

New Zealand Institute of Economic Research (Inc)
Media release

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NZIER's *Shadow Board* considers negative OCR unnecessary

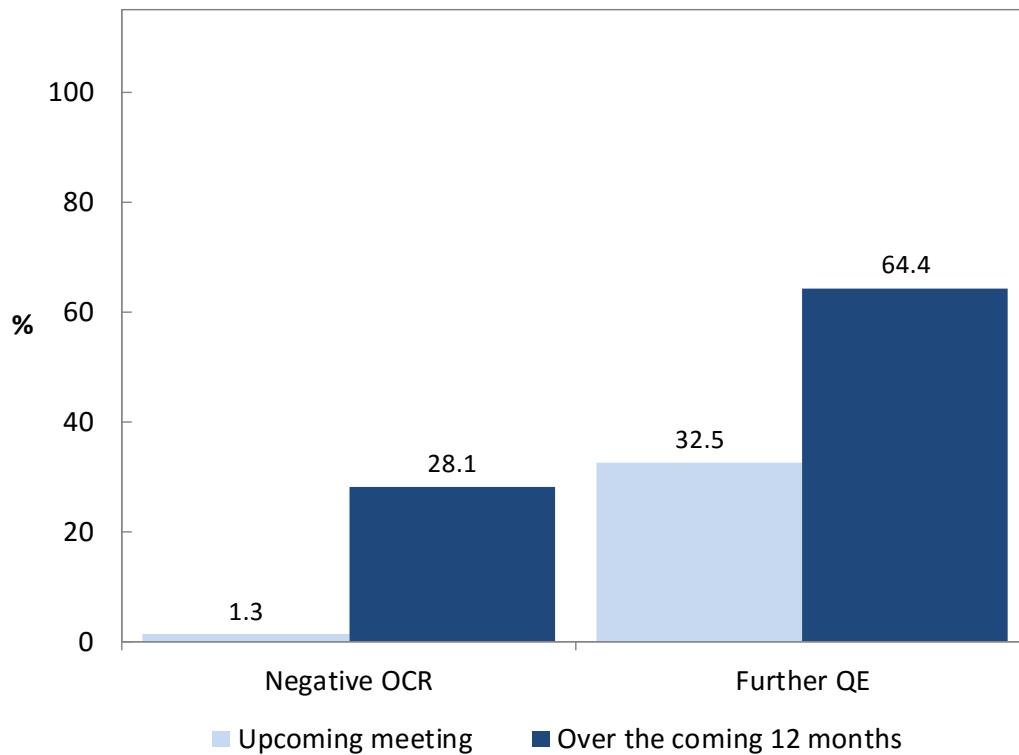
We are continuing to seek our Shadow Board members' views on whether the Official Cash Rate (OCR) should be negative and if the Reserve Bank should expand its quantitative easing (QE).

Fewer Board members this quarter consider further monetary policy stimulus is appropriate, particularly when it comes to introducing a negative OCR. While there was support for an expansion of the Reserve Bank's Large-Scale Asset Purchases (LSAP) programme over the coming year, this stimulus was considered more appropriate beyond the upcoming meeting.

Recent economic developments have been more positive than expected, with activity indicators such as heavy vehicle flows and retail spending pointing to a rebound in demand in the wake of the lockdown being lifted. The unprecedented amount of stimulus introduced by the Government and the Reserve Bank has helped to prop up confidence and support spending. However, members highlighted the uncertainty over the longer term once the stimulus measures, such as the wage subsidy scheme, come to an end.

Some members considered introducing a negative OCR an ineffective way to stimulate demand, and all members felt expanding QE was more appropriate.

Figure 1 Fewer Shadow Board members think further stimulus required
(% strength of policy preference on what the RBNZ should do for each monetary policy tool)



