WESTPAC ECONOMIC BULLETIN

Preview of New Zealand Budget 2023, 18 May 2:00pm.

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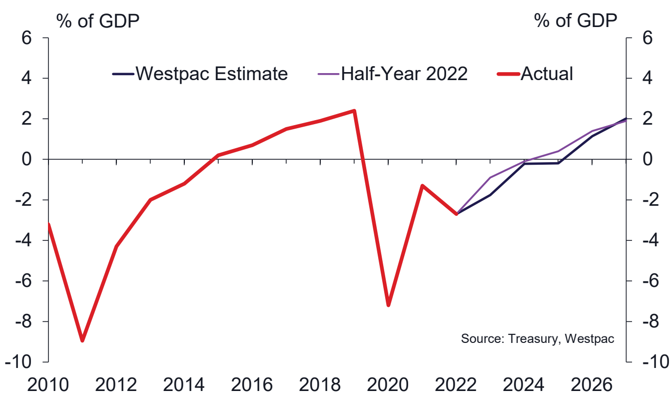
The "No Frills" Budget

- We expect Budget 2023 will show a moderate deterioration in New Zealand's fiscal position compared to the Half-Year Update.
- We have taken the recent Government announcements of a "no-frills budget" at face value and factored only limited additional spending focused on cost-of-living pressures and Cyclone recovery.
- Crucially, we expect Treasury to factor in a weaker economic outlook, translating into a lower tax revenues in future years.
- We expect the operating balance will return to surplus one year later than previously forecast, for net debt to shift modestly higher, and for a moderate lift in the debt programme.

The Government has stated clearly not to expect too much from Budget 2023. The economy is close to stall speed, and inflation is running red hot. With a Cyclone recovery in the mix, the Government has signalled that it will do what is necessary to alleviate cost-of-living pressures and fast track recovery from Cyclone Gabrielle, but not (a lot) more.

We have taken this sentiment largely at face value. Our economic forecasts relative to the Treasury's at the Half-Year Update are more pessimistic. We have then flowed this through to a lower tax revenue outlook. Indeed, the accounts are already behind what was forecast at the Half-Year Update – total Government revenue is $2.9bn behind forecast for the nine months to March 2023.

Operating balance (OBEGAL) as a % of GDP

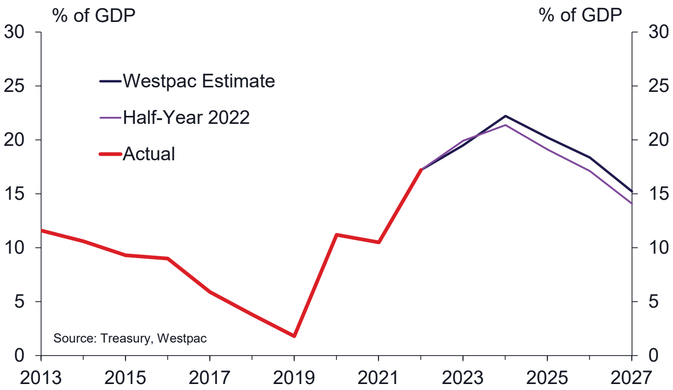


As a result, we expect the operating balance (OBEGAL) to tick over into surplus one year later than previously signalled i.e. in 2025/26. Notably, though, the Government still meets its fiscal rules of running small surpluses allowing for economic conditions.

To get there, we expect the Government will run a tight ship. That means no changes (increases) to the Budget allowances as they were signalled back in December (election sweeteners will have to wait, if they come at all). Although we do note that the Government has found around $1bn of savings to spend on its priorities at this Budget.

We also expect the larger deficits will translate to a modest increase in the net debt forecasts. That said, it will be more modest than the increase in deficits alone. Net debt will start the forecast period lower than forecast as the New Zealand Superannuation Fund has made some large investment gains since the Half-Year Update.

Net core Crown debt as a % of GDP



Market interest will be on the size of the bond programme. Overall, we expect an increase of $12bn over the five-year forecast period relative to the Half-Year Update. Circa $10bn of this increase reflects the increase in the forecast deficits resulting from reduced growth assumptions. We have also allowed for a small increase in borrowing ($2bn) to fund infrastructure costs relating to the Cyclone recovery. We have spread the increase evenly across the forecast period, although arguments could be made for this to be front-loaded to a degree.

Bond programme, $bn (June year)

	2023	2024	2025	2026	2027	5-year total to 2027
Westpac estimate	**28**	**33**	**33**	**23**	**23**	**140**
Half-Year Update	28	30	30	20	20	128
Change	0	+3	+3	+3	+3	+12

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