

# NZ growth fast but Aussies even faster

By [Brian Fallow](#) NZ Herald  
4:00 AM Tuesday Jun 1, 2010

New Zealand should grow faster than most of the developed world in the medium term, but it will continue to be outstripped by Australia, says an International Monetary Fund economist.

A working paper by Yan Sun, released by the IMF last week, reflects on New Zealand's and Australia's potential growth rates in the wake of the financial crisis.

Factors which are positive for New Zealand, such as rising commodity prices and a growing share of exports going to Asia, are even more positive for Australia.

At the same time risks both countries face, such as a high level of external debt and the associated exposure to higher world interest rates, are more of a problem on this side of the Tasman.

It estimates, indicatively, that New Zealand's potential or sustainable growth rate over the medium term will be 2.3 per cent and Australia's 3 per cent, a similar differential to what prevailed before the crisis.

Nevertheless 2.3 per cent is similar to what the IMF estimates the United States will experience (from a much higher base) and better than European countries or Japan can expect.

"A higher cost of capital may become a long-lasting legacy of the recent global crisis, weighing on future investment," Sun writes.

The rising public debt of the major advanced economies will raise their demand for credit just as tighter financial regulation constrains the supply.

New Zealand's higher level of indebtedness abroad (about 90 per cent of GDP as against Australia's 60 per cent) implies a higher risk premium in its interest rates.

Offsetting the negative impact of higher world interest rates is the Australasian economies' growing links to Asia's fast-growing economies.

By 2015 a third of Australian exports are expected to go to China and a sixth of New Zealand's, up from 5 and 3 per cent respectively in 2000.

Between 2000 and 2008 Australia's terms of trade (a measure of relative prices of the kinds of things a country exports against the kinds of things it imports) climbed 70 per cent, compared with a "still sizeable" 25 per cent in New Zealand.

IMF staff project the terms of trade to remain high for both countries.

Turning to the supply of labour, Sun notes that both countries saw net immigration rise last year. "However this trend is not expected to continue for New Zealand, with a stronger recovery in Australia likely to attract workers across the Tasman."

While Australia is expected to have a slight advantage in terms of growth in the input of labour, there is no difference between the two economies in terms of growth in total factor productivity, or how effectively inputs of labour and capital are used.

The big difference, on this analysis, is that capital investment is expected to grow half as fast again in Australia as in New Zealand.

"New Zealand is unlikely to narrow the sizeable income gap with Australia."

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