup>	<b>178.1</b>	<b>175.8</b>	<b>184.6</b>	<b>189.8</b>	<b>191.4</b>	<b>192.0</b>

**Notes:**

- (a) Net debt is the sum of borrowings, deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements.
- (b) Other liabilities (net) include other employee entitlements and provisions and other non-equity liabilities, less other non-equity financial assets.
- (c) Net financial liabilities is total liabilities less financial assets (excluding investments in other sector entities).
- (d) The GSP-based ratios may vary between publications due to revisions to the Australian Bureau of Statistics GSP data.
- (e) This is the sum of the NFPS net debt and the superannuation liability as a proportion of NFPS total operating revenue.

Table 5.6 shows several indicators of financial sustainability for the NFPS over the budget and forward estimates.

The operating cash flow surplus to revenue ratio is an indication of the extent to which the cash generated from operations can be used to fund infrastructure. This ratio increases from 6.1 per cent in 2026-27 to 6.5 in 2027-28, before decreasing to 5.9 per cent in 2029-30. These annual changes are predominately driven by the general government sector operating cash position which is explained in Chapter 4 *Budget position and outlook*.

The ratio of gross debt to revenue, which indicates the overall debt burden, is estimated to be 201.5 per cent in 2026-27 and increase to 213.9 per cent in 2029-30. The NFPS interest expense to revenue ratio, which is a measure of the State's debt service burden, is also expected to increase over the budget and forward estimates period. This increase is driven by increases in debt and the existing debt being refinanced at the prevailing market interest rate.

**Table 5.6: Indicators of financial sustainability for the non-financial public sector (per cent)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	actual	revised	budget	estimate	estimate	estimate
Operating cash flow surplus to revenue	4.3	6.1	6.1	6.5	6.0	5.9
Gross debt to revenue <sup>(a)</sup>	193.6	193.3	201.5	208.4	211.7	213.9
Interest expense to revenue	6.7	7.2	8.0	8.6	9.3	10.1

Note:

(a) Gross debt includes borrowings, deposits held and advances received.

## PUBLIC FINANCIAL CORPORATIONS SECTOR

Tables 5.7 and 5.8 summarise the operating statement and financial position for the PFC sector. A comprehensive operating statement and balance sheet are presented in Budget Paper No. 5, Chapter 2 *Supplementary uniform presentation framework tables*.

**Table 5.7: Summary operating statement for the PFC sector <sup>(a)</sup> (\$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	actual	revised	budget	estimate	estimate	estimate
<b>Revenue and income from transactions</b>						
Interest income	6 724	7 758	9 029	10 050	11 322	12 764
Dividend income	3 214	2 877	3 165	3 479	3 709	3 954
Sales of goods and services	8 456	8 919	9 304	9 823	10 366	10 902
Grants	..	2	10	10	..	50
Other revenue and income	37	33	32	33	35	37
<b>Total revenue and income from transactions</b>	<b>18 431</b>	<b>19 589</b>	<b>21 539</b>	<b>23 396</b>	<b>25 432</b>	<b>27 708</b>
<i>per cent change</i>	17.0	6.3	10.0	8.6	8.7	8.9
<b>Expenses from transactions</b>						
Employee expenses	598	611	612	629	642	660
Other superannuation	63	64	67	69	71	73
Depreciation	85	76	72	67	64	56
Interest expense	6 636	7 099	8 466	9 464	10 712	12 116
Grant expense	136	227	360	355	211	64
Other operating expenses	11 569	12 417	13 601	14 574	15 659	16 829
Other property expenses	758	634	167	88	46	37
<b>Total expenses from transactions</b>	<b>19 846</b>	<b>21 128</b>	<b>23 346</b>	<b>25 246</b>	<b>27 406</b>	<b>29 834</b>
<i>per cent change</i>	12.2	6.5	10.5	8.1	8.6	8.9
<b>Net result from transactions – net operating balance</b>	<b>(1 415)</b>	<b>(1 539)</b>	<b>(1 806)</b>	<b>(1 851)</b>	<b>(1 974)</b>	<b>(2 126)</b>
Total other economic flows included in net result	(2 109)	10 801	2 311	2 508	2 713	3 188
<b>Net result</b>	<b>(3 523)</b>	<b>9 262</b>	<b>504</b>	<b>657</b>	<b>739</b>	<b>1 062</b>

Note:

(a) This is a summary operating statement. The comprehensive operating statement is presented in Budget Paper No. 5, Chapter 2 *Supplementary uniform presentation framework tables*.

Total revenue and income from transactions in the PFC sector is projected to increase by 6.3 per cent in 2025-26, to \$19.6 billion, before increasing by an average of 9.1 per cent a year over the budget and forward estimates to \$27.7 billion in 2029-30. The increases over the budget and forward estimates are largely due to increasing premium revenue, dividend income, realised capital gains for the State's insurance agencies, and interest income for TCV.

PFC sector total expenses from transactions are expected to increase by 6.5 per cent in 2025-26, to \$21.1 billion, after which growth in expenses averages 9.0 per cent a year over the budget and forward estimates to \$29.8 billion in 2029-30. This increase in expenditure is largely due to increased claims expenses of the State's insurance agencies, which are shown as other operating expenses in Table 5.7, and higher interest expenses for TCV.

When combined, these impacts result in the PFC sector's net result from transactions deteriorating from a deficit of \$1.5 billion in 2025-26 to a deficit of \$2.1 billion in 2029-30. However, this excludes some significant drivers of the PFC sector's performance. The net result, which includes other economic flows such as capital gains on the investments held by the State's insurance agencies, movements in deferred tax assets, risk margins and claims handling expenses, provides a more meaningful indication of the projected financial strength of the PFC sector. Other economic flows for the PFC sector are expected to decrease from \$10.8 billion in 2025-26 to \$2.3 billion in 2026-27 before increasing by an average of \$292 million a year over the forward estimates. The significant other economic flows in 2025-26 are driven by an increase in the discount rates that are used to value TCV's borrowings and the outstanding claims liabilities of the State's insurance agencies in the first six months of the 2025-26 financial year. Allowing for these other economic flows, the net result for the PFC sector is expected to decline from a surplus of \$9.3 billion in 2025-26 to a surplus of \$1.1 billion in 2029-30.

