TE TAI ŌHANGA
THE TREASURY

Half Year Economic and Fiscal Update 2020

16 December 2020

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New Zealand Government

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An introduction to the *Half Year Economic and Fiscal Update*

The Treasury is New Zealand's economics and finance ministry. We advise on the direction of New Zealand's economic policy with the aim of achieving a strong and sustainable economy, and raising New Zealand living standards. This includes reporting on the expenditure of government (fiscal) revenue, and assisting to ensure spending is fit for purpose and can improve outcomes for New Zealanders.

Sharing what we do

As the government's lead economic and financial adviser, we forecast the economic outlook for New Zealand and the Government's fiscal outlook. This *Half Year Economic and Fiscal Update (Update)* is part of a suite of documents we release as required by the Public Finance Act 1989.

This *Update* primarily outlines what the Treasury observes in our current economic and fiscal climate, what we might see in the future, and what risks we may face over the next four years (our forecast period). This gives an indication of what the economy is most likely to do to inform decision-making.

Making it New Zealander-centric

Our advice is not just based on facts and figures. Improving outcomes means we need to understand which outcomes to improve and what is important to New Zealanders. We use the Treasury's Living Standards Framework to recognise the different aspects of New Zealanders' living standards and wellbeing. Our framework builds on 30 years of New Zealand and international evidence on wellbeing and provides a high-level framework on intergenerational wellbeing.

Understanding our path

The Treasury is in a unique position to focus on improving the way our economy can raise New Zealand living standards. Along with delivering first-rate economic and financial advice, we are committed to providing it in a way so New Zealanders understand how we work to achieve our goals. If you would like to know more about who we are and what we do, please go to our website at https://treasury.govt.nz

Internet

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https://treasury.govt.nz/publications/efu/half-year-economic-and-fiscal-update-2020

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Statement of Responsibility

I make this statement in accordance with section 26W of the Public Finance Act 1989.

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in preparing, and supplying the Minister of Finance with, this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications both of government decisions and of other circumstances as at 30 November 2020 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 30 November 2020. 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*.

Caralee McLiesh
Secretary to the Treasury

9 December 2020

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured all government decisions and other circumstances as at 30 November 2020 of which I was aware and that had material economic or fiscal implications have been communicated to the Secretary to the Treasury, in accordance with the requirements of the Public Finance Act 1989.

In accordance with section 26W of the Public Finance Act 1989, I accept responsibility for the integrity of the disclosures contained in the *Update,* responsibility for the consistency and completeness of the *Update* information with the requirements of Part 2 (Fiscal responsibility and wellbeing) of the Public Finance Act 1989 and responsibility for the omission from the *Update* under section 26V of the Public Finance Act 1989 of any decisions, circumstances or statements not incorporated in it.

Hon Grant Robertson
Minister of Finance

9 December 2020

Executive Summary

June years	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Real production GDP (annual average % change)	-2.1	1.5	2.6	3.7	3.8	3.2
Unemployment rate (June quarter)	4.0	6.6	6.8	5.7	4.7	4.0
CPI inflation (annual % change)	1.5	1.4	1.2	1.4	1.8	2.1
Current account (annual, % of GDP)	-1.9	-2.8	-3.8	-3.4	-3.2	-3.2
Fiscal measures ($billions)						
Core Crown tax revenue	85.1	88.3	89.1	96.9	102.5	108.8
Core Crown expenses	108.8	114.2	109.1	112.0	115.3	118.7
Total Crown operating balance before gains and losses	-23.1	-21.6	-16.4	-10.3	-7.5	-4.2
Core Crown residual cash	-23.7	-40.2	-36.3	-23.7	-5.5	3.9
Net core Crown debt[1]	83.4	128.6	166.2	189.1	194.2	190.0
as a percentage of GDP	*26.4%*	*39.7%*	*49.1%*	*52.6%*	*50.7%*	*46.9%*
Net worth attributable to the Crown	110.3	83.9	69.2	63.0	60.1	61.0

Note: 1 Net core Crown debt, excluding the New Zealand Superannuation Fund and advances (including lending under the Funding for Lending Programme – for more details see page 40).

Sources: Stats NZ, the Treasury

- New Zealand's elimination strategy has resulted in a low prevalence of COVID-19 compared to most other countries and allowed for a relatively swift economic recovery. Although the contraction in June quarter GDP was the sharpest on record, it was less severe than expected, suggesting that the effects of alert level restrictions on economic activity are smaller than previously assumed.

- A range of high-frequency indicators also signal a strong rebound in activity during the September quarter, particularly in household spending, and the rise in unemployment was less than forecast in the *Pre-election Update*. Indicators of economic activity have continued to surprise on the upside since the economic forecasts in this *Half Year Update* were finalised, and as such there are material upside risks to the near-term GDP and employment forecasts. Uncertainty about the economic impacts remains high, however, due to both volatility and the potential for sizeable revisions in the data.

- Despite improvements in the outlook, the COVID-19 shock is expected to have lasting economic impacts, and the fiscal position remains challenging. By June 2024, nominal GDP remains a cumulative $67 billion below the 2019 *Half Year Update* forecast. The Government faces large near-term deficits and rising debt levels, with net core Crown debt forecast to peak at 52.6% of GDP in 2022/23. The rise in debt partly results from the Reserve Bank's Funding for Lending Programme (FLP), which is explored on page 40. Looking through the fiscal impact of the FLP, net debt peaks one year later at 45.6%.

- Higher levels of activity over the second quarter contributed to a more positive fiscal position than expected in the June 2020 year, with higher tax revenue and lower net debt than forecast in the *Budget Update*. The near-term outlook has also improved since the *Pre-election Update*, and the operating balance before gains and losses (OBEGAL) deficit is expected to be around $10 billion lower in the June 2021 year. The improvement is driven by the stronger economic outlook, which increases tax revenue by just over $4 billion a year on average and reduces expected benefit expenses.

- Some of the rebound in household spending could have been driven by savings accumulated during higher alert levels and may not be sustained, and continuing uncertainty will likely constrain business investment in the near term. Seasonal patterns may also have limited the economic impact of the closed border so far, and tourism-related businesses are expected to come under more pressure during the normal peak travel period over summer. As a result, economic growth is forecast to continue at a slower pace over 2021, and then pick up from 2022 as New Zealand's border reopens.

- Recent trial results for several COVID-19 vaccines are promising and present upside risk to the 1 January 2022 international border opening assumed in the *Pre-election Update*. This assumption currently remains unchanged, however, as the effectiveness and timing of the distribution of these vaccines were still unclear at the time of writing.

- The employment outlook has improved, with a lower forecast peak in unemployment and a faster recovery in labour force participation. The higher starting point for GDP is forecast to result in persistently higher economic output, with cumulative nominal GDP $48 billion above the *Pre-election Update* forecast by June 2024. The medium-term fiscal outlook is also more positive, with OBEGAL deficits expected to be $6.2 billion lower on average each year compared to the *Pre-election Update.* The OBEGAL deficit now narrows to $4.2 billion by the end of the forecast period.

- Since the *Pre-election Update*, a further $4 billion has been assumed to be allocated from the COVID-19 Response and Recovery Fund, leaving around $10 billion in the fiscal forecasts unallocated. The Government signalled that this will largely be held in reserve in case of a virus outbreak, so there may be upside risk to the fiscal forecasts if one does not occur. The uncertain long-term impact of COVID-19 remains a significant fiscal risk, with respect to both the Government's response and its role in the recovery.

- The Economic Outlook chapter presents two alternative forecast scenarios, one on the upside and one on the downside. The first scenario explores the impact of stronger domestic demand and an earlier easing in border restrictions, leading to a faster economic recovery over 2021 and a lower peak in unemployment. The second involves sporadic COVID-19 outbreaks in New Zealand throughout 2021, resulting in higher unemployment and a slower recovery in New Zealand's services exports.

Finalisation dates for the *Half Year Update*

Economic forecasts* – 13 November 2020

Tax revenue forecasts – 19 November 2020

Fiscal forecasts – 30 November 2020

Specific fiscal risks – 30 November 2020

Text finalised – 9 December 2020

*The economic forecasts do not include annual national accounts data released on 20 November. See page 32 for further details.

The impacts of the response to COVID-19 on the economic and fiscal outlook

This box outlines the Government's fiscal support measures in response to the COVID-19 pandemic and how these have been incorporated into the economic and fiscal forecasts. At the 2020 *Budget Update*, the Government signalled $62.1 billion of funding to support the COVID-19 response and recovery, which consists of the $12.1 billion initial package to support New Zealanders (17 March Support Package) and $50 billion in the COVID-19 Response and Recovery Fund (CRRF).

Government's fiscal support measures

At the time of finalising the fiscal forecasts for the *Half Year Update* it has been assumed that the Government has allocated $51.8 billion out of the funding that had been set aside. This leaves $10.3 billion available to allocate in the future. The Government has signalled that the unallocated portion of the CRRF will largely be held in reserve should another outbreak of the virus occur. Since the *Pre-election Update*, there has been an additional $3.8 billion of specific decisions assumed to be allocated from the CRRF (Table 1).

Table 1 – Funding allocated from the CRRF since the *Pre-election Update*

		$billions
Funding remaining at Pre-election Update		14.1
Changes since the Pre-election Update		
• *Allocated*	0.7	
• *Assumed to be allocated*	3.1	
Total change since the Pre-election update		3.8
Funding unallocated at Half Year Update		10.3

Since the *Pre-election Update*, the Government has allocated a further $0.7 billion from the CRRF. In addition, the Treasury are assuming a further $3.1 billion of funding will be allocated to fund the costs of Managed Isolation and Quarantine, the purchasing of vaccines and the continued public health response.

Table 2 provides the profile and nature of spending at the point decisions were managed against the COVID-19 funding, as well as the assumed phasing of the unallocated portion of the CRRF.

Table 2 – Fiscal impact of the Government's COVID-19 support measures

Year ending 30 June $billions	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**Total**
17 March Support Package	6.6	1.3	2.3	0.7	1.2	-	**12.1**
COVID-19 Response and Recovery Fund							
- Operating funding decisions	12.3	13.7	4.0	1.8	1.4	(0.0)	**33.2**
- Capital funding decisions	6.1	1.1	0.2	0.8	(0.3)	(0.4)	**7.5**
Total of COVID-19 decisions	25.0	16.1	6.5	3.3	2.3	(0.4)	**52.8**
Unallocated COVID-19 funding	-	2.0	1.8	2.2	2.2	2.2	**10.3**
	25.0	**18.1**	**8.3**	**5.5**	**4.5**	**1.8**	**63.1**
Less funding returned back to the CRRF							1.0
Total COVID-19 funding							**62.1**

Note: 1 The fiscal costs over the period 2020 to 2024 have been managed against the CRRF; the only exception to this is the Small Business Cashflow Loan Scheme where the 2024/25 impact has been counted. Some of the decisions made by the Government will have ongoing impacts beyond the 2024 fiscal year.

Source: The Treasury

Forecasting the fiscal impact of COVID-19 support measures

The economic and fiscal forecasts factor in the impact of specific decisions made by the Government in response to the COVID-19 pandemic. In some of the forecast years the impact of the funding decisions outlined in Table 2 will not entirely align with the impact reflected in the economic and fiscal forecasts. For example, only costs up to 2023/24 were allocated from the COVID-19 funding set aside. As a result, any decisions with ongoing costs beyond 2023/24, which are estimated at around $2.5 billion, are not included in Table 2 but will be reflected in the economic and fiscal forecasts.

For the unallocated portion of the CRRF, the fiscal forecasts have assumed a broadly even spread of spending across forecast years. The fiscal forecasts assume more fiscal support than what is assumed in the economic forecast, reflecting the clarification on the use of the unallocated portion of the CRRF that occurred after the economic forecasts were finalised. Treasury modelling indicates that including the additional unallocated funding in the economic forecasts would result in nominal GDP being only around 0.2% higher over the forecast period.

Compared to the fiscal forecasts in the *Pre-election Update*, Government fiscal support measures are expected to be lower in the current year. However, this has been shifted out across the rest of the forecast period, so the overall impact is broadly neutral. Overall, the fiscal forecasts include approximately $40 billion of COVID-19 fiscal support measures.

The cyclically-adjusted and structural balances

In addition to the fiscal support measures outlined above, the COVID-19 shock will also have a significant impact on the Government's fiscal position through a reduction in tax revenues and increased benefit expenses that happen automatically as the economy weakens (known as automatic stabilisers). The cyclically-adjusted balance (CAB) removes these automatic stabilisers from OBEGAL. The estimated CAB in Figure 1 shows that the automatic stabilisers (shaded blue) are expected to significantly worsen the OBEGAL deficit across the forecast period.[1]

For most of the forecast period, the majority of the deficit can be explained by either the automatic stabilisers or the effects of one-off COVID-19 fiscal support measures (shaded green).[2] Removing these components provides a better measure of the underlying fiscal position, which we refer to as the structural balance.

The structural balance has improved slightly since the *Pre-election Update* but a structural deficit of 1.1% of GDP remains at the end of the forecast period. Economic activity has recovered more quickly than previously expected, resulting in an increase in forecast tax revenue in the near term. However, tax revenue is still forecast to be structurally lower relative to pre-COVID expectations, reflecting lower potential output as a result of COVID-19.

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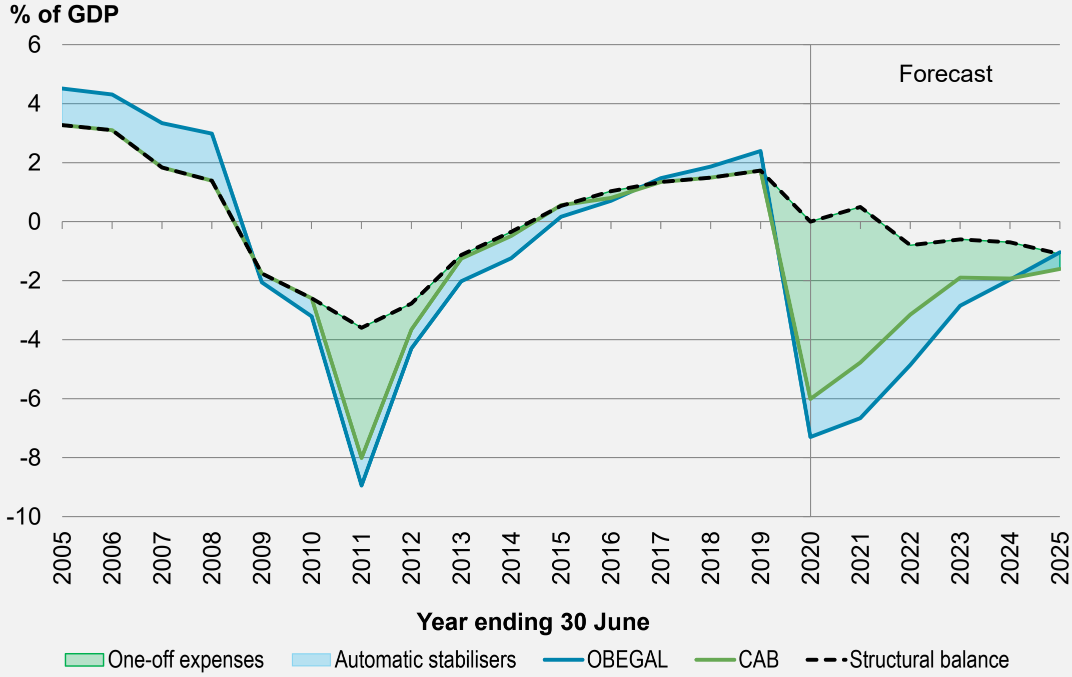
[1] Note that these CAB estimates are highly uncertain due to estimation uncertainty of the output gap and forecast uncertainty relating to future fiscal and economic developments.

[2] The structural balance is the CAB excluding one-off expenses. In the *Pre-election Update* this was referred to as CAB excl COVID-19 fiscal support measures. The difference between the structural balance and the CAB (shaded green) prior to 2019 is due to net Earthquake Commission (EQC) and Southern Response payments from the Christchurch and Kaikōura earthquakes.

Figure 1 – OBEGAL, cyclically-adjusted balance (CAB) and structural balance



Economic impacts

COVID-19-related fiscal support assumed in the economic forecasts has been reduced from $58.5 billion in the *Pre-election Update* to $50.1 billion. We continue to make assumptions about activity levels and the pace of recovery in New Zealand that underpin our main economic forecasts:

- Alert Level 1 restrictions are assumed to remain in place until the end of 2021. As in the *Pre-election Update*, border restrictions are assumed to start easing from 1 July 2021 and are assumed to be lifted from 1 January 2022 onwards.
- Given the smaller-than-expected downturn in the June quarter and continued robust high-frequency indicators, the assumed negative impacts from alert level restrictions (relative to pre-pandemic levels) are smaller than in the *Pre-election Update*. For the economic forecasts, the mid-points of the following ranges were used:
  - 25% to 30% at Alert Level 4 (previously 35%)
  - 15% to 20% at Alert Level 3 (previously 20%)
  - 6% to 10% at Alert Level 2 (previously 10%)
  - 3% to 5% at Alert Level 1 (previously 5%).

The changes to alert level assumptions are explored further in the Treasury's 25 September *Weekly Economic Update*. Estimates remain uncertain and may be refined further.

The OBEGAL deficit in Figure 1 shows that fiscal policy remains stimulatory throughout the forecast period. The change in magnitude of fiscal support from the previous year can be illustrated in part by the fiscal impulse in Figure 2.[3]

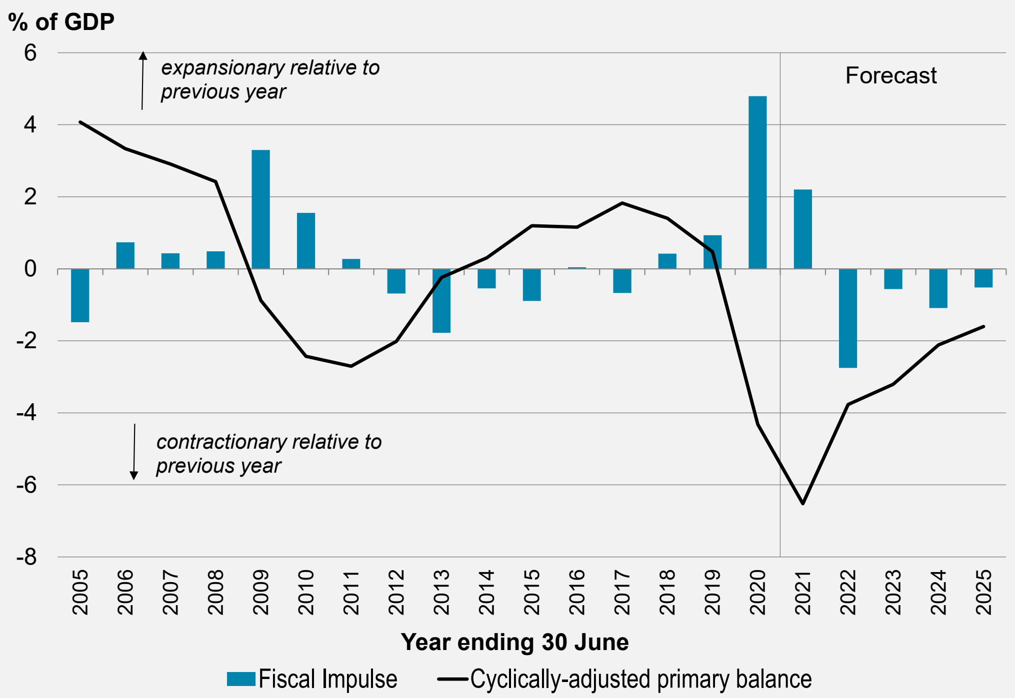
The fiscal impulse is the change in the government's cash balance adjusted for the position of the economy and some expenditure items that do not directly affect domestic demand. This is referred to as the cyclically-adjusted primary balance (black line in Figure 2). This is a cash measure, and therefore differs from OBEGAL and the CAB.[4] The cyclically-adjusted primary balance and OBEGAL follow similar paths, reflecting COVID-19 fiscal support measures.

The continuation of supportive fiscal policy across the forecast period is shown by the large cyclically-adjusted primary balance deficit. However, the fiscal impulse shows that fiscal support becomes less expansionary from 2021/22 onwards, reflecting the gradual withdrawal of COVID-19 fiscal support measures. The fiscal impulse is principally driven by changes in COVID-19 support expenditure and it should be considered alongside the level of fiscal spending presented in Table 2 for a more complete view of the magnitude of fiscal support.

Compared to the *Pre-election Update*, the fiscal impulse is lower in 2020/21, but less negative in 2021/22 and 2022/23. This is predominantly driven by some COVID-19-related expenditure previously expected in 2020/21 now taking place in later years across the forecast period.

The fiscal impulse is a simple indicator that does not measure the broader impacts of fiscal policy on GDP. In particular, it does not consider the second-round effects of fiscal policy on employment, private economic activity or household consumption which can benefit GDP in subsequent years.

Figure 2 – Fiscal impulse and cyclically-adjusted primary balance



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3 There is considerable uncertainty around estimates of the fiscal impulse in the current environment reflecting unprecedented swings in the output gap and other forecast variables.

4 Further information on the methodology, interpretation and limitations behind the indicators can be found in Treasury Working Papers 02/30 and 10/08.

1

Economic Outlook

Overview

- COVID-19 continues to have a profound effect on the New Zealand and global economies. While progress on vaccines has raised hopes of a quicker return to normal for international travel and social interactions, renewed outbreaks and associated increases in restrictions have increased near-term risks to the global economic outlook. While there is still uncertainty about the pace of the recovery here and abroad, we see increasing evidence of more upside risk, particularly with regard to the domestic economy.

- New Zealand's early elimination strategy has resulted in a much lower prevalence of COVID-19 compared to many other countries, helped by strict border controls and an effective public health response. The restrictions placed on activity in the June quarter to limit the spread of the virus contributed to the sharpest fall in real GDP on record, with a quarterly decline of 12.2%.

- The recovery from the downturn has been swift, despite a return to higher alert levels during August and September. Along with the better-than-expected outturn for June quarter GDP, this suggests that the effects of the alert levels on economic activity are smaller than previously assumed. Accordingly, our assumptions about the extent to which the alert levels constrain activity have been lowered, and we expect real GDP to rebound by a robust 10.5% in the September quarter. High-frequency indicators have consistently surprised on the upside and have continued to do so since our economic forecasts have been finalised, and as such there are material upside risks to our near-term GDP forecasts.

- While the recovery is forecast to continue, it is expected to be constrained by a number of factors. Uncertainty levels remain high, meaning businesses are taking a wait-and-see approach to new investments. This is consistent with a decline seen in business lending compared to the same period last year. Furthermore, there is likely to be a seasonal effect, since the lack of the usual inflow of international tourists will be felt more acutely in the peak summer months. Near-term weakness in trading partner growth could further slow the pace of the recovery. Therefore, a slowdown in economic growth is forecast over the first half of 2021, although the level of economic activity is not expected to decline.

- Treasury's working assumption is that Alert Level 1 restrictions will remain in place until the end of 2021. As in the *Pre-election Update*, border restrictions are assumed to start easing from 1 July 2021 and to be lifted on 1 January 2022. Recent trial results for several COVID-19 vaccines are promising and present upside risk to these assumptions. However, at the time of writing, the effectiveness and timing of the distribution of these vaccines were still unclear.

- A large ongoing fiscal response is relieving the effects of the pandemic in New Zealand. In the absence of renewed community outbreaks, fiscal support is assumed to have peaked in the 2020 fiscal year, and COVID-19-related fiscal support assumed in the economic forecasts has been lowered by around $8 billion from the *Pre-election Update*.

- In line with the stronger domestic recovery, the unemployment rate is forecast to peak at 6.9% by the end of 2021, compared to 7.8% forecast in the *Pre-election Update*. In comparison, the unemployment rate peaked at 6.6% during the Global Financial Crisis. While the economy is forecast to continue growing, this growth is expected to fall short of the growth in available jobseekers in the next few quarters, with the labour force participation rate forecast to increase. House price growth has also been surprisingly strong, and together with higher employment levels supports private consumption growth.

- Inflation is expected to ease in the coming quarters owing to relatively weak domestic demand and subdued import price inflation, before increasing gradually towards the mid-point of the Reserve Bank of New Zealand's (Reserve Bank's) inflation target range of 1% to 3%.

- New Zealand's goods exports have been resilient to the current crisis, which together with weakness in imports and stronger than expected services and income balances has improved the outlook for the current account, and also contributed to the stronger-than-expected recovery.

- As risks are more balanced than in the *Pre-election Update*, we revert to presenting an upside and downside as our additional forecast scenarios. In the upside scenario, we assume a stronger domestic recovery, with more of the current positive momentum being sustained into the beginning of 2021. This could result in higher confidence levels, in turn boosting private consumption and investment growth. In the downside scenario, sporadic outbreaks of COVID-19 in the community result in the reinstatement of higher alert levels, leading to further quarterly declines in real GDP and a higher peak in the unemployment rate despite increased policy support.

Table 1.1 – Economic forecasts

Year ending June **Annual average % change**	**2020** **Actual**	**2021** **Forecast**	**2022** **Forecast**	**2023** **Forecast**	**2024** **Forecast**	**2025** **Forecast**
Private consumption	-1.3	1.3	3.1	3.1	3.2	3.1
Public consumption	5.2	5.0	2.4	1.9	1.3	1.8
Total consumption	**0.2**	**2.2**	**2.9**	**2.8**	**2.7**	**2.8**
Residential investment	-6.5	3.8	1.5	5.8	7.0	6.1
Business investment[1]	-5.2	-5.3	3.6	7.1	8.2	5.9
Total investment	**-5.5**	**-3.1**	**3.1**	**6.8**	**7.9**	**5.9**
Stock change[2]	-0.4	0.8	0.3	-0.3	0.1	-0.2
Gross national expenditure	**-1.7**	**1.9**	**3.3**	**3.4**	**3.9**	**3.4**
Exports	-5.6	-12.4	4.9	7.8	5.9	4.5
Imports	-6.0	-9.1	7.8	6.2	6.0	4.7
GDP (expenditure measure)	**-1.6**	**1.7**	**2.0**	**3.6**	**3.8**	**3.2**
GDP (production measure)	**-2.1**	**1.5**	**2.6**	**3.7**	**3.8**	**3.2**
Real GDP per capita	-4.0	-1.0	1.9	2.7	2.7	2.0
Nominal GDP (expenditure measure)	1.5	2.5	4.6	6.2	6.4	5.8
GDP deflator	3.1	0.8	2.5	2.5	2.5	2.5
Potential GDP	2.1	2.0	2.1	2.1	2.2	2.2
Output gap (% of potential, June quarter)[3]	-13.4	-3.4	-2.7	-0.9	0.4	1.3
Employment	1.5	-1.0	0.5	2.4	3.0	2.6
Unemployment rate[4]	4.0	6.6	6.8	5.7	4.7	4.0
Participation rate[5]	69.9	70.2	70.5	70.9	71.1	71.2
Hourly wages (annual % change)[6]	3.0	2.3	2.2	2.3	2.8	3.3
CPI inflation (annual % change)	1.5	1.4	1.2	1.4	1.8	2.1
Terms of trade (goods)[7]	4.6	-1.3	-1.7	0.7	0.8	0.0
House prices (annual % change)[8]	6.0	8.5	4.5	5.2	5.2	5.5
Current account balance (annual)						
$billions	-5.7	-8.8	-12.5	-11.8	-12.0	-12.7
% of GDP	-1.9	-2.8	-3.8	-3.4	-3.2	-3.2
Net international investment position (% of GDP)	-58.4	-59.8	-60.9	-60.7	-60.3	-60.2
Exchange rate (TWI)[9]	69.7	71.0	71.0	71.6	72.6	73.4
90-day bank bill rate[10]	0.3	0.3	0.2	0.2	0.2	0.2
10-year bond rate[10]	0.8	0.5	0.6	1.1	1.7	2.1

Sources: Stats NZ, Reserve Bank, CoreLogic, the Treasury

Economic forecasts are presented on a June year basis for consistency with the fiscal forecasts.

Notes:
1 Business investment is non-residential public and private investment.
2 Contribution to GDP growth.
3 Percentage difference between actual real GDP and potential real GDP.
4 Percent of the labour force, June quarter, seasonally adjusted.
5 Percent of the working-age population, June quarter, seasonally adjusted.
6 Quarterly Employment Survey, average ordinary-time hourly earnings.
7 System of National Accounts.
8 CoreLogic Quarterly House Price Index.
9 Trade-weighted index (TWI), average for the June quarter.
10 Average for the June quarter.

Key economic forecast judgements and assumptions

These forecasts cover the period through to June 2025 and include the following judgements and assumptions:

- COVID-19 alert level restrictions have significant impacts on activity. Given a less-severe than-expected downturn in the June quarter and continued robust high-frequency indicators, the assumed negative impacts (relative to pre-pandemic levels) are smaller than in the *Pre-election Update*, but remain highly uncertain and may be refined further as more data are released. For our forecasts, the mid-points of the following ranges were used:
  - 25% to 30% at Alert Level 4 (previously 35%)
  - 15% to 20% at Alert Level 3 (previously 20%)
  - 6% to 10% at Alert Level 2 (previously 10%)
  - 3% to 5% at Alert Level 1 (previously 5%).[5]
- The Treasury's working assumption is that Alert Level 1 restrictions will be in place until the end of 2021. Border restrictions are assumed to be removed from 1 January 2022 onwards, although an easing is assumed from 1 July 2021 onwards. These assumptions are unchanged from the *Pre-election Update*.
- COVID-19-related fiscal support measures total roughly $32 billion over the forecast period. Including the measures from the 2019/20 fiscal year, this rises to $50.1 billion, around $8 billion lower than in the *Pre-election Update*. This decline is partially offset by higher operating and capital allowances based on updated government spending intentions.
- We continue to assume substantial monetary policy support throughout the forecast period. This is delivered through lower interest rates, as well as via alternative policies such as Large Scale Asset Purchases and the Funding for Lending Programme.
- The trade-weighted index (TWI) is assumed to be steady at 71.0 from the March 2021 quarter up to the end of 2022, before trending upwards, reaching 73.4 by the June 2025 quarter, as monetary conditions tighten owing to an improvement in the economy.
- Net migration is assumed to fall on an annual basis from 90,000 in the March 2020 quarter to 5,000 by June 2021. As international travel restrictions are lifted throughout the world, net migration increases to 43,000 by the June 2025 quarter.
- Oil prices increased to US$41 per barrel in the September 2020 quarter and are assumed to continue rising as the global economy recovers to a little under US$54 by June 2025.
- Economic activity in our top 16 trading partners is assumed to contract by 2.8% in 2020 before rebounding by 5.3% in 2021, largely unchanged from the *Pre-election Update*.
- Our potential output assumptions are unchanged from the *Pre-election Update*. More information is available in the Revising potential output box on page 20 in the *Pre-election Update*. Our long-run assumption for the non-accelerating inflation rate of unemployment (NAIRU) is unchanged at 4.25%.

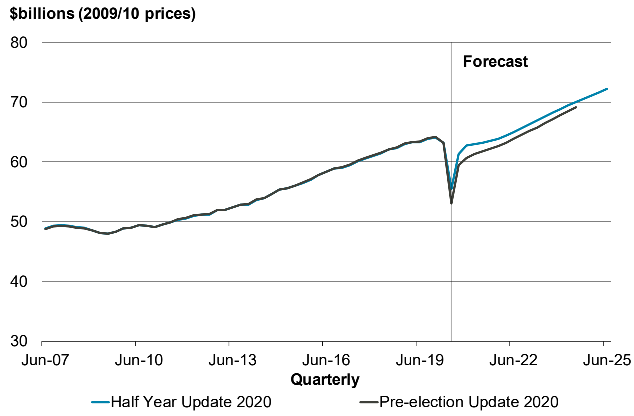
5 These changes are explored in more detail in a Special Topic in the Weekly Economic Update of 25 September: https://www.treasury.govt.nz/publications/weu/weekly-economic-update-25-september-2020

Economic Outlook

The recovery has been quicker than expected…

The New Zealand economy has weathered the COVID-19 shock better than expected. Although the June quarter contraction in production GDP of 12.2% was the largest fall on record by a wide margin, it was smaller than the *Pre-election Update* forecast of a 16% contraction (Figure 1.1). The previous biggest fall was 2.4% in the March 1991 quarter.

Figure 1.1 – Real production GDP

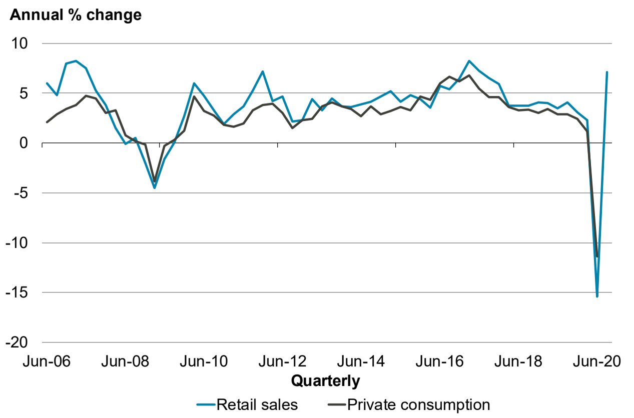


Sources: Stats NZ, the Treasury

The return to higher alert levels in August resulted in a small downturn in economic activity, mostly concentrated in Auckland. The New Zealand Activity Index (NZAC) fell by 1.7% in August compared to the same period in 2019 but recovered quickly and was 1.0% higher than year-ago levels in September.[6] Despite this rapid recovery, it is an important reminder that until the COVID-19 pandemic has been eradicated or effective vaccines are available, a return to higher alert levels will remain a key risk, one we consider in an alternative scenario (see pages 24 to 25).

A strong recovery in economic activity levels in the September quarter is expected to have occurred. A number of high-frequency activity indicators are now at or above pre-pandemic levels, with this trend continuing after our economic forecasts were finalised. For example, in the September quarter, the unemployment rate increased by less than expected and retail sales increased strongly to above year-ago levels (Figure 1.2). Traffic movements and electricity demand also moved above levels seen during the same period last year, while the ANZ business confidence index improved in November to its highest level since late 2017 (although it is still negative). As a result, our baseline forecast sees real GDP rebounding by a robust 10.5% in the September quarter, followed by further growth of 2.2% in the December quarter.

Figure 1.2 – Real retail sales and consumption



Source: Stats NZ

6 For the latest NZAC releases and a technical note, see: https://www.treasury.govt.nz/publications/research-and-commentary/new-zealand-activity-index

…but uncertainty remains high

The path the economy takes from here remains uncertain. The pace of the recovery depends on many unknown factors, including the course of the virus, the speed and effectiveness at which vaccines can be rolled out, how quickly the global economy recovers and how behaviours and production might change. In this environment, forecasting errors are much larger than normal. For example, in the 2020 *Budget Update*, we had forecast real GDP to contract by 23.5% in the June quarter. This was revised to a 16% contraction in the *Pre-election Update*, while the actual outturn was 12.2%. Data volatility and the potential for sizeable data revisions mean uncertainty about the impacts will likely remain for some time.

The continued strength in activity indicators is a material upside risk to our near-term GDP forecasts. Consequently, there is a risk that actual outcomes may prove more volatile with, for example, growth somewhat stronger in the September quarter, followed by a fallback in activity levels in subsequent quarters. It is unlikely that the recovery will be smooth and therefore these alternatives are entirely feasible. Such differences help illustrate the considerable uncertainty that remains, even if the general trends apparent in the forecasts are broadly similar.

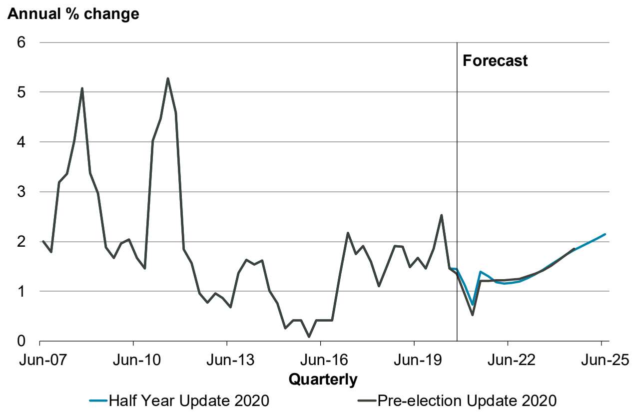
In our recent discussions with businesses, many indicated that some of their investment plans have been put on hold until there is more certainty about the likely trend in demand.[7] This is consistent with a decline seen in business lending compared to the same period of 2019. Furthermore, after an initial strong rebound, in November annual growth in retail electronic card spending fell to 1.4% from 8.3% the previous month, suggesting some loss in momentum, although this indicator has not always been a very accurate measure of actual consumer spending. Up to now, the effect of border restrictions on companies that rely on international visitors has been partially offset by increased spending by New Zealanders on domestic holidays during the off-peak season for international tourists. In the summer months, the lack of the usual influx of tourists from abroad will be felt more acutely. Given these concerns, a slowdown in economic growth is forecast over the first half of 2021, although the level of economic activity is not expected to decline.

While the pace of economic growth is forecast to quicken once border restrictions are lifted from 1 January 2022, the level of real GDP continues to be lower than forecast in the 2019 *Half Year Update*. This reflects the fact that the pandemic is expected to have long-lasting effects on economic output via lower labour supply, productivity, and capital stock levels. We have retained our potential output assumptions (see page 20 of the *Pre-election Update*). However, a quicker and sustained recovery could limit the ‘scarring’ effects of the pandemic and therefore potential output may improve more quickly than was outlined in the *Pre-election Update*.

[7] The main take-outs from our business talks are summarised in a Special Topic of the Weekly Economic Update for 13 November: https://www.treasury.govt.nz/publications/weu/weekly-economic-update-13-november-2020

The quicker recovery pushes inflation slightly higher in the near term…

Figure 1.3 – Consumers Price Index



Sources: Stats NZ, the Treasury

The stronger domestic recovery results in slightly higher rates of Consumers Price Index (CPI) inflation in the near term compared to the *Pre-election Update* forecasts (Figure 1.3). Higher food and shipping costs are also contributing to slightly increased price pressures in the economy. A stronger exchange rate provides an offset. Inflationary pressures are still expected to ease in the coming quarters, in line with weaker domestic demand as the unemployment rate increases and border restrictions remain in place. Annual CPI inflation is forecast to reach a low of 0.7% in the March 2021 quarter. Once domestic demand recovers, CPI inflation is forecast to increase gradually towards the mid-point of the Reserve Bank's target range of 1% to 3%.

Monetary policy is expected to remain supportive throughout the forecast period, although the mix between traditional and unconventional measures may change. However, by the end of the forecast period, economic activity will have recovered and inflation is forecast to be back near the mid-point of the Reserve Bank's target range, and therefore monetary policy support is expected to be scaled back.

…with nominal GDP much higher than forecast in the Pre-election Update

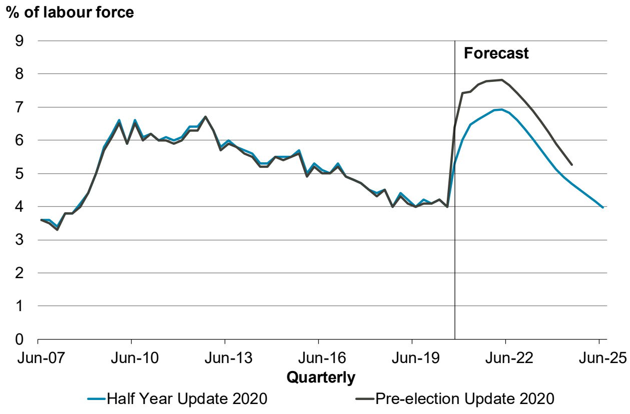
As a result of the stronger recovery, a higher domestic price level and robust terms of trade, nominal GDP is cumulatively around \$48 billion higher than in the *Pre-election Update* by the June 2024 quarter. This contributes to higher forecasts of tax revenue and an improved fiscal position, as outlined in the Fiscal Outlook chapter.

