



**BUDGET  
2024**

# Budget Policy Statement

**Hon Nicola Willis  
Minister of Finance**

**27 March 2024**

Embargo: Contents not for communication in any form  
before 1:00 pm on Wednesday 27 March 2024.

**Te Kāwanatanga o Aotearoa**  
New Zealand Government





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# Budget Policy Statement

The Public Finance Act 1989 (PFA) requires the Minister of Finance to present a budget policy statement to the House of Representatives each year that sets out:

- the goals and objectives that will guide the Government's decisions in the forthcoming Budget, and
- the Government's short-term fiscal intentions, long-term fiscal objectives, and strategy for managing expenditure, assets and liabilities, if these have changed from those stated in the most recent fiscal strategy report.

The most recent fiscal strategy report was that prepared by the previous Government for Budget 2023. The coalition Government's fiscal strategy is different, so much of this Budget Policy Statement 2024 (BPS) is concerned with setting out a new fiscal strategy, including new short-term intentions and new long-term objectives.

This BPS also sets out the Treasury's current understanding of the state of the New Zealand economy, drawing on preliminary economic forecasts prepared in advance of the Budget. It does not present updated fiscal forecasts, as an accurate set of fiscal forecasts depends on information yet to be collected from a range of government entities and on decisions yet to be made on the Budget 2024 package. A full set of economic and fiscal forecasts and projections will be presented in the Fiscal Strategy Report (FSR), alongside the Budget on 30 May 2024.

## Budget goals and objectives

The Government's overarching goals for its term of office are to:

- Build a stronger, more productive economy that lifts real incomes and increases opportunities for New Zealanders.
- Deliver more efficient, effective and responsive public services to all who need and use them – in particular, to restore law and order and improve health outcomes and educational achievement.
- Get the government's books back in order and restore discipline to public spending.

These objectives will guide the Government's Budget decisions. They are also the Government's wellbeing objectives, as meeting these objectives is the most important contribution the Government can make to the long-term social, economic, environmental and cultural wellbeing of New Zealanders.<sup>1</sup>

For Budget 2024, the Government has identified the following priorities:

- Delivering meaningful tax reductions to provide cost of living relief to New Zealanders, who have seen no change in personal income tax rates and thresholds since 2010. Tax reductions will be funded by reprioritisation, savings and new revenue measures, and this package will not add to debt.
- Identifying enduring savings across government departments and agencies.
- Improving public services by shifting spending to higher-value areas and focusing on results.
- Keeping tight control of government spending while funding a limited number of high-priority Government policy commitments and urgent cost pressures that cannot be funded through reprioritisation.
- Developing a long-term, sustainable pipeline of infrastructure investments.

As the Government indicated in December last year, Budget 2024 will be challenging. The previous Government set a \$3.5 billion operating allowance for Budget 2024 but pre-committed around two-thirds of this allowance ahead of time.

The previous Government also left a number of initiatives with only time-limited, and expiring, funding. The extent of this time-limited funding is a major challenge for the Budget. For example, decisions were made in 2022 to provide additional funding for Pharmac to purchase new medicines and widen access to already funded medicines, but this funding stops on 30 June 2024. Making this and other initiatives time-limited made the future fiscal track look better but left any incoming government with difficult choices. Put together, the cost of pre-commitments and extending time-limited funding exceeds the previous Government's operating allowance for Budget 2024.

## Economic context

The economic outlook has deteriorated significantly since the *Half Year Economic and Fiscal Update* (HYEFU) in December. To illustrate this, the Treasury has produced a forecast scenario, drawing on preliminary economic forecasts prepared in advance of the Budget.<sup>2</sup>

GDP data for the September quarter of 2023, released after the HYEFU was finalised, was much lower than forecasters had predicted. Statistics New Zealand also made substantial downward revisions to growth in earlier quarters. Together, these results indicate that the

