

ECONOMIC OVERVIEW

Under the pump.

May 2026



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A NOTE FROM KELLY

Under the pump.

The outlook for the economy has shifted dramatically from the optimistic view we held in February. Now we look set for another year of positive but still sub-par growth at 1.5% as the Iran war and the associated rise in oil and refined fuel prices have their impact. Real petrol and diesel prices are now at 50 year highs, and while global oil prices are not at record highs in real terms, they are at levels consistent with past global recessions.

We don't expect a recession right now. Rather the view is that the Iran war will merely cause a pause in the economic recovery. However, these forecasts are highly uncertain as the extent of the interruption to New Zealand's growth will depend on the duration of the Iran war. We assume conditions there will improve in coming months. But that's an assumption, not a strongly held informed view.

The expected economic hiatus will impact the services sector, retail spending and hospitality the hardest, reflecting the implied hit to household incomes. Tourism will also be interrupted as global uncertainty and airline fare prices remain high. The primary sector should continue to perform relatively well as the exchange rate will remain supportive and global food prices should be underpinned by high global fertiliser prices and reduced global food production.

A significant cost squeeze is in train that will pressure firms' margins but also significantly lift inflation. Annual headline CPI inflation will move into the 4-5% range for a time and lift inflation expectations to some extent. Core inflation looks set to rise above the top of the RBNZ's target range and require the OCR to rise towards 3% in 2026, and higher through 2027. The duration of the war and the extent to which firms and households try to boost prices and wages to counteract the income shock will dictate the degree of OCR increases ultimately required.



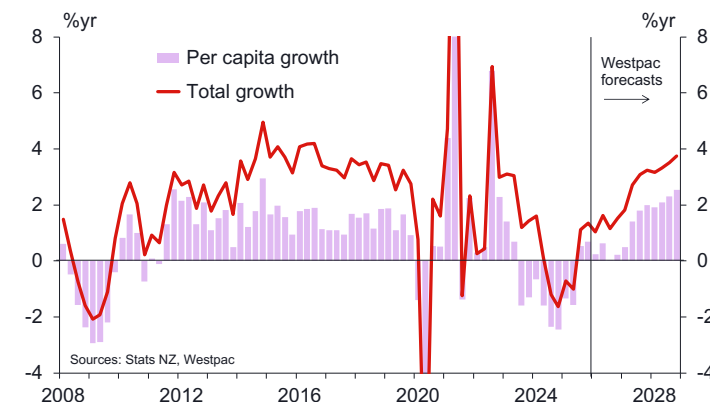
OVERVIEW

The fog of war.

- Much of the improving momentum that we saw in the early part of the year has been temporarily derailed by the conflict in the Middle East. We now expect subdued economic growth of 1.5% over 2026, with unemployment to rise to 5.6% from 5.3% currently.
- Large and widespread increases in costs are expected to see inflation rising to well above the RBNZ’s target band until mid-2027. The resulting pressure on households’ finances will be a significant drag on spending. In addition, high uncertainty will weigh on businesses’ plans for hiring and investment.
- Continued strength in commodity prices, a supportive exchange rate and still stimulatory interest rates are supporting incomes, especially in rural regions.
- The RBNZ faces a challenging balancing act. The hike in fuel prices is likely to boost core inflation, requiring OCR hikes beginning in September. We expect the OCR to rise to 3.5% in early-2027, taking it closer to ‘neutral’ levels. Beyond that time, the OCR will likely need to move into restrictive territory, but at a more gradual pace. We expect a peak of 4.25% by the end of 2027.
- Economic growth and the labour market are expected to improve as inflation drops back and uncertainty reduces when the Iran war ends. However, the timeframe for this improved environment is uncertain, raising the possibility of persistent inflation pressures and weak growth.

“The economy is navigating rocky waters, with subdued economic growth, a soft labour market and high inflation. Interest rates are set to rise – it’s a question of ‘when,’ not ‘if’ hikes occur.”

Total and per capita GDP growth



Key economic forecasts*

	2024	2025	2026f	2027f
GDP growth (% year)	-1.6	1.3	1.5	3.2
Inflation (% year end)	2.2	3.1	4.4	1.6
Unemployment rate (%)	5.1	5.4	5.6	4.9
House prices (% year end)	-1.0	-0.1	-0.9	2.0
Official Cash Rate (%)	4.25	2.25	3.00	4.25

* Growth rates are December quarters compared to same quarter previous year.

GLOBAL AND IRAN CONFLICT ASSUMPTIONS

Energy prices assumed to remain elevated for some time.

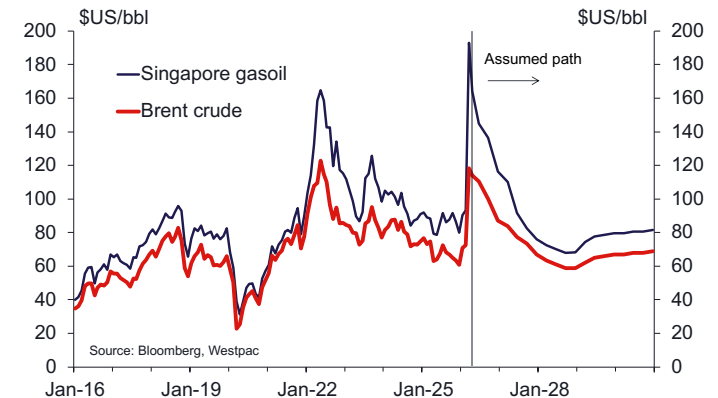
- The future path of the Middle East conflict is very uncertain. We assume transit through the Strait of Hormuz remains limited for a couple of months yet but gradually improves towards pre-conflict levels in late 2026 to mid-2027.
- We optimistically assume that Brent crude declines to \$US83/bbl by the end of 2026 and \$US64/bbl by the end of 2027. Refined fuel prices will fall more slowly due to damage to oil infrastructure and the rebuild of inventories.

Global growth a bit slower; central banks to lean against inflation.

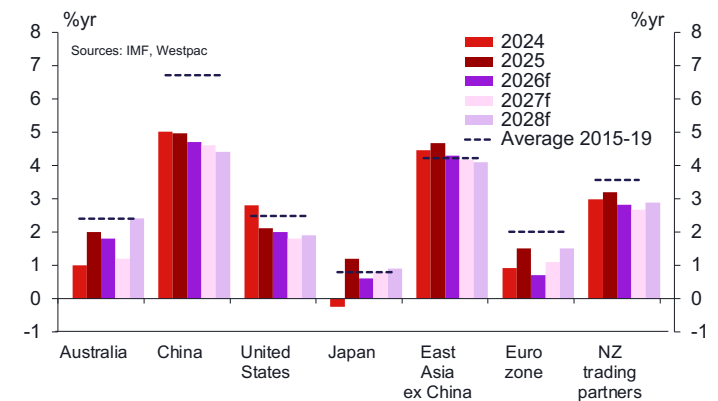
- Our global growth forecasts for this year and next are modestly weaker than in February, reflecting the war. Following growth of 3.2% last year, we expect trading partner growth of 2.8% in 2026, 2.7% in 2027 and 2.9% in 2028.
- US growth is forecast to remain resilient but we expect slower growth in Europe and much of Asia. Australian growth will slow as the RBA tightens policy to restrain inflation that was too high even before the war. Global growth is expected to be supported by the still robust artificial intelligence investment cycle and still supportive financial conditions as equity markets remain strong.
- Generally, central bank policy rates are expected to rise modestly. While the Fed may not raise its policy rate, rates in the UK, the euro area and Australia will rise 50bps in 2026 to lean against rising inflation from higher fuel prices.

“We assume that oil flows through the Strait of Hormuz are limited for a couple of months yet but improve gradually thereafter. Hence energy prices will remain elevated.”

Oil price assumptions



Trading partner growth



IRAN CONFLICT TRANSMISSION

The Middle East conflict will lead to lower growth in the near term.

