



# 2014 BUDGET

## Budget Policy Statement

Hon Bill English, Minister of Finance

17 December 2013

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# Budget Policy Statement

## Executive Summary

The Government is implementing a clear programme to build a faster-growing economy with more jobs and rising incomes, and to support New Zealand families.

The programme involves returning to surplus and then reducing debt; pushing ahead with a wide-ranging series of microeconomic reforms to create a more productive and competitive economy; driving better results and better value for money from public services; and continuing to support the rebuilding of Christchurch.

Budget 2014 will continue to implement this programme.

The *Half Year Economic and Fiscal Update* forecasts a relatively strong upturn, with economic growth averaging over 2.6 per cent over the next five years and the unemployment rate falling.

While the recovery gathers momentum, the global economic environment remains uncertain. It is even more important to maintain clear and credible economic and fiscal settings.

The latest forecasts show the Government posting an operating surplus before gains and losses of \$86 million in 2014/15 – similar to the \$75 million surplus forecast in Budget 2013. Thereafter, surpluses are forecast to increase and debt is forecast to fall. Net core Crown debt peaks at 26.5 per cent of gross domestic product (GDP) in 2014/15 and falls to 16.9 per cent in 2019/20.

The Government remains committed to responsible long-term fiscal management. Improving public sector performance will assist in ongoing spending restraint beyond 2014/15, so we can pay down debt in dollar terms from 2016/17 and build a buffer against future shocks. It is important to avoid a repeat of the last economic cycle in which increases in government spending and a booming housing market drove up interest rates and the exchange rate.

At the same time as getting its own finances in order, the Government is continuing to address New Zealand's significant economic challenges, including a sustained rebalancing towards the internationally-competing sectors of the economy. A broad range of targeted microeconomic reforms currently underway, through the Government's Business Growth Agenda, will help to lift New Zealand's productivity and competitiveness.

Budget 2014 will continue the work in previous Budgets of scrutinising and reprioritising existing spending to deliver better results for New Zealanders. Budget decisions mean we have been able to improve public services while steering the finances back to surplus.

The Budget will also contribute to the Government's work in supporting the rebuilding of Christchurch.

## Economic Context

The New Zealand economy has continued to expand, growing 2.5 per cent over the year to June. This was achieved despite the severe drought which significantly impacted on the economy in the first half of 2013.

This growth, while moderate, was among the higher growth rates in the Organisation for Economic Co-operation and Development (OECD). Signs are that the pace of growth has picked up appreciably in the second half of 2013, and the *Half Year Economic and Fiscal Update* shows the economy expanding 3.6 per cent over the year to March 2015, and at an average of around 2.3 per cent per year thereafter.

New Zealand is well placed. On average, wages are growing faster than inflation. Business confidence is at its highest level since 1999 and the terms of trade are expected to remain high. There are 53,000 more people employed now than there were a year ago, and the unemployment rate is expected to drop further as the economy continues to gather strength.

Our relatively strong economic performance has contributed to a sharp turnaround in net migration, which is now positive, but also to upward pressure on the New Zealand dollar.

The Canterbury rebuild is contributing to economic activity, with the total cost expected to be around 20 per cent of annual GDP – most of that funded from insurance payouts. However, Canterbury is only one part of the story, as economic growth and population growth are happening across the country.

Our trade and investment relationships with Asia, the fastest-growing region in the world, are increasing. Australia, our largest trading partner, remains one of the stronger-performing developed economies.

The New Zealand economy is expected to grow more strongly on average over the next four years than many other developed countries, including the Euro area, the US, the United Kingdom, Japan and Canada.

An improving economy also comes with risks – as occurred in the mid-2000s, when surging house prices and large increases in government spending drove up interest rates and the exchange rate, hurting exporters and creating economic imbalances.

The Reserve Bank is expected to begin increasing interest rates sometime next year. If labour and resource constraints limit New Zealand's economic capacity, inflation pressures will be greater than they would be otherwise – resulting in even higher interest rates and a stronger exchange rate. The Government has taken steps to help ensure interest rates can stay lower for longer by easing supply pressures around housing and the labour market. Spending restraint will also help to free up resources for the tradable sector.

