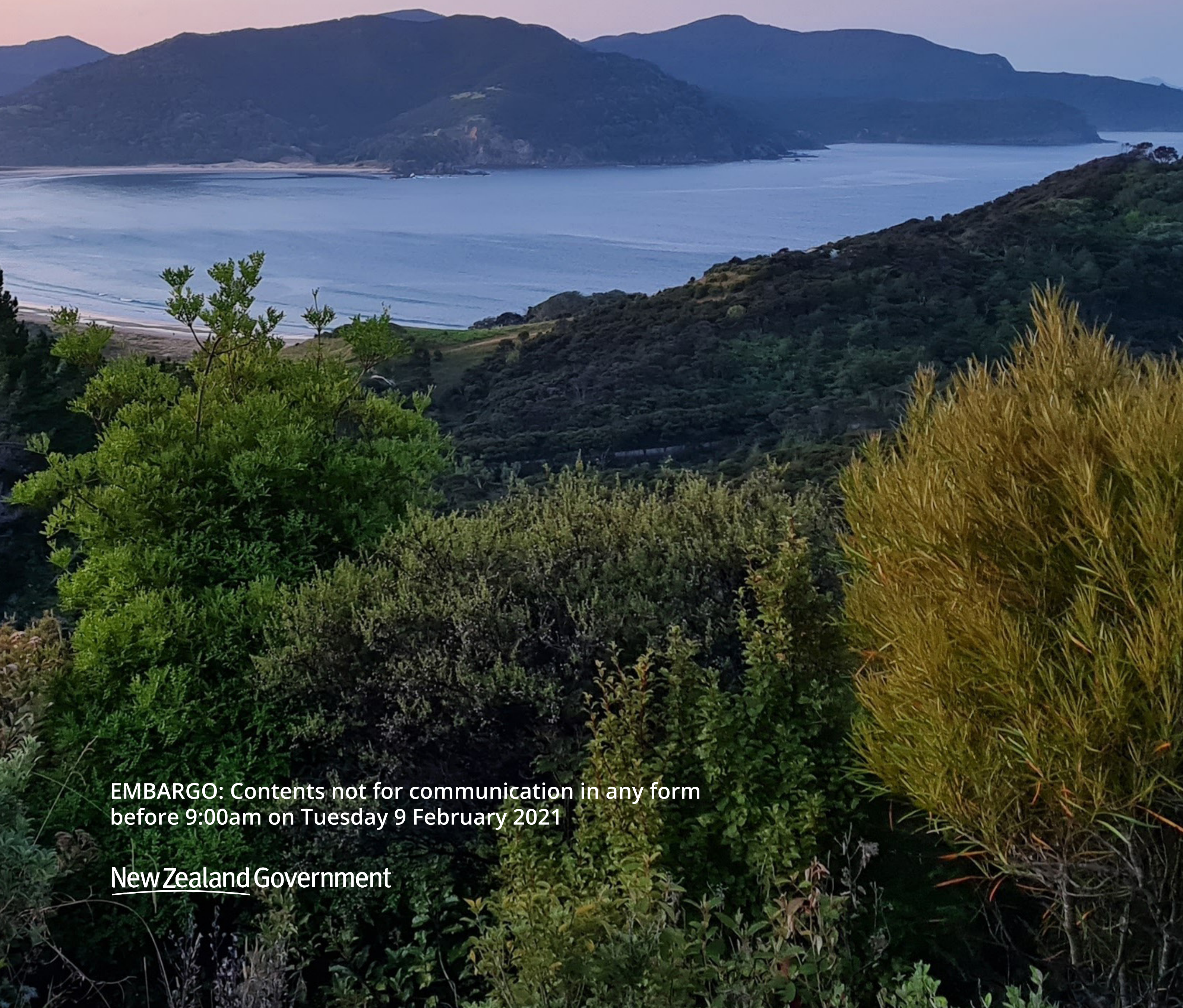
BUDGET POLICY STATEMENT

9 February 2021

BUDGET
2021



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FOREWORD

New Zealand's elimination strategy for COVID-19 has been successful in saving lives and livelihoods. The economy has been resilient and has rebounded far more quickly than expected. As the Government prepares Budget 2021, the success of the response to date is highlighted by a range of economic and social indicators. Unemployment remains lower than expected at 4.9%, the economy in the September 2020 quarter was larger than before COVID-19, New Zealanders' life satisfaction remained high during the Alert Level 4 and 3 restrictions, and the economy quickly opened up again as New Zealand eliminated COVID-19.

The Speech from the Throne highlighted the importance of continuing our strong response:

"We have more freedoms, are a more open economy and have saved more lives than nearly every other country we normally compare ourselves to. We can rightfully be proud of our success to date as a nation, as a team. But we cannot afford to be complacent, nor stand still. We must keep going."

There is still considerable uncertainty about how COVID-19 will affect the global and New Zealand economies in 2021. Optimism driven by the rapid development and initial availability of vaccines is mitigated by new, highly transmissible variants of the virus, and the consequent lockdowns in many countries. In addition, geopolitical uncertainty continues to be a factor affecting confidence across the world.

The continuing uncertainty demonstrates the importance of New Zealand continuing with its evidence-based, strong public health response, supported by significant investment in the recovery and rebuild from COVID-19.

The Labour Government's **overarching policy goals** for the next three years are:

- Continuing to keep New Zealand safe from COVID-19
- Accelerating the recovery and rebuild from the impacts of COVID-19
- Laying the foundations for the future, including addressing key issues such as our climate change response, housing affordability and child poverty.

Budget 2021 is an important vehicle for delivering on these policy goals as the first Budget since the 2020 General Election. At the election, New Zealanders voted for certainty and stability by returning a majority Labour Government. They placed huge trust and responsibility in the new Government by giving it a mandate to implement the policies Labour set out during the campaign to accelerate the health and economic response, and the recovery and rebuild from COVID-19.

This Budget comes as the Government is already making significant ongoing investments through the COVID-19 Response and Recovery Fund (CRRF) set up at Budget 2020. These investments include substantial economic stimulus to cushion the blow of COVID-19 and position businesses and the economy to recover and rebuild. They also include important support for the public sector to deliver essential services like healthcare and education to support all New Zealanders through the pandemic.

The Budget 2021 priorities recognise these factors. The priorities are:

- continuing the COVID-19 response
- delivering priority and time-sensitive manifesto commitments
- supporting core public services through managing critical cost pressures, and
- continuing to deliver on existing investments.

Investment decisions under these priorities will be guided by the Government's **wellbeing objectives**, as required by the Public Finance Act 1989.

Our wellbeing objectives at Budget 2021 are:

1. **Just Transition** – Supporting the transition to a climate-resilient, sustainable and low-emissions economy while building back from COVID-19
2. **Future of Work** – Enabling all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity and wages through innovation, and support into employment those most affected by COVID-19, including women and young people
3. **Māori and Pacific** – Lifting Māori and Pacific incomes, skills and opportunities, and combatting the impacts of COVID-19
4. **Child Wellbeing** – Reducing child poverty and improving child wellbeing
5. **Physical and Mental Wellbeing** – Supporting improved health outcomes for all New Zealanders and keeping COVID-19 out of our communities.

