

Fiscal Implications of Population Change

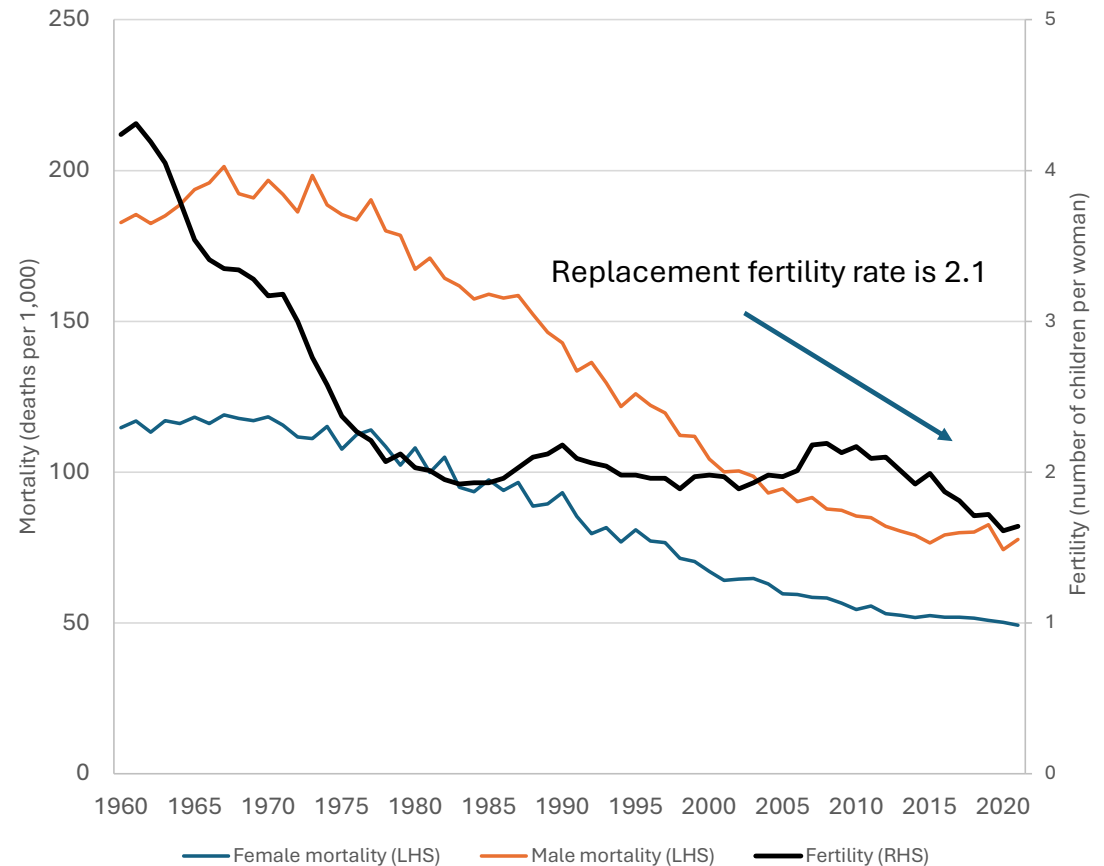
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Key drivers

Population ageing is the result of a demographic transition, from higher mortality and higher fertility to lower mortality and lower fertility.

