NZCTU
Te Kauae Kaimahi

A WORKERS' ANALYSIS OF BUDGET 2025

Workers' Analysis of Budget 2025

30 May 2025

This report sets out the New Zealand Council of Trade Unions Te Kauae Kaimahi's analysis of Budget 2025. It covers the major decisions made at this Budget, and how they might affect workers.

This Budget is funded above all by the gutting of the pay equity system, the halving of the government's contribution to people's Kiwisaver accounts, and other cuts that will disproportionality impact women, welfare recipients, and working households.

The Minister of Finance argues that the tight fiscal situation makes this inevitable. But none of these choices the government has made are forced. The government could have funded its spending initiatives by raising new taxes on the wealthiest New Zealanders. It could have not decided to give billions away to those who already have much, while cutting services for those with real and pressing needs.

Budget 2025 also leaves New Zealand's most significant structural challenges unaddressed. There is no meaningful movement on closing the infrastructure deficit; no solution to our health workforce shortage; no willingness to reduce child poverty or to address the housing crisis; and absolutely zero investment made in decarbonisation and climate adaptation. The coalition government continues to kick the can down the road on these challenges, all while making life steadily more difficult for New Zealanders who have the least.

Budgets are full of technical jargon, so we've provided a glossary of some of the terms that crop up in this report. You'll find it in the back of the report.

Please get in touch if you'd like to discuss this analysis or have any questions.

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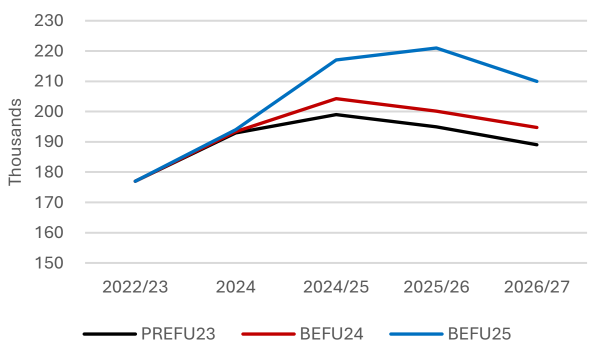
Are we "back on track"?

During the 2023 election you might have heard the phrase "It's time to get the county back on track" uttered once or twice. After one year in government, the National Party declared it was "focused on delivering real, tangible results to improve the lives of all New Zealanders".

How do you feel that is going? Do you feel back on track yet? Perhaps not. The numbers in the Budget back up your concerns. There are now tens-of-thousands more people on Jobseekers than was forecast by Treasury at its pre-election update, and this number is expected to continue to grow through the rest of the year.

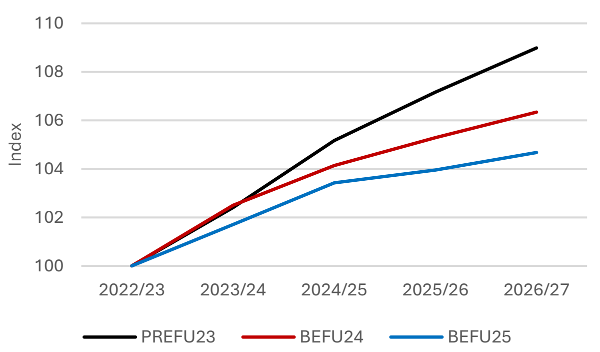
Figure 1: Number of people on Jobseeker Support, forecasts



Source: Treasury

Average real wage increases are now set to be far lower than forecast by Treasury last year. On the Treasury's latest forecast, a full-time, median-income earner will be $978.40 worse off than was forecast at last year's Budget. That tax cut you got in 2024 just disappeared.

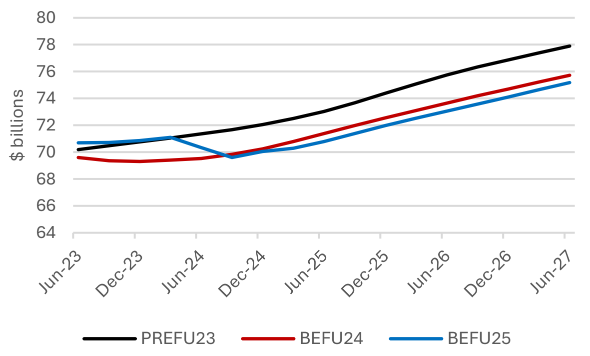
Figure 2: Cumulative real wage growth, forecasts



Source: Treasury, CTU analysis; 2022/23 = 100

Economic growth is also expected to be lower than previously forecast. The cumulative size of the gap between the Pre-election Economic and Fiscal Update (PREFU) forecasts in September 2023 and the Budget Economic and Fiscal Update (BEFU) forecasts released this month is $39.5 billion. And that's after adjusting for inflation. According to Statistics NZ, there were 5,330,600 residents in the country in March 2025. That's $7,413 in lost income for each of those residents over the next four years – or $1,853 a year. Your tax cut has just disappeared. Again.

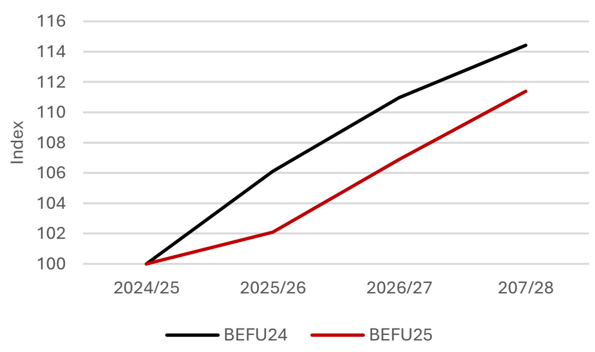
Figure 3: Real quarterly production GDP forecasts, $billions



Source: Treasury

The government has made much of its programme of new investment – a tax deduction for businesses purchasing new machinery and equipment that will cost $6.6 billion over the next four years (the "Investment Boost" policy). Yet Treasury is forecasting less business investment over the next three years than it was forecasting at the previous Budget.

