



Pre-election Economic *and* Fiscal Update 2014

19 August 2014

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Treasury Forecast Update Process

The Public Finance Act 1989 requires a *Pre-election Economic and Fiscal Update (Pre-election Update)* to be published between 20 and 30 working days prior to an election.

With the announcement of an election date of 20 September 2014, the Treasury has prepared a set of forecasts taking into account the most recent economic and fiscal developments since its May 2014 *Budget Economic and Fiscal Update (Budget Update)*. As in 2005, the last time there was a September General Election, the process has been slightly truncated given the proximity to the preparation of the *Budget Update* forecasts.

A complete set of macroeconomic forecasts has been produced taking into account the economic developments since the *Budget Update*. In line with established practice, Inland Revenue (IRD) 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, on the same underlying macroeconomic trends that underpin the Treasury's tax forecasts.

The fiscal forecasts have been prepared using the same accounting policies used for the audited *Financial Statements of the Government of New Zealand*. They comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989 and have been prepared in accordance with Financial Reporting Standard 42: *Prospective Financial Standards*.

The preparation of the *Pre-election Update* fiscal forecasts has involved:

- reassessing tax revenue (in conjunction with IRD) and benefit expense forecasts in light of the revisions to the macroeconomic forecasts
- updating the operating results and expense forecasts using the 2013/14 pre-audited financial information of departments and other significant reporting entities
- considering the impact of additional financial information that has occurred since the finalisation of the Budget Update fiscal forecasts of 29 April 2014
- incorporating the fiscal impact of significant Cabinet decisions made since the Budget Update, up to and including 4 August 2014. The forecasts, for example, incorporate the decision to reduce ACC motor vehicle levies in the 2015/16 fiscal year, and
- the forecasts also taking into account the Budget 2014 decision to raise the operating allowance for Budget 2015 to \$1.5 billion (compared with \$1.0 billion previously) and to increase the operating allowance by 2% in each Budget after that.

Where government policies, including those under active consideration, are known at the date of finalisation and would have a material effect on the fiscal forecasts, but which are not certain enough (in terms of their likely timing or measurement) to incorporate into the fiscal forecasts, they are disclosed in the Specific Fiscal Risks chapter.

Projections are also included in the document and represent potential future paths of variables. They are usually based on historical averages of the levels or growth rates of the relevant variables, and depend on both the forecast base from which they arise and the assumptions used to generate them. They differ from forecasts, which have a higher level of precision.

Finalisation Dates for the Update

Economic data	16 July 2014
Economic forecasts	18 July 2014
Tax revenue forecasts	25 July 2014
Fiscal forecasts	5 August 2014
Specific fiscal risks	5 August 2014
Projections	6 August 2014
Text finalised	13 August 2014

Since the macroeconomic forecasts were finalised on 18 July, there have been a number of data releases. They do not change the Treasury's overall view of the economy. The Risks and Scenarios chapter describes some of the key risks to the Treasury's central economic forecasts, and sets out two alternative scenarios for how the economy and fiscal position might develop.

Other Information

On the Treasury's website is a series of other information that provides users of the *Pre-election Update* with further detail. This other information should be read in conjunction with the published document.

Additional *Pre-election Update* information includes:

- detailed economic forecast information – tables providing breakdowns of the economic forecasts
- Treasury and IRD tax forecasts – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts
- additional fiscal indicators – estimates of the cyclically-adjusted balance and fiscal impulse, and
- accounting policies – outline of the specific Crown accounting policies. The published forecast financial statements only provide a summary.

This other information can be accessed at: www.treasury.govt.nz/budget/forecasts/prefu2014

NZ Budget App

Smartphone and tablet users can also access the *Pre-election Update* through the NZ Budget App. The App is available on the Apple Store for iOS devices and the Google Play store for Android devices.

Statement of Responsibility

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in supplying the Minister of Finance with this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications both of Government decisions and other circumstances as at 5 August 2014 that were communicated to me by the Minister of Finance in accordance with the requirements of the Public Finance Act 1989 and of other economic and fiscal information available to the Treasury as at 5 August 2014. This *Update* does not incorporate any decisions, circumstances, or statements that the Minister of Finance has determined, in accordance with section 26V of the Public Finance Act 1989, should not be incorporated in this *Update*.



Gabriel Makhlouf
Secretary to the Treasury

13 August 2014

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured the Secretary to the Treasury has been advised, in accordance with the requirements of the Public Finance Act 1989, of all Government decisions and other circumstances as at 5 August 2014 of which I was aware and that had material economic or fiscal implications.

I accept responsibility for the integrity of the disclosures contained in the *Update* and responsibility for the consistency and completeness of the *Update* information with the requirements of Part 2 (Fiscal responsibility) of the Public Finance Act 1989.



Hon Bill English
Minister of Finance

13 August 2014

