The Treasury

Budget 2024 Information Release

September 2024

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Key to sections of the Act under which information has been withheld:

[1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government

[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest

[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

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TE TAI ŌHANGA
THE TREASURY

Reference: T2024/1152

Date: 26 April 2024

To: Minister of Finance
(Hon Nicola Willis)

Deadline: None
(if any)

Information on the fiscal impulse in 2024/25

The report provides you with information you requested on the fiscal impulse; including the latest estimates, the drivers of recent changes, and your choices and levers to influence the fiscal impulse prior to finalising decisions for Budget 2024.

Summary

Compared to the preliminary fiscal forecasts, the indicative final fiscal forecasts show a more expansionary fiscal stance in 2024/25 and a more contractionary fiscal stance in 2025/26 and beyond. The fiscal impulse measures the change in a measure of the fiscal position and so does move around as the timing of expenses and revenues change.

The reason that the fiscal impulse is more expansionary in 2024/25 is a result of lower corporate tax revenue in 2024/25 than forecast in the preliminary forecasts, and rephasing of expenditure out of 2023/24 and into 2024/25. These changes do change the profile of the fiscal impulse over the forecast period and could impact on inflation at the margin. However, when thinking about the inflationary impacts, we place more weight on the fiscal stance across the forecast period, which shows a similar fiscal contraction overall. Therefore, it is important that the signalled fiscal consolidation in the latter part of the forecast period is seen as credible by the Reserve Bank and markets.

There are limited options to make the fiscal impulse less stimulatory in 2024/25 before Budget. Further decisions could be taken after Budget 2024 to constrain the fiscal stimulus in 2024/25.

The numbers in this report are indicative, based upon data submitted by agencies. We have not done a full quality assurance yet, they are therefore subject to change.

Background on the fiscal impulse

The total fiscal impulse (TFI) is a measure of the change in the Government's fiscal contribution to aggregate demand from one year relative to the next. The TFI is defined as the annual change in the “fiscal balance”, which is core Crown and Crown entity residual cash excluding some items that do not directly affect aggregate demand.[1] The fiscal balance could still be in deficit but if the deficit is less than the previous year, the TFI would show that fiscal policy is contractionary. A positive TFI implies that fiscal policy is contributing more to aggregate demand relative to the previous year.

The fiscal balance and OBEGAL often follow similar trends over time. However, the profiles of the two metrics can differ for several reasons, such as: the inclusion of both capital and operating expenditure in the fiscal balance; timing differences between the accrual recognition of expenses and revenues and cash flows; and the entity coverage of each indicator.

The latest fiscal impulse and fiscal balance

The **fiscal balance** has been in a consistent and sizable deficit since 2020, reflecting operating deficits and higher capital expenditure compared to the pre-COVID years. At HYEFU 2023, the Treasury forecasts suggested that fiscal policy would be contractionary across the forecast period. The Budget preliminary forecasts showed that fiscal policy would be contractionary, albeit less so than at HYEFU (T2024/717 refers).

These indicative final forecasts show a small positive TFI in 2024/25. However, this forecast fiscal expansion is offset by the more contractionary impulses that are forecast for each of the subsequent three years, compared to the preliminary forecasts. When thinking about the inflationary impacts, the overall trend in the fiscal impulse is typically more important than the impulse in any one year. Across the forecast period, the scale of the fiscal contraction is similar overall to the preliminary forecasts.

In the preliminary fiscal forecasts, the deficit in the fiscal balance was forecast to start narrowing in the year ended June 2025, with a correspondingly small contractionary fiscal impulse each year starting 2025. Conversely, in the indicative final fiscal forecasts, the deficit in the fiscal balance widens slightly in 2025, resulting in a small expansionary fiscal impulse. The narrowing in the deficit is now forecast to begin in 2026, but the fiscal balance still reaches surplus in 2028. The fiscal forecasts are due to be completed on 9 May 2024, so the fiscal impulse is still subject to change.

