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BUDGET
2025

# Fiscal Strategy Report

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Minister of Finance

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Te Kāwanatanga o Aotearoa
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# Fiscal Strategy Report 2025
## Te Rautaki Moni Tūmatanui

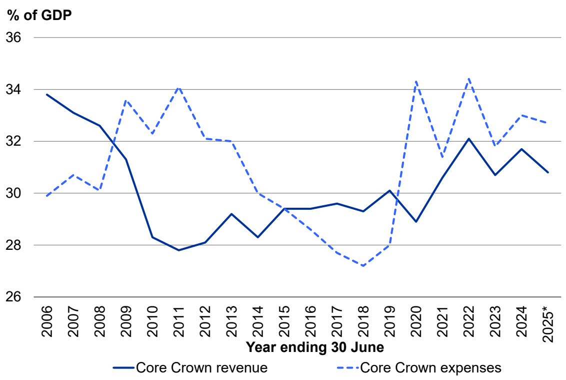
The Public Finance Act 1989 requires the Minister of Finance to present to the House on Budget Day a report on the Government's fiscal strategy. This must set out the Government's short-term fiscal intentions, long-term fiscal objectives, revenue strategy, and strategy for managing expenditure, assets and liabilities. The report must include scenarios that contain projections of trends in fiscal variables for at least the next 10 years.

This Fiscal Strategy Report (FSR) is released alongside Budget 2025 and draws on the 2025 Budget Economic and Fiscal Update (BEFU). Key terms are defined in the BEFU glossary.

## Fiscal context

New Zealand's fiscal position has deteriorated over the past six years. Core Crown expenses have risen faster than core Crown revenue (Figure 1). The total Crown operating balance before gains and losses, excluding ACC (OBEGALx) has been in deficit since 2019/20 (Figure 2). Net core Crown debt has risen sharply from below 20 per cent of GDP to a forecast of around 43 per cent in 2024/25 (Figure 3).

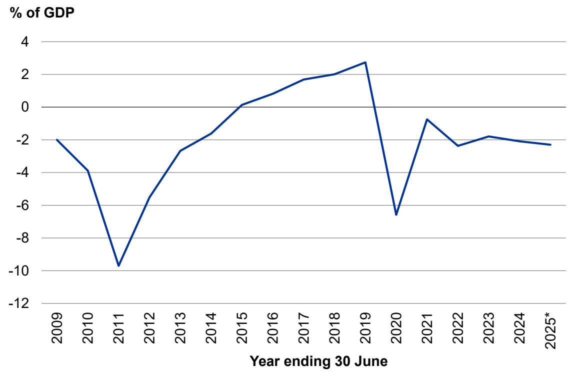
***Figure 1** – Core Crown revenue and expenses*




* 2025 shows the latest forecast

Source: The Treasury

***Figure 2** – OBEGALx*




* 2025 shows the latest forecast

Source: The Treasury

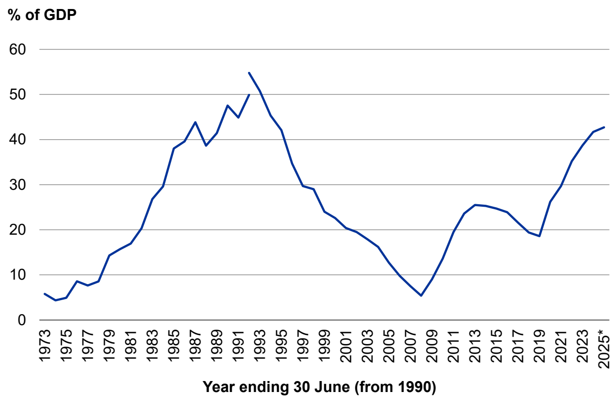
In part, this deterioration in the fiscal position reflects the impact of a protracted economic downturn. Increases in government spending have also contributed, including from:

- large discretionary spending increases in previous Budgets (with Budget 2022, for example, committing an additional $9.5 billion each year, on average, in net new operating spending)

- the COVID-19 pandemic and other one-off events
- increased NZ Superannuation costs, and
- greater finance costs from higher debt and higher interest rates.

After stripping out large one-off expenses and adjusting for the economic cycle, the Treasury estimates there was a structural OBEGALx deficit of 1.1 per cent of GDP on average, per annum, between 2019/20 and 2023/24. By definition, a structural deficit will not resolve itself as the economy picks up – it requires fiscal consolidation to ensure public finances are sustainable.

***Figure 3*** *– Net core Crown debt*




* 2025 shows the latest forecast

The measure of net core Crown debt adopted in 2009 is restated back to 1992. The earlier measure for the period before 1992 included advances. Years prior to 1990 are reported using a 31 March basis.

Source: The Treasury

Persistent operating deficits since 2019/20, together with capital spending, have contributed to the sharp increase in net core Crown debt. This increase has reduced New Zealand's ability to weather future shocks. New Zealand needs a healthy public balance sheet as, in comparison to many other countries, it is a small economy, vulnerable to natural disasters, reliant on commodity exports and dependent on international lenders. The increase in debt also needs to be serviced. As debt, and interest rates, have risen over recent years, core Crown financing costs have grown to a forecast $8.8 billion in the current financial year.

## Fiscal strategy

Fiscal consolidation – unwinding structural deficits and reducing public debt – is necessary for medium- to long-term fiscal sustainability and critical for stable economic growth. The Government is currently spending more than it is collecting in revenue, which is boosting aggregate demand. This is not a sustainable way to support the economy as deficits must be funded by borrowing. By withdrawing this support over time, fiscal consolidation allows monetary policy to respond. In that event, interest rates are set lower than would otherwise have been the case, which helps offset the negative impacts of reduced government consumption on short-term economic growth. Fiscal consolidation will also support the rebuilding of fiscal buffers over time, allowing the government to absorb and respond to future shocks and economic cycles.[1]

1 The Treasury's draft Long-term Insights Briefing 2025 highlights the importance of having sufficient fiscal buffers for this reason.

There is a choice about how fast to undertake fiscal consolidation. As stated in the FSR 2024, the Government is taking a deliberate, medium-term approach to fiscal consolidation. The alternative approach – a more severe, short-term consolidation – comes with risks: that sharp spending reductions could impact front-line public services New Zealanders rely on; or that significant revenue increases could constrain growth, especially as the economy comes out of recession. That would be contrary to the Government's other goals for its term of office. Alongside its fiscal objectives, the Government has goals of building a stronger, more productive economy and delivering more efficient, effective and responsive public services. These are both themes of Budget 2025.

