THE TREASURY
Kaitohutohu Kaupapa Rawa

Half Year Economic *and* Fiscal Update

18 December 2012

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Contents

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
- Tax policy changes – an analysis of the effect of changes in tax policy on forecasts for tax revenue since the *Budget Update*
- 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/hyefu2012

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 26 November 2012 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 26 November 2012. This *Update* does not incorporate any decisions, circumstances, or statements that the Minister of Finance has determined, in accordance with the Public Finance Act 1989, should not be incorporated in this *Update*.

Gabriel Makhlouf
Secretary to the Treasury

10 December 2012

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 26 November 2012 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 Fiscal Responsibility in the Public Finance Act 1989.

Hon Bill English
Minister of Finance

10 December 2012

Executive Summary

- Economic growth is forecast to increase to 2.3% and 2.9% in the years ending March 2013 and 2014 respectively. Growth is expected to ease to 2.4% in the later forecast years – down from 3.0% in the *Budget Update*.
- The Canterbury rebuild is one of the main drivers of the forecast pick-up in activity over the next two years, although its scale and timing remain key uncertainties.
- Forecast trading partner growth is slower than in the *Budget Update*, but it is still expected to pick up across the forecast period.
- Household and business spending growth is expected to pick up moderately as their financial positions improve, although compared with the past decade they are assumed to remain relatively cautious.
- Monetary policy support for the economy is forecast to continue for some time. As activity accelerates and inflation pressures pick up, interest rates are expected to rise gradually. The exchange rate is likely to be a drag on growth over much of the forecast period.
- The operating balance before gains and losses (OBEGAL) is forecast to move from its current deficit position to surplus in the year ending June 2015, with tax revenue expected to grow at a faster rate than expenditure.
- A weaker economic outlook has resulted in lower tax revenue across the forecast period compared with the *Budget Update*. However, lower inflation and interest rate forecasts lead to lower welfare and finance expenses, partially offsetting the reduction in revenue.
- Over the next four years the Crown is expected to spend around $17 billion on capital items such as the purchase of physical assets and student loan advances.
- Net core Crown debt is forecast to peak at 29.5% of GDP in 2014/15 and 2015/16. Projections show debt declining thereafter, albeit more slowly than in the *Budget Update*.
- Net worth attributable to the Crown begins to increase by the end of the forecast period, but remains below its level prior to the global financial crisis.
- The *Half Year Update* contains two alternative scenarios to illustrate some of the risks to the main forecasts. While growth is higher in the upside scenario, OBEGAL returns to surplus in the same year as in the main forecasts. In the downside scenario, lower growth means that OBEGAL remains in deficit over the period ending June 2017.

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

	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Economic (March years, %)						
Economic growth[1]	1.6	2.3	2.9	2.5	2.4	2.4
Unemployment rate[2]	6.7	6.9	6.2	5.9	5.6	5.1
CPI inflation[3]	1.6	1.5	1.9	2.2	2.2	2.2
Current account balance[4]	-4.5	-5.1	-4.6	-5.5	-6.2	-6.5
Fiscal (June years, % of GDP)						
Operating balance[5]	-4.4	-3.4	-0.9	0.0	0.6	0.8
Net debt[6]	24.3	27.8	29.2	29.5	29.5	29.3
Net worth attributable to the Crown	28.5	26.1	24.7	24.6	25.1	25.9

Notes: 1 Real production GDP, annual average percentage change
2 Percent of labour force, March quarter, seasonally adjusted
3 Consumers Price Index (CPI), annual percentage change
4 Percent 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 forecasts	19 November
Economic data	19 November
Tax revenue forecasts	22 November
Fiscal forecasts	26 November
Specific fiscal risks	26 November
Text finalised	10 December

Important Notice

The economic numbers and forecasts in the *Economic Outlook* chapter pre-date the release of annual national accounts data for the March 2012 year by Statistics New Zealand on 21 November 2012. These new data incorporated revisions and measurement changes which resulted in nominal GDP for the March 2012 year being revised higher by $3.6 billion (1.7%). The revised data will be fully incorporated into the *Economic Outlook* chapter of the 2013 *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 marginal impact of reducing the fiscal ratios, with an impact on core Crown net debt of 0.5% of GDP in the 2012 fiscal year.

1

Economic Outlook

Overview

Data released since the *Budget Update* was finalised show that the New Zealand economy continued its recovery from the 2008/09 recession in the first half of 2012.

Real GDP rose by 1.6% in the six months to the end of the June quarter. This strength reflected some temporary factors, including favourable growing conditions for the agriculture sector, as well as a recovery in residential investment.

Figure 1.1 – Real GDP growth

Sources: Statistics New Zealand, the Treasury

The economy is likely to expand at a slower rate in the second half of the year. This reflects an observed softening in business confidence and activity indicators in the September quarter, elevated unemployment, and previous falls in the prices of our primary exports – mainly dairy products – finally showing up in the export data.

The Treasury expects the pace of GDP growth to strengthen throughout 2013, increasing to 2.9% in the year to March 2014. Despite this, growth will be uneven across the economy with variable outcomes across sectors and regions.

Growth will be supported by a substantial boost from the Canterbury rebuild, low borrowing costs, and ongoing solid demand and higher prices for our primary exports. For the first half of the forecast period, the high exchange rate will continue to constrain the New Zealand dollar earnings of exporters and import-competing firms. The tourism sector will be additionally constrained by ongoing weak income growth in traditional tourist source markets, the loss of tourism infrastructure in Christchurch, and New Zealanders taking advantage of the strong dollar to holiday abroad. In the retail sector, elevated unemployment and ongoing deleveraging are expected to see a continuation of moderate household consumption growth across the forecast period. Fiscal restraint will have a dampening effect on demand growth too.

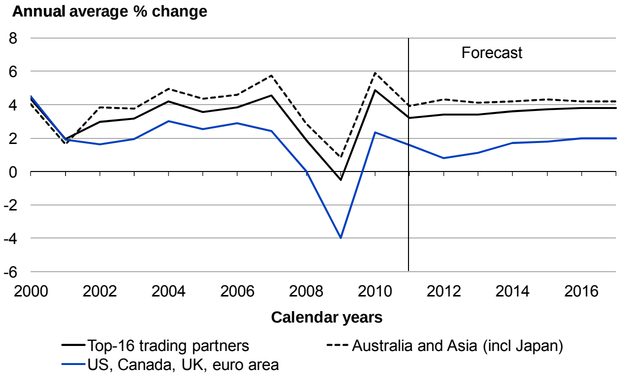
As in most other advanced economies, the ongoing impacts of the global financial crisis are likely to constrain the pace of economic growth in the medium term. Economic growth is forecast to average 2.4% in the final years of the forecast period, down from 3.0% in the *Budget Update*.

The current account deficit is forecast to widen to 6.5% of GDP in the year ending March 2017, in part as a result of the Canterbury rebuild increasing investment. The assumed decline in the exchange rate towards the end of the forecast period contributes to the goods balance returning to surplus.

International outlook remains weak, with risks on the downside

The international economy broadly tracked in line with our *Budget Update* forecasts in the first six months of 2012, although the general trend since has been towards slower global economic growth. While New Zealand's increasing trade ties with China and other fast-growing Asian economies offset some weakness elsewhere, trading partner growth (TPG) in this *Half Year Update* is slower over the medium term than in the *Budget Update* forecasts.

Figure 1.2 – Trading partner growth



Sources: IMF, the Treasury

Risks to the outlook from unanticipated international and domestic developments are explored in more detail in the *Risks and Scenarios* chapter.

Table 1.1 – Economic forecasts[1]

(Annual average % change, March years)	**2012 Actual**	**2013 Forecast**	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**
Private consumption	1.9	1.5	2.8	2.6	1.9	1.7
Public consumption	0.6	0.7	0.2	0.8	0.7	0.4
Total consumption	**1.6**	**1.3**	**2.2**	**2.2**	**1.7**	**1.4**
Residential investment	-11.6	19.5	33.0	22.4	7.4	-0.6
Market investment	5.4	13.0	9.4	4.4	2.3	1.9
Non-market investment	-12.1	-13.1	9.2	2.4	2.4	2.4
Total investment	**-1.0**	**12.9**	**14.4**	**7.7**	**3.5**	**1.5**
Stock change[2]	0.7	-1.2	0.0	0.1	0.1	0.1
Gross national expenditure	**2.2**	**1.6**	**5.1**	**3.7**	**2.3**	**1.5**
Exports	2.6	1.9	0.5	1.2	2.1	2.7
Imports	6.3	2.0	6.6	4.2	1.6	0.3
GDP (expenditure measure)	**1.1**	**1.7**	**3.0**	**2.5**	**2.4**	**2.4**
GDP (production measure)	**1.6**	**2.3**	**2.9**	**2.5**	**2.4**	**2.4**
Real GDP per capita	0.7	1.5	2.1	1.6	1.4	1.4
Nominal GDP (expenditure measure)	3.4	3.6	5.9	4.7	4.1	4.1
GDP deflator	2.3	1.9	2.8	2.1	1.7	1.7
Output gap (% deviation, March quarter)[3]	-1.5	-1.5	-0.5	-0.3	-0.3	0.0
Employment	1.4	0.2	1.7	1.9	1.4	1.4
Unemployment[4]	6.7	6.9	6.2	5.9	5.6	5.1
Participation rate[5]	68.7	68.2	68.5	68.6	68.5	68.5
Nominal wages[6]	3.8	2.1	2.4	2.7	2.6	2.6
CPI inflation[7]	1.6	1.5	1.9	2.2	2.2	2.2
Merchandise terms of trade[8]	1.2	-2.6	5.2	1.2	0.8	0.9
House price inflation[7]	3.5	6.5	0.6	-1.3	0.4	1.6
Current account balance						
$billion	-9.1	-10.7	-10.2	-12.9	-15.1	-16.3
% of GDP	-4.5	-5.1	-4.6	-5.5	-6.2	-6.5
Net international investment position						
% of GDP	-71.9	-74.6	-75.0	-77.2	-80.3	-83.6
TWI[9]	72.5	73.0	72.8	70.6	67.3	63.2
90-day bank bill rate[9]	2.7	2.7	3.1	4.1	4.6	4.8
10-year bond rate[9]	4.0	3.6	3.6	4.5	5.0	5.2

Notes:
1 Forecasts finalised 19 November
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) basis, annual average percentage change
9 Average for the March quarter

Longer time series for these variables are provided on page 127.

Economic Developments

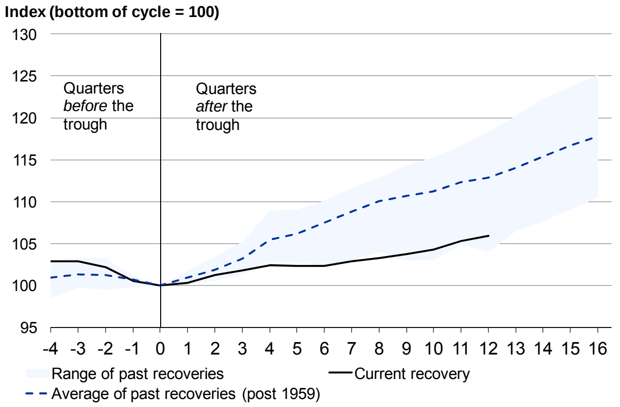
Economic recovery has been slow...

The New Zealand economy has experienced only a slow and gradual recovery from the 2008/09 recession.

This performance reflects the net impact of the major forces that have influenced activity in the economy over the past few years. These are:

- slower growth in the global economy since the onset of the global financial crisis, with associated impacts on funding costs and the exchange rate
- changes in household and firm behaviour following the build-up of debt over the mid-2000s
- the Canterbury earthquakes and their impact on sentiment and activity, and
- stimulatory fiscal and monetary policies.

Figure 1.3 – Recovery in New Zealand real GDP compared to past slowdowns

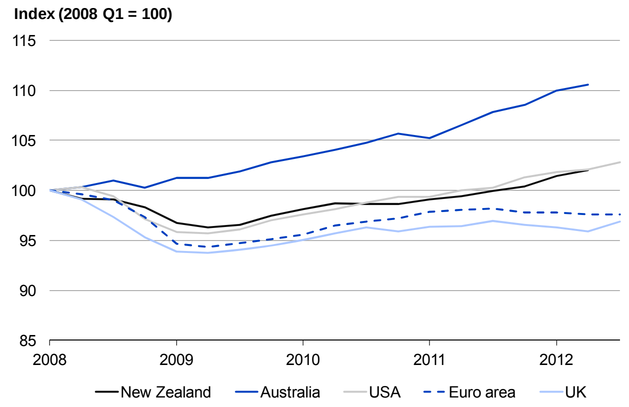


Sources: Statistics New Zealand, RBNZ, the Treasury

The release of revised GDP data since the Treasury finalised the 2012 *Budget Update* forecasts reinforces the picture of the muted recovery from recession.

At the time of the 2012 *Budget Update*, the expenditure and production measures of GDP painted unusually divergent pictures of the pace of growth in the economy. This difference has since been revised away, and has influenced our judgement over the pace of potential economic growth over the coming years. (See 'GDP Growth in the *Half Year Update'* box for further details.)

Figure 1.4 – International real GDP comparisons



Sources: Haver Analytics, the Treasury

...in keeping with much of the developed world

The New Zealand economy has not been alone in experiencing a slow recovery from the global financial crisis over recent years. A number of other OECD economies have experienced slower recoveries – notably the UK and the euro area – and are yet to surpass their pre-crisis levels of real output.

Solid growth in the first half of 2012 was influenced by temporary factors

Data released since the *Budget Update* was finalised show that the New Zealand economy continued its recovery from the 2008/09 recession in the first half of 2012. Real GDP rose by 1.6% in the six months to the end of the June quarter.

This strength reflected some temporary factors, including favourable growing conditions for the agriculture sector, as well as a recovery in residential investment.

The economy appears to have gone through a weak patch in the September quarter, reflecting a weak outturn from the labour market and an observed drop in confidence and activity indicators in the business sector. However, the early signs from the December 2012 quarter point to a pick-up in activity.

The Treasury's outlook for the most likely path for the economy over the forecast horizon is based on judgements on the impact and net interaction of the main forces that were identified earlier.

International Outlook

Extreme risks to the international economy have eased, but challenges remain

The European Central Bank's (ECB) announcement of Outright Monetary Transactions has helped to reduce the extreme downside risks to the global economy from a potential break-up of the euro area. Signs that the US housing market is starting to pick up also offer some encouragement, and growth is expected to rise in China in 2013 as well.

However, the economic outlook for the euro area remains weak, with further difficult structural reforms needed across much of the region. Meanwhile, in spite of the recent re-election of President Obama, the economic outlook in the US is overshadowed by political disagreements which could delay a credible medium-term path to fiscal sustainability. One large unknown is the extent to which ongoing economic challenges in the developed economies will constrain growth in the emerging markets, including China.

As Australia's largest export market, developments in China will also have significant knock-on implications for the economic prospects of our largest trading partner. The Australian outlook remains favourable by international standards, although the slowdown in mining investment is greater than previously forecast.

Trading partner growth (TPG) of 3.4% is expected in both the 2012 and 2013 calendar years – slightly below the 30-year average growth rate of 3.8%. In a reflection of New Zealand's increasing trade links with China and other Asian economies, TPG is expected to recover to its long-run average growth rate in the later years of the forecast period, albeit at a slightly slower pace than expected at the time of the *Budget Update*.

Table 1.2 – Trading partner growth (% change, calendar years)

	2012 Weights	2011 *Actual*	2012 *Forecast*	2013 *Forecast*	2014 *Forecast*	2015 *Forecast*	2016 *Forecast*	2017 *Forecast*
Australia	*28%*	2.1	3.6	2.9	2.7	3.1	3.2	3.2
China	*15%*	9.3	7.7	7.8	7.6	7.3	7.0	7.0
United States	*11%*	1.8	2.2	2.0	2.3	2.4	2.5	2.5
Euro area	*9%*	1.5	-0.6	-0.2	1.0	1.2	1.3	1.4
Japan	*9%*	-0.7	2.2	1.0	1.3	1.1	1.0	1.0
United Kingdom	*4%*	0.8	-0.1	1.0	1.4	1.8	2.0	2.0
Canada	*2%*	2.4	2.0	2.0	2.3	2.4	2.5	2.5
Other Asia*	*23%*	4.6	3.7	4.4	5.0	5.0	5.0	5.0
Trading partners	***100%***	**3.2**	**3.4**	**3.4**	**3.6**	**3.7**	**3.8**	**3.8**
Consensus (November 2012)		3.2	3.3	3.4	3.8	3.9	3.9	3.8
IMF (October WEO)		3.2	3.3	3.6	3.9	4.1	4.2	4.2

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

Sources: IMF, Consensus Economics, the Treasury

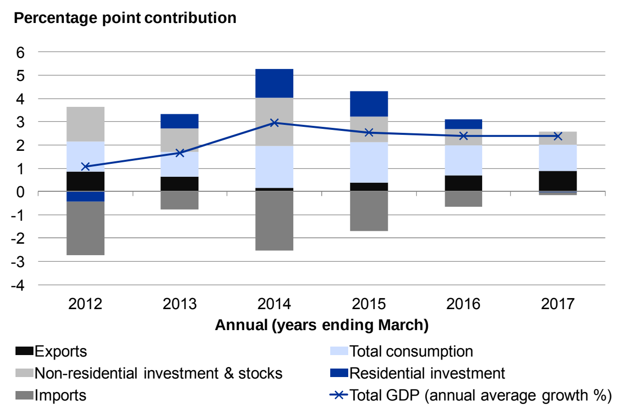
Domestic Outlook

New Zealand economy continues to recover...

The soft patch in domestic activity in the September 2012 quarter, combined with a weaker international outlook and a stronger New Zealand dollar (NZD), has led us to reduce forecast real GDP growth to 2.3% and 2.9% in the years ending March 2013 and March 2014 respectively (from 2.6% and 3.4% in the *Budget Update* forecasts). Growth across the later years of the forecast period averages 2.4% per year – down from 3.0% in the *Budget Update* forecasts, reflecting the Treasury's changed assessment of potential growth. (See 'GDP Growth in the *Half Year Update'* box for further details.)

Investment relating to the Canterbury rebuild remains a strong driver of GDP growth across most of the forecast period. Total consumption also makes a solid contribution to growth across the forecast horizon, although growth in household consumption spending is constrained by ongoing consumer deleveraging, elevated unemployment, and subdued house price growth. Export volumes make only a modest contribution to growth over the next two years as the bumper agricultural conditions of recent years return to normal, international conditions remain weak, and an elevated exchange rate deters tourists. A pick-up in imports, in part relating to the Canterbury rebuild, means that net exports detract from real GDP growth until 2016. Thereafter, net exports begin to make a positive contribution to growth as the international outlook improves and growth in Canterbury rebuild activity slows.

Figure 1.5 – Composition of GDP growth



Sources: Statistics New Zealand, the Treasury

GDP Growth in the *Half Year Update*

The Treasury's main forecast shows the economic recovery in New Zealand gathering momentum over the coming year, with accelerating GDP growth, falling unemployment and inflation returning to the centre of the Reserve Bank's target range. However, the economy is expected to grow more slowly over the forecast period than was expected at the time of the *Budget Update*.

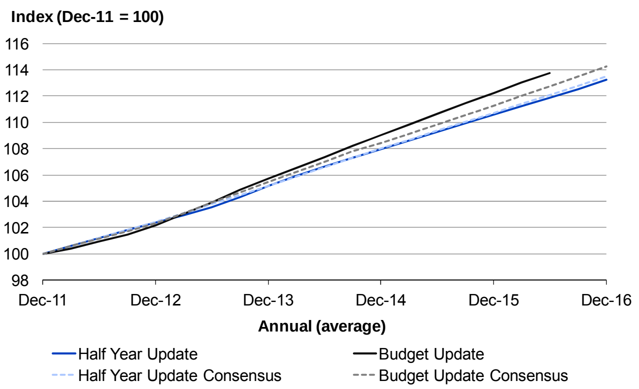
In forming a view about the likely growth of the New Zealand economy, the Treasury must make a judgement about its underlying supply capacity. This is informed by an assessment of trends in the growth of the working-age population, the share of those willing and able to work and the productivity with which they do so. Together, these judgements provide an anchor for the forecast of GDP in the medium term.

This assessment is complemented by an examination of the margin of spare capacity in the economy and, therefore, the scope for the economy to grow faster than its underlying rate as those resources are put to use. This depends on the number of unemployed and the amount of equipment sitting idle, awaiting a pick-up in demand.

In the 2009 *Budget Update*, the Treasury took account of the impact of the global financial crisis by revising down its forecasts of GDP growth. Since then, the economic recovery in a number of advanced economies has disappointed, leading other forecasting institutions such as the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and the Reserve Bank of New Zealand (RBNZ) to further revise down their growth forecasts.

Economic growth in the *Half Year Update* is forecast to be around 0.5% points lower, per year, than was expected in the 2012 *Budget Update*. This largely reflects a judgement that, while there is now slightly more spare capacity in the economy than was expected, owing to rising unemployment, the underlying growth rate of the New Zealand economy will be slower for longer. That is to say that the weaker growth over the forecast period is not expected to be offset by stronger growth in later years and, as a result, the level of GDP at the end of the forecast period will be around 2% lower than was anticipated in the *Budget Update* (after taking into account revisions to the GDP data).

Figure 1.6 – The level of real GDP



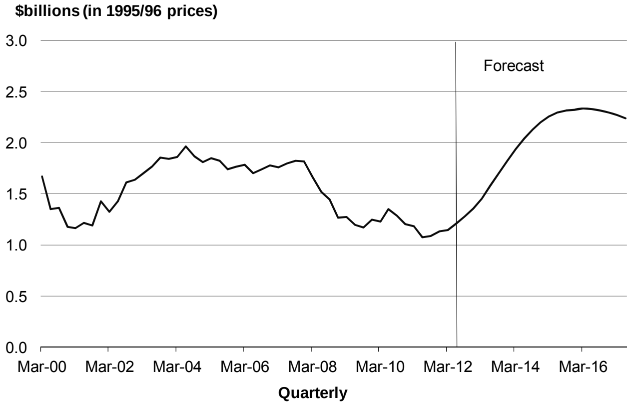
Sources: The Treasury, Consensus Economics

Our updated assessment of the economy's growth prospects leaves our forecasts broadly consistent with those of other forecasters, following a downward revision to the average of those forecasts since the time of the *Budget Update* (Figure 1.6). Following a detailed assessment of the New Zealand economy's supply capacity, the risks to the main forecast are considered to be broadly balanced, albeit skewed to the downside. More information on this assessment can be found in the supplementary note 'Potential Output in the *Half Year Update*' published online with this *Half Year Update* document. Alternative economic scenarios which explore the sensitivities of the forecast to illustrative upside and downside scenarios are presented in the *Risks and Scenarios* chapter.

...with the Canterbury rebuild set to boost residential investment...

The Canterbury rebuild remains a strong driver of demand growth in the *Half Year Update* forecasts, with earthquake-related residential rebuilding a key factor underpinning the near-term pick-up in residential investment in the *Half Year Update*. Once in full swing, the residential rebuild comprises over 15% of total real residential investment. Growth in residential investment accelerated sharply in the June quarter of 2012 and is forecast to rise further to an annual peak of over 34% in the final quarter of 2013.

Figure 1.7 – Real residential investment



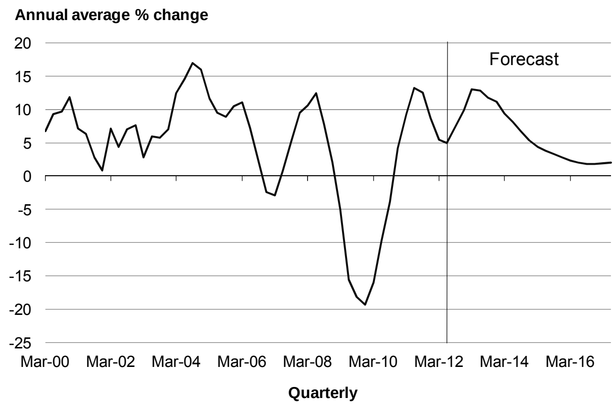
Sources: Statistics New Zealand, the Treasury

Residential investment activity in the rest of the country is expected to increase over time as pent-up demand in some regions comes through. Demand for housing is likely to be supported by past population growth, expected future population increases, rising household incomes, a forecast gradual decline in unemployment, low interest rates, and some ongoing repairs of leaky homes. The level of residential investment activity in our forecasts peaks in the March 2016 year almost 50% higher than its average over the 2000s. The level of residential investment starts to normalise at the end of the period as the bulk of the Canterbury residential rebuild is completed.

...as well as business investment

Canterbury-related rebuild activity is also a strong driver of the expected pick-up in business investment over the forecast period. The Treasury's estimate for the damage to commercial and infrastructure assets from the Canterbury earthquake has been revised up to around $12 billion (in 2011 prices) from the previous $7 billion. (See 'Economic Impact of the Canterbury Rebuild' box for full details.)

Figure 1.8 – Real business investment



Sources: Statistics New Zealand, the Treasury

In addition to the impact of the Canterbury rebuild, business investment receives ongoing support from low domestic interest rates, and a high exchange rate making imported capital equipment cheaper, during much of the forecast period – particularly over the next few years. Annual business investment growth is forecast to increase at double-digit rates until late-2013. Investment settles around a historically-high share of real GDP (22%) across the forecast period.

Economic Impact of the Canterbury Rebuild

This box provides an overview of the Treasury's updated estimates of the economic impact of the Canterbury earthquakes.

Damage and rebuild cost estimates revised higher...

Following new information compiled by the Canterbury Earthquake Recovery Authority (CERA), the Treasury has revised up its estimate of the damage caused by the Canterbury earthquakes to $25 billion from $20 billion in the *Budget Update* (Table 1.3).

Table 1.3 – Estimates of earthquake damage and rebuild costs ($billions, 2011 prices)

	Residential	Commercial & Social	Infrastructure	Total
Budget Update	13	4	3	20
Half Year Update				
Cost of damage	13	9	3	25
Cost of rebuild	14	13	3	30

Source: The Treasury

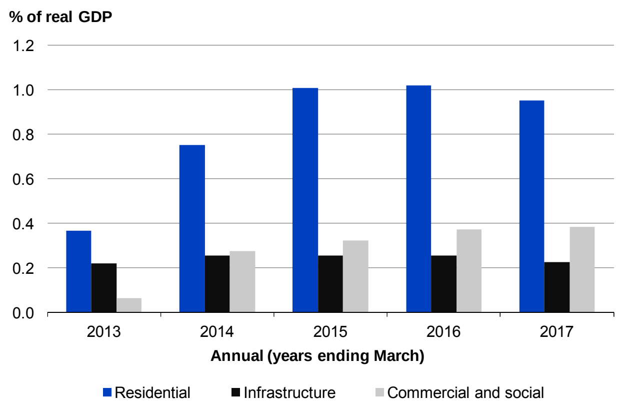
This revision reflects better information about the extent of damage to commercial assets, as well as the inclusion of damage to social assets such as schools and hospitals. As in previous forecasts, the revised estimates remain a working assumption with much uncertainty.

The damage estimates represent damage to property, contents, and infrastructure in constant 2011 prices. Allowing for improvements to the previous capital stock, the Treasury estimates that the total amount of fixed capital investment stemming from the Canterbury rebuild may be around $30 billion. Factoring in additional costs such as business disruption and contents insurance could lift the total cost of recovery higher still.

...although the rebuild is not expected to be completed during the forecast period

As in previous forecast rounds, resource constraints in the wider economy mean that not all of the rebuild-related investment is incorporated into the Treasury's economic forecasts. Overall, just over half of the total expected rebuild cost is factored into the *Half Year Update* forecasts for the period ending June 2017.

Figure 1.9 – Canterbury rebuild profile



Source: The Treasury

The Treasury assumes that priority will be given to infrastructure and residential investment. All of the infrastructure activity is incorporated into the forecast period, while most of the expected residential rebuild activity is assumed to be completed before June 2017 too. Around $3 billion of commercial and/or social investment is incorporated into the *Half Year Update* forecasts.

Consumption a solid driver of growth...

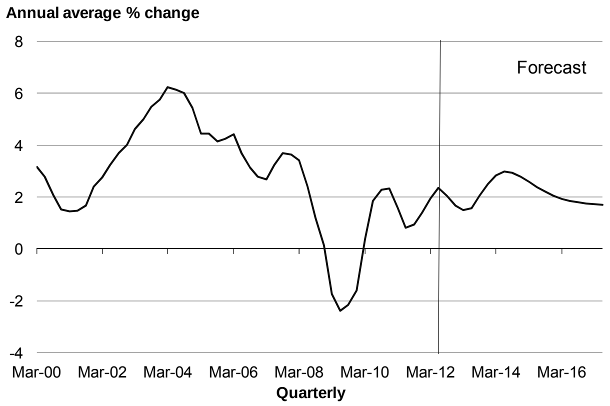
Total consumption also makes a solid contribution to GDP growth across the forecast period. Annual household consumption growth is expected to increase from 1.5% over the year ending March 2013 to 2.8% in the year ending March 2014. Growth is underpinned by robust demand for durable goods, such as furniture and furnishings, associated with the expected rise in residential investment and newly constructed dwellings.

...notwithstanding offsetting factors...

As with overall GDP growth, a combination of factors is expected to impinge on household spending decisions over the forecast period.

First, following the build-up of household debt over the 2000s, households are likely to be less willing to take on additional consumer debt going forward than in the past. This change in behaviour is a necessary foundation for more sustainable growth in the medium and long term. However, it will require slower growth in consumer spending than was seen during the past decade.

Figure 1.10 – Real private consumption growth



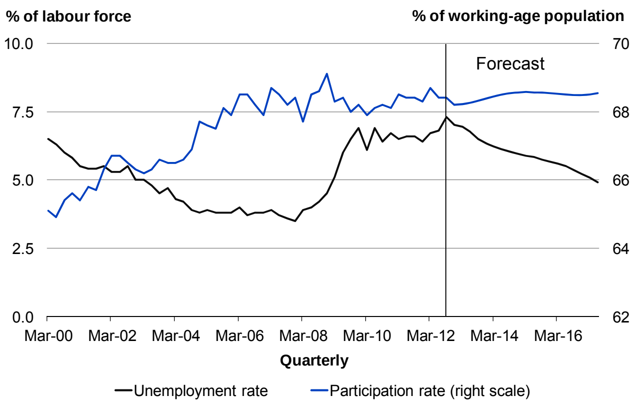
Sources: Statistics New Zealand, the Treasury

The second factor that is expected to impinge on household spending decisions over the coming years is the subdued outlook for house price inflation, and weaker wealth effects in general. Following a 6.5% rise in the March 2013 year, driven in large part by the buoyant Auckland market, a pick-up in national supply and higher interest rates mean that house prices are forecast to increase by less than the pace of consumer price inflation over the forecast period.

...and loose labour market conditions...

The final factor that is likely to constrain the pace of growth in household spending over the forecast period is ongoing loose labour market conditions. Despite recent weak outturns, we continue to expect employment growth to pick up over the forecast horizon as the Canterbury rebuild and improvement in business confidence increase demand for labour. Employment growth rises to 1.9% in the March 2015 year – its fastest annual pace since the March 2007 year – and the unemployment rate is expected to decline to just below 5% in the June 2017 quarter.

Figure 1.11 – Labour market



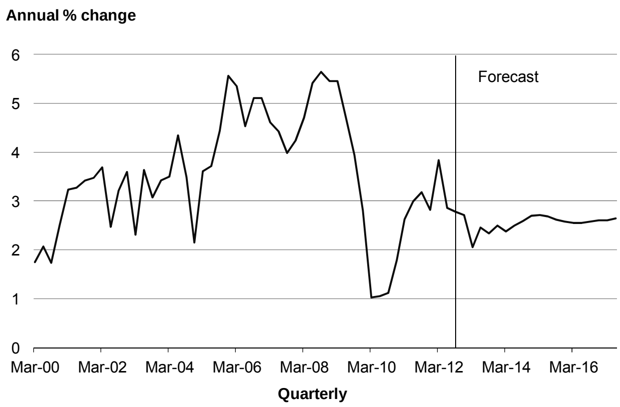
Sources: Statistics New Zealand, the Treasury

Constraints on the Canterbury rebuild are likely to see construction sector wages rise more rapidly than those in other industries over the coming years. There is a risk that this exerts more upward pressure on wages in other industries than is factored into our forecasts, especially if rebuild activity exacerbates skills mismatches in the labour market.

Meanwhile, changes to the Government's welfare policies, which have strengthened job search incentives, have also been incorporated into our forecasts in the form of a slight increase in the labour force participation rate.

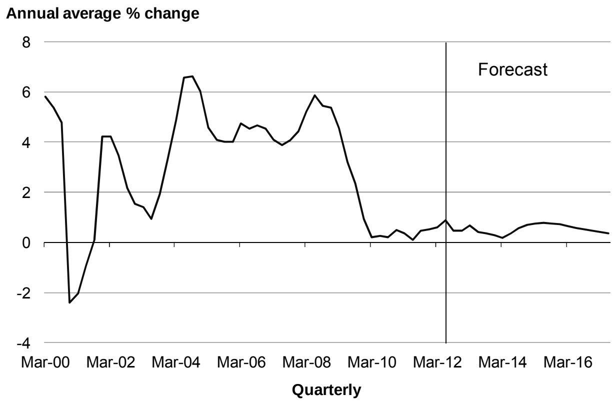
However, the surprise jump in the unemployment rate in the September 2012 quarter means that the starting point for the labour market forecasts in the *Half Year Update* is higher than at the time of the *Budget Update*. Accordingly, the unemployment rate in the *Half Year Update* forecasts is higher across the forecast period than in the *Budget Update*, and the looser labour market conditions are reflected in weaker wage growth forecasts too. Annual wage growth eased to 2.8% in the September 2012 quarter, down from a peak of 3.8% in the March 2012 quarter, and is expected to average 2.5% over the forecast period.

Figure 1.12 – Average ordinary-time hourly earnings



Sources: Statistics New Zealand, the Treasury

Figure 1.13 – Real government consumption



Sources: Statistics New Zealand, the Treasury

On balance, we expect private consumption largely to grow in line with income growth over the forecast period. Given the forecast pick-up in residential investment, though, the overall borrowing requirement of households is likely to increase.

...as well as tighter fiscal policy

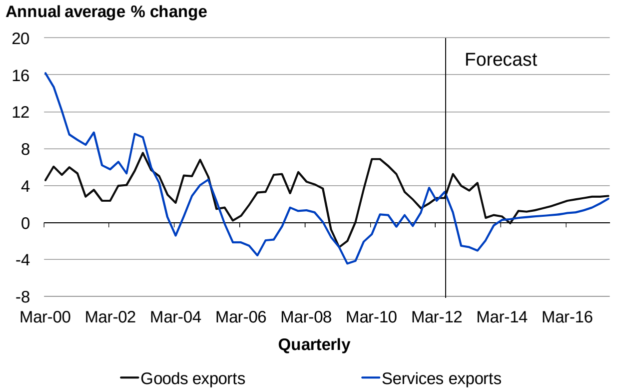
The Government's commitment to spending restraint in Budget 2012 and in earlier Budgets is reflected in low growth in real government consumption throughout the forecast horizon. With this forecast pace of growth lagging behind that of overall GDP, government spending on goods and services' share of real GDP falls from 18.5% at present to 16.7% in the June 2017 quarter. Combining this with the other components of government spending (transfer payments and capital spending) and the revenue it is receiving (mainly taxes), means the Government is forecast to be subtracting from domestic demand growth over much of the forecast period.[1]

1 For more details, see the *Additional Information* on the Treasury website www.treasury.govt.nz

External sector initially a drag on growth...

Turning to the external sector, a continuation of favourable weather conditions for our main commodity exports should support goods export growth in the March 2013 year. This is driven in the main by dairy exports, which appear to have been boosted by a run-down in inventories in the September 2012 quarter.

