

Net borrowing

Overview

- 1 The net borrowing assessment seeks to provide states and territories (states) with the capacity to maintain their population shares of total net financial liabilities.¹
- 2 Relative state population growth is the only driver of need, reflecting a relatively fast-growing state's ability to 'dilute' net debt among a larger population. Needs for the change in average net financial worth are assessed equal per capita.
- 3 When states collectively hold net financial liabilities:
 - a state with below-average population growth will require more GST to have the capacity to end the year with the same net liabilities per capita
 - a state with above-average population growth will require less GST to have the capacity to end the year with the same net liabilities per capita.
- 4 When states collectively hold net financial assets:
 - a state with below-average population growth will require less GST to have the capacity to end the year with the same net assets per capita
 - a state with above-average population growth will require more GST to have the capacity to end the year with the same net assets per capita.
- 5 The adjusted budget includes net borrowing to allow the Commission to directly recognise how states' financial positions are affected by differences in population growth. If the Commission did not assess net borrowing, then (while states are net borrowers), fast growing states would have a greater capacity to service their debt, and lower debt charges per capita.

Actual state net borrowing and net liabilities

- 6 At 30 June 2023, collectively, states held \$343 billion in net liabilities. Western Australia held \$12 billion in net financial assets, while all other states held net liabilities.² During 2022–23, Queensland and Western Australia were net lenders, while other states, and states in total, were net borrowers (Table 1).

¹ Or net liabilities.

² Net borrowing is derived in the adjusted budget calculations. For further detail see the adjusted budget chapter of the *Commission's Assessment Methodology*. Financial asset data is provided by states.

Table 1 Net borrowing and net financial worth by state, 2022–23

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net liabilities, 30 June 2023	122,748	151,080	36,492	-12,318	23,671	2,397	10,542	8,637	343,249
Net borrowing, 2022-23	22,762	23,136	-7,833	-856	1,311	781	1,190	343	40,833
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Net liabilities, 30 June 2023	14,886	22,492	6,777	-4,350	12,896	4,189	22,859	34,451	13,051
Net borrowing, 2022-23	2,760	3,444	-1,455	-302	714	1,365	2,580	1,367	1,553

Note: Net liabilities and net borrowing are shown with no sign. Net financial assets and net lending are shown with a negative sign.

Structure of assessment

7 Table 2 outlines the drivers that influence the assessment.

Table 2 Structure of the net borrowing assessment

Component	Driver	Influence measured by driver
Net borrowing	Population growth	Differences in population growth between states affect the level of net liabilities per capita. States with above-average population growth will require less GST to have the capacity to end the year with the average net liabilities per capita.
	Population	Because the above driver accounts for the effects of population growth on start of year financial positions, the annual change in net liabilities is assessed on a per capita basis.

Data

8 The data used in the assessment are outlined in Table 3.

Table 3 Data used in the net borrowing assessment

Source	Data	Updated
Adjusted budget	Net borrowing/lending	Annually
States	Net financial position	Annually
ABS	Population	Annually

Note: Net borrowing/lending is derived as a residual in the adjusted budget calculations.

Assessment method

- If a state holds its population share of net financial assets at the start of an assessment year, then the assessment gives it the capacity to hold its population share at the end of the assessment year.
- The assessment calculates each state's population share of the closing stock of net financial assets for an assessment year (stock at 30 June). It subtracts this from each state's share of a calculated opening stock of net financial assets for that financial year (stock at 30 June for the previous year).

11 The stock of financial assets can change over a year because of state borrowing or saving, and because assets and liabilities are revalued. The revaluation of assets and liabilities should not affect the GST distribution, so the opening stock of net financial liabilities is calculated as the closing stock less net borrowing in the year.

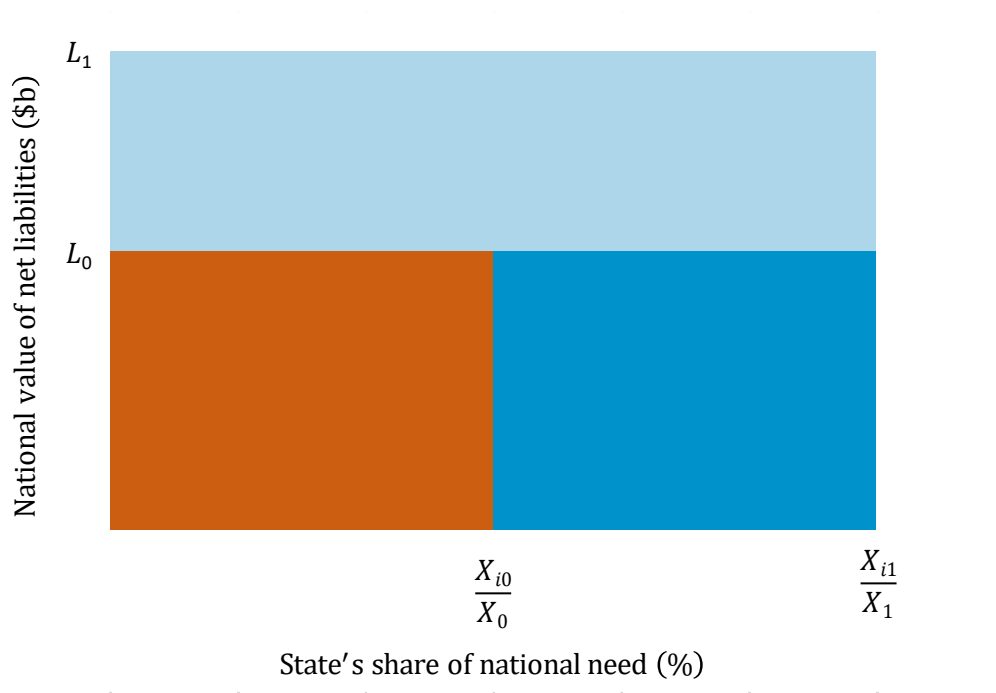
Illustration of assessment method

12 The assessment method is illustrated in Figure 1. The area of the 3 blocks represents a state’s net liabilities at the end of the year. This is assessed as the national average net liabilities times its population share. From this, we subtract the orange box (the comparable concept at the start of the year).

13 The 2 blue boxes represent the assessed need for new borrowing. They can be separated into borrowing that is driven by:

- change in population share (fast growing states have their net liabilities diluted, creating an advantage in servicing accumulated debt, and therefore need less GST)
- the annual change in net liabilities (equal per capita on end of year populations).

Figure 1 Framework for net borrowing



Note: 0 refers to year opening stocks and populations.
 1 refers to closing stocks and population.
 i refers to a state.
 L refers to net liabilities.
 X refers to population.

GST distribution in the 2025 Review

- 14 Table 4 shows the GST impact of the net borrowing assessment in the 2025 Review. Differences between the states in population growth are the only driver of GST needs in this assessment. Since states collectively are in a net liability position, population growth reduces (or dilutes) the per capita value of those liabilities. Fast growing states such as Queensland and Western Australia require less GST reflecting the benefit of faster population growth when it comes to servicing accumulated debt. Slow growing states, like the Northern Territory, require more GST.

Table 4 GST impact of the net borrowing assessment, 2025-26

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net Borrowing	269	-35	-207	-203	81	64	7	24	445
Total (\$m)	269	-35	-207	-203	81	64	7	24	445
Total (\$pc)	31	-5	-36	-66	42	112	15	92	16

Note: Magnitude and direction of GST impact can change from year to year.