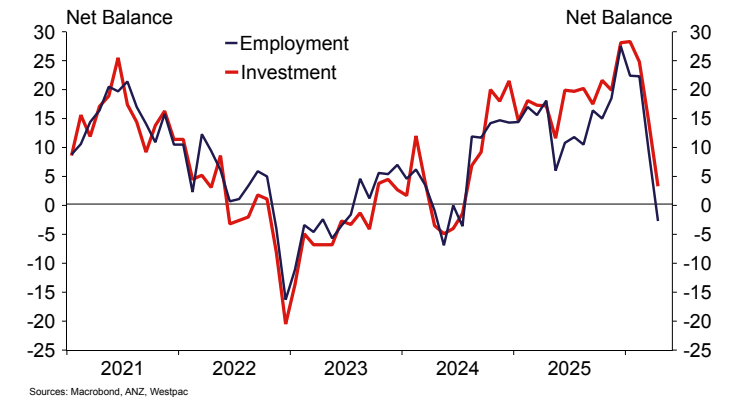
- Near-term growth prospects have been dented by the Middle East conflict. Higher oil prices will lower discretionary incomes and firms' profitability. In addition, increased uncertainties about the outlook will cause households and firms to delay spending, investment and hiring decisions.
- Households and firms offshore face the same pressures. Slower trading partner growth will weigh on demand for some of New Zealand's exports. For example, tourist inflows, especially from long-haul sources, will likely be dampened.

Inflation higher in the near term, medium-term outlook less clear.

- The Middle East conflict has led to higher prices for refined fuels and other commodities, as well as higher prices for goods for which these commodities are significant inputs. This will drive headline inflation higher in the near term.
- A tendency to extrapolate past outcomes means that measures of inflation expectations will rise with headline inflation. All else equal, this could lead to 'second round' increases in a broader range of prices, including wages.
- But weaker growth in activity will lead to greater economic slack and make it harder for these broader price increases to occur. The implications of the conflict for medium-term inflation will depend on the duration and path of the conflict and on how these opposing economic forces balance.

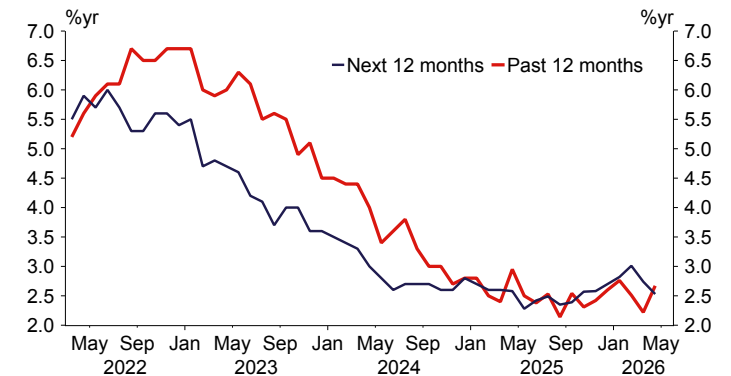
“The conflict will weigh on GDP growth and boost inflation, at least for a while. The medium-term inflation path is uncertain and critically depends on when the war ends.”

Hiring and investment intentions



Sources: Macrobond, ANZ, Westpac

Wages and wage expectations



Sources: Macrobond, ANZ, Westpac

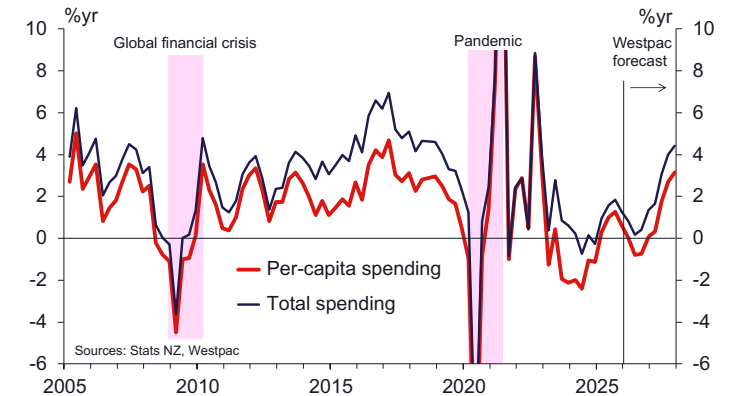
HOUSEHOLDS

Mounting pressures on households' finances.

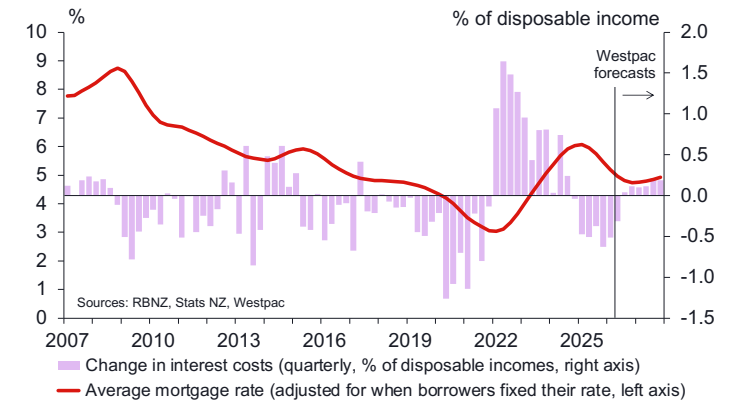
- Households' finances are coming under renewed pressure, and spending growth is set to slow sharply over the coming months. That's being compounded by low consumer confidence.
- Cost of living pressures have intensified, with petrol prices rising by more than 30% since the start of the Middle East conflict. That's compounded the large increases in the cost of other essentials like food and electricity over the past year. The coming months are expected to see increases in many other costs.
- At the same time, the labour market remains soft. Despite dipping modestly to 5.3% in the March quarter, unemployment remains elevated, and it's likely to push higher over the coming months, with wage growth likely to remain limited.
- An additional headwind for households is the changing interest rate environment. Over the past few years, many borrowers have been rolling off the relatively high interest rates that were previously on offer and onto lower ones. While that process will continue for a few more months, mortgage rates have been pushing higher again. As a result, borrowers who are now refinancing their mortgages are seeing smaller falls in their borrowing costs. And over the coming year, borrowers will start to gradually roll onto higher rates.
- Spending is expected to reaccelerate through 2027 as cost of living pressures start to ease.

“The fall in borrowing costs seen over the past couple of years is coming to a close. At the same time, cost of living pressures are mounting.”

Household spending growth



Household spending on interest costs



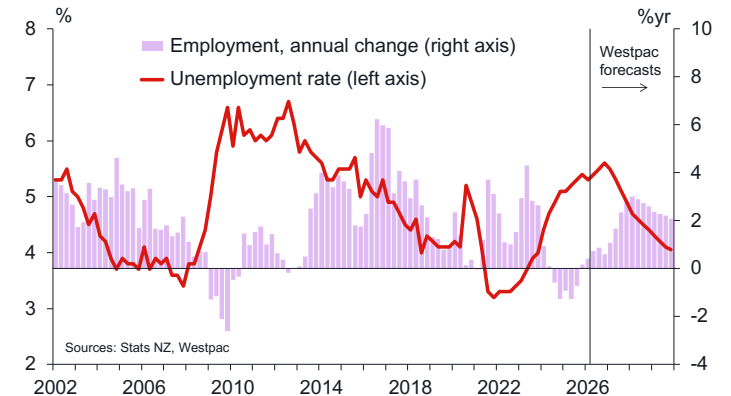
LABOUR MARKET

War impacts suggest that peak unemployment is yet to come.

