



# ECONOMIC BULLETIN

Half-Year Economic and Fiscal Update,  
December 2025.



16 Dec 2025 | **Darren Gibbs**, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

## Less debt now, more debt later.

- The HYEFU revealed a modestly weaker economic and fiscal outlook but with a smaller near-term funding requirement.
- The Treasury now expects an OBEGALx deficit of \$13.9bn this year (up from \$12.1bn previously).
- Given a forecast of relatively tight control of spending, this measure is forecast to return to a small surplus in 2029/30 – a year later than forecast previously.
- Following a review, the NZDM have decided to reduce the Crown’s minimum liquidity buffer by \$5bn to \$10bn, to be phased in over two years.
- Accordingly, NZDM has reduced this year’s NZGB programme by \$3bn to \$35bn. Given the reduced funding requirement, there will be no further tap syndication this fiscal year.
- Next year’s debt programme has also been reduced by \$2bn but issuance in 2027/28 and 2028/29 have been raised by \$4bn each, reflecting the weaker underlying fiscal position.
- Net core Crown debt is expected to peak at 46.9% of GDP in 2027/28 and decline to 46.1% of GDP by 2029/30 – still well above the long-term target of 20-40% of GDP.

Today the Government released the Half-Year Economic and Fiscal Update (HYEFU) and Budget Policy Statement (BPS). The HYEFU updated the economic and fiscal forecasts set out in Budget 2025 – including the addition of a first forecast for the 2029/30 fiscal year – whereas the BPS set out the Government’s priorities for Budget 2026 and its long-term fiscal objectives.

In summary, the HYEFU portrayed a slightly weaker underlying fiscal outlook compared to Budget 2025. While the Government’s near-term funding requirement is a little lower than forecast in the Budget, its longer-term funding needs are a little higher than forecast previously. A slightly weaker macroeconomic outlook means the return to an OBEGALx surplus is further delayed by one year to 2029/30 (the Budget had forecast a negligible surplus of \$0.2bn in 2028/29).

### Return to surplus delayed by another year.

Table 1 sets out some of the key fiscal metrics updated in the HYEFU, comparing these to the forecasts made in Budget 2025.

An operating deficit (OBEGALx) deficit of \$13.9bn (3.0% of GDP) is now forecast for the current 2025/26 fiscal year, compared to the \$12.1bn deficit forecast at Budget time. While core Crown spending is tracking slightly below forecast, core Crown tax revenue and core Crown non-tax revenue is expected to fall slightly short of the Budget forecast. The forecast core Crown residual cash deficit for 2025/26 – which drives the bond programme – of \$14.8bn is just \$0.3bn larger than forecast in the Budget. However, this follows a final 2024/25 deficit that was around \$4.0bn smaller than forecast in the Budget due mostly to lower-than-expected capital outlays.

Thereafter, as revealed by the Minister ahead of the HYEFU, the Government is continuing to plan on very

Table 1: Key fiscal metrics

	24/25	25/26f	26/27f	27/28f	28/29f	29/30f
<b>Core Crown spending \$bn</b>						
Budget 2025	142	150	153	157	162	n/a
HYEFU	142	149	153	158	162	171
<b>Core Crown tax revenue \$bn</b>						
Budget 2025	121	125	133	140	148	n/a
HYEFU	122	124	132	140	148	157
<b>OBEGALx \$bn*</b>						
Budget 2025	-10.2	-12.1	-8.1	-3.1	0.2	n/a
HYEFU	-9.3	-13.9	-10.4	-5.1	-0.9	2.3
<b>OBEGALx % of GDP*</b>						
Budget 2025	-2.3	-2.6	-1.7	-0.6	0.0	n/a
HYEFU	-2.1	-3.0	-2.2	-1.0	-0.2	0.4
<b>OBEGAL % of GDP*</b>						
Budget 2025	-3.4	-3.4	-2.5	-1.3	-0.6	n/a
HYEFU	-3.2	-3.7	-2.7	-1.5	-0.6	0.0
<b>Net core Crown Debt (% of GDP)</b>						
Budget 2025	42.7	43.9	45.7	46.0	45.5	n/a
HYEFU	41.8	43.3	46.0	46.9	46.9	46.1

\* ex minority interests, OBEGALx excludes ACC spending and revenues.

Source: NZ Treasury, Westpac

skinny allowances for new operational spending of just \$2.4bn per year from Budget 2026 onwards (as a proportion of overall expenditure, the operating allowance is around half the average size seen over the past two decades). After pre-commitments (including in the health sector) and assumed other non-discretionary spending (given current policy settings), the Government only has only around \$1bn available to fund all new initiatives and other cost pressures at Budget 2026. Any further initiatives will need to be funded by savings or new revenue sources.

