THE TREASURY
Kaitohutohu Kaupapa Rawa

Opening Statement

Parliament's Finance & Expenditure Select Committee

Delivered by Gabriel Makhlouf, Secretary to the Treasury

30 November 2016

Good morning. Normally I would take this opportunity to provide the Committee with the latest information on the economy, but the *Half-Year Economic and Fiscal Update* will be published next week. Instead I will talk briefly about the economic and fiscal impacts of the Kaikōura earthquakes.

The earthquake on 14 November and subsequent aftershocks have definitely had an effect on the economy and the Government's fiscal position, but there is uncertainty at this time over the magnitude and timing.

Preliminary estimates suggest that direct fiscal costs of the earthquakes could be around $2 to $3 billion. However, some of this is expected to be funded by insurance proceeds or existing resources.

It is the people, businesses and communities in North Canterbury that have borne the brunt of the quakes. I want to acknowledge the difficulties they are going through, and also recognise the incredible way people have pulled together. Despite this heavy regional impact, it's our assessment at this stage that the earthquakes won't have much impact on economic activity at a national level. The OECD has recently taken a similar view.

The areas most affected by the earthquakes – the Kaikōura and Hurunui districts – make up around 0.4% of all New Zealand households, whereas – for comparison purposes – the areas hit hardest by the Canterbury earthquakes accounted for around 10% of all

households. Kaikōura and the surrounding region is a beautiful area for tourists but accounts for only about 1.0% of total tourist spending in New Zealand.

Tourism and primary production are the industries most likely to be affected because of damage to key infrastructure and disruption of access to the region. There was of course damage in Wellington too, with some commercial buildings in the city centre and part of the port being put out of action.

Some effects are expected to be felt further afield as well. The extensive damage to the road and rail network in the north-east of the South Island will affect not only that region but also the transport of people and freight between much of the rest of the South Island and the North Island. The disruption of transport links through the Kaikōura region is expected to add costs to freight and travel.

There may also be wider impacts on tourism elsewhere in the country if people cancel, postpone, or redirect trips within New Zealand because of the disruption or the risk of more earthquakes. Nevertheless, at this stage this effect is thought to be relatively small and the overall impact on tourism will be less than the Canterbury earthquakes.

Over time, the negative impacts of the earthquakes on economic activity are expected to be offset by repair and reconstruction kicking into gear. To some extent, reconstruction work is likely to be at the expense of other work in the construction sector or it may lead to higher costs for things like materials or local wages.

As I mentioned earlier the earthquakes will result in additional costs to government. As with the Canterbury earthquakes, spending is likely to include providing short-term support and recovery assistance, contributing to the reconstruction of infrastructure, repairing government-owned property, as well as meeting the costs of claims to EQC for residential property damage assuming the Crown guarantee is called. The nature of the damage is different from the Canterbury earthquakes, with significant costs for the road and rail networks the region. Damage in Wellington will also result in costs.

To recap, preliminary estimates based on available information suggest that direct fiscal costs of the earthquakes could be in the range of $2 to $3 billion, which would be a mixture of operating expenses such as EQC claims costs, and capital expenditure for work such as rebuilding state highways. Timing of these costs is uncertain. And finally I should add that the estimates don’t include future decisions the Government may make about the nature of the recovery and rebuild.