



THE

**Minister's Statement &  
Overview**

**Economic & Fiscal Forecast  
Summary**



**HON DR MICHAEL CULLEN**  
TREASURER  
MINISTER OF FINANCE

**15 JUNE 2000**

© Crown Copyright Reserved  
ISBN 0-478-11246-7

Typeset by The Treasury

Printed and bound by PrintLink  
(A division of Blue Star Print Group Ltd)  
Wellington

**Internet**

This document will be made available on the New Zealand Treasury's Internet site.

The URL for this site is <http://www.treasury.govt.nz>

# Minister's Statement

It is an honour and a privilege to be able to present the Labour-Alliance Government's first Budget. In this Budget we mark out a change in direction and take our first steps towards rebuilding a fair and sustainable social and economic order.

The Budget consolidates the Coalition's work since the election, complements that with new initiatives and creates a platform from which New Zealanders can build a sense of identity and integrity, prosperity and purpose. It is very much a new start for a new century.

The theme at its heart is participation – of every New Zealander in all the many opportunities and challenges that come from a robust economy and a creative outward looking society.

There are measures here to relieve poverty, to increase access to health services, to secure retirement income for the long term, to give all our children a good start in education, to enhance our skills base, and to protect our unique environmental heritage. These are measures to help ensure that none of us are made outsiders in our own land.

There are also measures to enhance our business environment, to develop an innovative economy capable of providing jobs and opportunities for all New Zealanders.

We start from a good base. Economic growth is forecast to average around 3% over the next three years. The expansion comes on the back of a robust world economy and a favourable exchange rate. Importantly, this growth is broader based than in the previous business cycle, with stronger contributions from exporting and less dependence on private consumption. This contributes to a decrease in the current account deficit to 4.7% of GDP by 2003/04.

On the fiscal front, the Government is looking ahead to substantial and rising surpluses. The forecast for 1999/2000 is \$763 million, rising in the coming year to a little over \$1 billion. Projections for the following three years show the same pattern of continuing improvement with surpluses of \$2 billion, \$2.7 billion and \$3.2 billion.

Those surpluses will help take pressure off monetary policy and put us on track to meet our long-term fiscal objectives and towards prefunding New Zealand Superannuation. They are made possible by a firm hand on spending and a determination to maintain a fiscal cap of \$5.9 billion over four years.

This Budget puts an emphasis on partnership, on lowering the barriers to industry and regional development, on working with business and local authorities and with the scientific and research community for economic transformation.

Alongside economic transformation is our determination to close the gaps that have opened up throughout New Zealand society. There are gaps between skilled and unskilled New Zealanders and between employment-rich and employment-poor regions. But the most profound and most urgent are those between Māori and Pacific peoples and others.

We are closing these gaps on three fronts. We are working with Māori and Pacific peoples to build their capacity to develop the strategies, skills and structures they need to manage their own development. There is increased funding targeted at Māori, and other low-income groups, in such key areas as housing, employment and education. And on top of that we are holding the state sector accountable for its effectiveness in improving outcomes for Māori and Pacific peoples.

This Budget sets down the foundation from which to build a decent future for all New Zealanders.

Hon Dr Michael Cullen  
Treasurer and Minister of Finance

9 June 2000

# Budget 2000 Overview

## Introduction

In the Government's *Budget Policy Statement* in March, we set ourselves key goals emphasising the importance of innovative businesses, effective Government and strong communities together contributing to the well-being of New Zealanders. These goals highlighted our focus on improving skills, enhancing our environment, strengthening national identity and closing gaps.

*Budget 2000* delivers the Government's key goals by funding significant new policy programmes in each of the above areas. The new programmes are described in the pages that follow, under the following broad headings:

- growing an inclusive, innovative economy
- improving New Zealanders' skills
- closing the gaps for Māori and Pacific peoples
- restoring trust in Government and strong social services
- protecting and enhancing the environment, and
- strengthening national identity.

The *Budget Policy Statement* also stated that we would start saving to meet the long-term challenge of changing demographics. The fiscal parameters of the Budget 2000 package have been set so that we can meet our commitment to prudent fiscal management and our long-term fiscal objectives. These include reducing gross debt to below 30% of Gross Domestic Product (GDP) and net debt to below 20% of GDP and of building operating surpluses over the next four years. The *Fiscal Strategy Report* presents our progress on these objectives.

An overview of the Treasury's fiscal and economic forecasts is set out in a later section of this Executive Summary.

## Growing an Inclusive, Innovative Economy

### *Economic development*

In the modern age, all economies face a mix of opportunity, stress and challenge. We live in a time of massive and rapid technological change. Global markets and world financial systems are at one level more open and accessible, and at another, less predictable.

Everywhere, governments are reassessing how they can best assist the private sector to manage the risks in the new economic environment and prosper from the opportunities it presents.

