

HYEFU 2021 and BPS 2022: Announcement



Addressing climate change is the key investment priority signalled by the Government. Budget 2022 will establish a Climate Emergency Response Fund (CERF), initially of \$4.5 billion over the next four years, funded by the Emissions Trading Scheme, with more investment likely required to meet the Government's climate change objectives.

Key takeaways

Climate change is a clear priority for Budget 2022, alongside continuing investment in the health system, supporting the Government's health reforms. The Budget Policy Statement demonstrates a commitment by the Government to New Zealand's obligations under the Paris Agreement.

Keeping New Zealand safe from COVID-19 continues to be a focus, in regard to supporting and directing the recovery and rebuild from the pandemic, as well as addressing systemic issues such as housing affordability and child poverty.

The Government's Wellbeing Objectives remain largely unchanged.

Budget 2022 will include a one-off increase in the operating allowance to \$6 billion for investment in major programmes.

Economic performance

The country's economic performance has been stronger than expected, with the economy operating close to its potential. Treasury has forecast a 6% fall in real GDP in the September 2021 quarter, followed by a gradual recovery to 3.7% and 3.8% over the following two quarters to March 2022. The Treasury remains confident in its forecast in light of Omicron and other potential emerging COVID-19 variants, but do note this is a key source of downside risk.

Unemployment remains low, falling to 3.4% in September 2021. It is expected to fall further to 3.1% in the March 2022 quarter and remain low over an extended period - rising to 4.1% in June 2026.

Inflation is expected to peak at 5.6% next year, before declining towards 2.2% by June 2026.

The Government accounts are expected to return to surplus sooner than expected. Net debt is expected to peak at 40.1% of GDP in 2022/23, then fall to 30.2% during the forecast period.

Infrastructure will play an important role in the recovery from COVID-19 and the transition to a low-emission and climate-resistant economy. Treasury notes independent estimates of the infrastructure deficit range between \$17 billion to \$75 billion.

Housing market activity continues to be strong and affordability remains a major challenge.

Climate change

Climate change is one of the most pressing long-term challenges facing New Zealand. Investment in initiatives to reduce net emissions and meet this country's climate goals will be a key focus of Budget 2022.

Next year's Budget will establish a multi-year, enduring Climate Emergency Response Fund (CERF) from the proceeds of the Emissions Trading Scheme, with \$4.5 billion in funding over the next four years. The Government has acknowledged that more funding will be required to meet its climate change objectives, and CERF will be reviewed alongside Budget allowances in future.

Through Budget 2022, the CERF will focus on initiatives and programmes aimed at delivering the emissions reductions outlined in the Government's first **Emissions Reduction Plan**, to be released by 31 May 2022.

As part of the \$4.5 billion CERF fund, the Government has committed \$800 million to increasing New Zealand's support for countries vulnerable to climate change. This will increase the support provided by New Zealand to countries vulnerable to climate change to \$1.3 billion over the next four years, with at least 50 percent targeted to Pacific Island countries.

Future budgets will look to expand the scope of the CERF to fund measures supporting climate change adaptation and mitigation. Other commitments to reducing climate change include recapitalising the Green Investment Fund, providing international climate finance to developing countries, jobs for nature, a clean car package and on-farm emissions.

Health

As indicated through the health system reform announcements, health will be a key area of investment for Budget 2022.

The health reforms are intended to deliver more equitable outcomes through the Māori Health Authority and create a dedicated Public Health Agency. These, combined with Health New Zealand, will reduce fragmentation and improve outcomes for all New Zealanders. Budget 2022 will include significant investment to establish the new entities in a sustainable way, that can begin delivering the shifts envisaged.