

## Glossary of Terms

### ***Accruals basis of accounting***

An accounting basis where revenue is recognised when earned and expenses when the obligations they relate to are incurred. This contrasts to cash accounting, where income is recognised when the cash is received and expenses when cash to settle an obligation is paid out.

### ***Appropriations***

Appropriations are legal authorities granted by Parliament to the Crown or an Office of Parliament to use public resources. Most appropriations are set out in Appropriation Acts.

### ***Baselines***

The level of funding approved for any given area of spending (eg, Vote Education).

### ***Commercial portfolio***

Consists of assets and liabilities held by companies with commercial objectives, predominantly State-owned Enterprises.

### ***Consumers Price Index (CPI)***

Statistics New Zealand's official index to measure the rate of change in prices of goods and services purchased by households.

### ***Contingent assets***

Income that the Crown will realise if a particular uncertain event occurs, or a present asset is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent assets). Contingent assets typically comprise loans with specific events that trigger repayment and IRD pending assessments (where there is a proposed adjustment to a tax assessment).

### ***Contingent liabilities***

Costs that the Crown will have to face if a particular uncertain event occurs, or present liabilities that are unable to be measured with sufficient reliability to be recorded in the

financial statements (unquantified contingent liabilities). Contingent liabilities typically comprise guarantees and indemnities, legal disputes and claims, and uncalled capital.

### ***Core Crown***

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 94 to 96).

### ***Core Crown expenses***

The day-to-day spending (eg, public servants' salaries, welfare benefit payments, finance costs and maintaining national defence etc) that does not build or purchase physical assets by the core Crown. This is an accrual measure of expenses and includes non-cash items such as depreciation on physical assets.

### ***Core Crown revenue***

Consists primarily of tax revenue collected by the Government but also includes investment income, sales of goods and services and other revenue of the core Crown.

### ***Corporate tax***

The sum of net company tax, non-resident withholding tax (NRWT) and foreign-source dividend withholding payments (FDWP).

### ***Current account (Balance of Payments)***

The current account records the value of New Zealand's transactions with the rest of the world in goods, services, income and transfers. The current account balance is the sum of all current account credits less all current account debits. When the sum of debits is greater than the sum of credits there is a current account deficit. The current account balance is commonly expressed as a percentage of nominal GDP.

***Cyclically-adjusted balance (CAB) or structural balance***

An estimate of the fiscal balance (operating balance before gains and losses) adjusted for fluctuations of actual GDP around trend GDP. CAB provides a picture of the underlying fiscal position and the effects of policy decisions.

***Demographic changes***

Changes to the structure of the population such as the age, gender or ethnic composition.

***Domestic bond programme***

The amount and timing of government bonds expected to be issued or redeemed.

***Excise duties***

A tax levied on the domestic production of alcohol, tobacco and light petroleum products (CNG, LPG and petrol).

***Financial assets***

Any asset that is cash, an equity instrument of another entity (shares), a contractual right to receive cash or shares (taxes receivable and ACC levies) or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

***Financial liabilities***

Any liability that is a contractual obligation to pay cash (government stock, accounts payable) or a right to exchange a financial asset or liability on unfavourable terms (derivatives in loss).

***Financial portfolio***

Consists of the assets and liabilities held by the Crown to finance or pre-fund government expenditure.

***Fiscal drag***

The additional personal income tax generated as an individual's average tax rate increases as their income increases.

***Fiscal impulse***

A summary measure of how changes in the fiscal position affect aggregate demand in the economy. To isolate discretionary changes, the fiscal impulse is calculated on a cyclically-adjusted basis and excludes net interest payments. To better capture the role of capital spending, the indicator is derived from cash flow information.

***Fiscal intentions (short-term)***

Indications of the Government's intentions for operating expenses, operating revenues and the impact of its intentions on the operating balance, debt and net worth over (at least) the next three years. These intentions are required under the Public Finance Act 1989 (PFA).

***Fiscal objectives (long-term)***

The Government's long-term goals for operating expenses, operating revenue, the operating balance, debt and net worth, as required by the PFA. The objectives must be consistent with the defined principles of responsible fiscal management as outlined in the PFA and must cover a period of (at least) 10 years.

***Forecast new capital spending (Capital allowance)***

An amount provided in the forecasts to represent the balance sheet impact of capital initiatives expected to be introduced over the forecast period.

***Forecast new operating spending (Operating allowance)***

An amount included in the forecasts to provide for the operating balance (revenue and expenditure) impact of policy initiatives, changes to demographics and other forecasting changes expected to occur over the forecast period.

