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NZMEA submission calls for systemic changes

The New Zealand Manufacturers and Exporters Association (NZMEA) presented their submission[1] to the Parliamentary Banking Inquiry today, presenting the argument that New Zealand's monetary policy and tax framework has encouraged banks to circumvent the intent of Reserve Bank policy.

NZMEA Chief Executive John Walley says, "There is a case for banks to answer as issues such as their lending profile, the lack of pass through of OCR cuts on floating rates and excessive break fees have hurt customers during the recession. Our own survey[2] on this matter found 86 percent of respondents supported an inquiry."

The submission outlined the major factors:

- In the good times the ready supply of offshore credit allows the banks to continue lending at cheap rates in the face of a high OCR, feeding the property bubble and holding up inflation.
- In the bad times banks hang on to all the margin and fees they can, keeping monetary conditions too tight for the tradeable sector.
- The demand for credit is stoked by the tax haven status of land and buildings, which reduces the credit available to the productive economy.

"We are willing to pay more for debt so generally interest rates here are higher than elsewhere in the world. Overseas money flows into the housing sector, the exchange rate rises and our tradeable sector struggles to make a dollar today, let alone make enough to invest in improving future activity. This is a worrying sign for the future."

"The tax haven around capital gains is distorting what we do; it is concentrating wealth and killing growth – this has to change if we are to anticipate a general improvement in aggregate wealth."

"These long-term systemic issues are receiving some attention from politicians but we need to see some quick and decisive action. The reported recovery will not last long if our economic imbalances are addressed."

[1] - http://www.mea.org.nz/media/submissions.aspx
[2] - www.mea.org.nz/document.ashx?id=566