The wellbeing objectives recognise the importance of addressing key issues such as climate change, housing and child poverty. Housing outcomes, for example, can be influenced across a range of the objectives: the sustainability of our housing stock will contribute to our Just Transition and climate change goals; Māori and Pacific communities currently have lower rates of home ownership and will benefit from more affordable housing; and improving children's wellbeing will be greatly influenced by improving access to warm, safe, dry and affordable housing, as will physical and mental wellbeing.

This Budget Policy Statement (BPS) includes a *Wellbeing Outlook* section, providing an overview of wellbeing across the four capitals of the Treasury's Living Standards Framework – human, social, natural and physical and financial. The Wellbeing Outlook highlights how New Zealanders and the economy have come through the COVID-19 pandemic generally in good shape, particularly with regard to life satisfaction measures. However, there are areas that continue to require sustained investment to address long-term issues such as child poverty and mental wellbeing.

This section is followed by the wellbeing objectives, which are a new requirement following an amendment to the Public Finance Act passed last year.

The *Budget Allowances* section outlines the funding available for new operating and capital investments at Budget 2021, as set out in the December 2020 *Half Year Economic and Fiscal Update* (*Half Year Update*). The Government will carefully prioritise spending to those people and areas that need it the most. As we recover and rebuild, the Government is committed to maintaining the balance between supporting New Zealanders and the economy through COVID-19, and maintaining New Zealand's strong fiscal position, particularly when compared to other developed economies which are experiencing higher debt than New Zealand. These allowances are subject to change, particularly as economic conditions evolve domestically and around the world. The *Economic and Fiscal Forecasts* sections of this BPS outline economic developments since the Treasury's *Half Year Update* forecasts were published, and the Government's fiscal position. The *Fiscal Strategy* section sets out the Labour Government's fiscal strategy in the form of short-term intentions and long-term objectives, as required by the Public Finance Act 1989.

New Zealand's strong response to COVID-19 to date has meant that we have come through the first stages of this pandemic in good shape compared to the rest of the world. As set out in the Speech from the Throne, the Labour Government's priorities focus on making sure we protect the gains we've achieved through our strong response, while making the investments required to accelerate the recovery and rebuild from COVID-19.

HON GRANT ROBERTSON
Minister of Finance

9 February 2021

NEW ZEALAND'S WELLBEING OUTLOOK

The Labour Government is committed to achieving its policy goals using a wellbeing approach. This means giving people the capabilities to live lives of purpose, balance, and meaning to them. A wellbeing approach aims to improve New Zealanders' living standards by tackling long-term challenges and ensuring that what matters to New Zealanders drives Government decision-making. It also means looking beyond traditional measures of success, such as gross domestic product (GDP), and at broader indicators of wellbeing.

New Zealanders' current and future wellbeing is underpinned by stocks of the four capitals as set out in the Treasury's Living Standards Framework: human capital, natural capital, social capital, and financial and physical capital. These represent the wellbeing of our people; our environment; our communities; and our finances and built infrastructure.

This year's *Wellbeing Outlook* considers the effects of COVID-19 on wellbeing in New Zealand and outlines how the Government has responded to protect and grow New Zealanders' incomes and capital stocks. It draws on a range of sources, in particular the wellbeing supplement introduced into the Household Labour Force Survey (HLFS) in 2020.

HUMAN CAPITAL: OUR PEOPLE AND SKILLS

Human capital includes our skills, knowledge, and physical and mental health, which directly link to areas like employment, income, housing, and social connections.

The Government's response to COVID-19 has focussed on protecting New Zealanders' lives and livelihoods. Our response has been underpinned by a wellbeing approach – that the strongest economic response has a strong public health response. Analysis of wellbeing and economic data through the pandemic highlights the relative success of New Zealand's approach to dealing with the effects of COVID-19 on New Zealanders and the economy. From a human capital perspective, this included measures to protect jobs and incomes, increase training opportunities and support New Zealanders' physical and mental health, as described on page 7.

Reported levels of life satisfaction remained high throughout 2020, and average levels were broadly equal across genders, age groups, ethnicities and regions. Overall, average life satisfaction was higher in the June and September 2020 quarter HLFS wellbeing supplements than in the 2018 General Social Survey.[1]

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[1] https://www.stats.govt.nz/information-releases/wellbeing-statistics-september-2020-quarter, https://www.stats.govt.nz/information-releases/wellbeing-statistics-june-2020-quarter, https://www.stats.govt.nz/information-releases/wellbeing-statistics-2018

Researchers at Victoria University of Wellington[2] found no overall changes in the wellbeing of families, levels of conflict or support among couples, or levels of parental satisfaction during the COVID-19 crisis. Some groups did experience adverse effects, though, particularly working parents, and families in economic hardship.

The responses to the HLFS wellbeing supplements show that some groups of New Zealanders reported lower levels of wellbeing across various dimensions, relative to the general population (Table 1).

Table 1 – Average scores for overall life satisfaction for selected demographics in the September 2020 quarter

Note: based on a scale where 0 is completely dissatisfied and 10 is completely satisfied.

Category	Population group	Average score for overall life satisfaction (out of 10)
Total	Total NZ	7.8
Sex	Male	7.8
	Female	7.9
Age	18-24	7.7
	25-34	7.8
	35-44	7.8
	45-54	7.7
	55-64	7.8
	65-74	8.2
	75+	8.1
Ethnicity	European	7.8
	Māori	7.8
	Pacific	7.9
	Asian	7.7
Employment status	Employed	7.9
	Unemployed	7.0
	Not in labour force due to injury, sickness or disability	6.2
Parent status	Sole parent	7.2
	Mother in two-parent family	8.0
	Father in two-parent family	7.9

2 Prickett, K. C., Fletcher, M., Chapple, S., Doan, N., & Smith, C. (2020). *Life in lockdown: The economic and social effect of lockdown during Alert Level 4 in New Zealand.* Wellington, New Zealand: Victoria University of Wellington.

Those already disadvantaged in the labour market are most at risk from further disadvantage due to COVID-19. This includes young people, and Māori and Pacific workers. Women have also been more adversely affected in the employment market than men, owing to stronger pre-COVID employment in service industries such as tourism. Between the March and September 2020 quarters, the number of women classed as unemployed rose by 19,000, or 32%, to 78,000, compared to the number of men classed as unemployed, which rose by 11,000 or 18% to 73,000. These numbers fell by 5,000 each in the December 2020 quarter as the unemployment rate fell to 4.9% in December from 5.3% in September.[3]

Unemployed people reported lower levels of overall life satisfaction, lower mental wellbeing and higher levels of loneliness than the general population. Groups like sole parents also reported lower levels of overall wellbeing and family wellbeing than the general population.

Education

The Government has invested heavily in supporting education, skills and training as the economy recovers from COVID-19, to ensure students stay connected to their education and training institutions while unemployed people or those looking to retrain can access tertiary education.

At a secondary school level, enrolment records from the Ministry of Education indicate a substantial fall in the number of students who had left school by the start of October 2020 compared to the same time in 2019. The number of secondary students leaving a school and not subsequently enrolling in another one by early October 2020 was 22,154 – a 19% decrease compared to early October 2019 (27,228).

Among Māori and Pacific students in Auckland, the number of school leavers as of early October 2020 was 2,591, a fall of 34% compared to the 3,909 students who had left school in early October 2019.