Figure 1.14 – Export volume growth



Sources: Statistics New Zealand, the Treasury

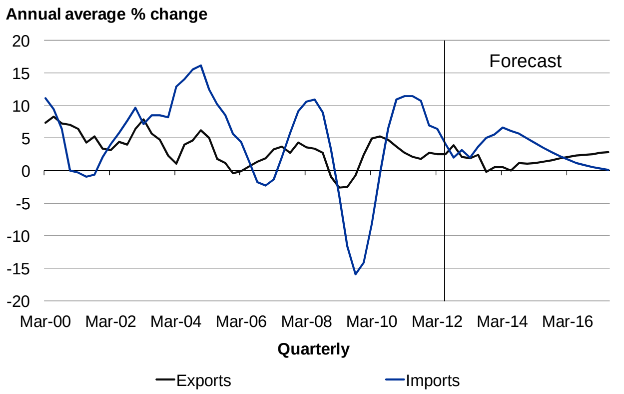
However, the overall pace of growth of goods exports is forecast to slow in the March 2014 year as agricultural conditions are assumed to ease back to normal. Given the discouraging effect of the strong exchange rate and weak economic conditions in our traditional tourist source markets, services exports are expected to remain subdued too. Total export growth is expected to slow to 0.5% in the March 2014 year – its slowest pace since the March 2009 year.

With this soft patch in export growth forecast to coincide with a pick-up in imports, net exports detract from real GDP growth in both the March 2014 and 2015 years. Growth in imports accelerates from 2.0% in the March 2013 year to 6.6% in the March 2014 year.

...but improves in the later forecast years

Thereafter, net export volumes begin to make a positive contribution to real growth, driven in part by a slowdown in the pace of the Canterbury rebuild and related imports as well as the assumed decline in the exchange rate. Import volumes growth in our *Half Year Update* forecasts slows to 1.6% and 0.3% in the March 2016 and 2017 years respectively. The turnaround in net exports also reflects a pick-up from the export side. Services exports will benefit from the expected gradual improvement in the global economy, and the forecast of a lower exchange rate will boost tourism exports as well. On the commodity export side, ongoing conversions of sheep and beef farms to dairying, as well as further productivity gains and investment, are expected to underpin dairy export growth of around 3% per year in the medium term. Meat and other commodity exports, including horticulture, wine, seafood, and minerals, are likely to benefit from deeper links with Asian export markets too.

Figure 1.15 – Export and import volume growth



Sources: Statistics New Zealand, the Treasury

Annual growth in export volumes surpasses that of imports from the March 2016 year onwards.

Goods terms of trade remain solid...

Meanwhile, the relative price of our goods exports to that of our goods imports – the goods terms of trade – are also forecast to remain at historically high levels throughout the forecast horizon.

The goods terms of trade have eased back from close to a 40-year high over the past year or so, on the back of increased global dairy supply and an easing in global commodity demand reflecting weak trading partner growth conditions. We forecast the goods terms of trade to weaken further in the short term.

However, the recovery in global dairy prices over the past six months is expected to be reflected in an increase in the goods terms of trade in the first quarter of 2013. The observed pick-up in dairy prices has in part reflected concerns over the impact of US drought conditions on dairy supply – a factor that should also help to support the price of our meat exports in the longer term. The goods terms of trade are expected to surpass their June 2011 quarter peak by late-2013.

...supported by structural factors...

Moreover, with global demand for our commodity exports expected to strengthen over time, the prices of our commodity exports are expected to be supported at or near historical highs.

Indeed, with Chinese per capita consumption of dairy products forecast to increase as Chinese incomes rise, global demand for dairy products is likely to strengthen over time. Global supply will respond, although there are biological constraints to the speed at which it can do so. Moreover, global production costs are expected to rise in reflection of tighter environmental standards and increased land-use competition from bio-fuel and other food industries. All told, this combination of factors is likely to continue to put upward pressure on global dairy prices in the coming years. The ongoing scarring impact of the US drought on global meat supply should support prices until the later years of the forecast period.

Part of the expected increase in our export prices is likely to be offset by higher goods import prices. However, crucially, goods import prices are expected to rise at a slower pace than exports over the forecast period. Indeed, rises in the prices of consumer and intermediate goods imports are expected to be outweighed partly by falls in the price of capital goods – in keeping with their long-run decline – and, to a lesser extent, mineral fuels too. West Texas Intermediate (WTI) oil market futures contracts, which form the basis for our oil price assumption, are pricing in a gradual decline in oil prices over the forecast period. WTI oil prices are assumed to fall to around $86 per barrel in the first quarter of 2017 – some 7% lower than their average in the September 2012 quarter.

...helping to offset weakness in the services terms of trade

By contrast to the reasonably bright outlook for the goods terms of trade, the expected decline in the NZD increases the relative price of travel and other services imports for New Zealanders, and drives the expected weakening in the services terms of trade. Overall, the combined goods and services terms of trade remain at an historically high level throughout the forecast period, but deteriorate gradually from 2013 onwards.

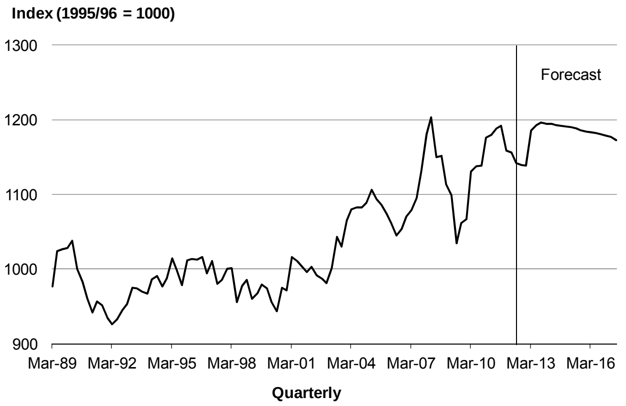
Wider current account deficit...

The current account deficit is expected to widen to 6.5% of GDP in the year ending March 2017, from 4.9% in the year ending June 2012. This deterioration in part reflects a widening deficit on services, from 0.4% of GDP in the March 2013 year to 1.9% of GDP in the March 2017 year – in line with the declining services terms of trade.

The surplus on the goods balance, currently 0.9% of GDP, falls into a small deficit in the March 2015 year before recovering towards the end of the forecast period as the lower exchange rate helps to boost export earnings. The income deficit narrows to around 4% of GDP in the March 2014 and 2015 years as lower global interest rates outweigh stable company profits. However, the income deficit widens to over 5% of GDP by the end of the forecast period as interest rates rise and profits of overseas-owned local companies pick up.

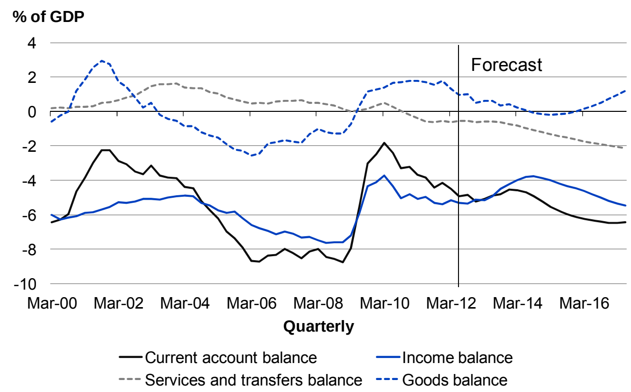
The transfers balance is forecast to remain in deficit throughout the forecast horizon reflecting the impact of higher insurance premiums in the wake of the Canterbury earthquakes.

Figure 1.16 – Goods and services terms of trade (System of National Accounts [SNA] basis)



Sources: Statistics New Zealand, the Treasury

Figure 1.17 – Current account balance



Sources: Statistics New Zealand, the Treasury

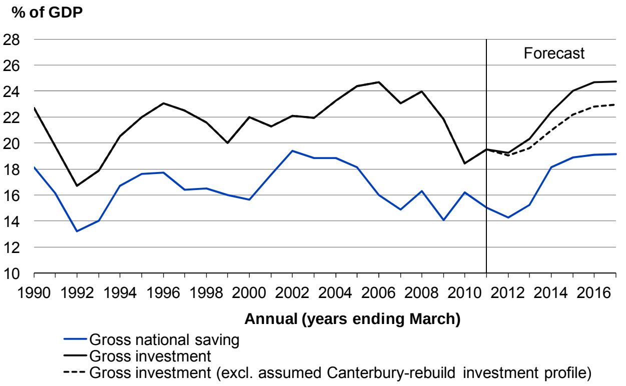
...although national saving rises over the forecast period

From a saving and investment perspective, the forecast widening in the current account deficit reflects the expected increase in investment driven by the Canterbury rebuild and part-financed by overseas reinsurance flows. Statistics New Zealand estimates a total of $17.9 billion of reinsurance claims from all Canterbury earthquakes. At the end of the June 2012 quarter, $5.1 billion of these claims had been settled with overseas reinsurers, with these inflows recorded in the capital account of the balance of payments.

National saving is forecast to rise, mainly as a result of higher government saving. Household saving is expected to consolidate around current levels.

Excluding earthquake-related investment, the current account in the *Half Year Update* forecasts would average around 4% of GDP over the forecast horizon, albeit widening slightly toward the end of the period.[2]

Figure 1.18 – Saving and investment



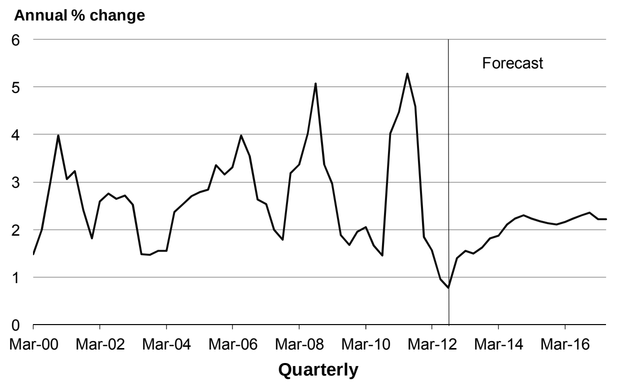
Sources: Statistics New Zealand, the Treasury

The net international liability position is forecast to rise from 72.6% of GDP at the end of June 2012 to 83.6% of GDP at the end of March 2017, reflecting a fall in international assets as insurance claims are settled.

Inflation is restrained...

Annual CPI inflation fell to 0.8% in the September 2012 quarter – its slowest rate since December 1999. The fall was largely caused by the ongoing influence of a strong NZD, falling global commodity prices, and subdued domestic demand reflected in heavy discounting in the retail sector. Inflation is forecast to rise as downward price pressure from the high exchange rate fades, excises on tobacco and transport increase, and spare capacity in the economy is reduced. The rise in building activity is also expected to result in an increase in price pressures in the construction sector.

Figure 1.19 – CPI inflation



Sources: Statistics New Zealand, the Treasury

...and monetary policy stimulus is withdrawn...

The forecasts assume that monetary policy does not tighten to offset the temporary effects of the higher excises on the CPI. With inflation forecast to be weaker in the near term than at the *Budget Update*, the withdrawal of monetary stimulus in the forecasts is more gradual than at Budget too. Short-term 90-day interest rates are expected to remain around 2.7% until the September 2013 quarter. However, strengthening demand in the economy and diminishing spare capacity are forecast to lead to a gradual pick-up in inflation pressures. Short-term interest rates increase gradually from late 2013. Annual CPI inflation is expected to settle around the mid-point of the Reserve Bank's 1-3% target range from late 2013.

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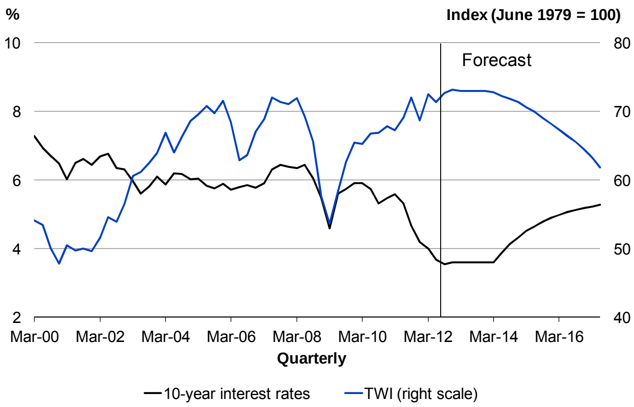
2 Excluding rebuild-related investment gives only a partial assessment of the impact of the Canterbury earthquakes on the balance of payments. A full assessment of earthquake-related effects would require making a number of uncertain and difficult judgements, including the amount of investment that has been and will be displaced by rebuild activity, and any changes to household and/or public saving behaviour.

...but the pace of tightening is uncertain

The speed, timing and extent of future official interest rate rises will depend on a variety of factors including the strength of domestic demand, conditions in financial markets, and developments in the exchange rate. The transmission mechanism of official interest rates through the banking sector is also a key uncertainty. Banks continue to find the cost of funds elevated relative to their pre-global financial crisis levels, which has increased the margin between the Reserve Bank's OCR and retail interest rates. Ongoing uncertainty in international funding markets will remain an influence, while upward pressure on domestic funding costs is expected as domestic deposit growth slows and credit demand rises. All told, if these higher funding costs are passed on to borrowers, this would also lead to tighter monetary conditions than forecast.

Figure 1.20 – Exchange rate and 10-year interest rates



Sources: RBNZ, the Treasury

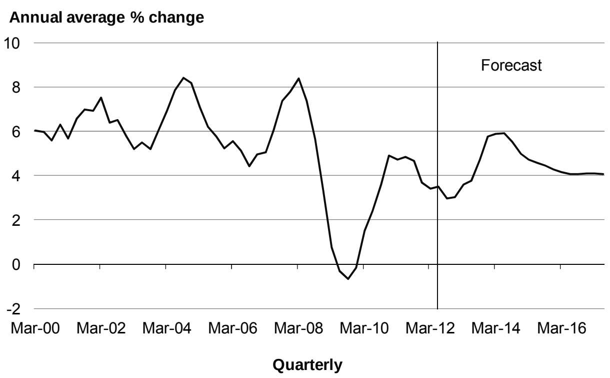
Ten-year interest rates fell to an historical low of 3.5% in the September 2012 quarter, reflecting lower yields internationally, but also some specific factors such as an improvement in investor sentiment as New Zealand's economic outlook has remained favourable relative to a number of other countries, as well as diversification by overseas investors in their search for yield.

The exchange rate is forecast to remain close to its current level until the first half of 2014. As mentioned throughout the chapter, the exchange rate is forecast to depreciate steadily from then on, reflecting the adjustment required to reduce the current account deficit to a sustainable level over time.

Stronger income growth expected

After falling to 3.4% in the March 2012 year, nominal GDP growth is forecast to increase only slightly to 3.6% in the March 2013 year reflecting the almost 7% peak-to-trough fall in the goods terms of trade. Nominal GDP growth accelerates strongly to just under 6% in the March 2014 year as the terms of trade rebound, before levelling off at around 4% in the final forecast years.

Figure 1.21 – Nominal GDP growth



Sources: Statistics New Zealand, the Treasury

Nominal GDP is mainly comprised of compensation of employees, and business and agricultural operating surplus. These components are important for generating forecasts of tax revenue – a key consideration for the fiscal outlook.

Compensation of employees is forecast to grow by 3.5% in the year ending March 2013, and continues to grow at around 4% per year during the forecast horizon. This means that compensation of employees is stable as a share of GDP at around 45% from the March 2014 year onwards.

Having posted double-digit growth in the previous three March years, the agricultural operating surplus is expected to fall sharply in the year ending March 2013, with lower commodity prices and limited offset from the exchange rate. Agricultural operating surplus growth is expected to recover to around 13% per year in the later forecast years as prices for our commodity exports increase and the exchange rate falls.

Business operating surplus is expected to rise strongly in the March 2014 year reflecting an acceleration in Canterbury rebuild activity. Thereafter operating surplus growth slows to just under the pace of nominal GDP growth, in line with moderating non-agricultural activity.

Economic Forecast Assumptions

- From an outflow of 3,000 in the year ending March 2012, net permanent and long-term migration rises to a small inflow of 1,000 in the year ending March 2013 before returning to a long-run assumption of a net inflow of 12,000 per year by the start of 2015 (in line with Statistics New Zealand's new population projections).
- The non-accelerating inflation rate of unemployment (NAIRU) is assumed to be around 4.5% by 2017.
- Average hours worked per week are assumed to be 33 (near their current level).
- After rising to 2.6% in the March 2013 year, economy-wide labour productivity growth is assumed to average around 1% per year between the years ending March 2014 and March 2017.
- The total cost of the rebuild from the Canterbury earthquakes is assumed to be around $30 billion (2011 dollars), spread across residential property and contents ($14 billion), commercial and social assets ($13 billion) and infrastructure ($3 billion). Rebuilding is expected to gather pace from now on. See 'Economic Impact of the Canterbury Rebuild' box for further details.
- WTI oil prices are assumed to fall from around US$92 per barrel in the September 2012 quarter to just under US$86 in the June 2017 quarter.
- Ninety-day interest rates are assumed to increase in late 2013 to around 4.75% at the end of the forecast period. Ten-year interest rates are also assumed to rise gradually from their current historical lows over the forecast period, reaching 5.3% by the end.
- The Trade Weighted Index (TWI) is assumed to remain around 73 until the start of 2014 before falling to just under 62 by the end of the forecast period in the June 2017 quarter.
- Tobacco excise increases add 0.2% points to the CPI in each of the March quarters from 2013 to 2016.

2

Fiscal Outlook

Key Points

- Tax revenue is forecast to grow at twice the rate of core Crown expenses as the economy grows and the Government continues to apply fiscal constraint.
- Operating deficits narrow over the next two years and return to surplus in 2014/15.
- Net core Crown debt peaks at 29.5% of GDP in 2014/15 and 2015/16.
- Operating surpluses begin to rebuild the fiscal buffer against future shocks.

Table 2.1 – Fiscal indicators

Year ended 30 June	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
$billions						
Core Crown tax revenue	55.1	57.4	61.9	65.6	68.9	71.9
Core Crown expenses	69.1	72.0	71.8	73.7	75.6	78.0
Total Crown OBEGAL[1]	(9.2)	(7.3)	(2.0)	0.1	1.4	2.0
Total Crown OBEGAL (excluding earthquake expenses)	(7.3)	(6.0)	(2.1)	0.2	1.4	2.1
Total Crown operating balance	(14.9)	(3.3)	0.0	2.1	3.6	4.4
Core Crown residual cash	(10.6)	(9.8)	(6.9)	(4.6)	(3.3)	(2.9)
Net core Crown debt[2]	50.7	60.0	66.7	70.7	73.5	75.9
Gross debt[3]	79.6	80.2	88.4	86.3	90.1	95.9
Net worth attributable to the Crown	59.3	56.3	56.5	58.8	62.6	67.0
% of GDP						
Core Crown tax revenue	26.5	26.6	27.0	27.4	27.7	27.7
Core Crown expenses	33.2	33.3	31.4	30.8	30.3	30.1
Total Crown OBEGAL[1]	(4.4)	(3.4)	(0.9)	0.0	0.6	0.8
Total Crown OBEGAL (excluding earthquake expenses)	(3.5)	(2.8)	(0.9)	0.1	0.6	0.8
Total Crown operating balance	(7.2)	(1.5)	0.0	0.9	1.4	1.7
Core Crown residual cash	(5.1)	(4.5)	(3.0)	(1.9)	(1.3)	(1.1)
Net core Crown debt[2]	24.3	27.8	29.2	29.5	29.5	29.3
Gross debt[3]	38.2	37.1	38.7	36.0	36.2	37.0
Net worth attributable to the Crown	28.5	26.1	24.7	24.6	25.1	25.9

Notes: 1 Operating balance before gains and losses

2 Net core Crown debt excluding the New Zealand Superannuation Fund (NZS Fund) and advances

3 Gross sovereign-issued debt excluding Reserve Bank bills and settlement cash

A glossary and a longer time series for these indicators are provided on pages 120 and 126 respectively.

Source: The Treasury

Overview

The fiscal outlook sees revenue growing at a slightly faster rate than the economy over the next five years, while expenses decline in comparison as fiscal constraint applied in recent Budgets is forecast to take effect. As a result, operating deficits narrow over the next two years before the Crown returns to surplus in 2014/15.

Compared to the *Budget Update,* a weaker economic outlook has resulted in reductions in tax revenue across the forecast period. However, lower inflation and interest rate forecasts have meant that benefit and finance costs are also expected to decline, partially offsetting the reduction in revenue. As a result, the fiscal outlook is broadly similar to that forecast at the *Budget Update*. More detailed information about the return to surplus can be found on page 32.

The Canterbury Earthquake Recovery Fund remains at $5.5 billion based on the current estimate of the Crown's share of the costs. Policy decisions to date are expected to fully utilise the Fund (refer page 30).

With a return to surplus forecast, net worth is expected to begin to recover but remains below the levels that existed prior to the global financial crisis.

Net debt continues to increase in nominal terms across the forecast period, but peaks as a percentage of GDP in 2014/15 and 2015/16 at 29.5%. While operating cash flows are expected to be positive by 2015/16, over the five-year forecast period cash deficits total $10.0 billion. When capital payments of $17.4 billion over the period to 2016/17 (eg, purchasing assets and issuing student loans) are included, residual cash deficits continue across all periods of the forecasts (Table 2.2).

There are risks to these forecasts, particularly in relation to the uncertainty of the economic outlook and the cost of the Canterbury rebuild to the Crown. Both the *Specific Fiscal Risks* and the *Risks and Scenarios* chapters discuss these risks.

Table 2.2 – Reconciliation between OBEGAL and net debt

Year ended 30 June $billions	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Core Crown revenue	60.6	62.9	67.8	71.8	75.0	78.3
Core Crown expenses	(69.1)	(72.0)	(71.8)	(73.7)	(75.6)	(78.0)
Net surpluses/(deficits) of SOEs and CEs	(0.7)	1.8	2.0	2.0	2.0	1.7
Total Crown OBEGAL	**(9.2)**	**(7.3)**	**(2.0)**	**0.1**	**1.4**	**2.0**
Net retained surpluses of SOEs, CEs and NZS Fund	0.4	(1.7)	(2.1)	(2.0)	(2.1)	(1.8)
Non-cash items and working capital movements	1.6	1.9	0.6	0.7	1.0	1.3
Net core Crown cash flow from operations	**(7.2)**	**(7.1)**	**(3.5)**	**(1.2)**	**0.3**	**1.5**
Net purchase of physical assets	(1.3)	(1.7)	(2.2)	(1.8)	(1.4)	(1.4)
Advances and capital injections	(2.1)	(2.3)	(2.0)	(2.2)	(2.9)	(2.0)
Forecast for future new capital spending	-	(0.2)	(0.7)	(0.9)	(0.8)	(1.0)
Proceeds from Government share offers	-	1.5	1.5	1.5	1.5	-
Core Crown residual cash deficit	**(10.6)**	**(9.8)**	**(6.9)**	**(4.6)**	**(3.3)**	**(2.9)**
Opening net debt	40.1	50.7	60.0	66.7	70.7	73.5
Core Crown residual cash deficit	10.6	9.8	6.9	4.6	3.3	2.9
Other valuation changes in financial assets and financial liabilities	-	(0.5)	(0.2)	(0.6)	(0.5)	(0.5)
Closing net debt	**50.7**	**60.0**	**66.7**	**70.7**	**73.5**	**75.9**
As a percentage of GDP	**24.3%**	**27.8%**	**29.2%**	**29.5%**	**29.5%**	**29.3%**

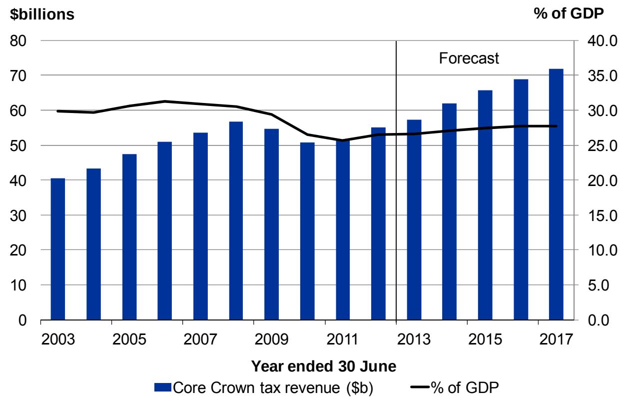
Source: The Treasury

Core Crown Tax Revenue

Tax revenue continues to recover and increase as a percentage of GDP...

Core Crown tax revenue is forecast to increase by $14.5 billion over the next four years and grow at a faster rate than the economy, reaching $71.9 billion (27.7% of GDP) in 2016/17 as shown in Figure 2.1.

Figure 2.1 – Core Crown tax revenue

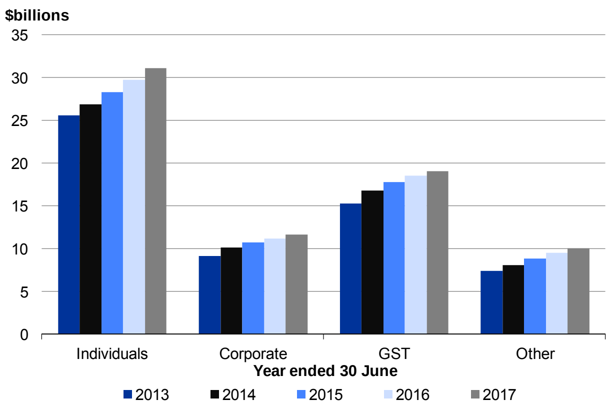


Source: The Treasury

Most of the increase in tax revenue is owing to growth in the economy, with nominal GDP forecast to grow by 24.5% (over the next five years), in part because of the rebuild of Canterbury. The increase in tax revenue over the forecast period mainly comes through four tax types:

- Earnings growth means that wages increase and, because of the progressive nature of the personal tax scale (ie, higher marginal tax rates at higher incomes), average personal income tax rates increase, adding about 0.4% of GDP to source deductions through pay as you earn tax (PAYE).
- Increasing interest rates add about 0.2% of GDP to resident withholding tax (RWT) as the key 90-day rate is forecast to rise from 2.6% to 4.7%.

Figure 2.2 – Core Crown tax revenue by type



Source: The Treasury

- An increase in the assumed effective tax rate on total entrepreneurial income, owing to a number of influences flowing on from changes made in Budget 2010 (including base-broadening depreciation measures and the effect of increased enforcement activity by the Inland Revenue [IRD]), adds about 0.2% of GDP to other persons tax.
- In addition to the impact of economic growth, the *Half Year Update* includes policy changes to fuel excise and road user charges, providing $1.1 billion of additional revenue (including 2016/17).

...but the tax forecasts have weakened since the last Budget Update

Weaker economic forecasts have reduced tax revenue since the *Budget Update* by $7.9 billion for the four years to 2015/16, as shown in Table 2.3 below.

Table 2.3 – Movement in core Crown tax revenue forecasts since the *Budget Update*

Affected tax type	Economic driver	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	Total impact
Source deductions	Employees' compensation	-	(0.3)	(0.6)	(0.9)	(1.8)
Other persons tax	Entrepreneurial income	(0.1)	(0.2)	(0.2)	(0.4)	(0.9)
Company tax	Operating surplus	(0.6)	(0.4)	(0.5)	(0.6)	(2.1)
Goods and services tax	Consumption and residential investment	(0.3)	(0.4)	(0.4)	(0.6)	(1.7)
RWT	Interest rates	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)
All other taxes	Other	(0.1)	(0.1)	(0.2)	(0.2)	(0.6)
Total macroeconomic effect		**(1.3)**	**(1.6)**	**(2.1)**	**(2.9)**	**(7.9)**
Tax forecasting changes		0.2	0.4	0.5	0.2	1.3
Tax policy changes		-	0.2	0.3	0.4	0.9
Total changes in tax revenue since Budget 2012		**(1.1)**	**(1.0)**	**(1.3)**	**(2.3)**	**(5.7)**

Source: The Treasury

The tax forecasting changes, which were not directly related to changes in the macroeconomic forecast, were positive in each year. These changes were mainly caused by increases in:

- the effective tax rate on other persons tax owing to changes made in Budget 2010, as discussed earlier, which has become apparent through recent tax outturns, and
- the assumed level of tax on investment income as a result of the increasing popularity of savings schemes such as KiwiSaver.

The tax policy changes to road user charges and fuel excise duty are new decisions since Budget.

Treasury and IRD forecasts

In line with established practice, IRD has also prepared a set of tax forecasts which, like the Treasury's tax forecasts, is based on the Treasury's macroeconomic forecasts. In this *Half Year Update*, the two sets of tax forecasts are close to each other, with the largest difference in any one year being just over $300 million (around 0.5% of core Crown tax revenue). A full comparison of the Treasury and IRD forecasts can be found in the Additional Information on the Treasury website, at www.treasury.govt.nz/budget/forecasts/hyefu2012.

Core Crown Expenses

Core Crown expenses continue to increase over the forecast period but fall as a percentage of GDP...

Core Crown expenses are expected to increase in nominal terms by $8.9 billion over the forecast period, from $69.1 billion in 2011/12 to $78.0 billion in 2016/17, as shown in Figure 2.3.

While expenses continue to increase, the growth is expected to be at a slower rate than economic growth. As a result, core Crown expenses fall as a percentage of GDP over the forecast period.

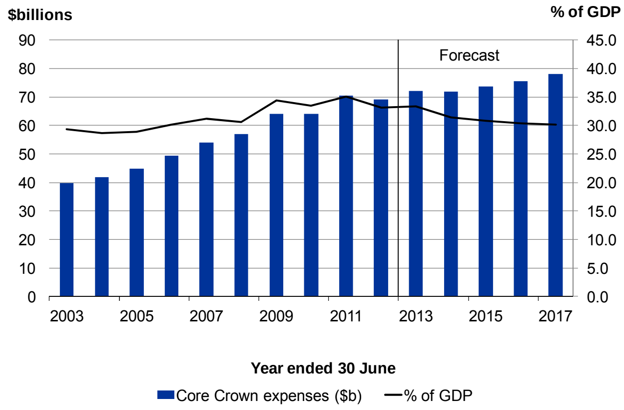
Figure 2.4 illustrates the slowing expense growth (excluding earthquake costs). Over the 10 years from 2002/03 through to 2011/12 the average annual increase in core Crown expenses was 6.1%, but over the next five years the average increase is forecast to halve to 3.0% per year. The fall in the growth rate is largely owing to fiscal constraint on spending in recent Budgets.

This fiscal constraint is projected to continue over the ten years following the forecast period and helps the Crown rebuild the fiscal buffer and resume contributions to the NZS Fund. See page 38 for details about the projection period.

While the rate of expense growth declines, the nominal increase in core Crown expenses is $8.9 billion from 2011/12 to the end of the forecast period, as detailed in Table 2.4.

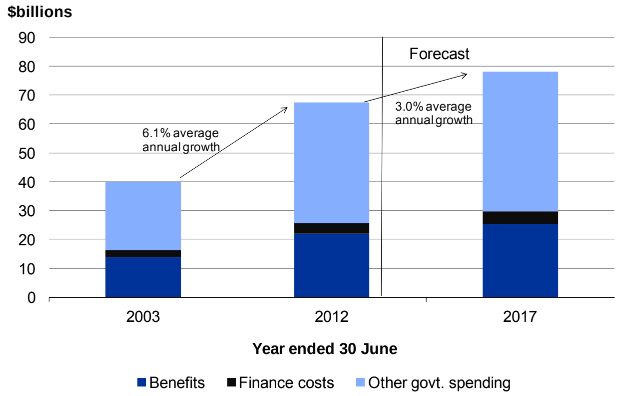
New operating initiatives are the largest component of the increase in core Crown expenses. Of the $5.0 billion of allowance increases, $0.6 billion relates to Budget 2012, with the remaining $4.4 billion relating to the next four Budgets, as shown in Figure 2.5.

Figure 2.3 – Core Crown expenses



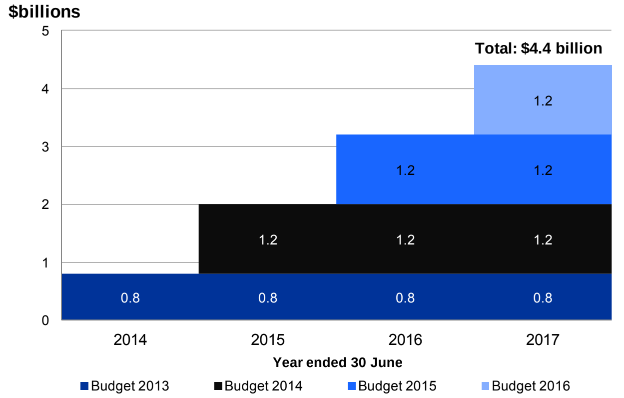
Source: The Treasury

Figure 2.4 – Core Crown expense growth (excluding earthquake costs)



Source: The Treasury

Figure 2.5 – Future budget allowances



Source: The Treasury

Table 2.4 – Growth in core Crown expenses

Year ended 30 June	**$billions**
Core Crown expenses 2011/12	**69.1**
Core Crown expenses 2016/17	**78.0**
Increase in core Crown expenses	8.9
New spending	
Budget allowances	5.0
Forecast changes	
Social assistance	3.4
Emissions Trading Scheme	(0.3)
Finance costs	0.8
Debt impairments	0.7
One-off costs	
Weathertight homes	0.3
Earthquake expenses	(1.2)
Other movements	0.2
Total change in expenses	8.9

Source: The Treasury

In addition to new spending, increases in benefit spending provide most of the remainder of expense growth. Social assistance benefits are expected to increase $3.4 billion over the next five years, with $3.1 billion of the increase related to New Zealand Superannuation payments (forecast to rise from $9.6 billion in 2011/12 to $12.7 billion by 2016/17). About two-thirds of the growth in superannuation payments is owing to an increase in recipient numbers, while the remaining third relates to payments rising with wage growth.

Finance costs are expected to increase by $0.8 billion over the next five years, largely reflecting the continued increases in gross debt and interest rates over the forecast period.

Debt impairments are expected to be $0.7 billion higher by 2016/17 than they were in 2011/12. The increase in these impairments is largely owing to the actual expense in 2011/12 being lower than expected, in part owing to one-off reductions to student loan impairments through policy changes to the level of repayments rising from 10% to 12%.

Offsetting these increases, costs of the Emissions Trading Scheme (ETS) are expected to be lower than in 2011/12 as the number of units issued and the costs of those units decrease across the forecast period.

There are some large “one-off” expenses that also contribute to the growth in expenses over the forecast period. The largest of these is a fall in earthquake costs, which are largely expected to be incurred in the first few years of the forecasts and fall to $0.1 billion in 2016/17; $1.2 billion lower than in 2011/12. Slightly offsetting the fall in earthquake costs was a one-off reduction in 2011/12 related to the weathertight homes provision to reflect the reduced take-up rates for the scheme.

...but are forecast to increase at a slower rate than forecast in the Budget Update

While core Crown expenses are forecast to rise over the next five years, they are less than those forecast at the *Budget Update*. For example, the forecast core Crown expenditure in the 2015/16 year was $77.3 billion in the *Budget Update* and this is now expected to be $75.6 billion in these forecasts (a $1.7 billion reduction).

The reduction in the expense forecasts is largely related to the weaker economic outlook, particularly in relation to inflation, wage growth and interest rates. In comparison to the *Budget Update*, with specific reference to the 2015/16 year, the two main reductions in core Crown expenses as a result of changes to the economic forecasts were:

- Social assistance benefits are $0.6 billion less as lower tracks for inflation and average wage growth flow through to lower benefit payments. The average payment rates for the Accommodation Supplement is the other main source of reductions in benefit expenses, which reflect recent data on rental costs and are now expected to increase at a slower rate than previously expected. Slightly offsetting these reductions, the *Half Year Update* includes higher recipient numbers in each year of the forecasts other than in 2012/13.

- The track for interest rates was also revised down in these forecasts, which meant that finance costs are $0.2 billion less than the *Budget Update* forecasts. The lower track for interest rates also impacts on the Government Superannuation Fund (GSF) expenses as the interest rate unwind of the long-term liability is expected to be lower.

