Hon Bill English

Minister of Finance

Speech to the Auckland Chamber of Commerce and Massey University

Grand Tea Room, Heritage Hotel, Auckland

Wednesday February 26 2014

Good afternoon. It's a pleasure to be with you again today.

My thanks to Michael and the Auckland Chamber of Commerce, and Steve and Massey University, for inviting me back to this annual event.

This is the fifth time I've spoken at this forum since becoming Minister of Finance.

With your support later this year, I look forward to returning in 2015.

Today I'd like to update you on the Government's economic programme and summarise the opportunities we have to lock in the benefits of our improving economy.

And I want to talk about what you can expect from another National-led Government, should we have the privilege of a third term.

Our approach will remain clear and predictable.

In the shorter term, we've worked to protect New Zealanders from the sharpest edges of the recession, and to help the people of Christchurch through the devastating earthquakes.

We have incurred significant extra debt by spending in excess of our revenue to protect the most vulnerable families, to maintain living standards and to support the renewal of our second-largest city.

As the economy improves, we will begin repaying that debt until it is down to prudent levels.

At the same time, we have set out on a longer-term path to repair the damage to our economy from several years of excessive borrowing, consumption and government spending, and the global financial crisis.

So together with households and businesses, we are rebuilding the economy's capacity to deliver more jobs and higher incomes over the next decade. We are starting to see positive results.

More recently, the Government's focus has moved from managing our way out of recession to managing a growing economy.

Initially, growth in the economy has been driven by high prices for our export markets, a catch-up in housing supply and the Christchurch rebuild.

This momentum is turning into a broader-based recovery where consumer and business confidence has lifted, employment is rising across the board and wages on average are increasing ahead of the cost of living.

However, the Government is taking a long-term view about the health of our economy. Each of the initial drivers of growth will peak over the next few years.

Export prices are likely to come back closer to normal levels, housing supply will eventually catch up and the Christchurch rebuild will peak and eventually slow.

We are setting out to manage this growing economy with a five to 10-year view in mind.

The Government will continue to focus on lifting New Zealand's underlying growth rate so that beyond the peak of this economic cycle, incomes continue to rise and new jobs continue to be created.

And it's critical we maintain a long-term focus. The rest of the world will not stand still.

By 2017, Australia, the US, the UK and Europe will have spent a decade since the global financial crisis becoming more innovative and more competitive.

And while emerging economies face uncertainty in the short term, they will continue their march up the value chain in the long term, adding to competitive pressure.

So later in the decade, we will be challenged again on our ability to improve the standard of living for all New Zealanders.

Our task is to take the opportunity of a reasonable growth outlook to deepen investment, upgrade skills, intensify and diversify our export base and rethink the next stage of gaining competitiveness.

We must avoid complacency that might flow from believing today's good times are permanent.

We don’t want to make a habit of doing the hard work under pressure, then putting our feet up just when the serious long-term gains are within our reach.

We’ve seen that happen in the last decade.

Until the mid-2000s, New Zealand enjoyed a period of low inflation and high growth.

Complacency then led to a rapid pick-up in government spending, policy that undermined competitiveness, soaring house prices and an unprecedented increase in household debt.

By 2008, households faced mortgage rates of almost 11 per cent and business rates exceeded 9 per cent.

The high cost of capital dampened business and investment growth.

It’s likely that relatively low productivity growth recently is a result of that drop in investment.

So while some increase in interest rates is an inevitable consequence of a growing economy, we need to do everything we can to ensure they don’t rise too sharply in the next few years.

We must create the conditions where higher levels of skills and better conditions for investment lay the foundation for more innovation, more diversification and more capital intensity.

Two areas where the Government can act to dampen the interest rate cycle are through housing market regulation and through government spending control.

Demand for housing is rising, and a sharp turnaround in migration flows will push demand even higher.

Planning rules and attitudes have restricted the supply of new houses that can be built in response to this demand.

We are working to significantly increase the supply of housing, particularly in Auckland and Christchurch.

The Government remains determined to free up supply so more low- and middle-income families can benefit from home ownership and so we can protect the wider economy from unnecessarily high interest rates.

Careful government spending will also help to keep interest rates lower, as the Reserve Bank regularly points out.

