

NEW ZEALAND

- GDP per capita remains well below levels in leading OECD economies owing to a significant shortfall in labour productivity. However, favourable terms-of-trade developments have somewhat narrowed the income gap.
- Progress has been made in reducing state ownership in network industries and increasing the efficiency of government expenditure, including on research and development (R&D) grants. Little has been done to reduce inward FDI barriers and facilitate trade.
- Making the FDI screening process more transparent and facilitating trade could help to better integrate domestic firms into global value chains, thereby increasing productivity. Enhancing capacity and competition in network industries could also raise productivity. Stronger policy support to R&D could boost innovation.
- Reducing educational underachievement among low socio-economic groups would boost productivity and reduce inequality and poverty.

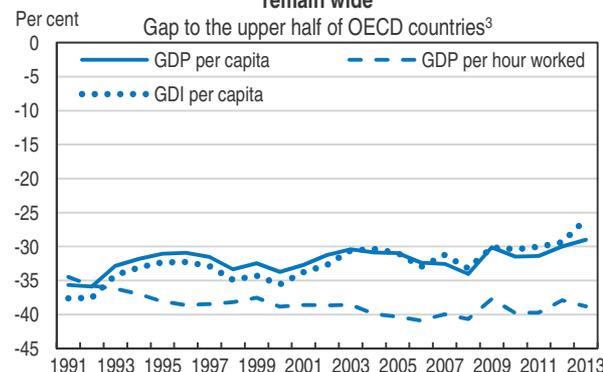
Growth performance indicators

A. Average annual trend growth rates

Per cent

	2003-08	2008-13
Potential GDP per capita	1.3	0.5
Potential labour utilisation	0.7	0.0
<i>of which:</i> Labour force participation rate	0.4	0.1
Employment rate ¹	0.0	-0.3
Trend employment coefficient ²	0.2	0.2
Potential labour productivity	0.6	0.5
<i>of which:</i> Capital deepening	0.6	0.4
Labour efficiency	-0.3	-0.2
Human capital	0.4	0.3

B. Gaps in GDP per capita and productivity remain wide



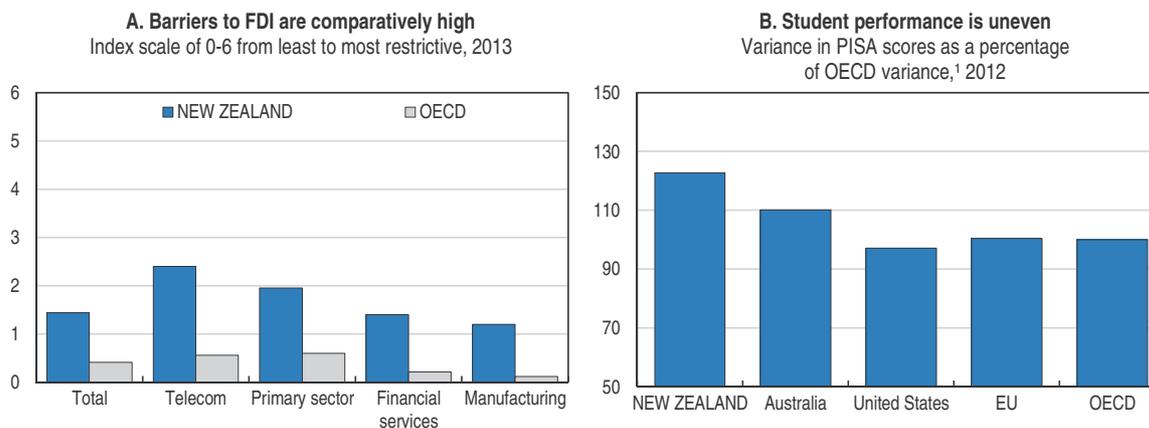
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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Policy indicators



1. OECD = 100. The variance components in mathematics, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the sample of students used in the analysis. Source: Panel A: OECD, OECD FDI Regulatory Restrictiveness Index Database. Panel B: OECD (2014), PISA 2012 Results: *What Students Know and Can Do* (Volume I, Revised edition, February 2014): *Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264208780-en>; and OECD (2013), PISA 2012 Results: *Excellence through Equity* (Volume II): *Giving Every Student the Chance to Succeed*, PISA, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264201132-en>.

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Going for Growth 2015 priorities

Priorities supported by indicators

Reduce barriers to trade and FDI. Non-transparent FDI screening and barriers to trade facilitation may deter trade and investment.