In addition to the impact of economic forecasts, the cost of the ETS is expected to be $0.6 billion lower than was expected at Budget 2012. The reduction in the ETS costs was because the cost of units has decreased markedly since the Budget 2012 forecasts. However, while the expense forecasts are lower, these are largely offset by a reduction in revenue so there is minimal OBEGAL impact.

Overall, the lower expense forecasts compared to the *Budget Update* help contribute to the Government remaining on track to return to surplus in 2014/15, which is detailed on page 32.

Cost of Canterbury Earthquakes to the Crown

The Government is making a significant contribution to the rebuild in Canterbury, with latest estimates for the total cost to the Crown at $13.1 billion.

While the Canterbury Earthquake Recovery Fund remains at $5.5 billion, total estimates of existing policies are now expected to fully utilise the Fund. Of the $5.5 billion, the expected costs of policy decisions total $4.7 billion and $0.8 billion is set aside as an estimation contingency to reflect the significant uncertainty.

With the Fund fully allocated, new policy decisions, or increases in costs above the estimation contingency that are not managed within existing budget allowances, will adversely affect the Crown's fiscal position.

There remains a significant risk that the final cost to the Crown will exceed the $13.1 billion cost estimate included in these forecasts. The *Specific Fiscal Risks* chapter includes discussion on the risks associated with the Canterbury earthquakes (page 61).

The tables below show the latest estimates of the net impact of the earthquakes included in these forecasts.

Table 2.5 – Net earthquake expenses

Year ending 30 June	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**	***Total***
$millions	**Actual**	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**HYEFU**	***BEFU***
Local infrastructure	160	721	214	152	152	100	50	1,549	*1,643*
Welfare support	220	23	35	23	6	-	-	307	*233*
Southern Response support package	355	156	(98)	(41)	(33)	(37)	(2)	300	*148*
Land zoning	653	258	199	10	-	-	-	1,120	*1,067*
Other costs	205	121	589	593	(41)	(37)	8	1,438	*852*
Estimation contingency	-	-	793	-	-	-	-	793	-
Yet to be allocated	-	-	-	-	-	-	-	-	*1,564*
Canterbury Earthquake Recovery Fund	**1,593**	**1,279**	**1,732**	**737**	**84**	**26**	**56**	**5,507**	***5,507***
EQC	7,471	662	(164)	(255)	(68)	(114)	-	7,532	*7,445*
Other SOEs and CEs	23	(41)	24	(116)	80	57	22	49	*23*
Total Crown	**9,087**	**1,900**	**1,592**	**366**	**96**	**(31)**	**78**	**13,088**	***12,975***

Source: The Treasury

Table 2.6 – Net cash payments

Year ending 30 June	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**	***Total***
$millions	**Actual**	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**HYEFU**	***BEFU***
Canterbury Earthquake Recovery Fund	**508**	**1,312**	**1,399**	**1,027**	**488**	**602**	**171**	**5,507**	***5,507***
EQC	1,178	2,231	817	1,729	1,006	571	-	7,532	*7,445*
Other SOEs and CEs	23	(18)	(2)	(142)	28	79	31	(1)	*23*
Total Crown	**1,709**	**3,525**	**2,214**	**2,614**	**1,522**	**1,252**	**202**	**13,038**	***12,975***

Source: The Treasury

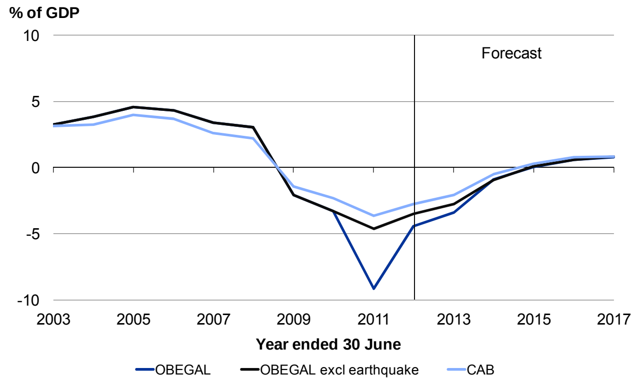
A discussion about the total economic impact of the Canterbury earthquakes can be found in the *Economic Outlook* chapter on page 13.

Operating Surplus

The Crown is forecast to return to surplus in 2014/15...

Overall, the Crown is forecasting two years of declining deficits, with the OBEGAL expected to reach a surplus of $66 million in 2014/15. Surpluses are then forecast to continue across the projection period (see page 38) as the Crown starts to strengthen its fiscal position. The Crown begins to rebuild a fiscal buffer against future adverse shocks and cost pressures and contributions to the NZS Fund are expected to resume in 2018/19.

Figure 2.6 – Operating balance before gains and losses (OBEGAL)



Source: The Treasury

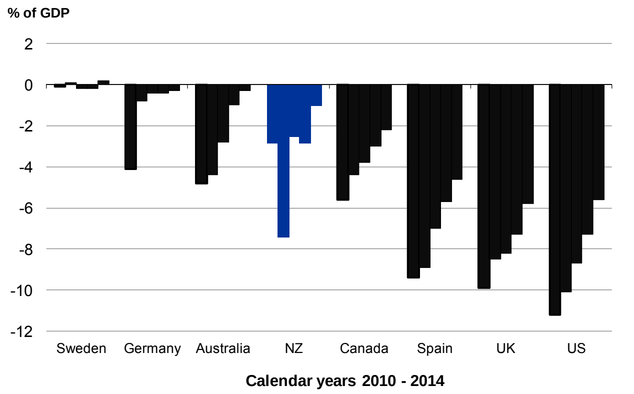
The main driver of the return to surplus is fiscal constraint, with core Crown expenses forecast to grow at half the rate of core Crown tax revenue over the forecast period. In addition, the State-Owned Enterprise (SOE) and Crown Entity (CE) sectors contribute between $1.7 billion and $2.0 billion to the OBEGAL in each year of the forecasts.

The underlying nature of the operating balance can be seen using the cyclically-adjusted balance (CAB), which adjusts for business cycles and significant one-off expenses. As shown in Figure 2.6, the recent operating deficits have been largely structural, primarily reflecting the changed view of the underlying size of the economy following the global financial crisis. The resulting smaller economy reduced the tax base, while, in contrast, expenses continued to grow. As the forecast for expense and revenue flows (described earlier) occur, the CAB is expected to move from deficit to surplus in 2014/15.[3]

...and the recovery has a similar profile to other countries

New Zealand's return to surplus track is similar to that of other countries, as shown in Figure 2.7. The fiscal balance[4] track shows the impact of the global financial crisis and that most other developed countries are also forecast to recover over the coming years. While New Zealand is forecast to return to surplus in 2014/15, some other countries were more severely affected by the global financial crisis and are forecast to face a period of longer deficits.

Figure 2.7 – Fiscal balance compared to other countries



Sources: IMF, the Treasury

3 For more details, see the *Additional Information* on the Treasury website.

4 To enable comparison between countries, New Zealand's generally accepted accounting practice (GAAP) based figures have been converted to a Government Financial Statistics (GFS) basis, therefore the fiscal balance differs from other indicators in this document. New Zealand data are for June year estimates of the central government, while the international comparators are for general government (includes local government). For more details about GFS, see the *Additional Information* on the Treasury website.

Changes in OBEGAL Since Budget 2012

Changes in the economic forecasts since the *Budget Update* have worsened the fiscal outlook. However, the reductions in revenue were largely offset by reductions in expenses and tax policy changes that increased expected revenue. Refer to page 26 for discussion on changes in tax revenue and page 29 for discussion on the changes in core Crown expenses. Overall, the OBEGAL track is broadly in line with the forecasts from the *Budget Update*. A summary of the changes is shown in Table 2.7 below.

Table 2.7 – Changes in OBEGAL since Budget 2012

Year ended 30 June **$billions**	**2013** **Forecast**	**2014** **Forecast**	**2015** **Forecast**	**2016** **Forecast**
OBEGAL - *Budget Update*	**(7.9)**	**(2.0)**	**0.2**	**2.1**
Changes in forecasts:				
Economic forecasts				
Tax revenue	(1.3)	(1.6)	(2.1)	(2.9)
Benefit expenses	0.3	0.2	0.5	0.6
Net finance costs	-	0.2	0.2	0.1
GSF expenses	-	0.1	0.1	0.1
Policy changes:				
Road user charges and fuel excise duty	-	0.2	0.3	0.4
Transport-related expenses	-	(0.1)	(0.1)	(0.2)
Timing differences:				
Earthquake expenses	0.7	0.3	0.1	0.1
Change in top-down	0.5	0.1	0.1	0.1
Other changes:				
Tax forecasting changes	0.2	0.4	0.5	0.2
ACC	(0.1)	0.1	0.2	0.3
Other	0.3	0.1	0.1	0.5
Total changes since Budget Update	*0.6*	*(0.0)*	*(0.1)*	*(0.7)*
OBEGAL – *Half Year Update*	**(7.3)**	**(2.0)**	**0.1**	**1.4**

Source: The Treasury

Economic forecasts:

The downward revision in nominal GDP reduced tax revenue forecasts, but the impact of these was partially offset by reductions in forecasts for benefits and finance costs as inflation and interest rates are now forecast to be lower than at the *Budget Update*.

Policy changes:

Increases in road user charges and fuel excise are expected with the increase in revenue used to fund transport-related operating and capital costs.

Timing differences:

While the earthquake costs are expected to be similar to those forecast at Budget 2012, the profile has changed, with costs now being recognised earlier. In addition, some costs are now capital in nature, reducing the impact on the OBEGAL.

The 2012/13 top-down adjustment[5] has been increased significantly from the *Budget Update* reflecting the large department underspends in 2011/12.

Other changes:

Changes to assumptions for tax revenue forecasts were made to incorporate recent evidence which represents a structural change in tax revenue.

Recent improvements in rehabilitation rates for ACC recipients are now thought to be more structural than initially thought, and have reduced ACC insurance expense across the forecast period.

5 The top-down adjustment is a central adjustment to reduce department forecasts for spending, reflecting the fact that departments tend to forecast upper limits of spending rather than best estimates.

Net Debt

Operating deficits result in cash shortfalls...

While the OBEGAL is expected to return to surplus in 2014/15, core Crown operating cash flows are expected to reach a small surplus one year later in 2015/16. Over the five-year forecast period, operating cash deficits total $10.0 billion.

In addition, the Crown is forecast to spend $23.4 billion on capital items, such as the purchase of physical assets and issuing student loans, over the next five years. When the estimated $6.0 billion of proceeds (see Table 2.11 on page 37) from the Government share offers are included, the net capital spend is $17.4 billion.

Combining the net operating results with the capital spend, residual cash remains in deficit across the forecast period and is the key driver for the increase in net debt, as shown in Table 2.8 below.

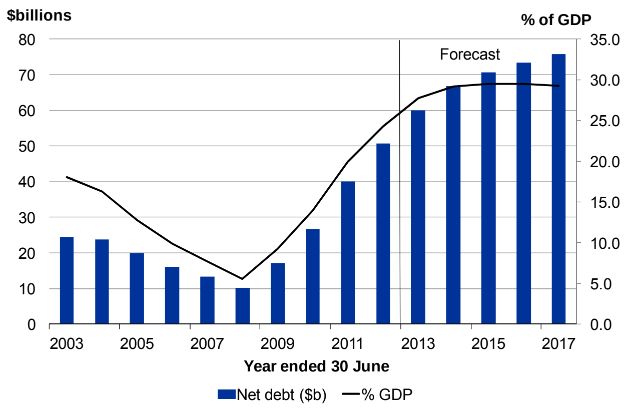
Table 2.8 – Movement in net core Crown debt

Year ended 30 June $billions	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Opening net debt	40.1	50.7	60.0	66.7	70.7	73.5
Core Crown residual cash deficit	10.6	9.8	6.9	4.6	3.3	2.9
Other valuation changes in financial assets and financial liabilities	-	(0.5)	(0.2)	(0.6)	(0.5)	(0.5)
Closing net debt	**50.7**	**60.0**	**66.7**	**70.7**	**73.5**	**75.9**
As a percentage of GDP	**24.3%**	**27.8%**	**29.2%**	**29.5%**	**29.5%**	**29.3%**

Source: The Treasury

Therefore, despite a return to surplus, the continued capital spending sees net debt[6] increase in nominal terms over the forecast period. However, net debt is expected to peak as a share of the economy at 29.5% of GDP in 2014/15 and 2015/16, as shown in Figure 2.8.

Figure 2.8 – Net core Crown debt



Source: The Treasury

The increase in net debt over the forecast period has a negative impact on OBEGAL as net finance costs increase with the rising debt levels. However, the increase in finance costs is not as steep as the debt increase because interest rates are expected to remain at historically low levels across the forecast period.

6 Net debt is a core Crown measure excluding the NZS Fund and advances.

...which are mostly funded by issuing government bonds

The residual cash deficit is mostly funded by raising debt, but can also be met by reducing financial assets. The New Zealand Debt Management Office (NZDMO) raises the Crown's debt through a number of programmes, the most significant being the domestic bond programme. Over the five-year forecast period, net issuance of government bonds is forecast to be $23.4 billion, with cash proceeds from the issuance being $48.4 billion (face value of $48.0 billion) and repayments of $25.0 billion ($22.8 billion of this from the market).

Table 2.9 – Net increase in government bonds

Year ending 30 June **$billions**	**2013** **Forecast**	**2014** **Forecast**	**2015** **Forecast**	**2016** **Forecast**	**2017** **Forecast**	**5-year** **Total**
Face value of government bonds issued (market)	14.0	10.0	10.0	7.0	7.0	48.0
Cash proceeds						
Cash proceeds from issue of government bonds (market)	15.8	10.4	9.7	6.3	6.2	48.4
Repayment of government bonds (market)	(10.0)	-	(11.0)	(1.8)	-	(22.8)
Net increase in government bonds (market)	5.8	10.4	(1.3)	4.5	6.2	25.6
Cash proceeds from issue of government bonds (non-market)	-	-	-	-	-	-
Repayment of government bonds (non-market)	(0.5)	(1.5)	(0.2)	-	-	(2.2)
Net increase in government bonds (non-market)	(0.5)	(1.5)	(0.2)	-	-	(2.2)
Net cash proceeds from bond issuance	**5.3**	**8.9**	**(1.5)**	**4.5**	**6.2**	**23.4**

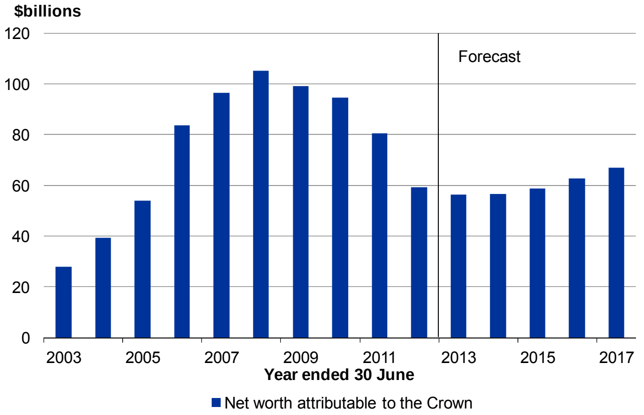
Source: The Treasury

Total Crown Balance Sheet

Net worth recovers over the forecast period and the fiscal buffer begins to rebuild

Largely owing to the forecast return to surplus, net worth attributable to the Crown increases over the forecast period and reaches $67.0 billion by 2016/17, as shown in Figure 2.9. However, net worth remains below the levels that existed prior to the global financial crisis when net worth attributable to the Crown peaked at $105.1 billion in 2007/08.

Figure 2.9 – Net worth attributable to the Crown



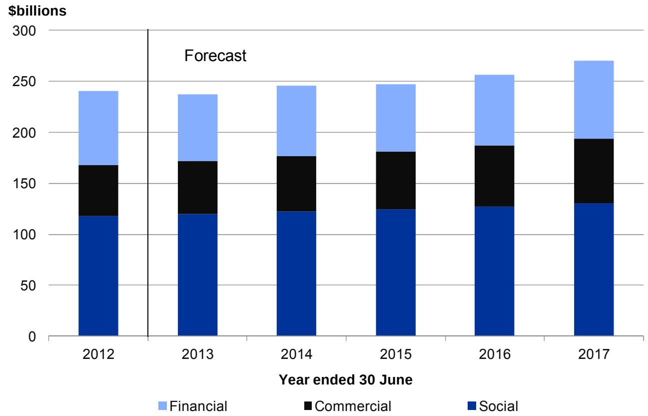
Source: The Treasury

By 2016/17, total Crown assets are forecast to increase by $31.9 billion to $272.2 billion, outpacing the growth in liabilities which are forecast to reach $199.0 billion by 2016/17 (an increase of $18.5 billion).

Assets are expected to increase...

Total assets are expected to increase $31.9 billion in net terms over the next five years as all portfolios grow, as shown in Figure 2.10.

Figure 2.10 – Total Crown assets by portfolio



Source: The Treasury

Both the commercial and social portfolios increase steadily over the forecast period ($13.3 billion and $11.3 billion respectively). However, the financial portfolio declines in the early years of the forecasts, largely owing to reductions in assets to repay debt and to meet claims from the Canterbury earthquakes, before recovering in the later years as investment growth in the Crown financial institutions (CFIs) recovers.

While net asset growth is forecast to be $31.9 billion, the total investment in capital is expected to be $81.6 billion, as detailed in Table 2.10.

Table 2.10 – Gross asset growth

Year ending 30 June $billions	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	5-year Total
Opening total assets	245.2	240.3	237.8	246.8	248.2	258.5	
Increases in assets							
Physical asset additions	6.5	7.5	7.7	7.0	6.8	7.1	36.1
Student loans issuance	1.6	1.6	1.7	1.7	1.7	1.8	8.5
CFI asset investment growth	3.9	6.2	3.7	4.4	4.7	5.1	24.1
Kiwibank mortgages	1.0	1.0	1.3	1.7	2.5	3.0	9.5
Forecast new capital spending	-	0.2	0.7	0.8	0.8	0.9	3.4
Total increase in assets	**13.0**	**16.5**	**15.1**	**15.6**	**16.5**	**17.9**	**81.6**
Reductions in assets							
Depreciation on physical assets	(3.8)	(3.9)	(4.1)	(4.2)	(4.3)	(4.4)	(20.9)
Asset disposals	(0.3)	(0.6)	(0.7)	(0.8)	(0.6)	(0.7)	(3.4)
RBNZ and NZDMO activity	(4.2)	(9.2)	1.6	(6.8)	0.9	3.4	(10.1)
Student loans	(0.8)	(1.1)	(1.2)	(1.2)	(1.3)	(1.3)	(6.1)
National disaster fund	(2.1)	(3.0)	(2.6)	(1.3)	(0.3)	-	(7.2)
Other changes[1]	(6.7)	(1.2)	0.9	0.1	(0.6)	(1.2)	(2.0)
Total reduction in assets	**(17.9)**	**(19.0)**	**(6.1)**	**(14.2)**	**(6.2)**	**(4.2)**	**(49.7)**
Net change in assets	**(4.9)**	**(2.5)**	**9.0**	**1.4**	**10.3**	**13.7**	**31.9**
Closing total assets	**240.3**	**237.8**	**246.8**	**248.2**	**258.5**	**272.2**	

Note 1 2011/12 includes asset valuations.

Source: The Treasury

The key areas of investment include:

- the replacement of $36.1 billion of physical assets, largely in the priority areas (eg, transport, health and education) within the social portfolio
- reinvestment of returns on financial assets by the NZS Fund and ACC totalling $24.1 billion, and
- new capital spending of $3.4 billion over the next five years, which will be funded by the Future Investment Fund (discussed in more detail below).

Most of this investment is in the social portfolio, where capital investment of $37.2 billion is expected over the next five years. The investment is largely made up of the replacement of physical assets and investment into new capital initiatives.

Investment in the commercial portfolio largely comes from the growth in Kiwibank's mortgages (which are offset by an increase in their deposits) and growth in the physical assets of SOEs.

Growth in the financial portfolio is largely made up of the reinvestment of returns made by ACC and the NZS Fund as mentioned above, offset by the reduction in assets held by the NZDMO and the Earthquake Commission (EQC) as assets are realised to repay debt and insurance claims are paid.

...partly funded by the Future Investment Fund

Of the growth in social assets over the forecast period, $3.4 billion relates to new capital spending and is expected to be funded by the Future Investment Fund. The Fund is forecast to be built up from the proceeds of $6.0 billion from the Government share offers, which are forecast over the next four years as shown in Table 2.11. In Budget 2012, $0.5 billion of the Fund was pre-allocated, so together with the forecast spend of $3.4 billion the Fund is expected to hold $2.1 billion by the end of the forecast period, which will contribute towards capital spending after 2016/17.

Table 2.11 – Estimated fiscal impact of the Government share offers

Year ending 30 June $millions	**2013 Forecast**	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**5-year Total**
Cash/Debt impact						
Forecast cash proceeds	1,500	1,500	1,500	1,500	-	6,000
Forecast forgone dividends	-	(100)	(150)	(200)	(250)	(700)
Estimated finance cost savings	12	82	163	254	238	749
Reduction in net debt	1,512	1,482	1,513	1,554	(12)	6,049
Accrual impact						
Forecast forgone profits	(20)	(170)	(250)	(330)	(420)	(1,190)
Estimated finance cost savings	12	82	163	254	238	749
Net decrease in OBEGAL	(8)	(88)	(87)	(76)	(182)	(441)
Forecast gain on disposal recorded in taxpayers' funds	175	175	175	175	-	700
Increase in net worth attributable to the Crown	167	87	88	99	(182)	259

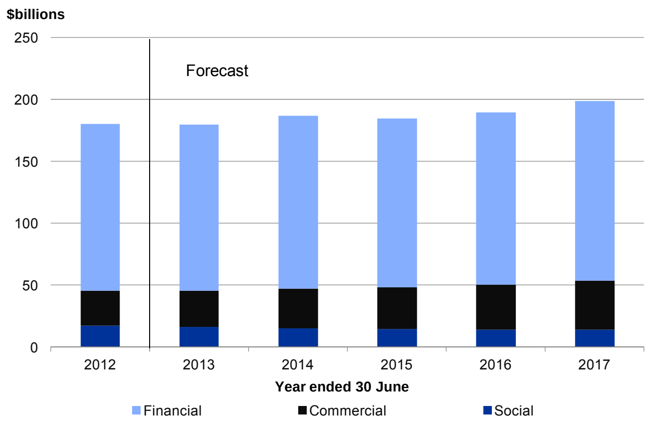
Source: The Treasury

The forecast fiscal impact of the Government share offers remains similar to the *Budget Update* despite the first sale now expected to occur between March and June 2013. As a result, the amount of foregone profits, dividends and finance cost savings has reduced in 2012/13. The other change from the *Budget Update* is that the forecast gain on disposal of the companies has reduced from $0.8 billion to $0.7 billion. While the forecast for cash proceeds has not changed, the book value of the companies has increased since the *Budget Update*, and so the expected gain on disposal recorded in taxpayers' funds has reduced. Further details about the assumptions surrounding the forecast for the Government share offers can be found in the assumptions note on page 40.

Liabilities are expected to grow over the forecast period, but at a slower rate than assets

The value of total Crown liabilities is forecast to increase over the next five years by $18.5 billion, from $180.5 billion at 30 June 2012 to $199.0 billion by the end of the forecast period, as shown in Figure 2.11.

Figure 2.11 – Total Crown liabilities by portfolio



Source: The Treasury

Most of the increase comes from the commercial portfolio, where liabilities increase $11.6 billion, from $28.1 billion to $39.7 billion. $9.5 billion is owing to growth in Kiwibank deposits (offset by an increase in their mortgages) with the remainder being an increase in SOE borrowings.

Liabilities in the financial portfolio are expected to increase $10.2 billion, largely owing to increased core Crown borrowing by the NZDMO, as discussed earlier. The increase in borrowings is offset by the reduction in insurance obligations in relation to the Canterbury earthquakes as claims are paid out.

Social liabilities are expected to reduce by $3.3 billion, from $17.5 billion to $14.2 billion. The reduction in these liabilities is largely owing to a reduction in earthquake related liabilities as the existing obligations are expected to be settled over the forecast period.

Medium-term Projections

Medium-term fiscal projections cover the decade subsequent to the forecasts up to and including the year ending June 2027. While the forecasts are based on comprehensive modelling of economic and fiscal conditions, projections differ in that they are potential paths for the future, largely based on historical values and reflecting only existing policy settings.

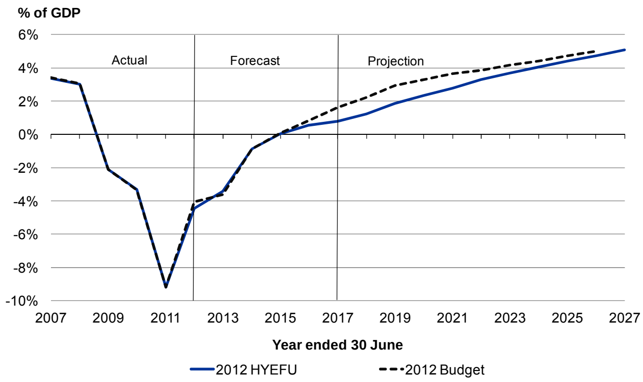
OBEGAL and net debt improve over the 10-year projection period, although to a lesser degree than in the *Budget Update*. Much of the change from the *Budget Update* arises from the fact that the latest projections start from a weaker forecast base. The increased levels of net debt over the forecast base translate to a higher net debt track over the projections. However, stronger labour force projections drive tax revenue growth at a faster rate than in the *Budget Update* and see the gap in the OBEGAL track nearly close by the end of the decade of projections.

OBEGAL

Following on from the end of the forecast period, fiscal constraint continues into the projection period. As the level of growth of expenditure is lower than both historical averages and nominal GDP growth, this plays a large part in the continued improvement in OBEGAL.

In addition, in the first five years of the projections, tax revenue grows relatively strongly as the unemployment rate continues to fall and labour productivity growth is assumed to return to 1.5% per annum.

Figure 2.12 – OBEGAL projections



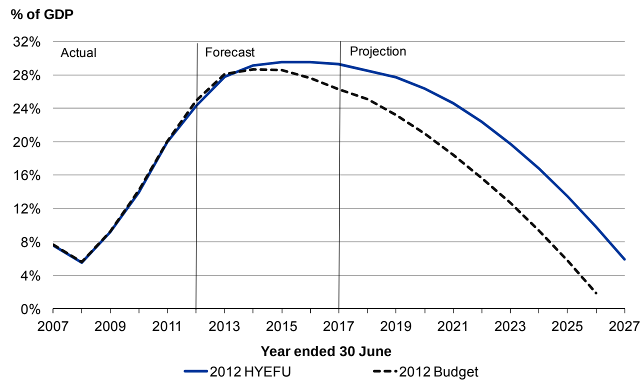
Source: The Treasury

As a result, the OBEGAL steadily increases, with contributions to the NZS Fund projected to resume in 2018/19 (at $2.1 billion) when the core Crown OBEGAL is at a sufficient level to fund contributions.

Net debt

Overall, net debt is forecast to peak at 29.5% of GDP in 2014/15 and 2015/16 before steadily declining over the projection period, as shown in Figure 2.13. The improving track is largely owing to continued fiscal consolidation and the forecast return to surplus. The repayment of debt in turn helps surpluses to increase as debt financing costs fall.

Figure 2.13 – Net debt projections



Source: The Treasury

Fiscal Forecast Assumptions

The fiscal forecasts are based on assumptions and judgements developed from the best information available on 26 November 2012, when the forecasts were finalised. Actual events are likely to differ from some of these assumptions and judgements. Furthermore, uncertainty around the forecast assumptions and judgements increases over the forecast period. 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 the table below (on a June-year-end basis to align with the Government's balance date).

Table 2.12 – Summary of key economic forecasts used in fiscal forecasts

Year ending 30 June	**2012 Actual**	**2013 Forecast**	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**
Real GDP[1] (ann avg % chg)	2.0	2.3	3.0	2.5	2.4	2.4
Nominal GDP[2] ($m)	208,219	216,048	228,797	239,279	249,023	259,149
CPI (ann avg % chg)	2.2	1.3	1.9	2.2	2.2	2.3
Govt 10-year bonds (ann avg %)	4.1	3.6	3.7	4.4	4.9	5.2
5-year bonds (ann avg %)	3.5	3.0	3.5	4.3	4.9	5.1
90-day bill rate (ann avg %)	2.7	2.7	3.0	3.9	4.5	4.8
Unemployment rate (ann avg %)	6.6	7.0	6.3	5.9	5.6	5.2
Employment (ann avg % chg)	1.0	0.2	2.0	1.8	1.4	1.5
Current account (% of GDP)	(4.9)	(4.9)	(4.7)	(5.8)	(6.3)	(6.4)

Notes: 1 Production measure
2 Expenditure measure

Source: The Treasury

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

<table>
<tr><td>Government decisions</td><td>Incorporate government decisions and other circumstances known to the Government up to 26 November 2012.</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 IRD and the Treasury.
Nominal tax revenue will grow in line with growth in nominal GDP and its components.</td></tr>
<tr><td>Earthquake costs</td><td>Expenditure (accrual measure) is forecast based on estimates on when key decisions will be taken. The timing of cash payments is based on estimates of when actual spending will take place. Refer page 30 for further discussion.</td></tr>
<tr><td>Operating allowance</td><td>Net $800 million in Budget 2013.
Net $1.2 billion from Budget 2014 growing at a rate of 2% per annum for subsequent Budgets.</td></tr>
<tr><td>Provision for new capital spending</td><td>Net $4.9 billion over the next five Budgets with $1.6 billion in Budget 2013, $1.0 billion in Budget 2014, $0.7 billion in Budgets 2015 and 2016, and $0.9 billion in Budget 2017. For further details see note 8 of the Forecast Financial Statements.</td></tr>
<tr><td>Government share offers</td><td>Sale programme spread evenly across the four years from 2012/13 to 2015/16.
Net sale proceeds of $6 billion (based on a mid-point estimate of between $5 billion and $7 billion).
Net assets of the entities as at 30 June 2012 ($5.3 billion) were used to determine the gain on sale.
Forgone profits and dividends are based on an average of the fiscal forecasts provided by the companies for the Half Year Update.</td></tr>
<tr><td>Finance cost on new bond issuances</td><td>Based on 5-year rate from the main economic forecasts and adjusted for differing maturity.</td></tr>
<tr><td>Top-down adjustment</td><td>A top-down adjustment is made to compensate for departments that tend to forecast upper spending limits (appropriations) rather than best estimates.
Top-down adjustment to operating and capital as follows:
<table>
<tr><th>Year ending 30 June
$billions</th><th>2013
Forecast</th><th>2014
Forecast</th><th>2015
Forecast</th><th>2016
Forecast</th><th>2017
Forecast</th></tr>
<tr><td>Operating</td><td>1.2</td><td>0.2</td><td>0.2</td><td>0.2</td><td>0.2</td></tr>
<tr><td>Capital</td><td>0.4</td><td>0.1</td><td>0.1</td><td>0.1</td><td>0.1</td></tr>
</table></td></tr>
<tr><td>Borrowing requirements</td><td>Forecast cash deficits will be met by reducing financial assets and issuing debt.</td></tr>
</table>

Property, plant and equipment	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 2012 annual financial statements and any additional valuations that have occurred up to 30 September 2012 are included in these forecasts.
Student loans	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 forecast.
Investment rate of returns	Incorporate the actual results to 30 September 2012. Beyond this time, gains on financial instruments are based on long-term benchmark rates of return for each portfolio.
GSF and ACC liabilities	The GSF and ACC liabilities included in these forecasts have been valued as at 30 September 2012 and 30 June 2012 respectively. The ACC liability has been adjusted for the 30 September 2012 discount rate. Both liabilities are valued by projecting future cash payments, and discounting them to present value. These valuations rely on historical data to predict future trends and use economic assumptions such as inflation and discount rates. Any change 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. The 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.
NZS Fund contributions	No contribution is assumed in the forecast period.

Projection Assumptions

The projection period begins in 2017/18 and is based on the long-run technical and policy assumptions outlined below.

Table 2.13 – Summary of key economic and demographic assumptions in projections[1]

Year ending 30 June	2013	2014	2015	2016	2017	2018	2019	2020	2021	...	2027
			Forecast					Projections			
Labour force	0.6	1.3	1.4	1.1	1.0	1.1	1.1	1.0	1.0	...	0.7
Unemployment rate[2]	7.0	6.3	5.9	5.6	5.2	5.1	5.0	4.9	4.8	...	4.5
Employment	0.2	2.0	1.8	1.4	1.5	1.2	1.2	1.1	1.1	...	0.7
Labour productivity[3]	2.1	1.0	1.0	1.1	0.9	1.2	1.3	1.5	1.5	...	1.5
Real GDP	2.3	3.0	2.5	2.4	2.4	2.4	2.5	2.6	2.5	...	2.3
Consumers Price Index[4]	1.5	2.1	2.2	2.2	2.2	2.0	2.0	2.0	2.0	...	2.0
Government 5-year bonds[5]	3.0	3.5	4.3	4.9	5.1	5.2	5.3	5.4	5.5	...	5.5
Average hourly wage	2.5	2.4	2.7	2.6	2.6	3.2	3.3	3.5	3.5	...	3.5

Notes: 1 Figures are annual average percentage change unless otherwise stated
2 Household Labour Force Survey (HLFS) basis, annual average
3 Hours worked measure
4 Annual percentage change
5 Annual average

Source: The Treasury

Transition of economic variables from the end of forecast

With the lingering impacts of the global financial crisis, Canterbury earthquakes and uncertainty around growth prospects for many of our major trading partners, many economic variables have not recovered to long-term, on-trend, stable values by the end of the five year forecast horizon. As a consequence, the first few years of projections involve a degree of transition for many of these variables to return them to this state.

Over the long term the unemployment rate is expected to be 4.5% of the labour force. By the last year of the forecasts, 2016/17, it is higher than this, at 5.2%. Over the early projected years it is lowered to 4.5%, reaching it by 2023/24.

Labour productivity annual growth ends the forecasts at 0.9% and is brought up to its long-run assumption of 1.5% per annum by 2019/20.

The Government 5-year bond rate has an end-of-forecast level of 5.1%. It is increased to 5.5% by 2020/21, where it stabilises for the rest of the projected decade.

By the final forecast year the Consumers Price Index (CPI) measure of inflation is close to the stable assumption of 2% per annum, and reaches this in the first projected year.

The total labour force is projected from the end of the forecasts using the growth of the aggregate labour force projections produced by Statistics New Zealand. Since the previous projections were published, for the *Budget Update*, Statistics New Zealand has produced updated labour force projections. These projections are stronger than those used for the *Budget Update*, especially in the early years, owing to both increased demographic growth and higher labour force participation rates. As a consequence, while the end-of-forecast labour force levels are not markedly different between the two forecasts, the growth rate over the projections is higher than the *Budget Update*.

Age groups over 50 in particular are expected to have higher rates of participation in the labour force than was the case in the *Budget Update* projections. As these workers tend to work fewer hours on average, the assumed long run value for the average number of hours worked per worker in a week has been reduced from 33.2 to 33.0. This level is reached in 2020/21. As the labour force is a driver of both real and nominal GDP in the projections, these variables also grow more quickly in the latest projections than they did for the *Budget Update*.

