



SAVINGS WORKING GROUP REPORT

Craig Ansley
February 2011



OUTLINE

- The main themes
- Public sector productivity
- Tax and mortgage debt
- Migration
- NZ Super

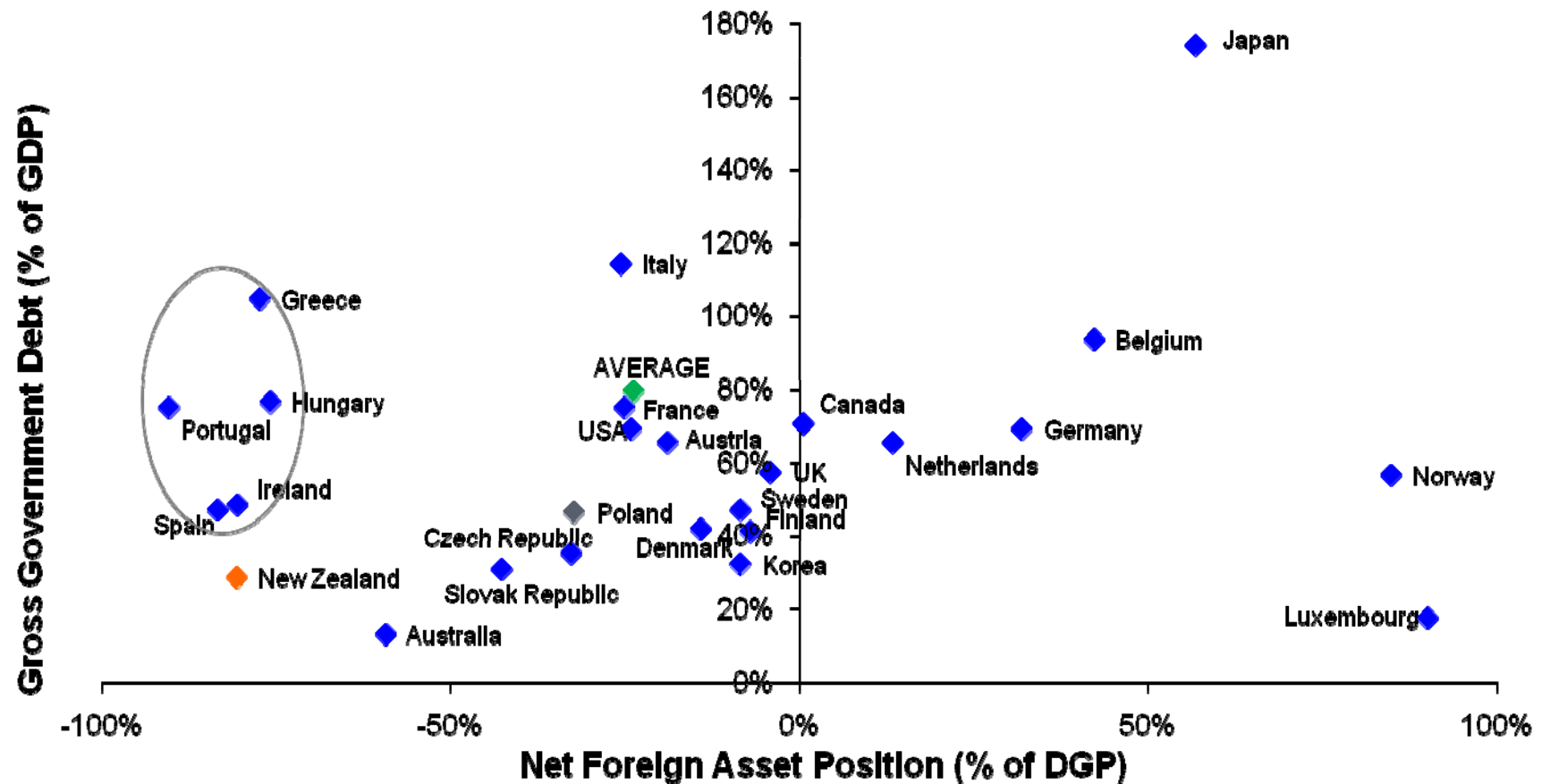



THE MAIN THEMES

- NZ's level of debt is too high
 - NFL 85% of GDP
- NZ is vulnerable to a sudden stop
- Increased saving is essential

IS NFL OF 85% GDP BAD?

Government Debt and Net Foreign Assets (2008)





WHERE'S THE DEBT?

