THE TREASURY
Kaitohutohu Kaupapa Rawa

FEC Opening Remarks

Gabriel Makhlouf, Secretary to the Treasury

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Good morning. I'd like to open with a few short comments on our recent Budget Economic and Fiscal Update and briefly touch on management of the Crown's balance sheet.

The Budget Update confirmed that New Zealand's economy is entering its fourth year of expansion with real GDP estimated to be growing at around a 4 percent annualised pace. We expect that pace will slacken a little, but still be a brisk 2.8 percent on average over the next five years.

The main factors pushing the momentum of our growth are near record-high terms of trade, the Canterbury rebuild, strong net migration and stimulatory monetary settings. And last month's data releases show strong demand continuing on the part of households and firms. We're forecasting real private spending growth to accelerate to just shy of 7 percent during the year ahead.

Other recent data is looking solid too. Both the Consumer Price Index and the current account deficit are low at present, and the labour market continued to improve in the March quarter. That improvement is in line with our Budget forecasts of employment going up and the unemployment rate coming down over time to below 5 percent.

We are, as you know, forecasting a return to an OBEGAL surplus of $372 million in 2014/15.

As the books return to positive territory and surpluses grow in the years ahead, there may be a temptation to change fiscal strategy and consider various forms of fiscal stimulus. But we would caution restraint. Fiscal policy and monetary policy need to keep working together to help us manage pressures in the economy. Too much fiscal stimulus at this point of the economic cycle risks driving interest rates up higher than they would otherwise be. That could, among other things, push up the exchange rate and make it harder for our exporters. It's also important that we rebuild the fiscal buffers and steadily reduce net core Crown debt.

The latest international economic developments are also consistent overall with our forecasts. The United Kingdom and Australia did slightly better than expected in the March quarter, while the United States and China were slightly weaker. In recent days we've had the World Bank revise down its growth expectations for emerging economies, the IMF has done the same for the United States, and geopolitical risks in the Middle East could threaten world oil prices. We noted in the Budget Update that risks were tilted toward the downside and our global economic outlook remains broadly unchanged.

While the Budget tends to focus on the management of the Crown's day-to-day finances, the Investment Statement we published in March reports on the management of the Crown's assets and liabilities. With around $245 billion worth of assets and over $175 billion worth of liabilities, the Crown's balance sheet is large and it's getting larger. It's also becoming more complex and more heavily weighted toward financial assets.

Owning the right assets, managing them well, funding them sustainably, and managing risks to the Crown's balance sheet, are all critical to the provision of high-quality and cost-effective public goods and services. In particular, the coming demographic challenges mean that the quality of balance sheet management will become increasingly important to underpinning New Zealanders' living standards now and in the future. To that end, the Treasury will be working with agencies on systems for better information collection and evaluation leading up to the next Investment Statement. We will also be working to develop performance targets to better support the management of the balance sheet, as the Government indicated in its Fiscal Strategy Report. Our aim is to bring our management of capital up to the same high standard as our management of operating expenses.

Thank you.