**Gains and losses**

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and GSF. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the Statement of Financial Performance.

**GDP deflator**

An index of changes in the general price level in the economy. It is calculated as the ratio of nominal GDP to real GDP.

**Generally accepted accounting practice (GAAP)**

GAAP refers to the rules and concepts used to prepare and present financial statements. GAAP is an independent set of rules and frameworks that govern the recognition, measurement and disclosure of financial elements, such as assets, liabilities, revenues and expenses.

**Government Finance Statistics (GFS)**

A statistical framework for government reporting developed by IMF to aid comparability of results between countries. This differs from the GAAP framework that is used for reporting by the Government in New Zealand.

**Gross debt**

GSID (refer below) excluding settlement cash and bank bills.

**Gross domestic product (GDP)**

A measure of the value-added of all goods and services produced in New Zealand. Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured on either an expenditure or production basis and in either real or nominal terms. (See following definitions.)

**Gross domestic product (expenditure)**

The sum of total expenditure on final goods and services in the economy, including exports but minus imports. Expenditure GDP is calculated in both real and nominal terms.

**Gross domestic product (nominal)**

The value-added of goods and services produced in the economy expressed in current prices.

**Gross domestic product (production)**

The value-added of goods and services produced in New Zealand, after deducting the cost of goods and services used in the production process. Production GDP is calculated only in real terms.

**Gross domestic product (real)**

The value-added of goods and services produced in the economy expressed in the prices of a base period. The current base period is 2009/10.

**Gross national expenditure (GNE)**

A measure of total expenditure on final goods and services by New Zealand residents.

**Gross sovereign-issued debt (GSID)**

Represents debt issued by the sovereign (the core Crown) and includes government stock held by the NZS Fund, ACC and EQC.

**Insurance liabilities**

The gross obligation for the future cost of claims incurred prior to balance date represented in today's dollars (present value). The net liability is the gross liability less the asset reserves held to meet those claims.

**Inter-segment eliminations**

The amounts of transactions between different segments (core Crown, Crown entities and SOEs) that are eliminated to determine total Crown results.

**Labour force participation rate**

The percentage of the working-age population in work or actively looking for and available for work.

**Labour productivity**

Output per unit of labour input (where labour inputs might be measured as hours worked or the number of people employed).

**Line-by-line consolidation**

A term used to refer to the general approach to the presentation of the Financial Statements of the Government. It means that the individual line items for revenues, expenses, assets and liabilities in the Financial Statements of the Government include all departments, Offices of Parliament, the Reserve Bank, SOEs, Crown entities and other entities controlled by the Government.

**Loan-to-value ratio (LVR)**

A measure of how much a bank lends against residential property, compared to the value of that property. The Reserve Bank currently requires banks to restrict new residential mortgage lending at LVRs of over 80% (deposit of less than 20%) to no more than 10% of the dollar value of their new residential mortgage lending.

**Marketable securities**

Assets held with financial institutions. These assets are held for both cash flow and investment purposes. Examples are bonds, commercial papers and debentures.

**Minority interest**

Minority interest refers to shareholders of Government reporting entities outside the Crown. Current examples include those who hold shares in the mixed ownership companies.

**Monetary conditions**

Aggregate monetary conditions measure the degree to which short-term interest rates and the exchange rate either support or restrict economic growth.

**Monetary policy**

The policies that the Reserve Bank uses to regulate the supply of money in New Zealand. The Reserve Bank implements its monetary policy decisions by adjusting its Official Cash Rate (OCR) in an effort to maintain stability in the rate of CPI inflation within a defined target range.

Tightening monetary policy means raising the OCR in order to moderate aggregate demand pressures and reduce inflationary pressures. Easing monetary policy has the reverse effect.

**National saving**

National disposable income less private and public consumption spending. Income excludes gains and losses on capital. Gross saving includes depreciation.

**Net core Crown cash flow from operations**

The cash impact of core Crown operating results. It is represented by the operating balance (before gains and losses) less retained items (eg, net surplus of SOEs, Crown entities and NZS Fund net revenue) less non-cash items (eg, depreciation).

**Net core Crown debt**

Net core Crown debt provides information about the sustainability of the Government's accounts, and is used by some international rating agencies when determining the creditworthiness of a country. It represents gross debt less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and/or they are made for public policy reasons rather than for the purposes associated with government financing.

**Net international investment position (NIIP)**

The net value of New Zealand's international assets and liabilities at a point in time.

**Net worth**

Total assets less total liabilities of all Government reporting entities. The change in net worth in any given forecast year is largely driven by the operating balance and property, plant and equipment revaluations.

