

Can NZ expect to carry out independent monetary policy?

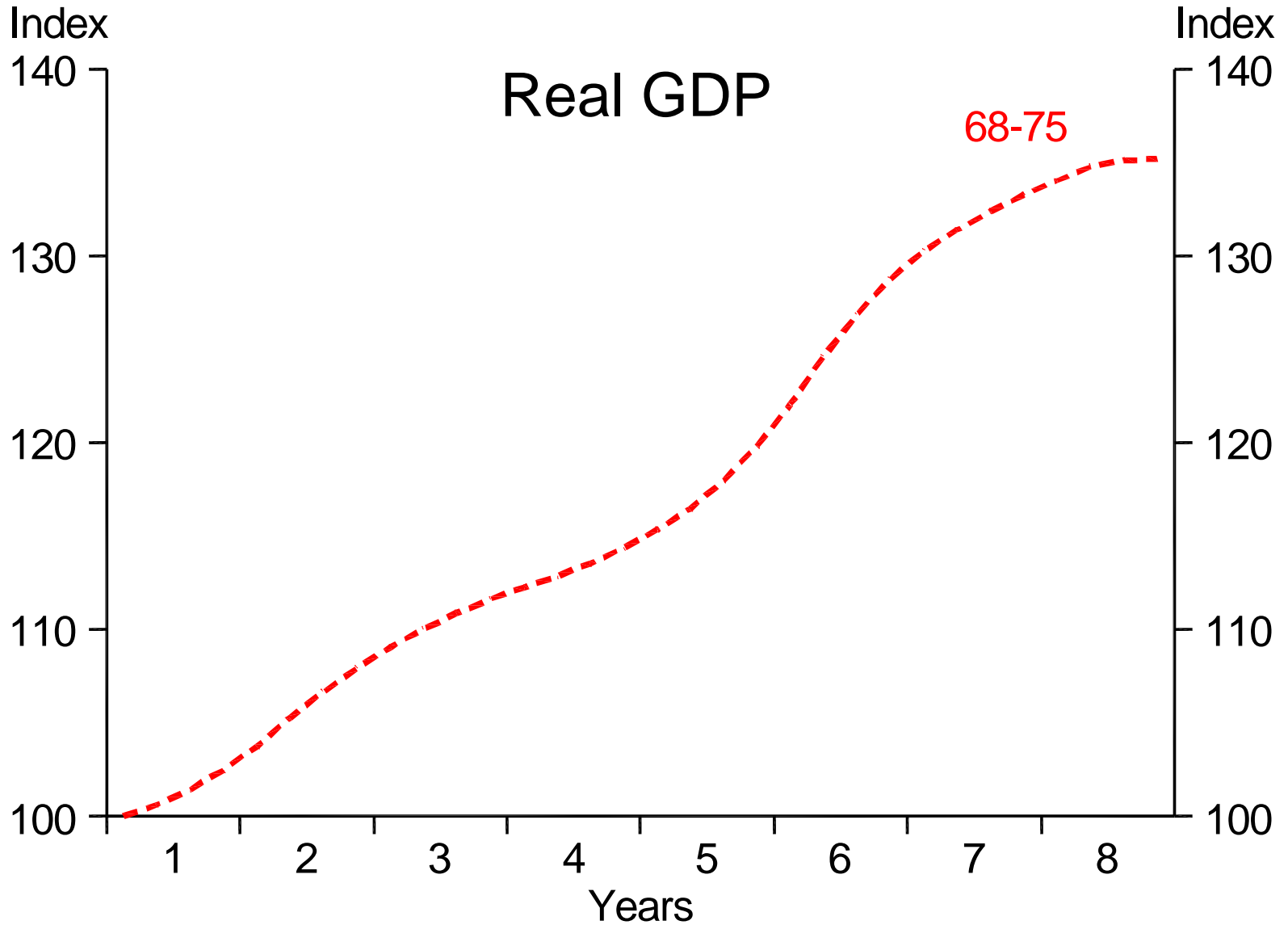
Assoc. of Superannuation Funds of NZ /
Women in Super
Breakfast Meeting

