

RBNZ objectives, strategies and alternative monetary policy tools

October 2020



RBNZ monetary policy mandate

Purpose:

- Low & stable inflation and full employment objectives
- Best contribution to economic wellbeing of NZers

Maximise [purpose]

subject to undue [risk]

Legal

Operational

Financial

Reputational

Other considerations (eg financial stability)



Outlook

- Inflation well below target range
 - Employment well below max sustainable level
- ...next 3 years

“Have regard to...”

- Fin stability and mon pol aligned for now (and fiscal)
 - Prolonged high unemployment and weak economy the bigger risk to the financial system (eg non-performing loans ↑)
 - Mutually consistent policy actions (core funding ratio, LVR restrictions removed)
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- Can use macroprudential tools to address longer term system risks if/when needed



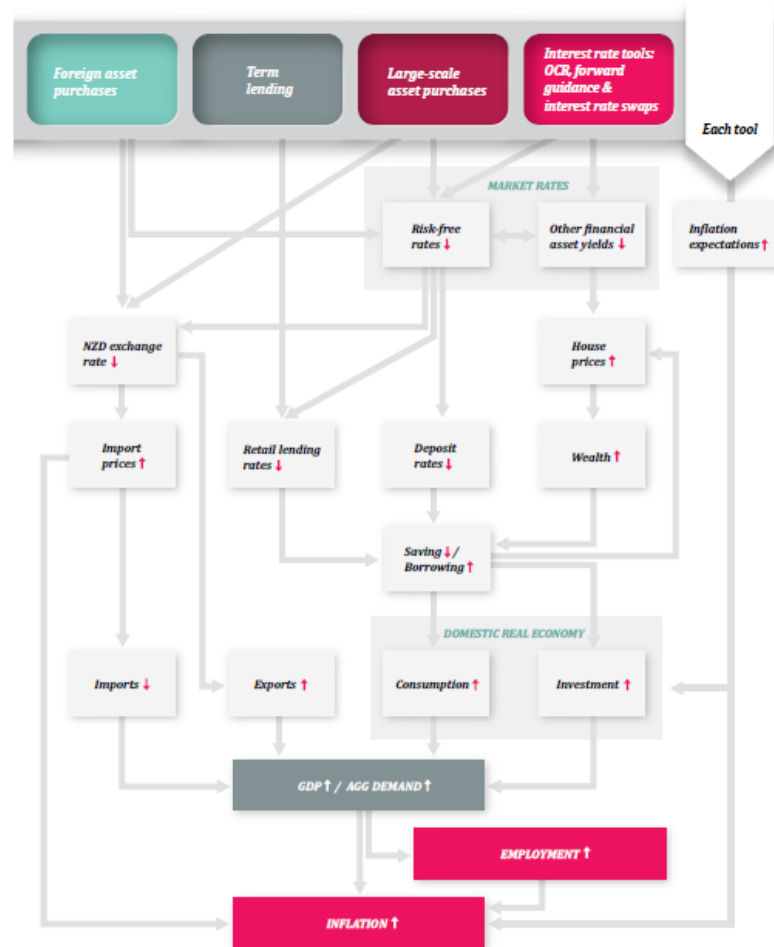
Monetary policy works through many channels

Cashflow
New lending
Wealth/confidence
Exchange rate



Economic activity
Employment
Inflation

Transmission channels for monetary policy instruments



Monetary policy strategy

- Interest rates still effective

- Cashflow channel
- New credit
- Wealth channel
- Exchange rate

- Recent actions are working

- OCR 0.25
- LSAP
- Forward guidance



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- Negative OCR + FLP (active preparation)
 - Purchases of foreign assets, swaps...

