2

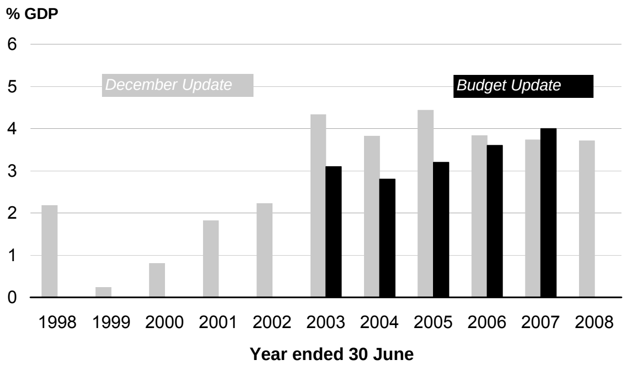
Fiscal Outlook

Summary of the *December Update*

The forecast fiscal outlook is stronger in the earlier forecast years than that contained in the *Budget Update*. Key influences on the operating balance/OBERAC and debt tracks include:

- a stronger starting position due to higher-than-forecast OBERAC and cash flows in 2002/03
- a slightly stronger actual and forecast economic position, resulting in lower benefit expenses and stronger tax revenues; tax revenues are also forecast to be higher based on recent outturns indicating a stronger corporate tax base
- the Government's decision to increase spending consistent with the proposals in the 2003 FSR, produces a relatively flat OBERAC trend from 2005/06 onwards, compared to a rising profile in the *Budget Update*. The extent of the change is outlined in the 2004 BPS and on page 43.

Figure 2.1 – OBERAC comparison

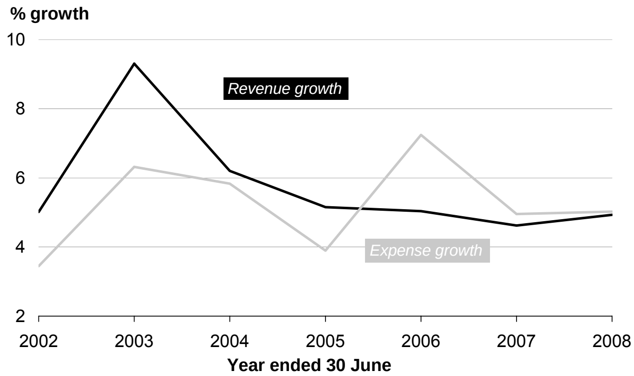


Source: The Treasury

These influences translate into:

- an OBERAC forecast at $5.2 billion (3.8% of GDP) in 2003/04; lower than last year largely due to Crown entity surpluses (excluding valuations) expected to be lower in 2003/04
- an OBERAC that rises in 2004/05 to 4.4% of GDP ($6.3 billion) due to revenue growth outpacing expense growth, before decreasing to 3.8% of GDP in 2005/06 as the trend reverses due to the impact of the additional spending now included in the fiscal forecasts as outlined in the 2004 BPS. From 2006/07 onwards the OBERAC levels out as average expenses (5.0%) and revenue growth (4.8%) are broadly similar

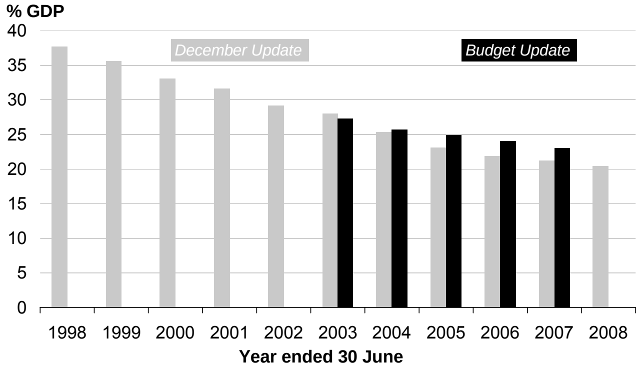
Figure 2.2 – Core Crown revenue growth and expense growth (excluding Government Superannuation Fund (GSF) valuation)



Source: The Treasury

- gross sovereign-issued debt in 2002/03 was higher than forecast at the *Budget Update*, due to earlier than forecast borrowing reflected in the 2003 Crown financial statements (which reduces the forecast borrowing for 2003/04) and the impact of a change in disclosure that grosses up debt swaps and financial assets that were previously netted off
- an improved net cash position from 2002/03 and 2003/04 reduces debt during 2003/04 compared with the *Budget Update*
- in nominal terms, debt is forecast to decrease from $36 billion towards $33 billion by 2005/06 (due to the improved cash position from last year and the current year). Over the remaining forecast horizon debt remains stable between $33 billion and $34 billion

Figure 2.3 – Debt comparison



Source: The Treasury

- gross sovereign-issued debt is forecast to fall from 28% of GDP in 2002/03 to 20.4% of GDP by 2007/08
- as a result of the improved overall cash position through last year and the current year, the Government's domestic bond programme has been lowered for 2003/04 to $2.2 billion (from $3.2 billion). In addition, the forecast bond programme for 2004/05 has also been lowered to $2.3 billion (from $3.5 billion)
- Tables of the key indicators are located on pages 44 and 45.