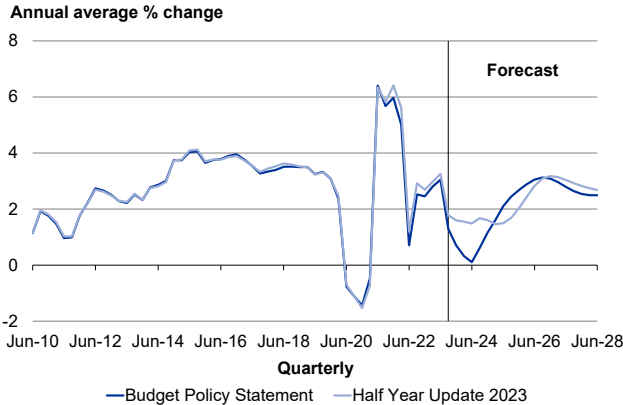
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<sup>1</sup> A 2020 amendment to the Public Finance Act requires the Government to state the wellbeing objectives that will guide its Budget decisions.

<sup>2</sup> See accompanying Treasury document: *Economic and Tax Outlook*, The Treasury, 27 March 2024.

New Zealand economy was materially weaker in recent years than previously thought (Figure 1). In terms of labour productivity, they indicate that each hour of labour input has resulted in less output than previously estimated. While Treasury expects labour productivity to improve over the next few years, the improvement comes off a lower base. As a result, the assumption of potential growth that underpins the Treasury’s real GDP forecast has been lowered.

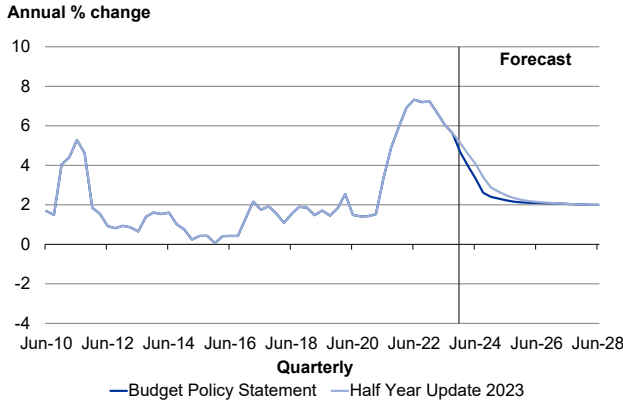
**Figure 1 – Real GDP growth**



Sources: Stats NZ, the Treasury

These changes, together with a revised inflation track (Figure 2), result in lower nominal GDP in each year of the forecast period (to 30 June 2028). This downgrade in nominal GDP flows through to lower tax revenue. By the end of the forecast period, the cumulative level of nominal GDP in Treasury’s economic scenario is \$42.8 billion lower than forecast at the HYEUFU and core Crown tax revenue is \$13.9 billion lower. In particular, core Crown tax revenue is around \$3 billion lower in 2026/27 and around \$4 billion lower in 2027/28, compared to the HYEUFU forecast.

**Figure 2 – CPI inflation**



Sources: Stats NZ, the Treasury

These revisions to the economic outlook will have a negative impact on the Government’s fiscal position. For example, HYEUFU forecasts showed an operating balance before gains and losses (OBEGAL) surplus of \$140 million in 2026/27 and \$3.4 billion in 2027/28. All else being equal, the revisions to forecast tax revenue will reduce the HYEUFU operating balances by around \$3 billion in 2026/27 and around \$4 billion in 2027/28.

Further revisions to GDP and tax revenue are likely in the *Budget Economic and Fiscal Update* (BEFU) and inevitable in the medium term. With the economy estimated to be at a turning point, there is elevated uncertainty about the economic and fiscal outlook, as illustrated by large revisions in recent updates. In the BEFU, the Treasury intends to publish further information on uncertainty around its forecasts.

