

N.Z. May Cut Rate as Quake Damage Estimate Up to NZ\$12 Billion

February 24, 2011, 6:03 AM EST

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By Michael Heath and Daniel Petrie

Feb. 25 (Bloomberg) -- The Reserve Bank of Zealand may cut its benchmark interest rate, according to swaps traders and economists, as ANZ National Bank Ltd. estimated this week's earthquake will cost as much as NZ\$12 billion (\$9 billion).

Investors bet there is an 88 percent chance RBNZ Governor Alan Bollard will reduce the official cash rate by 25 basis points at the March 10 policy meeting, according to a Credit Suisse AG index based on swaps trading yesterday. Four of eight economists surveyed by Bloomberg News predict a cut of at least 25 points. A central bank spokesman declined to comment on speculation the RBNZ may hold an unscheduled meeting to consider a policy change.

New Zealand's second-largest city, Christchurch, was struck by the nation's deadliest earthquake in 80 years, a disaster ANZ said will cut gross domestic product by at least half a percentage point and may trigger a credit downgrade. The local currency approached a decade low against its Australian counterpart on concern the fallout in a region that accounts for about 15 percent of GDP may tip the country into a recession.

"At a time of national crisis, when the underlying economy is already proving frustratingly weak, a rate cut would potentially be very helpful," said Jane Turner, an economist at ASB Bank Ltd. in Auckland. "We expect the RBNZ to deliver a 50 basis-point rate cut at the March 10 meeting, if not sooner."

Death Toll

Hundreds of international rescue workers arrived in the South Island region of Canterbury to search for survivors and bodies among the rubble of buildings brought down by the magnitude 6.3 quake. Ninety-eight bodies have been recovered, 226 people are unaccounted for and dozens of aftershocks have followed the Feb. 22 temblor.

Christchurch's second quake in six months may cost more than double the one that struck the region Sept. 4, damage from which the RBNZ has estimated at NZ\$5 billion.

Bollard, who has kept rates unchanged at 3 percent since July, said at the bank's Jan. 27 meeting that underlying inflation is "comfortably" within its target range and any rise in borrowing costs will depend on a strengthening recovery.

The country's economy was hobbled before the quake. New Zealand's retail sales fell 0.4 percent in the fourth quarter, matching the decline during the previous quarter in which GDP shrank 0.2 percent. The government's GDP report for the final three months of 2010 is scheduled to be released March 24.

Less Confidence

Consumer confidence slumped to a 19-month low this month, weighed down by more pessimism about personal finances and the economy's performance in the next year, a private survey showed last week. The ANZ-Roy Morgan confidence index fell to 108.1 from 117.1 in January, Wellington-based ANZ National Bank Ltd. said in a monthly survey.

In a statement released Feb. 23, Bollard said the RBNZ is working quickly to assist in the recovery of access to the financial system and ensure markets "remain stable."

"The Reserve Bank is ready and able to supply any cash required by banks," Bollard said. "We have ample cash reserves and will issue cash to banks on any day required during this emergency situation."

Earlier this month, Finance Minister Bill English said the nation's economy may have entered its second recession in two years by contracting in the fourth quarter of last year.

GDP Impact

"We had been expecting the recovery effort from the previous earthquake in Christchurch to be ramping up about now and starting to have a positive impact on GDP," English said this week on Bloomberg Television. "This more severe earthquake will now delay the recovery."

Two straight quarters of shrinking GDP -- a standard definition of a recession -- would make New Zealand the first country with a Group of 10 currency to slide back into a contraction since the end of 2009.

Before this week's earthquake struck, English expected a budget deficit projected to be NZ\$15.6 billion in the year ending June 30 would start to narrow, with a surplus targeted by 2015.

"The financial burden of the earthquake will be massive. The government will return to surplus much more slowly," ANZ economists said. "A credit downgrade seems inevitable."