A lot of money is, and always has been, spent in creating and maintaining a framework in which economies operate, change and grow. Government programmes cover a broad spectrum from developing skills, providing infrastructural supports, and maintaining stable financial and market systems, to more specific supports like provision of business information and trade assistance.

The challenge now is to coordinate those efforts, to continuously monitor them to improve their effectiveness, and to provide resources to upgrade the level and scope of the economic development effort.

We have created new portfolios for economic development and industry and regional development, and we are establishing a new Crown entity, Industry New Zealand.

- New expenditure will include specialist support to industry, strategic investment services, early stage financing assistance and developing business skills.
- A nationwide Regional Development Programme will be established, with a particular focus on areas that have been identified as having particularly acute problems.
- A new embassy in Brasilia will improve our strategic and economic links with Latin America.

### *Research and development*

We have increased support for research and development, and established a new fund providing research grants for private sector firms. Total new funding includes almost \$12 million per annum for private sector research grants, and \$9 million per annum for Technology New Zealand to help firms upgrade technology.

### *Key innovative economy initiatives*

(\$ million) GST inclusive	1999/00	2000/01	2001/02	2002/03	2003/04
Industry and economic development	-	37	77	116	116
Research science and technology	-	30	30	30	30
Revenue - business information	-	16	16	16	16
E-commerce/e-government	-	10	9	3	3
<b>Total</b>	-	<b>93</b>	<b>132</b>	<b>165</b>	<b>165</b>

## Improving New Zealanders' Skills

We want New Zealanders to have the best possible future. This means they need education and skills which can adapt to a changing world. The Budget 2000 Education Package focuses on the basic building blocks of a good education.

- Funding for early childhood education is increasing by around \$10 million per annum.
- An 80% increase in the number of literacy specialists available to assist teachers and students will cost around \$20 million over four years.
- New funding of \$13 million in 2000/01, rising to over \$19 million in 2003/04, is targeted at specifically improving educational outcomes for Māori and Pacific peoples.
- A capital injection of \$166 million next year to meet roll growth and to upgrade the condition of existing schools.
- To help ensure that education is a lifelong activity, we have introduced Modern Apprenticeships and industry training initiatives that will be supported by total new funding over four years of \$66 million.

### *Tertiary education*

- As promised, we will write off all interest on student loans while students are studying, to reduce the burden of loan repayments and encourage tertiary participation. This will cost \$92 million in 2000/01, and about \$420 million over four years.
- We intend to stabilise tertiary education fees. To achieve this, the tertiary tuition subsidy will be increased by \$110 million over the next four years.

(\$ million) GST inclusive	1999/00	2000/01	2001/02	2002/03	2003/04
Student loans	32	92	103	110	115
Early childhood	2	10	11	11	11
Māori and Pacific education	2	14	18	17	20
Teacher effectiveness	-	13	15	15	14
Schools resourcing	1	20	45	45	38
Literacy initiatives	2	5	8	6	5
Special education	-	8	15	15	15
Apprenticeship and industry training	-	11	17	19	19
Tertiary education	(1)	19	37	38	40
Other	3	8	11	12	13
<b>Total</b>	<b>41</b>	<b>200</b>	<b>280</b>	<b>288</b>	<b>290</b>

Capital funding (\$ million)	1999/00	2000/01	2001/02	2002/03	2003/04
School property	-	166	-	-	-
Student loans	169	295	337	351	357
<b>Total</b>	<b>169</b>	<b>461</b>	<b>337</b>	<b>351</b>	<b>357</b>

## Closing the Gaps for Māori and Pacific Peoples

The Government's *Budget 2000* makes a major contribution to closing the social and economic gaps that exist between Māori and Pacific peoples and other New Zealanders. The three key themes to the Government's Closing the Gaps efforts are outlined below. Within each of the themes are a wide range of initiatives that will make a positive and lasting difference to the social and economic outcomes of Māori and Pacific peoples.

### ***Capacity building***

The Government is committed to building capacity in Māori and Pacific communities. Capacity building funding of \$114 million over the next four years will strengthen the ability of whanau, hapu, iwi, Māori and Pacific organisations and communities to build the strategies, systems, structures and skills that they need to control their own development and achieve their own objectives. The funding is spread over the following three programmes:

- 1 Funding for communities to undertake assessments of their strengths and weaknesses, so that they can identify where they need to increase their capability if they are to achieve their objectives and aspirations.
- 2 Funding for communities to implement their own initiatives to increase their capability and achieve their aspirations.
- 3 Provider development funding to assist Māori and Pacific organisations in developing their capability to compete for, and successfully deliver, government contracts for the provision of services to Māori and Pacific peoples.

### ***State sector accountability***

The Government is increasing the accountability of the state sector when working towards improving the social and economic outcomes of Māori. This will be achieved through a combination of new funding and reprioritising existing spending. Te Puni Kokiri (TPK) is being provided with \$12 million over four years to undertake audits of the effectiveness of government social policy programmes in delivering to Māori. Government departments will also be more accountable for their effectiveness in improving outcomes for Māori and Pacific peoples. They will be required to disclose in their annual reports what they are doing to close the gaps, and provide evidence of the effectiveness of specific programmes.

