



ECONOMIC BULLETIN

Preview of the 2023 Half-Year Economic and Fiscal Update –
Wednesday 20 December, 1pm.

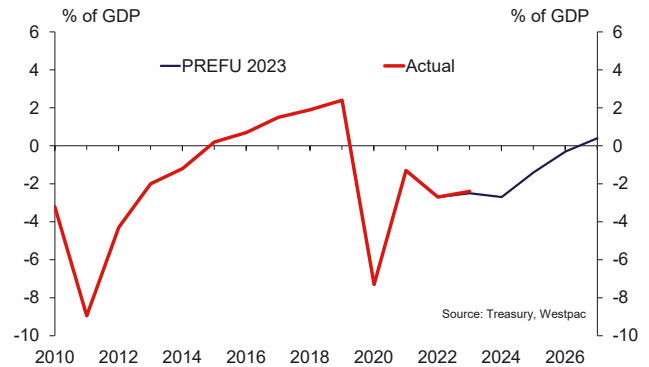


7 Dec 2023 | Nathan Penny, Senior Agri Economist | +64 21 743 579 | nathan.penny@westpac.co.nz

Early days

- It's very early days for the new government.
- As a result, we expect little change in the Government's books at the Half-Year Update. The OBEGAL and bond programme forecasts will be broadly unchanged.
- Also, we don't expect many fresh policy announcements on top of what has been agreed and announced by the Coalition Government.
- That said, we expect the Minister Finance to signal a clear commitment to fiscal discipline, with more detail to follow in Budget 2024.

Operating balance (OBEGAL) as a % of GDP



The new National-Act-NZ First government barely have their feet under the desk. Indeed, the Coalition agreement was announced two weeks ago tomorrow.

As a result, we expect little change to the Government's books at the Half-Year Update (HYEFU). Indeed, while this Update has been dubbed a 'mini Budget', new Finance Minister, Nicola Willis, has emphasised the 'mini' part.

Moreover, since the Pre-Election Update (PREFU), the books have largely evolved as the Treasury expected, with the operating balance within \$100m of the PREFU forecast as at October 2023. That said, there may be some upside to Treasury's forecasts of tax revenue due to high net migration.

This will help offset some of the concessions the National Party made during the coalition negotiations. Notably,

Bond Programme, \$bn (June year)

	2024	2025	2026	2027	2028	4-year total to 2027
Westpac estimate	36	35	30	28	26	129
Pre-Election update	36	35	30	28	-	129
Change	0	0	0	0	-	0

the Foreign Buyer Tax, which National had expected to raise around \$3bn over the five years to June 2028 did not make it through the coalition negotiations.

The key plank of National’s election promises – tax relief – has been retained. This was costed by National at \$14.6bn over five years. Treasury will of course do its own estimates so this cost may shift a little either way.

All up, we expect the HYEPU operating balance estimates to anchor roughly around the PREFU estimates, with a return to surplus clearly shown in the 2026/27 year. If there is any ground to be made up, we expect that government departments will be asked to do more in terms of baseline expenditure savings. The new government may want to distance itself from the previous one by showing a higher operating balance track. However, we would argue that this is largely for appearances given the likely small differences and the other constraints discussed above.

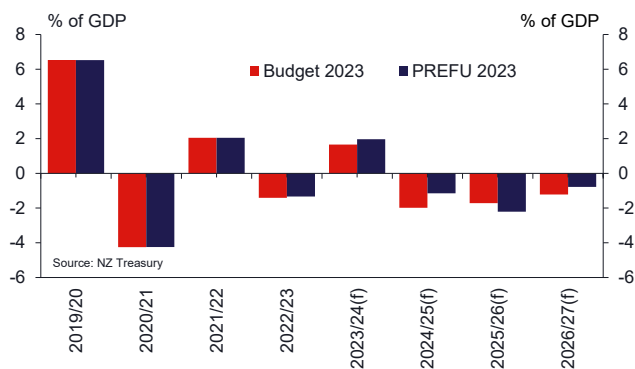
On the capital expenditure side, it is much too soon to expect major changes. The new government will however highlight changing priorities, with the announced focus on regional investment and the National Roads of Significance. It may also further hint at exploring private sector partnerships or other alternative funding measures as a way of funding and delivering infrastructure.

We expect little change in the government’s debt track or bond programme. Although again for appearances, it may want to show a lower net debt track.

Stepping back, we expect Minister Willis to signal a clear commitment to fiscal discipline over this term and that more detail will follow in the new year and at Budget 2024.

For the RBNZ, the key factor they will consider is how the fiscal impulse measure evolves relative to that shown in PREFU (which the RBNZ thought was not sufficiently contractionary to contain inflation pressures). We expect the revised fiscal impulse measure to show a modestly tighter fiscal stance.

Fiscal Impulse



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