

Cover Note to the Treasury's Draft Long-Term Fiscal Policy Papers

Bill Moran, Manager, Macroeconomic and Fiscal Policy at the Treasury

Background to the Draft Research Papers

New Zealand is facing increasing fiscal pressures over coming decades due to its ageing population. Policy adjustments will be necessary in the decades ahead in order to generate fiscal surpluses that will enable debt to be managed at prudent levels over the long term. Spending pressures will be most pronounced in areas such as superannuation and healthcare. However, this does not mean that the policy responses necessarily have to or even should be restricted to just these areas. As with any policy issue, we have choices.

Different options have different fiscal impacts, different implications for the role of the state, different distributional effects, and different degrees to which they can be implemented. It is important that when considering the options available to us, we weigh up the trade-offs involved – both the trade-offs involved with individual policies, and of combinations of policies.

The papers prepared by the Treasury for the third and fourth External Panel sessions identify the challenges that will need to be managed in different spending areas in the future, and provide a high level analysis of a range of policy options. As with the *Long-Term Fiscal Statement* itself, the papers do not advocate any specific policies.

The Importance of the Near-Term Fiscal Strategy

While much of the analysis in the next *Long-Term Fiscal Statement* will concentrate on the long term, it is necessary to stress the importance of the near-term fiscal strategy on longer-term outcomes. Prudent fiscal management over this decade is an essential step towards managing long-term fiscal pressures.

In this respect, the general assumption that will underpin the next *Statement* is that governments over the course of this decade will work to return the fiscal balance to surplus and to reduce debt to sustainable levels – a process the current Government has begun. This is vital to restoring New Zealand's ability to withstand future shocks that will likely occur over the coming decades.

In moving to restore a fiscal buffer to deal with future shocks, governments will also be helping to manage the initial impact of cost pressures arising from demographic ageing. However, this in itself won't be sufficient to manage spending pressures that will build from the late 2020's onwards. Further policy adjustment will be required by the end of the decade if projected spending pressures are to be proactively managed.