In addition, there are a number of other key assumptions that are critical in the preparation of the projections:

Tax revenue	Linked to growth in nominal GDP. Source deductions (mainly PAYE tax on salary and wages) is grown using employment growth and nominal average hourly wage growth for the first five years of the projection period. The latter is multiplied by a fiscal drag elasticity of 1.35. Beyond the first five years of the projection period source deductions grow in line with GDP. The three other major tax categories (corporate tax, hypothecated transport taxes and other taxes, dominated by GST), are gradually returned to long-term constant ratios to GDP. The long-term ratios are based on historical data, taking into account tax rate and policy changes. Once the long-term ratios are reached' the tax types remain at these ratios in later projected years.
New Zealand Superannuation (NZS)	Demographically adjusted and linked to net (of tax) wage growth, as is prescribed by legislation relating the annual indexation of weekly NZS rates to net average weekly earnings. As tax on average weekly earnings, being a part of overall PAYE, increases owing to fiscal drag, the net average weekly earnings do not grow as quickly as the gross earnings in years where fiscal drag is assumed on PAYE growth.
Other benefits	Demographically adjusted and linked to inflation.
Finance costs	A function of debt levels and interest rates.
Core Crown expenditure (excluding benefits and finance costs)	Held constant at the end-of-forecast values, because growth is assumed to come from a share of the projected Operating Allowance annual increment. The exception is Transport spending, which grows in line with the hypothecated tax revenue dedicated to funding it.
Operating allowance	$1.26 billion in 2017/18. Operating Allowances for subsequent projected years grow at 2% per annum from this value.
Capital allowance	$0.936 billion in 2017/18. This is based on a track of $0.918 billion in Budget 2017 as the starting point, grown at 2% per annum.
NZS Fund	Contributions to the Fund suspended until 2017/18. Contributions begin again in 2018/19, and are consistent with the New Zealand Superannuation and Retirement Income Act 2001.

3

Risks and Scenarios

Overview

- The first part of this chapter outlines the key risks to the economic outlook. In the second part of the chapter we present upside and downside scenarios for the New Zealand economy. The chapter then focuses on the established channels between the risks facing the economy and the Crown's fiscal position.

Economic risks

- The global economic outlook remains uncertain and poses risks to the New Zealand economy. While the initial short-term challenges in Europe have been partly addressed, ongoing medium-term challenges for the global economy remain.
- The uncertainties around the pace of growth in the domestic economy lie mainly with the timing and scale of the Canterbury earthquake rebuild, but also around the degree of household consolidation and changes in the exchange rate.
- Two scenarios illustrate the risks to the Treasury's main forecasts. A generalised upside scenario shows the effect of a number of factors leading to a faster-than-expected recovery on the New Zealand economy. A downside scenario looks at the effect on the New Zealand economy of lower world and domestic potential growth, as well as greater cyclical weakness in the near term.
- We note that the two scenarios discussed in this chapter are only examples of other possible outcomes and are not indicative of relative likelihood of occurrence. There are a large number of risks – both to the upside and downside – to the outlook, and each would have its own unique effect on the economy if it were to occur. However, the ways they impact on the New Zealand economy are similar, thus the scenarios remain a useful tool in analysing different possible outcomes.

Fiscal risks

- The balance of these risks also means that the achievement of the Government's fiscal strategy will remain challenging, as illustrated by the scenarios presented in this chapter. In the downside scenario, nominal GDP is $26 billion lower than in the main forecasts, compared to $16 billion higher in the upside scenario. Also, the operating balance remains in deficit over the forecast period in the downside scenario. While the operating surplus in the upside scenario is larger than in the main forecasts, a surplus is achieved in the same year. However, it should be noted that to the extent economic conditions and tax revenue differ from forecast, the Government could make policy changes in future budgets.

Economic Risks

Global risks skewed to the downside...

The global economy still faces several significant challenges. The euro area economy remains weak, as the sovereign debt crisis affects market confidence, impacting on business and household decisions alike. The US does not escape unscathed, with policy uncertainty around the "fiscal cliff" contributing to subdued business investment. While Asian growth has started to stabilise in the final quarter of 2012, significant weak patches remain. Risks to the Treasury's main forecasts have become slightly more balanced since Budget 2012, but remain skewed to the downside.

...with the euro area sovereign debt crisis yet to be resolved...

The euro area economy remains weak, having re-entered a technical recession in the September 2012 quarter. The weakness has mostly been caused by the sovereign debt crisis, which has negatively affected the region since late 2009. So far, policy makers have been able to "manage through" the crisis, with the area remaining intact. The Treasury's main forecasts assume that policy makers will continue to "manage through" the crisis, but with euro area output recovering only slowly. The likelihood of large-impact, low-probability events, such as a full or partial breakup of the euro area, has been reduced substantially during 2012, primarily owing to the Outright Monetary Transactions (OMT) programme announced by the European Central Bank (ECB) in August 2012. Nevertheless, risks remain to the outlook. The main one now is that the euro area crisis will remain unresolved, causing ongoing uncertainty. This would mean growth rates would remain lower for much longer than we expect, further impacting on global growth.

...and US and Asia still of some concern...

Another significant risk to the global economy is the so-called "fiscal cliff" in the US. This refers to a number of automatic tax increases and spending cuts (amounting to over 4% of GDP) due to take place in the first quarter of 2013 unless an agreement can be reached on alternative settings for tax rates and government spending to stabilise future government debt at an appropriate level. If legislators cannot reach agreement, the US economy is expected to re-enter recession. Most commentators expect this will be avoided, given the stakes, with only part of the fiscal tightening expected to occur. Nevertheless, it is possible that the issue is not addressed in time, negatively affecting world growth.

After a soft patch through the middle of 2012, growth in the Asian region has begun to stabilise. Nevertheless, significant risks remain in the second and third largest economies in the world: China and Japan. China faces downside risks from over-inflated house prices and debt-burdened local governments. However, risks are not all to the downside, with a faster-than-expected pickup in activity possible over 2013 if policy makers successfully navigate through the challenges ahead and implement additional reforms. Japan's situation is becoming more serious; public debt (although mostly held by domestic citizens) is at a record high and continues to grow, while an ageing population adds to the challenges. The Treasury expects only modest growth going forward (excluding the tsunami rebuild), with risks to the downside if these challenges are not met. As New Zealand's largest trading partner, the prospects for the Australian economy are important for New Zealand. The main risk for Australia is that a larger-than-expected fall in commodity prices leads to a further scaling back in mining investment and broader demand. This would lower growth in the mining and mining-related industries in Australia, reducing demand for manufactured goods exports from New Zealand.

A further downside risk, which is explored in more detail in the downside scenario, is that the recovery in global growth is slower than expected owing to weaker-than-expected global potential growth. Advanced nations' debt sustainability would become more of an issue, likely leading to further fiscal consolidation, adding to the slowing in growth. The effect on New Zealand would primarily be in the form of lower demand for exports, but also possibly through a higher cost of capital in the event that such developments see significant increases in global risk premiums and given central banks have little room to ease policy rates.

Global risks are not all to the downside, as hinted at above with China, but overall upside risks are smaller in magnitude than the downside risks. The OECD notes that possible upside risks include a comprehensive resolution of the euro crisis, a medium-term fiscal framework for the US and the benefits of structural reform being undertaken in Europe flowing through faster than currently anticipated. These would all drive higher global growth, and flow through to greater demand for New Zealand exports.

Other notable international risks include the ongoing conflict in the Middle East, which has the potential to push up oil prices and disrupt trade. Weather events, such as tropical cyclones, could also impact on growth rates.

...potentially impacting on New Zealand's economy through lower export demand...

If international activity turns out to be weaker than we have built into our main forecasts, demand for New Zealand's exports would fall. Reduced demand would lead to lower volumes of manufactured goods exports and lower tourist arrivals and spending. For commodity exports, production tends to respond less than non-commodity exports to reduced demand; instead, the reduced demand is reflected in falling prices of commodity exports. Lower export prices would result in lower terms of trade.

...lower terms of trade...

Our main forecasts assume that the terms of trade decline modestly in the near term, but remain high relative to historical standards over the five-year forecast period. Should the terms of trade, in contrast, fall much further and reach their 30-year average, a sharp drop in incomes for agricultural producers would flow through into weaker domestic demand, less income for investment and debt repayment and a significantly wider current account deficit. This would negatively impact on nominal GDP, leading to lower tax revenues for the Government. Lower prices for commodities such as iron ore, minerals and coal could also affect New Zealand indirectly through Australia. Australia would experience a fall in its national income from international commodity sales, lowering demand for New Zealand's goods and services, although a depreciation in the NZD may provide an offset.

...and lower availability of credit and confidence

On the financial side, a drop in confidence and pick-up in global risk-aversion would be expected to reduce the availability, and raise the cost, of credit for New Zealand. With a high current account deficit, there is a risk that markets would demand a higher risk premium for New Zealand's debt in the future. That said, there is room for the Reserve Bank to provide liquidity as needed and, if the outlook for inflation permits, to facilitate easier monetary conditions to help domestic borrowers adjust.

Finally, if any of the downside risks identified above were to materialise, this would lead to falls in consumer and business confidence. With lower confidence, households would lower their spending and increase their saving by more than assumed in the main forecasts. Similarly, businesses would invest less and hire fewer workers than assumed in the main forecasts.

Meanwhile, domestic challenges still lie ahead...

There are risks to our forecasts arising from domestic sources as well. However, unlike the global risks, domestically-sourced risks are more balanced. In our main forecasts, the Treasury expects private consumption growth to remain modest over the five-year forecast horizon, as households reduce their debt-to-income ratios to more comfortable levels. The risks to this outlook are to both the upside and downside. Given the greater potential for tighter conditions in global funding markets, there is a risk that the degree of household consolidation could be more intense than expected, with households seeking to move to an even lower level of debt than we have forecast. While this might bring forward some rebalancing in the economy from later years, such a scenario would involve weaker domestic activity in the near term. On the other hand, households may return to higher rates of consumption growth as confidence improves and house prices rise. If this were to occur, it would drive a stronger economy in the near term and defer household rebalancing until later years.

...including the exchange rate...

Another notable risk to the outlook is the exchange rate. The Treasury's main forecast expects the NZD to remain around current levels (on the trade-weighted index) until 2014 before depreciating thereafter. The exchange rate can be volatile, thus there are risks to either side of the main forecast. The NZD could potentially move higher than we have assumed, or hold up for longer. This could come about for a number of reasons, including New Zealand remaining a relatively attractive place to invest compared to other countries, the terms of trade rebounding higher than expected or a faster-than-expected domestic recovery leading to higher domestic interest rates. The result would be lower export incomes, flowing through to lower consumption. The current account deficit would also widen.

On the other hand, if, as a number of measures suggest, the NZD is overvalued at current levels, it could depreciate sooner and faster than the Treasury anticipates. A larger-than-expected decline in the terms of trade or an improvement in global growth leading to a closing of interest rate differentials are both possible reasons for a depreciating currency, but would have different implications for the New Zealand economy. Higher global growth (and thus demand) at the same time as a depreciating currency would boost exporter incomes. However, New Zealanders' purchasing power on a global comparison would be lower, as imports become more expensive. Inflationary pressures would also be higher, which may result in higher interest rates, dampening the benefits from a lower exchange rate. If falling terms of trade were the reason for the depreciating exchange rate, the lower NZD may partly offset lower prices on exported goods, cushioning the economy to some degree.

...and the Canterbury rebuild...

The timing and extent of the Canterbury earthquake rebuild is difficult to forecast. If large aftershocks cause further damage, the current $25 billion damage estimate factored into our main forecasts could rise, as would the risk that the rebuild could be slower and overall economic activity lower in the short term. Conversely, the rebuild could gather pace more quickly. Accordingly, residential and non-residential construction, imported goods volumes and employment would all be stronger than in the main forecasts. As a result, we would expect wages in and around the rebuild area to come under greater upward pressure, as well as prices for some goods – particularly housing construction-related goods and services.

On the other hand, higher worker migration into Canterbury, as well as increased productivity in the construction sector owing to the localised nature of the rebuild, may help to relieve pressure on prices in the construction sector. On top of this, a more rapid rebuild could boost wider confidence in the economy, providing a lift to consumer spending and business investment.

...as well as risks from non-economic events

There are also non-economic risks that may impact on the economy, particularly climatic conditions here and abroad. Poor weather and droughts have adversely affected domestic agricultural production in the past; equally, climatic conditions can lift production as we have seen in New Zealand over the past season. Any impact on agricultural incomes from production may be offset by prices moving in the opposite direction, although this will depend on many factors, particularly production abroad. Other risks may impact on the economy, including the potential for biosecurity issues to affect the agricultural sector.

Table 3.1 – Summary of key economic variables for main forecasts and scenarios

March years	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Real GDP (annual average % change)						
Main forecast	**1.6**	**2.3**	**2.9**	**2.5**	**2.4**	**2.4**
Upside scenario	1.6	2.5	3.2	3.1	2.7	2.3
Downside scenario	1.6	2.1	2.3	1.7	1.7	2.2
Unemployment rate[1]						
Main forecast	**6.7**	**6.9**	**6.2**	**5.9**	**5.6**	**5.1**
Upside scenario	6.7	6.6	5.7	5.3	5.0	4.6
Downside scenario	6.7	7.5	6.9	6.6	6.3	5.7
Nominal GDP (annual average % change)						
Main forecast	**3.4**	**3.6**	**5.9**	**4.7**	**4.1**	**4.1**
Upside scenario	3.4	3.9	6.2	5.6	4.7	4.1
Downside scenario	3.4	3.1	4.8	4.1	3.4	3.7
Current account balance (% of GDP)						
Main forecast	**-4.5**	**-5.1**	**-4.6**	**-5.5**	**-6.2**	**-6.5**
Upside scenario	-4.5	-4.7	-4.1	-5.5	-6.7	-7.2
Downside scenario	-4.5	-5.5	-5.6	-6.2	-6.7	-6.7

Note: 1 March quarter, seasonally adjusted

Sources: Statistics New Zealand, the Treasury

Downside Scenario

Global growth is weaker than expected over the forecast horizon…

While there are a large number of global downside risks, we have developed a downside scenario based on the International Monetary Fund's (IMF) lower global potential growth scenario from its October World Economic Outlook. This entails potential growth being approximately 0.5% per year lower than the IMF's central forecasts for advanced nations and 1% lower for Asian countries, with actual growth rates even lower as countries must make further fiscal cuts and trade is lower. Applied to New Zealand's top 16 trading partners, trading partner output is about 4% lower by 2017 compared to the IMF's central forecasts. Figure 3.1 illustrates the effect on New Zealand's trading partner growth rates.

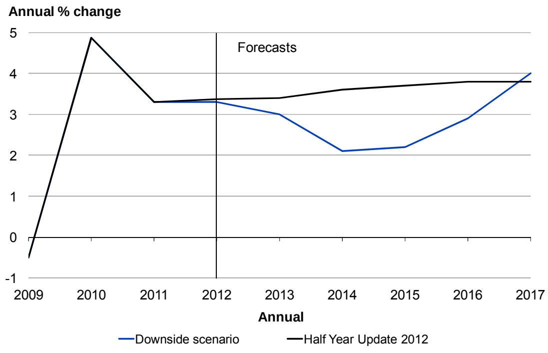
We also assume for this scenario that New Zealand's potential growth rate is lower than in the main forecasts. While the Treasury has already lowered its potential output assumption for New Zealand in its main forecasts (see the 'GDP Growth in the *Half Year Update'* box in the *Economic Outlook* chapter), we assume that New Zealand's potential output is even weaker than we anticipate, in part owing to the weaker world growth. In addition, we assume that the cyclical weakness evident in the September quarter in the New Zealand economy continues into the December quarter and beyond.

Slower-than-expected world growth and less liquidity in the world would mean Australian and New Zealand banks face a higher premium on their international wholesale borrowing. While part of these increased funding costs may be absorbed in falling bank margins and partly offset by a reduction in the policy rate, the remainder would be passed on to household and business borrowers. This scenario assumes that households and businesses are charged around an additional 40 basis point premium on their borrowing compared to the main forecasts.

...with lower terms of trade and reduced incomes...

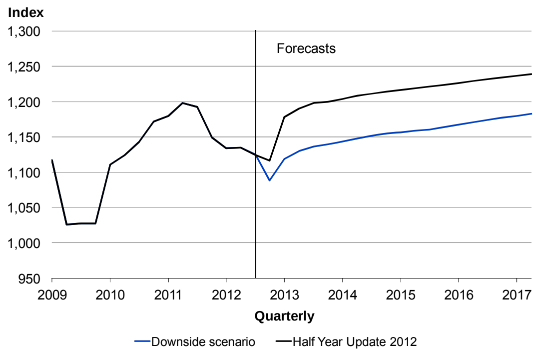
Weaker-than-assumed global activity flows through to New Zealand in the form of lower prices for key commodity exports, particularly dairy, meat and forestry products. The good news for New Zealand is that the country is still exposed to the relatively faster growing parts of the global economy, such as emerging Asia and Australia, although they too experience lower growth. This means that New Zealand's terms of trade and demand for exports would not fall by as much as might otherwise be expected.

Figure 3.1 – Trading partner growth



Sources: IMF, the Treasury

Figure 3.2 – Merchandise terms of trade (SNA)



Sources: Statistics New Zealand, the Treasury

In this scenario, the merchandise terms of trade fall further, and do not rebound as sharply as in the main forecast (Figure 3.2), reflecting the lower international demand for commodities and other exports. The terms of trade are still expected to rise over the forecast period, in part reflecting increasing demand for dairy products in Asia as incomes continue to grow. The lower terms of trade result in a more rapid deterioration in the current account balance, with the deficit increasing to 5.6% of GDP in the March 2014 year compared to 4.6% in the main forecasts. However, the gap between the main economic forecasts and scenario closes by the March 2017 year, with the current account deficit only 0.2% points wider at 6.7% in the downside scenario, in part owing to a slightly lower exchange rate.

The lower terms of trade lead to lower incomes, resulting in a more subdued outlook for household spending. The increased cyclical weakness in the near term results in a higher unemployment rate than in the main forecast, dampening pressures on wage growth, further lowering incomes. Despite a cut in the OCR, retail rates remain similar to the main scenario until 2016 and 2017, owing to the higher overseas funding costs. Private consumption growth averages 1.3% per year over the five years to March 2017, compared to 2.1% in the main forecasts. Lower demand and profits reduce business investment, although not to the same extent as consumption. This is in part owing to the Canterbury rebuild, which will help to drive strong growth in business investment.

All in all, the lower world growth, lower New Zealand potential output and increased near-term cyclical weakness result in real GDP growth averaging only 2.0% per year in the five years to March 2017 in comparison to 2.5% in the main forecasts. Of importance to tax revenues, the level of nominal GDP is about $26 billion lower in total over the period to June 2017.

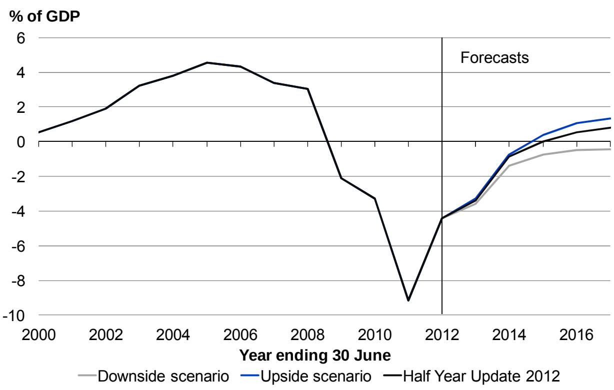
…leading to lower tax revenue while raising operating deficits and net debt

Core Crown revenue is a cumulative $7.9 billion lower in the downside scenario by June 2017. The weaker domestic economy reduces source deductions and corporate tax by about $3 billion and $2 billion respectively, compared to the main forecasts, while other persons tax falls by $0.4 billion. Also, lower private consumption and residential investment lead to $1.4 billion lower GST revenue, compared to the main forecasts, while resident withholding tax is only slightly lower as interest rates are similar.

Core Crown expenses (excluding financing costs) are $0.6 billion higher, as the weaker labour market flows through to increased Unemployment Benefit recipient numbers. In addition, finance costs are higher, owing to higher government borrowing.

In this scenario, the operating balance (before gains and losses) does not move into surplus within the forecast period and, consequently, net core Crown debt as a proportion of GDP is still rising at the end of the forecast period (June 2017), reaching 33.9% at that time.

Figure 3.3 – Operating balance (before gains and losses)



Source: The Treasury

Upside Scenario

As discussed in the earlier section of this chapter, there are a number of potential upside risks to the Treasury's main forecasts, but most are only modest in size. This scenario presents a generalised upside scenario, where a number of factors together lead to faster-than-expected growth over the forecast period, resulting in higher tax revenues and a larger surplus in 2014/15.

World growth is stronger, leading to higher terms of trade...

It is possible that New Zealand's trading partner growth will be stronger than forecast in the main economic forecasts. In this upside scenario we assume that trading partner growth is about 0.2% to 0.3% points higher than the main forecast in each year, with a number of factors that could lead to this, as mentioned earlier in the chapter. These include a faster-than-expected resolution in the euro crisis, a strong medium-term fiscal plan in the US or faster flow through of the benefits of structural reforms. Any one of these could be expected to improve global demand, leading to higher commodity prices and increased demand for New Zealand exports. New Zealand's terms of trade would be slightly higher across the forecast period, leading to higher incomes.

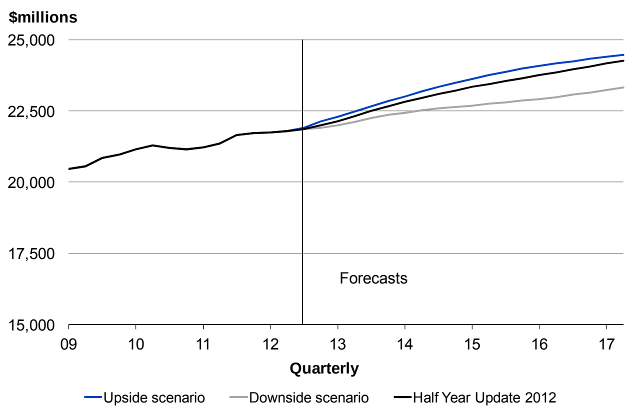
...with a faster Canterbury rebuild and stronger household spending...

There is a large degree of uncertainty around the timing and scale of the Canterbury rebuild. In this upside scenario, we allow for a faster rebuild compared to the main forecasts and bring more of the rebuild inside the forecast period ending March 2017. Net migration is higher, peaking at an annual 16,000 (and earlier) compared with 13,000 in the main forecasts. Most of the increase is assumed to be workers moving into Canterbury from abroad.

The faster rebuild leads to an increase in residential investment, with growth 3.8% points higher in the March 2014 year than in the main forecasts. As a result, inflationary pressures are higher, as capacity constraints are reached sooner. Wage rates in the region are higher (particularly in the construction sector), with modest spill-over to the rest of the country.

In addition, we assume stronger private consumption in the upside scenario, in part owing to the higher incomes from the higher terms of trade. Private consumption growth is 0.4% and 0.3% points higher in the March 2014 and 2015 years respectively than the main forecasts (Figure 3.4). This flows on to the labour market, with the unemployment rate coming down faster than the main forecasts, finishing at 4.6% in March 2017 compared to 5.1%. However, there is also lower household saving and higher imports than in the main forecasts.

Figure 3.4 – Real private consumption



Sources: Statistics New Zealand, the Treasury

A combination of higher incomes, a faster rebuild and stronger consumption leads to higher inflation than in the main forecasts. The Reserve Bank responds by increasing interest rates sooner than otherwise, leading to tighter monetary conditions. The level of nominal GDP is about $16 billion higher in total over the period to June 2017.

…leading to a modest increase in the operating surplus in 2015

Core Crown revenue is a cumulative $3.7 billion higher in the upside scenario than the main scenario by June 2017, led by a $1.6 billion increase in source deductions, attributable to the higher incomes of New Zealand households. More household spending leads to $800 million in additional GST revenue, while higher business profits contribute to a $500 million boost in corporate tax revenue. Higher interest rates in later periods lead to $300 million in additional resident withholding tax.

Core Crown expenses (excluding financing costs) are $0.2 billion lower, as the stronger labour market flows through to fewer Unemployment Benefit recipients. In addition, finance costs are lower, owing to less government borrowing.

In this scenario, the operating balance (before gains and losses) moves into surplus in the June 2015 year, the same year as the main forecasts, with the surplus 0.4% of GDP. Net core Crown debt as a proportion of GDP peaks at 28.7% of GDP in the June 2014 year.

General Fiscal Risks

The discussion up to this point has focused on the main near-term economic risks. The rest of this chapter focuses on the links between the risks to the performance of the economy and the Crown's fiscal position.

Table 3.2 provides some rules of thumb on the sensitivities of the fiscal position to small changes in specific variables. For example, if for some reason nominal GDP growth is 1% point slower than we have forecast each year up to the year ending June 2017, we would expect tax revenue to be around $3.6 billion (1.4% of GDP) lower than forecast in the June 2017 year as a result. The sensitivities are broadly symmetric; that is, if nominal GDP growth is 1% point faster each year than we expect, tax revenue would be around $3.6 billion *higher* than forecast instead. For more on fiscal risks, see the *Specific Fiscal Risks* chapter.

Fiscal Sensitivities

Table 3.2 – Fiscal sensitivity analysis

Year ending 30 June ($millions unless stated)	**2013 Forecast**	**2014 Forecast**	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**
1% lower nominal GDP growth per annum on					
Tax revenue	(590)	(1,245)	(1,975)	(2,750)	(3,575)
(% of GDP)	(0.3)	(0.5)	(0.8)	(1.1)	(1.4)
Revenue impact of a 1% decrease in growth of					
Wages and salaries	(255)	(525)	(825)	(1,150)	(1,500)
(% of GDP)	(0.1)	(0.2)	(0.3)	(0.5)	(0.6)
Taxable business profits	(115)	(265)	(430)	(605)	(790)
(% of GDP)	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
Impact of 1% point lower interest rates on					
Interest income[1]	(89)	(81)	(110)	(70)	(81)
(% of GDP)	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)
Expenses[1]	(97)	(184)	(361)	(454)	(518)
(% of GDP)	(0.0)	(0.1)	(0.2)	(0.2)	(0.2)
Overall operating balance	8	103	250	384	438
(% of GDP)	0.0	0.1	0.1	0.2	0.2

Note: 1 Debt managed by the NZDMO only

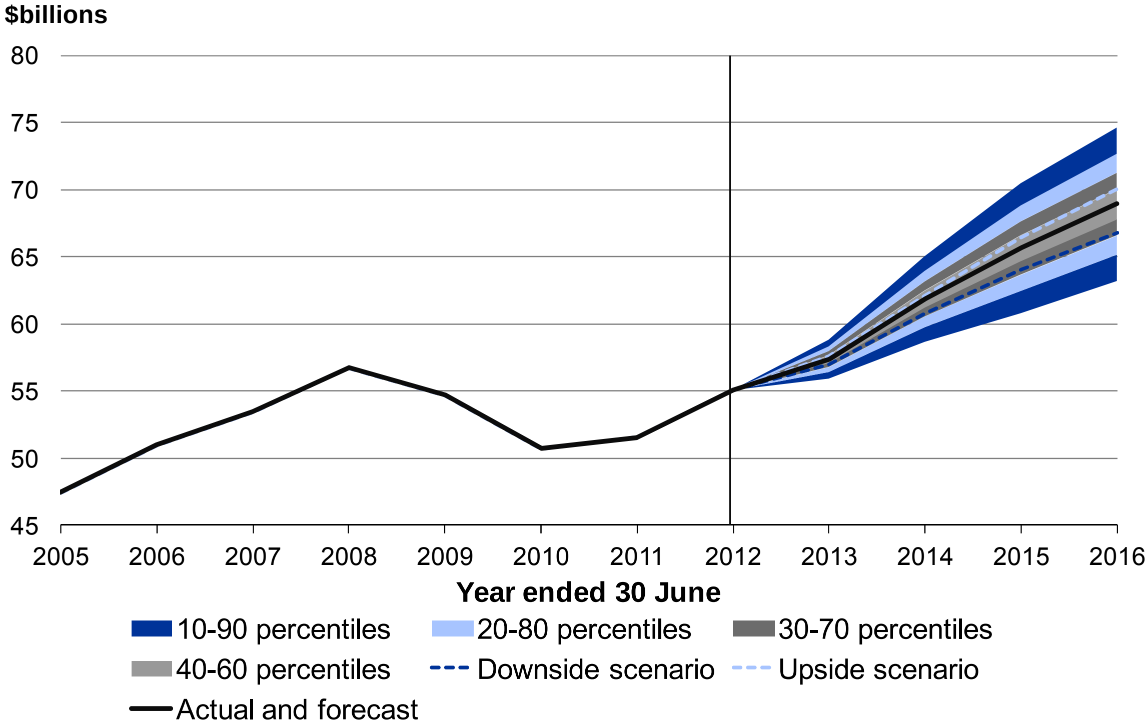
Source: The Treasury

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 accrues in a given year is closely linked to the performance of the economy.

Figure 3.5 plots the main tax revenue forecast, along with confidence intervals around those forecasts based on the Treasury's historical tax forecast errors.[7] The outermost shaded area captures the range (+/- $5.7 billion in the June 2016 year) within which actual tax forecasts would typically fall for 80% of the time.[8] The tax revenue forecasts from the upside and downside scenarios are also plotted.

Figure 3.5 – Core Crown tax revenue uncertainty



Source: The Treasury

Based on average historical forecast errors and an even balance of risks, Figure 3.5 shows that tax revenue over the forecast period would come in weaker than shown in the downside scenario one-third of the time, and conversely come in stronger two-thirds of the time. For the upside scenario, tax revenue over the forecast period would come in stronger than shown slightly over one-third of the time, and weaker just under two-thirds of the time.

7 A full summary of the methodology and critical assumptions is included in New Zealand Treasury Working Paper 10/08. Standard deviation assumptions used for 0-, 1-, 2- and 3-year ahead forecasts are 0.9%, 3.2%, 5.3% and 6.6% of the actual, respectively.

8 Recent Treasury analysis shows that a shock that has a significant and persistent impact on economic growth can result in tax revenues coming in significantly below the outermost shaded area. See Fookes, C (2011), "Modelling shocks to New Zealand's fiscal position", New Zealand Treasury Working Paper 11/02.

However, as discussed previously, the forecast risks are not evenly balanced – they are skewed to the downside. Accordingly, the probability of tax revenue undershooting the downside scenario is likely to be higher than one-third, and the probability of tax revenue overshooting the upside scenario is likely to be lower than one-third.

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 errors in forecasting the cost of various programmes (ie, policies that cost more than the Government allows for) can also have substantial ongoing effects on the fiscal position.

There is also considerable uncertainty regarding the effect of the performance of the economy on Crown expenditures. This uncertainty largely relates 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, and tax revenues higher (lower).

Meanwhile, the destructive seismic events of recent years have underlined the inherent exposure of the Crown's fiscal position to exogenous shocks. The Government's fiscal position would be impacted if another catastrophic earthquake were to occur or if the costs associated with the recent 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.

Balance Sheet Risks

In addition to risks around revenue and expenditure, the Crown's financial position is exposed to risks from its balance sheet. While some are unavoidable, the Crown's general approach is to identify, avoid or mitigate these risks where practicable.

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. The Crown Ownership Monitoring Unit (COMU) estimates a 10% fall (rise) in world share markets would lead to a 4% to 5% fall (rise) in the value of the Crown's financial portfolio.

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

- 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. For example, a 1% fall in the risk-free discount rate used is estimated to result in a $7.3 billion increase in the combined value of the Crown's liabilities from ACC, EQC, Southern Response (formerly AMI) and the GSF.[10]

- Physical assets such as land, buildings, state highways and military equipment are susceptible to movements through changes in property market conditions, interest rates and changes in the costs of construction. This will affect the recorded value of many Crown physical 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.

The Crown is also susceptible to "liquidity risk" with respect to its ability to raise cash to meet its obligations. This risk, however, is small given the NZDMO's ongoing management of the core Crown's liquidity position, as well as the Government's commitment to maintaining prudent debt levels.

Funding Risks

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. The outlook is stable across all three agencies.

The downside risks identified by the rating agencies are broadly in line with the risks identified earlier in the chapter. 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 things being equal, any further 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.

10 For more information, see the Notes to the *Financial Statements of the Government of New Zealand 2012*.

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 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. 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.

The Government generally 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:

- existing baselines or Budget allowances for operating expenditure, or
- the existing Crown balance sheet for capital expenditure, including the Future Investment Fund.

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 but expected to be funded from reprioritisation or Budget allowances:** 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 but expected to be funded from the existing Crown balance sheet, including the Future Investment Fund:** 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 Future Investment Fund.

- **Matters dependent on external factors:** The liability of the Government 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:

- The most significant economic risks have been identified in Chapter 3.

- Business risks 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 the Unemployment Benefit).

- The costs of future individual natural disasters, and other major events, are not recognised as specific fiscal risks in advance as they usually occur infrequently and their 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 for the disaster). 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.

Specific fiscal risks as at 26 November 2012	**Status[11]**	**Value of risk**
Potential policy decisions affecting revenue		
ACC – Funding Policy Review	New	Unquantified
ACC – Levies	Unchanged	Unquantified
Revenue – Income-sharing Tax Credits	Unchanged	$500 million per annum
Services Funded by Third Party Revenue	Unchanged	Unquantified
Potential policy decisions affecting expenses but expected to be funded from reprioritisation or Budget allowances		
ACC – Work-related Gradual Process Disease and Infection	Changed	Unquantified
Canterbury Earthquake – Christchurch City Council/ Crown Cost Sharing	New	Unquantified
Education – Early Childhood Education Funding	New	Unquantified
Government Response to Wai 262	Unchanged	Unquantified
Health – Payment of Family Caregivers	Changed	Unquantified
Housing – Reform of Social Housing	Unchanged	Unquantified
Revenue – KiwiSaver Auto-enrolment	Unchanged	$350 to $550 million operating expenses
Revenue – Transformation and Technology Renewal	Unchanged	Unquantified
Social Development – Disability Allowance Savings	New	Unquantified
Social Development – Vulnerable Children White Paper	New	Unquantified
Social Development – Welfare Reform Costs	Changed	Unquantified
Social Development – Welfare Reform Forecast Benefit Savings	Changed	Unquantified
State Sector Employment Agreements	Unchanged	Unquantified
Potential capital decisions but expected to be funded from the existing Crown balance sheet, including the Future Investment Fund		
Canterbury Earthquake – Crown Christchurch Investment	New	Unquantified
Departmental Capital Intentions	Unchanged	Unquantified
Earthquake Strengthening for Crown-owned Buildings	Unchanged	Unquantified
Finance – Crown Overseas Properties	Unchanged	$150 million capital expenditure
Finance – Investment into NZ Post Group (Kiwibank)	Unchanged	Unquantified
Primary Industries – Investment in Water Infrastructure	Unchanged	Unquantified
Transport – Support for KiwiRail	Changed	Up to $333 million capital expenditure

11 *Unchanged* – risks that have not materially changed since the previous *Economic and Fiscal Update*.
Changed – risks that have changed substantively from the previous *Economic and Fiscal Update*.
New – risks that have not been disclosed in the previous *Economic and Fiscal Update*.

Specific fiscal risks as at 26 November 2012	Status[11]	Value of risk
Matters dependent on external factors		
ACC – Non-earners' Account	Unchanged	Unquantified
Canterbury Earthquake – EQC	Unchanged	Unquantified
Canterbury Earthquake – Residential Red Zone	New	Unquantified
Canterbury Earthquake – Southern Response Earthquake Services Support Package	Changed	Unquantified
Communications – Potential Impairment in Value of Broadband Investment	Unchanged	Unquantified
Communications – Radio Spectrum Income Following the Digital Switchover	New	Unquantified
Defence Force – Potential Rationalisation, Revaluation and Disposal of NZDF Assets	Unchanged	Unquantified
Energy – Crown Revenue from Petroleum Royalties	Changed	Unquantified
Environment – Kyoto Protocol Obligations	Unchanged	Unquantified
Environment – Post-2012 International Climate Change Obligations	Unchanged	Unquantified
Finance – Goodwill on Acquisition	Changed	Unquantified
Finance – Government Commitments to International Financial Institutions	Unchanged	Unquantified
Finance – Sale of Part of the Crown's Shareholding in Five Companies	Unchanged	Unquantified
Housing – Divestment of Housing	New	Unquantified
Revenue – Cash Held in Tax Pools	Unchanged	Unquantified
Treaty Negotiations – Treaty Settlement Forecast	Unchanged	Unquantified
Treaty Negotiations – Relativity Clause	Unchanged	Unquantified

Potential policy decisions affecting revenue

ACC – Funding Policy Review (New, Unquantified)

The Government is undertaking a review of ACC's funding policy. Adopting a lower funding target band midpoint would result in a reduction in levies and reduce Crown revenue and Crown assets, with a flow-on impact to the operating balance before gains and losses (OBEGAL).

