

2011 Budget Policy Statement, Half Year Update and Investment Statement

Hon Bill English, Minister of Finance

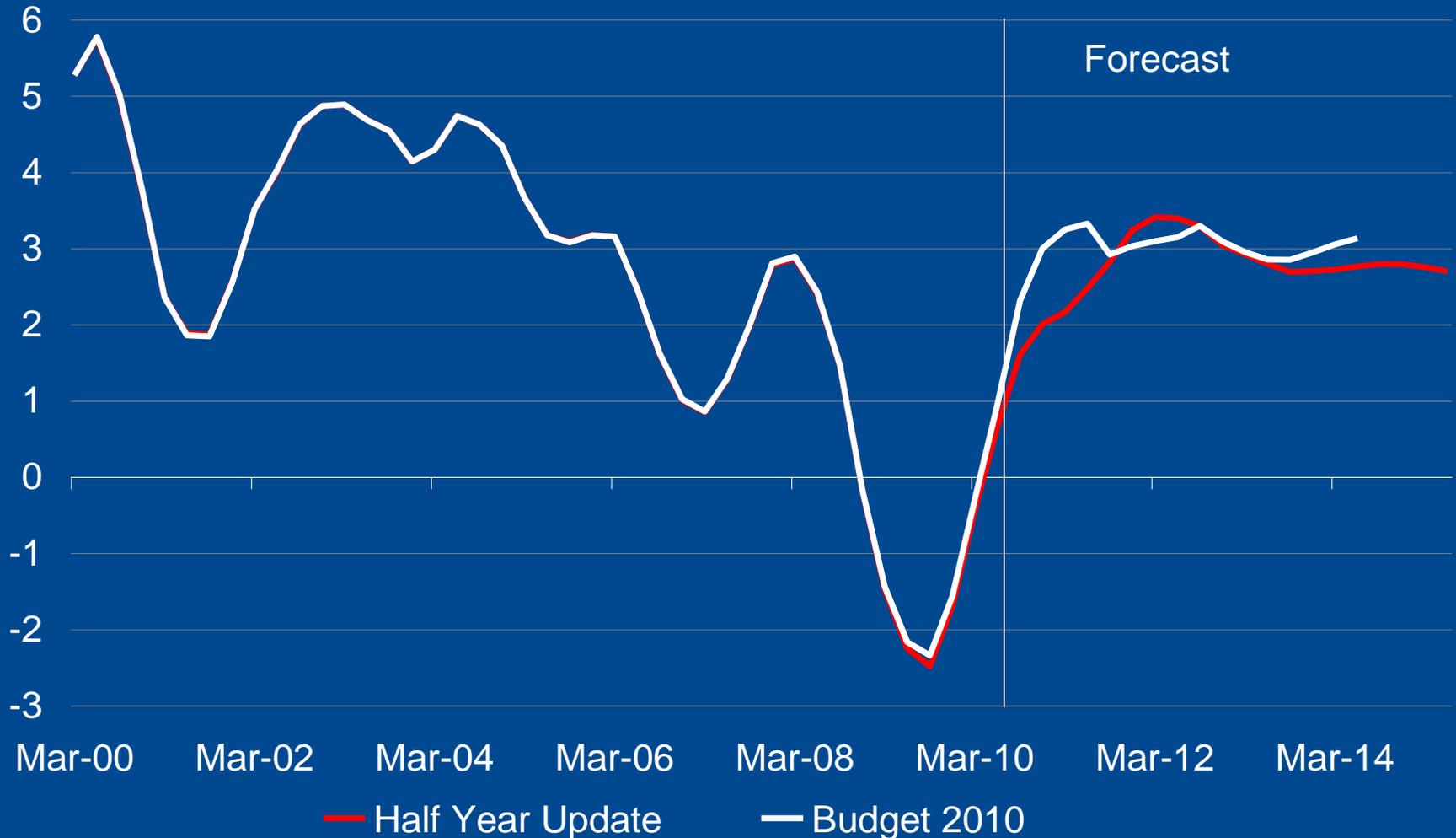
14 December 2010

Our position at a glance

- Recovery continues – strong exports, global economy growing, but short-term headwinds
- Lift in private savings building stronger platform
- Subdued inflation and interest rate pressures
- Fiscal outlook softer in short term (several one-offs in 2011), stronger in medium term
- Return to surplus by 2015/16 – sooner if we can
- First Investment Statement today

