

## Interest rate rises put pressure on Victoria’s Budget, families and businesses

The 2 August 2022 interest rate rise is in addition to rate rises which began on the day the Victorian Budget was handed down. Together these interest rate increases have lifted the cash rate from 0.1% to 1.85%. This is only part way through what is likely a significant cascade of interest rate rises that will put significant pressure on Victorian families and many small businesses.

This is because inflation is the target for the Reserve Bank, and correctly so, given the damage surging inflation will do. (See the [statement](#) on the latest interest rate rise by Reserve Bank Governor, Philip Lowe). Every household is aware of the massive increases in fuel prices and prices at the supermarket, particularly fresh fruit and vegetables.

### Latest rate rise casts shadow over Treasurer Tim Pallas' budget surplus prediction

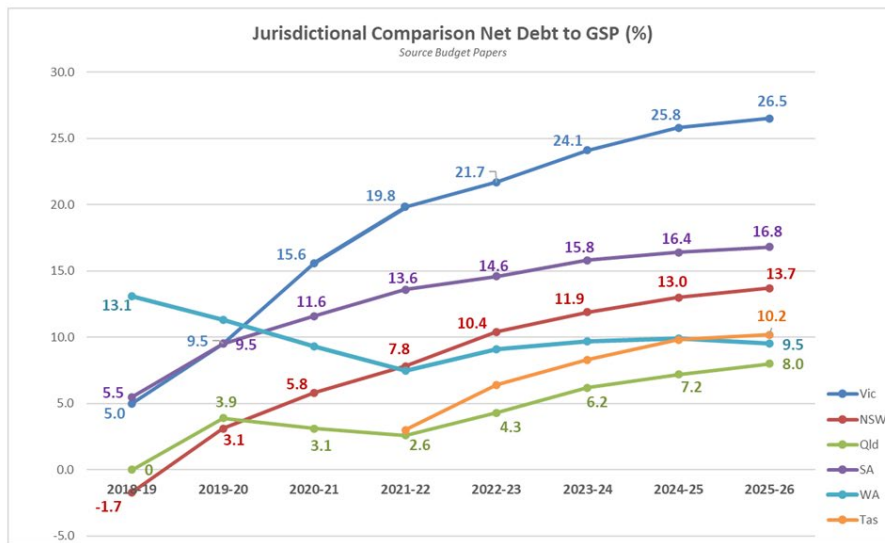
Sadly, Victoria is ill prepared for these interest rate rises with Victoria’s debt surging far ahead of equivalent states and territories, with net debt set to approach \$170 billion according to the budget by 2025-26 (see General government fiscal aggregates on page 5 of [Victorian Budget 2022/23 Overview](#)).



Source: DTF 2022-23 Net debt - General Government (spreadsheet)

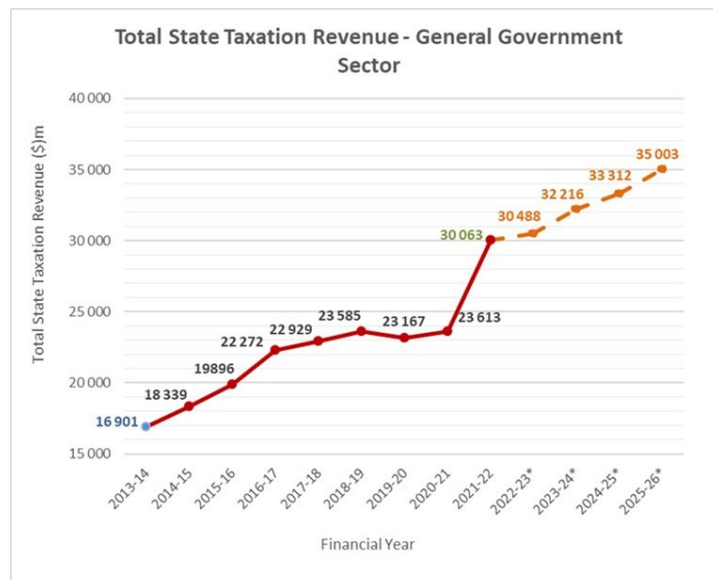
### Comparison with New South Wales

Relatedly, the New South Wales Treasurer has said “Our net debt to GSP ratio is half that of Victoria and we are building double the amount of infrastructure in NSW” ([Herald Sun](#)).



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The root cause of Victoria's deteriorating debt and position is eight years of Labor's waste and mismanagement with more than [\\$28 billion worth of project blowouts](#). These monumental blowouts on major projects are by now well known to Victorians - in the order of \$4 billion on the Metro Tunnel and more than \$5 billion on the West Gate Tunnel.



Source: DTF 2022-23 Online Data Taxation Revenue

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Labor has increased the tax take in Victoria by 80% over the level of the 2013-14 budget and has slapped on more than [40 new and increased taxes](#). These new and increased taxes will

collect more than \$19 billion in the coming four years according to Victoria's Parliamentary Budget Office.

