The Treasury

Budget 2026 Information Release

September 2026

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[7] 6(e)(ii) - to prevent serious damage to the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the regulation of banking or credit

[12] 7(a)(i) - to avoid prejudice to the security or defence of the self-governing State of the Cook Islands

[13] 7(a)(ii) - to avoid prejudice to the security or defence of the self-governing State of Niue

[14] 7(a)(iii) - to avoid prejudice to the security or defence of Tokelau

[15] 7(a)(iv) - to avoid prejudice to the security or defence of the Ross Dependency

[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

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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

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

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: 2026 Fiscal Strategy Report and Projections

Date:	14 May 2026	**Report No:**	T2026/954
		File Number:	MC-1-5-2-2029-1-M138759

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Agree** to the key assumptions underpinning scenarios for the projections to be included in the Fiscal Strategy Report 2026. **Agree** to a new short-term intention and long-term objective for net worth. **Approve** the attached Fiscal Strategy Report 2026.	18 May 2026

Contact for telephone discussion (if required)

Name	Position		Telephone	1st Contact
Jacob Greig	Graduate Analyst, Macroeconomic and Fiscal Policy	[39]	N/A (mob)	✓
Alex Hamilton	Unit Manager, Macroeconomic and Fiscal Policy		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:Yes (attached)

Executive summary

The Public Finance Act 1989 requires you to publish projections of key fiscal variables, covering at least a 10-year period, in each Fiscal Strategy Report. The projections belong to you as Minister of Finance and are useful for showing the extent of progress towards your long-term objectives under different assumptions about the economic and fiscal outlook.

This report recommends key assumptions to underpin four proposed scenarios for the projections, illustrating a range of possible outcomes for future operating and capital spending. This follows the same general approach as last year; however, Scenario 1 has been designed in response to the recommendations in the National Infrastructure Plan, most notably the first recommendation for needs-based capital allowances. These scenarios are:

1. **Continuation of the forecast period, with capital allowances informed by the Infrastructure Commission's Forward Guidance:** we recommend a scenario where the $2.4 billion operating allowance and $5 billion capital allowance at the end of the forecast period are rolled forward to the start of the projection period, growing at 5% per annum thereafter. The starting amount for the capital allowance and growth rates for both allowance types are higher than assumed in the first scenario last year.

2. **Higher capital investment:** we recommend a scenario with the operating allowance set at $3.1 billion and the capital allowance at $7 billion in Budget 2030, both growing at 5% per annum. This higher capital allowance accounts for upside risks to capital expenditure, while the operating allowance is increased to account for resulting higher operating costs.

3. **Higher operating expenditure:** we recommend a scenario that assumes that, rather than being constrained to manage expenditure pressures, operating expenditure grows unconstrained at each Budget in line with price, wage and demographic pressures. This scenario uses the lower $5 billion Budget 2030 capital allowance growing at 5% per annum.

4. **Higher operating expenses and capital investment:** we recommend a scenario that combines the higher level of capital expenditure from Scenario 2 with the higher operating expenditure from Scenario 3.

We recommend increasing the allowance growth rate across both operating and capital allowances in all scenarios from 3% to 5% to reflect income and population growth, in addition to growth in the cost of delivering public services and investment.

This report also outlines measures of the fiscal balance and total fiscal impulse. These measures suggest fiscal policy has supported aggregate demand throughout the recent economic downturn, with the fiscal balance deficit peaking in the 2026/27 fiscal year (one year later than OBEGALx, largely due to timing differences between accrual and cash flows). From 2027/28 on, fiscal support is reduced as automatic stabilisers unwind and fiscal consolidation takes effect. These measures provide only a partial indication of the impact of fiscal policy on aggregate demand and do not account for composition or multiplier effects.

This report seeks your agreement to change your short-term intention for net worth to "maintain net worth attributable to the Crown consistent with the operating balance intention" and your long-term objective to "ensure net worth attributable to the Crown remains at a level sufficient to act as a buffer to economic shocks." We also seek your approval of the Fiscal Strategy Report 2026.

Purpose of report

1. This report presents four scenarios for projections that show the medium-term trajectory for key fiscal variables, to be published as an annex in the Fiscal Strategy Report on Budget Day. It seeks your direction on the operating and capital allowance parameters to be applied over the projection period (2030/31–2039/40) for each of these scenarios.

