

To: BusinessNZ Membership
From: John Pask/Max Doyle
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Subject: **Budget Summary 2026**
Action Required: For information

Executive Summary

Budget 2026, entitled *Securing New Zealand's Future* was delivered against the backdrop of a challenging domestic environment and heightened international uncertainty.

As expected, there were the usual increases in expenditure on health, education and defence, while there were specific policy announcements in respect to housing (incentivising local authorities to support housing growth) and assisting businesses in transitioning from gas to alternative fuels, while the Government outlined its Public Sector reform programme to improve services and lower costs. Minor changes to tax policy also featured.

Given the political, economic, and fiscal constraints facing the coalition government, Budget 2026 can broadly be viewed as a fiscally responsible Budget, particularly given the natural pressures associated with an election year. There were certainly no sugar hits for which the Coalition Government can be commended.

Capital expenditure was carefully targeted at much needed infrastructure with a particular focus on roads and upgrading schools, courts, and ensuring energy security.

The Key economic takeaways:

- **Economic growth** is expected to come under pressure in the short-term but improve in the out-years.
- **Inflation and Inflationary expectations** continue to rise in the short term — a combination that increases the likelihood of **higher interest rates** for both businesses and households.
- **Unemployment** is expected to rise in the short term before declining over the forecast period.

- **Government finances** remain under pressure despite significant efforts to restrain and reprioritise expenditure.
- Despite forecast savings, **budget surpluses** remain some distance away, although a surplus is expected in 2028/29 – one year earlier than previously expected.
- **Net debt** is forecast to rise in the short term before gradually declining over time. The significant increase in net debt since 2019 is expected to continue, having risen from approximately 19 percent of GDP in 2019 to more than 43 percent currently and peaking at 46.1 percent in 2028.
- Operating within the Government’s **projected fiscal operating allowance** over the next several years will remain difficult and leaves limited scope for substantial new spending initiatives.

Overall, the Budget reflects a degree of expenditure restraint and reprioritisation of resources, although whether it will be enough as a longer-term strategy for addressing New Zealand’s structural fiscal challenges remains questionable. While critics will focus on the expenditure cuts, NZ needs a dose of realism if we are to rein in increased government debt (currently costing over \$9 billion in annual interest payments alone).

Returning to Budget surpluses still seems a long way off, particularly if we face another shock and are heavily dependent on economic growth being achieved. Moreover, it should be noted that making any forecasts in the current environment is fraught.

Difficult but increasingly critical issues remain unresolved, including:

- Long-term sustainability of New Zealand Superannuation; and
- Realising opportunities for asset recycling where central or local government ownership may no longer be necessary.

Section 1 provides a brief economic backdrop to Budget 26.

Section 2 outlines key economic and fiscal forecasts through to 2030.

Section 3 provides a summary of key Budget announcements with particular emphasis on issues relevant to business, alongside BusinessNZ commentary.

Section 1: Economic Backdrop to Budget 26

Budget 2026, entitled *Securing New Zealand’s Future*, was delivered against the backdrop of a challenging domestic environment and growing international uncertainty. A range of geopolitical developments is creating significant risks to global economic growth, with potential spillover effects for New Zealand.

It has arguably been decades, perhaps since the Cold War, that geopolitical tensions have been as pronounced as they are today. Given the importance of international trade to New Zealand's economic wellbeing, the country remains vulnerable to external shocks.

While the New Zealand economy began showing signs of recovery towards the end of last year and into 2026, ongoing tensions in the Middle East, particularly the stand-off between Iran and the United States, have created renewed uncertainty. The effective closure of the Strait of Hormuz has disrupted global oil production and supply chains, contributing to higher costs for businesses and households.

Although there are indications that a resolution may be imminent, it will take time for global supply chains to stabilise and establish a "new normal". Product prices are therefore likely to remain elevated for some time.

Economic growth is expected to come under pressure in the short term while inflation and inflationary expectations continue to rise — a combination that increases the likelihood of higher interest rates for both businesses and households, despite spare capacity still existing within the economy. Unemployment is also likely to increase, at least in the short term.

Many sectors are already beginning to feel the effects of rising input costs. Manufacturing activity is slowing, while service-sector performance is being affected by weaker business and consumer confidence. The construction sector is also under pressure, with developers increasingly taking a cautious "wait-and-see" approach before committing to new investments.