**Net worth attributable to the Crown**

Represents the Crown’s share of total assets and liabilities and excludes minority interests’ share of those assets and liabilities.

**Operating balance**

Represents OBEGAL (refer below) plus gains and less losses. The operating balance includes gains and losses not reported directly as a movement against net worth. The impact of gains and losses on the operating balance can be subject to short-term market volatility and revaluations of long-term liabilities.

**Operating balance before gains and losses (OBEGAL)**

Represents total Crown revenue less total Crown expenses excluding minority interest share. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation.

**Output gap**

The difference between actual and potential GDP. (See Potential output.)

**Outputs**

Outputs are the goods and services commissioned by Ministers from public, non-governmental and private sector producers. Outputs may include the supply of policy advice, enforcement of regulations (such as speed limits in transport), provision of a range of services (in health, education, etc), negotiation and management of contracts and administration of benefits.

**Potential output**

The level of output an economy can sustain without an acceleration of inflation.

**Productivity**

The amount of output (eg, GDP) per unit of input.

**Projections**

Projections relate to the period beyond the five-year forecast period and are based on long-run economic and fiscal assumptions. For example, the projections assume no economic cycle and constant long-run interest, inflation and unemployment rates.

**Residual cash**

The level of money the Government has available to repay debt or, alternatively, needs to borrow in any given year. Residual cash is alternatively termed “Cash available/(shortfall to be funded)”.

Residual cash is equal to net core Crown cash flow from operations excluding NZS Fund activity less core Crown capital payments (eg, purchase of assets, loans to others).

**Settlement cash**

This is the amount of money deposited with the Reserve Bank by registered banks. It is a liquidity mechanism used to settle wholesale obligations between registered banks and provides the basis for settling most of the retail banking transactions that occur every working day between businesses and individuals.

**Social portfolio**

Consists of the assets and liabilities held primarily to provide public services or to protect assets for future generations.

**Specific fiscal risks**

All government decisions or other circumstances known to the Government which may have a material impact on the fiscal and economic outlook, but are not certain enough in timing or amount to include in the fiscal forecasts.

**System of National Accounts (SNA)**

A set of macroeconomic accounts for government reporting, developed by the international community, to facilitate international comparisons of national economic statistics. This differs from the GAAP framework that is used for reporting by the Government in New Zealand.

**Tax revenue**

The accrual, rather than the cash (“tax receipts”) measure of taxation. It is a measure of tax due at a given point in time, regardless of whether or not it has actually been paid.

**Terms of trade**

The terms of trade measure the volume of imports that can be funded by a fixed volume of exports, and are calculated as the ratio of the total export price index to the total import price index. New Zealand’s headline terms of trade series is derived from export and import price indices from Statistics New Zealand’s quarterly Overseas Trade Indices. The Treasury forecasts the terms of trade on an SNA basis, using implicit export and import price indices derived from quarterly national accounts data.

**Top-down adjustment**

An adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to SOE or Crown entity forecasts.

**Total borrowings**

Represents the Government’s total debt obligations to external parties and can be split into sovereign-guaranteed debt and non-sovereign-guaranteed debt. Non-sovereign-guaranteed debt represents the debt obligations of SOEs and Crown entities that are not guaranteed by the Crown.

**Total Crown**

Includes the core Crown (defined above) plus Crown entities and SOEs as defined by the Government Reporting Entity on pages 94 to 96.

**Tradable/non-tradable output**

The tradable sector is that part of the economy particularly exposed to foreign competition either through exports or import substitution. It includes agriculture, forestry and fishing, mining, and manufacturing industries. Non-tradable output includes the construction industry, rental, hiring and real estate services, public administration and safety, and health care and social assistance. Other industries may be classified as either tradable or non-tradable depending on whether their direct or indirect outputs are exposed to foreign competition.

**Trade-weighted index (TWI)**

A measure of movements in the NZ dollar against the currencies of our major trading partners. Since December 2014, the TWI has been based on 17 currencies, weighted according to each country’s direct bilateral trade in goods and services with New Zealand. Together these countries account for more than 80% of New Zealand’s foreign trade.

**Votes**

When Parliament considers legislation relating to appropriations, the appropriations are grouped within “Votes”. Generally, a Vote groups similar or related appropriations together (eg, Vote Health includes all health-related appropriations administered by the Ministry of Health).

**Year ended**

Graphs and tables within this document use different expressions of the timeframe. While some tables may refer to the end of the tax year (31 March), others will refer to the end of the Government’s financial year (30 June). For example, unless otherwise stated references to 2014/15 or 2015 will mean the end of the financial year.