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The Queensland state government is paying a higher interest rate than most Queenslanders are on their mortgages. To make matters worse, debt is becoming problematic in rural areas with incomes and asset values down, and debts, unemployment and underemployment up.

Without improved state government debt arrangements, and policies to alleviate stressed industries and communities, Queenslanders' income and wealth will suffer.

A destructive dynamic is at work in government, rural and urban debts. As debt servicing bites, consumption falls, stressing businesses and their employees. Public and private interest payments crowd out jobs and business investment.

The interest rate on Queensland government debt is currently 5.2% per annum, compared to mortgage rates between 3% and 4%.

Interest rates fluctuate markedly from year to year. Today the Reserve Bank of Australia cash rate is 1.5% pa yet the Queensland government in 2013-14 was paying the same 5.2% pa when the RBA cash rate was 3% pa. Failure to capture lower market rates is evident in the state's finances.

Government debt

The Queensland government sells bonds to cover its borrowing. For example, it could sell a ten-year bond for A$1,000 (the face value) that pays out 5% pa every six months. The Queensland Treasury makes interest payments every six months and pays back the A$1,000 after ten years.

However, bonds are traded in markets and can be bought and sold for more or less than the face value. If interest rates in the wider economy are lower than what the bond pays or if perceived risks are low, a bond may trade for more than the face value, say A$1,100.

Looking at Queensland Treasury Corporation data we can see that total debts held by the State of Queensland had a face value of A$89.2 billion but a market value for A$98.5 billion at the end of June 2017. This was A$9.3 billion more than face value.

Also evident is that total debt peaked in 2014-15, but no one seems to have noticed .

Examining the breakdown between Queensland departments such as Treasury and the government-owned corporations that supply electricity, water and the like, the rise in Queensland general government debt was relatively smooth between 2007 and 2015. Changes in government had no significant effects on the trend in general government debt.

This rise appears driven by a shortfall in government revenue , poor policies and the global financial crisis. A lack of critical information about government debt compounded these problems.

As discussed by the rural debt and drought taskforce , relatively small rural debts also appear to be manageable. Much bigger challenges lie in the big cities because of the sheer size and the recentness of much debt.

Refinancing Queensland?

Relatively small steps can have big effects in the current situation.

The first step for the new government is to provide better transparency about the state of government debt with Treasury publishing better analysis and fuller accounts. This will help lead to more sustainable state finances, and to tackle problems in both rural and urban areas.

Although large Queensland government debts appear relatively manageable, this is *providing* that net government revenues can be maintained.

There are several potential policy initiatives but we only have space to consider one. Suppose the Queensland government set a target of transitioning to raise one-third of its funds from directly selling non-transferable bonds (that can't be bought or sold) to Queenslanders. This was a regular practice before financial liberalisation in the 1980s. If done again well, it could be a win-win outcome.

Much like a term deposit, Queenslanders could buy five-year bonds with an interest rate of, say, 3% pa. This would reward Queensland savers with better returns than they could get in a savings account and keep money within the state. It would have saved the government the significant sum of A$620 million if used for a third of government bonds in 2016-17.

Interest payments should be one focus for the incoming government as it works with insight to improve its management of debts and their effects. Gains from some fresh thinking could be considerable.

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