NZCTU
Te Kauae Kaimahi

The Fiscal Rules of National and Labour

NZCTU Report

August 2026

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Overview

This report analyses the fiscal rules announced by both the National and Labour parties this August. The report is intended to support working people to have conversations with whānau and friends in the lead-up to the general election about the difference between each parties' approach, and their shared limitations.

National has framed its fiscal policy as a set of rules, while Labour has framed its fiscal policy as a set of objectives. For simplicity, in this report we use the term "rules" when referring to both parties' announced policy. These are rules in the soft sense of the term, as the government always maintains the ability to break with the rules it sets itself, although there is usually a political cost in doing so.

Executive summary

On 9 August the National Party announced the "Budget Responsibility Rules" it says it will adhere to if re-elected. These are rules about the level at which a National government would tax, borrow, and spend. On 23 August, Labour announced its own fiscal objectives that it will pursue, as part of its broader Fiscal Strategy.

Both parties have set similar rules for the operating balance and government debt, and both parties have set soft caps on government spending. National's cap on government spending bakes in further cuts to public services and/or transfer payments.

By contrast, Labour's cap is meaningfully higher and would provide it with greater fiscal capacity to invest in public services and support the wellbeing of New Zealanders. By the 2029/30 fiscal year, the difference would be around $15 billion, which over time would mean better outcomes in key public services such as health and education.

Despite this important difference, both parties' fiscal approaches share a limitation. By focusing attention on achieving narrow financial metrics of central government, the fiscal rules approach artificially restrains the government's ability to support the broader economic and social outcomes that actually matter for New Zealanders – things like employment, poverty reduction, and modern public services and infrastructure.

In the NZCTU's view, real economic responsibility requires the government to balance the task of managing its finances with other important objectives such as:

- Smoothing the economic cycle.
- Ensuring public services can meet demand.
- Delivering modern infrastructure that supports economic development.
- Working to eliminate poverty and economic insecurity.
- Urgently adapting New Zealand for the impacts of climate change.

Fiscal rules subordinate these economic and social outcomes to narrow financial targets. A more nuanced approach to government fiscal policy is needed, one that is sensitive to the actual need for public services and investment in Aotearoa.

What are the fiscal rules?

The fiscal rules announced by both National and Labour establish fiscal targets for how much the government will tax, borrow, and spend.

The rules announced by National are basically a restatement of the existing fiscal policy of the National-led coalition Government. The objectives announced by Labour set out similar targets but use some different measures to express those targets. The parties' fiscal rules, and their differences, are set out in Table 1.

The intention of the rules is to signal to voters that a Party is, or will be, a "responsible" economic manager. The rules link economic responsibility with restrained government spending and low debt.

But real economic responsibility requires the government to balance the task of managing its finances with the broader economic and social needs of New Zealanders. There is nothing inherently responsible about reducing government debt levels or capping spending.

Fiscal rules of this kind have developed from the Public Finance Act 1989, which sets out "principles of responsible fiscal management" the government should adhere to and various reporting requirements on the government's fiscal position and plans.

Table 1: Comparison of the fiscal rules/objectives announced by National and Labour in 2026

	National	**Labour**	**Comment**
Operating balance	Return an operating surplus, as measured by OBEGALx, for the June 2028/29 year and "maintain a surplus over time". At Budget 2026, OBEGALx was estimated to be a deficit of $11.9 billion (2.6% of GDP).	Return an operating surplus, as measured by OBEGAL, for the June 2029/30 year and "maintain a sustainable fiscal position over the forecast period". At Budget 2026, OBEGAL was estimated to be a deficit of $15.1 billion (3.3% of GDP).	National and Labour's operating surplus targets are essentially the same, though the measures used are slightly different. OBEGALx excludes ACC revenues and expenses, while OBEGAL includes ACC revenues and expenses.
Debt	Reducing government debt, as measured by net core Crown debt, to below 40% of GDP. At Budget 2026, net core Crown debt was estimated to be 42.4% of GDP.	Reducing government debt, as measured by net debt, to around 20% of GDP. At Budget 2026, net debt was estimated to be 21.8% of GDP.	The measures used by each Party are different. Net core Crown debt, used by National, is a narrow measure and is not easily compared with debt levels of other countries. Net debt, used by Labour, is a wider measure that includes the assets of the NZ Superannuation Fund. This measure is consistent

			with international measures of government debt and so enables comparisons with peer countries. Despite the different measures used, National and Labour's overall debt goals are similar: both parties intend to slightly reduce government debt as a proportion of GDP and to maintain it at a low level over time.
Spending	Reducing government spending, as measured by core Crown expenditure, to around 30% of GDP. At Budget 2026, this measure of spending was estimated to be 32.6% of GDP.	Maintaining government spending, as measured by core Crown expenditure, at around 33% of GDP. At Budget 2026, this measure of spending was estimated to be 32.6% of GDP.	Labour's target is meaningfully higher than National's, as discussed further below. However, with their respective spending rules, both parties are setting soft caps on the ability of the government to deliver public services.