Dr Alan Bollard

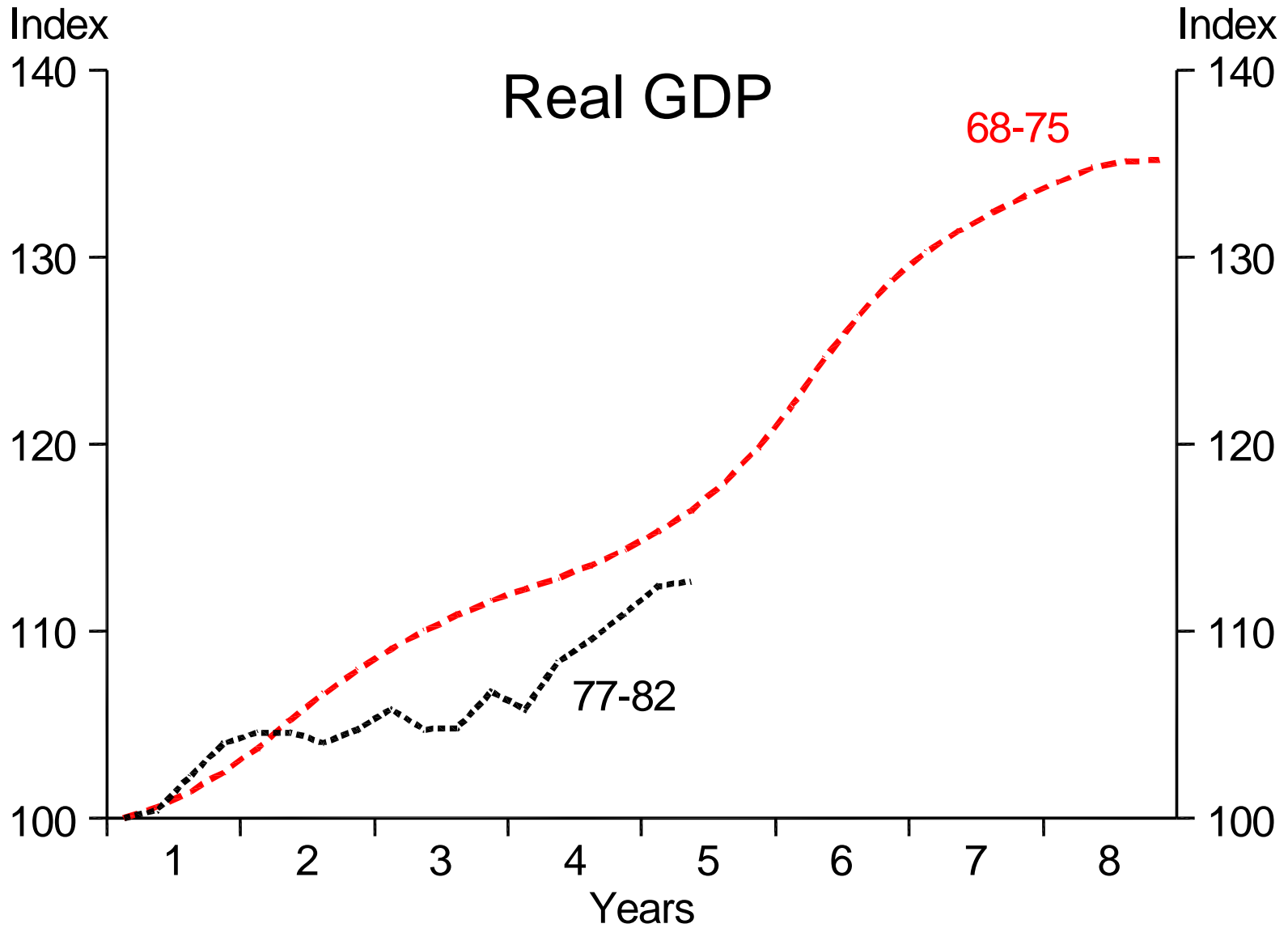
Governor, Reserve Bank of New Zealand

July 2006

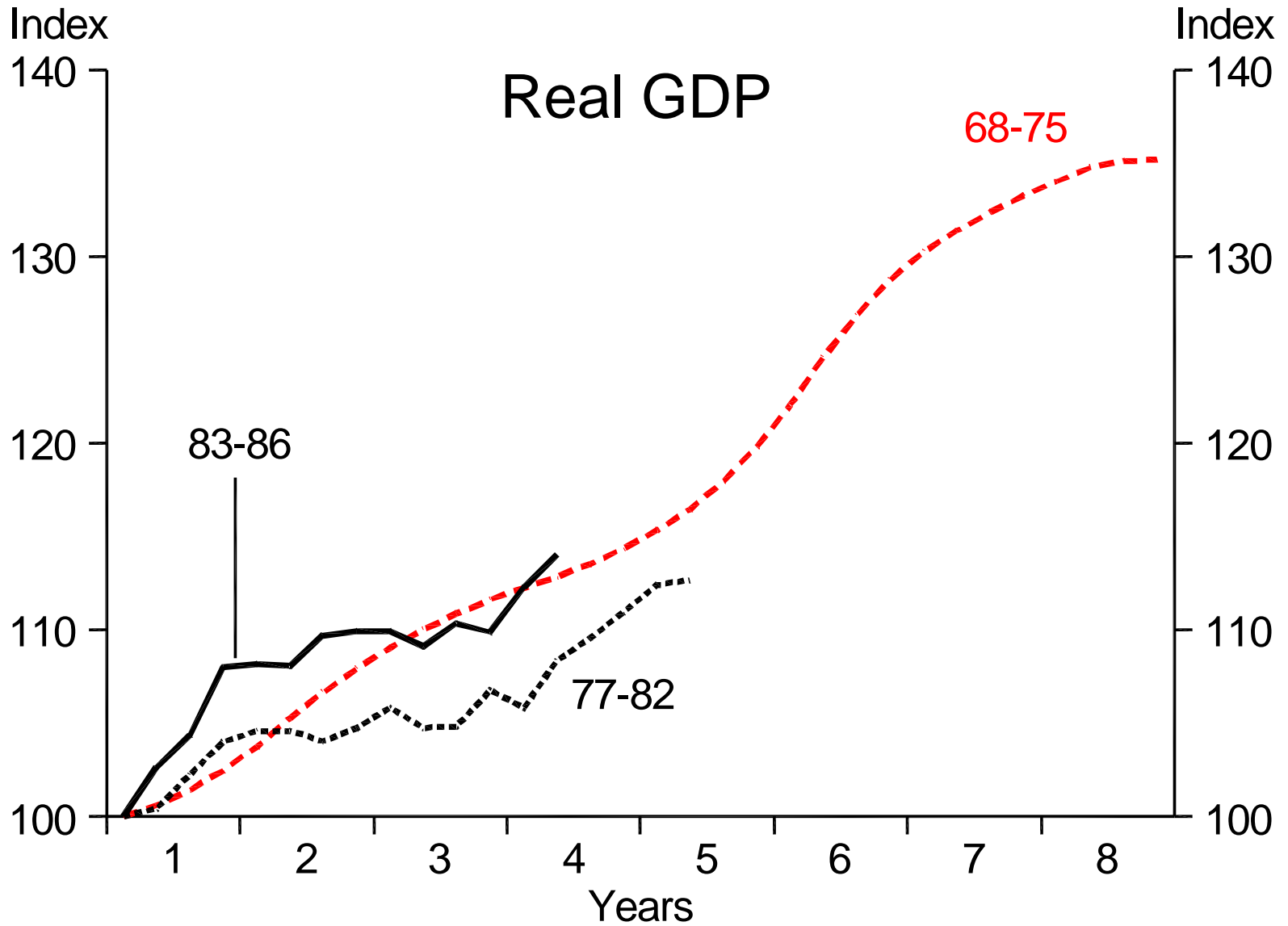
Longest expansion in 30 years



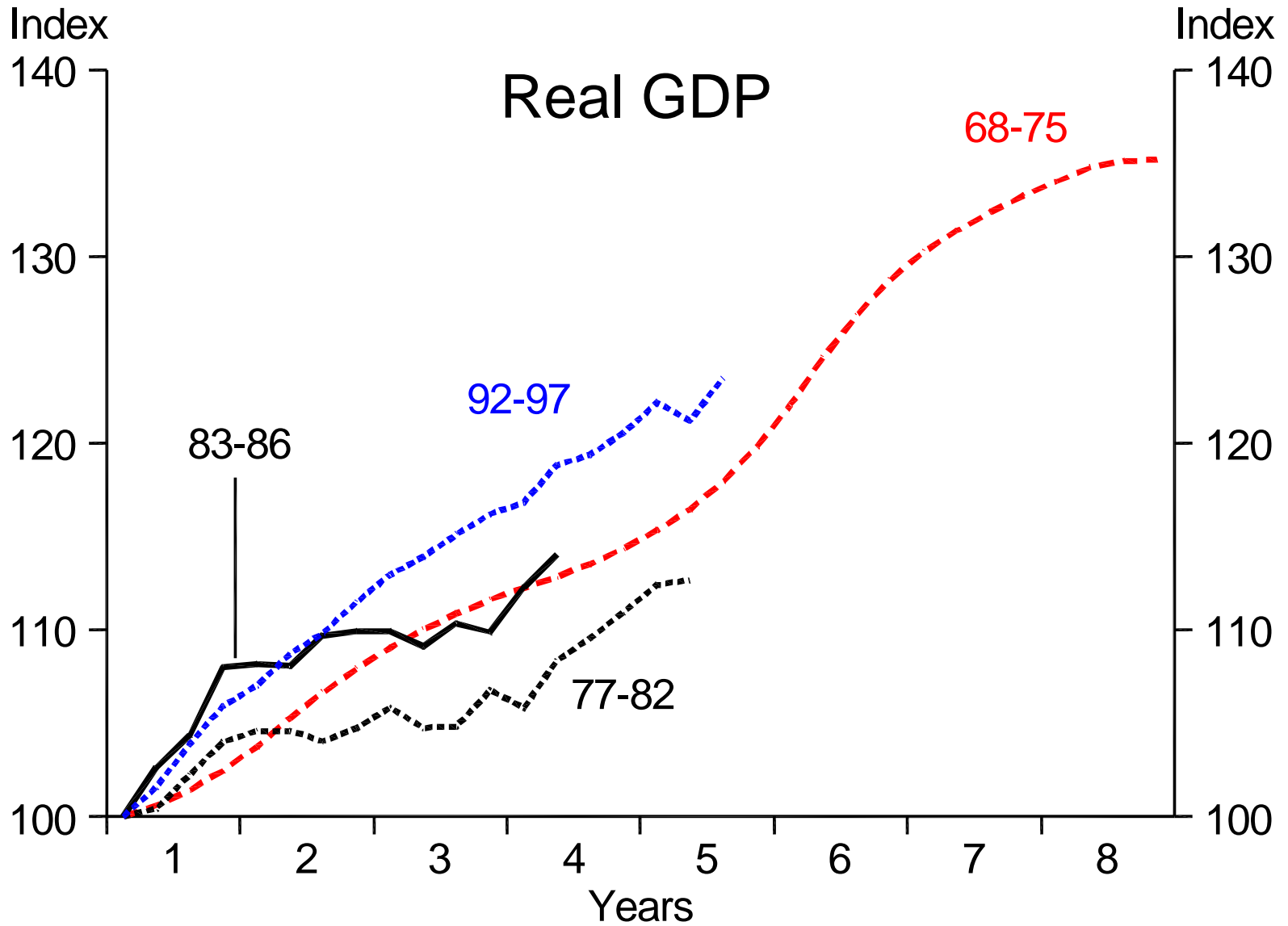
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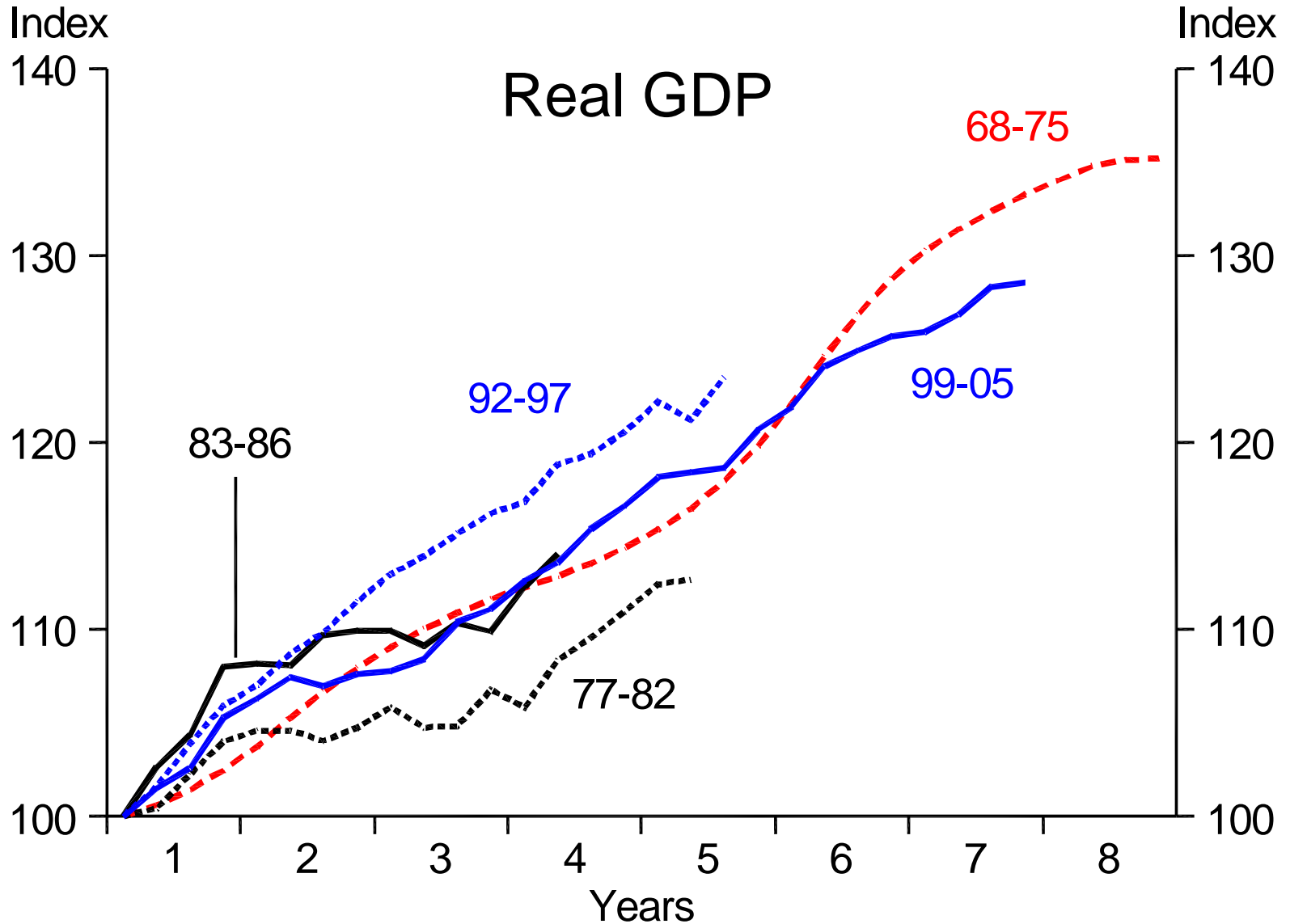
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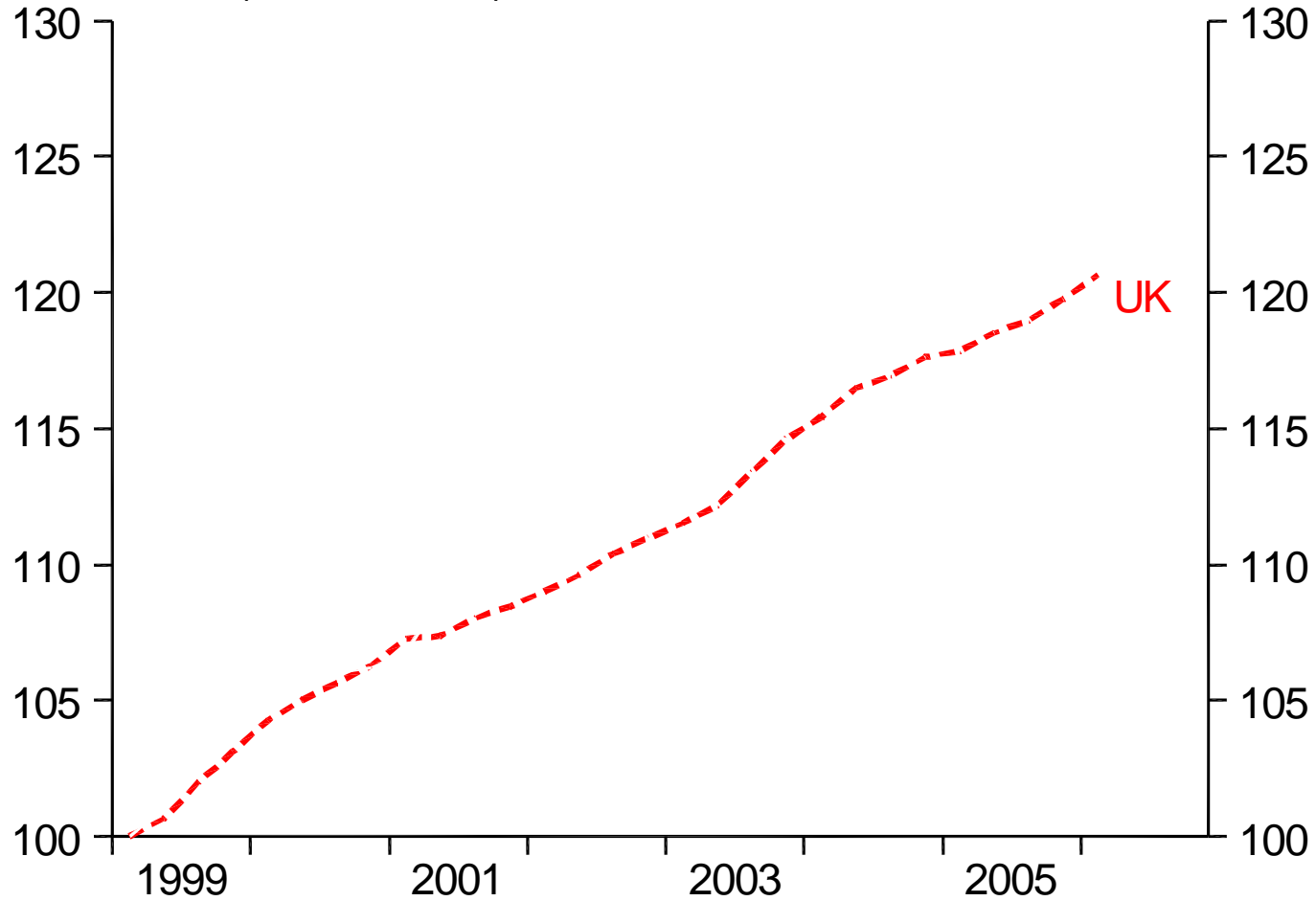


