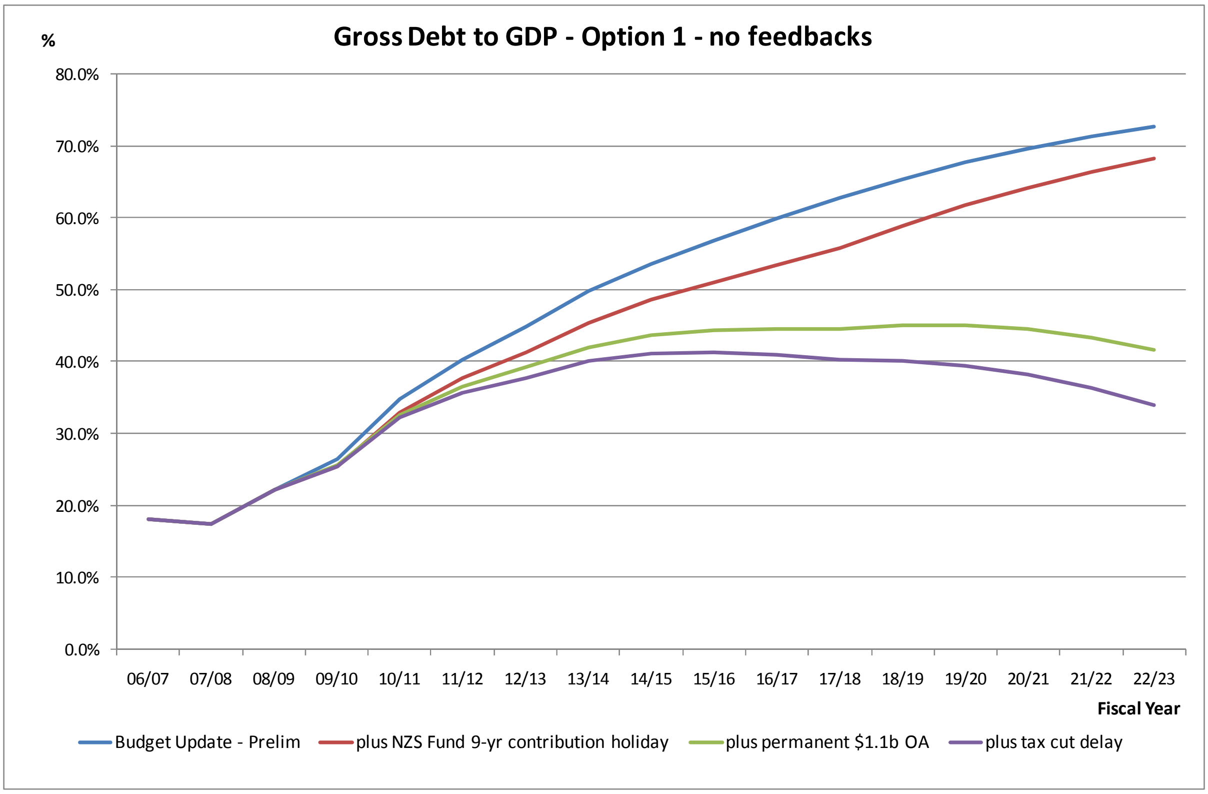
Sequential impact of policy changes



% of GDP in 2022/23	Prelim Budget Update	9-yr NZS Fund contribution holiday with one-off $250m	Permanent OA reduction to $1.1b	Tax cut delay
Change in gross debt	-	-4.4%	-26.6%	-7.6%
Gross debt	72.8%	68.3%	41.7%	34.1%

The numbers in the graph and the table above do not take 'second-order' economic effects of the policy changes into account. These effects are:

- Lowering the operating allowance (government spending) and delaying the tax cuts causes GDP to fall compared to previous forecasts.
    - This is because both public and private consumption fall.
- This lower GDP track lowers revenue, but the increase in tax on wages (from the delayed tax cuts) is greater than the negative macroeconomic effects, so the revenue is higher compared to the preliminary (no policy changes) track.

With second-order effects gross debt-to-GDP is 36.5% in 2022/23 (2.4% higher than above), mainly because of the weaker GDP track.

Caveats

The final economic forecasts will be different

These policy changes will be fully incorporated into the final economic forecast round. However, the underlying economic forecasts themselves will change, as more information becomes available prior to their finalisation on April 17. Depending on the information released this could have positive or negative effects on the final economic forecasts. **These changes could be significant and will flow through into the fiscal forecasts.**

The second-order effects have been approximately estimated

- These effects have been modelled in a scenario that has not gone through the full forecast process.
- There is considerable uncertainty in modelling the economic consequences of fiscal policy changes. Changes in aggregate spending will have differing impacts on economic variables depending on which areas within that spending are changed.

For these reasons this modelling should be seen as an approximate estimation of the economic and fiscal effects of the above fiscal policy changes.