

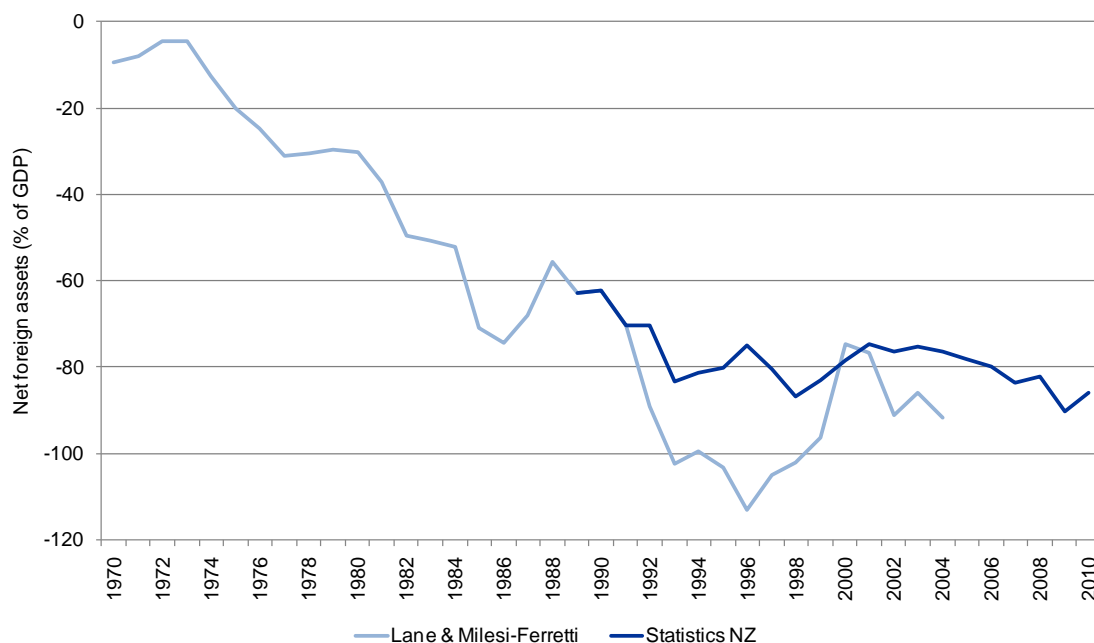
Saving New Zealand: Reducing Vulnerabilities and Barriers to Growth and Prosperity

Chart Pack

1 February 2011

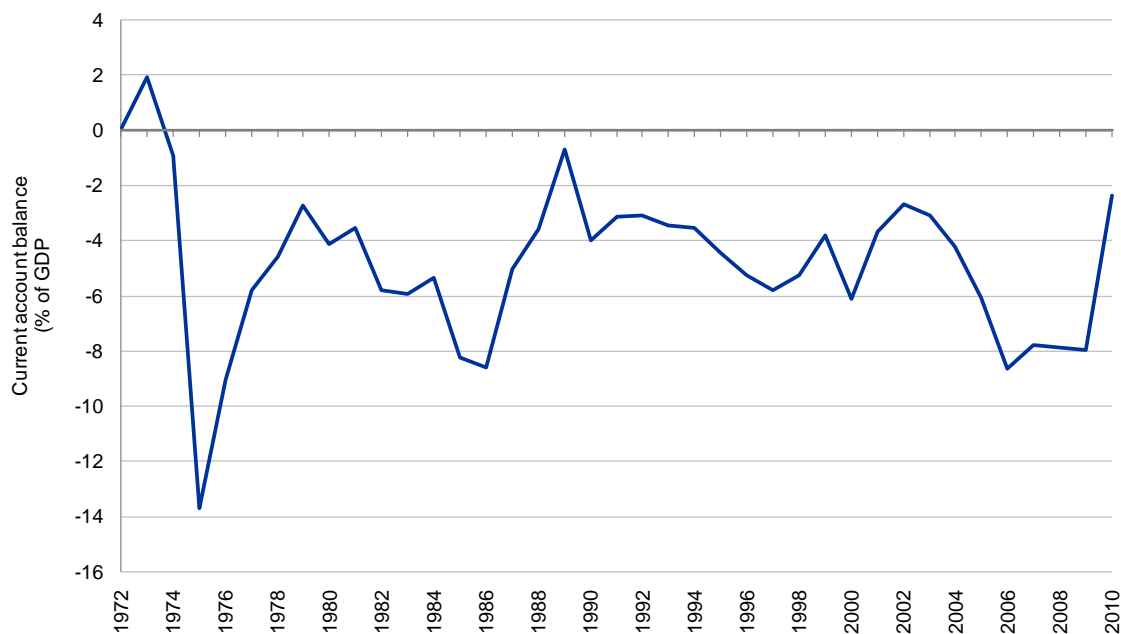
Net foreign liabilities

Decades of foreign borrowing and inward foreign investment have added to New Zealand's net foreign liabilities position, which peaked at 90% of GDP, but has now moved closer to 85%.



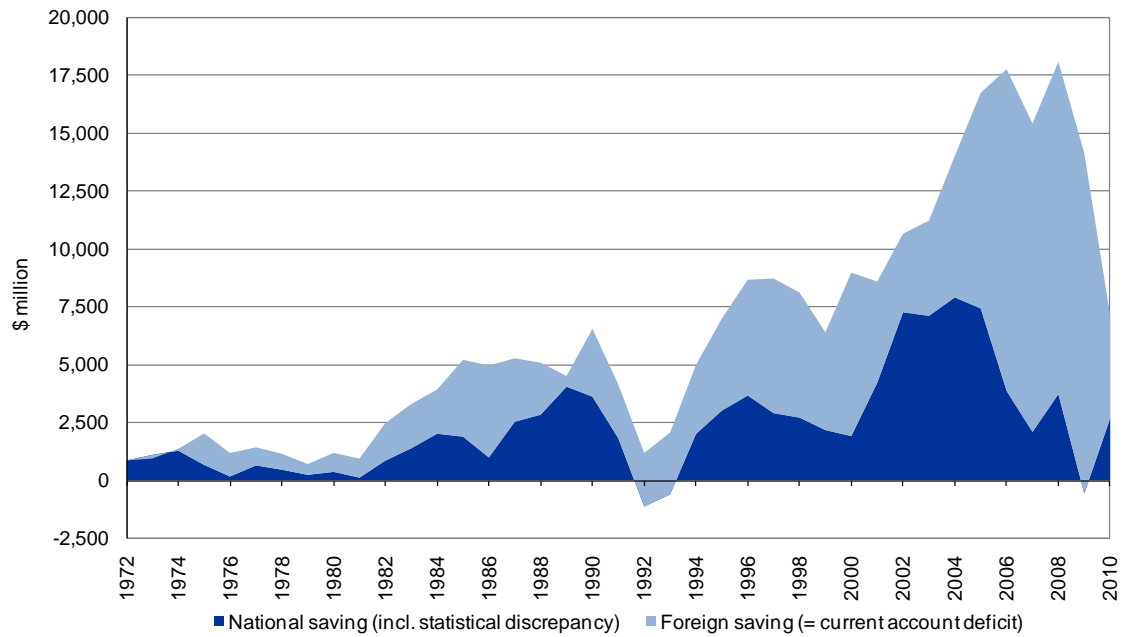
Source: Statistics New Zealand; Lane & Milesi-Ferretti (2006)

New Zealand has been running current account deficits over the last few decades, which reflects the gap between investment and saving.



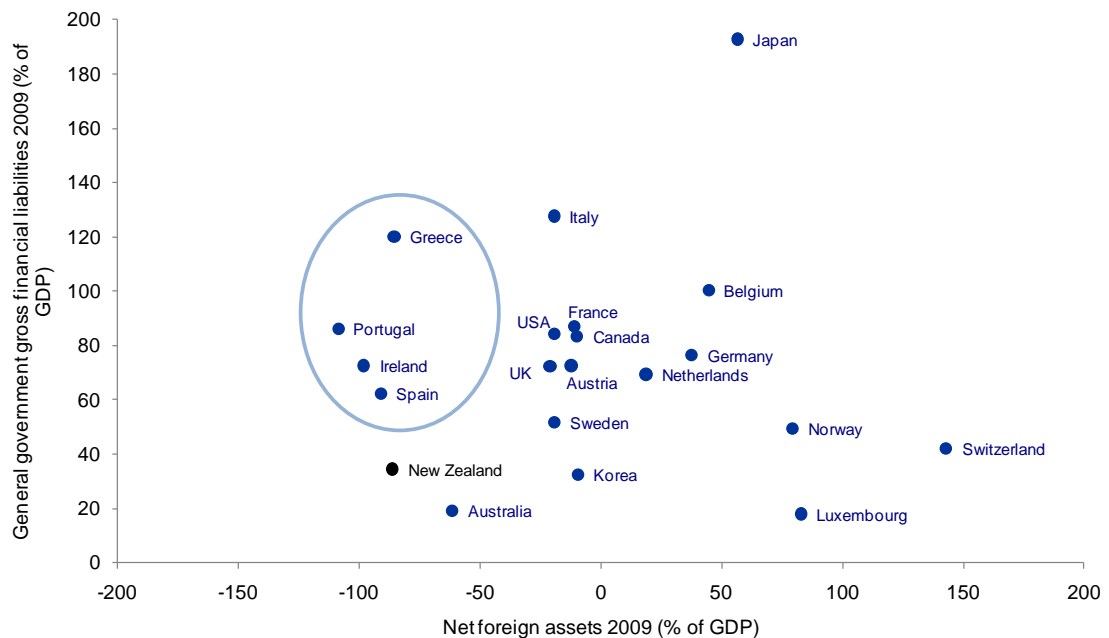
Source: Statistics NZ

New Zealand has funded investment increasingly from foreign borrowing since 2004.



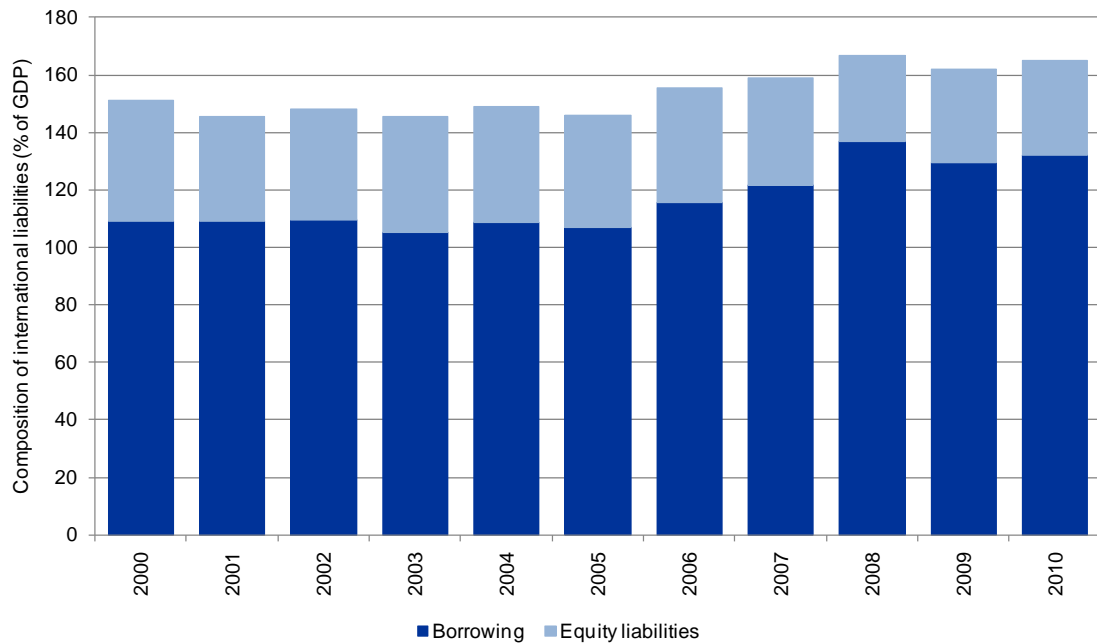
Source: Statistics New Zealand

Countries with similarly large NFL (Portugal, Spain, Greece, Ireland) are showing signs of serious difficulty.



Source: OECD; IMF; Statistics NZ

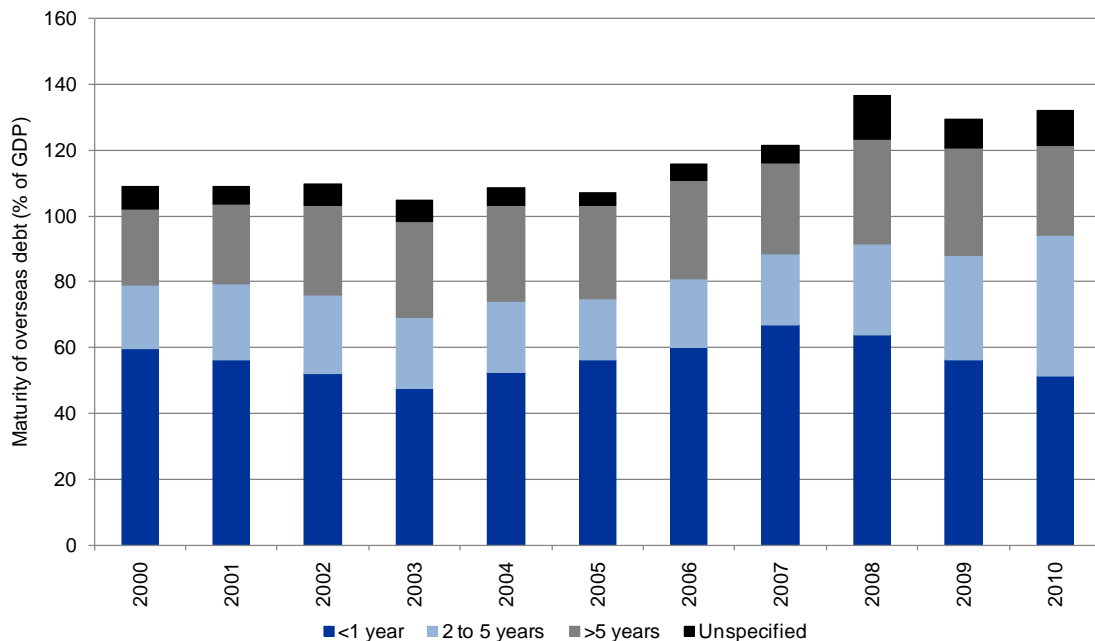
The composition of our foreign liabilities increases our vulnerability to sudden changes in sentiment. New Zealand's international liabilities are largely comprised of debt rather than equity, and...



Source: Statistics New Zealand

Note: 2000 to 2009 are December years, while 2010 is a September year.

