

# Time for Bollard to step in for sake of economy

## Government guarantees of depositors' savings fail to address the key issue

**R**ESERVE Bank Governor Alan Bollard must openly tell the Government to stop playing politics and guarantee the trading banks' foreign funding lines, before they ration lending and stall the New Zealand economy.

If Bollard can't summon the courage, he should resign. Because there is little more than a three-month window before trading banks put the clamps on new loans and tighten conditions to existing customers.

Neither Prime Minister Helen Clark nor Finance Minister Michael Cullen is telling the voting public this vital truth. Instead they are allowing voters to be lulled into a false sense of security through Clark's announcement that the Government has acted to keep depositors' savings safe and avert any panic withdrawals.

The scheme Clark announced last Sunday includes a Government guarantee for retail deposits in New Zealand-registered banks and other institutions. But unlike the Australian scheme, the New Zealand Government's guarantee does not cover funds the banks access from international wholesale markets, a factor which will leave the banks short of vital cash to loan to customers unless something is done.

National leader John Key and finance spokesman Bill English, who know the real story, are too spooked that Labour will attack them for fear-mongering to go public.

The political calculation will be feral. At issue is whether Clark and Cullen — two extremely skilful political strategists — are manufacturing a mini-crisis which will cement them as leaders in the voters' eyes if they come to the party (again) before the election by issuing an inter-bank guarantee to keep "Kiwis in business".

Labour will have observed how British Prime Minister Gordon Brown came off his political deathbed to emerge as a hero in Churchillian mode by bailing out the British banks. Clark and Cullen know from experience how former Labour finance minister Sir Roger Douglas was able to set the



agenda after the 1984 election when he had to act to stem a currency crisis.

Experienced politicians welcome crises for that reason. But in my view, Bollard should not wait in hope that venal politics will triumph.

Instead he should use his legally guaranteed independence to publicly call this Government to account in the fearless fashion adopted by his peers America's Bernard Bernanke and Australia's Glenn Stevens, who have helped to steward their respective economies through the crisis.

So far, this Government has reduced Bollard to a well-paid eunuch as it announces policies for political effect on the election campaign trail, instead of forming a statesmanlike response to the international crisis.

The central bank has let it be known, in elite circles, that it was not fully in the loop last weekend as senior Labour Cabinet ministers talked with their Australian counterparts over the guarantees they would offer to shore up their respective financial systems.

The upshot was that the major political groundswell Prime Minister Helen Clark engendered on Sunday, as she announced the Government would guarantee New Zealand bank deposits at Labour's formal campaign launch, was based on shaky grounds.

Already conditions have been retrospectively attached to the "free guarantees" Finance Minister Michael Cullen initially announced for finance companies, after widespread disgust that cowboys were now being given carte blanche to rip-off taxpayers.

But the Government has (so far) refused to face up to the real systemic

risk to the New Zealand financial system: the inability of our major banks to access the international credit lines — which make up more than half of local lending — without a Government guarantee.

The inter-bank market has basically been seized up for three weeks now. With fear stalking the international markets, lenders are now loath to place their funds anywhere, irrespective of how credit-worthy the country, if its Government does not underwrite the risk.

The Reserve Bank explained to me earlier this week that "given the ownership of much of the banking system in New Zealand, the Government is mindful that the foreign shareholders may be the ultimate beneficiaries of any Government support for the banks".

In fact, Cullen rejected an offer by former Australian Treasurer Peter Costello to give the New Zealand depositors of Aussie banks domiciled here the same protections Aussie depositors enjoyed and forced them to

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set up separate local entities. He can't have it both ways and allow anti-Australian attitudes to predominate over the national interest.

To be fair to Cullen, it is possible that he has been too focused on winning the election to consult the major institutions. But the fact he has since refused to talk directly with the predominantly Australian-owned trading banks on the issue rules out mere incompetence.

The banks' customers should not panic — yet. The Reserve Bank will pump some cash into the trading banks by buying securitised mortgages from them. But the banks' ability to access cash from their Australian parents is limited by Aussie prudential rules. This means they do need to get funds from overseas or lending will contract.

Bollard was told this by the bankers in a series of private tete-a-tetes about 10 days ago.

He is paid big bucks as the nation's top central banker. Time to tell the public the truth.