New Zealand fertility and mortality rates

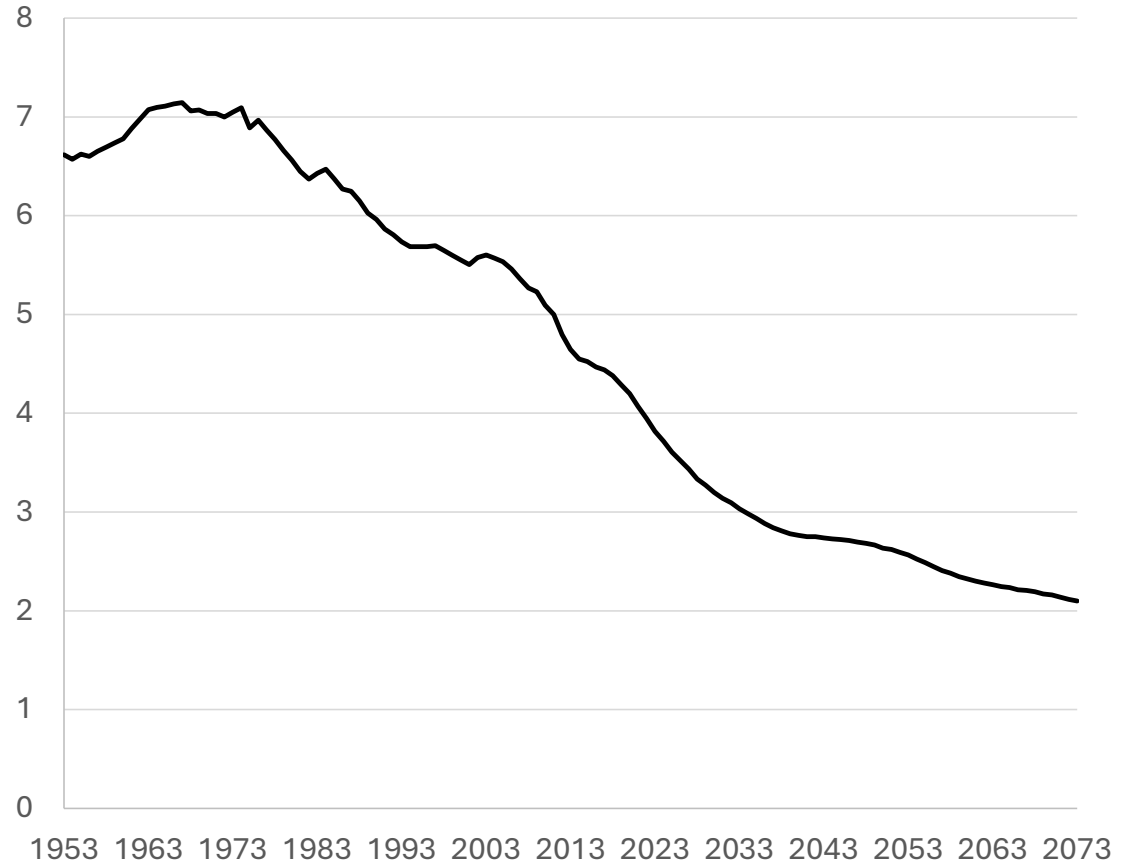


Source: World Bank

Fewer workers

The number of retirees will increase much faster than the number of workers.

