



THE TREASURY
Kaitohutohu Kaupapa Rawa

Basis of Preparation of New Zealand's Long-Term Fiscal Projections

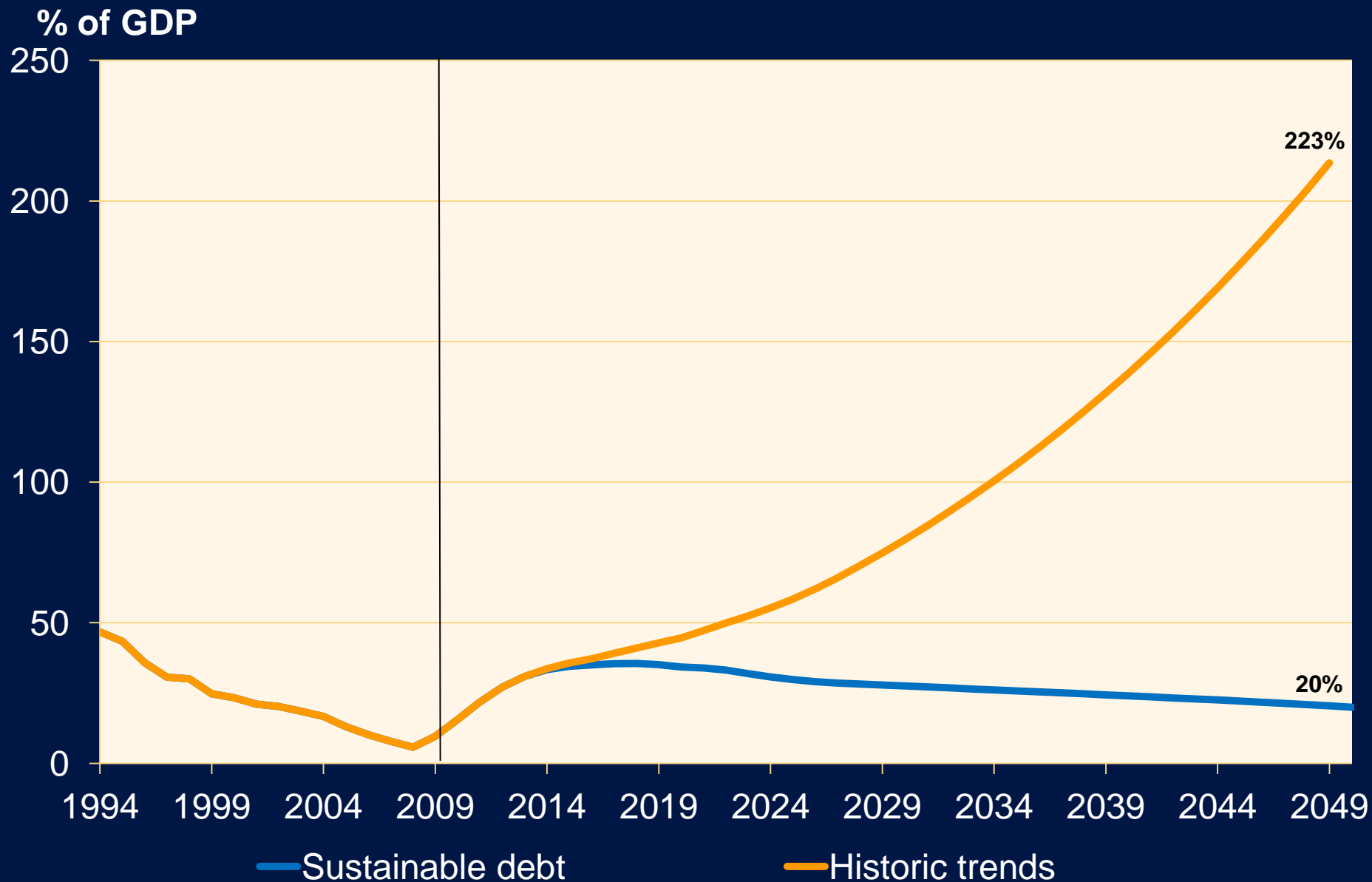
OECD-IPSASB Seminar on Long-Term Sustainability of Public
Finances, Paris, 10 March 2010