In 2024-25 and 2025-26, other economic flows for the PFC sector include revaluations that reflect actual market movements for the financial year to date, such as the movement in discount rates noted above. The gain or loss that is ultimately reported for 2025-26, and in future financial years, will vary in accordance with actual market experience over the year.

**Table 5.8: Financial position of the PFC sector** (\$ billion)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	actual	revised	budget	estimate	estimate	estimate
<b>Assets</b>						
Total financial assets <sup>(a)</sup>	252.2	276.7	302.8	321.8	340.5	360.3
Non-financial assets <sup>(b)</sup>	3.3	2.4	2.2	2.0	1.9	1.9
<b>Total assets</b>	<b>255.5</b>	<b>279.2</b>	<b>304.9</b>	<b>323.8</b>	<b>342.4</b>	<b>362.2</b>
<b>Liabilities</b>						
Borrowings	188.2	202.3	224.6	238.7	253.5	268.3
Other provisions <sup>(c)</sup>	54.0	54.8	57.6	61.8	66.2	70.9
Other liabilities <sup>(d)</sup>	4.0	3.4	3.6	3.6	3.5	3.5
<b>Total liabilities</b>	<b>246.2</b>	<b>260.5</b>	<b>285.8</b>	<b>304.0</b>	<b>323.3</b>	<b>342.7</b>
<b>Net assets<sup>(e)</sup></b>	<b>9.4</b>	<b>18.6</b>	<b>19.1</b>	<b>19.7</b>	<b>19.2</b>	<b>19.4</b>

*Notes:*

- (a) Financial assets include cash and deposits, advances paid, investments, loans and placements, receivables, and investments accounted for using the equity method.
- (b) Land, buildings, infrastructure, plant and equipment, and other non-financial assets.
- (c) Other provisions includes insurance contract liabilities.
- (d) Other liabilities consist of payables, employee benefits, deposits held and advances received, and unearned income.
- (e) TCV's external loan liabilities are at mark-to-market value, while the corresponding assets, that is lending to the NFPS, are at historical value. The asset and liability estimates incorporate the impact of the transition loan under the commercial and industrial property tax reform being administered by TCV as a financial instrument.

The PFC sector is projected to report a net asset position of \$18.6 billion at 30 June 2026, with this expected to increase to \$19.4 billion at 30 June 2030. This increase is primarily driven by increases in TCV's loans receivable from the general government and PNFC sectors and increases in cash, partly offset by increases in TCV's borrowings and the outstanding claims liabilities of the State's insurance agencies.

The reported net result and net asset position of the PFC sector are affected by the accounting convention adopted for TCV whereby its fixed interest rate loans to government clients are measured at book value, while its borrowings are reported at market value. This approach enables TCV's loans to be consolidated with the borrowings of the general government and the PNFC sectors but, for the PFC sector in isolation, creates a mismatch between the value of TCV's assets (which are at book value) and its liabilities (which are at market value). This difference, which is estimated to be around \$12.0 billion at 31 March 2026, is eliminated when TCV's loans to government clients are consolidated in the whole of State accounts. In TCV's own accounts, both assets and liabilities are reported at market value.

The PFC sector's net asset position is also significantly affected by changes in Commonwealth Government bond yields which, in accordance with Australian accounting standards, underlie the discount rate used to value the State's insurance agencies' outstanding claims liabilities.

## STATE OF VICTORIA

Table 5.9 shows the operating results for the State. The net result from transactions is projected to improve from a deficit of \$5.7 billion in 2026-27 to a deficit of \$5.1 billion in 2029-30. This improvement is primarily attributable to the general government sector, as discussed in Chapter 4 *Budget position and outlook*. When other economic flows, which largely relate to projected capital gains, movements in deferred tax assets and the release of risk margins and claims handling expenses for the State's insurers, are included, the State's net result improves from a deficit of \$3.5 billion in 2026-27 to a deficit of \$2.0 billion in 2029-30.

**Table 5.9: Operating results – State of Victoria <sup>(a)</sup>** (\$ million)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	<i>actual</i>	<i>revised</i>	<i>budget</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>
<b>Revenue and income from transactions</b>						
Taxation	38 356	40 914	42 536	45 680	47 440	49 620
Interest income	2 002	1 896	1 895	1 755	1 763	1 784
Dividend income	3 947	3 917	3 969	4 347	4 647	4 964
Sales of goods and services	21 009	23 120	24 417	25 734	26 934	28 329
Grants	47 191	55 060	56 121	55 385	56 830	58 894
Other revenue and income	5 287	4 687	4 571	4 379	4 501	4 655
<b>Total revenue and income from transactions</b>	<b>117 791</b>	<b>129 594</b>	<b>133 508</b>	<b>137 279</b>	<b>142 114</b>	<b>148 245</b>
<i>per cent change</i>	9.5	10.0	3.0	2.8	3.5	4.3
<b>Expenses from transactions</b>						
Employee expenses	40 054	42 044	43 023	44 717	46 281	47 473
Superannuation:						
Net superannuation interest expense	785	788	811	796	737	676
Other superannuation	4 812	5 026	4 979	5 182	5 339	5 483
Depreciation	9 349	11 505	11 786	12 022	12 502	13 130
Interest expense	8 130	8 703	10 077	11 025	12 327	13 823
Grant expense	15 045	16 042	17 443	16 700	17 024	17 463
Other operating expenses	45 793	50 285	51 106	50 482	52 639	55 321
<b>Total expenses from transactions</b>	<b>123 968</b>	<b>134 393</b>	<b>139 225</b>	<b>140 925</b>	<b>146 850</b>	<b>153 369</b>
<i>per cent change</i>	6.8	8.4	3.6	1.2	4.2	4.4
<b>Net result from transactions – net operating balance</b>	<b>(6 177)</b>	<b>(4 798)</b>	<b>(5 717)</b>	<b>(3 646)</b>	<b>(4 736)</b>	<b>(5 124)</b>
Total other economic flows included in net result	(1 520)	10 047	2 213	2 788	2 773	3 077
<b>Net result</b>	<b>(7 696)</b>	<b>5 248</b>	<b>(3 503)</b>	<b>(857)</b>	<b>(1 963)</b>	<b>(2 047)</b>

Note:

(a) This is a summary operating statement. The comprehensive operating statement is presented in Budget Paper No. 5, Chapter 2 Supplementary uniform presentation framework tables.

