



ECONOMIC BULLETIN

Preview of Half-Year Economic and Fiscal
Update December 2025 (16 December, 1pm)



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

Budget on track

- On 16 December the Government will provide an update on the state of its books (including a first forecast for 2029/30) and reveal its priorities for Budget 2026.
- We expect the Government will continue to calibrate policy (via the operating spending allowance) to forecast an OBEGALx surplus no later than 2028/29.
- As reported in October, the deficit for 2024/25 was smaller than forecast in Budget 2025, especially in cash terms, providing a positive starting point for this year's funding needs.
- Outcomes over the first third of 2025/26 are mixed relative to Budget forecasts, with OBEGALx slightly wider than forecast due to a small tax shortfall but the core Crown residual cash deficit lower than forecast due to lower-than-expected net capital outlays.
- We expect that the full-year OBEGALx deficit for 2025/26 will slightly exceed the Budget 2025 forecast, but that the Government's funding needs will be no higher than forecast due to the positive cash variation in 2024/25.
- As a result, we think it is most likely that NZDM will confirm the \$38bn bond issuance programme for this year that was forecast in Budget 2025.
- Greater-than-expected cash on hand means that T-bill/ECP issuance will remain less than forecast in Budget 2025.
- The most likely alternative would be a modest decline in this year's programme, perhaps lowering weekly tender amounts to \$400m from \$450m.
- We don't have much cause to expect sizeable revisions to the Treasury's economic and fiscal forecasts beyond the current year, and so forecast bond issuance in the out years is also likely to be close to the Budget forecast.

On Tuesday 16 December, the Treasury will release the Half-Year Economic and Fiscal Update (HYEFU) alongside the Budget Policy Statement (BPS). The HYEFU will provide an update on the economic and fiscal forecasts in Budget 2025, including the addition of a first forecast for the 2029/30 fiscal year. The BPS will set out the Government's priorities for Budget 2026 and provide an update on the Government's long-term fiscal objectives.

Cash position better than forecast.

Audited figures for the 2024/25 fiscal year revealed a more positive picture than expected at the time that the Budget 2025 forecasts were compiled. The OBEGALx deficit of \$9.3bn was \$869m smaller than forecast. The difference was partly due to core Crown tax revenue, which was around \$800m above the Budget forecast (corporate and other persons provisional tax payments were higher than expected, and PIE tax revenue continued to exceed expectations due to strong investment returns). Even so, total revenue was only \$169m above forecast, with non-tax revenue depressed by lower-than-expected revenue from the Emissions Trading Scheme. Core Crown spending was just over \$500m less than the Budget forecast, with at least some of this due to delays in spending on NZTA projects.

Turning to the cash measures, which are more closely tied to the Government's borrowing needs, the core Crown residual cash deficit of \$6.0bn in 2024/25 was almost \$4bn smaller than forecast in the Budget. In part this reflected the better-than-expected underlying operating position (which was even better in cash terms than accrual terms). In addition, net capital cashflows were around \$1.6bn below forecast. This appeared to be mostly due to delays in the timing of expected payments, at least some of which will now occur in the 2025/26 year. Given the better-than-expected cash position, net core Crown debt was \$3.5bn lower than forecast and ended the year at 41.8% of GDP – below the Budget estimate of 42.7% of GDP.

From that starting point, the unaudited government accounts for the four months to October, released today, indicate that the Government's cash needs are continuing to fall short of prior expectations. The OBEGALx deficit for this period of \$4.9bn was \$0.7bn larger than the Treasury had expected, thus close to offsetting the positive starting point surprise from the 2024/25 year. Core Crown spending is tracking very close to expectations, but core Crown tax revenue is running \$0.6bn below expectations (mainly due to a small shortfall in corporate and other persons tax). However, despite the slightly larger-than-expected OBEGALx deficit, the core Crown residual cash deficit of \$3.7bn was \$0.8bn smaller than forecast. This reflects lower-than-expected net capital cash outflows. As a result, net core Crown debt is now \$4.5bn less than forecast at the time of the Budget. This is reflected in T-bill and ECP issuance, which is running well below what had been signalled in Budget 2025.

Looking ahead to the remainder of the 2025/26 fiscal year, with nominal GDP tracking slightly lower than the Treasury Budget forecasts (allowing for impending small upward revisions), it is possible that the Treasury's revised full-year forecast for the OBEGALx deficit in the HYEPU may be slightly larger than the \$12.1bn deficit forecast in Budget 2025 (in our October Economic Overview, we forecast a deficit of \$12.2bn). That said, the Treasury's revised economic forecasts will also factor in a slightly lower near-term trajectory for both short-term interest rates and the exchange rate than assumed at the time

of the Budget, which could lead the Treasury to project slightly stronger economic growth over the course of 2026. The global trading environment will also likely be viewed slightly more positively than was the case in Budget 2025, when uncertainty about US tariffs and potential retaliatory action from other countries was high. There are no reasons to expect major unfavourable revisions to the forecasts (while dairy product prices have weakened of late, the Treasury's Budget forecast for the terms of trade was already relatively subdued).