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Net debt: two fiscal scenarios



Key policy assumptions

Mid-range assumptions for demographic projection

Real GDP depends on Population/Participation/Productivity

Economy wide productivity growth assumption – historical average, 1.5% pa

Public sector productivity growth assumption – 0.3% pa (calibrated)

Fiscal strategy: under SD, new spending is set at \$1.1b growing with inflation to 2023. After that, new spending is set so that given revenue assumptions, LT debt objective of 20% of GDP is met

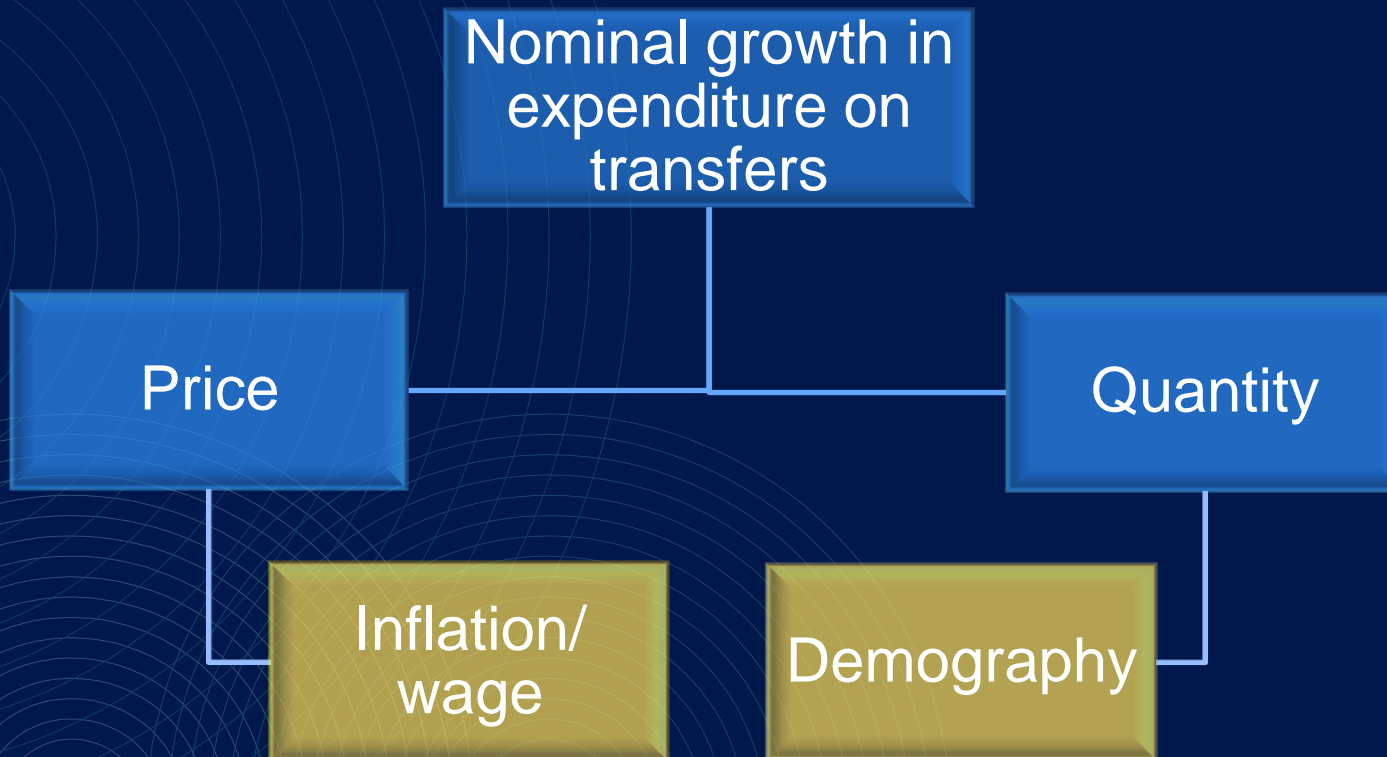
Under HT, real demand per person for most public services is assumed to grow by 0.8% pa