Steady recovery to continue

Real GDP growth %



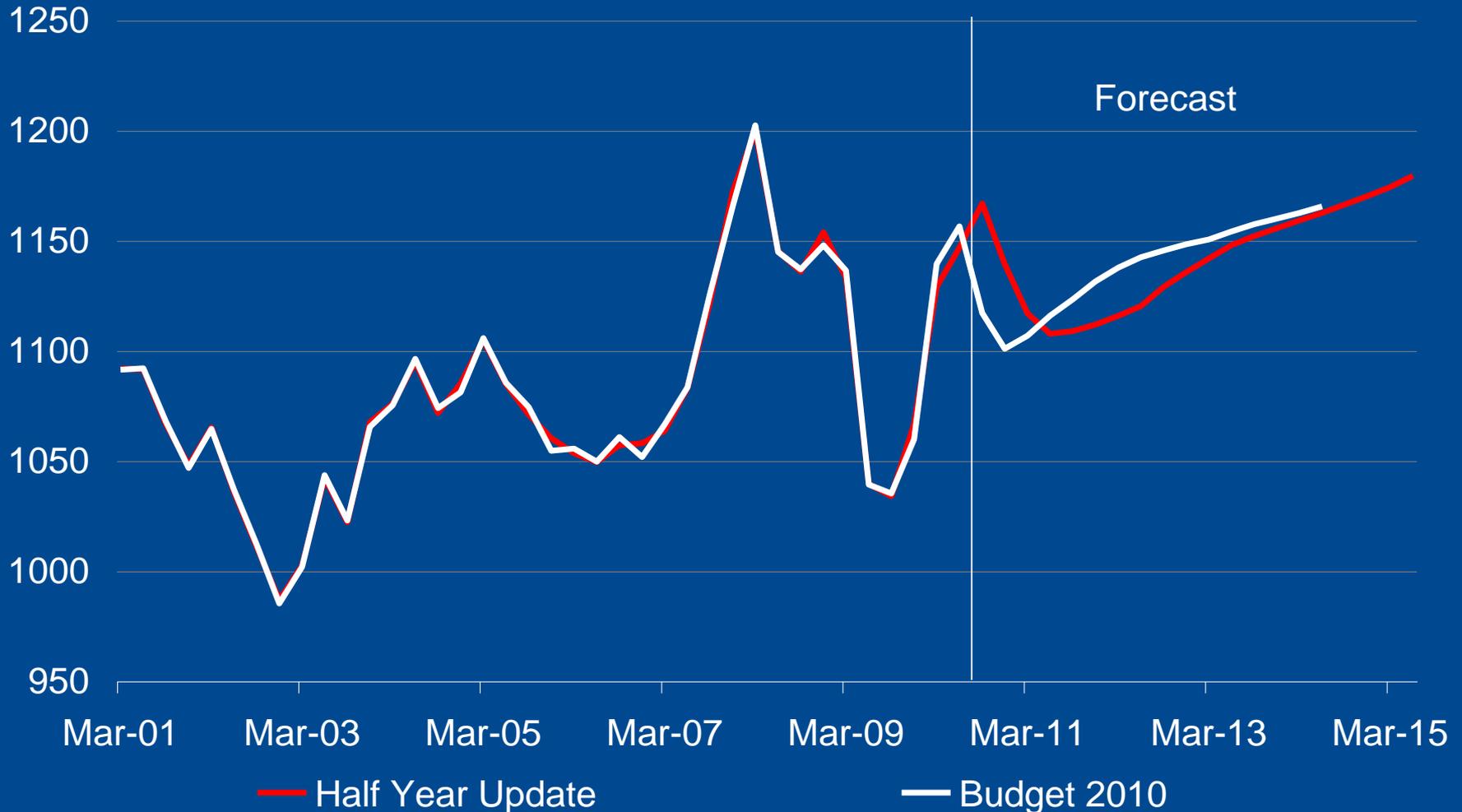
Unemployment to fall

Unemployment rate %



Terms of trade remain high

ToT Index (1995/96 = 1000)