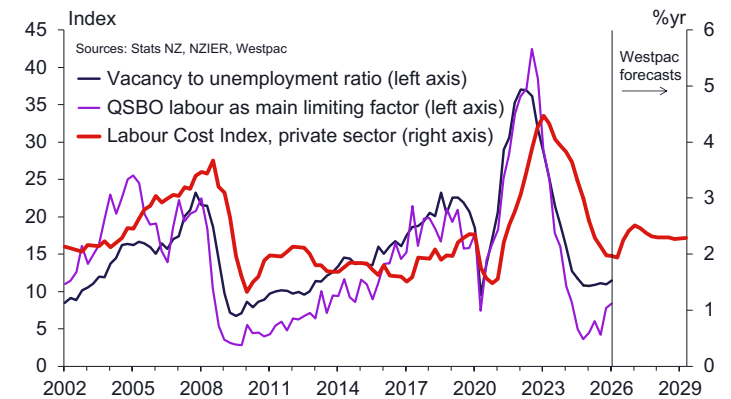
- The labour market was in the early stages of a turnaround prior to the Iran conflict. High-frequency indicators of employment and vacancies have picked up in recent months, and the unemployment rate dipped slightly to 5.3% in the March quarter, the first decline in four years. Beneath these encouraging headlines though, the jobs market is gridlocked, with rates of both firing and hiring remaining unusually low through the current cycle.
- The Iran conflict is likely to put a dampener on firms' near-term hiring plans, as they face rising input costs and an erosion of consumer demand. We expect employment growth to be close to flat over the rest of this year, with the unemployment rate rising again to a peak of 5.6%. We also expect a more gradual improvement in 2027 and beyond compared to our February forecasts.
- Wage growth remains subdued, reflecting the existing degree of slack in the labour market. While there are reportedly some pockets where workers are becoming harder to find, overall conditions are quite different from the post-Covid surge in wage and price inflation. Demands for cost-of-living pay adjustments are likely to be more prominent over the next year, but we expect that the relative lack of bargaining power for workers will keep wage growth relatively muted compared to CPI inflation.

“The Iran conflict is likely to dampen firms’ near-term hiring plans, leading to a further rise in the unemployment rate and limited ability to negotiate cost-of-living pay increases.”

Employment growth and unemployment rate



Wage growth and labour market tightness



HOUSING AND MIGRATION

The Iran war will upend the housing recovery.

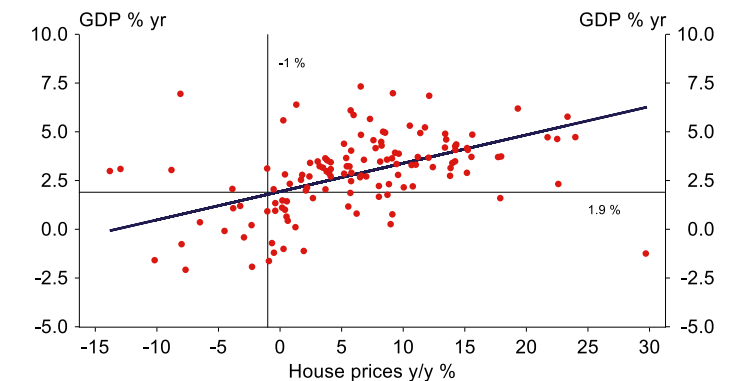
- Early in 2026 a stronger tone emerged in the housing market. House prices rose 0.4% over Q1 as low interest rates, a strengthening labour market and improving household confidence began to lift prices.
- The Iran war has removed much of the support for housing. Sharply weaker consumer confidence, weaker employment prospects and the potential for earlier interest rate increases imply a much weaker housing outlook.
- We envisage flat to slightly lower house prices over 2026 as households internalise the impact of the hit to incomes and balance sheets coming from higher oil prices and weaker discretionary incomes. Another year of sub-par economic growth is consistent with falling house prices in 2026.

Population-driven demand picking up from its lows.

- A lift in population growth, led by higher migration, should provide some offsetting support for housing. Departures of New Zealanders are coming off their highs, and we expect this to continue as tougher conditions in Australia diminish its relative appeal. We also expect a lift in foreign arrivals over this year, although much of this will come under the Parent Boost Visa, which may shift the mix of demand towards larger properties rather than adding to demand as a whole.

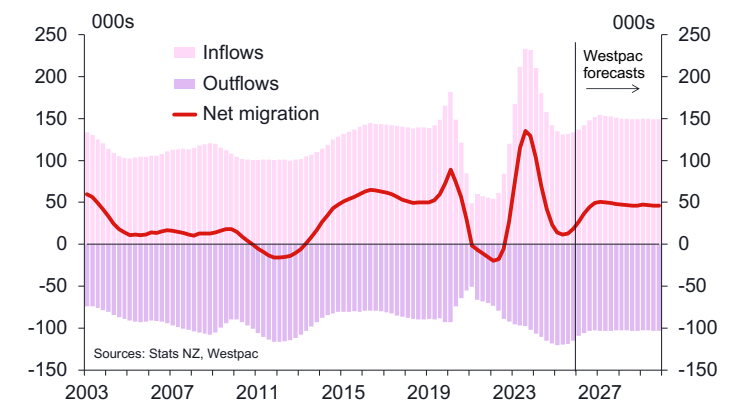
“Despite increasing net migration, the Iran war’s impact on household incomes and confidence implies another year of subdued growth and falling house prices nationally.”

Annual growth in house prices and GDP growth



Sources: Macrobond, REINZ, RBNZ, Stats NZ, Westpac

Migration, annual balance



Sources: Stats NZ, Westpac

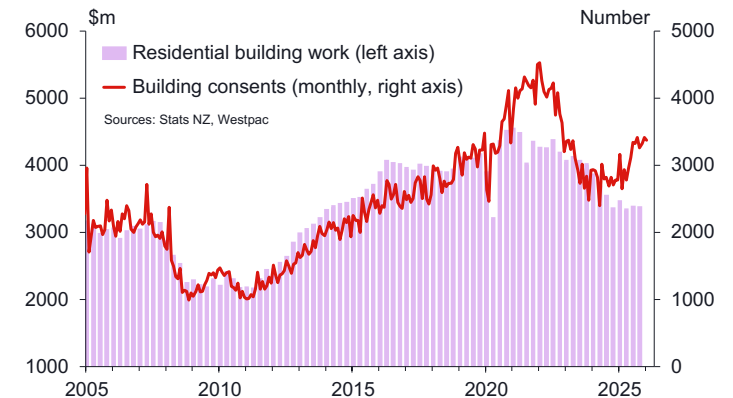
CONSTRUCTION

Recent momentum unlikely to be sustained.

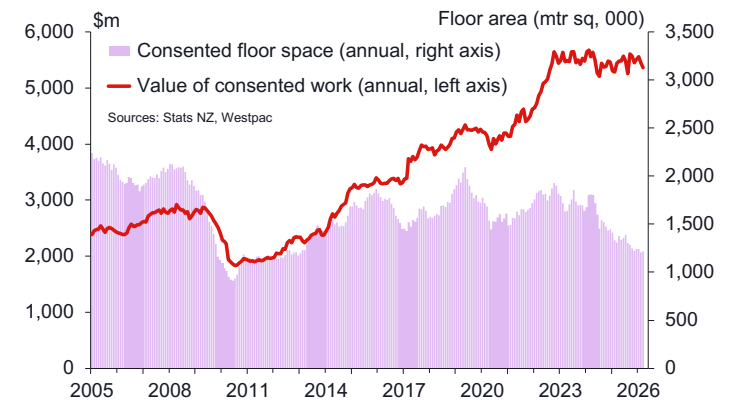
- The amount of residential building work planned has picked up over the past year, with dwelling consent numbers rising to their highest level since 2023. That was encouraged by last year's falls in interest rates, and we expect to see residential building activity turning higher through the middle part of this year.
- However, the pace of homebuilding is expected to slow again as we head into 2027. The conflict in the Middle East has resulted in a sharp rise in fuel costs, with related increases in materials prices. In some cases those increases have been substantial. More generally, there has been a lift in uncertainty and upward pressure on borrowing costs. Putting that all together on top of continued sluggish price growth, developers are likely to be cautious about initiating new projects while war-related uncertainty persists.
- Commercial building activity dropped back over the past year, and the amount of planned work has been tracking sideways. Office and industrial development have continued to hold up at firm levels, but haven't been rising. The number of retail and hospitality projects has remained more modest.
- Looking ahead, recent business surveys have shown a drop in business confidence and a winding back of plans for capital expenditure. Combined with increases in materials prices and financing costs, that's likely to put a dampener on the amount of new projects over the coming year.