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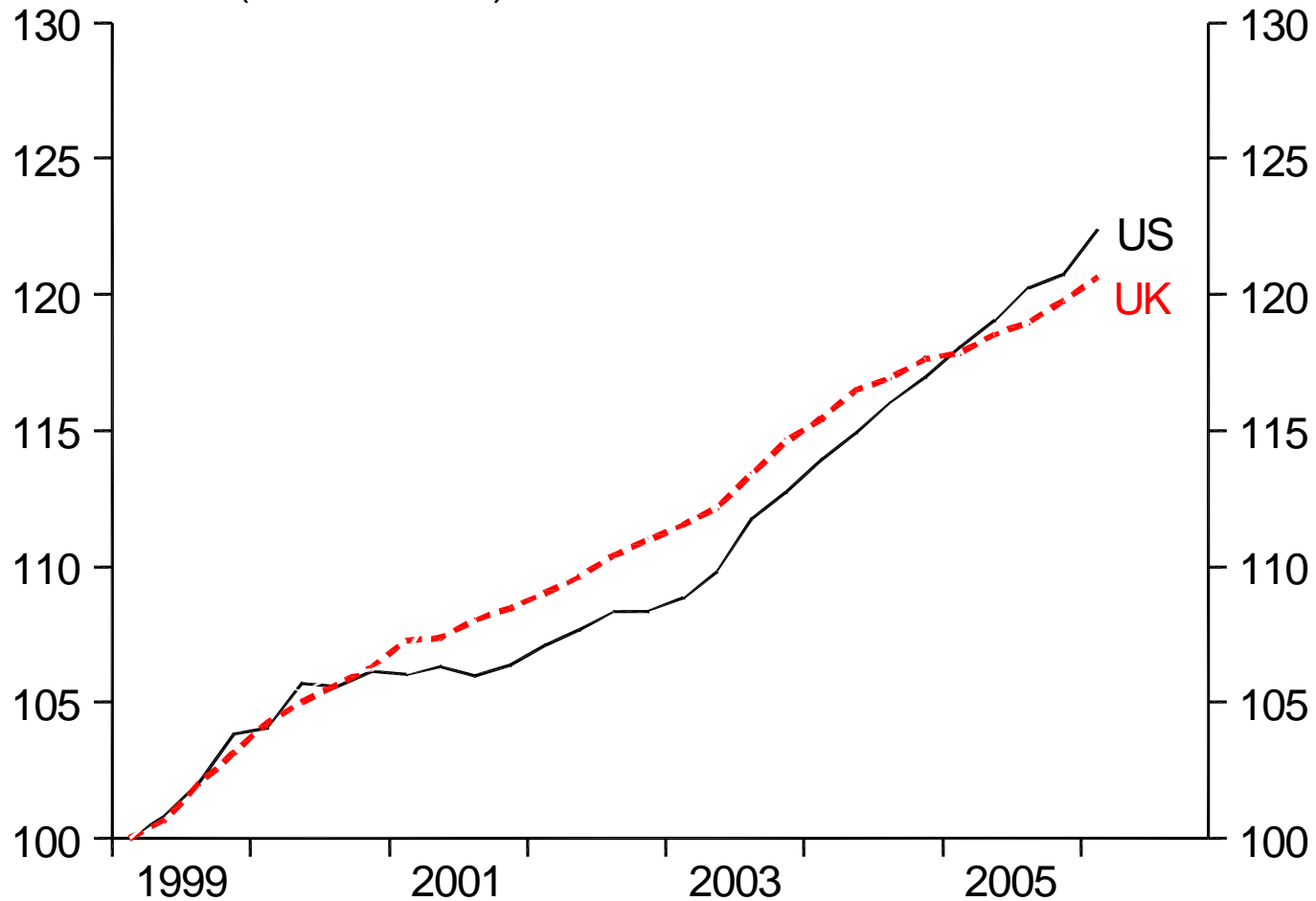
NZ's recent cycle stronger than most trading partners

GDP index (100 at 1999)