Households saving more

Equity injection as % of hhld disposable income

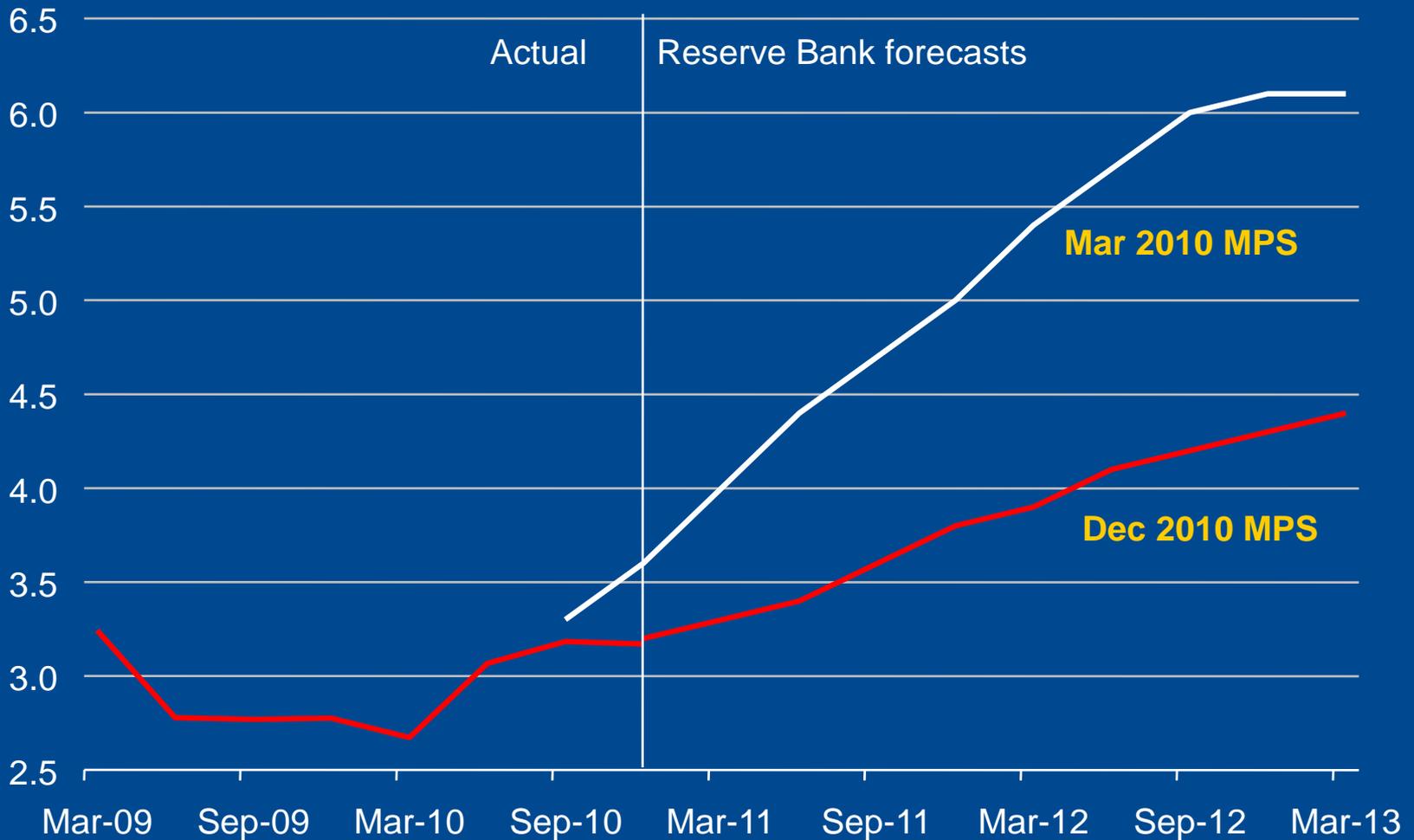


Source: Statistics NZ, Reserve Bank

Equity withdrawal

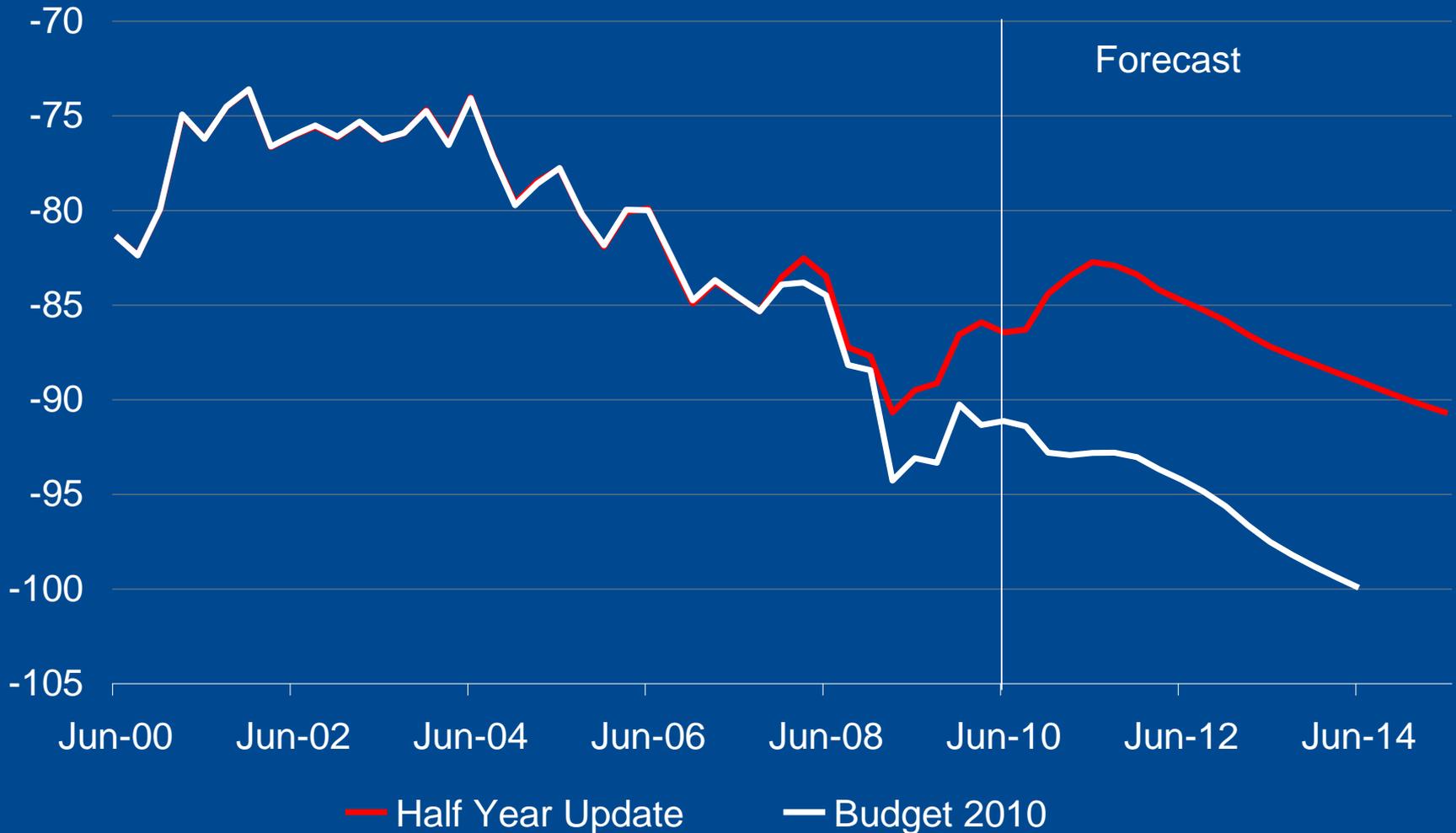
Interest rates lower for longer

90 day interest rates, %



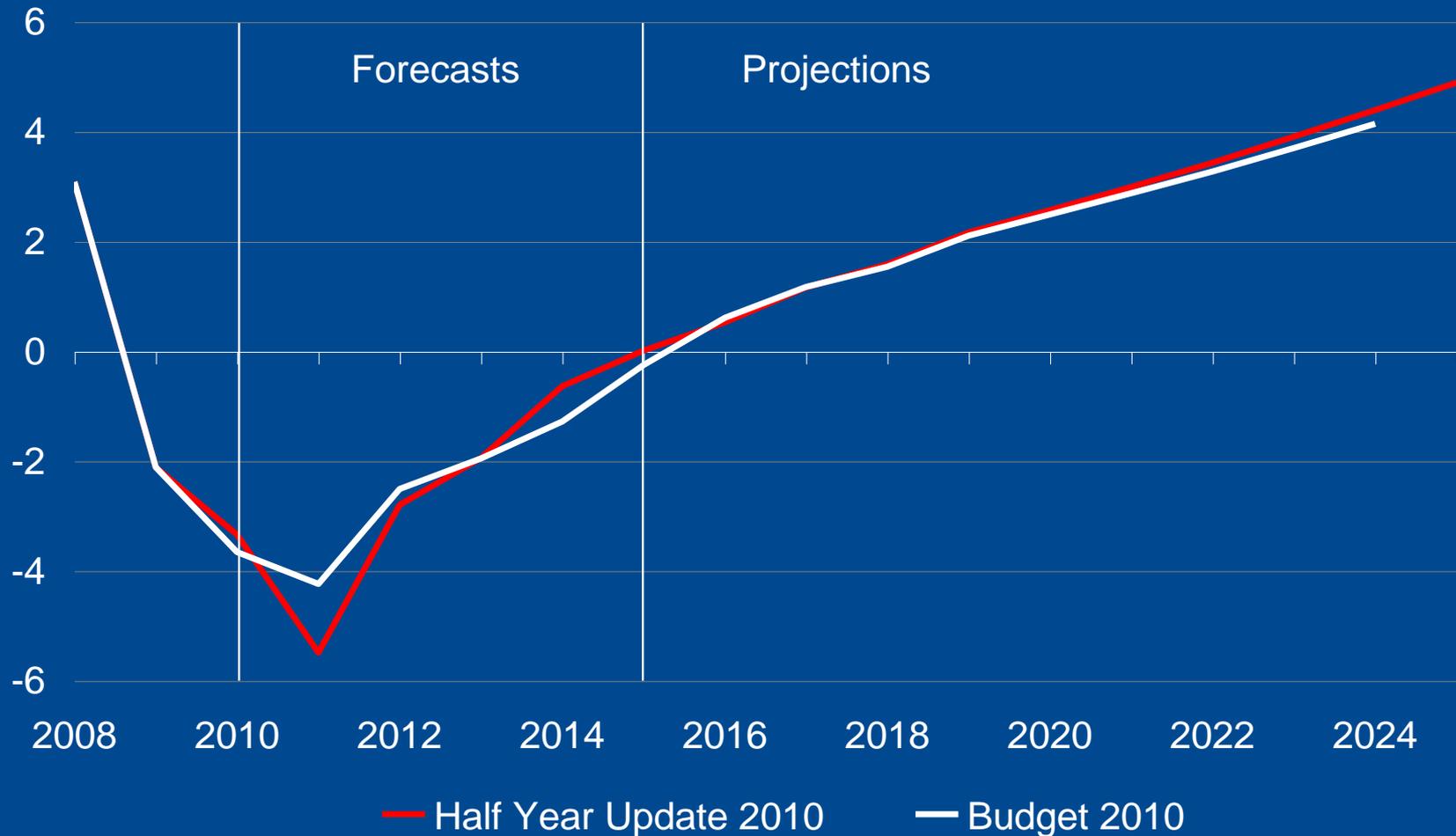
Outlook for net foreign liabilities

Net international investment position, % of GDP



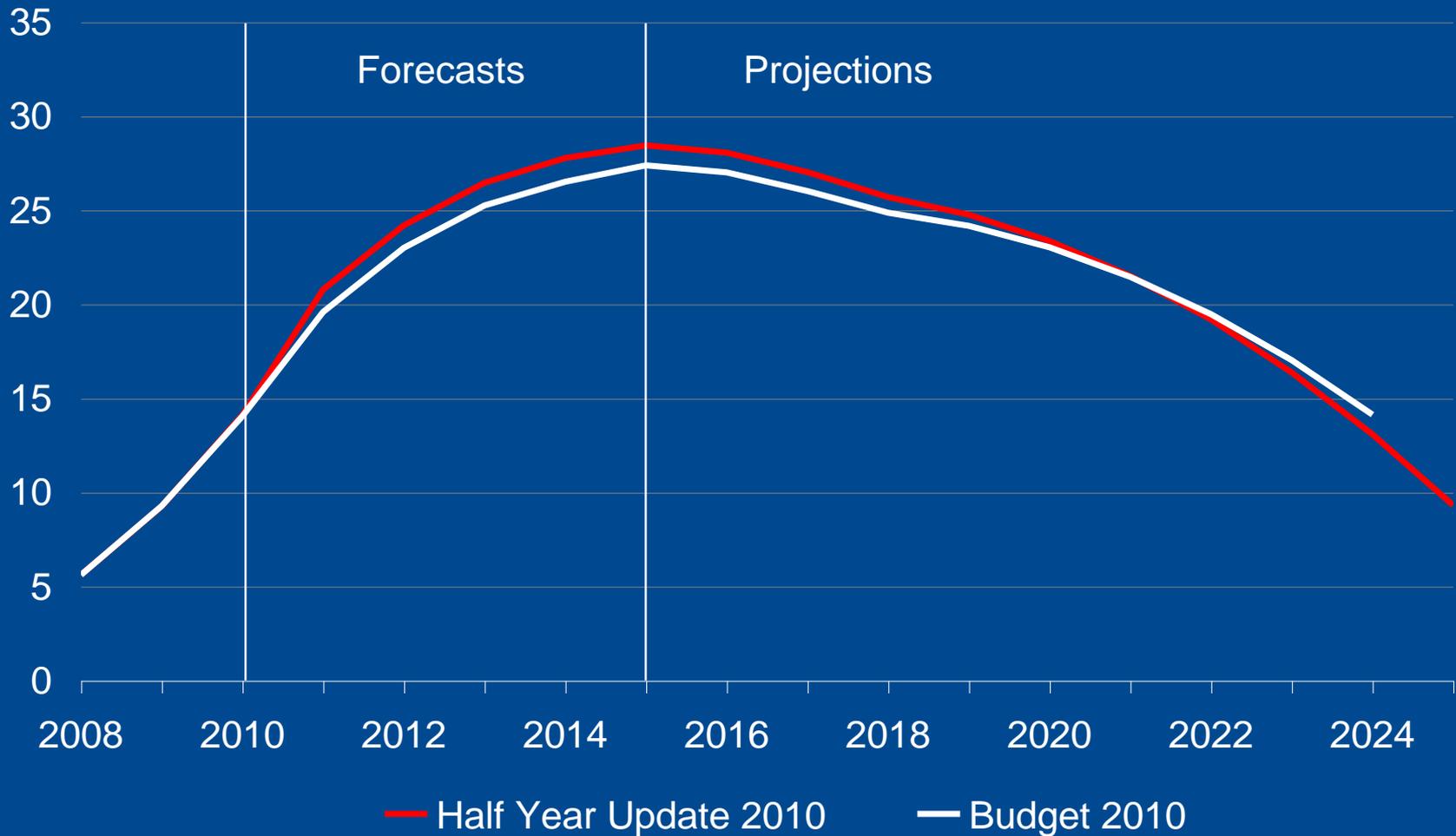
Softer near-term fiscal outlook

OBEFAL, % of GDP



Net debt peaks in 2015

Net debt, % of GDP



Investment Statement: what is it?

- A new report – fills a gap in existing reporting
- Sets out the Crown's assets and liabilities – and how these will change through time
