TE TAI ŌHANGA
THE TREASURY

Budget Economic and Fiscal Update 2025

22 May 2025

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An introduction to the
Budget Economic and Fiscal Update

As the government's lead economic and financial adviser, the Public Finance Act 1989 requires the Treasury to produce a range of stewardship documents:

- Some as part of an annual cycle: twice-yearly Economic and Fiscal Updates, and monthly and annual Financial Statements of the Government.
- Some are every three or four years: Pre-election Economic and Fiscal Update, Long-term Fiscal Statement, Investment Statement, Wellbeing Report, as well as the Long-term Insights Briefing required by the Public Service Act 2020.

The *Budget Economic and Fiscal Update* is part of the annual cycle of stewardship documents. This update primarily outlines what the Treasury observes in our current economic climate and what we might see in the future. Our observations of the economy, alongside the Government's fiscal policy decisions are used to inform our view on the Government's financial performance and financial position over the current year and next four years (our forecast period). We also consider the risks we may face that could alter the economic and fiscal outlook over the forecast period.

This gives an indication of what the economy and the Government's fiscal outlook is most likely to do for accountability purposes and to inform decision-making.

Internet

The URL for this document on the Treasury's website at May 2025 is
https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2025

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Contents

Statement of Responsibility

I, the Secretary to the Treasury, confirm that the Treasury has supplied the Minister of Finance with this *Budget Economic and Fiscal Update* that:

- incorporates the fiscal and economic implications of:
  - all policy decisions with material economic or fiscal implications made by the Government before 30 April 2025, and which have been communicated to me by the Minister of Finance, and
  - all other circumstances with material economic or fiscal implications of which the Minister of Finance was aware before 30 April 2025 and which have been communicated to me by the Minister of Finance
- does not incorporate any decisions, circumstances, or statements that the Minister of Finance has determined under section 26V of the Public Finance Act 1989 should not be incorporated in this *Budget Economic and Fiscal Update*.

The Treasury has prepared this *Budget Economic and Fiscal Update* using its best professional judgements and on the basis of the economic and fiscal information available to it before 30 April 2025.

Iain Rennie CNZM
Secretary to the Treasury

16 May 2025

I, the Minister of Finance, have communicated to the Secretary to the Treasury:

- all policy decisions with material economic or fiscal implications made by the Government before 30 April 2025
- all other circumstances with material economic or fiscal implications of which I was aware before 30 April 2025, and

I accepted responsibility for:

- the integrity of the disclosures contained in this *Budget Economic and Fiscal Update*
- the consistency of the information in this *Budget Economic and Fiscal Update* with the requirements of Part 2 of the Public Finance Act 1989, and
- the omission from this *Budget Economic and Fiscal Update* of any decision, circumstance or statement under section 26V of the Public Finance Act 1989.

Hon Nicola Willis
Minister of Finance

16 May 2025

Executive Summary

The economic outlook is positive despite global trade uncertainty

Following a sharp contraction in 2024, the economy is now growing, led by the export sector. Although New Zealand will be buffeted by the shock from shifting global trade policies, economic growth is forecast to gather pace this year. The recovery is supported by substantial declines in interest rates over recent months and the contribution from net exports. Real GDP growth of around 3% is expected over the next three years before easing at the end of the forecast period as weakness in labour productivity constrains the pace of growth (see Table 1).

Fiscal deficits turn to surplus in 2028/29

The operating balance before gains and losses excluding ACC (OBEGALx) remains on track to return to surplus in 2028/29. The deficit is forecast to widen initially as economic conditions weigh on revenue, and spending on benefits and debt servicing costs drive increases in core Crown expenses. From 2023/24, revenue growth is also restrained by tax policy changes. Excluding the impact of the economic cycle, the structural fiscal balance begins to improve this year. The structural deficit averages 1.3% of GDP over 2024/25 and 2025/26, down from 1.9% over the previous two years. From 2026/27, the Government's restrained spending plans and a broad-based pick-up in tax revenue support a return to both OBEGALx and structural surpluses.

Net capital spending combined with operating deficits, leads to cash shortfalls that are largely funded through additional borrowings. As a result, net core Crown debt rises to 45.5% of GDP at the end of June 2029.

Table 1 – Key economic and fiscal indicators

Years ending 30 June	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Real production GDP (annual average % change)	0.6	-0.8	2.9	3.0	2.9	2.6
Unemployment rate (June quarter)	4.6	5.4	5.0	4.8	4.5	4.3
CPI inflation (annual % change)	3.3	2.2	2.1	2.0	2.0	2.0
Current account balance (annual, % of GDP)	(6.6)	(5.0)	(3.5)	(3.3)	(3.1)	(2.9)
OBEGALx ($billions)	(8.8)	(10.2)	(12.1)	(8.1)	(3.1)	0.2
% of GDP	(2.1)	(2.3)	(2.6)	(1.7)	(0.6)	0.0
Net core Crown debt ($billions)	175.5	185.6	200.2	218.4	230.2	238.5
% of GDP	41.7	42.7	43.9	45.7	46.0	45.5

Sources: Stats NZ, the Treasury

Trade tensions are weighing on the global outlook…

The global economy is facing challenges from sharply higher tariffs and heightened uncertainty around access to markets. Actions by the United States to impose near-universal tariffs and countermeasures by some countries have led international agencies to lower their global growth forecasts.

The Budget forecasts assume growth in New Zealand's major trading partners will average 2% over the next two years and 2.3% thereafter, well below the 3.3% average of the past two decades. Weaker export demand and the investment-chilling effect of elevated uncertainty are assumed to reduce economic growth in New Zealand by 0.2% over the next two years. Trade policy is continuing to evolve, and the range of potential outcomes is wide. The impacts of a deeper global downturn are outlined in a scenario on page 25.

…and will dampen the recovery under way in New Zealand

The global trade shock is hitting a New Zealand economy that is recovering from last year's sharp contraction. The export sector led a revival in GDP growth in the final quarter of 2024, and conditions in the sector have remained solid this year despite the spike in trade uncertainty. However, domestic demand remains subdued, and the unemployment rate has reached 5.1%, indicating there is now a significant degree of slack in the labour market. Wider measures of excess capacity have also increased, consistent with easing inflation pressures. Interest rates have fallen rapidly in recent months, although their full impact has yet to filter through the economy.

The lagged effect of lower interest rates alongside net exports, stronger migration and rising house prices underpin the forecast of near 3% percent growth from 2025/26 to 2027/28. Budget 2025 helps to sustain growth as Investment Boost adds impetus to business outlays on capital, while restrained government spending provides scope to lower interest rates slightly. As spare capacity is absorbed and the unemployment rate falls, weak productivity growth becomes the main constraint on the pace of the expansion and growth slows to 2.6% in 2028/29.

The fiscal outlook recovers from 2026/27

The OBEGALx deficit is expected to rise to $10.2 billion in 2024/25 and $12.1 billion in 2025/26 as revenue growth slows and core Crown expenses continue to increase. Lower income tax thresholds introduced in July 2024 and partial expensing of capital investment in Investment Boost are the main revenue policy changes. Increases in benefit expenses, particularly for New Zealand Superannuation, drive most of the growth in core Crown expenses. Budget decisions account for most of the remaining increase in expenses.

The OBEGALx deficit is forecast to improve by around $4.1 billion per annum from 2026/27 and to return to surplus in 2028/29. The forecast reflects steady growth in tax revenue as the economic recovery spurs household spending and lifts business profits, and slower growth in core Crown expenses.

Growth in core Crown expenses slows from 2025/26, reflecting the Government's commitment to set aside lower operating allowances for future Budgets than in recent times. Reflecting this expenditure restraint, core Crown expenses decline from 32.9% of GDP in 2025/26 to 30.9% at the end of the forecast period, which helps to close the structural gap in the fiscal accounts.

The total fiscal impulse is positive in the short-term when spare capacity is rising. In the medium-term, when spare capacity is declining, the fiscal impulse is negative, which indicates that fiscal policy is tighter than in the preceding year.

Net core Crown debt is expected to peak at 46.0% of GDP in 2027/28, before declining to 45.5% of GDP by 2028/29. Cash deficits accumulated across the forecast period total $62.3 billion, with $51.2 billion relating to net spending on capital. The cash shortfall is largely funded through additional borrowings and utilising financial assets.

Tax revenue is lower compared to the Half Year Update…

Compared to the *Half Year Economic and Fiscal Update (Half Year Update) 2024*, the weaker global backdrop has lowered short-term prospects for real GDP growth and there is more spare capacity in the economy. However, as the global impacts fade, the larger reduction in spare capacity alongside additions to the capital stock from Investment Boost, contributes to faster growth. Budget 2025 also reduces inflationary pressures and interest rates are slightly lower over the final three years of the forecast. These developments have led to slower nominal GDP growth than in the *Half Year Update 2024*.

Slower nominal GDP growth has a knock-on effect to core Crown tax revenue, which is $13.3 billion lower across the forecast period. Slower growth in business profits is the main driver of the revision, while Budget policy changes lower tax revenue by a further $4.8 billion.

Core Crown expenses are lower in the current year than previously forecast, chiefly owing to reduced estimates of the cost for pay equity settlements and the rephasing of expenses. Benefit payments and finance costs are the main drivers of higher expenses over the forecast period but savings made in Budget 2025 more than offset these increases.

…making the return to surplus more challenging

Overall, downward revisions in tax revenue outweigh the reductions in expenses, and OBEGALx deficits are larger across the forecast period than in the *Half Year Update 2024*. The larger operating deficits flow through to the cash balance and net core Crown debt. Residual cash deficits are $5.3 billion higher over the forecast period, and net core Crown debt is $4.4 billion higher at the end of the period. As a share of GDP, net core Crown debt is initially 2.4 percentage points lower than expected, owing to lower borrowing and upward revisions in historical GDP, but is close to the *Half Year Update 2024* by the end of the forecast period at 45.5% of GDP.

Risks are skewed to weaker outcomes

There is a lot of uncertainty around the global outlook, partly because of global trade policies but also owing to geopolitical conflicts, and outcomes could prove to be more negative for the New Zealand economy than assumed. There are also domestic sources of uncertainty, including net migration and productivity, that could prove to be stronger than assumed and lead to faster growth. Scenarios in the Economic Outlook chapter show weaker global growth is likely to have a much larger impact on the fiscal outlook than stronger net migration inflows and higher productivity.

The fiscal outlook could also be impacted by a range of other factors, including whether future Budget operating allowances are sufficient, natural disasters and the matters outlined in the Specific Fiscal Risks chapter.

Finalisation dates for the *Budget Economic and Fiscal Update*

Economic forecasts – 7 April 2025

Tax revenue forecasts – 14 April 2025

Fiscal forecasts – 30 April 2025

Statement of specific fiscal risks – 30 April 2025

Text finalised – 14 May 2025

1

Economic Outlook

An export-led economic recovery has emerged following a sharp contraction in activity over 2024 and a prolonged per capita recession. While export-oriented sectors have gathered strength over the past few quarters, domestic demand remains subdued as lower interest rates have yet to filter through the economy. Growth in tourism from late 2024 provided a boost to the hospitality sector and services exports, while the primary sector has been buoyed by higher export commodity prices.

The Treasury now forecasts a slower economic recovery compared to the *Half Year Economic and Fiscal Update (Half Year Update) 2024* as the global outlook has weakened. Global uncertainty is heightened and the outlook is weaker amidst United States (US) tariff announcements and subsequent retaliatory measures taken by US trading partners. The initial impacts of higher tariffs and heightened global uncertainty have been reflected in recent financial market volatility, with equity prices, bond yields and exchange rates fluctuating markedly.

The *Budget Economic and Fiscal Update (Budget Update)* economic forecasts were finalised on April 7 and takes account of the impact of prior tariff announcements. In anticipation of higher tariffs, the *Budget Update* assumes weaker trading partner growth and higher global inflation in 2025 and 2026 (see box on pages 16-17 for more detail). Tariff policies are likely to continue to evolve over time and differ from those assumed. Whether these changes benefit or disadvantage New Zealand is uncertain.

Growth in New Zealand's trading partners is forecast to average around 2% over the next two years, below the 3.3% average over the past two decades, while global inflation is also higher over the coming years. Lower trading partner growth is expected to dent demand for New Zealand exports and lower the terms of trade towards the end of 2025. Increased uncertainty is also expected to reduce business investment in New Zealand. As a result, real GDP growth is expected to be cumulatively around 0.2% lower than otherwise over 2026 and 2027. The global trade situation remains fluid and presents downside risks that are explored in the Risks and Alternative Scenarios section.

Despite the slowing global outlook, conditions remain in place to support a pickup in domestic activity over 2025, underpinned by lower interest rates, high terms of trade, increasing net migration and house prices. GDP growth is expected to accelerate to 3.1% over the second half of 2026 before easing to 2.6% by the end of the forecast period. The unemployment rate is expected to peak at 5.4% over the first half of 2025, reflecting past weakness in real activity, before easing to 4.3% by the end of the forecast period. Inflationary pressures are forecast to remain contained, with slowing non-tradable inflation offsetting temporary tradable inflation in the near term.

Budget 2025 is expected to result in lower-than-otherwise government consumption and higher-than-otherwise business investment. The Investment Boost policy promotes economic growth by enabling firms to expense more capital expenditure upfront, which lifts business investment. A lower Budget 2025 operating allowance results in government consumption growing modestly over the forecast period, while changes to the KiwiSaver scheme and anticipated reduced pay equity-related government spending lowers wage growth. The overall effect of Budget 2025 on real activity over the forecast period is broadly neutral, as activity from the smaller overall budget is offset by lower interest rates.

New Zealand's national income is expected to grow over the forecast period in line with developments in the real economy and nominal GDP reaches $520 billion by the end of the forecast period. The growth in New Zealand's national income drives an increase in annual total core Crown tax revenue of $27.6 billion over the forecast period, from $120.6 billion in the year to June 2024 to $148.2 billion in 2029.

Growth in tax revenue is primarily driven by the strengthening labour market, which lifts household incomes and therefore source deduction tax revenue. The lift in incomes will gradually support a lift in household spending, which together with a recovery in residential investment will increase GST revenue. Improving domestic activity paired with near-term strength from exports will support company profitability and tax revenues, although increased global trade protectionism will weigh on tax revenues over the medium term. As a result, after dipping to 27.4% in the June 2026 year, the tax to GDP ratio reaches 28.3% by the June 2029 year.

Table 1.1 – Economic forecasts

Year ending June Annual average % change	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Private consumption	0.3	0.1	1.6	2.5	2.6	2.5
Public consumption	1.6	-1.2	-0.6	0.2	0.5	0.3
Total consumption	**0.6**	**-0.2**	**1.0**	**1.9**	**2.1**	**2.0**
Residential investment	-7.3	-10.7	4.2	8.3	6.7	4.8
Business investment[1]	-2.4	-3.3	2.1	4.7	4.2	3.4
Total investment	**-3.4**	**-4.8**	**2.5**	**5.5**	**4.7**	**3.7**
Stock change[2]	-0.6	0.3	0.5	0.0	0.0	0.0
Gross national expenditure	**-1.0**	**-0.5**	**1.8**	**2.7**	**2.7**	**2.4**
Exports	5.2	3.9	4.5	2.2	2.4	2.5
Imports	-0.9	1.4	0.3	1.8	2.3	2.1
GDP (expenditure measure)	**0.6**	**-0.3**	**2.8**	**2.8**	**2.8**	**2.5**
GDP (production measure)	**0.6**	**-0.8**	**2.9**	**3.0**	**2.9**	**2.6**
Real GDP per capita	-1.9	-1.9	1.8	1.7	1.6	1.4
Nominal GDP (expenditure measure)	4.8	3.5	4.9	4.7	4.8	4.6
GDP deflator	4.1	3.8	2.0	1.8	2.0	2.1
Potential GDP	2.2	2.0	2.1	2.2	2.3	2.3
Output gap (% of potential, June quarter)[3]	-0.9	-2.2	-1.3	-0.6	-0.2	0.0
Employment	1.7	-0.6	1.5	2.1	2.0	1.7
Unemployment rate[4]	4.6	5.4	5.0	4.8	4.5	4.3
Participation rate[5]	71.6	71.1	71.4	71.7	71.8	71.9
Hourly wages (annual % change)[6]	5.0	3.9	2.6	2.7	2.7	2.7
CPI inflation (annual % change)	3.3	2.2	2.1	2.0	2.0	2.0
Terms of trade (goods)[7]	-3.3	8.4	2.6	-0.9	0.0	0.2
House prices (annual % change)[8]	1.5	0.3	5.6	6.7	6.2	5.3
Current account balance (annual)						
$billions	-27.7	-21.6	-16.0	-15.6	-15.5	-15.1
% of GDP	-6.6	-5.0	-3.5	-3.3	-3.1	-2.9
Net international investment position (% of GDP)	-48.2	-50.6	-51.7	-52.6	-53.3	-53.8
Exchange rate (TWI)[9]	71.4	67.9	68.5	68.9	69.3	69.5
90-day bank bill rate[10]	5.6	3.5	3.0	2.6	2.6	2.5
10-year bond rate[10]	4.7	4.3	4.3	4.3	4.2	4.3
Population growth	2.5	1.1	1.1	1.2	1.2	1.2
Net migration (4-quarter sum, 000s)	70.3	32.9	38.2	39.5	39.9	40.0

Notes:
1 Business investment is non-residential public and private investment.
2 Contribution to GDP growth.
3 Percentage difference between actual real GDP and potential real GDP.
4 Percent of the labour force, June quarter, seasonally adjusted.
5 Percent of working-age population, June quarter, seasonally adjusted.
6 Quarterly Employment Survey (QES), average ordinary time hourly earnings.
7 System of National Accounts.
8 CoreLogic Quarterly House Price Index.
9 Trade weighted index (TWI), average for the June quarter.
10 Average for the June quarter.

Recent developments and implications for the forecasts

The economic forecasts were finalised on 7 April. Since then, additional information has become available that may have implications for the outlook.

- The March 2025 quarter consumers price index (CPI) release showed that annual inflation edged up to 2.5% from 2.2% in the previous two quarters. This is higher than the *Budget Update* forecast of 2.2% due to tradable inflation from higher prices for petrol and for dairy food items. Non-tradable inflation dropped to 4.0% as domestic price pressures, particularly for discretionary items, continue fading consistent with weak demand, generating spare capacity in the economy. On 1 May, Stats NZ noted the increase in vehicle registration fees on 1 January was not incorporated in the March quarter CPI and would have added 0.1 percentage points to both quarterly and annual CPI inflation. In accordance with its standard approach, Stats NZ will incorporate this in the June 2025 quarter CPI release and will not be revising the March 2025 quarter.

- March quarter labour market data released at the start of May showed an overall continuation of soft labour market conditions. While the unemployment rate and employment growth were slightly better than the *Budget Update* forecasts, other factors such as a shift away from full-time to part-time employment and a fall in hours worked and in the participation rate indicate spare capacity in the labour market. This suggests firms are choosing to hold on to staff and are responding to weak demand by reducing hours. Overall, the data does not alter our outlook for the labour market.

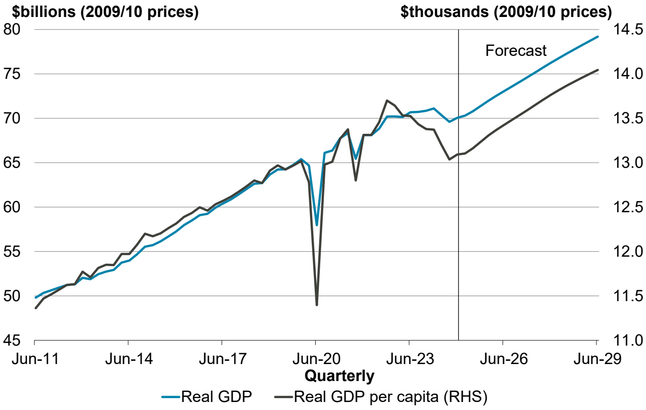
- The Reserve Bank released its Monetary Policy Review on 9 April. The Reserve Bank's Monetary Policy Committee lowered the Official Cash Rate by 25 basis points to 3.5%. This is consistent with our path for short-term interest rates.

- The economic forecasts include trade-related policy developments up to 7 April, including the "Liberation Day" tariffs. Since the announcement by the US of a minimum 10% tariff on imports from all countries, including New Zealand, the situation continues to evolve, including impacts on financial markets. A box on pages 16-17 provides a summary of trade-related assumptions.

The economy is recovering following a sharp contraction in 2024…

The December 2024 quarter marked a turnaround for the New Zealand economy, with GDP rising 0.7% in the quarter and GDP per capita lifting by 0.4% after two years of decline (Figure 1.1). High interest rates over the past two years led to a reduction in economy-wide demand and returned inflation to target. A surge in post-COVID-19 net migration supported aggregate economic activity. However, real GDP on a per capita basis fell. Sluggish global growth, slowing government spending and more recently, lower net migration inflows, have also contributed to weaker activity. Following the sharp contraction in real GDP over 2024, economic momentum has gathered pace, particularly in export-oriented sectors. However, pockets of weakness persist in sectors such as construction and non-food manufacturing.

Figure 1.1 – Real production GDP

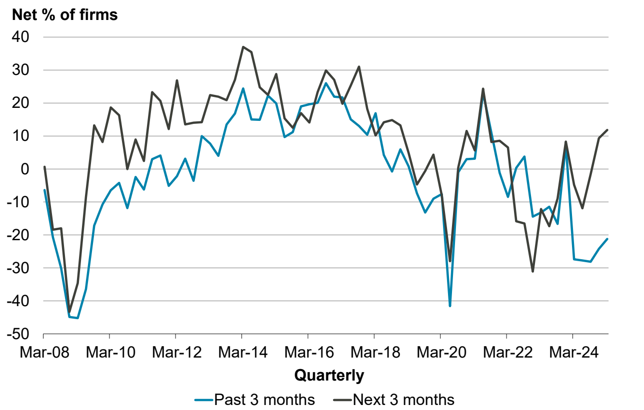


Sources: Stats NZ, the Treasury

…as lower interest rates take time to filter through the economy

Since August 2024, the Reserve Bank has lowered the Official Cash Rate by 200 basis points as inflationary pressures have eased. However, lower interest rates are taking time to filter through the economy. Household budgets and business balance sheets remain under pressure after several years of high interest rates, elevated living costs, a subdued housing market and uneven trading conditions (Figure 1.2). Per capita household spending has fallen for eight consecutive quarters, and the effective mortgage rate[1] is just 39 basis points lower than the peak in October 2024.

Figure 1.2 – Quarterly Survey of Business Opinion domestic trading activity (seasonally adjusted)

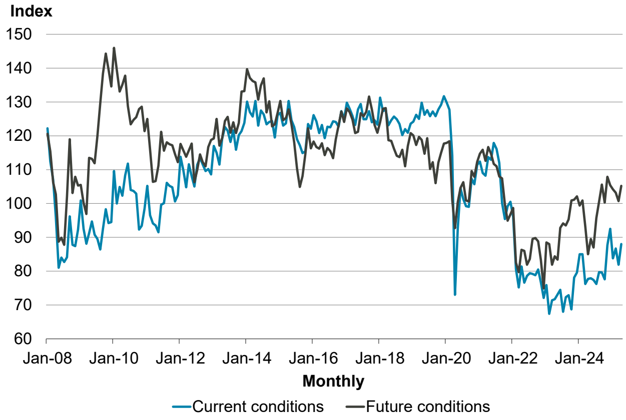


Source: NZIER

1 Weighted average yield on the total of all types of loans (floating and fixed) for registered banks fully secured on residential property: https://www.rbnz.govt.nz/statistics/series/exchange-and-interest-rates/yields-on-loans

Economic momentum has been uneven as indicators of domestic activity have slowed this year. Consumer confidence has retreated from last year's improvement, and retail card spending has faltered (Figure 1.3). Business confidence shows modest improvements, but actual activity remains weak compared to a year ago. This softness has led to flat monthly employment data while businesses continue to report low employment and investment intentions.

Figure 1.3 – Consumer confidence

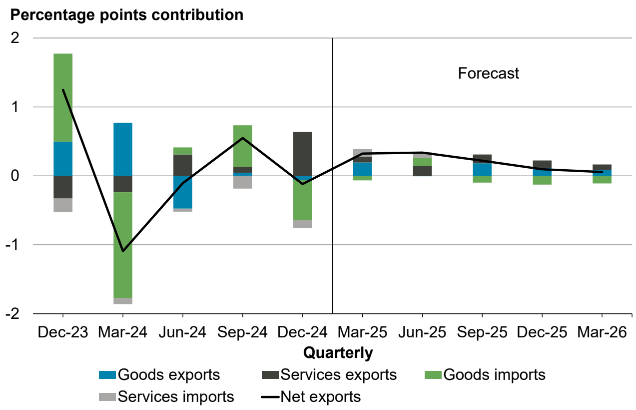


Source: ANZ-Roy Morgan

An export-led recovery is emerging…

Exports are supporting the economic recovery and will support growth over 2025 as lower interest rates take time to filter through the domestic economy (Figure 1.4). Net exports are expected to positively contribute to GDP over 2025. Tourism continues to recover to pre-pandemic levels, and primary production is steady. Meanwhile, import volumes are expected to remain subdued over 2025, reflecting soft domestic demand. The export-led recovery is creating a two-speed economy, with rural areas benefiting from external sector strength while activity in urban areas remains subdued.

Figure 1.4 – Net exports contribution to real expenditure GDP growth



Sources: Stats NZ, the Treasury

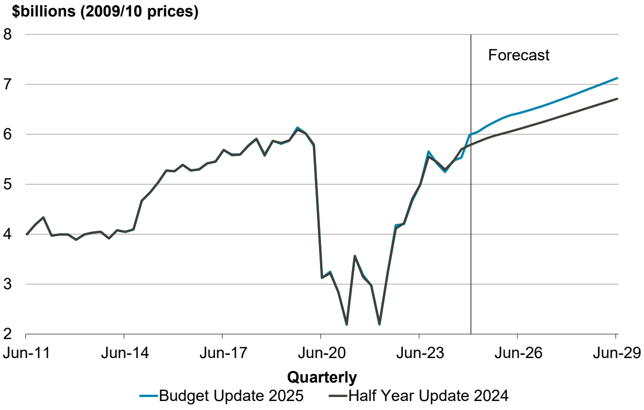
…supported by high export commodity prices…

Goods exports have been buoyed by high export commodity prices. High dairy and meat commodity prices, reflecting global supply and demand dynamics, have boosted on-farm profits and confidence in rural regions. Returns have been further bolstered by a lower New Zealand dollar (NZD). Price increases are expected to slow in coming months as global supply and demand factors rebalance.

…and tourism strength

Tourism-related spending in the hospitality, accommodation and recreation sectors has supported the economy recently as tourist arrivals pick up. Visitor arrivals are now at around 85% of pre-COVID-19 levels, with Chinese arrivals the slowest of the major tourist markets to return to pre-COVID-19 volumes. Real services exports are now around pre-COVID-19 levels and are expected to continue growing, albeit at a slower rate, over the forecast period. (Figure 1.5).

Figure 1.5 – Real service exports



Sources: Stats NZ, the Treasury

A weaker global backdrop will slow the pace of the recovery

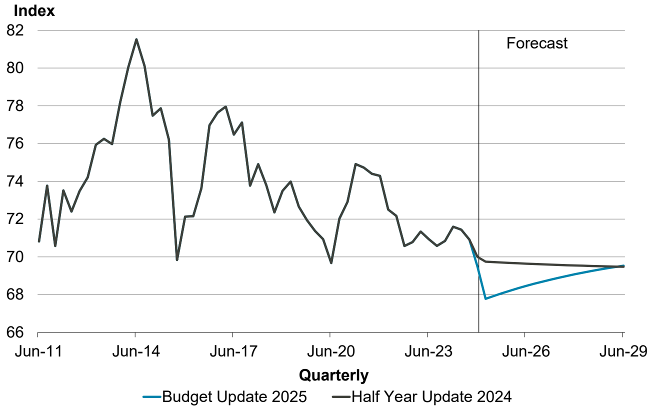
Global economic growth is expected to weaken in 2025, reflecting trade policy developments. Substantial increases in bilateral tariff rates between the US and its trading partners have led to heightened uncertainty and financial market turmoil. The *Budget Update* incorporates global trade developments up until 7 April. This includes the "Liberation Day" tariffs announced on 3 April (NZT). However, the economic forecasts were finalised prior to the 90-day pause on higher reciprocal tariffs, the subsequent escalation with China and product exemptions that have since been announced. The *Budget Update* assumes tariffs are permanent and that New Zealand exports to the US are subject to a minimum 10% tariff.

Trade policy uncertainties have disrupted financial markets

In the immediate aftermath of the 3 April tariff announcements, global financial markets were thrown into turmoil with stock markets recording some of their biggest daily declines before recovering losses as further trade policy announcements were viewed more favourably by financial market participants. Elevated global financial market volatility in the wake of tariff decisions has spilled into New Zealand markets. Yields on New Zealand 10-year government bonds followed global market moves, initially falling from 4.5% on 2 April to a low of 4.3% on 7 April when the Budget economic forecasts were finalised. At the time of writing, New Zealand 10-year government bond yields were 4.6%.

The NZD depreciated materially at the end of 2024 against the backdrop of broad-based US dollar (USD) strength. The NZD TWI is forecast to gradually increase from 67.8 in the March 2025 quarter to 69.5 at the end of the forecast period (Figure 1.6). The NZD has since appreciated against the USD, with the TWI sitting at 69.1 at the time of writing.

Figure 1.6 – NZD trade weighted index

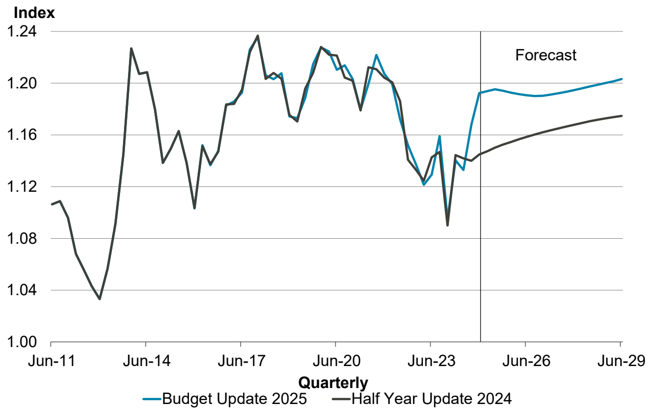


Sources: Reserve Bank, the Treasury

Terms of trade high initially, but further improvement muted by global trade developments

New Zealand's terms of trade (the ratio of export prices to import prices) increased sharply in the December 2024 quarter on the back of surging primary commodity export prices and broad falls in import prices (Figure 1.7). The terms of trade are expected to increase over the first half of 2025 as export commodity prices have continued to rise. From the second half of 2025, export commodity price rises are expected to moderate, while import prices increase. Trade uncertainty and tariff developments are expected to lower real world prices for New Zealand goods exports by around 1.7% across 2026 and 2027, lowering the terms of trade.

Figure 1.7 – Terms of trade (SNA basis)

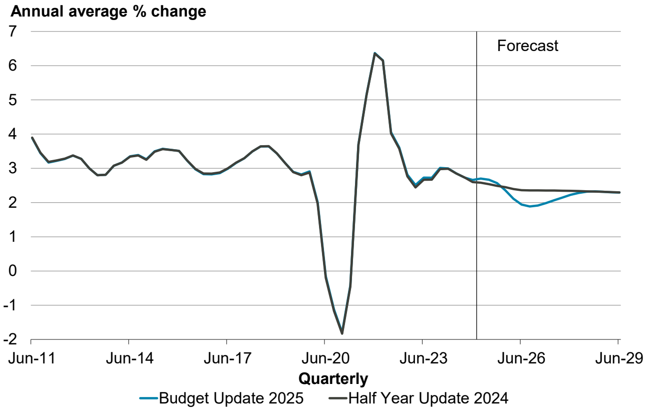


Sources: Stats NZ, the Treasury

A full breakdown of assumed tariffs embedded in the forecasts is included in a box on pages 16-17.

Increased trade protectionism, heightened policy uncertainty and consequently lower consumer and business confidence are assumed to dent New Zealand's growth prospects. Overall, trading partner growth is forecast to be 1.9% and 2.1% in 2025/26 and 2026/27 respectively, 0.4 and 0.3 percentage points lower than the *Half Year Update 2024*, with weaker growth expected in both the US and China as a consequence of increased trade protectionism (Figure 1.8).

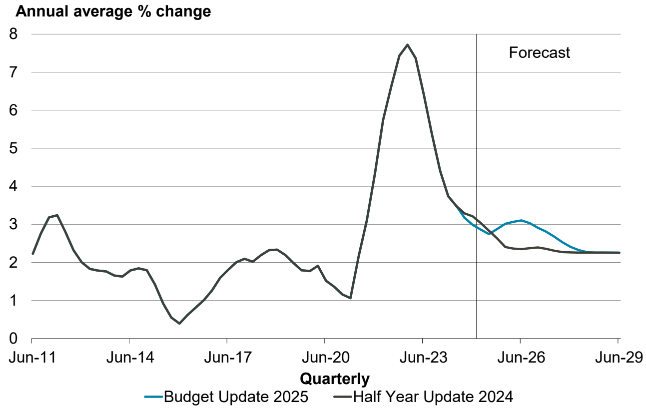
Figure 1.8 – Trading partner growth



Sources: Haver Analytics, the Treasury

We further assume that tariffs will increase global inflation. Trading partner inflation is 3.1% in 2025/26 and 2.7% in 2026/27, 0.8 and 0.4 percentage points higher than the *Half Year Update 2024* (Figure 1.9).

Figure 1.9 – Trading partner inflation



Sources: Haver Analytics, the Treasury

Considerable uncertainty surrounds the international outlook and the flow-on effects for New Zealand's economy. On the positive side, tariffs may be reduced if trade tensions subside. If high tariffs persist, New Zealand exporters may face less competition in some product markets due to high China tariffs on US goods. Chinese exporters face less favourable terms in some US markets, and prices on imported goods may fall by more than expected. On the negative side, tariffs may prove more disruptive to economic activity and global supply chains than assumed, leading to lower growth and higher inflation. Downside risks arising from global developments are explored in the Risks and Alternative Scenarios section.

Assumed impact of tariffs on the economic outlook

The Budget 2025 economic forecasts were finalised on 7 April. Prior to that, the US administration had introduced tariffs on a range of imports and other countries had introduced retaliatory tariff measures. The US announced tariff measures on 3 April (NZT) "Liberation Day", which included a minimum 10% tariff on all trading partners, with higher tariff rates for select countries. New Zealand was subject to a broad-based 10% tariff on imports into the US. Since finalising our economic forecasts, a 90-day pause on reciprocal tariffs was announced and the US and China, amongst others, have entered into trade negotiations.

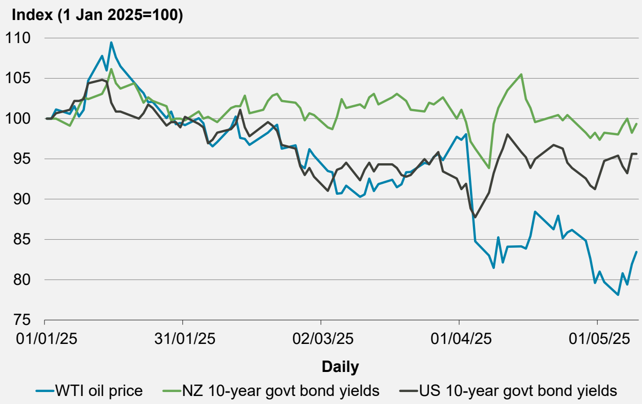
The tariff situation continues to evolve and in anticipation of this the Treasury made a number of assumptions in this Budget Update which may best be viewed as placeholders until further clarity emerges. Risks remain on both sides of our forecast.

Financial market assumptions

Our forecasts assume the NZD TWI increases gradually over the forecast period, from 67.8 in the March 2025 quarter to 69.5 by the end of the forecast period. The exchange rate has fluctuated in the wake of tariff announcements, with the TWI currently sitting above our assumed level.

Yields on New Zealand 10-year government bonds are forecast to remain around 4.3% over the forecast period. Yields initally rose to 4.7% on 15 April as tariff developments filtered through but have since fallen to around 4.6% (Figure 1.10), still above our forecast assumption. Higher recent yields point to upside risk to interest rates, should they persist. Higher interest rates would negatively impact the government's debt financing costs and, for the economy more broadly, would reflect tighter financial conditions and higher fixed-term mortgage rates.

Figure 1.10 – Government bond yields and oil prices



Sources: Haver Analytics, the Treasury

Oil prices have fallen in response to concerns around global growth prospects as well as increased supply from OPEC. West Texas Intermediate (WTI) oil prices are forecast to trough at US$64 per barrel in the June 2025 quarter before gradually increasing to US$72 per barrel by the end of the forecast period. As at the time of writing, WTI oil prices are US$61 per barrel below our assumed level over the June quarter.

Global outlook assumptions

We have lowered our trading partner growth forecasts by around 0.4 and 0.3 percentage points in the June 2026 and 2027 years (Table 1.2). We assume the largest negative impacts of tariffs to be in the US economy. This view assumes that China's government takes action to support domestic demand. Global inflation is 0.3 percentage points higher in each of 2025 and 2026 calendar years, largely as a consequence of higher US inflation.

Table 1.2 – Trading partner growth and inflation forecasts

	June years, annual average percent change					
	2024*	**2025**	**2026**	**2027**	**2028**	**2029**
Trading partner growth	2.9	2.7	1.9	2.1	2.3	2.3
Trading partner inflation	3.5	2.7	3.1	2.7	2.3	2.3

* 2024 is actual

Subsequent to finalising the Treasury forecasts, other institutional and economic forecasters have been updating their global outlooks to incorporate tariff policy changes, including the International Monetary Fund, which published an update to their World Economic Outlook on 23 April. The IMF forecast changes to both global growth and inflation that were similar in magnitude to those outlined above.

New Zealand assumptions

The Treasury assumes that the overall impact of tariffs will result in weaker goods export prices and volumes, domestic business investment and business profits. The indirect effect of tariffs on external demand and increased global uncertainty are expected to have the greatest impact on New Zealand's economy. Direct economic impacts from the additional 10% broad-based tariff imposed on New Zealand in April are expected to be relatively modest. New Zealand goods exports to the US in the 12 months ended March totalled $9.3 billion, representing 13% of goods exports. Notable export products to the US include beef, wine and casein.

Our forecasts assume that New Zealand real GDP growth will be around 0.2 percentage points lower than otherwise across 2026 and 2027, with a peak output gap impact of around 0.2 percentage points in early 2027.

Terms of trade is assumed to be around 0.5 percentage points lower over 2026 and 2027 than they would have been in the absence of tariffs. No direct impacts on import prices are assumed, with the indirect impacts of higher global inflation and lower world output broadly offsetting. The Treasury maintains its long-standing view that the decades long trend of falling global prices for imported goods will slow as a result of the retreat from globalisation, implying that the long upward trend in New Zealand's terms of trade will level out.

Monetary policy is forecast to respond to lower non-tradable inflation pressures (from lower aggregate demand), seeing interest rates around 15 basis points lower than otherwise. Our forecasts assumed that business investment growth would be around 0.6 percentage points lower than otherwise in each of the years ended June 2026 and 2027 (resulting in overall growth rates of 2.1% and 4.7%), before recovering some of the losses in the latter part of the forecast period as the impact of monetary policy response kicks in.

Despite the global uncertainty, conditions remain in place to support a broad-based economic recovery later in 2025

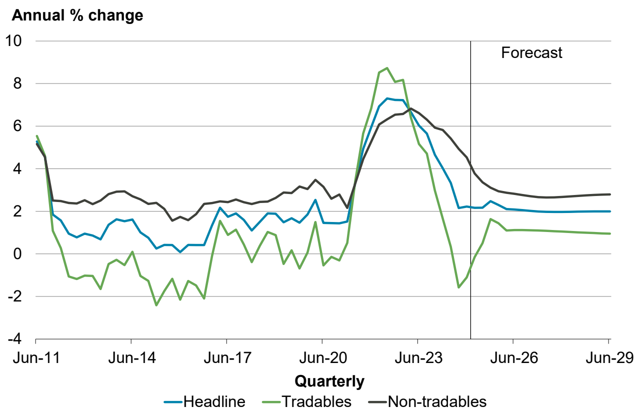
Consumer and business confidence about the future has improved. Lower interest rates and projected falls in mortgage rates mean that conditions are in place to support a recovery in broad economic activity over 2025. There are signs that a higher proportion of borrowers are choosing floating or short-term fixed mortgage rates in anticipation of further rate cuts. The 90-day interest rate is forecast to gradually decrease from 3.5% in June 2025 to 3.0% in June 2026 and 2.5% by the end of the forecast period.

Inflation is contained

The economic contraction over 2024 has resulted in significant spare capacity in the economy, and the decline in demand has led to lower inflationary pressure. Inflation is forecast to remain around the midpoint of the Reserve Bank's 1% to 3% target band.

Annual tradable inflation is forecast to lift into the September 2025 quarter mainly due to a lower exchange rate and higher petrol prices (Figure 1.11). Tradable inflation is forecast to level off thereafter, reaching 1.0% by the second half of 2027. However, since the forecasts were finalised, the exchange rate has risen and oil prices have fallen, which may suggest weaker inflation pressures in the next year.

Figure 1.11 – CPI inflation



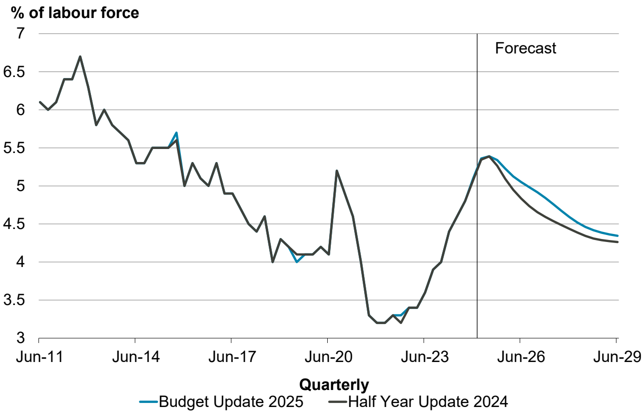
Sources: Stats NZ, the Treasury

Non-tradable inflation is coming off high levels. Significant spare capacity, steady inflation expectations and reports that fewer firms intend to raise selling prices will support further easing in non-tradable inflation. The combined effect of falling non-tradable inflation and stabilising tradable inflation will keep headline inflation around 2.0% over the forecast horizon.

Unemployment rate to peak in the June 2025 quarter, with the labour market strengthening thereafter

In addition to lower interest rates, improving labour market conditions underpin an acceleration in GDP growth to 2.9% by June 2026. The labour market tends to lag developments in the real economy and is forecast to soften over the first half of 2025. Employment growth is expected to be subdued, and the unemployment rate peaks at 5.4% in the June 2025 quarter before easing to 4.3% by the end of the forecast period (Figure 1.12).

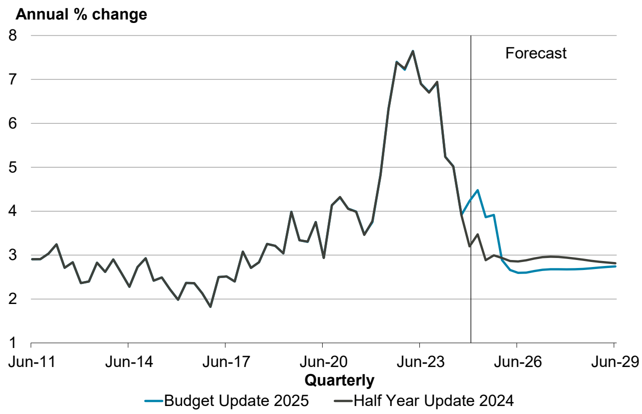
Figure 1.12 – Unemployment rate



Sources: Stats NZ, the Treasury

Nominal wage growth has eased since the highs of 2023 as labour supply and demand have rebalanced, inflation has eased, and the economy has weakened (Figure 1.13). Hourly wage growth strengthened in the December 2024 quarter, but this strength is unlikely to persist due to weak domestic demand. Annual wage growth is expected to slow from 3.9% in June 2025 to 2.6% in June 2026. KiwiSaver changes include increases to the contribution rates for employers and employees. Employers will be required to increase their contributions but are expected to offset much of this cost via lower-than-otherwise wage increases (see box on page 29). Furthermore, reducing the provision for pay-equity settlements results in slower-than-otherwise wage growth.

Figure 1.13 – Annual wage growth



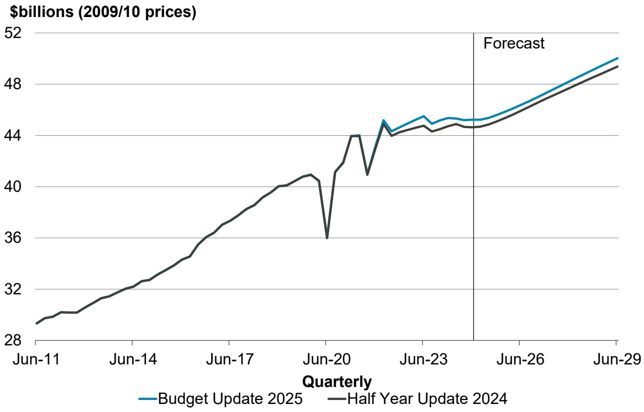
Sources: Stats NZ, the Treasury

Despite lower growth, the wage level is forecast to remain higher over the forecast period relative to the *Half Year Update 2024* due to a higher starting point and stronger near-term growth.

Household spending to lift as incomes rise and confidence returns

Initially, real private consumption growth is expected to be flat on the back of slower wage growth, the lagged effect of lower interest rates and the recent retreat in consumers' perceptions of their current finances (Figure 1.14). From 2026 onwards, private consumption accelerates as the labour market strengthens, income growth increases, the effective mortgage rate comes down and house prices lift.

Figure 1.14 – Real private consumption

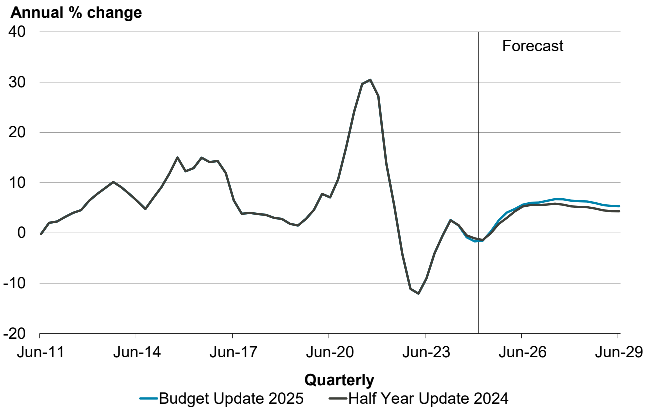


Sources: Stats NZ, the Treasury

House price growth accelerates, supporting residential investment

The housing market shows signs that prices have stabilised. House prices weakened over 2024 as new listings increased while sales volumes were modest (Figure 1.15). However, small price rises in recent months have accompanied increased real estate sales and rental market activity. As lower interest rates flow through the economy and as labour market conditions improve from the second half of 2025, annual house price growth is forecast to increase from 0.3% in June 2025 to 5.6% in June 2026 before easing to 5.3% by June 2029.

Figure 1.15 – House price growth

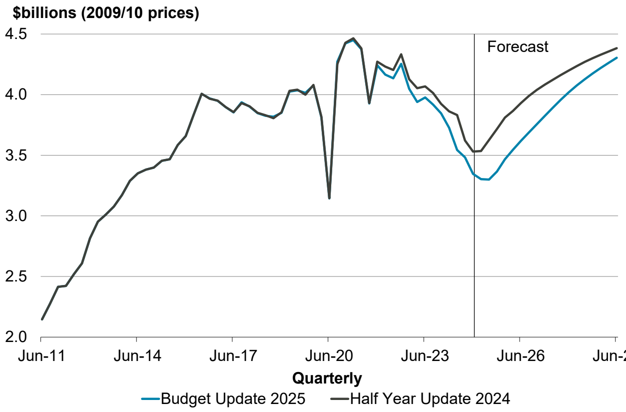


Sources: CoreLogic, the Treasury

The weak housing market has slowed construction activity. There were large falls in residential construction in the December 2024 quarter and annual building consent issuance remains relatively flat.