2. As signalled in T2026/433 and the Budget Cabinet paper, we have been working with your office on revised wording for the short-term intention and long-term objective for net worth. This report seeks your agreement to the new intention and objective.

3. Attached is a draft version of the Fiscal Strategy Report, including the projections annex and the new net worth intention and objective. We have worked with your office on this draft. We seek your approval to publish the Fiscal Strategy Report, subject to final quality assurance and minor changes agreed with your office.

4. This report also provides an overview of the fiscal balance and impulse measures for inclusion in BEFU 2026.

Background

5. The Public Finance Act 1989 requires you to publish projections of key fiscal variables, covering at least a 10-year period, in each Fiscal Strategy Report. The projections are useful for showing progress towards the long-term objectives in your fiscal strategy.

6. The projections are based on the Fiscal Strategy Model. This model uses historical averages and trends of economic, fiscal, and demographic variables to indicate the likely path key fiscal variables will take in the 10-year period after the forecasts have ended. This contrasts with the fiscal forecasts that rely on the specific judgements of forecasters to predict the government's financial position over a five-year period. Despite using a different methodology, the projections are built on top of the fiscal forecasts and begin from the end of them, which means changes in the forecasts can have a large impact on the projections.

7. The projections belong to the Minister of Finance, and you decide on the key assumptions which underpin them. Some of the most influential factors are your operating and capital allowances, tax revenue, productivity growth and interest rate assumptions. We provide advice on these below.

Approach to scenarios

8. The Fiscal Strategy Report 2025 outlined four plausible scenarios: one with capital investment and operating expenses rolling forward from the forecast period, one with higher capital investment, one with higher operating expenses, and one with both higher capital investment and higher operating expenses.

9. We have followed the same general approach for this year's scenarios. The key difference is that the assumptions for capital allowances in Scenario 1 have been informed by the Infrastructure Commission's Forward Guidance, released as part of the National Infrastructure Plan (NIP). This is in response to recommendation one in the NIP: "Needs-based capital allowances: Ensure fiscal strategy and capital allowances are informed by the Commission's independent assessment of long-term needs and agencies' infrastructure asset management and investment plans." This response has been signalled in the draft Government response to the NIP, and is supported by the Minister for Infrastructure (see T2026/397). Considering the Forward Guidance in setting capital allowances and making this a regular part of fiscal strategy advice would give confidence that long-term infrastructure needs are being considered.

10. The Forward Guidance models what the Infrastructure Commission deems to be an affordable and sustainable level and composition of investment designed to meet long-term infrastructure demands. This has been used as a reference point to inform the level of capital investment over the projection period in the first scenario. We have worked with the Infrastructure Commission to develop the capital allowance projection assumption.

11. The scenarios included in the draft Fiscal Strategy Report illustrate the trade-offs in the Government's longer-term priorities. All else equal, financing higher levels of public investment will slow the reduction in net core Crown debt, resulting in a smaller buffer to respond to shocks. Similarly, how the Government chooses to manage cost increases for existing public services will influence the pace of debt reduction.

Key assumptions underpinning the projections

12. Outlined below are the recommended key assumptions for each of the four proposed scenarios in the 2026 Fiscal Strategy Report projections.

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

13. This scenario would roll forward the allowances assumed in the last year of the forecast period, representing a continuation of the Government's current fiscal settings. To that end, the operating allowance would be set at $2.4 billion and the capital allowance at $5 billion at Budget 2030, with both increasing at 5% per annum across the projection period. This is the most effective scenario for achieving fiscal objectives but assumes a disciplined approach to operating and capital spending over the projection period.

14. The capital allowance has been increased to $5 billion for Budget 2029. This brings the level of capital spending rolling forward roughly in line with the Infrastructure Commission's Forward Guidance, tracking it across the projection period. This scenario is therefore an appropriate lower track for capital allowances, reflecting a sustainable level of infrastructure investment as modelled in the Forward Guidance. However, it leaves little to no room for additional Government investment priorities (eg, the Defence Capability Plan).

15. Delivering within the assumed allowances would require ongoing fiscal discipline to maintain operating surpluses over time. This reflects the increasing demands on public spending over the medium term. The Government has a range of options for delivering within allowances, including reprioritising baseline funding, or changes to the provision of public services.