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[1] Excluded items include some financial transactions (such as the Reserve Bank’s Funding for Lending loans, contributions to the New Zealand Superannuation Fund, and KiwiSaver subsidies), as well as some items that are predominantly imports (such as defence purchases of physical assets).

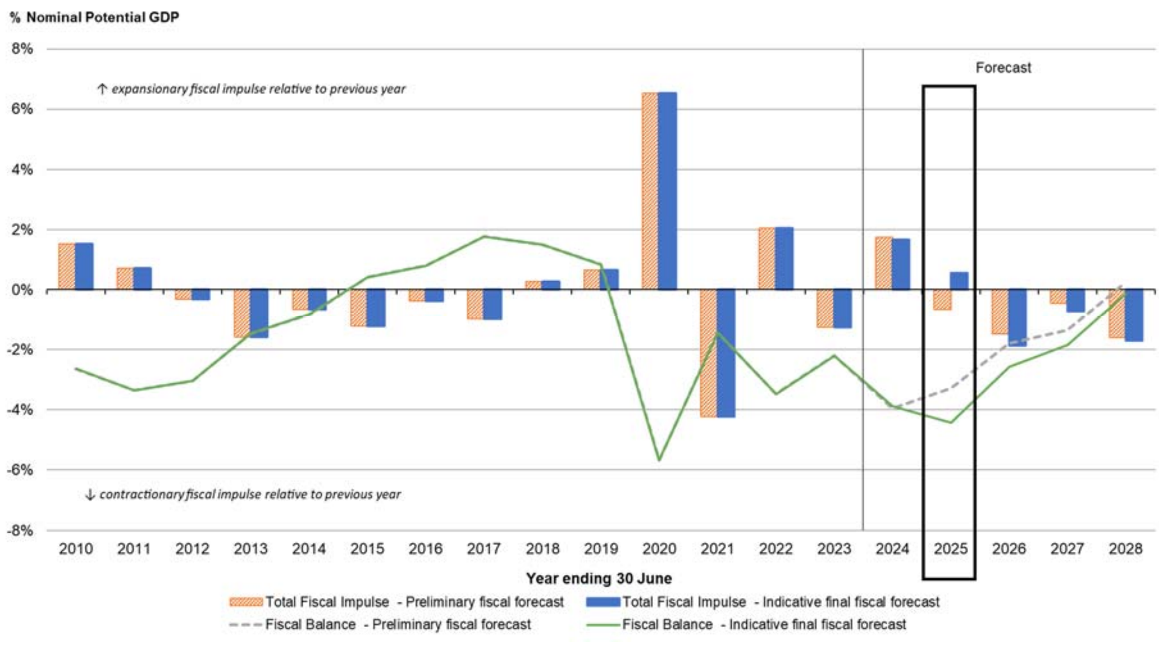
The change to the 2024/25 fiscal impulse between the preliminary forecasts and the indicative final forecasts is approximately $5.3 billion. The TFI stimulus is currently forecast to be around $2.4 billion in 2024/25, compared to a TFI contraction around $2.9 billion in the preliminary forecasts. This change can be roughly broken down as:

- **Taxes (approximately 40% of the change)** – largely due to lower forecasts for corporate tax revenue in 2024/25, primarily reflecting recent data implying a larger corporate tax cycle than forecast previously.

- **Operational spending (approximately 40% of the change)** – this is due to operating spending being lower in 2023/24 and higher in 2024/25. The proposed Budget 2024 package is expected to result in a reduction in operating expenditure of around $1.0 billion in 2023/24 compared to what was assumed in the preliminary forecasts. The impact in the 2024/25 year was more than we forecast in the preliminary forecasts. We are still analysing the drivers of this but a large proportion of the reduction in 2023/24 is expected to be larger one-off savings in 2023/24. In addition, rephasing of expenditure, primarily relating to pay equity expenses, has resulted in less expenditure in 2023/24 and more forecast for 2024/25.