Residential construction firms have reported lower activity in recent business surveys. This, alongside downward revisions to historical data, results in lower residential investment compared to the *Half Year Update 2024* (Figure 1.16). Residential investment reaches its trough in the June 2025 quarter. From peak to trough, this represents a 22% fall in residential investment compared to a 31% fall between 2007 and 2009 during the global financial crisis.

Figure 1.16 – Real residential investment



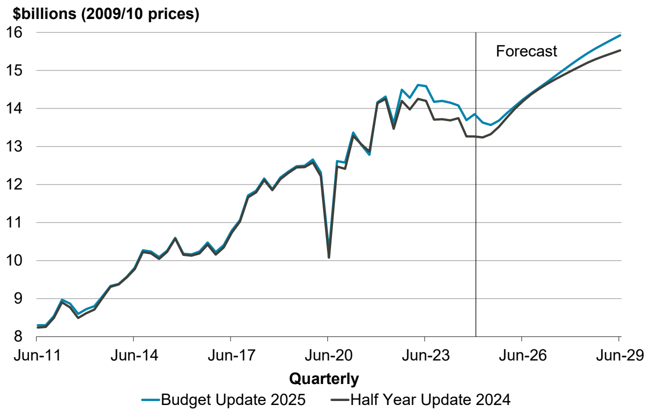
Sources: Stats NZ, the Treasury

From the second half of 2025, residential investment recovers as house price growth encourages new building activity. Residential building consent issuance has started to pick up in recent months and will translate to a pickup in construction activity in the months ahead.

Budget 2025 boosts business investment…

Business investment is expected to fall in the near term as heightened global uncertainty has affected investment intentions. Our forecasts assume global uncertainty lowers business investment growth by 0.6 percentage points than otherwise in each of the years ended June 2026 and 2027 (Figure 1.17).

Figure 1.17 – Real business investment



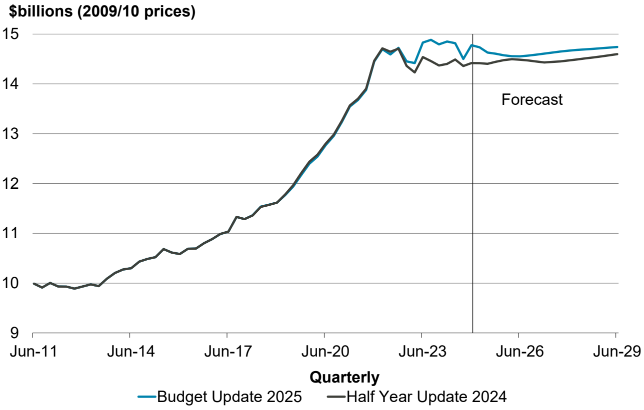
Sources: Stats NZ, the Treasury

While a weaker global backdrop puts downward pressure on business investment, business investment overall is higher across the forecast period relative to the *Half Year Update 2024*. The combined effect of lower interest rates, increased household demand and the introduction of the Investment Boost policy (see Investment Boost box on page 30) are expected to drive stronger business investment over the forecast period relative to the *Half Year Update*. Additionally, business investment starts at a higher point relative to the *Half Year Update 2024* due to upward historical revisions in the December 2024 GDP release.

…while savings see government consumption grow modestly

Real government consumption is forecast to be flat across the forecast period (Figure 1.18). For the purpose of economic forecasting, the Treasury practice is to assume that future allowances are spent as increases in government consumption. Consequently, a cumulative reduction in the operating allowance for Budget 2025 of around $4 billion over the period to June 2029 flows through to lower-than-otherwise government consumption. The smaller 2025 Budget creates room for lower interest rates that are around 30 basis points lower by the end of the forecast period relative to the *Half Year Update 2024*. While real government consumption is higher over the forecast period compared to the *Half Year Update 2024*, this is largely a result of significant historical upward revisions to the real government consumption over 2023 and 2024.

Figure 1.18 – Real government consumption

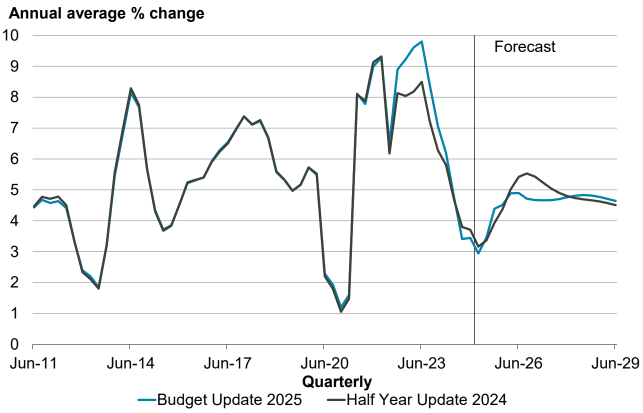


Sources: Stats NZ, the Treasury

National incomes grow across the forecast period…

Nominal GDP is forecast to grow by over $100 billion by the end of the forecast period, exceeding $500 billion for the first time in the year ended June 2028 (Figure 1.19). In growth terms, nominal GDP is forecast to slow to 3.5% in the year to June 2025, then accelerate to 4.9% in the year to June 2026, before easing to 4.6% by the end of the forecast period. This is slower than forecast at the *Half Year Update 2024*, although revisions to the level of historical nominal GDP mean that the starting point is higher.

Figure 1.19 – Nominal GDP growth



Sources: Stats NZ, the Treasury

Compensation of employees, the total amount paid to employees, makes up over 40% of total income and grows around 3.8% per annum on average across the forecast period. Forecast growth in compensation of employees is initially faster than forecast at the *Half Year Update 2024*, before slowing over 2026 and 2027. Forecast growth in business net operating surplus lifts strongly in 2025, reflecting the boost in exporter revenues and averages around 6.3% per annum across the forecast period. Net operating surplus is around 30% of total income by 2029. However, the slower nominal economic growth means that net operating surplus growth is also weaker than forecast at the *Half Year Update 2024*.

…contributing to tax revenue growth over the forecast period…

The growth in New Zealand's nominal income drives an increase in total core Crown tax revenue by $27.6 billion over the forecast period, reaching $148.2 billion in 2028/29. As a share of GDP, tax revenue is expected to dip to 27.4% in 2026 before lifting to 28.3% by 2029.

Growth in tax revenue results from higher labour income, consumption and business profits. Firstly, the strengthening labour market will lift household incomes and grow source deduction revenue. Secondly, household income growth will gradually support a lift in consumption spending, which, together with a recovery in residential investment, will grow GST revenue. Finally, improving domestic activity paired with near-term strength from export revenues will support company profitability and tax revenues. However, weaker trading partner growth and lower terms of trade as a consequence of assumed tariff policy changes offsets some of this growth in business tax revenue.

…although tax revenue is down relative to the Half Year Update 2024

Core Crown tax revenue is $13.3 billion lower across the forecast period when compared to the *Half Year Update 2024*. The main driver of the lower tax revenue forecast is slower growth in business profits, reflecting the weaker forecast for nominal GDP growth. This drags down corporate and other persons tax revenue, although some of this weakness is offset by fewer forecast tax credits and tax losses. Tax policy changes reduce tax revenue by a further $6.4 billion across the forecast period (see the Fiscal Outlook chapter for further detail).

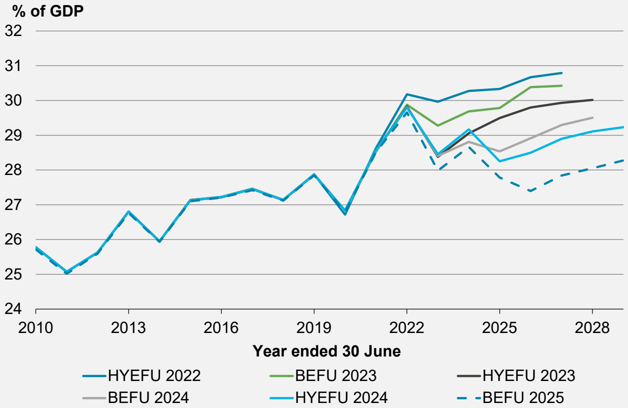
In contrast to the weaker corporate tax revenue forecasts, source deductions and GST are forecast to be slightly stronger than at the *Half Year Update 2024*. Source deductions are forecast to be $1.0 billion higher over the forecast period, owing to changes to KiwiSaver and a stronger wage level forecast, which are partly offset by a weaker employment forecast. GST will be $1.2 billion higher over the forecast period, reflecting strength in recent GST revenue outturns, which flows on into subsequent years.

Tax-to-GDP ratio

The Treasury's forecasts of tax revenue have been falling over successive forecasting rounds, independent of economic and policy developments. Figure 1.20 shows that the Treasury's forecast of the tax-to-GDP ratio has fallen over each Economic and Fiscal Update since 2022, after the ratio reached elevated levels during the COVID-19 pandemic. The tax-to-GDP ratio for the *Budget Update* is more consistent with pre-COVID-19 trends. However, further declines in the tax-to-GDP ratio cannot be ruled out, which poses a downside risk to tax revenue forecasts.

While the tax-to-GDP ratio is not directly used in our forecasting models, it can help inform tax forecasting judgements. Several factors can influence the tax-to-GDP ratio, including changes to the economic forecasts, administrative and policy settings, statistical revisions, and the tax forecasts.

Figure 1.20 – Total core Crown tax to GDP ratio



Sources: Stats NZ, the Treasury

A higher tax-to-GDP ratio may reflect underlying economic changes that lead to a higher tax take for each additional dollar of income. For example, corporate taxes grew more strongly than GDP in 2021 and 2022 as corporate profits were supported by subsidies, contributing to a higher tax-to-GDP ratio. Similarly, strong wage growth in 2023 and 2024 contributed to higher source deductions, as wage earners' average income tax rates increased (fiscal drag).

Administrative and tax policy changes can also change the tax-to-GDP ratio. The tax settings today differ to those prior to COVID-19, as successive governments have altered tax policy. For example, a reduction in tax rates should lower the tax-to-GDP ratio, while an increase in tax rates should increase the ratio. Likewise, increased compliance activity by Inland Revenue can be expected to raise the tax-to-GDP ratio.

Some of the increase in the tax-to-GDP ratio in 2021 and 2022 has recently been unwound by upward revisions to GDP. This means that the Crown has been collecting a lower amount of tax for each dollar of national income in recent history than was known at the *Half Year Update 2024*.

Finally, downgrades to the Treasury's tax revenue forecasts, independent of the economy or policy changes, have also been an important factor. For example, between the 2021 and 2023 Half Year Updates the amount of GST collected as a proportion of taxable consumption fell. In response, the Treasury reduced its GST forecasts independent of its economic forecasts. Further downgrades to the tax revenue forecast cannot be ruled out and could lower the forecast tax-to-GDP ratio in the future.

Risks and Alternative Scenarios

The forecasts presented in this chapter include a number of assumptions and judgements. As with any kind of forecasting, there is a risk that actual events will differ from expectations. The Treasury produces alternative scenarios to illustrate the range of uncertainties around the central forecast.

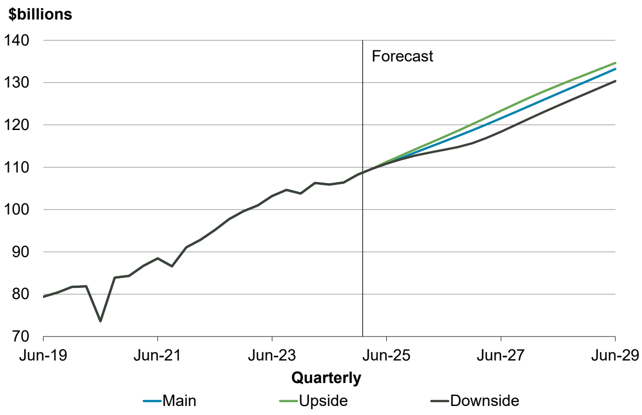
Risks to the outlook include but are not limited to:

- unanticipated global developments
- the speed at which lower interest rates affect the economy
- migration deviating from forecast, impacting the size of the population and economy
- significant climatic events affecting primary production
- productivity developments impacting on medium-term growth.

Worsening trade tensions constrain world growth in the downside scenario

In the downside scenario, global trade tensions deteriorate beyond what is assumed in the central forecast, further lowering global growth and raising global inflation. Trading partner growth over the years ended June 2026 and June 2027 averages 1.0% lower per year, with trading partner inflation around 0.8 percentage points higher over calendar years 2025 and 2026 (Figure 1.21). A more negative global environment flows through to New Zealand exports, with world export prices falling 7% in the year ended June 2027 relative to our central forecasts.

Figure 1.21 – Nominal GDP



Sources: Stats NZ, the Treasury

Part of the downgrade in trading partner growth is assumed to be structural, with trading partner growth persistently lower. New Zealand's growth potential is also persistently lower, while lower economic activity creates an increase in spare capacity compared to the central forecast at peak impact. Interest rates respond to lower inflationary pressures and are around 100 basis points lower. However, the extent to which monetary policy can buffer the shock is constrained by the reduction in productive capacity of the economy.

The weaker economy in the downside scenario means the OBEGALx remains in deficit and net debt is higher

In the downside scenario, nominal GDP is cumulatively $40 billion lower over the forecast period, with a corresponding cumulative reduction in core Crown revenue of $12.3 billion relative to the central forecast (Table 1.3). In this scenario, the operating balance before gains and losses excluding ACC revenue and expenses (OBEGALx) remains in deficit across the forecast period, reaching -0.9% of GDP by 2029, while net core Crown debt rises to 49.3% of GDP by 2029.

Table 1.3 – Alternative scenarios

June years	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Real GDP (annual average % change)						
Main forecast	**0.6**	**-0.8**	**2.9**	**3.0**	**2.9**	**2.6**
Upside	0.6	-0.7	3.5	3.4	3.0	2.3
Downside	0.6	-0.8	2.4	2.0	3.0	2.8
Inflation (annual % change)						
Main forecast	**3.3**	**2.2**	**2.1**	**2.0**	**2.0**	**2.0**
Upside	3.3	2.2	2.2	2.1	2.2	2.1
Downside	3.3	2.2	1.9	1.6	1.7	1.9
Unemployment rate (June quarter)						
Main forecast	**4.6**	**5.4**	**5.0**	**4.8**	**4.5**	**4.3**
Upside	4.6	5.4	4.7	4.2	3.9	4.1
Downside	4.6	5.4	5.4	5.4	4.7	4.3
Core Crown revenue ($billions)						
Main forecast	**133.2**	**134.2**	**139.7**	**146.4**	**154.4**	**162.5**
Upside	133.2	134.2	140.4	148.2	157.1	165.4
Downside	133.2	134.0	138.7	143.4	150.2	158.5
Net core Crown debt[1] (% of GDP)						
Main forecast	**41.7**	**42.7**	**43.9**	**45.7**	**46.0**	**45.5**
Upside	41.7	42.6	43.4	44.6	44.1	43.1
Downside	41.7	42.7	44.6	47.9	49.0	49.3
OBEGALx[2] (% of GDP)						
Main forecast	**-2.1**	**-2.3**	**-2.6**	**-1.7**	**-0.6**	**0.0**
Upside	-2.1	-2.3	-2.5	-1.3	0.1	0.7
Downside	-2.1	-2.4	-2.9	-2.5	-1.6	-0.9

Notes: 1 Net core Crown debt (excluding New Zealand Superannuation Fund and advances).

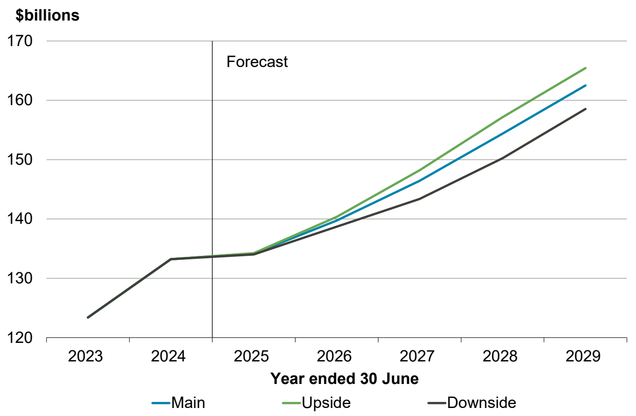
2 Operating balance before gains and losses excluding ACC revenue and expenses.

Stronger net inwards migration and stronger near-term productivity growth boosts activity in the upside scenario…

In an upside scenario, net annual migration inflows surge to around 70,000 people before falling back towards our medium-term assumption of 40,000. Separately, productivity growth is also higher.

Higher net migration creates a temporary surge in domestic demand growth, reducing spare capacity more quickly than our central forecasts. Meanwhile, higher productivity growth boosts potential output growth. Private consumption and residential investment are boosted by the influx in demand, while the unemployment rate falls more rapidly in response to additional demand for labour. The surge in demand puts upward pressure on non-tradable inflation, with interest rates around 130 basis points higher in response.

Figure 1.22 – Core Crown revenue



Source: The Treasury

…with a stronger domestic economy generating higher tax revenue

Nominal GDP is cumulatively $24 billion higher over the forecast period in the upside scenario. Higher nominal GDP generates additional tax revenue relative to the central economic forecast. Core Crown revenue is approximately $8.2 billion higher across the five forecast years and drives a more rapid improvement in the OBEGALx with lower levels of net core Crown debt relative to the central forecasts (Figure 1.22). In this scenario, the OBEGALx returns to a slight surplus in 2028 and net core Crown debt falls to 43.1% of GDP in 2029.

Key economic forecast judgements and assumptions

In addition to the judgements and assumptions included in the text, these forecasts include the following assumptions:

- Annual net migration inflows are assumed to bottom out in the year to June 2025 at 33,000. Net migration then grows slowly to around 40,000 people per year by the end of the forecast period.
- The NZD TWI is assumed to grow from 67.8 in the March 2025 quarter to 69.5 by June 2029.
- West Texas Intermediate oil prices are assumed to fall sharply from an average US$71.4 per barrel in the March 2025 quarter to US$64.0 in the June quarter before growing to US$72.3 by the end of the forecast period.
- The non-accelerating inflation rate of unemployment is assumed to be 4.25% in the long run.
- The neutral 90-day interest rate is assumed to be 2.75%.

The impacts of Budget 2025 on the economic forecasts

The overall size of this year’s Budget is smaller than included in the *Half Year Update 2024*, with the Budget 2025 net operating allowance reduced from $2.4 billion per annum to $1.3 billion – a cumulative reduction of around $4 billion over the period to June 2029. Budget allowances are a net concept in that savings from one area may be used to offset higher spending elsewhere. The operating allowance covers both spending and revenue decisions. It therefore captures the Investment Boost policy, which counts against the allowance, and the KiwiSaver changes, which overall provided savings to the government.

For the purpose of economic forecasting, Treasury practice is to assume that future allowances are spent as increases in government consumption. Consequently, the smaller 2025 Budget flows through to lower-than-otherwise forecasts of government consumption. Offsetting this, the Budget implies an increase in business investment activity through the introduction of the Investment Boost policy.

Previous *Economic and Fiscal Updates* have included the contingencies to settle current and future pay equity claims both in the public and funded sectors. Budget 2025 reduces this. The assumed impact of this on our economic forecasts is to lower both nominal government consumption and the government consumption price deflator as well as slower-than-otherwise wage growth, which influences household spending.

Lower aggregate demand that results from the smaller overall Budget creates room for lower interest rates that are around 30 basis points lower than they would otherwise have been by the end of the forecast period. This means that real activity over the forecast period as a whole is similar to that which would have occurred should the Budget 2025 allowance been maintained at the *Half Year Update 2024* level.

Changes to KiwiSaver

As part of Budget 2025, the Government is increasing default KiwiSaver contribution rates for both employees and employers. The default rate is being increased from 3% to 3.5% from 1 April 2026, and to 4% from 1 April 2028. Each year, individuals will have the option to apply to Inland Revenue to temporarily opt-down to a 3% contribution rate for a period of up to 12 months.

Eligibility for the Government KiwiSaver contribution will be limited to individuals who earn less than $180,000 in taxable income. The value of the Government KiwiSaver contribution is being halved, so that individuals receive a Government contribution of 25c per dollar of employee contribution, up to a maximum of $260.72 a year. This change will apply from the 2025-26 eligibility year, which begins on 1 July 2025.

The other change being made is extending the benefit of the remaining Government KiwiSaver contribution, as well as the mandatory employer contribution, to 16- and 17-year-olds. 16- and 17-year-olds will be eligible for the Government KiwiSaver contribution for the 2025-26 eligibility year (beginning 1 July 2025) and will be entitled to mandatory employer contributions from 1 April 2026.

Fiscal impact of changes to KiwiSaver

These changes will have a direct fiscal benefit to the Crown. Halving the value of the Government KiwiSaver contribution is expected to result in a saving to the Crown of $2.3 billion over the forecast period. The decision to fully remove the remaining Government contribution for those earning over $180,000 a year results in an additional fiscal saving of $160 million over the forecast period. Extending the reduced Government KiwiSaver contribution to 16- and 17-year-olds comes at a fiscal cost of $25 million over the forecast period.

Without assuming any behavioural response, the changes to the employer contribution rate will have some indirect fiscal impact on forecast tax revenue. The decision to increase contribution rates to 3.5% from 1 April 2026 and 4% from 1 April 2028 will result in $690 million less in income tax paid by employers over the forecast period (due to their increase in employment costs), but $1.23 billion more in employer superannuation contribution tax (ESCT) being paid. ESCT is the tax paid on employer KiwiSaver contributions.

Making employer contributions mandatory for 16- and 17-year-olds will result in $13 million less in income tax being paid by employers, but $8 million more in ESCT revenue.

The impact of the KiwiSaver changes on wage growth and household consumption will also have some secondary fiscal impact in the form of reduced PAYE, GST, and business tax. This secondary fiscal impact has not been specifically estimated. As set out below, the impact of these KiwiSaver changes on wage growth and household consumption are expected to be relatively small and cannot be accurately forecasted.

Economic impact of changes to KiwiSaver

We have assumed that employers will offset the majority (80%) of their higher contributions via lower-than-otherwise wage increases. These lower wage increases have a negative impact on household spending.

Higher contributions from employees also have a negative impact on household spending. We have assumed that this effect will be relatively small, reflecting an assumption that around 80% of the increase in employee contributions will come from a redirection of other forms of saving (eg, lower mortgage repayments or contributions to other investments).

The reduced Government KiwiSaver contribution and the full removal of the contribution for those earning over $180,000 are not expected to have any significant impact on household spending over the forecast period.

Investment Boost

The Government is introducing a new tax deduction – Investment Boost – available to any business that invests in one or more eligible capital assets on or after 22 May 2025.

Businesses will be able to claim a deduction equal to 20% of the tax book value of newly acquired assets in the year of acquisition. Businesses that claim Investment Boost will reduce the tax book value of the assets by the value of the deduction, with the remaining tax book value depreciable under the current depreciation rules.

Generally, assets that are depreciable for tax purposes are eligible – though Investment Boost has also been extended to include new commercial buildings. Certain classes of assets are not eligible for Investment Boost, which include second-hand assets that are sourced from New Zealand, residential rental buildings, and most fixed life intangible assets (such as patents).

Example: A Ltd invests in a machine worth $100,000, which depreciates over 10 years (ie, assuming a 10% straight line depreciation rate). Under the status quo, A Ltd would be entitled to deduct $10,000 worth of depreciation each year from their taxable income. With Investment Boost, A Ltd is entitled to a total $20,000 up front deduction, and $8,000 in depreciation deductions each year – including in year one.

Tax deductions ($)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Status quo	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Investment Boost	28,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000

Investment Boost functions to bring forward depreciation deductions from future years to the first year of ownership. By bringing forward deductions, the new rules will increase the net present value of cashflows from new assets. This means that investing in new assets will become more attractive and will encourage investments that would not have been undertaken without Investment Boost.

Because Investment Boost encourages additional investment, the Treasury expects the policy to lift capital stock projections by 1.6% over 20 years. These effects then flow on to improvements in projected wages and GDP levels by 1.5% and 1.0% over the same 20-year period, respectively. Business investment is higher than otherwise as a result of Investment Boost and this increases imports of capital equipment. Approximately half of these effects occur within five years of implementation. Over the forecast period, Investment Boost is expected to increase real GDP by up to 0.4%.

These estimates are drawn from modelling by Inland Revenue. This involved estimating the effect of Investment Boost on the cost of capital across asset classes, and then modelling the investment response that would be induced by this reduction in the cost of capital. The margins of error involved in modelling investment responses are large, but the estimates of the impact of Investment Boost are within the range of results from the international literature.

Modelling of investment responses is most sensitive to assumptions made on the elasticity of substitution between labour and capital. A review of credible international literature reviewing similar policies produced a range of elasticities, and the mid-point of this range was selected to produce the modelling of Investment Boost.

2

Fiscal Outlook

The Government's fiscal outlook is expected to start to gradually recover following a period of deterioration. The OBEGALx deficit is initially expected to widen but then narrows and returns to a modest surplus of $0.2 billion in 2028/29. Excluding the impact of the economic cycle and one-off expenses, the structural balance follows a similar path, but deficits are smaller in the near term. As a share of GDP, net core Crown debt initially rises to peak at 46.0% of GDP in 2027/28 and then falls to 45.5% of GDP by 2028/29.

The widening of the OBEGALx deficit in the near term is initially driven by modest tax revenue growth in 2024/25. A forecast lift in the growth in core Crown expenses largely contributes to the widening of the deficit in 2025/26, reflecting an increase in benefit payments, the impact of Budget 2025 decisions and one-off impairment expenses. The recovery is underpinned by the expected growth in core Crown tax revenue outpacing the growth in core Crown expenses. In dollar terms core Crown expenses are still expected to increase year on year, but at a much slower rate than recent years. As a result, core Crown expenses as a share of GDP start to fall and drop to 30.9% of GDP by the end of the forecast period.

Since OBEGALx is expected to remain in deficit over most of the forecast period, this will also translate into operating cash deficits. When coupled with the total capital investments of $51.2 billion over the forecast period, the accumulated residual cash deficits total $62.3 billion across the forecast period. The expected cash shortfall is largely funded through additional borrowings. As a result, in nominal terms, net core Crown debt is forecast to increase from $175.5 billion in 2023/24 to reach $238.5 billion by 2028/29.

Net worth is expected to decline from 45.4% of GDP in 2023/24 to 32.8% of GDP by 2028/29. The fall largely reflects the accumulated operating balance deficits of $17.0 billion which flow through to reduce the value of net worth.

The recovery in the outlook of OBEGALx broadly follows a similar path to the *Half Year Economic and Fiscal Update* (*Half Year Update 2024*), but in most years, deficits are deeper than previously expected (a total change of $7.1 billion across the forecast). The exception to this trend is in the current year, where the forecast deficit is around $2.7 billion smaller than previously expected, largely reflective of the reduction in core Crown expenses as the assumed costs from pay equity settlements did not eventuate. Beyond the current year, changes in economic factors have led to a downward revision in tax revenue and upward revisions in benefit expense and finance costs. The Budget 2025 operating package came in lower than assumed in the *Half Year Update* 2024 which has somewhat softened the impact of economic factors on OBEGALx.

In contrast, the outlook of net core Crown debt as a percentage of GDP is now expected to rise gradually over the forecast period, but broadly ends up at the same level in 2028/29 compared to the *Half Year Update 2024*. This reflects that a stronger cash position is expected in the current year and the impact from upward revisions in historical GDP.

The cumulative cash shortfall over the forecast period is now expected to be $5.3 billion higher than forecast at the *Half Year Update 2024*, which has been largely met by increasing the New Zealand Government Bond (NZGB) programme by $7.0 billion.

The key fiscal indicators for the *2025 Budget Economic and Fiscal Update* (*Budget Update)* are outlined in Table 2.1. A summary of the changes since the *Half Year Update 2024* is outlined on pages 57 to 62.

Key judgements and assumptions that underpin the fiscal forecasts are outlined on pages 112 to 114.

This chapter is broken into the following sections:

- Fiscal Performance
- Crown Funding, Financing and Debt Position
- Fiscal Resilience
- Comparison to the *Half Year Update 2024*
- Risks to the Fiscal Forecasts
- Other Fiscal Information.

Table 2.1 – Key fiscal indicators

Year ending 30 June $billions	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Core Crown tax revenue						
Budget Update	120.6	120.9	125.0	133.0	140.5	148.2
Half Year Update		120.6	128.3	136.7	144.1	151.2
Core Crown expenses						
Budget Update	139.0	142.2	150.3	153.1	156.8	162.0
Half Year Update		144.6	149.8	152.6	157.7	162.9
OBEGALx						
Budget Update	(8.8)	(10.2)	(12.1)	(8.1)	(3.1)	0.2
Half Year Update		(12.9)	(10.5)	(4.4)	(0.3)	1.9
OBEGAL						
Budget Update	(12.9)	(14.7)	(15.6)	(11.8)	(6.6)	(3.0)
Half Year Update		(17.3)	(14.1)	(8.2)	(4.3)	(2.4)
Operating balance						
Budget Update	(8.4)	(5.5)	(9.9)	(5.7)	0.0	4.1
Half Year Update		(10.2)	(7.9)	(1.6)	2.7	5.3
Core Crown residual cash						
Budget Update	(19.3)	(10.0)	(14.5)	(18.2)	(11.4)	(8.1)
Half Year Update		(16.6)	(9.8)	(16.8)	(8.1)	(5.6)
Net core Crown debt						
Budget Update	175.5	185.6	200.2	218.4	230.2	238.5
Half Year Update		192.8	202.9	220.0	228.6	234.1
Net worth						
Budget Update	191.0	183.1	173.2	167.8	167.8	171.9
Half Year Update		177.5	169.5	168.1	171.0	176.2
% of GDP						
Core Crown tax revenue						
Budget Update	28.7	27.8	27.4	27.8	28.0	28.3
Half Year Update		28.2	28.5	28.9	29.1	29.2
Core Crown expenses						
Budget Update	33.0	32.7	32.9	32.1	31.3	30.9
Half Year Update		33.9	33.3	32.2	31.8	31.5
OBEGALx						
Budget Update	(2.1)	(2.3)	(2.6)	(1.7)	(0.6)	0.0
Half Year Update		(3.0)	(2.3)	(0.9)	(0.1)	0.4
OBEGAL						
Budget Update	(3.1)	(3.4)	(3.4)	(2.5)	(1.3)	(0.6)
Half Year Update		(4.1)	(3.1)	(1.7)	(0.9)	(0.5)
Operating balance						
Budget Update	(2.0)	(1.3)	(2.2)	(1.2)	0.0	0.8
Half Year Update		(2.4)	(1.8)	(0.3)	0.6	1.0
Core Crown residual cash						
Budget Update	(4.6)	(2.3)	(3.2)	(3.8)	(2.3)	(1.6)
Half Year Update		(3.9)	(2.2)	(3.6)	(1.6)	(1.1)
Net core Crown debt						
Budget Update	41.7	42.7	43.9	45.7	46.0	45.5
Half Year Update		45.1	45.1	46.5	46.1	45.2
Net worth						
Budget Update	45.4	42.1	37.9	35.1	33.5	32.8
Half Year Update		41.5	37.6	35.5	34.5	34.0

Source: The Treasury

Fiscal Performance

Fiscal performance looks at the revenue earned and expenses incurred by the Government over the forecast period. The Government's fiscal performance helps to assess the ability of the Government to sustain public finances at a credible and serviceable position over the long term. It shows whether the Government can maintain its current level of expenditure and revenue without major adjustments or whether its policies would lead to excessive accumulation of public debt unless the Government takes action to change its policies. There are a number of fiscal indicators that help determine the fiscal performance of the Government, which are discussed in more detail in this section.

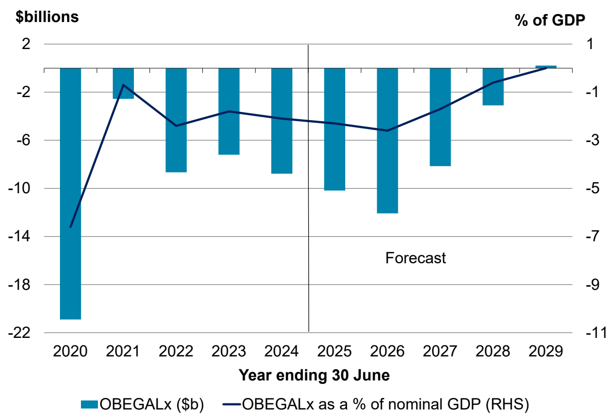
Operating Balance

Operating balance deficits start to narrow from 2026/27…

The Government's headline operating balance indicator, OBEGALx is expected to weaken in the near term before beginning to recover from 2026/27 (Figure 2.1). By the end of the forecast period, OBEGALx is expected to return to surplus again, which was last achieved in 2018/19.

The widening of the OBEGALx deficit in the current year to $10.2 billion is $1.4 billion (or 16%) greater than the deficit recorded at 30 June 2024.

Figure 2.1 – OBEGALx



Source: The Treasury

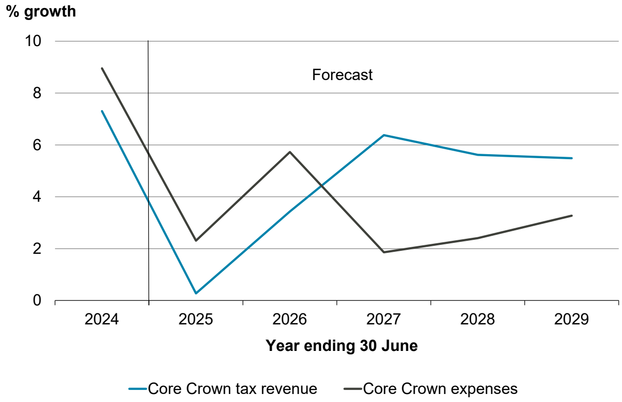
The OBEGALx deficit is expected to continue to widen through the 2025/26 year to $12.1 billion. Growth in core Crown revenue is expected to pick up in 2025/26, partly reflecting economic activity. However, this is more than outpaced by the expected growth in core Crown expenses. Although Budget 2025 decisions are expected to lead to an increase in the level of core Crown expenses in 2025/26, a large share of the overall increase is driven by other factors. The impact of indexation and an ageing population see benefit expenses lift by $2.5 billion, one-off asset impairments increase expenses by around $2.1 billion and finance costs rise by $0.7 billion as borrowings increase to fund the expected cash shortfall.

…supported by Budget 2025 decisions

The fiscal impact on OBEGALx from Budget 2025 operating decisions are smaller than signalled in the *2025 Budget Policy Statement* (BPS) which has supported the path of OBEGALx back to surplus. Overall, the Budget 2025 operating package is expected to have a fiscal impact on OBEGALx of $1.6 billion in the 2025/26 year compared to the 2024/25 year. The impact falls to only $0.7 billion by the end of the forecast period.

The OBEGALx deficit is forecast to gradually improve year-on-year from 2026/27, by an average of $4.1 billion per annum, and return to a modest surplus of $0.2 billion by 2028/29. This recovery is largely reflective of a relatively stable rate of growth in tax revenue, while in contrast the rate of growth in core Crown expenses is more modest over this period (Figure 2.2).

Figure 2.2 – Growth in core Crown tax revenue and core Crown expenses



Source: The Treasury

Beyond 2025/26 core Crown tax revenue in nominal terms is expected to increase in each year at a slightly faster pace than the economy, which sees core Crown tax revenue as a share of GDP rise from 27.4% of GDP in 2025/26 to 28.3% of GDP by 2028/29. The year-on-year growth in tax revenue is across most tax types mainly owing to wage growth, fiscal drag, improvement in net operating surplus, increase in consumption and the commencement of increases to fuel excise and road user charge rates.

While core Crown expenses are also expected to increase each year beyond 2025/26, the growth is much more subdued than recent years. As a result, core Crown expenses as a percentage of GDP start to fall and drop to 30.9% by 2028/29. A large part of the decline is owing to the Budget operating allowances set aside for future Budgets ($2.4 billion per annum) which are smaller than the average Budget operating allowances across the past five years (an average of $4.2 billion per annum). In nominal terms, the increase in core Crown expenses largely reflects the impact from the indexation of most main benefit types, rising finance costs from increases in funding requirements and the funding set aside for future Budgets.

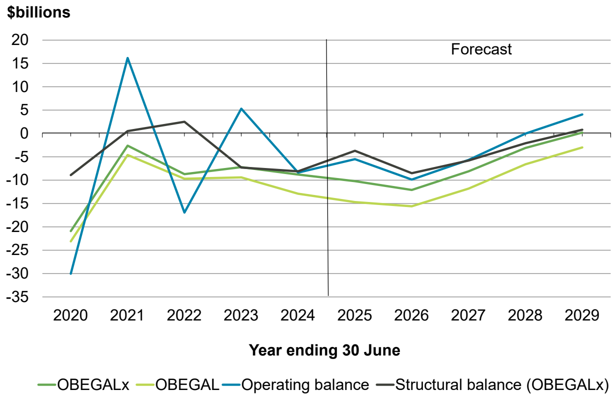
Further details on the trends in revenue and expenses mentioned above are discussed later in this section.

Most other operating indicators follow the same trend as OBEGALx

When including the forecast revenue and expenses of Accident Compensation Corporation (ACC) that average a deficit of around $3.7 billion per annum the operating balance before gains and losses (OBEGAL) is forecast to remain in deficit across the entire forecast period (Figure 2.3). The trend in OBEGAL over the forecast period is very similar to OBEGALx with an initial weakening expected in the near term and deficits widening to $15.6 billion in 2025/26, before recovering thereafter. By the end of the forecast period, the OBEGAL deficit is expected to narrow to $3.0 billion.

The government has been running a structural deficit since 2022/23, which is expected to persist through most of the forecast period. This highlights that the deficits are not fully attributable to slowing economic activity or one-off factors.

Figure 2.3 – OBEGAL, OBEGALx, operating balance and structural balance



Source: The Treasury

The structural balance shows the underlying fiscal performance, excluding both the impacts on the economic cycle and certain one-off items. As the economy is operating below its potential level in the early years of the forecast period, tax revenues are lower and welfare expenses are higher relative to if the economy was operating at its full potential. The structural balance adjusts OBEGALx for these effects as well as for some one-off expenditures. As a result, the structural balance deficit is therefore smaller than the OBEGALx deficit, but the difference narrows over the forecast period, reflecting the gradual closing of the output gap and one-off expenditures tapering off.

In contrast to OBEGALx, the structural balance (also calculated excluding ACC) is forecast to improve in the current year, with the deficit narrowing from $8.1 billion (1.9% of GDP) to $3.7 billion (0.8% of GDP) before widening again to a deficit of $8.5 billion (1.8% of GDP) in 2025/26. The improvement in 2024/25 reflects a larger cyclical adjustment as the output gap peaks. That adjustment starts unwinding in 2025/26, which, in addition to the OBEGALx deterioration in that year, results in a larger structural deficit.

Lastly, the most comprehensive operating indicator, the operating balance, is also expected to recover over the forecast period and returns to a broadly balanced position by 2027/28. Unlike OBEGALx, the operating balance deficit is expected to narrow in the current year, largely reflecting strong year-to-date investment returns on the large investment portfolios of ACC and the New Zealand Superannuation Fund (NZS Fund). Beyond the current year the operating balance follows the same trend as OBEGALx.

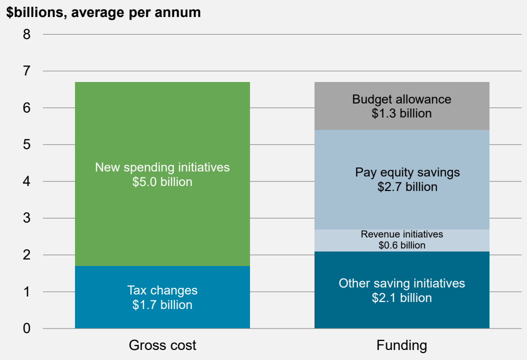
Budget 2025 operating and capital packages

The Government's annual Budget is the main process for allocating funding to cover the costs of new spending. The purpose of this box is to explain how Budget 2025 decisions have been incorporated into the fiscal forecasts.

The Budget 2025 operating package is lower than initially signalled by the Government…

The Government has announced a Budget operating package of $1.3 billion average per annum, which is lower than the Budget operating allowance of $2.4 billion signalled in the *2025 BPS*. The Budget 2025 operating package includes the cost of new initiatives (both revenue and expenses), revenue raising initiatives and savings. Overall, the gross cost of the Budget 2025 operating package is on average $6.7 billion per annum. The gross cost has been partially offset by savings and revenue raising initiatives that average $5.3 billion per annum (Table 2.2).

Figure 2.4 – Funding of the Budget 2025 operating package



Source: The Treasury

…in part owing to the significant level of savings created from pay equity settlement costs…

Since the *Half Year Update 2018*, the Treasury's forecasts have reflected an estimate of the costs to the Government in meeting future obligations under the Equal Pay Act 1972 following legislative changes introduced and policy decisions by the previous Government. The Government has settled a number of pay equity claims, with the costs of these settlements to date totalling around $1.8 billion per year, which were reflected in agencies baselines. The estimates captured in the fiscal forecasts were refined as settlements occurred and better information came to light. The amounts reflected in the forecasts were not individually disclosed to ensure the Government was not compromised in any negotiations.

On 7 May 2025, Parliament passed amendments to the Equal Pay Act 1972 to provide a more sustainable and fairer pay equity framework. As a result of the changes, coupled with changes in how the government will approach the funded sector (where Crown funding does not employ workers) settlements in the future and the unused funding in 2024/25, the estimated cost of pay equity settlements for the Crown has significantly reduced compared to the *Half Year Update 2024*. Overall, the reduction in funding has created fiscal headroom of $12.8 billion over the forecast period. Around $1.8 billion of the savings come from the current year, reflecting the anticipated settlements in this year that have not eventuated. This resulted in one-off savings that the Government has decided to use to fund an increase in the Budget 2025 capital package. The savings beyond 2024/25 of $2.7 billion per annum have been used against the Budget 2025 operating package. Any funding that the Crown may choose to provide to support future settlements in the funded sector will be considered through the annual Budget cycle.

The other significant saving initiative included in the Budget 2025 operating package relates to the reduction in the Government's KiwiSaver contributions of $0.6 billion on average per annum.

…which have been used to offset part of the gross cost of new spending initiatives

While the Budget 2025 operating package has come in below the Government's signalled allowance in the *2025 BPS*, the phasing of decisions in the package means that the impacts on the key fiscal indicators vary significantly in each year. Notably, the revenue reduction from the Investment Boost scheme is expected to be lower after 2027/28, and higher savings are expected in the second half of the forecast period from improving the accuracy and efficiency of the Ministry of Social Development's process for paying benefits to recipients.

The Budget 2025 decisions are expected to increase OBEGALx deficits by $1.6 billion in 2025/26, but by 2028/29, the impact is expected to reduce to $0.7 billion. With the Budget 2025 operating package coming in lower than signalled in the *2025 BPS,* there is a positive impact on OBEGALx compared to the *Half Year Update 2024.*

Table 2.2 – Impact of Budget 2025 operating package decisions on key fiscal indicators

Year ending 30 June $millions	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	5-year Total	4-year Average
Budget 2025 package							
Gross cost of Budget 2025	488	6,459	6,806	6,690	6,450	26,893	6,723
Savings and revenue raising initiatives	(550)	(4,829)	(4,820)	(5,175)	(5,729)	(21,103)	(5,276)
Net Budget 2025 package	**(62)**	**1,630**	**1,986**	**1,515**	**721**	**5,790**	**1,448**[1]
Impact of net Budget package on key fiscal indicators							
Tax revenue changes	(208)	(1,553)	(1,146)	(1,196)	(661)	(4,764)	(1,191)
Change in other revenue	79	86	85	82	77	409	102
Change in core Crown revenue	**(129)**	**(1,467)**	**(1,061)**	**(1,114)**	**(584)**	**(4,355)**	**(1,089)**
Core Crown expense changes	(191)	163	925	401	137	1,435	359
Impact on OBEGALx	**(62)**	**1,630**	**1,986**	**1,515**	**721**	**5,790**	**1,448**[1]
Budget 2025 allowance signalled in the *2025 BPS*	-	2,400	2,400	2,400	2,400	9,600	2,400
Change in OBEGALx against *2024 Half Year Update*	**62**	**770**	**414**	**885**	**1,679**	**3,810**	**953**

1 Some decisions taken through Budget 2025 are expected to generate higher savings beyond the last year of the forecast period (2028/29), which has been reflected into the headline Budget 2025 operating package of $1.3 billion. Table 2.2 only reflects the four-year average over the forecast period of the 2025 Budget operating package, which totals $1.4 billion.

Source: The Treasury

Overall, the Budget 2025 decisions result in a reduction in tax revenue…

A number of decisions impacting tax revenue form part of the Budget 2025 operating package, resulting in an overall reduction in tax revenue forecasts. The most significant of these has been the introduction of a new tax deduction (Investment Boost) and implications to Employer Superannuation Contribution Tax (ESCT) from changes to KiwiSaver contribution rates. Table 2.3 outlines the impact of the tax changes on specific tax types, and individual policies are outlined on page 60.

Table 2.3 – Composition of tax changes by tax types

Year ending 30 June $millions	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	5-year Total
Corporate tax	(189)	(1,631)	(1,495)	(1,626)	(1,379)	(6,320)
Net other persons tax	(19)	(87)	(45)	(55)	(16)	(222)
GST	-	104	140	140	140	524
Source deductions	-	61	254	345	594	1,254
Total tax changes	**(208)**	**(1,553)**	**(1,146)**	**(1,196)**	**(661)**	**(4,764)**

Source: The Treasury

…and an increase to core Crown expenses…

The net increase in core Crown expenses is spread across a number of areas as outlined in Table 2.4. The core Crown expenses tables on pages 149 to 153 outline the total impact of core Crown expenditure on each of these areas after these increases. The amounts in Table 2.4 classified as unallocated contingencies represent centrally held contingencies that have yet to be allocated to a particular departmental baseline.

Table 2.4 – Composition of the net increase in core Crown expenditure by functional classification from Budget 2025 decisions[1]

Year ending 30 June $millions	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**5-year Total**
Health	89	1,975	1,983	1,960	1,963	**7,970**
Law and order	44	290	309	275	254	**1,172**
Education (including tertiary)	(10)	278	328	252	380	**1,228**
Defence	-	272	312	355	416	**1,355**
Social security and welfare	(199)	6	(34)	(349)	(747)	**(1,323)**
Core government services	(2)	(365)	(385)	(430)	(447)	**(1,629)**
Unallocated contingencies	(117)	(2,155)	(1,881)	(1,693)	(1,627)	**(7,473)**
All other functional classifications	4	(138)	293	31	(55)	**135**
Impact on core Crown expenses	**(191)**	**163**	**925**	**401**	**137**	**1,435**
Re-purposing of pay equity savings to fund capital initiatives	(1,834)	-	-	-	-	**(1,834)**
Net increase in core Crown expenses	**(2,025)**	**163**	**925**	**401**	**137**	**(399)**

1 The breakdown by functional classification above is based on a framework developed by the OECD so may be different from the classification by portfolio in the other Budget documents.

Source: The Treasury

…while the Budget 2025 capital package is $4.0 billion

In Budget 2025, the Government has announced a capital package totalling $4.0 billion. This comprises of $6.8 billion of new spending, offset by capital savings of $1.0 billion and the re-purposing of pay equity operating savings of $1.8 billion from unused pay equity funding from the 2024/25 year. Around $4.4 billion of the capital package is forecast to be spent within the forecast period, primarily between 2025/26 and 2026/27. The remaining $1.4 billion of capital investments are expected to fall outside of the forecast period (after 2028/29).

The capital investments in Budget 2025 flow through to different parts of the Government's balance sheet depending on the nature of the investment. However, the majority will be spent on physical assets. Table 2.5 provides a breakdown of the Budget 2025 capital package across different sectors.