Scenario 2: Higher capital investment

16. To illustrate trade-offs between the fiscal strategy and the scale of public investment, we recommend including a scenario that sets the capital allowance at $7 billion at Budget 2030, growing at 5% per annum thereafter. This starting point is consistent with the higher capital allowance used in the 2025 Fiscal Strategy Report projections and represents a doubling of annual capital investment intentions relative to announced allowances in Budgets 2026 to 2028. $7 billion brings the projected new capital expenditure more into line with recent spending levels. This level tracks above the Infrastructure Commission's Forward Guidance, potentially accounting for upside risks to capital spending, or representing additional Government priorities (eg, the Roads of National Significance or the Defence Capability Plan).

17. There are also additional operating expenses associated with capital investment. As such, in this scenario we recommend setting the operating allowance at $3.1 billion. This is $0.7 billion higher than in Scenario 1, or equal to one third of the additional $2 billion of capital investment relative to Scenario 1, rounded up. This represents the Treasury's working rule that for every $3 of capital investment, $1 of supporting operating spending is required. This estimate is subject to considerable uncertainty; in reality, the amount of operating spending would vary with the composition of investment. For example, building a new hospital requires a large amount of ongoing operating spending, while investments to replace existing assets such as roads can require only a small increase.

Scenario 3: Higher operating expenses

18. This scenario does not use operating allowances to manage expenditure pressures and instead assumes that operating expenditure for all Votes grows unconstrained at each Budget, in line with price, wage and demographic pressures,[1] with no offsetting reprioritisation or efficiency savings. This unconstrained expenditure track would illustrate the fiscal impact of maintaining existing policy settings in the face of an aging population and growing costs of delivering public services (most notably in the health sector).

[1] For some Votes where demographics are less relevant to demand (eg, Vote Finance), growth is in line with long-run shares of GDP.

19. The modelling approach for this scenario is consistent with that used for last year's Scenario 2, and the bottom-up model in the 2025 Long-term Fiscal Model (see AN 26/01).

Scenario 4: Higher operating expenses and capital investment

20. This scenario assumes both a higher track for the capital allowance, starting at $7 billion at Budget 2030 as in Scenario 2, and unconstrained growth in operating expenditure as in Scenario 3, starting from $3.1 billion at Budget 2030. This represents the least constrained approach to capital and operating expenditure, but also the most costly in terms of meeting your fiscal strategy objectives.

Updated allowance growth rates

21. Last year, the growth rate of operating and capital allowances in all scenarios was 3%, reflecting evidence that the cost of delivering public services and capital investment increases faster than general inflation.

22. Growth in allowances in these projections has been increased to 5%, reflecting pressures not only stemming from cost growth, but also population and income growth. It is higher than the projected average growth in nominal GDP, carrying over assumptions from last year around cost growth in public expenditure. This puts capital investment on a similar track to the Forward Guidance in Scenario 1.

Cross-cutting assumptions

23. Beyond allowances and their growth rates, a range of technical assumptions underpin the projections. These are set on the basis of the Treasury's best professional judgement to ensure an internally consistent modelling approach. Relative to the Fiscal Strategy Report 2025 projections, we have changed the long-run labour productivity growth assumption, reflecting data revisions and a new 30-year average. Labour productivity growth is now assumed to converge on 1.0% per cent annum, compared with 0.9% in the 2025 projections.

24. We have also changed how we model capital allowances in the projection period, to match how allowances are phased across years in the fiscal forecasts and more closely reflect the actual profile of spending. We assume that 35% of a given Budget's capital allowance is spent in the first year, 35% in the second year, 20% in the third year, and 10% in the fourth year. This change has slightly decreased the amount of capital spending in the projection period.

25. In June 2025, Stats NZ released updated population and labour force projections. These have replaced the older projections used in the Budget 2025 Fiscal Strategy Model and so have changed the projected growth of several economic and fiscal variables relative to what they would have been under the older Stats NZ projections.

26. The projections for net core Crown debt, OBEGALx, and core Crown expenses under each of our recommended assumptions are shown in Figures 1–3. The projections are based on the final fiscal forecasts, which include operating allowances of $2.4 billion per annum at each of Budgets 2027, 2028 and 2029, and capital allowances of $3.5 billion at Budgets 2027 and 2028, increasing to $5 billion at Budget 2029.

