

New Zealand Budget Policy Statement and Treasury's Half Year Economic and Fiscal Update December 2017

On Thursday 14 December 2017 Finance Minister Grant Robertson released the Ardern Government's Budget Policy Statement (BPS) and Treasury's Half Year Economic and Fiscal Update. The announcements represent the first fiscal statements of the Labour-led Government's term.

The Treasury Update includes the costs associated with the Government's 100-Day Plan. The BPS details how policies outside the 100-Day Plan will be afforded over the forward estimates. Over the forward estimates, allowances for policies outside of the 100-Day Plan provide \$21.7 billion in new operating expenditure, and capital allowances provide for \$12.6 billion of new investments.

Economic indicators

The economy is expected to grow by 2.9 per cent in the year to June 2018, with this figure to average 3 per cent over the following four years. Unemployment is forecast to be 4.6 per cent in the current financial year, and is forecast to fall towards the Government's 4 per cent target. Wages growth is forecast to rise by more than 3 per cent on average annually over the same period. Inflation is forecast to be 2 per cent in the current financial year, with this figure averaging slightly more than 2 per cent over the forward estimates.

Treasury forecasts government spending to remain within recent historical range, with Core Crown debt to fall to 19.3 per cent of GDP over the forward estimates.

Budget Responsibility Rules

The Government stated that all commitments would be met while honouring its Budget Responsibility Rules, including:

- Sustainable operating surpluses across an economic cycle
- Net Core Crown Debt to below 20% of GDP
- Prioritisation of investments to address the long-term financial and sustainability challenges facing New Zealand
- Maintaining expenditure within the recent historical range of the spending-to-GDP ratio
- A progressive taxation system that is fair and promotes sustainability and productivity of the economy.

Families Package

The Government outlined the full Families Package, a key aspect of its 100-Day-Plan. 385,000 families with children will be made better off by an average of \$75 a week in 2020/21 when the Package is fully implemented.

The Families Package is projected to lift 88,000 children out of poverty by 2020/21, a 48 per cent reduction in the number of children living in poverty compared to the status quo.

By cancelling the previous National Government's planned income tax cuts, the Families Package will raise revenue by \$8.36 billion over the forecast period (including \$0.49 billion in 2017/18). This additional revenue will fund the Package, estimated to cost \$5.53 billion over the forecast period (including delivering \$80 million in additional revenue in 2017/18). This means that over the period, the Families Package is estimated to have a positive impact on the Government's operating balance of \$2.84 billion compared with Budget 2017 (including \$0.57 billion in 2017/18).



The Package will:

- Increase incomes of low- and middle-income families with children by increasing the Family Tax Credit and raising the Working for Families abatement threshold
- Introduce a Best Start tax credit
- Introduce a Winter Energy Payment to assist low-income families
- Increase the rate of Orphan's Benefit, Unsupported Child's Benefit and Foster Care Allowance by \$20.31 per week
- Increase paid parental leave to 26 weeks
- Reinstate the Independent Earner Tax Credit
- Implement the Accommodation Supplement and Accommodation Benefit increases announced in Budget 2017
- Repeal the tax cuts and changes to Working for Families announced in Budget 2017.

KiwiBuild

The Government committed to the KiwiBuild initiative which will deliver 100,000 affordable houses over 10 years, assisting first-home buyers and addressing New Zealand's housing crisis. The Treasury Update indicates an extra \$5.4 billion of residential construction investment will take place over the forward estimates, largely as a consequence of KiwiBuild.

The Government committed to:

- Building additional state houses
- Ensuring there is enough skilled labour, through immigration intake and training initiatives
- Freeing up land supply
- Enabling infrastructure financing
- Enabling higher productivity in the building industry.

New measures of growth and living standards

The Government announced that future budget statements will include a new set of economic, environmental, and social progress indicators. The indicators will reflect how responsible fiscal management is a means to help achieve social and environmental goals and to improve New Zealanders' wellbeing.

Further information

Hawker Britton's Occasional Paper on NZ Labour's election policies is available [here](#).

Hawker Britton's Occasional Paper on the NZ Government's Tax Working Group Terms of Reference is available [here](#).

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