Table 2.5 – Budget 2025 capital decisions (by sectors) and impact on the fiscal forecasts

Year ending 30 June $millions	**5-year Total**	**Post 2029**	**Overall Budget 2025 Total**
Transport and communications	1,800	340	**2,140**
Defence[2]	743	301	**1,044**
Health	691	110	**801**
Housing and community development	(112)	(162)	**(274)**
Unallocated contingency	1,217	778	**1,995**
Other	77	4	**81**
Total impact of capital decisions	**4,416**	**1,371**	**5,787**
Re-purposing of pay equity to fund capital initiatives	(1,834)	-	**(1,834)**
Total 2025 Budget capital package	**2,582**	**1,371**	**3,953**

Source: The Treasury

2 Funding of $1.6 billion has also been set aside from the Budget 2026 capital allowance for defence capital investments. Refer to page 46.

Total Revenue

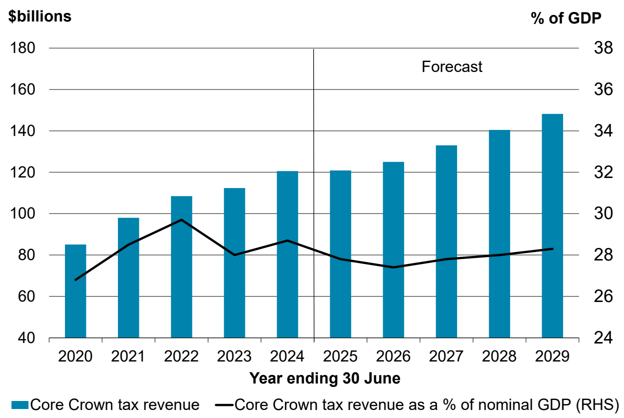
Over the five-year forecast period, total Crown revenue is expected to increase by around $35.7 billion, from $167.3 billion in 2023/24 to $203.0 billion in 2028/29, and becomes a slightly smaller share of the economy, from 39.8% of GDP to 38.7% of GDP.

The Crown's main revenue source is taxation, including direct taxes from individuals (such as PAYE) and businesses (such as corporate tax) and indirect taxes (such as GST). The second biggest revenue source is from sales of goods and services, primarily from State-owned enterprises (SOEs) such as electricity and airline companies. Other significant revenues include ACC levies and New Zealand Emissions Trading Scheme proceeds.

Core Crown tax revenue growth is forecast to be flat in the current year…

Core Crown tax revenue is forecast to increase by $27.6 billion over the forecast period to $148.2 billion by 2028/29 (Figure 2.5). Most of the growth in tax revenue is forecast to come from macroeconomic factors that drive growth in core Crown tax revenue.

Figure 2.5 – Core Crown tax revenue



Source: The Treasury

As a percentage of GDP, core Crown tax revenue is expected to fall in the near term to 27.4% in 2025/26 and then gradually increase over the remainder of the forecast period to reach 28.3% in the 2028/29 year. Tax policy changes are the biggest contributing factor to the lower tax to GDP ratio in 2024/25 and 2025/26, while stronger growth in operating surplus and fiscal drag increases the tax to GDP ratio over the remainder of the forecast period.

In the current year, growth in tax revenue is forecast to be very modest. There are a number of offsetting factors at play that have influenced the current-year trend in tax revenue. Economic activity through 2024/25 is expected to deliver growth in most tax types, while stronger year-to-date outturns in other persons' tax is expected to persist through to the end of the year (owing to stronger-than-forecast terminal tax). However, these are largely offset by the impact of policy changes introduced at Budget 2024 (such as income tax threshold changes), a weaker outlook for businesses profits and the one-off uplift in the resident withholding tax on dividend income in 2023/24 not continuing into 2024/25.

…but then steadily grows over the rest of the forecast period

Growth in core Crown tax revenue picks up from 2025/26, largely reflective of the economic outlook. However, in the 2025/26 year, the growth in tax revenue has been somewhat subdued by the impact of tax policy changes.

Growth in source deductions revenue represents just under half of overall growth in core Crown tax revenue across the forecast period with total forecast growth of $12.8 billion (Table 2.6). Most of this growth, $12.3 billion, is forecast from 2025/26 onwards which is particularly driven by wage growth (and consequently fiscal drag), and a stronger contribution from higher employment levels in the latter part of the forecast period.

By 2028/29, GST tax revenue is forecast to increase by $6.4 billion. The growth in GST revenue from 2025/26 is $5.9 billion and is a function of higher private consumption and residential investment levels.

Corporate tax and net other persons tax are forecast to grow by $6.0 billion and $2.8 billion across the total forecast period, respectively. Most of this growth is from 2025/26 onwards, where corporate tax is forecast to grow by $6.5 billion and net other persons tax by $2.0 billion. Growth in both these taxes is driven by growth in taxable profits (operating surplus). Growth in the operating surplus has been weak in the 2023/24 and 2024/25 years and is forecast to recover from 2025/26 onwards as the economy is forecast to strengthen and firms' profitability increases. However, the growth in corporate tax has been partially softened by the tax deduction from Investment Boost.

Table 2.6 – Movements in core Crown tax revenue by major tax type

Year ending 30 June $billions	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**Total change**
Movement in core Crown tax revenue owing to:						
Source deductions	0.5	2.5	3.0	3.3	3.5	**12.8**
Goods and services tax (GST)	0.5	0.7	1.8	1.9	1.5	**6.4**
Corporate tax	(0.5)	0.5	2.9	1.3	1.8	**6.0**
Net other persons tax	0.8	0.5	0.2	0.7	0.6	**2.8**
Motor vehicle fees and road user charges	0.2	0.3	0.4	0.3	0.3	**1.5**
Customs and excise duties	-	-	0.1	0.3	0.1	**0.5**
Resident withholding tax (RWT) on interest	0.3	(0.6)	(0.4)	(0.5)	(0.2)	**(1.4)**
RWT on dividends	(1.5)	0.2	-	0.1	0.1	**(1.1)**
Other taxes	-	-	-	0.1	-	**0.1**
Total movement in core Crown tax revenue	**0.3**	**4.1**	**8.0**	**7.5**	**7.7**	**27.6**
Plus previous year	120.6	120.9	125.0	133.0	140.5	
Core Crown tax revenue	**120.9**	**125.0**	**133.0**	**140.5**	**148.2**	
As a % of GDP	27.8	27.4	27.8	28.0	28.3	

Source: The Treasury

Total Expenses

Total expenses are expected to increase across the forecast period…

Total expenses are forecast to increase from $180.1 billion in 2023/24 to $205.6 billion by the end of the forecast period, which represents an increase of 14.2%. In contrast, the increase over the previous five-year period up to 2023/24 was just under 30%. As a share of the economy, total expenses decline from 42.8% of GDP in 2023/24 to 39.2% of GDP by 2028/29.

On average over the forecast period, around 60% of Crown spending is in the functional areas of social security and welfare, health and education. These spending areas are influenced by demographic changes. An ageing population sees the cost of New Zealand Superannuation (NZS) payments increase year on year as recipient numbers rise and also puts pressure on the health system as there are more people who need care and more people facing more significant (and more complex) health issues later on in their life.

Crown entities are forecast to add $4.6 billion to the growth of expenses over the forecast period, with $2.9 billion relating to Health New Zealand costs (largely being funding by the Crown) and $1.7 billion of this related to insurance expenses incurred by ACC. The expected increase in insurance costs is due to a combination of factors, including higher expected claims volumes due to population growth and economic factors such as wage growth impacting compensation and health provider costs.

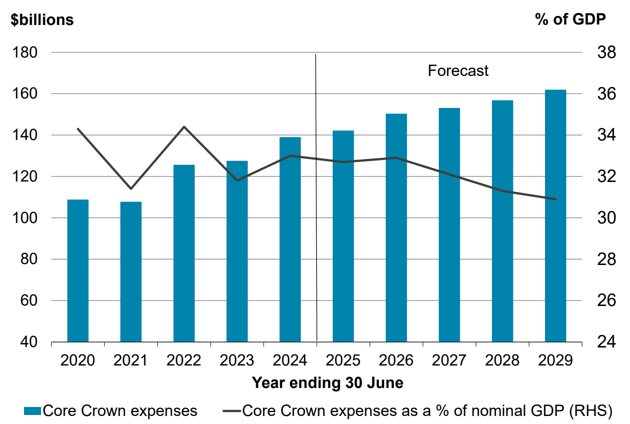
SOE expenses are forecast to increase by $2.8 billion over the forecast period, although this is more than offset by higher revenue on sales of goods and services.

…with core Crown expenses driving most of this trend…

Most of the nominal growth in total expenses is driven by core Crown expenses. Core Crown expenses are forecast to be broadly stable as a percentage of GDP in the near term before gradually declining to 30.9% by 2028/29.

Core Crown expenses are expected to increase in nominal terms across the forecast period by $23.0 billion (or 16.5%) from $139.0 billion in 2023/24 to $162.0 billion by 2028/29 (Figure 2.6). Year-on-year growth averages $4.6 billion but spikes in the 2025/26 year, with a forecast uplift of $8.1 billion from 2024/25.

Figure 2.6 – Core Crown expenses



Source: The Treasury

As a percentage of GDP, forecast core Crown expenses are relatively stable in the near term before starting to decline after 2025/26 (Figure 2.6). By the end of the forecast period, core Crown expenses are forecast to be 30.9% of GDP.

…and a spike in growth expected in 2025/26…

In the current year, there is an initial forecast uplift of $3.2 billion in core Crown expenses, from $139.0 billion in 2023/24 to $142.2 billion in 2024/25. This growth is largely driven by increases in benefit expenses and the impact from Budget 2024 decisions.

Between 2024/25 and 2025/26, core Crown expenses are forecast to increase by $8.1 billion, which represents growth of 5.7% from the previous year. The significant drivers are outlined in Table (2.7).

Table 2.7 – Increase in core Crown expenses between 2024/25 and 2025/26

Year ending 30 June $billions	
Core Crown expenses – 2024/25	**142.2**
Movement in core Crown expenses	
Budget 2025 spending decisions	2.2
City Rail Link divestment expenses	2.1
New Zealand Superannuation	1.5
Other benefit payments	0.9
Finance costs	0.7
Other	0.7
Total increase	**8.1**
Core Crown expenses – 2025/26	**150.3**

Source: The Treasury

- Spending decisions from Budget 2025 are expected to lift core Crown expenses by $2.2 billion (refer to page 39).
- Existing welfare policy settings around eligibility and indexation result in forecast benefit expenses increasing by $2.4 billion.
- One-off impairment expenses are expected to be recognised in 2025/26 in relation to the ownership intentions of assets (such as the City Rail Link divestment, refer to page 56). However, there is also an offsetting one-off impact on revenue of $1.4 billion.
- Core Crown finance costs are expected to increase by $0.7 billion to reach $9.5 billion in 2025/26. The increase is largely owing to increased levels of borrowing.

…but more moderate growth is expected from 2026/27 onwards

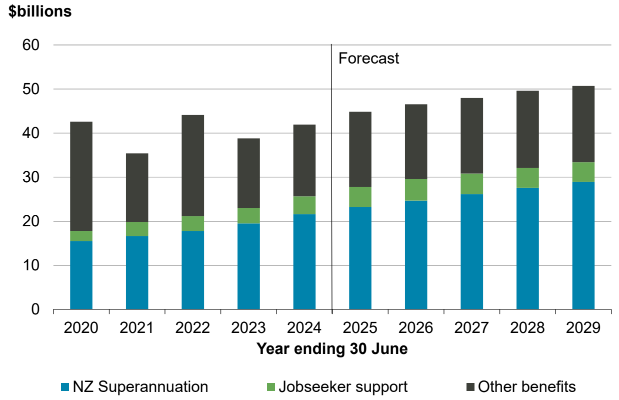
Beyond 2025/26, the nominal growth in core Crown expenses is expected to be significantly slower. Over the three-year period, core Crown expenses are forecast to increase by $11.6 billion, an average increase of $3.9 billion per annum. As a result, core Crown expenses as a percentage of GDP start to fall and drop to 30.9% by 2028/29.

A large part of the decline is owing to the Budget operating allowances set aside for future Budgets, which are smaller than in recent times. In nominal terms the increase in core Crown expenses largely reflects the impact from the indexation of most main benefit types, increase in NZS recipients, higher finance costs from increases in funding requirements and the funding set aside for future Budgets.

Increases in superannuation costs are a leading driver…

One of the largest increases in core Crown expenses across the entire forecast period relates to benefits expenses, which are forecast to increase from $41.9 billion in 2023/24 to $50.7 billion 2028/29 (Figure 2.7). NZS payments accounts for most (around $7.4 billion) of this uplift. The change in other benefit types totals around $1.4 billion over the forecast period and will mostly reflect the impact from the indexation of payment rates.

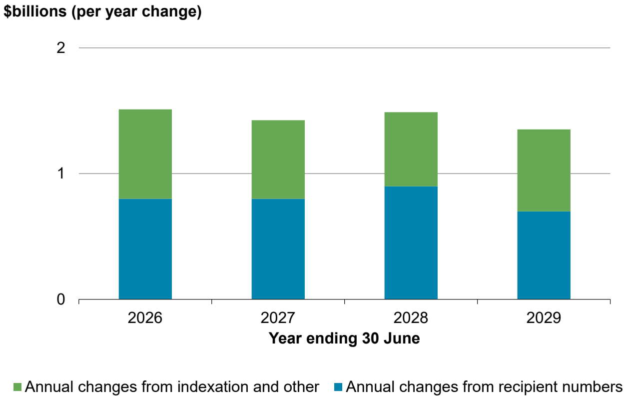
Figure 2.7 – Transfer payments by type



Source: The Treasury

From 2025/26, the average increase to NZS payments is $1.4 billion per annum, increasing from $24.7 billion in 2025/26 to $29.0 billion in 2028/29 (Figure 2.8). About half of the uplift each year is driven by an increase in the recipient numbers, which are forecast to increase by around 125,000 people across the forecast period (to reach over a million people in 2028/29).

Figure 2.8 – Breakdown of the annual increase in NZS payments



Source: The Treasury

As the over-65s become a larger share of the population, the cost of NZS payments will continue to lift core Crown expenses and is likely to create long-term fiscal pressures on other spending areas such as healthcare.

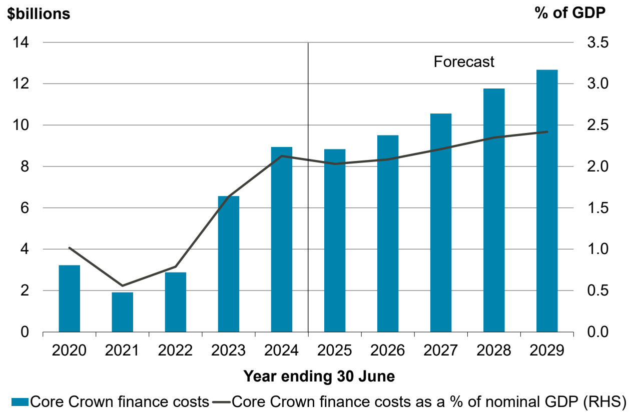
From 2025/26, there is a forecast reduction in KiwiSaver subsidies of just under 50%, from around $1.0 billion in 2024/25 to an average of $0.6 billion. This is as a result of the Budget 2025 KiwiSaver changes, which, in part, reduces the Government's annual KiwiSaver contribution.

…along with growth in finance costs…

Finance costs are forecast to increase by $3.7 billion (42%) between 2023/24 and 2028/29 (Figure 2.9) which is largely a result of the additional borrowings required over the forecast period to fund the forecast cash deficits.

Most of the increase ($3.2 billion) is from 2025/26 onwards, broadly following the forecast growth in net core Crown debt. By the end of the forecast period, core Crown finance costs total $12.7 billion and are the fourth-highest area of core Crown spending by functional classification after social, security and welfare, health and education.

Figure 2.9 – Core Crown finance costs

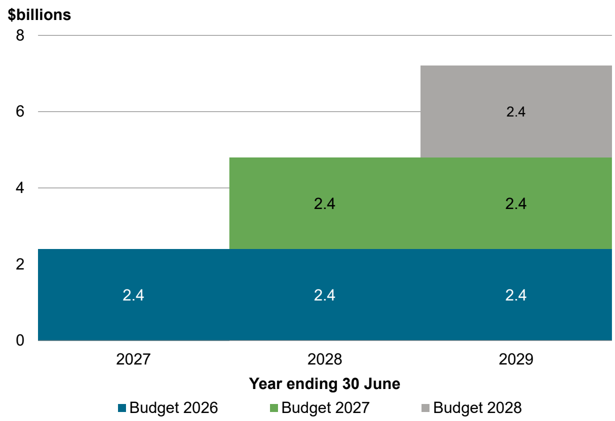


Source: The Treasury

…and funding set aside in future Budget allowances

The Government has announced Budget operating allowances of $2.4 billion per annum for Budget 2026 through to Budget 2028. These allowances for new spending in future Budgets account for $7.2 billion of the growth in expenditure from the 2025/26 year through to the end of the forecast period (Figure 2.10). Over half of the Budget 2026 operating allowance has already been pre-committed to meet health sector and defence spending (Table 2.8).

Figure 2.10 – Operating allowances



Source: The Treasury

For forecasting purposes, Budget allowances are assumed to all be operating expenditure. However, these allowances can be used for a combination of revenue and expenditure initiatives when allocated, which has been the case for decisions made as part of Budget 2025 (refer to the box on pages 37 to 39). The fiscal forecasts also assume that any future costs in relation to new policies or maintaining existing services such as those outlined in the Specific Fiscal Risks chapter (pages 69 to 109) will be met from the Budget operating allowances or future savings.

More details on the functional classification of core Crown expenses can be found in the core Crown expense tables on pages 149 to 153.

Future Budget allowances

Budget allowances reflect how much funding the Government has set aside to generally allocate at future Budgets. The Budget allowances are one of the key levers for the Government to achieve its fiscal strategy.

The fiscal forecasts presented in the *Budget Update 2025* include the Budget operating and capital allowances announced by the Government in the *2025 Fiscal Strategy Report.* For Budget 2026 through to Budget 2028, the operating allowances are set at $2.4 billion per Budget, while the capital allowances are $3.5 billion per Budget. Treasury's fiscal forecasts assume that the Government can meet any additional costs in relation to future Government commitments from Budget allowances.

The Government has already spent a portion of the funding set aside for future Budgets…

The Government has already allocated some of the Budget 2026 operating and capital allowances. The Government has $0.9 billion average per annum remaining to fund all new operating decisions and $1.9 billion available to fund all new capital decisions at Budget 2026 (Table 2.8).

Table 2.8 – Budget 2026 allowances

Year ending 30 June $millions	Operating allowance	Capital allowance
Budget 2026 allowance	**2,400**	**3,500**
Pre-commitments:		
Health	1,370	-
Defence[1]	102	1,602
Remaining unallocated Budget 2026 allowance	**928**	**1,898**

1 A portion of the defence pre-commitments fall outside of the forecast period (beyond 2028/29). This means that the total remaining unallocated Budget 2026 allowances will not reconcile to those recorded in Note 6 of the Forecast Financial Statements.

Source: The Treasury

…and several factors are likely to increase cost to the Crown, therefore putting pressures on allowances …

Similar to households, the Government faces the pressure of price increases that could lead to an increase in expenses in the future to maintain existing services. Historically, a significant portion of Budget packages has been used to fund such pressures, and we expect this trend to continue.

In addition, some services provided by the Government will be subject to future demographic changes, which could result in increased spending. For example, an ageing population is likely to increase health expenses and higher migration could lead to an increase in education spending.

The Government has also signalled some investment intentions such as the Defence Capability Plan (DCP), Health Infrastructure Plan and Roads of Regional Significance, which are yet to be fully funded. For example, the DCP signalled investments of $12.0 billion would be required to fund all investments, with $9.0 billion of new funding required. Budget 2025 roughly allocated $3.0 billion, so indicatively a further $6.0 billion would be needed to fully deliver on the investments in the DCP, which would normally be managed against Budget allowances.

At this stage, the fiscal forecasts do not capture the full costs of the DCP as future investments are still subject to final approval by the Government.

… however, the Government has options to manage future pressures

Budget allowances are considered as a net concept. This means that the gross spending can exceed the signalled allowances if offset by reductions in expenditure or by raising revenue. For example, the gross cost of the Budget 2025 package was an average of $6.7 billion per annum. However, this was offset by average savings and revenue raising items of $5.4 billion per annum. Given the potential pressures on the Budget 2026 allowances, there is likely to be an ongoing need for expenditure (both operating and capital) savings, reprioritisation or revenue raising policy changes.

Crown Funding, Financing and Debt Position

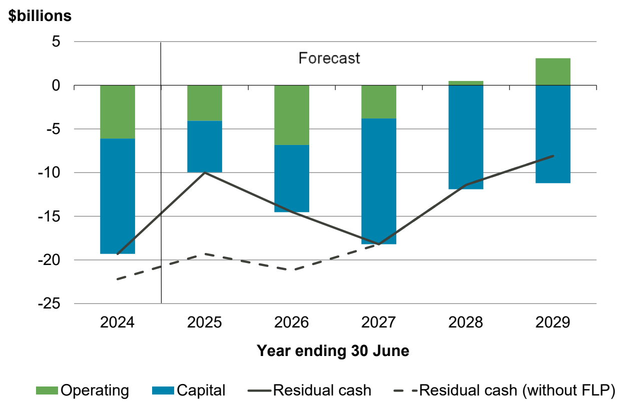
This section looks at the funding required by the Crown to deliver on its fiscal policy decisions and how these will be funded and flow through to the Government's debt position. Core Crown cash flows information provides useful insights into the funding requirements of the Crown. Residual cash represents the operating and capital cash flows of the Crown and shows whether there is a cash shortfall that needs to be funded or cash surplus that can be used to invest or reduce debt.

Residual Cash

Residual cash deficits are expected to narrow over the forecast period...

Core Crown residual cash is expected to improve but remain in deficit for the forecast period (Figure 2.11). The deficits are largely owing to capital investments.

Figure 2.11 – Core Crown residual cash



Source: The Treasury

The total accumulated cash deficit across the forecast period is $62.3 billion. This reflects an accumulated shortfall in net core Crown operating cash flows totalling $11.1 billion, while net capital spending totals $51.2 billion. Net core Crown operating cash flows improve across the period and it is expected that, by 2027/28, core Crown operating cash inflows will be sufficient to cover core Crown operating cash outflows. Therefore, the majority of the accumulated residual cash deficits reflects spending on capital investments. The cash shortfall is largely being funded through additional borrowings and using financial assets.

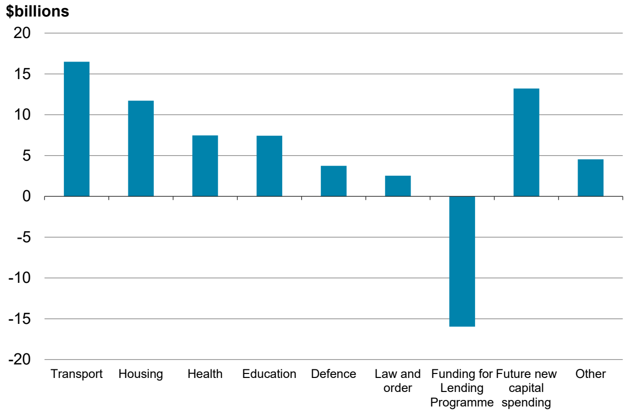
The residual cash deficit is expected to narrow in the near term, reducing to a forecast $9.9 billion deficit in 2024/25 compared to a deficit of $19.3 billion in 2023/24. A large part of this improvement is primarily owing to the repayments from the Funding for Lending Programme (FLP) and the timing of tax receipts partly due to when the Matariki holiday fell in 2024. With all the FLP repayments received by the 2025/26 year, the residual cash deficit widens to $18.2 billion in 2026/27. Looking through the FLP repayments, there would be a residual cash deficit of $19.3 billion in 2024/25, which is similar to the prior year, widening to $21.2 billion in 2025/26 and beginning to improve thereafter, following the same trend as seen in the OBEGALx forecast.

…with most of the total cash deficit attributable to the Government's forecast capital investment

Accumulated core Crown net capital spending is forecast to total $51.2 billion by 2028/29, spread across a number of sectors (Figure 2.12). This includes net capital spending of $25.7 billion on investments mainly into Crown entities as well as $17.4 billion on investments in physical assets. The remaining net capital spending comprises the forecast for future new capital spending, including capital allowances and tagged contingencies.

A breakdown of net capital expenditure that has an impact on core Crown residual cash can be found on page 145 of the Forecast Financial Statements chapter.

Figure 2.12 – Breakdown of total core Crown net capital spending



Source: The Treasury

Financing

The cash shortfall will primarily be met by the Government's bond programme…

The Government borrowing programme includes the issuance of NZGB and short-term borrowings (Treasury Bills and Euro-Commercial Paper). Overall, the programme will provide net funds of $65.2 billion (Table 2.9) to help cover the residual cash shortfall and maintain the liquidity buffer. The liquidity buffer ensures the Government is well placed to manage funding and liquidity risks.

Annual net government bond issuance is broadly consistent with the profile of core Crown residual cash requirements, with higher net issuance in the early part of the forecast period. Strong demand for NZGBs in the 2024/25 fiscal year to date has also enabled some pre-funding of the residual cash shortfall in the 2025/26 fiscal year. Annual net issuance of government bonds is forecast to be on a declining trend from the year ending June 2025. However, over the forecast period an additional $7.0 billion of NZGBs are expected to be issued compared to forecasts at the *Half Year Update 2024*.

The Reserve Bank of New Zealand (Reserve Bank) began unwinding its Large Scale Asset Purchase (LSAP) bond portfolio in July 2022 through bond maturities and managed sales. NZGBs are being sold back to New Zealand Debt Management at a rate of $5.0 billion per year until LSAP bond holdings have reduced to zero (expected to be mid-2027). Consequently, gross NZGB repurchases, and issuance are $5 billion higher per year in the first three fiscal years of the forecast period than they would otherwise have been.

Table 2.9 – Net issuance of market government bonds and short-term borrowing[1]

Year ending 30 June $billions	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**Total**
Face value of market government bonds issued	43.0	38.0	36.0	30.0	28.0	**175.0**
Debt programme cash flows						
Cash proceeds from issue of market government bonds	41.6	35.6	33.6	28.4	26.8	**166.0**
Repayment of market government bonds	(20.2)	(18.1)	(22.5)	(15.4)	(17.8)	**(94.0)**
Net issue/(repayment) of short-term borrowings	(4.8)	3.0	-	(3.0)	(2.0)	**(6.8)**
Net debt programme cash flows	**16.6**	**20.5**	**11.1**	**10.0**	**7.0**	**65.2**

1 This table only reflects the transactions forecast by New Zealand Debt Management. It is not consolidated with other entities within the Crown.

More information on the bond programme can be found at https://debtmanagement.treasury.govt.nz/investor-resources/media-statements

Source: The Treasury

Debt

Most of the accumulated residual cash deficit flows through to the debt indicators…

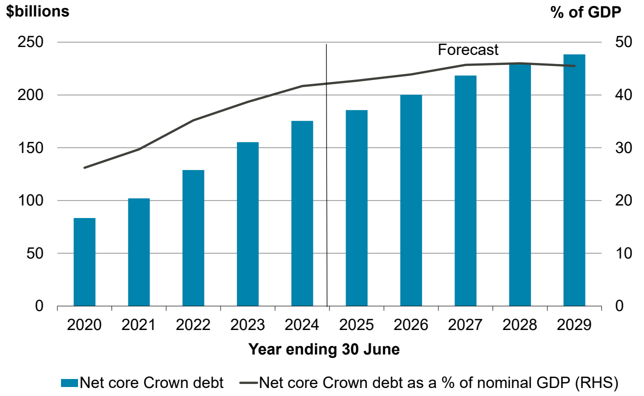
The residual cash deficit flows through to the net core Crown debt indicator, and as it is predominantly funded by borrowings, it will also flow through to the gross debt indicator. Overall, gross debt is expected to increase from $176.0 billion in 2023/24 to $283.0 billion by 2028/29. In addition to the change in the bond programme, the managing down from the Reserves Bank's LSAP programme contributes most of the remaining increase in gross debt.

…with net core Crown debt increasing across the forecast period but starts to fall as a percentage of GDP by 2028/29

In nominal terms, net core Crown debt is expected to grow across the forecast period (Figure 2.13) from $175.5 billion in 2023/24 to reach $238.5 billion by 2028/29. Net core Crown debt is forecast to rise gradually and peak at 46.0% of GDP in 2027/28 before declining to 45.5% of GDP by the end of the forecast period.

The forecast increase in net core Crown debt is around $63.1 billion, with higher nominal average increases per annum expected in the near term and smaller increases in the out years following the trend in the residual cash deficit.

Figure 2.13 – Net core Crown debt



Source: The Treasury

Fiscal Resilience

Fiscal resilience is the ability of the Government's public finances to absorb a shock and to adapt settings for welfare, health, pension and other policies to maintain and improve wellbeing following a shock. It refers to both the Government's capacity to withstand or survive a shock such as a war, pandemic, global credit crunch or natural disaster and also whether it can thrive in the aftermath. There are a number of fiscal indicators that help determine whether the Government's fiscal position is resilient, which are discussed in more detail in this section.

Net Worth

Net worth is the difference between total Crown assets (what the Government owns) and total Crown liabilities (what the Government owes). This difference primarily consists of the accumulation of operating surpluses and deficits (referred to as taxpayers' funds) and uplifts in the value of physical assets from revaluations (referred to as property, plant and equipment (PPE) revaluation reserve).

In nominal terms, net worth is expected to decline over the initial years of the forecast period from $191.0 billion in 2023/24 to $167.8 billion in 2026/27 before slightly increasing to $171.9 billion in 2028/29. As a share of GDP, net worth falls from 46.2% of GDP in 2023/24 to 32.8% in 2028/29. This fall as a proportion of GDP largely happens due to the accumulated net operating balance deficits expected over the forecast period, which flows to reduce the value of net worth by around $17.0 billion by 2028/29.

A breakdown of net worth is provided in Table 2.10.

Table 2.10 – Breakdown of net worth

Year ending 30 June $billions	**2024 Actual**	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**
Taxpayers' funds	0.3	(5.2)	(15.1)	(20.8)	(20.8)	(16.8)
PPE revaluation reserve[3]	181.2	181.2	181.2	181.2	181.2	181.2
Other reserves	0.3	(2.3)	(2.2)	(2.1)	(2.2)	(2.0)
Total net worth attributable to the Crown	**181.8**	**173.7**	**163.9**	**158.3**	**158.2**	**162.4**
Net worth attributable to minority interest	9.2	9.4	9.3	9.5	9.6	9.5
Total net worth	**191.0**	**183.1**	**173.2**	**167.8**	**167.8**	**171.9**
As a % of GDP	45.4	42.1	37.9	35.1	33.5	32.8

Source: The Treasury

3 The forecasts only include revaluations of property, plant and equipment that have already been completed. Most revaluation are done at 30 June, so the forecasts only reflect minimal movements in the property, plant and equipment revaluation reserve. Historical revaluations have resulted in an increase in net worth.

Total Crown Balance Sheet

Assets and liabilities are both forecast to increase over the forecast period although liabilities increase at a higher rate…

Total assets are forecast to increase by $105.4 billion over the forecast period, reaching $676.2 billion in 2028/29. Total liabilities are forecast to increase by $124.5 billion, rising to $504.3 billion by the last year of the forecast period (Table 2.11).

Table 2.11 – Composition of the total Crown balance sheet

Year ending 30 June $billions	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
PPE	283.8	292.2	302.8	308.7	313.2	316.2
Financial assets	257.1	278.3	287.0	296.0	307.0	319.2
Other assets	29.9	30.0	29.7	33.1	36.8	40.8
Total assets	**570.8**	**600.5**	**619.5**	**637.8**	**657.0**	**676.2**
Borrowings	250.9	277.6	305.1	325.9	342.6	354.2
Insurance liabilities	66.6	69.9	73.0	76.3	80.0	83.8
Other liabilities	62.3	69.9	68.2	67.8	66.6	66.3
Total liabilities	**379.8**	**417.4**	**446.3**	**470.0**	**489.2**	**504.3**
Total net worth	**191.0**	**183.1**	**173.2**	**167.8**	**167.8**	**171.9**

Source: The Treasury

…with financial assets driving most of the increase in assets…

Financial assets are forecast to increase by $62.1 billion by 2028/29. The following areas contribute to most of this growth:

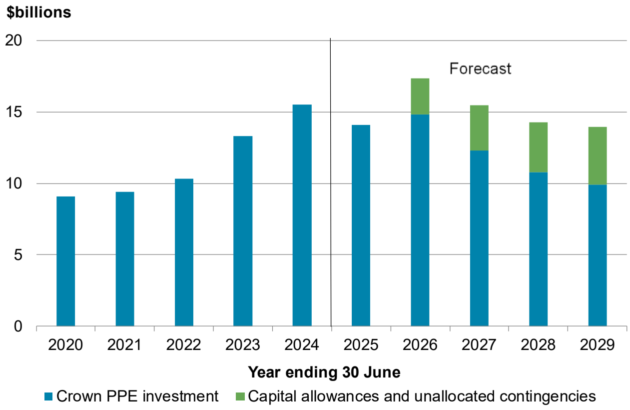
- The investment portfolios of the NZS Fund and ACC contribute $39.6 billion to the overall growth in financial assets, which largely reflects growth from expected investment returns.
- Kiwi Group loans and advances are forecast to increase by $17.6 billion primarily because of expected growth in mortgage lending, which, combined with its decrease in marketable securities, results in a corresponding impact on borrowings, as discussed on page 54.
- The Reserve Bank's FLP advances are forecast to decline, with the outstanding balance at 2023/24 of $16.5 billion expected to be fully repaid by 2025/26.
- A large portion of the remaining forecast increase in financial assets relates to the movements in marketable securities owing to the management of financing requirements and the Reserve Bank's managing down of its portfolio of bonds purchased under its LSAP programme.

…along with growth in property, plant and equipment…

PPE assets are expected to increase by $32.4 billion by 2028/29. This rise is largely due to additions of $79.6 billion, which are partly offset by depreciation expenses over the forecast period that total $43.5 billion.

A significant portion of the additions in PPE over the forecast period are expected to be directly (through capital injections) or indirectly (through operating funding and lending) funded by the Crown. Figure 2.14 shows net purchases of physical assets by the Crown (including investments by Crown entities and KiwiRail) to illustrate PPE investments funded by the Crown. Over the forecast period, investments total $61.8 billion. Most of the investment is at the front end of the forecast. Although investments are shown to taper off, it is likely the actual investments will end up being higher once funding is allocated to new investments from the future Budget capital allowances, as illustrated in Figure 2.14.

Figure 2.14 – Crown PPE investments



Source: The Treasury

Most of the forecast capital spending is in the transport sector ($21.8 billion), which includes spending on roads and rail. There is also around $10.9 billion, $9.4 billion and $8.2 billion forecast to be spent in the health, education and housing sectors, respectively.

In net terms, the largest growth in PPE by asset class is attributable to buildings, which are forecast to increase by $12.1 billion over the forecast period, mainly driven by growth in assets held by the education, health and housing sectors. The state highways asset category is forecast to increase by $11.1 billion by 2028/29, and electricity-related assets increase by $5.5 billion over the same period.

…while funding set aside for future capital investments contributes to the remainder of the increase in assets

In addition to the above, the forecast for new capital spending is expected to increase assets by $13.2 billion by 2028/29. This comprises funding set aside to allocate in future Budgets and funding agreed in previous Budgets for specific projects that has not yet been appropriated into an entity’s baseline because further work is required prior to this occurring. These unallocated capital contingencies include things like the Budget 2026 pre-commitment set aside in a tagged contingency for defence spending (refer to page 46 for further details).

Total borrowings are expected to increase largely to fund Government activity…

Total borrowings are forecast to increase by $103.3 billion from $250.9 billion in 2023/24 to reach $354.2 billion by 2028/29. Government bonds are expected to increase by $101.6 billion by the end of the forecast period. Government bond issuances are largely reflective of the borrowing required to meet any additional cash requirements to fund operating and capital expenditure of the Government that cannot be covered by revenue (such as tax revenue). The level of government bonds is also impacted by the winding down of the Reserve Bank's LSAP programme, which results in a switch in liabilities from settlement deposits to government bonds (refer to page 49).

Kiwi Group borrowings (such as deposits and debt securities) are forecast to increase by $12.3 billion, which is more than offset by the forecast increase in Kiwi Group advances and marketable securities (as discussed on page 52).

…while the Government's insurance liabilities also increase

Insurance liabilities are forecast to increase by $17.3 billion to reach $83.8 billion by 2028/29. The ACC insurance liability makes up most of this balance and is forecast to grow by $17.9 billion over the forecast period. The increase in the ACC insurance liability is slightly offset by the forecast decrease to the Natural Hazards Commission insurance liability.

The ACC insurance liability is an estimate of the present-day value of the amount ACC would need to pay out to meet future compensation and rehabilitation costs of injuries that have already occurred or that are expected to occur over the forecast period. The ACC insurance liability is expected to grow by an average of $3.6 billion per year over the forecast period, with the increases largely reflecting growth in claims volumes, increases in rehabilitation costs and economic factors.

Capital matters of interest

The purpose of this box is to explain some topical capital related matters.

New Zealand Superannuation Fund capital contributions

The NZS Fund was established with the primary purpose to help meet the future cost of NZS. The NZS Fund's assets provide the means for the Government to partially pre-fund future fiscal pressures, particularly those arising from an ageing population. The *Budget Update* includes the Crown's gross capital contributions to, and withdrawals from, the NZS Fund over the forecast period, as determined by the New Zealand Superannuation and Retirement Income Act 2001 (NZSRI Act).

The Government's capital contributions to the NZS Fund beyond the current year have reduced compared to the *Half Year Update 2024*, with the forecasts now showing the NZS Fund will return $32 million back to the Crown in 2027/28. Factors that impact forecast capital contributions and withdrawals include changes in forecast nominal GDP and aggregate net (of tax) NZS expenditure. As the size of the fund gets bigger, movements in both the NZS expenditure and GDP forecasts can result in a forecast withdrawal in a single year – as is currently expected in 2027/28 – before returning to a forecast contribution in the following year. However, withdrawals are projected to begin on a consistent basis from 2030/31 onwards.

No contribution will be provided to the NZS Fund in the 2025/26 year, as the contribution per the formula set out in section 43 of NZSRI Act of $61 million has been redirected to fund investments into the Elevate NZ Venture Fund, which is designed to support and drive investment in the New Zealand venture capital market.

Public-Private Partnership arrangements

The Government has signalled an intention to use Public-Private Partnerships (PPPs) to better manage the balance sheet. PPPs are arrangements where the private sector is involved in the financing, design, implementation and often operation of infrastructure projects or services traditionally provided by the public sector. Compared to a traditional design-build approach, PPPs can spread cash payment over time instead of requiring large upfront public investment and can leverage private sector expertise.

The assets in a PPP are recognised as assets of the Government. As the assets are progressively constructed, the Government recognises work-in-progress at cost. Simultaneously, a financial liability of the same value is also recognised. When the assets are fully constructed, the total asset costs are depreciated over its useful life and the matching financial liability that reflects the value of the future compensation to be provided to the private-sector partner for the assets is reduced overtime as repayments are made.

In the short term, a PPP procurement approach would have a more beneficial impact on the OBEGALx fiscal indicator. However, this would only be temporary. For departments, both procurement approaches would impact on net core Crown debt. However, for Crown entities, a design-build procurement (assuming the Crown provides funding) would impact on net core Crown debt, while a PPP arrangement would not impact on net core Crown debt. PPP arrangements by Crown entities will be captured in net debt.

City Rail Link Limited

City Rail Link Limited (CRLL) is a joint venture that the Government jointly controls with its joint venture partner Auckland Council, set up to design and construct the Auckland City Rail Link (an underground rail line between the city centre and the existing western line).

Both the Crown and Auckland Council have treated the investment for the City Rail Link project as a net asset on the balance sheet and a divestment in the CRLL asset investment is forecast for 2025/26. The divestment is assumed to have the following fiscal impacts, which are included in the *Budget Update*:

- $1.4 billion in revenue reflecting the value of the assets in CRLL vested to the Crown
- a loss of $1.4 billion from the operations of CRLL reflecting the vesting of assets to the Crown
- an impairment expense of $0.7 billion, reflecting the value of the assets vested back to the Crown which are assumed to be lower than the Crown's investment contribution to CRLL, and
- an increase in the equity investment in the SOE segment as the intention is for the Crown to transfer the vested assets to KiwiRail.

The transfer has been fully reflected in OBEGALx to ensure that the disinvestment, which has arisen as a result of a Government policy choice, is reflected within the Government's key operating indicator. The divestment has had an overall adverse impact to OBEGALx of $0.7 billion in 2025/26, reflecting the one-off impairment expense.

The accounting treatment of the divestment is still being worked through by agencies, so there is a risk that our assumption may differ to the final treatment, as highlighted in the Specific Fiscal Risks chapter.

Ferries

On 31 March 2025, the Government announced its plan for two new ferries to enter service in 2029. Funding for the new ferries and port infrastructure has been set aside in a tagged contingency, which has been reflected in the fiscal forecasts phased across the life of the project. This funding has been set aside in a tagged contingency as there are further steps to be completed prior to the funding being allocated to baselines, including negotiating the ferry procurement and port infrastructure contracts. Given the commercial sensitivity around the contracts, the funding available has not been individually disclosed in the forecasts. Ferry Holdings Limited is the entity that will be responsible for delivering the new ferries.

Comparison to the *Half Year Update*

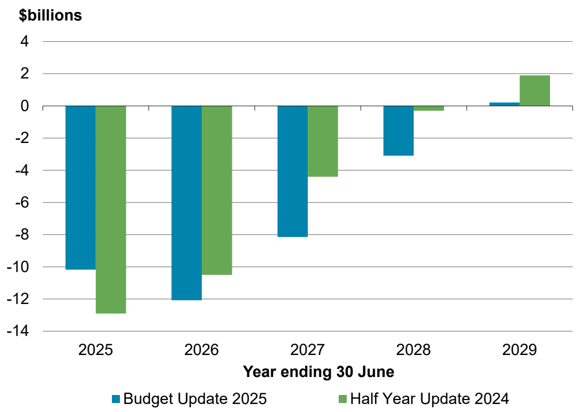
The fiscal outlook is weaker compared to the* Half Year Update*…

The fiscal outlook for most of the Government's headline indicators are expected to be weaker compared to the *Half Year Update 2024*. This reflects both changes to economic conditions since the *Half Year Update 2024* that had an adverse impact and policy decisions taken as part of Budget 2025 that had a positive impact as the Budget 2025 operating package came in smaller than assumed at the *Half Year Update 2024*.

Overall, OBEGALx is expected to be weaker compared to the *Half Year Update 2024* in most years of the forecast period (Figure 2.15).

The exception to this trend is in the current year where the forecast deficit is around $2.7 billion smaller than previously expected. This largely reflects lower future costs to the Crown from pay equity settlements. The lower spending in the current year is one-off in nature, so it has minimal impacts in the other years of the forecast period. In addition, core Crown tax revenue has been marginally revised up in the current year relative to the *Half Year Update 2024*.

Figure 2.15 – OBEGALx compared to the *Half Year Update*



Source: The Treasury

From 2025/26, OBEGALx is forecast to be around $2.5 billion weaker on average per annum and is expected to show a small surplus in the 2028/29 year. The downward revision is largely driven by changes in economic factors (mainly impacting tax revenue, debt impairment and benefit payments). This has been marginally offset by the smaller Budget 2025 operating package than was assumed at the *Half Year Update 2024*, coming in at $1.3 billion on average per annum compared to the $2.4 billion allowance signalled in the *2025 BPS*.

Table 2.12 – Movements in OBEGALx since the *Half Year Update*

Year ending 30 June $billions	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**Total change**
OBEGALx – 2024 *Half Year Update*	**(12.9)**	**(10.5)**	**(4.4)**	**(0.3)**	**1.9**	
Tax revenue (excl. Budget 2025 decisions)	0.5	(1.7)	(2.5)	(2.4)	(2.3)	**(8.4)**
Debt impairments	(0.3)	(0.5)	(0.5)	(0.3)	(0.3)	**(1.9)**
Benefit expenses (excl. Budget 2025 decisions)	0.1	(0.3)	(0.5)	(0.5)	(0.5)	**(1.7)**
Net finance costs	(0.1)	0.1	-	(0.1)	(0.3)	**(0.4)**
Expense phasing changes	0.5	(0.1)	(0.4)	-	-	**-**
Changes to pay equity contingencies	1.8	-	-	-	-	**1.8**
Budget 2025 package impact	(0.1)	0.8	0.4	0.9	1.7	**3.7**
Other	0.3	0.1	(0.2)	(0.4)	-	**(0.2)**
Total change	**2.7**	**(1.6)**	**(3.7)**	**(2.8)**	**(1.7)**	**(7.1)**
OBEGALx – 2025 *Budget Update*	**(10.2)**	**(12.1)**	**(8.1)**	**(3.1)**	**0.2**	

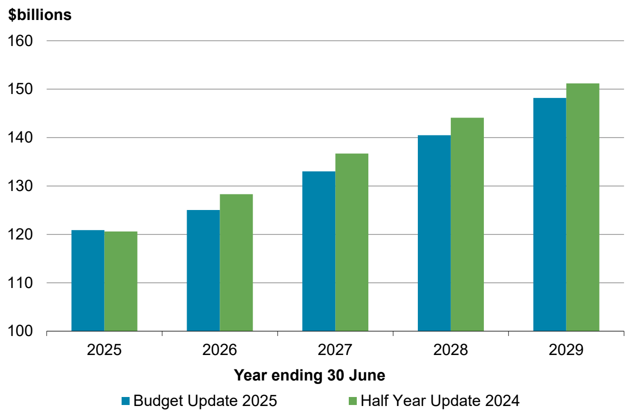
Source: The Treasury

…with economic conditions and tax policy changes reducing the forecast for tax revenue…

While core Crown tax revenue continues to grow over the forecast period, changes to the macroeconomic forecast and tax policy changes mean that core Crown tax revenue has been revised down since the *Half Year Update 2024* (Figure 2.16).

Overall core Crown tax revenue is expected to be $13.3 billion lower than at the *Half Year Update 2024* over the forecast period (Table 2.13). Around $4.8 billion of the change forms part of the Budget 2025 operating package, therefore $8.4 billion is owing to other factors. The biggest drivers of the other change include the following:

Figure 2.16 – Core Crown tax revenue compared to the *Half Year Update*



Source: The Treasury

- A revised macroeconomic outlook has reduced core Crown tax revenue forecast by $9.8 billion. This is predominantly owing to a weaker forecast for operating surplus ($10.2 billion), partly offset by stronger employee compensation and other macroeconomic factors.
- Overall policy changes have reduced tax revenue forecast by $6.4 billion over the forecast period, with tax effects of material initiatives outlined further in Table 2.14. However, after considering the portion of changes reflected in the Budget 2025 operating package the impact that flows through to OBEGALx is only $1.6 billion.
- This is offset by stronger fiscal drag owing to wage growth ($0.5 billion), less negative tax loss offsets ($1.2 billion), tax credits ($0.6 billion) and adjustments made to the forecast to the align with recent data ($2.9 billion).

Table 2.13 – Movements in core Crown tax revenue by major tax type

Year ending 30 June **$billions**	**2025** **Forecast**	**2026** **Forecast**	**2027** **Forecast**	**2028** **Forecast**	**2029** **Forecast**	**Total** **change**
Core Crown tax revenue – **2024 *Half Year Update***	**120.6**	**128.3**	**136.7**	**144.1**	**151.2**	
Movement in core Crown tax owing to						
Corporate tax	(0.7)	(3.2)	(3.4)	(3.7)	(3.3)	**(14.3)**
Net other persons tax	0.4	(0.4)	(0.4)	(0.4)	(0.4)	**(1.2)**
Source deductions	(0.5)	0.2	0.3	0.4	0.6	**1.0**
Goods and services tax (GST)	1.0	(0.1)	(0.1)	0.2	0.2	**1.2**
Resident withholding tax (RWT) on interest	0.0	0.1	0.1	0.0	0.0	**0.2**
All other taxes	0.1	0.1	(0.2)	(0.1)	(0.1)	**(0.2)**
Total change	**0.3**	**(3.3)**	**(3.7)**	**(3.6)**	**(3.0)**	**(13.3)**
Core Crown tax revenue – **2025 *Budget Update***	**120.9**	**125.0**	**133.0**	**140.5**	**148.2**	

Source: The Treasury

Tax policy changes

This section details the material changes to forecast tax revenue since the 2024 *Budget Update* as a result of tax revenue initiatives. Table 2.14 shows a breakdown of the changes.

