

Finance Minister Grant Robertson - speech to the KangaNews New Zealand Debt Capital Markets Summit 2018 – Sky City, Auckland – 8 August 2018.

Thank you very much for having me here today.

I want to begin by setting the scene and giving a bit of context to the situation in which the New Zealand economy is operating right now.

Given that we're at Sky City, it feels fitting to start by referencing the recent comments by Sky City Chair Rob Campbell, who said that New Zealand "is a great place to open and operate a business."

As you all know we are country with strong institutions, legislation and regulation to ensure fairness and ease of doing business. Our banking system is sound, we continue to sit near or at the top of Transparency International ratings for the absence of corruption.

The fundamentals of the New Zealand economy are strong. We are in surplus – projected to be \$3.1 billion this year, rising to \$7.3 billion by 2021/22. Net core Crown debt is low compared to international trends, and our Government is committed to reducing that to 20% of GDP over the next five years. Over the forecast period we are set to see GDP growth average around 3%.

In terms of current indicators there are also good signs:

Our terms of trade are near a record high

Our stock market is up around its record high

Building consents in the June quarter were up 7.5%, pointing to robust residential investment in new housing.

Business investment was up 5.5% in the latest GDP data.

This has led to solid employment growth, with 94,000 more people employed in the year to the end of June. Unemployment sits at 4.5%, with projections of it heading towards 4% over the next few years.

Last week's employment statistics also showed the highest employment rates ever for Maori and women, and we've seen a fall in the number of young people not in employment, education or training.

Last week's ANZ Job Ads series was up 4.7% in July from a year ago.

And we are seeing wages start to rise as working Kiwis share more in the benefits of economic growth.

That is where we are now.

That is not to say that everything is perfect or there are not challenges and risks that we must face up to.

In the last few months I've had conversations with business leaders up and down the country. I've consistently heard similar messages: that businesses are optimistic about their own prospects, but that they do have some concerns. They face problems finding workers with the right skills. They are also concerned about growing trade protectionism and geopolitical tensions abroad. And yes, there are aspects of the Government's agenda that they disagree with.

In KPMG's 2018 New Zealand CEO Outlook Survey, released this week, CEOs are optimistic about the economic environment in New Zealand, but their number one concern is geopolitical volatility.

That concern about the international picture is something I share and which the Government will continue to monitor. It is important not to overdramatise the situation. Global growth is projected to be 3.9% this year. But there are issues well beyond New Zealand's control that we need to be mindful of. Tit-for-tat tariff restrictions, some slowdown in the Chinese economy and various international tensions are risks that, if they develop further, will affect New Zealand.

Overall, the markets for New Zealand exports continue to grow. The Government is committed to expanding them and we were very pleased to recently get a free trade deal with the European Union across the start line. The Trade for All agenda launched by the Prime Minister this week is an important ingredient in ensuring that we continue to develop high-quality trade agreements that support our exporters in their quest for higher value and greater returns.

There is every reason to be optimistic about New Zealand's future economic prospects, and this Government is committed to working alongside the business community to develop them.

In that KPMG report, CEO Godfrey Boyce said that the recent tempering of confidence – a “realistic re-balancing” as he called it – presented an opportunity for business to refocus their collective attention on what was needed for future growth.

The survey highlights that CEOs are grappling with the challenges of digital transformation. It shows that they are conscious of the need to foster innovation and build agility in the face of changing technologies and global trends.

And there was an interesting comment that businesses were looking to link their growth strategies to wider societal purpose.

To me, the issues raised in the report represent an opportunity. An opportunity for us to transition the New Zealand economy off a growth path dominated by population increase and housing speculation, to one that is more productive, sustainable and inclusive.

In recent years, a huge increase in demand for housing, driven by speculation, without a corresponding increase in supply, may have given us some attractive headline GDP growth numbers that we were able to boast about.

But it also gave us the housing crisis.

When you see New Zealand's home-ownership rate drop to its lowest point in over 60 years, or our homelessness rate reported as the highest in the OECD, you realise that not all New Zealanders benefited from that growth in GDP.

It could be argued that this strong headline growth – driven by migration and the housing market – masked the need for us to become more productive, or create more agile business models and position ourselves for the technological change which the CEOs in the KPMG survey have noted as the challenges they face.