The current account deficit is forecast to remain below 5 per cent of GDP if investment in the Canterbury rebuild is excluded. Over the next year, New Zealand's current account deficits are forecast to be slightly smaller than were forecast in Budget 2013.<sup>1</sup>

Global factors will also continue to affect New Zealand, which makes up just a quarter of 1 per cent of the world economy. These influences include slower growth in the Australian economy as mining investment falls, a weaker outlook for emerging economies, uncertainties around the withdrawal of monetary stimulus in the US and Europe, and rapid credit growth and property values in China which potentially pose risks to its financial stability.

**Table 1** – Summary of the Treasury's economic forecasts

<b>March years, %</b>	<b>2013</b> Actual	<b>2014</b> Forecast	<b>2015</b> Forecast	<b>2016</b> Forecast	<b>2017</b> Forecast	<b>2018</b> Forecast
Economic growth	2.7	2.7	3.6	2.7	2.0	2.2
Consumer Price Inflation	0.9	1.4	2.4	2.4	2.3	2.2
Unemployment rate (March quarter)	6.2	5.8	5.6	5.4	5.2	4.7
Current account (% of GDP) <sup>2</sup>	-4.5	-4.2	-5.5	-6.3	-6.5	-6.4
Current account excluding Canterbury rebuild investment (% of GDP) <sup>2</sup>	-3.8	-3.1	-3.9	-4.4	-4.5	-4.7

Source: The Treasury

## Budget Priorities

Budget 2014 will further support the Government's priorities for this parliamentary term, which are:

- 1 Responsibly managing the Government's finances
- 2 Building a more productive and competitive economy
- 3 Delivering better public services within tight financial constraints, and
- 4 Rebuilding Christchurch, our second-biggest city.

### ***Responsibly managing the Government's finances***

Budget deficits, and the subsequent increases in government debt, have been appropriate responses as the Government has sought to protect the economy from the worst effects of the recession, the global financial crisis and the Canterbury earthquakes.

However, that build-up of debt could only be temporary. Returning to an operating surplus, and bringing debt down to more prudent levels, will allow the Government to rebuild New Zealand's resilience to future shocks, help lift national saving and reduce future finance costs. Government spending restraint also frees up resources in the domestic

<sup>1</sup> The Treasury's forecasts were finalised before Statistics New Zealand published revisions to its National Account measures, and so the Treasury's forecasts overstate the size of the current account deficit. For example, the revised actual current account deficit for the year to March 2013 is 3.9 per cent of GDP, rather than 4.5 per cent. More information is included on page 18 of the Treasury's *Half Year Update* [www.treasury.govt.nz/budget/forecasts/hyefu2013](http://www.treasury.govt.nz/budget/forecasts/hyefu2013)

<sup>2</sup> Before the revisions discussed in footnote 1 above.

economy to go to more productive uses. This is a key lever for minimising pressure on interest and exchange rates.

The Government has set out a credible path back to surplus and a plan to start paying back debt. This involves reining in expense growth by improving public sector productivity and getting on top of the longer-term drivers of government spending. Making changes to the way the public sector operates means we have been able to improve public services, at the same time as keeping spending under control.

That plan is working. The *Half Year Economic and Fiscal Update* shows the Government remains on track to meet its targets of posting an operating surplus in 2014/15 and returning net core Crown debt to below 20 per cent of GDP by 2020.

The operating surplus before gains and losses (OBEGAL) is forecast to be \$86 million in 2014/15. The slightly stronger economic forecasts have increased tax revenue forecasts, and expenditure is under control – as shown by final core Crown expenses for 2012/13 being \$3.4 billion lower than forecast at the start of the year. However, the significant financial and commercial components to the Crown's balance sheet mean the surplus track can be strongly influenced by fluctuations in State Owned Enterprise (SOE) profits, movements in interest rates, and investment decisions taken by the New Zealand Superannuation Fund (NZS Fund) and the Accident Compensation Corporation (ACC).

