TE TAI ŌHANGA
THE TREASURY

Budget Economic and Fiscal Update 2026

28 May 2026

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

New Zealand Government
Te Kāwanatanga o Aotearoa

TE TAI ŌHANGA
THE TREASURY

Budget Economic and Fiscal Update 2026

28 May 2026

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

ISBN: 978-1-991149-94-7 (print) 978-1-991149-95-4 (online)

An introduction to the *Budget Economic and Fiscal Update*

As the government's lead economic and financial adviser, the Public Finance Act 1989 requires the Treasury to produce a range of stewardship documents:

- Some as part of an annual cycle: twice-yearly Economic and Fiscal Updates, and monthly and annual Financial Statements of the Government.
- Some are every three or four years: Pre-election Economic and Fiscal Update, Long-term Fiscal Statement, Investment Statement, as well as the Long-term Insights Briefing required by the Public Service Act 2020.

The *Budget Economic and Fiscal Update* is part of the annual cycle of stewardship documents. This update primarily outlines what the Treasury observes in our current economic climate and what we might see in the future. Our observations of the economy, alongside the Government's fiscal policy decisions are used to inform our view on the Government's financial performance and financial position over the current year and next four years (our forecast period). We also consider the risks we may face that could alter the economic and fiscal outlook over the forecast period.

This gives an indication of what the economy and the Government's fiscal outlook is most likely to do for accountability purposes and to inform decision-making.

Internet

The URL for this document on the Treasury's website at May 2026 is
https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2026

Contents

Statement of Responsibility

I, the Secretary to the Treasury, confirm that the Treasury has supplied the Minister of Finance with this *Budget Economic and Fiscal Update* that:

- incorporates the fiscal and economic implications of:
  - all policy decisions with material economic or fiscal implications made by the Government before 8 May 2026, and which have been communicated to me by the Minister of Finance, and
  - all other circumstances with material economic or fiscal implications of which the Minister of Finance was aware before 8 May 2026 and which have been communicated to me by the Minister of Finance
- does not incorporate any decisions, circumstances, or statements that the Minister of Finance has determined under section 26V of the Public Finance Act 1989 should not be incorporated in this *Budget Economic and Fiscal Update*.

The Treasury has prepared this *Budget Economic and Fiscal Update* using its best professional judgements and on the basis of the economic and fiscal information available to it before 8 May 2026.

Iain Rennie CNZM
Secretary to the Treasury

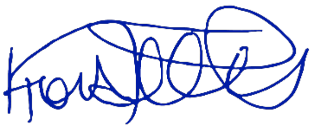
20 May 2026

I, the Minister of Finance, have communicated to the Secretary to the Treasury:

- all policy decisions with material economic or fiscal implications made by the Government before 8 May 2026
- all other circumstances with material economic or fiscal implications of which I was aware before 8 May 2026, and

I accepted responsibility for:

- the integrity of the disclosures contained in this *Budget Economic and Fiscal Update*
- the consistency of the information in this *Budget Economic and Fiscal Update* with the requirements of Part 2 of the Public Finance Act 1989, and
- the omission from this *Budget Economic and Fiscal Update* of any decision, circumstance or statement under section 26V of the Public Finance Act 1989.



Hon Nicola Willis
Minister of Finance

20 May 2026

Executive Summary

Since the *Half Year Economic and Fiscal Update 2025 (Half Year Update)*, the conflict in the Middle East has generated a significant supply shock that has sharply raised global oil prices. There is a high degree of uncertainty as to how the conflict will evolve, the severity and duration of global supply chain disruption and therefore the extent of the impact on the New Zealand economy. A quick resolution to the conflict with limited permanent damage to global supply chains will have different impacts to a lasting conflict with enduring damage.

In line with the approach taken by the International Monetary Fund and the Organisation for Economic Co-operation and Development, the Treasury's central economic forecast assumes that oil prices will evolve in line with prices in the oil futures market. Based on prices as at 21 April 2026, this implies that the oil price shock is a temporary supply shock, with oil prices gradually easing and returning close to the pre-shock level over 2026 and 2027.

Risks to the economic and fiscal forecasts are weighted to the downside compared to the central forecast. We consider alternative scenarios, including the possibility of greater oil market disruption and a longer lasting impact on the New Zealand economy. Recently, oil prices have stayed higher than assumed when these forecasts were finalised. However, as the oil price futures curve is still declining steeply, we do not consider this would materially impact these forecasts.

The Middle East conflict arrived while the New Zealand economy was in an early stage of recovery…

By the end of 2025 and into the start of 2026, New Zealand's economy was showing early signs of recovery following a period of weak activity. Economic activity strengthened in the second half of 2025, with real GDP rising in the September and December quarters and annual average growth turning positive at 0.2%. Labour market conditions also began to stabilise, with employment rising by 0.5% in the December 2025 quarter, the first increase since mid-2024.

The recovery was expected to strengthen steadily rather than quickly, supported by falling inflation, improving labour market conditions and a more favourable global backdrop. The Treasury's business engagements in March 2026 reinforced this assessment. Firms reported early signs of improving activity and demand but consistently emphasised that the recovery was tentative and vulnerable.

…pushing up prices and weakening domestic and global demand…

This emerging recovery was disrupted by the outbreak of conflict in the Middle East in late February 2026. The closure of the Strait of Hormuz to shipping caused a major disruption to global oil supply. As a result, oil prices rose sharply, with Brent crude oil peaking at US$138 per barrel in early April, nearly double pre-conflict levels, along with the costs of some other goods, such as fertiliser. Higher crude oil prices flowed quickly into refined fuel markets, pushing petrol, diesel and jet fuel prices higher.

Higher fuel prices transmit to the New Zealand economy through several channels. First, higher fuel costs act as a supply shock, increasing domestic production costs, compressing business margins and dampening investment and hiring intentions. Second, higher prices reduce domestic real incomes. This erodes consumer purchasing power and slows household spending. Third, weak global demand and a deterioration in the terms of trade reduces exports and New Zealand's international purchasing power. Finally, this is potentially compounded by increased uncertainty and higher inflation expectations.

…delaying the recovery with weaker near-term growth and higher inflation before the economy rebounds

Given the high degree of uncertainty, our central forecast adopts a market-based approach for oil prices, using oil spot and futures prices as at 21 April 2026. The forecast assumes that Brent crude oil prices have now peaked and gradually ease to around US$77 per barrel by mid-2027, slightly above pre-conflict levels.

Under this assumption, the global oil shock delays the economic recovery that was underway in late 2025. Higher prices reduce consumption and investment, although the economy is still forecast to grow at 1.2% in 2025/26. As oil prices unwind, domestic demand recovers and global growth strengthens. Growth is 2.3% in 2026/27, then accelerates to 3.2% in 2027/28. The oil shock is treated as transitory, with no lasting impact on New Zealand's medium-term productive capacity.

Inflation rises in the near term and interest rates start to increase in the second half of 2026. Higher fuel prices are estimated to add 1 percentage point to headline annual CPI inflation, which is forecast to peak at 4.0% in the June 2026 quarter. A combination of falling oil prices and weaker real economic activity then bring inflation back to within the Reserve Bank's target band of 1–3% per annum. Headline CPI inflation is forecast to fall below 2% from mid-2027 and stabilise around 2% from 2028 onwards.

Overall, the *Budget Economic and Fiscal Update* is characterised by a slower near-term recovery and a sustained medium-term upturn. The outlook remains subject to a high degree of uncertainty as to the evolution of the conflict, as well as broader economic risks from geopolitical tensions, trade policy and financial markets.

The cyclical recovery combined with higher prices lifts nominal GDP, particularly in the second half of the forecast period

Nominal GDP is important for the fiscal position as tax is paid on nominal income. Nominal GDP is measured in current prices. It increases with both real GDP growth and price increases. Nominal GDP growth is relatively weak in the near term, reflecting slower real economic activity despite higher inflation boosting prices. Over the medium term, nominal GDP growth increases because:

- real economic activity strengthens – as the oil shock is assumed to be temporary, real economic activity rebounds
- the terms of trade improve – New Zealand is richer as export prices rise more than import prices
- domestic prices rise – the price level is permanently higher due to the oil price shock, as higher inflation at the start of the forecast is not fully offset by lower inflation later.

The OBEGALx deficit peaks in 2025/26 and stays high in 2026/27

The operating balance before gains and losses excluding ACC (OBEGALx) has been in deficit since 2019/20. We forecast that the OBEGALx deficit will be the largest since 2019/20 at $11.9 billion (2.6% of GDP) in 2025/26 and then make a slight improvement to $11.4 billion (2.4% of GDP) in 2026/27.

Deficits have persisted for several years largely due to a structural increase in core Crown expenses as a share of GDP without an accompanying increase in core Crown revenue as a share of GDP and, to a much lesser extent, an increase in Crown entity deficits (excluding ACC). The deficit reaches a post-COVID-19 peak in 2025/26 because of these more persistent factors combined with the fiscal impact of a trough in the economic cycle.

In 2018/19, before the onset of the COVID-19 pandemic, core Crown expenses were 28.0% of GDP. While they have fluctuated since, they remain approximately 4.6 percentage points of GDP higher. The increase in superannuation, healthcare and finance costs accounts for 3 percentage points of this increase. Core Crown expenses as a share of GDP were 32.6% in 2024/25 and are forecast to stay at 32.6% of GDP in 2025/26 and 2026/27. Conversely, core Crown revenue to GDP is similar to the pre-COVID-19 level at 30.4% of GDP in 2025/26, of which core Crown tax revenue is 27.6% of GDP.

The gap between expenses and revenue is partly explained by the economic cycle, which is forecast to be at a trough in 2025/26. This reduces tax revenue and, to a smaller degree, increases benefit payments. In 2025/26, core Crown tax revenue to GDP reaches a post-COVID-19 low driven by the economic cycle, as well as the introduction of the Investment Boost policy. Core Crown tax revenue then recovers slightly in 2026/27, generating a small improvement in the OBEGALx.

To adjust for the effects of the economic cycle, we estimate a cyclically adjusted OBEGALx balance (CAB). This measures the part of the deficit that is structural and will not resolve as the economy recovers. These estimates are imprecise, however, our best estimate is that the structural fiscal position has improved over time. In 2023/24, when the economy was at a stronger point in the economic cycle, we estimate the CAB was in a deficit of 2.5% of GDP. In 2025/26, with the economy forecast to be at a cyclical low, we estimate a CAB deficit of 1.6% of GDP.

This suggests that the part of the deficit that is structural has declined, but this has been offset by a deterioration in the fiscal position due to the economic cycle. Nonetheless, we estimate that 60% of the OBEGALx deficit in 2025/26 is structural.

The fiscal position then improves quickly over the remainder of the forecast period

From a forecast deficit of 2.4% of GDP in 2026/27, the OBEGALx improves quickly to record a forecast surplus of 0.5% of GDP in 2028/29 and 1.1% of GDP in 2029/30. This is a fiscal consolidation of 3.5% of GDP over three years. Approximately 2.3 percentage points of this is driven by a reduction in core Crown expenses as a share of GDP, 0.8 percentage points is due to a cyclical improvement in tax revenue combined with fiscal drag, and the remaining 0.4 percentage points is an improvement in State-owned enterprise and Crown entity performance.

Net core Crown debt as a share of GDP continues to increase and peaks at 46.1% of GDP in 2027/28 before gradually declining, and net worth attributable to the Crown continues to decline to 35.1% of GDP in 2028/29 before increasing slightly. These changes are in line with the improvement in the OBEGALx position from deficit to surplus.

Compared to the Half Year Update, real GDP is lower, nominal GDP is higher and the OBEGALx returns to surplus one year earlier

Compared to the *Half Year Update*, real GDP growth is weaker in the near term due to the effects of the oil price shock. The forecast for annual average real GDP growth has been reduced by 0.5 percentage points in 2025/26 to 1.2% and by 1.1 percentage points in 2026/27 to 2.3%. The economy then rebounds to grow 0.6 percentage points more quickly than previously forecast at 3.2% in 2027/28 before returning to trend growth.

As the oil price shock is assumed to be relatively short-lived, it does not impact on the level of economic activity in the latter part of the forecast period. However, independent of the global oil shock, we do forecast a lower level of productive capacity and therefore a persistently lower level of real GDP compared to the *Half Year Update*, primarily due to revised GDP and population data. As a result, by the end of the forecast period, real GDP is 0.7% lower than at the *Half Year Update*.

While real GDP is lower, nominal GDP growth is higher on average over the forecast period than at the *Half Year Update*. Higher terms of trade and a higher price level more than offsets slightly weaker real GDP over the forecast period, lifting nominal GDP.

Except for 2026/27, the OBEGALx position has improved compared to the *Half Year Update*. OBEGALx returns to surplus one year earlier than previously forecast, at $2.6 billion (0.5% of GDP) in 2028/29. This is an improvement of $3.5 billion in 2028/29, driven by the following:

- Increased tax revenue of $3.1 billion. Weaker real GDP is a drag on tax revenue (-$0.7 billion), but this is more than offset by other factors, including the impact of higher inflation and the terms of trade (+$1.8 billion), recent strength in some tax types that we expect to persist (+1.0 billion), a more tax-rich composition of GDP (+$0.4 billion) and the impact of higher interest rates on resident withholding tax (+$0.4 billion).

- A smaller than previously forecast Budget package with a front-loaded profile, which increases expenses by $1.2 billion more than previously forecast in 2026/27, worsening the deficit in that year, but delivers savings that improve the fiscal position by $1.1 billion in 2028/29 and 2029/30 compared to the *Half Year Update*.

- This is partly offset by an increase in benefit payments, including New Zealand Superannuation, of $0.7 billion in 2028/29 largely due to higher inflation. However, most categories of expenditure do not increase automatically with prices. Higher inflation therefore generally improves the fiscal position as tax revenue rises more than expenses.

The majority of these changes are not directly related to the conflict in the Middle East. Most of the change in tax revenue was already anticipated prior to the conflict. Over the forecast period as a whole, the Middle East conflict has pushed up inflation, which supports an increase in core Crown tax revenue, but this is offset by the conflict's impact on real economic activity, particularly at the start of the forecast period, and higher benefit payments.

The stronger outlook for the OBEGALx translates into a reduced cash deficit, even after factoring in the higher than previously forecast capital investments in Budget 2026, a larger capital allowance in Budget 2029 and increased New Zealand Superannuation Fund contributions. Due to this improvement, the peak in net core Crown debt to GDP is 0.8 percentage points lower at 46.1% in 2027/28. The New Zealand Government Bond programme has decreased by $6.0 billion over the forecast period compared to the *Half Year Update*.

Risks to these forecasts are weighted to the downside

The relatively benign impacts on the economic and fiscal position from the oil price shock are predicated on the assumption that oil prices will reduce over the coming months. We use scenarios to help illustrate the alternative paths the forecasts could take.

While oil prices could fall more quickly than in the central forecast, we consider that risks are skewed to the downside. In the downside scenario, Brent crude oil prices increase to US$135 per barrel for nearly half a year. Under this scenario, inflation would surge to 5.4% by the September 2026 quarter and economic activity would be weaker, with unemployment peaking at 5.8%. Weaker nominal GDP would reduce aggregate tax revenue over the forecast period. As a result, in 2028/29, the OBEGALx is $2.1 billion lower than in the central forecast, although still returning to surplus.

In this scenario, we have not assumed a lasting impact on the productive capacity of the New Zealand economy. Should more severe shocks materialise, from the Middle East conflict or other sources, there could be permanent impacts on productive capacity resulting in more enduring impacts on the economic and fiscal position.

Table 1 – Key economic and fiscal indicators

Years ending 30 June	**2025 Actual**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**2030 Forecast**
Real production GDP (annual average % change)	(1.1)	1.2	2.3	3.2	2.7	2.5
Unemployment rate (June quarter)	5.2	5.5	5.0	4.5	4.4	4.3
CPI inflation (annual % change)	2.7	4.0	1.6	2.1	2.1	2.0
Current account balance (annual, % of GDP)	(3.8)	(4.1)	(3.5)	(2.9)	(2.6)	(2.5)
OBEGALx ($billions)	(9.3)	(11.9)	(11.4)	(4.3)	2.6	6.1
% of GDP	(2.1)	(2.6)	(2.4)	(0.8)	0.5	1.1
Net core Crown debt ($billions)	182.2	191.8	216.5	232.4	241.4	246.1
% of GDP	41.9	42.4	45.6	46.1	45.6	44.4
Net worth attributable to the Crown ($billions)	179.3	175.5	179.9	179.4	186.2	197.2
% of GDP	41.2	38.8	37.9	35.6	35.1	35.6

Sources: Stats NZ, the Treasury

Finalisation dates for the *Budget Economic and Fiscal Update*

Economic forecasts – 24 April 2026

Tax revenue forecasts – 4 May 2026

Fiscal forecasts – 8 May 2026

Statement of specific fiscal risks – 8 May 2026

Document text – 20 May 2026

1

Economic Outlook

A broadening economic recovery was underway in New Zealand at the start of 2026. Export performance was strong, international tourism continued to recover, labour market conditions began to stabilise, and household and business confidence was lifting. Although momentum remained uneven, economic activity expanded by 1.1% over the second half of 2025 following an overall flat first half of the year.

Since late February, the conflict in the Middle East has generated a significant shock to the supply of oil and petroleum products and led to sharply higher fuel prices. The shock has disrupted the emerging domestic and global recoveries while generating material uncertainty. Global oil production has declined by 13 million barrels per day, while Brent crude oil prices nearly doubled from pre-conflict levels. Refined oil product prices have increased significantly more as many refiners in Asia lowered throughput to manage inventories. Non-energy commodity markets have also been affected.

Prior to the conflict, stronger-than-expected global economic growth also supported New Zealand's recovery. Trade flows adjusted quickly to changes in US tariff policy, while US investment in artificial intelligence (AI) technologies supported exports from Asian technology manufacturers. Favourable global supply and demand dynamics for New Zealand's agricultural products lifted commodity prices and export receipts, bolstering rural economies.

Annual inflation was 3.1% in the March 2026 quarter, slightly above the Reserve Bank's target band, driven by tradable prices, partly from initially higher fuel prices, and persistent non-tradable inflation linked to electricity, gas and property rates. Higher household energy costs in early 2026 were largely distinct from the global energy shock and were instead driven by regulatory charges related to energy transmission.

Surging fuel costs reflect both actual supply disruptions and the risks of further disruption in energy markets, as geopolitical tensions raise concerns about the availability of oil and gas supplies as well as other commodities, including fertiliser.

Uncertainty also extends beyond oil supply disruptions. Positive sentiment surrounding investment in AI has been a key driver of global equity markets, but whether this optimism translates into sustained productivity gains remains uncertain. More broadly, a persistently volatile and unpredictable geopolitical and trade policy backdrop continues to weigh on the global outlook and amplify uncertainty, including the war in Ukraine, and other ongoing geopolitical tensions.

Monetary conditions have tightened globally and in New Zealand following the onset of conflict in the Middle East, reflecting expectations of higher inflation.

Taken together, these factors introduce significant uncertainty and volatility into the economic outlook that shift the balance of risks to the downside. The speed and fluidity of recent developments make the duration and magnitude of impacts on the domestic economy difficult to anticipate.

Given the high degree of uncertainty, the Treasury has adopted a similar approach to several international forecasters by using prices in the spot and futures markets to condition assumptions for oil prices. The Treasury's central economic forecast assumes the oil shock is transitory and that fuel prices largely return to pre-conflict levels by the end of the year. The economic forecasts, therefore, imply that the emerging economic recovery underway at the end of 2025 and start of 2026 has been delayed but not derailed. It is in this context that the Treasury has developed alternative scenarios alongside its central forecast.

The *Budget Economic and Fiscal Update 2026 (Budget Update)* considers three alternative paths for how the economy could evolve, reflecting uncertainty around the duration and breadth of risks:

- **Greater oil market disruption causing more intense cost pressures:** Oil market disruption may persist, maintaining higher domestic fuel prices and causing inflation expectations to shift up. Export demand is weaker and the terms of trade fall by more than assumed in the central forecast from higher import prices and lower export prices. Real household incomes and business profits fall further due to higher inflation, constraining growth and tax revenue. For government spending, higher prices cause expenses to increase where inflation or wage indexation is applied, while the government faces additional budget pressures under fixed nominal baselines due to broad-based cost pressures.

- **Faster resolution:** Alternatively, the global oil supply disruption could resolve more quickly than assumed in the central forecast, supporting a stronger pick-up in global demand and leading to a faster rebound in domestic activity. More favourable demand conditions would support a quicker improvement in New Zealand's fiscal position relative to the central forecast.

- **Longer term supply-side adjustment:** A more severe and prolonged oil supply shock alters household and firm behaviour. Longer-lasting shocks can influence investment, productivity, and the cost structure of entire industries, reshaping the economy's structure rather than its short-run performance alone.

Implications of recent economic developments

Since the central forecast was finalised on 24 April, developments in global oil markets point to more persistent inflation than assumed. Oil futures prices have increased, reflecting market participants' perceptions about ongoing disruption in the Middle East and constrained shipping through the Strait of Hormuz. Even when tensions ease, higher futures prices reflect the lag in restoring supply and the need to rebuild inventories, which are expected to keep oil prices elevated. Spot prices have declined from the peak recorded in early April, contributing to domestic fuel prices falling from their highs, and, on average, have moved broadly in line with the forecast so far. However, higher oil futures prices increase the risk that domestic fuel prices do not fall as rapidly as assumed, implying upside risk and more persistence in inflation through 2026, particularly in tradable prices, relative to the central forecast.

At the same time, falling confidence suggests downside risks to growth. Consumer confidence has fallen to its lowest level in nearly three years, and business confidence has turned negative. Firms are also facing ongoing margin pressure, with cost expectations exceeding pricing intentions, which could weigh on investment and hiring decisions in coming quarters.

The labour market entered this period in a stronger position than assumed, with recent data showing increases in employment and hours worked. However, this strength largely reflects pre-conflict conditions and aligns with backward-looking activity indicators. Given the deterioration in confidence and rising cost pressures, there is a risk that labour market conditions are softer than projected, and income growth is lower.

Elsewhere, developments are mixed but provide little offset to the broader risks. Slightly lower dairy prices, albeit remaining at a historically high level, could modestly lower export incomes relative to forecasts. However, strength in other commodities may provide some support. Additionally, recent data suggests the New Zealand economy is proving more resilient than expected, supported by improving construction activity and still-expansionary manufacturing, but overall momentum remains subdued, particularly in services including retail, combined with fading confidence and forward indicators. Rising input costs, lower real household disposable income and heightened uncertainty are likely to dampen activity over time. Overall, these factors suggest the central forecast may understate inflation pressures while overestimating near-term growth, with risks skewed to higher inflation and weaker activity.

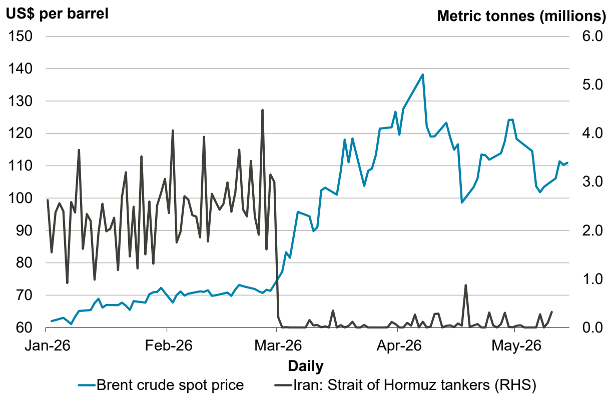
Should these factors play out, the fiscal position could marginally weaken in the near term, although this is unlikely to have significant implications for the expected return to surplus in the later years of the forecast.

The Oil Price Shock

Shipping disruptions drove oil prices higher and cuts to production…

In late February, the onset of conflict in the Middle East disrupted global oil markets, driving a sharp increase in crude oil and domestic fuel prices.

Figure 1.1 – Oil prices and oil tanker volumes



Sources: Haver Analytics, IMF, EIA

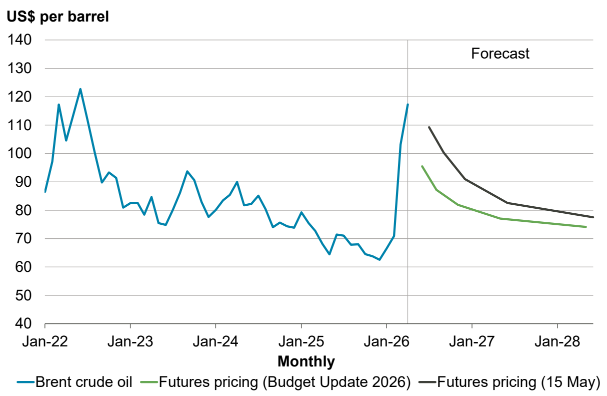
Shipping through the Strait of Hormuz has largely halted (Figure 1.1). The International Energy Agency estimates that the closure of the Strait of Hormuz has resulted in the loss of 14 million barrels per day in April from Gulf countries relative to pre-conflict levels, and cumulative supply losses now exceed 1 billion barrels. Higher production and exports from the Atlantic Basin have provided some supply relief of around 1 million barrels per day, but world oil inventories are still being depleted at a record pace. Previously, around 20% of global oil exports transited the Strait of Hormuz, and the conflict has created significant volatility in world oil markets. Brent crude oil spiked to US$138 per barrel in early April before easing, following the announcement of the ceasefire between the United States and Iran on 8 April. Oil prices, however, remain higher than they were prior to the conflict.

Higher crude prices have flowed through to New Zealand via increased refined fuel costs. Over 90% of New Zealand's fuel is imported from Asian refiners that are highly reliant on Middle Eastern crude. Supply disruptions have caused refined fuel prices to rise to a premium in Asia, reflecting physical shortages and the implied cost of adjusting supply chains.

…causing large and rapid increases in domestic fuel prices…

The outlook for oil and fuel prices remains highly uncertain. The Treasury's economic forecasts use a market-based approach, drawing on futures prices as of 21 April. Prices rose sharply following the onset of the conflict, with a proportionally larger increase in near-term futures compared to longer-dated contracts (Figure 1.2).

Figure 1.2 – Spot and futures prices



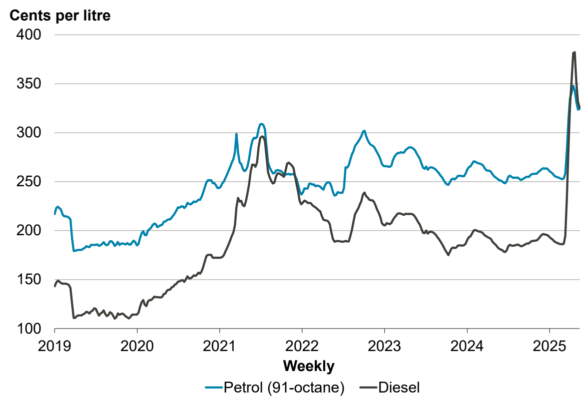
Source: Haver Analytics

The forecasts assume Brent crude oil prices average US$113 per barrel in April, before easing to US$75 per barrel towards the end of 2027.

Brent crude oil remains slightly elevated relative to pre-conflict levels of around US$70 per barrel, partly reflecting an expectation of ongoing infrastructure constraints in the Middle East, combined with inventory rebuilding that maintains stronger demand than typical seasonal patterns. Oil prices remain highly sensitive to global developments and news on shipping transits through the Strait of Hormuz.

The oil price shock increases domestic fuel prices through a combination of factors, including crude oil costs, refined product prices, shipping, distribution expenses and retail margins. The gap between crude oil prices and the refined wholesale price – often referred to as a crack spread – can widen during periods of market stress, leading the price of petrol, diesel and jet fuel to rise at a faster rate than crude oil prices.

Figure 1.3 – New Zealand fuel prices



Source: MBIE

The current market shock is placing particular strain on Asian refineries, which play a critical role in supplying refined fuels to New Zealand, as they typically source crude oil feedstock from the Gulf region. Production at these refineries has been lowered while refining margins have increased significantly, especially for diesel and jet fuel.

Retail fuel prices in New Zealand have risen sharply (Figure 1.3). The Treasury's forecasts assume that petrol (91-octane) averaged around NZ$3.40 per litre in April, while diesel reached approximately NZ$3.68 per litre. Compared to February levels, this represents an increase of about 34% for petrol and 97% for diesel. Over the remainder of the outlook, fuel prices are assumed to fall. The price of petrol is assumed to average $3.12 per litre over May, falling to an average of $2.71 by December, which is slightly elevated compared to late 2025 prices. Diesel is assumed to average $3.14 per litre over May and ends the year about 10% higher than in December 2025.

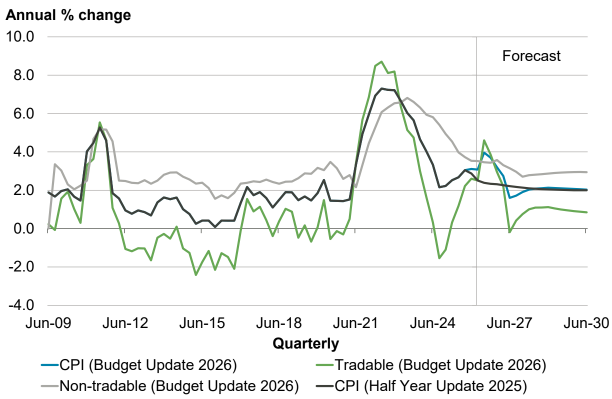
Shock Transmission Channels

…impacting the New Zealand economy through several different channels

Higher fuel prices affect the domestic economy through several transmission channels. As an essential input into the production process, higher fuel costs reduce business margins, suppress economic activity and raise prices. Higher prices reduce real incomes and, if sustained, are likely to dampen domestic demand. Disruption to global activity and higher inflation also weigh on trading partner growth, which could lower demand for New Zealand's exports and lower the terms of trade.

Higher fuel prices lead to a surge in inflation…

Figure 1.4 – CPI inflation



Sources: Stats NZ, the Treasury

Inflation was above 3% prior to the conflict, but underlying inflationary pressures were relatively contained. Core measures of inflation had been below 3% since around the end of 2024, consistent with a subdued demand backdrop over 2025.

The Treasury's economic forecasts incorporate the inflation effects from the spike in global oil prices via direct and indirect channels. In the short term, the direct price impact on petrol, diesel and other fuels is reflected in higher tradable inflation. On a quarterly basis, average fuel prices are expected to be the highest in the June 2026 quarter. Direct fuel price effects are forecast to contribute 1.0 percentage points to annual headline CPI inflation by the June 2026 quarter, when inflation is forecast to peak at 4.0% (Figure 1.4).

Throughout 2026, the surge in fuel costs is expected to transmit more broadly through the economy. Higher transport and logistics costs raise input costs for businesses and are reflected in the price of other goods and services over time. Over the second half of 2026, these indirect effects are estimated to contribute 0.25 percentage points to annual inflation. The degree of indirect pass-through depends on the duration of elevated fuel prices. As fuel prices peak and decline relatively quickly in the central forecast, the indirect impact is limited.

Weaker demand, stemming from higher prices, provides a partial offset to these inflationary pressures by increasing spare capacity and constraining firms' ability to pass on costs to prices.

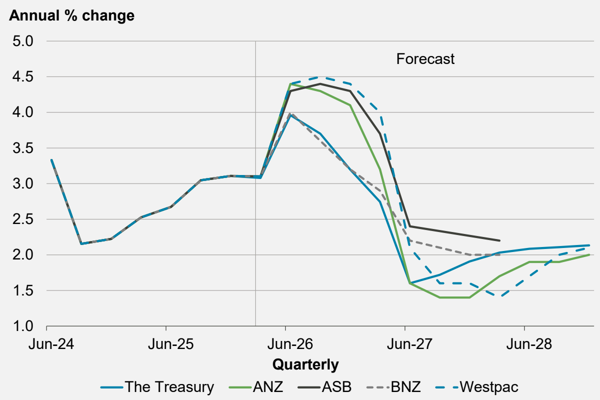
Annual inflation is forecast to decline to 3.2% by the December 2026 quarter as fuel price pressures begin to unwind. The economic forecasts assume the diesel price falls 32% from its peak by the December quarter, with 91-octane petrol falling 14% relative to the June 2026 quarter. As the temporary effects of the oil shock fade and cost pressures ease, inflation is forecast to fall below 2% from mid-2027 for several quarters before stabilising at the 2% midpoint of the Reserve Bank's target band from 2028 onwards.

The Treasury assumes short-term inflation expectations react higher in the near-term due to higher prices, leading to a degree of inflation persistence. Over the long run, expectations remain well anchored in the Reserve Bank's target band. However, the March 2026 *Quarterly Survey of Business Opinion* reported a lift in firms' intentions to raise selling prices, driven by higher actual and expected cost pressures. Similarly, while inflation expectations remain within the Reserve Bank's target band, two-year expectations have risen to 2.5%, the highest rate since the December 2023 quarter. Elevated inflation expectations, if sustained, risk feeding into household and firm decision-making, thereby causing sustained inflationary pressures.

Inflation outlook comparison

Since the onset of conflict in the Middle East, CPI inflation forecasts across domestic forecasters have been revised up. In its April Monetary Policy Review, the Reserve Bank expected annual inflation to reach 4.2% in the June 2026 quarter, conditional on a broadly similar assumed oil price outlook to that of the Treasury.

Figure 1.5 – CPI forecasts



Sources: ANZ, ASB, BNZ, Westpac, the Treasury

Some forecasters in New Zealand expect inflation to decline only gradually following the peak in mid-2026 (Figure 1.5). Others point to a stronger near-term peak in inflation, followed by a more rapid decline as fuel prices retreat towards pre-conflict levels. Under an outlook where inflationary pressures retreat faster, annual price growth is closer to the top of the Reserve Bank's target band by year-end. Differing forecasts highlight various expectations on the magnitude of fuel price inflation and the extent to which higher costs transmit to other goods and services, as well as the speed at which inflation subsequently unwinds.

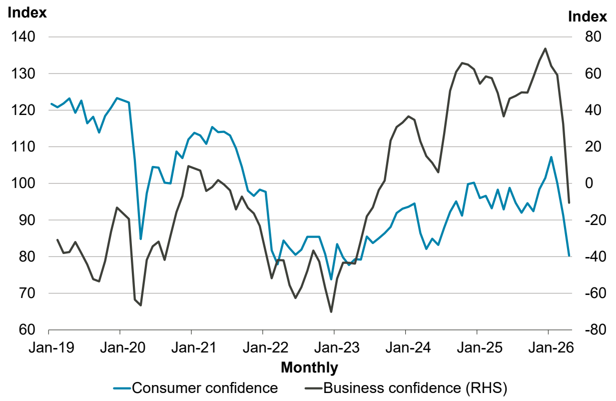
Assumptions about the duration and severity of energy supply disruptions and the timing and magnitude of the monetary policy response also drive different annual inflation expectations. Some forecasts incorporate earlier monetary policy tightening, while others assume a more gradual adjustment.

In mid-May, Stats NZ released the April Selected Price Indexes (SPI). Food price inflation eased, rents remained subdued, and accommodation services prices fell sharply from March. As expected, petrol and diesel prices surged by 30.1% and 91.3% respectively, but airfares declined year on year. Despite the rise in fuel costs, the SPI outturn prompted a downward revision in the average inflation rate forecast for the June quarter across domestic retail banks. The Treasury's inflation forecast is broadly similar to domestic banks forecasts over 2026 but is higher in the outer years. Overall, while there is broad agreement on the near-term inflation outlook, the medium-term is more uncertain and highly sensitive to evolving global conditions and policy settings.

…weakening domestic demand in 2026 as real incomes fall and business costs increase…

For households, rising fuel and energy costs reduce disposable income and erode real purchasing power, which may cause consumer spending to fall. Reflecting the uncertainty about impacts of the shock, consumer and business confidence has dropped, posing a downside risk to the recovery (Figure 1.6).

Figure 1.6 – Consumer and business confidence



Sources: ANZ Research

For businesses, weaker demand and higher input costs are likely to compress margins and reduce output, which could lead to adjustments in future investment plans. Cost pressures will be particularly pronounced for firms operating in energy-intensive non-transport industries such as construction.

…suppressing global demand and the terms of trade

Globally, the oil shock is disrupting supply chains and raising transportation and energy costs. As such, the economic forecasts incorporate weaker growth and higher inflation for New Zealand's trading partners in the near-term compared to the pre-conflict outlook.

Global growth proved more resilient than forecast at the *Half Year Economic and Fiscal Update 2025 (Half Year Update)*. GDP outturns across some of New Zealand's key trading partners were stronger than expected, bolstered by US demand for technology-related investment. Combined with robust commodity market fundamentals, New Zealand's export prices rose across key agricultural products, while strength in international tourism drove goods and services export volumes higher.

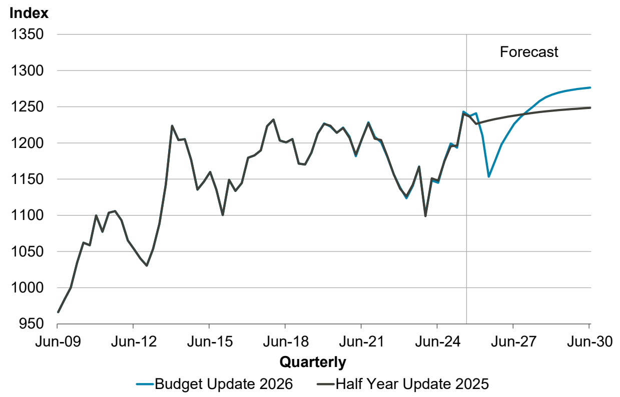
In the year to June 2027, trading partner growth is expected to be slightly weaker at 2.2% before returning to its trend growth rate by 2028.

Slower trading partner growth in 2026 is expected to reduce New Zealand's export prices. Additionally, higher global inflation raises import costs for a range of goods, while supply chain disruptions, including higher shipping costs, further compress exporter and importer margins. Together, these factors lower the terms of trade and erode purchasing power. In addition to higher refined oil import prices, New Zealand directly imports around 20% of its fertiliser from the Gulf region, making fertiliser import prices similarly exposed to shipping disruptions and creating a risk of higher food prices.

A weaker exchange rate provides a partial offset in New Zealand dollar terms for exporters. The New Zealand dollar has depreciated modestly since the *Half Year Update*. Exchange rates are expected to remain supportive of exporters, with the trade-weighted index (TWI) below its 10-year average but rising gradually to around 70 by the end of the forecast period.

At the peak of the decline, the terms of trade fall by 7% in the June 2026 quarter as fuel import prices spike higher (Figure 1.7). The subsequent improvement over the forecast period reflects the unwinding of higher oil prices. Ongoing strength in prices for key agricultural commodities, combined with a lower assumed import price trend relative to the *Half Year Update* underpin further gains in the terms of trade. The Treasury expects favourable market conditions to support key commodities like dairy, meat and kiwifruit, although market-specific supply and demand conditions for other commodities, including forestry and wine, remain more challenging.

Figure 1.7 – Goods and services terms of trade



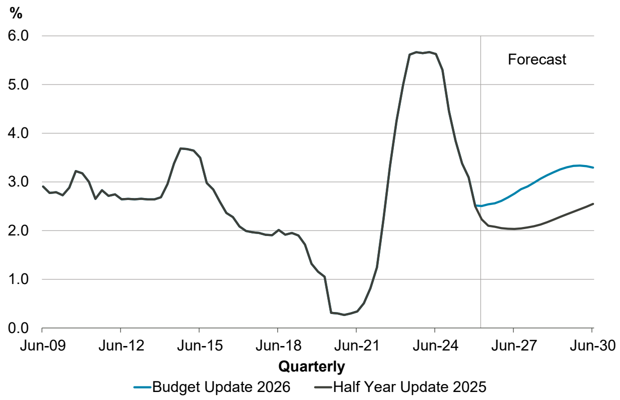
Sources: Stats NZ, the Treasury

As a small open economy, the terms of trade are a critical transmission channel for higher oil prices to impact the wider economy. However, the terms of trade are highly uncertain. Prolonged volatility from the global oil shock may have larger impacts on real activity, particularly on business investment if New Zealand's international purchasing power deteriorates further.

Interest rates rise in response to inflationary pressures and stronger demand in the medium-term

Monetary policy faces tension between elevated near-term inflation and weaker real demand. In the central forecast, interest rates are assumed to start rising by the end of 2026, which leads monetary policy stimulus to gradually reduce over time as interest rates move towards a level that exerts a neutral impact on demand (Figure 1.8). However, the timing of tightening remains uncertain, with market pricing in early May signalling a steeper rise in interest rates over calendar year 2026 in response to the expected surge in inflation.

Figure 1.8 – 90-day interest rates



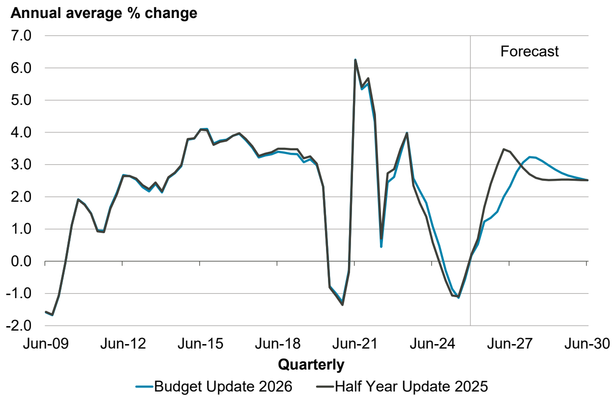
Sources: Reserve Bank, the Treasury

The path for interest rates will be conditioned on underlying price pressures. Should inflation prove more persistent than assumed in the central forecast, causing medium-term inflationary expectations to lift, interest rates could increase sooner and by more than assumed to maintain price stability.

Economic Forecasts

Aggregate growth is slower in the near-term before recovering

Figure 1.9 – Real production GDP growth



Sources: Stats NZ, the Treasury

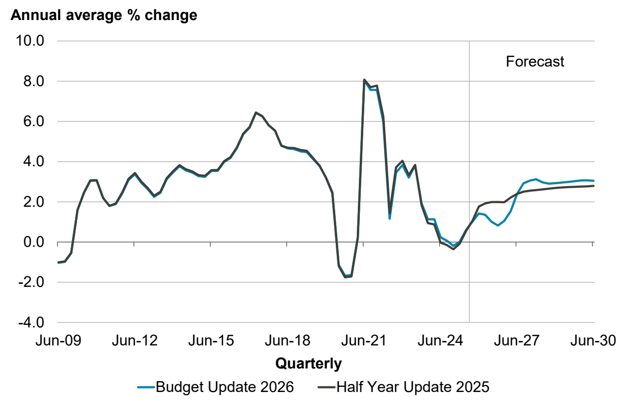
The temporary oil supply shock delays rather than derails the economic recovery. Annual average growth in the year to June 2026 is 1.2%, accelerating to 2.3% by June 2027 and 3.2% by June 2028 (Figure 1.9). Growth across the outlook gradually reduces excess capacity.

