

10 September 2009

## **OCR decision: Inexplicable!**

The Reserve Bank has kept rates on hold again today despite overwhelming evidence that constrictive financial conditions are continuing to destroy New Zealand's tradeable sector. Today's announcement came with the usual lip service to the unjustified level of the currency, but yet again it was all talk and no action. This decision to put rates on hold already has, and will continue to damage New Zealand's exporters say the New Zealand Manufacturers and Exporters Association (NZMEA).

NZMEA Chief Executive John Walley says, "Inflation expectations remain low and financial conditions are stifling the real economy; surely the need for a cut is obvious. Perhaps underlying this stasis is the fear of demonstrating yet more failure of the one target one lever approach – maybe you don't touch the lever if you are pretty certain it is broken."

"The need for low rates was obvious to the central banks of the United States, the United Kingdom and Europe who all have official interest rates of one percent or below, and in two cases resorted to Quantitative Easing, but apparently New Zealand is different."

"It is time that the Reserve Bank got real about our growth prospects in the traded economy. If monetary policy settings are left as they are, then another bubble built on yet another round of land and property speculation fuelling domestic consumption will quickly burst, leaving the real economy in an even more dilapidated condition," says Mr. Walley.

"The Reserve Bank Governor seems fearful of changing the rate; this is clear evidence of monetary policy failure and it is time for the policy makers to act. Surely they cannot just stand on the sidelines and watch all this nonsense happen. The OCR only serves to shift the pain from one sector to another. A credit volume control tool needs to be given to the Reserve Bank so that inflation can be managed without destroying the tradeable sector."

"More talk will only deliver the same worrying outcomes we have seen already."