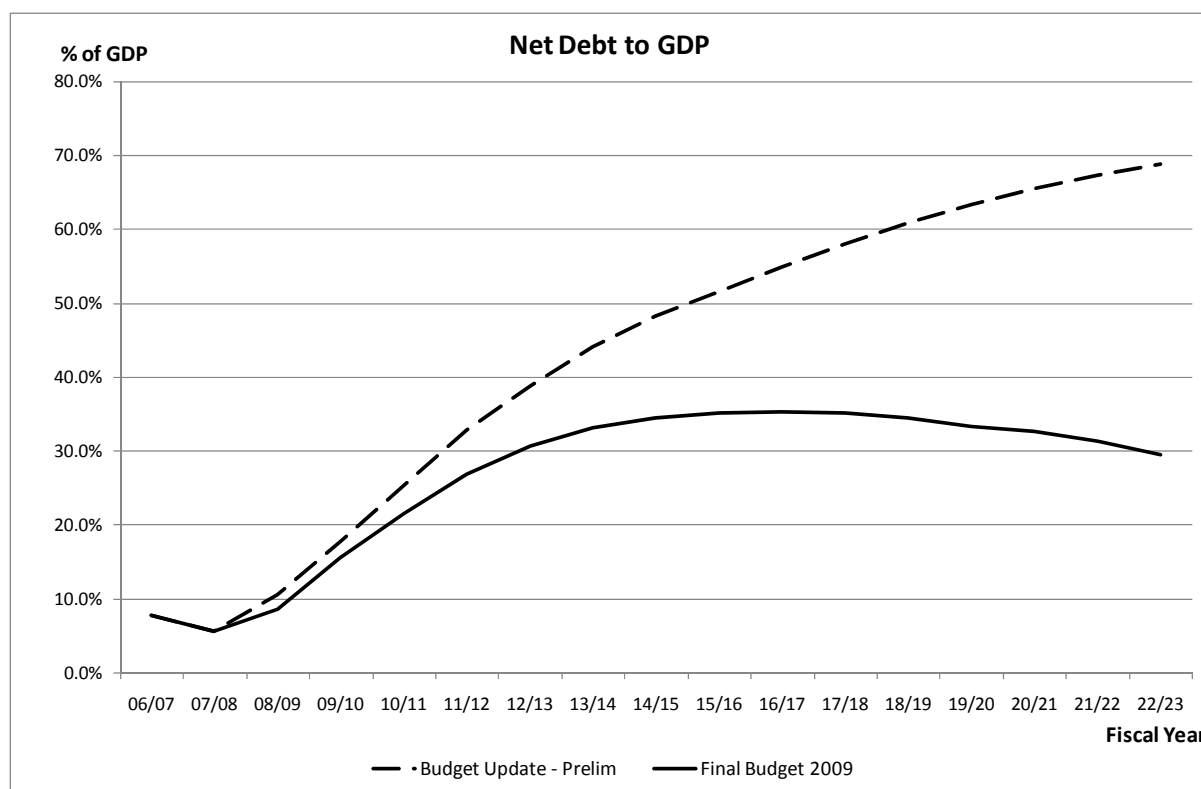


Final Budget 2009 Medium-Term Projections

Net Debt to GDP

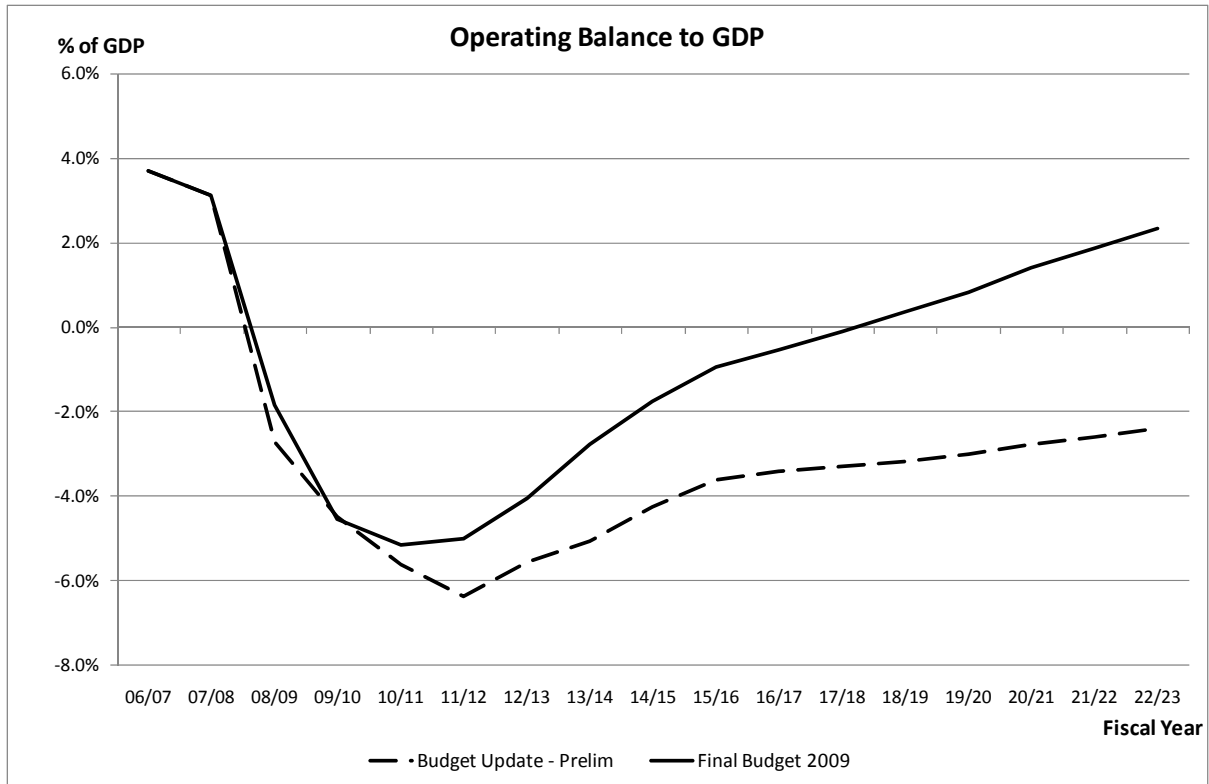
Fiscal Year	08/09	09/10	10/11	11/12	12/13	...	17/18	...	22/23
Final Budget 2009	8.7%	15.6%	21.6%	26.9%	30.7%		35.1%		29.6%
Preliminary Budget	10.6%	17.9%	25.4%	32.9%	38.9%		58.1%		68.9%
December Update	10.4%	15.0%	20.1%	24.4%	28.5%		44.5%		54.0%