Table 5.10 shows that the State's net assets are projected to increase from \$299 billion at 30 June 2027 to \$334.7 billion at 30 June 2030. While total assets are expected to increase by \$86.3 billion over the budget and forward estimates, this is partly offset by a \$50.5 billion increase in liabilities.

The State's financial assets are estimated to increase from \$138.3 billion at 30 June 2027 to \$159.3 billion at 30 June 2030, while non-financial assets, including infrastructure, are estimated to increase from \$552.5 billion to \$617.8 billion over the same period. Total liabilities are projected to increase from \$391.8 billion at 30 June 2027 to \$442.4 billion in 2029-30, largely due to borrowings increasing from \$257.2 billion to \$298.9 billion over this period.

**Table 5.10: Financial position of the State of Victoria** (\$ billion)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	<i>actual</i>	<i>revised</i>	<i>budget</i>	<i>estimate</i>	<i>estimate</i>	<i>estimate</i>
<b>Assets</b>						
Financial assets <sup>(a)</sup>	126.8	133.9	138.3	144.6	151.4	159.3
Non-financial assets <sup>(b)</sup>	511.3	530.0	552.5	573.0	600.2	617.8
<b>Total assets</b>	<b>638.1</b>	<b>663.9</b>	<b>690.8</b>	<b>717.6</b>	<b>751.5</b>	<b>777.1</b>
<b>Liabilities</b>						
Borrowings	223.4	238.9	257.2	270.2	284.7	298.9
Other provisions <sup>(c)</sup>	57.8	59.2	61.6	65.6	70.1	74.9
Other liabilities <sup>(d)</sup>	75.4	73.1	73.0	71.9	70.2	68.6
<b>Total liabilities</b>	<b>356.7</b>	<b>371.1</b>	<b>391.8</b>	<b>407.7</b>	<b>425.0</b>	<b>442.4</b>
<b>Net assets</b>	<b>281.4</b>	<b>292.8</b>	<b>299.0</b>	<b>309.9</b>	<b>326.5</b>	<b>334.7</b>

*Notes:*

- (a) Financial assets include cash and deposits, advances paid, investments, loans and placements, receivables and contract assets, and investments accounted for using the equity method.
- (b) Non-financial assets include inventories, non-financial assets held for sale, land, buildings, infrastructure, plant and equipment, and other non-financial assets.
- (c) Other provisions includes insurance contract liabilities.
- (d) Other liabilities consist of payables, employee benefits, deposits held and advances received, unearned income and grant of a right to the operator liability.



## CHAPTER 6 – SENSITIVITY ANALYSIS

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The *2026-27 Budget* relies on forecasts and judgements about the economic, operating and financial conditions for the Victorian general government sector. Uncertainty in these conditions, for example as a result of international developments and other risks to the national economy, may cause the actual results to differ from budget projections.

This sensitivity analysis explores the effects of variations in the macroeconomic outlook on key fiscal aggregates of the general government sector using two alternative approaches.

The first approach quantifies the fiscal effects of scenarios involving simultaneous variations in economic parameters that represent key risks to the economic outlook described in Chapter 2 *Economic context*. These scenarios were selected to cover plausible shocks that could affect Victoria over the budget period, and the modelling takes account of linkages between key international, Australian and Victorian economic aggregates.

The modelled outcomes are intended to be used as a guide and care should be exercised in interpreting the results. In particular, economic shocks tend to be idiosyncratic, with the modelled scenarios unlikely to completely reflect any future shock that could occur. Departures from these scenarios would likely result in different effects on the budget. Furthermore, the modelled results of the shocks do not incorporate any policy responses to the shocks and their subsequent effects on the economic or fiscal outlook.

The second approach considers the fiscal effects of independent variations in major macroeconomic parameters, holding constant all parameters other than the indicator of interest. This analysis may be useful for assessing the effect on fiscal aggregates of a variation from the forecast value for a single economic parameter. In practice, economic variations rarely occur in isolation, and scenario analysis is likely to be more appropriate to illustrate the fiscal impacts of an economic environment materially different from that forecast in this publication.

The economic scenarios presented in this chapter are illustrative in nature and are designed to highlight the potential impacts of alternative economic conditions. They do not represent the most likely path for the economy. The economic forecasts outlined in Chapter 2 *Economic context* reflect the more probable central, or base case, view of the economic outlook.

## FISCAL EFFECTS OF VARIATIONS TO THE ECONOMIC OUTLOOK

The scenario component of the sensitivity analysis quantifies two key risks identified in Chapter 2 *Economic context* and presents how these risks might affect the economy and the State's fiscal aggregates.

The first scenario considers weaker domestic growth in aggregate demand due to a more persistent conflict in the Middle East and more elevated global oil prices. The second scenario considers the implications of a lower trend unemployment rate, resulting in higher employment and investment activity in the long run.

The economic effects of these scenarios have been modelled using VURMTAX, a computable general equilibrium model developed by the Centre of Policy Studies at Victoria University. The results of the scenarios are presented as deviations from the 'business as usual' base case, which reflects the central economic forecasts outlined in Chapter 2 *Economic context*.

The changes in economic variables resulting from the modelled shocks are then mapped into estimated revenue and expenditure effects using elasticities that describe the historical relationship between fiscal outcomes and major macroeconomic parameters.<sup>2</sup>

### **Scenario A: Weaker domestic growth due to a more prolonged conflict in the Middle East and persistent global oil price shock**

As outlined in Chapter 2 *Economic context*, the ongoing conflict in the Middle East has significantly constrained the global supply of oil, raising oil prices and global uncertainty. This is expected to weigh on private demand in 2026-27.

While not the base case, this scenario examines a significantly worse-case situation where the Middle East conflict is prolonged, resulting in sustained higher oil, liquefied natural gas (LNG), petrol, and diesel prices. This is coupled with other associated domestic responses to a prolonged conflict in the Middle East and disrupted energy and asset markets, such as a fall in the savings rate as consumers experience higher costs of living, and slightly weaker productivity as the conflict raises business uncertainty and dampens investment.