### ***Responsiveness in key sectors***

To improve the responsiveness of key sectors when working towards improving the social and economic outcomes of Māori, the Government has increased funding targeted at Māori and Pacific peoples, as well as at low socio-economic groups, of which a large proportion are Māori. The following important initiatives will contribute to improved responsiveness in the key sectors of housing, employment and education.

- **Housing** – \$370 million over four years will fund income related rentals for state house tenants and other housing initiatives, from which Māori and Pacific peoples are expected to receive considerable benefit.

- **Employment** – the Closing the Gaps package demonstrates a willingness on the part of the Government to fund new and innovative approaches to tackling Māori unemployment, as well as establishing a firm partnership with iwi and Māori to improve social and employment outcomes in the future. Examples of initiatives within this package are Community Employment Organisations (\$25 million over four years), innovation funds within the Māori Economic and Organisational Development (\$21 million over four years), and Māori Women's Development Fund (\$14 million over four years).
- **Education** – this is a key area for ensuring that Māori outcomes are improved in the long term and \$69 million will be spent over four years on a range of initiatives directly targeting Māori and Pacific Island educational outcomes. Key initiatives include Māori Teacher Supply and Quality (\$13 million over four years), Māori Language Education (\$20 million over four years), Māori Participation Initiatives (\$11 million over four years), and Improving the Responsiveness of Education to Māori (\$10 million over four years). In addition, \$131 million of funding will also be directed towards the educational participation and achievement of New Zealanders who require extra assistance in education. Māori and Pacific peoples will benefit from these initiatives as well as those targeted directly at them.

Provision has also been made for further spending of \$50 million over the next year, to ensure ongoing delivery as policy develops.

### ***Closing the Gaps initiatives***

<b>(\$ million) GST inclusive</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>
Capacity building	-	29	29	29	27
Public sector accountability	-	2	3	3	3
Housing (in Housing package)	-	55	99	105	111
Education (in Education package)*	-	39	55	52	54
Child, Youth and Family*	-	32	33	33	33
Work and Income*	-	14	24	27	25
Health	-	4	5	5	5
<b>Total</b>	-	<b>175</b>	<b>248</b>	<b>254</b>	<b>258</b>

\* These figures exclude capacity building funding. Such funding for Education, CYFS and DWI is included under 'Capacity building'.

## Trust in Government and Strong Social Services

We are committed to restoring trust in Government. As promised before the election, we have already:

- boosted New Zealand Superannuation back to a reasonable level, at a cost of \$684 million over four years, and
- restored ACC as the sole provider of workplace accident insurance.

In addition, the Budget 2000 Package includes significant new programmes in housing, health, social services, employment and justice.

### **Housing**

Poor housing may be associated with certain health problems and poor educational achievement, particularly among the young. This Budget repositions housing on a more effective policy base. The new objectives set by the Government are expected to have an operating cost of around \$553 million over 1999/2000 to 2002/03 and \$415 million in capital over the same period. Key initiatives are:

- from 1 December, low-income state tenants will pay no more than 25% of their net income in rent. More than 40,000 households will receive increased assistance averaging around \$40 per week
- there will be no further reductions in the number of state houses, and the housing stock will grow significantly in the Auckland region over time
- the creation of Special Housing Action Zones, mainly for Māori, to improve quantity and quality of housing in designated areas. This will cost \$3 million in 2000/01, rising to \$5 million the following year and \$8 million by 2003/04, and
- provision of \$29 million additional capital for Community Housing Limited.

### **Health**

*Budget 2000* contains a major commitment to health.

- improving services for mental health sufferers will cost \$257 million over the next four years
- elective treatments should not be seen as luxuries, available only to those who can afford them. We promised to reduce waiting times for elective surgery, and this is achieved by providing \$74 million a year more for elective treatments
- disability support services will be upgraded, including better access to home care services, and more support to care givers
- **Mātauranga āwhaiwhai** - Māori health is an important focus for closing the gaps in health status. Over \$20 million will be spent in the next four years to encourage smokers to quit.

## **Social services**

In this Budget \$36 million in 2000/01, increasing to approximately \$40 million per annum in 2003/04, has been allocated in total to improve child, youth and family services.

- We have provided \$27 million per annum to continue social worker services and for youth justice programmes.
- A further \$9 million per annum provides for new programmes – including preventative youth justice programmes targeted at Māori and Pacific Island youth, iwi/Māori provider and workforce development, better resourcing of Family Group conferences, and additional family violence prevention services, including women’s refuge services.

Changes have been made to the Training Incentive Allowance, at a cost of \$4 million in 2000/01, rising to \$9 million in subsequent years.

