Mini-Budget and Half Year Economic and Fiscal Update 2023

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Summary at a glance

As anticipated, the Mini-Budget focuses on the new coalition Government's key priority areas and 100 Day Plan, and confirms savings (and costs) associated with previously announced policy initiatives. The Half Year Economic and Fiscal Update (HYEFU) forecasts a further deterioration in economic conditions.

It is important to note that the economic forecasts included in HYEFU were finalised on 6 November 2023, and the fiscal forecasts on 24 November 2023, before the formation of the coalition Government. This means that the impact of Government announcements are not incorporated into the HYEFU forecasts.

While the Treasury anticipates that the impact of the Government's signalled commitments will be broadly neutral over the forecast period, there is a high degree of uncertainty and downside risk to these forecasts.

Economic update

HYEFU highlights a further deterioration in economic conditions since the Pre-Election Economic and Fiscal Update (PREFU) in September.

The economy is forecast to slow over the next two years, largely due to elevated interest rates increasing the cost of borrowing and servicing of net debt. Strong net migration and increasing international tourism are expected to provide some offset.

HYEFU forecasts the return to an operating balance surplus of $0.1bn in 2026/27, compared with the $2.1bn surplus forecast at PREFU.

Mini-Budget announcements and other priority initiatives may impact the economic and fiscal outlook, particularly in relation to GDP, employment, and the forecast return to surplus.

Mini-Budget 2023

The focus of the Mini-Budget is on quantifying previously signalled targeted savings (and additional revenue) and priorities for Budget 2024. Further detail on spending priorities will be provided in the Budget Policy Statement in March 2024, ahead of the Budget in May.

The savings announced today provide $7.47bn across the forecast period, including:

- Stop-work instructions on 10 policy work programmes, aligned with priorities established in the Government's 100 day plan (returning $2.61bn of previously committed funding).
- Delivery of tax and income changes:
  - returning the Brightline test time period to two years from 1 July 2024
  - removing commercial buildings depreciation from 1 April 2024
  - the indexation of main benefits to CPI from 1 April 2024.
- Decisions to enable the climate dividend:
  - returning funding from the Government Decarbonising Industry Fund
  - returning uncommitted funding from the Climate Emergency Response Fund (CERF)
  - returning uncommitted CERF funding from the National Land Transport Fund.

The Government also confirmed its intention to reinstate interest deductibility for rental properties from April 2024.

In addition, the Government signalled its priorities for Budget 2024. Aligned with the existing areas of focus in its 100 Day Plan, these include:

- addressing the rising cost of living (including tax relief)
- delivering effective and fiscally sustainable public services
- building for growth and supporting private enterprise.

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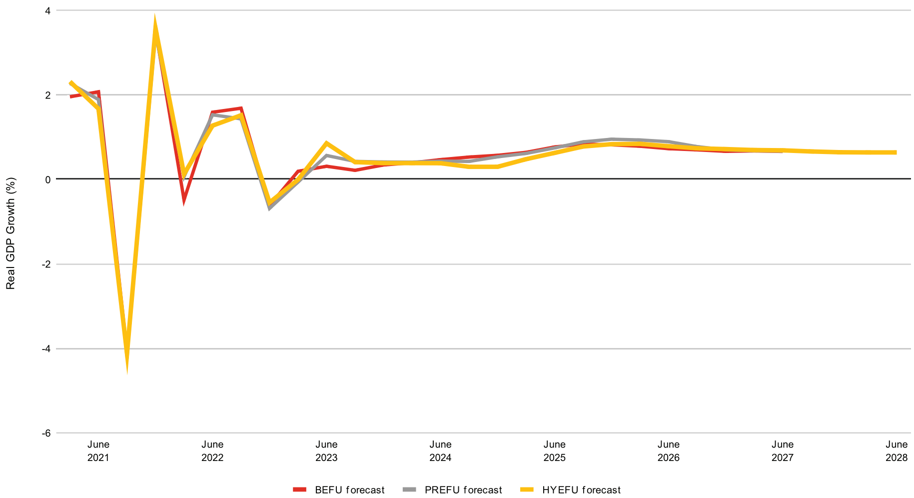
Economic Update: A Snapshot

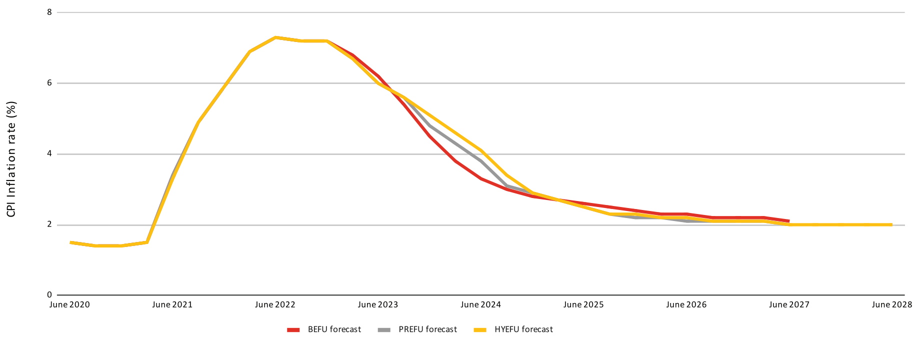
GDP forecast

Economic growth is forecast to average just 1.5% over the next two years. This is lower than forecast at the Pre-Election Fiscal and Economic Update (PREFU), which anticipated real GDP growth of 2.3% in 2025.



