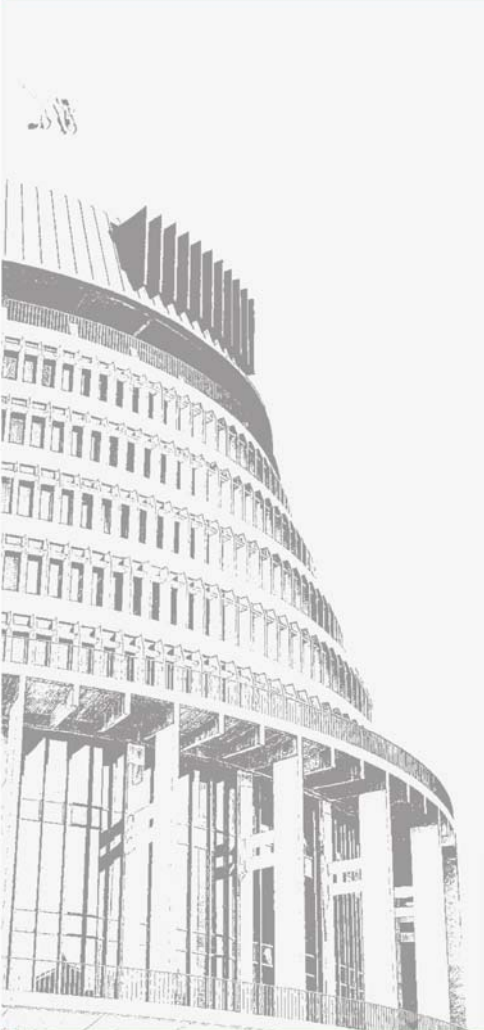




B.2 & B.3

18 May 2006



Budget

2006

- Executive Summary
- Speech
- Fiscal Strategy Report
- Economic *and*
Fiscal Update

Hon Dr Michael Cullen
MINISTER OF FINANCE

EMBARGO

A rolling embargo applies to the content of these documents. Information relevant to any subject area discussed in the Budget Speech can be communicated once the Minister of Finance has completed discussing that area in the Speech. Areas not discussed in the Budget Speech are embargoed until the document is tabled in the House of Representatives by the Minister of Finance on Budget Day and must not be communicated in any form until that time.

18 May 2006

B.2 & B.3



Budget

2006

- Executive Summary
- Speech
- Fiscal Strategy Report
- Economic *and* Fiscal Update

Guide to the Budget Documents

A number of documents are released on Budget day. The intent of these documents is to provide information about the Government's spending intentions; its performance; and the wider fiscal and economic picture.

The Budget documents, ordered from widest to most specific coverage, are as follows:

Executive Summary

The *Executive Summary* is the overview of all the Budget information and contains the key points for the media and general public. It summarises the Government's spending decisions and generally focuses on issues raised in the *Budget Speech*, the *Budget Economic and Fiscal Update* and the *Fiscal Strategy Report*.

Budget Speech

The *Budget Speech* is the Minister of Finance's speech at the start of Parliament's Budget debate. The Speech generally focuses on the overall fiscal and economic position, and how the Government will fund its policy priorities.

The Fiscal Strategy Report

The *Fiscal Strategy Report* sets out the Government's fiscal strategy and measures how the Government is going against its overall goals in areas such as balancing operating revenues and expenses, and achieving debt objectives. It includes

- fiscal trends covering at least the next 10 years, and
- a comparison with the long term fiscal objectives set out in the *Budget Policy Statement*.

The Government must explain inconsistencies between the *Fiscal Strategy Report*, the *Budget Policy Statement* and the previous year's *Fiscal Strategy Report*.

Budget Economic and Fiscal Update

This document includes Treasury's overall economic forecasts and the forecast financial statements of the Government. The *Update* includes the implications of Government financial decisions and other information relevant to the fiscal and economic position.

The Estimates of Appropriations

The Estimates outline the costs the Government plans to incur on each specified area within each "vote" for the coming year.

The Supplementary Estimates of Appropriations

The *Supplementary Estimates* outline the additional money required to cover the current year's spending.

Departmental Statements of Intent

The *Statement of Intent* provides information about how each government department intends to manage for outcomes over the next 3-5 years. The *Statement of Intent* also contains annual financial and output class information required under the Public Finance Act 1989.

Internet

These documents will be made available on the New Zealand Treasury's Internet site.
The URL for this site is <http://www.treasury.govt.nz>

Contents

Executive Summary	1
Budget Speech	15
Fiscal Strategy Report	35
Introduction.....	37
Fiscal Strategy and Long-term Objectives.....	38
Recent Economic and Fiscal Developments.....	43
Revenue Strategy	45
Long-term Fiscal Outlook	46
Conclusion.....	49
Annex 1: Long-Term Fiscal Objectives	50
Annex 2: Short-Term Fiscal Intentions	51
Annex 3: Fiscal Projections	53
Budget Economic and Fiscal Update	57
Statement of Responsibility.....	58
Economic and Tax Outlook.....	59
Summary	59
Recent Economic Environment.....	62
Assumptions Underlying the Central Forecast	65
The Outlook for 2006/07 and Beyond	66
Terms of Trade.....	68
Consumption and Housing Wealth	72
Recent Productivity Developments.....	77
Effects of Tax Policy Changes on the Tax Forecasts.....	81
Fiscal Outlook	82
Fiscal Forecasts – Finalisation Dates and Key Assumptions	82
Summary of <i>Budget Update</i>	83
Key Trends.....	85
Settlement Cash Level	88
Revenue and Expenses	89
Core Crown – Revenue	90

Core Crown – Expenses	92
State-Owned Enterprises and Crown Entities – Net Surpluses	94
Net Worth	95
Core Crown	95
State-Owned Enterprises and Crown Entities	97
Comparison with <i>Half Year Update</i>	98
New Zealand IFRS	103
Indicators of the Government’s Fiscal Performance	105
Risks and Scenarios	111
Summary	111
Introduction	112
Economic Risks	112
Economic Scenarios	115
Fiscal Scenarios	121
Fiscal Sensitivities	123
Specific Fiscal Risks	125
Introduction	125
Charges against Future Budgets	127
Statement of Fiscal Risks	134
Contingent Liabilities	146
Generally Accepted Accounting Practice (GAAP) Series Tables	149
Forecast Financial Statements	149
Statement of Accounting Policies and Forecast Assumptions	150
Reporting Entity as at 8 May 2006	152
Forecast Financial Statements	154
Notes to the Forecast Financial Statements	168
Core Crown Expense Tables	179
Glossary of Terms	184

Other Information

On the Treasury’s website is a series of other information that contains detailed economic forecast tables and additional financial information. This information provides users of the *2006 Budget Economic and Fiscal Update* with further detail and should be read in conjunction with the published document. It can be accessed at:

<http://www.treasury.govt.nz/forecasts/befu/2006/>

18 May 2006

B.2 & B.3



Budget

2006

- Economic *and* Fiscal Update