The Treasury

Budget 2026 Information Release

September 2026

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[26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

[27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest

[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

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

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

[40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

[41] 18(d) - information requested is or will soon be publicly available

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Budget Economic and Fiscal Update 2026 - Preliminary Fiscal Forecast

Date:	6 March 2026	**Report No:**	T2026/385
		File Number:	BM-1-2-3-2026-1-M134526

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Note** the contents of this report **Discuss** with officials on 9 March 2026	Monday 9 March 2026

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Jess Grant	Senior Government Reporting Accountant, Fiscal Reporting	[39]	N/A (mob)	✓
Kamlesh Patel	Deputy Chief Government Accountant, Fiscal Reporting		N/A (mob)	

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: Budget Economic and Fiscal Update 2026 - Preliminary Fiscal Forecast

Executive summary

This Treasury Report provides a summary of the Treasury's 2026 Budget Economic and Fiscal Update (*Budget Update)* preliminary fiscal forecasts which were completed on Thursday 5 March 2026.

The preliminary fiscal forecasts show the Government's fiscal outlook is expected to gradually recover over the forecast period. The operating balance before gains and losses excluding ACC (OBEGALx) deficits are expected to narrow, returning to a broadly balanced position by 2028/29, while net core Crown debt as a share of GDP starts to fall by the back end of the forecast period. The recovery in the fiscal outlook is now expected to be at a slightly faster pace compared to the 2025 Half Year Economic and Fiscal Update (*Half Year Update)*.

Despite a slight reduction in our real GDP growth forecasts, stronger price growth has resulted in an increase in nominal GDP growth. This has resulted in an upward revision to our tax revenue and benefit expense forecasts. Overall, the changes in the economic outlook since the *Half Year Update* have had a favourable impact on the preliminary fiscal outlook.

Our preliminary fiscal forecasts include updated judgements around the [33] and a new judgement around an appropriation funding shortfall for Community Housing Providers (including Kāinga Ora). Both of these judgements have had an adverse impact to our forecasts of OBEGALx. You will have opportunities through the budget process to make decisions that could reduce the fiscal implications of these matters currently reflected in the preliminary forecasts.

Overall, we expect OBEGALx to improve by an average of around $0.8 billion per year compared to the *Half Year Update*, while net core Crown debt as a share of GDP peaks just over 1.0% lower and by the end of the forecast period is around 1.5% below what was previously expected.

Our preliminary fiscal forecasts are based on several key assumptions and judgements which are outlined in this report. In addition to the above-mentioned judgements there have also been some changes in relation to our judgements in relation to [37] and the divestment of the Te Pae Christchurch Convention Centre which have impacted the fiscal forecasts. Most other key assumptions and judgements are broadly consistent with those used in the *Half Year Update*.

The Treasury's final fiscal forecasts for the *Budget Update* are due to be finalised on Wednesday 6 May 2026. At this stage we expect most material changes made to our forecasts will be due to the fiscal impacts from the updated economic forecasts (final forecasts are due to be completed on 1 April) and decisions through the Budget process. Initial scenarios that illustrate the potential impact of the conflict in the Middle East on the New Zealand economy have been provided to you today.

Treasury Report: Budget Economic and Fiscal Update 2026 - Preliminary Fiscal Forecast

Purpose of Report

1. This report presents the preliminary fiscal forecasts for the 2026 Budget Economic and Fiscal Update *(Budget Update)* which were completed on Thursday 5 March 2026. They reflect the fiscal implications of the preliminary economic forecasts (completed on Thursday 5 February 2026), baseline changes sought through the March Baseline Update, Government decisions taken since the Treasury's 2025 Half Year Economic and Fiscal Update *(Half Year Update)* and any other new developments.

2. One of the key purposes of our preliminary fiscal forecasts is to assist Minister's with decisions through the Budget process. For this forecast round we are providing our preliminary fiscal forecasts earlier than usual to support upcoming bilateral discussions you have on Budget initiatives. This has meant we have run a more compressed process, which could heighten the chances of greater revisions to our final fiscal forecasts.

3. The preliminary fiscal forecasts are also useful to bring to light issues that you may need to consider through Budget. This report brings to your attention issues around funding gaps emerging in the health, housing and transport sectors.

4. The final fiscal forecasts for inclusion in the *Budget Update* will be completed on Wednesday 6 May 2026. We have outlined in this report some of the factors we think could materially change our current view of the fiscal outlook.

Overview of the preliminary fiscal forecasts

5. The Government's fiscal outlook is expected to recover over the forecast period, with OBEGALx deficits expected to narrow and return to nearly being in balance by 2028/29. Net core Crown debt as a share of GDP peaks in 2027/28 and then starts to decline over the back end of the forecast period.

6. A summary of key fiscal indicators is outlined in Table 1 and Annex Two provides a time series of the fiscal indicators.