Actions taken: The government commissioned a report from the Productivity Commission, which was published in July 2014, on how to improve new regulatory regimes and make system-wide improvements to existing regulation. The Single Trade Window, which enables parties involved in international trade to submit clearance data required by border agencies electronically, became operational in 2014.

Recommendations: Implement the Productivity Commission's regulatory recommendations. Ease FDI screening requirements, clarify criteria for meeting the net national benefit test and remove ministerial discretion in their application. Increase the time that advance rulings on imports remain valid, and publish rulings of general interest.

Enhance capacity and competition in network industries. Barriers to competition in electricity, transport and telecoms deter investment and innovation.

Actions taken: The government sold large stakes in two major electricity generators and Air New Zealand in 2013 but remains the majority shareholder in each of these companies.

Recommendations: Sell remaining government shareholdings in electricity generators and Air New Zealand, and privatise New Zealand Post. In rail, liberalise entry, separate infrastructure ownership and service delivery and privatise KiwiRail. Remove legal exemptions from competition policy in international freight transport. Use tolls and congestion pricing to manage demand in road, energy and water sectors.

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Reduce educational underachievement among specific groups. Maori and Pasifika students disproportionately leave school without basic job-market skills.

Actions taken: The government introduced charter schools, which are obliged to serve underprivileged children, on a trial basis in 2014. An education reform aiming to improve teaching by strengthening collaboration between principals, teachers and schools was agreed in 2014 and will be effective in 2015.

Recommendations: Better target early childhood education on groups with low participation. Improve standards, appraisal and accountability in the schooling system. To improve the school-to-work transition, enhance the quality of teaching, career advice and pathways, and expand the Youth Guarantee. Facilitate participation of disadvantaged youth in training and apprenticeships.

Other key priorities

Raise effectiveness of R&D support. Relatively low public funding of business R&D contributes to below-average R&D intensity.

Actions taken: The government recently established a government-owned company (Callaghan Innovation) to improve the transfer of knowledge, know-how and technology to firms and connect businesses accessing R&D grants with other publicly-funded R&D activity.

Recommendations: Boost funding for business R&D, by e.g. reinstating the R&D tax credit. Evaluate grant programmes. Co-ordinate immigration and education policies with business skill needs for innovation.

Improve health-sector efficiency. The public healthcare sector is relatively inefficient, and health inequalities are high.

Actions taken: The government established the Integrated Performance and Incentive Framework in 2014 to set quality and performance improvement targets for primary health organisations and financially reward good performance.

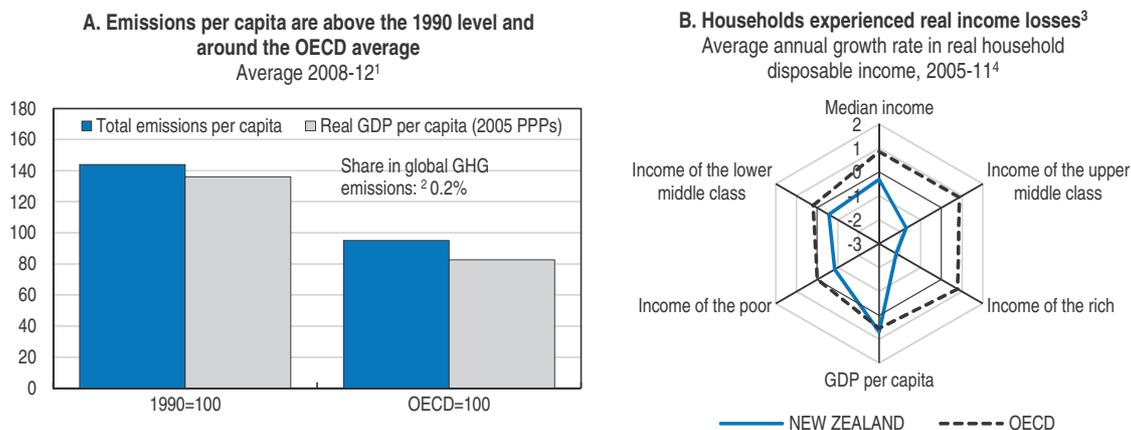
Recommendations: Increase District Health Boards' incentives to enhance hospital efficiency, improve workforce utilisation, integrate primary and secondary care, and better manage chronic care. Continue to encourage the adoption of more healthy lifestyles.

Reform areas no longer considered a priority in *Going for Growth*

For New Zealand, all priority areas from the 2013 issue of *Going for Growth* are maintained.

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Beyond GDP per capita: Other policy objectives



1. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2008-11 for New Zealand.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and United Nations Framework Convention on Climate Change (UNFCCC) Database. Panel B: OECD, *National Accounts and Income Distribution Databases*.

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