New Zealand Institute of Economic Research (Inc)
Media release

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

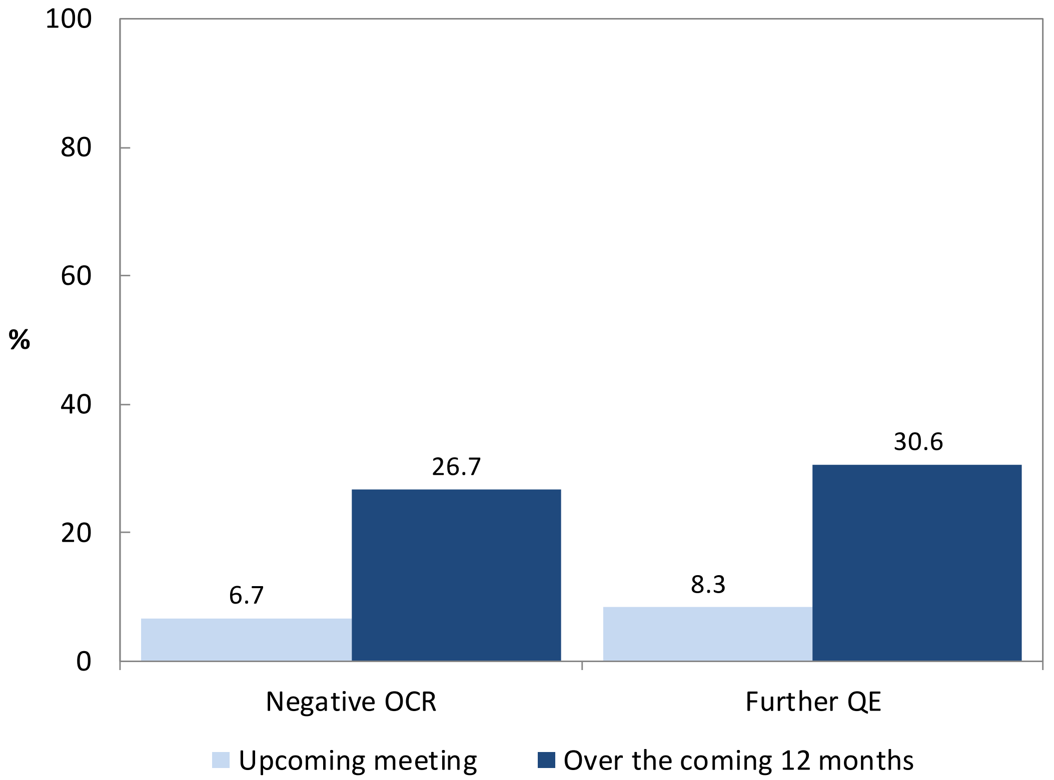
We are continuing to seek our Shadow Board members' views on whether the Official Cash Rate (OCR) should be negative and if the Reserve Bank should expand its quantitative easing (QE).

Board members once again saw a reduced need for a negative OCR and further QE over the coming year. The expected implementation of a Funding for Lending programme (FLP) by the Reserve Bank was highlighted by some Board members as an influence on their view about the need for further stimulus. The Reserve Bank has indicated it was likely to implement the programme to offer secure long-term funding at low interest rates to banks by the end of this year. The aim of the FLP was to reduce borrowing costs for households and businesses in order to encourage them to borrow and invest.

Shadow Board members continue to highlight the challenges facing New Zealand as it navigates the post-COVID recovery. However, members generally remain sceptical about the effectiveness of a negative OCR to stimulate the economy.

Figure 1 Reduced appetite for further QE or a negative OCR

(% 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:

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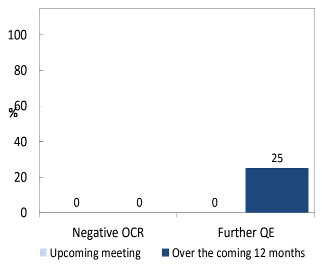
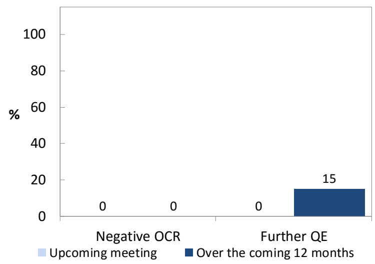
Figure 2 Individual participants' recommended rate settings – 5 November 2020