The key elements of the Government's fiscal strategy, as first set out in the FSR 2024, are to:

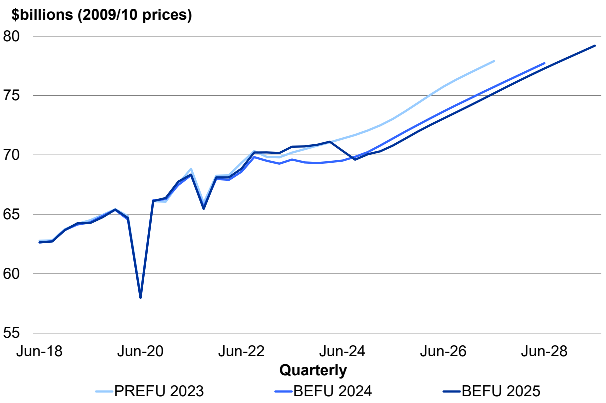
- reduce core Crown expenses towards 30 per cent of GDP over time
- return the headline operating balance measure to surplus by 2027/28, and
- put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent and in the longer term keep it below that percentage.

The only change made to this strategy since the FSR 2024 has been to the headline operating balance definition, with OBEGALx replacing the operating balance before gains and losses (OBEGAL).[2]

Forecasts invariably change at each update. Having a medium-term approach to fiscal consolidation means the Government will not over-react to these changes. Downside revenue surprises will not necessitate a sharp spending reduction. Upside revenue surprises will contribute to reducing the deficit.

The last few updates have seen downward revisions to forecasts, making the Government's fiscal goals more challenging to achieve. The Treasury has progressively unwound several economic forecasting assumptions it made during the term of the last Government, precipitating downward revisions to GDP forecasts (Figure 4). These revisions have had a negative impact on forecasts of tax revenue and therefore on forecasts of the operating balance and net debt.

***Figure 4** – Revisions to real GDP forecasts*




Source: The Treasury

While the latest fiscal forecasts for 2024/25 show a deterioration compared to a year ago, they also indicate there is a feasible path to achieving the fiscal goals. The fiscal performance of the Government, in the period from 1 July 2024 to the present, is therefore consistent with that anticipated in the FSR 2024.

2 See Box 2, and the discussion on page 11, in the *Budget Policy Statement 2025*.

## Operating allowances

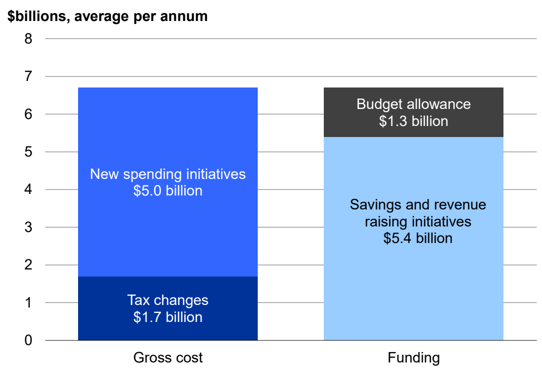
There are two levers to achieve fiscal consolidation – controlling expenses and raising revenue. Of these two levers, the Government's focus is squarely on expenses, although it will also maintain an active tax policy programme to ensure the tax system remains fit for purpose (see the revenue strategy section below).

The Government's strategy for managing expenditure is to embed a culture of responsible spending, restore fiscal discipline, right-size the government's footprint, and improve the efficiency and productivity of spending.

Managing within Budget operating allowances is key to realising this strategy. The operating allowance is the amount of operating funding – on average, per annum – the Government intends to spend on new, discretionary policy initiatives in the forthcoming Budget, in accordance with its fiscal strategy. Operating allowances are a net concept. Spending increases and revenue reductions are offset by savings and revenue raising initiatives within a single envelope. Revisions to forecasts of tax, benefits, NZ Superannuation and other transfers are managed outside the allowance framework.

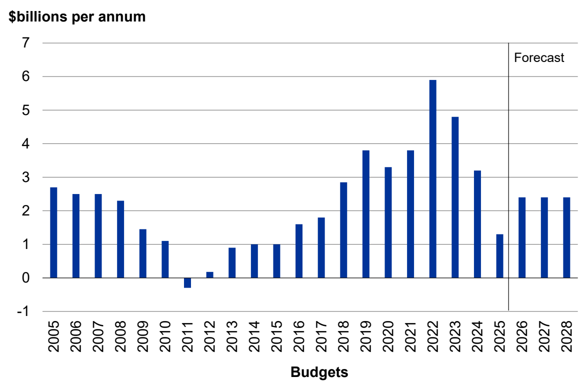
In the Budget Policy Statement 2025 (BPS), the Government set the operating allowance for Budget 2025 at $2.4 billion. The actual new operating package in Budget 2025 is $1.3 billion. The difference is a net saving that goes straight to the operating balance – the OBEGALx deficit is $1.1 billion smaller each year, on average, than it otherwise would have been. This has been achieved by a combination of spending restraint and savings (Figure 5).

***Figure 5** – Funding of the Budget 2025 operating package*




Source: The Treasury

***Figure 6** – Operating allowances*




Source: The Treasury

Operating allowances for Budgets 2026, 2027 and 2028 have been maintained at $2.4 billion. These are tight allowances, particularly compared to those for Budgets 2018 to 2023 (Figure 6).[3] The Government has made savings and reprioritisation a business-as-usual activity but managing within these allowances will be challenging.

3 The allowances are presented in nominal dollar terms so are impacted by inflation over time – a $1 billion allowance in 2014/15 would be around $1.3 billion today if it tracked consumer price inflation.

## Capital allowances

At the BPS, the Government discontinued the multi-year capital allowance framework and replaced it with capital allowances for each Budget in the forecast period. Compared to the BPS, the capital allowance for Budget 2025 has been raised from $3.625 billion to $4 billion. This increase has been offset in future Budgets by setting the capital allowances for each of the next three Budgets at $3.5 billion, representing a similar level of new capital investment over the forecast period as in the BPS. As capital investment requirements can be large, uneven and sometimes unexpected, the Government retains the flexibility to vary these capital allowances, within the constraints provided by its fiscal strategy.

Government agencies, including the Infrastructure Commission, are working to improve the quality of information on public investment needs and proposals. Better information will support the delivery of a stable medium-term capital pipeline that works to address New Zealand's infrastructure deficit and lift economic performance. Ahead of Budget 2026, this information will allow the Treasury to review investment assumptions in the fiscal strategy and could lead to revised capital allowances.

