New Zealand Institute of Economic Research (Inc)
Media release

For release 10am Monday 22 June 2020

NZIER's *Shadow Board* continues to favour further QE over a negative OCR

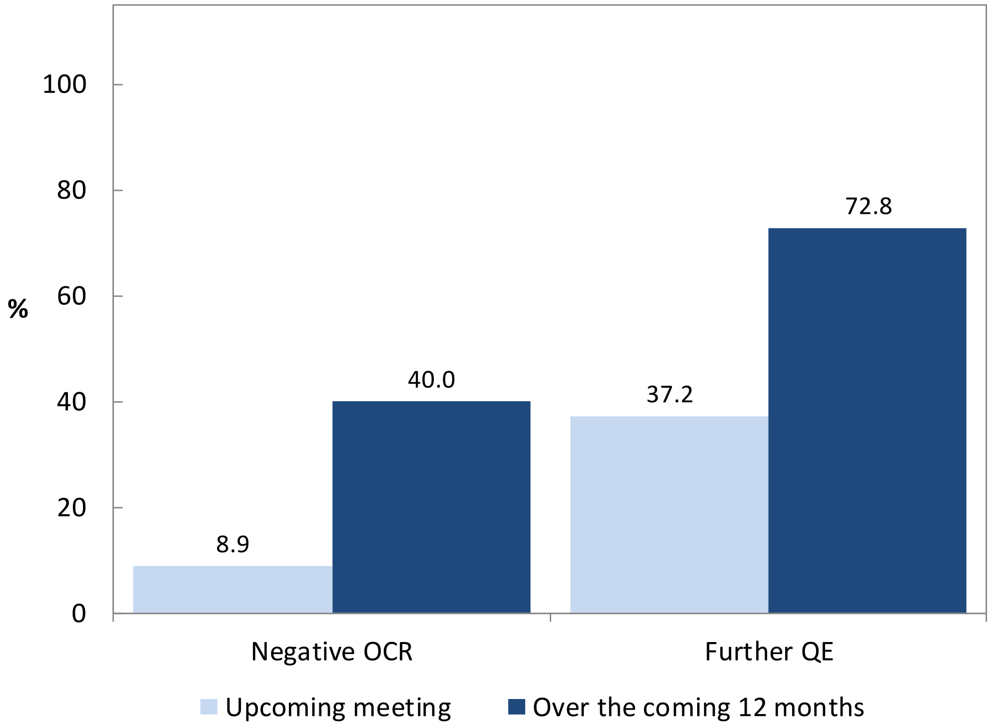
There remains a wide range of views amongst the Shadow Board on whether more monetary policy stimulus is required, and in what form. Overall, the consensus amongst the Shadow Board is that more stimulus would be required over the next twelve months, with the majority favouring an expansion of the Reserve Bank's quantitative easing programme.

There was little support amongst the Shadow Board for the OCR going into negative territory at the upcoming meeting, although some members thought such a move would be required over the coming year. Members noted a negative OCR was unlikely to be effective in stimulating the economy, while highlighting the risks which include encouraging people to save more in order to achieve their savings goals (thus reducing spending) and reducing business confidence.

When it comes to the quantitative easing programme, most Shadow Board members felt an expansion of the programme was appropriate. Some members also advocated the Reserve Bank expand bond purchases to include council and Housing NZ debt. Increasing its asset purchase programme was generally seen as a more effective way for the Reserve Bank to support the Government in stimulating the economy.

Figure 1 Shadow Board still thinks it's appropriate to inject more stimulus

(% strength of policy preference on what the RBNZ should do for each monetary policy tool)