The unemployment rate is now expected to peak at a lower rate

After falling unexpectedly in the June quarter from 4.2% to 4.0%, the unemployment rate increased to 5.3% in the September quarter. The smaller-than-expected increase in unemployment can partly be ascribed to the significant amount of fiscal support that has been provided, with the Wage Subsidy Scheme in particular successfully maintaining labour market attachment. As such, underemployment and hours worked better reflect the decline in activity in the June quarter. The underutilisation rate provides a broader measure of the degree of slack in the labour market. The June quarter saw the largest recorded increase in the underutilisation rate since the series began in 2004 (to 12.0%), increasing further to 13.2% in the September quarter, though this is still lower than the 2012 peak of 15.6%. There are also disproportionate effects across sectors, with employment in the retail and accommodation sectors falling more sharply than in others. This is discussed in more detail in the box below on page 17.

The unemployment rate is expected to increase further over the coming quarters as fiscal support measures ease and border restrictions remain in place, although by how much remains uncertain. It is possible that the rise in the unemployment rate will be more muted than in our baseline forecasts if more people exit the labour force.

Figure 1.4 – Unemployment rate



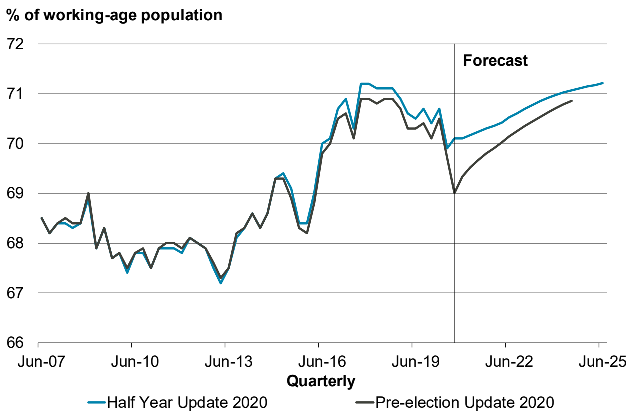
Sources: Stats NZ, the Treasury

Total Jobseeker numbers increased by more than 60,000, to more than 200,000, in the September quarter compared to the same period last year. The unemployment rate is forecast to peak at 6.9% by the end of 2021, much lower than the peak of 7.8% forecast in the *Pre-election Update* (Figure 1.4). Once border restrictions are eased and economic activity continues to recover, the unemployment rate is forecast to fall gradually, reaching 4.0% by the end of the forecast period.

Employment levels typically increase strongly over the summer months, reflecting increased demand over the holiday period and seasonal demand for labour in the agricultural sector. With the number of international visitors in the country being lower than normal, less of this typical increase is likely to occur. This may well show up as a decline in seasonally adjusted employment, even if actual employment levels do not fall. Nevertheless, due to the improved outlook for the economy and data revisions, employment levels are higher than in the *Pre-election Update*.

While the economy is forecast to continue growing, this growth is expected to fall short of the growth in available jobseekers in the next few quarters. The participation rate increased to 70.1% in the September quarter following a decline in the June quarter (from 70.7% to 69.9%), and it is expected to continue recovering in the coming quarters (Figure 1.5). In other words, the number of discouraged workers is expected to decline. A degree of 'scarring' caused by the COVID-19 pandemic on the labour market is still expected, as skills mismatches result in a period of lower labour productivity. However, there are indications that the degree of 'scarring' is less than previously thought.

Figure 1.5 – Labour force participation rate



Sources: Stats NZ, the Treasury

Wages also held up better than expected in the September quarter. The higher starting point in the September 2020 quarter leads to persistently higher wage levels over the forecast period. Combined with stronger employment, this boosts household incomes by a cumulative $19.4 billion up to the June 2024 quarter compared to the *Pre-election Update*, which supports private consumption growth. However, some of the increase in average earnings is due to compositional shifts in the labour market, as the pandemic has disproportionately affected lower-earning jobs. Indeed, COVID-19 has not affected all sectors, demographic groups, and regions equally. Some of these distributional effects of the pandemic on the labour market are explored in the box below.

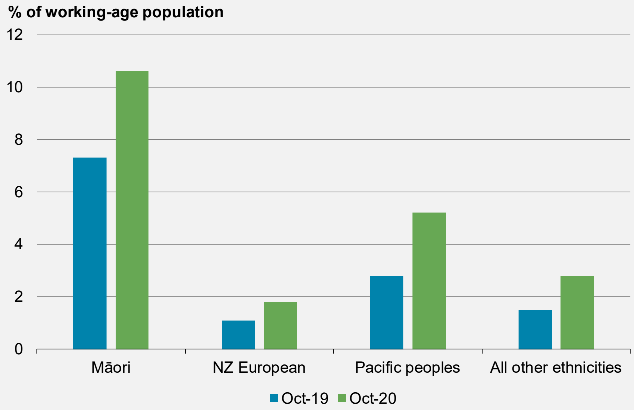
Distributional impacts of COVID-19 in the labour market

The economic impacts of COVID-19 have been disproportionate across population groups. Those that were vulnerable pre-COVID-19 are at a greater risk of adverse labour market outcomes. While Jobseeker Support and wage subsidies cushioned the impact of COVID-19, Household Labour Force Survey (HLFS) data and benefits data from the Ministry of Social Development indicate that the border closure and alert level restrictions have had a relatively greater impact on youth and women, Māori and Pacific peoples, and people living in Auckland.

Jobseeker Support and wage subsidies dampened the impact of COVID-19 on those most affected

The number of people on work and income related support (Jobseeker Support and COVID-19 Income Relief Payment) has increased by around 60,000 since March 2020. Pre-COVID-19, Māori and Pacific people were the biggest recipients of Jobseeker Support, and they have continued to increase the most since March 2020 (Figure 1.6). Auckland had the highest proportion of jobs supported by the Wage Subsidy Scheme (63% of jobs supported) as the industries and groups affected by COVID-19, such as services sectors, are more heavily represented in Auckland, while less-affected industries (such as agriculture) have a relatively lower representation in Auckland's employment and GDP.[8]

Figure 1.6 – Jobseeker Support recipients

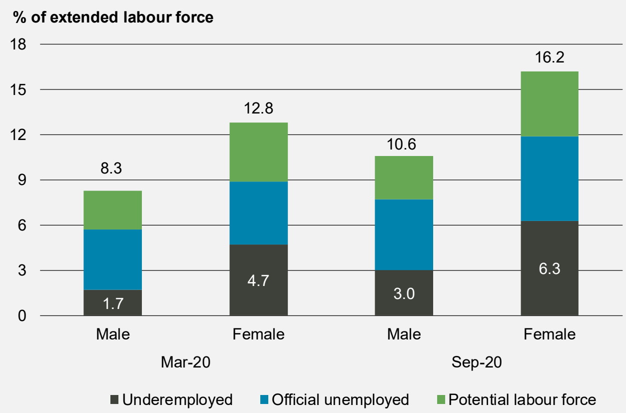


Source: Ministry of Social Development

Rising underemployment among women has lifted underutilisation rates

The underutilisation rates (a broader measure of untapped capacity in the labour market) among women increased from 12.8% in March to 16.2% in the September quarter (Figure 1.7). This sharp increase has been driven by an increase in the number of women in part-time work who want to and are available to work more hours (the 'underemployed'). With weak economic conditions and temporary wage subsidy support measures in place, employers often chose to cut staff hours, which is reflected in the higher under-utilisation rate.

Figure 1.7 – Components of underutilisation by sex



Source: Stats NZ

8 The high proportion of Auckland Wage Subsidy payments may also reflect that a greater number of firms that apply for payments are headquartered in the region.

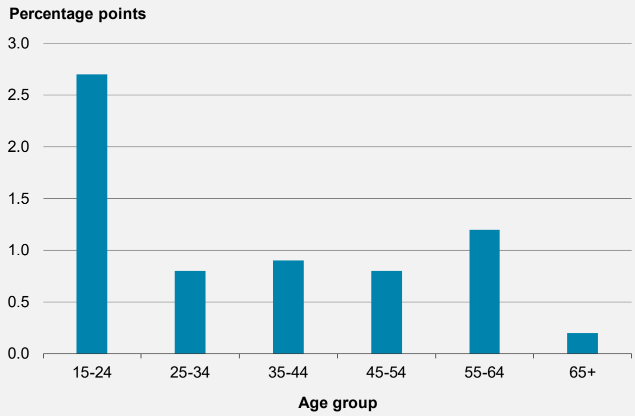
Industries most impacted by COVID-19 are over-represented by female employment

The HLFS shows a greater increase in the female unemployment rate, up by 1.4 percentage points since March, compared to a 0.7 percentage point increase in the male unemployment rate. The worse labour market measures for women is partly due to the larger proportion of women in industries most impacted by COVID-19 such as retail, trade and accommodation where employment is down by 7% since March.

Youth and Māori employment have also been disproportionately affected

Young workers are also heavily represented in the industries most affected by COVID-19 alert level restrictions and are less likely to have worked from home. The rise in unemployment among youth workers (15 to 24 years) was more than double that of any other age group in the year since September 2019 (Figure 1.8). The number of young workers not in the labour force increased by 12,800 in this period, with 44% of them moving into or remaining in education. The NEET (not in employment, education or training) rate for the 15 to 24-year age group increased slightly from 10.9% to 12.6% over the year to September 2020, with the decline in employment partly offset by the increased participation in education.

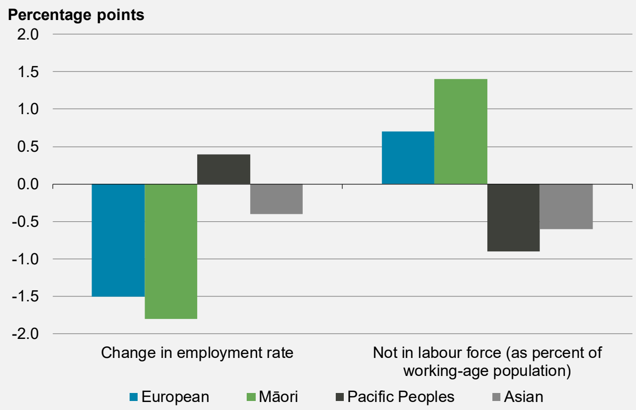
Figure 1.8 – Change in unemployment rate since September 2019



Source: Stats NZ

Amongst the largest ethnicity groups, the Māori employment rate declined the most, down by 1.8 percentage points since September last year (Figure 1.9). They also saw the largest increase in their working-age population not in the labour force.

Figure 1.9 – Change in labour force status since September 2019



Source: Stats NZ

The Wage Subsidy Scheme helped maintain labour market attachment. Although there was a temporary downward shift in the income distribution for all ethnicities towards the wage subsidy level, this would arguably have been worse in the absence of the subsidy. There has been an increase in the number of people on low weekly income ($200 to $300, around the level of the Jobseeker Support), particularly for Māori and Pacific peoples, indicating that they are likely to have transitioned to benefit support.[9]

With the easing of fiscal support measures and continuing border restrictions, the aggregate unemployment rate is forecast to increase over the coming quarters. This could worsen the distributional and scarring effects of COVID-19.

9 Based on Treasury analysis using Inland Revenue payday filing data from March to August 2020.

Assumed COVID-19-related fiscal support is lower

A large ongoing fiscal response is relieving the effects of the pandemic. However, in the absence of a resurgence of the virus, fiscal support is assumed to have peaked in the 2020 fiscal year. COVID-19-related fiscal support assumed in the economic forecasts has been reduced from $58.5 billion in the *Pre-election Update* to $50.1 billion. Of the $50.1 billion, $17.8 billion has already been allocated in the 2020 fiscal year, leaving $32.3 billion for the remainder of the forecast period. The Government's response to the pandemic continues to adapt as the COVID-19 situation evolves. This means that plans for COVID-19-related expenditure have continued to evolve and will likely continue to do so for some time, and the exact timing and costs of these plans remain uncertain.

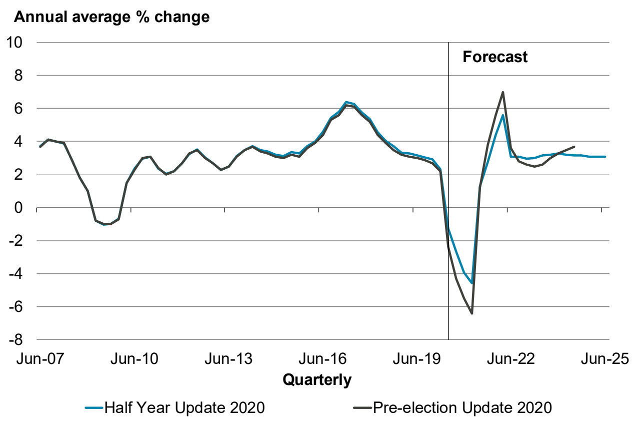
The economic forecasts assume less COVID-19-related fiscal spending than is included in the fiscal forecasts (see the box on the impacts of the response to COVID-19 on the economic and fiscal outlook on page 5). This difference reflects the decision to include additional spending made after economic forecasts were finalised. Treasury's modelling indicates that including these differences in our economic forecasts would result in nominal GDP being only around 0.2% higher over the forecast period.

A strong rebound in consumption…

Private consumption fell sharply but by less than expected in the June quarter, with government support cushioning the impact on household incomes. Subsequently, there has been a notable rebound in the second half of 2020, as reflected in spending indicators such as electronic card transactions and retail trade sales. Some of the initial recovery in private consumption was likely the result of the spending of accumulated savings while the country was under higher alert level restrictions and may therefore not be sustained at the same pace. However, with border restrictions in place, those who had international travel plans will either purchase other goods and services, including domestic tourism, or increase their savings, which could boost private consumption in the coming quarters.

These factors, in addition to a resilient housing market, are expected to contribute to a strong rebound in quarterly real private consumption of 10.7% in the September quarter, from the 12.1% contraction in the June quarter. Consumption in the year to March 2021 is forecast to be 4.6% below the previous year (Figure 1.10). After falling by 14.8% from the 2020 March to June quarters, retail trade sales volumes bounced back by 28% in the September quarter to be 8.2% higher than in the same period last year. This presents upside risk to our September quarter consumption and GDP forecasts. However, retail trade stock levels were 4.7% below year-ago levels in the September quarter, which suggests sales growth might slow in the coming quarters.

Figure 1.10 – Real private consumption



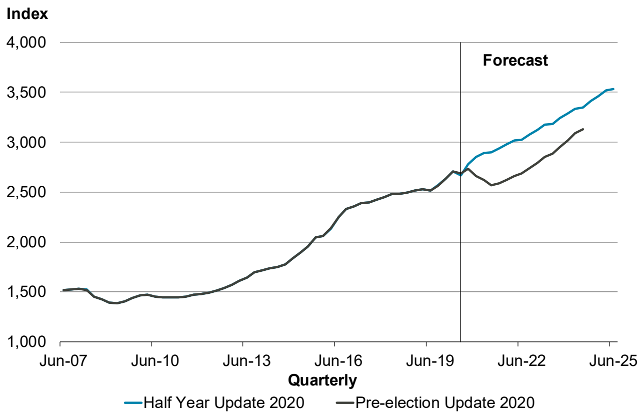
Sources: Stats NZ, the Treasury

The expected increase in unemployment, easing in fiscal support measures and lower net migration are expected to result in a slowdown in private consumption growth in the December 2020 and March 2021 quarters. The seasonal impact of fewer international visitors during the normally busy summer period is a further source of downward pressure on private consumption growth (due to the indirect negative impact on incomes for those working in tourism-related sectors).

…supported by resilient house price growth…

Housing market activity has been surprisingly strong, with the REINZ House Price Index rising 13.5% in September from the same period a year ago. This partly reflects higher demand for housing from New Zealanders returning from abroad. Record-low interest rates and the temporary suspension of the Reserve Bank's loan-to-value-ratio restrictions have also supported house prices. Although a slowdown in house price inflation is still expected, it is now forecast to remain robust throughout the forecast period, whereas in the *Pre-election Update* we had expected it to reach a low point of -5.4% by the September 2021 quarter. House price inflation is expected to slow from recent highs over the course of 2021 owing to net migration remaining constrained in the short term, an expected increase in supply (supported by annual building consents rising to a 46-year high), and the forecast increase in unemployment dampens demand (though less than expected previously). More details on the fundamental factors driving the outlook for the housing market are provided in the box below.

Figure 1.11 – House prices



Sources: CoreLogic, the Treasury

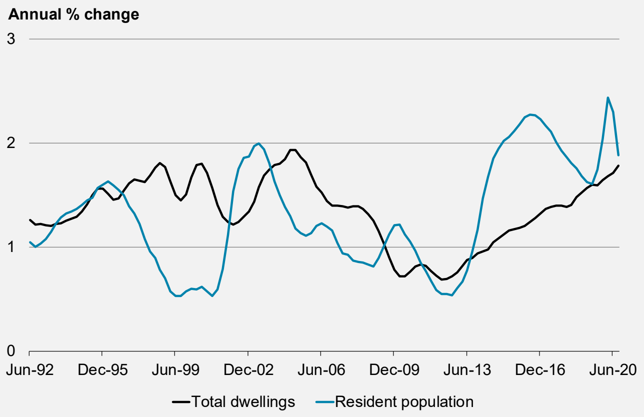
Housing market activity

This box examines the recent developments in the housing market and provides context for the *Half Year Update* forecasts. House price movements are generally correlated with consumption behaviour and, to that extent, rising house prices are believed to have a positive effect on private consumption, via a wealth effect.

Population growth has exceeded the pace of growth in the number of dwellings in recent years...

New Zealand has had a long-standing housing shortage. Long-term population growth drives the demand for housing and may exacerbate house price growth when it exceeds growth in new dwellings. Figure 1.12 shows population growth has outpaced growth in new dwellings over the past decade, while the growth in new dwellings was able to generally keep up with population growth in the years prior to that.[10]

Figure 1.12 – Dwelling and population growth



Source: Stats NZ

Rising house prices in New Zealand are not a new development and, indeed, house prices had been growing even before the COVID-19 pandemic. Uncompetitive urban land markets constrain urban expansion, intensification and therefore the pace at which new housing can be brought into the market. At the same time, housing is a preferred form of saving. Therefore, when combined with periods of high population growth, there is an increased likelihood of growth in demand exceeding the pace of growth in supply, therefore raising prices.

...but rising residential investment and subdued population growth over the forecast period could narrow the gap

Building activity bounced back strongly in the September 2020 quarter and the momentum is expected to continue through to the end of 2020. Strong building consents issuance of the past year indicate a robust pipeline of residential investment activity, although heightened levels of uncertainty and capacity constraints due to labour shortages means we expect residential investment to plateau in 2021. However, as confidence in the economy improves, with consented projects that need to be built and low interest rates continuing to provide support, residential investment is expected to recover by the end of 2022, increasing the supply of housing over time. However, a sustained period of high dwellings completion and/or reduced population growth (due to border restrictions) will be required to fully address the shortage built up in the past, and based on past experience, prices are still likely to rise for some time given the backlog.

[10] The resident population includes all people who usually live in New Zealand. This includes New Zealanders who are temporarily overseas but excludes *temporary* overseas visitors.

Constrained supply growth and monetary stimulus are pushing up house prices...

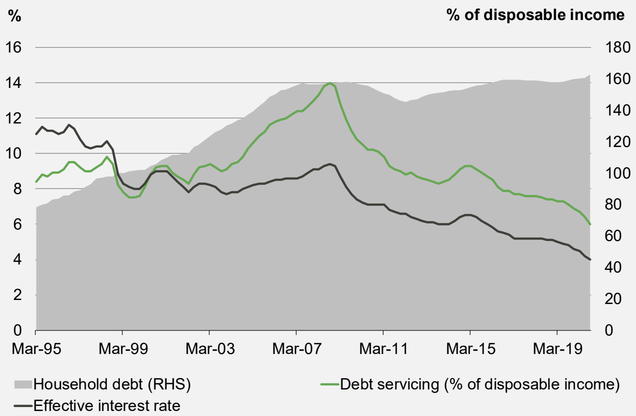
The government provided substantial fiscal support in response to the COVID-19 pandemic, targeting labour market attachment and household incomes during periods of higher alert levels earlier in the year. Monetary policy provided further support by keeping borrowing costs low during the Government's response to a severe economic shock, thereby supporting aggregate demand to meet the Reserve Bank's price stability and employment objectives. However, as a consequence of these actions, the expected returns on various forms of savings shifted, and the ensuing search for higher yields led to greater interest in relatively riskier assets, such as housing, while returns on comparatively safer assets, such as term deposits, decreased. This trend has also been seen in some other advanced economies around the world.

Heightened levels of interest from first home buyers and investors at a time of low inventory is likely to have been supporting house price growth. Low inventory levels during a period of heightened interest in property have exacerbated the structural issues in the housing market. Low inventory levels could be stemming from some property owners' expectations of higher prices in the future, while others are choosing not to sell because low inventory means they would be unable to find a suitable replacement for their current home. Surveys of housing market sentiment in recent months have shown a reversal from expectations of falls in house prices, and the consensus appears to be that house prices will continue rising in the year ahead.

...which is raising household debt levels as prices rise, but lower interest rates reduce servicing costs, all else being equal

Higher house prices generally require people to either lift deposit rates or increase mortgages (or both) when purchasing houses. House prices have consistently grown faster than incomes since at least the 1990s, and house price to income ratios have now increased to around seven times higher than average incomes in 2020 compared to around six times above average incomes before the Global Financial Crisis. However, falling interest rates over the last decade have meant that debt servicing costs have trended downwards even while household debt continues to rise (Figure 1.13). Interest rates are assumed to remain low, and with net migration forecast to rise in the latter half of the forecast period house prices are forecast to continue rising.

Figure 1.13 – Household debt and debt servicing



Source: Reserve Bank

…and higher net migration when borders are reopened…

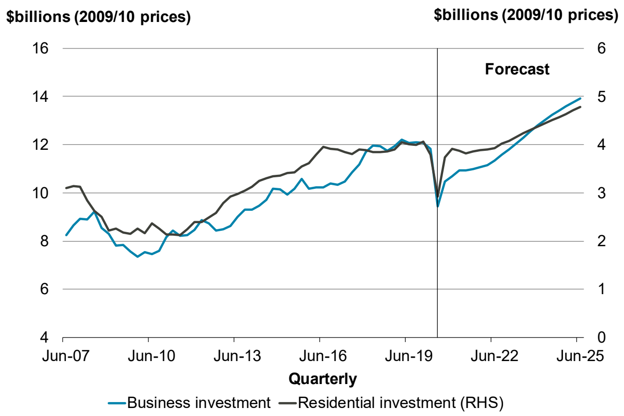
Net migration is expected to be substantially lower than normal in the year ahead given the continued border restrictions. While many New Zealand citizens and permanent residents have returned to the country since the start of the pandemic, the departure of temporary visa holders and substantially lower inflows of new temporary workers are expected to more than offset arrivals. As such, annual net migration is forecast to fall from 90,000 in the 12 months ending March 2020 to just 5,000 by the end of June 2021. As border restrictions start to be partially eased from 1 July 2021 onwards, net migration flows rise to 43,000 by the end of the forecast period. Rising net migration increases population growth, stimulates demand and increases the potential size of the labour force.

…although the outlook for investment is mixed

After dipping slightly earlier in the year due to COVID-19-related disruptions, residential building consents have shown resilience in the months after the restrictions on activity were eased, although some of this may be attributable to catch-up growth. Our engagements with businesses in the construction sector between late October and early November revealed that building activity is supported by strong demand in the near term, but the outlook beyond that is less clear. Relatively subdued growth in residential investment activity is forecast in 2021, as uncertainty remains high, the labour market is expected to deteriorate, border restrictions continue to limit population growth and there are skilled labour shortages.

The outlook for non-residential investment is less favourable. Uncertainty about the strength of the recovery is expected to put a damper on the pace of investment growth. As a result, a period of lower growth in business investment is forecast over the remainder of 2020 and the first half of 2021 (Figure 1.14). Businesses that are directly or indirectly exposed to demand from international visitors are particularly cautious and may face a challenging summer period due to the lack of visitors from abroad. For these businesses, investments aimed at expanding capacity or new market segments will likely be placed on hold until there is more certainty about when border restrictions will be eased. In addition, the easing of fiscal support measures will test the resilience of businesses. On the other hand, monetary conditions remain supportive, with the cost of capital at historically low rates.

Figure 1.14 – Real investment



Sources: Stats NZ, the Treasury

Alternative scenarios show different paths the economy could take

It is plausible that the domestic economy will recover more quickly in the near term than in our main forecasts, as suggested by a number of high-frequency indicators. On the other hand, a key downside risk to our central forecasts is the assumption that higher alert levels will not be reinstated. This uncertainty is a possible reason why some businesses have put a hold on new investment plans. The upside (stronger domestic recovery) and downside (renewed outbreaks of COVID-19) scenarios are explored in more detail in the box below.

Alternative scenarios

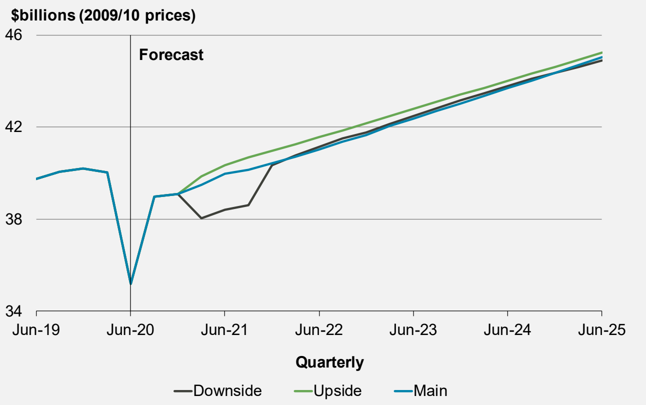
In the **upside** scenario, there is a stronger domestic recovery…

An upside risk to our forecasts is if the domestic economy recovers at a quicker pace than in our central scenario, reflecting that more of the current momentum in activity is maintained over the remainder of 2020 and into 2021. This may result in stronger confidence levels, higher house prices and quicker growth in consumption and investment than in the main forecast. We also assume a stronger outlook for trading partner growth, which supports the terms of trade, the demand for our exports and business profitability.

…lowering the peak unemployment rate

Real GDP grows by an annual average of 5.2% in 2021, compared to 4.5% in the main forecast. Border restrictions are still assumed to be lifted on 1 January 2022, but the recovery in services exports starts one quarter earlier, that is, from 1 April 2021. This would be consistent with quicker progress in the establishment of safe travel zones and/or agreements that enable increased cross-border people flows. Real services exports are a cumulative $2.5 billion higher over the forecast period, thereby boosting incomes, particularly in the tourism sector. The unemployment rate peaks at 6.2%. Higher employment levels along with stronger house price growth and increased consumer confidence result in higher private consumption growth (Figure 1.15). Stronger demand in the economy and higher business confidence result in increased investment.

Figure 1.15 – Real private consumption

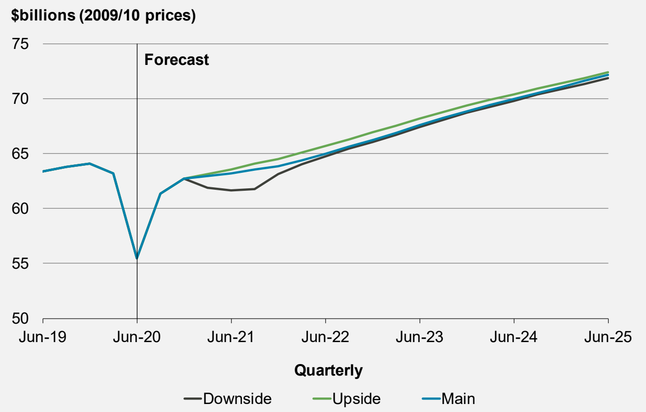


Sources: Stats NZ, the Treasury

In the **downside** scenario, there are sporadic outbreaks of COVID-19 in the community…

Sporadic outbreaks of COVID-19 are assumed to result in the reinstatement of Alert Level 3 for two weeks followed by three weeks at Alert Level 2. This is assumed to happen once per quarter for the first three quarters of 2021 for half of the country. Alert Level 1 is in place the rest of the time before being lifted on 1 January 2022. These assumptions are inherently uncertain, and the actual time spent in different alert levels would depend on the severity of the outbreak and effectiveness of the public health response.[11]

Figure 1.16 – Real production GDP



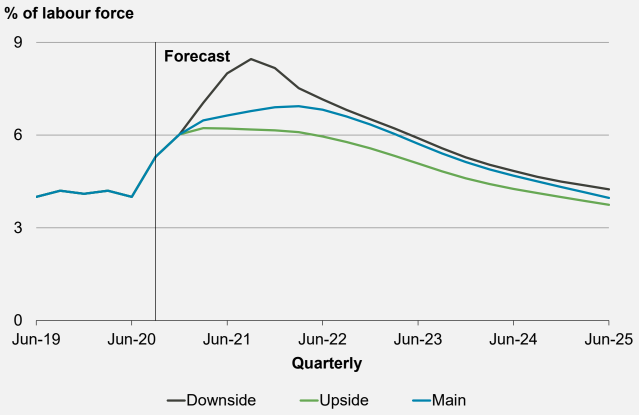
Sources: Stats NZ, the Treasury

11 Note, however, that there is flexibility in the interpretation, and it could be equivalent to for example multiple smaller outbreaks in different parts of the country.

…which pushes up the unemployment rate…

The return to higher alert levels results in further quarterly declines in real GDP in the March and June quarters of 2021 (Figure 1.16), resulting in the annual average growth in real GDP reaching 2.4% by the December 2021 quarter, compared to 4.5% in the main scenario.[12] The unemployment rate peaks at 8.5% (Figure 1.17). Lower employment levels dampen private consumption growth, while a fall in demand pushes business and residential investment down. There is a degree of scarring in the short term, with output and unemployment taking several quarters to recover to the same level as in the main forecast. Although the assumption of when border restrictions are eased is unchanged, services exports recover at a slower rate, which would be consistent with vaccines taking longer to be manufactured and distributed at scale and/or an increased reluctance to travel.

Figure 1.17 – Unemployment rate



Sources: Stats NZ, the Treasury

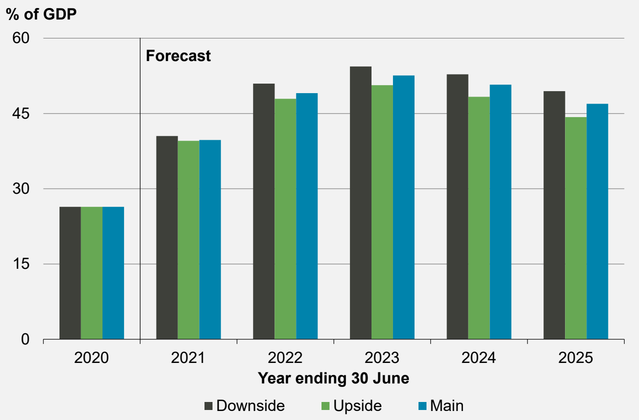
…despite additional fiscal and monetary support

An increased level of COVID-19-related fiscal support is assumed in this scenario to cushion the impacts of higher alert levels on businesses and households. Specifically, fiscal support is $4.4 billion higher than in our main forecast and is therefore equivalent to the fiscal forecasts. Monetary policy support is also assumed to be higher than in the main forecast in order to offset the negative effects of weaker demand and push inflation closer to the Reserve Bank's target.

The scenarios imply different tracks for government debt

Cumulative nominal GDP is $25 billion higher in the upside scenario and $24 billion lower in the downside. This results in core Crown revenue being $6.9 billion higher in the upside and $6.7 billion lower in the downside. Net core Crown debt reaches 49.4% of GDP by the June 2025 quarter in the downside scenario and 44.3% of GDP in the upside, compared to 46.9% of GDP in the main scenario (Figure 1.18).

Figure 1.18 – Net core Crown debt to GDP ratio



Source: The Treasury

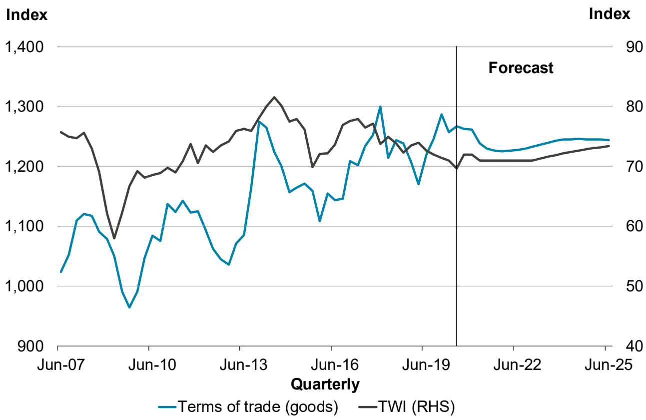
12 The direct GDP impact of Alert Level 3 compared to pre-pandemic levels is assumed to be 15% to 20%, and that of Level 2 is assumed to be 6% to 10% (refer to the economic forecast judgements and assumptions box).

The terms of trade are expected to remain near record-high levels…

The relative resilience of New Zealand's goods exports during the COVID-19 pandemic is partly because a large share of products is in food or related industries, which are less exposed to cyclical swings in global activity levels and continue to be supported by solid demand fundamentals. Nonetheless, supply chain congestion, lower freight capacity, and higher shipping costs have affected both importers and exporters.

More details on the global economic context are provided in the box below on page 28. Due to the unique nature of the current crisis, the effects have not been felt equally across and even within sectors. The horticultural sector has continued its impressive performance, with kiwifruit and apples in particular benefiting from the global health and wellness trend. On the other hand, in the meat sector, products that are more exposed to the restaurant trade have seen greater price declines than those that are mostly sold in retail outlets. Given the uneven nature of the pandemic across different countries, the markets where New Zealand products are sold have also played a significant role in exporters' performance. New Zealand exporters have benefited from the relatively quick recovery in demand for their products to the Chinese market, which is a relatively important market for several of our exports, including dairy, forestry and seafood.

Figure 1.19 – Goods terms of trade and TWI

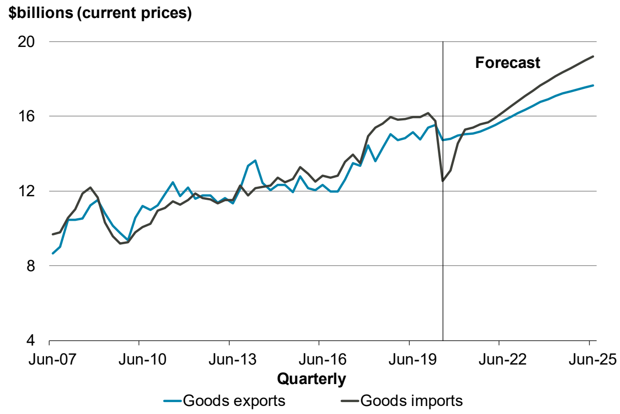


Sources: Stats NZ, RBNZ, the Treasury

In contrast to previous downturns, there has not been a large fall in our terms of trade. The relative resilience of exports is helping to limit the fall in the terms of trade, and lower import price inflation is providing further support, helped by weak global price pressures and relatively low oil prices. Overall, the goods terms of trade are expected to remain near record-high levels, although there may be a decline in the near term due to global demand weakness, and should remain supportive of incomes over the medium term (Figure 1.19). The TWI has been stronger than expected on the back of increased global risk appetite due to the progress with COVID-19 vaccines. In addition, a stronger-than-expected domestic recovery has increased interest rate expectations. However, this run of optimism is not expected to be sustained, with market sentiment playing a part in pushing up the exchange rate. The TWI is forecast to retrace some of its recent strength at the beginning of 2021 and remain steady until the end of 2022, after which it is forecast to rise gradually as monetary conditions tighten as a result of an improvement in the economy.

…which together with stronger services and income balances has improved the outlook for the current account balance

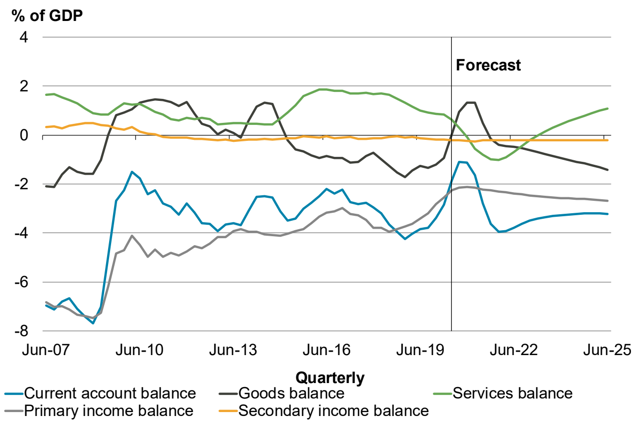
Figure 1.20 – Goods exports and imports



Sources: Stats NZ, the Treasury

Goods export values declined by 5.2% in the June quarter, while goods imports fell by a much larger 20.3% (Figure 1.20). As a result, the trade surplus reached a record high of $2.2 billion in the quarter. Imports are forecast to recover gradually over the coming quarters, in line with the recovery in the domestic economy. The pace of the recovery is, however, being hampered by supply chain congestion issues that are resulting in delays. Similarly, goods exports are also forecast to recover, but at a more measured pace, given the lingering effects of the COVID-19 pandemic on global demand, and an expected decline in our terms of trade. Owing to the border restrictions, it is also more challenging for exporters to engage with new customers. As a result, the trade balance is forecast to move back into deficit in early 2021.

Figure 1.21 – Current account balance and its components



Sources: Stats NZ, the Treasury

The services balance in the June quarter was higher than expected. This is because more tourists and students remained in the country than we had assumed. Usually we would have seen a notable increase in services exports in the peak summer months, but border restrictions mean this will not happen. The services balance is therefore expected to deteriorate further. The annual services balance is forecast to move into deficit in the December 2020 quarter, peaking at a deficit of 1% of GDP in the December 2021 quarter (Figure 1.21).

Overall, the current account deficit follows broadly the same profile as in the *Pre-election Update*, although the size of the deficit is smaller owing to less negative services and primary income balances.

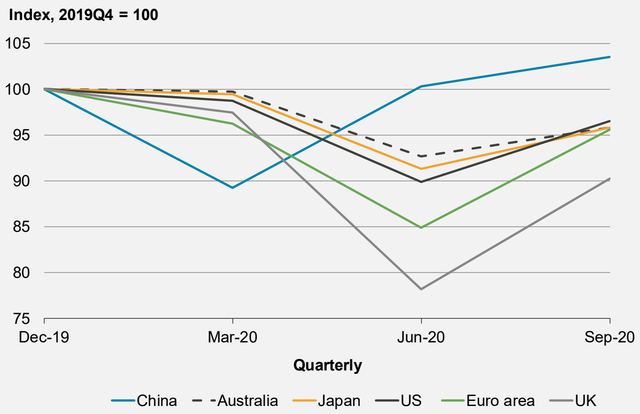
Global economic outlook

The global economy is slowly recovering from the COVID-19 shock…

Incoming data confirm that there has been a substantial, but incomplete, rebound in global activity over the past few months, but also suggest slowing momentum more recently. Generally, the recovery has been slightly stronger than expected.

Among the major economies, the recovery in China is more advanced than elsewhere, and GDP has fully recovered from the contraction earlier in the year (Figure 1.22). Elsewhere in the Asia-Pacific region, countries where the virus has been relatively well contained, including Taiwan and South Korea, are experiencing less severe disruptions, but others, including India and Indonesia, are continuing to face significant challenges in managing the virus. In Europe and the United States, September quarter GDP rebounded strongly from the earlier large falls but remained substantially below pre-pandemic levels. Meanwhile, the renewed rise in COVID-19 cases and the associated tightening of control measures in these regions will reduce economic activity in the near term. In Australia, easing control measures, alongside considerable additions to fiscal and monetary policy support, are boosting business and consumer confidence. In the labour market, employment has rebounded strongly from large falls earlier in the year but remains below its pre-pandemic level.