## **Employment**

To achieve better employment opportunities and encourage participation, particularly in the most disadvantaged communities, we are investing in excess of \$90 million over the next four years. This includes:

- \$28 million on Māori and Pacific economic and organisational development and \$14 million supporting Māori women in business
- \$25 million helping unemployed people gain work experience and undertake work of benefit to the community
- \$21 million purchasing vocational services for people with disabilities.

## **Justice**

Total new funding for police and justice initiatives is around \$70 million per annum, mainly aimed at maintaining a high quality police service. New policy initiatives focus on youth justice (\$3 million per annum) and a restorative justice pilot programme aimed at reducing crime and reoffending.

### **Key Government and social services initiatives**

<b>(\$ million) GST inclusive</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>
Housing	32	150	183	188	192
Health	32	137	141	172	191
Social services	-	40	48	48	49
Police	27	54	54	54	54
Employment	-	21	22	25	23
Justice	5	22	19	19	19
<b>Total</b>	<b>96</b>	<b>424</b>	<b>467</b>	<b>506</b>	<b>528</b>

<b>Capital funding (\$ million)</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>
Health	(102)	116	89	87	15
Housing	-	208	93	110	112
Justice	-	50	33	-	-
<b>Total</b>	<b>(102)</b>	<b>374</b>	<b>215</b>	<b>197</b>	<b>127</b>

## Protect and Enhance the Environment

*Budget 2000* takes important steps towards maintaining New Zealand's clean, green environment, and rebuilding our reputation as a world leader in environmental issues.

### ***Biodiversity strategy***

Many of New Zealand's indigenous species are found nowhere else on earth. The responsibility for their continued existence is entirely ours. We believe the appropriate response is a comprehensive strategy for maintaining and sustaining biodiversity. The New Zealand Biodiversity Strategy was released in March this year, and sets out national goals, over a 20 year timeframe.

We have committed funding of \$18 million in 2000/01, increasing by \$10 million in each year, peaking at \$55 million in 2004/05. Implementation has already begun. We look forward to establishing partnerships with the private sector, local government, iwi and local communities to successfully turn the tide and halt the decline of indigenous biodiversity.

### ***Other initiatives***

- We intend to ratify the Kyoto Protocol on climate change by mid-2002. Funding of over \$2 million per annum has been provided to ensure we will be able to meet our climate change commitments.
- The Energy Efficiency and Conservation Authority is being established as a Crown entity, and will see a funding increase of \$3 million per annum.
- Funding of \$5 million has been agreed for the Royal Commission on genetically modified organisms, to ensure that we can sensibly balance the risks and benefits of these organisms.

### ***Key environment initiatives***

<b>(\$ million) GST inclusive</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>
Biodiversity strategy	-	17	27	38	48
Sustainable land management	-	10	10	10	-
Tb vectors	-	4	4	4	4
Other	2	7	9	8	6
<b>Total</b>	<b>2</b>	<b>38</b>	<b>50</b>	<b>60</b>	<b>58</b>

## Strengthening National Identity

New Zealanders express their identity through participation in arts, music, sporting endeavours and recreational pursuits. A substantial package to rebuild our artistic and cultural heritage, totalling \$146 million over four years, has already been announced:

- One-off funding has been agreed for Creative New Zealand (\$20 million), and a new Film Production Fund has been established (\$22 million).
- Increases in ongoing funding will ensure the continued viability of the New Zealand Symphony Orchestra, Te Papa, the Royal New Zealand Ballet and the Historic Places Trust; and an extra \$7 million per year has been granted to NZ on Air to increase production of local programmes.
- Art and culture in the regions is boosted by funding for projects such as the new Christchurch Art Gallery (\$6 million) and restoration of the Edwin Fox.

We also express our identity through sport. This Budget increases our ability to compete in the world arena by establishing sports education scholarships, and making \$16 million available to fund three high performance sport centres for the next Olympic cycle. A further \$5 million has been provided to ensure the successful defence of the 2003 America's Cup.

We have reinforced our commitment to defending freedom and fairness by continuing to support New Zealand's contribution to international peacekeeping operations:

- An additional \$7 million funding will support New Zealand's peacekeeping operation in East Timor in 2000/01 (on top of the \$33 million set aside in the *Pre-election Economic and Fiscal Update*) with further funding of around \$2 million allocated to maintaining our commitment to Bougainville peace process. Savings of around \$10 million were also made in 1999/2000 through the change in the nature and size of the contribution to East Timor.
- In addition, around \$6 million has been provided to the New Zealand Defence Force to fund operating pressures arising from delays in realising real estate operating savings.

We have increased New Zealand's Official Development Assistance by \$6 million per year. This will enhance our support for bilateral and multilateral development efforts, particularly in the Pacific region.