- Private sector debt 166% of GDP
(June 2010)
- Public sector debt 18% of GDP
(October 2010)

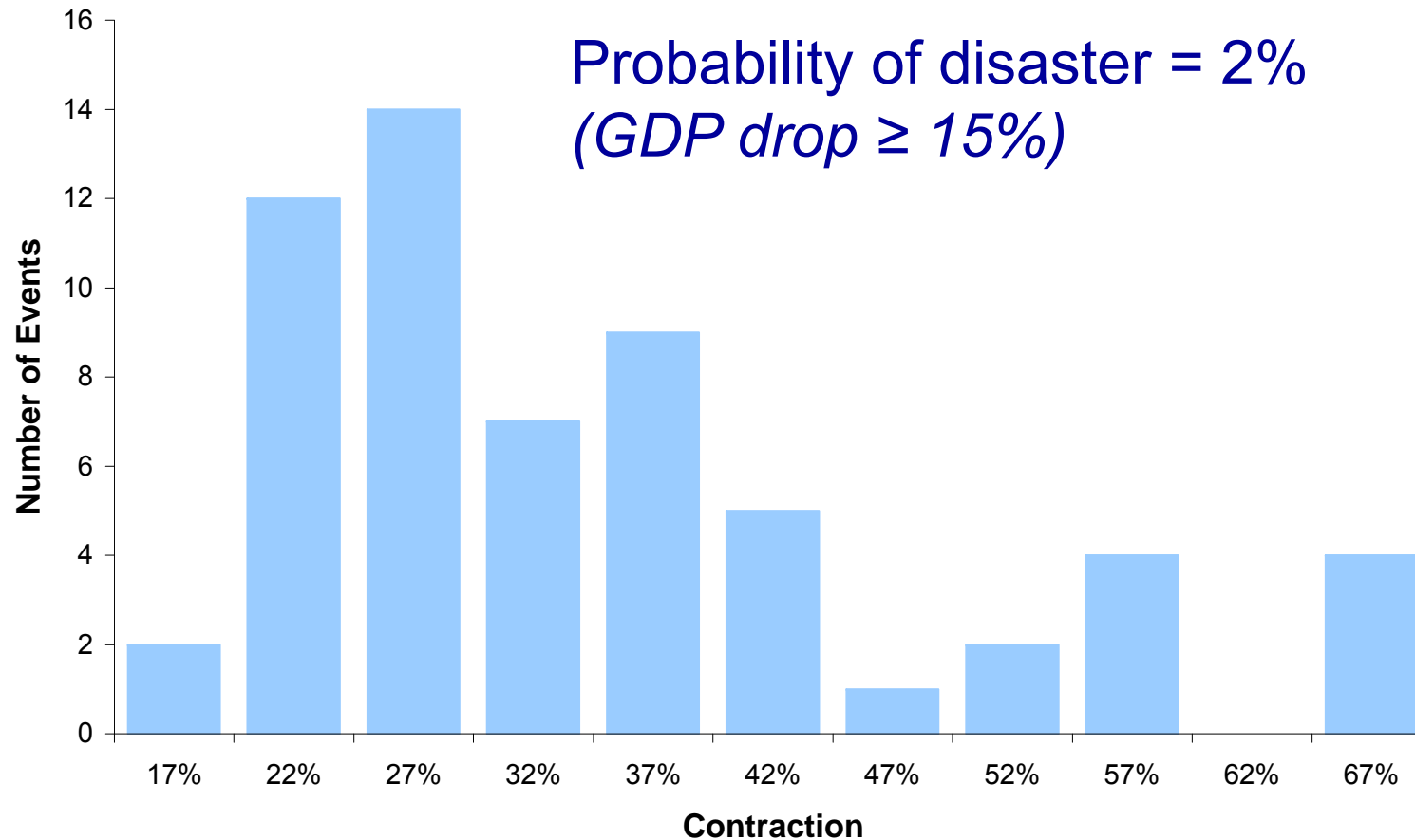


PRIVATE SECTOR DEBT

June 2010

Sector	Amount (\$ billion)	% of GDP
Household debt		
Housing loans	170	90%
Consumer loans	12	6%
Total	181	96%
Student loans	11	6%
Business loans	73	39%
Agricultural loans	49	26%
Total private debt	315	166%
<i>Net foreign liability</i>	<i>163</i>	<i>86%</i>

IS A SUDDEN STOP LIKELY?



