Research

Economy Watch

22 May 2025

NZ Budget 2025

Key forecasts

The Government expects a balanced budget in the year ended June 2029.

Deficit is projected to rise to 2.6% of GDP in fiscal 2026 from 2.3% this year.

Net core crown debt progressively edges higher from a current 42.7% of GDP to a peak of 46.0% of GDP in the June year 2028.

The fiscal forecasts are based on Treasury's expectation that following a 0.8% contraction in GDP in the June year 2025 growth will bounce to average 2.9% per annum over the next four years.

The Government keeps referring to today's Budget as the "Growth Budget". We're not so convinced that terminology is entirely apt. With expenditure as a proportion of GDP falling and the fiscal impulse negative for most of the next three years, the overall fiscal stance is contractionary.

It is clear the Government is trying to create an environment which fosters better growth over the medium term but the possibility of a near term positive response is limited. After all, the Government is hell-bent on returning the fiscal balance to surplus and stopping the growth in debt. With revenue under pressure from a weak economy then there really isn't any room to produce a Budget that is outright stimulatory.

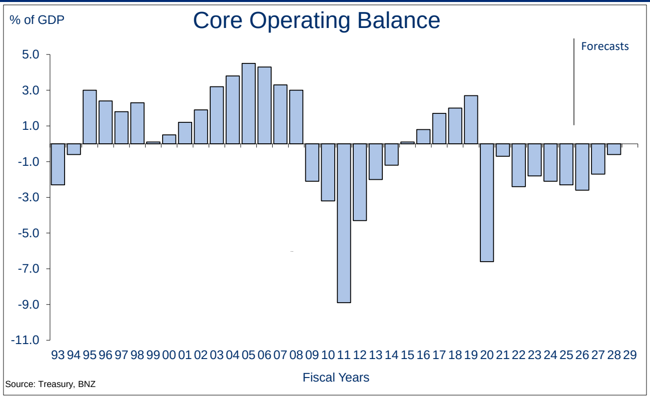
Fiscal and economic outlook

The government is still on track to achieve a Budget surplus in the year ended June 2029. Or so it says. We're not so sure of this. To start with, the surplus is a mere $214 million which rounds to 0.0% of GDP. More importantly, we can't help but think GDP growth will come in below Treasury's expectations.

Treasury's assumption that growth bounces to 2.9% of GDP in the year ahead seems a little heroic to us. This is not a criticism of Treasury's forecasts per se but simply the acknowledgement that global developments pose a real threat to everyone's expectations, including our own.

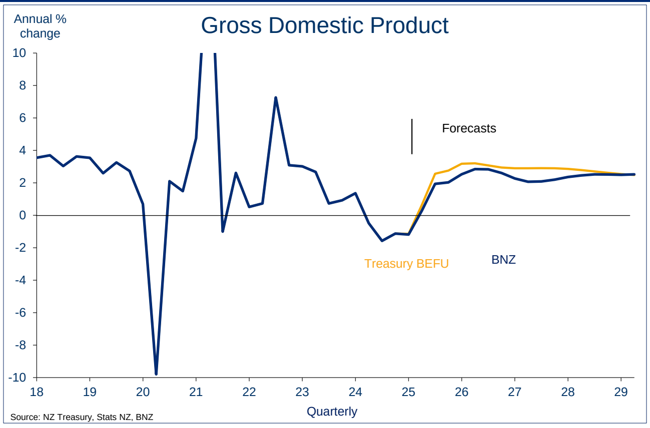
Interestingly, Treasury's assumptions for weaker international growth look about right. Where we seem to differ with Treasury is our expectation that residential construction will stay weaker for longer and our view that import penetration will be higher.

When is a surplus not a surplus?



Under the circumstances, Treasury forecasts can be considered as being meaningfully within the bounds of possible economic outcomes. But as things stand, we think growth could come in as much as 0.5% per annum below Treasury's expectations.