### Key national identity initiatives

(\$ million) GST inclusive	1999/00	2000/01	2001/02	2002/03	2003/04
Culture and Heritage	55	16	16	16	16
Sport, Fitness and Leisure	21	2	3	5	5
Overseas Development Assistance	-	6	6	6	6
Defence	(10)	15	-	-	-
<b>Total</b>	<b>66</b>	<b>39</b>	<b>25</b>	<b>27</b>	<b>27</b>

Capital funding (\$ million)	1999/00	2000/01	2001/02	2002/03	2003/04
Culture and Heritage	32	12	10	10	10

## Economic and Fiscal Strategy

This Budget supports economic growth by facilitating skills development, by assisting new businesses, by encouraging the provision of venture capital and by supporting technological innovation. But our most important resources are human resources. *Budget 2000*, above all, delivers policies that will help us all to participate in a vibrant social democracy.

A free and fair society needs to be sustainable in four key dimensions: social, economic, environmental and fiscal. Fiscal sustainability means delivering affordable housing, high quality health and education and a decent income in retirement, without relying on borrowing.

We set ourselves clear objectives for this first Budget. We wanted to advance the government's key priorities and address key risks in departmental service delivery. In only six months we have been able to meet these goals.

### ***Fiscal strategy***

We have met our goals in a way that is consistent with meeting the conservative fiscal objectives we set for ourselves in the *Budget Policy Statement (BPS)* in March. The BPS made it clear that the share of the Government in the economy would remain around current levels of 35% of GDP. However, it also made clear that we would:

- run prudent levels of debt
- run operating surpluses that are at least in broad balance and in addition provide a margin to partially prefund the demographic pressures associated with an ageing population.

The *Fiscal Strategy Report* outlines more details on how this is to be achieved, including the essence of partial prefunding and a set of working assumptions. This demonstrates that the Government is well placed to build fiscal surpluses, to meet our expense, debt and prefunding goals, and to leave reasonable scope for future initiatives.

We will continue to evaluate and adjust our approach to fiscal policy as the other costs associated with an ageing population become clearer. In the meantime, we will continue to take a cautious approach to fiscal policy, so that we can continue to meet our fiscal objectives as the demographic pressures start to impact.

The FSR demonstrates that the expenditure measures in the Budget are consistent with the Government's long-term fiscal objectives. We have remained within our overall three year provision for new spending of \$5.9 billion.

Within this, we have chosen to spend more in the first year than we anticipated in the BPS, so that we can achieve our objectives more quickly. This will mean lower budget provisions in the 2001 and 2002 Budgets. These targets are achievable. Having delivered so many of our key commitments in our first Budget, we can now turn to successful implementation of the policy programme, and ensuring we achieve value for money.

# Budget 2000 – Summary of the Treasury’s Economic and Fiscal Forecasts

This summary sets out the economic and fiscal outlook for the next four years. A number of risks to the outlook may lead to a significant change in the growth path. This is illustrated by scenarios for higher and lower growth than that of the central forecast.

## The Economic Outlook

### *Solid expansion underpinned by strong export growth*

After growing well above trend in 1999 the economy is expected to continue to expand at a solid and more sustainable pace through the forecast period. Annual average growth is expected to be 3.7% in the year to March 2001 before easing to around 2.5% further out.

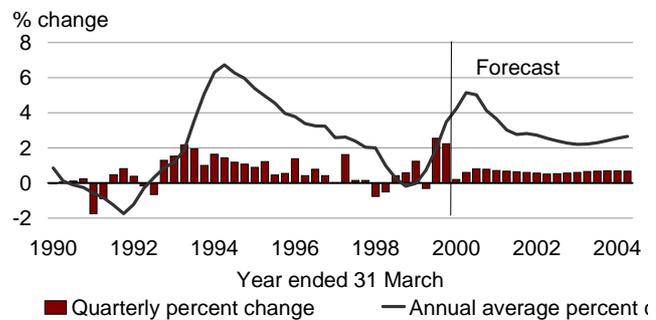
The combination of strong world growth and supportive monetary conditions, in particular the stimulus from a low exchange rate, is expected to provide a solid foundation for ongoing growth. New Zealand’s main trading partners are expected to grow by around 4% in 2000 after growing by 3.7% in 1999 and only around 2% in 1998.

In the forecast period the proportion of overall growth due to exports is higher than in the recovery to date and higher than in the previous cycle.

Both non-commodity manufactured exports and tourism are expected to perform well, supported by a low exchange rate and strong world growth. Higher commodity prices, robust international demand and more favourable weather conditions after droughts are expected to assist commodity exporters.