Table 2.14 – Estimated tax effects of material tax policy changes announced since the *2024 Budget Update*

Year ending 30 June $millions	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**Total**
Investment Boost	(208)	(1,830)	(1,611)	(1,714)	(1,278)	**(6,641)**
Digital services tax removal	-	-	(194)	(139)	(146)	**(479)**
Compliance activities	-	106	212	212	212	**742**
Other	(1)	-	(2)	(2)	(2)	**(7)**
Total tax policy changes	**(209)**	**(1,724)**	**(1,595)**	**(1,643)**	**(1,214)**	**(6,385)**
Heated tobacco products	(11)	(44)	(74)	(82)	(82)	**(293)**
Total tax policy changes since the *2024 Budget Update*	**(220)**	**(1,768)**	**(1,669)**	**(1,725)**	**(1,296)**	**(6,678)**

Source: The Treasury

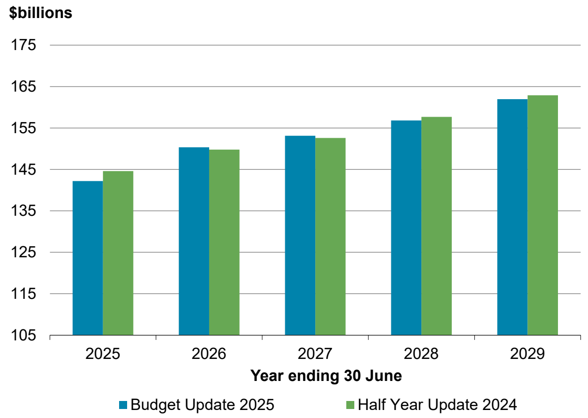
Details on the above-mentioned policy changes are outlined in the *Budget Update 2025 – (Additional Information).*

The forecast includes the effect of the change in the way Inland Revenue phases the impact on tax revenue from tax policy changes. In the past, generally the impact on revenue from tax policy changes would be forecast across fiscal years based on when the filing of tax returns was expected rather than earlier based on the taxable event. This would mean that, in the year that tax policy changes were introduced, there would in general, be no impact on income tax revenue forecast. The new approach forecasts annual tax revenue from tax policy changes to better align with the timing of the taxable event and with the way tax revenue is expected to be reported in the annual Financial Statements of the Government going forward.

…and economic conditions have increased some core Crown expenses…

Core Crown expenses are on average $0.6 billion per annum lower than forecast at the *Half Year Update 2024* (Figure 2.17). While economic conditions have increased some expense types such as benefit expenses and debt impairments, these have been more than offset by the impact of the final Budget 2025 operating package.

Figure 2.17 – Core Crown expenses compared to the *Half Year Update*



Source: The Treasury

… but this is offset by a lower Budget 2025 operating package.

Compared to the *Half Year Update 2024,* the Budget 2025 operating package has resulted in core Crown expenses being lower by an average of $2.0 billion per annum. This reflects that the Budget 2025 operating package included a significant level of savings. For further details on the fiscal impacts of the Budget 2025 package, refer to the box on page 37.

Residual cash deficits are higher than at the Half Year Update…

Overall, accumulated residual cash deficits are $5.3 billion higher compared to the *Half Year Update 2024*. Like the OBEGALx trend, relative to the previous update there is a forecast improvement in the current year of $6.6 billion, with larger deficits forecast in the outyears (an average of $3.0 billion larger per annum compared to the *Half Year Update 2024*). This is because most of the factors driving the change in OBEGALx (apart from the non-cash items such as impairments) flow through to larger residual cash deficits.

Most of the deterioration comes from net core Crown operating cash outflows, which are forecast to be $6.3 billion larger than the *Half Year Update 2024*. This broadly reflects the changes in core Crown tax revenue and core Crown expenses.

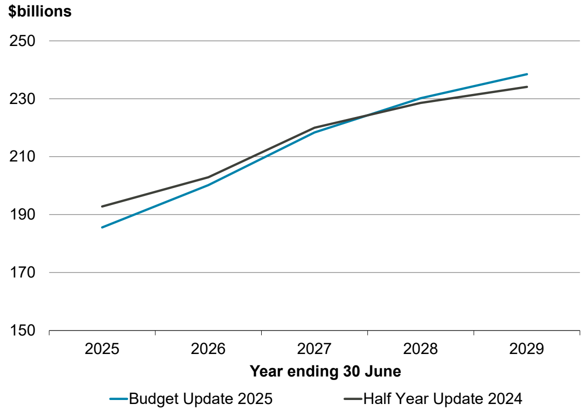
The larger forecast operating cash deficits are somewhat offset by smaller net core Crown capital cash requirements, which are forecast to be $1.0 billion lower over the forecast period than at the *Half Year Update 2024*. This largely reflects the Government's decision to set smaller future capital allowances and the downward revisions expected in net contributions to the NZS Fund.

…resulting in a higher net core Crown debt track across the forecast period

As a percentage of GDP, net core Crown debt is expected to peak a year later than previously forecast at 46.0% in 2027/28 (compared to 46.5% in 2026/27) and is forecast to be slightly higher at 45.5% by the end of the forecast period (previously forecast to be 45.2% in 2028/29).

By the end of the forecast period, net core Crown debt is expected to be around $4.4 billion higher than previously forecast with the increase largely reflecting the higher accumulated residual cash deficit (Figure 2.18). The cash shortfall is largely funded by the Government's bond programme, which is expected to increase by $7.0 billion over the forecast period compared to the *Half Year Update 2024.*

Figure 2.18 – Net core Crown debt compared to the *Half Year Update*



Source: The Treasury

Risks to the Fiscal Forecasts

The Treasury's fiscal forecasts are based on a number of assumptions and judgements using the best information available and our best professional judgement. As with any kind of forecast, there are risks that actual events will differ positively or negatively from expectations. This uncertainty increases as the forecast horizon extends. This section outlines the key risks to the fiscal forecasts.

The forecast show the Government's fiscal outlook is expected to improve …

While the latest fiscal forecasts show a deterioration compared to the *Half Year Update 2024*, they also show the fiscal outlook is expected to recover. The OBEGALx deficit gradually improves across the forecast period with a return to surplus expected in 2028/29, and net core Crown debt starts to fall as a portion of GDP by the end of the forecast period. Core Crown expenses are also forecast to be broadly stable as a percentage of GDP in the near term, before gradually declining to 30.9% by 2028/29.

The fiscal forecasts were finalised on 30 April 2025 based on the accounting policies, judgements and assumptions outlined on pages 112 to 114. The judgements and assumptions applied are based on the best information available at the time of preparing the fiscal forecasts. There are several events that pose a risk to the fiscal forecasts that could have favourable or unfavourable implications for the Government's short-term intentions.

…but changes in the economy could impact the fiscal outlook positively or negatively…

The fiscal forecasts are prepared based on underlying economic forecasts. These are critical in determining significant revenue and expense estimates. The most relevant economic indicators to the fiscal forecasts are outlined on page 114. Any variation in the forecasts of these underlying economic indicators could impact the fiscal forecasts. The forecasts for tax revenue, benefit expenses and finance costs are particularly sensitive to changes in certain economic indicators.

There are a few ways to illustrate the uncertainty regarding the assumptions and judgements made in the economic forecasts and how they could impact the fiscal forecasts. While each of these approaches provides useful insights into the uncertainty around the fiscal forecasts, each approach has limitations, particularly around the completeness of the analysis.

The Economic Outlook chapter includes two scenarios that outline the impact on the Government's key fiscal indicators if the economy was to evolve differently. Even small changes in the economic outlook can have a significant impact on the fiscal outlook. Sensitivity analysis illustrates how certain changes in key economic indicators could flow through to fiscal indicators. Table 2.15 provides a rule of thumb for the sensitivity of tax revenue to economic growth as well as how Government interest income and finance costs are affected by interest rates. For example, if nominal GDP was to grow by 1 percentage point more than forecast in each year of the forecasts, tax revenue would likely be around $7.8 billion higher than forecast in the final year of the forecast. The sensitivities are broadly symmetrical and indicative and can be influenced by the composition of growth.

Table 2.15 – Fiscal sensitivity analysis

Year ending 30 June $millions	**2025 Forecast**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**
Impact on tax revenue of a 1 percentage point increase[1] in growth of					
Nominal GDP	1,255	2,590	4,145	5,860	7,755
Wages and salaries	615	1,280	2,025	2,855	3,785
Taxable business profits	235	530	900	1,295	1,755
Impact of 1% lower[1] interest rates on					
Interest income[2]	(251)	(616)	(652)	(676)	(670)
Interest expenses[2]	(238)	(896)	(1,191)	(1,466)	(1,711)
Net impact on operating balance	(14)	280	539	790	1,041

1 These sensitivities are broadly symmetrical.

2 Interest sensitivities relate to consolidated external exposures of both the Treasury (Debt Management) and the Reserve Bank.

Source: The Treasury

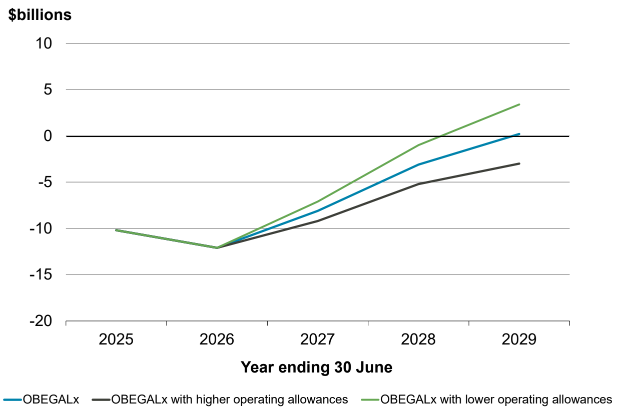
…and so too could future Government decisions…

The fiscal forecasts assume that most departmental expenditure stays fixed beyond the 2025/26 year. Most departmental expenditure will grow in the future, particularly to cover the impact of inflation and wage growth on inputs used to deliver the services provided by the Government. In addition, the Government is likely to make decisions in the future to progress its policy objectives. The Government has choices around how to manages future increases in spending, such as reprioritisation of existing expenses or against future Budget allowances.

The Government has announced Budget operating allowances in the 2025 *Fiscal Strategy Report* for the next three Budgets. The fiscal forecasts assume that these allowances will be sufficient to cover the costs of maintaining existing services and introducing new services.

There is a risk that the allowances set aside for future Budgets may not be enough to cover all costs arising from specific fiscal risks, new Government policies and future inflationary pressure. The Government does have options (such as reprioritisation of spending) to manage such risks. Figure 2.19 illustrates the sensitivity of the OBEGALx track if the Budget operating allowances for the next three Budgets were $1.0 billion per annum higher or lower for each Budget.

Figure 2.19 – Impact of changes to operating allowances on OBEGALx



Source: The Treasury

…while valuation changes influenced by markets could also impact on the Government's fiscal objectives…

Some elements of the fiscal forecasts require judgements that are informed by market conditions such as foreign exchange rates, interest rates, share prices, carbon price and property prices. There is a high degree of uncertainty around how markets may perform in the future, which makes it challenging for forecast purposes. Therefore, it is likely the Government's actual financial position will differ from forecasts.

Market information is generally used for the valuation of assets and liabilities on the Government's balance sheet, particularly financial instruments and long-term liabilities. In most cases, the fiscal forecasts use a base month and assume no price changes into the future. Most of the direct fiscal impacts from changes in market prices are reflected as valuation gains and losses and therefore minimise any impact on the Government's headline fiscal indicators. However, there are indirect impacts from valuations that could have an impact in the future. For example, an increase or decrease in the valuation of PPE leads to changes in depreciation expenses going forward, while changes in discount rates used to value long-term liabilities could result in a larger or smaller interest unwind recognised in the future.

The *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2024* (https://www.treasury.govt.nz/publications/year-end/financial-statements-2024) provide useful insights on the sensitivity to the value of a number of assets and liabilities to changes in market price assumptions.

…as could adverse events

The costs of future individual natural disasters, individual events resulting in climate change and other major events (such as biosecurity incursions, pandemics, financial markets crises and geopolitical events) could significantly impact on the fiscal results in the future. In general, these events would most likely impact on the economy and therefore flow through to the forecast for tax revenue, and the Government may decide to introduce financial measures to support New Zealanders through such events.

Other Fiscal Information

This section includes boxes on some other fiscal indicators prepared by the Treasury.

Cyclically adjusted balance, structural balance and total fiscal impulse[4]

Cyclically adjusted balance and structural balance

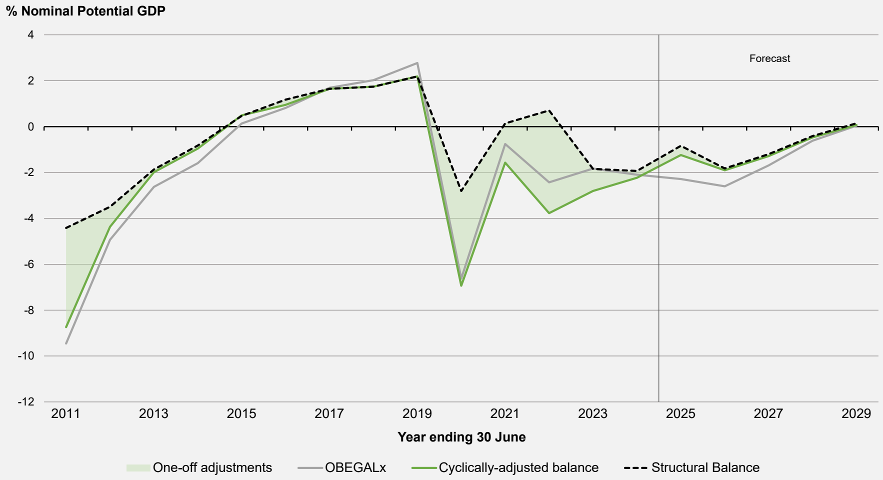
The cyclically adjusted balance (CAB) and the structural balance are additional indicators that can be used to understand the Government's fiscal position. Both indicators are derived from either OBEGAL or OBEGALx and are designed to identify underlying trends:

- The CAB shows what OBEGAL or OBEGALx would be in the absence of fluctuations in expenses and tax revenue that happen automatically over the economic cycle (known as automatic stabilisers).
- The structural balance helps to show the underlying fiscal position by adjusting the CAB for significant one-off items.[5]

Two versions of the CAB and structural balance are calculated, based on OBEGAL and OBEGALx. OBEGAL versions of the cyclically adjusted balance and structural balance provide a more comprehensive view of the overall fiscal position. Continuing to publish these long-standing measures will support transparency and the continuity of fiscal indicators. The OBEGALx versions are helpful to analyse the underlying position of the Government's headline operating indicator. The OBEGAL versions of the CAB and structural balance are published in *Additional Information,* along with the relevant data series for these indicators.

Figure 2.20 shows the forecasts for the CAB and the structural balance based on OBEGALx. These measures are currently in deficit, which illustrates the structural nature of the current deficit.

Figure 2.20 – OBEGALx, CAB, and structural balance



Source: The Treasury

4 Refer to this guide for more detail on the methodology behind calculating the CAB, the structural balance and the total fiscal impulse: https://www.treasury.govt.nz/publications/guide/methodologies-cyclically-adjusted-structural-balance-fiscal-impulse

5 Aside from the North Island weather events, the one-off adjustments in the forecast period primarily relate to ongoing COVID-19 operating expenditure. Of the COVID-19 operating expenditure, around half of this relates to the Housing Acceleration Fund.

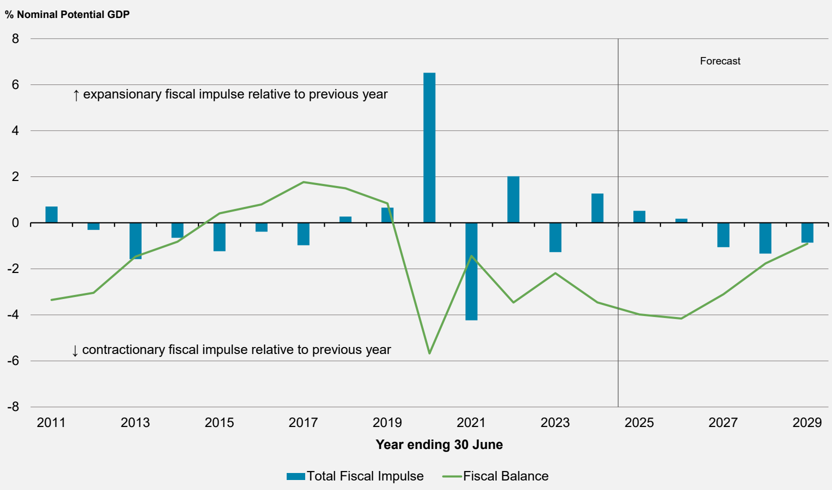
For both the OBEGAL and OBEGALx versions, the CAB and structural balance deficits are expected to be larger across most years of the forecast period compared to the *Half Year Update 2024*. This is driven by slower revenue growth and increases in core Crown expenses. However, the CAB and structural balance for 2024/25 has improved relative to the *Half Year Update 2024* forecast. This is mainly due to rephasing of spending, and the closure of the funded sector pay equity tagged contingency.

The CAB and structural balance deficits are forecast to gradually improve over the forecast period in line with the forecasts for OBEGAL and OBEGALx. The OBEGAL-based CAB and structural balance do not return to surplus until the early years of the projection period, as in the *Half Year Update 2024*, while the OBEGALx-based indicators are forecast to return to surplus by 2028/29.

Total fiscal impulse

The total fiscal impulse (TFI) is a measure of the change in the Government's fiscal contribution to aggregate demand from one year to the next. It is based on a comprehensive measure of fiscal outlays and revenues, including their structural, discretionary, and automatic components such as finance costs but adjusted for some items that do not directly affect aggregate demand.[6] The TFI is based on a cash measure of core Crown and Crown entity spending and revenue flows and therefore differs from the OBEGAL and OBEGALx measures, the CAB and the structural balance, which are all accrual based. The value of the TFI in any given year does not estimate the overall contribution of fiscal policy to the business cycle (whether fiscal policy is expansionary or contractionary in an absolute sense). Instead, the TFI measures whether fiscal policy is easing or tightening compared to the previous year. The TFI also does not provide a full picture of the economic impact of fiscal policy, which will also depend on the composition of Government revenue and expenses as well as the ability for the economy to absorb new spending.

Figure 2.21 – Total fiscal impulse and fiscal balance



Source: The Treasury

6 The total fiscal impulse is not cyclically adjusted, as discussed in this guide: https://www.treasury.govt.nz/publications/guide/methodologies-cyclically-adjusted-structural-balance-fiscalimpulse

The TFI is forecast to be expansionary relative to the previous years in 2024/25 and 2025/26 as the fiscal deficit peaks (Figure 2.21). The TFI for 2024/25 is less positive than forecast at the *Half Year Update 2024*. Since the fiscal impulse is a relative measure, the improvement in the fiscal balance in 2024/25 relative to the *Half Year Update 2024* has an automatic impact on the fiscal impulse in 2025/26. The slightly positive TFI that is now forecast for 2025/26 contrasts with the *Half Year Update 2024* forecast of a negative (contractionary) TFI of -2.6%. These changes reflect higher revenue in 2024/25, lower revenue in 2025/26 and lower operating spending in 2024/25, partly due to a rephasing of expenditure into the following year.

The TFI is forecast to be contractionary in the other years of the forecast period, averaging –0.5% per year over the entire forecast period, slightly less contractionary than the -0.6% per year forecast at the *Half Year Update 2024*.

3

Specific Fiscal Risks

The Treasury's fiscal forecasts are based on a number of assumptions and key judgements using the best information available and our best professional judgement. As with any kind of forecast, there is a risk that actual events will differ from expectations.

This chapter outlines the specific risks that could affect the fiscal forecasts. These are reflected in the statement of specific fiscal risks and the statement of contingent liabilities and contingent assets.

The Economic Outlook and Fiscal Outlook chapters highlight broad risks to the forecasts such as changes to economic assumptions, forecasting risks relating to revenue or variations in the returns from, and valuation of, the Government's investments. The Economic Outlook chapter also includes alternative scenarios that show the sensitivity of key economic and fiscal measures to broad risks – see page 25.

This chapter also does not include risks associated with significant economic shocks. The Treasury released a draft Long-term Insights Briefing[7] in April, which provides information on economic shocks. Since the late 1980s, the cost of government responses to economic shocks has averaged about 10% of GDP per decade.

The statement of specific fiscal risks seeks to provide transparency of risks that could affect the fiscal forecasts

The statement of specific fiscal risks sets out all Government decisions and other circumstances known to the Treasury whose fiscal implications may have a material effect on the fiscal and economic outlook but are not certain enough on the outcome, timing or quantum to include in the forecasts.

This section of the chapter covers:

- the requirements and criteria for disclosing specific fiscal risks and how these interact with the fiscal forecasts
- the key judgements applied by the Treasury in assessing whether a risk is a specific fiscal risk
- a statement of specific fiscal risks of the Government

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7 The draft Long-term Insights Briefing is available here: https://www.treasury.govt.nz/publications/consultation/draft-briefing-consultation-long-term-insights-briefing-2025

- narrative summaries of all specific fiscal risks, and
- a table of risks that have been removed from the statement of specific fiscal risks since the *Half Year Economic and Fiscal Update (Half Year Update) 2024*.

A key principle guiding the disclosure of risks is transparency. This means that material risks are disclosed in this section, regardless of whether they can be managed through existing funding sources (such as through reprioritisation of funding already available to departments). This ensures a prudent approach to the disclosure of risks to improve transparency and to avoid prejudging future decisions by governments about what may or may not be funded from allowances.

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts on 30 April 2025. Although the process for preparing the statement of specific fiscal risks involves several entities, including government departments, the Treasury and the Minister of Finance, it is still possible that not every specific risk is identified in the statement of specific fiscal risks.

The Public Finance Act 1989 sets out the requirements for specific fiscal risks

The fiscal forecasts in this *Budget Economic and Fiscal Update (Budget Update)* incorporate – to the fullest extent possible – the fiscal implications of all Government decisions and other circumstances if the criteria set out in the table below are satisfied.

Fiscal forecasts	Specific fiscal risks[8]
Matters are incorporated into the fiscal forecasts when: • the matter can be quantified for particular years with reasonable certainty, and • a decision has been taken, or • a decision has not yet been taken but is reasonably probable[9] that the matter will be approved or the situation will occur.	Matters are disclosed as specific fiscal risks if the likely impact is $100 million or more over the forecast period and either: • a decision has not yet been taken but it is reasonably possible[10] (but not probable) that the matter will be approved or the situation will occur, or • it is reasonably probable or possible that the matter will be approved or the situation will occur, but the matter cannot be quantified for, or assigned to, particular years with reasonable certainty.

As outlined in the table, if the fiscal implications of Government decisions and other circumstances cannot be quantified for particular years with reasonable certainty or the outcome is still unclear, those Government decisions and other circumstances are disclosed in the statement of specific fiscal risks included in this chapter, as required by sections 26Q(3)(b) and 26U of the Public Finance Act 1989.

8 These are the rules used to determine what is and is not a fiscal risk for the purposes of section 26Q(3)(b)(ii) of the Public Finance Act 1989.

9 For these purposes, 'reasonably probable' is taken to mean that the matter is more likely than not to be approved within the forecast period (ie, there is a greater than 50% chance of the matter occurring or being approved).

10 For these purposes, 'reasonably possible' is taken to mean that the matter might be approved within the forecast period (ie, there is a 20% to 50% chance of the matter occurring or being approved).

Judgements are applied in assessing whether a risk is a specific fiscal risk

In order to implement the criteria outlined above, judgement is required to determine whether a Government decision or other circumstance meets the definition of a specific fiscal risk. The Treasury has applied the principles outlined in *Budget Update 2025 – Additional Information* when assessing whether a decision or other circumstance meets the definition of a specific fiscal risk.

Exceptions to disclosing specific fiscal risks

Section 26V of the Public Finance Act 1989 provides that the requirements to disclose government decisions or other circumstances in an economic and fiscal update (including in forecast financial statements and the statement of specific fiscal risks) do not apply where the Minister of Finance determines that to incorporate the decision or circumstance is likely to:

- prejudice the substantial economic interests, security or defence of New Zealand
- prejudice the international relations of the Government
- compromise the Government in a material way in negotiation, litigation or commercial activity
- result in a material loss of value to the Government.

In addition, the Minister must also determine that there is no reasonable or prudent way the Government can avoid this prejudice, compromise or material loss through incorporation in this *Budget Update*.

One specific fiscal risk is being withheld under section 26V. Disclosure of this risk is likely to result in a material loss of value to the Government.

Risks have been categorised by risk type in the statement of specific fiscal risks

The risks in the statement of specific fiscal risks have been broadly classified into one of eight risk categories aligned to the underlying risk driver. The purpose of categorising risks is to provide an understanding of different types of fiscal risks and the potential aggregate impact of these on the fiscal forecasts.

Some risks may include aspects that include multiple risk drivers – in this case, the risk is categorised based on the most significant driver. A description of each risk type is provided under the relevant category from page 75 onwards.

The status of the risks relative to the *Half Year Update 2024* is also provided. New risks are those identified or disclosed for the first time in this *Budget Update*, while changed risks are those where there is a significant change in the nature or substance of the risk. Unchanged risks are those where there is no change to the nature or substance of the risk, even if the size of the risk has changed. This includes risks that have updated narratives because of wording changes for clarity or that have been amended to reflect present circumstances. These changes do not reflect a change in the underlying risk.

Statement of Specific Fiscal Risks

Status	Title	Portfolio	Page reference
Commitment or announced intent that may have fiscal implications			
New risks	Potential Capital Raise by Kiwibank	Finance	75
	Science, Innovation and Technology Reform	Science, Innovation and Technology	75
Changed risk	Cook Strait Ferry Replacement and Enabling Infrastructure	Finance	75
Unchanged risks	Achieving New Zealand's International and Domestic Climate Change Targets	Climate Change	76
	Response to the Report of the Government Inquiry into the Response to the North Island Severe Weather Events	Emergency Management and Recovery	76
	Going for Housing Growth – Incentives for Communities and Councils to Support Growth	Housing	76
	Transition and Ongoing Viability of the Vocational Education System	Tertiary Education	77
	Transport Project Funding	Transport	77
	Adaptation Policy Changes	Cross-portfolio	77
	Carbon Neutral Government Programme	Cross-portfolio	77
	Commitments Under the Coalition Agreements	Cross-portfolio	78
	Establishment of a New Medical School	Cross-portfolio	78
	Safeguarding New Zealand's Defence and Security Interests	Cross-portfolio	78
	The Government's Approach to the Smokefree Aotearoa 2025 Goal	Cross-portfolio	78
Time-limited funding			
Unchanged risks	Ka Ora, Ka Ako | Healthy School Lunches Programme	Education	79
	Time-limited International Climate Financing Funding: Unfunded 2026 to 2030 Commitment Period	Foreign Affairs	79
	Rail Network Investment Programme	Transport	79
Achieving future savings and spending constraint			
New risk	Social Development Forecast Savings	Social Development and Employment	80
Unchanged risks	Health New Zealand Operating Deficit	Health	80
	Kāinga Ora – Homes and Communities Operating Expenditure Forecast Reductions and Future Operating Model	Housing	80

Status	Title	Portfolio	Page reference
Capital cost escalation			
Unchanged risks	Scott Base Redevelopment Project	Foreign Affairs	81
	Roads of Regional Significance	Transport	81
	Other Capital Cost Pressures	Cross-portfolio	81
Potential fiscal implications of reviews or litigation			
Changed risk	Responding to the Royal Commission of Inquiry into Abuse in Care – Redress System Claims Processes for Survivors	Cross-portfolio	82
Unchanged risks	Impacts of Changes to Accident Compensation Policy Settings	ACC	82
	Disability Support Services – High and Complex Framework	Disability Issues	82
	Independent Review of the Ministry of Education's School Property Function	Education	82
	Metropolitan Rail Networks	Transport	83
	Treaty Settlement Forecasts	Treaty of Waitangi Negotiations	83
	Pay Equity Claims	Cross-portfolio	83
Changing demand and expectations on services			
Changed risk	Tertiary Tuition and Training Funding Baseline Pressure	Tertiary Education	84
Unchanged risks	ACC Levies	ACC	84
	Enabling Communities and Iwi to Help Children	Children	84
	Increasing Prison Population	Corrections	85
	Transforming and Sustaining Disability Support Services for New Zealanders	Disability Issues	85
	Learning Support	Education	85
	Health Capital Pressure and Investment Planning	Health	85
	Civil Registration Replacement	Internal Affairs	86
	Financial Challenges Across Universities	Tertiary Education	86
	Wānanga Funding and the Crown's Te Tiriti Obligations to Wānanga	Tertiary Education	86
	Wānanga Legislative Framework – Te Wānanga o Aotearoa and Te Whare Wānanga o Awanuiārangi	Tertiary Education	86
	Support for the National Land Transport Fund	Transport	87
	Government Targets	Cross-portfolio	87
	New Zealand Screen Production Rebate	Cross-portfolio	87
	Non-government Providers Receiving Funding from the Government	Cross-portfolio	87
	Services Funded by Third Parties	Cross-portfolio	88

Status	Title	Portfolio	Page reference
Forecast dependent on a status quo that is uncertain			
New risks	Timing of Fiscal Impacts of Christchurch Men's Prison Public Private Partnership	Corrections	89
	Investment Boost	Revenue	89
	Implementation of New Insurance Accounting Standard	Cross-portfolio	89
Unchanged risks	Chateau Tongariro Hotel	Conservation	90
	Te Pae Christchurch Convention Centre Write-down Costs	Finance	90
	Aquaculture Settlements	Oceans and Fisheries	90
	Regional Infrastructure Fund	Regional Development	90
	Potential Tax and Social Policy Changes	Revenue	90
	Auckland City Rail Link Ownership Issues	Transport	91
	Forecast Operating and Capital Spending in the National Land Transport Programme	Transport	91
	Relativity Clause	Treaty of Waitangi Negotiations	91
	Adverse Weather Events	Cross-portfolio	91
	Public Sector Employment Agreements	Cross-portfolio	92
Forecast risk			
New risk	Rates Rebate Scheme	Internal Affairs	93
Changed risks	Natural Hazards Commission	Finance	93
	Ministry of Social Development's Services for the Future	Social Development and Employment	94
Unchanged risks	Non-Earners' Account	ACC	94
	Emissions Trading Scheme – Variations Arising from Unit Auctions Failing to Clear	Climate Change	94
	Emissions Trading Scheme – Variations in Revenue and Expenses	Climate Change	95
	Costs Associated with the Sinking of the HMNZS Manawanui	Defence	95
	Alternative Monetary Policy Tools	Finance	95
	Realising Sales of Land and Dwellings – Kāinga Ora	Housing	95
	Veterans' Disability Entitlements Liability	Veterans' Affairs	95
	Information and Communications Technology Operating and Capital Pressures	Cross-portfolio	96
	Maintenance for Government-owned Buildings	Cross-portfolio	96
	Other Operating Cost Pressures	Cross-portfolio	96

Commitment or Announced Intent that may have Fiscal Implications

The following section outlines risks where the Government has publicly committed to taking a future decision, or announced an intent to do so, and this may have fiscal implications (eg, require funding that has not yet been allocated or increase revenue if progressed). The Government generally still has choice about whether to progress with a decision but the Government commitment or announced intent means it is reasonably possible it will be approved.

New Risks

Finance

Potential Capital Raise by Kiwibank (Capital)

The Government has announced that Kiwi Group Capital Limited is studying the feasibility of raising up to $500 million in new capital for Kiwibank from suitable third parties. If the Government agrees to progress with a capital raise, it will have impacts on the fiscal forecasts presented in this Budget Update.

Science, Innovation and Technology

Science, Innovation and Technology Reform (Expenses and Capital)

The Government has agreed to progress a set of reforms to the science, innovation and technology system. These are primarily organisational changes to entities and are assumed to have no fiscal impacts. However, further decisions related to the reforms are still to be made and there is a risk that there may be a fiscal impact based on these decisions.

Changed Risk

Finance

Cook Strait Ferry Replacement and Enabling Infrastructure (Expenses and Capital)

The Government has announced a programme to replace the current Interislander ferry fleet and deliver enabling infrastructure. Funding has been set aside and reflected in the fiscal forecasts for this programme. However, there remains a risk that the timing, nature and costs of the programme may differ to what has been reflected in the fiscal forecasts.

At the *Half Year Update 2024*, this risk was titled *Cook Strait Resilience*.

Unchanged Risks

Climate Change

Achieving New Zealand's International and Domestic Climate Change Targets (Expenses and Capital)

The Climate Change Response (Zero Carbon) Amendment Act 2019 sets domestic greenhouse gas targets for New Zealand. It also requires the Government to set and achieve emissions budgets, with the first three emissions budgets covering 2022 to 2035. The Government released its second emissions reduction plan in December 2024, which outlines policies and strategies to achieve these emissions budgets. Many of these policies do not require additional funding. However, if policies require new funding from the Government, this will have an impact on the operating balance and net core Crown debt.

New Zealand also has international obligations under the Paris Agreement, including relating to our first and second Nationally Determined Contributions (NDCs), which cover the periods 2021 to 2030 (NDC1) and 2031 to 2035 (NDC2) respectively. NDCs are countries' self-determined plans detailing what they will do to reduce their emissions in support of the international goal of limiting global warming to 1.5°C. Sizeable offshore abatement would be needed to meet NDC1 on top of domestic commitments without other interventions. Scenarios showing the possible fiscal impact of this offshore abatement were set out in the Climate Economic and Fiscal Assessment 2023. While the Government has choices about how it achieves NDC1, it is likely that meeting this target would involve significant costs, starting within the current fiscal forecast period. The Government set a target range for the NDC2 earlier this year. The lower end of the target range for NDC2 aligns with the reductions required to meet the third domestic emissions budget (2031 to 2035), so the fiscal risks associated with this target are similar to those associated with meeting domestic emissions budgets for the same period.

Emergency Management and Recovery

Response to the Report of the Government Inquiry into the Response to the North Island Severe Weather Events (Expenses and Capital)

On 10 October 2024, the Government released its response to the Report of the Government Inquiry into the Response to the North Island Severe Weather Events, agreeing to its 14 headline recommendations. The level of new funding required to implement the recommendations will be subject to future decisions.

Housing

Going for Housing Growth – Incentives for Communities and Councils to Support Growth (Revenue and Expenses)

The Government has agreed to progress work on the Going for Housing Growth package. This includes incentives for communities and councils to support growth. The nature of incentives has not been determined, as advice on this is still under development.

Tertiary Education

Transition and Ongoing Viability of the Vocational Education System (Expenses)

The Government has agreed to disestablish Te Pūkenga | New Zealand Institute of Skills and Technology and restore regional decision making for institutes of technology and polytechnics (ITPs). Ongoing funding may be required to support the viability of re-established ITPs. Upcoming decisions will determine the design of the new system, and the configuration of the new system will likely influence any quantum of additional funding (beyond what has been provided), including potential losses from changed asset ownership, to support ITPs' financial viability.

Transport

Transport Project Funding (Revenue, Expenses and Capital)

The Government has signalled transport investments additional to what has already been supported through the Government Policy Statement (GPS) on land transport 2024. These investments are largely unfunded, and some of these may fall outside the scope of the National Land Transport Fund (NLTF) or are only expected to be partially funded by the NLTF. Where some funding has been provided through the NLTF, this has only been committed for the first three years that the GPS and the latest National Land Transport Programme covers (2024/25 to 2026/27), but additional investment will likely be required to complete these projects as work will extend beyond 2026/27.

If the Government chooses to progress these investments, additional Crown funding, increases to land transport revenue or new revenue sources may be required. Additional investment priorities include the Roads of National Significance programme, the Auckland – Waitematā Harbour Crossing (an indicative business case is under development), Better Public Transport, an additional Mount Victoria tunnel and residual rail projects from the former New Zealand Upgrade Programme. Many of these costs fall outside the forecast period.

There are additional pressures on existing transport projects such as City Rail Link that may result in increased cost escalation.

Cross-portfolio

Adaptation Policy Changes (Expenses and Capital)

In August 2022, the previous Government published New Zealand's first national adaptation plan (NAP) to respond to climate change-related risks as required by the Climate Change Response (Zero Carbon) Amendment Act 2019. Since the NAP was published, the Government has also publicly signalled its intent to develop a climate adaptation framework. As this work proceeds, any new policy decisions could create costs that may require new funding with a corresponding impact on the fiscal forecasts.

Carbon Neutral Government Programme (Expenses and Capital)

As part of its contribution to achieving New Zealand's climate change targets, the previous Government established the Carbon Neutral Government Programme, supported by the State Sector Decarbonisation Fund. Where the costs of achieving the objectives of the programme exceed allocations previously made through the State Sector Decarbonisation Fund and participating agency budgets, this would require additional funding with a corresponding impact on the fiscal forecasts.

Commitments Under the Coalition Agreements (Expenses and Capital)

The coalition agreements between National and ACT and National and New Zealand First outline commitments that may have fiscal impacts. Most of these commitments have been funded by the Government and reflected in the fiscal forecasts. However, there are some commitments that are yet to be progressed and funded by the Government that may have fiscal impacts.

Establishment of a New Medical School (Expenses and Capital)

As part of the Government's 100-day plan, the Ministry of Health and the University of Waikato signed a memorandum of understanding as a first phase towards establishing a new medical school. The Ministry commissioned an independent cost-benefit analysis and business case for the proposal. If progressed, the establishment of a new medical school has operating and capital fiscal impacts to the Crown.

Safeguarding New Zealand's Defence and Security Interests (Expenses and Capital)

The 2025 Defence Capability Plan (DCP) outlines the Government's intention to invest $12 billion over the current and next three Budgets to ensure New Zealand can respond to the changing global security environment. It is estimated around $9 billion of new funding would be required to deliver on the DCP. Cabinet has agreed that the DCP will be reviewed in 2027 and every two years thereafter, with additional capabilities added to the DCP as the strategic environment demands and the fiscal environment allows. Other security policy work such as the implementation of the National Security Strategy may also have an impact on future spending levels across the defence and security portfolios. Any future new funding decisions, including around $6 billion of additional DCP funding proposed over the next three Budgets, are subject to the approval of future business cases and Budget decisions and would need to be funded from future Budget capital and operating allowances.

The Government's Approach to the Smokefree Aotearoa 2025 Goal (Revenue)

The Government has signalled continued commitment to the Smokefree Aotearoa 2025 goal that by the end of 2025 fewer than 5% of New Zealanders will be smokers. The New Zealand Health Survey indicates that 6.9% of New Zealanders were daily smokers in 2023/24. The introduction of further policies to reduce smoking would reduce tobacco excise revenue across the forecast period. In addition, any initiatives to achieve these goals may have additional costs to the Government. Through its coalition agreements, the Government has also committed to taxing smoked tobacco only and reforming the regulation of vaping, smokeless tobacco and oral nicotine products. Increasing the range of nicotine products available and changing the excise treatment of non-smoked tobacco products would have uncertain implications for tobacco excise revenue.

Time-limited Funding

The following section outlines risks associated with programmes that have time-limited funding that decreases or ceases at some point in the forecast period and may potentially be extended. Time-limited funding often relates to pilot programmes or to programmes under review.

Unchanged Risks

Education

Ka Ora, Ka Ako | Healthy School Lunches Programme (Expenses and Capital)

Funding for the Ka Ora, Ka Ako | Healthy School Lunches Programme has been provided until the end of the 2026 school year. If the Government confirms a continuation or expansion of the programme thereafter, additional ongoing funding beyond that currently provided for will be required.

This time-limited funding ceases during 2026/27.

Foreign Affairs

Time-limited International Climate Financing Funding: Unfunded 2026 to 2030 Commitment Period (Expenses)

New Zealand's international climate finance commitment is $1.3 billion over the four-year period from 2022 to 2025. While the timing and quantum of New Zealand's next international climate finance commitment for the period 2026 to 2030 are unknown, making a commitment at a similar level to the 2022 to 2025 commitment will require more funding.

Time-limited funding for New Zealand's current international climate finance commitment ceases during 2025/26.

Transport

Rail Network Investment Programme (Revenue, Expenses and Capital)

The Rail Network Investment Programme (RNIP) is a 10-year programme of planned network maintenance, operation and renewal of the national rail network. The RNIP is funded to 2026/27 and partially funded with track user charges estimated at $20 million per annum beyond this point. Completing all works will require further funding (from the Crown and the National Land Transport Fund). At present the forecasts assume that the unfunded portion will be met by additional borrowings.

This time-limited funding ceases after 2026/27.

Achieving Future Savings and Spending Constraint

The following section outlines risks related to achieving future savings or the implementation of plans to constrain spending. As savings or spending tracks reflected in the fiscal forecasts require future actions to deliver, there is a risk that actual expenditure or revenue will differ from the forecasts. This risk may be an upside risk (higher revenue or lower expenses) or downside risk (lower revenue or higher expenses).

New Risk

Social Development and Employment

Social Development Forecast Savings (Expenses)

The fiscal forecasts include savings agreed in Budget 2025 from policy changes that aim to decrease the number of Jobseeker Support and emergency housing recipients and improve the accuracy of the Ministry of Social Development's payments. There is a risk that the actual impact of these changes differs from these forecasts.

Unchanged Risks

Health

Health New Zealand Operating Deficit (Expenses)

Health New Zealand has recorded significant operating deficits, and the Health Delivery Plan sets out a plan to return Health New Zealand to its budgeted funding level. There is a risk that delivery of the Health Delivery Plan is slower than forecast, which would impact the Government's operating balance. In addition, there is a risk that the Crown may be required to provide further funding to support Health New Zealand if the outcomes of the Health Delivery Plan fail to materialise.

Housing

Kāinga Ora – Homes and Communities Operating Expenditure Forecast Reductions and Future Operating Model (Expenses)

The fiscal forecasts reflect operating expenditure reductions identified by Kāinga Ora – Homes and Communities. There is a risk that the expenditure reductions such as those associated with anticipated reductions in personnel and maintenance expenditure as part of Kāinga Ora's transformation programme do not eventuate.

Capital Cost Escalation

The following section outlines risks where there are indications that a capital project or programme may differ from the funding allocated. There may be choices for the Government to manage the cost escalation and scope of the project or programme.

Unchanged Risks

Foreign Affairs

Scott Base Redevelopment Project (Expenses and Capital)

The Scott Base Redevelopment Project is replacing New Zealand’s existing facilities in Antarctica. In 2023, it was determined that the original design and specifications for the projects could not be delivered within the approved budget. The Government has indicated that the costs of the project need to be met within the existing budget. Antarctica New Zealand has begun a redesign process to deliver the project within budget and is working towards a revised business case for approval by the Government. In addition, the inherently risky operating environment for the project creates additional financial risk for the project.

Transport

Roads of Regional Significance (Expenses and Capital)

The Government Policy Statement (GPS) on land transport sets out a series of strategically important projects for New Zealand’s transport system called Roads of Regional Significance. Although referenced in the GPS, these projects are funded outside the National Land Transport Fund. With a significant level of planning still required for many projects, there is a risk that further funding is required to complete these projects.

Cross-portfolio

Other Capital Cost Pressures (Capital)

Agencies are likely to face capital expenditure pressures related to replacing ageing infrastructure and other capital requirements driven by demand pressures. These pressures are risks to the fiscal forecasts to the extent that they cannot be managed through agencies’ existing balance sheets and baselines, through new capital spending set aside in forecasts from the capital allowance or through other funding mechanisms.

Potential Fiscal Implications of Reviews or Litigation

The following section outlines risks where there are reviews of policy settings (both those initiated by the Government or external to the Government) or litigation that may require a fiscal response from the Government. This includes independent reviews, Royal Commissions or Court decisions.

Changed Risk

Cross-portfolio

Responding to the Royal Commission of Inquiry into Abuse in Care – Redress System Claims Processes for Survivors (Expenses)

The Government is implementing changes to the redress system to respond to recommendations made by the Royal Commission of Inquiry into Abuse in Care. There are risks associated with these changes due to uncertainty around implementation, which could result in costs differing from what is in the fiscal forecasts.

Unchanged Risks

ACC

Impacts of Changes to Accident Compensation Policy Settings (Expenses)

Accident Compensation scheme boundaries and entitlements are subject to expansion and contraction through regulatory and legislative changes. From time to time, Court decisions can also expand the application of the scheme, which can also have significant fiscal impacts. These may put pressure on ACC's funding policy (which provides an underlying assumption for these forecasts) and/or the goal to reach a funding ratio target of 100% (assets to liabilities) over a 10-year funding horizon.

Disability Issues

Disability Support Services – High and Complex Framework (Expenses and Capital)

In 2021, the Ombudsman raised concerns with the operation of the High and Complex Framework, which provides services for people with intellectual disabilities who need secure or supervised care. The Government is considering its response, which could involve additional investment to increase the capacity of the system.

Education

Independent Review of the Ministry of Education's School Property Function (Expenses and Capital)

The Government is currently responding to the Ministerial Inquiry into School Property. Upcoming Government decisions may require increased investment with corresponding operating and capital fiscal impacts.

Transport

Metropolitan Rail Networks (Expenses and Capital)

There are cost pressures associated with the maintenance, renewal and upgrade of the Auckland and Wellington metropolitan rail networks. The Ministry of Transport is undertaking a review of the Metropolitan Rail Operating Model, which, among other things, will advise on the appropriate distribution of costs between Auckland Transport, Greater Wellington Regional Council, the National Land Transport Fund (administered by the New Zealand Transport Agency), KiwiRail and the Crown.

Treaty of Waitangi Negotiations

Treaty Settlement Forecasts (Expenses)

The fiscal forecasts include provision for the cost of future Treaty settlements. Given that settlements are finalised through negotiations, there is a risk that the timing and amount of the settlements could be different from the profile included in the fiscal forecasts.

Cross-portfolio

Pay Equity Claims (Expenses)

A number of claims have been raised and some settled under the 2020 pay equity amendments to the Equal Pay Act 1972. The forecasts include an estimate of the expected costs to settle future public sector claims. This estimate includes the expected reduced fiscal cost of pay equity claims arising from further amendments to the Equal Pay Act 1972 enacted on 13 May 2025. However, there is a risk that the fiscal costs of pay equity claims may differ from what is currently expected depending on the number of claims that are raised under the new law, the outcomes reached through negotiation in each claim, and how the Government chooses to manage any change in the costs.

While the potential quantum of the risk has changed, the risk is classified as an unchanged risk as the underlying nature of the risk remains the same as at the *Half Year Update 2024*.

Changing Demand and Expectations on Services

The following section outlines risks where there is changing demand for a service or good, or changed expectations on the level of service, that may increase or decrease costs beyond the funding allocated. This may be driven by changes in policy or through external factors such as technological advances or behavioural change. This risk may be an upside risk (higher revenue or lower expenses) or downside risk (lower revenue or higher expenses).

Changed Risk

Tertiary Education

Tertiary Tuition and Training Funding Baseline Pressure (Expenses)

Demand for tertiary education and training is currently forecast to exceed the volume able to be funded by current baselines from 2026/27. Additionally, while time-limited subsidy increases for higher education agreed in 2023 has now been funded, this is on a reduced basis. Additional funding may be required to continue meeting learner demand.

