

Executive summary

Main findings

The New Zealand economy is beginning to gain some momentum, with post-earthquake reconstruction, business investment and household spending gathering pace. Risks to growth remain, however, stemming from high private debt levels, weak foreign demand, large external imbalances, volatile terms of trade, a severe drought and an exchange rate that appears overvalued. The main structural challenge will be to create the conditions that encourage resources to shift towards more sustainable sources of prosperity. Incomes per head are well below the OECD average, and productivity growth has been sluggish for a long time. Lifting living standards sustainably and equitably will require structural reforms to improve productivity performance and the quality of human capital.

Macroeconomic policies strike the right balance between supporting the recovery and ensuring medium-term sustainability. Monetary policy is appropriately accommodative, given the high exchange rate, weak employment growth and subdued inflation. However, domestic demand is firming, and price pressures from earthquake rebuilding and housing markets are likely to strengthen. The largely Australian owned banking system is in good shape, and effectively supervised, but rising house prices could pose risks to financial stability. Fiscal consolidation is on track to restoring surpluses. Achieving sustained reductions in government debt will establish a favourable starting position for confronting the longer-term cost pressures resulting from demographic ageing. It will also tend to raise national saving rates, thereby reducing external vulnerabilities.

Policy makers are increasingly attuned to social equity and welfare. Though New Zealand ranks highly on many dimensions of well-being, some show a wide dispersion. The redistributive power of the tax and transfer system is around the OECD average. To soften the impact of henceforth tight budgets on social protection, reforms are underway for improved prioritisation, efficiency and coherence in service delivery by central government. Tax and spending changes to bolster fiscal policy's contributions to growth, equity and the environment remain important. Welfare reforms are attempting to reduce long-run benefit dependency by emphasising education and training of at-risk youth, with greater conditionality on beneficiaries and strengthened accountability on public and private providers. Improving education, health, employment and social outcomes for the large Maori and Pacific minorities is needed to reduce social disparities.

Boosting productivity is key to long-term growth prospects. Low trade intensity and limited engagement in global value chains suggest New Zealand is not reaping the full productivity-enhancing benefits of globalisation, perhaps in part because of the persistent overvaluation of the exchange rate. Inefficiencies in the information and communications technology infrastructure may undermine international connectedness. Regulatory uncertainties may be stunting competitive pressures and opportunities for foreign investment. Meanwhile, low levels of research and development may also be impeding the adoption of foreign technologies and ideas. New Zealand makes generally efficient use of its abundant natural capital, which bodes well for the sustainability of growth. The carbon price signal remains muted in the absence of internationally agreed emissions targets, and some tax settings appear to favour fossil fuel exploration.

There are weaknesses in school-to-work transitions, notably among ethnic minorities, hindering the development and use of the nation's human capital. Standardised tests indicate a long tail of school underachievers, despite high average scores. The high drop-out rate is a concern; as part of its growth agenda, the government aims to reduce it rapidly. Lack of school qualifications results in youth unemployment, which has increased sharply since the crisis, and high rates of youth neither in education nor in employment or training. The government has targeted improved teaching quality to reduce disparities in scholastic achievement. It has also created new vocational pathways to engage at-risk youth and to strengthen education-work linkages.

Key recommendations

Adapting the macroeconomic policy mix to changing circumstances

- Maintain the current monetary policy stance, but as excess capacity dissipates and forecast inflation picks up, gradually remove monetary stimulus.
- Deliver on the fiscal consolidation targets. If the economy picks up more strongly than expected, accelerate structural fiscal consolidation in light of external vulnerabilities.
- While recognising the current strength of the financial system, contain emerging risks to financial system stability with tighter prudential policy settings, including the deployment of new macro-prudential policy instruments. Consider implementing bank leverage ratios, permanent deposit insurance and higher capital requirements for too-big-to-fail banks.

Adjusting policies to improve equity and efficiency

- Take early steps to address long-term cost pressures associated with an ageing population.
- Raise the pension eligibility age in line with longevity. Consider increasing further the KiwiSaver minimum contribution rates and indexing NZ Superannuation benefits wholly or partly to the CPI.
- Target the Working for Families programme more tightly on the working poor by lowering upper income thresholds and increasing abatement rates. Likewise, vary early childhood education (ECE) subsidies with the level of income.
- Implement a capital gains tax and boost environmental and property or land taxes to facilitate a more efficient and equitable tax structure.

Supporting sustainable long-term growth

- Clarify the competition policy framework for the broadband market, and adjust regulations to ensure clear and consistent pricing strategies for copper and fibre networks.
- Improve the transparency of the foreign direct investment screening regime, and streamline approval processes within the Resource Management Act.
- Review the tax treatment of patent sales to ensure consistency with international best practice, and consider allowing accelerated depreciation of patent assets. Redesign the Technology Development Grants to clarify and simplify the approval criteria and ensure access for small start-ups.
- Strengthen price signals within the Emissions Trading Scheme by phasing out transition provisions. In the meantime cap and auction domestic allocations. Remove tax concessions for petroleum exploration.

Improving the school-to-work transition

- Ensure greater ECE participation by children from disadvantaged backgrounds by increasing incentives for suppliers to enter into areas of low provision and for demand from parents to increase.
- Provide incentives and opportunities to amalgamate and cluster fragmented school networks so as to achieve efficiencies and educational benefits.
- Devolve funding for a greater share of overall school costs, including teacher pay, providing schools with greater flexibility to allocate resources and manage performance.
- Strengthen the quality of apprenticeships by facilitating participation by disadvantaged youth, improving quality assurance, and ensuring funding adequacy and enhanced accountability for outcomes.



From:
OECD Economic Surveys: New Zealand 2013

Access the complete publication at:
https://doi.org/10.1787/eco_surveys-nzl-2013-en

Please cite this chapter as:

OECD (2013), "Executive summary", in *OECD Economic Surveys: New Zealand 2013*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_surveys-nzl-2013-2-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.