



21 July 2009

Inquiry good, but net must be cast wider

The New Zealand Manufacturers and Exporters Association (NZMEA) are supporting the opposition inquiry into the banking system, but say that the issues are much wider than banking margins. The failure of monetary policy to serve the interests of the tradeable economy lies at the heart of New Zealand's poor economic performance delivering uncompetitive interest rates, an overvalued exchange rate, and hindering real growth and wealth creation.

NZMEA Chief Executive John Walley says, "Proper debate on bank margins will be helpful because, as Alan Bollard has already noted, short term margins are too high and generally margins have increased since the financial crisis. However, the inquiry needs to go further than this and look at why New Zealand's interest rates are consistently higher than the rates of many of our competitors and how this is affecting our economic performance."

"Higher interest costs than our competitors and a high exchange rate caused by those high interest rates are the major reasons for the low investment and resulting low productivity that have caused the export sector to contract over the past seven years or so," says Mr. Walley.

"We saw high interest rates designed to curb inflation cause the New Zealand dollar to rise to over 80 US cents when the economy was in its 'boom' period and now we are seeing comparatively high interest rates holding up the exchange rate even though our terms of trade have fallen away and the economy as a whole has faltered."

"Our monetary policy settings have proven to be ineffective at both ends of the economic cycle."

"The inquiry needs to look at how to create a financial sector that promotes rather than inhibits growth in the real economy."