ACC – Levies (Unchanged, Unquantified)

Levy rates for the Work, Earners' and Motor Vehicle accounts are set by Cabinet following a public consultation process. As at 26 November 2012, the Government has indicated that it is unlikely to agree to further reductions in ACC levy rates for the 2013/14 year as recommended by the ACC Board so the forecasts assume the current 2012/13 levy rates. Claims experience, ACC performance and economic assumptions (particularly discount rates) can impact insurance expenditure, both in the current year and the estimated future liability. If any of these factors differ from what is forecast the revenue collected may be more or less than required to cover the costs of claims, resulting in unplanned savings or costs which could have a corresponding impact on future years' levy rates.

Revenue – Income-sharing Tax Credits (Unchanged, Quantified)

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 Party Revenue (Unchanged, Unquantified)

A wide range of government services are funded through third party fees and charges. Demand for these services can vary which has a direct effect 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 service. 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 but expected to be funded from reprioritisation or Budget allowances

ACC – Work-related Gradual Process Disease and Infection (Changed, Unquantified)

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 that point. As a result, the liability associated with Work-related Gradual Process Disease and Infection claims where exposure to the conditions that will give rise to a claim has occurred but where the claimant has not yet suffered incapacity or presented for treatment, are not recognised. An amendment to legislation would be required to recognise claims at the earlier point. An initial adjustment to the liability, and an expense of about $1 billion would need to be reported if such an amendment was made.

Canterbury Earthquake – Christchurch City Council/Crown Cost Sharing (New, Unquantified)

The Crown and Christchurch City Council are working on formalising a cost sharing arrangement for the implementation of the Christchurch Central Recovery Plan and to address local infrastructure costs. Assessment of infrastructure damage continues to progress, but is not yet complete. The Crown’s current estimate has been included in forecasts, as has the amount it has already agreed to contribute to central city land acquisition and anchor projects. The lack of certainty on costs and cost sharing for local infrastructure, central city land acquisition and anchor projects could result in actual costs differing from those included in the forecasts.

Education – Early Childhood Education Funding (New, Unquantified)

The Government has committed to 98% of children starting school in 2016 having participated in quality early childhood education (ECE). Changes are also being made to welfare legislation to introduce an obligation for people on benefits caring for dependent children aged three years and over who are not yet in school to take all reasonable steps to ensure those children are enrolled in, and attending, an approved ECE programme. Any associated additional costs are expected to be funded through reprioritisation or existing Budget allowances.

Government Response to Wai 262 (Unchanged, Unquantified)

The Waitangi Tribunal has released its report on the Wai 262 claim. The report 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 is considering the Tribunal's report and recommendations to fully understand their implications (including any fiscal implications).

Health – Payment of Family Caregivers (Changed, Unquantified)

The Ministry of Health must change its policy of not allowing the payment to certain family carers (mainly parents and spouses of disabled adults) who deliver disability support services, as court rulings have found this policy to be in breach of section 19 of the New Zealand Bill of Rights Act 1990. The Government is currently consulting the disability community and wider public on options for a new policy approach to be implemented in 2013. The potential costs of a new policy are uncertain, but are likely to require a significant increase in disability support funding. There are also likely to be cost implications for services funded from Vote Social Development.

Housing – Reform of Social Housing (Unchanged, Unquantified)

The Government has decided to change the policy settings for social housing. This includes growing third party providers of social housing, increasing the effectiveness of financial assistance, and Housing New Zealand Corporation focusing on providing social housing to those with the greatest housing need. Plans for implementation remain under development, but may require reprioritisation or additional funding.

Revenue – KiwiSaver Auto-enrolment (Unchanged, Quantified)

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 significant risks to returning to, and maintaining, an operating surplus. 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 $350 to $550 million over the first four years after auto-enrolment takes place and are expected to be funded out of the operating allowances.

Revenue – Transformation and Technology Renewal (Unchanged, Unquantified)

IRD is exploring options that will fundamentally change the way in which it manages its processes and data, in order to deliver smarter, modern services for less. Technology renewal is an integral part of IRD's future business model which focuses on sustaining current systems (ie, minimising known risks within existing technology), as well as significant business process and technology changes. Any changes could impact tax revenue collections and/or have material administrative costs to implement. Decisions on the size and scope of this programme are expected to be made as part of the Budget 2013 process.

Social Development – Disability Allowance Savings (New, Unquantified)

Savings in the Disability Allowance appropriation were agreed to in Budgets 2011 and 2012, and baselines were reduced. Policy decisions to deliver the savings have not yet been made and there is uncertainty around realising these savings.

Social Development – Vulnerable Children White Paper (New, Unquantified)

The Government is looking to implement proposals to better identify, and provide assistance to, vulnerable children. Costs of the proposals are likely to have impacts on the Social Development, Education, Health and Justice areas, and are expected to be met through reprioritisation of current expenditure. However, uncertainty around the service costs and volumes as well as the implementation of new initiatives associated with the better identification and support of vulnerable children could require additional funding.

Social Development – Welfare Reform Costs (Changed, Unquantified)

The Government has agreed to a package of changes to the benefit system. Some costs were agreed in Budget 2012, and implementation has commenced. This risk reflects uncertainty around the additional costs of Welfare Reform, for which funding decisions will be sought in Budget 2013 and possibly future Budgets.

Social Development – Welfare Reform Forecast Benefit Savings (Changed, Unquantified)

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, Unquantified)

A number of large collective agreements are due to be renegotiated 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 the current economic environment and an expectation that agreements will be managed within forecasts.

Potential capital decisions but expected to be funded from the existing Crown balance sheet, including the Future Investment Fund

Canterbury Earthquake – Crown Christchurch Investment (New, Unquantified)

A number of Crown-owned properties were either damaged in the Canterbury earthquakes or have previously been identified as requiring redevelopment. The following Christchurch investments are only risks to the fiscal forecasts to the extent that they cannot be managed through the existing Crown balance sheet:

- *Canterbury DHB New Facilities* – a facilities redevelopment of Burwood and Christchurch Hospitals has been identified by the DHB as the preferred option to help deal with an ageing population and increasing bed shortages.

- *Canterbury School Property Network* – the Government is considering options for the rebuild of education services in Christchurch. These options are likely to require funding over and above that received from insurance.

- *Canterbury Tertiary Education Institutions Recovery* – the Government may decide to provide capital to the University of Canterbury, Lincoln University and CPIT over the next 10 years to help them recover from the Canterbury earthquakes, subject to them providing satisfactory project business cases.

- *Justice and Emergency Services Christchurch Hub* – the Government is considering options for the rebuild of justice sector services in Christchurch, including a combined justice sector and emergency services precinct.

Departmental Capital Intentions (Unchanged, Unquantified)

The Government requires 16 capital-intensive agencies or sectors 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. Departmental capital intentions are risks to the fiscal forecasts only to the extent that they cannot be managed through the existing Crown balance sheet.

Earthquake Strengthening for Crown-owned Buildings (Unchanged, Unquantified)

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

Finance – Crown Overseas Properties (Unchanged, Quantified)

The Government holds New Zealand House in London on a long-term lease from the Crown Estate (UK). Depending on the Government's future intentions for this building, an upgrade may be required. A rough-order cost estimate for this upgrade is $150 million over the period 2013/14 to 2015/16.

Finance – Investment into NZ Post Group (Kiwibank) (Unchanged, Unquantified)

Kiwibank has indicated that it may require new equity within the next three years mainly to meet the Basel III regulatory capital requirements, implementation of which commences in January 2013. New Zealand Post considers it is reaching constraints in its balance sheet to support Kiwibank.

Primary Industries – Investment in Water Infrastructure (Unchanged, Unquantified)

In Budget 2011 the Government established a funding programme to support potential irrigation development projects to an investment-ready stage. The Government intends to consider, as part of Budget 2013, investing up to $400 million for the construction and operation of water harvesting, storage and off-farm distribution infrastructure. The proposal will provide detailed advice on the key investment principles and the provision of a clear separation in the Crown's role in supporting scheme development and investment decisions.

Transport – Support for KiwiRail (Changed, Quantified)

KiwiRail has signalled its intention to seek up to $333 million of additional Crown funding over the next four years to complete the 10-year strategy for KiwiRail to achieve a commercially viable rail network. The Government has not considered its response to any such request.

Matters dependent on external factors

ACC – Non-earners' Account (Unchanged, Unquantified)

Funding for the Non-earners' Account is agreed as part of the annual Budget process. Claims experience, ACC's financial performance and economic assumptions (particularly discount rates) can impact insurance expenditure, both in the current year and the estimated future liability. If any of these factors differ from what is forecast the amount required to cover the costs of non-earners' claims for that year may be more or less than the agreed level of funding, resulting in unplanned savings or costs to the Crown.

Canterbury Earthquake – EQC (Unchanged, Unquantified)

The net financial position of EQC, and the size of any requirement for additional Crown funding, is extremely uncertain. The key drivers of this uncertainly are:

- *EQC's outstanding claims liability* – The actuarial estimate of EQC's outstanding claims liability is highly uncertain and sensitive to assumptions; for example, cost apportionment across events, construction demand surge, land damage estimates, reinsurance recoveries and the profile of claims settlement. The magnitude of the net outstanding claims cost is large, so small percentage changes in the liability will have a material impact on forecasts.

- *Reinsurance market conditions* – Forecast reinsurance price assumptions, which are a substantial component of EQC's forecasts, are very uncertain.

- *Seismicity in New Zealand* – Seismic conditions, especially in Canterbury, impact on insurance provisioning within EQC's forecasts.

- *EQC review and policy decisions* – Outcomes from the review of EQC or other policy decisions (eg, reinsurance) may be implemented during the forecast period. Any significant decisions could have a material impact on EQC's forecasts.

Canterbury Earthquake – Residential Red Zone (New, Unquantified)

Some recoveries from the EQC and private insurers remain outstanding and there is a risk that final recoveries may be less than forecast. In addition, potential costs associated with the future use of residential red zone land are uncertain. The current value of the land has been assessed by external valuation as at 30 June 2012. The future value may change depending on any future alternate uses of the land.

Canterbury Earthquake – Southern Response Earthquake Services Support Package (Changed, Unquantified)

Sale of AMI's ongoing business to IAG was completed on 5 April 2012. AMI's earthquake claims liability and the associated financial assets, reinsurance receivables and the Crown Support Package have been retained in a new Crown company named Southern Response Earthquake Services Ltd. The ultimate cost to the Crown of settling earthquake claims remains subject to significant uncertainty. Out-year forecasts assume that the actual cost to settle claims will align with the actuary's central estimate of the claims provision. However, small percentage changes in the liability can result in a material impact on the forecasts.

Communications – Potential Impairment in Value of Broadband Investment (Unchanged, Unquantified)

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. Crown Fibre Holdings has entered into contracts with several partners. Given the contracts entered into, the extent of the recovery of this investment is particularly dependent on the number of connections made to the network. The fiscal forecasts include a provision for this impairment, but the final amount of the impairment may vary from this provision.

Communications – Radio Spectrum Income Following the Digital Switchover (New, Unquantified)

The Government has agreed to complete the switching off of analogue television signals by November 2013. The spectrum released by the digital switchover is now expected to be available from 1 December 2013. This will release a significant amount of radio spectrum for higher value uses such as 4G mobile. An estimated value of the spectrum of $119 million has been included in the Crown forecasts although the actual value is uncertain because the true value of the spectrum depends on the market conditions at the time of the sale.

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

The Government is considering the potential to dispose of a number of New Zealand Defence Force assets, including the Seasprite helicopters, Unimog trucks and light armoured vehicles. Depending on market conditions, the timing of disposal and sale price received could have an impact on the Government's overall financial position. The New Zealand Defence Force (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. In addition, the revaluation of NZDF assets on 30 June 2013 could see a change in asset values across NZDF.

Energy – Crown Revenue from Petroleum Royalties (Changed, Unquantified)

The Crown Revenue from Petroleum Royalties is very dependent upon extraction rates, the USD value per barrel and the USD / NZD exchange rate. Movements up or down in either of these variables could result in a significant decrease or increase in the Crown revenue. The overall impact for the Crown could be negative or positive.

Environment – Kyoto Protocol Obligations (Unchanged, Unquantified)

The fiscal impact of the Government's Kyoto Protocol obligations (2008 to 2012) is currently uncertain. An increase in New Zealand's net emissions or the future transfer of emission units offshore could reduce the net Kyoto position significantly. The fiscal impact of any changes is dependent on the carbon price. In the highly unlikely event that the Government needed to purchase emission units to meet its obligations, the purchase of units would result in a corresponding increase in net debt.

Environment – Post-2012 International Climate Change Obligations (Unchanged, Unquantified)

The Government is currently taking part in international negotiations for a post-2012 international climate change agreement. Currently no rights or obligations are included in the fiscal forecasts for any post-2012 agreement because of the high levels of uncertainty. Any New Zealand climate change commitments post-2012 could have significant financial implications, which will need to be recognised when the commitment is considered binding. New Zealand is considering decisions on the nature of any international commitments to 2020.

Finance – Goodwill on Acquisition (Changed, Unquantified)

As at 30 June 2012, the Government had goodwill on acquisition of a number of sub-entities totalling $746 million. Under New Zealand accounting standards (NZ IAS 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 – Government Commitments to International Financial Institutions (Unchanged, Unquantified)

The forecast level of government commitments to international financial institutions is subject to change, depending on the Government's response to any changed financial plans on the part of these institutions. The risk of government commitments to the International Monetary Fund being called has increased owing to the global financial crisis and related world events, including in the euro area.

Finance – Sale of Part of the Crown's Shareholding in Five Companies (Unchanged, Unquantified)

The Government has agreed to sell part of the Crown's shareholding in Mighty River Power. It is also proposing to sell part of the Crown's shareholding in Genesis Energy, Meridian Energy, Solid Energy and Air New Zealand. The fiscal forecasts include an estimate of the cash proceeds from the sale of part of the Crown's shareholding in these five companies, the dividends and profits from these companies that will be paid or are attributable to minority shareholders rather than to the Crown, and the estimated finance cost savings. However, the final amount and timing of any cash proceeds, forgone profits, the flow-on effects for the Crown and any implementation costs are uncertain, and may differ from what has been assumed in the fiscal forecasts.

Housing – Divestment of Housing (New, Unquantified)

The Government may undertake divestment or redevelopment of some housing property. Property sales are subject to market conditions and therefore there is an inherent level of uncertainty about the return to the Crown associated with any divestment and/or development.

Revenue – Cash Held in Tax Pools (Unchanged, Unquantified)

Funds held in tax pools are recognised as an asset of the Crown. There is a risk that funds held in these pools, over and above a customer's provisional tax liability, may be withdrawn, resulting in an unquantified cash loss to the Crown.

Treaty Negotiations – Treaty Settlement Forecast (Unchanged, Unquantified)

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 be different from what is forecast.

Treaty Negotiations – Relativity Clause (Unchanged, Unquantified)

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's 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 the amount of the expense for the relativity payments may differ from that included in the fiscal forecasts.

Risks Removed Since the 2012 BEFU

The following risks have been removed since the *2012 Budget Economic and Fiscal Update*:

Expired risks	Reason
Canterbury Earthquake – Exceeding the CERF	Individual Canterbury earthquake risks have been disclosed
Environment – Finance for Developing Countries	No longer material
Environment – Review of the Emissions Trading Scheme	Review completed and decisions included in the fiscal forecasts
Finance – Entities in Receivership under Crown Retail Deposit Guarantee Scheme	No longer material
Housing – Weathertight Homes	Unlikely to occur
Revenue – Salary Trade-offs	Included in fiscal forecasts
Reviews of Public Services	No longer material
Transport – KiwiRail Balance Sheet Restructure	Included in fiscal forecasts

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.

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 his 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.

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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.

[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).

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 his 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.

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 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 as an unquantified risk.

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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).

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).

Other Contingent Liabilities and Contingent Assets

Contingent liabilities are costs that the Crown will have to face if 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 core Crown net 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 included in the “other quantifiable” total.

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

Contingent liabilities have been stated as at 31 October 2012, being the latest set of reported contingent liabilities, except where the contingent liability has already been disclosed as a specific fiscal risk.

Details of each of the following contingent liabilities can be accessed from the Treasury website at www.treasury.govt.nz/budget/forecasts/hyefu2012.

Quantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities		
	Status[16]	($millions)
Guarantees and indemnities		
Other guarantees and indemnities	Unchanged	186
		186
Uncalled capital		
Asian Development Bank	Unchanged	2,904
International Bank for Reconstruction and Development	Unchanged	999
International Monetary Fund – arrangements to borrow	Unchanged	1,051
International Monetary Fund – promissory notes	Unchanged	1,141
Other uncalled capital	Unchanged	45
		6,140
Legal proceedings and disputes		
Tax disputes	Unchanged	398
Other legal proceedings and disputes	Unchanged	46
		444
Other quantifiable contingent liabilities		
Kyoto protocol units	Unchanged	100
Other quantifiable contingent liabilities	Unchanged	305
		405
Total quantifiable contingent liabilities		**7,175**
Contingent assets		
Insurance claims – Canterbury earthquakes	Unchanged	166
Tax disputes	Unchanged	149
Other quantifiable contingent assets	Unchanged	67
Total quantifiable contingent assets		**382**

16 Relative to reporting in the *Financial Statements of the New Zealand Government for the year ending 30 June 2012*.

Unquantifiable Contingent Liabilities and Contingent Assets

Contingent liabilities	
Guarantees and indemnities:	**Status**
Air New Zealand	Unchanged
Airways Corporation of New Zealand	Unchanged
AsureQuality Limited	Unchanged
Contact Energy Limited	Unchanged
Earthquake Commission (EQC)	Unchanged
Housing New Zealand Corporation	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Mining Companies	Unchanged
Maui Partners	Unchanged
National Provident Fund	Unchanged
New Zealand Aluminium Smelter and Comalco	Unchanged
New Zealand Local Authorities	Unchanged
New Zealand Railways Corporation	Unchanged
Persons exercising investigating powers	Unchanged
Public Trust	Unchanged
Reserve Bank of New Zealand	Unchanged
Synfuels-Waitara Outfall Indemnity	Unchanged
Tainui Corporation	Unchanged
Westpac New Zealand Limited	Unchanged
Legal claims and proceedings:	
Accident Compensation Corporation (ACC) litigations	Unchanged
Air New Zealand litigation	Unchanged
Television New Zealand	Unchanged
Treaty of Waitangi claims	Unchanged
Other unquantifiable contingent liabilities:	
Criminal Proceeds (Recovery) Act 2009	Unchanged
Environmental liabilities	Unchanged
Landcorp Farming Limited	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 the organisations listed below, 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 are as follows:

Asian Development Bank

$2,904 million at 31 October 2012 ($2,988 million at 30 June 2012)

International Bank for Reconstruction and Development

$999 million at 31 October 2012 ($1,039 million at 30 June 2012)

International Monetary Fund – arrangements to borrow

$1,051 million at 31 October 2012 ($1,081 million at 30 June 2012)

International Monetary Fund – promissory notes

$1,141 million at 31 October 2012 ($1,174 million at 30 June 2012)

Legal proceedings and disputes

Tax in dispute

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. The contingent liability represents the outstanding debt of tax assessments raised against which an objection has been lodged and legal action is proceeding.

$398 million at 31 October 2012 ($365 million at 30 June 2012)

Other quantifiable contingent liabilities

Kyoto Protocol

The Government has a contingent liability relating to 57.6 million forestry credits. During the first commitment period, the Net Kyoto Position of the Crown estimates that 92.2 million tonnes of carbon credits will be generated by carbon removals via forests. To the extent that these forests are harvested in subsequent commitment periods there will be an associated liability generated that will need to be repaid. The New Zealand ETS transfers a portion of the potential future liability to forest owners. As at 31 October 2012 approximately 34.6 million tonnes has been transferred to forest owners in the form of New Zealand Units. The Crown's contingent liability is calculated as the remaining credits the Crown is potentially liable for (57.6 million tonnes). Using the carbon price as at 31 October 2012, this contingent liability can be measured at $100 million.

$100 million at 31 October 2012 ($349 million at 30 June 2012)

Unquantifiable contingent liabilities

This part of the Statement provides details of those contingent liabilities of the Crown which cannot be quantified (remote contingent liabilities are excluded).

Guarantees and Indemnities

Air New Zealand

The Crown has indemnified Air New Zealand against 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.

Airways Corporation of New Zealand

The Crown has indemnified Airways Corporation of New Zealand Limited as contained in Airways' contract with NZDF for the provision of air traffic control services. The indemnity relates to any claim brought against Airways by third parties arising from military flight operations undertaken by the Royal New Zealand Air Force.

AsureQuality Limited

The Crown has indemnified the directors of AsureQuality Limited in the event that they incur any personal liability for redundancies arising from any agreement by international trading partners that allows post-mortem meat inspection by parties other than the Ministry for Primary Industries, or its sub-contractor.

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. Those 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)

The Crown is liable to meet any deficiency in EQC's assets that may be needed to cover the Commission's financial liabilities (section 16 of the Earthquake Commission Act 1993). In the event of a major natural disaster the Crown may be called upon to meet any financial shortfall incurred by the Commission.

EQC's liabilities as at 30 June 2012 are consolidated in the Financial Statements of the Government of New Zealand for the Year Ended 30 June 2012, including the impact of the Canterbury earthquakes. EQC estimates that its total liabilities may exceed its current level of assets by $1,592 million. EQC's outstanding claims costs and reinsurance recoverable are included in this figure.

EQC expects to have the necessary financing to meet its liabilities as they fall due over the next 12 months, hence a call on its Crown guarantee is not expected for the coming year. In the event EQC cannot meet its obligations, however, the Crown would need to finance any shortfall and the Crown's net debt position would increase as a result.

Housing New Zealand Corporation

The Crown has provided a warranty in respect of title to the assets transferred to Housing New Zealand Limited (HNZL) and has indemnified HNZL against any breach of this warranty. In addition, the Crown has indemnified HNZL against any third party claims that are a result of acts or omissions prior to 1 November 1992. The Crown has 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 197 of the Summary Proceedings Act 1957 requires the Crown to indemnify Justices of the Peace and Community Magistrates against 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.

Section 58 of the Disputes Tribunal Act 1988 confers a similar indemnity on Disputes Tribunal Referees.

Maui Mining Companies

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 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

The Crown has entered into confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information. The deed contains an indemnity against any losses arising from a breach of the deed.

National Provident Fund

Under the National Provident Fund (NPF) Restructuring Act 1990, the Crown guarantees:

- the benefits payable by all NPF schemes (section 60)
- investments and interest thereon deposited with the NPF Board prior to 1 April 1991 (section 61), and
- payment to certain NPF defined contribution schemes where application of the 4% minimum earnings rate causes any deficiency or increased deficiencies in reserves to arise (section 72).

New Zealand Aluminium Smelter and Comalco

The indemnity relates to costs incurred in removing aluminium dross and disposing of it at another site if required to do so by an appropriate authority. The Minister of Finance signed the indemnity on 24 November 2003. In February 2004 a similar indemnity was signed in respect of aluminium dross currently stored at another site in Invercargill.

New Zealand Local Authorities

The Guide to the National Civil Defence Emergency Management Plan (“the Guide”) states that 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 issued by the Director of Civil Defence Emergency Management under section 9 of the Civil Defence Emergency Management Act 2002.

New Zealand Railways Corporation

The Crown has indemnified the directors of New Zealand Railways Corporation against any liability arising from the surrender of the licence and lease of the Auckland rail corridor. The Crown has further indemnified 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 on 1 September 2004.

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, unless the power has been exercised in bad faith.

Public Trust

Section 52 of the Public Trust Act 2001 provides for the Crown to meet any deficiency in the Public Trust’s Common Fund in meeting lawful claims on the Fund. On 7 November 2008 the Minister of Finance guaranteed interest payable on estates whose money constitutes the Common Fund.

Reserve Bank of New Zealand

Section 21(2) of the Reserve Bank of New Zealand Act 1989 requires the Crown to pay the Reserve Bank the amount of any exchange losses incurred by the Bank as a result of dealing in foreign exchange under sections 17 and 18 of the Act.

Synfuels-Waitara Outfall Indemnity

As part of the 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.

Tainui Corporation

Several leases of Tainui land at Huntly and Meremere have been transferred from the Electricity Corporation of New Zealand to Genesis Power. The Crown has provided guarantees to Tainui Corporation relating to Genesis Power's obligations under the lease agreements.

Westpac New Zealand Limited

Under 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.

Under the Supplier Payments Service – New Zealand Government Master Agreement dated 23 June 2010, the Crown 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).

Legal claims and proceedings

There are numerous legal actions that 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 than a $10 million impact. 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 $10 million in penalties.

Accident Compensation Corporation (ACC) litigations

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 has been named in five class actions. Two (one in Australia and the other in the US) make allegations against more than 30 airlines of anti-competitive conduct in relation to pricing in the air cargo business. One class action (in the US) alleges that Air New Zealand, together with many other airlines, conspired in respect of fares and surcharges on trans-Pacific routes. The likelihood of any liability in the other two cases is considered remote, so these are not disclosed.

In the event that a court determined, or it was agreed with a regulator, that Air New Zealand had breached relevant laws, the company would have potential liability for pecuniary penalties and third party damages under the laws of the relevant jurisdictions.

Television New Zealand

The Company is subject to a number of legal claims. Given the stage of proceedings and uncertainty as to outcomes of the cases, 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 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 that 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. There are currently two actions against the Crown, one being heard in the Court of Appeal and another action being heard in the High Court. Failure to successfully defend such actions may result in liability for historical Treaty grievances in excess of that currently anticipated.

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 *NZ IAS 37: 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.

Landcorp Farming Limited

The Protected Land Agreement provides that the Crown will pay Landcorp any accumulated capital costs and accumulated losses, or Landcorp will pay the Crown any accumulated profits attributed to a Protected Land property required to be transferred to the Crown, or that the Crown releases for sale. The Crown will also be liable to pay Landcorp, at the time of sale or transfer, the amount of any outstanding equity payments on the initial value of the property.

Description of Contingent Assets

Quantifiable contingent assets over $100 million

Insurance claims in respect of the Canterbury earthquakes

A number of entities within the government reporting entity have insurance proceeds receivable from claims in respect of the Canterbury earthquakes. Some of these have been quantified; however, there are other entities that have not yet been able to quantify these amounts.

$166 million at 31 October 2012 ($166 million at 30 June 2012)

Tax disputes

A contingent asset is recognised when IRD has advised, or was about to advise, a taxpayer of a proposed adjustment to their tax assessment. The taxpayer has the right to dispute this adjustment and a disputes resolution process can be entered into. The contingent asset is based on the likely outcome of the disputes process based on experience and similar prior cases.

$149 million at 31 October 2012 ($150 million at 30 June 2012)

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 26 November 2012.

The finalisation dates and key assumptions that underpin the preparation of the Forecast Financial Statements are outlined on pages 39 to 41.

Statement of Accounting Policies

Significant Accounting Policies

These 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.

These Forecast Financial Statements comply with generally accepted accounting practice (GAAP) as required by the Public Finance Act 1989 and have been prepared in accordance with *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 *2012 Half Year Update Additional Information* document which can be found on the Treasury's website at www.treasury.govt.nz/budget/forecasts/hyefu2012

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

These 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 59 to 82.

Key forecast assumptions used are set out on pages 39 to 41.

Government Reporting Entity as at 26 November 2012

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:

Core Crown

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 (SOEs)

Air New Zealand Limited*
Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
Genesis Power Limited
Kordia Group Limited
Landcorp Farming Limited
Learning Media Limited
Meridian Energy Limited
Meteorological Service of New Zealand Limited
Mighty River Power Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Solid Energy New Zealand Limited
Terralink NZ Limited (in liquidation)
Transpower New Zealand Limited

**included for disclosure purposes as if they were an SOE*

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

Crown entities

Accident Compensation Corporation
Arts Council of New Zealand Toi Aotearoa
Broadcasting Commission
Broadcasting Standards Authority
Careers New Zealand
Children's Commissioner
Civil Aviation Authority of New Zealand
Commerce Commisson
Crown Research Institutes (8)
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
Housing New Zealand Corporation
Human Rights Commission
Independent Police Conduct Authority
Law Commission
Maritime Safety Authority of New Zealand
Museum of New Zealand Te Papa Tongarewa Board
New Zealand Antarctic Institute
New Zealand Artificial Limb Board
New Zealand Blood Service
New Zealand Film Commission
New Zealand Fire Service Commission
New Zealand Historic Places Trust (Pouhere Taonga)
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 (2,459)
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

Organisations named or described in Schedule 4 of the Public Finance Act 1989

Agriculture and Marketing Research and Development Trust
Asia New Zealand Foundation
Crown Asset Management Limited
Crown Fibre Holdings Limited
Dispute Resolution Services Limited
Fish and Game Councils (12)
Health Benefits Limited
Leadership Development Centre Trust
Learning State Limited
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
Ngai Tahu Ancillary Claims Trust
Pacific Co-operation Foundation
Pacific Island Business Development Trust
Research and Education Advanced Network New Zealand Limited
Reserves Boards (21)
Road Safety Trust
Sentencing Council
Southern Response Earthquake Services Limited
Tāmaki Redevelopment Company Limited
Te Ariki Trust
The Network for Learning Limited

Forecast Statement of Financial Performance

for the years ending 30 June

	Note	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Revenue								
Taxation revenue	1	54,665	57,663	56,874	61,248	64,878	68,079	71,022
Other sovereign revenue	1	5,130	5,446	5,128	5,320	5,454	5,394	5,544
Total revenue levied through the Crown's sovereign power		**59,795**	**63,109**	**62,002**	**66,568**	**70,332**	**73,473**	**76,566**
Sales of goods and services		16,785	16,337	15,735	16,131	17,010	17,671	18,294
Interest revenue and dividends	2	2,763	3,376	3,211	3,710	4,265	4,490	5,036
Other revenue		4,140	3,481	3,659	3,669	3,858	3,932	4,019
Total revenue earned through the Crown's operations		**23,688**	**23,194**	**22,605**	**23,510**	**25,133**	**26,093**	**27,349**
Total revenue (excluding gains)		**83,483**	**86,303**	**84,607**	**90,078**	**95,465**	**99,566**	**103,915**
Expenses								
Transfer payments and subsidies	3	22,354	23,218	23,007	23,571	24,065	24,862	25,598
Personnel expenses	4	19,475	19,676	19,983	19,904	20,227	20,577	20,811
Depreciation and amortisation	5	6,350	4,687	4,531	4,720	4,876	4,963	5,043
Other operating expenses	5	35,678	38,929	37,455	34,867	35,113	35,160	35,748
Interest expenses	6	4,290	4,663	4,410	4,683	5,261	5,353	5,793
Insurance expenses	7	4,576	3,289	3,374	3,396	3,653	3,786	4,110
Forecast new operating spending	8	-	348	317	978	2,154	3,352	4,544
Top-down expense adjustment	8	-	(700)	(1,150)	(200)	(200)	(200)	(200)
Total expenses (excluding losses)		**92,723**	**94,110**	**91,927**	**91,919**	**95,149**	**97,853**	**101,447**
Forgone profits from Government share offers		-	(90)	(20)	(170)	(250)	(330)	(420)
Operating balance before gains/(losses)		**(9,240)**	**(7,897)**	**(7,340)**	**(2,011)**	**66**	**1,383**	**2,048**
Net gains/(losses) on financial instruments	9	692	1,735	3,301	1,808	1,906	2,040	2,215
Net gains/(losses) on non-financial instruments	10	(6,526)	201	568	35	(90)	(92)	(95)
Total gains/(losses)		**(5,834)**	**1,936**	**3,869**	**1,843**	**1,816**	**1,948**	**2,120**
Net surplus from associates and joint ventures		233	262	196	217	219	219	217
Attributable to minority interest		(56)	-	-	-	-	-	-
Operating balance	11	**(14,897)**	**(5,699)**	**(3,275)**	**49**	**2,101**	**3,550**	**4,385**

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

Forecast Statement of Financial Performance (continued) – Functional Expense Analysis

for the years ending 30 June

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Total Crown expenses							
By functional classification							
Social security and welfare	25,457	26,912	26,689	27,526	28,128	28,858	29,787
GSF pension expenses	197	340	287	267	298	333	367
Health	13,650	14,013	14,108	13,815	13,776	13,743	13,709
Education	12,407	13,164	13,262	13,055	13,172	13,302	13,349
Core government services	5,305	6,459	5,538	4,257	4,124	4,169	4,114
Law and order	3,592	3,779	3,864	3,698	3,678	3,760	3,749
Defence	1,693	1,973	1,815	1,783	1,790	1,830	2,103
Transport and communications	10,259	8,801	8,952	8,858	9,124	9,267	9,503
Economic and industrial services	10,018	7,900	7,479	7,150	7,703	7,939	8,445
Primary services	1,588	1,830	1,521	1,411	1,423	1,388	1,372
Heritage, culture and recreation[1]	2,446	2,309	2,477	2,555	2,624	2,683	2,753
Housing and community development	627	1,115	1,168	1,075	1,097	1,062	1,055
Environmental protection[1]	769	713	561	462	453	469	459
Other	425	491	629	546	544	545	545
Finance costs	4,290	4,663	4,410	4,683	5,261	5,353	5,793
Forecast new operating spending	-	348	317	978	2,154	3,352	4,544
Top-down expense adjustment	-	(700)	(1,150)	(200)	(200)	(200)	(200)
Total Crown expenses excluding losses	**92,723**	**94,110**	**91,927**	**91,919**	**95,149**	**97,853**	**101,447**

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.

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Core Crown expenses							
By functional classification							
Social security and welfare	22,028	23,239	22,878	23,598	24,113	24,661	25,399
GSF pension expenses	192	329	278	258	280	315	349
Health	14,160	14,745	14,741	14,629	14,596	14,573	14,542
Education	11,654	12,387	12,400	12,215	12,304	12,395	12,442
Core government services	5,428	6,537	5,640	4,354	4,223	4,266	4,209
Law and order	3,403	3,558	3,642	3,468	3,437	3,510	3,488
Defence	1,736	2,016	1,864	1,828	1,835	1,879	2,149
Transport and communications	2,232	2,174	2,435	2,073	2,212	2,145	2,217
Economic and industrial services	2,157	2,134	2,082	1,962	1,895	1,924	1,944
Primary services	648	832	846	726	719	681	658
Heritage, culture and recreation[1]	863	835	875	821	804	796	796
Housing and community development	(130)	328	357	287	287	234	200
Environmental protection[1]	769	713	585	486	477	492	483
Other	425	491	629	546	544	545	545
Finance costs	3,511	3,766	3,579	3,752	3,972	3,989	4,279
Forecast new operating spending	-	348	317	978	2,154	3,352	4,544
Top-down expense adjustment	-	(700)	(1,150)	(200)	(200)	(200)	(200)
Total core Crown expenses excluding losses	**69,076**	**73,732**	**71,998**	**71,781**	**73,652**	**75,557**	**78,044**

1. Previously environmental protection expenses were included within the heritage, culture and recreation classification. These expenses have been reclassified to the new environmental protection functional classification.

