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Reserve Bank waits until September

The Reserve Bank has left the Official Cash Rate unchanged at 2.5 percent this morning. The New Zealand Manufacturers and Exporters Association (NZMEA) say that this move has effectively delayed further action on our economic recovery for a further six weeks.

Reserve Bank Governor Dr. Alan Bollard noted that, "The level of the dollar in particular, is not helping the sustainability of future growth, and brings with it additional economic risks." He went on to say, "The forecast recovery is based on a further easing in financial conditions. If this easing does not occur, the forecast recovery could be put at risk. In these circumstances we would reassess policy settings."

NZMEA Chief Executive John Walley says, "We take this to mean that if we do not see a fall in the currency the Reserve Bank will cut the OCR again; our question is why wait?"

"Economic growth is being hindered by the exchange rate and wholesale interest rates and attempts to talk them down have clearly failed. Action is needed; we are losing export revenue every day these conditions continue."

"The decision to take no substantive action is difficult to understand when results from across our export sectors remain poor. Just this week the Prime Sawmill in Gisborne announced its imminent closure due to a high dollar. The high dollar is threatening jobs everywhere."

"The OCR has now shown itself to be an ineffective tool at both ends of the economic cycle, and its side effects on the tradeable economy have been a disaster. An additional tool to control the volume of credit needs to be added by the Government. In the short term however, it is important that the Reserve Bank reduces the OCR to try and deliver better conditions for exporters, and ultimately everyone."