Key Trends

OBERAC rises before flattening towards the end of the forecast horizon…

The OBERAC is forecast at $5.2 billion (3.8% of GDP) in the current year, rising to $6.3 billion (4.4% of GDP) in 2004/05 before reducing to between $5.8 billion and $6.2 billion (3.7% of GDP) by 2007/08. The OBERAC, as a percentage of GDP, falls from 2004/05 due to the inclusion in the forecasts of additional new spending (previously signalled in the 2003 FSR).

The amount of additional spending included in the fiscal forecasts is more than signalled in the 2003 FSR, however the tax forecasts are also higher and so the OBERAC remains above 3% of GDP.

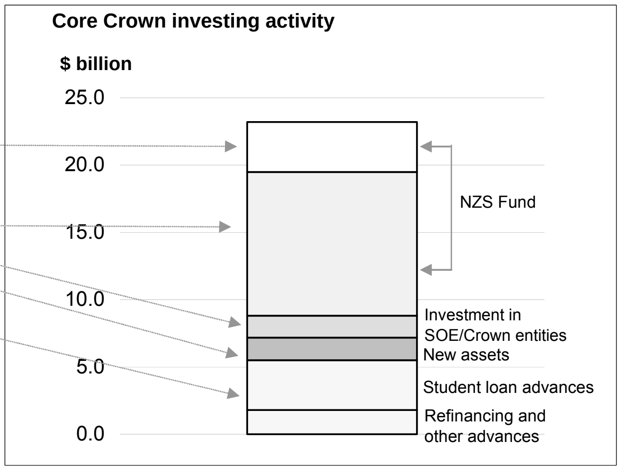
… enabling the Government to apply operating cash flows to its investment programme…

The core Crown operating balance sums to around $21.9 billion over the 2003/04 to 2007/08 period, which generates cash for the core Crown of around $23.1 billion over the same period.

As outlined in Table 2.1, this cash is invested primarily in NZS Fund contributions of $10.7 billion, advances of $5.5 billion (mainly student loans and refinancing existing private sector debt of the health and housing sectors) and purchases of physical assets of $6.7 billion (schools, hospitals, defence equipment, for example). There is a residual financing requirement of around $1.4 billion, which is primarily met by reducing the holdings of marketable securities and deposits which have accumulated from 2002/03. To see the year-on-year capital programme relative to the annual OBERAC and operating cash flows, refer to figure 1 in the BPS.

Table 2.1 – Impact of core Crown operating surpluses on the balance sheet from 2003/04 to 2007/08

	$ billion
Total Operating Balances	21.9
Add	
Depreciation	5.0
Less	
Retained NZS Fund returns	(3.7)
Other	(0.0)
Operating cash flows	23.1
Invested in	
NZS Fund contributions	(10.7)
SOE/Crown entities net capital injections	(1.6)
Increase asset base	(1.7)
Maintain existing asset base	(5.0)
Advances	(5.5)
Other	-
Requiring Finance	(1.4)



Source: The Treasury

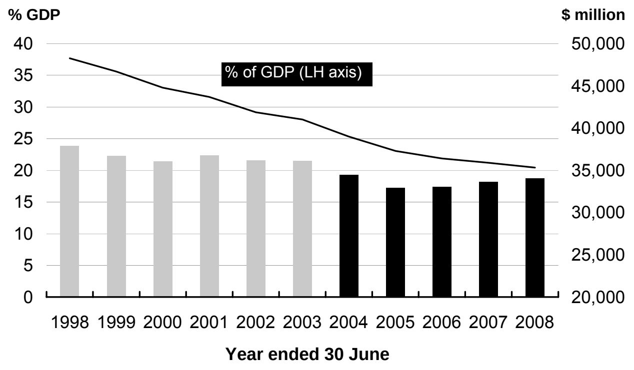
... while gross debt as a percentage of GDP continues to fall

Gross sovereign-issued debt falls in nominal terms until 2004/05, and then remains relatively stable between $33 billion and $34 billion. As a percentage of GDP, debt falls from 28% in 2002/03 to 20.4% by 2007/08.

The initial decrease in debt reflects surplus cash from the strong OBERAC results in 2002/03 and the expected result in 2003/04, and then remains flat as the cash flows from the OBERAC and surplus financial assets are broadly sufficient to fund all capital spending.

Net Crown debt reduces over the forecast horizon from around 13% of GDP in 2002/03 towards 8% of GDP by 2007/08.