Capital allowances, like operating allowances, are a net concept. More efficient use of the Crown's balance sheet could support increased investment without increasing capital allowances (see section below on managing assets and liabilities).

Capital contributions to the New Zealand Superannuation Fund (NZSF) do not count against the capital allowance. Forecast contributions are set out in Annex 3.

## Economic outlook

New Zealand has recently emerged from a protracted economic downturn. Tight monetary policy was implemented to bring down inflation that peaked at 7.3 per cent in 2022. High interest rates constrained demand and in the two years to September 2024, real GDP per capita fell 4.8 per cent – more than in the global financial crisis.

A recovery is now underway, with real GDP rising 0.7 per cent in the December 2024 quarter. The Reserve Bank has reduced the Official Cash Rate by 200 basis points and indicated scope for further reductions over 2025. Lower interest rates, strong dairy and meat production, a recovery in tourism, and higher terms of trade will support an increase in activity. Within the forecast period, the Government's new Investment Boost policy is expected to increase real GDP by up to 0.4 per cent. Other factors, however, are weighing on growth, notably the imposition of new tariffs by the United States, and the resulting global uncertainty and volatility.

BEFU forecasts show annual average growth in real GDP accelerating to 2.9 per cent in 2025/26 and 3.0 per cent in 2026/27. BEFU forecasts for real GDP are weaker in the short term than those presented at the Half Year Economic and Fiscal Update 2024 (HYEFU) but slightly higher later in the forecast period. The unemployment rate is expected to peak at 5.4 per cent in the first half of 2025 – the same as at HYEFU – before easing over the rest of the forecast period.

There are two main reasons for the weaker growth forecasts. First, in December, after HYEFU, Stats NZ made significant revisions to GDP. There were large upwards revisions over the past two years, but much of the increase was unwound by steep contractions in the June and September quarters of 2024. While the level of real GDP was higher at the end of these revisions than previously expected, the initial stage of the recovery is expected to be more subdued than in HYEFU.

Second, tariffs and global instability have had an impact on the forecasts. As a result of the tariffs, the Treasury has lowered its assumption of trading partner growth by 0.2 percentage points in 2025 and 0.5 percentage points in 2026, and lifted its forecast for world inflation by 0.3 percentage points in each of these years. Trade uncertainty is also expected to reduce business investment, compared to what it would otherwise have been. These factors mean real GDP growth is expected to be cumulatively 0.2 percentage points lower than otherwise over 2025/26 and 2026/27. There remains much uncertainty around the international outlook and the BEFU presents both upside and downside scenarios of the consequences for New Zealand.

Trend productivity growth, which is a key determinant of the medium-term forecast, is assumed to be the same as in HYEFU.

The recent GDP revisions increased the level of nominal GDP, although this has no impact on tax already collected. Slightly weaker-than-expected growth in nominal GDP across the forecast period, together with compositional changes, leads to slightly lower forecast tax revenue. Forecast tax revenue is also lower – deliberately so – because of Budget 2025 decisions, particularly Investment Boost, which has a cost of around $6.6 billion across the forecast period. In total, core Crown tax revenue is expected to be $13.3 billion lower across the forecast period than previously anticipated (Table 1).

***Table 1*** *– Changes in nominal GDP and core Crown tax revenue forecasts*

| Year ending 30 June<br>$billions | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|
| **Nominal GDP** | | | | | |
| BEFU 2025 | 435.1 | 456.5 | 477.8 | 500.9 | 524.1 |
| HYEFU 2024 | 427.3 | 450.4 | 473.2 | 495.4 | 517.7 |
| Change | 7.9 | 6.0 | 4.6 | 5.5 | 6.4 |
| Change (%) | 1.8 | 1.3 | 1.0 | 1.1 | 1.2 |
| **Core Crown tax revenue** | | | | | |
| BEFU 2025 | 120.9 | 125.0 | 133.0 | 140.5 | 148.2 |
| HYEFU 2024 | 120.6 | 128.3 | 136.7 | 144.1 | 151.2 |
| Change | 0.3 | -3.3 | -3.7 | -3.6 | -3.0 |
| Change (%) | 0.2 | -2.5 | -2.7 | -2.5 | -2.0 |

Numbers may not add due to rounding

Source: The Treasury

Tax forecasts flow through to the fiscal outlook, as tax is by far the Government's largest source of revenue. The majority of Budget 2025 tax policy decisions are, however, offset by spending reductions within the operating allowance, so will not have an impact on OBEGALx or other operating balance measures.

# Fiscal outlook

The BEFU fiscal forecasts are set out in detail in Annex 1.[4]

Core Crown expenses are expected to increase in dollar terms across the forecast period. This largely reflects the indexation, and growth in recipients, of benefits and NZ Superannuation, together with higher finance costs and funding set aside for future operating allowances. NZ Superannuation expenses, in particular, are expected to grow by around 25 per cent over the forecast period, from $23.2 billion in the current year, to $29.0 billion in 2028/29. Growth in expenses is much more subdued than in recent years, however. As a percentage of GDP, core Crown expenses fall over the forecast period, reaching 30.9 per cent of GDP by 2028/29. Tight future allowances account for a large part of this decline.

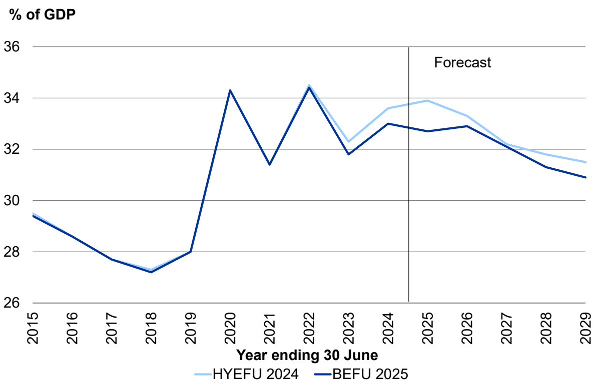
The OBEGALx deficit is expected to widen in the near term but then gradually improve after 2025/26, by an average of around $4.1 billion per annum, returning to a modest surplus of $0.2 billion by the end of the forecast period. At this point, the OBEGALx structural deficit will have closed.

