

12 October 2021



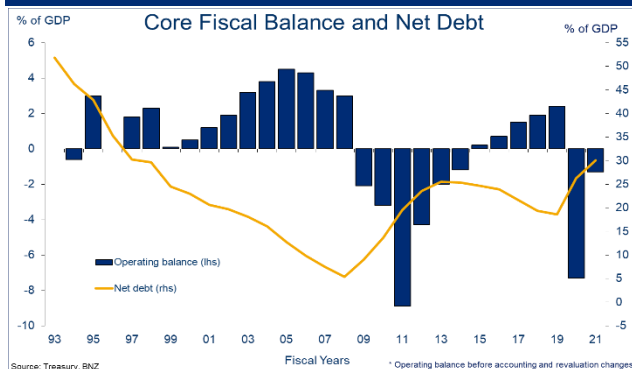
Growth funds COVID offset

- **Government economic support is well and truly funded**
- **As unexpected growth delivered revenue dividend**
- **No need to raise more debt, yet**
- **Future revenue may come under pressure**
- **But NZ's relative fiscal stance commendable**

As expected, the audited fiscal accounts for the year ended June 2021 proved to be much healthier than they were projected to be when the Government published its Budget back in May.

Most importantly, the core operating balance (OBEGAL) produced a deficit of just 1.3% of GDP. In dollar terms this is \$4.6 billion. This compares with a \$23.1 billion shortfall in fiscal 2020 (7.3% of GDP) and the \$15.1 billion deficit (4.1% of GDP) forecast for this year at the Budget.

So far so good



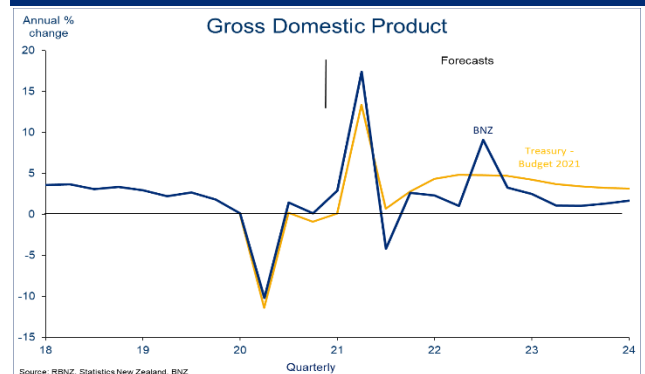
If one looks at the residual cash deficit it falls to just \$13.8 billion from the \$25.3 billion estimated back in May. What this means is that the Government has \$11.5 billion to play with before it needs to contemplate going to the market for more funding. Additionally, the accounts show that, as at 30 June 2021, \$4.7 billion of the \$50 billion COVID Recovery Fund had not yet been spent. Put the cash and underspending together and the funding available climbs to \$16.2 billion.

So far the Government has paid out around \$4.0 billion in Deltarelief measures. That being the case, the Government still has another \$12.0 billion to dole out if it wishes. To us, it seems like the Government can keep providing assistance for at least 12 more weeks of the current lockdowns, which would take us into next year. It is thus no surprise that the Minister of Finance feels fairly relaxed (at least in a fiscal sense) about current developments.

Of course, the longer the current restrictions run the lower revenues will be and we think the government, and they are not alone, may be a tad optimistic in assuming (which appears to be the case) that the economy will bounce back

with the same zeal it did back in 2020. That said, the improved starting base for the fiscal position will help offset some of these prospective shortfalls.

Economic challenges ahead



The other thing that will give the government a lot of comfort is the current relative strength in its net debt position. Net debt as a percentage of GDP is just 30.1%. It was expected to be 34%. While the improvement relative to forecast is meritable, it is the level that provides the Government with most solace. The Minister of Finance was quick to point out that the average net debt for advanced economies is around 90%. The Finance Minister also noted that total government debt (including local government), as estimated by the IMF, is around half that of Australia's, as a percentage of GDP, a quarter of the UK's and less than that again versus the United States.

On this basis, the Government will feel that it has plenty of capacity to continue supporting the economy if needs be. From a central bank perspective, this is very important as fiscal policy looks set to do the heavy lifting going forward meaning the RBNZ is very unlikely to feel any pressure to contemplate lowering rates. The extent to which further rate increases are needed will be dependent on the extent to which the Government offsets the dampening demand effect of the current COVID outbreak and the extent to which COVID's supply shock generates an inflationary offset to any deflationary impact of weaker demand.

The Government has announced that its Half Year Economic Update will be released on December 15. This will give us a better picture of the effect of the current COVID outbreak on Treasury's growth and fiscal expectations for the years ahead.

The Minister of Finance also reaffirmed that Budget 2022 will be the Government's climate change Budget. Additionally, it will provide further details on the Government's "major reform programmes". We will await this with great interest.

stephen_toplis@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Craig Ebert

Senior Economist
+64 4 474 6799

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Senior Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington

Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

National Australia Bank

Ivan Colhoun

Global Head of Research
+61 2 9237 1836

Alan Oster

Group Chief Economist
+61 3 8634 2927

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

New York

Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Sydney

Foreign Exchange +61 2 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

Hong Kong

Foreign Exchange +85 2 2526 5891
Fixed Income/Derivatives +85 2 2526 5891

London

Foreign Exchange +44 20 7796 3091
Fixed Income/Derivatives +44 20 7796 4761

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.