Unchanged Risks

ACC

ACC Levies (Revenue and Expenses)

ACC levies are set by the Government and reflected in the forecasts. Revenue from the levies set for these accounts may be more or less than that required to cover the cost of claims. If factors such as claims experience, ACC performance and economic assumptions (particularly discount rates and unemployment rates) differ from the forecasts, ACC's levy revenue, claims costs and liability may also differ from the forecasts. In particular, ACC has adopted new performance targets that, if not met, will increase the cost of ACC. Any variance will have a corresponding impact on the operating balance. Beyond the rates set by Cabinet on the tri-annual basis, ACC levy rates are assumed to follow ACC's Gazetted Funding Policy Statement. Practically, this means levies beyond the 2027/28 period are assumed to increase at the 5% per annum cap on ACC's recommendations. If this is not agreed by Cabinet, there would be revenue impacts.

Children

Enabling Communities and Iwi to Help Children (Expenses)

Changes to the way Oranga Tamariki partners with Māori and other community organisations will have operational and fiscal implications beyond what is in the fiscal forecasts. Further funding may be required for initiatives aimed at building capacity and local solutions with iwi and other community groups.

Corrections

Increasing Prison Population (Expenses and Capital)

There has been a significant increase in the prison population since April 2023. Recent and future justice policy changes, including changes to sentencing legislation, are likely to further increase the prison population. While funding has been provided in Budget 2024 and Budget 2025 to address the immediate impact, there remains a risk that further funding is needed if the increase in prison numbers is higher than allowed for in the fiscal forecasts. This creates an additional cost pressure relating to reconditioning retired capacity within the existing prison network, maintaining safe staffing ratios, prisoner upkeep and potential capital costs to enable additional capacity.

Disability Issues

Transforming and Sustaining Disability Support Services for New Zealanders (Expenses)

Disability Support Services is likely to face significant operating pressures to maintain the delivery of existing services. The main drivers are volume (both a growing number of people accessing support and increased level of support for existing clients) and price (largely comprising wage and inflationary pressures on non-Government providers).

Education

Learning Support (Expenses and Capital)

The Ministry of Education faces several pressures relating to learning support that may not be able to be met within existing baselines, including workforce and inflationary pressures, notwithstanding significant Budget 2025 investment. Additionally, several reviews have led to proposals for additional and expanded learning support, which may require additional funding. This includes work addressing workforce pressures and vacancies within the existing learning support workforce and work to meet the different needs of all students.

Health

Health Capital Pressure and Investment Planning (Expenses and Capital)

The health infrastructure portfolio faces a number of risks resulting from increasing demand on health services, capital and operational cost pressures, and workforce demands. Of the existing programmes of work in the health infrastructure portfolio, the following represent the largest risks:

- **Health Infrastructure Plan:** The Health Infrastructure Plan was released on 16 April 2025 and identifies a pipeline of more than $20 billion investment over the next ten years. It is a high-level plan and funding sources for investments are not confirmed. Decisions on individual investments still require a business case and need to go through normal Budget and Cabinet approval processes.

- **Digital Investment Plan:** The Digital Investment Plan sets out a 10-year roadmap for digital investment and is a key component of the Health Infrastructure Plan. The plan signals a significant uplift in digital services funding, most of which will be operating costs. The plan is still in development and is planned to be presented to Cabinet at the end of 2025.

- **New Dunedin Hospital:** There remain significant financial pressures on the New Dunedin Hospital Project. This has been driven by construction sector inflation, scope changes and the relative isolated location of the project coupled with a small contractor base with sufficient experience and capacity from which to draw.

- **Regional Hospital Redevelopment Programme (RHRP):** There are five key hospitals in the RHRP: Nelson, Whangārei, Tauranga, Hawke's Bay and Palmerston North. These developments are in the early design phase and the costs remain uncertain.

- **Remediation of existing assets and service-critical infrastructure:** Some existing health sector infrastructure is in poor condition. At times, Health New Zealand has to undertake expensive remedial works on existing assets. The timing and quantum of these remedial works may have impacts on the fiscal forecasts. The National Asset Management Strategy, released in April 2025, sets out a pathway to increased asset management maturity for more 1,200 buildings on 86 campuses with a current replacement value of $38 billion.

Internal Affairs

Civil Registration Replacement (Expenses and Capital)

The Department of Internal Affairs' civil registration system is reaching the end of its useful life. Following the termination of the civil registration system replacement vendor contract on 1 December 2023, the Department returned unspent funding. Therefore, the delivery of any future replacement is currently unfunded.

Tertiary Education

Financial Challenges Across Universities (Capital)

There are heightened financial pressures facing New Zealand's university sector. While there is not a present risk in the financial viability of any university, there are risks for several universities that could materialise within the forecast period. If universities are unable to adequately manage these risks, they may seek support from Government to ensure their financial stability and viability in the future.

Wānanga Funding and the Crown's Te Tiriti Obligations to Wānanga (Expenses)

The Ministry of Education (through its work programme Te Hono Wānanga) is responding to concerns raised by wānanga around its education funding policies in the context of the Crown's Treaty of Waitangi obligations. Te Hono Wānanga may lead to changes to the funding of wānanga and potentially other providers of mātauranga Māori across the tertiary system.

Wānanga Legislative Framework – Te Wānanga o Aotearoa and Te Whare Wānanga o Awanuiārangi (Expenses)

On 19 December 2022, the Education and Training Act was amended to establish a wānanga enabling framework. This grants wānanga the ability to become independent statutory entities. If they were to do so, this could have financial implications as the wānanga would no longer be an asset on the Government's balance sheet.

Transport

Support for the National Land Transport Fund (Revenue, Expenses and Capital)

There is a risk that fuel excise duty (FED) and/or road user charges (RUC) will need to be increased or additional Government funding (a loan and/or a grant) will be required to manage pressures on the National Land Transport Fund (NLTF). This relates both to the medium-term sustainability of the NLTF and to specific project pressures in the National Land Transport Programme in the period 2024 to 2027.

The Government has also signalled in the Government Policy Statement on land transport that it intends to reform the land transport revenue system, including requiring all road vehicles to move from FED to RUC, introduce time-of-use charging in congested parts of the road network and increase the use of tolling. The fiscal implications of these reforms are uncertain.

Cross-portfolio

Government Targets (Expenses and Capital)

The Government has set nine targets to focus the public sector on improved results in areas that include health, education, law and order, work, housing and the environment. Public sector agencies have developed delivery plans that set out actions to meet these targets. Depending on the extent to which funding is required to meet the targets and whether existing resources are reprioritised to meet those costs, there could be a fiscal cost above current baseline.

New Zealand Screen Production Rebate (Expenses)

The New Zealand Screen Production Rebate is an uncapped, on-demand rebate that incentivises production work (from both domestic and international studios) in New Zealand by offering a cash rebate on qualifying expenditure. At Budget 2025, additional funding was provided for the international rebate to meet expected costs across the forecast period. The domestic rebate is funded to meet expected costs until the end of 2026/27. Further funding for the domestic rebate will likely be needed to meet expected costs in 2027/28 and outyears. In addition, due to the uncapped and on-demand nature of the rebate, there remains a risk that costs for both the international and domestic rebates could vary from what has been included in the forecasts.

At the *Half Year Update 2024*, this risk was included in the time-limited funding category. Following Budget 2025 decisions to address most of the time-limited funding risk, the underlying driver of the risk now relates to uncapped and on-demand nature of the international and domestic rebates, resulting in a reclassification of this risk.

The time-limited funding for the domestic rebate ceases after 2026/27.

Non-government Providers Receiving Funding from the Government (Expenses)

The Government is facing ongoing pressure from non-government providers of Crown-funded services to fund a greater proportion of their costs or to fund cost pressures. This includes providers in the health, disability, welfare, justice and child protection sectors.

Services Funded by Third Parties (Expenses)

A wide range of government services are funded through third-party fees and charges. Demand for these services can vary, with a direct effect on revenue received. If revenue collected is lower than the total costs of providing the service, there is a risk that the Government may need to provide additional funding or that changes will be required to the way government services are delivered, which could result in costs to the Government.

Forecast Dependent on a Status Quo that is Uncertain

The following section outlines risks where the forecast is based on the status quo but an uncertain future decision or event could materially affect the forecast approach. The change in the status quo may be a decision the Government controls or an external event outside of the control of the Government.

New Risks

Corrections

Timing of Fiscal Impacts of Christchurch Men's Prison Public Private Partnership (Expenses and Capital)

The Government has funded the redevelopment of Christchurch Men's Prison through a Public Private Partnership (PPP) as part of Budget 2025. While the funding for the project has been fully allocated into a tagged contingency the fiscal impacts may differ to what has been reflected in the forecasts once the PPP agreement is signed.

Revenue

Investment Boost (Revenue)

The fiscal and economic impacts of Investment Boost are significant and have been based on some assumptions and judgements which have a degree of uncertainty. The modelled impacts use aggregate macroeconomic data as an input together with assumptions on coverage within the tax base, and forecasts of growth in investment. Variations in any of these factors can materially affect the fiscal and economic impacts of the policy.

Cross-portfolio

Implementation of New Insurance Accounting Standard (Expenses and Capital)

A new accounting standard PBE IFRS 17 *Insurance Contracts* is required to be adopted for insurance activities (primarily affecting ACC and the Natural Hazards Commission (NHC)) in the 2026/27 financial year. The specific accounting treatment is still being developed but, on adoption, may result in a material reduction to the risk margin used in the measurement of insurance liabilities with a corresponding increase to net worth. As at 30 June 2024, the risk margin for the outstanding claims liability for ACC was $6,797 million and for the NHC was $140 million. While there is likely to be a material impact on net worth, the ongoing impacts on OBEGALx and net core Crown debt are expected to be minimal.

Unchanged Risks

Conservation

Chateau Tongariro Hotel (Expenses and Capital)

The lease for the Chateau Tongariro Hotel was terminated on 9 March 2023. Following termination, responsibility for the building and all improvements on the land was moved to the Crown. Options are being investigated for the future of the Chateau and surrounding facilities, including demolition, but at this stage, there is uncertainty around any future fiscal implications for the Crown.

Finance

Te Pae Christchurch Convention Centre Write-down Costs (Expenses)

As part of the Greater Christchurch Recovery Plan, the Government entered into a Global Settlement Agreement with Christchurch City Council. That agreement included a commitment that the parties continue to engage on future ownership of Te Pae Convention Centre. Any future transfer of Te Pae could result in the write-down of the cost of the asset, which has been captured in the fiscal forecasts. However, the timing of actual transfer is uncertain, so it may differ to what has been reflected in the fiscal forecasts.

Oceans and Fisheries

Aquaculture Settlements (Expenses)

Fisheries New Zealand delivers the Government’s aquaculture settlement obligations under the Māori Commercial Aquaculture Claims Settlement Act 2004. The settlement of quantified obligations is funded within current appropriations and included in fiscal forecasts. However, due to uncertainties related to unquantified future settlements and from aquaculture industry growth, there may be additional liabilities over the forecast period that are not included in fiscal forecasts.

Regional Development

Regional Infrastructure Fund (Expenses and Capital)

The Government has agreed to establish a Regional Infrastructure Fund (RIF) of $1.2 billion over a three-year period. Funding has been allocated as $100 million operating and $300 million capital for each of the three years. There is a risk the current operating and capital split may need to change in the future to achieve the objectives of the RIF. The Government has several capital funding mechanisms available to provide funding in accordance with the current allocation such as loans and equity investment. However, these mechanisms may have consequential operating impacts that are currently not reflected in the forecasts.

Revenue

Potential Tax and Social Policy Changes (Revenue and Expenses)

The Government’s Tax and Social Policy Work Programme has projects that could have negative and positive fiscal impacts. Therefore, general tax policy settings and their collective fiscal implications are subject to change.

Transport

Auckland City Rail Link Ownership Issues (Expenses and Capital)

The Government committed to fund 50% of the costs associated with the build of the City Rail Link project. Auckland Council has also committed to fund 50% of the project. Both the Crown and Auckland Council have treated the investment for the City Rail Link project as an equity investment into City Rail Link Limited (CRLL) on the balance sheet. With the assets expected to be transferred from CRLL to Auckland Transport and KiwiRail in late 2025, the fiscal forecasts assume the recognition of revenue from receiving vested assets, a corresponding expense incurred by CRLL from vesting the assets and an impairment expense reflecting that the value of the assets received by the Crown will differ to the investment into CRLL reported on the balance sheet. Overall, the divestment in CRLL is expected to have an adverse impact on the operating balance of $700 million in the 2025/26 year. However, there is a risk this could be higher or lower and the timing may differ from what is forecast. In addition, further work is under way on the most appropriate accounting treatment, which could alter the treatment in the fiscal forecasts but is unlikely to have any operating balance implications.

Forecast Operating and Capital Spending in the National Land Transport Programme (Expenses and Capital)

Operating and capital expenditure is incurred on projects under the National Land Transport Programme (NLTP). The forecast split between operating and capital expenditure is based on best estimates at the time of the forecasts, but there is inherent uncertainty particularly given the nature of the projects under the NLTP, the impact of delays and rescheduling of projects across the forecast period and potential changes in the accounting treatment of projects as they are completed.

Treaty of Waitangi Negotiations

Relativity Clause (Expenses)

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. Now that the total redress amount for all historical Treaty settlements exceeds $1.0 billion in 1994 present-value terms, the mechanism provides that the Crown is liable to make payments to maintain the real value of the Ngāi Tahu and Waikato-Tainui settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and 16.1% for Ngāi Tahu. There is a risk that the timing and amount of the expense for the relativity payments may differ from the fiscal forecasts. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

Cross-portfolio

Adverse Weather Events (Expenses and Capital)

There is an increasing risk that, in responding to the increased frequency of adverse weather events, the Government will incur additional costs across a range of portfolios. These include but are not limited to the National Emergency Management Agency and the New Zealand Transport Agency (essential infrastructure recovery), Natural Hazards Commission (Natural Disaster Fund guarantee), Housing (temporary accommodation) and Social Development and Employment (emergency benefits, rural support payments and grants). The likelihood, timing and fiscal impact are uncertain.

Public Sector Employment Agreements (Expenses)

All collective agreements in the public sector are due to be renegotiated over the forecast period. As well as direct fiscal implications for the employers of workforces covered by any changes to remuneration, the renegotiation of agreements can have flow-on effects for remuneration for other employers across the sector. In addition, there may be increased costs arising from increases in employer KiwiSaver contributions following Budget 2025 decisions.

Forecast Risk

The following section outlines risks where revenue, expenditure, assets or liabilities are inherently uncertain in the fiscal forecasts. This risk may be an upside risk (higher revenue or lower expenses) or downside risk (lower revenue or higher expenses).

New Risk

Internal Affairs

Rates Rebate Scheme (Expenses)

Funding provided for the expansion of the Rates Rebate Scheme is based on assumptions of future demand and eligibility, including assuming a similar take-up rate by those who are eligible in 2024/25. The actual cost of the Rates Rebate Scheme is dependent on the volume of applications received, which may be different than estimated.

Changed Risks

Finance

Natural Hazards Commission (Revenue, Expenses and Capital)

The Natural Hazards Commission (NHC) engages independent professional actuaries to undertake half-yearly valuations of the total NHC liability to the Government. This includes estimates for yet-to-settle claims (including those in litigation), claims not yet received for events that have occurred and the possibility that some previously resolved claims may reopen. An estimate is also made for the associated claims-handling expenses that may be incurred in resolving claims. These estimates and their expected settlement profiles are included in the fiscal forecasts.

There is the possibility the NHC's remaining expenditure for the Canterbury earthquakes will be higher or lower than forecast. Risks include litigation and the level of future reopened claims. It is not possible at this stage to fully quantify the potential financial impact or the timing of these risks owing to the uncertainty associated with them, and variance from what is in the fiscal forecasts could be material.

In addition, the Government announced a review of the NHC's Funding and Risk Management Statement, including the NHC's financial settings and levy settings, in June 2024. The Treasury's consultation on changes to the financial settings and levy settings include options to increase the levy rate and the monetary cap on NHC building cover. While consultation has closed, the Government is yet to take decisions, and the fiscal forecasts do not include any potential increase to levies. Any increase to levy rates would have a positive impact on the operating balance.

Social Development and Employment

Ministry of Social Development's Services for the Future (Expenses and Capital)

The Ministry of Social Development received funding in Budget 2025 to continue the delivery of its business transformation. The programme, which began in July 2023, is expected to be delivered over nine years and will transform how the Ministry operates. The Ministry is expected to deliver greater efficiencies and improve the effectiveness of services, thereby reducing benefit costs in the future. The fiscal forecasts reflect the net costs of this programme, so if the costs or the realisation of the reduction in benefit costs differ, this would have an impact on the fiscal forecasts.

At the *Half Year Update 2024*, this risk was titled *Te Pae Tawhiti Programme*.

Unchanged Risks

ACC

Non-Earners' Account (Expenses)

The amount of funding provided by the core Crown (and included in the fiscal forecasts) for the Non-Earners' Account may be more or less than is required to cover the cost of future claims. If factors such as claims experience, ACC performance and economic assumptions (particularly discount rates) turn out differently from what has been forecast, any such variance will have a corresponding fiscal impact. In particular, ACC has adopted new performance targets that, if not met, will increase the cost of ACC.

Climate Change

Emissions Trading Scheme – Variations Arising from Unit Auctions Failing to Clear (Revenue)

New Zealand's Emissions Trading Scheme (ETS) involves auctioning a certain volume of New Zealand Units (units) each calendar year across four auctions. One unit represents one metric tonne of carbon dioxide equivalent. ETS auctions have two reserve prices that, if not met, can prevent units from being sold:

- Auction price floor: The price floor is the minimum price under regulations that units can be sold for at auction. It is set by the Government and published in advance.
- Confidential reserve price: The confidential reserve price is set by the Government ahead of each auction and prevents the sale of units at auction if the clearing price is significantly below prevailing secondary market prices.

If auctions are cancelled (if either of these thresholds are not met) or only partially clear (due to insufficient bids), some units will remain unsold. These unsold units are rolled over to remaining auctions in the same calendar year. If fewer units are sold in a given fiscal year than assumed in the forecasts, this results in lower cash proceeds from auctions, higher net core Crown debt and a reduced ETS liability (because the sale of units represents a liability for the Crown).

Emissions Trading Scheme – Variations in Revenue and Expenses (Revenue and Expenses)

The Emissions Trading Scheme (ETS) earns revenue and incurs expenses for the Crown, both of which are uncertain. The uncertainty is largely owing to the future market price of New Zealand Units and the responses of participants. As a result of these factors, actual revenue and expenses may vary from the fiscal forecasts, which, for both revenue and expenses, assume a carbon price value based on the prevailing market price. In addition, any government decisions to update the ETS price and unit supply settings could affect ETS cash proceeds from auctions.

Defence

Costs Associated with the Sinking of the HMNZS Manawanui (Expenses and Capital)

The sinking of HMNZS *Manawanui* has resulted in the value of the asset being written off in the current year. There are also expected to be further costs in relation to the response to the event (for example, clean-up of the wreck), which at this stage are unclear.

Finance

Alternative Monetary Policy Tools (Expenses)

There is a risk that the fiscal impacts of the Large Scale Asset Purchase (LSAP) programme and the Funding for Lending Programme may differ from that assumed in the fiscal forecasts. This includes the LSAP indemnity provided for interest rate changes. The indemnity transfers the interest rate risk under the programme from the Reserve Bank to the Treasury, meaning that there will be no net impact on the Government's balance sheet but there may be changes to the Treasury's expenses in the future. Any additional use of Alternative Monetary Policy tools in response to future shocks could impact key fiscal indicators.

Housing

Realising Sales of Land and Dwellings – Kāinga Ora (Expenses and Capital)

There is a risk that costs and revenues differ from forecast expectations for the Kāinga Ora Land Programme and super lots in the Large-Scale Projects. There is a risk that divestments do not crystallise to the carrying value in the Crown accounts, which will adversely impact the operating balance.

Veterans' Affairs

Veterans' Disability Entitlements Liability (Expenses)

The fiscal forecasts include an estimate for the impacts on the veterans' disability entitlement liability following the recent decision by the Veterans' Entitlement Appeal Board. Given the high level of uncertainty around the impact of this decision, there is a risk the actual fiscal impact will differ to the amounts assumed in the fiscal forecasts.

Cross-portfolio

Information and Communications Technology Operating and Capital Pressures (Expenses and Capital)

A number of agencies are planning significant digital transformation programmes to replace ageing information and communications technology (ICT) assets and capability that are no longer fit for purpose. It is likely that the resourcing required to deliver the level of transformation being planned will exceed what is available in agencies' baselines and balance sheets.

In addition, recent changes in the accounting treatment for costs relating to software as a service (SaaS) arrangements mean these may now be recognised as operating expenditure. Therefore, there may be a risk that the actual operating and capital expenditure of SaaS arrangements may differ to the split assumed in the fiscal forecasts, and capital-to-operating swaps may be required to reflect this.

Maintenance for Government-owned Buildings (Expenses and Capital)

There is a possibility that the Government will incur costs when maintenance is required for the buildings it owns beyond costs already included within baseline funding. Examples include earthquake strengthening for some of the buildings that do not meet modern building standards and maintenance for buildings with weathertightness issues. The likelihood, timing and fiscal impact of any repairs are uncertain.

Other Operating Cost Pressures (Expenses)

As in previous years, agencies are likely to face operating expenditure pressures in the future as a result of changes in the demand for and price of the services they provide or because some of their funding is time limited. The majority of spending by agencies is not automatically adjusted for increases driven by demand or price pressures. These pressures, which are most significant in the education and health sectors, are risks to the fiscal forecasts to the extent that they cannot be managed through reprioritisation or new spending set aside in the forecasts. The Government's stated intention is that all pressures will be managed through these mechanisms.

Risks Removed Since the *Half Year Update 2024*

The following table outlines risks that were published in the *Half Year Update 2024* but are no longer disclosed as specific fiscal risks because they are provided for in the forecasts, are adequately captured by existing risks or no longer meet the materiality threshold for publication.

Portfolio name	Risk title	Reason for expiry
Cross-portfolio	Youth Justice Cost Pressures	Budget 2025 provides funding to address the Youth Justice Cost Pressures risk.
Cross-portfolio	Delivering Baseline Savings	The delivery of baseline savings agreed at Budget 2024 has been largely implemented and therefore this risk is now considered to be below the materiality threshold.
Police	Police Cost Pressure Funding	Budget 2025 provides funding to address the Police Cost Pressure risk.
Education	Work Programme Supporting Māori-medium Education and Growing Kaupapa Māori Education – Potential Impact of Wai 1718	Following the Government's agreement to the Māori Education Action Plan, this risk is now considered to be below the materiality threshold.
Revenue	International Tax	This risk has expired following the Government's decision to remove proposed legislation changes to impose a digital services tax.
Business, Science and Innovation	Ongoing fiscal risk from Tui Decommissioning	This risk was previously withheld under section 26V of the Public Finance Act 1989. The risk can be expired as the issues causing delay in the completion of the Tui Decommissioning project have now been resolved, with no further remediation efforts required.

Contingent Liabilities and Contingent Assets

Contingent liabilities are costs that the Government will have to face if a particular event occurs or they are present liabilities that are unable to be measured with sufficient reliability to be recorded in the fiscal forecasts (unquantifiable liabilities).

Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims and uncalled capital. The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation.

In general, if a contingent liability were realised or the amount becomes sufficiently reliable to record as a liability, it would reduce the operating balance and net worth and, for contingencies within the core Crown, increase net core Crown debt. However, in the case of some contingencies (eg, uncalled capital), the negative impact would be restricted to net core Crown debt.

Contingent assets are possible assets that have arisen from past events but the amount of the asset or whether it will eventuate, will not be confirmed until a particular event occurs.

Only contingent liabilities and contingent assets involving amounts of over $100 million are separately disclosed in this chapter. Quantifiable contingencies of less than $100 million are aggregated in the ‘other quantifiable’ total.

Some contingencies of the Crown are not able to be quantified. We have disclosed unquantifiable contingent liabilities and unquantifiable contingent assets that potentially could have an impact in excess of $20 million and are not expected to be remote.[11]

The contingencies have been stated as at 31 March 2025, being the latest set of published financial statements of Government.

[11] ‘Remote’ is defined as being an item with less than a 10% chance of occurring.

Statement of Contingent Liabilities and Contingent Assets

Quantifiable contingent liabilities

	Status[12]	31 March 2025 ($millions)	30 June 2024 ($millions)
Uncalled capital			
Asian Development Bank	Unchanged	3,604	3,350
International Bank for Reconstruction and Development	Unchanged	2,210	2,080
International Monetary Fund – promissory notes	Unchanged	2,123	2,037
International Monetary Fund – arrangements to borrow	Unchanged	1,576	1,471
Asian Infrastructure Investment Bank	Unchanged	647	609
Other uncalled capital		33	33
		10,193	**9,580**
Guarantees and indemnities			
New Zealand Export Credit Office guarantees	Unchanged	149	176
Other guarantees and indemnities		139	103
		288	**279**
Legal proceedings and disputes			
Kāinga Ora – Commerce Act litigation	Unchanged	243	-
Inland Revenue – legal tax proceedings	Unchanged	130	71
New Zealand Transport Authority – Pūhoi to Warkworth contractual dispute[13]	Expired	-	161
Other legal proceedings and disputes		214	208
		587	**440**
Other quantifiable contingent liabilities			
Stafford litigation	Unchanged	500	-
Unclaimed monies	Unchanged	523	511
Air New Zealand partnership agreement	Unchanged	307	157
Waitangi Tribunal – binding recommendations	Unchanged	220	220
Clean Car Standard credits	Unchanged	184	193
Ministry for Primary Industries – *Mycoplasma bovis* compensation claims	New	125	-
Other quantifiable contingent liabilities		66	48
		1,925	**1,129**
Total quantifiable contingent liabilities		**12,993**	**11,428**

12 Status of contingent liabilities or assets when compared to the *Half Year Economic Update* published on 17 December 2024, (based on the nature of the contingency, not the dollar value of contingencies which are regularly updated).

13 NZTA has reached agreement in principle on settlement of the Pūhoi to Warkworth contractual dispute, subject to finalisation of documentation. Their remaining contractual disputes are less than $100 million as such are not disclosed separately.

Quantifiable contingent assets

	31 March 2025 ($millions)	30 June 2024 ($millions)
Transpower New Zealand – economic gains	106	80
Other contingent assets	92	90
Total quantifiable contingent assets	**198**	**170**

Unquantifiable contingent liabilities

Indemnities	**Status**
Contact Energy Limited	Unchanged
Genesis Energy	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Partners	Unchanged
Natural Hazards Commission Toka Tū Ake	Unchanged
New Zealand Aluminium Smelters Limited and Rio Tinto Aluminium Limited (formerly Comalco)	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Reserve Bank	Unchanged
Southern Response Earthquake Services Limited	Unchanged
Synfuels–Waitara Outfall indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal proceedings and disputes	
Accident Compensation Corporation (ACC) litigations	Unchanged
Department of Corrections – contractual disputes	Expired
Legal aid – Court of Appeal judgment	Expired
Ministry of Health – New Zealand College of Midwives class action	Unchanged
Ministry of Transport – Public Works Act claims	Expired
New Zealand Transport Agency – Transmission Gully contractual dispute	Expired
Treaty of Waitangi claims	Unchanged
Ministry of Social Development – Disability Support Services employment obligations	Unchanged
Other unquantifiable contingent liabilities	
Aquaculture settlements	Unchanged
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Ministry for Primary Industries – Biosecurity Act compensation	Unchanged
North Island Weather Events – Category 2 Risk Mitigation Projects and Regional Transport Projects	Changed
Pay equity claims	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged

Description of Quantifiable Contingent Liabilities

Uncalled capital

As part of the Crown's commitment to a multilateral approach to ensure global financial and economic stability, New Zealand, as a member country of the organisations listed on page 99, contributes capital by subscribing to shares in certain institutions. The capital (when called) is typically used to raise additional funding for loans to member countries or, in the case of the quota contributions, to directly finance lending to members. For New Zealand and other donor countries, capital contributions comprise both paid-in capital and 'callable capital or promissory notes.

The Crown's uncalled capital subscriptions over $100 million are listed on page 99.

Guarantees and indemnities

Guarantees are legally binding promises made by the Crown to assume responsibility for a debt or the performance of an obligation, of another party, should that party default. Guarantees generally relate to the payment of money but may require the performance of services.

Indemnities are legally binding promises where the Crown undertakes to accept the risk of loss or damage that another party may suffer and to hold the other party harmless against loss caused by a specific stated event.

New Zealand Export Credit Office guarantees

The New Zealand Export Credit Office provides a range of guaranteed products to assist New Zealand exporters to manage risk and capitalise on trade opportunities around the globe. The obligations to third parties are guaranteed by the Crown and are intended to extend the capacity of facilities in the private sector.

Legal proceedings and disputes

The amounts under quantifiable contingent liabilities for legal proceedings and disputes are shown exclusive of any interest and costs that may be claimed if these cases have an adverse outcome. The amount shown is the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the possible amount of any award.

Kāinga Ora – Commerce Act litigation

Winton Land Limited and its subsidiary Sunfield Developments Limited (Winton) have filed a claim in the High Court alleging that Kāinga Ora has breached section 36 of the Commerce Act 1986 in relation to its urban development functions, causing loss and damage to Winton. Winton seeks damages, including at least $128 million in relation to its proposed Sunfield development, at least $4.1 million in relation to Ferncliffe Farms and at least $111.2 million in relation to an alleged lost development opportunity in a currently undisclosed location. Kāinga Ora denies the claim and is defending the claim.
An eight-week High Court hearing is set to commence on 1 September 2025.

Inland Revenue – legal tax proceedings

When a taxpayer disagrees with an assessment issued following the dispute process, the taxpayer may challenge that decision by filing proceedings with the Taxation Review Authority or the High Court. This contingent liability represents the maximum liability Inland Revenue has in respect of these cases.

Other quantifiable contingent liabilities

Stafford litigation

Crown Law is acting for the Attorney-General on behalf of the Crown in right of New Zealand in *Stafford v Attorney-General* (CIV-2010-485-181), in which it was claimed that the Crown breached trust, fiduciary and other equitable obligations relating to land transactions in the top of the South Island in the 1840s. The plaintiff sought the return of land they say the Crown holds on trust for the successors of the original owners and compensation or other relief for alleged breach of trust, fiduciary, and other equitable obligations. This extended to land currently owned by a number of Crown entities and a State-owned enterprise (SOE). In October 2024, the High Court delivered an interim judgment where the Court upheld some of Mr Stafford’s claims in trust and for breach of fiduciary obligations.

The Court has found that land owned by the Crown entities and SOE is not subject to the trust. The Court has developed a methodology to establish the quantum in its final judgment and requires parties to provide evidence to the Court. The Crown’s liability is therefore yet to be fixed, but it is not likely to be more than $500 million.

Unclaimed monies

Under the Unclaimed Money Act 1971, any holders (eg, financial institutions, insurance companies etc.) or any elective holders pass on money not claimed after five years to the Commissioner of Inland Revenue. The funds are repaid to the entitled owner on proof of identity.

Air New Zealand partnership agreement

The Air New Zealand Group has a partnership agreement with Pratt and Whitney in relation to the Christchurch Engine Centre (CEC), holding a 49% interest. By the nature of the agreement, joint and several liabilities exist between the two parties. The contingent liability represents Air New Zealand’s share of CEC’s liabilities.

Waitangi Tribunal – binding recommendations

In September 2021, the Waitangi Tribunal issued interim recommendations under section 8A of the Treaty of Waitangi Act 1975 in relation to the transfer of 7,676 hectares of the Mangatū Crown Forest licensed land to a trust comprising Te Aitanga a Māhaki, Ngā Uri o Tamanui and Te Whānau a Kai. Should the recommendation become final, compensation will be payable to the recipients under Schedule 1 to the Crown Forest Assets Act 1989. A stay of the Tribunal’s interim recommendations was granted in December 2021 to allow for judicial review proceedings. The February 2023 High Court decision on this matter was appealed to the Court of Appeal by claimants and a hearing was held in July 2024 with a decision pending.

Clean Car Standard credits

The Clean Car Standard scheme became effective from 1 January 2023. Cars that are imported with a carbon dioxide (CO_2) level above the Government-mandated standard pay a charge, while cars that are imported with a CO_2 level below the Government-mandated standard receive a credit. This credit can be either used to offset a current charge, kept to offset future charges or sold to another importer.

As 31 March 2025 there were charges of $51 million and credits of $235 million resulting in a surplus credit position of $184 million that could be used by importers to offset their future charges.

The credits issued are considered a liability to the Crown as they can be used to offset future charges. However, as there is significant uncertainty on how the credits may be used, this liability is classified as a contingent liability. As the scheme matures and more information is gathered on import trends under this scheme, this liability may be able to be measured in the future.

Ministry for Primary Industries – Mycoplasma bovis compensation claims

Litigation proceedings have been initiated against Biosecurity New Zealand claiming compensation under section 16A of the Biosecurity Act 1993 for an estimated loss in equity value of up to $125 million. This claim related to the powers exercised by Biosecurity New Zealand in July 2017 to impose movement restrictions on properties owned by a large-scale dairy operator and to cull cattle suspected of having *Mycoplasma bovis*. While compensation payments have been made for losses arising from Biosecurity New Zealand's exercise of power upon detection of *Mycoplasma bovis,* the claimants are seeking compensation for potential loss in equity they believe they have suffered. The claimant has not yet provided any information or evidence to support their claim.

Description of Quantifiable Contingent Assets

Other quantifiable contingent assets

Transpower New Zealand – economic gains

Transpower operates its revenue-setting methodology within an economic value (EV) framework that analyses economic gains and losses between those attributable to shareholders and those attributable to customers. Under Commerce Commission regulations, Transpower is required to pass on to or claim from customers the customer balance at the end of the Regulatory Control Period. When the balance is in gain, it is recorded as a contingent asset, and when it is in loss, it is recorded as a contingent liability.

The contingent asset amount of $106 million provides the EV account balance for the disclosure year ended 30 June 2024. The previous balance of $80 million is for the disclosure year ended 30 June 2023.

Description of Unquantifiable Contingent Liabilities

This part of the statement provides details of the contingent liabilities of the Government that are not quantified, excluding those that are considered remote. These are reported by the following categories: *Indemnities, Legal proceedings and disputes,* and *Other unquantifiable contingent liabilities*.

The indemnities and claims that are disclosed individually, while they cannot be quantified, have the potential to exceed $20 million in costs and are not considered to be remote.

Indemnities

Indemnities are legally binding promises where the indemnifier undertakes to accept the risk of loss or damage that another party may suffer and to hold the other party harmless against loss caused by a specific stated event.

A number of these indemnities are provided to organisations within the Crown's control to protect them against specified losses. If these indemnities were to crystallise, the Crown would compensate the individual entity for the loss and there would likely be an adverse impact on core Crown expenses and net core Crown debt. The total operating balance and net worth would, however, not be impacted by the indemnity itself but rather by the specified losses incurred by the indemnified organisations.

Party indemnified	Instrument of indemnification	Actions indemnified
Contact Energy Limited	The Crown and Contact Energy Limited signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei	The documents contain two reciprocal indemnities between the Crown and Contact Energy Limited to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Genesis Energy	Genesis acquisition of Tekapo A and B Power Stations	Indemnity against any damage to the bed of lakes and rivers subject to operating easements. Current indemnity follows from original indemnity granted by the Crown to ECNZ in 1993, and to Meridian, Mercury Energy and Contact in 2004.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Section 50 of the District Court Act 2016, section 4F of the Justices of the Peace Act 1957 and section 58 of the Disputes Tribunal Act 1988	Damages or costs awarded against them as a result of exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Partners	Confidentiality agreements with Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.

Party indemnified	Instrument of indemnification	Actions indemnified
Natural Hazards Commission Toka Tū Ake	Section 112 of the Natural Hazards Insurance Act 2023	As set out in the Natural Hazards Insurance Act 2023 the Government shall fund (by means of loan or grant) any deficiency in Natural Hazards Commission Toka Tū Ake assets held in the Natural Disaster Fund to cover its financial liabilities on such terms and conditions that the Minister determines. As the contingency has no end date, it is not possible to quantify the value of commitments that may arise from past or future hazard events that are covered by the Natural Hazards Insurance Act 2023.
New Zealand Aluminium Smelters Limited and Rio Tinto Aluminium Limited (formerly Comalco)	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	Costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.
New Zealand Local Authorities	Section 39 of the Civil Defence Emergency Management Act 2002 – National Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ('the Guide') states that, with the approval of the Minister, local authorities will be reimbursed, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is approved and issued by the Director of Civil Defence Emergency Management.
New Zealand Railways Corporation (NZRC)	Section 10 of the Finance Act 1990	All loan and swap obligations of the NZRC. This includes such loans or swaps entered by NZRC on or prior to 31 December 2012 and vested in KiwiRail Holdings Limited Vesting Order 2012.
Reserve Bank	A letter of indemnity provided by the Crown to the Reserve Bank to cover losses arising from the large-scale asset purchases of New Zealand domestic government bonds	The Crown agreed to indemnify the Reserve Bank in respect of losses that the Reserve Bank incurs in respect of indemnified bonds under the Large-Scale Asset Purchase programme. The Crown may terminate its obligations under this letter of indemnity at any time after 31 August 2022 (termination date) by giving one day's notice to the Reserve Bank. Otherwise, obligations under this letter of indemnity may be terminated by agreement between the Crown and the Reserve Bank if they both believe the programme is no longer needed as a monetary policy tool. Termination of this indemnity will not release the Crown from any liability in respect of losses occurring after the termination date in respect of the indemnified bonds.

Party indemnified	Instrument of indemnification	Actions indemnified
		Indemnified bonds means all New Zealand domestic government bonds, and Local Government Funding Agency (LGFA) bonds purchased by the Reserve Bank under the programme prior to the termination date and any New Zealand domestic government bonds up to the cap. As at August 2020 the cap means 60% of the face value of all New Zealand government nominal bonds on issue on the date of purchase; 30% of the face value of New Zealand government inflation-indexed bonds on issue on the date of purchase and 30% of the face value of all LGFA bonds on issue on the date of purchase of any LGFA bonds, or such amount agreed between the Minister and the Reserve Bank from time to time. The Crown terminated this indemnity on 4 September 2023. However, this does not terminate the obligations that have already accrued under that indemnity (including future liability for indemnified bonds purchased before the indemnity was terminated). The Crown and the Reserve Bank have entered into a new indemnity that would cover losses incurred on future purchases of New Zealand Government Bonds and LGFA bonds up to a limit of $5 billion. Losses means interest risk losses and LGFA credit risk losses.
Southern Response Earthquake Services Limited (SRES)	Deed of indemnity	SRES continues to settle the claims of AMI residual policy holders for Canterbury earthquake damage that occurred before 5 April 2012. The Minister of Finance has provided SRES with a deed of indemnity to ensure that SRES can access sufficient resources to operate and discharge its contractual obligations.
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a deed of indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line that was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI, which has since been transferred to Methanex Motunui Limited.

Party indemnified	Instrument of indemnification	Actions indemnified
Westpac New Zealand Limited	Letter of Indemnity relating to the agreement for supply of transactional banking services to the Crown	The Crown Transactional Banking Services Agreement with Westpac New Zealand Limited (WNZL) and Westpac Banking Corporation (WBC) was entered into on 28 June 2023. The Crown has indemnified WNZL against certain costs, damages, and losses resulting from third party claims against WNZL or WBC regarding: • unauthorised, forged, or fraudulent payment instructions • unauthorised or incorrect direct debit instructions • letters of credit issued by WNZL in favour of a third party as part of providing transactional banking services to the Crown.

Legal proceedings and disputes

There are numerous legal actions that have been brought against the Government. However, in the majority of these actions, it is considered a remote possibility that the Government would lose the case, or if the Government were to lose, it would be unlikely to have greater than a $20 million impact. Based on these factors, not all legal actions are individually disclosed. The claims that are disclosed individually, while they cannot be quantified, have the potential to exceed $20 million in costs.

Accident Compensation Corporation (ACC) litigations

Litigation involving ACC arises mainly from challenges to operational decisions made by ACC through the statutory review and appeal process but also occasionally includes general civil proceedings such as judicial review applications. The majority of appeals are able to be managed on a case-by-case basis, depending on the merits of the issue in dispute, and without wider scheme management impact.

There is currently one proceeding of note that ACC is still a party to. Only when this matter has been fully resolved will it be possible to make a meaningful assessment of the financial impact of the outcome. The range of potential outcomes is wide and could have a material effect on the financial statements of ACC.

Ministry of Health – New Zealand College of Midwives class action

In August 2022, the New Zealand College of Midwives filed a class action proceeding against the Ministry of Health on behalf of self-employed midwives over contractual issues. The High Court hearing was completed on 13 September 2024. Given the length of the hearing, the decision is not expected for many months.

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge certain claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Government with respect to land that has been transferred by the Government to an SOE, university, wānanga or Te Pūkenga New Zealand Institute of Skills and Technology or is subject to the Crown Forest Assets Act 1989.

On occasion, Māori claimants pursue the resolution of particular claims through higher Courts. Failure to successfully defend such actions may result in a liability for historical Treaty grievances in excess of that currently anticipated.

Ministry of Social Development – Disability Support Services employment obligations

The Ministry of Social Development, on behalf of the Crown, is currently a party in a number of Employment Relations Authority matters that are awaiting the outcome of an appeal to the Supreme Court on whether people who are funded from Disability Support Services to provide care to family in their own home are employees of the Crown. The Supreme Court was due to consider this matter in April 2025, but it is unknown when the judgment will be released. The legal work (and associated costs) required to implement the Court's decision and apply it to the remaining cases is likely to continue past the current financial year.

Other unquantifiable contingent liabilities

Aquaculture settlements

Under the Māori Commercial Aquaculture Claims Settlement Act 2004, the Crown is obligated to provide regional iwi with 20% of future aquaculture growth. This settlement is ongoing and includes prospective settlement. As aquaculture in New Zealand grows, settlement obligations arise. Iwi may choose to accept settlement as either cash, marine rights or a combination of these following the negotiation process. The amount and timing of settlements are therefore uncertain, as they are dependent on sector growth as well as the preferred nature of settlement. This results in challenges in reliably estimating the Crown's potential obligations.

Criminal Proceeds (Recovery) Act 2009

The Ministry of Justice is responsible for administering the Criminal Proceeds (Recovery) Act 2009. The Act requires the Crown to give an undertaking as to damages or costs in relation to asset restraining orders. In the event that the Crown is found liable, payment may be required.

Environmental liabilities

Under common law and various statutes, the Government may have a responsibility to remedy adverse effects on the environment arising from Government activities. Entities managing significant government properties have implemented systems to identify, monitor and assess potential contaminated sites.

In accordance with NZ GAAP, any contaminated sites for which costs can be reliably measured have been included in the statement of financial position as provisions. Where costs cannot be reliably measured, they are disclosed as an unquantified contingent liability.

Ministry for Primary Industries – Biosecurity Act compensation

In addition to the quantifiable legal dispute (see page 103), under section 162A of the Biosecurity Act 1993, compensation may be payable as a result of the exercise of powers to manage or eradicate organisms. Compensation is payable where there are verifiable losses as a result of the damage or destruction of a person's property or restrictions on the movement of a person's goods.

The Ministry for Primary Industries has received a number of claims for compensation for incursions including the *Mycoplasma bovis* outbreak, but the amount remains unquantified due to the Ministry being unable to reliably estimate the period of time that losses will be incurred as a result of its actions under the Biosecurity Act 1993.

North Island Weather Events – Category 2 Risk Mitigation Projects and Regional Transport Projects

The Crown entered into agreements with some local authorities to help fund Category 2 Risk Mitigation and Regional Transport Projects following the North Island weather events in 2023. Funding in respect of the Category 2 Risk Mitigation Projects is released subject to the milestones and conditions provided for in the applicable project funding agreement.

The fiscal forecasts include the projected utilisation of the Category 2 Risk Mitigation and Regional Transport Projects funding.

The demand for the funding is influenced by the local authority's ability to fund its share of projects. Any Crown liability is contingent on local authorities submitting project proposals that meet the requirements for co-funding. Subsequent to 31 March 2025, this is no longer a contingent liability as funding has been quantified and a liability recognised.

Pay equity claims – See page 83

Treaty of Waitangi claims – settlement relativity payments – See page 91

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Forecast Financial Statements

These forecasts have been prepared in accordance with the Public Finance Act 1989.

They are based on the accounting policies and assumptions that follow. As with all such assumptions, there is a degree of uncertainty surrounding them. This uncertainty increases as the forecast horizon extends. There are risks to the fiscal forecasts which are discussed further in the Fiscal Outlook and Specific Fiscal Risks chapters.

These forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. The forecast financial statements reflect all government decisions and circumstances communicated up to 30 April 2025, where these can be reliably measured.

The key assumptions that underpin the preparation of the Forecast Financial Statements are outlined on pages 112 to 114.

Statement of Accounting Policies, Judgements and Assumptions

Significant Accounting Policies

The Forecast Financial Statements have been prepared in accordance with the accounting policies that are expected to be used in the comparable audited actual Financial Statements of the Government. They comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989 and have been prepared in accordance with *Public Benefit Entity Financial Reporting Standard 42: Prospective Financial Statements*.

The Forecasts Financial Statements use the accrual basis of accounting unless otherwise specified (for example, the Statement of Cash Flows). Forecasts have been prepared for the consolidated Financial Statements of the Government reporting entity, which includes all entities controlled by the Government (as defined by applicable financial reporting standards).

The Forecast Financial Statements reflect the accounting standards in place in the year that they are prepared. Adoption of new accounting standards in future financial years are consequently not reflected in these Forecast Financial Statements. For example, the public sector modified version of PBE IFRS 17 Insurance Contracts was issued in 2023 (to supersede PBE IFRS 4 Insurance Contracts) and is effective for reporting periods beginning on or after 1 January 2026. The specific accounting treatment is still being developed but, on adoption, may result in a material reduction to the risk margin used in the measurement of insurance liabilities with a corresponding increase to net worth.

Where accounting standards are to be adopted within the fiscal forecasts period, this has been signalled in the note disclosures where impacts may be significant. The specific accounting policies are included on the Treasury's website at https://www.treasury.govt.nz/publications/efu/additional-information-budget-economic-and-fiscal-update-2025.

Forecast Policies

The Forecast Financial Statements have been prepared on the basis of the Treasury's best professional judgement. Actual financial results for the periods covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results in future years are set out in the Fiscal Outlook chapter on pages 63 to 65.

Key Judgements and Assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available at the time they were prepared. Actual events are likely to differ from these assumptions and judgements, while uncertainty around the forecast assumptions and judgements increases over the forecast period.

The following key judgements and assumptions supporting the fiscal forecasts were made:

- To calculate income tax revenue across the forecast period, firms' net operating surplus forecasts on a System of National Accounts basis are used to create tax-year forecasts of total income tax for both net other persons tax and corporate tax, which are then converted into fiscal years (to 30 June). For the five-year forecast period to 2028/29, the annual operating surplus forecasts range from -0.3% to 10.4%.

- Tax forecasts are based on the economic forecasts completed on 7 April 2025.

- The cost of commitments not explicitly included in the fiscal forecasts (or variations to the estimates included in the fiscal forecasts) are assumed to be met from within the Budget operating allowances and the Budget capital allowances, which are included in the fiscal forecasts.

- Departments continue to spend less than the upper limits of approved spending (referred to as appropriations). A top-down adjustment is made to compensate for this. The adjustment is higher at the start of the forecast period, as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have in transferring expenses into these years.

- Forecast returns on the investment portfolios managed by the Accident Compensation Corporation (ACC) and the NZS Fund are based on their expectations of long-term benchmark rates of return for their respective portfolios.

- No revaluations of property, plant and equipment are projected beyond the current year. Only revaluations that have already been completed are included in these forecasts.

- Significant valuations (eg, the student loans portfolio, the ACC claims liability and the Government Superannuation Fund retirement liability) are based on underlying assumptions (eg, discount rates, salary increases and inflation) made at the time the valuations were prepared.

- Refer to Note 11: NZ Superannuation Fund for the contributions over the forecast period. The contributions to the NZS Fund, are assumed to be derived from the legislative formula. However, the Government has choices around how much they contribute in any given year. Over the forecast years, all NZS Fund variables (apart from the capital contributions) are based on those provided by the NZS Fund. For more information, refer to the Treasury website for the NZS Fund model.