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<sup>2</sup> The Department of Treasury and Finance maintains a set of elasticities covering the relationships between major economic parameters and revenue and expenditure lines, including superannuation, and dividends and income tax equivalents from the public financial and non-financial corporations.

To quantify the effects of a more persistent global oil shock and the domestic responses to a prolonged conflict outlined above, this scenario simultaneously applies several shocks. These are:

- an increase in global crude oil prices above the base case forecasts (equivalent to a West Texas Intermediate oil price of about USD130 per barrel in the June quarter 2026, easing to around pre-conflict levels by mid-2029; this compares with the base case assumption of a 50 per cent increase in oil prices to about USD100 per barrel in the June quarter 2026, which eases to near pre-conflict levels by end 2026 and reaches pre-conflict levels by mid-2027), as well as partial flow-through to LNG and refined petroleum prices
- a reduction in the household savings ratio as consumers save less of their incomes due to rising prices
- slightly weaker productivity due to heightened investor risk aversion and uncertainty, affecting innovation; in the scenario, these shocks peak in mid-to-late 2026 before gradually returning to zero by mid-2029.

In this scenario, higher oil prices and a prolonged conflict in the Middle East weigh on the Victorian economy, with the peak negative economic impact occurring in 2026-27, as consumers face a fall in real incomes due to higher prices and as productivity falls due to dampened innovation. Household consumption falls, although this is partially mitigated by households saving less of their income than they did before.

The impact on net trade is negative because higher prices (which also partly flow to higher nominal wages from 2026-27 to 2028-29) and weaker productivity result in a loss in Australia's relative competitiveness. This appreciation of the real exchange rate, alongside a fall in aggregate production and some diversion from exports to meet domestic consumer demand, cause exports to fall below the base case. Imports also fall, driven by weaker domestic household consumption and weaker industry demand as economic activity slows. The fall in exports outweighs the fall in imports, meaning that net trade falls, further contributing to the fall in GSP (see Chart 6.1).

However, a recovery occurs from 2028-29, aided by lower real wage growth which reduces costs for businesses and enables more goods and services to be produced. While nominal wages initially increase in the forecast period, they ease back toward base case levels by 2028-29; however, with inflation rising more strongly, real wages are lower across the forward estimates. This results in a reduction in real labour costs that improves Australia's cost competitiveness, placing downward pressure on the real exchange rate, which depreciates relative to the base case from 2027-28 onwards. Shocks to prices ease and productivity gradually returns to base case levels, driving a recovery in economic activity in 2028-29.

In reality, the impact of the Middle East conflict on inflation is uncertain. The RBA noted in February that this supply shock could add to inflationary pressures; conversely, a prolonged impact on energy markets could also adversely impact global economic activity, resulting in downward pressure on inflation. In the modelled scenario presented here, the inflationary impacts of higher global energy prices more than offset the downward pressure on prices stemming from weaker consumer spending and business investment, leading to higher domestic inflation than in the base case. Yet this should be viewed as purely illustrative, given different magnitudes of the various economic shocks are also plausible, which could lead to different results for domestic economic growth and inflation.

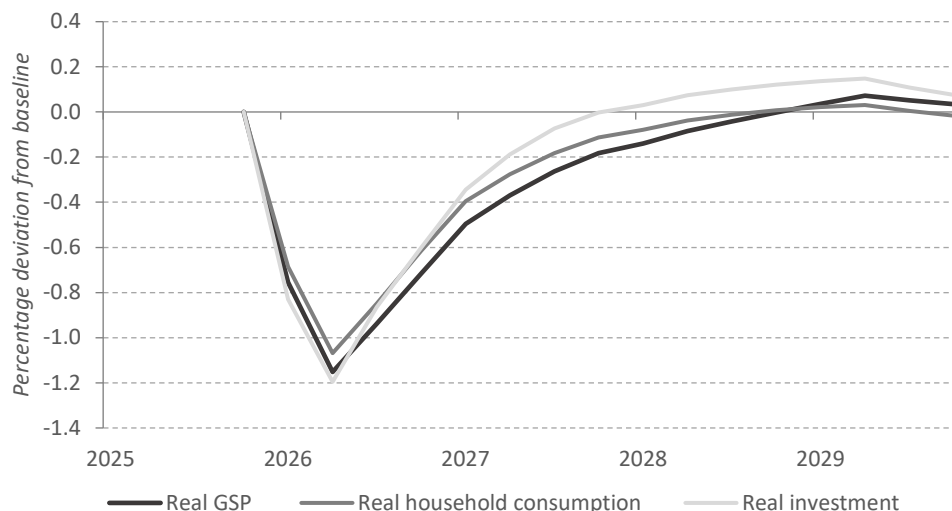
In this scenario, real business investment falls by 0.60 per cent in 2026-27 and 0.06 per cent in 2027-28, compared with the base case, before recovering to 0.11 per cent above the base case in 2028-29 and 2029-30. Real household consumption falls by 0.62 per cent in 2026-27 and 0.16 per cent in 2027-28, relative to base case forecasts, recovering from 2028-29 onwards. Collectively, these shocks result in the level of Victoria's real GSP being 0.72 per cent weaker than the base case in 2026-27 and 0.24 per cent weaker than the base case in 2027-28. As the shocks dissipate from late 2026 to mid-2029, Victoria's GSP recovers in 2028-29, also driven by falls in the real exchange rate and real wages.

The overall fall in economic activity, coupled with a near-term rise in nominal wages due to higher inflation, both decrease labour demand which results in the unemployment rate being 0.57 percentage points higher in 2026-27 than the base case. This higher unemployment rate places downward pressure later in the projection period on real wages growth, hence over time making labour more attractive to firms. Therefore, the unemployment rate recovers to 0.15 percentage points below the base case in 2028-29, further improving to 0.18 percentage points below the base case in 2029-30. The level of employment falls by 0.50 per cent in 2026-27 and 0.07 per cent in 2027-28 compared with the base case, before recovering by 2028-29. Consumer prices peak, in year-average terms, at 1.28 per cent higher than the base case in 2026-27 and, although inflationary impacts ease as oil prices return to the base case, consumer prices remain above base case forecasts across the entire period.