For post-secondary education, significant investments were made to ensure as many students as possible could start or continue studying. The $519.8 million Apprenticeship Support Programme was created to support existing apprentices and encourage more people to enter into an apprenticeship as the economy recovers from the effects of COVID-19.

Health

COVID-19 represented a clear and acute threat to New Zealanders' physical wellbeing. The Government's elimination strategy mitigated this threat – but some New Zealanders are experiencing ongoing physical and mental health impacts from the pandemic.

The HLFS wellbeing supplements show the proportion of respondents who reported a 'fair/poor' general health status remained relatively steady during the June and September 2020 quarters (12.6% and 13.5%, respectively, for the general population). However, segments of the population reported differing results, with Māori and Pacific people more likely to report their general health status as only "fair/poor", and Asian people less likely.

Mental wellbeing measures also show some divergence across different population groups. For example, sole parents were almost three times more likely than the general population to report that they felt lonely most or all of the time, while 18 to 24-year-olds and 25 to 34-year-olds expressed higher mean levels of anxiety than older age groups.

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[3] These are seasonally adjusted HLFS figures.

The Government has made significant investments in response to COVID-19 focussed on protecting jobs and incomes, providing education and training opportunities, and supporting New Zealanders' physical and mental health, including:

- **Wage Subsidy** schemes, which paid out $14 billion between March and October 2020 to enable firms to pay and stay connected to their workers during Alert Levels 4 and 3
- the **COVID-19 Income Relief Payment**, which enabled workers to transition between jobs, or onto further income support if they lost their job owing to COVID-19
- support for employers to **take on and retain apprentices** to ensure a skilled workforce is available to support the economic recovery, including targeted support for Māori apprentices. Active apprenticeships in October 2020 were 20% higher overall than in October 2019, according to data from the Ministry of Education
- funding for a variety of **career and employment services** to support jobseekers
- **certainty for businesses and workers** about support that will be available in the event of a resurgence of COVID-19. This includes the Wage Subsidy Scheme at Alert Levels 4 and 3 and a new Resurgence Support Payment at Alert Level 2 and above, supporting firms with a one-off cash payment to offset the cashflow impacts when alert levels escalate. These measures will be supported by other schemes, including leave support for people needing to stay at home while awaiting a COVID-19 test result
- a one-off permanent **increase of $25 per week to all main benefits** from 1 April 2020
- a temporary doubling in 2020 of the **Winter Energy Payment** to beneficiaries and superannuitants
- $88 million for electronic devices, internet connections, and other **distance learning support** to enable students to learn from home, with priority for low-decile schools
- targeted support for Māori and Pacific students and their families to **stay engaged in schooling**
- an increase of 1,000 places in **Trades Academies** from 2021 onwards to give more young people the opportunity to engage in high-quality, work-relevant vocational learning while enrolled at school
- a $215 million expansion (up to 200,000 more students) of the **Free and Healthy School Lunch Programme**
- targeted changes to **National Certificate of Educational Achievement (NCEA)** credit requirements to support students whose learning was affected during the COVID-19 response
- considerable investment in the **health system**, both to fight the virus and to lift delivery levels to address increases in waiting list and wait times as a result of Alert Level 4 restrictions
- boosting of **family violence support services**, and
- a focus on **mental health services**, including targeted support for young people and for rural communities. This includes expanded acute mental health and addiction services in the Lakes District, South Canterbury, Southern and Wairarapa District Health Board areas, and builds on an existing expansion of mental health services to primary and secondary schools.

NATURAL CAPITAL: OUR ENVIRONMENT

Natural capital covers all aspects of the natural environment supporting life and human activity, such as land, soil, water, plants and animals, minerals and energy resources. While in the short run COVID-19 has had much less impact on natural capital than on the other capitals, the Labour Government is committed to ensuring that New Zealand's recovery from COVID-19 protects and enhances our natural capital over the long term.

The short-run positive environmental impacts on several natural capital measures during COVID-19 serve as a reminder of the pressure that our everyday lives place on the natural and physical world around us as a result of existing technologies and patterns of production and consumption. For example, road traffic pollution in our main centres reduced to between one-quarter and one-third of normal levels during Alert Level 4, though traffic volumes rebounded quickly when alert levels reduced. Greenhouse gas emissions from electricity generation fell from March to June 2020, primarily owing to lower coal emissions – though, again, this was a temporary reduction. Overall, at their peak, New Zealand's lockdowns reduced daily carbon dioxide emissions by an estimated 17% from 2019 levels.

Set against these environmental gains, some Department of Conservation predator control programmes scheduled for 2020 were delayed, or in one case cancelled owing to COVID-19 restrictions, increasing predation risks to native species.

The long-term impacts on New Zealand's natural capital from economic and behavioural changes as a result of the COVID-19 virus are uncertain. For example, a more sustainable approach to tourism could deliver longer-lasting reductions in emissions, if there is a shift in tourism patterns and the climate footprint as the sector recovers. Tourist activity generates approximately 7% of New Zealand's greenhouse gas emissions, primarily via air and land-based travel. However, the biggest generators of emissions in New Zealand are the agricultural and transport sectors where the impacts of COVID-19 have, so far, been relatively small or short-lived. Permanent reductions to the emissions profile of these sectors will come from concerted and coordinated efforts by the Government and industry working together.

He Pou a Rangi – the Climate Change Commission – has released draft advice to the Government including the first three emissions budgets required to meet New Zealand's target of net zero emissions of long-lived gases, and for reducing methane emissions by between 24-47% by 2050. The advice shows that while current policy settings will reduce emissions and move us toward the targets, significant further action is required.

The Government's immediate response to COVID-19 included significant investments to protect our natural capital. Among these were investments in improved waste infrastructure ($123.3 million), in Three Waters infrastructure ($710 million), and in a range of Jobs for Nature initiatives ($1.3 billion over four years, plus some ongoing funding). In addition, investment in rail infrastructure, described on page 13, will contribute to lowering the long-term emissions profile of the transport sector.

The new Government recently announced new clean car import standards and $50 million to support councils to fully decarbonise the transport bus fleet by 2035, and has agreed in principle to mandate a lower-emitting biofuel blend across the transport sector.

New Zealand also has long-standing environmental challenges that are no less pressing in the wake of COVID-19. Many of New Zealand's waterways are under pressure from changes to the way we use land. For example, between 2013 and 2017, 71% of river length in pastoral farming areas had modelled nitrogen levels that could affect the growth of sensitive aquatic species. In addition, models show that over 80% of the total river length in urban areas exceeds the guidelines for quantity of pollutants such as nitrogen, E. coli and phosphorus. New Zealand has lost more than 90% of its original historical inland wetlands which has resulted in the loss of unique biodiversity and ecosystem services. In 2020, the Government took action to restore and protect New Zealand's waterways through the Essential Freshwater package. New rules and regulations aim to prevent further degradation and bring our water to a healthy state within a generation. However, there is further work to be done on implementing these regulations in a fair and efficient manner – it is this that will lead to an upward trend in the health of New Zealand's water.

SOCIAL CAPITAL: OUR CONNECTIONS

Social capital includes the social connections, attitudes, norms, and institutions that contribute to societal wellbeing.

The strength of New Zealand's social capital was a major contributor to the success of our COVID-19 response, which in turn has strengthened our social capital further.