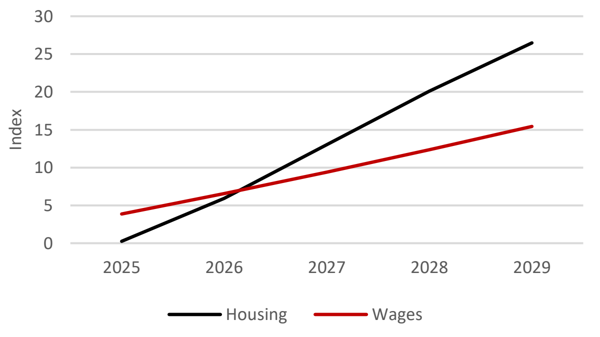
Figure 4: Index of business investment growth, forecasts



Source: Treasury

But don't worry – it's not all clouds. House prices are forecast to start rising again, at an average of 6% a year. That's more than twice the rate at which wages are forecast to rise. New Zealand's "housing-market-withbits-tacked-on" will commence normal service soon, just as we stop building any more Kāinga Ora houses.

Figure 5: Cumulative nominal house price and nominal wage growth, index



Source: Treasury

On these numbers, calling it a "growth Budget" seems quite a stretch. The tax deduction on new capital investments is only expected to add 1% to GDP over the next 20 years – hardly a game-changer.

At best, the Budget is just keeping the lights on in health and education. However, these sectors have both potentially seen real terms cuts in their core operational funding. Schools' operational grant funding rose 1.5%, when inflation is forecast to be 2.2% by the end of the fiscal year.

According to the [Association of Salaried Medical Specialists], the health system needed $2 billion additional funding in 2025/26 just to cover cost pressures. The government only allocated $1.37 billion to cover cost pressures.

Elsewhere, small but significant cuts are made to many other important parts of government, save for defence, police, and corrections, which get substantial cash injections.

The operating allowance for the Budget – the new money the government gave itself to play with – was only $1.3 billion. That is less new funding than was being provided under the Helen Clark government. As a result, the "Investment Boost" and all other spending initiatives in the Budget have been paid for by cutting spending elsewhere.

The two most significant cuts were the gutting of the pay equity system, which has netted the government $12.8 billion over the four-year forecast period, and the halving of the government's contribution to people's Kiwisaver accounts. This makes the Crown $3 billion better off over the next four years.

Further savings have been found by means-testing and increasing eligibility thresholds for some welfare payments – most significantly the Best Start payment. Additional revenue has been found by ramping up the collection of tax, court, and legal aid debt.

Taken together, the cuts made in Budget 2025 will disproportionately hurt lower-income households. In this way, the government has essentially paid for its Budget 2025 initiatives by pinching money from women, welfare recipients, and working households.

The Minister of Finance argues that the tight fiscal situation makes this inevitable. In reality, none of these choices the government has made are forced. What's more, Budget 2025 leaves New Zealand's most significant structural challenges unaddressed. There is no meaningful movement on closing the infrastructure deficit; no solution to our health workforce shortage; no willingness to reduce child poverty or to address the housing shortage; and absolutely zero investment made in decarbonisation and climate adaptation.

The coalition government continues to kick the can down the road on these challenges, all while making life steadily more difficult for those New Zealanders who have the least.

The message that this Budget will be sending people – and the message that it will leave behind – is that the government doesn't understand the problems facing New Zealanders. According to the Minister of Finance, parents will welcome having to support their adult children if they have the misfortune of being unemployed. The government has framed the cuts it is making to Kiwisaver contributions an opportunity for workers to save more. The name of the press release that sets out cuts to Best Start payments for 60,000 babies is called "[Increased support for families]".

Now we are nearly half-way through this term of office – future hijinks from Winston Peters notwithstanding. If we were truly back on track, would we feel as justifiably angry as many of us feel today? If we were truly back on track, would we be worrying about the tens-of-thousands of New Zealanders leaving for a greener pastures overseas? If we were truly back on track, would we be feeling as pessimistic as we do about the future this government is laying out for the country?

Getting truly back on track might just require us to change the driver.

Economic outlook

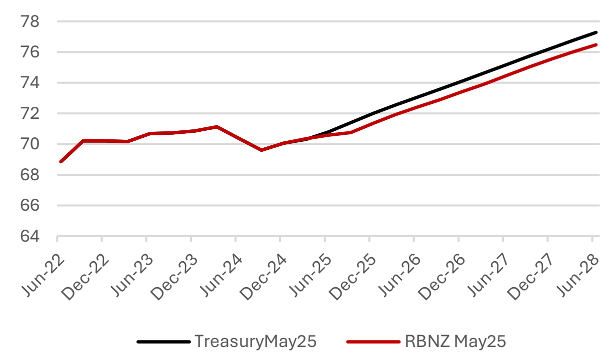
The Budget numbers are built on a host of assumptions about our economic future. The Treasury forecasts the New Zealand economy has begun to pick up again, largely driven by the recovery in exports. Treasury expects real GDP growth of 2.9% over 2025/26 and into 2028. On a per capita basis, real GDP is expected to grow 1.8% in 2025/26 before drifting down to 1.4% by 2028/29.

Economic growth will be underpinned, according to Treasury, by “lower interest rates, high terms of trade, increasing net migration and house prices”. None of these are structurally sound bases for economic growth. Lower interest rates are dependent on inflation remaining contained; the terms of trade are hostage to international developments; increased net migration is by no means guaranteed and does not necessarily deliver per capita growth; and rising house prices are, to say the least, a double-edged sword.

In the long term, the Treasury expects that sluggish labour productivity will constrain New Zealand’s growth potential. The global trade environment is also expected to weigh on our economic potential, with the uncertainty created by the US tariffs expected to knock 0.2% off the New Zealand growth rate. Of course, much could change in this space.

The Reserve Bank’s forecast, released this week, is a touch more pessimistic than Treasury, with the bank expecting a slower return to growth over 2025/26.

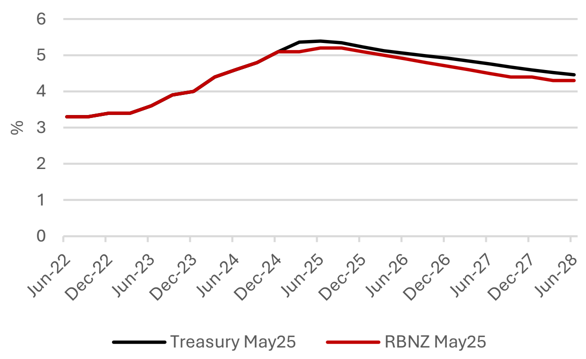
Figure 6: Real quarterly production GDP forecasts, $billions



Source: Treasury, RBNZ

Treasury expects unemployment to peak at 5.4% in the second quarter of 2025 and slowly ease back over the next couple of years to the mid-4s. This is slightly higher than the pre-pandemic unemployment rate reached in 2019. We have real concerns this is an underestimate. The labour market is weak, and underemployment and part-time employment are rising.

