

Budget 2026

Summary at a glance

Budget 2026 is shaped by two overlapping forces – continuing domestic fiscal consolidation and the Middle East conflict – and anchored by significant investments in health, education, transport and defence. While the near-term economic outlook is impacted, the Budget does forecast a return to surplus earlier than previously expected.

Treasury assumes the oil price shock as a result of the Middle East conflict will be temporary but expects higher fuel prices to lift near-term inflation and cost pressures, slowing the recovery in household spending, business investment and wider activity.

At the same time, the fiscal backdrop remains tight. The Government has announced \$3.8 billion of new spending (per annum on average), comprising of a \$2.1 billion allowance and \$1.7 billion from savings and revenue announcements.

New spending is focused on areas such as health, defence, transport and education, alongside \$5.7 billion of net capital investment. The forecast return to surplus in FY29 (under the OBEGALx measure) relies on continued restraint, including in future operating allowances, baseline savings and reprioritisation.

Economic and fiscal update

3.2%

GDP forecast

Real GDP growth is expected to remain subdued in the near term, recovering from – 1.1% in FY25 and peaking at 3.2% in FY28.

4.0%

CPI inflation

The Middle East conflict is estimated to add 1 percentage point to annual CPI inflation which is expected to peak at 4.0% in FY26 before easing.

5.5%

Unemployment

The unemployment rate is expected to peak at 5.5% in FY26 before declining to 4.3% in FY30.

3.5%

Wage growth

Nominal wage growth is forecast to gradually increase throughout the forecast period, reaching a peak of 3.5% in FY30.

4.6%

Housing market

House prices are expected to grow slower than previously forecast, falling by 0.5% in FY26 before growth peaks at 4.6% in FY28.

2.1bn

Budget 2026 operating allowance

The Budget 2026 operating allowance is \$2.1 billion average per annum, \$0.3 billion lower than the allowance signaled in the HYFEU 2025.

5.7bn

Budget 2026 capital package

The Budget 2026 capital package totals \$5.7 billion, comprising \$6.8 billion of new capital spending and \$1.1 billion of capital savings.

FY29

Operating balance (OBEGALx)

OBEGALx is now forecast to return to surplus one year earlier than previously expected.

Key spending announcements



Health

Health receives the single largest allocation in Budget 2026, including a \$5.5 billion operating increase across the forecast period for cost pressures and to support population demand. Additional new investments total \$300 million in operating funding across the forecast period. These initiatives include \$34 million for three-day postnatal stays, \$33m for lowering the age for bowel screening to 56, and \$16 million for specialist paediatric palliative care. An additional \$54 million is allocated to Pharmac to purchase medicines.

Budget 2026 also sets aside \$682 million of capital investment, including a new tower block for Whangārei Hospital, and funding for enabling works for redevelopment at Tauranga, Hawke's Bay and Palmerston North. There has been an undisclosed amount of funding set aside for the acquisition of land south of Auckland for a new hospital. Further funding is provided to continue work on Dunedin Hospital and the new medical school at the University of Waikato.



Education (including Tertiary)

Budget 2026 provides \$2 billion of operating funding and \$501 million of capital funding for education over the forecast period.

This includes \$131 million to strengthen teaching and learning, with a focus on helping students meet standards in reading, writing and maths. A further \$74 million supports the implementation of a refreshed curriculum and new national qualifications.

The Budget also includes \$470 million of capital investment to redevelop up to 10 schools, deliver up to 232 additional classrooms, and purchase land for new schools.

Final-year Fees Free will end at the end of 2026, generating savings of just over \$1 billion. Some of these savings will be reinvested in vocational pathways, including \$87 million for 1,000 additional Youth Guarantee places for young people with no or low qualifications, and \$69 million to double Trades Academy places to 20,000 for Year 11 to 13 students.

Additional education investments include \$212 million to continue the Healthy School Lunches and Early Childhood Education Food programmes in 2027, and \$25 million to increase funding rates for foundation education providers.



Defence and foreign affairs

Aligned with the Government's intent to increase defence spending as a proportion of GDP, Budget 2026 provides \$2.3 billion in capital funding and \$1.2 billion in operating funding across the forecast period to strengthen New Zealand's defence and intelligence capabilities.

Investment is directed at retaining existing Defence Force personnel and workforce recovery in key areas, improving military base facilities and Defence Force housing across New Zealand, and maritime platform restoration activities ensuring the Anzac-class frigates and HMNZS Canterbury remain operational.

\$21 million in funding is provided to increase focus on Defence Science and for establishing a Technology Accelerator to strengthen national security and innovation.

For foreign affairs, \$110 million is provided for international development cooperation focused on the Pacific, and \$145 million is allocated to maintain a resilient, safe and secure offshore diplomatic and trade network.



Transport

Budget 2026 provides capital investment of \$1.8 billion to extend the Waikato Expressway from Cambridge to Piarere, alongside \$400 million capital investment for a package of state highway resilience upgrades.

\$705 million capital and \$477 million operating funding is provided to renew and upgrade New Zealand's rail network.



Public service transformation

Budget 2026 advances the Government's public sector transformation programme through baseline savings that aim to right-size the public sector, improve the efficiency and productivity of government spending, and enable a more digitally driven public service. The transformation includes agency baseline reduction targets totaling \$2.4 billion across the forecast period, underpinning the Government's goal of reducing core public service FTEs to 55,000 by June 2029.

Resource management

\$294 million is provided to progress reforms to New Zealand's resource management system.

Housing supply

\$400 million is introduced as a new financial incentive for councils to encourage housing growth.



Revenue and tax

Budget 2026 includes a targeted revenue and tax package focused on reducing compliance costs, maintaining the integrity of the tax system, and supporting investment, capital and talent retention in New Zealand.

The key tax measures include simplifying the fringe benefit tax rules for private motor vehicle use, changes to the foreign investment fund rules to support investment and internationally mobile talent by ensuring tax is paid only on realised gains and dividends, and amendments to the tax settings for charities and not-for-profits. The package also includes additional Inland Revenue funding for compliance and debt collection, signalling continued focus on overdue tax debt, data-led compliance activity and areas where the Government sees integrity risk.

The proposed prudential levy on banks and other regulated financial institutions is also notable. It is framed as a levy to help recover the cost of regulation and supervision by the Reserve Bank, rather than as a general tax. However, it is a revenue measure and raises the broader question of how cost-recovery levies should be distinguished from sector-specific taxation, particularly where material amounts are raised from a defined sector.

Policing

\$306 million in operating funding and \$86 million in capital funding is provided to Police. Key operating funding includes \$50 million for increased frontline policing, while capital funding is allocated to new police stations in Whanganui and Greymouth and replacement of the automated biometric information system.

Energy

\$198 million in capital funding is set aside to enable the Crown to participate in Genesis Energy's capital raise and maintain at least a 51% shareholding.

Social housing and welfare

Budget 2026 allocates \$824 million operating expenditure over four years and \$2 million capital for social housing and welfare.

\$69 million in funding is provided for up to 2,250 additional social houses, and additional funding will support more case management and support for sole parents into work.

There are changes to financial support for lower-income renters, with the Accommodation Supplement for people in private rentals increasing and income-related rents for people in social housing also increasing. This is a fiscally neutral change.

Lower maximum payments of Temporary Additional Support are expected to generate a saving of \$196 million, while \$45 million in funding is provided to extend community food support and kids' breakfasts programmes.