The high trust and spirit of reciprocity shown by New Zealanders have helped make our response to COVID-19 one of the most successful in the world. The approach New Zealanders supported – staying home to save lives – meant restrictions were successful, and were in place for a shorter period of time than predicted to eliminate community transmission in the first wave and avoid subsequent waves. The head start New Zealand has in its economic recovery is down to the actions of all New Zealanders in the fight against COVID-19, backed by high trust in each other and institutions,[4] social cohesiveness and the stable political environment that is New Zealand's strong democracy.[5]

New Zealanders stayed home to save lives. Google Mobility data showed significant reductions in workplace mobility, and corresponding increases in residential mobility, during periods at elevated alert levels.

The wellbeing supplements to the Household Labour Force Survey in the June and September 2020 quarters indicate that New Zealanders' trust in the health system and in Parliament are higher than in the previous General Social Survey conducted in 2018.

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4 For example see https://www.researchnz.com/assets/resources/CovidConcerns15.pdf. A survey by Research New Zealand found 34% of New Zealanders strongly agreed and 50% agreed that the Government and officials were doing enough to prevent another COVID-19 outbreak, while 4% strongly disagreed and 9% disagreed. Asked if the 'Team of 5 Million' was doing enough to prevent another outbreak, 16% strongly agreed and 59% agreed, while 2% strongly disagreed and 16% disagreed.

5 See https://www.researchnz.com/assets/resources/EuResearchNZ_DemocracyPoll.pdf. A survey by Research New Zealand found that 90% of New Zealand respondents said they had full trust and confidence in our democratic process. This compared to 66% in Australia, 55% in the United Kingdom, 23% in the United States and 8% in Hong Kong.

New Zealanders' trust in people and various institutions (the health system, Parliament, Police and the media) differs by population group, according to the HLFS wellbeing supplements. For example, the September 2020 wellbeing supplement showed that Māori and Pacific people had relatively low levels of trust in Police and people in New Zealand compared to other groups. Sole parents had lower levels of trust in people and institutions. People in urban areas tended to have more trust in people and institutions than did people in rural areas.

As we rebuild from COVID-19, it is important that we maintain trust in each other, and provide reason for New Zealanders to continue to hold the trust they have in key institutions.

The strength and supportiveness of New Zealand's communities were also evident through COVID-19.

Community-led support was especially important for those groups within our communities who found it harder to access the help they needed during periods at higher alert levels, or were less willing to trust Government information delivered at arm's length. For these groups, the Government's partnerships with community leaders ensured that those most in need were better able to access all the services available to them.

The Government's COVID-19 response included a $45 million package for Whānau Ora providers to provide tailored responses for their communities during the pandemic. Whānau Ora agencies set up 79 Community Based Assessment Centres, delivered 260,000 support packs to over 326,000 whānau members and provided more than 40,000 flu jabs to Māori during 2020.

The Government also provided targeted funding to non-government organisations (NGOs) and marae to support community-led responses to COVID-19. This included funding for Pacific communities in South Auckland, who were particularly affected by the second escalation in alert levels in August 2020.

FINANCIAL AND PHYSICAL CAPITAL: OUR BUILT AND FINANCIAL ASSETS

Financial and physical capital refers to assets owned by households, companies and the government that range from cars and databases to financial assets, such as cash and shares.

The global economic shock related to COVID-19 has seen financial capital depleted around the world as asset values have fallen and governments have engaged in unprecedented fiscal stimulus to support their economies.

In New Zealand, gross domestic product (GDP) fell by 11% in the June 2020 quarter as a result of the restrictions put in place to protect lives and livelihoods. This strong health response was also the best economic response, as it allowed our economy to open up faster than the economies of many of our peers, and maintain a relative degree of openness as subsequent local outbreaks were quickly brought under control. In the September quarter, GDP rebounded by 14% off the back of New Zealand's economy opening back up, with the size of the economy returning to slightly above pre-COVID levels. BNZ economists noted that only China, Taiwan and Ireland had achieved this alongside New Zealand.[6]

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6 BNZ Economy Watch, December 2020: https://www.bnz.co.nz/assets/markets/research/201217_Q3-GDP.pdf?60c9ff6d2acae7555045a18f823ea04d44bfa8bb

We went into COVID-19 in a strong position, with net core Crown debt below 20% of GDP and running surpluses. This meant the Government has been able to use its strong balance sheet to cushion the blow of COVID-19 on businesses and workers and support the economy through this global shock.

New Zealand's Government debt is forecast to remain at levels that are sustainable, and relatively low compared to the rest of the world. While we have run one of the largest fiscal stimulus packages globally as a proportion of GDP, our debt levels remain considerably lower than those of our peers on comparative measures (see the Economic and Fiscal Forecasts section). The impact of COVID-19 on the Crown's balance sheet was presented in the *Half Year Update* in December 2020. Net core Crown debt is forecast to be 46.9% of GDP by the end of the forecast period in 2024/25. This is low relative to other Organisation for Economic Co-operation and Development (OECD) economies, with advanced economies going into COVID-19 with average net debt above 80% of GDP.

Reserve Bank of New Zealand data shows that firms and households, in aggregate, paid down non-mortgage debt between February and October 2020, while household mortgage lending increased. Household debt levels, in aggregate, remain manageable because of low interest rates. However, pressure on some households' disposable income will increase if unemployment rises. While most households will be able to weather the economic effects of COVID-19, those with high levels of debt may struggle to meet debt repayments.

The HLFS wellbeing supplement found the number of people who have 'not enough money' or 'only just enough money' rose slightly from 29.6% in June 2020 to 31.4% in September 2020. The proportion of people who have received help from a church or foodbank also rose slightly from 4.3% in June to 5.2% in September. Sole parents, Pacific people, the unemployed, and those not working due to their own illness, injury or disability were more likely to report that their income was inadequate to meet their everyday needs.

COVID-19 affected incomes mainly through its impact on employment. While New Zealand's unemployment rate of 4.9% in the December quarter was well below early forecasts for unemployment to have risen above 10%, there were still 25,000 more people classed as unemployed at the end of 2020 compared to the December 2019 quarter.

The Treasury analysed incomes of all employees in March 2020, and how they had changed for the same people by August. This work showed that Māori and Pacific workers were more likely to have dropped into a low income bracket (of between $200 and $300 per week). The numbers of Māori and Pacific in this low income bracket had increased by 85% and 69% respectively, while the number of Europeans in the low income bracket increased by 27%. Most of the people in this income bracket were on benefits, although some remained employed but working reduced hours.

Housing market activity has been strong, with the Real Estate Institute of New Zealand (REINZ) House Price Index 17.3% higher in December 2020 than the same period a year ago as demand increased – and house sale volumes in December were up 36.6% from December 2019. This partly reflects higher demand for housing from New Zealanders returning from overseas. Record-low interest rates and the temporary suspension of the Reserve Bank of New Zealand's loan-to-value-ratio restrictions have also boosted demand at a time when annual building consents are running at near record highs.

New Zealand's share market entered 2021 at near record-high levels off the back of strong growth as the economy rebounded quickly out of COVID-19, and as quantitative easing policies in New Zealand and around the world boosted asset prices.

The impact of COVID-19 on businesses in New Zealand was highly varied. Some firms experienced near-total reductions in the ability to trade during periods at higher alert levels. For example, hospitality businesses and those delivering in-person services experienced heavy short-term falls in revenue, mitigated by Government support such as the Wage Subsidy schemes. Many firms have been able to re-size and adjust business practices to operate safely during alert level escalations.