The residual cash deficit – which includes net cash flows from capital investments as well as operating activities – totals $62.3 billion over the forecast period, with over 80 per cent of the deficit attributable to capital investments. This cash deficit is largely funded from borrowing, so net core Crown debt is $63.1 billion higher at the end of the forecast period than it was in 2023/24. As a percentage of GDP, net core Crown debt is expected to peak at 46 per cent in 2027/28 before beginning to decline.

Figures 7, 8 and 9 show how the fiscal forecasts have changed since HYEFU.

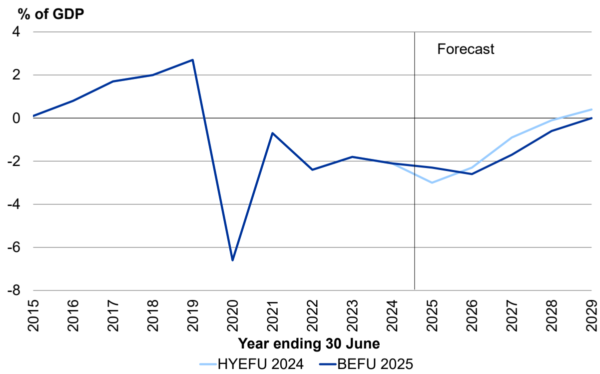
In dollar terms, core Crown expenses are broadly similar to those forecast in HYEFU, although one-off factors make more of a difference in the current financial year. Nominal GDP has been revised upwards across the forecast period (Table 1) so as a share of GDP, core Crown expenses are lower in every year compared to HYEFU (Figure 7).

***Figure 7*** *– Core Crown expenses*




Source: The Treasury

***Figure 8*** *– OBEGALx*




Source: The Treasury

4 Annex 1 includes the fiscal variables specified in section 26J(1)(a) of the Public Finance Act.

The OBEGALx deficit is forecast to be lower in the current year than previously expected, but greater in the years thereafter (Figure 8). The downward revision in OBEGALx is largely driven by economic factors impacting tax revenue, finance costs, and NZ Superannuation indexation, although these are partially offset by Budget 2025 decisions such as a lower operating allowance (Table 2). The increased forecast for debt impairments reflects Inland Revenue's expectation that overdue tax debt will be higher than previously forecast.

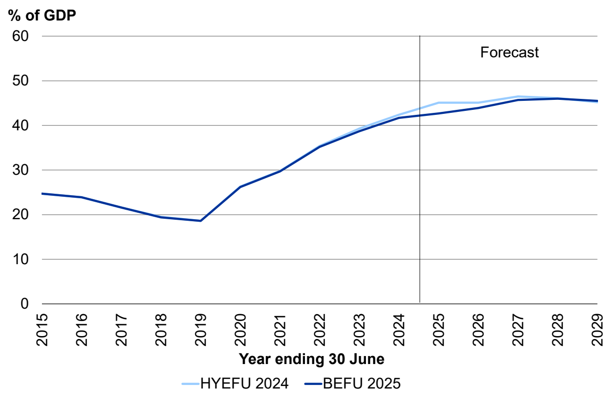
***Table 2*** *– Changes in fiscal forecasts between the HYEFU 2024 and BEFU 2025*

| Year ending 30 June<br>$billions | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|
| **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 |
| Debt impairments | -0.3 | -0.5 | -0.5 | -0.3 | -0.3 |
| Benefit expenses (excl. Budget 2025 decisions) | 0.1 | -0.3 | -0.5 | -0.5 | -0.5 |
| Net finance costs | -0.1 | 0.1 | - | -0.1 | -0.3 |
| Expense phasing changes | 0.5 | -0.1 | -0.4 | - | - |
| Changes to pay equity contingencies | 1.8 | - | - | - | - |
| Budget 2025 package impact | -0.1 | 0.8 | 0.4 | 0.9 | 1.7 |
| Other | 0.3 | 0.1 | -0.2 | -0.4 | - |
| **Total change** | **2.7** | **-1.6** | **-3.7** | **-2.8** | **-1.7** |
| **OBEGALx – 2025 Budget Update** | **-10.2** | **-12.1** | **-8.1** | **-3.1** | **0.2** |

Source: The Treasury

Net core Crown debt in dollar terms is forecast to be lower in the first few years of the forecast period compared to HYEFU, but $1.7 billion higher in 2027/28 and $4.4 billion higher in 2028/29 to meet additional funding requirements. New Zealand Government Bond (NZGB) issuance is expected to increase by $7.0 billion across the forecast period compared to HYEFU. As a share of GDP, net core Crown debt is expected to peak at 46.0 per cent of GDP, compared to 46.5 per cent at HYEFU (Figure 9).

***Figure 9*** *– Net core Crown debt*




Source: The Treasury

Economic uncertainty translates to the fiscal forecasts, and a range of outcomes are conceivable. The BEFU downside economic scenario – where global trade tensions deteriorate – results in OBEGALx deficits throughout the forecast period and net core Crown debt at 49.3 per cent in 2028/29. The upside scenario – with stronger net migration and productivity growth – shows a return to surplus in 2027/28 and net debt down to 43.1 per cent of GDP in 2028/29.

Projections of fiscal variables over a 10-year horizon, starting from the end of the forecast period, are in Annex 2.

## Short-term intentions and long-term objectives

The Government's commitment to reduce core Crown expenses as a proportion of GDP, reduce debt as a proportion of GDP, and return to operating surplus are formalised in statements of short-term fiscal intentions and long-term fiscal objectives, as required by the Public Finance Act.

The Government's short-term intentions (Table 3) are unchanged from those in the BPS 2025.

***Table 3** – The Government's short-term fiscal intentions for the next four financial years*

**Fiscal Strategy Report 2025**

| | |
|---|---|
| Debt | Maintain total debt at prudent levels.<br>Put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent. |
| Operating balance | Bring total operating expenses and total operating revenues into balance.<br>Return the operating balance (before gains and losses, excluding ACC) to surplus by 2027/28.<br>Ensure consistency with the short-term intention for debt. |
| Expenses | Reduce core Crown expenses as a percentage of GDP.<br>Ensure expenses are consistent with the operating balance intention. |
| Revenue | Ensure revenue is consistent with the operating balance intention. |
| Net worth | Maintain net worth at around 40 per cent of GDP. |

The short-term intentions accord with the principles of responsible fiscal management in the Public Finance Act. For example, because they target a return to surplus, the intentions accord with the principle to ensure that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues and therefore maintain total debt at prudent levels.