Under SD, real demand is the residual and is adjusted so that long-run debt objective is reached: it grows by -1.04% between 2014 and 2023, and by 0.45% after that

Expenditure modelling framework

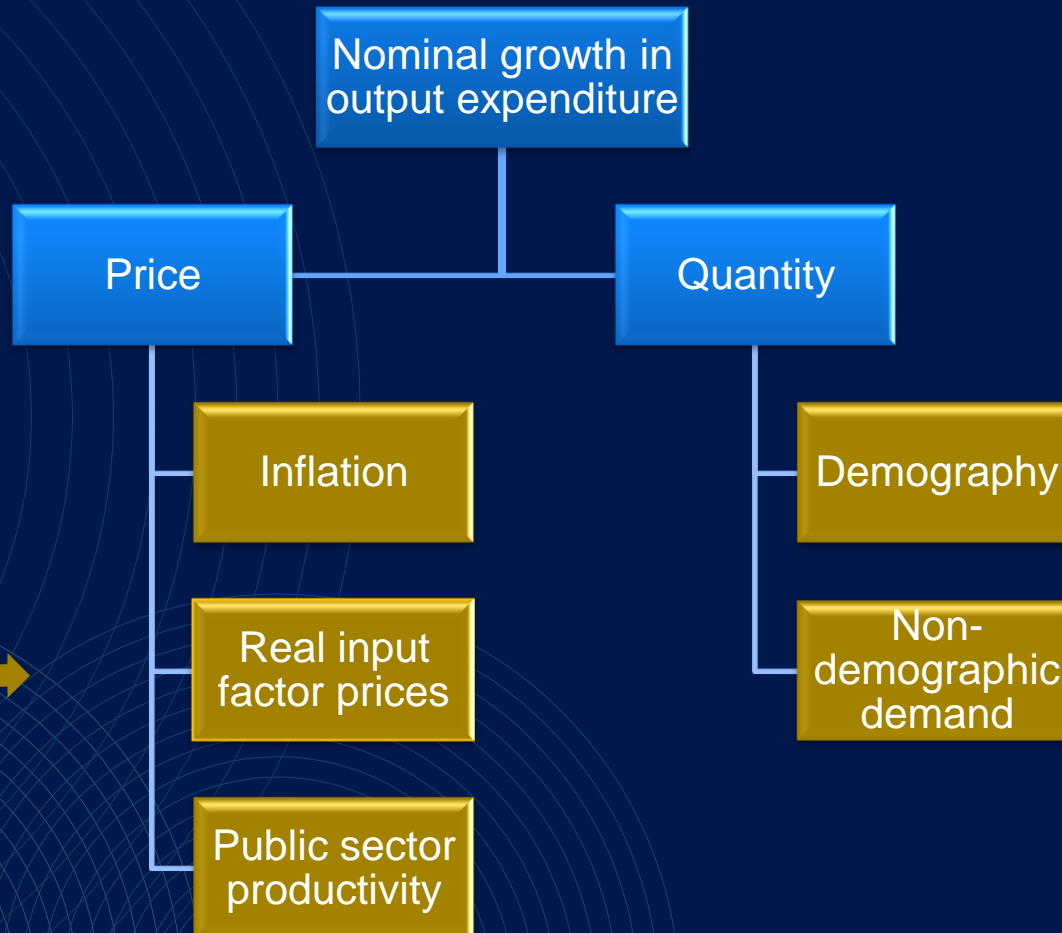
Parametric: Universal pension (New Zealand Superannuation) and Welfare benefits

Depend on demand and indexation, are funded outside the Budget allocation process



Expenditure modelling framework

“Non-parametric”: Health, Education, Justice, Defence, etc. – new spending allocated via annual Budgets