“While homebuilding is expected to pick up over the coming months, it's likely to slow again as we head into 2027.”

Residential building and consents



Commercial building



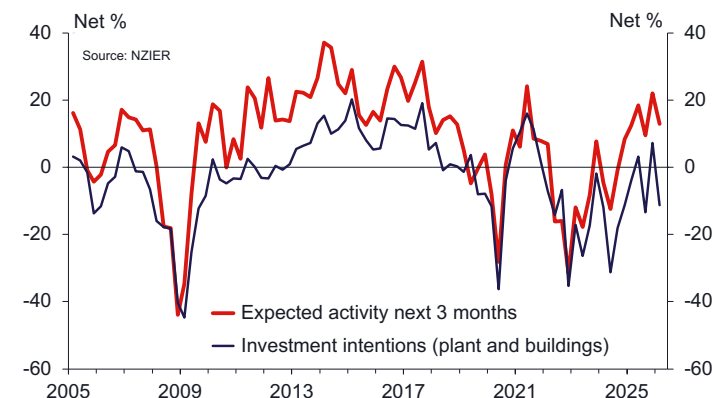
BUSINESS INVESTMENT

Investment decisions to be delayed while war uncertainty reigns.

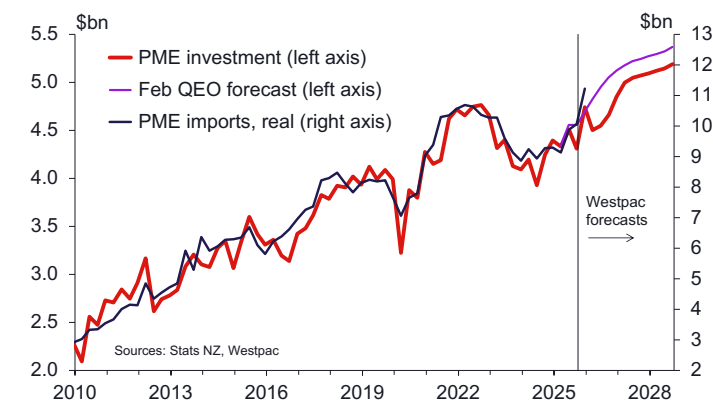
- Business confidence surveys show that the Iran conflict has clearly put a dent in firms' near-term investment plans. While business sentiment is by no means low compared to the last few years, the momentum that was starting to build in recent months now faces a fresh setback.
- The timing and extent of the impact on firms' actual investment decisions is highly uncertain. We'll be keeping an eye on indicators such as imports of capital equipment, although there can be a substantial lag between when an investment decision is made and the equipment actually turns up. Capital imports rose strongly in the first quarter of this year, adding to the evidence that the economy was starting to regain some momentum from the second half of 2025. We expect a more subdued level of imports and investment over the rest of this year.
- These forecasts largely represent a delay rather than a cancellation of investment spending, with some catch-up expected over 2027 as the economy regains momentum. The replacement cycle has likely been a major driver of the recovery in investment to date, and we suspect that more is still needed after a sharp drop-off in the rate of investment in 2023-24. This may be particularly true for IT and software investment, where the replacement cycle is shorter and firms will be looking to take advantage of developments in AI.

“Capital imports rose strongly in the first quarter of this year, adding to the evidence that the economy was starting to regain momentum before the Iran conflict.”

Business sentiment



Plant and machinery investment



FISCAL

The oil shock has slightly weakened the near-term fiscal outlook.

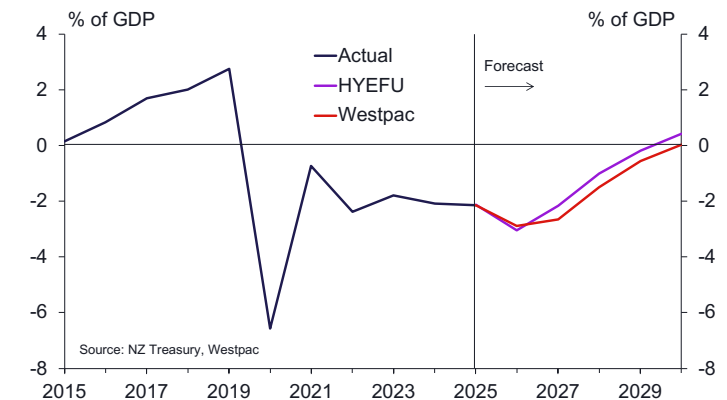
- Higher inflation and interest rates will raise social welfare and debt financing costs. While higher inflation also tends to raise tax revenue, the weaker outlook for activity, employment and profits work in the opposite direction.
- On balance, we think that the near-term outlook for OBEGALx and net core Crown debt is slightly weaker than forecast in HYEFU 2025. But provided that the oil shock is not long-lived, and that export commodity prices remain as favourable as forecast, an OBEGALx surplus in 2029/30 remains a possibility, even assuming higher discretionary spending from Budget 2027 onwards.

NZ's credit rating at risk if fiscal consolidation is not achieved.

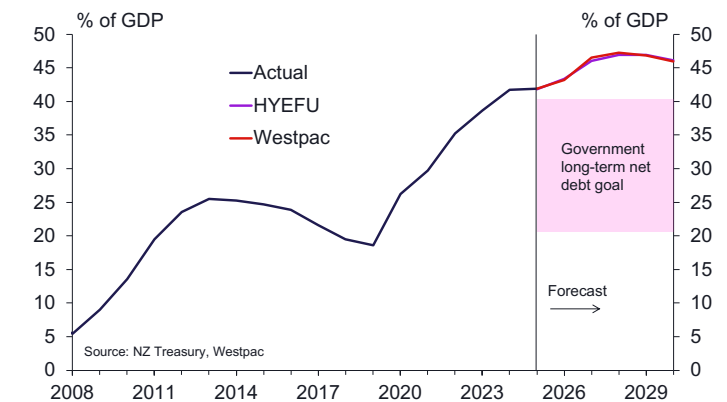
- Recently both Moody's and Fitch have attached a negative outlook to NZ's sovereign credit rating. This indicates a possible downgrade in 12-24 months if the factors leading to the negative outlook are not addressed.
- NZ's current rating is higher than those agencies' models recommend given prevailing fiscal metrics, with the agencies granting NZ a discretionary 'uplift' based on the success of past governments at addressing fiscal imbalances.
- The negative outlook suggests that agencies are losing confidence that fiscal consolidation will be achieved given the lack of progress made in recent years. The Government will need to demonstrate progress to avoid a downgrade.

“The Government is going to need to demonstrate commitment to achieving fiscal balance in order to avoid a credit rating downgrade at some point in the next year or two.”

Operating balance (OBEGALx), % of GDP



Net core Crown debt, % of GDP



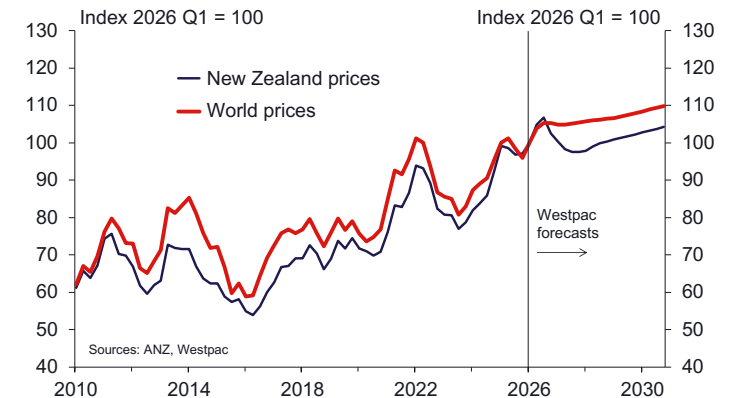
AGRICULTURE

Export prices to remain resilient.

