

NEWS RELEASE FROM THE NEW ZEALAND RESERVE BANK

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NZ is not Australia, but could be their lucky neighbour

Financial markets and businesses need to appreciate the different futures New Zealand and Australia are charting out of the global financial crisis, Reserve Bank Governor Alan Bollard said today.

Speaking to Trans-Tasman Business Circle in Auckland, Dr Bollard said both countries have survived the crisis well, due to a mix of strong institutions and stimulative policies.

“However, their immediate prospects are different. Australia has avoided negative growth, and its prospects are driven by strong terms of trade, vast mineral deposits, the Chinese market, and rapid population growth.

“New Zealand has had a recession, and the pick-up is slower and more vulnerable – a difference financial markets do not appear to appreciate.

“This is particularly evident in the relatively stable cross-rate on foreign exchange markets. If financial markets can’t see the differences, they will eventually lose money, and it will hurt the New Zealand economy.”

Dr Bollard said New Zealand could improve its prospects by taking advantage of Australia’s very strong future growth potential. “Australia is a lucky country, but we could be a lucky neighbour.”

Australia is entering a new minerals boom, investing heavily and encouraged by new finds, re-opening markets, bottlenecks and strong prices. Strong investment and export growth would mean big challenges for Australian policy. “This all means an economy that looks less like New Zealand.”

However, Australia’s potential raised the prospects for New Zealand’s manufacturers and services, which have a bigger share of exports than the same sectors in Australia.

“Australia will likely be a very strong growth market, and could help New Zealand to indirectly benefit from East Asian growth. Less inflation pressure here will help our competitiveness, assisted by relative exchange rate stability and the spreading Single Economic Market.

“New Zealand and Australia have very different resource endowments, financial markets treat us like Australia, but actually we are quite different. We talk about catching up with Australian incomes, but we have better chances of taking advantage of their growth.”

You can view the powerpoint slides that Dr Bollard spoke to at the following link:

<http://www.rbnz.govt.nz/news/2009/3800218.ppt>