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Making monetary policy more effective

The New Zealand Manufacturers and Exporters Association (NZMEA) support calls for a review of early termination fees for fixed term mortgages. Any fee reductions would make cuts in the Official Cash Rate (OCR) more accessible to fixed-term borrowers, potentially providing a lift to the economy.

NZMEA Chief Executive John Walley says, "The OCR is at best a blunt indiscriminate instrument, and when most loans are on a fixed term it is far from its best. We saw that the OCR had a very delayed affect when attempting to control inflation, which was partly due to the lag as borrowers on fixed-terms took longer to feel the pressure. The problems have been even worse over the past few months with the unprecedented changes to the OCR leaving a differential of around 3 percent between those who locked in fixed terms before the economic crisis and those on floating rates."

"Banks have been reluctant to pass on all of the Reserve Bank's rate cuts, doubling margins instead; changes to the break fees would at least give borrowers better access to the rate cuts that have been passed on. This would be another push in the expansionary direction monetary policy is trying to take us," says Mr. Walley.

"Former Reserve Bank Governor Dr. Don Brash said in a piece written for the Herald that, 'With the benefit of hindsight, monetary policy was probably too loose in recent years, in some countries at least,' referring primarily to the United States. However, we cannot simply sit and hope that this scenario does not repeat itself. Other mechanisms, in addition to the OCR, would make the New Zealand dollar much less attractive to offshore speculators."

"The financial crisis has highlighted the need to support the real economy in the long-term. We need to refine our approach to inflation control, but that will take some time. Improving cash flow to borrowers right now should help the economy in the short-term."

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