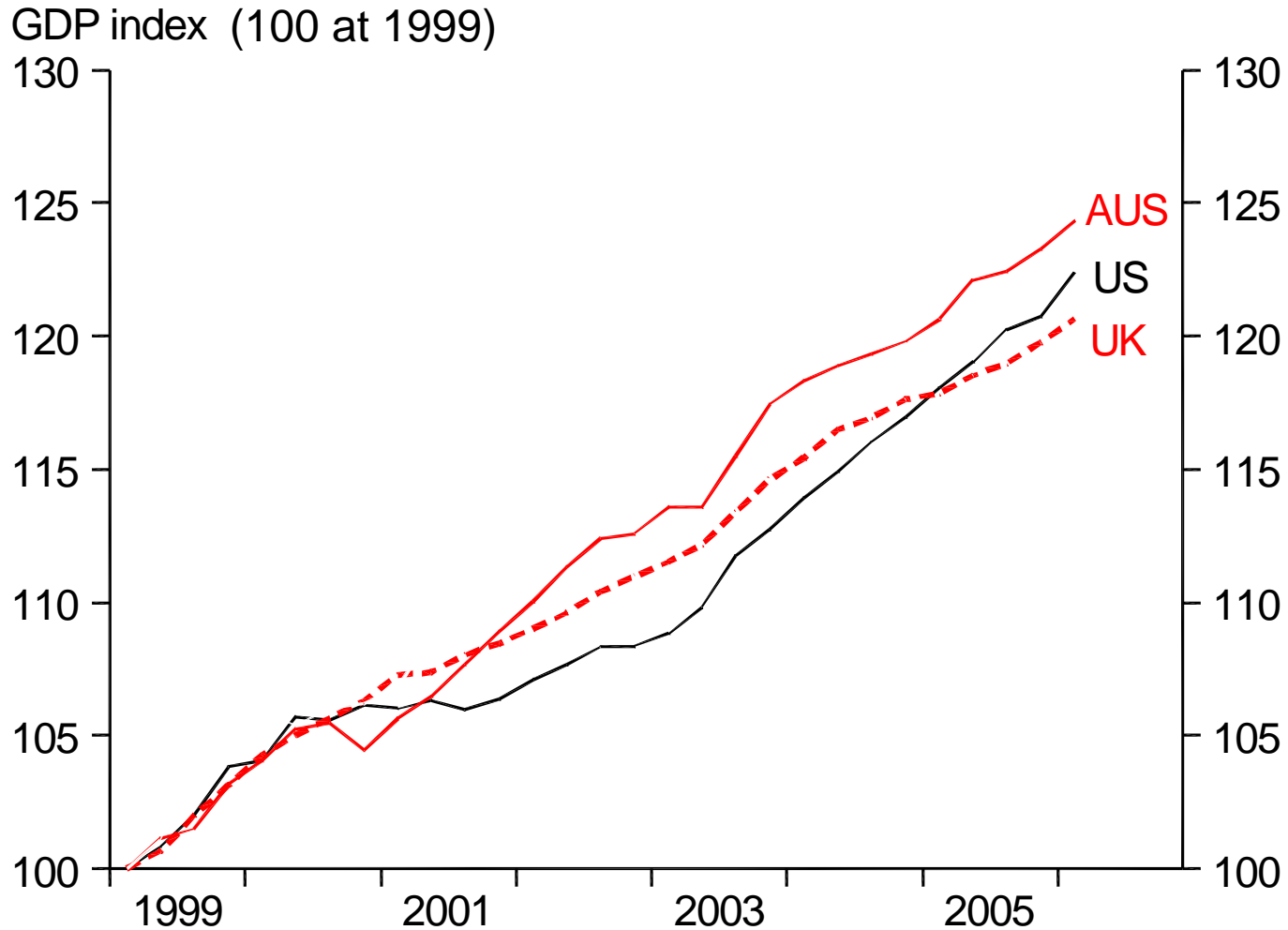


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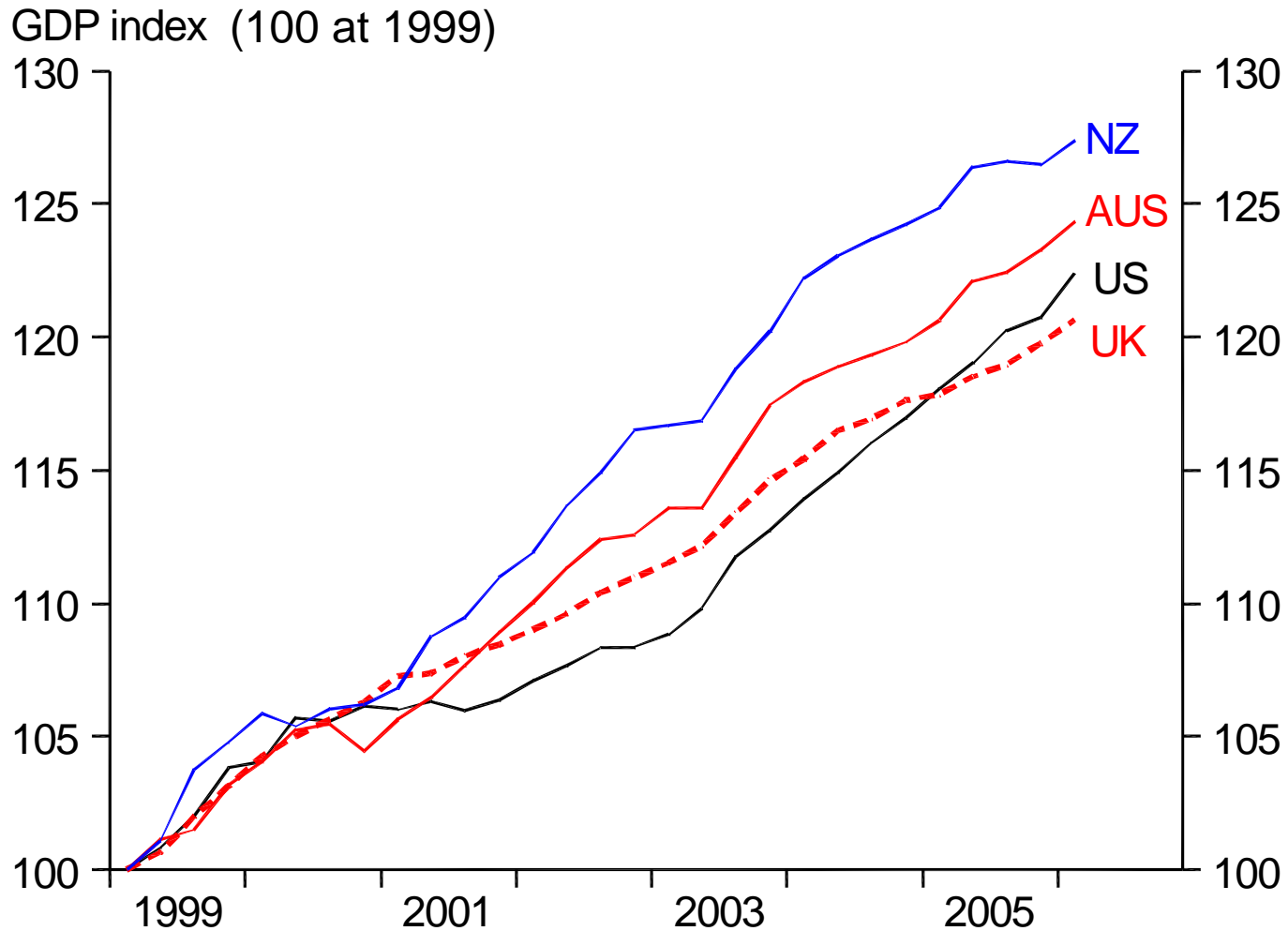
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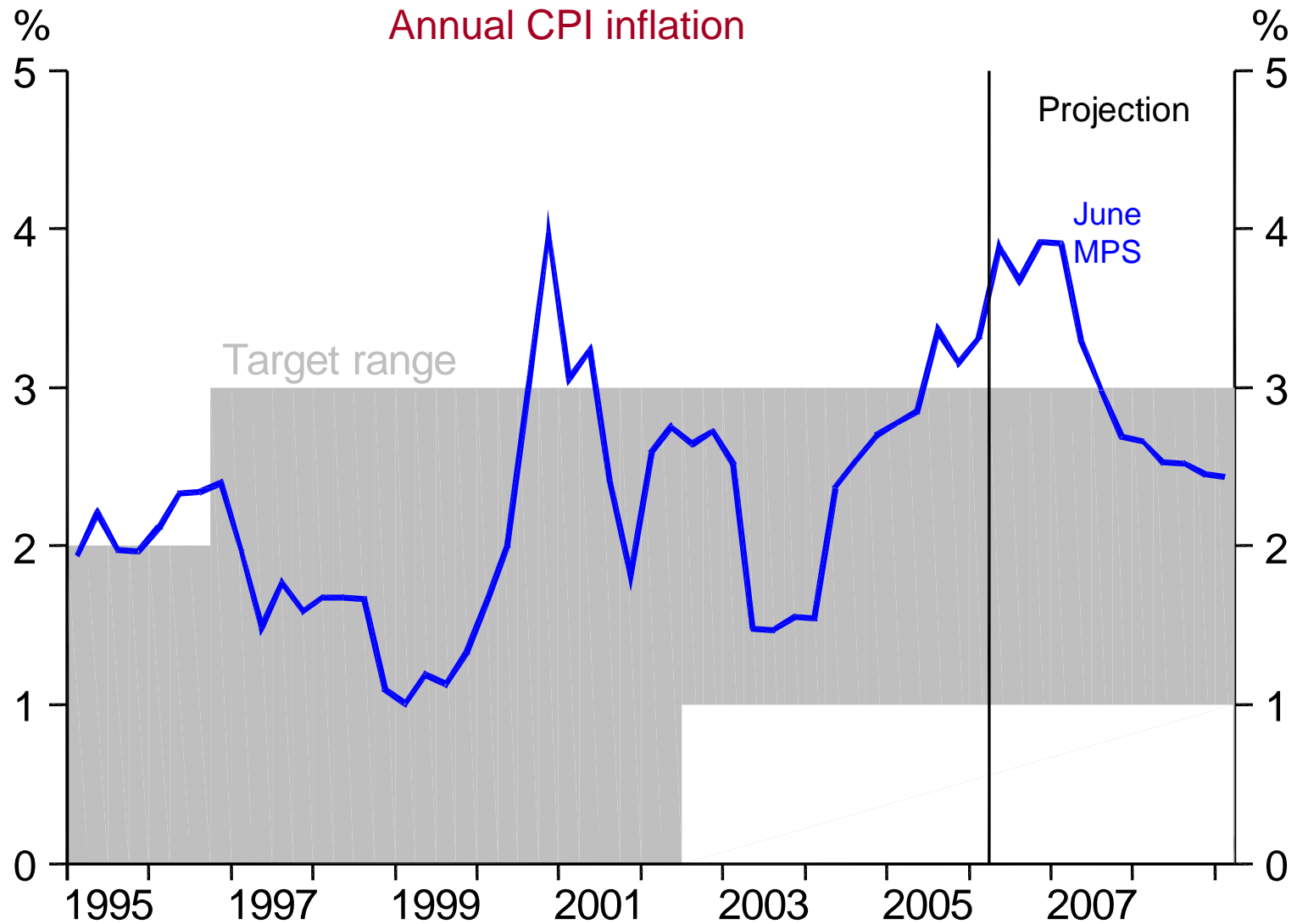
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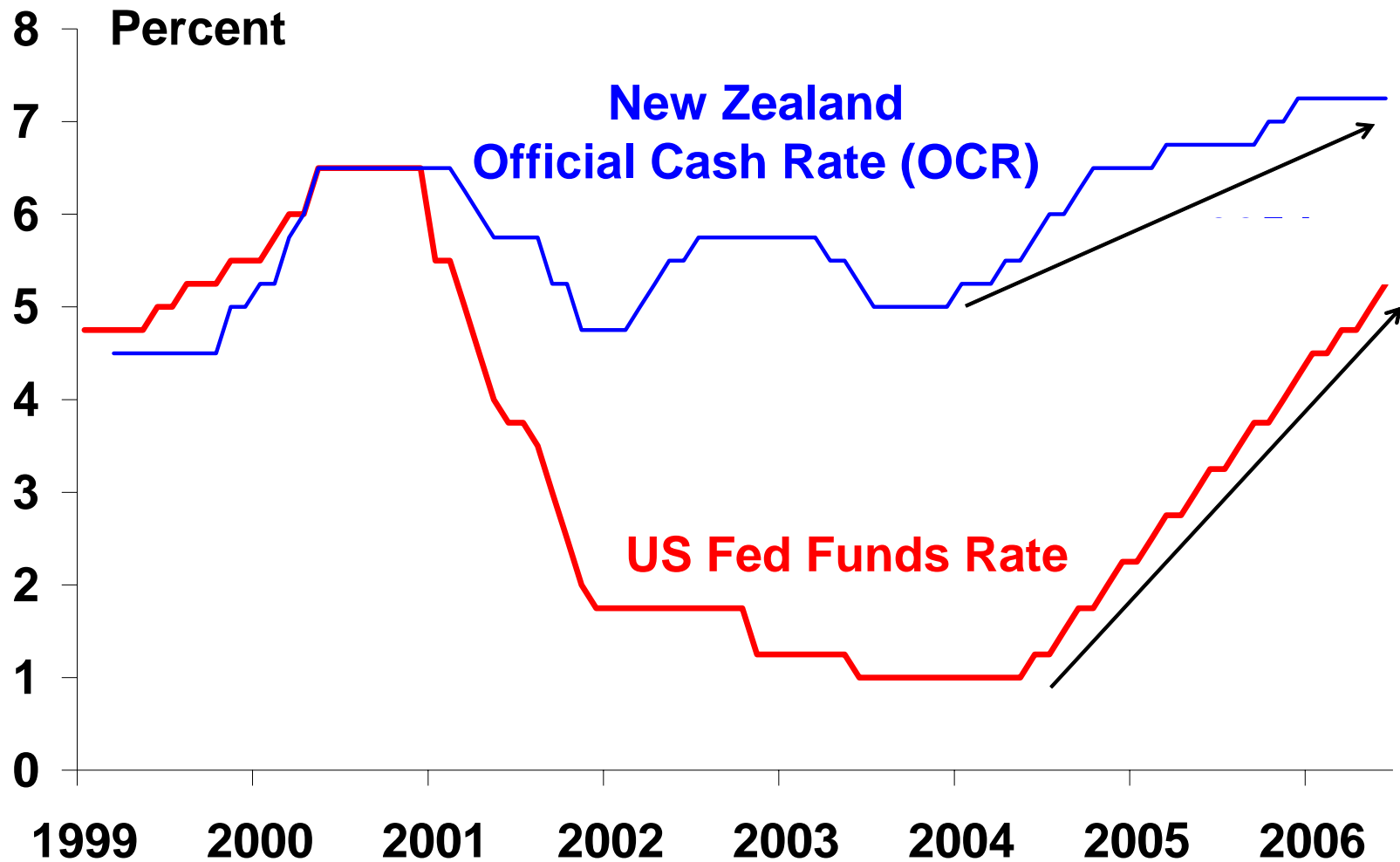
With strong inflation pressures



