# Room to manoeuvre

## NZ fiscal accounts, year ended June 2018

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- The Government's financial statements revealed a much larger surplus and lower net debt than expected for the June 2018 year.
- Some of this was due to higher tax revenue, but the majority was due to unplanned delays in operational and capital spending. While some catch-up is expected, delays in spending tend to persist from year to year.
- The stronger than expected starting point provides some leeway if economic growth fails to live up to the Treasury's upbeat forecasts.
- It also implies that in upcoming fiscal updates the Government could announce even more stimulus for the economy than is already planned.

The Government's financial statements for the June 2018 year revealed a much larger surplus and lower net debt than was projected in the May Budget, putting the Government well within its own fiscal responsibility rules. While the Finance Minister has played down the idea of a spend-up, there is clearly room for an increase in spending plans at the Half-Year Fiscal Update, scheduled for some time in December.

The operating balance excluding gains and losses (OBEGAL) rose to a surplus of $5.5bn, compared to a $4.1bn surplus in the previous year. The surplus was $2.4bn higher than was forecast in the May Budget, with most of the surprise emerging in the June month as the usual end-of-financial-year spend-up fell short.

Crown revenue was about $700m ahead of forecast, with a stronger than expected tax take across PAYE, companies and GST. The upside surprise tells us more about the difficulty of forecasting the tax take than about the strength of the economy, since we already have the GDP data for the June year. Real GDP has been broadly in line with the Treasury's forecasts, and in nominal terms – which is more relevant to the tax take – it is actually lower than forecast.

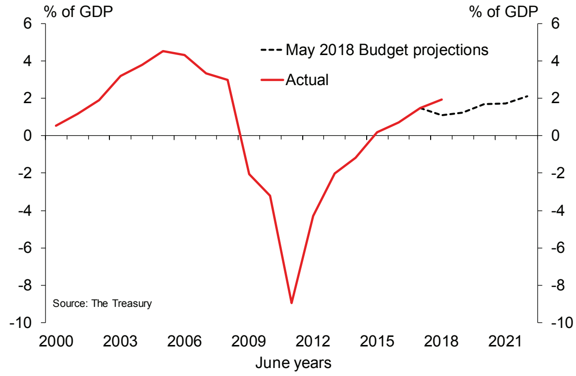
Crown expenses were $1.6bn below forecast, with shortfalls across a range of areas including social security, health, education and core government services. The Treasury cites delays in planned spending that will be caught up in the next financial year. But spending delays are a frequent occurrence – it's very likely that some of the spending planned for the June 2019 financial year will be delayed too.

The larger than expected surplus meant that net core Crown debt fell by $2bn over the June 2018 year. Net debt has now fallen to 19.9% of GDP, putting it well within the Government's fiscal responsibility rules, which specified a net debt ratio of 20% of GDP within five years of taking office.

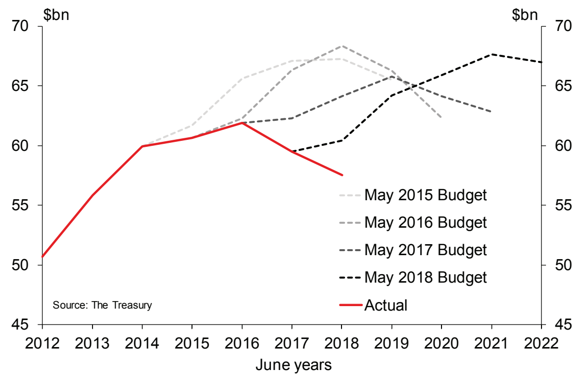
Delays in capital spending also contributed to the lower borrowing requirement. Net capital spending rose to $5.4bn (excluding a $500m contribution to the NZ Super Fund), a welcome increase after many years of broadly flat spending. However, this was still $800m below what was forecast in the May Budget – indeed, spending is still falling short of what was planned under the previous Government, let alone the current one. As we noted in our 11 May Bulletin "Spending up is hard to do", bottlenecks and capacity constraints have for some time been the main hindrance to a lift in infrastructure spending, not the Government's self-imposed borrowing limits.

Overall, the accounts for the June 2018 year suggest a substantial amount of wiggle room for the Government in coming years. Some of that wiggle room could quickly disappear – the Treasury's GDP forecasts are at the top of the market range, so there's a strong risk that the tax take falls short if the economy doesn't grow as rapidly as expected. But there is also room to provide some extra fiscal stimulus of the economy needs it. The challenge will be how to spend it, if bottlenecks are proving to be an issue in a number of areas.

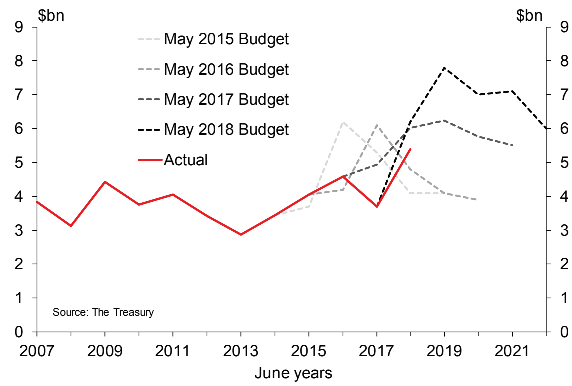
### Operating balance excl gains and losses




### Net core Crown debt




### Government net capital spending



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