

Research Economy Watch

16 December 2025

Fiscal surplus still a distant dream

- **Fiscal outlook deteriorates**
- **But road to surplus still open**
- **Growth reliant on terms of trade and low interest rates**
- **Bond syndication cancelled, driving yields lower**
- **Limited monetary policy implications**

Key numbers

The core fiscal deficit (OBEGALx) is forecast to rise to a six year high of 3.0% of GDP in the June year 2026.

It is forecast to decline steadily the following three years before returning to a 0.4% of GDP surplus in Fiscal 2030.

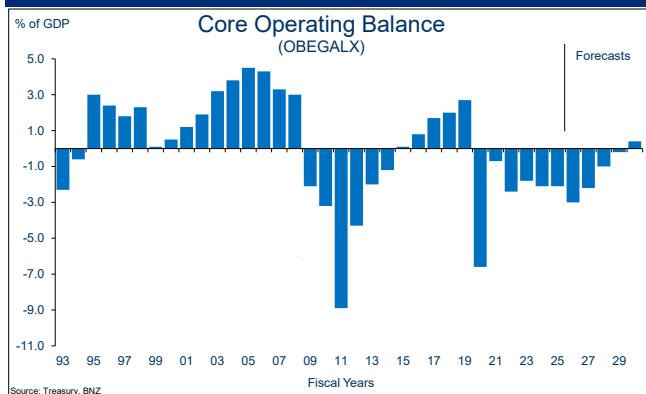
Net debt rises from 41.8% of GDP in the year ended June 2025 to a peak of 46.9% in Fiscal 2028. It edges lower to 46.1% of GDP in Fiscal 2030.

The economy is forecast to grow 2.0% in the year ended June 2026 and then bounce 3.5% the year after. Growth is expected to average 2.6% per annum in the three years thereafter.

The fiscal numbers

As expected, the forecast OBEGALx surplus has been delayed a year to 2029/2030. The government is still, however, “targeting 2028/29” which it could achieve given that the forecast deficit is only 0.2% for that period. Equally, a small miss on the fiscal front could further postpone the surplus.

Surplus postponed

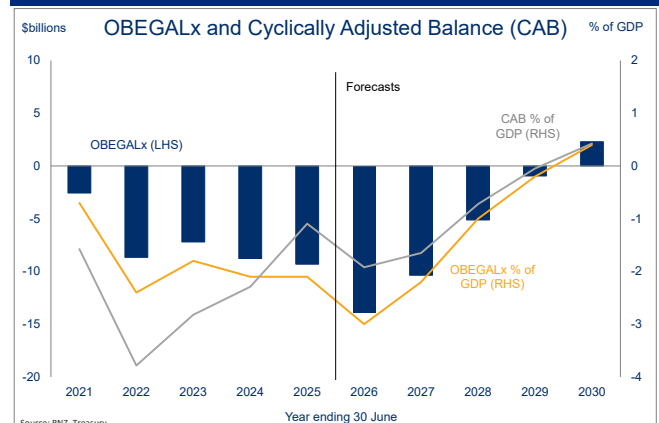


Whichever way you look at it, the trajectory for the fiscal balance is encouraging, moving from a projected 3.0% of GDP peak this year ended June 2026 to a surplus over four

years. Though it should be noted that a forecast deficit reduction has been common but not achieved for some time now.

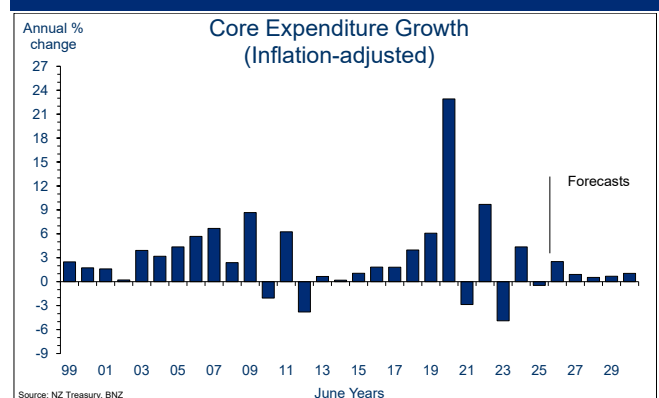
Note also that the initial forecast deficit reduction is simply cyclical in nature. The cyclically adjusted balance reaches a peak of 1.9% of GDP in Fiscal 2026 and does not reduce significantly until Fiscal 2028.

