The Treasury

Budget 2026 Information Release

September 2026

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Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

[1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government

[2] 6(b)(i) - to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government

[4] 6(c) - to avoid prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

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

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

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

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

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

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

[25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

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

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

[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

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

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

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

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

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

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TE TAI ŌHANGA
THE TREASURY

Reference: T2025/2519 MC-1-5-2-2026-M128457

Date: 2 October 2025

To: Minister of Finance
Hon Nicola Willis

Deadline: 6 October 2025

Aide Memoire: Core Crown Expenses Modelling

Purpose

This aide memoire responds to a request from Minister Seymour at the Budget Ministers meeting on 24 September 2025 to model what would be required to get core Crown expenses down to 28% of GDP by the end of the current forecast period (2028/29). We are providing this information for you to refer to Minister Seymour ahead of the next Budget Ministers meeting on 6 October 2025.

Current forecasts have core Crown expenses at 30.9% of GDP in 2028/29

In the Budget Economic and Fiscal Update (BEFU) 2025 core Crown expenses were forecast to be 32.7% of GDP ($142.2 billion) in 2024/25 before falling to 30.9% of GDP ($162.0 billion) in 2028/29.

Reducing core Crown expenses to 28% of GDP by 2028/29 would mean an additional reduction of $15.2 billion of spending compared to current forecasts for 2028/29

Core Crown expenses of 28% of GDP in 2028/29 would be $146.8 billion based on BEFU GDP forecasts. This would mean an additional reduction of $15.2 billion or a 9.4% cut in core Crown expenses compared to current forecasts.

The table overleaf gives an indication of the effect of reducing core Crown expenses on other key fiscal indicators at the end of the forecast period if the reduction were phased evenly across 2026/27 to 2028/29.

Table 1: Indicative impact of reducing core Crown expenses to 28% of GDP on key fiscal indicators in 2028/29, assuming no other changes relative to BEFU forecasts

Fiscal indicator	BEFU 2025 forecast	Indicative scenario of reducing core Crown expenses to 28% of GDP
Core Crown expenses	$162.0 billion 30.9% of GDP	$146.8 billion 28.0% of GDP
Net core Crown debt	$238.5 billion 45.5% of GDP	$208.6 billion 39.8% of GDP
OBEGALx	$0.2 billion 0.0% of GDP	$15.4 billion 2.9% of GDP

Achieving this would require significant cuts to government services

Table 2: Indicative savings required per annum

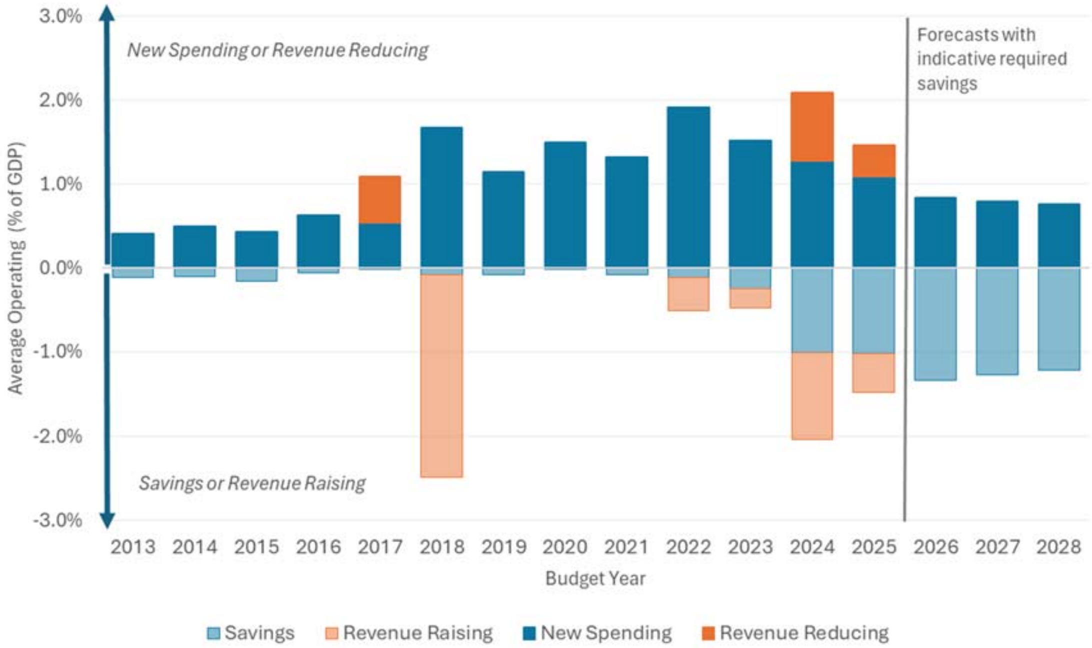
Existing allowances	$2.4 billion p.a.
Reduction in allowances required relative to forecasts to reach 28% of GDP by 2028/29	$4.8 billion p.a.
Effective allowances	**-$2.4 billion p.a.**
Indicative funding pressures	$4 billion p.a.
Indicative savings required	**$6.4 billion p.a.**

Extrapolating from Budget 2026, there are indicatively around $4 billion of spending pressures per annum each Budget to meet coalition commitments, core service delivery, new initiatives in priority areas, and the operating costs associated with capital investments. You currently have allowances of $2.4 billion, which means you need to find savings of approximately $1.6 billion on average per annum each Budget to live within current allowances and fund these pressures.