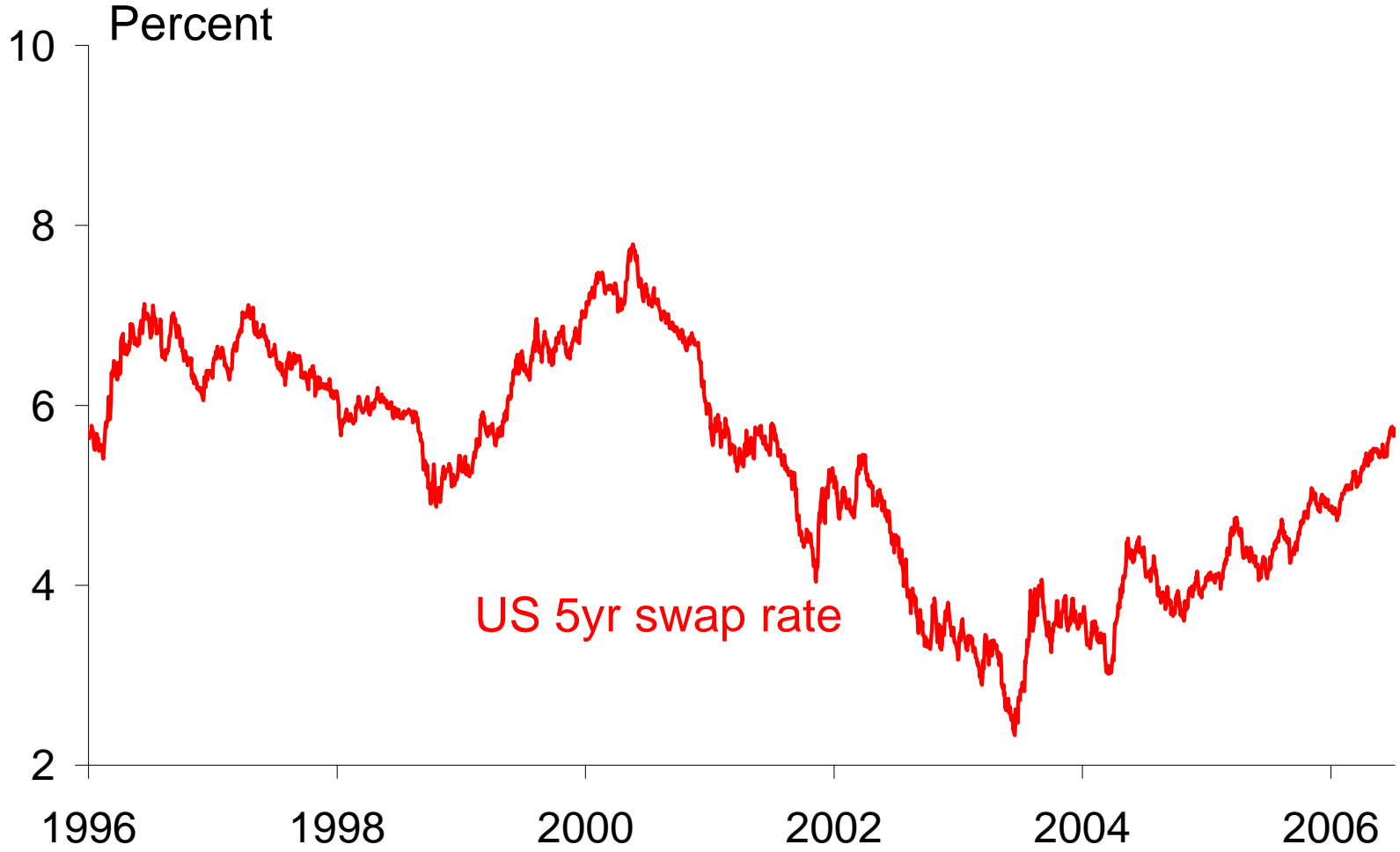
OECD economies' monetary policies looser

- Concerns about deflation
- Imbalances supported by savings glut
- The China effect
- Declining real interest rates

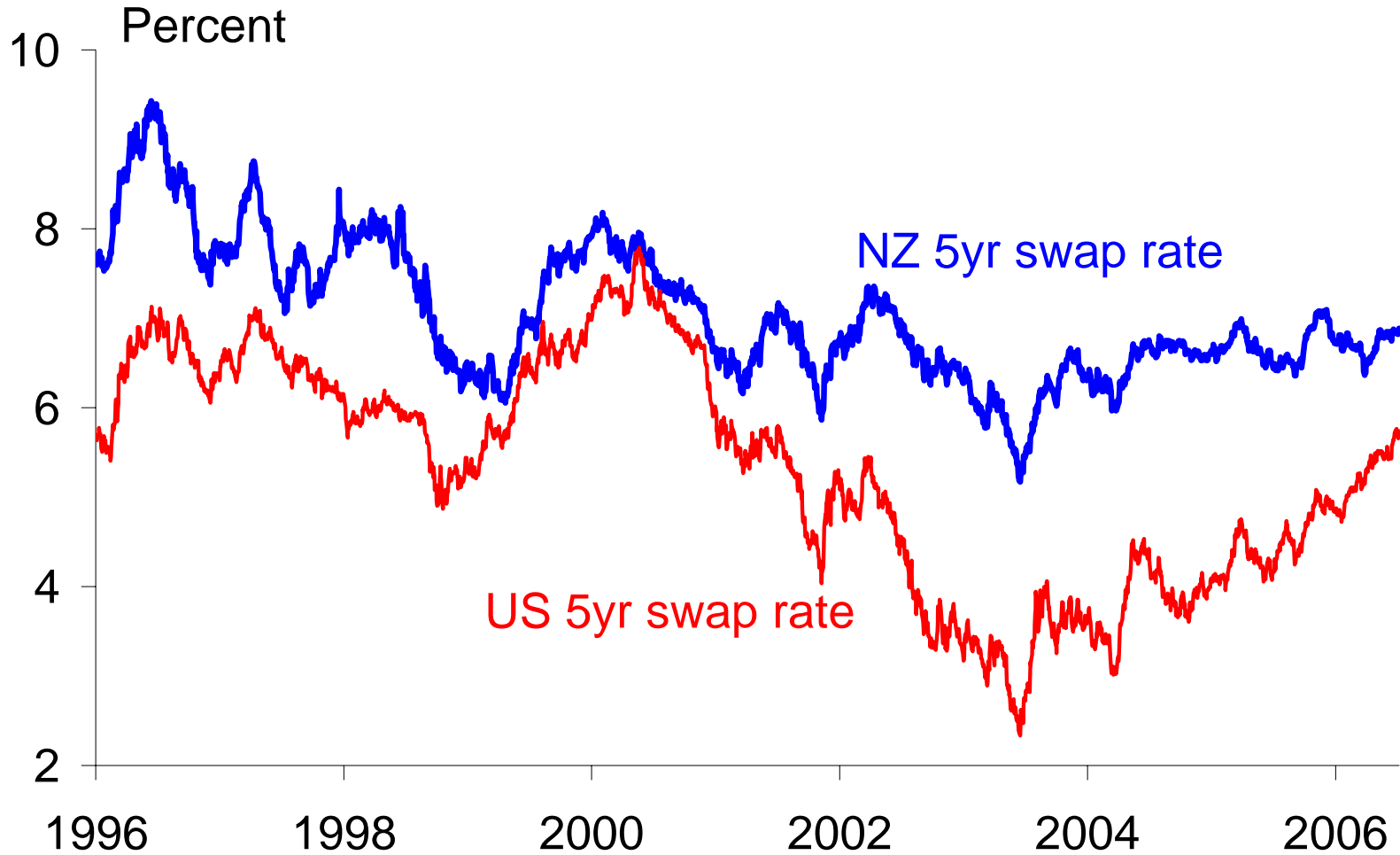
We have been 'ahead' of the global tightening phase



