

May 14, 2020

## New Zealand Budget 2020

Finance Minister Grant Robertson delivered his third Budget today. It is not the election year Budget he had planned to deliver only months ago. There were no changes to the tax system, no changes to the welfare system and no major new social programmes.

Instead, Budget 2020 focused squarely on protecting jobs against the economic impact of COVID-19 and providing a platform for New Zealand to "build back better" in the recovery.

Robertson noted his conservative fiscal approach over the previous two years has put New Zealand in a good position to weather the economic downturn, with net core Crown debt below 20 per cent of GDP.

He cited the First Labour Government's response to the Great Depression, stating "I am not a fan of austerity, I believe the way we will get through this is by investing in people, in businesses, and communities."

### COVID-19 Response and Recovery Fund

The Budget's centrepiece is a \$50 billion COVID-19 Response and Recovery Fund (CRRF).

The Government has already committed \$10.7 billion through the CRRF, including:

- \$6.9 billion to extend the Wage Subsidy Scheme (\$3.2 new spending)
- \$1.9 billion in business tax relief
- \$186 million across the education sector, to support distance learning and help students continue their studies during lockdown, and
- a number of other packages to support the short-term response of the health, aviation and social sectors.

The Government has indicated it will progressively roll out initiatives from the CRRF in the coming weeks and months. This will include \$3 billion for shovel-ready infrastructure projects.

This builds on the Government's previously announced \$12.1 billion COVID-19 response package and the \$12 billion New Zealand Upgrade Programme announced in January.

Other key initiatives include:

#### *INFRASTRUCTURE*

- \$5 billion for 8,000 additional state and public houses.



- \$3 billion for shovel-ready infrastructure projects.
- \$1.1 billion capital investment in transport, including replacing ageing ferries and locomotives.
- \$56m for the Warmer Kiwi Homes programme to insulate a further 9,000 homes.

#### *JOBS AND TRAINING*

- \$3.2 billion for an eight week targeted extension of the Wage Subsidy Scheme for businesses that have suffered, or expect to suffer, revenue loss of at least 50 per cent for the 30-day period prior to the application date versus the nearest comparable period last year, as well as some new businesses.
- \$1.1 billion to create 11,000 regional environmental jobs including pest control and enhancing biodiversity.
- \$1.6 billion to make tertiary courses free in building and construction, agriculture and manufacturing to help people who have lost their jobs retrain.

#### *TOURISM*

- \$400 million targeted Tourism Recovery Fund - the first stages of an action plan agreed with the industry, alongside the extension of the Wage Subsidy Scheme and a domestic tourism campaign.

#### *SOCIAL SERVICES*

- \$5.5 billion for health, including \$3.9 billion for DHBs, \$160m for medicine and medical supplies purchaser Pharmac, and \$833m for support for people with disabilities.
- \$217 to expand the Free and Healthy School Lunch programme to 200,000 students from Term 4.
- \$414.2 million for the Early Learning Sector.
- \$246.1 million investment in community services, including a significant funding boost for family violence service providers.

Some of the above initiatives may be counted in full or in part under the CRRF.

### **Economic and Fiscal forecast**

New Zealand's real GDP growth rate is forecast to decline from 2.8 per cent in the year ending June 2019 to -4.6 per cent in the year ending June 2020, driven by an expected quarterly decline in GDP of over 20 per cent in the June 2020 quarter. Annual real GDP growth is forecast to become positive from the year ending June 2022.

Treasury expects the increased government spending to save 140,000 jobs over the next two years. However, unemployment will still rise to 9.8 per cent by September 2020, before recovering.



A record \$28b operating deficit is expected in the 19/20 year, which will rapidly shrink in the coming years to \$4.9b in 23/24. A surplus is not forecast until 27/28. On top of the operating deficit, the Government will be undertaking record capital investment totaling \$58b over the next four years. In combination, the deficits and capital expenditure result in net core Crown debt hitting \$200b in 23/24 or 54% of GDP, compared to 19% before the crisis.

**Further information**

For further information, contact: Simon Banks on +61 2 6111 2191,  
email: [sbanks@hawkerbritton.com](mailto:sbanks@hawkerbritton.com); or Neale Jones on +64 27 529 1079,  
email: [neale@capitalnz.com](mailto:neale@capitalnz.com)