

FINANCE

Building a Stronger Economy



Balancing the books sooner

National is on track to return the Government's books to surplus by 2014/15 and start repaying debt. That's a stark contrast to the forecasts we inherited in 2008 – a 'sea of red ink', permanent deficits, and debt soaring out of control.

The Savings Working Group said returning the Government to surplus is the most important thing we can do to increase genuine national savings and reduce New Zealand's longstanding reliance on foreign lenders.

National has taken a series of steps to get back to surplus and keep net Crown debt below 30 per cent of GDP. This will help keep interest rates lower for longer, increase national savings, and avoid leaving a debt burden for future generations.

Building national savings

These steps are part of our wider programme to build national savings. This includes:

- The biggest tax reforms for 25 years, which reduced tax on savings.
- Increasing minimum KiwiSaver contributions from employees and employers in 2013.
- Establishing KiwiSaver auto-enrolment in 2014, subject to returning to surplus.
- Resuming payments to the NZ Super Fund when the Government returns to surplus.
- Providing more investment options for Kiwis through the mixed ownership model.

Key points

National is committed to:

- Returning to surplus in 2014/15.
- New operating allowances of no more than:
 - \$800 million in 2012/13.
 - \$800 million in 2013/14.
 - \$1.2 billion in 2014/15.
- This new spending will go to health, education, and a few carefully-targeted initiatives.
- There will be no new capital allowances until Budget 2017.
- Capital spending on infrastructure and public assets will come from the Future Investment Fund to help keep net Crown debt below 30 per cent of GDP.

We are:

- Balancing the books sooner.
- Better managing taxpayer assets.
- Building genuine national savings.
- Building a tax system that rewards hard work and savings.

Related policies

→ Future Investment Fund

What Labour left us...

A sea of red ink

When Labour left office in 2008, the Treasury forecasts were drowning in red ink.

They showed permanent budget deficits and government debt soaring out of control.

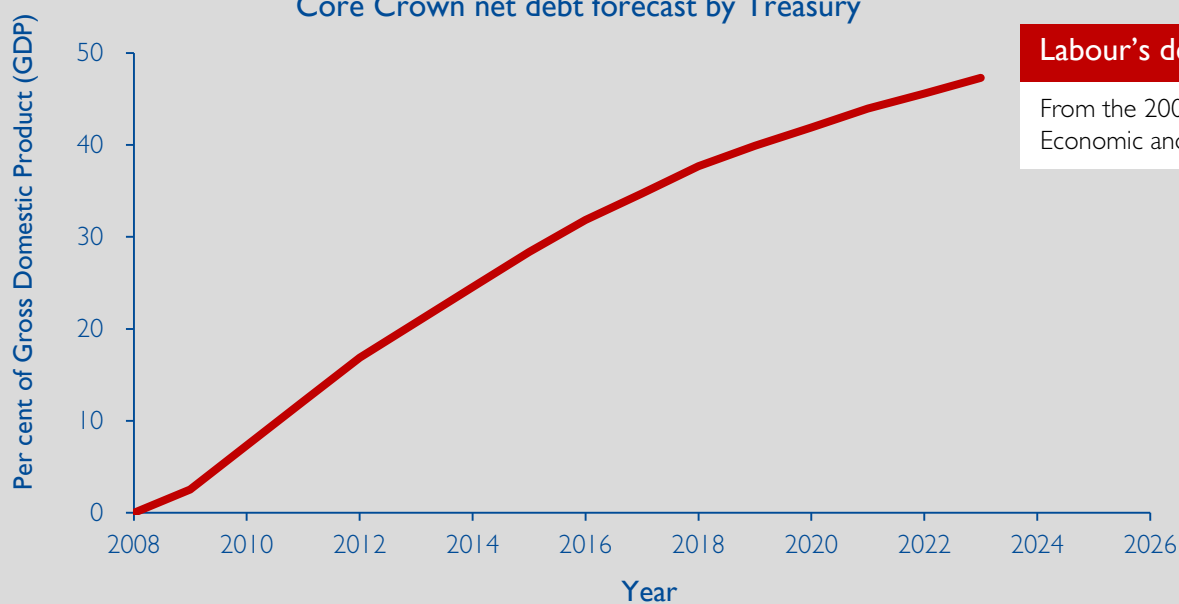
Labour had the best of global economic times. Yet, for a number of years, a debt-fuelled consumption boom papered over gaping cracks in the economy.

While the government sector boomed, the export sector went backwards.

Labour's legacy

- ✘ Government spending was out of control, growing 50 per cent – or \$22 billion in dollar terms – in Labour's last five years.
- ✘ The Treasury forecast never-ending budget deficits.
- ✘ Government debt was growing out of control and rising indefinitely (see chart below).
- ✘ Stagnant export growth since 2005.
- ✘ In the year from March 2008 to March 2009 – before National delivered its first Budget – the economy shrank 3.5 per cent and 33,000 more people became unemployed.