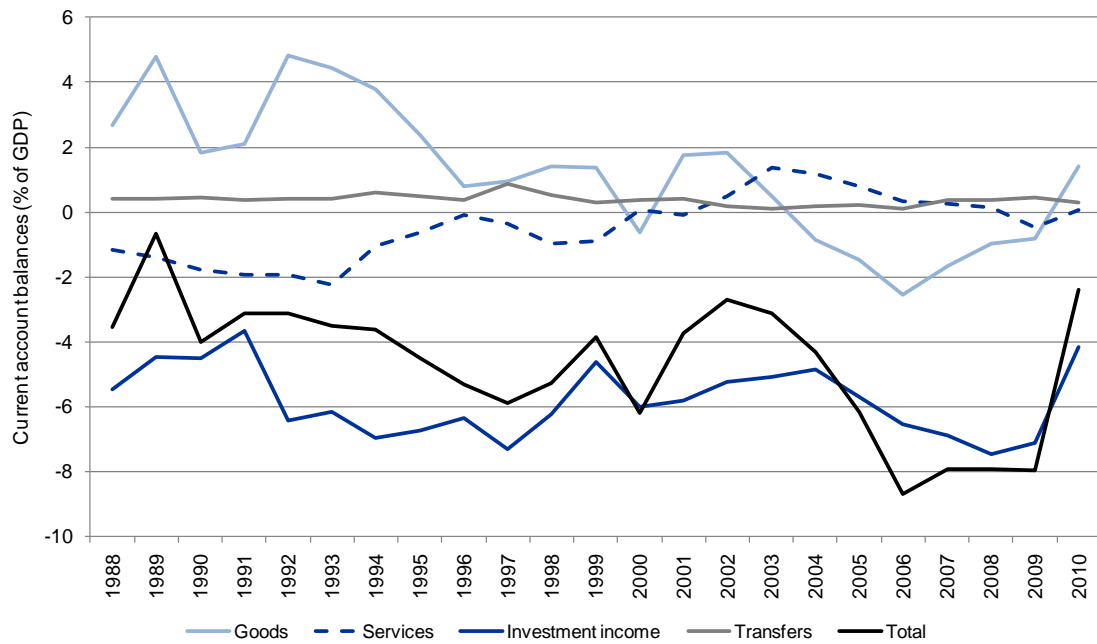
... New Zealand relies heavily on short-term offshore borrowing.



Source: Statistics NZ

Note: 2000 to 2009 are December years; 2010 is a September year.

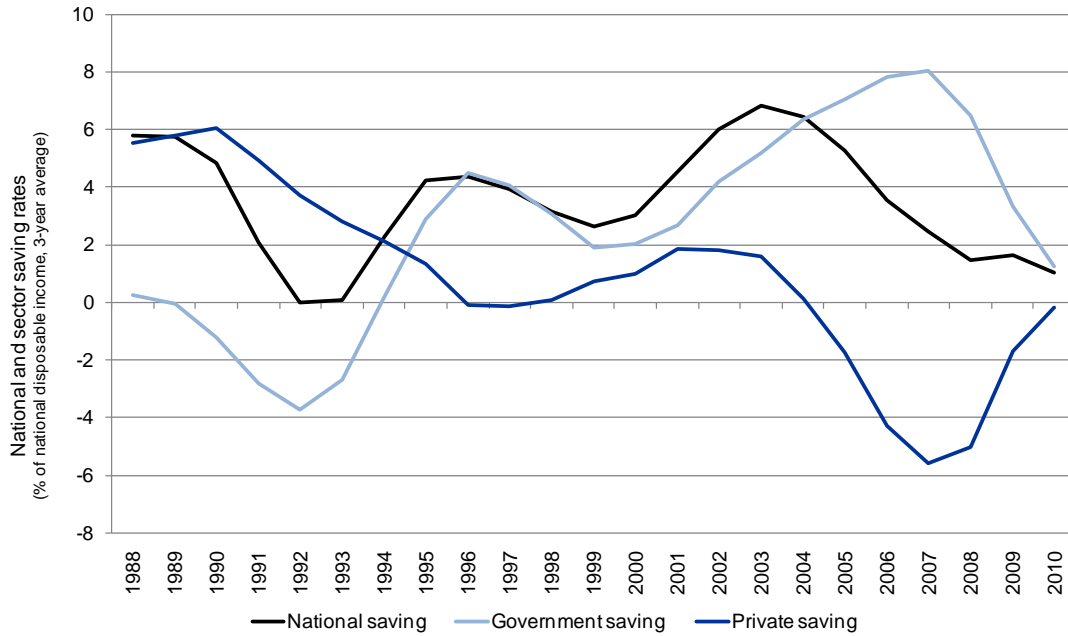
A large component of the current account deficit, and an important driver of rising NFL to GDP, is New Zealand's large negative external investment income balance.



Source: Statistics NZ

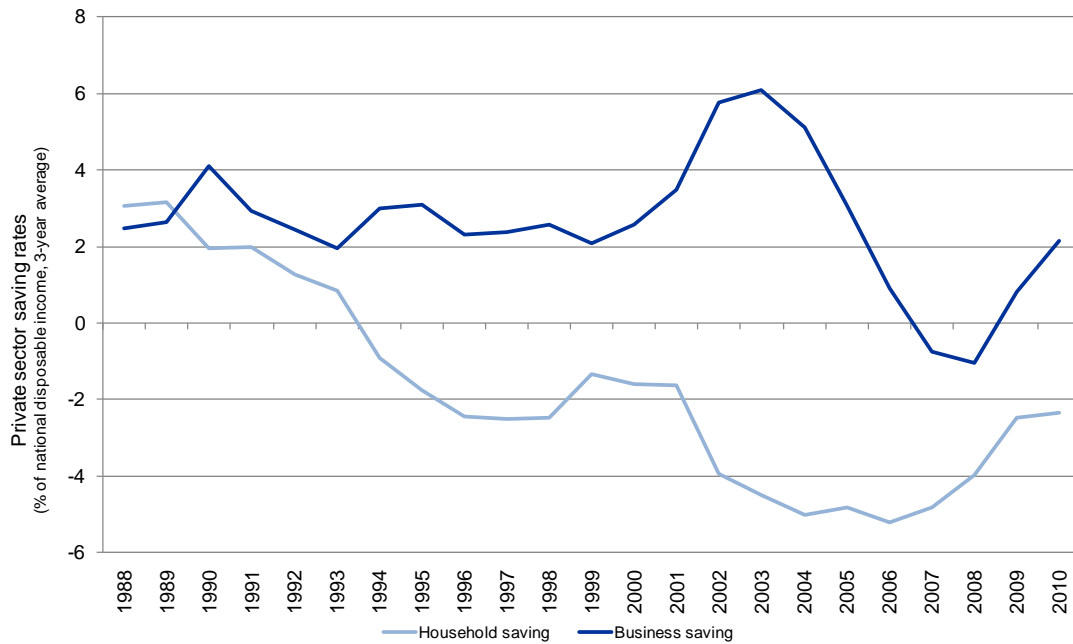
National saving

National saving has fallen since 2003 because a decline in private saving overwhelmed government saving.



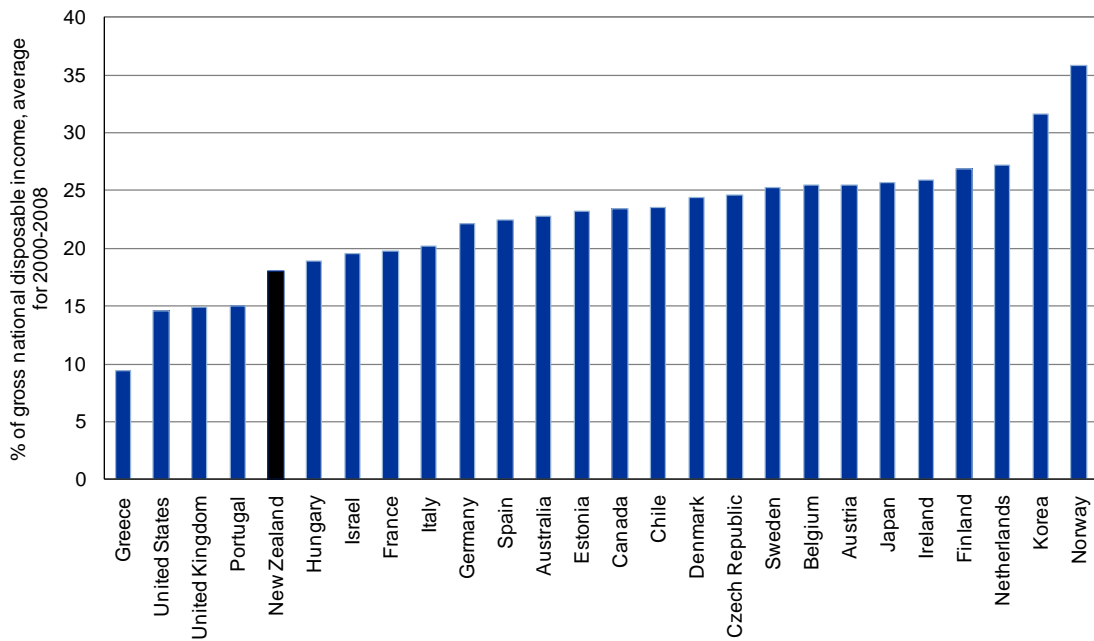
Source: Statistics NZ

Household saving has been negative since the mid-1990s.



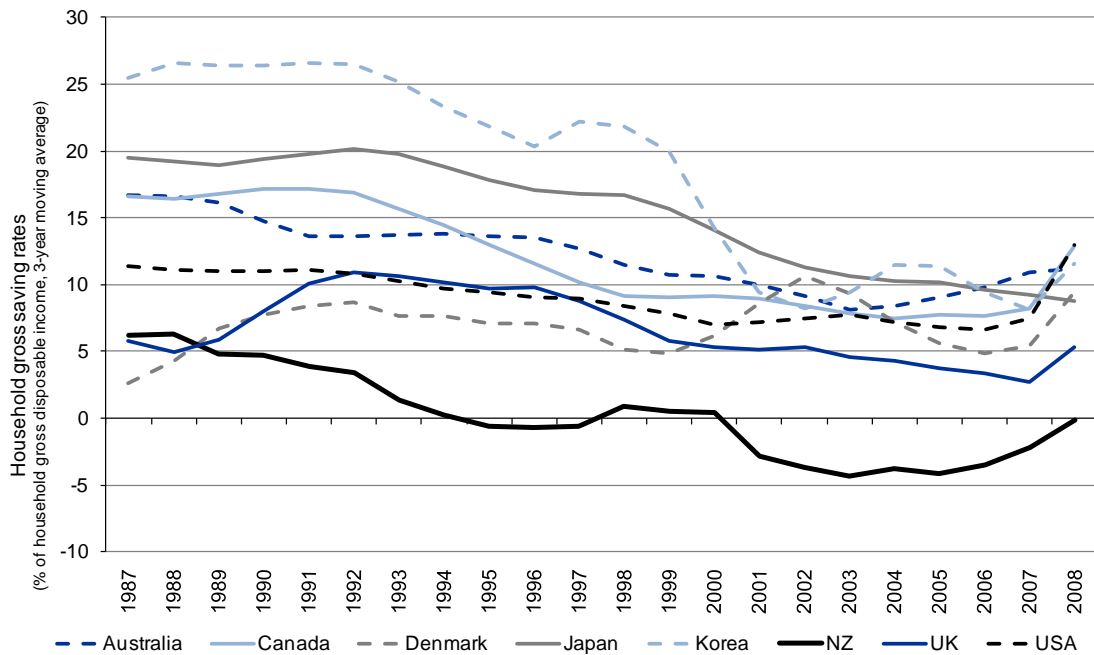
Source: Statistics NZ

New Zealand's gross saving is at low end of OECD.



Source: OECD

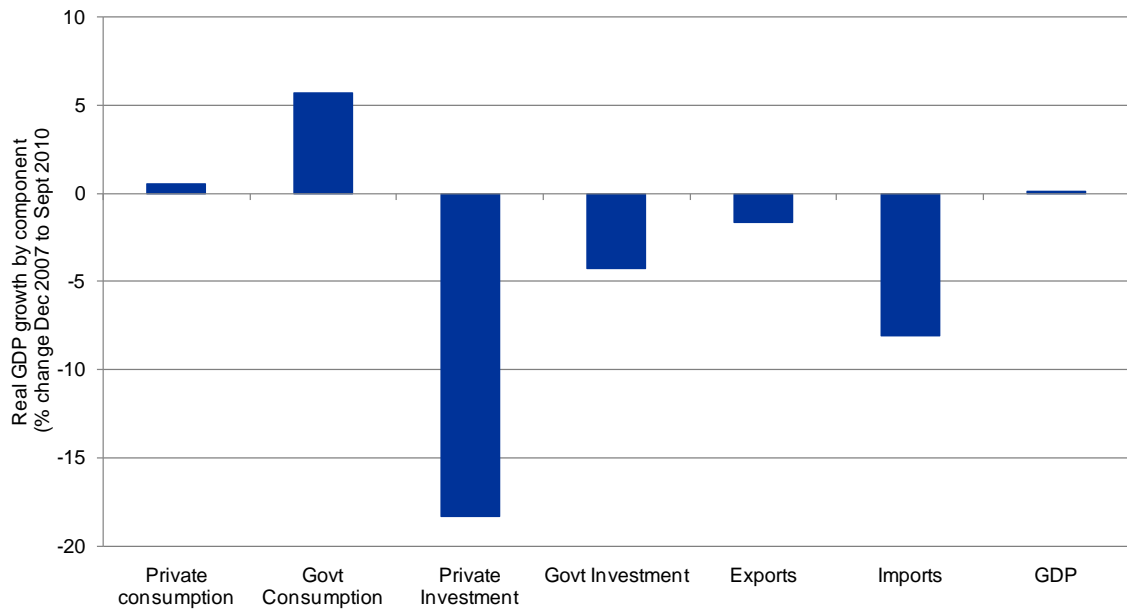
Internationally, household gross saving rates have trended down, but New Zealand's rate is low.



