

# Budget Economic and Fiscal Update 2026 Projections

## Budget Economic and Fiscal Update 2026 of the Fiscal Strategy Model (FSM)

28 May 2026

This version of the Fiscal Strategy Model uses economic and fiscal forecasts prepared for the *Budget Economic and Fiscal Update 2026* (BEFU 2026). The projection period begins in 2030/31 and extends a decade out to 2039/40. These post-forecast fiscal projections are based on the long-run technical and policy assumptions outlined in this note.

The Fiscal Strategy Model (sometimes referred to by the acronym FSM) that produces the projections can be found on the Treasury website at <https://treasury.govt.nz/government/fiscalstrategy/model>

Forecasts attempt to predict future outcomes by using wide-ranging resources, comprehensive modelling and expert opinion and knowledge. Projections, which arise from and are heavily influenced by their forecast base, are potential paths. These paths are based on trends or long-run averages for growth rates or levels of key economic, fiscal, and demographic variables, and generally assume no policy changes beyond those built into their forecast base.

### Economic projections and assumptions

**Table 1 – Main economic projections of BEFU 2026 FSM: 2030 is last forecast year 2029/30**

Fiscal Year	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Real GDP <sup>1</sup> apg <sup>2</sup>	2.51	2.31	2.24	2.16	2.11	2.08	2.05	2.02	1.98	1.93	1.91
Nominal GDP <sup>3</sup> apg	4.64	4.36	4.29	4.20	4.16	4.12	4.09	4.07	4.02	3.97	3.95
Labour force apg	1.39	1.24	1.20	1.15	1.10	1.06	1.04	1.01	0.97	0.92	0.90
Unemployment rate <sup>4</sup>	4.33	4.29	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Average weekly hours worked <sup>5</sup>	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2
Labour productivity apg <sup>6</sup>	1.07	1.05	1.02	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Consumers Price Index (CPI) inflation	2.03	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Government 10-year bond rate	4.50	4.43	4.37	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30

Notes:

- 1 Production measure, 2009/10 base
- 2 Annual percentage growth is abbreviated to apg in this table
- 3 Expenditure measure
- 4 Total unemployed as a percentage of the labour force
- 5 Total hours worked divided by the total employed labour force
- 6 Average over the four quarters of the fiscal year of annual growth in real GDP divided by total hours worked

Source: The Treasury

Most economic variables that are assumed to eventually settle at a stable annual growth rate or level in the projected years are close to these assumed values by the final forecast year. These stable growth rates or levels are based on recent actual and forecast performance. If an economic variable differs from its stable assumption in this last forecast year, then it is transitioned to attain the stable assumption over the early projected years. Most of the economic variables that are modelled in this way reach their stable growth rate or level within the first three years of the projections. Stabilising economic variables at a constant level or growth rate means that they are assumed to be unaffected by the projected fiscal variables. For example, if government capital investment was increased in a scenario this would not change the rate of projected GDP growth. This is another way in which projections differ from forecasts, for which such an effect on economic growth would be estimated.

Projected real gross domestic product (GDP) grows from its forecast base via the annual combined change in the employed labour force's size, the average hours they work and their productivity. Once the latter two and the unemployment rate have all stabilised in projected years the only variation in projected real GDP growth arises from that of the labour force. Statistics New Zealand's population and labour force projections are used in projecting out the labour force's size and annual growth.

Nominal GDP is projected by multiplying the real GDP growth by inflation, as measured by the Consumers Price Index (CPI). The stable assumption for CPI inflation of 2 percent per year matches the midpoint of the band set in the remit for the Reserve Bank of New Zealand's Monetary Policy Committee. Nominal GDP is the denominator for most major fiscal indicators, such as net core Crown debt to GDP, and its growth is used to project many fiscal variables, including tax revenue.

## **Fiscal projections and assumptions**

The FSM's principal purpose is to produce post-forecast fiscal projections, particularly of key fiscal indicators. The main indicator of financial performance, or annual flow, is the total Crown operating balance before gains and losses excluding Accident Compensation Corporation (ACC) revenue and expenses, denoted by the acronym OBEGALx. Net core Crown debt excluding the New Zealand Superannuation Fund (NZSF) and advances, usually just referred to as net core Crown debt, is the main indicator for financial position, or cumulative stock.