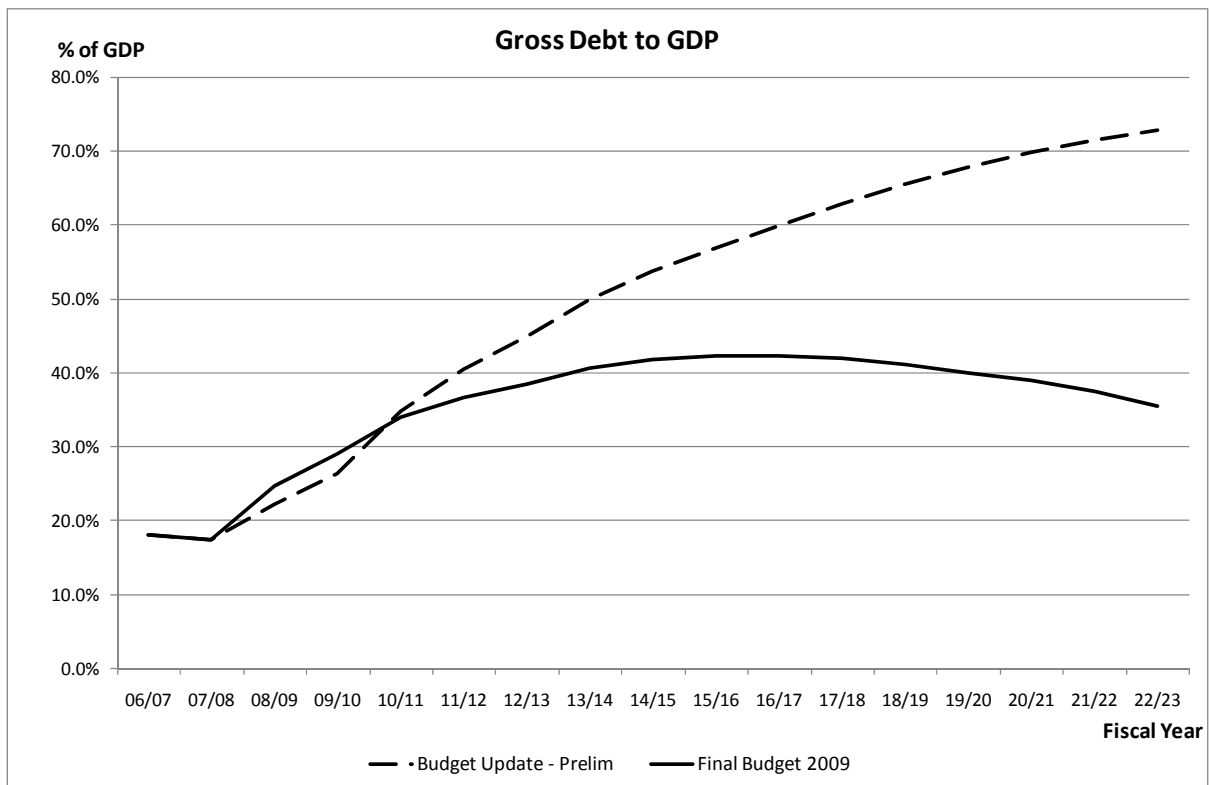
Where net debt excludes the NZS Fund and advances.

Summary:

- Net debt peaks at 35.3% of GDP in 16/17, and falls to 29.6% of GDP by 2022/23.
- The operating balance peaks at -5.2% of GDP in 10/11, returns to surplus in 18/19 and reaches 2.3% of GDP in 22/23.
- Gross debt peaks at 42.3% of GDP in 16/17, falling to 35.6% in 22/23.



Where operating balance refers to the operating balance excluding gains and losses (OBEGAL), excluding net returns from the NZS Fund.



Where gross debt refers to Gross Sovereign-Issued debt (GSID), excluding Reserve Bank bills and settlement cash.

Summary of assumptions

Policy:

- Operating allowance of \$1.45b in 2008/09, then \$1.1b in 2009/10, growing with inflation from this point in time onwards.
- Capital allowance of about \$1.45b from 2008/09 to 2012/13, increasing to \$1.65 from 2013/14 to 2015/16. It then returns to the previous Government's track (of \$900m, growing with inflation), which is \$955m in 2016/17.
- Contribution holiday from the NZS Fund until OBEGAL (ex. NZS Fund returns) is sufficient to cover the entire contribution, currently projected to occur in 2020/21 (an 11-year contribution holiday). There is also a one-off contribution to the Fund of \$250m in 2009/10.
- The next two tranches of the planned tax cuts are delayed for the entirety of the projection period. Full fiscal drag on source deductions operates during this time.

Economic and fiscal:

- The major difference with previous forecast rounds (other than the prelim Budget round) is that we have modeled a 'transition period' at the beginning of the projection period. In previous forecast rounds we have tended to simply drive economic and fiscal variables off their end-of-forecast values (their values in 2012/13), because these have been back to their equilibrium values. The effects of the current recession are currently forecast to persist beyond the forecast period. For this reason we have modeled the recovery of several key economic and fiscal variables to their equilibrium levels in the first few years of the projection period. Otherwise we would be overstating the longer-term effects of the recession.
- This change in method means that the preliminary Budget line in the graphs above is actually similar to what we were forecasting as the December downside scenario, even though our economic forecasts have deteriorated since then.