Figure 1.22 – Real GDP in selected countries



Sources: Haver, the Treasury

Goods consumption and production have led the global recovery, with retail sales above year-ago levels in many economies. This has been accompanied by a rebound in the global goods trade. However, activity in services industries remains curtailed by ongoing social distancing measures and behaviours, particularly in relation to international travel. Overall, output and, to a lesser extent, employment remain significantly below pre-pandemic levels. This spare capacity is likely to continue for some time, keeping inflation low.

…helped by supportive monetary and fiscal policies

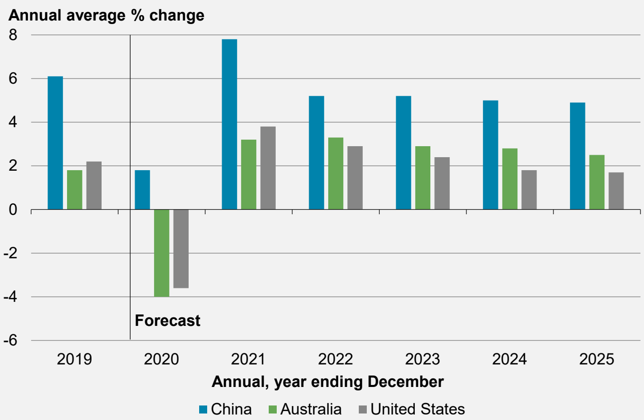
Around the world, near-zero policy interest rates, unconventional monetary policy and record levels of fiscal support have eased the impact of COVID-19 on household and business finances, particularly in advanced economies. These policies are contributing to low sovereign and corporate bond yields and have helped equity prices to recover from their March lows. Guidance from central banks in advanced economies indicates policy rates will remain low for several years as they strive to return output and inflation to their targets. Some central banks and governments are expected to provide additional stimulus in the months ahead.

The outlook for our key trading partners is broadly unchanged…

Renewed outbreaks of COVID-19 in some parts of the world and subsequent increases in restrictions on mobility are a downside risk to our trading partner growth forecasts for 2021. This is partially offset by upside risk to the medium-term forecasts on the back of promising progress with vaccines. The OECD upgraded its outlook for global growth in its December 2020 Economic Outlook, with the global economy now forecast to contract by 4.2% this year, a slightly less severe contraction than forecast in September. Global growth is forecast to average 4% per annum over 2021 and 2022, driven by ongoing policy support, the development and distribution of vaccines, improved tracing and isolation methods, and lower uncertainty levels. Global GDP is forecast to reach pre-pandemic levels by the end of 2021. The recovery is however expected to be uneven, with China forecast to account for more than a third of global economic growth in 2021.

Focusing on New Zealand's top trading partners results in a slightly better outlook, with a shallower GDP contraction of 2.8% in 2020, followed by growth of 5.3% in 2021 (Figure 1.23). This is due to the relatively larger weight for the Chinese economy, which is forecast to grow by 1.8% in 2020, making it one of only a small number of countries that are expected to expand the size of their economies this year.

Figure 1.23 – Real GDP growth forecasts for key trading partners



Source: The Treasury

…but there remains a lot of uncertainty about the global economic outlook

Global economic activity is expected to continue to recover over the rest of the forecast horizon, although the pace of recovery is likely to be uneven as countries contend with renewed virus outbreaks and the resulting containment measures, which will slow growth and increase the risk of further business failure and job losses.

The pandemic is not the only risk to the global outlook. Ongoing trade tensions, in particular tensions between China and the United States and Brexit, have the capacity to affect growth and lead to higher levels of volatility.

2

Fiscal Outlook

Overview

- The Government's fiscal outlook continues to be largely influenced by the COVID-19 pandemic, through the impact on economic activity and the Government's fiscal measures to support the economy.
- Since the start of the COVID-19 pandemic, the Government has faced a fiscal outlook of large deficits and increasing levels of debt. However, compared to the *Pre-election Update*, the fiscal outlook has improved and is largely a result of stronger economic activity than previously forecast, which improves the outlook for tax revenue and the labour market, and this in turn reduces benefit expenses.
- Funding of $10.3 billion remains unallocated from the COVID-19 Response and Recovery Fund (CRRF), which has been included in the fiscal forecasts. The Government has stated an intention to focus spending, from the unallocated portion of the CRRF, on any resurgence of the virus and other essential COVID-19 pandemic related expenditure, so there is an upside risk to the fiscal forecasts if the CRRF is not fully utilised.
- The Government's decision on a new top tax rate of 39% applies to personal income earned over $180,000 and is forecast to increase tax revenue by $2.2 billion across the forecast period. The extra revenue raised is largely offset by the increase in the Budget operating allowances to $2.625 billion for Budget 2021 to Budget 2024.
- The operating results in all years are expected to be better than previously forecast. The forecast operating balance before gains and losses (OBEGAL) deficit in 2020/21 of $21.6 billion is expected to remain at a similar level to 2019/20 before reducing across the forecast period.
- The pace of the reduction in OBEGAL deficits is now expected to be faster than previously expected. In the final year of the forecast, an OBEGAL deficit of $4.2 billion is expected, an average reduction per year of $4.4 billion from the first year of the forecast (compared to $2.8 billion at the *Pre-election Update*).
- The improvement in OBEGAL flows through to the forecasts for core Crown residual cash and net core Crown debt; however, the impact from the Funding for Lending Programme (FLP) announced by the Reserve Bank of New Zealand (Reserve Bank) also impacts these indicators. The FLP is expected to initially increase core Crown residual cash deficits and net core Crown debt in the first three years of the forecast period, but this then reverses as the loans issued are repaid.

- Overall, residual cash deficits total $101.8 billion across the forecast period, while net core Crown debt increases by $106.6 billion by the end of the forecast period. A residual cash surplus of $3.9 billion is forecast in 2024/25, largely owing to the cash flows on loans under the FLP.
- As a percentage of GDP, net core Crown debt is expected to increase in the first half of the forecast period, peaking at 52.6% in 2022/23, before reducing to be 46.9% in 2024/25.
- Net worth attributable to the Crown is forecast to decline by $50.2 billion by 2023/24 before increasing slightly in the final year of the forecast to reach $61.0 billion, mainly reflecting the trend in the operating balance.

These forecasts are sensitive to a number of judgements and assumptions and should be read in conjunction with the Risks to the Fiscal Forecasts chapter.

Table 2.1 – Fiscal indicators

Year ending 30 June	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
$billions						
Core Crown tax revenue	85.1	88.3	89.1	96.9	102.5	108.8
Core Crown expenses	108.8	114.2	109.1	112.0	115.3	118.7
Total Crown OBEGAL[1]	(23.1)	(21.6)	(16.4)	(10.3)	(7.5)	(4.2)
Total Crown operating balance	(30.0)	(25.6)	(15.0)	(6.4)	(3.2)	0.7
Core Crown residual cash	(23.7)	(40.2)	(36.3)	(23.7)	(5.5)	3.9
Net core Crown debt[2]	83.4	128.6	166.2	189.1	194.2	190.0
Gross debt[3]	102.3	91.7	87.1	111.5	136.8	157.8
Total borrowings	152.7	186.6	230.7	253.4	261.6	258.6
Net worth attributable to the Crown	110.3	83.9	69.2	63.0	60.1	61.0
% of GDP[4]						
Core Crown tax revenue	26.9	27.3	26.3	26.9	26.8	26.9
Core Crown expenses	34.5	35.3	32.2	31.1	30.1	29.3
Total Crown OBEGAL[1]	(7.3)	(6.7)	(4.9)	(2.9)	(2.0)	(1.0)
Total Crown operating balance	(9.5)	(7.9)	(4.4)	(1.8)	(0.8)	0.2
Core Crown residual cash	(7.5)	(12.4)	(10.7)	(6.6)	(1.4)	1.0
Net core Crown debt[2]	26.4	39.7	49.1	52.6	50.7	46.9
Gross debt[3]	32.4	28.3	25.7	31.0	35.7	39.0
Total borrowings	48.3	57.6	68.1	70.4	68.4	63.9
Net worth attributable to the Crown	34.9	25.9	20.4	17.5	15.7	15.1

Notes:
1 Operating balance before gains and losses.
2 Net core Crown debt, excluding the New Zealand Superannuation Fund and advances (including lending under the FLP, for more details see the box on page 40).
3 Excludes Reserve Bank settlement cash and bank bills.
4 Percentage of GDP: The nominal GDP for the March 2020 year being revised higher by $7.9 billion has had the effect of decreasing net core Crown debt by 0.7% of GDP in the year ended June 2020 and up to 1.3% lower over the forecast period.

Source: The Treasury

Key judgements and assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available at the time they were prepared. Actual events are likely to differ from these assumptions and judgements, while uncertainty around the forecast assumptions and judgements increases over the forecast period.

The forecasts incorporate Government decisions and other circumstances known to the Government and advised to the Treasury (up to 30 November 2020). The criteria for inclusion in these forecasts, along with the key risks, can be found in the Risks to the Fiscal Forecasts chapter.

In addition to the key assumptions underpinning the economic forecasts (refer to page 12), the following key judgements and assumptions supporting the fiscal forecasts were made:

- Tax forecasts were completed on 19 November 2020 and are based on the economic forecast completed on 13 November 2020.
- The cost of commitments not explicitly included in the fiscal forecasts (or variations to the estimates included in the fiscal forecasts) is assumed to be met within the Budget operating allowances and multi-year capital allowance and the unallocated CRRF included in the fiscal forecasts.
- Departments will continue to spend less than the upper limits of approved spending (referred to as appropriations). A top-down adjustment is made to compensate for this. The adjustment will be higher at the start of the forecast period as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have around transferring underspends to later years.
- The Reserve Bank continues to employ alternative monetary policy measures such as the Large Scale Asset Purchases (LSAP) programme and the Funding for Lending Programme (FLP). Both programmes are assumed to be fully implemented and included in the *Half Year Update* fiscal forecasts (refer page 40).
- Forecast returns on the large investment portfolios managed by the Accident Compensation Corporation (ACC) and the New Zealand Superannuation Fund (NZS Fund) are based on their expectations of long-term benchmark rates of return for their respective portfolios.
- Significant valuations (eg, the student loans portfolio, ACC claims liability and Government Superannuation Fund (GSF) retirement liability) are based on underlying assumptions (eg, discount rates, salary increases and inflation) made at the time the valuations were prepared.
- No revaluations of property, plant and equipment are projected beyond the current year. Only revaluations that have already been completed are included in these forecasts.

Key judgements and assumptions (continued)

- Contributions to the NZS Fund over the forecast period and the estimated contribution to the NZS Fund, if contributions were based on the legislated contribution formula, are set out in Table 2.2. Over the forecast years, all NZS Fund variables (apart from the capital contributions) are based on those provided by the NZS Fund itself. For more information, refer to the Treasury website for the NZS Fund model.

Table 2.2 – NZS Fund contributions

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Estimated contributions as prescribed by formula[1]	1.0	0.9	1.2	1.6	1.9
Forecast contributions in *Half Year Update*	2.1	2.4	1.1	1.5	1.8

Note: 1 Calculations of annual contributions using the NZS Fund model.

Source: The Treasury

- The impact of the COVID-19 pandemic on GDP means that the contributions prescribed by the legislative formula have decreased in 2020/21 and 2021/22. However, the impact of this on the NZS Fund is small, because between the years 2020/21 and 2021/22 the Government's own planned capital contributions are applied. Between 2020/21 and 2022/23, small amounts of the capital contributions are transferred to a new fund administered by the Guardians of New Zealand Superannuation, which will invest via the New Zealand Venture Investment Fund Limited (NZVIF). Additionally, as the forecast contributions are higher in 2020/21 and 2021/22, less is required in outyears, which results in a difference between the prescribed formula and forecast contributions.

- Tax policy changes assumed in the fiscal forecasts since the *Budget Update* are provided in Table 2.3 showing a breakdown of the changes and the supplementary text describes each initiative.

Table 2.3 – Estimated tax effects of initiatives announced since the *Budget Update*

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
39% tax rate	0.1	0.2	0.8	0.5	0.6
Loss continuity	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Total change	**-**	**0.1**	**0.7**	**0.4**	**0.5**

Source: The Treasury

39% tax rate

- With effect from the 2021/22 income year, personal income over $180,000 per annum will be taxed at 39 cents in the dollar.

Loss continuity

- The Government is consulting on options to relax the current loss-continuity tax rules in order to encourage the growth of start-up companies. This policy was included as a Specific Fiscal Risk in the *Budget Update* and was first included in tax forecasts in the *Pre-election Update*. The costing may be revised, depending on the outcome of consultation.

Further information on the underlying economic assumptions used in these fiscal forecasts can be found on page 48.

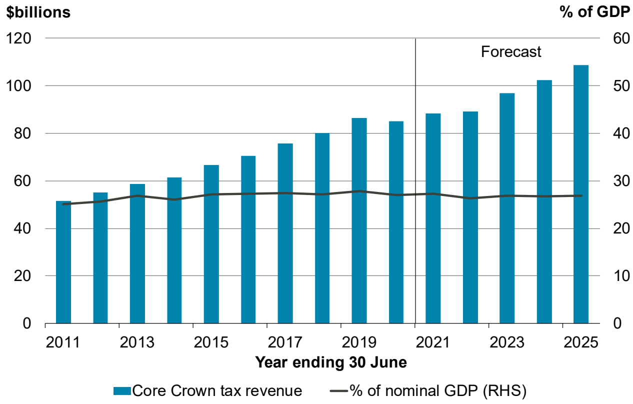
Key Trends in the Fiscal Outlook

Tax revenue grows broadly in line with the economy…

Core Crown tax revenue is forecast to increase by $20.5 billion across the forecast period, reaching $108.8 billion in 2024/25. As a percentage of GDP, core Crown tax revenue remains relatively stable, declining by 0.4% across the forecast period and reaching 26.9% in 2024/25 (Figure 2.1).

When compared to growth in the economy, core Crown tax revenue is forecast to grow at a faster rate than nominal GDP in both 2020/21 and 2022/23 but comparatively more slowly in 2021/22 (Figure 2.2).

Figure 2.1 – Core Crown tax revenue

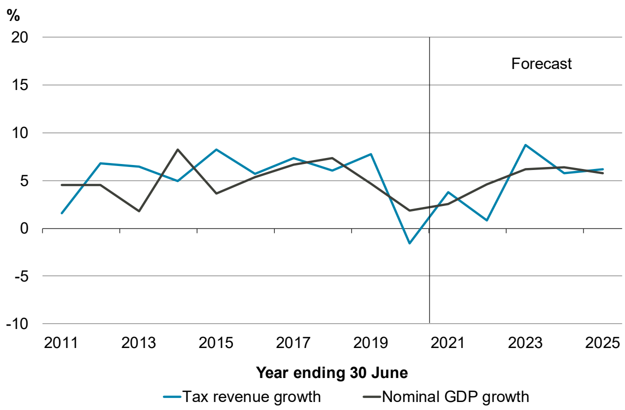


Source: The Treasury

The slow growth in 2021/22 is mainly owing to:

- a slower growth rate in major components of the total GDP forecast that affect the tax revenue forecasts, such as compensation of employees, taxable profits and overseas tourist spending in New Zealand, and
- policy changes introduced in response to the COVID-19 pandemic, mainly relating to depreciation allowances, asset-expensing thresholds and loss carry-back, as announced earlier this year, which are expected to reduce tax revenue.

Figure 2.2 – Core Crown tax revenue and nominal GDP growth



Source: The Treasury

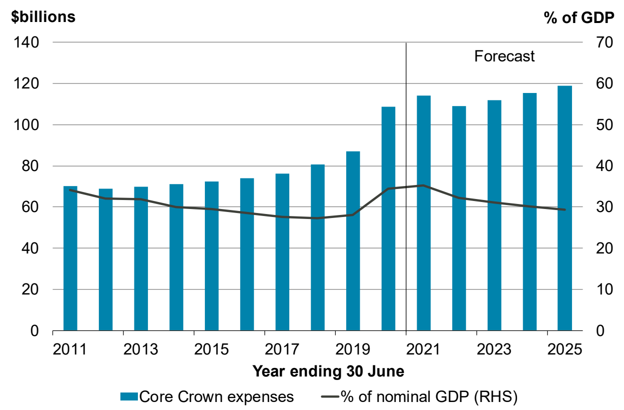
In 2022/23, tax revenue growth exceeds nominal GDP growth as total tax policy change effects, such as the new 39% tax rate, are positive when compared to 2021/22, while taxable profits and residential investment are forecast to grow at a faster rate than GDP.

In 2023/24 and 2024/25, core Crown tax revenue is forecast to grow in line with nominal GDP growth.

…while expenses stay elevated in the near term owing to fiscal measures in response to the COVID-19 pandemic…

In 2020/21, core Crown expenses continue to climb from the 2019/20 actual result, reaching $114.2 billion, before stabilising (Figure 2.3). As a percentage of GDP, core Crown expenses are forecast to peak in 2020/21 at 35.3%, before reducing across the remainder of the forecast period and reaching 29.3% in the final year of the forecast.

Figure 2.3 – Core Crown expenses



Source: The Treasury

This initial increase in core Crown expenditure largely reflects Government decisions for Budget 2020 (adding around $3.3 billion) and an increase in expected benefit expenses, while CRRF related expenditure remains similar to the previous year.

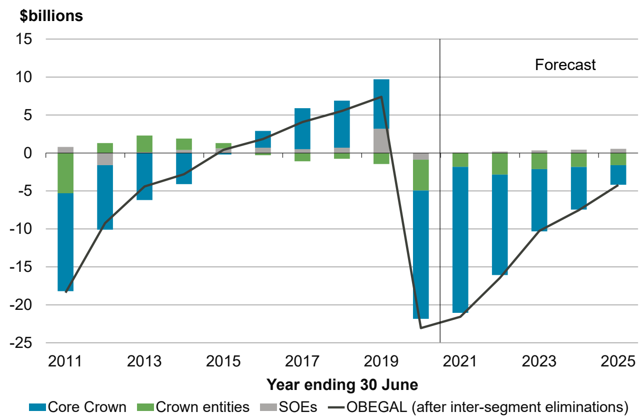
Breaking down the increase, the health, transport and housing sectors account for most of the expected increase from 2019/20. Funding for the Managed Isolation and Quarantine (MIQ) facilities, operating funding to Crown Infrastructure Partners (for 'shovel ready' projects) and investment in housing and infrastructure projects to enable urban development are the key areas of growth within these sectors.

More details on the functional classification of core Crown expenses can be found in the Expenses by Functional Classification on page 112 and in the core Crown Expense Tables on page 117.

…resulting in a large deficit in the near term, which narrows across the forecast…

In the current year, the OBEGAL deficit is forecast to remain at a similar level to that recorded in 2019/20. It is then expected to reduce across the forecast period, reaching a deficit of $4.2 billion in the final year of the forecast (Figure 2.4).

Figure 2.4 – Components of OBEGAL by segment



Source: The Treasury

This improvement is mainly a result of the core Crown operating results, reflecting the stronger economy through increased tax revenue and a lowering of core Crown expenses. Outside of the core Crown results, State-owned Enterprise (SOE) and Crown entity results are also expected to strengthen.

The total Crown operating balance, which includes gains and losses on assets and liabilities, is forecast to be in deficit until 2023/24. In 2020/21, net losses total $3.3 billion, largely reflecting the actuarial losses on the ACC outstanding claims (mainly as discount rates have lowered since 30 June 2020), along with the impact of the LSAP programme.

However, net gains are forecast to return from 2021/22, as long-term benchmark rates of return are used. This return to net gains, coupled with the decreasing OBEGAL deficits, results in the total Crown operating balance returning to a forecast surplus of $0.7 billion in 2024/25.

…driving the decline in net worth

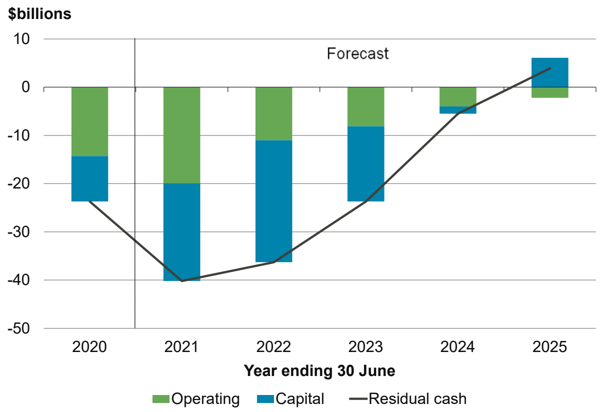
As total liabilities grow at a faster rate than total assets, net worth attributable to the Crown is forecast to decline from $110.3 billion in 2019/20 to $61.0 billion in 2024/25, a $49.3 billion reduction. As a percentage of GDP, net worth attributable to the Crown decreases to 15.1% in 2024/25. This is primarily owing to higher levels of debt required to fund the total Crown operating balance deficit, which flows directly into the Crown's balance sheet, through taxpayers' funds.

The residual cash position follows a similar trend to the operating deficits…

Core Crown residual cash largely reflects the core Crown operating results, leading to reducing cash residual deficits across the forecast period (Figure 2.5).

The FLP is forecast to have a significant impact on core Crown residual cash, initially adverse as it increases the amount of cash advanced by the Government ($28.0 billion by 2022/23), but it will have a positive impact in later years as these advances are forecast to be repaid ($22.2 billion by 2024/25).

Figure 2.5 – Core Crown residual cash



Source: The Treasury

As a result, a small residual cash surplus of $3.9 billion is expected in 2024/25.

Table 2.4 shows net capital expenditure that has an impact on net core Crown debt. It excludes capital spending undertaken directly by SOEs and Crown entities funded from their own resources (including third-party financing). The Government is forecast to invest a net total of $56.6 billion in capital over the forecast period.

Table 2.4 – Net capital expenditure activity[13]

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	5-year Total
Education	1.3	1.4	1.2	1.1	0.9	5.9
Defence	0.8	1.3	1.1	1.2	0.7	5.1
Corrections	0.3	0.2	0.2	0.2	0.2	1.1
Social Development	0.2	0.1	0.1	0.1	0.1	0.6
Police	0.1	0.1	0.1	0.1	0.1	0.5
Justice	0.1	0.1	0.1	0.1	0.1	0.5
Business, Innovation and Employment	0.1	0.1	0.1	0.1	0.1	0.5
Foreign Affairs	0.1	0.1	0.1	0.1	0.1	0.5
Inland Revenue	0.1	0.2	-	-	-	0.3
Internal Affairs	0.1	0.1	0.1	-	-	0.3
Other	0.5	0.2	0.1	-	0.1	0.9
Net purchase of physical assets	**3.7**	**3.9**	**3.2**	**3.0**	**2.4**	**16.2**
Housing Infrastructure Fund	0.3	0.3	0.1	0.1	-	0.8
Provincial Growth Fund	0.2	0.2	0.2	-	-	0.6
Progressive Home Ownership	0.3	0.1	-	-	-	0.4
Student Loans	-	-	0.1	0.1	-	0.2
NZTA	0.3	(0.1)	(0.2)	(0.1)	-	(0.1)
Small Business Cash Flow Loan Scheme	0.2	(0.2)	(0.3)	(0.3)	(0.3)	(0.9)
Funding for Lending Programme	8.2	14.0	5.8	(8.2)	(14.0)	5.8
Other	0.3	(0.4)	0.2	0.1	-	0.2
Net advances	**9.8**	**13.9**	**5.9**	**(8.3)**	**(14.3)**	**7.0**
NZTA	1.6	1.2	0.8	1.6	1.7	6.9
District Health Boards	1.1	1.1	1.0	0.5	0.3	4.0
KiwiRail	1.0	0.9	0.7	0.2	0.1	2.9
City Rail Link	0.4	0.6	0.5	0.1	0.1	1.7
Crown Infrastructure Partners	0.2	-	0.1	0.1	0.1	0.5
Provincial Growth Fund Limited	0.4	-	-	-	-	0.4
Ōtākaro	0.1	0.1	-	-	-	0.2
Tāmaki	0.1	-	-	-	0.1	0.2
Other	0.3	0.3	0.1	0.2	-	0.9
Net investments	**5.2**	**4.2**	**3.2**	**2.7**	**2.4**	**17.7**
Future new capital spending	1.9	2.0	3.0	3.2	2.2	12.3
Top-down capital adjustment	(2.4)	(1.1)	(0.8)	(0.6)	(0.6)	(5.5)
Contribution to NZS Fund	2.1	2.4	1.1	1.5	1.8	8.9
Net capital spending	**20.3**	**25.3**	**15.6**	**1.5**	**(6.1)**	**56.6**

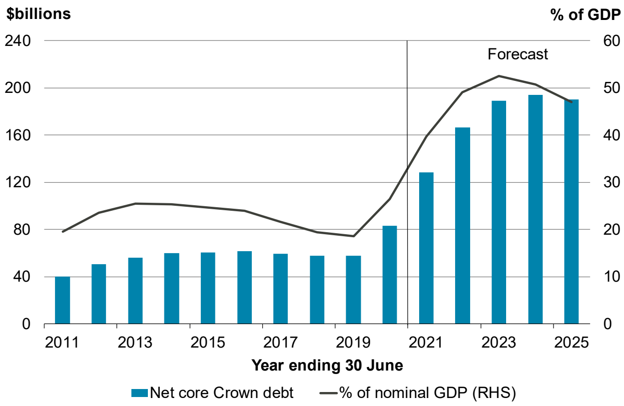
Source: The Treasury

[13] In addition to the capital spending outlined in Table 2.4, some capital projects have been undertaken through Public Private Partnerships (PPPs). Unlike capital spending, where cash payments are made as the asset is constructed, cash flows in relation to PPPs do not typically commence until the completion of the project.

…resulting in a continued rise in nominal net core Crown debt

In nominal terms, net core Crown debt is expected to grow significantly over the forecast period, reaching $190.0 billion in 2024/25. This is an increase of $106.6 billion from the position at the end of 2019/20. The increase is mainly driven by the need to fund the net residual cash deficits of $101.8 billion expected over the next five years (Figure 2.6).

Figure 2.6 – Net core Crown debt



Source: The Treasury

As a percentage of GDP, net core Crown debt is expected to increase rapidly in the first three years of the forecast period, from 26.4% in 2019/20 to 52.6% in 2022/23, before gradually lowering and reaching 46.9% in 2024/25.

By the end of the forecast, the FLP is expected to add $5.8 billion (1.4% of GDP) to net core Crown debt, as it includes the FLP liabilities but excludes the corresponding assets (as advances are excluded from the definition of net core Crown debt).

Table 2.5 on page 41 shows if the assets from the FLP were included in the calculation of net core Crown debt, it would be expected to peak in 2024/25 at $184.2 billion (compared to $194.2 billion in 2023/24). As a percentage of GDP, net core Crown debt would be forecast to peak at 45.6% in 2023/24 (compared to 52.6% in 2022/23).

Further information on the impact of the FLP on net core Crown debt can be found in the box on page 40.

The impact of alternative monetary policies on fiscal indicators

Alternative monetary policies

Since the COVID-19 pandemic, alongside the Government's fiscal support measures, the Reserve Bank has deployed monetary policy tools to support the New Zealand economy. The size of the economic shock and the low starting point for interest rates have meant the Reserve Bank has turned to alternative forms of monetary policy to support the economy.

In March 2020, the Reserve Bank began using the LSAP programme with the aim of lowering interest rates. The Reserve Bank's participation in the bond market creates extra demand and increases the price of bonds and so reduces their current yield. That means the interest rate on Government bonds falls, which is then expected to flow through to other interest rates in the economy. In addition, the money paid by the Reserve Bank for the bonds is available to the seller to invest back into the economy to support the economy.

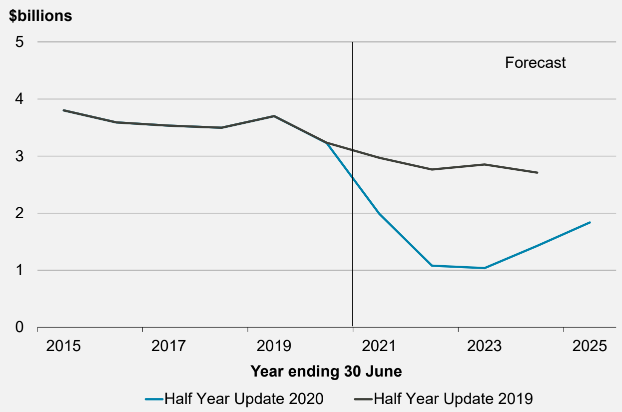
More recently the Reserve Bank has introduced the FLP, which is expected to commence from December 2020. Under an FLP, the Reserve Bank would make low cost long-term loans (three years) to banks. This would lower participating banks' funding costs and lower average funding costs across the financial sector, hence lowering interest rates across the economy.

Fiscal implications of alternative monetary policies

The Government sets the policy objectives for monetary policy in their remit, but the Monetary Policy Committee's decisions to formulate monetary policy consistent with the remit are taken independently. However, as the Reserve Bank forms part of the Government for financial reporting purposes any fiscal impact from the Reserve Bank's decisions will flow through to the Financial Statements of the Government and their key fiscal indicators.

As previously explained [14] the initial purchase of Government bonds under the LSAP programme will result in a loss being reported in the operating balance and an increase in net core Crown debt. Looking beyond the initial impact, there is expected to be a positive impact on both the operating balance and net core Crown debt, primarily owing to a reduction in the cost of borrowings for the Government. This can be illustrated by comparing the core Crown finance cost track against pre COVID-19 pandemic forecasts (refer Figure 2.7).

Figure 2.7 – Core Crown finance costs compared to the *Half Year Update 2019*



Source: The Treasury

If the FLP is taken up in full, it is expected to have only a minimal impact on the operating balance but large impacts on net core Crown debt. At present, the uptake of the FLP is uncertain, therefore actual uptake may differ to what has been included in the fiscal forecast. The FLP results in an increase in both assets (the Reserve Bank's lending to banks) and borrowings (through issuing settlement cash). Although the increase to both financial assets and borrowings is of a similar amount, the lending by the Reserve Bank is treated as an advance (financial asset) which is excluded from the current definition of net core Crown debt.

[14] https://www.treasury.govt.nz/publications/year-end/financial-statements-2020

The impact of alternative monetary policies on fiscal indicators (continued)

Net core Crown debt is currently defined as gross sovereign issued debt less core Crown financial assets excluding advances and NZS Fund assets. Advances have been excluded from the calculation of net core Crown debt on the basis that they are less liquid than other financial assets and therefore should not be considered when assessing the sustainability of the Government's finances. The fiscal impact on net core Crown debt from the FLP is expected to peak in the 2023 fiscal year before declining as the loans that have been issued start to be repaid. It is expected that the loans will be fully repaid by the 2026 fiscal year. Table 2.5 illustrates the impact the FLP is expected to have on net core Crown debt over the forecast period.

Table 2.5 – Impact of FLP on net core Crown debt

Year ending 30 June $billions	**2020 Actual**	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**
Net core Crown debt	83.4	128.6	166.2	189.1	194.2	190.0
Add financial assets from FLP	-	8.2	22.2	28.0	19.8	5.8
Net core Crown debt (incl FLP financial assets)	**83.4**	**120.4**	**144.0**	**161.1**	**174.4**	**184.2**
As a % of GDP						
Net core Crown debt	26.4	39.7	49.1	52.6	50.7	46.9
Net core Crown debt (incl FLP financial assets)	26.4	37.2	42.5	44.8	45.6	45.5

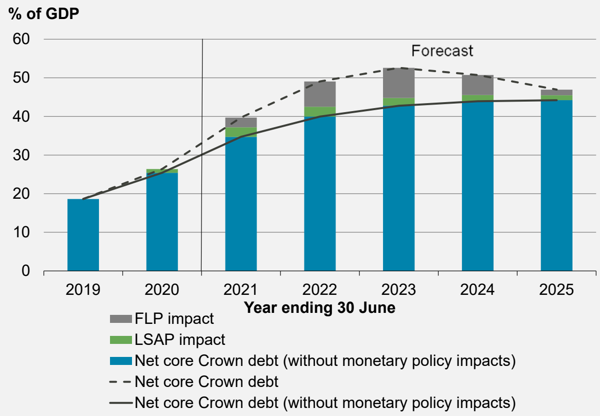
Source: The Treasury

Implications for fiscal policy and fiscal strategy

We consider that the expected impact of the FLP on the key fiscal indicators should be 'looked through' for fiscal policy purposes. This means that the Government should not seek to offset the fiscal impacts from monetary policy by reducing expenses or raising taxes in order to achieve its fiscal objectives. The reasons the fiscal impact from FLP should be looked through are:

- In the case of the FLP the liability created is matched by a high-quality, well collateralised asset, which limits the risk to the Government.
- A contractionary fiscal policy response would contradict the stimulatory objectives of the monetary policy decisions.

Figure 2.8 – Composition of net core Crown debt



Source: The Treasury

The primary purpose of fiscal indicators is to measure Government progress towards their fiscal objectives. Given the FLP is a monetary policy decision and considering the above points, looking at the net core Crown debt without the impacts from the FLP provides a better reflection of any fiscal space the Government may have around its net debt objectives.

Review of the appropriateness of the Government's current key fiscal indicators

The current definitions for both the OBEGAL and net core Crown debt have been in place since the late 2000s. With the recent increasing influence from monetary policy decisions on the Government's current key fiscal indicators and other decisions such as increasing the level of borrowings by Crown entities, the Treasury is looking to review the appropriateness of the Government's current key fiscal indicators. The Treasury is working towards providing advice from this review to the Government to consider ahead of Budget 2021.

Comparison to the *Pre-election Update*

The fiscal forecasts are stronger than expected in the Pre-election Update.

While the Government's fiscal outlook continues to be largely influenced by the COVID-19 pandemic, Table 2.6 shows that key fiscal indicators have improved when compared to the *Pre-election Update*.

Table 2.6 – Key fiscal indicators compared to the *Pre-election Update*[15]

Year ending 30 June $billions	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Core Crown tax revenue					
Half Year Update	85.1	88.3	89.1	96.9	102.5
Pre-election Update	84.9	84.7	84.3	92.5	98.5
Change	0.2	3.6	4.8	4.4	4.0
Core Crown expenses					
Half Year Update	108.8	114.2	109.1	112.0	115.3
Pre-election Update	108.8	119.5	109.9	111.7	116.1
Change	-	5.3	0.8	(0.3)	0.8
OBEGAL					
Half Year Update	(23.1)	(21.6)	(16.4)	(10.3)	(7.5)
Pre-election Update	(23.4)	(31.7)	(22.1)	(14.2)	(12.4)
Change	0.3	10.1	5.7	3.9	4.9
Core Crown residual cash					
Half Year Update	(23.7)	(40.2)	(36.3)	(23.7)	(5.5)
Pre-election Update	(23.7)	(41.0)	(28.6)	(22.3)	(18.9)
Change	-	0.8	(7.7)	(1.4)	13.4
Net core Crown debt					
Half Year Update	83.4	128.6	166.2	189.1	194.2
Pre-election Update	83.4	130.2	160.1	182.2	201.1
Change	-	1.6	(6.1)	(6.9)	6.9
Total borrowings					
Half Year Update	152.7	186.6	230.7	253.4	261.6
Pre-election Update	152.7	210.3	243.3	266.3	286.6
Change	-	23.7	12.6	12.9	25.0
Net worth attributable to the Crown					
Half Year Update	110.3	83.9	69.2	63.0	60.1
Pre-election Update	110.1	75.0	55.2	45.3	37.7
Change	0.2	8.9	14.0	17.7	22.4

Source: The Treasury

15 Favourable variances against previous forecast have a positive sign and unfavourable variances against previous forecast have a negative sign.

Operating Balance before Gains and Losses

Operating deficits are lower than previously expected across all years, reflecting core Crown operating results…

OBEGAL deficits have reduced in all years across the forecast period when compared to the *Pre-election Update*. The operating deficit for the 2020/21 fiscal year is expected to be lower by $10.1 billion, with an OBEGAL deficit forecast of $21.6 billion.

This improvement is mainly a result of stronger economic activity, increasing the forecast for core Crown tax and lower expected government expenditure, discussed below.

Outside of the core Crown, overall SOE and Crown entity results are expected to be $1.4 billion higher across the forecast; however, ACC results are lower than previously forecast owing to lower discount rates and updated information on claims costs.

…and core Crown tax revenue is forecast to be higher than previously expected...

Core Crown tax revenue is forecast to be $16.8 billion higher over the forecast period when compared to the *Pre-election Update*, an increase on average of $4.2 billion per year. The increase is mainly a result of the movements in source deductions, goods and services tax (GST) and corporate tax, which are summarised in Table 2.7.

Table 2.7 – Change in core Crown tax revenue since the *Pre-election Update*, by major tax type

Year ending 30 June $billions	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**Total Change**
Source deductions	0.7	1.6	2.1	2.2	6.6
Goods and services tax (GST)	2.3	1.8	1.2	0.7	6.0
Corporate tax	0.6	1.7	1.5	1.1	4.9
Net other persons tax	0.3	(0.3)	(0.3)	(0.1)	(0.4)
Other taxes	(0.3)	-	(0.1)	0.1	(0.3)
Total increase in core Crown tax revenue	**3.6**	**4.8**	**4.4**	**4.0**	**16.8**
Plus *Pre-election Update* tax base	84.7	84.3	92.5	98.5	
Core Crown tax revenue	**88.3**	**89.1**	**96.9**	**102.5**	

Source: The Treasury

Source deductions are higher over the forecast period, mainly owing to a stronger outlook for employment and wage growth. Additionally, the introduction of a new top personal income tax rate of 39% for income over $180,000 has added around $0.4 billion per year from 2021/22 onwards.

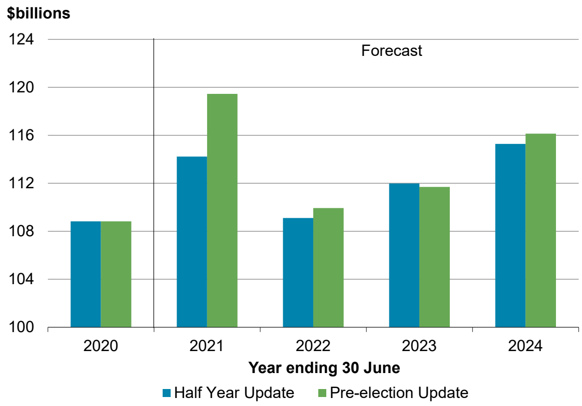
GST forecasts are also up across the forecast period, driven by strength in residential investment and net tourism, as well as stronger actual revenue outturns in the first part of 2020/21. Changes in private consumption, residential investment and other economic variables drive the overall change across the rest of the forecast period.

Corporate tax forecasts are higher, mainly owing to an improved outlook for taxable profits across the forecast.

…while core Crown expenses are lower reflecting the stronger economic outlook…

Core Crown expenses are expected to be $6.6 billion lower across the forecast period as benefit expenses and CRRF-related expenditure are lower than previously forecast, particularly in the near term (Figure 2.9). Additionally, rephased expenditure from the CRRF means $2.2 billion is now expected in 2024/25, a year later than previously forecast.

Figure 2.9 – Core Crown expenses compared to the *Pre-election Update*



Source: The Treasury

Overall, benefit expenses are expected to be $0.2 billion lower than previously forecast largely owing to the stronger economic outlook, which has reduced the forecast for Jobseeker Support recipients and payments. Additionally, the COVID-19 Income Relief Assistance has been forecast down owing to lower than expected up-take.

Partially offsetting the overall decrease, New Zealand Superannuation benefit expenses are expected to grow by $1.7 billion when compared to the *Pre-election Update*. The increase is owing to stronger wage growth and higher average ordinary time weekly earnings (AOTWE), to which New Zealand Superannuation payment rates are linked. The AOTWE increases are due to Stats NZ's update of the Quarterly Employment survey population to better reflect the economy.

The forecast phasing of the unallocated portion of the CRRF has been updated since the *Pre-election Update,* resulting in a reduction in CRRF expenses in 2020/21. This decrease is partially offset, as the phasing has been shifted out into subsequent years of the forecast; therefore, CRRF expenses are higher than previously forecast in later years.

Additionally, the top-down adjustment, which reduces overall expenditure, has increased since the *Pre-election Update* (see Table 2.8). When compared to the *Pre-election Update*, the top-down adjustment removes an additional $2.7 billion from core Crown expenses.