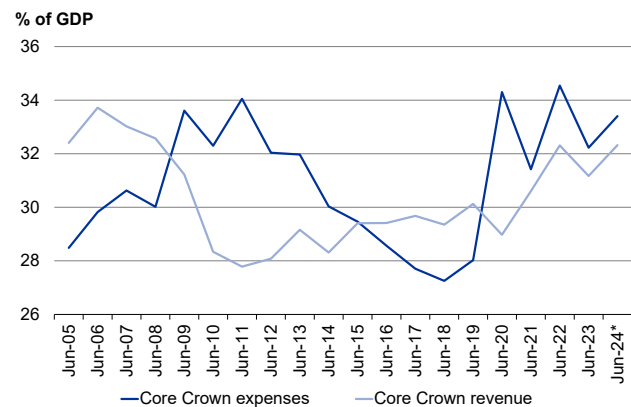
## Fiscal strategy

### The operating balance and government spending

The OBEGAL – the difference between government revenue and government spending (before gains and losses) – has been in deficit since 2019/20. This has largely been driven by an increase in core Crown expenses.

While some spending was temporary – for example, in response to the COVID-19 pandemic and the North Island weather events – there was a structural increase in other areas of spending. Between 2016/17 and 2023/24 (forecast), core Crown expenses have grown 84 per cent, compared to a 52 per cent increase in nominal GDP and a 66 per cent increase in core Crown revenue. Budget operating allowances over the last four years – Budgets 2020 to 2023 – have averaged around \$4.5 billion compared to \$1.4 billion between 2010 and 2019, and a considerable amount of spending was done outside of allowances.

**Figure 3 – Core Crown revenue and expenses**



\* Forecast core Crown revenue and expenses for the year to June 2024 is from the HYEPU forecasts.

Source: The Treasury

The structural increase in spending means that the Government would be in deficit – and would need to borrow to cover this deficit – even if the economy was operating at full capacity. This is not sustainable. Fiscal consolidation is required over time to bring revenue and expenses back into balance. Tight fiscal policy in the near term will also support monetary policy to bring inflation within target, and maintain it there.

The Government's strategy for managing expenditure is to embed a culture of responsible spending, restore fiscal discipline, right-size the government's footprint and improve the efficiency and productivity of spending. This will not be achieved in a single Budget. International evidence is that reducing deficits is best done over the course of several years and should be focused on structural reforms to expenditure and revenue settings.

As signalled in the Speech from the Throne in December 2023, the Government's intention is to reduce core Crown expenditure as a proportion of the overall economy. In the longer term, the Government's objective is to reduce core Crown expenses towards 30 per cent of GDP. This year, core Crown expenses are forecast (in the HYEPU) to be 33.4 per cent of GDP, and have been above 30 per cent of GDP since 2019/20.

An operating surplus will be achieved via a steadily improving OBEGAL trajectory. A specific timeframe for returning to surplus will be set out in the FSR, when a complete set of updated fiscal forecasts and projections will be available. It would be premature to identify a surplus date now, based on incomplete information.



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OBEHAL is a total Crown measure, so includes the results of Crown entities (CEs) and state-owned enterprises. Over the forecast period, CEs are expected to make a significant negative contribution to OBEHAL. For example, the HYEPU showed deficits from the Accident Compensation Corporation (ACC) of \$3.3 billion per annum on average over the 2024–2028 period, flowing straight into the OBEHAL.

A key tool in controlling expenditure growth and returning to surplus is setting tight but realistic spending allowances across the forecast period. Budget 2024 will have an operating allowance of less than \$3.5 billion, with the exact number to be confirmed in the Budget. \$3.5 billion was the size of the Budget 2024 operating allowance at HYEPU.

Operating allowances for Budgets 2025 to 2027 will be set out in the FSR.

## Debt

The Government's approach to public debt is that operating expenses should be funded out of operating revenue over time, with debt being used for three purposes:

- as a smoothing device, to allow automatic fiscal stabilisers such as tax revenue and unemployment benefit spending to operate across the economic cycle
- as a buffer in the event of an economic shock such as a natural disaster or financial crisis, and
- to fund high quality investments that provide benefits to New Zealand over time, including those that increase the productive capacity of the economy.

New Zealand's debt has increased rapidly in recent years. Some, but not all, of this increase was due to COVID-19. Using its own internationally comparable measure of debt, the International Monetary Fund estimated that debt in New Zealand rose more than all 33 countries in its advanced economy grouping over the COVID-19 period, apart from the United Kingdom and Malta.