Table 1 – Summary of the key fiscal indicators (preliminary)

Year ended 30 June	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
$ billion						
Core Crown tax revenue	121.7	124.8	133.9	142.4	150.6	158.2
Core Crown expenses	141.7	148.1	153.3	158.5	163.3	168.6
OBEGAL excluding ACC	(9.3)	(13.0)	(9.3)	(4.4)	(0.1)	2.6
Core Crown residual cash	(6.0)	(11.7)	(22.7)	(13.4)	(9.4)	(5.2)
Net core Crown debt	182.2	194.2	217.2	231.0	240.4	245.9
Operating balance	(4.4)	(2.8)	(5.4)	0.1	5.1	8.2
Net worth	189.1	186.0	192.9	193.3	198.6	206.7
% of GDP						
Core Crown tax revenue	28.0%	27.4%	27.9%	28.2%	28.5%	28.7%
Core Crown expenses	32.6%	32.5%	31.9%	31.4%	30.9%	30.6%
OBEGAL excluding ACC	(2.1%)	(2.9%)	(1.9%)	(0.9%)	(0.0%)	0.5%
Core Crown residual cash	(1.4%)	(2.6%)	(4.7%)	(2.7%)	(1.8%)	(1.0%)
Net core Crown debt	41.9%	42.7%	45.2%	45.7%	45.5%	44.6%
Operating balance	(1.0%)	(0.6%)	(1.1%)	0.0%	1.0%	1.5%
Net worth	43.5%	40.9%	40.2%	38.3%	37.6%	37.5%

The OBEGALx deficit is expected to widen in the current year…

7. The OBEGALx deficit is expected to widen in 2025/26 to $13.0 billion, compared to a deficit of $9.3 billion at 30 June 2025. The deterioration in the current year is underpinned by modest growth in nominal tax revenue which is outpaced by somewhat elevated growth in nominal core Crown expenses.

8. Core Crown tax revenue is expected to increase in nominal terms by $3.1 billion in the current year. In contrast, core Crown expenses are expected to grow at over twice that amount to be $6.4 billion higher than the year prior. Although core Crown expenses are expected to increase in nominal terms, they remain relatively static as a share of GDP. The growth in core Crown expenses is predominately due to:

   - An increase in benefit payments of $2.2 billion. New Zealand Superannuation payments contribute $1.6 billion towards this increase, reflecting a combination of an increase in the number of recipients and indexation of payments. Due to the indexation of payments, most other main benefit types have also increased, and some have also been impacted by an increase in recipient numbers (e.g. Job Seeker Support and Supported Living Payments).

   - Decisions from Budget 2025 were expected to increase expenses by $2.2 billion in the current year, with the majority of this funding going into the health sector.

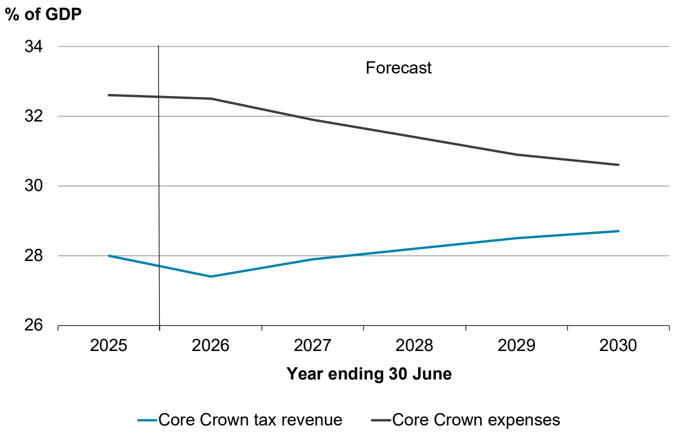
   - A one-off impairment expense of $0.7 billion is expected to be recognised in the current year in relation to the ownership intentions of the investment in the City Rail Link project (refer paragraph 55).

   - Most of the remaining increase in core Crown expenses will be driven by tagged contingencies set up in past Budgets that are yet to be drawn down and the impact of expense rephasing (e.g. expense transfers) with the full impact being partly offset by our top-down adjustment in the current year.

… but then starts to recover over the remainder of the forecast period

9. After 2025/26, the OBEGALx deficit is forecast to gradually improve over the remainder of the forecast period by an average of $3.9 billion per annum, returning to be broadly balanced by 2028/29. The improvement is largely reflective of a relatively stable growth in core Crown tax revenue, while in contrast, growth in core Crown expenses is expected to decline. Figure 1 illustrates this.

Figure 1 – ***Core Crown tax revenue and core Crown expenses as a % of GDP***



Source: The Treasury

10. Core Crown tax revenue in nominal terms is expected to increase each year after 2025/26. The year-on-year growth is across most tax types mainly owing to salary and wage growth, fiscal drag, improvement in net operating surplus, increases in consumption and the commencement of increases to fuel excise and road user charge rates.