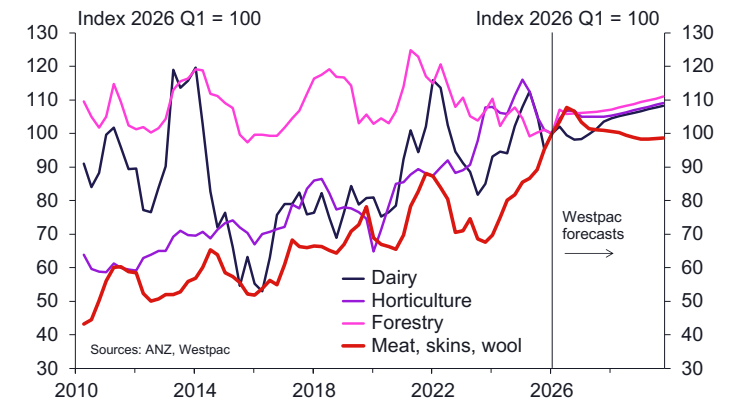
- The Iran war will likely keep prices for New Zealand’s commodity exports higher for longer. In the near term the scope for passing through higher diesel, fertiliser and feed costs is likely to be limited, implying some pressure on margins. However, the longer hostilities persist, the greater the likelihood that those costs will be passed through to output prices.
- While the global milk supply remains ample, that’s been matched by strong demand for protein. We have lifted our farmgate milk price forecast for the 2026/27 season by 30c to \$9.50/kg, noting that the range of uncertainty will be particularly wide at this stage. We’ve maintained our forecast of \$9.80/kg for this season, which is slightly above the midpoint of Fonterra’s forecast range.
- We expect beef and lamb export prices to remain elevated. In addition to the Iran war, our expectations are driven by how quickly the US beef herd rebuilds, still-strong US consumer demand for protein, possible punitive tariff action by the US, weaker consumption in China, and price resistance in the UK and EU.
- Meanwhile, kiwifruit and apple export prices are set to plateau at high levels as supply catches up with demand in key offshore markets.
- Log export prices are expected to remain rangebound, showing little upward momentum in the face of weak construction activity in China. Rising freight costs as a result of the war are likely to add pressure on margins.

“The Iran war will likely keep food prices higher for longer and help offset increased costs from higher energy and fertiliser prices.”

Commodity prices – World and NZ dollar denominated



Commodity prices by category



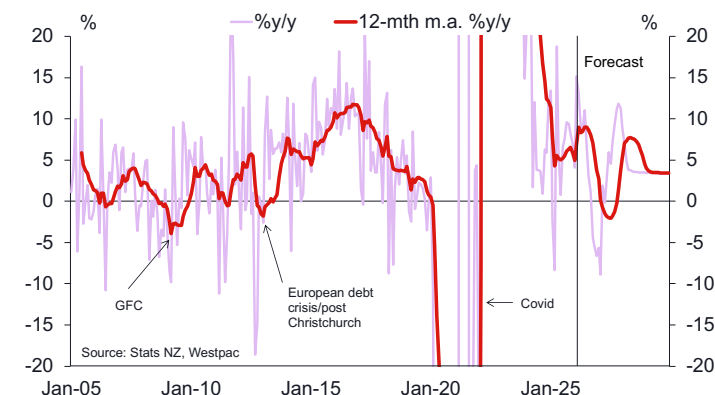
EXPORTS AND BALANCE OF PAYMENTS

Higher oil prices will widen the external deficit in the near term.

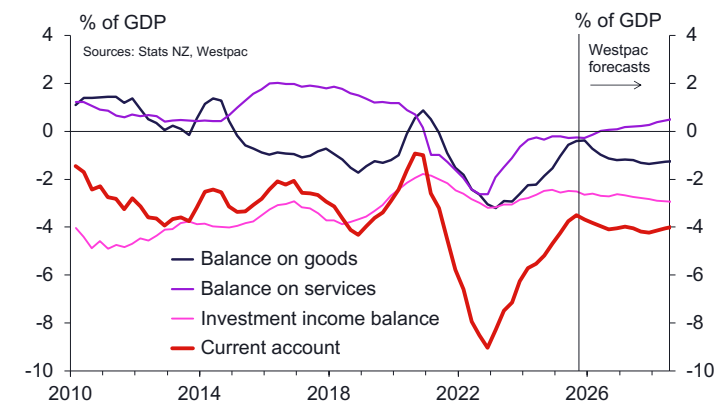
- We expect goods export volumes will maintain the gradual upward trend seen over the past couple of years, reflecting productivity gains in the primary sector, ongoing growth in global demand (despite the Middle East conflict) and success in the high-tech sector. But given the constraints faced by the primary sector, export volumes will likely continue to edge lower as a share of GDP.
- Services export volumes have been growing strongly due to the resumption of the post-pandemic recovery in tourist arrivals and growth in exports of some high-tech business services. We expect that growth in tourist arrivals will slow for a period later this year due to higher airfares and general pressure on household budgets, with the impact likely to be more pronounced on long-haul travel.
- In the near term New Zealand's import bill will be higher than previously forecast. This is mostly due to the sharp increase in the price of refined fuels, which is only partly offset by slightly lower import volumes due to more subdued growth in activity. That bill is expected to moderate in 2027 given our assumption that energy prices gradually return to pre-crisis levels.
- Overall, we now expect a temporary widening of the current account deficit to just over 4% of GDP this year. The deficit should narrow thereafter, with the surplus on the services balance returning to pre-pandemic levels as tourist arrivals finally surpass their previous peak.

“New Zealand’s external deficit will rise in the near-term due to a higher bill for imported fuel, but a strong outlook for export prices will help moderate the impact.”

Short term international visitor arrivals



Current account balance, % of GDP



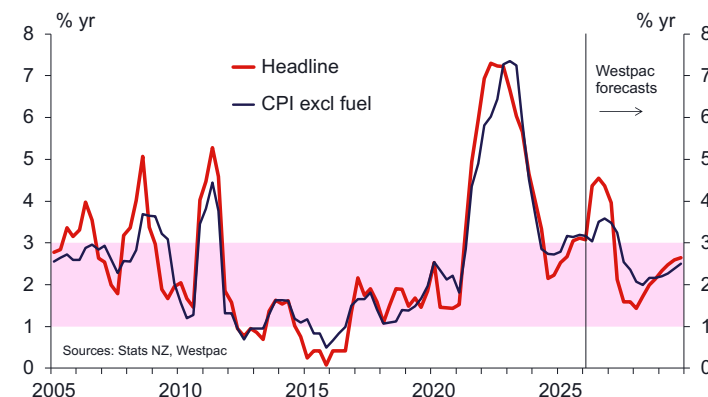
INFLATION

The worst is yet to come.

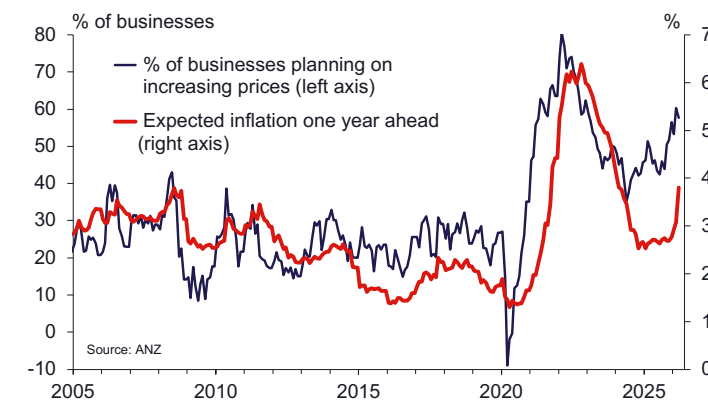
- Inflation is set to rise to 4.5% over the coming months and is likely to remain above 3% until mid-2027. That's mainly due to higher global oil prices, with domestic petrol prices up more than 30%. There have also been a range of related cost increases, like higher transport charges and material costs. While excess capacity is likely to limit the pass through of higher costs to final prices, significant inflation is still likely over the coming months. As a result, core inflation is also likely to remain high and won't fall back to 2% any time soon.
- That firmness in underlying inflation is being reinforced by continued large increases in administered prices, like local council rates and electricity.
- Headline inflation is expected to drop back over 2027 when the impact of recent oil price increases eventually dissipates. However, core inflation is expected to ease back only gradually over 2027 towards the midpoint of the RBNZ's target band, rather than falling to low levels.
- With an extended period of pressure on margins, there is a risk that the current reacceleration in inflation results in a more long-lasting lift in businesses' pricing behaviour. Businesses may begin factoring in the risk of continued large cost increases when they adjust their prices. That could extend the lift in inflation even after oil prices ease. Survey measures of inflation expectations and pricing intentions have already taken a step higher.

