

NZ Institute of Economic Research (Inc) Media release

Embargoed until 1am Wednesday 11 September 2013

Domestic and international risks keep monetary policy on hold

“The NZIER *Shadow Board* recommends keeping the official cash rate at 2.5 percent,” said Jean-Pierre de Raad, Chief Executive at NZIER.

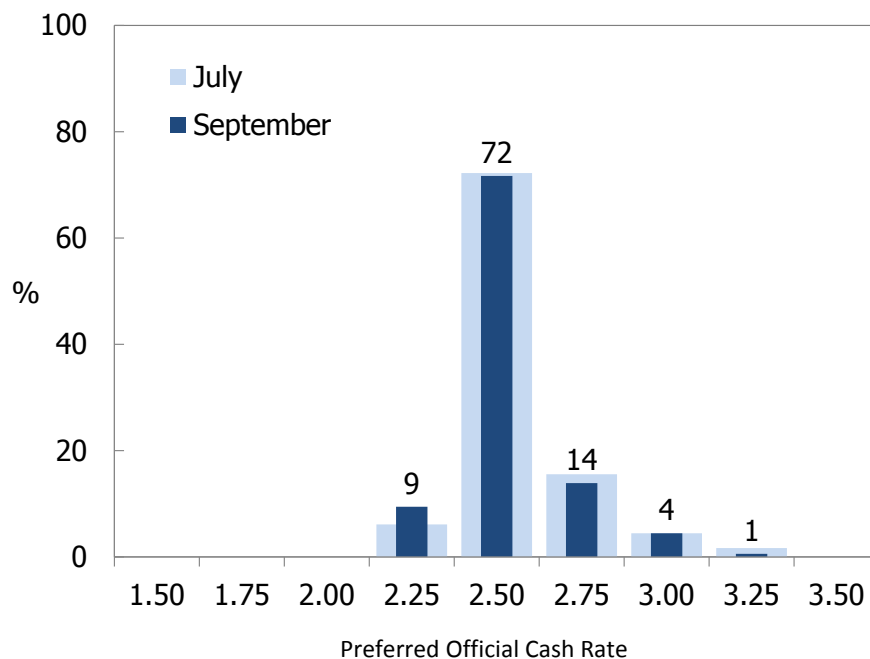
“Inflation is low. Auckland’s housing market is still at elevated levels, which presents risks. Views are mixed on the likely effectiveness of the Reserve Bank’s restrictions on loan-to-value ratios.”

“Internationally some emerging markets are becoming stressed as money returns to the US where yields are rising.”

“With inflation low, and taking account of the risks, NZIER’s *Shadow Board* believes the appropriate monetary policy strategy is to leave the official cash rate where it is.”

Figure 1 shows the *Shadow Board* view. Figure 2 and Table 1 show individual views and comments.