Given the tight assumption for growth in core government spending – which is forecast to decline from 32.8% of GDP in 2025/26 to 30.5% of GDP by 2029/30, the OBEGALX deficit is forecast to only gradually improve so that a small surplus of \$2.3bn (0.4% of GDP) is achieved in 2029/30 – a year later than forecast in the Budget.

In judging the impact of fiscal policy, the RBNZ tends to focus on developments in Government spending as a share of GDP, which as noted is expected to decline over time. A more complete proxy of the first-round impact of fiscal policy on aggregate demand can be obtained from the Treasury’s estimate of the Total Fiscal Impulse (TFI), which is set out in Table 2.

The TFI is a cash-based measure of both fiscal outlays and revenues, that adjusts for some items that do not directly affect aggregate demand (such as defence spending on imported equipment). Noting that there have been some revisions to recent estimates, the Treasury’s updated TFI estimates imply that fiscal policy was contractionary (rather than expansionary) in 2024/25 and will be expansionary (rather than broadly neutral) in the year now half completed. Thereafter, fiscal policy returns to a contractionary stance.

Table 2: Fiscal Impulse (% of nominal potential GDP)

	24/25	25/26	26/27	27/28	28/29	29/30	Cumulative (24/25-28/29)
Budget 2025	0.52	0.18	-1.06	-1.34	-0.86	n/a	-2.55
HYEFU	-0.35	1.32	-0.45	-1.82	-0.95	-0.86	-2.24
<b>Difference</b>	-0.87	1.14	0.61	-0.52	-0.11	n/a	0.31

Source: NZ Treasury, Westpac

Table 3: NZ Government financing requirement (\$bn)

	24/25	25/26f	26/27f	27/28f	28/29f	29/30f
<b>Bonds</b>						
Budget 2025	43.0	38.0	36.0	30.0	28.0	n/a
<b>HYEFU</b>	<b>42.6</b>	<b>35.0</b>	<b>34.0</b>	<b>34.0</b>	<b>32.0</b>	<b>30.0</b>
Difference	0.0	-3.0	-2.0	4.0	4.0	n/a
<b>Short-term borrowings</b>						
Budget 2025	15.0	18.0	18.0	15.0	13.0	n/a
<b>HYEFU</b>	<b>14.5</b>	<b>13.0</b>	<b>18.0</b>	<b>15.0</b>	<b>13.0</b>	<b>13.0</b>
Difference	0.0	-5.0	0.0	0.0	0.0	n/a

Source: NZ Treasury

### Borrowing programme: less now, more later.

The changes to the fiscal outlook, including the better-than-expected 2024/25 cash outturn, have led to a slight rejigging of the Government's forecast borrowing programme (see Table 3).

Following a review, NZDM have reduced the size of the Crown minimum liquidity buffer by \$5bn to \$10bn. This change will be implemented over two years. Accordingly, the NZGB funding requirement for the current fiscal year (2025/26) has been lowered by \$3.0bn to \$35bn and the forecast borrowing programme for 2026/27 has also been revised down by \$2bn to \$34bn. Short-term borrowings (Treasury Bills and Euro-Commercial Paper) at the end of 2025/26 are forecast to be \$13bn, down from the \$18bn forecast in Budget 2025, reflecting the positive starting point from a better-than-expected cash outturn in 2024/25. Given the reduced funding need, NZDM no longer expects to conduct a further syndicated NZGB tap this year.

Looking further ahead, with the underlying fiscal position slightly weaker than the Budget forecast, the forecast borrowing programme for 2027/28 and 2028/29 has been raised by \$4bn to \$34bn and \$32bn respectively. As a result, the net revision to the bond programme out to 2028/29 is an upward revision of \$3bn.

Net core Crown debt is forecast to remain above the Government's long-term goal of 20-40% of GDP throughout the forecast period. From 41.8% of GDP in 2024/25, the Government's favoured debt measure is expected to peak at 46.9% in 2027/28 and 2028/29 before declining gradually to 46.1% of GDP in 2029/30.

### Economic outlook.

The key economic assumptions underpinning the fiscal outlook in the HYEFU are set out in Table 4, comparing these with the assumptions made in Budget 2025.