Ratio of people in NZ aged 65+ to those aged 15-64



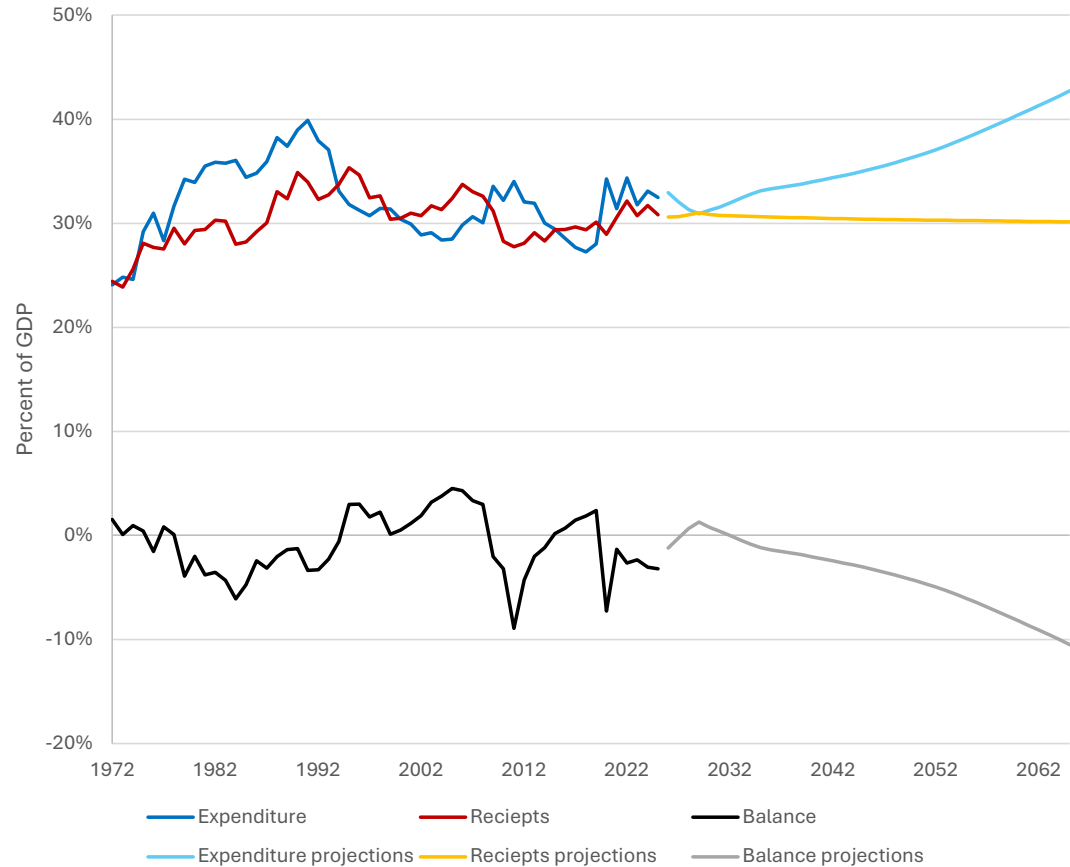
Source: Stats NZ

Fiscal position deteriorates

Expenditure is projected to increase as a % of GDP, while revenues stay flat.

Deficit grows to 10.5% of GDP by 2065.

Expenditure, receipts, balance



Source: Treasury historical fiscal series and 2025 LTFM.

Spending pressures

- **Health and superannuation spending per person more than double**, given higher care costs and population ageing.
- **Interest costs per person increase more than sixfold**, becoming one of the largest areas of government spending.
- **Education and social services grow more slowly**, implying a smaller share of resources for younger + working-age people.
- **Defence spending per person quadruples**, reflecting a more uncertain global environment.