***Figure 1** – Net core Crown debt*

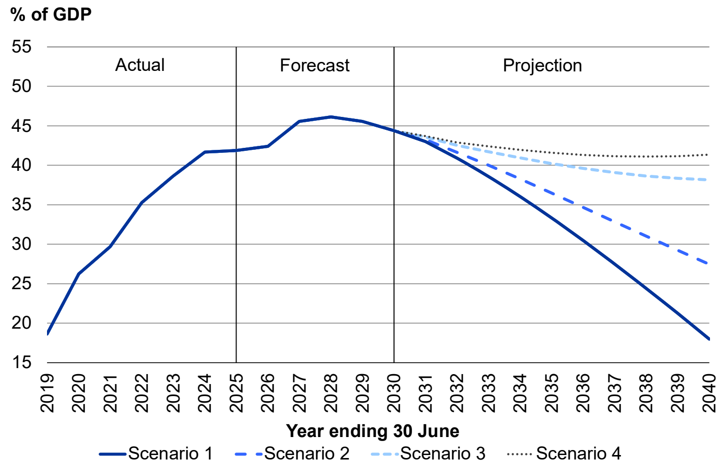


***Figure 2** – OBEGALx*

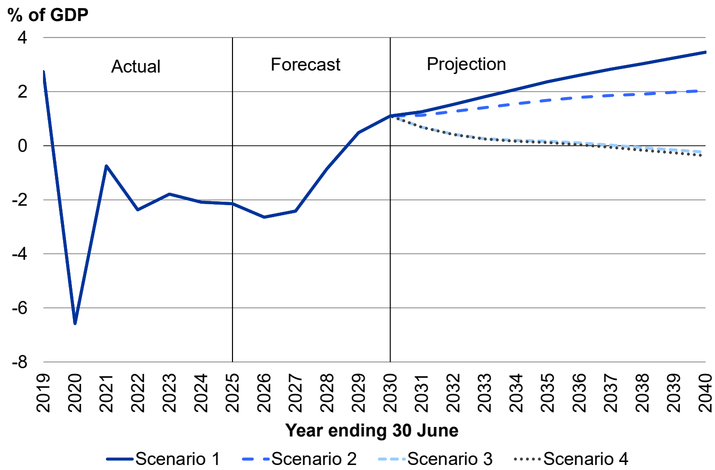


Figure 3 – Core Crown expenses

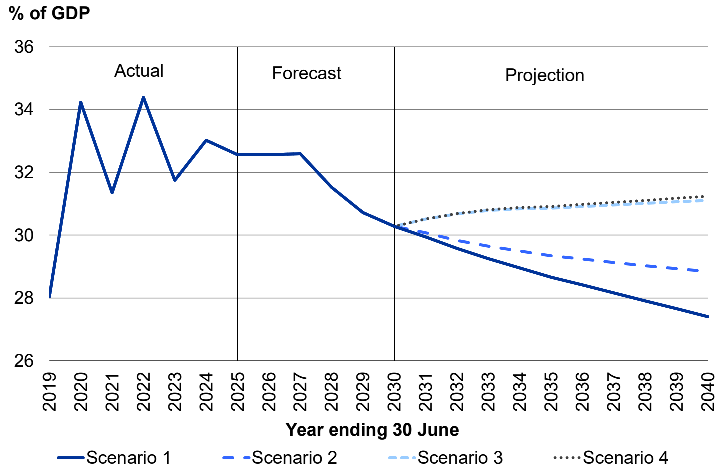


Table 1 *– Fiscal indicators from Scenario 1*

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	38.8
Core Crown expenses	30.3	29.6	29.0	28.4	27.9	27.4
Total Crown expenses	38.6	37.9	37.2	36.6	36.0	35.5
OBEGALx	1.1	1.5	2.1	2.6	3.0	3.5
Operating balance	2.0	2.4	3.1	3.8	4.3	4.8
Net core Crown debt	44.4	40.9	36.0	30.5	24.4	18.0
Total borrowings	65.7	63.9	59.7	54.5	48.7	42.4
Net worth	37.4	39.0	41.9	45.9	50.7	56.2
Net worth attributable to the Crown	35.6	37.3	40.4	44.5	49.5	55.1

Source: The Treasury

27. Scenario 1 shows OBEGALx surpluses growing, core Crown expenses reducing to 27.4% of GDP and net core Crown debt reducing to 18.0% 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% of GDP which is under the long-term range for net core Crown debt. This indicates space for higher levels of investment or adjustment in revenue policy settings.

