



**19 November 2009**

## **Welcome action on monetary policy**

The New Zealand Manufacturers and Exporters Association (NZMEA) is supporting calls from the Labour party for changes to monetary policy. Labour leader Phil Goff called for such a move in a speech to Federated Farmers this morning.

Goff declared that, “today I am announcing the end of the consensus around the policy targets and tools of the Reserve Bank.”

“Labour wants to see a step change in our export performance.”

“We want policy that will keep our exchange rate as stable and competitive as possible.”

NZMEA Chief Executive John Walley says, “We had a monetary policy review in 2007 where the whole issue was basically ignored; clearly the economic problems since then have brought this issue back into the spotlight. A properly run review is long overdue but very welcome for New Zealand’s exporters. As for changes we need look no further than Singapore; their monetary policy has delivered a stable exchange rate, lower inflation, lower interest rates and higher growth than New Zealand for decades.”

“As Phil Goff mentioned in his speech our current monetary policy settings mean that the tradeable sector is punished via a high exchange rate when non-tradeable<sup>1</sup> inflation rises. This policy sends all the wrong signals to the economy and is largely responsible for our continual external deficits.”

“We need to find additional tools<sup>2</sup> to fight inflation in the non-traded sector directly rather than transferring all costs to our exporters; that wealth transfer has to stop before the export sector collapses,” says Mr. Walley.

“The Reserve Bank has introduced a new bank funding policy and Treasury has suggested better fiscal management to assist monetary policy objectives. The Reserve Bank Act needs to be informed by the Singaporean experience and target exchange rate stability to complete this suite of measures.”

“The Government should support this initiative and do more than just bemoan the detrimental effects of an overvalued currency. It is time to stop talking and start changing fiscal and monetary policy to put an end to the wealth transfers from the tradeable to the non-tradeable sector.”

<sup>1</sup> <http://www.interest.co.nz/ratesblog/index.php/2009/08/06/opinion-how-the-ocr-has-little-impact-on-non-tradeable-inflation/>

<sup>2</sup> <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/>