

The Treasury

Budget 2020 Information Release

July 2020

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Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(b)(i) - to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government
- [5] 6(d) - to prevent endangerment of the safety of any person
- [9] 6(e)(iv) - to prevent serious damage to the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the stability, control, and adjustment of prices of goods and services, rents, and other costs, and rates of wages, salaries, and other incomes
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [42] 18(d) - information is already publicly available or will be publicly available soon.

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

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Fiscal Strategy Scenarios

3rd March 2020

Overview

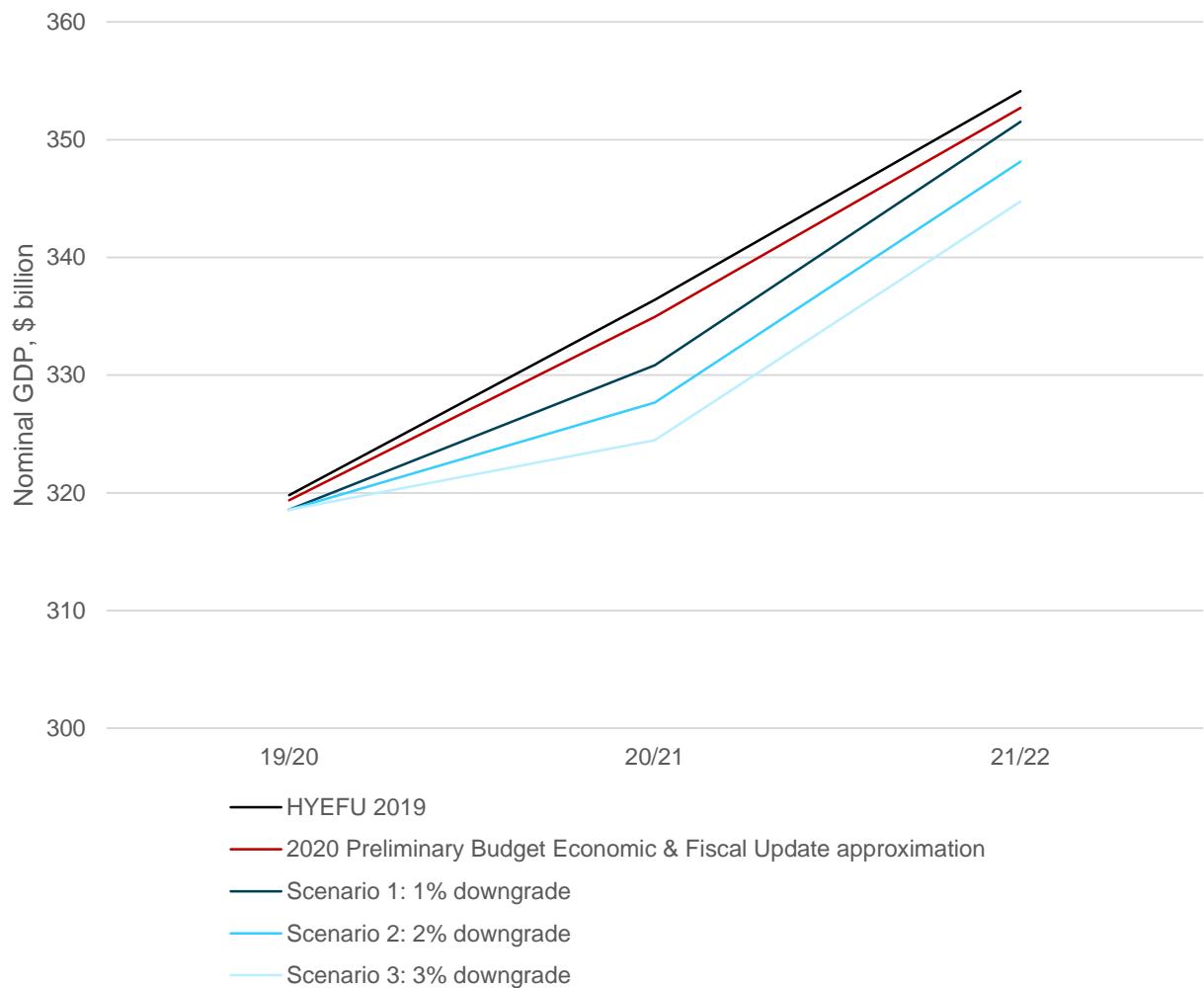
- At your office's request, we have prepared rough scenarios of the impact on the fiscal position of:
 - 1% downgrade in nominal GDP growth in 2020/21
 - 2% downgrade in nominal GDP growth in 2020/21
 - 3% downgrade in nominal GDP growth in 2020/21 – annual nominal growth of 1.9%, close to 2011/12 level

We have then compared these scenarios to a range of possible fiscal policy settings over the forecast period.