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

Forecast Statement of Comprehensive Income

for the years ending 30 June

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Operating balance (including minority interest)	**(14,841)**	**(5,609)**	**(3,255)**	**219**	**2,351**	**3,880**	**4,805**
Other comprehensive income							
Revaluation of physical assets	(6,461)	-	(16)	-	-	-	-
Net change in hedging instruments entered into for cash flow hedges	143	(3)	(32)	(1)	3	4	5
Foreign currency translation differences for foreign operations	(2)	55	85	3	-	-	-
Valuation gains/(losses) on investments available for sale taken to reserves	13	10	4	9	9	11	12
Other movements	1	2	(4)	25	(8)	33	35
Total other comprehensive income	**(6,306)**	**64**	**37**	**36**	**4**	**48**	**52**
Total comprehensive income	**(21,147)**	**(5,545)**	**(3,218)**	**255**	**2,355**	**3,928**	**4,857**
Attributable to:							
- minority interest	84	90	20	170	250	330	420
- the Crown	(21,231)	(5,635)	(3,238)	85	2,105	3,598	4,437
Total comprehensive income	**(21,147)**	**(5,545)**	**(3,218)**	**255**	**2,355**	**3,928**	**4,857**

Forecast Statement of Changes in Net Worth

for the years ending 30 June

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Opening net worth	80,887	70,303	59,780	58,062	59,717	63,422	68,650
Operating balance (excluding minority interest)	(14,841)	(5,699)	(3,275)	49	2,101	3,550	4,385
Net revaluations	(6,461)	-	(16)	-	-	-	-
Transfers to/(from) reserves	80	(1)	(39)	24	(5)	38	39
(Gains)/losses transferred to the Statement of Financial Performance	83	-	(1)	-	-	(1)	1
Other movements	(8)	65	93	12	9	11	12
Total comprehensive income	**(21,147)**	**(5,635)**	**(3,238)**	**85**	**2,105**	**3,598**	**4,437**
Gain on Government share offers	-	200	175	175	175	175	-
Increase in minority interest from Government share offers	-	1,300	1,325	1,325	1,325	1,325	-
Transactions with minority interest	40	40	20	70	100	130	170
Closing net worth	**59,780**	**66,208**	**58,062**	**59,717**	**63,422**	**68,650**	**73,257**

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

Forecast Statement of Cash Flows

for the years ending 30 June

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Cash flows from operations							
Cash was provided from							
Taxation receipts	53,582	56,856	55,817	60,413	64,025	67,047	70,098
Other sovereign receipts	4,890	4,729	4,694	4,709	4,819	5,005	5,119
Sales of goods and services	16,812	16,369	15,806	16,079	17,020	17,648	18,200
Interest and dividend receipts	2,603	3,106	2,924	3,451	3,991	4,200	4,750
Other operating receipts	4,395	7,172	6,785	4,816	4,515	4,170	3,938
Total cash provided from operations	**82,282**	**88,232**	**86,026**	**89,468**	**94,370**	**98,070**	**102,105**
Cash was disbursed to							
Transfer payments and subsidies	22,840	23,284	23,077	23,982	24,199	24,883	25,612
Personnel and operating payments	59,107	62,535	61,567	58,712	58,314	57,793	57,345
Interest payments	3,954	4,797	4,622	4,903	5,626	5,560	6,006
Forecast new operating spending	-	348	317	978	2,154	3,352	4,544
Top-down expense adjustment	-	(700)	(1,150)	(200)	(200)	(200)	(200)
Total cash disbursed to operations	**85,901**	**90,264**	**88,433**	**88,375**	**90,093**	**91,388**	**93,307**
Net cash flows from operations	**(3,619)**	**(2,032)**	**(2,407)**	**1,093**	**4,277**	**6,682**	**8,798**
Cash flows from investing activities							
Cash was provided from/(disbursed to)							
Net purchase of physical assets	(5,766)	(7,039)	(6,837)	(7,074)	(5,871)	(6,211)	(6,413)
Net purchase of shares and other securities	424	7,480	8,964	(5,574)	2,497	(5,016)	(7,511)
Net purchase of intangible assets	(567)	(515)	(553)	(517)	(432)	(384)	(332)
Net repayment/(issues) of advances	(1,284)	(1,840)	(1,539)	(1,668)	(1,702)	(2,255)	(2,213)
Net acquisition of investments in associates	(115)	1,510	1,513	1,588	1,554	1,552	51
Forecast new capital spending	-	(194)	(179)	(726)	(821)	(800)	(910)
Top-down capital adjustment	-	100	400	100	100	50	50
Net cash flows from investing activities	**(7,308)**	**(498)**	**1,769**	**(13,871)**	**(4,675)**	**(13,064)**	**(17,278)**
Net cash flows from operating and investing activities	**(10,927)**	**(2,530)**	**(638)**	**(12,778)**	**(398)**	**(6,382)**	**(8,480)**
Cash flows from financing activities							
Cash was provided from/(disbursed to)							
Issues of circulating currency	203	144	160	231	242	255	267
Net issue/(repayment) of government stock[1]	7,554	3,921	5,711	10,353	(1,312)	4,442	6,099
Net issue/(repayment) of foreign-currency borrowings	(6,422)	(623)	(2,292)	(671)	(1,256)	(929)	(575)
Net issue/(repayment) of other New Zealand dollar borrowings	10,353	(1,434)	481	2,379	2,442	2,652	2,644
Dividends paid to minority interests	(7)	(50)	-	(100)	(150)	(200)	(250)
Net cash flows from financing activities	**11,681**	**1,958**	**4,060**	**12,192**	**(34)**	**6,220**	**8,185**
Net movement in cash	**754**	**(572)**	**3,422**	**(586)**	**(432)**	**(162)**	**(295)**
Opening cash balance	9,801	14,899	10,686	13,952	13,366	12,934	12,772
Foreign-exchange gains/(losses) on opening cash	131	-	(156)	-	-	-	-
Closing cash balance	**10,686**	**14,327**	**13,952**	**13,366**	**12,934**	**12,772**	**12,477**

1. Net issue of Government stock is after elimination of holdings by entities such as NZS Fund, ACC and EQC. Further information on the proceeds and repayments of government stock ("domestic bonds") is available in note 22.

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

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Reconciliation between the net cash flows from operations and the operating balance							
Net cash flows from operations	**(3,619)**	**(2,032)**	**(2,407)**	**1,093**	**4,277**	**6,682**	**8,798**
Items included in the operating balance but not in net cash flows from operations							
Gains/(losses)							
Net gains/(losses) on financial instruments	692	1,735	3,301	1,808	1,906	2,040	2,215
Net gains/(losses) on non-financial instruments	(6,526)	201	568	35	(90)	(92)	(95)
Total gains/(losses)	**(5,834)**	**1,936**	**3,869**	**1,843**	**1,816**	**1,948**	**2,120**
Other non-cash items in operating balance							
Depreciation and amortisation	(6,350)	(4,687)	(4,531)	(4,720)	(4,876)	(4,963)	(5,043)
Write-down on initial recognition of financial assets	(850)	(748)	(788)	(830)	(807)	(837)	(855)
Impairment on financial assets (excl. receivables)	248	181	33	34	35	39	41
Decrease/(increase) in defined benefit retirement plan liabilities	512	405	390	474	467	447	426
Decrease/(increase) in insurance liabilities	1,070	2,985	2,684	1,772	693	(104)	(1,512)
Other	232	262	197	218	219	222	216
Total other non-cash Items	**(5,138)**	**(1,602)**	**(2,015)**	**(3,052)**	**(4,269)**	**(5,196)**	**(6,727)**
Movements in working capital							
Increase/(decrease) in receivables	(242)	(3,767)	(3,459)	(1,196)	(627)	(323)	86
Increase/(decrease) in accrued interest	(175)	404	498	479	639	497	500
Increase/(decrease) in inventories	(74)	59	(95)	46	50	32	2
Increase/(decrease) in prepayments	32	(44)	(13)	(41)	3	1	5
Decrease/(increase) in deferred revenue	(38)	32	163	1	(35)	(45)	(36)
Decrease/(increase) in payables/provisions	191	(685)	184	876	247	(46)	(363)
Total movements in working capital	**(306)**	**(4,001)**	**(2,722)**	**165**	**277**	**116**	**194**
Operating balance	**(14,897)**	**(5,699)**	**(3,275)**	**49**	**2,101**	**3,550**	**4,385**

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

Forecast Statement of Financial Position

as at 30 June

	Note	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Assets								
Cash and cash equivalents	12	10,686	14,327	13,952	13,366	12,934	12,772	12,477
Receivables	12	20,956	16,799	17,627	15,994	15,372	15,052	15,146
Marketable securities, deposits and derivatives in gain	12	48,385	36,197	39,399	42,972	38,753	41,813	47,307
Share investments	12	14,385	15,853	16,302	17,995	19,802	21,757	23,855
Advances	12	21,766	23,895	23,398	25,295	27,607	30,633	34,136
Inventory		1,234	1,360	1,139	1,185	1,235	1,267	1,269
Other assets		2,134	2,051	1,972	2,080	1,818	1,819	1,824
Property, plant and equipment	14	108,584	121,335	111,719	114,692	116,643	118,500	120,474
Equity accounted investments[1]		9,483	9,967	9,825	9,982	10,122	10,248	10,374
Intangible assets and goodwill	15	2,705	2,571	2,708	2,795	2,774	2,723	2,640
Forecast for new capital spending	8	-	282	179	905	1,726	2,526	3,436
Top-down capital adjustment	8	-	(350)	(400)	(500)	(600)	(650)	(700)
Total assets		**240,318**	**244,287**	**237,820**	**246,761**	**248,186**	**258,460**	**272,238**
Liabilities								
Issued currency		4,457	4,704	4,617	4,848	5,090	5,345	5,612
Payables	17	11,604	13,503	12,423	11,704	11,763	11,947	12,298
Deferred revenue		1,712	1,399	1,548	1,548	1,582	1,627	1,663
Borrowings		100,534	103,207	102,749	113,669	112,494	117,733	125,419
Insurance liabilities	18	41,186	36,919	38,160	36,237	35,544	35,648	37,160
Retirement plan liabilities	19	13,539	11,481	12,960	12,485	12,019	11,572	11,146
Provisions	20	7,506	6,866	7,301	6,553	6,272	5,938	5,683
Total liabilities		**180,538**	**178,079**	**179,758**	**187,044**	**184,764**	**189,810**	**198,981**
Total assets less total liabilities		**59,780**	**66,208**	**58,062**	**59,717**	**63,422**	**68,650**	**73,257**
Net worth								
Taxpayers' funds	21	3,520	2,144	486	812	3,199	7,079	11,632
Property, plant and equipment revaluation reserve	21	56,001	62,550	55,915	55,838	55,719	55,597	55,464
Other reserves	21	(173)	(134)	(116)	(105)	(93)	(78)	(61)
Total net worth attributable to the Crown		**59,348**	**64,560**	**56,285**	**56,545**	**58,825**	**62,598**	**67,035**
Net worth attributable to minority interest		432	1,648	1,777	3,172	4,597	6,052	6,222
Total net worth		**59,780**	**66,208**	**58,062**	**59,717**	**63,422**	**68,650**	**73,257**

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

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Borrowings							
Government bonds	53,850	57,296	57,159	66,165	63,365	66,290	70,755
Treasury bills	8,954	4,700	4,599	4,471	4,336	4,327	4,325
Government retail stock	229	251	221	221	221	221	221
Settlement deposits with Reserve Bank	5,917	6,244	6,855	6,855	6,855	6,855	6,855
Derivatives in loss	2,807	2,401	2,337	2,134	2,000	1,790	1,675
Finance lease liabilities	1,515	1,471	1,586	1,572	1,687	1,731	1,656
Other borrowings	27,262	30,844	29,992	32,251	34,030	36,519	39,932
Total borrowings	**100,534**	**103,207**	**102,749**	**113,669**	**112,494**	**117,733**	**125,419**
Total sovereign-guaranteed debt	75,701	76,212	76,400	85,345	82,368	85,075	89,478
Total non-sovereign-guaranteed debt	24,833	26,995	26,349	28,324	30,126	32,658	35,941
Total borrowings	**100,534**	**103,207**	**102,749**	**113,669**	**112,494**	**117,733**	**125,419**
Net debt:							
Core Crown borrowings[1]	84,680	85,674	86,282	94,689	92,598	96,571	102,450
Add back NZS Fund holdings of sovereign-issued debt and NZS Fund borrowings	(512)	(884)	(671)	(812)	(911)	(1,056)	(1,111)
Gross sovereign-issued debt[2]	**84,168**	**84,790**	**85,611**	**93,877**	**91,687**	**95,515**	**101,339**
Less core Crown financial assets[3]	64,017	56,569	59,177	62,981	59,328	63,203	68,921
Net core Crown debt	**20,151**	**28,221**	**26,434**	**30,896**	**32,359**	**32,312**	**32,418**
Core Crown advances	13,324	13,894	13,898	14,558	15,353	16,345	16,749
Net core Crown debt (incl. NZS Fund)[4]	**33,475**	**42,115**	**40,332**	**45,454**	**47,712**	**48,657**	**49,167**
Add back NZS Fund holdings of core Crown financial assets and NZS Fund financial assets[5]	17,196	19,150	19,666	21,295	22,973	24,820	26,693
Net core Crown debt (excl. NZS Fund and advances)[6]	**50,671**	**61,265**	**59,998**	**66,749**	**70,685**	**73,477**	**75,860**
Gross debt:							
Gross sovereign-issued debt[2]	84,168	84,790	85,611	93,877	91,687	95,515	101,339
Less Reserve Bank settlement cash and bank bills	(6,133)	(6,418)	(7,035)	(7,035)	(7,035)	(7,055)	(7,080)
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]	**79,635**	**79,972**	**80,176**	**88,442**	**86,252**	**90,060**	**95,859**

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 other 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 NZS Fund, ACC and EQC.
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 2012

	As at 31 Oct 2012 $m	As at 30 June 2012 $m
Capital commitments		
Specialist military equipment	166	239
Land and buildings	719	697
Other property, plant and equipment	6,261	6,001
Other capital commitments	744	572
Tertiary education institutions	255	255
Total capital commitments	**8,145**	**7,764**
Operating commitments		
Non-cancellable accommodation leases	2,668	2,719
Other non-cancellable leases	3,496	3,549
Tertiary education institutions	282	282
Total operating commitments	**6,446**	**6,550**
Total commitments	**14,591**	**14,314**

Statement of Actual Contingent Liabilities and Assets

as at 31 October 2012

	As at 31 Oct 2012 $m	As at 30 June 2012 $m
Quantifiable contingent liabilities		
Guarantees and indemnities	186	430
Uncalled capital	6,140	6,327
Legal proceedings and disputes	444	411
Other contingent liabilities	405	584
Total quantifiable contingent liabilities	**7,175**	**7,752**
Total quantifiable contingent liabilities by segment		
Core Crown	6,983	7,622
Crown entities	81	40
State-owned enterprises	111	90
Inter-segment eliminations	-	-
Total quantifiable contingent liabilities	**7,175**	**7,752**
Quantifiable contingent assets by segment		
Core Crown	221	224
Crown entities	161	162
State-owned enterprises	-	24
Total quantifiable contingent assets	**382**	**410**

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

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 1: Sovereign Revenue (Accrual)							
Taxation revenue (accrual)							
Individuals							
Source deductions	21,237	22,563	22,038	23,117	24,301	25,487	26,750
Other persons	4,232	4,386	4,641	4,740	4,935	5,116	5,314
Refunds	(1,736)	(1,567)	(1,564)	(1,426)	(1,414)	(1,418)	(1,463)
Fringe benefit tax	462	458	439	454	490	509	529
Total individuals	**24,195**	**25,840**	**25,554**	**26,885**	**28,312**	**29,694**	**31,130**
Corporate tax							
Gross companies tax	8,310	8,301	8,487	9,310	9,735	10,082	10,477
Refunds	(202)	(279)	(214)	(217)	(231)	(242)	(252)
Non-resident withholding tax	500	455	396	461	529	585	622
Foreign-source dividend w/holding payments	4	-	-	-	-	-	-
Total corporate tax	**8,612**	**8,477**	**8,669**	**9,554**	**10,033**	**10,425**	**10,847**
Other direct income tax							
Resident w/holding tax on interest income	1,679	1,673	1,515	1,650	1,988	2,337	2,606
Resident w/holding tax on dividend income	292	375	382	589	613	634	655
Total other direct income tax	**1,971**	**2,048**	**1,897**	**2,239**	**2,601**	**2,971**	**3,261**
Total direct income tax	**34,778**	**36,365**	**36,120**	**38,678**	**40,946**	**43,090**	**45,238**
Goods and services tax							
Gross goods and services tax	25,199	26,795	25,814	27,467	29,410	31,314	33,525
Refunds	(10,627)	(11,052)	(10,512)	(10,699)	(11,626)	(12,809)	(14,442)
Total goods and services tax	**14,572**	**15,743**	**15,302**	**16,768**	**17,784**	**18,505**	**19,083**
Other indirect taxation							
Road user charges	1,045	1,152	1,114	1,245	1,360	1,469	1,535
Petroleum fuels excise – domestic production	847	939	905	979	1,056	1,122	1,148
Alcohol excise – domestic production	656	698	672	701	732	764	799
Tobacco excise – domestic production	244	223	248	251	257	272	285
Petroleum fuels excise – imports[1]	631	626	656	709	765	813	831
Alcohol excise – imports[1]	241	249	235	245	255	267	278
Tobacco excise – imports[1]	993	983	964	1,011	1,064	1,122	1,172
Other customs duty	173	179	168	159	151	143	136
Gaming duties	216	231	225	225	227	229	231
Motor vehicle fees	175	170	179	184	188	190	193
Approved issuer levy and cheque duty	58	69	50	57	57	57	57
Energy resources levies	36	36	36	36	36	36	36
Total other indirect taxation	**5,315**	**5,555**	**5,452**	**5,802**	**6,148**	**6,484**	**6,701**
Total indirect taxation	**19,887**	**21,298**	**20,754**	**22,570**	**23,932**	**24,989**	**25,784**
Total taxation revenue	**54,665**	**57,663**	**56,874**	**61,248**	**64,878**	**68,079**	**71,022**
Other sovereign revenue (accrual)							
ACC levies	3,695	3,395	3,427	3,472	3,560	3,649	3,743
Fire Service levies	326	313	325	328	334	346	351
EQC levies	107	240	242	272	275	277	280
Child support	311	660	596	706	743	577	625
Court fines	176	178	178	181	183	186	186
Other miscellaneous items	515	660	360	361	359	359	359
Total other sovereign revenue	**5,130**	**5,446**	**5,128**	**5,320**	**5,454**	**5,394**	**5,544**
Total sovereign revenue	**59,795**	**63,109**	**62,002**	**66,568**	**70,332**	**73,473**	**76,566**

1. Customs excise-equivalent duty.

Notes to the Forecast Financial Statements

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 1 (continued): Sovereign Receipts (Cash)							
Taxation receipts (cash)							
Individuals							
Source deductions	21,010	22,450	21,924	22,999	24,177	25,359	26,621
Other persons	4,720	5,062	4,944	5,154	5,452	5,579	5,802
Refunds	(2,468)	(2,493)	(2,212)	(2,108)	(2,153)	(2,177)	(2,251)
Fringe benefit tax	458	457	438	453	489	508	528
Total individuals	**23,720**	**25,476**	**25,094**	**26,498**	**27,965**	**29,269**	**30,700**
Corporate tax							
Gross companies tax	8,792	8,737	8,660	9,682	10,056	10,349	10,879
Refunds	(814)	(756)	(665)	(682)	(711)	(747)	(780)
Non-resident withholding tax	434	454	395	460	528	584	621
Foreign-source dividend w/holding payments	4	-	-	-	-	-	-
Total corporate tax	**8,416**	**8,435**	**8,390**	**9,460**	**9,873**	**10,186**	**10,720**
Other direct income tax							
Resident w/holding tax on interest income	1,699	1,672	1,514	1,649	1,987	2,336	2,605
Resident w/holding tax on dividend income	290	375	382	589	613	634	655
Total other direct income tax	**1,989**	**2,047**	**1,896**	**2,238**	**2,600**	**2,970**	**3,260**
Total direct income tax	**34,125**	**35,958**	**35,380**	**38,196**	**40,438**	**42,425**	**44,680**
Goods and services tax							
Gross goods and services tax	24,574	25,895	24,997	26,614	28,565	30,447	32,659
Refunds	(10,435)	(10,552)	(10,012)	(10,199)	(11,126)	(12,309)	(13,942)
Total goods and services tax	**14,139**	**15,343**	**14,985**	**16,415**	**17,439**	**18,138**	**18,717**
Other indirect taxation							
Road user charges	1,048	1,152	1,114	1,245	1,360	1,469	1,535
Petroleum fuels excise - domestic production	845	939	905	979	1,056	1,122	1,148
Alcohol excise - domestic production	654	698	672	701	732	764	799
Tobacco excise - domestic production	238	223	248	251	257	272	285
Customs duty	2,057	2,037	2,023	2,124	2,235	2,345	2,417
Gaming duties	216	231	225	225	227	229	231
Motor vehicle fees	169	170	179	184	188	190	193
Approved issuer levy and cheque duty	55	69	50	57	57	57	57
Energy resources levies	36	36	36	36	36	36	36
Total other indirect taxation	**5,318**	**5,555**	**5,452**	**5,802**	**6,148**	**6,484**	**6,701**
Total indirect taxation	**19,457**	**20,898**	**20,437**	**22,217**	**23,587**	**24,622**	**25,418**
Total taxation receipts	**53,582**	**56,856**	**55,817**	**60,413**	**64,025**	**67,047**	**70,098**
Other sovereign receipts (cash)							
ACC levies	3,693	3,413	3,424	3,440	3,532	3,694	3,789
Fire Service levies	326	313	325	328	334	346	351
EQC levies	134	270	277	271	275	278	281
Child support	243	225	227	230	241	253	264
Court fines	157	144	144	144	143	140	140
Other miscellaneous items	337	364	297	296	294	294	294
Total other sovereign receipts	**4,890**	**4,729**	**4,694**	**4,709**	**4,819**	**5,005**	**5,119**
Total sovereign receipts	**58,472**	**61,585**	**60,511**	**65,122**	**68,844**	**72,052**	**75,217**

Notes to the Forecast Financial Statements

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 2: Interest revenue and dividends							
By type							
Interest revenue	2,293	2,885	2,676	3,148	3,643	3,801	4,274
Dividends	470	491	535	562	622	689	762
Total interest revenue and dividends	**2,763**	**3,376**	**3,211**	**3,710**	**4,265**	**4,490**	**5,036**
By source							
Core Crown	1,795	2,397	2,261	2,586	2,833	2,888	3,151
Crown entities	1,181	1,123	1,114	1,248	1,347	1,461	1,585
State-owned enterprises	858	905	864	1,028	1,239	1,342	1,550
Inter-segment eliminations	(1,071)	(1,049)	(1,028)	(1,152)	(1,154)	(1,201)	(1,250)
Total interest revenue and dividends	**2,763**	**3,376**	**3,211**	**3,710**	**4,265**	**4,490**	**5,036**
NOTE 3: Transfer payments and subsidies							
New Zealand Superannuation	9,584	10,243	10,228	10,850	11,415	12,073	12,686
Family tax credit	2,082	2,113	2,062	2,037	1,993	1,961	1,976
Domestic Purposes Benefit	1,811	1,820	1,751	1,762	1,776	1,811	1,840
Invalid's Benefit	1,325	1,321	1,323	1,305	1,277	1,273	1,274
Accommodation Supplement	1,195	1,243	1,197	1,229	1,248	1,271	1,288
Unemployment Benefit	883	881	836	839	814	804	783
Sickness Benefit	775	781	784	809	845	868	878
In-work tax credit	567	565	541	511	493	483	479
Student allowances	644	602	623	572	526	503	489
Income related rents	580	626	614	660	707	759	808
Disability allowances	401	366	363	358	356	358	358
Other social assistance benefits	1,309	1,470	1,442	1,442	1,424	1,432	1,446
Total social assistance grants	**21,156**	**22,031**	**21,764**	**22,374**	**22,874**	**23,596**	**24,305**
Subsidies							
KiwiSaver subsidies	688	688	710	702	696	721	748
Other transfer payments							
Official development assistance	510	499	533	495	495	545	545
Total transfer payments and subsidies	**22,354**	**23,218**	**23,007**	**23,571**	**24,065**	**24,862**	**25,598**
NOTE 4: Personnel expenses							
By source							
Core Crown	5,915	6,003	6,067	6,016	6,025	6,108	6,152
Crown entities	10,754	10,897	11,100	11,060	11,329	11,563	11,747
State-owned enterprises	2,819	2,786	2,827	2,839	2,884	2,917	2,923
Inter-segment eliminations	(13)	(10)	(11)	(11)	(11)	(11)	(11)
Total personnel expenses	**19,475**	**19,676**	**19,983**	**19,904**	**20,227**	**20,577**	**20,811**
NOTE 5: Depreciation, amortisation and other operating expenses							
By source							
Core Crown	37,280	41,041	40,171	37,663	37,636	37,445	37,669
Crown entities	17,897	18,062	18,792	18,476	18,466	18,534	18,543
State-owned enterprises	13,174	11,173	10,272	10,349	11,048	11,528	12,086
Inter-segment eliminations	(26,323)	(26,660)	(27,249)	(26,901)	(27,161)	(27,384)	(27,507)
Total depreciation, amortisation and other operating expenses	**42,028**	**43,616**	**41,986**	**39,587**	**39,989**	**40,123**	**40,791**

Notes to the Forecast Financial Statements

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 6: Interest expenses							
By type							
Interest on financial liabilities	4,223	4,610	4,361	4,635	5,218	5,295	5,725
Interest unwind on provisions	67	53	49	48	43	58	68
Total interest expenses	**4,290**	**4,663**	**4,410**	**4,683**	**5,261**	**5,353**	**5,793**
By source							
Core Crown	3,511	3,766	3,579	3,752	3,972	3,989	4,279
Crown entities	246	247	245	249	257	264	275
State-owned enterprises	1,268	1,254	1,181	1,393	1,591	1,685	1,875
Inter-segment eliminations	(735)	(604)	(595)	(711)	(559)	(585)	(636)
Total interest expenses	**4,290**	**4,663**	**4,410**	**4,683**	**5,261**	**5,353**	**5,793**
NOTE 7: Insurance expenses							
By entity							
ACC	3,010	3,300	3,388	3,458	3,541	3,724	3,904
EQC	1,073	71	101	(21)	147	100	205
Southern Response	586	(93)	(108)	(55)	(49)	(52)	(13)
Other (incl. inter-segment eliminations)	(93)	11	(7)	14	14	14	14
Total insurance expenses	**4,576**	**3,289**	**3,374**	**3,396**	**3,653**	**3,786**	**4,110**

NOTE 8: Forecast new spending and top-down expense adjustment

	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Forecast new operating spending						
Unallocated contingencies	348	317	267	292	267	268
Forecast new spending for Budget 2013	-	-	711	672	681	634
Forecast new spending for Budget 2014	-	-	-	1,190	1,190	1,190
Forecast new spending for Budget 2015	-	-	-	-	1,214	1,214
Forecast new spending for Budget 2016	-	-	-	-	-	1,238
Total forecast new operating spending	**348**	**317**	**978**	**2,154**	**3,352**	**4,544**
Operating top-down adjustment	**(700)**	**(1,150)**	**(200)**	**(200)**	**(200)**	**(200)**

Unallocated contingencies represent expenses included in Budget 2012 and previous Budgets that has yet to be allocated. Forecast new spending indicates the expected spending increases from future Budgets.

	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m	Post-2017 Forecast $m	Total Forecast $m
Forecast new capital spending (annual)							
Unallocated contingencies	79	26	21	-	-	-	126
Forecast new spending for Budget 2013	100	600	300	250	150	150	1,550
Forecast new spending for Budget 2014	-	100	400	200	250	-	950
Forecast new spending for Budget 2015	-	-	100	250	160	210	720
Forecast new spending for Budget 2016	-	-	-	100	250	370	720
Forecast new spending for Budget 2017	-	-	-	-	100	818	918
Total forecast new capital spending	**179**	**726**	**821**	**800**	**910**	**1,548**	**4,984**
Forecast new capital spending (cumulative)	**179**	**905**	**1,726**	**2,526**	**3,436**		
Capital top-down adjustment (cumulative)	**(400)**	**(500)**	**(600)**	**(650)**	**(700)**		

Unallocated contingencies represent capital spending from Budget 2012 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

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 9: Gains and losses on financial instruments							
By source							
Core Crown	526	1,685	2,573	1,683	1,790	1,841	1,939
Crown entities	930	288	789	269	316	375	457
State-owned enterprises	9	(46)	92	33	20	12	13
Inter-segment eliminations	(773)	(192)	(153)	(177)	(220)	(188)	(194)
Net gains/(losses) on financial instruments	**692**	**1,735**	**3,301**	**1,808**	**1,906**	**2,040**	**2,215**
NOTE 10: Gains and losses on non-financial instruments							
By type							
Actuarial gains/(losses) on GSF liability	(3,896)	-	190	-	-	-	-
Actuarial gains/(losses) on ACC outstanding claims	(2,942)	-	343	150	-	-	-
Other	312	201	35	(115)	(90)	(92)	(95)
Net gains/(losses) on non-financial instruments	**(6,526)**	**201**	**568**	**35**	**(90)**	**(92)**	**(95)**
By source							
Core Crown	(3,790)	7	255	(1)	(1)	(1)	(1)
Crown entities	(2,955)	(11)	314	35	(89)	(92)	(94)
State-owned enterprises	220	205	-	-	-	-	-
Inter-segment eliminations	(1)	-	(1)	1	-	1	-
Net gains/(losses) on non-financial instruments	**(6,526)**	**201**	**568**	**35**	**(90)**	**(92)**	**(95)**
NOTE 11: Operating balance							
By source							
Core Crown	(11,671)	(7,774)	(6,159)	(2,240)	33	1,323	2,228
Crown entities	(641)	1,873	2,520	2,099	1,943	2,044	2,040
State-owned enterprises	(1,423)	890	1,025	859	1,051	1,090	1,029
Inter-segment eliminations	(1,162)	(688)	(661)	(669)	(926)	(907)	(912)
Total operating balance	**(14,897)**	**(5,699)**	**(3,275)**	**49**	**2,101**	**3,550**	**4,385**
NOTE 12: Financial assets							
Cash and cash equivalents	10,686	14,327	13,952	13,366	12,934	12,772	12,477
Tax receivables	7,257	6,974	7,328	7,238	7,244	7,232	7,201
Trade and other receivables	13,699	9,825	10,299	8,756	8,128	7,820	7,945
Student loans (refer note 13)	8,291	8,781	8,813	9,268	9,720	10,196	10,693
Kiwibank mortgages	12,445	13,830	13,433	14,756	16,462	18,962	21,962
Long-term deposits	2,422	1,697	1,388	1,602	1,587	1,689	1,799
IMF financial assets	2,249	2,445	2,381	2,429	2,453	2,478	2,299
Other advances	1,030	1,284	1,152	1,271	1,425	1,475	1,481
Share investments	14,385	15,853	16,302	17,995	19,802	21,757	23,855
Derivatives in gain	5,032	4,028	3,899	3,292	2,929	2,544	2,262
Other marketable securities	38,682	28,027	31,731	35,649	31,784	35,102	40,947
Total financial assets	**116,178**	**107,071**	**110,678**	**115,622**	**114,468**	**122,027**	**132,921**
Financial assets by entity							
NZDMO	26,062	14,820	16,482	18,071	11,649	12,468	15,554
Reserve Bank of New Zealand	17,573	17,631	17,964	17,981	17,578	17,664	17,935
NZS Fund	18,815	20,445	21,491	22,544	24,132	25,828	27,657
Other core Crown	20,455	18,863	20,237	19,925	20,046	20,474	21,079
Intra-segment eliminations	(7,924)	(5,832)	(6,435)	(5,846)	(4,376)	(3,576)	(3,675)
Total core Crown segment	**74,981**	**65,927**	**69,739**	**72,675**	**69,029**	**72,858**	**78,550**
ACC portfolio	25,340	28,440	28,871	31,505	34,332	37,322	40,561
EQC portfolio	7,252	3,781	4,256	1,625	362	55	56
Other Crown entities	11,168	8,191	9,691	9,219	8,657	7,829	7,959
Intra-segment eliminations	(3,685)	(3,503)	(3,693)	(3,697)	(3,411)	(2,874)	(2,931)
Total Crown entities segment	**40,075**	**36,909**	**39,125**	**38,652**	**39,940**	**42,332**	**45,645**
Total state-owned enterprises segment	**19,186**	**21,393**	**20,053**	**21,684**	**23,941**	**26,870**	**30,247**
Inter-segment eliminations	(18,064)	(17,158)	(18,239)	(17,389)	(18,442)	(20,033)	(21,521)
Total financial assets	**116,178**	**107,071**	**110,678**	**115,622**	**114,468**	**122,027**	**132,921**

Notes to the Forecast Financial Statements

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 13: Student loans							
Nominal value (including accrued interest)	12,969	13,840	13,711	14,372	15,002	15,648	16,300
Opening book value	7,460	8,238	8,291	8,813	9,268	9,720	10,196
Amount borrowed in current year	1,586	1,644	1,607	1,668	1,689	1,737	1,786
Less initial write-down to fair value	(701)	(651)	(586)	(610)	(617)	(635)	(653)
Repayments made during the year	(877)	(953)	(1,004)	(1,140)	(1,193)	(1,233)	(1,279)
Interest unwind	526	601	603	637	671	706	743
(Impairment)/reversal of impairment	286	(110)	(110)	(110)	(110)	(110)	(110)
Other movements	11	12	12	10	12	11	10
Closing book value	**8,291**	**8,781**	**8,813**	**9,268**	**9,720**	**10,196**	**10,693**
NOTE 14: Property, plant and equipment							
By class of asset							
Net carrying value							
Land (valuation)[1]	33,626	35,551	34,159	34,840	34,993	35,087	35,252
Buildings (valuation)	25,046	25,528	25,306	25,642	25,927	25,974	25,836
State highways (valuation)	17,546	19,120	18,253	19,149	20,014	21,110	22,317
Electricity generation assets (valuation)	14,400	15,348	14,810	15,235	15,102	15,178	15,493
Electricity distribution network (cost)	3,476	3,835	3,906	4,015	4,160	4,297	4,445
Specialist military equipment (valuation)	3,220	3,346	3,148	3,142	3,310	3,248	3,240
Specified cultural and heritage assets (valuation)	2,514	2,506	2,481	2,502	2,526	2,552	2,580
Aircraft (excluding military) (valuation)	2,250	2,222	2,273	2,542	2,811	3,160	3,459
Rail network (valuation)	856	7,614	1,059	1,120	1,124	1,137	1,144
Other plant and equipment (cost)	5,650	6,265	6,324	6,505	6,676	6,757	6,708
Total property, plant and equipment	**108,584**	**121,335**	**111,719**	**114,692**	**116,643**	**118,500**	**120,474**
By source							
Core Crown	29,377	30,140	29,994	30,757	31,342	31,232	31,124
Crown entities	49,939	51,182	51,247	52,705	53,900	55,444	56,933
State-owned enterprises	29,268	40,013	30,478	31,230	31,401	31,824	32,417
Inter-segment eliminations	-	-	-	-	-	-	-
Total property, plant and equipment	**108,584**	**121,335**	**111,719**	**114,692**	**116,643**	**118,500**	**120,474**
Land breakdown by usage [1]							
Housing	8,744	8,394	8,756	8,720	8,685	8,644	8,611
State highway corridor land	8,353	7,603	8,503	8,653	8,803	8,953	9,103
Conservation land	5,454	5,679	5,444	5,460	5,472	5,482	5,492
Rail network	3,260	5,641	3,260	3,260	3,260	3,260	3,260
Schools	2,726	2,747	2,743	2,771	2,813	2,819	2,819
Commercial (SOEs) excluding Rail	1,471	1,594	1,491	1,508	1,528	1,547	1,565
Other	3,618	3,893	3,962	4,468	4,432	4,382	4,402
Total land	**33,626**	**35,551**	**34,159**	**34,840**	**34,993**	**35,087**	**35,252**

1. Land relating to state highways, the rail network and conservation which had previously been included within the State highways, Rail network and Specified cultural and heritage assets categories has been reclassified to the Land category.

