

Fiscal Sustainability Report

February 2026

What is the FSR?



The FSR is Treasury's assessment of the long-term sustainability of Tasmania's finances



Treasury uses historical trends to project key fiscal measures over a 15-year period



The projections assume no corrective policy action over the projection period



The projections are not forecasts and no scenario is considered more or less likely to occur

What is fiscal sustainability and why does it matter?



“Fiscal sustainability is the government’s ability to manage its finances so it can meet its spending commitments, now and in the future, without large and sudden adjustments to policy settings”
(Commonwealth 2023 Intergenerational Report)



A sustainable position ensures the capacity to smoothly provide services to the community over time, manage shocks and provide for intergenerational equity

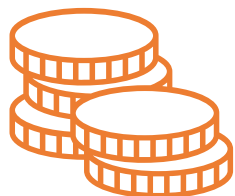


Tasmania’s Budget has a structural deficit, driving significant growth in debt and debt servicing costs – this is unsustainable and will result in impairment in the ability to provide services



Tasmania’s fiscal buffers have been depleted, and the State is poorly positioned to respond to a major economic shock – such events have been observed to occur approximately every 10 years, the most recent being the COVID-19 pandemic in 2020

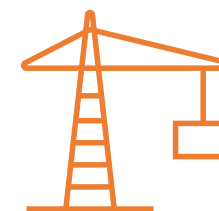
New features in the 2026 FSR



Treasury has focused its alternative scenario analysis on Budget repair and the fiscal effort required to reach peak debt



Treasury has used its new Computable General Equilibrium (CGE) model to examine the economic impact of achieving peak debt



The FSR includes a projection of potential growth in government business borrowings (ie the PNFC Sector)

Historical Growth Scenario outcomes

01

Without action, Tasmania's finances rapidly deteriorate, with growing deficits and escalating debt

02

By 2039-40, operating expenditure is projected to be more than double revenue

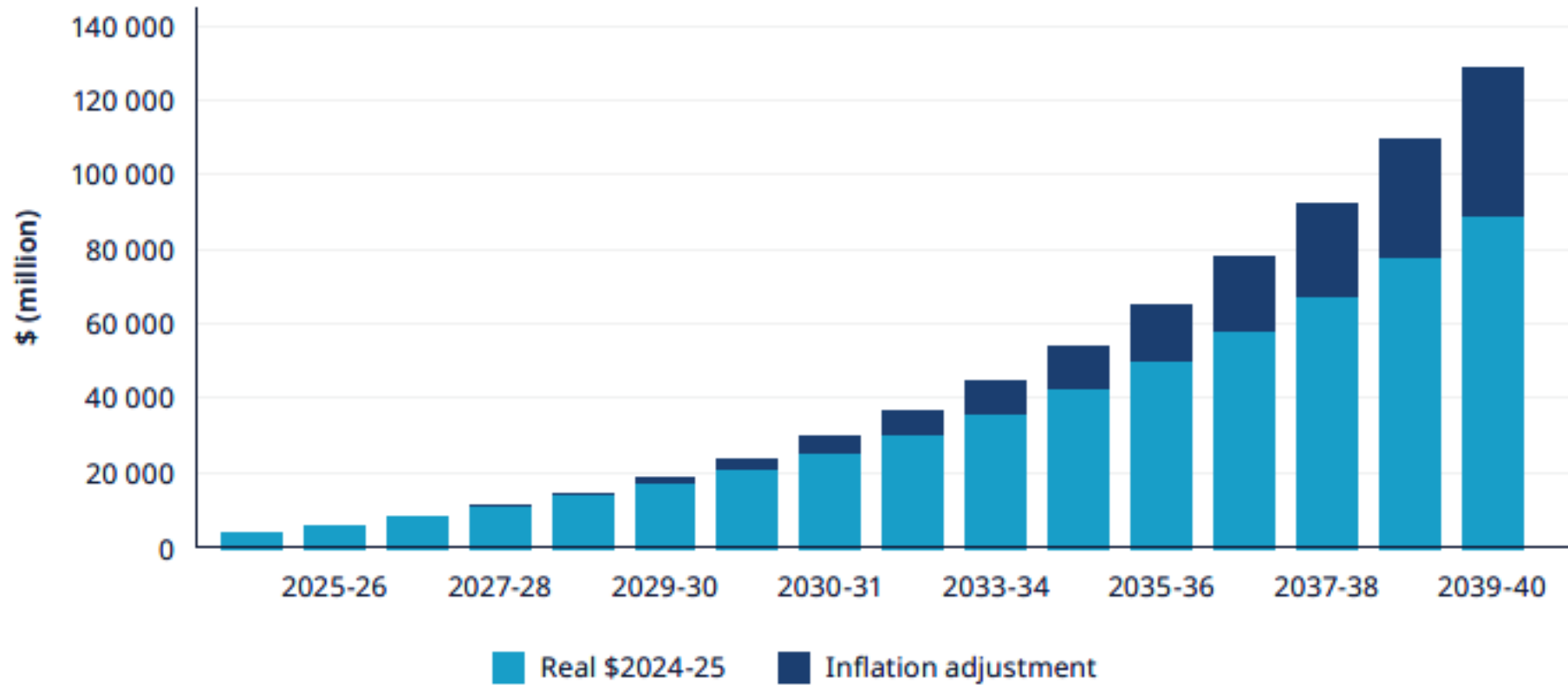
03

Compounding debt servicing costs grow rapidly to become the 2nd biggest operating expense after Health

