

New Zealand Institute of Economic Research (Inc)  
Media release

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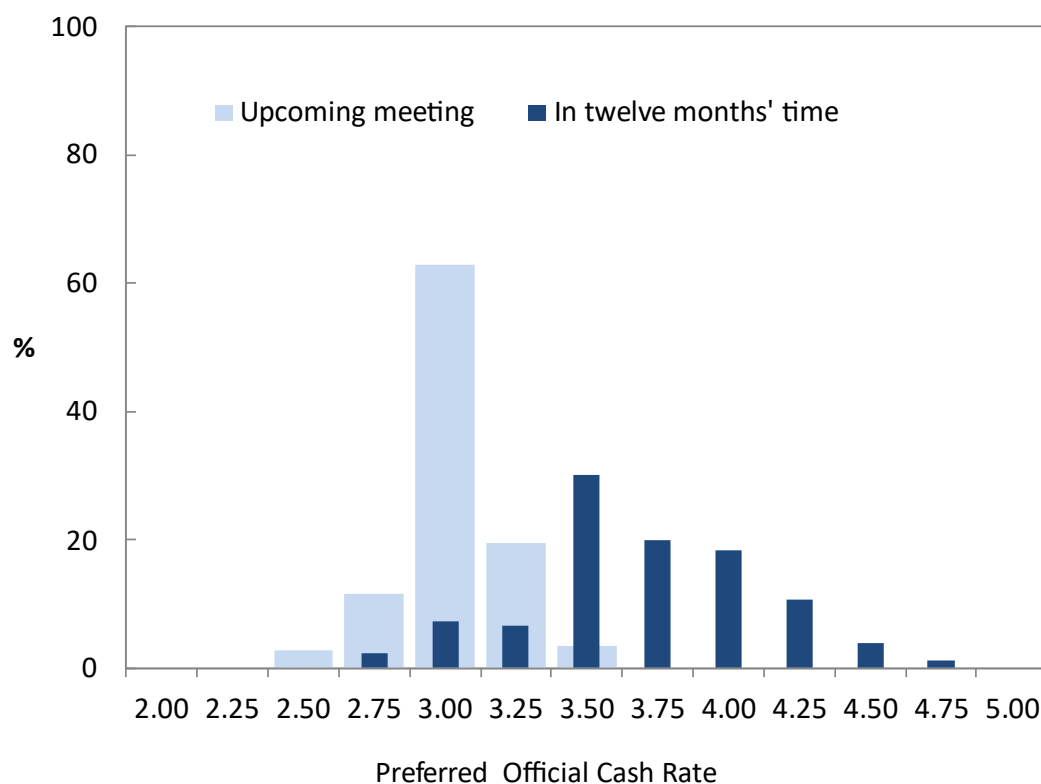
## Shadow Board recommends the Reserve Bank hikes the OCR by 50 basis points in August and follow up with further tightening

There was a range of views amongst the Shadow Board members on what the Reserve Bank of New Zealand should do with the Official Cash Rate (OCR) over the coming year. However, the majority view was that a 50 basis points OCR increase in the August meeting is warranted, with only two members recommending a different quantum of tightening (25 basis points and 75 basis points each). Shadow Board members highlighted the strong inflation pressures in the New Zealand economy as justification for their recommendation for further tightening over the coming year.

Regarding where the OCR should be in a year, Shadow Board members' views ranged from 3 percent to 4.25 percent. Inflation is the main concern, with the disagreement centring on the amount of tightening required to bring inflation back to the Reserve Bank's 1 to 3 percent inflation target band. Some members noted the risks of a hard landing for the economy from a sharp rise in interest rates. Signs of slowing in parts of the New Zealand economy highlight the balancing act faced by the Reserve Bank in controlling inflation in the current supply-constrained environment.

