The Treasury

Budget 2026 Information Release

September 2026

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[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

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Considering a loan guarantee scheme to support the gas transition

Date:	4 December 2025	**Report No:**	T2025/2972
		File Number:	SH-11-5-1-2-2-M132003

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Indicate** if you want officials to progress work on a loan guarantee scheme and/or direct funding measures	15 December 2025

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Isabelle Hermes	Senior Analyst, Climate, Energy and Resources	[39]	[35]	✓
John Marney	Manager, Revenue and Economic Development			

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer the report to the Minister for Energy and the Minister for Regional Development.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Considering a loan guarantee scheme to support the gas transition

Executive summary

Faster-than-expected decline in gas supply and rising prices are creating significant challenges for some businesses. Unlike COVID-19 or the North Island Weather Events (NIWE), this issue is likely to have longer-term implications, as New Zealand’s high-volume, low-price gas market is unlikely to return.

We have previously advised that we did not see a strong case for government intervention at this point in time to support widespread adjustments at the firm or industry level [T2025-2769 refers]. We highlighted several concerns, including the risk of setting a precedent, distorting market dynamics, and the potential unintended consequences associated with an accelerated transition. However, given the ongoing uncertainty in the energy and gas sector, there is a judgment about whether targeted support would have merits.

You requested further advice on a loan guarantee scheme in this context. In addition, the Ministry of Business, Innovation and Employment (MBIE) has provided the Minister for Energy with advice on other potential industrial support measures. While our advice focuses primarily on a loan guarantee scheme, we have also included an assessment of a direct funding option – such as grants, concessional loans, and rebates – as a comparison to support your decisions.

Of the two approaches considered, we generally prefer a loan guarantee scheme. This option promotes commercial discipline and minimises market distortions. Although direct funding measures could potentially have a greater impact on accelerating investment in the gas transition, it would likely involve higher fiscal costs and has a much higher risk of crowding out private investment. Given Treasury’s view that the case for any intervention is not particularly strong, we are not convinced that a direct funding approach is justified.

If you wish to pursue firm and industry-level support, we recommend that officials engage with banks and selected energy sector stakeholders to better understand the likely impact and the effectiveness of a loan guarantee scheme. If your objective is to accelerate the transition and you are concerned that a loan guarantee scheme may not provide sufficient certainty of this, you could also ask officials to explore direct funding measures as a possible complementary or alternative approach. We suggest that the Treasury take the lead on providing further detailed advice regarding a loan guarantee scheme. MBIE could lead the development of advice on direct funding measures, if you want more work on this.

Treasury Report: Considering a loan guarantee scheme to support the gas transition

Purpose of Report

1. This report responds to your request for advice on a loan guarantee scheme following the energy discussion at the Weekly Agency Meeting (WAM) on 5 November. It seeks your direction on whether you would like us to proceed with this work.

Background

2. Some firms are facing pressure and potential closure as a result of faster-than-expected decline in gas supply and rising prices. Unlike COVID-19 or the North Island Weather Events (NIWE), this is unlikely to be a short-term shock, as New Zealand's high-volume, low-price gas market is unlikely to return. This would remain true even if Ministers opted to progress with procuring infrastructure for LNG importation.

3. In response to rising gas prices, some firms may be able to switch to alternative energy sources, such as electrification or biofuels. The feasibility of fuel switching will depend on both the economic viability of switching as well as any physical constraints. In addition to potentially reducing costs for firms, fuel switching could enable the reallocation of gas to higher value uses or firms that cannot switch as easily. Energy efficiency projects that reduce gas consumption could also be viable options for some businesses which could also enable such reallocation.

4. High upfront capital costs have been identified as the main barrier for fuel switching. A survey of 55 businesses by Optima found that 32 businesses considered they could transition to alternative fuels within five years with appropriate support, particularly through capital assistance (e.g. co-funding, grants, rebates, or low-interest loans). Other barriers to transitioning away from gas include faster consents, better electricity infrastructure, lower electricity prices, and support for local biomass markets. Optima estimates that supporting the surveyed 32 firms in transitioning could free up to 5 PJ of gas annually (approximately 5% of the forecast total gas production in 2026[1], or 20% of industrial use excluding Methanex and Ballance)[2].

