



THE TREASURY
Kaitohutohu Kaupapa Rawa

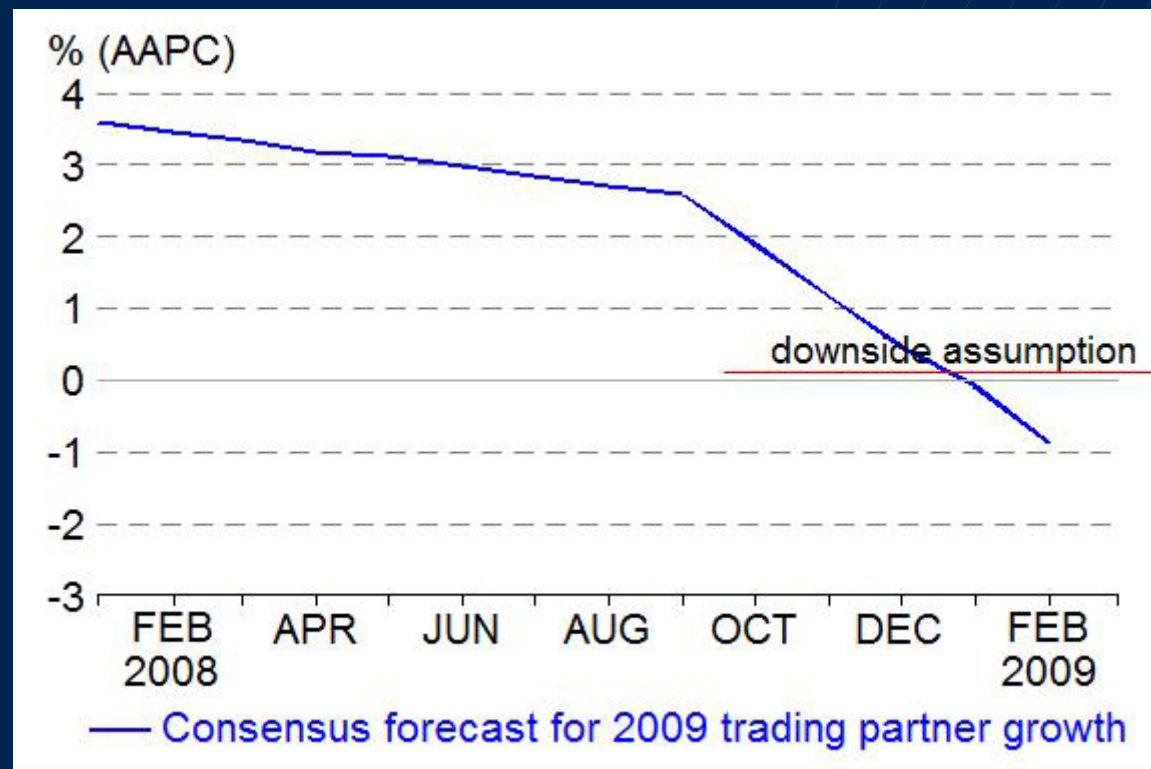
December Fiscal Forecasts

Audit NZ & OAG Central Government Sector Update

Peter Mersi