Firms affected by border closures, including international education and tourism, face different challenges in finding sustainable ways of operating in the face of long-term reductions in demand. New Zealand's tourism sector before COVID-19 accounted for 6% of GDP and was largely reliant on overseas visitors. The Government has recognised the need to support the sector as it faces the effects of the global COVID-19 pandemic, including the $400 million tourism recovery package funding through the COVID-19 Response and Recovery Fund.

Other sectors and firms have held up well or even benefited from COVID-19-driven changes in economic activity. Aside from temporary delays to exports earlier in 2020, primary sector businesses have been largely unaffected. New Zealand's total goods exports in the year to November 2020 were up by $377 million, or 0.6%, from the previous year. This was a strong result given the global trade disruption caused by COVID-19, as well as the ongoing US-China trade war and uncertainty caused by political events, including Brexit uncertainty.

The importance of infrastructure investment as part of the Government's economic recovery and rebuild plan from COVID-19 means the outlook for New Zealand's built and physical assets is strong. While estimates vary, prior to COVID-19 New Zealand's infrastructure deficit was independently estimated to be between $25.9 billion[7] and $75 billion.[8] In 2017 the new Labour-led Government inherited an infrastructure spend over the previous nine years of $43.7 billion. From 2017 to 2020, $25.1 billion was invested, and we enter 2021 with a further $42.2 billion worth of infrastructure investment plans over the next four years, to be added to with future Budget capital allowances.

Within our built and physical assets, housing will continue to be a major focus for the Government as we expand existing plans for the number of new public homes delivered by the end of 2024 to more than 18,000. The September 2020 wellbeing supplement to the HLFS showed that 23% of respondents in September reported a minor problem with dampness or mould in their house or flat, and 4% reported a major problem. In addition, 16% of respondents reported a minor problem keeping their house or flat warm through winter, and 6% a major problem. Māori and Pacific, sole parents of dependent children, the unemployed, and those not working due to their own illness, injury or disability were more likely to report that their house or flat had major problems related to dampness, mould or heating.

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7 *New Zealand*. Global Infrastructure Outlook. Retrieved 25 September 2020 from https://outlook.gihub.org/countries/New%20Zealand

8 *Infrastructure for the long haul: A need for transparency and durability*. Sense Partners (commissioned by the Association of Consulting and Engineering New Zealand), September 2020. https://d3n8a8pro7vhmx.cloudfront.net/acenz/pages/1663/attachments/original/1600130930/infrastructure-for-the-long-haul-full-report.pdf?1600130930

The Government's infrastructure investment programme includes:

- $2.6 billion of community-focussed, **shovel-ready infrastructure projects** across the country to create and maintain jobs as part of the COVID-19 response
- increased **capital investment for District Health Boards (DHBs)** ($750 million capital), building on the record capital investment over the previous two Budgets ($750 million through Budget 2018 and $1.7 billion through Budget 2019, plus $1.4 billion announced for the redevelopment of Dunedin Hospital)
- record investment of more than $4.5 billion per year into **roads, rail and public transport infrastructure** through the National Land Transport Fund
- **School Property investment** ($119.5 million operating and $115.4 million capital at Budget 2020, then another $164 million capital in November 2020) to expand, maintain and enhance the quality of the School Property portfolio
- Justice Property Health and Safety Remediation ($36.9 million operating and $163.5 million capital) to **upgrade court buildings** around New Zealand
- **Future of Rail investments** ($821.2 million capital and $148.2 million operating) to replace ageing locomotives and upgrade KiwiRail's mechanical maintenance facilities, replace the ageing Interislander ferry assets, and fund ongoing maintenance and renewal of the rail network via the National Land Transport Fund, and
- funding for **an extra 8,000 new public and transitional homes**, in conjunction with a $350 million Residential Development Response Fund to support and stimulate the residential construction sector, create jobs and reduce the housing shortage. This brings the number of public homes the Government will deliver by the end of 2024 to more than 18,000.

HOW THE WELLBEING OBJECTIVES ARE INTENDED TO SUPPORT LONG-TERM WELLBEING IN NEW ZEALAND

The Public Finance Act requires the Government to explain in the Budget Policy Statement how the wellbeing objectives set out in the Foreword are intended to support long-term wellbeing in New Zealand. Our wellbeing objectives at Budget 2021 are:

1. **Just Transition** – Supporting the transition to a climate-resilient, sustainable and low-emissions economy while building back from COVID-19
2. **Future of Work** – Enabling all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity and wages through innovation, and support into employment those most affected by COVID-19, including women and young people
3. **Māori and Pacific** – Lifting Māori and Pacific incomes, skills and opportunities, and combatting the impacts of COVID-19
4. **Child Wellbeing** – Reducing child poverty and improving child wellbeing
5. **Physical and Mental Wellbeing** – Supporting improved health outcomes for all New Zealanders and keeping COVID-19 out of our communities.

These wellbeing objectives continue to focus on areas the Labour-led Government identified through extensive wellbeing analysis during 2019 and 2020. This work took a collaborative and evidence-based approach, using the Treasury's Living Standards Framework and incorporating advice from sector experts and the Government's Chief Science Advisors to identify the broad areas where the Government and experts see the greatest opportunities to make a difference to New Zealanders' wellbeing. These areas require sustained investment across multiple Budgets.

1 Just Transition – Supporting New Zealanders in the transition to a climate-resilient, sustainable and low-emissions economy while building back from COVID-19

Our wellbeing objective to achieve a just transition means that we will actively support a move away from fossil fuels towards a low-carbon economy in a way that will support workers, businesses and communities to make changes to how they live and work, protecting the long-term wellbeing of New Zealanders. As we rebuild from the impact of COVID-19, we have an opportunity to build back better with our long-term aims in mind. This includes practical measures like building energy-efficient housing stock to contribute to our emissions reduction targets while ensuring lower house running costs for families.

Achieving a just transition will protect and enhance our natural capital while increasing financial capital through new economic opportunities. A just transition will enhance social capital by ensuring the transition is fair and does not undermine social cohesion, and it will ensure that the pace of change protects and grows human capital.

2 Future of Work – Enabling all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity through innovation, and support into employment those most affected by COVID-19, including women and young people

Innovation is the process of translating an idea or invention into a good or service, or new process, that people value. It enables us to create new jobs and industries. It helps to improve productivity, lift wages and meet society's needs in new ways that are less harmful to the natural environment, enhancing the stock of natural capital for future generations.

Enabling all New Zealanders to benefit from the changing nature of the future of work requires expanding the provision of technology infrastructure, which can enrich social as well as work life. Adapting to the future of work will increase our human capital. Training will need to become increasingly accessible, and reflect the changing requirements for people and the economy as a whole, including the need to be more adaptable.

Improving technological infrastructure will provide a platform that enables our firms and farms to trade and grow in an ever more interconnected world. This will support the growth of our physical and financial capital, lifting incomes now, and leaving a legacy for future generations by protecting natural capital and supporting the Just Transition wellbeing objective.

