

# Market Flash: New Zealand Government unveils 2021 Budget

On Thursday, New Zealand Finance Minister Grant Robertson delivered the 2021 Budget, a balance between fiscal responsibility and addressing several issues that New Zealand face in its post-pandemic recovery.

Despite the improving global outlook, thanks to the vaccination rollout, Robertson has continued to reiterate that New Zealand is not out of the woods. Against a backdrop of cautious optimism, here are some key takeaways from the 2021 Budget.

## **Big win for beneficiaries**

The centerpiece of the Budget is a \$3.3 billion spend on beneficiaries, which will lift the main benefit by between \$32 and \$55 per week by 1 April 2022. The increase, according to the Government, will bring between 19,000 and 33,000 children out of poverty – an area Prime Minister Jacinda Ardern had pledged to tackle since becoming Prime Minister.

“Increasing incomes for our most vulnerable both secures our recovery by adding targeted stimulus to the economy, while also addressing one of our most pressing long term challenges – child poverty,” Ardern said.

In delivering his speech, Minister Robertson noted the Budget is “undoing some of the damage done all those decades ago” – a reference to the 1991 ‘Mother of all Budgets’ where the then National Party Finance Minister, Ruth Richardson, cut welfare payments across the board.

## **\$1.4 billion tag for vaccine rollout has bipartisan support**

In what most agree is the quickest path to a full economic recovery, the Government said it has set aside nearly \$1.5 billion for its COVID-19 vaccination programme. The lion’s share of the cost – nearly \$1 billion – will cover the purchase of the vaccines, which includes the Pfizer vaccine and other pre-purchased agreements with other drug makers.

Despite the steep price tag, there has been little opposition to the funding, a sign that both sides of the aisle agree the inoculation programme is the foremost issue facing New Zealand right now.

## **Broader healthcare sector gets multibillion-dollar boost**

On top of the near \$1.5 billion vaccination rollout, the healthcare sector is another big winner from Thursday’s Budget. The Government has allocated \$2.7 billion to district health boards, citing rising cost pressures.

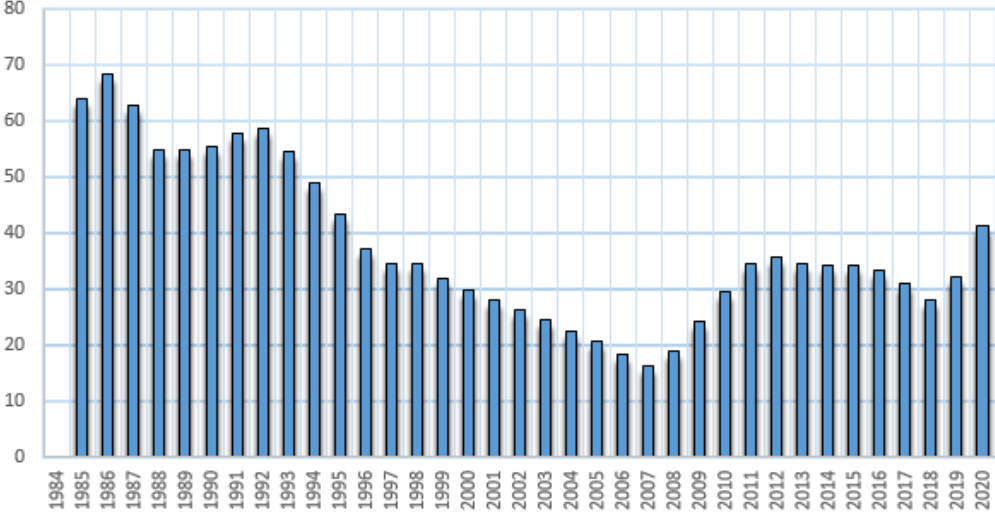
In addition, PHARMAC, the country’s drug-buying agency, will receive a further \$200 million.

**Economic outlook**

The broader economic outlook appears to be pointing in the right direction with Treasury forecasting real GDP growth of 2.9% for the year ending June 2021. This is expected to rise to 3.2% and 4.4% in the following years.

The robust recovery from the 2020 recession will see New Zealand’s debt to GDP remain below 50%. Nevertheless, it is expected that the Government will – for the most part – run a deficit for the next six years, before carving out a small surplus in 2027.

**New Zealand debt to GDP (percent)**



In other economic projections, Treasury expects the unemployment rate to peak this year at 5.3%, before dropping to 4.2% by 2025. And on house prices, it expects annual house price growth to peak around 17% this year, before dropping to 0.9% the following year.

**A quick look at financial markets**

Thursday’s Budget comes at a time when equity markets have been under some pressure over the past couple of weeks. Major benchmarks in the US have drifted off all-time highs, and locally, the NZX 50 has traded to its lowest level in around 10 weeks.

In fixed interest markets, bond yields in New Zealand and offshore continue to trend higher, buoyed by inflation expectations and a faster-than-expected economic recovery.

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