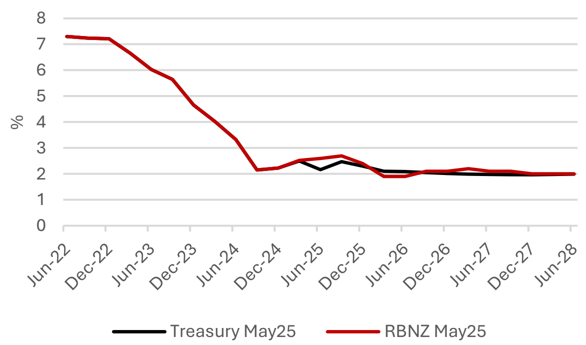
Figure 7: Unemployment rate forecasts



Source: Treasury, RBNZ

Treasury expects consumer inflation will remain within the target range of 1–3% per annum over the forecast period. The Reserve Bank’s forecasts are broadly the same. This was also the case under the Pre-election Economic and Fiscal Update (PREFU 2023), so is not something that the government can claim.

Figure 8: Consumer inflation rate forecasts



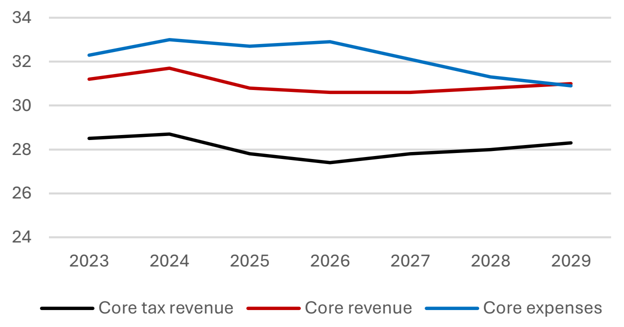
Source: Treasury, RBNZ

Overall, the Treasury expects the economic impact of the budget to be neutral. On the one hand, slightly reduced government consumption should act as a drag on growth, while the cuts to pay equity and the changes to Kiwisaver are expected to mean lower wage growth than otherwise (also a drag on growth, as lower wage growth means lower consumer spending). On the other hand, lower government consumption will likely support slightly lower interest rates (which will add a touch more juice to residential investment and business investment), while the 20% tax deduction on capital investment in new plant, equipment, and commercial buildings (the "Investment Boost" policy) is also expected to provide a small increase to growth over the long run.

Fiscal outlook

Compared to the Half-year Economic and Fiscal Update (HYEFU) in December 2024, the fiscal position has weakened slightly. Tax revenue is now forecast to be lower than was expected last year, while expenses are forecast to be slightly higher. Core Crown tax revenue is expected to hover around 28% of GDP over the forecast period, while core Crown expenditure is expected to slowly fall, from 33% to 31%. The government has set a target to "reduce core Crown expenses towards 30 per cent of GDP over time". This means it wants to shrink the size of the government relative to the wider economy.

Figure 9: Core Crown revenue and expenditure as % of GDP, BEFU forecast

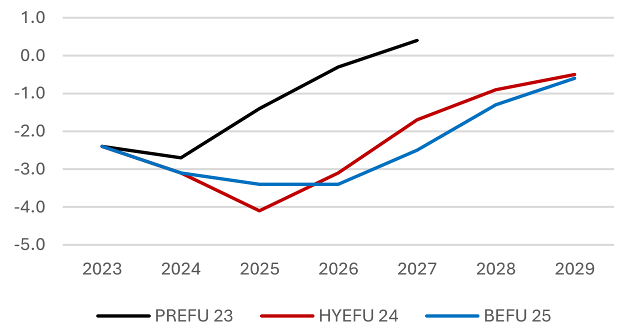


Source: Treasury

This means the OBEGAL (operating balance excluding gains and losses) deficit is expected to be slightly larger than it was at the half-year update. The government's preferred measure of OBEGALx (which excludes ACC from the calculations) comes back into surplus in 2028/29, but the old measure of OBEGAL remains in deficit in 2028/29.

As Figure 10 shows, prior to the election, the Treasury was forecasting a return to OBEGAL surplus by 2027. The deterioration of the economy – which we would argue has been partly driven by the coalition government's policies – now means the Treasury is not expecting OBEGAL to be in surplus within the forecast period. It's worth noting that the return to surplus is not necessarily the most sensible priority for the government. It's perfectly possible to stabilise your debt position while still running a small OBEGAL deficit, as long as your economy is growing faster than your debt.

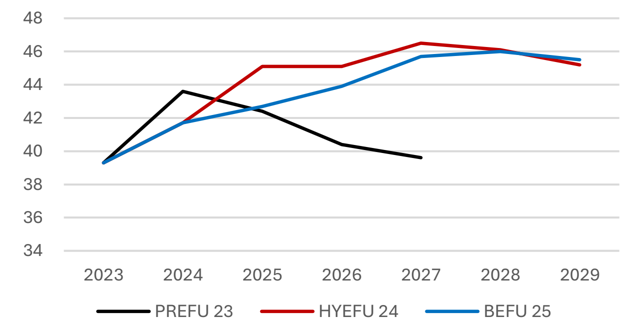
Figure 10: OBEGAL as % of GDP, different Treasury forecasts



Source: Treasury

Net core Crown debt, which is the government's preferred measure of the sustainability of public debt, is forecast to rise slightly as a percentage of GDP, to a peak of 46%, before beginning to taper down. This is about in line with the HYEFU forecast, though is notably higher than was forecast around the time of the 2023 election. Treasury currently recommends that net core Crown debt should remain under 50% of GDP, to maintain the ability to borrow in the event of a very big shock to the New Zealand economy. While the Minister of Finance likes to argue that our debt position is too high, and this justifies the government's spending cuts, Treasury's recommendation is based on very conservative assumptions, so the current level of debt is within the comfort zone.

