THE TREASURY
Kaitohutohu Kaupapa Rawa

Half Year Economic *and* Fiscal Update

16 December 2014

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Half Year Economic and Fiscal Update

This *Update* includes Treasury's overall economic forecasts and the forecast financial statements of the Government, along with the implications of Government financial decisions and other information relevant to the fiscal and economic position.

Other Information

On the Treasury's website is a series of other information that provides users of the *Update* with further detail. This other information should be read in conjunction with the published document.

Additional *Update* information includes:

- Detailed economic forecast information – tables providing breakdowns of the economic forecasts
- Treasury and Inland Revenue tax forecasts – detailed tax revenue and receipts tables comparing Treasury's forecasts with IRD's forecasts
- Additional fiscal indicators – estimates of the cyclically-adjusted balance and fiscal impulse
- Government Finance Statistics (GFS) for central government – fiscal tables presented under a GFS presentation framework to help with cross-country comparisons
- Accounting policies – outline of the specific Crown accounting policies. The published forecast financial statements only provide a summary

This other information can be accessed at www.treasury.govt.nz/budget/forecasts/hyefu2014

NZ Budget App

Smartphone and tablet users can also access the *Half Year Economic and Fiscal Update* and the *Budget Policy Statement* through the NZ Budget App. The App is available on the Apple Store for iOS devices and the Google Play store for Android devices.

Statement of Responsibility

On the basis of the economic and fiscal information available to it, the Treasury has used its best professional judgement in supplying the Minister of Finance with this *Economic and Fiscal Update*. The *Update* incorporates the fiscal and economic implications both of government decisions and other circumstances as at 24 November 2014 that were communicated to me by the Minister of Finance in accordance with the requirements of the Public Finance Act 1989 and of other economic and fiscal information available to the Treasury as at 24 November 2014. This *Update* does not incorporate any decisions, circumstances or statements that the Minister of Finance has determined, in accordance with section 26V of the Public Finance Act 1989, should not be incorporated in this *Update*.

Vicky Robertson
Secretary to the Treasury

8 December 2014

To enable the Treasury to prepare this *Economic and Fiscal Update* I have ensured the Secretary to the Treasury has been advised, in accordance with the requirements of the Public Finance Act 1989, of all government decisions and other circumstances as at 24 November 2014 of which I was aware and that had material economic or fiscal implications.

I accept responsibility for the integrity of the disclosures contained in the *Update* and responsibility for the consistency and completeness of the *Update* information with the requirements of Part 2 (Fiscal responsibility) of the Public Finance Act 1989.

Hon Bill English
Minister of Finance

8 December 2014

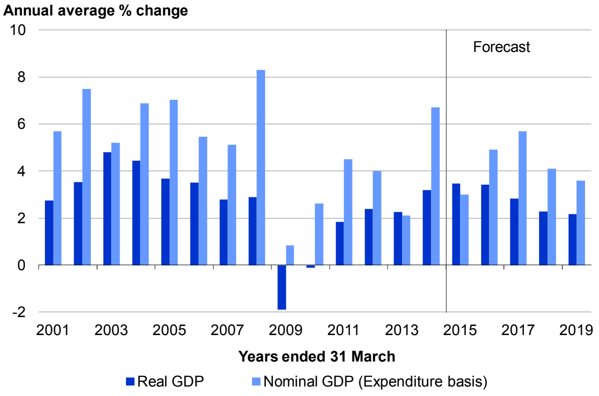
Executive Summary

- The New Zealand economy is in its fifth year of expansion. Economic activity is continuing to expand at a solid rate and the short-term outlook is for more of the same. Continued growth in employment and real wages is expected, and the unemployment rate is forecast to fall further. We expect the economy to be resilient to the changes in the drivers of demand currently underway, and policy to be effective in managing risks and uncertainties.

- The Government operating balance before gains and losses (OBEGAL) is expected to increase through time but at a slower pace than forecast in the *Pre-election Update.* Forecasts of tax revenue have been revised lower reflecting downward revisions to the path of interest rates and economy-wide income and spending growth. A small deficit is forecast for the current 2014/15 fiscal year followed by a small surplus next year. Government debt is nearing a peak and is expected to be declining by the end of the five-year forecast horizon.

- After real gross domestic product (GDP) growth of 3.2% over the year to March 2014, growth of around 3.5% is forecast for the current March 2015 year and the following year, before slowing to a little above 2% in the last year of the Treasury's five-year forecast period.

Figure 1 – Real and nominal GDP growth



Sources: Statistics New Zealand, the Treasury

- Domestic drivers of demand are becoming more important. This transition was underway at the time the *Pre-election Update* forecasts were being put together but it has gathered pace since, underpinned by the sharper and more protracted fall in key export prices and the stronger outlook for net migration inflows. The former will reduce spending in the primary sector, especially dairy, and the rural economy more broadly, while the latter will boost domestic activity relative to what we expected previously.

- The sharp fall in international dairy prices over the past six months will reduce the growth in the dollar value of income and expenditure (nominal GDP) this year, notwithstanding some offset from lower oil prices. Dairy prices are forecast to recover around 25% by the start of 2016, although at present the risks appear tilted towards a slower recovery. Lower forecast export prices this year and next contribute to the overall size of the economy being smaller than was forecast in the *Pre-election Update*.

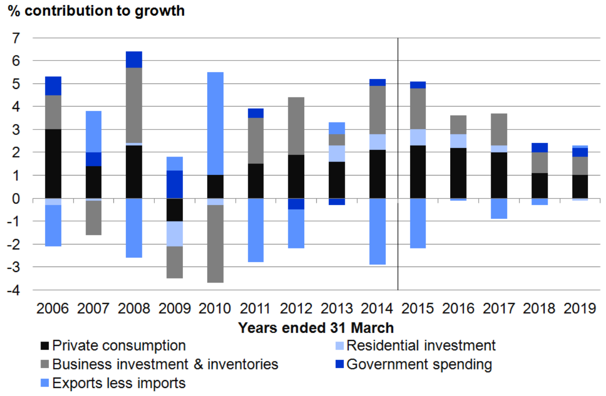
- The stronger net migration outlook highlights the strength of the New Zealand economy relative to many other countries. A gradual and uneven recovery continues to characterise the global economy. Global growth has slowed recently and forecasts have been revised down as growth in Europe and Japan in particular has been lower than expected, offsetting faster growth in the United States (US) and the United Kingdom (UK). Given the muted pace of recovery in growth and employment, together with low inflation, monetary policy settings in the major economies are expected to remain highly stimulatory for some time.

- High net migration inflows, high labour force participation and higher investment expenditure have all contributed to increasing the rate at which the economy can grow without generating rising inflation over recent years, so-called potential growth. Given recent information on prices and wages, it is likely that potential growth is currently higher than previously expected and the amount of spare capital and labour greater.

- Annual Consumer Price Index (CPI) inflation fell to 1% in the September quarter – lower than expected. A greater ability for the economy to grow appears to have muted the flow-through to CPI inflation of recent strong GDP growth. This has been reinforced by persistent low global inflation. With these factors expected to continue, and recent unexpected falls in oil prices expected to lower tradable inflation, we have revised down forecast CPI inflation throughout the forecast period. As a result, interest rates are forecast to stay low for a longer period. We expect monetary policy to provide stimulus to economic activity out to 2017, notwithstanding increases in the Official Cash Rate (OCR) earlier this year. Given the growth outlook, annual CPI inflation is forecast to return to around the middle of the 1% to 3% target band in late 2015 or early 2016 and a gradual increase in short-term interest rates is expected to begin in late 2015.

- Household consumption and business investment spending are expected to be the major sources of demand growth over the forecast period. The contribution from residential investment is also material. The contribution coming from exports increases in the second half of the forecast period.

Figure 2 – Contributions to real GDP growth



Sources: Statistics New Zealand, the Treasury

- Labour income is forecast to grow by more than 5% this year and over 4% in each following forecast year, implying sustained increases in real household disposable income given low consumer inflation. We expect most household and business spending to be funded out of income growth, although lower farm incomes will see some pull-back in the aggregate household saving rate. Private sector credit growth is likely to remain moderate, albeit increasing. Earthquake reconstruction is forecast to continue to contribute to growth in the March 2015 and 2016 years and then remain at a high level, providing ongoing support to construction, manufacturing and service sector activity.

- Fiscal policy is forecast to exert a mild constraining influence on demand over the forecast period as a whole, although somewhat less this year and next than was the case in the *Pre-election Update*. The New Zealand dollar (NZ dollar) is also acting as a headwind to growth. While the NZ dollar has fallen recently, it remains high and continues to be a drag on growth in manufactured and services exports and export receipts more broadly.

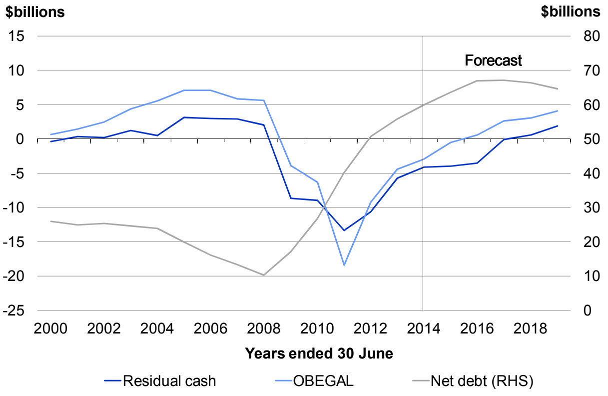
- Although the direct effects of lower commodity export prices have been limited to date, export revenues are expected to decline significantly in coming quarters. The current-account deficit is forecast to increase to around 6% of GDP, reflecting the mix of robust domestic demand growth, the decline in the terms of trade and moderate export volume growth. The level of investment is forecast to increase to nearly 25% of GDP, alongside national saving rising to around 19%.

- Global long-term interest rates remain very low and markets appear to assign a low probability to the prospect of significant increases in interest rates. These conditions are being reflected in higher asset prices and fluctuations in capital flows between countries. Sharp, unanticipated changes to interest rate settings in the major economies could adversely affect the global economy. Geopolitical risks also remain elevated.

- An OBEGAL deficit of $572 million is forecast in the current 2014/15 fiscal year, followed by a surplus of $565 million in 2015/16, rising to $4.1 billion in 2018/19.

- Forecasts of tax revenue have been revised lower reflecting downward revisions to many of the economic drivers of tax. These reduce forecasts of goods and services tax (GST), income taxes and resident withholding tax (RWT). Relative to *Pre-election Update* forecasts, core Crown tax revenue forecasts are lower by approximately $0.6 billion in 2014/15 notwithstanding revenue to date being over $0.2 billion above the *Pre-election Update* forecast. Forecast tax revenue is $1.0 billion lower in the 2015/16 year ending June 2016, $0.5 billion in 2016/17 and $0.3 billion in 2018/19.

Figure 3 – OBEGAL, core Crown residual cash and net core Crown debt



Source: The Treasury

- Core Crown expenses are forecast to continue to fall as a share of GDP. Operating allowances have been re-phased from $1.5 billion per Budget to $1.0 billion, $1.0 billion and $2.5 billion for Budgets 2015 to 2017 respectively.

- After combining taxes and expenses with net capital spending, core Crown residual cash is forecast to be in surplus in 2017/18, although it remains relatively static over the next few years. Net debt is forecast to be 26.5% of GDP in 2014/15 and 2015/16, before falling to 22.5% of GDP in 2018/19. Net debt in dollar terms is forecast to peak at around $67.0 billion in 2016/17, up from $60.0 billion in June 2014.

- There is a range of risks and uncertainties attached to these forecasts, relating to both forecasts of key variables and economic and fiscal relationships. Amongst the main ones are downside risks to export prices, upside risk to net immigration and uncertainty about the extent of spare capacity in the economy and future inflation pressures. Since the *Pre-election Update*, the balance of economic risks around the short-term outlook has shifted downward.

Table 1 – Summary of the Treasury’s main economic and fiscal forecasts

	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Economic (March years, %)						
Economic growth[1]	3.2	3.5	3.4	2.8	2.3	2.2
Unemployment rate[2]	6.0	5.4	5.1	4.7	4.5	4.5
CPI inflation[3]	1.5	1.3	2.0	2.1	2.0	2.0
Current account balance[4]	-2.7	-5.3	-6.2	-5.8	-5.7	-5.9
Fiscal (June years, % of GDP)						
Total Crown OBEGAL[5]	-1.3	-0.2	0.2	1.0	1.1	1.4
Net debt[6]	25.6	26.5	26.5	25.2	24.0	22.5

Notes: 1 Real production GDP, annual average percentage change

2 Percent of labour force, March quarter, seasonally adjusted

3 CPI, annual percentage change, March quarter

4 % of GDP

5 Total Crown operating balance before gains and losses (OBEGAL)

6 Net core Crown debt excluding the New Zealand Superannuation Fund and advances

Sources: Statistics New Zealand, the Treasury

Finalisation dates for the update

Economic data	10 November
Economic forecasts	10 November
Tax revenue forecasts	17 November
Fiscal forecasts	24 November
Specific fiscal risks	24 November
Text finalised	9 December

National accounts data

The economic numbers and forecasts in the Economic Outlook chapter pre-date the release of annual national accounts data for the March 2014 year by Statistics New Zealand on 21 November 2014. These new data incorporated new data, methodology and measurement changes which resulted in nominal GDP for the March 2014 year being revised higher by $5.1 billion (2.2%). The revised data will be fully incorporated into the Economic Outlook chapter of the 2015 *Budget Update*.

To reflect best practice, however, the revised nominal GDP data have been used in the calculation of the fiscal ratios to GDP throughout the Fiscal Outlook chapter. The higher denominator has the effect of reducing the fiscal ratios, with an impact on net core Crown debt of 0.6% of GDP in the year ended June 2014.

1

Economic Outlook

Overview

- Economic activity expanded at a solid pace in the year to June 2014, growing 3.5%, and is expected to grow at a similar pace in the next two years underpinned by domestic demand. The key drivers are residential construction, business investment and population growth.

- As the impulse from these factors fades, and monetary policy normalises in response to rising inflation, real GDP growth is expected to moderate over the latter half of the forecast period. Fiscal spending is expected to decline as a share of GDP and to restrain the rate of growth in domestic demand. The NZ dollar has declined only slightly from its peaks earlier in the year and will remain a constraint on export growth for the next couple of years, which is reflected in a sustained deterioration in the current account.

- Economic growth amongst our main trading partners remains positive but uneven. The outlook has strengthened for the US and the UK, and activity in Australia is expected to pick up towards trend growth. The outlook for Japan and the euro area is weak, while growth in China and some other Asian economies is forecast to slow over the medium term. Forecasts for growth have been revised down slightly.

- In contrast to the real GDP outlook for the New Zealand economy, lower-than-expected domestic inflation and weaker international commodity prices result in a materially weaker forecast for nominal GDP over the medium term.

- Prices of dairy exports have continued to fall in the second half of the year but are expected to begin recovering in 2015. Consequently, the terms of trade are expected to decline further in the near term before recovering to above-average levels. Risks to this forecast are weighted towards weaker prices, and the impacts of this are outlined in scenario one of the Risks and Scenarios chapter.

- The economy has more spare capacity than previously expected and inflationary pressures have been more subdued than anticipated, in part owing to faster-than-expected labour force growth. However, the forecast pace of expansion remains above our estimate of trend growth and spare capacity is expected to diminish. As it does so, there will be increasing pressure on prices to increase. Estimates of potential growth are inherently uncertain and the impacts of even higher potential growth are described in scenario two of the Risks and Scenarios chapter.

Table 1.1 – Economic forecasts[1]

(Annual average % change, March years)	**2014 Actual**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**2019 Forecast**
Private consumption	3.3	3.6	3.4	3.1	1.7	1.6
Public consumption	1.7	1.6	-0.5	0.1	2.8	2.5
Total consumption	**3.0**	**3.2**	**2.6**	**2.5**	**2.0**	**1.8**
Residential investment	17.0	15.3	12.2	4.5	0.9	-2.6
Market investment	8.8	6.2	7.1	6.7	4.4	2.9
Non-market investment	-2.6	-2.0	5.1	2.4	2.4	2.4
Total investment	**10.6**	**8.2**	**8.4**	**6.5**	**3.9**	**2.0**
Stock change[2]	0.3	0.5	-0.8	-0.1	-0.1	0.1
Gross national expenditure	**4.7**	**4.9**	**3.3**	**3.4**	**2.4**	**1.9**
Exports	0.3	0.5	1.8	3.5	3.1	2.5
Imports	8.0	5.9	1.7	5.0	3.2	1.7
GDP (expenditure measure)	**2.5**	**3.3**	**3.4**	**2.8**	**2.3**	**2.1**
GDP (production measure)	**3.2**	**3.5**	**3.4**	**2.8**	**2.3**	**2.2**
Real GDP per capita	2.2	1.9	1.8	1.7	1.3	1.3
Nominal GDP (expenditure measure)	6.7	3.0	4.9	5.7	4.1	3.6
GDP deflator	4.1	-0.2	1.5	2.8	1.8	1.5
Potential GDP	2.3	2.7	2.9	2.9	2.5	2.3
Output gap (% deviation, March quarter)[3]	-0.1	0.3	0.7	0.4	0.3	0.0
Employment	2.5	2.9	1.7	1.6	1.3	1.1
Unemployment rate[4]	6.0	5.4	5.1	4.7	4.5	4.5
Participation rate[5]	69.2	68.9	68.7	68.8	68.8	68.8
Nominal wages[6]	2.5	2.8	2.8	3.1	3.3	3.5
CPI inflation[7]	1.5	1.3	2.0	2.1	2.0	2.0
Terms of trade[8]	13.5	-3.9	-3.6	3.7	0.5	0.4
House prices[9]	8.0	5.4	3.9	2.5	2.3	2.0
Current account balance						
$billions	-6.0	-12.4	-15.2	-14.8	-15.4	-16.4
% of GDP	-2.7	-5.3	-6.2	-5.8	-5.7	-5.9
Net international investment position						
% of GDP	-67.0	-68.9	-71.9	-73.8	-76.6	-79.8
TWI[10]	78.7	76.5	76.5	76.6	75.6	73.6
90-day bank bill rate[10]	3.0	3.7	3.9	4.4	4.8	5.2
10-year bond rate[10]	4.6	4.0	4.2	4.7	5.0	5.1

Notes: 1 Forecasts finalised 10 November 2014

2 Contribution to GDP growth

3 Estimated as the percentage difference between actual real GDP and potential real GDP

4 Percent of the labour force, March quarter, seasonally adjusted

5 Percent of the working-age population, March quarter, seasonally adjusted

6 Quarterly Employment Survey, average ordinary-time hourly earnings, annual percentage change

7 Annual percentage change

8 System of National Accounts (SNA) and merchandise basis, annual average percentage change

9 Quotable Value New Zealand (QVNZ) House Price Index, annual percentage change

10 Average for the March quarter

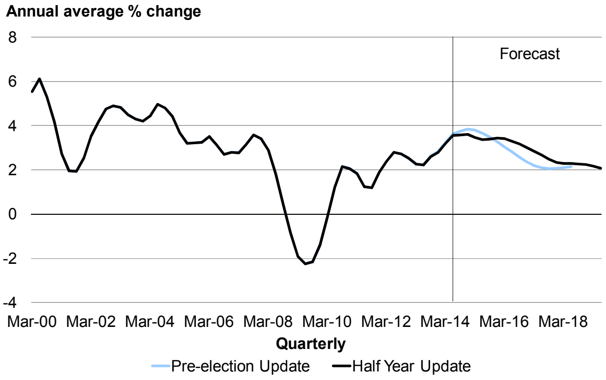
Longer time series for these variables are provided on page 136.

Recent Developments and Near-term Outlook

Economic activity has continued to expand at a solid pace...

The pace of economic expansion has continued to strengthen owing to strong domestic demand. Rapid population growth, increases in income, and strong investment growth are expected to continue, supporting the domestic impulse underpinning growth in the near term.

Figure 1.1 – Real GDP growth



Sources: Statistics New Zealand, the Treasury

The June quarter GDP outturn was in line with the *Pre-election Update* and the outlook remains broadly unchanged in real terms. Real production GDP increased 0.7% in the June quarter, easing from an above-1% pace in the three preceding quarters. In the year ended June 2014, GDP grew 3.5%, owing to broad-based strength across most industries (Figure 1.1). Amongst the expenditure components, real private consumption rebounded from a flat quarter in March, up 1.2%, led by higher expenditure on services and durables.

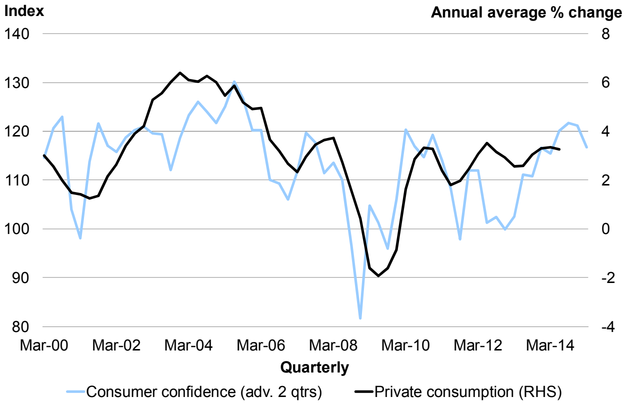
...with momentum expected to continue in the near term

Annual average growth in real GDP is forecast to remain similar to recent quarters at around 3.5% for the remainder of 2014. Real private consumption of goods and services provides the largest contribution to near-term GDP growth as population and income growth remain strong, followed by residential and business investment. Indicators and outturns for real consumer spending and housing investment suggest a slightly slower pace of growth relative to the *Pre-election Update* but still solid, in line with elevated business and consumer confidence.

Business investment growth is strong...

Business investment increased 3.9% in the June quarter to be 10.4% higher in the year ended June 2014. Business confidence and activity surveys point to solid, albeit slowing, growth over the year ahead. In coming quarters, investment will be supported by the rebuild in Canterbury, the high value of the NZ dollar and relatively low interest rates, making imported capital goods cheaper and investment more profitable.

Figure 1.2 – Consumer confidence and private consumption



Sources: Statistics New Zealand, Westpac-McDermott Miller

...while private consumption and residential investment are forecast to increase further

Likewise, consumer confidence remains elevated, despite easing over the September quarter, pointing to ongoing robust private consumption growth (Figure 1.2). Rapid population growth from net migration inflows and increasing aggregate income as employment expands further will continue to support growth in the near term. Recent indicators of retail spending reinforce the expectation of annual real private consumption growth accelerating to around 3.5% in the second half of 2014.

Residential investment is at an historically high level, supported by strong demand in Auckland and Canterbury. Recent data on dwelling consents point to slower momentum over the second half of 2014, with the growth from the Canterbury rebuild more muted than a year ago. A shortage of housing in Auckland owing to under-building in recent years will continue to contribute to residential investment growth for some time.

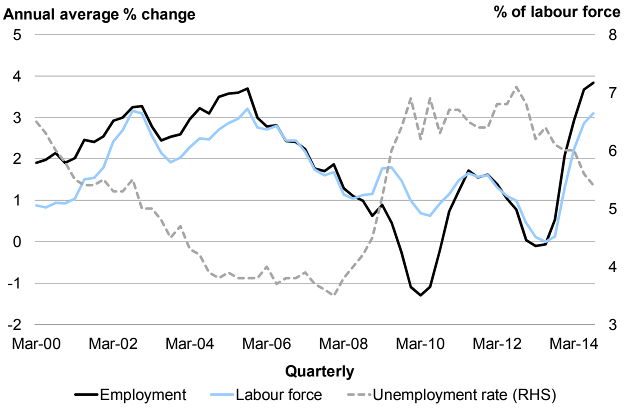
Strong labour demand led to a further decline in unemployment...

The demand for labour grew strongly in the year to September, with the number of people employed increasing by 72,000 (3.2%). The increase in jobs was evident across most industries. Labour supply has also expanded rapidly over the past year with the working-age population increasing by 63,000 (1.8%). The elevated net inflow of working-age migrants accounts for much of this increase, contributing 1.2 percentage points to working-age population growth in the September year.

The net inflow of migrants in the October year rose to a record 47,700, an increase of 30,200 from the year before. The increase from the previous year has been driven by a fall in the departures of New Zealand citizens to Australia (down 13,300) while the increase in the arrival of non-New Zealand citizens was also a significant contributor (up 12,300).

In addition, the proportion of the working-age population participating in the labour force has been rising, lifting 0.4 percentage points to 69.0% from a year ago. The expansion in labour supply has been more than absorbed by strong employment growth, resulting in a further reduction in spare capacity in the labour market (Figure 1.3). This is reflected in the unemployment rate declining 0.7 percentage points from the September quarter last year to 5.4%, maintaining the downward trend observed over the past two years. Employment growth is forecast to ease slightly, but remain at a moderate rate in coming quarters, which is expected to keep the unemployment rate steady.

Figure 1.3 – Employment and labour force growth and the unemployment rate



Source: Statistics New Zealand

...and increases in labour incomes continue to support growth in real consumption...

While spare capacity in the labour market has narrowed, annual growth in average hourly earnings for the private sector remained broadly steady at 2.9% in the September quarter. On the other hand, growth in average hourly earnings for the public sector continues to be low at 1.0%, reflecting fiscal restraint. Average hourly ordinary-time earnings for all sectors rose 2.3% annually. Growth in average hourly earnings has been accompanied by growth in hours paid (up 2.6%), resulting in gross weekly earnings increasing 5.0% from a year ago.

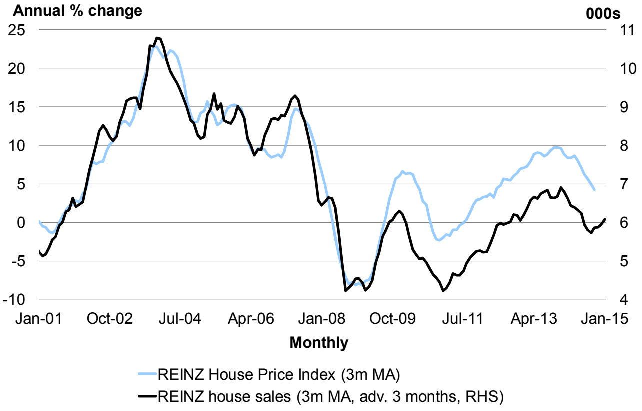
Modest CPI inflation of 1.0% in the September year suggests solid real labour income growth which supports the near-term outlook for increased real consumption growth. Wage growth is expected to increase as reduced spare capacity bids up wages.

However, strong growth in labour supply from net migration, low inflation and continuing public sector wage restraint suggest wage growth is likely to remain moderate. Annual growth in average hourly wages is forecast to increase to 2.8% by the March 2015 quarter from 2.3% in the September 2014 quarter.

...while activity in the housing market has moderated

The turnover of existing houses has eased from late last year, in part owing to the introduction of loan-to-value restrictions and a rise in the OCR of 100 basis points between March and July 2014. Annual growth in house prices slowed from just less than 10% in late 2013 to 3.9% in October 2014 (Figure 1.4), while house sales in the three months to October were down 10.2% on last year. The contribution of net migrant inflows to housing demand to date appears to have been weaker than in previous migration cycles. This may reflect the composition of the net inflows with the increase in arrivals over the past year dominated by students and temporary workers who together accounted for around two-thirds of the increase. These categories of migrants typically rent accommodation and are therefore less likely to add to the demand for owner-occupied housing relative to migrants arriving on residency visas.

Figure 1.4 – House sales and house price growth



Source: Real Estate Institute of New Zealand (REINZ)

Despite the moderation in national house prices over the first half of 2014, annual house price inflation remained high in Auckland and Canterbury at 9.8% and 9.1% respectively in October and national house sales have increased since the middle of this year. Low funding costs and an ample supply of deposits in New Zealand are allowing banks to keep fixed mortgage rates at historically low levels, supporting housing demand. Low fixed-term mortgage rates, combined with elevated net migrant inflows, are expected to result in house price inflation increasing to around 5% in coming quarters.

Trading partner growth remains uneven...

The outlook for trading partner growth remains positive in the December 2014 year at 3.7% but is uneven with strong growth in the US and the UK but weaker growth in Japan and the euro area, while Australia's growth has fallen below trend on a quarterly basis. The US economy continues to recover as economic growth rebounded strongly in the middle of 2014 from the weather-affected March quarter. On the other hand, growth in China eased in the September quarter, partly reflecting the slowdown in the housing market. Inflation is also subdued in most developed economies, particularly in the euro area and in Japan where demand has been weak, prompting further monetary policy easing.

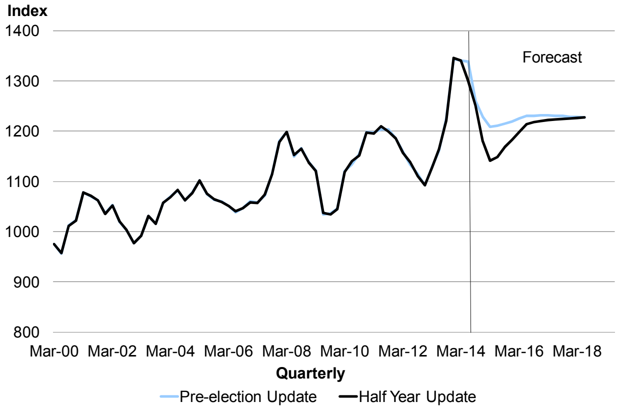
...and the outlook for the terms of trade has weakened...

The terms of trade for goods and services on a SNA basis declined 2.1% in the June quarter from their peak but remained 9.7% higher than a year ago.[1] This fall was driven by a 3.6% decline in export prices in the June quarter, with the fall broad-based across most commodities, while import prices fell 1.5%. A further fall in the terms of trade is expected in the September quarter.

The price for dairy products has continued to fall rapidly since February of this year and the outlook over the next few months remains weak. Price falls at the GlobalDairyTrade (GDT) auction accelerated from early August, when Russia imposed an import ban, with average auction prices falling 17% since then. Overall, dairy prices at the auction at the beginning of December were around 50% below their February peak but are expected to begin recovering over 2015, although downside risks remain to this forecast. Although the direct effects of lower dairy prices have been limited to date, export revenues are expected to decline significantly in coming quarters, resulting in reduced spending in the dairy sector and the rural economy more generally. For further detail on dairy price developments, see the box on page 13.

Forestry prices have also declined as demand from China has fallen with slower growth in housing construction, manufacturing and exports. The declines in dairy and forestry export prices have been partly offset by higher meat export prices, owing to additional demand from China and constrained beef supply in the US. International crude oil prices have also fallen significantly. The average Brent crude oil price in the two months to November was down 17% from the September quarter, reflecting an easing in global demand and increased production in the Middle East and the US. Lower oil import prices should contribute to less inflation in the December quarter through reduced petrol prices which will benefit consumers and provide some offset to the negative income effects of lower dairy prices.

Figure 1.5 – Goods terms of trade (SNA)



Sources: Statistics New Zealand, the Treasury

Given recent developments in dairy auction prices, the merchandise terms of trade are expected to decline further than forecast in the *Pre-election Update*. The decline in market prices since the March 2014 quarter is expected to result in a 15% fall in the merchandise terms of trade in the year to March 2015 (Figure 1.5).

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[1] The terms of trade are the ratio of New Zealand's export prices to import prices and reflect the quantity of imports the economy can buy for a unit of exports (ie, an increase in the terms of trade indicates an increase in purchasing power as well as increased income for the economy).

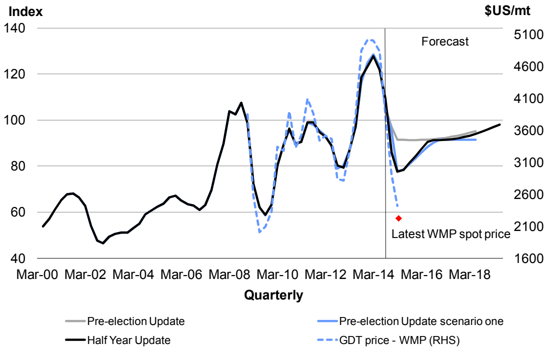
Dairy export prices and the New Zealand economy

The dairy industry is New Zealand's largest goods exporter and plays a key role in the economy. Increased global supply of milk, coupled with relatively muted demand for milk and dairy products, has seen average dairy prices fall around 50% since the start of the year. These price falls are beginning to flow through to farm incomes and the New Zealand economy through their impact on export prices and the terms of trade. This impact will become more prevalent in coming quarters.

Dairy prices have fallen from historic highs this year

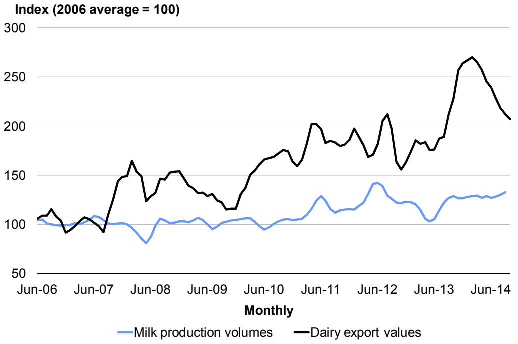
For most of 2013 and into early 2014, GDT auction prices remained at or near historical highs on the back of drought in New Zealand in early 2013 and strong Chinese demand (Figure 1.6). The GDT auction prices set the reference price for Oceania dairy products and approximately one-third of Fonterra's production is sold via the auction.

Figure 1.6 – GDP prices and SNA dairy prices index



Sources: GDT, Statistics New Zealand, the Treasury

Figure 1.7 – Dairy production and export values



Sources: Statistics New Zealand, the Treasury

Prices began to fall in February as increased supply from New Zealand and other producers was met with weak demand, particularly from China where inventories had built up. Whole milk powder (WMP) prices, which are the most important for New Zealand, were at their lowest level since July 2009 in early December, having fallen around 55% since February.

The falls have continued since the *Pre-election Update*

Further risks to dairy prices were noted in scenario one (which also incorporated other risks) in the Risks and Scenarios chapter of the *Pre-election Update*. The market fell further and faster than anticipated in the central forecast with dairy outcomes close to scenario one. The introduction of an import ban by Russia was a notable new development, driving dairy prices lower, while the drop in demand from China following the build-up in inventories showed demand may have been over-estimated previously by the Treasury and other commentators.

Since the *Pre-election Update's* forecasts were finalised in July, the GDT index has fallen a further 24%, significantly reducing the outlook for dairy farm incomes over 2015. The Treasury projects a recovery in dairy prices over the forecast period, with WMP prices returning to around $3,500/tonne at GDT auctions by 2016. GDT prices for WMP are currently around $2,400/tonne in the December 2014 quarter (Figure 1.6). The run-down of inventories and the consequent resumption of demand from China underpin the projection of a rebound in dairy auction prices.

What does it mean for New Zealand?

Falling dairy export prices are transmitted directly to the economy by their impact on dairy manufacturers and farmers. Dairy manufacturers receive lower revenues from their export sales and must pass this reduced revenue on to farmers or cut their profit margins (or most likely both). Fonterra has steadily reduced its farm gate price from last season's $8.40/kg of milk solids to its current forecast of $5.30/kg of milk solids for 2014/15 (although it is expected to lower this further in mid-December).

The reduced dairy payout represents an estimated $4.8 billion reduction in Fonterra farmers' revenues and, assuming similar changes in the smaller dairy companies' payouts, a $5.5 billion reduction in total dairy farmer revenues (about 2.3% of nominal GDP). In practice, the structuring of Fonterra's payout will partially smooth the impact, with approximately $2.4 billion of last season's high returns being paid out to farmers from July to October 2014.

The reduction in dairy export revenue is also a direct loss of revenue for the economy as a whole, although there may be some offsetting factors. While the fall in export revenue, and dairy farmers' incomes, from lower prices represents a significant downgrade in the outlook for nominal GDP, activity levels (or real GDP) are largely unaffected, at least in the near term (see box Solid real, but lower nominal GDP growth on page 16). Milk production continues to grow, although the income received has reduced owing to lower prices (Figure 1.7). However, the reduced incomes will eventually translate into lower spending and investment throughout the economy.

In addition, declines in the value of dairy exports will also impact tax revenue, via three channels. Firstly, as profit margins fall, corporate tax revenue from dairy companies and farms will fall. This can have a prolonged impact as losses can be booked against future tax years. Secondly, falling incomes will reduce consumption, particularly in rural areas, with a flow-on effect to GST revenues. And finally, farms will be looking to reduce operational and capital expenses which will reduce revenues and potentially profits of companies that supply the dairy sector, resulting in further reductions in corporate tax revenues, and potentially reducing PAYE tax revenues if farm labour is reduced.

...while the NZ dollar remains high...

The depreciation in the value of the NZ dollar in the September quarter on the Trade Weighted Index (TWI) provided some offset to the decline in exporters' incomes, although it remains high. The NZ dollar is assumed to remain elevated in the near term but is at a lower level than in the *Pre-election Update*. The lower NZ dollar contributes to higher tradables inflation and stronger growth in the value of imports than previously expected but also results in higher net services exports, chiefly through increased earnings from tourism.

...and domestic inflation continues to be low

Low price pressures are also being experienced domestically, partly reflecting the persistence of low global inflation. Annual CPI inflation in September 2014 was 1.0%, less than the *Pre-election Update* forecast of 1.2%, owing to lower tradables and non-tradables inflation, although it is non-tradables inflation of 2.5% that has been the most surprising. The lower-than-expected outturns recently for non-tradables inflation suggest that the reduction in spare capacity may have been more gradual than previously expected.

High net inflows of working-age migrants, elevated labour force participation and high rates of investment may be contributing to faster growth in the productive capacity of the economy and consequently to more subdued inflation. Lower-than-expected domestic inflation has led the Reserve Bank to undertake a period of further assessment before considering further policy tightening. As a result, short-term interest rates are forecast to remain at around current levels until late 2015. The factors behind the persistently lower inflation are discussed further in the Risks and Scenarios chapter, with an alternative scenario based on higher potential growth.

The weaker terms of trade combined with muted domestic inflation result in slower nominal GDP growth

The decline in the terms of trade, owing to a fall in goods export prices, contributed to a 0.7% quarterly fall in nominal GDP (GDP in current prices), taking growth to 7.8% in the year to June 2014, less than 8.5% expected in the *Pre-election Update.* Low domestic inflation and large falls in dairy prices are expected to contribute to further price weakness across the economy in the near term. As a result, growth in nominal expenditure on goods and services and in farm incomes is weaker than previously forecast (see box on page 16 for further detail on nominal GDP developments). Consequently, the near-term outlook for nominal GDP has been revised down with growth in the year to June 2015 of 2.1% forecast, 1.8 percentage points lower than in the *Pre-election Update*. The reduction in nominal GDP contributes to lower growth in tax revenue for the current year (see Fiscal Outlook chapter).

The current account deficit is forecast to widen in coming quarters

The record high prices achieved for dairy exports in 2013 and early 2014 continued to be reflected in the current account deficit which narrowed further in the year to June 2014 to 2.6% of GDP from 3.7% a year ago, as the goods surplus remained high. The external surplus on goods is expected to fall in coming quarters as recent declines in dairy export prices flow through to weaker export values. At the same time, the value of imports remains supported by growth in business investment, the Canterbury rebuild and private consumption spending. Accordingly, the annual current account deficit is forecast to widen to 5.3% of GDP in March 2015 from 2.6% in mid-2014.

Solid real, but slower nominal GDP growth

What is nominal GDP?

The main headline measure of economic activity is real GDP. Real GDP measures the output of the economy in the prices of a base period. Real GDP is sometimes referred to as "constant price" GDP, as opposed to "nominal" or "current price" GDP which records the value of output in the prices prevailing at the time.

Nominal GDP generally grows faster than real GDP as prices trend up over time. This has been the case over most of the past 25 years in New Zealand when annual growth in real GDP averaged 2.6%, while annual growth in nominal GDP averaged 4.9%, implying that the price level in the economy as a whole increased by an average of 2.2% per year (Figure 1.8).

The prices of all components of economic activity contribute to this difference between real and nominal GDP: the prices of goods and services consumed by households, investment goods including housing, and government goods and services; the ratio of export to import prices (known as the terms of trade) is also an important determinant of nominal GDP.

In the June quarter 2014, however, real expenditure GDP increased 0.5%, but nominal expenditure GDP contracted 0.7% as export prices fell 3.6%. The price of consumption goods and services increased only 0.2% in the quarter, similar to the CPI which increased 0.3%. Overall, prices in the economy declined 1.1% in the June quarter 2014.

Why is nominal GDP growing more slowly?

The drop in export prices in the June quarter was chiefly the result of falls in dairy and forestry prices as demand from China declined and other factors impacted on global dairy prices (see the box Dairy export prices and the New Zealand economy on page 13). Dairy auction prices have been falling since earlier in the year and recent falls will be reflected in subsequent quarters' export values.

Import prices have also been falling as a result of low inflation internationally. Subdued global inflation stems from weak demand in some economies (Japan and the euro area), and continuing spare capacity in others despite stronger growth (the US and the UK). Inflation is also low in China, reflecting slower economic growth. Low global inflation, combined with the still-high value of the NZ dollar, has carried through to falling prices for internationally traded goods and services in New Zealand recently. Recent falls in oil prices have also contributed to weaker inflation.

The weaker inflation in New Zealand appears to be part of the same global phenomenon of a lack of price pressure even where growth is robust, pointing to continuing spare capacity in the economy. In New Zealand's case, rapid population growth as a result of high net migration inflows is adding to the productive capacity of the economy and reducing pricing pressures. In addition, vigorous retail price competition, discounting of consumer durables and product enhancements for the same price all result in lower consumer price inflation.

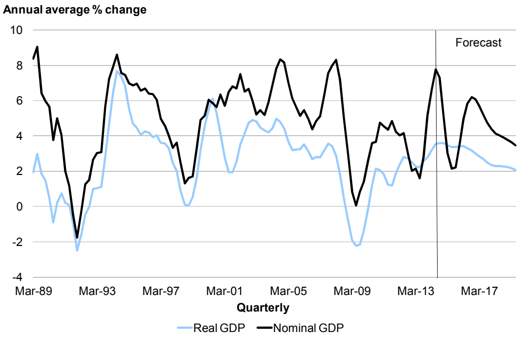
Nominal GDP growth revised down since the *Pre-election Update*

Price growth in the economy has been weaker than forecast in the *Pre-election Update*. The fall in the terms of trade in the June quarter was larger and consumer price inflation was less than expected in the year to September. The weaker export, import and consumer prices have provided a lower base for the forecasts, and weaker price growth is expected to persist in the near term as recent falls in dairy prices are recorded in exports, lower oil prices flow through to petrol prices and consumer price inflation remains subdued. There may be some offset from the recent fall in the value of the NZ dollar.

With weaker inflation, growth in nominal GDP in the year to June 2015 is now forecast to be 2.1%, down from 3.9% in the *Pre-election Update*; thereafter nominal GDP growth picks up, but over the period to June 2018 nominal GDP is a cumulative $13.2 billion lower than in the *Pre-election Update* (Figure 1.9). This includes data revisions and the lower-than-forecast outcome in the June 2014 quarter. By contrast, real GDP is forecast to be cumulatively $2.1 billion higher than in the *Pre-election Update* over the same period.