5. There is a broader cross-government programme of work around the gas transition, primarily focused on supply-side interventions. Key elements of this include:

   i. **The Ministry of Business, Innovation and Employment's (MBIE) gas security work programme**. This aims to maximise the use of New Zealand's natural gas resources and alternative energy sources, and improve gas market transparency.

   ii. **Addressing regulatory barriers**, such as streamlining consenting for low emissions technologies as part of Resource Management reform and the Electricity Authority's work on streamlining electricity grid connections and Code amendments to reduce barriers for new electricity connections.

[1] Total forecast gas production for 2026 is approximately 100 PJ.
[2] In 2024, industrial users (excluding Methanex and Ballance) consumed 25% of total gas supply.

6. There are some existing initiatives to provide more general support for businesses, including the Budget 2025 Investment Boost which provides a 20% depreciation on new assets. Firms are also able to access information and support from the Energy Efficiency and Conservation Authority (EECA) who provide energy assessments, feasibility studies, and audits. It also offers limited co-funding for demonstration and pilot projects like high-temperature heat pumps and biomass collection facilities. Separately, Cabinet has also recently agreed to changes in industrial allocation settings to provide greater certainty for affected firms.

7. In addition, the private sector is taking action on its own to support industry transition. For example, Contact Energy recently invited commercial and industrial consumers to explore switching to renewable electricity through a Registration of Interest (ROI). [37]

Considering additional government intervention

8. Overall, we support market-led approaches to drive efficient resource and capital allocation across time. We consider government intervention should be limited to specific circumstances, such as addressing market failures, improving coordination, enhancing dynamic efficiency, or achieving equity objectives [T2025-2769 refers].

9. We previously advised that we did not see a strong case for significant government intervention at this point in time to support widespread firm and industry-level adjustments [T2025-2769 refers]. We raised concerns such as the risk of setting a precedent, distorting market dynamics, and the potential unintended consequences associated with accelerated switching.[3] However, given the ongoing uncertainty in the energy and gas sector, there is a judgment about whether targeted support would have merits.

10. If you wish to pursue demand-side interventions (e.g. financial support at firm or industry-level), the first step is to clearly define the primary objective of the intervention. **We recommend any additional Government intervention should focus on facilitating investment in the gas transition, targeted specifically at firms with viable transition pathways**. This has the potential to help ease gas supply pressures, improve affordability and free up gas for critical industries and those unable to switch.

11. We see a less robust case for broader financial supports as:

    i. current challenges in the gas market are unlikely to be short-lived and so providing broader support (e.g. subsidising operating profits) is unlikely to resolve the underlying issues affecting these firms' long-term commercial viability (it may help smooth the number of firms exiting at one point in time, and at short notice)

    ii. it risks locking key inputs to production (capital and labour) in firms that are still ultimately likely to close and therefore slow down the adjustment of the economy.

[3] The risk associated with accelerated switching can be mitigated by excluding large industrial firms from the scheme, which consume the majority of total gas supply.

Analysis of options for firm or industry-level support

12. You and the Minister for Resources have expressed interest in understanding how a loan guarantee scheme might work. MBIE has also advised the Minister for Energy on other potential industrial fund support options, including a connection costs fund to address the electricity upgrades needed for industrial users to connect to the electricity network. While the focus of our advice is on a potential loan guarantee scheme to support businesses with the gas transition, we have included an assessment of a potential direct funding option – which could include various different mechanisms such as grants, concessional loans and rebates – as a comparator to support your decisions. There's a separate MBIE workstream which considers critical goods in the supply chain that rely on gas, so this topic is not covered in this advice.

13. Of the two options discussed in this paper, **we are more supportive of a loan guarantee scheme** as this leverages commercial discipline and reduces market distortions. While direct funding may have a greater impact on accelerating investment in the gas transition, it would likely involve a higher fiscal cost and has significant risks of crowding out private investment. Note that the options are not mutually exclusive, but implementing both simultaneously would require careful consideration. Given Treasury's view that the case for any intervention is not particularly strong, we are not convinced that a direct funding approach is justified.

14. If you are interested in progressing firm and industry-level support, we recommend engaging with banks and selected energy sector stakeholders on a loan guarantee scheme to understand the appetite for the scheme and likely effectiveness. If you wish to prioritise a higher degree of certainty around accelerating investment in the gas transition, then you could also ask officials to explore direct funding measures as a complementary or alternative approach. We suggest that the Treasury take the lead on providing further detailed advice regarding a loan guarantee scheme. MBIE could lead the development of advice on direct funding measures if you wanted further work on this – MBIE is supportive of this approach.

