



**BUDGET
2026**

Fiscal Strategy Report

**Hon Nicola Willis
Minister of Finance**

28 May 2026

Embargo: Contents not for communication in any form
before 2:00 pm on Thursday 28 May 2026

New Zealand Government
Te Kāwanatanga o Aotearoa



This work is licensed under the Creative Commons Attribution 4.0 International licence. In essence, you are free to copy, distribute and adapt the work, as long as you attribute the work to the Crown and abide by the other licence terms.

To view a copy of this licence, visit <https://creativecommons.org/licenses/by/4.0/>. Please note that no departmental or governmental emblem, logo or Coat of Arms may be used in any way which infringes any provision of the Flags, Emblems, and Names Protection Act 1981. Attribution to the Crown should be in written form and not by reproduction of any such emblem, logo or Coat of Arms.

Permanent URL: treasury.govt.nz/publications/fiscal-strategy-report/fiscal-strategy-report-2026
Budget 2026 website URL: budget.govt.nz/budget/2026/fiscal-strategy-report

ISBN: 978-1-991149-96-1 (print) 978-1-991149-97-8 (online)

Fiscal Strategy Report 2026

Te Rautaki Moni Tūmatanui

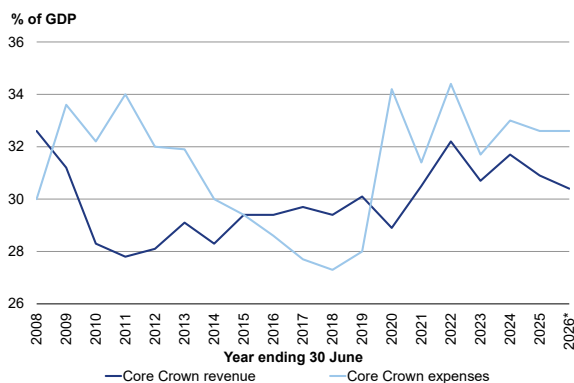
The Public Finance Act 1989 (PFA) requires the Minister of Finance to present to the House on Budget Day a report on the Government’s fiscal strategy. This must set out the Government’s short-term fiscal intentions, long-term fiscal objectives, revenue strategy, and strategy for managing expenditure, 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 2026 and draws on the 2026 Budget Economic and Fiscal Update (BEFU). It also makes comparisons with forecasts in the previous update, the 2025 Half Year Economic and Fiscal Update (HYEFU). Key terms are defined in the BEFU glossary.

Fiscal strategy

The Government’s fiscal strategy aims to repair its books after a period of deficits and debt accumulation. The operating balance before gains and losses excluding the Accident Compensation Corporation (ACC), or OBEGALx, has been in deficit since 2019/20 as core Crown expenses have risen faster than core Crown revenue (Figures 1 and 2). Operating deficits, combined with capital spending, led to a sharp increase in net core Crown debt between 2019/20 and 2023/24 (Figure 3).

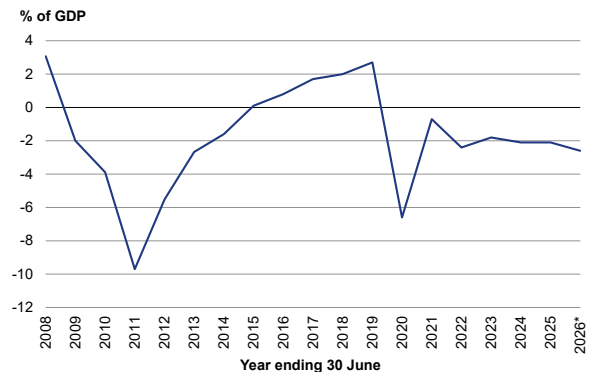
Figure 1 – Core Crown revenue and expenses



* 2026 shows the latest forecast

Source: The Treasury

Figure 2 – OBEGALx



* 2026 shows the latest forecast

Source: The Treasury

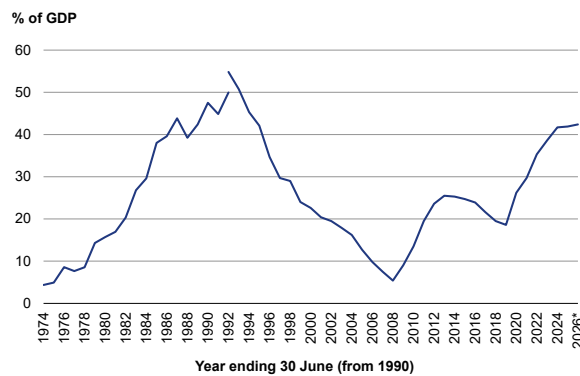
The sharp increase in core Crown expenses as a share of GDP after 2018/19 was due to the COVID-19 pandemic and weather events, rising costs of delivering public services, demographic changes, higher borrowing costs, the economic downturn and deliberate decisions to increase spending. Total Budget 2022 new operating spending, for example, was \$9.7 billion a year, on average. Table 1 sets out the contribution of different spending areas to the increase in core Crown expenses since 2018/19.

The operating deficit will not resolve automatically as the economy recovers. Fiscal consolidation is required to return OBEGALx to surplus and bend the debt curve down. Lower debt as a proportion of GDP will mean the government is in a better position to absorb and respond to future shocks and economic cycles. Recent decisions by both Fitch Ratings and Moody's Ratings to change the outlook for New Zealand's sovereign credit rating from stable to negative reflects this need for fiscal consolidation.

The Government's fiscal strategy is essentially unchanged from that set out most recently in the 2026 Budget Policy Statement (BPS). The strategy is to limit new spending in each Budget, find savings and reprioritisation from within the existing base of expenditure and maintain a deliberate, medium-term approach to fiscal consolidation. This approach avoids a sharp impact on frontline public services and helps support the economic recovery. The Government has always said it would not over-react to changes in fiscal forecasts, so upside revenue surprises, such as those shown in the BEFU, will contribute to reducing the deficit. On the other hand, downside revenue surprises will not necessitate a sharp spending reduction. Specifically, the Government intends to:

- reduce core Crown expenses towards 30 per cent of GDP
- return OBEGALx to surplus by 2028/29, and
- put net core Crown debt as a percentage of GDP on a downward path towards 40 per cent.

Figure 3 – Net core Crown debt



* 2026 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. March years are used prior to 1990.

