

Budget 2025

Summary at a glance

Budget 2025 continues the Government's well-signalled emphasis on fiscal consolidation alongside economic growth. It includes \$6.7bn of operating investment in new initiatives – with \$4.9bn funded through savings and reprioritisation – and \$6.8bn of capital investment in the key areas of defence, education, health, and law and order.

Reflecting the Government's emphasis on growth, a key focus of today's announcement was the introduction of Investment Boost – a tax incentive to encourage businesses to invest in productive assets. The initiative allows for an immediate tax deduction of 20% of the cost of eligible new assets.

It is forecast to cost \$1.7bn per annum and to lift GDP by 1% and wages by 1.5% over the next 20 years. Additional growth measures include \$85m to enable the establishment of Invest New Zealand – the new foreign investment agency that was announced by the Government in January 2025.

Alongside this tax incentive, changes to Kiwisaver were announced, focused on:

- Improving national savings – through increasing the default employer and employee rate from 3% to 4%.
- Increasing the financial sustainability of the scheme – through halving the Government's contribution level and removing eligibility for this contribution for those earning over \$180,000.

The economic outlook has deteriorated relative to previous forecasts, with real GDP growth expected to be lower and slower, peaking at 3% in FY27 before reducing to 2.6% by the end of the four year forecast period.

The operating balance deficit, using the Government's headline operating balance OBEGALx measure, is expected to increase in the near term, before returning to a more modest surplus than previously forecast in FY29 (2028/29). Under OBEGAL, there is no return to surplus within the forecast period.

Net core Crown debt is expected to increase over the forecast period due to the additional borrowing required to bridge cash shortfalls, and is forecast to peak at 46% of GDP in FY28, before reducing to 45.5% of GDP by the end of the forecast period.

Forecast period: FY25 – FY29

Economic and fiscal update

3%

GDP forecast

Real GDP growth is expected to be lower and slower than previously forecast, peaking at 3% in FY27 before reducing to 2.6% by the end of FY29.

2.2%

Inflation

Inflation is expected to remain within the Reserve Bank's target range of 1%-3% over the forecast period, reaching a peak of 2.2% by the end of 2026 before stabilising at 2% from 2027 onwards.

5.4%

Unemployment

Unemployment is set to peak in 2025 at 5.4% – higher than previously forecast – before gradually decreasing over the forecast period.

4 bn

Capital allowance

The capital allowance for Budget 2025 was raised from \$3.625bn to \$4bn, offset by a decrease in the capital allowance to \$3.5bn for the next three Budgets.

2.4 bn

Operating balance

The operating balance, using the Government's headline operating balance OBEGALx measure, is expected to weaken in the near term, before returning to a more modest surplus than previously forecast in FY29. Under OBEGAL, there is no return to surplus within the forecast period. Future operating allowances for Budgets 2026, 2027 and 2028 have been maintained at \$2.4bn.

2.6%

Wage growth

While an improvement on the previous forecast, wage growth is expected to decrease over the period, from 3.9% in FY25 to 2.6% in FY26 before stabilising at 2.7%.

46%

Net core Crown debt

Net core Crown debt increases over the forecast period, peaking at 46% of GDP in FY28, before reducing to 45.5% of GDP by the end of the forecast period.

6.7%

Housing market

House price growth is expected to improve, peaking in 2027 at 6.7%.

Key spending announcements



Investment Boost

Budget 2025 includes the introduction of Investment Boost, a tax incentive to encourage businesses to invest in productive assets. It is forecast to cost \$1.7bn per annum, and lift economic growth and wages over time by encouraging businesses to invest. Under Investment Boost, businesses can deduct 20% of the cost of eligible new assets in the year they are acquired or become available for use. Depreciation is still available but calculated based on a 20% reduced cost base. The deduction applies to new assets that are purchased or become available for use from today.



KiwiSaver

Changes to KiwiSaver were announced in Budget 2025 to improve national savings and support the financial sustainability of the scheme. Key changes include increasing the default employer and employee contributions rates from 3% to 4%, expanding eligibility to 16 and 17 year olds, halving the government contribution level, and removing eligibility for the government contribution for those earning over \$180,000.



Welfare changes

The Government announced changes to better support low and middle-income families with children in Budget 2025, including increasing the fortnightly Working for Families payment by an average of \$14. This change is being delivered by increasing the abatement threshold – from \$42,700 to \$44,900 – and introducing income testing for the first year of the Best Start tax credit. Eligibility for Jobseeker Support and the Emergency Benefit will be tightened for single unemployed 18 and 19 year olds through the introduction of a parental assistance test.



Savings

Previously announced changes to the pay equity regime as part of Budget 2025 result in \$12.8bn of savings over the forecast period, noting a portion of these savings has been retained for future pay equity claims.



Health

Budget 2025 confirms previously announced investment in the health sector, including \$447m to support increased access to primary care, plus new spending initiatives, including \$91m to increase maximum prescribing duration limit from 3 to 12 months where appropriate. Budget 2025 also sets aside \$1bn of capital investment in health infrastructure, including the Nelson Hospital Redevelopment and Palmerston North Hospital Redevelopment Programmes, and an additional \$50m for upgrades to mental health facilities.



Transport

Budget 2025 provides \$464m of capital investment and \$141m of operating expenditure for rail network maintenance in the Auckland and Wellington metro areas. It also provides investment of \$219m in local roads to support ongoing recovery from Cyclone Gabrielle.



Education

Budget 2025 provides \$2.5bn for education over the forecast period, including \$646m to support children with additional learning needs and increases in operational grants for schools and early childhood initiatives, alongside targeted cost adjustments to tertiary education tuition / training subsidies. Budget 2025 also provides for \$712m of capital investment and \$234m of operating expenditure for new classrooms and school property maintenance.



Defence

Budget 2025 provides \$4.2bn for defence, including the previously announced \$957m of operating funding to improve defence capabilities. It also allocates \$2.7bn of capital investment and \$563m of operating funding for priority projects within the 2025 Defence Capability Plan.

Social investment

Budget 2025 confirms \$275m for social investment initiatives, including the creation of a Social Investment Fund.

Abuse in care

Budget 2025 confirms \$774m of funding to respond to the Royal Commission of Inquiry into Abuse in Care, improving redress for survivors.

Law and order

Budget 2025 confirms \$480m for frontline policing and \$472m to manage prison growth.

Energy

Budget 2025 provides \$200m tagged as contingency funding over four years for co-investment in new gas fields. This signals a willingness for the Crown to take an ownership stake in gas fields.