

**The Coalition Government's first Budget has been well-signalled, with the announcements today focused on the previously announced tax relief package alongside significant public sector savings. While limited, the new spending revealed today is focused on health, education, and law and order.**

Budget 2024 confirms the Government's tax relief, with an upward shift in personal income tax thresholds, expansion of eligibility for the Independent Earner Tax Credit, increase of the In-Work Tax Credit, and confirmation of the previously announced FamilyBoost package. The package is forecast to cost \$3.68bn, and is offset by the Government's savings and revenue initiatives. This includes baseline savings to public spending of \$1.5bn on average per annum, through

a total of 240 individual savings initiatives across the public sector.

The economic outlook has deteriorated, with economic growth forecast to contract by -0.2% in FY24, increasing to 1.7% in FY25, and averaging 2.9% per annum over the following two years. While real GDP per capita falls by -2.8% in FY24.

The operating balance is forecast to return to surplus in FY28, a year later than forecast in December last year due to the softening economic outlook and lower forecast business income tax revenue. To support this forecast return to surplus, the operating allowance for Budgets 2025-27 has been reduced to \$2.4bn, with the Government highlighting today the need for an ongoing focus on savings and reprioritisation of public spending.

## GDP forecast

Economic growth is forecast to contract by -0.2% in FY24, increasing to 1.7% in FY25 and averaging 2.9% per annum over the following two years. While real GDP per capita falls by -2.8% in FY24.

## Unemployment

Unemployment is forecast to peak at 5.3% at the end of 2024, returning to 4.5% at the end of FY27.

## Operating balance

The operating balance is forecast to return to surplus in FY28, a year later than forecast in December due to the softening economic outlook and lower forecast business income tax revenue (albeit at a level of \$1.5b rather than the wafer thin \$140m previously forecast).

The operating allowance for Budget 2024 has been set at \$3.2bn (compared to the \$3.5bn allowance announced in December 2023 and the lowest it has been since 2018). The operating allowance for Budgets 2025-27 is set at \$2.4bn which provides a strong signal of ongoing fiscal restraint.

## Inflation

Inflation is forecast to fall below 3% in the second half of 2024, and return to 2% around mid-2026.

## Wage growth

Wage growth is set to decline over the forecast period, from 5.9% in FY24 to 2.9% by FY28.

## Housing market

Following a softening in the housing market, a forecast reduction in interest rates will see house prices gradually increase.

## Capital allowance

An additional \$7bn has been added to the capital allowance over the forecast period, with \$7.5bn available for future budgets.

## Net Crown debt

Net core Crown debt is forecast to increase, peaking at 43.5% of GDP in FY25, then gradually reducing.

## Tax

Budget 2024 confirms the Government's tax relief, with an upward shift in personal income tax thresholds, expansion of eligibility for the Independent Earner Tax Credit, increase of the In-Work Tax Credit and confirmation of the previously announced FamilyBoost package. The package is forecast to cost \$3.68bn per annum, and is fully offset by the Government's savings and revenue initiatives.

The Government will be investing \$116m over the next four years on Inland Revenue's compliance enforcement capabilities, from which it is forecasting to bring in an additional \$702m. The Government is also expecting to bring in \$50m from FY28 from tax enforcement activities arising from implementation of the OECD's crypto-asset regulatory framework.

## Savings

# \$1.5bn

Budget 2024 confirms average baseline public spending savings of \$1.5bn per annum.

## Health

# \$5.72bn

Budget 2024 confirms \$5.72bn operating funding for health, and commits a similar level of increase in each of the subsequent two budgets. Budget 2024 funding includes \$3.44bn for hospital and specialist services and \$1.77bn for Pharmac. There is no significant additional capital funding.

## Education

# \$2.9bn

\$2.9bn new funding in education over the next four years has been confirmed through Budget 2024. Key new spending includes \$1.5bn for education property and \$199.5m for school operational grants.

## Transport

# \$2.68bn

Budget 2024 confirms \$2.68bn investment in roads, rail, and public transport over the next four years. This includes \$1bn for Roads of National Significance and other major public transport projects, and is in addition to the \$1.95bn previously announced in the draft Government Policy Statement on Land Transport in March.

## Police

# \$651m

Budget 2024 provides \$651m over the next four years to support an additional 500 police officers, as well as to boost police pay, vehicles and maritime capability.