**Table 2** – Changes in OBEGAL since the *Budget Update*

\$billions	2014	2015	2016	2017
<b>OBEGAL – 2013 Budget Update</b>	<b>(2.0)</b>	<b>0.1</b>	<b>0.8</b>	<b>2.6</b>
Tax revenue	0.1	0.2	0.9	1.4
Benefit expense	0.1	0.2	0.1	(0.1)
GSF expenses	-	(0.1)	(0.1)	(0.1)
NZS and ACC interest income	(0.1)	(0.2)	(0.2)	(0.2)
SOE results	(0.1)	(0.3)	(0.2)	(0.1)
ACC levy and insurance expense	(0.1)	-	0.4	(0.3)
Other changes	(0.2)	0.2	-	(0.1)
<b>Total change</b>	<b>(0.3)</b>	<b>-</b>	<b>0.9</b>	<b>0.5</b>
<b>OBEGAL – 2013 Half Year Update</b>	<b>(2.3)</b>	<b>0.1</b>	<b>1.7</b>	<b>3.1</b>

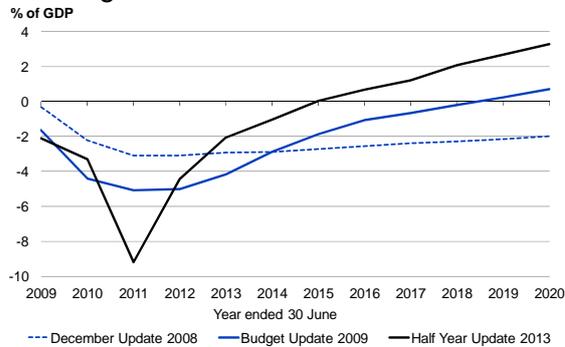
Source: The Treasury

Net core Crown debt is projected to peak at 26.5 per cent of GDP in 2014/15 and reduce to 16.9 per cent of GDP in 2019/20 – in line with our target of reducing net debt to below 20 per cent of GDP by 2020. This demonstrates a significant turnaround in the Government's books over recent years. Fiscal forecasts and projections before the policy changes of Budget 2009 showed permanent structural deficits and ever-increasing government debt, with net core Crown debt reaching 60 per cent of GDP by the early 2020s.

That turnaround has been achieved without slashing public spending, or increasing taxes, as other countries have been forced to do. And it has been achieved despite the significant costs incurred by the Government in responding to the Canterbury earthquakes.

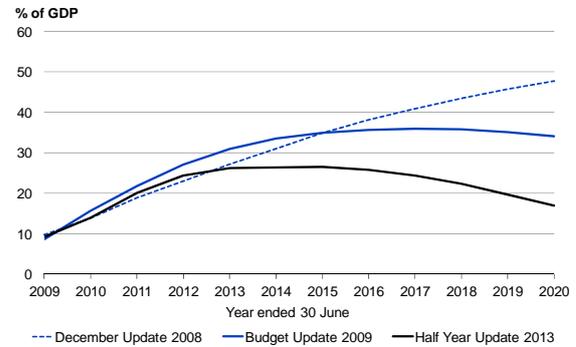
Nonetheless, there is still a lot of work to be done to make the forecasts and projections a reality. This year the Government is still borrowing a net \$78 million a week, and in dollar terms, net debt is expected to peak at \$64.5 billion in 2015/16.

**Figure 1 – Total Crown operating balance before gains and losses<sup>3</sup>**



Source: The Treasury

**Figure 2 – Net core Crown debt**



Source: The Treasury

The latest forecasts show the Government is on track to reduce core Crown expenses to around 30 per cent of GDP by 2015/16, down from a peak of 35.2 per cent of GDP in 2010/11.

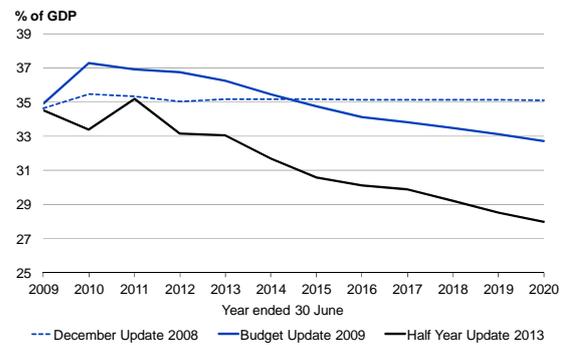
This *Budget Policy Statement (BPS)* confirms an operating allowance of \$1.0 billion for Budget 2014, growing at a rate of 2 per cent a year for subsequent Budgets.

New capital spending in coming Budgets will continue to be funded from reprioritising existing capital and, in particular, from the proceeds of the Government share offers.

The latest forecasts show that the share offers are expected to raise between \$4.6 billion and \$5.0 billion. This lower forecast is due to a number of factors, not least that the financial difficulties faced by Solid Energy mean it is no longer going to be part of the Government's share offer programme. It also reflects the risk of disruptive electricity market reform, and the revised contract between Meridian Energy and New Zealand Aluminium Smelters.

Budget 2014 will set out more details of allocations from the Future Investment Fund for capital investment in priority public assets such as schools and hospitals. As with operating spending, the Government will also focus on the performance of baseline capital expenditure.

**Figure 3 – Core Crown expenses**



Source: The Treasury

<sup>3</sup> Assumptions underlying the projections beyond 2018 can be found on the Treasury website: [www.treasury.govt.nz/government/fiscalstrategy/model](http://www.treasury.govt.nz/government/fiscalstrategy/model)

**Table 3** – Updated fiscal forecasts with comparison to *Budget update* forecasts

June Years % of GDP (unless otherwise stated)	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 <sup>1</sup> Forecast
<b>Total Crown indicators</b>						
Operating balance before gains and losses (\$m)						
Half Year Update (\$m)	(4,414)	(2,320)	86	1,674	3,104	5,623
<i>Budget Update (\$m)</i>		(2,033)	75	797	2,618	
Operating balance before gains and losses						
Half Year Update	(2.1)	(1.0)	0.0	0.7	1.2	2.1
<i>Budget Update</i>		(0.9)	0.0	0.3	1.0	
<b>Core Crown indicators</b>						
Core Crown revenue						
Half Year Update	30.2	30.1	30.2	30.6	31.1	31.4
<i>Budget Update</i>		30.0	30.4	30.6	30.9	
Core Crown expenses						
Half Year Update	33.1	31.7	30.6	30.1	29.9	29.2
<i>Budget Update</i>		31.8	30.9	30.3	30.0	
Net core Crown debt						
Half Year Update	26.2	26.3	26.5	25.8	24.4	22.3
<i>Budget Update</i>		28.4	28.7	28.1	27.3	
Core Crown residual cash						
Half Year Update	(2.7)	(1.8)	(1.5)	(0.5)	0.5	1.2
<i>Budget Update</i>		(3.0)	(1.5)	(0.6)	(0.2)	

1 The *Budget Update* forecasts the five-year period from 2013 to 2017.

Source: The Treasury

The improved forecast for the Government's finances gives the Government options after reaching surplus. However, pressures on inflation, the exchange rate and interest rates from the strengthening economy and the demands of the Canterbury rebuild mean it is important to avoid a repeat of the last economic cycle. Then, increases in government spending and a booming housing market drove up interest rates and the exchange rate, placing pressure on exporters and other firms in the tradable sector and creating economic imbalances in the domestic economy. This means maintaining a disciplined approach to spending during the economic upswing even if the economy and the Government's finances improve by more than expected.

Instead, the Government will look to rebuild the buffers used to cushion the impact of the economic and seismic shocks that have hit New Zealand in recent years. That involves returning debt to prudent levels and rebuilding other elements of the Government's balance sheet, including resuming contributions to the NZS Fund and rebuilding capacity to deal with future natural disasters. Revised fiscal forecasts mean that contributions to the NZS Fund are projected to resume in 2019/20, one year earlier than in Budget 2013.

Secure surpluses also give the Government choices around investing in effective public services which benefit the community and reduce future costs.

## ***Building a more productive and competitive economy***

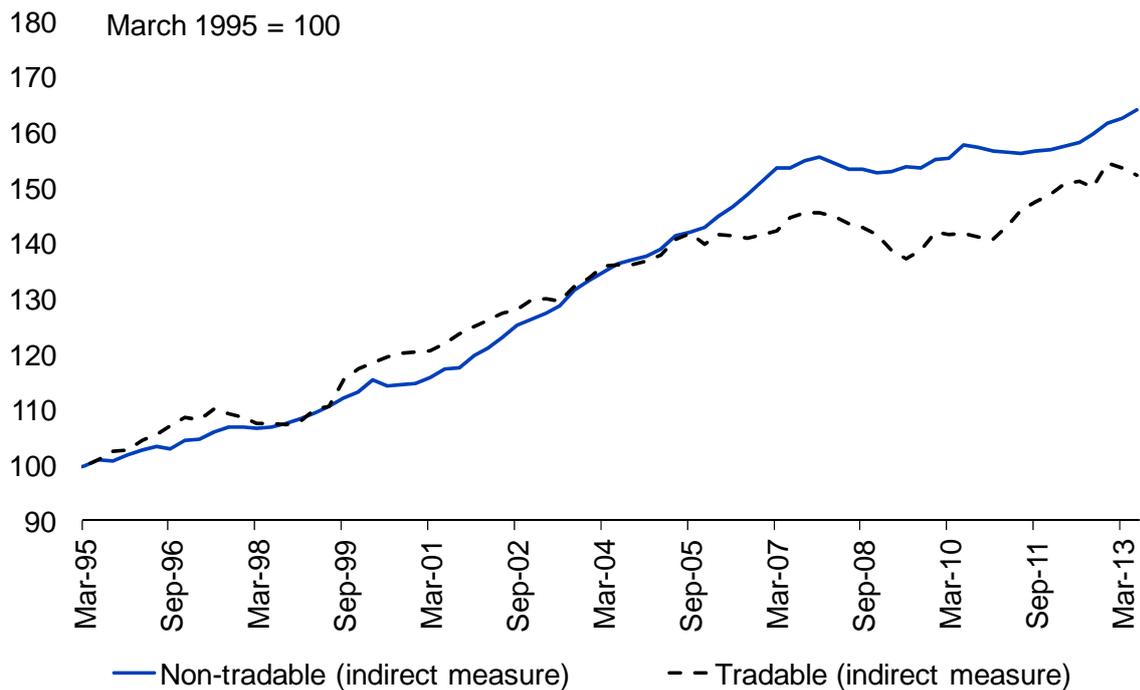
To deliver more jobs and rising incomes, the economy needs to be more internationally competitive and productive. The New Zealand economy lost competitiveness in the mid-2000s when growth was built on debt, consumption and large increases in government spending.

It is important that we do everything we can to help give businesses the confidence to invest, grow and create more jobs and wealth in New Zealand – particularly in the tradable and export sectors. There is no single silver-bullet that can achieve this – instead, we must literally do hundreds of things well.

The Government's Business Growth Agenda sets out a wide-ranging programme of microeconomic reforms. It builds on policies of the past five years, which have:

- reformed the tax system to reward hard work and saving
- implemented changes to increase skills and improve labour market flexibility
  - introducing labour law changes that have given employers the confidence to hire new staff
  - making a significant investment in skills, training and apprenticeships
- taken steps to improve housing supply, and affordability
  - setting time limits for the consenting of large and medium-sized projects under the Resource Management Act 1991
  - agreeing the Housing Accord with Auckland Council which will see 39,000 new consents issued over three years
- introduced a competitive new system for processing oil and gas exploration permits
- provided \$100 million per year for the internationally focussed growth package
  - research and development assistance to businesses and supporting new start-ups
  - investment in public science
  - additional funding for high-value tourism
  - more resources for marketing New Zealand to international students.

The benefits of this approach are beginning to show. Since mid-2009 the tradable sector has grown by 11.1 per cent, after it stagnated between 2005 and 2009. In the same period, the non-tradable sector has grown by 6.6 per cent.

**Figure 4** – Tradable and non-tradable output

Source: Statistics New Zealand

Budget 2014 will continue to support the Government's Business Growth Agenda.

Upward pressure on the exchange rate, and expected increases in interest rates next year, reinforce the need to progress the Government's clear economic programme, to remove supply bottlenecks and tilt the economy towards savings, investment and exports, and move away from unsustainable borrowing, consumption and government spending that marked much of the mid 2000s.

And by getting ACC in better financial shape, the Government has been able to reduce ACC levies significantly, saving households and businesses \$387 million in the 2014/15 levy year.

As signalled at Budget 2013, the fall in levies is expected to increase to around \$1 billion a year from the 2015/16 levy year.

More generally, the Government is determined to use the Crown balance sheet so that it contributes to increased economic performance. The balance sheet can support economic stability, help manage imbalances in our economy, promote fairness and equity and manage risk on behalf of New Zealanders. As the volume of financial assets on the Crown's balance sheets grows, the way our assets are managed may have a greater impact on both the wider economy and the Government's fiscal position.

## ***Delivering public services within tight financial constraints***

The Government is committed to getting better results and better value for money from the public services it funds. Ultimately, that benefits New Zealanders who are collectively both the users of public services and the taxpayers who fund them.