There are three major fiscal objectives over the projection period. One of these involves reducing net core Crown debt to below 40 percent of GDP and then keeping it within a range of 20 to 40 percent of GDP. The other two objectives are focused on flow variables at both the core Crown and total Crown levels. The first of these is maintaining surpluses for OBEGALx, a total Crown variable, sufficient to ensure consistency with the debt objective. The other is reducing core Crown expenses towards 30 percent of GDP, which also aligns with the objective concerning net core Crown debt.

The projections of the BEFU 2026 FSM for the four main scenarios modelled illustrate whether the assumptions underpinning them achieve these key fiscal objectives. The four scenarios use different assumptions about future operating and capital expenditure.

All of the scenarios project revenue, including tax, in the same manner and the amounts projected in each scenario are identical. This is true of welfare transfers, such as New Zealand Superannuation (NZS), Jobseeker Support and Accommodation Assistance, also.

The FSM projects six tax revenue categories. Source deductions and other personal income tax types are both projected using a combination of aggregate labour force growth and average hourly wage growth. Corporate tax, Goods and Services Tax (GST) and hypothecated transport taxes are each transitioned to stable percentages of GDP, based on the average for the tax type over the five forecast years and the most recent five outturn or historical years. A transition rate of 0.05 percentage points of GDP per year is used for all three tax types and once each one attains its stable percentage it then grows in line with nominal GDP in later projected years. The remaining tax types

category is projected using a combination of the growth of the working-age population (everyone aged 15 years and above) and CPI, as the main tax types in this group have inflation adjusted rates.

NZS is projected using the growth of the “65 years and above” age group as its demographic driver and average hourly wage growth as its payment indexation driver. Other welfare transfers use age and gender distributions specific to their recipient groups, which in some cases are based on Ministry of Social Development administrative data, and CPI indexation of payment rates.

A small number of other operating expenses are modelled in the same way, and produce the same projected amounts, in all scenarios. Core Crown transport and communications expenditure, of which the majority is funded from hypothecated transport taxes, is projected with the growth of this tax type. A few small sub-components of larger expense categories, such as KiwiSaver subsidies and Emissions Trading Scheme expenses, are projected using some form of modelled growth specific to them. This is because, unlike the other components of their expense category in Scenario One and Scenario Two, they are not assumed to be funded from the operating allowances.

Interest expenses, or finance costs, are projected as a function of debt levels and interest rates in all scenarios. However, the amounts projected differ amongst the scenarios due to different expenditure projections affecting the debt levels that strongly influence these interest expenses.

Apart from forecast new capital spending, where annual growth in projected years depends on the size of the capital allowances set for the scenario, all asset categories’ projections are identical for all scenarios. All scenarios apply the same modelling logic for all liability categories, although different assumptions for operating expenditure growth and capital allowance amounts do produce different profiles for borrowings projections, which in turn affect projections of net core Crown debt.

One of the few changes in the FSM’s modelling logic involves the capital allowances. In forecast years the amounts for the current and future Budgets that are at least partially represented in these years are distributed over four years in a 35%, 35%, 20% and 10% allotment. For example, if the Budget capital allowance for year X was \$4.0 billion, it is distributed as \$1.4 billion in each of years X and X+1, \$0.8 billion in year X+2 and \$0.4 billion in year X+3. Previously the projected year capital allowances put the whole amount in the designated year e.g. if year X had been a projected year, it would have received the full \$4.0 billion. For this BEFU 2026 version of the FSM the modelling of capital allowances has been changed to also follow the 35%, 35%, 20% and 10% distribution.

Scenarios One and Two continue the Budget process used in forecasts of controlling most areas of operating expenditure, other than welfare transfers, interest costs and a few exceptions listed earlier, using set operating allowances in projected years. These scenarios differ only in the starting projected amounts used for both operating and capital allowances. These are \$2.4 billion and \$5.0 billion respectively for Scenario One and \$3.1 billion and \$7.0 billion respectively for Scenario Two.