Cyclical balance a concern



In order to achieve this, spending restraint will need to be maintained. The Government has allowed itself next to no new spending, which will be challenging, especially in an election year. The Government notes that any meaningful new spend will have to come from the redirection of existing expenditure.

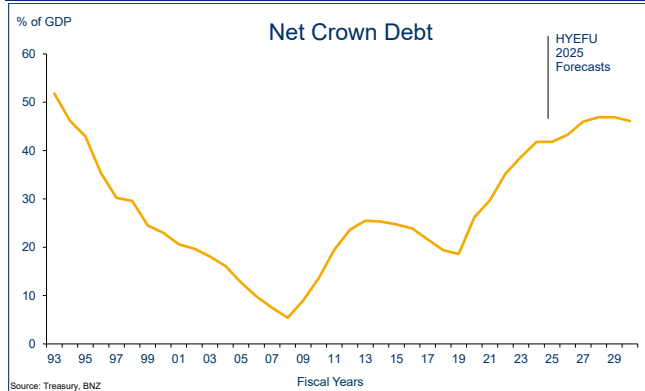
Achievable?



The net core crown debt track has been revised higher to now reach a peak of 46.9% of GDP from a previously

forecast peak of 46.0%. It also stays higher for longer. Nonetheless, the level is still low by international standards, and the intention remains for medium term reduction.

Higher for longer



Rating agencies should not be concerned with these developments.

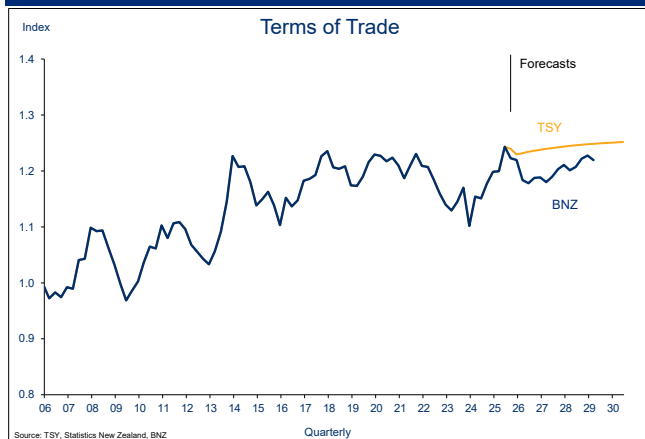
The economic assumptions

Treasury admits that its forecasts were put together with the assumption that Q3 growth would be just 0.4%. They now acknowledge that Q3 GDP will most likely come in at around 0.9% and provide a stronger growth track and better fiscal results than in the forecasts released today. That said Treasury are already forecasting a sharp delayed bounce back which would probably be moderated with a higher starting point.

Overall Treasury's growth forecasts are lower than previously espoused. In theory this should knock back the fiscal trajectory but Treasury notes that fiscal flows are determined by nominal GDP not real GDP. With this in mind, Treasury notes that its later-years forecast nominal GDP levels are actually higher than previously expected thanks to an upward revision to the GDP deflator.

Treasury notes that the initial stage of the recovery is heavily dependent on the flow on impacts from the past falls in the cash rate coupled with ongoing strength in the terms of trade.

Terms of trade problematic



We are not convinced that the terms of trade will remain so robust. Indeed, we have a much lower projection for this than does Treasury.

Additionally, we don't think the interest rate track that Treasury is using is likely to come about. Treasury seems to assume the cash rate falls to 1.75% and that it won't rise to above 2.25% until late 2029. We really struggle with this concept.

