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NEW ZEALAND'S LONG-TERM FISCAL POSITION



New Zealand's Long-Term Fiscal Position

Presented to the House of Representatives pursuant to section 26N of the Public Finance Act 1989.

An electronic copy of the full Statement can be downloaded free of charge from the
Treasury website:

www.treasury.govt.nz/longtermfiscalposition/

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Statement of Responsibility under Section 26N of the Public Finance Act

The Treasury has used its best professional judgements about the risks and the outlook in preparing this Statement on the New Zealand Government's long-term fiscal position.

This Statement on the New Zealand Government's long-term fiscal position relates to a period of at least 40 consecutive financial years, commencing with the 2005/06 financial year.

A handwritten signature in blue ink that reads "John Whitehead". The signature is written in a cursive style with a large initial 'J'.

John Whitehead
Secretary to the Treasury

22 June 2006

Preface

This Statement is about
New Zealand's long-term fiscal
outlook and what drives it.

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In 2004, the Public Finance Act was amended to require the Treasury, at least once every four years, to prepare a statement on New Zealand's long-term fiscal position. The Statement must look out over at least a 40-year horizon. This is the first such Statement.



It is impossible to predict with any accuracy what governments will be doing in the next 40 years. Modern governments do a myriad of things, in areas as diverse as foreign aid, taxes, health and road-building. Therefore, rather than attempt to make such predictions, we have used the available information to make projections of the fiscal consequences of particular scenarios. These scenarios set out the implications of possible policies and patterns of development of the economy. To pick up the uncertainty around these, we have used a series of "what if" questions; for example, what if economic growth is higher than we assume, what if fertility increases, and what if governments choose to spend more on education?

The starting point for our analysis is Statistics New Zealand's work on the future size and structure of the New Zealand population and Treasury's assumptions about the future size of the economy. Using this information, we have made projections of major spending categories and taxes, based on assumptions derived from history, current policy settings and judgements.

The purpose of this Statement

We see the purpose of this Statement as being to increase the quality and depth of public information and understanding about the long-term consequences of spending and revenue decisions. This will assist governments in making fiscally-sound decisions in the decades ahead.

The material presented here should be useful as the basis for discussions about the fiscal and other consequences of different policy settings.