New Zealand Institute of Economic Research (Inc)
Media release

For release 10am Monday 22 February 2021

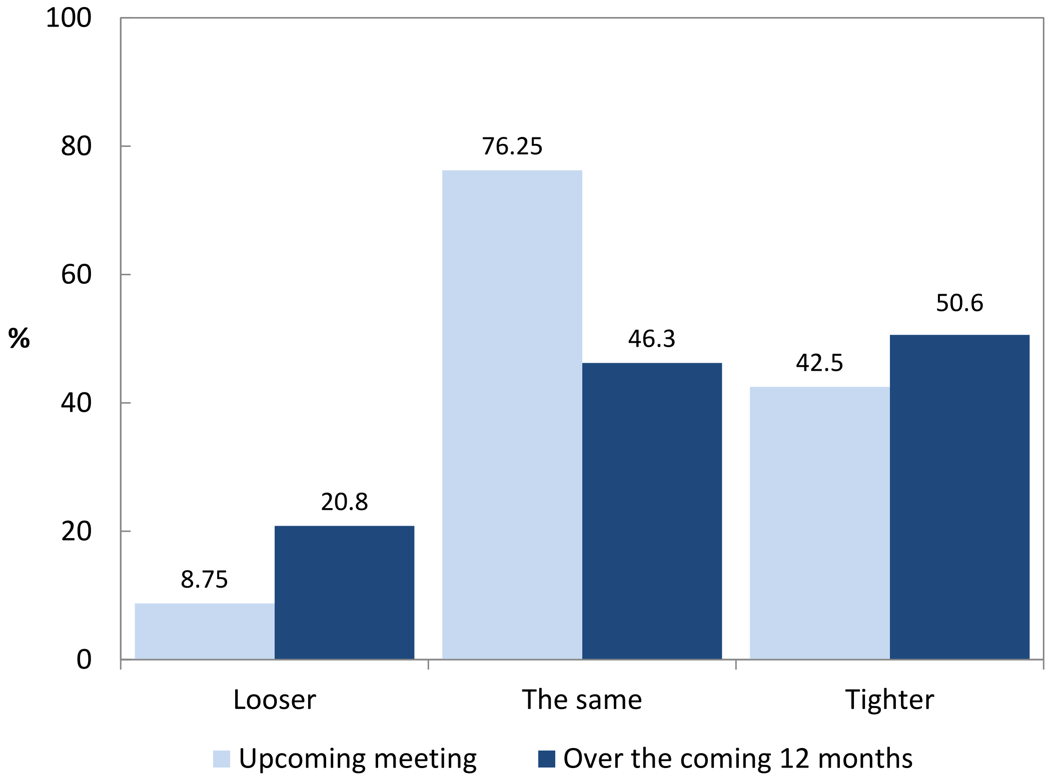
NZIER's *Shadow Board* sees little need for further stimulus

In light of recent developments, we have once again revised the format of the views we are seeking from our Shadow Board on what the Reserve Bank should do with monetary policy. Given the Reserve Bank's growing arsenal of monetary policy tools which includes the Official Cash Rate, quantitative easing, and Funding for Lending Programme, we decided to simply ask our Shadow Board on what stance the Reserve Bank should take 1) at the upcoming meeting, and 2) over the coming 12 months.

There was a wide range of views amongst board members. For the upcoming meeting, members were generally in favour of leaving the monetary policy stance unchanged given the improving outlook balanced against the high degree of uncertainty. However, beyond that board members were divided between leaving the monetary policy stance unchanged and tightening monetary policy. Those who indicated a tightening of monetary policy was appropriate cited a lift in inflation pressures and the overheating housing market as key factors warranting the change.

Figure 1 Shadow Board favours tighter policy over the coming year

(% 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, 021 992 985

Figure 2 Individual participants’ recommended rate settings – 17 February 2021

Source: NZIER *Monetary Policy Shadow Board*

Table 1 Participant comments

Participant comments are optional.