Source: National and Labour party press releases

The key difference between the two parties' fiscal rules

As noted in the table above, both National and Labour have outlined very similar targets for the operating balance and government debt. However, they express some of these targets using different measures, and that matters.

Both parties have also adopted a target for the level of core Crown spending, which is essentially a soft cap on the government's ability to provide public services and support through the transfer system (welfare and superannuation). However, there is a meaningful difference between the cap chosen by National and the cap chosen by Labour.

At Budget 2026 core Crown expenditure was recorded as 32.6% of GDP. National's commitment is to reduce government spending to around 30% of GDP over time. This means further cuts to government services and/or transfer payments. Labour's commitment is to hold government spending at around 33% of GDP, which is its current approximate level.

The differences between these two targets mean that, if elected, Labour would have meaningfully greater fiscal capacity to invest in public services. By the 2029/30 fiscal year, this difference would be around $15 billion, as shown in Table 2. Over time, this would make a significant difference. Under a Labour government, there would be billions more available every year to invest in health, education, and other public services. We know there are major deficits in these areas, so this additional fiscal capacity is much needed.

Table 2: Difference in core Crown expenditure (including operating allowances) between National and Labour, under the parties' respective fiscal rules/objectives

	2025/26	2026/27	2027/28	2028/29	2029/30
National rules ($m)	147,239	154,823	158,788	162,767	167,892
as % of GDP	*32.6*	*32.6*	*31.5*	*30.7*	*30.3*
Labour objectives ($m)	147,239	156,724	166,235	174,847	182,953
as % of GDP	*32.6*	*33.0*	*33.0*	*33.0*	*33.0*
Additional spending Labour ($m)		1,901	7,447	12,080	15,061

Source: NZCTU calculations using Budget Economic and Fiscal Update 2026 data.

The problem with the spending target

Despite the important difference discussed in the previous section, both parties' fiscal approaches need to be challenged. National and Labour's respective targets for core Crown expenditure set an artificial cap on the government's ability to support the broader economic and social outcomes that actually matter for New Zealanders – things like employment, poverty reduction, and modern public services.

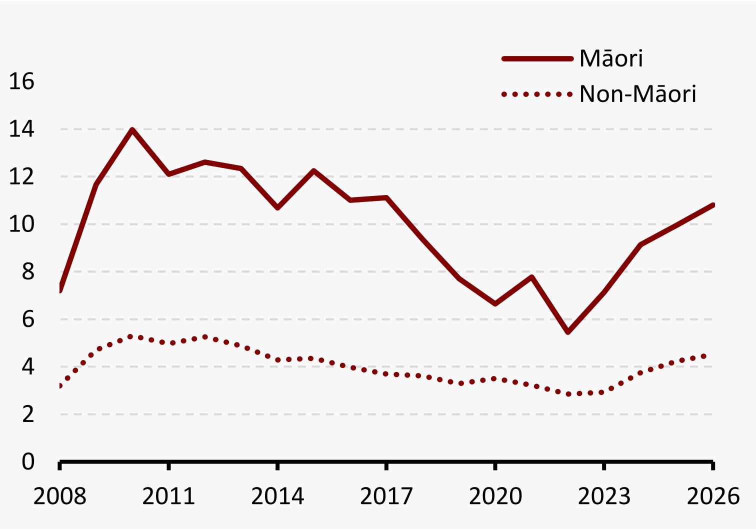
Importantly, the chosen targets for government spending are not rooted in any analysis of what an appropriate level of government activity actually is. Both the 30% figure and the 33% figure are arbitrary targets. Many other OECD countries, such as those of Scandinavia and northern Europe, have higher levels of government taxation and spending, and better economic and social outcomes to show for it.

What these caps do is set unnecessary constraints on the government's ability to respond to the economic circumstances of the day, and to deliver the services New Zealanders need. Let's look at a couple of ways this plays out.