Source: Barro, *Quarterly Journal of Economics* 2006



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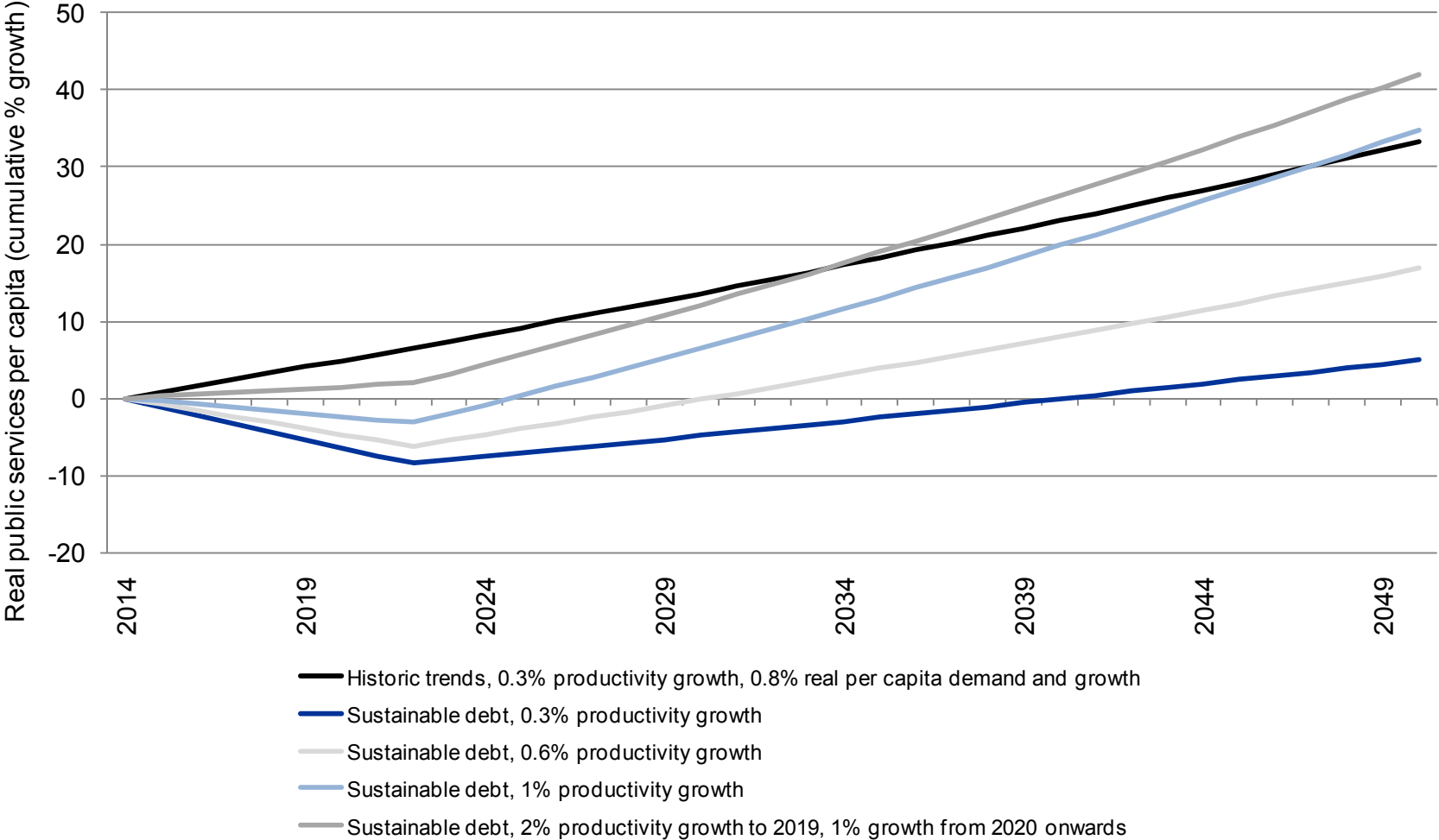
