Northern Territory Economic and Fiscal Update

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Under Treasurer

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NORTHERN TERRITORY GOVERNMENT

Agenda

1. Introduction
2. Economic update
3. Fiscal update

Introduction

Good morning/afternoon and thank you for taking the time to be here.

Today I'll provide an economic and fiscal update for the Territory, covering outcomes in the 2024 Mid-Year Report, which was published in November last year.

The Treasurer will then provide some further context regarding the Territory's fiscal challenges, which are currently being worked through as part of the development of the 2025 Budget, as well economic opportunities on the horizon.

Economic update

I'll start with a brief update on the Territory's economic outlook.

Economic update – key indicators

Key economic results and forecasts (%)

	2024-25	2025-26	2026-27	2027-28
	Estimate		Forecast	
Gross state product[1]	2.3	7.1	4.1	2.1
State final demand[1]	3.2	-3.1	0.7	1.6
Employment[1]	1.7	0.7	1.0	1.3
Unemployment rate[2]	4.5	4.9	4.7	4.6
Wage price index[1]	3.2	3.1	3.1	3.0
Consumer price index[1]	2.1	2.8	2.4	2.4
Population[3]	1.0	1.1	1.1	1.1

e: estimate

1 Year-average percentage change.

2 Year average.

3 June quarter compared with June quarter the previous year (year-ended percentage change).

Source: Department of Treasury and Finance; Australian Bureau of Statistics (ABS)

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The 2024-25 Mid-Year Report provided updated economic forecasts from the 2024 Pre-election fiscal outlook (PEFO), which was released in August 2024.

Headline economic activity is measured by gross state product (GSP), which captures total expenditure and consumption, investment, and trade that occurs across the economy in a year.

Growth in GSP is forecast to remain solid across the forward estimates. Growth in 2024-25 will be underpinned by investment in public housing and roads, and the completion of the Santos Barossa project as new wells are connected to the upgraded Darwin LNG plant. GSP will be boosted significantly in 2025-26 as LNG exports commence from Barossa later this year.

Another important measure of economic activity is state final demand (SFD), which is a measure of domestic economic activity that excludes trade. SFD is expected to grow strongly in 2024-25, before declining by 3.1% in 2025-26 as work on the Barossa project and major public works including national defence projects are completed. Growth is also expected to remain subdued in 2026-27.

Household consumption is expected to remain solid over the forecast period, supported by growth in disposable income from wage growth, stage 3 tax cuts, and interest rate cuts anticipated in 2025 and 2026.

Dwelling investment is expected to pick up in 2024-25 and 2025-26 following the release of the HomeGrown Territory and FreshStart grants, which will support demand for new dwellings.

Employment growth is expected to remain strong in 2024-25 before easing in 2025-26 as work on the Barossa project, and major defence projects are completed.

Inflation declined to 1.7% in the December quarter 2024, below expectations. Inflation in Darwin is expected to remain around the middle of the RBA's 2-3% target band across the forward estimates. This, coupled with solid wage growth of around 3% per annum, will provide much needed relief to household budgets and support consumer spending in 2024-25 and 2025-26.

Only modest population growth of 0.8% was recorded in 2023-24 as we struggled to attract labour from the southern states amidst strong labour market demand across all jurisdictions. Population growth is expected to pick up slightly, averaging 1.1% per annum across the forward estimates.

Economic update – key indicators

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There are a couple of key takeaways from the outlook:

- Investment is expected to fall following the completion of Barossa, and the timing of completions, and commencement of new operations will drive short-term economic outcomes.
- Projects such as initial gas production from the Beetaloo and the Arafura Nolans rare earths project are expected to support private investment and employment as Barossa transitions to operations, noting that these projects are not currently included in the economic forecasts. So there is certainly some upside there. Importantly, these projects will also have significant impacts on regional economies in areas such as logistics, housing and other services.
- And finally, government grants, growing disposable incomes and an easing of interest rates in 2025 are expected to support the housing market and construction activity.

Fiscal update

I'll turn now to the Territory's budget and fiscal outlook.

The 2024-25 Mid-Year Report also provided updated revenue and expenditure forecasts, including policy decisions and election commitments of the new Territory Government approved since the 2024 PEFO. Most of the election commitments have been funded through the re-direction of existing agency resources and have no or little budgetary impact.