3 Māori and Pacific – Lifting Māori and Pacific incomes, skills and opportunities and combatting the impacts of COVID-19

Education, health and housing outcomes in New Zealand vary significantly by socio-economic background and ethnicity. As measured by the General Social Survey, the average material standard of living for Pacific people is around a half lower, and for Māori a third lower, than for the general population. Māori and Pacific people are typically more severely affected with wage scarring by recessions, and are more likely to have poorer health outcomes.

Our wellbeing objective to lift Māori and Pacific incomes, skills and opportunities is critical to New Zealand's long-term success. Lifting human capital is particularly important for expanding the opportunities for individuals and families and lifting financial wellbeing, as these communities are already rich in cultural and social capital.

The ability for many Māori and Pacific people to achieve their aspirations is impeded when the education, health, housing and social welfare systems do not address multifaceted, intergenerational disadvantages. There must be a focus on how these systems interact. For example, Māori and Pacific people have lower rates of home ownership and are more likely to live in cold and damp homes. This affects health, education and economic outcomes, meaning less opportunity, and means New Zealand is missing out on the important contributions that many Māori and Pacific people could be making to our economy, society and culture.

4 Child Wellbeing – Reducing child poverty and improving child wellbeing

The experiences we have as children lay the foundation for healthy development and positive wellbeing throughout our lives. Good material standards of living enable parents and caregivers to provide children with a good start in life, which has been shown to contribute to lasting wellbeing outcomes in areas like health, housing and education.

Investing in a good start in life for our children is one of the most important ways we can ensure the wellbeing of New Zealanders over the long term. It will strengthen our social and human capital, leading to better economic and financial capital outcomes. One of the keys to this is improving the housing conditions our children grow up in – improving child wellbeing requires better access to warm, dry and safe housing. This makes reducing child poverty and improving child wellbeing one of our enduring wellbeing objectives.

5 Physical and Mental Wellbeing – Supporting improved health outcomes for all New Zealanders and keeping COVID-19 out of our communities

Good physical and mental health, and timely access to care and support when they are needed are fundamental to New Zealanders' long-term wellbeing. There is ample evidence that those who suffer from poor physical and mental health find it difficult to build their own skills so that they can achieve in the workforce and engage in society. This undermines both our human and social capital, with run-on effects on financial capital. Having a healthier population makes individuals more resilient and reduces health costs.

Improved physical and mental health outcomes require sustained investment across a range of government services and other areas, including housing. Affordability of housing, the state of our housing stock, and security of tenure and cost can all influence a person's physical and mental health.

The additional uncertainty and stresses that COVID-19 has presented for people, in different aspects of their life, reinforces the importance of ongoing awareness of and support for mental health.

Budget allowances

Budget 2021 will be delivered against the backdrop of a global economy that faces significant risks as COVID-19 continues to surge around the world. The Government will balance careful Budget management with prioritising investments that meet the wellbeing objectives and the overarching policy goals set out in the Speech from the Throne.

The Government has set the new operating allowances at $2.625 billion per year across the next four Budgets. This is an increase of $0.225 billion per year from the allowances presented in the *Pre-election Economic and Fiscal Update* (PREFU), and is made possible by the extra revenue generated by the new top 39% tax rate on income earned above $180,000. This affects the top 2% of New Zealand earners. The 2021 allowance provides a total of $10.5 billion to be allocated across the four-year forecast period. The Government will carefully prioritise spending to those people and areas that need it the most as we balance the need to continue supporting New Zealanders and the economy through the COVID-19 rebuild, against the need to maintain New Zealand's relatively strong fiscal position.

The multi-year capital allowance has been set at $7.8 billion across the four-year forecast period. The multi-year capital allowance was introduced at Budget 2019, moving away from a single-year allowance to allow for a longer-term investment approach for capital spending. These allowances have already been incorporated into the Treasury's fiscal forecasts in the *Half Year Update* in December.

The Government will use these allowances to support the COVID-19 response and recovery, and maintain investment in essential public services to improve New Zealanders' wellbeing. The allowances are subject to change, as economic and fiscal forecasts are updated for both the New Zealand economy and the global economy.

Table 2 – Budget allowances before pre-commitments

$ billions	Budget 2021	Budget 2022	Budget 2023	Budget 2024
Operating allowances (per year)	2.625	2.625	2.625	2.625
Multi-year capital allowance	←	7.8		→

Source: The Treasury

In Budget 2020, the Government established the $50 billion COVID-19 Response and Recovery Fund (CRRF). This fund is managed separately from the Budget allowances. Programmes and projects that are part of the fund are being progressively rolled out. In addition, as at 1 February 2021, $10.2 billion of the CRRF remains unallocated. The remaining balance of the CRRF is set aside for the health and economic response, in particular in case of a further COVID-19 resurgence.

ECONOMIC AND FISCAL FORECASTS

Economic outlook and forecasts

Recent economic data shows the New Zealand economy is making a strong recovery from the initial impact of the global COVID-19 pandemic. The success of New Zealand's decision to go hard and early to stamp out COVID-19 meant the economy was able to open up quickly after health restrictions were lifted. The restrictions placed on activity in the June 2020 quarter to limit the spread of the virus contributed to the sharpest fall in real GDP on record, with a quarterly contraction of 11.0%. The economy then grew by 14.0% in the September 2020 quarter, with GDP at the end of September higher than it was before COVID-19.

The Labour-led Government took a decision to support businesses and workers through the Alert Level 4 and 3 restrictions with significant investment in policies like the Wage Subsidy, which supported nearly 1.8 million jobs by helping people to stay connected to their employers. The relative success of New Zealand's response compared to other advanced economies can be seen through unemployment rates, which have already peaked at more than 10% in the United States and Canada, and at 7.5% in Australia.

In New Zealand the unemployment rate was 4.9% in the December 2020 quarter, down from 5.3% in the previous quarter. This compares to forecasts at the time of the May 2020 Budget that unemployment would reach as high as 9.8% in the September 2020 quarter, and remain above its current rate throughout 2021.

The *Half Year Update* showed an improvement in the outlook compared to the *Pre-election Update* and the *Budget Update*, with the New Zealand economy forecast to rebound strongly in 2021, similar to Australia and the United States and outperforming the Euro Zone, the United Kingdom and Japan. Economic growth is expected to pick up further as border restrictions are eased over time.

Both September quarter GDP and December quarter unemployment data came in stronger than the Treasury forecast in the *Half Year Update,* published on 16 December 2020. Global vaccine development is occurring at a strong and steady pace, although recent supply issues in Europe are a cause for concern. New Zealand's vaccine plan will mean our immunisation programme is keeping us at the forefront of a combined health and economic response to COVID-19.

Private consumption rebounded in the second half of 2020 as a result of accumulated savings from higher alert level periods, rising consumer confidence and a lack of overseas travel options. Household spending increased 14.8% in the September 2020 quarter, with increases across all expenditure categories, although it was still down 1.4% for the year to September 2020. Consumption in the year to March 2021 is forecast to be 4.6% below the previous year. 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 8.3% higher than in the 2019 September quarter.

However, there remains a high degree of uncertainty around the trajectory of the recovery, particularly as new variants of the virus emerge overseas, and as countries around the world are experiencing worsening third waves of infection. In its *Half Year Update* the Treasury presented two alternative scenarios: one with a stronger domestic recovery, and one where resurgences in COVID-19 in the community lead to a further contraction in economic activity.