Politicians should not splash cash everywhere just because we are within sight of a paper-thin budget surplus next year.

If governments make large cash injections into the economy when house prices are already high, interest rates will be pushed up further.

Our strong focus on better public services demonstrates that a system organised around getting results community by community can achieve so much.

In fact, the possibility of more spending can be a distraction from a growing focus in the public sector on solving complex problems rather than throwing money at them.

The National-led Government intends to avoid repeating the mistakes of the previous economic cycle.

And we believe we have the support of New Zealanders who can remember the dashed hopes of debt-fuelled growth and floating mortgage rates above 10 per cent.

They will benefit most from a stronger, more stable, economy that can again weather global storms and deliver higher incomes and more jobs.

But to take advantage of the opportunities we have, we must continue our relentless focus on doing hundreds of things better.

New Zealand’s productivity growth can be improved.

We know it will lift if all our efforts focus on higher skill levels for all New Zealanders and excellent conditions for more business investment.

As I mentioned to you last year, we’ve pulled all of this together in the Business Growth Agenda work programme.

This has six focus areas:

- Export markets
- Capital markets

- Innovation
- Skilled and safe workplaces
- Natural resources
- And infrastructure

The programme will be refreshed this year. I want to thank the business community for its participation in open and constructive discussions and helping to develop the Agenda.

Improving New Zealand's capital markets is one of the focus areas within that work programme.

The Government's share offer programme is contributing to deepening capital markets so more businesses can source the capital they need for new investment.

Our sale of minority shareholdings in three energy companies and Air New Zealand is delivering several benefits – including reducing the need to run up more debt to pay for new public assets.

It is also reducing risk for taxpayers.

The public sector is not well-equipped to manage the risks of commercial businesses operating in competitive markets.

Sadly and expensively for taxpayers, Solid Energy proves this point.

Full government ownership of most electricity generation was likely to become more problematic as market competition intensified – as illustrated by the fact that 20 per cent of all consumers changed suppliers last year.

The energy companies in the share offer programme will benefit from extra market scrutiny in the same way Air New Zealand has since it was set up as a mixed ownership company by the previous government.

A 100 per cent government-owned Air New Zealand would certainly not be the nimble, world-beating airline it has become.

As you will know, last year we successfully floated minority shareholdings in Mighty River Power and Meridian Energy, and we sold down 20 per cent of the Crown's shareholding in Air New Zealand.

We met every one of the tests we set for the share offer programme.

New Zealanders were at the front of the queue for shares.

Including the Government's majority stakes, at least 85 per cent of the shares were held by New Zealanders after each float.

We've so far raised around $4 billion, which is being invested in new public assets such as schools, hospitals and ultra-fast broadband.

That's $4 billion we don't have to borrow from overseas lenders.

And the share programme has been a shot in the arm for New Zealand's capital markets.

As the NZX has noted, 2013 was a tremendous year for the sharemarket on all fronts.

Around $7.3 billion of new capital was listed on the NZX in 2013.

The total number of trades jumped by more than 30 per cent last year.

Driving this increased activity was a renewed interest in the markets by New Zealand investors.

More than 115,000 new common shareholder numbers were issued to investors last year, taking the total number of active accounts on the NZX to 585,000.

The sharemarket is now a more attractive option for sourcing the investment required to boost productivity.

The Government's share offer programme has no doubt contributed significantly to this extra interest by New Zealanders in the sharemarket.

Today I can confirm that ministers have agreed to proceed with the last of the Government's share offers - a minority stake in Genesis Energy, subject to market conditions.

We expect to open the offer in March and complete it in time for Genesis to list on the sharemarket around the middle of April.

We will set out all of the details in the next few weeks.

As with the other share offers, New Zealanders will be at the front of the queue for Genesis shares and we remain committed to at least 85 per cent Kiwi ownership.

Each of the previous share offers was structured to meet our balanced objectives of achieving good value for taxpayers and providing opportunities for New Zealand investors.

We will be doing that again through some new features for the Genesis offer.

First, the shares will be priced at the start of the offer period – rather than at the end as we have for the previous IPOs. This process is known as a front-end book build.

It will provide more certainty for Kiwi retail investors, because they will know the price when they apply for shares.

