The Treasury

Budget 2026 Information Release

September 2026

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[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

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[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Implications of the indicative HYEFU 2025 fiscal forecasts for your fiscal strategy

Date:	14 November 2025	**Report No:**	T2025/2844
		File Number:	MC-1-5-2-2026-M131567

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Agree** to maintain your existing allowances and fiscal strategy at the Budget Policy Statement. **Discuss** with officials on 19 November 2025.	19 November 2025

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Melissa van Rensburg	Senior Analyst, Macroeconomic and Fiscal Policy	[39]	[35]	✓
Amy Spittal	Analyst, Macroeconomic and Fiscal Policy			
Simon McLoughlin	Manager, Macroeconomic and Fiscal Policy			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Implications of the indicative HYEFU 2025 fiscal forecasts for your fiscal strategy

Executive summary

A slower forecast pace of the economic recovery compared to the Budget Economic and Fiscal Update (BEFU) and other fiscal developments are expected to result in a deeper fiscal deterioration with downward revisions to the operating balance before gains and losses excluding ACC (OBEGALx) ranging around $1 - $2 billion per annum. This results in the OBEGALx forecast surplus date moving out by one year to 2029/30. We now expect a deficit of around $0.9 billion in 2028/29, compared to the $0.2 billion surplus forecast at BEFU. This is based on an indicative update to the fiscal forecasts that will be finalised on 25 November, and indicative numbers could move by plus or minus $500 million. This means that there is likely to be a two-year gap between your intention to return to surplus (2027/28) and the forecast return to surplus. Therefore, based on current forecasts, it will be challenging to achieve your fiscal strategy.

However, we recommend the current fiscal settings are maintained. We do not think that now is the right time to take action to correct this deterioration given the large amount of spare capacity in the economy. We also do not recommend additional fiscal stimulus at this stage, as monetary policy still has space to respond, and it would further delay the necessary return to structural surplus.

We do not think you should announce a revision in your fiscal strategy at the Budget Policy Statement (BPS), given the large degree of uncertainty, and the scale of reduction in allowances that would be required to bring 2028/29 into surplus. You will have more information prior to Budget 2026 on the pace of the economic recovery, and the ability to continue to deliver low net allowances. However, given that the forecast return to surplus is likely to move out by a year, and the size of the downward revision to OBEGALx, we recommend you continue to acknowledge at the BPS that you are taking a medium-term approach to fiscal consolidation, and that you will decide at Budget 2026 whether any revision is warranted.

We will provide further advice on the options for changing your fiscal strategy at Budget 2026 early next year to inform discussions with Budget Ministers. This will include advice on the design of fiscal targets, including whether to move away from a point target and to include commitments that upside surprises will be saved to improve the fiscal trajectory. We will also provide further advice on the capital pipeline and future capital allowances.

You need to set new operating and capital allowances for Budget 2029 at the BPS, as 2029/30 will be included in the Half Year Economic and Fiscal Update (HYEFU) forecast period. In line with not changing your fiscal strategy at the BPS, we recommend you set an operating allowance of $2.4 billion for Budget 2029 and keep allowances for Budgets 2026-28 unchanged at $2.4 billion at this stage. We recommend that you set a $3.5 billion capital allowance for Budget 2029, in keeping with your capital allowance for Budgets 2026 to 2028. Given uncertainty about when and how strongly the economy will recover, and how feasible lower allowances will be in the context of expenditure pressures, we think a wait-and-see approach is appropriate to gauge changes to future allowances, informed by further work being done by Treasury.

Treasury Report: Implications of the indicative HYEFU 2025 fiscal forecasts for your fiscal strategy

Purpose of report

1. This report gives you an overview of the indicative fiscal forecasts and what that means for your fiscal strategy. It seeks your decisions on what allowances to set for the Budget Policy Statement (BPS) and Half Year Economic and Fiscal Update (HYEFU).

