



**BUDGET  
2026**

# Budget Policy Statement

Hon Nicola Willis  
Minister of Finance

16 December 2025

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**Te Kāwanatanga o Aotearoa**  
New Zealand Government



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# Budget Policy Statement

The Public Finance Act 1989 (PFA) requires the Minister of Finance to present a budget policy statement to the House of Representatives each year that sets out:

- The goals and objectives that will guide the Government's decisions in the forthcoming Budget.
- The Government's short-term fiscal intentions, long-term fiscal objectives and strategy for managing expenditure, assets and liabilities, if these have changed from those stated in the most recent fiscal strategy report.

This Budget Policy Statement (BPS) looks ahead to Budget 2026. It is released alongside, and draws on, the Treasury's 2025 Half Year Economic and Fiscal Update (HYEFU).

## Goals and priorities

The Government's overarching goals for its term of office are to:

- Build a stronger, more productive economy that lifts real incomes and increases opportunities for New Zealanders.
- Deliver more efficient, effective and responsive public services to all who need and use them – in particular, to restore law and order and improve health outcomes and educational achievement.
- Get the government's books back in order and restore discipline to public spending.

These goals will guide the Government's Budget decisions. They are also the Government's wellbeing objectives, as achieving them is the most important contribution the Government can make to the long-term social, economic, environmental and cultural wellbeing of New Zealanders.

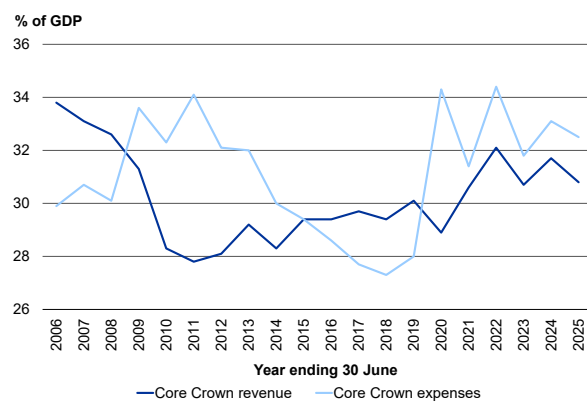
In Budget 2026, the Government will focus on:

- Supporting the delivery of core public services such as health care, education and law and order.
- Keeping tight control of discretionary government spending while funding a limited number of priority Government policy commitments.
- Addressing New Zealand’s longer-term productivity challenges.
- Developing a sustainable pipeline of infrastructure investments.

## Fiscal strategy

New Zealand is in a challenging fiscal position. The Crown’s books have deteriorated since 2019 as expenses have risen faster than revenue (Figure 1). The increase in expenses as a percentage of GDP is due to a combination of factors: discretionary policy decisions, the temporary impact of the COVID-19 pandemic and weather events, the economic downturn, cost increases above those in the rest of the economy, demographic changes and higher borrowing costs. Table 1 sets out the contribution of different spending areas to the increase in core Crown expenses since 2018/19.

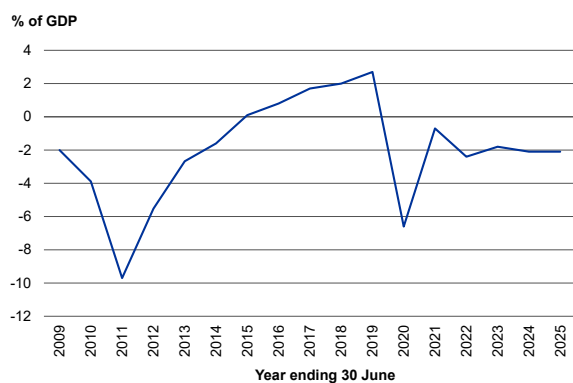
**Figure 1 – Core Crown revenue and expenses**