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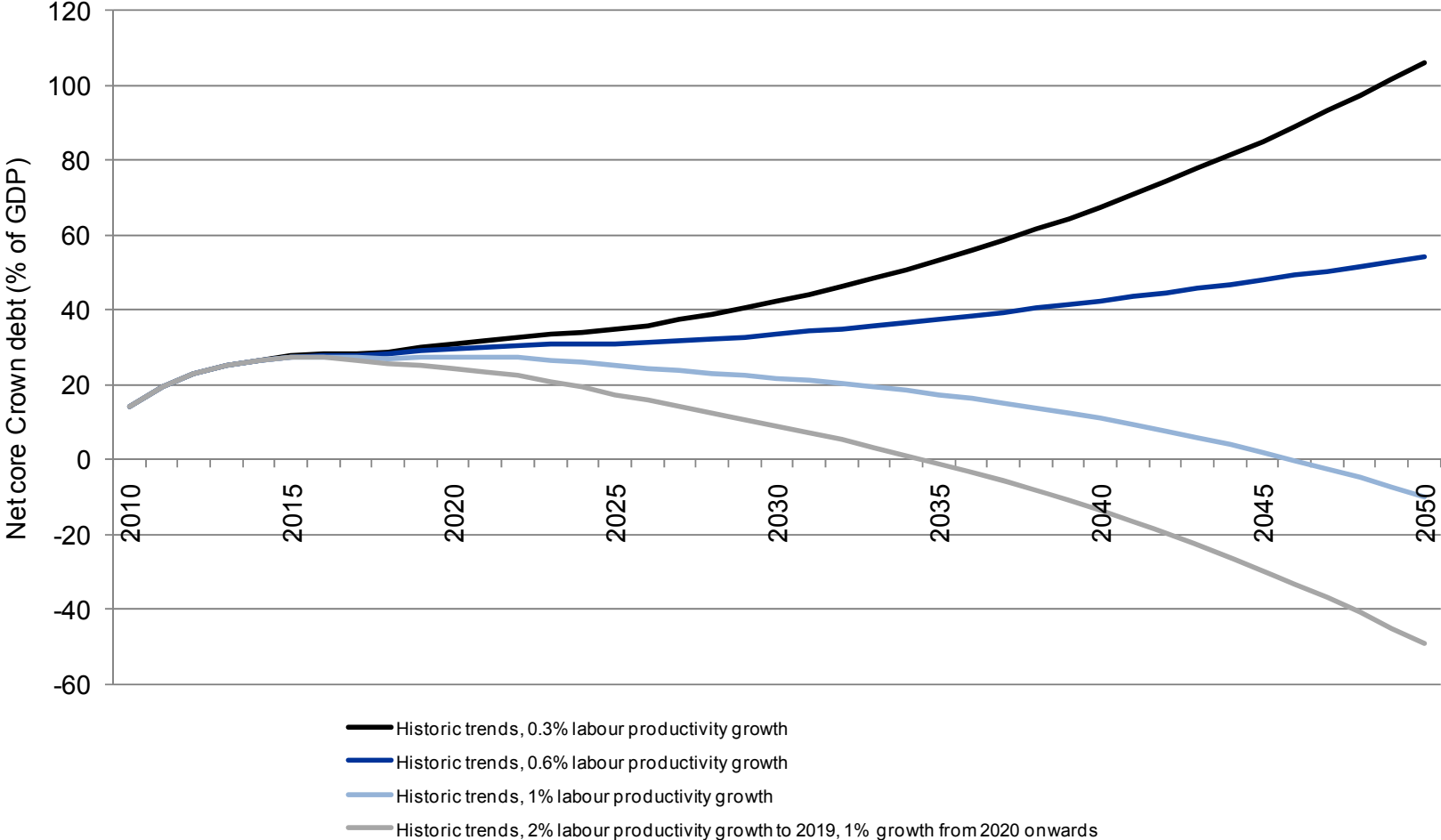
PUBLIC SECTOR PRODUCTIVITY

