

# FOCUS

**SPECIAL REPORT**

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**BUDGET  
2020**

## Budget 2020 - The Government responds to a global pandemic

“Houston we have a problem”, might well have gone through Grant Robertson’s mind as he crafted the government’s 2020 Budget in response to the COVID-19 global pandemic. Like most of the world, New Zealand has been severely impacted as the virus placed extreme pressure on the global economy. Few escape when borders are closed and non-essential businesses are shut-down for several weeks. Because the Budget was drafted at the height of a crisis, it’s unlikely to be perfect.

A political decision to quarantine an economy brings immense pressure to respond appropriately, in order to save as many jobs as possible and limit the economic damage.

## A \$50 billion solution

The New Zealand government's flagship response in this year's Budget is a \$50 billion "COVID-19 Response and Recovery Fund", part of which has already been spent in the weeks since the lock-down was ordered in late March. The government hopes to stem the collapse in economic activity, protect as many jobs as possible and create new ones, with a large borrow and spend programme, that will not be regarded as the end of the solution. While the virus remains a threat to life globally, normal life and activity as we know it will change, and for some this will be permanent. Policy-makers will have no choice but to keep responding to the threat as it evolves.

Wage subsidies have already been provided to millions of employees of affected businesses. The Budget extends this in a more targeted way for those working in companies with a halving in revenue over the preceding period. Subtly, the government has extended the wage subsidy up to the election in September.

Money is being poured into education with free trades training and apprenticeships, the schools lunch programme has been extended to cover another 200,000 children, 8,000 public and social houses are planned to be built, and a further \$3 billion has been allocated for infrastructure investment.

Specific sectors such as tourism will receive \$400 million to help promote and support domestic tourism, \$1 billion is being allocated to environmental investment and some adjustment of the tax framework will assist some businesses. With nearly a third of the fund already exhausted, and a similar amount to flow out in the immediate future, the government has kept back \$20 billion in unallocated spending. Official confidence in the economic and financial forecasts used for the Budget must be low at this early stage of the crisis, so retaining financial flexibility makes sense. It also provides a significant war-chest for the government's election campaign over the next few months.



## Fiscal responsibility rules put to one side for now

Successive governments in New Zealand have spent the last three decades restructuring the economy, reducing net debt, and developing a financial resilience to offset the "rainy day". Well, now "it's pouring" and we need to spend our way out of the problem.



An unprecedented crisis has called for an unprecedented response. While starting from a relatively strong financial position, New Zealand's finances will now deteriorate substantially. The government is forecast to run annual budget deficits for many years, and net government debt will rise to equivalent levels not seen for nearly three decades.

The choices for government are limited in the early stages of such a crisis. Its rapid response in providing wage subsidies for affected workers as the economy was shut-down was appropriate. But from here, the challenge will be to ensure the structure of its spending is sustainable over the long-term so that taxpayers now, and well into the future, get value for all the money that needs to be borrowed, before it is spent.

## Easy to promise, more difficult to deliver

The government has been under enormous pressure to craft a response to a crisis that few saw coming. It will require courage and flexibility to keep responding to the crisis as it evolves. Few will begrudge the intention of the Budget, but many will remain unhappy, trapped in political expectations. But it will shape the debate leading up to the election in September about spending priorities, and the vision and intention of how these will be funded over the next decade or two. As we are well aware, announcing policies is easy; delivering on them is much harder.



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