KPMG

Budget 2017

KPMG Forecast

3 May 2017

Election year Budgets are the ones that Budget analysts wait for. In 2017, the combination of a looming September election date, a third-term National-led Government, the opportunities and expectations posed by the return to surplus, along with a new Prime Minister and Minister of Finance mean the strategy underpinning this year's Budget will be eagerly dissected on 25 May.

Many of the themes we discussed in our Budget 2016 coverage remain strongly relevant. New Zealand still has a stable and growing economy that many countries would envy, but the growing pains are becoming increasingly obvious. Immigration rates remain high and have tracked above the Budget 2016 forecast. The related political pressures the Government is facing in housing, welfare, health, education, and infrastructure have only increased in the past 12 months. Add to that the calls for tax relief, the need to pay down debt, restart NZ Super Fund contributions, and the increasing calls for extra investment (or a user pays model) to help cope with the double digit annual growth of New Zealand's burgeoning tourism sector.

So how should the Government respond to these pressures? What levers will it pull? How does it balance competing demands in a way that reinforces the fiscally responsible image it has built while boosting its chances at the ballot box in September? Will this be another 'predictable' Bill English-style Budget, or will Steven Joyce look to spice things up?

KPMG's pick is that this will be a Budget that tries to scratch a lot of itches and which keeps the National-led Government square in the centre of politics through a strong focus on middle-income earners, infrastructure and social investment.

Given the surplus track forecast, we expect to see a greater level of investment and intervention on these issues than in previous Budgets. We predict that the key themes will be:

– A tax and family package that at last addresses the 'bracket creep' problem while targeting support to lower- and middle-income households as far as possible. The intention will be to create a point of difference with opposition parties, which may in turn create a response that narrows the difference.

– Increased social spending, particularly in health, education and areas where the social investment approach suggests benefits to both people and the Government's books, including funding for the new Social Investment Agency that is creating much of the common toolkit.

– Infrastructure – an increased allocation of capital to deal with earthquake repair and resilience, some additional funding for tourist infrastructure, confirmation of support for the future pipeline of health and education projects, allowance for existing Auckland projects (e.g. CRL) but nothing that specifically deals with user pays concepts (such as a tourist tax).

(continued overleaf)

- Housing – confirmation of funding for the Housing Infrastructure Fund, more funding for social and emergency housing, including to support ongoing social housing reform activities. Despite initiative overload, given the urgent need for new housing in Auckland we would not be surprised to see one or more new initiatives focused on speeding up housing development.
- Confirming debt reduction and the restart of NZ Super contributions (from 2019 and 2020 respectively).
- Minimal changes to the Business Growth Agenda, apart from some additional support for R&D and apprenticeships; and
- Being election year, there will be a large number of low-cost but headline-targeting initiatives across a broad range of Ministerial portfolios – one to watch out for could be further funding towards the Government's 'predator free' goal.

In summary, we expect Budget 2017 to do its best to make the new spend go a long way. As we noted last year, our view is that centrist voters will need to feel comfortable that social and economic spending priorities are under control before they feel comfortable voting for tax cuts. We predict that Budget 2017 will be a continuation of policies to underpin a stable and growing economy, with some 'go faster' elements specifically related to infrastructure. We expect Budget 2017 to keep the faith with a strategy that has worked well for this Government over three terms, albeit with spending lifted to new levels. Join us on 25 May 2017 to see whether we got it right.

Adrian Wimmers
Partner, Advisory
T: 04 816 4681
M: 021 221 4313
E: awimmers@kpmg.co.nz

kpmg.com/nz