During an economic downturn, such as we have been experiencing in recent years, households pull back on spending, businesses pull back on investment, and as a result unemployment goes up. In this context, if the government also cuts back on spending this simply pushes the economy further into the doldrums, with disastrous outcomes for workers. This is the approach the National-led government has taken over the past three years, and its "Budget Responsibility Rules" signal it will continue this approach if re-elected. Labour's spending target gives it more room to support recovery, as discussed above, but still sets a constraint on its ability to do so, should that be necessary.

This also has consequences for the government's ability to honour its Tiriti o Waitangi commitments. Māori are among the worst-affected during economic downturns due to their high representation in economically precarious industries and regions. We can see how the government is failing Māori in the current Māori unemployment rate, which is almost three times that of European New Zealanders. Capping the level of government spending makes it more difficult for government to proactively intervene to support job creation and better outcomes for Māori workers.

Figure 1: Unemployment rate by ethnicity (%)



Source: Stats NZ; NZCTU calculations.

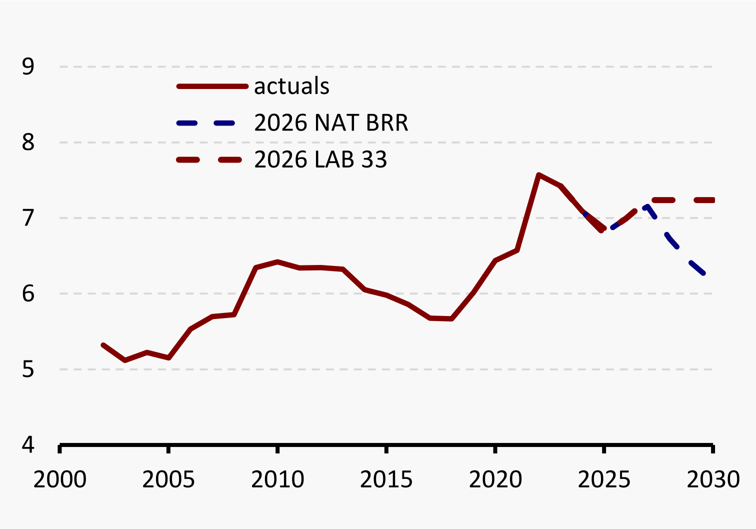
Another example of where government intervention is needed but will be constrained by a spending cap is homelessness and poverty reduction. Currently, it is estimated that one in seven children are living in poverty in New Zealand, along with around one in 10 people aged 65+. It is also reported that we have the highest level of homelessness in modern New Zealand history. By boxing itself in fiscally with a spending cap, the government limits its ability to increase welfare payments and ensure a dignified standard of living for all.

These artificial spending caps also have consequences for core public service provision. Figures 2 and 3 show health and education spending as a proportion of GDP and project these out under National and Labour's respective fiscal approaches. As these figures show, under National's approach, spending on health and education as a proportion of GDP would fall significantly. Under Labour's approach, spending would stabilise but not increase. (A National or Labour government could reprioritise spending from elsewhere to avoid this, but this means spending reductions somewhere else.)

These constraints are being put in place at a time of considerable increased in demand for health services, rising unmet need, and a chronically stretched workforce. Kaitiaki Hauora estimate there is currently a health funding gap of around $6 billion per year. Likewise, in education both NZEI and PPTA have detailed ongoing real term declines in schools' operating funding over the past five years. We should be looking to meaningfully increase government funding of these areas.

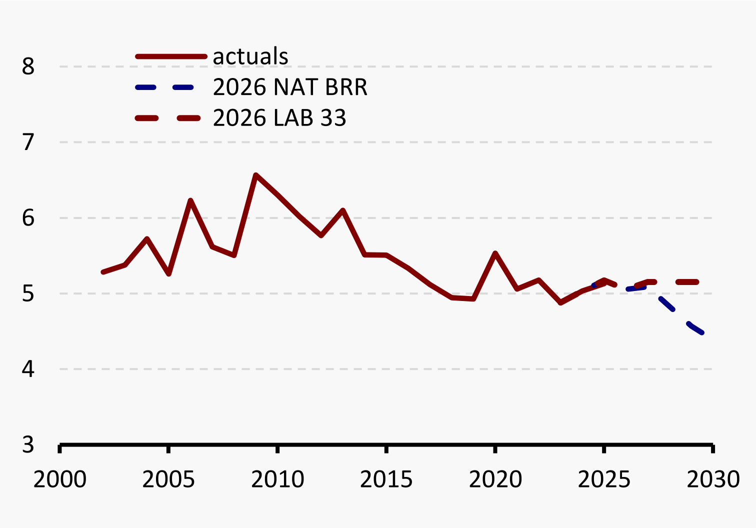
In sum, the government needs to have the flexibility to use fiscal policy to respond to the economic and social challenges of the day. The fiscal rules chosen by National and Labour – although notably different by degree – set unnecessary constraints on the government's ability to do this.