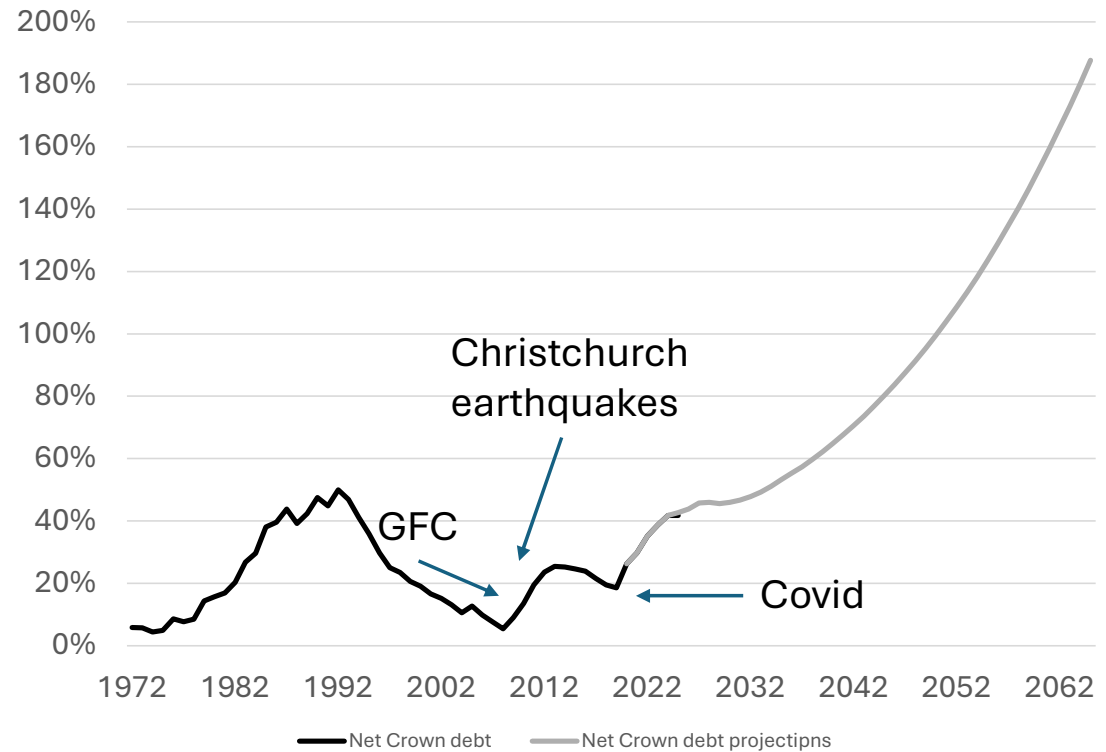
Tax implications

- Stabilising debt by 2065 would require:
 - Increasing the **average tax rate on labour income** from **21% to 32%**.
 - OR **GST** would need to increase from **15% to 32%**.
- Not enough taxable income in the upper income tax brackets and capital income tax bases to meet spending pressures.

Debt becomes unsustainable

Unchanged policy would lead to debt rising to around 200% of GDP in 2065.

Net Crown debt (actual and projected)



Source: Treasury historical fiscal series and 2025 LTFM

Good fiscal news, cf 2006 projections

- **Net migration higher** → population ageing more slowly.
- **Workforce participation higher** (especially people 65+).
- **Stronger terms of trade** have mitigated lower than expected productivity growth.
- **NZ Super spending has risen more slowly** as % of GDP.
- **Interest rates lower**, reducing debt servicing costs.

Not so good news

- **Productivity growth has continued to decline.**
- **More, larger, adverse events** (GFC, earthquakes, Covid, weather events) with average cost of 10% of GDP/decade.
- **Insufficient saving between events** to keep debt steady.
- **Tax/GDP ratio lower** than projected, and outside health, superannuation + education, **spending/GDP ratio higher.**
- **Other spending** ↑ (defence, infrastructure, climate change).
- **Can't rely on favourable trends** continuing.

Interest rate assumption: 6% → 4.3%

- Drives lower debt servicing cost projections.
- Recent historically low global interest rates have been supported by high global savings from large working-age populations (e.g., China).
- As populations age and draw down savings, long-term interest rates are likely to face upward pressure.
- IMF expects global bond yields to rise as ageing erodes fiscal buffers, raises dependency ratios, and shifts savings–investment dynamics.

Migration assumption: 10,000 → 45,300

- Net migration is highly volatile. There is strong international competition for highly-skilled migrants.
- NZ has a culture of emigration, particularly in response to economic conditions.
- Higher net migration → more spending on infrastructure.
- Migrants also age and need support.
- Natalie Jackson (2015): Trebling net migration to 150,000 pa would not prevent rapid population ageing; would lift population to ~16.4 million by 2068.