“The rise in oil prices has spilled over into a much broader lift in cost pressures that's being felt across much of the economy.”

Headline and core inflation



Inflation expectations and pricing intentions



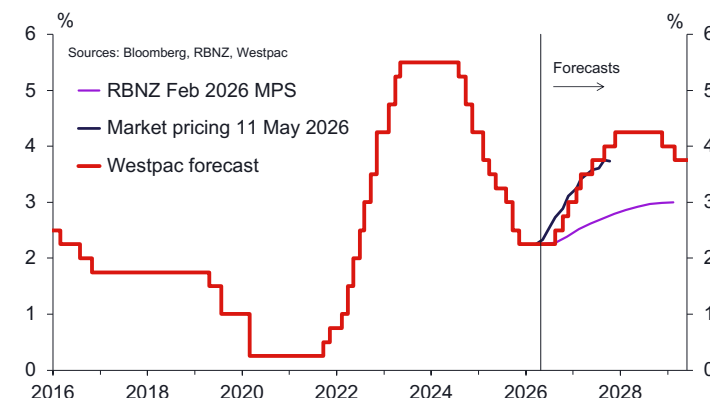
MONETARY POLICY

High inflation uncertainty implies a return to neutral.

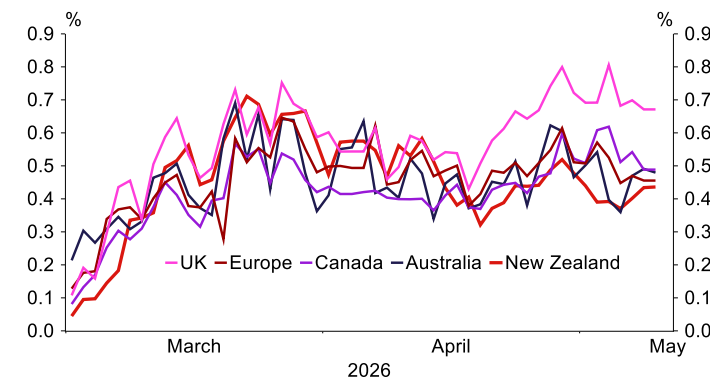
- The outlook for inflation has shifted radically since February as forecasts of a gradual fall in inflation towards 2% have been replaced with a sharply higher forecast profile.
- The Iran war and associated energy cost shock represents a large supply shock that is skewering the RBNZ between concerns of very high and potentially persistent inflation and weaker growth with greater excess capacity.
- Monetary policy needs to reset the balance of risks to the inflation outlook as the current 2.25% OCR was set based on a very different and more benign inflation outlook. It seems clear that the OCR will rise towards 3% and more neutral levels by end 2026. The question is when will tightening need to start?
- High and growing levels of excess capacity give the RBNZ more room to manoeuvre than its peers, hence a gradual return of the OCR towards the RBNZ's perception of neutral in the 3-3.5% range is appropriate.
- It makes the most sense for the start of the normalisation process to begin at a Monetary Policy Statement – i.e. in May or September. We currently see September as the best option but the choice is finely balanced.
- Beginning the process in May might allow for a more gradual normalisation path which could be desirable given uncertainty on the duration of the war. But tightening when confidence is fragile could exacerbate the downturn.

“The OCR is set to rise soon but the range of potential levels 18 months out is wide given the uncertainties. For now, returning the OCR towards neutral makes sense.”

Official Cash Rate forecasts



Movement in the 3 month rate 2 years ahead since Iran war



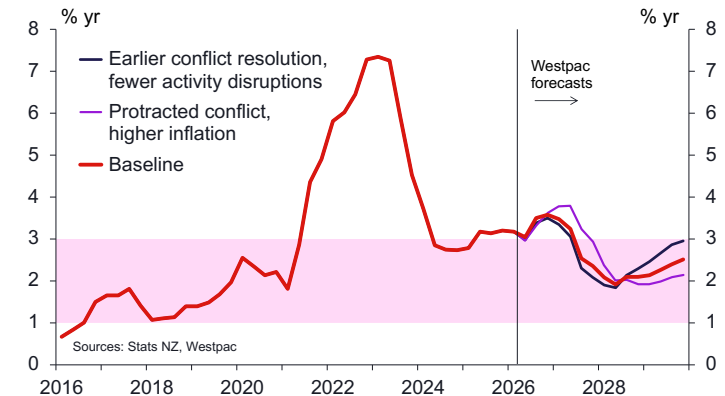
MONETARY POLICY SCENARIOS

Supply chain blockages and monetary policy trade-offs.

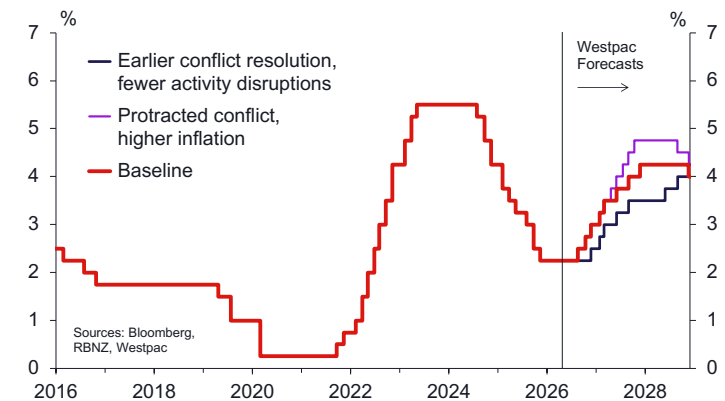
- The conflict in the Middle East has clouded the outlook for economic activity. A key uncertainty is how developments in the region will affect both oil prices and global supply chains.
- If tensions in the Middle East escalate or oil prices remain elevated for longer than we have assumed, we would see an even larger knock to households' finances and spending. There would also be deeper downturns in both investment spending and the labour market. At the same time, the RBNZ would face a large and more protracted lift in inflation. That could require a faster and more aggressive tightening of the OCR, perhaps up to 4.75%, to ensure businesses' price setting behaviour remained consistent with the inflation target over the medium term. Those higher interest rates would also compound the downward pressure on activity and employment.
- In contrast, if the situation in the Middle East is resolved faster than assumed in our baseline scenario, oil prices and the related disruptions to supply chains could correct sooner. In such circumstances, the risk for longer term inflation expectations would be less pronounced, allowing the RBNZ more time to assess how the economy is faring before raising the OCR. Even so, the OCR is currently at a low level. As spare capacity is eroded, gradual interest rate increases would still be required over time to limit the risk of inflation settling at high levels even after oil prices eventually drop back.

“The conflict in the Middle East is clouding the outlook for economic activity and inflation, and that leaves the RBNZ with a challenging balancing act.”