Fiscal update – key indicators

	2024-25	2025-26	2026-27	2027-28
	Budget	Forward estimate		
	$M	$M	$M	$M
General government sector				
Net operating balance	- 360	- 34	- 67	135
Non financial public sector				
Fiscal balance	-2 009	- 732	- 423	- 194
Net debt	11 136	11 944	12 349	12 493
Net debt to revenue (%)	121	131	135	133

2024-25 Mid-Year Report

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This slide shows the key fiscal aggregates as at the 2024 Mid-Year Report.

The general government sector net operating balance, which represents total revenue less total operating expenses, is estimated to be a deficit of $360 million in 2024-25, remaining in deficit until 2026-27 and then forecast to be in surplus from 2027-28.

The non-financial public sector fiscal balance, which includes total revenue, less operating and capital expenses as well as the performance of the government owned corporations such as PowerWater, Jacana and Territory Generation, is estimated to be a deficit of $2 billion in 2024-25, reducing each subsequent year over the forward estimates to a deficit of $194 million in 2027-28.

Fiscal deficits require borrowings to meet to the shortfall between total revenue and total expenses. These borrowings are reflected in the Territory's balance sheet.

Key measures for the balance sheet are net debt and the resulting net debt to revenue ratio.

Net debt is projected to be $11.14 billion in 2024-25, increasing to $12.49 billion by 2027-28. The net debt to revenue ratio is projected to be 121% in 2024-25, peaking at 135% in 2026-27, before declining to 133% in 2027-28.

Fiscal update – operating and fiscal balance

	2024-25	2025-26	2026-27	2027-28
	Budget	Forward estimate		
Net operating balance ($M)				
2024 PEFO	-415	35	35	219
2024-25 Mid-Year Report	**-360**	**-34**	**-67**	**135**
Variation from 2024 PEFO	55	-69	-102	-84
Fiscal balance ($M)				
2024 PEFO	-1 746	-696	-519	-187
2024-25 Mid-Year Report	**-2 009**	**-732**	**-423**	**-194**
Variation from 2024 PEFO	-263	-36	96	-7

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This slide shows the change to the Territory's operating and fiscal balances since the 2024 PEFO.

When compared to the 2024 PEFO, net operating balance projections across the budget cycle have weakened in aggregate by around $200 million.

The variation in the net operating balance forecasts mainly reflects:

- the effect of government election and operating policy commitments
- higher depreciation expenses, and
- timing variations associated with the transfer of Commonwealth-funded expenses from 2023-24 to 2024-25 and forward years. These have been partially offset by:
- higher taxation revenue from additional payroll tax revenue, due to strength in private sector wages, and greater taxes on gambling, somewhat offset by lower mining royalties following revised estimates of operations resuming at mines affected by Cyclone Megan, and
- increased Commonwealth funding for capital purposes where expenditure is recognised in the fiscal balance only, largely for Rum Jungle mine rehabilitation and National Water Grid Fund.
- When compared with the 2024 PEFO, the fiscal balance deficit projections are higher in aggregate by $210 million across the budget cycle to 2027-28. The updated fiscal balance forecasts are influenced by the same factors affecting the net operating balance, combined with the impact of new leases, capital commitments and revised operating and capital requirements of government owned corporations.

Fiscal update – net debt and net debt to revenue

	2024-25	2025-26	2026-27	2027-28
	Budget	Forward estimate		
Net debt ($M)				
2024 PEFO	10 821	11 603	12 125	12 255
2024-25 Mid-Year Report	**11 136**	**11 944**	**12 349**	**12 493**
Variation from 2024 PEFO	315	341	224	238
Net debt to revenue (%)				
2024 PEFO	121	128	133	130
2024-25 Mid-Year Report	**121**	**131**	**135**	**133**
Variation from 2024 PEFO	nil	3	2	3

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This slide shows the changes in the Territory's net debt and net debt to revenue ratio since the 2024 PEFO.

Net debt is projected to be higher in all years across the budget cycle when compared with the 2024 PEFO, mainly reflecting the cumulative effect of the projected fiscal balance deficits shown on the previous slide.

Variations to net debt to revenue ratios since the 2024 PEFO are similarly forecast to be higher in all years across the forward estimates.

