Wellbeing Budget 2020
REBUILDING TOGETHER

Hon Grant Robertson
Minister of Finance

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Budget 2020: Rebuilding Together

- $50 billion fund to deliver COVID response and economic recovery plan at centre of jobs budget
- $4 billion business support package, including targeted $3.2 billion wage subsidy extension
- $3 billion infrastructure investment and 8,000 public house build programme to boost productivity and create jobs
- $1.4 billion for trades and apprenticeships training package
- $1 billion environmental jobs package
- $3.3 billion new funding to strengthen core services including health and education

The $50 billion fund being announced today will grow jobs and support New Zealanders and the economy through the effects of COVID-19 and the global recession.

At this Budget, the COVID Response and Recovery Fund will invest in a targeted wage subsidy extension, free training and apprenticeships, an 8,000 state and transitional house build programme, $3 billion for infrastructure development, job-rich environmental projects and support for SMEs, exporters and entrepreneurs to grow the economy.

“Today is about jobs. It’s about creating new jobs and it’s about preparing people for new jobs,” Grant Robertson said.

New Treasury forecasts incorporating the fiscal stimulus announced today show:

- Up to 140,000 jobs saved over the next two years, and employment growth of 370,000 supported over four years.
- Unemployment can be reduced from a peak of 9.6% in June 2020 to the current 4.2% rate within two years
- The economy could start growing again in the year beginning 1 July 2020
- The Government is planning a similar return-to-surplus track to the previous Government following the GFC and Canterbury earthquakes

“We are doing what it takes to cushion the blow, support businesses and workers, and position the economy for recovery. We’re answering calls for significant new investment as we face up this 1-in-100 year global shock and rebuild together,” Grant Robertson said.

“We can do this because we went hard and early with our health response. Due to the amazing work of all 5 million New Zealanders during lockdown, our economic recovery is getting a head start.”

Investments totalling $13.9 billion have already been made from the fund to fight the virus and cushion the blow. Cabinet has agreed a further $15.9 billion of investments to continue the immediate response and kickstart the economy, leaving $20.2 billion remaining for future investment.

Careful economic management means this is affordable, with New Zealand remaining with one of the lowest debt positions among advanced economies. The Budget also sets out a path back to surplus similar to the previous Government following the GFC and Canterbury earthquakes.

Significant investments from the Fund are being announced today alongside $3.3 billion in the Budget to ensure essential public services like health, education and domestic violence services continue to receive the funding they need to meet pressures like population growth.

“Strong public services have underpinned our success in controlling COVID-19. We need our health and education systems more now than ever as we recover and rebuild.”

Fiscal outlook – supporting the economy and a path back to surplus

The Government has decided to go hard against the economic impact of COVID-19 by using its strong balance sheet to cushion the blow for households and businesses. This is possible because of our careful economic management before COVID-19, Grant Robertson said.

OBEGAL deficits will average 9.3% of GDP, or $28 billion, from 2020 to 2022 as the Government injects funding into households and the private sector to support businesses and jobs. Careful economic management will see the deficit reduced to 1.3% of GDP, or $4.9 billion by June 2024.

“It is then possible that the Government books return to surplus from 2024/25,” Grant Robertson said. Treasury projections show a deficit of just 0.7% of GDP in 2024/25, moderating to 0.2% and 0.1% in 2026 and 2027, before a surplus of 0.1% of GDP in 2028.

“We know from the previous Government’s experience with six years of deficits and a small surplus in the seventh year following the GFC and Canterbury earthquakes, that these projections are sensitive. We are targeting a surplus in a similar period of time as we respond to a 1-in-100 year shock.”

Running operating deficits to support households and businesses means core Crown expenses peak at 38.7% of GDP in 2020, before falling back to 30.2% in 2024. The Government has decided to keep tax revenue steady at just under 30% of GDP.

This means investments to grow the economy will be funded through long-term borrowing. The Treasury forecasts net core Crown debt to rise to a peak of 53.6% in 2023 and 2024 before the growing economy then allows the Government to start funding repayments.

“New Zealand is in one of the best positions in the world to cushion the blow of COVID-19 through long-term borrowing at historically low interest rates – we can currently lock-in ten year bonds at an annual rate of below 1.0%. Importantly, interest costs will stay low at only 1.2% of GDP when net debt peaks – the same as last year when net debt was 19% of GDP,” Grant Robertson said.

“At its peak, net debt will be 30 percentage points below the average for advanced economies pre-COVID. It is forecast to remain lower than New Zealand’s most recent peak of 54.8% of GDP in 1992.

“Governments around the world are responding the same way. Analysts expect Australia’s net debt to also rise to between 50% and 60% of GDP, while the UK Government forecasts it staying over 90%.

“That shows what a good position our economy is in to be able to go hard against COVID-19, position for recovery and rebuild together.”

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Annex: COVID Response and Recovery Fund

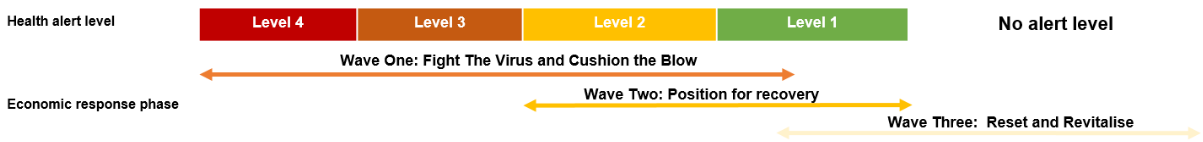
Cabinet agreed to create the COVID Response and Recovery Fund on 6 April, due to the scale of the response required to fight COVID-19, cushion the blow and position for recovery.

Ministers have been provided clear guidance that the size of the fund is not a spending target, and that they must first manage COVID-19 related expenditure within existing baselines.

However, the size of the response required to deal with a 1-in-100 year event means the fund is being set aside now to provide certainty that continued Government investment is available to support households and businesses as the economy recovers and we move through Alert Levels.

Proposals for all funding requests must focus on at least of one of the following three criteria:

- Fighting the Virus and Cushioning the Blow – acting swiftly to contain the virus and avoid the extreme human and economic costs of an uncontrolled outbreak.
- Kickstarting the Recovery – continuing to support households and businesses and preparing to kickstart the economy in the medium term.
- Resetting and Rebuilding – taking the opportunity to reset our economy, address longstanding challenges and chart a course to return to a more sustainable fiscal position.



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