

The Treasury

Budget 2022 Information Release

August 2022

This document has been proactively released and is available on:

- The **Budget website** from August 2022 to May 2023 only at: <https://budget.govt.nz/information-release/2022>, and on
- the **Treasury website** from later in 2022 at: <https://treasury.govt.nz/publications/information-release/budget-2022-information-release>.

Cabinet Document Details

Title: **Cabinet Minute: CAB-22-MIN-0142: Setting Fiscal Rules for the Fiscal Strategy Report 2022**

Date: **19 April 2022**

Creator: Cabinet Office

Information Withheld

No information has been withheld.

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Setting Fiscal Rules for the Fiscal Strategy Report 2022

Portfolio **Finance**

On 19 April 2022, Cabinet:

Background

- 1 **noted** that the government will meet the short-term intentions and long-term objectives set in the Fiscal Strategy Report 2021;
- 2 **noted** that the intention to set new fiscal rules was signalled in the Budget Policy Statement 2022, published in December 2021;

Fiscal rules for Budget 2022

- 3 **agreed** to focus on the operating balance before gains and losses (OBEGAL) as the main fiscal rule for informing fiscal strategy decisions;
- 4 **agreed** to aim for small OBEGAL surpluses of 0-2 percent of GDP on average to ensure that operating expenses do not add to net debt as a share of GDP over time, thus supporting fiscal sustainability and intergenerational equity;
- 5 **agreed** to complement the OBEGAL target with a ceiling on net debt;
- 6 **noted** that a new net debt measure will be adopted, which includes the New Zealand Superannuation Fund, Crown entity borrowings, and advances such as student loans and the Reserve Bank's 'Funding for Lending Programme';
- 7 **agreed** that the net debt ceiling will be set at 30 percent of GDP based on the new net debt measure (this corresponds to 50 percent of GDP based on the current net debt measure);
- 8 **noted** that both the current and the new net debt measure will continue to be published by the Treasury to support transparency;
- 9 **noted** that the new net debt measure will be used to communicate the new debt ceiling in the short-term intentions and long-term objectives for fiscal policy;

Short-term intentions and long-term objectives for fiscal policy

10 **agreed in principle**, subject to paragraph 11 below, to the following short-term intentions and long-term objectives for the Fiscal Strategy Report 2022:

	Short-term intentions	Long-term objectives
Debt	<p>Maintain net debt at below 30 percent of GDP based on new net debt measure including the NZSF, subject to significant shocks.</p> <p>Net debt is forecast to peak at [just below 20] percent of GDP in 2023/24 and reduce over the forecast period to [14] percent of GDP in 2025/26.</p> <p>This corresponds to maintaining total borrowings at below 65 percent of GDP, subject to significant shocks.</p> <p>Total borrowings is forecast to be [52] percent of GDP at the end of the forecast period.</p>	<p>Maintain net debt at below 30 percent of GDP based on new net debt measure including the NZSF, subject to significant shocks.</p> <p>This corresponds to maintaining total borrowings at below 65 percent of GDP, subject to significant shocks.</p>
Operating balance	<p>The intention is to return to an operating surplus (before gains and losses) by [2024/25], subject to economic and fiscal conditions.</p> <p>The operating balance is forecast to be [3] percent of GDP at the end of the forecast period.</p>	<p>Once the operating balance (before gains and losses) has returned to a surplus, the long-term objective is to maintain an average surplus in the range of 0-2 percent of GDP, subject to economic and fiscal conditions.</p>
Expenses	<p>The intention is to ensure expenses are consistent with the operating balance objective.</p> <p>Core Crown expenses are forecast to be [29.6] percent of GDP in 2025/26. Total Crown expenses are forecast to be [36.9] percent of GDP in 2025/26.</p>	<p>The government will ensure operating expenses support a responsible and proportionate role for the government in maintaining a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.</p>
Revenue	<p>The intention is to ensure revenue is consistent with the operating balance objective.</p> <p>Total Crown revenues are forecast to be [38.5] percent of GDP in 2026.</p> <p>Core Crown revenues are forecast to be [32] percent of GDP in 2026.</p> <p>Core Crown tax revenues are forecast to be [29.7] percent of GDP in 2026.</p>	<p>The government will ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy, consistent with the debt and operating balance objectives.</p>
Net worth	<p>The intention is to maintain net worth consistent with the operating balance objective.</p> <p>Total net worth attributable to the Crown is forecast to be [34] percent of GDP in 2025/26.</p> <p>Total Crown net worth is forecast to be [35.3] percent of GDP in 2025/26.</p>	<p>The government will use the Crown's net worth to maintain a productive, sustainable and inclusive economy, consistent with the debt and operating balance objectives.</p>

- 11 **authorised** the Minister of Finance to make further changes as needed to finalise the short-term intentions and long-term objectives, as part of the drafting process of the Fiscal Strategy Report 2022.

Michael Webster
Secretary of the Cabinet