The increased state taxes and charges hurt everyday Victorians as they purchase the everyday things they need; property with stamp duty up more than 97%, vehicle costs and on 1 July the state government increased a raft of more than [2,150 taxes, fees and charges](#).

They are all feeding through into costs of living, that families and businesses feel. Costs of living that are really impactful. These are not nebulous things. There are fees for property and vehicle charges, water costs, tradies are being hit, taxis, the whole spread of costs that everyday families and businesses feel.

The fire sale of VicRoads will net Victoria [\\$7.9 billion](#) by effectively pulling forward the value of collections, but likely leaving us exposed in coming years, aside from serious privacy concerns.

The debt millstone around the necks of Victorians will slow our ability to rebuild and recover. The budget sensitivity analysis shows that a 1% increase in interest rates has a cumulative net result of a \$2.55 billion increase in servicing costs for the state budget (See: "Table A.3: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2022-23" on page 93 of the [2022-23 Strategy and Outlook budget paper](#)).

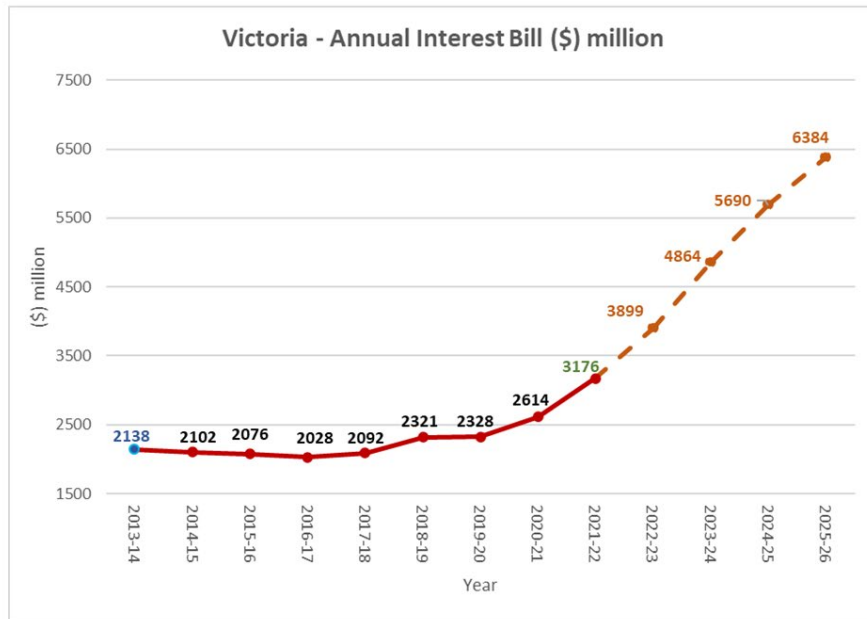
#### [\\$4.5 billion added to Daniel Andrews' debt time bomb](#)

The now 1.75% increase since the state budget will result in a hit in the order of \$4.5 billion over four years on the state budgetary position. This will mean less can be spent on badly needed new hospitals and schools and on services and front-line workers like additional doctors, nurses, ambulance and police officers and teachers.

These interest rate rises, while larger than expected, provide no excuse or cover for Daniel Andrews or his incompetent Treasurer. They have presided over the project blowouts, the waste, the rorts.

Recent interest rate rises are a very significant hit on the ability of the budget to deal with support for Victorian families, support businesses and support the spending programs that are required. It blows away the expectations that the state government tried to put forward at budget time, that we would return to surplus at the end of the period. Now that is clearly nonsense, with these huge increases in interest rates, their budget has been blown out of the water, and their claim of a surplus at the end of the period is also nonsense.

The blowouts, the explosion in project costs is directly hitting the state budget now, because we're carrying this debt, we're carrying this huge burden, this extra millstone of interest repayments because of Daniel Andrews' mismanagement of major projects.



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David Davis

Shadow Treasurer

August 2022

Links:

<https://www.rba.gov.au/media-releases/2022/mr-22-21.html>

<https://www.budget.vic.gov.au/budget-papers#budget-overview>

<https://www.heraldsun.com.au/news/victoria/victoria-holds-title-for-state-with-biggest-net-debt/news-story/eeead36a9c291dce45100922ed640ae5>

<http://daviddavis.com.au/labors-28-1-billion-in-cost-blowouts/>

<http://daviddavis.com.au/41-new-increased-taxes-and-counting/>

<http://daviddavis.com.au/cost-of-living-to-get-worse-with-more-than-2150-state-fees-and-charges-set-to-rise/>

<https://www.premier.vic.gov.au/better-deal-drivers-and-billions-victorian-future-fund>

<https://www.budget.vic.gov.au/budget-papers#budget-paper-2-strategy-and-outlook>