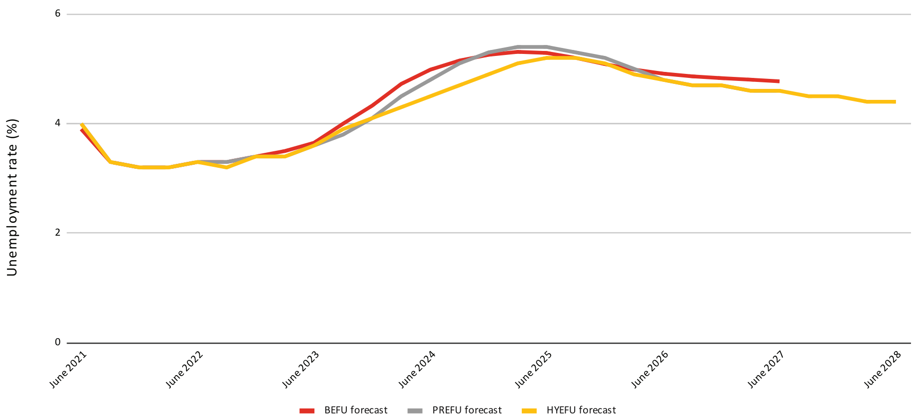
Inflation

Inflation is expected to continue to ease, falling to 4.1% in early 2024, and dropping to the Reserve Bank's target band of 1-3% by late 2024.



Unemployment

The unemployment rate is projected to peak at 5.2% in 2025, before falling back to 4.4% by the end of the forecast period (2028). This will be driven by higher than expected net migration and other economic conditions. Downside scenarios suggest unemployment could reach 6% in 2025.



Wage growth

Annual wage growth is expected to ease from 6.7% in September 2023 to 5.1% in June 2025.

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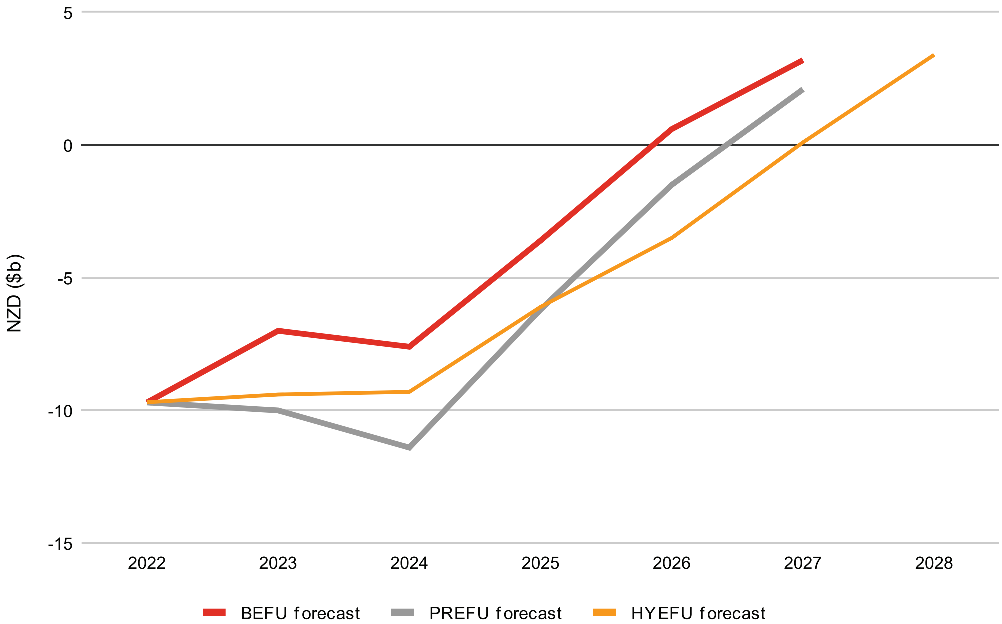
Fiscal Update: A Snapshot

Operating balance (OBEGAL)

The Treasury is forecasting operating balance (OBEGAL) deficits to remain elevated in the near term, before returning to surplus in 2026/27 (albeit a small surplus of $140m, down from $2.1bn forecast in PREFU).



Net debt

Net debt is forecast to remain high at 23% of GDP for the next three years (an increase of around 1% on PREFU forecasts) and reduce over the forecast period to 19.3% in 2027/28.