Figure 11: Net core Crown debt as % of GDP, different Treasury forecasts



Source: Treasury

Table 1: Fiscal indicators as % of GDP

	Actual	Forecast				
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Core Crown tax revenue	28.7%	27.8%	27.4%	27.8%	28.0%	28.3%
Core Crown revenue	31.7%	30.8%	30.6%	30.6%	30.8%	31.0%
Core Crown expenditure	33.0%	32.7%	32.9%	32.1%	31.3%	30.9%
Net core Crown debt	41.7%	42.7%	43.9%	45.7%	46.0%	45.5%
Net debt*	19.5%	21.3%	24.3%	25.7%	25.6%	24.7%
OBEGALx	(2.1%)	(2.3%)	(2.6%)	(1.7%)	(0.6%)	0.0%
OBEGAL	(3.1%)	(3.4%)	(3.4%)	(2.5%)	(1.3%)	(0.6%)

Source: Treasury

** Net debt is the best measure to use when comparing New Zealand's public debt position to other countries*

Where has the money come from?

Budget 2025 has a very small operating allowance of $1.3 billion. The operating allowance is the "new" money the government has to play with each year. Except for welfare, most areas of government expenditure do not automatically adjust to account for inflation and cost pressures. All new spending must therefore be covered by the operating allowance, or by borrowing or cuts to other lines of expenditure. Most of the money the government is investing in new initiatives in Budget 2025 has come from cuts it has made and savings it has found. We break down where this money has come from below.

Table 2: Savings from pay equity legislation change ($m)

25/26	26/27	27/28	28/29	Op total	Cap total
(2,959)	(2,672)	(2,672)	(2,672)	(10,972)	(1,834)

Source: NZ Government

The biggest source of revenue for government in this Budget is the money it has clawed back by changing the pay equity legislation. A one-off saving of around $1.8 billion was made for the 2024/25 fiscal year, due to the lack of new settlements (for the purposes of the Crown accounts, this is recorded as capital expenditure, because it isn't an ongoing saving). The Treasury expects that the changes made to the legislation will mean an average saving of $2.7 billion per year on an ongoing basis, from the 2025/26 fiscal year onwards. This produces a grand total of $12.8 billion in savings for the Crown over the forecast period.

The next big chunk of money comes from the changes to Kiwisaver. The government is halving its annual contribution to your Kiwisaver account. The government contribution will fall from 50 cents for every dollar you contribute to a maximum of $521 per year, to 25 cents for every dollar you contribute to a maximum of $260.72 per year. It's worth recalling that the Key–English administration cut the government's contribution in 2012, from $1,040 per year to $521, and in 2015 it removed the $1,000 kick-start the government would provide for new accounts – so this is the continuation of a trend. $160 million of savings is also made by the decision not to provide any government top-up to New Zealanders earning over $180,000 per annum.

All up, this change is going to generate the government around $3 billion over the forecast period.

Table 3: Savings and revenue from Kiwisaver changes ($m)

	25/26	26/27	27/28	28/29	Total
Savings	(580)	(605)	(633)	(649)	(2,467)
Revenue	(21)	(104)	(158)	(257)	(540)

Source: NZ Government

The government has also announced that compulsory employer and employee contributions will increase to 3.5% in 2026 and then to 4% in 2028 (the current minimum contribution rate is 3%). This change is expected to bring in $540 million in additional revenue over the forecast period (this comes from the tax on interest the government charges on your Kiwisaver account). The government is also extending eligibility for the government contribution to Kiwisaver to 16- and 17-year-olds, which will cost it about $29 million.

On the one hand, increasing contribution rates over time is probably necessary to ensure New Zealanders are saving enough for retirement. We have an ageing population, and this is beginning to put immense pressure on the Crown's budget due to the expense of the NZ Superannuation Scheme (the cost of NZ Super is forecast to increase $7.4 billion from the 2023/24 fiscal year to the 2028/29 fiscal year).

However, the Treasury expects that employers will offset around 80% of the increased expense this policy incurs via "lower-than-otherwise wage increases". And the halving of the government contribution will, over time, add up to a very large loss for workers' Kiwisaver accounts (it may also reduce the incentive for some people to contribute to their Kiwisaver).

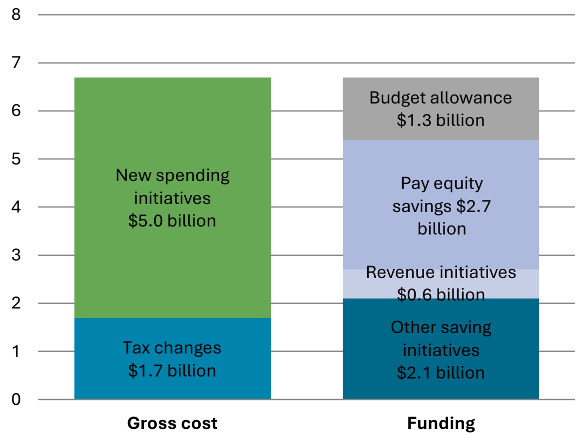
In our view, then, an increase in the mandatory contribution rate needs to be supported by policies that will support wage growth – fair pay agreements would be a good place to start!

The remainder of the savings total an average of $2.1 billion per year, as shown in Figure 12. Some of these savings are simply reprioritised within the same Vote – often, as with Vote Education, this is a matter of the government closing programmes it doesn't like, or thinks are underperforming, and using this money to establish new programmes. However, many Votes see net funding cuts, including:

- Social Development, with an overall cut in operating expenditure of $1.5 billion.
- Environment, which has been cut $239 million.
- Māori Development, which sees an overall cut of $88 million.
- Pacific Peoples, with an overall cut of $36 million.
- Arts, Culture, and Heritage, which has been cut $19 million.

The Arts, Culture, and Heritage decisions are a good example of numerically small cuts that will have big impact. Heritage NZ is having $2 million cut from its annual budget, beginning in 2026/27 – a 12% reduction in its overall budget. The Ministry of Culture and Heritage is losing $2 million per year (this comes off the back of an average cut of $7.3 million per year in the previous Budget). Radio New Zealand is losing $4.6 million per year, a cut of around 7% of its annual budget. And the National Library and Archives is losing $2 million per year (this on top of the $4.4 million that was cut from its annual budget in 2024). While not attention-grabbing numbers, these are proportionally quite large cuts for these agencies that are the key stewards of New Zealand public culture and, indeed, the nation's memory.