In the absence of the Middle East conflict, real GDP in the year to June 2027 could have been around 0.7% higher than currently forecast.

The central forecast features modest growth in the first half of 2026, with growth of 0.4% and 0.2% in the March and June 2026 quarters, respectively. Some domestic forecasters expect growth to fall in the June quarter, although these forecasts are often accompanied with stronger growth in the March quarter, leaving expected growth for the first half of 2026 broadly in line with the Treasury's expectation. Across these forecasters, New Zealand's near-term economic growth outlook is more mixed, owing to uncertainty surrounding the magnitude and timing of the oil shock's impact on inflation and activity.

The conflict weakens household spending growth as real incomes fall and uncertainty rises…

Figure 1.10 – Real private consumption expenditure growth



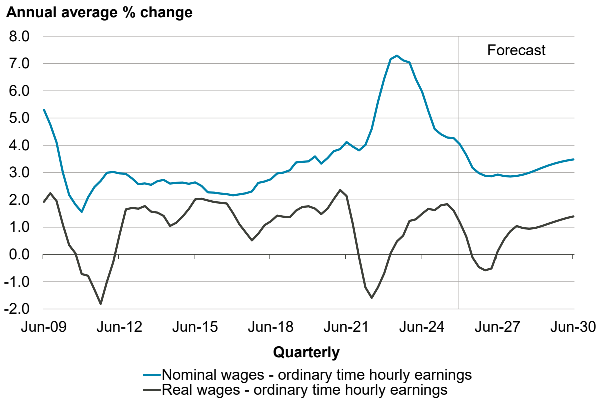
Sources: Stats NZ, the Treasury

Household consumption is constrained in the first half of 2026 as higher inflation causes real income growth to slow (Figure 1.10). Limited wealth gains from subdued house price growth further restrain spending. Together, these factors lead to a 0.2% contraction in consumption in the June 2026 quarter, which leaves annual average growth subdued at 1.0%. A more pronounced or longer-lasting income shock could further weaken household confidence, reinforcing the soft near-term outlook for household spending. However, some households are expected to smooth over this temporary drop in purchasing power by using their savings or taking on debt.

…but recovers over the forecast period

From 2027, both income and wealth developments become supportive of household spending despite higher interest rates. As inflation returns to the Reserve Bank's target band, activity in the labour market strengthens, leading to greater demand for labour and lower unemployment. Higher labour demand leads to real wage growth averaging 0.7% per annum over the forecast period (Figure 1.11). Annual average nominal wage growth reaches 3.5% by the June 2030 quarter, 0.5 percentage points higher than previously forecast. As discussed below, house prices also rise modestly over the outlook, supporting wealth, although less so than at the *Half Year Update*.

Figure 1.11 – Wage growth

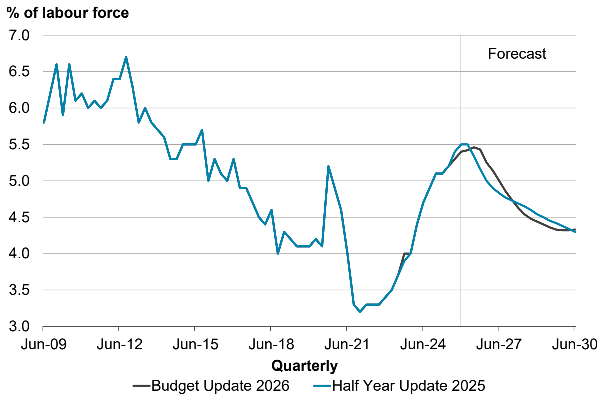


Sources: Stats NZ, the Treasury

Softer domestic demand causes an initial deterioration in the labour market

Near-term labour market conditions are forecast to weaken before improving over the outlook. March 2026 quarter labour market data largely reflected conditions predating the Middle East conflict. Employment and hours worked grew, signalling that the recovery was gaining traction entering 2026. However, high fuel prices are expected to weigh on household spending and business activity over mid-2026, causing unemployment to rise to 5.5% in the June 2026 quarter (Figure 1.12). As prices fall and demand recovers, annual average employment growth reaches 2.0% by the June 2027 quarter but is 0.5 percentage points slower than in the *Half Year Update*. Over the second half of the outlook, the unemployment rate falls below its previously forecast level, reflecting underlying strength in the labour market prior to the shock.

Figure 1.12 – Unemployment rate

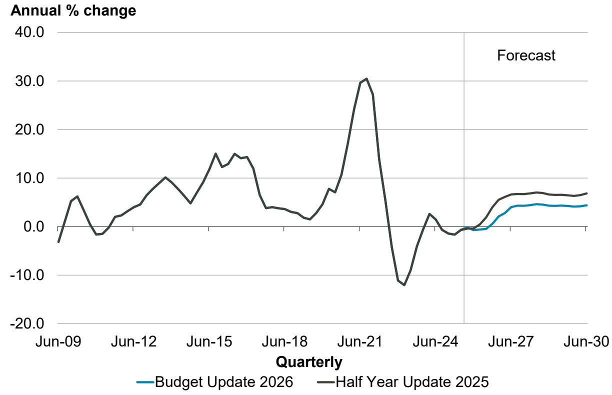


Sources: Stats NZ, the Treasury

Gradual house price growth supports household wealth and confidence

Across the outlook, house prices are forecast to rise, albeit more modestly than at the *Half Year Update* due to weak migration over 2025, the end of the interest rate easing cycle, subdued domestic momentum and the impact of recent policy reforms on supply.

Figure 1.13 – House price growth



Sources: Cotality, the Treasury

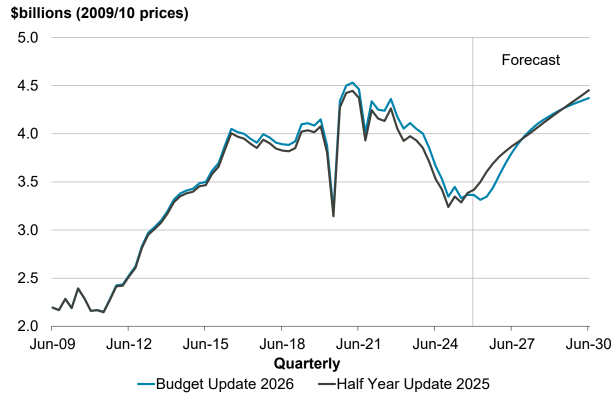
House prices are forecast to grow at an average annual rate of 3–4% over the forecast period, revised down from 6–7% previously (Figure 1.13). Over the outlook, house prices rise as annual net migration lifts to an assumed net 40,000 people, while demand for residential property increases as economic conditions and the labour market improve.

Near-term residential investment is soft, reflecting a flat property market and higher construction costs, amplifying current economic uncertainty

Reflecting the subdued housing market, residential investment is expected to remain soft in mid-2026. As a share of GDP, residential investment reaches a trough of 4.7% in the June 2026 quarter, nearing a post-global financial crisis low.

Consistent with recent zoning reforms aimed at enabling higher density, since late 2022, multi-unit dwellings have made up a larger proportion of total residential consents relative to higher-value stand-alone houses. This suggests a relative improvement in affordability of new dwellings in the pipeline but also implies a lower level of residential investment per consent issued.

Figure 1.14 – Residential investment



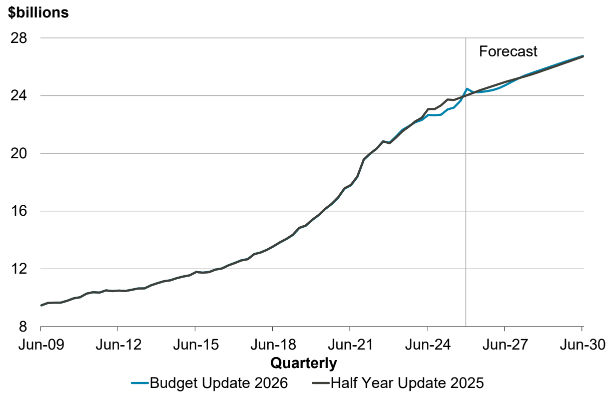
Sources: Stats NZ, the Treasury

Over the remainder of the forecast period, residential investment grows strongly, partly reflecting a reversal from its cyclically low level in early 2026. Interest rates are forecast to remain close to the assumed neutral level, which, combined with stronger net migration and a lift in real wages, supports accelerating residential investment growth (Figure 1.14).

Nominal government consumption is broadly unchanged from the **Half Year Update**

Nominal government consumption follows a similar path to the *Half Year Update* forecast. However, government consumption data for the December 2025 quarter showed an unusually large increase in social assistance benefits in kind, which is expected to unwind in the March quarter (Figure 1.15).[1] As Budget 2026 is within previously assumed operating allowances, overall government consumption is projected to remain close to levels forecast at the *Half Year Update*.

Figure 1.15 – Nominal government consumption



Sources: Stats NZ, the Treasury

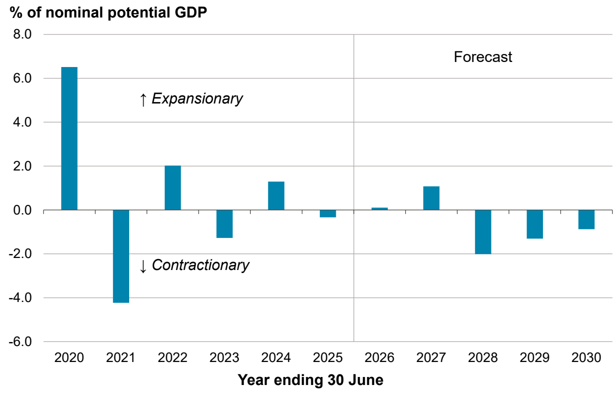
For a given level of nominal spending, higher inflation means fewer goods and services can be purchased or provided, and real government consumption is lower than forecast at the *Half Year Update*.

Fiscal policy withdraws support for aggregate demand

Considering the combined effects of government consumption, investment, taxes, and transfers, fiscal policy has supported aggregate demand through the recent economic downturn, with government spending exceeding revenue.[2]

The level of fiscal policy support remains positive over much of the forecast period, with overall government spending continuing to exceed revenue. This support generally diminishes as the economy recovers, and fiscal consolidation takes effect.

Figure 1.16 – Total fiscal impulse



Source: The Treasury

The total fiscal impulse (TFI) measures the annual change in fiscal support for aggregate demand. A positive impulse indicates that support is increasing compared to the previous year, while a negative impulse indicates that support is being withdrawn. Fiscal policy temporarily increases support in 2026/27, largely due to a timing lag in tax receipts, where some tax revenue is recognised before the associated cash payments are received, alongside a rise in net finance costs (Figure 1.16). Over the remainder of the forecast period, fiscal policy remains supportive but is withdrawn as tax revenue lifts, and government spending declines as a share of GDP, resulting in a negative TFI. The timing of this withdrawal broadly aligns with spare capacity being used up.

---

1 Quarterly movements in this System of National Accounts measure exhibits highly volatile growth with strong growth often followed by weaker than normal growth.

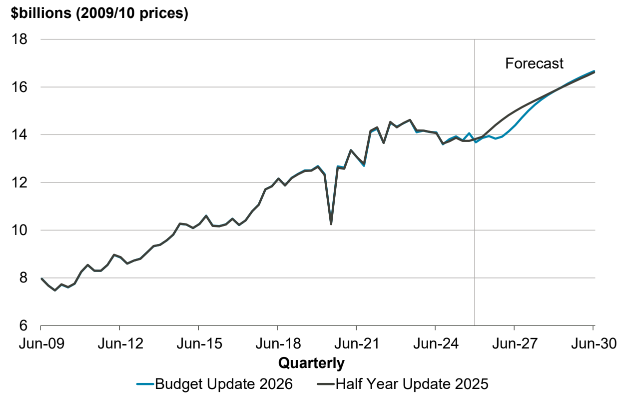
2 More detailed information on the contribution of fiscal policy to aggregate demand is provided in *Budget Economic and Fiscal Update 2026 – Supplementary Information.*

The TFI should be interpreted with caution. It depends on assumptions about what spending is relevant to demand and does not account for composition or multiplier effects.

Business investment initially stalls as uncertainty lifts and business conditions deteriorate

Prior to the conflict, forward-looking indicators suggested improving momentum as business confidence reached record highs in December 2025, while investment intentions were the strongest since 2014, indicating an emerging recovery. However, the Middle East conflict is expected to delay this recovery, highlighting the fragility of growth at this stage of the business cycle, with investment expected to remain weak in the near term (Figure 1.17).

Figure 1.17 – Business investment



Sources: Stats NZ, the Treasury

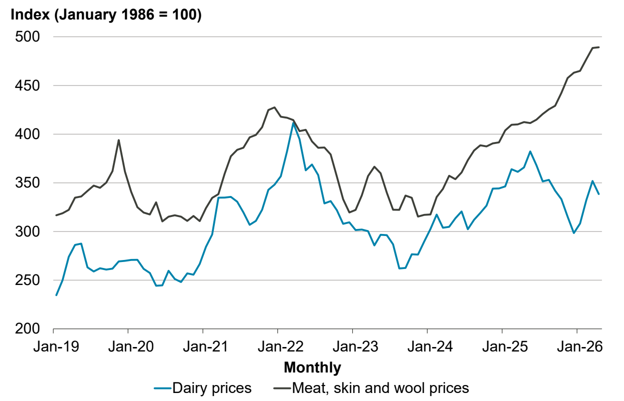
A sharp deterioration in the terms of trade, driven by rising import prices and slower export price growth, further constrains investment. Business investment is expected to remain broadly flat throughout 2026 before accelerating as inflation eases and the recovery takes hold in 2027. Businesses entered 2026 in a stronger financial position than a year prior, especially in the rural sector, according to the Treasury's business engagements. An improvement in underlying financial positions is expected to help businesses manage through a period of slower demand.

Investment is also supported by the Government's Investment Boost policy, announced in Budget 2025. The Treasury maintains its prior assumptions on the policy's impact on investment and economy-wide activity. Investment Boost is expected to increase real GDP by up to 0.4% over the forecast period.

Global commodity markets moderate but remain supportive…

Key export commodity prices were strong through most of 2025, supported by low supply and steady demand. The exchange rate softened a little over 2025 and provided some support in New Zealand dollars. While prices fell in late 2025, primarily due to weaker dairy returns, there was a partial recovery reflected in high-frequency data over the first quarter of 2026 (Figure 1.18). Due to timing considerations, the merchandise export price index rose in the December 2025 quarter and will likely fall over the March 2026 quarter, before rising again in the June 2026 quarter.

Figure 1.18 – Monthly commodity prices (world prices)



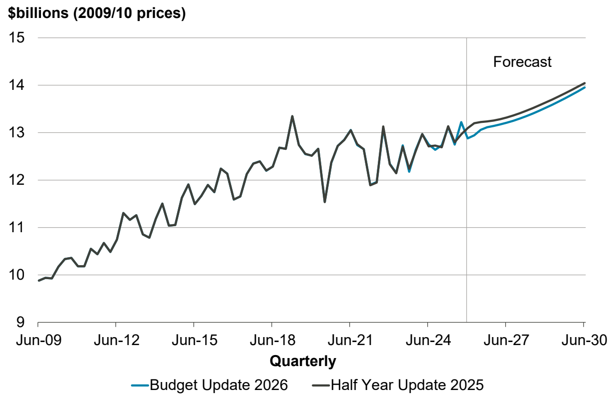
Sources: Haver Analytics, ANZ

Kiwifruit and meat have traded at record-high prices, reflecting favourable market conditions, while wool has seen a resurgence in demand recently as the cost of petroleum-based synthetics has escalated. However, other commodity exports, including forestry and wine, have faced more challenging conditions, although log prices have started to rise. A more persistent global oil shock would pose a downside risk to export demand.

…providing a partial offset to the negative growth impetus…

Slower growth among trading partners is expected to lower prices for New Zealand exports, extending the export price downturn in the near term. Nevertheless, export prices are projected to surpass earlier forecast levels by late 2027, and volumes are expected to grow at a broadly similar pace, reflecting the underlying strength of New Zealand's commodity export sector (Figure 1.19). However, compared to the *Half Year Update*, export volumes are lower across the outlook in level terms due to a downwards revision to potential growth, which is independent of the oil shock.

Figure 1.19 – Goods exports volumes

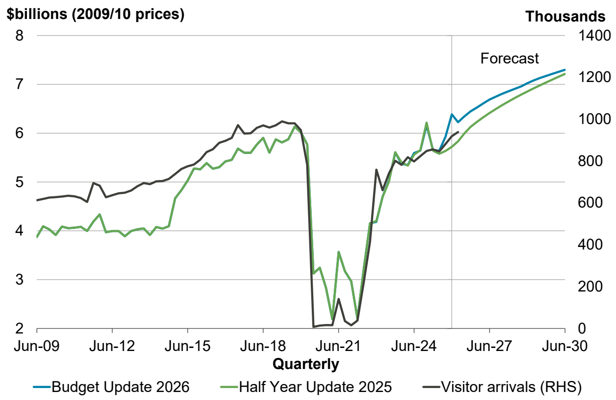


Sources: Stats NZ, the Treasury

…while tourism recovers

Tourism exports, New Zealand's largest service export, have grown more strongly than forecast at the *Half Year Update* (Figure 1.20). Visitor arrivals from Australia and the United States have steadily increased to above pre-COVID-19 levels, which drove a 17% rise in travel services over the second half of 2025.

Figure 1.20 – Service exports and visitor arrivals



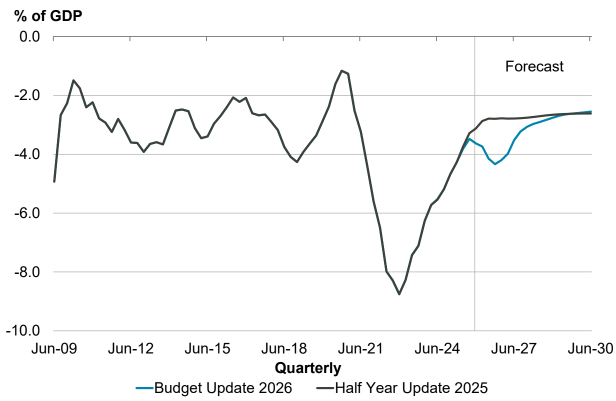
Sources: Stats NZ, the Treasury

The outlook for services exports remains favourable, supported by recent momentum and New Zealand's relative attractiveness as a tourist destination. While higher fuel costs present some downside risk, this is expected to be offset by resilient international travel demand and a competitive exchange rate, while the assumed impacts on travel are limited due to the temporary nature of the shock. However, geopolitical uncertainty may weigh on long-haul travel from certain markets.

A near-term deterioration in the current account reflects the impact of the oil shock…

In the near term, higher import prices are expected to widen the goods and services deficit, pushing the current account deficit to approximately 4.3% of GDP by the September 2026 quarter. Despite the import price shock, import volumes are not expected to fall materially relative to the *Half Year Update.* The oil shock causes a significant deterioration in the current account relative to earlier forecasts and, excluding the COVID-19 period, would represent the largest deficit since the global financial crisis. Prior to the shock, the deficit had been steadily narrowing, driven by strong goods exports and a recovering services balance (Figure 1.21).

Figure 1.21 – Current account balance



Sources: Stats NZ, the Treasury

…before rebalancing in the medium-term

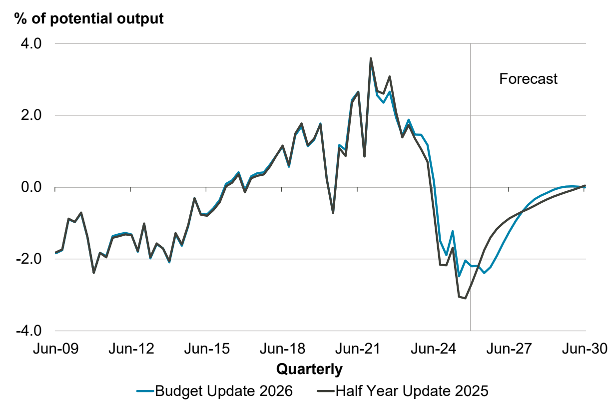
Over the medium term, easing fuel prices and stronger global growth are expected to support a recovery in the terms of trade. As export prices strengthen and import cost pressures abate, the current account deficit narrows. The deficit is expected to return to earlier forecast levels by 2028, stabilising at around 2.5% of GDP over the longer term.

The economic forecasts expect spare capacity to increase in the short-term

The Treasury's central economic forecast treats the oil shock as a temporary, cyclical shock affecting activity in the near term without materially reducing the economy's productive capacity. While short-term reductions in economic activity are expected, the result is a deeper cyclical slowdown rather than a lasting reduction in potential supply. Consequently, spare capacity is expected to increase in the near term, and the output gap widens. As real incomes rise and economic activity accelerates, spare capacity is reduced and the output gap closes.

Independent of the current global oil shock, the Treasury's assessment of potential GDP growth has been lowered. Updates to historical data led to downward revisions in estimates of real GDP and the size of the working-age population. Slower growth in recent years, combined with a smaller workforce, suggests that the economy's sustainable, or potential, growth rate is somewhat lower than previously estimated. A lower potential growth rate means demand in the economy has less capacity to expand before encountering supply-side constraints that place upward pressure on inflation. This lower capacity is reflected in a narrower output gap at the beginning of the forecast compared to the *Half Year Update* (Figure 1.22).

Figure 1.22 – Output gap



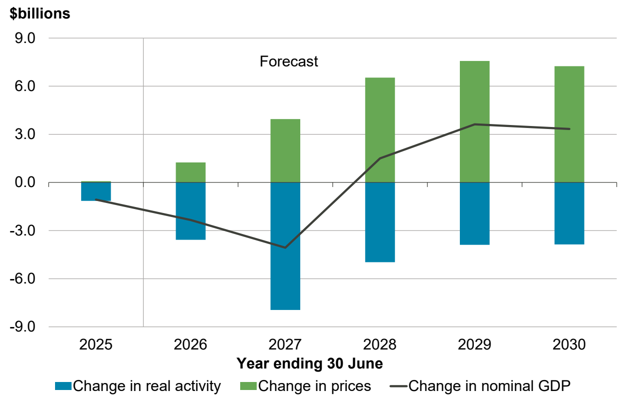
Sources: Stats NZ, the Treasury

***Nominal growth is higher relative to the* Half Year Update**

Nominal GDP is output measured in current prices, while real GDP measures output at constant prices. Nominal GDP will rise if more output is produced or if the prices for those goods and services rise.

Lower real GDP weighs on nominal GDP, but this is offset by higher prices, including prices in the domestic economy and export prices. In the first half of the forecast, the effect of lower activity dominates, and nominal GDP is lower than previously forecast (Figure 1.23). In the second half of the outlook, real GDP recovers slightly and the effect of higher prices dominates, leading nominal GDP to rise above the previous forecast. Accordingly, annual nominal GDP reaches $554 billion by the June 2030 quarter.

Figure 1.23 – Changes to nominal GDP forecasts relative to the *Half Year Update*



Sources: Stats NZ, the Treasury

Alternative Scenarios

The economic outlook is more uncertain than usual and could change if the duration and intensity of the Middle East conflict differ

Conflict in the Middle East and the ensuing global oil supply shock that emerged in late February have created more uncertainty and volatility than usual. The risks reflect both the geopolitical nature of the shock and the difficulty in assessing its duration and intensity, with the risks on balance tilted to the downside. In addition, other sources of uncertainty, including the impact of AI, financial market volatility and broader geopolitical tensions, complicate the outlook.

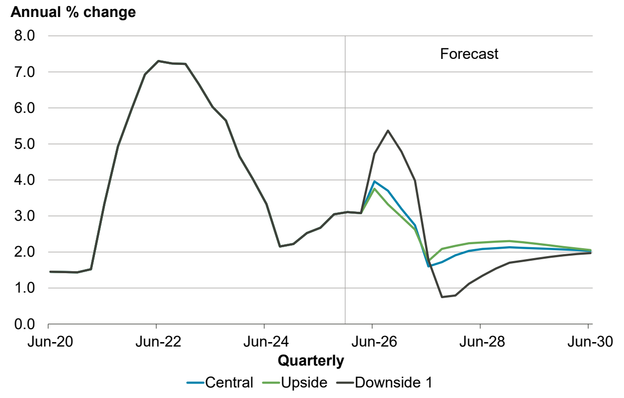
The scenarios that follow focus on the economic and fiscal implications should the oil shock evolve differently to the central forecast. Each scenario highlights how key transmission channels, including trade, uncertainty and confidence, could play out under alternative assumptions. These scenarios are simplified and reflect assumptions about the size and duration of the oil shock, how persistent inflation might be and how it spreads through the economy, and do not capture the full range of possible outcomes.

The first alternative scenario examines a more favourable outlook, where global oil and domestic fuel prices retreat at a faster pace from current levels. By the end of the outlook, oil prices reach a slightly lower level than in the central forecast. Household demand does not fall as strongly, as households mostly look through the temporary decline in their real incomes and maintain a higher level of consumption through dissaving. A stronger rebound in the terms of trade and trading partner growth drives business profits and encourages greater levels of investment.

As such, stronger activity in the near-term leads to real GDP growth of 2.6% in the year to December 2026 compared to 2.1% in the central forecast. Unemployment peaks slightly lower at 5.4% before falling more rapidly.

Nominal GDP is cumulatively around $14 billion higher over the forecast period, with most of this concentrated in the early years of the forecast period. In the final forecast year, nominal GDP is around $2.3 billion higher, primarily reflecting the higher price level. As a result, tax receipts are higher by around $1.3 billion in the final forecast year relative to the central forecast.

Figure 1.24 – CPI inflation under different scenarios



Sources: Stats NZ, the Treasury

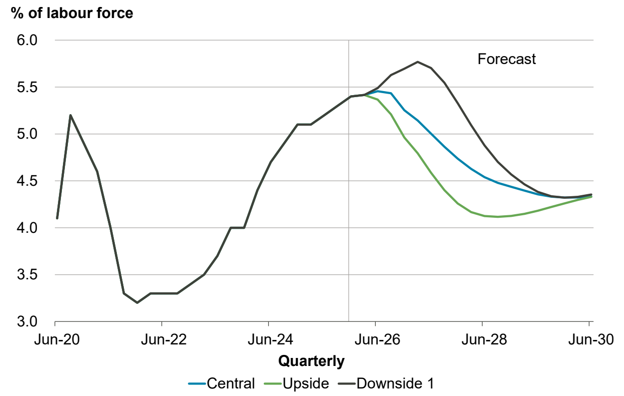
The operating balance before gains and losses excluding ACC (OBEGALx) is close to $1.7 billion stronger at the end of the forecast period primarily due to additional tax revenues. In the early forecast years, lower spending on the Jobseeker Support benefit also contributes to the improvement in OBEGALx.

In a downside scenario in which the Middle East conflict is more protracted, Brent crude oil prices are assumed to increase to US$135 per barrel for half a year, with petrol and diesel prices reaching a peak of $3.73 and $4.10 per litre, respectively.

Under this scenario, annual inflation would surge to 5.4% by the September 2026 quarter before falling back to just under 1% the following year, with monetary policy initially tightening to curb near-term inflationary pressure. The hit to real household disposable incomes would weigh on consumer confidence and spending. Higher oil prices would also contribute to a more sustained terms of trade shock, with import prices rising further than in the central forecast and larger declines in export prices and volumes as global demand weakens. Overall, economic activity in New Zealand would be weaker, with the unemployment rate reaching a higher peak of 5.8% as a larger real income shock weakens consumer and business confidence, undermining spending and investment.

The combination of lower levels of economic activity, employment and lower terms of trade sees a cumulative $17 billion reduction in nominal GDP over the forecast period and is specifically around $4 billion lower across the 2029 to 2030 period.

Figure 1.25 – Unemployment rate under different scenarios



Sources: Stats NZ, the Treasury

In this downside scenario, weaker nominal GDP sees aggregate tax receipts around $4.2 billion lower over the forecast period. Over the first two years of the forecast period, the OBEGALx deficit expands by around $700 million, primarily due to greater spending on benefits. In the final year of the forecast period, OBEGALx is $1.6 billion lower as spending on benefits converges to the baseline level and the impact of weaker tax receipts dominates.

Maintaining fixed nominal baselines, with future Budget allowances held at the same level as in the central forecast, helps to mitigate a deteriorating fiscal position. However, real government spending is lower over 2026 to 2028, reflecting additional cost pressures from higher inflation.

However, if nominal baselines rose to maintain the same level of real government consumption as in the central forecast, OBEGALx would deteriorate by an additional $2.1 billion across the forecast period. These effects would be concentrated over the initial years of the outlook, with increased nominal government spending more than outweighing slightly higher tax revenues. Over the final forecast years, OBEGALx would be similar to the first downside scenario, where fixed nominal baselines are assumed, as the price level returns to close to the central scenario by the end of the forecast period.

Table 1.1 – OBEGALx under different scenarios

Year ending 30 June	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
$billions	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Central forecast	-9.3	-11.9	-11.4	-4.3	2.6	6.1
Downside 1 - fixed nominal baselines	-9.3	-11.9	-12.1	-6.4	0.5	4.5
Downside 2 - maintain real government spending	-9.3	-12.1	-13.2	-6.8	0.2	4.4
Upside	-9.3	-11.9	-10.4	-1.8	5.1	7.8

Upside and downside scenario values are estimates from the Treasury's macroeconomic forecasting model.

The final section of the chapter examines the longer-term implications of a more severe and prolonged oil supply shock that alters household and firm behaviour. A more pronounced oil supply shock could influence global supply chains as increased geopolitical risks are reflected in higher costs. Longer-lasting shocks can influence investment, productivity and the cost structure of entire industries, reshaping the economy's structure rather than its short-run performance alone.

Longer-lasting impacts from structurally higher oil prices

In both the central forecast and alternative scenarios, the Treasury assumes that the supply-side oil shock caused by the Middle East conflict is cyclical, with no longer-term impact on the productive potential of the economy (known as potential output). As fuel and petroleum-based products are major inputs for much of the world's economic activity, higher and more persistent oil prices may cause longer-lasting structural impacts as demand and activity decline. Higher oil prices raise costs for households and businesses, which can slow spending, investment and growth, reshaping the economy's structure, lowering potential output as well as its short-term performance.

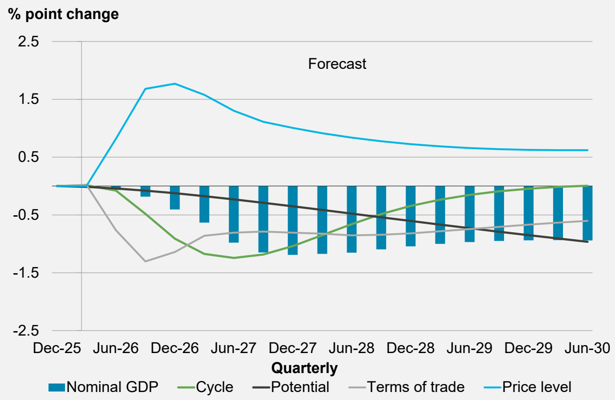
Higher oil and fuel prices are likely to affect sectors differently. Sectors with higher fuel dependencies such as air transport, freight, construction, agriculture and aquaculture may face significant cost increases, with downstream industries also affected as costs are passed on through the supply chain and to consumers. How activity in these industries adjusts to cost changes is difficult to determine given the indispensability of oil and fuels in the production process.

An illustrative scenario suggests that a sustained increase in oil prices of around 15%, with Brent crude oil remaining between US$85 and US$90 per barrel, may result in a 1% fall in potential output relative to the central forecast by mid-2030. These results are broadly consistent with international studies, although they are sensitive to assumptions about the price elasticities of demand for different fuel types, and the impact on technical efficiency (or productivity) as businesses substitute away from oil-based products and fuels.
In addition, sustained higher oil prices could reshape the external sector, with longer-term declines in oil-intensive imports, while New Zealand's commodity export prices could be higher. However, elevated operating costs and reduced competitiveness could undermine export performance, particularly for tourism.

As with the downside scenarios discussed earlier, a scenario where higher oil prices are longer-lasting has a more pronounced impact on GDP initially. Lower real incomes reduce household spending, leading to weaker demand that constrains business investment. Weaker cyclical demand is also more persistent given permanently lower potential output. However, weaker demand dampens inflation pressures, leaving interest rates more accommodative over the latter part of the forecast period relative to the two downside scenarios.

In this particular scenario, nominal GDP is around $19 billion cumulatively lower than in the central forecast. However, the combined effects of permanently lower potential output, lower aggregate demand in the near term and weaker terms of trade are partly offset by a higher price level (Figure 1.26). Tax revenues are around $6 billion cumulatively lower over the forecast period, while OBEGALx is around $2.5 billion lower in each of the last three years of the outlook. A lower level of potential will also create a larger structural fiscal deficit, requiring a fiscal policy adjustment to ensure the government's fiscal strategy is maintained.

Figure 1.26 – Contribution to change in nominal GDP



Source: The Treasury

Key economic forecast judgements and assumptions

In addition to the judgements and assumptions included in the text, these forecasts include the following assumptions:

- Annual net migration inflows are assumed to gradually increase from around 19,000 in the December 2025 quarter to approximately 40,000 in the final year of the forecasts.
- The New Zealand dollar TWI is assumed to appreciate from 67.2 in the March 2026 quarter to 70.3 by June 2030.
- Brent crude oil prices are assumed to rise from an average of US$80 per barrel in the March 2026 quarter, reaching a peak of US$103 per barrel over the June 2026 quarter and falling to an average of US$76 per barrel by the December 2027 quarter.
- The non-accelerating inflation rate of unemployment is assumed to be 4.25% in the long-run.
- The neutral 90-day interest rate is assumed to be 3.0% in the long-run.

Table 1.2 – Economic forecasts

Year ending 30 June Annual average % change	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Private consumption	0.6	1.0	2.4	3.0	3.0	3.0
Public consumption	-0.8	2.7	-1.3	1.1	0.2	0.0
Total consumption	**0.2**	**1.4**	**1.5**	**2.5**	**2.3**	**2.3**
Residential investment	-12.3	-1.9	8.5	10.4	4.9	3.0
Business investment[1]	-2.4	0.8	1.3	7.4	5.2	3.6
Total investment	**-4.6**	**0.3**	**2.7**	**8.0**	**5.2**	**3.5**
Stock change[2]	0.0	0.5	0.1	0.0	0.0	0.0
Gross national expenditure	**-1.0**	**1.9**	**2.0**	**3.8**	**3.0**	**2.6**
Exports	2.9	3.6	3.0	2.2	2.2	2.3
Imports	1.9	4.0	0.5	3.7	2.9	2.5
GDP (expenditure measure)	**-0.9**	**1.4**	**2.6**	**3.3**	**2.8**	**2.6**
GDP (production measure)	**-1.1**	**1.2**	**2.3**	**3.2**	**2.7**	**2.5**
Real GDP per capita	-2.1	0.6	1.3	2.0	1.5	1.3
Nominal GDP (expenditure measure)	3.4	4.0	5.0	6.1	5.2	4.6
GDP deflator	4.3	2.5	2.4	2.6	2.3	2.0
Potential GDP	1.7	1.7	1.8	2.1	2.2	2.4
Output gap (% of potential, June quarter)[3]	-2.5	-2.4	-1.2	-0.3	0.0	0.0
Employment	-1.0	0.3	2.0	2.3	1.8	1.5
Unemployment rate[4]	5.2	5.5	5.0	4.5	4.4	4.3
Participation rate[5]	70.5	70.7	71.1	71.3	71.4	71.4
Hourly wages (annual % change)[6]	4.5	2.6	2.8	3.0	3.4	3.5
CPI inflation (annual % change)	2.7	4.0	1.6	2.1	2.1	2.0
Terms of trade (goods)[7]	8.1	1.7	0.3	3.6	1.3	0.2
House prices (annual % change)[8]	-0.7	-0.5	4.0	4.6	4.3	4.4
Current account balance (annual)						
$billions	-16.6	-18.8	-16.7	-14.6	-14.0	-14.1
% of GDP	-3.8	-4.1	-3.5	-2.9	-2.6	-2.5
Net international investment position (% of GDP)	-48.2	-45.5	-46.0	-45.5	-45.1	-44.9
Exchange rate (TWI)[9]	69.1	66.8	67.6	68.8	69.7	70.3
90-day bank bill rate[10]	3.4	2.5	2.8	3.1	3.3	3.3
10-year bond rate[10]	4.6	4.6	4.5	4.5	4.5	4.5
Population growth	1.0	0.7	1.1	1.2	1.2	1.2
Net migration (4-quarter sum, 000s)	12.0	28.2	36.3	39.0	39.8	39.9

Notes:
1 Business investment is non-residential public and private investment.
2 Contribution to GDP growth.
3 Percentage difference between actual real GDP and potential real GDP.
4 Percent of the labour force, June quarter, seasonally adjusted.
5 Percent of working-age population, June quarter, seasonally adjusted.
6 Quarterly Employment Survey (QES), average ordinary time hourly earnings.
7 System of National Accounts.
8 Cotality Quarterly House Price Index.
9 Trade-weighted index (TWI), average for the June quarter.
10 Average for the June quarter.

2

Fiscal Outlook

The fiscal position has been weakening since 2020. Large operating deficits have been recorded over this period coupled with capital investment that have contributed to a significant lift in the level of debt, with the Government's headline debt indicator – net core Crown debt – increasing from 18.6% of GDP in 2018/19 to 41.9% by 2024/25. This deterioration has been underpinned by a period of soft economic growth and an elevated level of expenditure.

While the fiscal outlook shows that the fiscal position is expected to continue to weaken in the near-term, the outlook is expected to start to recover from 2027/28. The operating balance before gains and losses excluding ACC (OBEGALx) deficit significantly closes in 2027/28 and returns to a surplus of $2.6 billion in the following year. Net core Crown debt is expected to start to fall as a percentage of GDP from 2028/29, dropping to 44.4% by the end of the forecast period.

The expected recovery in the fiscal outlook is largely supported through constraining the growth in expenditure, which sees core Crown expense fall from 32.6% of GDP at the start of the forecast period to 30.3% of GDP by the end. The key fiscal indicators for the *Budget Economic and Fiscal Update 2026 (Budget Update)* are outlined in Table 2.1.

Table 2.1 – Key fiscal indicators

Year ending 30 June $billions	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Core Crown tax revenue	121.7	124.8	133.0	142.2	151.6	159.7
Core Crown expenses	141.7	147.2	154.8	158.8	162.8	167.9
OBEGALx	(9.3)	(11.9)	(11.4)	(4.3)	2.6	6.1
Operating balance	(4.4)	(4.1)	(8.1)	(0.6)	6.7	11.0
Core Crown residual cash	(6.0)	(9.3)	(24.2)	(15.6)	(8.8)	(4.5)
Net core Crown debt	182.2	191.8	216.5	232.4	241.4	246.1
Net worth attributable to the Crown	179.3	175.5	179.9	179.4	186.2	197.2
% of GDP						
Core Crown tax revenue	28.0	27.6	28.0	28.2	28.6	28.8
Core Crown expenses	32.6	32.6	32.6	31.5	30.7	30.3
OBEGALx	(2.1)	(2.6)	(2.4)	(0.8)	0.5	1.1
Operating balance	(1.0)	(0.9)	(1.7)	(0.1)	1.3	2.0
Core Crown residual cash	(1.4)	(2.1)	(5.1)	(3.1)	(1.7)	(0.8)
Net core Crown debt	41.9	42.4	45.6	46.1	45.6	44.4
Net worth attributable to the Crown	41.2	38.8	37.9	35.6	35.1	35.6

Source: The Treasury

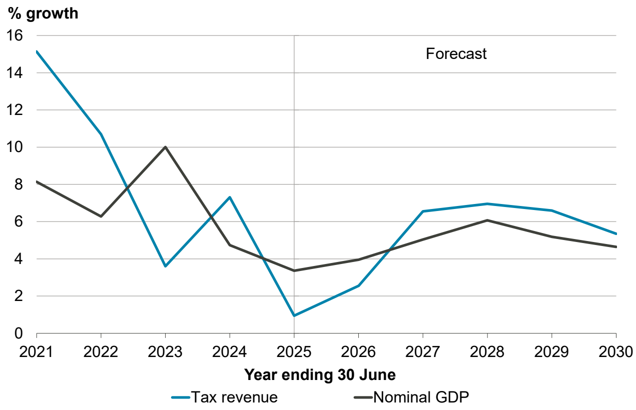
Government's Fiscal Performance

Growth in the nominal economy drives increases in tax revenue…

As a percentage of GDP, core Crown tax revenue is expected to increase over the forecast period from 27.6% in the current year to 28.8% by 2029/30, which contributes approximately one-third to the expected recovery in OBEGALx over the forecast period.

Overall, core Crown tax revenue is forecast to increase by $38.0 billion over the forecast period, from $121.7 billion in 2024/25 to $159.7 billion in 2029/30.

Figure 2.1 – Core Crown tax revenue and nominal GDP growth



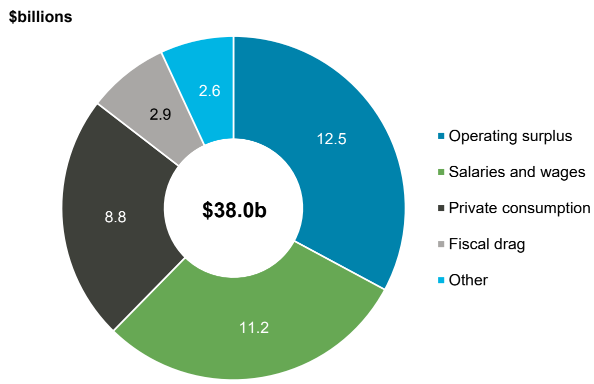
Source: The Treasury

Growth in nominal GDP, supported by a cyclical economic recovery, is the main driver of the increase in core Crown tax revenue. Nominal GDP grows at an average of 5.0% per annum over the forecast period, rising from $435.0 billion in 2024/25 to $554.4 billion by 2029/30 (Figure 2.1). Nominal GDP growth is relatively weak in the near term, reflecting slower real economic activity. Over the rest of the forecast horizon GDP grows as real economic activity strengthens, the terms of trade improve, and price levels remain high.

…with most tax types increasing over the forecast period…

The lift in core Crown tax revenue across the forecast period is largely supported by income growth, price increases, higher household consumption and stronger business profits (Figure 2.2). These factors translate through to increase the tax collected from source deductions, GST and companies (Table 2.2).

