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200 point cut needed

Aggressive cuts from other central banks and global government action highlight worsening economic conditions and justify a 200 basis point cut to the Official Cash Rate (OCR) next week say the New Zealand Manufacturers and Exporters Association (NZMEA). Big interest rate cuts around the world mean that New Zealand still has one of the highest interest rates in the world and this must to change if we are to have a hope of addressing our debt mountain.

NZMEA Chief Executive John Walley says, "The Bank of England has dropped its rate by 150 points to 3% and the Reserve Bank of Australia has cut its rates to 5.25%, with both central banks predicted to cut again on Tuesday. Britain has further demonstrated its concerns by cutting its Value Added Tax (the UK version of GST) by 2.5%, which will give consumers 12.5 billion pounds, indicating their commitment to stimulating the economy, and coincidentally demonstrating that variable rate GST could be used as an inflation control mechanism. Settings in New Zealand continue to maintain the interest rate gaps that helped create our debt mountain, those gaps really need to be closed."

"The Reserve Bank Act has done what it set out to do to our economy and it is now time to start the repair job. Lower interest and exchange rates are needed to stimulate an export led recovery; the sooner the Reserve Bank delivers them, the sooner we can see the recovery begin. There has been talk of the OCR dropping to around 3.5% next year so it is important to get rates down quickly to maximise the benefit while the markets are still there. We need to be early rather than late with our rate cuts in the face of unstable global demand. With commodity prices falling away sharply, inflationary pressures will evaporate, and there has even been talk of deflation which is a far more worrying prospect."

"It is time to focus on the real economy and promote trade rather than only bailing out financial interests," says Mr. Walley. "We have seen some positive comment come out of the APEC meeting, but we need to do more than simply hope that the political will to restart the Doha round has suddenly been found. Maybe that statement alone indicates just how bad things really are as previous experience has shown that to be a big ask."

"We need the monetary policy conditions that will promote and support trade now while there is still some demand in world markets."

"Extreme changes in our interest and exchange rates demonstrate the failure of monetary policy, but we need to see a large OCR cut in the meantime to alleviate immediate pressures. Perhaps then we can work on how to avoid yet another damaging cycle."