Upside/downside scenarios

Net Debt to GDP

Fiscal Year	08/09	09/10	10/11	11/12	12/13	...	17/18	...	22/23
Upside	8.6%	14.3%	18.4%	20.9%	22.6%		22.3%		10.8%
Final Budget 2009	8.7%	15.6%	21.6%	26.9%	30.7%		35.1%		29.6%
Downside	8.9%	17.7%	26.5%	34.4%	40.2%		48.5%		44.9%

Where net debt excludes the NZS Fund and advances.

Operating balance to GDP

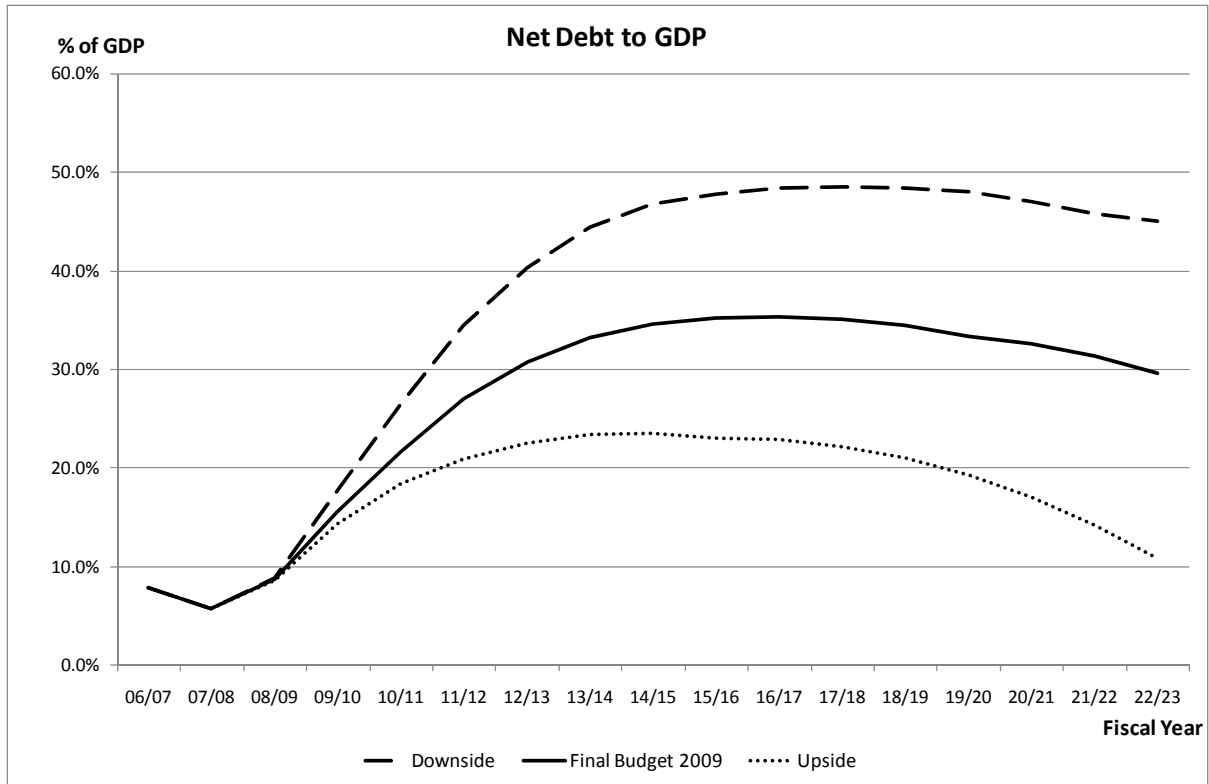
Fiscal Year	08/09	09/10	10/11	11/12	12/13	...	17/18	...	22/23
Upside	-1.8%	-3.6%	-3.5%	-2.4%	-1.6%		1.7%		4.4%
Final Budget 2009	-1.8%	-4.5%	-5.2%	-5.0%	-4.1%		-0.1%		2.3%
Downside	-2.0%	-6.0%	-7.6%	-7.8%	-6.8%		-0.9%		1.1%

Where operating balance refers to the operating balance excluding gains and losses (OBEGAL), excluding net returns from the NZS Fund.