- Public sector productivity growth 0.3% p.a.
 - No culture of improvement
 - No incentive to develop it
 - No leadership or experience for improvement
- Private sector productivity growth 1.5% p.a.

REAL PUBLIC SERVICES PER CAPITA



PRODUCTIVITY AND CROWN DEBT

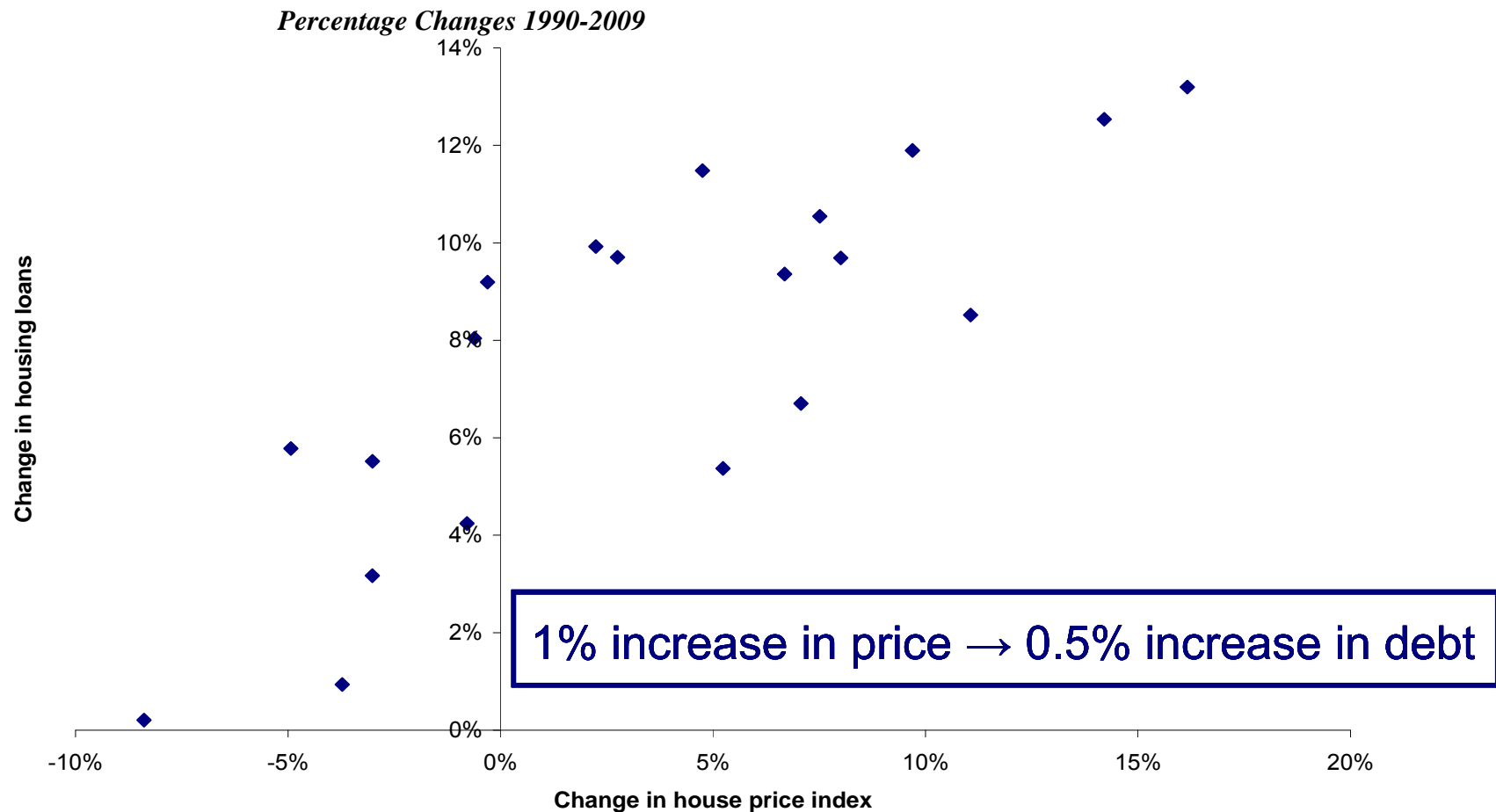




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REAL HOUSING LOANS *vs* REAL HOUSE PRICE INDEX





TAX TREATMENT OF PROPERTY

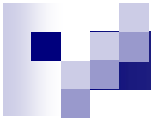
IMPACT ON PRICES 2001-2007

	Marginal investor	
	Residential property investor	Owner-occupier
Actual gain in real house prices	88%	88%
Gain in house prices under neutral tax treatment	47%	41%
Gain in prices due to tax concession	42%	47%
% of price growth	47%	53%