In 2009, the Government adopted net core Crown debt as its headline indicator and specified its long-term debt objective in these net debt terms. Net debt includes financial assets as well as financial liabilities, and better reflects the underlying strength of the Crown balance sheet.

In 2022, the previous Government revised this measure by adding the assets of the New Zealand Superannuation Fund (NZSF), core Crown advances and CE borrowing.

The Government is changing the headline net debt indicator back to the established, 2009 definition of net core Crown debt. While there were some good reasons for introducing the 2022 measure, and Treasury will continue to report it, the Government is concerned that the inclusion of NZSF assets introduces too much volatility to a headline measure. Moreover, returning to the 2009 measure provides greater clarity over how the current size of debt, and the Government's debt objectives, fit into a historical context.<sup>3</sup> Net core Crown debt is currently 44 per cent of GDP – around the same as it was in the mid-1990s (Figure 4).

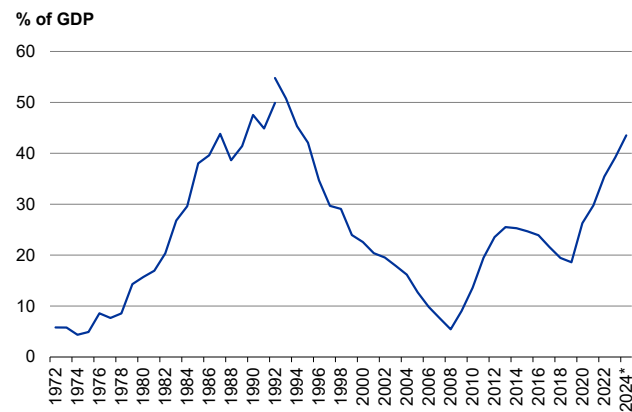
In 2022, the previous Government adopted a net debt ceiling of 50 per cent of GDP (translated into the 2009 net core Crown debt measure). While the Government accepts that 50 per cent of GDP can be considered the upper bound of prudence on debt sustainability grounds – based on Treasury modelling<sup>4</sup> – it should not be a target. New Zealand needs a healthy balance sheet buffer as, in comparison to many other countries, we are a small economy, vulnerable to natural disasters, reliant on commodity exports and dependent on international debt markets. Shocks can rapidly increase debt. Figure 4 illustrates the impact of the global financial crisis and the COVID-19 pandemic on New Zealand's debt, being major contributors to the increase in net core Crown debt from 5 per cent of GDP to 44 per cent of GDP in only 16 years.

The Government is also conscious of the interest burden of public debt. Finance costs have increased from both higher interest rates and increased debt issuance. In the current financial year, finance costs are forecast in the HYEPU to be \$8.8 billion, which is around \$1 billion higher this year than government operating spending on the Defence Force, the Police, Corrections and Customs combined.

The Government therefore intends to put net core Crown debt on a downward trajectory. Once it is below 40 per cent of GDP, the Government intends to maintain net core Crown debt within a band of 20 to 40 per cent of GDP. Relative to the previous Government's 50 per cent ceiling, this objective reduces the risk that future shocks could ratchet up debt to a level at which severe corrective action is required.

The range of 20 to 40 per cent of GDP recognises that pursuing very low levels of public debt can involve forgoing opportunities for productive investment.

**Figure 4 – Net core Crown debt**



\* Forecast net core Crown debt for the year to June 2024 is from the HYEPU forecasts.

\*\* The disjunct in the chart is because the measure of net core Crown debt adopted in 2009 is only restated back to 1992. An earlier measure of net core Crown debt which included advances is shown for the period before 1992.

Source: The Treasury

<sup>3</sup> The 2009 measure of net core Crown debt does not include borrowing by CEs. Much of this borrowing is from the government itself and is therefore of no concern from a debt perspective. Kāinga Ora (KO), however, issued bonds between 2018 and 2022, with the approval of the previous Government. As this debt was issued at a premium to Government bonds, it led to an unnecessary increase in the cost of Government debt, as well as reducing oversight of KO's financial decisions. The Government does not intend to repeat this experiment with KO or other CEs and will consider amending legislation to prevent it happening in the future. KO currently has approximately \$7.5 billion of bonds outstanding, and most of these bonds will mature by 2030.