Figure 1 NZIER *Shadow Board* recommends an OCR of 2.50%



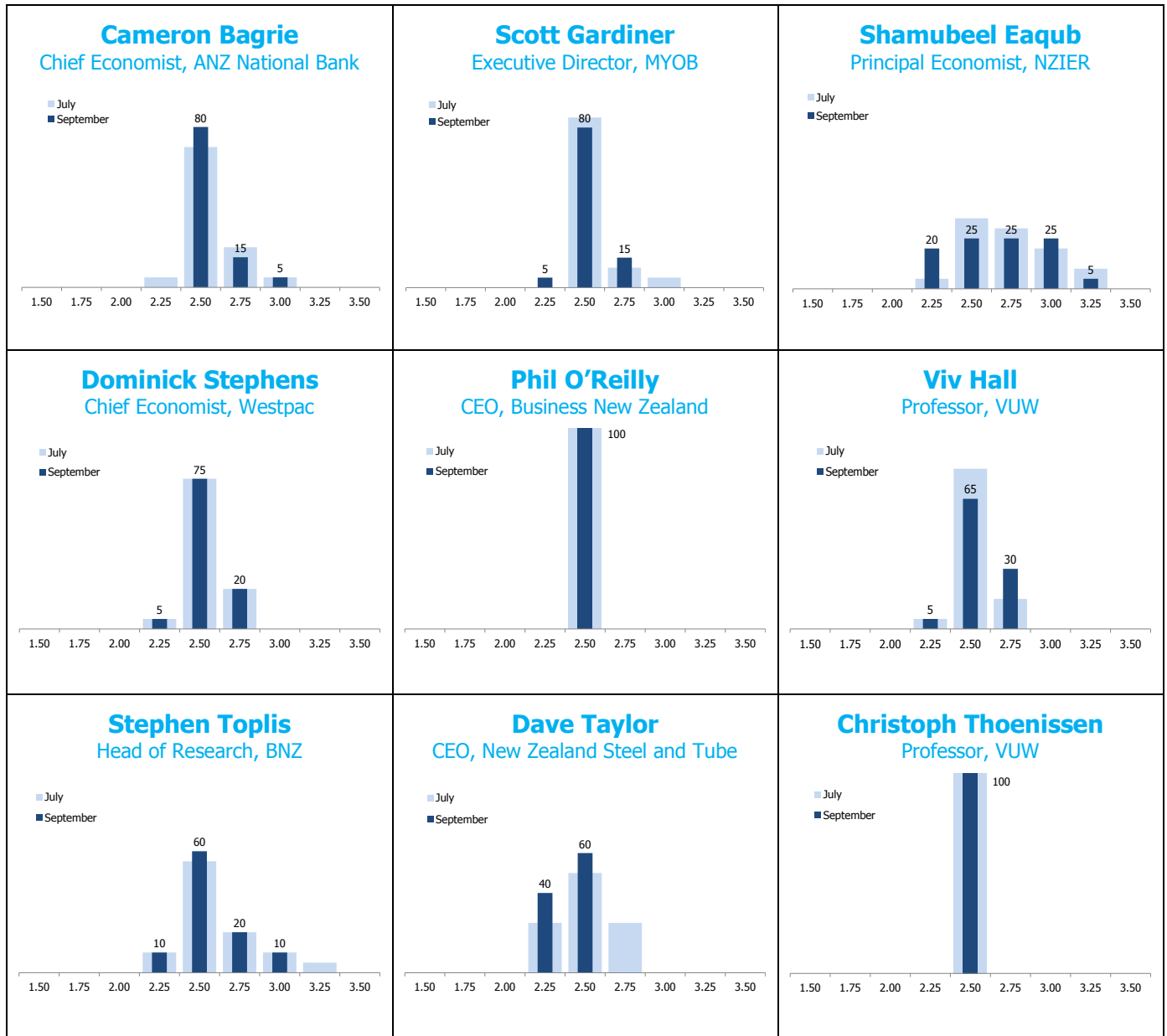
Source: NZIER *Shadow Board*

The NZIER *Shadow Board* is independent of the Reserve Bank of New Zealand. Individuals’ views are not the views of their respective organisations.

For further information please contact:

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Figure 2 Individual responses – 9 September 2013



Source: NZIER Shadow Board

Note: Participant comments are on page 3.

Participant comments – 9 September 2013

Participant comments are always optional and are limited to 60 words.

Cameron Bagrie	No comment.
Scott Gardiner	According to our latest MYOB Business Monitor research, 25% of SME businesses are looking to increase their prices in 2013. However, 52% are expecting interest rates to put at least some pressure on their business over the next 12 months. While being mindful of the inflationary risk of rising prices, rates should remain the same to ease pressure on business.
Shamubeel Equb	Rapidly rising house prices and credit growth are risks to financial and economic stability. A tighter stance from macro prudential policy is helpful, but if they are not effective interest rates will need to rise. Global risks from slowing China, Australia and emerging market flare.
Dominick Stephens	No comment.
Phil O'Reilly	No comment.
Viv Hall	Monetary conditions remain very accommodating, and economic growth continues to gather momentum. Household credit growth continues to increase, and so will trend non-tradables inflation and two-year ahead inflation expectations. I'm doubling my probability for a 25bp increase to 30%, and would have increased it further were it not for the short-term uncertainties associated with recently announced LVR restrictions.
Stephen Toplis	The appropriateness, or otherwise, of current interest rate settings will be largely dependent on the monetary policy impact of recent LVR changes. The greater risk is that these are seen as substitutes for rate hikes allowing inflation to get away. However, there is a small offsetting chance that these restrictions bite really hard.
Dave Taylor	No comment.
Christoph Thoenissen	No comment.

About the NZIER Shadow Board

The NZIER 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 Wednesday 30 October, ahead of the RBNZ's Monetary Policy Statement. Past releases are available from the NZIER website: nzier.org.nz

Shadow Board participants share out 100 points across possible interest rates to indicate what they believe is the most appropriate official cash rate setting for the economy. Combined, these scores form a Shadow Board view ahead of each monetary policy decision.

Participants' show where they think interest rates should be, not what they believe will happen.

The NZIER Shadow Board aims to:

- encourage informed debate on each interest rate decision
- help inform how a Board structure might operate
- explore Board members using probabilities to express uncertainty.