

# Media Release



## **Budget Measures Do Not Match Government's Ambitions**

"The government has taken some commendable decisions in the budget but they do not amount to a coherent plan for economic growth and for removing serious foreseeable risks", Roger Kerr, executive director of the New Zealand Business Roundtable, said today.

"Given the widespread community concern about the country's living standards, it falls short of what New Zealand needs."

Mr Kerr noted that pleasing features of the budget from the Business Roundtable's perspective included:

- the forecast return to a budget surplus in 2014/15, a year earlier than previously forecast
- the decisions to trim spending on KiwiSaver, Working for Families and student loans, although these could have gone further
- tight short-term control of departmental spending
- the partial privatisation of four state-owned energy businesses and a partial sell-down of the government's interest in Air New Zealand
- the commitment to rebuilding Christchurch, and
- the government's willingness to consider carefully the Regulatory Standards Bill and a bill to cap government spending.

"Nevertheless, we have major concerns about the economic and fiscal outlook:

- no increase in New Zealand's long-term labour productivity growth rate is projected
- the export growth outlook is very weak and little rebalancing of the economy towards tradeables production appears to be occurring
- the current account deficit is forecast to blow out to over 6 percent of GDP as the economy recovers
- not enough account is taken of gathering risks in the global economy and the future demographic time bomb
- government spending (core Crown expenses) is forecast to be a higher share of GDP in each of the forecast years to 2015 than it was for most of the last decade
- the fiscal deficit in the coming year 2011/12 (nearly \$10 billion), while down from \$17 billion in the current year, is still larger than all the expected proceeds (\$5-7 billion over 3-5 years) from partial privatisations, and
- debt servicing costs are forecast to grow from \$2.3 billion in 2010 to a massive \$5.3 billion in 2015 – more than the government plans to spend on all core services that year."

Mr Kerr said that there were also a number of disconcerting omissions from the budget:

- no reference was made to the government's top priority goal, reaffirmed just this month, to close the income gap with Australia. The projections suggest that the gap is likely to continue to widen right through the next parliamentary term

- no indication was given of the government's timetable for achieving its goal of getting all income tax rates down to 30 percent or below
- no decisions on the recommendations of the Welfare Working Group were announced, despite the government saying earlier this year that they would be a major feature of the budget, and
- there are no evident plans to rein in the costs of the largest spending programme, New Zealand Superannuation, which are rising rapidly (by \$3 billion to 2015).

“We appreciate that the government inherited a poorly performing and unbalanced economy with anti-growth policy settings”, Mr Kerr said. “Nevertheless, its strategy of slow adjustment to the global financial crisis and now the Christchurch earthquake has been shown to be risky, and the productivity and economic growth outlook falls well short of its own ambitions.

“There is growing disquiet in the business community and important international observers about this strategy, and about the lack of a bolder vision and more credible economic plan.

“We believe there would be widespread support throughout the community for stronger pro-growth policy settings to lift living standards and reduce economic risks”, Mr Kerr concluded.

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