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Expansionary settings – still some way to go

Reserve Bank Governor Dr. Alan Bollard described our monetary policy settings as expansionary yesterday. This claim was made in the face of the fact that New Zealand continues to have interest rates far above those of our trading partners. The New Zealand Manufacturers and Exporters Association (NZMEA) point out that monetary policy settings must be considered in relation to our competitors and the state of world markets – competitive interest rates and policy settings are needed to encourage the real economy.

European central banks have made considerable rate cuts overnight with Sweden cutting 175 basis points to 2%, the European Central Bank cutting 75 basis points to 2.5% and the Bank of England cutting its rate 100 basis points to 2%. This makes New Zealand's rate of 5% look well behind the pace.

NZMEA Chief Executive John Walley says, "The cuts elsewhere put Dr. Bollard's in perspective. The 150 point cut was a start, but considered against interest rates elsewhere it has to be seen as overly cautious and to what end? The reticence of most banks to pass on these rate cuts is an increasing concern."

The Government has also signalled a resistance to change policy settings to help work through the global slowdown. Treasury's report recommending a Capital Gains Tax was dismissed without consideration by Bill English; perhaps the first step of a 'no change' trend from the Government.

"Post election popularity seems to be winning out over economic sense. The most worrying aspect of this reaction is that the merits of the Treasury proposals have not even been debated or considered as the Government blindly sticks to a preconceived ideology. The world economic climate is changing far too quickly for this 'business as usual' approach."

"If we are to see continued growth in our economy we need settings put in place for export and job growth. That means stabilising interest and exchange rates so that returns from productive investment and capacity expansion can be reasonably anticipated. A return to the debt funded domestic economy will not provide a long-term answer."