

## **Debt to hinder New Zealand's future economic growth: central bank governor**

WELLINGTON, Aug. 6 (Xinhua) -- New Zealand could be dealing with the aftermath of its boom in private debt for years to come with lagging economic growth, the head of the country's central bank said Monday.

Reserve Bank of New Zealand Governor Alan Bollard said governments, firms, farmers and households across many parts of the advanced world took on large amounts of debt in the last couple of decades and rapid increases in indebtedness had often foreshadowed difficult economic times.

New Zealand had been fortunate in avoiding the sort of costly systemic financial crisis facing a growing number of other countries, and while government debt had increased substantially it remained low by international standards, he said.

"Looking ahead, we suspect that sustainable long-term ratios of household and farm debt, in particular, are likely to be below current levels. We also suspect that our net international investment position as a share of GDP will, in time, settle at a level lower than it has been for much of the last two decades," he said.

"But it is fair to note that we have suspected for a long time that New Zealand's private and external debts were too high to be sustained," Bollard said in a published speech to the Employers and Manufacturers Association in Auckland.

While experience suggested that the aftermath of a debt and asset price boom need not materially hold back a country's economic performance for long, this time it looks as if the accumulated debt was acting as quite a sustained drag in New Zealand and other advanced economies.

In mid 2012, New Zealand's GDP per capita was still around 3 percent below its previous peak in December 2007, he said.

There was nothing to suggest the country's economy would return to that trend "any time soon."

"To do so by 2017, 10 years on from the peak of the last boom, New Zealand's economy would have to grow by perhaps 5 percent each and

every year from here on. Perhaps it will happen, but it does not look very likely at this stage."

The accumulation of debt owed by individual firms and households, and borrowers disappointed that incomes and asset prices had not gone on rising as they expected were "clearly playing some role in the low rates of growth New Zealand has seen in productivity and GDP," Bollard said.

Private sector deleveraging was underway, but it was a slow, gradual process, he said.