Figure 2.2 – Components of core Crown tax revenue growth



Source: The Treasury

Table 2.2 – Movements in core Crown tax revenue by major tax type

Year ending 30 June $billions	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	Total change
Movement in core Crown tax revenue owing to:						
Source deductions	2.3	3.1	3.2	3.7	3.8	**16.1**
Goods and services tax (GST)	1.8	1.8	2.3	2.0	1.9	**9.8**
Corporate tax	0.1	2.2	1.8	2.1	1.2	**7.4**
Net other persons tax	(0.2)	0.7	0.9	0.7	0.6	**2.7**
Motor vehicle fees and Road User Charges	(0.2)	0.1	0.2	0.1	0.1	**0.3**
Customs and excise duties	0.2	0.3	0.4	0.3	0.3	**1.5**
Resident withholding tax	(0.7)	(0.1)	0.3	0.3	0.4	**0.2**
Other taxes	(0.2)	0.1	0.1	0.2	(0.2)	**-**
Total movement in core Crown tax revenue	**3.1**	**8.2**	**9.2**	**9.4**	**8.1**	**38.0**
Plus previous year	121.7	124.8	133.0	142.2	151.6	
Core Crown tax revenue	**124.8**	**133.0**	**142.2**	**151.6**	**159.7**	
As a % of GDP	27.6	28.0	28.2	28.6	28.8	

Source: The Treasury

Source deductions are expected to increase across all years of the forecast period. Although weak employment growth is expected in 2025/26, this is more than offset by rising wages and fiscal drag, resulting in a 4.3% growth in source deductions revenue for the year. Beyond the current year, source deductions grow at a faster pace as employment growth accelerates in 2026/27 and 2027/28, which pairs with ongoing nominal wage growth, lifting source deduction growth to an annual average of 5.8%.

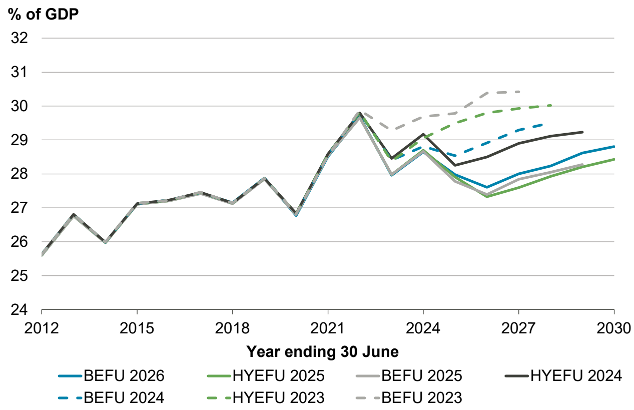
In the current year, the increase in GST revenue reflects growth in household consumption, which follows the economic cycle, with rising inflation partly offset by weak domestic demand. The increase in salaries and wages contributes to household consumption growth picking up from 2026/27. This flows into GST revenue growth, which peaks at 7.0% growth in 2028, before moderating back towards 5.0% growth in 2029/30.

The expected growth in household consumption supports an improvement in net operating surplus of firms, which includes business profits. As a result, corporate tax and other persons tax revenue growth both accelerate from 2026/27 onwards, rising by an annual average of 7.1% and 5.7%, respectively, across the forecast period. Overall, the change in the current year is broadly balanced, reflecting policy changes that have had the effect of reducing core Crown tax revenue, especially the Investment Boost policy from Budget 2025.

In addition, revenue from tobacco excise reduced over the forecast period reflecting recent outturns and a faster anticipated decline in tobacco consumption (for further information refer to the Supplementary Information).

…while a greater tax take per dollar of GDP is expected, uncertainty remains.

Figure 2.3 – Core Crown tax-to-GDP ratio



Source: The Treasury

The tax-to-GDP ratio shows the average tax take for each dollar of GDP. The core Crown tax-to-GDP ratio lifts from a cycle low of 27.6% in 2025/26 to reach 28.8% in 2029/30. There are three main drivers of this lift in the tax-to-GDP ratio across the forecast period:

- **Composition of GDP:** Operating surplus of firms grows at a faster rate than nominal GDP, lifting business taxes. This is partly offset by a weaker contribution from employment, which weighs against source deductions.
- **Fiscal drag:** Growth in nominal incomes lifts the average tax rate paid by individuals, meaning more tax is paid for every dollar of income.
- **Policy changes:** Multiple policies contribute additional tax revenue over the forecast period, including changes that pre-date Budget 2026 such as planned increases to Fuel Excise Duty and Road User Charges rates.

Figure 2.3 shows that, apart from the current forecast round, the tax-to-GDP ratio has been revised down over successive forecast rounds since the *Budget Update 2023*. These downward revisions to the tax-to-GDP ratio reflect several different factors, including changes in the underlying economic forecasts, tax policy changes, revisions to GDP outturns and updated tax revenue forecasts that reflect the latest tax data.

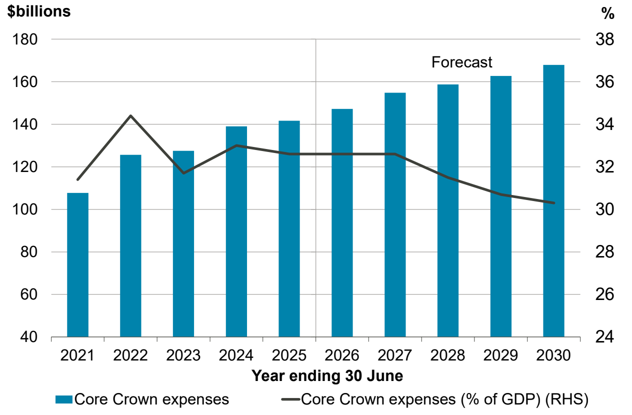
Compared to the *Half Year Economic and Fiscal Update 2025 (Half Year Update)*, the tax-to-GDP ratio has risen by between 0.3% and 0.4% in each year of the forecast period. While this still represents a significant $9.7 billion lift in nominal tax across the forecast period, the change in the tax-to-GDP ratio is more muted than was seen between earlier rounds. For example, the tax-to-GDP ratio changed by as much as 1.1% per year between earlier forecasts shown in Figure 2.3. These larger changes in the tax-to-GDP ratio between earlier forecasting rounds reflected uncertainty associated with the COVID-19 pandemic, which resulted in volatile changes in the economy and revisions to GDP over time.

Adding to the usual uncertainty involved in tax revenue forecasts are the highly uncertain effects of the conflict in the Middle East. Core Crown tax revenue forecasts are based on several key economic indicators outlined in the Economic Outlook chapter. The alternative scenarios discussed in the Economic Outlook chapter (refer to page 25) outline the fiscal impact if the economy were to evolve differently. These scenarios imply that the tax-to-GDP ratio could vary by as much as 0.4 percentage points higher or lower than our central forecast. The fan charts and fiscal sensitivities included in the Risks to the Forecasts chapter also help illustrate tax forecast uncertainty.

Core Crown expenses initially grow in line with the economy but at a slower pace thereafter…

In recent years, core Crown expenses as a share of GDP have remained elevated in comparison to 2018/19, before the onset of COVID-19. Since 2018/19, higher superannuation, healthcare and finance costs have contributed to lift the GDP to core Crown expense ratio by around 3.0%.

Figure 2.4 – Core Crown expenses



Source: The Treasury

Core Crown expenses are expected to remain stable as a percentage of GDP in the first two years of the forecast period but then starts to fall, reaching 30.3% of GDP by 2029/30, contributing approximately two-thirds of the improvement in OBEGALx over the forecast period.

In nominal terms across the forecast period, core Crown expenses increase by $26.2 billion (or 18.5%) from $141.7 billion in 2024/25 to $167.9 billion by 2029/30 (Figure 2.4). Year-on-year growth averages $5.2 billion but peaks in the 2026/27 year, with a forecast uplift of $7.6 billion from 2025/26.

The key drivers of the uplift in core Crown expenses from 2025/26 to 2026/27 are outlined in Table 2.3. In summary, the reason core Crown expenses keep pace with the growth in the economy in the near term is owing to Budget 2026 decisions and the impact of economic factors on existing policy settings.

Table 2.3 – Increase in core Crown expenses between 2025/26 and 2026/27

Year ending 30 June **$billions**	
Core Crown expenses – 2025/26	**147.2**
Movement in core Crown expenses	
Budget 2026 spending decisions	3.9
New Zealand Superannuation	1.8
Other benefit payments	0.8
Finance costs	1.1
Total increase	**7.6**
Core Crown expenses – 2026/27	**154.8**

Source: The Treasury

- Spending decisions from Budget 2026 are expected to lift core Crown expenses by $3.9 billion (refer to page 39).
- Forecast benefit payments (excluding the impact of Budget decisions) increase expenses by $2.6 billion. Most of the increase in benefit expense reflects a combination of higher recipient numbers due to demographic changes from an ageing population, the impact of the economic cycle on certain benefit types and higher prices increasing the annual indexation adjustment for most benefit types. New Zealand Superannuation (NZ Super) contributes $1.8 billion to the overall increase with roughly an equal share coming from an increase in recipients and the indexation of payments.
- Core Crown finance costs are expected to increase by $1.1 billion to reach $10.2 billion in 2026/27. The increase is largely owing to additional borrowing needed to meet the expected funding shortfall.

The forecast includes a top-down adjustment of $1.7 billion and $1.4 billion in 2025/26 and 2026/27, respectively, to account for the bias that departments over-forecast expenditure. As the top-down adjustment is slightly smaller in 2026/27 compared to 2025/26, it also contributes to the increase in core Crown expenses. The top-down adjustment is largely informed by analysis of historical spending trends of departments.

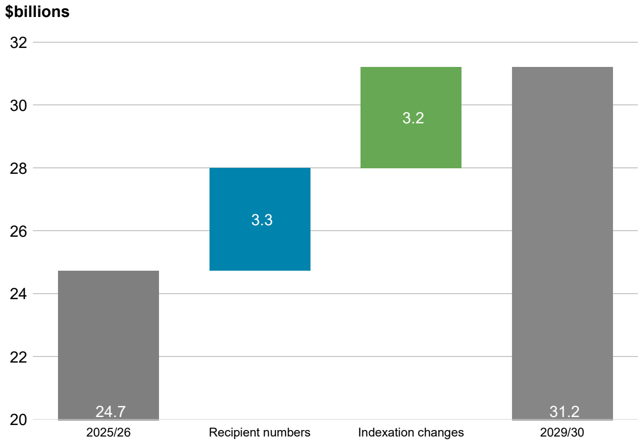
Beyond 2026/27, the nominal growth in core Crown expenses is expected to be much slower. Over the three-year period, core Crown expenses are forecast to increase by $13.1 billion – an average increase of $4.4 billion per annum. As a result, core Crown expenses fall as a percentage of GDP to 30.3% by 2029/30.

The key drivers of the decline in core Crown expenses as a percentage of GDP are largely the result of the profile of the Budget 2026 operating package (discussed on page 38) and Budget operating allowances set aside for future Budgets, which are expected to constrain growth in spending across the public sector in the future.

…however, some expense areas continue to grow…

One of the largest increases in core Crown expenses in nominal terms across the forecast period relates to benefits expenses, which are forecast to increase from $48.5 billion in 2025/26 to $56.0 billion 2029/30. NZ Super payments account for most (around $6.5 billion) of this uplift and stay stable as a share of GDP at around 5.6% across the forecast period. Compared to five years ago, NZ Super payments were only 4.8% of GDP. The change in other benefit types totals around $1.0 billion over the forecast period and predominantly reflects the impact from the indexation of payment rates.

Figure 2.5 – Drivers of NZ Super payment increases



Source: The Treasury

From 2025/26, the average increase to NZ Super payments is $1.6 billion per annum – increasing from $24.7 billion in 2025/26 to $31.2 billion in 2029/30. About half the uplift each year is driven by increased recipient numbers, which are forecast to increase by around 125,000 people from 2025/26 to 2029/30, exceeding a million people in 2027/28 (Figure 2.5), with the other half relating to the indexation of payments.

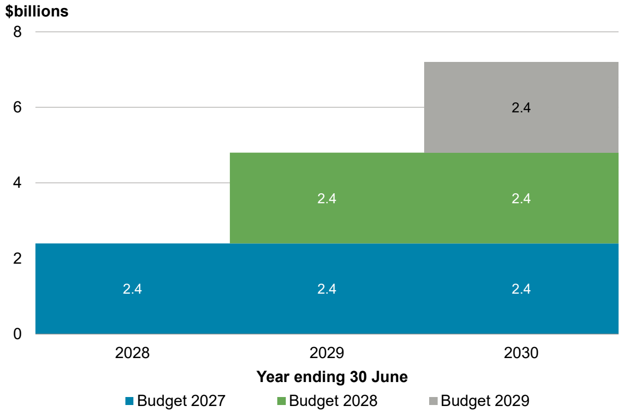
Beyond the forecast horizon, as the over-65s become a larger share of the population, the cost of NZ Super payments will continue to lift core Crown expenses and is likely to create long-term fiscal pressures on other spending areas such as healthcare.

In nominal terms finance costs are forecast to increase from 2026/27 by on average $1.2 billion per annum. The increase in finance costs is largely a result of the additional borrowings required over the forecast period to meet the expected funding shortfall. As a share of GDP, finance costs increase from 2.0% in 2025/26 to 2.5% by 2029/30.

…while funding set aside for future Budgets supports fiscal consolidation…

One of the features of the government's fiscal management approach is fixed nominal baselines. This means the amount of funding agencies receive does not automatically adjust for price or demand changes. Instead, agencies are expected to absorb these pressures or seek funding from Budget allowances through the annual Budget process.

Figure 2.6 – Operating allowances



Source: The Treasury

The Government has announced operating allowances of $2.4 billion per annum for Budget 2027 through to Budget 2029 to allocate in the future to help cover such pressures on future spending. By 2030, these allowances for new spending in future Budgets will increase core Crown expenses by $7.2 billion (Figure 2.6).

Although operating allowances increase core Crown expenses in nominal terms, the level of funding set aside will support a reduction in core Crown expenses as a share of GDP. This is because the amounts available to allocate in the future will constrain the growth in core Crown expenses to below that of nominal GDP. In addition, Budget 2026 decisions play a part in reducing the core Crown expenses to GDP ratio, as larger savings are expected at the back end of the forecast period.

…staying within these future allowances will be challenging

The fiscal forecasts assume that any future costs in relation to new policies or maintaining existing services, such as those outlined in the Risks to the Forecasts chapter, will be met from the Budget operating allowances, from future savings or by raising revenue.

The consequence of running smaller allowances compared to recent years is the challenge of managing the increased costs of maintaining current services and funding new policies. A higher inflation track makes this challenging for future Budgets. In addition, some services provided by the Government will be subject to future demographic changes, which could result in increased spending. For example, an ageing population is likely to increase the demand for healthcare, resulting in higher health expenses. Refer to the discussion on cost pressure analysis included on page 56 of the Risks to the Forecasts chapter.

A portion of the Budget 2027 operating allowance has already been pre-committed leaving available on average $2.1 billion per year to allocate at Budget 2027. This adds to the challenge of keeping new spending within the allowance set for Budget 2027.

The Government has options to help manage this challenge such as reprioritising existing spending, finding efficiencies, and introducing revenue-raising policies.

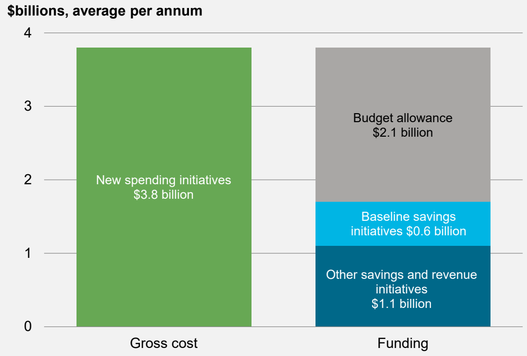
Budget 2026 operating and capital packages

The government's annual Budget is the main process for allocating funding to cover the costs of new spending. The purpose of this box is to explain how Budget 2026 decisions have been incorporated into the fiscal forecasts.

The Budget 2026 operating package is lower than initially signalled by the Government…

The Government has announced a Budget operating package of $2.1 billion average per annum, $0.3 billion lower than the $2.4 billion Budget operating allowance signalled in the *Budget Policy Statement 2026*. The Budget 2026 operating package includes the cost of new initiatives (both revenue and expenses), revenue raising initiatives and savings. The gross cost of the Budget 2026 operating package is on average $3.8 billion per annum, with savings and revenue raising initiatives funding an average of $1.7 billion per annum (Figure 2.7).

Figure 2.7 – Funding of the Budget 2026 operating package



Source: The Treasury

…and includes savings and revenue raising initiatives…

Overall, savings and revenue raising initiatives included in the Budget 2026 operating package average $1.7 billion per annum. They include reductions in current agency baselines, future additional reductions in agency baselines, ending the final-year Fees Free (FYFF) Scheme and reprioritisation of existing spending.

The profile of the Budget 2026 operating package weights savings towards the second half of the forecast period. This reflects the impact of the Government's baseline savings programme and the ending of the FYFF Scheme where savings are expected to incrementally increase across the forecast period.

Overall baseline reduction savings initiatives provide an average of $0.6 billion per annum of savings over the forecast period. Of these savings, there is a portion that has not been reflected in agency baselines yet, with specific areas for these savings still to be identified. Most public service agencies will be required to deliver these savings from their baselines through a combination of workforce reduction to meet the Government's FTE targets, efficiencies and the scaling back of lower-value programmes. This supports the recognition of these savings in the forecasts that have not yet been incorporated in agencies baselines and is consistent with the approach taken with similar programmes in previous forecast rounds (eg, the *Pre-election Economic and Fiscal Update 2023* and *Budget Update 2011*).

The other significant savings initiative included in the Budget 2026 operating package relates to the ending of the FYFF Scheme which averages savings of $0.3 billion per annum.

…that have been used to offset part of the gross cost of new spending initiatives

While the Budget 2026 operating package has come in below the Government's signalled allowance in the *Budget Policy Statement 2026*, the phasing of decisions in the package means that the impacts on the key fiscal indicators vary across the forecast period (Table 2.4).

Compared to the *Half Year Update 2025*, Budget 2026 decisions are expected to increase OBEGALx deficits by $1.2 billion in 2026/27, reflecting the fiscal impact of cost pressure funding and initiatives in response to the Middle East conflict. From 2027/28, the operating package is expected to have a positive impact on OBEGALx, averaging $0.8 billion per annum, reflecting the phasing of the savings initiatives discussed above.

Table 2.4 – Impact of Budget 2026 operating package decisions on key fiscal indicators

Year ending 30 June $millions	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**2030 Forecast**	**5-year Total**	**4-year Average**
Budget 2026 package							
Gross cost of Budget 2026	297	4,148	3,519	3,271	3,370	14,605	3,651[1]
Savings and revenue raising initiatives	(510)	(502)	(1,317)	(1,972)	(2,032)	(6,333)	(1,583)[1]
Net Budget 2026 package	**(213)**	**3,646**	**2,202**	**1,299**	**1,338**	**8,272**	**2,068**
Impact of total new spending on key fiscal indicators							
Tax revenue changes	5	18	52	75	73	223	56
Change in other revenue	-	3	71	72	74	220	55
Change in core Crown revenue	**5**	**21**	**123**	**147**	**147**	**443**	**111**
Core Crown expense changes	(141)	3,764	2,409	1,506	1,545	9,083	2,271
Other expense changes	(67)	(97)	(84)	(60)	(60)	(368)	(92)
Impact on OBEGALx	**(213)**	**3,646**	**2,202**	**1,299**	**1,338**	**8,272**	**2,068**
Budget 2026 allowance	-	2,400	2,400	2,400	2,400	9,600	2,400
Change in OBEGALx against *Half Year Update 2025*	**213**	**(1,246)**	**198**	**1,101**	**1,062**	**1,328**	**332**

1 These amounts will not match the headline Budget 2026 package as some initiatives have impacts beyond the forecast period, so are excluded from the above table. Including these items would result in a gross cost of $3.8 billion and savings and revenue raising initiatives of $1.7 billion.

Source: The Treasury

The Budget 2026 capital package is $5.7 billion

In Budget 2026, the Government has announced capital investments totalling $5.7 billion. This comprises $6.8 billion of new spending and capital savings of $1.1 billion. This breakdown will differ to other Budget documents, reflecting the presentational treatment of the reprioritisation of the Rail Network Investment Programme tagged contingency of $0.2 billion. Around $4.5 billion of the capital package is forecast to be spent within the forecast period, with the rest falling outside the forecast period.

The capital investments in Budget 2026 flow through to different parts of the Government's balance sheet depending on the nature of the investment. However, the majority will be spent on physical assets. Table 2.5 provides a breakdown of the Budget 2026 capital package across different sectors.

Table 2.5 **–** Budget 2026 capital decisions (by sectors) and impact on the fiscal forecasts

Year ending 30 June $millions	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	Post 2030 Forecast	Overall Budget 2026 Total[2]
Transport and communications	-	-	298	201	206	-	705
Education	-	315	112	43	28	4	502
Defence	-	89	132	29	-	-	250
Health	195	30	20	2	-	-	247
Economic and industrial services	199	7	5	-	-	-	211
Unallocated contingency[1]	-	592	1,045	1,070	855	1,246	4,808
Savings	(391)	(678)	(2)	(8)	(7)	-	(1,086)
Other	-	32	26	7	-	-	65
Total 2026 Budget capital package	**3**	**387**	**1,636**	**1,344**	**1,082**	**1,250**	**5,702**

1 Unallocated contingencies represent centrally held contingencies that are for a known initiative within sectors but have not yet been allocated to a particular departmental baseline. They are used when final costs are subject to negotiation or it is likely to be funded but needs further work before funding can be appropriated. For further information on the key initiatives where funding has been set aside in a tagged contingency through Budget 2026 refer to the Summary of Initiatives document.

2 The breakdown by sector in Table 2.5 may be different from the presentation in other Budget documents due to the classifications used.

Source: The Treasury

Future Budget operating and capital allowances

The fiscal forecasts presented in the *Budget Update 2026* include Budget operating allowances of $2.4 billion per annum for Budget 2027 through to Budget 2029 as set out in the *Fiscal Strategy Report 2026.* Through Budget 2026, the Government has pre-committed $0.3 billion average per annum of the Budget 2027 operating allowances. This means the Government has $2.1 billion average per annum remaining from the Budget 2027 operating allowances to fund all new operating decisions.

The capital allowances reflected in the *Budget Update 2026* fiscal forecasts are $3.5 billion for Budget 2027 and Budget 2028, increasing to $5.0 billion for Budget 2029.

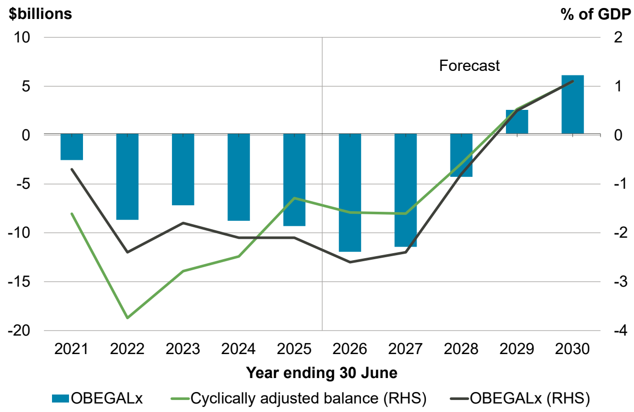
Deficits stay elevated in the near term but then return to surplus in 2028/29

Over the last few years, the OBEGALx deficits have been around 2% of GDP (Figure 2.8).

These recent results have been underpinned by expense growth outpacing revenue growth (Figure 2.9).

This trend of elevated OBEGALx deficits is expected to continue in the near term. While core Crown tax revenue is expected to increase, its growth in the near term is somewhat subdued partly as a result of the Middle East conflict.

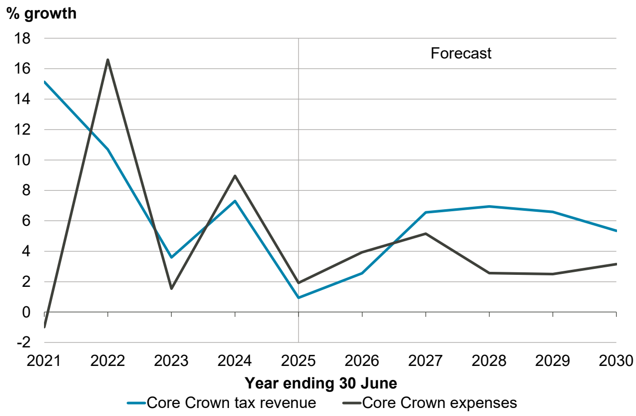
Figure 2.8 – OBEGALx and cyclically adjusted balance (CAB)



Source: The Treasury

Core Crown tax revenue has fallen as a share of GDP in 2024/25 and is forecast to decline further in 2025/26. In contrast, the growth in core Crown expenses remains elevated owing to a combination of factors (refer to page 35). This sees the OBEGALx deficit widening in the current year to $11.9 billion – or 2.6% of GDP – and stays relatively static next year. In part, the widening in the OBEGALx deficit in the current year reflects the economic cycle. Adjusting the OBEGALx deficit for the impact of the economic cycle shows that the deficit would be smaller (Figure 2.8). This suggests that roughly two-fifths of the OBEGALx deficit is caused by the economic cycle and will close over time as the economy recovers. The rest of the deficit is considered structural in nature and requires changes in policy setting to bring revenue and expenses back into balance.

Figure 2.9 – Growth in core Crown tax revenue and core Crown expenses



Source: The Treasury

The Middle East conflict has resulted in a transitory shock to the economy. In the near term, this results in lower tax revenue and higher benefit expenses as real economic activity weakens.

Beyond the 2026/27 year, OBEGALx deficits are forecast to improve year on year and returns to a surplus of $2.6 billion by 2028/29. This recovery is supported by the steady growth in core Crown tax revenue as economic activity increases, terms of trade improve and overall price levels rise. In contrast, more modest growth in core Crown expenses is expected, driven by smaller Budget operating allowances in the future and the impact of the baseline reductions that form part of the Budget 2026 operating package. In addition, a slight improvement in the results of the State-owned enterprise and Crown entity (excluding ACC) segments contributes to the improvement. As the economic cycle unwinds by the back end of the forecast period the cyclically adjusted balance follows a similar trend to OBEGALx and both indicators are broadly the same from 2028/29.

When including the forecast revenue and expenses of Accident Compensation Corporation (ACC), the operating balance before gains and losses (OBEGAL) is forecast to return to surplus in 2029/30, a year later than OBEGALx. The trend in OBEGAL over the forecast period follows a similar path to OBEGALx staying relatively flat in the first two years before returning to a surplus of $3.0 billion by the final year of the forecast period. The gap between OBEGAL and OBEGALx stays relatively stable across the forecast period, reflecting the difference between ACC revenue and expenses remaining broadly unchanged.

The most comprehensive operating indicator, the operating balance, is also expected to recover over the forecast period and returns to a broadly balanced position by 2027/28. Unlike OBEGALx, the operating balance deficit remains stable in the current year at $4.1 billion. This largely reflects continued strong investment returns on the large investment portfolio of the New Zealand Superannuation Fund (NZS Fund). Beyond the current year, the operating balance follows the same trend as OBEGALx, as forecast investment returns are expected to be smaller, reflecting they are based on the long-term benchmark rates of return for their respective profiles.

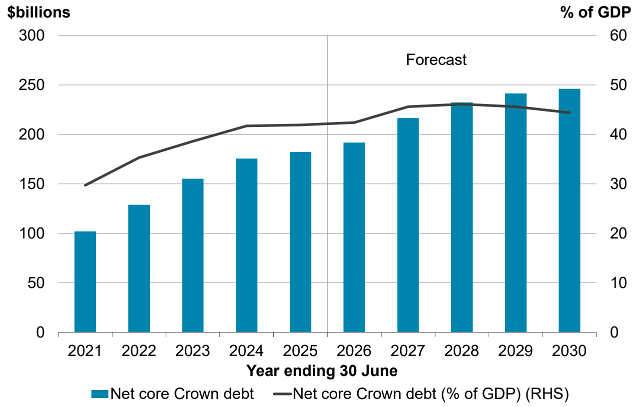
All the key operating balance fiscal indicators are a residual of two very large numbers (revenue and expenses), so a slight change in either can lead to a different track. The fan charts included in the Risks to the Forecasts chapter (refer to pages 54-55) help illustrate this uncertainty by analysing fiscal outcomes based on historical forecasts revisions.

Government's Debt Position

Net core Crown debt as a share of GDP starts to fall during the forecast period…

Net core Crown debt has been on an upward trajectory since 2020. As a share of GDP, it has increased from 18.6% in 2018/19 to 41.9% in 2024/25. Around 65% of the increase over this period has been used to fund capital investments, with just over 25% applied to cover operating cash shortfalls. The rest of the increase in net core Crown debt largely relates to valuation changes of financial instruments.

Figure 2.10 – Net core Crown debt



Source: The Treasury

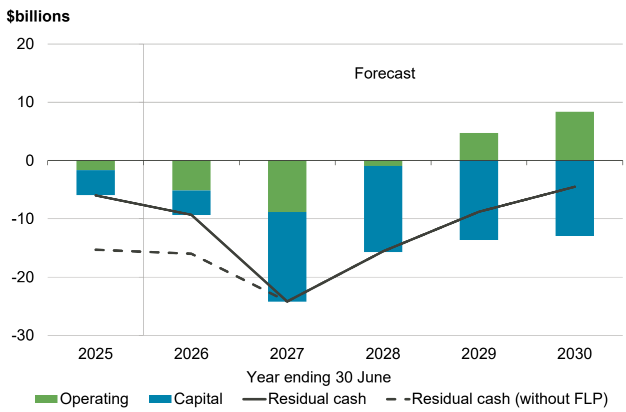
In the near term, net core Crown debt as a percentage of GDP is forecast to continue to rise gradually and peak at 46.1% of GDP in 2027/28, before declining to 44.4% of GDP by the end of the forecast period.

In nominal terms, net core Crown debt is expected to grow across the forecast period (Figure 2.10) from $182.2 billion in 2024/25 to $246.1 billion by 2029/30, an increase of $63.9 billion. Larger increases are anticipated in the near term, followed by more moderate rises towards the end of the forecast period. This trajectory broadly aligns with the trend in the residual cash deficit with the accumulated residual cash deficit totalling $62.5 billion.

…as residual cash deficits narrow

Core Crown residual cash is expected to improve over the forecast period but remains in deficit (Figure 2.11). The deficits are largely owing to capital investments.

Figure 2.11 – Core Crown residual cash



Source: The Treasury

The total accumulated cash deficit across the forecast period is $62.5 billion. This reflects an accumulated shortfall in net core Crown operating cash flows totalling $1.7 billion, while net capital spending totals $60.8 billion. Net core Crown operating cash flows improve across the period, and it is expected that, by 2028/29, core Crown operating cash inflows will be sufficient to cover core Crown operating cash outflows. Therefore, the accumulated residual cash deficit mainly reflects spending on capital investments. The cash shortfall is largely being funded through additional borrowings and the use of financial assets held on the balance sheet.

The residual cash deficit is expected to grow in the near term, increasing to a forecast $9.3 billion deficit in 2025/26 compared to a deficit of $6.0 billion in 2024/25 and peaking at $24.2 billion in 2026/27.

The increase seen in the current year and last year are somewhat masked by the repayments from the Funding for Lending Programme (FLP). Looking through the FLP repayments, there would have been a residual cash deficit of $15.3 billion in 2024/25 and $16.0 billion in 2025/26. Similar to the trend in OBEGALx the residual cash deficit is expected to widen in the current year.

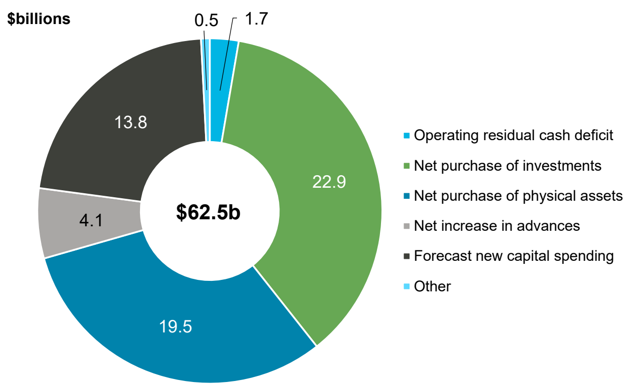
The residual cash deficit (excluding FLP) is expected to increase by $8.2 billion next year. In contrast, the OBEGALx deficit stays broadly stable. These trends differ largely due to an increase in capital investments of around $4.5 billion and timing differences between tax revenue and receipts of around $4.7 billion. This timing difference is driven by an expected lag in payments of provisional tax.

Most of the accumulated residual cash deficit relates to funding capital investment…

Accumulated core Crown net capital spending is forecast to total $60.8 billion by 2029/30, which represents just over 97% of the accumulated cash shortfall over the forecast period (Figure 2.12).

This includes net capital spending of $22.9 billion on investments, which mainly represent capital injections into Crown entities, as well as $19.5 billion on purchases of physical assets by departments. The remaining net capital spending mainly comprises the funding set aside for future Budget capital allowances and tagged contingencies.

Figure 2.12 – Components of the accumulated core Crown residual cash deficit



Source: The Treasury

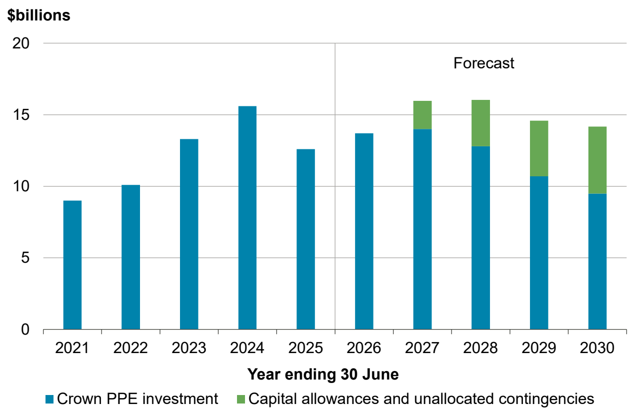
A breakdown of net capital expenditure that has an impact on core Crown residual cash can be found on page 112 of the Forecast Financial Statements chapter.

…which largely translates to additional spending on Crown property, plant and equipment investment

A significant portion of the net capital spending forecast will lead to an increase in property, plant and equipment (PPE) investments. Crown PPE investments measure the net investment in physical and intangible assets that are expected to be funded by the Crown directly (through capital injections) or indirectly (through operating funding or lending). This measure incorporates the core Crown, Crown entities and KiwiRail and serves as a proxy to link the impact of capital policy decisions through to the economy.

Over the forecast period, Crown PPE investments total $60.7 billion. More than one-third of forecast capital expenditure is in the transport sector ($22.2 billion), with expenditure in the education, health and housing sectors also contributing around $10.9 billion, $9.6 billion and $4.7 billion, respectively. This will include expected spending on projects already underway but also spending that has yet to be committed to specific projects.

Figure 2.13 – Crown PPE investments



Source: The Treasury

In addition to the Crown PPE investments, new capital spending yet to be allocated totals $13.8 billion across the forecast period. This includes funding agreed in previous Budgets for specific projects that have not yet been appropriated into agencies baselines because further work is required prior to this occurring (unallocated contingencies) and Budget capital allowances set aside for future Budgets.

Beyond 2026/27, Crown PPE investments are shown to slowly taper off across the forecast period, reflecting a reduction in capital expenditure as projects already committed to are completed. It is likely these will increase at future forecast updates once funding is allocated to new PPE investments from the future budget capital allowances, as illustrated in Figure 2.13.

The overall cash shortfall will mainly be funded by issuing bonds

The Government's borrowing programme includes the issuance of both government bonds (NZGB) and short-term borrowings (Treasury Bills and Euro-Commercial Paper). Overall, the programme will provide net funds of $53.8 billion (Table 2.6) to help cover the residual cash deficits and maintain the Crown liquidity buffer. The liquidity buffer ensures the Government is well placed to manage funding and liquidity risks.

Annual net government bond issuance is broadly consistent with the profile of the core Crown residual cash deficits. However, in the 2026/27 fiscal year, net issuance is below the level of residual cash deficits, largely reflecting the transition to the lower liquidity buffer[3] and smoothing of the NZGB programme year to year. After 2027/28, annual cash flows from the programme are forecast to be on a declining trend, reflective of the expected narrowing of the residual cash deficits. Compared to the *Half Year Update*, the NZGB programme has decreased by $6.0 billion over the forecast period.

Table 2.6 – Net issuance of market government bonds and short-term borrowing[1]

Year ending 30 June $billions	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast	Total
Face value of market government bonds issued	35.0	34.0	32.0	30.0	28.0	**159.0**
Debt programme cash flows						
Cash proceeds from issue of market government bonds	34.1	31.2	30.3	28.7	26.7	**151.0**
Repayment of market government bonds	(18.2)	(22.5)	(15.2)	(17.1)	(22.6)	**(95.6)**
Net issue/(repayment) of short-term borrowings	(4.6)	5.0	-	(2.0)	-	**(1.6)**
Net debt programme cash flows	**11.3**	**13.7**	**15.1**	**9.6**	**4.1**	**53.8**

1 This table only reflects the transactions forecast by New Zealand Debt Management. It is not consolidated with other entities within the Crown.

More information on the bond programme can be found at https://debtmanagement.treasury.govt.nz/investor-resources/media-statements

Source: The Treasury

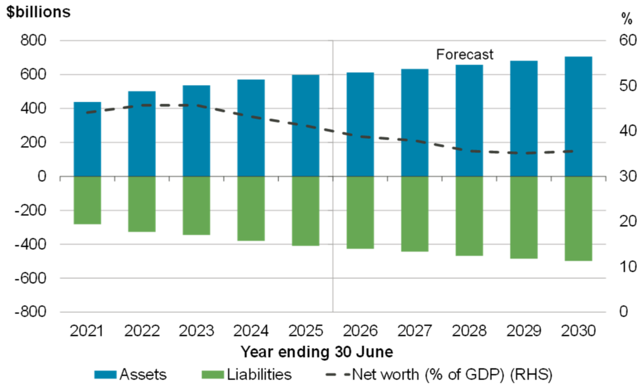
3 As part of the scheduled 2025 review of the minimum liquidity buffer, New Zealand Debt Management reduced the size of the buffer from NZ$15 billion to NZ$10 billion: https://debtmanagement.treasury.govt.nz/sites/default/files/2025-12/nzdm-resizing-crown-minimum-liquidity-buffer.pdf

Government's Fiscal Position

Net worth initially declines before growing over the forecast period…

Net worth measures the difference between the Government's total assets and liabilities. However, not all the assets and liabilities are the Government's. A portion of total assets and liabilities is assignable to the minority interest shareholders of entities such as Air New Zealand, Mercury, Meridian Energy and Genesis Energy. Looking through minority interests provides a better indication of the Crown's share of net worth, which can be shown via the fiscal indicator net worth attributable to the Crown.

Figure 2.14 – Net worth attributable to the Crown



Source: The Treasury

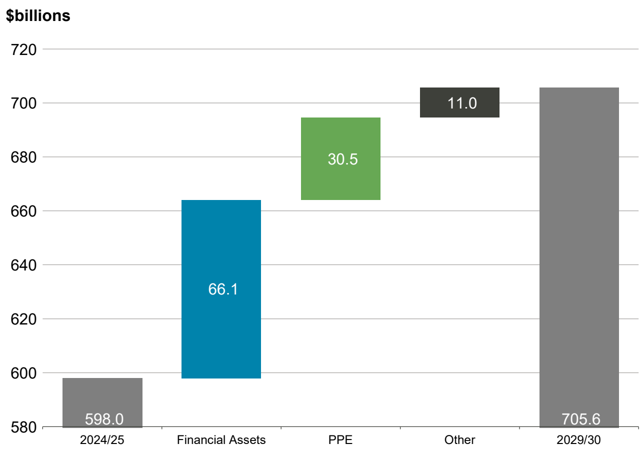
In nominal terms, net worth attributable to the Crown is expected to drop in the first year of the forecast period from $179.3 billion in 2024/25 to $175.5 billion in 2025/26. It then increases to $197.2 billion in the last year of the forecast (Figure 2.14). Looking through the impact of the implementation of PBE IFRS 17 *Insurance Contracts*[4] in 2026/27, the year-on-year changes in net worth attributable to the Crown follow the trend in the operating balance forecasts, which are initially deficits but move into a surplus position by 2028/29.

However, as a share of GDP, net worth attributable to the Crown falls from 41.2% in 2024/25 to 35.1% in 2028/29 but starts rising again in 2029/30. The fall in the GDP ratio reflects that operating balance deficits are initially expected. As the operating balance returns to surplus, net worth attributable to the Crown as a share of GDP starts to stabilise and then increases in the last year of the forecast period.

…with assets increasing at a higher rate than liabilities

Total assets are forecast to increase by $107.6 billion over the forecast period, reaching $705.6 billion in 2029/30. Total liabilities are forecast to increase by $89.4 billion, rising to $498.3 billion by the last year of the forecast period (Figures 2.15 and 2.16).

Figure 2.15 – Increase in assets



Source: The Treasury

4 Refer to the box in the Statement of Accounting Policies, Judgements and Assumptions section of the Forecast Financial Statements on page 77 for further information on the implementation of PBE IFRS 17.

…with financial assets driving most of the increase in assets…

Financial assets are forecast to increase by $66.1 billion by 2029/30. The following areas contribute to most of this growth:

- The investment portfolios of the NZS Fund and ACC contribute $43.4 billion to the increase in financial assets, which largely reflects growth from expected investment returns.
- Kiwi Group loans and advances are forecast to increase by $17.2 billion, primarily driven by expected growth in mortgage lending, which results in a broadly corresponding increase in financial liabilities, as discussed on page 49.

…along with growth in property, plant and equipment

PPE assets are expected to increase by $30.5 billion by 2029/30. This increase is largely due to additions of $82.2 billion over the forecast period, which are partly offset by depreciation expenses that total $46.3 billion over the same period.

In net terms, the largest growth in PPE by asset class is the state highway asset category, which is forecast to increase by $9.9 billion over the forecast period, while buildings also increase by $9.5 billion.

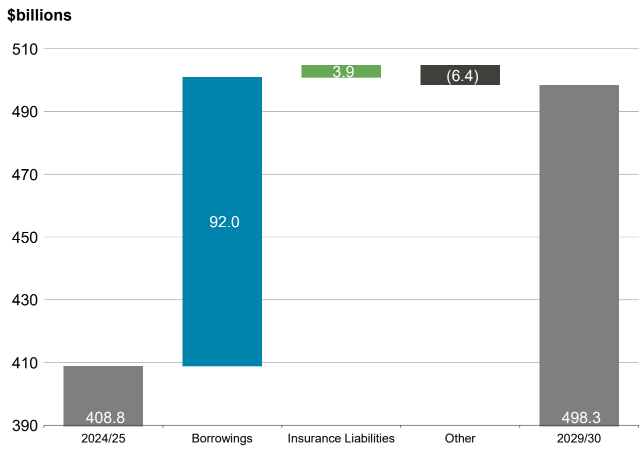
In addition, the forecast includes new capital spending, which is expected to increase assets by $13.8 billion by 2029/30.

