POST-CABINET PRESS CONFERENCE: MONDAY, 6 JULY 2015

PM: OK. Good afternoon. So 3 years ago I set 10 challenging targets for the Public Service. They included reducing long-term welfare dependency, supporting vulnerable children, boosting skills and employment, reducing crime, and improving interaction with Government. We set these targets to stretch the Public Service to get better results from the more than $70 billion of taxpayers' money we spend each year. We owe that to New Zealanders, many of them from vulnerable families who rely on those public services. The targets fit neatly with the Government's investment approach to social services. We're willing to invest a bit more upfront to improve people's lives and to get better results.

Today's Cabinet was—today Cabinet was updated on progress against three targets. I'm pleased to share some of them with you. Overall, we're heading in the right direction. For example, in the last 3 years, participation in early childhood education has increased from 94.7 percent to 96.1. The proportion of immunised 8-month-olds has increased from 84 percent to 92.9. There's been a 14 percent reduction in people being hospitalised for the first time with rheumatic fever. The percentage of 18-year-olds with NCEA level 2 has increased from 74.3 percent to around 81.1. For Māori, this has increased from 57.1 to 67.7 percent, and for Pasifika students, those with NCEA level 2 has increased from 65.5 to 74.9. Welfare dependency continues to fall. That means there are 42,000 fewer children living in benefit-dependent households than there were just 3 years ago.

But there is much to do if we are to achieve all of these targets. For example, further reducing rheumatic fever will be challenging, and the previously rising number of assaults on children has flattened out, so we need to do more if we're to achieve the target. Setting targets and publicly reporting on progress is keeping Ministers and agencies accountable. It's another example of this Government's willingness to try new things and to work across agencies for the benefit of New Zealanders who rely on our public services. We'll continue to provide updates every 6 months.

As you will have seen this morning, Gerry Brownlee and Steven Joyce issued discussion documents setting out proposed changes to the Earthquake Commission Act following the Christchurch earthquakes. The changes are aimed at better positioning homeowners, the EQC, and private insurers to recover from natural disasters. The proposals include removing contents insurance from EQC so it can focus on insuring homes. As the Ministers have said, public submissions will close on 11 September, before they finalise a reform package. We then expect to introduce legislation early next year.

On Wednesday, as many of you know, I'll be traveling to Samoa to join Prime Minister Tuilaepa and watch the first All Blacks – Manu Samoa test ever to be played on Samoan soil. Samoa and New Zealand enjoy a special relationship, which includes a shared love of rugby. Over the years a number of Samoans have contributed to our All Blacks success, and it's great that the New Zealand Rugby Union has been able to give back to the Samoan community in this way, while their Prime Minister Tuilaepa and I will also be able to build on discussions we had in Apia last year on a range of political and economic issues.

Questions?

Media: Prime Minister, the ANZ today put out a note suggesting that growth looks like it is slowing and that the Government should look at using its fiscal tools to promote growth. So it's basically suggesting you give up on your surplus target.

PM: Yep, so the first thing is that tomorrow, I think it is, the 11-month accounts come out, and you'll be able to see those for yourself, but I think you'll see they're reflecting quite a strong set of accounts. Effectively, whether we make or—whether we make the surplus target or not is now, essentially, dealt with, if you like, insomuch that it was for the expenditure and revenue up until 30 June. Now, we don't know those numbers, so we don't know whether we'll make it or not, but, essentially, whatever's going to impact on those results is, essentially, you know, in the pipeline now, and it's been accounted for. So I don't think you would give up your surplus target, you know, for that. I think, you know, the question is: what impact does it have on future surpluses and future growth? I mean, I think the point the ANZ's making —I haven't read the full report, but the point, and it's the right one, of course—is the Government needs to be countercyclical. So in times where the economy is slow, even if tax revenue is coming down, the Government should be spending more money. And I think you saw us do that in 2009, 2010, and 2011, with more money into a whole range of different initiatives, and more money, for instance, into infrastructure spending. I mean, in the end, we'll see how growth goes. I mean, it may well slow down a bit because of China, or maybe what happens with Greece and Europe, or, ultimately, dairy prices. But we're still reasonably optimistic actually that growth will remain at a robust enough clip, and we'll see how it all goes.