Table 3 – Summary of the Treasury's Half Year Update economic forecasts

June years	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Real GDP growth (annual average % change)	-2.1	1.5	2.6	3.7	3.8	3.2
Real GDP per capita (annual average % change)	-4.0	-1.0	1.9	2.7	2.7	2.0
Unemployment rate (June quarter)	4.0	6.6	6.8	5.7	4.7	4.0
Consumers Price Index (annual % change)	1.5	1.4	1.2	1.4	1.8	2.1
Wage growth (annual % change)	3.0	2.3	2.2	2.3	2.8	3.3
Current account (annual, % of GDP)	-1.9	-2.8	-3.8	-3.4	-3.2	-3.2

Sources: Stats NZ, the Treasury

Fiscal outlook and forecasts

Careful management of expenses and the growing economy mean New Zealand enters the next stage of the COVID-19 response with one of the strongest fiscal positions among advanced economies.

Before the onset of the COVID-19 pandemic, the Labour-led Government ran surpluses and reduced net core Crown debt below 20% of GDP, its lowest since 2011.

The Government's strong fiscal position meant it has been able to support New Zealanders and businesses through the 1-in-100-year global economic shock caused by COVID-19, including providing $62.1 billion for COVID-19 response, recovery and rebuild investments.

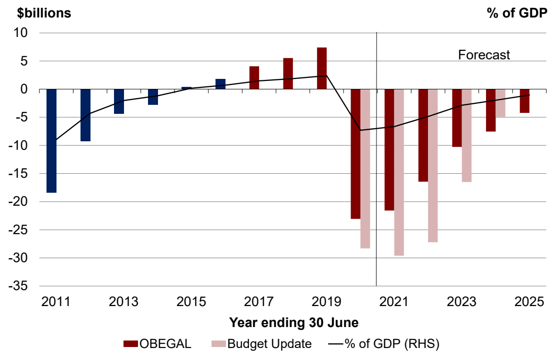
The Treasury's fiscal forecasts at the *2020 Budget Update* in May 2020 showed operating balance before gains and losses (OBEGAL) deficits of close to $30 billion a year over the period 2020 to 2022, while net core Crown debt was expected to climb, reaching 53.6% of GDP by 2023/24. The final results for the 2019/20 fiscal year were stronger than the Treasury expected at the *2020 Budget Update.* The OBEGAL deficit of $23.1 billion in 2019/20 was $5.2 billion lower than forecast by the Treasury. As a share of the economy, net core Crown debt was 26.4% of GDP, compared to a forecast of 30.2% of GDP at the *2020 Budget Update.*

The Treasury's *2020 Half Year Update* in December showed continued improvement in the fiscal forecasts due to the growing economy and careful management of expenses, with OBEGAL deficits expected to be much lower than at the *2020 Budget Update*. The *2020 Half Year Update* forecasts an OBEGAL deficit of $21.6 billion in 2020/21 and $16.4 billion in 2021/22, lower by $8 billion and $10.8 billion, respectively, compared to the *2020 Budget Update.* By the end of the forecast period, the OBEGAL deficit is forecast to have narrowed to $4.2 billion or just 1% of GDP.

The net core Crown debt track is now also forecast to be lower than at the *2020 Budget Update*, with a new forecast peak of 52.6% in the 2022/23 year. Net core Crown debt is forecast to fall to 46.9% of GDP by the end of the forecast period. As discussed in the *Half Year Update*, the impacts of the Reserve Bank's Funding for Lending Programme (FLP) have affected the headline net debt forecasts due to the definition of net core Crown debt. Looking through the impact of the FLP, net core Crown debt is now expected to increase to 44.8% of GDP in 2022/23 and then stay relatively stable throughout the forecast period. This is around eight percentage points lower at the end of the forecast period when compared to the *2020 Budget Update*.

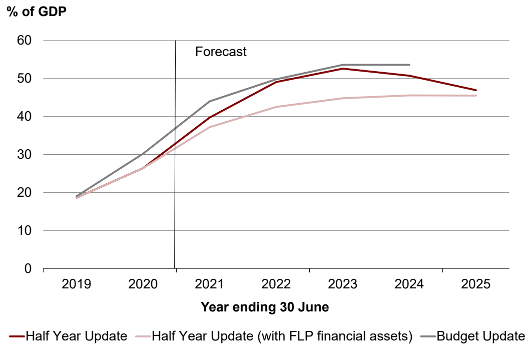
The New Zealand Government's net debt position remains considerably favourable compared to other advanced economies, which went into COVID-19 with net debt averaging above 80% of GDP. On an internationally comparative measure, New Zealand's net debt currently sits below Australia, the United Kingdom, the United States, Canada and Ireland[9].

Figure 1 – OBEGAL



Source: The Treasury

Figure 2 – Net core Crown debt comparison



Source: The Treasury

Table 4 – Summary of the Treasury's Half Year Update fiscal forecasts

Year ending 30 June	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
% of GDP						
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	(7.3)	(6.7)	(4.9)	(2.9)	(2.0)	(1.0)
Core Crown residual cash	(7.5)	(12.4)	(10.7)	(6.6)	(1.4)	1.0
Net core Crown debt	26.4	39.7	49.1	52.6	50.7	46.9
Net worth attributable to the Crown	34.9	25.9	20.4	17.5	15.7	15.1

Source: The Treasury

9 *IMF Fiscal Monitor*, International Monetary Fund, October 2020. https://www.imf.org/external/datamapper/GGXWDN_G01_GDP_PT@FM/ADVEC/FM_EMG/FM_LIDC

FISCAL STRATEGY

Our fiscal strategy takes a balanced approach to supporting current and future generations by managing debt prudently and reducing the deficit caused by COVID-19, while growing the economy sustainably and investing in important public services like health and education.

While New Zealand is not immune to the impact of COVID-19 on the global economy, we went into the pandemic with some of the lowest public debt in the world and continue to have one of the strongest economic and fiscal positions among advanced economies. This means we have the space to continue supporting the economic recovery, and already have funding set aside to fight a resurgence if needed, while maintaining a sustainable and prudent level of debt.

At Budget 2020, the long-run objectives and short-term intentions (objectives and intentions) were updated to recognise the change in the domestic and global economic environment due to the COVID-19 pandemic, and the need to cushion the blow and support the recovery. We committed to updating and refining these objectives and intentions as the economic and fiscal picture became clearer and as the economy continued to recover. Since the most recent *Fiscal Strategy Report* (FSR) was published in May 2020, the Government has refined the objectives and intentions to reflect the current outlook and global economic situation, given the economic impact of COVID-19. The updated objectives and intentions are presented below:

The Government will stabilise net core Crown debt as a percentage of GDP by the mid-2020s and then reduce it as conditions permit (subject to any significant shocks)

The long-term debt objective has been updated since the May 2020 FSR.[10] The updated objective recognises that it is prudent to use Government debt carefully to support the response, recovery and rebuild from the 1-in-100-year economic shock caused by COVID-19. Recent economic growth and careful management of Government spending mean that net core Crown debt is now forecast to peak lower than in Budget 2020, at 52.6% of GDP in the 2022/23 year, before starting to fall. Even at this peak, New Zealand's net debt as a percent of GDP remains lower than that of most other advanced economies based on comparable measures.[11]

