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Can we fix the real problem?

The Reserve Bank has cut rates by a full percentage point in response to the financial crisis. However, the New Zealand Manufacturers and Exporters Association (NZMEA) point out that New Zealand still has one of the highest interest rates in the world and inflation has still not eased despite an Official Cash Rate (OCR) of over seven percent for three years, indicating the shortcomings of our approach to inflation control.

Reserve Bank Governor Allan Bollard explained that the worsening financial crisis had forced him to bring forward planned rate cuts. He saw greater need to stimulate the economy and help credit flows.

NZMEA Chief Executive John Walley says, "It seems the Reserve Bank had no choice but to make a big cut in the wake of global conditions and the 100 point cut in Australia. It is unfortunate that these cuts only come under dire circumstances. If the cuts were made when exporters started to suffer we might have been better placed to deal with our economic problems. A single-minded focus on inflation while ignoring the tradable sector does not work."

"The impotence of interest rates with regard to inflation are demonstrated by large interest rate cuts while inflation soars above 5%."

"In the run up to the election the talk is beginning to focus on who is the most capable of guiding New Zealand through tough economic times, but at this point neither major party seems willing to look at new solutions that resist inflation without the collateral damage to the real economy. High interest and exchange rates have resulted in low productivity and investment in the tradeable economy, dashing any hope of a climb back up the OECD wealth rankings,"¹ says Mr. Walley.

"It will be a while before most exporters will consider increasing capacity. They have been badly burnt over the past few years. They will need to see structural changes in inflation control mechanisms before they invest in expanding the capacity of their export efforts."

"There are a number of options available to reduce inflation through discouraging spending. Some of the proposed schemes are a variable savings rate,² an interest linked savings scheme, a variable GST rate or a variable excise tax. All of these options can control inflation without placing speculative pressure on our exchange rate."

"Hopefully the seriousness of our economic situation will galvanise some real change in support of our tradeable sector."

¹ 'Innovation, Growth and the High Cash Rate', <http://www.mea.org.nz/document.ashx?id=38>

² 'A case for Compulsory Superannuation', <http://www.mea.org.nz/document.ashx?id=36>