ECONOMIC BULLETIN

New Zealand Pre-Election Economic and Fiscal Update 2026.

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

An improved fiscal outlook, but risks skewed to downside.

- **The PREFU points to a near-term fiscal position that is stronger than depicted in the Budget, reflecting a better-than-expected 2025/26 outcome and higher forecast nominal GDP growth due to more persistent inflation.**
- **Treasury state that the balance of risks around these forecasts is skewed to the downside, reflecting developments since the economic forecasts were finalised on 21 August – especially in the oil and sovereign bond markets – and other fiscal risks. We agree.**
- **A deficit of $8.6bn is estimated for 2025/26, down from the Budget estimate of $11.9bn. The forecast deficit for 2026/27 has been revised down significantly to $6.8bn from $11.4bn.**
- **Thereafter, the OBEGALx deficit is expected to continue to gradually decline, so moving to a surplus of $4bn in 2028/29 – broadly following the Budget profile, but stronger across the forecast period.**
- **Net core Crown debt is forecast to peak at 43.9% of GDP in 2027/28 and then decline to 39.5% of GDP in 2030/31.**
- **Given the improved outlook, NZDM announced a $4bn reduction in the 2026/27 bond programme to $30bn and a $15bn reduction in the forecast programme across the whole period through to 2029/30.**
- **Risks associated with the economic outlook and potential political change means that a clear picture of the medium-term fiscal outlook may not emerge until Budget 2027.**

Today the Treasury released its Pre-election Economic and Fiscal Update (PREFU), updating the Budget 2026 (BEFU) fiscal forecasts to reflect the latest economic and fiscal information and an updated economic outlook. As we had suggested in our preview, the PREFU depicts a stronger starting point for the Government's finances than indicated in the BEFU. Indeed, the extent of improvement forecast is greater than we had expected and certainly favourable compared to general expectations that PREFU borrowing programme would be little changed from the BEFU.

However, it is worth noting at the outset that the economic forecasts underpinning the PREFU were finalised on 21 August, when both oil priced and especially bond yields were materially lower than they are today. Had the forecast been finalised more recently, the fiscal forecasts presented today would have been weaker, at least in the near term. Indeed, the Treasury are upfront in acknowledging that while there are two-sided risks, the balance of risks is skewed to the downside because of these and other factors (such as risks surrounding the performance of Crown entities, other cost pressures and expected future spending). That said, the medium-term trend improvement indicated by the PREFU – and the BEFU before it – would likely remain. We will come back to these risks later.

The table at the end of this note summarises the main fiscal metrics and economic assumptions and compares these with those published in the BEFU. We think the key takeouts from the PREFU are as follows.

- The latest estimate for the 2025/26 fiscal year points to an OBEGALx deficit of $8.6bn (1.9% of GDP) and a residual cash deficit of $4.9bn. These deficits, which will be finalised when the audited accounts are released on 8 October, are $3.3bn and $4.4bn smaller than the respective BEFU forecasts – a positive development that was already clear in fiscal data released for the 11 months to May.

- Off that improved starting point, the Treasury now forecasts an OBEGALx deficit of $6.8bn (1.4% of GDP) and a residual cash deficit of $22.0bn in the current 2026/27 fiscal year. These deficit forecasts are $4.6bn and $2.2bn smaller than the respective BEFU forecasts.
- Beyond the current year, as in the BEFU, the new forecasts continue to show OBEGALx tracking back to surplus in 2028/29, but with a surplus of $4.0bn now forecast in that year compared to $2.6bn previously. Across the period out to 2029/30, the PREFU estimates a cumulative OBEGALx deficit that is around $15bn smaller than forecast in the BEFU. With an additional forecast year added to the PREFU, Treasury forecasts a surplus of $11.7bn in 2030/31 (2.0% of GDP). OBEGAL (i.e., including ACC) is now forecast to reach surplus in 2028/29 – a year earlier than forecast in the BEFU.
- Net core Crown debt is forecast to peak in 2027/28 at 43.9% of GDP. The peak level is lower than the peak of 46.1% forecast in the BEFU. Net core Crown debt is forecast to decline to 39.5% of GDP at the end of the forecast period in 2030/31, so moving into line with the current Government's goal of moving debt below 40% of GDP over the medium term.
- Forecasts of core Crown spending are little changed from the BEFU, and this is now forecast to decline to 29.8% of GDP in 2030/31. Rather, the improvement in the fiscal bottom line is driven by an improved forecast for core Crown revenue, especially in the near-term. As noted below, this reflects the Treasury's stronger forecast for growth in nominal GDP, coming off a stronger than-expected base in the 2025/26 year.
- Reflecting the improved fiscal outlook, the NZDM's bond programme for this year has been reduced by $4bn to $30bn and the forecast total programme over the period through to 2029/30 has been reduced by $15bn. Projected short-term borrowing in the current year has also been reduced. NZDM's press release notes that it intends to conduct a tap syndication of the 2034 nominal green bond line in the first half of next year.
- The Treasury's latest estimates of the total fiscal impulse – a measure of whether the first-round impact of fiscal policy settings is having a stimulatory or contractionary impact on the economy – suggests that policy was tighter over the past year than previous estimated. The forecast fiscal impulse over the forecast period is little changed from the BEFU.
- The Treasury's revised economic forecasts depict a similar outlook for real GDP as in the BEFU, with growth expected to average just over 2½% of GDP. However, forecasts for nominal GDP have been raised, especially in the near-term, reflecting the stronger starting point and a forecast that inflation will be more persistent in the near-term. The Treasury's nominal GDP forecasts seem reasonable given the time these forecasts were made – indeed, Westpac's current forecasts (prepared at a similar time) are slightly stronger.
- The Treasury has raised its forecast for the 90-day rate suggesting that it expects a 3% OCR by around the end of next year, moving up to around 3.5% next year. The Treasury's forecast for the 10Y bond yield has been raised by just 10bps to 4.7% – significantly below where these bonds are trading today. If yields remain around current levels, the forecast bottom line would be around $0.5bn weaker than forecast by 2030/31.