Media: You're saying, though, that if it did slow to a point where you were worried, you would spend more if you needed to?

PM: We've done that in the past, and I'm quite confident we'd do that again, but the main point that we've got here is that one of the reasons you try to get back to surplus and you live within your means and you reduce the amount of debt that the Government has—all of those initiatives are done to ensure that if that rainy day comes along, you are actually prepared to, and in a position to be able to, spend money. So, absolutely, we would do it again if we needed to, but at the moment I'm still confident that we're going to work hard to try to get a surplus for the 2014-15 year.

Media: So how would you go about doing that? Would you expand the new spending provision?

PM: Well, we're a long way away from sort of even considering that, but, yeah, the way we did it in the past was: "How quickly can you get it directly into the economy?". Infrastructure spending is always seen as a positive thing to do because it's reasonably immediate and also has a positive impact on your long-term growth outlooks. But there are lots of options.

Media: Because essentially they're saying that monetary policy needs mates on the upside as well as the downside when you're trying to stimulate the economy. You accept that, do you?

PM: Well, I think what they'd be arguing—again, I haven't read the report, but I suspect what they're arguing is—given how low base rates are, you don't have a lot of room to move in terms of interest rates because you can't make those big substantial cuts. If you go back to, say, for instance, when we took over—just before we took over—interest rates in New Zealand had been peaking at about 8.5 percent from a base rate point of view. They got all the way down to the twos or threes, whatever it was. So there was a substantial reduction in base rates, and the point they would be making is—given where, you know, where we are at the moment, you know—we don't have a long way to go. There's not a lot you can cut.

Media: But they also say—they may well be making that point, but they also say that while monetary policy does some of the heavy lifting, the Government and local government have got good strong balance sheets and can effectively stimulate the economy through fiscal means. Do you accept that?

PM: Yes, and I think the action that we took in the first, let's say, 5 years of being in Government was to essentially have a very low levels of new budget spending component. So we spent—we spent more money in automatic areas and we spent more money in health, science, and education. But, fundamentally, we kept our expenditure reasonably tight. We spent more on infrastructure, but our new budget spending operating balance was basically zero, and the reason we did that was that that put us in a position to have a much stronger balance sheet than we otherwise would have had. So I think the Treasury, in the early days when we came in, was predicting that debt-to-GDP would rise to about 60 percent by about 2020. Now, of course, they're saying debt-to-GDP will top out at a bit over 26 percent.

Media: So are you really signalling today that if you were going to stimulate the economy through further spending you'd do it on the capital side, you'd do it through investment in infrastructure rather than—

PM: No. To be fair, I think I'm saying we haven't considered any of those measures. But what I am saying is that I agree with the ANZ. In times where the economy is slow, the Government's proper role is to be counter-cyclical. But to put yourself in a position to be able to be counter-cyclical and spend money when the private sector is not relies on the fact that you have a strong balance sheet, and that's—the actions of the last 7 years have been to put us in that position.

Media: Well, I don't want to labour the point, but are we there now? That's really the point they're making: it's time to start considering it.

PM: We're certainly not—we certainly wouldn't want to be spending additional resources over and above the billion-odd dollars we've allocated yet. I mean, for a start-off, growth is still robust at the moment. And, yes, while dairy prices are slowing down, and who knows what's going to happen as a result of Greece, I mean, if you look at it we've still got a very robust economy. You know, Auckland and Christchurch are strong from an infrastructure spending point of view—housing and other infrastructure. If you look across the agricultural sector, red meat's strong, tourism's very strong, wine's been good, kiwifruit's strong. So dairy is 5 percent of our overall economy, roughly. It has an impact, but you wouldn't want to overstate that impact and you certainly wouldn't want to be, you know, pulling the sort of panic switch simply because dairy prices are down a bit.

Media: So this obviously won't affect the 2014-15 surpluses—all that spending has been done. But, you know, the 2015-16, obviously if you were to take the kind of action that ANZ were talking about that would be—it would put that surplus in jeopardy if you extended that spending, say, for instance, on infrastructure.

