New Zealand: Fiscal Deficit Will Widen In 2025

11 Sep 2025

Key View

- We expect New Zealand's public finances to come under moderate pressure in FY2025/26 as the government continues to support households and businesses facing elevated living costs. We project the fiscal deficit to widen to 2.8% of GDP, up from 2.4% in the previous fiscal year.

- Although we expect the fiscal balance to remain in deficit over our 10-year forecast horizon, we believe that the country's fiscal position remains solid as its debt metrics remain favourable. Gross government debt as a share of GDP is significantly lower than in most advanced economies, suggesting low fiscal risk.

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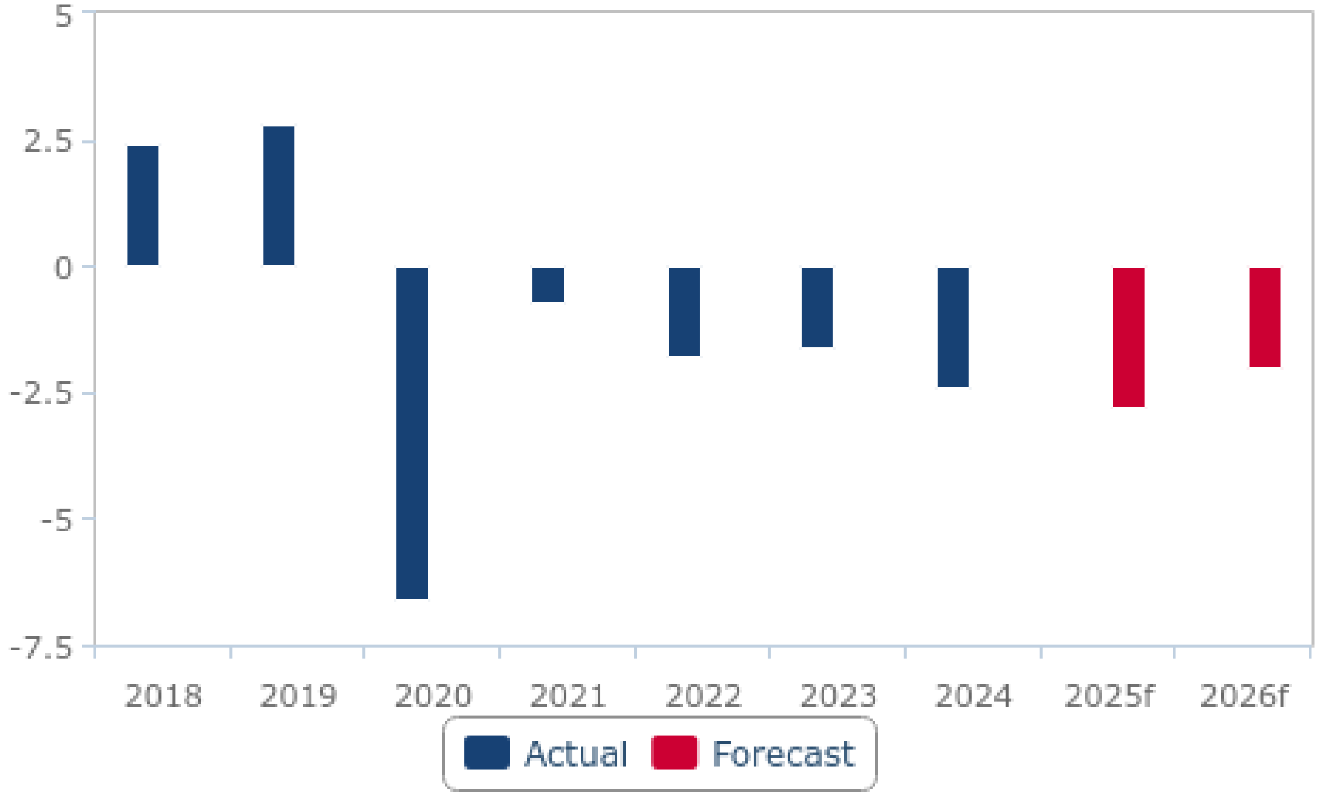
Deficit To Widen Before Narrowing

New Zealand – Budget Balance, % of GDP (2018-2026)



f = BMI forecast. Source: Haver, BMI

The government's fiscal strategy, set out in Budget 2025 (Tahua 2025), seeks to balance near-term support with long-term sustainability. The budget responds to persistent inflationary pressures, subdued growth and heightened global uncertainty – including trade tensions and geopolitical risks. The Treasury projects a gradual recovery over the next four years, with rising incomes, stable inflation and a return to fiscal balance by 2028.

Key Budget Measures

Budget 2025 introduces a range of initiatives to stimulate investment, ease cost-of-living pressures and strengthen essential services. Key measures include:

- *Investment Boost Tax Incentive*: Businesses will be able to deduct 20% of the cost of new assets from taxable income, in addition to standard depreciation. This measure is expected to lift business investment and productivity, with long-term gains in GDP, capital stock and wages.