Table 2.8 – Top-down adjustment compared to the *Pre-election Update*

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Operating top-down				
Half Year Update	4.2	2.6	1.4	1.3
Pre-election Update	3.5	1.6	0.9	0.8
Change	**0.7**	**1.0**	**0.5**	**0.5**

Source: The Treasury

Factors considered in the increased top-down adjustment for the *Half Year Update* include:

- the significant lift in baseline expenditure expected, particularly in 2020/21 and 2021/22, primarily owing to unspent expenditure from 2019/20 transferred, and
- the increased uncertainty on the unallocated portion of the CRRF and when it may be fully spent, particularly given the intention to focus spending on any resurgence of the virus and other essential COVID-19 pandemic related expenditure.

Offsetting the decrease in core Crown expenses, operating allowances for Budget 2021 through to Budget 2024 have increased since the *Pre-election Update.* These have been set at $2.625 billion per year for each Budget, adding $1.2 billion to core Crown expenses across the forecast (refer to Table 2.9).

Table 2.9 – Cumulative Budget operating allowances compared to the *Pre-election Update*

Year ending 30 June $billions	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**3-year Total**
Cumulative Budget operating allowance[1]				
Half Year Update	2.6	5.3	7.9	15.8
Pre-election Update	2.4	4.8	7.4	14.6
Change	**0.2**	**0.5**	**0.5**	**1.2**

Note: 1 Budget operating allowances accumulate across the forecast period, eg, Budget 2021 includes $2.625 billion in each year of the forecast.

Source: The Treasury

When compared to the *Pre-election Update*, core Crown finance costs are $2.0 billion lower across the forecast, reflecting the decrease in the expected net Government bond issuance and short-term borrowing. Additionally, as interest rates remain lower for longer, the LSAP programme continues to have an ongoing effect as well, because the fixed interest rate payable on the repurchased Government bonds is replaced by the lower floating Official Cash Rate payable on bank settlement account borrowings, which funds the LSAP programme.

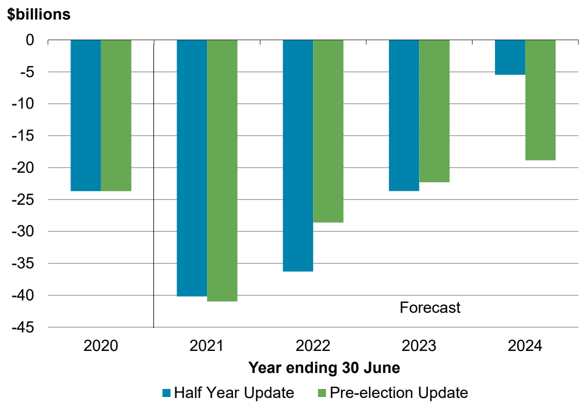
Residual Cash and Net Core Crown Debt[16]

Residual cash reflects improvements in the operating balance but is impacted by the FLP…

The core Crown operating results discussed above largely flow through to improve the core Crown residual cash position across the forecast period. In total, residual cash deficits of $105.7 billion are now expected to 2023/24, which is a decrease of $5.1 billion when compared to the total residual cash deficits forecast at the *Pre-election Update*.

The impact of the FLP sees higher residual cash deficits in 2021/22 and 2022/23 before repayments are forecast from 2023/24. Overall, when compared to the *Pre-election Update*, advances are $20.0 billion higher across the forecast period.

Figure 2.10 – Core Crown residual cash compared to the *Pre-election Update*



Source: The Treasury

…while net core Crown debt as a percentage of GDP reduces in all years

Net core Crown debt as a percentage of GDP has reduced in all years when compared to the *Pre-election Update*. Nominal net core Crown debt is $6.9 billion lower than previously forecast by 2023/24.

For further information on the impact of the FLP on net core Crown debt, refer to page 40.

16 Net core Crown debt and residual cash indicators are measured on a core Crown basis. Residual cash includes both operating and capital activity. This differs from OBEGAL, which is measured at a total Crown level and includes operating activity only.

Total Crown Balance Sheet

Stronger-than-expected operating balances improve the Crown balance sheet…

Net worth attributable to the Crown is forecast to be $22.4 billion stronger than previously expected by 2023/24. This is mainly as a result of the forecast change in taxpayers' funds of $23.1 billion by 2023/24, owing to the strength in the total Crown operating balance when compared to the *Pre-election Update* (see Table 2.10).

Table 2.10 – Taxpayers' funds compared to the *Pre-election Update*

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Taxpayers' funds				
Half Year Update	(22.5)	(37.4)	(43.8)	(47.0)
Pre-election Update	(32.2)	(52.3)	(62.3)	(70.1)
Accumulated change	**9.7**	**14.9**	**18.5**	**23.1**

Source: The Treasury

…while Government bonds reduce as less cash is required

Lower than expected total Crown borrowings are the key driver of the higher net worth attributable to the Crown, when compared to the *Pre-election Update*. The lower borrowings are through a reduction in forecast net Government bond issuance and short-term borrowing, as the stronger results have led to less cash being required.

The core Crown borrowing programme includes the issuance of both New Zealand Government Bond issuance and short-term borrowings (eg, Treasury Bills). Consistent with the profile of core Crown residual cash, net Government bond issuance is predominantly weighted towards the early part of the forecast period.

In total, the bond programme is expected to raise funds of $166.6 billion over the forecast period. Bond maturities will result in repayments of $54.2 billion of existing debt. In addition, short-term borrowing is expected to be $6.8 billion lower at the end of the forecast period, relative to the end of 2019/20 (Table 2.11). Overall, the core Crown borrowing programme will provide net funds of $105.6 billion to cover core Crown residual cash deficits and to ensure cash is available for upcoming bond maturities.

Table 2.11 – Net issuance of Government bonds and short-term borrowing[17]

Year ending 30 June $billions	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	5-year Total
Face value of Government bonds issued (market)	45.0	30.0	30.0	30.0	25.0	160.0
Debt programme cash flows						
Cash proceeds from issue of market bonds	49.8	32.0	30.7	29.7	24.4	166.6
Repayment of market bonds	(11.1)	-	(15.9)	(13.5)	(13.7)	(54.2)
Net issue/(repayment) of short-term borrowing	(5.2)	(1.6)	-	-	-	(6.8)
Net debt programme cash flows	**33.5**	**30.4**	**14.8**	**16.2**	**10.7**	**105.6**

Source: The Treasury

17 More information on the bond programme can be found at https://debtmanagement.treasury.govt.nz/investor-resources/media-statements

Key Economic Assumptions Used in the Forecast Financial Statements

The Forecast Financial Statements are prepared on the basis of underlying economic forecasts. Such forecasts are critical for determining revenue and expense estimates. For example:

- a nominal GDP forecast is needed to forecast tax revenue
- a forecast of CPI inflation is needed because social assistance benefits are generally indexed to inflation, and
- forecasts of interest rates are needed to forecast finance costs, interest income and discount rates.

A summary of the key economic forecasts that are particularly relevant to the forecast financial statements is provided in Table 2.12.

Table 2.12 – Summary of key economic forecasts used in the Forecast Financial Statements

Year ending 30 June	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Real GDP[1] (annual average % change)	(2.1)	1.5	2.6	3.7	3.8	3.2
Nominal GDP[2] ($billions)	315.9	323.9	338.8	359.7	382.7	404.8
CPI (annual average % change)	1.8	1.2	1.2	1.3	1.7	2.0
Govt 10-year bonds (annual average %)	1.2	0.6	0.6	0.9	1.5	1.9
5-year bonds (annual average %)	0.9	0.1	0.1	0.4	1.0	1.5
90-day bill rate (annual average %)	1.0	0.3	0.2	0.2	0.2	0.2
Unemployment rate (annual average %)	4.1	6.1	6.9	6.2	5.0	4.2
Employment (annual average % change)	1.5	(1.0)	0.5	2.4	3.0	2.6

Notes: 1 Production measure.
2 Expenditure measure.

Sources: The Treasury, Stats NZ

3

Risks to the Fiscal Forecasts

Overview

The Treasury's fiscal forecasts are based on a number of assumptions and key judgements, using the information available to us and our best professional judgement. As with any kind of forecast, there is a risk that actual events will differ from expectations. This chapter outlines the key risks to the fiscal forecasts.

Risks to the fiscal forecasts can be either positive or negative, and can affect revenue and spending or assets and liabilities. The key risks to the fiscal forecasts can be broadly classified into the following categories:

Type of risk	Description
1 Fundamentally uncertain events	Significant events relating to changes in the external environment (eg, climate-induced events, natural disasters, pandemics, and international events).
2 Deviation from key assumptions and judgements	Any deviations from the key assumptions and judgements used for the economic and fiscal forecasts (eg, changes in nominal GDP used to forecast tax revenue) that have flow-on impacts for the fiscal forecasts.
3 Contingent liabilities and assets	Potential costs or income to the Crown that depend on whether particular events occur.
4 Policy changes	Potential decisions likely to be taken by the Government related to both new policy and existing policy settings (eg, changes to eligibility criteria for a benefit).
5 Cost pressures associated with existing policies and risk of cost variances	Changes in demand or pricing that impact the cost of delivering services under existing policy settings (eg, an increase in the number of students enrolling in schools). This category includes variances to costs related to policies included in the fiscal forecasts.

COVID-19

The COVID-19 pandemic is a major public health shock, which has caused a major economic shock that has already had a significant impact on the Government's finances. The statement of specific fiscal risks in this chapter identifies a number of fiscal risks directly and indirectly affected by COVID-19. In addition, specific fiscal risks identified in this statement may be more generally affected by the economic downturn brought about by COVID-19. Even though these specific fiscal risks have been identified, the true fiscal impact of COVID-19 remains uncertain. This is discussed further on pages 5 to 8.

Despite the disclosure of risks in this chapter, the uncertainty of the economic and fiscal outlook means that there are risks to the fiscal forecasts that are too broad in nature to disclose in the statement of specific fiscal risks. These risks concern:

- *the impact on the economy* – while it has been almost 12 months since the initial onset of the pandemic, the duration of the economic downturn and subsequent pace of the recovery still depend on many unknown factors. Forecasts for tax revenue and benefit expenses are particularly sensitive to economic conditions. The Economic Outlook chapter includes scenarios that model the fiscal impact of how the economy might evolve if some of the key judgements related to COVID-19 in the main forecast were to be altered

- *the Government's response* – as part of Budget 2020, the Government set aside $50 billion under its fiscal management approach to support the response to, and recovery from, COVID-19, known as the COVID-19 Response and Recovery Fund (CRRF). The Government has already implemented many policies to respond to COVID-19. Policies announced and communicated up to 30 November 2020 have been included in the fiscal forecasts based on the best information available. There is a risk that the actual costs and/or timing of these policies may differ from the judgements and assumptions used to prepare the fiscal forecasts

- *the Government's role in recovery* – COVID-19 has impacted many sectors of the economy. The Government's response was initially focused on fighting the virus and cushioning the blow and, while still directed towards fighting further outbreaks of the virus, is increasingly focused on recovery from the impacts of COVID-19. CRRF funding set aside to manage the further fiscal costs of the response to, and recovery from, COVID-19 has been included in the fiscal forecasts. To the extent that this relates to spending decisions not yet made, it requires judgement about the nature (eg, operating or capital) and timing of future COVID-19 response initiatives, and

- *the impact on valuations of assets and liabilities, and contingent liabilities* – a number of assets and liabilities on the Crown balance sheet are valued using market information (eg, land and buildings, share investments and ACC outstanding claims liability). The impact of COVID-19 is likely to cause some ongoing volatility in the market that will affect the future value of assets and liabilities on the Government's balance sheet. In addition, the effects from COVID-19 may result in costs from some of the Government's existing contingent liabilities converting into expenses during the forecast period. In particular, there is a risk that there may be calls on some uncalled capital facilities and some Crown guarantees and indemnities may crystallise.

Fiscal Sensitivities

Table 3.1 sets out some 'rules of thumb' on the sensitivities of the fiscal position to small changes in specific economic variables. For example, if nominal GDP growth is one percentage point higher than forecast in each year up to June 2024, tax revenue would be around $5.6 billion higher than forecast in the June 2025 year. The sensitivities are broadly symmetric: if nominal GDP growth is one percentage point lower than expected each year, tax revenue would be around $5.4 billion lower than forecast in the June 2025 year. The figures are indicative and can be influenced by the composition of growth as different types of activity have different effective tax rates.

Table 3.1 – Fiscal sensitivity analysis

Year ending 30 June ($millions)	**2021 Forecast**	**2022 Forecast**	**2023 Forecast**	**2024 Forecast**	**2025 Forecast**
Impact on tax revenue of a one percentage point increase in growth of					
Nominal GDP	925	1,850	3,005	4,235	5,635
Wages and salaries	420	880	1,385	1,960	2,615
Taxable business profits	175	390	680	970	1,305
Impact of 1% lower interest rates on					
Interest income[1]	-239	-284	-344	-322	-319
Interest expenses[1]	-166	-500	-797	-1,075	-1,307
Net impact on operating balance	-73	216	453	753	988

Note: 1 Funds managed by the Treasury.

Source: The Treasury

The forecast financial position is based on judgements and assumptions about the future. To inform these judgements and assumptions we rely on market information. Some additional assumptions include those related to foreign-exchange rates, share prices, the carbon price and property prices. For example, foreign-currency-denominated financial assets and liabilities are converted into New Zealand dollars, the Government's listed share investments are reported on market prices, and property owned by the Crown is valued using market information. These values are based on information prevailing at 30 September 2020. Where the actual outcome differs from our assumptions, the Crown's actual financial position is likely to differ from the forecasts. In addition, changes in these variables can also have flow-on effects for the Crown's operating balance. For example, a strengthening of share prices may result in higher returns from the Government's direct share investments.

Balance Sheet Risks

The Government's balance sheet is absorbing a significant shock because of COVID-19, deploying the resilience built up over several economic cycles of responsible fiscal management. In addition, the COVID-19 response has seen some further risks added to the Government's balance sheet, for instance in relation to guarantees provided to businesses. The Government's balance sheet can be usefully categorised by function or purpose as illustrated in Table 3.2.

Table 3.2 – Balance sheet functional classifications[18]

Social	Assets and liabilities held to provide public services. These include, for instance, roads, schools, and the national parks. Here, social assets also include tax receivables and student loans managed by the Inland Revenue Department (IRD), and Crown-owned companies that do not have purely commercial objectives such as Crown Research Institutes (CRIs).
Financial	Assets and liabilities that finance or prefund government expenditure and obligations for future expenditure. This category consists of the Crown Financial Institutions (CFIs), the Reserve Bank of New Zealand (Reserve Bank), and government borrowing via the Treasury.
Commercial	Assets and liabilities of entities with commercial objectives. The companies are largely independent entities operating in competitive environments. This category comprises commercial priority companies and listed companies.

Balance sheet risks are therefore risks that assets and liabilities will not be able to provide public services, finance or prefund future government expenditure and obligations, or achieve commercial objectives. The resilience of the balance sheet refers to its ability to absorb and adapt to shocks and stresses that might otherwise hinder these objectives.

Sources of (Social) balance sheet risk to public services

Physical assets such as land, buildings, state highways and military equipment are susceptible to external natural hazards and the quality of asset management in delivering services. The government generally relies on asset management, including built-in redundancies (eg, in network capacities), and its ability to reallocate or repurpose assets rather than risk transfer instruments such as insurance in managing these risks.

The replacement costs of physical assets are also susceptible to valuation movements through changes in property market conditions, changes in demand and changes in the costs of construction. The *Half Year Update* forecasts incorporate valuations up to 30 June 2020. Some valuers have identified that, while prices have not been significantly impacted by COVID-19, only limited market evidence is available from the time COVID-19 restrictions were first implemented. They have warned that illiquidity in property markets may be a short-term issue or a longer-term concern.

Social insurance and retirement liabilities (eg, Accident Compensation, Veterans' disability entitlements and the Government Superannuation Fund (GSF)) are prone to volatility through their actuarial valuations, including changes to expectations of future interest rates and inflation rates. These forecasts reflect a significant crystallisation of this risk as a consequence of the reduction of interest rates to unprecedented low levels.

18 See *He Puna Hao Pātiki*: *2018 Investment Statement*: https://treasury.govt.nz/publications/investment-statement/he-puna-hao-patiki-2018-investment-statement-html#reference-index-10

These forecasts show significant concessionary lending available to achieve public policy purposes. This lending includes student loans and the Small Business Cashflow Scheme, while the forecasts also provide for Progressive Home Ownership loans. This lending brings counterparty risk, and also exposes the Crown to risks associated with changes in assumptions about the future value of money, affecting how these future repayments are discounted. Expected credit losses from this lending are closely monitored.

The Crown faces contingent liabilities, for example, indemnities of activities in the public interest, environmental claims, and legal proceedings. The government indemnities associated with the Business Finance Guarantee Scheme to support viable businesses represent a significant increase in balance sheet risk.

Sources of (Financial) balance sheet risk to finance or prefund future government expenditure and obligations

The deployment of the Government's fiscal capacity has meant that the balance sheet is now more highly leveraged than previously. In addition, monetary policy activities including a Large Scale Asset Purchases (LSAP) programme, Funding for Lending Programme, foreign-exchange swaps to manage short-term interest-rate pressures, and lending to the finance sector by the Reserve Bank have increased interest-rate risk.

Financial assets held by ACC and the NZSF are sensitive to financial market volatility, such as movements in interest rates, exchange rates and equity prices. Crown financial institutions set long-term investment strategies based on underlying policy objectives. These strategies aim to look through short-term volatility and take exposures that would offset the impact of long-term social insurance or retirement liabilities.

The Crown incurs liquidity risk with respect to its ability to raise cash to meet its obligations. Each agency manages its own specific liquidity risk while the Treasury manages the Crown's liquidity requirements. The LSAP programme provides additional assurance that this risk is managed in the current environment.

Sources of (Commercial) balance sheet risk to meet commercial objectives

A number of commercial entities owned by the Crown have their financial performance and valuations impacted by the commercial environment in which they operate. These forecasts include support packages for state-controlled commercial businesses where COVID-19 has significantly impacted their commercial environment.

Managing risk into the future

The Crown's exposure to balance sheet risks is unavoidable if it is to pursue its objectives. The general approach that has been taken to identify, measure and treat these risks where practicable, to maintain debt at prudent levels and to hold a healthy level of net worth has enabled the Government to effectively absorb much of the shock of COVID-19.

The build-up and subsequent deployment of that fiscal resilience in response to COVID-19 have underscored the importance of the principles of responsible fiscal management in the Public Finance Act 1989. That deployment is reflected in the reduction of net worth from $115.9 billion at 30 June 2020 to a forecast $66.5 billion as at 30 June 2025.

The current risk management challenge is to move from absorption to adaptation, as the Government moves from fighting the virus and cushioning the blow towards economic recovery, resetting the Crown's balance sheet objectives and rebuilding its capacity to absorb shocks in the future.

Specific Fiscal Risks

This statement of specific fiscal risks is required by the Public Finance Act 1989. In addition to the discussion of other types of risks to the economic and fiscal forecasts outlined in this chapter, it sets out (to the fullest extent possible) all government decisions and other circumstances known to the Government that may have a material effect on the fiscal outlook, but are not certain enough in timing or quantum to include in the fiscal forecasts. This section covers:

- how specific fiscal risks are managed
- criteria for inclusion and exclusion of specific fiscal risks
- a statement of specific fiscal risks of the Government[19]
- narrative summaries of specific fiscal risks that are new, changed or have been updated since the *Pre-election Update*,[20] and
- a table of risks that have been removed from the statement of specific fiscal risks since the *Pre-election Update*.

The risks disclosed in this chapter reflect those that are known at the date of the finalisation of the fiscal forecasts, 30 November 2020. Although the process for disclosure of specific fiscal risks involves a number of entities, including government departments, the Treasury and the Minister of Finance, there remains a possibility that not every significant risk is identified.

Within each category of risks (new, changed, updated and unchanged), risks are grouped by portfolio and classified as either *policy change* or *cost pressure or variance* risks:

- *Policy change* risks relate to potential decisions likely to be taken by the Government relating to both new and existing policy settings.
- *Cost pressure or variance* risks relate to the cost pressures faced by agencies in future owing to changes in demand or costs of inputs used in the delivery of existing services or products and/or the variance costs of items included in the fiscal forecasts. Drivers of future cost pressures are likely to come from population changes, wage increases (pay negotiations and progression through pay scales) and the price inflation of inputs.

A key principle guiding the disclosure of risks is transparency. This means that material risks are disclosed in this section regardless of whether they can be managed through existing funding sources (eg, through prioritisation of funding already available to departments, the Budget operating and capital allowances, policy choices and/or through the COVID-19 Response and Recovery Fund). This ensures a prudent approach to the disclosure of risks, to improve transparency and to avoid prejudging future decisions by governments about what may or may not be funded from allowances.

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[19] Because the *Pre-election Update* was published so recently, the risks in this *Half Year Update* have been prepared in a way that highlights those that are new, changed, and updated since the *Pre-election Update*.

[20] Narrative summaries of those risks that have not changed can be found on pages 101 to 120 of the *Pre-election Update*: https://www.treasury.govt.nz/publications/efu/pre-election-economic-and-fiscal-update-2020

Criteria for Inclusion either in the Fiscal Forecasts or as a Specific Fiscal Risk

The *Half Year Update* must incorporate, to the fullest extent possible that is consistent with section 26V of the Public Finance Act 1989 (ie, the limitations on the disclosure requirements), all government decisions and all other circumstances that may have a material effect on the fiscal and economic outlook. Specific criteria based on section 26U of the Public Finance Act 1989 determine what is included in the forecast financial statements as opposed to what is disclosed as a specific fiscal risk.

The forecast financial statements must include all quantified fiscal implications of government decisions and all other circumstances (excluding those that are not required to be disclosed by section 26V) that may have a material effect on the fiscal and economic outlook and which can be quantified for particular years with reasonable certainty by the day on which the forecast financial statements are finalised. Where the fiscal implications of those government decisions and other circumstances cannot be quantified for, or assigned to, particular years with reasonable certainty, they are required to be disclosed in the statement of specific fiscal risks.

Fiscal forecasts	Specific fiscal risks
Matters are incorporated into the fiscal forecasts when: • the matter can be quantified for particular years with reasonable certainty, and • a decision has been taken, or • a decision has not yet been taken but it is reasonably probable[21] that the matter will be approved or the situation will occur.	Matters are disclosed as specific fiscal risks if the likely impact is $100 million or more over the forecast period and either: • a decision has not yet been taken but it is reasonably possible[22] (but not probable) that the matter will be approved or the situation will occur, or • it is reasonably probable or possible that the matter will be approved or the situation will occur, but the matter cannot be quantified or assigned to particular years with reasonable certainty.

General Risks not Included as Specific Fiscal Risks

A range of general risks to the fiscal forecasts exist but are not separately disclosed as specific fiscal risks, including:

- risks from changes to economic assumptions, including as a result of COVID-19, the most significant of which have been recognised elsewhere in this chapter and *Half Year Update*
- business risks and volatility in the returns from, and valuation of, the Government's investments relating to the broader economic and commercial environment, and

[21] For these purposes, 'reasonably probable' is taken to mean that the matter is **more likely than not** to be approved within the forecast period (ie, there is a greater than 50% chance of the matter occurring or being approved).

[22] For these purposes, 'reasonably possible' is taken to mean that the matter **might** be approved within the forecast period (ie, there is a 20% to 50% chance of the matter occurring or being approved).

- the costs of future individual natural disasters, individual events resulting from climate change, and other major events (including biosecurity incursions), as their occurrence, nature and timing cannot be predicted.

New Zealand will continue to experience natural disasters and for some of these the frequency and/or severity is likely to increase with climate change, for example, increased coastal flooding, because of sea level rise, and extreme weather events. Once such an event does occur, various choices arise about how to respond, and when to recognise potential liabilities. Specific risks are disclosed at that point based on the range of possible responses.

Exclusions to Disclosure

The Minister of Finance may determine, under section 26V of the Public Finance Act 1989, that a matter not be included in the fiscal forecasts or a specific fiscal risk not be disclosed, if such disclosure is likely to:

- prejudice the substantial economic interests of New Zealand
- prejudice the security or defence of New Zealand or international relations of the Government
- compromise the Government in a material way in negotiation, litigation or commercial activity, or
- result in a material loss of value to the Government.

Section 26V requires the Minister of Finance to determine that:

- incorporating the decision and/or circumstance in the *Half Year Update* is likely to result in one of the consequences listed above, and
- there is no reasonable way that the Government can avoid this prejudice, compromise or material loss by:
  - in the case of a circumstance, making a decision before the day the fiscal forecasts are finalised, or
  - in the case of a decision or circumstance, incorporating in the update the fiscal implications of that decision or circumstance, or the nature of that decision or circumstance, but without reference to its fiscal implications.

Statement of Specific Fiscal Risks

Because the *Pre-election Update* was published so recently, this statement of specific fiscal risks has been prepared in a way that shows *policy change* and *cost pressure or variance* specific fiscal risks compared to the *Pre-election Update* (new, changed, updated or unchanged). For those risks whose nature, substance and narrative are unchanged, full descriptions can be found on pages 101 to 120 of the *Pre-election Update*. For new, changed and updated risks, descriptions are presented below.

Following an election, it is normal to include as specific fiscal risks policies of the Government that are set out in the Speech from the Throne, in any government formation documents (coalition, confidence and supply, or cooperation agreements) or in the manifesto of a party that has an outright majority in the House of Representatives, where the costs of those policies meet the materiality threshold. Many of these costs will be managed through existing funding sources and/or the Budget operating and capital allowances.

New risks since the *Pre-election Update*

Portfolio	Risk title	Type of risk
Economic and Regional Development	Regional Strategic Partnership Fund	Policy Change – Expenses and Capital
Finance	Government Commitments to International Financial Institutions	Cost Pressure or Variance – Capital
Health	Boosting PHARMAC Purchasing	Policy Change – Expenses
	Mental Health Support for Children	Policy Change – Expenses
	Reducing Planned Care Waiting Lists	Policy Change – Expenses
Parliamentary Service	Future Parliamentary Accommodation	Policy Change – Capital
Racing	TAB NZ	Cost Pressure or Variance – Revenue, Expenses and Capital
Social Development and Employment	Increasing Abatement Thresholds Further	Policy Change – Expenses
	Increasing Special Needs Grant Limits for Emergency Dental Treatment	Policy Change – Expenses
	Reinstating the Training Incentive Allowance	Policy Change – Expenses
Cross-portfolio	Achieving New Zealand's International and Domestic Climate Change Targets	Policy Change – Expenses and Capital
	Carbon Neutral Public Service	Policy Change – Expenses and Capital
	Progressively Extending Living Wage Guarantees to Contractors in the Public Sector	Policy Change – Expenses

Changed risks since the *Pre-election Update*		
Portfolio	**Risk title**	**Type of risk**
COVID-19 Response	COVID-19 Vaccine Strategy	Cost Pressure or Variance – Expenses
Finance	Alternative Monetary Policy Tools	Cost Pressure or Variance – Expenses
Māori Development	Waitangi Tribunal Recommendations and Claims	Policy Change – Expenses
Social Development and Employment	Quarterly Employment Survey Redevelopment	Cost Pressure or Variance – Expenses
Veterans	Veterans' Disability Entitlements	Cost Pressure or Variance - Expenses

Updated risks since the *Pre-election Update*		
Portfolio	**Risk title**	**Type of risk**
Broadcasting and Media	Delivery of the Government's Public Media Outcomes	Policy Change – Expenses and Capital
Climate Change	Emissions Trading Scheme – Fixed Price Option	Cost Pressure or Variance – Revenue and Expenses
Corrections	Waikeria Mental Health and Addiction Service Operating Funding	Cost Pressure or Variance – Expenses and Capital
COVID-19 Response	Managed Isolation and Quarantine	Cost Pressure or Variance – Expenses
Economic and Regional Development	New Zealand Screen Production Grant – International	Cost Pressure or Variance – Expenses
	Provincial Growth Fund	Cost Pressure or Variance – Expenses and Capital
Education	Change in Demand for Tertiary Education and Training	Cost Pressure or Variance – Expenses
	Education Operating Cost Pressures	Cost Pressure or Variance – Expenses
	Education Workforce Strategy	Policy Change – Expenses
	Free and Healthy Lunch Programme	Policy Change – Expenses and Capital
	Reform of Vocational Education (RoVE)	Policy Change – Expenses and Capital
	Replacing Deciles with the Equity Index	Policy Change – Expenses
	Response to the Tomorrow's Schools Review	Policy Change – Expenses
Finance	Business Finance Guarantee Scheme	Policy Change – Expenses
Finance, Earthquake Commission	Earthquake Commission	Cost Pressure or Variance – Expenses
	Southern Response Earthquake Services Support	Cost Pressure or Variance – Expenses and Capital
Foreign Affairs	Official Development Assistance	Policy Change – Expenses
Health	DHB Sustainability	Cost Pressure or Variance – Expenses
	Health and Disability System Review	Policy Change – Expenses

Updated risks since the *Pre-election Update*		
Portfolio	**Risk title**	**Type of risk**
Housing	Divestment and Development of Kāinga Ora – Homes and Communities' Housing	Cost Pressure or Variance – Expenses
	Tāmaki Regeneration Project	Cost Pressure or Variance – Expenses
Revenue	International Tax	Policy Change – Revenue
	Potential Tax Policy Changes	Policy Change – Revenue
	Research and Development Tax Incentive	Cost Pressure or Variance – Expenses
	Small Business Cashflow Scheme	Cost Pressure or Variance – Expenses and Capital
Social Development and Employment	Changes to the Welfare System	Policy Change – Expenses
Transport	Auckland City Rail Link	Cost Pressure or Variance – Expenses and Capital
	City Centre to Māngere Rapid Transit Project	Policy Change – Expenses and Capital
	Future of Rail Commitments	Policy Change – Capital
Cross-portfolio	Increasing the Minimum Wage	Policy Change – Expenses
	New Zealand Upgrade Programme	Cost Pressure or Variance – Expenses and Capital
	Pay Equity Claims	Cost Pressure or Variance – Expenses
	Policy Responses to the 15 March 2019 Terror Attacks	Policy Change – Expenses

Unchanged risks since the *Pre-election Update*		
Portfolio	**Risk title**	**Type of risk**
ACC	ACC Levies	Cost Pressure or Variance – Revenue and Expenses
	Impacts of Changes to Accident Compensation Policy Settings	Policy Change – Expenses
	Non-Earners' Account	Cost Pressure or Variance – Expenses
	Work-related Gradual Process Disease and Infection	Policy Change – Expenses
Biosecurity	*Mycoplasma Bovis* Biosecurity Response	Policy Change – Revenue and Expenses
Conservation	Department of Conservation Compliance with Drinking Water Supply Infrastructure Requirements	Cost Pressure or Variance – Expenses and Capital
Defence	Defence Funding Requirements to Deliver New Zealand's Defence Strategy	Policy Change – Expenses and Capital
	Disposal of New Zealand Defence Force Assets	Policy Change – Revenue and Expenses

Unchanged risks since the *Pre-election Update*		
Portfolio	**Risk title**	**Type of risk**
Education	Early Learning Action Plan	Policy Change – Expenses
	Learning Support	Cost Pressure or Variance – Expenses
	School Transport Services	Cost Pressure or Variance – Expenses
Finance	Closure of Tiwai Point Aluminium Smelter	Cost Pressure or Variance – Expenses
	Deposit Insurance Scheme	Policy Change – Revenue and Expenses
	Further COVID-19 Business Support	Policy Change – Expenses
Foreign Affairs	Antarctica New Zealand – Redevelopment of Scott Base	Cost Pressure or Variance – Expenses and Capital
Health	Health Capital Pressure	Cost Pressure or Variance – Capital
	Health Operating Pressure	Cost Pressure or Variance – Expenses
	Primary Care Services	Policy Change – Expenses
Housing	Emergency Housing Special Needs Grants	Cost Pressure or Variance – Expenses
	Increases to Market Rent	Cost Pressure or Variance – Expenses
	KiwiBuild – Fiscal and Delivery Risks	Cost Pressure or Variance – Revenue, Expenses and Capital
	Large-scale Housing and Urban Development Projects	Cost Pressure or Variance – Expenses and Capital
Internal Affairs	Archives New Zealand Storage Capacity	Cost Pressure or Variance – Expenses and Capital
	Royal Commission of Inquiry into Abuse in State Care	Cost Pressure or Variance – Expenses
Justice	Legal Aid Demand Pressures	Cost Pressure or Variance – Expenses
Local Government	Three Waters Infrastructure Investment and Reform Programme	Policy Change – Expenses and Capital
Police	Firearms Reform Programme	Cost Pressure or Variance – Expenses
Research, Science and Innovation	Research and Development Spending Target	Policy Change – Expenses
Revenue	Cash Held in Tax Pools	Cost Pressure or Variance – Revenue
	Student Loans – Valuation	Cost Pressure or Variance – Expenses
	Transformation and Technology Renewal	Cost Pressure or Variance – Expenses

Unchanged risks since the *Pre-election Update*		
Portfolio	**Risk title**	**Type of risk**
Transport	Auckland City Rail Link Ownership Issues	Policy Change – Expenses
	Upper North Island Supply Chain Strategy (UNISCS) – Independent Working Group Recommendations	Policy Change – Expenses and Capital
	Wellington Transport Investment Programme	Policy Change – Expenses and Capital
Treaty of Waitangi Negotiations	Relativity Clause	Cost Pressure or Variance – Expenses
	Treaty Settlement Forecasts	Cost Pressure or Variance – Expenses
Cross-portfolio	Information and Communications Technology Operating and Capital Pressures	Cost Pressure or Variance – Expenses and Capital
	Non-Government Providers Receiving Funding from the Crown	Cost Pressure or Variance – Expenses
	Other Capital Cost Pressures	Cost Pressure or Variance – Capital
	Other Operating Cost Pressures	Cost Pressure or Variance – Expenses
	Outcomes from Other Government Inquiries and Reviews	Policy Change – Expenses
	Services Funded by Third Parties	Cost Pressure or Variance – Expenses
	State Sector Employment Agreements	Cost Pressure or Variance – Expenses
	Unexpected Maintenance for Crown-owned Buildings	Cost Pressure or Variance – Capital

New Risks by Portfolio

The following section outlines *policy change* and *cost pressure or variance* risks that have been newly identified or disclosed since the *Pre-election Update*, a number of which relate to commitments made in the New Zealand Labour Party's 2020 election manifesto and/or set out in the Speech from the Throne. Many of these risks will be managed through existing funding sources and/or the Budget operating and capital allowances.

Economic and Regional Development

Regional Strategic Partnership Fund (Cost Pressure or Variance – Expenses and Capital)

The New Zealand Labour Party's 2020 election manifesto includes a commitment to a $200 million Regional Strategic Partnership Fund to support regional economic development plans and initiatives. The exact nature and timing of this funding are not sufficiently certain to be included in the fiscal forecasts but will likely have an impact during the forecast period.

Finance

Government Commitments to International Financial Institutions (Cost Pressure or Variance – Capital)

New Zealand has recently agreed to double its commitment under the International Monetary Fund (IMF) New Arrangements to Borrow (NAB) from SDR 340 to SDR 680, and to reduce its commitment under the Bilateral Borrowing Agreements from US$1 billion to US$31 million. These changes are likely to come into effect in January 2021, depending on agreement from other participating countries. The IMF has indicated it is likely the NAB will be activated in the next year, based on its current pipeline of requests for finance from members. New Zealand's commitments could be called upon once the NAB are activated.

Health

Boosting PHARMAC Purchasing (Policy Change – Expenses)

The New Zealand Labour Party's 2020 election manifesto includes a commitment to provide PHARMAC with additional funding of $200 million to widen New Zealand's access to the latest medicines. The exact nature and timing of this funding are not sufficiently certain to be included in the fiscal forecasts but will likely have an impact during the forecast period.

Mental Health Support for Children (Policy Change – Expenses)

The Speech from the Throne reaffirmed the Government's commitment to expand the Mana Ake programme throughout the rest of the country over the next five years and ensure that every primary and intermediate age child has access to mental health support. The exact nature and timing of this funding are not sufficiently certain to be included in the fiscal forecasts but will likely have an impact during the forecast period.

Reducing Planned Care Waiting Lists (Policy Change – Expenses)

The New Zealand Labour Party's 2020 election manifesto includes a commitment to provide $200 million of additional funding to reduce waiting lists for planned surgery and diagnostic services so that New Zealanders can access procedures in a timely manner close to where they live. The exact nature and timing of this funding are not sufficiently certain to be included in the fiscal forecasts but will likely have an impact during the forecast period.

Parliamentary Service

Future Parliamentary Accommodation (Policy Change – Capital)

The Parliamentary Service is considering options for the future provision of accommodation for Parliament. This includes exploring the remediation of the earthquake-prone Executive Wing Annex, a new Secure Deliveries building and the construction of a Members' Building. Construction and demolition costs are estimated to exceed $100 million; however, further work is still required to finalise the design, enter the consenting process and refine costings.

Racing

TAB NZ (Cost Pressure or Variance – Revenue, Expenses and Capital)

Under provisions of the Racing Industry Act 2020 that came into force on 1 August 2020, the governing body of TAB NZ is appointed by the Minister for Racing and the racing codes retain significant rights to distributions of TAB NZ surpluses and betting profits. As a result of the first of these factors, TAB NZ may now be deemed to be controlled by the Crown and therefore become part of the government reporting entity. Until the accounting treatment is resolved, forecasts relating to TAB NZ have not been included in the fiscal forecasts, but may need to be included in future fiscal forecasts once the accounting treatment is confirmed.

Social Development and Employment

Increasing Benefit Abatement Thresholds Further (Policy Change – Expenses)

The Government has committed to increasing abatement thresholds for everyone on a benefit to $160 per week and the second threshold for the Sole Parent Support/Supported Living Payment to $250 per week. In the Speech from the Throne, the Government also committed to indexing abatement thresholds to minimum wage increases.

Increasing Special Needs Grant Limits for Emergency Dental Treatment (Policy Change – Expenses)

The New Zealand Labour Party's 2020 election manifesto includes a commitment to increase the maximum grant limit for Special Needs Grants for emergency dental treatments from $300 to $1000. The exact nature and timing of this funding are not sufficiently certain to be included in the fiscal forecasts but will likely have an impact during the forecast period.

Reinstating the Training Incentive Allowance (Policy Change – Expenses)

The Speech from the Throne reaffirmed the Government's commitment to reinstate the Training Incentive Allowance for Levels 4 to 7 of the New Zealand Qualifications Framework. The exact nature and timing of this funding are not sufficiently certain to be included in the fiscal forecasts but will likely have an impact during the forecast period.

Cross-portfolio

Achieving New Zealand's International and Domestic Climate Change Targets (Policy Change – Expenses and Capital)

The Climate Change Response (Zero Carbon) Amendment Act 2019 requires the Government to set and achieve domestic greenhouse gas emissions targets and achieve emissions budgets starting in 2022 to 2025, and to contribute to the global effort under the Paris Agreement to limit global average temperature increases. New Zealand will need to pursue sizeable domestic or offshore abatement to meet its 2021 to 2030 emissions budget commitments under the Paris Agreement. Emissions Trading Scheme settings will affect government revenue and expenses, while complementary decarbonisation initiatives could result in substantial fiscal costs. The Government has choices around how it achieves these climate targets. It is likely that fulfilling its commitments will involve significant costs to the Crown, starting within the current fiscal forecast period.

Carbon Neutral Public Service (Policy Change – Expenses and Capital)

The Government has agreed to establish the Carbon Neutral Government Programme, with the aim of making the public sector carbon neutral by 2025. This programme is supported by the existing State Sector Decarbonisation Fund and possible mechanisms to achieve carbon neutrality include phasing out coal-fired boilers, transitioning the government vehicle fleet to electric vehicles, and ensuring government-occupied buildings are more energy efficient. A fiscal risk exists to the extent that government commitments are unable to be met through existing provisions for funding.