Source: OECD; Statistics NZ; Statistics Denmark; Statistics Bureau, Ministry of International Affairs and Communication, Japan; Office for National Statistics, UK

Note: New Zealand, UK and Japan: Household sector only. All other countries: Household sector plus NPI serving households

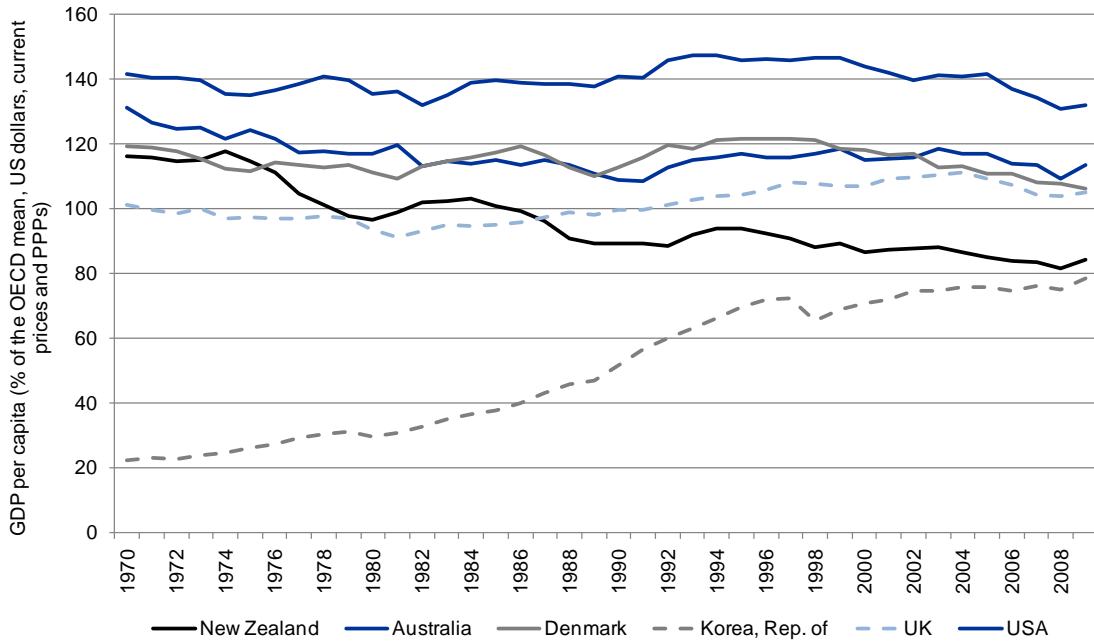
Are recent improvements in household saving cyclical or structural? Data suggest that there has not been much rebalancing at the aggregate level.



Source: Statistics NZ

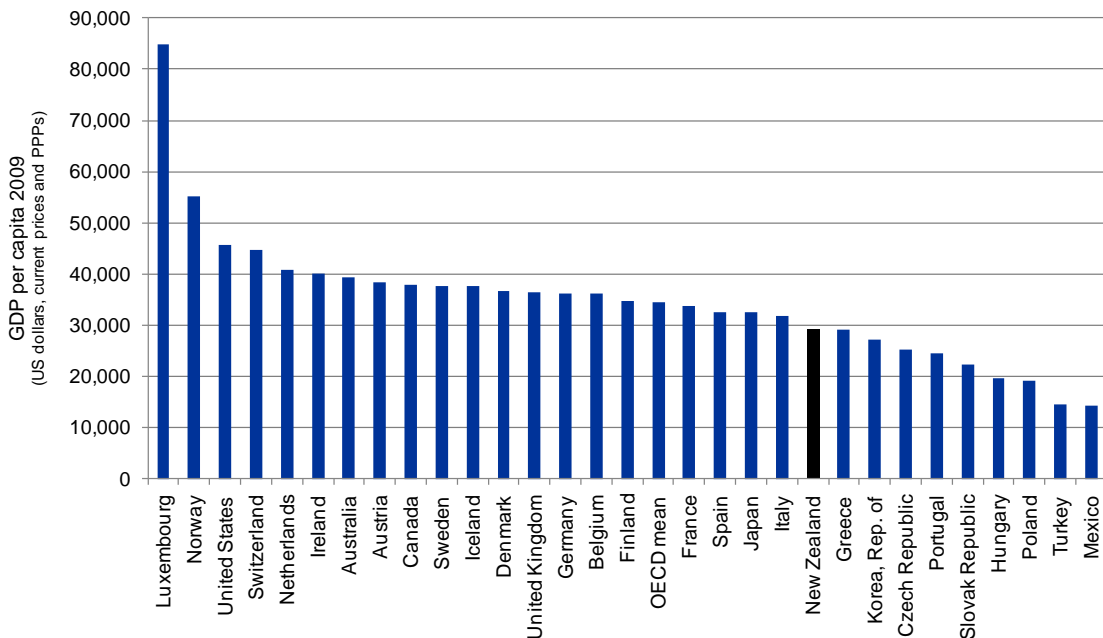
New Zealand's economic decline

New Zealand's economic growth performance has been poor, and over the last four decades, it has slipped steadily down the OECD GDP per capita rankings



Source: OECD Factbook 2010

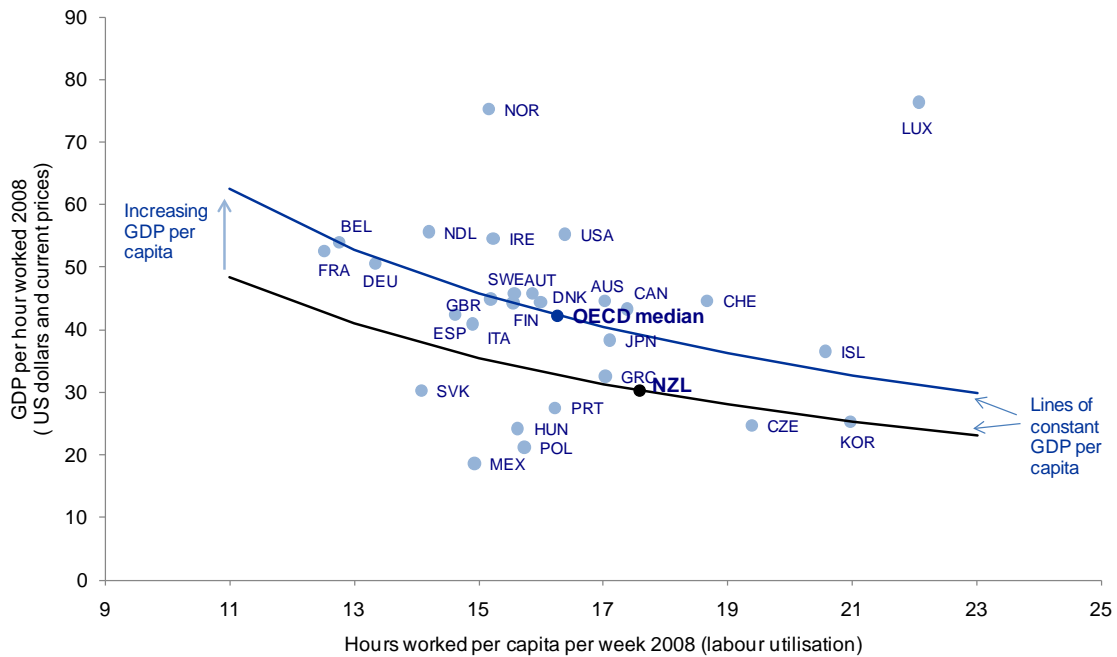
New Zealand's GDP per capita is now well below the OECD average.



Source: OECD Factbook 2010

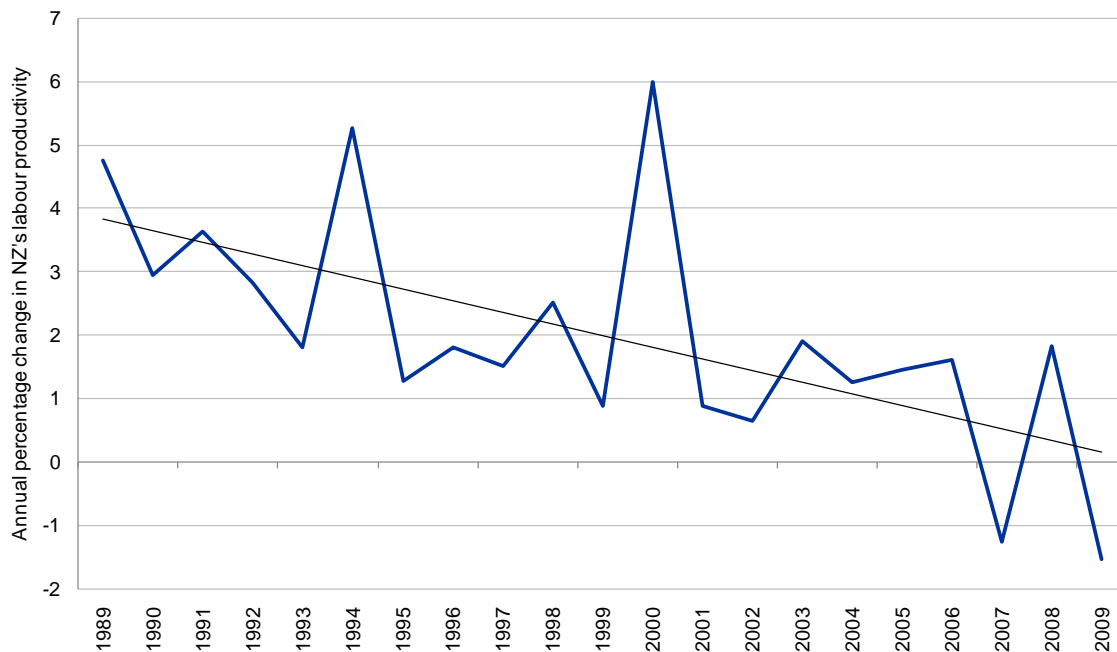
New Zealand's poor economic performance reflects weak productivity growth over several decades with a downward trend in labour productivity growth rate since 1990. This has undermined competitiveness, incomes and living standards.

The gap between New Zealand and the richest OECD countries is largely in labour productivity since New Zealand's labour utilisation is significantly above most OECD countries. This indicates a lot of hours worked but not very productively, and for modest reward.



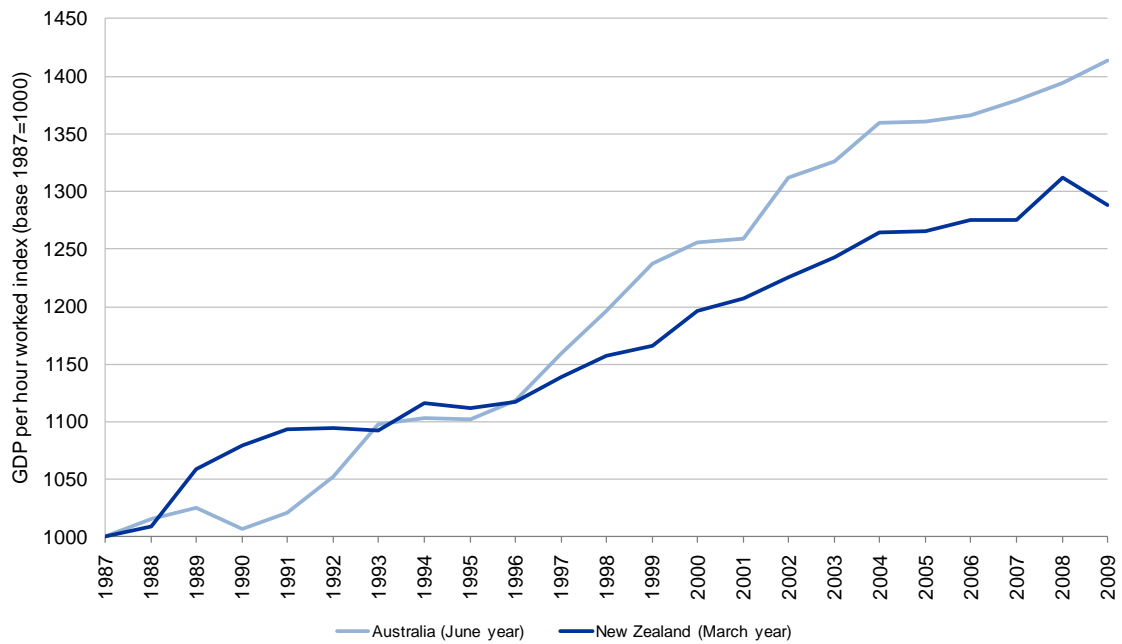
Source: OECD country profile 2010, OECD productivity database

There has been a decline in the growth of labour productivity...



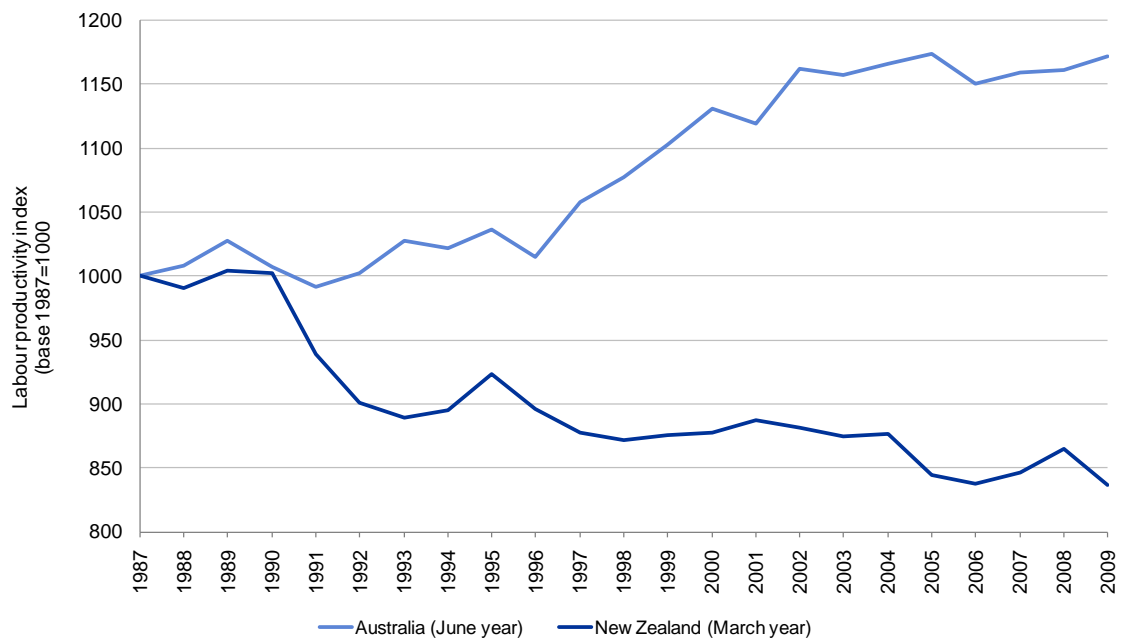
Source: Statistics New Zealand

...growth in GDP per hour worked has been lower than in Australia...