- **Capital spending (approximately 20% of the change)** – due to lower capital spending in 2023/24 and higher capital spending in 2024/25. Similar to operating spending, the proposed Budget 2024 package and rephasing of expenditure are the primary driver of this.

Figure 1: Fiscal balance and fiscal impulse at the preliminary forecasts and indicative final forecasts



Note: In Figure 1, the indicative final fiscal forecast assumes operating allowances of $2.4 billion in Budgets 2025, 2026 and 2027.

Some of your decisions have helped limit the increased fiscal impulse in 2024/25. This includes limiting the size of the Budget 2024 package through delivering significant savings and delaying the commencement of the personal income tax relief from 1 July to 31 July 2024. Your decision to reduce the allowances for Budgets 2025-2027 has increased the fiscal contraction across the subsequent three years.

The expansionary fiscal impulse in 2024/25 would be expected to add slightly more to inflation pressures. While this change in 2024/25 will be relevant for the Reserve Bank's interest rate deliberations, they are also likely to consider the overall trend in fiscal policy. In that regard, it is important to note that the TFI is more contractionary in each of the subsequent three years, reflecting the lower operating allowances and the forecast recovery in corporate tax revenue.

We do not recommend making further changes to Budget 2024

From a fiscal strategy perspective, delivering a credible fiscal strategy that supports a return to surplus as soon as practicable and reduces the level of debt over the medium term is more important for macroeconomic stability and growth than deliberately targeting a negative fiscal impulse in any one year. The TFI is an approximate measure and there will be further changes to aspects of the TFI over the coming days, months and years the Government has little control over.

To influence the fiscal impulse measure in 2024/25 you would need to reduce expenditure in the 2024/25 year. This could be achieved by shifting expenditure into the subsequent two years without affecting the return to surplus in 2027/28, thus making the fiscal stance more expansionary in those two years.

Given that the Budget 2024 package has now been agreed by Budget Ministers and is being considered by Cabinet on Monday 29 April 2024, we do not recommend any changes to the Budget packages to influence the fiscal impulse. However, if you do want to look at options to influence the fiscal impulse as presented at Budget, we suggest you focus on the phasing of some of the large tagged contingencies being established. We have identified the following initiatives where you could consider the phasing of expenditure:

- **Government Policy Statement (GPS) on Land Transport – Additional Funding:** The current package includes $1 billion capital in tagged contingency for the GPS. In the indicative final fiscal forecasts it has (via the Treasury's central adjustment) been smoothed to $350 million in 2024/25 and 2025/26, and $300 million in 2026/27. You could opt to rephase this further using the delegation in the Budget Cabinet paper. But this would have to be weighed against your intent to use this funding to *accelerate* projects in the GPS, which would indicate it being used sooner rather than later.

- **Regional Infrastructure Fund (RIF):** Your current package includes $300 million capital, $100 million operating per annum for each of 2024/25, 2025/26 and 2026/27 for the RIF. You could opt to – using the delegation in the Budget Cabinet paper – rephase this (e.g. move it to $150 million operating and $450 million capital in each of 2025/26 and 2026/27). We do, however, recognise that this initiative has already been subject to extensive discussions between Ministers.

We recognise that you have limited options available at this stage, and in aggregate they will not be sufficient to make the fiscal impulse contractionary. We can provide you with further advice early next week if you would like to consider any of the above options further.

While your options are limited for Budget 2024, you have options [33] post-Budget 2024 to constrain the fiscal stimulus in 2024/25. These options would not be reflected in the estimated fiscal impulse published in the BEFU 2024. However, any post-Budget decisions which improve the 2024/25 fiscal balance (typically actions to reduce cash expenditure or increase cash revenue in 2024/25) would reduce the stimulatory impact of fiscal policy in that year. These impacts would be reflected in the updated fiscal impulse estimates at HYEFU 2024.

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