Source: The Treasury

Table 1 – Increase in core Crown expenses from 2018/19 to 2025/26 by functional classification

Functional classification	\$billions
Core Crown expenses 2018/19	87.0
Health	14.9
NZ Superannuation	10.2
Welfare benefits	9.4
Education	7.2
Finance costs	5.4
Transport and communications	3.2
Law and order	2.7
Housing and community development	1.5
Other	5.7
Core Crown expenses 2025/26*	147.2

* 2025/26 shows the latest forecast

Source: The Treasury

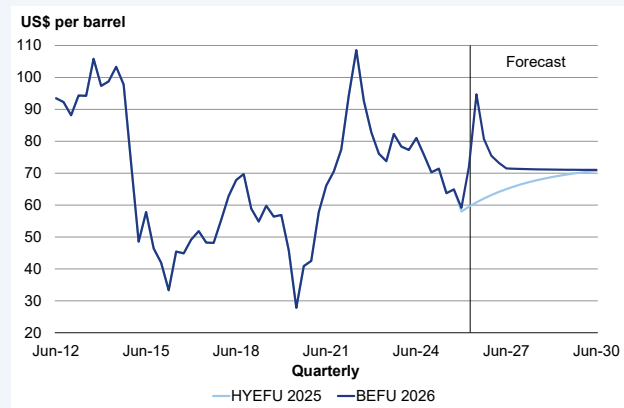
Box 1 – Fiscal response to the Middle East conflict

Conflict in the Middle East has introduced significant uncertainty to the global economic outlook. The conflict has led to higher oil prices, which are forecast to persist in the near term (Figure 4). In the short term, higher oil prices are expected to lead to higher inflation and lower economic growth, globally and in New Zealand.

New Zealand has a well-established framework where macroeconomic stabilisation – providing or removing stimulus to reduce large swings in the economy – is primarily the responsibility of the independent Reserve Bank. Automatic fiscal stabilisers play a supporting role. These are features of the tax and transfer system, such as increased benefit spending during downturns, that automatically dampen economic ups and downs without needing new government policy decisions. Timely, temporary and targeted fiscal measures can also help take the sharpest edges off an economic shock.

In response to the current fuel crisis, the Government has increased the in-work tax credit by \$50 a week for up to a year to provide support to low- to middle-income working families as higher fuel prices add pressure to household budgets. This increase is temporary and carefully targeted to avoid adding to inflationary pressure or government debt. The Budget also provides targeted support to schools, community support workers and essential services to help manage fuel cost pressures. It sets funding aside in reserve for additional temporary fuel-related measures, if required. All fuel response funding has been managed against the existing Budget 2026 operating allowance, to ensure it is consistent with the Government’s fiscal strategy.

Figure 4 – West Texas Intermediate crude oil forecast comparison



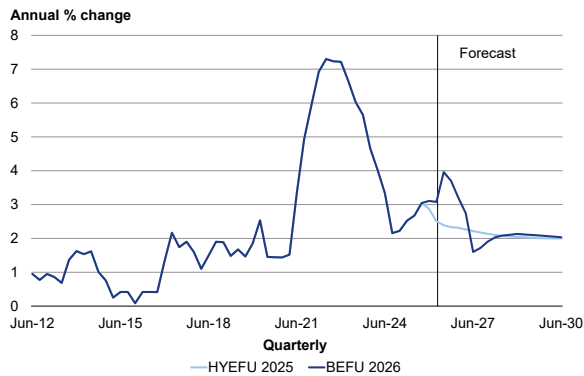
Sources: Haver Analytics, U.S. Energy Information Administration, the Treasury

The PFA requires an assessment of the extent to which the fiscal performance of the Government is consistent with its fiscal strategy report for that period. In 2024/25, the only full financial year since this Government was formed, both core Crown expenses and net core Crown debt were lower as a share of GDP than had been expected in the 2024 FSR. OBEGALx was not forecast at that time, but OBEGAL in 2024/25 was similar to the forecast in the 2024 FSR.

Economic outlook

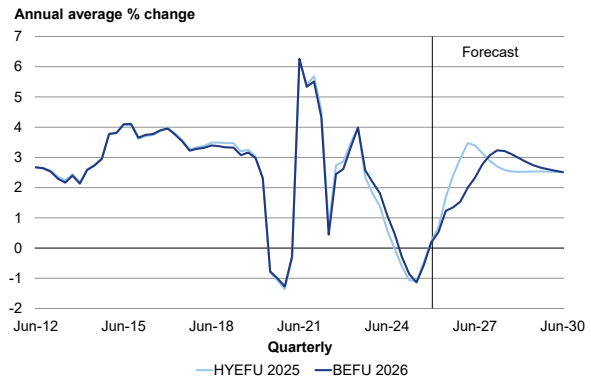
Before the outbreak of conflict in the Middle East, an economic recovery was under way and was expected to broaden during 2026, underpinned by supportive monetary policy, exports, business investment and household spending. Inflationary pressures were expected to moderate.

Figure 5 – Consumers price index inflation



Sources: Stats NZ, the Treasury

Figure 6 – Real production GDP growth



Sources: Stats NZ, the Treasury

Since then, the conflict has triggered a global supply shock that has sharply increased oil prices. Higher oil prices have raised the near-term inflation outlook, with direct impacts through increased petrol and diesel prices, and indirect impacts through higher transport costs affecting the prices of other goods and services (Figure 5). Over the medium term, inflationary pressures are expected to ease.

Impacts of the global fuel crisis will delay but not derail the broadening recovery. BEFU forecasts show real GDP – the volume of goods and services produced in the economy – continuing to grow, although at a slower rate over 2026 and most of 2027 than was forecast in HYEFU (Figure 6). Unemployment is expected to peak at the same rate as in HYEFU – 5.5 per cent – but to do so in mid-2026 rather than in the first quarter.

Nominal GDP is the value of goods and services produced in the economy, in current market prices. It is affected by movements in both real GDP and prices. Nominal GDP is lower than previously forecast over 2026 and most of 2027, but picks up thereafter as real economic activity strengthens, the terms of trade (the ratio of export prices to import prices) improve relative to HYEFU and the price level is higher. From 2028 onwards, the level of nominal GDP is expected to be slightly higher than was forecast in HYEFU, due to an improved forecast for the terms of trade and an overall higher level of prices in the economy (Table 2).

Forecast tax revenue is slightly higher than expected in HYEFU (Table 2). This is because of higher nominal GDP, stronger recent outturns of some tax types that lift the starting point for the forecasts, the impact of higher expected interest rates on resident withholding tax, fiscal drag and other assumptions affecting the ratio of tax revenue to GDP.

Most of the change in forecast tax revenue was already anticipated prior to the conflict in the Middle East. The conflict has impacted tax revenue through a higher price level, but this has largely been offset by its negative impacts on real GDP.

Table 2 – Changes in nominal GDP and core Crown tax revenue forecasts

Year ending 30 June \$billions	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Nominal GDP					
BEFU 2026	452.2	474.9	503.7	529.8	554.4
HYEFU 2025	454.5	479.0	502.2	526.2	551.1
Change	(2.3)	(4.1)	1.5	3.6	3.3
Core Crown tax revenue					
BEFU 2026	124.8	133.0	142.2	151.6	159.7
HYEFU 2025	124.2	132.2	140.2	148.4	156.6
Change	0.6	0.8	2.0	3.2	3.1

Source: The Treasury

These are the Treasury’s central forecasts, but BEFU presents alternative scenarios, including an upside scenario where oil supply disruptions resolve more quickly than assumed in the central forecast, and downside scenarios where oil supply disruptions are more protracted.