Source: The Treasury

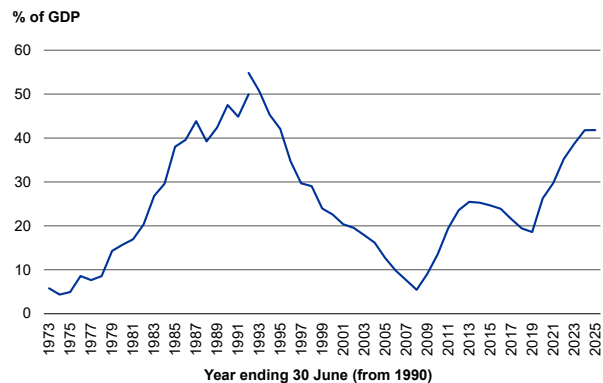
The Government’s headline operating balance indicator is the total Crown operating balance before gains and losses, excluding ACC (OBEGALx). Rising expenses mean OBEGALx has been in deficit since 2019/20 (Figure 2). Persistent deficits, together with capital spending, have in turn led to a sharp increase in net core Crown debt from below 20 per cent of GDP in 2018/19 to 41.8 per cent in 2024/25 (Figure 3).

**Figure 2 – OBEGALx**



Source: The Treasury

**Figure 3 – Net core Crown debt**



\* The measure of net core Crown debt adopted in 2009 is restated back to 1992. The earlier measure for the period before 1992 included advances. March years are used prior to 1990.

Source: The Treasury

**Table 1 – Increase in core Crown expenses from 2018/19 to 2024/25 by functional classification**

<b>Functional classification</b>	<b>% of GDP</b>	<b>\$billions</b>
<b>Core Crown expenses 2018/19</b>	<b>28.0</b>	<b>87.0</b>
New Zealand Superannuation	0.6	8.6
Welfare benefits	0.7	8.1
Health	1.1	12.0
Finance costs	0.8	5.2
Transport	0.3	2.6
Housing	0.3	1.4
Education	0.2	6.6
Other	0.5	10.2
<b>Core Crown expenses 2024/25</b>	<b>32.5</b>	<b>141.7</b>

Source: The Treasury

The operating deficit is structural so will not resolve itself as the economy recovers. Fiscal consolidation is required to bring revenue and expenses back into balance and start reducing debt. The Government’s fiscal strategy, as set out most recently in the 2025 Fiscal Strategy Report (FSR), is to achieve this consolidation over time, and specifically to:

- reduce core Crown expenses towards 30 per cent of GDP
- return the headline operating balance measure to surplus, and
- put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent and in the longer term keep it below that percentage.

Spending restraint over the medium term is the key to realising this strategy. Taking a deliberate medium-term approach to fiscal consolidation means the Government will not over-react to inevitable changes in fiscal forecasts. Downward revenue surprises will not necessitate a sharp spending reduction. Upside revenue surprises will contribute to reducing the deficit.

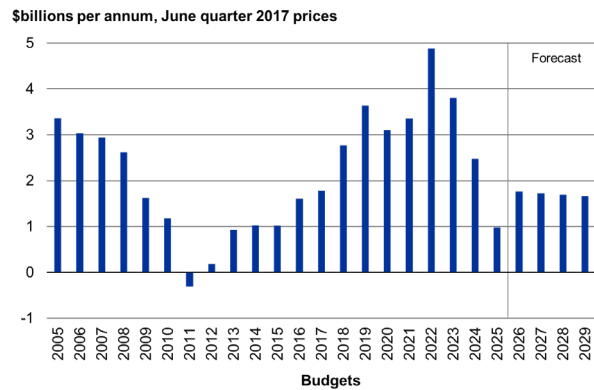
## **Budget operating and capital allowances**

Spending restraint is realised by setting Budget operating and capital allowances.

The operating allowance is the amount of net new operating funding – on average, per annum – the Government intends to spend on discretionary policy initiatives in each Budget. As a net concept, operating allowances include spending, savings and revenue initiatives within a single envelope.

The operating allowances for Budgets 2026, 2027 and 2028 remain at \$2.4 billion. The operating allowance for Budget 2029 has also been set at \$2.4 billion. These are tight allowances, particularly compared to those for Budgets 2018 to 2023 (Figure 4). While the Government has made its medium-term spending intentions clear by setting allowances at this level, there remains room for some adjustments up or down in the future. Any future adjustments would have to be consistent with the overarching objective to get the government's books back in order and restore discipline to public spending.

