

# 1. BUDGET OVERVIEW

- The Government's efforts to repair the budget and make it more resilient to continued risks and pressures are taking effect. Debt levels are stabilising and the economy is normalising following the COVID-19 pandemic.
- This Budget demonstrates continued progress, returning the budget to a sustainable position. The State's operating position has improved from a \$10.7 billion deficit in 2023-24 to an expected \$5.7 billion deficit in 2024-25. The Budget projects a further improvement in 2025-26, to a deficit of \$3.4 billion, followed by a surplus of \$1.1 billion in each of 2027-28 and 2028-29.
- Alongside the improved operating position, the State's balance sheet is projected to strengthen. Gross debt is projected to be \$178.8 billion by June 2026, which is \$9.4 billion below the \$188.2 billion projected at the 2023 Pre-election Budget Update. Gross debt as a per cent of gross state product is projected to fall from a peak of 20.4 per cent by June 2027 to 19.6 per cent by June 2029.
- This measured and responsible approach to financial management has also enabled the Government to make significant investments to rebuild essential services and support the long-term prosperity of the State.
- This Budget continues to rebuild essential services with critical investments in:
  - supporting children and young people in out-of-home care
  - facilities and staff at TAFE NSW
  - measures that support victim-survivors of domestic, family and sexual violence in the courts and justice system.
- The Government's economic growth agenda prioritises focused interventions to improve productivity and facilitate private sector investment.
- The Government will support growth through investment in:
  - housing, by accelerating development and enabling more new dwellings
  - the new Investment Delivery Authority – modelled on the successful Housing Delivery Authority – to identify and clear barriers to significant economic investments
  - manufacturing and innovation, to support investment in research into products and services, and the development of new products and techniques
  - technology, delivering cost-effective, secure access to services
  - energy, to enable the transition to renewable energy through instigating investment in network, generation, and storage infrastructure.

The 2025-26 Budget outlines a responsible path back to a moderate surplus, after the largest ever deficit of \$15.3 billion in 2021-22.

The budget turnaround is supported by a \$9.4 billion reduction in the debt projected relative to the 2023 Pre-election Budget Update, saving around \$400 million in interest payments every year. These savings have allowed the NSW Government to make investments to rebuild essential services while outlining a sustainable pathway to surplus.

The 2025-26 Budget also lays the foundation for our future economic growth with measures that facilitate rapid investment, create jobs, and accelerate the delivery of new homes.

Following a global pandemic, bushfires, floods, high inflation and interest rates, families and businesses in New South Wales are under pressure. We are now seeing the first signs that the NSW Government's fiscal consolidation strategy has avoided additional pressure on inflation without restricting wage growth or increasing joblessness. Inflation declined to 2.3 per cent in the March quarter of 2025. Having made progress to address inflation and fiscal repair, New South Wales enters a new economic challenge. The 2025-26 Budget outlines new investments designed to reduce regulation, fast track investment and generate the jobs and prosperity of the future.

The NSW Government's commitment to responsible budget management has allowed for the next step towards rebuilding our essential services after a decade of rising demand. Major investments in child protection, TAFE, education and healthcare headline the 2025-26 Budget.

## 1.1 Economic context

The economy is normalising following the COVID-19 pandemic. Despite a gradual slowdown, the NSW economy has avoided recession. Cost-of-living pressures are easing. Inflation is back around the Reserve Bank of Australia's target, supported by the NSW Government's fiscal consolidation strategy. This has allowed for a pickup in real wages growth without a significant deterioration in the labour market.

Household consumption is beginning to recover despite uncertainty over the global economy impacting consumer sentiment. This recovery is supported by cost-of-living relief measures, real wages growth, and the continued moderation of inflation. The labour market remains resilient and is broadly consistent with full employment.

Residential construction has been slower to recover due to material costs and labour constraints. Despite the challenges, there are signs of improvement as new planning reforms begin to take effect, with dwelling approvals at an almost two-year high in the March quarter 2025. Nonetheless, housing affordability is expected to remain constrained from a historical perspective.