On the positive side, international commodity prices remain relatively strong. The Global Dairy Trade (GDT) index continues to perform well, alongside firm prices for other key primary exports such as beef and lamb.

Uncertainty is not confined to international events. The upcoming general election also presents risks, with the outcome remaining highly uncertain and political blocs keenly contested. Some proposed policies being advanced by political parties may further add pressure to New Zealand's already increasing debt burden.

Any proposals that involve substantial government borrowing to acquire private assets could prove counterproductive, particularly given that credit rating agencies are already closely monitoring New Zealand's fiscal position. Such proposals also raise broader questions regarding the legitimacy of compulsory acquisition mechanisms and their implications for investor confidence, including implications for private property rights.

Government finances remain under pressure despite efforts to restrain expenditure. The Government has announced a significant reduction in public sector staffing numbers, with a target of reducing core public service numbers to around 1 percent of the population (from approximately 1.2 percent currently).

Despite these proposed savings, budget surpluses remain some distance away. Net debt is forecast to rise in the short term (as a percentage of GDP) before gradually declining over time. New Zealand's structural deficit remains one of the largest among advanced economies and is not projected to be resolved until the latter part of this decade, assuming growth projections are achieved.

If the Government is serious about returning to surplus and reducing debt — currently costing more than \$9 billion annually in interest payments alone — it must address significant expenditure pressures such as the age of eligibility for New Zealand Superannuation and the continuation of interest-free student loans. Delaying tough decisions on these issues simply shifts costs into the future.

While some commentators continue to argue for higher levels of debt, given New Zealand's relatively modest debt position by international standards, this overlooks two crucial factors. First is the rapid increase in net debt since 2019, rising from approximately 19 percent of GDP to more than 43 percent currently. Second is New Zealand's exposure as a small trading economy to external shocks and natural disasters, reinforcing the need for prudent fiscal management.

Regulatory settings also require improvement, and, in this respect, the Ministry for Regulation is undertaking important work.

For the first time, the scale and structure of New Zealand's regulatory system has been comprehensively mapped, revealing decades of overlap and complexity. The Ministry for Regulation's recent report, *The State of New Zealand's Regulatory Systems – Revealing the Structure and Scale of Regulation* (May 2026), highlights the extent of the challenge.

New Zealand currently has more than 260 regulators, including:

- 95 within central government
- 79 within local government
- 57 statutory bodies, committees, and tribunals

The Ministry for Regulation intends to use this work to identify overlap, duplication, and unnecessary complexity while maintaining and updating the regulatory mapping over time.

This process will also assist agencies in meeting their obligations under the Regulatory Standards Act 2025.

Section 2: Budget 2026 Economic and Fiscal Outlook

The Economic and Fiscal Outlook through to 2030 generally points to a gradually improving outlook across a range of key economic and fiscal indicators, although significant risks remain.

Key Highlights

Economic activity (GDP) is expected to increase from 1.2% in the year to June 2026, to 2.3% in 2027, 3.2% in 2028 before dropping slightly in the outyears to 2030.

Inflationary pressures are expected to rise to 4% in the year to June 2026 before falling away to 1.6% in 2027 and then averaging around 2% in the out-years to 2030.

Unemployment is expected to increase to 5.6% in the year to June 2026 before dropping to 5% in 2027 and falling further to 4.4% by 2030.

The **operating balance**, before gains and losses excluding ACC (OBEGALx) currently forecast at a deficit of \$11.9 billion in the year ending June 2026, is expected to improve over the forecast period, with a modest surplus of \$2.6 billion expected in the year ending 2029.

Core Crown tax revenue is expected to remain relatively stable as a percentage of GDP over the forecast period, increasing slightly from 27.6% in 2026 to 28.8% by 2030.

Core Crown expenses are forecast to decline as a percentage of GDP, falling from 32.6% in the year ending June 2026 to 30.3% in the year ending June 2030.

Net Core Crown debt is forecast to increase from 42.4% of GDP in the year ending June 2026 to peak at 46.1% of GDP by 2028 and falling slightly thereafter.

BusinessNZ Thoughts

Taken as a whole, the forecasts indicate a modest improvement in New Zealand's long-term outlook. However, managing future expenditure allowances will remain challenging unless significant savings are achieved in future years.