PM: Yeah. So, I mean, the—for want of another way of describing it, 2014-15 is banked. It'll be whatever it'll be, and we'll find out. You're right; 2015-16 can be affected in a couple of ways: does Government spend more money and does Government receive less tax revenue than it would anticipate because, you know, the economy slows a little? Maybe. But we're just not nearly as negative as they are, and certainly, none of the official advice I've seen supports that view. Treasury and the Reserve Bank aren't coming over to us and telling us that, you know: "Houston, you've got a problem." Actually, at the moment they're reasonably confident things are going well.

Media: And you could expand that spending cap for 2015-16 to, say, for instance, invest in infrastructure if that's what—

PM: If in the end the Government felt it had to respond, it's going to govern for the conditions it finds itself in on any one given day. We're not so ideological in our view that we say that we can't change our spending parameters; it's just simply that's not what we think we need to do at the moment.

Media: How worried are you about the events in China over the past few days, and is there any danger that Chinese investors in New Zealand may seek to liquidate those investments to cover their positions at home?

PM: Is that this $50 billion reduction in net worth?

Media: Yes.

PM: China is a much more significant issue to New Zealand than Greece. There's just no getting away from that, because China is a far more influential partner. It's a big driver of global growth. Greece is a sentiment story, I think. I mean it's, I think, our 74th-largest trading partner. I'm not terribly worried about China. I still think it's growing. It's probably not growing at quite the clip that we would like, but I think, generally speaking, it's growing OK. But, obviously, when we look into the crystal ball and say "What are the big factors we would worry about?", China is always an important factor, like Australia is, because they're just such an influential part of our economy these days.

Media: So how much lower would growth have to go before we started to think about our fiscal response?

PM: I don't honestly know the answer to that. We'd take advice on it. You know, if you sort of try to transport yourself back to 2009 and the sort of discussions, actions, and things that we did then, you could see how serious the global situation was. And, you know, that was a fully blown global financial crisis where we weren't even sure where the world was going to end up. We're just so far away from that at the moment. I think we're—frankly, I think the ANZ are a little bit ahead of themselves.

Media: We've had Bill English, you know, call the economic conditions right now—"concerning" was the word he used. And Steven Joyce has said it's going to be "bumpy"—that's his term. What's yours? You know, is it concerning, is it bumpy, what—

PM: "Concerningly bumpy." Look, I am not at all panicked about what I see in the economy at the moment, but I accept there are a few head winds there that weren't so prevalent a little while ago. But I really urge people, you know, to take a deep breath. I mean, yes, dairy prices are down a little bit, but there are a lot of other factors in our economy. I mean as Minister of Tourism I probably don't spend enough time talking about it, but our tourism numbers are through the roof. Our red meat sales—go and ask any beef farmer in New Zealand what they think of prices at the moment. Kiwifruit has been immensely strong, wine numbers have been very strong. Right across—you know, you look at Auckland. I mean, it's had the biggest number of consents, I think, since 2005—the most building activity. There's so much in the way of large construction that still hasn't even started yet. It's going to start. So we're a long way away from the feeling of 2009. It's just coming off, arguably, much higher levels than it was.

Media: Do you think that given the "No" vote that Greece is going to have to leave the eurozone?

PM: Well, in the end it'll be a matter, ultimately, for the members of the European Union, and they've now, I think, scheduled a G7 meeting tomorrow. I think, in the end, as I sort of said this morning, something's got to give, I just can't tell you what that is. But, ultimately, you've got a situation where the expectation on Greece is that it'll meet its obligations to the IMF, and it's not doing that. So you only have a range of options. You can sort of pick your poison, but the status quo can't stay here because they either need to meet their obligations and meet their commitments, or Europe needs to let them off the hook, or they need to find some other compromise or there has to be a parting of the ways. I mean, there's, in the end, not that many options.

Media: Prime Minister, on Nauru, the foreign Minister, I understand, will meet with the Government in Sydney this week. Australia spends about 10 times as much on aid as New Zealand does, not to mention the $400 million extra for that detention centre. Would it be more helpful if the Australian Government, combined with the New Zealand Government, considered their aid to Nauru?