Deputy Secretary
March 2009

Growth in our trading partners

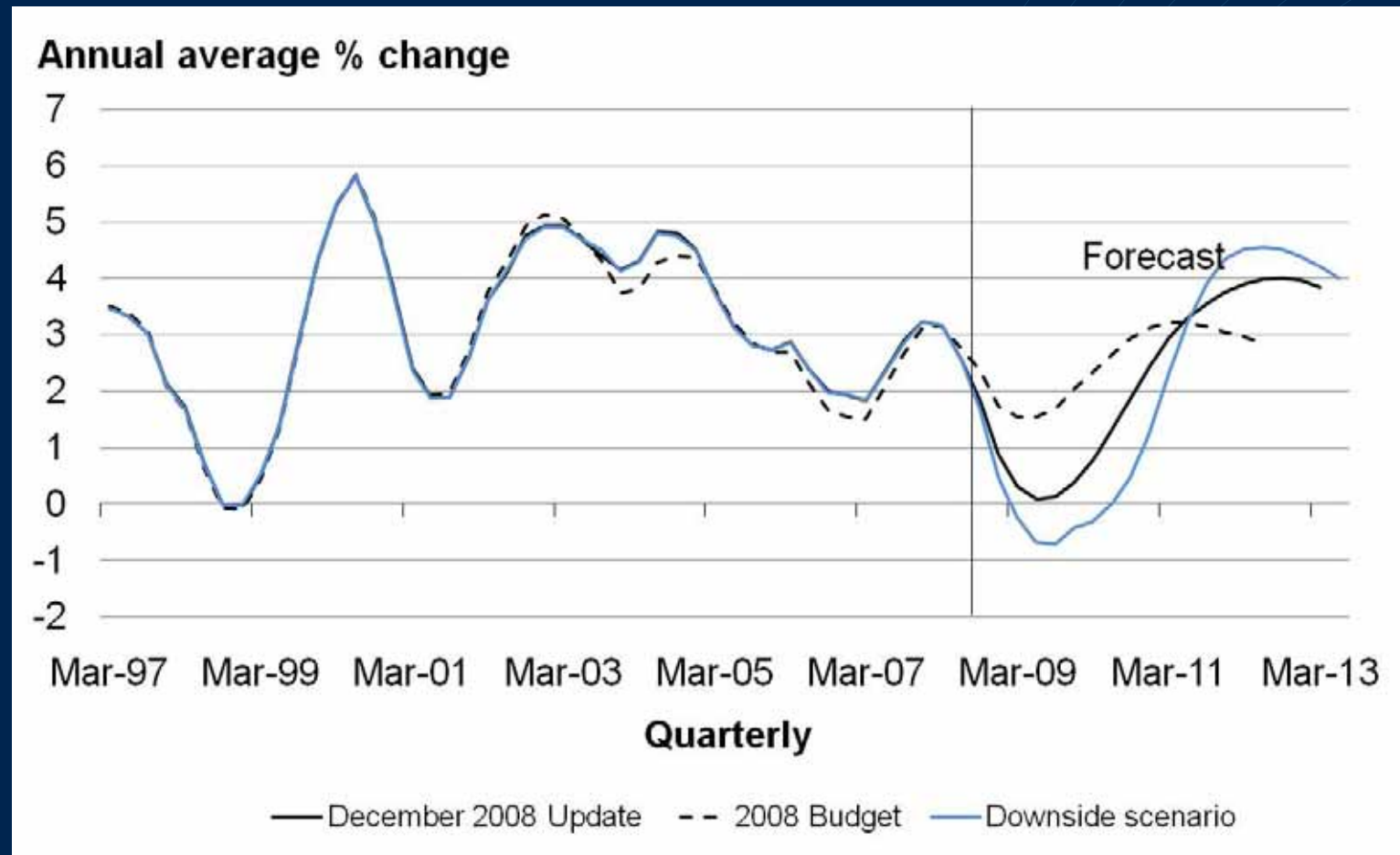
Consensus forecasts for growth in our top 20 trading partners over calendar 2009



