

18 May 2020

2020 Budget Report

Budget Highlights 2020

The Government's response to the COVID-19 pandemic dominates Budget 2020, with much of the focus on injecting funds into the economy to create and sustain employment. Tax measures, which featured heavily in the COVID-19 response during the past six weeks, are noticeably absent.

Painting a sobering outlook for 2020 and beyond, Finance Minister Grant Robertson notes that "this budget is about jobs". The Budget spend reflects that theme with infrastructure investment, business support, funding for housing development and construction, an environmental jobs package, and a trades and apprentices package.

New support measures for businesses affected by the COVID-19 crisis include:

- A \$50 billion Response and Recovery Fund has been established to support the economy over the next 4-5 years. Of this \$13.9b has already been spent in the initial response to COVID-19, \$15.9b is expected to be spent in the immediate period ahead, leaving \$20.2b for future initiatives (cue election promises).
- Government bond insurance to fund this support package is forecast to increase to \$190billion over the next 5 years (from \$42billion previously), and net debt is forecast to rise to 53% of GDP (19% previously).
- A target extension of the wage subsidy scheme. The extension is available for a further eight-week period (ie further to the 12-week period of the existing scheme) for those who have suffered a 50% reduction in turnover in the 30 days prior to application as compared to 2019.
- Loan scheme for R & D programmes, A \$150 million short-term temporary loan scheme will be launched 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.
- Further business support by way of a \$216 million boost to New Zealand Trade and Enterprise to assist exporting firms, and \$10 million earmarked for small business to improve their e-commerce capability.

Other announcements of note include:

- a \$1 billion package to create 11,000 environment jobs (including regional environment projects, biosecurity, weed and pest control, and additional DOC jobs)
- 8,000 additional public and transitional homes to be built, expected to create \$5 billion of construction activity
- a \$1.6 billion trades and apprentices package to provide opportunities for New Zealanders of all ages to receive trades training
- a \$400 million injection into the Tourism Sector Recovery Plan
- a \$3 billion contingency boost for additional infrastructure investment (ie on top of the \$12 billion infrastructure scheme announced in January).
- There are no initiatives announced to support business investment. As such, the so called “jobs budget” at face value looks to be a targeted public sector orientated budget which will raise questions about capital allocation and quality of investment over time. Expect more targeted partisan spending promises leading up to the election with the \$20.2b unallocated so far from the \$50b total Response and Recovery Fund.
- On current projections, the government budget is not forecast to return to surplus until 2028.