- Least regrets

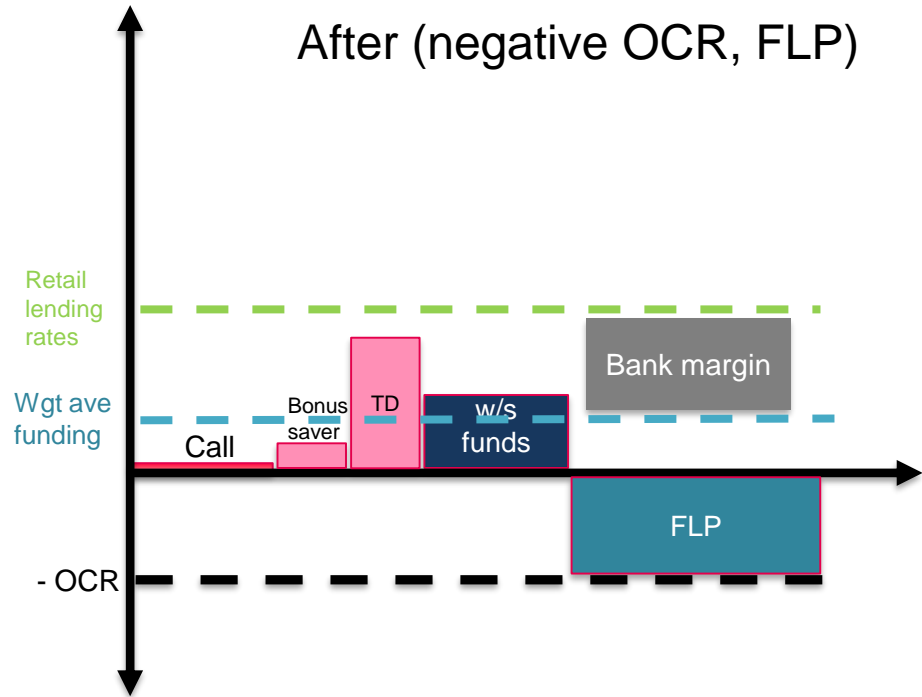
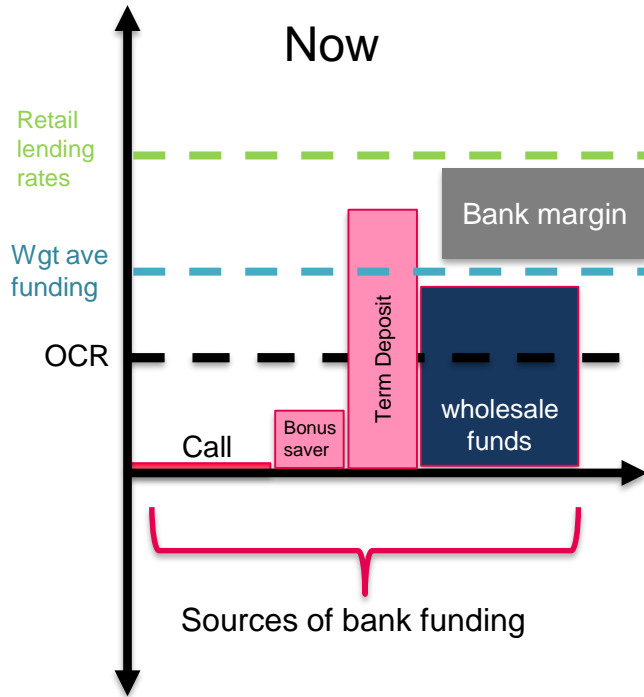
- Economic/health risks skewed to downside
- Deflation/disinflation risks

Changes since beginning 2020

Floating mortgage rate	-75bp
2 year swap rate	-120bp
2 year mortgage rate	-86bp
10 year Govt bond rate	-112bp

...International experience &
subject to good design

Lowering bank's funding costs (illustrative - not to scale)