PM: Well, ours is a bit more specific, because I think it's in the judicial system. I had a discussion with the foreign Minister about that over the weekend. He is, obviously, going to raise it, as you quite correctly pointed out, later in the week, and we're not ruling out the fact that we won't change what we're doing. So a coordinated—I don't know if we need to be absolutely coordinated in what we do, but a response from both Australia and New Zealand will be beneficial. Certainly, what we see taking place up there is worrying to us.

Media: Would you consider using the Security Council there as a focus on the Pacific when New Zealand—[*Inaudible*]

PM: That hasn't been the advice I've had from the foreign Minister over the weekend. At this stage, you know, we think it's somewhere off that, but the first instance is to raise our points with them and put some pressure on them.

Media: The Financial Markets Authority has had its second settlement. Are you encouraged that they, you know, seem to be getting some results, some could say?

PM: Yeah, I think—look, it'll be some comfort, not a lot, to Hanover investors, but at least those directors have been found and held accountable. The settlement, I think, was $18 million, so it's not insignificant.

Media: Does that set the right incentives though, that they're cutting deals with these directors, not accepting any liability? I mean, the regulator, when it was first set up, was to be a super-regulator. I mean, are these setting the right incentives for financial market participants?

PM: I'm a bit reluctant to, sort of, critique what ultimately they decide to do because they have full access to all of the information and they can model how likely they think they'll be successful, or whatever. But I think it just reflects the practicality of what was available to them. They do have very wide-ranging powers, and those powers, obviously, take—someone along the line will take criminal action if and when the case can be decided, but I think it is also appropriate that those financial penalties are there.

Media: Have we learnt lessons from the era of the finance companies that caused so much pain for a lot of investors?

PM: We're much better-regulated now—I think that's the big difference. Those finance companies essentially sat outside the level of regulation that they currently have, and that would at least help. But is there risk? There's just always risk, you know, when a financial institution offers much higher interest rates than other people, than other financial institutions, and people just don't understand the level of risk that they're undertaking.

Media: Some might argue that the Auckland housing market's got a little bit of a look about it where people are flooding in for investment.

PM: Well, that's what I always try and say to people—that, you know, it's not always just a one-way bet, you know; that people just need to be conscious of the fact. Look, if you take dairy prices as a good example. You know, you can roll the clock back to about a year ago, but I think there were plenty of people running around when the payout was $8.40 saying: "This is going to go on for ever." Now we're down at $4.40 and people are saying that it's kind of the beginning of the end. The truth is that, you know, commodity prices, exchange rate, you know, asset prices—they all move around a bit. The big lesson I think for any investor, though, is to take advice, and if something looks too good to be true, it probably is.

Media: You said last year that the currency could get to US65c. We're almost there now—

PM: I saw you quoting me on the weekend, and I was very grateful that you had noted that down. I look forward to Mr Dann playing his footage he's got in the can at some point, just to vindicate, you know, that prediction—although I usually get slapped around when I say stuff like that.

Media: If it goes under, though, you'll be—

PM: I know. Well, it may go under—you never know.

Media: Does that look about right?

PM: Oh, look, I think at the time, actually, the real question you asked me was "What's the equilibrium rate for New Zealand?", and I just said: "Look, the Goldilocks rate's probably, you know, considerably away from where we are." I don't know. One thing I do think is that those external stabilising factors, if you like—you know, exchange rates, interest rates—they do provide a very important function in keeping our economy in check. I mean, if you're an exporter, for instance, to Australia, it wasn't that long ago when we literally at parity. Now it's 88c, 89c. Life is a lot easier at 88c, 89c. Even for, you know, many other exporters, obviously in US dollars life is vastly different at US68c or US69c than it was at, say, US88c. So we just need that floating exchange rate to provide that buffer, if you like, for a really, really important part of stimulus.

Media: Will it make life harder for consumers?

PM: Yeah, a little bit at the margins, obviously the potential risk is imported inflation, also higher prices for, you know, some of the things that we just can't avoid importing, and, you know, everyday consumable items that you just simply need—petrol being an example of that.