Five growth factors for these spending programmes →



Taxation modelling

Simple modelling post 2013

Tax revenue is linked to growth in nominal GDP

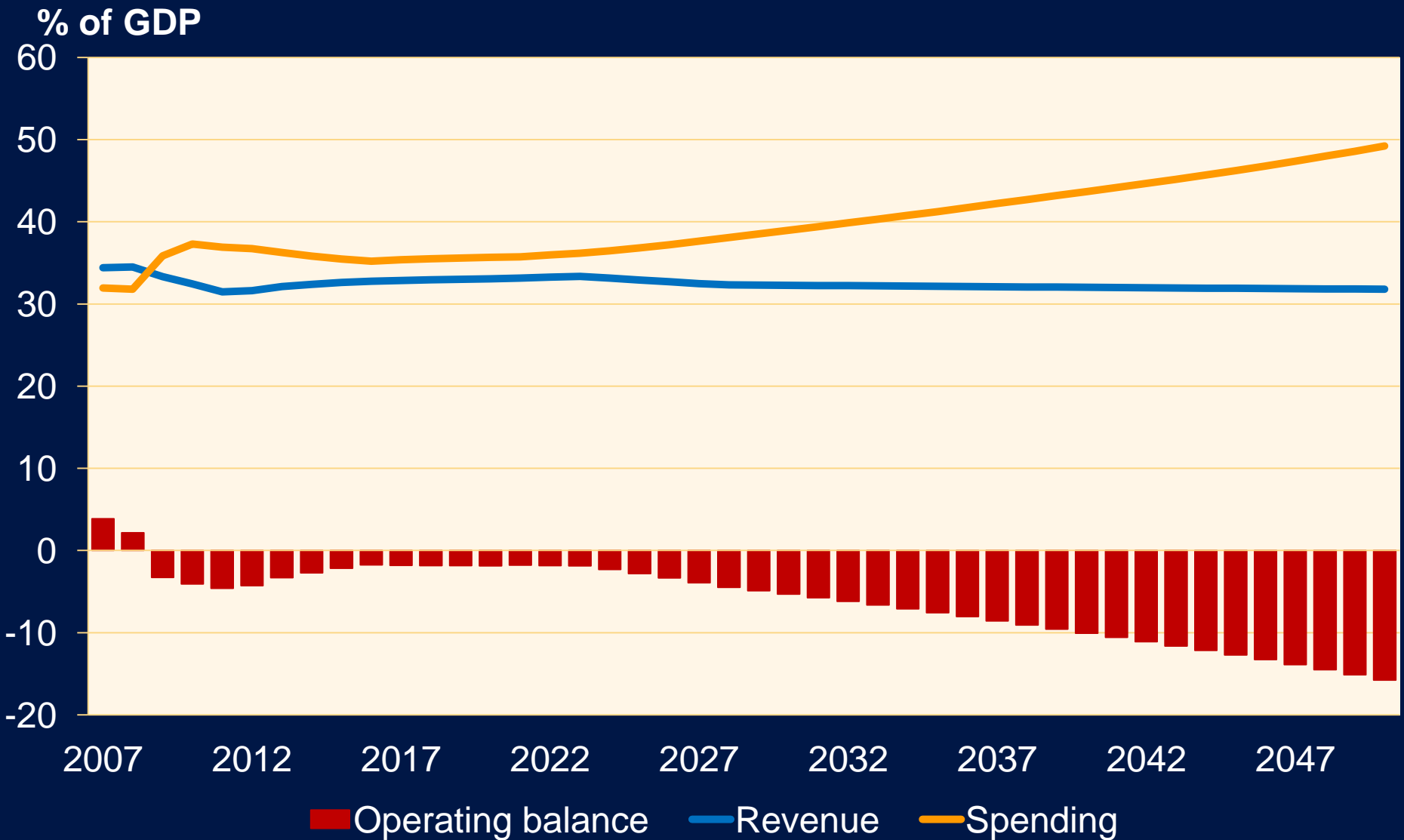
Some disaggregation – personal income (PAYE),
company income, rest (mainly GST)