Source: Statistics New Zealand and Australian Bureau of Statistics

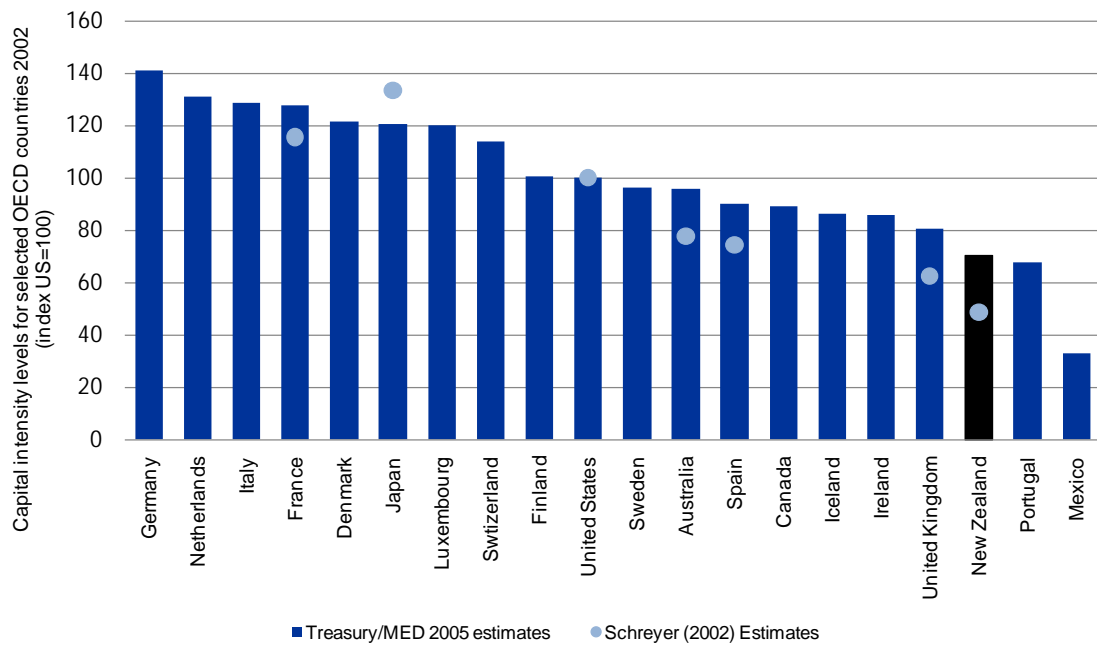
... labour productivity in selected service industries has declined in New Zealand, but risen in Australia¹...



Source: Statistics New Zealand and Australian Bureau of Statistics

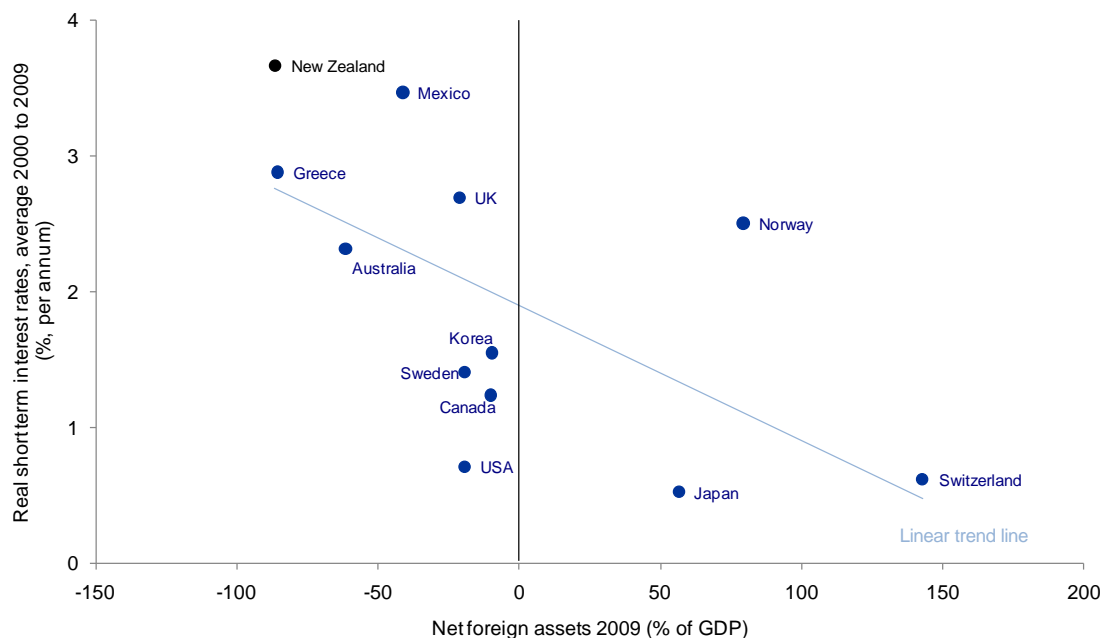
¹ These industries include: property and business services, government administration and defence, education, health and community services, personal and other community services. There are no official productivity measures for these industries. The data are published by Statistics NZ as unofficial statistics owing to their approximate nature.

... and productivity growth has been constrained by a low capital stock.



Source: OECD; Economic Development Indicators 2005

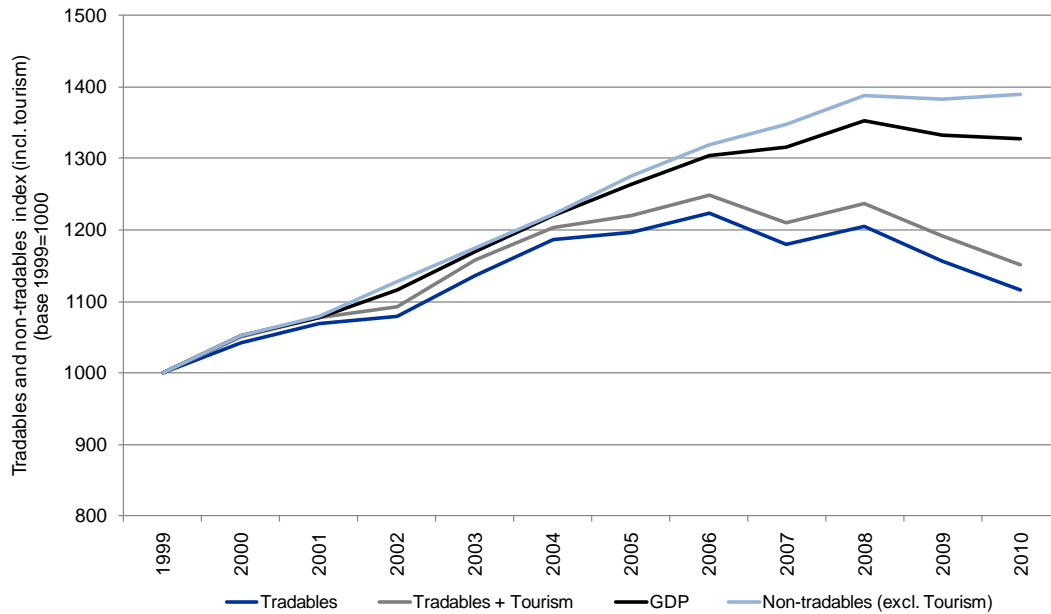
New Zealand's high NFL has meant that our growth has been driven by the wrong things. High private and government consumption has led to higher interest rates, and this in turn, pushed up the exchange rate.



Source: OECD, IMF, SWG calculations

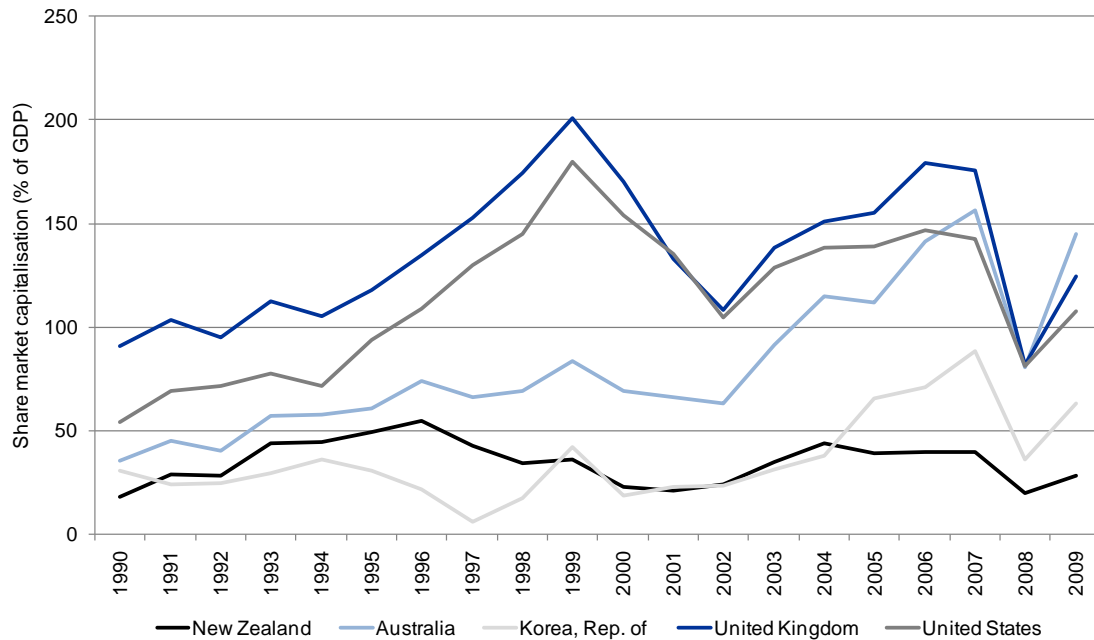
Note: Annual average nominal interest rates less average annual consumer prices.

The overvalued exchange rate has encouraged expansion in the non-tradables sector of the economy and discouraged activity in the tradables part of the economy. Since the tradables part of the economy tends to have higher productivity growth than the non-tradables part, overall productivity growth in the economy is lower.



Source: Statistics NZ

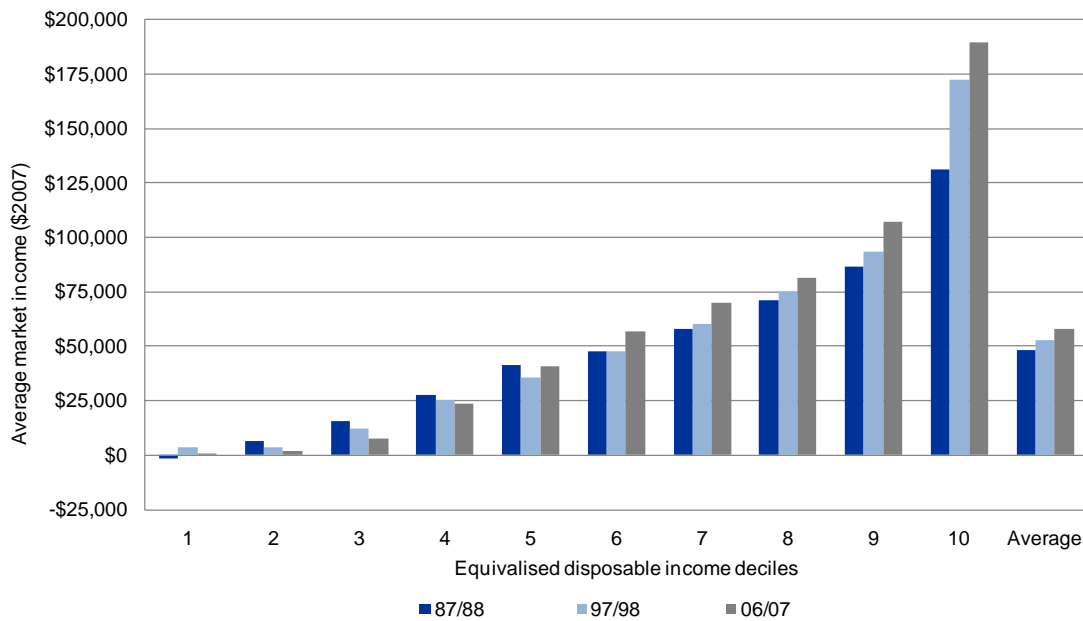
Low saving and wealth accumulation through property investment has diverted resources and resulted in the under-development of New Zealand's capital markets.



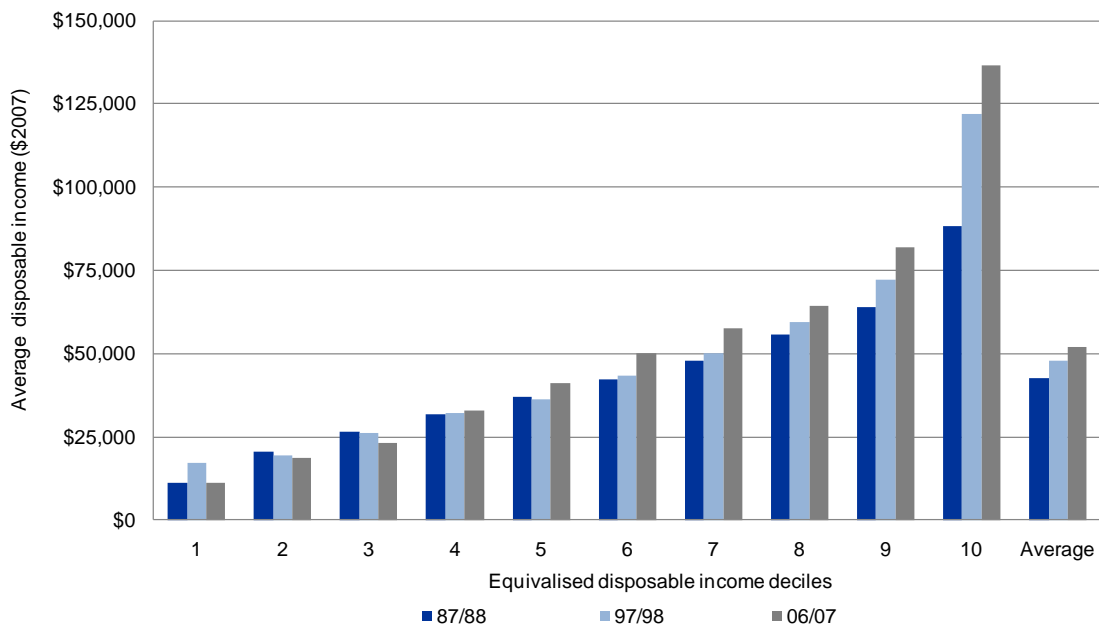
Source: World Federation of Stock Exchanges, OECD Stats Extracts

Over the past two decades, the income growth, after inflation, of many New Zealanders has been low.

Market income fell between 1988 and 2007 for the first five disposable income deciles.



