NZ Manufacturers and Exporters Association
The independent voice of manufacturers and exporters

Ph: +64 3 353 2540
Fax: +64 3 353 2549
Website: www.mea.org.nz
Email: mea@mea.org.nz

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RBNZ buying currency when it should be selling

The New Zealand Manufacturers and Exporters Association (NZMEA) is backing calls to intervene in currency markets if necessary in order to keep the dollar at a stimulatory level. The Bank of New Zealand has flagged this possibility in response to a rising dollar in recent weeks.

Interestingly, the Reserve Bank actually bought 540 million dollars of New Zealand currency between November and January despite Dr. Alan Bollard saying at the last Monetary Policy Statement that “the sizeable exchange rate depreciation will act to support the New Zealand economy.”

NZMEA Chief Executive John Walley says, “It is clear that we need a low dollar both to help exporters and to encourage domestic spending on local products. The higher the dollar gets, the more of the Government’s stimulus money is spent on imported rather than New Zealand made products. Both the Finance and Expenditure Select Committee and the Reserve Bank Governor Dr. Alan Bollard have mentioned the importance of monetary and fiscal policy working towards the same end; this is a clear case of policy conflict.”

“The Reserve Bank’s decision to buy New Zealand dollars is strange. This move can only serve to further damage the productive economy. Worse still, it sends the message that absolutely nothing has been learnt from the economic crisis. It seems we are still promoting the very things that got us into this mess, favouring consumption over working our way out of debt,” says Mr. Walley.

“Intervening to try and hold up the currency and unnecessarily holding up interest rates to ‘keep our powder dry’ makes no sense to exporters. Short term interest rates need be no higher than those necessary to fund our external deficit; anything above that rate simply keeps speculative pressure on our currency.”