



# **Macroeconomic Policy: Making it work for New Zealand**

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Secretary to the Treasury

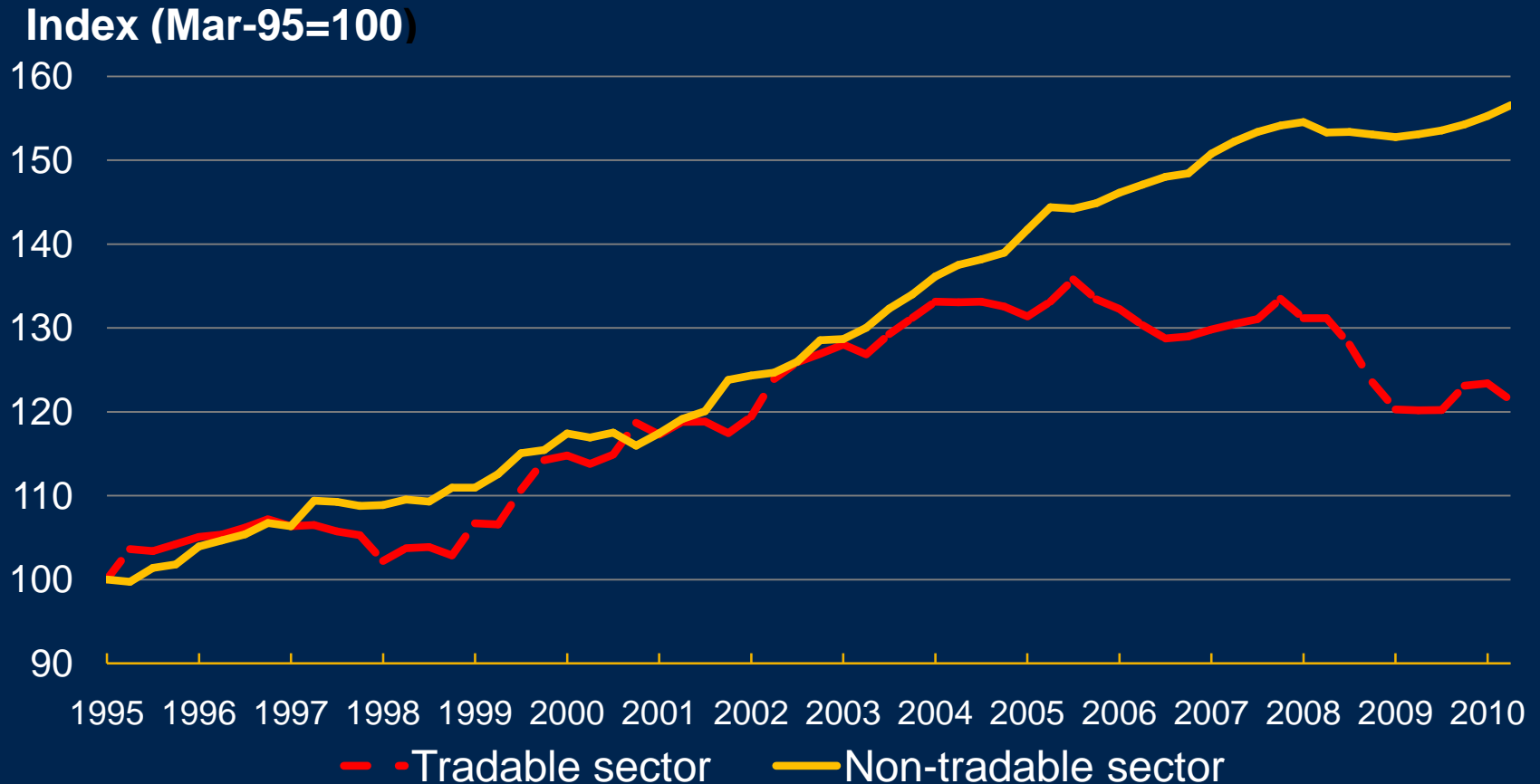
Thursday 18 November 2010

# Main messages

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- Economic imbalances make NZ prone to shocks and changes in investor sentiment
- Monetary policy and prudential policy play important roles – but fiscal policy matters
- Rebuilding the net debt buffer, longer-term fiscal challenges, and the need to assist tradable sector growth, all suggest fiscal surpluses be achieved earlier than current plans

