Opening Address
New Zealand's Macroeconomic Imbalances – Causes and Remedies Forum

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It is a great pleasure for me to welcome you all here to this forum, as we try to better understand the causes and remedies of New Zealand's key macroeconomic imbalances.

I would like to thank the Reserve Bank of New Zealand and Victoria University of Wellington for their significant contribution to making this forum happen. Coming from the UK, I am struck by how willing New Zealand institutions are to come together to work through big cross-cutting issues such as this. This is a feature that should be encouraged. I would also like to thank the presenters for all of the work that they have put into preparing for this forum, as well as to the international visitors, who have successfully avoided ash clouds in travelling significant distances to be here.

When planning this forum, we anticipated three main benefits. First and foremost, we saw it as a practical opportunity to advance our understanding of the longer-term macroeconomic challenges facing New Zealand and the potential role that different policy options can or might play in addressing them. Many of these issues are idiosyncratic to New Zealand and, therefore, we saw it as critical to have in-depth research that is focused on New Zealand. This forum has afforded us the rich opportunity to commission research intended to offer fresh and challenging perspectives, drawing on the best international experience/evidence and some sustained engagement with the details of the New Zealand situation.

Second, by holding the forum in a relatively open environment such as this, the ideas will be shared and debated with a wide range of policy people, commentators and researchers, informing and enhancing the quality of the ongoing public debate of these issues, which will carry on well beyond the end of this forum.

Finally, it is part of the Treasury's role as the Government's lead advisor on economic, financial and regulatory issues, and reflects our interest in being at the leading edge of new economic thinking.

The broad context for this forum is that, while New Zealand's policy framework has generally been fairly well regarded by international analysts and commentators, income gaps with respect to other advanced economies remain large and a number of ongoing imbalances in the economy have widened. Moreover, New Zealand average real interest rates are typically among the highest in the advanced world. Over the decade prior to the recession, floating mortgage interest rates averaged 8.4 percent. This compares to annual growth in nominal GDP per capita averaging just 4.6 percent over the same period.

Despite these high interest rates, New Zealand firms and households have continued to take on debt as rapidly as their counterparts in other advanced countries. National savings have been consistently low, despite a reasonably strong Crown balance sheet, and households have only limited financial assets. More recently, after 15 years of surpluses, the structural fiscal position has also moved into significant deficit.

The deficit in the current account of the balance of payments has consistently been among the larger seen in advanced countries. The cumulative result is a net international investment position that, as a share of GDP, has widened to levels seen in a number of countries that have come under severe market pressure to adjust in recent years. In the course of the past decade, house and farm prices boomed, reaching apparently unsustainable levels. New Zealand weathered the worst of the world recession of 2008 and 2009 better than some, partly thanks to the strong terms of trade, but also with little sign that the accumulated imbalances are yet correcting very much. The size of exchange rate cycles has also been a consistent source of concern in the domestic economic policy debate. Moreover, the persistent strength of the exchange rate despite the sustained decades-long deterioration in New Zealand's relative productivity performance warrants more attention than it is sometimes given.

The first set of questions to address at this forum relate to the contribution that these so called imbalances may have made to New Zealand's per capita GDP: Why has it remained well in the bottom half of the OECD? And do the imbalances also expose us to a nasty adjustment should foreign creditors lose their appetite for investing in New Zealand? The second set of questions relate to what options there are for addressing these imbalances.

This week's forum builds on an earlier one, held in 2006 near the peak of the last boom, focused mostly on whether there were options that might reduce the amplitude of real exchange rate fluctuations. Sebastian Edwards, our first keynote speaker this morning, also spoke at the 2006 forum.

Key takeouts from that forum were:
- The essential elements of New Zealand's macroeconomic policy frameworks were fundamentally sound.
- But there remained some questions around: the role and conduct of monetary policy; the stabilisation role of fiscal policy; exchange rate variability; and structural policies relating to residential investment.

Some of these questions are exactly the topics being addressed in the papers that will be presented here over the next two days, and with the benefit of the testing economic experiences New Zealand and other countries have gone through in recent years.

So what should we focus on?
- First, many aspects of the macro framework appear to have served New Zealand well. But, at the same time, New Zealanders have a long and proud track record of being willing to push the boat out and to honestly and methodically re-assess how we might make things better. The changing global environment in the wake of the global financial crisis, and the pressing New Zealand-specific economic puzzles and challenges provides a good opportunity and a pressing reason to do this once again.
- Second, when thinking about potential causes and remedies, we should remember that many of New Zealand's imbalances have been around for a number of decades. Therefore, while it is important to think about it, we need to ensure that the discussion is not just focused on the most recent business cycle.
- Third, are there are respects in which New Zealand is unique and if so does that mean we should be more open to ideas not commonly adopted internationally?
- Fourth, some things have been tried. Which of those have worked and which ones haven't? Which ideas have been rejected and why?
- And finally, we should think how possible alternative approaches can address the real world political economy constraints posed by alternative institutional models.

On that note, thank you once again for joining us here for what should be a very stimulating and challenging couple of days. We will all benefit from open and vigorous debate, and serious scrutiny of alternative perspectives. I now pass you over to Tim Hampton, who is one of the members of the Forum Steering Group and Chair of the first session. Tim is manager of one of the Macroeconomic Policy teams at the Treasury.

Thank you