- Explains how Government will manage its large and growing investment in taxpayer assets

Why the statement matters

- Crown assets are large:
 - \$223 billion is about five times the market capitalisation of NZX
- And these assets are growing quickly:
 - Will increase by \$33 billion by 2015
- More transparency to prioritise capital allocation

The Government's balance sheet

(as at June 2010)

\$ billion

Assets

Social

111

Highways, schools, housing, hospitals, conservation land

Commercial

52

SOE assets (Meridian, Landcorp etc), rail network, Air NZ

Financial

60

Crown Financial Institutions, Reserve Bank, DMO

Total assets

223

Liabilities (debt, ACC and GSF liabilities)

(128)

Net worth

95

Government's commercial assets

- Commercial assets book value is \$52 billion
- But this is somewhat misleading:
 - Includes rail network assets of \$13 billion – but commercial value is near zero
 - Includes other SOE assets of \$36 billion – but their equity is only \$13 billion

Change in assets 2010-15

(Balance sheet will grow from \$223b to \$256b)

	\$ billion
Property, plant and equipment	36
NZ Super Fund/ACC	22
Student loans	8
Other	4
Gross increase in assets	71
<i>Less:</i>	
Depreciation	(21)
Reserve Bank/DMO	(14)
Other	(3)
Net increase in assets	33

What have we found?

- Some assets not being used efficiently:
 - State houses – worth \$15b - mismatch between size and location of houses and requirements of those with highest housing needs
 - Ministry of Education surplus property – worth \$96m – 244 closed schools, teacher houses, vacant sites and other assets
 - Defence – opportunities for base consolidation, divestment of housing stock

Looking ahead to Budget 2011

- Two main challenges:
 - increasing NZ's national savings
 - ensuring the Govt plays its part
- Current deficits at upper end of comfort zone
- Upcoming reports - Welfare Working Group, Savings Working Group, review of policy advice spending, 2nd National Infrastructure Plan
- Confidence in current programme

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Questions