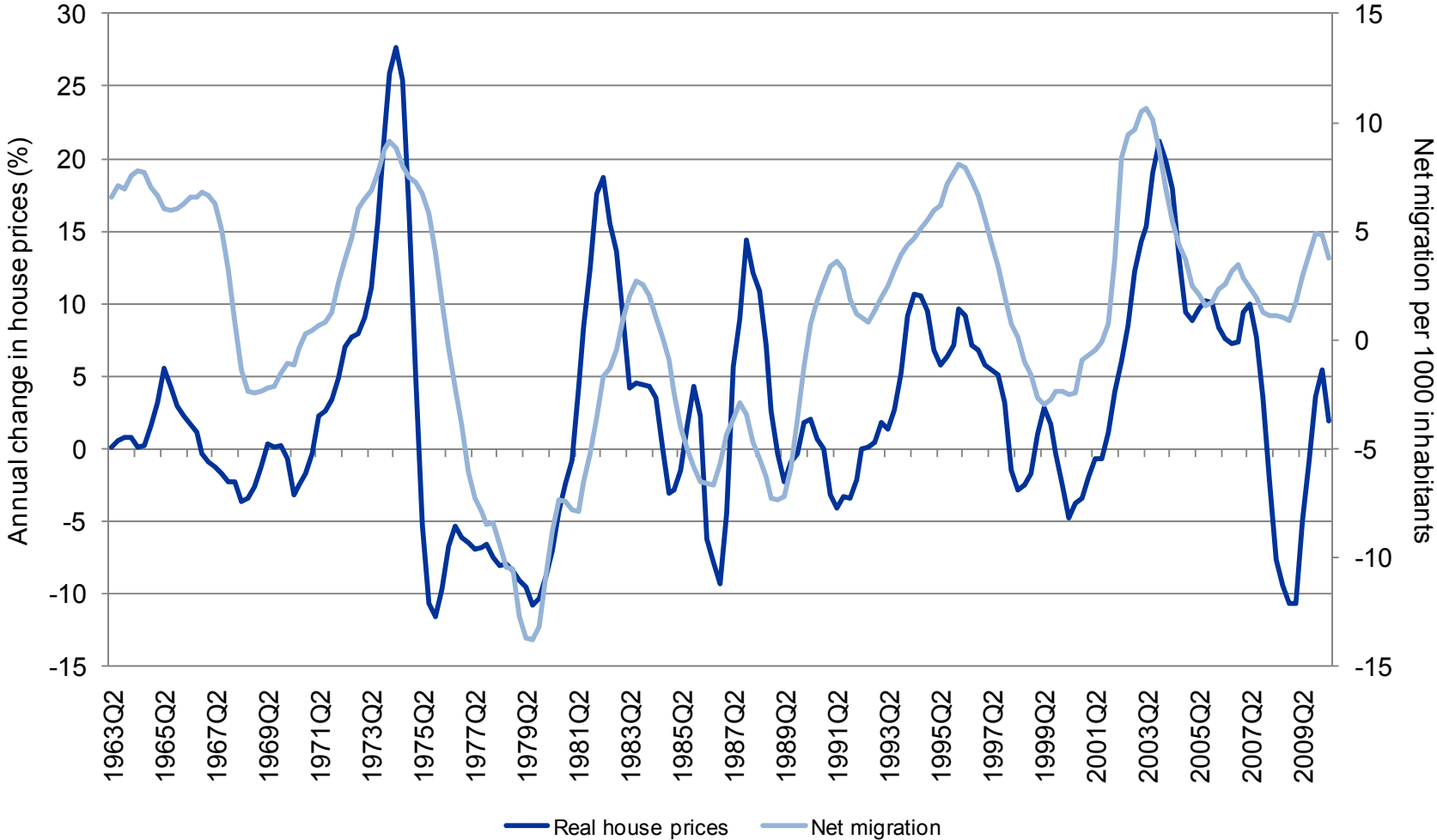


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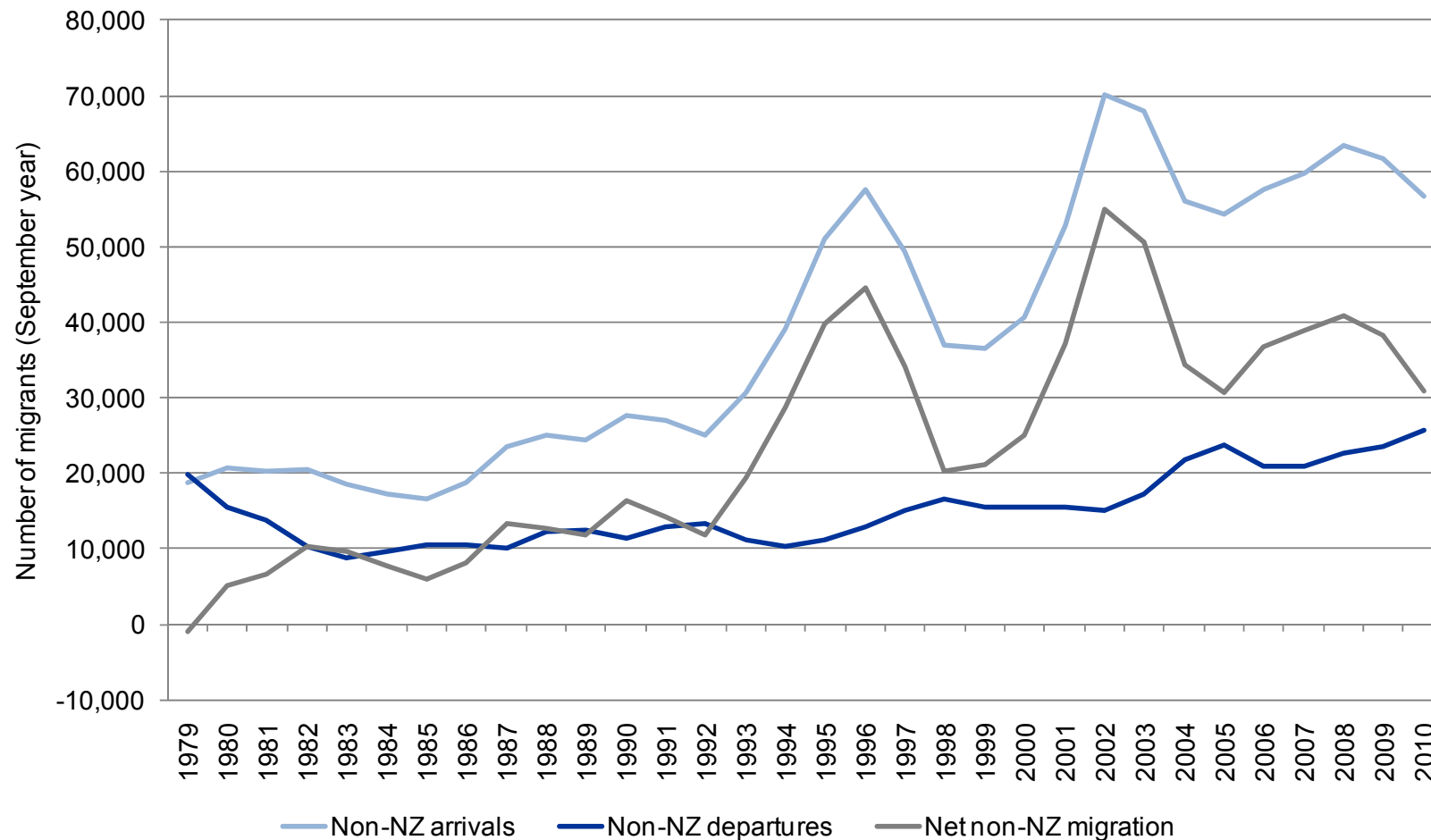
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MIGRATION AND HOUSE PRICES