Stephen Toplis	Based on current information, monetary conditions should be tightened but there remains a risk that the current environment is unsustainable. It is probably time to announce a tapering of the LSAP programme with some reference to future upside for the cash rate. Assuming no shock it would be appropriate for the LSAP programme to have concluded within the next year and the cash rate should be progressively raised.
Viv Hall	There has been some recent positive news on the inflation, labour market and GDP growth rate fronts, but some of this is unlikely to be of a sustained nature and very considerable economic and COVID-19 uncertainties remain. For this upcoming meeting, monetary policy should therefore remain the same. For the coming year RBNZ should consider some formal tightening of monetary policy. This should take the form of further reductions in large scale asset purchases (LSAPs)/quantitative easing. It would be premature to start raising the OCR, given the potentially unhelpful effects on the exchange rate.
Dominick Stephens	Monetary policy settings are about right, and don't need to change next week. The medium-term outlook for inflation is low, but current settings are probably sufficient to secure a return to 2% over time. The balance of odds favours a gradual tightening later this year, starting with a reduction in the LSAP and confirmation that the FLP will not be extended. However, there are huge uncertainties on both sides of this forecast.
Kirk Hope	Despite recent key economic data being more positive than expected e.g. employment/commodity prices and some potential inflationary pressures (principally housing-related), there is no justification for moving the OCR either up or down at this stage. Further stimulus measures are not warranted under current circumstances. While the NZ economy has bounced back far better than expected there is still significant uncertainty internationally regarding COVID-19 and also the extent that the roll-out of vaccinations will allow the border to be reopened. Any significant changes to monetary policy settings need to be approached with a degree of caution as inflationary pressures are likely to be finely balanced.
Jarrod Kerr	The Reserve Bank has already announced a tightening in the LVRs. Supply, or fiscal policy, is the issue. Clearly, the global pandemic still poses a significant risk to the economy. Although the downside risks are evaporating. Inflation and unemployment are unlikely to be comfortably near the RBNZ's targets for some time yet. The heat in the housing market should be considered via a macro-prudential lens. Although targeting demand is not going to solve the shortage of affordable dwellings.

Ingrid Cronin-Knight	While the housing market and a stronger than expected bounce back in the economy are increasing inflationary pressures, many SMEs are still feeling the prolonged effects of COVID-19 disruption, particularly now in accessing and maintaining stock levels of supplies, ongoing cash reserves and access to working capital. The latest Level 3 lockdown will no doubt fuel uncertainty for businesses of all sizes, and apply direct costs without revenue to retail and domestic hospitality, while the knock-on effects of a prolonged slump in international tourism is being felt in the regions. Barring another significant community outbreak of COVID-19, 2021 will be fairly finely balanced between the need to maintain current levels of economic growth, minimising some uncertainty with the rollout of an effective vaccine, and - if the post-COVID upswing begins to impact the economy – managing growing inflation spurred by a strong housing market and balancing the offset of subsequent rising inequality, increasing consumer confidence and, potentially, the chance of opening of at least one significant international travel bubble.
Kerry Gupwell	Lockdowns remain a constant worry in terms of the potential impact. The economy has recovered better than anyone expected, the improvement in unemployment also surprised and the housing market keeps defying so called logic. I think the RBNZ need to hold the course at the moment. The housing market is a hot topic but I am not sure demand-side tinkering is the answer.
Arthur Grimes	The RBNZ should tighten gradually. The RBNZ loosened monetary policy too much through 2020, causing soaring house prices (as well as other asset prices) which is very damaging for disadvantaged New Zealanders and for the next generation. The blame really goes back to government for ill-advisedly (i.e. on the extremely poor quality advice of Treasury and their advisors) changing the Reserve Bank Act to include a dual mandate. The tightening should continue until such time as house prices return to a much more affordable level provided the goods market does not enter deflation.
Prasanna Gai	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 12 April 2021, ahead of the RBNZ's *Monetary Policy 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 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.