Total borrowings are expected to increase largely to fund Government activity…

Total borrowings are forecast to increase by $92.0 billion, from $272.1 billion in 2024/25 to reach $364.1 billion by 2029/30.

Government bonds are expected to increase by $78.6 billion by the end of the forecast period. Government bond issuances are largely reflective of the borrowing required to meet the accumulated residual cash shortfall of $62.5 billion to fund operating and capital expenditure of the Government that cannot be covered by revenue (such as tax revenue). In the near term, the level of government bonds is also impacted by the winding down of the Reserve Bank's LSAP programme. In addition to maturities, the Reserve Bank are selling $5.0 billion of government bonds in its LSAP portfolio to New Zealand Debt Management per year. By mid-2027, the Reserve Bank expects to have no further government bonds in its LSAP portfolio and, therefore, the Reserve Bank's LSAP programme does not impact the government bond forecast after this date. The repayment of $6.7 billion of FLP advances in the 2025/26 year also contributes to a decrease in settlement deposits.

Figure 2.16 – Increase in liabilities



Source: The Treasury

Kiwi Group borrowings (such as customers deposits) are forecast to increase by $12.3 billion, which is more than offset by the forecast increase in Kiwi Group loans and advances (as discussed on page 48).

…while the Government's insurance liabilities also increase

Insurance liabilities are forecast to increase by $3.9 billion to reach $74.2 billion by 2029/30. The ACC insurance liability makes up most of this balance and is forecast to grow by $4.4 billion over the forecast period. The increase in the ACC insurance liability is slightly offset by the forecast decrease to the Natural Hazards Commission insurance liability.

While the insurance liabilities initially increase in 2025/26, they then fall in 2026/27 due to the impact of the adoption of PBE IFRS 17. For more information on the implementation of PBE IFRS 17, refer to page 77 in the Forecast Financial Statements chapter.

The key changes from PBE IFRS 17 for ACC are the removal of a risk margin ($7.7 billion) that served as a buffer on top of the outstanding claims liability (OCL) and changes to the discount rate used for the valuation of the OCL ($4.0 billion). While these reductions in the OCL will impact insurance expenses in the future, for the purposes of levy setting, the risk margin is looked through, so there is no implication. The next levy-setting process expected in 2027 will take multiple factors into consideration, so it is unclear how much the discount rate adjustment alone will ultimately influence future levy rates.

The ACC insurance liability is an estimate of the present-day value of the amount ACC would need to pay out to meet future costs of injuries that have already occurred or that are expected to occur over the forecast period. Looking through the impacts of the adoption of PBE IFRS 17, the ACC insurance liability is expected to grow by an average of $3.4 billion per year over the forecast period, with the increases largely reflecting growth in claims volumes and economic factors.

Comparison to the *Half Year Update*

Table 2.7 – Key fiscal indicators compared to the *Half Year Update*

Year ending 30 June $billions	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Core Crown tax revenue						
Budget Update	121.7	124.8	133.0	142.2	151.6	159.7
Half Year Update		124.2	132.2	140.2	148.4	156.6
Core Crown expenses						
Budget Update	141.7	147.2	154.8	158.8	162.8	167.9
Half Year Update		149.0	153.5	157.6	162.6	167.9
OBEGALx						
Budget Update	(9.3)	(11.9)	(11.4)	(4.3)	2.6	6.1
Half Year Update		(13.9)	(10.4)	(5.1)	(0.9)	2.3
Core Crown residual cash						
Budget Update	(6.0)	(9.3)	(24.2)	(15.6)	(8.8)	(4.5)
Half Year Update		(14.8)	(23.2)	(14.3)	(10.7)	(6.6)
Net core Crown debt						
Budget Update	182.2	191.8	216.5	232.4	241.4	246.1
Half Year Update		197.0	220.6	235.7	246.8	253.9
Net worth attributable to the Crown						
Budget Update	179.3	175.5	179.9	179.4	186.2	197.2
Half Year Update		172.7	166.0	165.2	169.4	177.3
% of GDP						
Core Crown tax revenue						
Budget Update	28.0	27.6	28.0	28.2	28.6	28.8
Half Year Update		27.3	27.6	27.9	28.2	28.4
Core Crown expenses						
Budget Update	32.6	32.6	32.6	31.5	30.7	30.3
Half Year Update		32.8	32.0	31.4	30.9	30.5
OBEGALx						
Budget Update	(2.1)	(2.6)	(2.4)	(0.8)	0.5	1.1
Half Year Update		(3.0)	(2.2)	(1.0)	(0.2)	0.4
Core Crown residual cash						
Budget Update	(1.4)	(2.1)	(5.1)	(3.1)	(1.7)	(0.8)
Half Year Update		(3.3)	(4.8)	(2.8)	(2.0)	(1.2)
Net core Crown debt						
Budget Update	41.9	42.4	45.6	46.1	45.6	44.4
Half Year Update		43.3	46.0	46.9	46.9	46.1
Net worth attributable to the Crown						
Budget Update	41.2	38.8	37.9	35.6	35.1	35.6
Half Year Update		38.0	34.7	32.9	32.2	32.2

Source: The Treasury

Comparison to the *Half Year Update*

The fiscal outlook is expected to recover faster than at the Half Year Update*…*

Overall, the fiscal outlook has improved since the *Half Year Update,* with OBEGALx forecast to return to surplus a year earlier and net core Crown debt being 1.7% lower as a share of GDP by the end of the forecast period. The expected improvement in the fiscal outlook is underpinned by the updated economic conditions and the impact of Budget 2026 decisions.

Table 2.8 – Change in OBEGALx since the *Half Year Update*

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

Source: The Treasury

…largely on the back of the updated economic outlook…

Expected strength in the nominal economy, as a result of higher prices and terms of trade, strength in recent tax outturns, changes to the composition of GDP and higher interest rate expectations have resulted in an upward revision to the forecast of core Crown tax revenue.

Overall compared to the *Half Year Update*, core Crown tax revenue is $9.4 billion higher across the forecast period when excluding Budget 2026 decisions. Looking at the upward revision of $3.1 billion in the 2028/29, this has been driven by the impact of higher inflation and terms of trade ($1.8 billion), recent strength in year-to-date tax outturns ($1.0 billion), a more tax-rich composition of GDP ($0.4 billion) and the impact of higher interest rates ($0.4 billion). These improvements have been partially offset by the impact of weaker real GDP ($0.7 billion).

The higher prices compared to the *Half Year Update* have also resulted in an upward revision to most benefit expense types. The annual indexation adjustment will have a compounding impact on benefit expenses in each year, contributing to an increase of $0.7 billion in 2028/29, since the *Half Year Update*.

The economic implications from the Middle East conflict have led to a small upward revision to core Crown tax revenue, weighted more towards the latter half of the forecast period. Over the forecast period as a whole, the Middle East conflict has pushed up inflation, which supports an increase in core Crown tax revenue, but this is offset by a reduction in real economic activity, particularly at the start of the forecast period. The Middle East conflict has also increased benefit expenses, as a result of higher unemployment and a higher annual indexation adjustment. It is difficult to fully isolate the economic and fiscal impacts of the Middle East conflict, but our analysis suggests that the majority of the fiscal improvement is largely driven by other factors.

…and Budget 2026 decisions…

The Budget 2026 operating package has come in lower than previously expected (Table 2.8). The *Half Year Update* assumed a Budget 2026 operating allowance of $2.4 billion per annum, however the final package came in at $2.1 billion per annum. In addition, the profile of the package has meant there are smaller fiscal impacts at the back end of the forecast period which helps support OBEGALx returning to surplus a year earlier than forecast at the *Half Year Update*. For further details on the fiscal impacts of the Budget 2026 package, refer to the box on page 38.

…leading to a stronger outlook for OBEGALx and net core Crown debt

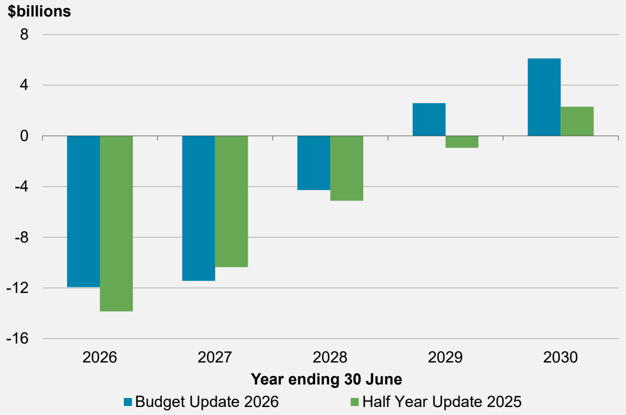
Overall, OBEGALx is expected to be stronger compared to the *Half Year Update* in most years of the forecast period (Figure 2.17). The exception being next year when the forecast deficit is $1.0 billion larger than previously expected. This largely reflects the phasing of the Budget 2026 operating package discussed above.

The stronger outlook for OBEGALx largely translates into a reduced accumulated operating cash shortfall. In total, net core Crown operating cash flows are better by $10.6 billion compared to the *Half Year Update*. However, this improvement has been partly offset by an increase in capital cash outflows driven by the Budget 2026 capital package being higher than signalled, an increase in the Budget 2029 capital allowance (both discussed on page 40) and increases to NZS Fund contributions. The increase in NZS Fund contribution reflects the impact of a higher nominal GDP track and an increase in the forecasts of net (after tax) NZ Super payments. In addition, a decrease in the long-run expected return assumption has increased the level of contributions.

Overall, this has led to a reduction in the accumulated residual cash deficit of $7.2 billion since the *Half Year Update*.

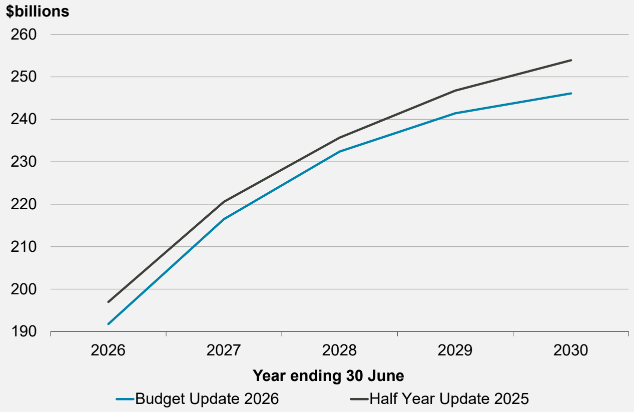
As a result, net core Crown debt is now expected to peak at 46.1% of GDP in 2027/28, just under 1.0% lower than expected at the *Half Year Update* and, in nominal terms, will be $7.8 billion lower by 2029/30 than at the *Half Year Update* (Figure 2.18).

Figure 2.17 – OBEGALx compared to the *Half Year Update*



Source: The Treasury

Figure 2.18 – Net core Crown debt compared to the *Half Year Update*



Source: The Treasury

3

Risks to the Forecasts

Our forecasts are based on various assumptions and judgements

The economic and fiscal forecasts presented in the previous two chapters are prepared using a number of key assumptions and judgements. As with any kind of forecasting, there is risk that actual events will differ from expectations. This chapter highlights the key risks that could alter the economic and fiscal forecasts presented in this *Budget Economic and Fiscal Update 2026 (Budget Update)*.

Risks to the outlooks can be largely grouped under three areas:

- The economy evolves differently than assumed (for example, the speed at which lower interest rates affect the economy).
- Significant policy changes or specific fiscal risks materialising.
- Adverse events (for example, adverse weather events or unanticipated global developments like the Middle East conflict).

There are several ways to disclose and illustrate these uncertainties. This *Budget Update* does this in the following ways:

- Sets out alternative scenarios to illustrate possible outcomes if the economy evolves differently – see pages 25 to 28 in the *Economic Outlook* chapter. This is particularly relevant in this *Budget Update* given the economic uncertainty created by the Middle East conflict.
- Uses fan chart analysis to illustrate uncertainty in fiscal outcomes based on historical forecast revisions – see pages 54 to 55.
- Uses sensitivity analysis to illustrate how changes to key economic indicators could flow through to the fiscal indicators – see page 56.
- Considers the cost pressures facing the Government – see pages 56 to 57.
- Discloses specific fiscal risks that, if they were to eventuate, may affect the fiscal forecast – see pages 57 to 67 – and contingent liabilities and contingent assets – see pages 71 to 74.

This chapter does not include risks associated with significant economic shocks or long-term structural changes. The Treasury's most recent Long-term Insights Briefing provides information on economic shocks. Since the late 1980s, the fiscal cost of government responses to economic shocks has averaged about 10% of GDP per decade.

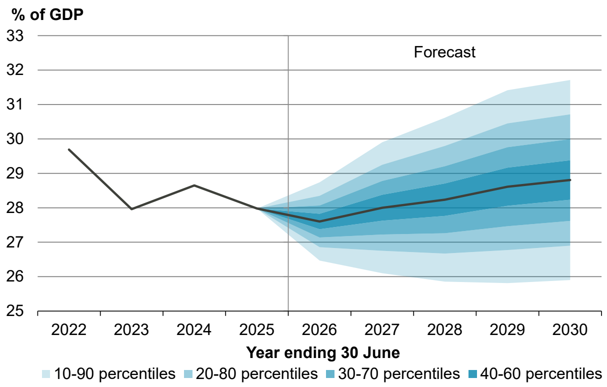
Our Long-term Fiscal Statement examines the implications of longer-term fiscal changes, while our Investment Statement looks at the implication of a variety of shocks on the Government's balance sheet.[5]

General Uncertainty in the Fiscal Forecasts

Fan charts illustrate the uncertainty around forecasts for key fiscal indicators over the forecast horizon. We present fan charts for core Crown tax revenue (Figure 3.1), core Crown expenses (Figure 3.2), OBEGAL (Figure 3.3), net core Crown debt (Figure 3.4) and net worth (Figure 3.5)[6]. These charts reflect uncertainty arising from unexpected economic developments, fiscal outcomes and policy changes.

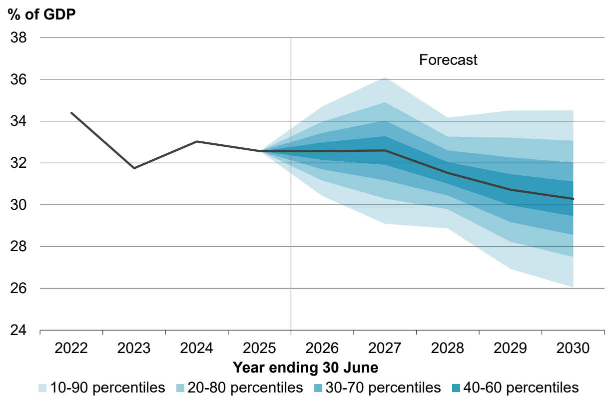
Since the *Half Year Economic and Fiscal Update 2025 (Half Year Update)*, we have made some refinements to the fan charts methodology. The updated fan charts are based on analysis of past forecast errors over nearly two decades.[7] Forecast errors are defined as the difference between forecasts and outturns, with variables expressed as a percentage of GDP. Errors are assumed to be symmetric and follow a normal distribution, with dispersion calibrated using the root mean squared forecast error.

Figure 3.1 – Core Crown tax revenue fan chart



Source: The Treasury

Figure 3.2 – Core Crown expenses fan chart



Source: The Treasury

5 The Treasury's stewardship reports are available at https://www.treasury.govt.nz/publications/treasurys-stewardship-reports.

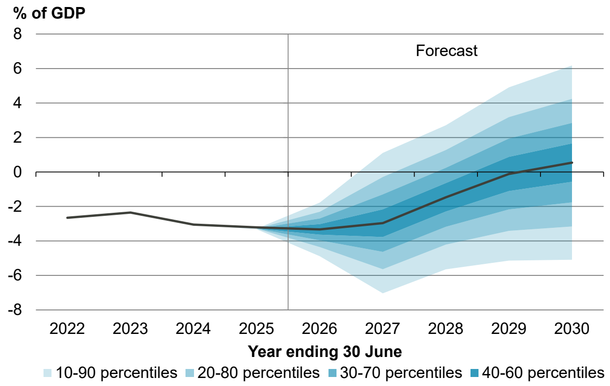
6 OBEGAL is used rather than OBEGALx because of the small number of past forecasts for OBEGALx. Net worth is used rather than net worth attributable to the Crown as the uncertainty being illustrated relates to movements in aggregate balance sheet assets and liabilities, rather than the attribution of net worth between the Crown and non-controlling interests.

7 For most indicators, the updated methodology uses forecast errors since 2007, when government reporting moved to the New Zealand equivalent of the International Financial Reporting Standards. For net core Crown debt, it uses forecast errors since 2009, when the current indicator was introduced.

Under these assumptions, the fan charts imply that, at the end of the forecast period, there is:

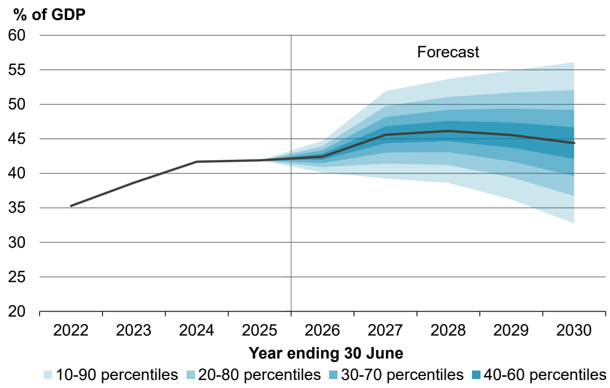
- a 20–30% chance that core Crown tax revenue will be above 30% of GDP
- a 40–50% chance that core Crown expenses will be below 30% of GDP
- a 50–60% chance that OBEGAL will be in surplus
- a 30–40% chance that net core Crown debt will be below 40% of GDP and a 20–30% chance that it will be above 50% of GDP
- a 40–50% chance that net worth will be above 40% of GDP.

Figure 3.3 – OBEGAL[6] fan chart



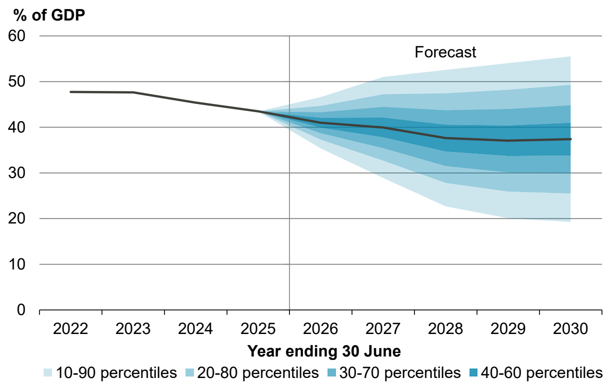
Source: The Treasury

Figure 3.4 – Net core Crown debt fan chart



Source: The Treasury

Figure 3.5 – Net worth[6] fan chart



Source: The Treasury

These statements are not intended to reflect the Government's short-term intentions for fiscal policy, which are based on different indicators and time horizons. For example, the Government's operating balance intention is based on operating balance before gains and losses excluding ACC (OBEGALx) rather than the operating balance before gains and losses (OBEGAL), and the intentions for debt and net worth do not specify precise targets for a specific year.

The fan charts provide a probabilistic view of uncertainty around the fiscal forecasts based on historical forecast errors. However, they do not identify which economic or policy developments might drive outcomes away from the forecast. To provide additional insights into these areas of uncertainty, the following sections use two complementary approaches: sensitivity analysis to illustrate exposure to key economic variables; and analysis of cost pressures that may affect future policy decisions.

Fiscal sensitivity analysis shows how small changes to key economic indicators have a large effect on fiscal indicators…

The fiscal forecasts are prepared based on underlying economic forecasts. These are critical in determining significant revenue and expense estimates. The most relevant economic indicators to the fiscal forecasts are outlined on page 81. Any variation in the forecasts of these underlying economic indicators could impact the fiscal forecasts. The forecasts for tax revenue, benefit expenses and finance costs are particularly sensitive to changes in certain economic indicators.

Sensitivity analysis illustrates how certain changes in key economic indicators could flow through to fiscal indicators. Table 3.1 provides rules of thumb for the sensitivity of tax revenue to economic growth, as well as how government income and expenses are affected by interest rates.

Table 3.1 – Fiscal sensitivity analysis

Year ending 30 June $millions	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**2030 Forecast**
Impact on tax revenue of a 1 percentage point increase[1] in growth of					
Nominal GDP	1,290	2,745	4,405	6,290	8,325
Wages and salaries	635	1,330	2,110	2,995	3,975
Taxable business profits	250	580	970	1,420	1,895
Impact of 1 percentage lower[1] interest rates on					
Interest income[2]	(176)	(467)	(493)	(488)	(559)
Interest expenses[2]	(170)	(715)	(1,083)	(1,364)	(1,632)
Net impact on operating balance	(7)	248	590	876	1,073

1 These sensitivities are broadly symmetrical.

2 Interest sensitivities relate to consolidated external exposures of both the Treasury (Debt Management) and the Reserve Bank.

Source: The Treasury

…while there are risks to the fiscal forecasts from pressures on expenditure

Another source of risk to the fiscal forecasts arises from pressures on future expenditure. This reflects that there is uncertainty about the cost of maintaining existing public services and how increases in these costs would be managed through future Budget processes.

The fiscal forecasts assume that net new spending for cost increases of existing public services (ie, cost pressures) and new initiatives (such as additional public services or tax cuts) in Budgets 2027–2029 will be within an operating allowance of $2.4 billion per annum, per the Government's fiscal strategy. Importantly, these allowances are net concepts, so gross spending can be offset through efficiency measures, savings and reprioritisation. While they are assumed to flow to expenses in the forecasts, they can also include changes in revenue.

The Treasury uses a range of approaches to estimate future cost pressures:

- Historical analysis of cost pressure funding allocated in past Budgets. For the analysis in this section, we have incorporated information from the previous three Budgets.
- Bottom-up modelling from the Treasury's Long-term Fiscal Model to capture both price and volume cost pressures (the impact of changes in demand for public services).

If the experience of recent Budgets is repeated, cost pressure funding could be about $2 to $3 billion per annum. This would rely on continuing a targeted approach to cost pressures, including only funding critical cost pressures in core public services, and finding savings and reprioritisation opportunities in existing funding.

The Long-term Fiscal Model suggests a risk that cost pressure demands are larger than the amount funded at recent Budgets. This reflects that the modelling implies there will be an increase in the volume of public services due to an ageing population increasing demand on health spending, the Defence Capability Plan and an assumption that expenditure in most sectors will gradually converge to long-run historical norms over time as a percentage of GDP. The implied pressure on future Budgets would increase if inflation is higher than forecast.

Specific Risks to the Fiscal Forecasts

The statement of specific fiscal risks seeks to provide transparency on risks that could affect the fiscal forecasts

The statement of specific fiscal risks sets out all government decisions and other circumstances known to the Treasury where the fiscal implications may have a material effect on the economic and fiscal outlook but are not certain enough on the outcome, timing or quantum to include in the forecasts.

This section of the chapter covers:

- analysis of specific fiscal risks over time and changes since the *Half Year Update*
- a statement of specific fiscal risks of the Government
- narrative summaries of new and changed[8] specific fiscal risks
- a table of risks that has been removed from the statement of specific fiscal risks since the *Half Year Update*
- the requirements and criteria for disclosing specific fiscal risks and how these interact with the fiscal forecasts
- the key judgements the Treasury applies in assessing whether a risk is a specific fiscal risk.

---

8 New risks are those identified or disclosed for the first time in this *Budget Update*, while changed risks are those where there is a significant change in the nature or substance of the risk. The narrative descriptions of unchanged specific fiscal risks can be found in *Budget Economic and Fiscal Update 2026 – Supplementary Information*.

Transparency is a key principle guiding the disclosure of risks. This means that material risks are disclosed in this section, regardless of whether they can be managed through existing funding sources (such as through reprioritisation of funding already available to departments or against future allowances). This ensures a prudent approach to the disclosure of risks to improve transparency and to avoid prejudging future decisions by governments about what may or may not be funded from allowances.

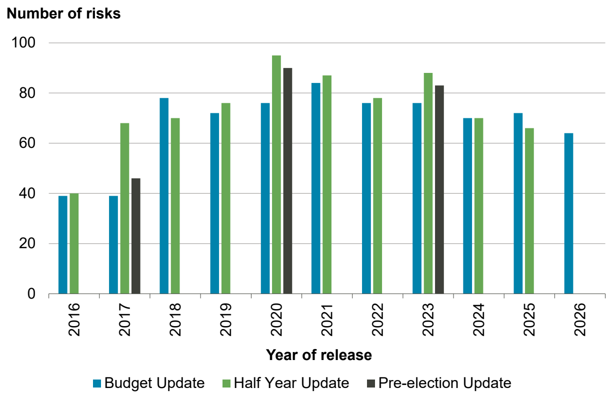
Amendments to the Public Finance Act 1989 were recently passed by Parliament, including several changes to disclosure requirements for the statement of specific fiscal risks to improve transparency. While the amendments do not come into force until 1 July 2026, the statement of specific fiscal risks in this *Budget Update* has been prepared consistently with the key aspects of these new requirements.

The risks disclosed in this chapter reflect risks known as at 8 May 2026, when the fiscal forecasts were finalised. Although the process for preparing the statement of specific fiscal risks involves several entities, including government departments, the Treasury and the Minister of Finance, it is still possible that not every specific risk is identified in the statement of specific fiscal risks.

The number of specific fiscal risks has been broadly stable over the past eight years

Since the *Budget Update 2018*, the number of risks published has been broadly consistent, with an average of 76 risks (Figure 3.6). At this *Budget Update*, 64 specific fiscal risks are being published compared to 66 at the *Half Year Update*. There is a net decrease of two risks from the introduction of 9 new risks and 11 risks being expired. A one-off change in the number of specific fiscal risks does not always imply an increase or decrease in risks faced by a government and can be a result of other factors.

Figure 3.6 –Total number of published specific fiscal risks 2016–2026

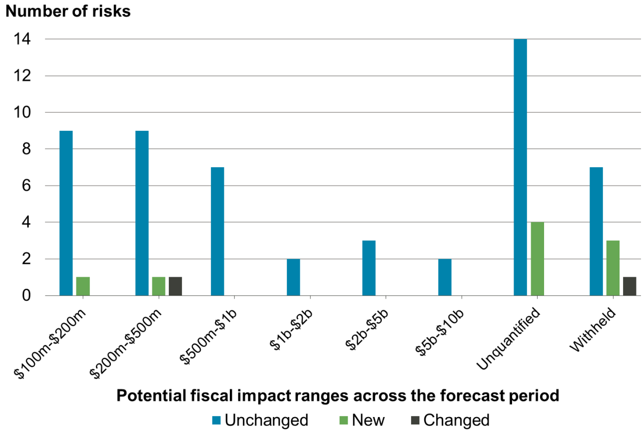


Source: The Treasury

The potential fiscal impact of specific fiscal risks provides a sense of scale of the risks facing the Government

The statement of specific fiscal risks includes the potential fiscal impacts over the forecast period in the event a specific fiscal risk materialises. Figure 3.7 shows the distribution of the potential fiscal impact of risks at this *Budget Update*. Of the risks where the potential fiscal impact is quantified, the majority (60%) have a potential fiscal impact of less than $500 million across the forecast period, while there are a small number of much larger risks.

Figure 3.7 – New, changed and unchanged risks based on potential fiscal impact



Source: The Treasury

While independent, many specific fiscal risks have similar themes and reflect significant fiscal challenges faced by the Crown over the coming years. These themes have been consistent across many updates. These are some of the key areas of risk reflected across the statement of specific fiscal risks:

- **Maintenance and development of infrastructure**, including the potential costs associated with agencies' long-term investment plans and the potential for cost escalation in large and complex projects.
- **Climate change and responses to adverse weather events**, including the potential fiscal costs of meeting the Government's climate change targets.
- **Growing demands on public services**, particularly in health, education and the justice sector, which are driven by a mix of demographic change, policy change and other specific cost drivers.
- **Public sector pay costs**, including all collective agreements in the public sector due to be renegotiated over the forecast period.
- **Government policy commitments**, where the Government has publicly committed to taking a future decision or announced an intent to do so, and this may have fiscal implications.

Statement of Specific Fiscal Risks

Potential fiscal impacts in the statement of specific fiscal risks

Where possible, the statement of specific fiscal risks below includes the potential fiscal impacts, portrayed as ranges over the forecast period, in the event a specific fiscal risk materialises.

These ranges are only intended to provide a sense of the scale of impact of a specific fiscal risk – they do not represent funding commitments or detailed costing of policies. In most cases, the ranges reflect the maximum possible exposure from the risk. In the situation a risk materialises, the Government will have a better estimate of the actual fiscal impact, which will provide flexibility on whether and how it responds to that event.

The potential fiscal impacts are across the forecast period (2025/26 to 2029/30). Where a figure has not been provided:

- a "withheld" note means that an estimate is possible but it has not been published to enable the Government to maintain the effective conduct of public affairs through its negotiation, litigation or commercial activity
- an "unquantified" note means that no estimate is currently available or possible or the estimate of the range is so wide that to disclose the estimate would not contribute meaningfully in assessing the risk to the fiscal forecasts.

Status	Title	Portfolio	Potential fiscal impact	Pg[9]
Commitment or announced intent that may have fiscal implications				
New	Liquefied Natural Gas Import Facility and Related Infrastructure	Energy	Withheld	64
	Potential Changes to Planned Increases to Fuel Excise Duty and Road User Charges	Transport	Each 6-month deferral of the planned increase from 1 January 2027 has a cost of around $300 million	64
	City and Regional Deals	Cross-portfolio	Unquantified	64
Unchanged	Achieving New Zealand's International and Domestic Climate Change Targets	Climate Change	Unquantified	SI 6
	Response to the Report of the Government Inquiry into the Response to the North Island Severe Weather Events	Emergency Management and Recovery	$200m to $500m increase in expenses and/or capital	SI 7
	Resource Management Reform Implementation Costs	Environment	$200m to $500m increase in expenses	SI 7
	Cook Strait Ferry Replacement and Enabling Infrastructure	Finance	Withheld	SI 7
	Science, Innovation and Technology Reform	Science, Innovation and Technology	Withheld	SI 7

9 Page references identified as 'SI' refer to the page number within *Budget Economic and Fiscal Update 2026 – Supplementary Information*.

Status	Title	Portfolio	Potential fiscal impact	Pg[9]
	Transport Project Funding	Transport	$5b to $10b increase in expenses and/or capital[10]	SI 7
	Ongoing Costs of a New Medical School	Cross-portfolio	$200m to $500m increase in expenses and/or capital	SI 8
	The Government's Approach to the Smokefree Aotearoa 2025 Goal	Cross-portfolio	Unquantified	SI 8
Time-limited funding				
Unchanged	Healthy School Lunches Programme	Education	$500m to $1b increase in expenses and/or capital	SI 9
	Time-limited International Climate Financing Funding: Unfunded 2026 to 2030 Commitment Period	Foreign Affairs	$200m to $500m increase in expenses	SI 9
Achieving future savings and spending constraint				
New	Delivering Baseline Reductions	Cross-portfolio	Unquantified	64
Unchanged	Health New Zealand Operating Deficit	Health	Withheld	SI 10
	Kāinga Ora – Homes and Communities Operating Expenditure Forecast Reductions	Housing	$100m to $200m increase in expenses	SI 10
	Social Development Forecast Savings	Social Development and Employment	$1b to $2b increase in expenses	SI 10
Capital cost escalation				
New	Mount Messenger Bypass	Transport	Withheld	65
Unchanged	Roads of Regional Significance	Transport	$200m to $500m increase in expenses and/or capital	SI 11
Potential fiscal implications of reviews or litigation				
New	Review of the Clean Car Standard	Transport	$100m to $200m increase in net expenses	65
Unchanged	Impacts of Changes to Accident Compensation Policy Settings	ACC	Unquantified	SI 12
	Metropolitan Rail Networks	Transport	$100m to $200m increase in capital	SI 12
	Treaty Settlement Forecasts	Treaty of Waitangi Negotiations	Withheld	SI 12
	Pay Equity Claims	Cross-portfolio	Withheld	SI 13
	Responding to the Royal Commission of Inquiry into Abuse in Care – Redress System Claims	Cross-portfolio	Unquantified	SI 13
	Response to the Dame Karen Poutasi Review of Safety Nets in the Children's System	Cross-portfolio	Unquantified	SI 13

10 Most of the potential costs associated with the Transport Project Funding risk are beyond the forecast period.

Status	Title	Portfolio	Potential fiscal impact	Pg[9]
Changing demand and expectations on services				
New	Going for Housing Growth – Incentives for Communities and Councils to Support Growth	Housing	Unquantified	65
Changed	New Zealand Screen Production Rebate	Cross-portfolio	$200m to $500m increase in expenses	66
Unchanged	ACC Levies	ACC	$500m to $1b increase or decrease in revenue and/or expenses	SI 14
	Enabling Communities and Iwi to Help Children	Children	$100m to $200m increase in expenses	SI 14
	Increasing Prison Population	Corrections	$500m to $1b increase in expenses and/or capital	SI 14
	Transforming and Sustaining Disability Support Services for New Zealanders	Disability Issues	$500m to $1b increase or decrease in expenses	SI 15
	Learning Support	Education	$200m to $500m increase in expenses and/or capital	SI 15
	Health Capital Pressures	Health	$2b to $5b increase to expenses and/or capital	SI 15
	Increases to Cost Per Place for Social Housing and Transitional Housing	Housing	$200m to $500m increase in expenses	SI 15
	Financial Challenges Across Universities	Tertiary Education	$100m to $200m increase in capital	SI 16
	Tertiary Tuition and Training Funding Baseline Pressure	Tertiary Education	$500m to $1b increase in expenses	SI 16
	Wānanga Funding and the Crown's Te Tiriti Obligations to Wānanga	Tertiary Education	Unquantified	SI 16
	Wānanga Legislative Framework – Te Wānanga o Aotearoa and Te Whare Wānanga o Awanuiārangi	Tertiary Education	$100m to $200m increase in expenses	SI 16
	Support for the National Land Transport Fund	Transport	$2b to $5b increase in revenue, expenses and/or capital	SI 16
	Government Targets	Cross-portfolio	Unquantified	SI 17
	Legal Aid and Court-Ordered Costs Demand Pressure	Cross-portfolio	$200m to $500m increase in expenses	SI 17
	Long-term Infrastructure and Digital Investment Plans	Cross-portfolio	$5b to $10b increase in expenses and/or capital[11]	SI 17
	Services funded by Third Parties and Memorandum Account Deficits	Cross-portfolio	Unquantified	SI 18

11 Most of the potential costs associated with the Long-term Infrastructure and Digital Investment Plans risk are beyond the forecast period.

Status	Title	Portfolio	Potential fiscal impact	Pg[9]
Forecast dependent on a status quo that is uncertain				
New	Middle East Conflict	Cross-portfolio	Unquantified	65
Unchanged	Timing of Fiscal Impacts of Christchurch Men's Prison Public Private Partnership	Corrections	Unquantified	SI 19
	Regional Infrastructure Fund	Regional Development	$200m to $500m movement between expenses and capital	SI 19
	Potential Tax and Social Policy Changes	Revenue	$100m to $200m increase or decrease in revenue and/or expenses	SI 19
	Auckland City Rail Link Ownership Issues	Transport	$500m to $1b increase or decrease in expenses and/or capital	SI 19
	Forecast Operating and Capital Spending in the National Land Transport Programme	Transport	$1b to $2b movement between expenses and capital	SI 20
	Relativity Clause	Treaty of Waitangi Negotiations	Withheld	SI 20
	Adverse Weather Events	Cross-portfolio	Unquantified	SI 20
	Public Sector Employment Agreements	Cross-portfolio	Withheld	SI 20
Forecast risk				
New	Frontline Technology Systems Upgrade	Children	Withheld	66
Changed	Potential Sale of the Ultra-Fast Broadband Chorus Securities	Finance	Withheld	66
Unchanged	Non-Earners' Account	ACC	$100m to $200m increase or decrease in expenses	SI 21
	Emissions Trading Scheme – Variations Arising from Unit Auctions Failing to Clear	Climate Change	Unquantified	SI 21
	Emissions Trading Scheme – Variations in Revenue and Expenses	Climate Change	Up to $2b to $5b net increase or decrease	SI 22
	Costs Associated with the Sinking of the HMNZS *Manawanui*	Defence	$100m to $200m increase in expenses and/or capital	SI 22
	Alternative Monetary Policy Tools	Finance	Unquantified	SI 22
	Natural Hazards Commission	Finance	Unquantified	SI 22
	Realising Sales of Land and Dwellings – Kāinga Ora	Housing	$100m to $200m increase or decrease in expenses and/or capital	SI 23
	Ministry of Social Development's Services for the Future	Social Development and Employment	Unquantified	SI 23
	Veterans' Disability Entitlements Liability	Veterans' Affairs	$500m to $1b increase or decrease in expenses	SI 23

New Risks

Commitment or Announced Intent that may have Fiscal Implications

Energy

Liquefied Natural Gas Import Facility and Related Infrastructure (Revenue, Expenses and Capital)

In February 2026, the Government announced plans to contract for a liquefied natural gas (LNG) import facility to address dry-year electricity shortages and declining domestic gas production, with a facility operational by 2027/28. The intent is for the cost of the facility to be recovered from third-party revenue. The detailed design is still in development and there is a risk that the Crown could incur additional costs to procure LNG facility services.

This risk replaces the *Energy Package* risk included in the *Half Year Update*.

Transport

Potential Changes to Planned Increases to Fuel Excise Duty and Road User Charges (Revenue)

The fiscal forecasts include planned increases to the Fuel Excise Duty and Road User Charges as outlined in the Government Policy Statement on land transport 2024, which has been agreed by Cabinet. Since then, Ministers have indicated the planned 12 cent per litre increase from 1 January 2027 may not go ahead or could be deferred given the Middle East conflict. If confirmed, the fiscal impact of this would depend on the duration and scale of any deferral and would affect the funding available for transport projects funded through the National Land Transport Fund.

Cross-portfolio

City and Regional Deals (Revenue, Expenses and Capital)

The Government has announced establishing City and Regional Deals between central and local government to identify funding and other opportunities to support councils to make improvements in their region such as roads, infrastructure and the supply of quality housing. There are a number of deals in various stages, and Crown funding could be required to deliver on the commitments as outlined in each deal.

Achieving Future Savings and Spending Constraint

Cross-portfolio

Delivering Baseline Reductions (Expenses)

The Government has agreed permanent reductions to most departmental baselines alongside a programme of public service transformation, including a cap on public service FTE. Delivering these baseline reductions will require organisational change across the public sector, changes to programmes and transformation in how the public sector delivers services. These changes may take longer than anticipated to implement and/or may not eventuate in full. That means there is a risk that the fiscal impact of the baseline reductions will be different from what has been reflected in the fiscal forecasts. For further information, refer to page 38 of the *Fiscal Outlook* chapter.

Capital Cost Escalation

Transport

Mount Messenger Bypass (Expenses and Capital)

The Mount Messenger bypass project is a new route on State Highway 3 in North Taranaki. The project has faced ongoing challenges related to land acquisition, as a property needs to be secured for completion of the project. These challenges are resulting in delays and additional work, increasing the overall cost of the project, which is funded through the National Land Transport Fund.

Potential Fiscal Implications of Reviews or Litigation

Transport

Review of the Clean Car Standard (Expenses)

The Government has directed the Ministry of Transport to undertake a full review of the Clean Car Standard, with decisions on the future of the scheme scheduled for mid-2026. There may be fiscal implications from this review, depending on the options agreed to.

Changing Demand and Expectations on Services

Housing

Going for Housing Growth – Incentives for Communities and Councils to Support Growth (Expenses)

The Government is progressing work to establish a new system of council incentives to support housing growth. Budget 2026 provided funding of $100 million per annum, subject to final policy design. Depending on the final design of the scheme, there is a risk that the costs could differ from the funding allocated.

This risk replaces a risk with the same title included in the 'Commitment or announced intent that may have fiscal implications' category in the *Half Year Update*.

Forecast Dependent on a Status Quo that is Uncertain

Cross-portfolio

Middle East Conflict (Expenses, Revenue and Capital)

The conflict in the Middle East and its effect on economic conditions, including increases in fuel prices, may have a wide-ranging impact on the fiscal forecasts. This could include:

- changes to tax revenue and third-party revenue streams
- future Government policy responses to the conflict
- increased costs for the delivery of existing government services.

Forecast Risk

Children

Frontline Technology Systems Upgrade (Expenses)

The Frontline Technology Systems Upgrade programme will introduce modern technology systems such as a new case management system that supports Oranga Tamariki's new operating model. Oranga Tamariki has identified risks with delivery, including system coexistence, data migration complexity and the difficulty of implementing modern platforms in child protection environments. Any revised scope of the programme to mitigate risks may increase delivery costs over the forecast period.

Changed Risks

Changing Demand and Expectations on Services

Cross-portfolio

New Zealand Screen Production Rebate (Expenses)

The New Zealand Screen Production Rebate is an uncapped, on-demand rebate that incentivises production work (from domestic and international studios) in New Zealand by offering a cash rebate on qualifying expenditure. Due to the uncapped and on-demand nature of the rebate, there is a risk that costs for both the international and domestic rebates could vary from what has been included in the forecasts.

At the *Half Year Update*, this risk was included in the ‘Time-limited funding’ category.

Forecast Risk

Finance

Potential Sale of the Ultra-Fast Broadband Chorus Securities (Revenue)

The Government has agreed to progress with the sale of Ultra-Fast Broadband Chorus securities with expected capital receipts recognised in the forecasts. There is a risk that timing and the quantum realised by the sale could differ to what has been assumed in the fiscal forecasts.

At the *Half Year Update*, this risk was included in the ‘Commitment or announced intent that may have fiscal implications’ category.

Risks Removed Since the *Half Year Update 2025*

The following table outlines risks that were published in the *Half Year Update* but are no longer disclosed as specific fiscal risks because they are provided for in the forecasts, are adequately captured by existing risks or no longer meet the materiality threshold for publication.