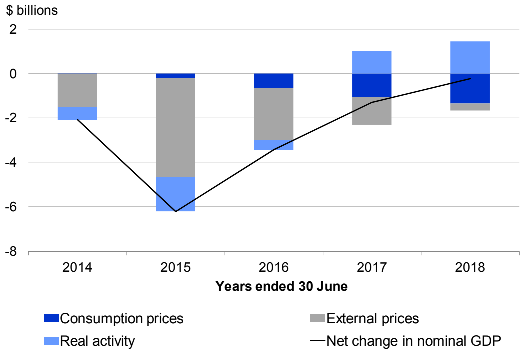
Initially, the terms of trade are expected to make the major contribution to lower nominal GDP, but – as export prices are forecast to recover somewhat – the cumulative effect of lower consumption price inflation exceeds the impact of the terms of trade on nominal GDP later in the forecast period.

Figure 1.8 – Real and nominal GDP growth



Sources: Statistics New Zealand, the Treasury

Figure 1.9 – Contributions to change in nominal GDP from the *Pre-election Update*



Sources: Statistics New Zealand, the Treasury

Why is it important?

Low inflation reduces government tax revenue which is dependent on components of nominal GDP, not real GDP. A lower value of consumption, even if the same quantity of goods and services is being consumed, means less GST, slower wage growth means less PAYE than otherwise and reduced export receipts mean lower business profits and so less corporate tax.

Low price increases also mean that short-term interest rates are likely to remain lower than otherwise as the Reserve Bank postpones increases in the OCR; as a result, RWT on interest earnings will be less than otherwise. In fact, the reduction in RWT from the *Pre-election Update* of $1.4 billion over the four years to June 2018 makes the largest negative contribution to the lower core Crown tax revenue forecasts out of a total net reduction of $2.4 billion.

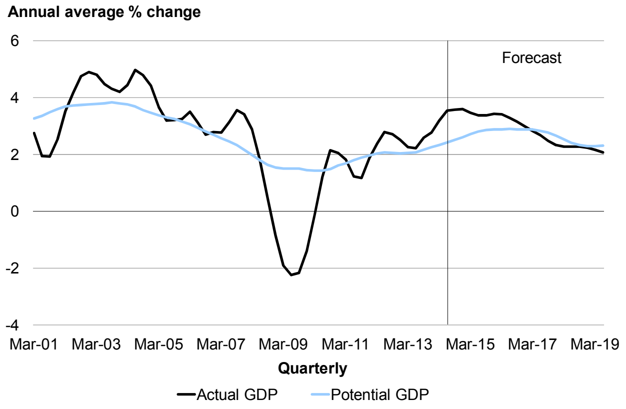
Medium-term Outlook

The medium-term outlook for economic activity remains solid...

The outlook for real economic growth remains positive over the medium term. Annual average growth in real GDP in the year to March 2016 is forecast to be similar to the previous March year, at 3.4%, before easing to 2.2% in March 2019 (Figure 1.10). Relative to the *Pre-election Update*, growth over the medium term is forecast to be slightly higher, reflecting faster population growth from higher migration inflows and greater investment owing to lower interest rates.

Faster labour force growth and higher investment also contribute to a marginal upward revision to the economy's potential growth rate.[2] The annual average potential growth rate is estimated to increase from 2.4% in the June quarter 2014 to a peak of 2.9% in mid-2016 before easing to 2.3% by the end of the forecast period (Figure 1.10). The impact of even higher potential growth over the forecast period is described in scenario two of the Risks and Scenarios chapter.

Figure 1.10 – Actual and potential GDP growth



Sources: Statistics New Zealand, the Treasury

Despite the slight lift in potential growth, above-trend rates of growth are forecast to result in inflation increasing to just above 2.0%, with interest rates forecast to rise to keep inflation pressures under control. Rising interest rates, combined with the fading stimulus from the Canterbury rebuild and high net migration, contribute to a moderation in GDP growth later in the forecast. A continuing high value of the NZ dollar and fiscal restraint also act as headwinds to growth over the forecast period.

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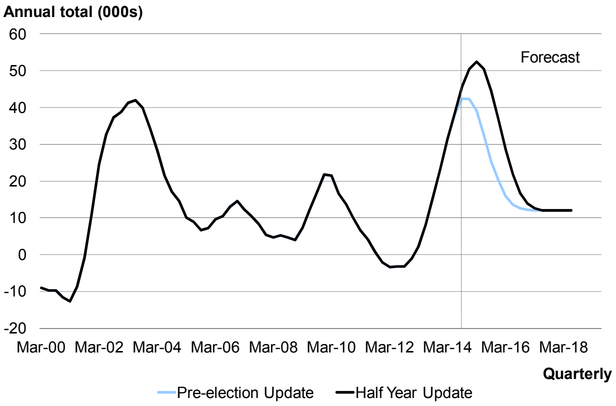
[2] Potential growth is the rate at which the economy can expand while maintaining stable inflation. It depends on how many people are available to work and how many hours they are willing to work (labour); the number of buildings, machines and computers (capital); and the efficiency with which they are used (productivity).

...as higher net migration boosts population growth...

Strength in the net inflow of external migrants is expected to continue and the annual gain is forecast to peak in March 2015 at 52,400, with the duration of the current cycle now assumed to be slightly longer than previously forecast (Figure 1.11). Departures are expected to increase again over 2015 as the Australian economy improves, while arrivals begin to ease from their record high levels. The change in the profile of migration results in an additional 23,400 people over the forecast period compared to the *Pre-election Update*. Higher net migration inflows continue to pose an upside risk to the outlook for aggregate activity.

Figure 1.11 – Annual net external migration



Sources: Statistics New Zealand, the Treasury

...which supports real private consumption growth

The growing population supports real private consumption growth over the next few years, which is forecast to grow by around 3.5% annually over 2015 and 2016 before returning to around 2.0% over the remainder of the forecast period as interest rates increase. The outlook for private consumption is reinforced by ongoing growth in real labour incomes over the forecast period, supporting the purchasing power of households.

Residential investment remains a major driver of growth in the economy but will peak...

The level of residential investment is expected to continue increasing before easing towards the end of the forecast period with population growth and existing housing shortages in Auckland a major driver of activity. Housing investment in Christchurch remains well above the pre-quake average and the high level of activity is likely to be sustained for some time, although earthquake-related construction is expected to peak over the next year or so.

The assumptions concerning the rebuilding of Christchurch are unchanged from the *Pre-election Update*. The total amount of rebuild-related investment is estimated to be $40 billion (in 2011 prices), with just over half of this total assumed to take place by mid-2019. Most of this investment will be funded by insurance payments and government investment. The residential rebuild will account for the greatest share of reconstruction activity over the forecast period, followed by investment in infrastructure and social assets, and commercial assets.

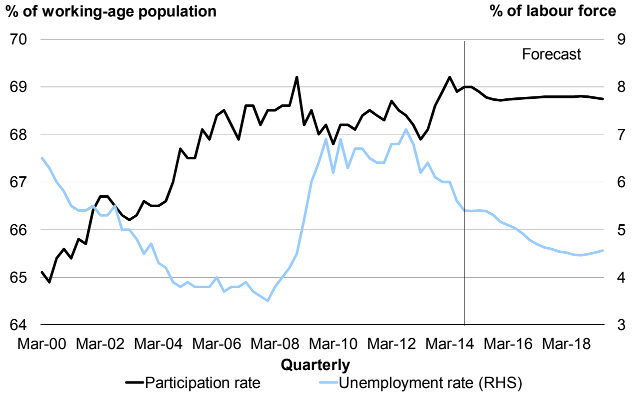
...and business investment expands

Businesses are also expected to continue to expand their investment as aggregate demand in the economy increases and confidence and investment intentions remain elevated. Reduced spare capacity in the economy and lower interest rates are expected to lead firms to invest more. Annual average growth in business investment is forecast to remain elevated over the next three years at around 7.0% and then decline to 2.5% by the end of the forecast period. The level of investment is forecast to increase to nearly 25% of GDP, alongside national saving rising to around 19%.

Ongoing demand for workers is forecast to result in falling unemployment...

Demand for labour is expected to continue to grow with the expansion in the economy. Growth in the working-age population will continue to be boosted by higher net migration and the proportion of the working-age population participating in the labour market is forecast to stabilise at a high level. As a result, the unemployment rate is forecast to fall to around 4.5% by 2019 (Figure 1.12).

Figure 1.12 – Participation and unemployment



Sources: Statistics New Zealand, the Treasury

...leading to an increase in wage growth

As spare capacity in the labour market is further reduced, firms will increasingly bid up wages to attract workers. Ordinary-time hourly earnings are expected to rise by around 3.1% annually on average from 2015 onwards. Moderate employment growth, combined with rising wage growth, will increase total compensation of employees by more than 4% on an annual basis throughout most of the forecast period.

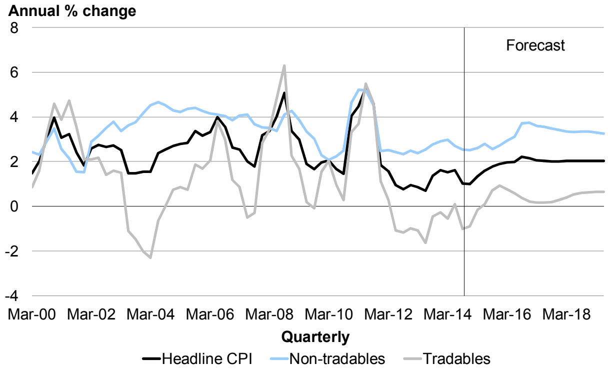
The Government will continue exercising spending restraint

Fiscal policy is forecast to exert a mild constraining influence on demand over the forecast period as a whole. Operating balances are forecast to increase through time but at a slower pace than forecast in the *Pre-election Update* over the next two years. Growth in government consumption increases from 2017 onwards as Budget operating allowances are increased. As outlined in the Fiscal Outlook chapter, operating allowances have been added to expenditure as a working assumption, but in practice are available for a combination of expenditure and revenue initiatives.

Inflationary pressures will increase, but to a lesser extent than previously envisaged...

It is estimated that actual output was around its potential level in the June 2014 quarter and continues to be initially in the forecast period before exceeding the economy’s sustainable or non-inflationary level by around 0.6% in the second half of 2015. The upward revision to potential GDP allows the economy to sustain a slightly higher level of activity than previously forecast without exacerbating inflationary pressures.

Figure 1.13 – CPI inflation



Sources: Statistics New Zealand, the Treasury

As actual output is expected to exceed the economy's level of potential output, non-tradables inflation is forecast to rise to around 3.7% in the second half of 2016 from 2.5% currently (Figure 1.13). However, given the upward revision to the economy's potential output over the forecast period, non-tradables inflation is expected to be lower than in the *Pre-election Update* over much of the forecast period. Tradables inflation is forecast to rise to 0.9% by the end of 2015 as recent falls in the NZ dollar pass through to tradable goods prices, but continue to offset the higher non-tradables inflation. Annual inflation is forecast to peak in the second half of 2016 at 2.2% and will remain close to the mid-point of the Reserve Bank's target band through to the end of the forecast period.

...and interest rates will gradually rise

Ninety-day interest rates are assumed to remain at 3.7% until late 2015 owing to weaker-than-expected inflation. Short-term interest rates subsequently rise to 5.2% by the end of the forecast period. Higher interest rates will moderate growth in private consumption and investment apart from the Christchurch rebuild, so that growth in the economy eases and inflationary pressures are reduced. Longer-term interest rates are expected to increase gradually in line with international rates.

Trading partner growth remains positive led by recovery in the US and the UK...

Growth amongst advanced economies is expected to recover over the next two years, driven by the recovery in the US and UK labour markets which will support their household income and spending. Activity in Australia is expected to pick up towards trend growth while growth in China and some other emerging Asian economies is expected to slow over the forecast period. The outlook for Japan and the euro area is weak and has been revised down, resulting in slighter weaker trading partner growth than in the *Pre-election Update* (Table 1.2). On average, interest rates in major advanced economies are expected to stay low for some time, maintaining upward pressure on the NZ dollar while keeping 10-year bond rates low. Risks remain to the outlook for the world economy, especially for the euro area and China, and they are discussed further in the Risks and Scenarios chapter.

Table 1.2 – Trading partner growth forecasts

	2014 weights	2013 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Australia	*25%*	2.3	3.0	2.8	2.9	3.0	3.0	3.0
China	*22%*	7.7	7.3	7.2	7.0	6.8	6.6	6.5
United States	*10%*	2.2	2.2	2.9	3.0	2.7	2.6	2.5
Japan	*8%*	1.5	0.7	0.9	1.0	1.0	1.0	1.0
Euro area	*7%*	-0.4	0.8	1.1	1.4	1.4	1.4	1.4
United Kingdom	*4%*	1.7	3.0	2.7	2.3	2.0	2.0	2.0
Canada	*1%*	2.0	2.3	2.5	2.4	2.3	2.2	2.2
Other Asia*	*23%*	4.0	4.0	4.5	4.6	4.6	4.6	4.6
Trading Partner Growth (TPG)	***100%***	**3.5**	**3.7**	**3.9**	**3.9**	**3.9**	**3.9**	**3.9**
TPG - Consensus (Nov 2014)		3.5	3.8	4.0	4.0	4.1	4.0	3.9
TPG - IMF (WEO Oct 2014)		3.5	3.8	4.0	4.0	4.0	3.9	3.9
TPG - The Treasury (2014 Pre-election Update)		**3.5**	**3.8**	**4.0**	**4.0**	**4.1**	**4.1**	

* South Korea, Taiwan, Hong Kong, Singapore, Malaysia, Indonesia, Thailand, Philippines, India

Sources: IMF, Consensus Forecasts, the Treasury

...while the terms of trade are expected to stabilise above their historical average...

The terms of trade have been volatile over history and are forecast to stabilise and then recover some of their recent falls to be around 9% higher over the forecast period than their average over the past decade. Robust demand from China for dairy and meat products over the medium term is expected to support the terms of trade at an elevated level. Demand for forestry products is also expected to recover with an increase in construction activity in China and residential construction in the US and Australia. Demand for New Zealand's other primary commodities, and for manufactured products, is expected to be sustained by the gradual recovery in the world economy. A sustained fall in the terms of trade is examined in scenario one of the Risks and Scenarios chapter.

The NZ dollar is expected to remain high...

The value of the NZ dollar is assumed to remain close to its current high level on the TWI for the first half of the forecast period at around 76.6 and will act as a drag on growth in services exports and export receipts more broadly. Monetary policy is expected to remain accommodative in Japan and the euro area for a considerable period, providing support for NZ dollar assets. This is assumed to offset the currency effects of expected interest rate increases by the Federal Reserve in the US. Some depreciation in the NZ dollar is assumed to occur from mid-2017 as interest rate rises in major developed markets gather pace, reducing the attractiveness of NZ dollar assets.

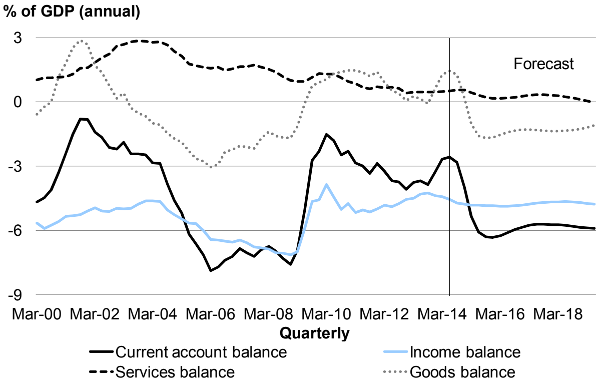
...and the value of imports will increase faster than exports...

With strong growth in private consumption and both residential and business investment in the March 2015 year, real gross national expenditure (GNE) is forecast to rise by 4.9%, up from 4.7% growth in the March 2014 year. As growth in GNE slows over the rest of the forecast period, import volume growth will ease, but import values will increase more rapidly later in the forecast period as the value of the NZ dollar falls, despite a downward revision to the assumption for world oil prices. Export values are forecast to decline initially with the expected fall in commodity prices, although an assumed fall in the value of the NZ dollar later in the period will bring an increase in total export values. Export volumes are forecast to grow by around 2.5% to 3.5% per year from 2016 onwards as production expands in response to renewed international demand and the NZ dollar falls, making New Zealand exports more competitive.

...resulting in the current account deficit widening before stabilising

The annual current account deficit is expected to widen over the next two years as the annual goods balance is forecast to become negative as a result of the fall in the terms of trade. The current account deficit is forecast to stabilise at around 6.0% of GDP in the final couple of years of the forecast period (Figure 1.14) compared with 6.4% in the *Pre-election Update*. Net international liabilities currently stand at 65.3% of GDP, their lowest level since the December 2001 quarter, although the widening current account deficit sees net international liabilities increase to 79.8% of GDP by March 2019.

Figure 1.14 – Current account

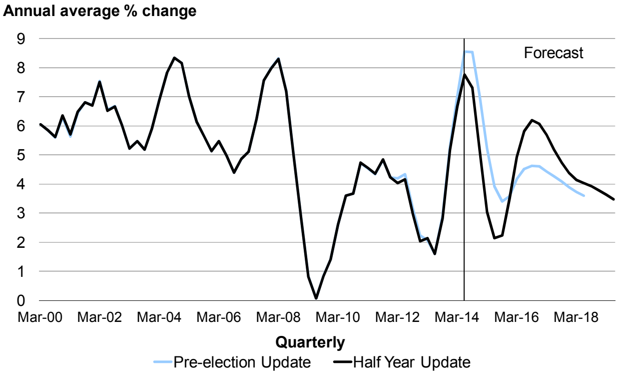


Sources: Statistics New Zealand, the Treasury

Overall, price developments will flow through to lower nominal GDP relative to the Pre-election Update *despite robust activity*

In contrast to the real GDP outlook, lower-than-expected domestic inflation and weaker international commodity prices have resulted in a materially weaker forecast for nominal GDP over the medium term (Figure 1.15). While the cumulative volume of goods and services produced over the next four years is slightly higher than previously forecast, weaker prices mean that the value of that output is lower. The cumulative amount of nominal GDP in the period to June 2018 is forecast to be approximately $13.2 billion (1.1%) lower than in the *Pre-election Update*, with the downward revision most pronounced in the 2015 and 2016 June years.

Figure 1.15 – Nominal GDP growth



Sources: Statistics New Zealand, the Treasury

The downward revision to nominal GDP and its components negatively impacts the forecasts for tax revenue. This has occurred through a reduction in GST revenue owing to lower forecasts for nominal private consumption and residential investment. The reduction in the dairy payout also contributes to a lower outlook for entrepreneurial income and operating surplus. Lower short-term interest rates as a result of downwardly-revised inflation contribute to a decline in RWT revenue on interest earnings.

Economic forecast assumptions

- Net permanent and long-term migration inflows rose to 45,600 in the year ended September 2014. Net migrant inflows are forecast to rise to 52,400 in the March 2015 year before returning to the long-run assumption of 12,000 per year in June 2017.
- The annual average potential growth rate is estimated to increase from 2.4% in the June quarter 2014 to a peak of 2.9% before declining to 2.3% by the end of the forecast period.
- The non-accelerating inflation rate of unemployment (NAIRU) is estimated to be around 4.5% by the end of the forecast period.
- Average hours worked per week are estimated to decline from their current level of 33.5 to 33.2.
- Economy-wide labour productivity growth is estimated to average 1.3% per year between the years ending March 2015 and March 2019.
- Investment associated with the rebuild following the Canterbury earthquakes is assumed to be around $40 billion in 2011 prices (rounded to the nearest $5 billion), spread across residential property ($18 billion), commercial property ($9 billion) and infrastructure and social assets ($11 billion). Just over half of the total is forecast to be undertaken within the forecast period to June 2019.
- West Texas Intermediate (WTI) oil prices are assumed to fall from US$100 per barrel in the September 2014 quarter to around US$83 in the March 2019 quarter, in line with oil futures prices when forecasts were finalised.
- Ninety-day interest rates are assumed to increase from 3.7% in the September 2014 quarter to 5.2% in the June 2019 quarter and 10-year interest rates to rise from 4.3% in the September 2014 quarter to 5.2% in the June 2019 quarter.
- The TWI is assumed to hold at around 76.6 until early 2017, when it will begin to decline to 73.0 in the June 2019 quarter.
- Tobacco excise tax increases add 0.2 percentage points to annual inflation in each of the March 2015 and 2016 quarters.
- Reduced Accident Compensation Corporation (ACC) levy rates will reduce contributions by households and employers by about $400 million in the 2014/15 levy year and around $480 million in the 2015/16 levy year. The reduction in ACC vehicle levies is estimated to reduce CPI inflation by 0.25 percentage points in the September 2015 quarter.

2

Fiscal Outlook

Overview

- The fiscal outlook of the Crown is expected to continue improving from last year, with the OBEGAL deficit reducing in 2014/15 followed by surplus in 2015/16 and rising to $4.1 billion in 2018/19. Net debt as a percentage of GDP falls from 26.5% in 2014/15 to 22.5% in 2018/19.
- However, the fiscal outlook is expected to be weaker than the *Pre-election Update* in the short term, reflecting a downward revision of tax revenue forecasts.
- Tax revenue forecasts have been revised down since the *Pre-election Update* by $2.4 billion across the forecast period, with $0.6 billion relating to the 2014/15 year, as recent price growth has been slower than expected and global dairy prices have fallen further than anticipated (refer to the section on *Half Year Update* compared to *Pre-election Update* forecast on pages 42 to 45).
- However, core Crown tax revenue is still expected to increase across the forecast period and by 2018/19 is expected to be $18.5 billion higher than 2013/14, reflecting the growth in the nominal economy, as discussed in the Economic Outlook chapter.

Table 2.1 – Fiscal indicators

Year ended 30 June	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
$billions						
Total Crown OBEGAL[1]	(2.9)	(0.6)	0.6	2.6	3.1	4.1
Core Crown residual cash	(4.1)	(4.0)	(3.5)	(0.1)	0.6	1.8
Net core Crown debt[2]	59.9	63.5	67.0	67.0	66.4	64.5
Net worth attributable to the Crown	75.6	77.4	80.9	86.5	92.7	100.2
% of GDP						
Total Crown OBEGAL[1]	(1.3)	(0.2)	0.2	1.0	1.1	1.4
Core Crown residual cash	(1.8)	(1.7)	(1.4)	-	0.2	0.6
Net core Crown debt[2]	25.6	26.5	26.5	25.2	24.0	22.5
Net worth attributable to the Crown	32.3	32.3	32.0	32.5	33.5	35.0

Notes: 1 Operating balance before gains and losses
2 Net core Crown debt excluding the New Zealand Superannuation Fund (NZS Fund) and advances

Source: The Treasury

- The operating allowances have been re-phased since the *Pre-election Update* as indicated by the Government in the 2014 Fiscal Strategy Report. An allowance of $1.0 billion has been set for Budgets 2015 and 2016, increasing to $2.5 billion for Budget 2017 before reducing back to $1.5 billion. Once the expected increase in social assistance spending is added to the operating allowances, core Crown expenses are expected to rise by $11.7 billion over the forecast period. This increase is slower than growth in the nominal economy so by the end of the forecast period core Crown expenses fall to below 30% of GDP.

- The OBEGAL deficit in 2014/15 is $572 million (0.2% of GDP) with an OBEGAL surplus of $565 million expected in 2015/16. Beyond 2015/16 these surpluses are expected to increase and by 2018/19 the OBEGAL surplus is expected to reach $4.1 billion.

- Residual cash reaches surplus in 2017/18, a year earlier than previously forecast, primarily reflecting reduced capital spending, enabling debt to begin to reduce in nominal terms.

- In nominal terms, net core Crown debt increases until 2015/16 where it remains static before falling in 2017/18. As a share of GDP, net core Crown debt remains flat for the first two years of the forecast before gradually declining, falling to 22.5% by the end of 2018/19.

- The Crown's balance sheet continues to strengthen over the forecast period. Total assets grow from $256 billion in 2013/14 to $294 billion in 2018/19, total liabilities from $175 billion in 2013/14 to $188 billion in 2018/19.

- The Risks and Scenarios and the Specific Fiscal Risks chapters outline the key risks to the Crown achieving these forecasts.

Table 2.2 – Reconciliation between OBEGAL and net core Crown debt

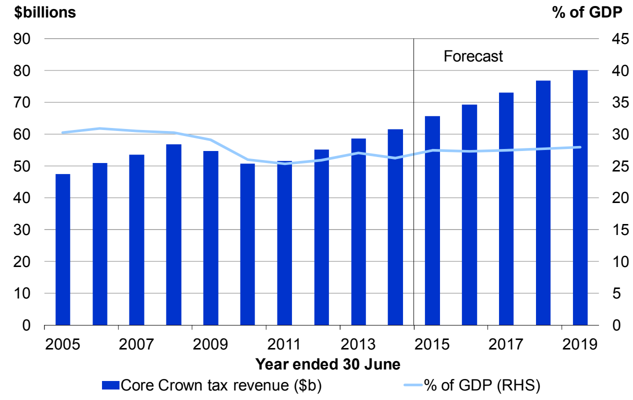
Year ending 30 June $billions	**2014 Actual**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**2019 Forecast**
Core Crown revenue	67.3	71.5	75.3	79.4	83.5	87.0
Core Crown expenses	(71.5)	(73.0)	(75.1)	(76.9)	(80.7)	(83.2)
Net surpluses/(deficits) of SOEs and CEs	1.3	0.9	0.4	0.1	0.3	0.3
Total Crown OBEGAL	**(2.9)**	**(0.6)**	**0.6**	**2.6**	**3.1**	**4.1**
Net retained surpluses of SOEs, CEs and NZS Fund	(0.8)	(1.0)	(0.3)	-	(0.2)	(0.2)
Non-cash items and working capital movements	0.7	1.6	1.9	2.3	1.4	1.8
Net core Crown cash flow from operations	**(3.0)**	**-**	**2.2**	**4.9**	**4.3**	**5.7**
Net purchase of physical assets	(1.9)	(2.0)	(2.5)	(2.1)	(1.3)	(1.3)
Advances and capital injections	(1.5)	(2.5)	(2.8)	(2.2)	(1.6)	(1.8)
Forecast for future new capital spending	-	(0.1)	(0.4)	(0.7)	(0.8)	(0.8)
Proceeds from government share offers	2.3	0.6	-	-	-	-
Net core Crown capital cash flows	**(1.1)**	**(4.0)**	**(5.7)**	**(5.0)**	**(3.7)**	**(3.9)**
Core Crown residual cash (deficit)/surplus	**(4.1)**	**(4.0)**	**(3.5)**	**(0.1)**	**0.6**	**1.8**
Opening net core Crown debt	55.8	59.9	63.5	67.0	67.0	66.4
Core Crown residual cash deficit/(surplus)	4.1	4.0	3.5	0.1	(0.6)	(1.8)
Valuation changes in financial instruments	-	(0.4)	-	(0.1)	-	(0.1)
Closing net core Crown debt	**59.9**	**63.5**	**67.0**	**67.0**	**66.4**	**64.5**
As a percentage of GDP	**25.6%**	**26.5%**	**26.5%**	**25.2%**	**24.0%**	**22.5%**

Source: The Treasury

Core Crown Tax Revenue

Core Crown tax revenue is forecast to rise in each year of the forecast period. By 2018/19, core Crown tax revenue is expected to reach $80.0 billion, $18.5 billion higher than in 2013/14. Forecast tax revenue increases as a percentage of nominal GDP, from 26.3% in 2013/14 reaching 27.9% at the end of the forecast period (Figure 2.1).

Figure 2.1 – Core Crown tax revenue



Source: The Treasury

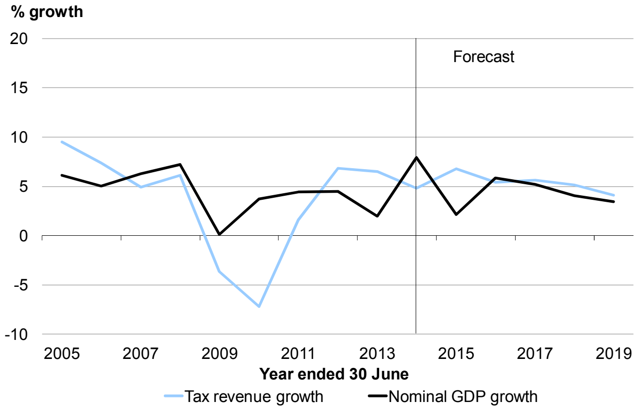
The main driver for the increase in tax revenue is forecast growth in nominal GDP (Figure 2.2). Other factors can also influence the tax revenue forecast such as the composition of that growth, interest rate track (impacting RWT) and assumptions regarding taxpayer behaviour.

Year to date tax outturns to 31 October 2014 are around 8% higher than the same period last year. This growth is largely owing to increases in source deductions, GST and corporate tax. In addition, increases in interest rates have resulted in higher income from RWT. Growth in tax revenue is expected to reduce to around 7% for the full year, as some of the strength in the year-to-date outturn is expected to soften, partly owing to weakness in the dairy sector.

Key assumptions over and above economic drivers include:

- Payments to dairy farmers are forecast to be spread smoothly through the early years of the forecast period as dairy co-operative payments for particular dairy seasons tend to extend well past the end of the corresponding tax year.
- Tax loss utilisation is assumed to ease off over 2015 and 2016 and then flatten out through the remainder of the forecast period.
- Earthquake-related GST refunds for insurers, which peaked in 2011/12, are expected to continue to decrease over the forecast period.

Figure 2.2 – Core Crown tax revenue and nominal GDP growth



Source: The Treasury

While growth in tax revenue is forecast to track closely to nominal GDP growth for most of the forecast period, growth in tax revenue is expected to outpace nominal GDP growth in 2014/15. There are a number of reasons for this:

- Income tax payments through the early part of the 2014/15 fiscal year indicate that a higher-than-usual proportion of 2014 tax year revenue will fall into the 2014/15 fiscal year.
- Some components of nominal GDP (employee compensation, private consumption and residential investment) are growing faster than total nominal GDP.
- GST refunds relating to insurers are declining.

From 2015/16 tax revenue is forecast to grow in line with nominal GDP.

Table 2.3 provides an analysis of the impact particular components of GDP have on the tax revenue forecasts.

Table 2.3 – Composition of growth in core Crown tax revenue over the forecast period

Year ending 30 June $billions	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**2019 Forecast**	**Total**
Movement in core Crown tax owing to:						
Employees' compensation	1.1	1.1	1.2	1.2	1.3	**5.9**
Private consumption	0.8	0.9	0.9	0.7	0.7	**4.0**
Corporate profits	0.1	0.9	0.7	0.4	0.3	**2.4**
Fiscal drag	0.2	0.3	0.3	0.3	0.4	**1.5**
Residential investment	0.4	0.3	0.2	0.1	-	**1.0**
Inflation indexation	0.2	0.2	0.1	0.1	0.1	**0.7**
Interest rates	0.1	0.1	0.1	0.2	0.2	**0.7**
Entrepreneurial income	(0.1)	0.1	0.4	0.1	0.1	**0.6**
Interest bearing deposit base	0.1	0.1	0.1	0.1	0.1	**0.5**
Other factors	1.2	(0.4)	(0.1)	0.4	-	**1.2**
Total movement in core Crown tax	**4.1**	**3.6**	**3.9**	**3.7**	**3.2**	**18.5**
Plus: previous year's tax base	61.5	65.6	69.2	73.1	76.8	**61.5**
Core Crown tax revenue	**65.6**	**69.2**	**73.1**	**76.8**	**80.0**	**80.0**
Percentage of GDP	**27.4%**	**27.3%**	**27.4%**	**27.7%**	**27.9%**	

Source: The Treasury

Employees' compensation contributes $5.9 billion to source deductions' growth over the forecast period, with the progressive nature of the personal tax scale (fiscal drag) adding a further $1.5 billion.

Growth in private consumption contributes $4.0 billion to the increase in GST over the forecast period, related to net migration growth and gradual wage growth.

Growth in corporate profits contributes $2.4 billion with the main driver being corporate tax increasing over the forecast period, despite the weakness in the dairy sector; profits in other sectors are higher than previously forecast.

Inland Revenue has also prepared a set of tax forecasts based on the Treasury's macroeconomic forecasts (Table 2.4)[3]. Inland Revenue's forecasts are higher than the Treasury's forecasts in the first three years of the forecast but lower in 2017/18. Source deductions and corporate taxes are where the largest forecast differences arise, reflecting the different methods used and assumptions made by the two forecasting agencies. For instance, Inland Revenue's source deductions forecast is higher than the Treasury's owing to the different assumptions made around how much of the current weakness in PAYE will be carried through to future years. Although these differences are less than half of one percent of total tax revenue, they highlight the uncertainties associated with any forecast.

Table 2.4 – The Treasury's and Inland Revenue's core Crown tax revenue forecasts

Year ending 30 June **$billions**	**2015** **Forecast**	**2016** **Forecast**	**2017** **Forecast**	**2018** **Forecast**	**2019** **Forecast**
Source deductions					
The Treasury	25.0	26.3	27.7	29.3	30.9
Inland Revenue	25.1	26.5	28.0	29.5	31.1
Difference	(0.1)	(0.2)	(0.3)	(0.2)	(0.2)
Net other persons tax					
The Treasury	3.8	3.9	4.2	4.5	4.5
Inland Revenue	4.0	3.8	4.3	4.4	4.5
Difference	(0.2)	0.1	(0.1)	0.1	-
Corporate taxes					
The Treasury	11.1	11.8	12.5	12.9	13.3
Inland Revenue	11.2	11.7	12.2	12.6	12.8
Difference	(0.1)	0.1	0.3	0.3	0.5
Goods and services tax					
The Treasury	17.4	18.3	19.2	20.2	20.7
Inland Revenue	17.4	18.4	19.3	20.0	20.7
Difference	-	(0.1)	(0.1)	0.2	-
Other taxes					
The Treasury	8.3	8.9	9.5	9.9	10.6
Inland Revenue	8.3	9.0	9.6	10.1	10.9
Difference	-	(0.1)	(0.1)	(0.2)	(0.3)
Total tax					
The Treasury	65.6	69.2	73.1	76.8	80.0
Inland Revenue	66.0	69.4	73.4	76.6	80.0
Difference	(0.4)	(0.2)	(0.3)	0.2	-
Total tax (% of GDP)					
The Treasury	27.4	27.3	27.4	27.7	27.9
Inland Revenue	27.6	27.4	27.6	27.7	27.9
Difference	(0.2)	(0.1)	(0.2)	-	-

Sources: The Treasury, Inland Revenue

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[3] For more details of the Treasury and Inland Revenue's forecasts, see the *Additional Information* document on the Treasury website www.treasury.govt.nz

Core Crown Expenses

Growth in core Crown expenses as a percentage of GDP reduces...

Growth in core Crown expenses is forecast to be at a slower rate than growth in the nominal economy. They fall from 30.5% of GDP in 2013/14 to 29.0% of GDP by the end of the forecast period. In 2015/16, core Crown expenses are expected to stand at 29.7% of GDP (Figure 2.3).

...however, nominal spending increases

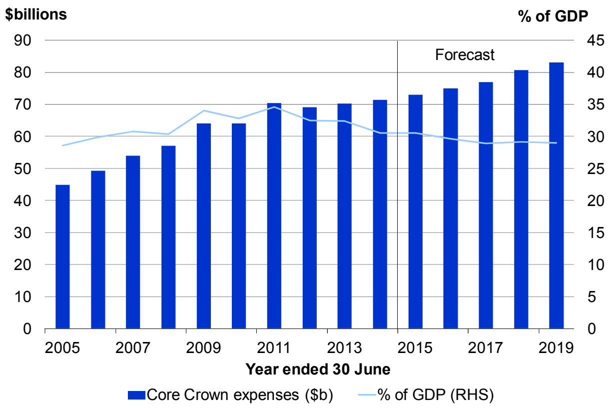
Nominal growth of $11.7 billion in core Crown expenses is largely attributable to new spending expected from future Budget allowances and increased social assistance spending (as shown in Figure 2.4).

Operating allowances have been set at $1 billion for Budget 2015 and 2016, rising to $2.5 billion in Budget 2017 before reducing to $1.5 billion in Budget 2018. For more detail, refer to the 2015 Budget Policy Statement.

The combined new budget spending totals $6.0 billion by 2018/19 (see Figure 2.5). For forecasting purposes these allowances have been assumed to be expenditure. However, these operating allowances can be used for a combination of both revenue and expense initiatives when allocated.

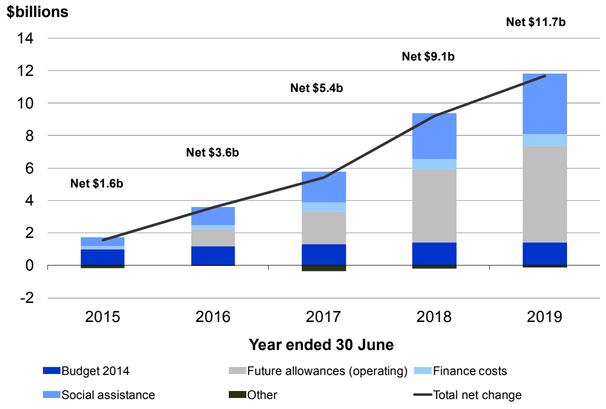
New operating spending will be allocated to department baselines once budget decisions are made. As a result most functional expense areas (eg, health, education) remain flat across the forecast period as new spending has yet to be allocated. Therefore comparisons across the forecast period will not necessarily reflect the expected spend at a functional level.

Figure 2.3 – Core Crown expenses



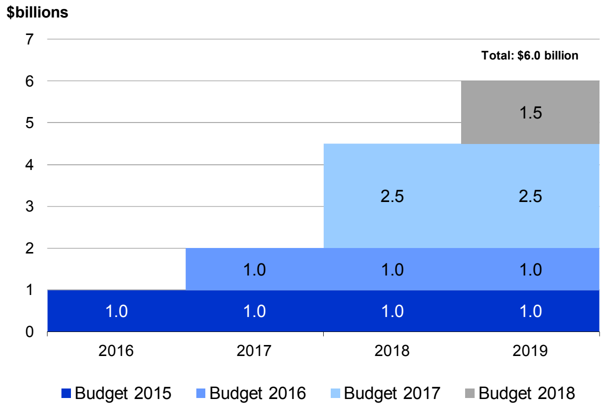
Source: The Treasury

Figure 2.4 – Increase in core Crown expenses



Source: The Treasury

Figure 2.5 – Budget 2015 and future Budget allowances



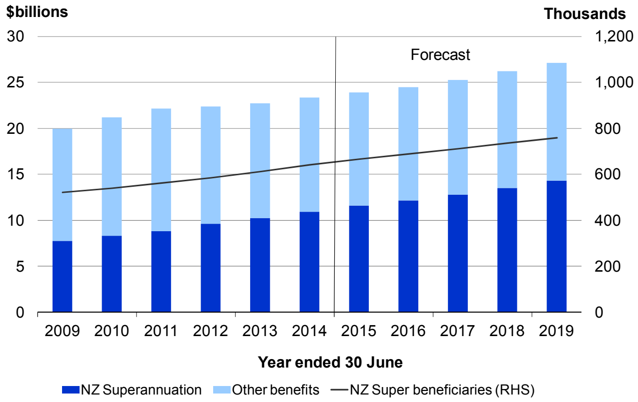
Source: The Treasury

Outside new budget spending, social assistance spending is expected to increase by $3.7 billion across the forecast period. New Zealand Superannuation payments grow by $3.4 billion as payments are linked to wage growth and recipient numbers increase (Figure 2.6). As a percentage of total social assistance spending, New Zealand superannuation is expected to rise from 39% in 2008/09 to 53% by 2018/19.

Other benefit types only increase marginally over the forecast period. Although most other benefit types' spending increases as they are adjusted for inflation, this growth is somewhat restrained owing to expected reductions in recipient numbers.

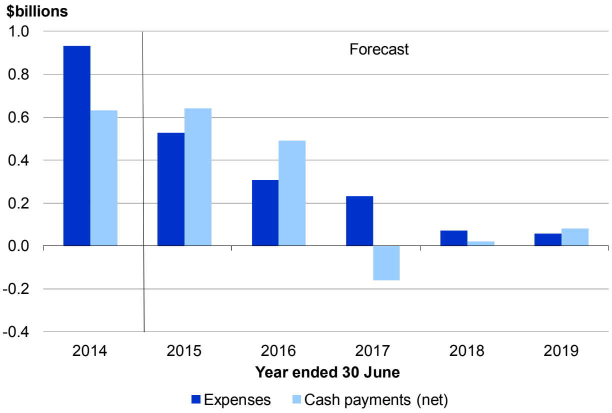
Core Crown expenses in relation to the Canterbury rebuild are expected to decrease over the forecast period, as most of the operating expenses have already been incurred. The net cash profile reflects that net payments/ (receipts) are expected to occur later than when expenditure is recognised. This analysis excludes EQC and Southern Response expenses. For a more detailed analysis for total Crown, refer to the box on page 32.

Figure 2.6 – Social assistance spending



Source: The Treasury

Figure 2.7 – Core Crown Canterbury rebuild operating expenditure and cash flows



Source: The Treasury

Cost to the Crown of the Canterbury rebuild

Table 2.5 outlines the latest estimates of the net impact of the earthquakes included in these forecasts. The total cost to the Crown is estimated to be $16.0 billion. This compares to an estimate of $15.8 billion in the *Pre-election Update*. This increase is spread across a number of areas, the most notable being an increase in the outstanding claims costs of Southern Response.

Table 2.5 – Net earthquake expenses (operating and capital)

Year ended 30 June $millions	**2011-14 Actual**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**2019 Forecast**	**Outside forecast period**	**Total *Half Year Update***	**Total *Pre-election Update***
Local infrastructure	1,473	110	110	113	-	-	-	1,806	*1,828*
Crown assets[1]	158	513	675	521	157	-	-	2,024	*2,046*
Land zoning	1,009	16	35	48	31	-	-	1,139	*1,089*
Christchurch central city rebuild[2]	588	412	192	128	(21)	2	(175)	1,126	*1,117*
Welfare support	288	9	4	3	2	-	-	306	*306*
Southern Response support package	582	21	(32)	(14)	(4)	2	-	555	*492*
Other costs	628	209	117	51	36	53	-	1,094	*1,023*
Core Crown Canterbury earthquake recovery costs	**4,726**	**1,290**	**1,101**	**850**	**201**	**57**	**(175)**	**8,050**	***7,901***
EQC (net of reinsurance proceeds)	7,784	(255)	(124)	-	-	-	-	7,405	*7,404*
Other SOE and CEs	(129)	177	176	187	76	8	-	495	*506*
Total Crown	**12,381**	**1,212**	**1,153**	**1,037**	**277**	**65**	**(175)**	**15,950**	***15,811***
Operating and capital expenses									
Operating expenditure (OBEGAL)	11,579	221	155	252	67	53	-	12,327	*12,612*
Capital expenditure	802	991	998	785	210	12	(175)	3,623	*3,199*
Total Crown	**12,381**	**1,212**	**1,153**	**1,037**	**277**	**65**	**(175)**	**15,950**	***15,811***
Total cash payments[3]	**8,002**	**2,767**	**3,442**	**1,071**	**284**	**86**	**(175)**	**15,477**	***15,528***

Notes: 1 Crown assets includes capital expenditure on Canterbury hospitals, schools, Tertiary Education Institutions (TEIs), housing and the Justice and Emergency Services Precinct.

2 Central city rebuild costs include land acquisition and are net of expected recoveries and contributions from third parties.

