[The three reasons the NSW Treasurer is so gloomy](https://www.smh.com.au/politics/nsw/the-three-reasons-the-nsw-treasurer-is-so-gloomy-20230620-p5di05.html) SMH - [**Matt Wade**](https://www.smh.com.au/by/matt-wade-hvejy)June 20, 2023

A downbeat Treasurer Daniel Mookhey has warned the state faces “tough choices ahead” in a special budget statement delivered to NSW parliament.

“They will not be easy. But they cannot be avoided,” he said on Tuesday.

**There are three reasons for NSW Treasurer Daniel Mookhey to be worried about the state’s finances.**

“I have to give the people of NSW a very clear warning: the state’s finances are facing severe challenges.”

These are the three reasons Mookhey is so gloomy.

[**NSW budget**](https://www.smh.com.au/topic/nsw-budget-jdr)[NSW tipped to stay in red as dark economic clouds hover](https://www.smh.com.au/politics/nsw/nsw-tipped-to-stay-in-red-as-dark-economic-clouds-hover-20230620-p5dhzj.html)

First, the effects of high inflation are taking a growing economic toll. Rising prices are squeezing household budgets, and higher mortgage repayments are heaping extra pressure on home borrowers as the Reserve Bank lifts interest rates in a bid to stop the inflationary spiral.

Mookhey described inflation as the state’s “pre-eminent economic trial”.

He argued NSW, as the biggest state, could do more to reduce inflation by curbing government spending.

 “The next step in bringing inflation under control is to bring our own spending under control,” he said. “We adopt this as our strategy so families no longer have to tackle the cost of living crisis by themselves. So they need not live, month-to-month, in fear of the next interest rate rise. Or their next utility bill. Or their next visit to the supermarket. Or their next notice from their landlord.”

The NSW economy is facing headwinds such as rising inflation and interest rates.

He did not detail any budget cuts to rein in spending – they will be revealed when the government delivers its first budget in September.

But strong economic headwinds, including high inflation and rising interest rates, mean that budget will be delivered with circumstances more difficult than now.

The most recent budget figures, released just before the state election in March, predicted a sharp slowdown in the state economy in the year ahead and rising unemployment.

[**NSW budget**](https://www.smh.com.au/topic/nsw-budget-jdr)[NSW Treasury warns rating agencies are preparing to downgrade the state’s credit rating](https://www.smh.com.au/politics/nsw/nsw-treasury-warns-rating-agencies-are-preparing-to-downgrade-the-state-s-credit-rating-20230619-p5dhpl.html)

**Bigger deficits**

Second, Mookhey takes on a state budget deep in the red – NSW has already been in deficit for the past four financial years.

Shifting deficit forecasts for the coming financial year (beginning on July 1) illustrate the pressure on the state’s finances. Exactly a year ago a shortfall of $2.8 billion was forecast for 2023-24. In February, that was downgraded to $6.49 billion and then to $7.1 billion only a month later.

And the signs are that next year’s deficit will be even bigger.

Mookhey warned on Tuesday: “We expect the budget deficit to deteriorate further. The full impact of this change will be known by the September budget.”

In February, the previous Liberal treasurer, Matt Kean, heroically forecast the NSW budget would return to surplus in 2024-25. The chances of that are remote.

Mookhey accuses the previous Perrottet government of making the budget challenge worse with a spending spree in the 14 months prior to the March state election that added $33.9 billion of expenses over four years.

**Rising debts**

A third reason for Mookhey’s gloom is recent growth in state borrowings.

[**NSW budget**](https://www.smh.com.au/topic/nsw-budget-jdr)[**Alexandra Smith**](https://www.smh.com.au/by/alexandra-smith-hvf30)

State Political Editor

[Do black holes exist? Yes, but the political variety evaporate much sooner](https://www.smh.com.au/politics/nsw/do-black-holes-exist-yes-but-the-political-variety-evaporate-much-sooner-20230614-p5dggd.html)

Five years ago, the NSW government had no net debt. But that all changed when the effects of a global pandemic pushed NSW into [recession for the first time in decades.](https://www.smh.com.au/link/follow-20170101-p549qn)

The budget was hit hard by the COVID-19 crisis, and the string of deficits and rising debt left in its wake is piling pressure on NSW’s premium credit ratings.

The state’s net debt is currently equivalent to around 10 per cent of the state’s annual economic output, but the most recent forecast predicts that to reach 14 per cent by mid-2026 – far higher than at any time in the past three decades.

New government figures show annual interest payments on NSW government borrowings are growing by 29 per cent a year. Those payments cost the budget $2.5 billion in 2021-22, but that is forecast to hit $7 billion by 2025-26.

A few years ago the NSW budget and debt position stood out, but Mookhey warns the government’s finances are “starting to fall behind” other states including Queensland and South Australia.