**Figure 4 – Real Budget operating allowances**



\* Allowances are shown in June quarter 2017 prices, adjusted for inflation using the Stats NZ Consumers Price Index for the year ahead.

Sources: Stats NZ, the Treasury

Existing pre-commitments mean there is only \$1 billion per year, on average, left to be allocated from the operating allowance for Budget 2026. Most agencies and Ministers will need to plan to manage service pressures and other commitments with little or no additional funding. Performance plans are key to managing within this constraint (Box 1). Above what is left in the operating allowance, any new funding for priority initiatives and service pressures in Budget 2026 will need to be found from savings and reprioritisation. Health, education, defence, and law and order will be priority areas in the Budget.

### Box 1 – Performance plans

Performance plans are plans for each government department – and the Crown entities that fall under them – to deliver public services within existing baselines while explaining what that spending delivers and the standard it will be delivered to. The default assumption for performance plans is that there is no new funding. Performance plans, which were introduced in 2024, must be clear about trade-offs, identify performance and delivery risks and set out how these risks will be managed. They are a tool that puts the focus on medium-term sustainability and lifting performance within existing expenditure, rather than on annual Budget initiatives.

The Budget capital allowance is the amount of net new “one-off” capital funding the Government intends to allocate to capital projects in each Budget. The capital allowances for Budgets 2026, 2027 and 2028 will remain at \$3.5 billion. The capital allowance for Budget 2029 has also been set at \$3.5 billion.

Capital investment requirements can be large, uneven and sometimes unexpected, so the Government retains the flexibility to vary its capital allowances. This flexibility makes the capital allowances a looser constraint than the operating allowances. They are an indication of future capital spending but the biggest constraint on capital spending is the Government's debt objective.

Through the Budget 2026 capital initiatives process, more information about the capital needs and opportunities of government agencies will be provided to Ministers. The size of the capital allowances will therefore be reconsidered next year in the Budget.

## Economic and fiscal outlook

The economy is recovering from a deep and protracted downturn, with economic output well below potential. The Reserve Bank has provided monetary stimulus by reducing the official cash rate. The HYEPU forecasts show GDP growth strengthening over the next year and unemployment declining from early 2026.

This recovery is at a slightly slower pace, at least initially, than was forecast in the 2025 Budget Economic and Fiscal Update (BEFU) in May. Both real GDP (the volume of goods and services produced in the economy) and nominal GDP (the value of these in dollar terms) are lower in the near term than was forecast in the BEFU, but are expected to pick up in the second half of 2025 and across 2026 as lower interest rates are felt more widely across the economy and uncertainty around tariffs passes. Nominal GDP is also supported by historically high terms of trade.

Forecasts of tax revenue are driven by forecasts of nominal GDP so are slightly lower than they were in the BEFU. Core Crown tax revenue is expected to be \$0.8 billion lower than previously expected in the current financial year. By 2028/29 it is expected to recover to a similar level as in the BEFU forecast. Across the forecast period, the total tax take is expected to be \$1.7 billion lower than previously expected.

The HYEPU fiscal forecasts are summarised in Table 2. Maintaining tight operating allowances in future Budgets drives a reduction in core Crown expenses as a percentage of GDP, reaching 30.5 per cent by the end of the forecast period. This track is slightly higher in nominal terms than the BEFU forecast. Forecasts of benefit expenses, for example, have been lifted as slightly higher inflation increases the annual indexation adjustment for benefits and a slower cyclical recovery raises forecasts of recipient numbers.