The short-term intentions are consistent with the long-term objectives set out below as they indicate the same direction of travel for each of the fiscal variables. The intention to return to surplus will support the long-term debt and net worth objectives.

The BEFU is consistent with the short-term intentions, with two exceptions.

First, BEFU forecasts show an OBEGALx deficit of $3.1 billion in 2027/28, but the Government has retained its intention to return OBEGALx to surplus in that year, as forecasting uncertainty, and future fiscal decisions, mean the target remains achievable.[5] The BEFU upside economic scenario, for example, shows a small surplus in 2027/28. A faster return to surplus would also support a more substantive improvement in the trajectory of net core Crown debt than the limited improvement currently forecast.

Second, the Government has retained its intention to maintain net worth at around 40 per cent of GDP. The decline in net worth has become more pronounced over the past year, as forecasts of debt have been revised upward. For now, the Government is comfortable with the difference between the net worth intention and forecasts, and its priorities to return OBEGALx to surplus and reduce net Core Crown debt will support this intention.

5 As an indication of forecasting uncertainty, modelling for the BEFU showed there is a 70 per cent chance that tax revenue could be up to $12 billion higher or lower than the central forecast in 2028/29.

Consistent with previous statements of fiscal strategy, the following circumstances could lead the Government to consider amending the short-term intentions in Table 3:

- a significant decline in forecast revenue due to factors outside of the direct control of the Government
- a significant economic shock, arising for example from a natural disaster, that necessitates an increase in spending, or
- a material likelihood of constraints on the ability of monetary policy to stabilise the economy.

In the event of a more severe downturn than is currently forecast, monetary policy has space to support a recovery. In all but exceptional cases, macroeconomic stabilisation should be left to monetary policy run by the independent Reserve Bank.[6] The role of fiscal policy, in the first instance, is to allow automatic stabilisers to operate without trying to offset their fiscal impact. The circumstances above provide flexibility to adapt the fiscal strategy if the economic outlook deteriorates significantly.

The Government's long-term fiscal objectives (Table 4) are unchanged from those stated in both the BPS and the FSR 2024.

***Table 4** – The Government's long-term fiscal objectives for the next 15 financial years*

**Fiscal Strategy Report 2025**

| | |
|---|---|
| Debt | Maintain total debt at prudent levels.<br>Once net core Crown debt is below 40 per cent of GDP, maintain it within a range of 20 per cent to 40 per cent of GDP, subject to economic shocks. |
| Operating balance | Maintain operating surpluses sufficient to ensure consistency with the debt objective.<br>This will ensure that, on average, over a reasonable period of time, operating expenses are funded from operating revenues and not from debt. |
| Expenses | Control growth in government spending so that, over time, core Crown expenses reduce towards 30 per cent of GDP. |
| Revenue | Ensure the level of operating revenues is consistent with the operating balance objective and supports long-term productive economic growth. |
| Net worth | Ensure net worth remains at a level sufficient to act as a buffer to economic shocks. |

These long-term objectives are consistent with the principles of responsible fiscal management set out in the Public Finance Act. "Total debt" in the Public Finance Act is most closely represented by gross debt or total borrowings. However, when assessing the prudent level of gross debt or total borrowings, it is appropriate to consider the Crown's holdings of financial assets, which offset its financial liabilities. It is also appropriate to focus on the core Crown, as arms-length public entities typically have their own specific processes for ensuring financial sustainability. As such, net core Crown debt is an appropriate indicator for informing prudent total debt levels. In the Budget Policy Statement 2024, the Government stated – based on Treasury modelling – that net core Crown debt of less than 50 per cent can be considered prudent.[7] Its long-term objective to have net core Crown debt between 20 per cent and 40 per cent of GDP therefore implies that total debt will also be at prudent levels.

6 This is one of the conclusions of the Treasury's draft Long-term Insights Briefing 2025.

7 See the Treasury's analysis and recommendations for fiscal rules. The Treasury, May 2022: https://www.treasury.govt.nz/publications/guide/treasurys-analysis-and-recommendations-fiscal-rules

## Managing assets and liabilities

The Crown's balance sheet records what it owns – its assets – and what it owes – its liabilities. The Crown's assets include physical infrastructure (such as hospitals, schools and roads), financial assets (such as the NZSF) and commercial entities. Its liabilities mostly consist of debt issued by the Crown.

The most recent year-end results show the Crown owns $571 billion of assets and has $380 billion of liabilities. The difference between these two numbers represents the Crown's net worth. The Crown's balance sheet is large relative to the economy. Its assets have more than doubled over the past decade, while also becoming riskier and more complex.

Better balance sheet management can support productivity in the economy and help the Government meet its fiscal objectives. Balance sheet management involves capital allocation (ensuring the Crown owns the right assets), capital performance, risk and liability management, and operational excellence. The Government has either completed or started several initiatives that will improve the management of the balance sheet, including:

- a review of the Crown's ownership purpose for commercial entities
- performance reviews of Kāinga Ora and ACC, and
- involving the private sector where it can provide better outcomes, for example through public private partnerships, a potential capital raising by Kiwibank, or greater provision of social housing by Community Housing Providers.

Further gains can be made by improving asset management and applying greater commercial discipline to Crown investment, in line with the Government's new Funding and Financing Framework.[8]

On the liability side of the balance sheet, NZGBs account for most core Crown gross debt and are the Government's primary funding instrument.

The debt funding strategy implemented by New Zealand Debt Management is designed to minimise the Crown's borrowing costs over the long-term while managing risk. It aims to be cost-effective while also protecting the Crown balance sheet against risks under different scenarios, to capture and stimulate investor demand, and promote a well-functioning and liquid NZGB market. To reduce uncertainty or illiquidity premiums associated with NZGBs, a strategic rather than a short-term tactical approach is taken to NZGB funding activities, with future actions communicated well in advance.

8 The Funding and Financing Framework is set out at https://www.treasury.govt.nz/publications/guide/funding-and-financing-framework

## Revenue strategy

A good tax system is one that:

- finances public expenditure in a fair and efficient way
- minimises bias in economic decisions
- limits the number of tax provisions that provide preferential treatment to certain activities or sectors
- encourages effort and investment
- has low compliance and administrative costs, and
- minimises opportunities for tax avoidance and evasion.

The Government will operate a stable, predictable revenue system. The current main tax bases – personal income tax, company tax and a broad-based GST – will continue to raise the bulk of Crown revenue.