11. Core Crown expenses are also expected to increase each year; however, the growth is much more subdued than in recent years. As a result, core Crown expenses as a percentage of GDP fall from 32.5% in the current year to 30.6% by 2029/30. A large part of the decline is owing to the Budget operating allowances set aside for future budgets which are smaller than in recent times. In nominal terms, core Crown expenses are expected to increase by $20.5 billion from 2026/27 through to 2029/30. The indexation of most main benefit types, increases in New Zealand Superannuation recipients, higher finance costs from increases in funding requirements and the funding set aside for future Budgets largely drive the increase.

Residual cash follows a similar recovery path to OBEGALx…

12. Looking through the impacts of the Funding for Lending Programme (FLP), which was fully repaid in December 2025, like OBEGALx, the core Crown residual cash deficit is expected to widen in the current year. Residual cash deficits are expected to peak at $22.7 billion in 2026/27 before slowly narrowing over the remainder of the forecast period.

13. The accumulated cash deficits across the forecast period total $62.5 billion (or $70.2 billion without the FLP repayments). Of the accumulated cash deficits, $3.7 billion relates to a shortfall in net core Crown operating cash flows, while net capital spending totals $58.8 billion. This indicates the majority of the accumulated residual cash deficit reflects spending on capital investments. It is expected that by 2028/29 core Crown operating cash inflows will be sufficient to cover core Crown operating cash outflows.

14. While both residual cash and OBEGALx are expected to recover beyond the forecast period, timing differences between tax revenue and tax receipts, along with capital spending profiles will mean the level of recovery in each year for these indicators differ.

… where most of the accumulated residual cash position flows through to increase net core Crown debt …

15. Net core Crown debt is expected to grow in nominal terms across the forecast period, reaching $245.9 billion by 2029/30. This is $63.7 billion higher than at 30 June 2025 and largely reflects the funding requirement to meet the overall cash deficits mentioned above. As a percentage of GDP, net core Crown debt is expected to peak at 45.7% in 2027/28, before gradually declining to 44.6% by 2029/30.

… while net worth recovers from 2026/27 and tracks upward over the remainder of the forecast period.

16. By the end of the forecast period, net worth is forecast to be $206.7 billion, an increase of $17.6 billion since 30 June 2025. This increase predominately relates to the cumulative operating balance results over the forecast period of $5.1 billion and the one-off impact related to the adoption of Public Benefit Entity International Financial Reporting Standard 17 Insurance Contracts (PBE IFRS 17) in 2026/27 of around $12.2 billion. Net worth is expected to fall from 43.5% of GDP at 30 June 2025 to 37.5% of GDP in 2029/30, reflecting that the growth in the economy outpaces the growth in net worth across the forecast period.

17. As signalled in recent Specific Fiscal Risk chapters public sector entities with insurance contracts (e.g. ACC and National Hazards Commission) are required to implement PBE IFRS 17 from the 2026/27 fiscal year. The adoption of the new standard has resulted in a significant reduction of ACC's insurance liability with a corresponding increase to net worth. This is due to a reduction in the risk margin added to the outstanding claims liability and the requirement to include an illiquidity premium to the discount rate. The fiscal impact from the change on the National Hazards Commission liability is relatively minimal.

18. Looking through the one-off impact of adopting PBE IFRS 17, net worth initially trends downward before slowly recovering as operating balance surpluses from 2027/28 flow through to increase nominal net worth.

Key changes since the 2025 Half Year Economic and Fiscal Update

The fiscal outlook has improved since the Half Year Update

19. Most key fiscal indicators are expected to be stronger compared to the *Half Year Update*. OBEGALx is on average around $0.8 billion per annum stronger than previously expected. A large part of the improvement in OBEGALx has translated in a smaller accumulated cash shortfall, resulting in net core Crown debt as a share of GDP peaking at a lower level and by the end of the forecast period is 1.5% lower compared to the Half Year Update.

Table 2 – Changes in key fiscal indicators compared to the *Half Year Update*

Year ended 30 June	Actual 2024/25	Forecast 2025/26	2026/27	2027/28	2028/29	2029/30
OBEGALx ($billions)						
Budget Update 2026 - preliminary	(9.3)	(13.0)	(9.3)	(4.4)	(0.1)	2.6
Half Year Update 2025		(13.9)	(10.4)	(5.1)	(0.9)	2.3
Total change		**0.9**	**1.1**	**0.7**	**0.8**	**0.3**
Core Crown residual cash ($billions)						
Budget Update 2026 - preliminary	(6.0)	(11.7)	(22.7)	(13.4)	(9.4)	(5.2)
Half Year Update 2025		(14.8)	(23.2)	(14.3)	(10.7)	(6.6)
Total change		**3.1**	**0.5**	**0.9**	**1.3**	**1.4**
Net core Crown debt ($ billions)						
Budget Update 2026 - preliminary	182.2	194.2	217.2	231.0	240.4	245.9
Half Year Update 2025		197.0	220.6	235.7	246.8	253.9
Total change		**(2.8)**	**(3.4)**	**(4.7)**	**(6.4)**	**(8.0)**
Net core Crown debt (% of GDP)						
Budget Update 2026 - preliminary	41.9	42.7	45.2	45.7	45.5	44.6
Half Year Update 2025		43.3	46.0	46.9	46.9	46.1
Percentage point change		**(0.6)**	**(0.8)**	**(1.2)**	**(1.4)**	**(1.5)**
Net worth (% of GDP)						
Budget Update 2026 - preliminary	43.5	40.9	40.2	38.3	37.6	37.5
Half Year Update 2025		40.2	36.7	34.9	34.1	34.0
Percentage point change		**0.7**	**3.5**	**3.4**	**3.5**	**3.5**

