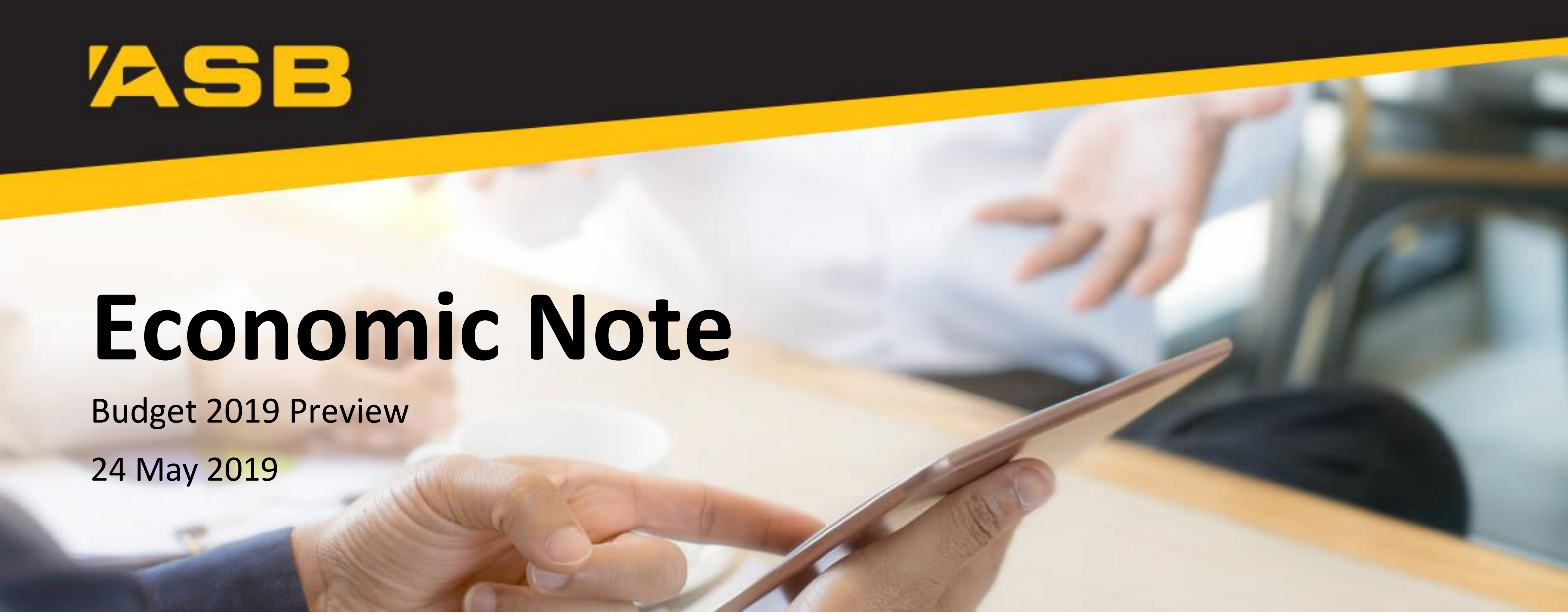

Economic Note

Budget 2019 Preview

24 May 2019

Well-budgeted being

- As has been signalled, we expect the Budget to show the Government continuing to hit its fiscal targets.
- Although with the economy slowing, the Government may have had to tighten its purse strings a little.
- Meanwhile, *Budget 2019* will reveal more of the Government's approach and policy priorities under its new *Wellbeing Budget* framework.

Summary

We expect a second prudent Budget from Minister of Finance, Grant Robertson. Mr Robertson continues to point out that this Government will operate within its self-imposed fiscal parameters this term. As a result, we expect *Budget 2019* to show small operating surpluses, a largely flat net debt profile, mixed in with modest spending and investment increases where fiscal headroom permits.

However, the slowing economy may have crimped that fiscal headroom somewhat compared to the Half-Year Update. Indeed, we anticipate that the Treasury will revise down its economic growth forecasts over much of the forecast horizon. Since the Half-Year Update, we have revised down our own annual growth forecasts by an average of 0.5 percentage points through to 2022.

***Budget 2019* will also reveal more of the Government's thinking and policy priorities under its new *Wellbeing Budget* framework**. Specifically, *the Wellbeing Budget* document will contain a discussion of the wellbeing approach and outlook plus how the framework guided the setting of policy priorities and the subsequent spending and investments.