The bottom line is that we think the near-term fiscal forecasts seem reasonable. We had expected a reduction in the bond programme this year and next given a likely upward revision to the outlook for revenue. Today's forecasts suggest that actual tax flows since the last published data for the month of May have been consistent with the rise in nominal activity.

However, as we noted in our preview, we think that the market should treat the medium-term forecasts in the PREFU with due caution. Aside from the obvious uncertainty about the economic outlook due to the unpredictability of future developments in the Middle East, the approaching General Election and the possibility of at least a change in the composition of the government means that the assumptions on which the PREFU forecast is based could quickly be invalidated.

More generally, we think that future fiscal policy settings are unlikely to be tighter than depicted in the PREFU, either because economic conditions prove more difficult or because of policy decisions that may be taken that at least partially dispose of projected surpluses even if conditions prove favourable. The same inflation pressures that are helping to boost government revenue will also make it very challenging to deliver spending in line with the very tight operating allowances that underpin these forecasts ($2.4bn a year – same as in the BEFU). The forecasts assume that core Crown spending shrinks from 32.1% of GDP last year to 29.8% of GDP by 2030/31. We think that this will be difficult to achieve given real (as well as inflation) pressures in the core services such as health, education and justice. For this reason, Westpac's own recent forecasts assumed some relaxation of spending restraint from Budget 2027 onwards.

Over coming weeks, we will be very interested to see the detailed fiscal plans that the major political parties plan to release. In particular, we will be looking at how their various planned spending and revenue initiatives can be reconciled with their already stated targets for measures of the operating balance and net debt.

Table 1: Key fiscal metrics and economic assumptions

	24/25	25/26e	26/27f	27/28f	28/29f	29/30f
Core Crown spending ($bn)						
PREFU 2026	142	146	155	158	163	169
Budget 2026	142	147	155	159	163	168
Core Crown revenue ($bn)						
PREFU 2026	134	139	150	158	168	177
Budget 2026	134	138	146	156	166	174
OBEGALx ($bn)						
PREFU 2026	-9.3	-8.6	-6.8	-0.8	4.0	8.1
Budget 2026	-9.3	-11.9	-11.4	-4.3	2.6	6.1
OBEGALx (% of GDP)						
PREFU 2026	-2.1	-1.9	-1.4	-0.2	0.8	1.4
Budget 2026	-2.1	-2.6	-2.4	-0.8	0.5	1.1
Core Crown residual cash ($bn)						
PREFU 2026	-6.0	-4.9	-22.0	-13.6	-7.3	-1.8
Budget 2026	-6.0	-9.3	-24.2	-15.6	-8.8	-4.5
Net core Crown Debt (% of GDP)						
PREFU 2026	41.9	41.0	43.7	43.9	43.3	41.8
Budget 2026	41.9	42.4	45.6	46.1	45.6	44.4
NZGB borrowing programme ($bn)						
PREFU 2026	42.6	35.1	30.0	28.0	26.0	25.0
Budget 2026	42.6	35.1	34.0	32.0	30.0	28.0
Total Fiscal Impulse (% of GDP)						
PREFU 2026	-0.34	-0.88	1.38	-1.76	-1.33	-0.87
Budget 2026	-0.34	0.11	1.07	-2.01	-1.31	-0.90
Real GDP growth (ann. avg.)						
PREFU 2026	-1.1	1.6	2.3	2.9	2.7	2.6
Budget 2026	-1.1	1.2	2.3	3.2	2.7	2.5
Nominal GDP growth (ann. avg)						
PREFU 2026	3.4	4.8	5.3	5.7	4.9	4.7
Budget 2026	3.4	4.0	5.0	6.1	5.2	4.6
Unemployment (June qtr)						
PREFU 2026	5.2	5.6	5.2	4.7	4.4	4.3
Budget 2026	5.2	5.5	5.0	4.5	4.4	4.3
CPI inflation (ann %)						
PREFU 2026	2.7	4.1	1.9	2.0	2.1	2.1
Budget 2026	2.7	4.0	1.6	2.1	2.1	2.0
90-day rate (June qtr)						
PREFU 2026	3.4	2.6	3.5	3.7	3.8	3.8
Budget 2026	3.4	2.5	2.8	3.1	3.3	3.3
10-yr bond rate (June qtr)						
PREFU 2026	4.6	4.6	4.7	4.7	4.7	4.7
Budget 2026	4.6	4.6	4.5	4.5	4.5	4.5

Source: The Treasury, Westpac

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