Richard Prebble: Losing sleep over the chances of a credit rating downgrade

By Richard Prebble
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Finance Minister Grant Robertson. Photo / Mark Mitchell

OPINION

I had a “holy cow” moment at 3.40am on Saturday. One second, I was fast asleep and then I was sitting up in bed wide awake.

My subconscious must have been thinking about something I had thought curious. Finance Minister Grant Robertson had an article in the Herald rebutting a column from Paul Glass of Devon Funds. With respect to Glass, finance ministers, busy with the Budget, do not respond to opinion pieces from fund managers.

Robertson did not contradict the facts in Glass’ column.

“In 2017, New Zealand’s government debt stood at $112 billion or $65,000 per household. Today ... that debt is $224b or $115,000 per household.”

The Covid Relief Fund “doesn’t exist in any real way, it is just an accounting allocation which gives the impression that somehow there is free money that can be spent. And spent it has been — so far about $70b in total”.

“Last year our Current Account deficit blew out to a staggering $34b for the 12-month period ended December 31, 2022, far worse than even during the GFC ($15b in 2008). This deficit with the rest of the world needs to be funded from foreign capital.

“Core government expenditure has blown out from $76b pa. in 2017 to an extraordinary $130b this year, and growing. We are now literally borrowing money for petrol that our kids will have to repay.”

Finance Minister Grant Robertson. Photo / Warren Buckland.

Robertson’s objection to Glass’ column was this statement: “Last year, the Government restated — and reduced — NZ’s headline net debt ratio by including the large assets (about $100b) held by the NZ Superannuation Fund and other Crown entities.

“This accounting trick significantly reduced NZ’s net debt to GDP ratio by about 20 percentage points ... and is misleading at best. NZ, like most nations, has massive unfunded liabilities ... which do not appear in our debt calculations.”

Robertson wrote: “I utterly reject Mr Glass’ claim that this is an ‘accounting trick’. It is in fact now a measure that is broadly comparable and compatible with the rest of the world”. Of course, Robertson also said: “The Government has always taken the stewardship of our country’s finances very seriously.”

The Finance Minister did not agree with Glass that the extra government spending has been largely wasted.

Robertson ignored Glass’ claim that: “Comparisons between our government debt levels and that of other developed nations can be quite misleading because of our high household debt levels, which are now close to 100 per cent of GDP”.

He did what Glass alleges and ignored household debt by citing the IMF's general government net debt indicator to claim, "that NZ's debt levels are low compared to the countries we compare ourselves with".

It was puzzling as to why the Finance Minister wrote his article. The answer came to me at 3.40am.

It is this statement in Glass' column that triggered the minister's response: "When the global focus goes on government debt, which it will do again, NZ needs to be in very strong shape". 'Good grief" I thought, 'the Treasury and the minister must be worried that if the rating agencies read Glass' column our credit rating will be downgraded'.

A credit downgrade is a finance minister's nightmare. The financial impact is severe. It is an international vote of no confidence in the government's fiscal policies.

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NZ has a rating of AA+. Our rating has always been a confidence act. No one who spends more than they earn would have a good credit rating yet NZ every year spends more on imports than we earn from our exports. Our AA+ rating is because we have stable politics, have never defaulted and successive governments have been fiscally prudent. NZ even got an upgrade when the country was Covid-free and our prime minister was inspiring the world. Now with our inspirational prime minister gone it is just a matter of time before the rating agencies look past the accounting tricks and see the borrow, spend and bust.

NZ does not get a lot of scrutiny. There are cities with a larger economy. The rating agencies are notorious for being too slow. Lehman Brothers had an A rating until one day before it collapsed.

The minister must hope the May Budget is not scrutinised closely and he can get to October before any rating downgrade.

A rating downgrade would mean higher interest rates on everything from government bonds to mortgages to car loans. The Kiwi is a floating currency. A rating downgrade would have an immediate effect on the currency. Everything we import would cost more. Maybe a lot more.

Thinking about the impact of a rating downgrade prevented me from going back to sleep.

- Richard Prebble is a former leader of the Act Party and a former member of the Labour Party.