Figure 2.4 – Gross sovereign-issued debt (% of GDP and $ million)



Source: The Treasury

The improved cash position for 2002/03 and 2003/04 has resulted in a decrease to the Government's 2003/04 and forecast 2004/05 bond programmes. The improved cash position (reflected in holdings of financial assets) has effectively been spread over the two programmes. The 2003/04 bond programme has been reduced to $2.2 billion, compared with $3.2 billion at the *Budget Update*. The forecast 2004/05 programme has been reduced to $2.3 billion from the $3.5 billion previously forecast.

Comparison of OBERAC with *Budget Update*

Compared with the *Budget Update* the OBERAC was stronger in 2002/03 than forecast and is expected to be stronger in 2003/04 and 2004/05, largely reflecting improvements to tax revenue.

From 2005/06, the OBERAC/operating balance is broadly similar in nominal terms to the *Budget Update* forecasts, reflecting improved tax revenues and SOEs'/Crown entities' surpluses, offset by increases to forecast new spending. However, the OBERAC is flatter as a percentage of GDP, whereas the *Budget Update* forecasts had a rising profile.

Table 2.2 – Operating balance reconciliation (explains changes to the operating balance since the *Budget Update*)

($ million)	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Operating balance 2003 *Budget Update*	1,361	3,761	4,474	4,929	6,181
Changes (core Crown revenues and net SOEs/CEs)					
Tax revenue forecasting changes	395	1,600	1,741	1,730	1,727
Other sovereign revenue	(13)	70	123	113	99
Investment income	420	154	274	332	302
Other revenue	135	41	86	80	90
Other change to SOEs and Crown entities (excluding ACC valuation change)	637	179	225	634	310
Valuation changes (GSF and ACC liability movements)	(889)	694	-	-	-
Changes (core Crown expenses excl GSF 2003/04)					
Change to future operating spending	-	-	(383)	(1,572)	(2,367)
Welfare benefits	47	233	401	270	237
Education	136	37	(28)	(112)	(143)
Health	85	(69)	(22)	(21)	76
Transport	(4)	(119)	(67)	(82)	(150)
Other core Crown functional expenses	(36)	(288)	(467)	(490)	(433)
Finance costs	(308)	(201)	(19)	(16)	(11)
Total core Crown expense change	**(80)**	**(407)**	**(585)**	**(2,023)**	**(2,791)**
Total Changes	**605**	**2,331**	**1,864**	**866**	**(263)**
Operating balance 2003 *December Update*	1,966	6,092	6,338	5,795	5,918

Source: The Treasury

Major changes to the components within the operating balance forecasts include:

- tax revenue is higher over the forecast horizon. The following section contains an outline of the reasons for the improved tax forecasts
- the SOE and Crown entity surpluses were higher in 2002/03, reflecting strength in SOEs and surpluses in the transport sector (as more was spent on capital rather than operating activity for example). From 2003/04 forward, the improvement against *Budget Update* is more muted, largely reflecting a mix of higher SOE forecasts and the transport sector forecasting to spend more of its revenue on capital expenditure rather than operating (which is debt neutral)
- the valuation of the GSF and ACC unfunded liabilities are lower in 2003/04 compared with the *Budget Update*, primarily due to the increase in discount rates since the time of the Budget valuations, partially offset by updated scheme data for the GSF liability calculation

- future new operating spending has been increased from previous forecasts from 2004/05 onwards, reflecting the Government moving on its previously signalled intentions to increase spending should economic and fiscal conditions continue as previously forecast (some of which has already been allocated to baselines). Refer page 43 for further details
- welfare benefit costs are lower over the forecast period primarily through lower unemployment benefits reflecting lower unemployment levels than forecast in the *Budget Update*
- transport expenses have increased reflecting forecast changes, though these are somewhat offset by additional revenues
- net finance costs (investment income less finance costs) are effectively lower across the forecast horizon, reflecting a lower net debt position. While this appears to be reflected in higher investment income rather than lower finance costs, the movements since the *Budget Update* also reflect a gross up to both investment income and finance costs (reflecting a change in disclosure)
- the change in other functional expenses (education, health and other core Crown functional expense in Table 2.2) represent forecast changes largely driven by demographics (impacting on GSF expenses and education expenses) and the specific allocation of new policy spending since the *Budget Update* (refer Table 2.3).