Figure 12: How the new spending was funded, $billions, average per annum



Source: Treasury

The government has also found around $600 million in additional revenue each year. As mentioned above, the Kiwisaver changes account for a chunk of this, and the rest comes primarily from allocating additional resources to the collection of outstanding tax, court fee, and legal aid debt.

On the other side of the revenue ledger, the "Investment Boost" scheme will cost an average of $1.7 billion per year in foregone tax revenue (we discuss this policy in more detail in the Economic Development section).

Unfortunately, the government has also decided to forego approximately $120 million per year in revenue by cancelling the progress of the Digital Services Tax Bill. This would have placed a very modest tax on multinational businesses with highly digitised business models that earn income from New Zealand, to ensure they are at least contributing something.

Health

The increase in health investment was widely expected. Funding for the delivery of health services increased $1.75 billion overall for the 2025/26 fiscal year. Most of this funding is simply to cover cost pressures: $1.37 billion per year has been allocated to cover the cost of inflation, demographic changes (i.e., the ageing population), and increased demand on health services. This is “keeping-the-lights-on” spending: it doesn’t buy any improvement in services or address the structural problems in the health sector, such as understaffing.

In terms of genuinely new spending, the only significant initiatives to note are the allocation of $462 million in operating and capital expenditure over the forecast period to support primary healthcare, and $1 billion to Pharmac to increase access to cancer medications and other treatments.

On the cuts side of the equation, the Ministry of Health had its funding further reduced, with a cut of $49 million to its baseline funding over the forecast period. This will likely result in more job losses there.

On the capital expenditure side, around $1.1 billion ($800 million net) has been allocated towards hospital upgrades and extensions. The precise amounts allocated to each project are withheld so as not to undermine the government’s bargaining position with contractors, but the Budget identifies the following projects: remediation for Auckland-based health services; the development of three temporary bed extensions for hospitals that need immediate upgrades; continuing the redevelopment of Nelson Hospital; refurbishing Wellington Regional Hospital’s Emergency Department, which is woefully undercapacity; and upgrading the Palmerston North Hospital site, which is, according to the Budget documents, “at risk of failing electrical systems, [and] aging and failing mechanical systems”.

This capital investment is badly needed but is not of sufficient scale to address the challenge here. Governments, no matter what political flavour, will need to step up this investment and maintain it year after year to bring our hospital system back up to scratch and ensure the hardworking and skilled healthcare workforce has the facilities they need to meet the rising health needs of the population.

All in all, then, it’s a status quo budget for the health sector. The funding for cancer drugs is welcome, and necessary, as is the capital investment (though we need more of it), but the government has once again declined the opportunity to begin tackling the big problems of understaffing, the deterioration of access to community and hospital-based healthcare, and the unmet health needs of many New Zealanders.

This failure will likely mean more and more of our skilled healthcare staff are incentivised to leave for the better pay and conditions in Australia. The changes to pay equity – which has halted around 16 separate claims in the heath care sector, running from care and support workers to Plunket nurses to aged residential care nurses – also won’t help with staffing shortages.

In the long run, this failure to invest in healthcare will also undermine the government’s goal of supporting economic growth. A robust healthcare system supports productivity, as less work hours are lost to illness; it also acts as a source of good jobs, which are key to economic growth.

Education

Overall, $1.1 billion of new operating funding and $730 million in new capital funding has been allocated to the compulsory education and early childhood education (ECE) sectors. An additional $600 million is shifted around by the government within this portfolio, much of this in primary education, which sees a whirlwind of reprioritisations across learning support.

Primary and secondary schools are getting a 1.5% cost pressure adjustment for their operational grants (totalling $122 million over the forecast period). This is the funding required to cover teacher salaries, curriculum delivery, support staff costs, and the other day-to-day costs of running a school. Inflation is forecast to be 2.2% for the year ending June 2025, which means this is likely to be a real terms cut to schools' operating grants.

The picture is worse for early childhood education (ECE). A cost adjustment of just 0.5% ($51 million over the forecast period) has been made to the subsidies the government provides to the sector. This is likely to be a real terms cut of 1.7%. Combined with the destruction of the pay equity process – ECE teachers had multiple pay equity claims lodged prior to the legislative change in May – this means the sector will be further sweated in 2025/26. There is also no meaningful relief for parents on the horrendous cost of ECE, which can eat a substantial chunk of one's paycheck. However, $12 million has been allocated over the forecast period to deliver development resources for up to 525 ECE centres.

On the positive side of the equation, the government has made some large investments in learning support for primary schools. The major investments here include:

- $226 million to extend the Early Intervention Service to the first year of primary school. This money will pay for additional specialist staff to help transition children with learning support needs into primary school. An additional $40 million has been allocated to fund teacher aide time for children supported by this service.
- $192 million to fund Learning Support Coordinators in primary schools, with the aim of ensuring every school has access to a coordinator.
- $122 million to fund the Ongoing Resourcing Scheme, which provides support for children with ongoing learning support needs.
- $43 million for additional educational psychologists and speech language therapists.
- $96 million has been allocated to support tutoring and additional teacher support for maths education in primary schools.

However, much of this learning support funding has come from cuts to existing education programmes. Most notably, the Kāhui Ako | Communities of Learning initiative, which covered around 3,500 schools, ECE centres, and tertiary providers, has been stopped. Kāhui Ako are groups of education providers that collaborate on improving educational outcomes for students, with a particular emphasis on those at risk of underachievement. Ending this programme nets the government $375 million over the forecast period. So there is an element of deck chairs being shuffled around here.

In addition, the government's gutting of the pay equity legislation has halted the 10 claims that were underway in early childhood and compulsory education. In this respect, it's not unreasonable to argue that much of the government's investment in education this Budget has been funded by the very teachers and support staff who would have benefited from the settlement of those pay equity claims.

Other notable points in operational expenditure are:

- $140 million over the forecast period to lift student attendance rates.
- No new funding to support Māori education – $36 million is simply shifted around from existing programmes into new programmes.
- And at Minister Seymour's behest, the government has poured an additional $16 million in subsidies into the charter school programme.