Negative OCR, FLP design considerations

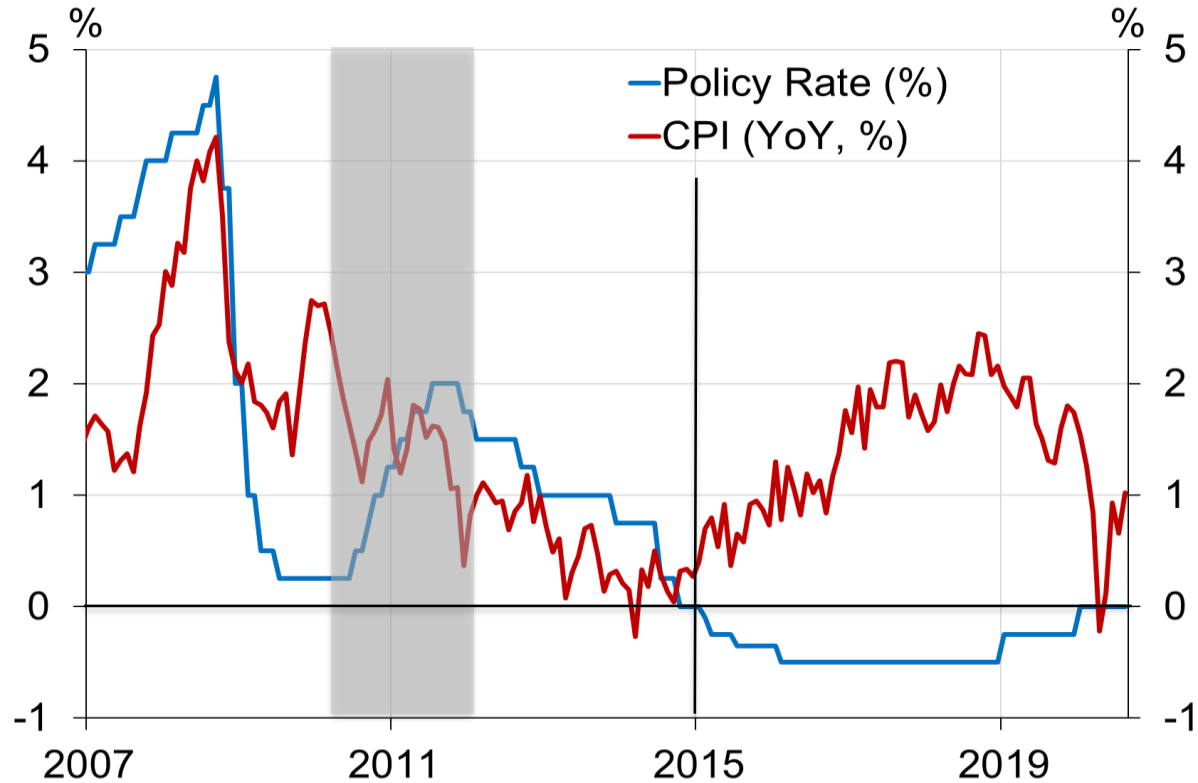
AMP principle	Outcomes
Effective	Lower funding costs, passed through to lower retail interest rates Banks willing to supply credit
Efficiency	Mitigate significant distortions <ul style="list-style-type: none">- Across domestic banks- Market wholesale funding access
Financial Stability	Understand tradeoff between any short term margin squeeze and improved medium term economic outcomes on bank balance sheets through the cycle
Operational Readiness	Banks can implement effectively <ul style="list-style-type: none">- systems- Collateral, credit ratings etc
Crown balance sheet impact	Below-market cost of funding Costs consistent with RBNZ risk appetite



