



**10 August 2009**

## **Westpac economists well off the mark**

Westpac economists have claimed that lowering the Official Cash Rate (OCR) could cause the dollar to rise further. The New Zealand Manufacturers and Exporters Association (NZMEA) say that this is unlikely as it is the differential between official interest rates here and those of Europe and the United States that are behind the strength of the dollar. Therefore, if this margin got smaller the pressure on our currency would fall.

NZMEA Chief Executive John Walley says, "The other affects mentioned, such as an increase in house prices, are longer term issues of a low OCR, they are likely to have little impact on the dollar in the short-term and of course they demonstrate the need for credit volume controls to supplement the OCR."<sup>i</sup>

"The key issue is the spread between our base rate and those of the other major western economies. This makes New Zealand rates really attractive. While a lower OCR may not cause a significant fall in the currency, it would at least provide downward pressure. Equally, a demonstration that the Reserve Bank is ready to do more than talk would be another step in the right direction," says Mr. Walley.

"As the economists noted, the necessary rebalancing of the economy has been inhibited by the high dollar and an export led recovery is unlikely while it persists at these levels."

"It is a statement of the obvious to say 'the currency is always where it is for a reason', what matters is whether the reasons are good ones, whether the consequences are acceptable, and whether we going to try to change it."

"Our tradeable sector has now been in a recession for well over five years. We need to be doing more to put this right."

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<sup>i</sup> 'A Case for Compulsory Superannuation', <http://www.mea.org.nz/document.ashx?id=36>  
'Is There an Alternative to Present Monetary Policy', <http://www.mea.org.nz/document.ashx?id=522>  
'Interest Linked Savings Scheme', <http://www.mea.org.nz/document.ashx?id=435>