Portfolio name	Risk title	Reason for expiry
Disability Issues	Disability Support Services – High and Complex Framework	This risk is expired as the potential fiscal impact of this risk is expected to be below the materiality threshold.
Finance	Potential Capital Raise for Kiwibank	This risk is expired as a decision has been made not to proceed with the capital raise.
Finance	Te Pae Christchurch Convention Centre Write-down Costs	This risk is expired due to recent Government decisions.
Housing	Going for Housing Growth – Incentives for Communities and Councils to Support Growth	Funding was provided in Budget 2026 for this coalition commitment. A new risk with the same title has been raised given decisions are still to be made on the final policy design.
Internal Affairs	Civil Registration Replacement	This risk is expired as the potential fiscal impact of this risk is expected to be below the materiality threshold.
Revenue	Investment Boost	As Investment Boost has now been implemented the remaining uncertainty to the fiscal impact of the policy is incorporated in general forecasting risks, consistent with all other implemented tax policy.
Tertiary Education	Transition and Ongoing Viability of the Vocational Education System	A greater level of certainty on the short-term viability of the vocational education and training system means the risk is expected to be below the materiality threshold.
Transport	Rail Network Investment Programme	The risk is expired as time-limited funding has been provided until 2029/30 through Budget 2026.
Cross-portfolio	Commitments Under the Coalition Agreements	This risk is expired as the potential fiscal impact of this risk is expected to be below the materiality threshold.
Cross-portfolio	Energy Package	This risk is expired as the Energy Package as announced in 2025 has changed. The part of this risk associated with liquefied natural gas infrastructure is included as a new risk – see *Liquefied Natural Gas Import Facility and Related Infrastructure*.
Cross-portfolio	Implementation of New Insurance Accounting Standard	This risk is expired as the new insurance accounting standard has now been implemented in the forecasts.

Further Information on the Criteria and Key Judgements for Disclosing Specific Fiscal Risks

The Public Finance Act 1989 sets out the requirements for specific fiscal risks

The fiscal forecasts in this *Budget Update* incorporate to the fullest extent possible the fiscal implications of all government decisions and other circumstances if the criteria set out in the table below are satisfied.

Fiscal forecasts	Specific fiscal risks[12]
Matters are incorporated into the fiscal forecasts when: • the matter can be quantified for particular years with reasonable certainty, and • a decision has been taken, or • a decision has not yet been taken but is reasonably probable[13] that the matter will be approved or the situation will occur.	Matters are disclosed as specific fiscal risks if the likely impact is $100 million or more over the forecast period and either: • a decision has not yet been taken but it is reasonably possible[14] (but not probable) that the matter will be approved or the situation will occur, or • it is reasonably probable or possible that the matter will be approved or the situation will occur, but the matter cannot be quantified for, or assigned to, particular years with reasonable certainty.

As outlined in the table, if the fiscal implications of government decisions and other circumstances cannot be quantified for particular years with reasonable certainty or the outcome is still unclear, those government decisions and other circumstances are disclosed in the statement of specific fiscal risks included in this chapter, as required by sections 26Q(3)(b) and 26U of the Public Finance Act 1989.

Judgements are applied in assessing whether a risk is a specific fiscal risk

In order to implement the criteria outlined above, judgement is required to determine whether a government decision or other circumstance meets the definition of a specific fiscal risk. The Treasury has applied the principles outlined in *Budget Economic and Fiscal Update 2026 – Supplementary Information* when assessing whether a decision or other circumstance meets the definition of a specific fiscal risk.

---

12 These are the rules used to determine what is and is not a fiscal risk for the purposes of section 26Q(3)(b)(ii) of the Public Finance Act 1989.

13 For these purposes, 'reasonably probable' is taken to mean that the matter is more likely than not to be approved within the forecast period (ie, there is a greater than 50% chance of the matter occurring or being approved).

14 For these purposes, 'reasonably possible' is taken to mean that the matter might be approved within the forecast period (ie, there is a 20–50% chance of the matter occurring or being approved).

Exceptions to disclosing specific fiscal risks

Section 26V of the Public Finance Act 1989 provides that the requirements to disclose government decisions or other circumstances in an economic and fiscal update (including in forecast financial statements and the statement of specific fiscal risks) do not apply where the Minister of Finance determines that to incorporate the decision or circumstance is likely to:

- prejudice the substantial economic interests, security or defence of New Zealand
- prejudice the international relations of the Government
- compromise the Government in a material way in negotiation, litigation or commercial activity
- result in a material loss of value to the Government.

In addition, the Minister must also determine that there is no reasonable or prudent way the Government can avoid this prejudice, compromise or material loss through incorporation in this *Budget Update*.

No specific fiscal risks are being withheld under section 26V.

Risks have been categorised by risk type in the statement of specific fiscal risks

The risks in the statement of specific fiscal risks have been broadly classified into one of eight risk categories aligned to the underlying risk driver. The purpose of categorising risks is to provide an understanding of different types of fiscal risks and the potential aggregate impact of these on the fiscal forecasts.

Some risks may include aspects that include multiple risk drivers – in this case, the risk is categorised based on the most significant driver. A description of each risk type is provided in the table below.

The status of the risks relative to the *Half Year Update 2025* is also provided. New risks are those identified or disclosed for the first time in this *Budget Update*, while changed risks are those where there is a significant change in the nature or substance of the risk. Unchanged risks are those where there is no change to the nature or substance of the risk, even if the size of the risk has changed. This includes risks that have updated narratives because of wording changes for clarity or that have been amended to reflect present circumstances. These changes do not reflect a change in the underlying risk.

Risk category	Description
Commitment or announced intent that may have fiscal implications	The Government has publicly committed to taking a future decision, or announced an intent to do so, and this may have fiscal implications (for example, require funding that has not yet been allocated or increase revenue if progressed). The Government generally still has choice about whether to progress with a decision but the Government commitment or announced intent means it is reasonably possible it will be approved.
Time-limited funding	Programmes that have time-limited funding that decreases or ceases at some point in the forecast period and may potentially be extended. Time-limited funding often relates to pilot programmes or to programmes under review.
Achieving future savings and spending constraint	Risks related to achieving future savings or the implementation of plans to constrain spending. As savings or spending tracks reflected in the fiscal forecasts require future actions to deliver, there is a risk that actual expenditure or revenue will differ from the forecasts. This risk may be an upside risk (higher revenue or lower expenses) or downside risk (lower revenue or higher expenses).
Capital cost escalation	Risks where there are indications that a capital project or programme may differ from the funding allocated. There may be choices for the Government to manage the cost escalation and scope of the project or programme.
Potential fiscal implications of reviews or litigation	Risks where there are reviews of policy settings (both those initiated by the Government or external to the Government) or litigation that may require a fiscal response from the Government. This includes independent reviews, Royal Commissions or Court decisions.
Changing demand and expectations on services	Risks where there is changing demand for a service or good, or changed expectations on the level of service, that may increase or decrease costs beyond the funding allocated. This may be driven by changes in policy or through external factors such as technological advances or behavioural change. This risk may be an upside risk (higher revenue or lower expenses) or downside risk (lower revenue or higher expenses).
Forecast dependent on a status quo that is uncertain	Risks where the forecast is based on the status quo but an uncertain future decision or event could materially affect the forecast approach. The change in the status quo may be a decision the Government controls or an external event outside of the control of the Government.
Forecast risk	Risks where revenue, expenditure, assets or liabilities are inherently uncertain in the fiscal forecasts. This risk may be an upside risk (higher revenue or lower expenses) or downside risk (lower revenue or higher expenses).

Contingent Liabilities and Contingent Assets

Contingent liabilities are costs that the Government will have to face if a particular event occurs or they are present liabilities that are unable to be measured with sufficient reliability to be recorded in the fiscal forecasts (unquantifiable liabilities).

Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims and uncalled capital. The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation.

In general, if a contingent liability were realised or the amount becomes sufficiently reliable to record as a liability, it would reduce the operating balance and net worth and, for contingencies within the core Crown, increase net core Crown debt. However, in the case of some contingencies (for example, uncalled capital), the negative impact would be restricted to net core Crown debt.

Contingent assets are possible assets that have arisen from past events but the amount of the asset or whether it will eventuate will not be confirmed until a particular event occurs.

Only contingent liabilities and contingent assets involving amounts of over $100 million are separately disclosed in the Statement of Contingent Liabilities and Contingent Assets. Quantifiable contingencies of less than $100 million are aggregated in the 'other quantifiable' total.

Some contingencies of the Crown are not able to be quantified. We have disclosed unquantifiable contingent liabilities and unquantifiable contingent assets that potentially could have an impact in excess of $20 million and are not expected to be remote.[15]

The contingencies have been stated as at 31 March 2026, being the latest set of published financial statements of Government.

To make the chapter more accessible and focused on the contingent liabilities or assets that have been introduced or have significantly changed in nature or substance since the *Half Year Update 2025*, the narrative summaries of unchanged contingent liabilities or assets are now included in *Budget Economic and Fiscal Update 2026 – Supplementary Information.*

---

[15] 'Remote' is defined as being an item with less than a 10% chance of occurring.

Statement of Contingent Liabilities and Contingent Assets

Quantifiable contingent liabilities

	Status[16]	31 March 2026 ($millions)	30 June 2025 ($millions)
Uncalled capital			
Asian Development Bank	Unchanged	3,670	3,507
International Bank for Reconstruction and Development	Unchanged	2,204	2,080
International Monetary Fund – promissory notes	Unchanged	2,200	2,094
International Monetary Fund – arrangements to borrow	Unchanged	1,612	1,540
Asian Infrastructure Investment Bank	Unchanged	645	609
Other uncalled capital		33	31
		10,364	**9,861**
Guarantees and indemnities			
New Zealand Export Credit Office guarantees	Unchanged	157	156
Other guarantees and indemnities		134	126
		291	**282**
Legal proceedings and disputes			
Inland Revenue – legal tax proceedings	Unchanged	303	297
Other legal proceedings and disputes		231	218
		534	**515**
Other quantifiable contingent liabilities			
Unclaimed monies	Unchanged	607	568
Air New Zealand partnership agreement	Unchanged	402	212
Waitangi Tribunal – binding recommendations	Unchanged	220	220
Community Housing Funding Agency (CHFA)	New	150	-
Ministry for Primary Industries – *Mycoplasma bovis* compensation claims	Unchanged	125	125
Clean Car Standard credits	Unchanged	118	155
Ministry of Justice – Waipāoa Remedies Inquiry	Unchanged	100	100
Other quantifiable contingent liabilities		90	84
		1,812	**1,464**
Total quantifiable contingent liabilities		**13,001**	**12,122**

[16] Status of contingent liabilities or assets when compared to the *Half Year Update* published on 16 December 2025 (based on the nature of the contingency, not the dollar value of contingencies, which are regularly updated).

Quantifiable contingent assets

	31 March 2026 ($millions)	30 June 2025 ($millions)
Transpower New Zealand – economic gains	116	106
Other contingent assets	94	82
Total quantifiable contingent assets	**210**	**188**

Unquantifiable contingent liabilities

Indemnities	**Status**
Contact Energy Limited	Unchanged
Genesis Energy	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Partners	Unchanged
Natural Hazards Commission Toka Tū Ake	Unchanged
New Zealand Aluminium Smelters Limited and Rio Tinto Aluminium Limited (formerly Comalco)	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Southern Response Earthquake Services Limited	Unchanged
Synfuels–Waitara Outfall indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal proceedings and disputes	
Accident Compensation Corporation (ACC) litigations	Unchanged
Ministry of Health – New Zealand College of Midwives class action	Changed
Ministry of Social Development – Disability Support Services employment obligations	Changed
Ministry of Transport – Public Works Act claims	Unchanged
Ministry of Social Development – redress for historical abuse in care	Unchanged
Treaty of Waitangi claims	Unchanged
Other unquantifiable contingent liabilities	
Aquaculture settlements	Unchanged
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Losses under Section 28N of the Fisheries Act 1983[17]	Expired
Ministry for Primary Industries – Biosecurity Act compensation	Unchanged
Ministry of Social Development – entitlement assessment[18]	Expired
Treaty of Waitangi claims – settlement relativity payments	Unchanged

17 Losses under section 28N of the Fisheries Act 1983 – removed as an estimate, has now been reflected in the Forecast Financial Statements.

18 The Ministry of Social Development – entitlement assessment has now been resolved and therefore the contingent liability disclosure has been removed.

New Contingent Liabilities and Contingent Assets

Other quantifiable contingent liabilities

Community Housing Funding Agency (CHFA)

In September 2025, the Minister of Finance agreed to terms for a liquidity facility provided by the Crown to CHFA to meet any temporary liquidity shortfalls. The Crown's exposure is limited to the portion of the facility that CHFA requests be available each quarter. The elected amount as at 31 March 2026 is nil and no use of the facility has been made since establishment.

Changed Contingent Liabilities and Contingent Assets

Legal proceedings and disputes

Ministry of Health – New Zealand College of Midwives class action

In August 2022, the New Zealand College of Midwives filed a class action proceeding against the Ministry of Health on behalf of self-employed midwives over contractual issues. As a result of the High Court decision, which was published on 26 March 2026, the Ministry is in the process of quantifying its contingent liability position, noting that the decision has been appealed and any appeal is unlikely to be heard by the Court of Appeal for 12 months.

Ministry of Social Development – Disability Support Services employment obligations

The Ministry of Social Development, on behalf of the Crown, is a party to several Employment Relations Authority matters relating to family carers funded to provide care to family members in their own homes. In December 2025, the Supreme Court confirmed that two individuals are employees of the Crown under the Employment Relations Act 2000. While this decision resolved the legal status issue for these two people, the application of the decision to other individual cases remains ongoing. In addition, the period of any entitlement, the treatment of hours worked and the quantum of any resulting payments have not yet been determined. As these matters are subject to further assessment and determination, the extent of any future claims and any associated financial impact cannot currently be reliably estimated.

4

Forecast Financial Statements

These forecasts have been prepared in accordance with the Public Finance Act 1989.

They are based on the accounting policies and assumptions that follow. As with all such assumptions, there is a degree of uncertainty surrounding them. This uncertainty increases as the forecast horizon extends. There are risks to the fiscal forecasts which are discussed further in the Risks to the Forecasts chapter.

These forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. The forecast financial statements reflect all government decisions and circumstances communicated up to 8 May 2026, where these can be reliably measured.

The key assumptions that underpin the preparation of the Forecast Financial Statements are outlined on pages 76 to 81.

Statement of Accounting Policies, Judgements and Assumptions

Significant Accounting Policies

The Forecast Financial Statements have been prepared in accordance with the accounting policies that are expected to be used in the comparable audited actual Financial Statements of the Government. They comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989 and have been prepared in accordance with *Public Benefit Entity Financial Reporting Standard 42: Prospective Financial Statements*.

The Forecasts Financial Statements use the accrual basis of accounting unless otherwise specified (for example, the Statement of Cash Flows). Forecasts have been prepared for the consolidated Financial Statements of the Government reporting entity, which includes all entities controlled by the Government (as defined by applicable financial reporting standards).

The Forecast Financial Statements reflect the accounting standards in place in the year that they are prepared. Consequently, adoption of new accounting standards in future financial years are generally not reflected in these Forecast Financial Statements. Where accounting standards are to be adopted within the fiscal forecasts period, an explanation of material fiscal impacts on the forecast is disclosed in this chapter.

The public sector modified version of PBE IFRS 17: *Insurance Contracts* has been adopted in these forecast financial statements for reporting periods beginning 1 July 2026. Information on the adoption of this standard and how it impacts the forecast can be found on pages 77 to 78 and in the Notes to the Forecast Financial Statements on page 95.

The specific accounting policies are included on the Treasury's website at https://www.treasury.govt.nz/publications/efu/supplementary-information-budget-economic-and-fiscal-update-2026.

Forecast Policies

The Forecast Financial Statements have been prepared on the basis of the Treasury's best professional judgement. Actual financial results for the periods covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results in future years are set out in the Risks to the Forecasts chapter.

Implementation of PBE IFRS 17 Insurance Contracts

In 2023, a new accounting standard, PBE IFRS 17 *Insurance Contracts*, was introduced to replace the current standard, PBE IFRS 4 *Insurance Contracts*. As this new standard applies to the Government's financial statements from 1 July 2026, the figures in the forecast for the 2026/27 year and onwards have been prepared using PBE IFRS 17. The forecast figures in the 2025/26 year have been prepared using the current standard.

The two entities impacted by this change are Accident Compensation Corporation (ACC) and the Natural Hazards Commission (NHC). ACC's adoption of PBE IFRS 17 is expected to significantly affect the Government's financial statements, primarily reflecting changes in accounting measurement rather than changes in the underlying economics or expected cash flows. The forecast includes a one-off increase in net worth of $12.4 billion as of 1 July 2026. The two main adjustments relate to the removal of the risk margin that ACC currently reports as a liability and including an illiquidity premium in the discount rate, which is used to value ACC's insurance liabilities in today's dollars.

Table 4.1 – Impact of adoption of PBE IFRS 17 on net worth

Year ending 30 June **$billions**	**2027** **Forecast**
Opening net worth	**185.3**
Changes in relation to ACC	
Removal of PBE IFRS 4 risk margin above the OCL	7.7
PBE IFRS 17 risk adjustment – assessed as zero	-
Illiquidity premium adjustment to the discount rate to value the OCL	4.0
Other impacts	0.6
Total ACC movement	**12.3**
Changes in relation to NHC	0.1
Total PBE IFRS 17 movement	**12.4**
Opening net worth at 1 July 2026 (adjusted for PBE IFRS 17)	**197.7**

Source: The Treasury

The adoption of PBE IFRS 17 also has a positive flow on impact to the operating balance, because the inclusion of the illiquidity premium (leading to a higher discount rate) and removal of the risk margin reduce insurance expenses.

Removal of the risk margin

The current $7.7 billion risk margin forecast at 30 June 2026 serves as a buffer on top of ACC's outstanding claims liability (OCL) to reflect uncertainty in the central estimate. The risk margin ensures that ACC's liabilities will be sufficient to meet future claim payments for incurred claims 75% of the time. However, instead of a risk margin, the new standard introduces a "risk adjustment" where any reported buffer above the OCL will be calculated based on a "compensation" approach, rather than reflecting the uncertainty in the central estimate under the current standard.

Any reported buffer under PBE IFRS 17 should reflect the amount the Government would require to be compensated for uncertainties in future costs caused by non-financial risks, like changes in how claims develop over time, how claimants behave, and the expenses involved. Since the Government's current funding policy for ACC does not factor in any compensation for uncertainties above the central estimate, the risk adjustment is judged to be zero for financial reporting purposes. While this new accounting approach under PBE IFRS 17 determines how ACC and the Government report their balance sheet liabilities, the Government is responsible for determining ACC's funding policy.

Changes to the discount rate – illiquidity premium

The illiquidity premium is a new requirement under PBE IFRS 17, where the discount rates used to value insurance liabilities are required to reflect the illiquidity characteristics of those liabilities. ACC's liabilities are more illiquid than the Government bonds used to determine the risk-free discount rates. So, an illiquidity premium is added to the risk-free discount rate to determine the discount rate to value ACC's insurance liabilities. A higher discount rate reduces the liability, while a lower rate increases it. ACC's OCL, based on expected lifetime payments for incurred claims, is reported in today's dollars using present value calculations, making it highly sensitive to changes in the discount rate. The illiquidity premium adjustment is expected to add around 0.5%–0.6% to the risk-free discount rate at 1 July 2026, which is expected to reduce the ACC's OCL by $4.0 billion.

Adding an illiquidity premium to the discount rate improves the funding ratios (the ratio of assets to liabilities) reported for ACC's Accounts, compared to ratios calculated using the discount rate under the current accounting standard. Funding ratios are one of several inputs used to determine ACC levy rates. The next levy-setting process expected in 2027 will take multiple factors into consideration, so it is unclear how much the illiquidity premium adjustment alone will ultimately influence future levy rates.

Key Judgements and Assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available at the time they were prepared. Actual events are likely to differ from these assumptions and judgements, while uncertainty around the forecast assumptions and judgements increases over the forecast period.

The following key judgements and assumptions supporting the fiscal forecasts were made:

- To calculate income tax revenue across the forecast period, firms' net operating surplus forecasts on a System of National Accounts basis are used to create tax-year forecasts of total income tax for both net other persons tax and corporate tax, which are then converted into fiscal years (to 30 June). For the five-year forecast period to 2029/30, the annual operating surplus growth forecasts range from 4.9% to 9.9%.
- Tax forecasts are based on the economic forecasts completed on 24 April 2026.
- The cost of commitments not explicitly included in the fiscal forecasts (or variations to the estimates included in the fiscal forecasts) are assumed to be met from within the Budget operating allowances and the Budget capital allowances, which are included in the fiscal forecasts.
- Departments continue to spend less than the upper limits of approved spending (referred to as appropriations). A top-down adjustment is made to compensate for this. The adjustment is higher at the start of the forecast period, as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have in transferring expenses into these years.
- Forecast returns on the investment portfolios managed by the ACC and the NZS Fund are based on their expectations of long-term benchmark rates of return for their respective portfolios.
- No revaluations of property, plant and equipment are forecast beyond the current year. Only revaluations already completed are included in these forecasts.
- Significant valuations (eg, the student loans portfolio, the ACC claims liability and the Government Superannuation Fund retirement liability) are based on underlying assumptions (eg, discount rates, salary increases and inflation) made at the time the valuations were prepared.
- Refer to Note 11: NZ Superannuation Fund for the contributions over the forecast period. The contributions to the NZS Fund are assumed to be derived from the legislative formula. However, the Government has choices around how much they contribute in any given year. Over the forecast years, all NZS Fund variables (apart from the capital contributions) are based on those provided by the NZS Fund. For more information, refer to the Treasury website for the NZS Fund model.
- Recognition of non-exchange expenses and liabilities: expenses (and related liabilities) are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Judgement is required in assessing each of these conditions and therefore reporting if an expense and a present obligation should be recognised.

Accounting treatment of New Zealand's Nationally Determined Contributions under the Paris Agreement in the fiscal forecasts

New Zealand has submitted two Nationally Determined Contributions (NDCs) under the Paris Agreement (NDC1 and NDC2); these NDCs set economy-wide targets to reduce greenhouse gas emissions.

Domestic action alone may not be sufficient to fully meet the NDCs. If there is a gap, New Zealand could use offshore mitigation to address this gap. If offshore mitigation is used to achieve NDC1, substantial purchases of offshore mitigation are likely to be required within the *Budget Update 2026* forecast period.

The Budget Update 2026 fiscal forecasts do not recognise a liability for Paris Agreement commitments, nor any costs associated with potential offshore mitigation purchases

A liability has not been recognised in the fiscal forecasts for New Zealand's NDCs as the relevant recognition criteria to recognise a liability have not been met[19]. This judgement reflects that there is no legal obligation to achieve the NDCs, nor is there a constructive obligation to meet the targets[20].

The Treasury's judgement that there is no constructive obligation, applying GAAP, remains that the Government has not communicated a sufficiently specified plan to purchase offshore mitigation to achieve the NDCs to create a valid expectation in those affected (the public at large) that it will do so. This treatment is consistent with recognition criteria of non-exchange expenses and liabilities (page 79). Additionally, costs associated with potential offshore mitigation purchases towards the NDCs are not included in the fiscal forecasts as Treasury's assessment remains that these purchases do not meet the GAAP criteria for inclusion (in particular, being reasonably probable and quantifiable).

Given the magnitude and nature of the fiscal risks associated with New Zealand's climate change commitments, a Specific Fiscal Risk has been recorded on page 60 ("Achieving New Zealand's International and Domestic Climate Change Targets")[21].

We continue to monitor these risks and developments to inform our judgements

The Treasury's judgement is kept under review as future government actions, policies, circumstances and announcements could change the accounting treatment of NDCs. Such developments could affect the judgement concerning the existence of a constructive obligation, and the extent to which the recognition criteria have been met – for example, by announcing or committing to specific plans to purchase offshore mitigation.

If developments were to occur which resulted in recognition criteria for a liability being met, all else being equal, there will be a direct impact to the fiscal indicators from recognition of any costs. However, the Government has choices available to manage the fiscal impact of such decisions, such as managing costs against Budget allowances or offsetting the impact of costs with expenditure savings, reprioritisation or revenue raising policy changes.

---

19 The accounting treatment in the fiscal forecasts applies generally accepted accounting practice (GAAP) and relevant accounting standards as outlined on page 76.

20 For further information regarding the Treasury's assessment on the existence of legal or constructive obligations under the Paris Agreement, refer to page 25 of the Financial Statements of the Government for the year ended 30 June 2025, audited by the Controller and Auditor-General: https://www.treasury.govt.nz/publications/year-end/financial-statements-2025

21 Further information on what a Specific Fiscal Risk is and when it is disclosed can be found on page 68.

Key Economic Assumptions used in the Forecast Financial Statements

In addition to the outlined key judgements and assumptions, the Forecast Financial Statements are prepared on the basis of underlying economic forecasts. Such forecasts are critical for determining revenue and expense estimates.

For example:

- a nominal GDP forecast is needed to forecast tax revenue
- a forecast of average weekly earnings and CPI is needed, because social assistance benefits are generally indexed to wage growth or inflation
- forecasts of interest rates are needed to forecast finance costs, interest income and discount rates.

Below is a summary of the key economic forecasts that are particularly relevant to the Forecast Financial Statements.

Table 4.2 – Key economic assumptions for fiscal forecasts

Year ending 30 June	**2025 Actual**	**2026 Forecast**	**2027 Forecast**	**2028 Forecast**	**2029 Forecast**	**2030 Forecast**
Real GDP[1] (ann avg % chg)	(1.1)	1.2	2.3	3.2	2.7	2.5
Nominal GDP[2] ($b)	435.0	452.2	474.9	503.7	529.8	554.4
CPI (ann avg % chg)	2.4	3.3	2.8	1.9	2.1	2.1
Govt 10-year bonds (ann avg, %)	4.5	4.5	4.6	4.5	4.5	4.5
5-year bonds (ann avg, %)	4.0	3.8	4.1	4.2	4.2	4.2
90-day bill rate (ann avg, %)	4.2	2.7	2.7	3.0	3.2	3.3
Unemployment rate (ann avg, %)	5.1	5.4	5.2	4.7	4.4	4.3
Employment (ann avg % chg)	(1.0)	0.3	2.0	2.3	1.8	1.5
Average weekly earnings[3] (ann % chg)	4.2	2.4	2.4	2.9	3.3	3.5

Notes: 1 Production measure.
2 Expenditure measure.
3 Ordinary time.

Sources: The Treasury, Stats NZ, Reserve Bank of New Zealand

Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2026 to 30 June 2030. The "Previous Budget" figures are the original forecasts to 30 June 2026 as presented in the 2025 *Budget Update* and the "2025 Actual" figures are the audited actual results for the year ended 30 June 2025 reported in the *Financial Statements of the Government for the year ended 30 June 2025*.

Government Reporting Entity as at 8 May 2026

These Forecast Financial Statements are for the Government Reporting Entity as specified in Part 3 of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities (classified in the three institutional components used for segmental reporting). The following tables list the entities within each institutional component. Subsidiaries are consolidated by their parents and are not listed separately.

Core Crown Segment

Departments

Crown Law Office
Department of Conservation
Department of Corrections
Department of Internal Affairs
(services Digital Executive Board as an interdepartmental executive board)
(hosts Ministry for Ethnic Communities as a departmental agency)
(hosts National Emergency Management Agency as a departmental agency)
Department of the Prime Minister and Cabinet
Education Review Office
Government Communications Security Bureau
Inland Revenue Department
Land Information New Zealand
Ministry for Cities, Environment, Regions, and Transport
Ministry for Culture and Heritage
Ministry for Pacific Peoples
Ministry for Primary Industries
Ministry for Regulation
Ministry for the Environment
(services Climate Change Chief Executives Board as an interdepartmental executive board)
Ministry for Women
Ministry of Business, Innovation, and Employment
Ministry of Defence
Ministry of Disabled People
Ministry of Education
(hosts Charter School Agency as a departmental agency)
Ministry of Foreign Affairs and Trade
Ministry of Health
(hosts Cancer Control Agency as a departmental agency)
Ministry of Housing and Urban Development
Ministry of Justice
(services Executive Board for the Elimination of Family Violence and Sexual Violence as an interdepartmental executive board)
(hosts Office of Treaty Settlements and Takutai Moana – Te Tari Whakatau as a departmental agency)
Ministry of Māori Development – Te Puni Kōkiri
Ministry of Social Development
Ministry of Transport
New Zealand Customs Service
New Zealand Defence Force
New Zealand Police
New Zealand Security Intelligence Service
Office of the Clerk of the House of Representatives
Oranga Tamariki – Ministry for Children
Parliamentary Counsel Office
Parliamentary Service
Public Service Commission
Serious Fraud Office
Social Investment Agency
Statistics New Zealand
The Treasury

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

Offices of Parliament

Controller and Auditor-General
Office of the Ombudsman
Parliamentary Commissioner for the Environment

State-owned Enterprises Segment

State-owned Enterprises

Airways Corporation of New Zealand Limited

Animal Control Products Limited

AsureQuality Limited

Electricity Corporation of New Zealand Limited

KiwiRail Holdings Limited

Kordia Group Limited

Landcorp Farming Limited

Meteorological Service of New Zealand Limited

New Zealand Post Limited

New Zealand Railways Corporation

Quotable Value Limited

Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act Schedule 5)

Genesis Energy Limited

Mercury NZ Limited

Meridian Energy Limited

Other

Air New Zealand Limited

Crown Entities Segment

Crown Entities

Accident Compensation Corporation
Accreditation Council
Arts Council of New Zealand Toi Aotearoa
Auckland Light Rail Limited
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Children's Commissioner
Civil Aviation Authority of New Zealand
Climate Change Commission
Commerce Commission
Criminal Cases Review Commission
Crown Irrigation Investments Limited
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Financial Markets Authority
Fire and Emergency New Zealand
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health New Zealand
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Human Rights Commission
Independent Monitor of the Oranga Tamariki System
Independent Police Conduct Authority
Integrity Sport and Recreation Commission
Invest New Zealand
Kāinga Ora – Homes and Communities
Law Commission
Maritime New Zealand
Mental Health and Wellbeing Commission
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood and Organ Service
New Zealand Film Commission
New Zealand Growth Capital Partners Limited
New Zealand Infrastructure Commission/
Te Waihanga
New Zealand Institute for Advanced Technology Limited
New Zealand Institute for Bioeconomy Science Limited
New Zealand Institute for Earth Science Limited
New Zealand Institute for Public Health and Forensic Science Limited
New Zealand Institute of Skills and Technology (previously Te Pūkenga – New Zealand Institute of Skills and Technology)
New Zealand Lotteries Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Polytechnics (10)
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,425)
Social Workers Registration Board
Sport and Recreation New Zealand
Takeovers Panel
Television New Zealand Limited
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Tertiary Education Commission
Toka Tū Ake - Natural Hazards Commission
Transport Accident Investigation Commission
Water Services Authority - Taumata Arowai (previously Taumata Arowai – the Water Services Regulator)
WorkSafe New Zealand

Crown Entities Segment (continued)

Organisations listed in Schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

Māori Trustee

National Pacific Radio Trust

New Zealand Fish and Game Council

New Zealand Game Bird Habitat Trust Board

New Zealand Government Property Corporation

New Zealand Lottery Grants Board

Ngāi Tahu Ancillary Claims Trust

Pacific Island Business Development Trust

Reserves Boards (20)

Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act Schedule 4A)

Crown Infrastructure Delivery Limited

Crown Regional Holdings Limited

Education Payroll Limited

Ferry Holdings Limited

Kiwi Group Capital Limited

National Infrastructure Funding and Financing Limited

New Zealand Green Investment Finance Limited

Ngāpuhi Investment Fund Limited

Predator Free 2050 Limited

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

Legal entities created by Treaty of Waitangi settlement Acts (Public Finance Act Schedule 6)

Te Urewera

Te Kāhui Tupua

Others

Elevate New Zealand Venture Fund

Other entities not fully consolidated into the Forecast Financial Statements of the Government with only the Crown's interest in them being included

Crown entities

Tertiary Education Institutions (excluding Polytechnics)

(8 Universities and 2 Wānanga)

Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act Schedule 4A)

City Rail Link Limited

Subsidiaries of SOEs, Crown entities and other government entities are consolidated by entities listed above and are not listed separately in this table.

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Revenue								
Taxation revenue	1	121,058	124,210	123,970	132,002	141,229	150,525	158,485
Other sovereign revenue	1	9,768	11,006	9,962	10,596	11,386	11,823	12,234
Total Revenue Levied through the Crown's Sovereign Power		**130,826**	**135,216**	**133,932**	**142,598**	**152,615**	**162,348**	**170,719**
Sales of goods and services		26,085	27,554	26,775	29,497	30,211	31,358	32,063
Interest revenue	2	7,039	6,408	5,910	6,300	6,998	7,593	8,378
Other revenue		5,861	6,686	5,373	5,658	5,907	6,237	6,493
Total revenue earned through the Crown's operations		**38,985**	**40,648**	**38,058**	**41,455**	**43,116**	**45,188**	**46,934**
Total revenue (excluding gains)		**169,811**	**175,864**	**171,990**	**184,053**	**195,731**	**207,536**	**217,653**
Expenses								
Transfer payments and subsidies	3	44,679	46,523	46,951	49,745	51,321	52,512	54,335
Personnel expenses		38,771	40,758	40,080	41,192	41,492	41,640	41,604
Depreciation		8,294	8,424	8,680	9,089	9,369	9,609	9,572
Other operating expenses	4	69,827	72,901	72,709	76,210	74,343	74,255	74,261
Finance costs	2	10,390	11,073	10,161	11,592	13,168	14,764	16,277
Insurance expenses	5	11,541	10,659	9,955	9,566	10,543	10,810	11,269
Forecast new operating spending	6	-	1,720	-	1,959	3,145	4,705	7,499
Top-down operating expense adjustment	6	-	(900)	(1,700)	(1,400)	(600)	(600)	(600)
Total expenses (excluding losses)		**183,502**	**191,158**	**186,836**	**197,953**	**202,781**	**207,695**	**214,217**
Gains/(losses)								
Net gains/(losses) on financial instruments	2	9,272	5,692	10,801	5,959	6,738	7,220	7,834
Net gains/(losses) on non-financial instruments	7	(402)	-	(195)	-	-	-	-
Total gains/(losses) (including minority interests)		**8,870**	**5,692**	**10,606**	**5,959**	**6,738**	**7,220**	**7,834**
Net surplus/(deficit) from associates and joint ventures		214	71	240	101	161	174	205
Less minority interests' share of operating balance		207	(353)	(137)	(272)	(419)	(515)	(490)
Operating balance (excluding minority interests)		**(4,400)**	**(9,884)**	**(4,137)**	**(8,112)**	**(570)**	**6,720**	**10,985**
Minority interests' share of operating balance		(207)	353	137	272	419	515	490
Operating balance (including minority interests)		**(4,607)**	**(9,531)**	**(4,000)**	**(7,840)**	**(151)**	**7,235**	**11,475**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Comprehensive Revenue and Expense

for the years ending 30 June

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Operating Balance (including minority interests)	**(4,607)**	**(9,531)**	**(4,000)**	**(7,840)**	**(151)**	**7,235**	**11,475**
Other comprehensive revenue and expense							
Revaluation of physical assets	3,730	-	317	-	-	-	-
Revaluation of defined benefit retirement plan schemes	388	104	117	110	58	32	13
Net revaluations of veterans' disability entitlements	(1,202)	-	-	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	(121)	(25)	25	62	83	124	126
Transfers into/(out of) reserves	126	-	(38)	-	-	-	-
(Gains)/losses transferred to the statement of financial performance	(49)	-	10	-	-	-	-
Foreign currency translation differences on foreign operations	-	-	(1)	-	-	-	-
Impact of the adoption of PBE IFRS 17[1]	-	-	-	12,360	-	-	-
Other movements	10	(28)	(37)	25	(58)	(44)	(49)
Total other comprehensive revenue and expense	**2,882**	**51**	**393**	**12,557**	**83**	**112**	**90**
Total comprehensive revenue and expense	**(1,725)**	**(9,480)**	**(3,607)**	**4,717**	**(68)**	**7,347**	**11,565**
Attributable to:							
- minority interests	833	337	194	291	448	554	529
- the Crown	(2,558)	(9,817)	(3,801)	4,426	(516)	6,793	11,036
Total comprehensive revenue and expense	**(1,725)**	**(9,480)**	**(3,607)**	**4,717**	**(68)**	**7,347**	**11,565**

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Opening net worth	191,049	183,130	189,128	185,332	189,755	189,492	196,377
Operating balance (including minority interests)	(4,607)	(9,531)	(4,000)	(7,840)	(151)	7,235	11,475
Net revaluations of physical assets	3,730	-	317	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	388	104	117	110	58	32	13
Net revaluations of veterans' disability entitlements	(1,202)	-	-	-	-	-	-
Transfers into/(out of) cash flow hedge reserve	(121)	(25)	25	62	83	124	126
Transfers into/(out of) reserves	126	-	(38)	-	-	-	-
(Gains)/losses transferred to the Statement of Financial Performance	(49)	-	10	-	-	-	-
Foreign currency translation differences on foreign operations	-	-	(1)	-	-	-	-
Impact of the adoption of PBE IFRS 17[1]	-	-	-	12,360	-	-	-
Other movements	10	(28)	(37)	25	(58)	(44)	(49)
Comprehensive income	**(1,725)**	**(9,480)**	**(3,607)**	**4,717**	**(68)**	**7,347**	**11,565**
Increase in minority interest from equity issues	374	102	309	250	402	166	98
Transactions with minority interests	(570)	(528)	(498)	(544)	(597)	(628)	(693)
Closing net worth	**189,128**	**173,224**	**185,332**	**189,755**	**189,492**	**196,377**	**207,347**

1. This adjustment reflects the impact of adopting PBE IFRS 17: Insurance Contracts. Refer to the box in the Statement of Accounting Policies, Judgements and Assumptions section of the Forecast Financial Statements for further information.

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Cash Flows

for the years ending 30 June

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	121,183	122,887	124,488	129,634	139,029	148,096	156,324
Other sovereign receipts	7,878	8,605	8,090	8,800	9,548	9,743	10,192
Sales of goods and services	26,961	27,605	26,360	29,846	30,486	31,328	32,122
Interest receipts	6,791	5,604	5,175	4,535	4,637	5,033	5,705
Other operating receipts	6,372	6,054	6,288	6,670	6,865	7,265	7,491
Total cash provided from operations	**169,185**	**170,755**	**170,401**	**179,485**	**190,565**	**201,465**	**211,834**
Cash was disbursed to							
Transfer payments and subsidies	45,928	47,413	48,055	50,058	51,520	52,836	54,670
Personnel and operating payments	113,733	116,934	118,362	124,173	120,684	121,288	121,105
Interest payments	8,825	9,281	8,213	9,677	10,934	12,559	13,860
Forecast new operating spending	-	1,720	-	1,959	3,145	4,705	7,499
Top-down operating expense adjustment	-	(900)	(1,700)	(1,400)	(600)	(600)	(600)
Total cash disbursed to operations	**168,486**	**174,448**	**172,930**	**184,467**	**185,683**	**190,788**	**196,534**
Net cash flows from operations	**699**	**(3,693)**	**(2,529)**	**(4,982)**	**4,882**	**10,677**	**15,300**
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(14,054)	(17,817)	(16,582)	(17,444)	(16,416)	(13,859)	(13,311)
Net (purchase)/sale of shares and other securities	(9,781)	(4,693)	999	(131)	(759)	(2,415)	(1,506)
Net (purchase)/sale of intangible assets	(655)	(743)	(807)	(715)	(777)	(760)	(783)
Net (issue)/repayment of advances	5,888	2,743	4,115	(4,343)	(3,415)	(3,907)	(4,637)
Net acquisition of investments in associates	(404)	(266)	(516)	(238)	(197)	(58)	(57)
Forecast new capital spending	-	(2,560)	-	(1,968)	(3,235)	(3,890)	(4,674)
Top-down capital adjustment	-	900	600	1,500	200	100	100
Net cash flows from investing activities	**(19,006)**	**(22,436)**	**(12,191)**	**(23,339)**	**(24,599)**	**(24,789)**	**(24,868)**
Net cash flows from operating and investing activities	**(18,307)**	**(26,129)**	**(14,720)**	**(28,321)**	**(19,717)**	**(14,112)**	**(9,568)**
Cash Flows from Financing Activities							
Cash was provided from/(disbursed to)							
Net issue/(repayment) of circulating currency	175	91	445	94	95	96	97
Net issue/(repayment) of government bonds[1]	31,541	24,812	23,187	20,232	15,239	11,646	4,023
Net issue/(repayment) of foreign-currency borrowings	6,291	(1,333)	(466)	6,779	(34)	(1,754)	501
Net issue/(repayment) of other New Zealand dollar borrowings	(12,149)	3,161	(6,334)	1,974	4,615	3,466	5,183
Net issue/(purchase) of equity	251	-	-	99	246	-	(74)
Dividends paid to minority interests	(409)	(462)	(208)	(411)	(443)	(502)	(562)
Net cash flows from financing activities	**25,700**	**26,269**	**16,624**	**28,767**	**19,718**	**12,952**	**9,168**
Net movement in cash	**7,393**	**140**	**1,904**	**446**	**1**	**(1,160)**	**(400)**
Opening cash balance	16,212	22,709	23,668	25,397	25,843	25,844	24,684
Foreign-exchange gains/(losses) on opening cash	63	-	(175)	-	-	-	-
Closing cash balance	**23,668**	**22,849**	**25,397**	**25,843**	**25,844**	**24,684**	**24,284**

1. Further information on the issue and repayments of government bonds is available in the core Crown residual cash summary included in the attached Fiscal Indicator Analysis section.