Progressively Extending Living Wage Guarantees to Contractors in the Public Sector (Policy Change – Expenses)

The Speech from the Throne reaffirmed the Government's commitment to progressively extend Living Wage guarantees to contractors in the public sector. Implementing this policy will involve costs to the Crown that are not currently provided for in the fiscal forecasts.

Changed Risks by Portfolio

The following section outlines *policy change* and *cost pressure or variance* risks that have significantly changed in nature or substance since the *Pre-election Update*. This may relate to a change in the underlying driver(s) of the risk and/or the risk's scope. Risks that have been updated, but which do not meet this definition of change, are listed in the Updated Risks by Portfolio section of this statement.

COVID-19 Response

COVID-19 Vaccine Strategy (Cost Pressure or Variance – Expenses)

The Government has set aside funding for the purchase of COVID-19 vaccines and the cost of vaccinating the population to prevent further outbreaks. In addition to what is included in the fiscal forecasts, there is a risk that further funding may be required. There is also a risk that liability may materialise under any indemnities given by the Minister of Finance in relation to COVID-19 vaccines. In the *Pre-election Update*, this risk was published under the 'Health' portfolio.

Finance

Alternative Monetary Policy Tools (Cost Pressure or Variance – Expenses)

The Reserve Bank of New Zealand (Reserve Bank) is considering options to expand its Alternative Monetary Policy (AMP) tools. Any additional AMP tools that the Reserve Bank may deploy could potentially impact key fiscal indicators. The fiscal forecasts already include an assumed fiscal impact from the Large Scale Asset Purchase programme and the Funding for Lending Programme that have been announced by the Reserve Bank. There is a risk that the fiscal impact of both of these programmes may differ from what is assumed in the fiscal forecasts, and this may include the size of the programmes as well as any gains or losses due to factors such as interest rate risk and credit risk.

Māori Development

Waitangi Tribunal Recommendations and Claims (Policy Change – Expenses)

The Waitangi Tribunal has recommended government action in its reports on a number of claims including WAI262, which focuses on the protection of Māori culture and identity. In April 2019, the Coalition Government initiated a whole-of-government approach to addressing issues raised in the WAI262 claim and the Tribunal's report on that claim. These and other issues raised through Waitangi Tribunal claims that the Government is working to address, such as WAI2698 (relating to Te Wānanga o Raukawa), represent a fiscal risk to the extent that additional funding may be required to address the issues raised. In the *Pre-election Update* this risk was published as 'Government Response to WAI262'.

Social Development and Employment

Quarterly Employment Survey Redevelopment (Cost Pressure or Variance – Expenses)

Stats NZ is redeveloping the Quarterly Employment Survey and will implement the new design from the March 2021 quarter. Current estimates indicate the redevelopment is expected to increase the average wage used in calculating New Zealand Superannuation and Veteran's Pension by 1% to 2%. Although the fiscal forecasts include an estimate of the impact from April 2022, there is still some residual uncertainty, which means the final figures published by Stats NZ could be higher or lower.

Veterans

Veterans' Disability Entitlements (Cost Pressure or Variance – Expenses)

The fiscal forecasts include a $3.5 billion liability in respect of veterans' entitlements, including the additional qualifying operational service announced since July 2020. The amount of the liability is an estimate based on the limited data currently available to value it. There is a risk that the amount of the liability may be under- or over-stated. As more data are collected over time, this uncertainty will reduce and the estimate of the liability will become more accurate.

Updated Risks by Portfolio

The following section outlines *policy change* and *cost pressure or variance* risks that are unchanged in nature and substance since the *Pre-election Update*, but have been updated to reflect present circumstances. Any necessary update to the narrative of a risk since the *Pre-election Update*, no matter how small, is reflected in this section. Among other reasons, risks may, for example, be classified as updated risks as a result of the progression of legislation or the provision of more complete information.

Broadcasting and Media

Delivery of the Government's Public Media Outcomes (Policy Change – Expenses and Capital)

The media sector, including both public and privately owned organisations, is under increasing pressure from international competition, declining revenue shares and changes to the way people access content. The Government has committed to strengthening New Zealand's public media and has commissioned a detailed business case on the viability of a preferred approach. Once business case outcomes are agreed, significant additional investment may be required to deliver on the Government's public media outcomes. In the *Pre-election Update*, this risk was published under the 'Broadcasting, Communications and Digital Media' portfolio.

Climate Change

Emissions Trading Scheme – Fixed Price Option (Cost Pressure or Variance – Revenue and Expenses)

The Emissions Trading Scheme (ETS) earns revenue and incurs expenses for the Crown, both of which are uncertain. The uncertainty is partly owing to the future market price of New Zealand Units (NZUs), how that market price differs from the Fixed Price Option (FPO), and the extent to which participants elect to use the FPO. Participants in the ETS who emit greenhouse gases are required to surrender NZUs to account for those emissions. Participants who do not have sufficient NZUs are able to meet their obligations by purchasing NZUs from other participants or from the Crown at a fixed price of $35. In addition, the Climate Change Response (Emissions Trading Reform) Amendment Act 2020 enables the auctioning of units to begin in 2021. Auctioning NZUs will result in cash being paid to the Crown, also reducing net core Crown debt. The extent of this depends on the future price realised for auctioned units, which is inherently uncertain. As a result of both these factors, actual revenue and expenses may vary from the fiscal forecasts, which for both revenue and expenses assume a carbon price value based on the market price at 30 September 2020 of $35.

Corrections

Waikeria Mental Health and Addiction Service Operating Funding (Cost Pressure or Variance – Expenses and Capital)

The Waikeria Prison Development, including a 500-bed High Security Facility and a 100-bed Mental Health and Addiction Service, is currently under construction. The operational costs of running these facilities were not sought at the time Cabinet approved the projects. These operational costs, including the intensive model of care required by the Government as part of the Mental Health and Addiction Service, may require further Crown funding as there is a risk that these costs cannot be met within existing baselines. In the *Pre-election Update*, this risk was published as 'Waikeria Mental Health Unit Operating Funding'.

COVID-19 Response

Managed Isolation and Quarantine (Cost Pressure or Variance – Expenses)

Given the changing global situation and uncertainty with respect to COVID-19, demand for Managed Isolation and Quarantine (MIQ), and the number of places, length of time, and type of accommodation, health and security arrangements required, may change rapidly. Any changes in demand will put pressure on current MIQ supply and appropriated funding reflected in the fiscal forecasts, and may lead to further funding being required to deliver additional services or MIQ places. Current expectations are that facilities may be required until the end of 2021, though there may be a need to seek funding additional to that already included in the forecasts. In the *Pre-election Update*, this risk was published under the 'Housing' portfolio.

Economic and Regional Development

New Zealand Screen Production Grant – International (Cost Pressure or Variance – Expenses)

The New Zealand Screen Production Grant is an uncapped, on-demand grant that incentivises international studios to locate production work in New Zealand by offering them a rebate on their qualifying expenditure. Although potential delays to productions as a result of COVID-19 may offset some of this risk in the near term, there remains a high level of international interest in New Zealand as a place to do screen business over the forecast period. The fiscal forecasts include an estimate of expenditure based on known productions. There nevertheless remains a risk that demand for the Screen Production Grant will exceed what is included in the fiscal forecasts if more large-budget productions choose to locate in New Zealand (in addition to the two existing large-scale productions of the *Avatar* sequels and *The Lord of the Rings* television series). In the *Pre-election Update*, this risk was published under the 'Economic Development' portfolio.

Provincial Growth Fund (Cost Pressure or Variance – Expenses and Capital)

The Provincial Growth Fund is a $3.0 billion fund, established by the Coalition Government, which makes payments to counterparties under contract. The capital and operating split and timing of this funding, as set out in the fiscal forecasts, are likely to change, and final capital and operating expense amounts in any year may vary from those forecast. In the *Pre-election Update*, this risk was published under the 'Regional Economic Development' portfolio.

Education

Change in Demand for Tertiary Education and Training (Cost Pressure or Variance – Expenses)

There is significant uncertainty about the impact of COVID-19 on unemployment, school leavers and the migration of New Zealand residents, and the scale of the increased enrolments in tertiary education and demand for student support (loans and allowances) that will result. More people aged 18 to 24 years, and more people unable to find work who enter study instead to upskill or retrain, can lead to more enrolments in tertiary education. In Budget 2020, the COVID-19 Response and Recovery Fund provided an additional $334 million over 2021 to 2023 to meet increased learner demand. Because of the uncertainty around the impact of COVID-19, however, learner demand could be higher or lower than the available number of funded places for learners. Updated forecasts and initial enrolments in 2021 will provide an indication of any potential additional financial costs.

Education Operating Cost Pressures (Cost Pressure or Variance – Expenses)

The education sector is exposed to cost pressures from changing levels of demand in early childhood education (ECE) and schooling, which can result from factors such as population growth and changes in participation levels. Demographic change has an impact on expenditure on ECE subsidies, especially for the 20 hours' fully subsidised entitlement for three- to five-year-olds; the per-pupil component of schools' operational funding; and schools' full-time teaching equivalent entitlement, which is based on staff-to-student ratios. COVID-19 and the resulting economic and social conditions serve to increase the uncertainty about levels of demand for educational services in the coming years. In addition, the Ministry of Education faces compounding departmental operating expenditure pressures as a result of the increasing demand for, and the price of, education services, and other cost pressures experienced by its work programmes. These pressures, which include difficult-to-control inflationary pressures, represent risks to the extent that they cannot be managed through reprioritisation or new spending set aside in the forecasts. The Government's stated intention is that all pressures are managed through these mechanisms.

Education Workforce Strategy (Policy Change – Expenses)

The Ministry of Education is working in partnership with the Education Workforce Strategy Group (EWSG) and the Accord with NZEI Te Riu Roa and the Post Primary Teachers' Association to develop a comprehensive Education Workforce Strategy (EWS) for the full education workforce. The aim is for Cabinet to consider the draft EWS (and accompanying Strategic Action Plan) prior to post-Cabinet consultation and engagement with the New Zealand public and education workforce. An implementation plan is likely to be finalised in late 2021. Delivering on the full intent of the EWS will involve a significant fiscal cost.

Free and Healthy Lunch Programme (Policy Change – Expenses and Capital)

The Free and Healthy Lunch Programme was a prototype to test different models of delivery to students in selected schools. The Government has committed to expanding this programme to cover 200,000 students in 2021 and will roll this programme into outyears. The programme was expanded in 2020 to provide lunches to the 25% most disadvantaged students in the country as part of the Government's COVID-19 response. The programme funding (both the prototype and expansion) currently ends in December 2021. If the Government confirms an extension or expansion of the programme, additional ongoing funding beyond that currently provided for will be required.

Reform of Vocational Education (RoVE) (Policy Change – Expenses and Capital)

Te Pūkenga – New Zealand Institute of Skills and Technology may seek significant additional Crown funding in the future for the transformation and management of its national network of education providers (the 16 former Institutes of Technology and Polytechnics), including integrating support for work-based training such as apprenticeships. Design of, and implementation planning for, the vocational education Unified Funding System (UFS) is continuing. The Coalition Government stated an intention to implement the UFS from 1 January 2023, but this and any additional investment is subject to Cabinet decisions. The Speech from the Throne reaffirmed the Government's commitment to complete the reform of the vocational education system.

Replacing Deciles with the Equity Index (Policy Change – Expenses)

The Coalition Government made an in-principle decision to replace school deciles with the Equity Index. This commitment is also made in the New Zealand Labour Party's 2020 election manifesto. The Index provides a more refined measure to understand whether there are socio-economic factors present in the lives of children that can impact educational outcomes. This will inform how the education system can be resourced to provide all children with an equitable chance of success. Additional funding for schools and implementation will be required in the future to transition to the new system.

Response to the Tomorrow's Schools Review (Policy Change – Expenses)

The Coalition Government's response to the Tomorrow's Schools Review has been publicly released and the New Zealand Labour Party's 2020 election manifesto commits to reform of the Tomorrow's Schools system. Continued policy development and relevant service and implementation design have begun, with a focus on enhancing frontline services and support for learners/ākonga, whānau and education providers. Accordingly, future decisions are still required, including decisions on changes in investment. The Coalition Government indicated it will consider these changes and new investments over the next three to four Budgets. This is a policy choice of the Government and the costs will be material but unquantifiable at this point for specific financial years. The impact of COVID-19 will lead to continued development work over the long term, with a short-term focus on supporting schools and front-line services.

Finance

Business Finance Guarantee Scheme (Policy Change – Expenses)

The Crown has established a Business Finance Guarantee Scheme (BFGS) with a number of banks to support New Zealand businesses facing hardship as a consequence of COVID-19. The currently assessed fair value of these contracts, and the expense arising, has been quantified and incorporated into the forecasts. Possible changes to the BFGS currently under consideration may increase the take-up of the scheme and may impact on credit losses that will be incurred. This is a variance risk to the extent that the actual take-up of the scheme and subsequent credit losses incurred may differ from what is included in the fiscal forecasts.

Finance, Earthquake Commission

Earthquake Commission (Cost Pressure or Variance – Expenses)

The Earthquake Commission's (EQC's) independent actuary undertakes half-yearly valuations of the total EQC earthquake liability to the Crown. This includes settled and yet-to-settle claims (including those in litigation), an estimation of future claims not yet received, insurer finalisation and any associated reinsurance recoveries. Based on these valuations, a profile of the yet-to-settle claims is included in the fiscal forecasts. There are risks that EQC's remaining settlement expenditure relating to the Canterbury and Kaikōura earthquakes will differ from (be higher or lower than) forecast. This is because EQC's remaining settlement expenditure relating to the Canterbury earthquakes does not incorporate any liability recognition or provision for costs relating to the over-cap portion of any building claims, whether they are on-sold remedial building claims or otherwise. EQC recognises expected future costs only where it is liable for such costs under the Earthquake Commission Act 1993. The risks include litigation and the resolution of liability with insurers and reinsurers, in addition to the level of future remedial claims. It is not possible at this stage to fully quantify the potential financial impact or the timing of these risks owing to the uncertainty associated with them, and variance from what is in the fiscal forecasts could be material.

Southern Response Earthquake Services Support (Cost Pressure or Variance – Expenses and Capital)

The ultimate cost to the Crown of settling earthquake claims is subject to uncertainty. Forecasts currently assume that the actual cost to settle claims will align with the actuary's central estimate of the claims provision. There is a risk that the actual cost could be higher than this estimate, which is sensitive to its underlying assumptions such as damage estimates, recent and future court decisions, claims emerging in the future and the forecast profile of claims settlement. In the *Pre-election Update*, this risk was published under the 'Greater Christchurch Regeneration' portfolio.

Foreign Affairs

Official Development Assistance (Policy Change – Expenses)

Each year, New Zealand's Official Development Assistance (ODA) expenditure is measured as a proportion of Gross National Income (GNI). In Budget 2020, Cabinet agreed to increase ODA by $55.589 million in 2020/21, lifting it to 0.32% of GNI from 0.28% of GNI. If the Government wants to maintain the ratio at or around 0.32% beyond June 2021, a different level of funding may be required, depending on the scale of the economic impact of COVID-19.

Health

DHB Sustainability (Cost Pressure or Variance – Expenses)

In recent years, the District Health Board (DHB) sector has been running operating deficits. As a result, a number of DHBs have required additional equity injections from the Government to remain solvent. This trend is expected to continue, with the fiscal forecasts reflecting deficits from DHBs of, on average, $600 million per year over the forecast period. The fiscal forecasts assume that future expenditure growth will be met from future Budget allowances.

There is a significant risk that DHBs' deficits may be higher than what has been included in the fiscal forecasts, which would adversely impact the Government's operating balance and net core Crown debt. In particular, the DHB sector is likely to face significant cost pressures in the future to maintain the delivery of existing services. These cost pressures may increase as a result of the COVID-19 response. DHB expenditure growth is likely to be driven by demographic changes, price inflation of inputs, and wage costs (both pay negotiation and progression through pay scales). The Government does have choices for meeting future cost pressures if they eventuate. However, given current policy settings, constraining or reducing expenditure over the forecast period while maintaining existing services would be very difficult. DHBs will be likely to require additional revenue to manage growing deficits.

Health and Disability System Review (Policy Change – Expenses)

The review of the New Zealand Health and Disability System has identified opportunities to improve the performance, structure and sustainability of the system, with a goal of achieving equity of outcomes, and contributing to wellness for all, particularly Māori and Pacific peoples. Until the Government has considered the recommendations and decided which to implement, the costs of implementation will not be known. The New Zealand Labour Party 2020 election manifesto commits to implementing recommendations of this review, including the establishment of a Māori Health Authority, Public Health Agency and Aged Care Commissioner. As detailed decisions are still to be taken, the full costs of these changes are not yet reflected in the fiscal forecasts.

Housing

Divestment and Development of Kāinga Ora – Homes and Communities' Housing (Cost Pressure or Variance – Expenses)

The Crown's fiscal forecasts include business-as-usual divestments, acquisitions and the redevelopment of land and housing as part of Kāinga Ora's asset management strategy. The Crown also faces commercial and financial risks inherent in large-scale build and urban development programmes, the magnitude of which has increased as a result of the adverse impact of COVID-19 on Kāinga Ora's pipeline, international supply chains and the financial viability of its build partners.

Tāmaki Regeneration Project (Cost Pressure or Variance – Expenses)

The Tāmaki Regeneration Project involves the replacement of 2,500 existing public houses with between 7,500 and 10,500 new public, affordable and market houses (around one-third of which will be public houses). Development involves writing off existing public housing assets. If land sale proceeds are less than the value of write-offs in a given year, there will be a negative impact on the operating balance.

Revenue

International Tax (Policy Change – Revenue)

The Government is currently considering options for reform of the international tax framework, in light of the challenges posed by digitalisation and globalisation. The Government's preference is to continue working with the Organisation for Economic Co-operation and Development (OECD) to find a multilaterally agreed solution to these challenges, but the Government may consider a digital services tax if the OECD does not make sufficient progress on a multilateral solution. The revenue impact of a digital services tax or OECD solution would depend on how it is designed. In the *Pre-election Update* this risk was published as 'Taxation of Digital Services'.

Potential Tax Policy Changes (Policy Change – Revenue)

The work programme to progress certain tax measures can be viewed on the tax policy website, www.taxpolicy.ird.govt.nz. The measures on the work programme, and their collective fiscal implications, are subject to change.

Research and Development Tax Incentive (Cost Pressure or Variance – Expenses)

The Research and Development (R&D) Tax Incentive allows eligible firms to receive a tax credit based on a percentage of their expenditure on R&D. Under certain circumstances, eligible firms may receive a cash payment in place of a tax credit. There is a risk that costs may differ from forecasts owing to the limited availability of data for forecasting purposes on future R&D expenditure, including how firms' R&D expenditure will respond to the subsidy. Additionally, international experience shows that costs of R&D tax credits can be significantly higher than expected if firms recategorise other types of expenditure as R&D in order to claim the credit. At the same time, the costs may be lower than forecast if businesses do not claim the subsidy (eg, because of a lack of information about the subsidy). Costs may also differ from forecasts as the investment environment can change quickly.

Small Business Cashflow Scheme (Cost Pressure or Variance – Expenses and Capital)

The Small Business Cashflow Scheme was introduced to support small-to-medium businesses affected by COVID-19. There is a variance risk that the value of the lending may differ, either positively or negatively, from what is currently forecast as the lending under the scheme is dependent on demand until the application closing date of 31 December. As new lending occurs, an initial write-down to fair value is made. This reflects the cost the Crown incurs in making a loan at below-market terms and the risk that borrowers will not repay their loans. The fair value of the scheme will depend on the amount of loans and the assumptions around borrower repayments and defaults over the life of the scheme, which are based on volatile factors that are subject to change. These assumptions reflect the changes to the scheme the Government announced on 9 November 2020 but would need to be revised for any future changes made to the scheme.

Social Development and Employment

Changes to the Welfare System (Policy Change – Expenses)

The Government has agreed that its vision for the welfare system is to ensure that people have an adequate income and standard of living, are treated with respect and can live with dignity, and are able to participate meaningfully in their communities. Cabinet has agreed to a multi-year policy work programme to deliver on this vision. Any changes agreed to in future will likely have legislative, operational, ICT and fiscal implications. This risk relates to the fiscal implications of those changes associated with this work programme other than the ‘Increasing Abatement Thresholds Further’ risk, the ‘Increasing Special Needs Grant Limits for Emergency Dental Treatment’ risk and the ‘Reinstating the Training Incentive Allowance’ risk listed in the New Risks by Portfolio section of this statement.

Transport

Auckland City Rail Link (Cost Pressure or Variance – Expenses and Capital)

The Government has committed to funding 50% of the costs associated with the City Rail Link project, which is estimated to cost $4.4 billion. Based on this estimate, the Crown contribution to the project will be around $2.2 billion. There is a risk that the timing, scope and amount of the Crown contribution to the project could be different from what is included in the fiscal forecasts, in particular because of additional costs arising from the COVID-19 lockdowns, as well as the costs associated with the delays in obtaining key skilled workers from outside New Zealand’s border.

City Centre to Māngere Rapid Transit Project (Policy Change – Expenses and Capital)

The Coalition Government decided to terminate the parallel process for the City Centre to Māngere Rapid Transit (Auckland Light Rail) project, with further decisions yet to be taken. The Government is still committed to addressing congestion on the city centre to Māngere corridor and, depending on future decisions, Crown funding may be required to support any rapid transit project. In the *Pre-election Update*, this risk was published as ‘Light Rail in Auckland’.

Future of Rail Commitments (Policy Change – Capital)

Further Crown funding may be sought through future Budgets to progress projects as part of implementing the Future of Rail Review, in order to build and maintain a resilient and reliable rail network. In the *Pre-election Update*, this risk was published as ‘Support for KiwiRail’.

Cross-portfolio

Increasing the Minimum Wage (Policy Change – Expenses)

Government policy decisions to increase the minimum wage to $20 by April 2021 would mean increased costs to State sector employers to the extent that their employees receive a direct increase in wages. Where costs cannot be absorbed within baselines without compromising service delivery, funding may be sought. The Speech from the Throne reaffirmed the Government’s commitment to increase the minimum wage.

New Zealand Upgrade Programme (Cost Pressure or Variance – Expenses and Capital)

The New Zealand Upgrade Programme was announced in December 2019. The programme provides funding for significant capital investments. Operating expenses still need to be provided for some projects and there remains a risk regarding the timing of the capital projects that have been reflected in the fiscal forecasts as well as a risk of cost increases as a result of construction price inflation and project scope changes.

Pay Equity Claims (Cost Pressure or Variance – Expenses)

A number of claims have been raised in relation to the Equal Pay Act 1972 providing for pay equity (equal pay for work of equal value) and further claims may be raised following commencement of the Equal Pay Amendment Act 2020 in November 2020. The forecasts include an estimate of the expected cost to settle current and future claims; however, there is a risk that the costs may differ depending on the number of further claims that are raised, and the outcomes reached from applying the pay equity principles to each particular claim, and any subsequent funding decisions. In the *Pre-election Update*, this risk was published as ‘Pay Equity Claims Following the Care and Support Worker Settlement’.

Policy Responses to the 15 March 2019 Terror Attacks (Policy Change – Expenses)

The Government has made several responses to the 15 March 2019 terror attacks. Further policy responses and legislative amendments may be needed and there are likely to be additional costs associated with responding to the Royal Commission of Inquiry into the Terrorist Attack on Christchurch Mosques on 15 March 2019. The Royal Commission presented its report to the Governor-General on 26 November 2020, and the costs of the Government’s initial decisions on the report’s recommendations were unable to be quantified before the fiscal forecasts were finalised.

Risks Removed Since the *Pre-election Update*

The following table outlines risks that were published in the *Pre-election Update* but are no longer disclosed as specific fiscal risks, because these are provided for in the forecasts, are adequately captured by existing risks, or no longer meet the materiality threshold for publication.

Portfolio	Title	Reason for expiry
Education	Extension of the Fees-free Tertiary Education Policy	The Government has indicated that the fees-free education policy will not be extended beyond the current provision for one year's study or two years' training fees-free.
Finance	Goodwill on Acquisition	The possibility of further impairments is considered to be remote.
Racing	Financial Viability of TAB NZ	As a result of further work being undertaken to confirm the size of any additional support necessary for TAB NZ and sports and racing codes, the materiality of this risk has fallen below the threshold for publication in the statement of specific fiscal risks.
Cross-portfolio	Addressing the Gender Pay Gap in the State Sector	The majority of government agencies have addressed their immediate like-for-like gender pay gaps, and the expectation is that further actions will not meet the materiality threshold for publication as a specific fiscal risk and be met from within baselines.
Cross-portfolio	Budget 2020 Priority Packages	A number of initiatives in the Budget 2020 priority packages have now received funding through the CRRF. The unfunded initiatives that remain are below the threshold for publication in the statement of specific fiscal risks.
Cross-portfolio	Changes to Institutional Form of Government Agencies	Apart from the Health and Disability System Review and the Tomorrow's Schools Review, which are published as individual specific fiscal risks, the scale of machinery of government changes being considered has reduced to below the threshold for publication in the statement of specific fiscal risks.
Cross-portfolio	Possible Responses to the 2020 Referendums on Cannabis Law Reform and End of Life Choice	In response to the October 2020 referendums, the Government has indicated that it will not make significant changes to cannabis policy, and the costs to implement the End of Life Choice Act 2019 fall below the threshold for publication.
Cross-portfolio	Transitioning to an Electric Vehicle Fleet in the State Sector	The substance of this risk is now captured by the newly published 'Carbon Neutral Public Service' risk.

Contingent Liabilities and Contingent Assets

Contingent liabilities are possible costs that have arisen from past events, but the amount of the liability, or whether it will eventuate, will not be confirmed until a particular event occurs; or they are present liabilities that are unable to be measured with sufficient reliability to be recorded in the fiscal forecasts.

Typically, contingent liabilities consist of guarantees and indemnities, uncalled capital and legal disputes and claims (descriptions of these categories are provided below). The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation.

In general, if a contingent liability were realised, or the amount becomes sufficiently reliable to record as a liability, it would reduce the operating balance and net worth and increase net core Crown debt. However, in the case of some contingencies (eg, uncalled capital), the negative impact would be restricted to net core Crown debt.

Contingent assets are possible assets that have arisen from past events but the amount of the asset, or whether it will eventuate, will not be confirmed until a particular event occurs.

Types of contingent liabilities

Uncalled capital

As part of the Crown's commitment to a multilateral approach to ensure global financial and economic stability, New Zealand, as a member country of the organisations listed below, contributes capital by subscribing to shares in certain institutions. The capital (when called) is typically used to raise additional funding for loans to member countries, or in the case of the quota contributions to directly finance lending to members. For New Zealand and other donor countries, capital contributions comprise both 'paid-in capital' and 'callable capital or promissory notes'.

Guarantees and indemnities

Guarantees are legally binding promises made by the Crown to assume responsibility for a debt, or the performance of an obligation, of another party, should that party default. Guarantees generally relate to the payment of money but may require the performance of services.

Indemnities are legally binding promises where the Crown undertakes to accept the risk of loss or damage that another party may suffer and to hold the other party harmless against loss caused by a specific stated event(s).

Legal claims and proceedings

There are numerous legal actions that have been brought against the Crown. The amounts under quantifiable contingent liabilities for legal proceedings and disputes are shown exclusive of any interest and costs that may be claimed if these cases have an adverse outcome. The amount shown is the maximum potential cost; it does not represent either an admission that the claim is valid or an estimation of the possible amount of any award against the Crown.

Other contingent liabilities

This includes contingent liabilities where the nature of the contingency does not fall under any of the categories described above.

Unquantifiable contingent liabilities

This part of the statement provides details of those contingent liabilities that are not quantified, excluding those that are considered remote, reported by the following categories: indemnities, legal disputes and other contingent liabilities.

Statement of Contingent Liabilities and Contingent Assets

Only contingent liabilities and contingent assets involving amounts of over $100 million are separately disclosed in this chapter. Quantifiable contingencies of less than $100 million are aggregated in the 'other quantifiable' total.

Some contingencies of the Crown are not able to be quantified. We have disclosed unquantifiable contingent liabilities and unquantifiable contingent assets that potentially could have an impact in excess of $20 million and are not expected to be remote.[23]

The contingencies have been stated as at 31 October 2020, being the latest set of published Financial Statements of the Government (FSG).

Where a contingency is new or the status has changed from that published in the Financial Statements of the Government for the year ended 30 June 2020,[24] we have included a description of the nature of that contingency. This is a change from the disclosure shown in previous Economic and Fiscal Updates, which included descriptions for all separately disclosed contingencies.

As at 31 October 2020, there has been no change to the status of the contingencies disclosed since the 30 June 2020 FSG.

[23] 'Remote' is defined as being an item with less than a 10% chance of occurring.

[24] The *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2020*, which contain descriptions of all material contingencies at 30 June 2020, can be found at https://www.treasury.govt.nz/publications/year-end/financial-statements-2020

Statement of Contingent Liabilities and Contingent Assets

Quantifiable contingent liabilities

	Status[25]	31 October 2020 ($millions)	30 June 2020 ($millions)
Uncalled capital			
Asian Development Bank	Unchanged	3,300	3,315
International Monetary Fund – promissory notes	Unchanged	1,881	2,058
International Bank for Reconstruction and Development	Unchanged	1,901	1,724
International Monetary Fund – arrangements to borrow	Unchanged	693	693
Asian Infrastructure Investment Bank	Unchanged	556	575
Other uncalled capital	Unchanged	20	19
		8,351	**8,384**
Guarantees and indemnities			
New Zealand Export Credit Office guarantees	Unchanged	141	127
Other guarantees and indemnities	Unchanged	172	136
		313	**263**
Legal proceedings and disputes			
Legal tax proceedings	Unchanged	188	189
Other legal proceedings and disputes	Unchanged	273	302
		461	**491**
Other quantifiable contingent liabilities			
Unclaimed monies	Unchanged	184	183
Ministry for Primary Industries	Unchanged	132	132
Other quantifiable contingent liabilities	Unchanged	235	170
		551	**485**
Total quantifiable contingent liabilities		**9,676**	**9,623**

Quantifiable contingent assets

		31 October 2020 ($millions)	30 June 2020 ($millions)
Legal proceedings and disputes			
Other contingent assets	Unchanged	45	45
Total quantifiable contingent assets		**45**	**45**

[25] Status of contingent liabilities or assets when compared with the *Financial Statements of the Government for the year ended 30 June 2020*, published on 24 November 2020.

Contingent liabilities

Indemnities	**Status**
Contact Energy Limited	Unchanged
Earthquake Commission (EQC)	Unchanged
Genesis Energy	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Partners	Unchanged
New Zealand Aluminium Smelter and Comalco	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
New Zealand Transport Agency (NZTA)	Unchanged
Reserve Bank	Unchanged
Southern Response Earthquake Services Limited (SRES)	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal claims and proceedings	
Accident Compensation Corporation (ACC) litigation	Unchanged
Aquaculture Settlements	Unchanged
Canterbury insurance disputes	Unchanged
Kiwifruit vine disease Psa-V	Unchanged
Ministry for Primary Industries – Biosecurity Act 1993 compensation	Unchanged
Treaty of Waitangi claims	Unchanged
Wakatu	Unchanged
Other unquantifiable contingent liabilities	
Accident Compensation Corporation (ACC) sensitive claims	Unchanged
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Holidays Act 2003	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged

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Forecast Financial Statements

These forecasts have been prepared in accordance with the Public Finance Act 1989.

They are based on the accounting policies and assumptions that follow. As with all such assumptions, there is a degree of uncertainty surrounding them. This uncertainty increases as the forecast horizon extends. There are risks to the fiscal forecasts which are discussed further in the Risks to the Fiscal Forecasts chapter.

These forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. They reflect all government decisions and circumstances communicated to 30 November 2020.

The finalisation dates and key assumptions that underpin the preparation of the Forecast Financial Statements are outlined in the Fiscal Outlook chapter (pages 31 to 48).

Presentational changes to the forecast financial statements

The main purpose of the Government's fiscal indicators is to act as a communications device to inform and analyse how the Government is performing against its fiscal strategy and to support Government decision making. These fiscal indicators can be based on generally accepted accounting practice (GAAP) measures but can also be derived from the GAAP numbers presented in the Forecast Financial Statements.

Content in this Forecast Financial Statements chapter has been rearranged to assist in understanding the distinction between GAAP and non-GAAP fiscal indicators. This change in structure includes moving non-GAAP measures out of the main Forecast Financial Statements section and including these in a new section within this chapter called Fiscal Indicator Analysis. It is important to note that no information has been removed, rather, information is now located in a different place within the same chapter.

For example, OBEGAL, a non-GAAP measure, is no longer presented on the face of the Statement of Financial Performance. Instead, a reconciliation between the operating balance and OBEGAL is now included in the new Fiscal Indicator Analysis section. While OBEGAL is derived from GAAP numbers, the operating balance is the 'bottom line' GAAP performance measure in the Statement of Financial Performance.

Refer to the Fiscal Indicator Analysis section (on pages 110 to 115) for further information.

Statement of Accounting Policies

Significant Accounting Policies

The Forecast Financial Statements have been prepared in accordance with the accounting policies that are expected to be used in the comparable audited actual Financial Statements of the Government. They comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989 and have been prepared in accordance with *Public Benefit Entity Financial Reporting Standard 42: Prospective Financial Statements*.

All forecasts use the accrual basis of accounting. Forecasts have been prepared for the consolidated Financial Statements of the Government reporting entity, which includes all entities controlled by the Government (as defined by applicable financial reporting standards).

The Forecast Financial Statements reflect the accounting standards in place in the year that they are prepared. Adoption of new accounting standards in future financial years are consequently not reflected in these Forecast Financial Statements. Where accounting standards are to be adopted within the fiscal forecasts period, this has been signalled in the note disclosures where impacts may be significant.

The specific accounting policies are included on the Treasury's website at https://treasury.govt.nz/information-and-services/state-sector-leadership/guidance/financial-reporting-policies-and-guidance/accounting-policies

Forecast Policies

The Forecast Financial Statements have been prepared on the basis of the Treasury's best professional judgement. Actual financial results for the periods covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results in future years are set out in the Risks to the Fiscal Forecasts chapter on pages 49 to 80. Key forecast assumptions are set out on pages 33 to 34.

Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2021 to 30 June 2025. The "Previous Budget" figures are the original forecasts to 30 June 2021 as presented in the 2020 *Budget Update* and the "2020 Actual" figures are the audited actual results reported in the Financial Statements of Government (FSG) for the year ended 30 June 2020.

Government Reporting Entity as at 30 November 2020

These Forecast Financial Statements are for the Government Reporting entity as specified in Part 3 of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities (classified in the three institutional components used for segmental reporting). The following tables list the Entities within each institutional Component. (Subsidiaries are consolidated by their parents and not listed separately).

Core Crown Segment

Departments

Crown Law Office

Department of Conservation

Department of Corrections

Department of Internal Affairs

Department of the Prime Minister and Cabinet – (includes National Emergency Management Agency as a departmental agency)

Education Review Office

Government Communications Security Bureau

Inland Revenue Department

Land Information New Zealand

Ministry for Culture and Heritage

Ministry for Pacific Peoples

Ministry for Primary Industries

Ministry for the Environment

Ministry for Women

Ministry of Business, Innovation, and Employment

Ministry of Defence

Ministry of Education

Ministry of Foreign Affairs and Trade

Ministry of Health – (includes Cancer Control Agency as a departmental agency)

Ministry of Housing and Urban Development

Ministry of Justice - (includes Te Arawhiti – Office for Māori Crown Relations as a departmental agency)

Ministry of Māori Development – Te Puni Kōkiri

Ministry of Social Development

Ministry of Transport

New Zealand Customs Service

New Zealand Defence Force

New Zealand Police

New Zealand Security Intelligence Service

Office of the Clerk of the House of Representatives

Oranga Tamariki – Ministry for Children

Parliamentary Counsel Office

Parliamentary Service

Public Service Commission - (includes Social Wellbeing Agency as a departmental agency)

Serious Fraud Office

Statistics New Zealand

Te Kāhui Whakamana Rua Tekau mā Iwa – Pike River Recovery Agency

The Treasury

Offices of Parliament

Controller and Auditor-General

Office of the Ombudsman

Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund

Reserve Bank of New Zealand

State-owned Enterprises Segment

State-owned Enterprises

Airways Corporation of New Zealand Limited

Animal Control Products Limited

AsureQuality Limited

Electricity Corporation of New Zealand Limited

KiwiRail Holdings Limited

Kordia Group Limited

Landcorp Farming Limited

Meteorological Service of New Zealand Limited

New Zealand Post Limited

New Zealand Railways Corporation

Quotable Value Limited

Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act Schedule 5)

Genesis Energy Limited

Mercury NZ Limited

Meridian Energy Limited

Other

Air New Zealand Limited

Kiwi Group Holdings Limited (including Kiwibank)

Crown Entities Segment

Crown Entities

Accident Compensation Corporation
Accreditation Council
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Children's Commissioner
Civil Aviation Authority of New Zealand
Climate Change Commission
Commerce Commission
Criminal Cases Review Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Financial Markets Authority
Fire and Emergency New Zealand
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Promotion Agency
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Human Rights Commission
Independent Police Conduct Authority
Kāinga Ora - Homes and Communities
Law Commission
Maritime New Zealand
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood Service
New Zealand Film Commission
New Zealand Growth Capital Partners Limited (previously New Zealand Venture Investment Fund)
New Zealand Infrastructure Commission/ Te Waihanga
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,420)
Social Workers Registration Board
Sport and Recreation New Zealand
Takeovers Panel
Te Pūkenga New Zealand Institute of Skills and Technology
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Transport Accident Investigation Commission
WorkSafe New Zealand

Crown Entities Segment (continued)

Organisations listed in schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust

Asia New Zealand Foundation

Fish and Game Councils (12)

Game Animal Council

Māori Trustee

National Pacific Radio Trust

New Zealand Fish and Game Council

New Zealand Game Bird Habitat Trust Board

New Zealand Government Property Corporation

New Zealand Lottery Grants Board

Ngāi Tahu Ancillary Claims Trust

Pacific Co-operation Foundation

Pacific Island Business Development Trust

Reserves Boards (21)

Te Ariki Trust

Legal entities created by Treaty of Waitangi settlement Acts (Public Finance Act Schedule 6)

Te Urewera

Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act Schedule 4A)

Crown Asset Management Limited

Crown Infrastructure Partners Limited

Education Payroll Limited

New Zealand Green Investment Finance Limited

Ōtākaro Limited

Predator Free 2050 Limited

Provincial Growth Fund Limited

Research and Education Advanced Network New Zealand Limited

Southern Response Earthquake Services Limited

Tāmaki Redevelopment Company Limited

The Network for Learning Limited

Others

Christ Church Cathedral Reinstatement Trust

Venture Capital Fund

Other entities not fully consolidated into the Forecast Financial Statements of the Government with only the Crown's interest in them being included.