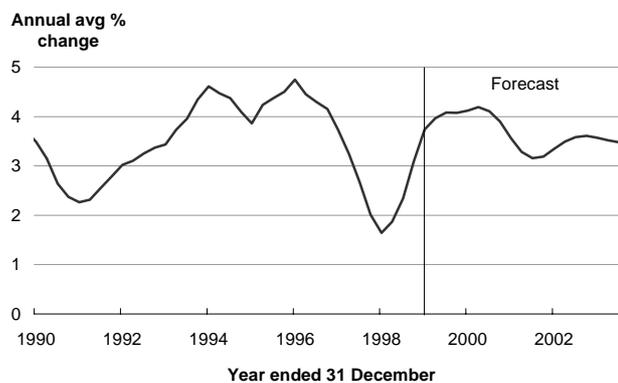
Strong export growth and limited spare capacity lift underlying investment growth.

**Figure 1 – GDP growth**



Sources: Statistics New Zealand, The Treasury

**Figure 2 – Trading partner growth**



Sources: Consensus Forecasts, Datastream, The Treasury

The labour market is set to tighten further with unemployment falling to below 6%.

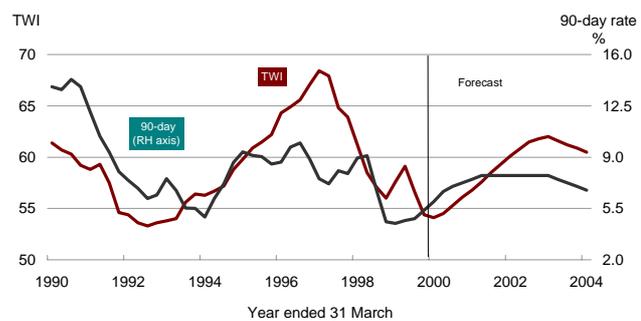
Household income grows solidly as employment and wages increase. Over the medium term, higher debt levels and debt servicing costs see households tighten their purse strings, leading to a small increase in the household savings rate.

***A modest tightening in monetary conditions keeps the economy on a sustainable growth path***

Strong growth during 1999 has significantly reduced spare capacity in the economy. A modest tightening in monetary conditions keeps the economy on a sustainable growth path.

Monetary conditions tighten through both an increase in interest rates to a peak of 7.8% and a moderate increase in the Trade Weighted Exchange Rate Index (TWI). Both interest rates and the TWI peak at levels well below those reached in the last cycle.

**Figure 3 – Monetary conditions**



Sources: Datastream, The Treasury

CPI inflation is strongest in the near term, boosted by recent increases in tobacco excise and petrol prices. Over the forecast period, increasing inflation pressures from higher unit labour costs and widening margins are tempered by the tightening in monetary conditions.

The current account deficit is forecast to decrease steadily from a peak of 8% in December 1999 to 4.7% by March 2004. The decrease in the deficit is entirely due to a turnaround in the goods and services balance from deficit to surplus.

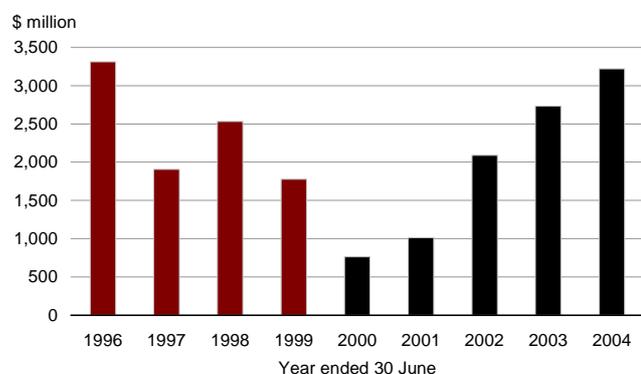
**The Fiscal Outlook**

***Operating balance rises steadily over the forecast horizon***

The estimated 1999/2000 operating balance (\$763 million or 0.7% of GDP) is boosted by the Government Superannuation Fund (GSF) and ACC liability revaluations totalling around \$500 million.

In the early years of the forecast, revenue grows strongly, driving off nominal GDP growth of around 5% and coupled with the full year impact of the increase in tax rates in 2000/01.

**Figure 4 – Operating balance**



Source: The Treasury

Expense growth is around 4% over this period as the Government implements its policy programme, with the full impact of decisions such as increasing the NZS floor occurring in 2000/01.

From 2001/02, revenue grows in line with nominal GDP (around 5% each year). Expense growth slows to around 3% a year, reflecting smaller allowances for new policy initiatives.

Revenue increases outweigh increased spending over the forecast horizon, resulting in an improving structural position.

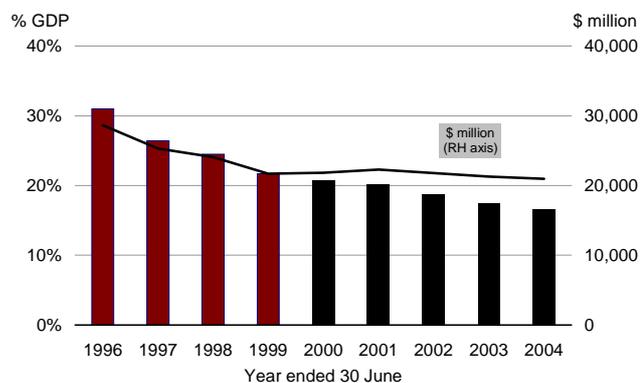
**Positive outlook for investment and debt repayment**

In 1999/2000 and 2000/01, cashflows from operating and investing activities do not generate sufficient cash to reduce debt in dollar terms.