This scenario assumes that government consumption remains unchanged, with no further discretionary fiscal expenditure in response to the shock. In practice, though, governments and the RBA may intervene to mitigate the shock's impacts.

Table 6.1 details the effects of this scenario.

**Chart 6.1: The impact of a more prolonged conflict in the Middle East and more persistent global oil shock on select variables**



Sources: Centre of Policy Studies; Department of Treasury and Finance

**Table 6.1: Projected impact of a more prolonged conflict in the Middle East and more persistent global oil shock on major economic parameters<sup>(a)</sup>**

	(per cent)			
	2026-27 estimate	2027-28 estimate	2028-29 estimate	2029-30 estimate
Real GSP	(0.72)	(0.24)	(0.02)	0.05
Employment (levels)	(0.50)	(0.07)	0.10	0.14
Consumer price index	1.28	0.78	0.38	0.10
Wage price index	1.03	0.40	0.03	(0.16)

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline forecasts as presented in Chapter 2 Economic context.

Table 6.2 details the negative impact of the shock on the State’s finances in 2026-27 and 2027-28, before the net result from transactions becomes positive in 2028-29 and 2029-30.

Revenue is higher in this scenario. Despite lower employment and weaker real wages, wages are higher in nominal terms in response to higher CPI, which leads to a rise in payroll tax revenue. Similarly, household consumption is higher in nominal terms, which results in a larger national GST pool and hence higher GST grant revenue for Victoria. Higher prices lead to higher land taxes, stamp duty on motor vehicles, sales of goods and services, and other taxes. This is partially offset by a fall in land transfer duty in 2026-27, as transaction volumes are initially expected to fall due to lower consumer sentiment, lower real wage growth and lower real consumption; land transfer duty then rises above the baseline from 2027-28 onwards as transaction volumes begin to recover and prices rise amid the broader rise in inflation. Overall, government income from transactions is higher across the forward estimates, although the result is smaller in 2029-30 as the shocks dissipate and several revenue sources (including sales of goods and services, payroll tax and motor vehicle stamp duty) broadly return to the baseline, while land transfer duty and GST grants also ease but remain above the baseline, and land tax continues to rise.

Expenses from transactions are higher overall under this scenario, with higher nominal wage growth putting upward pressure on public sector employment expenses. These estimated impacts on expenses reflect the assumed relationship between public and private sector wages in the model: namely that public sector wage growth corresponds to private sector wage growth in the medium to long term. Other operating expenses also rise in line with higher CPI. Overall, in 2026-27 and 2027-28, expenses rise by more than revenue in this scenario, resulting in a negative impact on the net result from transactions. Net debt is therefore higher in 2026-27 and 2027-28.

Later in the projection period, expenses return towards the baseline, mainly driven by dissipating CPI and wage impacts, which flow on to easing operating, employee, and grant expenses. Interest expenses decline below baseline levels due to a lower level of debt. Net debt declines in 2027-28 despite the negative net result, and improves by more than the improvement in the net result in 2028-29 and 2029-30, since the net result includes the effect of higher non-cash superannuation expenses but these do not affect net debt.

**Table 6.2: Projected impact of a more prolonged conflict in the Middle East and more persistent global oil shock on fiscal parameters <sup>(a)</sup>**

	(\$ million)			
	2026-27 estimate	2027-28 estimate	2028-29 estimate	2029-30 estimate
Income from transactions	304.4	403.8	328.1	140.1
Expenses from transactions	435.9	478.5	201.4	(46.2)
<b>Net result from transactions</b>	<b>(131.5)</b>	<b>(74.7)</b>	<b>126.7</b>	<b>186.3</b>
Other economic flows	5.4	5.5	4.9	1.8
<b>Net result</b>	<b>(126.1)</b>	<b>(69.2)</b>	<b>131.6</b>	<b>188.1</b>
<b>Net debt (cumulative)</b>	<b>126.1</b>	<b>67.3</b>	<b>(126.7)</b>	<b>(323.5)</b>
Net debt to GSP ratio (percentage point difference)	<b>0.02</b>	<b>0.01</b>	<b>-0.02</b>	<b>-0.04</b>

Note:

(a) Figures may not add due to rounding.

## Scenario B: A lower trend unemployment rate in Victoria

As discussed in Chapter 2 *Economic context*, the unemployment rate is forecast to remain at 4.75 per cent in 2026-27 and for the remainder of the forecast period. This is the trend unemployment rate of the Victorian economy or, more technically, the non-accelerating inflation rate of unemployment (NAIRU) – the unemployment rate that is consistent with stable inflation. The Department of Treasury and Finance’s current estimate of the Victorian NAIRU is 4.75 per cent.

Economic theory suggests that when the unemployment rate is below the NAIRU, there is a shortage of workers, resulting in competition between firms to attract and retain employees, putting upward pressure on wages and inflation. Conversely, when the unemployment rate is above the NAIRU, there is an excess supply of workers, which reduces competition between firms and puts downward pressure on wages and inflation.

The NAIRU is subject to uncertainty, due to several factors. For example, it can vary over time as the structure of the economy evolves or depending on changes in economic policies or other labour market trends. Additionally, it cannot be observed directly and must be modelled statistically, leading to uncertainty around statistical estimates. These factors are discussed further below.

First, there are several reasons the NAIRU can change over time, including changes in the nature of workplace bargaining and improved labour market efficiency (for example, through better technology and job-matching). Estimates of Australia’s NAIRU have declined over the past few decades.<sup>3</sup> Over the past five years, the Department of Treasury and Finance has also revised down its estimate of Victoria’s NAIRU. It is possible, though, that the NAIRU has declined even further.

One recent factor that could have contributed to a further decline is the strength of the labour market over the past three years, which may have lowered the rate of structural unemployment. The Victorian labour market recovered strongly from the COVID-19 pandemic and conditions remain stronger than they were in the years before the pandemic. The share of working-age Victorians in employment is high and the unemployment rate is low by historical standards. Importantly, for considerations of the NAIRU, rates of long-term unemployment (those unemployed for more than a year) are below pre-pandemic levels (see Chart 6.2), meaning that some Victorians who previously found it hard to gain employment have now found a job. Having found employment, many of these workers may have gained the skills and experience they need to stay employed in their current roles, or they may find themselves more employable in the future with the transferrable skills they have gained.