Table 2.3 – Specific decisions for new policy since the 2003 *Budget Update*

($million)	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Review of Child Youth and Family Services	29	61	66	66
Large budget film subsidies	40	40	40	40
State sector employment based superannuation	1	19	33	33
NZDF contribution to operation enduring freedom	28	5	-	-
Solomon Islands deployment	22	5	-	-
Painted Apple Moth	24	-	-	-
Other decisions	199	177	162	118
Total decisions since the 2003 *Budget Update (GST inclusive)*	**342**	**307**	**301**	**257**

Source: The Treasury

Revenue and Expenses

Table 2.4 – Revenue and expenses comparison with *Budget Update*

Revenue and Expenses (% of GDP)	**2003 Actual**	**2004 Forecast**	**2005 Forecast**	**2006 Forecast**	**2007 Forecast**	**2008 Forecast**
Core Crown Revenue						
December Update	33.9	34.0	34.1	33.9	33.8	33.7
Budget Update		33.2	32.9	33.0	33.1	
Total Tax Revenue						
December Update	30.9	31.0	30.9	30.5	30.2	30.1
Budget Update		30.3	30.0	30.0	29.8	
Total Crown Revenue						
December Update	44.3	43.7	44.2	43.9	43.6	43.3
Budget Update		42.7	42.6	42.6	42.5	
Core Crown Expenses						
December Update	32.4	30.8	30.7	31.2	31.2	31.1
Budget Update		31.1	30.7	30.4	30.1	
Total Crown Expenses						
December Update	42.9	39.3	39.8	40.1	39.9	39.6
Budget Update		40.0	39.5	39.1	38.5	

Source: The Treasury

Over the forecast period, the total Crown revenue-to-GDP and expenses-to-GDP ratios are reasonably stable, though tend to drift down slowly.

The revenue-to-GDP trend of the total Crown is driven mainly from the trend in "core Crown" revenue forecasts, which are discussed in more detail under tax revenue.

The core Crown expenses-to-GDP ratio rises marginally in 2005/06 reflecting the impact of the increased budget package (refer following expense section) and then levels out at around 31.2% of GDP.

Tax Revenue

Table 2.5 – Tax revenue indicators

Tax Revenue ($ million)	**2003 Actual**	**2004 Forecast**	**2005 Forecast**	**2006 Forecast**	**2007 Forecast**	**2008 Forecast**
Total Crown	39,785	42,251	44,114	46,043	47,944	50,140
(% GDP)						
Total Crown	30.9	31.0	30.9	30.5	30.2	30.1

Source: The Treasury

The tax revenue forecasts have been increased substantially in every year of the forecast period.

Table 2.6 – Change in tax revenue forecasts since *Budget Update*

($ million)	2002/03 Actual	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
Tax revenue 2003 *Budget Update*	39,390	40,651	42,373	44,313	46,217
Changes					
Corporate taxes	234	897	694	756	778
Source deductions	194	501	662	694	658
Goods and services tax	(28)	224	347	219	183
Resident withholding tax	38	89	90	77	77
Other persons tax	(63)	(166)	(138)	(127)	(91)
Other	20	55	86	111	122
Total Changes	**395**	**1,600**	**1,741**	**1,730**	**1,727**
Tax Revenue 2003 *December Update*	39,785	42,251	44,114	46,043	47,944

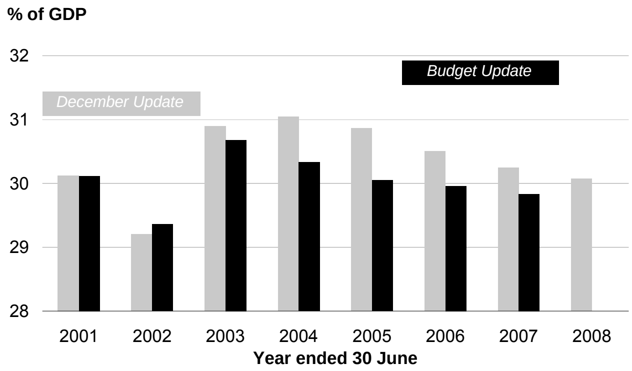
Source: The Treasury

Tax-to-GDP higher than Budget Update

In the *Budget Update* forecasts, the ratio of tax to GDP was expected to peak at 30.7% in 2002/03. At the time, we believed that the sudden, sharp rise in the tax-to-GDP ratio was something of an anomaly and that the spike would eventually be smoothed out by a combination of revisions to GDP and a moderation in future tax revenue growth.

Since the *Budget Update*, more data has come to hand that indicate the tax-to-GDP ratio may persist at its current level for some time yet.

Figure 2.5 – Ratio of total tax revenue to nominal GDP



Source: The Treasury

There are two tax types that are mainly responsible for the recent rise in the tax-to-GDP ratio:

- A recent run-down of corporate tax losses has contributed to rapid company tax revenue growth.
- A rise in the average tax rate coupled with strong labour market growth has spurred growth in source deductions.

These are discussed in more detail in the relevant sections below.