The projections also rely on relatively optimistic assumptions regarding growth rates, particularly given ongoing international uncertainty and geopolitical risks.

Should growth rates fall short of expectations, tax revenue forecasts may also prove overly optimistic, placing the Government's projected return to surplus later this decade at risk.

Although debt levels are projected to stabilise and gradually decline over time, debt as a proportion of GDP has more than doubled over the past seven years. This leaves New Zealand more exposed to future shocks, including:

- Significant domestic events such as natural disasters; or
- A prolonged deterioration in global economic conditions due to sustained geopolitical tensions.

Neither risk can be ruled out.

Given New Zealand's ongoing structural deficit and the need to address long-term expenditure pressures, it is disappointing but perhaps not unexpected, that the Budget again stopped short of confronting major fiscal challenges.

In particular, there was little indication of a longer-term strategy addressing:

- The sustainability of New Zealand Superannuation; and
- Opportunities for greater asset recycling where continued government ownership may not be necessary, such as in selected commercial activities including electricity generation and farming interests.

Capital generated through such initiatives could potentially be redirected towards infrastructure investment and other priorities critical to long-term economic growth.

Section 3: Key Budget Announcements – Focus on Business

As is often the case, a number of policy and expenditure announcements were made ahead of Budget Day, including targeted investments in education and defence, support measures relating to energy transition, proposed reductions in public sector staffing, and changes to tertiary education funding arrangements.

Outlined below are several key initiatives of particular relevance to business.

Tax

There were a handful of tax measure changes aimed to reduce compliance costs, maintain integrity and help retain capital and talent in New Zealand.

First and foremost, following IR's Issues Paper from last year on how the not-for-profit (NFP) sector is taxed, the Government has made some key changes. Most importantly, membership subscriptions and levies received by NFP's will remain non-taxable.

The amount of tax-free net income of a NFP organisation can now earn increases from \$1,000 to \$10,000. The donation tax credit scheme is being capped at \$100,000 per year for eligible donations (allowing a maximum credit of \$33,333). In 'certain circumstances' donors will now be able to receive their donation tax credit refunds throughout the year instead of at the end of the tax year, plus being able to gift their donation tax credit to a charity.

Below we have highlighted the other areas which are receiving some of the limelight:

- 1) The Foreign Investment Fund (FIF) de minimis threshold for overseas investments gets doubled from \$50,000 to \$100,000. In addition, the new method (from last year's budget) to calculate a recent migrant's FIF tax on

unlisted shares gets extended to all New Zealand taxpayers, ensuring tax is paid only on realised gains.

- 2) There were some significant changes to the Research and Development Tax Incentive (RDTI), which included introducing in-year payments so businesses can get their tax credit sooner and instead of waiting until the end of the tax year. The cap on non-administrative internal software for R&D is also getting sliced from \$25 million to \$3 million with the idea that software development generates wider benefits and hence will receive less in tax credits from claiming expenditure on internal software.
- 3) The fringe benefit tax (FBT) rules for private motor vehicle use gets simplified by removing the requirement for detailed logbooks. Thin capitalisation is also getting updated for foreign-owned NZ banking groups to align with prudential requirements.
- 4) Finally, six months after a company has been liquidated, or otherwise removed from the Companies Register, any outstanding loans it previously made to its shareholders will now be taxed as income.

BusinessNZ Thoughts

Although the changes aren't groundbreaking, they reflect the government's direction towards a more fair and resilient tax system while also encouraging investment and making it easier to comply with. BusinessNZ is glad that the FIF threshold has received a well overdue update from when it was set 26 years ago, and changes to NFP's which helps ensure the system is credible and trusted by charities and not-for-profits. With this year's budget being largely constricted fiscally we're not surprised the tax topic was given the 'backseat' treatment.

Incentivising local government

The Government is making a major investment (\$400 million over 4 years) to back local councils to drive housing growth.

The Incentives for Growth Fund provides both an incentive for councils to enable housing growth, and a means of covering some of the costs that fall on them as a result.

To incentivise councils to go for growth, payments under the fund will be higher for councils that enable higher rates of growth.

BusinessNZ Thoughts

While the Government has already undertaken a number of measures to improve housing affordability this new policy (as part of the ACT-National Coalition Agreement), this is yet another step towards encouraging more housing supply in areas where it is desperately needed.

