

# Economic Note

Half-Year Economic & Fiscal Update Preview

8 December 2017

## New Government's fiscal line in the sand

- We expect the HYEFU to show healthy Government books.
- Although, the new Government is likely to sail closer to the fiscal wind.
- Meanwhile, we anticipate around \$12bn of extra issuance under the bond tender programme.

	2018	2019	2020	2021	2022
<b>Total Crown OBEGAL (% of GDP)</b>					
PREFU 2016	1.0%	1.2%	1.9%	2.0%	2.4%
ASB HYEFU Estimate	0.9%	0.7%	1.1%	1.0%	1.0%
<b>Net core Crown debt (% of GDP)</b>					
PREFU 2016	22.0%	21.5%	20.0%	18.8%	16.7%
ASB HYEFU Estimate	22.2%	22.5%	21.8%	21.0%	20.0%
<b>Bond Tender programme (\$bn)</b>					
PREFU 2016	7.0	7.0	7.0	6.0	-
ASB HYEFU Estimate	9.0	9.0	9.0	9.0	9.0

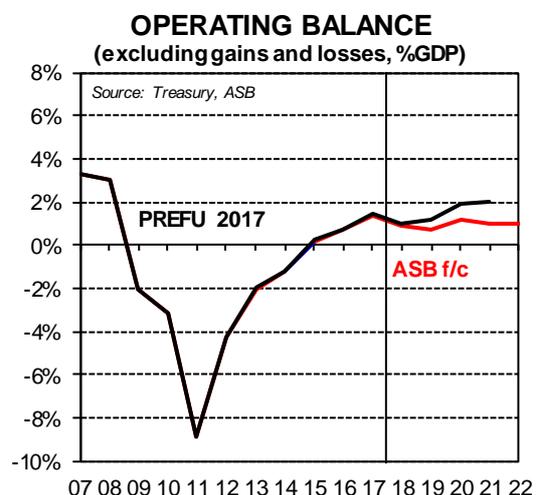
### Introduction

The new Labour-NZ First Government releases its first take on the country's fiscal accounts with the Half-Year Economic and Fiscal Update (HYEFU) next Thursday (1pm NZT).

Normally, the HYEFU attracts little attention, but **this update is the first under the new Government, and thus will attract more attention than usual.** Indeed, new Finance Minister, Grant Robertson, has stated that the costs of the 100-day plan will be included in the HYEFU. For release at the same time, the Budget Policy Statement will outline the Government's priorities for Budget 2018 and show the level of operating and capital allowances for the next four Budgets.

### Operating Surpluses

The new Government has committed to the existing Budget Responsibility Rules. That along with the existing healthy state of the accounts ensures that **we are likely to see another healthy fiscal picture in the HYEFU.**



In particular, **we expect that to mean that the HYEPU shows small operating surpluses over the forecast period.** Our estimates have the operating surplus averaging 1% of GDP over the five year period.

Nonetheless, **the new Government is likely to sail closer to the fiscal wind.** For example, we expect the operating surplus forecast as a % of GDP to be flat over period. In contrast, at the Pre-Election Economic and Fiscal Update (PREFU) the operating surplus increased from 1.0% of GDP in 2017/18 to 2.4% by 2021/22.

## Net Debt & Bond Programme

**We also expect the HYEPU to show a strong Government balance sheet.** We project that, along with achieving its operating surplus target, the Government will also be on track to deliver its net debt target. Specifically, we expect net debt to reach 20% of GDP by 2021/22.

However, **smaller surpluses do translate into higher net debt levels compared to the previous PREFU forecasts.** For example, our projections show that by 2021/22 net debt is likely to be 3.3 percentage points of GDP higher than forecast back in the PREFU.

In addition, **higher debt levels translate into a larger bond tender programme.** We anticipate around \$12bn extra issuance over the 5-year forecast period.

## Growth

The Treasury's growth forecasts will also garner some attention. Indeed, **the economic outlook has deteriorated since the PREFU back in August.** Our forecasts show lower growth than the Treasury's, particularly over 2018/19. However, we are more optimistic around wage growth than the Treasury was back in the PREFU, given the minimum wage increases and changes to migration policy.

All up, **the risks are skewed towards a weaker economic outlook than we have factored in.** If that proves the case, then the HYEPU may show less wiggle room in terms of the size of operating surpluses, than we have shown here.

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