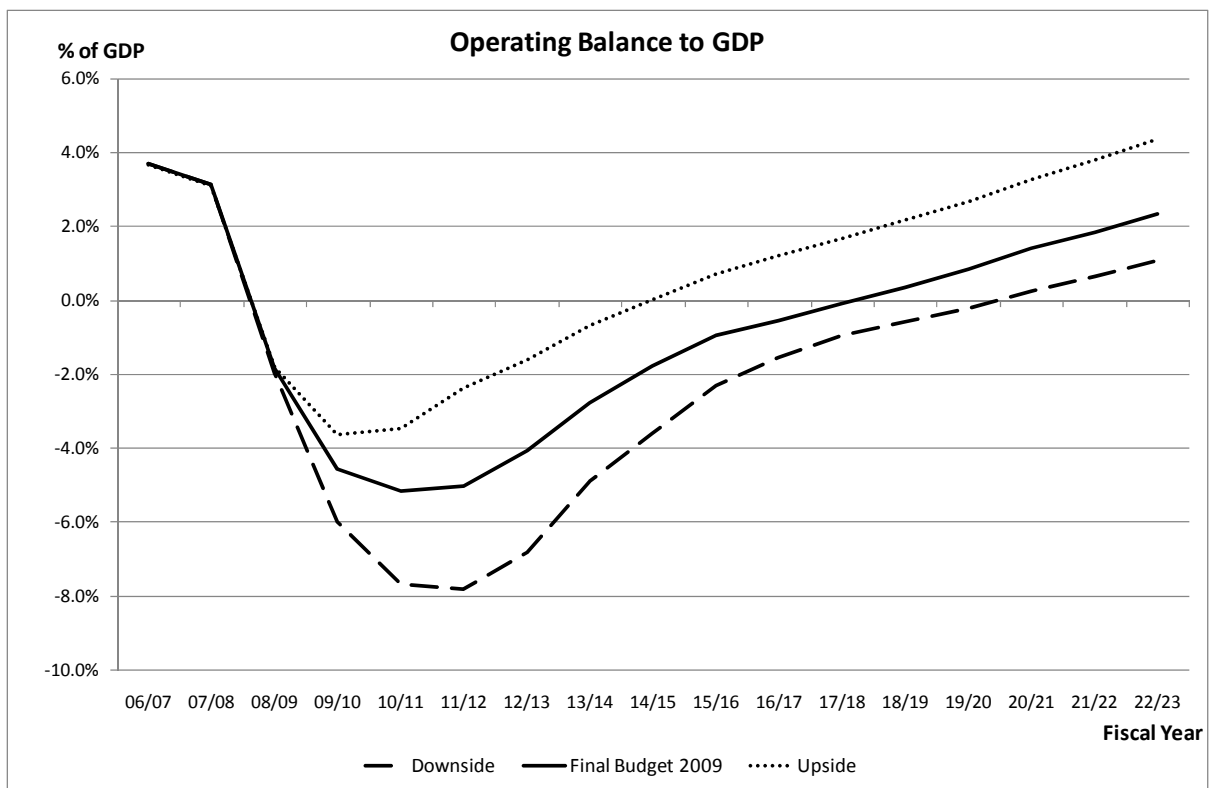
Gross Debt to GDP

Fiscal Year	08/09	09/10	10/11	11/12	12/13	...	17/18	...	22/23
Upside	24.6%	27.5%	30.3%	30.1%	30.0%		28.7%		16.2%
Final Budget 2009	24.8%	29.1%	34.0%	36.7%	38.5%		42.0%		35.6%
Downside	25.1%	31.8%	39.7%	44.8%	48.5%		55.4%		51.2%

