

Analysis of Treasury modelling shows pay equity would increase GDP and employment at lower cost

New analysis based on Treasury data shows that pay equality is one of the best economic growth policies a government could implement. If the Government's cancellation of pay equity was reversed, it would boost the economy by \$13.5b, which would create jobs for 13,000 people. This economic growth would bring in an extra \$5b in tax revenue, reducing the net cost of pay equity to \$6b over four years or \$1.5b a year.

According to Treasury, for every dollar of net government spending on pay equity, the economy would grow by \$2.25. This is a substantial return on investment that betters similarly sized spending decisions that the current Government has made - like Investment Boost and the restoration of landlord tax deductions.

Government is about choices. Pay equity is a better choice for growing the economy and creating jobs. This is not just a reflection of the simple fact that injecting more money into the economy (greater fiscal impulse, in Treasury terminology) will tend to create growth. Pay equity is particularly impactful because the money flows to lower and middle income households, which tend to have more unmet basic needs and, so, spend that money in their local communities, whereas policies that benefit wealthier households tend to result in greater savings or spending overseas, not domestic spending.

GDP growth

In 2025, Treasury used its macro-economic forecasting model, MATAI, to estimate the effects of pay equity on the wider economy. Viewed from an economic perspective, pay equity is a \$2.7b a year boost to the incomes and spending power of lower and middle income workers. This boosts the economy through a multiplier effect because those workers will rapidly spend that income in their local communities, creating additional demand, resulting in more domestic production and jobs, which leads to more demand, in turn, in a virtuous cycle. As IMF studies have found "boosting the incomes of the poor and the middle class can help raise growth prospects for all".¹

¹ <https://www.imf.org/en/blogs/articles/2015/06/15/growths-secret-weapon-the-poor-and-the-middle-class>

Treasury's MATAI analysis found that the Government's cancellation of pay equity claims:

“results in slower-than-otherwise wage growth and lower than otherwise government consumption... nominal GDP would be around \$13.5 billion cumulatively lower over the forecast period, while tax revenue could be up to \$5.0 billion cumulatively lower due to a combination of lower PAYE and GST tax revenues”.²

The loss of pay equity payments meant foregone spending by pay equity recipients, which would have created economic activity and jobs in the wider economy, and tax revenue for the Government.

In other words, reinstating pay equity would grow the economy by \$13.5b over four years, or \$3.4b a year (0.6%).

For comparison, Treasury's modelling found that Investment Boost would have a much more muted impact, generating only \$6.4b of GDP (0.3%) over the forecast period from a \$6.6b government spend (\$4b net of additional tax).

Job growth

Statistics New Zealand data shows that GDP growth is strongly correlated with employment growth ($r = >0.7$). On average over the past 35 years, for every 1% the economy grows, the number of people employed grows by an average of 0.7%. From this, it can be estimated that the 0.6% GDP boost from reinstating pay equity would increase employment by 0.45%, creating around 13,000 jobs.

For comparison, the March 2026 labour force data from Statistics New Zealand shows there are 28,000 fewer people in work today than at the peak of employment in the December 2023 quarter.

These are not jobs in the pay equity professions themselves. Pay equity would mean workers would be able to spend more. This additional demand would mean more jobs in the businesses they buy from. In turn, these additional workers would also spend money creating jobs, with the overall increase in the number of people in work coming to around 13,000. This would, in turn, have a positive flow-on to wages in the wider economy due to the reduction in surplus labour.

The job creation effect is likely to be especially positive, compared to other initiatives like tax cuts for businesses and the well-off. As studies by the IMF and others have found, initiatives that channel money to the already wealthy result in a higher proportion of that money being saved or spent on imports/overseas travel, while the low and middle income workers who benefit from pay equity on average spend more of their incomes and more of that spending is on local goods and services.

Fiscal impact

The Treasury analysis also showed that the net fiscal impact of pay equity is not the \$12.8b frequently cited, but \$6b over four years.

² Treasury analysis included below as an appendix.

Treasury gives two reasons for this discrepancy:

- An accounting technicality: “Around \$1.8 billion of the savings come from the current year [2024/25], reflecting the anticipated settlements this year that have not eventuated. This resulted in one-off savings “. Government fiscal forecasts are for the next four years, so the cost of reinstating pay equity would not include this one-off effect in 2024/25.
- Foregone tax revenue: “tax revenue could be up to \$5.0 billion cumulatively lower due to a combination of lower PAYE and GST tax revenues ... due to the removal of the pay equity contingency”.

As a result, Treasury states that removing pay equity resulted in “the net operating balance improving by around \$6.0 billion over the forecast period”. Note that this is likely to be a conservative estimate as it doesn’t account for reduced income support payments as a result of both the pay equity workers having higher incomes and people moving off benefits as a result of the 13,000 [GU1.1] jobs created.

This means that restoring pay equity would result in \$11b over four years (\$2.75b per annum) of payments from the government to the affected workers but result in \$5b (\$1.25b per annum) in tax coming back to the government from the resulting economic activity. The resulting net impact on the fiscal balance (surplus/deficit) is \$6b, or \$1.5b a year. For comparison, the forecast OBEGAL deficit for 2026/27 is \$14b and includes \$1.8b for just a 16km new road.

