The Treasury

Budget 2024 Information Release

September 2024

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[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

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[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

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TE TAI ŌHANGA
THE TREASURY

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To: Minister of Finance
(Hon Nicola Willis)

Deadline: None
(if any)

Information on the final Budget Economic and Fiscal Update 2024 fiscal impulse

Summary

This report compares the results of the Total Fiscal Impulse (TFI) indicator for the final Budget Economic and Fiscal Update 2024 (BEFU) fiscal forecasts to the indicative final BEFU forecasts and the Half Year Economic and Fiscal Update 2023 (HYEFU) forecasts.

Background on the Total Fiscal Impulse indicator

The 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 the core Crown and Crown entity residual cash surplus or deficit, excluding some items that do not directly affect aggregate demand.[1] A positive TFI implies that fiscal policy is contributing more to aggregate demand relative to the previous year, and vice versa, but it doesn’t provide information on whether policy is expansionary or contractionary in absolute terms.

The TFI can give a rough indication of fiscal policy’s likely impact on the economy. However as it simply measures the difference in the fiscal balance between one year to the next, it is susceptible to large changes caused by shifts in spending and revenue profiles between years. The average TFI across the forecast period provides a more complete measure of the fiscal stance and is more important than the TFI in a given year. The average provides a better measure of the overall macroeconomic stance of fiscal policy, i.e. how Government spending and revenue are contributing to inflationary pressures and implications for interest rates over the forecast period.

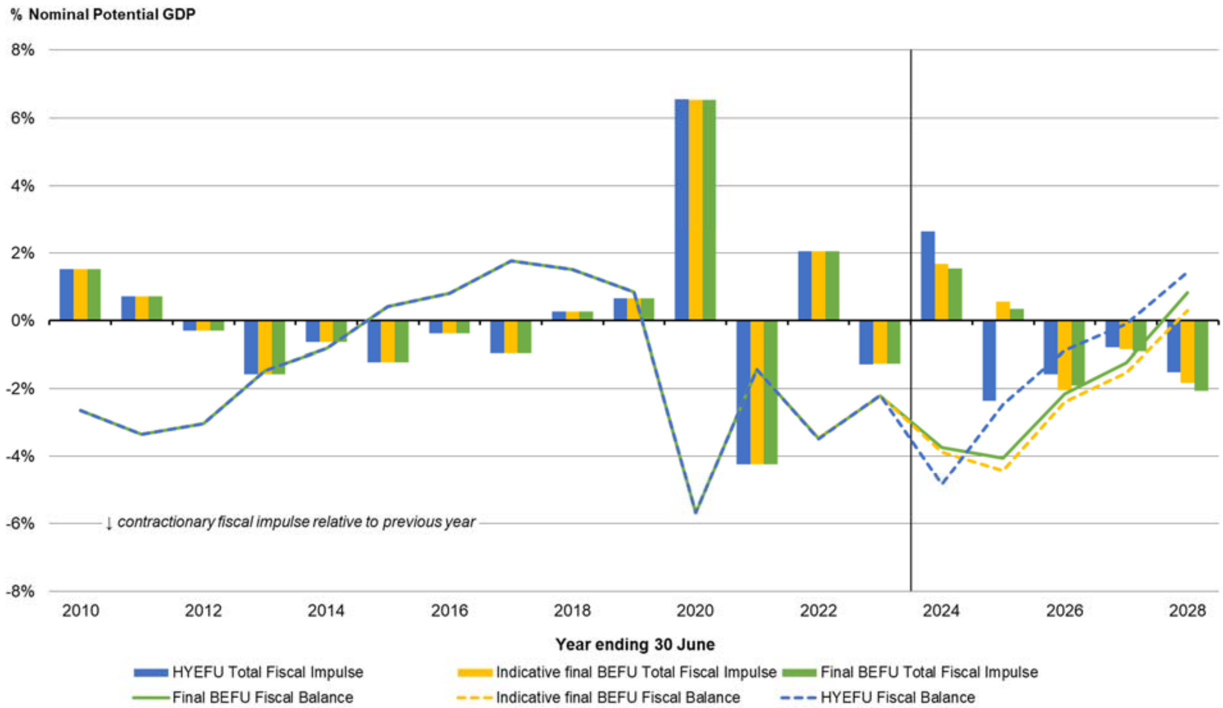
[1] Excluded items include some financial transactions (such as the Reserve Bank’s Funding for Lending loans, contributions to the New Zealand Superannuation Fund, and KiwiSaver subsidies), as well as some items that are predominantly imports (such as defence purchases of physical assets).

Comparison between the indicative final BEFU forecasts and the final BEFU forecasts

On 26 April we advised you of the results of the TFI based on the indicative final forecasts (T2024/1152 refers). This showed an overall contractionary stance across the forecast period, but a positive (i.e. stimulatory) fiscal impulse of 0.6% of potential GDP for 2024/25. The final BEFU forecasts likewise show a contractionary fiscal impulse on average across the forecast period, with a slightly smaller positive fiscal impulse in 2024/25 of 0.3% of GDP (see Figure 1).

The decrease in the size of the 2024/25 TFI is driven largely by an increase to top-down adjustments and expense forecast changes based on additional information received from agencies. It should be noted that, owing to its small size, a forecast positive TFI in 2024/25 of just 0.3% percent could easily end up becoming negative by the time of the next EFU due to changes in spending and revenue forecasts.

