

Half Year Economic and Fiscal Update 2025

Today's Half Year Economic and Fiscal Update (HYEFU) forecasts growing momentum in New Zealand's economic recovery. While real GDP growth is expected to be lower and slower than previously forecast, the recovery is likely to be supported by growing consumer spending, strong demand for agricultural exports, and increased residential investment. Under the headline OBEGALx (Operating Balance before Gains and Losses excluding ACC) measure, the return to surplus is delayed by one year to 2029/30. Under the OBEGAL measure, there is no return to surplus within the forecast period.

The Budget Policy Statement (BPS) continues the Government's emphasis on fiscal constraint - with the operating and capital allowances remaining at \$2.4bn and \$3.5bn respectively for the forthcoming four budgets, along with a continued focus on Government agencies managing any new spending from within existing baselines. It is worth noting that with pre-commitments, there is likely to be only about \$1bn of new spending available for Budget 2026.

The BPS indicates the focus for any new spending at Budget 2026 will be on the key priority areas of health, education, defence and law and order.

Economic update for the period 2025/26 - 2029/30



GDP forecast

Real GDP growth is lower and slower than previously forecast, with 1.7% growth forecast in 2025/26 before increasing to 2.5% at the end of the period.



Unemployment

The unemployment rate is expected to peak at 5.5% in the December and March quarters of 2025/26, reducing to 4.3% by the end of the period.



Inflation

Inflation is forecast to remain in the Reserve Bank's target range of 1-3% throughout the period, peaking at 2.4% in 2025/26. This peak is higher than previously forecast.



Wage growth

Wage growth is expected to gradually increase from 2.6% in 2025/26 to 3% at the end of the period. This reflects a modest improvement compared to previous forecasts.

Fiscal update for the period 2025/26 - 2029/30



OBEGALx and OBEGAL

OBEGALx is expected to return to surplus in 2029/30, a year later than forecast in the Budget 2025 update. This slower return to surplus is attributed to weakened GDP growth. Under the previous OBEGAL measure there is no return to surplus within the period.



Operating allowance

The operating allowance for the forthcoming three Budgets remains at \$2.4bn, aligned to the Budget 2025 update. For Budget 2026, once pre-commitments are accounted for, there will be \$1 billion per year (on average) available for new spending.



Capital allowance

The capital allowance will remain at \$3.5bn for the next four Budgets.



Net debt

Net core Crown debt is forecast to peak at 46.9% as a percentage of GDP in 2027/28, 0.9 percentage points higher than forecast in the Budget 2025 update.