Finally, we also note that, unlike last year, no warning signals have been sent by Treasury officials or the Minister of Finance in their public speaking engagements over recent months (aside from those about very long-term sustainability of fiscal policy settings due to demographic pressures).

Budget 2025 bond programme most likely confirmed.

On balance, while we think that the forecast OBEGALx deficit for this year could be revised up slightly from the outcome forecast in the Budget, the forecast residual cash deficit for this year may remain close to prior expectations. And given the positive starting point for the 2024/25 year, we think that the Government's overall funding needs for this year are likely to be no higher than forecast in Budget 2025.

We think the most likely outcome in the HYEPU is that NZDM confirm the \$38bn issuance programme for this year that was set in the Budget. In this case, greater-than-expected cash on hand from the 2024/25 year means that T-bill/ECP issuance in 2025/26 will continue to be less than forecast previously, so that outstanding short-term borrowings remain just a little above the medium-term target of \$13bn rather than the \$18bn that was forecast in the Budget.

The most likely alternative would be a modest decline in this year's bond programme. Lowering weekly tender amounts over the first half of 2026 to \$400m from \$450m (while retaining the intention to conduct one further

Table 1: NZ Government financing requirement (\$bn)

	24/25	25/26f	26/27f	27/28f	28/29f	29/30f
Bonds						
HYEPU (Westpac f/c)	42.7	38.0	36.0	30.0	28.0	24.0
Budget 2025	43.0	38.0	36.0	30.0	28.0	n/a
Difference	-0.3	0.0	0.0	0.0	0.0	n/a
Short-term borrowings						
HYEPU (Westpac f/c)	14.6	15.0	15.0	13.0	13.0	13.0
Budget 2025	15.0	18.0	18.0	15.0	13.0	n/a
Difference	-0.4	-3.0	-3.0	-2.0	0.0	n/a

Source: NZ Treasury

syndicated tap of an existing bond line in the first half of next year) would reduce this year's programme by around \$1bn. A \$400m per week rate is also one that could be maintained in the 2026/27 year assuming a further \$18bn of issuance via syndication and an unchanged bond programme of \$36bn.

Medium-term outlook also likely little changed.

Looking further ahead, we don't have much cause to expect sizeable revisions to the Treasury's economic forecasts beyond the current year and so projections of tax revenue are likely to be broadly in line with the Budget forecasts. We expect the Government will continue to calibrate policy via the operating spending allowance so as to forecast an OBEGALx surplus no later than 2028/29, so any minor negative deviation could be addressed via a slightly smaller operating spending allowance than the \$2.4bn per year assumed in the Budget 2025 forecasts.

While the BPS will indicate the priorities that the Government will pursue in Budget 2026, we are not anticipating any detailed new policy announcements to be captured in the HYEPU. This suggests that forecast bond issuance in the out years is likely to be close to the Budget forecast. Should fiscal outcomes between now and Budget 2026 appear to be on track to exceed expectations, that would likely open the door to the announcement of additional spending or revenue initiatives in Budget 2026, especially with a General Election looming later in the year.

Government's Budget priorities and long-term fiscal objectives likely unchanged.

The BPS will set out the Government's priorities for Budget 2026 and the Government's long-term fiscal objectives. The priorities for the Budget will likely continue to reflect the same overarching goals as articulated previously, i.e. building a stronger and more productive economy; the delivery of more efficient and effective public services; and getting the public finances back in order.

We expect that the BPS will indicate an intention to continue to pursue those goals while still working within the tight \$2.4bn operating allowance assumption that was made in Budget 2025. There may be some upside risks to this assumption as the Government is keen to promote a growth-focused agenda, especially given recent tight political polling and the General Election that is scheduled for late next year. That said, the Government has invested political capital in highlighting the high cost of debt financing and so we expect that it will be reluctant to add significantly to the projected level of debt.

The Government's long-term objectives are likely to be unchanged i.e., (1) reduce core Crown spending towards 30% of GDP over time, (2) return OBEGALx to surplus by 2027/28, and (3) put net core Crown debt on a downward trajectory to below 40% of GDP and thereafter maintain it within a band of 20 to 40% of GDP.

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