For the first time in the Government's share offer programme, it means that New Zealand sharebrokers will bid for shares at the same time as institutions.

This will create stronger competition for shares.

We also expect that a range of independent reports from sharebrokers and other analysts will be available to New Zealand retail investors – as was the case during the Meridian IPO.

A front-end book build was used successfully last year during the Synlait, SLI Systems and Wynyard IPOs.

Second, the Government expects to sell between 30 per cent and 49 per cent of Genesis.

When we announced the share offer programme almost three years ago, we said that we would sell up to 49 per cent of these companies, subject to market conditions.

Our initial advice is that a smaller Genesis offer could increase price tension in the front-end book build by offering fewer shares to more bidders.

But we will not know that until we further test demand in the market, where investors now have a wider choice of several energy companies.

Our aim is to set a fair market price that works for both taxpayers and investors.

We will announce a final decision on how much of the company we intend to sell before the offer opens.

Third, I can confirm we will offer loyalty bonus shares to eligible New Zealand retail investors in Genesis – as we did with the Mighty River Power offer.

The quantity of bonus shares and the loyalty term will be announced at the start of the share offer.

In addition to the front-end book build and loyalty bonus scheme, we are taking another step to make the process more user-friendly for New Zealand investors.

Genesis Energy directors and the Treasury have been consulting closely with the Financial Markets Authority to produce a separate Investment Statement for the Genesis offer.

The more succinct Investment Statement will be the primary investment document for retail investors.

We will have more to say about the details and exact timing of the Genesis share offer in the next couple of weeks.

I also want to reiterate the Prime Minister's announcement earlier this week that Genesis will be the last state owned enterprise or mixed ownership company to be floated by the National-led Government.

The Government won't be selling any more shares in SOEs or mixed ownership companies – either this term or after the election.

We've achieved what we wanted to with the share offers in energy companies and Air New Zealand.

We're now returning to a business-as-usual approach to SOEs.

That obviously doesn't preclude SOEs buying and selling assets themselves, which they do all the time, or entering joint ventures or other arrangements.

The remaining SOEs are a combination of small entities, natural monopolies or companies in sectors that are unsuitable for future share offers.

What people don't realise is that the value of the share sales programme is just 2 per cent of around $250 billion of total assets owned by taxpayers.

And while the share offer programme has been going on, the Government has invested heavily in other parts of its portfolio of assets.

Our focus will remain on improving the management of this significant stock of assets, on behalf of New Zealand taxpayers who rely on them to deliver high-quality public services.

So we need to make sure they are getting the best value for this considerable investment.

I'll give you a good example. Taxpayers own $17 billion of state houses.

Around one-third of these houses are in the wrong place or are the wrong size.

The state has not kept up with the impact of changing demand in terms of the size or location of state housing.

So assistance for vulnerable New Zealanders in need is not as effective as it should be.

The Government will continue working with other housing providers who can better meet demand.

In housing and in other areas, we will continue recycling taxpayer assets to free-up money for reinvestment in areas where there is genuine demand.

This is just one example of how we will better manage existing and new capital on the Crown's balance sheet.

Conclusion

So in conclusion, later this year New Zealanders will have a clear choice as we head into the election campaign.

Under John Key's leadership, the Government, alongside households and businesses, has managed New Zealand through some of the most significant challenges we've seen in generations.

We have a faster-growing, more sustainable economy. Wages are increasing faster than the cost of living and tens of thousands more jobs are being created every year.

We are providing more elective operations, more New Zealanders are getting off welfare and into work, and the crime rate is falling.

We're on track to surplus next year, and we'll soon be able to start repaying debt and investing a bit more in priority public services.

The alternative is to put all of this at risk at the election and radically change direction.

We've already had a taste of what that change of direction would involve: a combination of high government spending, anti-market economic experiments and a lack of focus on what really matters.

That is a backward-looking policy prescription, particularly when the Government's existing programme is starting to pay dividends.

I believe New Zealand now has the opportunity to significantly improve its economic fortunes and provide a better future for New Zealand families.

We are making good progress, but there is a lot more to be done.

Providing we stick to our plan, I'm confident that we will build the brighter future New Zealanders deserve.

Thank you.

Important notice