Background

2. At Budget 2025, you kept your short-term fiscal intentions unchanged, including to return the operating balance before gains and losses excluding ACC (OBEGALx) to surplus by 2027/28. The 2025 Budget and Fiscal Update (BEFU) forecasts showed a deficit of $3.1 billion for 2027/28 and a small ($0.2 billion) surplus in 2028/29, one year later than your target. Keeping the intention unchanged despite this discrepancy was in line with Treasury's advice, as forecasting uncertainty and future fiscal decisions meant the target remained achievable. You have communicated your fiscal strategy as taking a medium-term approach to consolidation meaning that the Government will not over-react to forecast movements.

We are forecasting a slower pace of economic recovery than at BEFU

3. The economy is recovering at a slower pace than forecast at BEFU (T2025/2766 refers). As a result, there is more spare capacity in the economy than we previously estimated, with the largest negative output gap since 1993. This is a Treasury estimate that is subject to change and may differ from other forecasters (e.g., the Reserve Bank) given uncertainty about real-time estimates. We assess that most of the weaker-than-expected outturns over the first half of 2025 reflects a deeper economic cycle.

4. The downgrade in the economic outlook has flowed through to slightly lower tax forecasts in the near term and higher expenditure. Treasury's advice continues to be that you do not offset the impacts of automatic stabilisers, which implies you should look through the cyclical deterioration in fiscal forecasts since BEFU. More details on the deterioration in key fiscal indicators are outlined in the next section.

5. The pace of the economic recovery has surprised on the downside over successive forecast rounds. This is due to elevated levels of global uncertainty, weak labour productivity, lower net migration inflows, and household and business balance sheets that are still slowly recovering from years of high interest rates and elevated living costs.

6. While most of the deterioration since BEFU has been due to cyclical reasons, there are also structural factors. There has been a structural OBEGALx deficit since 2022/23, which will not narrow on its own as the economy recovers.

Indicative updated fiscal forecasts show a deterioration

7. The slower economic recovery now expected and other forecast developments translate to a deeper fiscal deterioration and a delay in its recovery. While we are still in the process of finalising the forecasts, an indicative update suggests the OBEGALx deterioration is likely to range around $1 - $2 billion per annum. We expect the forecast OBEGALx surplus will move out a year to 2029/30, with a deficit of around $0.9 billion in 2028/29, compared to the $0.2 billion surplus forecast for 2028/29 at BEFU (Table 2). The fiscal forecasts will be finalised on 25 November, and while numbers are likely to move around as we do quality assurance, the trajectory across years is unlikely to change. The delays in finalising the forecasts are due to data quality issues.

8. Table 1 illustrates the revisions expected to OBEGALx and net core Crown at HYEFU. We expect that the indicative forecasts for key indicators noted below could move by plus or minus $500 million, given where we are at in the process of preparing our forecasts. We intend to communicate some near-final numbers to you by the week ending 21 November.

Table 1: Indicative update to OBEGALx and net core Crown debt

	Actual	**Forecast**				
Year ended 30 June	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
OBEGALx ($billions)						
Half Year Update 2025 (indicative)	(9.3)	(13.8)	(10.3)	(5.1)	(0.9)	2.3
Budget Update 2025		(12.1)	(8.1)	(3.1)	0.2	
Total change		**(1.8)**	**(2.2)**	**(2.0)**	**(1.1)**	
OBEGALx (% of GDP)						
Half Year Update 2025 (indicative)	(2.1)	(3.0)	(2.2)	(1.0)	(0.2)	0.4
Budget Update 2025		(2.6)	(1.7)	(0.6)	0.0	
Percentage point change		**(0.4)**	**(0.4)**	**(0.4)**	**(0.2)**	
Net core Crown debt ($ billions)						
Half Year Update 2025 (indicative)	182.2	196.8	220.3	235.1	245.9	252.6
Budget Update 2025		200.2	218.4	230.2	238.5	
Total change		**(3.4)**	**1.9**	**4.8**	**7.4**	
Net core Crown debt (% of GDP)						
Half Year Update 2025 (indicative)	41.8	43.3	46.0	46.8	46.7	45.8
Budget Update 2025		43.9	45.7	46.0	45.5	
Percentage point change		**(0.6)**	**0.3**	**0.8**	**1.2**	

9. The initial downward revision largely reflects the impact of the economic conditions on tax revenue and benefit expenses. The revisions are due to developments in economic and fiscal data rather than changes in our judgements. While the growth in forecast tax revenue is initially slower (because of the deeper downturn), stronger growth later in the forecast period means forecast tax revenue is largely unchanged by 2028/29. In contrast, higher benefit expenses (e.g., due to higher unemployment and CPI), increases in debt impairments owing to the weaker economic environment, and lower Emissions Trading Scheme (ETS) net revenue (due to changes in carbon prices and auction volumes) have resulted in a deterioration in OBEGALx across all years of the forecast period.