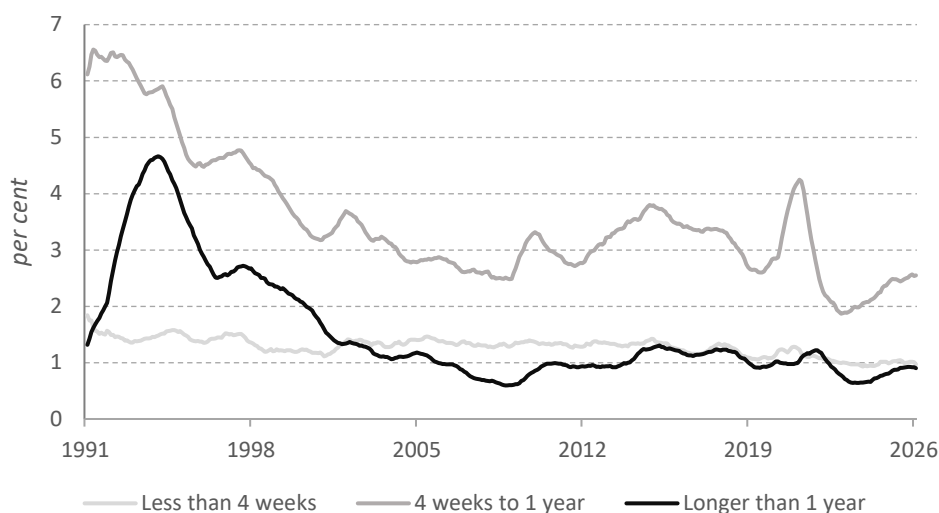
The ‘matching’ process between employees and jobs may have also improved in recent years, given technological developments and the growth of flexible and remote work. Additionally, female participation in the labour market has continued to increase strongly over time and underemployment has trended downwards, both contributing to higher long-run levels of labour supply.

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<sup>3</sup> Commonwealth Treasury (2023), *Working Future: The Australian Government’s White Paper on Jobs and Opportunities*; Reserve Bank of Australia (2019), *Watching the Invisibles*.

All of these factors imply the effective pool of workers who are appropriately skilled for available jobs may be larger than in previous years. This suggests there has been some decline in the level of structural unemployment – that is, the rate of unemployment that persists through economic cycles due to mismatches between workers’ skills or location and the available jobs. This places less upward pressure on wages, and ultimately inflation, for a given unemployment rate. In other words, a lasting reduction in long-term unemployment may have lowered the NAIRU.

**Chart 6.2: Victorian unemployment rates by duration (a)**



Source: Australian Bureau of Statistics

Note:

(a) Data are 12-month moving averages.

The second potential reason the NAIRU may be lower than assumed in the baseline forecasts relates to uncertainty in measuring it. The NAIRU cannot be summarised by a single measure that can be observed directly, and can only be estimated using statistical models, which inherently lead to uncertain estimates. Further, there are several methods available to model the NAIRU in practice, and each method can provide different results. These issues are not unique to Victoria, with the Commonwealth Treasury and RBA also noting that there is considerable uncertainty around their respective NAIRU estimates.<sup>4</sup>

To quantify the effects of the NAIRU being lower than currently estimated, this scenario considers the economic and fiscal effects of Victoria’s trend unemployment rate being 4.25 per cent – that is, 0.5 percentage points below the rate assumed in the baseline economic projections. This scenario for Victoria is in line with the Commonwealth Treasury’s national NAIRU assumption.<sup>5</sup> The model also includes a positive shock to the household marginal propensity to save – that is, households are likely to save a higher proportion of the additional income earned.

<sup>4</sup> Reserve Bank of Australia (2026), *Update on the RBA’s Approach to Assessing Full Employment*; Commonwealth Treasury (2024), *Opening statement to the Economic Legislation Committee*.

<sup>5</sup> Commonwealth Treasury (2025), *Mid-Year Economic and Fiscal Outlook 2025-26*.

In this scenario, the unemployment rate, which is estimated to average 4.75 per cent in 2025-26, remains at 4.75 per cent in 2026-27 as per the base case forecasts, reflecting cyclical drivers of the economy and labour market as discussed in Chapter 2 *Economic context*. However, whereas in the base case forecasts this unemployment rate is considered to be at the NAIRU (that is, there is no cyclical unemployment), in this scenario the same 4.75 per cent unemployment rate in 2026-27 is interpreted to represent some cyclical unemployment – because the NAIRU is assumed to be lower at 4.25 per cent. Subsequently, the unemployment rate is assumed to fall gradually from the start of 2028 to reach 4.25 per cent in 2028-29 (which is lower than the forecast outlined in Chapter 2) as GSP growth returns to trend, and remain at this rate in 2029-30.

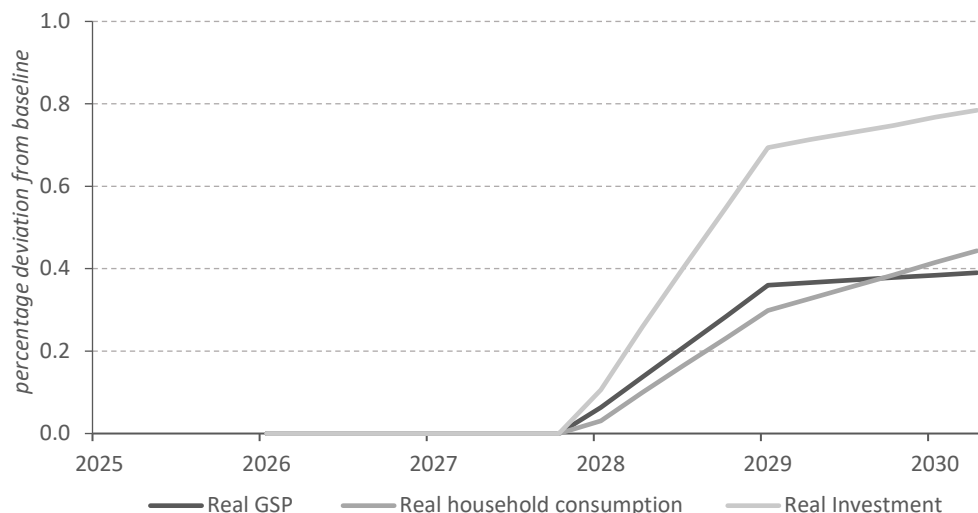
Given the unemployment rate is assumed in this scenario to remain around the levels in the base case forecasts over the next couple of years, before declining towards this lower NAIRU later in the forward estimates as economic growth picks up, the economic impacts of a lower NAIRU are assumed to occur mainly in the final two years of the forward estimates: 2028-29 and 2029-30.