A missed opportunity

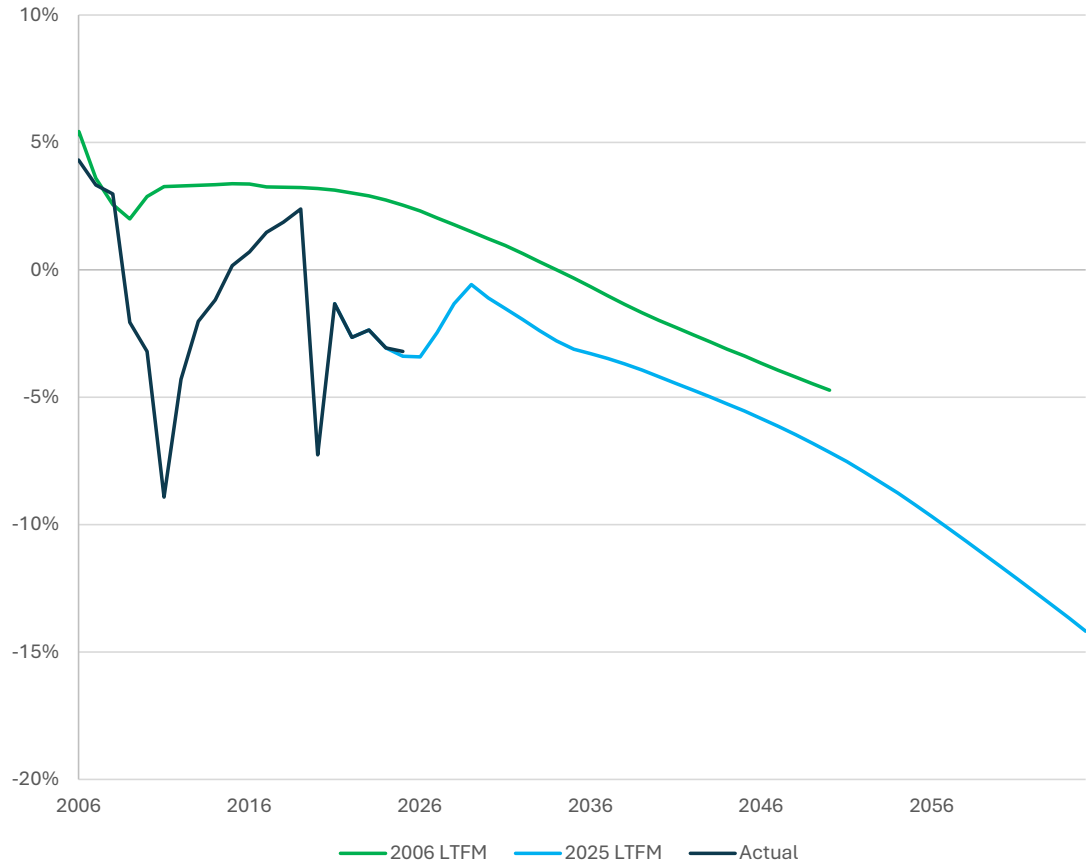
2006 LTFM: time to stockpile surpluses for future needs.

Intervening years: a series of fiscal shocks were funded by borrowing.

Politically expedient - but has fiscal consequences.

2025 LTFM: larger adjustments to spending and revenue required.

Crown balance as a percentage of GDP



Treasury: 2006 LTFM, 2025 LTFM, Historical Fiscal Series

Modelling developments

- Treasury has started modelling what might happen if people's behaviour and the economy change in response to these pressures.
- Overlapping generations model allows us to see how fiscal costs and benefits are distributed across different age cohorts over time.
- Helpful information for the conversations we need to start having – and helps us see the costs of not acting.

Vision

An Aotearoa New Zealand where older people are cared for, where younger people see a future worth staying for, and where the economy sustains both.



Difficult choices

- Taxing future workers at a higher rate reduces work incentives and will encourage emigration.
- GST increases will:
 - disadvantage low-income earners and
 - disadvantage older people, who were taxed on their labour income and would be taxed at higher rates later as they spend their savings.
- Making labour and capital taxes more progressive is unlikely to raise enough revenue.

Heads out of the sand

- Communicate the excellent work already done.
- Key message: Change is inevitable. Acting sooner keeps taxes lower, incomes higher, and gives more policy options.
- Focus on intergenerational fairness (Treasury, Infrastructure Commission, Ministry for the Environment, Productivity Commission).
- (If I had one wish): Act on NZ Super – commit to raising age of entitlement, and uprating by prices not wages by [date] to give people time to plan. And seriously consider means testing.