Transmission channels

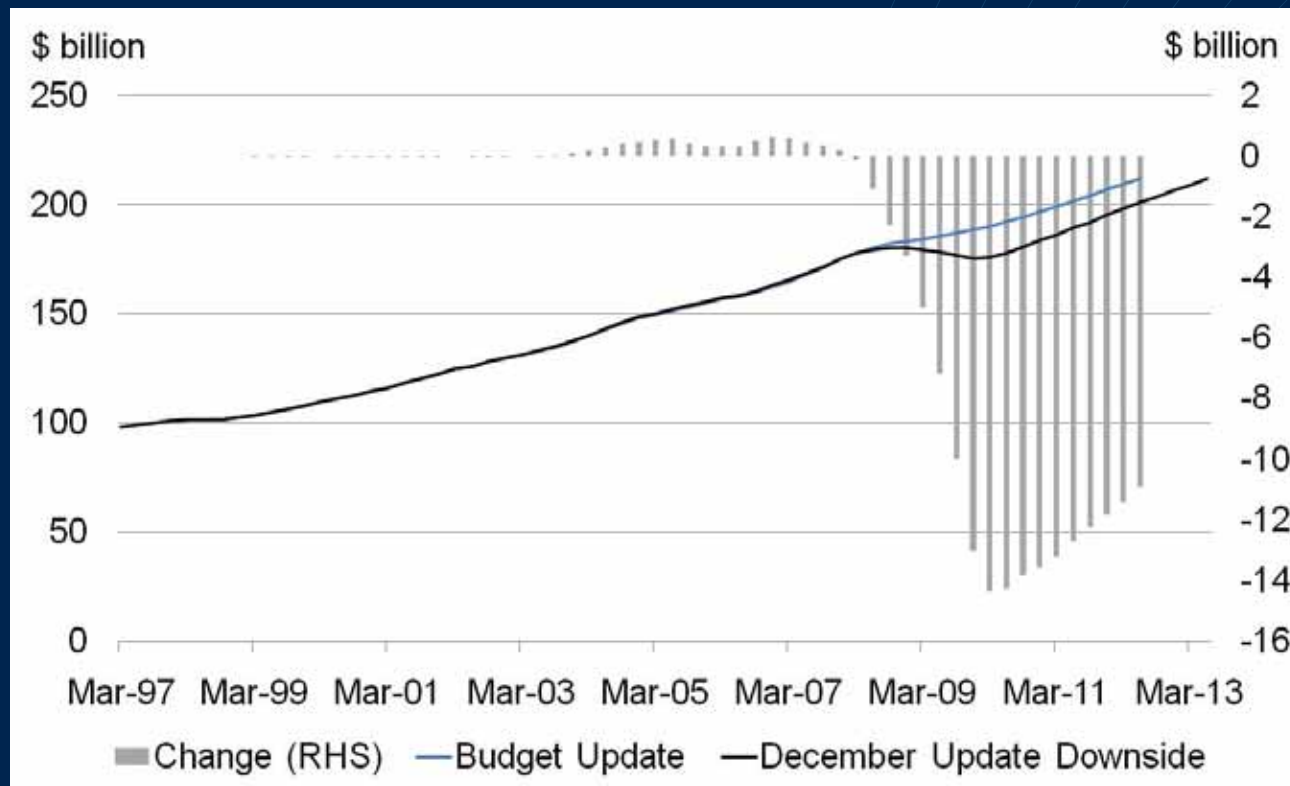
- Cost and availability of credit
- Lower demand
- Confidence
- Wealth

