BusinessNZ
GROWING PROSPERITY AND POTENTIAL

CANTERBURY EMPLOYERS' CHAMBER OF COMMERCE

Budget Summary 2020 – Rebuilding Together

Background

Budget 2020, entitled, **Rebuilding Together,** was delivered against a backdrop of massive international and domestic dislocation with COVID-19 firmly front of mind. To add to the international downsides are heightened global trade tensions with significant geopolitical uncertainty on several fronts. On the positive side, demand for NZ exports is still relatively strong (given disrupted supply-chains), with key agricultural commodities holding up better than expected.

With China and Australia, our key international trading partners, coming through COVID-19 in better shape than many countries, NZ has probably faired better than many other countries we traditionally compare ourselves to.

Unfortunately, the fall-out associated with COVID-19 is yet to come, with just about all the key economic indicators, employment growth, unemployment, business confidence and investment looking sick as far out as the eye can see. Meanwhile, the Government's projected tax take has taken a pounding.

While over the last 2 months the Government has poured tens of billions into various support packages (e.g. wage subsidies, interest-free loans to small businesses and a number of tax changes, along with a significant dollop into health-related activities), it is likely that many businesses (particularly in respect to hospitality and tourism) will cease to exist within a few short weeks. The impacts on specific sectors, those mentioned above, including higher education, will be dramatic.

One saving grace is that the Government's books were in a relatively strong position going into COVID-19 so it has allowed the Government to increase expenditure massively without taking NZ's debt profile into dangerous levels. Net debt pre-COVID-19 at around 20% of GDP (now around 40% of GDP) is still very low by international standards, leaving some headroom for the Government to spend even more, if necessary, before NZ's credit rating will come under attack.

However, it is important in this context for the Government to reprioritise expenditure and the difficult expenditure decisions which have been left to feature over the years by successive Governments, e.g. the age of eligibility for NZ Superannuation, and whether greater targeting is required will have to be addressed.

While the Government has been quick to push the line that extraordinary times require extraordinary measures (e.g. increased fiscal support), the other side of the coin also must be addressed given that many of the things that NZers have taken for granted may need to be pruned back in a major way if the Government is to get its books in order over a reasonable time period before another "one-off" event hits us. In economic terms, there is no such things a free lunch.

Another area where Government could have given more serious consideration is to issues surrounding inappropriate and bureaucratic regulation that stifles business growth.

While most businesses will support the intent of the Government's package to "fast track" important infrastructure to encourage employment growth, there needs to be a much more focused approach at looking at regulatory barriers across the board. Now is not a time to go back to the failed fortress mentality of the past.

The decision to abandon Treasury oversight of new Bill's by suspending the requirement for Regulatory Impact Statements (RISs) is very concerning. All Government (taxpayer) funded projects should still require sound cost/benefit analysis given the potential costs of making poor decisions.

How all this is going to be paid for is still the $64 million (or should that be the $64 billion dollar) question?

Increasing debt levels (yes so far) and reprioritising expenditure is going to be fundamental towards getting the Government's books back in the black over time.

Additional taxes or increasing current tax rates should not be considered as part of the proposed mix. Growing the pie to provide for the funding required in key areas will only be achieved if businesses feel that they can get ahead, not burdened be unnecessary regulation and excessive taxation.

Key Specific Initiatives Relevant to Business

While there were numerous Budget 2020 announcements covering diverse areas, the following outlines in more detail those particularly relevant to business, including BusinessNZ's thoughts and reactions, where appropriate, together with the key economic and fiscal indicators.

Of those announcements (not already announced in response to COVID-19 or pre-Budget) of direct relevance, we have identified the following key priorities in the Budget:

$50 billion COVID-19 Response and Recovery Fund

- The COVID-19 Response and Recovery Fund, will be used to support New Zealanders through each stage of the impact of the virus.

- This fund builds on top of the initial $12.1 billion package, and the $12 billon New Zealand Upgrade Programme to Government announced in January.

$4 billion Business Support Package

- Targeted extension of the Wage Subsidy Scheme. It will be available for a further eight-week period for those who have suffered a 50% reduction in turnover over the 30 days prior to application compared to last year. It will follow on directly from the end of the first twelve-week scheme. Estimated cost $3.2 billion.

