Hon Bill English

Minister of Finance

Speech to the Wellington Employers' Chamber of Commerce

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Good afternoon. It's great to be with you today.

Can I start by thanking Raewyn and the Wellington Employers' Chamber of Commerce for inviting me to speak to you.

In five weeks today, I will present the National-led Government's fifth Budget.

Each of the previous Budgets has been presented in the shadow of major events that have affected every New Zealand household and business.

They include the Global Financial Crisis, the Christchurch earthquakes and ongoing economic uncertainty around the world.

The John Key-led Government has crafted its response to those events to meet both short and long term objectives.

In the shorter term, we have worked to protect New Zealanders from the sharper edges of recession, and the people of Christchurch from the unavoidable effects of devastating earthquakes.

So we have incurred significant extra debt by spending in excess of our revenue to protect the most vulnerable, maintain living standards and to support the renewal of our second largest city.

At the same time, we have set out on a longer-term path to repair the damage to our economy from a decade of excessive borrowing and consumption.

And we are rebuilding the economy's capacity to deliver more jobs and higher incomes over the next decade.

So the Government is in the midst of a comprehensive programme to make government and the economy more effective, and to create conditions to give businesses and families confidence to invest in our shared future, despite global economic uncertainty.

We are aiming to make our economy more sustainable.

We need to shift resources away from excessive debt-funded consumption and housing investment, and towards more savings and investment in export-intensive sectors.

New Zealanders have a good understanding of the challenges faced by the wider economy.

They are the same challenges faced by every household and organisation in the country - to become financially sustainable and adapt so we can grow in a difficult world.

We all understand there is no economic wave coming to pick us all up, so we have to get paddling ourselves.

Over our previous four Budgets, the Government has built up a good deal of momentum in important areas that are helping the economy to grow, while many other countries are still struggling with too much debt, little or no growth, or a combination of both.

New Zealand making good progress

New Zealand is doing pretty well and making good progress, with much more to do.

This progress can be summed up by comments this week from Christine Lagarde, the head of the IMF. Talking about New Zealand, she said:

"The IMF is very supportive of what is being done by the Government. The economic policies are supportive of good fundamentals… policies we believe are sound and solid."

The New Zealand economy is growing. In 2012, we grew by 3 per cent, while Australia, with its mining boom, grew by 3.1 per cent.

Wages are increasing.

Net household disposable income is around 20 per cent higher now than it was four years ago.

Interest rates are at a 50-year low.

There are more than 50,000 more jobs in the economy than two years ago, although unemployment remains too high.

Business and consumer confidence are improving, as New Zealand companies become more competitive, and exports are growing.

New Zealanders are beginning to grapple with their high debt levels and saving a bit more.

And the Government is on track to the surpluses that will enable it to stop borrowing more and start paying off debt.

So we are seeing that momentum building towards a stronger, more stable, economy that can again weather global storms and deliver higher incomes and more jobs.

Therefore, it's important to see the Budget on 16 May as the next step in the Government's ongoing longer-term programme that started when we were elected in 2008.

We will continue working hard to get back to surplus and keep debt under control.

We will keep up with economic reforms to strengthen the economy and make it more competitive.

We will continue to steadily improve public services, despite tight fiscal constraints.

And we will ensure that Christchurch recovers from the earthquakes.

Those four areas will remain our priorities in the Budget.

What we are doing is well-signalled and predictable, so I don't think you'll see any big surprises on 16 May.

As the effects of the earthquakes and the financial crisis become less immediate, the Budget will reflect an increasing focus on encouraging longer-term growth and investment in the private sector, and the Government actively investing for the long-term.

As the Prime Minister said earlier this year, New Zealand needs to become a magnet for investment.

And we will continue to focus on macro-economic stability.

Investing for future growth

Previous Budgets have laid the foundations for today's moderate growth.

I am referring particularly to our long-term work on tax, infrastructure, innovation and the public service.

We have reduced tax on work, savings and company profits, while increasing taxes on property investment and consumption.

This series of large-scale tax changes is now embedded in the economy and is delivering long-term benefits.

Despite the recession, we are investing billions of dollars more in modern infrastructure such as roads, rail, ultra-fast broadband, hospitals and schools.

That investment is well underway. The Government is currently taking proposals for a public private partnership for Transmission Gully.

These kinds of projects will support more jobs and higher incomes.

The Government has also invested in innovation, despite tight Budgets.

Each Budget since 2009 has increased investment in research and development, and in basic science and innovation.

We have worked to improve the support and incentives for businesses and scientists who can make a difference.

In the public sector, we have refocused the system on effective spending and getting measurable results, not just cash savings.

We regularly curtail spending that's ineffective so we can invest in higher achievement for our children, beating welfare dependency, making communities safer and improving the environment.

It’s important to recognise that decisions that grow the economy are not made primarily by policy makers and governments, but by individual businesses.

Growth happens when a business like yours has the confidence to invest another dollar and employ another person.

So we have identified the ingredients needed to encourage the productive investment required to support jobs and higher incomes, and to help families get ahead.

There is no one silver bullet.

Government policies that affect your businesses directly are set out in the Business Growth Agenda, a series of six documents showing hundreds of policy changes designed to help investment and growth.

Working closely with the business community, ministers have issued progress reports over recent months covering export markets, innovation, skills, infrastructure, natural resources and capital markets.

They are six of the most important areas for business growth.

I encourage you to look through those reports, if you haven’t already, and provide us with feedback and new ideas we might pick up to support investment, jobs and better incomes.

Investment in the Canterbury region has also been a feature of our last two Budgets.

So far, the Government has committed around $13 billion to the rebuild and that number is likely to grow.

It’s a substantial investment, but an even greater opportunity to shape a city for the future.