Key Economic Assumptions used in the Forecast Financial Statements

In addition to the outlined key judgements and assumptions, the Forecast Financial Statements are prepared on the basis of underlying economic forecasts. Such forecasts are critical for determining revenue and expense estimates.

For example:

- a nominal GDP forecast is needed to forecast tax revenue
- a forecast of average weekly earnings and CPI is needed, because social assistance benefits are generally indexed to wage growth or inflation
- forecasts of interest rates are needed to forecast finance costs, interest income and discount rates.

Below is a summary of the key economic forecasts that are particularly relevant to the Forecast Financial Statements.

Table 4.1 – Key economic assumptions for fiscal forecasts

Year ending 30 June	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Real GDP[1] (ann avg % chg)	0.6	(0.8)	2.9	3.0	2.9	2.6
Nominal GDP[2] ($b)	420.6	435.1	456.5	477.8	500.9	524.1
CPI (ann avg % chg)	4.4	2.2	2.2	2.0	2.0	2.0
Govt 10-year bonds (ann avg, %)	4.9	4.4	4.3	4.3	4.2	4.3
5-year bonds (ann avg, %)	4.7	4.0	3.8	3.8	3.8	3.9
90-day bill rate (ann avg, %)	5.7	4.3	3.2	2.7	2.6	2.6
Unemployment rate (ann avg, %)	4.2	5.2	5.2	4.9	4.6	4.4
Employment (ann avg % chg)	1.7	(0.6)	1.5	2.1	2.0	1.7
Average weekly earnings[3] (ann % chg)	5.6	2.9	1.9	2.5	2.6	2.7

Notes: 1 Production measure.
2 Expenditure measure.
3 Ordinary time.

Sources: The Treasury, Stats NZ, Reserve Bank of New Zealand

Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2025 to 30 June 2029. The “Previous Budget” figures are the original forecasts to 30 June 2025 as presented in the 2024 *Budget Update* and the “2024 Actual” figures are the audited actual results for the year ended 30 June 2024 reported in the *Financial Statements of the Government for the year ended 30 June 2024*.

Government Reporting Entity as at 30 April 2025

These Forecast Financial Statements are for the Government Reporting Entity as specified in Part 3 of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities (classified in the three institutional components used for segmental reporting). The following tables list the entities within each institutional component. Subsidiaries are consolidated by their parents and are not listed separately.

Core Crown Segment

Departments

Crown Law Office

Department of Conservation

Department of Corrections

Department of Internal Affairs
(services Digital Executive Board as an interdepartmental executive board)
(hosts Ministry for Ethnic Communities as a departmental agency)

Department of the Prime Minister and Cabinet
(hosts National Emergency Management Agency as a departmental agency)

Education Review Office
(hosts Aroturuki Tamariki – Independent Children's Monitor as a departmental agency)

Government Communications Security Bureau

Inland Revenue Department

Land Information New Zealand

Ministry for Culture and Heritage

Ministry of Disabled People

Ministry for Pacific Peoples

Ministry for Primary Industries

Ministry for Regulation

Ministry for the Environment
(services Change Chief Executives Board as interdepartmental executive boards)

Ministry for Women

Ministry of Business, Innovation, and Employment

Ministry of Defence

Ministry of Education
(hosts Charter School Agency as a departmental agency)

Ministry of Foreign Affairs and Trade

Ministry of Health
(hosts Cancer Control Agency, as a departmental agency)

Ministry of Housing and Urban Development

Ministry of Justice
(services Executive Board for the Elimination of Family Violence and Sexual Violence as an interdepartmental executive board)

Ministry of Māori Development – Te Puni Kōkiri
(hosts Te Arawhiti – Office for Māori Crown Relations as a departmental agency)

Ministry of Social Development

Ministry of Transport

New Zealand Customs Service
(services Border Executive Board as an interdepartmental executive board)

New Zealand Defence Force

New Zealand Police

New Zealand Security Intelligence Service

Office of the Clerk of the House of Representatives

Oranga Tamariki – Ministry for Children

Parliamentary Counsel Office

Parliamentary Service

Public Service Commission

Serious Fraud Office

Social Investment Agency

Statistics New Zealand

The Treasury

Others

New Zealand Superannuation Fund

Reserve Bank of New Zealand

Offices of Parliament

Controller and Auditor-General

Office of the Ombudsman

Parliamentary Commissioner for the Environment

State-owned Enterprises Segment

State-owned Enterprises

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
KiwiRail Holdings Limited
Kordia Group Limited
Landcorp Farming Limited
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act Schedule 5)

Genesis Energy Limited
Mercury NZ Limited
Meridian Energy Limited

Other

Air New Zealand Limited

Crown Entities Segment

Crown Entities

Accident Compensation Corporation
Accreditation Council
Arts Council of New Zealand Toi Aotearoa
Auckland Light Rail Limited
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Children and Young People's Commission
Civil Aviation Authority of New Zealand
Climate Change Commission
Commerce Commission
Criminal Cases Review Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Financial Markets Authority
Fire and Emergency New Zealand
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health New Zealand
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Human Rights Commission
Independent Police Conduct Authority
Integrity Sport and Recreation Commission (previously Drug Free Sport NZ)
Kāinga Ora – Homes and Communities
Law Commission
Maritime New Zealand
Mental Health and Wellbeing Commission
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood and Organ Service
New Zealand Film Commission
New Zealand Growth Capital Partners Limited
New Zealand Infrastructure Commission/ Te Waihanga
New Zealand Lotteries Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,425)
Social Workers Registration Board
Sport and Recreation New Zealand
Takeovers Panel
Taumata Arowai – the Water Services Regulator
Te Pūkenga – New Zealand Institute of Skills and Technology
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Toka Tū Ake – Natural Hazards Commission (previously Earthquake Commission)
Transport Accident Investigation Commission
WorkSafe New Zealand

Crown Entities Segment (continued)

Organisations listed in Schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

Māori Trustee

National Pacific Radio Trust

New Zealand Fish and Game Council

New Zealand Game Bird Habitat Trust Board

New Zealand Government Property Corporation

New Zealand Lottery Grants Board

Ngāi Tahu Ancillary Claims Trust

Pacific Co-operation Foundation

Pacific Island Business Development Trust

Reserves Boards (20)

Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act Schedule 4A)

Crown Infrastructure Delivery Limited (Previously Rau Paenga Limited)

Crown Regional Holdings Limited

Education Payroll Limited

Ferry Holdings Limited

Kiwi Group Capital Limited

National Infrastructure Funding and Financing Limited (Previously Crown Infrastructure Partners Limited)

New Zealand Green Investment Finance Limited

Ngāpuhi Investment Fund Limited

Predator Free 2050 Limited

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

Legal entities created by Treaty of Waitangi settlement Acts (Public Finance Act Schedule 6)

Te Urewera

Te Kāhui Tupua

Others

Elevate NZ Venture Fund

Other entities not fully consolidated into the Forecast Financial Statements of the Government with only the Crown's interest in them being included.

Crown entities

Tertiary Education Institutions (10)

(8 Universities and 2 Wānanga)

Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act Schedule 4A)

City Rail Link Limited

Subsidiaries of SOEs, Crown entities and other government entities are consolidated by entities listed above and are not listed separately in this table.

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Revenue								
Taxation revenue	1	119,900	122,154	120,160	124,210	132,097	139,480	147,054
Other sovereign revenue	1	9,426	10,667	10,456	11,006	11,570	12,174	12,810
Total Revenue Levied through the Crown's Sovereign Power		**129,326**	**132,821**	**130,616**	**135,216**	**143,667**	**151,654**	**159,864**
Sales of goods and services		25,135	24,420	26,362	27,554	28,504	29,870	30,238
Interest revenue	2	7,120	5,846	6,870	6,408	6,459	6,755	7,156
Other revenue		5,766	4,956	5,803	6,686	5,393	5,511	5,753
Total revenue earned through the Crown's operations		**38,021**	**35,222**	**39,035**	**40,648**	**40,356**	**42,136**	**43,147**
Total revenue (excluding gains)		**167,347**	**168,043**	**169,651**	**175,864**	**184,023**	**193,790**	**203,011**
Expenses								
Transfer payments and subsidies	3	41,937	44,716	44,864	46,523	47,962	49,622	50,691
Personnel expenses		39,083	37,895	39,610	40,758	41,475	41,884	42,311
Depreciation		7,621	7,882	8,060	8,424	8,717	9,064	9,205
Other operating expenses	4	70,620	69,143	72,674	72,901	71,615	69,318	69,343
Finance costs	2	10,374	10,166	10,312	11,073	12,122	13,342	14,399
Insurance expenses	5	10,426	10,215	11,292	10,659	11,323	11,895	12,323
Forecast new operating spending	6	-	3,796	-	1,720	2,719	5,369	7,903
Top-down operating expense adjustment	6	-	(2,800)	(2,700)	(900)	(600)	(600)	(600)
Total expenses (excluding losses)		**180,061**	**181,013**	**184,112**	**191,158**	**195,333**	**199,894**	**205,575**
Gains/(losses)								
Net gains/(losses) on financial instruments	2	11,410	6,305	9,287	5,692	6,017	6,474	6,914
Net gains/(losses) on non-financial instruments	7	(6,743)	-	(206)	-	-	-	-
Total gains/(losses) (including minority interests)		**4,667**	**6,305**	**9,081**	**5,692**	**6,017**	**6,474**	**6,914**
Net surplus/(deficit) from associates and joint ventures		120	48	192	71	114	148	211
Less minority interests' share of operating balance		(438)	(530)	(305)	(353)	(486)	(557)	(490)
Operating balance (excluding minority interests)		**(8,365)**	**(7,147)**	**(5,493)**	**(9,884)**	**(5,665)**	**(39)**	**4,071**
Minority interests' share of operating balance		438	530	305	353	486	557	490
Operating balance (including minority interests)		**(7,927)**	**(6,617)**	**(5,188)**	**(9,531)**	**(5,179)**	**518**	**4,561**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Comprehensive Revenue and Expense

for the years ending 30 June

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Operating Balance (including minority interests)	**(7,927)**	**(6,617)**	**(5,188)**	**(9,531)**	**(5,179)**	**518**	**4,561**
Other comprehensive revenue and expense							
Revaluation of physical assets	8,260	-	163	-	-	-	-
Revaluation of defined benefit retirement plan schemes	455	20	494	104	98	77	56
Net revaluations of veterans' disability entitlements[1]	(247)	-	(3,215)	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	(418)	(28)	(51)	(25)	8	(22)	(29)
Transfers into/(out of) reserves	(6)	-	80	-	-	-	-
(Gains)/losses transferred to the statement of financial performance	(70)	-	(13)	-	-	-	-
Foreign currency translation differences on foreign operations	1	-	1	-	-	-	-
Other movements	26	(114)	3	(28)	(26)	(34)	(34)
Total other comprehensive revenue and expense	**8,001**	**(122)**	**(2,538)**	**51**	**80**	**21**	**(7)**
Total comprehensive revenue and expense	**74**	**(6,739)**	**(7,726)**	**(9,480)**	**(5,099)**	**539**	**4,554**
Attributable to:							
- minority interests	1,770	527	397	337	485	545	475
- the Crown	(1,696)	(7,266)	(8,123)	(9,817)	(5,584)	(6)	4,079
Total comprehensive revenue and expense	**74**	**(6,739)**	**(7,726)**	**(9,480)**	**(5,099)**	**539**	**4,554**

1. This includes an estimate for the impacts on the Veterans' disability entitlement liability following the decision by the Veterans' Entitlement Appeal Board.

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Opening net worth	191,472	189,233	191,049	183,130	173,224	167,779	167,840
Operating balance (including minority interests)	(7,927)	(6,617)	(5,188)	(9,531)	(5,179)	518	4,561
Net revaluations of physical assets	8,260	-	163	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	455	20	494	104	98	77	56
Net revaluations of veterans' disability entitlements	(247)	-	(3,215)	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	(418)	(28)	(51)	(25)	8	(22)	(29)
Transfers into/(out of) reserves	(6)	-	80	-	-	-	-
(Gains)/losses transferred to the Statement of Financial Performance	(70)	-	(13)	-	-	-	-
Foreign currency translation differences on foreign operations	1	-	1	-	-	-	-
Other movements	26	(114)	3	(28)	(26)	(34)	(34)
Comprehensive income	**74**	**(6,739)**	**(7,726)**	**(9,480)**	**(5,099)**	**539**	**4,554**
Increase in minority interest from equity issues	77	34	331	102	223	135	139
Transactions with minority interests	(574)	(572)	(524)	(528)	(569)	(613)	(640)
Closing net worth	**191,049**	**181,956**	**183,130**	**173,224**	**167,779**	**167,840**	**171,893**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Cash Flows

for the years ending 30 June

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	116,042	125,598	121,328	122,887	131,096	138,239	145,541
Other sovereign receipts	7,484	8,552	7,999	8,605	9,210	9,849	10,413
Sales of goods and services	24,359	24,174	27,206	27,605	28,787	29,917	30,299
Interest receipts	5,283	5,167	6,094	5,604	4,656	4,639	4,908
Other operating receipts	6,535	4,997	6,626	6,054	6,364	6,403	6,618
Total cash provided from operations	**159,703**	**168,488**	**169,253**	**170,755**	**180,113**	**189,047**	**197,779**
Cash was disbursed to							
Transfer payments and subsidies	42,335	45,781	46,250	47,413	48,415	49,828	51,317
Personnel and operating payments	111,095	111,287	120,330	116,934	118,457	117,186	116,807
Interest payments	8,579	8,630	8,535	9,281	10,357	10,997	12,267
Forecast new operating spending	-	3,796	-	1,720	2,719	5,369	7,903
Top-down operating expense adjustment	-	(2,800)	(2,700)	(900)	(600)	(600)	(600)
Total cash disbursed to operations	**162,009**	**166,694**	**172,415**	**174,448**	**179,348**	**182,780**	**187,694**
Net cash flows from operations	**(2,306)**	**1,794**	**(3,162)**	**(3,693)**	**765**	**6,267**	**10,085**
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(16,948)	(18,156)	(15,737)	(17,817)	(15,277)	(14,224)	(12,698)
Net (purchase)/sale of shares and other securities	(10,232)	(7,434)	(6,375)	(4,693)	3,261	202	113
Net (purchase)/sale of intangible assets	(860)	(903)	(914)	(743)	(621)	(592)	(622)
Net (issue)/repayment of advances	151	5,102	6,014	2,743	(3,830)	(4,205)	(3,948)
Net acquisition of investments in associates	(397)	(467)	(456)	(266)	(193)	(268)	(88)
Forecast new capital spending	-	(2,094)	-	(2,560)	(3,142)	(3,477)	(4,031)
Top-down capital adjustment	-	1,550	1,500	900	100	100	100
Net cash flows from investing activities	**(28,286)**	**(22,402)**	**(15,968)**	**(22,436)**	**(19,702)**	**(22,464)**	**(21,174)**
Net cash flows from operating and investing activities	**(30,592)**	**(20,608)**	**(19,130)**	**(26,129)**	**(18,937)**	**(16,197)**	**(11,089)**
Cash Flows from Financing Activities							
Cash was provided from/(disbursed to)							
Net Issue/(repayment) of circulating currency	(24)	91	89	91	92	92	93
Net issue/(repayment) of government bonds[1]	26,422	27,369	31,431	24,812	22,541	13,182	9,009
Net issue/(repayment) of foreign-currency borrowings	651	1,221	848	(1,333)	560	159	(66)
Net issue/(repayment) of other New Zealand dollar borrowings	1,515	(9,241)	(7,338)	3,161	(3,122)	2,609	2,441
Net issue/(purchase) of equity	-	-	251	-	95	-	-
Dividends paid to minority interests	(505)	(502)	(438)	(462)	(463)	(504)	(526)
Net cash flows from financing activities	**28,059**	**18,938**	**24,843**	**26,269**	**19,703**	**15,538**	**10,951**
Net movement in cash	**(2,533)**	**(1,670)**	**5,713**	**140**	**766**	**(659)**	**(138)**
Opening cash balance	18,791	21,040	16,212	22,709	22,849	23,615	22,956
Foreign-exchange gains/(losses) on opening cash	(46)	-	784	-	-	-	-
Closing cash balance	**16,212**	**19,370**	**22,709**	**22,849**	**23,615**	**22,956**	**22,818**

1. Further information on the issue and repayments of government bonds is available in the core Crown residual cash summary included in the attached Fiscal Indicator Analysis section.

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Cash Flows (continued)

for the years ending 30 June

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
Net Cash Flows from Operations	**(2,306)**	**1,794**	**(3,162)**	**(3,693)**	**765**	**6,267**	**10,085**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses) and Other Interests							
Net gains/(losses) on financial instruments	11,410	6,305	9,287	5,692	6,017	6,474	6,914
Net gains/(losses) on non-financial instruments	(6,743)	-	(206)	-	-	-	-
Net surplus/(deficit) from associates and joint ventures	120	48	192	71	114	148	211
Total gains/(losses) and other interests	**4,787**	**6,353**	**9,273**	**5,763**	**6,131**	**6,622**	**7,125**
Other Non-cash Items in Operating Balance							
Depreciation	(7,621)	(7,882)	(8,060)	(8,424)	(8,717)	(9,064)	(9,205)
Amortisation and net impairment of non-financial assets	(1,195)	(1,790)	(844)	(1,556)	(830)	(813)	(810)
Cost of concessionary lending	(719)	(756)	(612)	(681)	(674)	(650)	(663)
Impairment of financial assets (excluding receivables)	(123)	67	31	47	31	(11)	(10)
Change in accumulating insurance expenses	(3,838)	(3,095)	(4,035)	(3,037)	(3,324)	(3,692)	(3,850)
Change in NZ ETS liability	614	1,507	1,277	1,145	886	643	649
Change in accumulating pension expenses	61	(46)	(50)	(49)	(48)	(46)	(45)
Total other non-cash items in operating balance	**(12,821)**	**(11,995)**	**(12,293)**	**(12,555)**	**(12,676)**	**(13,633)**	**(13,934)**
Working Capital and Other Movements							
Increase/(decrease) in receivables	3,305	(4,624)	(2,560)	1,338	(10)	1,192	1,545
Increase/(decrease) in accrued interest	211	(925)	(1,050)	(1,019)	(67)	(347)	(37)
Increase/(decrease) in inventories	(180)	504	544	112	42	(71)	(93)
Increase/(decrease) in prepayments	305	225	582	(178)	109	107	15
Decrease/(increase) in deferred revenue	158	(7)	(183)	(7)	(91)	(24)	(64)
Decrease/(increase) in payables/provisions	(1,386)	2,058	3,661	708	618	405	(81)
Total working capital and other movements	**2,413**	**(2,769)**	**994**	**954**	**601**	**1,262**	**1,285**
Operating balance (including minority	**(7,927)**	**(6,617)**	**(5,188)**	**(9,531)**	**(5,179)**	**518**	**4,561**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Financial Position

as at 30 June

	Note	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Assets								
Cash and cash equivalents	8	16,212	19,370	22,709	22,849	23,615	22,956	22,818
Receivables	8	37,232	31,865	36,374	37,007	37,020	38,236	39,781
Marketable securities, deposits and derivatives in gain	8	73,646	85,292	86,497	95,932	96,972	99,696	103,152
Share investments	8	53,495	54,166	59,882	61,163	63,186	65,208	67,192
Advances	8	69,378	62,496	64,405	60,767	64,407	68,521	72,209
Investments in controlled enterprises	8	7,174	9,315	8,399	9,309	10,826	12,381	14,014
Inventory		2,861	3,616	3,405	3,517	3,559	3,488	3,395
Other assets		5,045	4,699	5,385	5,041	5,158	5,300	5,334
Property, plant and equipment	10	283,790	288,872	292,196	302,790	308,666	313,244	316,176
Equity accounted investments[1]		17,951	17,109	18,553	16,738	17,015	17,399	17,648
Intangible assets and goodwill		4,084	3,982	4,203	4,191	4,116	4,046	4,007
Forecast for new capital spending	6	-	2,094	-	2,560	5,702	9,179	13,210
Top-down capital adjustment		-	(2,550)	(1,500)	(2,400)	(2,500)	(2,600)	(2,700)
Total assets		**570,868**	**580,326**	**600,508**	**619,464**	**637,742**	**657,054**	**676,236**
Liabilities								
Issued currency		8,977	9,222	9,066	9,156	9,248	9,340	9,434
Payables	12	19,863	18,513	26,415	26,925	28,080	28,029	28,589
Deferred revenue		3,453	3,407	3,636	3,643	3,734	3,758	3,822
Borrowings	16	250,943	278,882	277,570	305,076	325,919	342,611	354,200
New Zealand Emissions Trading Scheme	15	6,626	6,600	6,556	5,741	5,138	4,725	4,253
Insurance liabilities	5	66,575	62,755	69,928	72,964	76,288	79,979	83,829
Retirement plan liabilities	13	7,337	7,082	6,535	6,028	5,516	5,030	4,570
Provisions	14	16,045	11,909	17,672	16,707	16,040	15,742	15,646
Total liabilities		**379,819**	**398,370**	**417,378**	**446,240**	**469,963**	**489,214**	**504,343**
Total assets less total liabilities		**191,049**	**181,956**	**183,130**	**173,224**	**167,779**	**167,840**	**171,893**
Net Worth								
Taxpayers' funds		300	(1,726)	(5,156)	(15,064)	(20,753)	(20,822)	(16,781)
Property, plant and equipment revaluation reserve		181,176	174,430	181,193	181,198	181,198	181,199	181,200
Defined benefit plan revaluation reserve		864	807	1,358	1,462	1,560	1,637	1,693
Veterans' disability entitlements reserve		(640)	(392)	(3,855)	(3,855)	(3,855)	(3,855)	(3,855)
Other reserves		118	477	155	137	144	129	110
Total net worth attributable to the Crown		**181,818**	**173,596**	**173,695**	**163,878**	**158,294**	**158,288**	**162,367**
Net worth attributable to minority interests		9,231	8,360	9,435	9,346	9,485	9,552	9,526
Total net worth	17	**191,049**	**181,956**	**183,130**	**173,224**	**167,779**	**167,840**	**171,893**

1. Equity accounted investments include Universities, Wānanga and City Rail Link Limited. The investment in City Rail Link Limited is expected to be divested in 2025/26.

The accompanying notes and accounting policies are an integral part of these Statements.

Statement of Actual Commitments

	As at 31 March 2025 $m	As at 30 June 2024 $m
Capital Commitments		
State highways	2,497	2,512
Specialist military equipment	494	411
Land and buildings	6,389	7,547
Other property, plant and equipment	5,373	5,098
Other capital commitments	921	1,118
Universities and Wānanga	412	412
Total capital commitments	**16,086**	**17,098**
Operating Commitments		
Non-cancellable accommodation leases	6,089	6,092
Other non-cancellable leases	4,913	4,952
Universities and Wānanga	1,332	1,332
Total operating commitments	**12,334**	**12,376**
Total commitments	**28,420**	**29,474**
Total Commitments by Segment		
Core Crown	11,236	11,281
Crown entities	9,866	11,166
State-owned Enterprises	7,845	7,543
Inter-segment eliminations	(527)	(516)
Total commitments	**28,420**	**29,474**

Statement of Actual Contingent Liabilities and Assets

	As at 31 March 2025 $m	As at 30 June 2024 $m
Quantifiable Contingent Liabilities		
Uncalled capital	10,193	9,580
Guarantees and indemnities	288	279
Legal proceedings and disputes	587	440
Other contingent liabilities	1,925	1,129
Total quantifiable contingent liabilities	**12,993**	**11,428**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	13,238	11,942
Crown entities	329	246
State-owned Enterprises	376	190
Inter-segment eliminations	(950)	(950)
Total quantifiable contingent liabilities	**12,993**	**11,428**
Quantifiable Contingent Assets by Segment		
Core Crown	58	56
Crown entities	34	34
State-owned Enterprises	106	80
Total quantifiable contingent assets	**198**	**170**

More information on contingent liabilities and assets (quantified and unquantified) is outlined in the Specific Fiscal Risks chapter.

The accompanying notes and accounting policies are an integral part of these Statements.

Notes to the Forecast Financial Statements

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation Revenue (accrual)							
Individuals							
Source deductions	52,283	53,546	52,734	55,243	58,266	61,514	65,032
Other persons	9,866	10,541	10,886	11,394	11,790	12,678	13,421
Refunds	(2,655)	(2,766)	(2,930)	(2,936)	(3,121)	(3,285)	(3,457)
Fringe benefit tax	838	837	907	909	928	960	992
Total individuals	**60,332**	**62,158**	**61,597**	**64,610**	**67,863**	**71,867**	**75,988**
Corporate Tax							
Gross companies tax	16,940	17,623	16,611	17,074	19,747	20,930	22,543
Refunds	(738)	(718)	(1,027)	(1,049)	(915)	(899)	(902)
Non-resident withholding tax	707	695	738	723	715	735	765
Total corporate tax	**16,909**	**17,600**	**16,322**	**16,748**	**19,547**	**20,766**	**22,406**
Other Direct Income Tax							
Resident w/holding tax on interest income	3,473	3,198	3,801	3,209	2,778	2,325	2,106
Resident w/holding tax on dividend income	2,521	1,000	955	1,168	1,170	1,278	1,352
Total other direct income tax	**5,994**	**4,198**	**4,756**	**4,377**	**3,948**	**3,603**	**3,458**
Total direct income tax	**83,235**	**83,956**	**82,675**	**85,735**	**91,358**	**96,236**	**101,852**
Goods and Services Tax							
Gross goods and services tax	47,446	49,407	48,672	52,072	54,982	58,030	60,723
Refunds	(18,168)	(18,939)	(18,862)	(21,567)	(22,683)	(23,839)	(25,028)
Total goods and services tax	**29,278**	**30,468**	**29,810**	**30,505**	**32,299**	**34,191**	**35,695**
Other Indirect Taxation							
Road and track user charges	1,839	2,100	2,019	2,172	2,428	2,815	3,122
Alcohol excise – domestic production	808	867	812	832	867	902	938
Petroleum fuels excise	2,002	1,889	1,955	1,937	2,088	2,320	2,448
Alcohol excise – imports[1]	431	532	477	510	531	553	575
Tobacco excise – imports[1]	1,473	1,506	1,500	1,479	1,417	1,356	1,318
Other customs duty	180	94	115	108	114	123	132
Gaming duties	252	306	311	321	328	338	347
Motor vehicle fees	232	302	298	462	534	528	523
Approved issuer levy and cheque duty	149	112	166	127	111	96	82
Energy resources levies	21	22	22	22	22	22	22
Total other indirect taxation	**7,387**	**7,730**	**7,675**	**7,970**	**8,440**	**9,053**	**9,507**
Total indirect taxation	**36,665**	**38,198**	**37,485**	**38,475**	**40,739**	**43,244**	**45,202**
Total taxation revenue	**119,900**	**122,154**	**120,160**	**124,210**	**132,097**	**139,480**	**147,054**
Other Sovereign Revenue (accrual)							
ACC levies	4,145	4,437	4,265	4,715	5,204	5,703	6,239
Emissions trading revenue	1,690	2,730	2,435	2,215	2,124	2,073	2,063
Fire and Emergency levies	712	826	808	834	880	909	939
Natural Hazards Commission[2] levies	853	904	910	920	934	953	967
Clean vehicle discount	103	151	-	-	-	-	-
Child support and working for families penalties	246	174	141	156	173	188	203
Court fines	125	118	140	143	143	144	144
Other miscellaneous items	1,552	1,327	1,757	2,023	2,112	2,204	2,255
Total other sovereign revenue	**9,426**	**10,667**	**10,456**	**11,006**	**11,570**	**12,174**	**12,810**
Total sovereign revenue	**129,326**	**132,821**	**130,616**	**135,216**	**143,667**	**151,654**	**159,864**

1. Customs excise-equivalent duty.
2. Previously Earthquake Commission.

Notes to the Forecast Financial Statements

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation Receipts (cash)							
Individuals							
Source deductions	51,683	53,374	52,571	54,960	57,973	61,205	64,704
Other persons	10,269	11,285	10,535	11,702	12,068	12,770	13,439
Refunds	(3,176)	(3,251)	(3,328)	(3,648)	(3,620)	(3,725)	(3,834)
Fringe benefit tax	822	837	908	909	928	959	992
Total individuals	**59,598**	**62,245**	**60,686**	**63,923**	**67,349**	**71,209**	**75,301**
Corporate Tax							
Gross companies tax	17,849	18,325	18,754	18,031	20,737	21,682	23,168
Refunds	(2,098)	(1,563)	(2,174)	(2,246)	(2,029)	(1,857)	(2,022)
Non-resident withholding tax	706	695	738	723	715	735	765
Total corporate tax	**16,457**	**17,457**	**17,318**	**16,508**	**19,423**	**20,560**	**21,911**
Other Direct Income Tax							
Resident w/holding tax on interest income	3,440	3,198	3,801	3,209	2,778	2,325	2,106
Resident w/holding tax on dividend income	2,542	1,000	955	1,168	1,170	1,278	1,352
Total other direct income tax	**5,982**	**4,198**	**4,756**	**4,377**	**3,948**	**3,603**	**3,458**
Total direct income tax	**82,037**	**83,900**	**82,760**	**84,808**	**90,720**	**95,372**	**100,670**
Goods and Services Tax							
Gross goods and services tax	44,350	52,648	49,369	51,282	54,232	57,274	60,004
Refunds	(17,624)	(18,679)	(18,462)	(21,167)	(22,283)	(23,439)	(24,628)
Total goods and services tax	**26,726**	**33,969**	**30,907**	**30,115**	**31,949**	**33,835**	**35,376**
Other Indirect Taxation							
Road and track user charges	1,822	2,100	2,019	2,172	2,428	2,815	3,122
Alcohol excise – domestic production	799	867	812	832	867	902	938
Customs duty	3,984	4,020	4,049	4,028	4,137	4,331	4,461
Gaming duties	253	306	296	321	328	338	347
Motor vehicle fees	264	302	298	462	534	528	523
Approved issuer levy and cheque duty	136	112	165	127	111	96	82
Energy resources levies	21	22	22	22	22	22	22
Total other indirect taxation	**7,279**	**7,729**	**7,661**	**7,964**	**8,427**	**9,032**	**9,495**
Total indirect taxation	**34,005**	**41,698**	**38,568**	**38,079**	**40,376**	**42,867**	**44,871**
Total taxation receipts	**116,042**	**125,598**	**121,328**	**122,887**	**131,096**	**138,239**	**145,541**
Other Sovereign Receipts (cash)							
ACC levies	4,075	4,330	4,292	4,592	5,069	5,565	6,095
Emissions trading receipts[1]	210	785	279	330	283	230	177
Fire and Emergency levies	705	772	780	828	792	903	933
Natural Hazards Commission levies	871	911	927	923	940	959	975
Clean vehicle discount	103	151	-	-	-	-	-
Child support and working for families penalties	196	153	138	138	150	160	169
Court fines	137	118	139	149	141	137	135
Other miscellaneous items	1,187	1,332	1,444	1,645	1,835	1,895	1,929
Total other sovereign receipts	**7,484**	**8,552**	**7,999**	**8,605**	**9,210**	**9,849**	**10,413**
Total sovereign receipts	**123,526**	**134,150**	**129,327**	**131,492**	**140,306**	**148,088**	**155,954**

1. Represents cash proceeds from the sale of NZUs at auction.

Notes to the Forecast Financial Statements

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 2: Investment Revenue/(Expenditure)							
Interest Revenue	**7,120**	**5,846**	**6,870**	**6,408**	**6,459**	**6,755**	**7,156**
Interest Expenses							
Interest on financial liabilities	9,747	9,634	9,725	10,526	11,597	12,810	13,864
Interest unwind on provisions	627	532	587	547	525	532	535
Total interest expenses	**10,374**	**10,166**	**10,312**	**11,073**	**12,122**	**13,342**	**14,399**
Net interest revenue/(expense)	**(3,254)**	**(4,320)**	**(3,442)**	**(4,665)**	**(5,663)**	**(6,587)**	**(7,243)**
Dividend revenue	1,430	1,356	1,503	1,354	1,386	1,444	1,498
Net gains/(losses) on financial instruments	11,410	6,305	9,287	5,692	6,017	6,474	6,914
Total investment revenue/(expenditure)	**9,586**	**3,341**	**7,348**	**2,381**	**1,740**	**1,331**	**1,169**

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	21,574	23,194	23,180	24,691	26,116	27,605	28,957
Family tax credit	2,297	2,316	2,435	2,374	2,446	2,601	2,541
Jobseeker support and emergency benefit	4,062	4,435	4,644	4,839	4,715	4,497	4,420
Accommodation assistance	2,411	2,495	2,304	2,350	2,318	2,311	2,186
Supported living payment	2,530	2,661	2,669	2,782	2,881	2,975	3,023
Sole parent support	2,097	2,245	2,257	2,331	2,303	2,270	2,169
KiwiSaver subsidies	1,014	1,104	1,060	545	565	588	613
International Development Cooperation	1,202	1,103	1,116	995	941	941	941
Hardship assistance	667	751	758	837	853	897	891
Paid parental leave	647	685	720	745	775	810	850
Winter energy payment	537	555	560	577	583	586	596
Student allowances	526	579	578	635	640	637	628
Disability assistance	464	496	492	511	512	512	506
Other working for families tax credits	448	594	564	596	604	622	600
Orphan's/unsupported child's benefit	384	405	402	417	429	440	447
Best start tax credit	336	339	348	326	285	292	281
Income related rent subsidy	189	133	190	215	224	225	227
Other social assistance benefits	552	626	587	757	772	813	815
Total transfer payments and subsidies	**41,937**	**44,716**	**44,864**	**46,523**	**47,962**	**49,622**	**50,691**

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 4: Other Operating Expenses							
Grants and subsidies	12,155	11,940	13,106	11,253	11,346	10,338	10,479
Repairs and maintenance	3,144	3,092	3,565	3,650	3,462	3,260	3,521
Rental and leasing costs	1,844	1,691	1,913	1,940	1,932	1,930	1,933
Amortisation and impairment of non-financial assets	1,195	1,790	844	1,556	830	813	810
Impairment of financial assets	2,719	1,777	2,152	1,678	1,601	1,465	1,466
Cost of concessionary lending	719	756	612	681	674	650	663
Lottery prize payments	919	789	798	853	917	955	994
Inventory expenses and clinical supplies	3,071	3,169	3,308	3,369	3,451	3,394	3,445
Other operating expenses	44,854	44,139	46,376	47,921	47,402	46,513	46,032
Total other operating expenses	**70,620**	**69,143**	**72,674**	**72,901**	**71,615**	**69,318**	**69,343**

Notes to the Forecast Financial Statements

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 5: Insurance							
Insurance expense by entity							
ACC	9,772	9,680	10,671	9,983	10,589	11,101	11,463
Natural Hazards Commission	578	454	508	583	633	683	742
Other (incl. inter-segment eliminations)	76	81	113	93	101	111	118
Total insurance expenses	**10,426**	**10,215**	**11,292**	**10,659**	**11,323**	**11,895**	**12,323**
Insurance liability by entity							
ACC	65,049	61,776	68,627	71,797	75,256	79,002	82,980
Natural Hazards Commission	1,301	860	1,095	992	877	824	693
Other (incl. inter-segment eliminations)	225	119	206	175	155	153	156
Total insurance liabilities	**66,575**	**62,755**	**69,928**	**72,964**	**76,288**	**79,979**	**83,829**

ACC liability

Calculation information

ACC prepared an actuarial estimate of the ACC outstanding claims liability as at 31 December 2024. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected future administrative expenses of managing these claims. The estimate also includes a risk margin to provide for a higher degree of certainty that the liability for outstanding claims, at balance date, will be adequate to cover possible adverse developments. The assumptions underpinning this valuation form the basis of the five-year forecast of the outstanding claims liability.

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), Average Weekly Earnings (AWE) and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the discount rates as at 28 February 2025. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 4.99% and allows for a long-term discount rate of 4.30% beyond 40 years.

Other key variables in each valuation are the forecast increases in claim costs over and above the economic variables above, and the assumed rate at which long-term claimants will leave the scheme over the period. This assessment is largely based on scheme history.

Presentation approach

ACC has a portfolio of assets that offset the claims liability. The assets below (less cross-holdings of NZ Government stock) are included as assets in the Statement of Financial Position.

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Gross ACC Liability							
Opening gross liability	55,664	58,240	65,049	68,627	71,797	75,256	79,002
Net change	9,385	3,536	3,578	3,170	3,459	3,746	3,978
Closing gross liability	**65,049**	**61,776**	**68,627**	**71,797**	**75,256**	**79,002**	**82,980**
Less Net Assets Available to ACC							
Opening net asset value	50,536	52,643	52,682	54,392	54,677	55,244	56,301
Net change	2,146	1,397	1,710	285	567	1,057	1,709
Closing net asset value	**52,682**	**54,040**	**54,392**	**54,677**	**55,244**	**56,301**	**58,010**
Net ACC Reserves (Net Liability)							
Opening reserves position	(5,128)	(5,597)	(12,367)	(14,235)	(17,120)	(20,012)	(22,701)
Net change	(7,239)	(2,139)	(1,868)	(2,885)	(2,892)	(2,689)	(2,269)
Closing reserves position (net liability)/net asset	**(12,367)**	**(7,736)**	**(14,235)**	**(17,120)**	**(20,012)**	**(22,701)**	**(24,970)**
Net Change in ACC Reserves							
Revenue	7,929	8,267	8,564	9,078	9,760	10,480	11,268
Expenses	(12,010)	(12,017)	(13,129)	(12,605)	(13,370)	(14,006)	(14,492)
Valuation changes	(3,158)	1,611	2,697	642	718	837	955
Net change	**(7,239)**	**(2,139)**	**(1,868)**	**(2,885)**	**(2,892)**	**(2,689)**	**(2,269)**

Notes to the Forecast Financial Statements

	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 6: Forecast New Spending and Top-down Adjustments					
Forecast New Operating Spending					
Unallocated operating contingencies	-	1,720	1,693	1,957	2,101
Budget operating allowance for Budget 2026	-	-	1,026	1,012	1,002
Budget operating allowance for Budget 2027	-	-	-	2,400	2,400
Budget operating allowance for Budget 2028	-	-	-	-	2,400
Total forecast new operating spending	**-**	**1,720**	**2,719**	**5,369**	**7,903**

	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	Post-2029 $m	Total $m
Forecast New Capital Spending (annual)							
Unallocated capital contingencies	-	2,560	2,478	1,588	1,201	1,937	9,764
Budget capital allowance for Budget 2026	-	-	664	664	380	190	1,898
Budget capital allowance for Budget 2027	-	-	-	1,225	1,225	1,050	3,500
Budget capital allowance for Budget 2028	-	-	-	-	1,225	2,275	3,500
Total forecast new capital spending	**-**	**2,560**	**3,142**	**3,477**	**4,031**	**5,452**	**18,662**
Forecast new capital spending (cumulative)	**-**	**2,560**	**5,702**	**9,179**	**13,210**		

Unallocated operating and capital contingencies represents funding agreed by the Government, or likely to be agreed in the future, that have yet to be allocated to departments.

Budget operating and capital allowances for Budgets 2026 through to Budget 2028 indicate the expected spending increases from future Budgets. Some of the operating and capital allowances have been assumed to be pre-committed as at the forecast finalisation date of 30 April 2025, with only the unallocated portion of the allowances included within this note. Further details on pre-commitments against future Budget allowances can be found within the Fiscal Outlook chapter.

	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Top-down Adjustments					
Top-down operating expense adjustment	(2,700)	(900)	(600)	(600)	(600)
Top-down capital adjustment (cumulative)	(1,500)	(2,400)	(2,500)	(2,600)	(2,700)

Notes to the Forecast Financial Statements

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 7: Net Gains and Losses on Non-Financial Instruments							
Actuarial gains/(losses) on ACC outstanding claims	(5,227)	-	682	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	(1,170)	-	(928)	-	-	-	-
Other	(346)	-	40	-	-	-	-
Net gains/(losses) on non-financial instruments	**(6,743)**	**-**	**(206)**	**-**	**-**	**-**	**-**
NOTE 8: Financial Assets (including receivables)							
Cash and cash equivalents	16,212	19,370	22,709	22,849	23,615	22,956	22,818
Tax receivables	22,413	18,347	19,825	20,443	19,733	20,025	20,615
Trade and other receivables	14,819	13,518	16,549	16,564	17,287	18,211	19,166
Student loans (refer to note 9)	9,596	9,562	10,012	10,026	9,953	9,822	9,633
Kiwi Group loans and advances	32,487	35,781	35,346	38,870	42,386	46,438	50,117
Long-term deposits	7,714	8,044	9,911	9,768	9,959	10,131	10,201
IMF financial assets	5,522	5,521	5,779	5,779	5,779	5,779	5,779
FLP advances	16,466	7,330	7,277	-	-	-	-
Other advances	10,829	9,823	11,770	11,871	12,068	12,261	12,459
Share investments	53,495	54,166	59,882	61,163	63,186	65,208	67,192
Investments in controlled enterprises	7,174	9,315	8,399	9,309	10,826	12,381	14,014
Derivatives in gain	5,967	5,825	4,412	4,062	3,800	3,594	3,413
Other marketable securities	54,443	65,902	66,395	76,323	77,434	80,192	83,759
Total financial assets (including receivables)	**257,137**	**262,504**	**278,266**	**287,027**	**296,026**	**306,998**	**319,166**
Financial Assets by Segment							
The Treasury	54,092	46,669	54,112	53,694	49,905	51,304	53,023
Reserve Bank of New Zealand	53,925	58,717	55,483	48,974	42,794	43,305	43,844
NZS Fund	79,058	81,776	90,405	94,126	100,392	105,190	110,796
Other core Crown	44,027	36,354	39,637	38,844	37,812	38,843	40,240
Intra-segment eliminations	(47,563)	(31,425)	(33,378)	(23,097)	(10,996)	(11,583)	(12,275)
Total core Crown segment	**183,539**	**192,091**	**206,259**	**212,541**	**219,907**	**227,059**	**235,628**
ACC	53,385	55,203	57,838	58,088	58,602	59,600	61,244
Natural Hazards Commission	655	584	815	958	1,059	1,216	1,245
Kiwi Group loans and advances	32,487	35,781	35,346	38,870	42,386	46,438	50,117
Other Crown entities	22,929	22,276	23,205	23,728	24,776	25,800	27,085
Intra-segment eliminations	(5,092)	(5,148)	(5,030)	(4,702)	(5,075)	(5,508)	(5,991)
Total Crown entities segment	**104,364**	**108,696**	**112,174**	**116,942**	**121,748**	**127,546**	**133,700**
Total State-owned Enterprises segment	**7,398**	**6,238**	**7,037**	**6,258**	**6,175**	**6,414**	**6,416**
Inter-segment eliminations	(38,164)	(44,521)	(47,204)	(48,714)	(51,804)	(54,021)	(56,578)
Total financial assets (including receivables)	**257,137**	**262,504**	**278,266**	**287,027**	**296,026**	**306,998**	**319,166**
NOTE 9: Student Loans							
Nominal value (including accrued interest)	15,868	15,916	16,170	16,634	17,012	17,319	17,579
Opening book value	9,373	9,695	9,596	10,012	10,026	9,953	9,822
Net new lending (including fees)	1,348	1,626	1,634	1,877	1,855	1,862	1,907
Less initial write-down to fair value	(544)	(633)	(560)	(636)	(628)	(627)	(653)
Repayments made during the year	(1,598)	(1,729)	(1,567)	(1,631)	(1,689)	(1,736)	(1,787)
Interest unwind	634	575	502	413	429	461	486
Unwind of administration costs	28	28	26	25	24	25	26
Final-year fees free payments	-	-	-	(34)	(64)	(116)	(168)
Experience/actuarial adjustments:							
- Expected repayment adjustments	275	-	(52)	-	-	-	-
- Discount rate adjustments	80	-	433	-	-	-	-
Closing book value	**9,596**	**9,562**	**10,012**	**10,026**	**9,953**	**9,822**	**9,633**

Notes to the Forecast Financial Statements

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 10: Property, Plant and Equipment							
Net Carrying Value[1]							
By class of asset							
Land	80,881	81,149	81,980	81,888	81,194	80,974	80,473
Buildings	74,968	79,475	78,324	82,377	84,587	85,932	87,056
State highways	62,333	63,262	64,450	66,857	69,077	71,344	73,435
Electricity generation assets	23,628	19,876	23,756	24,436	24,759	25,576	25,905
Electricity distribution network (cost)	4,650	4,688	4,805	5,347	6,101	6,978	7,874
Aircraft (excluding military)	5,055	5,781	5,212	5,892	6,443	6,533	6,473
Specialist military equipment	5,699	6,260	6,119	6,412	6,431	6,310	6,070
Specified cultural and heritage assets	3,238	3,168	3,237	3,244	3,257	3,270	3,284
Rail network	14,523	15,746	14,826	16,410	16,621	16,144	15,559
Other plant and equipment (cost)	8,815	9,467	9,487	9,927	10,196	10,183	10,047
Total property, plant and equipment	**283,790**	**288,872**	**292,196**	**302,790**	**308,666**	**313,244**	**316,176**
Land breakdown by usage							
Housing	29,143	29,912	30,116	29,990	29,890	29,726	29,362
State highway corridor land	22,973	22,805	22,824	22,758	22,595	22,343	22,173
Conservation estate	9,054	8,328	8,908	8,913	8,918	8,923	8,928
Rail network	4,290	4,388	4,385	4,406	4,420	4,429	4,429
Schools	6,748	6,369	6,783	6,838	6,844	6,849	6,855
Commercial (SOEs) excluding Rail	1,477	1,735	1,506	1,519	1,531	1,528	1,542
Other	7,196	7,612	7,458	7,464	6,996	7,176	7,184
Total land	**80,881**	**81,149**	**81,980**	**81,888**	**81,194**	**80,974**	**80,473**
Schedule of Movements							
Cost or Valuation							
Opening balance	287,777	307,062	306,631	322,525	341,396	355,832	369,309
Additions[2]	17,866	18,073	16,532	19,636	15,753	14,602	13,066
Disposals	(1,397)	(627)	(855)	(748)	(1,298)	(1,032)	(1,104)
Net revaluations	2,792	-	217	-	-	-	-
Other	(407)	(15)	-	(17)	(19)	(93)	(1)
Total cost or valuation	**306,631**	**324,493**	**322,525**	**341,396**	**355,832**	**369,309**	**381,270**
Accumulated Depreciation and Impairment							
Opening balance	20,387	27,954	22,841	30,329	38,606	47,166	56,065
Eliminated on disposal	(709)	(209)	(459)	(143)	(156)	(166)	(176)
Eliminated on revaluation	(4,775)	-	(75)	-	-	-	-
Impairment losses charged to operating balance	82	-	-	-	-	-	-
Depreciation expense	7,621	7,882	8,060	8,424	8,717	9,064	9,205
Other	235	(6)	(38)	(4)	(1)	1	-
Total accumulated depreciation and impairment	**22,841**	**35,621**	**30,329**	**38,606**	**47,166**	**56,065**	**65,094**
Total property, plant and equipment	**283,790**	**288,872**	**292,196**	**302,790**	**308,666**	**313,244**	**316,176**

1. Using a revaluation methodology unless otherwise stated.
2. Additions do not include any purchases which may result from the allocation of the forecast for new capital spending (separately disclosed in the Statement of Financial Position).