Crown revenue is currently lower than expenses, so the operating balance is in deficit. In the medium term, however, revenue will need to exceed expenses to sustain surpluses and help bring net core Crown debt below 40 per cent of GDP. Spending restraint is the Government's primary lever for achieving these goals. With prudent control of spending, the Government does not intend to seek major additional sources of revenue.

The Government will remain transparent and open in its tax policy processes. It is committed to public engagement in the design of tax policy including through the Generic Tax Policy Process. Public consultation ensures that the perspectives and expertise of those affected by proposals are considered and plays an important role in sustaining a tax system that is durable and widely accepted by taxpayers.

Over time, the tax system must respond to longer-term needs in a planned and coherent way. The Government will continue an active tax policy work programme to ensure the tax system remains fit for purpose.

## Annex 1 – Fiscal forecasts from BEFU 2025

| Year ending 30 June | 2024 Actual | 2025 Forecast | 2026 Forecast | 2027 Forecast | 2028 Forecast | 2029 Forecast |
|---|---|---|---|---|---|---|
| **$billions** | | | | | | |
| Core Crown tax revenue | 120.6 | 120.9 | 125.0 | 133.0 | 140.5 | 148.2 |
| Core Crown revenue | 133.2 | 134.2 | 139.7 | 146.4 | 154.4 | 162.5 |
| Total Crown revenue | 167.3 | 169.7 | 175.9 | 184.0 | 193.8 | 203.0 |
| Core Crown expenses | 139.0 | 142.2 | 150.3 | 153.1 | 156.8 | 162.0 |
| Total Crown expenses | 180.1 | 184.1 | 191.2 | 195.3 | 199.9 | 205.6 |
| OBEGALx | -8.8 | -10.2 | -12.1 | -8.1 | -3.1 | 0.2 |
| Operating balance | -8.4 | -5.5 | -9.9 | -5.7 | 0.0 | 4.1 |
| Net core Crown debt | 175.5 | 185.6 | 200.2 | 218.4 | 230.2 | 238.5 |
| Total borrowings | 250.9 | 277.6 | 305.1 | 325.9 | 342.6 | 354.2 |
| Gross debt | 176.0 | 210.0 | 238.8 | 262.5 | 274.4 | 283.0 |
| Net worth | 191.0 | 183.1 | 173.2 | 167.8 | 167.8 | 171.9 |
| Residual cash | -19.3 | -10.0 | -14.5 | -18.2 | -11.4 | -8.1 |
| **% of GDP** | | | | | | |
| Core Crown tax revenue | 28.7 | 27.8 | 27.4 | 27.8 | 28.0 | 28.3 |
| Core Crown revenue | 31.7 | 30.8 | 30.6 | 30.6 | 30.8 | 31.0 |
| Total Crown revenue | 39.8 | 39.0 | 38.5 | 38.5 | 38.7 | 38.7 |
| Core Crown expenses | 33.0 | 32.7 | 32.9 | 32.1 | 31.3 | 30.9 |
| Total Crown expenses | 42.8 | 42.3 | 41.9 | 40.9 | 39.9 | 39.2 |
| OBEGALx | -2.1 | -2.3 | -2.6 | -1.7 | -0.6 | 0.0 |
| Operating balance | -2.0 | -1.3 | -2.2 | -1.2 | 0.0 | 0.8 |
| Net core Crown debt | 41.7 | 42.7 | 43.9 | 45.7 | 46.0 | 45.5 |
| Total borrowings | 59.7 | 63.8 | 66.8 | 68.2 | 68.4 | 67.6 |
| Gross debt | 41.8 | 48.3 | 52.3 | 54.9 | 54.8 | 54.0 |
| Net worth | 45.4 | 42.1 | 37.9 | 35.1 | 33.5 | 32.8 |
| Residual cash | -4.6 | -2.3 | -3.2 | -3.8 | -2.3 | -1.6 |

Source: The Treasury

# Annex 2 – Fiscal projections

This Annex contains multiple projection scenarios, based on different levels of operating and capital spending in future Budgets. It illustrates a range of possible medium-term outcomes. This is a different approach from past fiscal strategy reports, which focused on one baseline or central projection.

These 10-year projections start at the end of the forecast period (see Annex 1) and are produced using the Treasury's Fiscal Strategy Model.[9] Unless otherwise stated, the projections are based on trend or long-run historical averages for economic, fiscal and demographic variables. They assume that revenue as a percentage of GDP remains broadly stable, 10-year Government bond yields converge towards 4.3 per cent, and long-run labour productivity growth converges towards 0.9 per cent per annum. The projections also assume that increases to welfare payments are in line with current policy settings, including rising NZ Superannuation payments as the population ages.

***Scenario 1: Continuation of the forecast period***

Scenario 1 projects forward operating and average capital allowances from the forecast period. It assumes that:

- the operating allowance is $2.4 billion in Budget 2029 (the first Budget directly affecting the projection period), growing at 3 per cent per year in subsequent Budgets, and
- the capital allowance is $3.625 billion in Budget 2029, growing at 3 per cent per year in subsequent Budgets.[10]

***Scenario 2: Higher capital investment***

Scenario 2 includes higher capital expenditure than Scenario 1. It assumes that:

- the capital allowance is $7 billion in Budget 2029, growing at 3 per cent per year in subsequent Budgets, and
- the operating allowance is $3.525 billion in Budget 2029, growing at 3 per cent per year in subsequent Budgets.

The operating allowance is higher than in Scenario 1, as capital expenditure is usually accompanied by operating funding for depreciation, maintenance and other costs. Assuming $1 of operating for every $3 of capital, the operating allowance has been raised by a third of the $3.375 billion addition to the capital allowance.

***Scenario 3: Higher operating expenses***

Scenario 3 includes higher operating expenditure than Scenario 1. This scenario does not use operating allowances to manage expenditure pressures, but instead assumes that operating expenditure grows unconstrained at each Budget in line with price, wage and demographic pressures. No offsetting reprioritisation or efficiency savings are assumed. The capital allowance grows as in Scenario 1.