Finally, capital investment totalling around $711 million is being made in upgrading and expanding the school property portfolio. This investment needs to be increased and maintained over the coming decade to ensure we have healthy, modern classrooms for the growing school rolls, and address the problems of overcrowding that have become increasingly common in primary and secondary schools.

Tertiary education

Overall, a net $405 million in new operating funding has been put into Vote Tertiary Education. The majority of this is for increases in tertiary education and training subsidies, which the government provides to tertiary institutions. A total of $213 million has been allocated to provide a 3% increase to subsidies for foundation level courses and subjects selected as priorities at degree level and above – these are largely science, technology, engineering, and mathematics (STEM) subjects, as well as health. An additional subsidy of 1.75% is made available for selected subjects at degree level and above – again, with a focus on STEM and health subjects. This costs $64 million over the forecast period. The Tertiary Education Union has said these funding commitments "fail to cover rising costs in the sector".

The government is allowing tertiary fees to rise a maximum of 6% in 2026 (the same as last year's Budget). This will add between $400–$500 per year to the tuition costs for a bachelor's degree (the rates vary depending on the subject and university). This adjustment is estimated to cost the Crown $20 million over the forecast period, due to the final year fees-free scheme. At the same time, the government has decided to indefinitely freeze the repayment threshold for student loans at $24,128 per annum – so once you are earning over that threshold you must start repaying your student loan. Previously, this threshold has been annually adjusted for inflation. While a relatively minor change, this will add up over time for low-income workers with student debt.

Social development

As one might expect, the overall approach of the government has been to further squeeze welfare spending.

The first year of the Best Start Tax Credit (these are payments of up to $73 per week for new parents) will now be means tested (the second and third years already are). If a family earns over $79,000 per annum they will no longer be eligible for the full payment. This is a very low bar – it means that a couple both working full time on minimum wage would not be eligible for the full payment. This change is expected to save the Crown $211 million over the forecast period.

The second headline-grabbing welfare change is that unemployed 18- and 19-year-olds will no longer be automatically eligible for Jobseeker support. They will have to undergo a "parental assistance" test, to see if their parents can support them (the details of this test are yet to be announced). This is expected to save $164 million over the forecast period. This policy is neither philosophically nor economically sound. 18-year-olds are treated as adults in essentially all aspects of New Zealand law, so there is no principled case for this change. Moreover, in the current economic context, jobs are simply quite hard to find – indeed, since the government came to power the number of 15–19-year-olds estimated to be NEET (not in employment, education, or training) has increased by around 4,000. So this change will simply mean that already-hard-up households will be further pinched. The government is rather selective about helping to relieve cost-of-living pressures. If you're low-income or out of work, it isn't interested in helping you out.

The government's effective abandonment of emergency housing provision – a policy choice made at last year's Budget – is now expected to rake in over $1 billion in savings across the forecast period. This will come at the cost of increased homelessness across the country, a moral blight on the nation, and something we would view as directly at odds with the government's stated aims of reducing crime rates and getting people into work.

The government has also made a sneaky change to the Accommodation Supplement: to be eligible, those who own their own home will now need to be paying 40% of their income towards their housing costs, rather than 30%. This is expected to save the government $37 million over the forecast period. It's another example of a relatively small change that just puts additional financial pressure on those households who are already up against it.

Finally, as announced prior to the Budget, the government will make unemployed workers reapply for Jobseeker Support every 26 weeks, instead of annually. This is expected to save the government $38 million over the forecast period.

On the positive side, the Working for Families abatement threshold has been nudged up from $42,700 to $44,900 (though the abatement rate has increased from 27% to 27.5%). The government estimates that around 142,000 families will receive an extra $7 per week (currently less than the cost of a block of butter) from this change.

The government has also committed $230 million to the establishment of a Social Investment Fund, which will be used to make targeted social development interventions. These investments can be a force for good, but we note the establishment of this fund is made in the context of the government's punitive and miserly approach to the broader social welfare system (NZ Superannuation excluded).

Disability support has also seen some funding support. The government has allocated $190 million per year to meet cost pressures for Disability Support Services, and a further $60 million per year to funding providers of residential care in community group homes. The language used is very interesting, though: "This initiative provides funding to meet the continued delivery of support to disabled people and their families. The funding will help meet demand and inflationary pressures on Disability Support Services". The key words here are "will help". That means it's short of full funding.

The government is also expecting to make savings of some $226 million over the forecast period by introducing automated decision-making technologies in the processing of welfare claims at the Ministry of Social Development (MSD). The details have not yet been announced here, but the expected savings seem optimistic, to say the least. The government also expects to save around $396 million (most of the savings coming at the end of the forecast period) by increasing the number of checks done by MSD when assessing income-tested assistance payments and using IRD data to update how these assessments are done. Again, no further details have been announced.

Finally, the government has allocated a total of $194 million in operating and $34 million in capital to Vote Oranga Tamariki. $16 million of this is to support improvements to the care system, following the Royal Commission of Inquiry into Abuse in Care, and $33 million has been allocated for safety improvements at Youth Justice Residences. However, $33 million has been put into the continuation of the military-style academies (i.e., bootcamps) that the government has set up for young offenders. These experiments have failed in the past.

Māori development

Māori development sees significant cuts. In total, $20 million has been cut from the Māori Development Fund, $33 million from Māori housing, and $54 million by ending the Whai Kāinga Whai Oranga Māori Housing Programme. In terms of new spending in this area, the only initiative is $13 million put towards the resourcing of Māori Wardens and the Māori Women's Welfare League.

This comes off the back of almost $98 million in cuts at last year's Budget, as well as the disestablishment of programmes that support Māori development and improved outcomes – such as the disestablishment of the Māori Health Authority. The government clearly isn't interested in supporting Māori development.

Pacific Peoples

The same goes for Pacific Peoples development. Almost $36 million is cut overall from Vote Pacific Peoples. The government has closed the Tauola Business Fund, which was established to support Pasifika business development, saving $14 million. It has cut $22 million from the Tupu Aotearoa programme, which provides career guidance and support with job searching and upskilling. The only new money allocated in this Vote is $1 million to support Pasifika Wardens across the forecast period – essentially the cost of two new Pasifika Wardens a year.