So, in short, the heart of our Government's economic plan is to help New Zealand become a more productive, more sustainable, and more inclusive economy in which all New Zealanders can thrive.

To be more productive we need to work smarter and produce more with what we have.

When I say more sustainable, I mean meeting the needs of the present without compromising our ability to do so in the future.

When I say more inclusive I mean ensuring that nobody misses out on the benefits of economic growth.

These are the issues that the business community has asked us to work with them on, and it is that partnership I am focused on developing.

Under our plan we will ensure New Zealand's economy is adaptable and resilient to the opportunities and challenges posed by a rapidly changing world.

Our focus on improving productivity is centred on several core policy initiatives.

The first is developing our infrastructure. This Government is set to invest \$10 billion more in capital over the next five years than the previous Government had planned. The Government Policy Statement (GPS) on Land Transport earmarks \$4 billion of investment next year in our nationwide road and rail networks – up 11% from the previous Government and rising to \$4.7 billion in ten years' time.

Through the GPS, we have specifically directed the New Zealand Transport Agency to direct investment to projects that will lift regional productivity and help exporters get their produce to the world more efficiently.

Here in Auckland, the Government and Auckland Council have agreed a \$28 billion transport package that will transform the transport networks of this city.

We have an ambitious urban growth agenda to create sustainable urban communities across New Zealand.

We are looking to encourage private investors to participate in building the long-term infrastructure that New Zealand needs. This includes using innovative funding and financing mechanisms such as the use of Special Purpose Vehicles for funding specific infrastructure projects. We also want to create an environment for greater use of KiwiSaver funds in New Zealand, in particular as part of well-packaged infrastructure projects.

We also know that we need to provide a more coherent, transparent and efficient system for implementing our infrastructure plans. You'll hear more from Ministers in the next few weeks about our plans to provide more certainty and clarity around the long-term pipeline of work and an easier way of working with government on infrastructure. I will add to this that I have also asked Treasury to report on whether we can move to more certainty on capital funding across Budgets.

Being able to signal forward several years not only the pipeline of work, but also the scale of government investment, will help the construction industry plan ahead, including in terms of which skill sets they will require.

Another critical element of improving our productivity is to ensure that we have the investment signals directed towards the productive side of the economy, and away from those unsustainable drivers like housing speculation. In September, the Tax Working Group, under the leadership of former Finance Minister Sir Michael Cullen, will report on its initial recommendations for a better-balanced tax system that is fit for the middle part of the 21st Century. This represents an important step in modernising our taxation system and ensuring that fairness is an underlying value.

To improve our productivity, New Zealand must embrace the opportunities and meet the challenges of the Future of Work. I recently hosted the first Future of Work Tripartite Forum, bringing together representatives of business, workers and the Government to discuss the challenges and opportunities presented by the rapidly changing nature of work.

This includes looking together at how we can improve the use of technology in business, create more productive workplaces, improve the skills and training of our workers and manage a just transition to a low carbon economy.

At our first meeting we endorsed a skills shift initiative in the manufacturing industry to fast-track the training and re-training required for a workforce facing massive technological change. The Government has already heavily invested in the skills and training area through our post-secondary school fees-free education and training programme. Just last week, the Government launched a micro-credentials programme to support short-course industry-led training that is so essential as industries transform.

Along with improving skills and continued immigration to fill skill gaps, technology, innovation, science and research will have significant roles to play in lifting productivity and improving business agility as well. New Zealand's total investment in Research and Development is only 1.3% of GDP – around half the OECD average.

This Government has set itself a target of helping to lift New Zealand's private R&D spending to 2% of GDP in ten years.

Minister for Research, Science and Innovation, Megan Woods, is overhauling New Zealand's R&D regime, including developing an R&D tax incentive to be implemented by 1 April 2019. This will incentivise firms to invest in R&D and give them certainty about their investments.

The second important part of our transition is to be a more sustainable economy. We also have to make the investments necessary to ensure our economy is fit for purpose both now and for future generations.

On the fiscal side of the ledger, that means budgeting for future generations by remaining responsible in terms of how we manage the Government's books. This includes the restarting of government contributions to the New Zealand Super Fund after a nine-year hiatus. This has begun and will grow over the coming years.

