

Chair
CABINET

2010 FISCAL STRATEGY REPORT

Proposal

1. The paper summarises the main messages in the attached near-final draft of the 2010 Fiscal Strategy Report (FSR) and asks Cabinet to note the contents of the report. The FSR will be published with the Budget on 20 May 2010.

Executive Summary

2. The Fiscal Strategy Report sets out the Government's fiscal strategy and measures how the Government is performing against its overall goals in areas such as debt, net worth and the balance between revenues and expenses.

3. The main messages in the 2010 FSR are that:

- Although the fiscal position has improved, it is far from rosy with structural deficits forecast until 2015/16. The short-term aim of the fiscal strategy is to return to surplus as quickly as is practical to minimise the build-up of debt. Reducing the growth of debt and building up net worth are essential to preparing for future shocks and the spending pressures associated with population ageing.
- The fiscal strategy is consistent with, and critical to, the Government's overall growth strategy:
 - The tax package is an important part of the Government's plan to assist the rebalancing of the economy by shifting incentives towards savings and productive investment.
 - Controlling the growth in Government spending will facilitate the growth in the tradeable sector both directly, by releasing resources, and indirectly through the interaction with monetary policy by allowing interest rates and the exchange rate to be lower than they would otherwise be.
 - Improving the efficiency and effectiveness of the public sector will be important not only for controlling costs but also for delivering essential frontline public services.
 - Improving the management of the assets and liabilities that make up the Government's balance sheet is important as they can have a negative fiscal impact if not managed well.

4. To emphasise the importance of reducing debt to prudent levels as quickly as is practical, I am proposing a minor wording change to the long-term objective for net debt. This will reinforce the message that attaining prudent levels of debt and building up net worth are the best ways of preparing for the future.

Areas of the 2010 Fiscal Strategy Report yet to be completed

5. The final fiscal forecasts and projections have not yet been completed. The data and graphs in the draft report are based on near-final numbers.
6. I ask Cabinet to note that I will, in consultation with the Prime Minister, finalise these sections and make any other changes to the FSR that may be necessary following our discussion today.

Consultation

7. This paper has required no consultation.

Financial Implications

8. This paper itself has no fiscal implications. The 2010 FSR sets the broader context for the Budget 2010 package agreed at Cabinet (CAB Min (10) 13/3).

Human Rights

9. This paper has no human rights implications.

Legislative Implications

10. The draft 2010 FSR attached to this paper is consistent with the Public Finance Act 1989.

Regulatory Impact Analysis

11. This paper does not require a regulatory impact analysis.

Gender Implications

12. This paper does not require a gender implications analysis.

Disability Perspective

13. This paper does not require a disability perspective analysis.

Publicity

14. The Budget will be published on 20 May 2010.

Recommendations

15. I recommend that Cabinet:
 1. **note** that the attached report is a near-final draft of the 2010 Fiscal Strategy Report that will be published with the Budget on 20 May 2010;
 2. **note** that I am proposing a minor change to the wording of the long-term debt objective to emphasise the importance of reducing debt to prudent levels as quickly as is practical; and
 3. **note** that I will finalise the Fiscal Strategy Report in consultation with the Prime Minister.

Hon Bill English
Minister of Finance

Date: