B.2

BUDGET
2024

Fiscal Strategy Report

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Minister of Finance

30 May 2024

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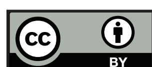
Te Kāwanatanga o Aotearoa
New Zealand Government



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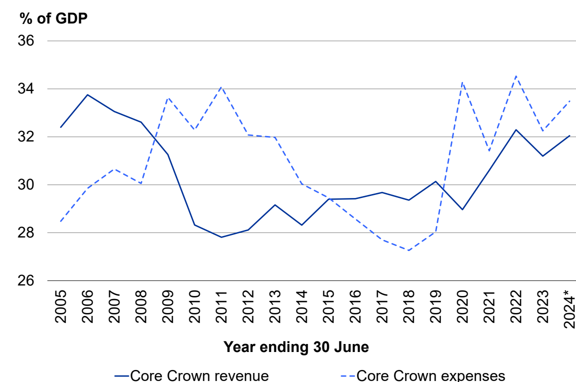
Fiscal Strategy Report 2024
Te Rautaki Moni Tūmatanui

The Public Finance Act 1989 requires the Minister of Finance to present to the House on Budget Day a report on the Government's fiscal strategy. This must set out the Government's short-term fiscal intentions, long-term fiscal objectives, revenue strategy, and strategy for managing expenditure, assets and liabilities. The report must include fiscal projections for at least the next 10 years.

Fiscal and economic context

New Zealand's fiscal position has deteriorated markedly over the last five years. The OBEGAL[1] – the difference between government revenue and expenses (before gains and losses) – has been in deficit since 2019/20, largely because of increases in core Crown expenses (Figure 1). While some spending increases were temporary – for example, in response to the COVID-19 pandemic and the 2023 North Island weather events – there was a permanent increase in other areas. Budget operating allowances from 2018 to 2023 averaged $4.1 billion, more than four times the average allowance across Budgets 2009 to 2017 (historical allowances are shown in Figure 5). In addition, a considerable amount of discretionary spending was not counted against allowances.

Figure 1 *– Core Crown revenue and expenses*



* 2024 shows the latest forecast.

Source: The Treasury

After stripping out large one-off expenses and adjusting for the economic cycle, the Treasury estimates a structural operating deficit of around 1.5 per cent of GDP in 2023/24. A structural deficit is not sustainable in the long term as it would require continual borrowing to cover expenses, leading to an accumulation of public debt.

Operating deficits over several years have already contributed to rapidly rising debt (Figure 2). This increase in debt has reduced New Zealand's ability to weather future shocks. New Zealand needs a healthy public balance sheet as, in comparison to many other countries, it is a small economy, vulnerable to natural disasters, reliant on commodity exports and dependent on international lenders. The increase in debt also needs to be serviced.

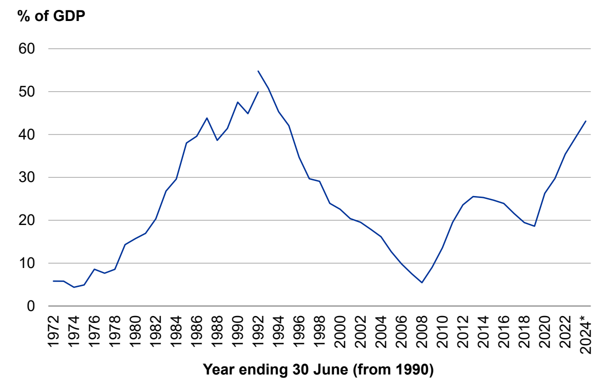
[1] Operating balance before gains and losses.

As debt, and interest rates, have risen over recent years, core Crown financing costs have grown to a forecast $8.9 billion in the current financial year.

Fiscal consolidation is required to bring revenue and expenses back into balance. The Government is committed to reducing core Crown expenses as a proportion of GDP, reducing net core Crown debt as a proportion of GDP, and returning to an OBEGAL surplus.

These fiscal goals have become harder to achieve as economic forecasts have deteriorated. New Zealand is experiencing an economic downturn as interest rates have been increased to tackle high inflation (Figures 3 and 4). What has become apparent over the last six months is that the downturn started earlier, has been deeper, and is likely to last for longer, than previously thought. The Treasury has therefore downgraded its forecasts for nominal GDP in the Budget Economic and Fiscal Update 2024 (Budget Update). By the end of the forecast period, the cumulative level of nominal GDP is $46 billion lower on these forecasts compared to the forecasts in the Half Year Economic and Fiscal Update 2023 (Half Year Update) in December (Table 1).[2]

***Figure 2** – Net core Crown debt*



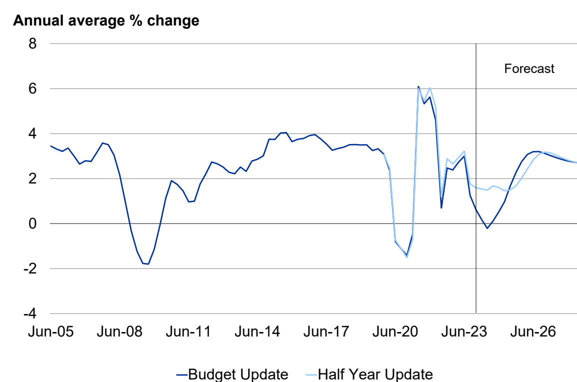
* 2024 shows the latest forecast.

The measure of net core Crown debt adopted in 2009 is only restated back to 1992. The earlier measure for the period before 1992 included advances.

Source: The Treasury

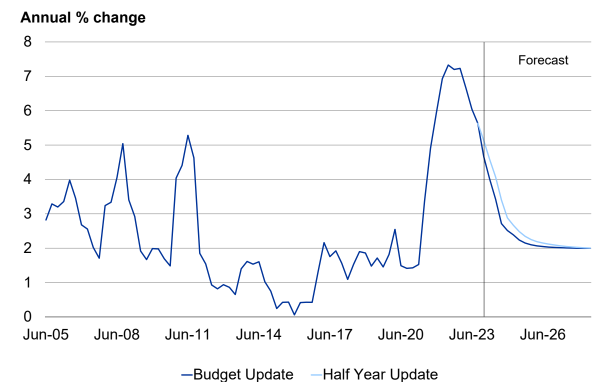
This downgrade to nominal GDP, and lower forecast business income tax, results in lower forecast core Crown tax revenue of around $18.5 billion over the period, compared to the Half Year Update. Without correspondingly lower expenses, lower forecast tax revenue flows through into the operating balance and government debt. Lower nominal GDP also means that reducing expenses and debt as a proportion of GDP becomes more difficult.

***Figure 3** – Real GDP growth*



Sources: Stats NZ, the Treasury

***Figure 4** – CPI inflation*



Sources: Stats NZ, the Treasury

[2] This represents a further downgrade to the economic scenario presented alongside the Budget Policy Statement, which showed a cumulative reduction of $42.8 billion in nominal GDP compared to the Half Year Update.

Table 1 *– Nominal GDP: Budget Update, Half Year Update and difference*

Year ending 30 June $billions	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Half Year Update 2023	420.0	439.7	463.6	488.6	513.0
Budget Update 2024	413.1	430.6	454.5	478.5	502.5
Difference	-6.9	-9.1	-9.1	-10.1	-10.5

Source: The Treasury

Fiscal consolidation

The Government has two main levers to achieve fiscal consolidation – adjusting expenses and adjusting revenue. Of these two levers, the Government's focus is squarely on controlling expenses, although it will also maintain an active tax policy programme to ensure the tax system remains fit for purpose (see the Revenue Strategy section of this Fiscal Strategy Report).

The Government's strategy for managing spending is to embed a culture of responsible spending, restore fiscal discipline, right-size the government's footprint, and improve the efficiency and productivity of spending.

Budget operating allowances are the key top-down tool to ensure this strategy is realised. In its recent Economic Survey of New Zealand, the OECD highlighted the expenditure "slippage" that occurred under the previous Government, whereby spending at each Budget tended to exceed what had previously been signalled in operating allowances.[3] In this Fiscal Strategy Report, the Government is setting tight but realistic operating allowances (see next section) and intends to keep to them.

The Government has a deliberate medium-term approach to fiscal consolidation.[4] The alternative approach – a more severe, short-term consolidation – would have a significant impact on the front-line public services New Zealanders rely on.

In charting this medium-term course of fiscal consolidation, the Government will not over-react to typical movements up or down in the forecasts by significantly decreasing, or increasing, allowances. Upside revenue surprises will contribute to reducing the deficit.

Operating allowances

The final operating allowance for Budget 2024 is $3.2 billion (on average per annum). This is the lowest allowance since Budget 2018 (Figure 5) and the lowest allowance in real terms since Budget 2017. Compared to the $3.5 billion allowance in the Half Year Update (set by the previous Government), the Budget 2024 allowance represents $1.2 billion less spending over the forecast period.

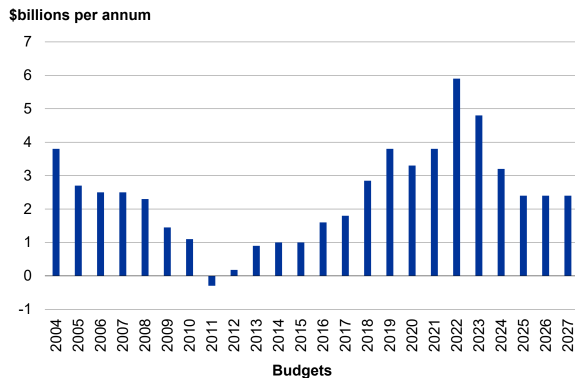
3 OECD Economic Surveys: New Zealand 2024, pp34-36 (https://doi.org/10.1787/603809f2-en). For example, the operating allowance for Budget 2023 was originally set at $2.6 billion, then was successively raised to $2.7 billion, $4 billion, and then $4.5 billion.

4 See the International Monetary Fund's report on factors that influence the chance of successful consolidations at https://www.imf.org/en/Publications/WP/Issues/2023/03/17/Fiscal-Consolidation-Taking-Stock-of-Success-Factors-Impact-and-Design-530647

Allowances are a net concept. The $3.2 billion allowance contains spending increases and revenue reductions (including changes to personal income tax thresholds and an increase to the In-Work Tax Credit), as well as savings and revenue initiatives.

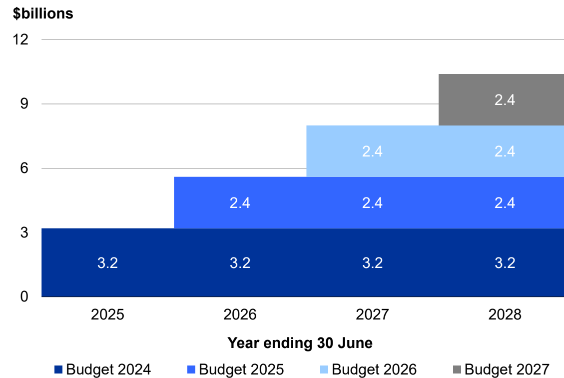
Operating allowances for Budgets 2025 to 2027 will be $2.4 billion per Budget. These are tight allowances, especially compared to the allowances set in Budgets after 2017 (Figure 5). They are lower than the allowances in the Half Year Update (set by the previous Government) and lower than those in the National Party's pre-election fiscal plan.[5]

***Figure 5** – Historical operating allowances*



Source: The Treasury

***Figure 6** – Budget operating allowances (average per annum)*



Source: The Treasury

Overall, the lower allowances for Budgets 2024 to 2027 result in a cumulative total improvement in OBEGAL of approximately $5.5 billion across the forecast period compared to the allowances in the Half Year Update.

The Treasury estimates that $2.5 billion could be required to meet inflation and wage pressures across all expense areas in 2025/26. Managing within $2.4 billion allowances will therefore be challenging. The Government has committed $1.4 billion in each of Budgets 2025 and 2026 to meet cost and volume pressures in the health sector. Savings and reprioritisation will be a feature of future Budgets, just as they have been in Budget 2024.

The Government will make savings and reprioritisation a business-as-usual activity through:

- requiring government departments to prepare performance plans that focus on operating within baselines, highlighting options to manage cost pressures through reprioritisation, and mitigating fiscal risks
- targeted savings and revenue initiatives, including deep dive reviews, and
- system reform to increase fiscal discipline, including by amending the Public Finance Act.

Capital allowances

In Budget 2019, the previous Government introduced the Multi-Year Capital Allowance (MYCA) to reflect new capital funding available over the next four Budgets. The MYCA replaced a single-year capital allowance.

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5 The Half Year Update allowances were $3.25 billion in Budget 2025 and $3.0 billion in Budgets 2026-27. The National Party's proposed allowances were $3.2 billion in Budget 2024, $2.85 billion in Budget 2025 and $2.7 billion in Budgets 2026-27.

This change was intended to improve capital funding trade-offs and support a longer-term view of capital investment. In practice, the MYCA has not done this. Large annual increases to the MYCA and immediate allocation of those increases have limited the MYCA's use in supporting multi-year trade-offs.[6] It has also complicated how the Government's future capital investment intentions are understood and communicated.

The Treasury will be reviewing the capital allowance framework with the aim of enhancing fiscal transparency and supporting a stable capital pipeline focused on high-value investments.

In the meantime, the Government has topped up the MYCA by $7.0 billion and committed net new capital funding of $2.4 billion in Budget 2024. A total of $7.5 billion remains in the MYCA to fund high-priority infrastructure projects in the future.

This net new capital funding of $2.4 billion in Budget 2024 is on top of an existing full capital pipeline (including programmes already in delivery) and focuses on critical asset maintenance, renewals, and upgrades. The previous Government allocated significant levels of capital funding in recent Budgets, leading to a capital investment pipeline larger than agencies and the market could deliver, as evidenced by cost escalations and delays.

The Government's approach to capital investment will allow for consideration of the market's capability to deliver and agencies' capability to better manage cost increases and delivery delays. This approach enables the Government to increase investment in future Budgets while ensuring a more stable and sustainable investment pipeline.

Capital contributions to the New Zealand Superannuation Fund (NZSF) do not count against the MYCA. Annual capital contributions are calculated in accordance with the formula in section 43 of the New Zealand Superannuation and Retirement Income Act 2001. Forecasts of these contributions are shown in Table 2.

***Table 2** – Contributions to the NZSF*

Year ending 30 June $billions	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
NZSF contributions	1.6	0.9	0.9	0.9	0.8

Source: The Treasury

Box 1 – Responsibly funding climate and resilience investments

In the December mini-Budget, the Government returned the unallocated balance of the Climate Emergency Response Fund (CERF) for use in Budget 2024 and future Budgets. The Government will invest responsibly to support New Zealand's transition to a low-emissions economy and climate-resilient future. It will consider climate and resilience investment proposals through the normal Budget process and manage them against Budget allowances. It does not require a bespoke fund to do this.

The National Resilience Plan (NRP) was established following the North Island weather events to provide funding for urgently-needed but not-yet-quantified rebuild projects. More than a year later, many of these are underway and a unique fund is no longer needed to fund future projects. Funding climate resilience will continue to occur through the normal Budget process and the Regional Infrastructure Fund.

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6 In Budget 2023, for example, the previous Government increased the MYCA by $17.6 billion and committed $17.4 billion at the same time, leaving only $3.1 billion in the MYCA to cover new capital investments in Budgets 2024 to 2026 – an inadequate amount.

Short-term intentions and long-term objectives

The Government's commitments to reduce core Crown expenses as a proportion of GDP, reduce debt as a proportion of GDP, and return to surplus are formalised in statements of short-term fiscal intentions and long-term fiscal objectives, as required by the Public Finance Act.

The Government's short-term intentions (Table 3) are unchanged from those in the Budget Policy Statement, aside from adding a timeframe for returning to surplus.

Table 3 *– The Government's short-term fiscal intentions for the next four financial years*

Fiscal Strategy Report 2024	
Debt	Maintain total debt at prudent levels. Put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent.
Operating balance	Return the operating balance (before gains and losses) to surplus by 2027/28. Ensure consistency with the short-term intention for debt.
Expenses	Reduce core Crown expenses as a percentage of GDP. Ensure expenses are consistent with the operating balance intention.
Revenue	Ensure revenue is consistent with the operating balance intention.
Net worth	Maintain net worth at around 40 per cent of GDP.

The Government intends to return the operating balance (before gains and losses) to surplus in 2027/28. As noted above, the operating balance is the difference between government revenue and expenses. Many of the factors that affect this balance – notably changes to tax revenue due to the economic cycle – are largely outside the Government's direct control. A surplus in 2027/28 is at risk if there is a further deterioration in the fiscal outlook. On the other hand, a surplus in 2026/27 is possible if the outlook improves. As noted in the Budget Update, past deviations from historical forecasts suggest there is a 30 per cent chance that total tax revenue will be more than $11 billion higher or lower than the forecast for 2027/28.

The following circumstances could lead the Government to consider amending the short-term intentions in Table 3:

- a significant decline in forecast revenue due to factors outside of the direct control of the Government
- a significant economic shock, arising for example from a natural disaster, that necessitates an increase in spending, or
- a material likelihood of constraints on the ability of monetary policy to stabilise the economy.

The Government's long-term fiscal objectives (Table 4) are unchanged from those stated in the Budget Policy Statement.

Table 4 – *The Government's long-term fiscal objectives for the next 15 financial years*

Fiscal Strategy Report 2024	
Debt	Maintain total debt at prudent levels. Once net core Crown debt is below 40 per cent of GDP, maintain it within a range of 20 per cent to 40 per cent of GDP, subject to economic shocks.
Operating balance	Maintain operating surpluses sufficient to ensure consistency with the debt objective. This will ensure that, on average, over a reasonable period of time, operating expenses are funded from operating revenues and not from debt.
Expenses	Control growth in government spending so that, over time, core Crown expenses reduce towards 30 per cent of GDP.
Revenue	Ensure the level of operating revenues is consistent with the operating balance objective and supports long-term productive economic growth.
Net worth	Ensure net worth remains at a level sufficient to act as a buffer to economic shocks

These intentions and objectives are consistent with the principles of responsible fiscal management set out in the Public Finance Act, as net core Crown debt between 20 per cent and 40 per cent of GDP is within the range of prudent debt based on Treasury modelling.[7] The short-term intentions are consistent with the long-term objectives as they indicate the same direction of travel for each of the fiscal variables. The short-term intentions are also consistent with the Budget Update, as shown in the next section.

Fiscal forecasts and projections

For Budget 2024, fiscal forecasts have been prepared for the period 2023/24 to 2027/28. These forecasts are summarised in Table 5. Longer-term projections have been prepared out to 2037/38.[8]

Table 5 – *Key fiscal indicators from the Budget Update*

Year ending 30 June	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
$billions						
Core Crown tax revenue	112.4	119.0	122.9	131.4	140.2	148.2
Core Crown revenue	123.4	132.4	136.0	144.2	153.1	161.7
Core Crown expenses	127.6	138.3	143.9	147.7	151.1	156.4
Total Crown OBEGAL	-9.4	-11.1	-13.4	-8.5	-3.1	1.5
Net core Crown debt	155.3	178.1	187.3	195.4	207.4	209.9
Net worth	191.5	189.2	182.0	180.1	184.2	193.4
Net worth attributable to the Crown	183.5	180.9	173.6	171.7	175.7	184.8
% of GDP						
Core Crown tax revenue	28.4	28.8	28.5	28.9	29.3	29.5
Core Crown revenue	31.2	32.0	31.6	31.7	32.0	32.2
Core Crown expenses	32.3	33.5	33.4	32.5	31.6	31.1
Total Crown OBEGAL	-2.4	-2.7	-3.1	-1.9	-0.6	0.3
Net core Crown debt	39.3	43.1	43.5	43.0	43.3	41.8
Net worth	48.4	45.8	42.3	39.6	38.5	38.5
Net worth attributable to the Crown	46.4	43.8	40.3	37.8	36.7	36.8

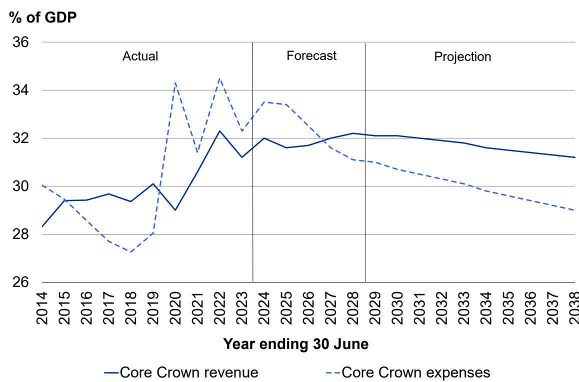
Source: The Treasury

[7] See the Treasury's analysis and recommendations for fiscal rules. The Treasury, May 2022: https://www.treasury.govt.nz/publications/guide/treasurys-analysis-and-recommendations-fiscal-rules

[8] A full set of projections, including other fiscal variables such as total operating expenses, total operating revenue, and gross debt, is available in the Fiscal Strategy Model on the Treasury website.

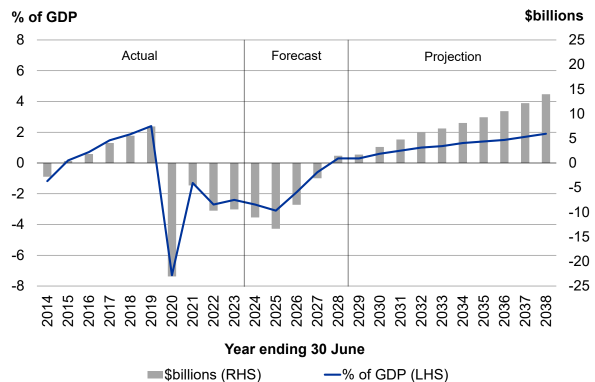
Core Crown expenses are forecast to decline from 2024/25 as a proportion of GDP, in line with the limited growth in spending. Core Crown expenses are forecast to fall below core Crown revenue from 2026/27 onwards. This does not imply an OBEGAL surplus in 2026/27, however. OBEGAL is a total Crown measure and therefore includes the results of Crown entities, which are negative over the forecast period (Annex 1). Core Crown expenses as a share of GDP continue to fall over the projection period, reaching 30 per cent of GDP in 2031/32, consistent with the Government's long-term objective for expenses (Figure 7).

***Figure 7** – Core Crown revenue and expenses*



Source: The Treasury

***Figure 8** – OBEGAL*



Source: The Treasury

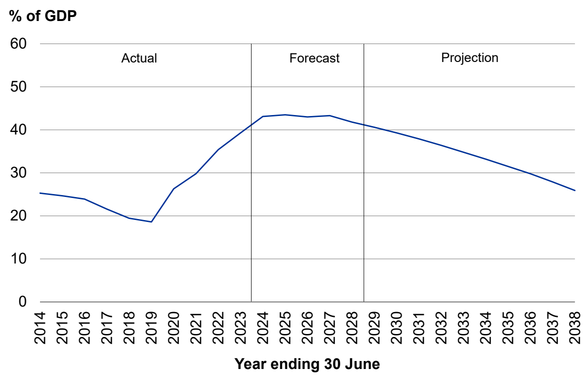
The revenue and expense tracks lead to growing OBEGAL surpluses (Figure 8). OBEGAL surpluses average 1.2 per cent of GDP over the projection period. Maintaining surpluses ensures that, on average over a reasonable period of time, operating expenses are funded from operating revenues and not from debt.

An OBEGAL surplus of $1.5 billion is forecast in 2027/28, consistent with the Government's short-term intention for the operating balance. Retaining the operating allowances from the Half Year Update (set by the previous Government and using reasonable assumptions to extend them into future years) would delay the return to surplus to at least 2030/31.

The OBEGAL deficit is forecast to be slightly higher in 2024/25 than it is in the current year. Of the $7.2 billion decline in the 2024/25 OBEGAL since the Half Year Update, $1.1 billion is due to decisions around the Budget operating package, with the remaining $6.1 billion due to other factors including the impact from economic conditions outside the Government's control (mainly tax forecasting changes – see Table 2.1 in the Budget Update). This is a matter of timing, however, as there is an equivalent $1.1 billion saving in the operating package in 2023/24. Over the two years combined, discretionary policy has no impact on the OBEGAL compared to the Half Year Update.

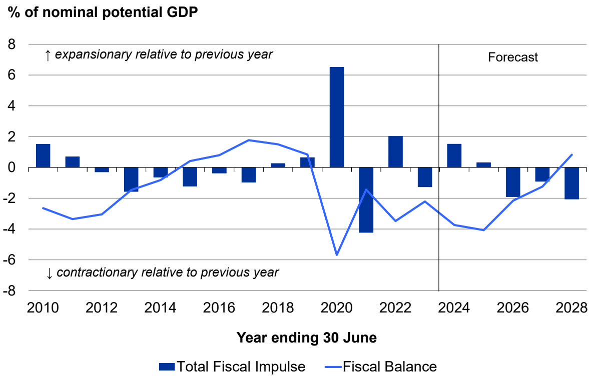
Net core Crown debt as a percentage of GDP stops rising in the forecast period before declining from 2026/27. It falls below 40 per cent of GDP in 2029/30 and continues to fall over the remainder of the projection period (Figure 9). Projections of net core Crown debt are within the range of 20 per cent to 40 per cent of GDP, consistent with the Government's long-term objective for debt. Figure 9 indicates that careful fiscal management will, over time, rebuild the fiscal buffers that have supported New Zealand through past economic shocks and natural disasters.

Figure 9 *– Net core Crown debt*



Source: The Treasury

Figure 10 *– Fiscal impulse*



Source: The Treasury

Compared to the Pre-election Update 2023, when fiscal projections were last published, the OBEGAL track in the projection period has improved materially, which flows through to a faster reduction in net core Crown debt across the projection period. This revision to the fiscal projections primarily reflects lower operating allowances over an extended period.

The assumptions behind the updated fiscal projections are discussed further in Annex 2, and scenarios illustrating the risks to the projections are presented in Annex 3.

Box 2 – Supporting monetary policy to tackle inflation

The Government's fiscal consolidation is helping support the Reserve Bank in tackling inflation and means that, in the medium term, interest rates may be lower than would otherwise be the case. On average across the forecast period, the fiscal impulse (a measure of the change in the Government's fiscal contribution to aggregate demand from one year to the next) is very similar to what was forecast at Half Year Update. However, due to movements in the forecasts and Government decisions the profile has changed. The fiscal impulse in 2024/25 is broadly neutral and from 2025/26 onwards is expected to be less stimulatory than forecast at the Half Year Update. The change in the 2024/25 impulse partly reflects lower government spending in 2023/24 but also a weaker economy generating less tax revenue. The downward revisions to the fiscal impulse from 2025/26 onwards reflect the impact of lower Budget operating allowances. Modelling from the Treasury suggests that the impact of tax reductions offset by lower spending is likely to modestly reduce pressure on interest rates.

Managing assets and liabilities

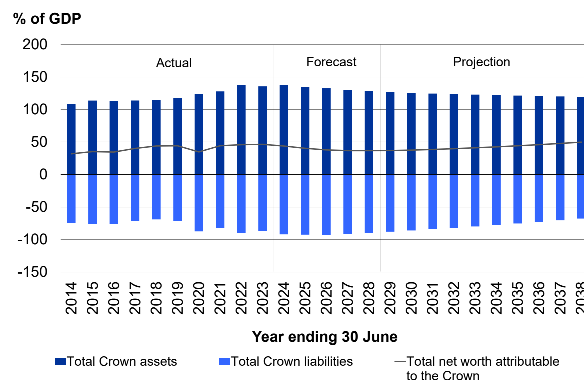
The Crown owns:

- physical infrastructure such as hospitals, schools and roads to support the delivery of public services
- financial assets that are predominantly held to prefund obligations for future spending, such as the NZSF and the Accident Compensation Corporation (ACC) investment fund, and
- ownership interests in commercial entities.

Total Crown assets are expected to reach $569 billion in 2023/24 – more than 50 per cent larger than five years ago. The Crown is also expected to have liabilities of $380 billion in 2023/24, two-thirds of which is borrowings. The difference between assets and liabilities represents the Crown's net worth.

Net worth attributable to the Crown is expected to remain relatively constant in nominal terms over the forecast period. It declines as a percentage of GDP before picking up again in the projection period (Figure 11).

***Figure 11** – Net worth attributable to the Crown*



Source: The Treasury

On the liability side of the balance sheet, the Government's priority is to stop using debt to fund operating cash flows (as has been happening since 2019/20). Debt should be used primarily to fund high-quality investments that provide benefits to New Zealanders over time.[9] Funding operating expenditure out of operating revenue, rather than debt, will help restore the Crown balance sheet's resilience to future shocks.

On the asset side, the Treasury's most recent Investment Statement (2022), drawing on Infrastructure Commission analysis, states that, historically, New Zealand has not built infrastructure well – with New Zealand ranking amongst the world's least-efficient high-income countries when it comes to delivering infrastructure.

The Government's strategy for managing Crown assets is therefore to:

- strengthen investment disciplines, including better-planned investment proposals, more transparency and stronger central oversight
- improve project selection to deliver a more stable and sustainable investment pipeline that reflects the economy's capacity to deliver

9 Other uses of debt are as a smoothing device, to allow automatic fiscal stabilisers such as tax revenue and unemployment-related benefit spending to operate across the economic cycle, and in the event of an economic shock such as a natural disaster or financial crisis.

- improve the performance of the Crown's existing assets in supporting service delivery, and
- use a broader range of funding and financing options, including the use of revenue tools and models that involve private capital.

Revenue strategy

A good tax system is one that:

- finances public expenditure in a fair and efficient way
- minimises bias in economic decisions
- limits the number of tax provisions that provide preferential treatment to certain activities or sectors
- rewards effort and individuals' investment in their own skills
- has low compliance and administrative costs, and
- minimises opportunities for tax avoidance and evasion.

The Government will operate a stable, predictable revenue system. The current main tax bases – personal income tax, company tax and a broad-based GST – will continue to raise the bulk of Crown revenue. With prudent control of spending, the Government does not see the need to seek major additional sources of revenue.

In Budget 2024, personal income tax thresholds have been increased to recognise, in part, the fiscal drag caused by growth in nominal incomes since 2010. Family incomes are also being increased through changes to the In-Work Tax Credit and Independent Earner Tax Credit, and through the introduction of FamilyBoost. Other immediate tax measures seek to improve housing affordability, address integrity risks and increase compliance and enforcement action.

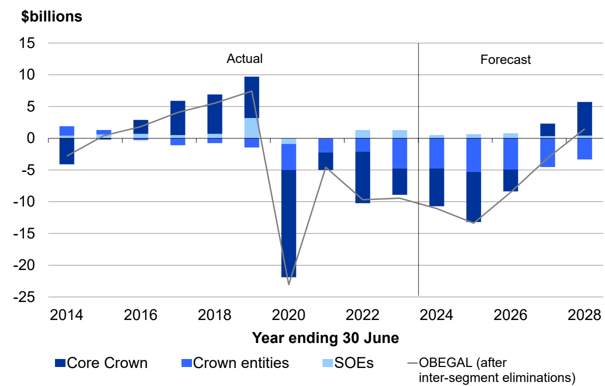
Crown revenue is currently lower than expenses, as the operating balance is in deficit. In the medium term, however, revenue will have to exceed expenses to sustain surpluses and bring net core Crown debt below 40 per cent of GDP.

The Government will remain transparent and open in its tax policy processes. It is committed to public engagement in the design of tax policy including through the Generic Tax Policy Process. Public consultation ensures that the perspectives and expertise of those affected by proposals are considered, and plays an important role in sustaining a tax system that is durable and widely accepted by taxpayers.

Over time, the tax system must respond to longer-term needs in a planned and coherent way. The Government will continue an active tax policy work programme to ensure the tax system remains fit for purpose. It intends to be a good steward of the tax system by developing policy and designing administrative processes which take into account changing requirements.

Annex 1 – Review of fiscal operating indicators

***Figure 12** – Composition of OBEGAL*



Source: The Treasury

OBEGAL provides a comprehensive flow measure of the Government's financial performance. It excludes market fluctuations in asset and liability valuations that are highly variable and not within the direct control of the Government in the short term. As a whole of Government measure, it includes the results of Crown entities (CEs) and state-owned enterprises (SOEs).

Over the forecast period, CEs are expected to make a significant negative contribution to OBEGAL in net terms (i.e., contribute to deficits), on average by $4.6 billion per annum. ACC is currently the main contributor to the aggregate CE deficits, with forecast deficits of $3.4 billion per annum on average over the forecast period.

To achieve the Government's fiscal goals, increases in the OBEGAL deficits of these entities currently need to be offset by larger surpluses or smaller deficits from the core Crown. This could be undesirable from a fiscal strategy perspective since some entities (like ACC) are self-funded and aim to be financially sustainable over the long run, even when running large OBEGAL deficits in particular years. For this reason, there is an argument to exclude from an operating indicator self-funded entities that are deemed to be fiscally sustainable, since they are unlikely to require additional Government funding. On the other hand, exclusion of these entities may result in reduced fiscal transparency.

The Treasury will undertake a review of operating indicators to consider these arguments, with a focus on how the financial flows of entities that are intended to be self-funded affect the Government's fiscal strategy. The review will also explore whether alternative indicators, such as the core Crown OBEGAL or operating balance, could better guide and communicate the Government's fiscal goals. Debt indicators are out of scope of the review.

Annex 2 – Fiscal projections and assumptions

The fiscal projections are based on trend or long-run averages for growth rates or levels of key economic, fiscal and demographic variables, and generally assume no policy changes beyond those built into their forecast base. The key assumptions are:

- Operating allowances – Other than for the areas of welfare-related expenses and interest costs, spending growth is largely determined by operating allowances, which are assumed to be $2.4 billion in Budget 2028, growing at 2 per cent per year for subsequent Budgets.
- Capital allowances – $7.0 billion in the first projected year of 2028/29, growing at 2 per cent per year for subsequent years. This is the same assumption for new capital expenditure made at the Pre-election Update.
- Tax revenue – As a proportion of GDP, tax revenue converges towards its long run average over the projection period. However, tax brackets are adjusted more slowly at the start of the projection period than in previous projections, reflecting the tax changes announced at Budget 2024.

Other assumptions are unchanged from the Pre-election Update. Full details of the projection assumptions are available on the Treasury website.

***Table 6** – Summary of key fiscal indicators from the projections*

Year ending 30 June	2023 Actual	2024 Forecast	2028 Forecast	2029 Projection	2030 Projection	2038 Projection
% of GDP						
Core Crown revenue	31.2	32.0	32.2	32.1	32.1	31.2
Total Crown revenue	38.7	40.0	39.1	39.1	39.1	38.2
Core Crown expenses	32.3	33.5	31.1	31.0.	30.7	29.0
Total Crown expenses	40.9	42.5	38.7	38.6	38.4	36.2
Total Crown OBEGAL	-2.4	-2.7	0.3	0.3	0.6	1.9
Total Crown operating balance	1.3	-0.7	1.8	1.8	2.1	3.6
Net core Crown debt	39.3	43.1	41.8	40.6	39.3	25.9
Gross debt	34.3	42.3	48.4	46.9	45.2	29.6
Total Crown net worth	48.4	45.8	38.5	38.8	39.4	51.7
Net worth attributable to the Crown	46.4	43.8	36.8	36.9	37.5	49.8

Source: The Treasury

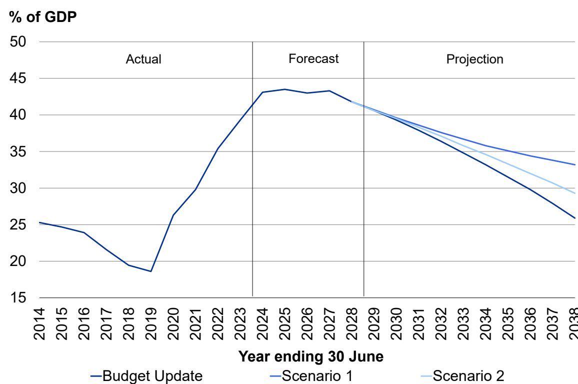
Annex 3 – Alternative fiscal projection scenarios

To highlight how sensitive the fiscal projections are to changing assumptions, we have included two scenarios:

- **Scenario One**: New operating expenditure in the projection period grows at $3.0 billion in the first year of the projections, inflated by nominal GDP (rather than in line with projected CPI inflation) in later years. This scenario illustrates risks to medium-term expenditure associated with a growing and ageing population (increasing cost pressures, particularly for health spending) and the projected capital expenditure (which will require increased maintenance spending). Under the scenario, the improvement in OBEGAL over the projection period would stall in the early years of the projection period, leading to a more gradual decline in net core Crown debt.

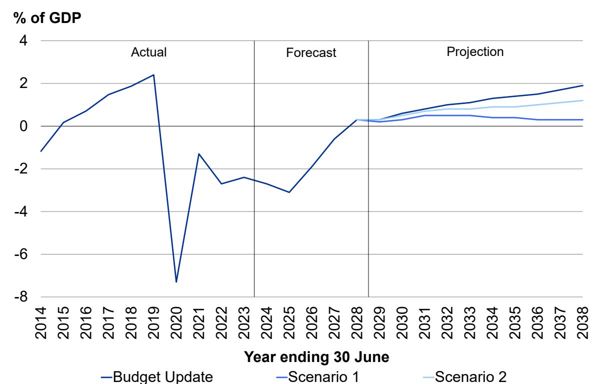
- **Scenario Two**: Labour productivity growth is assumed to be 0.7 per cent per annum, consistent with the 20-year average of labour productivity growth. This assumption is lower than the 1.0 per cent growth assumed in the baseline projections and illustrates the risk that the recent run of weak productivity data may turn out to be more persistent than currently expected. The scenario results in a material deterioration in the projections for OBEGAL and net core Crown debt. (Note that the scenario is not indicative of a change to Treasury's long-run assumption for productivity, which will be reviewed as part of the forthcoming Long-term Fiscal Statement.)

***Figure 13** – Net core Crown debt scenarios*



Source: The Treasury

***Figure 14** – OBEGAL scenarios*



Source: The Treasury

Annex 4 – Government goals and wellbeing objectives

Section 26KB of the Public Finance Act requires the Government to explain, in the fiscal strategy report, how wellbeing objectives have guided the Government's Budget decisions.

As stated in the Budget Policy Statement, the Government's overarching goals for its term of office are to:

- Build a stronger, more productive economy that lifts real incomes and increases opportunities for New Zealanders.
- Deliver more efficient, effective and responsive public services to all who need and use them – in particular, to restore law and order and improve health outcomes and educational achievement.
- Get the government's books back in order and restore discipline to public spending.

These goals are also the Government's wellbeing objectives, as meeting these objectives is the most important contribution the Government can make to the long-term social, economic, environmental and cultural wellbeing of New Zealanders. They have clearly guided the Government's Budget decisions. For example, Budget 2024 provides net funding increases for justice, health and education, and identifies savings that will help restore discipline to public spending. This Fiscal Strategy Report sets out how the Government intends to get its accounts back into good shape.