Government debt
Core Crown net debt forecast by Treasury



Labour's debt track

From the 2008 December Economic and Fiscal Update

National has...

Delivered a balanced plan over three years

National's plan for a stronger economy

National has provided a balanced economic plan over three years to build a more competitive economy and back Kiwis to get out there and take on the world:



We're balancing the books sooner by getting back to surplus in three years. That means less debt and lower interest rates.



We're creating incentives for people to work hard, save, and get ahead through tax and welfare changes.



We're building better roads, broadband, and other infrastructure to help goods and services get to their markets faster.



We're boosting science and innovation and pushing for more trade agreements to help Kiwi businesses grow.



All of this means a more export-focused economy with more real jobs for young people.



It means New Zealanders can have better frontline services in health and education.



And it means we can help rebuild Christchurch.

One plan, three Budgets

We have delivered on our plan over three Budgets:

Budget 2009

- ✓ Halted the rapid rise in government debt.
- ✓ Supported the vulnerable.
- ✓ Set out a path to economic recovery.

Budget 2010

Continued this improvement, while making the largest tax reforms in 25 years.

- ✓ Cut tax on savings and work.
- ✓ Increased tax on consumption and property investment.
- ✓ Closed loopholes and opportunities for tax avoidance.

Budget 2011

- ✓ Set out a faster return to budget surplus and more control of government debt, despite meeting the considerable extra costs of the Canterbury earthquakes.
- ✓ Took further steps to build genuine national savings, including increasing private contributions to KiwiSaver.

Our results so far

Government finances are steadily improving, the economy is growing, and this is already bearing fruit for New Zealand families.

The Pre-Election Economic and Fiscal Update issued on 25 October shows:

On track to surplus

- The Budget deficit reducing significantly over the next two years before we run a \$1.5 billion surplus in 2014/15.
- Most other countries will still be in deficit and running up more debt.

Debt under control

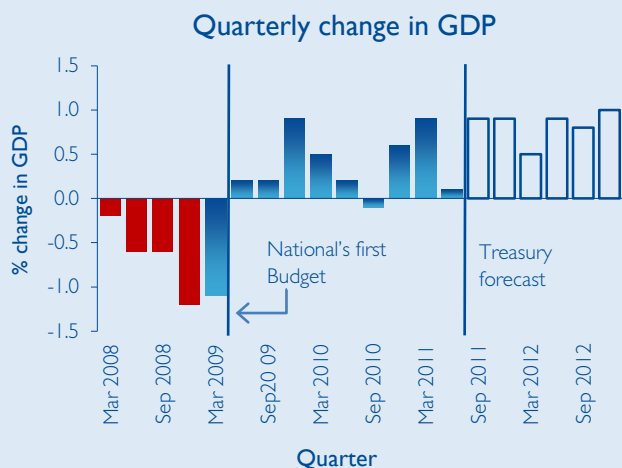
- We will limit net government debt to less than 30 per cent of gross domestic product (GDP).

Rising wages

- Over the past three years, the after-tax average wage has gone up 18 per cent in total - considerably higher than inflation.

A growing economy

- Since our first Budget in May 2009, GDP has grown in every quarter but one.



More jobs

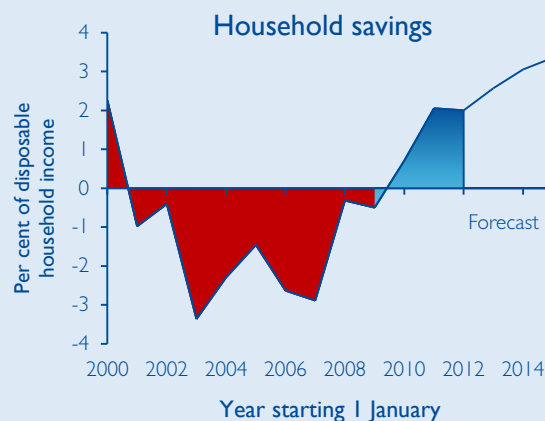
- 43,000 jobs were created in the past year.
- 170,000 more new jobs are expected by 2016 than at the time of Budget 2011.
- Unemployment will fall steadily to less than 5 per cent.

Lower interest rates

- Interest rates are at 45-year lows.
- A family with a \$200,000 floating mortgage is paying about \$200 a week less in interest payments than they would have in 2008.

Genuine savings

- Households have a positive savings rate for the first time in more than a decade.



- The balance of payments deficit has more than halved, overseas debt has fallen, and the Government itself will be contributing directly to national savings by returning to surplus.
- New Zealand's net foreign liabilities – covering households, business, and government – have fallen to 70 per cent of GDP from 85 per cent two years ago.