Core inflation (excluding fuel)



Official Cash Rate forecasts



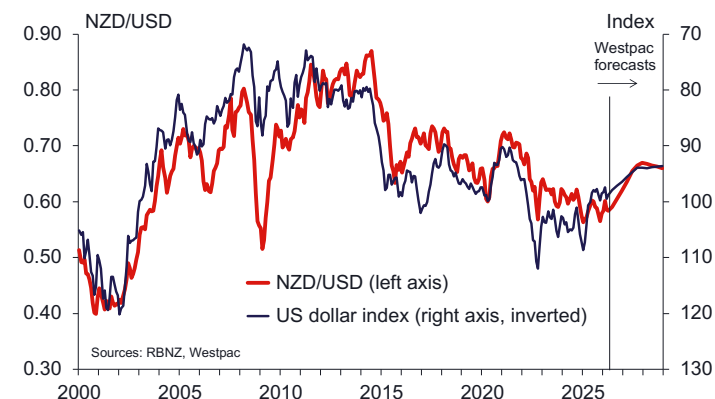
FOREIGN EXCHANGE

The NZD is likely to languish for a while yet.

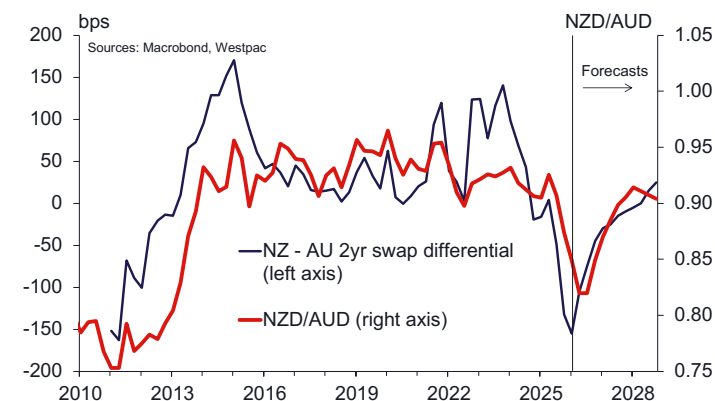
- The NZD has firmed modestly since the start of this year, both against the USD and on a trade-weighted (TWI) basis. This comes at a time when the US dollar has been relatively stable.
- However, the NZD/AUD has declined to a 15-year low, likely influenced by the growing divergence in interest rates between New Zealand and Australia given the differing cyclical positions of these economies.
- The Iran war represents a negative terms of trade shock – in the near term, more than negating the impact of the strong trend in export commodity prices – and will likely keep the NZD in check until uncertainty about the war reduces.
- Soft economic growth and lingering excess capacity compared to similar economies will also weigh on the NZD for some time yet.
- The risk of a further leg down in the NZD/AUD can't be ruled out if the RBNZ lags the global tightening cycle, perhaps because growth underperforms even our reduced expectations.
- The NZD will continue to be the key shock absorber helping cushion the New Zealand economy from the Iran war shock. Over the medium term, a further weakening of the USD – which remains overvalued in our view – should lend support to the NZD.

“The NZD should remain weak while uncertainty around the war and its impact on the economy remains high.”

NZD/USD and US dollar index

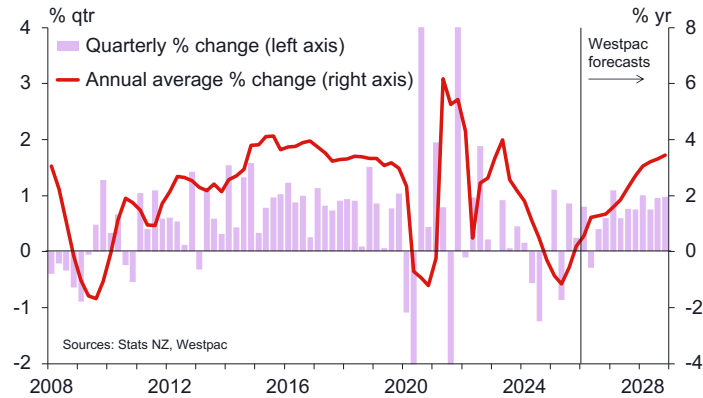


NZD/AUD and 2-yr swap differential



THE ECONOMY IN EIGHT CHARTS

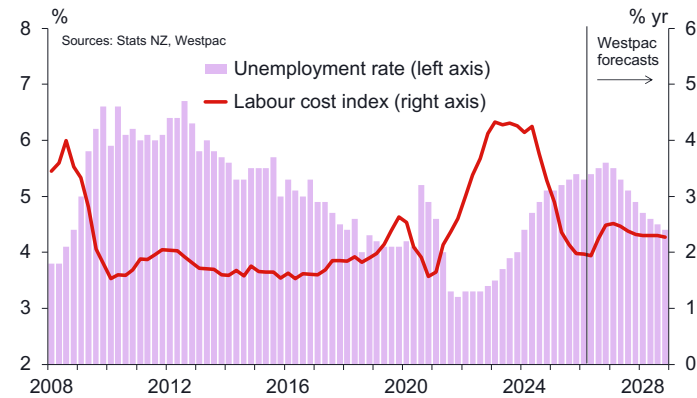
GDP growth



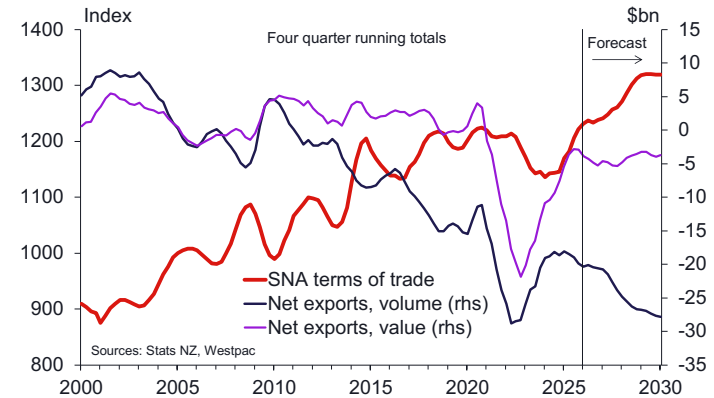
House prices



Unemployment and wage growth

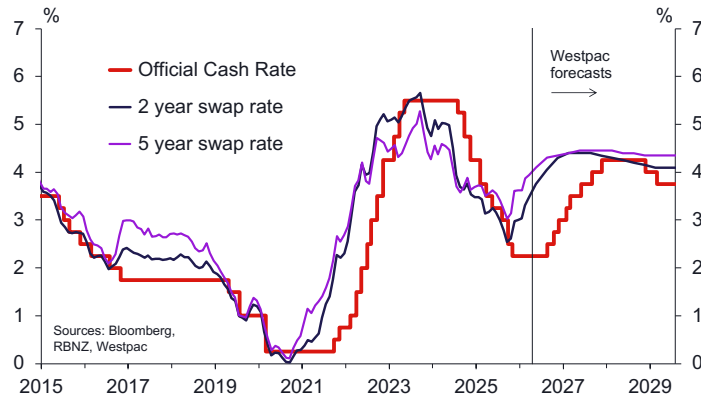


Terms of trade and net exports

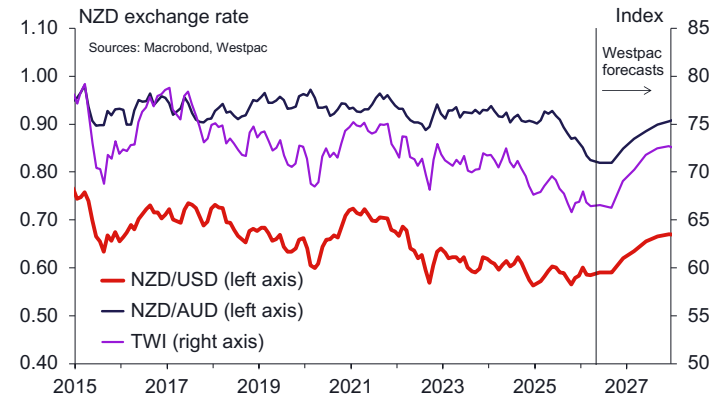


THE ECONOMY IN EIGHT CHARTS CONT.

