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ISSUER COMMENT
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Analyst Contacts

Matthew Circosta +65.6398.8324
Analyst
matthew.circosta@moodys.com

Allister Lim +65.6311.2669
Associate Analyst
allister.lim@moodys.com

Gene Fang +65.6398.8311
Associate Managing Director
gene.fang@moodys.com

Marie Diron +65.6398.8310
MD-Sovereign Risk
marie.diron@moodys.com

Alastair Wilson +44.20.7772.1372
MD-Global Sovereign Risk
alastair.wilson@moodys.com

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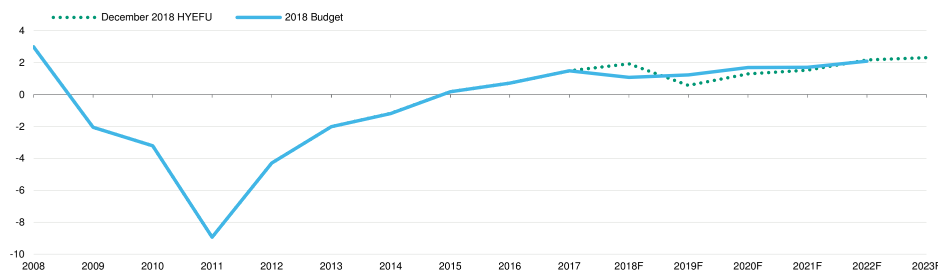
Government of New Zealand

Mid-year budget reinforces robust public finances and fiscal policy flexibility, supports sovereign credit profile

On 13 December, New Zealand (Aaa stable) released its Half Year Economic and Fiscal Update (HYEFU) for the fiscal year ending June 2019 (fiscal 2018-19). The update maintains the government's commitment to fiscal discipline, as demonstrated by projections for continued budget surpluses and debt reduction, supporting the sovereign credit profile.

The government estimates that the surplus in the operating balance before gains and losses will stand at 0.6% of GDP in fiscal 2019 and 1.3% in fiscal 2020, lower than initial budget forecasts of 1.2% and 1.7%, and down from a higher-than-expected 1.9% outturn in fiscal 2018 (see Exhibit 1). The changes in the 2018 and 2019 projections partly reflect the timing of government spending. The broad direction of fiscal policy is unchanged.

Exhibit 1
New Zealand budget to remain in surplus over the next five years
(Crown operating balance before gains and losses, % of GDP)

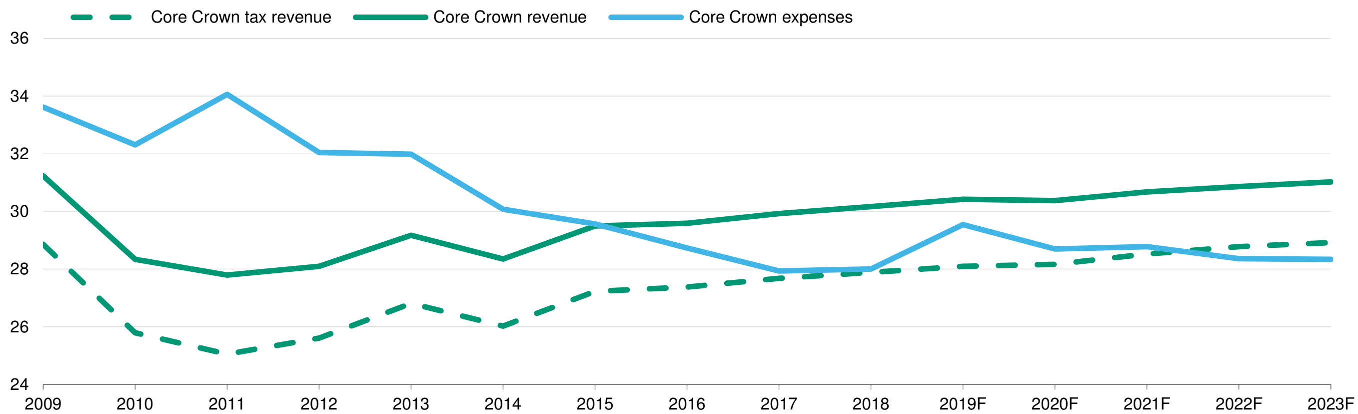


New Zealand Treasury forecasts; fiscal years ending June
Source: New Zealand Treasury