MIGRATION (*NON-NZ MIGRANTS*)





MIGRATION AND NFL

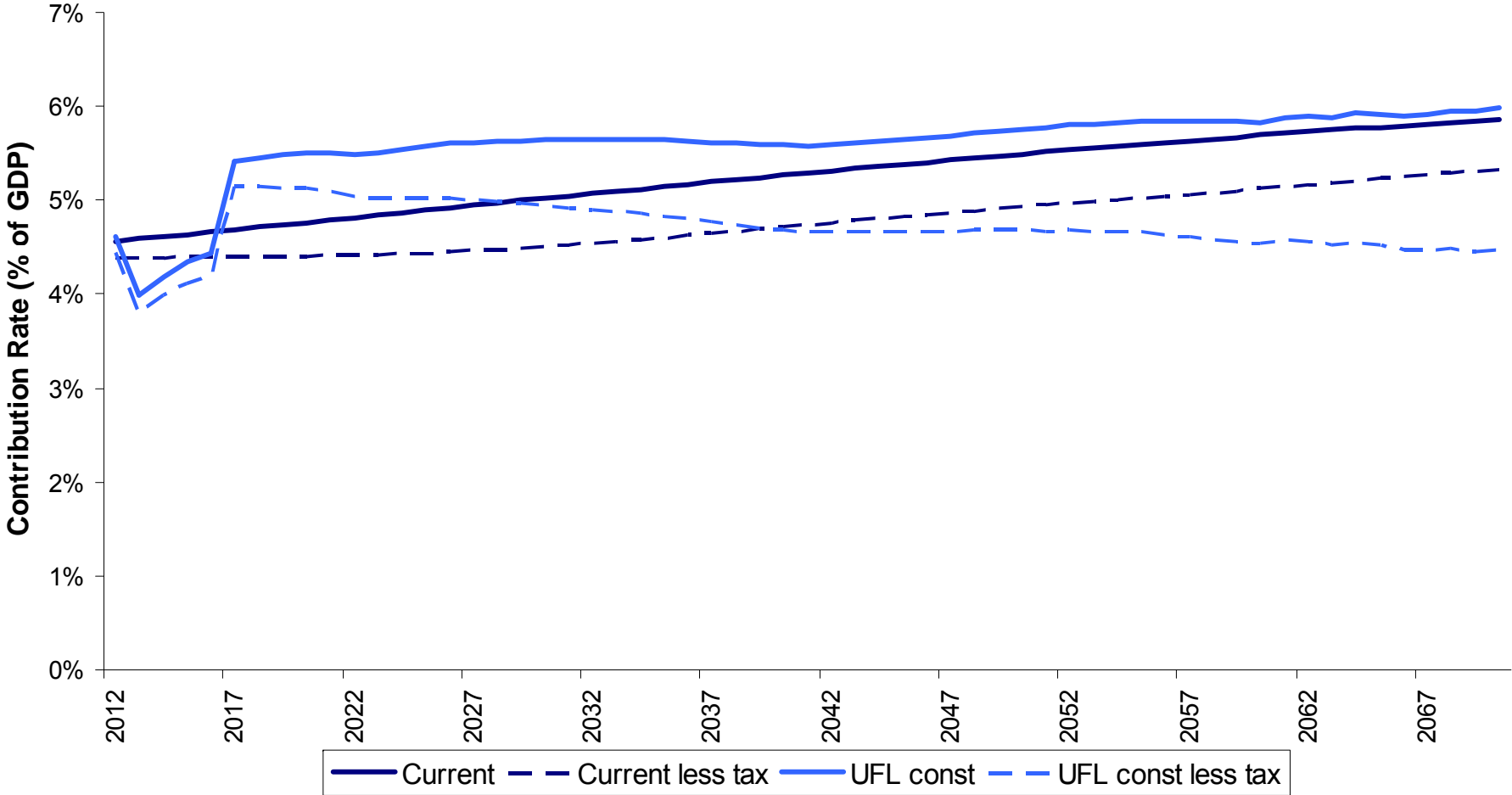
- NZ has high and volatile migration rate
- 1% increase in net migration
 - ➔ 10% increase in house prices
- If migration rates had remained at 1980s levels, NFL would be 20% of GDP lower