Overall, the updated economic outlook has improved the fiscal outlook

20. You recently received advice on the preliminary economic forecasts [T2026/209 refers] which showed slower economic growth over the forecast period. However, stronger growth in prices, due to higher near-term inflation and strengthening terms of trade over the forecast period lifted nominal GDP compared to the *Half Year Update*.

21. As a result of increased nominal GDP, combined with recent strength in tax revenue, tax revenue forecasts have been revised up by $0.6 billion in the current year and then on average by around $2.0 billion per year over the rest of the forecast period.

22. The higher near-term inflation track has resulted in an upward revision to benefit expenses in all years of the forecast period. Most of the revisions relate to benefits administered by the Ministry of Social Development. Overall, the upward revisions total $1.1 billion across the forecast period, with 70% of this increase coming from a higher CPI and wage growth track.

23. As most government expenditure is fixed, baselines are not automatically adjusted for inflation. The higher near-term inflation track could result in more of the future operating allowances being needed to cover cost pressures from increased prices.

24. While the preliminary economic forecasts showed a higher interest rate track this has not translated to an increase in net finance costs. The impact from higher interest rates has been more than offset by the reduction in funding requirements which will flow through to reduce net finance costs and changes in the financial instrument mix.

Judgements on funding gaps have had an adverse impact on the fiscal outlook

25. The preliminary forecasts have required some judgements on the treatment of funding gaps identified in the health and housing sectors. These judgments have had an adverse impact on OBEGALx compared to the *Half Year Update*, reaching an impact of just over $1.0 billion by 2029/30. You have options that could reduce the impact of these adjustments. Further details of these adjustments are outlined in paragraph 33 to 41.

There are several other smaller forecast changes that have impacted OBEGALx

26. Table 3 summarises the main drivers of the changes in OBEGALx compared to the Half Year Update.

Table 3 – Changes in OBEGALx compared to the *Half Year Update*

Year ended 30 June **$billions**	**2025/26** **Forecast**	**2026/27** **Forecast**	**2027/28** **Forecast**	**2028/29** **Forecast**	**2029/30** **Forecast**	**5-year** **Total**
OBEGALx - Half Year Update 2025	**(13.9)**	**(10.4)**	**(5.1)**	**(0.9)**	**2.3**	**(28.0)**
Core Crown tax revenue	0.6	1.7	2.1	2.2	1.6	8.2
Core Crown benefit expenses	0.1	(0.1)	(0.2)	(0.3)	(0.4)	(0.9)
Net ETS revenue	(0.3)	(0.2)	(0.1)	(0.1)	-	(0.7)
Education and Transport forecast changes	(0.1)	0.0	(0.3)	(0.0)	(0.1)	(0.5)
Expense phasing changes	0.8	(0.2)	0.1	(0.1)	0.0	0.6
Community Housing funding adjustment [33]	0.0	(0.0)	(0.1)	(0.2)	(0.2)	(0.5)
NZSF, SOE and other CE results (excluding ACC)	0.1	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)
Net finance costs	(0.1)	0.1	0.2	0.2	0.3	0.7
Other	(0.1)	0.3	(0.2)	0.0	0.0	0.0
Total movement	[33]					
OBEGALx - Preliminary Budget Update 2026						

27. In addition to the drivers already mentioned there are several other smaller forecasts changes, which include:

- Net ETS revenue is initially lower than previous forecasts reflecting a drop in the market carbon price since the *Half Year Update*. The impact from the drop in price is largely offset by the end of the forecast period as a reduction in the allocation of NZU's is now expected.

- Education and transport forecast changes have resulted in an increase in expenditure since the *Half Year Update*. The education forecast changes are a mix of volume and price changes.

- A number of departments have rephased expenditure, in particular moving expenditure from the current year into future years.

The improvements in OBEGALx largely flow through to residual cash and net core Crown debt

28. Most of the factors driving the change in OBEGALx (apart from the non-cash and SOE/Crown entities results) flow through to smaller residual cash deficits. However, an increase in New Zealand Superannuation Fund (NZSF) contribution has resulted in an increase in capital spending compared to the *Half Year Update*.

29. The forecast capital contributions to NZSF have increased by $1.5 billion in total over the forecast period compared to the *Half Year Update*. Most of this increase was due to higher forecasts of aggregate net (of tax) New Zealand Superannuation expenses, which led to a higher projected net New Zealand Superannuation expenses track which influences the NZSF's contribution rate formula. To a much lesser extent the slightly weaker nominal GDP projection (beyond the forecast horizon) also contributed to the increase.