Table 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	37.4	37.1	36.9
OBEGALx	1.1	1.3	1.6	1.8	1.9	2.0
Operating balance	2.0	2.2	2.6	3.0	3.2	3.4
Net core Crown debt	44.4	41.6	38.3	34.7	31.0	27.5
Total borrowings	65.7	64.6	61.9	58.7	55.3	51.9
Net worth	37.4	38.6	40.6	43.3	46.2	49.4
Net worth attributable to the Crown	35.6	37.0	39.1	41.9	45.0	48.2

Source: The Treasury

28. Scenario 2 shows OBEGALx surpluses growing, core Crown expenses reducing to 28.8% of GDP and net core Crown debt decreasing to 27.5% of GDP over the projection period (Table A2.2). This scenario is therefore consistent with the Government's long-term fiscal objectives. This illustrates that it is possible to achieve objectives with a higher level of capital expenditure, so long as there is sustained economic growth and a disciplined approach to operating expenditure is maintained over the forecast and projection period.

***Table 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	39.0	39.1	39.1	39.1	39.2
OBEGALx	1.1	0.4	0.2	0.1	(0.1)	(0.2)
Operating balance	2.0	1.3	1.2	1.3	1.2	1.1
Net core Crown debt	44.4	42.5	40.9	39.6	38.7	38.1
Total borrowings	65.7	65.5	64.6	63.7	63.0	62.6
Net worth	37.4	37.3	37.0	36.8	36.5	36.1
Net worth attributable to the Crown	35.6	35.7	35.5	35.4	35.2	34.9

Source: The Treasury

29. Scenario 3 shows OBEGALx deficits in the later years of the projection period, core Crown expenses increasing to 31.1% of GDP and net core Crown debt reducing slowly as a percentage of GDP towards 38.1% of GDP (Table A2.3). While net core Crown debt is brought within the long-term range, this scenario is inconsistent with the Government's long-term objectives for core Crown expenses and OBEGALx.

***Table 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	39.0	39.1	39.1	39.2	39.3
OBEGALx	1.1	0.4	0.2	0.0	(0.2)	(0.4)
Operating balance	2.0	1.3	1.2	1.2	1.1	1.0
Net core Crown debt	44.4	42.9	41.9	41.3	41.1	41.3
Total borrowings	65.7	65.9	65.6	65.4	65.4	65.8
Net worth	37.4	37.3	36.9	36.6	36.2	35.5
Net worth attributable to the Crown	35.6	35.7	35.4	35.2	34.9	34.4

Source: The Treasury

30. Scenario 4 shows OBEGALx deficits in the later years of the projection period and core Crown expenses increasing as 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 4 shows, this scenario is inconsistent with the Government's long-term objectives.

31. In terms of meeting the Government's long-term fiscal objectives, the projections have improved substantially from last year's, despite higher growth rates in capital and operating allowances. This largely reflects an improvement in the fiscal position at the end of the forecast period at Budget 2026 when compared to Budget 2025.

32. The results of Scenarios 3 and 4 highlight risks to your fiscal strategy from maintaining current policy settings in the face of an aging population and increased delivery costs of public services. Ultimately there is considerable uncertainty about the scale of future cost pressures, and the Government has choices on how those pressures are managed.

Net worth intention and objective

33. The 2026 Budget Policy Statement noted that your short-term intention to “maintain net worth at around 40 per cent of GDP” was not being met on HYEFU forecasts, and that the Government would reconsider this intention ahead of the Fiscal Strategy Report. Through the Budget 2026 Cabinet paper, Cabinet delegated decisions on minor changes to the short-term intentions and long-term objectives to you (CAB-26-MIN-0156 refers).

34. Although the previous intention for net worth is being met on BEFU forecasts because of an accounting standard change that reduced ACC’s insurance liability, we recommend moving away from a point target that is at risk of not being met because of forecast changes outside of the Government’s direct control.

35. As signalled in T2026/433, we have been working with your office on revised text for the net worth short-term intention and long-term objective. We recommend that you change the short-term intention to “maintain net worth attributable to the Crown consistent with the operating balance intention.”