This is not comprehensive economic modelling of the impacts of these scenarios. It has many limitations:

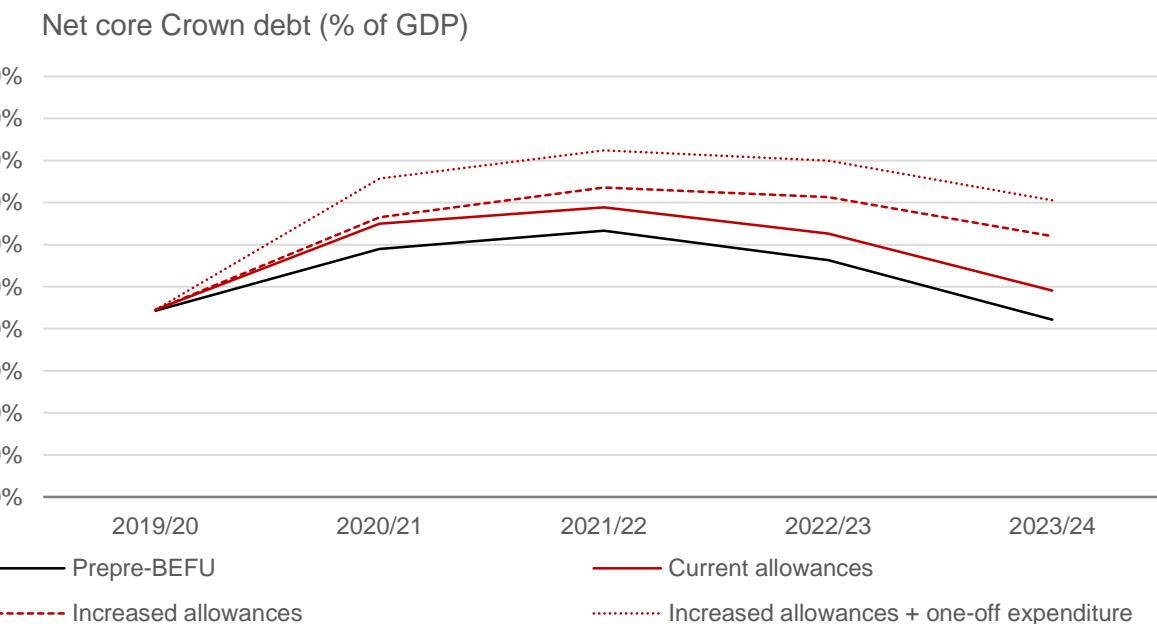
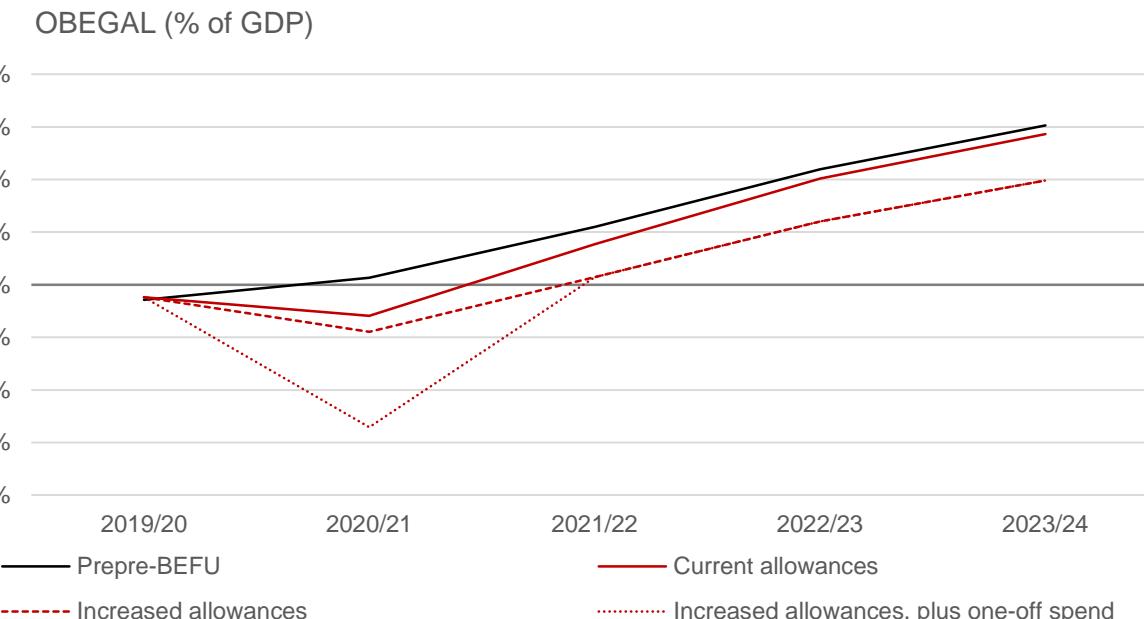
- **It does not incorporate any information from the preliminary BEFU fiscal forecasts.** These will substantially affect the short-run results.
- **The economic effects are assumed, not modelled.** We use rule of thumb assumptions to feed an assumed downgrade in nominal GDP growth to fiscal variables to estimate the impact of lower growth. The same path of GDP with different composition could have very different fiscal impacts.
- **Tax is the only fiscal channel to be directly affected.** Lower growth feeds through to lower tax revenues, which is typically the largest driver of a weaker fiscal position. This does not account for knock on effects to other areas of Crown revenue or expenditure, including higher unemployment benefits.
- **The results do not show the economic effects of any increased spending.** Increasing spending only impacts on debt and OBEGAL. If increased spending offsets some of the shock, the economic impact will be less than shown.
- **Given timing, we have not yet been able to extend these scenarios into the projection period.** The weakening of the fiscal position over the forecast period will, however, feed into more challenging trade-offs beyond the next 5 years.