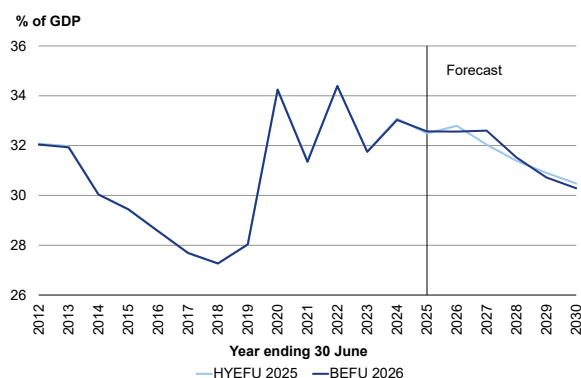
Fiscal outlook

Economic forecasts impact the fiscal outlook in three main ways – through tax revenue forecasts, through forecasts of benefit and NZ Superannuation expenses (driven by expectations of inflation, wages and labour market conditions) and through the effect of interest rates on government finance costs.

The fiscal outlook is also affected by the size and phasing of the final Budget operating package. As discussed in the next section, the Budget operating package is smaller than previously forecast, with net new spending of \$2.1 billion per annum, on average, compared to an allowance of \$2.4 billion. It also has a frontloaded profile, with net new spending of only \$1.3 billion in the last two years of the forecast period.

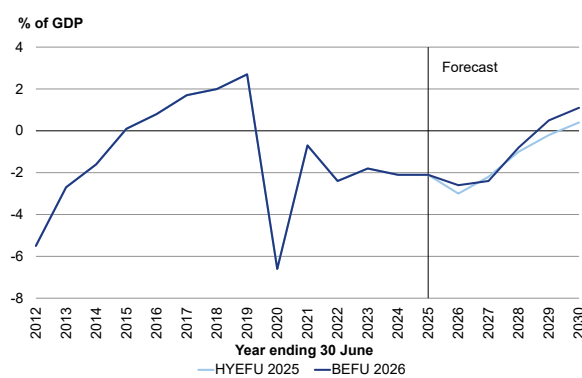
The BEFU fiscal forecasts are set out in detail in Annex 1.

Figure 7 – Core Crown expenses



Source: The Treasury

Figure 8 – OBEGALx



Source: The Treasury

Core Crown expenses are expected to remain stable as a share of GDP in the first two years of the forecast period, reflecting the frontloaded profile of the Budget operating package, the delayed recovery, and increasing benefit expenses due to higher short-term inflation and greater recipient numbers (Figure 7). Core Crown expenses then fall across the forecast period, reaching 30.3 per cent of GDP in 2029/30. Tight operating allowances in future Budgets are a key factor in this reduction.

OBEGALx is forecast to return to a surplus of \$2.6 billion in 2028/29, as growth in tax revenue exceeds growth in core Crown expenses in the later years of the forecast period (Figure 8). The return to surplus happens a year earlier than was forecast at HYEUFU. A slightly larger OBEGALx deficit is forecast in 2026/27, compared to HYEUFU, but this is largely because of the phasing of the Budget operating package. Table 3 breaks down the changes in OBEGALx forecasts since HYEUFU.

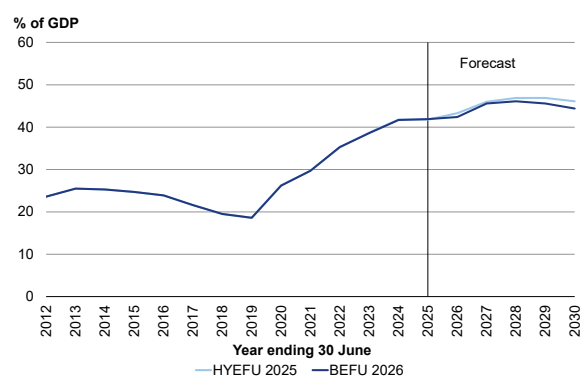
Table 3 – Changes in OBEGALx forecasts between HYEUFU 2025 and BEFU 2026

Year ending 30 June \$billions	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
OBEGALx – 2025 HYEUFU	(13.9)	(10.4)	(5.1)	(0.9)	2.3
Tax revenue (excluding Budget 2026 decisions)	0.6	0.8	1.9	3.1	3.0
Benefit and NZ Superannuation expenses (excluding Budget 2026 decisions)	0.1	(0.4)	(0.7)	(0.7)	(0.6)
Net finance costs	(0.1)	(0.1)	0.2	0.2	0.1
Budget 2026 package impact	0.2	(1.2)	0.2	1.1	1.1
Other movements	1.2	(0.1)	(0.8)	(0.2)	0.2
Total movement	2.0	(1.0)	0.8	3.5	3.8
OBEGALx – 2026 BEFU	(11.9)	(11.4)	(4.3)	2.6	6.1

Source: The Treasury

A better OBEGALx outlook improves the path of net core Crown debt as a share of GDP, offset to some extent by an increase in capital investment in Budget 2026 and higher New Zealand Superannuation Fund (NZSF) contributions (see Annex 4). Net core Crown debt is forecast to peak at 46.1 per cent of GDP in 2027/28, 0.8 per cent of GDP lower than at HYEUFU (Figure 9). Net core Crown debt is then forecast to bend down a year earlier than in HYEUFU, declining to 44.4 per cent by the end of the forecast period.

Figure 9 – Net core Crown debt



Source: The Treasury

Box 2 – How does New Zealand’s fiscal position compare to similar countries?

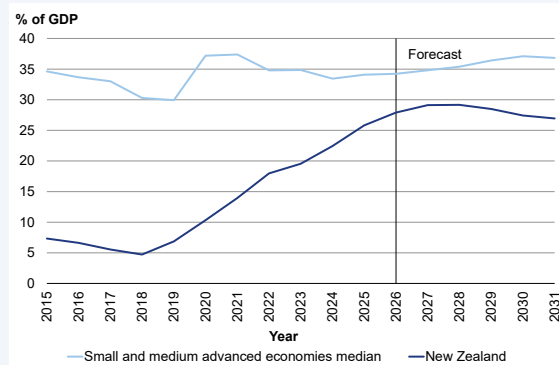
Countries present fiscal data in different ways, so the International Monetary Fund (IMF) has developed its own measures to aid international comparisons, including:

- general government net debt, which includes local government and covers a broad range of financial liabilities and financial assets, and
- the overall balance (net lending and borrowing) which includes local government and includes capital as well as operating expenditure.

On these measures, Figures 10 and 11 compare New Zealand to the median of other small and medium-sized advanced economies. New Zealand has previously had low government debt compared to similar countries, which is appropriate given its vulnerability to natural disasters, reliance on commodity exports and dependence on international lenders. This gap has narrowed markedly, however, since 2018.