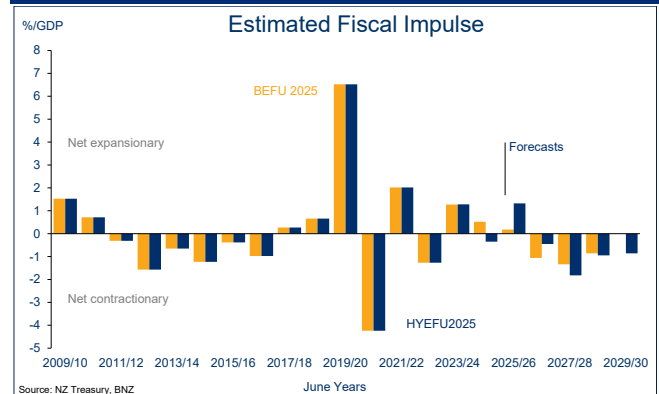
Our rate trajectory, which sees the cash rate returning to 3.5 to 4.0% over the next few years could imply a very different growth trajectory.

Equally, Treasury's expectations that the ten year bond yield sits at around 4.0% for quite a while suggests they might be underestimating the future cost of debt. For the record the current ten year bond yield is 4.38%.

Monetary policy implications

There were no policy announcements today that would impact views on inflation or growth so there is not really anything that should impact the central bank's view of the world. The implied fiscal impulse track has a different shape than that last presented and the near term impulse is stronger than previously portrayed. At face value this could put upward pressure on the cash rate but given everything else that is going on it will pale into insignificance.

Fiscal impulse unexciting



As an aside, we note that Governor Breman yesterday clearly watered down market expectations of near-term rate increases. We still think the market is overpricing the near-term risk. But we are, equally, quick to point out that Breman's orthodoxy will not tolerate inflation moving higher so as economic growth returns interest rates must inevitably rise.

Debt funding

New Zealand Debt Management reduced the size of its minimum liquidity buffer to \$10bn from \$15bn.

This allowed it to reduce the 2025/26 bond tender programme by \$3.0bn and 2026/27 by \$2.0bn. This means

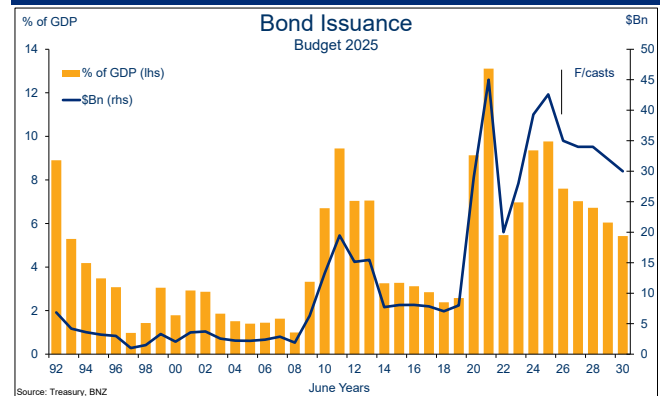
there is no longer any need for a further syndication in the 2025/26 bond programme.

This has resulted in a four point narrowing in bond swaps spreads which, in conjunction with an unrelated rally in the swap curve sees bond yields, across the curve, around ten basis points lower.

The 2027/28 and 2028/29 programmes have been increased by \$4.0 billion per annum to \$34.0bn and \$32.0bn respectively but no one was particularly interested in this given the amount of water to flow under the bridge between now and the eventual issuance.