3 Some expenses are non-cash (eg, asset write-offs and impairments) and therefore do not have a cash element to them.

Source: The Treasury

The Specific Fiscal Risks chapter discusses the fiscal risks associated with the Canterbury earthquake forecast net expenses. The Treasury's current estimates reflect the known costs under current government policy. They do not include future decisions the Government may or may not take regarding the rebuild. Key risks include the timing of expenditure and escalating costs as well as the independent review of infrastructure costs shared by the Christchurch City Council and the Crown.

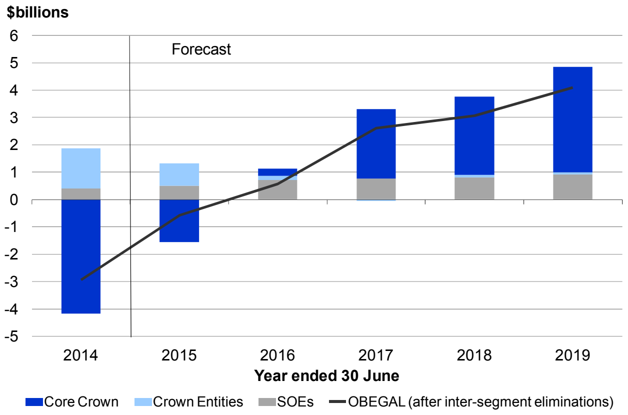
Operating Balance

The operating performance continues to improve…

An OBEGAL deficit of $572 million is forecast in 2014/15, followed by a surplus of $565 million in 2015/16 rising to $4.1 billion in 2018/19.

Figure 2.8 shows the composition of OBEGAL from the different segments of the Government. The core Crown segment is forecast to have an OBEGAL deficit of $1.6 billion in 2014/15, followed by a $0.3 billion surplus in 2015/16, then continues to rise over the forecast period, largely reflecting growth in tax revenue and continued management of expenditure.

Figure 2.8 – Components of OBEGAL by segment



Source: The Treasury

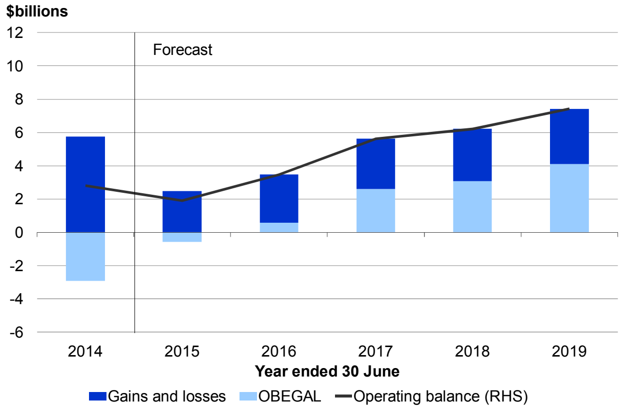
State-owned Enterprises (SOEs) and Crown entities (CEs) together contribute $1.3 billion to the OBEGAL surplus in 2014/15, reducing slightly to $1.0 billion by the end of the forecast period, largely reflecting reductions in ACC levy revenue, due to previously announced reduction in levy rates.

...and investment returns lift the operating balance

The total Crown operating balance, inclusive of gains and losses, is forecast to be a surplus across all years of the forecast period. Figure 2.9 shows the continuing growth in the operating balance and its components.

The current year's forecast surplus is largely a result of gains expected to be made by entities with large investment portfolios, primarily ACC and NZS Fund. Market movements in these portfolios can have a significant impact on the operating balance, particularly through gains and losses.

Figure 2.9 – Components of operating balance



Source: The Treasury

Investment returns in 2013/14 were higher than average reflecting the strong performance of global equity markets. The forecast assumes investment income returns to a long-term rate of return, resulting in subdued growth going forward. These gains play a part in increasing the Government's financial assets and the Crown's net worth (discussed on page 39). The current year operating balance is also impacted by losses of $1.7 billion, in relation to updated long-term liability valuations for ACC and the Government Superannuation Fund (GSF), mainly owing to changes in economic factors impacting the valuations and reducing the operating balance surplus.

Operating balance indicators and the fiscal impulse

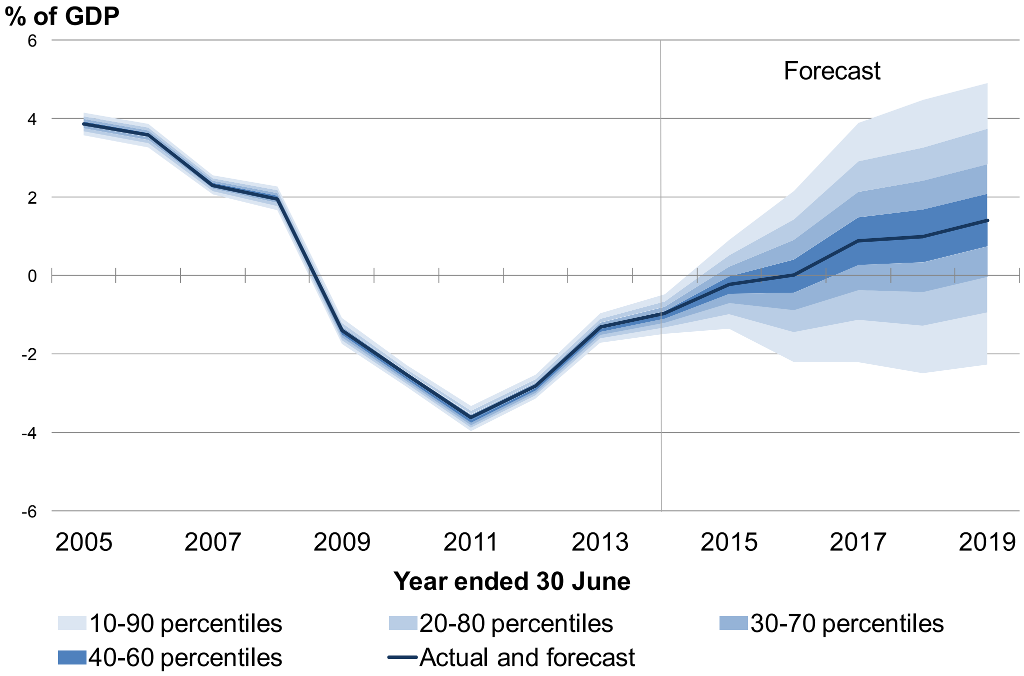
In addition to OBEGAL and the operating balance, the Treasury calculates other fiscal indicators, to help assess the relationship between fiscal policy and the economy. These indicators include the cyclically-adjusted balance (CAB), the fiscal impulse (provided in Table 2.6) and net operating balance per Government Financial Statistics.

Cyclically-adjusted balance[4]

The CAB is an estimate of the fiscal balance (OBEGAL) adjusted for fluctuations of actual GDP around trend GDP. It provides an assessment of the fiscal balance by estimating what the fiscal position would be if the economy was running at its potential level. In addition, because of its very large impact on the fiscal position, we have stripped out the "one-off" impact on expenses of the Canterbury earthquakes to give a more informative picture of the structural fiscal position. Figure 2.11 shows the forecast OBEGAL and CAB are similar as the economy is expected to be operating at around its potential level over the forecast period.

There is always considerable uncertainty about future fiscal developments. This is owing to forecast uncertainty about the path of the economy, tax revenue and government spending. When assessing the structural position there is also estimation uncertainty about the output gap. Figure 2.10 shows a probability interval around the CAB based on historical forecast errors and revisions to the output gap (assuming no policy change). While the central forecast shows the CAB achieving a small surplus in 2015/16, the fan chart indicates there is an 80% chance of the CAB being between -2% and +2% of GDP.[5]

Figure 2.10 – Cyclically-adjusted balance fan chart



Source: The Treasury

Note: The bands represent sequential deciles such that the difference between the 10th and 90th percentiles represents an 80% confidence interval.

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[4] For more detail on both the CAB and fiscal impulse, see the *Additional Information* document on the Treasury website www.treasury.govt.nz

[5] Detail on the methodology and parameter values are provided in Treasury Working Paper 10/08 www.treasury.govt.nz/publications/research-policy/wp/2010/10-08

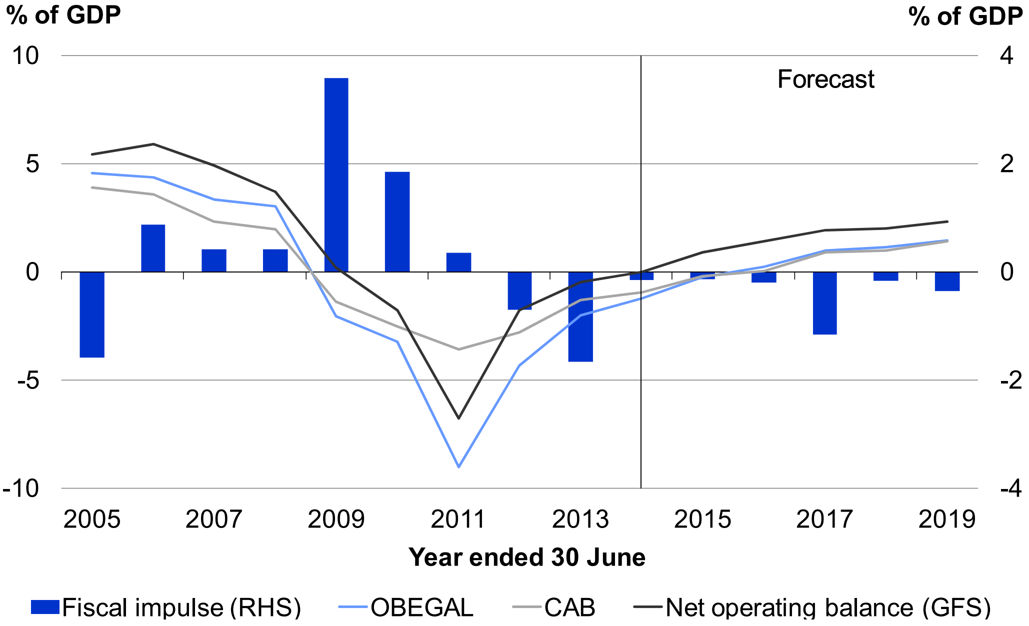
Fiscal impulse

The fiscal impulse is a measure of discretionary changes in the fiscal position, which can be expected to have an impact on aggregate demand in the economy. The fiscal impulse is calculated as the change in the cyclically-adjusted cash balance and excludes net interest payments. This means changes to revenue and spending forecasts not related to the output and unemployment gaps are attributed to discretionary fiscal policy changes. Figure 2.11 shows fiscal policy is expected to withdraw from aggregate demand over the forecast period as a whole (0.4% per year on average). Following a small withdrawal in 2013/14, further relatively small negative fiscal impulses are expected in the current and next fiscal year, reflecting offsetting effects of lower tax revenues and spending growth. Discretionary fiscal policy is expected to withdraw 1.2% of GDP from aggregate demand in 2016/17.

Net operating balance

The net operating balance uses the framework developed by the International Monetary Fund (IMF) called Government Financial Statistics and is specifically designed for government reporting. It is therefore a useful measure to compare with other countries. The net operating balance represents revenue and expenses of the core Crown (excluding the Reserve Bank) and CEs, and therefore excludes SOEs. It also excludes a wider range of valuation movements than OBEGAL, such as impairments and write-offs.

Figure 2.11 – Operating balance indicators



Sources: The Treasury, IMF (GFS 2005-2006 years)

Table 2.6 – Operating balance indicators[6]

Year ended 30 June % of GDP	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
OBEGAL	(1.3)	(0.2)	0.2	1.0	1.1	1.4
Cyclically-adjusted balance	(1.0)	(0.2)	0.0	0.9	1.0	1.4
Fiscal impulse	(0.2)	(0.1)	(0.2)	(1.2)	(0.2)	(0.4)
Net operating balance	0.0	0.9	1.4	1.9	2.0	2.3

Source: The Treasury

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[6] The fiscal impulse measure shown is the core Crown fiscal impulse plus Crown entities excluding EQC and Southern Response payments.

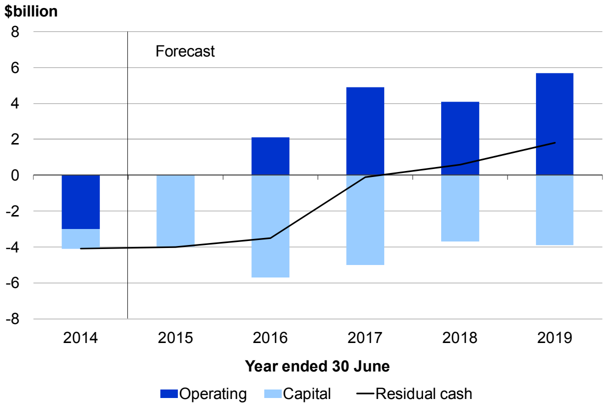
Residual Cash

Operating cash flows improve...

Similar to the trend in OBEGAL, cash flows from operations are expected to improve across the forecast period. Net operating cash flows are forecast to be in small surplus for 2014/15 and continues to increase across the remaining forecast period. The improvement largely represents the growth in tax receipts outpacing operating payments.

Over the forecast period, the Government is expected to generate cash flows from core Crown operations of $17.0 billion.

Figure 2.12 – Core Crown residual cash



Source: The Treasury

...but capital spending exceeds operating cash flows in the short-term

Net capital spending is forecast to exceed operating cash flows until 2017/18, resulting in Core Crown residual cash[7] remaining in deficit until then (Figure 2.12).

The Government is forecast to spend $22.9 billion (net excluding Government share offer) on capital items, which include purchasing physical assets (eg, school buildings), advances (eg, student loans), providing capital to Crown entities and future new capital spending.

Table 2.7 – Capital expenditure activity 2014/15 to 2018/19

Year ending 30 June **$billions**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**2019 Forecast**	**Cumulative Forecast**
Purchase of physical assets	(3.1)	(2.9)	(2.4)	(1.5)	(1.5)	**(11.4)**
Sale of physical assets	0.5	0.1	0.1	0.2	0.1	**1.0**
Net purchase of physical assets	(2.6)	(2.8)	(2.3)	(1.3)	(1.4)	**(10.4)**
Advances made	(2.8)	(2.7)	(2.2)	(2.5)	(2.3)	**(12.5)**
Repayment of advances	1.9	1.6	1.6	2.2	2.0	**9.3**
Net advances	(0.9)	(1.1)	(0.6)	(0.3)	(0.3)	**(3.2)**
Purchase of investments	(1.8)	(1.7)	(1.5)	(1.3)	(1.4)	**(7.7)**
Sale of investments	0.2	-	-	-	-	**0.2**
Net investments	**(1.6)**	**(1.7)**	**(1.5)**	**(1.3)**	**(1.4)**	**(7.5)**
Government share offer proceeds	0.6	-	-	-	-	**0.6**
New capital spending	(0.1)	(0.4)	(0.7)	(0.8)	(0.8)	**(2.9)**
Top-down capital adjustment	0.6	0.3	0.1	0.1	0.1	**1.1**
Net capital spending	**(4.0)**	**(5.7)**	**(5.0)**	**(3.7)**	**(3.9)**	**(22.3)**

Source: The Treasury

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[7] Net core Crown debt and residual cash indicators are measured on a core Crown basis. Residual cash includes both operating and capital activity. This differs from OBEGAL, which is measured at a total Crown level and includes operating activity only.

Net purchases of physical assets represents forecast spending of core Crown agencies to mainly maintain their existing asset base and includes spending on defence equipment, school property and the Canterbury rebuild.

Net advances are mainly student loans with $8.3 billion expected to be borrowed over the forecast period and repayments of $6.3 billion. The other significant component of advances is in relation to financing capital projects (for example, funding for the Auckland Transport Package).

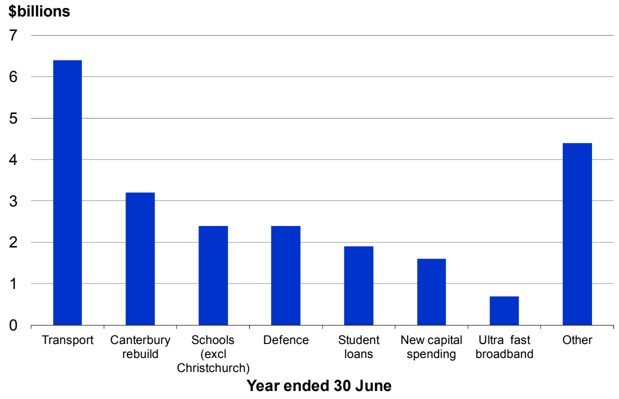
Net investments largely represent capital injections to Crown entities, to expand their asset base, estimated at $1.0 billion to $1.7 billion a year. The largest capital injections across the forecast period are to New Zealand Transport Agency for state highways.

Capital allowances relate to new capital spending that is expected to be allocated over the forecast period. The capital allowance for each Budget is spread over four fiscal years reflecting the expected profile of the spend. This profile is illustrated in Figure 2.14.

The future new capital spending for the next two Budgets (totalling $1.5 billion) is expected to be funded by the remaining proceeds from the Government share offer programme, (the Future Investment Fund) (Table 2.8).

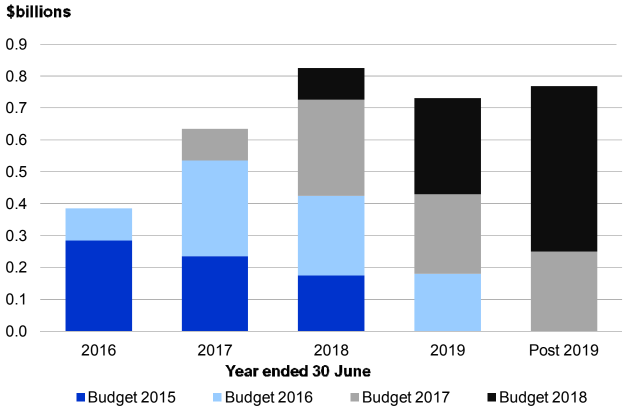
Capital allowances are $0.9 billion in Budget 2017 before growing at a rate of 2% per annum for subsequent budgets.

Figure 2.13 – Forecast capital activity for 2014/15 to 2018/19 by significant spending



Source: The Treasury

Figure 2.14 – New capital spending (capital allowances)



Source: The Treasury

Table 2.8 – Future Investment Fund

$billions	**Total fund**
Cash proceeds	4.669
Allocated in Budget 2012	(0.533)
Allocated in Budget 2013	(1.421)
Allocated in Budget 2014	(1.050)
Future new capital spending	**1.665**
Pre-committed Budget 2015	(0.137)
To be allocated	**1.528**

Source: The Treasury

Over the entire forecast period a cash shortfall of $5.3 billion is expected. The cash shortfall is funded through additional borrowing and reductions in financial assets.

Net Core Crown Debt

Net core Crown debt peaks as a share of GDP in 2014/15...

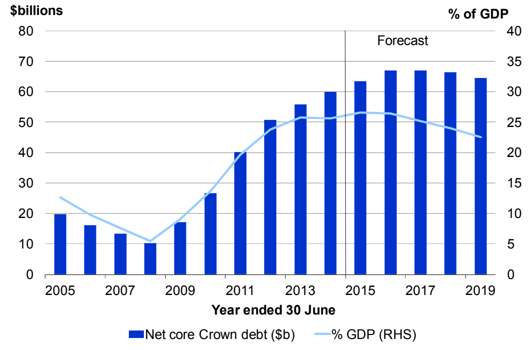
Net core Crown debt as a share of GDP peaks at 26.5% in 2014/15 and stays flat in 2015/16 (Figure 2.15) before reducing to 22.5% by 2018/19.

As residual cash returns to surplus, net core Crown debt is repaid.

...and gross debt begins to decline after 2016/17

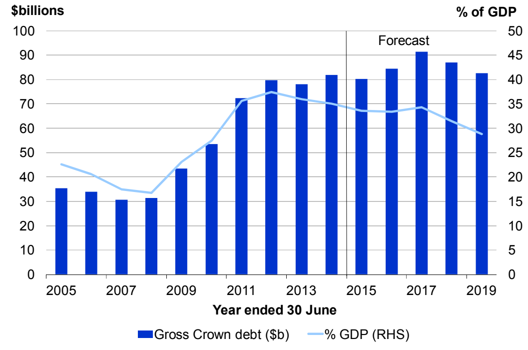
The bond programme to 2018/19 is expected to raise funds of $36.4 billion over the forecast period, while $34.8 billion of existing debt will be repaid, providing net cash proceeds of $1.6 billion (Table 2.9). Any excess cash proceeds raised from the bond programme will be invested in financial assets and used to meet future debt maturities.

Figure 2.15 – Net core Crown debt



Source: The Treasury

Figure 2.16 – Gross debt



Source: The Treasury

Table 2.9 – Net increase in government bonds

Year ending 30 June	**2015**	**2016**	**2017**	**2018**	**2019**	**5-year**
$billions	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Total**
Face value of government bonds issued (market)	8.0	7.0	7.0	7.0	7.0	36.0
Cash proceeds from government bond issue						
Cash proceeds from issue of market bonds	8.1	7.2	7.2	7.0	6.9	36.4
Repayment of market bonds	(8.7)	(1.8)	-	(11.3)	(11.5)	(33.3)
Net proceeds from market bonds	(0.6)	5.4	7.2	(4.3)	(4.6)	3.1
Repayment of non-market bonds	(0.8)	(0.7)	-	-	-	(1.5)
Net repayment of non-market bonds	(0.8)	(0.7)	-	-	-	(1.5)
Net cash proceeds from bond issuance	**(1.4)**	**4.7**	**7.2**	**(4.3)**	**(4.6)**	**1.6**

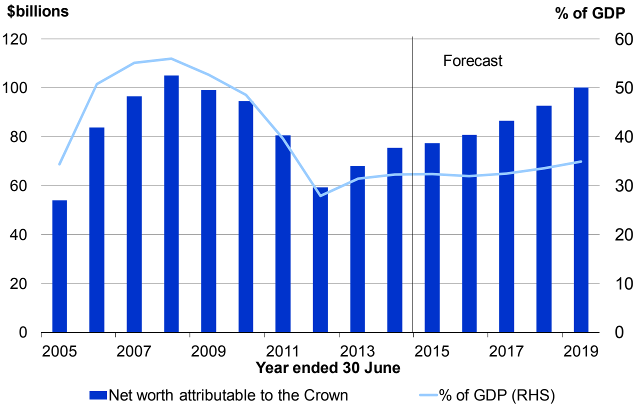
Source: The Treasury

Total Crown Balance Sheet

Operating balance surpluses result in a stronger balance sheet...

Net worth attributable to the Crown is forecast to grow steadily in nominal terms across the forecast period largely owing to forecast operating balance surpluses. Beyond 2015, net worth attributable to the Crown is expected to grow by $22.8 billion to stand at $100.2 billion by 2018/19, increasing as a share of GDP to reach 35.0% by 2018/19, still below the peak of 56.0% of GDP in 2007/08 as shown in Figure 2.17.

Figure 2.17 – Net worth attributable to the Crown



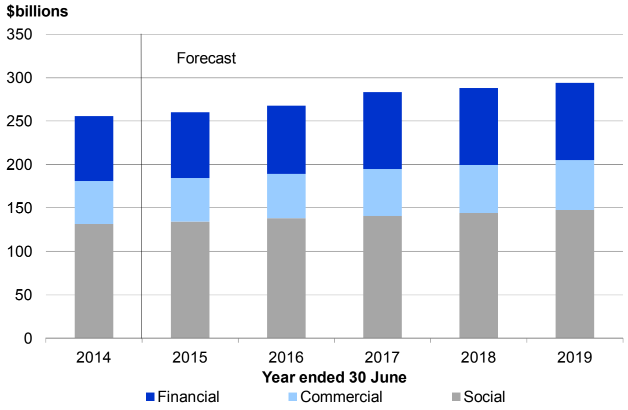
Source: The Treasury

...with assets increasing by $38 billion over the forecast period...

Total assets are forecast to grow by $37.7 billion over the forecast period, made up of additional investments in assets (both physical and financial) of $76.7 billion, partially offset by reductions (largely depreciation) of $39.0 billion.

The largest asset growth over the forecast period is in the social assets portfolio which increases by $16.1 billion (Figure 2.18) over the forecast period. This growth reflects increases in student loans and property, plant and equipment, including Canterbury rebuild assets, school property, hospitals and increases in the social housing portfolio.

Figure 2.18 – Total Crown assets



Source: The Treasury

The financial asset portfolio is expected to increase by $14.1 billion, reflecting the investment growth in entities with large investment portfolios such as those managed by NZS Fund and ACC.

The commercial asset portfolio is expected to increase by $7.5 billion over the forecast period, with growth coming from SOEs investing in additional physical assets and growth in Kiwibank mortgages.

Social housing

The Government has announced it is seeking to enlarge the role of non-Government providers of social housing. Housing New Zealand Corporation is currently the largest social housing provider in the country, owning just over 65,000 houses currently valued at $18.7 billion.

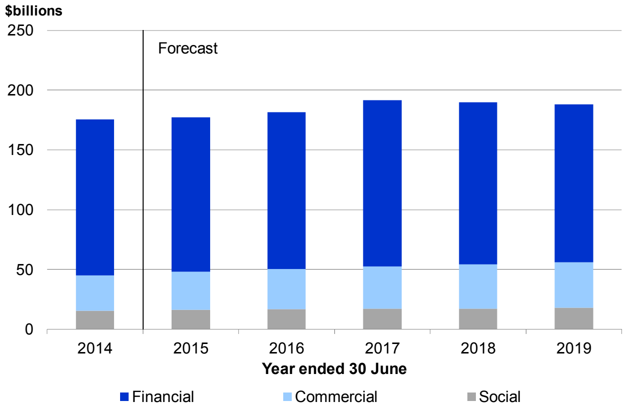
This valuation is based on the market value of individual houses in the residential market (the primary market for housing) and reflects the fact that these houses are predominantly held on a long-term basis to provide social housing capacity (and would therefore be replaced to maintain that capacity).

The form and timing of any divestment of social housing assets to other social housing providers is highly uncertain at this time and has therefore not been included in the fiscal forecasts. This potential divestment has therefore been included in the Specific Fiscal Risk chapter.

...and liabilities beginning to fall by the end of the forecast period

The Crown's liabilities are expected to increase by $12.9 billion (Figure 2.19) over the forecast period, largely driven by increased borrowing ($8.0 billion over the forecast period) before beginning to fall in 2017/18. Borrowings are mostly held by the Treasury's Debt Management Office, the Reserve Bank and Kiwibank, and are forecast to peak at $118.5 billion in 2016/17 before decreasing slightly to stand at $111.5 billion by 2018/19.

Figure 2.19 – Total Crown liabilities



Source: The Treasury

Borrowings in the financial portfolio are expected to increase by $8.1 billion to 2016/17 before reducing by $9.9 billion in the last two years of the forecast (refer to page 38 for discussion of the bond programme). The remainder of borrowing is primarily in the commercial portfolio, which is expected to grow by $7.9 billion. Approximately two-thirds relates to Kiwibank deposits, which continue to grow in line with Kiwibank's mortgages.

The Crown's balance sheet remains sensitive to market movements...

Many of the assets and liabilities on the Crown's balance sheet are measured at "fair value" in order to disclose current estimates of what the Crown owns and owes. While the measurement at fair value is seen as the most appropriate value of these items, it can be volatile, resulting in fluctuations in the value of the assets and liabilities reflecting changes in the market and underlying assumptions.

Financial assets are the largest asset group on the Crown's balance sheet and have increased significantly in recent years. Entities with large investment portfolios (eg, NZS Fund and ACC) hold these investments to make financial returns, and those asset values are dependent on market prices, interest rates and exchange rates, which can all be volatile. For example, a 10% change in the NZ dollar exchange rate or share prices can impact the Crown's operating balance by $1 billion to $2 billion.

In addition, the Crown has a number of significant long-term liabilities (eg, ACC claims and GSF retirement liability) which are actuarially valued based on estimated future cash flows more than 50 years into the future. As part of the actuarial valuation, inflation rates are used to help estimate future cash flows, while discount rates are used to obtain the value of those future cash flows in today's dollars (their present value). Even small changes in these assumptions can have significant impacts on the valuation because the cash flows are so large and over such long periods. For example, a 1% change in discount rates for ACC can impact insurance liabilities by $3 billion to $4 billion.

...and judgements and estimates will also impact on the balance sheet...

Outside of market factors, valuations are subject to a number of judgements and estimates. In general, as time goes on, better information becomes available and initial estimates are updated to reflect current information. Some examples of this include: ACC rehabilitation costs; earthquake-related insurance liabilities; and student wage growth.

...while other risks still remain

In addition to those items on the balance sheet there are a number of liabilities (and assets) that may arise in the future but are not yet included in our forecasts, either because they are contingent on an uncertain future event occurring (eg, outcome of litigation) or the liability cannot be measured reliably. If these liabilities crystallise, there will be associated costs with a negative impact (or positive in the case of contingent assets) on the operating balance or net debt. Refer to page 79 for a list of the contingent liabilities at 31 October 2014.

Comparison to the *Pre-election Update*

The *Pre-election Update* was published on 19 August 2014. There have been a number of developments since then that have significantly impacted on the fiscal outlook.

Table 2.10 – Key fiscal indicators compared to the *Pre-election Update*

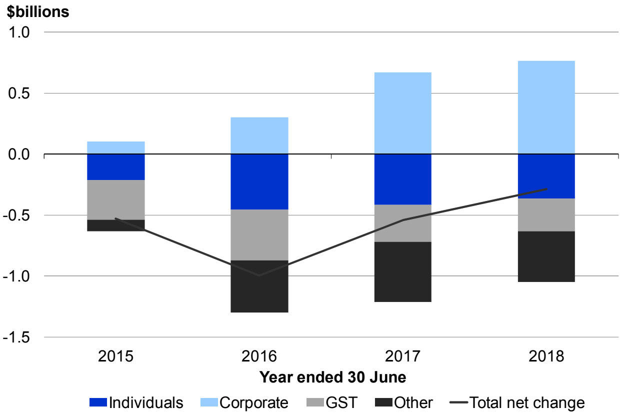
Year ending 30 June **$billions**	**2015** **Forecast**	**2016** **Forecast**	**2017** **Forecast**	**2018** **Forecast**
Core Crown tax revenue				
Half Year Update	65.6	69.2	73.1	76.8
Pre-election Update	66.2	70.2	73.6	77.1
Change	**(0.6)**	**(1.0)**	**(0.5)**	**(0.3)**
Core Crown expenses				
Half Year Update	73.0	75.1	76.9	80.7
Pre-election Update	72.8	75.9	78.6	81.5
Change	**0.2**	**(0.8)**	**(1.7)**	**(0.8)**
OBEGAL				
Half Year Update	(0.6)	0.6	2.6	3.1
Pre-election Update	0.3	0.8	1.9	3.0
Change	**(0.9)**	**(0.2)**	**0.7**	**0.1**
Residual cash				
Half Year Update	(4.0)	(3.5)	(0.1)	0.6
Pre-election Update	(4.6)	(2.9)	(0.4)	(0.3)
Change	**0.6**	**(0.6)**	**0.3**	**0.9**
Net debt				
Half Year Update	63.5	67.0	67.0	66.4
Pre-election Update	64.3	67.0	67.5	67.9
Change	**(0.8)**	**-**	**(0.5)**	**(1.5)**

Source: The Treasury

Economic factors have adversely impacted tax revenue...

Recent price growth has been slower than expected and global dairy prices have fallen by more than anticipated. This is expected to flow through to slower growth in tax revenue directly through lower GST and other persons' tax. In addition, short-term interest rates are likely to remain lower than otherwise, we expect the Reserve Bank will not have to increase the OCR as quickly as previously thought. As a result, RWT on interest earnings will be less than previously forecast.

Figure 2.20 – Movement in core Crown tax revenue since the *Pre-election Update*



Source: The Treasury

Compared to the *Pre-election Update*, tax revenue forecasts have been revised down by $2.4 billion across the 2014/15 to 2017/18 forecast period, with $0.6 billion relating to the 2014/15 year (Table 2.11).

Across the forecast period:

- GST forecasts have reduced owing to lower forecasts of nominal private consumption and residential investment
- individuals' tax forecasts have reduced owing to lower forecast aggregate employees' compensation, reflecting slower nominal wage growth, and reduced forecasts of entrepreneurial income and weakness in the dairy sector
- the lower interest rate track lowered the forecast for interest RWT, and
- corporate tax forecasts have increased as, despite the weakness in the dairy sector, profits in other sectors of the economy are higher than previously forecast.

Table 2.11 – *Reconciliation of the change in core Crown tax revenue*

Year ending 30 June $billions	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**
Movement in core Crown tax owing to:				
Source deductions	(0.1)	(0.2)	(0.3)	(0.4)
Other persons tax	(0.1)	(0.2)	(0.1)	-
Corporate tax	0.1	0.3	0.7	0.8
Residential Withholding Tax (RWT)	(0.1)	(0.4)	(0.5)	(0.4)
Goods and Services Tax (GST)	(0.4)	(0.4)	(0.3)	(0.3)
Other taxes	-	(0.1)	-	-
Total movement in core Crown tax	**(0.6)**	**(1.0)**	**(0.5)**	**(0.3)**
Plus: *Pre-election Update*r's tax base	66.2	70.2	73.6	77.1
Core Crown tax revenue at *Half Year Update*	**65.6**	**69.2**	**73.1**	**76.8**
As a % of GDP	**26.8%**	**28.0%**	**27.9%**	**28.1%**

Source: The Treasury

While the full-year forecasts have been revised down, year-to-date tax revenue to October 2014 was $0.2 billion above the *Pre-election Update* (Table 2.12). Some tax types are already showing weakness relative to the *Pre-election Update* (eg, source deductions and interest RWT) and their full-year 2014/15 forecasts have been reduced accordingly.

Other major tax types, ie, GST and net other persons tax, are currently tracking above the *Pre-election Update*, but their 2014/15 forecasts have been reduced. This has occurred because much of the nominal GDP forecast reduction is expected to unfold over the remainder of the year as consumption and entrepreneurial income components of GDP are expected to weaken.

Corporate tax to October is above forecast and its full-year forecast has been increased to reflect this.

Table 2.12 – *Pre-election Update* forecast compared to October 2014 actuals and change in *Half Year Update*

Year ending 30 June $billions	**2014/15 October Actuals**	**Pre-election October Forecast**	**Actual October Variance**	**Forecast Year-end Change**
Source deductions	8.3	8.4	(0.1)	(0.1)
Net other persons' tax	1.4	1.3	0.1	(0.1)
Corporate tax	3.0	2.8	0.2	0.1
Other direct tax (including RWT)	0.7	0.7	-	(0.1)
GST	5.5	5.4	0.1	(0.4)
Customs and excise duties	1.4	1.4	-	-
Other taxes	0.6	0.6	-	-
Total tax	**20.9**	**20.6**	**0.2**	**(0.6)**

Source: The Treasury

...but also reduce some core Crown expenses...

Benefit expenses are now expected to be lower than previously forecast, with New Zealand Superannuation payments reducing later in the forecast period as there is a lower wage track to which New Zealand Superannuation is indexed.

The lower interest rate track has also reduced debt servicing costs for the Crown since the *Pre-election Update*.

Operating allowances of $1 billion have been set for the next two Budgets, rising to $2.5 billion for Budget 2017 before dropping back to $1.5 billion for Budget 2018. This compares to the $1.5 billion per year in the *Pre-election Update*. The re-phasing results in a reduction in spending of $0.5 billion and $1.0 billion over the next two fiscal years, but is then broadly neutral thereafter.

...with a deficit now forecast in 2014/15...

The slower growth in tax revenue is the main driver of an operating deficit now expected in 2014/15. In addition to changes mentioned earlier, ACC insurance expenses from 2015/16 onwards are higher as the weaker interest rate track impacts the present valuing of future claims costs.

The key changes in OBEGAL are outlined in Table 2.13.

Table 2.13 – Changes in OBEGAL since *Pre-election Update*

Year ending 30 June **$billions**	**2015** **Forecast**	**2016** **Forecast**	**2017** **Forecast**	**2018** **Forecast**
OBEGAL – 2014 *Pre-election Update*	**0.3**	**0.8**	**1.9**	**3.0**
Changes in forecasts:				
Economic factors				
Tax revenue (forecast changes)	(0.6)	(1.0)	(0.5)	(0.3)
Benefit expenses (forecast changes)	-	-	0.1	0.2
Net finance costs	-	0.1	0.1	0.2
ACC forecasts	-	(0.1)	(0.1)	(0.1)
Other factors				
Change in Budget allowances	-	0.5	1.0	0.1
Other changes	(0.3)	0.3	0.1	-
Total changes since the Pre-election Update	**(0.9)**	**(0.2)**	**0.7**	**0.1**
OBEGAL – 2014 Half Year Update	**(0.6)**	**0.6**	**2.6**	**3.1**

Source: The Treasury

...however, net debt is forecast to be lower than previously expected

Net core Crown debt is expected to be lower by $1.5 billion by 2017/18, compared to the *Pre-election Update*. This improvement in net core Crown debt is driven by a reduction in the residual cash shortfall across the forecast period (which is forecast to be in surplus in 2017/18, a year earlier than at the *Pre-election Update*).

The cash impact of the changes to OBEGAL that also impact residual cash is broadly neutral. However, capital spending is expected to be $1.4 billion less than the *Pre-election Update,* owing in the main to reduced expectations regarding the purchase of physical assets.

Fiscal Forecast Assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available on 24 November 2014, when the forecasts were finalised. Actual events are likely to differ from these assumptions and judgements. Furthermore, uncertainty around the forecast assumptions and judgements increases over the forecast period. The impacts of the Canterbury earthquakes add further uncertainty to the economic and fiscal forecasts.

The fiscal forecasts are prepared on the basis of underlying economic forecasts. Such forecasts are critical for determining revenue and expense estimates. For example:

- A nominal GDP forecast is needed in order to forecast tax revenue.
- A forecast of CPI inflation is needed because social assistance benefits are generally indexed to inflation.
- Forecasts of interest rates are needed to forecast finance costs, interest income and discount rates.

A summary of the key economic forecasts that are particularly relevant to the fiscal forecasts is provided in Table 2.14 below (on a June-year-end basis to align with the Government's balance date).

Table 2.14 – Summary of key economic forecasts used in fiscal forecasts

Year ended 30 June	**2014 Actual**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**2019 Forecast**
Real GDP[1] (ann avg % chg)	3.5	3.4	3.3	2.7	2.3	2.1
Nominal GDP[2] ($m)	234,158	239,188	253,108	266,238	276,967	286,573
CPI (ann avg % chg)	1.5	1.2	1.9	2.1	2.0	2.0
Govt 10-year bonds (ann avg, %)	4.5	4.1	4.2	4.7	5.0	5.1
5-year bonds (ann avg, %)	4.1	4.0	4.1	4.6	4.9	5.1
90-day bill rate (ann avg, %)	2.9	3.7	3.8	4.3	4.8	5.1
Unemployment rate (ann avg, %)	5.9	5.4	5.1	4.8	4.5	4.5
Employment (ann avg % chg)	3.2	2.5	1.6	1.6	1.3	1.0

Notes: 1 Production measure.

2 Expenditure measure. These are revised numbers that incorporate changes to national accounts data released on 21 November 2014.

Source: The Treasury

In addition, a number of other key assumptions are critical in the preparation of the fiscal forecasts.

<table>
<tr><td>Government decisions</td><td>The forecasts incorporate Government decisions and other circumstances known to the Government and advised to the Treasury up to 24 November 2014.</td></tr>
<tr><td>Tax revenue</td><td>Tax policy changes enacted and announced by the Government will take place as planned and will affect tax revenue and receipts as calculated and agreed between Inland Revenue and the Treasury.</td></tr>
<tr><td>Earthquake costs</td><td>Expenditure (accrual measure) is forecast based on estimates of when key decisions will be taken. The timing of cash payments is based on estimates of when actual spending will take place. Refer to page 32 for further discussion.</td></tr>
<tr><td>Operating allowance</td><td>Operating allowances are net $1.0 billion for Budget 2015 and Budget 2016, increasing to $2.5 billion in Budget 2017 and reducing to $1.5 billion in Budget 2018. For further details, see note 9 of the Forecast Financial Statements.</td></tr>
<tr><td>Provision for new capital spending</td><td>Capital allowances are $0.9 billion and $0.8 billion in Budget 2015 and 2016 respectively, $0.9 billion in Budget 2017 then growing at a rate of 2% per annum for subsequent Budgets. For further details, see note 9 of the Forecast Financial Statements.</td></tr>
<tr><td>Finance cost on new bond issuances</td><td>Based on the five year rate from the main economic forecasts and adjusted for differing maturities.</td></tr>
<tr><td>Top-down adjustment</td><td><p>A top-down adjustment is made to compensate for departments that tend to forecast upper spending limits (appropriations) rather than best estimates.</p>
<p>Top-down adjustments to operating and capital expenses are as follows:</p>
<table>
<tr><th>Year ending 30 June
$billions</th><th>2015
Forecast</th><th>2016
Forecast</th><th>2017
Forecast</th><th>2018
Forecast</th><th>2019
Forecast</th></tr>
<tr><td>Operating</td><td>1.0</td><td>0.6</td><td>0.5</td><td>0.4</td><td>0.4</td></tr>
<tr><td>Capital</td><td>0.6</td><td>0.3</td><td>0.1</td><td>0.1</td><td>0.1</td></tr>
</table>
<p>The adjustment will be higher at the front end of the forecast period as departments' appropriations (and therefore expenses) tend to be higher in these years, reflecting the flexibility departments have around transferring underspends to later years.</p></td></tr>
<tr><td>Property, plant and equipment</td><td>For the purposes of the forecast financial statements, no revaluations of property, plant and equipment are projected beyond the current year. Valuations as recorded for the 2014 annual financial statements and any additional valuations that have occurred up to 30 September 2014 are included in these forecasts.</td></tr>
</table>

<table>
<tr><td>Student loans</td><td>The carrying value of student loans is based on a valuation model adapted to reflect current student loans policy. As such, the carrying value over the forecast period is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and discount rates used to determine the effective interest rate for new borrowers. Any change in these assumptions would affect the present fiscal forecasts.</td></tr>
<tr><td>Investment rate of returns</td><td>The forecasts incorporate the actual results to 30 September 2014. Beyond this time, gains on financial instruments are based on long-term benchmark rates of return for each portfolio.</td></tr>
<tr><td>GSF and ACC liabilities</td><td>The GSF and ACC liabilities included in these forecasts have been valued as at 30 September 2014 and 30 June 2014 respectively. The ACC liability has also been adjusted for the 30 September 2014 discount rate. Both liabilities are valued by projecting future cash payments, and discounting them to the present. These valuations rely on historical data to predict future trends and use economic assumptions such as inflation and discount rates. Any changes in actual payments or economic assumptions would affect the present fiscal forecast. For example, if the discount rate decreases, the value of the liabilities would increase.
GSF’s assets are offset against the gross liability and have been updated to reflect market values. The value of assets over the forecast period reflects long-run rate of return assumptions appropriate to the forecast portfolio mix.</td></tr>
<tr><td>NZS Fund contributions</td><td>No contribution is assumed in the forecast period in line with the Government’s stated intentions to commence contributions once net core Crown debt has reached 20% of GDP as set out in the *Fiscal Strategy Report* (FSR).
<table>
<tr><th>Year ending 30 June
$billions</th><th>2015
Forecast</th><th>2016
Forecast</th><th>2017
Forecast</th><th>2018
Forecast</th><th>2019
Forecast</th></tr>
<tr><td>Required contribution[1]</td><td>1.7</td><td>1.9</td><td>2.1</td><td>2.1</td><td>1.9</td></tr>
<tr><td>Actual contribution</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
</table>
Note: 1 Calculations of annual contributions if they were to resume in 2014/15.
The underlying assumptions in calculating the required contribution in each year are the previous year’s NZS Fund balance and projected series, over the ensuing 40 years of nominal GDP, net (after-tax) New Zealand superannuation expenses, and the government five year bond rate. The latter is used in calculating the Fund’s expected long-run after-tax annual return. Over the forecast years, all Fund variables, apart from the capital contributions, are provided by the NZS Fund itself.
Refer to the Treasury’s website for the NZS Fund model.</td></tr>
</table>

3

Risks and Scenarios

Overview

- This chapter outlines the main economic and fiscal risks associated with the central forecast. Risks to the economic outlook are balanced over the forecast period as a whole, but are tilted to the downside in the near term. The first part of this chapter outlines the key risks to the economic outlook. The second part of the chapter presents two alternative scenarios for the economy. The remainder of the chapter focuses on general fiscal risks that can impact the Crown's fiscal position.
- Domestically, the risks and uncertainties with potentially the largest impact on the New Zealand economy relate to the outlook for inflation and potential output (the maximum level of economic activity that can be achieved while maintaining stable inflation), net migration's impact on domestic demand, pressures in the housing market and the pace of the Canterbury rebuild and its interaction with the wider economy.
- Internationally, the risks with potentially the largest impact on the New Zealand economy relate to the level of demand and price for New Zealand's commodity exports (particularly dairy), economic weakness in key trading partners, the timing and magnitude of interest rate increases in the US and the sensitivity of energy prices to geopolitical developments.
- Two scenarios are presented that represent possible ways in which the New Zealand economy could deviate from the central forecast. Scenario one is based on a sustained fall in the terms of trade and faster depreciation of the NZ dollar, which lowers real and nominal GDP over the forecast period. Scenario two is based on potential output growing faster than in the main forecast, increasing real and nominal GDP over the forecast period.