Crown entities

Tertiary Education Institutions (11)

(8 Universities and 3 Wānanga)

Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act Schedule 4A)

City Rail Link Limited

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Revenue								
Taxation revenue	1	84,521	79,331	87,874	88,557	96,249	101,681	107,910
Other sovereign revenue	1	6,269	6,012	6,428	6,747	7,469	8,259	8,668
Total Revenue Levied through the Crown's Sovereign Power		**90,790**	**85,343**	**94,302**	**95,304**	**103,718**	**109,940**	**116,578**
Sales of goods and services		18,437	17,137	16,005	17,467	18,592	19,084	19,360
Interest revenue	2	2,300	2,513	2,032	2,100	2,124	2,176	2,251
Other revenue		4,476	5,074	4,285	4,511	4,736	4,861	4,943
Total revenue earned through the Crown's operations		**25,213**	**24,724**	**22,322**	**24,078**	**25,452**	**26,121**	**26,554**
Total revenue (excluding gains)		**116,003**	**110,067**	**116,624**	**119,382**	**129,170**	**136,061**	**143,132**
Expenses								
Transfer payments and subsidies	3	42,607	35,712	35,862	35,807	37,155	38,337	39,342
Personnel expenses		27,775	28,563	28,907	29,297	29,661	30,118	30,188
Depreciation		5,294	5,714	5,635	5,777	5,946	6,165	6,265
Other operating expenses	4	52,583	50,154	57,383	53,213	49,845	48,556	47,704
Finance costs	2	3,754	3,615	2,613	1,773	1,798	2,197	2,606
Insurance expenses	5	6,903	5,811	6,580	6,649	6,886	7,456	7,873
Forecast new operating spending	6	-	10,991	5,260	5,514	9,029	11,603	14,189
Top-down operating expense adjustment	6	-	(975)	(4,200)	(2,550)	(1,350)	(1,300)	(1,300)
Total expenses (excluding losses)		**138,916**	**139,585**	**138,040**	**135,480**	**138,970**	**143,132**	**146,867**
Gains/(losses)								
Net gains/(losses) on large scale asset purchases		(3,258)	(2,236)	(5,840)	(1,879)	-	-	-
Net gains/(losses) on financial instruments	2	1,908	2,576	7,244	3,581	3,990	4,327	4,810
Net gains/(losses) on non-financial instruments	7	(7,372)	(139)	(4,697)	(69)	(76)	(75)	(76)
Total gains/(losses) (including minority interests)		**(8,722)**	**201**	**(3,293)**	**1,633**	**3,914**	**4,252**	**4,734**
Net surplus/(deficit) from associates and joint ventures		1,193	67	(802)	(126)	24	121	186
Less minority interests share of operating balance		402	(76)	(128)	(364)	(489)	(494)	(511)
Operating balance (excluding minority interests)		**(30,040)**	**(29,326)**	**(25,639)**	**(14,955)**	**(6,351)**	**(3,192)**	**674**
Minority interest share of operating balance		(402)	76	128	364	489	494	511
Operating balance (including minority interests)		**(30,442)**	**(29,250)**	**(25,511)**	**(14,591)**	**(5,862)**	**(2,698)**	**1,185**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Comprehensive Revenue and Expense

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Operating Balance (including minority interest)	**(30,442)**	**(29,250)**	**(25,511)**	**(14,591)**	**(5,862)**	**(2,698)**	**1,185**
Other comprehensive revenue and expense							
Revaluation of physical assets	5,233	-	(166)	-	-	-	-
Revaluation of defined benefit retirement plan schemes	(1,271)	181	(691)	216	219	214	207
Net revaluations of veterans' disability entitlements	(311)	-	-	-	-	-	-
Transfers to/(from) reserves	(48)	45	-	-	-	-	-
(Gains)/losses transferred to the statement of financial performance	(75)	(6)	(10)	-	-	-	-
Foreign currency translation differences on foreign operations	2	24	20	-	-	-	-
Other movements	(58)	17	34	27	1	3	11
Total other comprehensive revenue and expense	**3,472**	**261**	**(813)**	**243**	**220**	**217**	**218**
Total comprehensive revenue and expense	**(26,970)**	**(28,989)**	**(26,324)**	**(14,348)**	**(5,642)**	**(2,481)**	**1,403**
Attributable to:							
- minority interest	(341)	85	115	363	488	496	514
- the Crown	(26,629)	(29,074)	(26,439)	(14,711)	(6,130)	(2,977)	889
Total comprehensive revenue and expense	**(26,970)**	**(28,989)**	**(26,324)**	**(14,348)**	**(5,642)**	**(2,481)**	**1,403**

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Opening net worth	143,339	106,018	115,943	89,217	74,433	68,402	65,528
Operating balance (including minority interest)	(30,442)	(29,250)	(25,511)	(14,591)	(5,862)	(2,698)	1,185
Net revaluations of physical assets	5,233	-	(166)	-	-	-	-
Net revaluations of defined benefit retirement plan schemes	(1,271)	181	(691)	216	219	214	207
Net revaluations of veterans' disability entitlements	(311)	-	-	-	-	-	-
Transfers to/(from) reserves	(48)	45	-	-	-	-	-
(Gains)/losses transferred to the Statement of Financial Performance	(75)	(6)	(10)	-	-	-	-
Foreign currency translation differences on foreign operations	2	24	20	-	-	-	-
Other movements	(58)	17	34	27	1	3	11
Comprehensive income	**(26,970)**	**(28,989)**	**(26,324)**	**(14,348)**	**(5,642)**	**(2,481)**	**1,403**
Transactions with minority interest	(426)	(539)	(402)	(436)	(389)	(393)	(392)
Closing net worth	**115,943**	**76,490**	**89,217**	**74,433**	**68,402**	**65,528**	**66,539**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Cash Flows

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Cash Flows from Operations							
Cash was provided from							
Taxation receipts	83,156	76,576	86,043	88,859	94,851	100,905	106,836
Other sovereign receipts	5,294	5,288	5,304	5,931	6,581	7,159	7,468
Sales of goods and services	18,289	17,165	15,432	17,685	18,651	19,122	19,370
Interest receipts	2,307	2,190	1,747	1,616	1,685	1,741	1,840
Other operating receipts	4,544	5,101	4,254	4,273	4,449	4,608	4,879
Total cash provided from operations	**113,590**	**106,320**	**112,780**	**118,364**	**126,217**	**133,535**	**140,393**
Cash was disbursed to							
Transfer payments and subsidies	42,945	35,966	37,397	36,112	37,515	38,612	40,615
Personnel and operating payments	77,192	80,272	88,517	84,147	81,049	80,421	80,081
Interest payments	3,849	4,519	3,810	2,523	2,510	2,521	2,801
Forecast new operating spending	-	10,991	5,260	5,514	9,029	11,603	14,189
Top-down operating expense adjustment	-	(975)	(4,200)	(2,550)	(1,350)	(1,300)	(1,300)
Total cash disbursed to operations	**123,986**	**130,773**	**130,784**	**125,746**	**128,753**	**131,857**	**136,386**
Net cash flows from operations	**(10,396)**	**(24,453)**	**(18,004)**	**(7,382)**	**(2,536)**	**1,678**	**4,007**
Cash Flows from Investing Activities							
Cash was provided from/(disbursed to)							
Net (purchase)/sale of physical assets	(9,071)	(10,929)	(13,101)	(12,940)	(12,152)	(9,291)	(8,044)
Net (purchase)/sale of shares and other securities	(14,149)	(52,664)	(38,460)	(44,748)	12,709	6,138	8,572
Net (purchase)/sale of intangible assets	(855)	(912)	(923)	(733)	(659)	(568)	(534)
Net (issue)/repayment of advances	(1,290)	(6,383)	(10,649)	(14,820)	(6,831)	6,314	12,276
Net acquisition of investments in associates	(286)	(622)	(464)	(637)	(532)	(132)	(65)
Forecast new capital spending	-	(1,990)	(1,852)	(2,041)	(2,993)	(3,175)	(2,228)
Top-down capital adjustment	-	650	2,350	1,050	750	600	600
Net cash flows from investing activities	**(25,651)**	**(72,850)**	**(63,099)**	**(74,869)**	**(9,708)**	**(114)**	**10,577**
Net cash flows from operating and investing activities	**(36,047)**	**(97,303)**	**(81,103)**	**(82,251)**	**(12,244)**	**1,564**	**14,584**
Cash Flows from Financing Activities							
Cash was provided from/(disbursed to)							
Net Issue/(repayment) of circulating currency	1,209	215	8	80	81	82	83
Net issue/(repayment) of government bonds[1]	7,598	54,546	42,001	31,967	14,793	16,214	10,715
Net issue/(repayment) of foreign-currency borrowings	1,192	(106)	(3,251)	19	-	-	979
Net issue/(repayment) of other New Zealand dollar borrowings	27,366	43,354	36,481	50,320	(2,334)	(16,914)	(25,387)
Dividends paid to minority interests[2]	(479)	(549)	(382)	(416)	(359)	(361)	(365)
Net cash flows from financing activities	**36,886**	**97,460**	**74,857**	**81,970**	**12,181**	**(979)**	**(13,975)**
Net movement in cash	**839**	**157**	**(6,246)**	**(281)**	**(63)**	**585**	**609**
Opening cash balance	20,248	31,496	21,927	15,576	15,294	15,233	15,820
Foreign-exchange gains/(losses) on opening cash	840	(2)	(105)	(1)	2	2	4
Closing cash balance	**21,927**	**31,651**	**15,576**	**15,294**	**15,233**	**15,820**	**16,433**

1. Further information on the proceeds and repayments of government bonds is available in the core Crown residual cash summary included in the attached Fiscal Indicator Analysis section.
2. Excludes transactions with ACC and NZS Fund.

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Cash Flows (continued)

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Reconciliation Between the Net Cash Flows from Operations and the Operating Balance							
Net Cash Flows from Operations	**(10,396)**	**(24,453)**	**(18,004)**	**(7,382)**	**(2,536)**	**1,678**	**4,007**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses) and Other Interests							
Net gains/(losses) on large scale asset purchases	(3,258)	(2,236)	(5,840)	(1,879)	-	-	-
Net gains/(losses) on financial instruments	1,908	2,576	7,244	3,581	3,990	4,327	4,810
Net gains/(losses) on non-financial instruments	(7,372)	(139)	(4,697)	(69)	(76)	(75)	(76)
Net surplus/(deficit) from associates and joint ventures	1,193	67	(802)	(126)	24	121	186
Minority interest share of operating balance	(402)	(76)	(128)	(364)	(489)	(494)	(511)
Total gains/(losses) and other interests	**(7,931)**	**192**	**(4,223)**	**1,143**	**3,449**	**3,879**	**4,409**
Other Non-cash Items in Operating Balance							
Depreciation	(5,294)	(5,714)	(5,635)	(5,777)	(5,946)	(6,165)	(6,265)
Amortisation	(2,375)	(822)	(789)	(817)	(835)	(835)	(834)
Cost of concessionary lending	(1,279)	(636)	(856)	(631)	(565)	(528)	(534)
Impairment of financial assets (excluding receivables)	(53)	(4)	(96)	(86)	(85)	(118)	(13)
Decrease/(increase) in insurance liabilities	(2,351)	(1,420)	(1,347)	(2,213)	(2,294)	(2,422)	(2,588)
Other	453	(6)	1	-	-	-	-
Total other non-cash Items	**(10,899)**	**(8,602)**	**(8,722)**	**(9,524)**	**(9,725)**	**(10,068)**	**(10,234)**
Working Capital and Other Movements							
Increase/(decrease) in receivables	631	3,012	605	(605)	1,612	663	829
Increase/(decrease) in accrued interest	21	1,202	1,454	1,181	1,107	703	541
Increase/(decrease) in inventories	254	33	252	183	243	179	40
Increase/(decrease) in prepayments	108	(83)	41	6	(142)	(98)	(152)
Decrease/(increase) in deferred revenue	(68)	45	518	(208)	(165)	(53)	(131)
Decrease/(increase) in payables/provisions	(956)	(1,380)	1,704	(490)	(1,034)	(925)	521
Defined benefit retirement plan net expenditure	(804)	708	736	741	840	850	844
Total working capital and other movements	**(814)**	**3,537**	**5,310**	**808**	**2,461**	**1,319**	**2,492**
Operating balance (excluding minority interests)	**(30,040)**	**(29,326)**	**(25,639)**	**(14,955)**	**(6,351)**	**(3,192)**	**674**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Financial Position

as at 30 June

	Note	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Assets								
Cash and cash equivalents	8	21,927	31,651	15,576	15,294	15,233	15,820	16,433
Receivables	8	24,743	28,787	26,119	25,001	26,498	27,285	28,164
Marketable securities, deposits and derivatives in gain	8	61,005	74,510	50,775	56,193	54,541	57,400	60,095
Share investments	8	33,791	33,581	39,796	42,119	44,249	46,875	49,840
Advances	8	37,629	43,752	49,752	64,640	72,051	66,306	54,641
Investments in controlled enterprises	8	4,220	5,693	4,798	5,703	6,527	7,475	8,491
Inventory		1,773	1,616	2,025	2,209	2,452	2,631	2,671
Other assets		3,610	3,399	3,364	3,498	3,376	3,313	3,181
Property, plant and equipment	10	186,502	190,846	194,787	201,301	206,204	208,822	209,764
Equity accounted investments[1]		14,308	14,205	13,929	14,460	15,019	15,281	15,536
Intangible assets and goodwill		3,892	4,197	4,186	4,311	4,349	4,296	4,180
Forecast for new capital spending	6	-	2,202	1,852	3,893	6,886	10,061	12,289
Top-down capital adjustment		-	(1,700)	(2,350)	(3,400)	(4,150)	(4,750)	(5,350)
Total assets		**393,400**	**432,739**	**404,609**	**435,222**	**453,235**	**460,815**	**459,935**
Liabilities								
Issued currency		8,022	7,366	8,031	8,111	8,192	8,274	8,357
Payables	12	16,971	18,397	16,085	15,795	16,143	16,888	16,605
Deferred revenue		2,590	2,735	2,073	2,283	2,445	2,498	2,627
Borrowings	15	152,717	238,164	186,622	230,692	253,392	261,594	258,582
Insurance liabilities	5	66,690	61,952	72,304	74,517	76,811	79,233	81,821
Retirement plan liabilities	13	13,983	12,264	14,044	13,155	12,254	11,370	10,512
Provisions	14	16,484	15,371	16,233	16,236	15,596	15,430	14,892
Total liabilities		**277,457**	**356,249**	**315,392**	**360,789**	**384,833**	**395,287**	**393,396**
Total assets less total liabilities		**115,943**	**76,490**	**89,217**	**74,433**	**68,402**	**65,528**	**66,539**
Net Worth								
Taxpayers' funds		3,154	(29,724)	(22,475)	(37,435)	(43,785)	(46,979)	(46,302)
Property, plant and equipment revaluation reserve		112,334	106,857	112,153	112,153	112,153	112,153	112,153
Defined benefit plan revaluation reserve		(3,886)	(2,691)	(4,577)	(4,361)	(4,142)	(3,928)	(3,721)
Veterans' disability entitlements reserve		(1,095)	(3,500)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)
Other reserves		(187)	77	(125)	(92)	(91)	(88)	(83)
Total net worth attributable to the Crown		**110,320**	**71,019**	**83,881**	**69,170**	**63,040**	**60,063**	**60,952**
Net worth attributable to minority interest		5,623	5,471	5,336	5,263	5,362	5,465	5,587
Total net worth	16	**115,943**	**76,490**	**89,217**	**74,433**	**68,402**	**65,528**	**66,539**

1. Equity accounted investments include Universities, Wānanga and City Rail Link Limited.

The accompanying notes and accounting policies are an integral part of these Statements.

Statement of Actual Commitments

as at 31 October

	As at 31 October 2020 $m	As at 30 June 2020 $m
Capital Commitments		
State highways	4,788	4,788
Specialist military equipment	2,550	2,677
Land and buildings	5,389	5,395
Other property, plant and equipment	3,828	3,833
Other capital commitments	1,819	1,694
Universities and Wānanga	400	400
Total capital commitments	**18,774**	**18,787**
Operating Commitments		
Non-cancellable accommodation leases	5,163	5,095
Other non-cancellable leases	3,861	3,969
Universities and Wānanga	1,084	1,084
Total operating commitments	**10,108**	**10,148**
Total commitments	**28,882**	**28,935**
Total Commitments by Segment		
Core Crown	14,155	14,484
Crown entities	9,779	9,690
State-owned Enterprises	6,540	6,646
Inter-segment eliminations	(1,592)	(1,885)
Total commitments	**28,882**	**28,935**

Statement of Actual Contingent Liabilities and Assets

as at 31 October

	As at 31 October 2020 $m	As at 30 June 2020 $m
Quantifiable Contingent Liabilities		
Uncalled capital	8,351	8,384
Guarantees and indemnities	313	263
Legal proceedings and disputes	461	491
Other contingent liabilities	551	485
Total quantifiable contingent liabilities	**9,676**	**9,623**
Total Quantifiable Contingent Liabilities by Segment		
Core Crown	9,561	9,453
Crown entities	154	89
State-owned Enterprises	185	210
Inter-segment eliminations	(224)	(129)
Total quantifiable contingent liabilities	**9,676**	**9,623**
Quantifiable Contingent Assets by Segment		
Core Crown	17	17
Crown entities	28	28
State-owned Enterprises	-	-
Total quantifiable contingent assets	**45**	**45**

More information on contingent liabilities (quantified and unquantified) is outlined in the Risks to the Fiscal Forecasts chapter.

The accompanying notes and accounting policies are an integral part of these Statements.

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation Revenue (accrual)							
Individuals							
Source deductions	34,963	34,838	36,258	37,650	39,671	42,198	44,988
Other persons	7,128	6,694	7,525	6,701	7,689	8,467	8,986
Refunds	(1,887)	(1,859)	(2,041)	(2,110)	(2,135)	(2,275)	(2,430)
Fringe benefit tax	593	555	606	637	666	703	744
Total individuals	**40,797**	**40,228**	**42,348**	**42,878**	**45,891**	**49,093**	**52,288**
Corporate Tax							
Gross companies tax	11,958	9,588	12,591	12,478	15,821	16,334	17,492
Refunds	(424)	(283)	(309)	(385)	(337)	(370)	(394)
Non-resident withholding tax	570	431	435	430	456	486	512
Total corporate tax	**12,104**	**9,736**	**12,717**	**12,523**	**15,940**	**16,450**	**17,610**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,529	1,016	1,103	1,050	1,034	1,089	1,142
Resident w/holding tax on dividend income	828	596	801	823	887	960	1,024
Total other direct income tax	**2,357**	**1,612**	**1,904**	**1,873**	**1,921**	**2,049**	**2,166**
Total direct income tax	**55,258**	**51,576**	**56,969**	**57,274**	**63,752**	**67,592**	**72,064**
Goods and Services Tax							
Gross goods and services tax	35,861	32,964	37,104	37,908	40,077	42,692	45,187
Refunds	(14,112)	(12,925)	(13,873)	(14,462)	(15,526)	(16,688)	(17,568)
Total goods and services tax	**21,749**	**20,039**	**23,231**	**23,446**	**24,551**	**26,004**	**27,619**
Other Indirect Taxation							
Road user charges	1,716	1,663	1,810	1,826	1,912	2,016	2,109
Petroleum fuels excise – domestic production	1,075	1,185	1,072	1,185	1,191	1,201	1,216
Alcohol excise – domestic production	710	761	774	752	768	786	807
Tobacco excise – domestic production	485	200	35	2	2	2	2
Petroleum fuels excise – imports[1]	802	837	899	992	997	1,005	1,018
Alcohol excise – imports[1]	354	358	417	387	396	405	416
Tobacco excise – imports[1]	1,683	1,980	1,959	1,976	1,958	1,939	1,927
Other customs duty	164	177	164	164	164	164	164
Gaming duties	200	221	225	233	237	241	243
Motor vehicle fees	226	227	220	220	224	227	229
Approved issuer levy and cheque duty	76	81	69	70	67	69	66
Energy resources levies	23	26	30	30	30	30	30
Total other indirect taxation	**7,514**	**7,716**	**7,674**	**7,837**	**7,946**	**8,085**	**8,227**
Total indirect taxation	**29,263**	**27,755**	**30,905**	**31,283**	**32,497**	**34,089**	**35,846**
Total taxation revenue	**84,521**	**79,331**	**87,874**	**88,557**	**96,249**	**101,681**	**107,910**
Other Sovereign Revenue (accrual)							
ACC levies	3,032	2,925	2,973	3,180	3,811	4,361	4,683
Emissions Trading revenue	1,043	1,152	1,370	1,448	1,483	1,670	1,744
Fire and Emergency levies	596	604	586	592	597	603	609
EQC levies	446	500	515	520	525	531	536
Child support and working for families penalties	254	249	232	225	223	227	229
Court fines	134	115	115	115	115	115	115
Other miscellaneous items	764	467	637	667	715	752	752
Total other sovereign revenue	**6,269**	**6,012**	**6,428**	**6,747**	**7,469**	**8,259**	**8,668**
Total sovereign revenue	**90,790**	**85,343**	**94,302**	**95,304**	**103,718**	**109,940**	**116,578**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation Receipts (cash)							
Individuals							
Source deductions	34,485	34,638	35,969	37,432	39,442	41,954	44,728
Other persons	7,485	5,813	6,946	7,239	7,725	8,440	8,756
Refunds	(2,638)	(2,313)	(2,450)	(2,542)	(2,595)	(2,497)	(2,504)
Fringe benefit tax	590	555	601	637	666	703	744
Total individuals	**39,922**	**38,693**	**41,066**	**42,766**	**45,238**	**48,600**	**51,724**
Corporate Tax							
Gross companies tax	13,560	10,653	13,059	14,068	16,106	16,961	17,825
Refunds	(1,538)	(2,180)	(1,164)	(1,371)	(1,207)	(1,121)	(1,077)
Non-resident withholding tax	525	431	435	430	456	486	512
Total corporate tax	**12,548**	**8,904**	**12,330**	**13,127**	**15,355**	**16,326**	**17,260**
Other Direct Income Tax							
Resident w/holding tax on interest income	1,514	1,016	1,103	1,050	1,034	1,089	1,142
Resident w/holding tax on dividend income	787	596	801	823	887	960	1,024
Total other direct income tax	**2,301**	**1,612**	**1,904**	**1,873**	**1,921**	**2,049**	**2,166**
Total direct income tax	**54,771**	**49,209**	**55,300**	**57,766**	**62,514**	**66,975**	**71,150**
Goods and Services Tax							
Gross goods and services tax	34,878	32,474	36,783	37,561	39,758	42,373	44,869
Refunds	(14,001)	(12,765)	(13,713)	(14,302)	(15,366)	(16,528)	(17,408)
Total goods and services tax	**20,877**	**19,709**	**23,070**	**23,259**	**24,392**	**25,845**	**27,461**
Other Indirect Taxation							
Road user charges	1,705	1,663	1,810	1,826	1,912	2,016	2,109
Petroleum fuels excise – domestic production	1,090	1,185	1,072	1,185	1,191	1,201	1,216
Alcohol excise – domestic production	696	761	774	752	768	786	807
Tobacco excise – domestic production	486	200	23	2	2	2	2
Customs duty	3,035	3,299	3,442	3,516	3,514	3,513	3,523
Gaming duties	200	216	229	233	237	241	243
Motor vehicle fees	199	227	220	220	224	227	229
Approved issuer levy and cheque duty	74	81	73	70	67	69	66
Energy resources levies	23	26	30	30	30	30	30
Total other indirect taxation	**7,508**	**7,658**	**7,673**	**7,834**	**7,945**	**8,085**	**8,225**
Total indirect taxation	**28,385**	**27,367**	**30,743**	**31,093**	**32,337**	**33,930**	**35,686**
Total taxation receipts	**83,156**	**76,576**	**86,043**	**88,859**	**94,851**	**100,905**	**106,836**
Other Sovereign Receipts (cash)							
ACC levies	2,925	2,914	2,913	3,192	3,783	4,344	4,694
Emissions Trading receipts	215	486	346	670	663	627	572
Fire and Emergency levies	592	601	589	580	596	602	608
EQC levies	478	499	513	519	524	530	535
Child support and working for families penalties	163	241	205	200	198	202	204
Court fines	133	114	102	102	102	102	102
Other miscellaneous items	788	433	636	668	715	752	753
Total other sovereign receipts	**5,294**	**5,288**	**5,304**	**5,931**	**6,581**	**7,159**	**7,468**
Total sovereign receipts	**88,450**	**81,864**	**91,347**	**94,790**	**101,432**	**108,064**	**114,304**

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 2: Investment Revenue/(Expenditure)							
Interest revenue	**2,300**	**2,513**	**2,032**	**2,100**	**2,124**	**2,176**	**2,251**
Interest Expenses							
Interest on financial liabilities	3,499	3,424	2,489	1,682	1,705	2,081	2,466
Interest unwind on provisions	255	191	124	91	93	116	140
Total interest expenses	**3,754**	**3,615**	**2,613**	**1,773**	**1,798**	**2,197**	**2,606**
Net interest revenue/(expense)	**(1,454)**	**(1,102)**	**(581)**	**327**	**326**	**(21)**	**(355)**
Dividend revenue	906	1,095	959	1,031	1,108	1,176	1,261
Net gains/(losses) on large scale asset purchases	(3,258)	(2,236)	(5,840)	(1,879)	-	-	-
Net gains/(losses) on financial instruments	1,908	2,576	7,244	3,581	3,990	4,327	4,810
Total investment revenue/(expenditure)	**(1,898)**	**333**	**1,782**	**3,060**	**5,424**	**5,482**	**5,716**
NOTE 3: Transfer Payments and Subsidies							
New Zealand superannuation	15,521	16,346	16,490	17,484	18,584	19,581	20,625
Wage subsidy scheme	12,095	-	1,392	-	-	-	-
Family tax credit	2,189	2,139	2,147	2,042	2,047	2,147	2,140
Jobseeker support and emergency benefit	2,285	4,521	3,355	3,677	3,514	3,402	3,250
Accommodation assistance	1,923	2,607	2,354	2,530	2,576	2,604	2,611
Supported living payment	1,650	1,807	1,806	1,883	1,949	2,011	2,065
Sole parent support	1,231	1,577	1,507	1,644	1,745	1,724	1,701
KiwiSaver subsidies	893	935	924	966	1,004	1,039	1,069
Official development assistance	736	777	825	820	858	861	861
Other working for families tax credits	641	653	641	648	653	664	662
Student allowances	567	641	604	631	635	631	628
Winter energy payment	669	880	820	543	552	554	556
Disability assistance	395	419	407	415	417	419	419
Hardship assistance	418	623	532	657	712	740	764
Orphan's/unsupported child's benefit	248	268	294	328	359	381	400
Best start tax credit	184	336	336	447	454	471	474
Income related rent subsidy	63	157	55	51	52	52	51
Other social assistance benefits	899	1,026	1,373	1,041	1,044	1,056	1,066
Total transfer payments and subsidies	**42,607**	**35,712**	**35,862**	**35,807**	**37,155**	**38,337**	**39,342**
NOTE 4: Other Operating Expenses							
Grants and subsidies	10,499	7,000	10,724	10,228	9,813	9,504	9,280
Repairs and maintenance	2,420	2,108	2,272	2,277	2,369	2,628	2,648
Rental and leasing costs	1,480	1,513	1,514	1,511	1,516	1,524	1,529
Amortisation and impairment of intangible assets	2,375	822	789	817	835	835	834
Impairment of financial assets	1,493	987	1,275	1,051	1,051	1,084	979
Cost of concessionary lending	1,279	636	856	631	565	528	534
Lottery prize payments	754	711	664	737	759	766	772
Inventory expenses and clinical supplies	1,773	1,884	2,173	2,340	2,349	2,339	2,337
Other operating expenses	30,510	34,493	37,116	33,621	30,588	29,348	28,791
Total other operating expenses	**52,583**	**50,154**	**57,383**	**53,213**	**49,845**	**48,556**	**47,704**

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 5: Insurance							
Insurance expense by entity							
ACC	6,246	5,612	6,529	6,400	6,608	7,154	7,551
EQC	614	201	43	241	263	283	301
Southern Response	27	(17)	(12)	(13)	(7)	(3)	(2)
Other (incl. inter-segment eliminations)	16	15	20	21	22	22	23
Total insurance expenses	**6,903**	**5,811**	**6,580**	**6,649**	**6,886**	**7,456**	**7,873**
Insurance liability by entity							
ACC	64,946	61,391	71,576	74,004	76,417	78,883	81,476
EQC	1,528	470	578	412	320	290	292
Southern Response	168	49	100	50	21	8	-
Other (incl. inter-segment eliminations)	48	42	50	51	53	52	53
Total insurance liabilities	**66,690**	**61,952**	**72,304**	**74,517**	**76,811**	**79,233**	**81,821**

ACC liability

Calculation information

Taylor Fry has prepared an independent actuarial estimate of the ACC outstanding claims liability as at 30 June 2020. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected future administrative expenses of managing these claims. The estimate also includes a risk margin to provide for a higher degree of certainty that the liability for outstanding claims, at balance date, will be adequate to cover possible adverse developments. The assumptions underpinning this valuation form the basis of the five-year forecast of the outstanding claims liability.

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), Average Weekly Earnings (AWE) and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 30 September 2020. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 1.73% and allows for a long-term discount rate of 4.30% from 2083.

Other key variables in each valuation are the forecast increases in claim costs over and above the economic variables above, and the assumed rate at which long-term claimants will leave the scheme over the period. This assessment is largely based on scheme history.

Presentation approach

ACC has a portfolio of assets that offset the claims liability. The assets below (less cross-holdings of NZ Government stock) are included as assets in the Statement of Financial Position.

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Gross ACC Liability							
Opening gross liability	56,611	59,540	64,946	71,576	74,004	76,417	78,883
Net change	8,335	1,851	6,630	2,428	2,413	2,466	2,593
Closing gross liability	**64,946**	**61,391**	**71,576**	**74,004**	**76,417**	**78,883**	**81,476**
Less Net Assets Available to ACC							
Opening net asset value	46,598	45,426	48,987	51,490	52,351	53,716	55,290
Net change	2,389	736	2,503	861	1,365	1,574	1,825
Closing net asset value	**48,987**	**46,162**	**51,490**	**52,351**	**53,716**	**55,290**	**57,115**
Net ACC Reserves (Net Liability)							
Opening reserves position	(10,013)	(14,114)	(15,959)	(20,086)	(21,653)	(22,701)	(23,593)
Net change	(5,946)	(1,115)	(4,127)	(1,567)	(1,048)	(892)	(768)
Closing reserves position (net liability)/net asset	**(15,959)**	**(15,229)**	**(20,086)**	**(21,653)**	**(22,701)**	**(23,593)**	**(24,361)**

Notes to the Forecast Financial Statements

	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 6: Forecast New Spending and Top-down Adjustments					
Forecast New Operating Spending					
Unallocated operating contingencies	3,245	1,270	1,774	1,733	1,703
COVID-19 response and recovery funding	2,015	1,809	2,176	2,170	2,170
Forecast new spending for Budget 2021	-	2,435	2,454	2,450	2,441
Forecast new spending for Budget 2022	-	-	2,625	2,625	2,625
Forecast new spending for Budget 2023	-	-	-	2,625	2,625
Forecast new spending for Budget 2024	-	-	-	-	2,625
Total forecast new operating spending	**5,260**	**5,514**	**9,029**	**11,603**	**14,189**

Unallocated operating contingencies represent operating expenses included in Budget 2020 and previous Budgets that have yet to be allocated to departments. Forecast new spending indicates the expected spending increases from future Budgets.

The forecast for new operating spending for Budget 2021 is $2,625 million. Some of this allowance has been pre-committed as at the forecast finalisation date of 30 November 2020, with only the unallocated portion of the allowance included in this note.

	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m	Post-2025 $m	Total $m
Forecast New Capital Spending (annual)							
Unallocated capital contingencies	1,852	1,358	1,628	1,420	278	529	7,065
Forecast new spending for Budgets 2021 - 2024	-	683	1,365	1,755	1,950	2,048	7,801
Total forecast new capital spending	**1,852**	**2,041**	**2,993**	**3,175**	**2,228**	**2,577**	**14,866**
Forecast new capital spending (cumulative)	**1,852**	**3,893**	**6,886**	**10,061**	**12,289**		

Unallocated capital contingencies represent capital spending from Budget 2020 and previous Budgets that has yet to be allocated to departments. Forecast new spending indicates the expected capital spending increases from future Budgets.

	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Top-down Adjustments					
Top-down operating expense adjustment	(4,200)	(2,550)	(1,350)	(1,300)	(1,300)
Top-down capital adjustment (cumulative)	(2,350)	(3,400)	(4,150)	(4,750)	(5,350)

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 7: Net Gains and Losses on Non-Financial Instruments							
Actuarial gains/(losses) on ACC outstanding claims	(5,974)	-	(4,268)	-	-	-	-
Gains/(losses) on the Emissions Trading Scheme	1,097	-	(348)	-	-	-	-
Other	(2,495)	(139)	(81)	(69)	(76)	(75)	(76)
Net gains/(losses) on non-financial instruments	**(7,372)**	**(139)**	**(4,697)**	**(69)**	**(76)**	**(75)**	**(76)**
NOTE 8: Financial Assets (including receivables)							
Cash and cash equivalents	21,927	31,651	15,576	15,294	15,233	15,820	16,433
Tax receivables	14,290	16,648	14,989	13,902	14,472	14,412	14,649
Trade and other receivables	10,453	12,139	11,130	11,099	12,026	12,873	13,515
Student loans (refer note 9)	10,395	10,782	10,903	10,739	10,564	10,380	10,150
Kiwibank mortgages	22,189	24,335	23,860	24,360	25,760	28,460	31,060
Long-term deposits	5,443	3,693	3,644	2,716	2,797	2,793	2,799
IMF financial assets	2,538	2,383	2,571	2,571	2,571	2,571	2,571
FLP advances	-	-	8,167	22,167	28,000	19,833	5,833
Other advances	5,045	8,635	6,822	7,374	7,727	7,633	7,598
Share investments	33,791	33,581	39,796	42,119	44,249	46,875	49,840
Investments in controlled enterprises	4,220	5,693	4,798	5,703	6,527	7,475	8,491
Derivatives in gain	7,166	3,650	5,310	4,100	4,190	4,184	4,294
Other marketable securities	45,858	64,784	39,250	46,806	44,983	47,852	50,431
Total financial assets (including receivables)	**183,315**	**217,974**	**186,816**	**208,950**	**219,099**	**221,161**	**217,664**
Financial Assets by Segment							
Total core Crown segment	120,269	158,214	118,747	140,624	147,535	144,799	136,502
Total Crown entities segment	63,239	57,170	63,755	63,176	64,851	67,031	69,454
Total State-owned Enterprises segment	30,005	30,809	31,400	31,489	33,236	36,284	39,269
Inter-segment eliminations	(30,198)	(28,219)	(27,086)	(26,339)	(26,523)	(26,953)	(27,561)
Total financial assets (including receivables)	**183,315**	**217,974**	**186,816**	**208,950**	**219,099**	**221,161**	**217,664**
NOTE 9: Student Loans							
Nominal value (including accrued interest)	16,135	16,073	16,199	16,285	16,356	16,411	16,416
Opening book value	10,731	10,819	10,395	10,903	10,739	10,564	10,380
Net new lending (including fees)	1,413	1,574	1,485	1,511	1,525	1,521	1,517
Less initial write-down to fair value	(506)	(564)	(484)	(485)	(500)	(510)	(530)
Repayments made during the year	(1,477)	(1,347)	(1,445)	(1,454)	(1,455)	(1,459)	(1,500)
Interest unwind	331	353	250	228	220	229	247
Unwind of administration costs	36	34	37	36	35	35	36
Experience/actuarial adjustments:							
- Expected repayment adjustments	(476)	-	-	-	-	-	-
- Discount rate adjustments	343	(87)	665	-	-	-	-
Closing book value	**10,395**	**10,782**	**10,903**	**10,739**	**10,564**	**10,380**	**10,150**

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 10: Property, Plant and Equipment							
Net Carrying Value[1]							
By class of asset							
Land	57,835	55,412	58,244	58,233	57,451	57,547	57,701
Buildings	45,054	48,325	50,006	53,443	56,318	56,490	55,711
State highways	39,410	40,072	41,287	42,963	44,314	45,704	47,155
Electricity generation assets	17,091	17,366	17,020	16,791	16,525	16,449	16,193
Electricity distribution network (cost)	4,291	4,131	4,161	4,376	4,580	4,763	4,865
Aircraft (excluding military)	3,794	5,543	3,903	4,289	5,031	5,899	6,634
Specialist military equipment	3,339	4,005	3,633	4,254	5,055	5,849	6,205
Specified cultural and heritage assets	3,025	3,180	3,002	3,016	3,027	3,034	3,040
Rail network	6,872	6,869	7,073	7,147	7,044	6,670	6,378
Other plant and equipment (cost)	5,791	5,943	6,458	6,789	6,859	6,417	5,882
Total property, plant and equipment	**186,502**	**190,846**	**194,787**	**201,301**	**206,204**	**208,822**	**209,764**
Land breakdown by usage							
Housing	19,910	19,104	19,912	19,925	19,919	19,903	19,978
State highway corridor land	14,724	13,344	14,692	14,325	13,632	13,602	13,572
Conservation estate	6,741	6,626	6,719	6,722	6,723	6,725	6,727
Rail network	3,779	3,503	3,810	3,808	3,806	3,804	3,801
Schools	6,055	5,847	6,131	6,211	6,291	6,371	6,451
Commercial (SOEs) excluding Rail	1,146	1,287	1,307	1,342	1,410	1,430	1,442
Other	5,480	5,701	5,673	5,900	5,670	5,712	5,730
Total land	**57,835**	**55,412**	**58,244**	**58,233**	**57,451**	**57,547**	**57,701**
Schedule of Movements							
Cost or Valuation							
Opening balance	192,808	206,270	205,689	219,344	231,404	242,042	250,604
Additions[2]	9,568	11,649	14,176	13,493	12,605	9,703	7,996
Disposals	(1,202)	(613)	(473)	(1,402)	(1,920)	(1,096)	(1,492)
Net revaluations	2,477	-	-	-	-	-	-
Other[3]	2,038	(9)	(48)	(31)	(47)	(45)	(41)
Total cost or valuation	**205,689**	**217,297**	**219,344**	**231,404**	**242,042**	**250,604**	**257,067**
Accumulated Depreciation and Impairment							
Opening balance	15,189	20,888	19,187	24,557	30,103	35,838	41,782
Eliminated on disposal	(686)	(140)	(198)	(221)	(200)	(212)	(734)
Eliminated on revaluation	(2,086)	-	-	-	-	-	-
Impairment losses charged to operating balance	1,193	-	-	-	-	-	-
Depreciation expense	5,294	5,714	5,635	5,777	5,946	6,165	6,265
Other[3]	283	(11)	(67)	(10)	(11)	(9)	(10)
Total accumulated depreciation and impairment	**19,187**	**26,451**	**24,557**	**30,103**	**35,838**	**41,782**	**47,303**
Total property, plant and equipment	**186,502**	**190,846**	**194,787**	**201,301**	**206,204**	**208,822**	**209,764**

1. Using a revaluation methodology unless otherwise stated.
2. Additions do not include any purchases which may result from the allocation of the forecast for new capital spending (separately disclosed in the Statement of Financial Position).
3. The other movements in 2020 mainly relates to the establishment of New Zealand Institute of Skills and Technology and constitutes land, buildings and other plant and equipment.

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 11: NZ Superannuation Fund							
Revenue	803	798	762	857	957	1,043	1,141
Less current tax expense	448	753	1,126	936	1,045	1,137	1,246
Less other expenses	150	195	157	200	216	231	244
Add gains/(losses)	17	2,543	4,545	3,263	3,636	3,950	4,319
Operating balance	**222**	**2,393**	**4,024**	**2,984**	**3,332**	**3,625**	**3,970**
Opening net worth	42,445	39,988	43,997	50,141	55,545	59,938	65,024
Gross contribution from the Crown	1,460	2,120	2,120	2,420	1,061	1,461	1,756
Operating balance	222	2,393	4,024	2,984	3,332	3,625	3,970
Other movements in reserves	(130)	-	-	-	-	-	-
Closing net worth	**43,997**	**44,501**	**50,141**	**55,545**	**59,938**	**65,024**	**70,750**
Comprising:							
Financial assets	48,221	50,416	53,762	58,580	62,881	68,110	73,909
Financial liabilities	(4,226)	(5,906)	(3,615)	(3,029)	(2,935)	(3,077)	(3,149)
Net other assets	2	(9)	(6)	(6)	(8)	(9)	(10)
Closing net worth	**43,997**	**44,501**	**50,141**	**55,545**	**59,938**	**65,024**	**70,750**
NOTE 12: Payables							
Accounts payable	11,928	12,017	11,027	10,680	10,994	11,717	11,418
Taxes repayable	5,043	6,380	5,058	5,115	5,149	5,171	5,187
Total payables	**16,971**	**18,397**	**16,085**	**15,795**	**16,143**	**16,888**	**16,605**

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 13: Retirement Plan Liabilities							
Government Superannuation Fund	13,970	12,246	14,030	13,142	12,241	11,356	10,499
Other funds	13	18	14	13	13	14	13
Total retirement plan liabilities	**13,983**	**12,264**	**14,044**	**13,155**	**12,254**	**11,370**	**10,512**

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 30 September 2020. The liability arises from closed schemes for past and present public sector employees as set out in the Government Superannuation Fund Act 1956. A Projected Unit Credit method was used to calculate the liability as at 30 September 2020, based on membership data as at 30 June 2020. The funding method requires the benefits payable from GSF in respect of past service to be calculated and then discounted back to the valuation date. For these Forecast Financial Statements, the net GSF liability was updated for the latest discount rates derived from the market yield curve for New Zealand Government bonds as at 30 September 2020.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index (CPI), of 1.01% p.a. for the year ended 30 June 2021, increasing to 1.27% p.a. in 2022, 1.55% p.a. in 2023, and to 1.61% p.a. in the year ended 30 June 2024. CPI then increases gradually from 1.72% p.a. in the year ended 30 June 2025 to 2.0% p.a. in the year ended 30 June 2082 and remaining at 2.0% p.a. for all years after that. In addition an annual salary growth rate, before any promotional effects, of 2.5% p.a. (2.5% p.a. at 30 June 2020).