Economic scenarios



- Three scenarios are tested involving increasingly greater short term impacts on growth.
- These scenarios do not correspond to those provided in earlier advice – we have made largely arbitrary reductions in the growth forecast, without direct linking to the assumed nature of the virus.
- In all cases, impact on growth lasts only one year – but GDP takes longer to return to pre-virus trend level.
- Scenario 3 implies annual real GDP growth close to or below zero – suggesting a mild recession.
- **Note these scenarios are not our central view.**

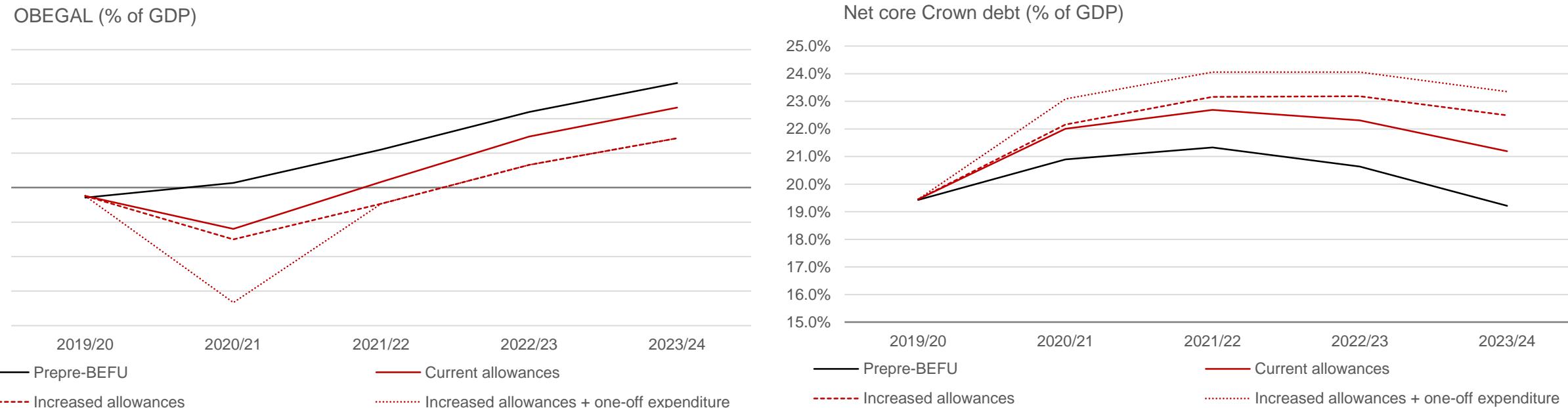
Scenario 1: growth falls by 1%



Assumed fiscal policy settings

	Budget 2020	Budget 2021	Budget 2022	Budget 2023
Current allowances	\$3 billion	\$2.4 billion	\$2.4 billion	\$2.6 billion
Increased allowances	\$3.5 billion	\$3.0 billion	\$2.8 billion	\$2.8 billion