Economic Risks

The economic outlook, though moderating, remains positive. However, key areas of domestic uncertainty remain, including the outlook for inflation and potential output, the scale of the current migration cycle, the future path of house prices and the speed of the Canterbury rebuild and its wider economic implications.

Despite improvements in the prospects for the US and UK economies, the balance of global risks remains skewed to the downside. Growth is slowing in China and Australia while the outlook for Japan and the euro area remains weak. Downside risk remains for demand and prices of New Zealand's key commodity exports, particularly dairy. Geopolitical risk has increased since the *Pre-election Update*, with the situation in the Middle East and Ukraine deteriorating. New risks associated with Ebola have emerged.

The inflation outlook is a source of uncertainty...

Recent inflation outturns have been lower than expected. The factors behind the persistently lower inflation are not fully understood, leading to a higher degree of uncertainty over future inflation than normal. One possible cause is that potential output (the maximum level of economic activity that can be achieved while maintaining stable inflation) is higher than currently estimated, leaving a larger negative output gap (the difference between real GDP and potential output). As a result, inflationary pressures are weaker than anticipated. Under these circumstances, the Reserve Bank may choose to hold stimulatory monetary policy settings in place for longer. This would pose downside risk to the nominal GDP forecast in the near term, as price levels would be lower than in the central forecast. Over the longer term the risks are skewed to the upside as higher potential output would allow New Zealand to sustain a higher real GDP growth rate. Scenario two examines the impact of potential output growing more quickly than in the central forecast.

Another possibility is that inflationary pressures are present but taking longer than usual to impact on prices and wages. For example, following on from the experience of the global financial crisis, employees may be placing greater emphasis on job security than seeking higher wages. In this case the inflation outlook may be higher than recent outturns suggest. By putting upward pressure on both prices and wages this could lead to higher nominal consumption than otherwise. The extent and timing of such an increase in inflation would influence monetary policy settings. The impact on real consumption would depend on the relative changes in prices and wages. All else being equal, wages rising faster than prices would lead to higher real consumption.

...as is net migration's impact on domestic demand

Net migration gains remain elevated and judgements around the extent and timing of the cycle play a key role in the economic forecasts. The annual net inflow of migrants is now forecast to peak at around 52,400 in the first quarter of 2015, compared to a forecast peak of around 42,500 in the third quarter of 2014 in the *Pre-election Update*. The impact on the wider economy of higher rates of net migration will depend on the skill sets of the migrants and their geographic distribution. If the current strength in migration persists for longer than forecast it would put additional pressure on the housing market and add further impetus to domestic demand. However, higher migrant inflows to Canterbury could mitigate some of the capacity risks associated with the rebuild. The current migration cycle differs from previous ones, in that a large component is owing to fewer departures and the proportion of working-age arrivals is higher. The extent to which this changes net migration's economic impact, through its impact on productivity for example, is a further source of uncertainty.

Pressures remain in the housing market...

House price growth and house sales have slowed as higher mortgage rates and loan-to-value ratio restrictions (LVRs) have impacted mortgage lending. This slowdown in the housing market has been in contrast to the record net migration gains, which historically have increased the demand for housing. While higher net migration flows would pose an upside risk by increasing housing demand further, there could also be a delayed response to the recent increases in net migration that have already occurred, leading to higher demand for housing and possibly higher private consumption growth. Regional imbalances linger, as price growth in Auckland and Canterbury remains above the national average in response to strong demand. The timing of the removal of LVRs could also have a significant influence on developments in the housing market.

...and the timing and extent of the Canterbury rebuild remains uncertain

There is still uncertainty around the overall timing and magnitude of the Canterbury rebuild. Key determinants continue to be the pace of the settlement of remaining insurance claims (with around a third of private sector claims estimated to be outstanding) and the evolution of resource pressures in the construction sector. While the resolution of insurance claims has continued to progress, there are risks that the greater complexity of remaining claims could slow the rate of settlement. Recently this has been reflected in a slowing in the number of dwelling consents being issued. The availability and mobility of skilled labour will also impact on the pace of reconstruction if specific skill shortages act as bottlenecks in the construction industry. If the rebuild were to progress more slowly, residential and non-residential investment and employment growth could all be lower than in the forecast.

Risks from volatility in commodity prices are skewed to the downside...

Commodity prices for a number of New Zealand’s key exports, especially dairy and to a lesser extent forestry, have fallen sharply this year. The outlook for dairy in particular remains weak (see box Dairy export prices and the New Zealand economy in the Economic Outlook chapter) and larger falls or a slower recovery in dairy prices than forecast pose downside risk through their adverse impact on farm incomes and the rural economy. Dairy farmers are particularly at risk should a second season of low farm gate prices occur. In contrast, meat prices, particularly beef, have continued to increase and should the upward trend continue for longer than currently anticipated this would create upside risk to the forecast. As a net oil importer, low oil prices owing to increases in global supply combined with lower demand growth form a positive risk to the New Zealand economy, although a further increase in geopolitical risks could bring an increase in prices (see below).

A further source of uncertainty is the one-year Russian agricultural import ban imposed in August, which impacts on a number of New Zealand’s export markets such as dairy and apples (although New Zealand is not specifically included in the ban). An earlier removal of this ban could support a faster recovery in commodity prices, while a later removal could lead to more weakness in commodity prices as trade flows remain disrupted.

Given the relative weightings of the different export sectors and generally low global demand growth, risks to the forecast from commodity prices are tilted to the downside. Scenario one explores this further through simulating a sustained fall in the terms of trade caused by a broad-based fall in export prices.

…and risks to New Zealand’s key trading partners remain...

Risks to the growth outlook for China remain, with GDP growth slipping below the Government’s target. Concerns around the high level of local government debt, the quality of lending in the shadow banking sector and exposure of financial institutions to housing market vulnerabilities persist. China's growth could slow more quickly than in the central forecasts if financial market disruption resulted in significantly tighter credit conditions. The People's Bank of China has been implementing some stimulus to address these imbalances and return GDP growth to the target of 7.5% but it will take time before the impact of the stimulus is known. Structurally, China is aiming to rebalance its economy away from investment-led growth towards private consumption. Rebalancing could lead to slower growth in the short term, particularly if this transition is disorderly.

Australian economic activity is relatively subdued, with consumer confidence, retail spending and job growth low. The slowdown in China also impacts on the Australian economy, particularly its export-orientated sectors such as mining and agriculture. As New Zealand's largest trading partner and source of foreign investment, continued weakness in Australia could impact on New Zealand via these channels. The Reserve Bank of Australia continues to maintain its accommodative monetary policy stance.

The economic outlook is weak in the euro area and downside risks remain. Sovereign debt issues have not been resolved and the pressure for increasing domestic competitiveness is high. Deflationary risks are increasing, leading to further easing of monetary policy by the European Central Bank, which has also left the door open for quantitative easing. The effect of this easing introduces further uncertainty to the outlook for Europe. A fall into deflation or a flare-up of sovereign debt issues could stifle the weak euro area recovery.

Japan's outlook has also weakened after an increase in sales tax reduced consumption, prompting the Japanese central bank to expand its asset purchase programme and the government to propose delaying further sales tax increases until 2017. Weaker Japanese activity could reduce export demand, particularly for economies in the Asia-Pacific region, many of which are also key trading partners for New Zealand. At the time forecasts were finalised, a snap election scheduled for 14 December was a further source of uncertainty.

...although the US economy is gaining momentum

The US economy continues to recover, with solid investment, consumption, construction and employment growth. Should the recovery accelerate further this would present a positive risk to the forecasts through its stimulatory effect on global demand. In particular, this may help boost export demand in emerging economies whose growth has slowed. October marked the end of quantitative easing in the US, although uncertainty remains over when monetary policy tightening will begin. Monetary policy tightening in the US and UK while the euro area and Japan ease may cause further disruption to global financial markets, as the divergence in monetary policy settings shifts financial and capital flows.

Geopolitical developments remain a concern

Geopolitical risk has increased since the *Pre-election Update*, as the situations in both Ukraine and the Middle East have deteriorated further. Recent developments have been watched closely by markets for any possible impacts on economic activity and energy supplies. While long-term implications of the recent geopolitical developments remain uncertain, further deterioration that impacts energy supplies may reverse recent price falls. Europe is particularly exposed to the Ukrainian situation given the trade links to Russia and the high proportion of energy supplies that is sourced from Russia.

Ebola has become more widespread in West Africa. While at this time it is unlikely for New Zealand to be directly impacted, potential reductions in global tourism and travel and disruption to trade may impact New Zealand indirectly should the situation deteriorate.

Alternative Scenarios

The following scenarios show how the economy might evolve if some of the key judgements in the central forecast are altered (Table 3.1). The scenarios represent two of a number of ways that the economy could deviate from the central forecast. Scenario one represents the economic impacts of further deterioration in the terms of trade owing to lower export prices. Scenario two represents the economic impact if potential output grows faster than anticipated.

Table 3.1 – Summary of key economic variables for central forecast and scenarios

March years	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Real GDP (annual average % change)						
Central forecast	**3.2**	**3.5**	**3.4**	**2.8**	**2.3**	**2.2**
Scenario one	3.2	3.4	2.9	2.6	1.9	1.8
Scenario two	3.2	3.5	3.5	3.1	2.8	2.8
Unemployment rate[1]						
Central forecast	**6.0**	**5.4**	**5.1**	**4.7**	**4.5**	**4.5**
Scenario one	6.0	5.4	5.5	5.2	4.9	4.9
Scenario two	6.0	5.4	5.1	4.7	4.4	4.5
Nominal GDP (annual average % change)						
Central forecast	**6.7**	**3.0**	**4.9**	**5.7**	**4.1**	**3.6**
Scenario one	6.7	2.9	2.5	4.5	3.9	3.2
Scenario two	6.7	3.0	5.0	6.0	4.7	4.2
Current account balance (% of GDP)						
Central forecast	**-2.7**	**-5.3**	**-6.2**	**-5.8**	**-5.7**	**-5.9**
Scenario one	-2.7	-5.4	-7.9	-7.8	-7.3	-7.3
Scenario two	-2.7	-5.3	-6.2	-5.8	-5.8	-6.1
90-day bank bill rate[2]						
Central forecast	**3.0**	**3.7**	**3.9**	**4.4**	**4.8**	**5.2**
Scenario one	3.0	3.7	3.9	4.4	4.8	5.2
Scenario two	3.0	3.6	3.6	3.6	4.0	4.6

Notes: 1 March quarter, seasonally adjusted

2 March quarter average

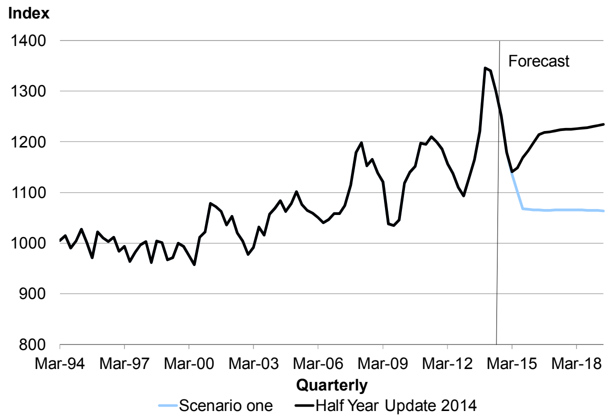
Sources: Reserve Bank, Statistics New Zealand, the Treasury

Scenario One – Fall in the Terms of Trade

Further falls in export prices lead to a larger decline in the terms of trade...

In the first scenario, world prices for New Zealand's exports fall further than in the central forecast and are not offset by falls in world import prices. Meat prices peak earlier and at a lower level than in the central forecast while other export prices, including dairy, fall further than in the central forecast before stabilising, leaving total goods export prices lower. As a result, the terms of trade fall further and for a longer period of time, before stabilising near the average of the past two decades (Figure 3.1). This is a permanent shock to the economy rather than a cyclical downturn in the terms of trade.

Figure 3.1 – Goods terms of trade (SNA)

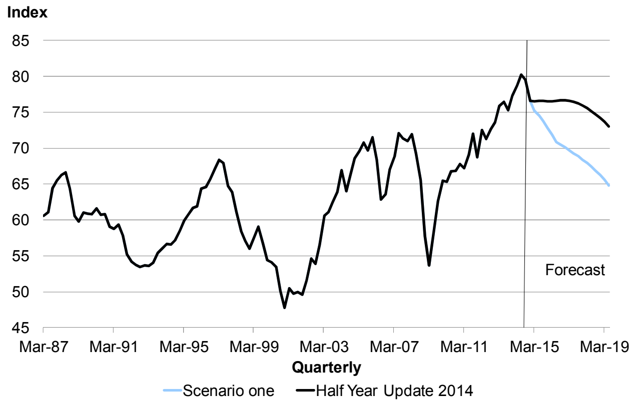


Sources: Statistics New Zealand, the Treasury

...faster depreciation of the exchange rate and higher tradables inflation

In response to the falling terms of trade, the exchange rate depreciates faster than in the main forecast (Figure 3.2). This acts to buffer some of the negative impact of falling export prices. The lower exchange rate leads to imported goods costing significantly more in NZ dollars, boosting tradables inflation. With lower non-tradables inflation only partially offsetting the tradables inflation, total inflation is higher than in the central forecast although it remains within the target band. Perceiving this to be a one-off shock, it is assumed that the Reserve Bank chooses to "look through" the short-term increase in inflation and leave monetary policy settings unchanged compared to the central forecast. This poses risk to the Reserve Bank as, depending on the timing of the inflation shocks and the degree to which tradables inflation spills over into non-tradables inflation, total inflation may move outside the target band for an extended period. There is always considerable uncertainty associated with how permanent an exogenous shock event may be.

Figure 3.2 – Exchange rate (TWI)



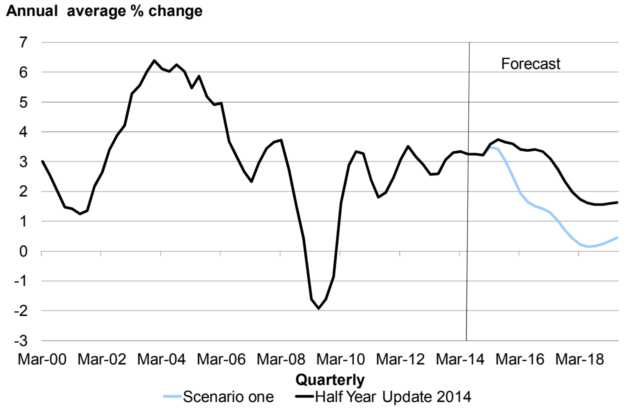
Sources: Reserve Bank, the Treasury

Lower incomes lead to lower consumption and investment growth and lower GDP growth...

In regions most exposed to the export sector (rural areas for example) the fall in export prices reduces income levels, leading to lower private consumption compared to the central forecast. Over time this spreads to other areas of the country as they in turn see a slowdown in demand, further reducing consumption. Higher inflation, largely as a result of higher import prices, also reduces consumers' purchasing power compared to the central forecast, leading to lower real private consumption growth over the forecast period (Figure 3.3). For firms, the reduction in profits cuts into their ability to set aside funds for the future while the cost of investment is higher (owing to higher imported capital goods prices), reducing market investment growth. The reduction in investment growth also has a negative impact on the economy's capacity, reducing the potential growth rate and thereby the level of potential output (from where it would otherwise have been).

With lower real private consumption and market investment, the demand for imports falls, leading to lower real imports. However, the sharp fall in the exchange rate means that imported goods are more expensive in NZ dollar terms, leading to higher nominal imports than the central forecast. Higher import costs and lower export receipts lead to the current account deficit widening to over 7% of nominal GDP in 2019. The lower terms of trade, combined with weaker domestic activity, reduce nominal GDP by a cumulative $39 billion relative to the central forecasts over the forecast period.

Figure 3.3 – Real private consumption

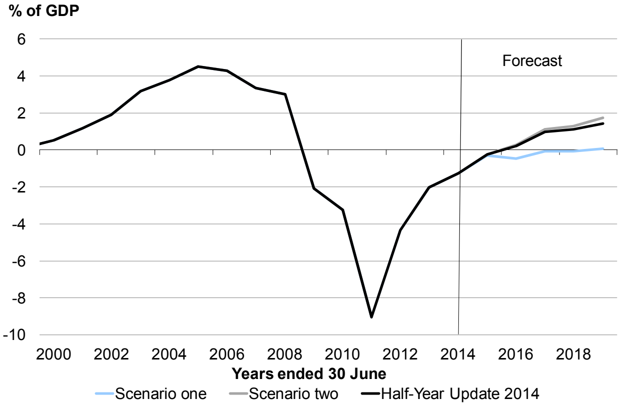


Sources: Statistics New Zealand, the Treasury

…as well as lower tax revenue and operating balance

Core Crown tax revenue is a cumulative $10.7 billion lower over the forecast period in this scenario, owing to the lower nominal GDP. The economy's lower value of output means that business profitability is reduced, resulting in corporate taxes being a cumulative $4.6 billion lower. The weaker labour market and lower labour incomes reduce source deductions revenue by $2.5 billion over the forecast period. Lower nominal consumption and residential investment reduce GST revenue by a cumulative $2.0 billion over the forecast period.

Figure 3.4 – Operating balance (before gains and losses)



Source: The Treasury

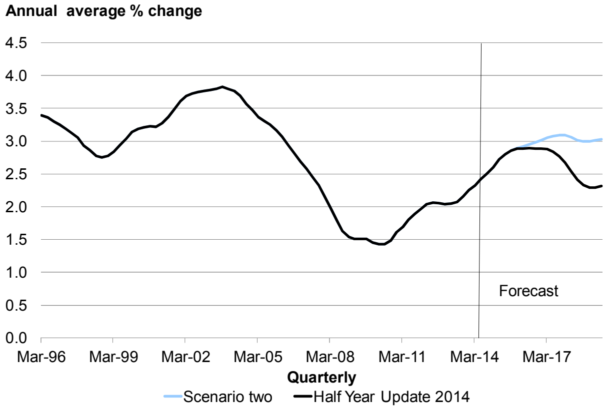
Core Crown expenses are higher than in the central forecast. Weaker demand for labour results in an increase in the number of recipients of unemployment-related benefits compared to the central forecasts, while the cost of these benefits is higher as they are linked to higher inflation. Fiscal policy is assumed to remain unchanged from the central forecast. In this scenario, the OBEGAL does not return to surplus until the June 2019 year (Figure 3.4). As a consequence, net core Crown debt reaches 28.0% of GDP in the June 2016 year, rather than peaking at 26.5% in the June 2015 year as in the central forecast (Figure 3.8).

Scenario Two – Higher Growth in Potential Output

Growth in potential output is higher than anticipated...

Scenario two explores the impact of potential output growing faster than the central forecast. Higher investment and total factor productivity growth enable potential output to return to growth rates seen in the two decades prior to the global financial crisis (Figure 3.5). The recent strong migration cycle, with its high proportion of working-age arrivals, is also assumed to have a more positive impact on potential output than is built into the central forecast. The skills, ideas and international connections of the migrants are assumed to further increase productivity growth.

Figure 3.5 – Potential output growth



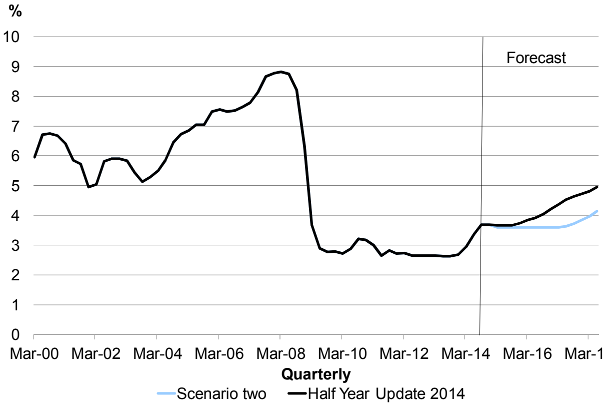
Source: The Treasury

...leading to lower inflationary pressures

In the near term, potential output expands in line with the general expansion in economic activity. Thanks to the productivity gains, this expansion is able to proceed for longer without running into capacity constraints, keeping inflationary pressures low.

With inflation close to the middle of the target range, the Reserve Bank can maintain its current monetary policy settings for longer than in the central forecast. The Reserve Bank remains on hold until 2017, after which increases in interest rates are phased to reduce the output gap and keep inflation at 2%. This leaves interest rates lower than in the central forecast over most of the period (Figure 3.6).

Figure 3.6 – 90-day interest rate



Sources: Reserve Bank, the Treasury

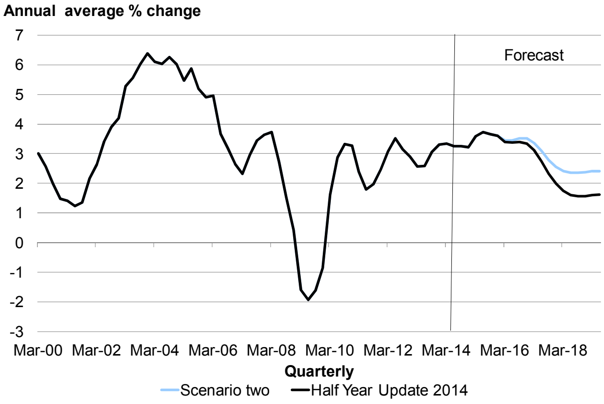
Lower interest rates stimulate investment...

Low interest rates reduce the cost of investment, allowing consumers and firms to increase real residential and market investment. Higher productivity growth further boosts the return on investment, creating an even larger incentive for firms to invest. This investment creates a virtuous cycle by further increasing potential output and alleviating inflationary pressures, allowing interest rates to remain on hold for longer.

Although consumer price inflation remains stable, productivity growth enables employers to increase their employees' wages faster than prices. The resulting improvement in consumers' purchasing power leads to higher real private consumption (Figure 3.7). For households, lower interest rates reduce debt servicing costs, increasing disposable income and further boosting real private consumption.

Higher investment and private consumption lead to higher demand for imported goods. Although higher investment boosts exports too, the increase in exports is not large enough to offset the increase in imports leading to deterioration in the merchandise goods balance. The current account deficit widens slightly more than in the central forecast to 6.1% of GDP in 2019. The exchange rate is largely the same as in the central forecast.

Figure 3.7 – Real private consumption



Sources: Statistics New Zealand, the Treasury

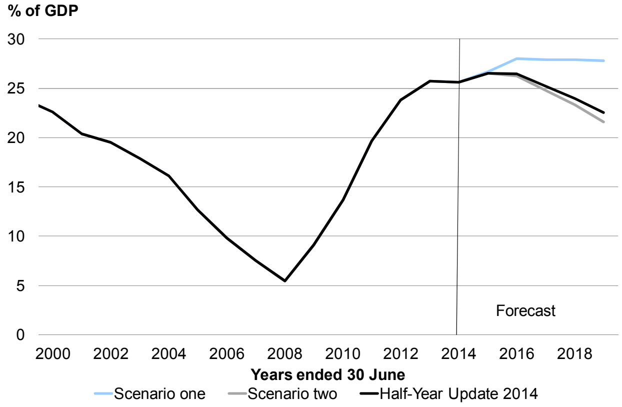
...leading to higher real and nominal GDP growth

Higher private consumption and residential and market investment, coupled with the higher potential output, lead to faster real and nominal GDP growth. Over the course of the forecast period nominal GDP is a cumulative $8 billion above the central forecast, with most of this occurring in the final three years of the scenario.

Core Crown tax revenue is a cumulative $1.7 billion higher over the forecast period. Labour productivity gains lead to faster wage and salary growth, boosting source deductions revenue by a cumulative $0.8 billion. Increased investment allows firms to expand faster, boosting revenues and profits, and increasing corporate tax by $1.1 billion. Higher nominal consumption and residential investment boost GST revenue by $0.5 billion over the forecast period. These gains are partially offset by falls in tax on interest of $1.1 billion owing to lower interest rates.

Core Crown expenses are lower than in the central forecast owing to a fall in debt-servicing costs. With most of the gains in this scenario accruing in the latter half of the forecast period, the return to OBEGAL surplus in the June 2016 year is unchanged from the central forecast, with a larger surplus developing in later years (Figure 3.4). The peak in net core crown debt is also the same (26.5% in the June 2015 year), although it subsequently declines faster than the central forecast to 21.6% of GDP in the June 2019 year (Figure 3.8).

Figure 3.8 – Net core crown debt



Source: The Treasury

General Fiscal Risks

The remainder of this chapter focuses on the links between the risks to the performance of the economy and the Crown's fiscal position. For more on fiscal risks, see the Specific Fiscal Risks chapter.

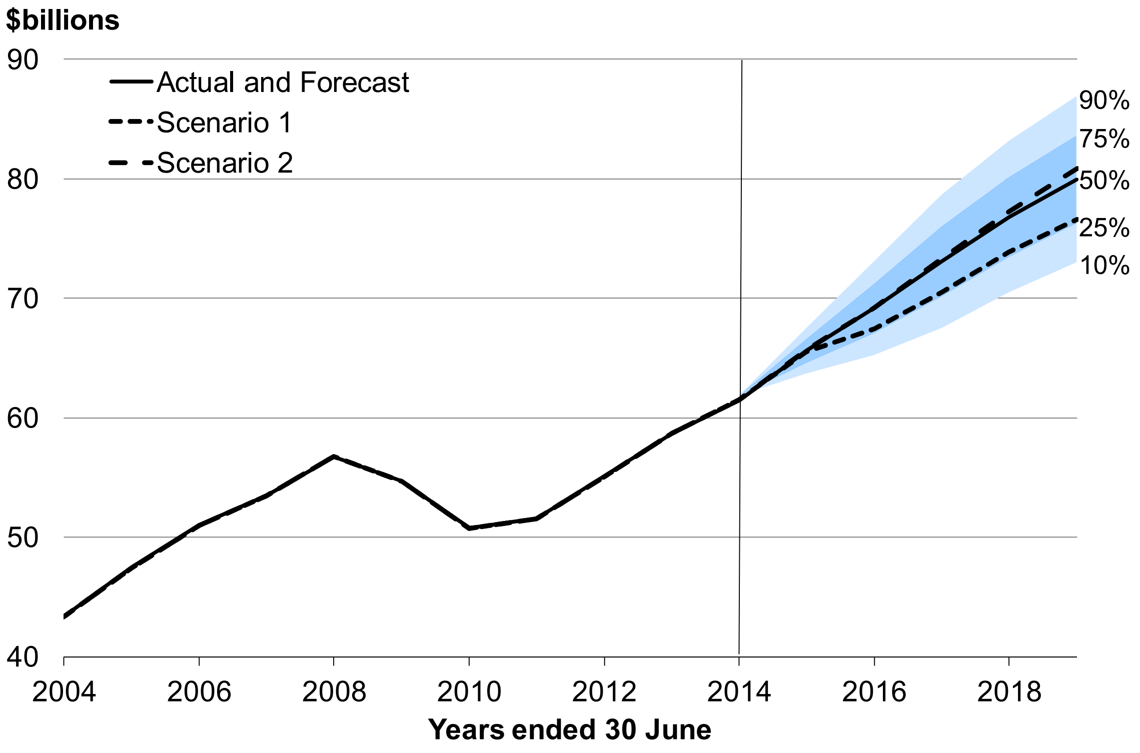
Revenue Risks

One of the major sources of risk to the fiscal position arises from the inherent uncertainty about future tax revenue. The amount of tax revenue that the Government receives in a given year is closely linked to the performance of the economy.

Figure 3.9 plots the central tax revenue forecast, along with confidence intervals around these forecasts based on the Treasury's historical tax forecast variances and the assumption of an even balance of risks around the central forecast.[8] The outermost shaded area captures the range ± $7.0 billion in the June 2019 year, within which actual tax outturns are expected to fall 80% of the time.

The tax revenue forecasts from the two scenarios are also shown in Figure 3.9. The 2008/09 global financial crisis showed that exogenous shocks can have severe impacts on government revenue. Should any of the uncertainties outlined in the Economic Risks section eventuate, government revenue would be different from forecast, with scenarios one and two being examples of possible outcomes.

Figure 3.9 – Core Crown tax revenue uncertainty



Source: The Treasury

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[8] A full summary of the methodology and critical assumptions is included in Treasury Working Paper 10/08.

Based on average historical forecast variances and an even balance of risks, Figure 3.9 suggests that tax revenue over the forecast period would be higher than scenario two approximately 46% of the time and lower than scenario one approximately 31% of the time.

There is also uncertainty around government revenue arising from the performance of SOEs and the path of interest rates as outlined in the Fiscal Sensitivities section.

Expenditure Risks

One-off and unexpected expenditure shocks can have a large impact on the Crown's operating balance in the year that they occur. Persistent over-forecasting of expenditure can also have substantial ongoing effects on the fiscal position, along with the uncertainty inherent in forecasting the cost of new policy initiatives.

There is also considerable uncertainty regarding the effect of the performance of the economy on Crown expenditures. This uncertainty relates largely to the operation of the so-called automatic stabilisers. For example, if the economy performs better (worse) than expected in a given year, official expenditures on social programmes may be lower (higher) than planned.

In recent years, earthquakes have underlined the inherent exposure of the Crown's fiscal position to unexpected events. The Government's fiscal position would be affected if another catastrophic earthquake were to occur or if the costs associated with prior events exceed the updated estimates.

The ageing population also presents risks to the medium-term fiscal position, particularly to the extent that demographic forecasts may prove to be too low or high. An ageing population requires increased government expenditure, especially for health and superannuation spending.

Balance Sheet Risks

In addition to risks around revenue and expenditure, which appear in the balance sheet through their impact on the operating balance, the Crown's financial position is also exposed to asset and liability risks. Some of these risks are on the balance sheet owing to the Crown having explicit obligations either in respect of its own assets or to the wider economy. Some are off the balance sheet owing to their discretionary nature, but are implicit to the Crown from strong expectations that the Crown would respond to an event. The focus here is on balance sheet risks that can be documented, based on the Crown's contractual position.

While the Crown's exposure to risk is sometimes unavoidable, the Crown's general approach is to identify, avoid or mitigate these risks where practicable. When a risk cannot be avoided or reduced, the Government's response has been to increase the Crown's resilience by reducing debt ahead of the time when it could be needed. This helps to absorb the impact of the risk through its balance sheet so that the wider economy need not adjust immediately at a greater economic cost.

The largest source of balance sheet risk is volatility in asset and liability values owing to movements in market variables such as interest rates, exchange rates and equity prices. This may result in an operating balance impact. Of the Crown's aggregate financial risk, roughly a third is estimated to be attributed to this "market risk".[9] Three areas of the balance sheet are particularly susceptible:

- Financial assets held by the Crown financial institutions (CFIs) are sensitive to financial-market volatility. CFIs diversify their portfolios across a range of financial assets to manage exposures to specific market risks.
- Insurance and retirement liabilities and provisions are prone to market volatility through their actuarial valuations, which are sensitive to assumptions about variables such as interest and inflation rates, and risk margins.
- Physical assets such as land, buildings, state highways and military equipment are susceptible to valuation movements through changes in property market conditions, interest rates and changes in the costs of construction. This will affect the recorded value of physical Crown assets.

Business risks, relating to the broader commercial environment, may also affect the Crown's balance sheet. A number of entities owned by the Crown, including commercial and social entities, have their financial performance and valuations impacted by these external factors.

For additional detail, refer to the 2014 *Investment Statement* which provides information on the shape and health of the Crown's portfolio of assets and liabilities at the end of the 2013 financial year.[10] It outlines how the balance sheet has changed in recent years and includes forecasts of its anticipated composition and size through to 30 June 2018.

The New Zealand Crown remains in the top-20 rated sovereigns globally, with the top Aaa foreign-currency rating from Moody's and AA foreign-currency ratings from Standard & Poor's and Fitch. Ratings outlooks are stable for Standard & Poor's and Moody's, and the rating outlook from Fitch is positive.

In the case of an increase in global risk aversion and in the absence of a marked improvement in the external position, New Zealand may be more likely to face a degree of funding pressure in the future. All else being equal, deterioration in the ratings outlook could serve to raise debt-servicing costs for the Crown. On the other hand, additional downward pressure on borrowing rates is possible if diversification flows, particularly away from Europe, continue in the future.

The Crown is also susceptible to "liquidity risk" with respect to its ability to raise cash to meet its obligations. This risk is relatively small, however, given ongoing management of the core Crown's liquidity position by the Treasury's Debt Management Office (DMO).

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[9] Irwin, T., & Parkyn, O. (2009). "Improving the management of the Crown's exposure to risk". New Zealand Treasury Working Paper 09/06.

[10] www.treasury.govt.nz/government/investmentstatements/2014

Fiscal Sensitivities

Table 3.2 provides some rules of thumb on the sensitivities of the fiscal position to small changes in specific variables. For example, if nominal GDP growth is one percentage point higher than forecast in each year up to June 2019, tax revenue would be around $4.2 billion higher than forecast in the June 2019 year as a result. The sensitivities are broadly symmetric and if nominal GDP growth is one percentage point lower each year than expected, tax revenue would be around $4.0 billion lower than forecast in the June 2019 year. The figures are indicative and can be influenced by the composition of growth as different types of activity have different effective tax rates.

A different interest rate path from that forecast would also impact on the fiscal position. A one percentage point lower interest rate would result in interest income on funds managed by the Treasury's DMO being $136 million lower in the June 2019 year. This would be more than offset by interest expenses being $353 million lower in the June 2019 year.

Table 3.2 – Fiscal sensitivity analysis

Year ending 30 June ($millions)	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**2019 Forecast**
1% higher nominal GDP growth per annum on					
Tax revenue	680	1,420	2,250	3,170	4,150
Tax Revenue impact of a 1% increase in growth of					
Wages and salaries	285	600	955	1,365	1,820
Taxable business profits	130	300	490	695	905
Impact of 1% lower interest rates on					
Interest income[1]	(40)	(72)	(133)	(144)	(136)
Interest expenses[1]	(20)	(118)	(233)	(292)	(353)
Overall operating balance[1]	(20)	47	99	148	217

Note: 1 Funds managed by the Treasury's NZDMO only

Source: The Treasury

4

Specific Fiscal Risks

The Statement of Specific Fiscal Risks is required by the Public Finance Act 1989 to set out, to the fullest extent possible, all government decisions and other circumstances known to the Government at the date of the finalisation of the fiscal forecasts that may have a material effect on the fiscal and economic outlook, but are not certain enough in timing or amount to include in the fiscal forecasts. Although the process for disclosure of specific fiscal risks involves a number of parties, including government departments, the Treasury and the Minister of Finance, there remains a possibility that not every significant risk is identified. Disclosure of known risks is also subject to specific requirements and materiality thresholds, which are described after the Statement of Specific Fiscal Risks.

Overview

Specific fiscal risks can be positive or negative and can affect revenue or spending or the balance sheet. The links between external events and spending are indirect because new policies that change spending and revenue usually require a decision by the Government and approval from Parliament. The approach taken in this chapter is to disclose those potential policy decisions and key areas of uncertainty that may have a material effect on the fiscal outlook.

Established practice is that the Government sets aside allowances of new funding for future Budgets to manage uncertainty and cost pressures. These allowances are included in the fiscal forecasts. Current fiscal management policy is for future policy decisions affecting expenses or capital expenditure to be met through reprioritisation or from within existing provisions included in the fiscal forecasts. Future policy decisions are risks to the fiscal forecasts only to the extent that they cannot be managed from within:

- for operating expenditure, existing baselines or the allowance in the fiscal forecasts for forecast new operating expenditure, or
- for capital, the existing Crown balance sheet, including the Future Investment Fund (FIF), or the allowance in the fiscal forecasts for forecast new capital spending.

Notwithstanding this, known material policy risks are identified as specific fiscal risks, even though the Government has more control in managing such risks through reprioritisation, the existing Crown balance sheet and the Budget allowances. This is done to ensure a prudent approach to the disclosure of risks, improve transparency and not pre-judge future decisions by governments.

The specific fiscal risks are categorised into:

- **Potential policy decisions affecting revenue**: For example, changes to tax policy or ACC levies could reduce or increase government income.
- **Potential policy decisions affecting expenses (expected to be funded from reprioritisation or the Budget operating allowance)**: Costs of policy proposals could increase or decrease expenses depending on decisions taken, and they are risks to the fiscal forecasts only to the extent that they cannot be managed within existing baselines or Budget allowances.
- **Potential capital decisions (expected to be funded from the existing Crown balance sheet, including the FIF, or the Budget capital allowance)**: Capital investment decisions are risks to the fiscal forecasts only to the extent that they cannot be managed within the existing Crown balance sheet, including the FIF, or the Budget capital allowance.
- **Matters dependent on external factors**: The Crown's liability for costs is sometimes dependent on external factors such as the outcome of negotiations or international obligations.

A range of generic risks to the fiscal forecasts are not recognised as specific fiscal risks:

- Risks from changes to economic assumptions; the most significant economic risks have been identified in Chapter 3.
- Business risks and volatility in the returns from the Crown's investments relating to the broader economic and commercial environment.
- General cost pressures, such as those associated with demographic changes (eg, an ageing population).
- Potential risks from changes in demand for government services or transfer payments owing to underlying structural factors (such as changes in demand for Jobseeker Support).
- The costs of future individual natural disasters, and other major events, as they usually occur infrequently and their occurrence, nature and timing cannot be predicted. Once a disaster does occur, a number of choices arise about how to respond and when potential liabilities are recognised (eg, through setting aside an allocation of funding). Specific risks are disclosed at this point based on the range of possible responses.

The final part of the chapter contains a current list of contingent liabilities and contingent assets. Contingent liabilities are costs that the Crown will have to face if a particular event occurs or are present liabilities that are unable to be measured. Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims on uncalled capital. The largest quantified contingent liabilities are to international financial organisations and mostly relate to uncalled capital and promissory notes. Contingent assets are possible assets that have arisen from past events but the value of the asset, or whether it will eventuate, will not be confirmed until a particular event occurs.

Statement of Specific Fiscal Risks

Summary Table

The matters listed below are disclosed as specific fiscal risks because they meet the rules for disclosure outlined after this Statement. Full descriptions of the risks listed below are set out in the next section. Where quantification is possible, this is included in the description of the risk.

Specific fiscal risks as at 24 November 2014	**Status[11]**
Potential policy decisions affecting revenue	
ACC – Funding Policy Review	Unchanged
Revenue – Income-sharing Tax Credits	Unchanged
Services Funded by Third Parties	Unchanged
Potential policy decisions affecting expenses (expected to be funded from reprioritisation or the Budget operating allowance):	
ACC – Work-related Gradual Process Disease and Infection	Unchanged
Budget Operating Initiatives	Unchanged
Canterbury Earthquake Recovery – Christchurch Central Recovery Plan – Anchor Projects	Changed
Christchurch City/Crown Cost Sharing – Horizontal Infrastructure	Changed
Communications – Ultra-Fast Broadband Initiative	Unchanged
Concessionary Loans	Changed
Defence Force – Operating and Capital Costs	Unchanged
Government Response to Wai 262	Unchanged
Health – Health Benefits Limited	New
Housing/Social Development – Social Housing Reform	Changed
Internal Affairs – All-of-Government Common Capabilities Sustainable Funding	Unchanged
Revenue – KiwiSaver One-off Enrolment	Unchanged
Revenue – Transformation and Technology Renewal	Unchanged
Social Development – Child, Youth and Family Modernisation	New
Social Development – Welfare Reform Costs	Unchanged
Social Development – Welfare Reform Forecast Benefit Savings	Unchanged
State Sector Employment Agreements	Unchanged
Support for Children in Hardship	New
Vulnerable Children White Paper	Unchanged

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[11] *Unchanged – risks* where the nature and/or scale of the risk has not changed substantively since the previous *Economic and Fiscal Update*.

Changed – risks where the nature and/or scale of the risk has changed substantively since the previous *Economic and Fiscal Update*.

Specific fiscal risks as at 24 November 2014	**Status**[11]
Potential capital decisions (expected to be funded from the existing Crown balance sheet, including the FIF, or the Budget capital allowance):	
Arts, Culture & Heritage – Review of Military History Museum Arrangements	Unchanged
Agency Capital Intentions	Unchanged
Communications – Ultra-Fast Broadband Expanded Scope	New
Earthquake Strengthening for Crown-owned Buildings	Unchanged
Finance – Crown Overseas Properties	Unchanged
Parliamentary Service – Parliamentary Accommodation	Unchanged
Primary Industries – Investment in Water Infrastructure	Unchanged
Transport – Auckland Transport Projects	Unchanged
Transport – Regional State Highways	Unchanged
Transport – Support for KiwiRail	Unchanged
Matters dependent on external factors	
ACC – Work, Earners' and Motor Vehicle Accounts	Unchanged
ACC – Non-earners' Account	Unchanged
Canterbury Earthquake Recovery – Residential Red Zone	Unchanged
Caregiver Employment Conditions	Changed
Communications – Impairment in Value of Broadband Investment	Unchanged
Defence Force – Potential Rationalisation, Revaluation and Disposal of NZDF Assets	Unchanged
Energy – Crown Revenue from Petroleum Royalties	Unchanged
Finance – EQC	Changed
Finance – Goodwill on Acquisition	Unchanged
Finance – Solid Energy	Changed
Finance – Southern Response Earthquake Services Support	Changed
Housing – Divestment of Housing	Unchanged
Revenue – Cash Held in Tax Pools	Unchanged
Revenue – Student Loans	Unchanged
Treaty Negotiations – Treaty Settlement Forecasts	Unchanged
Treaty Negotiations – Relativity Clause	Unchanged

Potential Policy Decisions Affecting Revenue

ACC – Funding Policy Review (Unchanged)

The Government has been reviewing ACC's funding policy and intends that there be further levy reductions across all accounts but decisions have not yet been taken on the nature and timing of those reductions. Such reductions would reduce Crown revenue and Crown assets, with a flow-on impact to the operating balance and net worth.