Fiscal update – policy vs non policy

	2024-25	2025-26	2026-27	2027-28
	Budget	Forward estimate		
	$M	$M	$M	$M
2024 PEFO	**-1 746**	**- 696**	**- 519**	**- 187**
Policy changes	1	- 10	- 19	- 22
Non-policy changes	- 264	- 26	115	15
2024-25 Mid-Year Report	**-2 009**	**- 732**	**- 423**	**- 194**

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This slide shows the drivers of the change in fiscal balance projections, categorised into policy and non-policy related changes.

Policy variations are the result of government decisions to implement new or expand existing agency programs, and savings and revenue measures.

Non-policy variations are the result of influences outside government's control, such as the timing of payments or changes in external economic conditions that may affect revenues.

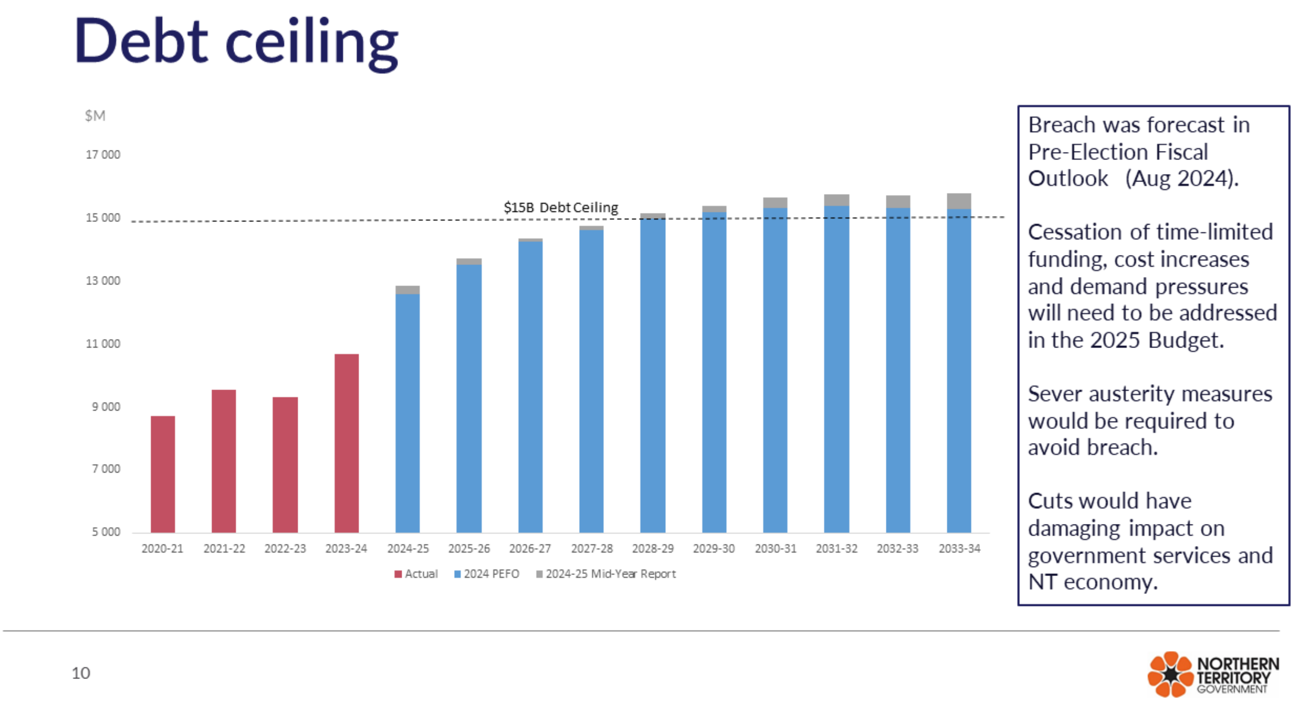
As shown, the anticipated worsening in the fiscal balance over the budget cycle is largely attributable to non-policy changes totalling around $160 million, with policy changes only contributing around $50 million.

Key policy related variations since the 2024 PEFO include:

- payroll tax reductions and additional funding for domestic violence prevention services, with the bulk of Government's election commitments funded from within existing resources or having no budgetary impact
- other policy commitments, including additional funding to support urgent legislative amendments to reduce crime in 2024-25,
- somewhat offset by savings including:
  - suspending negotiations for a Territory NBL franchise
  - reducing external consultancies and discretionary costs across agencies.