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Cash Flows (continued)

for the years ending 30 June

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
Net Cash Flows from Operations	**699**	**(3,693)**	**(2,529)**	**(4,982)**	**4,882**	**10,677**	**15,300**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses) and Other Interests							
Net gains/(losses) on financial instruments	9,272	5,692	10,801	5,959	6,738	7,220	7,834
Net gains/(losses) on non-financial instruments	(402)	-	(195)	-	-	-	-
Net surplus/(deficit) from associates and joint ventures	214	71	240	101	161	174	205
Total gains/(losses) and other interests	**9,084**	**5,763**	**10,846**	**6,060**	**6,899**	**7,394**	**8,039**
Other Non-cash Items in Operating Balance							
Depreciation	(8,294)	(8,424)	(8,680)	(9,089)	(9,369)	(9,609)	(9,572)
Amortisation and net impairment of non-financial assets	(975)	(1,556)	(1,596)	(879)	(919)	(927)	(913)
Cost of concessionary lending	(661)	(681)	(842)	(884)	(916)	(905)	(922)
Impairment of financial assets (excluding receivables)	(64)	47	69	(9)	(31)	(37)	(42)
Change in accumulating insurance expenses	(4,339)	(3,037)	(2,672)	(2,068)	(2,761)	(3,059)	(3,328)
Change in NZ ETS liability	755	1,145	628	575	442	377	303
Change in accumulating pension expenses	(49)	(49)	(50)	(58)	(56)	(54)	(52)
Total other non-cash items in operating balance	**(13,627)**	**(12,555)**	**(13,143)**	**(12,412)**	**(13,610)**	**(14,214)**	**(14,526)**
Working Capital and Other Movements							
Increase/(decrease) in receivables	(1,620)	1,338	(661)	2,105	2,169	2,747	2,387
Increase/(decrease) in accrued interest	(985)	(1,019)	(1,237)	(162)	28	229	121
Increase/(decrease) in inventories	239	112	(97)	(36)	(210)	31	24
Increase/(decrease) in prepayments	328	(178)	85	63	(16)	30	61
Decrease/(increase) in deferred revenue	(74)	(7)	91	(79)	(38)	(54)	(31)
Decrease/(increase) in payables/provisions	1,349	708	2,645	1,603	(255)	395	100
Total working capital and other movements	**(763)**	**954**	**826**	**3,494**	**1,678**	**3,378**	**2,662**
Operating balance (including minority	**(4,607)**	**(9,531)**	**(4,000)**	**(7,840)**	**(151)**	**7,235**	**11,475**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Financial Position

as at 30 June

	Note	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Assets								
Cash and cash equivalents	8	23,668	22,849	25,397	25,843	25,844	24,684	24,284
Receivables	8	34,760	37,007	33,727	35,667	37,852	40,620	43,027
Marketable securities, deposits and derivatives in gain	8	82,544	95,932	87,763	90,086	94,306	99,983	105,666
Share investments	8	59,573	61,163	64,145	67,352	71,503	74,974	78,311
Advances	8	64,911	60,767	60,639	64,648	68,010	71,692	76,260
Investments in controlled enterprises	8	8,093	9,309	8,731	9,484	10,328	11,194	12,121
Inventory		3,100	3,517	3,003	2,967	2,757	2,788	2,812
Other assets		5,157	5,041	5,517	5,557	5,571	5,379	5,479
Property, plant and equipment	10	292,601	302,790	301,285	309,252	315,762	319,825	323,132
Equity accounted investments[1]		19,478	16,738	17,946	18,250	18,562	18,827	19,008
Intangible assets and goodwill		4,091	4,191	4,056	4,081	4,108	4,178	4,275
Forecast for new capital spending	6	-	2,560	-	1,968	5,203	9,093	13,767
Top-down capital adjustment	6	-	(2,400)	(600)	(2,100)	(2,300)	(2,400)	(2,500)
Total assets		**597,976**	**619,464**	**611,609**	**633,055**	**657,506**	**680,837**	**705,642**
Liabilities								
Issued currency		9,152	9,156	9,421	9,515	9,611	9,707	9,804
Payables	12	21,957	26,925	22,495	22,504	24,836	24,722	25,044
Deferred revenue		3,527	3,643	3,436	3,515	3,553	3,607	3,638
Borrowings	16	272,085	305,076	289,289	318,823	339,348	353,466	364,116
New Zealand Emissions Trading Scheme	15	7,156	5,741	4,471	3,976	3,681	3,411	3,181
Insurance liabilities	5	70,326	72,964	75,277	65,075	67,836	70,895	74,222
Retirement plan liabilities	13	6,661	6,028	6,085	5,559	5,116	4,711	4,327
Provisions	14	17,984	16,707	15,803	14,333	14,033	13,941	13,963
Total liabilities		**408,848**	**446,240**	**426,277**	**443,300**	**468,014**	**484,460**	**498,295**
Total assets less total liabilities		**189,128**	**173,224**	**185,332**	**189,755**	**189,492**	**196,377**	**207,347**
Net Worth								
Taxpayers' funds		(3,487)	(15,064)	(7,094)	(2,871)	(3,491)	3,177	14,117
Property, plant and equipment revaluation reserve		183,280	181,198	182,959	182,961	182,962	182,981	182,983
Defined benefit plan revaluation reserve		1,251	1,462	1,368	1,478	1,536	1,568	1,581
Veterans' disability entitlements reserve		(1,843)	(3,855)	(1,843)	(1,843)	(1,843)	(1,843)	(1,843)
Other reserves		59	137	69	160	205	279	360
Total net worth attributable to the Crown		**179,260**	**163,878**	**175,459**	**179,885**	**179,369**	**186,162**	**197,198**
Net worth attributable to minority interests		9,868	9,346	9,873	9,870	10,123	10,215	10,149
Total net worth	17	**189,128**	**173,224**	**185,332**	**189,755**	**189,492**	**196,377**	**207,347**

1. Equity accounted investments include Universities, Wānanga and City Rail Link Limited. The investment in City Rail Link Limited is expected to be divested in 2025/26.

The accompanying notes and accounting policies are an integral part of these Statements.

Statement of Actual Commitments

	As at 31 March 2026 $m	As at 30 June 2025 $m
Capital Commitments		
State highways	2,957	2,976
Specialist military equipment	447	437
Land and buildings	5,873	5,821
Other property, plant and equipment	5,501	5,121
Other capital commitments	457	562
Universities and Wānanga	542	542
Total capital commitments	**15,777**	**15,459**
Operating Commitments		
Non-cancellable accommodation leases	6,625	6,562
Other non-cancellable leases	5,221	5,354
Universities and Wānanga	1,266	1,266
Total operating commitments	**13,112**	**13,182**
Total commitments	**28,889**	**28,641**
Total Commitments by Segment		
Core Crown	11,312	11,258
Crown entities	10,109	9,812
State-owned Enterprises	7,760	8,068
Inter-segment eliminations	(292)	(497)
Total commitments	**28,889**	**28,641**

Statement of Actual Contingent Liabilities and Assets

	As at 31 March 2026 $m	As at 30 June 2025 $m
Quantifiable Contingent Liabilities		
Uncalled capital	10,364	9,861
Guarantees and indemnities	291	282
Legal proceedings and disputes	534	515
Other quantifiable contingent liabilities	1,812	1,464
Total quantifiable contingent liabilities	**13,001**	**12,122**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	13,628	11,801
Crown entities	81	81
State-owned Enterprises	476	279
Inter-segment eliminations[1]	(1,184)	(39)
Total quantifiable contingent liabilities	**13,001**	**12,122**
Quantifiable Contingent Assets by Segment		
Core Crown	41	29
Crown entities	53	53
State-owned Enterprises	116	106
Total quantifiable contingent assets	**210**	**188**

1. In general the inter-segment eliminations for contingent liabilities relates to uncalled capital to other Government reporting entities. The large increase in this balance since June 2025 primarily relates to uncalled capital for Ferry Holdings Limited. It is expected that the full amount of the uncalled capital will be called over the forecast period, which has been reflected in these forecast financial statements.

More information on contingent liabilities and assets (quantified and unquantified) is outlined in the Supplementary Information document.

The accompanying notes and accounting policies are an integral part of these Statements.

Notes to the Forecast Financial Statements

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation Revenue (accrual)							
Individuals							
Source deductions	52,460	55,243	54,703	57,795	61,024	64,742	68,577
Other persons	11,334	11,394	11,163	12,062	13,221	14,150	14,901
Refunds	(2,854)	(2,936)	(2,868)	(3,053)	(3,316)	(3,517)	(3,693)
Fringe benefit tax	909	909	959	986	1,020	1,058	1,099
Total individuals	**61,849**	**64,610**	**63,957**	**67,790**	**71,949**	**76,433**	**80,884**
Corporate Tax							
Gross companies tax	17,727	17,074	17,454	19,544	21,254	23,262	24,242
Refunds	(964)	(1,049)	(774)	(751)	(752)	(782)	(793)
Non-resident withholding tax	733	723	688	698	770	831	868
Total corporate tax	**17,496**	**16,748**	**17,368**	**19,491**	**21,272**	**23,311**	**24,317**
Other Direct Income Tax							
Resident w/holding tax on interest income	3,567	3,209	2,665	2,455	2,693	2,947	3,156
Resident w/holding tax on dividend income	940	1,168	1,120	1,191	1,317	1,410	1,479
Total other direct income tax	**4,507**	**4,377**	**3,785**	**3,646**	**4,010**	**4,357**	**4,635**
Total direct income tax	**83,852**	**85,735**	**85,110**	**90,927**	**97,231**	**104,101**	**109,836**
Goods and Services Tax							
Gross goods and services tax	48,668	52,072	51,597	55,129	58,868	62,083	65,067
Refunds	(19,118)	(21,567)	(20,326)	(22,023)	(23,452)	(24,640)	(25,768)
Total goods and services tax	**29,550**	**30,505**	**31,271**	**33,106**	**35,416**	**37,443**	**39,299**
Other Indirect Taxation							
Road and track user charges	2,036	2,172	2,092	2,311	2,724	3,031	3,314
Alcohol excise – domestic production	791	832	796	811	850	885	921
Petroleum fuels excise[1]	1,995	1,937	2,008	2,123	2,391	2,537	2,649
Alcohol excise – imports	452	510	448	497	521	542	565
Tobacco excise[1]	1,471	1,479	1,241	1,138	1,017	908	811
Other customs duty	127	108	120	116	112	118	123
Gaming duties	305	321	324	347	357	372	387
Motor vehicle fees	287	462	394	484	490	485	480
Approved issuer levy and cheque duty	176	127	154	132	113	98	95
Energy resources levies	16	22	12	10	7	5	5
Total other indirect taxation	**7,656**	**7,970**	**7,589**	**7,969**	**8,582**	**8,981**	**9,350**
Total indirect taxation	**37,206**	**38,475**	**38,860**	**41,075**	**43,998**	**46,424**	**48,649**
Total taxation revenue	**121,058**	**124,210**	**123,970**	**132,002**	**141,229**	**150,525**	**158,485**
Other Sovereign Revenue (accrual)							
ACC levies	4,244	4,715	4,380	4,977	5,370	5,453	5,860
Emissions trading revenue	1,774	2,215	1,471	1,362	1,325	1,310	1,250
Fire and Emergency levies	797	834	828	856	883	912	942
Natural Hazards Commission levies	908	920	913	916	926	939	949
Child support and working for families penalties	143	156	131	126	128	129	131
Court fines	132	143	145	148	148	148	148
Other miscellaneous items	1,770	2,023	2,094	2,211	2,606	2,932	2,954
Total other sovereign revenue	**9,768**	**11,006**	**9,962**	**10,596**	**11,386**	**11,823**	**12,234**
Total sovereign revenue	**130,826**	**135,216**	**133,932**	**142,598**	**152,615**	**162,348**	**170,719**

1. Includes excise duty on domestic production and excise-equivalent duty on imports.

Notes to the Forecast Financial Statements

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation Receipts (cash)							
Individuals							
Source deductions	51,833	54,960	54,200	57,288	60,613	64,312	68,125
Other persons	11,049	11,702	11,788	11,922	12,921	14,029	14,795
Refunds	(3,366)	(3,648)	(3,460)	(3,541)	(3,780)	(4,085)	(4,320)
Fringe benefit tax	892	909	958	985	1,019	1,057	1,098
Total individuals	**60,408**	**63,923**	**63,486**	**66,654**	**70,773**	**75,313**	**79,698**
Corporate Tax							
Gross companies tax	19,548	18,031	20,262	20,163	22,220	24,170	25,661
Refunds	(2,072)	(2,246)	(1,888)	(2,015)	(2,158)	(2,399)	(2,590)
Non-resident withholding tax	728	723	688	698	770	831	868
Total corporate tax	**18,204**	**16,508**	**19,062**	**18,846**	**20,832**	**22,602**	**23,939**
Other Direct Income Tax							
Resident w/holding tax on interest income	3,590	3,209	2,665	2,455	2,693	2,947	3,156
Resident w/holding tax on dividend income	980	1,168	1,129	1,191	1,317	1,410	1,479
Total other direct income tax	**4,570**	**4,377**	**3,794**	**3,646**	**4,010**	**4,357**	**4,635**
Total direct income tax	**83,182**	**84,808**	**86,342**	**89,146**	**95,615**	**102,272**	**108,272**
Goods and Services Tax							
Gross goods and services tax	48,939	51,282	50,483	54,182	57,902	61,091	64,075
Refunds	(18,569)	(21,167)	(19,926)	(21,623)	(23,052)	(24,240)	(25,368)
Total goods and services tax	**30,370**	**30,115**	**30,557**	**32,559**	**34,850**	**36,851**	**38,707**
Other Indirect Taxation							
Road and track user charges	2,038	2,172	2,092	2,311	2,724	3,031	3,314
Alcohol excise – domestic production	789	832	796	811	850	885	921
Customs duty[1]	4,060	4,028	3,817	3,838	4,023	4,097	4,143
Gaming duties	287	321	324	343	357	372	387
Motor vehicle fees	266	462	394	484	490	485	480
Approved issuer levy and cheque duty	175	127	154	132	113	98	95
Energy resources levies	16	22	12	10	7	5	5
Total other indirect taxation	**7,631**	**7,964**	**7,589**	**7,929**	**8,564**	**8,973**	**9,345**
Total indirect taxation	**38,001**	**38,079**	**38,146**	**40,488**	**43,414**	**45,824**	**48,052**
Total taxation receipts	**121,183**	**122,887**	**124,488**	**129,634**	**139,029**	**148,096**	**156,324**
Other Sovereign Receipts (cash)							
ACC levies	4,216	4,592	4,427	4,895	5,364	5,358	5,754
Emissions trading receipts[2]	267	330	-	80	147	107	73
Fire and Emergency levies	771	828	820	775	876	904	934
Natural Hazards Commission levies	918	923	947	919	929	942	952
Child support and working for families penalties	103	138	92	84	83	79	74
Court fines	143	149	152	146	142	140	139
Other miscellaneous items	1,460	1,645	1,652	1,901	2,007	2,213	2,266
Total other sovereign receipts	**7,878**	**8,605**	**8,090**	**8,800**	**9,548**	**9,743**	**10,192**
Total sovereign receipts	**129,061**	**131,492**	**132,578**	**138,434**	**148,577**	**157,839**	**166,516**

1. Includes customs excise-equivalent duty from imports.
2. Represents cash proceeds from the sale of NZUs at auction.

Notes to the Forecast Financial Statements

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
NOTE 2: Investment Revenue/(Expenditure)							
Interest Revenue	**7,039**	**6,408**	**5,910**	**6,300**	**6,998**	**7,593**	**8,378**
Interest Expenses							
Interest on financial liabilities	9,804	10,526	9,770	11,218	12,737	14,297	15,799
Interest unwind on provisions	586	547	391	374	431	467	478
Total interest expenses	**10,390**	**11,073**	**10,161**	**11,592**	**13,168**	**14,764**	**16,277**
Net interest revenue/(expense)	**(3,351)**	**(4,665)**	**(4,251)**	**(5,292)**	**(6,170)**	**(7,171)**	**(7,899)**
Dividend revenue	1,636	1,354	1,315	1,293	1,345	1,436	1,524
Net gains/(losses) on financial instruments	9,272	5,692	10,801	5,959	6,738	7,220	7,834
Total investment revenue/(expenditure)	**7,557**	**2,381**	**7,865**	**1,960**	**1,913**	**1,485**	**1,459**
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	23,191	24,691	24,730	26,481	28,324	29,715	31,207
Family tax credit	2,434	2,374	2,449	2,585	2,619	2,700	2,653
Jobseeker support and emergency benefit	4,641	4,839	4,944	5,018	4,940	4,807	4,902
Accommodation assistance	2,232	2,350	2,308	2,322	2,400	2,260	2,286
Supported living payment	2,668	2,782	2,830	3,023	3,199	3,295	3,437
Sole parent support	2,255	2,331	2,390	2,474	2,408	2,236	2,233
KiwiSaver subsidies	1,020	545	560	583	608	639	659
International Development Cooperation	953	995	996	1,111	982	982	982
Hardship assistance	755	837	816	835	751	748	785
Paid parental leave	709	745	745	785	825	865	910
Winter energy payment	562	577	583	595	600	609	620
Student allowances	574	635	647	702	711	700	685
Disability assistance	492	511	518	533	541	538	543
Other working for families tax credits	561	596	656	852	629	602	576
Orphan's/unsupported child's benefit	402	417	417	430	444	450	456
Best start tax credit	346	326	327	286	275	281	274
Income related rent subsidy	192	215	230	264	294	306	319
Other social assistance benefits	692	757	805	866	771	779	808
Total transfer payments and subsidies	**44,679**	**46,523**	**46,951**	**49,745**	**51,321**	**52,512**	**54,335**
NOTE 4: Other Operating Expenses							
Grants and subsidies	11,990	11,253	12,127	11,507	10,934	11,247	11,275
Repairs and maintenance	3,336	3,650	3,693	3,573	3,296	3,328	3,507
Rental and leasing costs	1,639	1,940	1,794	1,749	1,751	1,768	1,799
Amortisation and impairment of non-financial assets	975	1,556	1,596	879	919	927	913
Impairment of financial assets	2,075	1,678	1,721	1,632	1,661	1,615	1,599
Cost of concessionary lending	661	681	842	884	916	905	922
Lottery prize payments	873	853	912	917	955	994	1,011
Inventory expenses and clinical supplies	754	769	667	757	920	732	788
Other operating expenses	47,524	50,521	49,357	54,312	52,991	52,739	52,447
Total other operating expenses	**69,827**	**72,901**	**72,709**	**76,210**	**74,343**	**74,255**	**74,261**

Notes to the Forecast Financial Statements

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
NOTE 5: Insurance							
Insurance expense by entity							
ACC	10,771	9,983	9,349	8,958	9,906	10,156	10,601
Natural Hazards Commission	659	583	580	595	617	632	645
Other (incl. inter-segment eliminations)	111	93	26	13	20	22	23
Total insurance expenses	**11,541**	**10,659**	**9,955**	**9,566**	**10,543**	**10,810**	**11,269**
Insurance liability by entity							
ACC	68,766	71,797	73,849	63,880	66,716	69,830	73,195
Natural Hazards Commission	1,273	992	1,166	969	912	868	839
Other (incl. inter-segment eliminations)	287	175	262	226	208	197	188
Total insurance liabilities	**70,326**	**72,964**	**75,277**	**65,075**	**67,836**	**70,895**	**74,222**

ACC liability

Calculation information

ACC prepared an actuarial estimate of the ACC outstanding claims liability as at 31 December 2025. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected future administrative expenses of managing these claims. The 2025/26 estimate also includes a risk margin but this is removed for the 2026/27 year and onwards with the adoption of PBE IFRS 17 Insurance Contracts[1]. The assumptions underpinning this valuation form the basis of the five-year forecast of the outstanding claims liability.

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), Average Weekly Earnings (AWE) and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the inflation and discount rates as at 28 February 2026. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 5.17% and allows for a long-term discount rate of 4.80% beyond 51 years.

Other key variables in each valuation are the forecast increases in claim costs over and above the economic variables above, and the assumed rate at which long-term claimants will leave the scheme over the period. This assessment is largely based on scheme history.

Presentation approach

ACC has a portfolio of assets that offset the claims liability. The assets below (less cross-holdings of NZ Government stock) are included as assets in the Statement of Financial Position.

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Gross ACC Liability							
Opening gross liability	65,049	68,627	68,766	73,849	63,880	66,716	69,830
Impact of the adoption of PBE IFRS 17[1]	-	-	-	(12,270)	-	-	-
Net change	3,717	3,170	5,083	2,301	2,836	3,114	3,365
Closing gross liability	**68,766**	**71,797**	**73,849**	**63,880**	**66,716**	**69,830**	**73,195**
Less Net Assets Available to ACC							
Opening net asset value	52,682	54,392	54,917	57,663	57,688	58,113	58,908
Net change	2,235	285	2,746	25	425	795	1,295
Closing net asset value	**54,917**	**54,677**	**57,663**	**57,688**	**58,113**	**58,908**	**60,203**
Net ACC Reserves (Net Liability)							
Opening reserves position	(12,367)	(14,235)	(13,849)	(16,186)	(6,192)	(8,603)	(10,922)
Impact of the adoption of PBE IFRS 17[1]	-	-	-	12,270	-	-	-
Net change	(1,482)	(2,885)	(2,337)	(2,276)	(2,411)	(2,319)	(2,070)
Closing reserves position (net liability)/net asset	**(13,849)**	**(17,120)**	**(16,186)**	**(6,192)**	**(8,603)**	**(10,922)**	**(12,992)**
Net Change in ACC Reserves							
Revenue	8,548	9,078	8,807	9,536	10,155	10,477	11,148
Expenses	(13,215)	(12,605)	(11,928)	(12,185)	(13,279)	(13,670)	(14,258)
Valuation changes	3,185	642	784	373	713	874	1,040
Net change	**(1,482)**	**(2,885)**	**(2,337)**	**(2,276)**	**(2,411)**	**(2,319)**	**(2,070)**

1. This adjustment reflects the impact of adopting PBE IFRS 17: Insurance Contracts. Refer to the box in the Statement of Accounting Policies, Judgements and Assumptions section of the Forecast Financial Statements for further information.

Notes to the Forecast Financial Statements

	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
NOTE 6: Forecast New Spending and Top-down Adjustments					
Forecast New Operating Spending					
Unallocated operating contingencies	-	1,959	1,160	1,161	1,598
Baseline reductions	-	-	(393)	(786)	(786)
Budget operating allowance for Budget 2027	-	-	2,378	1,930	1,887
Budget operating allowance for Budget 2028	-	-	-	2,400	2,400
Budget operating allowance for Budget 2029	-	-	-	-	2,400
Total forecast new operating spending	**-**	**1,959**	**3,145**	**4,705**	**7,499**

	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m	Post-2030 $m	Total $m
Forecast New Capital Spending (annual)							
Unallocated capital contingencies	-	1,968	2,010	1,440	999	1,415	7,832
Budget capital allowance for Budget 2027	-	-	1,225	1,225	700	350	3,500
Budget capital allowance for Budget 2028	-	-	-	1,225	1,225	1,050	3,500
Budget capital allowance for Budget 2029	-	-	-	-	1,750	3,250	5,000
Total forecast new capital spending	**-**	**1,968**	**3,235**	**3,890**	**4,674**	**6,065**	**19,832**
Forecast new capital spending (cumulative)	**-**	**1,968**	**5,203**	**9,093**	**13,767**		

Unallocated operating and capital contingencies represents funding agreed by the Government, or likely to be agreed in the future, that have yet to be allocated to departments.

Budget operating and capital allowances for Budgets 2027 through to Budget 2029 indicate the expected spending increases from future Budgets. Some of the operating allowance has been assumed to be pre-committed as at the forecast finalisation date of 8 May 2026, with only the unallocated portion of the allowance included within this note.

The baseline reductions reflect the savings expected through the Government's public sector transformation programme, yet to be identified in departmental baselines.

	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Top-down Adjustments					
Top-down operating expense adjustment	(1,700)	(1,400)	(600)	(600)	(600)
Top-down capital adjustment (cumulative)	(600)	(2,100)	(2,300)	(2,400)	(2,500)

Notes to the Forecast Financial Statements

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
NOTE 7: Net Gains and Losses on Non-Financial Instruments							
Actuarial gains/(losses) on ACC outstanding claims	588	-	(2,279)	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	(1,018)	-	2,057	-	-	-	-
Other	28	-	27	-	-	-	-
Net gains/(losses) on non-financial instruments	**(402)**	**-**	**(195)**	**-**	**-**	**-**	**-**
NOTE 8: Financial Assets (including receivables)							
Cash and cash equivalents	23,668	22,849	25,397	25,843	25,844	24,684	24,284
Tax receivables	20,936	20,443	19,035	20,502	21,843	23,408	24,674
Trade and other receivables	13,824	16,564	14,692	15,165	16,009	17,212	18,353
Student loans (refer to note 9)	10,054	10,026	10,067	10,133	10,219	10,271	10,285
Kiwi Group loans and advances	35,942	38,870	38,988	42,651	45,485	48,924	53,112
Long-term deposits	6,964	9,768	5,834	5,240	5,576	5,548	5,782
IMF financial assets	5,720	5,779	5,658	5,658	5,660	5,661	5,663
FLP advances	7,261	-	-	-	-	-	-
Other advances	11,654	11,871	11,584	11,864	12,306	12,497	12,863
Share investments	59,573	61,163	64,145	67,352	71,503	74,974	78,311
Investments in controlled enterprises	8,093	9,309	8,731	9,484	10,328	11,194	12,121
Derivatives in gain	6,359	4,062	8,045	7,675	7,636	7,832	8,129
Other marketable securities	63,501	76,323	68,226	71,513	75,434	80,942	86,092
Total financial assets (including receivables)	**273,549**	**287,027**	**280,402**	**293,080**	**307,843**	**323,147**	**339,669**
Financial Assets by Segment							
The Treasury	56,159	53,694	51,231	42,466	44,893	48,481	50,322
Reserve Bank of New Zealand	48,570	48,974	43,252	43,106	43,641	44,186	44,735
NZS Fund	87,295	94,126	96,698	103,818	111,652	118,185	125,623
Other core Crown	41,381	38,844	38,016	40,454	41,912	43,253	44,418
Intra-segment eliminations	(33,594)	(23,097)	(24,260)	(12,441)	(12,582)	(11,880)	(11,224)
Total core Crown segment	**199,811**	**212,541**	**204,937**	**217,403**	**229,516**	**242,225**	**253,874**
ACC	59,321	58,088	62,130	62,072	62,414	63,124	64,359
Natural Hazards Commission	881	958	1,002	1,121	1,303	1,511	1,738
Kiwi Group loans and advances	35,942	38,870	38,988	42,651	45,485	48,924	53,112
Other Crown entities	23,760	23,728	23,676	23,535	25,248	26,255	27,383
Intra-segment eliminations	(5,209)	(4,702)	(5,505)	(5,717)	(6,068)	(6,475)	(6,817)
Total Crown entities segment	**114,695**	**116,942**	**120,291**	**123,662**	**128,382**	**133,339**	**139,775**
Total State-owned Enterprises segment	**6,775**	**6,258**	**6,738**	**6,234**	**6,408**	**6,202**	**6,428**
Inter-segment eliminations	(47,732)	(48,714)	(51,564)	(54,219)	(56,463)	(58,619)	(60,408)
Total financial assets (including receivables)	**273,549**	**287,027**	**280,402**	**293,080**	**307,843**	**323,147**	**339,669**
NOTE 9: Student Loans							
Nominal value (including accrued interest)	16,222	16,634	16,878	17,619	18,392	19,138	19,861
Opening book value	9,596	10,012	10,054	10,067	10,133	10,219	10,271
Net new lending (including fees)	1,709	1,877	2,041	2,225	2,257	2,261	2,284
Less initial write-down to fair value	(585)	(636)	(775)	(823)	(850)	(866)	(885)
Repayments made during the year	(1,562)	(1,631)	(1,642)	(1,722)	(1,801)	(1,869)	(1,945)
Interest unwind	492	413	314	359	452	495	527
Unwind of administration costs	26	25	28	27	28	31	33
Final-year fees free payments	-	(34)	-	-	-	-	-
Experience/actuarial adjustments:							
- Expected repayment adjustments	(91)	-	13	-	-	-	-
- Discount rate adjustments	469	-	34	-	-	-	-
Closing book value	**10,054**	**10,026**	**10,067**	**10,133**	**10,219**	**10,271**	**10,285**

Notes to the Forecast Financial Statements

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
NOTE 10: Property, Plant and Equipment							
Net Carrying Value[1]							
By class of asset							
Land	83,056	81,888	82,517	82,322	81,890	81,540	81,057
Buildings	76,154	82,377	79,695	82,164	83,769	84,908	85,620
State highways	64,285	66,857	66,780	69,066	71,462	73,063	74,166
Electricity generation assets	25,479	24,436	26,130	26,829	28,120	28,979	30,052
Electricity distribution network (cost)	4,922	5,347	5,107	5,743	6,420	7,172	8,026
Aircraft (excluding military)	5,150	5,892	5,572	6,057	6,007	5,785	5,757
Specialist military equipment	5,614	6,412	5,674	5,882	6,321	6,354	6,109
Specified cultural and heritage assets	3,214	3,244	3,210	3,217	3,247	3,265	3,280
Rail network	14,270	16,410	16,080	16,241	16,282	16,198	16,076
Other plant and equipment (cost)	10,457	9,927	10,520	11,731	12,244	12,561	12,989
Total property, plant and equipment	**292,601**	**302,790**	**301,285**	**309,252**	**315,762**	**319,825**	**323,132**
Land breakdown by usage							
Housing	28,996	29,990	28,858	28,710	28,452	28,155	27,748
State highway corridor land	25,082	22,758	25,075	24,915	24,689	24,611	24,478
Conservation estate	8,955	8,913	8,796	8,803	8,810	8,817	8,823
Rail network	4,304	4,406	4,407	4,421	4,431	4,428	4,426
Schools	6,761	6,838	6,819	6,875	6,876	6,878	6,879
Commercial (SOEs) excluding Rail	1,503	1,519	1,503	1,528	1,542	1,555	1,567
Other	7,455	7,464	7,059	7,070	7,090	7,096	7,136
Total land	**83,056**	**81,888**	**82,517**	**82,322**	**81,890**	**81,540**	**81,057**
Schedule of Movements							
Cost or Valuation							
Opening balance	306,631	322,525	315,732	332,679	349,551	365,315	378,839
Additions	14,958	19,636	18,698	17,955	16,967	14,749	13,873
Disposals	(1,701)	(748)	(1,908)	(1,077)	(1,201)	(1,227)	(1,148)
Net revaluations	(3,717)	-	151	-	-	-	-
Other	(439)	(17)	6	(6)	(2)	2	4
Total cost or valuation	**315,732**	**341,396**	**332,679**	**349,551**	**365,315**	**378,839**	**391,568**
Accumulated Depreciation and Impairment							
Opening balance	22,841	30,329	23,131	31,394	40,299	49,553	59,014
Eliminated on disposal	(977)	(143)	(329)	(184)	(115)	(149)	(150)
Eliminated on revaluation	(6,839)	-	(93)	-	-	-	-
Impairment losses charged to operating balance	79	-	-	-	-	-	-
Depreciation expense	8,294	8,424	8,680	9,089	9,369	9,609	9,572
Other	(267)	(4)	5	-	-	1	-
Total accumulated depreciation and impairment	**23,131**	**38,606**	**31,394**	**40,299**	**49,553**	**59,014**	**68,436**
Total property, plant and equipment	**292,601**	**302,790**	**301,285**	**309,252**	**315,762**	**319,825**	**323,132**

1. Using a revaluation methodology unless otherwise stated.

Notes to the Forecast Financial Statements

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
NOTE 11: NZ Superannuation Fund							
Revenue	1,784	1,773	1,733	1,797	1,840	1,920	1,987
Less current tax expense	1,755	1,518	1,577	1,687	1,798	1,915	2,040
Less other expenses	193	314	240	321	334	348	366
Add gains/(losses)	7,313	4,933	8,798	5,628	6,063	6,490	6,968
Operating balance	**7,149**	**4,874**	**8,714**	**5,417**	**5,771**	**6,147**	**6,549**
Opening net worth	74,819	82,397	82,847	91,561	97,540	103,911	110,951
Gross contribution from/(to) the Crown	879	-	-	562	600	893	1,049
Operating balance	7,149	4,874	8,714	5,417	5,771	6,147	6,549
Closing net worth	**82,847**	**87,271**	**91,561**	**97,540**	**103,911**	**110,951**	**118,549**
Comprising:							
Financial assets	87,295	94,126	96,698	103,818	111,652	118,185	125,623
Financial liabilities	(4,515)	(6,800)	(5,136)	(6,261)	(7,721)	(7,212)	(7,049)
Net other assets	67	(55)	(1)	(17)	(20)	(22)	(25)
Closing net worth	**82,847**	**87,271**	**91,561**	**97,540**	**103,911**	**110,951**	**118,549**
NOTE 12: Payables							
Accounts payable	14,933	19,561	15,808	15,486	17,423	16,958	16,991
Taxes repayable	7,024	7,364	6,687	7,018	7,413	7,764	8,053
Total payables	**21,957**	**26,925**	**22,495**	**22,504**	**24,836**	**24,722**	**25,044**
NOTE 13: Retirement Plan Liabilities							
Government Superannuation Fund	6,659	6,025	6,083	5,557	5,115	4,709	4,326
Other funds	2	3	2	2	1	2	1
Total retirement plan liabilities	**6,661**	**6,028**	**6,085**	**5,559**	**5,116**	**4,711**	**4,327**

Government Superannuation Fund

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 31 January 2026. Refer to *Note 22: Retirement Plan Liabilities* in the Financial Statements of the Government of New Zealand for the year ended 30 June 2025 for further details on the scheme and the method used in calculating the net liability.

The following key economic assumptions were used to calculate the net liability:
- inflation rate, as measured by the Consumers Price Index (CPI), with rates initially 2.39% p.a. decreasing to 2.06% p.a. after six years, and remaining there for 10 years, then decreasing gradually to 2.00% p.a after 50 years.
- an annual salary growth rate, before any promotional effects, of 2.50% (2.50% at 30 June 2025)
- discount rates derived from the market yield curve for New Zealand Government bonds as at 31 January 2026
- expected return on assets of 5.00% p.a. (5.00% at 30 June 2025).

The net GSF liability is sensitive to changes in the underlying assumptions mentioned above which is discussed further in the Financial Statements of the Government of New Zealand for the year ended 30 June 2025 *Note 22: Retirement Plan Liabilities.*

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
GSF Liability							
Opening GSF liability	12,830	12,381	12,480	12,079	11,424	10,848	10,306
Net change	(350)	(574)	(401)	(655)	(576)	(542)	(522)
Closing GSF liability	**12,480**	**11,807**	**12,079**	**11,424**	**10,848**	**10,306**	**9,784**
Less Net Assets Available to GSF							
Opening net asset value	5,495	5,849	5,821	5,996	5,867	5,733	5,597
Investment valuation changes	674	322	528	289	283	277	269
Contribution and other income less benefit payments	(348)	(389)	(353)	(418)	(417)	(413)	(408)
Closing net asset value	**5,821**	**5,782**	**5,996**	**5,867**	**5,733**	**5,597**	**5,458**
Net GSF Liability							
Opening unfunded liability	7,335	6,532	6,659	6,083	5,557	5,115	4,709
Net change	(676)	(507)	(576)	(526)	(442)	(406)	(383)
Closing unfunded liability	**6,659**	**6,025**	**6,083**	**5,557**	**5,115**	**4,709**	**4,326**

Notes to the Forecast Financial Statements

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
NOTE 14: Provisions							
Provision for employee entitlements	8,275	6,716	8,098	7,041	6,958	7,001	7,074
Veterans' disability entitlements	4,132	6,125	4,092	4,121	4,087	4,046	3,995
Provision for National Provident Fund guarantee	572	534	533	485	440	400	362
Other provisions	5,005	3,332	3,080	2,686	2,548	2,494	2,532
Total provisions	**17,984**	**16,707**	**15,803**	**14,333**	**14,033**	**13,941**	**13,963**
NOTE 15: New Zealand Emissions Trading Scheme							
Opening liability	6,626	6,556	7,156	4,471	3,976	3,681	3,411
Units sold	267	330	-	80	147	107	73
Allocated units	1,075	1,174	913	939	992	1,032	1,062
Units surrendered	(1,774)	(2,215)	(1,471)	(1,362)	(1,325)	(1,310)	(1,250)
(Gains)/ losses due to revaluation in NZ Units	1,018	-	(2,057)	-	-	-	-
Other movements	(56)	(104)	(70)	(152)	(109)	(99)	(115)
Closing liability	**7,156**	**5,741**	**4,471**	**3,976**	**3,681**	**3,411**	**3,181**

The New Zealand Emissions Trading Scheme (NZ ETS) encourages emissions abatement by putting a price on emissions and rewarding carbon removal activities such as forestry. New Zealand Units (NZUs) are sold into the market through Government auctions, with cash proceeds reported from the sale of NZUs at auction. Expenses from the NZ ETS, and a corresponding increase in liability, is recognised when NZUs are allocated free-of-charge to foresters for forestry removals and to certain industrial activities that are both emission-intensive and trade-exposed (industrial allocation).

NZ ETS participants must meet their emissions obligations by surrendering NZUs to the Government. Revenue from the NZ ETS, and the corresponding decrease in the liability, is recognised when a participant in the scheme generates emissions or the liability to the Crown is incurred. The NZ ETS liability represents the NZUs outstanding that can be used to settle future emissions obligations.

The prices for NZUs used to calculate the NZ ETS liability are assumed to remain constant over the forecast period and are based on the market price at 31 March 2026 of $41.60 (30 June 2025: $58.70).

NOTE 16: Borrowings

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Borrowings							
Government bonds	155,313	181,913	176,757	198,572	215,250	228,329	233,909
Kiwi Group customer deposits	29,794	32,128	31,470	34,319	36,196	38,763	42,063
Settlement deposits with Reserve Bank	32,055	25,872	25,054	24,380	24,380	24,380	24,380
Derivatives in loss	5,924	10,148	5,947	5,592	5,368	5,141	4,950
Treasury bills	4,847	5,930	5,470	5,779	5,768	5,762	5,757
European Commercial Paper	10,021	11,946	5,137	9,907	10,001	8,084	8,182
Finance lease liabilities	1,141	1,101	1,144	1,040	1,006	976	940
Government retail stock	159	162	156	157	157	157	157
Other borrowings	32,831	35,876	38,154	39,077	41,222	41,874	43,778
Total borrowings	**272,085**	**305,076**	**289,289**	**318,823**	**339,348**	**353,466**	**364,116**
By guarantee							
Sovereign-guaranteed debt	213,928	242,204	225,537	251,287	267,732	278,646	284,205
Non sovereign-guaranteed debt	58,157	62,872	63,752	67,536	71,616	74,820	79,911
Total borrowings	**272,085**	**305,076**	**289,289**	**318,823**	**339,348**	**353,466**	**364,116**

This note constitutes a Statement of Borrowings as required by the Public Finance Act 1989.

Total borrowings can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities are not explicitly guaranteed by the Crown.

Notes to the Forecast Financial Statements

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
NOTE 17: Changes in Net Worth							
Taxpayers' funds	(3,487)	(15,064)	(7,094)	(2,871)	(3,491)	3,177	14,117
Property, plant and equipment revaluation reserve	183,280	181,198	182,959	182,961	182,962	182,981	182,983
Defined benefit plan revaluation reserve	1,251	1,462	1,368	1,478	1,536	1,568	1,581
Veterans' disability entitlements reserve	(1,843)	(3,855)	(1,843)	(1,843)	(1,843)	(1,843)	(1,843)
Intangible asset reserve	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	(220)	(86)	(171)	(133)	(82)	(2)	80
Fair value hedge reserve	323	269	285	338	332	326	325
Foreign currency translation reserve	(37)	(39)	(38)	(38)	(38)	(38)	(38)
Net worth attributable to minority interests	9,868	9,346	9,873	9,870	10,123	10,215	10,149
Total net worth	**189,128**	**173,224**	**185,332**	**189,755**	**189,492**	**196,377**	**207,347**
Taxpayers' funds							
Opening taxpayers' funds	300	(5,156)	(3,487)	(7,094)	(2,871)	(3,491)	3,177
Operating balance excluding minority interests	(4,400)	(9,884)	(4,137)	(8,112)	(570)	6,720	10,985
Transfers from/(to) other reserves	604	-	595	-	-	-	-
Impact of the adoption of PBE IFRS 17[1]	-	-	-	12,360	-	-	-
Other movements	9	(24)	(65)	(25)	(50)	(52)	(45)
Closing taxpayers' funds	**(3,487)**	**(15,064)**	**(7,094)**	**(2,871)**	**(3,491)**	**3,177**	**14,117**
Property, Plant and Equipment Revaluation							
Opening property, plant and equipment revaluation reserve	181,176	181,193	183,280	182,959	182,961	182,962	182,981
Net revaluations	3,730	-	317	-	-	-	-
Transfers from/(to) other reserves	(604)	5	(595)	2	1	19	2
Net revaluations attributable to minority interests	(1,022)	-	(43)	-	-	-	-
Closing property, plant and equipment revaluation reserve	**183,280**	**181,198**	**182,959**	**182,961**	**182,962**	**182,981**	**182,983**
Net Worth Attributable to Minority Interests							
Opening minority interest	9,231	9,435	9,868	9,873	9,870	10,123	10,215
Operating balance attributable to minority interests	(207)	353	137	272	419	515	490
Transactions with minority interest	(570)	(528)	(498)	(544)	(597)	(628)	(693)
Increase in minority interest from equity issues	374	102	309	250	402	166	98
Other (includes net revaluations)	1,040	(16)	57	19	29	39	39
Closing minority interest	**9,868**	**9,346**	**9,873**	**9,870**	**10,123**	**10,215**	**10,149**

1. This adjustment reflects the impact of adopting PBE IFRS 17: Insurance Contracts. Refer to the box in the Statement of Accounting Policies, Judgements and Assumptions section of the Forecast Financial Statements for further information.