30. Overall, by the end of the forecast period residual cash is expected to improve by $7.0 billion since the *Half Year Update*. As a result, the bond programme is expected to reduce by around $6.0 billion.

31. Net core Crown debt is now expected to peak at 45.7% of GDP, just over 1% lower than expected at the *Half Year Update*. The lower net core Crown debt track largely reflects a reduction in funding requirements from the overall decrease in residual cash deficits.

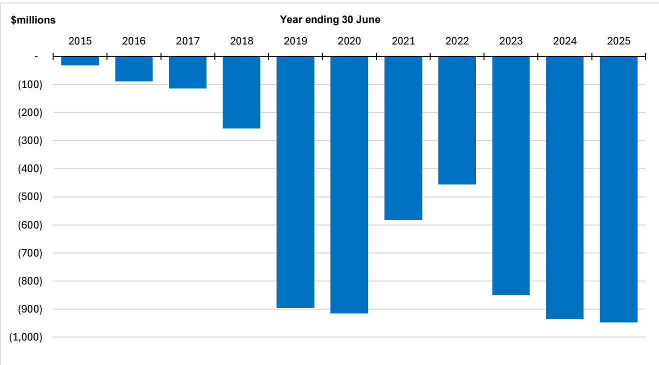
32. Net core Crown debt in the 2029/30 year is expected to be $8.0 billion lower compared to the *Half Year Update*.

Emerging Funding Issues

Health New Zealand has run large deficits and faces the prospect of these continuing. The Ministry and Health New Zealand are advising the Ministry of Health urgently on solutions, but not in time to be reflected in the preliminary forecasts

33. Like District Health Boards before it, Health NZ has generally run large operating deficits. Following the Health NZ "reset" in mid-2024 to address these deficits, its forecasts provided to the Treasury for inclusion in our *Economic and Fiscal Updates* have shown the deficit closing to nil, by no later than the 2026/27 year. [37]

Figure 2 – *Health NZ and DHB historical[1] operating balance*



Source: The Treasury

[1] About $860 million in pay equity settlement costs were required to be recognised by Health NZ as expenditure in 2022/23, with the revenue recognised in 2023/24. Looking through this, the 2022/23 result would be favourable while the 2023/24 result would be unfavourable.

34. [37]

35. The Ministry of Health and Health NZ have been working urgently to provide advice to the Minister of Health by 6 March 2026 on his options for achieving a $400 million deficit, or a smaller “cashflow breakeven” deficit of $214 million (comprising non-cash depreciation expenses), by adjusting various delivery expectations. The goal is for the Minister of Health to be in a position to make specific commitments to you about this at your bilateral with him on 10 March. We will be able to reflect any updates in our final fiscal forecasts.

36. [37]

37.

Appropriations for funding public housing are not sufficient to meet funding agreements

38. Through preparing the preliminary fiscal forecasts we have identified a funding gap that has emerged between the Ministry of Housing and Urban Development (MHUD) and Community Housing Providers (including Kāinga Ora). The amounts currently appropriated to fund Community Housing Providers are lower than the revenue required to deliver services under current policy settings.

39. We have engaged with MHUD who have provided a profile based on agreed policy settings between MHUD and Community Housing Providers, where adjustments have not been made to the appropriation for IRRS recently. This forecast is based on agreed market rental increases and agreed number of social housing places. The funding shortfall grows across the forecast period from $22 million in 2026/27 to $232 million in 2029/30.

40. To ensure our preliminary fiscal forecasts reflect a best estimate of the Government's fiscal outlook we have assumed funding expenditure to Community Housing Providers will need to increase and for now assumed this funding is managed outside of Budget allowances.

41. We understand this has been a known cost pressure which has now become more material for our forecasts. There are choices for Minister's that will need to be worked through prior to finalising the final fiscal forecasts for the *Budget Update*. These costs could be charged against future allowances (pre-committed), included in the Budget 2026 operating package or policy settings could be changed. In addition, IRRS settings are being reviewed through budget, and the current proposal is to increase it to 30%. This would save $91 million across the forecast period. These savings are currently airmarked to go back to the centre but could be used to reduce the ongoing IRRS cost mentioned above. Any one of these options would reduce the impact on the Government's fiscal indicators. We intend to provide you some advice on the fiscal management options shortly.

[33]

Key Assumptions and Judgements

47. The Treasury's fiscal forecasts include a number of judgements and assumptions to ensure our forecasts represent a best estimate of the Government's fiscal performance and fiscal position across the forecast period.

48. The preliminary fiscal forecasts assume Budget operating and capital allowances that were announced by the Government in the *2026 Budget Policy Statement*. At this point they do not capture the implications of draft Budget packages that have been communicated to you.

49. Annex One outlines the material judgements and assumptions made for the preliminary fiscal forecasts which we would like to bring to your attention.