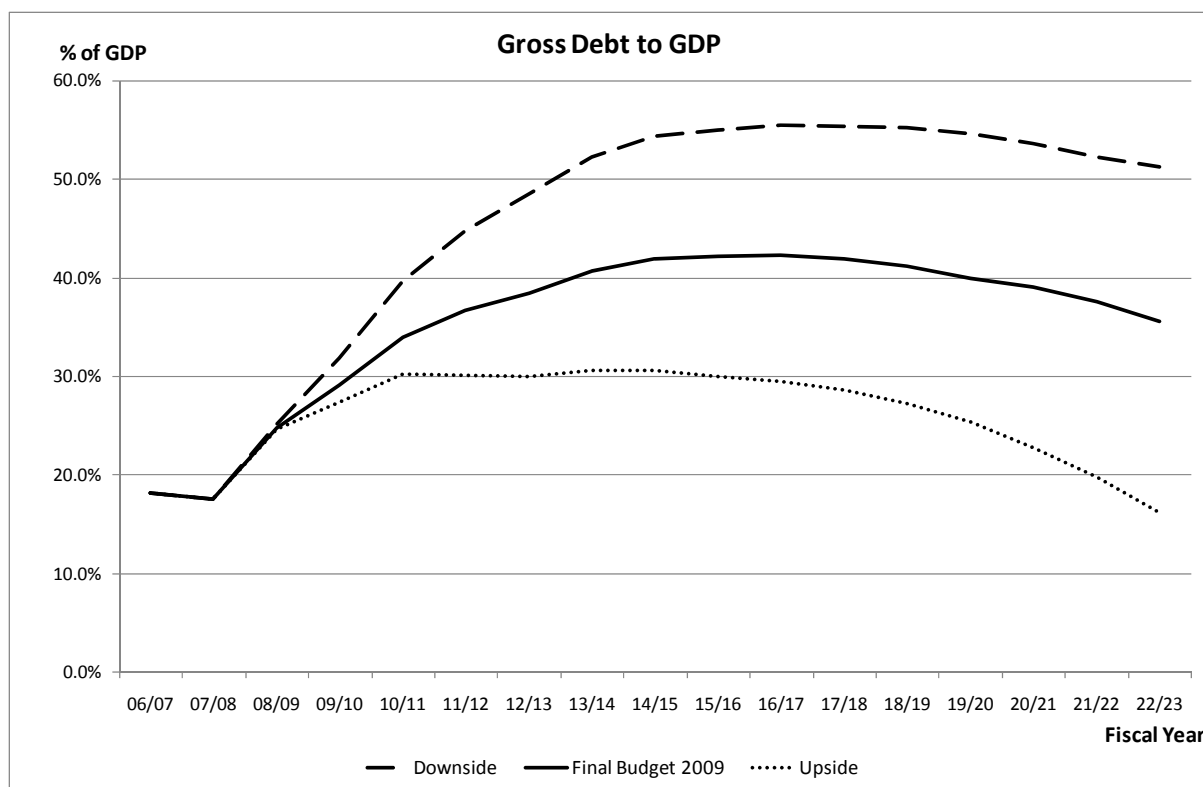
Where gross debt refers to Gross Sovereign-Issued debt (GSID), excluding Reserve Bank bills and settlement cash.



Where net debt excludes the NZS Fund and advances.



Where operating balance refers to the operating balance excluding gains and losses (OBEGAL), excluding net returns from the NZS Fund.



Where gross debt refers to Gross Sovereign-Issued debt (GSID), excluding Reserve Bank bills and settlement cash.

Summary:

- Net debt
 - Peaked at 35.3% of GDP (16/17), falling to 29.6% of GDP in 2022/23 in the main scenario.
 - Upside: peaks at 23.6% (14/15), falling to 10.8% of GDP by 2022/23.
 - Downside: peaks at 48.5% (17/18), falling to 44.9% in 2022/23.

- Operating balance
 - Peaked at -5.2% of GDP (2010/11), returned to surplus in 18/19, and rose to 2.3% of GDP by 2022/23, in the main scenario.
 - Upside: peaks at -3.6% (2009/10), returns to surplus in 14/15 and rises to 4.4% of GDP by 2022/23.
 - Downside: peaks at -7.8% (2011/12), returns to surplus in 2020/21 and rises to 1.1% of GDP by 2022/23.

- Gross debt
 - Peaked at 42.3% of GDP (16/17), falling to 35.6% of GDP in 2022/23 in the main scenario.
 - Upside: peaks at 30.6% (14/15), falling to 16.2% of GDP by 2022/23.
 - Downside: peaks at 55.5% (17/18), falling to 51.2% in 2022/23.