Despite elevated global uncertainty, the NSW economy is well-positioned for an increase in economic growth. Consumer spending is expected to lift as cost-of-living pressures continue to ease, supported by real wages growth. Meanwhile, fiscal consolidation is expected to free up resources for private infrastructure investment, including housing. NSW state final demand is expected to grow by 2¼ per cent in 2025-26. However, weaker exports weigh on the economy, meaning that overall gross state product (GSP) growth is expected to be a more subdued 1¾ per cent in 2025-26.

Productivity growth is expected to pick up over the next two to three years, albeit to a lower level than previously expected. Unlocking productivity growth is vital as the NSW economy evolves and is central to the Government's growth agenda.

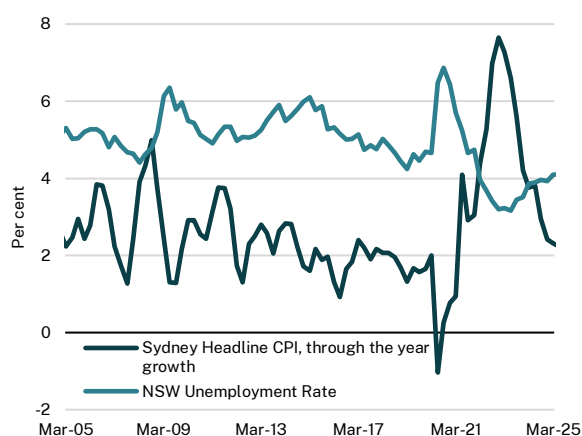
**Table 1.1:** *New South Wales forecasts for real gross state product, Sydney consumer price index and the unemployment rate<sup>(a)</sup>*

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
	Outcome	Forecast	Forecast	Forecast	Forecast	Forecast
Real gross state product	1.2	1¾ (¾)	1¾ (2½)	2 ¼	2 (2¼)	2
Sydney consumer price index	4.3	2½ (3)	3	2½	2½	2½
Unemployment rate <sup>(b)</sup>	3.9	4 (4½)	4¼ (4 ½)	4¼	4	4

(a) Forecasts are rounded to the nearest quarter point and are annual average per cent change, unless otherwise indicated. 2024-25 Half-Yearly Review forecasts in parentheses where different.

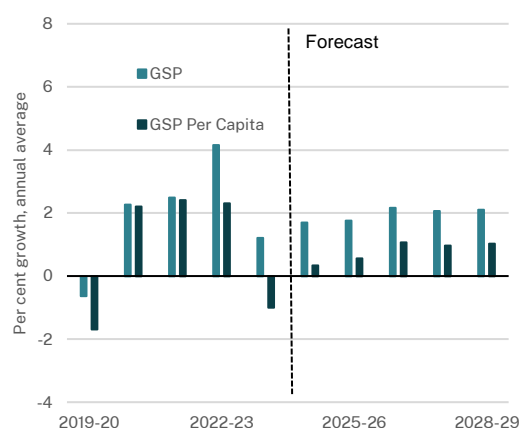
(b) June quarter, per cent.

