Economic crisis worsens in New Zealand

A correspondent
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New Zealand's recession is worsening and will lead to rising levels of unemployment, according to a new report released last week by the Treasury department.

It predicts that the economy, which has already contracted over the past two successive quarters, will shrink a further 0.5 percent in the year ending March 1999. The official jobless rate, currently just under 8 percent, is forecast to increase to 8.5 percent.

Recent government budgets have been in surplus as a result of savage cutbacks to social services and the wholesale privatisation of state enterprises under both National Party and Labour Party governments. This year's budget surplus, however, is expected to shrink from $1.2 billion to $100 million. Over the next two years, deficits of $700 million and $300 million are predicted. Net government debt is expected to rise from 24.4 percent of Gross Domestic Product to some 26 percent.

The Treasury report underlines how rapidly the economic crisis is developing. In May, the government forecast growth of 2.7 percent for 1998-99. Last month the Reserve Bank revised the estimate to 0.1 percent. The latest figures, showing the economy in recession, are already out of date. The Treasury compiled the estimates before the latest round of financial turmoil following the collapse of the Russian rouble.

The international ratings agency Standard and Poor's has downgraded its outlook for New Zealand's credit rating, warning that the recession was likely to be deeper than forecast. The managing director of Standard and Poor's Australia, Graeme Lee, criticised even the 'worst case' scenario presented by the Treasury, in which the economy will shrink by 0.9 percent this year and the budget deficit will blow out to $3.2 billion over three years.

Warning of a looming worldwide depression, ANZ bank economist David Drage pointed out that New Zealand's terms of trade were declining, with a fall of 4 percent in the June quarter and an 8.2 percent fall in export volumes in the past year. New Zealand depends on the depressed Asian region for 40 percent of its exports.

Last week one of New Zealand's major companies, Brierley Investments, reported a $904 million loss, the worst result in its 37-year history. The company made millions during the 1980s stock market boom, by purchasing 'undervalued' companies, asset stripping them, and then reselling at a profit. It is currently part-owner of Air New Zealand and has significant investments in Australia and Britain.

The loss came after Brierley Investments was forced to slash $1.19 billion off the value of its assets. Its performance led to a sharp boardroom battle between dissatisfied Asian shareholders and the executive chairman Roger Douglas. Douglas, a former Labour Minister of Finance and founder of the right-wing Association of Consumers and Taxpayers (ACT) party, was forced to resign.

The economic crisis is already producing tensions within newly-formed minority National Party government headed by Prime Minister Jenny Shipley. She narrowly won a parliamentary confidence vote last week by 62 to 58 votes with the support of ACT and a number of 'independents'.

Just prior to the vote, ACT gave 'unconditional' support to Shipley. Now the party is threatening to provoke an early election unless the government accelerates its program of asset sales and pro-big business policies.

As the prospect of an early election grows, big business is seeking, and obtaining, assurances that any government formed by the opposition Labour and Alliance parties will continue the policies pursued by the National Party.

The Standard and Poor's report hinted that a Labour-led coalition would further threaten the country's credit

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rating because it would pursue more 'expansionary' policies. Labour's finance spokesman Michael Cullen, who describes himself as the 'Treasurer in waiting,' immediately and emphatically declared there would be no 'loosening' of monetary policy under Labour.

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