Same under both HT and SD scenarios

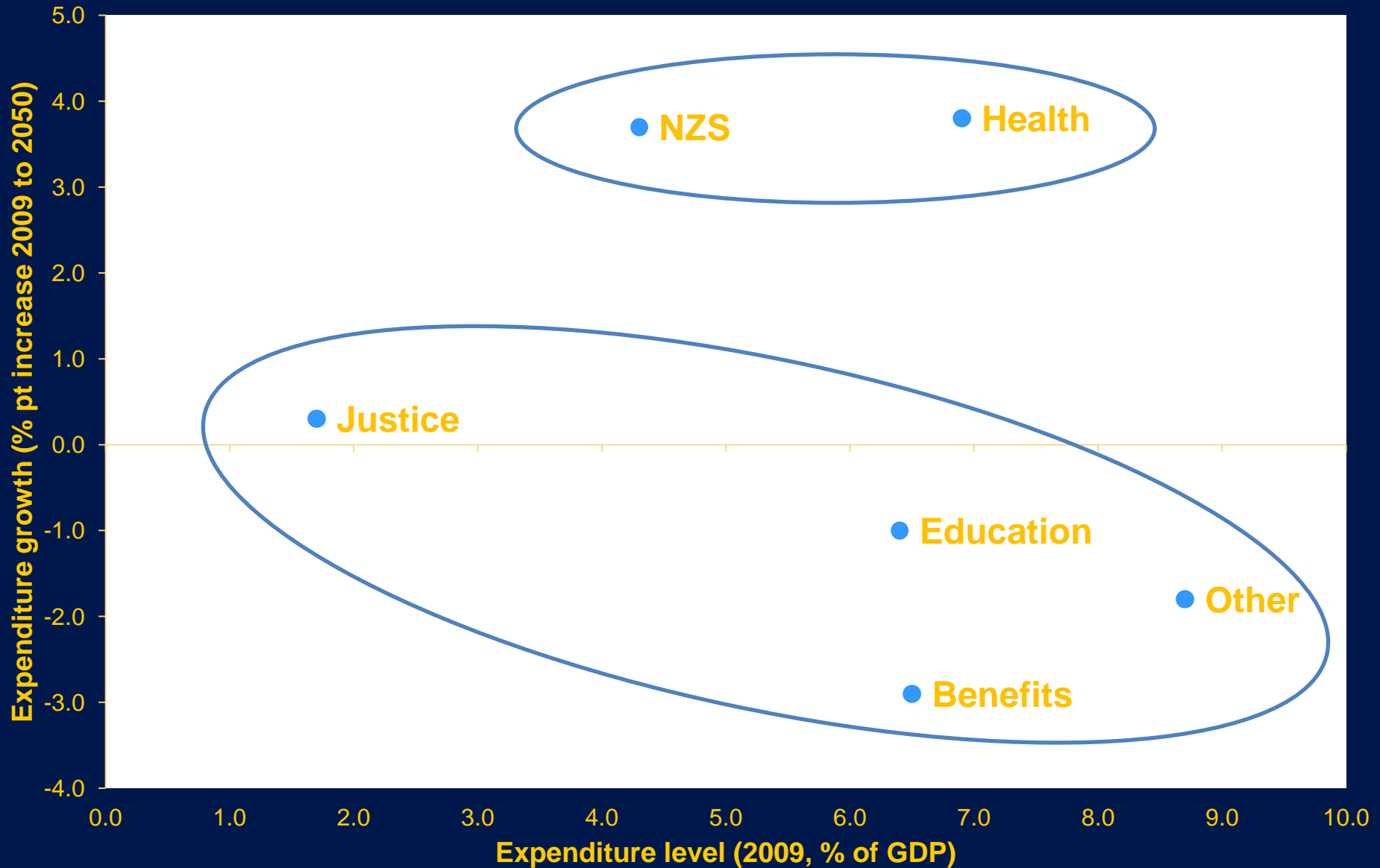
Fiscal drag on PAYE tax causes the tax-to-GDP ratio to
rise to 31% by 2023

Ratio is returns to the long-run average of 30% and held
at this level to 2050

Historic trends scenario – revenue, spending and operating balance



Levels and changes



Pressure points

High growth areas:

- Health
- NZS

Lower growth path but concerns about credibility:

- **Education** (will the demographic dividend be cashed out?)
- **Benefits** (is CPI indexation sustainable?)
- **Justice** (low base, but fast growth over last decade)
- **Core public sector** (fat to be trimmed?)
- **Capital** (allowance profile realistic?)

