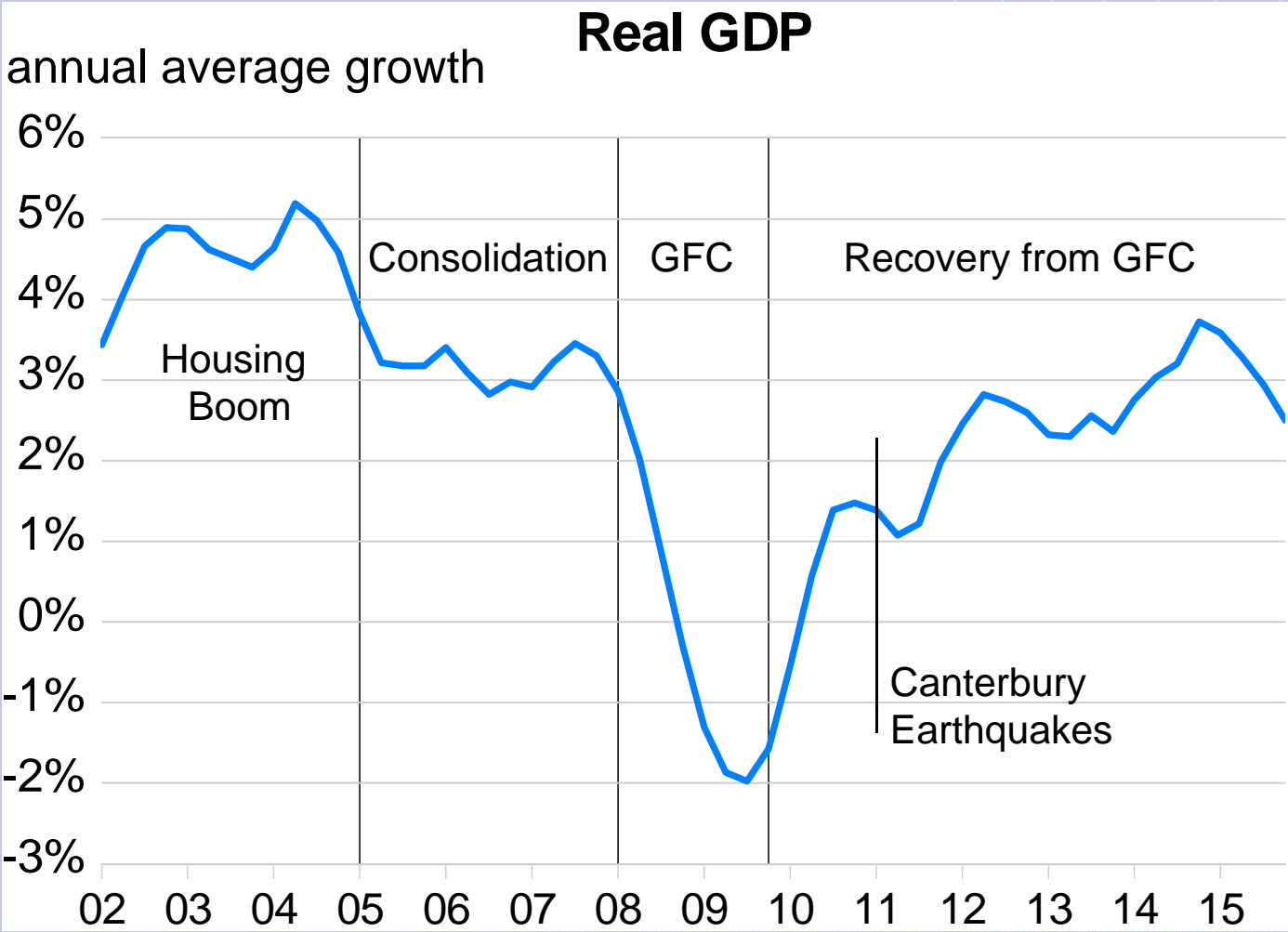

Economic Outlook

Presentation to Audit NZ
Central Government Update

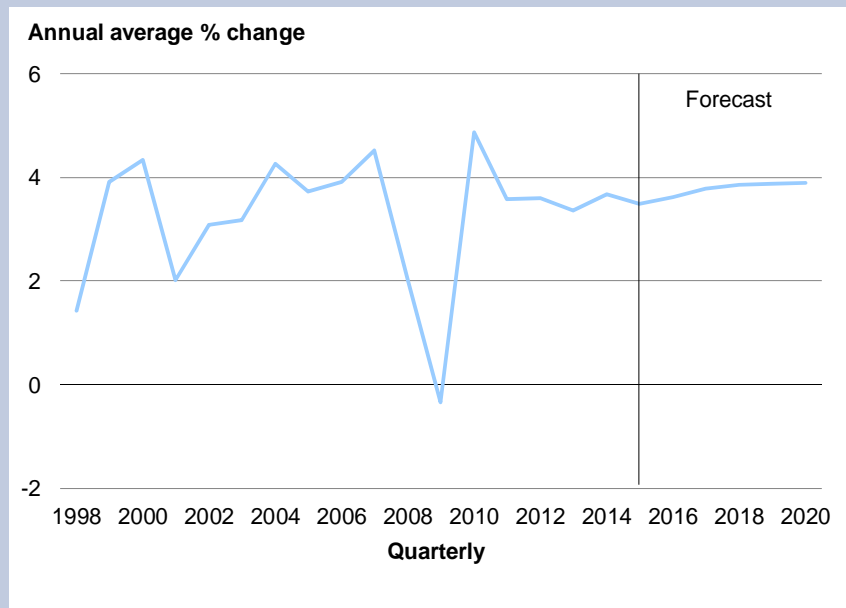
19-20 April 2016
Phillip Mellor
The Treasury