This \$1.5b a year is the ‘bottom-line’ impact on the books that the Government of the day would have to budget for and represents 1% of core Crown revenue.

Return on Investment

A new government spend of \$1.5b a year for a \$3.4b a year boost to the economy and 13,000 additional jobs is a 2.25:1 return on investment.

A benefit cost ratio of 2.25 is higher than many major government investments.

Treasury modelling shows Investment Boost will create \$6.4b of growth from a \$4b net government spend over the forecast period - a BCR of 1.6.

Treasury produced no macroeconomic modelling of the restoration of interest tax deductions by landlords but noted that the benefits would flow to higher wealth households, which are less likely to spend additional income.

Data

GDP increase from pay equity (Treasury)				
Forecast period	\$13.5b	Annual	\$3.375b	
Budget 2026 Nominal GDP forecasts				
2028/29	2029/30	2030/31	2031/32	Total
\$529.839	\$554.403	\$578.559	\$603.373	\$2,266.174
GDP increase in % of GDP terms				
2028/29	2029/30	2030/31	2031/32	Total
0.64%	0.61%	0.58%	0.56%	0.60%

Employment impact

Correlation of year-on-year GDP growth and growth in number of people employed: 0.74

Average increase in people employed per 1% of GDP growth: 0.7%

Budget 2026 employment forecast				
2028/29	2029/30	2030/31	2031/32	
3,067,640	3,113,102	3,152,999	3,192,060	
Added jobs from increased GDP due to pay equity				
2028/29	2029/30	2030/31	2031/32	Average
13,678	13,266	12,875	12,498	13,079

Fiscal costs of restoring pay equity, in billions:

Budget 2025 fiscal impact					
24/25	25/26	26/27	27/28	28/29	Total
\$1.834b	\$2.959b	\$2.672b	\$2.670b	\$2.670b	\$12.805b
Ongoing cost (Budget 2025)					
Forecast period	\$10.68b	Annual	\$2.67b		
Tax revenue (Treasury)					
Forecast period	\$5b	Annual	\$1.25b		

Impact on operating balance (Treasury)					
Forecast period	\$6b	Annual	\$1.5b		

Return on Investment over forecast period

	GDP growth	Net Fiscal Investment	Ratio
Pay equity	\$13.5b	\$6b	2.25:1
Investment Boost	\$6.4b	\$4.0b	1.6:1

Appendix: Treasury analysis

12 June 2025



Dear

Thank you for your enquiry regarding the impact on nominal GDP and the operating balance of the Budget 2025 Pay Equity policy changes.

The Treasury uses Matai, a macro-economic forecasting model of the New Zealand economy, to aid in the production of its economic and tax forecasts. Matai is a dynamic model that accounts for the inflationary component of the policy and the adjustment of interest rates in response. This model output allows a comparison between fiscal costs and estimated future tax revenue in nominal terms.

Extract from the Budget Economic and Fiscal Update 2025 [document](#):

Overall, the reduction in funding has created fiscal headroom of \$12.8 billion over the forecast period. Around \$1.8 billion of the savings come from the current year, reflecting the anticipated settlements in this year that have not eventuated. This resulted in one-off savings that the Government has decided to use to fund an increase in the Budget 2025 capital package. The savings beyond 2024/25 of \$2.7 billion per annum have been used against the Budget 2025 operating package.

Consequently, the gross fiscal saving from the Pay Equity changes amounts to a cumulative \$11.0 billion operating over the forecast period. The savings form part of the overall Budget 2025 operating package of \$1.3 billion per annum, which lowers the operating allowance of \$2.4 billion as outlined in the Budget Policy Statement 2025.

It is difficult to separate the gross impacts of specific budget initiatives when considering the economic and tax implications of the Budget 2025 package. For example, the removal of the pay equity contingency results in slower-than-otherwise wage growth and lower than otherwise government consumption. There are several budget initiatives that impact on wage growth both positively and negatively over the forecast period.

Using the macro-economic forecasting model, MATAI, we estimate that nominal GDP would be around \$13.5 billion cumulatively lower over the forecast period, while tax revenue could be up to \$5.0 billion cumulatively lower due to a combination of lower PAYE and GST tax revenues. This would see the net operating balance improving by around \$6.0 billion over the forecast period due to the removal of the pay equity contingency.

However, budget allowances are a net concept in that savings from one area may be used to offset higher spending elsewhere. The operating allowance covers both spending and revenue decisions. It therefore captures the Investment Boost policy, which counts against the allowance, and the KiwiSaver changes, which overall provided savings to the government. Lower aggregate demand that results from the smaller overall Budget allowances in 2025 that are cumulatively around \$4 billion lower over the forecast period creates room for lower interest

rates that are around 30 basis points lower than they would otherwise have been by the end of the forecast period.

Thank you for taking the time to write.

Yours sincerely

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