The lower NAIRU leads to more employment, which is higher than the base case by 0.44 per cent in 2028-29, rising to be 0.51 per cent higher in 2029-30. Higher employment for a given level of capital stock means that labour is relatively less productive, putting downward pressure on wages. In this scenario, firms increase investment significantly as they recognise higher employment in the future will lead to higher returns to capital. This increases the capital stock and therefore labour productivity, somewhat mitigating this downward pressure on wages later in the period. These offsetting factors mean that wages are 0.60 per cent lower than the base case in 2028-29, before recovering slightly to be 0.54 per cent below the base case in 2029-30 as economic activity and labour demand continue to grow. Despite the decrease in wages in 2027-28 and 2028-29, aggregate household income is higher in all years relative to the base case, reflecting that the increase in employment more than offsets the decrease in wages.

Higher aggregate household income results in increased household spending, which is partly met by overseas goods, causing imports to rise – notwithstanding some downward pressure on imports from improved competitiveness of locally produced goods. The weaker real exchange rate makes Australian products more attractive, and local firms divert some production from meeting domestic demand to exports, causing exports to rise significantly alongside increased domestic production. The rise in exports outweighs the rise in imports, resulting in an improvement of the trade balance from 2026-27 to 2028-29, before this reverses in 2029-30 as demand for exports eases due to consumer prices rising a little above the base case. Overall, GSP is higher by 0.31 per cent in 2028-29, increasing to be 0.38 per cent higher in 2029-30 compared with the base case. GSP, household consumption and business investment do not decline to return to base case levels throughout the forecast period, as the shock is assumed to affect long-run employment (see Chart 6.3).

Table 6.3 summarises the economic effects of this shock.

**Chart 6.3: The impact of a lower trend unemployment rate on select variables**



Sources: Centre of Policy Studies; Department of Treasury and Finance

**Table 6.3: Projected impact of a lower trend unemployment rate on major economic parameters<sup>(a)</sup>** (per cent)

	2026-27 estimate	2027-28 estimate	2028-29 estimate	2029-30 estimate
Real GSP	0.00	0.05	0.31	0.38
Employment	0.00	0.07	0.44	0.51
Consumer price index	0.00	(0.02)	(0.01)	0.10
Wage price index	0.00	(0.12)	(0.60)	(0.54)

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline forecasts as presented in Chapter 2 Economic context.

Under this scenario, general government sector revenue is higher and rising from 2027-28 to 2029-30, as shown in Table 6.4. Higher household consumption increases the GST pool and hence leads to significantly higher GST grant revenue for Victoria. Additionally, higher consumption and investment lead to significantly higher land transfer duty. These more than offset the small falls in payroll tax driven by lower average weekly earnings.

Expenses from transactions are lower overall under this scenario, primarily due to lower wage growth putting downward pressure on public sector employment expenses, including superannuation expenses. As with the earlier scenario presented above, the model assumes that public sector wage growth corresponds to private sector wage growth in the medium to long term. Interest expenses are also lower due to a lower level of debt from 2027-28, with this effect increasing over time.

Overall, the increase in revenue and decrease in expenses improve the net result. Net debt is therefore lower over the forward estimates.

**Table 6.4: Projected impact of a lower trend unemployment rate on fiscal parameters <sup>(a)</sup>**

(\$ million)

	2026-27 estimate	2027-28 estimate	2028-29 estimate	2029-30 estimate
Income from transactions	..	15.4	204.5	425.3
Expenses from transactions	..	(40.2)	(300.2)	(284.5)
<b>Net result from transactions</b>	..	<b>55.6</b>	<b>504.7</b>	<b>709.8</b>
Other economic flows	..	0.5	5.5	8.2
<b>Net result</b>	..	<b>56.1</b>	<b>510.2</b>	<b>718.0</b>
<b>Net debt (cumulative)</b>	..	<b>(50.5)</b>	<b>(531.3)</b>	<b>(1 238.4)</b>
Net debt to GSP ratio (percentage point difference)	..	<b>-0.01</b>	<b>-0.07</b>	<b>-0.16</b>

Note:

(a) Figures may not add due to rounding.

## SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

Table 6.5 presents the sensitivity of financial aggregates where the levels of key economic parameters are 1 per cent (or, for interest rates, 1 percentage point) above the forecast for each year of the budget and forward estimates, holding all else constant.

The effects shown are broadly symmetric; that is, the estimated fiscal impacts would apply approximately equally in the opposite direction where there is a decrease in the parameter. Differences may arise to the extent that the impact on income tax equivalent income may not be symmetric because that line item is subject to a floor of zero, and the impact on dividends may be affected by some entities facing caps on the share of profits that can be returned to the general government sector.