Major non-policy variations since the 2024 PEFO include:

- increased energy and capital costs in Power and Water Corporation
- revised timing of expected lease renewals for office and employee accommodation and police aircraft from 2023-24, now expected to occur in 2024-25
- unspent Commonwealth funds in 2023-24, carried over into 2024-25.



This slide shows the Territory's assessable borrowings, representing total borrowings excluding leases, and shows that as at the 2024 PEFO, the Territory was on track to breach its legislated $15 billion assessable debt limit in 2028-29.

The slide also shows the relatively small impact of the 2024 Mid-Year Report on the projections, of which only a fraction relates to policy decisions of the new Government.

As at the 2024 PEFO, the Territory's 10-year medium term budget projections indicated the debt ceiling would be breached in 2028-29, one year outside the current published forward estimates period. In the upcoming 2025 Budget, the forward estimates period will include 2028 29.

It is important to note that the 2024 PEFO projections included a range of time-limited funding initiatives, totalling more than $350 million per annum across health, justice and corrections as well as a further significant reduction in capital works funding, despite record commitments for new and continuing projects.

These services, programs and projects will be challenging to discontinue at the cessation of funding. If the services are continued without immediate offsetting savings being implemented, assessable debt levels will be even higher than projected in the 2024 Mid-Year Report.

The 2025 Budget development process, which is currently underway, will provide the first opportunity for the new Government to comprehensively consider the Territory's Budget settings and outlook. As it stands, a breach of the debt ceiling in the 2025 Budget is unavoidable unless severe savings or austerity measures are imposed.

The former Government introduced a limit on borrowings (commonly referred to as a debt ceiling) as part of the 2021 Budget, which came into effect from 1 July 2021.

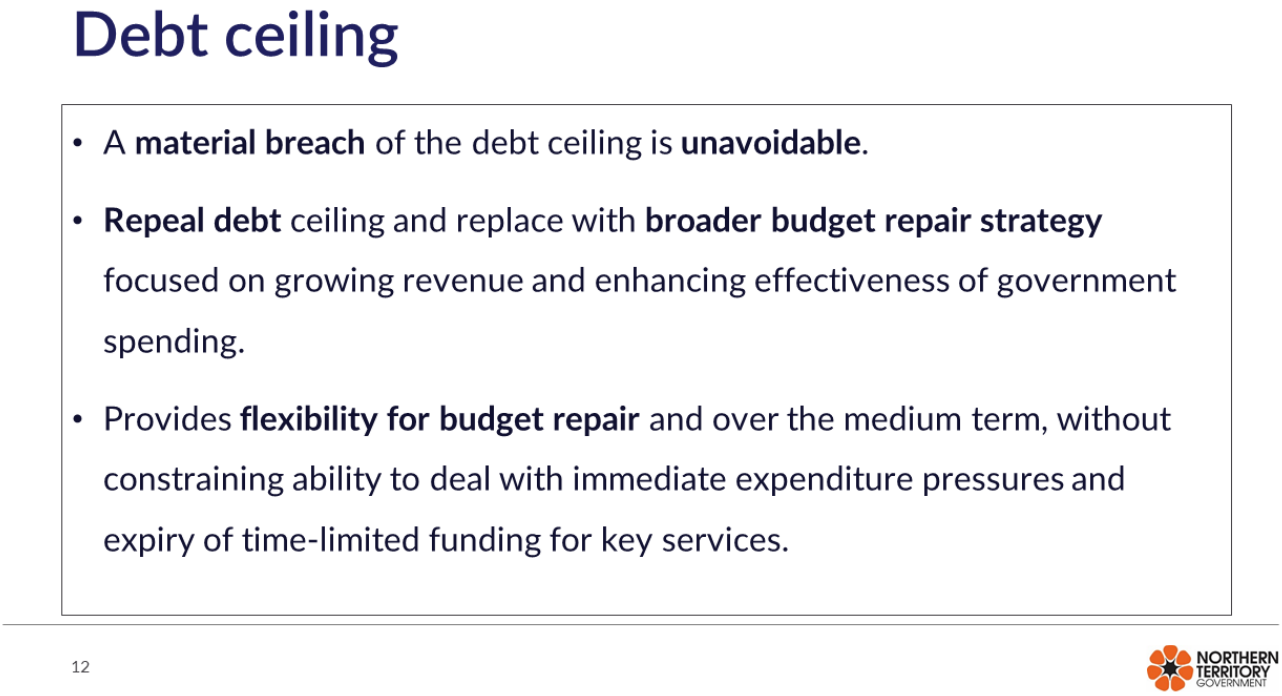
The debt ceiling is legislated under the Fiscal Integrity and Transparency Act 2001 (FITA) and requires the Territory Government to ensure that assessable borrowings (which are calculated as total borrowings excluding leases) remain under $15 billion in the current year, budget year and across the forward estimates period, which is the budget year plus the three subsequent years.

