

# Opening Statement to the Finance and Expenditure Committee

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Secretary to the Treasury

6 June 2018

The Government's Budget and the Treasury's forecasts were released on 17 May and were largely in line with market expectations. The fiscal forecasts show the Government reaching its target of reducing net debt to 20% of GDP by 2022. Our real GDP growth forecast is broadly similar to last December's Half-Year Economic and Fiscal Update, averaging around 3.0% per year.

The finalisation date for our economic forecasts was 10 April, and for our tax and fiscal forecasts was 26 April. Since then, we have continued to monitor data releases and their implication for the economic and fiscal outlook. Just yesterday, we published our May Monthly Economic Indicators – and the Crown Financial Accounts for the 10 months ended 30 April – which provides an update on these developments.

The data released since the forecasts in our Budget Economic and Fiscal Update were finalised have been mixed and I wanted to begin by highlighting some of the key points for the committee:

- March quarter retail trade and the March quarter trade balance were weaker than we anticipated, suggesting real GDP growth may come in below our BEFU expectations.
- However, year to date tax revenue is close to forecast, as are Core Crown expenses and thus the Operating Balance before Gains and Losses.
- March Quarter Labour Market Statistics showed that the unemployment rate is a little lower than we forecast at 4.4%.
- Annual net permanent and Long Term migration fell to 67,000 in April from 68,000 in March, driven by a larger number of non-New Zealand citizens leaving, consistent

with our BEFU forecasts. Annual net migration peaked in July 2017 at 72,400 and further declines are expected.

- Both headline business confidence and firms' views of their own activity remain weak. Although the weakness in business confidence doesn't appear to have had a material impact on investment or employment to date, it does raise the risk of slower growth in coming quarters.
- The RBNZ left the OCR unchanged at 1.75%, as expected by the market. Compared to the previous Monetary Policy Statement (MPS) in February, forecasts for annual CPI inflation were reduced by 0.2% points to 1.6% in the 2018 calendar year. This is roughly in line with our inflation forecasts.
- The OECD's May Economic Outlook forecasts solid global growth of close to 4% over 2018 and 2019, but notes that there are a number of risks on the horizon including the recent rise in oil prices, trade tensions and financial volatility.
- International developments lead us to believe that the risks are skewed to moderately weaker global growth in 2018 than we forecast in last month's BEFU. Growth in Japan, the Eurozone, and the UK slowed down in the first quarter this year. The outlook for China and the US remains relatively positive, although trade issues continue to simmer and the impact of monetary policy normalisation on emerging market economies remains a risk.

Overall, and notwithstanding the above, we remain confident of the forecasts published in our Budget Economic and Fiscal Update.