Indicatively, relative to current forecasts, an evenly phased expenditure reduction to get core Crown expenses to 28% of GDP by 2028/29 would mean finding additional ongoing annual operating savings of approximately $4.8 billion each Budget from 2026/27 to 2028/29 ($14.3 billion total).[1] This would mean a -$2.4 billion allowance each year. If you funded the expected $4 billion pressures each year, this would mean that $6.4 billion of savings per Budget would be required to reduce core Crown expenses to 28% of GDP and deliver on your priorities. This is equivalent to sustaining a slightly higher level of savings than in the last two Budgets and a lower level of new spending (Figure 1).

[1] Additional reductions in core Crown expenses would come from lower debt financing costs, bridging the difference between the $14.3 billion of operating savings and the total $15.2 billion reduction required to bring core Crown expenses to 28% of GDP.

Figure 1: Budget initiatives (excluding the COVID Response and Recovery Fund) as a share of GDP from 2013-2025 and indicative savings required for core Crown expenses to reach 28% by 2028/29



Achieving $14.3 billion of additional spending cuts by 2028/29 would require reductions in service delivery and trade-offs with your policy commitments. To put this in context, core Crown spending in 2028/29 in large spending areas is currently forecast to be:

- $34.3 billion for health.
- $29.0 billion for New Zealand Superannuation (NZS).
- $25.4 billion for welfare (excluding NZS).
- $21.2 billion for education.

While there are different ways you could reduce expenditure across portfolios, these numbers illustrate the scale of the cuts required to reach 28% of GDP by the end of the forecast period. Consolidation on this scale and at this pace would mean relying on changes to policy settings that would deliver savings quickly, such as reducing or removing transfers and subsidies. This contrasts with current work on medium-term expenditure strategy, which is reliant on a medium-term trajectory to manage cost pressures down over time through policy changes in large spending areas.

To reduce the level of savings required in future Budgets, you could constrain new spending, which would reduce the size of the pressures on future allowances. This would likely involve trade-offs with your recent commitments to increase spending in priority areas. The pressures expected on future allowances include:

- [1] and [33]

- Net law and order operating funding has been around $250-300 million per annum in the last few Budgets. Growth in the prison population has been a significant driver of the new funding, and it is likely that a change to justice system settings would be needed to materially reduce prison population and sector funding pressures.
- Education funding (including tertiary) in recent Budgets has typically been between $400-600 million net operating per annum, with the majority of funding going towards addressing cost pressures. Almost all choices that would materially reduce future education spend would require structural reforms and/or material cuts to current services.
- There are typically $1.2-1.4 billion of cost pressures in health each year, with limited scope to reduce this without fundamental changes in policy settings or service levels.

Reducing spending by temporarily managing down cost pressures, rather than through reform of the underlying policy settings, would see these pressures accumulate in the future, alongside demographic pressures and other upside risks to spending, such as increased spending on NZS.

Increasing the pace of consolidation would mean weighing up the impacts on economic growth, public service delivery, and the cost of debt

This modelling is indicative only and does not include any feedback loops from reducing core Crown expenditure. Reducing core Crown expenses to 28% of GDP by 2028/29 would substantially increase the pace of the current fiscal consolidation. While this would mean lower debt financing costs and an improved fiscal position, consolidations typically result in short-term output losses relative to the prior period due to the impact on aggregate demand. If reducing core Crown expenses at this pace resulted in lower GDP, the overall expenditure consolidation required to reach 28% of GDP would be larger.

The impact on GDP would depend on several factors, including the speed of the reduction, the degree to which the additional expenditure reductions reduced aggregate demand, and the timing of the impact relative to the position in the economic cycle. One of the main factors that would determine the short-term impact on aggregate demand is whether the reduction in expenses was accompanied by tax cuts that boosted aggregate demand, or whether the surpluses were used to pay down debt. Clearly signalling a change in the fiscal strategy in advance would allow more time for monetary policy to adjust to offset any negative impact on aggregate demand.

In the long term, consolidations can have a positive impact on economic growth relative to the counterfactual without consolidation, but they can also be self-defeating (meaning that more consolidation is required overall) if the consolidation reduces potential GDP. Self-defeating consolidations can happen through hysteresis effects in the labour market and prolonged weak investment that results in a lower capital stock.

For this reason, gradual consolidations that phase reductions in expenditure over time are generally recommended. The Treasury has previously advised that a consolidation that uses a range of policy measures (expenditure, revenue, and the balance sheet) at a measured pace is preferable (T2025/684 and T2025/1119 refer).

Amy Spittal, Analyst, Macroeconomic and Fiscal Policy, [39]
Neil Kidd, Principal Advisor, Macroeconomic and Fiscal Policy, [39]