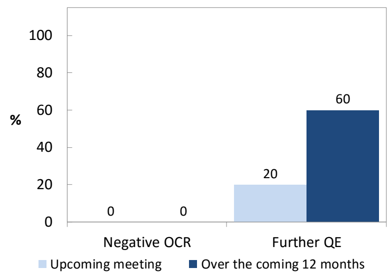
Stephen Toplis
Head of Research, BNZ



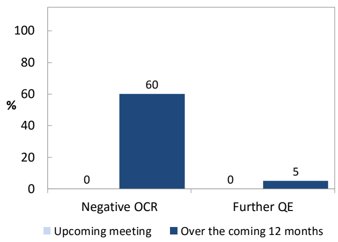
Viv Hall
Professor, VUW



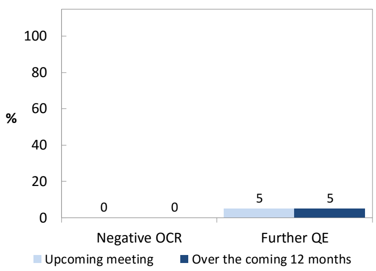
Ingrid Cronin-Knight
NZ Country Manager, MYOB



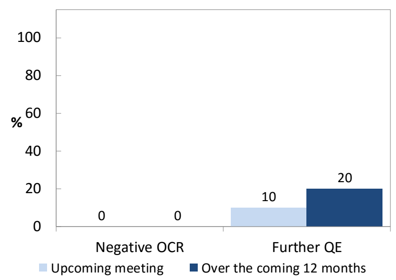
Dominick Stephens
Chief Economist, Westpac



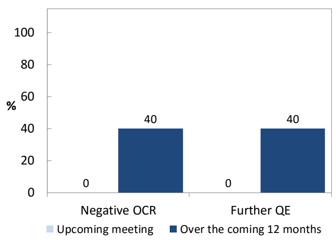
Arthur Grimes
Professor, MOTU, VUW



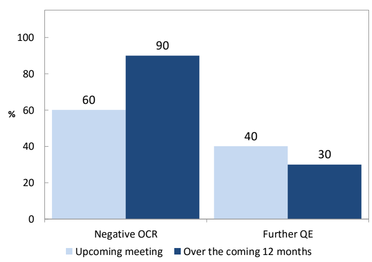
Kirk Hope
CEO, BusinessNZ



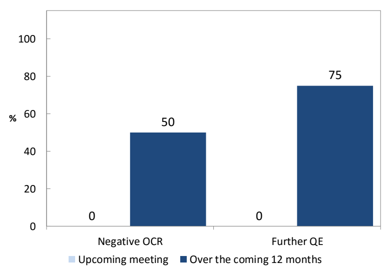
Jarrod Kerr
Chief Economist, Kiwibank



Prasanna Gai
Professor, UoA



Kerry Gupwell
CEO, Boffa Miskell



Source: NZIER *Monetary Policy Shadow Board*

Table 1 Participant comments

Participant comments are optional.

Stephen Toplis	We think that it is very likely the cash rate will go negative over the next twelve months. However, we do not think that it is necessary. With regard to QE, the possibility of further involvement by the RBNZ is a function of the possibility that the Government requires more funding than is currently the case. Of course, the big deal this MPS is the Funding for Lending Programme not rates or QE.
Viv Hall	Still no case for further monetary policy loosening. New Zealand's core CPI inflation continues to be low and stable. Immediate and foreseeable paths for employment and unemployment will not be materially improved by even looser monetary policy. Financial sector policies should be focussed on ameliorating asset price inflation, maintaining financial stability, and ensuring financial market liquidity.
Dominick Stephens	The RBNZ is already on track to run out of bonds to buy under the QE programme, so QE probably can't be expanded beyond the $100bn already announced. This means that the RBNZ will need another method of keeping interest rates low. So we conclude that over the coming 12 months the RBNZ will introduce a Funding for Lending Programme and reduce the OCR below zero, while simultaneously slowing purchases under the QE programme.
Kirk Hope	No comment.
Jarrod Kerr	The focus is purely on the FLP and how the RBNZ signal their next move - most likely a 75bp cut to the OCR to -0.5% in February. There's a big difference between what I think they should do, and what they will do. I'm negative on negative rates.
Ingrid Cronin-Knight	Currently, several key indicators in MYOB's Small Business Health index remain below the pre-COVID baseline for New Zealand's SME community. Notably, according to our latest data, both cashflow (0.7% below 1stMarch baseline) and invoicing (16.5% below 1st March baseline) activity reveal that local businesses are still feeling the impact of COVID-19 and its related economic pressures. While we believe the RBNZ should avoid - and preferably publicly discount – moving towards a negative OCR, it remains likely that local SMEs will continue to look out for further fiscal stimulus, particularly after the Christmas and holiday periods.
Kerry Gupwell	There is a sense that the economy is rebounding quicker than expected from the last shut down but there are still some fundamental challenges as we continue to confront the effects of COVID. As the rest of the world continues to struggle with "yoyoing" there are growing concerns over supply side issues for NZ, labour and imported items, which may hamper a recovery. The election result has given the new government a mandate, how we manage the border and help different industries transition into the next normal will be critical, and that will need to be more than just "funding".
Arthur Grimes	No comment.
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 22 February 2021, 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 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.