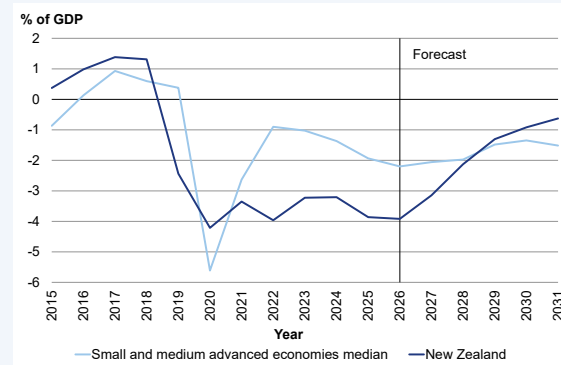
Following the COVID-19 pandemic, New Zealand’s overall deficit has been considerably larger than in similar countries, although this is expected to narrow in the future as the government’s books improve.

Figure 10 – General government net debt



Source: IMF Fiscal Monitor April 2026

Figure 11 – Overall balance



Source: IMF Fiscal Monitor April 2026

Note: In these charts, small and medium advanced economies are advanced economies excluding the United States, the United Kingdom, Japan, Canada, France, Germany and Italy, and excluding some economies with missing data. The IMF’s data does not incorporate the latest BEFU forecasts.

Projections of fiscal variables over a 10-year horizon, starting from the end of the forecast period, are in Annex 2. Annex 3 extends the analysis of changes in the economic and fiscal forecasts back to the Pre-election Economic and Fiscal Update (PREFU) in 2023.

Operating allowances

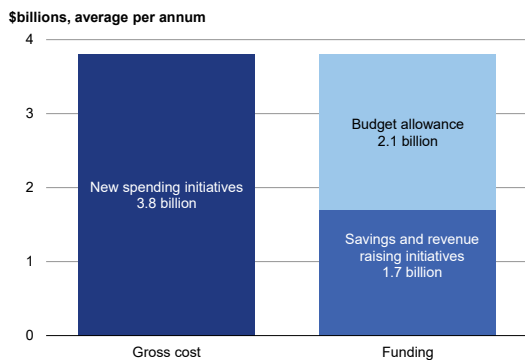
There are two possible levers to achieve fiscal consolidation: managing expenditure and raising revenue. The Government’s strategy for managing expenditure is to embed a culture of responsible spending, restore fiscal discipline, right-size the government’s footprint and improve the efficiency and productivity of spending. With prudent control of spending, the Government does not intend to seek major additional sources of revenue, although will maintain an active tax policy programme to ensure the tax system remains fit for purpose (see revenue strategy below).

Budget operating allowances are the key to realising this strategy. The operating allowance is the maximum amount of net new operating funding – on average, per annum – the Government intends to spend in the forthcoming Budget. The operating allowance captures spending and revenue decisions that are under the Government’s direct control. It does not include most forecast changes, or automatic adjustments to benefits and NZ Superannuation, which are managed outside the allowance framework.

Operating allowances are a net concept. Spending increases, savings and any revenue decisions offset each other within a single envelope.

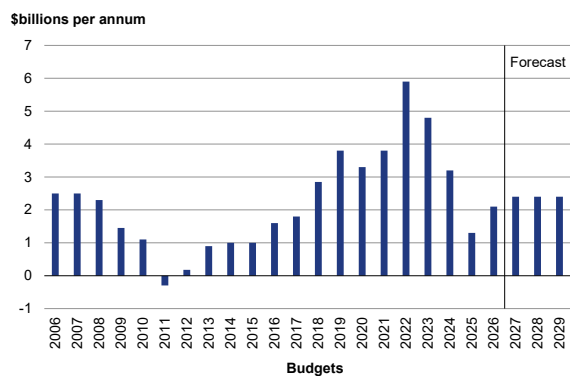
The operating allowance for Budget 2026 was \$2.4 billion. The actual net Budget 2026 operating package comes to \$2.1 billion. This net operating package is made up of \$3.8 billion of new spending less \$1.7 billion of savings and revenue, continuing the Government’s drive over successive Budgets to find savings and reprioritise spending (Figure 12).

Figure 12 – Funding of the Budget 2026 operating package



Source: The Treasury

Figure 13 – Operating allowances



Source: The Treasury

The operating allowances for Budgets 2027, 2028 and 2029 remain at \$2.4 billion. These are tight allowances, particularly compared to those for Budgets 2018 to 2023 (Figure 13).

Box 3 – Public service transformation

The Government is embarking on a fundamental overhaul of the public service to improve services, lift productivity and deliver better value for money. Between 2017 and 2023, the size of the public service expanded from approximately 47,000 people to more than 65,000 – almost three times as fast as the overall labour force – and back-office and support functions grew significantly faster than frontline service delivery roles. In its reforms, the Government will drive progress on three key goals: streamlining the number of government agencies and entities, digitising customer-facing and back-office government functions and restoring public service numbers to historic norms.

Budget 2026 includes an initial savings exercise where most agencies are delivering savings of 2 per cent, from 2026/27 onwards, on eligible baselines. Following this, the more fundamental overhaul is being implemented by putting a sinking lid on agencies' operating budgets. From 2027/28, an additional baseline reduction of 5 per cent for most agencies is planned, followed by another 5 per cent reduction from 2028/29. Agencies excluded from the baseline savings exercise include law and order agencies, Oranga Tamariki, health, education (excluding tertiary), defence and intelligence agencies. All these savings are being counted in the Budget 2026 operating package.

Capital allowances

The capital allowance is the net new “one-off” funding the Government intends to allocate to capital projects in the Budget. Like operating allowances, capital allowances are a net concept, meaning that capital savings offset spending. The Government previously set capital allowances for Budgets 2026 to 2029 at \$3.5 billion but recognised that capital packages could differ from these allowances given investment requirements are often uneven across time.

The actual net Budget 2026 capital package comes to \$5.7 billion. This net capital package is made up of \$7 billion of new capital funding less \$1.3 billion of savings, which include expected capital receipts from the early monetisation of Chorus securities. The “lumpiness” of capital investments is demonstrated by the fact that funding for the Cambridge to Piarere Expressway (\$1.8 billion) is around a third of the total net package.

The Government has increased the Budget 2029 capital allowance to \$5 billion to reflect expected investments in defence and hospital projects. This increase has been factored into the fiscal forecasts. The capital allowances for Budgets 2027 and 2028 remain at \$3.5 billion. Delivering value-for-money and productivity-enhancing capital investments will help ensure infrastructure meets New Zealanders' needs, and supports economic growth and resilience. But new capital spending in the Budget adds to government debt. If capital expenditure gets too high, there is a risk that government debt as a share of GDP will continue to rise and never turn down, contrary to the Government's fiscal strategy.

Short-term intentions and long-term objectives

The Government's commitment to reduce core Crown expenses and net core Crown debt as a proportion of GDP, and to return to operating surplus, are formalised in statements of short-term fiscal intentions (Table 4) and long-term fiscal objectives (Table 5). Apart from those relating to net worth, the intentions and objectives remain the same as those stated in the BPS.