### Figure 1 Shadow Board recommends further tightening beyond August

% strength of policy preference on stance RBNZ should take



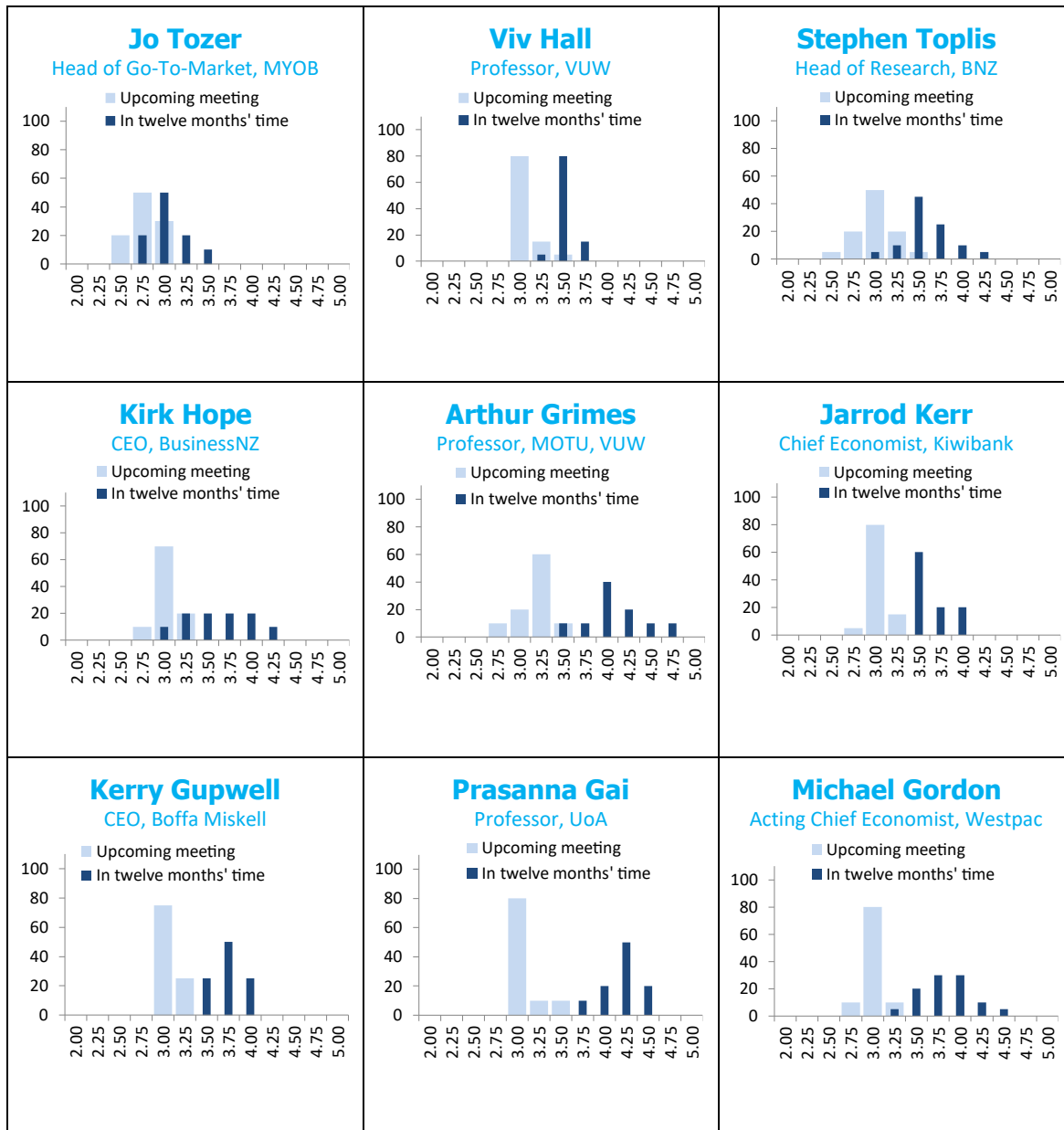
Source: NZIER *Monetary Policy Shadow Board*

For further information, please contact:

Christina Leung, Principal Economist & Head of Membership Services

[christina.leung@nzier.org.nz](mailto:christina.leung@nzier.org.nz), 021 992 985

**Figure 2 Individual participants' recommended rate settings – 10 August 2022**



Source: NZIER Monetary Policy Shadow Board

**Table 1 Participant comments**

Participant comments are optional.

<b>Stephen Toplis</b>	There is little doubt the cash rate needs another decent nudge at the upcoming meeting. There is, however, increased doubt about the requisite pace and extent of any further tightening thereafter.
<b>Viv Hall</b>	After due regard to domestic and international monetary tightening to date, and to actual and projected inflationary expectations and CPI inflation, another 50 bp increase in the OCR is required now, and then either one or two further increases of 25 bp within the next 12 months.
<b>Kirk Hope</b>	No comment.
<b>Jarrold Kerr</b>	Inflation is proving to be more persistent globally. Inflation expectations remain elevated, and wages are rising in response. Although half of the inflation we're experiencing was generated offshore, with many supply issues, domestically generated inflation is proving sticky. The RBNZ only has one option, and that is to raise interest rates in order to tame the inflation beast.
<b>Jo Tozer</b>	According to MYOB's latest SME Snapshot, inflation has now outstripped COVID as the key concern of local businesses, with two-thirds of SMEs saying it is having the biggest impact on their confidence in the economy – currently at near-record lows. The SME sector will be expecting a continued focus on bringing inflation under control in order to relieve this pressure on their operations.
<b>Arthur Grimes</b>	It is never wise to be so far behind the curve as the RBNZ finds itself – through its own mismanagement. It needs to restore a positive real interest rate but must be mindful not to destroy the economy in doing so. This difficult situation shows why it should have started raising rates a year earlier than it did.
<b>Michael Gordon</b>	The RBNZ is on a path to bringing inflation under control. To do so, it will need to carry through with the interest rate hikes it has signalled and maintain them for some time.
<b>Prasanna Gai</b>	No comment.
<b>Kerry Gupwell</b>	Inflationary effects remain persistent, unemployment remains low, and supply side constraints continue. Further upward nudges in the OCR are warranted.

### About the NZIER *Monetary Policy Shadow Board*

NZIER's *Monetary Policy Shadow Board* is independent of the Reserve Bank of New Zealand. Individuals' views are their own, not those of their respective organisations. The next *Shadow Board* release will be Monday, 3 October 2022, ahead of the RBNZ's *Monetary Policy Review*. Past releases are available from the NZIER website: [www.nzier.org.nz](http://www.nzier.org.nz)

*Shadow Board* participants put a percentage preference on each policy action. Combined, the average of these preferences forms a *Shadow Board* view ahead of each monetary policy decision.

The NZIER *Monetary Policy Shadow Board* aims to:

- encourage informed debate on each interest rate decision
- help inform how a Board structure might operate
- explore how Board members could use probabilities to express uncertainty.

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