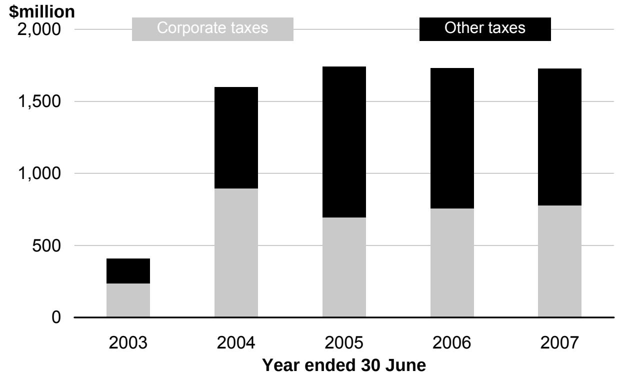
The ratio of tax to GDP gradually subsides after 2004/05. This is because we have decided to exercise a little caution in the later years of the forecast period. For instance, it remains to be seen whether or not company tax loss utilisation will remain at relatively low levels. A sudden build-up of losses can have an adverse effect on the tax take, as explained in the section on corporate taxes below.

Corporate taxes contribute the largest portion of the increase to the forecast …

As mentioned above, several new pieces of information have come to hand since the *Budget Update* forecasts were finalised:

- Corporate tax outturns are running well ahead of forecast.
- Provisional tax payments and assessments lodged for the 2004 tax year indicate that tax revenue for 2003/04 will be considerably higher than previously expected.
- Annual tax returns lodged over the last six months or so indicate that the stock of tax losses available to be used to offset taxable income has dropped markedly over the last few years and is now much lower than previously thought.

Figure 2.6 – Change in corporate tax forecasts since *Budget Update*



Source: The Treasury

Putting all of these factors together, the corporate tax forecast for 2003/04 is now about $900 million higher than at the *Budget Update*. With company profits forecast to continue to increase steadily each year, the relatively low level of loss utilisation is expected to persist, resulting in similar increases to the corporate tax forecast in the later years of the forecast period.

However, if the level of loss utilisation were to rise again, company tax could take a sharp fall, as happened in 1991, for instance, when losses built up in the early 1990s' recession contributed to a fall of nearly 30% in company tax. Since we are not certain of a continued low level of loss offset in the company tax base, we have taken a cautious approach to corporate tax growth further out. For this reason, forecast corporate tax growth is lower than forecast growth in corporate profits from 2005/06 onwards.

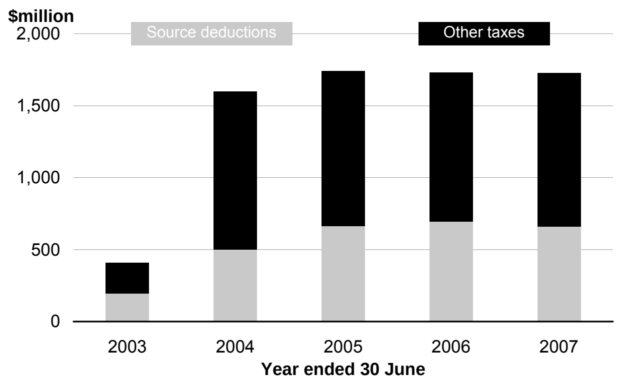
… and source deductions' forecasts are also much higher than Budget

Source deductions' outturns to October are about $100 million above forecast. This follows on from 2002/03 when source deductions finished the year nearly $200 million above forecast.

There appears to be two factors causing this:

- PAYE outturns indicate a notable rise in the average tax rate on employees' remuneration.
- Growth in the labour market has been higher than forecast in the *Budget Update*.

Figure 2.7 – Change in source deductions forecasts since *Budget Update*



Source: The Treasury

The current variance from forecast is expected to continue to grow, reaching about $500 million by the end of 2003/04. This lift in the base flows through to the later forecast years, where source deductions' forecasts have been increased by between $650 million and $700 million each year.

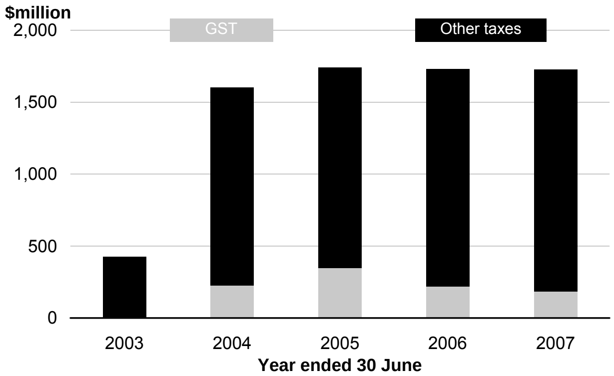
With the labour market growing at a faster rate than total GDP over the past few years, employees' compensation now makes up a bigger part of total GDP than before. Since employees' compensation has a higher effective tax rate than most other tax bases, this will tend to drive up the overall tax-to-GDP ratio. Employees' compensation is forecast to remain at about 40% of GDP throughout the forecast period.

The GST forecasts are also up …

Although nominal consumption is more or less in line with expectations, growth in residential investment has continued to outpace the *Budget Update* forecasts, providing an extra boost to the GST base in 2003/04. Our current view is that GST will finish the year around $220 million above the *Budget Update* forecast.