Recent economic performance

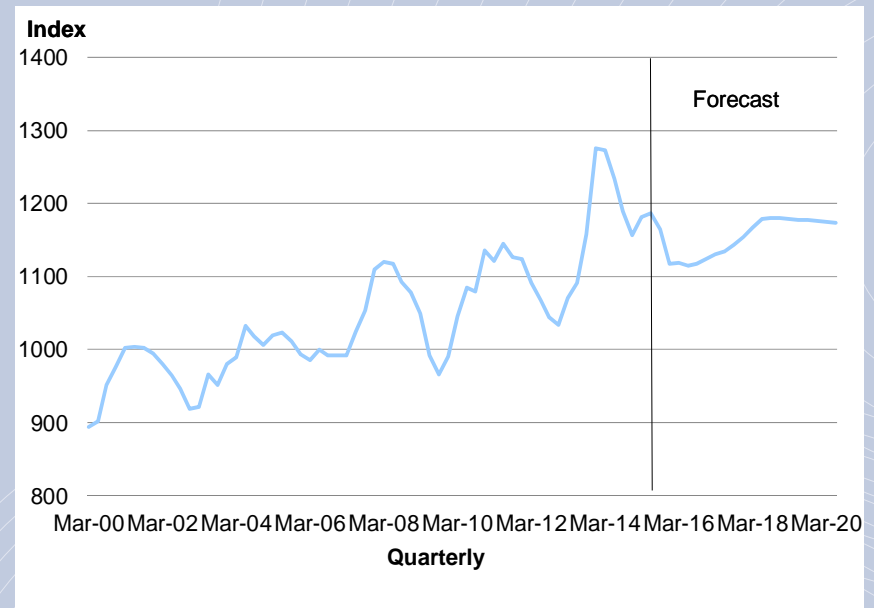


Factors affecting growth – 1

Weaker trading partner growth

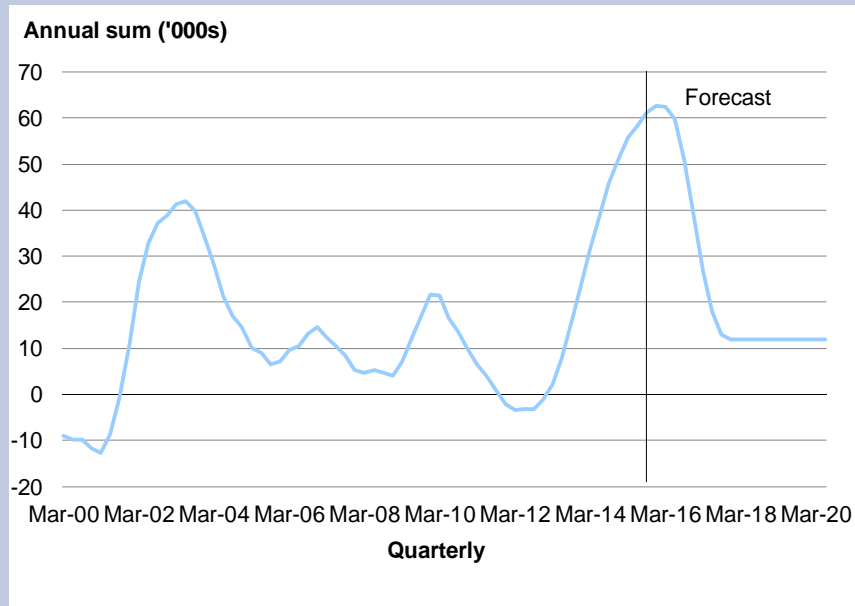


Falling terms of trade

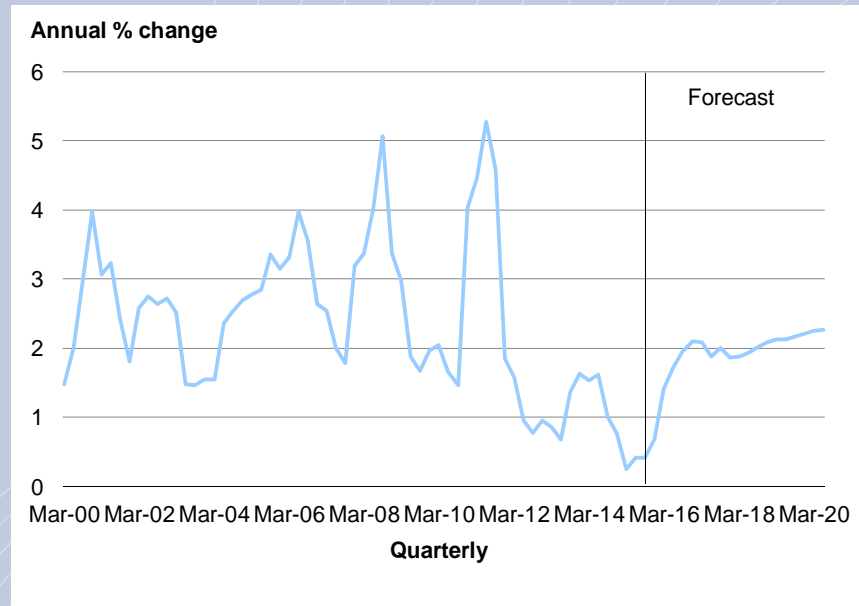


Factors affecting growth – 2

High levels of net migration

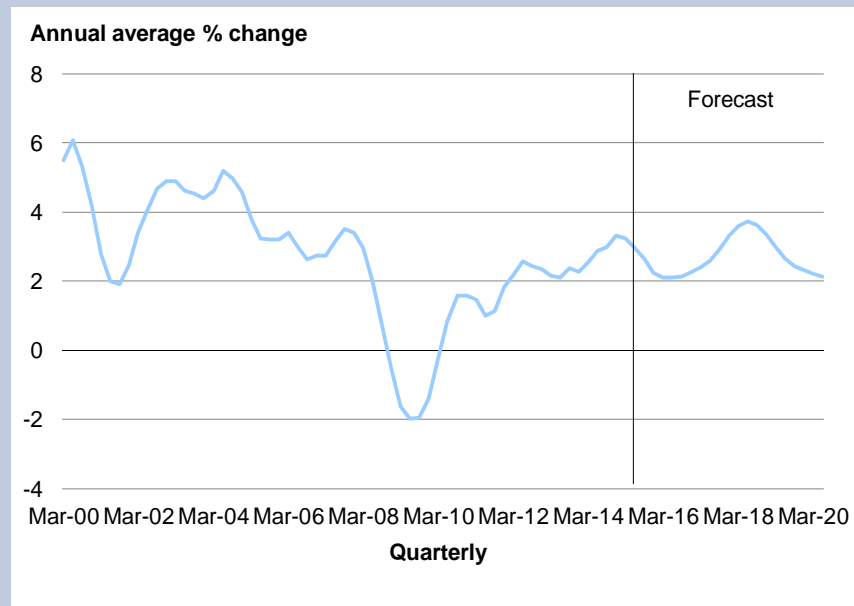


Low inflation

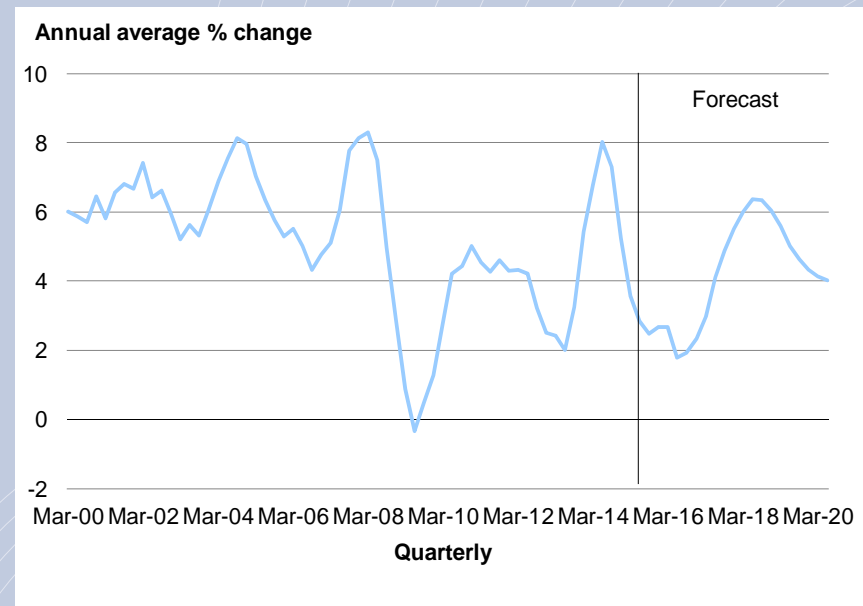


The economic outlook

Real GDP



Nominal GDP

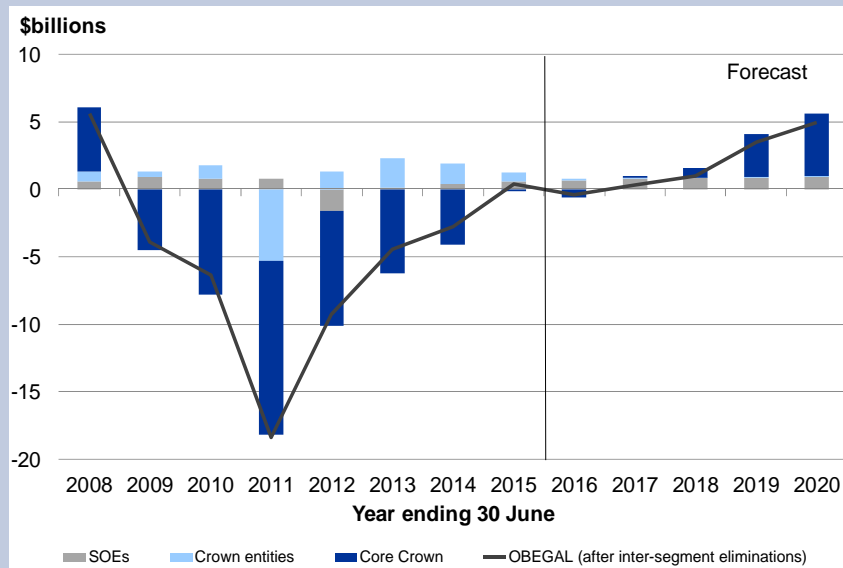


What has changed since the *Half Year Update*