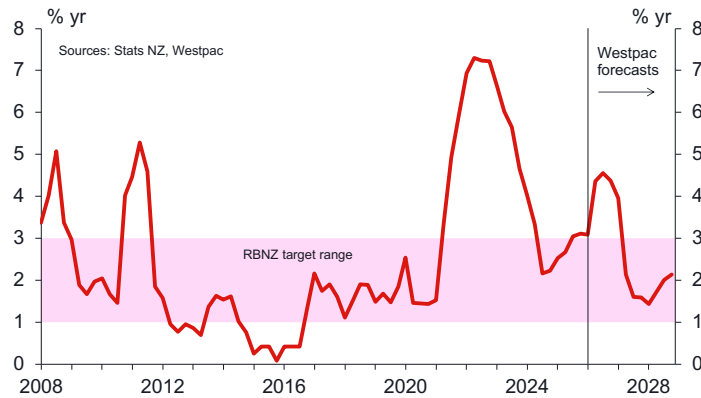
Official Cash Rate, 2-year and 5-year swap rates



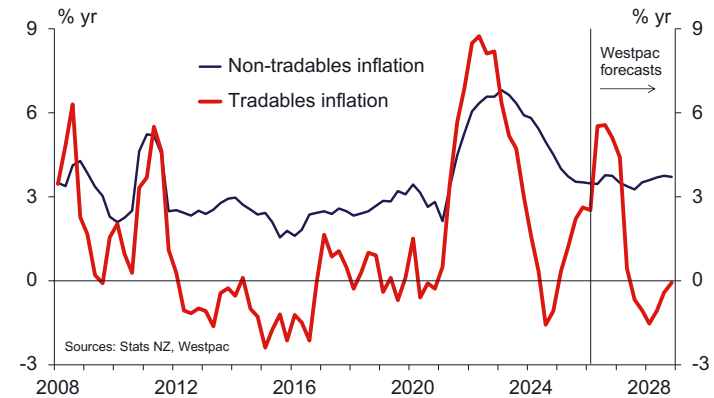
Exchange rates



Consumer price inflation



Inflation components



ECONOMIC AND FINANCIAL FORECASTS

New Zealand forecasts

Economic indicators	Quarterly % change				Annual % change			
	Dec-25	Mar-26	Jun-26	Sep-26	2024	2025	2026	2027
GDP	0.2	0.8	-0.3	0.4	-1.6	1.3	1.5	3.2
GDP (annual average)	-	-	-	-	-0.3	0.2	1.3	2.7
Consumer price index	0.6	0.9	1.8	1.2	2.2	3.1	4.4	1.6
Employment change	0.5	0.1	0.1	0.1	-1.3	0.2	0.6	2.9
Unemployment rate	5.4	5.3	5.4	5.5	5.1	5.4	5.6	4.9
Labour cost index (all sectors)	0.4	0.5	0.6	0.7	3.3	2.0	2.5	2.3
Current account balance (% of GDP)	-3.7	-3.8	-4.0	-4.1	-4.7	-3.7	-4.1	-4.2
Terms of trade	0.3	-1.9	0.6	2.6	8.9	3.5	1.0	3.3
House price index	-0.4	0.4	-0.3	-1.3	-1.0	-0.1	-0.9	2.0
Financial forecasts	End of quarter				End of year			
	Dec-25	Mar-26	Jun-26	Sep-26	2024	2025	2026	2027
90 day bank bill	2.52	2.51	2.50	2.95	4.45	2.52	3.40	4.45
2 year swap	2.71	3.12	3.75	4.05	3.64	2.71	4.30	4.35
5 year swap	3.27	3.71	4.10	4.30	3.73	3.27	4.35	4.45
10 year bond	4.27	4.54	4.85	4.95	4.50	4.27	5.00	5.10
TWI	66.4	67.2	66.5	66.2	69.5	66.4	69.1	72.7
NZD/USD	0.57	0.59	0.59	0.59	0.59	0.57	0.62	0.67
NZD/AUD	0.87	0.85	0.82	0.82	0.91	0.87	0.85	0.91
NZD/EUR	0.49	0.50	0.50	0.50	0.55	0.49	0.52	0.55
NZD/GBP	0.43	0.44	0.44	0.43	0.46	0.43	0.45	0.48

ECONOMIC AND FINANCIAL FORECASTS CONT.

New Zealand forecasts

Fiscal indicators	June years						
	2024	2025	2026	2027	2028	2029	2030
Core Crown tax revenue (\$bn)	133	134	137	144	155	166	177
- % of GDP	30.7	31.7	30.8	30.2	30.1	30.8	31.5
Core Crown spending (\$bn)	139	142	148	155	161	169	176
- % of GDP	31.7	33.0	32.6	32.8	32.1	31.0	30.1
OBEGALx (i.e., excluding ACC) (\$bn)	-8.8	-9.3	-13.2	-12.7	-7.6	-3.1	0.1
- % of GDP	-2.1	-2.1	-2.9	-2.7	-1.5	-0.6	0.0
Net core Crown debt (\$bn)	175	182	196	222	240	253	262
- % of GDP	41.7	41.9	43.2	46.5	47.2	46.9	46.0

International economic forecasts

Real GDP (calendar years)	Annual average % change					
	2023	2024	2025	2026f	2027f	2028f
Australia	2.1	1.0	2.0	1.8	1.2	2.4
China	5.4	5.0	5.0	4.7	4.6	4.4
United States	2.9	2.8	2.1	2.0	1.8	1.9
Japan	0.7	-0.2	1.2	0.6	0.8	0.9
East Asia ex China	3.4	4.5	4.7	4.3	4.2	4.1
India	7.2	7.1	7.6	6.5	6.7	6.6
Euro zone	0.5	0.9	1.5	0.7	1.1	1.5
United Kingdom	0.3	1.1	1.4	0.8	1.1	1.5
NZ trading partners	3.0	3.0	3.2	2.8	2.7	2.9
World	3.3	3.4	3.4	3.2	3.3	3.3

ECONOMIC AND FINANCIAL FORECASTS CONT.

Interest rates and exchange rates

	CPI	Interest rates				Exchange rates							
	Annual %	OCR	90-day bill	2 year swap	5 year swap	USD Index	NZ TWI	NZD/USD	NZD/AUD	NZD/GBP	NZD/EUR	NZD/CNY	NZD/JPY
Mar-26	3.1	2.25	2.51	3.12	3.71	98.4	67.2	0.59	0.85	0.44	0.50	4.08	92.5
Jun-26	4.4	2.25	2.50	3.75	4.10	97.9	66.5	0.59	0.82	0.44	0.50	4.01	93.2
Sep-26	4.5	2.50	2.95	4.05	4.30	97.6	66.2	0.59	0.82	0.43	0.50	3.98	92.0
Dec-26	4.4	3.00	3.40	4.30	4.35	96.7	69.1	0.62	0.85	0.45	0.52	4.15	95.5
Mar-27	4.0	3.50	3.75	4.40	4.40	95.9	70.2	0.64	0.87	0.46	0.53	4.19	96.5
Jun-27	2.1	3.75	4.00	4.40	4.45	95.1	71.8	0.66	0.89	0.47	0.54	4.26	98.3
Sep-27	1.6	4.00	4.25	4.40	4.45	94.2	72.5	0.67	0.90	0.48	0.55	4.29	98.4
Dec-27	1.6	4.25	4.45	4.35	4.45	93.9	72.7	0.67	0.91	0.48	0.55	4.29	97.8
Mar-28	1.4	4.25	4.45	4.30	4.45	94.0	72.3	0.67	0.91	0.48	0.55	4.24	96.1
Jun-28	1.7	4.25	4.45	4.25	4.40	93.8	72.0	0.67	0.91	0.47	0.55	4.22	94.4
Sep-28	2.0	4.25	4.40	4.20	4.40	93.8	71.5	0.66	0.91	0.47	0.55	4.17	92.8
Dec-28	2.1	4.00	4.15	4.15	4.35	93.6	71.3	0.66	0.90	0.47	0.55	4.19	91.1

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