With result that policy had less leverage

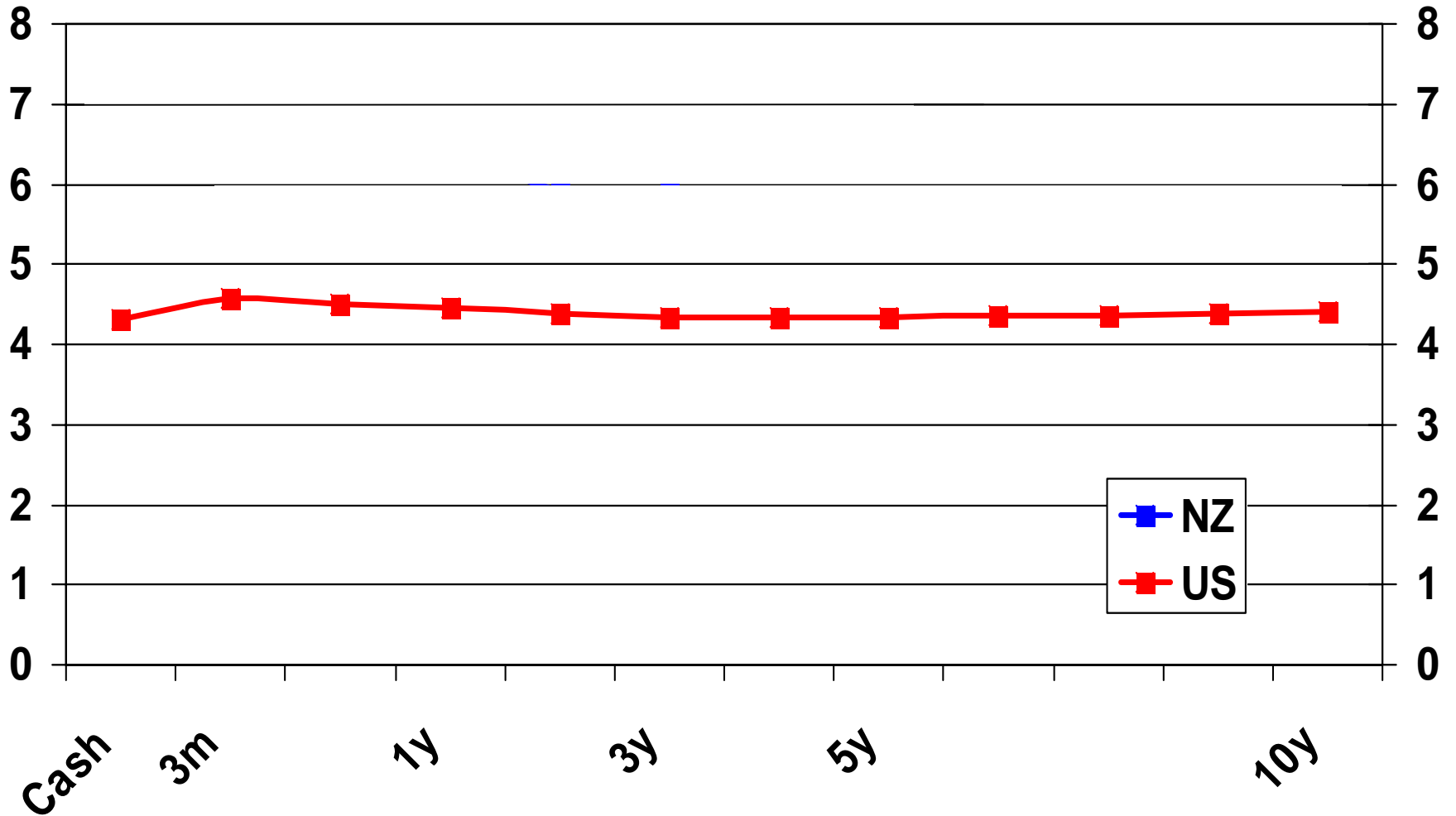


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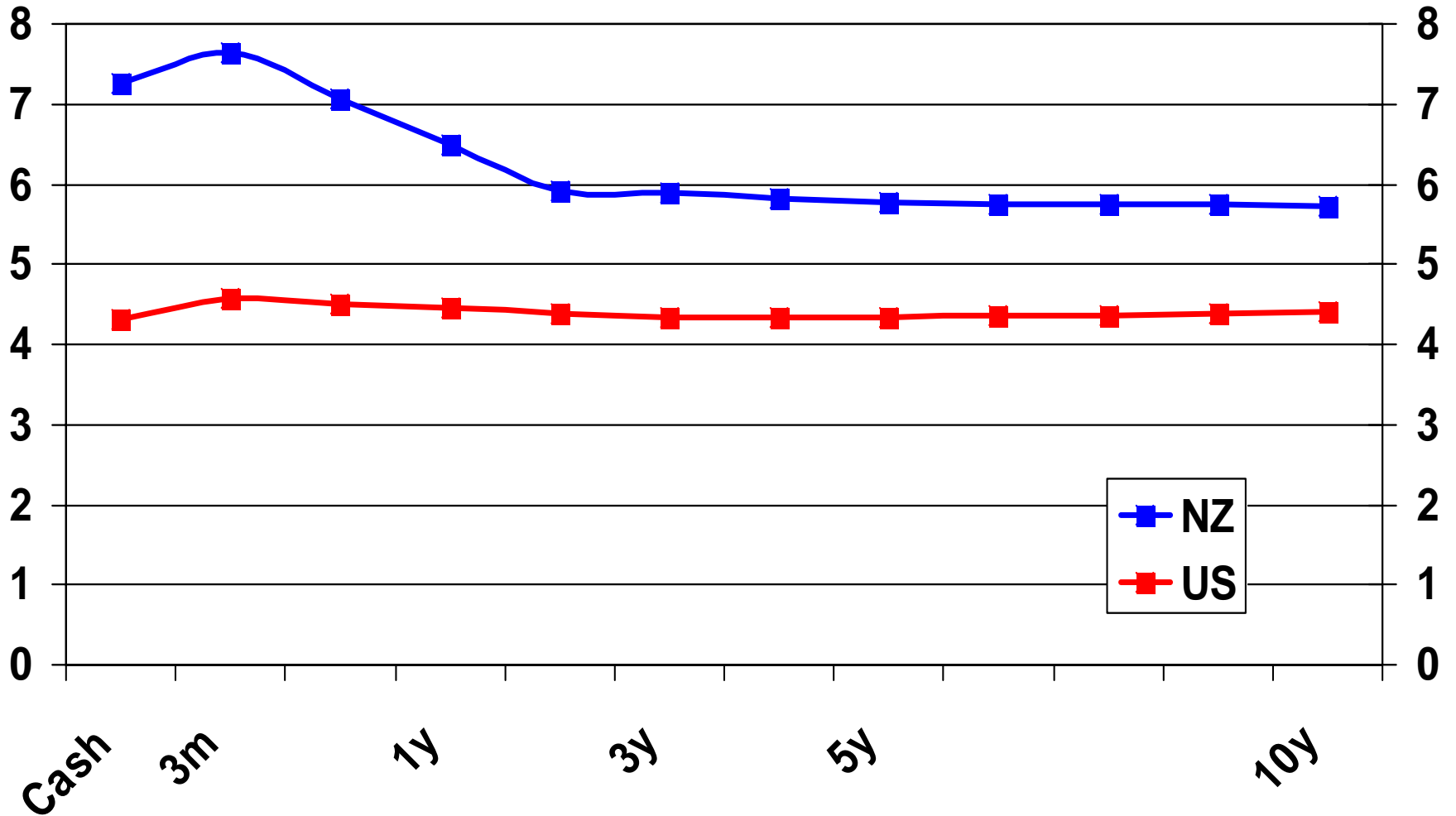
Though rates now coming into synchrony