Statement of Segments

	Core Crown 2025 Actual $m	Crown entities 2025 Actual $m	State-owned Enterprises 2025 Actual $m	Inter-segment eliminations 2025 Actual $m	Total Crown 2025 Actual $m
Statement of Financial Performance for the year ended 30 June 2025					
Revenue					
Taxation revenue	121,698	-	-	(640)	121,058
Other sovereign revenue	3,700	8,678	-	(2,610)	9,768
Revenue from core Crown funding	-	48,593	874	(49,467)	-
Sales of goods and services	2,004	3,255	21,725	(899)	26,085
Interest revenue	4,189	4,099	162	(1,411)	7,039
Other revenue	2,820	5,271	839	(3,069)	5,861
Total revenue (excluding gains)	**134,411**	**69,896**	**23,600**	**(58,096)**	**169,811**
Expenses					
Transfer payments and subsidies	46,239	-	-	(1,560)	44,679
Personnel expenses	11,185	23,951	3,697	(62)	38,771
Other operating expenses	75,386	38,018	18,533	(53,816)	78,121
Interest expenses	8,862	2,387	572	(1,431)	10,390
Insurance expenses	3	11,527	11	-	11,541
Total expenses (excluding losses)	**141,675**	**75,883**	**22,813**	**(56,869)**	**183,502**
Total gains/(losses) and other items	7,687	3,166	(798)	(764)	9,291
Operating balance	**423**	**(2,821)**	**(11)**	**(1,991)**	**(4,400)**
Expenses by functional classification					
Social security and welfare	*47,503*	*12,761*	*-*	*(2,629)*	*57,635*
Health	*30,311*	*27,827*	*-*	*(28,285)*	*29,853*
Education	*20,895*	*16,092*	*-*	*(14,679)*	*22,308*
Transport and communications	*5,472*	*5,978*	*10,046*	*(5,666)*	*15,830*
Other	*28,632*	*10,838*	*12,195*	*(4,179)*	*47,486*
Finance costs	*8,862*	*2,387*	*572*	*(1,431)*	*10,390*
Total expenses (excluding losses)	***141,675***	***75,883***	***22,813***	***(56,869)***	***183,502***
Statement of Financial Position as at 30 June 2025					
Assets					
Cash and cash equivalents	16,062	7,025	1,610	(1,029)	23,668
Receivables	26,275	8,665	2,405	(2,585)	34,760
Other financial assets	157,474	99,005	2,760	(44,118)	215,121
Property, plant and equipment	67,518	164,292	60,791	-	292,601
Equity accounted investments	74,980	16,366	611	(72,479)	19,478
Intangible assets and goodwill	1,530	979	1,825	(243)	4,091
Inventory and other assets	4,539	2,253	1,667	(202)	8,257
Total assets	**348,378**	**298,585**	**71,669**	**(120,656)**	**597,976**
Liabilities					
Borrowings	238,967	61,850	13,523	(42,255)	272,085
Other liabilities	46,472	88,053	13,517	(11,279)	136,763
Total liabilities	**285,439**	**149,903**	**27,040**	**(53,534)**	**408,848**
Total assets less total liabilities	**62,939**	**148,682**	**44,629**	**(67,122)**	**189,128**
Net worth					
Taxpayers' funds	20,746	41,003	9,560	(74,796)	(3,487)
Reserves	42,193	107,182	25,256	8,116	182,747
Net worth attributable to minority interests	-	497	9,813	(442)	9,868
Total net worth	**62,939**	**148,682**	**44,629**	**(67,122)**	**189,128**

Forecast Statement of Segments

	Core Crown 2026 Forecast $m	Crown entities 2026 Forecast $m	State-owned Enterprises 2026 Forecast $m	Inter-segment eliminations 2026 Forecast $m	Total Crown 2026 Forecast $m
Statement of Financial Performance for the year ended 30 June 2026					
Revenue					
Taxation revenue	124,807	-	-	(837)	123,970
Other sovereign revenue	3,668	9,063	-	(2,769)	9,962
Revenue from core Crown funding	-	51,364	456	(51,820)	-
Sales of goods and services	2,392	3,295	22,332	(1,244)	26,775
Interest revenue	3,495	3,888	88	(1,561)	5,910
Other revenue	2,873	4,955	761	(3,216)	5,373
Total revenue (excluding gains)	**137,235**	**72,565**	**23,637**	**(61,447)**	**171,990**
Expenses					
Transfer payments and subsidies	48,530	-	-	(1,579)	46,951
Personnel expenses	11,675	24,813	3,646	(54)	40,080
Other operating expenses	79,673	40,025	18,832	(57,141)	81,389
Interest expenses	9,061	2,092	587	(1,579)	10,161
Insurance expenses	-	9,943	12	-	9,955
Forecast for future new spending	-	-	-	-	-
Top-down operating expense adjustment	(1,700)	-	-	-	(1,700)
Total expenses (excluding losses)	**147,239**	**76,873**	**23,077**	**(60,353)**	**186,836**
Total gains/(losses) and other items	11,134	919	(322)	(1,022)	10,709
Operating balance	**1,130**	**(3,389)**	**238**	**(2,116)**	**(4,137)**
Expenses by functional classification					
Social security and welfare	*50,451*	*11,473*	-	*(2,707)*	*59,217*
Health	*33,210*	*29,710*	-	*(31,026)*	*31,894*
Education	*21,540*	*16,599*	-	*(15,070)*	*23,069*
Transport and communications	*6,074*	*6,274*	*10,306*	*(5,042)*	*17,612*
Other	*28,603*	*10,725*	*12,184*	*(4,929)*	*46,583*
Finance costs	*9,061*	*2,092*	*587*	*(1,579)*	*10,161*
Forecast for future new spending	-	-	-	-	-
Top-down operating expense adjustment	*(1,700)*	-	-	-	*(1,700)*
Total expenses (excluding losses)	***147,239***	***76,873***	***23,077***	***(60,353)***	***186,836***
Statement of Financial Position as at 30 June 2026					
Assets					
Cash and cash equivalents	17,791	6,953	1,660	(1,007)	25,397
Receivables	24,839	8,531	2,880	(2,523)	33,727
Other financial assets	162,308	104,807	2,198	(48,035)	221,278
Property, plant and equipment	68,885	167,837	64,563	-	301,285
Equity accounted investments	80,012	16,573	683	(79,322)	17,946
Intangible assets and goodwill	1,512	992	1,763	(211)	4,056
Inventory and other assets	4,478	2,575	1,630	(163)	8,520
Forecast for new capital spending	-	-	-	-	-
Top-down capital adjustment	(600)	-	-	-	(600)
Total assets	**359,225**	**308,268**	**75,377**	**(131,261)**	**611,609**
Liabilities					
Borrowings	252,677	67,218	14,592	(45,198)	289,289
Other liabilities	42,353	91,122	14,140	(10,627)	136,988
Total liabilities	**295,030**	**158,340**	**28,732**	**(55,825)**	**426,277**
Total assets less total liabilities	**64,195**	**149,928**	**46,645**	**(75,436)**	**185,332**
Net worth					
Taxpayers' funds	22,019	42,440	11,553	(83,106)	(7,094)
Reserves	42,176	106,991	25,303	8,083	182,553
Net worth attributable to minority interests	-	497	9,789	(413)	9,873
Total net worth	**64,195**	**149,928**	**46,645**	**(75,436)**	**185,332**

Forecast Statement of Segments (continued)

	Core Crown 2027 Forecast $m	Crown entities 2027 Forecast $m	State-owned Enterprises 2027 Forecast $m	Inter-segment eliminations 2027 Forecast $m	Total Crown 2027 Forecast $m
Statement of Financial Performance for the year ended 30 June 2027					
Revenue					
Taxation revenue	132,986	-	-	(984)	132,002
Other sovereign revenue	3,708	9,859	-	(2,971)	10,596
Revenue from core Crown funding	-	52,379	420	(52,799)	-
Sales of goods and services	2,931	3,452	24,751	(1,637)	29,497
Interest revenue	3,711	4,192	69	(1,672)	6,300
Other revenue	2,254	5,207	792	(2,595)	5,658
Total revenue (excluding gains)	**145,590**	**75,089**	**26,032**	**(62,658)**	**184,053**
Expenses					
Transfer payments and subsidies	51,379	-	-	(1,634)	49,745
Personnel expenses	12,016	25,450	3,782	(56)	41,192
Other operating expenses	80,673	41,831	21,143	(58,348)	85,299
Interest expenses	10,196	2,386	703	(1,693)	11,592
Insurance expenses	-	9,552	14	-	9,566
Forecast for future new spending	1,959	-	-	-	1,959
Top-down operating expense adjustment	(1,400)	-	-	-	(1,400)
Total expenses (excluding losses)	**154,823**	**79,219**	**25,642**	**(61,731)**	**197,953**
Total gains/(losses) and other items	5,548	341	(138)	37	5,788
Operating balance	**(3,685)**	**(3,789)**	**252**	**(890)**	**(8,112)**
Expenses by functional classification					
Social security and welfare	*53,497*	*11,724*	*-*	*(3,355)*	*61,866*
Health	*34,196*	*31,358*	*-*	*(31,686)*	*33,868*
Education	*22,444*	*17,266*	*-*	*(15,610)*	*24,100*
Transport and communications	*5,110*	*6,307*	*10,738*	*(5,034)*	*17,121*
Other	*28,821*	*10,178*	*14,201*	*(4,353)*	*48,847*
Finance costs	*10,196*	*2,386*	*703*	*(1,693)*	*11,592*
Forecast for future new spending	*1,959*	*-*	*-*	*-*	*1,959*
Top-down operating expense adjustment	*(1,400)*	*-*	*-*	*-*	*(1,400)*
Total expenses (excluding losses)	***154,823***	***79,219***	***25,642***	***(61,731)***	***197,953***
Statement of Financial Position as at 30 June 2027					
Assets					
Cash and cash equivalents	18,503	6,820	1,529	(1,009)	25,843
Receivables	26,302	9,142	2,808	(2,585)	35,667
Other financial assets	172,597	107,700	1,898	(50,625)	231,570
Property, plant and equipment	70,212	172,084	66,956	-	309,252
Equity accounted investments	86,943	16,621	727	(86,041)	18,250
Intangible assets and goodwill	1,507	983	1,807	(216)	4,081
Inventory and other assets	4,622	2,540	1,526	(164)	8,524
Forecast for new capital spending	1,968	-	-	-	1,968
Top-down capital adjustment	(2,100)	-	-	-	(2,100)
Total assets	**380,554**	**315,890**	**77,251**	**(140,640)**	**633,055**
Liabilities					
Borrowings	278,478	72,144	16,028	(47,827)	318,823
Other liabilities	41,459	79,322	14,131	(10,435)	124,477
Total liabilities	**319,937**	**151,466**	**30,159**	**(58,262)**	**443,300**
Total assets less total liabilities	**60,617**	**164,424**	**47,092**	**(82,378)**	**189,755**
Net worth					
Taxpayers' funds	18,334	56,798	12,080	(90,083)	(2,871)
Reserves	42,283	107,030	25,326	8,117	182,756
Net worth attributable to minority interests	-	596	9,686	(412)	9,870
Total net worth	**60,617**	**164,424**	**47,092**	**(82,378)**	**189,755**

Forecast Statement of Segments (continued)

	Core Crown 2028 Forecast $m	Crown entities 2028 Forecast $m	State-owned Enterprises 2028 Forecast $m	Inter-segment eliminations 2028 Forecast $m	Total Crown 2028 Forecast $m
Statement of Financial Performance for the year ended 30 June 2028					
Revenue					
Taxation revenue	142,229	-	-	(1,000)	141,229
Other sovereign revenue	3,753	10,780	-	(3,147)	11,386
Revenue from core Crown funding	-	52,299	334	(52,633)	-
Sales of goods and services	2,998	3,626	25,275	(1,688)	30,211
Interest revenue	4,264	4,505	75	(1,846)	6,998
Other revenue	2,331	5,278	921	(2,623)	5,907
Total revenue (excluding gains)	**155,575**	**76,488**	**26,605**	**(62,937)**	**195,731**
Expenses					
Transfer payments and subsidies	52,922	-	-	(1,601)	51,321
Personnel expenses	12,054	25,584	3,910	(56)	41,492
Other operating expenses	79,695	41,262	21,271	(58,516)	83,712
Interest expenses	11,572	2,653	810	(1,867)	13,168
Insurance expenses	-	10,528	15	-	10,543
Forecast for future new spending	3,145	-	-	-	3,145
Top-down operating expense adjustment	(600)	-	-	-	(600)
Total expenses (excluding losses)	**158,788**	**80,027**	**26,006**	**(62,040)**	**202,781**
Total gains/(losses) and other items	5,966	789	(239)	(36)	6,480
Operating balance	**2,753**	**(2,750)**	**360**	**(933)**	**(570)**
Expenses by functional classification					
Social security and welfare	*55,072*	*12,790*	-	*(3,414)*	*64,448*
Health	*34,083*	*31,192*	-	*(31,813)*	*33,462*
Education	*22,264*	*17,272*	-	*(15,535)*	*24,001*
Transport and communications	*5,407*	*5,997*	*11,070*	*(5,435)*	*17,039*
Other	*27,845*	*10,123*	*14,126*	*(3,976)*	*48,118*
Finance costs	*11,572*	*2,653*	*810*	*(1,867)*	*13,168*
Forecast for future new spending	*3,145*	-	-	-	*3,145*
Top-down operating expense adjustment	*(600)*	-	-	-	*(600)*
Total expenses (excluding losses)	***158,788***	***80,027***	***26,006***	***(62,040)***	***202,781***
Statement of Financial Position as at 30 June 2028					
Assets					
Cash and cash equivalents	18,667	6,763	1,423	(1,009)	25,844
Receivables	27,717	9,819	2,835	(2,519)	37,852
Other financial assets	183,132	111,801	2,151	(52,937)	244,147
Property, plant and equipment	71,176	175,618	68,968	-	315,762
Equity accounted investments	91,803	16,731	793	(90,765)	18,562
Intangible assets and goodwill	1,462	1,053	1,798	(205)	4,108
Inventory and other assets	4,453	2,512	1,526	(163)	8,328
Forecast for new capital spending	5,203	-	-	-	5,203
Top-down capital adjustment	(2,300)	-	-	-	(2,300)
Total assets	**401,313**	**324,297**	**79,494**	**(147,598)**	**657,506**
Liabilities					
Borrowings	295,387	76,123	17,927	(50,089)	339,348
Other liabilities	42,498	82,236	14,122	(10,190)	128,666
Total liabilities	**337,885**	**158,359**	**32,049**	**(60,279)**	**468,014**
Total assets less total liabilities	**63,428**	**165,938**	**47,445**	**(87,319)**	**189,492**
Net worth					
Taxpayers' funds	21,087	58,079	12,392	(95,049)	(3,491)
Reserves	42,341	107,017	25,361	8,141	182,860
Net worth attributable to minority interests	-	842	9,692	(411)	10,123
Total net worth	**63,428**	**165,938**	**47,445**	**(87,319)**	**189,492**

Forecast Statement of Segments (continued)

	Core Crown 2029 Forecast $m	Crown entities 2029 Forecast $m	State-owned Enterprises 2029 Forecast $m	Inter-segment eliminations 2029 Forecast $m	Total Crown 2029 Forecast $m
Statement of Financial Performance for the year ended 30 June 2029					
Revenue					
Taxation revenue	151,601	-	-	(1,076)	150,525
Other sovereign revenue	3,907	11,274	-	(3,358)	11,823
Revenue from core Crown funding	-	52,290	208	(52,498)	-
Sales of goods and services	3,065	3,606	26,435	(1,748)	31,358
Interest revenue	4,507	4,982	79	(1,975)	7,593
Other revenue	2,482	5,397	1,024	(2,666)	6,237
Total revenue (excluding gains)	**165,562**	**77,549**	**27,746**	**(63,321)**	**207,536**
Expenses					
Transfer payments and subsidies	54,097	-	-	(1,585)	52,512
Personnel expenses	12,051	25,644	4,001	(56)	41,640
Other operating expenses	79,737	40,899	22,029	(58,801)	83,864
Interest expenses	12,777	3,101	882	(1,996)	14,764
Insurance expenses	-	10,794	16	-	10,810
Forecast for future new spending	4,705	-	-	-	4,705
Top-down operating expense adjustment	(600)	-	-	-	(600)
Total expenses (excluding losses)	**162,767**	**80,438**	**26,928**	**(62,438)**	**207,695**
Total gains/(losses) and other items	6,398	943	(408)	(54)	6,879
Operating balance	**9,193**	**(1,946)**	**410**	**(937)**	**6,720**
Expenses by functional classification					
Social security and welfare	*56,184*	*13,157*	*-*	*(3,500)*	*65,841*
Health	*34,197*	*31,050*	*-*	*(31,978)*	*33,269*
Education	*21,962*	*17,094*	*-*	*(15,337)*	*23,719*
Transport and communications	*5,648*	*6,166*	*11,443*	*(5,735)*	*17,522*
Other	*27,894*	*9,870*	*14,603*	*(3,892)*	*48,475*
Finance costs	*12,777*	*3,101*	*882*	*(1,996)*	*14,764*
Forecast for future new spending	*4,705*	*-*	*-*	*-*	*4,705*
Top-down operating expense adjustment	*(600)*	*-*	*-*	*-*	*(600)*
Total expenses (excluding losses)	***162,767***	***80,438***	***26,928***	***(62,438)***	***207,695***
Statement of Financial Position as at 30 June 2029					
Assets					
Cash and cash equivalents	17,803	6,748	1,144	(1,011)	24,684
Receivables	29,429	10,792	2,882	(2,483)	40,620
Other financial assets	194,993	115,799	2,176	(55,125)	257,843
Property, plant and equipment	71,264	178,295	70,266	-	319,825
Equity accounted investments	95,101	16,961	795	(94,030)	18,827
Intangible assets and goodwill	1,394	1,143	1,836	(195)	4,178
Inventory and other assets	4,288	2,494	1,550	(165)	8,167
Forecast for new capital spending	9,093	-	-	-	9,093
Top-down capital adjustment	(2,400)	-	-	-	(2,400)
Total assets	**420,965**	**332,232**	**80,649**	**(153,009)**	**680,837**
Liabilities					
Borrowings	306,635	80,303	18,737	(52,209)	353,466
Other liabilities	41,677	85,164	14,236	(10,083)	130,994
Total liabilities	**348,312**	**165,467**	**32,973**	**(62,292)**	**484,460**
Total assets less total liabilities	**72,653**	**166,765**	**47,676**	**(90,717)**	**196,377**
Net worth					
Taxpayers' funds	30,280	58,910	12,469	(98,482)	3,177
Reserves	42,373	107,013	25,420	8,179	182,985
Net worth attributable to minority interests	-	842	9,787	(414)	10,215
Total net worth	**72,653**	**166,765**	**47,676**	**(90,717)**	**196,377**

Forecast Statement of Segments (continued)

	Core Crown 2030 Forecast $m	Crown entities 2030 Forecast $m	State-owned Enterprises 2030 Forecast $m	Inter-segment eliminations 2030 Forecast $m	Total Crown 2030 Forecast $m
Statement of Financial Performance for the year ended 30 June 2030					
Revenue					
Taxation revenue	159,705	-	-	(1,220)	158,485
Other sovereign revenue	3,864	11,956	-	(3,586)	12,234
Revenue from core Crown funding	-	52,212	186	(52,398)	-
Sales of goods and services	3,094	3,683	27,088	(1,802)	32,063
Interest revenue	4,937	5,413	81	(2,053)	8,378
Other revenue	2,655	5,540	1,078	(2,780)	6,493
Total revenue (excluding gains)	**174,255**	**78,804**	**28,433**	**(63,839)**	**217,653**
Expenses					
Transfer payments and subsidies	55,962	-	-	(1,627)	54,335
Personnel expenses	11,951	25,618	4,093	(58)	41,604
Other operating expenses	79,170	41,157	22,550	(59,044)	83,833
Interest expenses	13,910	3,468	974	(2,075)	16,277
Insurance expenses	-	11,252	17	-	11,269
Forecast for future new spending	7,499	-	-	-	7,499
Top-down operating expense adjustment	(600)	-	-	-	(600)
Total expenses (excluding losses)	**167,892**	**81,495**	**27,634**	**(62,804)**	**214,217**
Total gains/(losses) and other items	6,866	1,142	(381)	(78)	7,549
Operating balance	**13,229**	**(1,549)**	**418**	**(1,113)**	**10,985**
Expenses by functional classification					
Social security and welfare	*57,813*	*13,718*	*-*	*(3,645)*	*67,886*
Health	*34,268*	*30,860*	*-*	*(32,076)*	*33,052*
Education	*21,780*	*17,114*	*-*	*(15,343)*	*23,551*
Transport and communications	*5,601*	*6,245*	*11,981*	*(5,671)*	*18,156*
Other	*27,621*	*10,090*	*14,679*	*(3,994)*	*48,396*
Finance costs	*13,910*	*3,468*	*974*	*(2,075)*	*16,277*
Forecast for future new spending	*7,499*	*-*	*-*	*-*	*7,499*
Top-down operating expense adjustment	*(600)*	*-*	*-*	*-*	*(600)*
Total expenses (excluding losses)	***167,892***	***81,495***	***27,634***	***(62,804)***	***214,217***
Statement of Financial Position as at 30 June 2030					
Assets					
Cash and cash equivalents	17,607	6,543	1,143	(1,009)	24,284
Receivables	30,992	11,720	2,916	(2,601)	43,027
Other financial assets	205,275	121,511	2,367	(56,795)	272,358
Property, plant and equipment	71,027	180,196	71,909	-	323,132
Equity accounted investments	97,809	17,099	806	(96,706)	19,008
Intangible assets and goodwill	1,341	1,250	1,882	(198)	4,275
Inventory and other assets	4,337	2,539	1,579	(164)	8,291
Forecast for new capital spending	13,767	-	-	-	13,767
Top-down capital adjustment	(2,500)	-	-	-	(2,500)
Total assets	**439,655**	**340,858**	**82,602**	**(157,473)**	**705,642**
Liabilities					
Borrowings	312,554	84,884	20,486	(53,808)	364,116
Other liabilities	41,204	88,589	14,452	(10,066)	134,179
Total liabilities	**353,758**	**173,473**	**34,938**	**(63,874)**	**498,295**
Total assets less total liabilities	**85,897**	**167,385**	**47,664**	**(93,599)**	**207,347**
Net worth					
Taxpayers' funds	43,509	59,605	12,401	(101,398)	14,117
Reserves	42,388	107,012	25,469	8,212	183,081
Net worth attributable to minority interests	-	768	9,794	(413)	10,149
Total net worth	**85,897**	**167,385**	**47,664**	**(93,599)**	**207,347**

Fiscal Indicator Analysis

The purpose of the following fiscal indicator analysis is to provide a link between the Forecast Financial Statements (pages 86 to 107) based on GAAP, and the key fiscal indicators used to measure performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

The fiscal indicator analysis comprises five statements. These statements and their key purposes are described below:

Reconciliation between the Operating Balance, the Operating Balance before Gains and Losses and the Operating Balance before Gains and Losses excluding ACC revenue and expenses

OBEGAL represents core Crown revenue less core Crown expenses plus surpluses from State-owned Enterprises and Crown Entities but does not include certain gains or losses from Government reporting entities. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation. In addition, OBEGALx removes the revenue and expenses of ACC which provides insights on how near-term fiscal policy decisions impact the financial performance of the Government.

Expenses by Functional Classification

This analysis is based on the Classification of Functions of Government as produced by the Organisation for Economic Co-operation and Development (OECD) and permits trends in government expenditure on particular functions to be examined over time.

Core Crown Residual Cash

The core Crown residual cash statement measures the core Crown cash surplus (or deficit), after operating and investing cash requirements are met, that is available for the Government to invest, repay debt, or, in the case of a deficit, fund in any given year. Also included is a breakdown of net capital expenditure activity.

Debt Indicators

The debt statement presents the calculation of both gross debt and net debt indicators.

Gross debt represents debt issued by the sovereign (core Crown) and includes Government stock held by the NZS Fund, ACC, and the Natural Hazards Commission. Gross debt excludes Reserve Bank settlement cash and Reserve Bank bills.

Net core Crown debt represents gross sovereign-issued debt less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and/or they are made for public policy reasons rather than for the purposes associated with government financing.

The Government's headline debt indicator is net core Crown debt.

Reconciliation Between the Financial Statements to Key Government Fiscal Indicators

This statement shows how key lines in the financial statements flow through to the key operating indicators used to measure performance.

Reconciliation Between the Operating Balance, OBEGAL and OBEGALx

for the years ending 30 June

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Operating Balance							
Total revenue	169,811	175,864	171,990	184,053	195,731	207,536	217,653
Total expenses	183,502	191,158	186,836	197,953	202,781	207,695	214,217
Total gains/(losses)	8,870	5,692	10,606	5,959	6,738	7,220	7,834
Net surplus from associates and joint ventures	214	71	240	101	161	174	205
Less Minority interests' share of operating balance	207	(353)	(137)	(272)	(419)	(515)	(490)
Operating balance	**(4,400)**	**(9,884)**	**(4,137)**	**(8,112)**	**(570)**	**6,720**	**10,985**
Reconciliation Between the Operating Balance, OBEGAL and OBEGALx							
Operating balance	**(4,400)**	**(9,884)**	**(4,137)**	**(8,112)**	**(570)**	**6,720**	**10,985**
Less items excluded from OBEGAL:							
Net gains/(losses) on financial instruments	9,272	5,692	10,801	5,959	6,738	7,220	7,834
Net gains/(losses) on non-financial instruments	(402)	-	(195)	-	-	-	-
Minority interests share of total gains/(losses)	489	(45)	75	(82)	(69)	(66)	(59)
Net surplus from associates and joint ventures	214	71	240	101	161	174	205
OBEGAL	**(13,973)**	**(15,602)**	**(15,058)**	**(14,090)**	**(7,400)**	**(608)**	**3,005**
ACC net revenue	(4,667)	(3,527)	(3,121)	(2,649)	(3,124)	(3,193)	(3,110)
OBEGALx	**(9,306)**	**(12,075)**	**(11,937)**	**(11,441)**	**(4,276)**	**2,585**	**6,115**

Expenses by Functional Classification

for the years ending 30 June

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Total Crown expenses							
By functional classification[1]							
Social security and welfare	57,635	59,475	59,217	61,866	64,448	65,841	67,886
Health	29,853	31,224	31,894	33,868	33,462	33,269	33,052
Education	22,308	22,949	23,069	24,100	24,001	23,719	23,551
Core government services	7,775	6,552	6,277	6,498	6,063	6,170	6,260
Law and order	7,309	7,946	7,861	8,314	8,253	8,012	7,966
Transport and communications	15,830	18,323	17,612	17,121	17,039	17,522	18,156
Economic and industrial services	16,153	15,886	15,580	17,441	17,015	17,592	17,669
Defence	3,226	3,507	3,553	3,789	3,793	3,844	3,847
Heritage, culture and recreation	3,381	3,368	3,452	3,479	3,484	3,524	3,564
Primary services	2,525	2,517	2,960	2,529	2,477	2,474	2,557
Housing and community development	4,507	4,728	4,220	4,149	4,338	4,203	3,962
Environmental protection	2,400	2,611	2,383	2,422	2,318	2,285	2,202
GSF pension expenses	83	86	58	65	63	61	59
Other	127	93	239	161	314	310	310
Finance costs	10,390	11,073	10,161	11,592	13,168	14,764	16,277
Forecast new operating spending	-	1,720	-	1,959	3,145	4,705	7,499
Top-down operating expense adjustment	-	(900)	(1,700)	(1,400)	(600)	(600)	(600)
Total Crown expenses excluding losses	**183,502**	**191,158**	**186,836**	**197,953**	**202,781**	**207,695**	**214,217**

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank, but not Crown entities and SOEs.

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Core Crown expenses							
By functional classification[1]							
Social security and welfare	47,503	50,161	50,451	53,497	55,072	56,184	57,813
Health	30,311	32,709	33,210	34,196	34,083	34,197	34,268
Education	20,895	21,454	21,540	22,444	22,264	21,962	21,780
Core government services	7,908	6,723	6,597	6,632	6,339	6,295	6,304
Law and order	6,734	7,342	7,282	7,621	7,430	7,283	7,275
Transport and communications	5,472	7,226	6,074	5,110	5,407	5,648	5,601
Economic and industrial services	3,514	3,235	3,501	3,445	3,114	3,285	3,310
Defence	3,271	3,552	3,597	3,834	3,838	3,889	3,893
Heritage, culture and recreation	1,457	1,416	1,442	1,440	1,412	1,387	1,374
Primary services	996	1,045	1,301	1,204	1,125	1,112	1,166
Housing and community development	2,150	2,396	2,212	2,005	1,900	1,995	1,736
Environmental protection	2,410	2,615	2,382	2,421	2,317	2,284	2,201
GSF pension expenses	65	49	50	58	56	54	52
Other	127	93	239	161	314	310	310
Finance costs	8,862	9,513	9,061	10,196	11,572	12,777	13,910
Forecast new operating spending	-	1,720	-	1,959	3,145	4,705	7,499
Top-down operating expense adjustment	-	(900)	(1,700)	(1,400)	(600)	(600)	(600)
Total core Crown expenses excluding losses	**141,675**	**150,349**	**147,239**	**154,823**	**158,788**	**162,767**	**167,892**

1. The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in the future.

Core Crown Residual Cash

for the years ending 30 June

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Core Crown Residual Cash							
Core Crown Cash Flows from Operations							
Tax receipts	123,536	125,956	127,640	131,122	141,774	150,983	159,323
Other sovereign receipts	1,916	2,231	1,816	2,129	2,287	2,413	2,385
Interest receipts	3,329	2,296	2,329	1,238	1,263	1,327	1,675
Sale of goods and services and other receipts	3,704	4,105	4,006	3,968	4,135	4,153	4,243
Transfer payments and subsidies	(47,422)	(49,080)	(49,635)	(51,690)	(53,118)	(54,421)	(56,297)
Personnel and operating costs	(79,742)	(83,905)	(86,067)	(86,881)	(85,503)	(85,212)	(84,750)
Interest payments	(7,001)	(7,615)	(6,914)	(8,140)	(9,168)	(10,401)	(11,285)
Forecast for future new operating spending	-	(1,720)	-	(1,959)	(3,145)	(4,705)	(7,499)
Top-down operating expense adjustment	-	900	1,700	1,400	600	600	600
Net core Crown operating cash flows	**(1,680)**	**(6,832)**	**(5,125)**	**(8,813)**	**(875)**	**4,737**	**8,395**
Core Crown Capital Cash Flows							
Net purchase of physical assets	(3,669)	(4,323)	(4,523)	(4,542)	(4,201)	(3,282)	(2,930)
Net decrease/(increase) in advances	6,194	4,789	5,378	(2,992)	(2,223)	(2,463)	(1,798)
Net purchase of investments	(5,962)	(6,507)	(5,644)	(6,844)	(4,702)	(3,151)	(2,536)
Contribution (to)/from NZS Fund	(879)	-	-	(562)	(600)	(893)	(1,049)
Forecast for future new capital spending	-	(2,560)	-	(1,968)	(3,235)	(3,890)	(4,674)
Top-down capital adjustment	-	900	600	1,500	200	100	100
Net core Crown capital cash flows	**(4,316)**	**(7,701)**	**(4,189)**	**(15,408)**	**(14,761)**	**(13,579)**	**(12,887)**
Residual cash (deficit)/surplus	**(5,996)**	**(14,533)**	**(9,314)**	**(24,221)**	**(15,636)**	**(8,842)**	**(4,492)**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt Programme Cash Flows							
Market:							
Issue of government bonds	40,918	35,590	34,085	31,237	30,306	28,726	26,651
Repayment of government bonds	(20,191)	(18,127)	(18,195)	(22,507)	(15,208)	(17,100)	(22,628)
Net issue/(repayment) of short-term borrowing[1]	(4,518)	3,000	(4,649)	5,000	-	(2,000)	-
Total market debt cash flows	16,209	20,463	11,241	13,730	15,098	9,626	4,023
Non-market:							
Net issue/(repayment) of short-term borrowing	(80)	-	(70)	(50)	-	-	-
Total non-market debt cash flows	(80)	-	(70)	(50)	-	-	-
Total debt programme cash flows	**16,129**	**20,463**	**11,171**	**13,680**	**15,098**	**9,626**	**4,023**
Other Borrowing Cash Flows							
Net (repayment)/issue of other New Zealand dollar borrowing	(4,035)	4,128	(3,649)	9,658	805	(307)	(222)
Net (repayment)/issue of foreign currency borrowing	9,600	(3,823)	4,107	1,229	(501)	452	338
Total other borrowing cash flows	**5,565**	**305**	**458**	**10,887**	**304**	**145**	**116**
Investing Cash Flows							
Net sale/(purchase) of marketable securities and deposits	(8,822)	(6,316)	(70)	(456)	130	(1,029)	259
Net issues/(repayments) of circulating currency	175	91	445	94	95	96	97
Decrease/(increase) in cash	(7,051)	(10)	(2,690)	16	9	4	(3)
Total investing cash flows	**(15,698)**	**(6,235)**	**(2,315)**	**(346)**	**234**	**(929)**	**353**
Residual cash deficit/(surplus) funding/(investing)	**5,996**	**14,533**	**9,314**	**24,221**	**15,636**	**8,842**	**4,492**

1. Short-term borrowing consists of Treasury Bills and may include Euro Commercial Paper.

Core Crown Residual Cash – Breakdown of Net Capital Expenditure Activity

for the years ending 30 June

	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m	5-year Total $m
Education	1,877	1,788	1,768	1,626	1,593	**8,652**
Defence	838	1,044	1,217	656	525	**4,280**
Corrections	440	464	317	241	159	**1,621**
Justice	264	252	214	121	75	**926**
Social Development	66	71	71	71	71	**350**
Police	196	99	99	99	99	**592**
Primary Industries	129	212	99	68	39	**547**
Foreign Affairs	116	143	108	65	67	**499**
Internal Affairs	71	55	45	45	42	**258**
Parliamentary Service	187	53	10	7	-	**257**
Other	339	361	253	283	260	**1,496**
Net purchase of physical assets	**4,523**	**4,542**	**4,201**	**3,282**	**2,930**	**19,478**
Kāinga Ora	226	1,732	1,447	1,697	1,287	**6,389**
New Zealand Transport Agency	927	889	372	436	247	**2,871**
Small Business Cashflow Loan Scheme	(167)	(99)	(6)	(3)	(1)	**(276)**
Student Loans	390	493	446	383	330	**2,042**
Funding for Lending Programme	(6,711)	-	-	-	-	**(6,711)**
Other	(43)	(23)	(36)	(50)	(64)	**(217)**
Net advances	**(5,378)**	**2,992**	**2,223**	**2,463**	**1,798**	**4,098**
Health Sector	1,382	2,534	682	529	754	**5,881**
New Zealand Transport Agency	2,635	2,566	2,065	1,530	1,220	**10,016**
KiwiRail	750	801	514	298	237	**2,599**
Housing Acceleration Fund	334	241	182	179	46	**982**
City Rail Link	202	-	-	-	-	**202**
Other	342	703	1,259	615	280	**3,198**
Net investments	**5,644**	**6,844**	**4,702**	**3,151**	**2,536**	**22,877**
Future new capital spending	-	1,968	3,235	3,890	4,674	**13,767**
Top-down capital adjustment	(600)	(1,500)	(200)	(100)	(100)	**(2,500)**
Contribution from/(to) NZS Fund	-	562	600	893	1,049	**3,104**
Net capital spending	**4,189**	**15,408**	**14,761**	**13,579**	**12,887**	**60,824**

Debt Indicators

as at 30 June

	2025 Actual $m	2026 Previous Budget $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Net core Crown Debt:							
Core Crown borrowings[1]	238,967	266,686	252,677	278,478	295,387	306,635	312,554
Core Crown unsettled purchases of securities[2]	467	5,213	1,509	1,493	2,817	2,164	1,848
Less NZS Fund borrowings[3]	(2,715)	(6,311)	(4,371)	(4,371)	(5,694)	(5,040)	(4,744)
Borrowings included in net core Crown debt	**236,719**	**265,588**	**249,815**	**275,600**	**292,510**	**303,759**	**309,658**
Core Crown financial assets[4]	(173,536)	(184,348)	(180,099)	(191,100)	(201,799)	(212,796)	(222,882)
Core Crown unsettled sales of securities[2]	(2,245)	(4,233)	(2,265)	(2,105)	(2,125)	(2,152)	(2,179)
Less NZS Fund financial assets	86,922	93,933	96,484	103,616	111,448	117,980	125,441
Less core Crown advances	34,311	29,248	27,826	30,470	32,386	34,566	36,078
Financial assets included in net core Crown debt	**(54,548)**	**(65,400)**	**(58,054)**	**(59,119)**	**(60,090)**	**(62,402)**	**(63,542)**
Net core Crown debt	**182,171**	**200,188**	**191,761**	**216,481**	**232,420**	**241,357**	**246,116**
Net debt:							
Net core Crown debt (as above)	182,171	200,188	191,761	216,481	232,420	241,357	246,116
Crown entity borrowings[5]	61,850	67,883	67,218	72,144	76,123	80,303	84,884
Remove Kiwi Group borrowings[6]	(36,784)	(40,315)	(40,304)	(43,728)	(46,431)	(49,791)	(53,926)
Add core Crown advances	(34,311)	(29,248)	(27,826)	(30,470)	(32,386)	(34,566)	(36,078)
Net debt (excl. NZS Fund)	**172,926**	**198,508**	**190,849**	**214,427**	**229,726**	**237,303**	**240,996**
NZS Fund borrowings[3]	2,715	6,311	4,371	4,371	5,694	5,040	4,744
NZS Fund financial assets	(86,922)	(93,933)	(96,484)	(103,616)	(111,448)	(117,980)	(125,441)
Net debt	**88,719**	**110,886**	**98,736**	**115,182**	**123,972**	**124,363**	**120,299**
Gross Debt:							
Core Crown borrowings	238,967	266,686	252,677	278,478	295,387	306,635	312,554
Core Crown unsettled purchases of securities[2]	467	5,213	1,509	1,493	2,817	2,164	1,848
Less NZS Fund borrowings[3]	(2,715)	(6,311)	(4,371)	(4,371)	(5,694)	(5,040)	(4,744)
Less Reserve Bank settlement cash[7] and Reserve Bank bills	(33,031)	(26,772)	(26,054)	(25,380)	(25,380)	(25,380)	(25,380)
Gross Debt	**203,688**	**238,816**	**223,761**	**250,220**	**267,130**	**278,379**	**284,278**

Notes on borrowings

1. Core Crown borrowings represent the total debt obligations of the consolidated core Crown segment. This includes any government stock held by ACC and includes settlement deposits with the Reserve Bank.
2. Unsettled sales and purchases of securities are classified in the Statement of Financial Position as receivables and accounts payable, respectively.
3. The NZS Fund borrowings adjustment also reflects any government stock held by NZS Fund.
4. Core Crown financial assets includes any asset that is cash, deposits, share investments, advances, other marketable securities or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).
5. Crown entity borrowings represents the total debt obligations of the consolidated Crown entities. This includes debt issued by Crown entities, such as Kāinga Ora.
6. Kiwi Group borrowings includes Kiwi Group customer deposits as disclosed in Note 16: Borrowings and other 3rd party derivative balances.
7. Includes Reserve Bank's New Zealand dollar transactional banking services for other Central Banks and the International Monetary Fund.

Reconciliation Between the Financial Statements and Key Government Fiscal Indicators

Financial Results	2025 Actual $m	2026 Forecast $m	2027 Forecast $m	2028 Forecast $m	2029 Forecast $m	2030 Forecast $m
Core Crown taxation revenue...	121,698	124,807	132,986	142,229	151,601	159,705
...combined with other core Crown revenue...	12,713	12,428	12,604	13,346	13,961	14,550
...funds core Crown expenses...	(141,675)	(147,239)	(154,823)	(158,788)	(162,767)	(167,892)
...and with SOE and CE[1] excluding ACC results...	(2,042)	(1,933)	(2,208)	(1,063)	(210)	(248)
...this results in an operating balance before gains and losses excluding ACC **(OBEGALx)**...	(9,306)	(11,937)	(11,441)	(4,276)	2,585	6,115
...adding back ACC revenue and expenses...	(4,667)	(3,121)	(2,649)	(3,124)	(3,193)	(3,110)
...this results in an operating balance before gains and losses **(OBEGAL)**...	(13,973)	(15,058)	(14,090)	(7,400)	(608)	3,005
...with gains/losses leading to an **operating surplus/(deficit)...**	(4,400)	(4,137)	(8,112)	(570)	6,720	10,985
...with income in SOEs, CEs[1] and the NZS Fund retained...	(2,326)	(3,447)	(990)	(2,448)	(3,674)	(4,305)
...and some items do not impact cash	5,046	2,459	289	2,143	1,691	1,715
This leads to an operating residual cash surplus/(deficit)...	**(1,680)**	**(5,125)**	**(8,813)**	**(875)**	**4,737**	**8,395**
...used to make contributions (to)/from the NZS Fund...	(879)	-	(562)	(600)	(893)	(1,049)
...and to use for capital expenditure...	(3,669)	(4,523)	(4,542)	(4,201)	(3,282)	(2,930)
...and to make advances	6,194	5,378	(2,992)	(2,223)	(2,463)	(1,798)
...and to purchase investments	(5,962)	(5,644)	(6,844)	(4,702)	(3,151)	(2,536)
Adjusting for forecast adjustments (top-down/new spending)...	-	600	(468)	(3,035)	(3,790)	(4,574)
...results in a **borrowing requirement (cash (deficit)/surplus)**	**(5,996)**	**(9,314)**	**(24,221)**	**(15,636)**	**(8,842)**	**(4,492)**
Opening net core Crown debt...	175,464	182,171	191,761	216,481	232,420	241,357
...when combined with the residual cash (surplus)/deficit...	5,996	9,314	24,221	15,636	8,842	4,492
...and other fair value movements in financial assets and financial liabilities...	711	276	499	303	95	267
...results in a closing **net core Crown debt...**	**182,171**	**191,761**	**216,481**	**232,420**	**241,357**	**246,116**
...which as a % of GDP is	**41.9%**	**42.4%**	**45.6%**	**46.1%**	**45.6%**	**44.4%**

1. State-owned enterprises (SOEs) and Crown entities (CEs).

5

Core Crown Expense Tables

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Social security and welfare	36,759	42,860	41,514	44,589	47,503	50,451	53,497	55,072	56,184	57,813
Health	22,784	27,781	28,489	29,999	30,311	33,210	34,196	34,083	34,197	34,268
Education	16,039	18,023	18,403	20,223	20,895	21,540	22,444	22,264	21,962	21,780
Core government services	5,754	5,720	6,806	8,468	7,908	6,597	6,632	6,339	6,295	6,304
Law and order	5,202	5,444	6,165	6,527	6,734	7,282	7,621	7,430	7,283	7,275
Transport and communications	5,656	4,657	5,472	5,487	5,472	6,074	5,110	5,407	5,648	5,601
Economic and industrial services	4,481	8,078	3,690	4,010	3,514	3,501	3,445	3,114	3,285	3,310
Defence	2,664	2,832	2,886	3,163	3,271	3,597	3,834	3,838	3,889	3,893
Heritage, culture and recreation	1,420	1,468	1,537	1,504	1,457	1,442	1,440	1,412	1,387	1,374
Primary services	1,015	949	1,156	1,062	996	1,301	1,204	1,125	1,112	1,166
Housing and community development	1,813	2,033	2,312	2,512	2,150	2,212	2,005	1,900	1,995	1,736
Environmental protection	1,906	2,549	2,381	2,297	2,410	2,382	2,421	2,317	2,284	2,201
GSF pension expenses	99	94	61	69	65	50	58	56	54	52
Other	254	269	133	145	127	239	161	314	310	310
Finance costs	1,918	2,884	6,569	8,943	8,862	9,061	10,196	11,572	12,777	13,910
Forecast new operating spending	..	..	..	..	..	..	1,959	3,145	4,705	7,499
Top-down operating expense adjustment	..	..	..	..	..	(1,700)	(1,400)	(600)	(600)	(600)
Core Crown expenses	**107,764**	**125,641**	**127,574**	**138,998**	**141,675**	**147,239**	**154,823**	**158,788**	**162,767**	**167,892**

The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in future Budgets.

Source: The Treasury

Table 5.1 – Social security and welfare expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Welfare benefits (see below)[1,2]	33,671	39,187	37,576	40,294	43,525	46,244	48,944	50,614	51,799	53,705
Departmental expenses	2,424	2,747	2,782	3,013	2,782	3,033	3,260	3,203	3,143	2,815
Social rehabilitation and compensation	333	358	386	415	447	481	516	555	597	642
Flexi-wage subsidy	8	59	52	25	27	..	..	..	..	..
COVID-19 Income Relief Assistance	182	..	..	..		..	..	..	..	..
Other non-departmental expenses[1,2]	141	509	718	842	722	693	777	700	645	651
Social security and welfare expenses	**36,759**	**42,860**	**41,514**	**44,589**	**47,503**	**50,451**	**53,497**	**55,072**	**56,184**	**57,813**

1. The '2023 Actual' has been restated to include expenses previously classified as other benefits within the welfare benefit expenses table below.
2. The '2025 Actual' has been restated to exclude expenses previously classified as other benefits within the welfare benefit expenses table below.

