ANZ Research

NZ Insight: Fiscal musings

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Fiscal musings

Key points

- Financial statements of the Government for the 12 months to June 2024 will be published tomorrow. We already have a good handle on 11 of these months.
- Risks to NZDM's bond issuance guidance are not one-sided. The starting point for NZDM funding is looking a little stronger (we'll be looking for confirmation of that tomorrow), but there are some downside risks stemming from the economic outlook. That said, the Treasury's forecasts have been pretty accurate so far. Risks to bond issuance stemming from discretionary fiscal policy decisions appear mitigated given the Government's fiscal strategy, the degree of wiggle room within existing baselines, and focus on much-needed and overdue balance sheet repair.
- Given the trend widening in asset swap spreads since May (which have very recently come back a touch), the signal on bond supply at the upcoming HYEFU is shaping up to be a key event for markets. The big piece of fiscal data ahead of HYEFU will be the monthly statements for the three months to September 2024 (due 7 November).

Fiscal musings ahead of tomorrow's fiscal data release

At 1pm Thursday (10 October), the Treasury will publish the audited financial statements for the fiscal year ended June 2024.

We already have a very good signal on 11 months of the fiscal year from the monthly statements, meaning the 'new news' in the full-year statements will largely reflect what happened in the month of June versus the Budget Economic and Fiscal Update (BEFU) forecast. In the past, changes in accounting treatment (ie as a result of the auditing process) in the year-end statements have had some impact on key fiscal indicators, and that's always a risk. At first blush, it often isn't easy to know what proportion of any forecast variance came from the extra month of data, and what came from the auditing process. But if the "auditor impact" is large, the Treasury will publish a note about any accounting treatment changes within these statements.

As a reminder, Table 1 (over) shows how key fiscal indicators were tracking relative to forecast as at May (the 11-month mark). Broadly, the fiscals were in slightly better shape than the BEFU forecast, but the Treasury hinted that stronger revenues weren't expected to persist into the next fiscal year (to June 2025). Lower expenses were looking largely like a timing story too. Nonetheless, the way things were travelling in May, the year to June 2024 was shaping up to be a bit better than expected at BEFU. That might reverse in June, of course, but we think tomorrow's statements will be close to forecast (if not slightly better).

If the better starting point persists in tomorrow's data, then taking into account the $1.3bn of prefunding from the final syndication of FY24, as we go into HYEFU we could be looking at $2bn or so more in the tin at the onset of FY25 than expected in the Budget. Of course, changes to the Treasury's economic outlook will also impact the bond programme.

Table 1. Monthly fiscal indicators as at May 2024

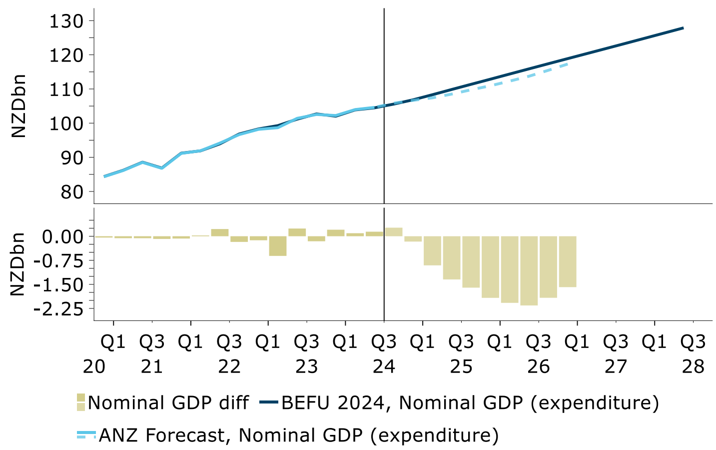
	Year to date				Full Year
	May 2024 Actual[1]	May 2024 BEFU 2024 Forecast[1]	*Variance[2] BEFU 2024*	*Variance BEFU 2024*	June 2024 BEFU 2024 Forecast[3]
	$m	$m	*$m*	*%*	$m
Core Crown tax revenue	**111,124**	109,552	*1,572*	*1.4*	118,995
Core Crown revenue	**122,715**	121,589	*1,126*	*0.9*	132,375
Core Crown expenses	**125,086**	125,520	*434*	*0.3*	138,325
Core Crown residual cash	**(17,824)**	(18,241)	*417*	*2.3*	(21,864)
Net core Crown debt[4]	**173,609**	174,267	*658*	*0.4*	178,094
as a percentage of GDP	***42.5%***	*42.6%*			*43.1%*
Gross debt	**168,703**	168,591	*(112)*	*(0.1)*	174,583
as a percentage of GDP	***41.3%***	*41.2%*			*42.3%*
Operating balance before gains and losses	**(7,749)**	(8,754)	*1,005*	*11.5*	(11,074)
Operating balance (excluding minority interests)	**817**	(1,537)	*2,354*	*153.2*	(2,988)
Net worth attributable to the Crown	**184,755**	182,337	*2,418*	*1.3*	180,862
as a percentage of GDP	***45.2%***	*44.6%*			*43.8%*