Over the next five years, the government forecasts tax revenues to keep increasing as a share of GDP, driven in part by higher corporate tax receipts, pushing overall core Crown revenue to 31% of GDP in 2023 (see Exhibit 2). It expects government expenditure to rise in nominal terms, as the government continues to invest in housing, health, education and infrastructure, but to remain broadly flat as a share of GDP, at around 28% in 2023.

The government also reasserted its target of reducing core Crown gross debt to 25% and core Crown net debt, which incorporates financial assets, to below 20% of GDP in 2022. We forecast that the budget will remain in surplus and that gross central government debt will edge down to 27% of GDP in 2019, from about 29% in 2018, and fall further thereafter, in line with the government's projections. At these levels, gross central government debt is significantly lower than many other Aaa-rated sovereigns.

Exhibit 2
Growing economy to bolster revenue, while expenses remain flat as a share of GDP
(Core crown revenue and expenses, % of GDP)



New Zealand Treasury forecasts, fiscal years ending June; core Crown includes the departments and ministries of the Crown, along with Offices of Parliament, the Reserve Bank and the New Zealand Superannuation Fund. Core Crown excludes Crown entities and state owned enterprises (including mixed ownership model companies).
Source: New Zealand Treasury

Ongoing focus on well-being denotes very high institutional capacity and fiscal flexibility

New Zealand's strong public finances provide ample fiscal flexibility to respond to long-term spending needs related to social demands, or to absorb any sudden rise in expenditure to support the economy through a shock.

In 2019, the government will launch a "well-being budget" using the "Living Standards Framework" to enhance the social, cultural and environmental impact of investment and funding decisions. All ministries and public agencies will be required to make spending decisions in line with the government's well-being priorities.

The government is already demonstrating its focus on well-being priorities. For example, the government's Families Package aims to significantly reduce child poverty. The recently announced Green Investment Fund, once established, will use private and public capital to finance low carbon emission and climate change mitigation projects.

Given its robust public finances, the government has the flexibility to fund higher spending on families, infrastructure, affordable housing and education – including through the "Living Standards Framework" – while maintaining fiscal surpluses and debt reduction.

Fiscal discipline, healthy growth support robust public finances but risks are prevalent

The government forecasts average annual real GDP growth of 3.0% in 2019-20, which is lower than budget projections, and higher than our forecasts.

We expect continued solid global demand for New Zealand's agriculture and tourism, robust investment in housing and slower population growth to support real GDP growth of around 2.5% in 2019 and 2020.

Risks to growth include the potential for further trade restrictive policies around the world, which could threaten recent robust export momentum. Ongoing weakness in consumer and business sentiment could hurt private consumption and investment.

New Zealand's track record of fiscal discipline and prospects for continued healthy GDP growth will support the government's aim to maintain robust public finances.

Moody's related publications

Rating Action

» Moody's affirms New Zealand's Aaa ratings; maintains stable outlook, September 2018

Credit Opinion

» Government of New Zealand – Aaa Stable: Update following rating affirmation, outlook unchanged, September 2018

Issuer In-Depth

» Government of New Zealand: Budget 2018 preserves strong public finances, underscoring very high fiscal strength, May 2018

Credit Analysis

» Government of New Zealand - Aaa stable: Annual credit analysis, April 2018

Rating Methodology

» Sovereign Bond Ratings, November 2018

Contributors

Authors

Matthew Circosta

Allister Lim

Research Writer

Natasha Brereton-Fukui

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