Yield curve at Jan 2006

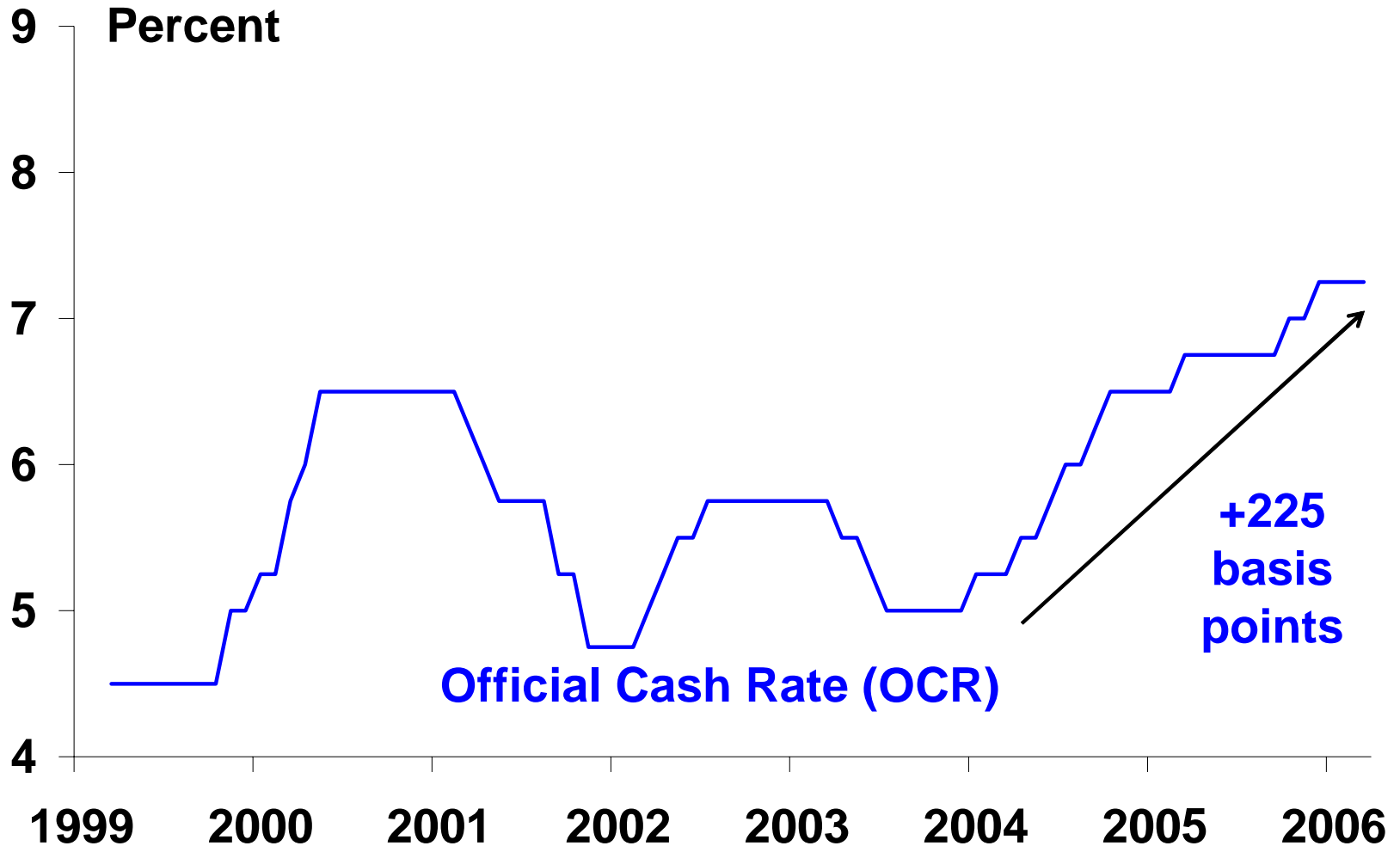


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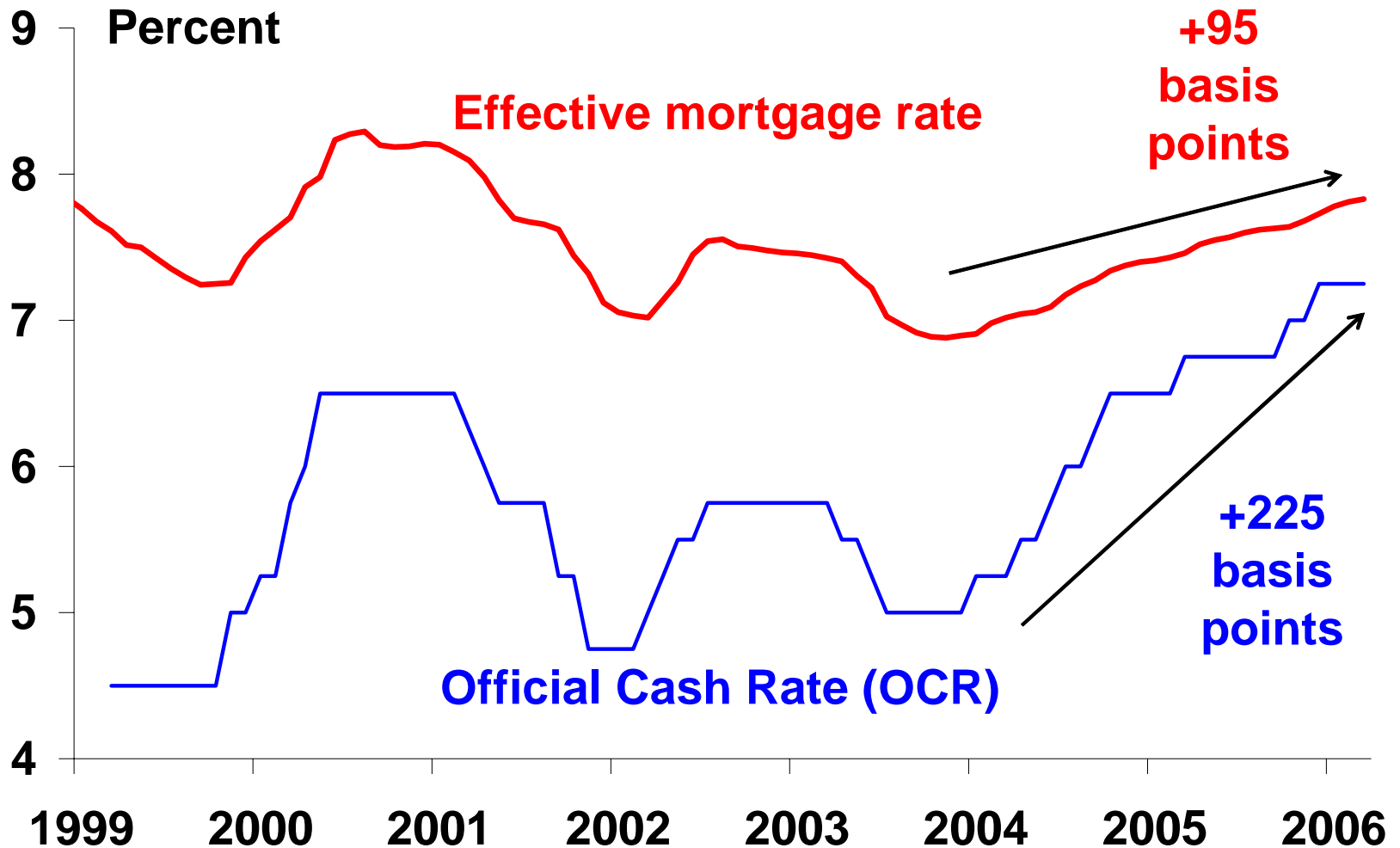
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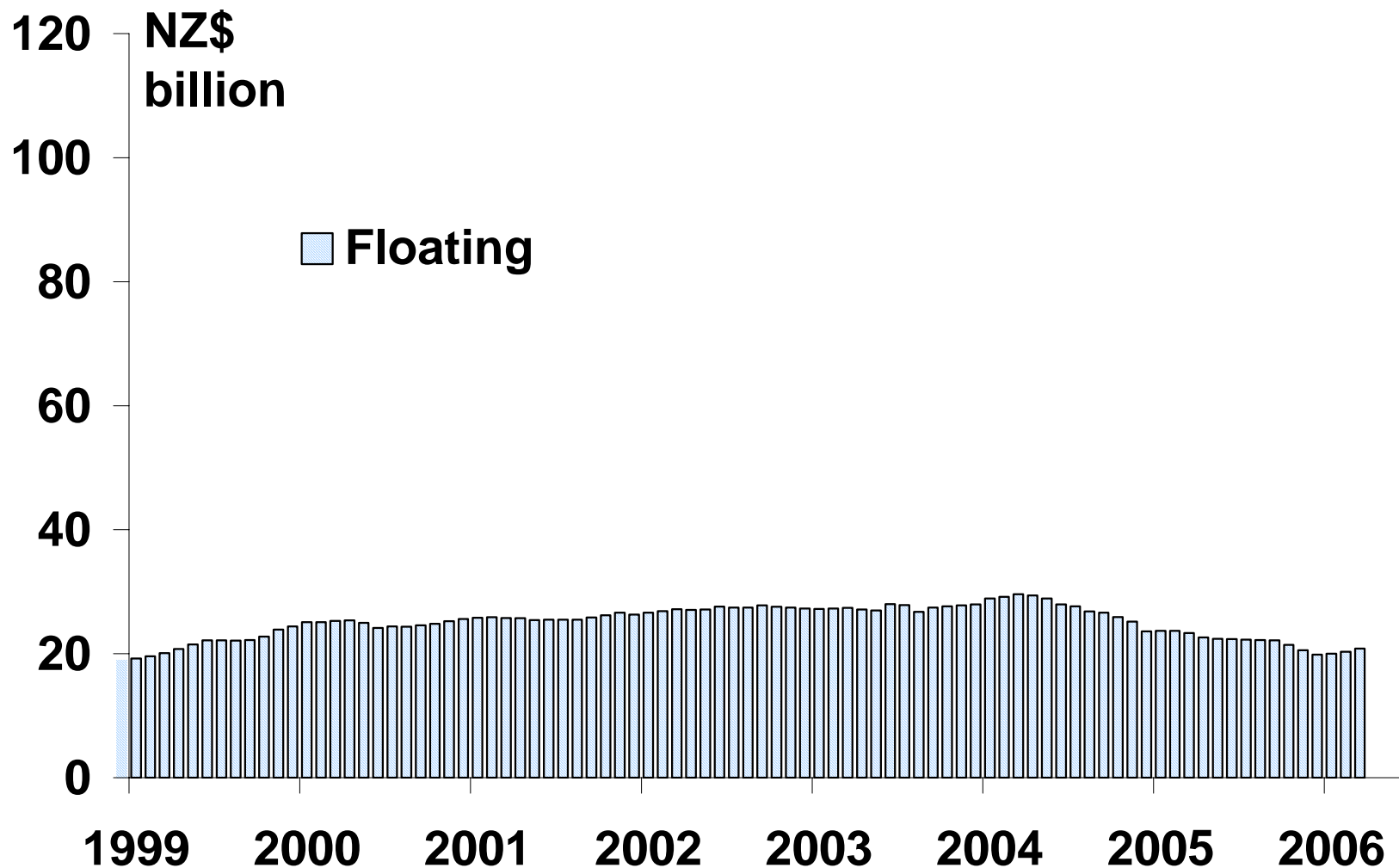
Policy has had a slower impact on mortgage rates than in previous cycles