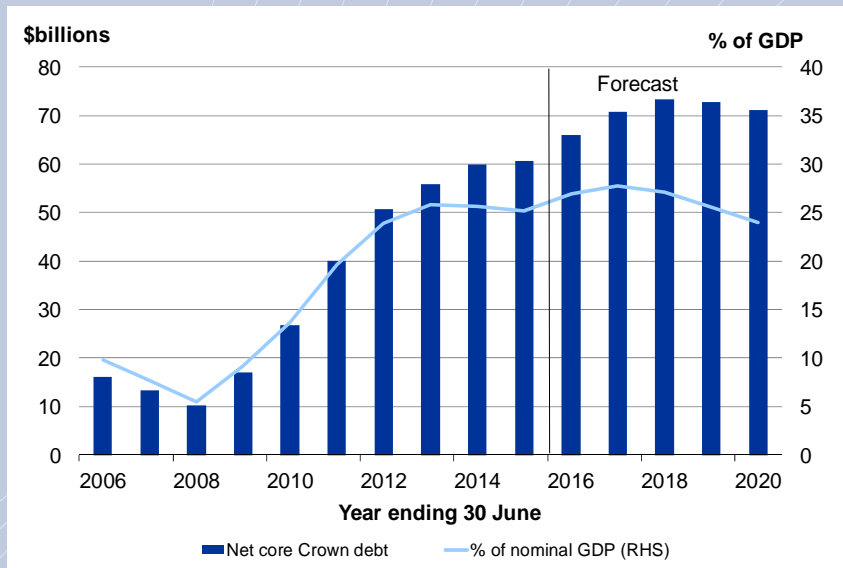
- Economic growth has been stronger than expected...
- ...reflected in tax revenues ahead of forecast
- The Reserve Bank reduced the OCR and signalled further cuts
- Global economic growth has weakened...
- ...and commodity prices have fallen

The fiscal outlook

OBEGAL



Net Debt



Fiscal targets have been revised

- Previous fiscal targets:
 - Achieve surplus in 2014/15
 - Reduce net government debt to below 20% of GDP by 2020
- New fiscal targets:
 - Maintain rising operating surpluses
 - Reduce net government debt to around 20% of GDP in 2020
 - Reduce net debt to within a range of 0 per cent to 20 per cent of GDP

Summary

- Economic growth is expected to ease over 2016 in response to lower global growth, the falling terms of trade and muted domestic demand
- Growth is expected to pick up from the end of 2016 as the terms of trade recover and stimulatory monetary conditions support domestic demand
- OBEGAL is expected to remain broadly in balance over the next three years
- Ongoing Budget restraint will be necessary to achieve the government's fiscal targets