Rises in the forecast levels of domestic consumption and residential investment drive up the GST forecasts for 2004/05 and beyond by between $180 million and $350 million.

Figure 2.8 – Change in GST forecasts since *Budget Update*



Source: The Treasury

… but other persons tax forecasts have been lowered

At the time of the *Budget Update*, there was some uncertainty around the income levels of taxpayers in the other persons tax base. The tax outturns have subsequently come in below forecast, mainly as a result of farmers expecting their tax liability for the 2004 tax year to be somewhat lower than we had forecast. Thus the other persons tax forecast has been reduced by about $170 million for 2003/04.

With income levels in subsequent years now expected to be lower than forecast in the *Budget Update*, the other persons tax forecast has also been reduced slightly in later forecast years.

Effects on the tax forecasts of tax policy changes

One of the proposed changes to the Fiscal Responsibility Act (which is being merged with the Public Finance Act) will be the requirement for an annual statement on new government tax decisions that materially affect the tax revenue forecasts. Although disclosure of such information is not yet required, it has been included in the *December Update*.

The only new tax decision to materially affect the *December Update* forecasts was the decision to remove the freeze on tariff rates from 1 July 2006. This is expected to reduce customs duty by $20 million in 2006/07 and $50 million in 2007/08.

Inland Revenue's tax forecasts

In line with established practice, Inland Revenue has prepared an independent set of tax forecasts, based in the short term on more detailed analysis of taxpayer information, and in the longer term reflecting the same underlying macroeconomic trends that underpin the Treasury's tax forecasts.

Differing views on individuals' taxes are the major point of difference between the two sets of forecasts in 2003/04 and 2004/05. From 2005/06 onwards, the total Inland Revenue and Treasury tax forecasts are relatively close to each other (also refer www.treasury.govt.nz/forecasts/defu/2003/).

Table 2.7 – Treasury and Inland Revenue tax revenue forecasts

($ million)	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Individuals' Taxes					
Treasury	21,791	22,886	24,060	25,243	26,518
Inland Revenue	21,580	22,626	23,863	25,173	26,514
Difference	211	260	197	70	4
Corporate Taxes					
Treasury	6,832	6,994	7,268	7,431	7,747
Inland Revenue	6,876	7,036	7,331	7,553	7,862
Difference	(44)	(42)	(63)	(122)	(115)
Goods and services Tax					
Treasury	9,338	9,824	10,179	10,625	11,145
Inland Revenue	9,304	9,816	10,206	10,620	11,068
Difference	34	8	(27)	5	77
Other Taxes					
Treasury	4,290	4,411	4,536	4,645	4,730
Inland Revenue	4,296	4,426	4,546	4,638	4,713
Difference	(6)	(15)	(10)	7	17
Total Tax					
Treasury	42,251	44,115	46,043	47,944	50,140
Inland Revenue	42,056	43,904	45,946	47,984	50,157
Difference	195	211	97	(40)	(17)

Source: The Treasury

Expenses

Table 2.8 – Total expenses indicators

Expenses ($ million)	2003 Actual	2004 Forecast	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast
Core Crown	41,749	41,868	43,877	47,054	49,385	51,865
Core Crown (excluding GSF valuation)	39,905	42,232	43,877	47,054	49,385	51,865
Total Crown	55,224	53,508	56,900	60,508	63,240	66,022
(% of GDP)						
Core Crown	32.4	30.8	30.7	31.2	31.2	31.1
Core Crown (excluding GSF valuation)	31.0	31.0	30.7	31.2	31.2	31.1
Total Crown	42.9	39.3	39.8	40.1	39.9	39.6

Source: The Treasury

Expenses as a percentage of nominal GDP constant over the forecast horizon

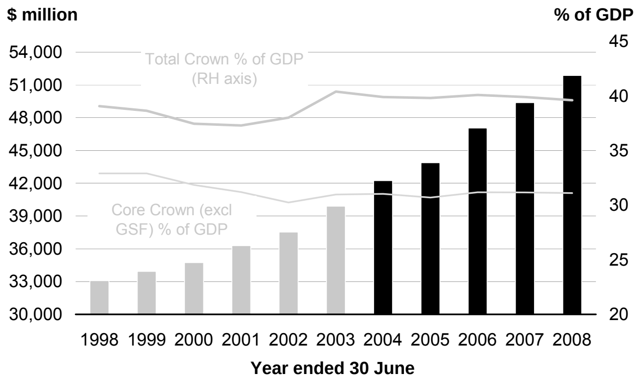
Total Crown expenses remain relatively stable as a percentage of GDP at around 40%. Total Crown expenses as a percentage of GDP in 2003/04 are lower than the 2002/03 actual outturn, largely reflecting the GSF and ACC liability valuation increases.

