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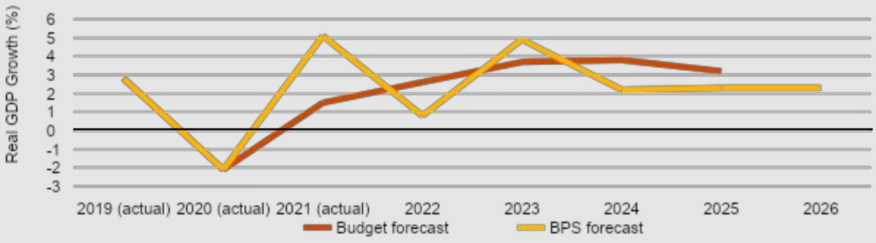
Treasury Half-Yearly Economic Update

COVID-19 continues to dominate New Zealand's economic picture alongside a tight labour market, with predictions that unemployment will drop to a record low of 3.1% in the March 2022 quarter. Supply-chain constraints and high inflation are also leading to significant growth in prices and uncertain GDP expectations.

GDP: growth continues

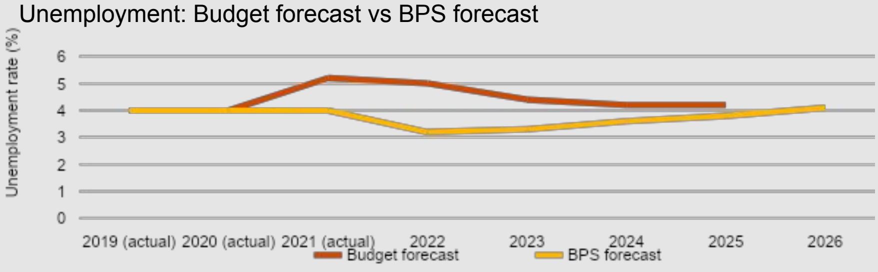
Real GDP Growth: Budget forecast vs BPS forecast



COVID-19 uncertainty and lockdowns saw predicted GDP growth fall to 0.8% in 2022. This is expected to recover to 4.9% in 2023 as a result of pent-up demand and increased consumer spending. Uncertainty remains due to the potential impacts of COVID-19 variants. GDP growth is anticipated to level out to 2.3% by 2025, similar to Budget forecasts.

Unemployment: the market tightens further

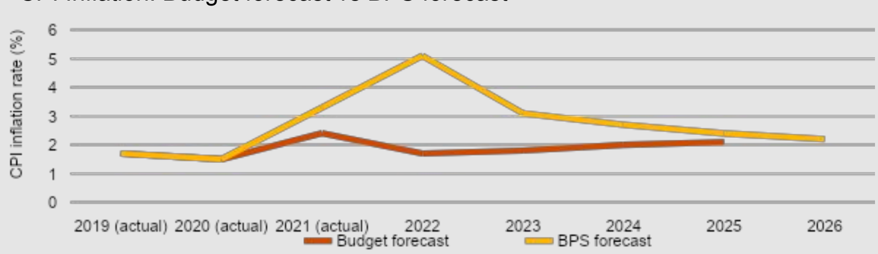
Unemployment: Budget forecast vs BPS forecast



Unemployment remains low, with post-lockdown economic growth and closed borders creating a tight labour market. Unemployment is expected to fall to 3.1% in the March 2022 quarter. This is matched by a strong labour force participation rate, at a historical high of 71.2%. Unemployment is expected to remain below 4% until 2026.

CPI: inflation continues to increase

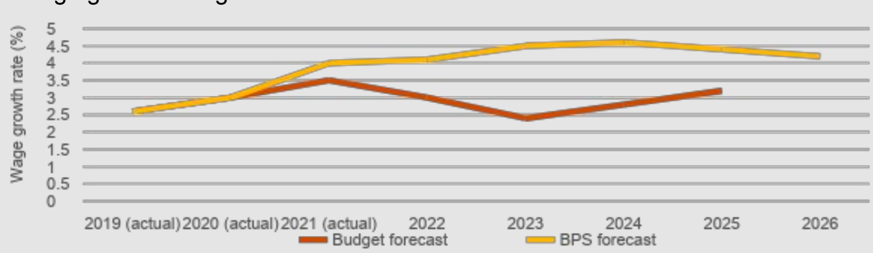
CPI Inflation: Budget forecast vs BPS forecast



Treasury expects inflation to be above target in the short term, peaking at 5.6% in the March 2022 quarter. This is then anticipated to decline towards the Reserve Bank's 2% midpoint during the forecast period. House price growth is expected to be flat from 2023 to the end of the forecast period. The 90 day bank bill rate is expected to reach 3.2% in the 2023 June quarter.