Revenue – Income-sharing Tax Credits (Unchanged)

The Government has introduced legislation to establish an income-sharing tax credit. If passed as introduced, the legislation will allow couples with children under the age of 18 to pool their earnings for income tax purposes if they meet certain criteria. If implemented, the changes will reduce tax revenues by $500 million per annum once the scheme is fully operational. The Finance and Expenditure Committee has recommended that the significant fiscal cost of the package be addressed before the Bill proceeds further.

Services Funded by Third Parties (Unchanged)

A wide range of government services are funded through third party fees and charges. Demand for these services can vary with a direct impact on revenue received. There is a risk the Government may need to provide additional funding if revenue collected is lower than the total costs of providing the services. There is also a risk that changes will be required to the way government services are delivered, which could result in costs to the Crown.

Potential Policy Decisions Affecting Expenses (Expected to be Funded from Reprioritisation or the Budget Operating Allowance)

ACC – Work-related Gradual Process Disease and Infection (Unchanged)

Under current legislation, the Government incurs an obligation for Work-related Gradual Process Disease and Infection claims when the claim is made, and an expense is recognised at this point. The liability for commercial accident and sickness insurance contracts would usually be recognised when exposure to conditions that will give rise to a claim occurs. An amendment to legislation would be required to recognise claims at the same time as for commercial contracts. An initial adjustment to the liability and an expense of about $1 billion would need to be reported if such an amendment were to be enacted.

Budget Operating Initiatives (Unchanged)

Future Budgets may well include new operating initiatives other than those identified in other specific fiscal risks. Such new operating initiatives are risks to the fiscal forecasts only to the extent they cannot be managed through reprioritisation or from within the existing provision in the fiscal forecasts for forecast new operating spending. The Government's stated intention is that all new operating initiatives will be managed through these mechanisms.

Canterbury Earthquake Recovery – Christchurch Central Recovery Plan – Anchor Projects (Changed)

The Crown is partially funding the construction of Anchor Projects as part of the Christchurch Central Recovery Plan as set out in the cost-sharing agreement with the Christchurch City Council. The extent of funding will vary from project to project, dependent on final scope, ownership decisions and implementation and project costs. Some funding will eventually be recovered. Business cases are progressing through the decision-making process and construction costs and the Crown share of this will become increasingly clear during the business case process and the subsequent procurement phase. The Crown's contribution may differ from that included in the fiscal forecasts.

Christchurch City/Crown Cost Sharing – Horizontal Infrastructure (Changed)

The Crown is partially funding the recovery of local infrastructure in Canterbury as set out in the cost-sharing agreement with the Christchurch City Council. The agreement includes a review clause. The review is yet to be completed, so the Crown cannot yet consider it. Any additional costs or savings to the Crown that may arise from the review will have a corresponding fiscal impact.

Communications – Ultra-Fast Broadband Initiative (Unchanged)

The Government's expectation is that the current funding envelope for the roll out of Ultra-Fast Broadband (UFB) will not be breached and that the objective of rolling out UFB to 75% of New Zealanders by the end of 2019 will be met. Until the Commerce Commission issues a final decision, the largest partner in the roll out, Chorus, will face some degree of uncertainty which could give rise to a fiscal risk in achieving these targets.

Concessionary Loans (Changed)

The Crown has provided loans to local government and iwi-based organisations on a concessionary basis to achieve public policy purposes. Because of their concessionary nature, these loans are written down on draw down to reflect existing market conditions. There is a risk that future market conditions may require a different adjustment. The current carrying value of these loans on the Crown's balance sheet is $475 million.

Defence Force – Operating and Capital Costs (Unchanged)

In 2013, the Government reconsidered New Zealand Defence Force (NZDF) funding, output requirements and capability intentions, through the Defence Mid-Point Rebalancing Review. The review has resulted in a baseline increase for NZDF in Budget 2014. Further operating and capital decisions may be required to achieve Defence White Paper (2010) policy and enable NZDF to manage additional cost pressures over the forecast period.

Government Response to Wai 262 (Unchanged)

The Waitangi Tribunal's report on the Wai 262 claim focuses on the protection of Māori culture and identity, with a particular focus on mātauranga Māori and associated taonga. The Tribunal's recommendations are directed towards a number of government agencies individually, as groups and across sectors. The Government has yet to respond to the Tribunal's report and recommendations.

Health – Health Benefits Limited (New)

Health Benefits Ltd (HBL) was established in July 2010 to deliver back-office cost savings, helping DHBs to live within their means in the face of increasing costs and tightening budget constraints. In November 2014 the Minister of Health announced that the implementation of HBL's business cases should be transferred to a DHB-owned vehicle by July 2015 following a due diligence process. HBL has a significant and complex change management programme currently underway with DHBs. This requires that four major national business case initiatives are progressed simultaneously by HBL and DHBs, which will be a significant challenge, particularly during this transition period. Until the business cases have been completed and implemented, there is a risk that the anticipated savings may not be achieved.

Housing/Social Development – Social Housing Reform (Changed)

The Government is considering further changes to the delivery of social housing. Changes include a larger role for non-government providers of social housing, exploring how some Housing New Zealand Corporation (HNZC) properties might be transferred to them, and increasing the effectiveness of housing assistance. Decisions relating to the scope, scale and speed of change and how it is effected may increase costs to the Crown.

Internal Affairs – All-of-Government Common Capabilities Sustainable Funding (Unchanged)

A central component of the Department of Internal Affairs' responsibilities as functional lead for All-of-Government ICT and the ICT Strategy and Action Plan is the development and delivery of All-of-Government common capabilities. The Government has agreed that departments and some Crown entities should migrate to common ICT capabilities, including RealMe. Many of these common capabilities have been developed and are being used and some are still in development. To the extent that these costs cannot be met within agencies' baselines, they may require new funding.

Revenue – KiwiSaver One-Off Enrolment (Unchanged)

The Government has announced its intention to consult on the design of a one-off KiwiSaver auto-enrolment exercise to increase the number of KiwiSaver members. The Government will proceed with a one-off KiwiSaver enrolment exercise only when it is confident that such a step poses no risks to returning to, and maintaining, an operating surplus and debt repayment is on track. An auto-enrolment exercise is likely to entail a one-off cost for kick-start payments to new members and ongoing additional costs for the Member Tax Credit. Depending on the timing, design features and take-up rate, these costs could be in the order of $100 million to $290 million over the first four years after the auto-enrolment takes place, and are expected to be funded out of the operating allowance.

Revenue – Transformation and Technology Renewal (Unchanged)

The Government is exploring options that will change the way Inland Revenue (IRD) manages its processes and data. Any changes could impact tax revenue collections and may have material costs to implement. IRD has commenced the development of detailed business case(s) for Stage 1: Enabling secure digital services. The business case(s) will inform the Government's decision-making for the first stage of transformation and may require significant reprioritisation or new funding.

Social Development – Child, Youth and Family Modernisation (New)

Child, Youth and Family is working on developing a new operating model that sets outs the structure, systems and resources needed to help improve the outcomes for children and young people by strengthening and enhancing the way it operates. While funding for 2014/15 has been included in the fiscal forecasts, future costs of the proposal are still being developed. To the extent that these cannot be funded from reprioritisation, additional funding from the operating allowance may be required.

Social Development – Welfare Reform Costs (Unchanged)

The Welfare Reform package of changes to the benefit system was introduced from July 2013, following amendments to the Social Security Act 1964. The current phase is to review programmes with a view to reducing future benefit dependency and long-term liability. Additional funding was appropriated at Budget 2014. The extent of any further costs associated with the ongoing implementation of the Investment Approach is uncertain.

Social Development – Welfare Reform Forecast Benefit Savings (Unchanged)

A conservative estimate of the likely benefits from Welfare Reform has been included in the fiscal forecasts. The actual impact may differ owing to behavioural factors and the complexity in implementing the reforms, with a corresponding impact on benefit expenditure.

State Sector Employment Agreements (Unchanged)

A number of large collective agreements are due to be negotiated in the short-to-medium term. As well as direct fiscal implications from any changes to remuneration, the renegotiation of these agreements can have flow-on effects to remuneration in other sectors. The Government has signalled an expectation of restraint given its current fiscal stance and that agreements will be managed within the current fiscal forecasts.

Support for Children in Hardship (New)

The Government has signalled it will target reducing material hardship affecting children. The details and costs of the proposals are still being developed. To the extent that these cannot be funded from reprioritisation, additional funding from the Budget operating allowance may be required.

Vulnerable Children White Paper (Unchanged)

The Government has begun to implement proposals to better identify and provide assistance to vulnerable children. While funding for 2014/15 has been included in the fiscal forecasts, future costs of the proposal are still being developed. To the extent that these cannot be funded from reprioritisation, additional funding from the operating allowance may be required.

Potential Capital Decisions (Expected to be Funded from the Existing Crown Balance Sheet, Including the FIF, or the Budget Capital Allowance)

Arts, Culture and Heritage – Review of Military History Museum Arrangements (Unchanged)

In June 2014, the Government agreed to review the current arrangements around the recording, collecting and exhibiting of New Zealand’s military history with a focus on the national level. At this stage it is unclear what the outcome of this business case will be, but this could result in further provision of military history exhibitions. This could require substantial Crown investment.

Agency Capital Intentions (Unchanged)

Future Budgets may well include new capital initiatives other than those identified in other specific fiscal risks. Such initiatives are likely to be primarily from the 16 capital-intensive agencies or sectors that are required to identify their capital spending intentions over the next 10 years based on current policy settings and certain demographic and inflation assumptions. The Government expects that these intentions will be managed back through a range of measures such as prioritisation, changes to asset utilisation, alternative methods of service delivery and changes to policy settings. New capital initiatives and agency capital intentions are risks to the fiscal forecasts only to the extent they cannot be managed through existing balance sheets, including the FIF, and the provision in the fiscal forecasts for forecast new capital spending

Communications – Ultra-Fast Broadband Expanded Scope (New)

The Government has committed to providing between $152 million and $210 million from the FIF to extend the Ultra-Fast Broadband programme to an additional 5% of New Zealand's population. The timing and details of this project are yet to be confirmed.

Earthquake Strengthening for Crown-owned Buildings (Unchanged)

There is a possibility that the Crown will incur costs for earthquake strengthening some of its buildings that do not meet modern building standards. The Government is currently undertaking a stocktake of Crown-owned earthquake-prone buildings. The likelihood, timing and fiscal impact of any earthquake strengthening are uncertain.

Finance – Crown Overseas Properties (Unchanged)

The Government holds New Zealand House in London on a long-term lease from the Crown Estate (UK). Depending on the outcome of ongoing discussions with the Crown Estate and feasibility study of suitable available options, an upgrade to the building or alternative solution will be required. Should a decision be taken to refurbish existing premises, a rough-order cost estimate for this upgrade is $100 million over the forecast period.

Parliamentary Service – Parliamentary Accommodation (Unchanged)

With the expiry of the lease on Bowen House in December 2018, the Parliamentary Service is identifying and assessing options for future office accommodation which may require capital expenditure with estimates ranging from $40 million to $130 million.

Primary Industries – Investment in Water Infrastructure (Unchanged)

In addition to $120 million already appropriated, the Government will consider providing up to a further $280 million in future Budgets to Crown Irrigation Investments Limited as schemes reach the "investment-ready" stage.

Transport – Auckland Transport Projects (Unchanged)

The Government has signalled its intention to accelerate transport projects in the Auckland Council's Auckland Plan, including Auckland Manukau Eastern Transport Initiatives, the East-West Link and support for the City Rail Link and a second Waitemata Harbour Crossing. Decisions on further Crown financial assistance for Auckland Manukau Eastern Transport Initiatives and the East-West Link will be made as part of future Budgets.

Transport – Regional State Highways (Unchanged)

A regional state highway acceleration package of $212 million was announced by the Government in June 2014. $115 million of this is subject to the outcome of further investigations. Further funding decisions will be considered as part of Budget 2015.

Transport – Support for KiwiRail (Unchanged)

The Government in Budgets 2010 to 2014 supported KiwiRail Holdings Limited (KiwiRail) with around $1 billion invested in its plan to become a commercially viable network. Further funding is being sought by KiwiRail in support of this objective. A major review of the business has commenced and will be assessed to inform Budget 2015 and any further investment.

Matters Dependent on External Factors

ACC – Work, Earners' and Motor Vehicle Accounts (Unchanged)

Revenue from the levies set for the Work, Earners' and Motor Vehicle accounts may be more or less than is required to cover the cost of claims, if factors such as claims experience, ACC performance and economic assumptions (particularly discount rates) turn out differently from what has been forecast. Any such variance will have a corresponding impact on the operating balance.

ACC – Non-earners' Account (Unchanged)

The amount of funding provided by the Crown (and included in the fiscal forecasts) for the Non-earners' Account may be more or less than is required to cover the cost of claims, if factors such as claims experience, ACC performance and economic assumptions (particularly discount rates) turn out differently from what has been forecast. Any such variance will have a corresponding fiscal impact.

Canterbury Earthquake Recovery – Residential Red Zone (Unchanged)

Some recoveries from the EQC and private insurers remain outstanding and there is a risk that final recoveries may be greater or less than forecast. In addition, potential costs associated with the future use of residential red zone are uncertain. The future value may change depending on any future alternate uses of the land. The fiscal impact of this is not yet certain.

Caregiver Employment Conditions (Changed)

Several cases and funding claims in the disability support and aged care sectors relating to interpretation of the Minimum Wage Act 1983, the Equal Pay Act 1972 and the Government's policy of paying certain family members through its Funded Care Policy may involve significant costs to the Crown. Changes to the existing policy could require additional funding. Successful litigation may have implications for agencies that target assistance based on family circumstances and/or employ workers under contracts in circumstances within the ambit of the Courts' decisions.

Communications – Impairment in Value of Broadband Investment (Unchanged)

The Government has set aside $1.345 billion to progressively capitalise Crown Fibre Holdings so that it can invest with private partners in a new network delivering ultra-fast broadband services. Given the contracts entered into, the extent of the recovery of this investment is somewhat dependent on the number of connections made to the network. The fiscal forecasts include a provision for impairing this investment, but the final amount of the impairment may vary from this provision.

Defence Force – Potential Rationalisation, Revaluation and Disposal of NZDF Assets (Unchanged)

The Government is considering the potential to dispose of a number of NZDF assets, including the Seasprite helicopters and Unimog trucks. Depending on market conditions, the timing of disposal and sale price received could have an impact on the Government's overall financial position. NZDF is also completing an analysis of inventory that is surplus to requirements and is over and above the existing provision for obsolescence. The existing provision is also being reviewed to ensure that all items comprising the provision are still relevant.

Energy – Crown Revenue from Petroleum Royalties (Unchanged)

Crown revenue from petroleum royalties is dependent upon extraction rates, the US dollar value per barrel and the US dollar/NZ dollar exchange rate. Movements up or down in any of these variables could result in a significant decrease or increase in Crown revenue. The overall impact for the Crown could be positive or negative.

Finance – EQC (Changed)

EQC is forecasting a cash deficiency in the National Disaster Fund (NDF) arising towards the end of the financial year (or early 2015/16). Under section 16 of the Earthquake Commission Act 1993 the Crown shall provide funding to meet a deficiency in the NDF. Such funding will impact net debt but not the operating balance or OBEGAL. The financial position of EQC and the amount of any Crown funding carry a high level of uncertainty owing to the nature of EQC's claims liability. An actuarial estimate of the net claims liability and its rate of settlement is included in the forecasts; however, the estimates are sensitive to underlying assumptions such as damage estimates, legal challenges, reinsurance recoveries and the forecast profile of settlements. Of particular note is the declaratory judgment currently being sought to clarify the nature of EQC's cover in relation to properties with increased flood and liquefaction vulnerability. The Crown's financial position may be adversely impacted if these assumptions are modified over time. Because the net claims liability is large, small percentage changes in the liability can have a material impact on costs and forecasts.

Finance – Goodwill on Acquisition (Unchanged)

As at 30 June 2014, the Government had goodwill on acquisition of a number of sub-entities totalling $628 million. Under New Zealand accounting standards (NZIAS 36), such goodwill items are required to be assessed annually for impairment. If there is any indication that the goodwill may be impaired, the recoverable amount of the cash generating units to which the goodwill is allocated is required to be estimated. If the recoverable amount is less than the carrying amount of those units, the units and the goodwill allocated to them are regarded as impaired and the Government is required to recognise impairment losses in the operating statement. Such assessments will be conducted at the end of the financial year, and the fiscal forecasts currently make no allowance for such impairment losses.

Finance – Solid Energy (Changed)

International coal prices have deteriorated significantly since Solid Energy's financial restructure in 2013. In September 2014 the Government provided an indemnity for the company's costs of environmental remediation obligations that allowed it to continue operating. The company continues to implement a business strategy to adapt to market conditions; however, there are large challenges ahead. In particular, the international coal price remains depressed with market forecasts recently revised downwards and the company has a large tranche of debt maturing in 2016. As the value of mining assets is determined by future coal price forecasts, changes to these forecasts can impact the company's equity position. Asset impairments are due to be reported in the company's upcoming half-year accounts. Any changes to the support arrangements in place, or any further deterioration in market conditions or the company's financial position, may adversely impact the Crown.

Finance – Southern Response Earthquake Services Support (Changed)

The ultimate cost to the Crown of settling earthquake claims remains subject to significant uncertainty. Forecasts assume that the actual cost to settle claims will align with the actuary's central estimate of the claims provision. There is a risk that the actual cost could vary from this estimate which is sensitive to its underlying assumptions such as damage estimates, repair and/or rebuilding requirements, legal challenges, reinsurance recoveries and the forecast profile of claims settlement. The Crown's financial position may be adversely impacted as these assumptions are modified over time. The declaratory judgment currently being sought regarding properties categorised by EQC as sustaining a form of land damage owing to increased flood vulnerability is also of particular note. The Crown's financial position may be adversely impacted if it is determined that this also represents a form of damage to buildings and imposes additional obligations on Southern Response under its building insurance policies.

Housing – Divestment of Housing (Unchanged)

The forecasts reflect related divestments and redevelopments of some housing property as part of HNZC's business as usual asset management strategy and other developments in which the Crown has an interest. Property sales are subject to market conditions and therefore there is an inherent level of uncertainty about the return to the Crown associated with forecast divestments and to the proposed funding of these and other developments in which the Crown has an interest.

Revenue – Cash Held in Tax Pools (Unchanged)

Funds held in tax pools are recognised as a Crown asset. There is a risk that funds held in these pools, over and above a taxpayer's provisional tax liability, may be withdrawn by that taxpayer, resulting in a reduction in the Crown's available cash reserves.

Revenue – Student Loans (Unchanged)

The value of student loans is sensitive to assumptions such as the borrower's future income, and general economic factors such as interest rates, unemployment levels, salary inflation and the CPI. As new lending occurs, an initial write-down to fair value will be made, and an expense will be incurred, reflecting the cost the Crown incurs in making an interest free loan. The forecasts for this initial write-down assume that loans issued after 1 January 2015 with similar repayment characteristics to student loans would attract an effective interest rate of 6.73%. The effective interest rate actually applied for these loans will be updated early in 2015.

Treaty Negotiations – Treaty Settlement Forecasts (Unchanged)

The fiscal forecasts include provision for the cost of future Treaty settlements. Given settlements are finalised through negotiations; there is a risk that the timing and amount of the settlements could differ from the profile included in the fiscal forecasts.

Treaty Negotiations – Relativity Clause (Unchanged)

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. Now that the total redress amount for all historical Treaty settlements exceeds $1 billion in 1994 present-value terms, the mechanism provides that the Crown is liable to make payments to maintain the real value of Ngāi Tahu and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngāi Tahu. There is a risk that the timing and amount of the expense for the relativity payments may differ from that included in the fiscal forecasts. There is also uncertainty on how various disputes concerning the interpretation of the mechanism will be resolved.

Risks Removed Since the 2014 *Pre-election Update*

The following risk has been removed since the 2014 *Pre-election Update*:

Expired risk	**Reason**
Transport – Cycleways	Risk materialised

Criteria and Rules for Inclusion in the Fiscal Forecasts or Disclosure as Specific Fiscal Risks

The Public Finance Act 1989 requires that the Statement of Specific Fiscal Risks sets out all government decisions, contingent liabilities or contractual obligations known to the Government and subject to specific requirements that may have a material effect on the economic or fiscal outlook.[12]

The criteria and rules set out below are used to determine if government decisions or other circumstances should be incorporated into the fiscal forecasts, disclosed as specific fiscal risks or, in some circumstances, excluded from disclosure.

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[12] The Statement of Specific Fiscal Risks is a requirement set out in sections 26Q and 26U of the Public Finance Act 1989.

Criteria for Including Matters in the Fiscal Forecasts

Matters are incorporated into the fiscal forecasts provided they meet the following criteria:

- The matter can be quantified for particular years with reasonable certainty.
- A decision has been taken, or a decision has not yet been taken but it is reasonably probable[13] the matter will be approved, or it is reasonably probable the situation will occur.

Additionally, any other matters may be incorporated into the forecasts if the Secretary to the Treasury considers, using best professional judgement, that the matters may have a material effect on the fiscal and economic outlook and are certain enough to include in the fiscal forecasts.

Rules for the disclosure of specific fiscal risks

Matters are disclosed as specific fiscal risks if:

- the likely impact is more than $100 million over five years, and either
- a decision has not yet been taken but it is reasonably possible[14] (but not probable) that the matter will be approved or the situation will occur, or
- it is reasonably probable that the matter will be approved or the situation will occur, but the matter cannot be quantified or assigned to particular years with reasonable certainty.

Additionally, any other matters may be disclosed as specific fiscal risks if the Secretary to the Treasury considers, using best professional judgement, that the matters may have a material effect (more than $100 million over five years) on the fiscal and economic outlook but are not certain enough to include in the fiscal forecasts.

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[13] For these purposes “reasonably probable” is taken to mean that the matter is **more likely than not** to be approved within the forecast period (by considering, for example, whether there is a better than 50% chance of the matter occurring or being approved).

[14] For these purposes “reasonably possible” is taken to mean that the matter **might** be approved within the forecast period (by considering, for example, whether there is a 20% to 50% chance of the matter occurring or being approved).

Exclusions from Disclosure

Matters are excluded from disclosure as specific fiscal risks if they fail to meet the materiality criterion (ie, are less than $100 million over five years), or if they are unlikely[15] to be approved or occur within the forecasting period.

Additionally, the Minister of Finance may determine, under section 26V of the Public Finance Act 1989, that a matter be included in the fiscal forecasts or a specific fiscal risk not be disclosed, if such disclosure would be likely to:

- prejudice the substantial economic interests of New Zealand
- prejudice the security or defence of New Zealand or international relations of the Government
- compromise the Crown in a material way in negotiation, litigation or commercial activity, or
- result in a material loss of value to the Crown.

If possible, the Minister of Finance should avoid withholding the matter, either by making a decision on it before the forecasts are finalised, or by disclosing it without quantifying the risk.

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[15] For these purposes “unlikely” is taken to mean that the matter **will probably not** be approved within the forecast period (by considering, for example, whether there is a less than 20% chance of the matter occurring or being approved).

Contingent Liabilities and Contingent Assets

Contingent liabilities are possible costs that have arisen from past events, but the amount of the liability, or whether it will eventuate, will not be confirmed until a particular event occurs or present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liabilities).

Typically, contingent liabilities consist of guarantees and indemnities, uncalled capital and legal disputes and claims. The contingent liabilities facing the Crown are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation.

In general, if a contingent liability were realised, or the amount becomes sufficiently reliable to record as a liability, it would reduce the operating balance and net worth and increase debt. In the case of contingencies for uncalled capital, the negative impact would be restricted to core Crown net debt because the cost would be offset by the acquisition of capital.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Crown, the amount shown is the amount claimed and thus the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the amount of any award against the Crown.

Contingent assets are possible assets that have arisen from past events but the amount of the asset, or whether it will eventuate, will not be confirmed until a particular event occurs.

Only contingent liabilities and contingent assets involving amounts of over $100 million are separately disclosed. Quantifiable contingencies less than $100 million are aggregated in the “other quantifiable” total.

Some contingencies of the Crown are not able to be quantified. We have disclosed all unquantifiable contingent liabilities and unquantifiable contingent assets that are not expected to be remote.[16]

The contingencies have been stated as at 31 October 2014, being the latest set of reported contingencies.

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[16] “Remote” is defined as being an item with less than a 10% chance of occurring.

Quantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities		
Guarantees and indemnities	**Status**[17]	**31 October 2014 ($millions)**
Other guarantees and indemnities	Unchanged	217
		217
Uncalled capital		
Asian Development Bank	Unchanged	2,920
International Monetary Fund – promissory notes	Unchanged	1,077
International Bank for Reconstruction and Development	Unchanged	1,047
International Monetary Fund – arrangements to borrow	Unchanged	1,027
Other uncalled capital	Unchanged	18
		6,089
Legal proceedings and disputes		
Tax disputes	Unchanged	429
Other legal proceedings and disputes	Unchanged	52
		481
Other quantifiable contingent liabilities		
Unclaimed monies	Unchanged	113
Other quantifiable contingent liabilities	Unchanged	268
		381
Total quantifiable contingent liabilities		**7,168**
Contingent assets (all under $100 million)		**156**

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[17] Status of contingent liabilities or assets when compared to the *Financial Statements of the Government of New Zealand for the year ended 30 June 2014.*

Unquantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities

Indemnities:	**Status**
Air New Zealand	Unchanged
Contact Energy Limited	Unchanged
Earthquake Commission (EQC)	Unchanged
Genesis Energy Limited	Unchanged
Housing New Zealand Corporation	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Contracts	Unchanged
Maui Partners	Unchanged
New Zealand Aluminium Smelter and Comalco	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Persons exercising investigating powers	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Westpac New Zealand Limited	Unchanged
Legal claims and proceedings:	
Accident Compensation Corporation (ACC) litigation	Unchanged
Air New Zealand litigation	Changed
Kiwibank	Unchanged
Ministry of Education litigation	Unchanged
Television New Zealand	Unchanged
Treaty of Waitangi claims	Unchanged
Other unquantifiable contingent liabilities:	
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Unchanged

Description of Contingent Liabilities

Quantifiable contingent liabilities over $100 million

Uncalled capital

As part of the Crown's commitment to a multilateral approach to ensure global financial and economic stability, New Zealand, as a member country of these organisations, contributes capital by subscribing to shares in certain institutions.

The capital (when called) is typically used to raise additional funding for loans to member countries or, in the case of the quota contributions, to directly finance lending to members. For New Zealand and other donor countries, capital contributions comprise both "paid in" capital and "callable capital or promissory notes".

The Crown's uncalled capital subscriptions over $100 million are as follows:

Uncalled capital	**31 October 2014** **$millions**	**30 June 2014** **$millions**
Asian Development Bank	2,920	2,728
International Monetary Fund – promissory notes	1,077	1,013
International Bank for Reconstruction and Development	1,047	968
International Monetary Fund – arrangements to borrow	1,027	937

In addition to the uncalled capital above, the Crown Support Deed agreed with Southern Response Earthquake Services Ltd includes two capital subscriptions:

- a $500 million preference share facility under the Crown's agreement dated 5 April 2012 of which $100 million has already been called and paid, with the other $400 million called but unpaid as at 31 October 2014. The balance is forecast to be paid progressively over the period 2015 to 2017, and
- $500 million of uncalled ordinary shares under an amended Crown Support Deed dated 30 January 2013 by which Southern Response may issue a call notice following the payment or redemption of all preference shares. The extent to which this subscription will be called and paid depends on the ultimate cost of settling earthquake claims, which remains subject to significant uncertainty. See risk page 74.

Legal proceedings and disputes

Tax disputes

When a taxpayer disagrees with an assessment issued following the dispute process, the taxpayer may challenge that decision by filing proceedings with the Taxation Review Authority or the High Court. This contingent liability represents the maximum liability IRD has in respect of these cases.

$429 million at 31 October 2014 ($591 million at 30 June 2014)

Other quantifiable contingent liabilities

Unclaimed monies

Under the Unclaimed Money Act 1971, entities (eg, financial institutions, insurance companies) hand over money not claimed after six years to IRD. The funds are repaid to the entitled owner on proof of identification.

$113 million at 31 October 2014 ($112 million at 30 June 2014)

Unquantifiable contingent liabilities

This part of the Statement provides details of those contingent liabilities of the Crown that are not quantified, excluding those that are considered remote, reported by the following categories:

a Indemnities

b Legal disputes, and

c Other contingent liabilities.

a) Indemnities

Indemnities are legally binding promises where the Crown undertakes to accept the risk of loss or damage that another party may suffer or to hold the other party harmless against loss caused by a specific stated event.

A number of these indemnities are provided to organisations within the Crown's control. If these indemnities were to crystallise, the Crown would compensate the individual entity for the loss and there would likely be an adverse impact on core Crown expenses and core Crown net debt.

Party indemnified	**Instrument of indemnification**	**Actions indemnified**
Air New Zealand	Deed of indemnity issued 24 September 2001	Claims arising from acts of war and terrorism that cannot be met from insurance, up to a limit of US$1 billion in respect of any one claim.
Contact Energy Limited	The Crown and Contact Energy signed a number of documents to settle in full Contact's outstanding land rights and geothermal asset rights at Wairakei	The documents contained two reciprocal indemnities between the Crown and Contact to address the risk of certain losses to the respective parties' assets arising from the negligence or fault of the other party.
Earthquake Commission (EQC)	Section 16 of the Earthquake Commission Act 1993	As set out in the Earthquake Commission Act 1993, the Crown shall fund any deficiency in EQC's assets to cover its financial liabilities on such terms and conditions that the Minister of Finance determines. See risk page 73.

Party indemnified	**Instrument of indemnification**	**Actions indemnified**
Genesis Energy Limited	Deed between Genesis Power Limited and the Crown	The agreement sees the Crown compensate Genesis in the event that Genesis has less gas than it requires for the long-term supply of gas to cover Huntly power station's minimum needs.
	Genesis acquisition of Tekapo A & B power stations	Indemnity against any damage to bed of lakes and rivers subject to operating easements.
Housing New Zealand Corporation (HNZC)	The Crown has provided a warranty in respect of title to the assets transferred to Housing New Zealand Limited (HNZL)	The Crown indemnified HNZL against: • any breach of the warranty provided, and • any third party claims that are a result of acts or omissions prior to 1 November 1992. The Crown also indemnified the directors and officers of HNZL against any liability consequent upon the assets not complying with statutory requirements, provided it is taking steps to rectify any non-compliance.
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Section 11CE of the District Courts Act 1947 Section 4F of the Justices of the Peace Act 1957 Section 58 of the Disputes Tribunal Act 1988	Damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.
Maui Contracts	Contracts in respect of which the Crown purchases gas from Maui mining companies and sells gas downstream to Contact Energy Limited, Vector Gas Limited and Methanex Waitara Valley Limited	The contracts provide for invoices to be re-opened in certain circumstances within two years of their issue date as a result of revisions to indices. These revisions may result in the Crown refunding monies or receiving monies from those parties.
Maui Partners	Confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information	Any losses arising from a breach of the deed.
New Zealand Aluminium Smelter and Comalco	The Minister of Finance signed indemnities in November 2003 and February 2004 in respect of aluminium dross currently stored at another site in Invercargill	The indemnity relates to costs incurred in removing the dross and disposing of it at another site if required to do so by an appropriate authority.

Party indemnified	**Instrument of indemnification**	**Actions indemnified**
New Zealand Local Authorities	Section 9 of the Civil Defence Emergency Management Act 2002 Civil Defence Emergency Management Plan	The Guide to the National Civil Defence Emergency Management Plan ("the Guide") states that, with the approval of the Minister, the Government will reimburse local authorities, in whole or in part, for certain types of response and recovery costs incurred as a result of a local or national emergency. The Guide is approved and issued by the Director of Civil Defence Emergency Management.
New Zealand Railways Corporation	The Minister of Finance signed the indemnity on 1 September 2004	The directors of New Zealand Railways Corporation against all liabilities in connection with the Corporation taking ownership and/or responsibility for the national rail network and any associated assets and liabilities.
	Section 10 of the Finance Act 1990	Guarantees all loan and swap obligations of the New Zealand Railways Corporation.
Persons exercising investigating powers	Section 63 of the Corporations (Investigation and Management) Act 1989	Indemnifies the Financial Markets Authority (formerly Securities Commission), the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation, and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, has been exercised in bad faith.
Synfuels-Waitara Outfall Indemnity	1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFI)	The Crown transferred to NZLFI the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site. The Crown has the benefit of a counter indemnity from NZLFI which has since been transferred to Methanex Motunui Limited.

Party indemnified	Instrument of indemnification	Actions indemnified
Westpac New Zealand Limited	The Domestic Transaction Banking Services Master Agreement with Westpac Banking Corporation (Westpac's rights and obligations under this agreement were vested in Westpac New Zealand Limited under the Westpac New Zealand Act 2006), dated 30 November 2004	The Crown has indemnified Westpac: • in relation to letters of credit issued on behalf of the Crown, and • for costs and expenses incurred by reason of third party claims against Westpac relating to indirect instructions, direct debits, third party cheques, departmental credit card merchant agreements, use of online banking products and IRD processing arrangements.
	Supplier Payments Service – New Zealand Government Master Agreement dated 23 June 2010	The Crown has indemnified Westpac New Zealand Limited against certain costs, damages and losses to third parties resulting from unauthorised, forged or fraudulent payment instructions (excluding costs, damages and losses arising from Westpac's wilful default, negligence or breach of the agreement or other applicable legal obligation).

b) Legal claims and proceedings

Numerous legal actions have been brought against the Crown. However, in the majority of these actions it is considered a remote possibility that the Crown would lose the case, or if the Crown were to lose it would be unlikely to have greater impact than $20 million. Based on these factors, not all legal actions are individually disclosed. The claims that are disclosed individually, while they cannot be quantified, have the potential to exceed $20 million in costs.

Accident Compensation Corporation (ACC) litigation

There are several legal actions against ACC in existence, arising in the main from challenges to operational decisions made by ACC. Given the stage of proceedings and uncertainty as to outcomes of the cases, no estimate of the financial effect can be made.

Air New Zealand litigation

Air New Zealand is currently named in two class actions in the United States. One makes allegations against more than 30 airlines, of anti-competitive conduct in relation to pricing in the air cargo business. A second alleges that Air New Zealand together with many other airlines conspired in respect of fares and surcharges on trans-Pacific routes. Both class actions are being defended.

The allegations made in relation to the air cargo business were also the subject of proceedings by the Australian Competition and Consumer Commission. A decision of the Federal Court of Australia dismissed the claim on 31 October 2014.

Kiwibank

In June 2013, a group called Fair Play on Fees announced plans for a representative action against banks in New Zealand in relation to certain default fees charged to New Zealand customers. In November 2013, the group issued proceedings against Kiwibank. The potential outcome of the proceedings cannot be determined with any certainty at this stage.

Ministry of Education litigation

Post Primary Teachers Association and several teachers have lodged a claim in the High Court alleging breach of statutory duty, and compensation, in respect of the Novopay system failures. The Ministry is defending this claim.

Television New Zealand Limited (TVNZ)

TVNZ is subject to a number of legal claims. Given the stage of proceedings and uncertainty as to the outcomes of the claims, no estimate of the financial effect can be made and no provision for any potential liability has been made in the financial statements.

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge certain claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Crown that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land which has been transferred by the Crown to an SOE or tertiary institution, or is subject to the Crown Forest Assets Act 1989.

On occasion, Māori claimants pursue the resolution of particular claims against the Crown through higher courts. Failure to successfully defend such actions may result in a liability for historical Treaty grievances in excess of that currently anticipated.

c) Other unquantifiable contingent liabilities

Criminal Proceeds (Recovery) Act 2009

The Ministry of Justice is responsible for administering the Criminal Proceeds (Recovery) Act 2009. The Act requires the Crown to give an undertaking as to damages or costs in relation to asset restraining orders. In the event that the Crown is found liable, payment may be required.

Environmental liabilities

Under common law and various statutes, the Crown may have responsibility to remedy adverse effects on the environment arising from Crown activities. Departments managing significant Crown properties have implemented systems to identify, monitor and assess potential contaminated sites.

In accordance with *PBE IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets* any contaminated sites for which costs can be reliably measured have been included in the statement of financial position as provisions.

Treaty of Waitangi claims – Settlement Relativity Payments – see page 75.

Description of Contingent Assets

Quantifiable contingent assets over $100 million

No individual quantifiable contingent assets are greater than $100 million as at 31 October 2014. The majority of quantifiable contingent assets relate to likely cash collectible from tax disputes.

5

Forecast Financial Statements

These forecasts have been prepared in accordance with the Public Finance Act 1989.

They are based on the accounting policies and assumptions that follow. As with all such assumptions, there is a degree of uncertainty surrounding them. This uncertainty increases as the forecast horizon extends. The Risks and Scenarios and Specific Fiscal Risks chapters discuss the risks to the fiscal forecast in more detail.

The forecasts have been prepared in accordance with the Statement of Responsibility and reflect the judgements and information known at the time they were prepared. They reflect all government decisions and circumstances communicated to 24 November 2014.

The finalisation dates and key assumptions that underpin the preparation of the Forecast Financial Statements are outlined in the Fiscal Outlook Chapter (pages 25 to 48).

Statement of Accounting Policies

Significant Accounting Policies

The Forecast Financial Statements have been prepared in accordance with the accounting policies that are expected to be used in the comparable audited actual financial statements of the Government. They comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989 and have been prepared in accordance with *Public Benefit Entity Financial Reporting Standard 42: Prospective Financial Statements*.

All forecasts use the accrual basis of accounting. Forecasts have been prepared for the consolidated financial statements of the government reporting entity, which includes all entities controlled by the Government (as defined by applicable financial reporting standards).

The specific accounting policies are included within the 2014 *Half Year Economic and Fiscal Update Additional Information* document which can be found on the Treasury's website at www.treasury.govt.nz/budget/forecasts/hyefu2014

Changes in Accounting Policies

All policies have been applied on a consistent basis during the forecast period. There have been no changes in accounting policies during the period.

Forecast Policies

The Forecast Financial Statements have been prepared on the basis of the Treasury's best professional judgement. Actual financial results for the periods covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results in future years are set out in the Specific Fiscal Risks chapter on pages 63 to 87.

Key forecast assumptions are set out on pages 46 to 48.

Reporting and Forecast Period

The reporting periods for these Forecast Financial Statements are the years ended 30 June 2015 to 30 June 2019. The "2014 Actual" figures reported in the statements are the audited results reported in the Financial Statements of Government for the year ended 30 June 2014. The "2015 Previous Budget" figures are the original forecasts to 30 June 2015 as presented in the 2014 Budget.

Government Reporting Entity as at 24 November 2014

These Forecast Financial Statements are for the government reporting entity as specified in Part 3 of the Public Finance Act 1989. This comprises Ministers of the Crown and the following entities (classified in the three institutional components used for segmental reporting):

Core Crown segment

Departments

Canterbury Earthquake Recovery Authority
Crown Law Office
Department of Conservation
Department of Corrections
Department of Internal Affairs
Department of the Prime Minister and Cabinet
Education Review Office
Government Communications Security Bureau
Inland Revenue Department
Land Information New Zealand
Ministry for Culture and Heritage
Ministry for Primary Industries
Ministry for the Environment
Ministry of Business, Innovation and Employment
Ministry of Defence
Ministry of Education
Ministry of Foreign Affairs and Trade
Ministry of Health
Ministry of Justice
Ministry of Māori Development
Ministry of Pacific Island Affairs
Ministry of Social Development
Ministry of Transport
Ministry of Women's Affairs
New Zealand Customs Service
New Zealand Defence Force
New Zealand Police
New Zealand Security Intelligence Service
Office of the Clerk of the House of Representatives
Parliamentary Counsel Office
Parliamentary Service
Serious Fraud Office
State Services Commission
Statistics New Zealand
The Treasury

Offices of Parliament

Controller and Auditor-General
The Ombudsmen
Parliamentary Commissioner for the Environment

Others

New Zealand Superannuation Fund
Reserve Bank of New Zealand

State-owned enterprises segment

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
KiwiRail Holdings Limited
Kordia Group Limited
Landcorp Farming Limited
Learning Media Limited (in liquidation)
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Solid Energy New Zealand Limited
Transpower New Zealand Limited

Mixed ownership model companies (Public Finance Act schedule 5 companies)

Genesis Energy Limited
Meridian Energy Limited
Mighty River Power Limited

Others

Air New Zealand Limited

Crown entities segment

Accident Compensation Corporation
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Callaghan Innovation
Careers New Zealand
Children’s Commissioner
Civil Aviation Authority of New Zealand
Commerce Commission
Crown Irrigation Investments Limited
Crown Research Institutes (7)
District Health Boards (20)
Drug Free Sport New Zealand
Earthquake Commission
Education New Zealand
Electoral Commission
Electricity Authority
Energy Efficiency and Conservation Authority
Environmental Protection Authority
External Reporting Board
Families Commission
Financial Markets Authority
Government Superannuation Fund Authority
Guardians of New Zealand Superannuation
Health and Disability Commissioner
Health Promotion Agency
Health Quality and Safety Commission
Health Research Council of New Zealand
Heritage New Zealand Pouhere Taonga
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Maritime New Zealand
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Service
New Zealand Blood Service
New Zealand Film Commission
New Zealand Fire Service Commission
New Zealand Lotteries Commission
New Zealand Productivity Commission
New Zealand Qualifications Authority
New Zealand Symphony Orchestra
New Zealand Teachers Council
New Zealand Tourism Board
New Zealand Trade and Enterprise
New Zealand Transport Agency
New Zealand Venture Investment Fund Limited
New Zealand Walking Access Commission
Office of Film and Literature Classification
Pharmaceutical Management Agency
Privacy Commissioner
Public Trust
Radio New Zealand Limited
Real Estate Agents Authority
Retirement Commissioner
School Boards of Trustees (2,407)
Social Workers Registration Board
Sport and Recreation New Zealand
Standards Council
Takeovers Panel
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)
Te Taura Whiri i te Reo Māori (Māori Language Commission)
Television New Zealand Limited
Tertiary Education Commission
Tertiary education institutions (29)
Testing Laboratory Registration Council
Transport Accident Investigation Commission
WorkSafe New Zealand

Crown entities segment continued

Organisations listed in schedule 4 of the Public Finance Act 1989

Agricultural and Marketing Research and Development Trust
Asia New Zealand Foundation
Fish and Game Councils (12)
Game Animal Council
Leadership Development Centre Trust
Māori Trustee
National Pacific Radio Trust
New Zealand Fish and Game Council
New Zealand Game Bird Habitat Trust Board
New Zealand Government Property Corporation
New Zealand Lottery Grants Board
Ngāi Tahu Ancillary Claims Trust
Pacific Co-operation Foundation
Pacific Island Business Development Trust
Reserves Boards (21)
Sentencing Council
Te Ariki Trust

Non-listed companies in which the Crown is majority or sole shareholder (Public Finance Act schedule 4A companies)

Crown Asset Management Limited
Crown Fibre Holdings Limited
Education Payroll Limited
Fairway Resolution Limited
Health Benefits Limited
Research and Education Advanced Network New Zealand Limited
Southern Response Earthquake Services Limited
Tāmaki Redevelopment Company Limited
The Network for Learning Limited

Legal entities created by Treaty of Waitangi settlements Acts (Public Finance Act schedule 6)

Te Urewera

Subsidiaries of SOEs, Crown entities and other government entities are consolidated by their parents and not listed separately in this table.