- Increasing support to research and development. Launching short-term temporary loan scheme to incentivise businesses to continue R&D programmes that may be at risk due to COVID-19. The loans will provide one-off finance and will be administered by Callaghan innovation.

- Provide over $200 million boast the NZ Trade and Enterprise to expand the scope and intensity of support provided to firms, including increasing activity for NZ firms in priority markets and expanding the digital services available for firms.

Small Business

- Extension of the Wage subsidy scheme (as mentioned above)

- $10 million in funding to support small businesses to improve their e-commerce offerings and incentives/grants to encourage e-commerce adoption.

Employment and Training

- The Budget is funding $1.6 billion in a Trades and Apprentice Package to provides opportunities for people of all ages to receive trades training. This will include financial support for businesses to retain their apprentices, free apprecentiship and training in targeted critical industries and funding increased enrolments on tertiary education and training. There is a specific $50 million fund for Maori Apprentice and Trades Training. A further $121 million will be injected into He Poutama Rangatahi to provide community-based training for at risk young people.

- $16 million boost to Adult and Community Education
- $20 million hardship fund for students

Education and Training

- The Budget invests nearly $1 billion to support the core proviso of education services, including significant investment in the early childhood sector.

Infrastructure

- An additional $3 billion contingency for additional infrastructure investment (on top of the earlier $12 billion NZ Upgrade Programme announced in January). This will include projects that are identified through the Infrastructure Reference Group.

- Consider that additional funding will be required, including the “Three Waters Programme”.

Housing

- $5 billion of building through Kainga Ora borrowing programme and investment in Transitional Housing.

Environment

- $1 billion environmental package (including $433 million investment in regional environmental projects e.g. wetlands, removing sediment etc, including in the Kaipara catchment) while around $300 million will be spent on pest eradication and controlling wilding pines. A further $200 million will be spent on track upgraders etc.

Sector Support

Tourism

- $400 million injection for Tourism Sector recovery Plan, including transition programme, a fund to ensure key tourism assets survive, and domestic tourism marketing campaign and a public/private taskforce to shape the future of the industry.

Primary Sector

- Nearly $500 million in initiatives that will support primary industries in their existing operations and preventing or mitigating the impacts of biosecurity threats and enabling implementation of climate change and ETS reforms.

Transport

- Around $1 billion to improve transport across the country, including around $400 million capital investment to replace the interislander ferries.

Maori

- Covid-19 Recovery Package totally around $485 million and includes a range of initiatives to provide timely and flexible support.

Pacific

- Likewise, around $200 million will be spent on Pacific communities who have been affected by Covid-19, including a major focus o programmes to lift skills and support employment.

Budget 2020 Economic and Fiscal Outlook

The Economic and Fiscal Outlook does not make good reading. To be fair, making forecasts in the current economic environment with such uncertainty both domestically and internationally, means that all the forecasts need to be taken with a healthy grain of salt.

Key Points

- **Economic activity** is expected to decline from 2.8 percent in the year ending June 2019 to -4.6% in the year ending June 2020. Annual average GDP growth is forecast to return to positive from the year ending September 2021 onwards.
- **Inflationary pressures** are expected to remain subdued over the forecast period out to 2024 (well within the Reserve Bank's target range of 1-3%).

- **Unemployment** is forecast to increase significantly, rising to 8.3% in the year ending June 2020, before peaking at 9.8% in September 2020 and the recovering thereafter.
- The current budget deficit (before gains and losses) will average around 9.3% of GDP between 2020 and 2022. The deficit is expected to reduce to 1.3% of GDP by 2024.
- **Core Crown tax revenue** is expected to decrease substantially from around $87 billion in 2019 to around $80 billion by 2021 before recovering again.
- **Core Crown expenses** are will rise rapidly from 28.5% of GDP in 2019 to peak at 38.7% of GDP in the current year before moderating somewhat out to 2024.
- **Net Core Crown debt** is expected to increase substantially from 19% in 2019 to 53.6% by 2024.