FEC opening statement 8 February 2017

Good afternoon. I'd like to open with a short recap of the main points from the Half Year Economic and Fiscal Update (or HYEFU) released in December and cover a few developments we've seen so far in 2017.

HYEFU reflected the Crown balance sheet being in solid shape and a more positive economic outlook than we assumed in Budget 2016. GDP is forecast to grow at 3.7% this year and average about 3 per cent over the next five years. Despite an estimated $1 billion net spending increase because of the Kaikōura earthquakes, the OBEGAL surplus is expected to be about $0.5 billion in 2017, rising each year to $8.5 billion by 2021. And with infrastructure being a priority, capital spending allowances increased by NZ$5.4 billion over the next four years. HYEFU also showed net debt is forecast to reduce to 20% of GDP by 2020, and signalled that New Zealand Super Fund contributions are expected to resume in 2021.

These HYEFU forecasts represent the Treasury's best professional judgement, but there are potential risks that could affect them. We would be concerned if there was an international shock that lowered our trading partners' growth and increased global financial market volatility. It could prompt a fall in export demand, asset prices, the New Zealand dollar and the terms of trade, leading to lower investor and consumer confidence. In this scenario, nominal GDP, tax revenue and OBEGAL would all be lower than forecast.

However, so far the economic outlook has improved a notch since HYEFU. Commodity prices have increased, contributing to New Zealand's nominal GDP being a bit stronger than we forecast. And though it's early days, tax revenue is up on forecast too, particularly GST. Annual inflation is also up to 1.3% after spending the last 2 years under the 1% mark. Our inflation rate now sits around the middle of the pack with our trading partners, higher than Japan and the EU, and slightly lower than Australia, China, the United States and the United Kingdom.

New Zealand's net migration numbers are still higher than expected. The latest figures from Statistics NZ show a record 70,600 more migrants arrived in New Zealand than left in the 2016 calendar year. The biggest groups arriving were working visa holders and New Zealand and Australian citizens. Our assumption in HYEFU is for net inward migration of 20,000 people in 2020 and then reverting to 15,000 people in 2022, though I would add that we regularly put our assumptions under review.

There's just a hint of sunshine starting to come through in forecasts of global growth. For example, the International Monetary Fund's World Economic Outlook in January was more positive than early reports, with the IMF raising its GDP growth forecasts for the developed world in 2017. As expected, growth in China is slowing at a steady pace, but we should remember it remains at quite a healthy level. China's GDP growth was 6.7% last year and is still forecast to be 6.5% next year and 6.0% the year after. And while international trade is certainly a hot topic right now, what I'd say is that 22% of our goods trade is with Australia, 24% with China, and 29% with ten other major Asian economies in total. Our markets are diverse and our trade relationships are strong, especially in the Asia-Pacific region.