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
Revenue								
Taxation revenue	1	60,879	65,824	65,041	68,490	72,304	75,989	79,102
Other sovereign revenue	1	5,450	5,138	5,103	4,946	4,668	4,797	4,905
Total revenue levied through the Crown's sovereign power		**66,329**	**70,962**	**70,144**	**73,436**	**76,972**	**80,786**	**84,007**
Sales of goods and services		16,472	17,091	16,645	17,345	17,901	18,568	18,903
Interest revenue and dividends	2	3,175	3,672	3,709	4,181	4,883	5,362	5,743
Other revenue		3,420	3,842	3,802	3,902	3,967	4,018	4,096
Total revenue earned through the Crown's operations		**23,067**	**24,605**	**24,156**	**25,428**	**26,751**	**27,948**	**28,742**
Total revenue (excluding gains)		**89,396**	**95,567**	**94,300**	**98,864**	**103,723**	**108,734**	**112,749**
Expenses								
Transfer payments and subsidies	3	23,360	23,876	23,890	24,480	25,246	26,201	27,102
Personnel expenses	4	20,484	20,881	21,058	21,380	21,595	21,846	22,005
Depreciation and amortisation	5	4,872	4,882	4,844	5,030	5,102	5,187	5,161
Other operating expenses	6	35,553	37,520	37,209	37,251	36,981	37,285	37,329
Interest expenses	7	4,400	4,763	4,665	4,988	5,481	5,609	5,599
Insurance expenses	8	3,501	3,517	3,678	4,206	4,563	4,822	5,128
Forecast new operating spending	9	-	291	123	1,156	2,176	4,661	6,198
Top-down expense adjustment	9	-	(875)	(950)	(595)	(460)	(435)	(395)
Total expenses (excluding losses)		**92,170**	**94,855**	**94,517**	**97,896**	**100,684**	**105,176**	**108,127**
Minority interest share of operating balance before gains/(losses)		(159)	(340)	(355)	(403)	(437)	(484)	(521)
Operating balance before gains/(losses)		**(2,933)**	**372**	**(572)**	**565**	**2,602**	**3,074**	**4,101**
Net gains/(losses) on financial instruments	10	4,820	2,583	3,974	2,657	2,744	2,873	3,034
Net gains/(losses) on non-financial instruments	11	540	(82)	(1,782)	(58)	(50)	(51)	(52)
Minority interest share of net gains/(losses)		21	(25)	(36)	(24)	(15)	(13)	(1)
Total gains/(losses)		**5,381**	**2,476**	**2,156**	**2,575**	**2,679**	**2,809**	**2,981**
Net surplus from associates and joint ventures		360	254	316	335	337	338	338
Operating balance (excluding minority interests)	12	**2,808**	**3,102**	**1,900**	**3,475**	**5,618**	**6,221**	**7,420**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Analysis of Expenses by Functional Classification

for the years ending 30 June

Total Crown expenses

By functional classification	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
Social security and welfare	27,266	28,125	28,200	29,273	30,042	31,190	32,379
GSF pension expenses	295	409	376	410	417	410	402
Health	14,344	14,741	14,828	14,731	14,691	14,649	14,662
Education	13,064	13,571	13,595	13,749	13,860	13,944	13,978
Core government services	4,104	4,462	4,483	4,222	4,125	4,221	4,125
Law and order	3,730	3,750	3,857	3,818	3,775	3,780	3,792
Defence	1,776	1,936	1,928	2,000	1,977	1,954	1,953
Transport and communications	9,137	9,427	9,545	9,586	9,887	10,148	10,291
Economic and industrial services	7,767	7,924	7,703	8,076	8,212	8,497	8,540
Primary services	1,703	1,788	1,888	1,810	1,780	1,750	1,751
Heritage, culture and recreation	2,372	2,348	2,293	2,344	2,353	2,396	2,445
Housing and community development	1,095	1,141	1,152	1,245	1,245	1,277	1,281
Environmental protection	538	511	563	549	525	528	529
Other	579	543	268	534	598	597	597
Finance costs	4,400	4,763	4,665	4,988	5,481	5,609	5,599
Forecast new operating spending	-	291	123	1,156	2,176	4,661	6,198
Top-down expense adjustment	-	(875)	(950)	(595)	(460)	(435)	(395)
Total Crown expenses excluding losses	**92,170**	**94,855**	**94,517**	**97,896**	**100,684**	**105,176**	**108,127**

Below is an analysis of core Crown expenses by functional classification. Core Crown expenses include expenses incurred by Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank, but not Crown entities and SOEs.

Core Crown expenses

By functional classification[1]	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
Social security and welfare	23,281	23,954	23,917	24,519	25,028	25,957	26,842
GSF pension expenses	282	395	360	394	401	394	385
Health	14,898	15,065	15,110	15,145	15,200	15,248	15,333
Education	12,300	12,827	12,861	12,968	13,035	13,116	13,134
Core government services	4,502	4,816	4,839	4,583	4,489	4,582	4,506
Law and order	3,501	3,486	3,595	3,553	3,501	3,497	3,493
Defence	1,811	1,984	1,977	2,049	2,026	2,003	2,003
Transport and communications	2,237	2,217	2,297	2,200	2,245	2,316	2,306
Economic and industrial services	2,058	2,215	2,239	2,328	2,314	2,359	2,348
Primary services	676	700	754	671	620	610	615
Heritage, culture and recreation	842	770	781	797	755	742	735
Housing and community development	347	326	372	309	236	223	223
Environmental protection	533	510	659	542	517	520	521
Other	579	543	268	534	598	597	597
Finance costs	3,620	3,883	3,816	3,903	4,200	4,273	4,309
Forecast new operating spending	-	291	123	1,156	2,176	4,661	6,198
Top-down expense adjustment	-	(875)	(950)	(595)	(460)	(435)	(395)
Total core Crown expenses excluding losses	**71,467**	**73,107**	**73,018**	**75,056**	**76,881**	**80,663**	**83,153**

1. The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in future Budgets.

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Comprehensive Income

for the years ending 30 June

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
Operating balance (including minority interest)	**2,946**	**3,467**	**2,291**	**3,902**	**6,070**	**6,718**	**7,942**
Other comprehensive income							
Revaluation of physical assets	5,395	-	(9)	-	-	-	-
Net change in hedging instruments entered into for cash flow hedges	(34)	(3)	(50)	17	5	3	(4)
Foreign currency translation differences for foreign operations	(51)	4	11	-	-	-	-
Valuation gains/(losses) on investments available for sale taken to reserves	(36)	10	19	10	11	12	13
Other movements	1	(30)	(13)	(2)	1	1	(2)
Total other comprehensive income	**5,275**	**(19)**	**(42)**	**25**	**17**	**16**	**7**
Total comprehensive income	**8,221**	**3,448**	**2,249**	**3,927**	**6,087**	**6,734**	**7,949**
Attributable to:							
- minority interest	147	365	441	427	452	497	522
- the Crown	8,074	3,083	1,808	3,500	5,635	6,237	7,427
Total comprehensive income	**8,221**	**3,448**	**2,249**	**3,927**	**6,087**	**6,734**	**7,949**

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
Opening net worth	70,011	75,467	80,779	82,560	86,086	91,768	98,073
Operating balance	2,946	3,467	2,291	3,902	6,070	6,718	7,942
Net revaluations	5,395	-	(9)	-	-	-	-
Transfers to/(from) reserves	(2)	16	38	-	1	-	-
(Gains)/losses transferred to the Statement of Financial Performance	(43)	3	(7)	3	1	(1)	1
Other movements	(75)	(38)	(64)	22	15	17	6
Comprehensive income	**8,221**	**3,448**	**2,249**	**3,927**	**6,087**	**6,734**	**7,949**
Gain/(loss) on Government share offers	(577)	-	-	-	-	-	-
Increase in minority interest from Government share offers	3,308	-	-	-	-	-	-
Transactions with minority interest	(184)	(282)	(468)	(401)	(405)	(429)	(465)
Closing net worth	**80,779**	**78,633**	**82,560**	**86,086**	**91,768**	**98,073**	**105,557**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Cash Flows

for the years ending 30 June

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
Cash flows from operations							
Cash was provided from							
Taxation receipts	59,853	64,913	64,129	67,387	71,296	74,952	78,035
Other sovereign receipts	4,974	4,645	4,673	4,241	4,319	4,400	4,509
Sales of goods and services	16,608	17,113	16,759	17,453	17,964	18,609	18,938
Interest and dividend receipts	2,945	3,310	3,660	3,985	4,571	5,013	5,451
Other operating receipts	5,737	4,972	4,535	4,604	4,258	3,924	3,990
Total cash provided from operations	**90,117**	**94,953**	**93,756**	**97,670**	**102,408**	**106,898**	**110,923**
Cash was disbursed to							
Transfer payments and subsidies	23,447	24,020	24,015	24,509	25,241	26,172	27,082
Personnel and operating payments	59,891	63,953	62,143	62,472	60,086	60,904	60,781
Interest payments	4,312	4,728	4,964	5,024	5,494	5,617	5,651
Forecast new operating spending	-	291	123	1,155	2,175	4,661	6,198
Top-down expense adjustment	-	(875)	(950)	(595)	(460)	(435)	(395)
Total cash disbursed to operations	**87,650**	**92,117**	**90,295**	**92,565**	**92,536**	**96,919**	**99,317**
Net cash flows from operations	**2,467**	**2,836**	**3,461**	**5,105**	**9,872**	**9,979**	**11,606**
Cash flows from investing activities							
Cash was provided from/(disbursed to)							
Net purchase of physical assets	(5,503)	(7,832)	(7,767)	(7,394)	(6,528)	(5,475)	(5,365)
Net purchase of shares and other securities	(5,725)	4,339	3,747	(2,437)	(7,917)	2,501	1,444
Net purchase of intangible assets	(658)	(576)	(385)	(525)	(533)	(387)	(370)
Net repayment/(issues) of advances	(1,529)	(1,971)	(2,043)	(1,603)	(1,740)	(1,752)	(1,819)
Net acquisition of investments in associates	73	(46)	(42)	(54)	57	53	75
Forecast new capital spending	-	(326)	(113)	(446)	(732)	(825)	(830)
Top-down capital adjustment	-	370	575	275	125	75	75
Net cash flows from investing activities	**(13,342)**	**(6,042)**	**(6,028)**	**(12,184)**	**(17,268)**	**(5,810)**	**(6,790)**
Net cash flows from operating and investing activities	**(10,875)**	**(3,206)**	**(2,567)**	**(7,079)**	**(7,396)**	**4,169**	**4,816**
Cash flows from financing activities							
Cash was provided from/(disbursed to)							
Issues of circulating currency	274	152	130	155	159	164	169
Government share offer programme[1]	2,186	598	598	-	-	-	-
Net issue/(repayment) of government stock[2]	5,520	(759)	(547)	5,408	7,151	(4,351)	(4,557)
Net issue/(repayment) of foreign-currency borrowings	1,442	(838)	(1,447)	(644)	(37)	(642)	41
Net issue/(repayment) of other New Zealand dollar borrowings	(832)	3,808	3,126	1,789	1,280	1,993	843
Dividends paid to minority interests	(166)	(365)	(398)	(457)	(475)	(498)	(540)
Net cash flows from financing activities	**8,424**	**2,596**	**1,462**	**6,251**	**8,078**	**(3,334)**	**(4,044)**
Net movement in cash	**(2,451)**	**(610)**	**(1,105)**	**(828)**	**682**	**835**	**772**
Opening cash balance	14,924	11,108	11,888	11,166	10,338	11,020	11,855
Foreign-exchange gains/(losses) on opening cash	(585)	-	383	-	-	-	-
Closing cash balance	**11,888**	**10,498**	**11,166**	**10,338**	**11,020**	**11,855**	**12,627**

1. Excludes purchases by ACC and NZS Fund.

2. Further information on the proceeds and repayments of government stock ("domestic bonds") is available in note 23.

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Cash Flows (continued)

for the years ending 30 June

	2014	2015	2015	2016	2017	2018	2019
		Previous					
	Actual	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	$m	$m	$m	$m	$m	$m	$m
Reconciliation between the net cash flows from operations and the operating balance							
Net cash flows from operations	**2,467**	**2,836**	**3,461**	**5,105**	**9,872**	**9,979**	**11,606**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses)							
Net gains/(losses) on financial instruments	4,820	2,583	3,974	2,657	2,744	2,873	3,034
Net gains/(losses) on non-financial instruments	540	(82)	(1,782)	(58)	(50)	(51)	(52)
Minority interest share of net gains/(losses)	21	(25)	(36)	(24)	(15)	(13)	(1)
Total gains/(losses)	**5,381**	**2,476**	**2,156**	**2,575**	**2,679**	**2,809**	**2,981**
Other non-cash items in operating balance							
Depreciation and amortisation	(4,872)	(4,882)	(4,844)	(5,030)	(5,102)	(5,187)	(5,161)
Write-down on initial recognition of financial assets	(789)	(838)	(786)	(785)	(805)	(826)	(840)
Impairment on financial assets (excl. receivables)	(47)	(128)	(125)	(126)	(128)	(131)	(131)
Decrease/(increase) in defined benefit retirement plan liabilities	442	353	399	337	342	359	378
Decrease/(increase) in insurance liabilities	1,409	3,629	968	1,581	(1,295)	(1,658)	(1,739)
Other	202	(86)	(39)	(68)	(100)	(148)	(185)
Total other non-cash Items	**(3,655)**	**(1,952)**	**(4,427)**	**(4,091)**	**(7,088)**	**(7,591)**	**(7,678)**
Movements in working capital							
Increase/(decrease) in receivables	(1,553)	(803)	385	470	155	553	401
Increase/(decrease) in accrued interest	143	326	349	232	325	358	344
Increase/(decrease) in inventories	(41)	(4)	3	27	17	(53)	(54)
Increase/(decrease) in prepayments	39	(27)	(64)	11	(10)	-	(5)
Decrease/(increase) in deferred revenue	(248)	(20)	12	(15)	(16)	(32)	(10)
Decrease/(increase) in payables/provisions	275	270	25	(839)	(316)	198	(165)
Total movements in working capital	**(1,385)**	**(258)**	**710**	**(114)**	**155**	**1,024**	**511**
Operating balance	**2,808**	**3,102**	**1,900**	**3,475**	**5,618**	**6,221**	**7,420**

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Financial Position

as at 30 June

	Note	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
Assets								
Cash and cash equivalents	13	11,888	10,498	11,166	10,338	11,020	11,855	12,627
Receivables	13	17,480	16,610	17,602	17,487	17,686	18,291	18,746
Marketable securities, deposits and derivatives in gain	13	48,457	42,731	45,459	47,086	55,279	53,271	52,313
Share investments	13	20,596	21,234	22,718	24,120	25,682	27,348	29,123
Advances	13	24,756	26,626	26,428	28,136	29,975	31,678	33,543
Inventory		1,099	1,155	1,102	1,129	1,146	1,093	1,039
Other assets		2,510	2,144	2,279	2,256	2,277	2,277	2,351
Property, plant and equipment	15	116,306	115,873	120,046	123,323	125,488	126,562	127,488
Equity accounted investments[1]		10,071	10,326	10,519	10,900	11,173	11,442	11,703
Intangible assets and goodwill	16	2,920	2,934	3,066	3,093	3,136	3,083	3,030
Forecast for new capital spending	9	-	339	113	559	1,292	2,117	2,947
Top-down capital adjustment	9	-	(765)	(575)	(850)	(975)	(1,050)	(1,125)
Total assets		**256,083**	**249,705**	**259,923**	**267,577**	**283,179**	**287,967**	**293,785**
Liabilities								
Issued currency		4,964	5,224	5,153	5,308	5,467	5,631	5,800
Payables	18	11,294	11,874	12,319	12,595	13,398	13,603	14,282
Deferred revenue		1,962	1,821	1,950	1,965	1,981	2,013	2,024
Borrowings		103,419	104,390	104,442	110,342	118,499	115,306	111,463
Insurance liabilities	19	35,825	31,272	36,173	34,592	35,888	37,546	39,285
Retirement plan liabilities	20	10,885	10,380	10,891	10,554	10,212	9,853	9,475
Provisions	21	6,955	6,111	6,435	6,135	5,966	5,942	5,899
Total liabilities		**175,304**	**171,072**	**177,363**	**181,491**	**191,411**	**189,894**	**188,228**
Total assets less total liabilities		**80,779**	**78,633**	**82,560**	**86,086**	**91,768**	**98,073**	**105,557**
Net worth								
Taxpayers' funds		13,300	16,601	15,271	19,013	24,832	31,259	38,894
Property, plant and equipment revaluation reserve		62,225	56,509	62,153	61,884	61,684	61,479	61,262
Other reserves		43	5	(48)	(21)	(5)	10	19
Total net worth attributable to the Crown		**75,568**	**73,115**	**77,376**	**80,876**	**86,511**	**92,748**	**100,175**
Net worth attributable to minority interest		5,211	5,518	5,184	5,210	5,257	5,325	5,382
Total net worth	22	**80,779**	**78,633**	**82,560**	**86,086**	**91,768**	**98,073**	**105,557**

1. Tertiary education institutions constitute most equity accounted investments.

The accompanying notes and accounting policies are an integral part of these Statements.

Forecast Statement of Borrowings

as at 30 June

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
Borrowings							
Government bonds	60,337	58,855	58,375	63,065	69,560	64,779	59,768
Treasury bills	3,147	3,688	4,129	3,928	3,920	3,914	3,909
Government retail stock	183	190	181	181	181	181	181
Settlement deposits with Reserve Bank	7,758	6,849	7,695	7,695	7,695	7,695	7,695
Derivatives in loss	2,245	1,890	2,680	2,262	2,025	1,937	1,868
Finance lease liabilities	1,501	1,994	1,991	2,174	2,125	2,163	1,819
Other borrowings	28,248	30,924	29,391	31,037	32,993	34,637	36,223
Total borrowings	**103,419**	**104,390**	**104,442**	**110,342**	**118,499**	**115,306**	**111,463**
Total sovereign-guaranteed debt	77,461	75,602	75,862	80,202	86,460	81,627	76,563
Total non-sovereign-guaranteed debt	25,958	28,788	28,580	30,140	32,039	33,679	34,900
Total borrowings	**103,419**	**104,390**	**104,442**	**110,342**	**118,499**	**115,306**	**111,463**
Net debt:							
Core Crown borrowings[1]	89,090	86,246	87,604	91,843	98,731	94,432	89,905
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(622)	(767)	(847)	(963)	(991)	(993)	(991)
Gross sovereign-issued debt[2]	**88,468**	**85,479**	**86,757**	**90,880**	**97,740**	**93,439**	**88,914**
Less core Crown financial assets[3]	68,047	63,248	65,846	69,138	78,594	77,466	77,606
Net core Crown debt	**20,421**	**22,231**	**20,911**	**21,742**	**19,146**	**15,973**	**11,308**
Core Crown advances	13,753	15,056	14,502	15,513	15,974	16,163	16,362
Net core Crown debt (incl. NZS Fund)[4]	**34,174**	**37,287**	**35,413**	**37,255**	**35,120**	**32,136**	**27,670**
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	25,757	26,280	28,081	29,705	31,920	34,286	36,850
Net core Crown debt (excl. NZS Fund and advances)[6]	**59,931**	**63,567**	**63,494**	**66,960**	**67,040**	**66,422**	**64,520**
Gross debt:							
Gross sovereign-issued debt[2]	88,468	85,479	86,757	90,880	97,740	93,439	88,914
Less Reserve Bank settlement cash and bank bills	(8,112)	(7,245)	(8,068)	(8,009)	(7,934)	(7,934)	(7,934)
Add back changes to DMO borrowing owing to settlement cash[7]	1,600	1,600	1,600	1,600	1,600	1,600	1,600
Gross sovereign-issued debt excluding Reserve Bank settlement cash and bank bills[4]	**81,956**	**79,834**	**80,289**	**84,471**	**91,406**	**87,105**	**82,580**

Notes on borrowings

Total borrowings can be split into sovereign-guaranteed and non-sovereign-guaranteed debt. This split reflects the fact that borrowings by SOEs and Crown entities are not explicitly guaranteed by the Crown. No debt of SOEs and Crown entities is currently guaranteed by the Crown.

1. Core Crown borrowings in this instance include unsettled purchases of securities (classified as accounts payable in the Statement of Financial Position).
2. Gross sovereign-issued debt (GSID) represents debt issued by the sovereign (the core Crown) and includes any government stock held by the other Crown reporting entities.
3. Core Crown financial assets exclude receivables.
4. Net core Crown debt represents GSID less financial assets. This can provide information about the sustainability of the Government's accounts, and is used by some international agencies when determining the creditworthiness of a country.
5. Adding back the NZS Fund assets provides the financial liabilities less financial assets of the core Crown, excluding those assets set aside to meet part of the future cost of New Zealand Superannuation.
6. Net core Crown debt (excluding NZS Fund and advances) excludes financial assets which are held for public policy rather than treasury management purposes.
7. The Reserve Bank has used $1.6 billion of settlement cash to purchase reserves that were to have been funded by the NZDMO borrowing. Therefore, the impact of settlement cash on GSID is adjusted by this amount.

The accompanying notes and accounting policies are an integral part of these Statements.

Statement of Actual Commitments

as at 31 October 2014

	As at 31 Oct 2014 $m	As at 30 June 2014 $m
Capital commitments		
Specialist military equipment	638	732
Land and buildings	1,143	878
Other property, plant and equipment	5,346	5,307
Other capital commitments	862	919
Tertiary education institutions	201	201
Total capital commitments	**8,190**	**8,037**
Operating commitments		
Non-cancellable accommodation leases	2,969	3,059
Other non-cancellable leases	2,318	2,340
Tertiary education institutions	494	494
Total operating commitments	**5,781**	**5,893**
Total commitments	**13,971**	**13,930**
Total commitments by segment		
Core Crown	5,111	4,916
Crown entities	5,403	5,465
State-owned Enterprises	4,841	4,847
Inter-segment eliminations	(1,384)	(1,298)
Total commitments	**13,971**	**13,930**

Statement of Actual Contingent Liabilities and Assets

as at 31 October 2014

	As at 31 Oct 2014 $m	As at 30 June 2014 $m
Quantifiable contingent liabilities		
Guarantees and indemnities	217	222
Uncalled capital	6,089	5,662
Legal proceedings and disputes	481	604
Other contingent liabilities	381	357
Total quantifiable contingent liabilities	**7,168**	**6,845**
Total quantifiable contingent liabilities by segment		
Core Crown	6,897	6,568
Crown entities	42	44
State-owned Enterprises	229	233
Inter-segment eliminations	-	-
Total quantifiable contingent liabilities	**7,168**	**6,845**
Quantifiable contingent assets by segment		
Core Crown	140	129
Crown entities	4	4
State-owned Enterprises	12	-
Total quantifiable contingent assets	**156**	**133**

More information on contingent liabilities (quantified and unquantified) is outlined in the Specific Fiscal Risks chapter.

The accompanying notes and accounting policies are an integral part of these Statements.

Notes to the Forecast Financial Statements

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation revenue (accrual)							
Individuals							
Source deductions	23,738	25,224	25,034	26,327	27,727	29,240	30,879
Other persons	5,216	5,428	5,347	5,369	5,685	5,923	6,015
Refunds	(1,573)	(1,395)	(1,517)	(1,467)	(1,484)	(1,466)	(1,499)
Fringe benefit tax	489	512	505	526	549	573	598
Total individuals	**27,870**	**29,769**	**29,369**	**30,755**	**32,477**	**34,270**	**35,993**
Corporate tax							
Gross companies tax	9,020	9,555	9,840	10,292	10,927	11,271	11,548
Refunds	(192)	(207)	(198)	(216)	(234)	(247)	(254)
Non-resident withholding tax	428	481	467	526	552	579	605
Foreign-source dividend w/holding payments	8	2	(3)	2	2	2	2
Total corporate tax	**9,264**	**9,831**	**10,106**	**10,604**	**11,247**	**11,605**	**11,901**
Other direct income tax							
Resident w/holding tax on interest income	1,644	2,007	1,813	2,088	2,423	2,862	3,280
Resident w/holding tax on dividend income	446	495	494	535	568	586	599
Total other direct income tax	**2,090**	**2,502**	**2,307**	**2,623**	**2,991**	**3,448**	**3,879**
Total direct income tax	**39,224**	**42,102**	**41,782**	**43,982**	**46,715**	**49,323**	**51,773**
Goods and services tax							
Gross goods and services tax	27,208	29,392	28,799	30,179	31,682	33,667	35,430
Refunds	(11,191)	(11,630)	(11,428)	(11,841)	(12,458)	(13,503)	(14,736)
Total goods and services tax	**16,017**	**17,762**	**17,371**	**18,338**	**19,224**	**20,164**	**20,694**
Other indirect taxation							
Road user charges	1,205	1,268	1,246	1,321	1,385	1,457	1,520
Petroleum fuels excise – domestic production	865	936	940	1,084	1,199	1,221	1,242
Alcohol excise – domestic production	650	681	674	697	725	755	785
Tobacco excise – domestic production	273	286	285	295	300	299	299
Petroleum fuels excise – imports[1]	747	766	769	722	646	658	669
Alcohol excise – imports[1]	242	255	249	258	268	279	290
Tobacco excise – imports[1]	999	1,108	1,073	1,145	1,198	1,194	1,194
Other customs duty	172	155	157	149	142	134	127
Gaming duties	211	209	213	214	214	215	216
Motor vehicle fees	187	195	199	200	203	205	208
Approved issuer levy and cheque duty	52	65	50	51	51	51	51
Energy resources levies	35	36	33	34	34	34	34
Total other indirect taxation	**5,638**	**5,960**	**5,888**	**6,170**	**6,365**	**6,502**	**6,635**
Total indirect taxation	**21,655**	**23,722**	**23,259**	**24,508**	**25,589**	**26,666**	**27,329**
Total taxation revenue	**60,879**	**65,824**	**65,041**	**68,490**	**72,304**	**75,989**	**79,102**
Other sovereign revenue (accrual)							
ACC levies	3,600	3,172	3,195	2,935	2,894	2,972	3,040
Fire Service levies	339	348	350	351	354	359	364
EQC levies	274	282	282	285	288	290	293
Child support	545	665	582	632	429	477	502
Court fines	179	173	173	173	174	174	174
Other miscellaneous items	513	498	521	570	529	525	532
Total other sovereign revenue	**5,450**	**5,138**	**5,103**	**4,946**	**4,668**	**4,797**	**4,905**
Total sovereign revenue	**66,329**	**70,962**	**70,144**	**73,436**	**76,972**	**80,786**	**84,007**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation receipts (cash)							
Individuals							
Source deductions	23,621	25,074	24,886	26,171	27,571	29,076	30,716
Other persons	5,466	5,964	5,900	5,804	6,112	6,477	6,599
Refunds	(2,276)	(2,211)	(2,293)	(2,212)	(2,241)	(2,314)	(2,378)
Fringe benefit tax	482	510	503	524	547	571	596
Total individuals	**27,293**	**29,337**	**28,996**	**30,287**	**31,989**	**33,810**	**35,533**
Corporate tax							
Gross companies tax	9,374	9,963	10,083	10,454	11,278	11,621	11,865
Refunds	(563)	(703)	(639)	(663)	(722)	(766)	(789)
Non-resident withholding tax	405	480	491	525	551	578	604
Foreign-source dividend w/holding payments	-	2	(3)	2	2	2	2
Total corporate tax	**9,216**	**9,742**	**9,932**	**10,318**	**11,109**	**11,435**	**11,682**
Other direct income tax							
Resident w/holding tax on interest income	1,629	2,005	1,811	2,086	2,421	2,860	3,278
Resident w/holding tax on dividend income	449	495	494	535	568	586	599
Total other direct income tax	**2,078**	**2,500**	**2,305**	**2,621**	**2,989**	**3,446**	**3,877**
Total direct income tax	**38,587**	**41,579**	**41,233**	**43,226**	**46,087**	**48,691**	**51,092**
Goods and services tax							
Gross goods and services tax	26,596	28,504	27,934	29,332	30,802	32,762	34,544
Refunds	(10,948)	(11,130)	(10,928)	(11,341)	(11,958)	(13,003)	(14,236)
Total goods and services tax	**15,648**	**17,374**	**17,006**	**17,991**	**18,844**	**19,759**	**20,308**
Other indirect taxation							
Road user charges	1,187	1,268	1,246	1,321	1,385	1,457	1,520
Petroleum fuels excise – domestic production	861	936	940	1,084	1,199	1,221	1,242
Alcohol excise – domestic production	651	681	674	697	725	755	785
Tobacco excise – domestic production	268	286	285	295	300	299	299
Customs duty	2,179	2,284	2,248	2,274	2,254	2,265	2,280
Gaming duties	208	209	213	214	214	215	216
Motor vehicle fees	178	195	199	200	203	205	208
Approved issuer levy and cheque duty	51	65	52	51	51	51	51
Energy resources levies	35	36	33	34	34	34	34
Total other indirect taxation	**5,618**	**5,960**	**5,890**	**6,170**	**6,365**	**6,502**	**6,635**
Total indirect taxation	**21,266**	**23,334**	**22,896**	**24,161**	**25,209**	**26,261**	**26,943**
Total taxation receipts	**59,853**	**64,913**	**64,129**	**67,387**	**71,296**	**74,952**	**78,035**
Other sovereign receipts (cash)							
ACC levies	3,579	3,174	3,219	2,771	2,880	2,949	3,046
Fire Service levies	340	348	350	351	354	359	364
EQC levies	273	282	284	284	287	290	293
Child support	219	252	217	228	231	238	248
Court fines	149	137	137	137	137	137	130
Other miscellaneous items	414	452	466	470	430	427	428
Total other sovereign receipts	**4,974**	**4,645**	**4,673**	**4,241**	**4,319**	**4,400**	**4,509**
Total sovereign receipts	**64,827**	**69,558**	**68,802**	**71,628**	**75,615**	**79,352**	**82,544**

Notes to the Forecast Financial Statements

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 2: Interest revenue and dividends							
By type							
Interest revenue	2,516	3,101	3,075	3,526	4,181	4,622	4,957
Dividends	659	571	634	655	702	740	786
Total interest revenue and dividends	**3,175**	**3,672**	**3,709**	**4,181**	**4,883**	**5,362**	**5,743**
By source							
Core Crown	2,295	2,492	2,372	2,687	3,184	3,517	3,815
Crown entities	1,249	1,277	1,465	1,470	1,531	1,609	1,692
State-owned Enterprises	879	1,006	1,072	1,291	1,507	1,638	1,725
Inter-segment eliminations	(1,248)	(1,103)	(1,200)	(1,267)	(1,339)	(1,402)	(1,489)
Total interest revenue and dividends	**3,175**	**3,672**	**3,709**	**4,181**	**4,883**	**5,362**	**5,743**
NOTE 3: Transfer payments and subsidies							
New Zealand Superannuation	10,913	11,590	11,577	12,159	12,790	13,498	14,300
Jobseeker Support and Emergency Benefit	1,691	1,648	1,679	1,590	1,522	1,512	1,541
Supported Living Payment	1,422	1,518	1,513	1,534	1,552	1,572	1,588
Sole Parent Support	1,222	1,243	1,187	1,175	1,162	1,155	1,157
Family tax credit	1,965	1,934	1,890	1,869	1,917	2,050	1,978
Other working for families tax credits	567	527	557	558	556	551	549
Accommodation Assistance	1,146	1,141	1,132	1,131	1,127	1,138	1,158
Income related rents	660	718	718	775	825	879	935
Disability assistance	379	373	379	383	384	385	387
Student allowances	539	531	523	533	550	564	567
Other social assistance benefits	1,519	1,293	1,350	1,407	1,437	1,420	1,426
Total social assistance grants	**22,023**	**22,516**	**22,505**	**23,114**	**23,822**	**24,724**	**25,586**
Subsidies							
KiwiSaver subsidies	804	827	854	824	851	891	930
Other transfer payments							
Official development assistance	533	533	531	542	573	586	586
Total transfer payments and subsidies	**23,360**	**23,876**	**23,890**	**24,480**	**25,246**	**26,201**	**27,102**
NOTE 4: Personnel expenses							
By source							
Core Crown	6,232	6,361	6,507	6,560	6,566	6,602	6,579
Crown entities	11,315	11,607	11,688	11,905	12,035	12,174	12,295
State-owned Enterprises	2,956	2,923	2,874	2,926	3,005	3,081	3,143
Inter-segment eliminations	(19)	(10)	(11)	(11)	(11)	(11)	(12)
Total personnel expenses	**20,484**	**20,881**	**21,058**	**21,380**	**21,595**	**21,846**	**22,005**
NOTE 5: Depreciation and amortisation							
By source							
Core Crown	1,476	1,533	1,497	1,579	1,580	1,601	1,596
Crown entities	1,661	1,710	1,698	1,793	1,836	1,851	1,872
State-owned Enterprises	1,735	1,639	1,649	1,658	1,686	1,735	1,693
Inter-segment eliminations	-	-	-	-	-	-	-
Total depreciation and amortisation	**4,872**	**4,882**	**4,844**	**5,030**	**5,102**	**5,187**	**5,161**
NOTE 6: Other operating expenses							
By source							
Core Crown	36,779	38,038	38,135	37,971	37,575	37,760	37,763
Crown entities	17,297	17,759	18,095	18,154	18,186	18,063	17,999
State-owned Enterprises	9,042	9,556	9,237	9,640	9,977	10,422	10,622
Inter-segment eliminations	(27,565)	(27,833)	(28,258)	(28,514)	(28,757)	(28,960)	(29,055)
Total other operating expenses	**35,553**	**37,520**	**37,209**	**37,251**	**36,981**	**37,285**	**37,329**

Notes to the Forecast Financial Statements

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 7: Interest expenses							
By type							
Interest on financial liabilities	4,360	4,721	4,615	4,928	5,418	5,559	5,550
Interest unwind on provisions	40	42	50	60	63	50	49
Total interest expenses	**4,400**	**4,763**	**4,665**	**4,988**	**5,481**	**5,609**	**5,599**
By source							
Core Crown	3,620	3,883	3,816	3,903	4,200	4,273	4,309
Crown entities	219	237	224	222	235	237	243
State-owned Enterprises	1,161	1,295	1,348	1,543	1,722	1,810	1,788
Inter-segment eliminations	(600)	(652)	(723)	(680)	(676)	(711)	(741)
Total interest expenses	**4,400**	**4,763**	**4,665**	**4,988**	**5,481**	**5,609**	**5,599**
NOTE 8: Insurance expenses							
By entity							
ACC	3,484	3,561	3,675	4,103	4,355	4,592	4,888
EQC	(111)	34	(21)	141	221	226	227
Southern Response	87	(89)	12	(51)	(26)	(10)	-
Other (incl. inter-segment eliminations)	41	11	12	13	13	14	13
Total insurance expenses	**3,501**	**3,517**	**3,678**	**4,206**	**4,563**	**4,822**	**5,128**

NOTE 9: Forecast new spending and top-down expense adjustment

	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
Forecast new operating spending					
Unallocated contingencies	123	239	239	218	265
Forecast new spending for Budget 2015	-	917	937	943	933
Forecast new spending for Budget 2016	-	-	1,000	1,000	1,000
Forecast new spending for Budget 2017	-	-	-	2,500	2,500
Forecast new spending for Budget 2018	-	-	-	-	1,500
Total forecast new operating spending	**123**	**1,156**	**2,176**	**4,661**	**6,198**
Operating top-down adjustment	**(950)**	**(595)**	**(460)**	**(435)**	**(395)**

Unallocated contingencies represent expenses included in Budget 2014 and previous Budgets that have yet to be allocated. Forecast new spending indicates the expected spending increases from future Budgets.

The operating allowance for Budget 2015 is $1 billion. Some of this allowance has been pre-committed to departments' baselines as at the forecast finalisation date of 24 November 2014 with only the unallocated portion of the allowance included in the forecast new spending line. The pre-committed portion is forecast in the appropriate expense (or revenue line) that it relates to.

	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m	Post-2019 Forecast $m	Total Forecast $m
Forecast new capital spending (annual)							
Unallocated contingencies	110	61	97	-	-	-	268
Forecast new spending for Budget 2015	3	285	235	175	-	-	698
Forecast new spending for Budget 2016	-	100	300	250	180	-	830
Forecast new spending for Budget 2017	-	-	100	300	250	250	900
Forecast new spending for Budget 2018	-	-	-	100	300	518	918
Forecast new spending for Budget 2019	-	-	-	-	100	836	936
Total forecast new capital spending	**113**	**446**	**732**	**825**	**830**	**1,604**	**4,550**
Forecast new capital spending (cumulative)	**113**	**559**	**1,292**	**2,117**	**2,947**		
Capital top-down adjustment (cumulative)	**(575)**	**(850)**	**(975)**	**(1,050)**	**(1,125)**		

Unallocated contingencies represent capital spending from Budget 2014 and previous Budgets that has yet to be allocated. Forecast new spending indicates the expected capital spending increases from future Budgets.

Notes to the Forecast Financial Statements

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 10: Gains and losses on financial instruments							
By source							
Core Crown	4,045	2,378	3,140	2,494	2,565	2,689	2,849
Crown entities	702	373	994	344	381	417	454
State-owned Enterprises	161	52	39	79	48	34	7
Inter-segment eliminations	(88)	(220)	(199)	(260)	(250)	(267)	(276)
Net gains/(losses) on financial instruments	**4,820**	**2,583**	**3,974**	**2,657**	**2,744**	**2,873**	**3,034**
NOTE 11: Gains and losses on non-financial instruments							
By type							
Actuarial gains/(losses) on GSF liability	577	-	(405)	-	-	-	-
Actuarial gains/(losses) on ACC outstanding claims	479	-	(1,316)	-	-	-	-
Other	(516)	(82)	(61)	(58)	(50)	(51)	(52)
Net gains/(losses) on non-financial instruments	**540**	**(82)**	**(1,782)**	**(58)**	**(50)**	**(51)**	**(52)**
By source							
Core Crown	220	(13)	(445)	(1)	(1)	(1)	(1)
Crown entities	477	(69)	(1,333)	(39)	(40)	(41)	(42)
State-owned Enterprises	(156)	(20)	(5)	(19)	(9)	(9)	(9)
Inter-segment eliminations	(1)	20	1	1	-	-	-
Net gains/(losses) on non-financial instruments	**540**	**(82)**	**(1,782)**	**(58)**	**(50)**	**(51)**	**(52)**
NOTE 12: Operating balance (excluding minority interests)							
By source							
Core Crown	203	1,871	1,212	2,851	5,182	5,614	6,775
Crown entities	2,874	1,357	715	705	540	721	731
State-owned Enterprises	428	593	513	747	804	833	933
Inter-segment eliminations	(697)	(719)	(540)	(828)	(908)	(947)	(1,019)
Total operating balance	**2,808**	**3,102**	**1,900**	**3,475**	**5,618**	**6,221**	**7,420**
NOTE 13: Financial assets							
Cash and cash equivalents	11,888	10,498	11,166	10,338	11,020	11,855	12,627
Tax receivables	8,112	8,664	8,917	9,346	9,759	10,244	10,552
Trade and other receivables	9,368	7,946	8,685	8,141	7,927	8,047	8,194
Student loans (refer note 14)	8,716	9,024	8,990	9,294	9,569	9,821	10,018
Kiwibank mortgages	14,630	16,361	16,037	17,446	19,026	20,528	22,176
Long-term deposits	3,844	1,986	3,336	3,210	3,274	3,459	3,737
IMF financial assets	2,142	2,557	2,791	2,835	2,876	2,917	2,958
Other advances	1,410	1,241	1,401	1,396	1,380	1,329	1,349
Share investments	20,596	21,234	22,718	24,120	25,682	27,348	29,123
Derivatives in gain	4,164	2,797	2,813	2,518	2,520	2,547	2,630
Other marketable securities	38,307	35,391	36,519	38,523	46,609	44,348	42,988
Total financial assets	**123,177**	**117,699**	**123,373**	**127,167**	**139,642**	**142,443**	**146,352**
Financial assets by entity							
NZDMO	18,873	13,555	13,411	15,099	22,433	18,048	15,258
Reserve Bank of New Zealand	19,740	18,657	18,408	18,613	18,977	18,642	18,715
NZS Fund	26,990	27,419	29,167	30,719	32,950	35,365	37,986
Other core Crown	22,953	21,202	24,346	24,445	24,616	25,509	26,184
Intra-segment eliminations	(8,473)	(6,318)	(7,439)	(7,266)	(7,730)	(6,927)	(6,937)
Total core Crown segment	**80,083**	**74,515**	**77,893**	**81,610**	**91,246**	**90,637**	**91,206**
ACC portfolio	29,891	32,539	32,616	34,111	35,950	37,891	39,800
EQC portfolio	2,871	102	1,431	559	636	615	596
Other Crown entities	11,546	7,852	10,042	8,375	8,205	8,344	8,668
Intra-segment eliminations	(2,464)	(1,777)	(2,315)	(2,283)	(2,276)	(2,270)	(2,272)
Total Crown entities segment	**41,844**	**38,716**	**41,774**	**40,762**	**42,515**	**44,580**	**46,792**
Total state-owned enterprises segment	**21,151**	**23,459**	**23,318**	**24,840**	**26,699**	**28,642**	**30,411**
Inter-segment eliminations	(19,901)	(18,991)	(19,612)	(20,045)	(20,818)	(21,416)	(22,057)
Total financial assets	**123,177**	**117,699**	**123,373**	**127,167**	**139,642**	**142,443**	**146,352**

Notes to the Forecast Financial Statements

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 14: Student loans							
Nominal value (including accrued interest)	14,235	14,790	14,793	15,366	15,912	16,452	16,960
Opening book value	8,288	8,752	8,716	8,990	9,294	9,569	9,821
Amount borrowed in current year	1,512	1,586	1,537	1,600	1,656	1,715	1,758
Less initial write-down to fair value	(630)	(668)	(638)	(643)	(666)	(690)	(707)
Repayments made during the year	(1,032)	(1,158)	(1,131)	(1,180)	(1,261)	(1,335)	(1,430)
Interest unwind	579	601	596	616	634	651	665
Impairment	(12)	(100)	(100)	(100)	(100)	(100)	(100)
Other movements	11	11	10	11	12	11	11
Closing book value	**8,716**	**9,024**	**8,990**	**9,294**	**9,569**	**9,821**	**10,018**
NOTE 15: Property, plant and equipment							
By class of asset							
Net carrying value[1]							
Land	37,138	35,030	37,379	37,217	37,025	37,027	37,033
Buildings	27,396	27,365	28,528	29,936	30,765	30,849	30,923
State highways	19,709	19,797	21,102	22,509	23,871	25,079	26,275
Electricity generation assets	13,941	13,529	13,778	13,607	13,472	13,229	13,056
Electricity distribution network (cost)	3,992	4,261	4,130	4,243	4,352	4,460	4,548
Specialist military equipment	2,891	3,080	3,146	3,302	3,268	3,123	3,003
Specified cultural and heritage assets	2,975	2,679	3,073	3,098	3,119	3,129	3,150
Aircraft (excluding military)	2,287	3,269	2,780	3,211	3,407	3,505	3,377
Rail network	936	1,372	1,089	1,190	1,305	1,345	1,401
Other plant and equipment (cost)	5,041	5,491	5,041	5,010	4,904	4,816	4,722
Total property, plant and equipment	**116,306**	**115,873**	**120,046**	**123,323**	**125,488**	**126,562**	**127,488**
By source							
Core Crown	30,963	31,334	32,242	33,450	34,033	33,931	33,852
Crown entities	56,802	54,618	58,945	60,782	62,317	63,723	65,125
State-owned enterprises	28,541	29,921	28,859	29,091	29,138	28,908	28,511
Inter-segment eliminations	-	-	-	-	-	-	-
Total property, plant and equipment	**116,306**	**115,873**	**120,046**	**123,323**	**125,488**	**126,562**	**127,488**
Land breakdown by usage							
Housing	11,361	9,410	11,371	11,089	10,882	10,670	10,451
State highway corridor land	8,853	8,303	8,853	8,881	8,923	9,073	9,223
Conservation land	5,432	5,385	5,439	5,461	5,471	5,471	5,472
Rail network	3,256	3,234	3,231	3,211	3,201	3,191	3,181
Schools	3,167	2,875	3,175	3,170	3,165	3,160	3,160
Commercial (SOEs) excluding Rail	1,312	1,489	1,327	1,363	1,378	1,420	1,462
Other	3,757	4,334	3,983	4,042	4,005	4,042	4,084
Total land	**37,138**	**35,030**	**37,379**	**37,217**	**37,025**	**37,027**	**37,033**

1. Using a revaluation methodology unless otherwise stated.

Notes to the Forecast Financial Statements

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 15 (continued): Property, plant and equipment							
Schedule of movements							
Cost or valuation							
Opening balance	122,796	129,107	130,342	138,302	145,885	152,416	157,966
Additions (refer below for further breakdown)	6,672	8,678	8,663	8,512	7,403	6,332	6,174
Disposals	(1,432)	(865)	(656)	(868)	(841)	(751)	(756)
Net revaluations	3,038	-	(2)	-	-	-	-
Other[1]	(732)	(37)	(45)	(61)	(31)	(31)	(38)
Total cost or valuation	**130,342**	**136,883**	**138,302**	**145,885**	**152,416**	**157,966**	**163,346**
Accumulated depreciation and impairment							
Opening balance	12,963	16,843	14,036	18,256	22,562	26,928	31,404
Eliminated on disposal	(813)	(52)	(62)	(48)	(47)	(51)	(49)
Eliminated on revaluation	(2,133)	-	-	-	-	-	-
Impairment losses charged to operating balance	346	-	-	-	-	-	-
Depreciation expense	3,805	4,224	4,192	4,332	4,397	4,502	4,493
Other[1]	(132)	(5)	90	22	16	25	10
Total accumulated depreciation and impairment	**14,036**	**21,010**	**18,256**	**22,562**	**26,928**	**31,404**	**35,858**
Total property, plant and equipment	**116,306**	**115,873**	**120,046**	**123,323**	**125,488**	**126,562**	**127,488**
Additions – by functional classification							
Transport	2,363	3,235	3,325	3,271	2,944	2,746	2,484
Economic	1,108	717	759	661	740	684	714
Education	529	895	913	973	885	723	750
Health	443	803	762	720	727	427	403
Defence	386	619	626	601	408	307	339
Other	1,843	2,409	2,278	2,286	1,699	1,445	1,484
Total additions to property, plant and equipment[2]	**6,672**	**8,678**	**8,663**	**8,512**	**7,403**	**6,332**	**6,174**

1. Other mainly includes transfers to/from other asset categories.
2. These additions do not include any purchases which may result from the allocation of the forecast for new capital spending (separately disclosed in the Statement of Financial Position).