For the record the first estimate of funding needs for 2029/30 sees a forecast bond programme of \$30.0bn

No shortage of bonds



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HYEFU2025	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	actual	actual	actual	actual	actual	f/cast	f/cast	f/cast	f/cast	f/cast
(June years, % of GDP)										
Core Crown Revenue	30.6	32.1	30.7	31.7	30.8	30.1	30.2	30.5	30.8	31.0
Core Crown Expenses	31.4	34.4	31.8	33.1	32.5	32.8	32.0	31.4	30.9	30.5
OBEGAL	-1.3	-2.7	-2.4	-3.1	-3.2	-3.7	-2.7	-1.5	-0.6	0.0
OBEGALX	-0.7	-2.4	-1.8	-2.1	-2.1	-3.0	-2.2	-1.0	-0.2	0.4
Gross Debt	29.4	32.5	33.8	41.9	46.7	50.0	53.1	53.8	53.7	52.8
Net Core Crown Debt	29.7	35.2	38.7	41.8	41.8	43.3	46.0	46.9	46.9	46.1
Domestic Bond Programme (\$NZm)	45,000	20,000	28,000	39,300	42,600	35,000	34,000	34,000	32,000	30,000
(June years)										
Real GDP (annual average % change)	6.2	0.7	4	0.6	-1.1	1.7	3.4	2.6	2.5	2.5
Consumer Price Index (annual % change)	3.3	7.3	6	3.3	2.7	2.4	2.2	2.1	2.0	2.0
Unemployment rate (June qtr)	4.0	3.3	3.7	4.7	5.2	5.3	4.8	4.6	4.5	4.3
90-day Bank Bill Yield (March qtr. av.)	0.3	2.2	5.6	5.6	3.4	2.1	2.0	2.1	2.3	2.4
Trade Weighted Index (March qtr. av.)	74.7	72.2	70.9	71.4	69.1	67.2	68.2	69.0	69.5	70.0

Economic Forecasts	BNZ						Treasury (HYEFU2025)					
(Annual average % change, June years)	2024 Actual	2025 Actual	2026 Fcast	2027 Fcast	2028 Fcast	2029 Fcast	2024 Actual	2025 Actual	2026 Fcast	2027 Fcast	2028 Fcast	2029 Fcast
Private consumption	0.0	0.5	2.5	2.6	2.3	2.7	0.0	0.8	2.0	2.4	2.6	2.7
Public consumption	1.2	0.6	-0.5	0.2	0.4	0.4	1.2	0.6	1.7	-0.2	-0.5	-0.2
Residential investment	-7.3	-11.5	6.0	7.4	1.0	2.5	-7.4	-11.5	4.6	8.9	5.4	5.0
Business investment	-2.4	-2.8	3.6	5.8	4.2	5.0	-2.4	-2.8	1.2	5.7	4.4	3.6
Exports	5.3	3.0	5.7	3.9	3.5	3.4	5.2	3.0	2.2	3.3	2.5	2.5
Imports	-1.4	1.9	5.7	4.5	2.7	3.6	-1.3	1.8	2.6	3.1	2.2	2.2
GDP (expenditure measure)	0.5	-0.6	2.2	2.8	2.5	2.6	0.5	-0.6	2.0	3.5	2.6	2.6
GDP (production measure)	0.6	-1.1	1.9	2.8	2.5	2.6	0.6	-1.1	1.7	3.4	2.6	2.5
Employment	1.6	-1.0	0.3	2.6	2.0	2.1	1.6	-0.8	0.5	2.5	2.0	1.7
Unemployment	4.7	5.2	5.1	4.7	4.6	4.3	4.7	5.2	5.3	4.8	4.6	4.5
CPI inflation	3.3	2.7	2.3	2.1	2.3	2.5	3.3	2.7	2.4	2.2	2.1	2.0
Current account balance - % of GDP	-5.5	-3.7	-3.4	-3.8	-3.3	-3.0	-5.5	-3.7	-2.8	-2.8	-2.7	-2.6
TWI (June qtr avg)	71.5	69.2	68.5	69.8	68.2	70.5	71.4	69.1	67.2	68.2	69.0	69.5
90-day bank bill rate (June qtr avg)	5.6	3.4	2.4	3.4	4.2	4.2	5.6	3.4	2.1	2.0	2.1	2.3

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