Infrastructure

Budget 26 increased the amount of capital expenditure set aside for major projects to \$7 billion.

The Budget infrastructure package includes funding for:

- a new 158-bed tower block at Whangarei Hospital
- design and enabling works for redevelopments at Tauranga, Hawke's Bay and Palmerston North regional hospitals
- the redevelopment of up to 10 schools, the acquisition of land for future school sites in high growth areas such as Queenstown, and the construction of up to 232 new classrooms
- the next stage of the Waikato expressway
- a suite of transport resilience projects
- renewing and upgrading the rail network
- up to an additional 2250 social homes
- new courthouses in Rotorua; and
- new policy stations in Greymouth and Whanganui
- upgraded Defence training facilities and modern homes for defence personnel; and
- critical maintenance to extend the life of the navy's frigates.

BusinessNZ Thoughts

It is heartening that such expenditure is targeted at infrastructure which will make a material impact on improving productivity and increasing resilience NZ over time.

Regulatory Initiatives

1. Budget 2026 invests \$294 million over 4 years to support the rollout of the Government's new planning and environment management system that replaces the Resource Management Act (RMA).

The new planning system is premised on the enjoyment of property rights with people being free to use their property unless there is good reason to restrict them.

To make that work in practice, people need clear, accessible, reliable information. Budget 2026 provides the first major investment in the digital foundations that will underpin the new planning system, including nationally consistent data standards, shared digital services, and a centrally managed platform for planning, consenting and monitoring.

2. Budget 2026 introduces a new prudential levy on banks, non-bank deposit takers, insurers, and other financial market participants to help cover the costs for services provided by the Reserve bank.

The prudential levy is estimated to recover around \$209 million over the next four years. The levy will be paid to the Reserve Bank, with the revenue returned to the Government through an increased dividend.

3. Cyber Security Investment. The budget will deliver \$153.6 million in funding for Health NZ to expand national cyber security monitoring, strengthen data security processes and deliver critical IT safety upgrades across the health system.

This follows on from the Cyber Security on Critical Infrastructure strategy by DMPC which BusinessNZ submitted on requesting better protection on infrastructure industries that are of national significance. This is a great step forward in this space and provides a sensible direction of investment which protects patients and maintains trust in the health system but fails to address any other 'nationally significantly' industries which are equally susceptible to cyber-attacks.

BusinessNZ Thoughts

BusinessNZ is pleased that the Government is progressing reform to the RMA and supports moves to ensure that the new system is fit for purpose. This requires streamlining of current systems so the Government's proposal to support a resilient planning system is positive.

On the other hand, a new levy on the financial sector for some of the costs of prudential supervision of the Reserve Bank may come as a surprise to the sector.

The Government has over recent years increased levies over a range of sectors which BusinessNZ considers unjustified in many cases, where costs should arguably be funded out of general taxation.

BusinessNZ would support a full review of all levies and fees across both central and local government to ascertain as to whether they are still justified.

Energy

Budget 2026 introduces a new initiative to help businesses transition away from natural gas while supporting energy security and economic activity.

The Gas Transition Loan Guarantee Scheme is expected to support up to \$1.2 billion in lending for businesses seeking to reduce their dependence on natural gas.

Key features of the scheme

- The Crown will guarantee 80 percent of eligible loans.
- Supported businesses will benefit from lower borrowing costs.
- Budget 2026 allocates \$48 million to cover potential losses.
- Individual supported loans will be capped at \$50 million.
- The scheme will operate for three years.

- Loans will apply only to new borrowing rather than refinancing existing debt.
- The initiative responds to ongoing concerns about declining domestic gas supplies and rising energy costs, which have already affected several gas-dependent manufacturers.

BusinessNZ also welcomes the Government's focus on fuel security and energy resilience, including a further \$450 million for targeted measures if the fuel supply outlook worsens and \$20 million for solar on schools.

BusinessNZ Thoughts

BusinessNZ welcomed the Government's loan support initiative, noting that rapidly rising gas prices and declining domestic supply have created significant challenges for many industries.

Until recently, successive governments have pursued emissions reduction goals without a sufficiently clear transition pathway that protects economic activity and employment.

Supporting businesses to transition to alternative fuel sources is a practical response that can:

- Preserve jobs.
- Maintain industrial capability.
- Improve energy resilience.
- Support long-term economic performance.