# Tradables and non-tradables output



Source: Statistics NZ, Treasury

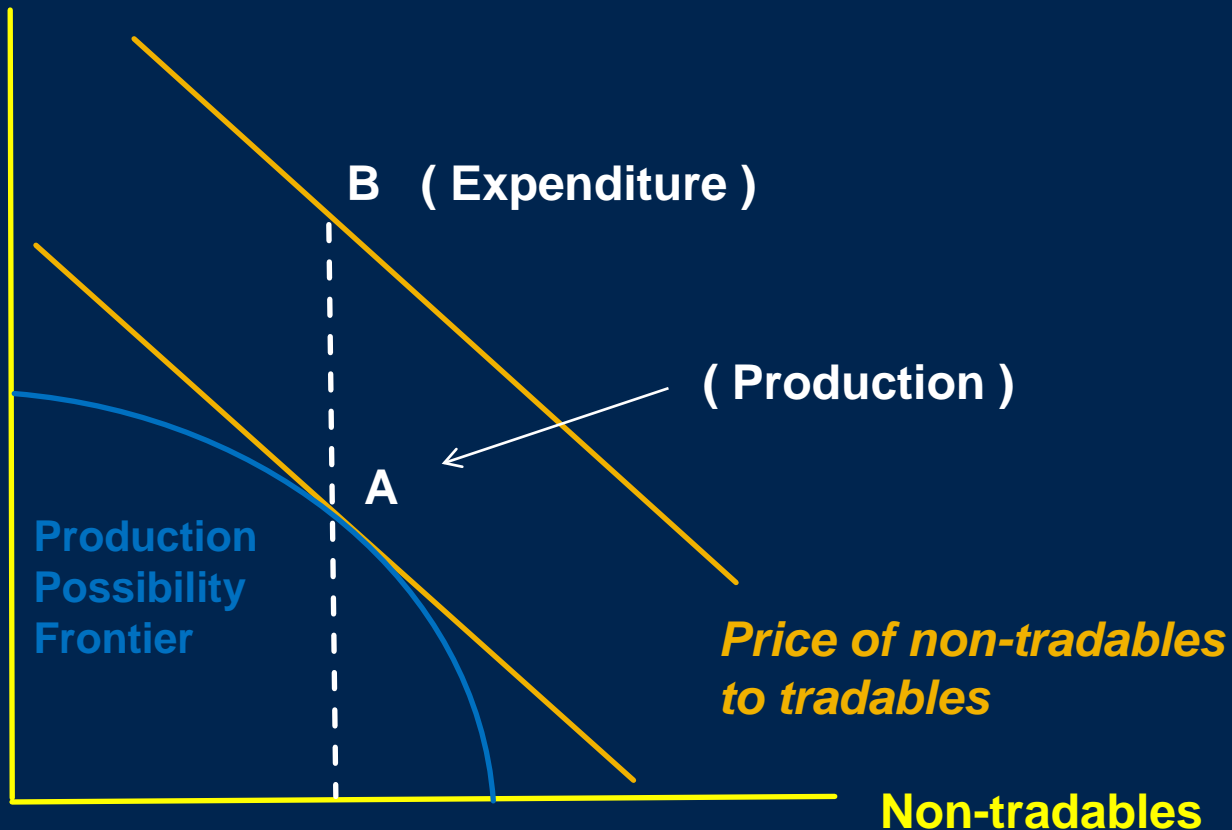
# Key assumptions

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- Tradables are goods and services that are relatively more exposed to foreign competition
- The combination of tradables and non-tradables produced, as well as the combination consumed, depends on their relative price – a real exchange rate