From 2001/02 rising operating balances translate to cashflow surpluses. This cash is applied to prefunding future New Zealand Superannuation (NZS) expenses, and debt reduction.

NZS Fund assets grow to around \$3.8 billion (3.0% of GDP) by 2003/04.

**Figure 5**– Net debt (\$ and % of GDP)



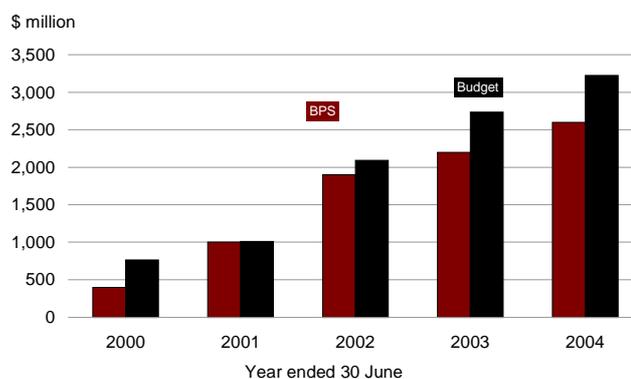
Source: The Treasury

Net debt falls by around \$1.3 billion from 2001/02. Gross debt follows a similar track.

**Little change in operating balance forecasts from the Budget Policy Statement**

Although the operating balance increases each year, these Budget forecasts are not substantially different from those included in the BPS.

**Figure 6** – Operating balance – BPS versus Budget



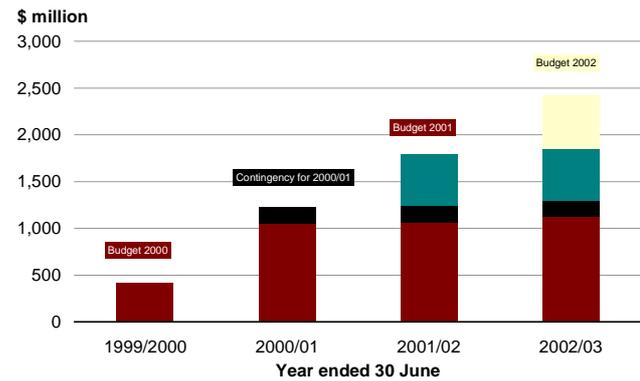
Source: The Treasury

Spending has been brought forward into the early years of the forecast horizon by around \$300 million.

However, the Government remains within its overall fiscal provision of \$5.9 billion over the period 1999/2000 to 2002/03.

This is because the fiscal provisions have been reduced to \$550 million and \$575 million in the 2001 and 2002 Budgets respectively.

**Figure 7 – Final provision allocations**



Source: The Treasury

Other factors driving the increase in the operating balance since the BPS include:

- downward liability revaluations of around \$500 million, which increase the operating balance in 1999/2000
- lower benefit forecasts, reflecting lower CPI forecasts and lower benefit uptakes
- marginally higher taxation forecasts, due to a small increase in nominal GDP, particularly in the last two years of the forecast horizon
- lower finance costs, reflecting lower long-term Government stock rates, together with lower debt levels.

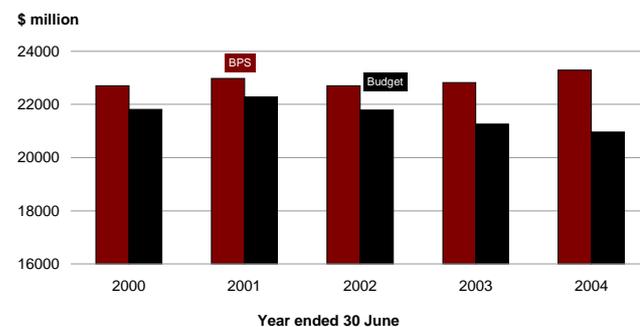
**Net debt lower**

Compared to the BPS, net debt is lower.

The reduction in 1999/2000 reflects factors that do not impact on the operating balance, such as deferred and reduced net purchases of physical assets. An example of this is the cancellation of F16 aircraft purchases.

Some of the reduction in 1999/2000 reverses in 2000/01, but thereafter the reduction against the BPS is driven by the higher operating balance forecast.