Wage growth: trending upwards

Wage growth: Budget forecast vs BPS forecast



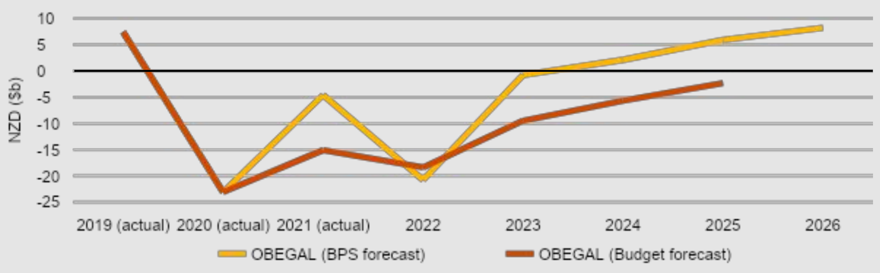
A strong labour market is driving increased wages, but these will be felt unevenly across the economy. Growth is particularly expected in the construction and primary manufacturing industries. Overall wage growth is expected to reach a peak of 4.6% in the December 2023 quarter, remaining high to the end of the forecast period at 4.2%.

Treasury Half-Yearly Fiscal Update

The fiscal picture continues to improve, with revenue and expenses generated expected to be higher than the Budget 2021 update. OBEGAL is on-track to return to surplus three years earlier than expected, and with a larger surplus by the end of the forecast period. However, uncertainty continues with the emergence of the Omicron variant and ongoing COVID-19 impacts across New Zealand. Budget 2022 will see a significant focus on climate change and health.

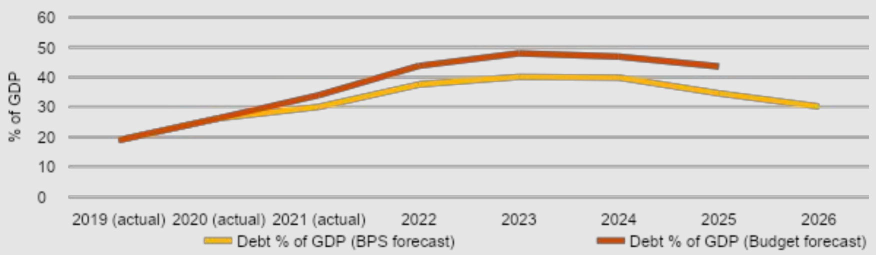
OBEGAL deficit

Operating balance before gains and losses



The OBEGAL will continue to grow from increased investment and COVID-19 spending. However, OBEGAL is expected to return to surplus in the 2023/24 period - three years earlier than expected at Budget 21. It is expected that the current OBEGAL deficit will turn into an $8.2 billion surplus by the end of the period.

Net core crown debt



Debt as a percentage of GDP is predicted to continue growing, peaking at 40.1% in the 2022/23 year. This peak is significantly lower than expectations set in Budget 2021 and with strong GDP growth, is indicative of a strong fiscal budget moving forward.

Budget 2022 focus: Long-term investment in climate change and health

$4.5b

in Climate Emergency Response Fund

$4.0b

Increase in multi-year capital allowance

(compared to Budget Update)

Budget 2022 is focused on long-term investments by the Government, particularly in climate change and health. A single-year $6 billion operating allowance targets large, systemic issues facing New Zealand. Climate change and health remain at the forefront of this spending, driving greater emissions reductions and supporting health sector transformation. Over the 2022-2026 forecast period, $4.5 billion generated from the Emissions Trading Scheme will be allocated to the Climate Emergency Response Fund to support climate action. Over the same period, an extra $4 billion will be allocated to the multi-year capital allowance, bringing it to a total of $9.8 billion.