

Pre-election Economic and Fiscal Update 2026 Projections

Pre-election Economic and Fiscal Update 2026 of the Fiscal Strategy Model (FSM)

29 September 2026

This version of the Fiscal Strategy Model uses economic and fiscal forecasts prepared for the *Pre-election Economic and Fiscal Update 2026* (PREFU 2026). The projection period begins in 2031/32 and extends a decade out to 2040/41. These post-forecast fiscal projections are based on the long-term technical and policy assumptions outlined in this note.

The Fiscal Strategy Model (sometimes referred to by the acronym FSM) that produces the projections can be found on the Treasury website at <https://treasury.govt.nz/government/fiscalstrategy/model>.

Forecasts attempt to predict future outcomes by using wide-ranging resources, comprehensive modelling and expert opinion and knowledge. Projections, which arise from and are heavily influenced by their forecast base, are potential paths. These paths are based on trends or long-run averages for growth rates or levels of key economic, fiscal, and demographic variables, and generally assume no policy changes beyond those built into their forecast base.

Economic projections and assumptions

Table 1 – Main economic projections of PREFU 2026 FSM: 2031 is last forecast year 2030/31

Fiscal Year	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Real GDP ¹ apg ²	2.47	2.31	2.21	2.15	2.08	2.05	2.02	1.98	1.93	1.91	1.88
Nominal GDP ³ apg	4.49	4.35	4.26	4.19	4.12	4.09	4.06	4.01	3.97	3.95	3.92
Labour force apg	1.33	1.21	1.16	1.11	1.06	1.04	1.01	0.97	0.92	0.90	0.87
Unemployment rate ⁴	4.32	4.30	4.27	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Average weekly hours worked ⁵	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2
Labour productivity apg ⁶	1.14	1.09	1.05	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Consumers Price Index (CPI) inflation	2.01	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Government 10-year bond rate	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70

Notes:

- 1 Production measure, 2009/10 base
- 2 Annual percentage growth is abbreviated to apg in this table
- 3 Expenditure measure
- 4 Total unemployed as a percentage of the labour force
- 5 Total hours worked divided by the total employed labour force
- 6 Average over the four quarters of the fiscal year of annual growth in real GDP divided by total hours worked

Source: The Treasury

Most economic variables that are assumed to eventually settle at a stable annual growth rate or level in the projected years are close to these assumed values by the final forecast year. These stable growth rates or levels are based on recent actual and forecast performance. If an economic variable differs from its stable assumption in this last forecast year, then it is transitioned to attain the stable assumption over the early projected years. Most of the economic variables that are modelled in this way reach their stable growth rate or level within the first three years of the projections. Stabilising economic variables at a constant level or growth rate means that they are assumed to be unaffected by the projected fiscal variables. For example, if government capital investment were increased in a scenario this would not change the rate of projected GDP growth. This is another way in which projections differ from forecasts, for which such an effect on economic growth would be estimated.

The only assumption for an economic variable that has been changed from the previous Budget Economic and Fiscal Update 2026 version of the FSM is that of the stable nominal annual return rate on the government 10-year bond. This has been lifted from 4.3 percent to 4.7 percent. This assumption makes the stable nominal bond rate in the projection period consistent with that in the final year of the forecast period, rather than assuming that it would fall to our previous long-term assumption of 4.3 percent. This is a technical assumption that does not reflect a Treasury view on the long-term persistence (or otherwise) of current bond rates. The Treasury intends to review our long-term annual return rate on the government 10-year bond assumption in the usual way in the lead-up to the next Long-Term Fiscal Statement in 2028.

Projected real gross domestic product (GDP) grows from its forecast base via the annual combined change in the employed labour force's size, the average hours they work and their productivity. Once the latter two and the unemployment rate have all stabilised in projected years the only variation in projected real GDP growth arises from that of the labour force. Statistics New Zealand's population and labour force projections are used in projecting out the labour force's size and annual growth.