After tax and transfer payments, income for the first four deciles was still largely static between 1988 and 2007



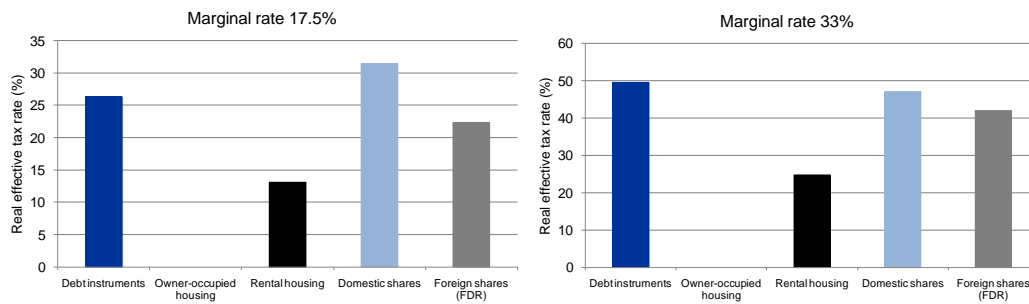
Source: *The Treasury; Statistics NZ, Household Economic Survey*

Taxes and house prices

The favourable tax treatment of property investment accounted for about 50% of house price increases from 2001 to 2007.

	Marginal investor	
	Residential property investor	Owner-occupier
Actual gain in real house prices	88%	88%
Gain in house prices under neutral tax treatment	47%	41%
Gain in prices due to tax concession	42%	47%
% of price growth due to concessionary tax	47%	53%

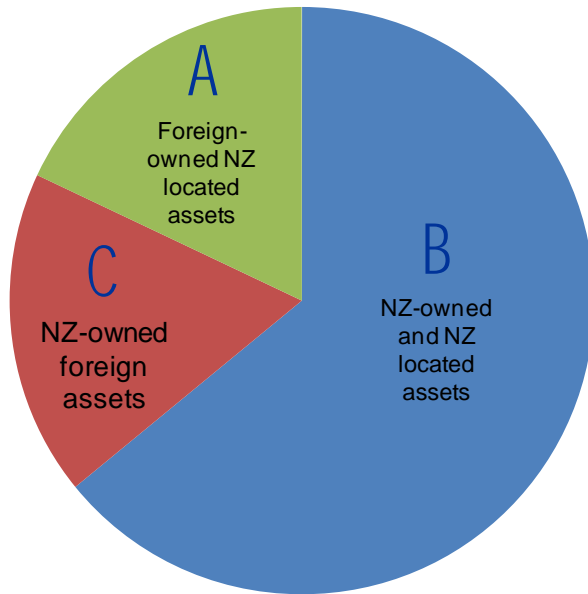
Differences in the tax treatment of different asset classes, as well as inflation, leads to vastly different real effective tax rates for different classes of assets. The large differences distort the way people hold their savings.



Source: *The Treasury (2010)*

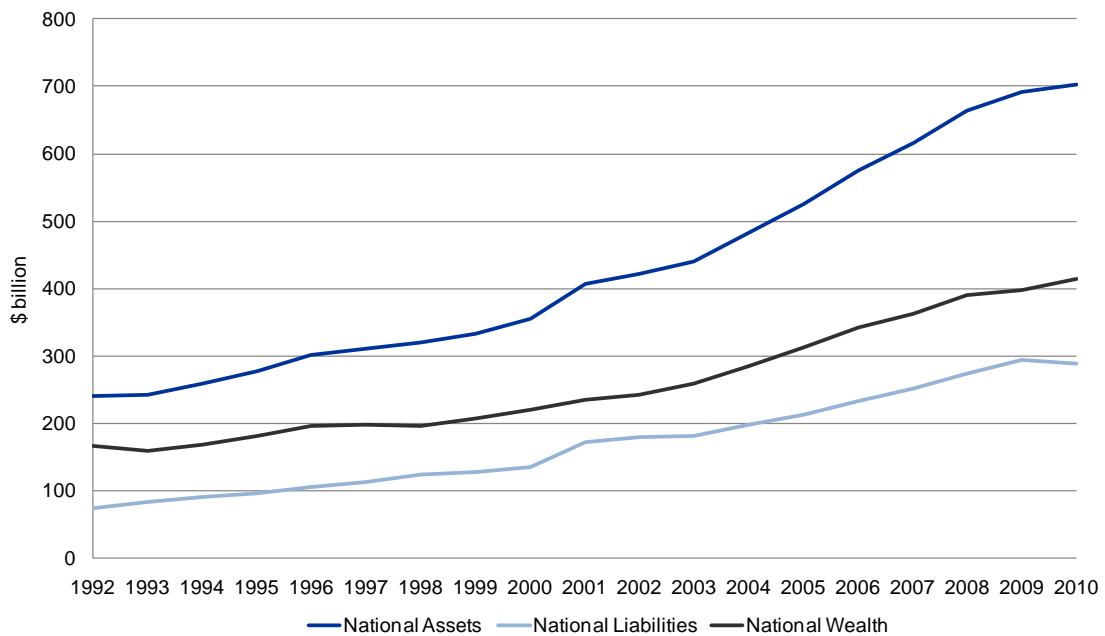
Wealth

The challenge is to increase New Zealand wealth and the stock of assets located in New Zealand, but without increasing New Zealand's NFL, which would increase the country's vulnerability.



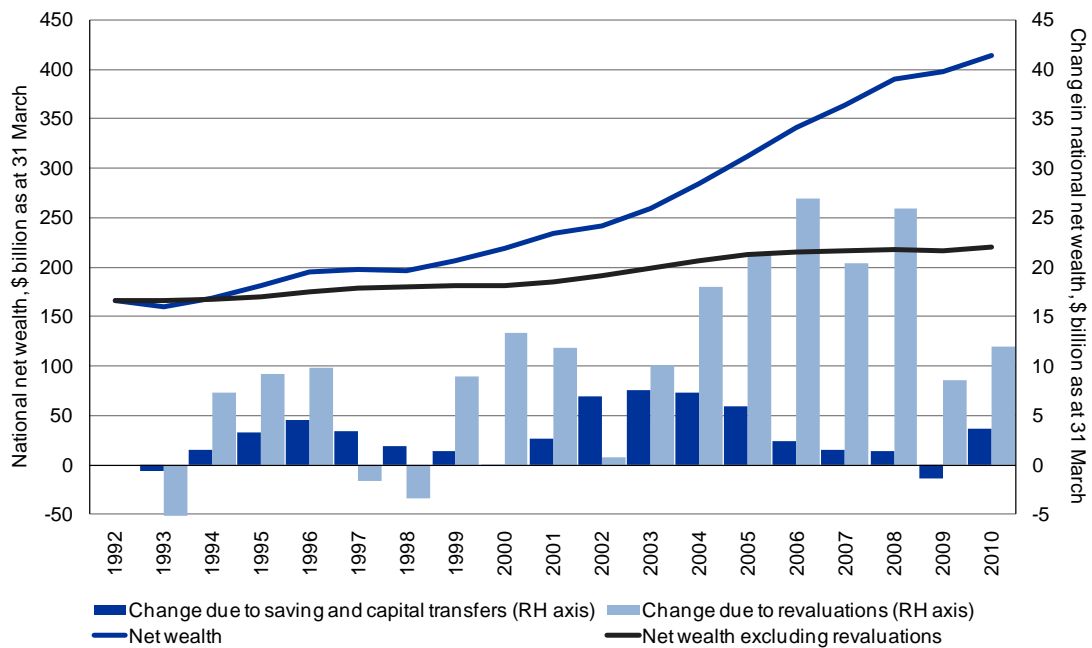
$A+B$ = New Zealand located assets
 $B+C$ = New Zealand wealth
 $C-A$ = New Zealand net foreign assets
 $A-C$ = New Zealand net foreign liabilities

National assets have almost tripled, but even higher growth in national liabilities has knocked back net wealth growth since 1992.



Source: Statistics NZ

The key driver of national wealth growth since 1999 has been asset revaluations and not saving



Source: Statistics NZ

Australian households tend to hold more of their wealth in superannuation funds. New Zealanders hold a higher proportion in business and farm assets, often through private companies.

Household asset types as percentages of net household assets

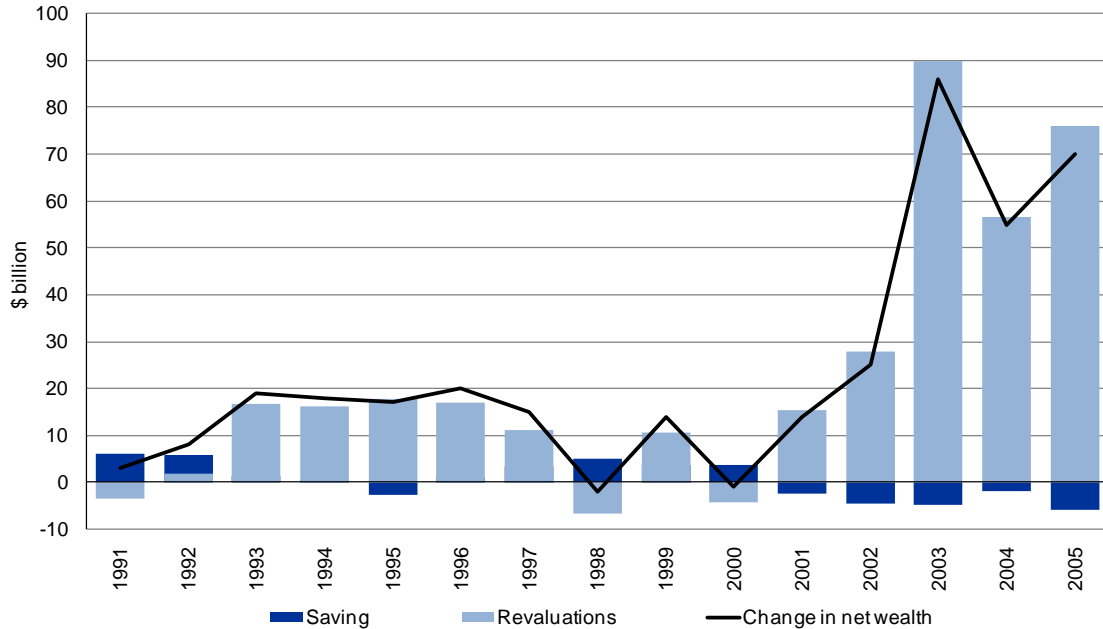
	New Zealand	Australia
Residential property	46%	50%
Pensions and superannuation funds	2%	19%
Business and farm assets	22%	9%
Shares, investment funds, etc	9%	8%
Bank deposits	5%	5%
Vehicles	3%	4%
Other assets	14%	6%
Liabilities	14%	14%

The RBNZ household balance sheet shows household net wealth broken down into different assets and liabilities. Almost all of the increase in net wealth is due to property revaluations.

(\$ billion) as at December	1990	2000	2005	2006	2007	2008	2009
Assets							
Deposits with financial institutions	26	45	73	82	90	99	102
Other fixed interest assets	8	8	14	16	19	22	26
Life, superannuation and managed funds	27	55	58	65	65	56	63
Direct holdings of equities	9	17	20	27	26	17	22
Total household financial assets	68	125	164	188	200	195	212
Housing value	127	231	506	559	614	568	603
Total assets	195	356	670	747	814	763	815
Liabilities							
Loans from banks and non-bank lending institutions	26	73	133	150	168	175	180
All other loans	2	5	8	9	10	11	11
Total liabilities	28	78	141	159	178	186	191
Household net wealth	167	278	529	588	636	577	624

Source: Reserve Bank of NZ

Property revaluations explain nearly all changes in household net wealth since 2001.



Source: Hodgetts, Briggs et al (2006)

Debt

New Zealand's private-sector debt at 30 June 2010 was \$315 billion and 166% of GDP.

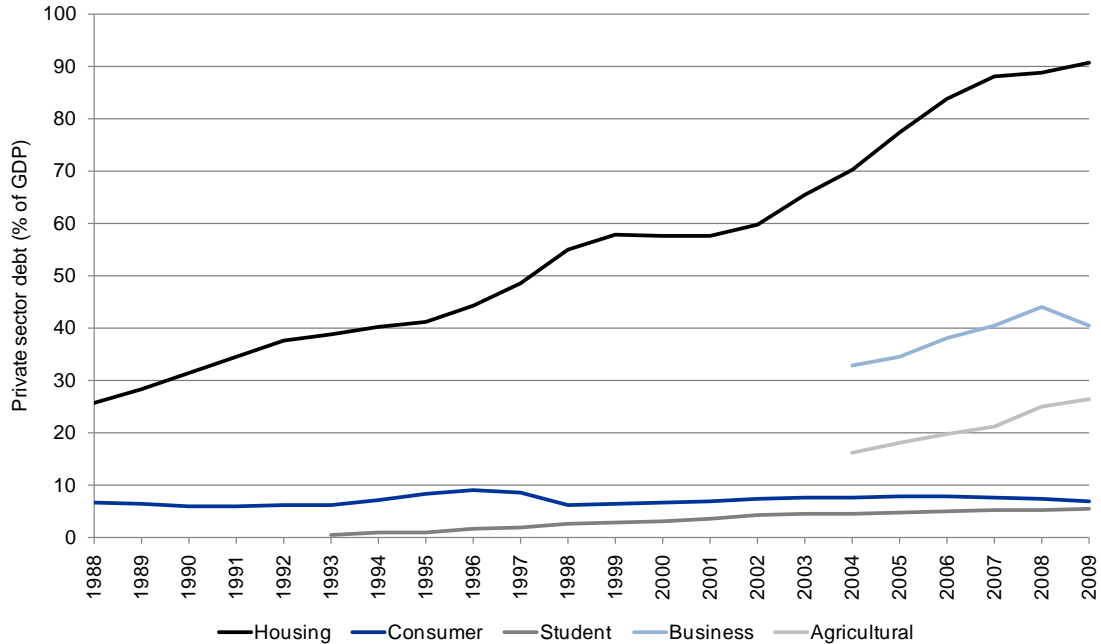
Table 1: Private-sector debt as at 30 June 2010

Sector	Amount (\$ billion)	% of GDP
Household debt		
Housing loans	170	90%
Consumer loans	12	6%
Total	181	96%
Student loans	11	6%
Business loans	73	39%
Agricultural loans	49	26%
Total private debt	315	166%
<i>Net foreign liability</i>	<i>163</i>	<i>86%</i>

Source: Reserve Bank of NZ; Ministry of Education Student Loan Annual Report

Note: These figures do not include debt issued directly by non-financial business organisations, e.g., corporate bonds.