Notes to the Forecast Financial Statements

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 14 (continued): Property, plant and equipment							
Schedule of movements							
Cost or valuation							
Opening balance	126,601	133,898	121,717	128,684	135,718	141,825	147,802
Additions (refer below for further breakdown)	6,514	7,437	7,495	7,722	6,955	6,807	7,066
Disposals	(941)	(436)	(616)	(756)	(750)	(741)	(741)
Net revaluations	(9,793)	-	15	-	-	-	-
Other	(664)	248	73	68	(98)	(89)	(61)
Total cost or valuation	**121,717**	**141,147**	**128,684**	**135,718**	**141,825**	**147,802**	**154,066**
Accumulated depreciation and impairment							
Opening balance	11,747	15,890	13,133	16,965	21,026	25,182	29,302
Eliminated on disposal	(634)	(40)	(31)	(41)	41	(148)	(53)
Eliminated on revaluation	(3,415)	-	(1)	-	-	-	-
Impairment losses charged to operating balance	1,884	-	-	-	-	-	-
Depreciation expense	3,803	4,070	3,908	4,085	4,219	4,295	4,372
Other	(252)	(108)	(44)	17	(104)	(27)	(29)
Total accumulated depreciation and impairment	**13,133**	**19,812**	**16,965**	**21,026**	**25,182**	**29,302**	**33,592**
Total property, plant and equipment	**108,584**	**121,335**	**111,719**	**114,692**	**116,643**	**118,500**	**120,474**
Additions – by functional classification							
Transport	2,291	2,299	2,128	2,394	2,394	2,683	2,750
Economic	2,036	1,659	1,750	1,467	932	1,126	1,340
Education	442	931	827	753	659	759	756
Health	627	686	804	681	590	492	489
Defence	339	556	449	590	752	431	471
Other	779	1,306	1,537	1,837	1,628	1,316	1,260
Total additions to property, plant and equipment[1]	**6,514**	**7,437**	**7,495**	**7,722**	**6,955**	**6,807**	**7,066**

1. 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).

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 15: Intangible assets and goodwill							
By type							
Net Kyoto position	202	189	114	114	114	114	114
Goodwill	746	431	735	713	691	691	691
Other intangible assets	1,757	1,951	1,859	1,968	1,969	1,918	1,835
Total intangible assets and goodwill	**2,705**	**2,571**	**2,708**	**2,795**	**2,774**	**2,723**	**2,640**
By source							
Core Crown	1,112	1,294	1,176	1,287	1,318	1,288	1,257
Crown entities	494	472	526	520	490	480	436
State-owned enterprises	1,099	805	1,006	988	966	955	947
Inter-segment eliminations	-	-	-	-	-	-	-
Total intangible assets and goodwill	**2,705**	**2,571**	**2,708**	**2,795**	**2,774**	**2,723**	**2,640**

Net Kyoto position

The New Zealand Government has committed under the Kyoto Protocol to ensuring that New Zealand's average net emissions of greenhouse gases from 2008 to 2012 (the first commitment period of the Kyoto Protocol, or CP1) are reduced to gross 1990 emission levels, or to take responsibility for the difference. New Zealand can meet its commitment through emissions reductions and use of the Kyoto Protocol flexibility mechanisms such as Joint Implementation, the Clean Development Mechanism, and offsetting increased emissions against carbon removed by forests.

To assist New Zealand in meeting its Kyoto Protocol commitments, an Emissions Trading Scheme (ETS) was established (refer note 20). These two initiatives should be looked at together when understanding New Zealand's international climate change obligations. The asset reported in these financial statements could be significantly reduced if international units are transferred offshore through foresters participating in the ETS. This, combined with other ETS variables, has a significant impact on the Government's net fiscal position from the Kyoto Protocol, which will crystallise when the first Kyoto commitment period is settled up post-2012.

These financial statements report on the New Zealand Government's international climate change obligations for the first commitment period, but not for future commitment periods which are currently being negotiated.

The latest Net Position estimate for 2012 can be found on the Ministry for the Environment's website:
www.mfe.govt.nz/issues/climate/greenhouse-gas-emissions/net-position

Notes to the Forecast Financial Statements

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 16: NZS Fund							
Revenue	539	563	642	665	693	738	786
Less current tax expense	160	419	602	456	490	528	570
Less other expenses	132	160	182	160	164	178	192
Add gains/(losses)	(204)	1,327	2,110	1,382	1,495	1,620	1,757
Operating balance	**43**	**1,311**	**1,968**	**1,431**	**1,534**	**1,652**	**1,781**
Opening net worth	18,652	18,777	18,703	20,690	22,151	23,716	25,403
Operating balance	43	1,311	1,968	1,431	1,534	1,652	1,781
Other movements in reserves	8	32	19	30	31	35	38
Closing net worth	**18,703**	**20,120**	**20,690**	**22,151**	**23,716**	**25,403**	**27,222**
Comprising:							
Financial assets	18,815	20,445	21,491	22,544	24,132	25,828	27,657
Financial liabilities	(1,317)	(1,620)	(1,964)	(1,513)	(1,528)	(1,542)	(1,562)
Net other assets	1,205	1,295	1,163	1,120	1,112	1,117	1,127
Closing net worth	**18,703**	**20,120**	**20,690**	**22,151**	**23,716**	**25,403**	**27,222**
NOTE 17: Payables							
By type							
Accounts payable	8,255	10,139	8,990	8,033	7,946	8,097	8,328
Taxes repayable	3,349	3,364	3,433	3,671	3,817	3,850	3,970
Total payables	**11,604**	**13,503**	**12,423**	**11,704**	**11,763**	**11,947**	**12,298**
By source							
Core Crown	7,139	7,367	7,434	6,509	6,459	6,430	6,576
Crown entities	5,642	6,501	5,701	5,810	5,666	5,592	5,559
State-owned enterprises	4,968	5,523	5,332	5,517	5,756	6,007	6,246
Inter-segment eliminations	(6,145)	(5,888)	(6,044)	(6,132)	(6,118)	(6,082)	(6,083)
Total payables	**11,604**	**13,503**	**12,423**	**11,704**	**11,763**	**11,947**	**12,298**

Notes to the Forecast Financial Statements

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 18: Insurance liabilities							
By entity							
ACC	30,648	30,651	31,598	32,710	34,014	35,424	36,943
EQC	8,877	5,210	5,785	2,815	1,140	156	158
Southern Response	2,062	992	1,042	662	341	13	-
Other (incl. inter-segment eliminations)	(401)	66	(265)	50	49	55	59
Total insurance liabilities	**41,186**	**36,919**	**38,160**	**36,237**	**35,544**	**35,648**	**37,160**

ACC liability

Calculation information

PricewaterhouseCoopers Actuarial Pty Ltd have prepared an independent actuarial estimate of the ACC outstanding claims liability as at 30 June 2012. 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 2012. The equivalent single effective discount rate, taking into account ACC's projected future cash flow patterns, is a short-term discount rate of 4.65% and a long-term discount rate of 6.00% 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

The projected outstanding claims liability, including an adjustment to reflect projected future actuarial releases ($300 million in 2013 and a further $150 million in 2014), is included within total liabilities. ACC has available to it a portfolio of assets that partially offset the claims liability. The assets (less cross-holdings of NZ Government stock) are included in the asset portion of the Crown's Statement of Financial Position.

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Gross ACC liability							
Opening gross liability	26,939	29,433	30,648	31,598	32,710	34,014	35,424
Net change	3,709	1,218	950	1,112	1,304	1,410	1,519
Closing gross liability	**30,648**	**30,651**	**31,598**	**32,710**	**34,014**	**35,424**	**36,943**
Less net assets available to ACC							
Opening net asset value	20,233	23,165	23,466	26,565	29,207	32,036	35,047
Net change	3,233	2,579	3,099	2,642	2,829	3,011	3,228
Closing net asset value	**23,466**	**25,744**	**26,565**	**29,207**	**32,036**	**35,047**	**38,275**
Net ACC reserves (net liability)							
Opening reserves position	(6,706)	(6,268)	(7,182)	(5,033)	(3,503)	(1,978)	(377)
Net change	(476)	1,361	2,149	1,530	1,525	1,601	1,709
Closing reserves position (net liability)	**(7,182)**	**(4,907)**	**(5,033)**	**(3,503)**	**(1,978)**	**(377)**	**1,332**

Notes to the Forecast Financial Statements

NOTE 18 (continued): Insurance liabilities

Calculation information

Melville Jessup Weaver has prepared an independent actuarial estimate of the EQC outstanding claims liability at 30 June 2012 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 2012 valuation form the basis of the five-year forecast of the outstanding claims liability.

Critical assumptions used in projecting the ultimate costs include cost of apportionment 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: the impact of multiple earthquake events; severe land damage and a complex land claims environment from both an engineering and legal perspective; the relatively early stage of claims development, particularly from complex land claims and the potential for construction cost inflation to exceed expectations. 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.

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
EQC liability							
Opening gross liability	10,570	8,643	8,877	5,785	2,815	1,140	156
Net change	(1,693)	(3,433)	(3,092)	(2,970)	(1,675)	(984)	2
Closing gross liability	**8,877**	**5,210**	**5,785**	**2,815**	**1,140**	**156**	**158**
Less reinsurance receivable							
Opening reinsurance receivable	4,185	4,040	4,066	1,897	909	307	-
Net change	(119)	(2,445)	(2,169)	(988)	(602)	(307)	-
Closing reinsurance receivable	**4,066**	**1,595**	**1,897**	**909**	**307**	**-**	**-**
Net EQC liability							
Opening net position	(6,385)	(4,603)	(4,811)	(3,888)	(1,906)	(833)	(156)
Net change	1,574	988	923	1,982	1,073	677	(2)
Closing net position (net liability)	**(4,811)**	**(3,615)**	**(3,888)**	**(1,906)**	**(833)**	**(156)**	**(158)**

Notes to the Forecast Financial Statements

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 19: Retirement plan liabilities							
Government Superannuation Fund	13,539	11,478	12,950	12,476	12,009	11,563	11,137
Other funds	-	3	10	9	10	9	9
Total retirement plan liabilities	**13,539**	**11,481**	**12,960**	**12,485**	**12,019**	**11,572**	**11,146**

The net liability of the Government Superannuation Fund (GSF) was calculated by GSF's actuary as at 30 September 2012. 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 2012, based on membership data as at 30 June 2012 with allowance for subsequent movements to 30 September 2012. 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 2012.

Other principal long-term financial assumptions were an inflation rate, as measured by the Consumers Price Index, of 2.1% for the year to June 2013 and 2.4% for 2014, increasing to 2.5% in 2015, and an annual salary growth rate, before any promotional effects, of 3% (unchanged from 30 June 2012).

The 2012/13 projected decrease in the net GSF liability is $589 million, reflecting a decrease in the GSF liability of $494 million and an increase in the GSF assets of $95 million.

The decrease in the GSF liability of $494 million includes an actuarial loss between 1 July 2012 and 30 September 2012, of $104 million owing to movements in the discount rates and changes in demographic assumptions. The remaining $390 million reduction is owing to 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 $95 million includes a gain of $87 million reflecting the updated market value of assets at 30 September 2012. The balance of $8 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 2012/13 onwards reflect the net of the expected current service cost, interest cost, investment returns and contributions.

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
GSF liability							
Opening GSF liability	13,311	14,961	16,557	16,063	15,646	15,235	14,840
Net projected change	3,246	(355)	(494)	(417)	(411)	(395)	(378)
Closing GSF liability	**16,557**	**14,606**	**16,063**	**15,646**	**15,235**	**14,840**	**14,462**
Less net assets available to GSF							
Opening net asset value	3,159	3,078	3,018	3,113	3,170	3,226	3,277
Investment valuation changes	(16)	188	249	168	171	174	177
Contribution and other income less pension payments	(125)	(138)	(154)	(111)	(115)	(123)	(129)
Closing net asset value	**3,018**	**3,128**	**3,113**	**3,170**	**3,226**	**3,277**	**3,325**
Net GSF liability							
Opening unfunded liability	10,152	11,883	13,539	12,950	12,476	12,009	11,563
Net projected change	3,387	(405)	(589)	(474)	(467)	(446)	(426)
Closing unfunded liability	**13,539**	**11,478**	**12,950**	**12,476**	**12,009**	**11,563**	**11,137**

Notes to the Forecast Financial Statements

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 20: Provisions							
Provision for employee entitlements	3,253	3,133	3,239	3,165	3,177	3,200	3,234
Provision for ETS credits	375	815	215	211	208	207	207
Provision for National Provident Fund guarantee	1,076	843	1,033	987	942	901	864
Provision for Canterbury Red Zone support package	745	-	316	-	-	-	-
Provision for Infrastructure costs	530	-	409	289	169	-	-
Provision for weathertight services financial assistance package	189	306	156	128	92	66	43
Other provisions	1,338	1,769	1,933	1,773	1,684	1,564	1,335
Total provisions	**7,506**	**6,866**	**7,301**	**6,553**	**6,272**	**5,938**	**5,683**
By source							
Core Crown	4,965	4,529	4,746	3,993	3,659	3,092	2,911
Crown entities	1,899	1,814	2,010	2,041	2,078	2,087	2,096
State-owned enterprises	1,103	925	992	986	1,024	1,052	980
Inter-segment eliminations	(461)	(402)	(447)	(467)	(489)	(293)	(304)
Total provisions	**7,506**	**6,866**	**7,301**	**6,553**	**6,272**	**5,938**	**5,683**

Provision for ETS credits

The Emissions Trading Scheme (ETS) was established to encourage reduction in greenhouse gas emissions. The ETS creates a limited number of tradable units (the NZ Unit) which the Government can allocate. The allocation of NZ Units creates a provision (and an expense if allocated for free). The provision is reduced, and revenue recognised, as NZ Units are surrendered to the Crown by emitters. Emitters can also use international Kyoto Units to settle their emission obligation and can also currently use the NZ$25 price option to settle their emission obligation. The Kyoto compliant units collected through the ETS are recognised as part of the net Kyoto Protocol position.

Until the end of 2012, the Government's net position regarding its climate change obligations will be determined by the net Kyoto position and the provision for ETS credits. After 2012, the net position will depend on any future international climate change commitments.

The carbon price used to calculate the ETS provision is assumed to remain constant over the forecast period and is based on the estimated September 2012 month average carbon price of €2.17 with an exchange rate of 0.6453 (a carbon price of NZ$3.36).

The carbon price for the ETS provision has been determined by the Ministry for the Environment based on international market transactions and spot prices that have occurred in the secondary certified emission reduction (sCER) markets as published by Point Carbon. Currently, the sCER market has been determined to be the most relevant market to use for determining the carbon price for NZ Units and the calculation of the provision for ETS credits. As the market for NZ Units develops, the basis for determining this carbon price will be reviewed.

The ETS impact on the fiscal forecast is as follows:

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
Revenue	64	311	65	66	66	66	66
Expenses	(334)	(237)	(59)	(61)	(63)	(65)	(66)
Gains/(losses)	507	-	155	-	-	-	-
Operating balance	**237**	**74**	**161**	**5**	**3**	**1**	**-**

Notes to the Forecast Financial Statements

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 21: Net worth attributable to the Crown							
Taxpayers' funds	3,520	2,144	486	812	3,199	7,079	11,632
Property, plant and equipment revaluation reserve	56,001	62,550	55,915	55,838	55,719	55,597	55,464
Investment revaluation reserve	71	79	75	84	93	104	116
Cash flow hedge reserve	(195)	(279)	(227)	(228)	(225)	(221)	(216)
Foreign currency translation reserve	(49)	66	36	39	39	39	39
Total net worth attributable to the Crown	**59,348**	**64,560**	**56,285**	**56,545**	**58,825**	**62,598**	**67,035**
Taxpayers' funds							
Opening taxpayers' funds	18,188	7,573	3,520	486	812	3,199	7,079
Operating balance excluding minority interest	(14,897)	(5,699)	(3,275)	49	2,101	3,550	4,385
Government share offers in SOEs	-	200	175	175	175	175	-
Transfers from/(to) other reserves	229	70	66	102	111	155	168
Closing taxpayers' funds	**3,520**	**2,144**	**486**	**812**	**3,199**	**7,079**	**11,632**
Property, plant and equipment revaluation reserve							
Opening revaluation reserve	62,690	62,618	56,001	55,915	55,838	55,719	55,597
Net revaluations	(6,461)	-	(16)	-	-	-	-
Transfers from/(to) other reserves	(228)	(68)	(70)	(77)	(119)	(122)	(133)
Closing property, plant and equipment revaluation reserve	**56,001**	**62,550**	**55,915**	**55,838**	**55,719**	**55,597**	**55,464**
Investment revaluation reserve							
Opening investment revaluation reserve	58	69	71	75	84	93	104
Valuation gain/(losses) on investments available for sale taken to reserves	13	10	4	9	9	11	12
Closing investment revaluation reserve	**71**	**79**	**75**	**84**	**93**	**104**	**116**
Cash flow hedge reserve							
Opening cash flow hedge reserve	(310)	(276)	(195)	(227)	(228)	(225)	(221)
Transfer into reserve	80	(3)	(35)	(1)	3	5	4
Transfer to the Statement of Financial Performance	54	-	(1)	-	-	(1)	1
Transfer to initial carrying value of hedged item	(19)	-	4	-	-	-	-
Closing cash flow hedge reserve	**(195)**	**(279)**	**(227)**	**(228)**	**(225)**	**(221)**	**(216)**
Foreign currency translation reserve							
Opening foreign currency translation reserve	(47)	11	(49)	36	39	39	39
Movement arising from translation of foreign operations	(2)	55	85	3	-	-	-
Closing foreign currency translation reserve	**(49)**	**66**	**36**	**39**	**39**	**39**	**39**

Notes to the Forecast Financial Statements

	2012 Actual $m	2013 Previous Budget $m	2013 Forecast $m	2014 Forecast $m	2015 Forecast $m	2016 Forecast $m	2017 Forecast $m
NOTE 22: Core Crown residual cash							
Core Crown cash flows from operations							
Tax receipts	54,249	57,762	56,962	61,369	65,193	68,340	71,481
Other sovereign receipts	670	653	653	657	667	677	688
Interest, profits and dividends	1,431	1,676	1,471	1,611	1,796	1,721	1,881
Sale of goods and services and other receipts	2,699	2,506	2,600	2,415	2,075	2,061	2,016
Transfer payments and subsidies	(22,854)	(23,334)	(23,077)	(23,982)	(24,199)	(24,883)	(25,612)
Personnel and operating costs	(40,036)	(42,411)	(42,767)	(41,020)	(40,517)	(40,332)	(40,218)
Finance costs	(3,369)	(3,918)	(3,778)	(3,760)	(4,273)	(4,141)	(4,431)
Forecast for future new operating spending	-	(348)	(317)	(978)	(2,154)	(3,352)	(4,544)
Top-down expense adjustment	-	700	1,150	200	200	200	200
Net core Crown operating cash flows	**(7,210)**	**(6,714)**	**(7,103)**	**(3,488)**	**(1,212)**	**291**	**1,461**
Core Crown capital cash flows							
Net purchase of physical assets	(1,262)	(1,999)	(2,061)	(2,373)	(1,883)	(1,455)	(1,483)
Net increase in advances	(1,022)	(926)	(777)	(758)	(858)	(1,029)	(426)
Net purchase of investments	(1,150)	62	(62)	296	119	(330)	(1,563)
Forecast for future new capital spending	-	(194)	(179)	(726)	(821)	(800)	(910)
Top-down capital adjustment	-	100	400	100	100	50	50
Net core Crown capital cash flows	**(3,434)**	**(2,957)**	**(2,679)**	**(3,461)**	**(3,343)**	**(3,564)**	**(4,332)**
Residual cash deficit	**(10,644)**	**(9,671)**	**(9,782)**	**(6,949)**	**(4,555)**	**(3,273)**	**(2,871)**
The residual cash deficit is funded as follows:							
Debt programme cash flows							
Market:							
Issue of government bonds	15,146	14,122	15,799	10,367	9,675	6,343	6,198
Repayment of government bonds	(7,602)	(9,982)	(9,982)	-	(10,955)	(1,836)	-
Net issue/(repayment) of short-term borrowing[1]	2,139	(3,701)	(4,501)	-	-	-	-
Total market debt cash flows	9,683	439	1,316	10,367	(1,280)	4,507	6,198
Non-market:							
Issue of government bonds	-	-	-	-	-	-	-
Repayment of government bonds	(1,501)	(499)	(499)	(1,490)	-	-	-
Net issue/(repayment) of short-term borrowing	430	-	-	(232)	(214)	(34)	-
Total non-market debt cash flows	(1,071)	(499)	(499)	(1,722)	(214)	(34)	-
Total debt programme cash flows	**8,612**	**(60)**	**817**	**8,645**	**(1,494)**	**4,473**	**6,198**
Other borrowing cash flows							
Net (repayment)/issue of other New Zealand dollar borrowing	5,880	741	3,684	919	1,540	1,087	631
Net (repayment)/issue of foreign currency borrowing	(6,030)	(620)	(2,318)	(666)	(1,255)	(920)	(567)
Total other borrowing cash flows	**(150)**	**121**	**1,366**	**253**	**285**	**167**	**64**
Investing cash flows							
Other net sale/(purchase) of marketable securities and deposits	2,270	9,465	10,338	(2,214)	5,517	(1,617)	(3,646)
Issues of circulating currency	203	144	160	231	242	255	267
Decrease/(increase) in cash	(291)	1	(2,899)	34	5	(5)	(12)
Total investing cash flows	**2,182**	**9,610**	**7,599**	**(1,949)**	**5,764**	**(1,367)**	**(3,391)**
Residual cash deficit funding	**10,644**	**9,671**	**9,782**	**6,949**	**4,555**	**3,273**	**2,871**

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

Forecast Statement of Segments

	Core Crown 2012 Actual $m	Crown entities 2012 Actual $m	State-Owned Enterprises 2012 Actual $m	Inter-segment eliminations 2012 Actual $m	Total Crown 2012 Actual $m
Statement of Financial Performance					
for the year ended 30 June 2012					
Revenue					
Taxation revenue	55,081	-	-	(416)	54,665
Other sovereign revenue	935	5,384	-	(1,189)	5,130
Sales of goods and services	1,448	14,657	14,230	(13,550)	16,785
Interest revenue and dividends	1,795	1,181	858	(1,071)	2,763
Other revenue	1,306	13,249	943	(11,358)	4,140
Total revenue (excluding gains)	**60,565**	**34,471**	**16,031**	**(27,584)**	**83,483**
Expenses					
Social assistance and official development assistance	22,367	-	-	(13)	22,354
Personnel expenses	5,915	10,754	2,819	(13)	19,475
Other operating expenses	37,280	17,897	13,174	(26,323)	42,028
Interest expenses	3,511	246	1,268	(735)	4,290
Insurance expenses	3	4,323	363	(113)	4,576
Forecast for future new spending and top-down adjustment	-	-	-	-	-
Total expenses (excluding losses)	**69,076**	**33,220**	**17,624**	**(27,197)**	**92,723**
Operating balance before gains/(losses)	**(8,511)**	**1,251**	**(1,593)**	**(387)**	**(9,240)**
Total gains/(losses)	(3,264)	(2,025)	229	(774)	(5,834)
Net surplus/(deficit) from associates and joint ventures	104	133	(3)	(1)	233
Attributable to minority interest	-	-	(56)	-	(56)
Operating balance	**(11,671)**	**(641)**	**(1,423)**	**(1,162)**	**(14,897)**
Expenses by functional classification					
Social security and welfare	22,028	4,009	-	(580)	25,457
Health	14,160	11,907	-	(12,417)	13,650
Education	11,654	9,371	28	(8,646)	12,407
Transport and communications	2,232	2,130	8,102	(2,205)	10,259
Other	15,491	5,557	8,226	(2,614)	26,660
Finance costs	3,511	246	1,268	(735)	4,290
Forecast for future new spending and top-down adjustment	-	-	-	-	-
Total Crown expenses (excluding losses)	**69,076**	**33,220**	**17,624**	**(27,197)**	**92,723**
Statement of Financial Position					
as at 30 June 2012					
Assets					
Cash and cash equivalents	6,756	3,105	1,396	(571)	10,686
Receivables	10,974	10,011	2,154	(2,183)	20,956
Other financial assets	57,251	26,959	15,636	(15,310)	84,536
Property, plant and equipment	29,377	49,939	29,268	-	108,584
Equity accounted investments	31,308	7,982	340	(30,147)	9,483
Intangible assets and goodwill	1,112	494	1,099	-	2,705
Inventory and other assets	1,632	411	1,364	(39)	3,368
Forecast for new capital spending and top-down adjustment	-	-	-	-	-
Total assets	**138,410**	**98,901**	**51,257**	**(48,250)**	**240,318**
Liabilities					
Borrowings	84,510	5,325	25,374	(14,675)	100,534
Other liabilities	30,528	49,357	7,281	(7,162)	80,004
Total liabilities	**115,038**	**54,682**	**32,655**	**(21,837)**	**180,538**
Total assets less total liabilities	**23,372**	**44,219**	**18,602**	**(26,413)**	**59,780**
Net worth					
Taxpayers' funds	7,844	17,458	7,956	(29,738)	3,520
Reserves	15,528	26,728	10,220	3,352	55,828
Net worth attributable to minority interest	-	33	426	(27)	432
Total net worth	**23,372**	**44,219**	**18,602**	**(26,413)**	**59,780**

Forecast Statement of Segments (continued)

	Core Crown 2013 Forecast $m	Crown entities 2013 Forecast $m	State-Owned Enterprises 2013 Forecast $m	Inter-segment eliminations 2013 Forecast $m	Total Crown 2013 Forecast $m
Statement of Financial Performance					
for the year ended 30 June 2013					
Revenue					
Taxation revenue	57,376	-	-	(502)	56,874
Other sovereign revenue	1,121	5,266	-	(1,259)	5,128
Sales of goods and services	1,409	15,159	13,135	(13,968)	15,735
Interest revenue and dividends	2,261	1,114	864	(1,028)	3,211
Other revenue	772	13,267	1,251	(11,631)	3,659
Total revenue (excluding gains)	**62,939**	**34,806**	**15,250**	**(28,388)**	**84,607**
Expenses					
Social assistance and official development assistance	23,009	-	-	(2)	23,007
Personnel expenses	6,067	11,100	2,827	(11)	19,983
Other operating expenses	40,171	18,792	10,272	(27,249)	41,986
Interest expenses	3,579	245	1,181	(595)	4,410
Insurance expenses	5	3,384	9	(24)	3,374
Forecast for future new spending and top-down adjustment	(833)	-	-	-	(833)
Total expenses (excluding losses)	**71,998**	**33,521**	**14,289**	**(27,881)**	**91,927**
Forgone profits from Government share offers	-	-	(20)	-	(20)
Operating balance before gains/(losses)	**(9,059)**	**1,285**	**941**	**(507)**	**(7,340)**
Total gains/(losses)	2,828	1,103	92	(154)	3,869
Net surplus/(deficit) from associates and joint ventures	72	132	(8)	-	196
Operating balance	**(6,159)**	**2,520**	**1,025**	**(661)**	**(3,275)**
Expenses by functional classification					
Social security and welfare	22,878	4,432	-	(621)	26,689
Health	14,741	12,274	-	(12,907)	14,108
Education	12,400	9,764	27	(8,929)	13,262
Transport and communications	2,435	2,308	6,590	(2,381)	8,952
Other	16,798	4,498	6,491	(2,448)	25,339
Finance costs	3,579	245	1,181	(595)	4,410
Forecast for future new spending and top-down adjustment	(833)	-	-	-	(833)
Total Crown expenses (excluding losses)	**71,998**	**33,521**	**14,289**	**(27,881)**	**91,927**
Statement of Financial Position					
as at 30 June 2013					
Assets					
Cash and cash equivalents	9,162	3,475	1,491	(176)	13,952
Receivables	10,564	7,056	2,033	(2,026)	17,627
Other financial assets	50,013	28,594	16,529	(16,037)	79,099
Property, plant and equipment	29,994	51,247	30,478	-	111,719
Equity accounted investments	32,747	8,098	586	(31,606)	9,825
Intangible assets and goodwill	1,176	526	1,006	-	2,708
Inventory and other assets	1,532	368	1,244	(33)	3,111
Forecast for new capital spending and top-down adjustment	(221)	-	-	-	(221)
Total assets	**134,967**	**99,364**	**53,367**	**(49,878)**	**237,820**
Liabilities					
Borrowings	86,280	5,304	26,363	(15,198)	102,749
Other liabilities	30,144	46,359	7,409	(6,903)	77,009
Total liabilities	**116,424**	**51,663**	**33,772**	**(22,101)**	**179,758**
Total assets less total liabilities	**18,543**	**47,701**	**19,595**	**(27,777)**	**58,062**
Net worth					
Taxpayers' funds	3,010	21,035	8,848	(32,407)	486
Reserves	15,533	26,633	10,301	3,332	55,799
Net worth attributable to minority interest	-	33	446	1,298	1,777
Total net worth	**18,543**	**47,701**	**19,595**	**(27,777)**	**58,062**

Forecast Statement of Segments (continued)

	Core Crown 2014 Forecast $m	Crown entities 2014 Forecast $m	State-Owned Enterprises 2014 Forecast $m	Inter-segment eliminations 2014 Forecast $m	Total Crown 2014 Forecast $m
Statement of Financial Performance					
for the year ended 30 June 2014					
Revenue					
Taxation revenue	61,857	-	-	(609)	61,248
Other sovereign revenue	1,236	5,357	-	(1,273)	5,320
Sales of goods and services	1,373	15,208	13,458	(13,908)	16,131
Interest revenue and dividends	2,586	1,248	1,028	(1,152)	3,710
Other revenue	734	13,017	1,090	(11,172)	3,669
Total revenue (excluding gains)	**67,786**	**34,830**	**15,576**	**(28,114)**	**90,078**
Expenses					
Social assistance and official development assistance	23,570	-	-	1	23,571
Personnel expenses	6,016	11,060	2,839	(11)	19,904
Other operating expenses	37,663	18,476	10,349	(26,901)	39,587
Interest expenses	3,752	249	1,393	(711)	4,683
Insurance expenses	2	3,385	9	-	3,396
Forecast for future new spending and top-down adjustment	778	-	-	-	778
Total expenses (excluding losses)	**71,781**	**33,170**	**14,590**	**(27,622)**	**91,919**
Forgone profits from Government share offers	-	-	(170)	-	(170)
Operating balance before gains/(losses)	**(3,995)**	**1,660**	**816**	**(492)**	**(2,011)**
Total gains/(losses)	1,682	304	33	(176)	1,843
Net surplus/(deficit) from associates and joint ventures	73	135	10	(1)	217
Operating balance	**(2,240)**	**2,099**	**859**	**(669)**	**49**
Expenses by functional classification					
Social security and welfare	23,598	4,565	-	(637)	27,526
Health	14,629	12,076	-	(12,890)	13,815
Education	12,215	9,640	27	(8,827)	13,055
Transport and communications	2,073	2,304	6,704	(2,223)	8,858
Other	14,736	4,336	6,466	(2,334)	23,204
Finance costs	3,752	249	1,393	(711)	4,683
Forecast for future new spending and top-down adjustment	778	-	-	-	778
Total Crown expenses (excluding losses)	**71,781**	**33,170**	**14,590**	**(27,622)**	**91,919**
Statement of Financial Position					
as at 30 June 2014					
Assets					
Cash and cash equivalents	9,169	3,051	1,322	(176)	13,366
Receivables	9,705	6,041	2,040	(1,792)	15,994
Other financial assets	53,801	29,560	18,322	(15,421)	86,262
Property, plant and equipment	30,757	52,705	31,230	-	114,692
Equity accounted investments	33,755	8,241	622	(32,636)	9,982
Intangible assets and goodwill	1,287	520	988	-	2,795
Inventory and other assets	1,660	382	1,256	(33)	3,265
Forecast for new capital spending and top-down adjustment	405	-	-	-	405
Total assets	**140,539**	**100,500**	**55,780**	**(50,058)**	**246,761**
Liabilities					
Borrowings	94,687	5,396	28,330	(14,744)	113,669
Other liabilities	28,196	44,260	7,615	(6,696)	73,375
Total liabilities	**122,883**	**49,656**	**35,945**	**(21,440)**	**187,044**
Total assets less total liabilities	**17,656**	**50,844**	**19,835**	**(28,618)**	**59,717**
Net worth					
Taxpayers' funds	2,095	24,270	8,918	(34,471)	812
Reserves	15,561	26,541	10,301	3,330	55,733
Net worth attributable to minority interest	-	33	616	2,523	3,172
Total net worth	**17,656**	**50,844**	**19,835**	**(28,618)**	**59,717**

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	65,643	-	-	(765)	64,878
Other sovereign revenue	1,275	5,464	-	(1,285)	5,454
Sales of goods and services	1,337	15,264	14,317	(13,908)	17,010
Interest revenue and dividends	2,833	1,347	1,239	(1,154)	4,265
Other revenue	729	13,198	1,246	(11,315)	3,858
Total revenue (excluding gains)	**71,817**	**35,273**	**16,802**	**(28,427)**	**95,465**
Expenses					
Social assistance and official development assistance	24,063	-	-	2	24,065
Personnel expenses	6,025	11,329	2,884	(11)	20,227
Other operating expenses	37,636	18,466	11,048	(27,161)	39,989
Interest expenses	3,972	257	1,591	(559)	5,261
Insurance expenses	2	3,642	9	-	3,653
Forecast for future new spending and top-down adjustment	1,954	-	-	-	1,954
Total expenses (excluding losses)	**73,652**	**33,694**	**15,532**	**(27,729)**	**95,149**
Forgone profits from Government share offers	-	-	(250)	-	(250)
Operating balance before gains/(losses)	**(1,835)**	**1,579**	**1,020**	**(698)**	**66**
Total gains/(losses)	1,789	227	20	(220)	1,816
Net surplus/(deficit) from associates and joint ventures	79	137	11	(8)	219
Operating balance	**33**	**1,943**	**1,051**	**(926)**	**2,101**
Expenses by functional classification					
Social security and welfare	24,113	4,668	-	(653)	28,128
Health	14,596	12,068	-	(12,888)	13,776
Education	12,304	9,794	27	(8,953)	13,172
Transport and communications	2,212	2,338	6,869	(2,295)	9,124
Other	14,501	4,569	7,045	(2,381)	23,734
Finance costs	3,972	257	1,591	(559)	5,261
Forecast for future new spending and top-down adjustment	1,954	-	-	-	1,954
Total Crown expenses (excluding losses)	**73,652**	**33,694**	**15,532**	**(27,729)**	**95,149**
Statement of Financial Position					
as at 30 June 2015					
Assets					
Cash and cash equivalents	9,163	2,333	1,616	(178)	12,934
Receivables	9,726	5,423	2,114	(1,891)	15,372
Other financial assets	50,140	32,184	20,211	(16,373)	86,162
Property, plant and equipment	31,342	53,900	31,401	-	116,643
Equity accounted investments	34,940	8,379	644	(33,841)	10,122
Intangible assets and goodwill	1,318	490	966	-	2,774
Inventory and other assets	1,434	379	1,273	(33)	3,053
Forecast for new capital spending and top-down adjustment	1,126	-	-	-	1,126
Total assets	**139,189**	**103,088**	**58,225**	**(52,316)**	**248,186**
Liabilities					
Borrowings	92,597	5,596	30,025	(15,724)	112,494
Other liabilities	27,585	43,459	7,929	(6,703)	72,270
Total liabilities	**120,182**	**49,055**	**37,954**	**(22,427)**	**184,764**
Total assets less total liabilities	**19,007**	**54,033**	**20,271**	**(29,889)**	**63,422**
Net worth					
Taxpayers' funds	3,453	27,563	9,100	(36,917)	3,199
Reserves	15,554	26,437	10,305	3,330	55,626
Net worth attributable to minority interest	-	33	866	3,698	4,597
Total net worth	**19,007**	**54,033**	**20,271**	**(29,889)**	**63,422**

Forecast Statement of Segments (continued)