**Chart 1.1:** Sydney CPI and NSW Unemployment Rate



Source: ABS and NSW Treasury

**Chart 1.2:** NSW real gross state product



Source: ABS and NSW Treasury

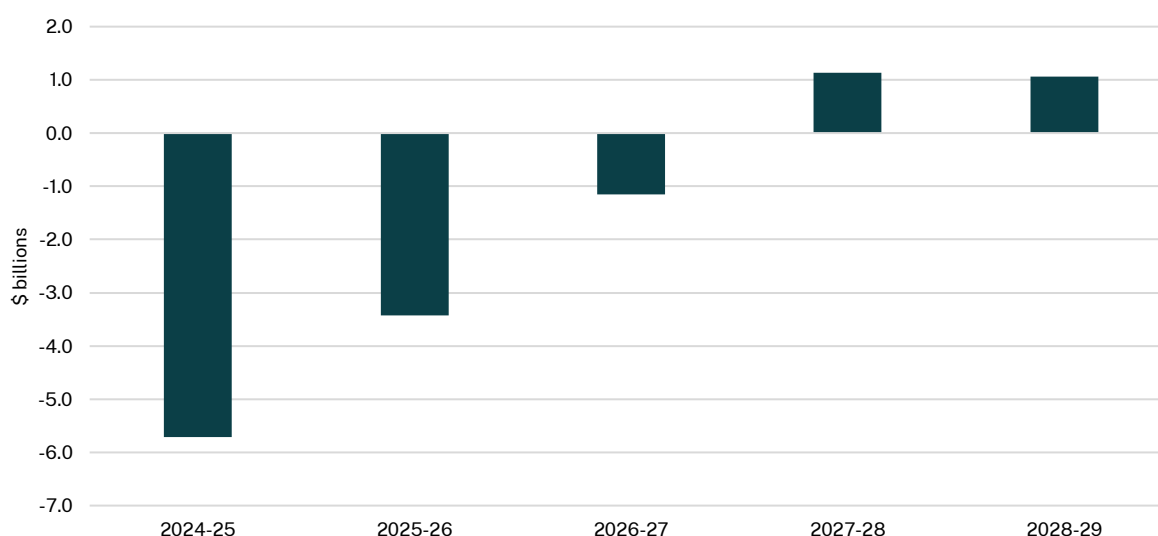
Further details on the movements in the key economic indicators between the 2024-25 Half-Yearly Review and 2025-26 Budget are outlined in Chapter 2 The economy.

## 1.2 Fiscal context

The 2025-26 Budget projects a return to a surplus in 2027-28 (see Chart 1.3), which would be the State's first surplus since the COVID-19 pandemic. This marks a significant fiscal milestone for the State, achieved despite pressures from a lower GST revenue share and the investment required to rebuild essential services after years of underfunding.

However, New South Wales is facing more frequent and costly natural disasters, posing significant additional costs. Reprofiting of disaster expenses, primarily due to timing differences between expenditure and recognition of Australian Government co-funding under the Disaster Recovery Funding Arrangements, and approval of new funding for disaster assistance since the Half-Yearly Review has worsened the budget result by \$920.9 million in 2024-25 and \$980.9 million in 2025-26.

**Chart 1.3:** General government budget result: 2025-26 Budget

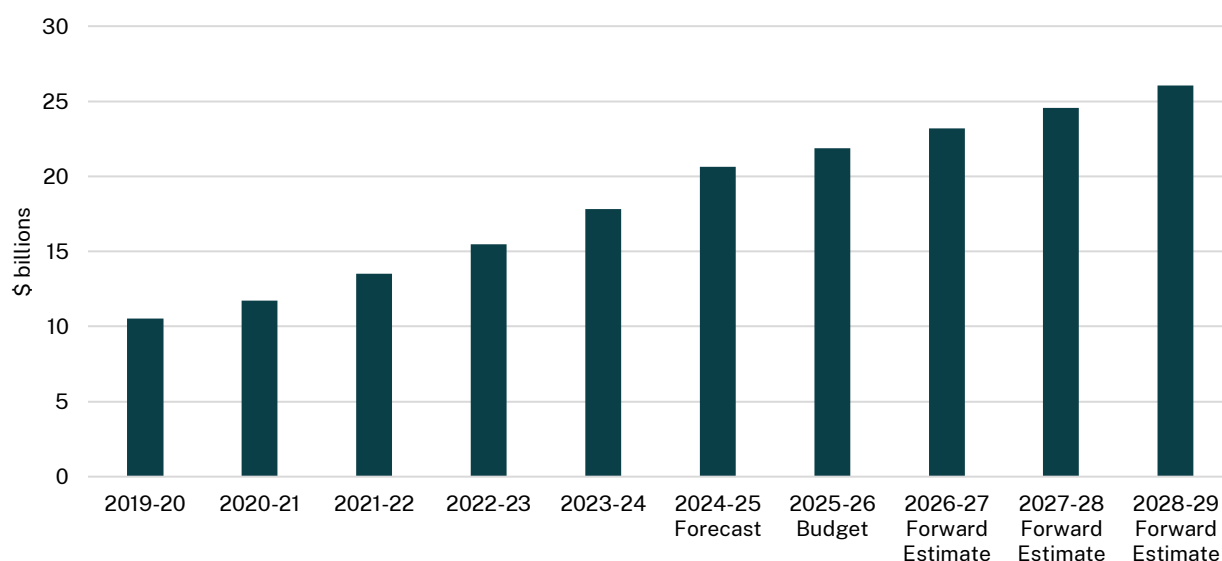


Source: NSW Treasury

The budget result shows improvement, with the deficit improved from 2023-24 to 2024-25 and projected to reach surplus in 2027-28 (see Table 1.2). The forecast surplus would represent the first since 2018-19, but faces significant pressures such as:

- \$3.4 billion increase in insurance expenses over five years, of which \$2.6 billion relates to the deteriorating performance of the workers' compensation scheme (see Chart 1.4 below for increasing Treasury Managed Fund liabilities), with \$879.6 million of this deterioration occurring in 2024-25 since the Half-Yearly Review<sup>1</sup>
- increased costs from natural disasters and uncertainty over the timing of Australian Government contributions
- expenditure on natural disasters has increased more than 1,000 per cent in the six years since the 2019-20 bushfires compared to the six years prior. Since 2019-20, the NSW and Australian Governments have spent an average of \$1.6 billion per year on disaster relief, compared to \$154.0 million per year in the prior six years. The measures below form part of a further \$4.2 billion of disaster relief across the forward estimates:
  - \$154.5 million for disaster recovery and relief measures in response to ex-Tropical Cyclone Alfred
  - \$358.3 million for disaster recovery and relief measures in response to the May 2025 East Coast floods
  - \$27.0 million for repair and restoration of water and sewer infrastructure in the Central West, damaged by 2022 severe weather and flooding
- \$790.7 million in rising depreciation and amortisation expenses due to growth in the asset base.

Chart 1.4: Treasury Managed Funds (TMF) liability valuations from 2019-20 to 2028-29



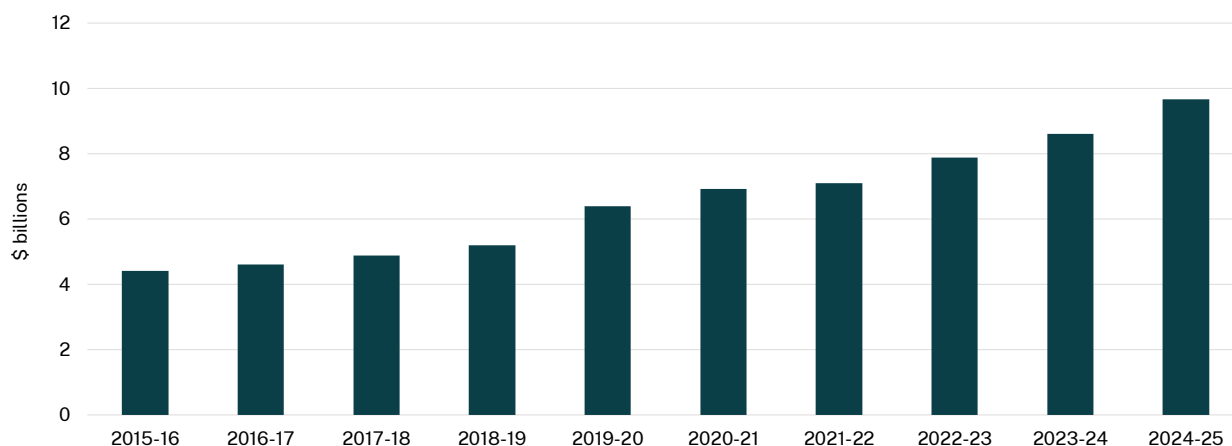
Source: icare

Note: Actuals from 2019-20 to 2023-24 are based on published financial statements for SiCorp at each balance date. Forecast and Budget are based on the latest 2025-26 Statement of Business Intent Budget. The Pre-Managed Fund Reserve, Government Workers Compensation Account, and Residual Workers Compensation Liabilities of the Crown were amalgamated into TMF on 7 August 2024.

As the State's infrastructure program has expanded in recent years, the State has seen a commensurate increase in depreciation and amortisation expenses. As seen in Chart 1.5, depreciation and amortisation expenses have more than doubled between 2015-16 (\$4.4 billion) and 2024-25 (\$9.7 billion). See Chapter 8 Balance sheet for information on revaluation and depreciation reforms.