The 2020/21 projected increase in the net GSF liability is $60 million, reflecting a increase in the GSF liability of $181 million and an increase in the GSF net assets of $121 million.

The overall increase in the GSF liability of $181 million includes an actuarial loss (which increases the liability) between 1 July 2020 and 30 June 2021, of $1,003 million, largely owing to movements in the discount rates ($665 million) and changes in the CPI rates ($338 million). The difference of $822 million is owing to the current service cost and interest unwind (increases the liability) which is more than offset by benefits paid to members (reducing the liability).

The increase in the value of the net assets of GSF of $121 million includes a revaluation gain of $311 million reflecting the updated market value of assets at 30 September 2020. The balance of $190 million is owing to the total of the expected investment returns and expected investment gains/losses and contributions received/receivable, which is more than offset by expenses and the benefits paid/payable to members.

The changes in the projected net GSF liability from 2020/21 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
GSF Liability							
Opening GSF liability	17,692	17,595	18,238	18,419	17,555	16,678	15,817
Net projected change	546	(684)	181	(864)	(877)	(861)	(832)
Closing GSF liability	**18,238**	**16,911**	**18,419**	**17,555**	**16,678**	**15,817**	**14,985**
Less Net Assets Available to GSF							
Opening net asset value	4,531	4,641	4,268	4,389	4,413	4,437	4,461
Investment valuation changes	(51)	227	320	215	216	217	218
Contribution and other income less benefit payments	(212)	(203)	(199)	(191)	(192)	(193)	(193)
Closing net asset value	**4,268**	**4,665**	**4,389**	**4,413**	**4,437**	**4,461**	**4,486**
Net GSF Liability							
Opening unfunded liability	13,161	12,954	13,970	14,030	13,142	12,241	11,356
Net projected change	809	(708)	60	(888)	(901)	(885)	(857)
Closing unfunded liability	**13,970**	**12,246**	**14,030**	**13,142**	**12,241**	**11,356**	**10,499**

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 14: Provisions							
Provision for employee entitlements	5,535	4,888	5,429	5,611	5,737	5,787	5,785
Provision for NZ ETS credits	3,804	3,502	3,912	3,876	3,789	3,457	2,991
Provision for National Provident Fund guarantee	857	763	800	732	669	610	554
Veterans Disability Entitlements	3,483	3,500	3,517	3,462	3,412	3,367	3,322
Other provisions	2,805	2,718	2,575	2,555	1,989	2,209	2,240
Total provisions	**16,484**	**15,371**	**16,233**	**16,236**	**15,596**	**15,430**	**14,892**

Provision for NZ ETS credits

The New Zealand Emissions Trading Scheme (NZ ETS) was established to assist New Zealand in meeting its domestic and international climate change targets. The scheme puts a price on greenhouse gas (GHG) emissions to create a financial incentive for businesses to reduce their emissions, and landowners to plant forests to absorb carbon. The NZ ETS creates tradable New Zealand Units (NZUs) which the Government can allocate for free to certain business to recognise that the additional costs imposed by the NZ ETS could have on their international competitiveness. The Government also allocates NZUs to participants for GHG emissions removals. The allocation of NZUs creates a provision if allocated for free; the provision is reduced, and revenue recognised, as NZUs are surrendered to the Crown by emitters. From 2020/21 the Government will begin to sell a limited volume of NZUs directly to the market via auction which will result in cash receipts.

The prices for NZUs used to calculate the NZ ETS provision are assumed to remain constant over the forecast period and are based on market prices during the last week of September 2020.

The movement in the NZ ETS provision is as follows:

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Opening provision	2,884	3,526	3,804	3,912	3,876	3,789	3,457
Additional provision	650	641	783	742	733	712	706
Provision utilised	(827)	(1,151)	(1,356)	(1,448)	(1,483)	(1,670)	(1,744)
Auctioned units	-	486	333	670	663	626	572
(Gains)/losses	1,097	-	348	-	-	-	-
Closing provision for NZ ETS credits	**3,804**	**3,502**	**3,912**	**3,876**	**3,789**	**3,457**	**2,991**

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 15: Borrowings							
Borrowings							
Government bonds	64,363	102,215	60,771	58,033	82,598	107,821	128,570
Treasury bills	11,269	10,461	7,365	6,303	6,299	6,299	6,290
Government retail stock	242	164	241	241	241	241	242
Settlement deposits with Reserve Bank	23,027	66,839	62,619	108,970	103,552	83,567	58,183
Derivatives in loss	5,567	8,013	4,906	3,637	3,396	3,070	2,840
Finance lease liabilities	1,495	1,237	1,282	1,042	963	1,121	1,167
Other borrowings	46,754	49,235	49,438	52,466	56,343	59,475	61,290
Total borrowings	**152,717**	**238,164**	**186,622**	**230,692**	**253,392**	**261,594**	**258,582**
By guarantee							
Sovereign-guaranteed debt	109,547	192,064	139,562	181,763	200,666	205,737	200,783
Non sovereign-guaranteed debt	43,170	46,100	47,060	48,929	52,726	55,857	57,799
Total borrowings	**152,717**	**238,164**	**186,622**	**230,692**	**253,392**	**261,594**	**258,582**

This note constitutes a Statement of Borrowings as required by the Public Finance Act 1989.

Total borrowings can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities are not explicitly guaranteed by the Crown. No debt of SOEs and Crown entities is currently guaranteed by the Crown.

Notes to the Forecast Financial Statements

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
NOTE 16: Changes in Net Worth							
Taxpayers' funds	3,154	(29,724)	(22,475)	(37,435)	(43,785)	(46,979)	(46,302)
Property, plant and equipment revaluation reserve	112,334	106,857	112,153	112,153	112,153	112,153	112,153
Defined benefit plan revaluation reserve	(3,886)	(2,691)	(4,577)	(4,361)	(4,142)	(3,928)	(3,721)
Veterans' disability entitlements reserve	(1,095)	(3,500)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)
Intangible asset reserve	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Cash flow hedge reserve	(389)	(31)	(312)	(279)	(278)	(275)	(270)
Fair value hedge reserve	277	176	251	251	251	251	251
Foreign currency translation reserve	(68)	(61)	(57)	(57)	(57)	(57)	(57)
Net worth attributable to minority interests	5,623	5,471	5,336	5,263	5,362	5,465	5,587
Total net worth	**115,943**	**76,490**	**89,217**	**74,433**	**68,402**	**65,528**	**66,539**
Taxpayers' funds							
Opening taxpayers' funds	33,966	(519)	3,154	(22,475)	(37,435)	(43,785)	(46,979)
Operating balance excluding minority interests	(30,040)	(29,326)	(25,639)	(14,955)	(6,351)	(3,192)	674
Transfers from/(to) other reserves	(692)	98	17	-	-	-	-
Other movements	(80)	23	(7)	(5)	1	(2)	3
Closing taxpayers' funds	**3,154**	**(29,724)**	**(22,475)**	**(37,435)**	**(43,785)**	**(46,979)**	**(46,302)**
Property, Plant and Equipment Revaluation							
Opening property, plant and equipment revaluation reserve	106,495	106,941	112,334	112,153	112,153	112,153	112,153
Net revaluations	5,233	-	(166)	-	-	-	-
Transfers from/(to) other reserves	663	(84)	(17)	-	-	-	-
Net revaluations attributable to minority interests	(57)	-	2	-	-	-	-
Closing property, plant and equipment revaluation reserve	**112,334**	**106,857**	**112,153**	**112,153**	**112,153**	**112,153**	**112,153**

Statement of Segments

	Core Crown 2020 Actual $m	Crown entities 2020 Actual $m	State-owned Enterprises 2020 Actual $m	Inter-segment eliminations 2020 Actual $m	Total Crown 2020 Actual $m
Statement of Financial Performance for the year ended 30 June 2020					
Revenue					
Taxation revenue	85,102	-	-	(581)	84,521
Other sovereign revenue	2,120	5,688	-	(1,539)	6,269
Revenue from core Crown funding	-	34,107	441	(34,548)	-
Sales of goods and services	1,553	2,400	15,100	(616)	18,437
Interest revenue	850	947	953	(450)	2,300
Other revenue	2,298	3,463	906	(2,191)	4,476
Total revenue (excluding gains)	**91,923**	**46,605**	**17,400**	**(39,925)**	**116,003**
Expenses					
Social assistance and official development assistance	43,616	-	-	(1,009)	42,607
Personnel expenses	8,480	16,317	3,023	(45)	27,775
Other operating expenses	53,508	27,281	14,194	(37,106)	57,877
Interest expenses	3,228	164	901	(539)	3,754
Insurance expenses	-	6,896	5	2	6,903
Total expenses (excluding losses)	**108,832**	**50,658**	**18,123**	**(38,697)**	**138,916**
Total gains/(losses) and other items	(3,974)	(3,143)	382	(392)	(7,127)
Operating balance	**(20,883)**	**(7,196)**	**(341)**	**(1,620)**	**(30,040)**
Expenses by functional classification					
Social security and welfare	*44,028*	*7,663*	-	*(1,791)*	*49,900*
Health	*19,891*	*17,788*	-	*(17,210)*	*20,469*
Education	*16,322*	*13,705*	-	*(12,446)*	*17,581*
Transport and communications	*3,179*	*3,824*	*8,915*	*(2,956)*	*12,962*
Other	*22,184*	*7,514*	*8,307*	*(3,755)*	*34,250*
Finance costs	*3,228*	*164*	*901*	*(539)*	*3,754*
Total expenses (excluding losses)	***108,832***	***50,658***	***18,123***	***(38,697)***	***138,916***
Statement of Financial Position as at 30 June 2020					
Assets					
Cash and cash equivalents	16,943	3,931	1,611	(558)	21,927
Receivables	19,338	7,249	2,071	(3,915)	24,743
Other financial assets	83,988	52,059	26,323	(25,725)	136,645
Property, plant and equipment	45,167	101,509	39,828	(2)	186,502
Equity accounted investments	49,605	12,856	562	(48,715)	14,308
Intangible assets and goodwill	1,570	816	1,526	(20)	3,892
Inventory and other assets	3,210	1,264	1,082	(173)	5,383
Total assets	**219,821**	**179,684**	**73,003**	**(79,108)**	**393,400**
Liabilities					
Borrowings	126,341	11,111	36,002	(20,737)	152,717
Other liabilities	46,364	79,891	8,923	(10,438)	124,740
Total liabilities	**172,705**	**91,002**	**44,925**	**(31,175)**	**277,457**
Total assets less total liabilities	**47,116**	**88,682**	**28,078**	**(47,933)**	**115,943**
Net worth					
Taxpayers' funds	24,592	24,850	7,139	(53,427)	3,154
Reserves	22,524	63,832	15,014	5,796	107,166
Net worth attributable to minority interest	-	-	5,925	(302)	5,623
Total net worth	**47,116**	**88,682**	**28,078**	**(47,933)**	**115,943**

Forecast Statement of Segments (continued)

	Core Crown 2021 Forecast $m	Crown entities 2021 Forecast $m	State-owned Enterprises 2021 Forecast $m	Inter-segment eliminations 2021 Forecast $m	Total Crown 2021 Forecast $m
Statement of Financial Performance for the year ended 30 June 2021					
Revenue					
Taxation revenue	88,346	-	-	(472)	87,874
Other sovereign revenue	2,278	5,972	-	(1,822)	6,428
Revenue from core Crown funding	-	37,968	424	(38,392)	-
Sales of goods and services	1,507	2,660	12,685	(847)	16,005
Interest revenue	784	679	870	(301)	2,032
Other revenue	2,078	3,986	567	(2,346)	4,285
Total revenue (excluding gains)	**94,993**	**51,265**	**14,546**	**(44,180)**	**116,624**
Expenses					
Social assistance and official development assistance	37,016	-	-	(1,154)	35,862
Personnel expenses	9,154	17,241	2,546	(34)	28,907
Other operating expenses	65,013	29,031	11,025	(42,051)	63,018
Interest expenses	1,986	243	732	(348)	2,613
Insurance expenses	3	6,571	6	-	6,580
Forecast for future new spending	5,260	-	-	-	5,260
Top-down operating expense adjustment	(4,200)	-	-	-	(4,200)
Total expenses (excluding losses)	**114,232**	**53,086**	**14,309**	**(43,587)**	**138,040**
Total gains/(losses) and other items	(723)	(2,860)	(165)	(475)	(4,223)
Operating balance	**(19,962)**	**(4,681)**	**72**	**(1,068)**	**(25,639)**
Expenses by functional classification					
Social security and welfare	*38,100*	*7,952*	*-*	*(1,677)*	*44,375*
Health	*24,010*	*18,725*	*-*	*(19,141)*	*23,594*
Education	*15,983*	*13,287*	*-*	*(11,880)*	*17,390*
Transport and communications	*6,107*	*4,790*	*5,643*	*(4,587)*	*11,953*
Other	*26,986*	*8,089*	*7,934*	*(5,954)*	*37,055*
Finance costs	*1,986*	*243*	*732*	*(348)*	*2,613*
Forecast for future new spending	*5,260*	*-*	*-*	*-*	*5,260*
Top-down operating expense adjustment	*(4,200)*	*-*	*-*	*-*	*(4,200)*
Total expenses (excluding losses)	***114,232***	***53,086***	***14,309***	***(43,587)***	***138,040***
Statement of Financial Position as at 30 June 2021					
Assets					
Cash and cash equivalents	10,255	3,940	1,964	(583)	15,576
Receivables	19,945	6,305	1,827	(1,958)	26,119
Other financial assets	88,547	53,510	27,609	(24,545)	145,121
Property, plant and equipment	46,228	108,671	39,888	-	194,787
Equity accounted investments	55,642	12,072	531	(54,316)	13,929
Intangible assets and goodwill	1,810	824	1,572	(20)	4,186
Inventory and other assets	3,026	1,350	1,071	(58)	5,389
Forecast for new capital spending	1,852	-	-	-	1,852
Top-down capital adjustment	(2,350)	-	-	-	(2,350)
Total assets	**224,955**	**186,672**	**74,462**	**(81,480)**	**404,609**
Liabilities					
Borrowings	153,297	14,258	38,279	(19,212)	186,622
Other liabilities	45,239	84,041	7,833	(8,343)	128,770
Total liabilities	**198,536**	**98,299**	**46,112**	**(27,555)**	**315,392**
Total assets less total liabilities	**26,419**	**88,373**	**28,350**	**(53,925)**	**89,217**
Net worth					
Taxpayers' funds	4,642	24,640	7,690	(59,447)	(22,475)
Reserves	21,777	63,733	15,031	5,815	106,356
Net worth attributable to minority interest	-	-	5,629	(293)	5,336
Total net worth	**26,419**	**88,373**	**28,350**	**(53,925)**	**89,217**

Forecast Statement of Segments (continued)

	Core Crown 2022 Forecast $m	Crown entities 2022 Forecast $m	State-owned Enterprises 2022 Forecast $m	Inter-segment eliminations 2022 Forecast $m	Total Crown 2022 Forecast $m
Statement of Financial Performance for the year ended 30 June 2022					
Revenue					
Taxation revenue	89,097	-	-	(540)	88,557
Other sovereign revenue	2,384	6,313	-	(1,950)	6,747
Revenue from core Crown funding	-	36,068	209	(36,277)	-
Sales of goods and services	1,589	2,522	13,906	(550)	17,467
Interest revenue	773	744	903	(320)	2,100
Other revenue	2,032	4,391	574	(2,486)	4,511
Total revenue (excluding gains)	**95,875**	**50,038**	**15,592**	**(42,123)**	**119,382**
Expenses					
Social assistance and official development assistance	37,087	-	-	(1,280)	35,807
Personnel expenses	8,829	17,755	2,748	(35)	29,297
Other operating expenses	59,143	28,147	11,548	(39,848)	58,990
Interest expenses	1,080	339	737	(383)	1,773
Insurance expenses	2	6,641	6	-	6,649
Forecast for future new spending	5,514	-	-	-	5,514
Top-down operating expense adjustment	(2,550)	-	-	-	(2,550)
Total expenses (excluding losses)	**109,105**	**52,882**	**15,039**	**(41,546)**	**135,480**
Total gains/(losses) and other items	1,449	77	(303)	(80)	1,143
Operating balance	**(11,781)**	**(2,767)**	**250**	**(657)**	**(14,955)**
Expenses by functional classification					
Social security and welfare	*37,731*	*7,874*	*-*	*(1,760)*	*43,845*
Health	*23,416*	*18,231*	*-*	*(18,670)*	*22,977*
Education	*17,108*	*14,253*	*-*	*(12,962)*	*18,399*
Transport and communications	*3,849*	*4,238*	*6,449*	*(3,794)*	*10,742*
Other	*22,957*	*7,947*	*7,853*	*(3,977)*	*34,780*
Finance costs	*1,080*	*339*	*737*	*(383)*	*1,773*
Forecast for future new spending	*5,514*	*-*	*-*	*-*	*5,514*
Top-down operating expense adjustment	*(2,550)*	*-*	*-*	*-*	*(2,550)*
Total expenses (excluding losses)	***109,105***	***52,882***	***15,039***	***(41,546)***	***135,480***
Statement of Financial Position as at 30 June 2022					
Assets					
Cash and cash equivalents	10,615	3,392	1,869	(582)	15,294
Receivables	18,473	6,456	2,152	(2,080)	25,001
Other financial assets	111,536	53,328	27,468	(23,677)	168,655
Property, plant and equipment	47,743	113,244	40,314	-	201,301
Equity accounted investments	59,837	11,969	568	(57,914)	14,460
Intangible assets and goodwill	1,900	850	1,581	(20)	4,311
Inventory and other assets	3,185	1,482	1,098	(58)	5,707
Forecast for new capital spending	3,893	-	-	-	3,893
Top-down capital adjustment	(3,400)	-	-	-	(3,400)
Total assets	**253,782**	**190,721**	**75,050**	**(84,331)**	**435,222**
Liabilities					
Borrowings	195,125	15,747	38,127	(18,307)	230,692
Other liabilities	43,803	86,654	8,087	(8,447)	130,097
Total liabilities	**238,928**	**102,401**	**46,214**	**(26,754)**	**360,789**
Total assets less total liabilities	**14,854**	**88,320**	**28,836**	**(57,577)**	**74,433**
Net worth					
Taxpayers' funds	(7,139)	24,585	8,233	(63,114)	(37,435)
Reserves	21,993	63,735	15,057	5,820	106,605
Net worth attributable to minority interest	-	-	5,546	(283)	5,263
Total net worth	**14,854**	**88,320**	**28,836**	**(57,577)**	**74,433**

Forecast Statement of Segments (continued)

	Core Crown 2023 Forecast $m	Crown entities 2023 Forecast $m	State-owned Enterprises 2023 Forecast $m	Inter-segment eliminations 2023 Forecast $m	Total Crown 2023 Forecast $m
Statement of Financial Performance for the year ended 30 June 2023					
Revenue					
Taxation revenue	96,861	-	-	(612)	96,249
Other sovereign revenue	2,465	7,089	-	(2,085)	7,469
Revenue from core Crown funding	-	35,751	134	(35,885)	-
Sales of goods and services	1,610	2,656	14,878	(552)	18,592
Interest revenue	771	745	930	(322)	2,124
Other revenue	2,075	4,456	662	(2,457)	4,736
Total revenue (excluding gains)	**103,782**	**50,697**	**16,604**	**(41,913)**	**129,170**
Expenses					
Social assistance and official development assistance	38,546	-	-	(1,391)	37,155
Personnel expenses	8,736	18,112	2,848	(35)	29,661
Other operating expenses	55,988	27,441	12,192	(39,830)	55,791
Interest expenses	1,037	389	736	(364)	1,798
Insurance expenses	2	6,877	7	-	6,886
Forecast for future new spending	9,029	-	-	-	9,029
Top-down operating expense adjustment	(1,350)	-	-	-	(1,350)
Total expenses (excluding losses)	**111,988**	**52,819**	**15,783**	**(41,620)**	**138,970**
Total gains/(losses) and other items	3,702	234	(424)	(63)	3,449
Operating balance	**(4,504)**	**(1,888)**	**397**	**(356)**	**(6,351)**
Expenses by functional classification					
Social security and welfare	*38,827*	*8,135*	*-*	*(1,863)*	*45,099*
Health	*21,355*	*18,130*	*-*	*(18,735)*	*20,750*
Education	*16,788*	*13,967*	*-*	*(12,579)*	*18,176*
Transport and communications	*4,267*	*4,484*	*7,105*	*(4,458)*	*11,398*
Other	*22,035*	*7,714*	*7,942*	*(3,621)*	*34,070*
Finance costs	*1,037*	*389*	*736*	*(364)*	*1,798*
Forecast for future new spending	*9,029*	*-*	*-*	*-*	*9,029*
Top-down operating expense adjustment	*(1,350)*	*-*	*-*	*-*	*(1,350)*
Total expenses (excluding losses)	***111,988***	***52,819***	***15,783***	***(41,620)***	***138,970***
Statement of Financial Position as at 30 June 2023					
Assets					
Cash and cash equivalents	10,721	3,262	1,830	(580)	15,233
Receivables	19,210	6,905	2,435	(2,052)	26,498
Other financial assets	117,604	54,684	28,971	(23,891)	177,368
Property, plant and equipment	48,931	116,540	40,733	-	206,204
Equity accounted investments	62,982	12,011	588	(60,562)	15,019
Intangible assets and goodwill	1,871	860	1,638	(20)	4,349
Inventory and other assets	3,157	1,576	1,151	(56)	5,828
Forecast for new capital spending	6,886	-	-	-	6,886
Top-down capital adjustment	(4,150)	-	-	-	(4,150)
Total assets	**267,212**	**195,838**	**77,346**	**(87,161)**	**453,235**
Liabilities					
Borrowings	214,159	18,118	39,605	(18,490)	253,392
Other liabilities	42,486	89,181	8,280	(8,506)	131,441
Total liabilities	**256,645**	**107,299**	**47,885**	**(26,996)**	**384,833**
Total assets less total liabilities	**10,567**	**88,539**	**29,461**	**(60,165)**	**68,402**
Net worth					
Taxpayers' funds	(11,643)	24,807	8,764	(65,713)	(43,785)
Reserves	22,210	63,732	15,056	5,827	106,825
Net worth attributable to minority interest	-	-	5,641	(279)	5,362
Total net worth	**10,567**	**88,539**	**29,461**	**(60,165)**	**68,402**

Forecast Statement of Segments (continued)

	Core Crown 2024 Forecast $m	Crown entities 2024 Forecast $m	State-owned Enterprises 2024 Forecast $m	Inter-segment eliminations 2024 Forecast $m	Total Crown 2024 Forecast $m
Statement of Financial Performance for the year ended 30 June 2024					
Revenue					
Taxation revenue	102,452	-	-	(771)	101,681
Other sovereign revenue	2,693	7,794	-	(2,228)	8,259
Revenue from core Crown funding	-	35,117	139	(35,256)	-
Sales of goods and services	1,586	2,680	15,370	(552)	19,084
Interest revenue	776	765	963	(328)	2,176
Other revenue	2,155	4,561	690	(2,545)	4,861
Total revenue (excluding gains)	**109,662**	**50,917**	**17,162**	**(41,680)**	**136,061**
Expenses					
Social assistance and official development assistance	39,826	-	-	(1,489)	38,337
Personnel expenses	8,732	18,505	2,916	(35)	30,118
Other operating expenses	54,992	26,378	12,610	(39,259)	54,721
Interest expenses	1,427	426	719	(375)	2,197
Insurance expenses	2	7,447	7	-	7,456
Forecast for future new spending	11,603	-	-	-	11,603
Top-down operating expense adjustment	(1,300)	-	-	-	(1,300)
Total expenses (excluding losses)	**115,282**	**52,756**	**16,252**	**(41,158)**	**143,132**
Total gains/(losses) and other items	4,048	339	(428)	(80)	3,879
Operating balance	**(1,572)**	**(1,500)**	**482**	**(602)**	**(3,192)**
Expenses by functional classification					
Social security and welfare	*39,987*	*8,730*	*-*	*(1,971)*	*46,746*
Health	*21,421*	*18,086*	*-*	*(18,814)*	*20,693*
Education	*16,834*	*13,948*	*-*	*(12,549)*	*18,233*
Transport and communications	*3,497*	*3,758*	*7,416*	*(3,753)*	*10,918*
Other	*21,813*	*7,808*	*8,117*	*(3,696)*	*34,042*
Finance costs	*1,427*	*426*	*719*	*(375)*	*2,197*
Forecast for future new spending	*11,603*	*-*	*-*	*-*	*11,603*
Top-down operating expense adjustment	*(1,300)*	*-*	*-*	*-*	*(1,300)*
Total expenses (excluding losses)	***115,282***	***52,756***	***16,252***	***(41,158)***	***143,132***
Statement of Financial Position as at 30 June 2024					
Assets					
Cash and cash equivalents	10,956	3,460	1,983	(579)	15,820
Receivables	19,635	7,097	2,593	(2,040)	27,285
Other financial assets	114,208	56,474	31,708	(24,334)	178,056
Property, plant and equipment	49,938	118,093	40,791	-	208,822
Equity accounted investments	65,640	12,115	620	(63,094)	15,281
Intangible assets and goodwill	1,783	853	1,679	(19)	4,296
Inventory and other assets	3,157	1,644	1,200	(57)	5,944
Forecast for new capital spending	10,061	-	-	-	10,061
Top-down capital adjustment	(4,750)	-	-	-	(4,750)
Total assets	**270,628**	**199,736**	**80,574**	**(90,123)**	**460,815**
Liabilities					
Borrowings	219,524	18,410	42,550	(18,890)	261,594
Other liabilities	41,895	91,949	8,360	(8,511)	133,693
Total liabilities	**261,419**	**110,359**	**50,910**	**(27,401)**	**395,287**
Total assets less total liabilities	**9,209**	**89,377**	**29,664**	**(62,722)**	**65,528**
Net worth					
Taxpayers' funds	(13,215)	25,641	8,865	(68,270)	(46,979)
Reserves	22,424	63,736	15,059	5,823	107,042
Net worth attributable to minority interest	-	-	5,740	(275)	5,465
Total net worth	**9,209**	**89,377**	**29,664**	**(62,722)**	**65,528**

Forecast Statement of Segments (continued)

	Core Crown 2025 Forecast $m	Crown entities 2025 Forecast $m	State-owned Enterprises 2025 Forecast $m	Inter-segment eliminations 2025 Forecast $m	Total Crown 2025 Forecast $m
Statement of Financial Performance for the year ended 30 June 2025					
Revenue					
Taxation revenue	108,755	-	-	(845)	107,910
Other sovereign revenue	2,769	8,280	-	(2,381)	8,668
Revenue from core Crown funding	-	34,979	133	(35,112)	-
Sales of goods and services	1,622	2,786	15,576	(624)	19,360
Interest revenue	790	767	1,034	(340)	2,251
Other revenue	2,228	4,556	711	(2,552)	4,943
Total revenue (excluding gains)	**116,164**	**51,368**	**17,454**	**(41,854)**	**143,132**
Expenses					
Social assistance and official development assistance	40,830	-	-	(1,488)	39,342
Personnel expenses	8,782	18,485	2,955	(34)	30,188
Other operating expenses	54,400	26,197	12,684	(39,312)	53,969
Interest expenses	1,837	424	733	(388)	2,606
Insurance expenses	2	7,864	7	-	7,873
Forecast for future new spending	14,189	-	-	-	14,189
Top-down operating expense adjustment	(1,300)	-	-	-	(1,300)
Total expenses (excluding losses)	**118,740**	**52,970**	**16,379**	**(41,222)**	**146,867**
Total gains/(losses) and other items	4,455	487	(442)	(91)	4,409
Operating balance	**1,879**	**(1,115)**	**633**	**(723)**	**674**
Expenses by functional classification					
Social security and welfare	*41,033*	*9,168*	-	*(1,996)*	*48,205*
Health	*21,535*	*18,086*	-	*(18,960)*	*20,661*
Education	*16,800*	*13,871*	-	*(12,442)*	*18,229*
Transport and communications	*3,590*	*3,674*	*7,556*	*(3,859)*	*10,961*
Other	*21,056*	*7,747*	*8,090*	*(3,577)*	*33,316*
Finance costs	*1,837*	*424*	*733*	*(388)*	*2,606*
Forecast for future new spending	*14,189*	-	-	-	*14,189*
Top-down operating expense adjustment	*(1,300)*	-	-	-	*(1,300)*
Total expenses (excluding losses)	***118,740***	***52,970***	***16,379***	***(41,222)***	***146,867***
Statement of Financial Position as at 30 June 2025					
Assets					
Cash and cash equivalents	11,134	3,701	2,174	(576)	16,433
Receivables	20,268	7,237	2,702	(2,043)	28,164
Other financial assets	105,100	58,516	34,393	(24,942)	173,067
Property, plant and equipment	50,347	119,034	40,383	-	209,764
Equity accounted investments	68,036	12,273	659	(65,432)	15,536
Intangible assets and goodwill	1,636	835	1,728	(19)	4,180
Inventory and other assets	2,996	1,707	1,206	(57)	5,852
Forecast for new capital spending	12,289	-	-	-	12,289
Top-down capital adjustment	(5,350)	-	-	-	(5,350)
Total assets	**266,456**	**203,303**	**83,245**	**(93,069)**	**459,935**
Liabilities					
Borrowings	215,186	17,804	45,035	(19,443)	258,582
Other liabilities	39,974	94,951	8,348	(8,459)	134,814
Total liabilities	**255,160**	**112,755**	**53,383**	**(27,902)**	**393,396**
Total assets less total liabilities	**11,296**	**90,548**	**29,862**	**(65,167)**	**66,539**
Net worth					
Taxpayers' funds	(11,336)	26,813	8,949	(70,728)	(46,302)
Reserves	22,632	63,735	15,060	5,827	107,254
Net worth attributable to minority interest	-	-	5,853	(266)	5,587
Total net worth	**11,296**	**90,548**	**29,862**	**(65,167)**	**66,539**

Fiscal Indicator Analysis

The purpose of the following fiscal indicator analysis is to provide a link between the Forecast Financial Statements (pages 87 to 109) based on GAAP, and the key fiscal indicators used to measure performance against the fiscal objectives set out in the *Fiscal Strategy Report.*

The fiscal indicator analysis comprises five statements. These statements and their key purposes are described below:

Reconciliation between the Operating Balance and the Operating Balance before Gains and Losses

OBEGAL represents core Crown revenue less core Crown expenses plus surpluses from State-owned Enterprises and Crown Entities but does not include certain gains or losses from Government reporting entities. 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.

Expenses by Functional Classification

This analysis is based on the Classification of Functions of Government as produced by the Organisation for Economic Co-operation and Development (OECD) and permits trends in government expenditure on particular functions to be examined over time.

Core Crown Residual Cash

The core Crown residual cash statement measures the core Crown cash surplus (or deficit), after operating and investing cash requirements are met, that is available for the Government to invest, repay debt, or, in the case of a deficit, fund in any given year.

Debt Indicators

The debt statement presents the calculation of both gross debt and net core Crown debt indicators.

Gross debt is defined as gross-sovereign issued debt and represents debt issued by the sovereign (core Crown) and includes Government stock held by the NZS Fund, Accident Compensation Corporation, and the Earthquake Commission. Gross debt excludes Reserve Bank settlement cash and Reserve Bank bills.

Net core Crown debt represents gross sovereign-issued 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.

Reconciliation between the Financial Statements and the Key Fiscal Indicators

This statement shows how key lines in the financial statements flow through to the key fiscal indicators used to measure performance against the government's fiscal objectives.

Reconciliation Between the Operating Balance and the Operating Balance before Gains and Losses

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Operating Balance							
Total revenue	116,003	110,067	116,624	119,382	129,170	136,061	143,132
Total expenses	138,916	139,585	138,040	135,480	138,970	143,132	146,867
Total gains/(losses)	(8,722)	201	(3,293)	1,633	3,914	4,252	4,734
Net surplus from associates and joint ventures	1,193	67	(802)	(126)	24	121	186
Less Minority interests share of operating balance	402	(76)	(128)	(364)	(489)	(494)	(511)
Operating balance	**(30,040)**	**(29,326)**	**(25,639)**	**(14,955)**	**(6,351)**	**(3,192)**	**674**
Reconciliation Between the Operating Balance and the Operating Balance before Gains and Losses							
Operating balance	**(30,040)**	**(29,326)**	**(25,639)**	**(14,955)**	**(6,351)**	**(3,192)**	**674**
Less items excluded from OBEGAL:							
Net gains/(losses) on large scale asset purchases	(3,258)	(2,236)	(5,840)	(1,879)	-	-	-
Net gains/(losses) on financial instruments	1,908	2,576	7,244	3,581	3,990	4,327	4,810
Net gains/(losses) on non-financial instruments	(7,372)	(139)	(4,697)	(69)	(76)	(75)	(76)
Minority interests share of total gains/(losses)	546	5	32	(13)	(31)	(34)	(33)
Net surplus from associates and joint ventures	1,193	67	(802)	(126)	24	121	186
OBEGAL	**(23,057)**	**(29,599)**	**(21,576)**	**(16,449)**	**(10,258)**	**(7,531)**	**(4,213)**

Expenses by Functional Classification

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Total Crown expenses							
By functional classification[1]							
Social security and welfare	49,900	42,531	44,375	43,845	45,099	46,746	48,205
Health	20,469	20,791	23,594	22,977	20,750	20,693	20,661
Education	17,581	17,761	17,390	18,399	18,176	18,233	18,229
Core government services	5,869	5,265	5,020	5,151	5,062	5,338	4,885
Law and order	5,304	5,683	5,781	5,606	5,657	5,598	5,651
Transport and communications	12,962	10,792	11,953	10,742	11,398	10,918	10,961
Economic and industrial services	11,246	9,932	10,879	10,680	10,352	10,287	10,134
Defence	2,482	2,760	2,744	2,727	2,718	2,810	2,860
Heritage, culture and recreation	2,904	2,844	3,260	3,016	2,867	2,852	2,882
Primary services	2,430	2,751	2,954	2,263	2,102	2,015	1,959
Housing and community development	2,393	2,879	3,765	3,403	3,362	3,265	3,149
Environmental protection	1,472	1,324	1,806	1,615	1,571	1,489	1,413
GSF pension expenses	87	96	106	108	102	97	92
Other	63	545	740	211	277	291	291
Finance costs	3,754	3,615	2,613	1,773	1,798	2,197	2,606
Forecast new operating spending	-	10,991	5,260	5,514	9,029	11,603	14,189
Top-down operating expense adjustment	-	(975)	(4,200)	(2,550)	(1,350)	(1,300)	(1,300)
Total Crown expenses excluding losses	**138,916**	**139,585**	**138,040**	**135,480**	**138,970**	**143,132**	**146,867**

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank, but not Crown entities and SOEs.