Risks to the Fiscal Forecasts

A number of factors could impact our final fiscal forecasts for the Budget Update…

50. There are a number of factors that are likely to influence our final fiscal forecasts for the *Budget Update*. These include a mix of factors such as changes in the economic outlook, new decisions and any other new developments.

… such as updates to the economic forecasts…

51. The preliminary fiscal forecasts are prepared using the preliminary economic forecasts finalised on Thursday 5 February 2026. The impact of any developments since the date of finalisation, such as global events, are therefore not included in the preliminary fiscal forecasts.

52. The final fiscal forecasts will reflect the implications from the final economic forecasts. This is expected to reflect data releases since completing the preliminary economic forecasts, and the implications of Budget decisions and global events on the economy. In particular, the impact of the developing conflict in the Middle East will be updated in these final forecasts. These impacts are currently highly uncertain and will be assessed ahead of forecast finalisation. Initial scenarios that illustrate the potential impacts of the conflict on the New Zealand economy have been provided to you today.

… and final Budget 2026 decisions

53. The preliminary fiscal forecasts assume a Budget 2026 operating and capital allowance of $2.4 billion and $3.5 billion per annum respectively. Therefore, do not incorporate the proposed future baseline reductions (5% in 2027/28 and 5% in 2028/29). Cabinet will need to endorse a clear programme of work and make a firm commitment to achieving these savings beyond 2026/27 before they can be reflected in our forecasts. Depending on the amount and phasing of the final Budget 2026 package there is a risk the fiscal impact may differ to what is currently assumed in our preliminary fiscal forecasts.

54. As part of the Budget process, Cabinet will also be considering Budget technical initiatives. Although these decisions generally do not have funding implications, they can still have impacts on key fiscal indicators (e.g., rephasing expenses or swaps between operating and capital spending).

While other matters we are aware of could alter our forecast

55. We are aware of items that could potentially impact on the final fiscal forecasts. These include where more up-to-date information becomes available. These items include:

- GPS on Land Transport – the preliminary fiscal forecasts reflect the current 2024-2027 GPS settings. With the development of GPS 2027-2030 in progress, there is a risk that spending profiles between operating and capital expenditure differ in the final *Budget Update* compared to the preliminary fiscal forecasts.

- City Rail Link (CRL) impairment – similar to the *Half Year Update*, the preliminary fiscal forecasts assume the divestment of CRL occurs in 2025/26 (refer paragraph 8). There is a risk that the divestment will shift out a year to 2026/27, with a corresponding shift in impairment expense. We will continue to engage with CRLL and the Ministry of Transport around the timing of the divestment and reflect any updates accordingly in the final fiscal forecasts.

- While the preliminary forecast includes the initial impact from the transition to PBE IFRS 17 ACC are continuing to do work on the implications to future net revenues. Early indications from this work suggests that there is likely to be a reduction in net revenue forecasts compared to the preliminary forecast, which will largely impact the operating balance and net worth indicators. Also, we understand there is work underway reviewing the methodology used to calculate costs in the funding agreement between the Ministry of Health and ACC for Public Health Acute Services. Based on information to date there is expected to be a substantial increase in funding proposed. If agreed this would increase core Crown revenue, which would flow through to OBEGALx. The current timeframes for decisions are expected to occur after the finalisation date of our final forecasts for inclusion in the *Budget Update*. However, you may want to discuss the current timeframes with relevant Ministers if you would like this decision captured in the final fiscal forecasts.

- Updated forecast information – in mid-April SOEs and Crown entities have an opportunity to resubmit their fiscal forecasts to reflect year-to-date results and any new developments since the submission that formed the base of the preliminary forecasts in mid-February. We are aware of a number of entities who intend to resubmit, including significant financial institutions such as NZS Fund and ACC who will incorporate any recent changes in market conditions, which are likely to be impacted by recent global developments.

Next Steps

56. You are scheduled to meet with officials to discuss this report at the Fiscal Matters meeting on Monday 9 March 2026.

57. The preliminary fiscal forecasts form the base for additional fiscal indicators (such as fiscal impulse, cyclically adjusted balance and structural balance) and the medium-term projections. You will receive an update on these indicators as part of our fiscal strategy advice planned for the week ending 20 March 2026.

58. We intend to provide you an update on any material fiscal developments since the completion of our preliminary fiscal forecasts as part of our regular reporting on Budget 2026.

59. The final fiscal forecasts for inclusion in the *Budget Update* are due to be finalised on Wednesday 6 May 2026. We will provide you with a report soon after outlining our final fiscal forecasts.

Recommended actions

We recommend that you:

a **note** that the Treasury's preliminary fiscal forecasts for the *Budget Update* were finalised on 5 March 2026;

b **note** that overall, the recovery in the fiscal outlook has improved since the *Half Year Update,* with most key indicators stronger than previously expected;

c **note** the fiscal forecasts are based on a number of key assumptions that are outlined in Annex One to this report; and

d **note** that the Treasury's final fiscal forecasts for the *Budget Update* are due to be finalised on 6 May 2026 and that there will be a number of factors which will impact these forecasts.