36. This uses net worth attributable to the Crown as the preferred indicator because it excludes minority interest shareholdings in government-owned entities (eg, Air New Zealand and Meridian Energy) and therefore gives a more accurate picture of what the Crown owns. These minority interests total around $10 billion or 2% of GDP. [34]

37. The short-term intention for net worth is specified in relation to the operating balance intention because OBEGALx is the main driver of changes in net worth attributable to the Crown that are within the Government’s control. Gains, losses, revaluations, and the net revenue of ACC also affect net worth attributable to the Crown but are volatile and typically outside the Government’s short-term control, which is why we recommend moving away from a point target.

38. We recommend that net worth attributable to the Crown is used as the indicator for the long-term objective for consistency, but that the text is otherwise unchanged: “Ensure net worth attributable to the Crown remains at a level sufficient to act as a buffer for economic shocks.”

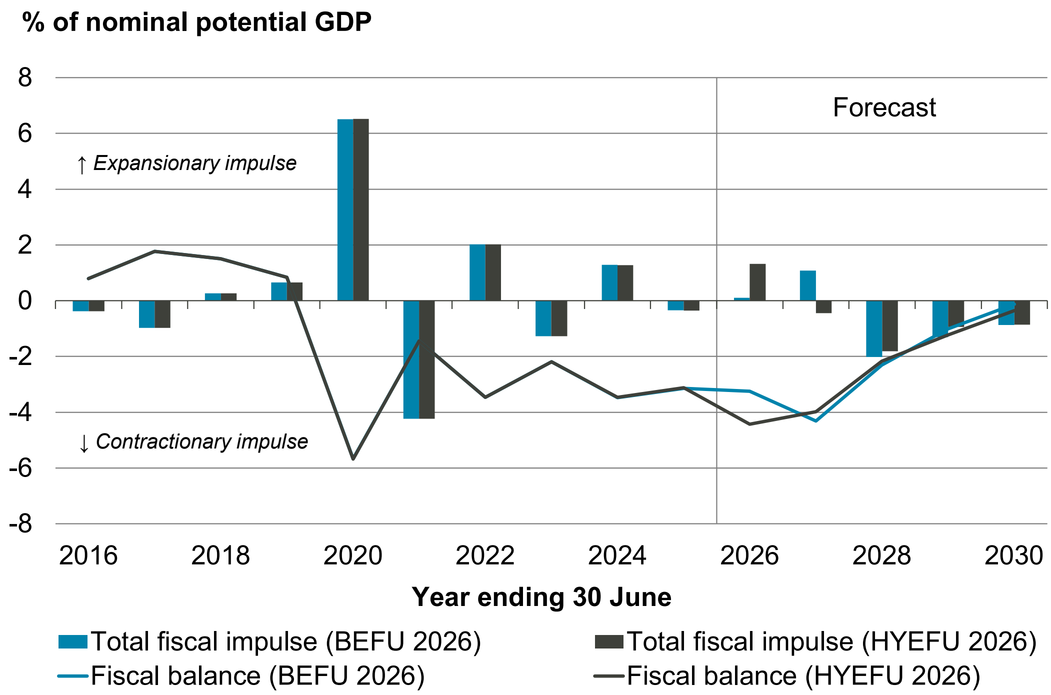
Fiscal Balance and Total Fiscal Impulse

39. The fiscal balance is a measure of the contribution of fiscal policy to aggregate demand. A negative balance implies fiscal policy is supporting demand relative to a balance of zero, with cash payments exceeding demand-relevant receipts. The fiscal balance is calculated as core Crown and Crown entity residual cash adjusted for some expenditure items that do not directly affect domestic demand, such as advances (other than student loans), NZSF contributions, defence purchases, and KiwiSaver subsidies. It is expressed as a percentage of nominal potential GDP.

40. The total fiscal impulse is a measure of the change in the contribution of fiscal policy to aggregate demand from one year to the next. The total fiscal impulse is calculated as the annual change in the fiscal balance, with the sign reversed so that positive values indicate fiscal policy is adding support to demand relative to the previous year.

41. These indicators provide only a partial indication of the impact of fiscal policy on aggregate demand. They do not capture how the direct effect varies with the composition of revenue and spending, nor do they account for flow-on (multiplier) effects or supply-side responses. The impact will also depend on the level of spare capacity and whether this reflects demand weakness or supply constraints.