Increased allowances, plus one-off expenditure	\$3.5 billion, plus \$3 billion non-recurring spending	\$3.0 billion	\$2.8 billion	\$2.8 billion

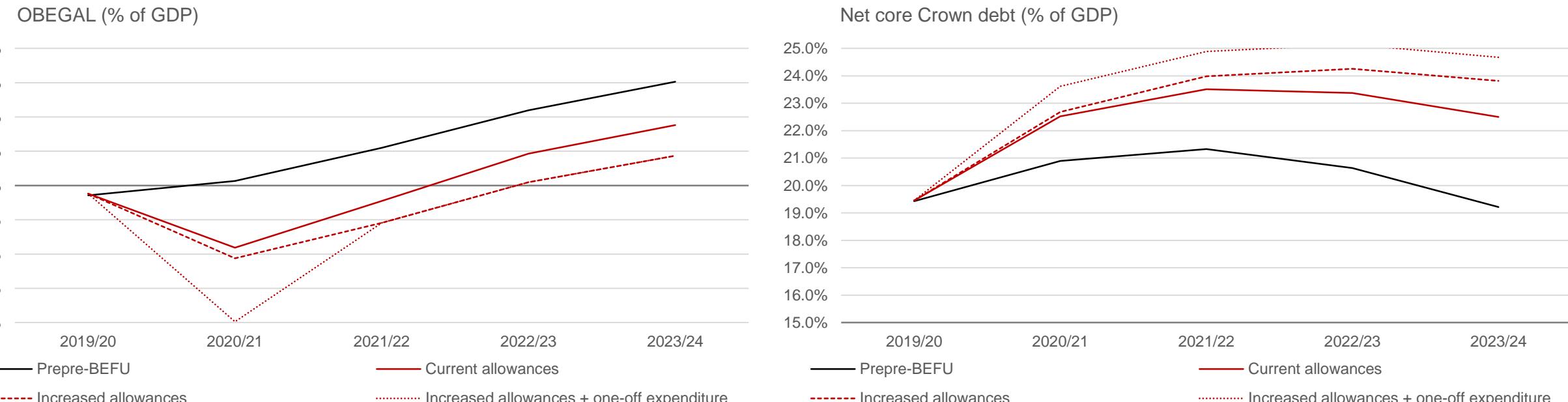
Scenario 2: growth falls by 2%



Assumed fiscal policy settings

	Budget 2020	Budget 2021	Budget 2022	Budget 2023
Current allowances	\$3 billion	\$2.4 billion	\$2.4 billion	\$2.6 billion
Increased allowances	\$3.5 billion	\$3.0 billion	\$2.8 billion	\$2.8 billion
Increased allowances, plus one-off expenditure	\$3.5 billion, plus \$3 billion non-recurring spending	\$3.0 billion	\$2.8 billion	\$2.8 billion

Scenario 3: growth falls by 3%



Assumed fiscal policy settings

	Budget 2020	Budget 2021	Budget 2022	Budget 2023
Current allowances	\$3 billion	\$2.4 billion	\$2.4 billion	\$2.6 billion
Increased allowances	\$3.5 billion	\$3.0 billion	\$2.8 billion	\$2.8 billion
Increased allowances, plus one-off expenditure	\$3.5 billion, plus \$3 billion non-recurring spending	\$3.0 billion	\$2.8 billion	\$2.8 billion