The public sector represents a quarter of New Zealand's economy and has a big influence on how our society and economy perform. What is good for communities through more effective services is also good for the Government's books. More broadly, higher productivity in the public sector directly contributes to improved economy-wide productivity. An efficient public sector also means resources are freed up so they can more easily flow to sectors exposed to international competition.

Core Crown expenses are expected to total around \$72 billion this year, and rise to \$79 billion by 2017/18 – although our active expenditure management means they will continue to decline as a proportion of GDP. Together, health and education expenses are currently around \$27.5 billion, just less than 40 per cent of total core Crown expenses. Social security and welfare expenses are around \$23 billion or just over 30 per cent of total core Crown expenses.

The Government's approach to public sector reform has focussed on improving the drivers of long-term performance. We have taken opportunities to bolster front line services and get more efficiency in back office functions.

We have established an environment where both ministers and public sector organisations can take a longer-term view – such as in the welfare system – rather than rushing in to grab quick savings.

In 2011 and 2012 we took difficult decisions that allowed us to deliver two near net-zero Budgets, and since 2009 we have reprioritised nearly \$15 billion of spending towards higher priority policies.

Most importantly of all, we have got departments focused on results.

The Prime Minister has set 10 challenging results for the public service to achieve over the next five years. These include reducing crime, reducing long-term welfare dependency and reducing educational underachievement.

Delivering on these results, and the individual targets that lie under them, is stretching the ability of government departments. It is requiring them to work together in areas that lie across or between the responsibilities of individual agencies and to work collaboratively with Crown entities, non-Governmental organisations (NGOs) and the private sector.

This approach is working. The latest *Kiwis Count* survey shows a steady increase in overall user satisfaction with public services, improving from a satisfaction score of 68 per cent in 2007 to 73 per cent in the June 2013 quarter.

**Table 4** – Better Public Services: Results for New Zealanders

<b>Reducing long-term welfare dependence</b>	
1	Reduce the number of people who have been on a working age benefit for more than 12 months.
<b>Supporting vulnerable children</b>	
2	Increase participation in early childhood education.
3	Increase infant immunisation rates and reduce the incidence of rheumatic fever.
4	Reduce the number of assaults on children.
<b>Boosting skills and employment</b>	
5	Increase the proportion of 18 year olds with NCEA level 2 or equivalent qualification.
6	Increase the proportion of 25-34 year olds with advanced trade qualifications, diplomas and degrees (at level 4 or above).
<b>Reducing crime</b>	
7	Reduce the rates of total crime, violent crime and youth crime.
8	Reduce reoffending.
<b>Improving interaction with government</b>	
9	New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business.
10	New Zealanders can complete their transactions with the Government easily in a digital environment.

We are making good progress towards achieving these priorities. Budget 2014 will set out further actions to be taken.

Teaching children well while they are at school means they can enter the workforce with the skills they need to succeed and flourish. In 2010, 67 per cent of 18 year olds achieved NCEA Level 2. Two years later, that proportion had increased to 77.2 per cent.

Rehabilitating a prisoner, so when they return to the community they do not reoffend and return to prison, saves the taxpayer over \$90,000 a year per offender. There were nearly 2,000 fewer offenders returning in 2012/13 than two years previous, helping to improve the sustainability of our corrections system.

As well as having a strong focus on driving the best value from existing spending, Budget 2014 will also confirm allocations for new government spending. Spending in the biggest areas of health, education, welfare and law and order is expected to total around \$54 billion in the current financial year.

As in previous Budgets, the priority for new spending will be given to health and education. Most other areas of government spending will be expected to remain within existing baselines.

## ***Rebuilding Christchurch, our second-biggest city***

The Government remains committed to the rebuild of Christchurch. The Canterbury reconstruction continues to gather pace, and this is underpinning economic growth and jobs over the next few years.

The Treasury estimates the capital cost of the Canterbury earthquakes to be around \$40 billion. The Government, on behalf of New Zealand taxpayers, is making a significant contribution to the rebuild of around \$14.9 billion (including the Earthquake Commission (EQC)).

The infrastructure rebuild proceeds apace, strongly supported by the Government. The Government has signed a cost-sharing agreement with the Christchurch City Council, which sets out the Crown's contribution for the repair and replacement of damaged infrastructure and community assets. The Government is working with the other councils in Canterbury.