10. The OBEGALx deficit is expected to widen in the current year (2025/26) to approximately $13.8 billion, compared to the outturn from 2024/25 of $9.3 billion. This reflects soft growth in tax revenue, while growth in core Crown expenses remains somewhat elevated. The OBEGALx deficit starts to narrow from 2026/27. The improvement in OBEGALx over the forecast period is underpinned by growth in tax revenue as economic activity picks up and more modest growth in core Crown expenses is expected.

11. In contrast, net core Crown debt is expected to continue to rise over most of the forecast period, peaking at just below 47% of GDP in 2027/28 (compared to a peak of 46% of GDP at BEFU), before declining over the rest of the forecast period.

Table 2: Impact of indicative fiscal update on short-term fiscal intentions

Indicator	Short-term Intention	Indicative Half Year Update
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.	The peak in net core Crown debt is likely to be higher at just below 47% of GDP in 2027/28, largely driven by the deterioration in the operating balance. We expect net core Crown debt to fall later in the forecast period.
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 2027/28. Ensure consistency with the short-term intention for debt.	The forecast surplus date is likely to move out by one year to 2029/30, resulting in a two-year gap between your intention and the forecast. The indicative forecasts have a $0.9 billion deficit for 2028/29 compared to the small $0.2 billion surplus forecast for 2028/29 at BEFU. An indicative $2.3 billion surplus is expected for 2029/30.
Expenses	Reduce core Crown expenses as a percentage of GDP. Ensure expenses are consistent with the operating balance intention.	Core Crown expenses will show a broadly similar track compared to the Budget Update and will be close to 30% of GDP by the end of the forecast period.

Indicator	Short-term Intention	Indicative Half Year Update
Revenue	Ensure revenue is consistent with the operating balance intention.	Core Crown revenue will be weaker in the near term but will be broadly unchanged in the back end of the forecast period.
Net worth	Maintain net worth at around 40 per cent of GDP.	Net worth will likely be weaker than BEFU, reflecting the downward revisions to the operating balance. Net worth is likely to be close to 30% of GDP by the end of the forecast period.

On current forecasts, it will be challenging to achieve your fiscal strategy

Indicative fiscal forecasts suggest the forecast OBEGALx surplus will move out to 2029/30

12. At Budget 2025, we advised not changing your fiscal strategy, as forecasting uncertainty and future fiscal decisions meant the target remained achievable. Since then, there has been a moderate deterioration in the forecasts. There is now likely to be a two-year gap between the indicative forecast return to surplus (2029/30) and your intention (2027/28).

13. We have previously analysed historic forecast variations for OBEGAL. Forecast variations two to three years out are quite large, reflecting uncertainties about economic activity, revenue, and expenditure decisions. We estimate that there is approximately a 25% chance that OBEGAL will be $5 billion higher than forecast in 2027/28, based on historic forecast variations. Given our indicative fiscal forecasts, we expect a forecast variation of this magnitude would be required to return OBEGALx to surplus in 2027/28.

14. This analysis assumes managing within your existing operating and capital allowances. There are challenges to achieving a sustained low level of net allowances, including:

- **The scale of upcoming cost pressures.** [33]

- **Funding for Government priorities.** [1] and [33]

- **The scale of required savings.** Based on your decisions on Budget 2026 Invitations, savings and reprioritisation of [37] will be required to balance spending pressures for Budget 2026 (refer T2025/2753). Extrapolating from Budget 2026 pressures, depending on the scale of funding required for manifesto commitments and other government priorities we estimate you will need to find average savings of $2 - $3 billion p.a. each Budget to deliver within your existing $2.4 billion allowances.

- **The capital expenditure pipeline.** Capital intentions suggest a step change in the level of ambition for future capital investment. Illustrative modelling of the capital pipeline highlighted that this level of investment is not compatible with your fiscal strategy (T2025/2432 refers).