<sup>4</sup> *The Treasury's analysis and recommendations for fiscal rules*. The Treasury, May 2022: <https://www.treasury.govt.nz/publications/guide/treasurys-analysis-and-recommendations-fiscal-rules>

## Capital expenditure

The need for fiscal discipline applies equally to capital expenditure as it does to operating. There is a clear need for investment in New Zealand, but prioritisation is necessary to deliver value for money, given current capacity and fiscal constraints. The previous Government made a significant allocation of capital funding over recent years, the level of which has impacted market and agency capacity and consequently delayed the delivery of investments and increased costs.

In Budget 2024, the Government will top up the multi-year capital allowance (MYCA) by up to \$7 billion, with the final number to be confirmed in the Budget. \$7 billion is the amount assumed in each projection year (in real terms) in the Treasury’s fiscal strategy model. At present, there is only \$3.45 billion in the MYCA, which is intended to be a multi-year allocation. A MYCA top-up of up to \$7 billion will help ensure that the Government’s investment objectives are achieved in a way that is fiscally responsible and recognises the capacity of the market to deliver without pushing up costs.

The Government intends to take a more deliberate approach to building a sustainable pipeline of investments than has previously been the case. Capital investment decisions will be based on robust asset management and investment planning, including the presentation of high-quality business cases.

## Short-term intentions and long-term objectives

**Table 1 – The Government’s short-term fiscal intentions for the next four financial years**

**Budget Policy Statement 2024**

Debt	Maintain total debt at prudent levels. Put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent.
Operating balance	Work towards a surplus via a steadily improving trajectory for the operating balance (before gains and losses). Ensure consistency with the short-term intention for debt.
Expenses	Reduce core Crown expenses as a percentage of GDP. Ensure expenses are consistent with the operating balance intention.
Revenue	Ensure revenue is consistent with the operating balance intention.
Net worth	Maintain net worth at around 40 per cent of GDP.

Note that in the Fiscal Strategy Report in May, the Government will bolster these short-term intentions with forecasts for the major fiscal variables.

**Table 2 – The Government’s long-term fiscal objectives for the next 15 financial years****Budget Policy Statement 2024**

Debt	Maintain total debt at prudent levels. Once net core Crown debt is below 40 per cent of GDP, maintain it within a range of 20 per cent to 40 per cent of GDP, subject to economic shocks.
Operating balance	Maintain operating surpluses sufficient to ensure consistency with the debt objective. This will ensure that, on average, over a reasonable period of time, operating expenses are funded from operating revenues and not from debt.
Expenses	Control growth in government spending so that, over time, core Crown expenses reduce towards 30 per cent of GDP.
Revenue	Ensure the level of operating revenues is consistent with the operating balance objective and supports long-term productive economic growth.
Net worth	Ensure net worth remains at a level sufficient to act as a buffer to economic shocks.

These intentions and objectives are consistent with the principles of responsible fiscal management as set out in the Public Finance Act, as net core Crown debt between 20 per cent and 40 per cent of GDP is within the range of prudent debt as discussed above. The short-term intentions are consistent with the long-term objectives as they indicate the same direction of travel for each of the fiscal variables. Budget 2024 accords with the new short-term intentions as restricting operating allowances is aimed at bringing the OBEGAL back into surplus, reducing core Crown expenditure as a percentage of GDP and putting net core Crown debt on a downward trajectory.

## Managing the Crown’s balance sheet

The Government considers that effective management of assets and liabilities is important to a sustainable fiscal strategy. The Crown’s balance sheet is now very large, having expanded to \$553 billion of assets as of January 2024. As a result, even small improvements in performance can make a sizeable contribution to living standards.

The Government’s strategy for balance sheet performance includes:

- reducing debt to restore the Crown’s balance sheet buffer which provides resilience to future shocks
- unlocking new funding and financing models to catalyse private investment, and
- ensuring that the Crown’s capital is directed to its highest value use.