<sup>1</sup> These figures exclude provisions taken at the 2024-25 Half-Yearly Review to account for the impacts on workers' compensation expenses associated with the police wage increase and reforms to the Police Officer Support Scheme. Reforms to workers' compensation being considered by Parliament will impact the reporting of these figures.

Chart 1.5: Depreciation and amortisation expenses



Source: NSW Treasury

## Responsible budget management

Despite significant fiscal challenges and pressures, the Government remains committed to the two fiscal principles adopted in the 2023-24 Budget to guide the State's fiscal strategy:

- returning to a sustainable operating position
- stabilising and then maintaining a sustainable debt position.

Responsible budget management ensures the NSW Government can continue to invest in rebuilding essential services while laying the foundation for our future economic growth.

The State's overall fiscal position has improved over medium to longer term with:

- budget surpluses projected in 2027-28 and 2028-29
- gross debt projected to be \$178.8 billion by June 2026, which is \$9.4 billion lower than the \$188.2 billion projected in the 2023 Pre-election Budget Update
- gross debt to GSP projected to be 19.5 per cent by June 2025 (0.3 per cent lower than the 2024-25 Half-Yearly Review) and remain relatively stable at around 20 per cent of GSP over the four years to June 2029. Further balance sheet movements are outlined in Chapter 8 Balance sheet
- net debt projected to be \$130.7 billion by June 2028 which is \$6.5 billion lower compared to the 2024-25 Half-Yearly Review. This is mainly driven by a stronger cash operating position over the forward estimates
- The improved fiscal position is supported by an improved revenue outlook while maintaining historically low expense growth
- In 2025-26, revenue from the Australian Government is expected to increase by \$1.7 billion to \$49.8 billion compared to the 2024-25 Half-Yearly Review. This is mainly driven by the agreement of the landmark Better and Fairer Schools Agreement, a one-year extension of the National Health Reform Agreement and improvements to the national GST pool. Further details on Australian Government revenue are outlined in Chapter 6 Federal financial relations.

## Reducing debt to GSP

The Government has stabilised the State's debt position while maintaining a large infrastructure program to meet the service needs of a growing population. Infrastructure investment in the non-financial public sector (NFPS) is projected to be \$118.3 billion over the four years to 2028-29, with:

- additional funding for schools' infrastructure helping maintain the general government infrastructure program at \$86.0 billion. An overview of the State's infrastructure program can be found in Budget Paper No.3 *Infrastructure Statement*
- a public non-financial corporation infrastructure program of \$32.6 billion. An overview of the government businesses' infrastructure programs can be found in Chapter 9 Government businesses.

**Table 1.2:** Key budget aggregates for the general government sector

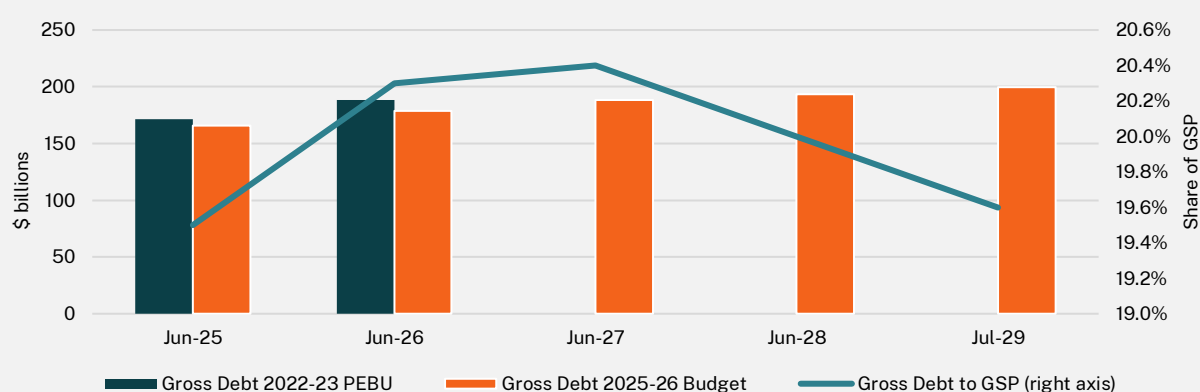
	2023-24 Actual	2024-25 Revised	2025-26 Budget	2026-27 Forward Estimates	2027-28 Forward Estimates	2028-29 Forward Estimates
Revenue (\$m)	110,219	118,090	124,154	128,038	133,232	137,135
Per cent of GSP	13.4	13.9	14.1	13.9	13.8	13.5
Expenses (\$m)	120,909	123,805	127,581	129,186	132,101	136,078
Per cent of GSP	14.7	14.5	14.5	14.0	13.6	13.4
Budget result (\$m)	(10,690)	(5,715)	(3,427)	(1,148)	1,132	1,058
Per cent of GSP	(1.3)	(0.7)	(0.4)	(0.1)	0.1	0.1
Cash operating position (\$m)	378	2,892	7,384	10,401	12,548	12,490
Per cent of GSP	0.1	0.3	0.8	1.1	1.3	1.2
Gross debt (\$m)	154,276	166,012	178,755	188,340	193,609	199,680
Per cent of GSP	18.8	19.5	20.3	20.4	20.0	19.6
Capital expenditure (\$m)	22,919	22,315	22,343	22,043	21,480	20,111
Per cent of GSP	2.8	2.6	2.5	2.4	2.2	2.0
NFPS capital expenditure (\$m)	31,059	28,646	30,816	30,353	29,336	27,829

