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Big cut needed but damage was done at 8.25%

The New Zealand Manufacturers and Exporters Association (NZMEA) are calling for a big cut to the Official Cash Rate (OCR) on Thursday to stimulate the economy. However, the Association points out that the damage was done to the New Zealand economy when the OCR was at 8.25%, much higher than our competitors, causing the New Zealand dollar to rise over 80 US cents.

Speculation has been growing since the Australian Reserve Bank cut its interest rate by 100 basis points that we will see a similar cut here. With interest rates as they are now, New Zealand still has one of the highest rates in the developed world.

NZMEA Chief Executive John Walley says, "We need a big cut to support growth, but with rate cuts happening everywhere, the affect on our tradeable economy will be muted. However, a big cut might help our domestic economy."

"The damage was done to the economy when the OCR was at 8.25% for an extended period. This was a rate well above our competitors that made it difficult for our exporters to compete and attracted huge amounts of foreign credit into New Zealand. We are now starting to feel the affects of losing big manufacturers such as Fisher and Paykel over that time, and we can all see the problems easy credit has caused."

"We need monetary policy changes that create more stability in interest rates and exchange rates to counteract the boom and bust cycle that has been all to evident in the finance crisis. If we continue without systematic change we will see cycle after cycle, and our comparative wealth will continue to decline," says Mr. Walley.

"We need an urgent review of the Reserve Bank Act to remove the link between inflation control and the exchange rate. There are a number of viable options available to our policy makers and we need to see a serious evaluation of them.¹ We need to create this stability to encourage the investment needed to generate growth in our tradeable sector."²

¹ 'A Case for Compulsory Superannuation', <http://www.mea.org.nz/document.ashx?id=36>

² 'Innovation, Growth and the High Cash Rate', <http://www.mea.org.nz/document.ashx?id=38>