The Government has taken decisions on some anchor project business cases, enabling tendering on these projects to start, and there is significant progress on preparing other business cases. Initial physical rebuilding has started with the redevelopment of the Avon River Precinct and East Frame. Work has started on the redevelopment of the hospitals, and work is due to start on the Justice Precinct in early 2014. The Government has announced significant investment in Canterbury schools and tertiary education institutions. Demolitions are substantially completed making way for construction in the Christchurch CBD.

**Table 5** – Net earthquake expenses

Year ending 30 June \$millions	2011-2013 Actuals	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	Total Half Year Update	Total Budget Update
Local infrastructure	1,364	111	110	110	83	50	1,828	2,395
Crown assets <sup>1</sup>	40	258	461	353	272	92	1,475	1,579
Land zoning	912	122	-	-	-	-	1,034	1,218
Christchurch central city rebuild	115	763	135	81	63	(249)	909	901
Welfare support	269	19	4	-	-	-	292	305
Southern Response support package	458	16	(59)	(27)	(29)	-	360	301
Other costs	508	272	71	61	32	32	975	868
<b>Core Crown Canterbury earthquake recovery costs</b>	<b>3,666</b>	<b>1,563</b>	<b>722</b>	<b>577</b>	<b>422</b>	<b>(75)</b>	<b>6,874</b>	<b>7,567</b>
EQC (net of reinsurance proceeds)	8,026	(337)	(47)	(114)	-	-	7,528	7,532
Other SOE and Crown entities	(217)	160	161	242	123	38	507	66
<b>Total Crown</b>	<b>11,475</b>	<b>1,385</b>	<b>836</b>	<b>705</b>	<b>545</b>	<b>(37)</b>	<b>14,908</b>	<b>15,165</b>

1 Crown assets includes capital expenditure on Canterbury hospitals, schools, Tertiary Education Institutions and the justice and emergency services precinct.

Source: The Treasury

EQC expects to settle \$12 billion worth of claims in respect of the Canterbury earthquakes. As at the start of December 2013, it had settled \$6.5 billion worth of claims. Private insurance companies have settled more than \$8.3 billion, consisting of \$5.4 billion in commercial claims and \$2.9 billion in residential. In September, the Insurance Council of New Zealand estimated that private insurance companies were settling almost \$5 million in residential claims per day.

Residential repairs are accelerating. As at the start of December 2013, EQC had completed 48,000 repairs (over half of the EQC managed repairs), with around 31,000 remaining. In addition, it has also completed over 47,000 emergency repairs for people living in damaged homes. EQC expects to complete all repair work by the end of 2014.

**Conclusion**

The Government's comprehensive and sustained economic programme is laying the foundations for a stronger economy, sustainable jobs and higher incomes. It will leave New Zealand well-placed to take advantage of the many opportunities available over the next few years and to withstand global shocks when they come our way.

A handwritten signature in black ink, appearing to read "Bill English". The signature is fluid and cursive, with a large initial "B" and "E".

Hon Bill English  
Minister of Finance

17 December 2013

# Annex 1

## Long-term Fiscal Objectives and Short-term Fiscal Intentions

The Government remains committed to the long-term fiscal objectives set out in *Fiscal Strategy Report 2013* – as shown below in Table A1. These long-term objectives are consistent with the principles of responsible fiscal management in the Public Finance Act 1989.

The Government's short-term fiscal intentions have been revised since Budget 2013, consistent with the revisions to the fiscal forecasts (see Table A2).

**Table A1** – Long-term fiscal objectives

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### *Fiscal Strategy Report 2013*

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#### **Debt**

Manage total debt at prudent levels. Over the short to medium term it is prudent to allow an increase in debt to deal with the current economic and fiscal shock.

However, we need to ensure that this increase is eventually reversed and that we return to a level of debt that can act as a buffer against future shocks.

We will do this by ensuring that net debt remains consistently below 35 per cent of GDP, and is then brought back to a level no higher than 20 per cent of GDP by 2020. We will work towards achieving this earlier as conditions permit.

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#### **Operating balance**

Return to an operating surplus sufficient to meet the Government's net capital requirements, including contributions to the NZS Fund, and ensure consistency with the debt objective.

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#### **Operating expenses**

To meet the operating balance objective, the Government will control the growth in government spending so that over time, core Crown expenses are reduced to below 30 per cent of GDP.

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#### **Operating revenues**

Ensure sufficient operating revenue to meet the operating balance objective.