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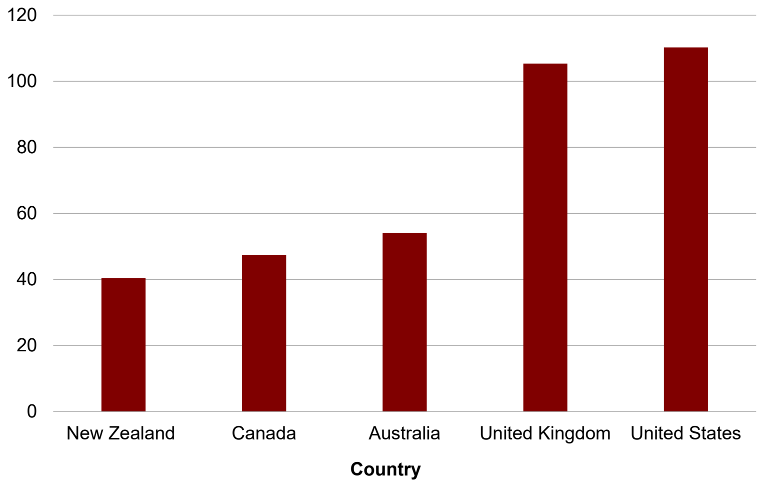
[10] Net debt objective in the May 2020 FSR: "The Government will stabilise and then reduce net core Crown debt to prudent levels over the long term (subject to any significant shocks) and beyond. Prudent levels of net core Crown debt are those that are within sustainable limits and provide a buffer for future shocks."

[11] Figure 3 presents general government net debt, which is the International Monetary Fund's internationally comparable measure. This differs from net core Crown debt, which is the definition the New Zealand Government uses to form its fiscal strategy.

Figure 3 – General government net debt in 2023 (% of GDP)



Source: IMF World Economic Outlook (WEO) database, October 2020

By the end of the forecast period in 2024/25, net core Crown debt is forecast in the *Half Year Update* to have fallen to 46.9% of GDP. Looking through the temporary fiscal impact of the Reserve Bank's Funding for Lending Programme (FLP), as the Treasury has advised, net core Crown debt is forecast to be 45.5% of GDP at the end of the forecast period.

The volatility of the global economic situation as a result of COVID-19 means the Government has not set a specific numerical debt target for this period. Pursuing a fixed target set against the extreme volatility currently in the global economy could lead to policy and spending choices that undermine our recovery and increase inequality. The Government is instead signalling a strong direction of travel. The Government will be able to set a more specific target as the global economic outlook and conditions normalise as the virus is brought under control.

Given the nature of the COVID-19 global economic shock and the need to support the economy, debt remains at prudent levels throughout the forecast and projection period, and there remains space in the Government's fiscal strategy to respond to future shocks. The Government's strong fiscal strategy and New Zealand's comparatively favourable debt position compared to other advanced economies mean credit rating agencies have maintained their strong ratings on New Zealand Government Bonds through COVID-19. In a recent ratings report, Standard & Poor's noted that New Zealand was in a strong fiscal position before the pandemic hit and that proactive policy making supports sustainable public finances and economic growth. Moody's continues to rate New Zealand Government debt at its strongest Aaa rating, while Fitch most recently retained its strong AA+ local currency rating.

The Government will run an operating balance consistent with meeting the long-term debt objective

The long-term objective for the operating balance has been updated since the May 2020 FSR.[12] The updated objective recognises that, in the current global environment, it is important that the Government invests to cushion the blow from COVID-19 and support the economic recovery. Furthermore, interest rates are at historic lows and the economy is growing faster than the interest payments on government debt.

The *Half Year Update* forecast the OBEGAL deficit will have improved to just 1% of GDP at the end of the forecast period. In comparison, the OBEGAL deficit did not fall below 1% of GDP until the seventh year following the Global Financial Crisis (GFC).

The Government will use fiscal policy to secure the economic recovery for New Zealand and reduce deficits over the forecast period as economic conditions allow

The Government's short-term intention for the operating balance has also been updated since the May 2020 FSR.[13] The new intention focuses on reducing the deficit caused by COVID-19, while maintaining flexibility to respond to the pandemic if required.

Responsible fiscal management at this point in time requires the active use of fiscal policy to secure the economic recovery and support the bounce-back in employment to pre-COVID-19 levels. Given the unprecedented size of the 1-in-100-year economic shock caused by COVID-19 and the need for a strong and ongoing fiscal response, the Government determines that the current fiscal strategy is prudent, particularly as New Zealand's fiscal position is strong compared to other countries facing the same global economic conditions.

The Government is continuing its approach to the short-term operating balance intention as in the May 2020 FSR with regard to the fiscal management principles in the Public Finance Act 1989. Section 26G(2) of the Act allows the Government to depart from the principles on a temporary basis. Doing so in this case for the short-term operating balance intention is the right thing to do, given the unprecedented size of the global economic shock caused by COVID-19, and the need for the Government to provide a strong ongoing fiscal response to protect lives and livelihoods in New Zealand.

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[12] Operating balance objective in the May 2020 FSR: "The Government will return the operating balance (before gains and losses) to surplus over the long term and maintain an operating balance consistent with the debt objective thereafter."

[13] Operating balance intention in the May 2020 FSR: "Our intention is to run operating deficits in the short term to fight COVID-19, cushion its impact and position New Zealand for recovery. We can do this because of our strong starting position and low net core Crown debt going into this pandemic."

Once the economic recovery is secured and the global economic context normalises, the Government will be in a position to return to the principles that guided its approach to fiscal management prior to COVID-19. Based on the current long-run projections from the fiscal strategy model, we are projected to return OBEGAL to surplus within the next decade. Given the scale of the global economic slowdown and the degree of uncertainty in economic forecasts, the Government will take a flexible approach to what a reasonable timeframe is for doing so, and respond as needed to ensure that New Zealand bounces back strongly from the current economic challenges without putting New Zealanders' wellbeing at risk.

The other short-term intentions and long-term objectives remain unchanged from those set out in the May 2020 FSR, and can be found below.

Budget 2021 will accord with the short-term intentions referred to in the most recent FSR after incorporating the amended short-term operating balance intention above and subject to revisions to the Treasury's economic and fiscal forecasts, through the Budget 2021 decision-making process and the Budget allowances.

Table 5: Fiscal intentions and objectives

	Short-term intention	Long-term objective
Debt	Our intention is to allow the level of net core Crown debt to rise in the short term to fight COVID-19, cushion its impact and position New Zealand for recovery.	The Government will stabilise net core Crown debt as a percentage of GDP by the mid-2020s and then reduce it as conditions permit (subject to any significant shocks).
Operating balance	The Government will use fiscal policy to secure the economic recovery for New Zealand and reduce deficits over the forecast period as economic conditions allow.	The Government will run an operating balance consistent with meeting the long-term debt objective.
Expenses	Our intention is to ensure expenses are consistent with the operating balance objective.	The Government will ensure operating expenses support a responsible and proportionate role for the Government in maintaining a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.
Revenue	Our intention is to ensure revenue is consistent with the operating balance objective.	The Government will ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy, consistent with the debt and operating balance objectives.
Net worth	Our intention is to use the Crown's net worth to fight COVID-19, cushion its impact and position New Zealand for recovery. Significant risks will be transferred onto the Crown's balance sheet through the response period.	The Government will use the Crown's net worth to maintain a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.