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Australia's \$1 Trillion Government: State Debt to Hit \$471 Billion as Interest Bill Soars

Australian governments are collectively spending close to \$1 trillion a year and state debt alone is on track to grow by more than \$114 billion in just three years, according to analysis in the Institute of Financial Professionals Australia Research Foundation's Tax Policy Journal 2026.

Key Findings

- Commonwealth net debt reached approximately \$846.6 billion in 2023/24 (31.7% of GDP).
- State net debt is forecast to rise from around \$357.5 billion (13% of GDP) in 2024/25 to \$471.9 billion (15% of GDP) by 2027–28 — driven largely by Victoria and NSW infrastructure and health spending.
- Interest payments on Commonwealth debt are forecast to reach 1.9% of GDP by 2027/28, crowding out funding for services.

"These are not abstract numbers — every dollar spent servicing debt is a dollar not available for hospitals, schools, or tax relief," said Scott Heathwood, Chairman of IFPA. "State governments in particular have quietly become the bigger fiscal risk. For financial planners and the Australians they advise, this changes the long-term outlook for interest rates, bond markets, and ultimately the social contract around government services."

The Journal warns that economic growth alone will not stabilise debt trajectories, a view consistent with the IMF's 2024 Article IV consultation, which urged Australia to broaden its tax base and reduce reliance on bracket creep.

Rising interest costs will crowd out the very services Australians rely on, and the burden of adjustment will fall disproportionately on working-age taxpayers unless the Commonwealth and the states act in concert. Financial professionals are already adjusting client retirement plans on the assumption of higher long-term interest rates and a less generous public safety net. That is not a sustainable position for the country to drift into without an honest national conversation.



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