### Box 1.1: New South Wales keeping debt in check

While New South Wales' gross debt ratio rose sharply during the pandemic, more than doubling from 6.2 per cent of GSP at June 2019 to 14.1 per cent in June 2021. This Budget shows a turnaround with growth in debt levelling off and gross debt maintained at around 20 per cent of GSP over the forward estimates to June 2029. The projected reduction in gross debt to GSP has been achieved without compromising the delivery of the State's infrastructure program, with continued investment in essential services that support long-term economic growth.

This takes pressure off the State's interest expenses and helps maintain a triple-A credit rating. Reducing the June 2026 projected gross debt by \$9.4 billion in comparison to the 2023 Pre-election Budget Update, the NSW Government will save around \$400 million in interest expenses per annum. These savings are driving new investments to rebuild essential services and contribute to budget repair.

Chart 1.6: General government gross debt



Source: NSW Treasury

## 1.3 Delivery on government priorities

Within the economic and fiscal context outlined in the sections above, the 2025-26 Budget builds on the Government's work over the past two years. Chapter 3 Budget priorities details how this Budget invests in new and expanded measures to support NSW families across priority areas, including the critical areas of:

- rebuilding essential services
- investment in the future of the State with economic growth and prosperity-focused measures
- access to quality housing.

**Box 1.2: Delivering on our election commitments**

Since the Government was elected in March 2023, significant progress has been made in prioritising the needs of essential workers, ensuring safety and justice, providing essential care for communities, and fostering a vibrant future.

From improving housing supply to upgrading essential healthcare facilities, the Government is working to address the challenges faced by NSW residents and prioritise the wellbeing of the community.

The Government has delivered:

- lower gross debt, at \$9.4 billion less than the Pre-election Budget Update projection of \$188.2 billion by June 2026
- a stronger teaching workforce and support for students by:
  - banning mobile phones in all public high schools, designed to improve the classroom environment and student outcomes
  - the establishment of an ongoing, targeted literacy and numeracy tutoring program operating in both primary and high schools, focusing on students who need additional support
  - converting 10,000 teaching roles and 5,000 school administrative roles from temporary to permanent positions, with the goal of improving educational outcomes for students in the State's public schools
- support for health services and women's health, including:
  - funding for Women's Health Centres under the Women's Health Program, to provide a range of health, mental health and social support services for women
  - 29 new McGrath Breast Care Nurses, providing free support to breast cancer patients in metro, regional and remote communities
  - expanded pharmacists' scope of practice, beyond assessment and treatment for urinary tract infections, to also provide people in New South Wales with access to treatment for ear infections, wound management, nausea, gastro, acne, muscle and joint pain at their local pharmacy
- transfer duty support for first home buyers by exempting transfer duty for first home buyers purchasing a home worth up to \$800,000 and providing a concessional rate of transfer duty to first home buyers purchasing a property valued up to \$1.0 million
- energy bill relief to eligible households and over 300,000 small businesses
- reforms for renters in New South Wales, including:
  - appointing a NSW Rental Commissioner who is a voice for renters, working closely with the Government, stakeholders and industry
  - protecting renters from unfair evictions by creating reasonable grounds for owners to end a tenancy
  - making it easier for renters to have pets in homes
- a pilot program of sexual violence liaison officers in five police area commands. These positions will be trained in culturally sensitive practice to work specifically with survivors of sexual violence and act as support officers to allegations of sexual violence.