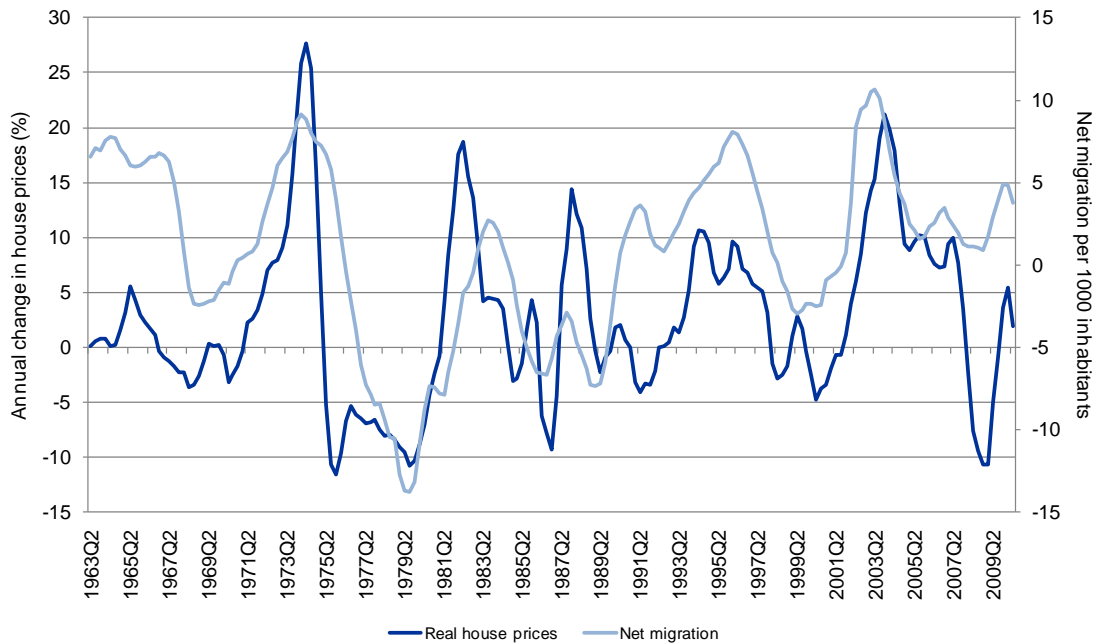
All the main components of private-sector debt, except consumer credit, have been rising as a percentage of GDP.



Source: Reserve Bank of NZ

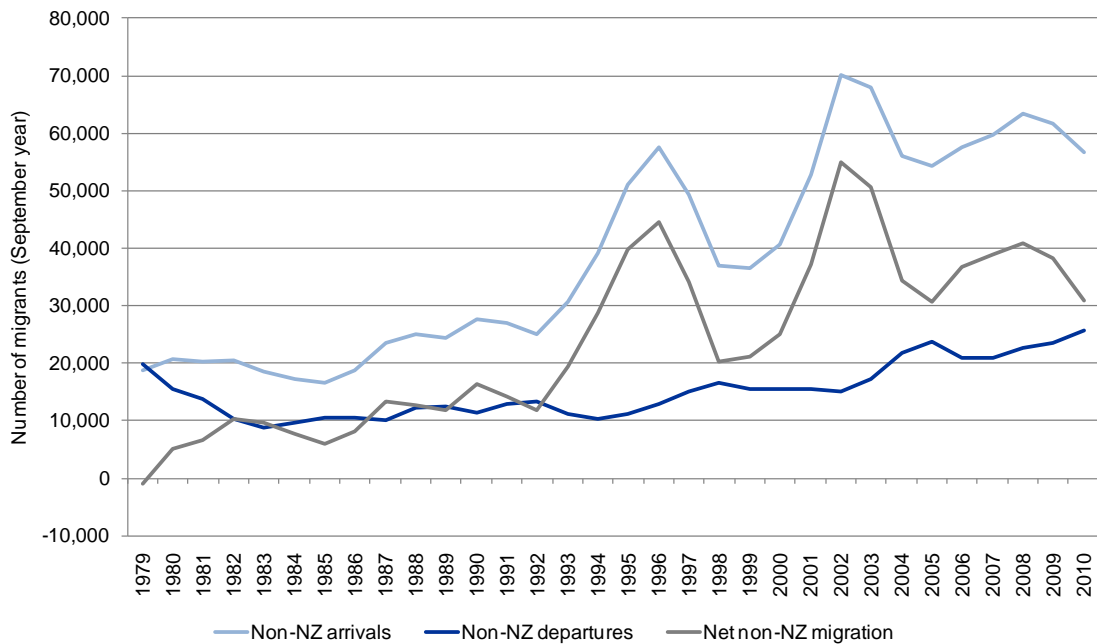
Migration

Higher net migration flows are associated with higher house prices.



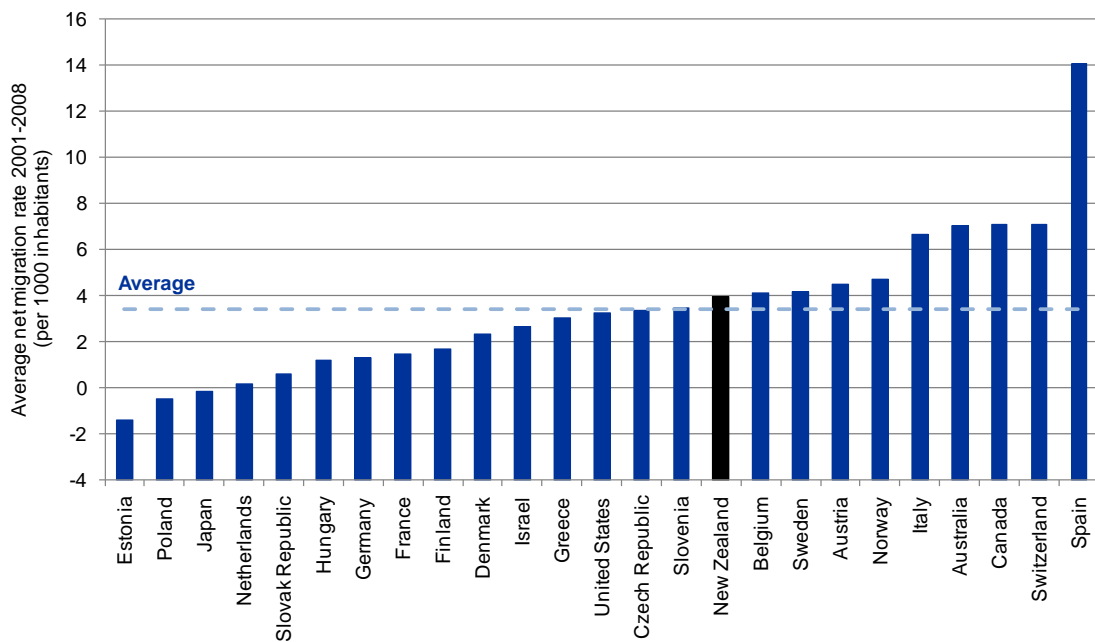
Source: Coleman & Landon-Lane (2007); Reserve Bank of NZ; Statistics NZ

Changes in migration policy in the early 1990s encouraged a much more rapid pace of inward migration: the net number of non-NZ migrants has been trending upwards strongly since 1992.

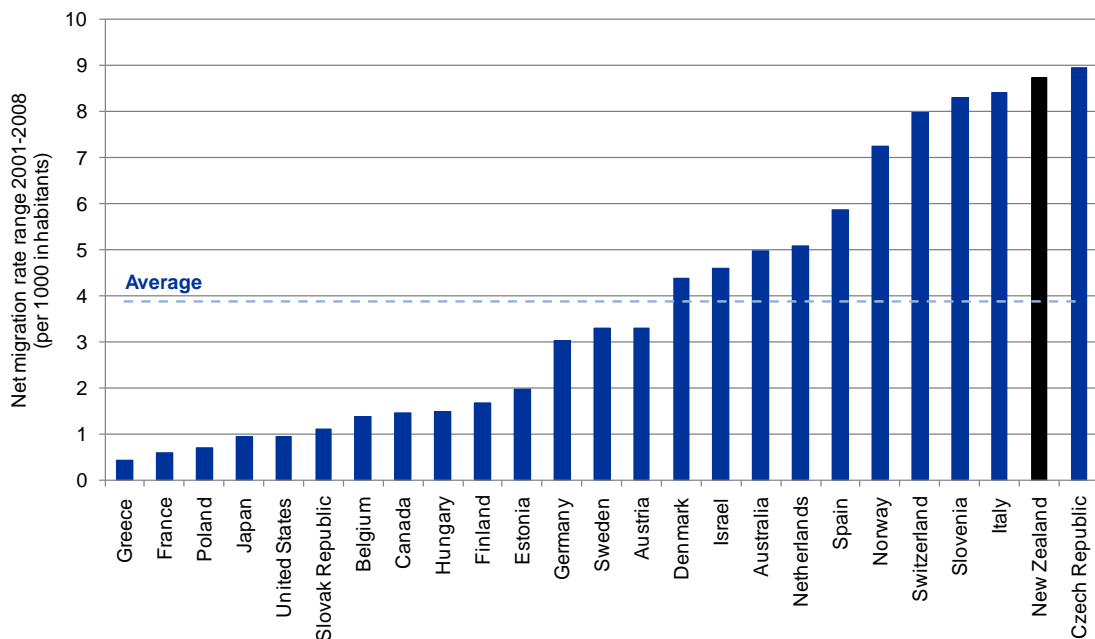


Source: Statistics NZ

New Zealand has a higher than average net migration rate relative to other OECD countries and, importantly, New Zealand's migration rate is more volatile. It is plausible that the sharp change in migration policy since the early 1990s materially increased debt/GDP ratios.



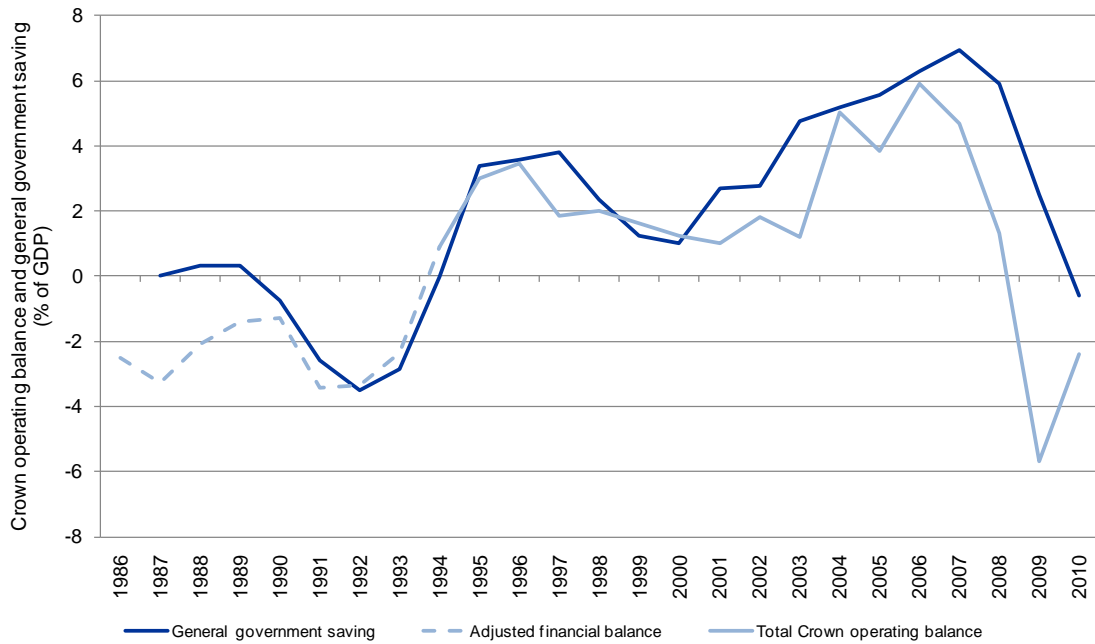
Source: OECD



Source: OECD

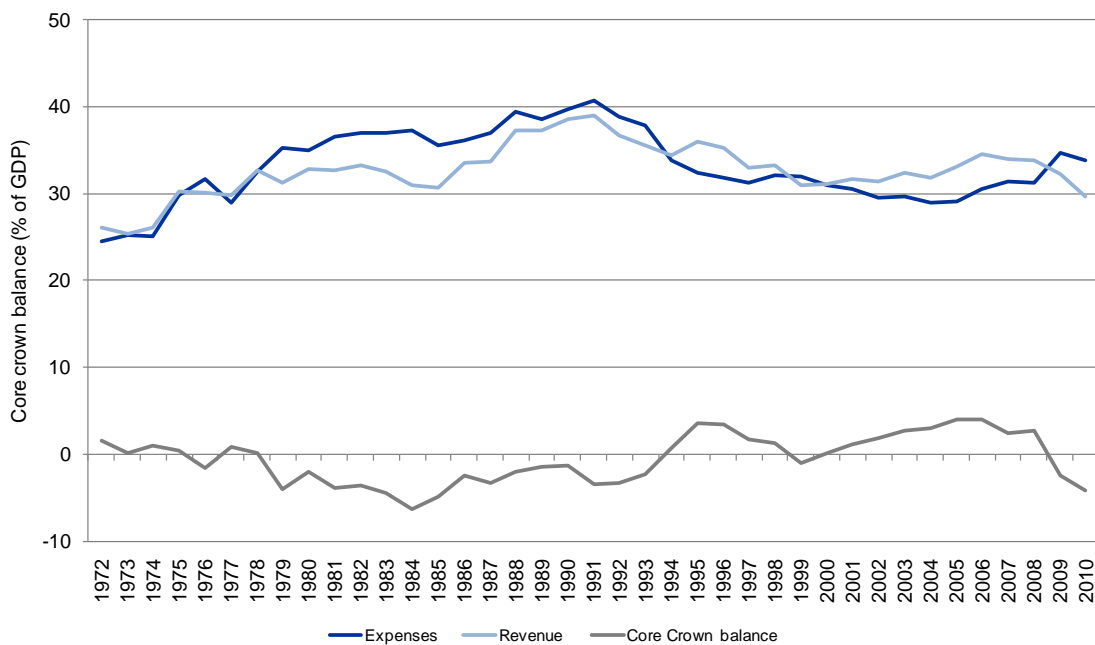
Fiscal situation

Fiscal surpluses from 1994 to 2008 parallel the period of strong government saving.