1 Using the most recently published GDP (for the year ended 31 Mar 2024) of $408,793 million (Source: Stats NZ).
2 Favourable variances against forecast have a positive sign and unfavourable variances against forecast have a negative sign.
3 Using BEFU 2024 forecast GDP for the year ending 30 June 2024 of $413,062 million (Source: The Treasury).
4 Net core Crown debt excludes the NZS Fund and core Crown advances. Net core Crown debt may fluctuate during the year largely reflecting the timing of tax receipts.

Source: The Treasury

Turning to the economic backdrop vs the BEFU forecast, it's also worth noting that talk of downside risks to the Treasury's forecasts, while they do exist, may be somewhat overstated. Nominal GDP is what matters for the fiscals, and it has come in close to forecast so far (figure 1). Our forecast is actually marginally stronger than Treasury's for Q3 (ie the first quarter of FY 25). However, it's the Treasury's medium-term forecast where we think there is some downside risk. That said, if the economy is on a softer path, there will likely be some offset for the bond programme via the decline in yields since BEFU. Our preliminary back-of-the-envelope analysis suggests that in terms of the forecast bond programme, from the latter half of the current fiscal year a better starting point for the fiscals should provide a meaningful offset to downside risks to the Treasury's economic forecasts (especially given Treasury's medium-term forecasts tend to be on the rosier side of ours).

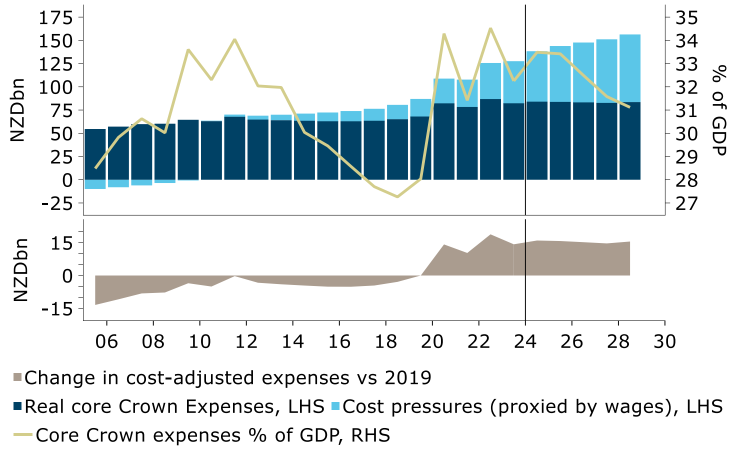
Figure 1. Nominal GDP



Source: The Treasury, Macrobond, ANZ Research

In terms of discretionary fiscal policy, our view hasn't changed. The Minister of Finance has continued to signal that she intends to live within the operating allowance profile laid out at Budget, using reprioritisations from within existing baselines to fund unexpected/new cost pressures and initiatives. It is therefore our expectation that the operating allowance profile signalled at Budget will be unchanged at HYEFU ($2.4bn from FY25 onwards). Figure 2 (over) shows that after we account for the increased cost of delivering public services (and after the Government cut spending to pay for tax cuts), real government spending is still well above pre-pandemic (2019) levels, to the tune of about $15bn per year. In other words, the Minister of Finance's reprioritisation approach certainly appears economically feasible, though politics are always another matter!

Figure 2. Government expenses ('real', nominal and % of GDP)



Source: NZ Treasury, Macrobond, ANZ Research

It's possible that the Government squeezes more capital spending into the forecast at HYFFU, but there was already a sizeable increase at Budget.

The HYEFU release date is often (but not always) published when the year-end statements are released, so that's another thing to look out for tomorrow – this should be mid-December. As always, the HYEFU will add another fiscal year to the forecast horizon.

It's also important to note that the most important piece of fiscal data ahead of the HYEFU will the monthly statements for the three months to September 2024 (due 7 November).

All in all, in terms of gauging the risks around NZDM's bond issuance guidance, the June year statements are not as big a deal as the three months to September will be. We think the main risks to the bond programme are economic ones given discretionary fiscal policy settings appear less likely to change under the new Government's fiscal strategy and the wiggle room within existing baselines. And while the economy might be on a weaker path than the Treasury's medium-term forecast, the faster the RBNZ cuts the OCR, the more upside risk we'll have to consider.

Importantly, NZDM look like they could have a little more in the pot than they expected going into FY25, so if the Treasury do downgrade the economic and fiscal outlook at HYEFU, there is scope to absorb some of that without having to increase bond issuance. But we won't be able to lock down a strong view on this until November once we've seen the three months to September data.

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