ECONOMIC BULLETIN

Preview of Pre-Election Economic and Fiscal Update.

22 Sep 2026 | **Darren Gibbs**, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

- **The Treasury will release its Pre-election Economic and Fiscal Update (PREFU) at 1pm NZT on 29 September.**
- **The PREFU will update the Budget 2026 fiscal forecasts, considering the latest economic and fiscal outturns and an updated economic outlook.**
- **We expect that the Treasury's economic forecasts, likely finalised in mid- to late-August will point to only modest changes to the medium-term fiscal outlook.**
- **We expect a small downward revision to the forecast borrowing requirement this year and next, in part reflecting the overfunding of last year's deficit.**
- **Had the economic forecasts been finalised in mid-September, a combination or higher oil prices and sharply higher long-term interest rates would likely have combined to paint a slightly weaker picture.**
- **In addition, with polls pointing to a possible change of government, or the return of the current coalition but with greater minor party influence, we caution that a clear picture of the fiscal outlook may not emerge until Budget 2027.**

The Treasury will release the Pre-Election Economic and Fiscal Update (PREFU) on 29 September (1pm NZT). The PREFU, which is required under the Public Finance Act, will update the economic and fiscal forecasts contained in Budget 2026, reflecting the latest economic and fiscal information and updated economic forecasts. The PREFU is prepared on the assumption that spending and revenue policies remain consistent with the decisions of the current Government. On the policy front there will be little change to what was incorporated in the Budget (the rephasing of the planned fuel tax excise, following the cancellation of next year's planned 12c/litre increase, will be captured).

This "book opening" exercise is designed to create a level playing field, allowing parties outside the current Government and the public more generally to judge the state of the public finances in the leadup to the General Election. In the case of the opposition parties, it will also allow them to calibrate the spending and taxation policies on which they will campaign. In the weeks that follow the release of the PREFU, we expect the major parties to release detailed fiscal plans showing how they expect their policies will impact the fiscal outlook.

Of course, the negotiations that take place to form a coalition after the election means that the next Government's fiscal policy will be a hybrid of whatever individual parties propose and may not even be the same as present policy even if the current coalition is returned. For this reason, the PREFU forecast will likely have a short shelf life. And with recent changes to the Public Finance Act meaning that a Half-Year Economic and Fiscal Update (HYEFU) will likely not be published this year, the true fiscal colours of the next Government and the implications for the medium-term borrowing programme may not become clear until Budget 2027 is released, most probably in May next year. Some indication of the medium-term outlook may be offered when the Budget Policy Statement (BPS) is released some time before the end of March.

With those caveats, we think that the following is relevant when considering what the Treasury might show in the PREFU.

- Unaudited information for the first 11 months of the 2025/26 year suggested that NZDM likely overfunded the deficit by circa $2bn. From a funding perspective, this provides a small buffer against any deterioration in the forecast fiscal position in the current year.

- At this stage there is no hard data on how the public accounts have tracked since May. The audited accounts for 2025/26 year will be released on 8 October, providing information on the month of June, while data covering the three months to September will be released in early November.
- The Budget 2026 economic forecasts were finalised on 24 April – more than a month before the Budget was released. Therefore, the forecasts that will underpin the PREFU were likely finalised in mid-to-late August.
- Data released last week by Stats NZ indicated the nominal economy – a proxy for the tax base – was 1.6% larger in the June quarter than the Treasury had expected at the time it finalised its Budget 2026 forecasts. In the PREFU the Treasury will likely have revised up its estimate of June quarter GDP.
- This stronger-than-expected growth in nominal GDP goes some way to explaining why tax revenue was tracking ahead of expectations as of May. Our best guess is that tax flows will have sustained their recent trend given our assessment of the economy's performance in Q3.
- When the PREFU forecasts were likely finalised, Brent crude was around $20 lower than at present and therefore seemingly not materially different to what the Treasury had assumed in Budget 2026. The 4.5% decline in the SNA terms of trade in the June quarter was in line with the Budget forecast.
- The OCR is tracking higher than the Budget forecast, with the RBNZ tightening policy sooner than the Treasury had expected. However, we don't think that this will have a large impact on the Treasury's medium-term outlook, as in the Budget it had anticipated that the OCR would rise to around 2.75% by mid-2027 and around 3% by mid-2028.
- Similarly, when the PREFU forecasts were likely finalised the 10-year Government bond yield was just 10bps above the Budget forecast, compared with more than 40bps at present. Therefore, we don't expect that revisions to PREFU interest rate assumptions will have a large impact on estimates of debt financing costs (this will be an upside risk in future updates, however, and our own fiscal forecasts have long been based on a higher path for interest rates than that assumed by the Treasury).
- Estimates of near-term trading partner growth are slightly firmer than they were when the Treasury published the Budget, in particular reflecting the strong performance of those economies benefitting from AI-related activity. The NZ dollar was trading near Budget forecasts in mid-August, so the Treasury's forecasts will not factor the depreciation seen over the past month.
- In Budget 2026 the Treasury forecast nominal GDP growth of 5.0% in the current 2026/27 year. Our own current forecast – finalised at a similar time to the PREFU – envisaged nominal GDP growth of close to 6%.
- Given the above, it is possible that the Treasury slightly upgrades at least its near-term economic and fiscal forecast, providing the Minister of Finance with the "treat" that she said she was hoping for when speaking at a recent financial markets conference in Auckland (most fiscal updates during her tenure have been far from treats given the run of significant revenue downgrades that was only broken with the release of Budget 2026).

Putting this all together, our best guess is that the PREFU will point to a fiscal outlook that is broadly similar to that forecast in Budget 2026, but with the likelihood that near-term outcomes are slightly more favourable. Therefore, in terms of the key fiscal metrics, the PREFU is likely to continue to show OBEGALx returning to surplus in 2028/29 and core Crown debt peaking as a proportion of GDP a year earlier in 2027/28.

Given the possibility of a slightly improved near-term outlook, at least due in part to what is likely to be projected as a better-than-expected outcome in 2025/26, NZDM could reduce its forecast of short-term borrowings. For the next two years, the Budget forecast for these was $2bn above the current long-term target of $13bn. Alternatively, and perhaps more likely in the current environment, we think the NZDM could elect to reduce the current year's NZGB programme by $2bn to $32bn. Given the current weekly tender rate of $450m, this would mean that only one $4bn syndication would be required over the remainder of the fiscal year to complete the NZGB programme.

Looking beyond the current year, there may also be scope for a modest downward revision to the outyear forecasts, especially if the Treasury adopts a more optimistic view of the economic outlook than we are expecting. That said, we think that the market should treat these medium-term forecasts with some caution given the approaching general election and the possibility that a change in the composition of the government or economic factors could quickly invalidate the assumptions on which the PREFU forecast is likely to be based. Indeed, the Treasury may acknowledge that more recent developments present downside risk to the baseline forecast, as it did in the Budget.

Table 1: NZGB financing requirement ($bn)

	25/26	26/27f	27/28f	28/29f	29/30f
Bonds					
Budget 2026	35.1	34.0	32.0	30.0	28.0
PREFU (Westpac estimate)	**35.1**	**32.0**	**30.0**	**30.0**	**28.0**
difference	0.0	-2.0	-2.0	0.0	0.0

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