Net worth is the Crown's assets minus its liabilities and has previously been the Government's headline indicator of overall balance sheet strength. The Government has now decided to use "net worth attributable to the Crown" as its preferred indicator. This measure excludes non-government shareholdings in majority government-owned entities, for example the privately owned part of Meridian Energy. It therefore gives a more accurate picture of what the Crown owns. The new short-term intention is to "maintain net worth attributable to the Crown consistent with the operating balance intention". Net worth attributable to the Crown is influenced by gains, losses, revaluations, ACC net revenue and OBEGALx, but of these factors, OBEGALx is most within the Government's immediate control.

Table 4 – The Government's short-term fiscal intentions for the next four financial years

Fiscal Strategy Report 2026

Debt	Maintain total debt at prudent levels. 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. Return the operating balance (before gains and losses, excluding ACC) to surplus by 2028/29. Ensure consistency with the short-term intention for debt.
Expenses	Reduce core Crown expenses as a percentage of GDP. Ensure expenses are consistent with the operating balance intention.
Revenue	Ensure revenue is consistent with the operating balance intention.
Net worth	Maintain net worth attributable to the Crown consistent with the operating balance intention.

The short-term intentions accord with the principles of responsible fiscal management in the PFA. 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 also 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 forecasts are consistent with the short-term intentions. Net core Crown debt as a percentage of GDP is expected to be on a downward trajectory after 2027/28, and OBEGALx returns to surplus in 2028/29. Core Crown expenses are forecast to reduce as a percentage of GDP after 2026/27.

As set out in previous statements, the following circumstances could lead the Government to consider amending the short-term intentions in Table 4:

- 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.

The Government does not consider that the impact of the Middle East conflict, as currently understood, is a shock of significant magnitude to trigger any of the above.

The new long-term objective for net worth now uses net worth attributable to the Crown as the preferred indicator, instead of net worth itself (Table 5).

Table 5 – The Government’s long-term fiscal objectives for the next 15 financial years

Fiscal Strategy Report 2026

Debt	Maintain total debt at prudent levels. 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. 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 attributable to the Crown 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 PFA. A key principle is to maintain total debt at prudent levels. The Government has stated that net core Crown debt of less than 50 per cent is prudent, based on Treasury modelling. 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.

Box 4 – Amendments to Section 26 of the PFA

The PFA is a cornerstone of New Zealand’s public finance system, regulating the Crown’s financial powers and ensuring Parliament’s authority to approve, review and scrutinise revenue and spending.

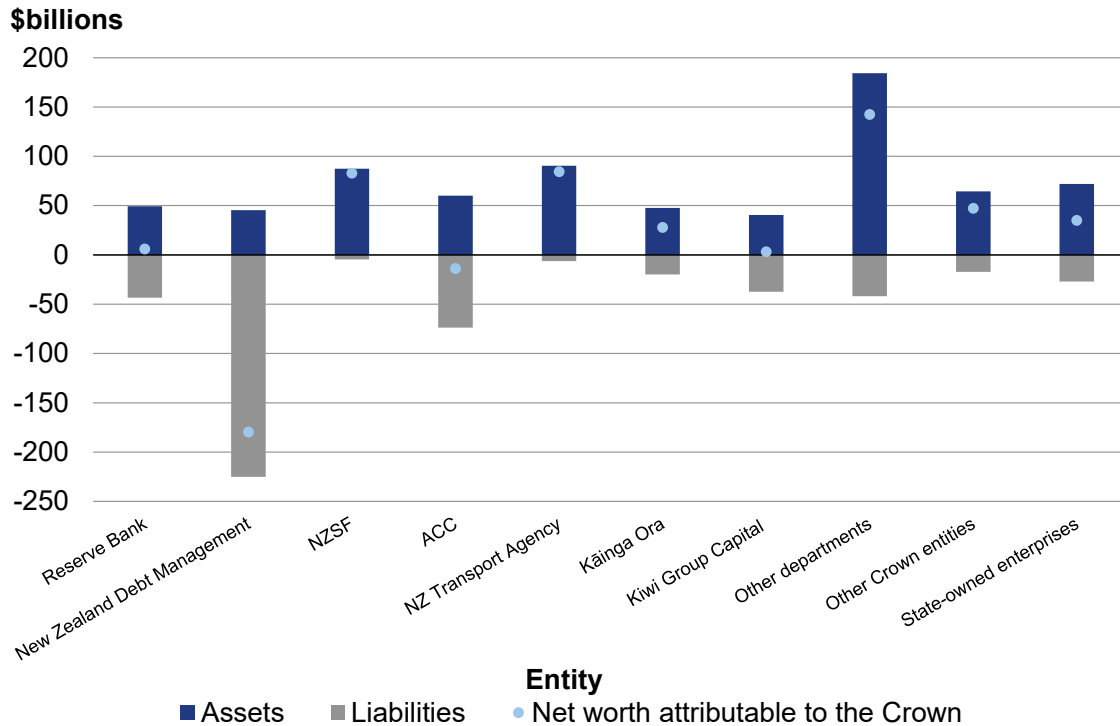
Sections 26J and 26K of the PFA require the Minister of Finance to state the government’s short-term fiscal intentions and long-term fiscal objectives for five fiscal variables: total operating expenses, total operating revenues, the balance between these expenses and revenues, the level of total debt and the level of total net worth. While these variables reflect internationally recognised accounting standards, successive governments have, for good reasons, used other, closely related variables when expressing their fiscal strategy, for example using core Crown rather than total Crown measures as these are more closely within the government’s control, and net debt rather than gross debt, as the Crown’s holding of financial assets offset its financial liabilities.

Amendments to the PFA, effective from 1 July 2026, formalise this practice while ensuring transparency and accountability. They allow the government to use alternative fiscal variables in addition to, or in substitution for, the five statutory variables, if they are similar in nature and accord with the principles of responsible fiscal management set out elsewhere in the PFA.

Managing assets and liabilities

The Crown’s balance sheet records what it owns – its assets – and what it owes – its liabilities (Figure 14). The Crown’s assets include physical infrastructure (such as hospitals, schools and roads), financial assets (such as the NZSF) and commercial entities. Its liabilities consist mostly of debt issued by the Crown.

Figure 14 – Net worth attributable to the Crown for 2024/25 by entity



Source: The Treasury

Note: This chart displays unconsolidated net worth attributable to the Crown. It does not sum to the overall net worth attributable to the Crown because inter-entity balances are eliminated in the consolidated accounts (e.g. ACC’s holdings of government bonds).

The 2024/25 year-end financial statements show the Crown owns \$598 billion of assets and has \$409 billion of liabilities. The difference between these two numbers, excluding \$10 billion attributable to minority interests, is net worth attributable to the Crown of \$179 billion, or around 41 per cent of GDP. Forecasts of net worth attributable to the Crown have improved since HYEFU, in part due to the adoption of a new accounting standard that has decreased the Crown’s insurance liabilities.