Figure 2: Health spending as % of GDP



Source: NZ Treasury, NZCTU calculations. Projections include pro-rata operating allowance.

Figure 3: Education spending as % of GDP



Source: NZ Treasury, NZCTU calculations. Projections include pro-rata operating allowance.

The problem with the debt target

Both parties have announced targets to slightly reduce government debt, although the parties adopt significantly different measures. National's target is to reduce "net core Crown debt" to below 40% of GDP, while Labour's target is to reduce "net debt" (a different measure) to below 20% of GDP. The difference between these two measures is explained in Table 1 above.

Two interrelated justifications for reducing debt tend to get made: (1) the importance of having fiscal room to borrow in the event of an emergency; and (2) the suggestion that New Zealand's central government debt is too high. Let's look at whether these claims stack up.

To the first issue, it's important the government maintains the ability to borrow at reasonable interest rates to respond to an emergency, such as an earthquake, a pandemic, or a financial crisis. For the nation at large, having some "borrowing room" is an important part of economic resilience. It allows the government to react to a crisis. This can be thought of as similar to a "rainy-day" account for a household.

However, this reactive option needs to be complemented with proactive investment. In an emergency, it is just as important – and sometimes more important – to have access to real resources, such as reliable transport systems, adequate medical supplies, and building materials, as it is to have access to money. As an analogy, many households in Aotearoa have emergency grab-bags. These bags might contain some cash. But they are more likely to include food, cooking equipment, water, warm clothing, and medical supplies. Communities and the nation at large can need access to a similar kete of resources during emergencies.

If government debt is being reduced at the expense of developing these real resources, this can actually make us *less* resilient. For example, the Climate Change Commission has recently informed the government that New Zealand's old and broken water systems are one of the most severe climate-related risks facing the country. This is because they are not equipped to deal with the increasing severity of high rainfall and storm surges. To improve our economic and social resilience, then, we need to urgently invest to fix our water systems. Failure to do so will only make the inevitable damage from climate-change-related storms more costly to respond to. If we are focusing on reducing debt instead of making these investments, we are not actually improving our economic resilience.

To the second issue – whether or not government debt is "too high" – there are three observations we can make. First, current debt levels are within the bounds considered "prudent" by the Treasury, which calculates this in deliberately conservative manner. Second, on the net debt measure (the measure used by Labour), which is consistent with the definitions used by other OECD countries, New Zealand has a very low level of government debt. Third, the New Zealand government's credit rating remains in the top 20 in the world.

Looking at these three data points, we can conclude that, although it's important to manage New Zealand's debt position, there is no reason to think that the current level of debt is "too high". Similar to the spending target, then, the debt target sets artificial constraints on the government's ability to respond to the economic and social challenges of the day, such as fixing and expanding our infrastructure. Managing debt levels is important, but this task needs to be set in its broader economic and social context – the pursuit of low government debt should not be treated as an end in itself.

A better way?

In the NZCTU's view, real economic responsibility requires the government to think not just about the public accounts but the broader economic and social outcomes that we want to achieve as a country. This means considering, among other things, the role of government in:

- Smoothing the economic cycle.
- Ensuring public services can meet demand.
- Delivering modern infrastructure that supports economic development.
- Working to eliminate poverty and economic insecurity.
- Urgently adapting New Zealand for the impacts of climate change.

Fiscal policy is an incredibly powerful tool by which government can help to achieve these objectives. The problem with fiscal rules is that they set artificial constraints on the government's ability to use this powerful tool.

The reality is that there is no "right" level of government taxation, borrowing, and spending. The current evidence suggests we need to be significantly *lifting* government investment in infrastructure and public services. Our public systems, from health and education to our public transport and water systems, are under increasing pressure. We have decades of underinvestment to catch up on in these areas and the demands on them are only going to continue to grow.

Rather than boxing fiscal policy into artificial constraints, a better approach would be to assess the level of need for public investment and services and then respond accordingly.