Media: Prime Minister, are you concerned about this cashed-up charter school funding model, given that millions of dollars aren't actually being spent on their intended purpose and, instead, are incurring interest in banks?

PM: I haven't had a really good look at it, so, you know—I'd still preface it by simply saying that I suspect that they're timing issues in terms of what they're doing, because, you know, we pay, essentially, on students that are there and we pay sometimes on the establishment, you know, which is equivalent to the establishment costs that we anticipate, you know, a normal State school would wear. So if it's sitting cashed up, I suspect it's because it's waiting for those investments to be undertaken, but really you'd need to ask Hekia Parata.

Media: If they collapsed in the meantime, would the Government have recourse—would it be able to get that money back, or would it have no recourse?

PM: There are legal contracts that are established, and it would depend on the contract.

Media: Just on Iraq, in Australia they're talking about talks with the US about their role evolving. Are there similar talks being held with our CDF?

PM: Not that I'm aware of. I mean, you'd have to ask the CDF whether there are discussions with him, or the Minister's office, but not with me.

Media: Right, so there's no sense that the role that they're in might be fluid and could change over time?

PM: Well, it's probably the opposite. I've tried to be as clear as I can be. I think we're in Taji for two years, we're undertaking that function, and it's the right thing for us to do, in my view, but, you know, there's a very finite time period, and there's a very finite set of activities I want our people engaged in.

Media: Will you discuss issues like that with the United States admiral that is visiting?

PM: Harry Harris? Yeah, look, I'm seeing him after this. Yeah, I have no doubt there'll be just sort of general discussion on what's happening there. He's the new admiral for PACOM, I think, so I'll have a bit of a talk to him about his activities and what's happening.

Media: Can I just ask about another thing—your trip to Samoa for the rugby game. Are you taking over some rugby balls or something?

PM: I think, funnily enough, my office asked me if—I don't want to get in front of Labour's announcement, but it's nothing really to do with us; they just advised me. But my understanding is that someone produced a whole lot of rugby balls. They had a spelling mistake in them, so they couldn't use them. Labour were aware of it, and they've organised the balls to be taken to Samoa to be given away. That's really nothing to do with me. Don't know if that's—other than it's on the 757, that's it, yeah.

Media: Did Cabinet discuss Resource Management Act changes today? And are you going to split it into two bills?

PM: Cabinet didn't discuss it.

Media: Cabinet committee?

PM: Cabinet committee did discuss it. No, I don't think we're going to split it into two bills. What's happening at the moment, if I was to sort of cut to the chase, is that we need to get PCO to draft the bill, because to actually see whether our partners will support it, they are saying: "Look, you need to actually show me the drafted legislation." So what we're really doing at the moment, outside of a sort of more broader discussion, is really getting in the position where PCO can draft it. That's months away, really—well, it takes a few months to do that. Then we'll be in a position to, you know, either have a discussion with our partners, talk about what the bill might look like or, you know, what you want to do with it—at this point it's one bill—and, essentially, consider whether we'd have an exposure draft or not.

Media: Because there was some suggestion that you might be able to split off, say, the housing issues, which have got very broad political support, but are you focused on those alternatives to modifying 6 and 7, which may be more contentious? Would you not think about doing that?

PM: Well, I'm not going to 100 percent rule that out because there are certainly one or two ministers that think there's some merit in that argument—saying, you know, maybe infrastructure development or regional development or housing, you know. There are arguments about saying you could have a number of bills, but at this point that's not how Nick's getting PCO to draft it, and we haven't had a serious discussion about that, so it's just an idea that I think one or two people could see some merit in, because it's actually the point you're making—that it might be possible to get broader parliamentary support for one element of it, so maybe we just vote on that. If we do it in a couple of parts, you might get broader support, but we'll see.

Media: There are signs that gay marriage is gaining momentum in Australia. You talked about the strength of tourism here in New Zealand. Any chance you're worried about there being less gay tourists to New Zealand as a result?

PM: I'm not worried about it, but, you know, look, it's for Australia to decide whether they want to vote for gay marriage, but the experience in New Zealand, I think, has been a positive one. Ok. Hasta la vista.

conclusion of press conference