FISCAL PROJECTIONS - ASB Budget 2019 Estimates					
June years	2019	2020	2021	2022	2023
Total Crown OBEGAL (% GDP)					
ASB Budget 2019 Estimate	**0.8**	**1.6**	**1.4**	**1.3**	**0.7**
Half-Year 2018	*0.6*	*1.3*	*1.5*	*2.2*	*2.3*
Net core Crown debt (%GDP)					
ASB Budget 2019 Estimate	**20.9**	**20.1**	**19.8**	**19.8**	**19.8**
Half-Year 2018	*20.9*	*20.7*	*20.1*	*19.0*	*17.4*
Bond Tender Programme ($bn)					
ASB Budget 2019 Estimate	**8.0**	**8.0**	**8.0**	**8.0**	**9.0**
Half-Year 2018	*8.0*	*8.0*	*8.0*	*8.0*	*8.0*

Operating balance – modestly in the black

We expect *Budget 2019* to show that the Government is forecast to run modest operating surpluses (OBEGAL). That said, the Budget forecast OBEGAL is likely to be softer from 2021 onwards compared to the Half-Year Update as the economic outlook has softened significantly since then. Indeed, by the end of the forecast period, we expect the OBEGAL to be around 1.5% of GDP lower than as at the Half-Year Update.

However, **we anticipate that *Budget 2019* and future spending allowances will be largely unchanged**. The overall changes to the OBEGAL forecast are likely to be relatively small, and hence do not warrant a significant change in fiscal policy. Moreover, Mr Robertson has announced that significant savings and reprioritisation efforts have been fruitful

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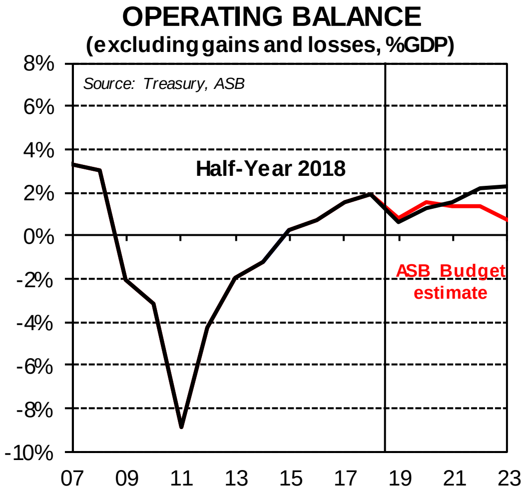
and thus these efforts can be directed into priority policy areas.



Regardless, **the Government is likely to want to keep its powder for *Budget 2020* and/or election year spending promises.** In the same vein for this Budget, the Government is likely to favour highlighting the approach and priorities included in the *Wellbeing Budget* rather than big-bang policy announcements per se.

Growth – weaker than the Half-Year Update

The economic outlook has weakened since the Half-Year Update. Our forecasts now show lower growth than the Treasury's, particularly over 2020, 2021 and 2022. On average our annual growth forecasts are 0.5 percentage points lower than six months ago.

Net Debt & Bond Programme – small changes

We expect a modestly higher net debt forecast, with potentially modest increases to the Government bond programme. As mentioned above, Budget forecasts are likely to show a modestly smaller OBEGAL compared to that as at the Half-Year Update. As a result, we'd expect net debt to sail closer to the 20% wind in 2022 and 2023. Notably, net debt fell to 17.4% in the Half-Year forecasts, whereas we'd expect a figure of 19% and change this time around. **On this basis, there may be a $1bn increase in bond issuance towards the end of the forecast period relative to the Half-Year Update**. However, we wouldn't be surprised if the increased issuance was spread over 2022 and 2023 or if the issuance was kept unchanged.

The new *Wellbeing Budget* document – what will it do?

The *2019 Wellbeing Budget* will provide the context around the Government's approach to and the outlook for wellbeing. First up, though, recall the Government's economic strategy, which contains these high level economic objectives:

1. Grow and share New Zealand's prosperity more fairly;
2. Support thriving and sustainable regions;
3. Transition to a clean, green and carbon neutral New Zealand; and
4. Deliver responsible governance with a broader measure of success.

Mr Robertson has stated that the *Wellbeing Budget* will demonstrate how the Government will deliver on the economic strategy, with three fundamental elements used in the prioritisation of spending and investments:

1. ***A whole-of-government approach***. The Government has instructed government agencies to work together to assess, develop and implement initiatives to improve wellbeing.
2. ***Intergenerational outcomes***. Shifting focus to the long-term thinking about the impacts of policy as well meeting current needs.
3. ***Broadening measures of success***. The measures used include the Treasury's Living Standards Framework and Indicators Aotearoa New Zealand.

In addition, Mr Robertson has stated that **Budget priorities have been formulated on the basis of wellbeing analysis.** He has also stated that this analysis called on the policy evidence and expert advice with a view to prioritising the greatest opportunities to make a difference to New Zealanders' wellbeing.

For our part, **we are supportive of the new framework and its potential for informing spending and investment decisions.** However, these changes will take time to bed down and time for the impacts of new spending and investment to be revealed. Success will also depend heavily on ensuring there is appropriate feedback from measured outcomes back into policy refinement, something NZ's short electoral cycle may hamper.

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