

The HYEUFU balancing act

New Minister of Finance Grant Robertson delivered his first Budget Policy Statement today, accompanied by The Treasury's latest forecasts.

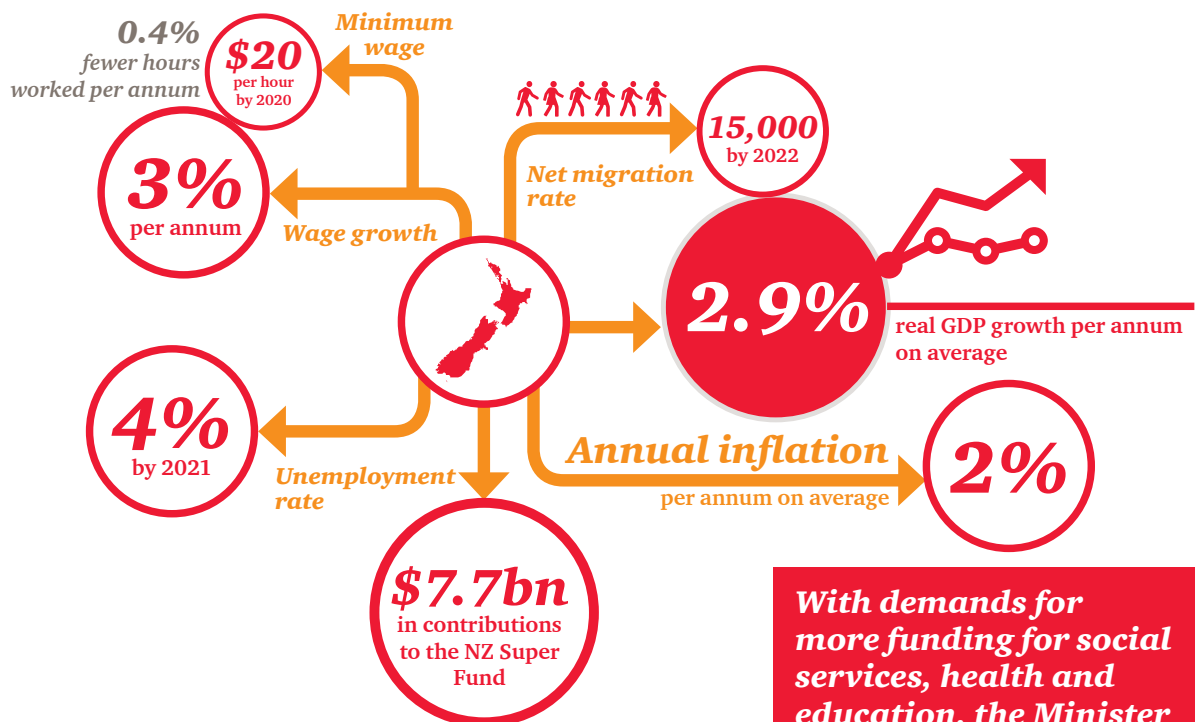
The Government continues to be blessed with a reasonably benign economic environment – strong employment, low inflation (but not low enough to seriously damage the tax take), solid trading partner growth – and this makes the job easier. But the Minister is still caught between the rock of the Coalition Government's spending aspirations, and the hard place of its equally strong commitment to demonstrating fiscal discipline.



Spending aspirations are delivered by loosening the purse strings in the near term – the 100 day plan commitments, plus expanded spending allowances for next year's budget. Thereafter, allowances for new spending have been dialled back to the level promised by the last Government. The year for meeting the "Net Debt at 20% of GDP" has also been pushed back to 2022.

This begs the question as to whether that restraint will be sustainable, in the face of demands for more funding for social services, health and education. So the Minister has a balancing act going forward, particularly when trade-offs between the rock and the hard place start in earnest – as they haven't yet.

State of the economy



With demands for more funding for social services, health and education, the Minister has a balancing act going forward.

Capital expenditure

The Government is projecting significantly higher allowances for capital expenditure, with schools, housing and transport being the main winners.



\$2bn

KiwiBuild – to be recycled going forward



\$4bn

Schools



\$2.8bn

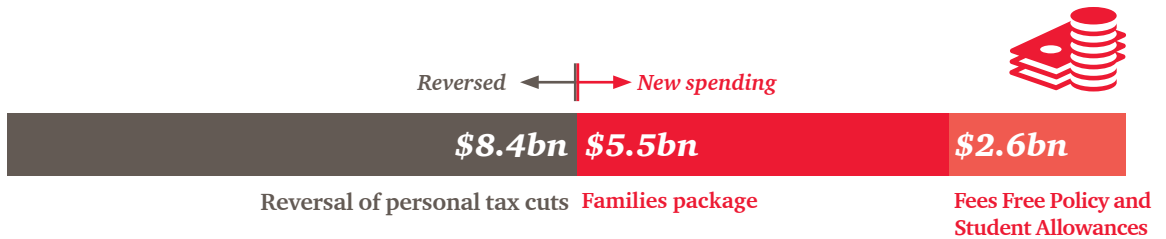
Defence



\$10.2bn

Available for new commitments

100 day plan expenditure – where is the money coming from?



Budget 2018 priorities

The underlying priorities stated by the Minister for spending going forward are:

1	2	3	4	5
Investing in public services, like housing, health and education	Reducing child poverty	Supporting families and sharing wealth more widely	Investment in regional economies	Climate change

The Minister made a point of emphasising that the new Government would be seeking to measure progress on all these goals far more consistently and effectively, and the need for evidence-based policy. This analyst in particular hopes that he makes good on that promise.

Families package

The families package has been held-up as a cornerstone of the fiscal plan for the new Government. It enables the Government to deliver on its promise to assist low-and-middle income families with children and to reduce child poverty. The package has been funded through reversing the Budget 2017 tax package. The families package includes: boosting the working for families tax credit, introducing a best start payment of \$60 per week per child and up to \$700 a year for winter energy payment (which will be given as a cash payment).

Working for Families
– increased payments,
abatement thresholds
and eligibility

\$60
per child per week
Best Start tax credit



pwc.co.nz/HYEFU2017