Core Crown operating expenses (excluding valuation items) also remain relatively constant as a percentage of GDP at around 31%.

Core Crown expenses (excluding GSF valuation movements) increase on average by around 5.7% per year.

Nominally, core Crown expenses increase around $10 billion between 2002/03 and 2007/08. Removing the GSF liability movements from 2002/03 and 2003/04, expenses increase by $12 billion over the same period. The major drivers of these expense increases are indexation of benefits and forecast new spending for future Budgets.

Figure 2.9 – Expenses excluding valuations ($ and % of GDP)



Source: The Treasury

New forecast spending

In terms of new spending Budget 2004 intends to commit $2.1 billion (GST inclusive) of new operating spending in the first year, rising to $3.3 billion (GST inclusive) in future years. Of this, $1.1 billion had already been incorporated into previous fiscal forecasts.

Budget 2004 also includes increased capital expenditure. Forecasts of capital spending have increased $500 million since the Budget, to a total of $2.2 billion spread over the next four years, plus the legislatively required NZS Fund contributions.

The 2004 BPS broadly outlines the focus for Budget 2004.

The Government has also signalled in the 2004 BPS that it plans to fund smaller increases to Budgets in 2005 and 2006. The fiscal forecasts therefore also include additional operating spending of $1.8 billion in the 2005 Budget and $1.6 billion in the 2006 Budget (which in each case includes the $1.1 billion already incorporated into previous fiscal forecasts). For the 2007/08 year $1.6 billion for the 2007 Budget has been incorporated. All these amounts are GST inclusive.

Some of the new operating spending for Budgets 2004 to 2006 has already been allocated and incorporated into the fiscal forecasts as indicated in Table 2.2 and Table 2.3.

Table 2.9 – 2003 *December Update* fiscal indicators

Fiscal Indicators ($ million)	**2003 Actual**	**2004 Forecast**	**2005 Forecast**	**2006 Forecast**	**2007 Forecast**	**2008 Forecast**
Revenue						
Total revenue	57,027	59,522	63,160	66,223	69,077	72,128
Total core Crown revenue	43,624	46,330	48,718	51,173	53,539	56,180
Expenses						
Total expenses	55,224	53,508	56,900	60,508	63,240	66,022
Total core Crown expenses	41,749	41,868	43,877	47,054	49,385	51,865
Operating balance - Core Crown	1,875	4,462	4,841	4,119	4,154	4,315
Operating balance - Crown entities	(123)	1,308	1,028	1,084	1,178	1,276
Operating balance - SOEs	428	606	781	981	1,032	1,088
Dividend elimination	(214)	(284)	(312)	(389)	(446)	(492)
Total operating balance	1,966	6,092	6,338	5,795	5,918	6,187
OBERAC	5,580	5,207	6,338	5,795	5,918	6,187
Debt Indicators						
Gross sovereign-issued debt	36,086	34,469	32,940	33,019	33,604	34,057
Total Crown debt	38,285	36,118	35,091	34,937	34,103	33,154
Net core Crown debt	16,935	16,935	15,442	14,619	13,878	13,439
Net worth	23,781	29,920	36,258	42,053	47,971	54,158
Domestic bond programme	2,551	2,235	2,317	2,841	3,314	-
Nominal GDP	128,810	136,112	142,932	150,944	158,512	166,744
Fiscal Indicators as a % of GDP						
Revenue						
Total Crown revenue	44.3	43.7	44.2	43.9	43.6	43.3
Total core Crown revenue	33.9	34.0	34.1	33.9	33.8	33.7
Expenses						
Total Crown expenses	42.9	39.3	39.8	40.1	39.9	39.6
Total core Crown expenses	32.4	30.8	30.7	31.2	31.2	31.1
Operating balance	1.5	4.5	4.4	3.8	3.7	3.7
OBERAC	4.3	3.8	4.4	3.8	3.7	3.7
Debt Indicators						
Gross sovereign-issued debt	28.0	25.3	23.0	21.9	21.2	20.4
Total Crown debt	29.7	26.5	24.6	23.1	21.5	19.9
Net core Crown debt	13.1	12.4	10.8	9.7	8.8	8.1
Net core Crown debt plus assets of NZS Fund	11.7	9.6	6.5	3.8	1.3	-1.0
Net worth	18.5	22.0	25.4	27.9	30.3	32.5
New Zealand Superannuation Fund						
Fund asset returns (after tax)	69	122	328	491	673	878
Fund contributions	1,200	1,879	1,979	2,156	2,265	2,410
Fund assets (year end)	1,884	3,885	6,192	8,839	11,777	15,065
% of GDP	1.5	2.9	4.3	5.9	7.4	9.0

Source: The Treasury

Table 2.10 – 2003 *Budget Update* fiscal indicators (revised for TEI accounting change)