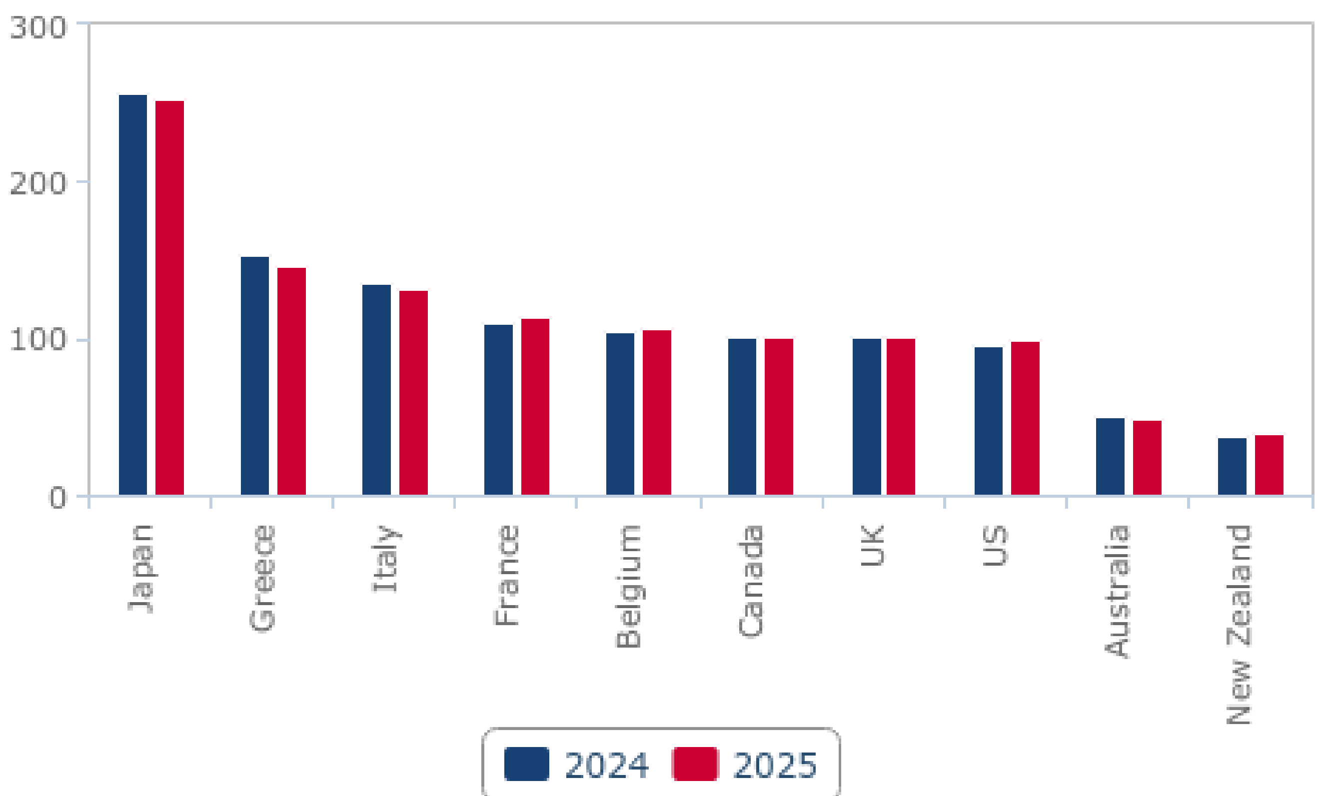
- *KiwiSaver Enhancements*: The government will phase in higher default contribution rates (to 4% for both employers and employees), extend coverage to 16- and 17-year-olds, and reform the government match to improve fiscal sustainability.

- *Cost-of-Living Relief*: Targeted support includes an average of NZD14 extra per fortnight for 142,000 low- to middle-income families through the *Working for Families* programme, rates rebates for 66,000 SuperGold cardholders, extended prescription periods for chronic medications, and increased funding for food banks.

- *Social Investment and Infrastructure:* The government will earmark NZD760mn to improve disability support services, while NZD774mn will improve redress systems for abuse in state care. A new flexible housing fund will expand social and affordable housing. Infrastructure spending totals NZD6.8bn, covering transport, health and education.

New Zealand's Government Debt Low Compared To Peers

Selected Economies – Government Debt, % of GDP (2024 & 2025)



Source: BMI

While we expect the fiscal balance to remain in deficit over our 10-year forecast horizon, we believe that the country's fiscal position remains solid as its debt metrics remain favourable. Gross government debt as a share of GDP is significantly lower than in most advanced economies, suggesting low fiscal risk. We forecast a slight increase in public debt as % of GDP from 38.3% in 2024 to 40.5% in 2025. Despite the anticipated increase, New Zealand's public debt remains significantly lower than its developed market peers (*see chart above*).