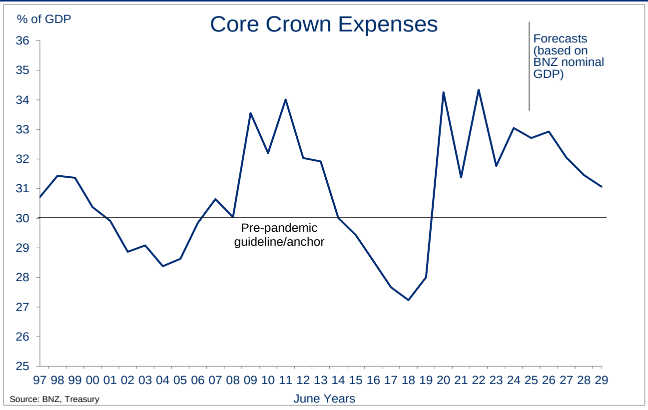
A little optimistic?



Be that as it may, it remains commendable that the Government is running a policy mix that is intended to unwind spending that was associated with COVID, reduce the fiscal deficit over time and ensure that net debt does not blow out.

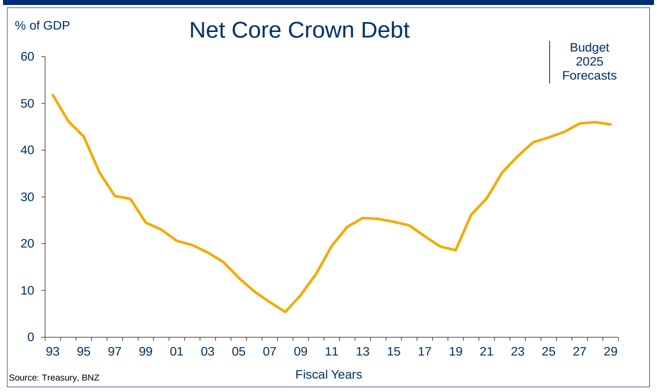
Core crown expenses were 28.0% of GDP in the year before COVID. They climbed to a peak of 34.4% in fiscal 2022. There was good reason for the jump. The question has always been why has there been no reversal given that the major costs of COVID are now largely behind us? In fiscal 2025 the expense ratio to GDP had fallen to 32.7%. It is forecast to keep falling to 30.9% in fiscal 2029, still well ahead of the pre-COVID level.

Expenses Falling



With regard to debt, Finance Minister Willis restated the Government's position that net debt must not go over 50%. This Budget has net core crown debt peaking at 46.0% of GDP in the June year 2028. This is not meaningfully different to the projection provided at last year's Half Year Fiscal Update.

When is a surplus not a surplus?



There are many countries in the world which are struggling in the fiscal space not the least of which is the United States where the fiscal deficit is settling at near 6.5% of GDP and whose debt ratio is climbing further and further above 100%.

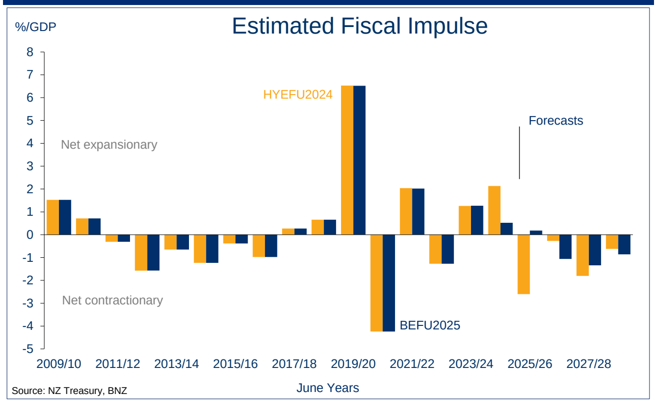
One can argue ad nauseam about the appropriateness of the specifics of the Budget but we are relatively comforted by the Government's general fiscal approach albeit that more fiscal restraint will be required in future Budgets given that the majority of next year's operating allowance has already been pre-committed.

We'd thought the rating agencies might think likewise, especially given that the forecast fiscal improvement is being accompanied by a rapidly improving current account position. But it appears that Standard&Poors is not so convinced in expressing some concern that "New Zealand's budget repair begins to stall" and going so far as to say that our twin deficits could "weigh on" our credit rating. We doubt these deficits will be a problem and certainly not relative to what is happening elsewhere on the planet.