Source: The Treasury

Table 5.2 – Welfare benefit expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
New Zealand Superannuation	16,569	17,764	19,517	21,574	23,191	24,730	26,481	28,324	29,715	31,207
Jobseeker Support and Emergency Benefit	3,224	3,330	3,473	4,062	4,641	4,944	5,018	4,940	4,807	4,902
Supported Living Payment	1,826	2,047	2,311	2,530	2,668	2,830	3,023	3,199	3,295	3,437
Sole Parent Support	1,455	1,704	1,917	2,097	2,255	2,390	2,474	2,408	2,236	2,233
Family Tax Credit	2,103	2,017	2,151	2,297	2,434	2,449	2,585	2,619	2,700	2,653
Other Working for Families tax credits	585	519	476	448	561	656	852	629	602	576
Accommodation Assistance	2,302	2,386	2,349	2,411	2,232	2,308	2,322	2,400	2,260	2,286
Income-Related Rents	1,202	1,323	1,322	1,517	1,752	1,800	1,893	1,888	1,885	1,940
Disability Assistance	409	412	431	464	492	518	533	541	538	543
Winter Energy Payment	812	513	519	537	562	583	595	600	609	620
Best start	271	308	321	336	346	327	286	275	281	274
Orphan's/Unsupported Child's Benefit	293	313	350	384	402	417	430	444	450	456
Hardship Assistance	479	497	673	667	755	816	835	751	748	785
Paid Parental Leave	503	603	608	647	709	745	785	825	865	910
Childcare Assistance	145	132	139	165	167	159	167	177	179	185
FamilyBoost tax credit	..	..	..	..	51	140	168	166	163	163
Veteran's Pension	139	134	132	132	132	132	132	133	131	130
Emergency Housing Assistance[1]	..	..	..	..	74	40	44	59	66	68
Wage Subsidy Scheme	1,197	4,689	..	1	..	..	..	..	..	..
Cost of living payment	..	..	600	..	..	..	..	..	..	..
Covid leave support	..	471	273	13	..	..	..	..	..	..
Other benefits[2,3,4]	157	25	14	12	101	260	321	236	269	337
Benefit expenses	**33,671**	**39,187**	**37,576**	**40,294**	**43,525**	**46,244**	**48,944**	**50,614**	**51,799**	**53,705**

1. Previously included within Accommodation Assistance.
2. The '2021 Actual' for other benefits include costs in relation to the Government's response to COVID-19.
3. The '2023 Actual' has been restated to reclassify expenses from other benefits to other non-departmental expenses within the social security and welfare expenses table above.
4. The '2025 Actual' has been restated to reclassify expenses from other non-departmental expenses to other benefits within the social security and welfare expenses table above.

Source: The Treasury

Beneficiary numbers[1] (Thousands)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
New Zealand Superannuation	825	848	870	899	928	959	991	1,024	1,055	1,083
Jobseeker Support and Emergency Benefit	211	193	177	194	217	227	222	212	207	206
Supported living payment	97	98	103	105	108	111	115	117	120	122
Sole parent support	66	70	73	76	79	81	81	76	73	71
Accommodation Supplement	364	353	347	358	377	383	376	367	364	365

1. Actual numbers have been reclassified so may differ from previous published Economic and Fiscal Update numbers.

Source: Ministry of Social Development

Table 5.3 – Health expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Departmental outputs	298	386	222	265	222	211	223	211	210	219
Purchasing of health services[1,5]	16,837	17,727	21,363	23,712	24,320	26,778	27,186	27,173	27,182	27,099
National disability support services[4]	1,659	1,870	2,062	2,340	2,425	2,595	2,964	2,788	2,788	2,788
National Pharmaceuticals Purchasing[2]	1,045	1,085	1,186	1,806	1,690	1,760	1,807	1,808	1,808	1,808
Other non-departmental outputs[4]	623	770	583	612	619	593	669	658	684	715
Health payments to ACC	1,038	896	952	1,010	1,026	1,221	1,312	1,411	1,517	1,631
National health response to COVID-19[3]	1,261	4,965	2,112	247	..	..	..	..	..	..
Other expenses	23	82	9	7	9	52	35	34	8	8
Health expenses	**22,784**	**27,781**	**28,489**	**29,999**	**30,311**	**33,210**	**34,196**	**34,083**	**34,197**	**34,268**

1. Reforms to the NZ health system took place from 1 July 2022 with the regional DHB systems replaced by a national health system.
2. Previously included in purchasing of health services.
3. This line includes spending in relation to vaccines, managed isolation and quarantine as well as other COVID-19 response costs.
4. The '2025 Actual' has been restated to reclassify expenses from national disability support services to other non-departmental outputs.
5. From 2026/27 onwards, funding to Health New Zealand for capital charge costs are excluded as it is now exempt from the regime. This change is fiscally neutral to the Crown as this reduction in expense also results in a reduction to revenue. It does not reflect a change in the funding the health system has available for health infrastructure development or service delivery.

Source: The Treasury

Table 5.4 – Education expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Early childhood education	2,132	2,247	2,355	2,710	3,074	3,062	3,074	3,138	3,195	3,229
Primary and secondary schools (see below)	8,230	8,478	8,616	9,741	9,950	10,495	11,218	11,209	11,035	10,998
Tertiary funding (see below)	3,519	4,804	4,663	5,014	5,171	5,321	5,437	5,377	5,281	5,287
Departmental expenses	1,656	1,962	2,188	2,513	2,576	2,522	2,546	2,443	2,356	2,170
COVID-19 apprentice support	156	255	141	90	48	23	26	26	26	26
Other education expenses[1]	346	277	440	155	76	117	143	71	69	70
Education expenses	**16,039**	**18,023**	**18,403**	**20,223**	**20,895**	**21,540**	**22,444**	**22,264**	**21,962**	**21,780**

1. Includes training incentive allowance.

Source: The Treasury

Number of places provided[1]	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Early childhood education	225,192	220,742	224,043	229,654	230,405	233,313	236,300	240,858	244,191	246,430

1. Full-time equivalent based on 1,000 funded child hours per calendar year.
Historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers.
The '2025 Actual' figures are based on the calendar year and are a combination of actual and forecast place numbers.

Source: The Ministry of Education

Table 5.5 – Primary and secondary schools

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Primary	4,107	4,122	4,116	4,656	4,794	5,055	..	..	..	..
Secondary	3,043	3,135	3,174	3,617	3,693	3,979	..	..	..	..
School transport	216	210	235	255	263	270	..	..	..	..
Professional development	104	129	128	129	130	112	..	..	..	..
Schooling improvement	25	20	23	34	24	33	..	..	..	..
School lunch programme	94	204	267	285	246	198	..	..	..	..
Learning support[2]	641	658	673	765	800	848	561	598	625	633
Teachers, leaders and governance[1]	..	..	..	..	..	..	6,839	6,925	6,846	6,804
Access to education[1]	..	..	..	..	..	..	854	743	641	641
System stewardship and operational management[1]	..	..	..	..	..	..	2,964	2,943	2,923	2,920
Primary and secondary education expenses	**8,230**	**8,478**	**8,616**	**9,741**	**9,950**	**10,495**	**11,218**	**11,209**	**11,035**	**10,998**

1. The Ministry of Education have restructured their appropriations from 2026/27.
2. Renamed from 'Special needs support' to 'Learning support'

Source: The Treasury

Number of places provided[1]	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Primary	529,859	520,060	523,982	529,722	526,590	521,335	519,913	516,463	510,429	507,688
Secondary	294,216	297,309	303,706	315,903	322,805	325,050	324,094	321,776	320,874	318,967

1. These are snapshots as at 1 July for primary year levels (years 1 to 8) and 1 March for secondary year levels (years 9 to 13). These numbers exclude home schooling.
They are the number of full-time equivalent students enrolled in New Zealand schools, including State, State-integrated, Private-Fully Registered, Private-Provisionally Registered and other.

Source: The Ministry of Education

Table 5.6 – Tertiary funding

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Tuition[1]	2,019	3,205	3,135	3,197	3,272	3,246	3,295	3,238	3,145	3,147
Other tertiary funding	698	755	729	688	649	638	583	570	570	570
Student allowances	590	556	525	526	574	647	702	711	700	685
Student loans	212	288	274	603	676	790	857	858	866	885
Tertiary education expenses	**3,519**	**4,804**	**4,663**	**5,014**	**5,171**	**5,321**	**5,437**	**5,377**	**5,281**	**5,287**

1. The '2021 Actual' included a reduction in funding corresponding to increased funding in the year prior to provide revenue certainty to tertiary education organisations for the June to December 2020 period due to the impact of COVID-19. The timing of funding returned to normal from 2022.

Source: The Treasury

Number of places provided[1]	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Actual delivered and estimated funded places	234,350	219,862	265,152	261,283	262,884	262,500	255,400	254,600	253,400	252,900

1. Tertiary places are the number of equivalent full time (EFT) students in: student achievement component; adult and community education; and youth guarantee programmes.
Place numbers are based on calendar years rather than fiscal years. Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers. The forecast number of places provided is based on the number of places that can be funded under the current funding and not a forecast based on demand. From 2023, places include Industry Training Funding.

Source: Tertiary Education Commission

Table 5.7 – Core government services expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Departmental expenses	2,271	2,477	2,736	2,733	2,652	2,815	2,874	2,893	2,860	2,810
International Development Cooperation	804	827	971	1,202	953	996	1,111	982	982	982
Tax receivable write-down and impairments	882	662	1,453	2,393	1,872	1,550	1,375	1,385	1,330	1,305
Non-departmental expenses[1,2]	905	928	703	401	513	470	544	531	612	726
North Island weather events 2023	..	..	..	794	960	101	2	1	..	..
Science expenses	121	114	128	115	119	127	83	79	65	65
Indemnity and guarantee expenses	6	3	24	38	34	25	24	23	23	23
Crown Research Institutes: COVID-19	45	..	..	..	..	..	..	..	..	..
Shovel ready project funding	137	..	3	14	11	..	..	..	..	..
Other expenses[1,2]	583	709	788	778	794	513	619	445	423	393
Core government service expenses	**5,754**	**5,720**	**6,806**	**8,468**	**7,908**	**6,597**	**6,632**	**6,339**	**6,295**	**6,304**

1. The '2023 Actual' has been restated to update sub-classifications.
2. The '2025 Actual' has been restated to reclassify expenses from other non-departmental expenses to other expenses.

Source: The Treasury

Table 5.8 – Law and order expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Police	2,079	2,206	2,476	2,630	2,716	2,890	2,845	2,662	2,602	2,602
Department of Corrections	1,641	1,645	1,798	1,952	2,077	2,283	2,387	2,412	2,434	2,417
Ministry of Justice	642	704	748	814	821	873	900	884	862	863
NZ Customs Service[1]	182	200	190	197	224	251	273	289	293	293
Other departments[1]	178	152	231	235	200	208	242	226	226	227
Departmental expenses	**4,722**	**4,907**	**5,443**	**5,828**	**6,038**	**6,505**	**6,647**	**6,473**	**6,417**	**6,402**
Non-departmental outputs	477	537	712	646	658	721	743	693	686	684
Other expenses	3	..	10	53	38	56	231	264	180	189
Law and order expenses	**5,202**	**5,444**	**6,165**	**6,527**	**6,734**	**7,282**	**7,621**	**7,430**	**7,283**	**7,275**

1. The '2023 Actual' has been restated to update sub-classifications.

Source: The Treasury

Table 5.9 – Transport and communication expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Departmental outputs	73	82	124	105	87	105	76	74	72	71
Waka Kotahi NZ Transport Agency	3,122	2,782	2,212	3,311	3,991	3,992	3,989	4,527	4,963	5,036
Rail funding	13	310	567	745	758	665	460	368	249	209
Funding to support the aviation and transport industries	570	554	197	89	76	..	..	..	..	..
North Island weather events 2023	..	..	250	312	191	..	..	..	..	..
Funding to support Waka Kotahi NZ Transport Agency due to impact of COVID-19	322	128	18	19	62	..	..	..	..	..
Shovel ready project funding to Crown Infrastructure Partners	1,035	..	..	326	..	..	..	..	..	..
Transport temporary relief package[1]		411	1,613	..	..	..	..	..	..	..
Other non-departmental expenses	169	200	395	317	231	190	200	146	119	119
Other expenses[2, 3]	352	190	96	263	76	1,122	385	292	245	166
Transport and communication expenses	**5,656**	**4,657**	**5,472**	**5,487**	**5,472**	**6,074**	**5,110**	**5,407**	**5,648**	**5,601**

1. Largely reflects operating funding to Waka Kotahi NZ Transport Agency to account for the shortfall in revenue as a result of temporary reductions in fuel excise duty and road user charges.
2. The '2021 Actual' and '2022 Actual' for other expenses include costs in relation to the Government's response to COVID-19.
3. Increase in 2026 largely reflects the divestment of the City Rail Link project.

Source: The Treasury

Table 5.10 – Economic and industrial services expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Departmental outputs	633	626	695	762	727	896	849	820	806	784
Non-departmental outputs[1,2,4]	1,980	1,701	1,573	1,830	1,254	1,380	1,408	1,331	1,492	1,520
KiwiSaver (includes HomeStart grant)	916	964	997	1,014	1,020	560	583	608	639	659
Initial fair value write-down on the Small Business Cashflow Scheme loans	143	230	54	..	..	..	..	..	..	..
COVID-19 Resurgence Support payments	200	4,019	..	..	..	..	..	..	..	..
Shovel ready project to support energy projects	24	14	13	9	3	7	..	..	..	..
Shovel ready project funding to support regional projects	159	174	67	..	..	..	..	..	..	..
Worker redeployment package	50	6	1	1	..	..	..	..	..	..
Other expenses[3,4]	376	344	290	394	510	658	605	355	348	347
Economic and industrial services expenses	**4,481**	**8,078**	**3,690**	**4,010**	**3,514**	**3,501**	**3,445**	**3,114**	**3,285**	**3,310**

1. Non-departmental outputs include Provincial Growth Fund expenses.
2. Non-departmental outputs include employment initiatives previously presented separately.
3. The '2021 Actual' and '2022 Actual' other expenses include costs in relation to the Government's response to COVID-19.
4. The '2025 Actual' has been restated to reclassify expenses from non-departmental outputs to other expenses.

Source: The Treasury

Table 5.11 – Defence expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
New Zealand Defence Force expenses	2,531	2,672	2,754	3,033	3,074	3,389	3,594	3,580	3,645	3,649
Other expenses	133	160	132	130	197	208	240	258	244	244
Defence expenses	**2,664**	**2,832**	**2,886**	**3,163**	**3,271**	**3,597**	**3,834**	**3,838**	**3,889**	**3,893**

Source: The Treasury

Table 5.12 – Heritage, culture and recreation expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Departmental outputs	379	374	449	473	463	512	536	512	481	481
Non-departmental outputs	884	809	837	871	872	793	768	771	774	776
Screen Production Grants	48	69	66	43	52	70	70	70	70	70
COVID-19 cultural sector response	6	73	70	36	..	..	..	..	..	..
Other expenses[1]	103	143	115	81	70	67	66	59	62	47
Heritage, culture and recreation expenses	**1,420**	**1,468**	**1,537**	**1,504**	**1,457**	**1,442**	**1,440**	**1,412**	**1,387**	**1,374**

1. The '2021 Actual' and '2022 Actual' other expenses include costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.13 – Primary services expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Departmental expenses	691	724	788	775	740	905	901	891	892	881
Non-departmental outputs	178	106	149	131	114	128	192	143	129	195
Other expenses[1]	146	119	219	156	142	268	111	91	91	90
Primary services expenses	**1,015**	**949**	**1,156**	**1,062**	**996**	**1,301**	**1,204**	**1,125**	**1,112**	**1,166**

1. From '2023 Actual' onwards other expenses include aquaculture settlements, expenses associated with sustainable food and fibre futures and the 2023 North Island weather events.

Source: The Treasury

Table 5.14 – Housing and community development expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Departmental outputs	237	255	259	286	279	293	302	301	276	266
Community services	349	438	477	396	436	438	434	417	416	416
Housing Acceleration Fund	..	22	30	78	157	157	239	259	241	121
Transitional housing[1]	253	324	318	360	354	346	359	328	300	314
Water infrastructure	267	239	301	319	94	127	35	5	5	5
Shovel ready project funding to support housing projects	46	35	39	46	58	21	8	..	..	..
Warm up New Zealand	99	62	34	1	76	83	100	..	..	..
Other non-departmental expenses	522	601	681	869	658	310	381	494	663	519
Other expenses[2]	40	57	173	157	38	437	147	96	94	95
Housing and community development expenses	**1,813**	**2,033**	**2,312**	**2,512**	**2,150**	**2,212**	**2,005**	**1,900**	**1,995**	**1,736**

1. Previously included in other non-departmental expenses.
2. Includes housing subsidies previously presented separately.

Source: The Treasury

Table 5.15 – Environmental protection expenses

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
NZ Emissions Trading Scheme[1]	947	1,540	1,215	894	1,111	923	939	992	1,032	1,062
Departmental outputs	614	690	776	845	787	826	880	818	779	780
Non-departmental outputs	318	170	165	354	406	439	550	488	462	347
Clean car discount	..	128	203	116	..	..	..	..	..	..
Accelerating energy efficiency and fuel switching	..	..	2	42	90	114	34	..	..	..
Other expenses[1]	27	21	20	46	16	80	18	19	11	12
Environmental protection expenses	**1,906**	**2,549**	**2,381**	**2,297**	**2,410**	**2,382**	**2,421**	**2,317**	**2,284**	**2,201**

1. '2021 Actual' to '2023 Actual' were restated to update sub-classifications.

Source: The Treasury

Table 5.16 – Finance costs

($millions)	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Interest on financial liabilities	1,846	2,796	6,154	8,329	8,291	8,687	9,841	11,164	12,337	13,465
Interest unwind on provisions	72	88	415	614	571	374	355	408	440	445
Finance costs expenses	**1,918**	**2,884**	**6,569**	**8,943**	**8,862**	**9,061**	**10,196**	**11,572**	**12,777**	**13,910**

Source: The Treasury

Glossary of Terms

Accruals basis of accounting

An accounting basis where revenues are recognised when rights to assets are earned or levied rather than when cash is received, and expenses are recognised when obligations are incurred rather than when they are settled.

Appropriations

Appropriations are legal authorities granted by Parliament to the Crown or an Office of Parliament to use public resources. Most appropriations are set out in Appropriation Acts.

Baselines

The level of funding approved for any given area of spending (eg, Vote Education).

Consumers Price Index (CPI)

Statistics NZ's official index to measure the rate of change in prices of goods and services purchased by households. Core or underlying inflation measures exclude or give little weight to extreme or irregular price movements.

Contingent assets

Revenue that the Crown will realise if a particular uncertain event occurs, or a present asset is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent assets). Contingent assets typically comprise suspensory or concessional loans with specific events that trigger repayment to the Crown and IRD pending assessments (where there is a proposed adjustment to a tax assessment).

Contingent liabilities

Costs that the Crown will have to face if a particular uncertain event occurs, or present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent liabilities). Contingent liabilities typically comprise guarantees and indemnities, legal disputes and claims, and uncalled capital.

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZ Super Fund and the Reserve Bank. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 82 to 85).

Core Crown expenses

The day-to-day expenditure (eg, public servants' salaries, welfare benefit payments, finance costs and maintaining national defence etc) that does not include capital expenditure on the construction or purchase of physical assets for the core Crown. This is an accrual measure of expenses and includes items such as depreciation on physical assets.

Core Crown residual cash

The level of money the Government has available to repay debt or, alternatively, needs to borrow in any given year. Core Crown residual cash is alternatively termed "Cash available/(shortfall to be funded)". Core Crown residual cash is equal to net core Crown cash flow from operations excluding NZS Fund activity less core Crown capital payments (eg, purchase of assets, loans to others).

Core Crown revenue

Consists primarily of tax revenue collected by the Government but also includes investment revenue, sales of goods and services, and other revenue of the core Crown.

Current account (balance of payments)

The current account records the value of New Zealand's transactions with the rest of the world in goods, services, income and transfers. The current account balance is the sum of all current account credits less all current account debits. When the sum of debits is greater than the sum of credits there is a current account deficit. The current account balance is commonly expressed as a percentage of nominal GDP.

Cyclically-adjusted balance (CAB) and structural balance

The Treasury's cyclically-adjusted balance (CAB) and structural balance indicators aim to reveal underlying trends in the fiscal position. The cyclically-adjusted versions of OBEGAL and OBEGALx remove fluctuations in expenses and tax revenue that happen automatically over the economic cycle. The structural versions also remove significant expenses or revenue associated with one-off events.

Demographic changes

Changes to the structure of the population such as the age, gender or ethnic composition.

Domestic bond programme

The amount and timing of government bonds expected to be issued or redeemed by the Treasury.

Financial assets

Any asset that is cash, an equity instrument of another entity (shares), a contractual right to receive cash or shares (taxes receivable and ACC levies) or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

Financial liabilities

Any liability that is a contractual obligation to pay cash (government stock, accounts payable) or an obligation to exchange a financial asset or liability on unfavourable terms (derivatives in loss).

Fiscal balance and total fiscal impulse (TFI)

The fiscal balance is a measure of the contribution of fiscal policy to aggregate demand. It is core Crown and Crown entities residual cash adjusted for some expenditure items that do not directly affect domestic demand. The total fiscal impulse (TFI) is a measure of the change in the contribution of fiscal policy to aggregate demand relative to the previous year. It is the change in the fiscal balance as a percentage of nominal potential GDP, with the sign reversed so that positive values indicate fiscal policy is adding support to demand relative to the previous year.

Fiscal drag

The additional personal income tax generated as an individual's average tax rate increases as their nominal income increases.

Forecast new capital spending

An amount provided in the forecasts to represent the balance sheet impact of capital initiatives expected to be introduced over the forecast period.

Forecast new operating spending

An amount included in the forecasts to provide for the operating balance (revenue and expenditure) impact of policy initiatives, changes to demographics and other forecasting changes expected to occur over the forecast period.

Gains and losses

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and GSF. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the Statement of Financial Performance.

GDP deflator

An index of changes in the general price level in the economy. It is calculated as the ratio of nominal GDP to real GDP.

Generally accepted accounting practice (GAAP)

GAAP refers to the rules and concepts used to prepare and present financial statements. GAAP is an independent set of standards and frameworks that govern the recognition, measurement and disclosure of financial elements, such as assets, liabilities, revenues and expenses.

Gross debt

Represents debt issued by sovereign (core Crown) and includes Government stock held by NZS Fund, ACC, and the Natural Hazards Commission. It does not include debt issued by SOEs and Crown entities. Gross debt excludes Reserve Bank settlement cash and Reserve Bank bills.

Gross domestic product (GDP)

A measure of the total market value of all final goods and services produced in New Zealand (that is, excluding goods and services used up during the production process). Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured on an expenditure, production or income basis and in either real (constant price) or nominal (current price) terms.

Gross national expenditure (GNE)

A measure of total expenditure on final goods and services by New Zealand residents.

Insurance liabilities

The gross obligation for the future cost of claims incurred prior to balance date represented in today's dollars (present value). The net liability is the gross liability less the asset reserves held to meet those claims.

Inter-segment eliminations

The amounts of transactions between different segments (core Crown, Crown entities and SOEs) that are eliminated to determine the total Crown results.

Labour Cost Index (LCI)

The LCI measures changes in labour costs, including base wages, overtime, and non-wage labour-related costs such as annual leave and insurance.

Labour force participation rate

The percentage of the working-age population in work or actively looking for and available for work (the employed and unemployed).

Labour productivity

Output per unit of labour input (where labour inputs might be measured as hours worked or the number of people employed).

Loan-to-value ratio restrictions

A loan-to-value ratio (LVR) is the value of a home loan divided by the value of the mortgaged property. The Reserve Bank first introduced LVR restrictions in October 2013 in response to rapid house price growth, placing limits on how much banks are allowed to lend to high-LVR borrowers.

Marketable securities

Assets held with financial institutions. These assets are held for both cash flow and investment purposes. Examples are bonds, commercial papers and debentures.

Minority interest

Minority interest refers to shareholders of Government reporting entities outside the Crown. Current examples include those who hold shares in the mixed ownership companies.

Monetary conditions

Aggregate monetary conditions measure the degree to which short-term interest rates and the exchange rate either support or restrict economic growth.

Monetary policy

The Reserve Bank uses monetary policy to regulate monetary conditions in New Zealand. The Reserve Bank primarily uses the Official Cash Rate (OCR) to implement monetary policy decisions. However, additional monetary policy responses can be used as well, such as the Large Scale Asset Purchase (LSAP) programme and the Funding for Lending (FLP) programme. These measures are all designed to maintain stability in the rate of CPI inflation within a defined target range.

Tightening monetary policy means raising interest rates (such as via the OCR) in order to moderate aggregate demand pressures and reduce inflationary pressures. Easing monetary policy has the reverse effect.

Multi-factor productivity

Multi-factor productivity (MFP) relates a change in output to several types of inputs, typically capital and labour. MFP is often measured residually, as the change in output that cannot be accounted for by the change in combined inputs.

National saving

National disposable income less private and public consumption spending. Income excludes gains and losses on capital. Gross saving includes depreciation.

Net core Crown debt

Net core Crown debt provides information about the sustainability of the Government's accounts and is used by some international rating agencies when determining the creditworthiness of a country. It represents debt issued by the sovereign (the core Crown) less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and/or they are made for public policy reasons rather than for the purposes associated with government financing.

Net debt

Net debt provides information about the sustainability of the Government's accounts. Net debt represents core Crown and Crown entity borrowings (excluding Kiwi Group Capital Limited) less core Crown financial assets (including advances). It includes the financial assets and borrowings of the NZS Fund.

Net international investment position (NIIP)

The net value of New Zealand's international assets and liabilities at a point in time.

Net Worth

Total assets less total liabilities. The change in net worth in any given year is largely driven by the operating balance and property, plant and equipment revaluations. Net worth provides a useful and comprehensive measure of how strong the Government's finances are, including its resilience to fiscal shocks such as natural disasters or significant deterioration in the global economy.

Net worth attributable to the Crown

Represents the Crown's share of total assets and liabilities and excludes minority interests' share of those assets and liabilities.

Operating balance

Represents OBEGAL (refer below) plus gains and less losses. The operating balance includes gains and losses not reported directly as a movement against net worth. The impact of gains and losses on the operating balance can be subject to short-term market volatility and revaluations of long-term liabilities.

Operating balance before gains and losses (OBEGAL)

Represents core Crown revenue less core Crown expenses plus surpluses from SOEs and Crown entities. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation.

Operating balance before gains and losses excluding ACC revenue and expenses (OBEGALx)

Represents OBEGAL (refer above) excluding the revenue and expenses of ACC.

Output gap

The difference between actual and potential GDP (see potential output).

Outputs

Outputs are the goods and services commissioned by Ministers from public, non-governmental and private sector producers. Outputs may include the supply of policy advice, enforcement of regulations (such as speed limits in transport), provision of a range of services (in health, education, etc), negotiation and management of contracts and administration of benefits.

Potential output

The level of output an economy can sustain without an acceleration of inflation.

Productivity

The amount of output (eg, GDP) per unit of input.

Settlement cash

This is the amount of money deposited with the Reserve Bank by registered banks. It is a liquidity mechanism used to settle wholesale obligations between registered banks and provides the basis for settling most of the retail banking transactions that occur every working day between businesses and individuals.

Specific fiscal risks

All government decisions and other circumstances known to the Treasury where the fiscal implications may have a material effect on the fiscal and economic outlook, but are not certain enough on the outcome, timing or quantum to include in the forecasts.

System of National Accounts (SNA)

A set of macroeconomic accounts, developed by the international community, to facilitate international comparisons of national economic statistics. This differs from the GAAP framework that is used for reporting by the Government in New Zealand.

Taxpayer funds

The accumulation of past operating surpluses and deficits.

Tax receipts

Tax that has been paid from a taxpayer to the relevant collection agency. Also referred to as cash.

Tax revenue

The accrual, rather than the cash (tax receipts) measure of taxation. It is a measure of tax over a given period of time, regardless of whether or not it has actually been paid.

Terms of trade

The terms of trade measure the volume of imports that can be funded by a fixed volume of exports and are calculated as the ratio of the total export price index to the total import price index. New Zealand's headline terms of trade series is derived from export and import price indices from Statistics NZ's quarterly overseas trade indices. The Treasury forecasts the terms of trade on an SNA basis, using implicit export and import price indices derived from quarterly national accounts data.

Top-down adjustment

An adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to SOE or Crown entity forecasts. In addition to department forecasts, unallocated funding (contingencies) also attract a top-down adjustment where it is considered unlikely that all of the contingencies indicatively phased to a particular year are expected to be allocated and spent in that year.

Total borrowings

Represents the Government's total debt obligations to external parties and can be split into sovereign-guaranteed debt and non-sovereign-guaranteed debt. Non-sovereign-guaranteed debt represents the debt obligations of SOEs and Crown entities that are not guaranteed by the Crown.

Total Crown

Includes the core Crown (defined above) plus Crown entities, SOEs and other entities listed in Schedule 4 and 4a of the Public Finance Act 1989 (which are listed on pages 82 to 85). Also known as the Government Reporting Entity.

Trade Weighted Index (TWI)

A measure of movements in the NZ dollar against the currencies of our major trading partners. The TWI is based on 17 currencies, weighted according to each country's direct bilateral trade in goods and services with New Zealand. Together these countries account for more than 80% of New Zealand's foreign trade.

Underutilisation rate

The underutilisation rate is a broad measure of untapped labour market capacity. In addition to the unemployed, it includes part-time workers who want and are able to work longer hours (the under-employed), people who want a job and are available to work but not currently looking for a job (the available potential jobseeker), and people who are currently unavailable but are looking for a job and will be able to start working within the next month (the unavailable jobseeker).

Votes

When Parliament considers legislation relating to appropriations, the appropriations are grouped within 'Votes'. Generally, a 'Vote' will group similar or related appropriations together (eg, Vote Health includes all health-related appropriations administered by the Ministry of Health).

Year ended

Graphs and tables within this document use different expressions of the timeframe. While some tables may refer to the end of the tax year (31 March), others will refer to the end of the Government's financial year (30 June). For example, unless otherwise stated references to 2025/26 or 2026 will mean the year ended 30 June.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
$millions															
Revenue and expenses															
Core Crown tax revenue	70,445	75,644	80,224	86,468	85,102	97,983	108,458	112,358	120,566	121,698	124,807	132,986	142,229	151,601	159,705
Core Crown revenue	76,121	81,782	86,778	93,474	91,923	104,968	117,515	123,398	133,220	134,411	137,235	145,590	155,575	165,562	174,255
Total Crown revenue	97,416	103,422	109,973	119,142	116,003	129,335	141,627	153,011	167,347	169,811	171,990	184,053	195,731	207,536	217,653
Core Crown expenses	73,929	76,339	80,576	86,959	108,832	107,764	125,641	127,574	138,998	141,675	147,239	154,823	158,788	162,767	167,892
Total Crown expenses	95,137	99,007	104,014	111,376	138,916	133,722	150,956	161,822	180,061	183,502	186,836	197,953	202,781	207,695	214,217
Operating balance (excluding minority interests)	(5,369)	12,317	8,396	389	(30,040)	16,159	(16,932)	5,321	(8,365)	(4,400)	(4,137)	(8,112)	(570)	6,720	10,985
Fiscal strategy indicators															
OBEGAL (excluding ACC)	2,121	4,653	5,942	8,504	(20,902)	(2,559)	(8,664)	(7,199)	(8,773)	(9,306)	(11,937)	(11,441)	(4,276)	2,585	6,115
OBEGAL (excluding minority interests)	1,831	4,069	5,534	7,429	(23,057)	(4,560)	(9,691)	(9,446)	(12,854)	(13,973)	(15,058)	(14,090)	(7,400)	(608)	3,005
Core Crown residual cash	(1,322)	2,574	1,346	(710)	(23,692)	(13,767)	(27,043)	(25,648)	(19,302)	(5,996)	(9,314)	(24,221)	(15,636)	(8,842)	(4,492)
Net debt	23,193	16,249	11,219	5,432	35,710	35,921	61,850	71,367	82,197	88,719	98,736	115,182	123,972	124,363	120,299
Net debt (excl. NZS Fund)	53,229	51,548	50,763	50,822	79,930	95,188	117,115	136,268	158,255	172,926	190,849	214,427	229,726	237,303	240,996
Gross debt[1]	86,928	87,141	88,053	84,449	102,257	100,835	118,950	135,789	175,966	203,688	223,761	250,220	267,130	278,379	284,278
Net core Crown debt[2]	61,880	59,480	57,495	57,736	83,375	102,080	128,873	155,273	175,464	182,171	191,761	216,481	232,420	241,357	246,116
Statement of financial position															
Total assets	292,679	313,609	339,932	364,652	393,400	438,596	501,844	536,666	570,868	597,976	611,609	633,055	657,506	680,837	705,642
Total liabilities	197,158	197,137	204,295	221,313	277,457	281,403	327,525	345,194	379,819	408,848	426,277	443,300	468,014	484,460	498,295
Net worth	95,521	116,472	135,637	143,339	115,943	157,193	174,319	191,472	191,049	189,128	185,332	189,755	189,492	196,377	207,347
Net worth attributable to the Crown	89,366	110,532	129,644	136,949	110,320	151,469	167,036	183,514	181,818	179,260	175,459	179,885	179,369	186,162	197,198
Nominal expenditure GDP (revised)	258,827	275,693	295,490	310,174	317,876	343,742	365,304	401,843	420,853	434,974	452,159	474,922	503,742	529,839	554,403
% GDP															
Revenue and expenses															
Core Crown tax revenue	27.2%	27.4%	27.1%	27.9%	26.8%	28.5%	29.7%	28.0%	28.6%	28.0%	27.6%	28.0%	28.2%	28.6%	28.8%
Core Crown revenue	29.4%	29.7%	29.4%	30.1%	28.9%	30.5%	32.2%	30.7%	31.7%	30.9%	30.4%	30.7%	30.9%	31.2%	31.4%
Total Crown revenue	37.6%	37.5%	37.2%	38.4%	36.5%	37.6%	38.8%	38.1%	39.8%	39.0%	38.0%	38.8%	38.9%	39.2%	39.3%
Core Crown expenses	28.6%	27.7%	27.3%	28.0%	34.2%	31.4%	34.4%	31.7%	33.0%	32.6%	32.6%	32.6%	31.5%	30.7%	30.3%
Total Crown expenses	36.8%	35.9%	35.2%	35.9%	43.7%	38.9%	41.3%	40.3%	42.8%	42.2%	41.3%	41.7%	40.3%	39.2%	38.6%
Operating balance (excluding minority interests)	(2.1%)	4.5%	2.8%	0.1%	(9.5%)	4.7%	(4.6%)	1.3%	(2.0%)	(1.0%)	(0.9%)	(1.7%)	(0.1%)	1.3%	2.0%
Fiscal strategy indicators															
OBEGAL (excluding ACC)	0.8%	1.7%	2.0%	2.7%	(6.6%)	(0.7%)	(2.4%)	(1.8%)	(2.1%)	(2.1%)	(2.6%)	(2.4%)	(0.8%)	0.5%	1.1%
OBEGAL (excluding minority interests)	0.7%	1.5%	1.9%	2.4%	(7.3%)	(1.3%)	(2.7%)	(2.4%)	(3.1%)	(3.2%)	(3.3%)	(3.0%)	(1.5%)	(0.1%)	0.5%
Core Crown residual cash	(0.5%)	0.9%	0.5%	(0.2%)	(7.5%)	(4.0%)	(7.4%)	(6.4%)	(4.6%)	(1.4%)	(2.1%)	(5.1%)	(3.1%)	(1.7%)	(0.8%)
Net debt	9.0%	5.9%	3.8%	1.8%	11.2%	10.4%	16.9%	17.8%	19.5%	20.4%	21.8%	24.3%	24.6%	23.5%	21.7%
Net debt (excl. NZS Fund)	20.6%	18.7%	17.2%	16.4%	25.1%	27.7%	32.1%	33.9%	37.6%	39.8%	42.2%	45.1%	45.6%	44.8%	43.5%
Gross debt[1]	33.6%	31.6%	29.8%	27.2%	32.2%	29.3%	32.6%	33.8%	41.8%	46.8%	49.5%	52.7%	53.0%	52.5%	51.3%
Net core Crown debt[2]	23.9%	21.6%	19.5%	18.6%	26.2%	29.7%	35.3%	38.6%	41.7%	41.9%	42.4%	45.6%	46.1%	45.6%	44.4%
Statement of financial position															
Total assets	113.1%	113.8%	115.0%	117.6%	123.8%	127.6%	137.4%	133.6%	135.6%	137.5%	135.3%	133.3%	130.5%	128.5%	127.3%
Total liabilities	76.2%	71.5%	69.1%	71.4%	87.3%	81.9%	89.7%	85.9%	90.2%	94.0%	94.3%	93.3%	92.9%	91.4%	89.9%
Net worth	36.9%	42.2%	45.9%	46.2%	36.5%	45.7%	47.7%	47.6%	45.4%	43.5%	41.0%	40.0%	37.6%	37.1%	37.4%
Net worth attributable to the Crown	34.5%	40.1%	43.9%	44.2%	34.7%	44.1%	45.7%	45.7%	43.2%	41.2%	38.8%	37.9%	35.6%	35.1%	35.6%

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

Economic Indicators

June Years	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	4.7	6.3	4.7	4.1	-1.1	8.0	1.2	3.8	0.2	0.6	1.0	2.4	3.0	3.0	3.0
Public consumption	1.1	2.7	4.1	2.9	6.4	7.1	7.9	1.2	0.6	-0.8	2.7	-1.3	1.1	0.2	0.0
TOTAL CONSUMPTION	3.8	5.4	4.5	3.8	0.6	7.8	2.8	3.2	0.3	0.2	1.4	1.5	2.5	2.3	2.3
Residential investment	10.2	4.2	-0.7	1.6	-4.4	16.5	-5.6	-0.8	-6.8	-12.3	-1.9	8.5	10.4	4.9	3.0
Business investment	0.9	1.7	11.7	4.6	-2.3	8.1	5.9	5.9	-2.5	-2.4	0.8	1.3	7.4	5.2	3.6
TOTAL INVESTMENT	3.3	2.3	8.3	3.9	-2.8	10.1	2.9	4.3	-3.5	-4.6	0.3	2.7	8.0	5.2	3.5
Stock change (contribution to growth)	-0.3	0.4	0.2	-0.5	-0.4	0.2	1.0	-1.0	-0.2	0.0	0.5	0.1	0.0	0.0	0.0
GROSS NATIONAL EXPENDITURE	3.2	5.1	5.7	3.3	-0.6	8.5	4.0	2.4	-0.9	-1.0	1.9	2.0	3.8	3.0	2.6
Exports	6.3	0.9	4.0	3.3	-5.4	-10.8	-3.1	12.0	5.2	2.9	3.6	3.0	2.2	2.2	2.3
Imports	2.1	6.3	8.8	2.7	-5.7	-4.2	12.0	2.6	-1.3	1.9	4.0	0.5	3.7	2.9	2.5
EXPENDITURE ON GDP	4.3	3.6	4.4	3.4	-0.6	6.7	0.6	4.6	0.7	-0.9	1.4	2.6	3.3	2.8	2.6
GDP (production measure)	3.8	3.5	3.4	3.1	-0.8	6.3	0.4	4.0	1.1	-1.1	1.2	2.3	3.2	2.7	2.5
- annual % change	4.2	3.2	3.5	2.5	-9.7	17.7	0.4	3.0	0.1	-1.0	1.8	3.1	3.1	2.6	2.4
Real GDP per capita	1.6	1.3	1.4	1.5	-2.5	5.1	0.4	3.1	-1.4	-2.1	0.6	1.3	2.0	1.5	1.3
Nominal GDP (expenditure basis)	5.3	6.5	7.2	5.0	2.5	8.1	6.3	10.0	4.7	3.4	4.0	5.0	6.1	5.2	4.6
GDP deflator	0.9	2.8	2.6	1.5	3.1	1.4	5.7	5.2	4.0	4.3	2.5	2.4	2.6	2.3	2.0
Output gap (% deviation, June year average)	-0.2	0.3	0.8	1.2	0.7	1.8	2.3	2.0	1.1	-1.8	-2.2	-1.7	-0.6	-0.1	0.0
Employment	2.7	5.3	3.6	1.8	1.4	0.4	2.5	2.4	1.6	-1.0	0.3	2.0	2.3	1.8	1.5
Unemployment (% June quarter s.a.)	5.1	4.9	4.6	4.1	4.1	4.0	3.3	3.7	4.7	5.2	5.5	5.0	4.5	4.4	4.3
Wages (average ordinary-time hourly, ann % change)	2.4	2.5	2.8	4.0	2.9	4.0	6.3	6.9	5.0	4.5	2.6	2.8	3.0	3.4	3.5
CPI inflation (ann % change)	0.4	1.7	1.5	1.7	1.5	3.3	7.3	6.0	3.3	2.7	4.0	1.6	2.1	2.1	2.0
Merchandise terms of trade (SNA basis)	-2.0	4.3	4.7	-2.8	4.7	0.4	2.8	-7.0	-2.7	8.1	1.7	0.3	3.6	1.3	0.2
House prices (ann % change)	15.0	6.5	3.6	1.5	7.1	29.6	5.3	-9.0	1.5	-0.7	-0.5	4.0	4.6	4.3	4.4
Current account balance - $billion	-5.4	-7.4	-11.1	-11.3	-5.1	-11.1	-29.2	-29.8	-23.2	-16.6	-18.8	-16.7	-14.6	-14.0	-14.1
Current account balance - % of GDP	-2.1	-2.7	-3.7	-3.6	-1.6	-3.2	-8.0	-7.4	-5.5	-3.8	-4.1	-3.5	-2.9	-2.6	-2.5
TWI (June quarter)	73.6	76.5	73.8	72.7	69.7	74.7	72.2	70.9	71.4	69.1	66.8	67.6	68.8	69.7	70.3
90-day bank bill rate (June quarter)	2.4	2.0	2.0	1.7	0.3	0.3	2.2	5.6	5.6	3.4	2.5	2.8	3.1	3.3	3.3
10-year bond rate (June quarter)	2.7	2.9	2.8	1.8	0.8	1.7	3.7	4.3	4.7	4.6	4.6	4.5	4.5	4.5	4.5