Weaker real growth



The bottom line – lower nominal GDP

Change in Nominal GDP: Budget v December Downside Scenario



What has changed

Changes by 30 June 2012 since Budget 08

Tax revenue

↓ \$5.5 billion

Benefits

↑ \$1.2 billion

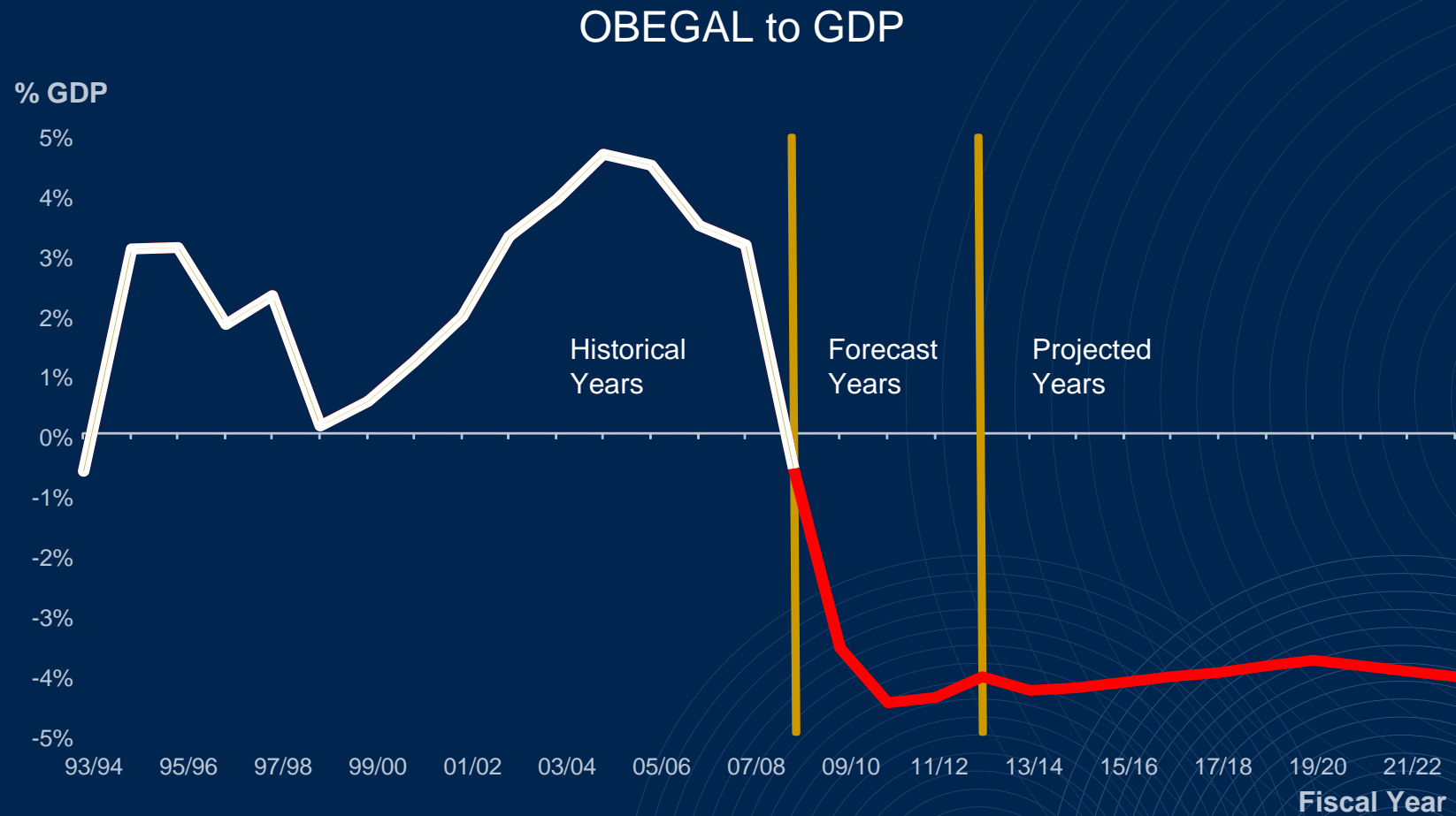
Finance costs

↑ \$1.2 billion

Total

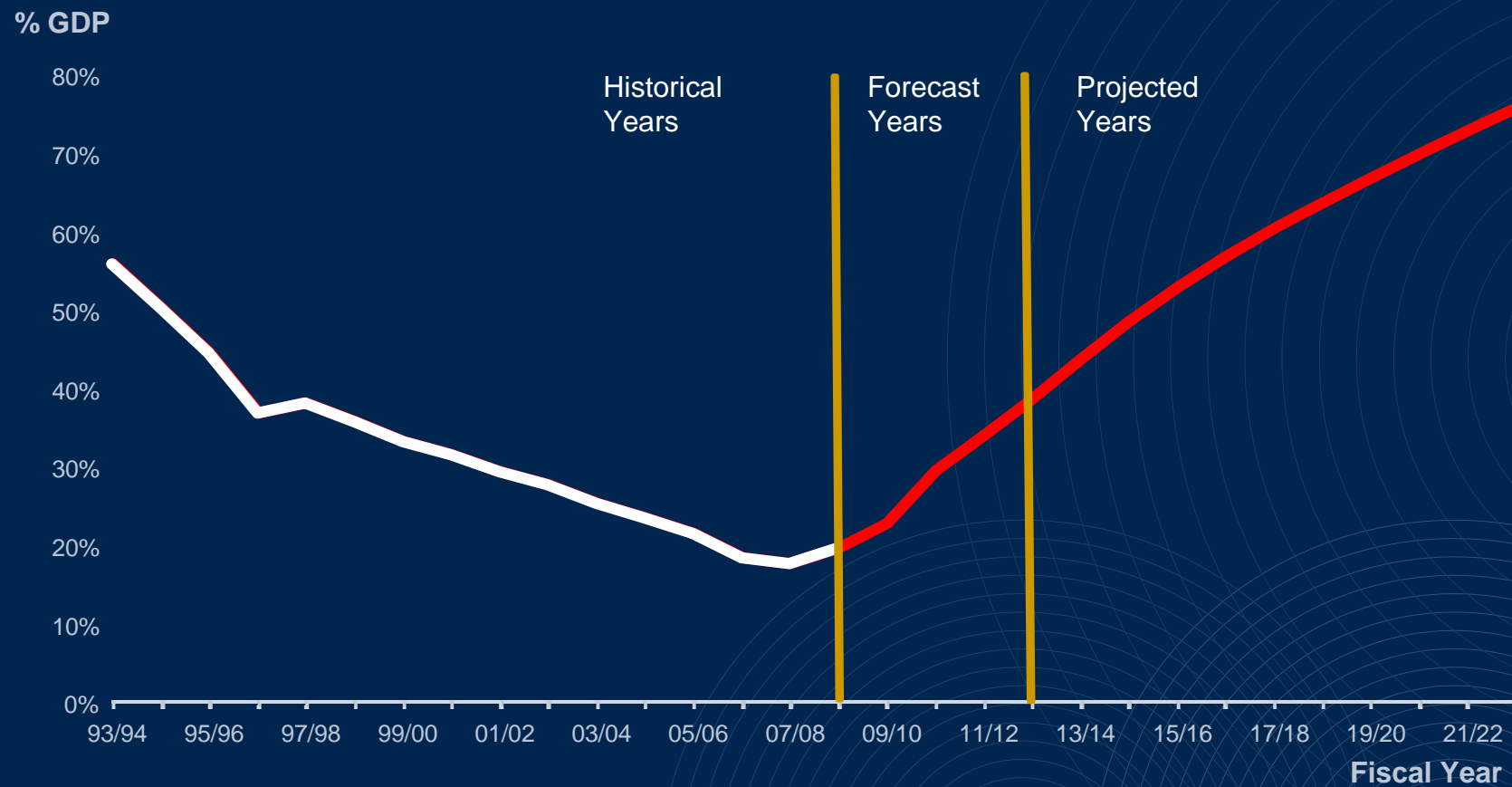
\$7.9 billion

Operating Balance



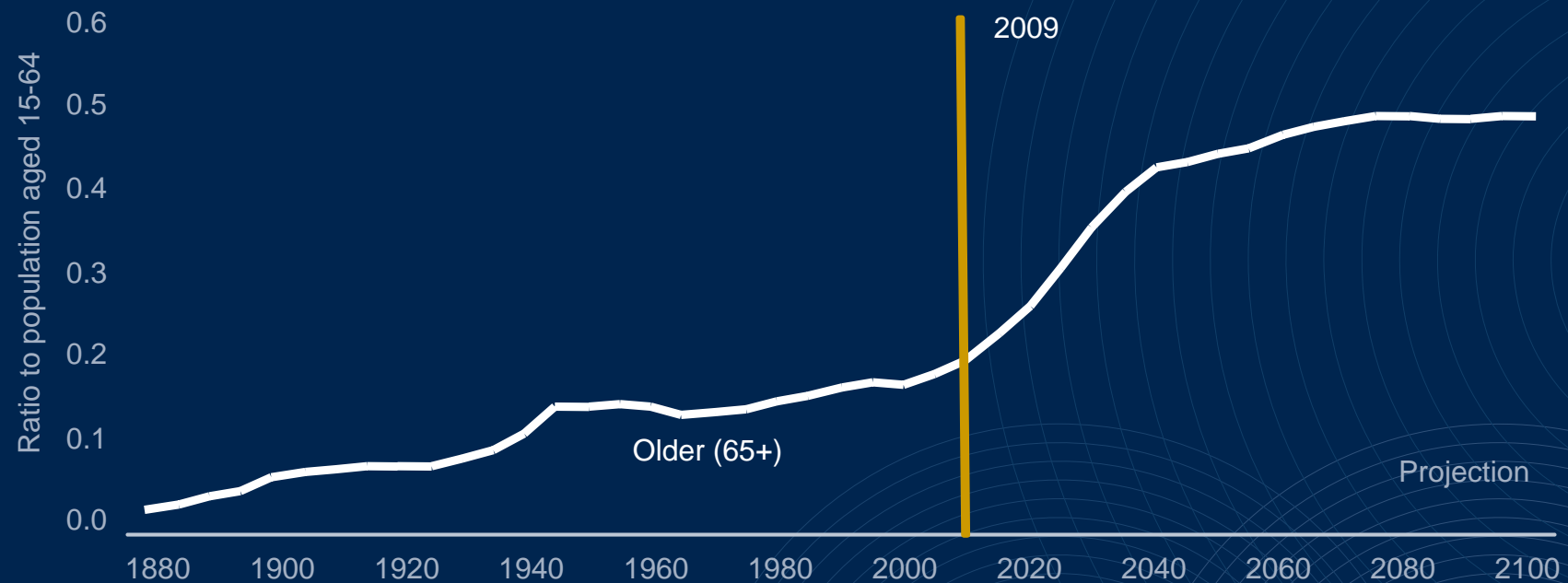
Debt

GSID to GDP



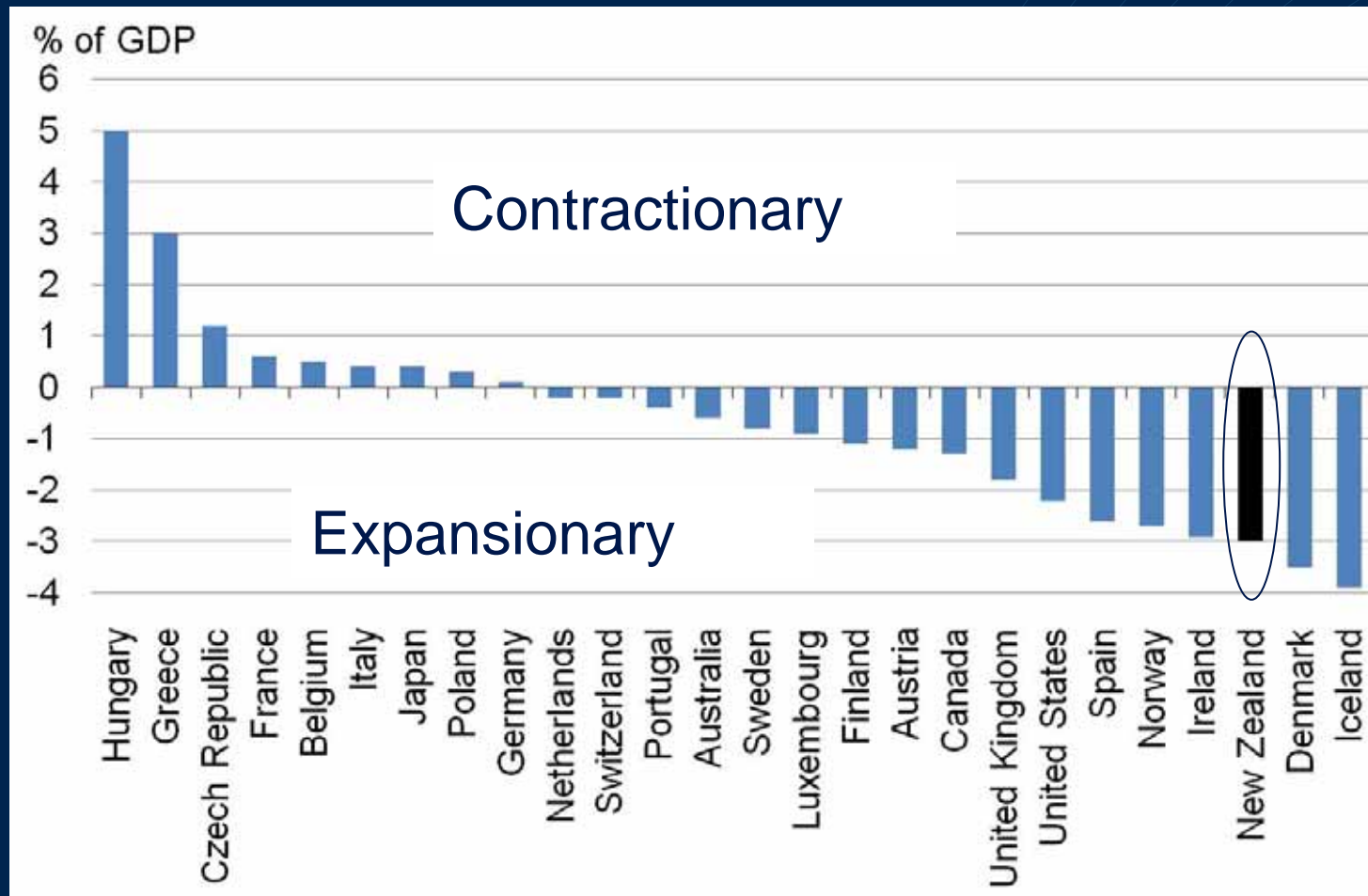
Demographics

Ratio of those aged 65+ to 15-64



Source: Statistics New Zealand

Large fiscal stimulus in the economy



Fiscal strategy

- The starting position is strong, govt debt is low.
- Future debt profile is outside of the range
Government considers prudent
- Government will need to taking steps to ensure that debt does not rise to this extent while also managing through difficult economic circumstances