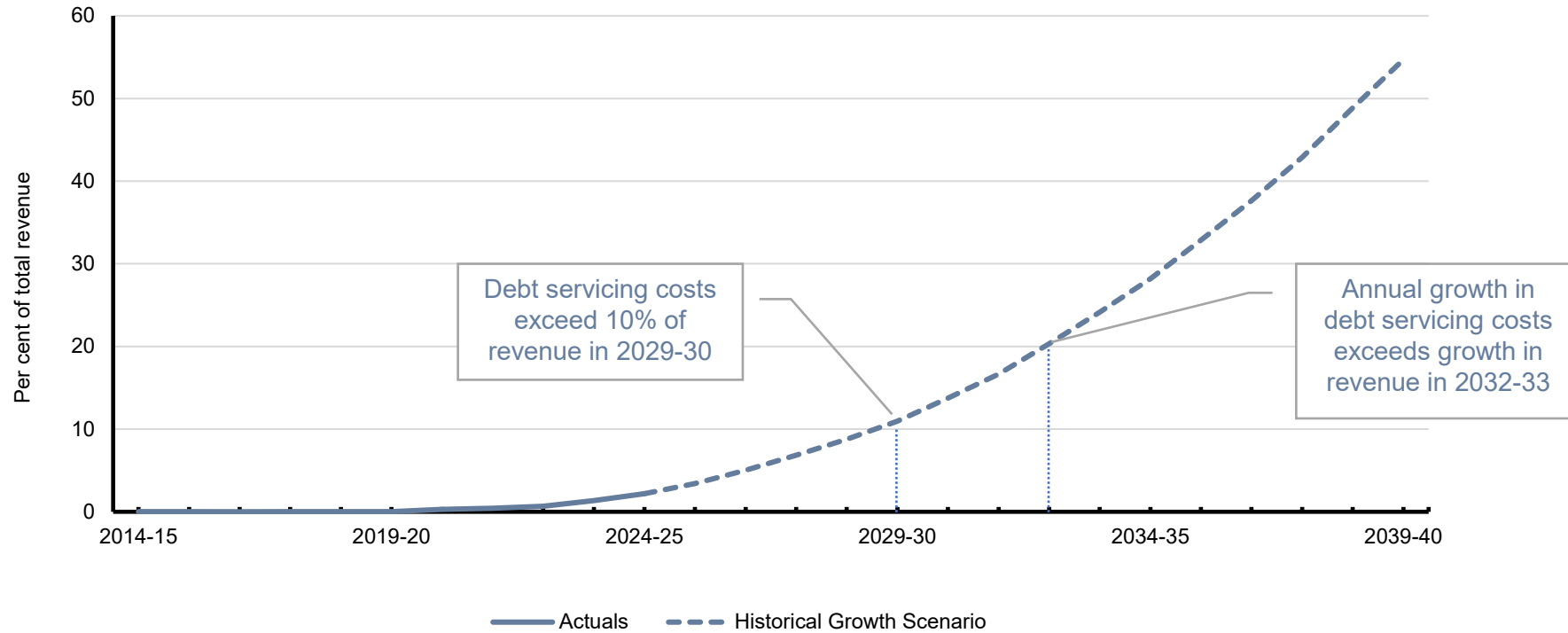
04

Within 15 years, GFS Net Debt grows to \$129.5 billion

Historic Growth Scenario - GFS Net Debt grows rapidly (GGS)