Notes to the Forecast Financial Statements

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 11: NZ Superannuation Fund							
Revenue	1,659	1,571	1,705	1,773	1,869	1,993	2,116
Less current tax expense	1,290	1,337	1,389	1,518	1,612	1,711	1,817
Less other expenses	189	299	253	314	336	360	387
Add gains/(losses)	8,352	4,371	6,636	4,933	5,255	5,570	5,921
Operating balance	**8,532**	**4,306**	**6,699**	**4,874**	**5,176**	**5,492**	**5,833**
Opening net worth	64,673	72,727	74,819	82,397	87,271	92,451	97,911
Gross contribution from/(to) the Crown	1,614	879	879	-	4	(32)	63
Operating balance	8,532	4,306	6,699	4,874	5,176	5,492	5,833
Closing net worth	**74,819**	**77,912**	**82,397**	**87,271**	**92,451**	**97,911**	**103,807**
Comprising:							
Financial assets	79,058	81,776	90,405	94,126	100,392	105,190	110,796
Financial liabilities	(4,235)	(3,774)	(7,984)	(6,800)	(7,896)	(7,227)	(6,929)
Net other assets	(4)	(90)	(24)	(55)	(45)	(52)	(60)
Closing net worth	**74,819**	**77,912**	**82,397**	**87,271**	**92,451**	**97,911**	**103,807**
NOTE 12: Payables							
Accounts payable	13,213	12,400	19,211	19,561	21,124	20,895	21,261
Taxes repayable	6,650	6,113	7,204	7,364	6,956	7,134	7,328
Total payables	**19,863**	**18,513**	**26,415**	**26,925**	**28,080**	**28,029**	**28,589**
NOTE 13: Retirement Plan Liabilities							
Government Superannuation Fund	7,335	7,076	6,532	6,025	5,513	5,027	4,567
Other funds	2	6	3	3	3	3	3
Total retirement plan liabilities	**7,337**	**7,082**	**6,535**	**6,028**	**5,516**	**5,030**	**4,570**

Government Superannuation Fund

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 31 January 2025. Refer to *Note 23: Retirement Plan Liabilities* in the Financial Statements of the Government of New Zealand for the year ended 30 June 2024 for further details on the scheme and the method used in calculating the net liability.

The following key economic assumptions were used to calculate the net liability:
- inflation rate, as measured by the Consumers Price Index (CPI), with rates initially 1.98% p.a. decreasing to 1.90% p.a. after three years, then increasing to 1.97% p.a after seven years. This then increases back to 1.98% p.a. before increasing to 1.99% and then reaching 2.00% p.a. after 36 years.
- an annual salary growth rate, before any promotional effects, of 2.5% (2.5% at 30 June 2024).
- discount rates derived from the market yield curve for New Zealand Government bonds as at 31 January 2025.
- expected return on assets of 5.50% p.a. (5.50% at 30 June 2024).

The net GSF liability is sensitive to changes in the underlying assumptions mentioned above which is discussed further in the Financial Statements of the Government of New Zealand for the year ended 30 June 2024 *Note 23: Retirement Plan Liabilities.*

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
GSF Liability							
Opening GSF liability	13,183	12,645	12,830	12,381	11,807	11,226	10,671
Net change	(353)	(401)	(449)	(574)	(580)	(556)	(529)
Closing GSF liability	**12,830**	**12,244**	**12,381**	**11,807**	**11,226**	**10,671**	**10,142**
Less Net Assets Available to GSF							
Opening net asset value	5,145	5,239	5,495	5,849	5,782	5,713	5,644
Investment valuation changes	667	266	697	322	317	311	306
Contribution and other income less benefit payments	(317)	(337)	(344)	(389)	(385)	(381)	(375)
Closing net asset value	**5,495**	**5,168**	**5,849**	**5,782**	**5,713**	**5,644**	**5,575**
Net GSF Liability							
Opening unfunded liability	8,038	7,406	7,335	6,532	6,025	5,513	5,027
Net change	(703)	(330)	(803)	(507)	(512)	(486)	(460)
Closing unfunded liability	**7,335**	**7,076**	**6,532**	**6,025**	**5,513**	**5,027**	**4,567**

Notes to the Forecast Financial Statements

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 14: Provisions							
Provision for employee entitlements	8,795	5,906	7,216	6,716	6,507	6,270	6,207
Veterans' disability entitlements	2,912	2,658	6,126	6,125	6,110	6,090	6,064
Provision for National Provident Fund guarantee	610	572	577	534	491	450	410
Other provisions	3,728	2,773	3,753	3,332	2,932	2,932	2,965
Total provisions	**16,045**	**11,909**	**17,672**	**16,707**	**16,040**	**15,742**	**15,646**

NOTE 15: New Zealand Emissions Trading Scheme

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Opening liability	6,125	7,322	6,626	6,556	5,741	5,138	4,725
Units sold	210	785	279	330	283	230	177
Allocated units	834	1,273	1,194	1,174	1,368	1,422	1,448
Units surrendered	(1,690)	(2,730)	(2,435)	(2,215)	(2,124)	(2,073)	(2,063)
(Gains)/ losses due to revaluation in NZ Units	1,170	-	928	-	-	-	-
Other movements	(23)	(50)	(36)	(104)	(130)	8	(34)
Closing liability	**6,626**	**6,600**	**6,556**	**5,741**	**5,138**	**4,725**	**4,253**

The New Zealand Emissions Trading Scheme (NZ ETS) encourages emissions abatement by putting a price on emissions and rewarding carbon removal activities such as forestry. Tradeable units (NZUs) are allocated into the market through Government auctions, with cash proceeds reported from the sale of NZUs at auction. NZUs are also allocated free-of-charge to foresters for forestry removals and to certain industrial activities that are both emission-intensive and trade-exposed (industrial allocation). NZUs that are allocated free-of-charge (ie, industrial allocation and forestry removals) are expensed and a liability is recognised. NZ ETS participants must meet their emissions obligations by surrendering NZUs to the Government. Revenue from the NZ ETS and a corresponding decrease in the liability is not recognised until a participant in the scheme generates emissions or the liability to the Crown is incurred. The NZ ETS liability represents the NZUs outstanding that can be used to settle these emission obligations in the future.

The prices for NZUs used to calculate the NZ ETS liability are assumed to remain constant over the forecast period and are based on the market price at 31 March 2025 of $57.40 (30 June 2024: $50.50).

NOTE 16: Borrowings

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Borrowings							
Government bonds	128,959	155,201	155,672	181,913	205,690	220,406	230,589
Kiwi Group customer deposits	27,720	29,805	29,430	32,128	34,551	37,463	39,979
Settlement deposits with Reserve Bank	37,553	37,500	32,817	25,872	19,200	19,200	19,200
Derivatives in loss	5,621	5,357	10,589	10,148	9,964	9,822	9,584
Treasury bills	5,482	5,801	5,183	5,930	5,924	5,919	5,914
European Commercial Paper	13,200	6,960	9,711	11,946	11,942	8,954	6,962
Finance lease liabilities	1,044	942	1,168	1,101	997	963	931
Government retail stock	158	162	162	162	162	162	162
Other borrowings	31,206	37,154	32,838	35,876	37,489	39,722	40,879
Total borrowings	**250,943**	**278,882**	**277,570**	**305,076**	**325,919**	**342,611**	**354,200**
By guarantee							
Sovereign-guaranteed debt	196,808	220,945	220,316	242,204	259,006	270,859	279,102
Non sovereign-guaranteed debt	54,135	57,937	57,254	62,872	66,913	71,752	75,098
Total borrowings	**250,943**	**278,882**	**277,570**	**305,076**	**325,919**	**342,611**	**354,200**

This note constitutes a Statement of Borrowings as required by the Public Finance Act 1989.

Total borrowings can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities are not explicitly guaranteed by the Crown.

Notes to the Forecast Financial Statements

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
NOTE 17: Changes in Net Worth							
Taxpayers' funds	300	(1,726)	(5,156)	(15,064)	(20,753)	(20,822)	(16,781)
Property, plant and equipment revaluation reserve	181,176	174,430	181,193	181,198	181,198	181,199	181,200
Defined benefit plan revaluation reserve	864	807	1,358	1,462	1,560	1,637	1,693
Veterans' disability entitlements reserve	(640)	(392)	(3,855)	(3,855)	(3,855)	(3,855)	(3,855)
Intangible asset reserve	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	(30)	271	(74)	(86)	(80)	(94)	(113)
Fair value hedge reserve	195	254	275	269	270	269	269
Foreign currency translation reserve	(40)	(41)	(39)	(39)	(39)	(39)	(39)
Net worth attributable to minority interests	9,231	8,360	9,435	9,346	9,485	9,552	9,526
Total net worth	**191,049**	**181,956**	**183,130**	**173,224**	**167,779**	**167,840**	**171,893**
Taxpayers' funds							
Opening taxpayers' funds	8,380	5,495	300	(5,156)	(15,064)	(20,753)	(20,822)
Operating balance excluding minority interests	(8,365)	(7,147)	(5,493)	(9,884)	(5,665)	(39)	4,071
Transfers from/(to) other reserves	264	-	47	-	-	-	-
Other movements	21	(74)	(10)	(24)	(24)	(30)	(30)
Closing taxpayers' funds	**300**	**(1,726)**	**(5,156)**	**(15,064)**	**(20,753)**	**(20,822)**	**(16,781)**
Property, Plant and Equipment Revaluation							
Opening property, plant and equipment revaluation reserve	174,575	174,432	181,176	181,193	181,198	181,198	181,199
Net revaluations	8,260	-	163	-	-	-	-
Transfers from/(to) other reserves	(270)	(2)	(47)	5	-	1	1
Net revaluations attributable to minority interests	(1,389)	-	(99)	-	-	-	-
Closing property, plant and equipment revaluation reserve	**181,176**	**174,430**	**181,193**	**181,198**	**181,198**	**181,199**	**181,200**
Net Worth Attributable to Minority Interests							
Opening minority interest	7,958	8,371	9,231	9,435	9,346	9,485	9,552
Operating balance attributable to minority interests	438	530	305	353	486	557	490
Transactions with minority interest	(574)	(572)	(524)	(528)	(569)	(613)	(640)
Increase in minority interest from equity issues	77	34	331	102	223	135	139
Other (includes net revaluations)	1,332	(3)	92	(16)	(1)	(12)	(15)
Closing minority interest	**9,231**	**8,360**	**9,435**	**9,346**	**9,485**	**9,552**	**9,526**

Statement of Segments

	Core Crown 2024 Actual $m	Crown entities 2024 Actual $m	State-owned Enterprises 2024 Actual $m	Inter-segment eliminations 2024 Actual $m	Total Crown 2024 Actual $m
Statement of Financial Performance for the year ended 30 June 2024					
Revenue					
Taxation revenue	120,566	-	-	(666)	119,900
Other sovereign revenue	3,589	8,258	-	(2,421)	9,426
Revenue from core Crown funding	-	48,163	825	(48,988)	-
Sales of goods and services	1,798	3,135	21,031	(829)	25,135
Interest revenue	4,441	3,560	228	(1,109)	7,120
Other revenue	2,826	5,060	838	(2,958)	5,766
Total revenue (excluding gains)	**133,220**	**68,176**	**22,922**	**(56,971)**	**167,347**
Expenses					
Social assistance and official development assistance	43,265	-	-	(1,328)	41,937
Personnel expenses	11,260	24,337	3,546	(60)	39,083
Other operating expenses	75,528	37,496	18,943	(53,726)	78,241
Interest expenses	8,943	1,969	580	(1,118)	10,374
Insurance expenses	2	10,413	11	-	10,426
Total expenses (excluding losses)	**138,998**	**74,215**	**23,080**	**(56,232)**	**180,061**
Total gains/(losses) and other items	7,884	(3,310)	30	(255)	4,349
Operating balance	**2,106**	**(9,349)**	**(128)**	**(994)**	**(8,365)**
Expenses by functional classification					
Social security and welfare	*44,589*	*11,634*	-	*(2,227)*	*53,996*
Health	*29,999*	*27,890*	-	*(28,049)*	*29,840*
Education	*20,223*	*15,346*	-	*(14,383)*	*21,186*
Transport and communications	*5,487*	*6,628*	*10,317*	*(5,699)*	*16,733*
Other	*29,757*	*10,748*	*12,183*	*(4,756)*	*47,932*
Finance costs	*8,943*	*1,969*	*580*	*(1,118)*	*10,374*
Total expenses (excluding losses)	***138,998***	***74,215***	***23,080***	***(56,232)***	***180,061***
Statement of Financial Position as at 30 June 2024					
Assets					
Cash and cash equivalents	9,111	6,952	1,068	(919)	16,212
Receivables	28,639	7,852	3,218	(2,477)	37,232
Other financial assets	145,789	89,560	3,112	(34,768)	203,693
Property, plant and equipment	67,997	158,068	57,724	1	283,790
Equity accounted investments	69,174	15,197	446	(66,866)	17,951
Intangible assets and goodwill	1,577	1,008	1,765	(266)	4,084
Inventory and other assets	4,454	2,292	1,347	(187)	7,906
Total assets	**326,741**	**280,929**	**68,680**	**(105,482)**	**570,868**
Liabilities					
Borrowings	216,349	56,470	11,675	(33,551)	250,943
Other liabilities	45,352	81,502	13,244	(11,222)	128,876
Total liabilities	**261,701**	**137,972**	**24,919**	**(44,773)**	**379,819**
Total assets less total liabilities	**65,040**	**142,957**	**43,761**	**(60,709)**	**191,049**
Net worth					
Taxpayers' funds	19,940	38,484	9,745	(67,869)	300
Reserves	45,100	104,227	24,659	7,532	181,518
Net worth attributable to minority interests	-	246	9,357	(372)	9,231
Total net worth	**65,040**	**142,957**	**43,761**	**(60,709)**	**191,049**

Forecast Statement of Segments

	Core Crown 2025 Forecast $m	Crown entities 2025 Forecast $m	State-owned Enterprises 2025 Forecast $m	Inter-segment eliminations 2025 Forecast $m	Total Crown 2025 Forecast $m
Statement of Financial Performance for the year ended 30 June 2025					
Revenue					
Taxation revenue	120,894	-	-	(734)	120,160
Other sovereign revenue	4,306	8,723	-	(2,573)	10,456
Revenue from core Crown funding	-	49,536	779	(50,315)	-
Sales of goods and services	2,210	2,991	22,097	(936)	26,362
Interest revenue	4,079	4,065	124	(1,398)	6,870
Other revenue	2,699	5,061	1,096	(3,053)	5,803
Total revenue (excluding gains)	**134,188**	**70,376**	**24,096**	**(59,009)**	**169,651**
Expenses					
Social assistance and official development assistance	46,338	-	-	(1,474)	44,864
Personnel expenses	11,407	24,657	3,612	(66)	39,610
Other operating expenses	78,321	38,591	18,809	(54,987)	80,734
Interest expenses	8,839	2,317	595	(1,439)	10,312
Insurance expenses	3	11,277	12	-	11,292
Forecast for future new spending	-	-	-	-	-
Top-down operating expense adjustment	(2,700)	-	-	-	(2,700)
Total expenses (excluding losses)	**142,208**	**76,842**	**23,028**	**(57,966)**	**184,112**
Total gains/(losses) and other items	7,246	2,589	(206)	(661)	8,968
Operating balance	**(774)**	**(3,877)**	**862**	**(1,704)**	**(5,493)**
Expenses by functional classification					
Social security and welfare	*47,672*	*12,665*	*-*	*(2,498)*	*57,839*
Health	*30,935*	*28,487*	*-*	*(28,709)*	*30,713*
Education	*20,922*	*16,147*	*-*	*(14,745)*	*22,324*
Transport and communications	*5,916*	*6,510*	*9,700*	*(5,902)*	*16,224*
Other	*30,624*	*10,716*	*12,733*	*(4,673)*	*49,400*
Finance costs	*8,839*	*2,317*	*595*	*(1,439)*	*10,312*
Forecast for future new spending	*-*	*-*	*-*	*-*	*-*
Top-down operating expense adjustment	*(2,700)*	*-*	*-*	*-*	*(2,700)*
Total expenses (excluding losses)	***142,208***	***76,842***	***23,028***	***(57,966)***	***184,112***
Statement of Financial Position as at 30 June 2025					
Assets					
Cash and cash equivalents	16,379	6,265	1,074	(1,009)	22,709
Receivables	27,932	8,282	2,608	(2,448)	36,374
Other financial assets	161,948	97,627	3,355	(43,747)	219,183
Property, plant and equipment	69,702	163,088	59,406	-	292,196
Equity accounted investments	76,698	15,379	589	(74,113)	18,553
Intangible assets and goodwill	1,733	989	1,755	(274)	4,203
Inventory and other assets	4,901	2,573	1,493	(177)	8,790
Forecast for new capital spending	-	-	-	-	-
Top-down capital adjustment	(1,500)	-	-	-	(1,500)
Total assets	**357,793**	**294,203**	**70,280**	**(121,768)**	**600,508**
Liabilities					
Borrowings	244,694	62,163	12,647	(41,934)	277,570
Other liabilities	51,754	85,674	13,219	(10,839)	139,808
Total liabilities	**296,448**	**147,837**	**25,866**	**(52,773)**	**417,378**
Total assets less total liabilities	**61,345**	**146,366**	**44,414**	**(68,995)**	**183,130**
Net worth					
Taxpayers' funds	19,016	41,637	10,402	(76,211)	(5,156)
Reserves	42,329	104,232	24,691	7,599	178,851
Net worth attributable to minority interests	-	497	9,321	(383)	9,435
Total net worth	**61,345**	**146,366**	**44,414**	**(68,995)**	**183,130**

Forecast Statement of Segments (continued)

	Core Crown 2026 Forecast $m	Crown entities 2026 Forecast $m	State-owned Enterprises 2026 Forecast $m	Inter-segment eliminations 2026 Forecast $m	Total Crown 2026 Forecast $m
Statement of Financial Performance for the year ended 30 June 2026					
Revenue					
Taxation revenue	125,044	-	-	(834)	124,210
Other sovereign revenue	4,417	9,372	-	(2,783)	11,006
Revenue from core Crown funding	-	50,517	511	(51,028)	-
Sales of goods and services	2,394	3,138	22,999	(977)	27,554
Interest revenue	3,716	4,122	84	(1,514)	6,408
Other revenue	4,155	4,879	744	(3,092)	6,686
Total revenue (excluding gains)	**139,726**	**72,028**	**24,338**	**(60,228)**	**175,864**
Expenses					
Social assistance and official development assistance	48,189	-	-	(1,666)	46,523
Personnel expenses	11,778	25,320	3,728	(68)	40,758
Other operating expenses	80,046	38,067	19,273	(56,061)	81,325
Interest expenses	9,513	2,412	687	(1,539)	11,073
Insurance expenses	3	10,643	13	-	10,659
Forecast for future new spending	1,720	-	-	-	1,720
Top-down operating expense adjustment	(900)	-	-	-	(900)
Total expenses (excluding losses)	**150,349**	**76,442**	**23,701**	**(59,334)**	**191,158**
Total gains/(losses) and other items	5,175	522	(238)	(49)	5,410
Operating balance	**(5,448)**	**(3,892)**	**399**	**(943)**	**(9,884)**
Expenses by functional classification					
Social security and welfare	*50,161*	*12,111*	*-*	*(2,797)*	*59,475*
Health	*32,709*	*28,939*	*-*	*(30,424)*	*31,224*
Education	*21,454*	*16,460*	*-*	*(14,965)*	*22,949*
Transport and communications	*7,226*	*5,938*	*10,332*	*(5,173)*	*18,323*
Other	*28,466*	*10,582*	*12,682*	*(4,436)*	*47,294*
Finance costs	*9,513*	*2,412*	*687*	*(1,539)*	*11,073*
Forecast for future new spending	*1,720*	*-*	*-*	*-*	*1,720*
Top-down operating expense adjustment	*(900)*	*-*	*-*	*-*	*(900)*
Total expenses (excluding losses)	***150,349***	***76,442***	***23,701***	***(59,334)***	***191,158***
Statement of Financial Position as at 30 June 2026					
Assets					
Cash and cash equivalents	16,774	6,048	1,034	(1,007)	22,849
Receivables	28,193	8,905	2,317	(2,408)	37,007
Other financial assets	167,574	101,989	2,907	(45,299)	227,171
Property, plant and equipment	70,848	168,536	63,406	-	302,790
Equity accounted investments	82,583	15,443	622	(81,910)	16,738
Intangible assets and goodwill	1,764	1,001	1,708	(282)	4,191
Inventory and other assets	4,465	2,781	1,489	(177)	8,558
Forecast for new capital spending	2,560	-	-	-	2,560
Top-down capital adjustment	(2,400)	-	-	-	(2,400)
Total assets	**372,361**	**304,703**	**73,483**	**(131,083)**	**619,464**
Liabilities					
Borrowings	266,686	67,883	13,955	(43,448)	305,076
Other liabilities	49,674	88,774	13,277	(10,561)	141,164
Total liabilities	**316,360**	**156,657**	**27,232**	**(54,009)**	**446,240**
Total assets less total liabilities	**56,001**	**148,046**	**46,251**	**(77,074)**	**173,224**
Net worth					
Taxpayers' funds	13,568	43,324	12,332	(84,288)	(15,064)
Reserves	42,433	104,225	24,688	7,596	178,942
Net worth attributable to minority interests	-	497	9,231	(382)	9,346
Total net worth	**56,001**	**148,046**	**46,251**	**(77,074)**	**173,224**

Forecast Statement of Segments (continued)

	Core Crown 2027 Forecast $m	Crown entities 2027 Forecast $m	State-owned Enterprises 2027 Forecast $m	Inter-segment eliminations 2027 Forecast $m	Total Crown 2027 Forecast $m
Statement of Financial Performance for the year ended 30 June 2027					
Revenue					
Taxation revenue	133,018	-	-	(921)	132,097
Other sovereign revenue	4,425	10,084	-	(2,939)	11,570
Revenue from core Crown funding	-	51,613	295	(51,908)	-
Sales of goods and services	2,342	3,368	23,817	(1,023)	28,504
Interest revenue	3,832	4,160	77	(1,610)	6,459
Other revenue	2,806	4,950	763	(3,126)	5,393
Total revenue (excluding gains)	**146,423**	**74,175**	**24,952**	**(61,527)**	**184,023**
Expenses					
Social assistance and official development assistance	49,662	-	-	(1,700)	47,962
Personnel expenses	11,878	25,808	3,858	(69)	41,475
Other operating expenses	78,921	39,208	19,478	(57,275)	80,332
Interest expenses	10,559	2,416	780	(1,633)	12,122
Insurance expenses	3	11,306	14	-	11,323
Forecast for future new spending	2,719	-	-	-	2,719
Top-down operating expense adjustment	(600)	-	-	-	(600)
Total expenses (excluding losses)	**153,142**	**78,738**	**24,130**	**(60,677)**	**195,333**
Total gains/(losses) and other items	5,450	609	(390)	(24)	5,645
Operating balance	**(1,269)**	**(3,954)**	**432**	**(874)**	**(5,665)**
Expenses by functional classification					
Social security and welfare	*51,673*	*12,856*	*-*	*(2,938)*	*61,591*
Health	*34,055*	*30,301*	*-*	*(31,831)*	*32,525*
Education	*21,380*	*16,409*	*-*	*(14,853)*	*22,936*
Transport and communications	*5,020*	*5,971*	*10,580*	*(5,052)*	*16,519*
Other	*28,336*	*10,785*	*12,770*	*(4,370)*	*47,521*
Finance costs	*10,559*	*2,416*	*780*	*(1,633)*	*12,122*
Forecast for future new spending	*2,719*	*-*	*-*	*-*	*2,719*
Top-down operating expense adjustment	*(600)*	*-*	*-*	*-*	*(600)*
Total expenses (excluding losses)	***153,142***	***78,738***	***24,130***	***(60,677)***	***195,333***
Statement of Financial Position as at 30 June 2027					
Assets					
Cash and cash equivalents	17,631	5,953	1,039	(1,008)	23,615
Receivables	27,723	9,549	2,177	(2,429)	37,020
Other financial assets	174,554	106,246	2,959	(48,368)	235,391
Property, plant and equipment	71,221	171,818	65,627	-	308,666
Equity accounted investments	87,412	15,531	680	(86,608)	17,015
Intangible assets and goodwill	1,720	989	1,746	(339)	4,116
Inventory and other assets	4,486	2,900	1,508	(177)	8,717
Forecast for new capital spending	5,702	-	-	-	5,702
Top-down capital adjustment	(2,500)	-	-	-	(2,500)
Total assets	**387,949**	**312,986**	**75,736**	**(138,929)**	**637,742**
Liabilities					
Borrowings	283,692	73,340	15,386	(46,499)	325,919
Other liabilities	49,426	91,788	13,291	(10,461)	144,044
Total liabilities	**333,118**	**165,128**	**28,677**	**(56,960)**	**469,963**
Total assets less total liabilities	**54,831**	**147,858**	**47,059**	**(81,969)**	**167,779**
Net worth					
Taxpayers' funds	12,299	43,040	13,092	(89,184)	(20,753)
Reserves	42,532	104,226	24,693	7,596	179,047
Net worth attributable to minority interests	-	592	9,274	(381)	9,485
Total net worth	**54,831**	**147,858**	**47,059**	**(81,969)**	**167,779**

Forecast Statement of Segments (continued)

	Core Crown 2028 Forecast $m	Crown entities 2028 Forecast $m	State-owned Enterprises 2028 Forecast $m	Inter-segment eliminations 2028 Forecast $m	Total Crown 2028 Forecast $m
Statement of Financial Performance for the year ended 30 June 2028					
Revenue					
Taxation revenue	140,491	-	-	(1,011)	139,480
Other sovereign revenue	4,420	10,872	-	(3,118)	12,174
Revenue from core Crown funding	-	50,874	343	(51,217)	-
Sales of goods and services	2,427	3,394	25,100	(1,051)	29,870
Interest revenue	4,146	4,252	89	(1,732)	6,755
Other revenue	2,887	4,967	662	(3,005)	5,511
Total revenue (excluding gains)	**154,371**	**74,359**	**26,194**	**(61,134)**	**193,790**
Expenses					
Social assistance and official development assistance	51,346	-	-	(1,724)	49,622
Personnel expenses	11,847	26,112	3,993	(68)	41,884
Other operating expenses	77,094	37,540	20,453	(56,705)	78,382
Interest expenses	11,769	2,431	899	(1,757)	13,342
Insurance expenses	2	11,878	15	-	11,895
Forecast for future new spending	5,369	-	-	-	5,369
Top-down operating expense adjustment	(600)	-	-	-	(600)
Total expenses (excluding losses)	**156,827**	**77,961**	**25,360**	**(60,254)**	**199,894**
Total gains/(losses) and other items	5,758	808	(473)	(28)	6,065
Operating balance	**3,302**	**(2,794)**	**361**	**(908)**	**(39)**
Expenses by functional classification					
Social security and welfare	*53,235*	*13,465*	*-*	*(3,027)*	*63,673*
Health	*34,194*	*30,124*	*-*	*(32,005)*	*32,313*
Education	*21,179*	*16,244*	*-*	*(14,612)*	*22,811*
Transport and communications	*4,728*	*5,183*	*10,975*	*(4,774)*	*16,112*
Other	*26,953*	*10,514*	*13,486*	*(4,079)*	*46,874*
Finance costs	*11,769*	*2,431*	*899*	*(1,757)*	*13,342*
Forecast for future new spending	*5,369*	*-*	*-*	*-*	*5,369*
Top-down operating expense adjustment	*(600)*	*-*	*-*	*-*	*(600)*
Total expenses (excluding losses)	***156,827***	***77,961***	***25,360***	***(60,254)***	***199,894***
Statement of Financial Position as at 30 June 2028					
Assets					
Cash and cash equivalents	16,788	6,134	1,043	(1,009)	22,956
Receivables	28,348	10,144	2,235	(2,491)	38,236
Other financial assets	181,923	111,268	3,136	(50,521)	245,806
Property, plant and equipment	70,657	175,417	67,170	-	313,244
Equity accounted investments	91,539	15,656	743	(90,539)	17,399
Intangible assets and goodwill	1,665	982	1,676	(277)	4,046
Inventory and other assets	4,368	3,084	1,514	(178)	8,788
Forecast for new capital spending	9,179	-	-	-	9,179
Top-down capital adjustment	(2,600)	-	-	-	(2,600)
Total assets	**401,867**	**322,685**	**77,517**	**(145,015)**	**657,054**
Liabilities					
Borrowings	295,638	78,390	17,214	(48,631)	342,611
Other liabilities	48,019	95,595	13,302	(10,313)	146,603
Total liabilities	**343,657**	**173,985**	**30,516**	**(58,944)**	**489,214**
Total assets less total liabilities	**58,210**	**148,700**	**47,001**	**(86,071)**	**167,840**
Net worth					
Taxpayers' funds	15,602	43,883	12,976	(93,283)	(20,822)
Reserves	42,608	104,225	24,684	7,593	179,110
Net worth attributable to minority interests	-	592	9,341	(381)	9,552
Total net worth	**58,210**	**148,700**	**47,001**	**(86,071)**	**167,840**

Forecast Statement of Segments (continued)

	Core Crown 2029 Forecast $m	Crown entities 2029 Forecast $m	State-owned Enterprises 2029 Forecast $m	Inter-segment eliminations 2029 Forecast $m	Total Crown 2029 Forecast $m
Statement of Financial Performance for the year ended 30 June 2029					
Revenue					
Taxation revenue	148,200	-	-	(1,146)	147,054
Other sovereign revenue	4,451	11,688	-	(3,329)	12,810
Revenue from core Crown funding	-	51,273	229	(51,502)	-
Sales of goods and services	2,442	3,453	25,431	(1,088)	30,238
Interest revenue	4,393	4,515	100	(1,852)	7,156
Other revenue	3,019	5,101	744	(3,111)	5,753
Total revenue (excluding gains)	**162,505**	**76,030**	**26,504**	**(62,028)**	**203,011**
Expenses					
Social assistance and official development assistance	52,416	-	-	(1,725)	50,691
Personnel expenses	11,896	26,395	4,090	(70)	42,311
Other operating expenses	77,667	37,467	20,785	(57,371)	78,548
Interest expenses	12,674	2,608	993	(1,876)	14,399
Insurance expenses	3	12,304	16	-	12,323
Forecast for future new spending	7,903	-	-	-	7,903
Top-down operating expense adjustment	(600)	-	-	-	(600)
Total expenses (excluding losses)	**161,959**	**78,774**	**25,884**	**(61,042)**	**205,575**
Total gains/(losses) and other items	6,097	978	(401)	(39)	6,635
Operating balance	**6,643**	**(1,766)**	**219**	**(1,025)**	**4,071**
Expenses by functional classification					
Social security and welfare	*54,318*	*13,921*	*-*	*(3,095)*	*65,144*
Health	*34,340*	*30,147*	*-*	*(32,191)*	*32,296*
Education	*21,197*	*16,203*	*-*	*(14,518)*	*22,882*
Transport and communications	*5,106*	*5,306*	*11,539*	*(5,239)*	*16,712*
Other	*27,021*	*10,589*	*13,352*	*(4,123)*	*46,839*
Finance costs	*12,674*	*2,608*	*993*	*(1,876)*	*14,399*
Forecast for future new spending	*7,903*	*-*	*-*	*-*	*7,903*
Top-down operating expense adjustment	*(600)*	*-*	*-*	*-*	*(600)*
Total expenses (excluding losses)	***161,959***	***78,774***	***25,884***	***(61,042)***	***205,575***
Statement of Financial Position as at 30 June 2029					
Assets					
Cash and cash equivalents	16,362	6,421	1,045	(1,010)	22,818
Receivables	29,278	10,793	2,262	(2,552)	39,781
Other financial assets	189,988	116,486	3,109	(53,016)	256,567
Property, plant and equipment	69,775	178,508	67,893	-	316,176
Equity accounted investments	94,503	15,823	794	(93,472)	17,648
Intangible assets and goodwill	1,607	987	1,674	(261)	4,007
Inventory and other assets	4,241	3,151	1,515	(178)	8,729
Forecast for new capital spending	13,210	-	-	-	13,210
Top-down capital adjustment	(2,700)	-	-	-	(2,700)
Total assets	**416,264**	**332,169**	**78,292**	**(150,489)**	**676,236**
Liabilities					
Borrowings	304,268	82,649	18,379	(51,096)	354,200
Other liabilities	47,088	99,854	13,406	(10,205)	150,143
Total liabilities	**351,356**	**182,503**	**31,785**	**(61,301)**	**504,343**
Total assets less total liabilities	**64,908**	**149,666**	**46,507**	**(89,188)**	**171,893**
Net worth					
Taxpayers' funds	22,245	44,850	12,523	(96,399)	(16,781)
Reserves	42,663	104,224	24,674	7,587	179,148
Net worth attributable to minority interests	-	592	9,310	(376)	9,526
Total net worth	**64,908**	**149,666**	**46,507**	**(89,188)**	**171,893**

Fiscal Indicator Analysis

The purpose of the following fiscal indicator analysis is to provide a link between the Forecast Financial Statements (pages 119 to 140) based on GAAP, and the key fiscal indicators used to measure performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

The fiscal indicator analysis comprises five statements. These statements and their key purposes are described below:

Reconciliation between the Operating Balance, the Operating Balance before Gains and Losses and the Operating Balance before Gains and Losses excluding ACC revenue and expenses

OBEGAL represents core Crown revenue less core Crown expenses plus surpluses from State-owned Enterprises and Crown Entities but does not include certain gains or losses from Government reporting entities. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation. In addition, OBEGALx removes the revenue and expenses of ACC which provides insights on how near-term fiscal policy decisions impact the financial performance of the Government.

Expenses by Functional Classification

This analysis is based on the Classification of Functions of Government as produced by the Organisation for Economic Co-operation and Development (OECD) and permits trends in government expenditure on particular functions to be examined over time.

Core Crown Residual Cash

The core Crown residual cash statement measures the core Crown cash surplus (or deficit), after operating and investing cash requirements are met, that is available for the Government to invest, repay debt, or, in the case of a deficit, fund in any given year. Also included is a breakdown of net capital expenditure activity.

Debt Indicators

The debt statement presents the calculation of both gross debt and net debt indicators.

Gross debt represents debt issued by the sovereign (core Crown) and includes Government stock held by the NZS Fund, Accident Compensation Corporation, and the Natural Hazards Commission. Gross debt excludes Reserve Bank settlement cash and Reserve Bank bills.

Net core Crown debt represents gross sovereign-issued debt less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and/or they are made for public policy reasons rather than for the purposes associated with government financing.

The Government's headline debt indicator is net core Crown debt.

Reconciliation Between the Financial Statements to Key Government Fiscal Indicators

This statement shows how key lines in the financial statements flow through to the key operating indicators used to measure performance.

Reconciliation Between the Operating Balance, OBEGAL and OBEGALx

for the years ending 30 June

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Operating Balance							
Total revenue	167,347	168,043	169,651	175,864	184,023	193,790	203,011
Total expenses	180,061	181,013	184,112	191,158	195,333	199,894	205,575
Total gains/(losses)	4,667	6,305	9,081	5,692	6,017	6,474	6,914
Net surplus from associates and joint ventures	120	48	192	71	114	148	211
Less Minority interests' share of operating balance	(438)	(530)	(305)	(353)	(486)	(557)	(490)
Operating balance	**(8,365)**	**(7,147)**	**(5,493)**	**(9,884)**	**(5,665)**	**(39)**	**4,071**
Reconciliation Between the Operating Balance, OBEGAL and OBEGALx							
Operating balance	**(8,365)**	**(7,147)**	**(5,493)**	**(9,884)**	**(5,665)**	**(39)**	**4,071**
Less items excluded from OBEGAL:							
Net gains/(losses) on financial instruments	11,410	6,305	9,287	5,692	6,017	6,474	6,914
Net gains/(losses) on non-financial instruments	(6,743)	-	(206)	-	-	-	-
Minority interests share of total gains/(losses)	(298)	(128)	(26)	(45)	(41)	(42)	(44)
Net surplus from associates and joint ventures	120	48	192	71	114	148	211
OBEGAL	**(12,854)**	**(13,372)**	**(14,740)**	**(15,602)**	**(11,755)**	**(6,619)**	**(3,010)**
ACC net revenue	(4,081)	(3,750)	(4,565)	(3,527)	(3,610)	(3,526)	(3,224)
OBEGALx	**(8,773)**	**(9,622)**	**(10,175)**	**(12,075)**	**(8,145)**	**(3,093)**	**214**

Expenses by Functional Classification

for the years ending 30 June

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Total Crown expenses							
By functional classification[1]							
Social security and welfare	53,996	56,391	57,839	59,475	61,591	63,673	65,144
Health	29,840	29,420	30,713	31,224	32,525	32,313	32,296
Education	21,186	21,755	22,324	22,949	22,936	22,811	22,882
Core government services	8,178	6,759	7,955	6,552	6,702	6,014	6,118
Law and order	7,072	7,275	7,550	7,946	7,769	7,746	7,693
Transport and communications	16,733	16,071	16,224	18,323	16,519	16,112	16,712
Economic and industrial services	16,008	14,443	16,617	15,886	15,853	16,274	16,192
Defence	3,125	3,169	3,273	3,507	3,529	3,547	3,535
Heritage, culture and recreation	3,608	3,351	3,273	3,368	3,413	3,441	3,474
Primary services	2,636	2,580	2,873	2,517	2,458	2,409	2,361
Housing and community development	4,789	5,002	4,808	4,728	4,779	4,466	4,466
Environmental protection	2,277	2,818	2,710	2,611	2,617	2,577	2,601
GSF pension expenses	94	80	86	86	85	84	83
Other	145	737	255	93	316	316	316
Finance costs	10,374	10,166	10,312	11,073	12,122	13,342	14,399
Forecast new operating spending	-	3,796	-	1,720	2,719	5,369	7,903
Top-down operating expense adjustment	-	(2,800)	(2,700)	(900)	(600)	(600)	(600)
Total Crown expenses excluding losses	**180,061**	**181,013**	**184,112**	**191,158**	**195,333**	**199,894**	**205,575**

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank, but not Crown entities and SOEs.

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Core Crown expenses							
By functional classification[1]							
Social security and welfare	44,589	47,509	47,672	50,161	51,673	53,235	54,318
Health	29,999	30,587	30,935	32,709	34,055	34,194	34,340
Education	20,223	20,538	20,922	21,454	21,380	21,179	21,197
Core government services	8,468	6,908	8,283	6,723	6,792	6,154	6,214
Law and order	6,527	6,656	6,978	7,342	7,263	7,113	7,072
Transport and communications	5,487	6,019	5,916	7,226	5,020	4,728	5,106
Economic and industrial services	4,010	3,529	3,903	3,235	3,122	2,928	2,895
Defence	3,163	3,215	3,318	3,552	3,575	3,593	3,581
Heritage, culture and recreation	1,504	1,429	1,457	1,416	1,360	1,336	1,307
Primary services	1,062	1,118	1,257	1,045	978	959	955
Housing and community development	2,512	2,531	2,411	2,396	2,261	1,927	2,031
Environmental protection	2,297	2,849	2,711	2,615	2,621	2,581	2,605
GSF pension expenses	69	50	50	49	48	46	45
Other	145	737	255	93	316	316	316
Finance costs	8,943	9,224	8,839	9,513	10,559	11,769	12,674
Forecast new operating spending	-	3,796	-	1,720	2,719	5,369	7,903
Top-down operating expense adjustment	-	(2,800)	(2,700)	(900)	(600)	(600)	(600)
Total core Crown expenses excluding losses	**138,998**	**143,895**	**142,207**	**150,349**	**153,142**	**156,827**	**161,959**

1. The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in the future.

Core Crown Residual Cash

for the years ending 30 June

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Core Crown Residual Cash							
Core Crown Cash Flows from Operations							
Tax receipts	116,737	128,929	123,553	125,956	133,534	140,865	148,369
Other sovereign receipts	1,790	2,532	1,977	2,231	2,371	2,367	2,350
Interest receipts	1,878	2,943	2,708	2,296	1,318	1,281	1,322
Sale of goods and services and other receipts	3,779	3,546	3,890	4,105	4,058	4,171	4,257
Transfer payments and subsidies	(43,495)	(47,485)	(47,724)	(49,080)	(50,116)	(51,552)	(53,042)
Personnel and operating costs	(79,747)	(81,127)	(84,228)	(83,905)	(84,182)	(82,604)	(82,472)
Interest payments	(7,044)	(7,552)	(6,934)	(7,615)	(8,669)	(9,295)	(10,396)
Forecast for future new operating spending	-	(3,796)	-	(1,720)	(2,719)	(5,369)	(7,903)
Top-down operating expense adjustment	-	2,800	2,700	900	600	600	600
Net core Crown operating cash flows	**(6,102)**	**790**	**(4,058)**	**(6,832)**	**(3,805)**	**464**	**3,085**
Core Crown Capital Cash Flows							
Net purchase of physical assets	(4,701)	(4,388)	(4,242)	(4,323)	(3,595)	(2,717)	(2,475)
Net decrease/(increase) in advances	(2,533)	4,416	5,338	4,789	(2,992)	(1,818)	(1,944)
Net purchase of investments	(4,352)	(8,328)	(7,649)	(6,507)	(4,774)	(3,999)	(2,817)
Contribution (to)/from NZS Fund	(1,614)	(879)	(879)	-	(4)	32	(63)
Forecast for future new capital spending	-	(2,094)	-	(2,560)	(3,142)	(3,477)	(4,031)
Top-down capital adjustment	-	1,550	1,500	900	100	100	100
Net core Crown capital cash flows	**(13,200)**	**(9,723)**	**(5,932)**	**(7,701)**	**(14,407)**	**(11,879)**	**(11,230)**
Residual cash (deficit)/surplus	**(19,302)**	**(8,933)**	**(9,990)**	**(14,533)**	**(18,212)**	**(11,415)**	**(8,145)**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt Programme Cash Flows							
Market:							
Issue of government bonds	35,077	35,838	41,566	35,590	33,568	28,424	26,813
Repayment of government bonds	(18,197)	(19,192)	(20,196)	(18,127)	(22,496)	(15,382)	(17,824)
Net issue/(repayment) of short-term borrowing[1]	14,157	(5,400)	(4,792)	3,000	-	(3,000)	(2,000)
Total market debt cash flows	31,037	11,246	16,578	20,463	11,072	10,042	6,989
Non-market:							
Net issue/(repayment) of short-term borrowing	(200)	(100)	(200)	-	-	-	-
Total non-market debt cash flows	(200)	(100)	(200)	-	-	-	-
Total debt programme cash flows	**30,837**	**11,146**	**16,378**	**20,463**	**11,072**	**10,042**	**6,989**
Other Borrowing Cash Flows							
Net (repayment)/issue of other New Zealand dollar borrowing	5,058	(2,022)	1,259	4,128	4,761	(2,933)	(2,061)
Net (repayment)/issue of foreign currency borrowing	(10,692)	6,238	4,814	(3,823)	(46)	3,004	2,005
Total other borrowing cash flows	**(5,634)**	**4,216**	**6,073**	**305**	**4,715**	**71**	**(56)**
Investing Cash Flows							
Net sale/(purchase) of marketable securities and deposits	(8,417)	(6,434)	(5,721)	(6,316)	2,339	1,209	1,113
Net issues/(repayments) of circulating currency	(24)	91	89	91	92	92	93
Decrease/(increase) in cash	2,540	(86)	(6,829)	(10)	(6)	1	6
Total investing cash flows	**(5,901)**	**(6,429)**	**(12,461)**	**(6,235)**	**2,425**	**1,302**	**1,212**
Residual cash deficit/(surplus) funding/(investing)	**19,302**	**8,933**	**9,990**	**14,533**	**18,212**	**11,415**	**8,145**

1. Short-term borrowing consists of Treasury Bills and may include Euro-Commercial Paper.

Core Crown Residual Cash – Breakdown of Net Capital Expenditure Activity

for the years ending 30 June

	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	5-year Total $m
Education	1,690	1,765	1,665	1,196	1,107	**7,423**
Defence	937	947	733	576	542	**3,735**
Corrections	299	343	237	204	184	**1,267**
Justice	89	66	66	66	65	**352**
Social Development	175	152	99	99	99	**624**
Police	171	259	251	147	87	**915**
Internal Affairs	145	104	55	55	55	**414**
Other	736	687	489	374	336	**2,622**
Net purchase of physical assets	**4,242**	**4,323**	**3,595**	**2,717**	**2,475**	**17,352**
Kāinga Ora	3,886	994	1,877	1,466	1,883	**10,106**
Waka Kotahi NZ Transport Agency	46	792	1,034	96	(3)	**1,965**
Small Business Cashflow Loan Scheme	(326)	(129)	(87)	(4)	(1)	**(547)**
Student Loans	60	238	159	119	112	**688**
Funding for Lending Programme	(9,254)	(6,711)	-	-	-	**(15,965)**
Other	250	27	9	141	(47)	**380**
Net advances	**(5,338)**	**(4,789)**	**2,992**	**1,818**	**1,944**	**(3,373)**
Health Sector	3,178	2,156	870	769	489	**7,462**
Waka Kotahi NZ Transport Agency	2,759	2,552	2,108	2,468	2,002	**11,889**
KiwiRail	379	729	921	159	61	**2,249**
Housing Acceleration Fund	393	385	315	359	165	**1,617**
City Rail Link	242	149	-	-	-	**390**
Other	698	537	560	244	100	**2,139**
Net investments	**7,649**	**6,507**	**4,774**	**3,999**	**2,817**	**25,746**
Future new capital spending	-	2,560	3,142	3,477	4,031	**13,210**
Top-down capital adjustment	(1,500)	(900)	(100)	(100)	(100)	**(2,700)**
Contribution from/(to) NZS Fund	879	-	4	(32)	63	**914**
Net capital spending	**5,932**	**7,701**	**14,407**	**11,879**	**11,230**	**51,149**

Debt Indicators

as at 30 June

	2024 Actual $m	2025 Previous Budget $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Net core Crown Debt:							
Core Crown borrowings[1]	216,349	242,744	244,694	266,686	283,692	295,638	304,268
Core Crown unsettled purchases of securities[2]	847	611	5,629	5,213	6,266	5,554	5,210
Less NZS Fund borrowings[3]	(2,754)	(3,276)	(6,607)	(6,311)	(7,364)	(6,651)	(6,335)
Borrowings included in net core Crown debt	**214,442**	**240,079**	**243,716**	**265,588**	**282,594**	**294,541**	**303,143**
Core Crown financial assets[4]	(154,900)	(168,693)	(178,327)	(184,348)	(192,185)	(198,711)	(206,350)
Core Crown unsettled sales of securities[2]	(3,278)	(2,375)	(4,858)	(4,233)	(4,262)	(4,291)	(4,324)
Less NZS Fund financial assets	78,812	81,907	90,047	93,933	100,199	104,995	110,628
Less core Crown advances	40,388	36,332	35,066	29,248	32,092	33,714	35,418
Financial assets included in net core Crown debt	**(38,978)**	**(52,829)**	**(58,072)**	**(65,400)**	**(64,156)**	**(64,293)**	**(64,628)**
Net core Crown debt	**175,464**	**187,250**	**185,644**	**200,188**	**218,438**	**230,248**	**238,515**
Net debt:							
Net core Crown debt (as above)	175,464	187,250	185,644	200,188	218,438	230,248	238,515
Crown entity borrowings[5]	56,470	64,198	62,163	67,883	73,340	78,390	82,649
Remove Kiwi Group borrowings[6]	(33,291)	(37,188)	(36,505)	(40,315)	(44,011)	(48,153)	(51,788)
Add core Crown advances	(40,388)	(36,332)	(35,066)	(29,248)	(32,092)	(33,714)	(35,418)
Net debt (excl. NZS Fund)	**158,255**	**177,928**	**176,236**	**198,508**	**215,675**	**226,771**	**233,958**
NZS Fund borrowings[3]	2,754	3,276	6,607	6,311	7,364	6,651	6,335
NZS Fund financial assets	(78,812)	(81,907)	(90,047)	(93,933)	(100,199)	(104,995)	(110,628)
Net debt	**82,197**	**99,297**	**92,796**	**110,886**	**122,840**	**128,427**	**129,665**
Gross Debt:							
Core Crown borrowings	216,349	242,744	244,694	266,686	283,692	295,638	304,268
Core Crown unsettled purchases of securities[2]	847	611	5,629	5,213	6,266	5,554	5,210
Less NZS Fund borrowings[3]	(2,754)	(3,276)	(6,607)	(6,311)	(7,364)	(6,651)	(6,335)
Less Reserve Bank settlement cash[7] and Reserve Bank bills	(38,476)	(43,371)	(33,717)	(26,772)	(20,100)	(20,100)	(20,100)
Gross Debt	**175,966**	**196,708**	**209,999**	**238,816**	**262,494**	**274,441**	**283,043**

Notes on borrowings

1. Core Crown borrowings represent the total debt obligations of the consolidated core Crown segment. This includes any government stock held by ACC and includes settlement deposits with the Reserve Bank.
2. Unsettled sales and purchases of securities are classified in the Statement of Financial Position as receivables and accounts payable, respectively.
3. The NZS Fund borrowings adjustment also reflects any government stock held by NZS Fund.
4. Core Crown financial assets includes any asset that is cash, deposits, share investments, advances, other marketable securities or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).
5. Crown entity borrowings represents the total debt obligations of the consolidated Crown entities. This includes debt issued by Crown entities, such as Kāinga Ora.
6. Kiwi Group borrowings includes Kiwi Group customer deposits as disclosed in Note 16: Borrowings and other 3rd party derivative balances.
7. Includes Reserve Bank's New Zealand dollar transactional banking services for other Central Banks and the International Monetary Fund.