The Government’s strategy for managing the Crown’s assets and liabilities is to ensure a robust decision-making framework for new investments, increase the effectiveness of existing assets through more targeted maintenance and manage risks that can reduce asset values or create unexpected liabilities.

Earlier this year, the Infrastructure Commission released the National Infrastructure Plan, which sets out a 30-year view of how New Zealand can improve the way it plans, funds, maintains and delivers infrastructure. The plan makes 16 recommendations to improve the infrastructure system and identifies 10 priority actions for the next decade, many of which reflect work already underway by the Government.

New Zealand Government Bonds (NZGBs) are the government's primary funding instrument and the largest source of liabilities on the Crown's balance sheet. Box 5 sets out how these liabilities are managed through the borrowing programme.

Box 5 – New Zealand borrowing programme

New Zealand Debt Management (NZDM), a unit within the Treasury, is responsible for funding the Crown's borrowing requirements. Its primary objective is to minimise the Crown's borrowing costs over the long term while managing risk. To achieve this, NZDM considers the optimal volume of issuance for each instrument, the desired maturity profile of new and existing debt, investor demand and prevailing market conditions. By taking this approach, NZDM aims to capture and stimulate investor demand, reduce uncertainty associated with funding activities, and promote a well-functioning and liquid market for New Zealand government debt.

NZDM raises funds by selling New Zealand Government Securities, which include NZGBs, Treasury Bills and Euro-Commercial Paper. NZGBs are the primary instrument for Crown borrowing and are sold in two ways:

- Tenders, which are online auctions. These are usually held weekly, with NZDM recently offering \$400 million to \$500 million each tender.
- Syndications, where a group of financial intermediaries is appointed to sell a large volume of bonds in a single transaction. In recent years, NZDM has executed three to five syndications annually, for between \$3 billion and \$6 billion at each transaction.

New Zealand's sovereign credit rating remains among the highest globally. This is one of the factors that make NZGBs attractive to a wide range of investors, including fund managers, banks, insurance companies, hedge funds and central banks. Around 60 per cent of NZGBs are held by offshore investors, with the rest held by domestic investors.

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

Table A1.1 – BEFU fiscal forecasts

Year ending 30 June	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
\$billions						
Core Crown tax revenue	121.7	124.8	133.0	142.2	151.6	159.7
Core Crown revenue	134.4	137.2	145.6	155.6	165.6	174.3
Total Crown revenue	169.8	172.0	184.1	195.7	207.5	217.7
Core Crown expenses	141.7	147.2	154.8	158.8	162.8	167.9
Total Crown expenses	183.5	186.8	198.0	202.8	207.7	214.2
OBEGALx	(9.3)	(11.9)	(11.4)	(4.3)	2.6	6.1
Operating balance	(4.4)	(4.1)	(8.1)	(0.6)	6.7	11.0
Net core Crown debt	182.2	191.8	216.5	232.4	241.4	246.1
Total borrowings	272.1	289.3	318.8	339.3	353.5	364.1
Gross debt	203.7	223.8	250.2	267.1	278.4	284.3
Net worth	189.1	185.3	189.8	189.5	196.4	207.3
Net worth attributable to the Crown	179.3	175.5	179.9	179.4	186.2	197.2
Core Crown residual cash	(6.0)	(9.3)	(24.2)	(15.6)	(8.8)	(4.5)
% of GDP						
Core Crown tax revenue	28.0	27.6	28.0	28.2	28.6	28.8
Core Crown revenue	30.9	30.4	30.7	30.9	31.2	31.4
Total Crown revenue	39.0	38.0	38.8	38.9	39.2	39.3
Core Crown expenses	32.6	32.6	32.6	31.5	30.7	30.3
Total Crown expenses	42.2	41.3	41.7	40.3	39.2	38.6
OBEGALx	(2.1)	(2.6)	(2.4)	(0.8)	0.5	1.1
Operating balance	(1.0)	(0.9)	(1.7)	(0.1)	1.3	2.0
Net core Crown debt	41.9	42.4	45.6	46.1	45.6	44.4
Total borrowings	62.6	64.0	67.1	67.4	66.7	65.7
Gross debt	46.8	49.5	52.7	53.0	52.5	51.3
Net worth	43.5	41.0	40.0	37.6	37.1	37.4
Net worth attributable to the Crown	41.2	38.8	37.9	35.6	35.1	35.6
Core Crown residual cash	(1.4)	(2.1)	(5.1)	(3.1)	(1.7)	(0.8)

Source: The Treasury

Annex 2 – Fiscal projections

The PFA requires each fiscal strategy report to include scenarios that contain projections of trends in fiscal variables for at least the next 10 years, with stated significant assumptions. This Annex contains scenarios based on different levels of operating and capital spending in future Budgets. It illustrates a range of possible medium-term outcomes, consistent with the approach taken in the 2025 FSR.

These 10-year projections start in 2030/31 after the end of the forecast period and are produced using the Treasury's Fiscal Strategy Model. 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 1 per cent per annum. This is a slightly higher labour productivity growth assumption than last year's FSR, reflecting data revisions and a new 30-year average. 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.

Importantly, the projections do not include any economic shocks, which by their nature are unpredictable.

Scenario 1: Continuation of the forecast period, with capital allowances informed by the Infrastructure Commission's Forward Guidance

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

- the capital allowance is \$5 billion in Budget 2030, growing at 5 per cent in subsequent Budgets, and
- the operating allowance is \$2.4 billion per annum in Budget 2030, growing at 5 per cent per year in subsequent Budgets.

The 5 per cent growth rate in this scenario is higher than the 3 per cent growth rate in the 2025 FSR as it assumes that allowances grow broadly in line with the Infrastructure Commission's forward guidance for capital investment, which projects that capital investment stays relatively stable as a percentage of GDP over time. Operating allowances are also assumed to grow at 5 per cent to account for the operating costs associated with capital expenditure.

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 2030, growing at 5 per cent per year in subsequent Budgets, and
- the operating allowance is \$3.1 billion per annum in Budget 2030, growing at 5 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 \$2 billion addition to the capital allowance.

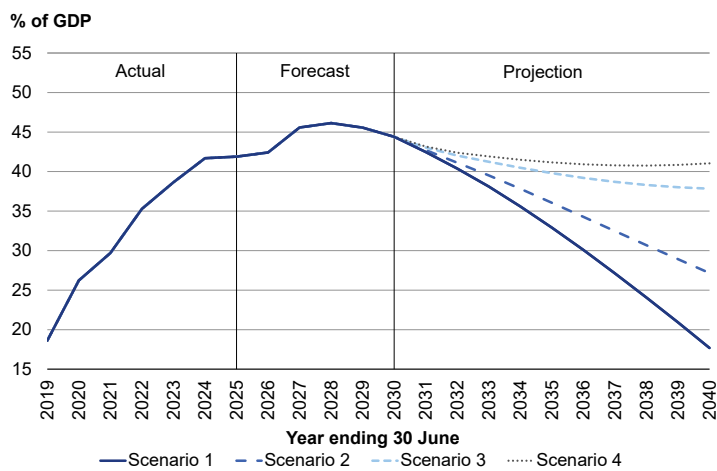
Scenario 3: Higher operating expenses

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, similar to the approach taken in the 2025 Long-term Fiscal Statement. No offsetting reprioritisation or efficiency savings are assumed. The capital allowance grows as in Scenario 1.

