

From Rock Star to Rock Solid Economy

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Tena koutou katoa. Thank you all for coming. On behalf of my Treasury colleagues, we really appreciate the chance to catch up with people whose efforts contribute towards higher living standards for New Zealanders, and who help us do a better job advising the government on issues that matter.

It's great to be in Christchurch. This is an important place for me personally as a trustee for the Christchurch Earthquake Appeal Trust. And of course this is an important place for the economy – not just because of the rebuild, but because of the thousands of Cantabrians who have kept working hard through good times and tough times in New Zealand's second-biggest city.

I'm keen to get around and have a chat with as many of you as I can, but first I'd like to say a few words about economic conditions and opportunities, and how Christchurch can be a model for innovation and sustainable growth for New Zealand.

After six years some of the gloom around the global economy appears to be lifting. For advanced economies at least, growth forecasts are looking better. On the other hand, growth in emerging economies is coming off the boil. The Treasury's forecast for the global economy is for steady but uneven growth, with the possibility of further economic and financial market turbulence. So while we may have seen the back of the worst of the Great Recession, I expect volatility will be with us for a long time to come.

Here at home, the short-term outlook for the New Zealand economy stacks up very well against most of the countries to which we like to compare ourselves. GDP growth is recovering to levels we haven't seen in recent years. Business confidence is up. Terms of trade are the highest they've been since 1973, helped by strong prices for our dairy exports. And for the next few years, the Canterbury rebuild will remain a key driver of economic growth.

You may have heard New Zealand referred to as a 'rock star' economy in the media recently. That's a nice enough title to have until next season's winner of "Economy Idol" comes along. But what's really important is for New Zealand to use the opportunities from higher growth in our 'rock star' economy in the short term, and build the basis of a rock solid economy with sustainable and inclusive growth for the long term. So what are some of the ways we can do that?

One thing we have to do is avoid rock star excess. As the Government's books improve there may be a temptation to change fiscal strategy and consider various forms of fiscal stimulus, but the Treasury's view is that we'd be wise to show restraint for a number of reasons.

Having a buffer in the Crown's balance sheet helped New Zealand to manage the double blow of the Canterbury earthquakes and the global financial crisis. Now is the time to steadily reduce debt and restore that buffer.

Too much fiscal stimulus at this point of the economic cycle also risks driving interest rates up higher than they would naturally be. That could, among other things, push up the exchange rate and make it harder for our exporters.

When the government does spend money, it's crucial that the spending is tightly managed. That's particularly so for the \$15 billion the Crown is investing in the Christchurch rebuild. We want the people of Christchurch and the rest of the country to get every ounce of value they can from that investment, not have it eroded by unnecessary hold-ups, spending or cost increases.

Another critical area for sustained economic success is to increase our international connections. Being more connected into global flows of people, capital, trade and ideas will boost our productivity and help us in overcoming some of the obstacles created by our size and distance.

I think Christchurch can be a great role model for this. You've got the port and airport that serve as connection points between New Zealand and global markets. You're home to universities, polytechnics and research organisations that tap into international expertise. There are businesspeople here with commercial and personal ties around the world. Show the rest of the country how it's done.

Christchurch could also set the example for companies to invest in productivity improvements. For example, there are indications that productivity in the construction sector is getting better. Are there lessons being learned by companies involved in the rebuild that could make others in the sector more productive?

I know the public sector has already learned from its recent experiences in Christchurch. After the earthquakes the public sector had to think about how best to operate in trying circumstances, so we did a few things differently – and I believe more efficiently – such as sharing offices and delivering services in a more joined-up way. It's important for the momentum of new thinking and innovation in the public sector to keep going.

I'm also interested to see innovation being built into the city itself. You may have heard of the Sensing City initiative, which is using the rebuild as an opportunity to put digital sensor technology in infrastructure around Christchurch. Callaghan Innovation is providing support for some initial projects and I look forward to seeing the results.

In closing, I want to say I'm optimistic about the future of New Zealand and I'm particularly optimistic about the future of Christchurch. This is a fantastic city, and it's a pleasure for the Treasury to spend time with people who make it that way.

I hope you enjoy the rest of the evening.