On track to surplus and getting on top of debt

Getting the Government’s own finances in better shape has been an important part of building a more competitive economy and increasing national savings.

Relatively low debt helped New Zealand weather the last storm. We need to get ready for the next one.

A few years ago, the Government made a deliberate decision to run large deficits and to increase debt to help New Zealanders through the recession and to help rebuild Christchurch.

But we also made it clear that could not continue forever.

Since late 2008, as a result of the Government’s prudent fiscal and economic management over the previous four Budgets, we have reduced the need for $30 billion of extra government borrowing.

In other words, if we had stuck with the policies we inherited, the Government’s total net debt would have reached an estimated $105 billion in 2016/17.

Instead, Treasury estimates net debt will be around $75 billion by then.

That’s $30 billion we will not have to borrow on financial markets.

And by 2015, government spending as a proportion of the economy is forecast to fall to about 30 per cent of GDP, from more than 35 per cent of GDP in 2011.

Therefore, expected government spending of $73.7 billion in 2015 will be about $10 billion lower than forecast for that year when we came into office. We will achieve that through a considered approach to managing spending.

As you know, the Government has set a target of returning to fiscal surplus in 2014/15.

The Budget will set out updated forecasts next month.

I can confirm they will show the Government remains on track to surplus in 2014/15, as a result of our careful management of the accounts.

That is a considerable achievement – and a significant turnaround in the space of just a few years.

Just two years ago, we ran an $18.4 billion deficit, half of which was the cost of contributing to the rebuild of Christchurch.

But returning to surplus in 2014/15 will complete only the first part of our task.

We will still have some way to go in rebuilding the fiscal buffers that have been run down in recent years. That means fiscal responsibility will be permanent.

Let me explain why.

Restraint beyond 2014/15

As we begin looking beyond the return to surplus, we need to shift our focus towards using the forecast surpluses after 2014/15 to achieve our second fiscal objective: bringing down the Government's net debt to 20 per cent of GDP by 2020.

The Government considers this to be a prudent level of debt in the current economic environment.

In the December Update, net debt was forecast to be almost 30 per cent of GDP in 2017.

So you can see there is quite a challenge still in front of us to meet the 20 per cent debt target by 2020.

It means we will need to maintain firm expenditure control beyond our return to surplus, so we can run big enough surpluses to have choices about paying down debt , topping up the New Zealand Super Fund and investing more in priority public services.

It is also a critical element of building a more internationally competitive economy.

By reducing the resources the Government absorbs, we are making room for private investment while minimising upwards pressure on interest rates and the exchange rate.

That is important for households and businesses.

Budget 2013 will reflect those realities.

We will also continue to focus on macro-economic stability.

Conventional monetary policy, predictable fiscal policy and a sound financial system are precious advantages in an unstable world.

We will hold on to them.

We do not need to take the risks that other countries are taking in trying to reinflate their economies, which are still mired in recession and increasing their debt.

Housing market risks

One risk we do have here in New Zealand is the housing market and the debt that funds its growth.

Real progress in increasing long-term savings is within our grasp. It would be a shame to throw it away on another risky housing cycle.

Our households are on average already among the most indebted in the developed world.

In response to the Global Financial Crisis, New Zealanders started to reduce their debt for the first time in a generation.

However, progress on debt reduction has slowed and household debt is rising again as the housing market heats up.

House prices in Auckland and other growth markets are forecast to rise from levels which are already high by any international standard.

The current rate of house price inflation, if it continues, is likely to be accompanied by higher interest rates and higher exchange rates.

Our exporters are already struggling against headwinds of a high exchange rate, and households with high debt levels will be adversely affected by increased interest rates.

Recent international experience shows periods of fast-rising house prices can create financial instability for households and the financial system when prices eventually drop.

We will act where we can to reduce these risks following recommendations of the Productivity Commission last year.

Decisions to stop or restrict housing development where populations are growing have an effect on the whole economy, not just the local neighbourhood.

Regulations that drive up housing costs push many families into higher debt, making every New Zealander more vulnerable when things go wrong.

The Government will continue to work with regulators, builders, developers and councils to improve housing affordability. We must achieve more affordable housing.

The household savings picture

For many new Zealanders their house is their main form of savings.

In my view, we need a more searching debate about New Zealanders' savings habits.

We have been told for many years that New Zealanders are poor savers. This low savings rate, and our reliance on overseas capital, makes us vulnerable to economic and investment market changes.

But rather than complaining about New Zealanders' savings habits, I believe it's time for us to better understand why New Zealanders choose to save less than economists would like them to.

Most economic advice on this matter amounts to an assertion that New Zealanders are consistently and systematically acting against their own interests.

I don't think that assertion is correct.

New Zealanders' attitudes towards savings are influenced by a range of factors.

This includes the way the Government provides services on their behalf, the state of the economy, or their own expectations about future incomes, taxes and the value of assets such as houses.

We need to better understand why people have been saving more in recent years, and why that might now be tailing off.

Work by the Reserve Bank and the Treasury suggests that household savings may have been under-reported in official data for a number of reasons.

We need to do more work on this.

When we understand better how New Zealanders determine what they save, we can understand better how to support more savings.

Conclusion

So just to summarise: The Government has set out a clear programme and we are delivering on it.

We're focused and taking action across the many areas needed to boost growth, investment and jobs.

Budget 2013 will be about taking the next steps in that programme – and particularly in areas that help build the business growth and investment needed to support more jobs and higher incomes.

New Zealand's challenge is not so much a lack of opportunities.

Our challenge is to assemble the people and the capital needed to exploit the many opportunities that already exist – as highlighted by the Prime Minister's visits this year to Latin America and China.

Providing we stick to our plan, I'm confident that we will grasp those opportunities and build the brighter future New Zealanders deserve.

Thank you.