What we will do next...

I. Set a faster path back to surplus

The Government is on track to return to surplus by 2014/15 – when most other countries will still be in deficit.

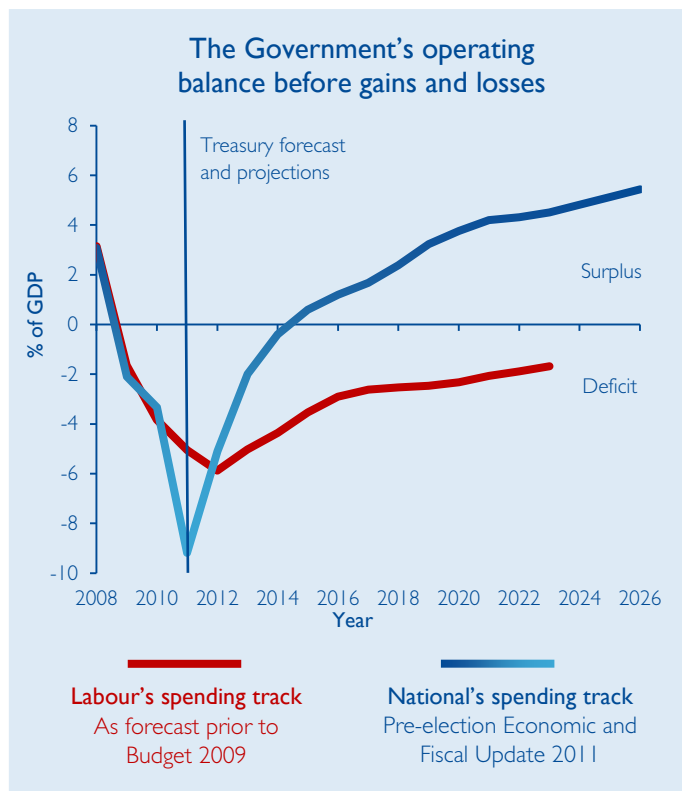
We will keep net Crown debt below 30 per cent of GDP, before it starts falling.

We're getting on top of Labour's soaring spending.

We're doing this while making KiwiSaver, Working for Families, interest-free student loans, and other large government programmes sustainable into the future.

National will:

- Limit new operating spending to no more than:
 - \$800 million in 2012/13.
 - \$800 million in 2013/14.
 - \$1.2 billion in 2014/15.
- Direct this new spending to health, education, and a few carefully targeted initiatives.
- Have no new capital allowances until Budget 2017.
- Fund capital spending on infrastructure and public assets from the Future Investment Fund to help keep net Crown debt below 30 per cent of GDP.



Why this matters

Setting a faster path back to surplus is critically important.

- It's the most important thing the Government can do to help build genuine national savings.
- It will help keep interest rates lower for longer. Interest rates are now at 45-year lows – helped by the Government being financially responsible.
- It will avoid leaving a debt burden for future generations.
- It will keep our debt to foreigners down.

Surpluses, and lower debt, will help New Zealand ride out future periods of global turbulence.

2. Better manage taxpayers' assets

National has improved the management of taxpayers' large pool of assets. We've published the first Investment Statement and National Infrastructure Plan. These allow the Government to make more informed decisions about the funding and management of its assets.

The Crown's assets currently total \$245 billion.

Investing in more assets

The Government expects to accumulate a net \$22 billion of extra assets in the five years to 2016, when its total assets are estimated to total \$267 billion.

This reflects a combination of new investment from the Future Investment Fund and other revenue sources such as the National Land Transport Fund, as well as increases in the value of other investments.

Rather than borrow all of this money from foreign lenders, National sees benefits in changing the mix of those assets.

Establishing the Future Investment Fund

The mixed ownership model for five state-owned companies, which is expected to raise \$5 billion to \$7 billion over three to five years, will free up money for reinvesting in priority assets.

Proceeds will go into the new Future Investment Fund, to buy new assets like schools and hospitals, without having to borrow.

The Future Investment Fund's first priority will be to provide \$1 billion for National's 21st Century Schools programme to modernise and transform New Zealand schools.

Why this matters

We owe it to taxpayers to manage their \$245 billion of assets effectively.

As we continue to increase taxpayers' assets, we need to reduce our longstanding reliance on foreign lenders.

The mixed ownership model is a win-win:

- New Zealanders will have something to invest, in other than housing or finance companies.
- We'll free up money to make bigger investments in schools, hospitals and broadband, without having to borrow from overseas lenders.
- It is better that dividends go to New Zealanders than interest on extra debt is paid to foreign lenders.

Our guarantees

National has made three very clear promises to New Zealanders:

1. The Government will retain at least 51 per cent control of these companies.
2. New Zealanders will be at the front of the queue for shares and we expect Kiwi ownership to be around 85-90 per cent.
3. No one shareholder will be able to own more than about 10 per cent.