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#### **Net worth**

Ensure net worth remains at a level sufficient to act as a buffer to economic shocks. Over the medium term, net worth will continue to fall as the impact of the global financial crisis unfolds. Consistent with the debt and operating balance objectives, we will start building up net worth ahead of the full fiscal impact of the demographic change expected in the mid-2020s.

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**Table A2** – Short-term fiscal intentions

<i>Budget Policy Statement 2014</i>	<i>Fiscal Strategy Report 2013</i>
<p><b>Debt</b></p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 33.2 per cent of GDP in 2017/18.</p> <p>Net core Crown debt (excluding NZS Fund and advances) is forecast to be 22.3 per cent in 2017/18.</p>	<p><b>Debt</b></p> <p>Gross sovereign-issued debt (including Reserve Bank settlement cash and Reserve Bank bills) is forecast to be 38.8 per cent of GDP in 2016/17.</p> <p>Net core Crown debt (excluding NZS Fund and advances) is forecast to be 27.3 per cent of GDP in 2016/17.</p>
<p><b>Operating balance</b></p> <p>Our intention is to return the operating balance (before gains and losses) to surplus as soon as practical and no later than 2014/15, subject to any significant shocks.</p> <p>Based on the operating allowance for the 2014 Budget, the operating balance (before gains and losses) is forecast to be -1.0 per cent of GDP in 2013/14. The operating balance (before gains and losses) is forecast to be 0.0 per cent of GDP in 2014/15. This is consistent with the long-term objective for the operating balance.</p> <p>The operating balance is forecast to be 1.3 per cent of GDP in 2014/15.</p>	<p><b>Operating balance</b></p> <p>Our intention is to return the operating balance (before gains and losses) to surplus as soon as practical and no later than 2014/15, subject to any significant shocks.</p> <p>Based on the operating allowance for the 2013 Budget, the operating balance (before gains and losses) is forecast to be -0.9 per cent of GDP in 2013/14. The operating balance (before gains and losses) is forecast to be 0.0 per cent of GDP in 2014/15. This is consistent with the long-term objective for the operating balance.</p> <p>The operating balance is forecast to be 0.2 per cent of GDP in 2013/14.</p>
<p><b>Expenses</b></p> <p>Our intention is to support a return to fiscal surplus by restraining the growth in core Crown expenses – so that they are reduced to around 30 per cent of GDP by 2015/16.</p> <p>Core Crown expenses are forecast to be 29.2 per cent of GDP in 2017/18.</p> <p>Total Crown expenses are forecast to be 38.7 per cent of GDP in 2017/18.</p> <p>This assumes a new operating allowance of \$1 billion for Budget 2014, growing at 2 per cent for Budgets thereafter (GST exclusive).</p>	<p><b>Expenses</b></p> <p>Our intention is to support a return to fiscal surplus by restraining the growth in core Crown expenses – so that they are reduced to around 30 per cent of GDP by 2015/16.</p> <p>Core Crown expenses are forecast to be 30.0 per cent of GDP in 2016/17.</p> <p>Total Crown expenses are forecast to be 39.5 per cent of GDP in 2016/17.</p> <p>This assumes a new operating allowance of \$1 billion in Budget 2014, growing at 2 per cent for Budgets thereafter (GST exclusive).</p>
<p><b>Revenues</b></p> <p>Total Crown revenues are forecast to be 40.8 per cent of GDP in 2017/18.</p> <p>Core Crown revenues are forecast to be 31.4 per cent of GDP in 2017/18.</p> <p>Core Crown tax revenues are forecast to be 28.8 per cent of GDP in 2017/18.</p>	<p><b>Revenues</b></p> <p>Total Crown revenues are forecast to be 40.6 per cent of GDP in 2016/17.</p> <p>Core Crown revenues are forecast to be 30.9 per cent of GDP in 2016/17.</p> <p>Core Crown tax revenues are forecast to be 28.3 per cent of GDP in 2016/17.</p>
<p><b>Net worth attributable to the Crown</b></p> <p>Total net worth attributable to the Crown is forecast to be 34.2 per cent of GDP in 2017/18. Core Crown net worth is forecast to be 17 per cent of GDP in 2017/18.</p>	<p><b>Net worth attributable to the Crown</b></p> <p>Total net worth attributable to the Crown is forecast to be 28.7 per cent of GDP in 2016/17. Core Crown net worth is forecast to be 12.1 per cent of GDP in 2016/17.</p>