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 16: Intangible assets and goodwill							
By type							
Goodwill	628	650	613	613	613	613	613
Other intangible assets	2,292	2,284	2,453	2,480	2,523	2,470	2,417
Total intangible assets and goodwill	**2,920**	**2,934**	**3,066**	**3,093**	**3,136**	**3,083**	**3,030**
By source							
Core Crown	1,184	1,182	1,281	1,310	1,424	1,414	1,402
Crown entities	542	587	612	623	555	517	479
State-owned Enterprises	1,194	1,165	1,173	1,160	1,157	1,152	1,149
Inter-segment eliminations	-	-	-	-	-	-	-
Total intangible assets and goodwill	**2,920**	**2,934**	**3,066**	**3,093**	**3,136**	**3,083**	**3,030**

Notes to the Forecast Financial Statements

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 17: NZS Fund							
Revenue	767	685	730	795	874	958	1,048
Less current tax expense	1,074	585	576	662	715	773	835
Less other expenses	164	157	151	167	191	213	236
Add gains/(losses)	3,735	1,914	2,338	2,128	2,286	2,456	2,641
Operating balance	**3,264**	**1,857**	**2,341**	**2,094**	**2,254**	**2,428**	**2,618**
Opening net worth	22,549	25,157	25,809	28,179	30,301	32,591	35,064
Operating balance	3,264	1,857	2,341	2,094	2,254	2,428	2,618
Other movements in reserves	(4)	19	29	28	36	45	54
Closing net worth	**25,809**	**27,033**	**28,179**	**30,301**	**32,591**	**35,064**	**37,736**
Comprising:							
Financial assets	26,990	27,419	29,167	30,719	32,950	35,365	37,986
Financial liabilities	(2,323)	(1,557)	(2,233)	(1,762)	(1,818)	(1,881)	(1,948)
Net other assets	1,142	1,171	1,245	1,344	1,459	1,580	1,698
Closing net worth	**25,809**	**27,033**	**28,179**	**30,301**	**32,591**	**35,064**	**37,736**
NOTE 18: Payables							
By type							
Accounts payable	7,626	7,439	7,768	7,643	7,885	7,463	7,712
Taxes repayable	3,668	4,435	4,551	4,952	5,513	6,140	6,570
Total payables	**11,294**	**11,874**	**12,319**	**12,595**	**13,398**	**13,603**	**14,282**
By source							
Core Crown	7,800	7,856	8,370	8,595	9,429	9,672	10,382
Crown entities	5,382	5,270	5,449	5,375	5,256	5,107	5,000
State-owned Enterprises	4,832	5,146	5,066	5,149	5,276	5,340	5,379
Inter-segment eliminations	(6,720)	(6,398)	(6,566)	(6,524)	(6,563)	(6,516)	(6,479)
Total payables	**11,294**	**11,874**	**12,319**	**12,595**	**13,398**	**13,603**	**14,282**

Notes to the Forecast Financial Statements

NOTE 19: Insurance liabilities

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
By entity							
ACC	29,948	30,383	32,472	33,915	35,560	37,282	39,016
EQC	4,747	364	2,814	297	188	188	190
Southern Response	1,434	466	817	308	66	-	-
Other (incl. inter-segment eliminations)	(304)	59	70	72	74	76	79
Total insurance liabilities	**35,825**	**31,272**	**36,173**	**34,592**	**35,888**	**37,546**	**39,285**

ACC liability

Calculation information

PwC NZ has prepared an independent actuarial estimate of the ACC outstanding claims liability as at 30 June 2014. This estimate includes the expected future payments relating to accidents that occurred prior to balance date (whether or not the associated claims have been reported to, or accepted by, ACC) and also the expected future administrative expenses of managing these claims. The assumptions underpinning this valuation form the basis of the five-year forecast of the outstanding claims liability.

The key economic variables that impact on changes to the valuation are the long-term Labour Cost Index (LCI), average weekly earnings and the discount rate. Discount rates were derived from the yield curve for New Zealand Government bonds. For these forecast statements, the claims liability has been updated for the latest discount rates as at 30 September 2014. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is 4.80% and allows for a long-term discount rate of 5.5% from 2035.

Other key variables in each valuation are the forecast increases in claim costs over and above the economic variables above, and the assumed rate at which long-term claimants will leave the scheme over the period. This assessment is largely based on scheme history.

Presentation approach

ACC has available to it a portfolio of assets that offset the claims liability. The assets (less cross-holdings of NZ Government stock) are included as assets in the Statement of Financial Position.

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
Gross ACC liability							
Opening gross liability	29,446	29,209	29,948	32,472	33,915	35,560	37,282
Net change	502	1,174	2,524	1,443	1,645	1,722	1,734
Closing gross liability	**29,948**	**30,383**	**32,472**	**33,915**	**35,560**	**37,282**	**39,016**
Less net assets available to ACC							
Opening net asset value	27,193	29,309	29,840	32,536	34,258	36,071	38,014
Net change	2,647	2,042	2,696	1,722	1,813	1,943	1,917
Closing net asset value	**29,840**	**31,351**	**32,536**	**34,258**	**36,071**	**38,014**	**39,931**
Net ACC reserves (net liability)							
Opening reserves position	(2,253)	100	(108)	64	343	511	732
Net change	2,145	868	172	279	168	221	183
Closing reserves position (net liability)/net asset	**(108)**	**968**	**64**	**343**	**511**	**732**	**915**

Notes to the Forecast Financial Statements

NOTE 19 (continued): Insurance liabilities

EQC liability

Calculation information
Melville Jessup Weaver prepared an independent actuarial estimate of the EQC outstanding claims liability at 30 June 2014 by estimating the projected ultimate claims costs then deducting the payments made in relation to those claims on or before that date. Each component of the claims liability was split into separate groups depending upon the Canterbury earthquake event grouping or other "business as usual" claims. These event groups were further split into sub-claim valuation groups being land claims, building claims or contents claims. The assumptions underpinning the 30 June 2014 valuation form the basis of the five-year forecast of the outstanding claims liability.

Critical assumptions used in projecting the ultimate costs include apportionment of costs across earthquake events, the profile of claims settlement, claims inflation rate per annum, risk margins and claims handling costs.

There is a high level of uncertainty associated with the valuation of the outstanding claims liability, reinsurance recoveries and unexpired risk liability. Some of the key uncertainties are: cost apportionment across events; the potential for construction cost to exceed expectations; land damage estimates; reinsurance recoveries and profile of claims settlement.

The actual claims outcome may differ from the one currently forecast.

Presentation approach
EQC reinsurance recoveries are included in receivables in the Statement of Financial Position.

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
EQC liability							
Opening gross liability	6,869	4,308	4,747	2,814	297	188	188
Net change	(2,122)	(3,944)	(1,933)	(2,517)	(109)	-	2
Closing gross liability	**4,747**	**364**	**2,814**	**297**	**188**	**188**	**190**
Less reinsurance receivable							
Opening reinsurance receivable	2,623	1,161	1,225	699	5	1	-
Net change	(1,398)	(1,111)	(526)	(694)	(4)	(1)	-
Closing reinsurance receivable	**1,225**	**50**	**699**	**5**	**1**	**-**	**-**
Net EQC liability							
Opening net position	(4,246)	(3,147)	(3,522)	(2,115)	(292)	(187)	(188)
Net change	724	2,833	1,407	1,823	105	(1)	(2)
Closing net position (net liability)	**(3,522)**	**(314)**	**(2,115)**	**(292)**	**(187)**	**(188)**	**(190)**

Notes to the Forecast Financial Statements

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 20: Retirement plan liabilities							
Government Superannuation Fund	10,886	10,385	10,900	10,563	10,221	9,862	9,484
Other funds	(1)	(5)	(9)	(9)	(9)	(9)	(9)
Total retirement plan liabilities	**10,885**	**10,380**	**10,891**	**10,554**	**10,212**	**9,853**	**9,475**

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 30 September 2014. The liability arises from closed schemes for past and present public sector employees as set out in the Government Superannuation Fund Act 1956. A Projected Unit Credit method was used to calculate the liability as at 30 September 2014, based on membership data as at 30 June 2014 with adjustments for cash flows to 30 September 2014. The funding method requires the benefits payable from GSF in respect of past service to be calculated and then discounted back to the valuation date.

For these Forecast Financial Statements, the net GSF liability was updated for the latest discount rates derived from the market yield curve for New Zealand Government bonds as at 30 September 2014.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index, of 2.1% for the nine years to 30 June 2023, then increasing by 0.04% each year reaching to 2.5% in the year ending 30 June 2033 and remaining at 2.5% pa for all years after that. In addition an annual salary growth rate, before any promotional effects, of 3% (unchanged from 30 June 2014).

The 2014/15 projected increase in the net GSF liability is $14 million, reflecting an increase in the GSF liability of $220 million and an increase in the GSF net assets of $206 million.

The increase in the GSF liability of $220 million includes an actuarial loss between 1 July 2014 and 30 September 2014, of $526 million, owing to movements in the discount rates. The remaining $306 million reduction is owing to lower than expected benefits paid to members (reduces the liability), offset by current service cost and interest unwind (increases the liability).

The increase in the value of the net assets of GSF of $206 million includes a gain of $121 million reflecting the updated market value of assets at 30 September 2014. The balance of $85 million is the total of the expected investment returns and contributions received, offset by the benefits paid to members.

The changes in the projected net GSF liability from 2014/15 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
GSF liability							
Opening GSF liability	15,290	14,360	14,560	14,780	14,503	14,218	13,915
Net projected change	(730)	(299)	220	(277)	(285)	(303)	(325)
Closing GSF liability	**14,560**	**14,061**	**14,780**	**14,503**	**14,218**	**13,915**	**13,590**
Less net assets available to GSF							
Opening net asset value	3,382	3,622	3,674	3,880	3,940	3,997	4,053
Investment valuation changes	395	195	337	228	231	235	238
Contribution and other income less pension payments	(103)	(141)	(131)	(168)	(174)	(179)	(185)
Closing net asset value	**3,674**	**3,676**	**3,880**	**3,940**	**3,997**	**4,053**	**4,106**
Net GSF liability							
Opening unfunded liability	11,908	10,738	10,886	10,900	10,563	10,221	9,862
Net projected change	(1,022)	(353)	14	(337)	(342)	(359)	(378)
Closing unfunded liability	**10,886**	**10,385**	**10,900**	**10,563**	**10,221**	**9,862**	**9,484**

Notes to the Forecast Financial Statements

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 21: Provisions							
Provision for employee entitlements	3,444	3,174	3,200	3,202	3,233	3,248	3,226
Provision for ETS credits	521	362	567	538	512	487	460
Provision for National Provident Fund guarantee	910	942	872	833	794	756	718
Provision for infrastructure costs	394	201	204	-	-	-	-
Provision for weathertight services financial assistance package	112	123	67	36	22	16	10
Other provisions	1,574	1,309	1,525	1,526	1,405	1,435	1,485
Total provisions	**6,955**	**6,111**	**6,435**	**6,135**	**5,966**	**5,942**	**5,899**
By source							
Core Crown	4,208	3,562	4,045	3,569	3,194	3,132	3,053
Crown entities	2,076	2,017	1,996	2,008	2,024	2,038	2,051
State-owned Enterprises	1,177	1,016	996	1,004	1,011	1,049	1,087
Inter-segment eliminations	(506)	(484)	(602)	(446)	(263)	(277)	(292)
Total provisions	**6,955**	**6,111**	**6,435**	**6,135**	**5,966**	**5,942**	**5,899**

Provision for ETS credits

The Emissions Trading Scheme (ETS) was established to assist New Zealand in meeting its international climate change obligations and to reduce New Zealand's net emissions of greenhouse gases to below business-as-usual levels. The ETS creates a limited number of tradable New Zealand Units (NZUs) which the Government can allocate. Emitters can also surrender Kyoto compliant units to meet their obligations.

The allocation of NZUs creates a provision if allocated for free; the provision is reduced, and revenue recognised, as NZUs and Kyoto compliant units are surrendered to the Crown by emitters. The Kyoto compliant units collected through the ETS are recognised as revenue and as part of the net Kyoto Protocol position.

The prices for NZUs and Kyoto compliant units used to calculate the ETS provision are assumed to remain constant over the forecast period and are based on market prices during September 2014.

The ETS impact on the fiscal forecast is as follows:

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
Revenue	13	46	61	105	105	107	111
Expenses	(46)	(51)	(73)	(76)	(79)	(82)	(84)
Kyoto compliant units surrender expense	(24)	(6)	(3)	-	-	-	-
Gains/(losses)	(285)	-	(31)	-	-	-	-
Operating balance	**(342)**	**(11)**	**(46)**	**29**	**26**	**25**	**27**

Notes to the Forecast Financial Statements

	2014 Actual $m	2015 Previous Budget $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	2018 Forecast $m	2019 Forecast $m
NOTE 22: Net worth							
Taxpayers' funds	13,300	16,601	15,271	19,013	24,832	31,259	38,894
Property, plant and equipment revaluation reserve	62,225	56,509	62,153	61,884	61,684	61,479	61,262
Investment revaluation reserve	58	104	77	87	98	110	123
Cash flow hedge reserve	33	(47)	(44)	(27)	(22)	(19)	(23)
Foreign currency translation reserve	(92)	(52)	(81)	(81)	(81)	(81)	(81)
Share based payment reserve	44	-	-	-	-	-	-
Net worth attributable to minority interests	5,211	5,518	5,184	5,210	5,257	5,325	5,382
Total net worth	**80,779**	**78,633**	**82,560**	**86,086**	**91,768**	**98,073**	**105,557**
Taxpayers' funds							
Opening taxpayers' funds	10,862	13,344	13,300	15,271	19,013	24,832	31,259
Operating balance excluding minority interest	2,808	3,102	1,900	3,475	5,618	6,221	7,420
Government share offers in SOEs	(577)	-	-	-	-	-	-
Transfers from/(to) other reserves	229	155	51	269	201	205	217
Other movements	(22)	-	20	(2)	-	1	(2)
Closing taxpayers' funds	**13,300**	**16,601**	**15,271**	**19,013**	**24,832**	**31,259**	**38,894**
Property, plant and equipment revaluation reserve							
Opening revaluation reserve	57,068	56,648	62,225	62,153	61,884	61,684	61,479
Net revaluations	5,386	-	(21)	-	-	-	-
Transfers from/(to) other reserves	(229)	(139)	(51)	(269)	(200)	(205)	(217)
Closing property, plant and equipment revaluation reserve	**62,225**	**56,509**	**62,153**	**61,884**	**61,684**	**61,479**	**61,262**

Notes to the Forecast Financial Statements

	2014	2015	2015	2016	2017	2018	2019
		Previous					
	Actual	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	$m	$m	$m	$m	$m	$m	$m
NOTE 23: Core Crown residual cash							
Core Crown cash flows from operations							
Tax receipts	61,321	66,030	65,447	68,690	72,718	76,524	79,708
Other sovereign receipts	747	771	788	803	765	772	778
Interest, profits and dividends	1,627	1,737	1,678	1,737	2,067	2,286	2,480
Sale of goods and services and other receipts	2,397	2,307	2,232	2,075	2,264	1,857	1,843
Transfer payments and subsidies	(23,447)	(24,021)	(24,015)	(24,509)	(25,241)	(26,172)	(27,082)
Personnel and operating costs	(41,989)	(42,419)	(43,011)	(42,337)	(41,992)	(42,731)	(42,094)
Finance costs	(3,642)	(3,884)	(3,906)	(3,708)	(3,998)	(4,061)	(4,135)
Forecast for future new operating spending	-	(291)	(123)	(1,155)	(2,175)	(4,661)	(6,198)
Top-down expense adjustment	-	875	950	595	460	435	395
Net core Crown operating cash flows	**(2,986)**	**1,105**	**40**	**2,191**	**4,868**	**4,249**	**5,695**
Core Crown capital cash flows							
Net purchase of physical assets	(1,867)	(2,600)	(2,588)	(2,753)	(2,269)	(1,353)	(1,412)
Net increase in advances	(716)	(1,423)	(890)	(1,125)	(578)	(311)	(323)
Net purchase of investments	(865)	(2,060)	(1,661)	(1,670)	(1,539)	(1,283)	(1,364)
Government share offer programme	2,325	628	628	-	-	-	-
Forecast for future new capital spending	-	(326)	(113)	(446)	(732)	(825)	(830)
Top-down capital adjustment	-	370	575	275	125	75	75
Net core Crown capital cash flows	**(1,123)**	**(5,411)**	**(4,049)**	**(5,719)**	**(4,993)**	**(3,697)**	**(3,854)**
Residual cash (deficit)/surplus	**(4,109)**	**(4,306)**	**(4,009)**	**(3,528)**	**(125)**	**552**	**1,841**
The residual cash (deficit)/surplus is funded or invested as follows:							
Debt programme cash flows							
Market:							
Issue of government bonds	7,716	8,046	8,137	7,210	7,151	6,961	6,898
Repayment of government bonds	(2,196)	(8,805)	(8,684)	(1,802)	-	(11,312)	(11,455)
Net issue/(repayment) of short-term borrowing[1]	(935)	720	1,180	(200)	-	-	-
Total market debt cash flows	4,585	(39)	633	5,208	7,151	(4,351)	(4,557)
Non-market:							
Repayment of government bonds	-	(1,427)	(760)	(675)	-	-	-
Net issue/(repayment) of short-term borrowing	-	(500)	(480)	(100)	-	-	-
Total non-market debt cash flows	-	(1,927)	(1,240)	(775)	-	-	-
Total debt programme cash flows	**4,585**	**(1,966)**	**(607)**	**4,433**	**7,151**	**(4,351)**	**(4,557)**
Other borrowing cash flows							
Net (repayment)/issue of other New Zealand dollar borrowing	(674)	1,136	852	704	(41)	740	(41)
Net (repayment)/issue of foreign currency borrowing	1,083	(842)	(1,523)	(685)	(36)	(641)	42
Total other borrowing cash flows	**409**	**294**	**(671)**	**19**	**(77)**	**99**	**1**
Investing cash flows							
Net sale/(purchase) of marketable securities and deposits	(1,510)	5,830	4,731	(1,074)	(7,103)	3,541	2,552
Issues of circulating currency	274	152	130	155	159	164	169
Decrease/(increase) in cash	351	(4)	426	(5)	(5)	(5)	(6)
Total investing cash flows	**(885)**	**5,978**	**5,287**	**(924)**	**(6,949)**	**3,700**	**2,715**
Residual cash deficit/(surplus) funding or investing	**4,109**	**4,306**	**4,009**	**3,528**	**125**	**(552)**	**(1,841)**

1. Short-term borrowing consists of Treasury Bills and may include Euro-Commercial Paper.

Forecast Statement of Segments

	Core Crown	Crown entities	State-owned Enterprises	Inter-segment eliminations	Total Crown
	2014	**2014**	**2014**	**2014**	**2014**
	Actual $m	**Actual $m**	**Actual $m**	**Actual $m**	**Actual $m**
Statement of Financial Performance					
for the year ended 30 June 2014					
Revenue					
Taxation revenue	61,474	-	-	(595)	60,879
Other sovereign revenue	1,201	5,409	-	(1,160)	5,450
Revenue from core Crown funding	-	24,782	187	(24,969)	-
Sales of goods and services	1,488	1,868	13,650	(534)	16,472
Interest revenue and dividends	2,295	1,249	879	(1,248)	3,175
Other revenue	839	2,090	772	(281)	3,420
Total revenue (excluding gains)	**67,297**	**35,398**	**15,488**	**(28,787)**	**89,396**
Expenses					
Social assistance and official development assistance	23,360	-	-	-	23,360
Personnel expenses	6,232	11,315	2,956	(19)	20,484
Other operating expenses	38,255	18,958	10,777	(27,565)	40,425
Interest expenses	3,620	219	1,161	(600)	4,400
Insurance expenses	-	3,464	14	23	3,501
Forecast for future new spending and top-down adjustment	-	-	-	-	-
Total expenses (excluding losses)	**71,467**	**33,956**	**14,908**	**(28,161)**	**92,170**
Minority interest share of operating balance before gains/(losses)	-	18	(173)	(4)	(159)
Operating balance before gains/(losses)	**(4,170)**	**1,460**	**407**	**(630)**	**(2,933)**
Total gains/(losses)	4,265	1,179	5	(68)	5,381
Net surplus/(deficit) from associates and joint ventures	108	235	16	1	360
Operating balance	**203**	**2,874**	**428**	**(697)**	**2,808**
Expenses by functional classification					
Social security and welfare	*23,281*	*4,526*	*-*	*(541)*	*27,266*
Health	*14,898*	*12,640*	*-*	*(13,194)*	*14,344*
Education	*12,300*	*9,622*	*4*	*(8,862)*	*13,064*
Transport and communications	*2,237*	*2,289*	*6,909*	*(2,298)*	*9,137*
Other	*15,131*	*4,660*	*6,834*	*(2,666)*	*23,959*
Finance costs	*3,620*	*219*	*1,161*	*(600)*	*4,400*
Forecast for future new spending and top-down adjustment	*-*	*-*	*-*	*-*	*-*
Total Crown expenses (excluding losses)	***71,467***	***33,956***	***14,908***	***(28,161)***	***92,170***
Statement of Financial Position					
as at 30 June 2014					
Assets					
Cash and cash equivalents	8,227	2,780	1,574	(693)	11,888
Receivables	11,819	6,379	1,762	(2,480)	17,480
Other financial assets	60,037	32,685	17,815	(16,728)	93,809
Property, plant and equipment	30,963	56,802	28,541	-	116,306
Equity accounted investments	32,543	8,627	192	(31,291)	10,071
Intangible assets and goodwill	1,184	542	1,194	-	2,920
Inventory and other assets	1,633	607	1,404	(35)	3,609
Forecast for new capital spending and top-down adjustment	-	-	-	-	-
Total assets	**146,406**	**108,422**	**52,482**	**(51,227)**	**256,083**
Liabilities					
Borrowings	89,090	5,155	26,185	(17,011)	103,419
Other liabilities	28,442	43,836	7,245	(7,638)	71,885
Total liabilities	**117,532**	**48,991**	**33,430**	**(24,649)**	**175,304**
Total assets less total liabilities	**28,874**	**59,431**	**19,052**	**(26,578)**	**80,779**
Net worth					
Taxpayers' funds	11,971	27,744	3,358	(29,773)	13,300
Reserves	16,903	31,627	10,111	3,627	62,268
Net worth attributable to minority interest	-	60	5,583	(432)	5,211
Total net worth	**28,874**	**59,431**	**19,052**	**(26,578)**	**80,779**

Forecast Statement of Segments (continued)

	Core Crown 2015 Forecast $m	Crown entities 2015 Forecast $m	State-owned Enterprises 2015 Forecast $m	Inter-segment eliminations 2015 Forecast $m	Total Crown 2015 Forecast $m
Statement of Financial Performance					
for the year ended 30 June 2015					
Revenue					
Taxation revenue	65,626	-	-	(585)	65,041
Other sovereign revenue	1,250	4,964	-	(1,111)	5,103
Revenue from core Crown funding	-	25,369	142	(25,511)	-
Sales of goods and services	1,400	1,908	13,874	(537)	16,645
Interest revenue and dividends	2,372	1,465	1,072	(1,200)	3,709
Other revenue	818	2,455	953	(424)	3,802
Total revenue (excluding gains)	**71,466**	**36,161**	**16,041**	**(29,368)**	**94,300**
Expenses					
Social assistance and official development assistance	23,890	-	-	-	23,890
Personnel expenses	6,507	11,688	2,874	(11)	21,058
Other operating expenses	39,632	19,793	10,886	(28,258)	42,053
Interest expenses	3,816	224	1,348	(723)	4,665
Insurance expenses	-	3,670	8	-	3,678
Forecast for future new spending and top-down adjustment	(827)	-	-	-	(827)
Total expenses (excluding losses)	**73,018**	**35,375**	**15,116**	**(28,992)**	**94,517**
Minority interest share of operating balance before gains/(losses)	-	25	(416)	36	(355)
Operating balance before gains/(losses)	**(1,552)**	**811**	**509**	**(340)**	**(572)**
Total gains/(losses)	2,695	(339)	34	(234)	2,156
Net surplus/(deficit) from associates and joint ventures	69	243	(30)	34	316
Operating balance	**1,212**	**715**	**513**	**(540)**	**1,900**
Expenses by functional classification					
Social security and welfare	*23,917*	*4,811*	*-*	*(528)*	*28,200*
Health	*15,110*	*12,947*	*-*	*(13,229)*	*14,828*
Education	*12,861*	*9,908*	*1*	*(9,175)*	*13,595*
Transport and communications	*2,297*	*2,550*	*7,090*	*(2,392)*	*9,545*
Other	*15,844*	*4,935*	*6,677*	*(2,945)*	*24,511*
Finance costs	*3,816*	*224*	*1,348*	*(723)*	*4,665*
Forecast for future new spending and top-down adjustment	*(827)*	*-*	*-*	*-*	*(827)*
Total Crown expenses (excluding losses)	***73,018***	***35,375***	***15,116***	***(28,992)***	***94,517***
Statement of Financial Position					
as at 30 June 2015					
Assets					
Cash and cash equivalents	7,525	2,775	1,464	(598)	11,166
Receivables	12,048	5,515	2,056	(2,017)	17,602
Other financial assets	58,320	33,484	19,798	(16,997)	94,605
Property, plant and equipment	32,242	58,945	28,859	-	120,046
Equity accounted investments	34,259	9,014	215	(32,969)	10,519
Intangible assets and goodwill	1,281	612	1,173	-	3,066
Inventory and other assets	1,541	601	1,271	(32)	3,381
Forecast for new capital spending and top-down adjustment	(462)	-	-	-	(462)
Total assets	**146,754**	**110,946**	**54,836**	**(52,613)**	**259,923**
Liabilities					
Borrowings	87,600	5,665	28,380	(17,203)	104,442
Other liabilities	29,017	43,800	7,313	(7,209)	72,921
Total liabilities	**116,617**	**49,465**	**35,693**	**(24,412)**	**177,363**
Total assets less total liabilities	**30,137**	**61,481**	**19,143**	**(28,201)**	**82,560**
Net worth					
Taxpayers' funds	13,227	29,837	3,555	(31,348)	15,271
Reserves	16,910	31,577	10,044	3,574	62,105
Net worth attributable to minority interest	-	67	5,544	(427)	5,184
Total net worth	**30,137**	**61,481**	**19,143**	**(28,201)**	**82,560**

Forecast Statement of Segments (continued)

Statement of Financial Performance
for the year ended 30 June 2016

	Core Crown 2016 Forecast $m	Crown entities 2016 Forecast $m	State-owned Enterprises 2016 Forecast $m	Inter-segment eliminations 2016 Forecast $m	Total Crown 2016 Forecast $m
Revenue					
Taxation revenue	69,178	-	-	(688)	68,490
Other sovereign revenue	1,348	4,829	-	(1,231)	4,946
Revenue from core Crown funding	-	25,478	109	(25,587)	-
Sales of goods and services	1,373	1,966	14,548	(542)	17,345
Interest revenue and dividends	2,687	1,470	1,291	(1,267)	4,181
Other revenue	746	2,656	994	(494)	3,902
Total revenue (excluding gains)	**75,332**	**36,399**	**16,942**	**(29,809)**	**98,864**
Expenses					
Social assistance and official development assistance	24,480	-	-	-	24,480
Personnel expenses	6,560	11,905	2,926	(11)	21,380
Other operating expenses	39,550	19,947	11,298	(28,514)	42,281
Interest expenses	3,903	222	1,543	(680)	4,988
Insurance expenses	2	4,196	9	(1)	4,206
Forecast for future new spending and top-down adjustment	561	-	-	-	561
Total expenses (excluding losses)	**75,056**	**36,270**	**15,776**	**(29,206)**	**97,896**
Minority interest share of operating balance before gains/(losses)	-	24	(463)	36	(403)
Operating balance before gains/(losses)	**276**	**153**	**703**	**(567)**	**565**
Total gains/(losses)	2,493	305	60	(283)	2,575
Net surplus/(deficit) from associates and joint ventures	82	247	(16)	22	335
Operating balance	**2,851**	**705**	**747**	**(828)**	**3,475**
Expenses by functional classification					
Social security and welfare	*24,519*	*5,294*	*-*	*(540)*	*29,273*
Health	*15,145*	*12,872*	*-*	*(13,286)*	*14,731*
Education	*12,968*	*10,065*	*1*	*(9,285)*	*13,749*
Transport and communications	*2,200*	*2,610*	*7,243*	*(2,467)*	*9,586*
Other	*15,760*	*5,207*	*6,989*	*(2,948)*	*25,008*
Finance costs	*3,903*	*222*	*1,543*	*(680)*	*4,988*
Forecast for future new spending and top-down adjustment	*561*	*-*	*-*	*-*	*561*
Total Crown expenses (excluding losses)	***75,056***	***36,270***	***15,776***	***(29,206)***	***97,896***

Statement of Financial Position
as at 30 June 2016

	Core Crown 2016 Forecast $m	Crown entities 2016 Forecast $m	State-owned Enterprises 2016 Forecast $m	Inter-segment eliminations 2016 Forecast $m	Total Crown 2016 Forecast $m
Assets					
Cash and cash equivalents	7,510	2,017	1,351	(540)	10,338
Receivables	12,474	4,744	2,125	(1,856)	17,487
Other financial assets	61,626	34,001	21,364	(17,649)	99,342
Property, plant and equipment	33,450	60,782	29,091	-	123,323
Equity accounted investments	35,731	9,381	221	(34,433)	10,900
Intangible assets and goodwill	1,310	623	1,160	-	3,093
Inventory and other assets	1,575	549	1,292	(31)	3,385
Forecast for new capital spending and top-down adjustment	(291)	-	-	-	(291)
Total assets	**153,385**	**112,097**	**56,604**	**(54,509)**	**267,577**
Liabilities					
Borrowings	91,841	6,384	29,942	(17,825)	110,342
Other liabilities	28,547	42,165	7,452	(7,015)	71,149
Total liabilities	**120,388**	**48,549**	**37,394**	**(24,840)**	**181,491**
Total assets less total liabilities	**32,997**	**63,548**	**19,210**	**(29,669)**	**86,086**
Net worth					
Taxpayers' funds	16,078	32,177	3,582	(32,824)	19,013
Reserves	16,919	31,305	10,056	3,583	61,863
Net worth attributable to minority interest	-	66	5,572	(428)	5,210
Total net worth	**32,997**	**63,548**	**19,210**	**(29,669)**	**86,086**

Forecast Statement of Segments (continued)

	Core Crown 2017 Forecast $m	Crown entities 2017 Forecast $m	State-owned Enterprises 2017 Forecast $m	Inter-segment eliminations 2017 Forecast $m	Total Crown 2017 Forecast $m
Statement of Financial Performance **for the year ended 30 June 2017**					
Revenue					
Taxation revenue	73,072	-	-	(768)	72,304
Other sovereign revenue	1,105	4,898	-	(1,335)	4,668
Revenue from core Crown funding	-	25,614	105	(25,719)	-
Sales of goods and services	1,382	2,035	15,035	(551)	17,901
Interest revenue and dividends	3,184	1,531	1,507	(1,339)	4,883
Other revenue	677	2,693	1,026	(429)	3,967
Total revenue (excluding gains)	**79,420**	**36,771**	**17,673**	**(30,141)**	**103,723**
Expenses					
Social assistance and official development assistance	25,246	-	-	-	25,246
Personnel expenses	6,566	12,035	3,005	(11)	21,595
Other operating expenses	39,155	20,022	11,663	(28,757)	42,083
Interest expenses	4,200	235	1,722	(676)	5,481
Insurance expenses	(2)	4,553	9	3	4,563
Forecast for future new spending and top-down adjustment	1,716	-	-	-	1,716
Total expenses (excluding losses)	**76,881**	**36,845**	**16,399**	**(29,441)**	**100,684**
Minority interest share of operating balance before gains/(losses)	-	29	(504)	38	(437)
Operating balance before gains/(losses)	**2,539**	**(45)**	**770**	**(662)**	**2,602**
Total gains/(losses)	2,564	341	39	(265)	2,679
Net surplus/(deficit) from associates and joint ventures	79	244	(5)	19	337
Operating balance	**5,182**	**540**	**804**	**(908)**	**5,618**
Expenses by functional classification					
Social security and welfare	*25,028*	*5,564*	*-*	*(550)*	*30,042*
Health	*15,200*	*12,920*	*-*	*(13,429)*	*14,691*
Education	*13,035*	*10,116*	*1*	*(9,292)*	*13,860*
Transport and communications	*2,245*	*2,663*	*7,523*	*(2,544)*	*9,887*
Other	*15,457*	*5,347*	*7,153*	*(2,950)*	*25,007*
Finance costs	*4,200*	*235*	*1,722*	*(676)*	*5,481*
Forecast for future new spending and top-down adjustment	*1,716*	*-*	*-*	*-*	*1,716*
Total Crown expenses (excluding losses)	***76,881***	***36,845***	***16,399***	***(29,441)***	***100,684***
Statement of Financial Position **as at 30 June 2017**					
Assets					
Cash and cash equivalents	8,050	2,039	1,395	(464)	11,020
Receivables	12,652	4,621	2,160	(1,747)	17,686
Other financial assets	70,544	35,855	23,144	(18,607)	110,936
Property, plant and equipment	34,033	62,317	29,138	-	125,488
Equity accounted investments	37,074	9,640	226	(35,767)	11,173
Intangible assets and goodwill	1,424	555	1,157	-	3,136
Inventory and other assets	1,617	572	1,265	(31)	3,423
Forecast for new capital spending and top-down adjustment	317	-	-	-	317
Total assets	**165,711**	**115,599**	**58,485**	**(56,616)**	**283,179**
Liabilities					
Borrowings	98,730	6,898	31,561	(18,690)	118,499
Other liabilities	28,793	43,359	7,630	(6,870)	72,912
Total liabilities	**127,523**	**50,257**	**39,191**	**(25,560)**	**191,411**
Total assets less total liabilities	**38,188**	**65,342**	**19,294**	**(31,056)**	**91,768**
Net worth					
Taxpayers' funds	21,259	34,153	3,634	(34,214)	24,832
Reserves	16,929	31,107	10,057	3,586	61,679
Net worth attributable to minority interest	-	82	5,603	(428)	5,257
Total net worth	**38,188**	**65,342**	**19,294**	**(31,056)**	**91,768**

Forecast Statement of Segments (continued)

	Core Crown 2018 Forecast $m	Crown entities 2018 Forecast $m	State-owned Enterprises 2018 Forecast $m	Inter-segment eliminations 2018 Forecast $m	Total Crown 2018 Forecast $m
Statement of Financial Performance					
for the year ended 30 June 2018					
Revenue					
Taxation revenue	76,825	-	-	(836)	75,989
Other sovereign revenue	1,154	5,082	-	(1,439)	4,797
Revenue from core Crown funding	-	25,681	103	(25,784)	-
Sales of goods and services	1,408	2,121	15,597	(558)	18,568
Interest revenue and dividends	3,517	1,609	1,638	(1,402)	5,362
Other revenue	605	2,725	1,074	(386)	4,018
Total revenue (excluding gains)	**83,509**	**37,218**	**18,412**	**(30,405)**	**108,734**
Expenses					
Social assistance and official development assistance	26,201	-	-	-	26,201
Personnel expenses	6,602	12,174	3,081	(11)	21,846
Other operating expenses	39,361	19,914	12,157	(28,960)	42,472
Interest expenses	4,273	237	1,810	(711)	5,609
Insurance expenses	-	4,813	9	-	4,822
Forecast for future new spending and top-down adjustment	4,226	-	-	-	4,226
Total expenses (excluding losses)	**80,663**	**37,138**	**17,057**	**(29,682)**	**105,176**
Minority interest share of operating balance before gains/(losses)	-	19	(543)	40	(484)
Operating balance before gains/(losses)	**2,846**	**99**	**812**	**(683)**	**3,074**
Total gains/(losses)	2,688	376	25	(280)	2,809
Net surplus/(deficit) from associates and joint ventures	80	246	(4)	16	338
Operating balance	**5,614**	**721**	**833**	**(947)**	**6,221**
Expenses by functional classification					
Social security and welfare	*25,957*	*5,796*	*-*	*(563)*	*31,190*
Health	*15,248*	*12,887*	*-*	*(13,486)*	*14,649*
Education	*13,116*	*10,133*	*1*	*(9,306)*	*13,944*
Transport and communications	*2,316*	*2,645*	*7,842*	*(2,655)*	*10,148*
Other	*15,527*	*5,440*	*7,404*	*(2,961)*	*25,410*
Finance costs	*4,273*	*237*	*1,810*	*(711)*	*5,609*
Forecast for future new spending and top-down adjustment	*4,226*	*-*	*-*	*-*	*4,226*
Total Crown expenses (excluding losses)	***80,663***	***37,138***	***17,057***	***(29,682)***	***105,176***
Statement of Financial Position					
as at 30 June 2018					
Assets					
Cash and cash equivalents	8,634	1,987	1,698	(464)	11,855
Receivables	13,172	4,623	2,257	(1,761)	18,291
Other financial assets	68,831	37,970	24,687	(19,191)	112,297
Property, plant and equipment	33,931	63,723	28,908	-	126,562
Equity accounted investments	38,363	9,894	231	(37,046)	11,442
Intangible assets and goodwill	1,414	517	1,152	-	3,083
Inventory and other assets	1,584	591	1,226	(31)	3,370
Forecast for new capital spending and top-down adjustment	1,067	-	-	-	1,067
Total assets	**166,996**	**119,305**	**60,159**	**(58,493)**	**287,967**
Liabilities					
Borrowings	94,429	7,159	32,973	(19,255)	115,306
Other liabilities	28,752	44,886	7,788	(6,838)	74,588
Total liabilities	**123,181**	**52,045**	**40,761**	**(26,093)**	**189,894**
Total assets less total liabilities	**43,815**	**67,260**	**19,398**	**(32,400)**	**98,073**
Net worth					
Taxpayers' funds	26,873	36,251	3,692	(35,557)	31,259
Reserves	16,942	30,901	10,060	3,586	61,489
Net worth attributable to minority interest	-	108	5,646	(429)	5,325
Total net worth	**43,815**	**67,260**	**19,398**	**(32,400)**	**98,073**

Forecast Statement of Segments (continued)

	Core Crown 2019 Forecast $m	Crown entities 2019 Forecast $m	State-owned Enterprises 2019 Forecast $m	Inter-segment eliminations 2019 Forecast $m	Total Crown 2019 Forecast $m
Statement of Financial Performance **for the year ended 30 June 2019**					
Revenue					
Taxation revenue	79,981	-	-	(879)	79,102
Other sovereign revenue	1,186	5,252	-	(1,533)	4,905
Revenue from core Crown funding	-	25,655	103	(25,758)	-
Sales of goods and services	1,434	2,188	15,845	(564)	18,903
Interest revenue and dividends	3,815	1,692	1,725	(1,489)	5,743
Other revenue	583	2,790	1,093	(370)	4,096
Total revenue (excluding gains)	**86,999**	**37,577**	**18,766**	**(30,593)**	**112,749**
Expenses					
Social assistance and official development assistance	27,102	-	-	-	27,102
Personnel expenses	6,579	12,295	3,143	(12)	22,005
Other operating expenses	39,359	19,871	12,315	(29,055)	42,490
Interest expenses	4,309	243	1,788	(741)	5,599
Insurance expenses	1	5,118	9	-	5,128
Forecast for future new spending and top-down adjustment	5,803	-	-	-	5,803
Total expenses (excluding losses)	**83,153**	**37,527**	**17,255**	**(29,808)**	**108,127**
Minority interest share of operating balance before gains/(losses)	-	22	(585)	42	(521)
Operating balance before gains/(losses)	**3,846**	**72**	**926**	**(743)**	**4,101**
Total gains/(losses)	2,848	412	(2)	(277)	2,981
Net surplus/(deficit) from associates and joint ventures	81	247	9	1	338
Operating balance	**6,775**	**731**	**933**	**(1,019)**	**7,420**
Expenses by functional classification					
Social security and welfare	*26,842*	*6,111*	*-*	*(574)*	*32,379*
Health	*15,333*	*12,897*	*-*	*(13,568)*	*14,662*
Education	*13,134*	*10,127*	*1*	*(9,284)*	*13,978*
Transport and communications	*2,306*	*2,645*	*8,004*	*(2,664)*	*10,291*
Other	*15,426*	*5,504*	*7,462*	*(2,977)*	*25,415*
Finance costs	*4,309*	*243*	*1,788*	*(741)*	*5,599*
Forecast for future new spending and top-down adjustment	*5,803*	*-*	*-*	*-*	*5,803*
Total Crown expenses (excluding losses)	***83,153***	***37,527***	***17,255***	***(29,808)***	***108,127***
Statement of Financial Position **as at 30 June 2019**					
Assets					
Cash and cash equivalents	9,272	1,901	1,914	(460)	12,627
Receivables	13,601	4,670	2,275	(1,800)	18,746
Other financial assets	68,333	40,221	26,222	(19,797)	114,979
Property, plant and equipment	33,852	65,125	28,511	-	127,488
Equity accounted investments	39,735	10,142	237	(38,411)	11,703
Intangible assets and goodwill	1,402	479	1,149	-	3,030
Inventory and other assets	1,636	606	1,179	(31)	3,390
Forecast for new capital spending and top-down adjustment	1,822	-	-	-	1,822
Total assets	**169,653**	**123,144**	**61,487**	**(60,499)**	**293,785**
Liabilities					
Borrowings	89,904	7,335	34,061	(19,837)	111,463
Other liabilities	29,147	46,535	7,897	(6,814)	76,765
Total liabilities	**119,051**	**53,870**	**41,958**	**(26,651)**	**188,228**
Total assets less total liabilities	**50,602**	**69,274**	**19,529**	**(33,848)**	**105,557**
Net worth					
Taxpayers' funds	33,648	38,449	3,797	(37,000)	38,894
Reserves	16,954	30,686	10,059	3,582	61,281
Net worth attributable to minority interest	-	139	5,673	(430)	5,382
Total net worth	**50,602**	**69,274**	**19,529**	**(33,848)**	**105,557**

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Core Crown Expense Tables

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Social security and welfare	21,185	22,005	22,028	22,741	23,281	23,917	24,519	25,028	25,957	26,842
GSF pension expenses	328	305	192	278	282	360	394	401	394	385
Health	13,128	13,753	14,160	14,498	14,898	15,110	15,145	15,200	15,248	15,333
Education	11,724	11,650	11,654	12,504	12,300	12,861	12,968	13,035	13,116	13,134
Core government services	2,974	5,563	5,428	4,294	4,502	4,839	4,583	4,489	4,582	4,506
Law and order	3,191	3,382	3,403	3,456	3,501	3,595	3,553	3,501	3,497	3,493
Defence	1,814	1,809	1,736	1,804	1,811	1,977	2,049	2,026	2,003	2,003
Transport and communications	2,345	2,281	2,232	2,255	2,237	2,297	2,200	2,245	2,316	2,306
Economic and industrial services	2,806	2,542	2,073	1,978	2,058	2,239	2,328	2,314	2,359	2,348
Primary services	507	706	648	659	676	754	671	620	610	615
Heritage, culture and recreation	630	741	863	804	842	781	797	755	742	735
Housing and community development	339	943	(46)	283	347	372	309	236	223	223
Environmental protection	651	1,225	769	530	533	659	542	517	520	521
Other	80	479	425	603	579	268	534	598	597	597
Finance costs	2,311	3,066	3,511	3,619	3,620	3,816	3,903	4,200	4,273	4,309
Forecast for future new spending[1]	..	..	..	..	..	123	1,156	2,176	4,661	6,198
Top-down expense adjustment	..	..	..	..	..	(950)	(595)	(460)	(435)	(395)
Core Crown expenses	**64,013**	**70,450**	**69,076**	**70,306**	**71,467**	**73,018**	**75,056**	**76,881**	**80,663**	**83,153**

1. The classifications of the functions of the Government reflect current approved baselines. Forecast new operating spending is shown as a separate line item in the above analysis and will be allocated to functions of the Government once decisions are made in future Budgets.

