

New Zealand Institute of Economic Research (Inc)  
Media release

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### NZIER's *Shadow Board* still favour QE over negative OCR for 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).

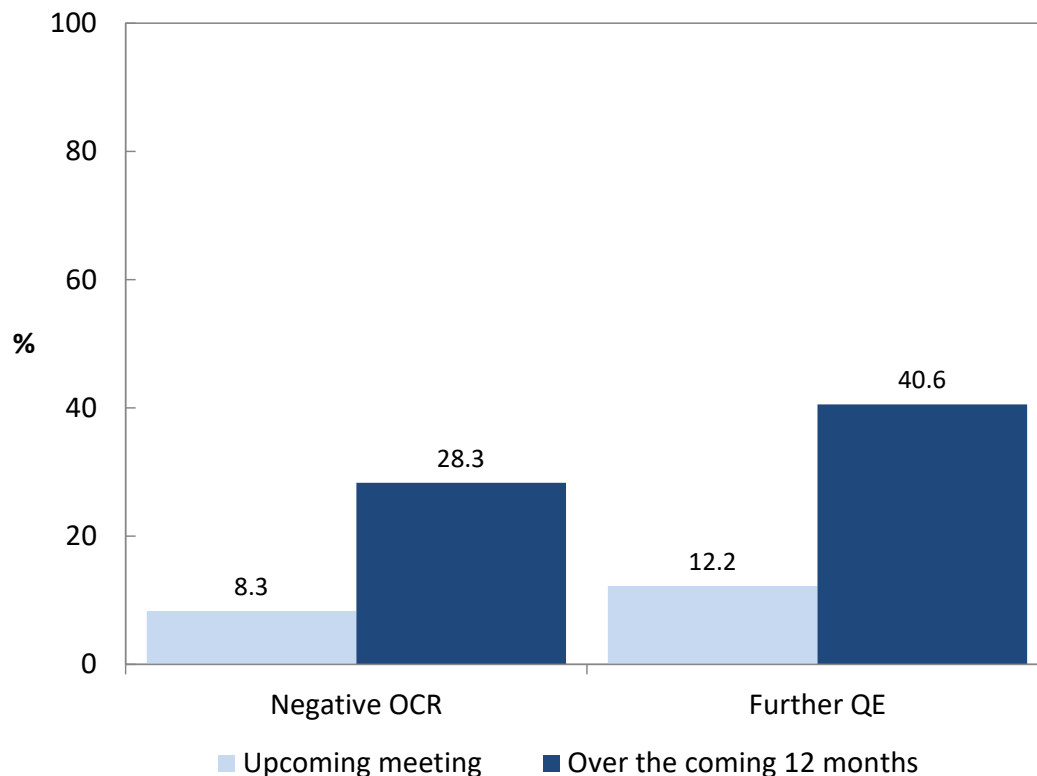
Fewer *Board* members see further quantitative easing as appropriate over the coming year. This follows the Reserve Bank's decision to expand its Large-Scale Asset Purchases (LSAP) programme up to \$100 billion at the August meeting.

Although an expansion of quantitative easing remains more favoured than a negative OCR in stimulating the economy, there has been an increase in appetite amongst *Shadow Board* members to introduce a negative OCR over the coming year. The Reserve Bank has indicated in its recent communications it is actively preparing to introduce a negative OCR and a Funding For Lending programme next year if required. The central bank is aiming to reduce interest rates to encourage households and businesses to spend and invest.

Nonetheless, some *Shadow Board* members continue to highlight their scepticism about the effectiveness of a negative OCR in stimulating the economy.