**Table 2 – Key fiscal indicators from the HYEPU**

<b>Year ending 30 June</b>	<b>2025 Actual</b>	<b>2026 Forecast</b>	<b>2027 Forecast</b>	<b>2028 Forecast</b>	<b>2029 Forecast</b>	<b>2030 Forecast</b>
<b>\$billions</b>						
Core Crown revenue	134.4	136.9	144.8	153.2	161.8	170.6
Core Crown expenses	141.7	149.0	153.5	157.6	162.6	167.9
OBEGALx	(9.3)	(13.9)	(10.4)	(5.1)	(0.9)	2.3
Net core Crown debt	182.2	197.0	220.6	235.7	246.8	253.9
Net worth	189.1	182.5	175.8	175.3	179.6	187.5
<b>% of GDP</b>						
Core Crown revenue	30.8	30.1	30.2	30.5	30.8	31.0
Core Crown expenses	32.5	32.8	32.0	31.4	30.9	30.5
OBEGALx	(2.1)	(3.0)	(2.2)	(1.0)	(0.2)	0.4
Net core Crown debt	41.8	43.3	46.0	46.9	46.9	46.1
Net worth	43.4	40.2	36.7	34.9	34.1	34.0

Source: The Treasury

OBEGALx also improves over the next four years, reaching a surplus of \$2.3 billion in 2029/30. However, a combination of slightly lower revenue forecasts, slightly higher expense forecasts and lower expected returns from state-owned enterprises and Crown entities means the OBEGALx track is lower than previously forecast in the BEFU. At the time of the Budget, a small surplus of \$0.2 billion was expected in 2028/29. This has been revised to a small deficit of \$0.9 billion.

Net core Crown debt is initially lower than was forecast at the BEFU but peaks 0.9 percentage points of GDP higher, reflecting additional funding requirements from larger OBEGALx deficits. This peak – 46.9 per cent of GDP in 2027/28 and 2028/29 – is close to the Treasury’s recommended prudent limit for net core Crown debt of 50 per cent of GDP.

The slower recovery in the fiscal outlook, compared to the BEFU, is almost entirely driven by revisions to revenue and expense forecasts rather than discretionary fiscal decisions. Relatively few fiscal decisions have been made since Budget 2025, outside those managed within existing allowances and contingencies. This is illustrated in Table 3, which details the changes in the OBEGALx forecast track between the BEFU and the HYEUFU.

**Table 3 – Changes in OBEGALx forecasts between the BEFU and the HYEUFU 2025**

Year ending 30 June \$billions	2026	2027	2028	2029
<b>OBEGALx – 2025 BEFU</b>	<b>(12.1)</b>	<b>(8.1)</b>	<b>(3.1)</b>	<b>0.2</b>
Core Crown tax revenue	(0.8)	(0.8)	(0.2)	0.2
Core Crown benefit and New Zealand Superannuation expenses	(0.4)	(1.1)	(1.0)	(1.3)
Tax impairments and student loan write-downs	(0.2)	(0.2)	(0.4)	(0.3)
Net Emissions Trading Scheme revenue	(0.2)	(0.2)	(0.2)	(0.3)
NZ Super Fund, state-owned enterprises and Crown entity results (excluding ACC)	(0.3)	(0.4)	(0.2)	(0.1)
Net core Crown finance costs	0.4	0.4	0.3	0.1
Other	(0.3)	(0.0)	(0.3)	0.6
<b>Total movement</b>	<b>(1.8)</b>	<b>(2.3)</b>	<b>(2.0)</b>	<b>(1.1)</b>
<b>OBEGALx – 2025 HYEUFU</b>	<b>(13.9)</b>	<b>(10.4)</b>	<b>(5.1)</b>	<b>(0.9)</b>

Source: The Treasury

The downward revisions to fiscal forecasts in the HYEUFU are relatively modest but follow a series of such revisions over the past two years. While the Government has exercised tight control of discretionary spending, continued forecast changes – outside the Government’s direct control – have resulted in a deteriorating fiscal position over time as automatic stabilisers (tax revenue falling and benefit expenses rising) operate in response to weaker economic conditions. Annex 1 extends the analysis in Table 3 back to the Pre-election Economic and Fiscal Update (PREFU) 2023.

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## Short-term intentions and long-term objectives

As previously stated, the Government has a deliberate, medium-term approach to fiscal consolidation and will not over-react to movements up or down in the forecasts. The FSR states that the role of fiscal policy, in the first instance, is to allow automatic stabilisers to operate without trying to offset their fiscal impact. The Government is continuing to follow that approach by maintaining the operating allowances set out in the FSR.