- The government's medium term focus is on lifting growth and productivity in the economy.

... in the medium term this will require further action

- The BPS signals the Government's intention to:
 - Strengthen the economy
 - Limit expenditure growth
 - Get better value from spending
- 'Bending the curve' of debt will require action across all these over a number of years
- Fiscal Strategy report will provide details

Fiscal toolkit

Constraining spending

FOR EXAMPLE:

- Programme reductions/changing policy settings
- Addressing long-term pressures, e.g. health and justice sector
- Reducing new spending
- Efficiency gains

Raising revenue

FOR EXAMPLE:

- Increasing thresholds
- Introducing capital gains tax; increasing GST
- Increasing excise duties
- Increasing revenue from other sources (e.g. user pays)

Balance sheet options

FOR EXAMPLE:

- Contributions holidays from the Super Fund
- Getting better returns from SOEs: holdings, gearing, dividends
- Taking a stronger risk management approach across NZSF, EQC, GSF etc.

Improving economic growth

- Limited ability for direct government influence
- Want to position NZ to grow strongly when we come out of recession
- Impact is muted as a strong link between economic growth and growth in government expenditure

Are the departmental / sector outcomes priorities for this government?

- The Statement of Intent and Information Supporting the Estimates documents should reflect the current Minister's and Government's priorities either
 - Based on a conversationOR
 - Based on available material

Do the services / programmes contribute to achieving these outcomes?

- Documents report a performance story:
 - Clear outputs, impacts and outcomes
 - Linkages between outputs to outcomes –
 - Good intervention logic
 - Clear performance measures and standards for outputs, impacts and outcomes to assess progress/improvement relative to current position

Are there more efficient or effective ways of delivering these?

- Changing the mix of services delivered
 - Is there a better way to achieve the same outcome?
- Better services for less
 - Raising the performance standards for existing measures
 - Likely to require revisiting the way services are delivered to meet the higher expectations

Performance information as a building block to value for money

- If a service or output is not effective – its not cost effective - stop it or change it
- If you know service is effective then look at the efficiency of delivery
- If you are unsure if service is effective - work out how to test effectiveness
- If it is a core service focus on efficiency

What do Ministers expect out of the process

- Ministers expect to see timely action
- They do not expect endless special reviews
- They expect agencies to continually question:
 - What's the reason it exists?
 - Who is the service delivered for?
 - Is it delivered in the least cost way?