**Table 6.5: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2026-27 <sup>(a)(b)(c)(d)(e)</sup> (\$ million)**

	2026-27 estimate	2027-28 estimate	2028-29 estimate	2029-30 estimate
<b>GSP</b>				
Income from transactions	195	193	191	198
Expenses from transactions	(0)	(11)	(21)	(33)
<b>Net result from transactions</b>	<b>195</b>	<b>203</b>	<b>212</b>	<b>231</b>
<b>Net debt</b>	<b>(195)</b>	<b>(398)</b>	<b>(610)</b>	<b>(841)</b>
<b>Employment <sup>(f)</sup></b>				
Income from transactions	125	131	138	145
Expenses from transactions	420	453	488	523
<b>Net result from transactions</b>	<b>(295)</b>	<b>(322)</b>	<b>(351)</b>	<b>(379)</b>
<b>Net debt</b>	<b>295</b>	<b>616</b>	<b>967</b>	<b>1 345</b>
<b>Consumer prices <sup>(g)</sup></b>				
Income from transactions	434	437	443	454
Expenses from transactions	331	467	476	489
<b>Net result from transactions</b>	<b>103</b>	<b>(30)</b>	<b>(33)</b>	<b>(35)</b>
<b>Net debt <sup>(h)</sup></b>	<b>(104)</b>	<b>(224)</b>	<b>(351)</b>	<b>(483)</b>
<b>Average weekly earnings <sup>(i)</sup></b>				
Income from transactions	155	162	170	176
Expenses from transactions	2	(6)	(14)	(24)
<b>Net result from transactions</b>	<b>153</b>	<b>168</b>	<b>184</b>	<b>200</b>
<b>Net debt</b>	<b>(153)</b>	<b>(321)</b>	<b>(505)</b>	<b>(705)</b>
<b>Total employee expenses</b>				
Income from transactions	..	51	176	191
Expenses from transactions	423	552	591	626
<b>Net result from transactions</b>	<b>(423)</b>	<b>(500)</b>	<b>(414)</b>	<b>(435)</b>
<b>Net debt <sup>(h)</sup></b>	<b>423</b>	<b>872</b>	<b>1 233</b>	<b>1 615</b>
<b>Domestic share prices <sup>(j)</sup></b>				
Income from transactions	..	2	3	5
Expenses from transactions	..	(2)	1	3
<b>Net result from transactions</b>	<b>..</b>	<b>3</b>	<b>2</b>	<b>2</b>
<b>Net debt</b>	<b>(14)</b>	<b>(30)</b>	<b>(48)</b>	<b>(69)</b>
<b>Overseas share prices <sup>(j)</sup></b>				
Income from transactions	..	..	..	..
Expenses from transactions	..	4	8	13
Expenses from transactions	..	(3)	(0)	2
<b>Net result from transactions</b>	<b>..</b>	<b>6</b>	<b>8</b>	<b>10</b>
<b>Net debt</b>	<b>(34)</b>	<b>(73)</b>	<b>(117)</b>	<b>(168)</b>
<b>Property prices</b>				
Income from transactions	228	245	261	276
Expenses from transactions	(6)	(21)	(36)	(54)
<b>Net result from transactions</b>	<b>234</b>	<b>266</b>	<b>297</b>	<b>330</b>
<b>Net debt</b>	<b>(243)</b>	<b>(516)</b>	<b>(822)</b>	<b>(1 161)</b>

**Table 6.5: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2026-27 (continued) (\$ million)**

	2026-27 estimate	2027-28 estimate	2028-29 estimate	2029-30 estimate
<b>Property transaction volumes</b>				
Income from transactions	100	110	117	124
Expenses from transactions	(3)	(8)	(14)	(20)
<b>Net result from transactions</b>	<b>103</b>	<b>118</b>	<b>131</b>	<b>144</b>
<b>Net debt</b>	<b>(103)</b>	<b>(221)</b>	<b>(352)</b>	<b>(496)</b>
<b>Interest rates <sup>(k)</sup></b>				
Income from transactions	119	104	93	83
Expenses from transactions	221	86	278	505
<b>Net result from transactions</b>	<b>(102)</b>	<b>18</b>	<b>(184)</b>	<b>(422)</b>
<b>Net debt <sup>(l)</sup></b>	<b>102</b>	<b>351</b>	<b>826</b>	<b>1 564</b>

Notes:

- (a) Variations are applied to the economic variables effective from the first day in the budget year (1 July 2026). It is assumed that each variable's growth rate matches that under a no-variation scenario for the forward estimates period. This implies that the level of all economic variables (other than interest rates) is 1 per cent higher in level terms in each year of the budget and forward estimates. Interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates.
- (b) A positive number for income from transactions denotes an increase in revenue. A positive number for expenses from transactions denotes an increase in expenses (and hence a reduction in the net result from transactions). A positive number for the net result from transactions denotes a higher surplus or smaller deficit. A positive number for net debt denotes a higher level of net debt in the relevant year compared with a no-variation scenario.
- (c) Only reasonably quantifiable impacts have been included in the analysis.
- (d) Figures may not add due to rounding.
- (e) Estimates of net debt are approximately equal to the cumulative impact of the net result from transactions. The difference between the cumulative net result from transactions and net debt is due to non-cash expenses, which affect net result from transactions but do not affect net debt.
- (f) A shock to employment is assumed to impact payroll tax revenue. Both public and private sector employment levels are assumed to be 1 per cent higher across the four years, with the shares of full-time and part-time employment held constant; the rise in public sector employment increases general government sector employee expenses.
- (g) Estimates assume that higher consumer prices flow through to government operating expenses, such as the purchase of supplies and consumables and the purchase of services. For simplicity, these estimates make no assumptions about agencies' administrative actions or government policy responses to mitigate the effects of higher inflation on aggregate spending. It is assumed an increase in consumer prices within the budget year does not affect employee entitlements.
- (h) The smaller impact on net debt, compared with the impact on the net result from transactions, reflects a rise in non-cash superannuation expenses, putting upward pressure on the total increase in operating expenses, but this increase in non-cash superannuation expenses does not affect net debt.
- (i) A positive shock to average weekly earnings increases the expenses of public financial and non-financial corporations and reduces the general government sector's income from dividends and ITEs.
- (j) The smaller impact on the net result from transactions, compared with the impact on net debt, reflects that only the income component of the State's investment return (and not the capital gain) is reflected in the net result from transactions.
- (k) Interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates. The fiscal impact is based on the portion of government debt that would change value due to being refinanced, as well as new debt issuance.
- (l) The larger impact on net debt, compared with the impact on the net result from transactions, reflects that higher interest rates reduce non-cash superannuation expenses, putting downward pressure on the total increase in operating expenses, but this reduction in non-cash superannuation expenses does not affect net debt.



## STYLE CONVENTIONS

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The source of data for tables and charts is the Department of Treasury and Finance unless specified otherwise.

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

n.a.	not available or not applicable
1 billion	1 000 million
1 basis point	0.01 per cent
..	zero, or rounded to zero
tbc	to be confirmed
(x xxx.x)	negative amount
x xxx.0	rounded amount

Please refer to the **Treasury and Finance glossary for budget and financial reports** at [dtf.vic.gov.au](http://dtf.vic.gov.au) for additional terms and references.





Victorian Budget  
**2026/27**

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