15. A summary of the benefits and drawbacks of the two options as well as the status quo is provided in **Annex A**.

Option 1: Loan guarantee scheme[4]

16. A loan guarantee scheme is a financial mechanism where a government provides a guarantee to lenders (e.g. banks) that it will cover a portion of the losses if a borrower defaults on their loan. The guarantee allows lenders to transfer risk from borrowers to the Crown, enabling them to assign the Crown's risk rating to borrowers. This improves risk weighting and reduces the capital required for loans. As a result, lenders can lower interest rates, easing the debt servicing burden for borrowers and potentially enabling them to take on higher levels of debt. It can also encourage lending in a range of circumstances, helping firms navigate cashflow uncertainty and enabling longer-term loans. [27]

[4] The analysis focuses primarily on a delegated bank-led scheme such as the loan guarantee schemes implemented in response to COVID-19 and NIWE. The next section on design choices also considers an alternative bespoke model which we can provide further advice on.

17. A loan guarantee scheme could support businesses either by:

   i. focussing on lending for *new* investments, and/or

   ii. allowing refinancing for *existing* lending.

18. We think that a scheme focussed solely on facilitating borrowing for *new* investments better aligns with our objective of facilitating investments in the gas transition.

19. There may be an option to allow a portion of each loan to be used for refinancing existing debt. This could support the cashflow and debt headroom of businesses with viable transition pathways that are actively investing in transition. Such option would need careful consideration given the moral hazard risk associated with underwriting existing lending at a potentially higher fiscal cost.

20. A loan guarantee scheme has several **advantages** relative to other interventions:

   i. it is more strongly aligned with a **market-led approach** as it can leverages bank's commercial discipline and avoids the Government 'picking winners'

   ii. since it retains a **strong role for commercia**l decision-making, it is more likely to limit (but not eliminate) market distortions and mitigate precedent risk in respect of direct Crown support, and

   iii. it can be tightly defined in its scope regarding eligibility criteria and availability and can be reasonably **quick** to implement.

21. The key **limitations and risks** associated with a loan guarantee scheme include:

- **Market distortions:** A loan guarantee scheme can incentivise banks to prioritise guaranteed loans over other potentially more productive investments, which can reduce allocative efficiency. Clear eligibility criteria, risk sharing, and limiting the guarantee's scope may mitigate these effects, but market distortions are still possible.

- **Moral hazard:** banks or borrowers may take on excessive risks, relying on government guarantees to cover potential losses, leading to inefficient allocation of resources and higher default rates. Requiring banks to retain a portion of the risk, such as 20%, ensures they have a stake in the loan's performance, encouraging prudent risk management. This risk is higher if the scheme included refinancing existing debt as it could result in the Crown guaranteeing non-performing loans, effectively subsidising banks when businesses fail and encouraging future risky lending in expectation of a future guarantee scheme.

- **Uptake risk:** Limited credit demand and low lender risk appetite may constrain lending volumes and therefore the scheme's impact. Unlike the Business Finance Guarantee Scheme (BFGS) and NIWE schemes which addressed short-term uncertainty, gas sector challenges are long term, requiring confidence in businesses' viability under higher input costs. In addition, businesses may be unable to service additional debt, even at favourable rates.

22. Engaging with banks is essential to assess appetite in the scheme, identify suitable borrowers, and determine the likely effectiveness. MBIE considers that there may be

around 100 businesses that have an annual gas use between 10,000 and 300,000 GJ that may be suitable.[5] It is uncertain whether these firms would be able to switch, are financially viable and capable of taking on more debt. This could be tested through bank and selected industry engagement.

Design choices

23. Subject to your decision to proceed, we would engage with banks on the following design choices before providing you with further advice on detailed design:

- **Models:** The scheme could be:

  i. *Delegated*, which would involve the Government setting lending terms while banks make independent decisions, supported by risk-sharing mechanisms. It is cost-effective, scalable, avoids government involvement in commercial decisions, and uses banks' incentives to manage fiscal risks. However, impact on lending may be limited if banks are concerned about the long-term viability of firms, or

  ii. *Bespoke*, such as a modified NZ Export Credit Office (NZEC) model. This could support additional lending but would be limited in scale due to the administering agency's capacity (e.g. up to 50 firms based on NZEC experience). The agency would assess applications on behalf of the Crown, allowing the Crown to retain decision-making rights while enabling more targeted and flexible support (e.g. guarantee levels and tenor). Banks submit applications, maintaining commercial discipline.