Scenarios One and Two apply 5 percent annual growth to both operating and capital allowances in projected years, and Scenarios Three and Four use this growth rate for capital allowances. Using a 5 percent growth rate for capital allowances is broadly in line with the Infrastructure Commission’s forward guidance for capital investment, as it keeps this investment relatively stable as a percentage of GDP over time. As capital investment leads to ongoing associated operating costs it is appropriate to also apply this growth rate to the projected operating allowances. With regard to the operating allowances this growth rate also acknowledges some of the pressures that an ageing population will place on several areas of public services, in particular health, over coming years.

In scenarios, like Scenario One and Scenario Two, that control the growth of most categories of operating expenditure via projected operating allowances, the expense types that are expected to derive their growth in this way are just left at their end-of-forecast levels. This is because they are not intended to be an accurate representation of the expense type in these years, but rather just to

contribute to the overall category of core Crown expenses and fiscal indicators like OBEGALx. As their growth is already captured by the projected operating allowance, it would lead to double counting if it were also built into the actual expense type's projection.

Scenarios Three and Four project the operating expenditure, that in forecast years is controlled by operating allowances, via a “bottom-up” process. The modelling applied is similar to that used in the Long-Term Fiscal Model (LTFM) that produces fiscal projections for the Long-Term Fiscal Statement. These scenarios, unlike those of the LTFM, still use capital allowances to control the growth of some asset categories in projected years. Scenarios Three and Four differ only in the starting projected amounts of \$5.0 billion and \$7.0 billion respectively that they use for the capital allowances.

Bottom-up operating expense projections are done in two ways, depending on the expense category projected. For health and education, where the expense per person can differ depending on age and possibly gender too, a combination of demographic and economic variables is used. These reflect both their historical growth and, particularly in regard to New Zealand's ageing population structure, their potential future growth under existing policy settings.

Other expense types, such as defence, where differentiating the spending among different age or gender groups is unfeasible, are transitioned to a stable percentage of nominal GDP, based on their recent history. Once this percentage is attained the expense category then grows in line with GDP.

For more detailed information about bottom-up modelling for different expenditure categories see: [The 2025 Long-term Fiscal Model: Main features and changes](#).

**Table 2 – Main fiscal projections of the BEFU 2026 FSM, as a percentage of nominal GDP**

Fiscal Year	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
OBEGALx <sup>1</sup>											
Scenario One	1.10	1.29	1.59	1.87	2.15	2.42	2.67	2.88	3.10	3.31	3.53
Scenario Two	1.10	1.16	1.33	1.47	1.61	1.74	1.84	1.91	1.97	2.03	2.10
Scenario Three	1.10	0.72	0.49	0.33	0.26	0.23	0.16	0.08	-0.01	-0.10	-0.18
Scenario Four	1.10	0.71	0.48	0.30	0.22	0.18	0.10	0.00	-0.11	-0.21	-0.30
Net core Crown debt											
Scenario One	44.4	42.5	40.4	38.1	35.6	32.9	30.1	27.1	24.1	20.9	17.7
Scenario Two	44.4	42.7	41.1	39.5	37.8	36.1	34.3	32.5	30.7	28.9	27.2
Scenario Three	44.4	43.0	42.0	41.2	40.5	39.8	39.2	38.7	38.3	38.0	37.8
Scenario Four	44.4	43.2	42.4	41.9	41.5	41.2	40.9	40.8	40.8	40.8	41.0
Core Crown revenue <sup>2</sup>	31.4	31.2	31.1	31.1	31.0	31.0	31.0	30.9	30.9	30.9	30.9
Core Crown expenses											
Scenario One	30.3	29.9	29.6	29.2	28.9	28.6	28.4	28.1	27.9	27.6	27.4
Scenario Two	30.3	30.1	29.8	29.6	29.5	29.3	29.2	29.1	29.0	28.9	28.8
Scenario Three	30.3	30.5	30.7	30.8	30.8	30.8	30.9	31.0	31.0	31.0	31.1
Scenario Four	30.3	30.5	30.7	30.8	30.9	30.9	31.0	31.0	31.1	31.2	31.2

Notes:

1 Total Crown operating balance before gains and losses excluding ACC revenue and expenses

2 Core Crown revenue is identical for all four scenarios

Source: The Treasury