# “A rare and delicate creature”

Tradables



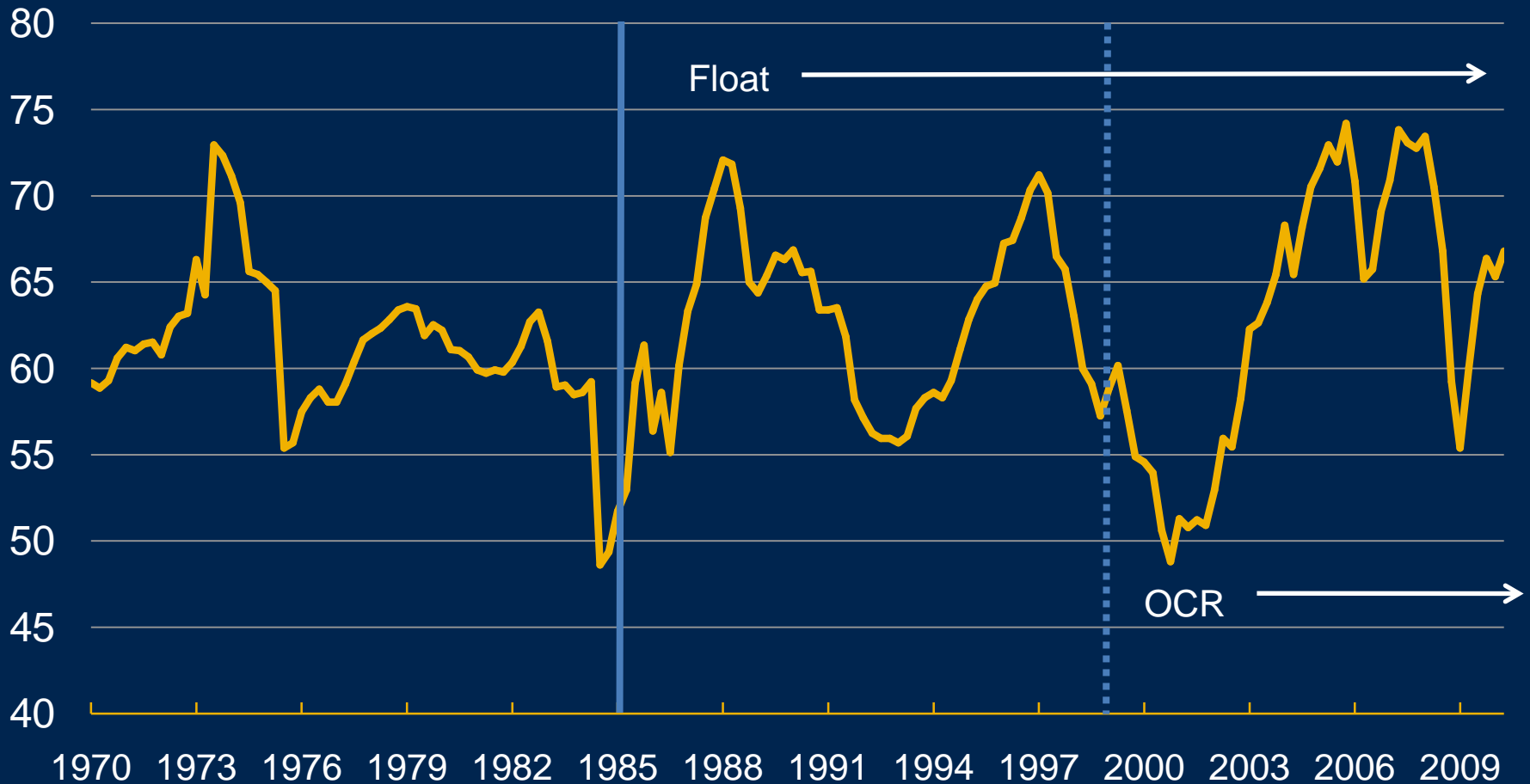
# Changes to the framework

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- The boundary between tradables and non-tradables is not fixed
- Tradables provide strong opportunities to raise productivity – but plenty of scope too in non-tradable sector, including government
- “Consenting adults” view of the current account deficit as a policy touchstone