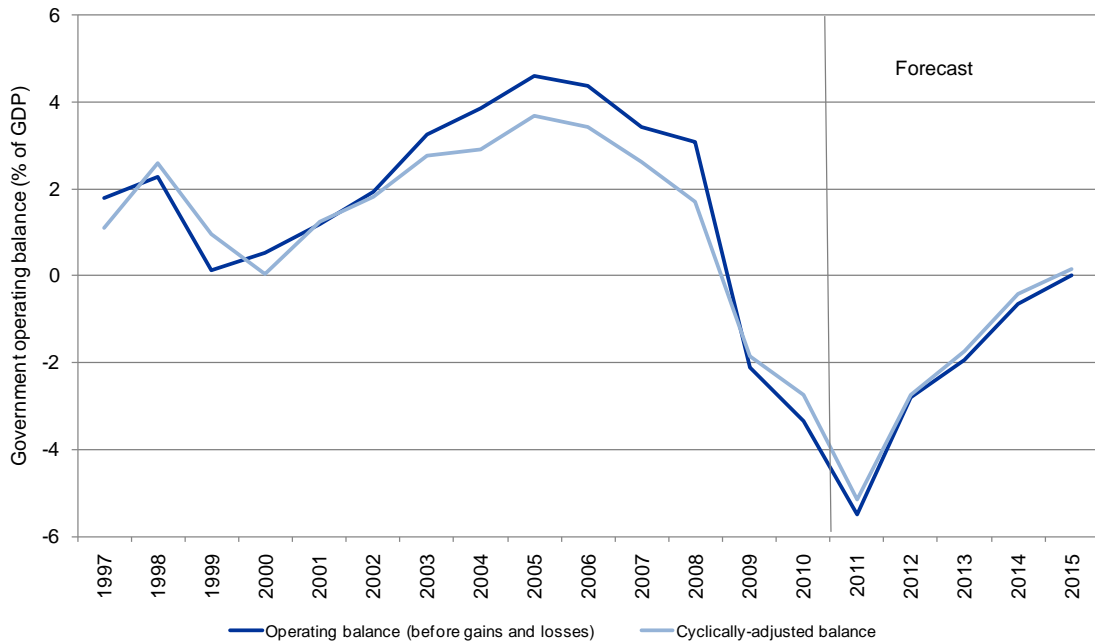
Source: Statistics New Zealand; Treasury

Core crown revenue trended up as a share of GDP from 2000 to 2008, dragging up core spending.



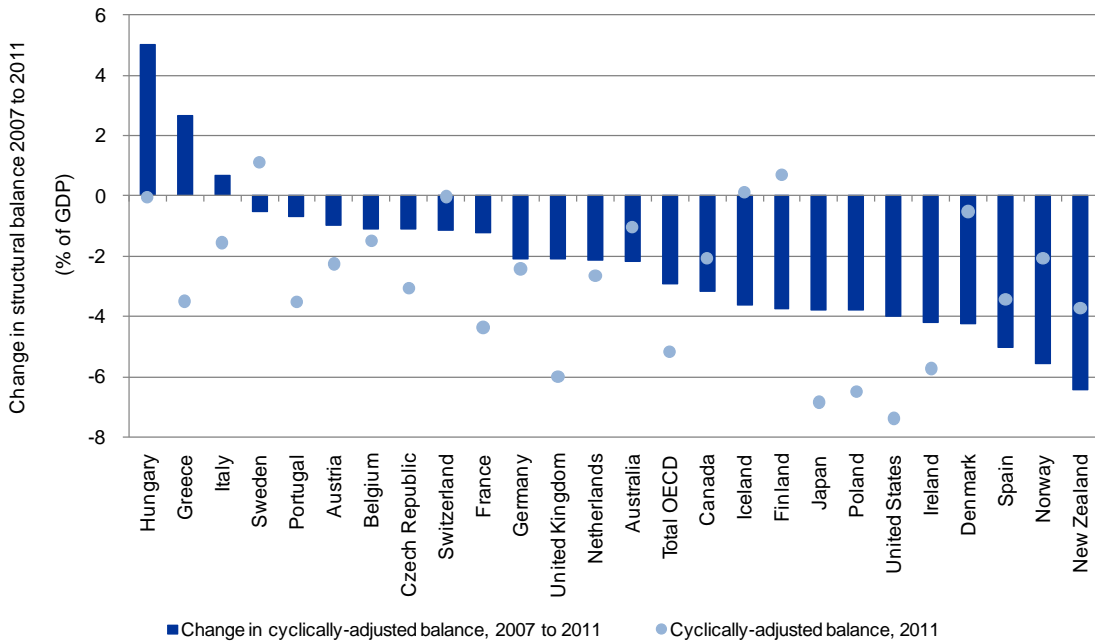
Source: The Treasury

Government operating balance went into structural deficit in 2009 with a return to surplus forecast only in 2015.



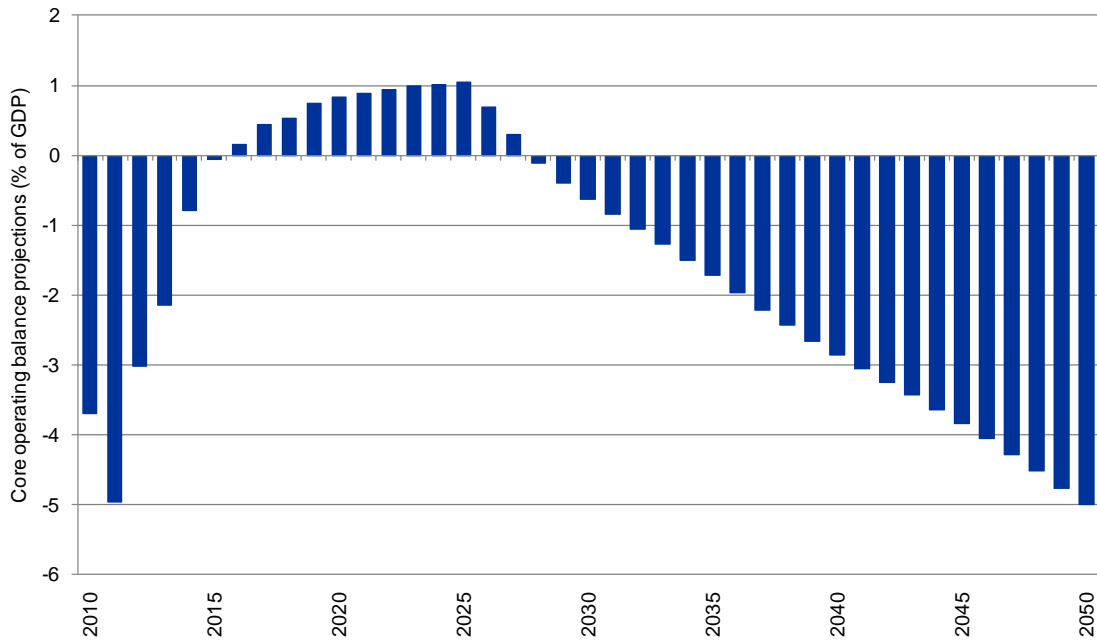
Source: *The Treasury, Half-Year Economic and Fiscal Update 2010*

New Zealand's change in structural balance is at the large end of the OECD.



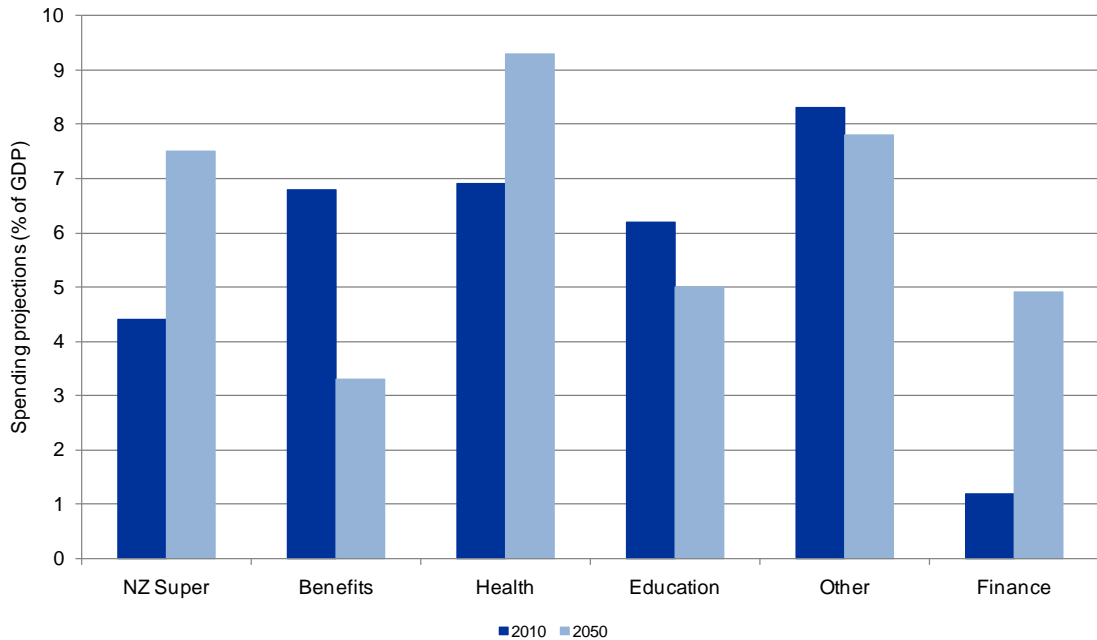
Source: *OECD; The Treasury*

Pressures on the government's saving position are projected to grow. Core operating balance tips back into deficit in the late 2020s



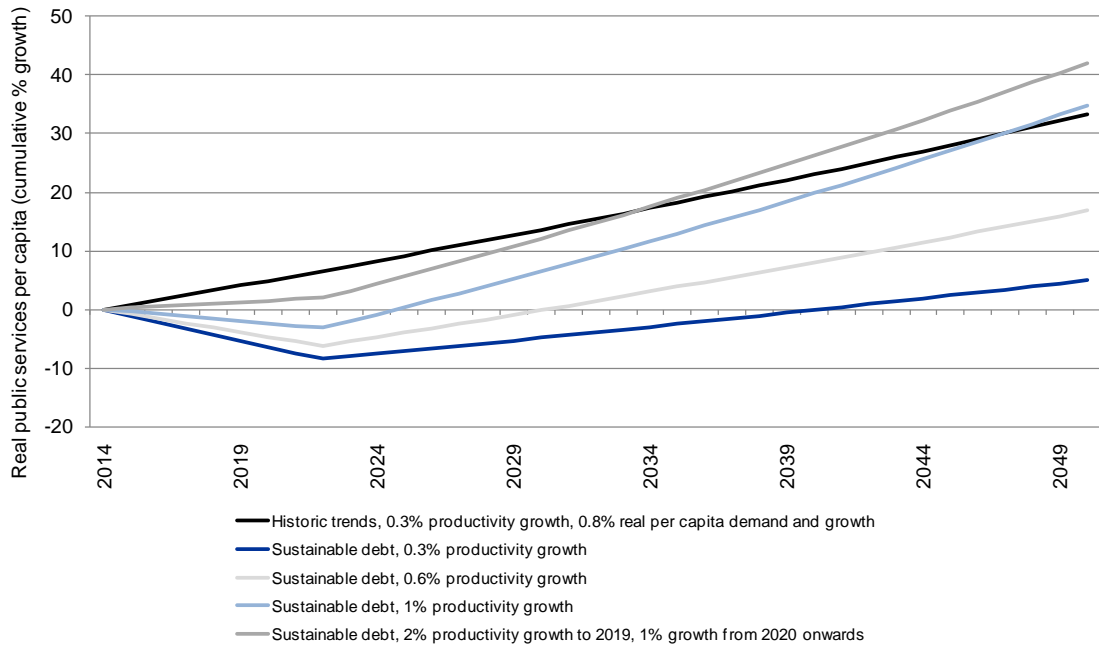
Source: The Treasury (Historic trends projection based on Half-Year Economic and Fiscal Update 2010)

Spending on NZ Superannuation and health is forecast to rise, while spending on benefits and education fall



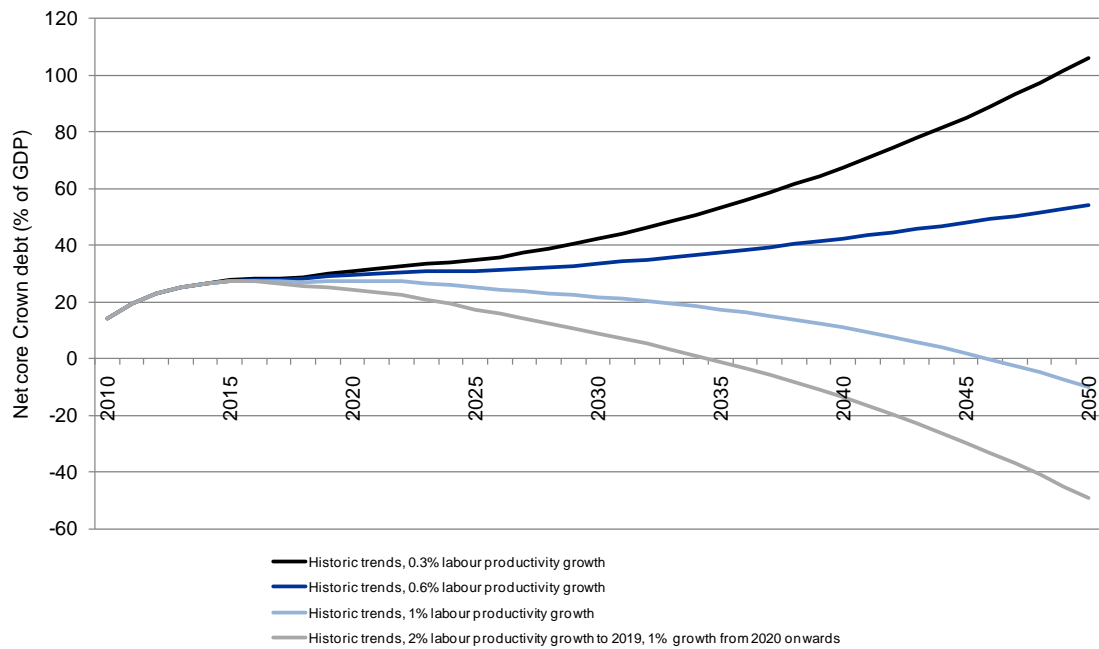
Source: Treasury (Historic trends projection based on Half-Year Economic and Fiscal Update 2010)

If public sector productivity increased by 2% per year for five years and 1% per year thereafter, there would be no period of contraction in public services and growth in the supply of public services would be faster than the historic trend growth rate.