Additional slides

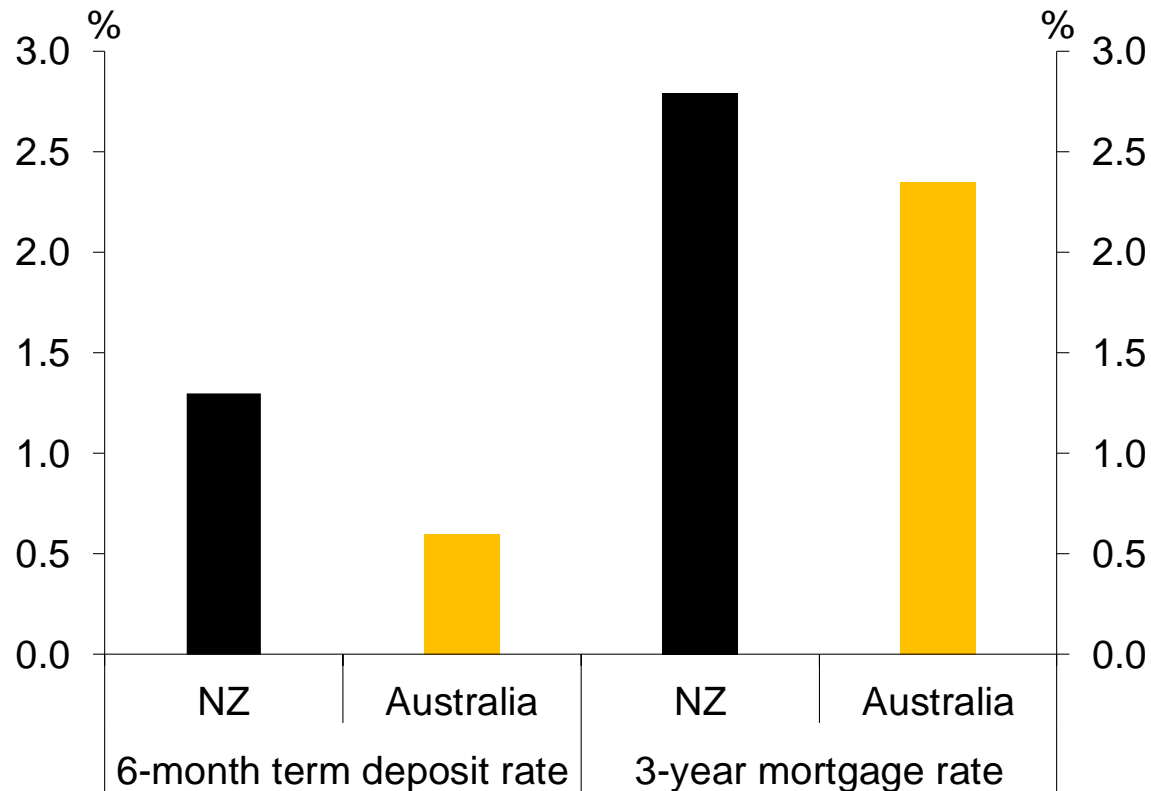


Sweden's experience



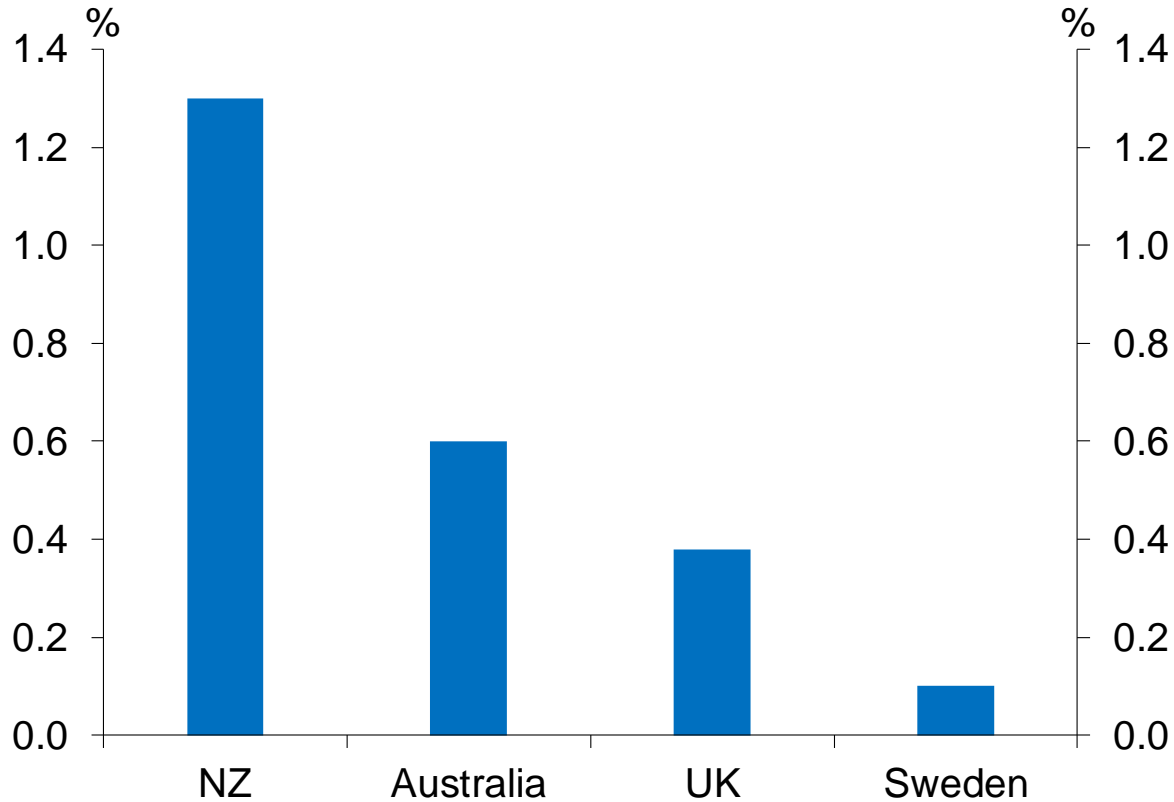


NZ & Australia: term deposit and mortgage rates





Term deposit rates across countries





Trend decline in global interest rates