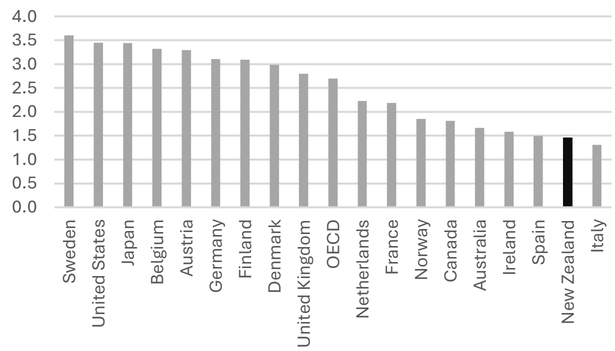
Economic development

The flagship policy of the Budget was the "Investment Boost", which will cost $6.6 billion over the forecast period in foregone tax revenue. This is a tax deduction that businesses can claim on new capital assets they buy. The deduction is equal to 20% of the purchase price of the new assets they purchase. For example, if an agriculture business invests in a new fleet of tractors, it will be able to deduct 20% of the cost of these tractors from its taxable income.

The Treasury expects that this policy will lift the capital stock by 1.6% over the next 20 years. This isn't a bad policy, as New Zealand does not invest enough in the capital stock (one of the reasons our productivity growth is so slow). But it is hardly a game changer. All up the Treasury estimates it will lift GDP by a total of 1% and wages a total of 1.5% over that 20-year horizon.

The concern been expressed by experts in the area is that the potential costs associated with this policy are unlimited. The Treasury acknowledges that the costs estimate right now is very rough. There is a risk that the cost of this package increases significantly, forcing the government to look to cut funding elsewhere to manage it.

Figure 13: Gross expenditure on R&D, % of GDP



Source: OECD

Treasury makes clear in the BEFU that a key long-term constraint on New Zealand growth is our poor labour productivity. Investment in science and R&D is widely understood to be fundamental to unlocking productivity gains, and therefore economic growth. Unfortunately, Budget 2025 makes little headway in this area. The restructure of the public science system sees a lot of money shuffled around, but little genuinely new science and R&D funding is provided. Indeed, some important research funds such as the Health Research Fund are being trimmed back, while the Marsden Fund is set to lose money later in the forecast period. The only notable spending initiatives here are the $200 million that has been set aside for potential Crown investment in a new gas field (one might think this money would be better spent on renewables), and the $577 million that will go towards the NZ Screen Production Rebate. Again, these are hardly game-changing moves.

Infrastructure and housing

Infrastructure is a fundamental enabler of economic growth. Producing, buying, and selling goods and services relies on functioning roads and rail, ferries and ports, internet cables, and power lines. Given New Zealand's gigantic infrastructure deficit, which has accumulated over the past three or four decades (on one estimate it is over $100 billion), one might expect infrastructure to be a centrepiece of a "growth budget". This didn't turn out to be the case.

The total capital allowance for Budget 2025 was $4 billion, and the total spend on infrastructure – taking into account capital expenditure that has been reprioritised from elsewhere – was around $6.8 billion. This isn't nothing, of course, but almost 40% ($2.7 billion) has gone to the Defence Force to purchase new infrastructure, equipment, and munitions. Money has also been set aside (we don't know how much) for increasing the capacity at Christchurch Men's Prison. And $200 million has been set aside for a potential Crown investment in new gas fields. By contrast, the hospital system has received just over $1 billion in new capital funding (see above).

For transport infrastructure, $464 million in capital expenditure and $141 million in operating expenditure has been allocated for rail maintenance in Auckland and Wellington and the replacement of rail infrastructure in rural New Zealand. This is welcome, though momentum will need to be maintained in this area in future Budgets, due to the old age of our rail infrastructure. Capital has also been set aside to purchase the two rail-enabled Cook Straight ferries, and to upgrade the Wellington and Picton ports. The precise sum is not disclosed, as the negotiations with contractors will be ongoing. The other big transport announcement was an increase of $219 million in funding to support the rebuilding of roads damaged in the extreme weather events of 2023.

If the infrastructure investment was underwhelming at Budget 2025, the housing investment was simply laughable. Despite the ongoing housing shortage in New Zealand, the significant slump in the construction industry over the past two years, and the poor state of much of our existing housing stock (which isn't any good for productivity and economic growth), the government has not allocated any new funding for Vote Housing and Urban Development. Instead, it has simply repurposed around $900 million in operating and capital expenditure that was meant for public housing to purchase services from "community housing providers" (i.e., private providers). This suggests the government either doesn't grasp the scale of the challenge here, or else simply doesn't care. Either way: no good.

Climate change and the environment

While not unexpected, it is striking that absolutely no new investments have been made to support decarbonisation and adaptation to climate change in Budget 2025. Indeed, all that we see in this area are cuts, including a reduction in funding for the Energy Efficiency and Conservation Authority ($14 million shaved off its annual budget) and cuts to environmental funds administered by the Ministry for the Environment totalling $26 million over the forecast period. There has been a reduction of $57 million in funding for initiatives aimed at decarbonising our public transport buses. And the government has also decided to use $233 million in funds generated by the Waste Disposal Levy to pay for environmental protection initiatives that had previously been paid for out of general revenue.

Meanwhile, Vote Conservation saw a net funding increase of just $4 million over the forecast period. This was due to a $32 million investment in projects to "boost biodiversity and the tourist economy", with this money coming from the International Visitor Conservation and Tourism Levy. At the same time, the government has cut millions of dollars from various conservation programmes, including $12.6 million from the successful Predator Free 2050 programme, $5.2 million from closing the Nature Heritage Fund, and $2.5 million from closing the Mātauranga Kura Taiao Fund, which was established to support indigenous biodiversity.

This comes off the back of $316 million in net cuts to Vote Environment, and $128 million in net cuts to Vote Conservation in last year's Budget. It also comes off the back of the policy U-turns on a host of major environmental initiatives and laws, including the resource management system, the introduction of the fast-track legislation, closing the Climate Emergency Response Fund, and the lifting of the ban on new offshore oil and gas exploration, to name a few. A full list of the government's anti-environmental reforms (as of November 2024) can be found here.