***Figure 4** – Fiscal balance and total fiscal impulse with comparison to HYEFU 2025*



42. The fiscal balance has remained in deficit through the recent economic downturn (Figure 4), indicating that fiscal policy has been supporting demand. This support is expected to continue over the forecast period, increasing in 2025/26 and 2026/27 before declining as fiscal consolidation takes effect. Although the OBEGAL and OBEGALx deficits reach their peak in 2025/26, the fiscal balance deficit does not peak until 2026/27. This delay compared with OBEGAL/OBEGALx is mainly due to timing differences between accrual and cash flows. The reduction in support from 2027/28 onwards reflects both the reduced contribution from automatic stabilisers as the output gap closes and the effect of tighter discretionary policy.

43. Relative to the previous year, fiscal policy adds further support in 2026/27, as reflected in a fiscal impulse of 1.1% of potential GDP. This is driven mainly by a temporary decrease in tax receipts relative to nominal potential GDP and a sustained increase in net finance costs. From 2027/28, fiscal policy begins to withdraw support, with the total fiscal impulse averaging -1.4% over the remainer of the forecast period. The timing of this withdrawal broadly aligns with the output gap closing towards the end of the forecast period, and is mainly driven by operational spending, with increased revenue due to higher economic growth also playing a role.

44. Compared with HYEFU 2025, the fiscal balance deficit now peaks one year later, mainly due to changes in the timing of spending and the profile of the budget package. This suggests that fiscal policy is providing less support to aggregate demand in 2025/26 than previously forecast. As a result, the total fiscal impulse falls to near-zero in 2025/26 and becomes expansionary in 2026/27. Toward the end of the forecast period, tax receipts are higher and expenditure is lower, leading to a smaller fiscal balance deficit and more contractionary fiscal impulse.

Next steps

45. Attached to this report is a draft version of the 2026 Fiscal Strategy Report for your approval for publication, subject to final quality assurance and minor changes agreed with your office.

46. Your decisions on the projection assumptions will be built into the 2026 Fiscal Strategy Report version of the Fiscal Strategy Model, which will, with your permission, be published alongside the 2026 Fiscal Strategy Report and other material on the Treasury website on 28 May 2026. To enable the Treasury to keep to the intended publication timeline for the Fiscal Strategy Report, we seek decisions on the projection assumptions, net worth intention and objective, and approval of the Fiscal Strategy Report by Monday, 18 May 2026.

Recommended actions

We recommend that you:

a **note** that we recommend including four projection scenarios in the 2026 Fiscal Strategy Report

b **agree** to include Scenario 1, illustrating a continuation of the forecast period's fiscal settings, with the below assumptions for allowances in Budget 2030:

i. Operating allowances: $2.4 billion or ___________

ii. Capital allowances: $5 billion or ___________

Agree / Disagree

c **agree** to include Scenario 2, illustrating higher capital investment with the below assumptions for allowances in Budget 2030:

iii. Operating allowances: $3.1 billion or ___________

iv. Capital allowances: $7 billion or ___________

Agree / Disagree

d **agree** to include Scenario 3, where operating expenditure is based on modelled expenditure pressures across all policy areas; and the same capital allowance is used as in Scenario 1:

Agree / Disagree

e **agree** to include Scenario 4, illustrating higher capital investment and operating expenses with the below assumptions for allowances in Budget 2030:

i. Operating expenditure is based on modelled expenditure pressures across all policy areas

ii. Capital allowances: $7 billion or ___________

Agree / Disagree

f **agree** to change the per annum growth factor for both operating and capital allowances from 3% to 5%, to better reflect population and income growth

Agree / Disagree

g **agree** to maintain other assumptions in line with the Treasury's best professional judgement

Agree / Disagree (further discussion of model assumptions required)

h **approve** the Treasury to publish the Fiscal Strategy Model and associated explanatory material online alongside the 2026 Fiscal Strategy Report

Approve / Not approved

i **agree** to revise your short-term intention for net worth to "maintain net worth attributable to the Crown consistent with the operating balance intention"

Agree / Disagree

j **agree** to revise your long-term objective for net worth to “ensure net worth attributable to the Crown remains at a level sufficient to act as a buffer for economic shocks”

Agree / Disagree

k **approve** the attached Fiscal Strategy Report for publication, subject to final quality assurance and minor changes agreed with your office.

Approve / Not approved

Alex Hamilton
Unit Manager, Macroeconomic and Fiscal Policy

Hon Nicola Willis
Minister of Finance

_____/_____/_______