Scenario 4: Higher operating expenses and capital investment

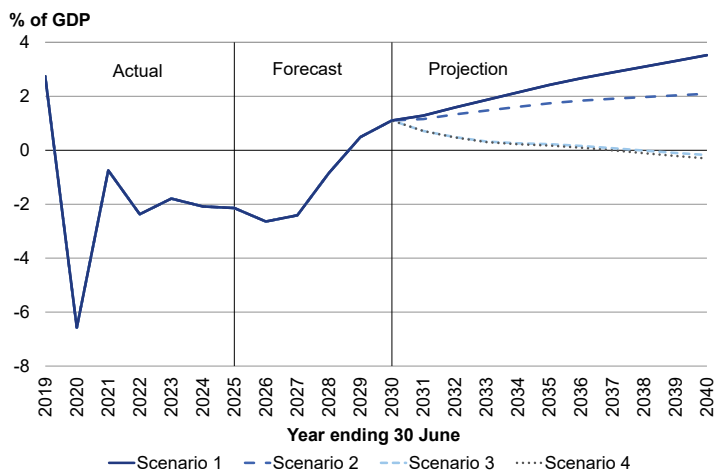
Scenario 4 combines the higher operating expenditure from Scenario 3 with the higher capital expenditure from Scenario 2.

Figure A2.1 – Net core Crown debt

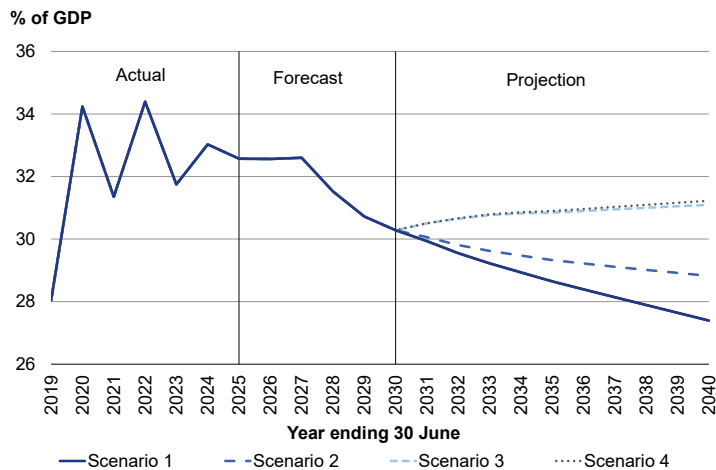


Source: The Treasury

Figure A2.2 – OBEGALx



Source: The Treasury

Figure A2.3 – Core Crown expenses

Source: The Treasury

The PFA requires an assessment of the consistency of these scenarios with the Government's long-term fiscal objectives.

Scenario 1 shows OBEGALx surpluses growing, core Crown expenses reducing to 27.4 per cent of GDP and net core Crown debt reducing to 17.7 per cent of GDP over the projection period (Table A2.1). This scenario is broadly consistent with the Government's long-term fiscal objectives, although debt decreases to below 20 per cent of GDP, which is under the long-term range for net core Crown debt.

Scenario 2 shows OBEGALx surpluses growing, core Crown expenses reducing to 28.8 per cent of GDP and net core Crown debt decreasing to 27.2 per cent of GDP over the projection period (Table A2.2). This scenario is consistent with the Government's long-term fiscal objectives.

Scenario 3 shows OBEGALx deficits in the later years of the projection period, core Crown expenses increasing and net core Crown debt reducing slowly as a percentage of GDP towards 37.8 per cent of GDP (Table A2.3). This scenario is inconsistent with the Government's long-term objectives for core Crown expenses and OBEGALx.

Scenarios 4 shows OBEGALx deficits in the later years of the projection period and core Crown expenses increasing as a percentage of GDP. Net core Crown debt reduces as a percentage of GDP before bending up again at the end of the projection period. As Table A2.4 shows, this scenario is inconsistent with the long-term objectives.

Table A2.1 – Fiscal indicators from Scenario 1

Year ending 30 June	2030 Forecast	2032 Projection	2034 Projection	2036 Projection	2038 Projection	2040 Projection
% of GDP						
Core Crown revenue	31.4	31.1	31.0	31.0	30.9	30.9
Total Crown revenue	39.3	39.0	38.9	38.9	38.8	38.7
Core Crown expenses	30.3	29.6	28.9	28.4	27.9	27.4
Total Crown expenses	38.6	37.8	37.1	36.5	36.0	35.4
OBEGALx	1.1	1.6	2.1	2.7	3.1	3.5
Operating balance	2.0	2.5	3.2	3.9	4.4	4.9
Net core Crown debt	44.4	40.4	35.6	30.1	24.1	17.7
Total borrowings	65.7	62.5	58.4	53.2	47.4	41.1
Net worth	37.4	39.1	42.1	46.2	51.1	56.7
Net worth attributable to the Crown	35.6	37.4	40.6	44.8	49.8	55.5

Source: The Treasury

Table A2.2 – Fiscal indicators from Scenario 2

Year ending 30 June	2030 Forecast	2032 Projection	2034 Projection	2036 Projection	2038 Projection	2040 Projection
% of GDP						
Core Crown revenue	31.4	31.1	31.0	31.0	30.9	30.9
Total Crown revenue	39.3	39.0	38.9	38.9	38.8	38.7
Core Crown expenses	30.3	29.8	29.5	29.2	29.0	28.8
Total Crown expenses	38.6	38.1	37.7	37.3	37.1	36.8
OBEGALx	1.1	1.3	1.6	1.8	2.0	2.1
Operating balance	2.0	2.2	2.6	3.0	3.2	3.4
Net core Crown debt	44.4	41.1	37.8	34.3	30.7	27.2
Total borrowings	65.7	63.3	60.6	57.4	54.0	50.5
Net worth	37.4	38.7	40.8	43.5	46.6	49.9
Net worth attributable to the Crown	35.6	37.0	39.3	42.2	45.3	48.7

Source: The Treasury

Table A2.3 – Fiscal indicators from Scenario 3

Year ending 30 June	2030 Forecast	2032 Projection	2034 Projection	2036 Projection	2038 Projection	2040 Projection
% of GDP						
Core Crown revenue	31.4	31.1	31.0	31.0	30.9	30.9
Total Crown revenue	39.3	39.0	38.9	38.9	38.8	38.7
Core Crown expenses	30.3	30.7	30.8	30.9	31.0	31.1
Total Crown expenses	38.6	38.9	39.0	39.0	39.1	39.1
OBEGALx	1.1	0.5	0.3	0.2	(0.0)	(0.2)
Operating balance	2.0	1.4	1.3	1.4	1.3	1.2
Net core Crown debt	44.4	42.0	40.5	39.2	38.3	37.8
Total borrowings	65.7	64.2	63.3	62.3	61.6	61.2
Net worth	37.4	37.4	37.2	37.1	36.9	36.5
Net worth attributable to the Crown	35.6	35.8	35.7	35.7	35.6	35.3