Reconciliation Between the Financial Statements and Key Government Fiscal Indicators

Financial Results	2024 Actual $m	2025 Forecast $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m
Core Crown taxation revenue...	120,566	120,894	125,044	133,018	140,491	148,200
...combined with other core Crown revenue...	12,654	13,294	14,682	13,405	13,880	14,305
...funds core Crown expenses...	(138,998)	(142,207)	(150,349)	(153,142)	(156,827)	(161,959)
...and with SOE and CE[1] excluding ACC results...	(2,995)	(2,156)	(1,452)	(1,426)	(637)	(332)
...this results in an operating balance before gains and losses excluding ACC **(OBEGALx)**...	(8,773)	(10,175)	(12,075)	(8,145)	(3,093)	214
...adding back ACC revenue and expenses...	(4,081)	(4,565)	(3,527)	(3,610)	(3,526)	(3,224)
...this results in an operating balance before gains and losses **(OBEGAL)**...	(12,854)	(14,740)	(15,602)	(11,755)	(6,619)	(3,010)
...with gains/losses leading to an **operating surplus/(deficit)...**	(8,365)	(5,493)	(9,884)	(5,665)	(39)	4,071
...with income in SOEs, CEs[1] and the NZS Fund retained...	1,939	(1,980)	(438)	(780)	(2,151)	(3,261)
...and some items do not impact cash	324	3,415	3,490	2,640	2,654	2,275
This leads to an operating residual cash surplus/(deficit)...	**(6,102)**	**(4,058)**	**(6,832)**	**(3,805)**	**464**	**3,085**
...used to make contributions (to)/from the NZS Fund...	(1,614)	(879)	-	(4)	32	(63)
...and to use for capital expenditure...	(4,701)	(4,242)	(4,323)	(3,595)	(2,717)	(2,475)
...and to make advances	(2,533)	5,338	4,789	(2,992)	(1,818)	(1,944)
...and to purchase investments	(4,352)	(7,649)	(6,507)	(4,774)	(3,999)	(2,817)
Adjusting for forecast adjustments (top-down/new spending)...	-	1,500	(1,660)	(3,042)	(3,377)	(3,931)
...results in a **borrowing requirement (cash (deficit)/surplus)**	**(19,302)**	**(9,990)**	**(14,533)**	**(18,212)**	**(11,415)**	**(8,145)**
Opening net core Crown debt...	155,273	175,464	185,644	200,188	218,438	230,248
...when combined with the residual cash (surplus)/deficit...	19,302	9,990	14,533	18,212	11,415	8,145
...and other fair value movements in financial assets and financial liabilities...	889	190	11	38	395	122
...results in a closing **net core Crown debt...**	**175,464**	**185,644**	**200,188**	**218,438**	**230,248**	**238,515**
...which as a % of GDP is	**41.7%**	**42.7%**	**43.9%**	**45.7%**	**46.0%**	**45.5%**

1. State-owned enterprises (SOEs) and Crown entities (CEs).

5

Core Crown Expense Tables

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Social security and welfare	44,028	36,759	42,860	41,514	44,589	47,672	50,161	51,673	53,235	54,318
Health	19,891	22,784	27,781	28,489	29,999	30,935	32,709	34,055	34,194	34,340
Education	16,322	16,039	18,023	18,403	20,223	20,922	21,454	21,380	21,179	21,197
Core government services	6,083	5,754	5,720	6,806	8,468	8,283	6,723	6,792	6,154	6,214
Law and order	4,911	5,202	5,444	6,165	6,527	6,978	7,342	7,263	7,113	7,072
Transport and communications	3,179	5,656	4,657	5,472	5,487	5,916	7,226	5,020	4,728	5,106
Economic and industrial services	3,988	4,481	8,078	3,690	4,010	3,903	3,235	3,122	2,928	2,895
Defence	2,499	2,664	2,832	2,886	3,163	3,318	3,552	3,575	3,593	3,581
Heritage, culture and recreation	1,106	1,420	1,468	1,537	1,504	1,457	1,416	1,360	1,336	1,307
Primary services	961	1,015	949	1,156	1,062	1,257	1,045	978	959	955
Housing and community development	1,015	1,813	2,033	2,312	2,512	2,411	2,396	2,261	1,927	2,031
Environmental protection	1,485	1,906	2,549	2,381	2,297	2,711	2,615	2,621	2,581	2,605
GSF pension expenses	73	99	94	61	69	50	49	48	46	45
Other	63	254	269	133	145	255	93	316	316	316
Finance costs	3,228	1,918	2,884	6,569	8,943	8,839	9,513	10,559	11,769	12,674
Forecast new operating spending	..	..	..	..	..	..	1,720	2,719	5,369	7,903
Top-down operating expense adjustment	..	..	..	..	..	(2,700)	(900)	(600)	(600)	(600)
Core Crown expenses	**108,832**	**107,764**	**125,641**	**127,574**	**138,998**	**142,207**	**150,349**	**153,142**	**156,827**	**161,959**

The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in future Budgets.

Source: The Treasury

Table 5.1 – Social security and welfare expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Welfare benefits (see below)[1]	41,308	33,671	39,187	37,576	40,294	43,270	45,700	47,236	48,876	49,931
Departmental expenses	2,062	2,424	2,747	2,782	3,013	2,947	3,036	2,963	2,830	2,803
Social rehabilitation and compensation	260	333	358	386	415	447	481	517	556	597
Flexi-wage subsidy	..	8	59	52	25	27	..	..	..	..
COVID-19 Income Relief Assistance	15	182	..	..	..	..	..	..	..	..
Other non-departmental expenses[1,2]	383	141	509	718	842	981	944	957	973	987
Social security and welfare expenses	**44,028**	**36,759**	**42,860**	**41,514**	**44,589**	**47,672**	**50,161**	**51,673**	**53,235**	**54,318**

1. The '2023 Actual' has been restated to include expenses previously classified as other benefits within the welfare benefit expenses table below.
2. The '2020 Actual' other non-departmental expenses include costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.2 – Welfare benefit expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
New Zealand Superannuation	15,521	16,569	17,764	19,517	21,574	23,180	24,691	26,116	27,605	28,957
Jobseeker Support and Emergency Benefit	2,285	3,224	3,330	3,473	4,062	4,644	4,839	4,715	4,497	4,420
Supported Living Payment	1,650	1,826	2,047	2,311	2,530	2,669	2,782	2,881	2,975	3,023
Sole Parent Support	1,231	1,455	1,704	1,917	2,097	2,257	2,331	2,303	2,270	2,169
Family Tax Credit	2,189	2,103	2,017	2,151	2,297	2,435	2,374	2,446	2,601	2,541
Other Working for Families tax credits	641	585	519	476	448	564	596	604	622	600
Accommodation Assistance[1]	1,923	2,302	2,386	2,349	2,411	2,304	2,350	2,318	2,311	2,186
Income-Related Rents	1,071	1,202	1,323	1,322	1,517	1,487	1,827	1,917	1,949	1,952
Disability Assistance	395	409	412	431	464	492	511	512	512	506
Winter Energy Payment	669	812	513	519	537	560	577	583	586	596
Best start	184	271	308	321	336	348	326	285	292	281
Orphan's/Unsupported Child's Benefit	248	293	313	350	384	402	417	429	440	447
Hardship Assistance	418	479	497	673	667	758	837	853	897	891
Paid Parental Leave	422	503	603	608	647	720	745	775	810	850
Childcare Assistance	144	145	132	139	165	170	178	187	199	205
FamilyBoost tax credit	..	..	..	..	..	131	171	167	165	163
Veteran's Pension	145	139	134	132	132	132	133	131	129	128
Wage Subsidy Scheme	12,095	1,197	4,689	..	1	..	..	..	..	..
Cost of living payment	..	..	..	600	..	..	..	..	..	..
Covid leave support	..	..	471	273	13	..	..	..	..	..
Other benefits[2,3]	77	157	25	14	12	17	15	14	16	16
Benefit expenses	**41,308**	**33,671**	**39,187**	**37,576**	**40,294**	**43,270**	**45,700**	**47,236**	**48,876**	**49,931**

1. Includes emergency housing assistance.
2. The '2021 Actual' for other benefits include costs in relation to the Government's response to COVID-19.
3. The '2023 Actual' has been restated to reclassify expenses from other benefits to other non-departmental expenses within the social security and welfare expenses table above.

Source: The Treasury

Beneficiary numbers[1] (Thousands)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
New Zealand Superannuation	795	825	848	870	899	928	959	990	1,022	1,052
Jobseeker Support and Emergency Benefit	162	211	193	177	194	217	221	210	196	194
Supported living payment	96	97	98	103	105	108	110	111	112	113
Sole parent support	61	66	70	73	76	79	80	77	74	72
Accommodation Supplement	318	364	353	347	358	376	381	370	364	363

1. Actual numbers have been reclassified so may differ from previous published Economic and Fiscal Update numbers.

Source: Ministry of Social Development

Table 5.3 – Health expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Departmental outputs	236	298	386	222	265	225	229	215	212	212
Purchasing of health services[1]	15,537	16,837	17,727	21,363	23,712	24,749	26,237	27,497	27,505	27,528
National disability support services	1,599	1,659	1,870	2,062	2,340	2,617	2,736	2,726	2,736	2,736
National Pharmaceuticals Purchasing[2]	1,040	1,045	1,085	1,186	1,806	1,690	1,760	1,793	1,794	1,794
Other non-departmental outputs	767	623	770	583	612	617	602	607	627	664
Health payments to ACC	679	1,038	896	952	1,010	1,026	1,112	1,183	1,286	1,399
National health response to COVID-19[3]	..	1,261	4,965	2,112	247	..	..	..	..	..
Other expenses	33	23	82	9	7	11	33	34	34	7
Health expenses	**19,891**	**22,784**	**27,781**	**28,489**	**29,999**	**30,935**	**32,709**	**34,055**	**34,194**	**34,340**

1. Reforms to the NZ health system took place from 1 July 2022 with the regional DHB systems replaced by a national health system.
2. Previously included in purchasing of health services.
3. This line includes spending in relation to vaccines, managed isolation and quarantine as well as other COVID-19 response costs.

Source: The Treasury

Table 5.4 – Education expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Early childhood education	2,007	2,132	2,247	2,355	2,710	2,965	3,065	3,099	3,142	3,185
Primary and secondary schools (see below)	7,108	8,230	8,478	8,616	9,741	10,081	10,457	10,357	10,137	10,032
Tertiary funding (see below)	5,621	3,519	4,804	4,663	5,014	5,101	5,142	5,118	5,132	5,214
Departmental expenses	1,534	1,656	1,962	2,188	2,513	2,561	2,539	2,583	2,583	2,602
COVID-19 apprentice support	..	156	255	141	90	54	26	26	26	26
Other education expenses[1]	52	346	277	440	155	160	225	197	159	138
Education expenses	**16,322**	**16,039**	**18,023**	**18,403**	**20,223**	**20,922**	**21,454**	**21,380**	**21,179**	**21,197**

1. Includes training incentive allowance.

Source: The Treasury

Number of places provided[1]	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Early childhood education	221,971	225,192	220,742	224,043	229,654	235,678	238,205	240,696	243,854	247,080

1. Full-time equivalent based on 1,000 funded child hours per calendar year.
Historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers.
The '2024 Actual' figures are based on the calendar year and are a combination of actual and forecast place numbers.

Source: The Ministry of Education

Table 5.5 – Primary and secondary schools

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Primary	3,600	4,107	4,122	4,116	4,656	4,788	4,964	4,964	4,899	4,824
Secondary	2,683	3,043	3,135	3,174	3,617	3,776	3,993	4,010	3,986	3,958
School transport	208	216	210	235	255	267	267	267	267	267
Special needs support	515	641	658	673	765	801	831	844	844	844
Professional development	91	104	129	128	129	145	140	126	111	109
Schooling improvement	7	25	20	23	34	29	30	30	30	30
School lunch programme	4	94	204	267	285	275	232	116	..	..
Primary and secondary education expenses	**7,108**	**8,230**	**8,478**	**8,616**	**9,741**	**10,081**	**10,457**	**10,357**	**10,137**	**10,032**

Source: The Treasury

Number of places provided[1]	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Primary	530,379	529,859	520,060	523,982	529,722	532,084	528,799	525,095	518,769	510,494
Secondary	286,511	294,216	297,309	303,706	315,903	323,247	326,779	325,714	322,767	320,787

1. These are snapshots as at 1 July for primary year levels (years 1 to 8) and 1 March for secondary year levels (years 9 to 13). These numbers exclude home schooling. They are the number of full-time equivalent students enrolled in New Zealand schools, including State, State-integrated, Private-Fully Registered, Private-Provisionally Registered and other.

Source: The Ministry of Education

Table 5.6 – Tertiary funding

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Tuition[1]	3,911	2,019	3,205	3,135	3,197	3,249	3,232	3,174	3,132	3,136
Other tertiary funding	637	698	755	729	688	662	584	576	573	574
Student allowances	567	590	556	525	526	578	635	640	637	628
Student loans	506	212	288	274	603	612	691	728	790	876
Tertiary education expenses	**5,621**	**3,519**	**4,804**	**4,663**	**5,014**	**5,101**	**5,142**	**5,118**	**5,132**	**5,214**

1. The '2020 Actual' includes increased funding to provide revenue certainty to tertiary education organisations for the June to December 2020 period due to the impact of COVID-19. There is a corresponding reduction in the '2021 Actual' with the timing of funding returning to normal from 2022.

Source: The Treasury

Number of places provided[1]	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Actual delivered and estimated funded places	214,172	234,350	219,862	265,152	260,594	266,300	267,400	258,100	257,200	256,300

1. Tertiary places are the number of equivalent full time (EFT) students in: student achievement component; adult and community education; and youth guarantee programmes. Place numbers are based on calendar years rather than fiscal years. Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers. The forecast number of places provided is based on the number of places that can be funded under the current funding and not a forecast based on demand. From 2023, places include Industry Training Funding.

Source: Tertiary Education Commission

Table 5.7 – Core government services expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Departmental expenses	2,249	2,271	2,477	2,736	2,733	2,780	3,002	2,742	2,759	2,783
International Development Cooperation	736	804	827	971	1,202	1,116	995	941	941	941
Tax receivable write-down and impairments	1,356	882	662	1,453	2,393	1,994	1,520	1,425	1,238	1,238
Non-departmental expenses[1]	785	905	928	703	401	579	613	1,120	665	710
North Island weather events	..	..	..	..	794	1,055	5	2	1	..
Science expenses	113	121	114	128	115	120	128	127	125	125
Indemnity and guarantee expenses	14	6	3	24	38	31	25	24	23	23
Crown Research Institutes: COVID-19	45	45	..	..	..	..	..	..	..	..
Shovel ready project funding	..	137	..	3	14	11	..	..	..	..
Other expenses[1,2]	785	583	709	788	778	597	435	411	402	394
Core government service expenses	**6,083**	**5,754**	**5,720**	**6,806**	**8,468**	**8,283**	**6,723**	**6,792**	**6,154**	**6,214**

1. The '2023 Actual' has been restated to update sub-classifications.
2. The '2020 Actual' other expenses include costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.8 – Law and order expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Police	1,997	2,079	2,206	2,476	2,630	2,779	2,949	2,907	2,757	2,726
Department of Corrections	1,527	1,641	1,645	1,798	1,952	2,127	2,246	2,249	2,257	2,267
Ministry of Justice	591	642	704	748	814	847	893	875	870	849
NZ Customs Service[1]	201	182	200	190	197	245	255	265	270	276
Other departments[1]	163	178	152	231	235	247	242	236	234	235
Departmental expenses	**4,479**	**4,722**	**4,907**	**5,443**	**5,828**	**6,245**	**6,585**	**6,532**	**6,388**	**6,353**
Non-departmental outputs	419	477	537	712	646	677	702	676	670	664
Other expenses	13	3	..	10	53	56	55	55	55	55
Law and order expenses	**4,911**	**5,202**	**5,444**	**6,165**	**6,527**	**6,978**	**7,342**	**7,263**	**7,113**	**7,072**

1. The '2023 Actual' has been restated to update sub-classifications.

Source: The Treasury

Table 5.9 – Transport and communication expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Departmental outputs	70	73	82	124	105	109	98	73	73	72
Waka Kotahi NZ Transport Agency	2,719	3,122	2,782	2,212	3,311	3,948	3,967	4,090	3,972	4,541
Rail funding	3	13	310	567	745	849	564	356	226	109
Funding to support the aviation and transport industries	78	570	554	197	89	85	..	..	..	..
North Island weather events	..	..	..	250	312	263	..	..	..	..
Funding to support Waka Kotahi NZ Transport Agency due to impact of COVID-19	..	322	128	18	19	138	..	..	..	..
Shovel ready project funding to Crown Infrastructure Partners		1,035	..	..	326	..	..	..	..	..
Transport temporary relief package[1]			411	1,613	..	..	..	..	..	..
Other non-departmental expenses	145	169	200	395	317	282	164	160	146	121
Other expenses[2, 3]	164	352	190	96	263	242	2,433	341	311	263
Transport and communication expenses	**3,179**	**5,656**	**4,657**	**5,472**	**5,487**	**5,916**	**7,226**	**5,020**	**4,728**	**5,106**

1. Largely reflects operating funding to Waka Kotahi NZ Transport Agency to account for the shortfall in revenue as a result of temporary reductions in fuel excise duty and road user charges.
2. The '2020 Actual' to '2022 Actual' for other expenses include costs in relation to the Government's response to COVID-19.
3. Increase in 2026 largely reflects the divestment of the City Rail Link project.

Source: The Treasury

Table 5.10 – Economic and industrial services expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Departmental outputs	561	633	626	695	762	760	818	795	782	779
Non-departmental outputs[1,2]	1,619	1,980	1,701	1,573	1,830	1,659	1,555	1,535	1,438	1,384
KiwiSaver (includes HomeStart grant)	893	916	964	997	1,014	1,060	545	565	588	613
Initial fair value write-down on the Small Business Cashflow Scheme loans	686	143	230	54	..	..	..	..	..	..
COVID-19 Resurgence Support payments	..	200	4,019	..	..	..	..	..	..	..
Shovel ready project to support energy projects	..	24	14	13	9	10	..	..	..	..
Shovel ready project funding to support regional projects		159	174	67	..	..	..	..	..	..
Worker redeployment package	19	50	6	1	1	..	..	..	..	..
Other expenses[3]	210	376	344	290	394	414	317	227	120	119
Economic and industrial services expenses	**3,988**	**4,481**	**8,078**	**3,690**	**4,010**	**3,903**	**3,235**	**3,122**	**2,928**	**2,895**

1. Non-departmental outputs include Provincial Growth Fund expenses.
2. Non-departmental outputs include employment initiatives previously presented separately.
3. The '2020 Actual' to '2022 Actual' other expenses include costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.11 – Defence expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
New Zealand Defence Force expenses	2,418	2,531	2,672	2,754	3,033	3,119	3,376	3,390	3,389	3,394
Other expenses	81	133	160	132	130	199	176	185	204	187
Defence expenses	**2,499**	**2,664**	**2,832**	**2,886**	**3,163**	**3,318**	**3,552**	**3,575**	**3,593**	**3,581**

Source: The Treasury

Table 5.12 – Heritage, culture and recreation expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Departmental outputs	326	379	374	449	473	485	517	517	500	471
Non-departmental outputs	627	884	809	837	871	770	794	769	769	769
Screen Production Grants	31	48	69	66	43	117	42	20	13	13
COVID-19 cultural sector response	..	6	73	70	36	..	..	..	..	..
Other expenses[1]	122	103	143	115	81	85	63	54	54	54
Heritage, culture and recreation expenses	**1,106**	**1,420**	**1,468**	**1,537**	**1,504**	**1,457**	**1,416**	**1,360**	**1,336**	**1,307**

1. The '2020 Actual' to '2022 Actual' other expenses include costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.13 – Primary services expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Departmental expenses	727	691	724	788	775	822	839	797	791	790
Non-departmental outputs	89	178	106	149	131	141	106	91	77	74
Other expenses[1]	145	146	119	219	156	294	100	90	91	91
Primary services expenses	**961**	**1,015**	**949**	**1,156**	**1,062**	**1,257**	**1,045**	**978**	**959**	**955**

1. From '2023 Actual' onwards other expenses include aquaculture settlements, expenses associated with sustainable food and fibre futures and the North Island weather events.

Source: The Treasury

Table 5.14 – Housing and community development expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Departmental outputs	220	237	255	259	286	290	297	251	249	249
Community services	235	349	438	477	396	443	440	418	415	415
Housing Acceleration Fund	..	..	22	30	78	188	277	348	254	336
Transitional housing[1]	163	253	324	318	360	217	310	371	340	326
Water infrastructure	..	267	239	301	319	134	83	30	..	..
Shovel ready project funding to support housing projects	..	46	35	39	46	38	18	3	..	..
Warm up New Zealand	47	99	62	34	1	98	83	83	..	..
Other non-departmental expenses	313	522	601	681	869	869	541	691	595	621
Other expenses[2]	37	40	57	173	157	134	347	66	74	84
Housing and community development expenses	**1,015**	**1,813**	**2,033**	**2,312**	**2,512**	**2,411**	**2,396**	**2,261**	**1,927**	**2,031**

1. Previously included in other non-departmental expenses.
2. Includes housing subsidies previously presented separately.

Source: The Treasury

Table 5.15 – Environmental protection expenses

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
NZ Emissions Trading Scheme[1]	650	947	1,540	1,215	894	1,216	1,174	1,368	1,422	1,448
Departmental outputs	542	614	690	776	845	801	855	800	761	765
Non-departmental outputs	257	318	170	165	354	510	456	388	383	377
Clean car discount	..	..	128	203	116	..	..	..	..	..
Accelerating energy efficiency and fuel switching	..	..	..	2	42	125	108	49	..	..
Other expenses[1]	36	27	21	20	46	59	22	16	15	15
Environmental protection expenses	**1,485**	**1,906**	**2,549**	**2,381**	**2,297**	**2,711**	**2,615**	**2,621**	**2,581**	**2,605**

1. '2021 Actual' to '2023 Actual' were restated to update sub-classifications.

Source: The Treasury

Table 5.16 – Finance costs

($millions)	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Interest on financial liabilities	2,971	1,846	2,796	6,154	8,329	8,267	8,983	10,055	11,263	12,171
Interest unwind on provisions	257	72	88	415	614	572	530	504	506	503
Finance costs expenses	**3,228**	**1,918**	**2,884**	**6,569**	**8,943**	**8,839**	**9,513**	**10,559**	**11,769**	**12,674**

Source: The Treasury

Glossary of Terms

Accruals basis of accounting

An accounting basis where revenues are recognised when rights to assets are earned or levied rather than when cash is received, and expenses are recognised when obligations are incurred rather than when they are settled.

Appropriations

Appropriations are legal authorities granted by Parliament to the Crown or an Office of Parliament to use public resources. Most appropriations are set out in Appropriation Acts.

Baselines

The level of funding approved for any given area of spending (eg, Vote Education).

Consumers Price Index (CPI)

Statistics NZ's official index to measure the rate of change in prices of goods and services purchased by households. Core or underlying inflation measures exclude or give little weight to extreme or irregular price movements.

Contingent assets

Revenue that the Crown will realise if a particular uncertain event occurs, or a present asset is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent assets). Contingent assets typically comprise suspensory or concessional loans with specific events that trigger repayment to the Crown and IRD pending assessments (where there is a proposed adjustment to a tax assessment).

Contingent liabilities

Costs that the Crown will have to face if a particular uncertain event occurs, or present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent liabilities). Contingent liabilities typically comprise guarantees and indemnities, legal disputes and claims, and uncalled capital.

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZ Super Fund and the Reserve Bank. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 115 to 118).

Core Crown expenses

The day-to-day spending by the core Crown (eg, public servants' salaries, welfare benefit payments, finance costs and maintaining national defence etc) that does not include capital expenditure on the construction or purchase of physical assets. This is an accrual measure of expenses and includes non-cash items such as depreciation on physical assets.

Core Crown residual cash

The level of money the Government has available to repay debt or, alternatively, needs to borrow in any given year. Core Crown residual cash is alternatively termed "Cash available/(shortfall to be funded)". Core Crown residual cash is equal to net core Crown cash flow from operations excluding NZS Fund activity less core Crown capital payments (eg, purchase of assets, loans to others). Core Crown revenue*.*

Core Crown revenue

Consists primarily of tax revenue collected by the Government but also includes investment income, sales of goods and services and other revenue of the core Crown.

Corporate tax

The sum of net company tax, non-resident withholding tax (NRWT) and foreign-source dividend withholding payments (FDWP).

Current account (balance of payments)

The current account records the value of New Zealand's transactions with the rest of the world in goods, services, income and transfers. The current account balance is the sum of all current account credits less all current account debits. When the sum of debits is greater than the sum of credits there is a current account deficit. The current account balance is commonly expressed as a percentage of nominal GDP.

Cyclically-adjusted balance (CAB) and structural balance

The Treasury's CAB and structural balance indicators aim to provide a picture of fiscal sustainability by focusing on the underlying fiscal position. The CAB is an estimate of the operating balance before gains and losses (OBEGAL and OBEGALx) adjusted for fluctuations in expenses and tax revenue that happen automatically over the economic cycle. The structural balance removes from the CAB significant expenditure or revenue associated with one-off events.

Demographic changes

Changes to the structure of the population such as the age, gender or ethnic composition.

Domestic bond programme

The amount and timing of government bonds expected to be issued or redeemed by the Treasury.

Excise duties

A tax levied on the domestic production of alcohol, tobacco and light petroleum products (CNG, LPG and petrol).

Financial assets

Any asset that is cash, an equity instrument of another entity (shares), a contractual right to receive cash or shares (taxes receivable and ACC levies) or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

Financial liabilities

Any liability that is a contractual obligation to pay cash (government stock, accounts payable) or an obligation to exchange a financial asset or liability on unfavourable terms (derivatives in loss).

Fiscal drag

The additional personal income tax generated as an individual's average tax rate increases as their nominal income increases.

Forecast new capital spending

An amount provided in the forecasts to represent the balance sheet impact of capital initiatives expected to be introduced over the forecast period.

Forecast new operating spending

An amount included in the forecasts to provide for the operating balance (revenue and expenditure) impact of policy initiatives, changes to demographics and other forecasting changes expected to occur over the forecast period.

Gains and losses

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and GSF. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the Statement of Financial Performance.

GDP deflator

An index of changes in the general price level in the economy. It is calculated as the ratio of nominal GDP to real GDP.

Generally accepted accounting practice (GAAP)

GAAP refers to the rules and concepts used to prepare and present financial statements. GAAP is an independent set of standards and frameworks that govern the recognition, measurement and disclosure of financial elements, such as assets, liabilities, revenues and expenses.

Gross domestic product (GDP)

A measure of the value-added of all goods and services produced in New Zealand. Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured on an expenditure, production or income basis and in either real (constant price) or nominal (current price) terms.

Gross national expenditure (GNE)

A measure of total expenditure on final goods and services by New Zealand residents.

Gross sovereign-issued debt (GSID)

Represents debt issued by the sovereign (the core Crown) and includes any government stock held by the NZ Super Fund, ACC and other Government reporting entities.

Insurance liabilities

The gross obligation for the future cost of claims incurred prior to balance date represented in today's dollars (present value). The net liability is the gross liability less the asset reserves held to meet those claims.

Inter-segment eliminations

The amounts of transactions between different segments (core Crown, Crown entities and SOEs) that are eliminated to determine the consolidated Government results.

Labour Cost Index (LCI)

The LCI measures changes in labour costs, including base wages, overtime, and non-wage labour-related costs such as annual leave and insurance.

Labour force participation rate

The percentage of the working-age population in work or actively looking for and available for work.

Labour productivity

Output per unit of labour input (where labour inputs might be measured as hours worked or the number of people employed).

Loan-to-value ratio restrictions

A loan-to-value ratio (LVR) is the value of a home loan divided by the value of the mortgaged property. The Reserve Bank first introduced LVR restrictions in October 2013 in response to rapid house price growth, placing limits on how much banks are allowed to lend to high-LVR borrowers.

Marketable securities

Assets held with financial institutions. These assets are held for both cash flow and investment purposes. Examples are bonds, commercial papers and debentures.

Minority interest

Minority interest refers to shareholders of Government reporting entities outside the Crown. Current examples include those who hold shares in the mixed ownership companies.

Monetary conditions

Aggregate monetary conditions measure the degree to which short-term interest rates and the exchange rate either support or restrict economic growth.

Monetary policy

The Reserve Bank uses monetary policy to regulate monetary conditions in New Zealand. The Reserve Bank primarily uses the Official Cash Rate (OCR) to implement monetary policy decisions. However, additional monetary policy responses can be used as well, such as the Large Scale Asset Purchase (LSAP) programme and the Funding for Lending (FLP) programme. These measures are all designed to maintain stability in the rate of CPI inflation within a defined target range.

Tightening monetary policy means raising interest rates (such as via the OCR) in order to moderate aggregate demand pressures and reduce inflationary pressures. Easing monetary policy has the reverse effect.

Multi-factor productivity

Multi-factor productivity (MFP) relates a change in output to several types of inputs, typically capital and labour. MFP is often measured residually, as the change in output that cannot be accounted for by the change in combined inputs.

National saving

National disposable income less private and public consumption spending. Income excludes gains and losses on capital. Gross saving includes depreciation.

Net core Crown cash flow from operations

The cash impact of core Crown operating results. It is represented by the operating balance (before gains and losses) less retained items (eg, net surplus of SOEs, Crown entities and NZ Super Fund net revenue) less non-cash items (eg, depreciation).

Net core Crown debt

Net core Crown debt provides information about the sustainability of the Government's accounts and is used by some international rating agencies when determining the creditworthiness of a country. It represents GSID and other Crown borrowings less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and/or they are made for public policy reasons rather than for the purposes associated with government financing.

Net debt

Net debt provides information about the sustainability of the Government's accounts. Net debt represents core Crown and Crown entity borrowings (excluding Kiwi Group Capital) less core Crown financial assets (including advances). It includes the financial assets and borrowings of the NZS Fund.

Net international investment position (NIIP)

The net value of New Zealand's international assets and liabilities at a point in time.

Net worth

Total assets less total liabilities. The change in net worth in any given year is largely driven by the operating balance and property, plant and equipment revaluations. Net worth provides a useful and comprehensive measure of how strong the Government's finances are, including its resilience to fiscal shocks such as natural disasters or significant deterioration in the global economy.

Net worth attributable to the Crown

Represents the Crown's share of total assets and liabilities and excludes minority interests' share of those assets and liabilities.

New Zealand Activity Index (NZAC)

The NZAC summarises several monthly indicators of economic activity, including consumer spending, unemployment, job vacancies, traffic volumes, electricity grid demand, business outlook, and manufacturing activity. It is intended to be interpreted as a broad measure of economic activity.

Operating balance

Represents OBEGAL (refer below) plus gains and less losses. The operating balance includes gains and losses not reported directly as a movement against net worth. The impact of gains and losses on the operating balance can be subject to short-term market volatility and revaluations of long-term liabilities.

Operating balance before gains and losses (OBEGAL)

Represents total Crown revenue less total Crown expenses excluding minority interest share. OBEGAL can provide a useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation.

Operating balance before gains and losses excluding ACC revenue and expenses (OBEGALx)

Represents OBEGAL (refer above) excluding the revenue and expenses of ACC.

Output gap

The difference between actual and potential GDP (see potential output).

Outputs

Outputs are the goods and services commissioned by Ministers from public, non-governmental and private sector producers. Outputs may include the supply of policy advice, enforcement of regulations (such as speed limits in transport), provision of a range of services (in health, education, etc), negotiation and management of contracts and administration of benefits.

Potential output

The level of output an economy can sustain without an acceleration of inflation.

Productivity

The amount of output (eg, GDP) per unit of input.

Settlement cash

This is the amount of money deposited with the Reserve Bank by registered banks. It is a liquidity mechanism used to settle wholesale obligations between registered banks and provides the basis for settling most of the retail banking transactions that occur every working day between businesses and individuals.

Specific fiscal risks

All government decisions and other circumstances known to the Government whose fiscal implications may have a material effect on the fiscal and economic outlook, but are not certain enough on the outcome, timing or quantum to include in the forecasts.

System of National Accounts (SNA)

A set of macroeconomic accounts, developed by the international community, to facilitate international comparisons of national economic statistics. This differs from the GAAP framework that is used for reporting by the Government in New Zealand.

Tax revenue

The accrual, rather than the cash measure of taxation. It is a measure of tax over a given period in time, regardless of whether or not it has actually been paid.

Terms of trade

The terms of trade measure the volume of imports that can be funded by a fixed volume of exports and are calculated as the ratio of the total export price index to the total import price index. New Zealand's headline terms of trade series is derived from export and import price indices from Statistics NZ's quarterly overseas trade indices. The Treasury forecasts the terms of trade on an SNA basis, using implicit export and import price indices derived from quarterly national accounts data.

Top-down adjustment

An adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to SOE or Crown entity forecasts. In addition to department forecasts, unallocated funding (contingencies) also attract a top-down adjustment where it is considered unlikely that all of the contingencies indicatively phased to a particular year is expected to be allocated and spent in that year.

Total borrowings

Represents the Government's total debt obligations to external parties and can be split into sovereign-guaranteed debt and non-sovereign-guaranteed debt. Non-sovereign-guaranteed debt represents the debt obligations of SOEs and Crown entities that are not guaranteed by the Crown.

Total Crown

Includes the core Crown (defined above) plus Crown entities and SOEs and other entities controlled by the Government Reporting Entity as listed on pages 115 to 118.

Total fiscal impulse

The total fiscal impulse is a measure of the change in the Government's contribution to aggregate demand relative to the previous year. The Treasury's total fiscal impulse measure is calculated as the change in the fiscal balance as a percentage of nominal potential GDP. The fiscal balance is residual cash adjusted for some expenditure items that do not directly affect domestic demand.

Trade Weighted Index (TWI)

A measure of movements in the NZ dollar against the currencies of our major trading partners. The TWI is based on 17 currencies, weighted according to each country's direct bilateral trade in goods and services with New Zealand. Together these countries account for more than 80% of New Zealand's foreign trade.

Underutilisation rate

The underutilisation rate is a broad measure of untapped labour market capacity.
In addition to the unemployed, it includes part-time workers who want and are able to work longer hours (the under-employed), people who want a job and are available to work but not currently looking for a job (the available potential jobseeker), and people who are currently unavailable but are looking for a job and will be able to start working within the next month (the unavailable jobseeker).

Votes

When Parliament considers legislation relating to appropriations, the appropriations are grouped within 'Votes'. Generally, a 'Vote' will group similar or related appropriations together (eg, Vote Health includes all health-related appropriations administered by the Ministry of Health).

Year ended

Graphs and tables within this document use different expressions of the timeframe.
While some tables may refer to the end of the tax year (31 March), others will refer to the end of the Government's financial year (30 June). For example, unless otherwise stated references to 2024/25 or 2025 will mean the year ended 30 June.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
$millions															
Revenue and expenses															
Core Crown tax revenue	66,636	70,445	75,644	80,224	86,468	85,102	97,983	108,458	112,358	120,566	120,894	125,044	133,018	140,491	148,200
Core Crown revenue	72,213	76,121	81,782	86,778	93,474	91,923	104,968	117,515	123,398	133,220	134,188	139,726	146,423	154,371	162,505
Total Crown revenue	93,805	97,416	103,422	109,973	119,142	116,003	129,335	141,627	153,011	167,347	169,651	175,864	184,023	193,790	203,011
Core Crown expenses	72,363	73,929	76,339	80,576	86,959	108,832	107,764	125,641	127,574	138,998	142,207	150,349	153,142	156,827	161,959
Total Crown expenses	93,064	95,137	99,007	104,014	111,376	138,916	133,722	150,956	161,822	180,061	184,112	191,158	195,333	199,894	205,575
Operating balance (excluding minority interests)	5,771	(5,369)	12,317	8,396	389	(30,040)	16,159	(16,932)	5,321	(8,365)	(5,493)	(9,884)	(5,665)	(39)	4,071
Fiscal strategy indicators															
OBEGAL (excluding ACC)	333	2,121	4,653	5,942	8,504	(20,902)	(2,559)	(8,664)	(7,199)	(8,773)	(10,175)	(12,075)	(8,145)	(3,093)	214
OBEGAL (excluding minority interests)	414	1,831	4,069	5,534	7,429	(23,057)	(4,560)	(9,691)	(9,446)	(12,854)	(14,740)	(15,602)	(11,755)	(6,619)	(3,010)
Core Crown residual cash	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(13,767)	(27,043)	(25,648)	(19,302)	(9,990)	(14,533)	(18,212)	(11,415)	(8,145)
Net debt	22,825	23,193	16,249	11,219	5,432	35,710	35,921	61,850	71,367	82,197	92,796	110,886	122,840	128,427	129,665
Net debt (excl. NZS Fund)	52,131	53,229	51,548	50,763	50,822	79,930	95,188	117,115	136,268	158,255	176,236	198,508	215,675	226,771	233,958
Gross debt[1]	86,125	86,928	87,141	88,053	84,449	102,257	100,835	118,950	135,789	175,966	209,999	238,816	262,494	274,441	283,043
Net core Crown debt[2]	60,631	61,880	59,480	57,495	57,736	83,375	102,080	128,873	155,273	175,464	185,644	200,188	218,438	230,248	238,515
Statement of financial position															
Total assets	279,214	292,679	313,609	339,932	364,652	393,400	438,596	501,844	536,666	570,868	600,508	619,464	637,742	657,054	676,236
Total liabilities	186,978	197,158	197,137	204,295	221,313	277,457	281,403	327,525	345,194	379,819	417,378	446,240	469,963	489,214	504,343
Net worth	92,236	95,521	116,472	135,637	143,339	115,943	157,193	174,319	191,472	191,049	183,130	173,224	167,779	167,840	171,893
Net worth attributable to the Crown	86,454	89,366	110,532	129,644	136,949	110,320	151,469	167,036	183,514	181,818	173,695	163,878	158,294	158,288	162,367
Nominal expenditure GDP (revised)	245,872	258,929	275,876	295,817	310,512	317,631	343,393	365,716	401,547	420,622	435,148	456,464	477,770	500,866	524,122
% GDP															
Revenue and expenses															
Core Crown tax revenue	27.1%	27.2%	27.4%	27.1%	27.8%	26.8%	28.5%	29.7%	28.0%	28.7%	27.8%	27.4%	27.8%	28.0%	28.3%
Core Crown revenue	29.4%	29.4%	29.6%	29.3%	30.1%	28.9%	30.6%	32.1%	30.7%	31.7%	30.8%	30.6%	30.6%	30.8%	31.0%
Total Crown revenue	38.2%	37.6%	37.5%	37.2%	38.4%	36.5%	37.7%	38.7%	38.1%	39.8%	39.0%	38.5%	38.5%	38.7%	38.7%
Core Crown expenses	29.4%	28.6%	27.7%	27.2%	28.0%	34.3%	31.4%	34.4%	31.8%	33.0%	32.7%	32.9%	32.1%	31.3%	30.9%
Total Crown expenses	37.9%	36.7%	35.9%	35.2%	35.9%	43.7%	38.9%	41.3%	40.3%	42.8%	42.3%	41.9%	40.9%	39.9%	39.2%
Operating balance (excluding minority interests)	2.3%	(2.1%)	4.5%	2.8%	0.1%	(9.5%)	4.7%	(4.6%)	1.3%	(2.0%)	(1.3%)	(2.2%)	(1.2%)	0.0%	0.8%
Fiscal strategy indicators															
OBEGAL (excluding ACC)	0.1%	0.8%	1.7%	2.0%	2.7%	(6.6%)	(0.7%)	(2.4%)	(1.8%)	(2.1%)	(2.3%)	(2.6%)	(1.7%)	(0.6%)	0.0%
OBEGAL (excluding minority interests)	0.2%	0.7%	1.5%	1.9%	2.4%	(7.3%)	(1.3%)	(2.6%)	(2.4%)	(3.1%)	(3.4%)	(3.4%)	(2.5%)	(1.3%)	(0.6%)
Core Crown residual cash	(0.7%)	(0.5%)	0.9%	0.5%	(0.2%)	(7.5%)	(4.0%)	(7.4%)	(6.4%)	(4.6%)	(2.3%)	(3.2%)	(3.8%)	(2.3%)	(1.6%)
Net debt	9.3%	9.0%	5.9%	3.8%	1.7%	11.2%	10.5%	16.9%	17.8%	19.5%	21.3%	24.3%	25.7%	25.6%	24.7%
Net debt (excl. NZS Fund)	21.2%	20.6%	18.7%	17.2%	16.4%	25.2%	27.7%	32.0%	33.9%	37.6%	40.5%	43.5%	45.1%	45.3%	44.6%
Gross debt[1]	35.0%	33.6%	31.6%	29.8%	27.2%	32.2%	29.4%	32.5%	33.8%	41.8%	48.3%	52.3%	54.9%	54.8%	54.0%
Net core Crown debt[2]	24.7%	23.9%	21.6%	19.4%	18.6%	26.2%	29.7%	35.2%	38.7%	41.7%	42.7%	43.9%	45.7%	46.0%	45.5%
Statement of financial position															
Total assets	113.6%	113.0%	113.7%	114.9%	117.4%	123.9%	127.7%	137.2%	133.6%	135.7%	138.0%	135.7%	133.5%	131.2%	129.0%
Total liabilities	76.0%	76.1%	71.5%	69.1%	71.3%	87.4%	81.9%	89.6%	86.0%	90.3%	95.9%	97.8%	98.4%	97.7%	96.2%
Net worth	37.5%	36.9%	42.2%	45.9%	46.2%	36.5%	45.8%	47.7%	47.7%	45.4%	42.1%	37.9%	35.1%	33.5%	32.8%
Net worth attributable to the Crown	35.2%	34.5%	40.1%	43.8%	44.1%	34.7%	44.1%	45.7%	45.7%	43.2%	39.9%	35.9%	33.1%	31.6%	31.0%

1. Excludes Reserve Bank settlement cash and bank bills.
2. Excludes advances.

Economic Indicators

June Years	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	3.6	4.7	6.3	4.7	4.1	-1.2	8.1	1.6	3.8	0.3	0.1	1.6	2.5	2.6	2.5
Public consumption	3.1	1.1	2.6	4.1	3.0	6.4	7.1	7.9	1.4	1.6	-1.2	-0.6	0.2	0.5	0.3
TOTAL CONSUMPTION	3.5	3.8	5.4	4.6	3.9	0.5	7.9	3.1	3.2	0.6	-0.2	1.0	1.9	2.1	2.0
Residential investment	6.3	10.1	3.9	-1.0	1.4	-4.3	16.4	-6.0	-1.5	-7.3	-10.7	4.2	8.3	6.7	4.8
Business investment	7.2	0.8	1.7	11.6	4.5	-2.4	8.1	6.3	5.7	-2.4	-3.3	2.1	4.7	4.2	3.4
TOTAL INVESTMENT	7.0	3.1	2.3	8.2	3.7	-2.9	10.1	3.2	4.0	-3.4	-4.8	2.5	5.5	4.7	3.7
Stock change (contribution to growth)	0.0	-0.3	0.4	0.2	-0.5	-0.4	0.2	1.0	-1.0	-0.6	0.3	0.5	0.0	0.0	0.0
GROSS NATIONAL EXPENDITURE	4.0	3.2	5.1	5.7	3.3	-0.7	8.5	4.2	2.4	-1.0	-0.5	1.8	2.7	2.7	2.4
Exports	6.4	6.3	0.9	4.0	3.3	-5.3	-10.8	-3.1	11.9	5.2	3.9	4.5	2.2	2.4	2.5
Imports	6.9	2.1	6.1	8.6	2.8	-5.6	-4.1	12.1	2.9	-0.9	1.4	0.3	1.8	2.3	2.1
EXPENDITURE ON GDP	4.0	4.3	3.7	4.5	3.4	-0.7	6.7	0.8	4.5	0.6	-0.3	2.8	2.8	2.8	2.5
GDP (production measure)	4.1	3.7	3.6	3.5	3.2	-0.8	6.2	0.7	4.0	0.6	-0.8	2.9	3.0	2.9	2.6
- annual % change	4.0	4.2	3.3	3.7	2.6	-9.8	17.9	0.7	2.7	-0.5	0.6	3.2	2.9	2.8	2.5
Real GDP per capita	2.1	1.5	1.3	1.5	1.5	-2.7	4.9	0.5	2.9	-1.9	-1.9	1.8	1.7	1.6	1.4
Nominal GDP (expenditure basis)	3.7	5.3	6.5	7.2	5.0	2.3	8.1	6.5	9.8	4.8	3.5	4.9	4.7	4.8	4.6
GDP deflator	-0.2	0.9	2.8	2.6	1.5	3.0	1.3	5.6	5.1	4.1	3.8	2.0	1.8	2.0	2.1
Output gap (% deviation, June year average)	-0.8	-0.3	0.2	0.7	1.3	0.6	1.8	2.4	2.0	0.4	-2.3	-1.6	-0.9	-0.3	-0.1
Employment	3.6	2.7	5.3	3.6	1.9	1.6	0.6	2.7	2.6	1.7	-0.6	1.5	2.1	2.0	1.7
Unemployment (% June quarter s.a.)	5.5	5.1	4.9	4.6	4.0	4.1	4.0	3.3	3.6	4.6	5.4	5.0	4.8	4.5	4.3
Wages (average ordinary-time hourly, ann % change)	2.5	2.4	2.5	2.8	4.0	2.9	4.0	6.3	6.9	5.0	3.9	2.6	2.7	2.7	2.7
CPI inflation (ann % change)	0.4	0.4	1.7	1.5	1.7	1.5	3.3	7.3	6.0	3.3	2.2	2.1	2.0	2.0	2.0
Merchandise terms of trade (SNA basis)	-4.8	-2.0	4.3	4.7	-2.8	4.4	-0.2	2.9	-7.0	-3.3	8.4	2.6	-0.9	0.0	0.2
House prices (ann % change)	11.8	15.0	6.5	3.6	1.5	7.1	29.6	5.3	-9.0	1.5	0.3	5.6	6.7	6.2	5.3
Current account balance - $billion	-8.3	-5.3	-7.3	-10.8	-11.1	-5.2	-11.8	-29.9	-31.7	-27.7	-21.6	-16.0	-15.6	-15.5	-15.1
Current account balance - % of GDP	-3.4	-2.1	-2.6	-3.7	-3.6	-1.6	-3.4	-8.2	-7.9	-6.6	-5.0	-3.5	-3.3	-3.1	-2.9
TWI (June quarter)	76.2	73.6	76.5	73.8	72.7	69.7	74.7	72.2	70.9	71.4	67.9	68.5	68.9	69.3	69.5
90-day bank bill rate (June quarter)	3.5	2.4	2.0	2.0	1.7	0.3	0.3	2.2	5.6	5.6	3.5	3.0	2.6	2.6	2.5
10-year bond rate (June quarter)	3.6	2.7	2.9	2.8	1.8	0.8	1.7	3.7	4.3	4.7	4.3	4.3	4.3	4.2	4.3