Avoiding unnecessary de-industrialisation remains important to ensure New Zealand retains critical productive capacity.

The fuel crisis has highlighted the importance of maintaining energy resiliency, and BusinessNZ is glad to see that this has been a focus of budget 2026. The additional \$450 million for targeted support provides an important safeguard for vulnerable consumers. While investment in solar and batteries for schools is a reasonable step to help support greater energy resilience at a community level while lowering operating costs for schools.

Education

Raising student achievement and improving performance in reading, writing, and mathematics is central to Budget 2026 education investments.

1. The Government is investing \$131.1 million into compulsory education through the next phase of the *Teaching the Basics Brilliantly* programme.

The package includes a range of initiatives designed to strengthen literacy and numeracy outcomes and ensure students are equipped with the skills necessary for future success.

2. Budget 2026 will double trade training opportunities for secondary school students over the next few years.

Budget 2026 increases the number of Trades Academy places from 10,000 to 20,000 over the next four years. The increase in the number of places is being funded by savings from cancellation of final-year Fees Free.

Savings from the cancellation of Fees Free are also being used to support 1,000 more school leavers with no or low qualifications into free study and work-relevant learning through polytechnics and other tertiary providers,

These additional Youth Guarantee places provide wrap-around support to young people who need help to re-engage with learning, and offer a pathway to jobs, apprenticeships and further study.

The new funding for Trades Academy places will be phased in from the beginning of the 2027 school year. Funding for the additional Youth Guarantee places will start from 1 July 2026.

\$15 million has been allocated to enable Industry Skills Boards to develop at least eight new industry-led secondary subjects each focused on a specific industry (e.g. construction or primary industries). This will support more students getting high-quality vocational education and training while at secondary school.

BusinessNZ Thoughts

BusinessNZ welcomed the investment, noting that strong educational foundations are essential to New Zealand's long-term productivity and competitiveness.

Meaningful reform requires not only curriculum changes but also investment in teachers, professional development, and classroom support.

Businesses require a workforce with strong foundational skills, adaptability, and resilience.

Investment in education is therefore also an investment in:

- Productivity;
- Competitiveness;
- Workforce capability; and
- Long-term economic prosperity.

Public Sector Reform

The Government has announced a significant programme of public sector reform intended to improve service delivery, enhance productivity, and provide better value for taxpayers.

The programme includes:

- Reducing the number of government agencies;
- Greater use of AI and digital tools;
- Streamlining customer-facing and administrative functions; and
- Returning public service staffing numbers to historical norms.

The Government aims to reduce core public service staffing to approximately 55,000 employees by mid-2029, equivalent to around 1 percent of the population.

BusinessNZ Thoughts

BusinessNZ supports efforts to create a public sector that is modern, efficient, financially sustainable, and focused on delivering high-quality frontline services.

The Ministry for Regulation's recent work has highlighted the scale and complexity of New Zealand's regulatory system, with over 260 regulators currently operating across government.

There appears considerable scope to:

- Reduce duplication and overlap;
- Improve regulatory effectiveness;
- Simplify compliance requirements; and
- Reassess where government intervention is necessary.

A more streamlined and efficient regulatory system would reduce costs and improve productivity across the wider economy.

Overall BusinessNZ Thoughts and Reactions on Budget 2026

Politics is often described as the art of the possible, which can make large and sometimes necessary reforms difficult to achieve.

Given the political, economic, and fiscal constraints facing the coalition government, Budget 2026 can broadly be viewed as a fiscally responsible Budget, particularly given the pressures associated with an election year.

New expenditure was targeted at areas most in need.

Overall, the Budget reflects a degree of expenditure restraint and reprioritisation of resources. While critics will focus on the expenditure cuts, NZ needs a dose of realism

if we are to rein in increased government debt (currently costing over \$9 billion in annual interest payments alone).

Difficult but increasingly critical issues remain unresolved, including:

- Long-term sustainability of New Zealand Superannuation;
- Ongoing expenditure pressures across government; and
- Opportunities for asset recycling where government ownership may no longer be necessary.

Addressing these issues will become increasingly important if New Zealand is to strengthen its fiscal position while maintaining capacity to invest in critical infrastructure and services needed by businesses and households.