- **Eligibility criteria:** Subject to consultation, we suggest prioritising industrial firms with annual gas consumption between 10,000-300,000 GJ that have a clear path to restored cashflow and capacity for transition-related debt. We suggest excluding larger or diversified firms able to manage independently.

- **Terms:** The terms of the scheme would need to be negotiated, including tenor (a longer tenor of intervention may be necessitated given the time horizon required to pay for additional capital expenditure), risk sharing, availability period, maximum liability, limits on each loan, maximum lender limits, exclusion criteria, and monitoring and reporting requirements. We recommend that these parameters are kept reasonably open at this stage subject to engagement with the banks.

- **Fees**: The Crown could consider a risk-based fee, like the NZEC scheme, to reduce fiscal costs. While this may lower rate reductions under a delegated scheme (reducing the benefits for firms), it could address corporate welfare concerns and encourage businesses to exit the guarantee sooner. Previous schemes like NIWE and BFGS did not impose fees, but these were responses to shocks. Given the longer-term nature of this intervention, a fee may be appropriate. For instance, an exporter recently released an NZEC guarantee after recovering from Cyclone Gabrielle but retained their free NIWE guarantee.

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[5] Targeting firms with annual gas use between 10,000 and 300,000 GJ would exclude large energy users that can manage on their own, as well as firms where gas use is very small. Data at the firm level is based on EECA's RETA data with 2022 year as the base year so actual consumption for individual firms will be different in 2025/26.

Financial Implications

24. The financial implications will depend on the size of the scheme and the expected credit loss. Further engagement with banks is necessary to determine this.

25. A contingent liability reflecting the guarantee's face value would have to be disclosed in the Economic and Fiscal Updates. This would have no impact on the operating balance or net debt. A provision for the expected credit loss (ECL) would need to be recorded in the financial statements of government and would directly impact the operating balance (but no direct impact on net debt). Cost of claims in the event of credit defaults would impact net debt. Administrative costs, credit loss provisions, and default payments would have fiscal implications. While previous schemes were managed by the Treasury, there is currently no funding or resources available to administer another scheme. Funding would need to be allocated through Budget 2026. We will include a placeholder bid in the Budget package, pending further decisions on whether to proceed.

26. The BFGS supported around 4,000 businesses with an ECL of $79.362 million as of 30 June 2021, with a four-year claim rate of 1.09% by loan numbers and 0.45% by dollar value. In comparison, the NIWE scheme supported 500 companies with an ECL of $105.394 million as of 30 June 2024, and a one-year claim rate of 0.34% by loan numbers and 0.02% by dollar value.[6] A loan guarantee scheme for the gas transition is expected to be significantly smaller in size and cost.

Option 2: Direct funding

27. An alternative option to accelerate investment in the gas transition would be to introduce a mechanism to provide direct funding to affected firms. The benefits include:

    i. **Targeted support**: Direct funding allows the government to allocate resources to firms or projects that align with strategic priorities. Government has greater control over what is invested in and how the money is used.

    ii. **Greater uptake**: Direct funding provides firms with upfront capital, including in circumstances where banks wouldn't lend, which can make it easier for firms to invest in alternative technologies. Given that high upfront capital costs are the largest barrier to switching, direct funding may be more effective than loan guarantees in encouraging firms to transition.

28. However, we think the **limitations and risks** are greater than those of a loan guarantee scheme. Direct funding is likely to be more distortionary due to:

- higher fiscal cost (but scalable) and, consequently, a greater opportunity cost
- increased risk of crowding out private investment, potentially undermining market efficiency and long-term economic resilience
- requiring the Government to 'pick winners' and a greater risk of supporting non-viable firms.

[6] The ECL provision has subsequently reduced for both the BFGS and NIWE schemes. The reduction is in the ECL is driven by factors such as borrowers repaying their supported loans to their lenders, some claims being paid out, changes in the probability of default and discount rates.

