

More Decisive Action Needed on the Economy and Government Accounts

"The Pre-Election Economic and Fiscal Update confirms the need for more decisive action both on the economy and the government accounts", Roger Kerr, executive director of the New Zealand Business Roundtable, said today.

"While the Update has a welcome focus on restoring fiscal surpluses and improving international competitiveness, the projected progress is slow and could be derailed, while debt continues to accumulate."

"Forecast export volume growth is weak. This reflects inadequate progress in improving competitiveness and rebalancing the economy in favour of tradeables production.

"For example, export volumes in 2014/15 are projected to be only 9 percent higher than in 2010/11, which is significantly lower than the 16 percent market growth (GDP) projected for our trading partners, and much lower than the projected 24 percent rise in import volumes. Faster import volume growth is leading to much higher projected current account deficits in the balance of payments."

"The projected GDP growth rates to 2015/16 of just under 3 percent per annum are materially swollen by the one-off factor of the rebuilding of Christchurch. The underlying growth rate is appreciably lower, as is illustrated by the longer-term projections in the document which are centred on a continuing low rate of labour productivity growth of 1.5 percent per annum.

"As the government is acknowledging, core Crown expenses, at 35 percent of GDP, remain far too high, both absolutely and relative to revenue. Large government spending makes it harder for the exposed sector to compete for resources and high fiscal deficits can mean that an increasing proportion of tax revenues have to be devoted to servicing debt interest.

"Much depends on creating and maintaining a culture of government expenditure constraint. If that is not done, for example through the proposed Spending Cap (People's Veto) Bill, the projected spending constraint may prove to be mere wishful thinking."

"The government has taken steps in the right direction, but they have fallen far short of the decisive action required to get New Zealand on track to close the income gap with Australia and achieve the same standard of excellence the country requires and receives from the All Blacks", he said.

25 October 2011

For more information contact:

Roger Kerr
Executive Director
Ph: +64 4 499 0790
Email: rkerr@nzbr.org.nz

www.nzbr.org.nz