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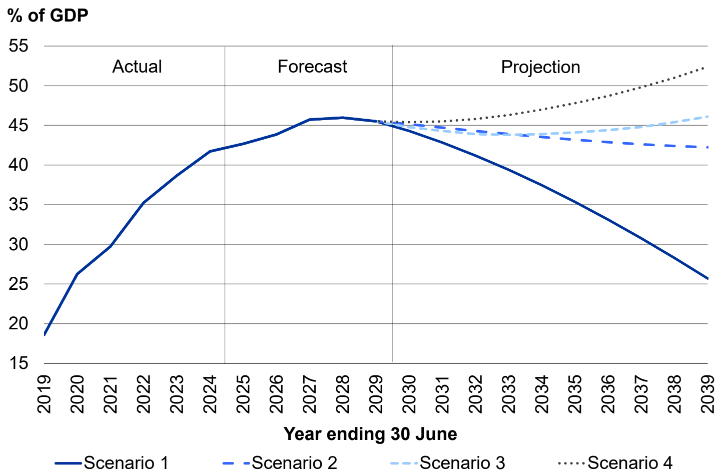
9 https://www.treasury.govt.nz/publications/fsm/fiscal-strategy-model-befu-2025

10 In previous fiscal strategy reports, Budget operating and capital allowances were assumed to grow at 2 per cent per annum, based on expected consumer price inflation. However, there is evidence to suggest that the costs of providing public services, and capital investment, increase faster than consumer price inflation.

### *Scenario 4: Higher operating expenses and capital investment*

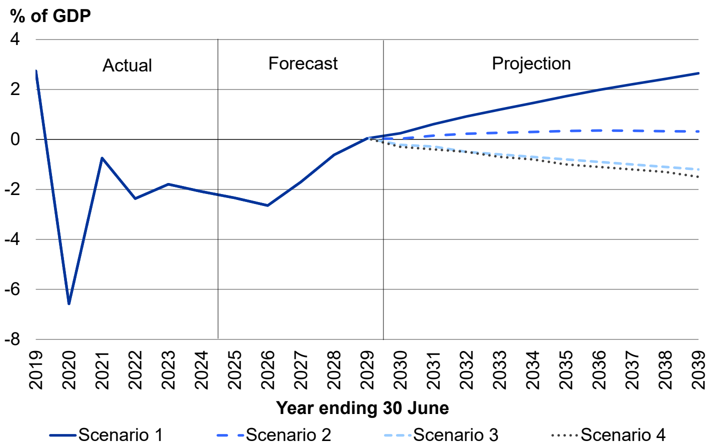
Scenario 4 combines the higher operating expenditure from Scenario 3 with the higher capital expenditure from Scenario 2.

***Figure A2.1** – Net core Crown debt*



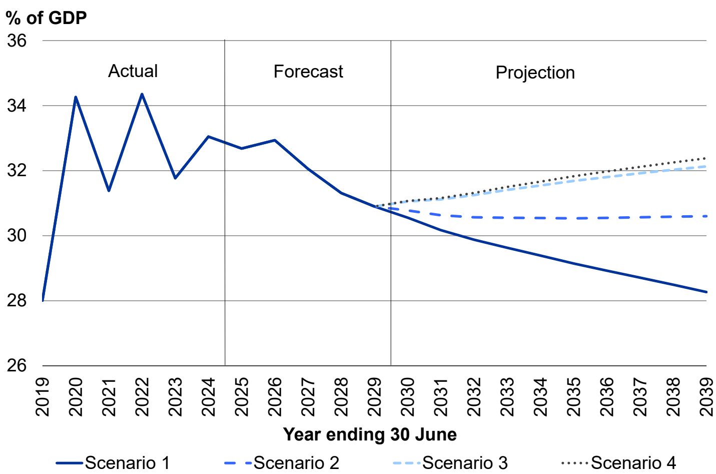

Source: The Treasury

***Figure A2.2** – OBEGALx*




Source: The Treasury

***Figure A2.3** – Core Crown expenses*




Source: The Treasury

The Government's long-term fiscal objectives include:

- reducing net core Crown debt to 40 per cent of GDP, maintaining it thereafter within a range of 20 to 40 per cent of GDP
- maintaining operating surpluses sufficient to ensure consistency with the debt objective, and
- reducing core Crown expenses towards 30 per cent of GDP.

Scenario 1 shows OBEGALx surpluses growing, core Crown expenses reducing to 28.3 per cent of GDP and net core Crown debt reducing to 25.7 per cent of GDP over the projection period (Table A2.1). This scenario is consistent with the Government's long-term fiscal objectives.

Scenario 2 shows small OBEGALx surpluses, little change in core Crown expenses as a percentage of GDP and net core Crown debt slowly decreasing to 42.2 per cent of GDP over the projection period (Table A2.2). As the surpluses are insufficient to bring debt within the range of 20 to 40 per cent of GDP, this scenario is inconsistent with the long-term debt and operating balance objectives.

Scenarios 3 and 4 show OBEGALx deficits, core Crown expenses and net core Crown debt growing as a percentage of GDP. As Tables A2.3 and A2.4 show, these scenarios are inconsistent with the long-term objectives. Net core Crown debt in Scenario 4 exceeds the Treasury's assessment of a sustainable long-term level of debt that retains headroom to borrow in response to future shocks (50 per cent of GDP).

***Table A2.1** – Fiscal indicators from Scenario 1*

| Year ending 30 June | 2029 Forecast | 2031 Projection | 2033 Projection | 2035 Projection | 2037 Projection | 2039 Projection |
|---|---|---|---|---|---|---|
| **% of GDP** | | | | | | |
| Core Crown revenue | 31.0 | 30.8 | 30.7 | 30.6 | 30.5 | 30.5 |
| Total Crown revenue | 38.7 | 38.6 | 38.6 | 38.6 | 38.6 | 38.5 |
| Core Crown expenses | 30.9 | 30.2 | 29.6 | 29.1 | 28.7 | 28.3 |
| Total Crown expenses | 39.2 | 38.4 | 37.7 | 37.1 | 36.5 | 35.9 |
| OBEGALx | 0.0 | 0.6 | 1.2 | 1.7 | 2.2 | 2.6 |
| Operating balance | 0.8 | 1.4 | 2.2 | 2.9 | 3.5 | 4.0 |
| Net core Crown debt | 45.5 | 42.8 | 39.4 | 35.4 | 30.8 | 25.7 |
| Total borrowings | 67.6 | 63.8 | 59.2 | 53.6 | 47.1 | 40.0 |
| Net worth | 32.8 | 32.8 | 34.4 | 37.4 | 41.6 | 46.6 |