Implication for the RBNZ

The fiscal impulse for the economy in the coming year is much stronger (or at least much less weak) than had been forecast. But much of this is because the 24/25 stimulus was lower than anticipated, and over the forecast horizon the total shift in stimulus is small. On this basis we doubt this Budget will have any meaningful impact on the Reserve Bank's upcoming decision.

Contractionary fiscal policy



That said, Treasury stated that new policies will mean the cash rate would be 30 basis points lower than would otherwise have been the case. Accordingly, Treasury has lowered its expectation of the trough in the cash rate to 2.5%.

One thing the RBNZ might be happy about is that lost in the bowels of the Budget was the news that Statistics New Zealand has been given funding to produce a monthly CPI. The RBNZ has been pushing for this for a very long time.

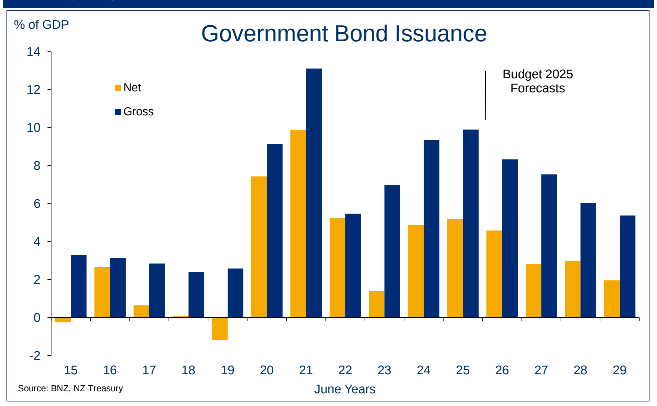
The debt programme

There were big moves on both sides of the government ledger. Spending in some areas soaring while expenditure in others slashed.

On balance, the two broadly offset meaning the key fiscal indicators remained broadly as they were. Not surprisingly, then, funding requirements were little changed. Nonetheless, there was a general feeling going into the Budget that, on balance, the risk was that funding requirements would rise. That they did not do so meaningfully saw longer dated bonds rally around 5 basis points.

As it turns out the projected bond programme for both fiscal 2026 and 2027 have been reduced by $2.0 billion per annum. 2028 funding was increased by $2.0 billion with the only real difference being the $6.0 billion hike in fiscal 2029.

Bond programme moderates



This all means that from this year on bond issuance as a percentage of GDP trends progressively lower.

Key policies

There were numerous policy announcements in today's Budget. Many of them were pre-announced but a few newbies are worth mentioning.

First up was the "new tax incentive for New Zealand businesses to invest in productive assets". Businesses will be able to "deduct 20 per cent of the new asset's value for that year's taxable income, on top of normal depreciation". In theory, this should see investment activity nudge higher though we are conscious that, in the current environment, uncertainty is acting as a significant headwind to any business investment. And even Treasury says that it only expects this policy to add 1.0% to GDP over a 20 year period.

We'll also be thinking through closely the impact of changes in KiwiSaver to the economic outlook. Over the next three years KiwiSaver employer contributions will rise from 3.0% of earnings to 4.0%. The employee contribution will rise similarly. At the margin this will effectively be a modest cut to disposable income so will reduce household spending. In theory, the increase in business contribution will also reduce corporate profitability but Treasury estimates that 80% of the cost to corporates will be offset by lower wage growth than would otherwise have been the case.

We had feared any increase in KiwiSaver commitments would put more pressure on families who are already struggling but the government has said that individuals can opt out of the increase.

Multiple announcements were made about investment in infrastructure across the board ranging from health, to education, to defence to transport. These will be GDP positive.

Significant increases in health and education spending were announced.

