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Policy framework needs attention

The New Zealand Manufacturers and Exporters Association (NZMEA) is backing calls from the Parliamentary Banking Inquiry for a Monetary Policy inquiry. Their report¹ released today recognised that the Official Cash Rate (OCR) is ineffective at managing interest rates, ineffective at controlling credit expansion and causes an overly volatile exchange rate.

The report recommended that “further work be undertaken to explore an enhanced monetary policy framework which considers ways of achieving effective control of credit expansion and explores options for achieving a more stable and competitive exchange rate.”

NZMEA Chief Executive John Walley says, “A broad policy review with a focus on how the external stability problem facing New Zealand can be dealt with is long overdue. New Zealand must increase its trade with the world, so exports must grow more quickly and more must be invested in our export capability. The current policy framework has simply not delivered on this agenda.”

“We need a policy framework that underpins and supports export growth. The system we have fails to manage domestic inflation and causes widespread damage to the tradeable sector. A review needs to encompass ways of managing credit volume ²(as Alan Bollard noted today, “the rise in the New Zealand dollar over recent months could hinder continued improvement in the external balance”), countercyclical lending measures and the influence of fiscal policy³ (particularly the tax balance).”

“The last Monetary Policy review conducted in 2007 failed to give any useful analysis of the alternative options. Now that the economic crisis has made the imbalances in our economy painfully clear a more serious attempt at addressing these issues is warranted,” says Mr. Walley.

“The Parliamentary Banking Inquiry has accurately identified the issues. These are the OCR’s lack of effect on non-tradeable inflation, its perverse effect on the exchange rate and the tax imbalance that skews investment away from the productive areas of the economy.”

“These structural issues with the economy must be dealt with. Tinkering around the edges will not work.”

¹ http://www.mea.org.nz/documents/675-report_of_the_parliamentary_banking_inquiry.pdf

² <http://www.interest.co.nz/ratesblog/index.php/2009/11/04/opinion-rbnz-needs-effective-tools-to-control-non-tradeable-inflation-and-volume-of-credit/>

³ <http://www.interest.co.nz/ratesblog/index.php/2009/08/20/opinion-how-to-reform-tax-to-prevent-asset-bubbles/>