**Figure 8 – Net debt comparison**



Source: The Treasury

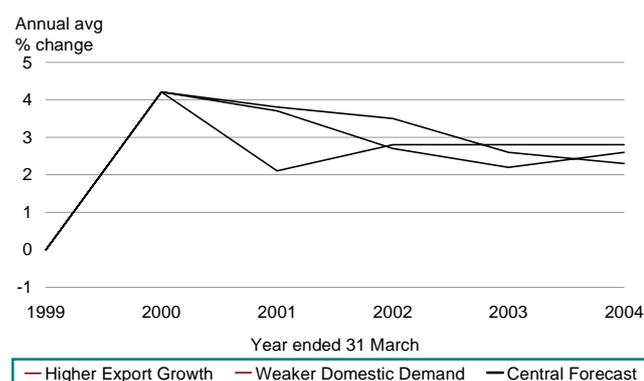
## Risks and Scenarios

There are a number of risks surrounding the economic and fiscal forecasts. If some of these risks were to develop differently from the judgements that we have included in the central outlook then the GDP growth path that emerges could look quite different. This, in turn, would lead to different fiscal outcomes, because nominal GDP is the key driver of tax revenue.

An example of an upside risk is the possibility of higher, medium-term export growth than is contained in the central forecast. This could arise from New Zealand's exchange rate remaining at a relatively low level, stronger world growth or a combination of both.

Conversely, factors such as rising interest rates and petrol price increases, could lead to both households and firms spending less than was expected. In the short term, this weaker domestic demand represents a downside risk.

**Figure 9** – Real GDP under alternative scenarios



Source: The Treasury

The impact on the operating balance of these scenarios is shown in the table below.

**Table 1** – Alternative scenarios: Operating balance

Operating Balance (\$ billion, June years)	1998/99 Actual	1999/00 Forecast	2000/01 Forecast	2001/02 Forecast	2002/03 Forecast	2003/04 Forecast
Central forecast	1.8	0.8	1.0	2.1	2.7	3.2
Higher export growth	1.8	0.8	1.1	2.5	3.3	3.7
Weaker domestic demand	1.8	0.8	0.4	1.5	2.2	2.4

Sources: Statistics New Zealand, The Treasury

These are indicative examples and do not represent the upper or lower boundaries to economic or fiscal outcomes.

## Economic Outlook<sup>1</sup>

(Annual average % change, March years)	1998/99 Actual	1999/00 Forecast	2000/01 Forecast	2001/02 Forecast	2002/03 Forecast	2003/04 Forecast
Private consumption	1.4	3.2	2.5	1.8	1.9	2.3
Public consumption	0.0	7.3	(1.8)	1.7	1.5	2.0
Total private investment	0.0	9.1	10.0	9.3	8.3	9.1
Exports	2.2	6.4	9.1	6.1	4.7	4.0
Imports	3.3	11.5	4.5	8.4	8.0	8.2
<b>GDP (production measure)</b>	<b>0.0</b>	<b>4.2</b>	<b>3.7</b>	<b>2.7</b>	<b>2.2</b>	<b>2.6</b>
Unemployment <sup>2</sup>	7.2	6.4	5.7	5.3	5.7	5.6
90-day bank bill rate <sup>3</sup>	4.5	6.0	7.5	7.8	7.8	6.8
CPI inflation <sup>4</sup>	1.3	1.7	2.6	2.3	2.1	1.8
Nominal GDP (expenditure)	0.7	4.9	5.5	5.1	4.5	4.4
Current account balance						
- % of GDP	(5.8)	(7.8)	(5.8)	(5.1)	(4.8)	(4.7)
TWI <sup>3</sup>	57.6	54.1	56.8	60.1	62.0	60.5

## Fiscal Outlook<sup>1</sup>

(\$ million, June years)	1998/99 Actual	1999/00 Forecast	2000/01 Forecast	2001/02 Forecast	2002/03 Forecast	2003/04 Forecast
Total revenue	36,357	36,320	38,370	40,419	42,239	44,141
Ratio to GDP (%)	36.4	34.5	34.6	34.7	34.7	34.8
Total expenses	35,825	36,428	38,057	38,973	40,256	41,786
Ratio to GDP (%)	35.9	34.6	34.3	33.5	33.1	32.9
Contribution from SOEs and CEs	1,245	871	699	645	750	867
<b>Operating balance</b>	<b>1,777</b>	<b>763</b>	<b>1,012</b>	<b>2,091</b>	<b>2,733</b>	<b>3,222</b>
Ratio to GDP (%)	1.8	0.7	0.9	1.8	2.2	2.5
Crown balance	6,022	7,304	8,316	10,407	13,140	16,362
Net Crown debt	21,701	21,819	22,282	21,796	21,265	20,963
Ratio to GDP (%)	21.7	20.7	20.1	18.7	17.5	16.5

Sources: Statistics New Zealand, Telerate, The Treasury

Notes: 1 Economic forecasts were finalised on 16 May 2000, fiscal forecasts on 29 May 2000.

2 Percentage of the labour force, March quarter, seasonally adjusted.

3 Average for the March quarter.

4 This is the CPI-consistent series targeted by the Reserve Bank. Annual percentage change, March quarter.