The debt ceiling was set as a fixed amount (i.e. not adjusted for inflation), which broadly corresponded to certain thresholds used in the assessment of the Territory's credit risk. Notably, the inflation outlook in 2020-21 was exceptionally benign due to the economic impacts of COVID, however, post-COVID inflation outcomes have been unexpectedly strong and persistent.

The debt ceiling can only be amended by an act of Parliament.

The legislation states that if the debt ceiling is breached, or is projected to be breached over the budget and forward estimates, the Treasurer is required to provide a report to the Legislative Assembly that includes the causes of the breach, the remediation action being taken and the estimated impact of the remediation action on the budget and forward estimates.

The Territory is currently the only Australian jurisdiction with a legislated debt ceiling.



The Department of Treasury and Finance maintains medium-term projections for its key fiscal indicators, including assessable borrowings, to support strategic fiscal planning and risk management. Based on current projections, maintaining assessable borrowings within the $15 billion limit would require a level of austerity and increases in own-source taxation and royalties that would have significant negative impacts on the Territory population and economy.

The impending breach of the debt ceiling is largely the result of decisions taken over previous years. Given the inherited fiscal position and challenges, this Government has made the decision to repeal the debt ceiling.

This will provide increased flexibility for government to progress budget repair and contain expenditure growth over the medium term, without constraining government's ability to deal with immediate expenditure pressures and expiry of time-limited funding for key services. It will also enable government to focus its efforts on growing revenue and enhancing the effectiveness of government spending.

And while Government has stated that it will repeal the debt ceiling rather than impose austerity measures, returning the Territory budget to balanced and sustainable position over the medium-term will remain a priority.

To achieve this, the debt ceiling will be replaced by a broader budget repair strategy.

Budget Repair

The budget repair strategy comprises five priorities:

1. **Growing own-source** revenues through economic development and population growth.
2. Containing employee cost growth by **restraining growth in non-frontline staffing**.
3. **Engaging with the Commonwealth** to unlock economic opportunities, enable sustainable debt management and support regional and remote Territorians.
4. Strengthening policies and processes across government to **improve the effectiveness** of government spending.
5. Developing a new, contemporary and simplified fiscal strategy focused on **prudent debt management**.

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The budget repair strategy comprises five priorities:

1. Growing own-source revenues through economic development and population growth. Government's Rebuilding the Economy Strategy will be finalised shortly and will articulate the vision for economic development in the Territory. Projects such as the development of the Beetaloo will be critical to this element.
2. Containing employee cost growth by restraining growth in non-frontline staffing.
3. Engaging with the Commonwealth to unlock economic opportunities, enable sustainable debt management and support regional and remote Territorians. This will include a focus on supporting mutually beneficial defence and energy security projects.
4. Strengthening policies and processes across government to improve the effectiveness of government spending. This will include strengthening accountability measures for grants and continued emphasis on evidenced-based policy and program evaluation. It will also identify opportunities to re-direct funding for programs not aligned to government's strategic priorities, or not achieving intended outcomes.
5. Developing a new, contemporary and simplified fiscal strategy focused on prudent debt management. The fiscal strategy will provide the basis against which policy decisions can be assessed and articulate government's fiscal objectives.

So the path ahead is by no means an easy one. But with a renewed and strong focus on strategic investment, growing our economy and sustainable budget repair we will be able to position ourselves to build a prosperous future for Territorians and become an important player in the broader national economy.

Thank you again for taking the time to be here this morning/afternoon. I'll now pass to the Treasurer, Bill Yan for further discussion on the Territory's fiscal and economic challenges and opportunities.