On the policy side, it means a transition to a low carbon economy. We have set the ambitious target of net zero emissions by 2050. I am delighted that business is pursuing these goals as well with sixty of New Zealand's largest companies coming together as the Climate Leaders Coalition that has committed to reduce emissions and be publicly accountable for that.

This is important not just to play our part in addressing climate change, but in giving New Zealand a credible and long-term base for our economy. This will mean change, but it also represents opportunity.

We are determined this will be a just transition where we support industries and communities to develop new and high-paying jobs. One example is the \$100 million Green Investment Fund being established by Climate Change Minister James Shaw to leverage private sector investment to support our transition to a low emissions economy.

The third aspect of our economic plan is for a more inclusive economy where more New Zealanders benefit from economic growth than in the past. Recently, ASB economist Mark Smith noted that many low and middle income New Zealanders felt they had missed out, and were wondering where their pay-off from economic growth had gone, faced with stagnant wages and an increasing cost of living.

We have made significant strides towards addressing this through our Families Package that will lift the incomes of middle and low income New Zealand families by an average of \$75 per week when fully rolled out.

It is also why we have lifted the minimum wage, with the target of \$20 per hour by 2021, and lies behind the changes we are making to employment relations. I recognise that these moves may not be universally popular but they are about ensuring that wages are rising to meet the cost of living and give working people a fair share and enough to support their families on.

We also want to see New Zealanders, no matter where they live, given the opportunity to flourish. This means investing in our regions through the \$1 billion per annum Provincial Growth Fund. This will be a transformative programme to open up economic development and job opportunities right across the country. It includes the One Billion Trees programme, significant investment in regional rail and job creation and training schemes. It is the single biggest investment in the regions of New Zealand in our lifetimes, and as it expands, offers the opportunity of significant partnerships with the private sector.

Our economic plan is about the Government providing leadership and actively supporting businesses to take opportunities and manage the risks of the transition to a modern mid-21st century economy.

In the same spirit we are making changes to the way we prepare and deliver our policies and Budgets.

The title of this address is 'Budgeting For The Next Generation'. In my remaining time, I want to touch on how this Government is doing things differently, by taking a longer-term approach to our Budget process, policies and investments.

2019 will see the Government deliver New Zealand's first ever Wellbeing Budget. The Wellbeing Budget is about this Government formulating policy and measuring success differently.

Previous Governments have measured their success by simple measures such as GDP. While it remains an important measure of economic activity, GDP alone does not paint a full picture of New Zealanders' wellbeing or living standards.

Although the GDP growth we've seen in recent years has been the envy of many of our international counterparts, we've also seen increases in statistics that would suggest that that growth has not resulted in real tangible improvements to many people's lives.

We want all the levers within the machinery of government to consider wider wellbeing outcomes, to ensure that everything the Government does is done explicitly to improve the wellbeing of New Zealanders.

In practice, our wellbeing focus begins with the Treasury's Living Standards Framework (LSF).

The LSF starts from a set of indicators for the current wellbeing of New Zealanders, and for their future wellbeing, based on the stock of the four capitals which determine intergenerational wellbeing: Financial/Physical, Natural, Human, and Social.

This translates to developing our policy and measuring our success by looking at the health of our finances, environment, people and communities.

The Government is currently in the process of putting together its priorities for Budget 2019. Ministers and agencies will have to show how their Budget bids will improve the wellbeing of New Zealanders, based on the Living Standards Framework.

The Budget will also include a Living Standards Dashboard, measuring our success.

By including wellbeing information, the Budget will serve as a broader nationwide stock-take than the traditional Budget, which previously focussed on economic and fiscal information.

My vision is for the Budget to become an annual update showing how we are doing as a nation, as well as the Government's plan for improving the nation's wellbeing over the years ahead.

The wellbeing approach to the Budget process is part of taking a longer-term view of the impact of Government policies on the New Zealand economy, and New Zealanders. It's about budgeting for the future.

In conclusion, I want to return to the comments made by Rob Campbell.

New Zealand is a good place to do business.

Our economic and political system rates highly.

I understand that in business there will always be a wariness of change, but to ensure that our growth is productive, sustainable and inclusive, we all know that change is necessary.

This Government is committed to working with business in partnership on that change. We will work with you to innovate, adapt and prosper, and deliver to New Zealanders the wellbeing and living standards they want and deserve.

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