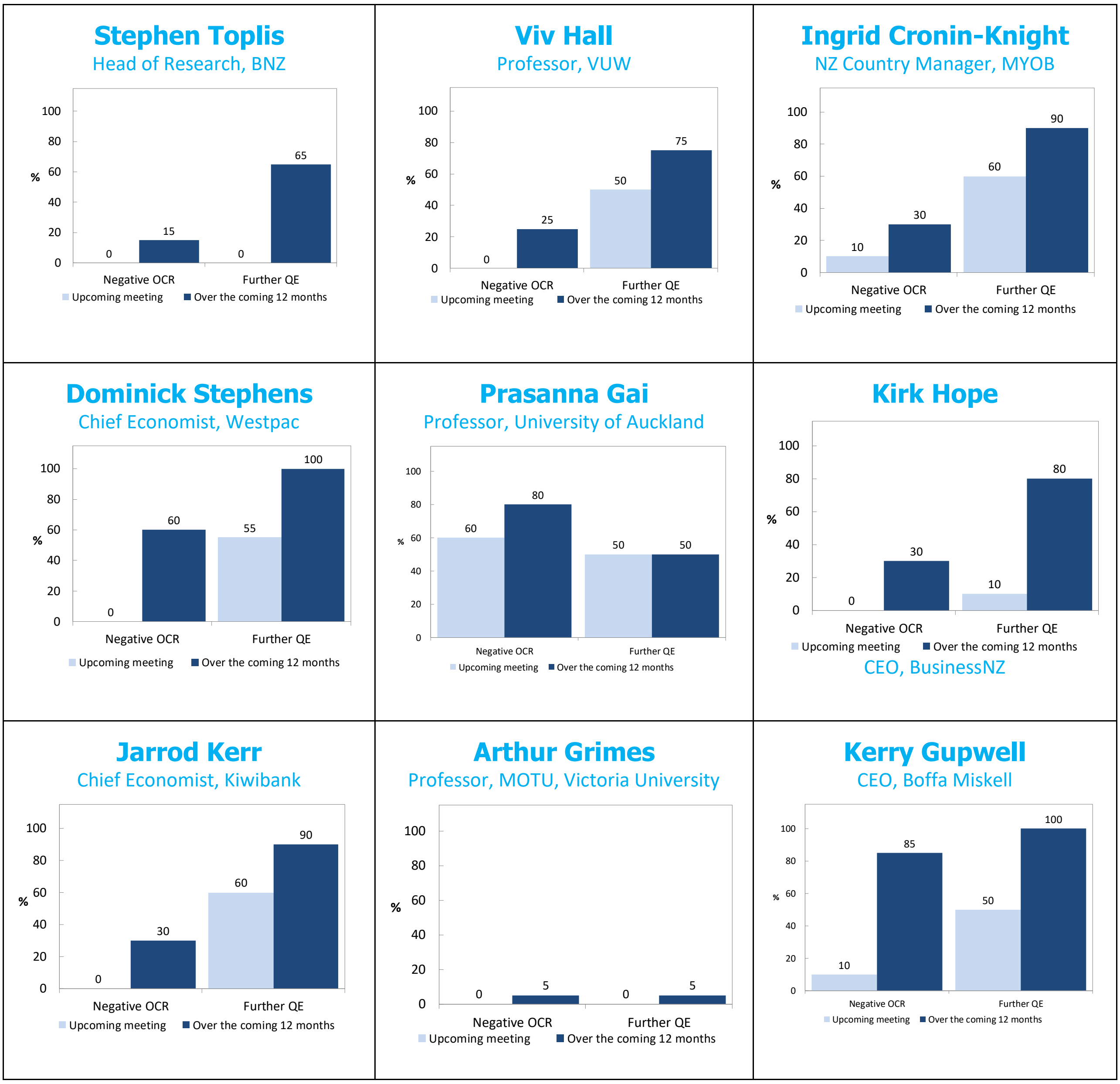
Source: NZIER *Monetary Policy Shadow Board*

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 June 2020



Source: NZIER *Monetary Policy Shadow Board*

Table 1 Participant comments

Participant comments are optional.

Stephen Toplis	We do not believe negative interest rates are the appropriate tool to use when the economy is facing equity not debt concerns. We would only advocate negative interest rates in the event the economy looked to be entering a period of protracted economic decline. Ideally, the RBNZ will, eventually, be able to accelerate recent tapering and allow the Government to fund itself without support.
Viv Hall	No evidence that an OCR of 0.25% is a material constraint to improved real GDP and employment growth. Some exchange rate appreciation and low oil prices are not sufficient to justify a negative OCR. Expansion of the QE program should be guided by the need to ensure smooth functioning of financial markets and appropriate liquidity in the financial system.
Dominick Stephens	Tentative recent data suggests that the Covid recession may not be quite as severe as previously anticipated. However, the rising exchange rate will keep inflation suppressed, so the RBNZ still has a big job ahead of it. In order to keep buying bonds at $1bn per week, the RBNZ will have to expand the cap on the bond purchase programme at some point.
Prasanna Gai	No comment.
Kirk Hope	No comment.
Jarrod Kerr	I believe an expansion of the LSAP program, and term lending to banks, would be far more effective in lowering retail deposit and lending rates, if required. I'm not an advocate of negative rate policy. I believe the risks to the system are unnecessary, and savings would actually increase. I believe the QE program 'should' be expanded to include council (and housing NZ) debt beyond just LGFA. Nominal NZDMO issuance will lift to $213bn over the next 5 years. The RBNZ has the capacity to take down 50% of NZGBs alone. Add in council debt, and the program could double from 60bn to ~120bn.
Ingrid Cronin-Knight	Based on a range of performance data for New Zealand's SME community, MYOB's view remains that the economy will need significant ongoing stimulus, particularly in the coming months as the Wage Subsidy Scheme is completed. Given the negative impact on SME confidence of record low interest rates, and the likelihood that negative interest rates would increase that effect, our preference would be to see the RBNZ focus on further expansion of its QE programme, as required.
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 10 August 2020, ahead of the RBNZ's *Monetary Policy Statement*. 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.