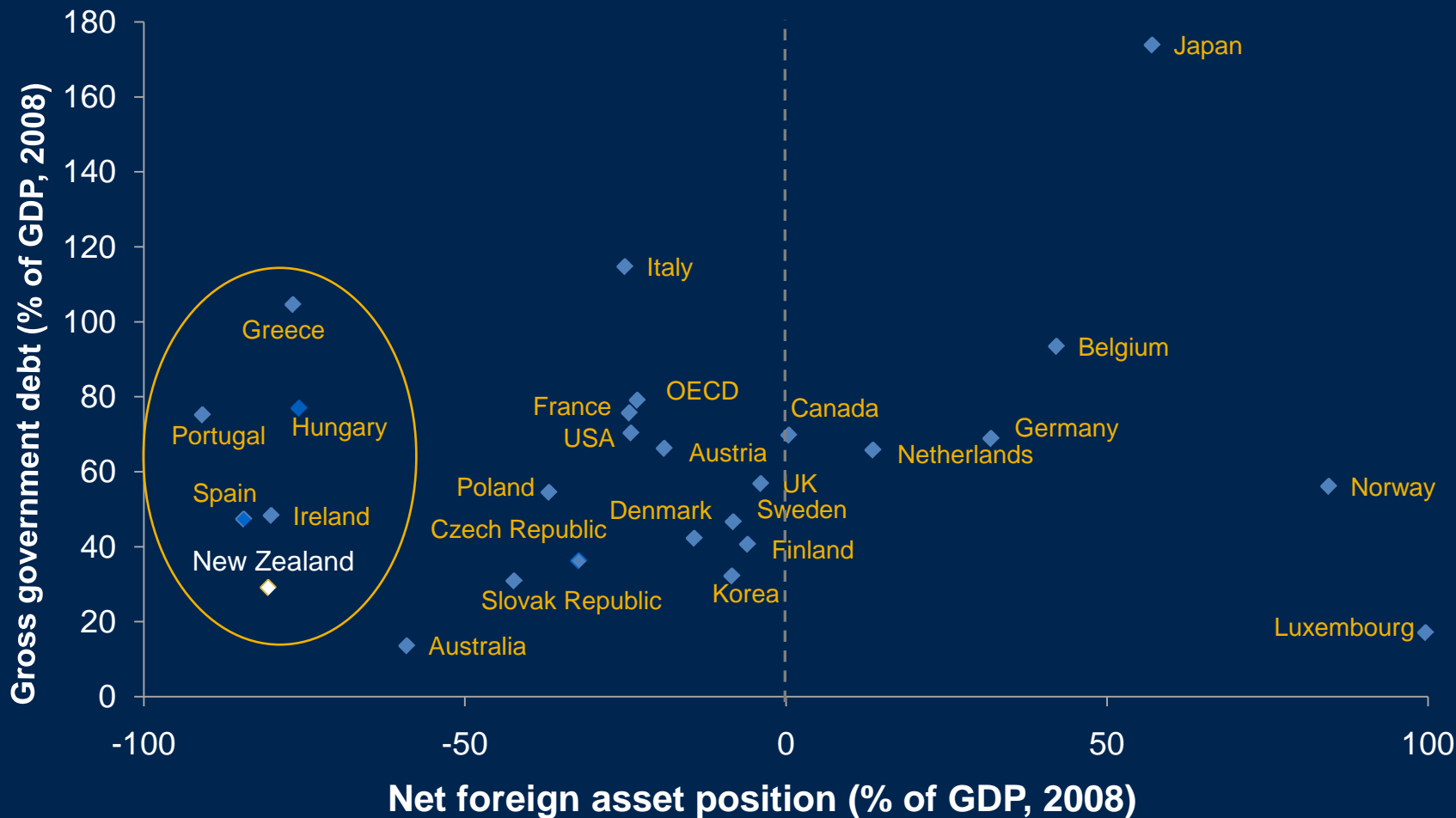
# New Zealand's real exchange rate

Indexed to June 2010 quarter real TWI (66.8)