Source: The Treasury

***Table A2.2** – Fiscal indicators from Scenario 2*

| Year ending 30 June | 2029 Forecast | 2031 Projection | 2033 Projection | 2035 Projection | 2037 Projection | 2039 Projection |
|---|---|---|---|---|---|---|
| **% of GDP** | | | | | | |
| Core Crown revenue | 31.0 | 30.8 | 30.7 | 30.6 | 30.5 | 30.5 |
| Total Crown revenue | 38.7 | 38.6 | 38.6 | 38.6 | 38.6 | 38.5 |
| Core Crown expenses | 30.9 | 30.6 | 30.6 | 30.5 | 30.6 | 30.6 |
| Total Crown expenses | 39.2 | 38.9 | 38.7 | 38.5 | 38.4 | 38.3 |
| OBEGALx | 0.0 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| Operating balance | 0.8 | 1.0 | 1.2 | 1.5 | 1.7 | 1.7 |
| Net core Crown debt | 45.5 | 44.7 | 43.9 | 43.2 | 42.6 | 42.2 |
| Total borrowings | 67.6 | 65.7 | 63.7 | 61.4 | 59.0 | 56.5 |
| Net worth | 32.8 | 32.1 | 32.2 | 32.8 | 33.9 | 35.1 |

Source: The Treasury

***Table A2.3** – Fiscal indicators from Scenario 3*

| Year ending 30 June | 2029 Forecast | 2031 Projection | 2033 Projection | 2035 Projection | 2037 Projection | 2039 Projection |
|---|---|---|---|---|---|---|
| **% of GDP** | | | | | | |
| Core Crown revenue | 31.0 | 30.8 | 30.7 | 30.6 | 30.5 | 30.5 |
| Total Crown revenue | 38.7 | 38.6 | 38.6 | 38.6 | 38.6 | 38.5 |
| Core Crown expenses | 30.9 | 31.1 | 31.4 | 31.7 | 31.9 | 32.1 |
| Total Crown expenses | 39.2 | 39.4 | 39.5 | 39.6 | 39.7 | 39.8 |
| OBEGALx | 0.0 | -0.3 | -0.6 | -0.8 | -1.0 | -1.2 |
| Operating balance | 0.8 | 0.5 | 0.4 | 0.3 | 0.3 | 0.2 |
| Net core Crown debt | 45.5 | 44.3 | 43.8 | 44.1 | 44.8 | 46.1 |
| Total borrowings | 67.6 | 65.2 | 63.6 | 62.3 | 61.2 | 60.4 |
| Net worth | 32.8 | 31.3 | 30.0 | 28.7 | 27.5 | 26.2 |

Source: The Treasury

***Table A2.4** – Fiscal indicators from Scenario 4*

| Year ending 30 June | 2029 Forecast | 2031 Projection | 2033 Projection | 2035 Projection | 2037 Projection | 2039 Projection |
|---|---|---|---|---|---|---|
| **% of GDP** | | | | | | |
| Core Crown revenue | 31.0 | 30.8 | 30.7 | 30.6 | 30.5 | 30.5 |
| Total Crown revenue | 38.7 | 38.6 | 38.6 | 38.6 | 38.6 | 38.5 |
| Core Crown expenses | 30.9 | 31.2 | 31.5 | 31.8 | 32.1 | 32.4 |
| Total Crown expenses | 39.2 | 39.4 | 39.6 | 39.8 | 39.9 | 40.1 |
| OBEGALx | 0.0 | -0.4 | -0.7 | -1.0 | -1.2 | -1.5 |
| Operating balance | 0.8 | 0.5 | 0.3 | 0.2 | 0.1 | -0.1 |
| Net core Crown debt | 45.5 | 45.5 | 46.3 | 47.8 | 49.8 | 52.4 |
| Total borrowings | 67.6 | 66.5 | 66.1 | 66.0 | 66.2 | 66.7 |
| Net worth | 32.8 | 31.3 | 29.8 | 28.2 | 26.7 | 25.0 |

Source: The Treasury

## Annex 3 – Contributions to the New Zealand Superannuation Fund

Annual capital contributions to the New Zealand Superannuation Fund (NZSF) are calculated in accordance with the formula in section 43 of the New Zealand Superannuation and Retirement Income Act 2001 (NZSRI Act). This formula automatically adjusts capital contributions each year, based on the latest forecasts, to support the funding of aggregate net (of tax) NZ Superannuation payments over the next 40 years. Forecasts of these contributions are shown below.

| Year ending 30 June<br>$millions | 2025<br>Forecast | 2026<br>Forecast | 2027<br>Forecast | 2028<br>Forecast | 2029<br>Forecast |
|---|---|---|---|---|---|
| NZSF contributions – prescribed by formula | 879 | 61 | 4 | -32 | 63 |
| NZSF contributions – BEFU 2025 | 879 | 0 | 4 | -32 | 63 |

Source: The Treasury

The Government will make annual capital contributions to the NZSF in line with the section 43 formula, except in 2025/26. In that year, the $61 million contribution prescribed by the formula, together with $39 million from the Budget 2025 capital allowance, will be invested in the Elevate NZ Venture Fund. This is not a new approach – $240 million was diverted from NZSF contributions to the New Zealand Venture Investment Fund (later relaunched as Elevate) in Budget 2019.

Elevate is administered by the Guardians of New Zealand Superannuation under a second mandate in the NZSRI Act and supports the development of early-stage capital markets in New Zealand. The Government's intention is that realisations from Elevate's investments will ultimately be used to fund NZ Superannuation.

The NZSF's forecast investment returns, coupled with forecast contributions, are expected to increase the total fund size of the NZSF to $104 billion by 2028/29. As the time is approaching when the NZSF's assets are high enough to ensure that withdrawals, rather than contributions, are the normal outcome, movements in both NZ Superannuation 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.

## Annex 4 – Government goals and wellbeing objectives

Section 26KB of the Public Finance Act requires the Government to explain, in the fiscal strategy report, how wellbeing objectives have guided the Government's Budget decisions.

As stated in the Budget Policy Statement, the Government's overarching goals for its term of office are to:

- Build a stronger, more productive economy that lifts real incomes and increases opportunities for New Zealanders.
- Deliver more efficient, effective and responsive public services to all who need and use them – in particular, to restore law and order and improve health outcomes and educational achievement.
- Get the government's books back in order and restore discipline to public spending.

These goals are also the Government's wellbeing objectives, as meeting these objectives is the most important contribution the Government can make to the long-term social, economic, environmental and cultural wellbeing of New Zealanders. They have clearly guided the Government's Budget decisions. For example, Budget 2025 provides net funding increases for law and order, health and education, and identifies savings that will help restore discipline to public spending. This Fiscal Strategy Report sets out how the Government intends to get its accounts back into good shape.