	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
Statement of Financial Performance					
for the year ended 30 June 2016					
Revenue					
Taxation revenue	68,914	-	-	(835)	68,079
Other sovereign revenue	1,113	5,577	-	(1,296)	5,394
Sales of goods and services	1,330	15,336	14,906	(13,901)	17,671
Interest revenue and dividends	2,888	1,461	1,342	(1,201)	4,490
Other revenue	722	13,383	1,288	(11,461)	3,932
Total revenue (excluding gains)	**74,967**	**35,757**	**17,536**	**(28,694)**	**99,566**
Expenses					
Social assistance and official development assistance	24,861	-	-	1	24,862
Personnel expenses	6,108	11,563	2,917	(11)	20,577
Other operating expenses	37,445	18,534	11,528	(27,384)	40,123
Interest expenses	3,989	264	1,685	(585)	5,353
Insurance expenses	2	3,775	9	-	3,786
Forecast for future new spending and top-down adjustment	3,152	-	-	-	3,152
Total expenses (excluding losses)	**75,557**	**34,136**	**16,139**	**(27,979)**	**97,853**
Forgone profits from Government share offers	-	-	(330)	-	(330)
Operating balance before gains/(losses)	**(590)**	**1,621**	**1,067**	**(715)**	**1,383**
Total gains/(losses)	1,840	283	12	(187)	1,948
Net surplus/(deficit) from associates and joint ventures	73	140	11	(5)	219
Operating balance	**1,323**	**2,044**	**1,090**	**(907)**	**3,550**
Expenses by functional classification					
Social security and welfare	24,661	4,866	-	(669)	28,858
Health	14,573	12,046	-	(12,876)	13,743
Education	12,395	9,931	27	(9,051)	13,302
Transport and communications	2,145	2,403	7,101	(2,382)	9,267
Other	14,642	4,626	7,326	(2,416)	24,178
Finance costs	3,989	264	1,685	(585)	5,353
Forecast for future new spending and top-down adjustment	3,152	-	-	-	3,152
Total Crown expenses (excluding losses)	**75,557**	**34,136**	**16,139**	**(27,979)**	**97,853**
Statement of Financial Position					
as at 30 June 2016					
Assets					
Cash and cash equivalents	9,120	2,265	1,587	(200)	12,772
Receivables	9,703	4,903	2,187	(1,741)	15,052
Other financial assets	54,035	35,164	23,096	(18,092)	94,203
Property, plant and equipment	31,232	55,444	31,824	-	118,500
Equity accounted investments	36,348	8,518	650	(35,268)	10,248
Intangible assets and goodwill	1,288	480	955	-	2,723
Inventory and other assets	1,454	379	1,287	(34)	3,086
Forecast for new capital spending and top-down adjustment	1,876	-	-	-	1,876
Total assets	**145,056**	**107,153**	**61,586**	**(55,335)**	**258,460**
Liabilities					
Borrowings	96,569	6,073	32,564	(17,473)	117,733
Other liabilities	26,798	43,498	8,253	(6,472)	72,077
Total liabilities	**123,367**	**49,571**	**40,817**	**(23,945)**	**189,810**
Total assets less total liabilities	**21,689**	**57,582**	**20,769**	**(31,390)**	**68,650**
Net worth					
Taxpayers' funds	6,101	31,257	9,266	(39,545)	7,079
Reserves	15,588	26,292	10,307	3,332	55,519
Net worth attributable to minority interest	-	33	1,196	4,823	6,052
Total net worth	**21,689**	**57,582**	**20,769**	**(31,390)**	**68,650**

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	71,904	-	-	(882)	71,022
Other sovereign revenue	1,161	5,679	-	(1,296)	5,544
Sales of goods and services	1,330	15,416	15,440	(13,892)	18,294
Interest revenue and dividends	3,151	1,585	1,550	(1,250)	5,036
Other revenue	721	13,521	1,329	(11,552)	4,019
Total revenue (excluding gains)	**78,267**	**36,201**	**18,319**	**(28,872)**	**103,915**
Expenses					
Social assistance and official development assistance	25,598	-	-	-	25,598
Personnel expenses	6,152	11,747	2,923	(11)	20,811
Other operating expenses	37,669	18,543	12,086	(27,507)	40,791
Interest expenses	4,279	275	1,875	(636)	5,793
Insurance expenses	2	4,098	9	1	4,110
Forecast for future new spending and top-down adjustment	4,344	-	-	-	4,344
Total expenses (excluding losses)	**78,044**	**34,663**	**16,893**	**(28,153)**	**101,447**
Forgone profits from Government share offers	-	-	(420)	-	(420)
Operating balance before gains/(losses)	**223**	**1,538**	**1,006**	**(719)**	**2,048**
Total gains/(losses)	1,938	363	13	(194)	2,120
Net surplus/(deficit) from associates and joint ventures	67	139	10	1	217
Operating balance	**2,228**	**2,040**	**1,029**	**(912)**	**4,385**
Expenses by functional classification					
Social security and welfare	25,399	5,056	-	(668)	29,787
Health	14,542	12,038	-	(12,871)	13,709
Education	12,442	9,947	27	(9,067)	13,349
Transport and communications	2,217	2,488	7,290	(2,492)	9,503
Other	14,821	4,859	7,701	(2,419)	24,962
Finance costs	4,279	275	1,875	(636)	5,793
Forecast for future new spending and top-down adjustment	4,344	-	-	-	4,344
Total Crown expenses (excluding losses)	**78,044**	**34,663**	**16,893**	**(28,153)**	**101,447**
Statement of Financial Position					
as at 30 June 2017					
Assets					
Cash and cash equivalents	9,043	2,255	1,405	(226)	12,477
Receivables	9,711	4,963	2,276	(1,804)	15,146
Other financial assets	59,796	38,427	26,566	(19,491)	105,298
Property, plant and equipment	31,124	56,933	32,417	-	120,474
Equity accounted investments	37,887	8,658	656	(36,827)	10,374
Intangible assets and goodwill	1,257	436	947	-	2,640
Inventory and other assets	1,456	379	1,292	(34)	3,093
Forecast for new capital spending and top-down adjustment	2,736	-	-	-	2,736
Total assets	**153,010**	**112,051**	**65,559**	**(58,382)**	**272,238**
Liabilities					
Borrowings	102,450	6,023	35,854	(18,908)	125,419
Other liabilities	26,604	44,985	8,456	(6,483)	73,562
Total liabilities	**129,054**	**51,008**	**44,310**	**(25,391)**	**198,981**
Total assets less total liabilities	**23,956**	**61,043**	**21,249**	**(32,991)**	**73,257**
Net worth					
Taxpayers' funds	8,329	34,874	9,324	(40,895)	11,632
Reserves	15,627	26,136	10,309	3,331	55,403
Net worth attributable to minority interest	-	33	1,616	4,573	6,222
Total net worth	**23,956**	**61,043**	**21,249**	**(32,991)**	**73,257**

6

Core Crown Expense Tables

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Social security and welfare	17,877	19,382	21,185	22,005	22,028	22,878	23,598	24,113	24,661	25,399
GSF pension expenses	690	655	328	305	192	278	258	280	315	349
Health	11,297	12,368	13,128	13,753	14,160	14,741	14,629	14,596	14,573	14,542
Education	9,551	11,455	11,724	11,650	11,654	12,400	12,215	12,304	12,395	12,442
Core government services	3,371	5,293	2,974	5,563	5,428	5,640	4,354	4,223	4,266	4,209
Law and order	2,894	3,089	3,191	3,382	3,403	3,642	3,468	3,437	3,510	3,488
Defence	1,562	1,757	1,814	1,809	1,736	1,864	1,828	1,835	1,879	2,149
Transport and communications	2,244	2,663	2,345	2,281	2,232	2,435	2,073	2,212	2,145	2,217
Economic and industrial services	2,889	2,960	2,839	2,609	2,157	2,082	1,962	1,895	1,924	1,944
Primary services	541	534	507	706	648	846	726	719	681	658
Heritage, culture and recreation	561	586	630	741	863	875	821	804	796	796
Housing and community development	260	297	306	876	(130)	357	287	287	234	200
Environmental protection[1]	546	416	651	1,225	769	585	486	477	492	483
Other	254	118	80	479	425	629	546	544	545	545
Finance costs	2,460	2,429	2,311	3,066	3,511	3,579	3,752	3,972	3,989	4,279
Forecast for future new spending	..	..	..	..	..	317	978	2,154	3,352	4,544
Top-down expense adjustment	..	..	..	..	..	(1,150)	(200)	(200)	(200)	(200)
Core Crown expenses	**56,997**	**64,002**	**64,013**	**70,450**	**69,076**	**71,998**	**71,781**	**73,652**	**75,557**	**78,044**

Source: The Treasury

Table 6.1 – Social security and welfare expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Welfare benefits (see below)	16,288	17,366	18,961	19,781	20,375	20,861	21,512	22,059	22,806	23,529
Social rehabilitation and compensation	199	336	331	119	81	107	128	119	109	103
Departmental expenses	850	1,092	1,130	1,127	1,122	1,103	1,081	1,055	1,051	1,050
Child support impairment	193	205	371	281	72	296	392	408	226	252
Other non-departmental expenses[1]	347	383	392	697	378	511	485	472	469	465
Social security and welfare expenses	**17,877**	**19,382**	**21,185**	**22,005**	**22,028**	**22,878**	**23,598**	**24,113**	**24,661**	**25,399**

1. Other non-departmental expenses in the 2011 actuals include costs associated with the Canterbury earthquakes.

Source: The Treasury

Table 6.2 – New Zealand superannuation and welfare benefit expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
New Zealand Superannuation	7,348	7,744	8,290	8,830	9,584	10,228	10,850	11,415	12,073	12,686
Domestic Purposes Benefit	1,478	1,530	1,693	1,757	1,811	1,751	1,762	1,776	1,811	1,840
Unemployment Benefit	458	586	930	943	883	836	839	814	804	783
Invalid's Benefit	1,216	1,260	1,303	1,306	1,325	1,323	1,305	1,277	1,273	1,274
Family Tax Credit	1,897	2,062	2,168	2,139	2,082	2,062	2,037	1,993	1,961	1,976
Accommodation Supplement	891	989	1,154	1,197	1,195	1,197	1,229	1,248	1,271	1,288
Sickness Benefit	582	613	710	743	775	784	809	845	868	878
Disability Allowance	278	390	411	409	401	363	358	356	358	358
Income-Related Rents	465	512	522	553	580	614	660	707	759	808
In Work Tax Credit	563	584	595	585	567	541	511	493	483	479
Child Tax Credit	11	6	4	3	2	2	1	1	1	1
Special Benefit	71	..	..	..	..	..	..	..	..	..
Benefits paid in Australia	58	50	45	40	37	22	19	15	12	34
Paid Parental Leave	135	143	154	154	158	163	170	178	194	195
Childcare Assistance	150	159	178	188	188	186	181	182	186	188
War Disablement Pensions	134	125	137	135	128	122	120	121	122	116
Veteran's Pension	161	176	179	178	177	172	167	159	155	148
Other benefits	392	437	488	621	482	495	494	479	475	477
Benefit expenses	**16,288**	**17,366**	**18,961**	**19,781**	**20,375**	**20,861**	**21,512**	**22,059**	**22,806**	**23,529**

Source: The Treasury

Table 6.3 – Beneficiary numbers

(Thousands)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
New Zealand Superannuation	508	522	540	561	585	612	635	658	680	702
Domestic Purposes Benefit	97	101	110	114	114	110	109	107	107	107
Unemployment Benefit	37	48	78	80	73	68	67	64	62	59
Accommodation Supplement	245	267	312	320	311	309	311	311	312	312
Invalid's Benefit	82	86	88	88	87	87	85	82	80	80
Sickness Benefit	48	50	58	60	60	61	62	63	64	63

Source: Ministry of Social Development

Table 6.4 – Health expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Departmental outputs	206	206	211	199	186	186	185	186	186	186
Health services purchasing (see below)	10,503	11,354	12,077	12,530	13,018	13,565	13,459	13,425	13,399	13,361
Other non-departmental outputs	97	98	106	120	119	234	176	179	181	182
Health payments to ACC	463	667	691	849	744	689	761	758	759	765
Other expenses	28	43	43	55	93	67	48	48	48	48
Health expenses	**11,297**	**12,368**	**13,128**	**13,753**	**14,160**	**14,741**	**14,629**	**14,596**	**14,573**	**14,542**

Source: The Treasury

Table 6.5 – Health services purchasing

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Payments to District Health Boards	9,312	10,038	10,670	11,133	11,542	12,070	12,036	12,011	11,991	11,953
National disability support services	834	889	930	971	1,029	1,059	1,053	1,053	1,053	1,053
Public health services purchasing	357	427	477	426	447	436	370	361	355	355
Health services purchasing	**10,503**	**11,354**	**12,077**	**12,530**	**13,018**	**13,565**	**13,459**	**13,425**	**13,399**	**13,361**

Source: The Treasury

Table 6.6 – Education expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Early childhood education	860	1,030	1,184	1,340	1,355	1,430	1,465	1,490	1,511	1,548
Primary and secondary schools (see below)	4,552	4,936	5,157	5,354	5,443	5,649	5,543	5,642	5,715	5,720
Tertiary funding (see below)	3,266	4,564	4,465	3,991	3,795	4,183	4,150	4,126	4,132	4,137
Departmental expenses	828	888	898	923	988	1,045	981	971	963	963
Other education expenses	45	37	20	42	73	93	76	75	74	74
Education expenses	**9,551**	**11,455**	**11,724**	**11,650**	**11,654**	**12,400**	**12,215**	**12,304**	**12,395**	**12,442**

Places	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Early childhood education[1]	134,155	142,135	152,862	159,619	165,126	170,849	173,469	176,861	179,216	185,725

1. Full-time equivalent based on 1,000 funded child hours per calendar year.

Sources: Ministry of Education, the Treasury

Table 6.7 – Primary and secondary education expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Primary	2,262	2,484	2,622	2,731	2,771	2,873	2,828	2,894	2,946	2,944
Secondary	1,761	1,898	1,972	2,051	2,085	2,160	2,102	2,124	2,136	2,135
School transport	131	152	160	163	172	180	188	195	201	209
Special needs support	278	290	297	310	323	338	328	333	336	336
Professional development	108	101	95	90	85	89	87	87	87	87
Schooling improvement	12	11	11	9	7	9	10	9	9	9
Primary and secondary education expenses	**4,552**	**4,936**	**5,157**	**5,354**	**5,443**	**5,649**	**5,543**	**5,642**	**5,715**	**5,720**

Places	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Primary[1]	475,820	474,630	473,431	474,149	474,821	476,445	479,165	484,931	489,043	491,097
Secondary[1]	277,582	280,062	281,095	281,999	279,554	277,615	274,923	272,243	269,211	268,003

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 include special school rolls but exclude health camps, hospital schools and home schooling.

Sources: Ministry of Education, the Treasury

Table 6.8 – Tertiary education expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Tuition	2,172	2,287	2,398	2,354	2,306	2,410	2,399	2,403	2,406	2,407
Other tertiary funding	452	522	489	429	430	454	459	470	478	478
Tertiary student allowances	386	444	570	620	644	623	572	526	503	489
Student loans	256	1,311	1,008	588	415	696	720	727	745	763
Tertiary education expenses	**3,266**	**4,564**	**4,465**	**3,991**	**3,795**	**4,183**	**4,150**	**4,126**	**4,132**	**4,137**
Places (year)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Estimated funded places[1]	225,836	234,230	239,978	238,721	245,014	244,098	242,618	242,353	242,389	242,389
Actual delivered places[1]	229,224	246,041	250,440	240,618	250,526					

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 EFU numbers. Place numbers are based on calendar years rather than fiscal years.

Sources: Ministry of Education, the Treasury

Table 6.9 – Core government service expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Official development assistance	362	458	435	495	510	533	495	495	545	545
Indemnity and guarantee expenses	..	992	7	319	59	24	26	25	28	32
Departmental expenses	1,557	1,668	1,324	1,492	1,518	1,768	1,610	1,550	1,543	1,510
Non-departmental expenses[1]	277	117	236	471	524	517	537	552	560	584
Tax receivable write-down and impairments	701	1,654	590	1,010	1,003	1,141	1,197	1,153	1,200	1,200
Science expenses	168	179	191	174	116	120	121	124	124	124
Other expenses[1]	306	225	191	1,602	1,698	1,537	368	324	266	214
Core government service expenses	**3,371**	**5,293**	**2,974**	**5,563**	**5,428**	**5,640**	**4,354**	**4,223**	**4,266**	**4,209**

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

Source: The Treasury

Table 6.10 – Law and order expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Police	1,198	1,326	1,349	1,393	1,394	1,423	1,404	1,392	1,392	1,389
Ministry of Justice	367	379	372	397	440	509	450	436	446	444
Department of Corrections	787	829	903	956	988	1,011	984	978	1,036	1,020
NZ Customs Service[1]	12	12	13	120	126	154	149	150	151	151
Other departments	79	80	102	237	103	96	88	88	89	88
Department expenses	**2,443**	**2,626**	**2,739**	**3,103**	**3,051**	**3,193**	**3,075**	**3,044**	**3,114**	**3,092**
Non-departmental outputs	326	380	399	261	315	379	326	325	328	325
Other expenses	125	83	53	18	37	70	67	68	68	71
Law and order expenses	**2,894**	**3,089**	**3,191**	**3,382**	**3,403**	**3,642**	**3,468**	**3,437**	**3,510**	**3,488**

1. Previously the majority of NZ Customs Service expenses were classified as core government services.

Source: The Treasury

Table 6.11 – Defence expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
NZDF core expenses	1,517	1,697	1,747	1,736	1,678	1,801	1,770	1,777	1,815	2,085
Other expenses	45	60	67	73	58	63	58	58	64	64
Defence expenses	**1,562**	**1,757**	**1,814**	**1,809**	**1,736**	**1,864**	**1,828**	**1,835**	**1,879**	**2,149**

Source: The Treasury

Table 6.12 – Transport and communication expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
New Zealand Transport Agency[1]	1,966	1,562	1,778	1,696	1,744	1,836	1,873	1,929	1,982	2,054
Departmental outputs	137	83	63	65	60	47	46	46	46	46
Other non-departmental expenses	104	170	58	105	62	333	119	118	88	88
Asset impairments	..	320	..	..	..	..	..	..	..	..
Rail funding	24	507	418	386	305	186	9	93	3	3
Other expenses	13	21	28	29	61	33	26	26	26	26
Transport and communication expenses	**2,244**	**2,663**	**2,345**	**2,281**	**2,232**	**2,435**	**2,073**	**2,212**	**2,145**	**2,217**

1. Since 2008/09 funding has been provided to New Zealand Transport Agency (NZTA). From 2004/05 to 2007/08 funding was provided to Land Transport NZ. Prior to 2008/09, all NZTA funding was recognised as operating expenditure. However, from 2008/09 some funding is now classified as capital, resulting in a reduction to operating expenditure.

Source: The Treasury

Table 6.13 – Economic and industrial services expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Departmental outputs	603	389	382	420	346	379	372	368	361	355
Employment initiatives (see below)	186	185	220	214	206	201	197	171	171	171
Non-departmental outputs	822	809	927	756	698	669	607	577	588	588
Reserve electricity generation	81	20	23	9	5	1	..	..	..	..
KiwiSaver (includes housing deposit subsidy)	1,102	1,281	1,024	1,045	698	723	715	709	734	761
Research and development tax credits	37	154	..	..	..	..	..	..	..	..
Other expenses	58	122	263	165	204	109	71	70	70	69
Economic and industrial services expenses	**2,889**	**2,960**	**2,839**	**2,609**	**2,157**	**2,082**	**1,962**	**1,895**	**1,924**	**1,944**

Source: The Treasury

Table 6.14 – Employment initiatives

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Training incentive allowance	27	30	19	11	8	14	15	15	15	15
Subsidised work	67	63	109	112	106	93	89	63	63	63
Employment support for the disabled	88	88	88	87	88	90	89	89	89	89
Other employment assistance schemes	4	4	4	4	4	4	4	4	4	4
Employment initiatives	**186**	**185**	**220**	**214**	**206**	**201**	**197**	**171**	**171**	**171**

Source: The Treasury

Table 6.15 – Primary service expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Departmental expenses	363	364	352	354	348	395	361	363	367	363
Non-departmental outputs	95	82	123	142	134	145	141	132	99	99
Biological research[1]	..	..	..	167	102	113	102	102	102	102
Other expenses	83	88	32	43	64	193	122	122	113	94
Primary service expenses	**541**	**534**	**507**	**706**	**648**	**846**	**726**	**719**	**681**	**658**

1. Biological research was previously classified as an economic and industrial services expense.

Source: The Treasury

Table 6.16 – Heritage, culture and recreation expenses[1]

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Community grants	8	9	8	8	7	..	..	..	..	..
Departmental outputs	109	120	115	133	172	288	271	265	263	263
Non-departmental outputs	430	422	405	455	444	464	467	465	459	460
Other expenses	14	35	102	145	240	123	83	74	74	73
Heritage, culture and recreation expenses	**561**	**586**	**630**	**741**	**863**	**875**	**821**	**804**	**796**	**796**

1. Previously environmental protection expenses were included as a separate line item within the heritage, culture and recreation classification. These expenses have been reclassified to the new environmental protection functional classification.

Source: The Treasury

Table 6.17 – Housing and community development expenses

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Financial assistance package[1]	..	..	..	567	(407)	..	..	..	..	..
Housing subsidies	28	29	30	31	22	6	6	6	6	6
Departmental outputs	141	148	140	136	98	124	109	103	103	93
Other non-departmental expenses	91	112	122	105	113	170	125	128	87	81
Other expenses	..	8	14	37	44	57	47	50	38	20
Housing and community development expenses	**260**	**297**	**306**	**876**	**(130)**	**357**	**287**	**287**	**234**	**200**

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

Source: The Treasury

Table 6.18 – Environmental protection expenses[1]

($millions)	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast
Emissions Trading Scheme	..	17	80	838	334	59	61	63	65	66
Departmental outputs	283	306	300	301	342	362	335	329	330	330
Non-departmental outputs	38	47	231	26	46	38	47	42	54	44
Other expenses	225	46	40	60	47	126	43	43	43	43
Environmental protection expenses	**546**	**416**	**651**	**1,225**	**769**	**585**	**486**	**477**	**492**	**483**

1. Environmental protection expenses were previously included as a separate line item within the heritage, culture and recreation classification.

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). All amounts within baselines are included in the forecasts.

Commercial portfolio

Consists of the portfolio of companies held with purely 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 Inland Revenue 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 of New Zealand. For a list of all entities included in this segment, refer to the Government Reporting Entity (pages 85 to 86).

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)

A measure of economic transactions between New Zealand and the rest of the world. A net inflow to New Zealand represents a current account surplus, a net outflow a 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 (eg, operating balance before gains and losses) adjusted for short-term fluctuations of actual GDP around trend GDP. The estimate provides a useful picture of the underlying trend fiscal position and helps measure the effects of policy decisions. Because it is based on a number of assumptions and is sensitive to new information, the estimate is subject to some uncertainty.

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 fiscal policy 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

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

An amount included in the forecasts to provide for the operating balance 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 the Government Superannuation Fund. 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 assumptions used to prepare and present financial statements. GAAP is an independent and objective set of rules that govern the recognition and measurement of financial elements, such as assets, liabilities, revenues and expenses.

Government Finance Statistics (GFS)

A statistical framework for government reporting developed by the International Monetary Fund 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 debt (or 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 the Earthquake Commission.

Gross domestic product (GDP)

A measure of the value 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 as the actual dollar value of goods and services at today's prices (nominal GDP), or excluding the effects of price changes over time (real GDP).

Gross domestic product (expenditure)

The sum of total expenditure on final goods and services in the economy.

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, CEs 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, CEs and other entities controlled by the Government.

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.

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 which 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 general level of prices within a defined annual CPI 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, CEs 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.

New Zealand equivalents to International Financial Reporting Standards (NZ IFRS)

The reporting and measurement framework under which these forecast financial statements are prepared. These standards are approved by the External Reporting Board in New Zealand, based on requirements of the international financial reporting standards issued by the International Accounting Standards Board, adjusted where appropriate for entities that are not profit oriented.

Operating balance

Represents OBEGAL (refer below) plus gains and 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. Potential GDP is the level of output an economy can sustain without acceleration of inflation.

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.

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 included in the fiscal forecasts. They are not included in the main forecasts because their fiscal impact cannot be reasonably quantified, the likelihood of realisation is uncertain and/or the timing is uncertain.

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 measures the volume of imports that can be funded by a fixed volume of exports, and is calculated as the ratio of the total export price index to the total import price index. New Zealand's terms of trade is derived from export and import price indices from Statistics New Zealand's quarterly Overseas Trade Index release.

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 SOEs or CE 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 CEs that are not explicitly guaranteed by the Crown.

Total Crown

Includes the core Crown (defined above) plus CEs and SOEs. Also known as the Government Reporting Entity.

Tradable/non-tradable output

There is no official definition of the tradable sector. In this document the tradable sector is defined as the part of the economy particularly exposed to foreign competition. It includes primary, manufacturing and tourism industries. Non-tradable output is estimated as a residual of total real GDP.

Trade-weighted index (TWI)

A measure of movements in the New Zealand dollar against the currencies of our major trading partners. The currencies comprise the US dollar, the Australian dollar, the Japanese yen, the euro and the UK pound.

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 2011/12 or 2012 will mean the end of the financial year.

Time Series of Fiscal and Economic Indicators

Fiscal Indicators

June Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
$ millions																	
Revenue and Expenses																	
Core Crown revenue	37,842	39,945	43,440	46,219	51,045	55,735	58,211	61,819	59,482	56,216	57,550	60,565	62,939	67,786	71,817	74,967	78,267
Core Crown expenses	36,559	37,513	39,897	41,882	44,895	49,320	54,003	56,997	64,002	64,013	70,450	69,076	71,998	71,781	73,652	75,557	78,044
Surpluses																	
Total Crown OBEGAL	1,422	2,471	4,366	5,573	7,075	7,091	5,860	5,637	(3,893)	(6,315)	(18,396)	(9,240)	(7,340)	(2,011)	66	1,383	2,048
Total Crown operating balance	1,208	2,286	1,621	7,309	5,931	9,542	8,023	2,384	(10,505)	(4,509)	(13,360)	(14,897)	(3,275)	49	2,101	3,550	4,385
Cash Position																	
Core Crown residual cash	349	216	1,217	520	3,104	2,985	2,877	2,057	(8,639)	(9,000)	(13,343)	(10,644)	(9,782)	(6,949)	(4,555)	(3,273)	(2,871)
Debt																	
Gross debt[1]	37,194	36,650	36,617	36,017	35,478	33,903	30,647	31,390	43,356	53,591	72,420	79,635	80,176	88,442	86,252	90,060	95,859
Gross debt incl RB settlement cash and bank bills	37,194	36,650	36,617	36,017	35,478	35,867	36,805	37,745	50,973	58,891	77,290	84,168	85,611	93,877	91,687	95,515	101,339
Net core Crown debt (incl NZS Fund)[2]	24,908	24,773	22,647	19,902	13,324	6,302	1,620	(2,676)	5,633	12,549	23,969	33,475	40,332	45,455	47,712	48,657	49,167
Net core Crown debt[2]	24,908	25,388	24,531	23,858	19,879	16,163	13,380	10,258	17,119	26,738	40,128	50,671	59,998	66,749	70,685	73,477	75,860
Net Worth																	
Total Crown net worth	15,450	22,825	28,012	39,595	54,240	83,971	96,827	105,514	99,515	94,988	80,887	59,780	58,062	59,717	63,422	68,650	73,257
Total net worth attributable to the Crown	15,450	22,766	27,918	39,456	54,025	83,678	96,531	105,132	99,068	94,586	80,579	59,348	56,285	56,545	58,825	62,598	67,035
Nominal GDP	120,911	128,629	135,709	146,318	155,331	163,296	173,203	185,917	185,838	191,314	200,641	208,219	216,048	228,797	239,279	249,023	259,149
% GDP																	
Revenue and Expenses																	
Core Crown revenue	31.3	31.1	32.0	31.6	32.9	34.1	33.6	33.3	32.0	29.4	28.7	29.1	29.1	29.6	30.0	30.1	30.2
Core Crown expenses	30.2	29.2	29.4	28.6	28.9	30.2	31.2	30.7	34.4	33.5	35.1	33.2	33.3	31.4	30.8	30.3	30.1
Surpluses																	
Total Crown OBEGAL	1.2	1.9	3.2	3.8	4.6	4.3	3.4	3.0	(2.1)	(3.3)	(9.2)	(4.4)	(3.4)	(0.9)	0.0	0.6	0.8
Total Crown operating balance	1.0	1.8	1.2	5.0	3.8	5.8	4.6	1.3	(5.7)	(2.4)	(6.7)	(7.2)	(1.5)	0.0	0.9	1.4	1.7
Cash Position																	
Core Crown residual cash	0.3	0.2	0.9	0.4	2.0	1.8	1.7	1.1	(4.6)	(4.7)	(6.7)	(5.1)	(4.5)	(3.0)	(1.9)	(1.3)	(1.1)
Debt																	
Gross debt[1]	30.8	28.5	27.0	24.6	22.8	20.8	17.7	16.9	23.3	28.0	36.1	38.2	37.1	38.7	36.0	36.2	37.0
Gross debt incl RB settlement cash and bank bills	30.8	28.5	27.0	24.6	22.8	22.0	21.2	20.3	27.4	30.8	38.5	40.4	39.6	41.0	38.3	38.4	39.1
Net core Crown debt (incl NZS Fund)[2]	20.6	19.3	16.7	13.6	8.6	3.9	0.9	(1.4)	3.0	6.6	11.9	16.1	18.7	19.9	19.9	19.5	19.0
Net core Crown debt[2]	20.6	19.7	18.1	16.3	12.8	9.9	7.7	5.5	9.2	14.0	20.0	24.3	27.8	29.2	29.5	29.5	29.3
Net Worth																	
Total Crown net worth	12.8	17.7	20.6	27.1	34.9	51.4	55.9	56.8	53.5	49.7	40.3	28.7	26.9	26.1	26.5	27.6	28.3
Total net worth attributable to the Crown	12.8	17.7	20.6	27.0	34.8	51.2	55.7	56.5	53.3	49.4	40.2	28.5	26.1	24.7	24.6	25.1	25.9

1 Excludes Reserve Bank settlement cash and bank bills

2 Excludes advances

Economic Indicators

March Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Annual average % change	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	1.5	2.7	4.6	6.2	4.4	4.4	2.7	3.4	-1.7	0.4	1.6	1.9	1.5	2.8	2.6	1.9	1.7
Public consumption	-2.0	4.2	1.4	4.9	4.6	4.7	4.1	5.2	4.6	0.2	0.4	0.6	0.7	0.2	0.8	0.7	0.4
TOTAL CONSUMPTION	0.7	3.1	3.9	5.9	4.5	4.5	3.0	3.8	-0.3	0.3	1.3	1.6	1.3	2.2	2.2	1.7	1.4
Residential investment	-13.6	2.2	23.6	14.8	2.3	-5.0	-1.9	1.6	-22.5	-12.0	3.7	-11.6	19.5	33.0	22.4	7.4	-0.6
Non-market investment	-13.5	22.0	10.7	15.5	10.8	5.7	1.8	-8.0	22.6	-1.8	-14.7	-12.1	-13.1	9.2	2.4	2.4	2.4
Market investment	7.1	7.1	2.8	12.4	11.6	11.0	-2.9	10.6	-5.1	-16.0	9.3	5.4	13.0	9.4	4.4	2.3	1.9
TOTAL INVESTMENT	-0.3	7.1	7.9	13.2	8.3	6.6	-2.7	7.0	-8.5	-13.3	6.2	-1.0	12.9	14.4	7.7	3.5	1.5
Stock change (contribution to growth)	-0.3	0.1	-0.1	0.3	0.3	-0.5	-1.2	1.2	-0.5	-1.3	1.2	0.7	-1.2	0.0	0.1	0.1	0.1
GROSS NATIONAL EXPENDITURE	0.2	3.9	4.6	7.6	5.6	4.6	0.3	5.6	-2.3	-3.6	2.6	2.2	1.6	5.1	3.7	2.3	1.5
Exports	6.3	3.1	7.8	1.0	4.9	-0.1	3.2	3.6	-2.6	4.9	2.7	2.6	1.9	0.5	1.2	2.1	2.7
Imports	-0.4	4.2	7.0	12.9	12.3	4.4	-1.4	10.6	-4.1	-9.0	11.5	6.3	2.0	6.6	4.2	1.6	0.3
EXPENDITURE ON GDP	2.3	3.6	4.9	4.0	3.5	3.3	1.7	3.6	-1.9	0.9	0.3	1.1	1.7	3.0	2.5	2.4	2.4
GDP (production measure)	2.5	3.8	4.6	4.2	3.6	3.3	2.2	2.5	-1.3	-1.3	1.6	1.6	2.3	2.9	2.5	2.4	2.4
- annual % change	0.7	5.0	4.0	5.2	2.3	3.1	2.9	1.4	-3.1	1.2	1.1	2.3	2.1	3.0	2.5	2.4	2.4
Real GDP per capita	1.9	3.1	3.0	2.2	2.0	2.1	1.0	1.4	-2.3	-2.3	0.4	0.7	1.5	2.1	1.6	1.4	1.4
Nominal GDP (expenditure basis)	5.7	7.5	5.2	6.9	7.1	5.6	5.0	8.4	0.8	1.5	4.7	3.4	3.6	5.9	4.7	4.1	4.1
GDP deflator	3.3	3.8	0.3	2.8	3.5	2.2	3.3	4.7	2.7	0.5	4.5	2.3	1.9	2.8	2.1	1.7	1.7
Output gap (% deviation, March year average)	-0.9	-0.7	0.2	0.7	1.1	1.6	1.5	2.1	-0.4	-2.6	-2.2	-2.0	-1.6	-0.7	-0.4	-0.3	-0.1
Employment	2.0	2.9	2.8	3.0	3.6	2.8	2.2	1.3	0.9	-1.3	1.2	1.4	0.2	1.7	1.9	1.4	1.4
Unemployment (% March quarter s.a.)	5.5	5.3	5.0	4.3	3.9	4.0	3.9	3.9	5.1	6.1	6.5	6.7	6.9	6.2	5.9	5.6	5.1
Wages (average ordinary-time hourly, ann % change)	3.2	3.7	2.3	3.5	3.6	5.3	4.6	4.7	5.5	1.0	2.6	3.8	2.1	2.4	2.7	2.6	2.6
CPI inflation (ann % change)	3.1	2.6	2.5	1.5	2.8	3.3	2.5	3.4	3.0	2.0	4.5	1.6	1.5	1.9	2.2	2.2	2.2
Merchandise terms of trade (SNA basis)	3.5	3.8	-5.5	4.4	3.4	-1.9	-1.2	8.4	0.0	-7.6	10.2	1.2	-2.6	5.2	1.2	0.8	0.9
Current account balance - $billion	-4.5	-3.6	-4.2	-6.2	-9.5	-14.0	-13.5	-14.6	-14.6	-3.4	-7.2	-9.1	-10.7	-10.2	-12.9	-15.1	-16.3
Current account balance - % of GDP	-3.8	-2.9	-3.1	-4.4	-6.2	-8.7	-8.0	-8.0	-7.9	-1.8	-3.7	-4.5	-5.1	-4.6	-5.5	-6.2	-6.5
TWI (March quarter)	50.5	51.6	60.6	66.9	69.6	68.3	68.8	71.9	53.7	65.3	67.2	72.5	73.0	72.8	70.6	67.3	63.2
90-day bank bill rate (March quarter)	6.4	5.0	5.8	5.5	6.9	7.6	7.8	8.8	3.7	2.7	3.0	2.7	2.7	3.1	4.1	4.6	4.8
10-year bond rate (March quarter)	6.0	6.7	6.0	5.9	6.0	5.7	5.9	6.4	4.6	5.9	5.6	4.0	3.6	3.6	4.5	5.0	5.2

Data for 2013 and subsequently are forecasts. Data for 2012 and prior years are those that were available on 19 November when the forecasts were finalised.