Justice and defence

Vote Corrections received a significant funding boost of $429 million over the forecast period. The big-ticket items are a cost-pressure adjustment for corrections, totalling just over $70 million, and $402 million to cover growth in the prison population. This money will go towards hiring an additional 580 corrections staff. There is also an $8.8 million allocation set aside to meet wage pressures for corrections officers, as well as an undisclosed sum set aside for collective bargaining, which is welcome. Some of this increased spending is offset, however, by a $49 million cut to the baseline funding for Corrections.

The court system has also received some additional funding. This includes cost-pressure adjustments totalling $100 million for the courts and $10 million for the Ministry of Justice; a total of $95 million has been allocated to Legal Aid; and $18 million has been set aside to pay for new judges and community magistrates. The government also expects to recover around $227 million in additional revenue over the forecast period due to the increased "emphasis on collection of debt" in the justice system (this figure combines revenue raised in both Vote Courts and Vote Justice).

The Police have also seen a funding boost, with a net $422 million allocated to Vote Police over the next four years. The lion's share of the new funding is to cover wage and cost pressures in the Police Force (another example of “keeping-the-lights-on” spending). On the other side of the ledger, $69 million has been cut from funding for Police leadership and non-sworn employees, and $31 million has been cut from grant funding that was intended for community-based crime prevention projects.

The government has made a major investment in the Defence Force at this Budget. All up, a net $446 million in operating funding has been allocated across the forecast period, with much of this to cover deferred maintenance of Defence Force infrastructure, accommodation, and kit, increased recruitment and training of personnel, and upgrading digital capabilities. A further $2.7 billion in capital funding has been provided for the Defence Force to buy new infrastructure, equipment, and munitions. The purchases will include anti-tank missiles, new Boeing 757 transport planes, and new maritime helicopters (the precise allocation of these funds is withheld so as not to undermine the government’s bargaining position with contractors). On the other hand, significant cuts $120 million have being made to the civilian workforce that assists the Defence Force.

Conclusion

A growth budget, to be worthy of the name, would need to make meaningful inroads on our infrastructure deficit, start beefing up our underfed science sector, and begin lifting R&D spending. It would also need to pour significant resources into our increasingly stressed health system to boost the workforce, increase accessibility, and modernise the infrastructure. A smart growth budget would also look to increase our renewable energy generation and begin building some resilience for the impending impacts of climate change.

Unfortunately, Budget 2025 does not make real progress in any of these areas.

A growth budget certainly wouldn't take money away from low-income workers and welfare recipients. Not only is this morally wrong, it just doesn't make economic sense. Lifting the wages of low-income households is a sure-fire way to boost consumer demand and therefore economic growth. By gutting the pay equity system, trimming away Kiwisaver contributions, and further squeezing welfare benefits, the government has managed to simultaneously trample on low-income Kiwis and keep a potential growth engine in the garage, gathering dust.

Instead, what the government has delivered is a budget that grows all the wrong things. Jobseeker numbers are rising. Despite cuts, public debt is still growing because of a stalling economy. We have growth in child poverty.

Growth in the things that we want – GDP, productivity, investment? These numbers are all going backwards. They are going backwards because of the choices that the government is making. A genuine growth budget would require different choices. Those can't come soon enough.

NZCTU
Te Kauae Kaimahi

Glossary of terms

Allowances: This is the amount of new funding available at each Budget. The two main allowances are the operating allowance (which was $1.3 billion for Budget 2025) and the capital allowance (which was $4 billion for Budget 2025).

Budget Economic and Fiscal Update (BEFU): A Treasury document that is released on Budget Day, which contains the Treasury's analysis of the economy and the government's fiscal position, and its economic and fiscal forecasts for the next four years.

Capital expenditure (capex): Expenditure to acquire or develop assets such as buildings and roads, but also intangible assets such as software upgrades.

Cost pressures: Each year, government provides additional funding to certain public services to account for inflation, rising population, wage adjustments, and other factors that may increase costs. Although this is technically "new" expenditure, it is not improving the level or quantity of services available. It is the extra investment needed each year just to "stand still".

Core Crown: This is a reporting segment of government that consists of the Crown, departments, Offices of Parliament, the NZ Superannuation Fund, and the Reserve Bank. When analysing government expenditure and revenue, the Treasury and the commentariat tend to focus on "core Crown expenditure" and "core Crown revenue".

Forecast period: The four-year period covered by each Budget. Budget 2025 covers the following fiscal years: 2025/26, 2026/27, 2027/28, 2028/29. Unless stated otherwise, all dollar figures discussed in this note refer to the amount the government has allocated or cut over this four-year period.

Half-year Economic and Fiscal Update (HYEFU): A Treasury document that is released in December, which contains the Treasury's analysis of the economy and the government's fiscal position, and its economic and fiscal forecasts for the next four years.

Net core Crown debt: This is the measure used by government when calculating targets for New Zealand's public debt. It is gross sovereign-issued debt less core Crown financial assets, but excluding the advances and assets held by the NZ Superannuation Fund.

OBEGAL: The operating balance before gains and losses. This is total Crown revenue less total Crown expenses, stripping out short-term market fluctuations. If OBEGAL is in surplus, this indicates that Crown revenue exceeds operating expenses. If OBEGAL is in deficit, this indicates that Crown operating expenses exceed revenue. When government talks about "getting back to surplus", it is referring to the OBEGAL.

OBEGALx: This is the same as OBEGAL, but it excludes the revenue and expenses of ACC. The coalition government has switched to using OBEGALx as its key measure of the operating balance for its fiscal strategy. Its campaign promises, however, were based on the original OBEGAL measure.

Operating allowance: The amount of new funding available to government each year. Except for welfare, most areas of government expenditure do not automatically adjust to account for inflation and cost pressures. All new spending must therefore be covered by the operating allowances, extra borrowing, or cuts to other lines of expenditure. At each Budget, the government outlines its forecast operating allowances for the next four years.

Operating expenditure (opex): The day-to-day government spending that doesn't include capital expenditure. Operating expenditure covers things like the cost of salaries and utilities. Most government expenditure is opex.

Pre-election Economic and Fiscal Update (PREFU): A Treasury document that is released prior to an election, which contains the Treasury's analysis of the economy and the government's fiscal position, and its economic and fiscal forecasts for the next four years.

Votes: Parliament considers Budget appropriations by "Votes", which generally group together similar areas of expenditure and revenue – for example, "Vote Environment" and "Vote Health".