Source: *The Treasury*

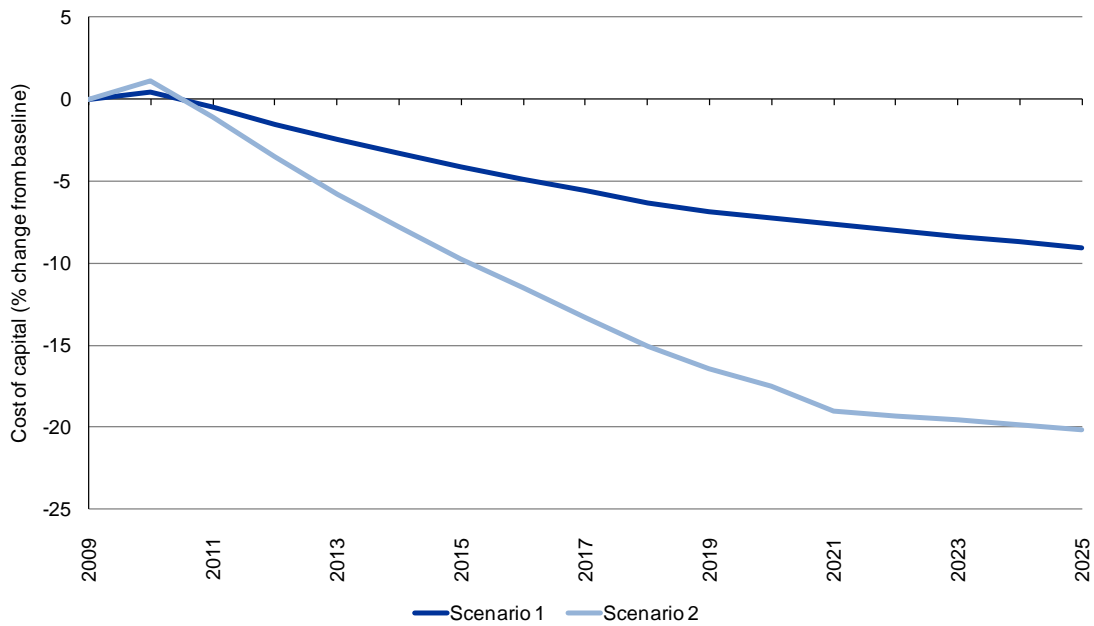
Productivity increases would also improve the net core Crown debt position.



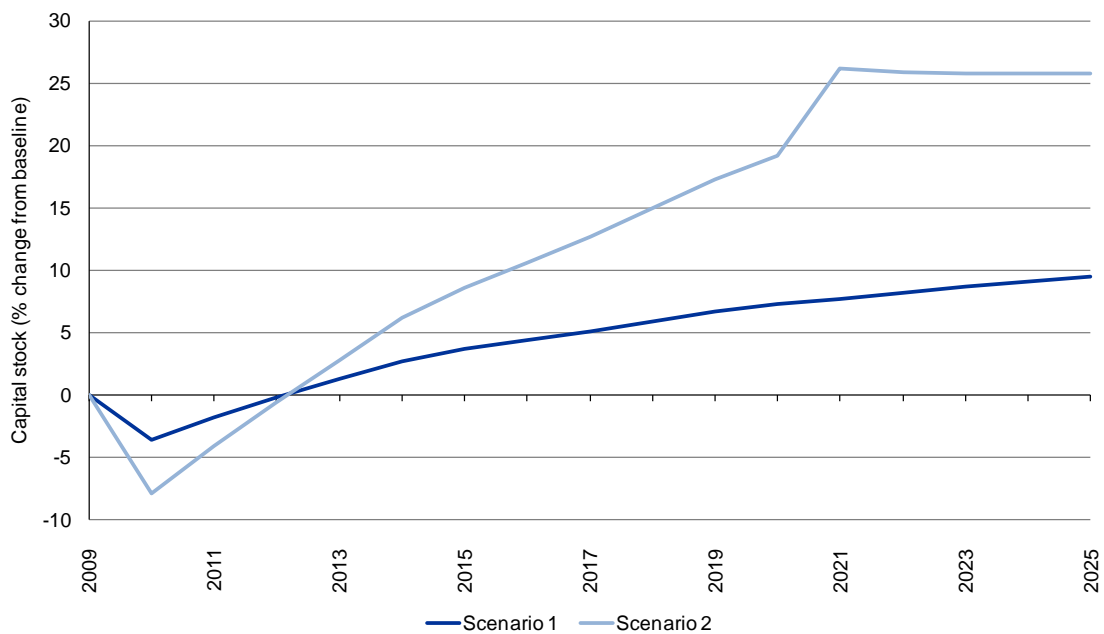
Source: *The Treasury*

NZIER modelling

Increased saving: decreases debt servicing costs, reduces the cost of capital and increases the capital stock. In scenario 1 the national saving rate is increased by 3% of Gross National Disposable Income (GNDI) and the cost of capital is assumed to decline over a decade by 10 percent relative to the baseline. In scenario 2 the national saving rate is increased by 8% of GNDI for a decade and then falls back by 4% of GNDI, and the cost of capital is assumed to decline over the decade by 22 percent relative to the baseline.

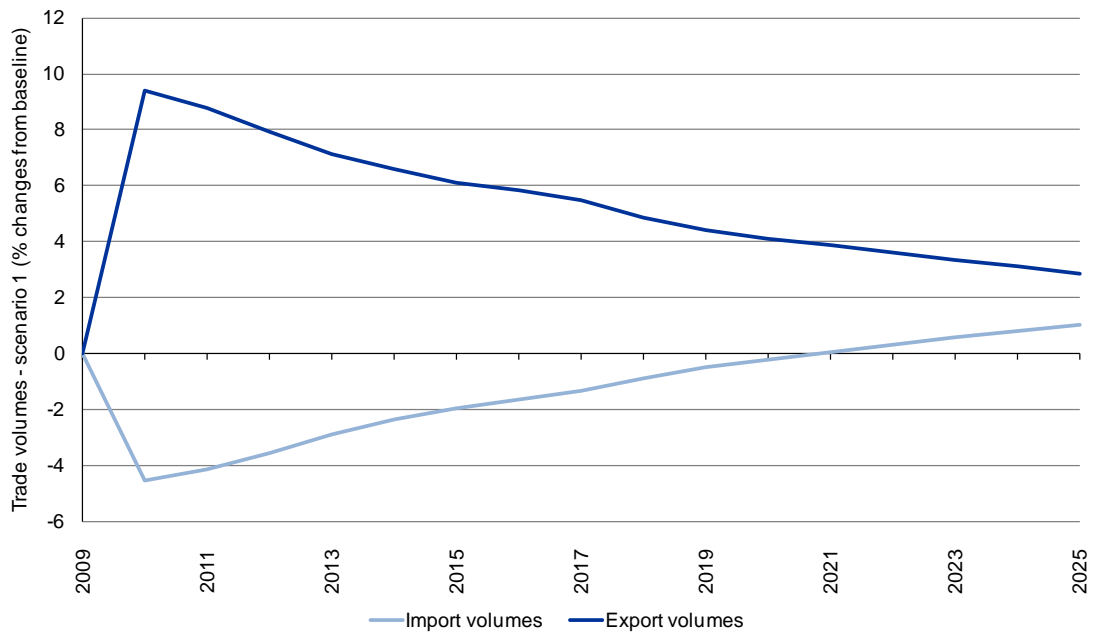


Source: NZIER



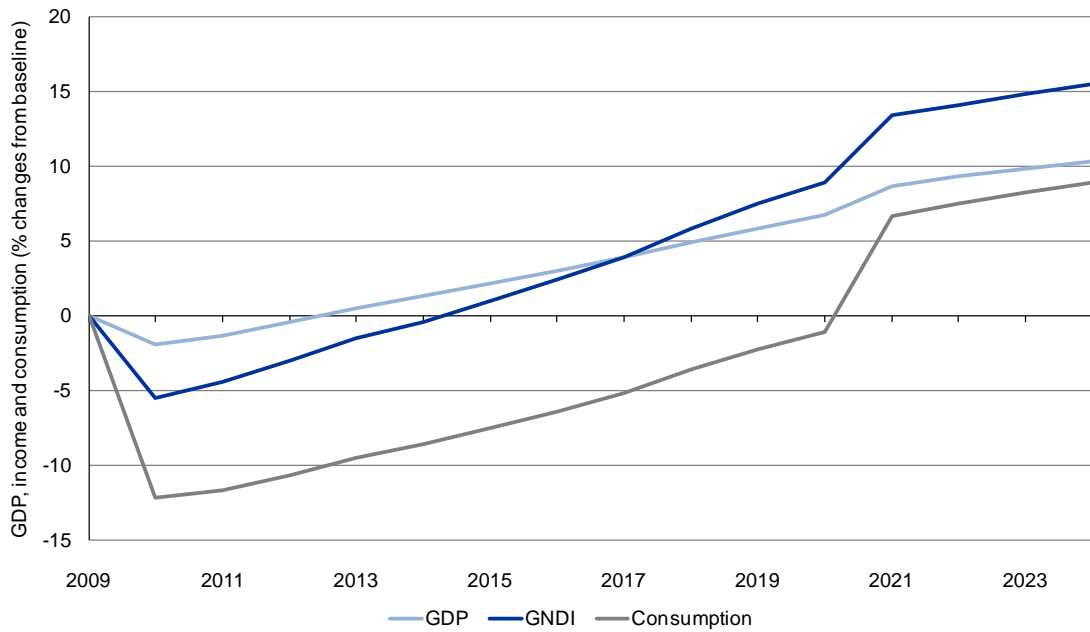
Source: NZIER

Increased saving reduces the exchange rate, so net exports rise (scenario 1).



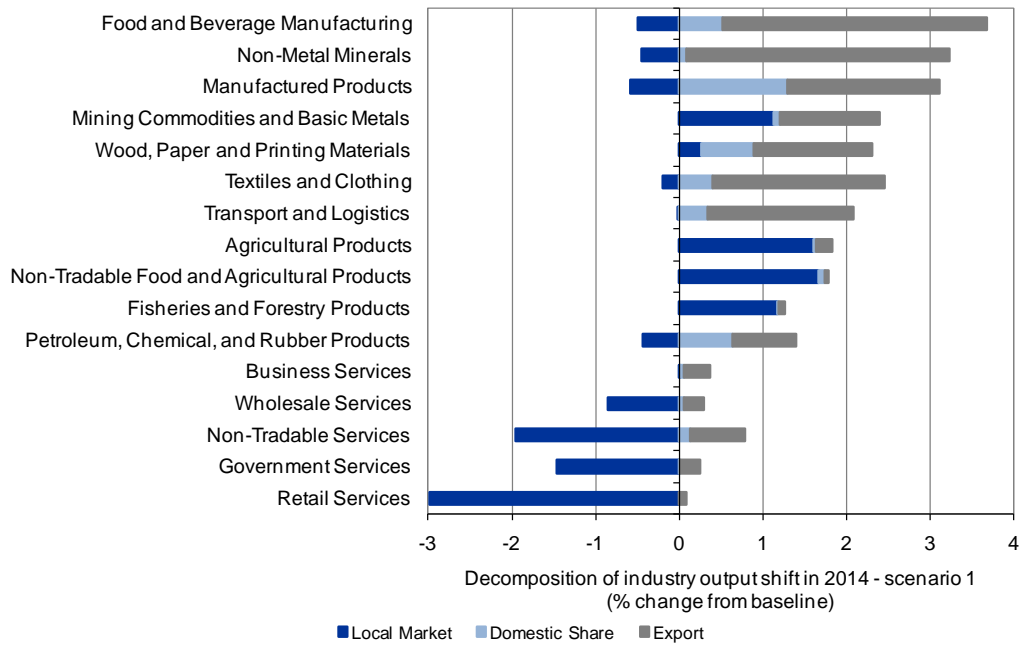
Source: NZIER

GDP and GNDI initially drop but then grow strongly (scenario 2).



Source: NZIER

The economy re-balances as tradable industries expand and non-tradable ones contract (scenario 1).



Source: NZIER

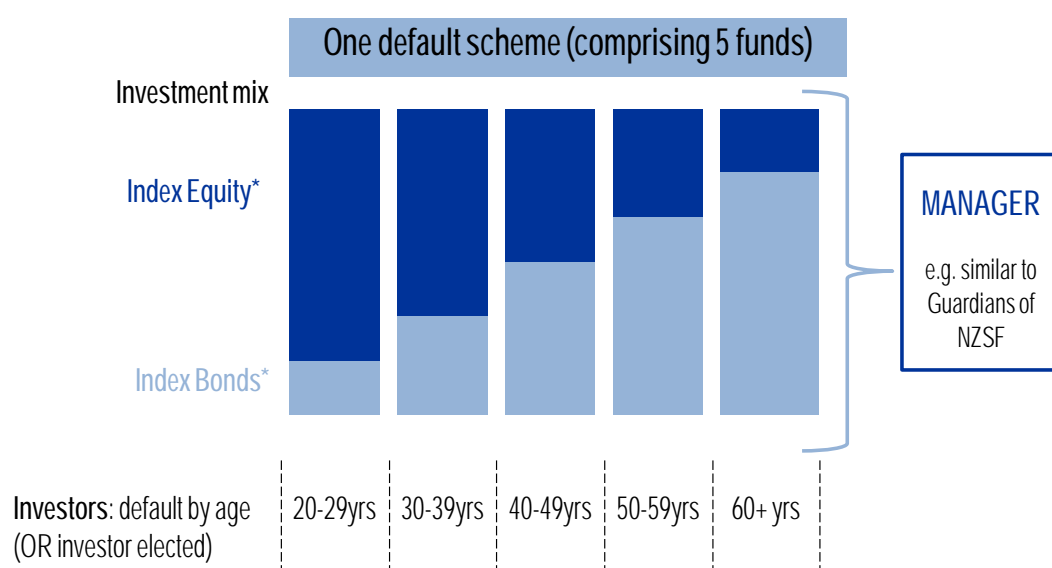
KiwiSaver

SWG estimated the impact of KiwiSaver on national saving. Assuming employee contributions remain at 2% and the KiwiSaver membership rate increases to 60% of employed people (scenario A), it is estimated that national saving could rise by 0.2% of GDP. Under compulsion, with 100% membership of the employed and 2% employee contributions, this national saving effect increases to 0.4% of GDP (scenario B). Under compulsion with 4% employee contributions, national saving is estimated to rise by 0.8% of GDP (scenario C).

Unless stated otherwise, all figures are % of GDP	A	B	C
Main assumptions:			
KiwiSaver membership, % of total employed	60%	100%	100%
Employees' contribution rate, % of wages	2%	2%	4%
Results:			
Total household contributions	0.6	1.1	2.1
"Additional" household contributions	0.2	0.4	0.8
Impact on net foreign assets after 10 years	2.4	3.9	7.9
Impact on net foreign assets after 20 years	4.7	7.9	15.7
Memo items:			
Government's contributions via tax credit	0.5	0.9	0.9
Tax concession on employer contributions	0.2	0.3	0.3
Total cost to government	0.7	1.2	1.2
Alternative calculation of "additional" saving	0.6	1.0	1.4

Source: SWG Secretariat

The SWG recommends a single default scheme. The figure below gives an example of the KiwiSaver industry structure with one default scheme and age-appropriate funds.



* Investment managed by 5-7 private sector managers