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Core Crown expenses							
By functional classification[1]							
Social security and welfare	44,028	37,170	38,100	37,731	38,827	39,987	41,033
Health	19,891	20,919	24,010	23,416	21,355	21,421	21,535
Education	16,322	16,301	15,983	17,108	16,788	16,834	16,800
Core government services	6,083	5,317	6,280	5,332	5,191	5,461	5,084
Law and order	4,911	5,238	5,432	5,141	5,200	5,159	5,154
Transport and communications	3,179	4,035	6,107	3,849	4,267	3,497	3,590
Economic and industrial services	3,988	3,379	4,644	3,940	3,614	3,452	3,225
Defence	2,499	2,765	2,760	2,744	2,735	2,827	2,877
Heritage, culture and recreation	1,106	1,058	1,646	1,250	1,051	997	1,005
Primary services	961	1,242	1,305	924	857	810	796
Housing and community development	1,015	1,252	2,290	1,718	1,463	1,256	1,145
Environmental protection	1,485	1,332	1,815	1,623	1,579	1,497	1,421
GSF pension expenses	73	76	74	75	68	63	58
Other	63	545	740	211	277	291	291
Finance costs	3,228	2,884	1,986	1,079	1,037	1,427	1,837
Forecast new operating spending	-	10,991	5,260	5,514	9,029	11,603	14,189
Top-down operating expense adjustment	-	(975)	(4,200)	(2,550)	(1,350)	(1,300)	(1,300)
Total core Crown expenses excluding losses	**108,832**	**113,529**	**114,232**	**109,105**	**111,988**	**115,282**	**118,740**

1. The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in future Budgets.

Core Crown Residual Cash

for the years ending 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Core Crown Residual Cash							
Core Crown Cash Flows from Operations							
Tax receipts	84,310	77,202	87,149	90,910	96,462	102,768	108,891
Other sovereign receipts	1,226	1,410	1,215	1,569	1,607	1,612	1,560
Interest receipts	428	653	224	189	157	174	198
Sale of goods and services and other receipts	3,243	3,354	3,083	3,074	3,062	3,003	3,141
Transfer payments and subsidies	(43,916)	(37,001)	(38,552)	(37,392)	(38,903)	(40,096)	(42,101)
Personnel and operating costs	(56,583)	(60,143)	(69,074)	(64,631)	(61,156)	(59,448)	(59,080)
Interest payments	(3,016)	(3,776)	(2,906)	(1,728)	(1,659)	(1,668)	(1,953)
Forecast for future new operating spending	-	(10,991)	(5,260)	(5,514)	(9,029)	(11,603)	(14,189)
Top-down operating expense adjustment	-	975	4,200	2,550	1,350	1,300	1,300
Net core Crown operating cash flows	**(14,308)**	**(28,317)**	**(19,921)**	**(10,973)**	**(8,109)**	**(3,958)**	**(2,233)**
Core Crown Capital Cash Flows							
Net purchase of physical assets	(2,955)	(3,261)	(3,633)	(3,788)	(3,203)	(3,076)	(2,445)
Net increase in advances	(1,798)	(5,057)	(9,775)	(13,933)	(5,870)	8,345	14,351
Net purchase of investments	(3,171)	(3,218)	(5,226)	(4,171)	(3,180)	(2,741)	(2,428)
Contribution to NZS Fund	(1,460)	(2,120)	(2,120)	(2,420)	(1,061)	(1,461)	(1,756)
Forecast for future new capital spending	-	(1,990)	(1,852)	(2,041)	(2,993)	(3,175)	(2,228)
Top-down capital adjustment	-	650	2,350	1,050	750	600	600
Net core Crown capital cash flows	**(9,384)**	**(14,996)**	**(20,256)**	**(25,303)**	**(15,557)**	**(1,508)**	**6,094**
Residual cash (deficit)/surplus	**(23,692)**	**(43,313)**	**(40,177)**	**(36,276)**	**(23,666)**	**(5,466)**	**3,861**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt Programme Cash Flows							
Market:							
Issue of government bonds	31,951	65,605	49,760	31,967	30,738	29,714	24,415
Repayment of government bonds	(5,380)	(11,059)	(11,059)	-	(15,945)	(13,500)	(13,700)
Net issue/(repayment) of short-term borrowing[1]	8,415	490	(5,211)	(1,600)	-	-	-
Total market debt cash flows	34,986	55,036	33,490	30,367	14,793	16,214	10,715
Non-market:							
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	-	-	-	-	-	-	-
Net issue/(repayment) of short-term borrowing	-	-	-	-	-	-	-
Total non-market debt cash flows	-	-	-	-	-	-	-
Total debt programme cash flows	**34,986**	**55,036**	**33,490**	**30,367**	**14,793**	**16,214**	**10,715**
Other Borrowing Cash Flows							
Net (repayment)/issue of other New Zealand dollar borrowing	15,928	38,558	35,974	49,271	(7,163)	(19,859)	(27,413)
Net (repayment)/issue of foreign currency borrowing	1,121	(109)	(2,062)	1	-	(1)	979
Total other borrowing cash flows	**17,049**	**38,449**	**33,912**	**49,272**	**(7,163)**	**(19,860)**	**(26,434)**
Investing Cash Flows							
Net sale/(purchase) of marketable securities and deposits	(33,884)	(50,143)	(33,791)	(43,441)	15,953	9,028	11,771
Net issues/(repayments) of circulating currency	1,209	215	8	80	81	82	83
Decrease/(increase) in cash	4,332	(244)	6,558	(2)	2	2	4
Total investing cash flows	**(28,343)**	**(50,172)**	**(27,225)**	**(43,363)**	**16,036**	**9,112**	**11,858**
Residual cash deficit/(surplus) funding/(investing)	**23,692**	**43,313**	**40,177**	**36,276**	**23,666**	**5,466**	**(3,861)**

1. Short-term borrowing consists of Treasury Bills and may include Euro-Commercial Paper.

Debt Indicators

as at 30 June

	2020 Actual $m	2021 Previous Budget $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Net Debt:							
Gross sovereign-issued debt[1]	124,145	203,673	153,013	194,814	213,810	219,104	214,700
Less liquid financial assets (per net debt definition)	(40,770)	(74,184)	(24,364)	(28,597)	(24,664)	(24,924)	(24,709)
Net core Crown Debt	**83,375**	**129,489**	**128,649**	**166,217**	**189,146**	**194,180**	**189,991**
Analysis of financial liabilities and assets included in net debt							
Gross sovereign-issued debt:							
Core Crown borrowings[2]	126,820	208,243	153,297	195,125	214,159	219,524	215,186
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(2,675)	(4,570)	(284)	(311)	(349)	(420)	(486)
Gross sovereign-issued debt[1]	**124,145**	**203,673**	**153,013**	**194,814**	**213,810**	**219,104**	**214,700**
Liquid financial assets:							
Core Crown financial assets[3]	102,169	136,091	98,802	122,151	128,325	125,164	116,234
Less NZS Fund holdings of core Crown financial assets and NZS Fund financial assets	(46,843)	(46,725)	(49,955)	(55,315)	(59,766)	(64,945)	(70,759)
Less FLP advances	-	-	(8,167)	(22,167)	(28,000)	(19,833)	(5,833)
Less other advances	(14,556)	(15,182)	(16,316)	(16,072)	(15,895)	(15,462)	(14,933)
NZS Fund and advances	(61,399)	(61,907)	(74,438)	(93,554)	(103,661)	(100,240)	(91,525)
Liquid financial assets (per net debt definition)	**40,770**	**74,184**	**24,364**	**28,597**	**24,664**	**24,924**	**24,709**
Additional net debt analysis							
Net core Crown debt	83,375	129,489	128,649	166,217	189,146	194,180	189,991
Less NZS Fund and advances	(61,399)	(61,907)	(74,438)	(93,554)	(103,661)	(100,240)	(91,525)
Net core Crown debt (incl. NZS Fund and advances)	**21,976**	**67,582**	**54,211**	**72,663**	**85,485**	**93,940**	**98,466**
Net core Crown debt	83,375	129,489	128,649	166,217	189,146	194,180	189,991
less FLP advances	-	-	(8,167)	(22,167)	(28,000)	(19,833)	(5,833)
Net core Crown debt (incl. FLP advances)	**83,375**	**129,489**	**120,482**	**144,050**	**161,146**	**174,347**	**184,158**
Gross Debt:							
Gross sovereign-issued debt[1]	124,145	203,673	153,013	194,814	213,810	219,104	214,700
Less Reserve Bank settlement cash and Reserve Bank bills	(23,488)	(67,137)	(62,944)	(109,296)	(103,876)	(83,892)	(58,509)
Add back changes to government borrowing owing to settlement cash[4]	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills	**102,257**	**138,136**	**91,669**	**87,118**	**111,534**	**136,812**	**157,791**
Monetary Liabilities							
Issued currency	8,022	7,366	8,031	8,111	8,192	8,274	8,357
Settlement deposits with Reserve Bank	23,027	66,839	62,619	108,970	103,552	83,567	58,183
Total Monetary Liabilities	**31,049**	**74,205**	**70,650**	**117,081**	**111,744**	**91,841**	**66,540**

Monetary liabilities facilitate payments to be effected in New Zealand dollars, thereby ensuring the smooth functioning of the economy.

Notes on borrowings

1. Gross sovereign-issued debt (GSID) represents debt issued by the sovereign (the core Crown) and includes any government stock held by the other Crown reporting entities.
2. Core Crown borrowings in this instance include unsettled purchases of securities (classified as accounts payable in the Statement of Financial Position).
3. Core Crown financial assets exclude receivables, except for unsettled sales of securities.
4. The Reserve Bank has used $1.6 billion of settlement cash to purchase reserves that were to have been funded by the government borrowing programme. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

Reconciliation between the Financial Statements and the Key Fiscal Indicators

Financial Results	2020 Actual $m	2021 Forecast $m	2022 Forecast $m	2023 Forecast $m	2024 Forecast $m	2025 Forecast $m
Core Crown taxation revenue...	85,102	88,346	89,097	96,861	102,452	108,755
...combined with other core Crown revenue...	6,821	6,647	6,778	6,921	7,210	7,409
...funds core Crown expenses...	(108,832)	(114,232)	(109,105)	(111,988)	(115,282)	(118,740)
...and including SOE and CE[1] revenues and expenses...	(6,148)	(2,337)	(3,219)	(2,052)	(1,911)	(1,637)
...results in an operating balance before gains and losses **(OBEGAL)**...	(23,057)	(21,576)	(16,449)	(10,258)	(7,531)	(4,213)
...with gains/losses leading to an **operating surplus/(deficit)...**	(30,040)	(25,639)	(14,955)	(6,351)	(3,192)	674
...with income in SOEs, CEs[1] and the NZS Fund retained...	8,935	1,653	190	(1,485)	(2,005)	(2,765)
...and some items do not impact cash	6,797	4,065	3,792	(273)	1,239	(142)
This leads to an operating residual cash surplus/(deficit)...	**(14,308)**	**(19,921)**	**(10,973)**	**(8,109)**	**(3,958)**	**(2,233)**
...used to make contributions to the NZS Fund...	(1,460)	(2,120)	(2,420)	(1,061)	(1,461)	(1,756)
...and to use for purchases of physical assets...	(2,955)	(3,633)	(3,788)	(3,203)	(3,076)	(2,445)
...and to make advances (eg, to students) and investments	(4,969)	(15,001)	(18,104)	(9,050)	5,604	11,923
Adjusting for forecast adjustments (top-down/new spending)...	-	498	(991)	(2,243)	(2,575)	(1,628)
...results in a **borrowing requirement (cash (deficit)/surplus)**	**(23,692)**	**(40,177)**	**(36,276)**	**(23,666)**	**(5,466)**	**3,861**
Opening net core Crown debt...	57,736	83,375	128,649	166,217	189,146	194,180
...when combined with the residual cash (surplus)/deficit...	23,692	40,177	36,276	23,666	5,466	(3,861)
...and other fair value movements in financial assets and financial liabilities...	1,947	5,097	1,292	(737)	(432)	(328)
...results in a closing **net core Crown debt**...	**83,375**	**128,649**	**166,217**	**189,146**	**194,180**	**189,991**
...which as a % of GDP is	**26.4%**	**39.7%**	**49.1%**	**52.6%**	**50.7%**	**46.9%**

Note: 1 State-owned enterprises (SOEs) and Crown entities (CEs)

5

Core Crown Expense Tables

($millions)	2016 Actual	2017 Actual	2018 Actual	2019[1] Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Social security and welfare	24,081	25,294	25,999	28,740	44,028	38,100	37,731	38,827	39,987	41,033
Health	15,626	16,223	17,159	18,268	19,891	24,010	23,416	21,355	21,421	21,535
Education	13,158	13,281	13,629	14,293	16,322	15,983	17,108	16,788	16,834	16,800
Core government services[1]	4,102	3,957	4,670	5,166	6,083	6,280	5,332	5,191	5,461	5,084
Law and order	3,648	3,882	4,184	4,625	4,911	5,432	5,141	5,200	5,159	5,154
Transport and communications	2,178	2,176	2,559	2,889	3,179	6,107	3,849	4,267	3,497	3,590
Economic and industrial services	2,107	2,544	2,732	3,006	3,988	4,644	3,940	3,614	3,452	3,225
Defence	2,026	2,146	2,251	2,395	2,499	2,760	2,744	2,735	2,827	2,877
Heritage, culture and recreation	787	850	850	918	1,106	1,646	1,250	1,051	997	1,005
Primary services	749	644	807	960	961	1,305	924	857	810	796
Housing and community development	558	539	552	727	1,015	2,290	1,718	1,463	1,256	1,145
Environmental protection	587	871	1,238	1,119	1,485	1,815	1,623	1,579	1,497	1,421
GSF pension expenses[1]	271	217	150	66	73	74	75	68	63	58
Other	461	181	299	96	63	740	211	277	291	291
Finance costs[1]	3,590	3,534	3,497	3,691	3,228	1,986	1,079	1,037	1,427	1,837
Forecast new operating spending	..	..	..	..	..	5,260	5,514	9,029	11,603	14,189
Top-down operating expense adjustment	..	..	..	..	..	(4,200)	(2,550)	(1,350)	(1,300)	(1,300)
Core Crown expenses	**73,929**	**76,339**	**80,576**	**86,959**	**108,832**	**114,232**	**109,105**	**111,988**	**115,282**	**118,740**

The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in future Budgets.

1. 'The '2019 Actual' has been restated for the impact of new accounting standards effective from 1 July 2019. At this point in time, the earlier years in this time series have not yet been restated.

Source: The Treasury

Table 5.1 – Social security and welfare expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Welfare benefits (see below)	22,441	23,339	24,005	26,689	41,308	34,492	34,500	35,882	37,130	38,105
Social rehabilitation and compensation	151	220	241	249	260	333	358	385	414	445
Departmental expenses	1,339	1,417	1,593	1,784	2,062	2,694	2,374	2,232	2,245	2,261
Other non-departmental expenses[1]	150	318	160	18	398	581	499	328	198	222
Social security and welfare expenses	**24,081**	**25,294**	**25,999**	**28,740**	**44,028**	**38,100**	**37,731**	**38,827**	**39,987**	**41,033**

1. The '2020 Actual' and '2021 Forecast' for other non-departmental expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.2 – Welfare benefit expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
New Zealand Superannuation	12,267	13,043	13,699	14,562	15,521	16,490	17,484	18,584	19,581	20,625
Jobseeker Support and Emergency Benefit	1,671	1,697	1,697	1,854	2,285	3,355	3,677	3,514	3,402	3,250
Supported living payment	1,523	1,533	1,541	1,556	1,650	1,806	1,883	1,949	2,011	2,065
Sole parent support	1,153	1,159	1,117	1,115	1,231	1,507	1,644	1,745	1,724	1,701
Family Tax Credit	1,793	1,723	1,639	2,131	2,189	2,147	2,042	2,047	2,147	2,140
Other working for families tax credits	559	596	556	635	641	641	648	653	664	662
Accommodation Assistance	1,164	1,127	1,204	1,640	1,923	2,354	2,530	2,576	2,604	2,611
Income-Related Rents	755	815	890	974	1,071	1,209	1,331	1,441	1,536	1,536
Disability Assistance	377	377	379	386	395	407	415	417	419	419
Winter energy	..	..	..	441	669	820	543	552	554	556
Best start	..	..	..	48	184	336	447	454	471	474
Orphan's/Unsupported Child's Benefit[1]	143	152	165	225	248	294	328	359	381	400
Hardship Assistance[1]	290	353	355	300	418	532	657	712	740	764
Paid Parental Leave	217	274	288	369	422	505	520	530	545	555
Childcare Assistance	182	199	196	183	144	155	158	159	160	163
Veterans Support Entitlement	107	98	93	90	66	..	..	..	..	..
Veteran's Pension	186	175	163	153	145	139	131	124	117	111
Wage Subsidy Scheme				..	12,095	1,392	..	..	..	..
Other benefits[1]	54	18	23	27	11	403	62	66	74	73
Benefit expenses	**22,441**	**23,339**	**24,005**	**26,689**	**41,308**	**34,492**	**34,500**	**35,882**	**37,130**	**38,105**

1. The '2021 Forecast' for other benefits expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Beneficiary numbers[1] (Thousands)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
New Zealand Superannuation	691	717	741	767	795	826	854	881	909	939
Jobseeker Support and Emergency Benefit	130	131	129	139	162	222	242	229	216	202
Supported living payment	98	97	96	95	96	97	98	99	100	101
Sole parent support	67	64	60	59	61	69	74	77	74	72
Accommodation Supplement	292	290	285	295	318	376	400	399	394	387

1. Actual numbers have been reclassified so may differ from previous published Economic and Fiscal Update numbers.

Source: Ministry of Social Development

Table 5.3 – Health expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Departmental outputs	188	192	200	210	236	394	280	265	257	257
Health services purchasing (see below)	14,361	14,855	15,449	16,311	18,176	20,259	19,276	19,200	19,130	19,130
Other non-departmental outputs[2]	356	365	816	937	634	2,234	2,706	608	626	645
Health payments to ACC[1]	694	697	682	782	812	1,061	1,115	1,242	1,367	1,462
Other expenses	27	114	12	28	33	62	39	40	41	41
Health expenses	**15,626**	**16,223**	**17,159**	**18,268**	**19,891**	**24,010**	**23,416**	**21,355**	**21,421**	**21,535**

1. Health payments to ACC includes increases in funding for the non-earners funding.
2. The '2021 Forecast' and '2022 Forecast' for other non-departmental outputs includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.4 – Health services purchasing

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Payments to District Health Boards	12,822	13,281	13,829	14,563	15,749	17,075	17,099	17,026	16,958	16,958
National disability support services	1,167	1,188	1,256	1,358	1,599	1,732	1,738	1,738	1,738	1,738
Public health services purchasing[1]	372	386	364	390	828	1,452	439	436	434	434
Health services purchasing	**14,361**	**14,855**	**15,449**	**16,311**	**18,176**	**20,259**	**19,276**	**19,200**	**19,130**	**19,130**

1. The '2020 Actual' and '2021 Forecast' for public health services purchasing includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.5 – Education expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Early childhood education	1,735	1,805	1,844	1,896	2,007	2,180	2,287	2,356	2,419	2,485
Primary and secondary schools (see below)	6,044	6,116	6,334	6,823	7,104	7,992	7,978	7,932	7,971	7,903
Tertiary funding (see below)	4,235	4,051	4,112	4,112	5,621	3,901	5,067	4,858	4,789	4,785
Departmental expenses	1,112	1,190	1,281	1,416	1,534	1,706	1,606	1,602	1,618	1,607
Other education expenses	32	119	58	46	56	204	170	40	37	20
Education expenses	**13,158**	**13,281**	**13,629**	**14,293**	**16,322**	**15,983**	**17,108**	**16,788**	**16,834**	**16,800**

Source: The Treasury

Number of places provided[1]	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Early childhood education	205,094	211,480	217,241	221,095	224,326	229,281	233,666	238,297	243,031	250,104

1. Full-time equivalent based on 1,000 funded child hours per calendar year. Note that historical place numbers have been revised so may differ from previous published *Economic and Fiscal Update* numbers.

Source: The Ministry of Education

Table 5.6 – Primary and secondary schools

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Primary	3,033	3,091	3,216	3,452	3,600	3,994	3,973	3,935	3,930	3,877
Secondary	2,329	2,336	2,407	2,606	2,683	3,015	3,032	3,046	3,095	3,092
School transport	185	186	195	206	208	221	215	200	200	200
Special needs support	396	410	429	447	515	634	632	630	634	633
Professional development	96	88	82	104	91	98	97	96	96	95
Schooling improvement	5	5	5	8	7	30	29	25	16	6
Primary and secondary education expenses	**6,044**	**6,116**	**6,334**	**6,823**	**7,104**	**7,992**	**7,978**	**7,932**	**7,971**	**7,903**

Source: The Treasury

Number of places provided[1]	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Primary	501,786	511,588	520,496	527,429	530,379	528,316	523,791	519,843	513,126	507,849
Secondary	276,473	278,428	277,734	279,904	286,511	293,270	299,363	305,114	308,972	309,881

1. These are snapshots as at 1 July for primary year levels (years 1 to 8) and 1 March for secondary year levels (years 9 to 13). These numbers exclude special schools, health camps, hospital schools and home schooling. They are the number of full-time equivalent students enrolled in New Zealand schools, including State, State-integrated, Private-Fully Registered, Private-Provisionally Registered and other Vote Education.
Note that historical figures have been revised for consistency with the current projection methodology, so may differ from figures published in previous Economic and Fiscal Updates.

Source: The Ministry of Education

Table 5.7 – Tertiary funding

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Tuition[1]	2,463	2,466	2,552	2,571	3,911	2,060	3,266	3,062	3,003	2,977
Other tertiary funding	487	520	561	606	637	753	685	661	645	650
Student allowances	486	465	511	583	567	604	631	635	631	628
Student loans	799	600	488	352	506	484	485	500	510	530
Tertiary education expenses	**4,235**	**4,051**	**4,112**	**4,112**	**5,621**	**3,901**	**5,067**	**4,858**	**4,789**	**4,785**

1. The '2020 Actual' includes increased funding to provide revenue certainty to tertiary education organisations for the June to December 2020 period due to the impact of COVID-19. There is a corresponding reduction in the '2021 Forecast'.

Source: The Treasury

Number of places provided[1]	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Actual delivered and estimated funded places	231,413	223,645	220,717	217,767	222,400	243,100	241,400	233,800	228,800	228,500

1. Tertiary Education places are the number of equivalent full time students (EFTS) in: student achievement component; adult and community education; and youth guarantee programmes. Place numbers are based on calendar years rather than fiscal years. Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers. Tertiary Education places forecast are based on all funding appropriated to Vote Tertiary Education up to Budget 2020 and includes increased appropriation in relation to the Government's response to COVID-19. The forecast number of places provided is based on the number of places that can be funded under the current funding and not a forecast based on demand.

Source: Tertiary Education Commission

Table 5.8 – Core government services expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Official development assistance	534	520	643	708	736	825	820	858	861	861
Indemnity and guarantee expenses	30	22	18	16	14	2	2	3	4	5
Departmental expenses[1]	1,845	1,835	2,119	2,199	2,249	2,492	2,452	2,245	2,195	2,199
Non-departmental expenses	379	511	683	961	872	897	703	712	750	710
Tax receivable write-down and impairments	680	493	616	829	1,356	1,080	880	880	880	880
Science expenses	118	91	94	103	113	116	116	119	117	117
Other expenses[2,3]	516	485	497	350	743	868	359	374	654	312
Core government service expenses	**4,102**	**3,957**	**4,670**	**5,166**	**6,083**	**6,280**	**5,332**	**5,191**	**5,461**	**5,084**

1. Departmental expenses includes costs relating to the Inland Revenue Business Transformation project.
2. The '2019 Actual' has been restated for the impact of new accounting standards effective from 1 July 2019. At this point in time, the earlier years in this time series have not yet been restated.
3. The '2020 Actual' and '2021 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.9 – Law and order expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Police	1,498	1,539	1,629	1,760	1,997	2,096	1,979	2,015	2,003	1,999
Ministry of Justice	468	479	502	542	591	646	625	618	612	610
Department of Corrections	1,068	1,145	1,301	1,417	1,527	1,685	1,596	1,628	1,621	1,623
NZ Customs Service	153	171	174	187	201	214	200	203	201	201
Other departments	83	121	132	111	163	212	198	194	189	189
Departmental expenses	**3,270**	**3,455**	**3,738**	**4,017**	**4,479**	**4,853**	**4,598**	**4,658**	**4,626**	**4,622**
Non-departmental outputs	359	397	445	457	419	556	531	530	519	518
Other expenses	19	30	1	151	13	23	12	12	14	14
Law and order expenses	**3,648**	**3,882**	**4,184**	**4,625**	**4,911**	**5,432**	**5,141**	**5,200**	**5,159**	**5,154**

Source: The Treasury

Table 5.10 – Transport and communication expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
New Zealand Transport Agency[1]	1,982	1,888	2,280	2,601	2,719	3,436	3,428	3,841	3,279	3,381
Departmental outputs	45	52	55	60	70	94	70	67	66	67
Other non-departmental expenses[1]	106	168	177	158	183	779	171	184	119	119
Rail funding	3	3	3	3	3	33	16	154	13	4
Other expenses[2]	42	65	44	67	204	1,765	164	21	20	19
Transport and communication expenses	**2,178**	**2,176**	**2,559**	**2,889**	**3,179**	**6,107**	**3,849**	**4,267**	**3,497**	**3,590**

1. The '2021 Forecast' for New Zealand Transport Agency expenses and for other non-departmental expenses includes costs in relation to the Government's response to COVID-19.
2. The '2020 Actual' to the '2022 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19, including shovel ready project funding.

Source: The Treasury

Table 5.11 – Economic and industrial services expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Departmental outputs	389	465	447	499	561	654	549	545	548	552
Employment initiatives	3	3	4	10	5	4	4	4	4	4
Non-departmental outputs[1,3]	798	1,085	1,155	1,328	1,614	2,044	2,020	1,660	1,610	1,422
KiwiSaver (includes HomeStart grant)[2]	763	743	897	951	893	924	966	1,004	1,039	1,069
Other expenses[4]	154	248	229	218	915	1,018	401	401	251	178
Economic and industrial services expenses	**2,107**	**2,544**	**2,732**	**3,006**	**3,988**	**4,644**	**3,940**	**3,614**	**3,452**	**3,225**

1. From 2017 onwards, spending on new investment and research fund initiatives is included in non-departmental outputs, this has been reclassified from core government services.
2. From 2018 onwards, spending includes KiwiSaver HomeStart grant initiative.
3. From 2019 onwards, non-departmental outputs includes Provincial Growth Fund expenses.
4. The '2020 Actual' and '2021 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19, including infrastructure spending and fair value write downs.

Source: The Treasury

Table 5.12 – Defence expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
NZDF core expenses	1,986	2,084	2,172	2,286	2,418	2,622	2,611	2,596	2,684	2,738
Other expenses	40	62	79	109	81	138	133	139	143	139
Defence expenses	**2,026**	**2,146**	**2,251**	**2,395**	**2,499**	**2,760**	**2,744**	**2,735**	**2,827**	**2,877**

Source: The Treasury

Table 5.13 – Heritage, culture and recreation expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Departmental outputs	274	282	302	305	326	416	379	335	336	349
Non-departmental outputs	477	512	503	538	627	955	753	630	620	617
Other expenses[1]	36	56	45	75	153	275	118	86	41	39
Heritage, culture and recreation expenses	**787**	**850**	**850**	**918**	**1,106**	**1,646**	**1,250**	**1,051**	**997**	**1,005**

1. The '2020 Actual' to the '2021 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.14 – Primary services expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Departmental expenses[2]	424	458	549	677	727	877	684	660	640	636
Non-departmental outputs	100	92	188	110	89	135	102	71	69	80
Biological research[1]	95	..	..	..	..	..	..	..	..	..
Other expenses[2,3]	130	94	70	173	145	293	138	126	101	80
Primary services expenses	**749**	**644**	**807**	**960**	**961**	**1,305**	**924**	**857**	**810**	**796**

1. From 2017 onwards, biological research has been reclassified from primary services to non-departmental expenses within core government services.
2. The '2019 Actual' and the '2020 Actual' for other expenses include costs associated with Mycoplasma bovis.
3. From 2019 onwards other expenses includes funding for forestry grants and partnership programmes.

Source: The Treasury

Table 5.15 – Housing and community development expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Housing subsidies	5	5	5	4	4	4	4	4	4	4
Community Services[1]	189	189	179	183	235	365	370	329	344	344
Departmental outputs	171	187	150	195	220	268	239	228	208	208
Other non-departmental expenses[2]	114	127	193	283	523	1,144	1,010	858	665	561
Warm up New Zealand	22	..	..	..	..	..	..	..	..	..
Other expenses[3]	57	31	25	62	33	509	95	44	35	28
Housing and community development expenses	**558**	**539**	**552**	**727**	**1,015**	**2,290**	**1,718**	**1,463**	**1,256**	**1,145**

1. From 2016 onwards, community services have been reclassified from non-departmental expenses in social security and welfare expenses and employment initiatives in economic expenses.
2. From 2019 onwards, KiwiBuild and transitional housing costs are included in non-departmental expenses.
3. The '2021 Forecast' and '2022 Forecast' for other expenses includes costs in relation to the Government's response to COVID-19.

Source: The Treasury

Table 5.16 – Environmental protection expenses

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Emissions Trading Scheme	163	295	720	543	650	783	742	733	712	706
Departmental outputs	383	404	412	460	542	686	659	652	601	583
Non-departmental outputs	1	64	72	82	257	305	204	178	171	120
Other expenses	40	108	34	34	36	41	18	16	13	12
Environmental protection expenses	**587**	**871**	**1,238**	**1,119**	**1,485**	**1,815**	**1,623**	**1,579**	**1,497**	**1,421**

Source: The Treasury

Table 5.17 – Finance costs

($millions)	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Interest on financial liabilities	3,553	3,505	3,454	3,398	2,971	1,872	1,001	957	1,325	1,712
Interest unwind on provisions[1]	37	29	43	293	257	114	78	80	102	125
Finance costs expenses	**3,590**	**3,534**	**3,497**	**3,691**	**3,228**	**1,986**	**1,079**	**1,037**	**1,427**	**1,837**

1. 'The '2019 Actual' has been restated for the impact of new accounting standards effective from 1 July 2019. At this point in time, the earlier years in this time series have not yet been restated.

Source: The Treasury

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. Core or underlying inflation measures exclude or give little weight to extreme or irregular price movements.

Contingent assets

Revenue 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 83 to 86).

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

The Treasury's CAB is an estimate of the OBEGAL adjusted for fluctuations of actual GDP around trend GDP and provides a picture of the underlying fiscal position. It is an accrual-based measure and excludes temporary, one-off items that do not reflect underlying movements in the fiscal position, such as EQC and Southern Response payments.

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

The fiscal impulse shows whether the stance of discretionary fiscal policy is becoming more expansionary or contractionary relative to the previous year. The Treasury's fiscal impulse measure is calculated by expressing the cash-version of the CAB as a percentage of nominal GDP and taking year-on-year differences. This cyclically-adjusted measure excludes items that do not directly contribute to domestic demand, such as net interest payments, capital expenditure on imported items, and the purchases and sales of financial investments.

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 (Multi-year capital envelope)

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.

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 (refer the 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 any 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 cost index (LCI)

The LCI measures changes in labour costs, including base wages, overtime, and non-wage labour-related costs such as annual leave and insurance.

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).

Loan-to-value ratio restrictions

A loan-to-value ratio (LVR) is the value of a home loan divided by the value of the mortgaged property. The Reserve Bank first introduced LVR restrictions in October 2013 in response to rapid house price growth, placing limits on how much banks are allowed to lend to high-LVR borrowers. LVR restrictions were removed for 12 months effective 1 May 2020.

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. In the past, the Reserve Bank has primarily used the Official Cash Rate (OCR) to implement monetary policy decisions. Recently, increased focus has been given to alternative monetary policy responses, such as the Large Scale Asset Purchases (LSAP) programme and the Funding for Lending (FLP) programme. These measures are all designed to maintain stability in the rate of CPI inflation within a defined target range and to support maximum sustainable employment.

Tightening monetary policy means raising interest rates (such as via the OCR) in order to moderate aggregate demand pressures and reduce inflationary pressures. Easing monetary policy has the reverse effect.

Multi-factor productivity

Multi-factor productivity (MFP) relates a change in output to several types of inputs, typically capital and labour. MFP is often measured residually, as the change in output that cannot be accounted for by the change in combined inputs.

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 GSID 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 attributable to the Crown

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

New Zealand Activity Index (NZAC)

The NZAC summarises several monthly indicators of economic activity, including consumer spending, unemployment, job vacancies, traffic volumes, electricity grid demand, business outlook, and manufacturing activity. It is intended to be interpreted as a broad measure of economic activity.

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 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 measure of taxation. It is a measure of tax over a given period 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 Stats NZ's quarterly overseas trade indexes. 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. In addition to department forecasts, unallocated funding (contingencies) also attract a top-down adjustment where it is considered unlikely that all of the contingencies indicatively phased to a particular year is expected to be allocated and spent in that year.

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 83 to 86.

Tradable/non-tradable output

The tradable sector is the 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.

Underutilisation rate

The underutilisation rate is a broad measure of untapped labour market capacity. In addition to the unemployed, it includes part-time workers who want and are able to work longer hours (the under-employed), people who want a job and are available to work but not currently looking for a job, and people who are currently unavailable but looking for a job and will be able to start working within the next month.

Votes

When Parliament considers legislation relating to appropriations, the appropriations are grouped within ‘Votes’. Generally, a ‘Vote’ will group 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 2020/21 or 2021 will mean the year ended 30 June.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
$millions															
Revenue and expenses															
Core Crown tax revenue	51,557	55,081	58,651	61,563	66,636	70,445	75,644	80,244	86,468	85,102	88,346	89,097	96,861	102,452	108,755
Core Crown revenue	57,199	60,428	63,805	67,093	72,213	76,121	81,782	86,778	93,474	91,923	94,993	95,875	103,782	109,662	116,164
Core Crown expenses	70,099	68,939	69,962	71,174	72,363	73,929	76,339	80,576	86,959	108,832	114,232	109,105	111,988	115,282	118,740
Surpluses															
Total Crown OBEGAL	(18,396)	(9,240)	(4,414)	(2,802)	414	1,831	4,069	5,534	7,429	(23,057)	(21,576)	(16,449)	(10,258)	(7,531)	(4,213)
Total Crown operating balance	(13,360)	(14,897)	6,925	2,939	5,771	(5,369)	12,317	8,396	389	(30,040)	(25,639)	(14,955)	(6,351)	(3,192)	674
Cash position															
Core Crown residual cash	(13,343)	(10,644)	(5,742)	(4,109)	(1,827)	(1,322)	2,574	1,346	(710)	(23,692)	(40,177)	(36,276)	(23,666)	(5,466)	3,861
Debt															
Gross debt[1]	72,420	79,635	77,984	81,956	86,125	86,928	87,141	88,053	84,449	102,257	91,669	87,118	111,534	136,812	157,791
Gross debt incl RB settlement cash and bank bills	77,290	84,168	84,286	88,468	93,156	93,283	92,620	95,437	90,930	124,145	153,013	194,814	213,810	219,104	214,700
Net core Crown debt (incl NZS Fund)[2]	23,969	33,475	34,428	34,174	30,862	32,102	23,619	19,460	14,060	37,526	78,694	110,902	129,380	129,235	119,232
Net core Crown debt[2]	40,128	50,671	55,835	59,931	60,631	61,880	59,480	57,495	57,736	83,375	128,649	166,217	189,146	194,180	189,991
Total borrowings	90,245	100,534	100,087	103,419	112,580	113,956	111,806	115,652	110,248	152,717	186,622	230,692	253,392	261,594	258,582
Net worth															
Total Crown net worth	80,887	59,780	70,011	80,697	98,236	95,521	116,472	135,637	143,339	115,943	89,217	74,433	68,402	65,528	66,539
Total net worth attributable to the Crown	80,579	59,348	68,071	75,486	86,454	89,366	110,532	129,644	136,949	110,320	83,881	69,170	63,040	60,063	60,952
Nominal expenditure GDP (revised actuals)	205,672	214,967	218,802	236,882	245,535	258,678	275,895	296,124	310,072	315,872	323,897	338,759	359,701	382,720	404,774
% GDP															
Revenue and expenses															
Core Crown tax revenue	25.1	25.6	26.8	26.0	27.1	27.2	27.4	27.1	27.9	26.9	27.3	26.3	26.9	26.8	26.9
Core Crown revenue	27.8	28.1	29.2	28.3	29.4	29.4	29.6	29.3	30.1	29.1	29.3	28.3	28.9	28.7	28.7
Core Crown expenses	34.1	32.1	32.0	30.0	29.5	28.6	27.7	27.2	28.0	34.5	35.3	32.2	31.1	30.1	29.3
Surpluses															
Total Crown OBEGAL	(8.9)	(4.3)	(2.0)	(1.2)	0.2	0.7	1.5	1.9	2.4	(7.3)	(6.7)	(4.9)	(2.9)	(2.0)	(1.0)
Total Crown operating balance	(6.5)	(6.9)	3.2	1.2	2.4	(2.1)	4.5	2.8	0.1	(9.5)	(7.9)	(4.4)	(1.8)	(0.8)	0.2
Cash position															
Core Crown residual cash	(6.5)	(5.0)	(2.6)	(1.7)	(0.7)	(0.5)	0.9	0.5	(0.2)	(7.5)	(12.4)	(10.7)	(6.6)	(1.4)	1.0
Debt															
Gross debt[1]	35.2	37.0	35.6	34.6	35.1	33.6	31.6	29.7	27.2	32.4	28.3	25.7	31.0	35.7	39.0
Gross debt incl RB settlement cash and bank bills	37.6	39.2	38.5	37.3	37.9	36.1	33.6	32.2	29.3	39.3	47.2	57.5	59.4	57.2	53.0
Net core Crown debt (incl NZS Fund)[2]	11.7	15.6	15.7	14.4	12.6	12.4	8.6	6.6	4.5	11.9	24.3	32.7	36.0	33.8	29.5
Net core Crown debt[2]	19.5	23.6	25.5	25.3	24.7	23.9	21.6	19.4	18.6	26.4	39.7	49.1	52.6	50.7	46.9
Total borrowings	43.9	46.8	45.7	43.7	45.9	44.1	40.5	39.1	35.6	48.3	57.6	68.1	70.4	68.4	63.9
Net worth															
Total Crown net worth	39.3	27.8	32.0	34.1	40.0	36.9	42.2	45.8	46.2	36.7	27.5	22.0	19.0	17.1	16.4
Total net worth attributable to the Crown	39.2	27.6	31.1	31.9	35.2	34.5	40.1	43.8	44.2	34.9	25.9	20.4	17.5	15.7	15.1

1. Excludes Reserve Bank settlement cash and bank bills.
2. Excludes advances.

Economic Indicators

June Years	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	2.0	3.5	2.5	3.5	3.4	4.6	6.3	4.0	3.2	-1.3	1.3	3.1	3.1	3.2	3.1
Public consumption	2.6	0.8	-0.1	3.1	3.4	1.5	2.7	3.5	3.5	5.2	5.0	2.4	1.9	1.3	1.8
TOTAL CONSUMPTION	2.2	2.8	1.8	3.4	3.4	3.8	5.4	3.9	3.2	0.2	2.2	2.9	2.8	2.7	2.8
Residential investment	-3.1	10.2	18.1	13.1	6.3	10.1	3.9	0.0	2.2	-6.5	3.8	1.5	5.8	7.0	6.1
Business investment	8.3	5.9	0.7	9.4	7.0	1.9	2.1	11.2	2.5	-5.2	-5.3	3.6	7.1	8.2	5.9
TOTAL INVESTMENT	5.7	6.8	4.5	10.3	6.8	3.9	2.6	8.2	2.4	-5.5	-3.1	3.1	6.8	7.9	5.9
Stock change (contribution to growth)	-0.1	0.1	-0.3	0.5	0.0	-0.3	0.4	0.1	-0.7	-0.4	0.8	0.3	-0.3	0.1	-0.2
GROSS NATIONAL EXPENDITURE	2.7	4.0	2.1	4.8	3.9	3.4	5.2	5.1	2.3	-1.7	1.9	3.3	3.4	3.9	3.4
Exports	2.2	2.1	3.0	0.3	6.4	5.9	0.6	4.0	3.2	-5.6	-12.4	4.9	7.8	5.9	4.5
Imports	11.4	4.4	2.6	9.0	6.9	1.5	6.7	8.4	2.4	-6.0	-9.1	7.8	6.2	6.0	4.7
EXPENDITURE ON GDP	0.2	3.3	2.3	2.3	3.8	4.5	3.5	4.0	2.5	-1.6	1.7	2.0	3.6	3.8	3.2
GDP (production measure)	1.1	2.7	2.2	2.8	3.9	3.7	3.4	3.1	2.8	-2.1	1.5	2.6	3.7	3.8	3.2
- annual % change	0.9	2.6	2.4	2.9	3.9	4.2	3.1	3.2	2.1	-12.4	13.9	2.8	4.0	3.5	3.2
Real GDP per capita	0.1	2.1	1.6	1.7	2.2	1.8	1.4	1.4	1.2	-4.0	-1.0	1.9	2.7	2.7	2.0
Nominal GDP (expenditure basis)	4.6	4.5	1.7	8.2	3.5	5.2	6.5	6.7	3.6	1.5	2.5	4.6	6.2	6.4	5.8
GDP deflator	4.4	1.2	-0.6	5.7	-0.3	0.7	2.9	2.6	1.0	3.1	0.8	2.5	2.5	2.5	2.5
Output gap (% deviation, June year average)	-1.8	-1.2	-1.4	-1.5	-0.7	-0.1	0.3	0.7	1.1	-3.1	-3.7	-3.1	-1.6	0.0	1.0
Employment	1.4	0.9	0.1	3.4	3.6	2.7	5.3	3.6	2.0	1.5	-1.0	0.5	2.4	3.0	2.6
Unemployment (% June quarter seasonally adjusted)	6.1	6.4	6.0	5.3	5.5	5.1	4.8	4.5	4.0	4.0	6.6	6.8	5.7	4.7	4.0
Wages (average ordinary-time hourly, ann % change)	3.0	2.9	2.1	2.5	2.7	2.1	1.6	3.0	4.4	3.0	2.3	2.2	2.3	2.8	3.3
CPI inflation (ann % change)	5.3	1.0	0.7	1.6	0.4	0.4	1.7	1.5	1.7	1.5	1.4	1.2	1.4	1.8	2.1
Merchandise terms of trade (SNA basis)	9.7	-1.7	-3.8	16.4	-4.8	-2.7	4.9	4.6	-3.5	4.6	-1.3	-1.7	0.7	0.8	0.0
House prices (ann % change)	-0.2	4.0	8.9	6.3	11.8	15.0	6.5	3.6	1.5	6.0	8.5	4.5	5.2	5.2	5.5
Current account balance - $billion	-6.0	-7.7	-7.9	-5.9	-8.4	-5.7	-7.7	-10.7	-11.7	-5.7	-8.8	-12.5	-11.8	-12.0	-12.7
Current account balance - % of GDP	-2.9	-3.6	-3.6	-2.5	-3.4	-2.2	-2.8	-3.6	-3.8	-1.9	-2.8	-3.8	-3.4	-3.2	-3.2
TWI (June quarter)	70.8	72.4	76.3	81.5	76.2	73.6	76.5	73.8	72.7	69.7	71.0	71.0	71.6	72.6	73.4
90-day bank bill rate (June quarter)	2.7	2.6	2.6	3.4	3.5	2.4	2.0	2.0	1.7	0.3	0.3	0.2	0.2	0.2	0.2
10-year bond rate (June quarter)	5.3	3.7	3.5	4.4	3.6	2.7	2.9	2.8	1.8	0.8	0.5	0.6	1.1	1.7	2.1

Data for 2021 and subsequently are forecasts. Data for 2020 and prior years are those that were available when the forecasts were finalised.