

Media Release



Stronger Action Needed to Boost Growth and Reduce Risks

"It is pleasing that official projections confirm a gradual pick-up in activity but the growth outlook is relatively weak and the economy is vulnerable to adverse events", Roger Kerr, executive director of the New Zealand Business Roundtable, said today.

He was commenting on the release of the Budget Policy Statement 2011 and the Half Year Economic and Fiscal Update 2010.

Mr Kerr said that over the next few years the income gap with Australia is expected to widen and better opportunities in Australia are likely to see more New Zealanders moving there. Policies are not yet in place to narrow the gap.

At the same time, the necessary rebalancing of the economy is barely underway. Projected export growth is weak and significantly outstripped by imports, and the widening current account deficit could put New Zealand's credit rating at risk.

"Achieving balanced growth is more a matter of increasing international competitiveness and export profitability than focusing on any savings deficiency", Mr Kerr said.

On the fiscal outlook, he said the government was right to indicate that ongoing budget deficits were at the limit of its comfort zone. Further financial crises in Europe or adverse domestic events such as a drought were downside risks.

"The underlying problem is excessive government spending, which risks putting unnecessary pressure on monetary policy and the exchange rate. A striking point is that the projected path of core Crown expenses as a share of the economy is higher in each year out to 2014 than in any year under the previous government.

"This calls for stronger legislated spending disciplines and a willingness to re-examine major spending programmes.

"The accompanying Investment Statement also signals the need for the government to reprioritise its asset management and in particular to divest commercial assets that belong in the private sector.

"The government has rightly stated that it will not alter commitments it has made on spending programmes and asset sales without seeking an electoral mandate.

"In the interests of boosting growth and reducing economic risks, that is a course it should now follow", Mr Kerr concluded.

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