29. Some risks could be partly mitigated through design, such as requiring significant industry contributions in co-funding arrangements to promote commercial discipline.

Design Choices

30. Funding could be provided through repayable or non-repayable grants, concessional loans, rebates, co-funding arrangements, or other instruments. These could be delivered through an existing fund, such as the Regional Infrastructure Fund (noting its limited remaining resources), or through the creation of a new dedicated fund.

31. MBIE has provided advice at the request of the Minister for Energy on a potential fund to address connection costs and barriers for industrial users transitioning to electricity. This would focus on projects where multiple users can benefit from network upgrades, which could help improve dynamic efficiencies and coordination. However, its limited scope may not address the broader barriers that businesses face.

32. A recent industry-funded BCG report proposed a $100-200 million Industry Resilience Fund to support low-cost fuel switching to biomass and electricity via a competitive reverse auction (lowest cost per GJ bid). While this approach aims to fund cost-effective projects, risks include smaller firms struggling to compete, poorly executed or underfunded projects, and funding potentially going to those least in need.

33. If you are interested in direct funding measures, we suggest MBIE leads the development of advice on mechanisms, design choices and financial implications.

Next steps

34. If you wish for work to be progressed on a loan guarantee scheme, the next step is for us to engage with banks and selected industry stakeholders on the appetite, effectiveness, and design of the scheme. Further advice can follow this engagement.

Indicative timeline for a loan guarantee scheme

February	Bilateral engagements with banks and selected industry stakeholders to assess their interest, potential customers, and the benefits of a guarantee
Late February	Detailed advice including recommendations on the scheme design and financial implications, as well as advice on the public interest test required by 65ZD of the Public Finance Act
March	Further engagement with banks on the final terms
April	A Cabinet paper seeking approval for the scheme
May / June	Implementation, including the provision of a Statement of Indemnity to the House of Representatives

Recommended actions

We recommend that you:

a **Note** that of the two options covered in this paper, Treasury officials are more supportive of a loan guarantee scheme which has less risk of crowding out private sector investment

b **Indicate** whether you would like officials to engage with banks and selected energy sector stakeholders on a loan guarantee scheme and provide further advice on the design, size and effectiveness of a scheme

Yes/No

c If you are interested in direct funding measures as a complementary or alternative approach, **engage** with the Minister for Energy to direct MBIE to undertake this work

Yes/No

d **Agree** that any Government intervention should focus on facilitating investment in the gas transition, targeted specifically at firms with viable transition pathways

Agree/Disagree

e **refer** the report to the Minister for Energy and the Minister of Regional Development

Refer/Not referred

f **Note** that we have consulted MBIE on this paper.

John Marney
Manager, Revenue and Economic Development

Nicola Willis
Minister of Finance

_____/_____/_______

Annex 1: Comparison of options

The table below sets out the key benefits and drawbacks for the options discussed.

Option	Benefits	Drawbacks
Status Quo (including existing support and work programmes)	• Preserves existing price signals and less likely to lead to market distortions from government intervention • No additional funding requirements	• Risk of economic disruption and unintended consequences in the transition period, depending on how capital and labour are re-allocated within the economy.
Loan Guarantee Scheme	• May help accelerate investments especially because the scheme is temporary • Is more aligned with a market-led approach and limits market distortions • Leverages commercial discipline • Can be tightly defined in terms of the eligibility and scope • Mitigates precedent risk of upfront Crown support • Lower upfront cost and likely less expensive overall (subject to risk exposure/defaults)	• Uncertainty regarding the extent of uptake and how much it would contribute to easing gas transition pressures • Fiscal costs (cost of claims and administrative costs) • Risk of unintended consequences • Precedent risk of further demand for loan guarantee schemes, and associated moral hazard
Direct funding measures (e.g. concessional loans, grants)	• Greater uptake, therefore switching could take place sooner and free up gas for critical users earlier than forecast • Includes the form of transition support that has been most requested by surveyed businesses (co-funding). • Could allow more targeted interventions	• Requires Government to pick winners, greater likelihood of market distortions and inefficiencies • Risk of crowding out private investment • Larger upfront cost and overall likely to be more expensive • Depending on design, may limit price signals and may prop up firms that are unlikely to be viable long term • Risk of unintended consequences • Precedent risk of creating expectations of upfront capital support for struggling industries