Source: The Treasury

Table A2.4 – Fiscal indicators from Scenario 4

Year ending 30 June	2030 Forecast	2032 Projection	2034 Projection	2036 Projection	2038 Projection	2040 Projection
% of GDP						
Core Crown revenue	31.4	31.1	31.0	31.0	30.9	30.9
Total Crown revenue	39.3	39.0	38.9	38.9	38.8	38.7
Core Crown expenses	30.3	30.7	30.9	31.0	31.1	31.2
Total Crown expenses	38.6	38.9	39.1	39.1	39.2	39.2
OBEGALx	1.1	0.5	0.2	0.1	(0.1)	(0.3)
Operating balance	2.0	1.4	1.3	1.3	1.2	1.0
Net core Crown debt	44.4	42.4	41.5	40.9	40.8	41.0
Total borrowings	65.7	64.6	64.3	64.1	64.0	64.4
Net worth	37.4	37.4	37.1	36.9	36.5	36.0
Net worth attributable to the Crown	35.6	35.8	35.6	35.5	35.2	34.8

Source: The Treasury

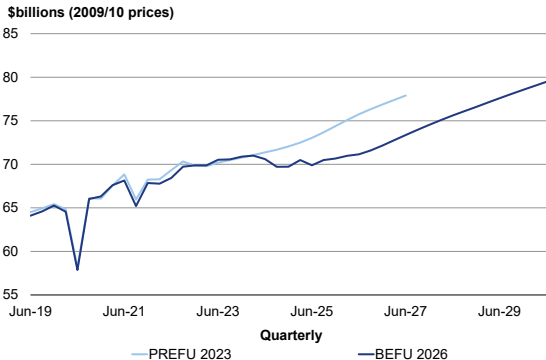
Annex 3 – Forecast changes since PREFU 2023

The fiscal forecasts have changed markedly since the PREFU in September 2023. These changes have been driven largely by revisions to the economic forecasts – which affect tax revenue, benefits and some other expenses – and not by discretionary Government policy changes.

Annex 1 of the BPS showed revisions to the economic forecasts since PREFU, and decomposed the changes in OBEGALx forecasts from PREFU to HYEFU. It highlighted two key reasons for economic forecast changes. One was a better understanding of the economic downturn, which started earlier, was deeper, and persisted for longer, than was previously understood or expected. The other was the Treasury’s evolving assessment of productivity trends. With the benefit of hindsight, earlier economic forecasts attributed too much weight to an apparent pickup in productivity during the COVID-19 pandemic that did not persist. Changes in the tax forecasts and new tax policies have also lowered the core Crown tax-to-GDP ratio – the average tax take for each dollar of GDP.

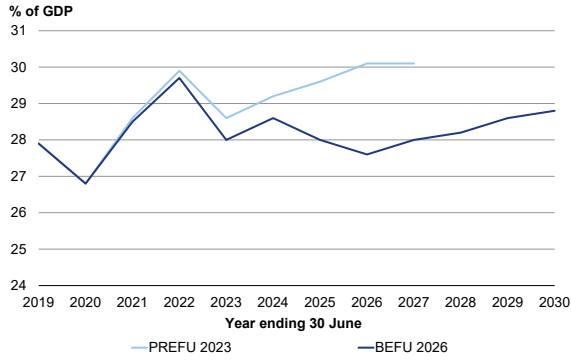
This Annex updates the previous analysis to BEFU (Figures A3.1 and A3.2). In the most recent forecasts, the conflict in the Middle East has also contributed to a small downward revision in real GDP forecasts. Table A3.1 continues to show that forecast changes outside the Government’s immediate control have driven the downward revision in OBEGALx forecasts since PREFU.

Figure A3.1 – Real GDP forecasts from PREFU 2023 and BEFU 2026



Sources: Stats NZ, the Treasury

Figure A3.2 – Core Crown tax-to-GDP ratio forecasts from PREFU 2023 and BEFU 2026



Sources: Stats NZ, the Treasury

Table A3.1 – Changes in OBEGALx forecasts between PREFU 2023 and BEFU 2026

Year ending 30 June \$billions	2026 Forecast	2027 Forecast
OBEGALx – 2023 PREFU	1.6	5.3
Tax revenue (excluding Budget decisions)	(11.0)	(10.4)
Benefit and NZ Superannuation expenses (excluding Budget decisions)	(0.3)	(1.1)
Debt impairments	(0.6)	(0.4)
Net core Crown finance costs	(0.2)	(0.8)
Emissions Trading Scheme forecast changes (net impact)	(0.9)	(0.5)
Education – forecast and depreciation changes	(0.6)	(0.6)
Budget packages and allowance changes	2.5	1.7
Baseline savings forecast in PREFU but not implemented	(0.5)	(0.5)
Asset impairments	(0.5)	(0.2)
State-owned enterprise and Crown entity results	(0.5)	(1.1)
Other	(0.9)	(2.8)
Total movement	(13.5)	(16.7)
OBEGALx – 2026 BEFU	(11.9)	(11.4)

Source: The Treasury

Annex 4 – Contributions to the NZSF

Annual capital contributions to the NZSF are calculated in accordance with the formula in section 43 of the New Zealand Superannuation and Retirement Income (NZSRI) Act 2001. 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 in Table A4.1.

Forecast contributions have increased since last year's Budget because of revised population projections and higher inflation, which have increased the future cost of NZ Superannuation as a share of GDP. Forecast contributions have also increased because the Guardians of New Zealand Superannuation have lowered their long-run expected return assumption, reflecting their view that with global equity markets at historically high levels, future returns will likely be weaker compared to recent years. With lower expected investment returns, there will be fewer funds available in the NZSF to cover NZ Superannuation payments in future, so the legislative formula prescribes greater contributions to the NZSF to make up for this.

Table A4.1 – NZSF contributions

Year ending 30 June \$millions	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
NZSF contributions – prescribed by formula	61	562	600	893	1,049
NZSF contributions – BEFU 2026	0	562	600	893	1,049

Source: The Treasury

The Government will make annual capital contributions to the NZSF in line with the section 43 formula, except in the current fiscal year, when the \$61 million contribution prescribed by the formula, together with \$39 million from the Budget 2025 capital allowance, was invested in the Elevate NZ Venture Fund.

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.

Annex 5 – Government goals and wellbeing objectives

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

As stated in the BPS, 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 2026 provides net funding increases for justice, health and education, and identifies savings that will help restore discipline to public spending. This FSR sets out how the Government intends to get its accounts back into good shape.