- **The high degree of Specific Fiscal Risks (SFRs).** These risks are not currently captured in our forecasts and are skewed to the downside. Large SFRs include planned transport investment and support for the National Land Transport Fund, the Waikato Medical School, and international climate financing commitments, including commitments under the Paris Agreement.

We recommend current fiscal settings are maintained

Reducing expenditure to achieve your current short-term intention risks lowering aggregate demand during a downturn

15. Despite forecasts that will show you are not on track to meet your surplus intention, we do not recommend reducing your allowances at the BPS to improve the fiscal trajectory. Reductions in spending, especially in 2026/27, could further depress weak demand and exacerbate the large negative output gap. The economic impacts of additional fiscal consolidation would be determined by the scale, composition, and timing of the consolidation. The earlier the additional consolidation, the larger we would expect the negative economic impact to be given the larger output gap and monetary policy lags. If additional consolidation is undertaken now in response to worsening economic conditions, this could offset automatic stabiliser effects, thereby worsening the output gap.

16. We also recommend against providing fiscal stimulus by increasing allowances in the near term to fund a greater share of cost pressures or delay savings measures. A change to a more expansionary fiscal policy would risk generating an offsetting monetary policy response and would further delay the necessary return to a structural surplus. Monetary policy still has space to ease further and is better placed to manage the business cycle.

We therefore recommend current fiscal settings are maintained for now

17. This would imply retaining the current $2.4 billion operating allowance for Budget 2026 and beyond, for now, as this strikes an appropriate balance between progressing fiscal consolidation and avoiding further worsening the economic cycle. On current forecasts, reductions in allowances later in the forecast period would not have the same economic impacts. However, given uncertainty about when and how strongly the economy will recover, and how feasible lower allowances will be in the context of expenditure pressures, we think a wait-and-see approach is appropriate to gauge changes to future allowances, informed by further work being done by Treasury.

Given uncertainty, we recommend maintaining a wait-and-see approach at the BPS

18. We do not think you should announce a revision in your fiscal strategy at the BPS. Given that OBEGALx is likely to be in deficit by around $0.9 billion in 2028/29, you would need to either undertake a reduction in allowances to bring 2028/29 into surplus (of around $0.5 billion per Budget for Budgets 2027 and 2028) or delay the surplus target date by two years for it to align with forecasts. Given the deterioration in core Crown net debt to GDP and net worth, you may also wish to make changes to your debt and net worth intentions. We recommend this decision is delayed until Budget 2026.

19. Prior to Budget 2026, you will have better information on how the economy has evolved, including whether the recovery has gained momentum, a clearer picture of whether Budget 2026 can be delivered within allowances, and more information on proposed capital investments. Delaying any change until Budget 2026 will enable you to make a better-informed decision about the trade-off between cyclical stabilisation and fiscal sustainability.

20. Given that the indicative forecast return to surplus has moved out by a year, and the size of the downward revision to OBEGALx in 2027/28, we recommend you continue to acknowledge at the BPS you are taking a medium-term approach to fiscal consolidation, will not over-react to forecasts, and that you will look at options in the lead up to the Budget to consider whether any further action is warranted.

Structural reforms needed to demonstrate progress to achieving your strategy

If you want to keep your fiscal strategy and demonstrate immediate progress towards it, we recommend you reconsider bringing forward reform programmes

21. The Treasury’s past advice has been to pursue a gradual fiscal consolidation that includes a mix of measures to increase revenue, reform transfers and subsidies, and reduce government consumption, alongside more active balance sheet management (see for example T2025/684, T2025/1119). On the expenditure side, Treasury has advised in favour of structural reforms to policy settings to reduce expenditure. You have agreed to focus on significant policy areas over the medium term.

22. Budget 2026 is currently targeting [37] of savings and reprioritisation via welfare reform, a baseline reduction for most agencies, [33] Reducing expenditure faster to achieve a higher level of savings would require accelerating medium-term reforms where the necessary policy levers are in place for implementation (see Table 3 below). Given the size of the required adjustment needed over a short period, there are few options. [33]

[33]

Allowances for Budget 2029

23. You need to set new operating and capital allowances for Budget 2029 at the BPS, as 2029/30 will be included in the HYEFU forecast period.