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BEFU2025	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	actual	actual	actual	actual	actual	f/cast	f/cast	f/cast	f/cast	f/cast
(June years, % of GDP)										
Core Crown Revenue	28.9	30.6	32.1	30.7	31.7	30.8	30.6	30.6	30.8	31.0
Core Crown Expenses	34.3	31.4	34.4	31.8	33.0	32.7	32.9	32.1	31.3	30.9
OBEGAL	-7.3	-1.3	-2.6	-2.4	-3.1	-3.4	-3.4	-2.5	-1.3	-0.6
OBEGALX	-6.6	-0.7	-2.4	-1.8	-2.1	-2.3	-2.6	-1.7	-0.6	0.0
Gross Debt	32.2	29.4	32.7	34.4	42.6	48.3	52.1	54.6	53.6	52.1
Net Core Crown Debt	26.2	29.7	35.2	38.7	41.7	42.7	43.9	45.7	46.0	45.5
Domestic Bond Programme ($NZm)	25,000	45,000	20,000	28,000	39,300	43,000	38,000	36,000	30,000	28,000
(June years)										
Real GDP (annual average % change)	-0.8	6.2	0.7	4	0.6	-0.8	2.9	3.0	2.9	2.6
Consumer Price Index (annual % change)	1.5	3.3	7.3	6	3.3	2.2	2.1	2.0	2.0	2.0
Unemployment rate (June qtr)	4.1	4.0	3.3	3.6	4.6	5.4	5.0	4.8	4.5	4.3
90-day Bank Bill Yield (March qtr. av.)	0.3	0.3	2.2	5.6	5.6	3.5	3.0	2.6	2.6	2.5
Trade Weighted Index (March qtr. av.)	69.7	74.7	72.2	70.9	71.4	67.9	68.5	68.9	69.3	69.5

Economic Forecasts	BNZ						Treasury (BEFU2025)					
(Annual average % change, June years)	**2024 actual**	**2025 Fcast**	**2026 Fcast**	**2027 Fcast**	**2028 Fcast**	**2029 Fcast**	2024 actual	2025 Fcast	2026 Fcast	2027 Fcast	2028 Fcast	2029 Fcast
Private consumption	0.3	0.4	2.6	2.6	2.3	2.7	0.3	0.1	1.6	2.5	2.6	2.5
Public consumption	1.5	-0.9	0.9	-0.2	0.3	0.6	1.6	-1.2	-0.6	0.2	0.5	0.3
Residential investment	-7.3	-10.5	3.0	5.9	0.5	1.8	-7.3	-10.7	4.2	8.3	6.7	4.8
Business investment	-2.4	-2.9	2.6	5.2	4.2	5.1	-2.4	-3.3	2.1	4.7	4.2	3.4
Exports	5.3	4.1	4.4	3.9	3.6	3.5	5.2	3.9	4.5	2.2	2.4	2.5
Imports	-1.1	3.4	5.5	4.7	3.1	3.8	-0.9	1.4	0.3	1.8	2.3	2.1
GDP (expenditure measure)	**0.6**	**-0.3**	**2.5**	**2.4**	**2.3**	**2.5**	**0.6**	**-0.3**	**2.8**	**2.8**	**2.8**	**2.5**
GDP (production measure)	**0.6**	**-0.9**	**2.3**	**2.4**	**2.3**	**2.5**	**0.6**	**-0.8**	**2.9**	**3.0**	**2.9**	**2.6**
Employment	1.7	-0.8	1.5	2.4	1.9	2.1	1.7	-0.6	1.5	2.1	2.0	1.7
Unemployment	4.6	5.2	5.0	4.8	4.7	4.6	4.6	5.4	5.0	4.8	4.5	4.3
CPI inflation	3.3	2.8	2.0	2.0	2.1	2.3	3.3	2.2	2.1	2.0	2.0	2.0
Current account balance - % of GDP	-6.6	-4.6	-3.9	-4.0	-3.8	-3.9	-6.6	-5.0	-3.5	-3.3	-3.1	-2.9
TWI (June qtr avg)	71.5	69.6	73.8	74.9	74.1	73.6	71.4	67.9	68.5	68.9	69.3	69.5
90-day bank bill rate (June qtr avg)	5.6	3.2	2.9	4.2	4.2	4.2	5.6	3.5	3.0	2.6	2.6	2.5

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