Fiscal Indicators ($ million)	**2003 Actual**	**2004 Forecast**	**2005 Forecast**	**2006 Forecast**	**2007 Forecast**
Revenue					
Total revenue	57,027	57,270	60,110	62,991	65,806
Total core Crown revenue	43,624	44,469	46,449	48,842	51,270
Expenses					
Total expenses	55,224	53,586	55,714	57,782	59,706
Total core Crown expenses	41,749	41,738	43,292	45,031	46,594
Operating balance - Core Crown	1,875	2,731	3,157	3,811	4,676
Operating balance - Crown entities	(123)	681	853	936	1,013
Operating balance - SOEs	428	623	723	825	904
Dividend elimination	(214)	(274)	(259)	(283)	(412)
Total operating balance	1,966	3,761	4,474	5,289	6,181
OBERAC	5,580	3,761	4,474	5,289	6,181
Debt Indicators					
Gross sovereign-issued debt	36,086	34,459	35,066	35,515	35,559
Total Crown debt	38,285	36,378	36,990	36,857	35,812
Net core Crown debt	16,935	18,435	18,352	17,822	16,629
Net worth	23,781	23,958	28,432	33,721	39,902
Domestic bond programme	2,551	3,234	3,471	3,028	2,775
Nominal GDP	128,810	134,034	141,021	147,911	154,906
Fiscal Indicators as a % of GDP					
Revenue					
Total Crown revenue	44.3	42.7	42.6	42.6	42.5
Total core Crown revenue	33.9	33.2	32.9	33.0	33.1
Expenses					
Total Crown expenses	42.9	40.0	39.5	39.1	38.5
Total core Crown expenses	32.4	31.1	30.7	30.4	30.1
Operating balance	1.5	2.8	3.2	3.6	4.0
OBERAC	4.3	2.8	3.2	3.6	4.0
Debt Indicators					
Gross sovereign-issued debt	28.0	25.7	24.9	24.0	23.0
Total Crown debt	29.7	27.1	26.2	24.9	23.1
Net core Crown debt	13.1	13.8	13.0	12.0	10.7
Net core Crown debt plus assets of NZS Fund	11.7	10.8	8.5	5.8	2.7
Net worth	18.5	17.9	20.2	22.8	25.8
New Zealand Superannuation Fund					
Fund asset returns (after tax)	69	187	347	525	726
Fund contributions	1,200	1,879	2,114	2,299	2,433
Fund assets (year end)	1,884	3,950	6,411	9,235	12,394
% of GDP	1.5	2.9	4.5	6.2	8.0

Source: The Treasury

Risks to Forecasts

The forecasts were finalised on 8 December 2003 in accordance with the forecast accounting policies. There are certain risks around the forecast results. To assist in evaluating such risks the following chapters should be read in conjunction with the fiscal forecasts.

Specific fiscal risks (Chapter 4) – The fiscal forecasts incorporate government decisions up to 8 December 2003. The specific fiscal risks chapter covers specific policy decisions that are under active consideration by the Government at the time of the finalisation of the forecasts.

Risks and scenarios (Chapter 3) – The fiscal forecasts are based on the economic forecasts presented in Chapter 1 and any variation from the economic forecast will impact on the fiscal forecasts, in particular tax revenue and benefit expenses. The risks and scenarios chapter discusses the impact to the forecasts under different circumstances.

In addition to the specific fiscal risks and the link to the economic forecasts, there are a number of forecasting issues that may impact in future.

State-owned enterprises forecasts

The forecast financial information included in these forecasts for large SOEs was provided in October 2003 and is based on their best assessments at that time.

Some entities have indicated they are assessing their future capital investment plans which are not sufficiently definitive to be included in these forecasts. As these plans develop they will be included in future forecasts.

International financial reporting standards

The New Zealand Accounting Standards Review Board announced in December 2002 that International Financial Reporting Standards (IFRSs) will apply to financial reporting by both public and private sector entities from 1 January 2007, but with entities having the option to adopt from 1 January 2005. The Crown plans to adopt the New Zealand IFRSs in the 2007 Budget.

It is likely that the adoption of the New Zealand IFRSs will impact on the way financial results are reported.

Tertiary Education Institutions (TEIs) accounting treatment

The forecast information presented in the *Budget Update* combined TEIs on a line-by-line basis. As noted in previous publications the combination treatment of TEIs was an issue still to resolve. The combination method adopted in these forecasts is to equity account for the TEIs net surpluses and net investment and not the TEI revenues, expenses, assets and liabilities on a line-by-line method. This is consistent with the treatment adopted in the 2003 Crown financial statements.

To ensure comparability, the forecasts contained in the *Budget Update* have been restated where published as part of the *December Update*. The key indicators are unchanged as a result of the combination approach for TEIs (refer page 60 of the 30 June 2003 Crown financial statements).