### Figure 1 Fewer *Shadow Board* members think further QE is required

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



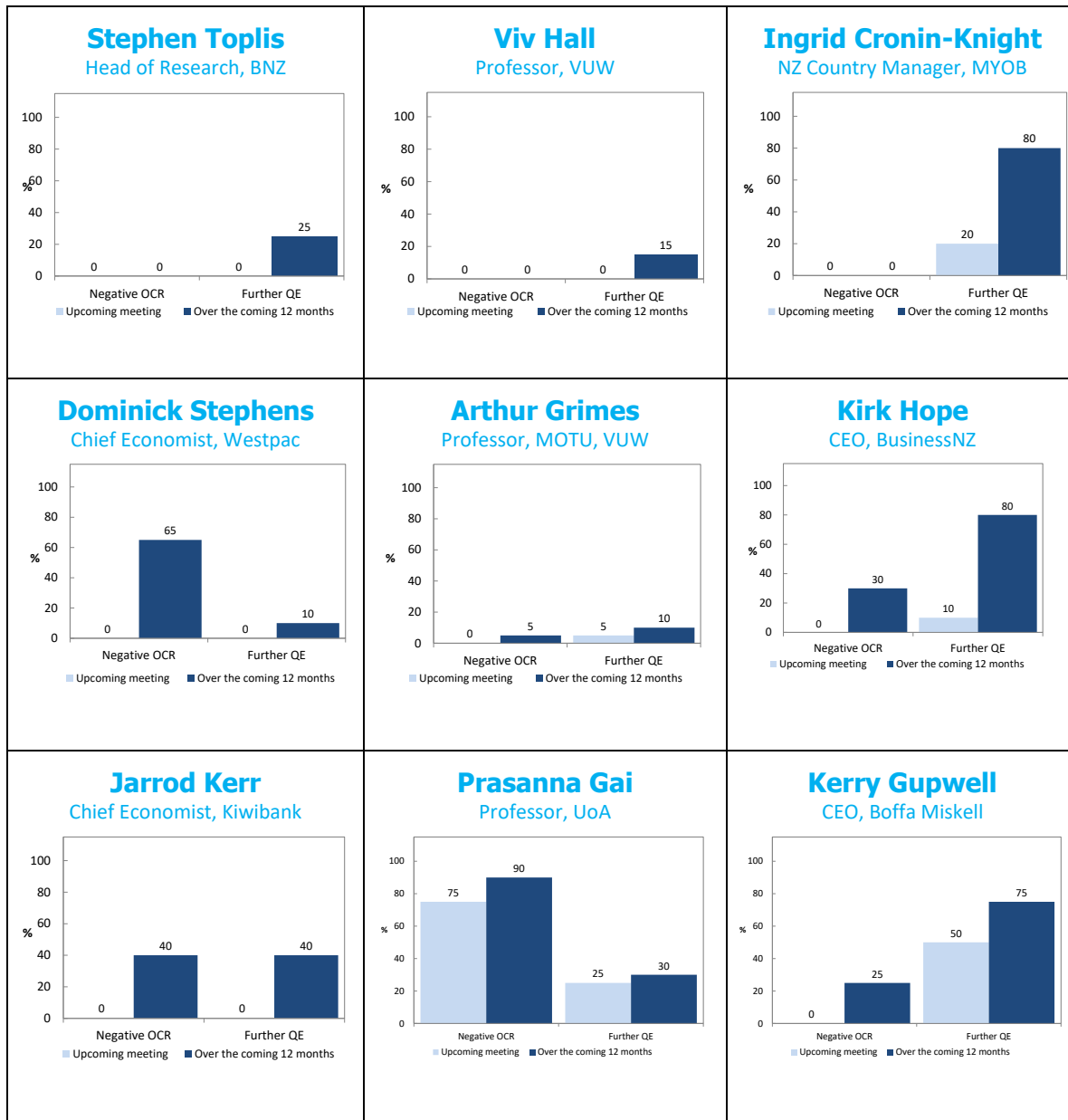
Source: NZIER *Monetary Policy Shadow Board*

**For further information, please contact:**

Christina Leung, Principal Economist & Head of Membership Services

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

**Figure 2 Individual participants' recommended rate settings – 16 September 2020**



Source: NZIER Monetary Policy Shadow Board

**Table 1 Participant comments**

Participant comments are optional.

<b>Stephen Toplis</b>	We are forecasting the RBNZ will take its cash rate sub-zero within the next twelve months but we do not think it necessary. QE requirements, on the other hand, are dependent on whether (a) the Government needs to expand its debt programme and (b) whether the RBNZ is needed to help maintain the functionality of the market to enable it to do so.
<b>Viv Hall</b>	Further monetary policy action is not justified at present. Monetary policy continues to be loose, and any further reduction in the OCR will be reflected in further asset price increases rather than in expanded household consumption and business investment expenditure. Constraints on expanding the latter are associated with Covid-19 factors and a range of uncertainties rather than with already exceptionally low interest rate levels.
<b>Dominick Stephens</b>	The bond programme has now been expanded to its maximum possible size – the RBNZ cannot buy more than the already-planned \$100bn without imperiling market liquidity (unless the Government issues more debt than expected, which seems unlikely). The economy is proving much more resilient to Covid than anticipated, but the outlook is still for very low inflation, so we continue to believe that a negative OCR will prove necessary.
<b>Kirk Hope</b>	No comment.
<b>Jarrold Kerr</b>	I believe the LSAP programme should be extended to include council debt – beyond just LGFA.
<b>Ingrid Cronin-Knight</b>	<p>After having emerged strongly from the initial lockdown, the return of COVID-19 restrictions has seen a tightening of conditions for the SME sector. The extended election cycle is also having an effect. According to MYOB’s recent General Election Snapshot survey, 43% of SME decision makers say uncertainty around the outcome of the election is having a negative impact on their business.</p> <p>In terms of additional stimulus, while SME decision makers remain unconvinced by the efficacy of negative interest rates, what is needed by the sector is a stronger sense of certainty to support forward planning. While not necessarily requiring more now, the sector would benefit from knowing the Reserve Bank could provide further stimulus to the economy in the year ahead, if required.</p>
<b>Kerry Gupwell</b>	Is the second lock down a sign of the new normal until a vaccine is found – that we ebb and flow between alert levels as we pursue an elimination strategy until a vaccine is found? Even if and when a vaccine is discovered, how long will that take, how long will it take to deploy and become effective? What of another pandemic? How long can we continue to “throw money” at the problem as a response? When do we start looking at what we need to do to recover (and thrive) in this new normal? While I see the need for continued QE at the moment there is a sense that it “supports” things as they are, that it doesn’t encourage change and adaptation as hard as that is.
<b>Arthur Grimes</b>	No comment.
<b>Prasanna Gai</b>	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 9 November 2020, ahead of the RBNZ's *Monetary Policy Statement*. 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 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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