Historic Growth Scenario - debt servicing costs as a ratio of revenue



Budget Repair Scenarios

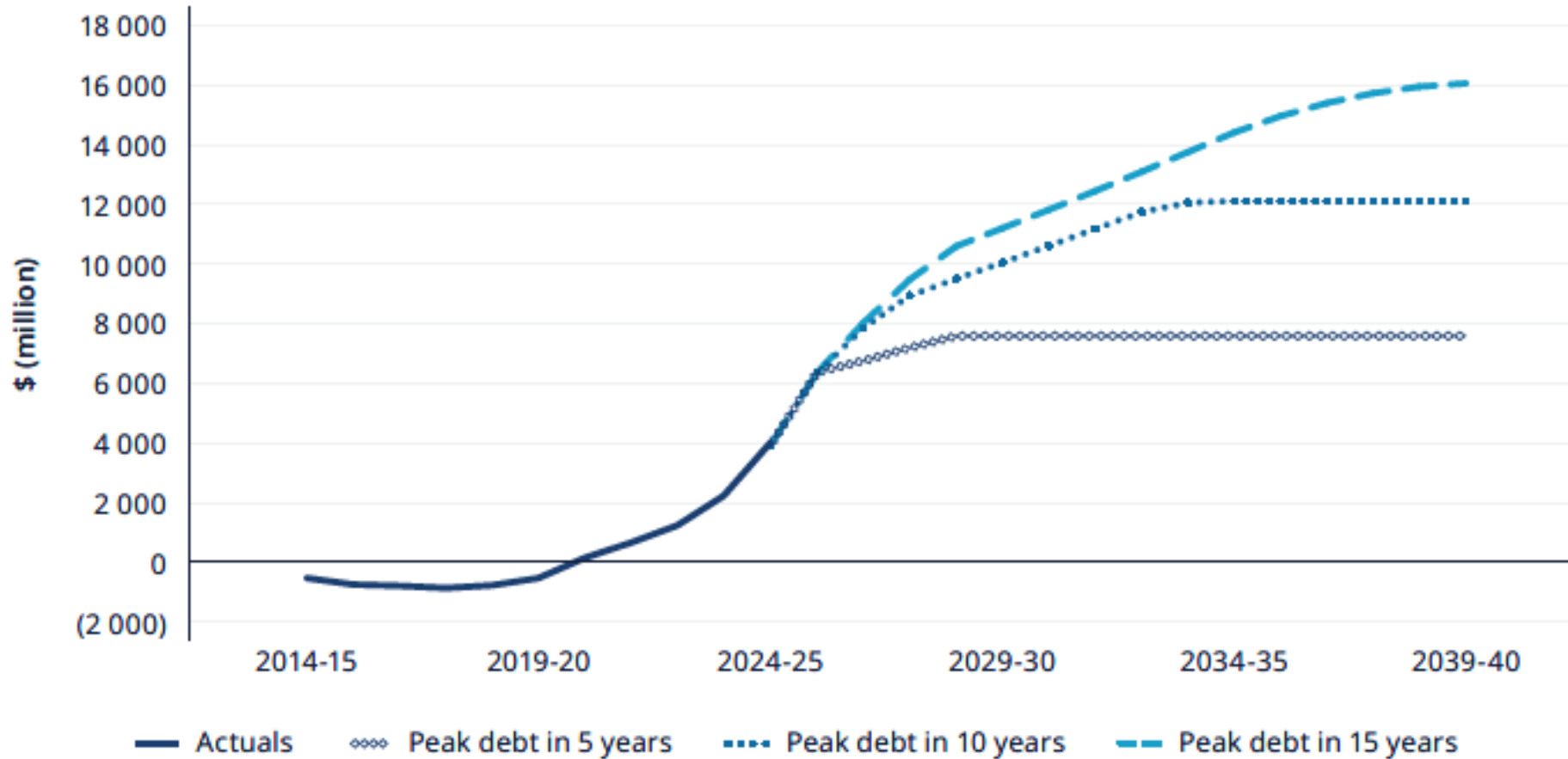
The 2026 FSR examines the extent of fiscal repair required to achieve peak debt over five, 10 or 15 years

Peak debt is the point at which revenue fully funds expenditure and additional borrowings are not required

Economic impact analysis shows that Tasmania's economy is well placed to support Budget repair in all three scenarios

Budget repair over five to 10 years is a credible and achievable goal, using a combination of reduced operating and capital expenditure, and increased revenue

Budget repair will lead to much lower GFS Net Debt outcomes



Key findings

- 1 **Tasmania's finances are projected to rapidly deteriorate** with GFS Net Debt growing to \$129.5 billion by 2039-40
- 2 **Doing nothing is not a responsible option** with debt projected to reach unmanageable levels and impact on service provision
- 3 **Immediate action is required to stabilise debt** through lower expenditure and increased revenue
- 4 **Budget repair is required over the next 5 to 10 years** – further delay will lead to unacceptable consequences
- 5 **Budget repair is achievable if action is taken** – the benefits of taking action outweigh the costs of inaction, and modelling shows the economic impact is manageable

Other findings

- ① Sensitivity analysis shows that the State does not have the fiscal buffers to respond to a substantial economic shock similar to COVID-19
- ② A major shock to operating expenditure would derail the State's path to peak debt under all scenarios
- ③ A shock requiring unexpected infrastructure investment would be manageable as the financial impact is lower, leading to lower GFS Net Debt outcomes
- ④ A continuation of the GST No Worse Off Guarantee materially improves debt levels in the peak debt scenarios, but cannot be relied on