## Rebuilding essential services

In the 2025-26 Budget, rebuilding essential services and providing cost-of-living support remain a focus. Key initiatives and programs supported in the Budget include:

- \$12.4 billion of capital investment to build and upgrade health infrastructure over the next four years, with \$3.3 billion in 2025-26
- the Essential Health Services package, which invests \$836.4 million in 2025-26 to support core health services and reduce overdue surgeries
- a critical \$9.0 billion investment in the school infrastructure pipeline over four years, including new schools and upgrades, and a \$50.0 million investment in expanding high potential and gifted student opportunities across New South Wales
- a 10-year agreement with the Australian Government to fully fund schools under the Student Resource Standard (SRS) model, delivering 100 per cent of the SRS by 2035
- \$1.2 billion over four years for TAFE to promote ongoing skills development
- \$10.0 million in 2025-26 to progress work on expanding the public provision of early childhood education and care in New South Wales
- \$1.2 billion child protection package, providing more support for children and young people in out-of-home care
- \$272.7 million for domestic, family and sexual violence services, aiming to reduce violence against women and children
- \$226.8 million to address the increases in demand for the Victims Support Scheme, to ensure continued access to counselling and financial support for victims of violent crime and modern slavery.

## Economic growth and prosperity

- With the Government's measures to repair the budget and make it more resilient to continued risks and pressures taking effect, the 2025-26 Budget expands the Government's focus to the future of the State, setting a platform for growth and prosperity centred on adaptability, innovation and productivity. This is exemplified in key initiatives including:
  - Investment Delivery Authority to fast-track economic investments and lift productivity
  - \$512.3 million to grow the creative economy and restore Sydney as a vibrant world-class city, including:
    - the \$380.6 million package to support the NSW screen and digital games sector, to grow more local jobs and secure the future of the industry
    - \$20.6 million for the Office of the 24-Hour Economy Commissioner to support the nighttime economy and local councils through regulatory reform, precinct-based initiatives and other support
    - \$20.0 million for Sound NSW to continue to support the local music scene.
- \$135.0 million for Destination NSW events, promotion and industry support to grow the New South Wales visitor economy
- \$100.0 million to enhance biosecurity measures and \$41.2 million for primary industries research, in addition to the Government delivering \$59.6 million of upgrades to regional research facilities to support regional economic growth

- the \$79.2 million Innovation Blueprint package, designed to support innovative businesses to connect with investors and researchers, and to scale opportunities to drive economic growth
- \$27.3 million to establish the Future Jobs and Investment Authority to coordinate new economic opportunities in coal-producing regions in the Hunter, Illawarra, Central West and North West.

## **Access to quality housing**

Support for the housing system and enabling access to quality housing remains a priority. In addition to the measures funded over the last two years, this Budget includes key initiatives such as:

- \$1.2 billion injection into TAFE training, including funding to accelerate the delivery of 4,800 construction trades workers to support our home building agenda
- \$145.1 million to support the ongoing work of the Building Commission NSW to reform the residential building and construction industry and improve consumer outcomes
- \$83.4 million to accelerate planning approvals, including for large-scale market, social and affordable housing. This includes \$10.6 million for additional resources for the newly established Housing Delivery Authority
- \$20.9 million to support regional councils to bring forward critical enabling infrastructure for new homes during the National Housing Accord period by funding interest on loans
- \$20.0 million to ease pressure on the crisis accommodation system. This is in addition to the \$527.6 million support package for homelessness services announced in the 2024-25 Budget.

Further details on measures supported in this Budget are outlined in Chapter 3 Budget priorities.