Nominal GDP is projected by multiplying the real GDP growth by inflation, as measured by the Consumers Price Index (CPI). The stable assumption for CPI inflation of 2 percent per year matches the midpoint of the band set in the remit for the Reserve Bank of New Zealand's Monetary Policy Committee. Nominal GDP is the denominator for most major fiscal indicators, such as net core Crown debt to GDP, and its growth is used to project many fiscal variables, including tax revenue.

Fiscal projections and assumptions

The Fiscal Strategy Model's principal purpose is to produce fiscal projections, particularly of key fiscal indicators. The Government's main indicator of financial performance is the total Crown operating balance before gains and losses excluding Accident Compensation Corporation (ACC) revenue and expenses, denoted OBEGALx. Net core Crown debt excluding the New Zealand Superannuation Fund (NZSF) and advances, usually just referred to as net core Crown debt, is the Government's main indicator for financial position.

The projections of the PREFU 2026 FSM are a simple technical update of the scenarios presented in the Fiscal Strategy Report 2026 and published on the Treasury website in the FSM alongside the Budget Economic and Fiscal Update 2026. The scenarios use different assumptions about future operating and capital expenditure.

All of the scenarios project revenue, including tax, in the same manner and the amounts projected in each scenario are identical. This is also true of welfare transfers, such as the public pension New Zealand Superannuation (NZS), Jobseeker Support and Accommodation Assistance.

The FSM projects six tax revenue categories. Source deductions and other personal income tax types are both projected using a combination of aggregate labour force growth and average hourly wage growth. Corporate tax, Goods and Services Tax (GST) and hypothecated transport taxes are each transitioned to stable percentages of GDP, based on the average for the tax type over the five forecast years and the most recent five outturn or historical years. A transition rate of 0.05 percentage points of GDP per year is used for all three tax types and once each one attains its stable percentage it then grows in line with nominal GDP in later projected years. The remaining tax types category is projected using a combination of the growth of the working-age population (everyone aged 15 years and above) and CPI, as the main tax types in this group have inflation adjusted rates.

NZS is projected using the growth of the “65 years and above” age group as its demographic driver and average hourly wage growth as its payment indexation driver. Other welfare transfers use age and gender distributions specific to their recipient groups, which in some cases are based on Ministry of Social Development administrative data, and CPI indexation of payment rates.

A small number of other operating expenses are modelled in the same way, and produce the same projected amounts, in all scenarios. Core Crown transport and communications expenditure, of which the majority is funded from hypothecated transport taxes, is projected with the growth of this tax type. A few small sub-components of larger expense categories, such as KiwiSaver subsidies and Emissions Trading Scheme expenses, are projected using some form of modelled growth specific to them. This is because, unlike the other components of their expense category in Scenario One and Scenario Two, they are not assumed to be funded from the operating allowances.

Interest expenses, or finance costs, are projected as a function of debt levels and interest rates in all scenarios. However, the amounts projected differ amongst the scenarios due to different expenditure projections affecting the debt levels that strongly influence these interest expenses.

Apart from forecast new capital spending, where annual growth in projected years depends on the size of the capital allowances set for the scenario, all asset categories’ projections are identical for all scenarios. All scenarios apply the same modelling logic for all liability categories, although different assumptions for operating expenditure growth and capital allowance amounts do produce different profiles for borrowings projections, which in turn affect projections of net core Crown debt.

In forecast years the capital allowance amounts for the current and future Budgets that are at least partially represented in these years are distributed over four years in a 35%, 35%, 20% and 10% allotment. The modelling of capital allowances in projected years also follows this distribution pattern, meaning that a first projected year capital allowance of say \$5 billion would be spread over the first four projected years as \$1.75 billion, \$1.75 billion, \$1.0 billion, and \$0.5 billion, respectively. The first three projected years would also receive shares from the forecast year capital allowances.

Scenarios One and Two continue the Budget process used in forecasts of controlling most areas of operating expenditure, other than welfare transfers, interest costs and a few exceptions listed earlier, using set operating allowances in projected years. These scenarios differ only in the starting projected amounts used for both operating and capital allowances. These are \$2.4 billion and \$5.0 billion respectively for Scenario One and \$3.1 billion and \$7.0 billion respectively for Scenario Two.

