

Barton Deakin Brief: New Zealand Fiscal Update

23 August 2017

Today, the New Zealand Treasury released its *Pre-Election Economic & Fiscal Update 2017* (PREFU) with exactly a month until the election. It shows a slightly softer growth forecast compared to the Budget forecasts three months ago but, again, shows New Zealand is one of the few OECD countries to be posting fiscal surpluses.

This Barton Deakin Brief provides an overview of PREFU 2017.

Pre-Election Economic and Fiscal Update 2017

The *Pre-election Economic and Fiscal Update* (PREFU) is a required opening of the Government's books ahead of the General Election on **23 September 2017**. It primarily outlines what the Treasury observes in the current and future economic and fiscal climate and the risks the New Zealand economy may face over the next four years (the forecast period).

PREFU shows that the New Zealand economy is expected to continue its steady growth over the 4-year forecast period. Growth in real GDP is forecast to pick up to 3.7 percent in mid-2019 before easing to 2.3 percent in 2020/21.

The stronger economic growth over the next two years is expected to lead to a gradual decline in the unemployment rate from 4.9% in 2017 to 4.3% in 2020/21. It also sees a pick-up in wages and prices that lifts inflation from 1.7% in 2017 to 2.1% percent in 2019/20. The average annual wage is forecast to increase from \$58,900 at March 2017 to \$65,700 by 2021.

Beyond 2019, an expected slowdown in population growth and reduced monetary policy stimulus are forecast to lead to slower economic growth. The forecast growth profile is a slightly lower than in the Budget Economic and Fiscal Update (Budget Update), reflecting a smaller contribution to growth from residential investment. Over the forecast period ending June 2021, nominal GDP is 0.2 percent (\$2.6 billion) lower than in the Budget Update.

The 2016/17 fiscal result is anticipated to be stronger than expected while fiscal forecasts over the forecast period remain close to the Budget Update. The operating balance before gains and losses (OBEGAL) surplus is estimated to reach \$3.7 billion in 2016/17, largely reflecting stronger tax revenue growth.

Because of the expected improvement in the 2016/17 fiscal results, New Zealand's net debt is estimated to be \$2.0 billion lower than anticipated in the Budget Update by 2020/21 to stand at 18.8 percent of GDP. Projections to 2020/21 show net debt as a share of GDP continuing to decline beyond 2020/21.



Summary of the Treasury's economic and fiscal forecasts

	2016 Actual	2017 Estimate	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Economic						
Real production GDP (annual average % change)	2.7	2.8	3.2	3.7	2.8	2.3
Unemployment rate (June quarter)	5.0	4.9	4.7	4.4	4.3	4.3
CPI inflation (annual % change, June quarter)	0.4	1.7	1.3	1.9	2.1	2.1
Current account balance (% of GDP)	(2.9)	(3.1)	(2.2)	(2.8)	(3.3)	(3.9)
Fiscal (% of GDP)						
Core Crown tax revenue	30.1	30.4	29.9	29.6	29.8	29.9
Core Crown expenses	29.2	28.6	28.7	28.2	27.7	27.7
Total Crown operating balance before gains and losses	0.7	1.4	1.0	1.2	1.9	2.0
Core Crown residual cash	(0.5)	0.6	(0.5)	(0.5)	0.6	0.3
Net core Crown debt	24.5	22.5	22.0	21.5	20.0	18.8
Net worth attributable to the Crown	35.3	40.5	40.5	40.9	42.0	43.5

Sources: Statistics New Zealand, the Treasury

The PREFU forecasts include the Government's budget spending commitments, including:

- \$7 billion in additional operating expenditure over four years in Budget 2017 which commenced on 1 July 2017.
- \$1.7 billion per annum (\$6.8 billion over four years) operating allowance to be allocated for Budget 2018, increasing by 2 per cent each subsequent budget.
- \$32.5 billion in total capital infrastructure investment between 1 July 2018 and 30 June 2021.
- \$6.5 billion over four years (\$2 billion per annum in out years) for the Government's Family Incomes package commencing on 1 April 2018.

See the Minister's media releases, [here](#).

Access the *Pre-election Economic and Fiscal Update 2017*, [here](#).

Further Information

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