Figure 1: Fiscal impulse and fiscal balance from the HYEFU 2023, indicative final BEFU 2024, and final BEFU 2024 forecasts



Comparison to HYEFU 2023

The following section compares the final BEFU forecast TFI to HYEFU 2023. As in previous EFU's, we will publish a box in the BEFU discussing the fiscal indicators, including the fiscal impulse.

On average over the five-year forecast period, the fiscal impulse remains contractionary in the final BEFU forecasts. However, it is slightly less contractionary than forecast at HYEFU (-0.6% vs -0.7%). This is because the fiscal balance starts narrowing later and reaches a slightly smaller surplus at the end of the forecast period.

The deterioration in the fiscal balance and impulse since HYEFU mainly reflects the weaker economic outlook which has driven a deterioration in forecast revenue (T2024/941 refers). The revenue forecast has been revised down by an average of $8.1 billion per year over the forecast period, on the cash basis used in the fiscal balance. This has more than offset the downward revisions to expenditure, which average $4.8 billion per year (see Table 1). Most of the downward revisions to the revenue forecast are not attributable to tax policy changes.

In general, a reduction in the revenue forecast without any saving offsets will have an expansionary effect on the fiscal impulse as it contributes to the government running a larger cash deficit. To fund your tax policy package, you have identified savings to ensure the package is fiscally neutral. Modelling done by Treasury suggests that due to differences in fiscal multipliers a tax package funded through cuts to government consumption can be expected to be mildly contractionary (T2024/1149 refers). This detail would not be captured by the TFI indicator, which implicitly assumes that an equal reduction in taxes and expenditure would have no impact on inflation.

Table 1: Breakdown of the changes to the fiscal balance and fiscal impulse between HYEFU and the final BEFU forecasts ($bn)[2]

	2023/24	2024/25	2025/26	2026/27	2027/28	**Average over 2024-2028**
Change to the forecast fiscal balance between HYEFU and BEFU:						
Change to revenue	-1.7	-8.5	-10.2	-10.5	-9.6	**-8.1**
Change to expenditure	-6.4	-1.6	-4.5	-5.0	-6.4	**-4.8**
Total change to fiscal balance between forecasts	+4.7	-6.8	-5.7	-5.5	-3.2	**-3.3**
Change to the forecast fiscal impulse between HYEFU and BEFU:						
Revenue contribution	+1.7	+6.8	+1.7	+0.3	-0.9	**+1.9**
Expenditure contribution	-6.4	+4.7	-2.8	-0.5	-1.4	**-1.3**
Total change to fiscal impulse between forecasts	-4.7	+11.5	-1.1	-0.3	-2.3	**+0.6**
Memo: Change to Nominal GDP between forecasts	-6.9	-9.2	-9.1	-10.1	-10.5	**-9.2**

[2] Both revenue and expenses have been increased to account for health cost pressure pre-commitments. This relates to how the health multi-year funding was being treated at HYEFU (done centrally) compared to final BEFU (in baselines). This has no overall impact to the fiscal balance line but does mean that revenue and expenses appear larger than they would otherwise be.

While the overall fiscal stance remains contractionary, the final BEFU forecasts show a positive fiscal impulse for 2024/25 of +0.3% of potential GDP, which differs from the negative fiscal impulse shown at HYEFU. There are two main reasons for the change since HYEFU:

- As is the case across the forecast period, the revenue forecasts are much lower in 2024/25 than they were at HYEFU. The downward revisions to the revenue forecast mostly start in 2024/25, adding to the fiscal impulse in this year in particular.
- To fund your tax package and help reduce inflation, you identified expenditure savings in 2023/24 which led to a lower fiscal impulse in 2023/24 than expected at HYEFU. As the TFI is measure of the relative change year on year, this lower starting point for expenditure in 2023/24 has also contributed to the positive 2024/25 impulse.

In isolation, your fiscal policy decisions have contributed towards a more contractionary fiscal stance compared to HYEFU, including through reducing the Budget allowances for 2024 to 2027 and funding your tax package through savings. However, the effect of your decisions on the fiscal balance and fiscal impulse has been outweighed by the downward revisions to revenue from factors outside of your immediate control.

At HYEFU, we forecast a TFI in 2024/25 of -2.4% of GDP. This forecast would have achieved the IMF's recommendation in their recent Article 4 report that the government should aim to achieve a fiscal impulse of -1.5% in 2024/25 to support the Reserve Bank in tackling inflation. At the IMF's visit in March, they were briefed on the weaker economic outlook and the expected downgrades to tax revenue which will have been partially accounted for when they made their recommendation of -1.5%.
However, given the external factors noted above and other changes since HYEFU, achieving a fiscal impulse of -1.5% of GDP in 2024/25 would require you to reduce expenditure in 2024/25 by around $8.0 billion compared to what is incorporated into the BEFU forecasts. It is doubtful that fiscal adjustments of this magnitude would be achievable without having a material impact upon the ability of the Government to deliver its priorities. This is a good illustration of how volatile the TFI indicator can be between forecasts.

Regardless, from a fiscal strategy perspective, the average TFI across the forecast period is more important than the TFI in a given year. In this regard, the overall forecast fiscal stance in BEFU 2024 remains contractionary (as it was as HYEFU) and can be expected to support a reduction in inflationary pressure and interest rates over the forecast period.

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