Scenarios One and Two apply 5 percent annual growth to operating allowances in projected years. All four scenarios use a 5 percent annual growth rate for projected capital allowances, which is broadly in line with the Infrastructure Commission’s forward guidance for capital investment, as it keeps this investment relatively stable as a percentage of GDP over time. As capital investment leads to ongoing associated operating costs it is appropriate to also apply this growth rate to the projected operating allowances. This also acknowledges some of the pressures that an ageing population will place on several areas of public services, in particular health, over coming years.

In scenarios that control the growth of most categories of operating expenditure via projected operating allowances, the expense types that are expected to derive their growth in this way are left at their end-of-forecast levels. They are not intended to be an accurate representation of the expense type in these years, but rather just to contribute to the overall category of core Crown expenses and fiscal indicators like OBEGALx. As their growth is already part of the projected operating allowance, it would lead to double counting if it were also built into the actual expense type's projection.

Scenarios Three and Four project the operating expenditure, that in forecast years is controlled by operating allowances, via a “bottom-up” process. The modelling applied is similar to that used in the Long-Term Fiscal Model (LTFM) that produces fiscal projections for the Long-Term Fiscal Statement. These scenarios, unlike those of the LTFM, still use capital allowances to control the growth of some asset categories in projected years. Scenarios Three and Four differ only in the starting projected amounts of \$5.0 billion and \$7.0 billion respectively that they use for the capital allowances.

Bottom-up operating expense projections are done in two ways, depending on the expense category projected. For health and education, where the expense per person can differ depending on age and possibly gender too, a combination of demographic and economic variables is used. These reflect both their historical growth and, particularly in regard to New Zealand's ageing population structure, their potential future growth under existing policy settings.

Other expense types, such as defence, where differentiating the spending among different age or gender groups is unfeasible, are transitioned to a stable percentage of nominal GDP, based on their recent history. Once this percentage is attained the expense category then grows in line with GDP.

For more detailed information about bottom-up modelling for different expenditure categories see: [The 2025 Long-term Fiscal Model: Main features and changes](#).

Table 2 – Main fiscal projections of the PREFU 2026 FSM, as a percentage of nominal GDP

Fiscal Year	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
OBEGALx ¹											
Scenario One	2.01	2.24	2.49	2.77	3.05	3.33	3.60	3.87	4.14	4.41	4.68
Scenario Two	2.01	2.12	2.25	2.39	2.54	2.67	2.80	2.92	3.04	3.16	3.28
Scenario Three	2.01	1.61	1.31	1.19	1.12	1.07	1.02	0.96	0.91	0.86	0.80
Scenario Four	2.01	1.60	1.30	1.16	1.09	1.02	0.95	0.88	0.81	0.74	0.67
Net core Crown debt											
Scenario One	39.5	36.8	33.9	30.9	27.7	24.4	20.9	17.2	13.4	9.5	5.5
Scenario Two	39.5	37.0	34.6	32.3	29.9	27.4	24.9	22.4	19.8	17.2	14.7
Scenario Three	39.5	37.4	35.7	34.2	32.8	31.5	30.3	29.2	28.2	27.3	26.5
Scenario Four	39.5	37.5	36.1	34.9	33.8	32.9	32.0	31.2	30.6	30.0	29.6
Core Crown revenue ²	31.8	31.7	31.5	31.4	31.4	31.4	31.3	31.3	31.3	31.3	31.2
Core Crown expenses											
Scenario One	29.8	29.5	29.1	28.7	28.4	28.1	27.8	27.5	27.2	26.8	26.5
Scenario Two	29.8	29.6	29.3	29.1	28.9	28.7	28.6	28.4	28.3	28.1	27.9
Scenario Three	29.8	30.1	30.3	30.3	30.3	30.3	30.4	30.4	30.4	30.4	30.4
Scenario Four	29.8	30.1	30.3	30.3	30.3	30.4	30.4	30.5	30.5	30.5	30.5

Notes:

1 Total Crown operating balance before gains and losses excluding ACC revenue and expenses

2 Core Crown revenue is identical for all four scenarios

Source: The Treasury