Source: The Treasury

Table 6.1 – Social security and welfare expenses

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Welfare benefits (see below)	18,961	19,781	20,375	20,789	21,119	21,729	22,359	23,069	23,956	24,813
Social rehabilitation and compensation	331	119	81	107	173	142	151	157	163	176
Departmental expenses	1,130	1,127	1,122	1,168	1,204	1,324	1,263	1,260	1,257	1,257
Child support impairment	371	281	72	282	255	288	328	130	172	188
Other non-departmental expenses[1]	392	697	378	395	530	434	418	412	409	408
Social security and welfare expenses	**21,185**	**22,005**	**22,028**	**22,741**	**23,281**	**23,917**	**24,519**	**25,028**	**25,957**	**26,842**

1. Other non-departmental expenses and other expenses include costs associated with the Canterbury earthquakes.

Source: The Treasury

Table 6.2 – Welfare benefit expenses

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
New Zealand Superannuation	8,290	8,830	9,584	10,235	10,913	11,577	12,159	12,790	13,498	14,300
Jobseeker Support and Emergency Benefit	..	..	..	..	1,691	1,679	1,590	1,522	1,512	1,541
Supported living payment	..	..	..	..	1,422	1,513	1,534	1,552	1,572	1,588
Sole parent support	..	..	..	..	1,222	1,187	1,175	1,162	1,155	1,157
Domestic Purposes Benefit	1,693	1,757	1,811	1,738	63	..	..	..	..	..
Invalid's Benefit	1,303	1,306	1,325	1,330	52	..	..	..	..	..
Sickness Benefit	710	743	775	782	29	..	..	..	..	..
Unemployment Benefit	930	943	883	812	29	..	..	..	..	..
Family Tax Credit	2,159	2,130	2,071	2,018	1,965	1,890	1,869	1,917	2,050	1,978
Other working for families tax credits	629	616	599	575	567	557	558	556	551	549
Accommodation Assistance	1,154	1,197	1,195	1,177	1,146	1,132	1,131	1,127	1,138	1,158
Income-Related Rents	522	553	580	611	660	718	775	825	879	935
Disability Assistance	411	409	401	384	379	379	383	384	385	387
Benefits paid in Australia	45	40	37	22	19	15	11	32	..	..
Paid Parental Leave	154	154	158	165	97	183	228	250	261	270
Childcare Assistance	178	188	188	186	186	186	187	190	193	196
Veterans Support Entitlement[2]	137	135	128	123	119	118	116	114	109	105
Veteran's Pension	179	178	177	171	165	175	217	224	223	216
Other benefits	467	602	463	460	395	420	426	424	430	433
Benefit expenses	**18,961**	**19,781**	**20,375**	**20,789**	**21,119**	**21,729**	**22,359**	**23,069**	**23,956**	**24,813**

Source: The Treasury

Beneficiary numbers (Thousands)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
New Zealand Superannuation	540	561	585	612	640	665	688	711	735	758
Jobseeker Support and Emergency Benefit[1]	..	..	..	..	138	132	123	116	112	112
Supported living payment[1]	..	..	..	..	96	98	98	98	98	97
Sole parent support[1]	..	..	..	..	78	72	70	68	66	65
Domestic Purposes Benefit[1]	110	114	114	109	..	..	..	..	..	..
Invalid's Benefit[1]	88	88	87	87	..	..	..	..	..	..
Sickness Benefit[1]	58	60	60	60	..	..	..	..	..	..
Unemployment Benefit[1]	78	80	73	67	..	..	..	..	..	..
Accommodation Assistance	312	320	311	305	297	292	287	284	284	286

1. From July 2013, changes to the benefit system and existing benefit categories took place. Three new categories of benefit; Supported living payment, Sole parent support and Jobseeker support; have replaced the following existing categories: Domestic Purposes Benefit, Invalid's Benefit, Unemployment Benefit, Sickness Benefit and Widow's Benefit. Owing to the changes, there is no historical data for the new benefit categories and no forecast data for the previous categories beyond July 2013.
2. From 2015, War Disablement Pensions have been renamed to Veterans Support Entitlements.

Source: Ministry of Social Development

Table 6.3 – Health expenses

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Departmental outputs	211	199	186	171	183	193	192	191	190	189
Health services purchasing (see below)	12,077	12,530	13,018	13,348	13,648	14,033	13,991	13,960	13,922	13,899
Other non-departmental outputs	106	120	119	234	330	254	239	245	260	297
Health payments to ACC	691	849	744	715	694	592	694	775	849	919
Other expenses	43	55	93	30	43	38	29	29	27	29
Health expenses	**13,128**	**13,753**	**14,160**	**14,498**	**14,898**	**15,110**	**15,145**	**15,200**	**15,248**	**15,333**

Source: The Treasury

Table 6.4 – Health services purchasing

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Payments to District Health Boards	10,670	11,133	11,542	11,946	12,165	12,493	12,486	12,487	12,460	12,437
National disability support services	930	971	1,029	1,028	1,087	1,107	1,111	1,108	1,102	1,102
Public health services purchasing	477	426	447	374	396	433	394	365	360	360
Health services purchasing	**12,077**	**12,530**	**13,018**	**13,348**	**13,648**	**14,033**	**13,991**	**13,960**	**13,922**	**13,899**

Source: The Treasury

Table 6.5 – Education expenses

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
($millions)	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Early childhood education	1,184	1,340	1,355	1,436	1,545	1,622	1,670	1,695	1,719	1,753
Primary and secondary schools (see below)	5,157	5,354	5,443	5,590	5,550	5,830	5,945	5,939	5,948	5,913
Tertiary funding (see below)	4,465	3,991	3,795	4,370	4,027	4,236	4,229	4,280	4,318	4,337
Departmental expenses	898	923	988	1,039	1,107	1,102	1,057	1,060	1,065	1,064
Other education expenses	20	42	73	69	71	71	67	61	66	67
Education expenses	**11,724**	**11,650**	**11,654**	**12,504**	**12,300**	**12,861**	**12,968**	**13,035**	**13,116**	**13,134**

Source: The Treasury

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of places provided[1]	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Early childhood education	152,877	159,997	166,434	174,782	183,843	190,012	193,974	195,879	199,226	204,664

1. Full-time equivalent based on 1,000 funded child hours per calendar year. Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers.

Source: Ministry of Education

Table 6.6 – Primary and secondary schools

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
($millions)	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Primary	2,622	2,731	2,771	2,845	2,812	2,963	3,035	3,038	3,044	3,031
Secondary	1,972	2,051	2,085	2,148	2,146	2,242	2,272	2,263	2,261	2,243
School transport	160	163	172	175	177	183	189	195	202	202
Special needs support	297	310	323	332	322	335	343	343	344	339
Professional development	95	90	85	84	87	101	100	94	91	92
Schooling improvement	11	9	7	6	6	6	6	6	6	6
Primary and secondary education expenses	**5,157**	**5,354**	**5,443**	**5,590**	**5,550**	**5,830**	**5,945**	**5,939**	**5,948**	**5,913**

Source: The Treasury

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of places provided[1]	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Primary	489,904	489,275	489,799	493,025	497,765	505,162	510,705	513,881	516,227	516,286
Secondary	275,343	274,518	271,078	267,627	266,734	269,874	267,814	267,892	266,563	267,115

1. These are snapshots based as at 1 July for primary year levels (years 1 to 8) and 1 March for secondary year levels (years 9 to 13). These numbers exclude special school rolls, health camps, hospital schools and home schooling (prior published tables included special school rolls).
   These estimates include a new entrant adjustment to make provision for the number of new entrants likely to be enrolled between 1 March and 10 October. Actual numbers have been restated to include this adjustment.

Source: Ministry of Education

Table 6.7 – Tertiary funding

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
($millions)	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Tuition	2,398	2,354	2,306	2,322	2,383	2,475	2,461	2,466	2,466	2,465
Other tertiary funding	489	429	430	432	463	500	492	498	498	498
Student allowances	570	620	644	596	539	523	533	550	564	567
Student loans	1,008	588	415	1,020	642	738	743	766	790	807
Tertiary education expenses	**4,465**	**3,991**	**3,795**	**4,370**	**4,027**	**4,236**	**4,229**	**4,280**	**4,318**	**4,337**

Source: The Treasury

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of places provided[1]	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Actual delivered and estimated funded places	250,440	240,529	245,784	240,472	237,898	237,943	237,583	238,598	238,343	238,480

1. Tertiary places are the number of equivalent full time (EFT) students in: student achievement component; adult and community education; and youth guarantee programmes. Note that historical place numbers have been revised so may differ from previous published Economic and Fiscal Update numbers. Place numbers are based on calendar years rather than fiscal years.

Source: Ministry of Education

Table 6.8 – Core government service expenses

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Official development assistance	435	495	510	437	533	531	542	573	586	586
Indemnity and guarantee expenses	7	319	59	27	29	38	36	36	36	36
Departmental expenses	1,324	1,492	1,518	1,576	1,635	1,770	1,661	1,611	1,627	1,598
Non-departmental expenses[1]	236	471	524	330	689	588	557	613	646	759
Tax receivable write-down and impairments	590	1,010	1,003	925	1,069	1,173	1,220	1,220	1,267	1,263
Science expenses	191	174	116	115	118	124	124	114	115	115
Other expenses[1]	191	1,602	1,698	884	429	615	443	322	305	149
Core government service expenses	**2,974**	**5,563**	**5,428**	**4,294**	**4,502**	**4,839**	**4,583**	**4,489**	**4,582**	**4,506**

1. Non-departmental expenses and other expenses include costs associated with the Canterbury earthquakes.

Source: The Treasury

Table 6.9 – Law and order expenses

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Police	1,349	1,393	1,394	1,408	1,416	1,448	1,405	1,399	1,398	1,397
Ministry of Justice	372	397	440	466	471	470	464	440	434	434
Department of Corrections	903	956	988	972	1,001	1,013	1,041	1,022	1,021	1,021
NZ Customs Service[1]	13	120	126	140	150	158	153	154	154	153
Other departments	102	237	103	98	86	90	89	90	90	93
Department expenses	**2,739**	**3,103**	**3,051**	**3,084**	**3,124**	**3,179**	**3,152**	**3,105**	**3,097**	**3,098**
Non-departmental outputs	399	261	315	317	327	333	316	313	317	312
Other expenses	53	18	37	55	50	83	85	83	83	83
Law and order expenses	**3,191**	**3,382**	**3,403**	**3,456**	**3,501**	**3,595**	**3,553**	**3,501**	**3,497**	**3,493**

1. Prior to 2010/11 the majority of NZ Customs Service expenses were classified as core government services.

Source: The Treasury

Table 6.10 – Defence expenses

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
NZDF core expenses	1,747	1,736	1,678	1,747	1,768	1,901	1,987	1,969	1,946	1,946
Other expenses	67	73	58	57	43	76	62	57	57	57
Defence expenses	**1,814**	**1,809**	**1,736**	**1,804**	**1,811**	**1,977**	**2,049**	**2,026**	**2,003**	**2,003**

Source: The Treasury

Table 6.11 – Transport and communication expenses

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
New Zealand Transport Agency	1,778	1,696	1,744	1,819	1,880	1,961	2,028	2,095	2,166	2,171
Departmental outputs	63	65	60	40	45	45	46	45	45	45
Other non-departmental expenses	58	105	62	213	227	144	80	62	63	62
Rail funding	418	386	305	153	56	93	3	3	3	3
Other expenses	28	29	61	30	29	54	43	40	39	25
Transport and communication expenses	**2,345**	**2,281**	**2,232**	**2,255**	**2,237**	**2,297**	**2,200**	**2,245**	**2,316**	**2,306**

Source: The Treasury

Table 6.12 – Economic and industrial services expenses

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Departmental outputs	382	420	346	350	372	386	367	356	357	356
Employment initiatives[1]	220	214	206	192	141	79	79	79	80	80
Non-departmental outputs	894	689	614	618	660	774	845	850	830	833
Reserve electricity generation	23	9	5	..	..	..	..	..	..	..
KiwiSaver (includes housing deposit subsidy)	1,024	1,045	698	740	828	891	902	937	993	1,036
Other expenses	263	165	204	78	57	109	135	92	99	43
Economic and industrial services expenses	**2,806**	**2,542**	**2,073**	**1,978**	**2,058**	**2,239**	**2,328**	**2,314**	**2,359**	**2,348**

1. From 2015 some of the employment initiatives spending has been classified as other non-departmental expenses in social security and welfare.

Source: The Treasury

Table 6.13 – Primary service expenses

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Departmental expenses	352	354	348	347	365	376	380	373	370	370
Non-departmental outputs	123	142	134	137	135	105	36	43	63	68
Biological research[1]	..	167	102	105	92	96	92	89	84	84
Other expenses	32	43	64	70	84	177	163	115	93	93
Primary service expenses	**507**	**706**	**648**	**659**	**676**	**754**	**671**	**620**	**610**	**615**

1. Prior to 2011, biological research was classified as an economic and industrial services expense.

Source: The Treasury

Table 6.14 – Heritage, culture and recreation expenses

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Departmental outputs	115	133	172	270	286	280	256	254	252	253
Non-departmental outputs	405	455	444	442	471	462	452	451	451	452
Other expenses	110	153	247	92	85	39	89	50	39	30
Heritage, culture and recreation expenses	**630**	**741**	**863**	**804**	**842**	**781**	**797**	**755**	**742**	**735**

Source: The Treasury

Table 6.15 – Housing and community development expenses

($millions)	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Financial assistance package[1]	..	567	(407)	(60)	..	..	..	..	..	..
Housing subsidies	30	31	22	5	5	6	6	6	6	6
Departmental outputs	140	136	98	89	100	122	116	109	105	105
Other non-departmental expenses	122	105	113	117	138	155	117	99	91	91
Warm up New Zealand	33	67	84	76	49	33	27	..	..	..
Other expenses	14	37	44	56	55	56	43	22	21	21
Housing and community development expenses	**339**	**943**	**(46)**	**283**	**347**	**372**	**309**	**236**	**223**	**223**

1. Financial assistance package for 2012 and 2013 actual includes the impact of a revised estimate of the weathertight homes financial assistance package provision.

Source: The Treasury

Table 6.16 – Environmental protection expenses

($millions)	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2014 Actual**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**	**2019 Forecast**
Emissions Trading Scheme	80	838	334	55	46	73	76	79	82	84
Departmental outputs	300	301	342	335	362	363	354	348	350	351
Non-departmental outputs	231	26	46	88	48	42	51	32	31	29
Other expenses	40	60	47	52	77	181	61	58	57	57
Environmental protection expenses	**651**	**1,225**	**769**	**530**	**533**	**659**	**542**	**517**	**520**	**521**

Source: The Treasury

Glossary of Terms

Accruals basis of accounting

An accounting basis where revenue is recognised when earned and expenses when the obligations they relate to are incurred. This contrasts to cash accounting, where income is recognised when the cash is received and expenses when cash to settle an obligation is paid out.

Appropriations

Appropriations are legal authorities granted by Parliament to the Crown or an Office of Parliament to use public resources. Most appropriations are set out in Appropriation Acts.

Baselines

The level of funding approved for any given area of spending (eg, Vote Education).

Commercial portfolio

Consists of assets and liabilities held by companies with commercial objectives.

Consumers Price Index (CPI)

Statistics New Zealand's official index to measure the rate of change in prices of goods and services purchased by households.

Contingent assets

Income that the Crown will realise if a particular uncertain event occurs, or a present asset is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent assets). Contingent assets typically comprise loans with specific events that trigger repayment and IRD pending assessments (where there is a proposed adjustment to a tax assessment).

Contingent liabilities

Costs that the Crown will have to face if a particular uncertain event occurs, or present liabilities that are unable to be measured with sufficient reliability to be recorded in the financial statements (unquantified contingent liabilities). Contingent liabilities typically comprise guarantees and indemnities, legal disputes and claims, and uncalled capital.

Core Crown

A reporting segment consisting of the Crown, departments, Offices of Parliament, the NZS Fund and the Reserve Bank. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 91 to 93).

Core Crown expenses

The day-to-day spending (eg, public servants' salaries, welfare benefit payments, finance costs and maintaining national defence etc) that does not build physical assets for the core Crown. This is an accrual measure of expenses and includes items such as depreciation on physical assets.

Core Crown revenue

Consists primarily of tax revenue collected by the Government but also includes investment income, sales of goods and services and other revenue of the core Crown.

Corporate tax

The sum of net company tax, non-resident withholding tax (NRWT) and foreign-source dividend withholding payments (FDWP).

Current account (Balance of Payments)

The current account records the value of New Zealand's transactions with the rest of the world in goods, services, income and transfers. The current account balance is the sum of all current account credits less all current account debits. When the sum of debits is greater than the sum of credits there is a current account deficit. The current account balance is commonly expressed as a percentage of nominal GDP.

Cyclically-adjusted balance (CAB) or structural balance

An estimate of the fiscal balance (operating balance before gains and losses) adjusted for fluctuations of actual GDP around trend GDP. CAB provides a picture of the underlying fiscal position and the effects of policy decisions.

Demographic changes

Changes to the structure of the population such as the age, gender or ethnic make up.

Domestic bond programme

The amount and timing of government bonds expected to be issued or redeemed.

Excise duties

A tax levied on the domestic production of alcohol, tobacco and light petroleum products (CNG, LPG and petrol).

Financial assets

Any asset that is cash, an equity instrument of another entity (shares), a contractual right to receive cash or shares (taxes receivable and ACC levies) or a right to exchange a financial asset or liability on favourable terms (derivatives in gain).

Financial liabilities

Any liability that is a contractual obligation to pay cash (government stock, accounts payable) or a right to exchange a financial asset or liability on unfavourable terms (derivatives in loss).

Financial portfolio

Consists of the assets and liabilities held by the Crown to finance or pre-fund government expenditure.

Fiscal drag

The additional tax revenue generated from source deductions as an individual's average tax rate increases as their income increases.

Fiscal impulse

A summary measure of how changes in the fiscal position affect aggregate demand. To isolate discretionary changes, fiscal impulse is calculated on a cyclically-adjusted basis and excludes net interest payments. To better capture the role of capital spending, the indicator is derived from cash flow information.

Fiscal intentions (short-term)

Indications of the Government's intentions for operating expenses, operating revenues and the impact of its intentions on the operating balance, debt and net worth over (at least) the next three years. These intentions are required under the Public Finance Act 1989 (PFA).

Fiscal objectives (long-term)

The Government's long-term goals for operating expenses, operating revenue, the operating balance, debt and net worth, as required by the PFA. The objectives must be consistent with the defined principles of responsible fiscal management as outlined in the PFA and must cover a period of (at least) 10 years.

Forecast new capital spending (Capital allowance)

An amount provided in the forecasts to represent the balance sheet impact of capital initiatives expected to be introduced over the forecast period.

Forecast new operating spending (Operating allowance)

An amount included in the forecasts to provide for the operating balance (revenue and expenditure) impact of policy initiatives, changes to demographics and other forecasting changes expected to occur over the forecast period.

Gains and losses

Gains and losses typically arise from the revaluation of assets and liabilities, such as investments in financial assets and long-term liabilities for ACC and GSF. These valuation changes are reported directly as a movement in net worth (eg, asset revaluation reserves) or indirectly through the Statement of Financial Performance.

GDP deflator

An index of changes in the general price level in the economy. It is calculated as the ratio of nominal GDP to real GDP.

Generally accepted accounting practice (GAAP)

GAAP refers to the rules and concepts used to prepare and present financial statements. GAAP is an independent set of rules and frameworks that govern the recognition, measurement and disclosure of financial elements, such as assets, liabilities, revenues and expenses.

Government Finance Statistics (GFS)

A statistical framework for government reporting developed by IMF to aid comparability of results between countries. This differs from the GAAP framework that is used for reporting by the Government in New Zealand.

Gross sovereign-issued debt (GSID)

Represents debt issued by the sovereign (the core Crown) and includes government stock held by the NZS Fund, ACC and EQC.

Gross debt

GSID excluding settlement cash and bank bills.

Gross domestic product (GDP)

A measure of the value-added of all goods and services produced in New Zealand. Changes in GDP measure growth or contraction in economic activity or output. GDP can be measured on either an expenditure or production basis and in either real or nominal terms. (See following definitions.)

Gross domestic product (expenditure)

The sum of total expenditure on final goods and services in the economy, including exports but minus imports. Expenditure GDP is calculated in both real and nominal terms.

Gross domestic product (nominal)

The value-added of goods and services produced in the economy expressed in current prices.

Gross domestic product (production)

The value-added of goods and services produced in New Zealand, after deducting the cost of goods and services used in the production process. Production GDP is calculated only in real terms.

Gross domestic product (real)

The value-added of goods and services produced in the economy expressed in the prices of a base period. From 18 December 2014 the base period is 2009/10.

Gross national expenditure (GNE)

A measure of total expenditure on final goods and services by New Zealand residents.

Insurance liabilities

The gross obligation for the future cost of claims incurred prior to balance date represented in today's dollars (present value). The net liability is the gross liability less the asset reserves held to meet those claims.

Inter-segment eliminations

The amounts of transactions between different segments (core Crown, Crown entities and SOEs) that are eliminated to determine total Crown results.

Labour force participation rate

Measures the percentage of the working-age population in work or actively looking for and available for work.

Labour productivity

Measures output per unit of labour input (where labour inputs might be measured as hours worked or the number of people employed).

Line-by-line consolidation

A term used to refer to the general approach to the presentation of the Crown financial statements. It means that the individual line items for revenues, expenses, assets and liabilities in the financial statements of Government include all departments, Offices of Parliament, the Reserve Bank, SOEs, Crown entities and other entities controlled by the Government.

Loan-to-value ratio (LVR)

A measure of how much a bank lends against residential property, compared to the value of that property. The Reserve Bank currently requires banks to restrict new residential mortgage lending at LVRs of over 80% (deposit of less than 20%) to no more than 10% of the dollar value of their new residential mortgage lending.

Marketable securities

Assets held with financial institutions. These assets are held for both cash flow and investment purposes. Examples are bonds, commercial papers and debentures.

Minority interest

Minority interest refers to shareholders outside the Crown of Government reporting entities. Current examples include those who hold shares in the mixed ownership companies.

Monetary conditions

Aggregate monetary conditions measure the degree to which short-term interest rates and the exchange rate either support or restrict economic growth.

Monetary policy

The policies that the Reserve Bank uses to regulate the supply of money in New Zealand. The Reserve Bank implements its monetary policy decisions by adjusting its Official Cash Rate (OCR) in an effort to maintain stability in the rate of CPI inflation within a defined target range.

Tightening monetary policy means raising the OCR in order to moderate aggregate demand pressures and reduce inflationary pressures. Easing monetary policy has the reverse effect.

National saving

National disposable income less private and public consumption spending. Income excludes gains and losses on capital. Gross saving includes depreciation.

Net core Crown cash flow from operations

The cash impact of operating results. It is represented by the operating balance (before gains and losses) less retained items (eg, net surplus of SOEs, Crown entities and NZS Fund net revenue) less non-cash items (eg, depreciation).

Net core Crown debt

Net core Crown debt provides information about the sustainability of the Government's accounts, and is used by some international rating agencies when determining the creditworthiness of a country. It represents gross debt less core Crown financial assets (excluding advances and financial assets held by the NZS Fund). Advances and financial assets held by the NZS Fund are excluded as these assets are less liquid and/or they are made for public policy reasons rather than for the purposes associated with government financing.

Net international investment position (NIIP)

Measures the net value of New Zealand's international assets and liabilities at a point in time.

Net worth

Total assets less total liabilities. The change in net worth in any given forecast year is largely driven by the operating balance and property, plant and equipment revaluations.

Net worth attributable to the Crown

Represents the Crown's share of total assets and liabilities and excludes minority interests' share of those assets and liabilities.

Operating balance

Represents OBEGAL (refer below) plus gains and less losses. The operating balance includes gains and losses not reported directly as a movement against net worth. The impact of gains and losses on the operating balance can be subject to short-term market volatility and revaluations of long-term liabilities.

Operating balance before gains and losses (OBEGAL)

Represents total Crown revenue less total Crown expenses. OBEGAL can provide a more useful measure of underlying stewardship than the operating balance as short-term market fluctuations are not included in the calculation.

Output gap

The difference between actual and potential GDP. (See Potential output.)

Outputs

Outputs are the goods and services commissioned by Ministers from public, non-governmental and private sector producers. Outputs may include the supply of policy advice, enforcement of regulations (such as speed limits in transport), provision of a range of services (in health, education, etc), negotiation and management of contracts and administration of benefits.

Potential output

The level of output an economy can sustain without an acceleration of inflation.

Productivity

The amount of output (eg, GDP) per unit of input.

Projections

Projections relate to the period beyond the five-year forecast period and are based on long-run economic and fiscal assumptions. For example, the projections assume no economic cycle and constant long-run interest, inflation and unemployment rates.

Residual cash

The level of money the Government has available to repay debt or, alternatively, needs to borrow in any given year. Residual cash is alternatively termed "Cash available/(shortfall to be funded)".

Residual cash is equal to net core Crown cash flow from operations excluding NZS Fund activity less core Crown capital payments
(eg, purchase of assets, loans to others).

Settlement cash

This is the amount of money deposited with the Reserve Bank by registered banks. It is a liquidity mechanism used to settle wholesale obligations between registered banks and provides the basis for settling most of the retail banking transactions that occur every working day between businesses and individuals.

Social portfolio

Consists of the assets and liabilities held primarily to provide public services or to protect assets for future generations.

Specific fiscal risks

All government decisions or other circumstances known to the Government which may have a material impact on the fiscal and economic outlook, but are not certain enough in timing or amount to include in the fiscal forecasts.

System of National Accounts (SNA)

SNA is a comprehensive, consistent and flexible set of macroeconomic accounts which meets the needs of government and private sector analysts, policy-makers and decision-takers.

Tax revenue

The accrual, rather than the cash ("tax receipts") measure of taxation. It is a measure of tax due at a given point in time, regardless of whether or not it has actually been paid.

Terms of trade

The terms of trade measure the volume of imports that can be funded by a fixed volume of exports, and are calculated as the ratio of the total export price index to the total import price index. New Zealand's headline terms of trade series is derived from export and import price indices from Statistics New Zealand's quarterly Overseas Trade Index release. The Treasury forecasts the terms of trade on an SNA basis, using implicit export and import price indices derived from quarterly national accounts data.

Top-down adjustment

An adjustment to expenditure forecasts to reflect the extent to which departments use appropriations (upper spending limits) when preparing their forecasts. As appropriations apply to the core Crown only, no adjustment is required to SOE or Crown entity forecasts.

Total borrowings

Represents the Government's total debt obligations to external parties and can be split into sovereign-guaranteed debt and non-sovereign-guaranteed debt. Non-sovereign-guaranteed debt represents the debt obligations of SOEs and Crown entities that are not guaranteed by the Crown.

Total Crown

Includes the core Crown (defined above) plus Crown entities and SOEs as defined by the Government Reporting Entity on pages 91 to 93.

Tradable/non-tradable output

The tradable sector is that part of the economy particularly exposed to foreign competition either through exports or import substitution. It includes agriculture, forestry and fishing, mining, and manufacturing industries. Non-tradable output includes the construction industry, rental, hiring and real estate services, public administration and safety, and health care and social assistance. Other industries may be classified as either tradable or non-tradable depending on whether their direct or indirect outputs are exposed to foreign competition.

Trade-weighted index (TWI)

A measure of movements in the New Zealand dollar against the currencies of our major trading partners. From 17 December 2014, the TWI is based on 17 currencies, weighted according to each country's direct bilateral trade in goods and services with New Zealand. Together these countries account for more than 80% of New Zealand's foreign trade.

Votes

When Parliament considers legislation relating to appropriations, the appropriations are grouped within "Votes". Generally, a Vote groups similar or related appropriations together (eg, Vote Health includes all health-related appropriations administered by the Ministry of Health).

Year ended

Graphs and tables within this document use different expressions of the timeframe. While some tables may refer to the end of the tax year (31 March), others will refer to the end of the Government's financial year (30 June). For example, unless otherwise stated references to 2014/15 or 2015 will mean the end of the financial year.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June years	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
$millions																
Revenue and expenses																
Core Crown tax revenue	43,358	47,468	50,973	53,477	56,747	54,681	50,744	51,557	55,081	58,651	61,474	65,626	69,178	73,072	76,825	79,981
Core Crown revenue	46,219	51,045	55,735	58,211	61,819	59,482	56,216	57,550	60,565	64,149	67,297	71,466	75,332	79,420	83,509	86,999
Core Crown expenses	41,882	44,895	49,320	54,003	56,997	64,002	64,013	70,450	69,076	70,306	71,467	73,018	75,056	76,881	80,663	83,153
Surpluses																
Total Crown OBEGAL	5,573	7,075	7,091	5,860	5,637	(3,893)	(6,315)	(18,396)	(9,240)	(4,414)	(2,933)	(572)	565	2,602	3,074	4,101
Total Crown operating balance	7,309	5,931	9,542	8,023	2,384	(10,505)	(4,509)	(13,360)	(14,897)	6,925	2,808	1,900	3,475	5,618	6,221	7,420
Cash position																
Core Crown residual cash	520	3,104	2,985	2,877	2,057	(8,639)	(9,000)	(13,343)	(10,644)	(5,742)	(4,109)	(4,009)	(3,528)	(125)	552	1,841
Debt																
Gross debt[1]	36,017	35,478	33,903	30,647	31,390	43,356	53,591	72,420	79,635	77,984	81,956	80,289	84,471	91,406	87,105	82,580
Gross debt incl RB settlement cash and bank bills	36,017	35,478	35,867	36,805	37,745	50,973	58,891	77,290	84,168	84,286	88,468	86,757	90,880	97,740	93,439	88,914
Net core Crown debt (incl NZS Fund)[2]	19,902	13,324	6,302	1,620	(2,676)	5,633	12,549	23,969	33,475	34,428	34,174	35,413	37,255	35,120	32,136	27,670
Net core Crown debt[2]	23,858	19,879	16,163	13,380	10,258	17,119	26,738	40,128	50,671	55,835	59,931	63,494	66,960	67,040	66,422	64,520
Net worth																
Total Crown net worth	39,595	54,240	83,971	96,827	105,514	99,515	94,988	80,887	59,780	70,011	80,779	82,560	86,086	91,768	98,073	105,557
Total net worth attributable to the Crown	39,456	54,025	83,678	96,531	105,132	99,068	94,586	80,579	59,348	68,071	75,568	77,376	80,876	86,511	92,748	100,175
Nominal GDP	147,937	157,017	164,950	175,270	187,879	188,097	195,044	203,686	212,804	217,012	234,158	239,188	253,108	266,238	276,967	286,573
% GDP																
Revenue and expenses																
Core Crown tax revenue	29.3	30.2	30.9	30.5	30.2	29.1	26.0	25.3	25.9	27.0	26.3	27.4	27.3	27.4	27.7	27.9
Core Crown revenue	31.2	32.5	33.8	33.2	32.9	31.6	28.8	28.3	28.5	29.6	28.7	29.9	29.8	29.8	30.2	30.4
Core Crown expenses	28.3	28.6	29.9	30.8	30.3	34.0	32.8	34.6	32.5	32.4	30.5	30.5	29.7	28.9	29.1	29.0
Surpluses																
Total Crown OBEGAL	3.8	4.5	4.3	3.3	3.0	(2.1)	(3.2)	(9.0)	(4.3)	(2.0)	(1.3)	(0.2)	0.2	1.0	1.1	1.4
Total Crown operating balance	4.9	3.8	5.8	4.6	1.3	(5.6)	(2.3)	(6.6)	(7.0)	3.2	1.2	0.8	1.4	2.1	2.2	2.6
Cash position																
Core Crown residual cash	0.4	2.0	1.8	1.6	1.1	(4.6)	(4.6)	(6.6)	(5.0)	(2.6)	(1.8)	(1.7)	(1.4)	(0.0)	0.2	0.6
Debt																
Gross debt[1]	24.3	22.6	20.6	17.5	16.7	23.0	27.5	35.6	37.4	35.9	35.0	33.6	33.4	34.3	31.4	28.8
Gross debt incl RB settlement cash and bank bills	24.3	22.6	21.7	21.0	20.1	27.1	30.2	37.9	39.6	38.8	37.8	36.3	35.9	36.7	33.7	31.0
Net core Crown debt (incl NZS Fund)[2]	13.5	8.5	3.8	0.9	(1.4)	3.0	6.4	11.8	15.7	15.9	14.6	14.8	14.7	13.2	11.6	9.7
Net core Crown debt[2]	16.1	12.7	9.8	7.6	5.5	9.1	13.7	19.7	23.8	25.7	25.6	26.5	26.5	25.2	24.0	22.5
Net worth																
Total Crown net worth	26.8	34.5	50.9	55.2	56.2	52.9	48.7	39.7	28.1	32.3	34.5	34.5	34.0	34.5	35.4	36.8
Total net worth attributable to the Crown	26.7	34.4	50.7	55.1	56.0	52.7	48.5	39.6	27.9	31.4	32.3	32.3	32.0	32.5	33.5	35.0

[1] Excludes Reserve Bank settlement cash and bank bills

[2] Excludes advances

Economic Indicators

March years	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	6.1	5.5	5.0	2.3	3.7	-1.6	1.6	2.4	3.1	2.6	3.3	3.6	3.4	3.1	1.7	1.6
Public consumption	5.1	4.4	4.3	3.6	4.8	4.5	0.0	2.0	0.2	-1.0	1.7	1.6	-0.5	0.1	2.8	2.5
TOTAL CONSUMPTION	5.9	5.2	4.8	2.6	4.0	-0.3	1.2	2.3	2.4	1.8	3.0	3.2	2.6	2.5	2.0	1.8
Residential investment	14.7	2.3	-5.0	-2.1	1.8	-21.3	-8.6	0.2	-0.5	19.4	17.0	15.3	12.2	4.5	0.9	-2.6
Non-market investment	15.0	11.9	8.2	-1.9	-8.0	22.3	-0.4	-0.8	-24.6	-9.9	-2.6	-2.0	5.1	2.4	2.4	2.4
Market investment	12.9	11.8	10.9	-2.1	11.2	-4.5	-11.8	5.7	11.2	4.9	8.8	6.2	7.1	6.7	4.4	2.9
TOTAL INVESTMENT	13.5	8.4	6.6	-2.7	7.4	-7.8	-9.5	1.8	4.4	7.3	10.6	8.2	8.4	6.5	3.9	2.0
Stock change (contribution to growth)	0.2	0.3	-0.5	-1.1	1.2	-0.5	-1.1	1.0	0.5	-0.5	0.3	0.5	-0.8	-0.1	-0.1	0.1
GROSS NATIONAL EXPENDITURE	7.7	6.2	4.8	0.3	5.7	-2.3	-2.1	3.0	3.4	2.1	4.7	4.9	3.3	3.4	2.4	1.9
Exports	2.0	3.9	-0.3	3.8	3.7	-2.7	4.0	2.8	2.3	3.0	0.3	0.5	1.8	3.5	3.1	2.5
Imports	13.3	13.2	4.8	-1.6	10.9	-3.9	-8.9	11.3	6.7	1.3	8.0	5.9	1.7	5.0	3.2	1.7
EXPENDITURE ON GDP	4.1	3.5	3.3	1.8	3.5	-1.9	2.2	0.7	2.1	2.7	2.5	3.3	3.4	2.8	2.3	2.1
GDP (production measure)	4.4	3.7	3.5	2.8	2.9	-1.9	-0.1	1.8	2.4	2.3	3.2	3.5	3.4	2.8	2.3	2.2
- annual % change	5.4	2.4	3.5	3.4	1.3	-3.0	2.1	1.2	3.2	2.1	3.8	3.3	3.2	2.5	2.3	2.0
Real GDP per capita	2.5	2.3	2.3	1.6	2.0	-2.7	-1.2	0.8	1.7	1.7	2.2	1.9	1.8	1.7	1.3	1.3
Nominal GDP (expenditure basis)	6.9	7.0	5.5	5.1	8.3	0.8	2.6	4.5	4.0	2.1	6.7	3.0	4.9	5.7	4.1	3.6
GDP deflator	2.6	3.4	2.1	3.2	4.6	2.8	0.4	3.9	1.8	-0.5	4.1	-0.2	1.5	2.8	1.8	1.5
Output gap (% deviation, March year average)	1.0	1.3	1.8	1.9	2.9	-0.6	-2.1	-2.0	-1.7	-1.5	-0.6	0.1	0.6	0.6	0.3	0.2
Employment	3.0	3.6	2.8	2.2	1.7	0.5	-1.3	1.2	1.4	0.3	2.5	2.9	1.7	1.6	1.3	1.1
Unemployment (% March quarter s.a.)	4.3	3.9	4.0	3.9	3.8	5.2	6.2	6.7	6.8	6.2	6.0	5.4	5.1	4.7	4.5	4.5
Wages (average ordinary-time hourly, ann % change)	3.5	3.6	5.3	4.6	4.7	5.4	1.0	2.6	3.8	2.1	2.5	2.8	2.8	3.1	3.3	3.5
CPI inflation (ann % change)	1.5	2.8	3.3	2.5	3.4	3.0	2.0	4.5	1.6	0.9	1.5	1.3	2.0	2.1	2.0	2.0
Merchandise terms of trade (SNA basis)	4.5	3.6	-1.7	-1.1	8.6	0.2	-7.5	10.6	1.5	-5.9	13.5	-3.9	-3.6	3.7	0.5	0.4
House prices (ann % change)	23.4	13.5	12.2	11.7	2.8	-9.2	6.4	-1.5	3.6	7.6	8.0	5.4	3.9	2.5	2.3	2.0
Current account balance - $billion	-4.1	-7.9	-12.7	-11.6	-12.4	-12.8	-2.9	-5.7	-6.7	-8.0	-6.0	-12.4	-15.2	-14.8	-15.4	-16.4
Current account balance - % of GDP	-2.9	-5.2	-7.9	-6.8	-6.8	-6.9	-1.5	-2.9	-3.3	-3.8	-2.7	-5.3	-6.2	-5.8	-5.7	-5.9
TWI (March quarter)	66.9	69.6	68.3	68.8	71.9	53.7	65.3	67.2	72.5	75.9	78.7	76.5	76.5	76.6	75.6	73.6
90-day bank bill rate (March quarter)	5.5	6.9	7.6	7.8	8.8	3.7	2.7	3.0	2.7	2.7	3.0	3.7	3.9	4.4	4.8	5.2
10-year bond rate (March quarter)	5.9	6.0	5.7	5.9	6.4	4.6	5.9	5.6	4.0	3.7	4.6	4.0	4.2	4.7	5.0	5.1

Data for 2015 and subsequently are forecasts. Data for 2014 and prior years are those that were available when the forecasts were finalised.