See National's policy on the [Future Investment Fund](#) for more details.

3. Build genuine national savings

Setting a faster path to surplus and balancing the books by 2014/15 is one of several steps National is taking to build genuine national savings.

In Budget 2010, we introduced the largest tax reforms in 25 years – reducing taxes on work and savings, increasing taxes on consumption and property investment, and closing loopholes for tax avoidance.

National will:

Enhance KiwiSaver

- Go ahead with KiwiSaver auto-enrolment in 2014/15 – subject to returning to budget surplus – where people in the workforce not already in the scheme will be signed up with the ability to opt out.
- Increase the minimum KiwiSaver contribution for individuals to three per cent from two per cent from 1 April 2013. This will also be the default rate for new members.
- Increase the employer contribution rate to three per cent from two per cent from 1 April 2013.

Resume contributions to the NZ Super Fund

When the Government returns to sufficient budget surplus, and can contribute genuine savings rather than borrowing, National will resume contributions to the New Zealand Super Fund.

Why this matters

New Zealand's longstanding reliance on foreign debt is its biggest vulnerability.

Increasing genuine national savings will help build a more robust economy.

A larger domestic savings pool will help create jobs and higher incomes.

4. Keep building a better and fairer tax system

National is committed to a broad-based, low-rate tax system that raises enough revenue to meet the Government's needs while encouraging savings, growth, and free enterprise.

The past three years have seen the biggest reform of the tax system in 25 years.

This has supported growth, jobs, and saving by lowering marginal income tax rates. It's also made the system fairer by closing loopholes and ensuring everyone pays their fair share.

Lower income tax

National has cut personal taxes across the board to reward hard work and to put more money in the pockets of Kiwi families.

| Income tax rates | Before Budget 2010 | After Budget 2010 |
|---------------------|--------------------|-------------------|
| \$0 - \$14,000 | 12.5% | 10.5% |
| \$14,001 - \$48,000 | 21% | 17.5% |
| \$48,001 - \$70,000 | 33% | 30% |
| Over \$70,000 | 38% | 33% |

Lower company tax

We have cut the company tax rate to 28 per cent – lower than Australia. We've also cut the tax rate for PIEs, including KiwiSaver funds, and most other savings vehicles.

These changes have been funded through a combination of the increase in GST, and higher taxes on property investment and multi-national companies.

Why this matters

Our tax changes have not added to debt and have benefited all income groups.

Our emphasis on saving and investment has helped increase household savings and make new companies more competitive. It is also helping direct our savings into more productive investments.

Already we are seeing the benefits:

- About three-quarters of income earners are paying income tax at 17.5 per cent or less.
- A family with two children that receives Working for Families now pays no net tax until their income reaches \$50,000.
- Wages in the hand are continuing to rise faster than inflation.
- Household savings are increasing rapidly and will be positive this year for the first time in over a decade.
- National Superannuation, which is linked to after-tax wages, has risen \$166 a fortnight for a married couple in the past three years. This is almost a 19 per cent increase, or 8.5 per cent after adjusting for inflation.
- Antiquated and bureaucratic gift duty has gone. This imposed compliance costs of \$70 million a year for almost zero revenue.

National is committed to a tax system that encourages savings and investment, through low and uniform tax rates on broad bases, that helps make New Zealand more competitive and support growth.

Labour would take New Zealand backwards

Labour wants to take New Zealand backwards with more borrowing, more spending, more taxes and more costs on business – all of which would cost jobs and push up the cost of living.

More borrowing

- ✘ Labour would need to borrow an extra \$16 billion over the next four years to pay for its promises.
- ✘ This is at a time when global markets are telling us that more debt is risky.

More spending

- ✘ Labour increased spending by \$22 billion in its last five years in office.
- ✘ In Opposition, it has opposed every Government decision to restrain spending.
- ✘ Now it is promising expensive policies that do not stand up to scrutiny:
 - A \$5000 tax-free threshold.
 - GST off fresh fruit and vegetables.
 - More paid parental leave.
 - More funding for early childhood education.
 - Borrowing billions more to invest in the NZ Super Fund.

More taxes

- ✘ A complex capital gains tax that's full of exemptions and raises hardly any money in the first few years.
- ✘ A new top income tax rate of 39 cents.

More costs on business

- ✘ A capital gains tax on all New Zealand businesses and farms.
- ✘ An emissions trading scheme that would at least double costs to business.
- ✘ A \$15 an hour minimum wage that would cost jobs.
- ✘ A 1970s industrial policy written and run by the unions.
- ✘ A whopping 7 per cent tax on employment through compulsory Kiwisaver contribution.
- ✘ An irrigation tax on farmers.
- ✘ A reintroduction of regional fuel taxes.