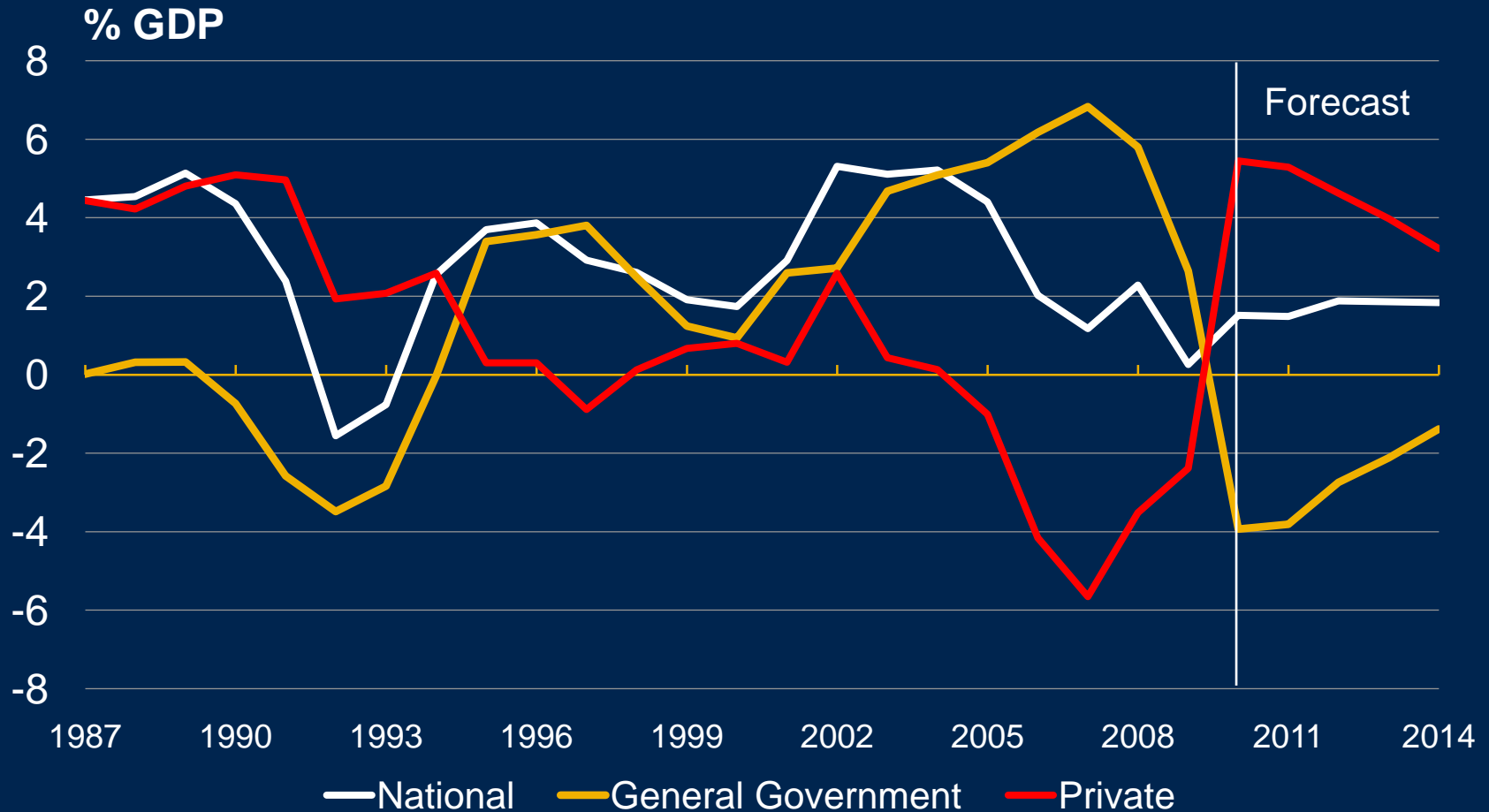
Source: RBNZ

# Government debt and net foreign asset position



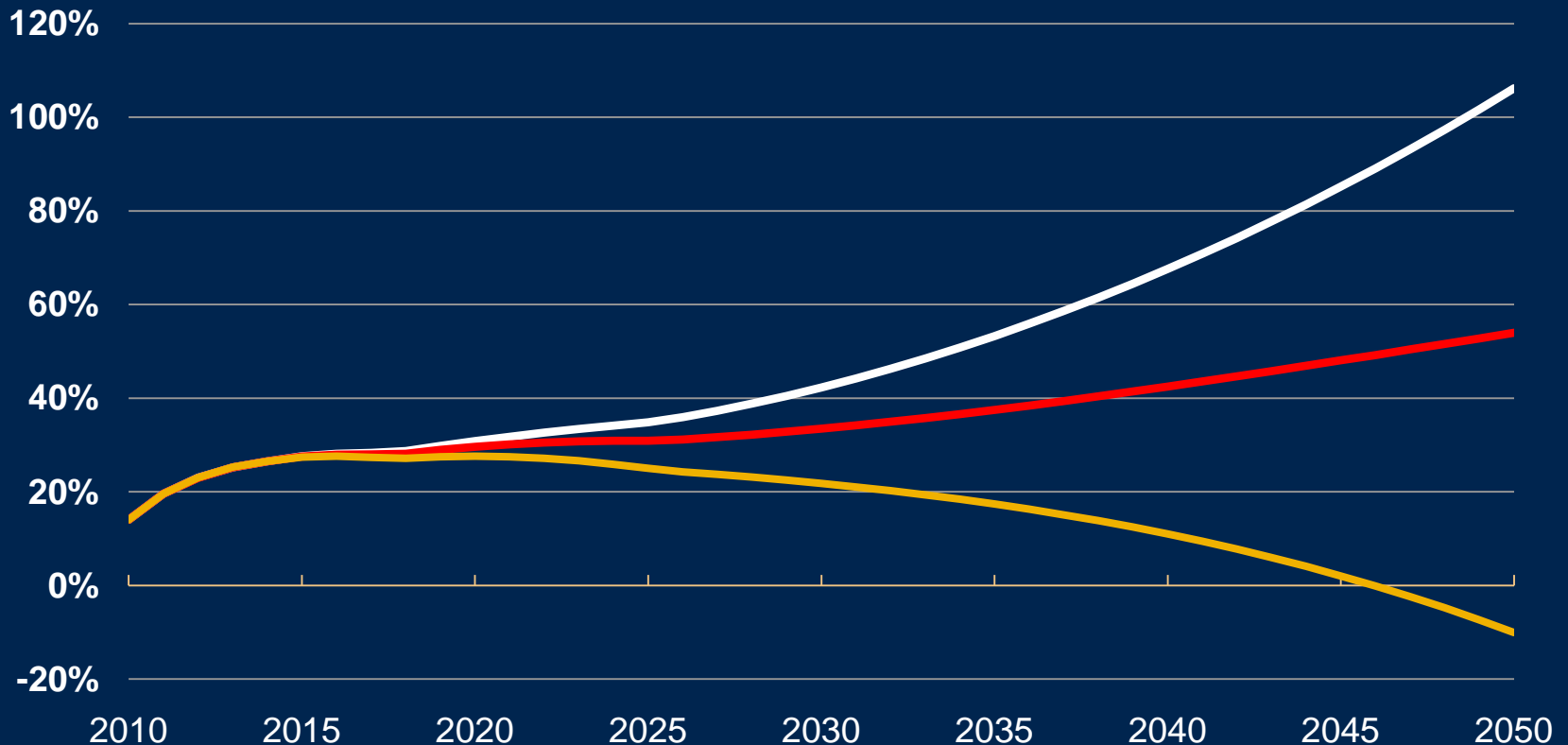
Source: OECD, IMF, Treasury

# Net saving by sectors



Source: Statistics NZ, Treasury

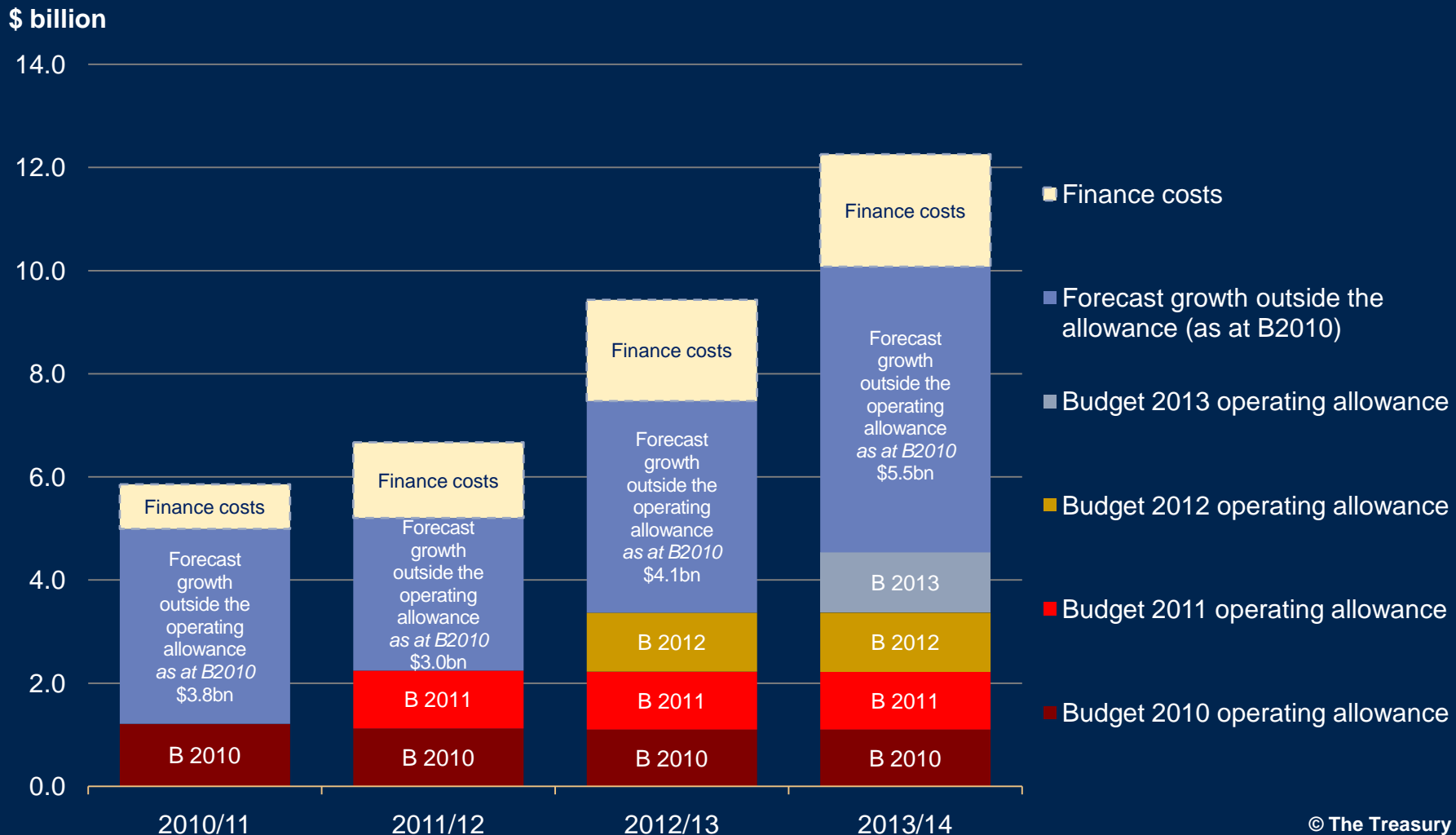
# Projected net debt ratios and public sector productivity



- Historic trends, Public sector productivity = 0.3%pa
- Historic trends, Public sector productivity = 0.6%pa
- Historic trends, Public sector productivity = 1.0%pa

Source: Treasury

# Forecast spending growth outside the operating allowance



# A past perspective

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“...there is a generalised belief among New Zealand analysts that in spite of all the structural reforms, there has not been enough adjustment. In particular, there is a feeling that the tradables goods sector, or more precisely exportables, has not responded in the way that was expected, and has not become the most dynamic sector in the economy. ... Moreover, the recent New Zealand pattern of sectoral growth can hardly be considered as sustainable in the long run. There is, in fact, little doubt that in a small country with factor endowments such as New Zealand’s the bulk of growth should come, in the future, from exports.”

Sebastian Edwards (1990)

# Conclusion

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- The world changes and perspectives on the economy change so it's vital to test our frameworks and policy settings regularly
- Closing the per capita GDP gap requires sustaining annual per capita growth of around 4% per year
- Treasury will be outlining the direction of our thinking in terms of growth enhancing policies