The main points to note are that the Treasury's forecasts for the current year are slightly weaker than at the time of Budget 2025, but with some catchup in growth forecast in

2026/27 and 2027/28. It is worth noting that the Treasury's economic forecasts were finalised on 28 October, prior to more recent data indicating a more positive rebound in the economy in the September quarter than many (including ourselves and the RBNZ) had expected at the time. The Treasury expect the unemployment rate to track slightly higher than forecast in the Budget, while maintaining a downward trajectory from next year). The Treasury also continue to forecast that the RBNZ will be able to maintain inflation near its target midpoint with a policy rate that is well below the RBNZ's own estimate of the neutral rate. As a result, the Treasury's forecast for the 10-year bond rate remains close to 4.0% - below even the rate currently prevailing in the market.

### Budget Policy Statement.

The government's overall fiscal strategy is unchanged relative to Budget 2025. The aims continue to be to:

- Reduce core Crown expenses toward 30% of GDP.
- Return OBEGALx to surplus.
- Put net core Crown debt on a declining track toward 40% of GDP.

However, in the short-term the fiscal outlook has slipped given the still weak assumed economic outlook. The target for a return to surplus on an OBEGALx has been pushed out from the 2027/28 year to 2028/29. The Treasury forecasts show a forecast deficit in 2028/29 of \$0.9 billion, but this is deemed close enough to be achievable either through changes in macroeconomic conditions or tweaks to future policy settings.

Operating allowances are unchanged from earlier guidance while the capital allowances have been set at \$3.625 billion for each of the next four budgets – also in line with prior guidance. However, it is noted that that size of these capital allowances will be reconsidered in next year's Budget – and hence could be increased to accommodate capital investment needs that are not now fully understood. This seems a soft signal of capital spending upside risk in the future.

Table 4: Key economic assumptions (June years)

	24/25	25/26f	26/27f	27/28f	28/29f	29/30f
<b>Real GDP growth (ann. avg.)</b>						
Budget 2025	-0.8	2.9	3.0	2.9	2.6	n/a
HYEFU	-1.1	1.7	3.4	2.6	2.5	2.5
<b>Nominal GDP growth (ann. avg.)</b>						
Budget 2025	3.5	4.9	4.7	4.8	4.6	n/a
HYEFU	3.8	4.2	5.4	4.9	4.8	4.7
<b>Unemployment (June qtr)</b>						
Budget 2025	5.4	5.0	4.8	4.5	4.3	n/a
HYEFU	5.2	5.3	4.8	4.6	4.5	4.3
<b>CPI inflation (ann %)</b>						
Budget 2025	2.2	2.1	2.0	2.0	2.0	n/a
HYEFU	2.7	2.4	2.2	2.1	2.0	2.0
<b>90-day rate (June qtr)</b>						
Budget 2025	3.5	3.0	2.6	2.6	2.5	n/a
HYEFU	3.4	2.1	2.0	2.1	2.3	2.5
<b>10-yr bond rate (June qtr)</b>						
Budget 2025	4.3	4.3	4.3	4.2	4.3	n/a
HYEFU	4.6	4.0	4.0	4.1	4.2	4.3

Source: NZ Treasury

The medium-term objective of maintaining Crown Net Worth at around 40% of GDP is not met under current forecasts (net worth falls to 34% of GDP by 2030). Given the divergence the Government plans to review the Net Worth objective in the next fiscal strategy report in 2026.

The Budget Policy Statement reviews alternative options which could be adopted including reducing expenditure more aggressively (to return to surplus more quickly) or increasing expenditure to assist the recovery of the economy. Both alternative options are discarded. Further fiscal consolidation is seen as unduly impacting the delivery of front-line services. More expansionary policy is not preferred as this would further delay the return to surplus. In addition, the Government continues to hold the view that monetary policy should be eased if the economy can't grow sufficiently.

The Budget Policy Statement describes the Government's medium term growth strategy which is orientated to improving long term productivity growth which should in turn boost tax revenue. This strategy reflects an intention to:

- Build a skilled workforce through improvements in education delivery.
- Reduce regulatory complexity and boost competition in the economy.
- Encouraging innovation by creating regulatory

certainty and improving collaboration between the public and private sector in the science area.

- Improving access to foreign markets through free trade agreements and more liberal foreign direct investment settings.
- Increasing investment in infrastructure through the introduction of value capture tools and partnering with the private sector.

The practical impact of this growth strategy is to drive reprioritisation among competing spending options, reducing regulatory barriers and harnessing private sector capital to boost productivity as opposed to increased government spending. There could be potential for more user pays type initiatives to provide scope for private capital to be more involved in the delivery of key infrastructure.

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