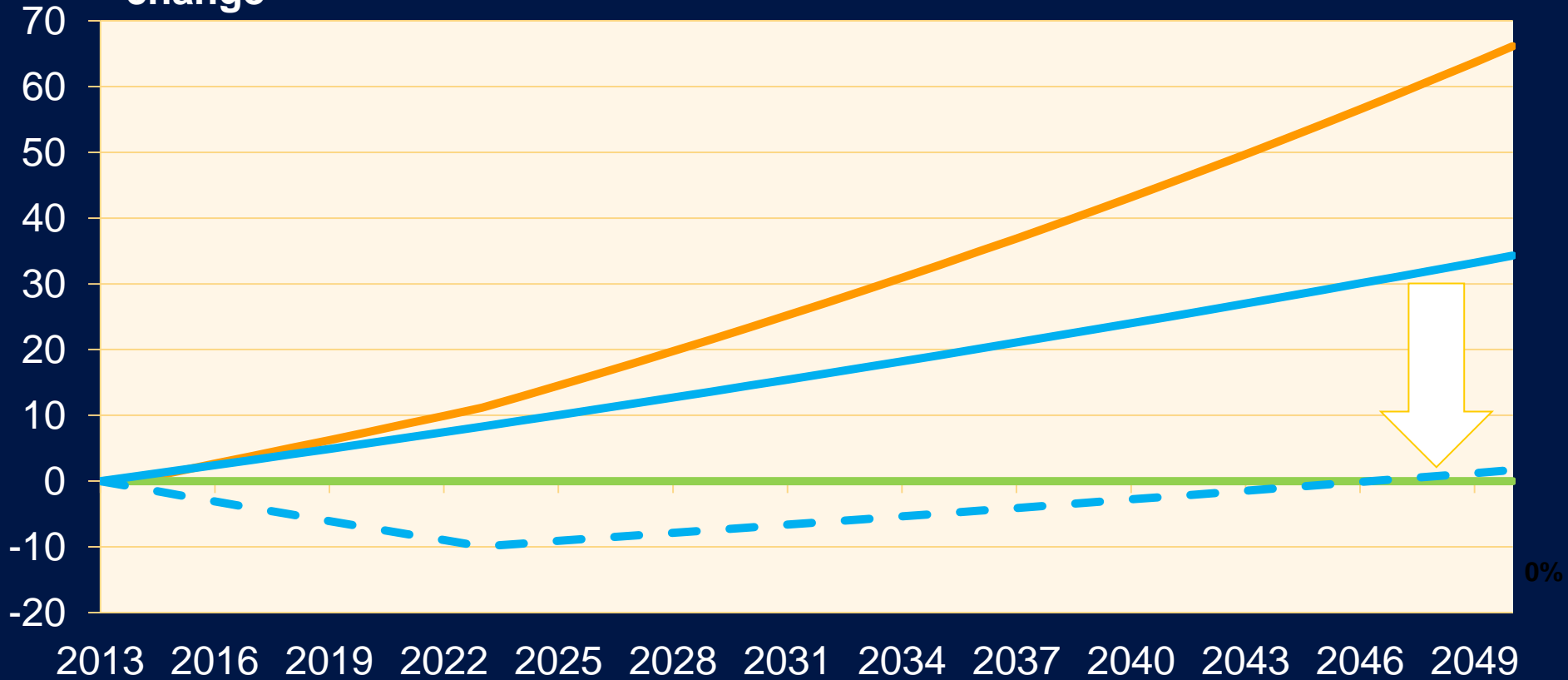
Off balance sheet risks:

- Climate change?
- Implicit liabilities?



What the average Kiwi receives

Cumulative %
change



- NZS per recipient
- Benefits per recipient
- Public services per capita (historic trends)
- Public services per capita (sustainable debt)

Options & choices

Messages from modelling

- Make early changes
- Keep debt under control
- Focus on outcomes
- Focus on growth
- Encourage workforce participation
- Keep spending under control and focus on public sector productivity