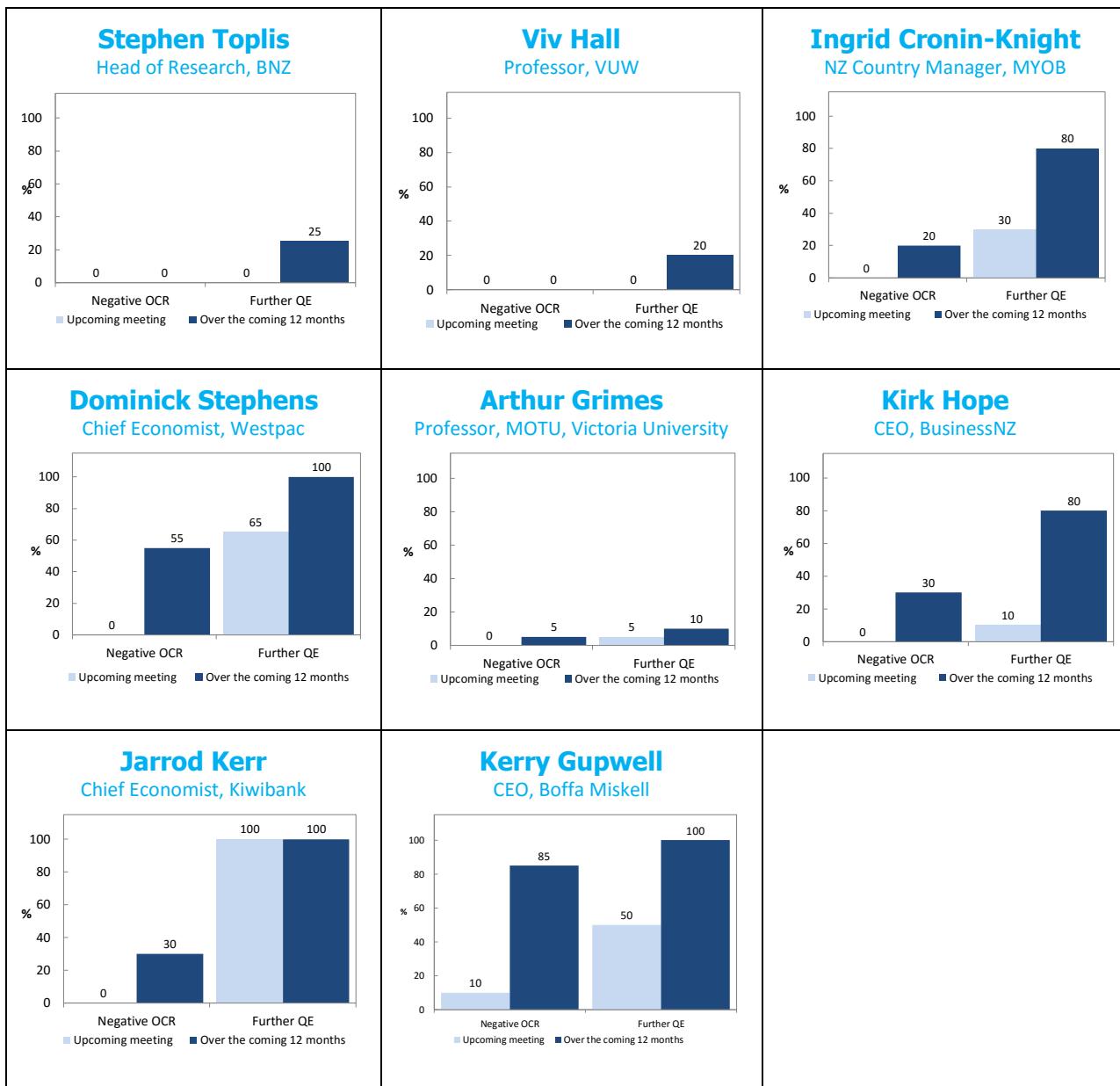
Source: NZIER Monetary Policy Shadow Board

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Figure 2 Individual participants' recommended rate settings – 5 August 2020



Source: NZIER Monetary Policy Shadow Board

Table 1 Participant comments

Participant comments are optional.

Stephen Toplis	There is little evidence that negative interest rates would be very effective under any circumstances. The RBNZ has no need to expand QE now as it has plenty of headroom within its existing mandate. It will only need to expand the programme if offshore investors decide not to provide the government with its requisite funding.
Viv Hall	No comment.
Dominick Stephens	The data clearly shows that the economy weathered lockdown better than expected. However, the rising exchange rate, falling inflation expectations and the likelihood that the border will stay closed for a long time all mean that the inflation outlook has changed little, and ongoing monetary stimulus will be required.
Kirk Hope	No comment.
Jarrod Kerr	The curve is flat in the front end, but steepens sharply out the long end. Govt bond issuance is ramping up and is expected to hit \$213bn by 2024. In order to keep interest rates low and flat, more purchases will be required. The LSAP programme will rise above \$100bn in time.
Ingrid Cronin-Knight	<p>The latest MYOB Business Monitor data saw SME confidence improving, albeit from a low base. In the recent MYOB Business Monitor Snapshot, confidence had risen from a net negative 71% in March to net negative 35% in June.</p> <p>The SME sector was opposed to the prospect of a negative OCR in recent surveying. Over a third of SMEs are now expecting growth in the year to 2021, reducing the need for further stimulus from the Reserve Bank in the near term. However, with the Wage Subsidy due to finish in September, the need for increased stimulus may need to be reassessed in the final quarter of 2020 and the first quarter of 2021.</p>
Kerry Gupwell	A lot has already been promised in terms of “government funding” which is positive and there has been a significant reduction in the OCR, and more will be required of both. The concern is execution, yet again. I feel that an opportunity may have been lost as the government has “held some back” in reserve – for what? The funding has to hit the road now to boost jobs and the economy but has momentum and a cohesive approach been lost as we head into an election - it seems that electioneering has already started, at what cost? Our economic response needs to be as robust as our health response (to COVID).
Arthur Grimes	No comment.

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 21 September 2020, ahead of the RBNZ's *OCR Review*. Past releases are available from the NZIER website: www.nzier.org.nz

Shadow Board participants put a percentage preference on each policy action. Combined, the average of these preferences form 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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