There are alternative approaches. A shorter, sharper fiscal consolidation, signalled by further reductions to near-term Budget allowances, would improve the OBEGALx and net core Crown debt forecasts above. It would also come with risks – that savings measures, over and above those already being considered, could impact the delivery of front-line public services and further depress weak demand in the short term. Another option would be to spend more in the near term to stimulate the economy, but this would delay the necessary return to a structural surplus and is unlikely to be well timed or well targeted. Monetary policy is better placed to manage the economic cycle.

The PFA requires the Government to set out its short-term intentions and long-term objectives for five fiscal indicators, including the operating balance. The current short-term intention for the operating balance includes returning OBEGALx to surplus by 2027/28. Given the new forecast is for a \$5.1 billion deficit in 2027/28, the Government is revising this intention to indicate a return to OBEGALx surplus by the following year, 2028/29. The new forecast for 2028/29 is a deficit of \$0.9 billion but forecasting uncertainty, and the ability to adjust settings in the future, mean this target is achievable. This change is consistent with a deliberate, medium-term approach to consolidation.

In full, the revised short-term intention for the operating balance is to:

- Bring total operating expenses and total operating revenues into balance.
- Return the operating balance (before gains and losses, excluding ACC) to surplus by 2028/29.
- Ensure consistency with the short-term intention for debt.

This revised operating balance short-term intention accords with the principles of responsible fiscal management in the PFA. In particular, because it targets a return to surplus, the revised intention accords with the principle of ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues. The revised intention also accords with the Government's long-term fiscal objectives, because targeting a return to surplus will support debt to be maintained at prudent levels.

No other short-term intention or long-term objective has been changed. The current intention for net worth is not being met on current forecasts. The Government will reconsider this intention ahead of the next fiscal strategy report.

The full set of short-term fiscal intentions and long-term fiscal objectives are set out in Tables 4 and 5.

**Table 4 – The Government’s short-term intentions for the next four financial years****Budget Policy Statement 2026**

Debt	Maintain total debt at prudent levels. Put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent.
Operating balance	Bring total operating expenses and total operating revenues into balance. Return the operating balance (before gains and losses, excluding ACC) to surplus by 2028/29. Ensure consistency with the short-term intention for debt.
Expenses	Reduce core Crown expenses as a percentage of GDP. Ensure expenses are consistent with the operating balance intention.
Revenue	Ensure revenue is consistent with the operating balance intention.
Net worth	Maintain net worth at around 40 per cent of GDP.

Budget 2026 accords with these short-term intentions as maintaining tight operating allowances supports returning to surplus, reducing core Crown expenses as a percentage of GDP, and putting net core Crown debt on a downward trajectory.

The following circumstances could lead the Government to consider amending the short-term intentions:

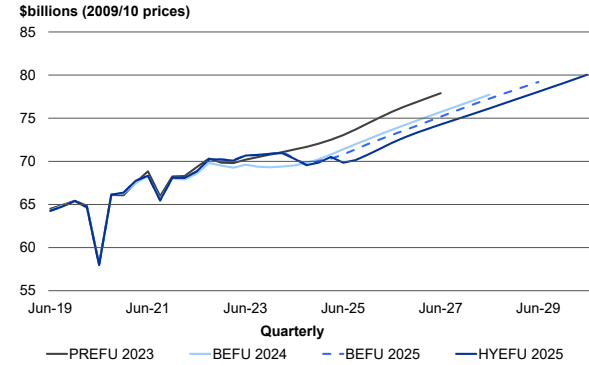
- a significant change in forecast revenue or benefits due to factors outside of the Government’s direct control
- a significant economic shock, arising for example from a natural disaster, that necessitates an increase in spending, or
- a material likelihood of constraints on the ability of monetary policy to stabilise the economy.