Kamlesh Patel
Deputy Chief Government Accountant

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Annex One – Key Fiscal Forecast Assumptions

The Treasury's fiscal forecasts represent our best estimate of the Government's fiscal position across the forecast period based on the information we have available and our best professional judgement. To guide our judgement, we use a framework to consider when an item should be included in the forecasts. Matters are incorporated into the fiscal forecasts if:

a	a decision has been taken, or a decision has not yet been taken but it is reasonably probable (more likely than not) the matter will be approved; and

b	the matter can be quantified for particular years with reasonable certainty.

Table A – *Key assumptions and judgements within the preliminary fiscal forecasts*

<table>
<tr><th>Assumption</th><th>Judgement</th></tr>
<tr><td>Budget Allowances</td><td>
We made the following allowance assumptions for the preliminary fiscal forecasts.
<table>
<tr><th></th><th>Operating (average)</th><th>Operating allowance available (average)</th><th>Capital</th></tr>
<tr><td>Budget 2026</td><td>$2.4 billion</td><td>$1.0 billion</td><td>$1.8 billion</td></tr>
<tr><td>Budget 2027</td><td>$2.4 billion</td><td>$2.4 billion</td><td>$3.5 billion</td></tr>
<tr><td>Budget 2028</td><td>$2.4 billion</td><td>$2.4 billion</td><td>$3.5 billion</td></tr>
<tr><td>Budget 2029</td><td>$2.4 billion</td><td>$2.4 billion</td><td>$3.5 billion</td></tr>
</table>
Operating
Each Budget operating allowance is assumed to be $2.4 billion per annum. However, our preliminary forecasts reflect an average funding availability for Budget 2026 of $1.0 billion per annum. This reflects the net impact of pre-commitments and savings added back to allowances.
Capital
Each Budget capital allowance is assumed to be $3.5 billion per annum. After taking into consideration pre-commitments, the Budget Update reflects an available allowance of $1.8 billion for Budget 2026.
</td></tr>
<tr><td>The Treasury's top-down adjustment</td><td>
The top-down adjustments (both operating and capital) for the Budget Update preliminary fiscal forecasts largely reflect the rephasing of expenditure by departments.
Budget Update 2026 - prelims
<table>
<tr><th>$millions</th><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>2028/29</th><th>2029/30</th></tr>
<tr><td>Operating</td><td>2,600</td><td>1,000</td><td>650</td><td>600</td><td>600</td></tr>
<tr><td>Capital</td><td>1,050</td><td>1,150</td><td>200</td><td>100</td><td>100</td></tr>
<tr><td>Total</td><td>3,650</td><td>2,150</td><td>850</td><td>700</td><td>700</td></tr>
</table>
Half Year Update 2025
<table>
<tr><th>$millions</th><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>2028/29</th><th>2029/30</th></tr>
<tr><td>Operating</td><td>2,500</td><td>700</td><td>550</td><td>550</td><td>550</td></tr>
<tr><td>Capital</td><td>2,000</td><td>300</td><td>100</td><td>100</td><td>100</td></tr>
<tr><td>Total</td><td>4,500</td><td>1,000</td><td>650</td><td>650</td><td>650</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Change in operating top-down</td><td>100</td><td>300</td><td>100</td><td>50</td><td>50</td></tr>
<tr><td>Change in capital top-down</td><td>(950)</td><td>850</td><td>100</td><td>-</td><td>-</td></tr>
</table>
</td></tr>
</table>

Health New Zealand recovery track	[37]
Te Pae Christchurch Convention Centre	The preliminary fiscal forecasts assume the Crown retains ownership of Te Pae over the forecast period. This is a change from the *Half Year Update* where a contingency was recognised in 2026/27 to reflect the divestment of Te Pae to Christchurch City Council.
ETS auctions – assumed price [37]	**Assumed Price** The preliminary fiscal forecasts reflect ETS transactions at the secondary market price as at 31 January 2026, which was $35.70 per NZU. This is lower than the unit price used for the *Half Year Update* forecasts of $52.74 per NZU (which was based on the 31 October 2025 price). [37]
Rail Network Investment Plan	The Government's commitment to Rail Network Investment Plan (RNIP) means the expected expenditure for the RNIP are included in the fiscal forecasts. However, the Government have only committed funding for the RNIP up to the 2026/27 year. As the Government has not yet made a decision to fund costs in the 2027/28, 2028/29 and 2029/30 fiscal years, our forecasts assume that any costs from the RNIP in those years will be meet from borrowings.