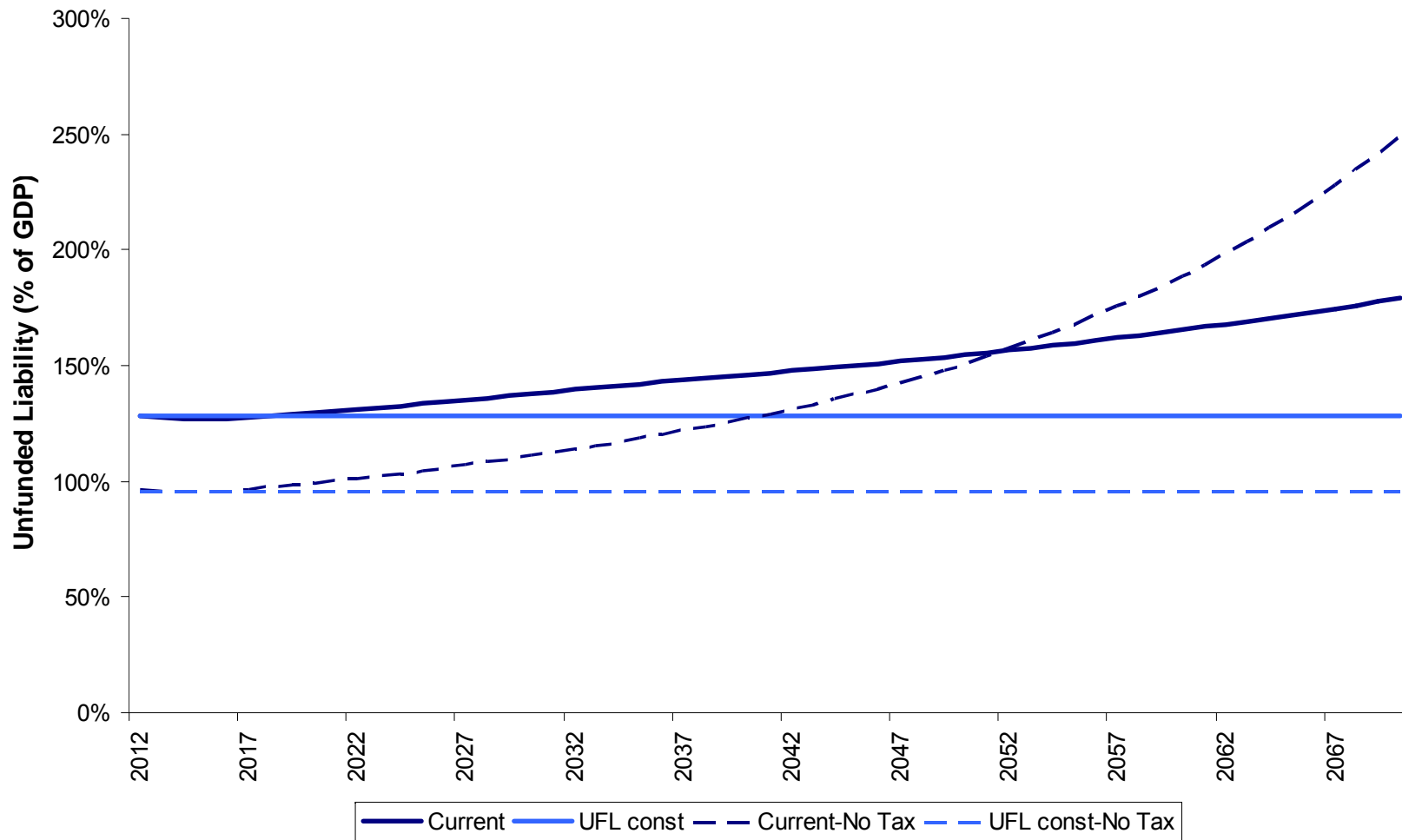
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CONTRIBUTION RATE TO NZSF



UNFUNDED LIABILITY INCREASES WITH CURRENT FUNDING METHOD





RECOMMENDATIONS

- Increase public sector productivity
- Reduce tax biases
- Control migration
- Put NZ Super on sound financial basis
- Tidy up KiwiSaver
- Financial education
- Improve data quality



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