



**4 December 2008**

## **More uncertainty – not a time to be tentative**

Reserve Bank Governor Dr. Alan Bollard has cut the Official Cash Rate (OCR) 150 basis points this morning easing the pressure on the economy. The New Zealand Manufacturers and Exporters Association (NZMEA) welcome the cut, but point out that further monetary policy loosening is possible to support the real economy now that inflationary pressure is falling. Another rate cut of 100 basis points in January is likely to be needed.

NZMEA Chief Executive John Walley says, “The focus needs to be on supporting the real economy as we work towards an economic revival. Given our trading partners are likely to decline further next year, it is important to get our interest rates into an expansionary setting so that exporters can take advantage of overseas markets while they are still there. We called for a 200 point cut this time, which could have delivered more stability until the end of the first quarter of 2009, but now another cut will be necessary in January.”

Interest rate cuts from our trading partners mean that New Zealand still has one of the highest cash rates in the developed world. Other countries have demonstrated they are more concerned about their economies than they are about inflation, as the extent of the financial crisis widens. There has also been growing concerns over deflation, particularly in the United States.

“It is a shame that the Reserve Bank Act has not allowed Dr. Bollard to act sooner to stimulate the economy,” says Mr. Walley. “We have already suffered two quarters in recession and only now are we moving towards a position where an export led recovery can occur.”

“Dr. Bollard’s comment that ‘domestically generated inflation (particularly local body rates and electricity prices) is remaining stubbornly high’ demonstrates the problem with our current system. How interest rates are supposed to control electricity prices and council rates is beyond me.”

“An alternative method of controlling inflation would have avoided interest and exchange rates stifling the economy. An export target included in the Reserve Bank Act would have allowed cuts to address the more pressing problem of a declining economy, rather than continuing to focus on inflation.”

“Alternatives to our current system do exist,<sup>1</sup> or is what we have working so well that we don’t need to change?”

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