Annex Two – Historical Fiscal Time Series

June years	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
$millions										
Revenue and expenses										
Core Crown tax revenue	97,983	108,458	112,358	120,566	121,698	124,794	133,872	142,360	150,603	158,241
Core Crown revenue	104,968	117,515	123,398	133,220	134,411	137,088	146,387	155,617	164,347	172,554
Total Crown revenue	129,335	141,627	153,011	167,347	169,811	172,079	184,809	195,485	206,493	216,199
Core Crown expenses	107,764	125,641	127,574	138,998	141,675	148,078	153,256	158,469	163,280	168,608
Total Crown expenses	133,722	150,956	161,822	180,061	183,502	187,823	196,041	201,816	208,242	215,299
Operating balance (excluding minority interests)	16,159	(16,932)	5,321	(8,365)	(4,400)	(2,828)	(5,421)	94	5,060	8,213
Fiscal strategy indicators										
OBEGAL (excluding ACC)	(2,559)	(8,664)	(7,199)	(8,773)	(9,306)	(12,991)	(9,281)	(4,419)	(89)	2,590
OBEGAL (excluding minority interests)	(4,560)	(9,691)	(9,446)	(12,854)	(13,973)	(15,957)	(11,415)	(6,693)	(2,199)	464
Core Crown residual cash	(13,767)	(27,043)	(25,648)	(19,302)	(5,996)	(11,703)	(22,749)	(13,437)	(9,367)	(5,238)
Net debt	35,921	61,850	71,367	82,197	88,719	100,838	116,835	123,870	125,350	122,774
Net debt (excl. NZS Fund)	95,188	117,115	136,268	158,255	172,926	193,367	215,284	228,676	236,970	241,605
Gross debt[1]	100,835	118,950	135,789	175,966	203,688	223,708	250,962	266,967	278,209	284,092
Net core Crown debt[2]	102,080	128,873	155,273	175,464	182,171	194,192	217,151	230,980	240,414	245,886
Statement of financial position										
Total assets	438,596	501,844	536,666	570,868	597,976	609,745	635,079	659,003	680,260	701,830
Total liabilities	281,403	327,525	345,194	379,819	408,848	423,712	442,221	465,703	481,707	495,081
Net worth	157,193	174,319	191,472	191,049	189,128	186,033	192,858	193,300	198,553	206,749
Net worth attributable to the Crown	151,469	167,036	183,514	181,818	179,260	176,356	183,182	183,349	188,503	196,752
Nominal expenditure GDP (revised)	343,742	365,308	401,848	420,870	434,768	455,168	479,958	505,359	528,455	551,115
% GDP										
Revenue and expenses										
Core Crown tax revenue	28.5%	29.7%	28.0%	28.6%	28.0%	27.4%	27.9%	28.2%	28.5%	28.7%
Core Crown revenue	30.5%	32.2%	30.7%	31.7%	30.9%	30.1%	30.5%	30.8%	31.1%	31.3%
Total Crown revenue	37.6%	38.8%	38.1%	39.8%	39.1%	37.8%	38.5%	38.7%	39.1%	39.2%
Core Crown expenses	31.4%	34.4%	31.7%	33.0%	32.6%	32.5%	31.9%	31.4%	30.9%	30.6%
Total Crown expenses	38.9%	41.3%	40.3%	42.8%	42.2%	41.3%	40.8%	39.9%	39.4%	39.1%
Operating balance (excluding minority interests)	4.7%	(4.6%)	1.3%	(2.0%)	(1.0%)	(0.6%)	(1.1%)	0.0%	1.0%	1.5%
Fiscal strategy indicators										
OBEGAL (excluding ACC)	(0.7%)	(2.4%)	(1.8%)	(2.1%)	(2.1%)	(2.9%)	(1.9%)	(0.9%)	0.0%	0.5%
OBEGAL (excluding minority interests)	(1.3%)	(2.7%)	(2.4%)	(3.1%)	(3.2%)	(3.5%)	(2.4%)	(1.3%)	(0.4%)	0.1%
Core Crown residual cash	(4.0%)	(7.4%)	(6.4%)	(4.6%)	(1.4%)	(2.6%)	(4.7%)	(2.7%)	(1.8%)	(1.0%)
Net debt	10.4%	16.9%	17.8%	19.5%	20.4%	22.2%	24.3%	24.5%	23.7%	22.3%
Net debt (excl. NZS Fund)	27.7%	32.1%	33.9%	37.6%	39.8%	42.5%	44.9%	45.3%	44.8%	43.8%
Gross debt[1]	29.3%	32.6%	33.8%	41.8%	46.8%	49.1%	52.3%	52.8%	52.6%	51.5%
Net core Crown debt[2]	29.7%	35.3%	38.6%	41.7%	41.9%	42.7%	45.2%	45.7%	45.5%	44.6%
Statement of financial position										
Total assets	127.6%	137.4%	133.5%	135.6%	137.5%	134.0%	132.3%	130.4%	128.7%	127.3%
Total liabilities	81.9%	89.7%	85.9%	90.2%	94.0%	93.1%	92.1%	92.2%	91.2%	89.8%
Net worth	45.7%	47.7%	47.6%	45.4%	43.5%	40.9%	40.2%	38.3%	37.6%	37.5%
Net worth attributable to the Crown	44.1%	45.7%	45.7%	43.2%	41.2%	38.7%	38.2%	36.3%	35.7%	35.7%

1. Excludes Reserve Bank settlement cash and bank bills.
2. Excludes advances.