**Table 5 – The Government’s long-term objectives for the next 15 financial years****Budget Policy Statement 2026**

Debt	Maintain total debt at prudent levels. Once net core Crown debt is below 40 per cent of GDP, maintain it within a range of 20 per cent to 40 per cent of GDP, subject to economic shocks.
Operating balance	Maintain operating surpluses sufficient to ensure consistency with the debt objective. This will ensure that, on average, over a reasonable period of time, operating expenses are funded from operating revenues and not from debt.
Expenses	Control growth in government spending so that, over time, core Crown expenses reduce towards 30 per cent of GDP.
Revenue	Ensure the level of operating revenues is consistent with the operating balance objective and supports long-term productive economic growth.
Net worth	Ensure net worth remains at a level sufficient to act as a buffer to economic shocks.

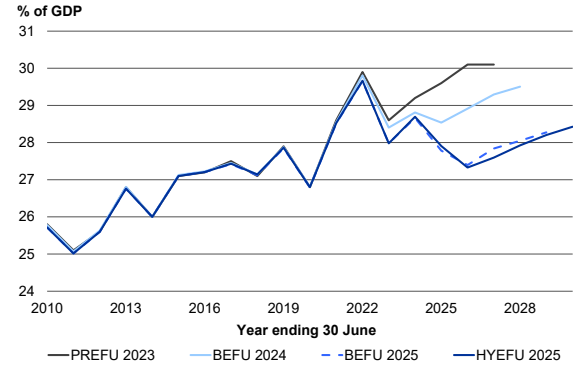
# Annex 1 – Forecast changes since PREFU 2023

**Figure A.1 – Real GDP forecasts since PREFU 2023**



Sources: Stats NZ, the Treasury

**Figure A.2 – Core Crown tax-to-GDP ratio forecasts since PREFU 2023**



Sources: Stats NZ, the Treasury

Since the PREFU in September 2023 there have been repeated downward revisions to the Treasury’s economic forecasts (Figure A.1). There are two key reasons for this. One is a better understanding of the economic downturn, which started earlier, was deeper, and has persisted for longer, than was previously understood or expected. The other is the Treasury’s evolving assessment of productivity trends. With the benefit of hindsight, earlier economic forecasts attributed too much weight to an apparent pickup in productivity during the COVID-19 pandemic that did not persist.

Forecasts of GDP drive forecasts of tax revenue, benefits and some other expenses. Figure A.2 shows how the core Crown tax-to-GDP ratio – the average tax take for each dollar of income – has been revised downwards over successive forecasting rounds. This ratio is influenced by the composition of GDP, administrative and tax policy settings, historical GDP outturns and revenue forecasts.

The fiscal impact of these downward forecast revisions can be seen in Table A.1, which explains the changes in OBEGALx forecasts between the PREFU 2023 and the HYEFU 2025. The OBEGALx forecast track is lower now than it was in 2023 largely because of economic forecasts, not because of discretionary Government policy changes.

**Table A.1** – Changes in OBEGALx forecasts between the PREFU 2023 and the HYEUFU 2025

<b>Year ending 30 June</b>		
<b>\$billions</b>	<b>2026</b>	<b>2027</b>
<b>OBEGALx – 2023 PREFU</b>	<b>1.6</b>	<b>5.3</b>
Tax revenue (excluding Budget decisions)	(11.6)	(11.2)
Benefit and New Zealand Superannuation expenses (excluding Budget decisions)	(0.4)	(0.7)
Debt impairments	(0.6)	(0.5)
Net core Crown finance costs	(0.1)	(0.7)
Emissions Trading Scheme forecast changes (net impact)	(0.6)	(0.4)
Education – forecast and depreciation changes	(0.5)	(0.6)
Budget packages and allowance changes	2.3	2.9
Baseline savings	(0.5)	(0.5)
Asset impairments	(0.5)	(0.6)
State-owned enterprise and Crown entity results	(0.5)	(0.7)
Other	(2.5)	(2.7)
<b>Total movement</b>	<b>(15.5)</b>	<b>(15.7)</b>
<b>OBEGALx – 2025 HYEUFU</b>	<b>(13.9)</b>	<b>(10.4)</b>

Source: The Treasury