24. In line with not changing your fiscal strategy at the BPS, we recommend you set an operating allowance of $2.4 billion for Budget 2029 and keep allowances for Budgets 2026-28 unchanged at $2.4 billion at this stage. We consider that sticking to existing allowances, at least for Budget 2026, while letting automatic stabilisers adjust to the economic cycle, appropriately balances the need to make progress on fiscal consolidation with the risk that reducing allowances further weakens aggregate demand. In addition, as outlined in the previous section, delivering within existing allowances will already be challenging.

25. We recommend that you set a $3.5 billion capital allowance for Budget 2029, in keeping with your capital allowance for Budgets 2026 to 2028. We will provide further advice on the capital pipeline for Budgets 2027-2029 in early 2026, which will include advice on future capital allowances.

Further work from the Treasury

26. As the surplus intention year is getting closer, ahead of Budget 2026 we will provide you with further advice on your fiscal strategy considering updated forecasts, our assessment of the structural position, and the merits of alternate specification. This will be supported by work we're doing in the next few months, including:

    - Bottom-up analysis to determine the level of savings, spending restraint, or revenue changes that would be required to live within allowances over Budgets 2027 to 2029 or to provide a faster pace of consolidation than in the indicative forecasts to meet your current fiscal strategy.

    - The proposed sequencing and prioritisation of capital investments in Budgets 2027-29, the changes needed to ensure that the forward pipeline can be delivered and monitored effectively (including Investment Management System improvements), funding and financing (including the balance sheet), and the implications for future capital allowances, the fiscal strategy, and the macroeconomy.

    - A review of the appropriate fiscal intentions. This will include advice on the design of fiscal targets, including whether to move away from a point target and to include commitments that upside surprises will be saved to improve the fiscal trajectory.

27. We will provide advice to you on these issues in the lead-up to Budget 2026.

Next steps

28. You are meeting with officials to discuss this report at a Weekly Agency Meeting on 19 November.

29. The fiscal forecasts will be finalised on 25 November, with an indicative update on the near-final forecasts provided to you on 20 November. In addition, this report will seek your agreement on the fiscal management treatment of some savings that have been identified through the preparation of the fiscal forecasts (e.g., a reduction in Kāinga Ora forecast expenses). For these decisions and your budget allowances to be included in the final fiscal forecasts, we seek your decisions by 24 November.

Table 4: Key dates for the BPS and HYEFU

Date	Milestone
19 November	Weekly Agency Meeting discussion on the fiscal strategy.
20 November	Advice covering the HYEFU narrative and near-final fiscal forecasts.
25 November	Fiscal forecasts finalised. Advice on Specific Fiscal Risks for HYEFU.
26 November	Weekly Agency Meeting discussion on the fiscal outlook and HYEFU narrative.
27 November	Advice on the final fiscal forecasts (including the cyclically adjusted balance and the fiscal impulse). Lodge the BPS Cabinet paper.
1 December	Cabinet considers the BPS Cabinet paper.
5 December	Receive final version of the BPS and HYEFU.
8 December	Minister of Finance sign-off on the BPS.
9 December	Minister of Finance sign-off on the HYEFU Statement of Responsibility.
16 December	HYEFU and BPS published.

Recommended actions

We recommend that you:

a **note** that indicative HYEFU fiscal forecasts show a deterioration since BEFU, with the OBEGALx forecast surplus year moving out by one year to 2029/30.

b **note** that based on current forecasts, you are not on track to achieve your fiscal strategy.

c **agree** to keep your fiscal strategy unchanged at the BPS.

Agree/disagree.

d **note** that Treasury will do more work in the following months to support your decision about whether and how to revise your fiscal strategy at Budget 2026.

e **agree** to set the operating allowance for 2029/30 at $2.4 billion or specify: ________

f **agree** to set the capital allowance for 2029/30 at $3.5 billion or specify: ________

Simon McLoughlin
Manager, Macroeconomic and Fiscal Policy

Hon Nicola Willis
Minister of Finance

_____/_____/_______