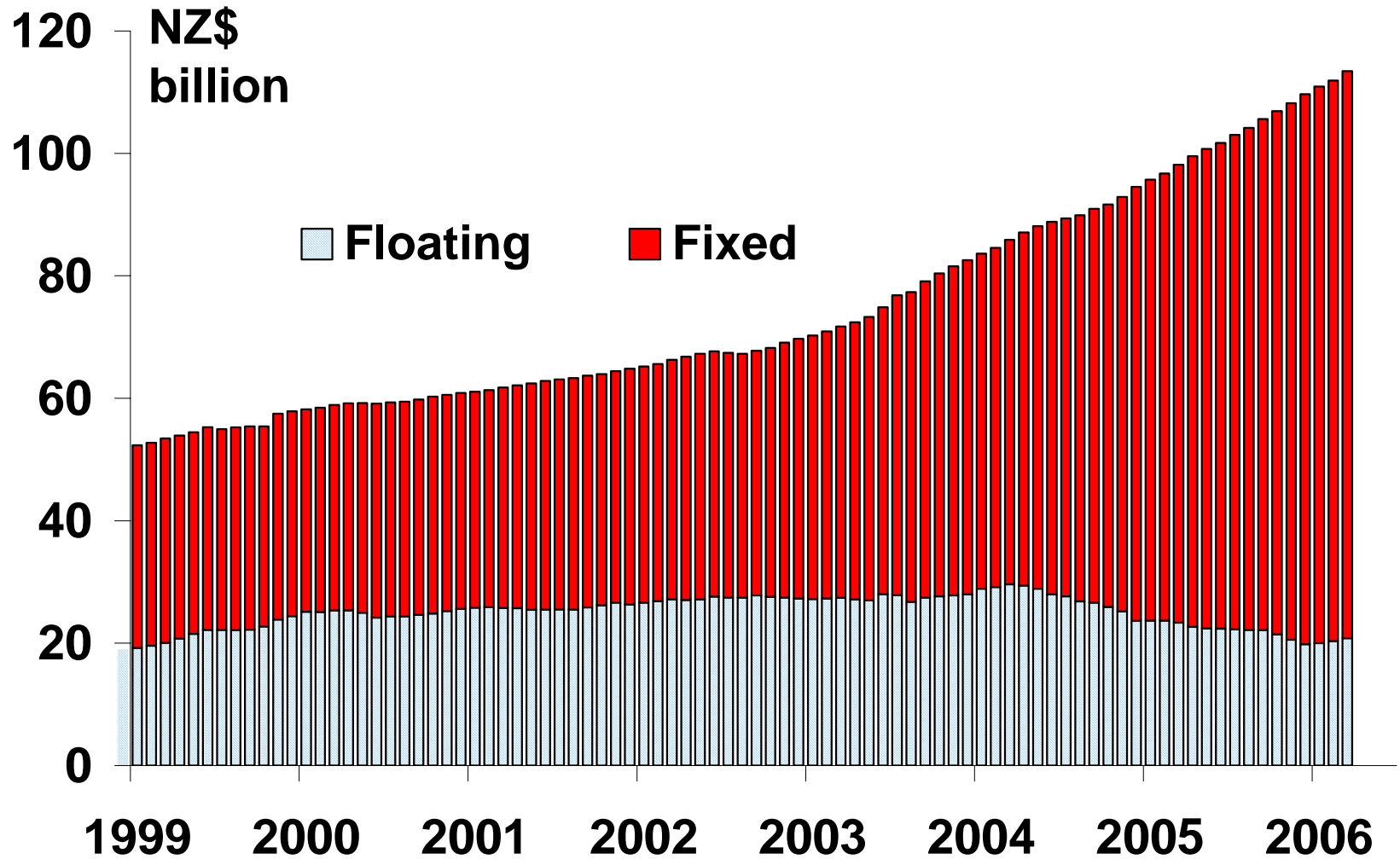
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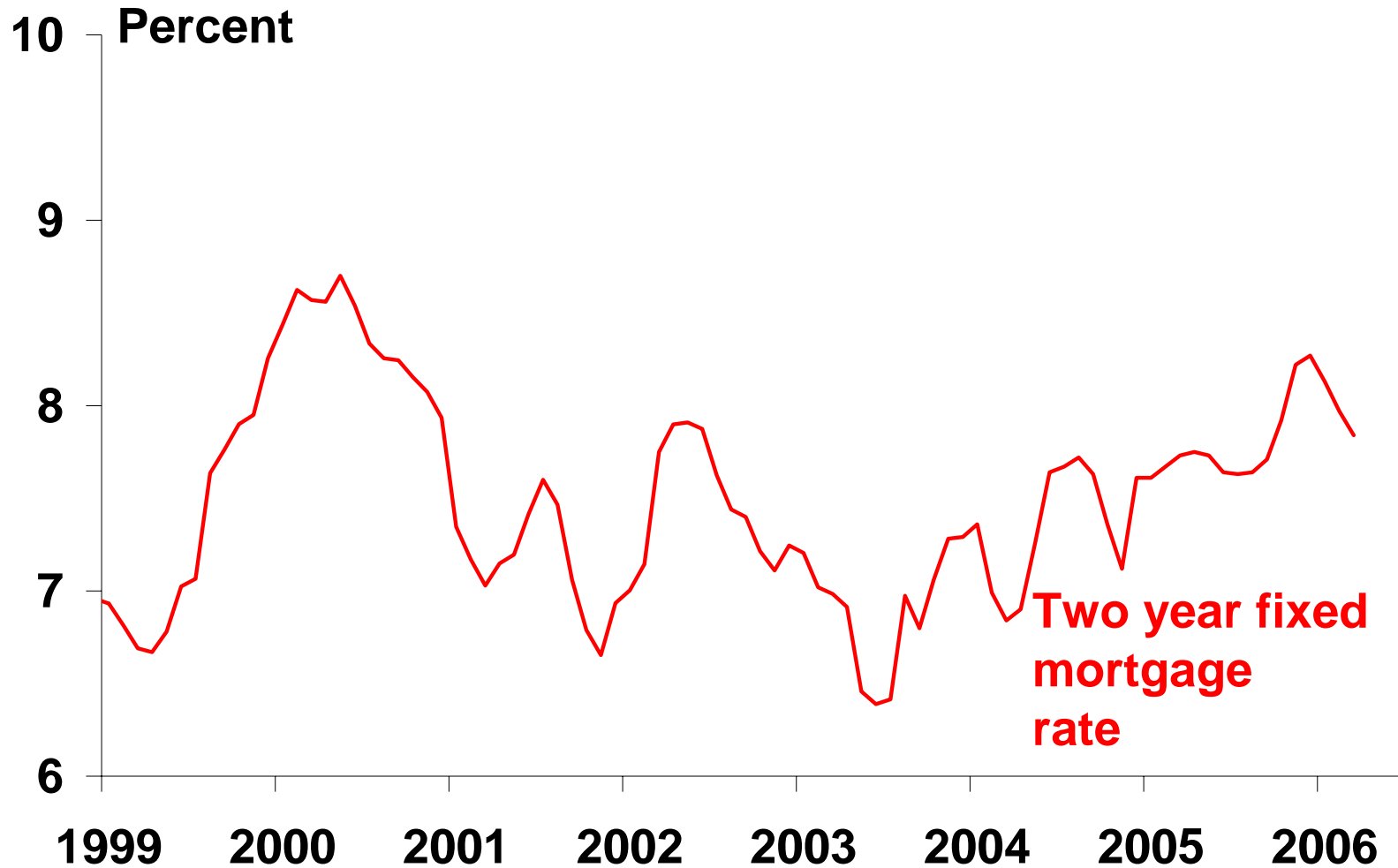
As borrowers have moved increasingly to fixed rate borrowing



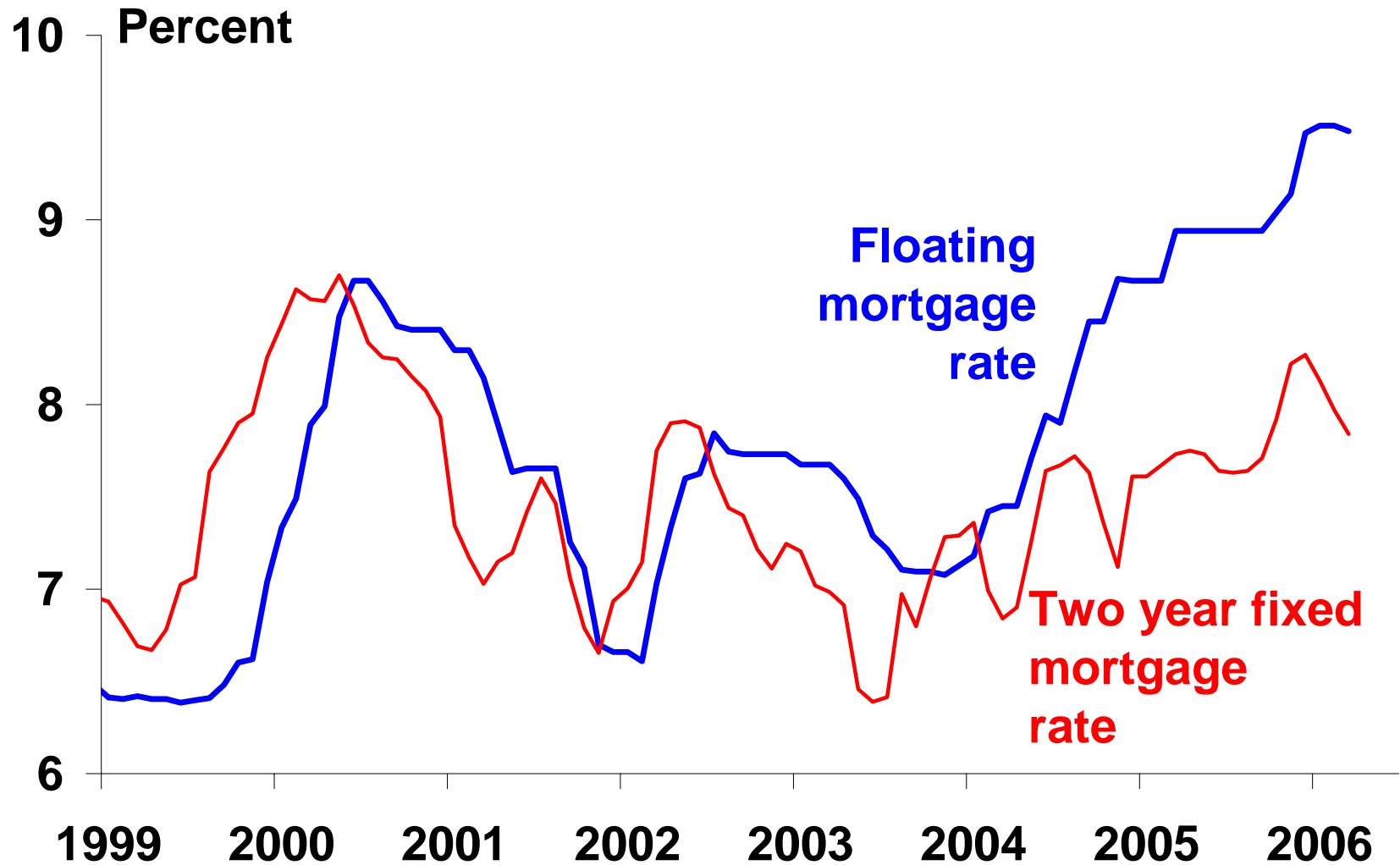
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Attracted by lower fixed rates



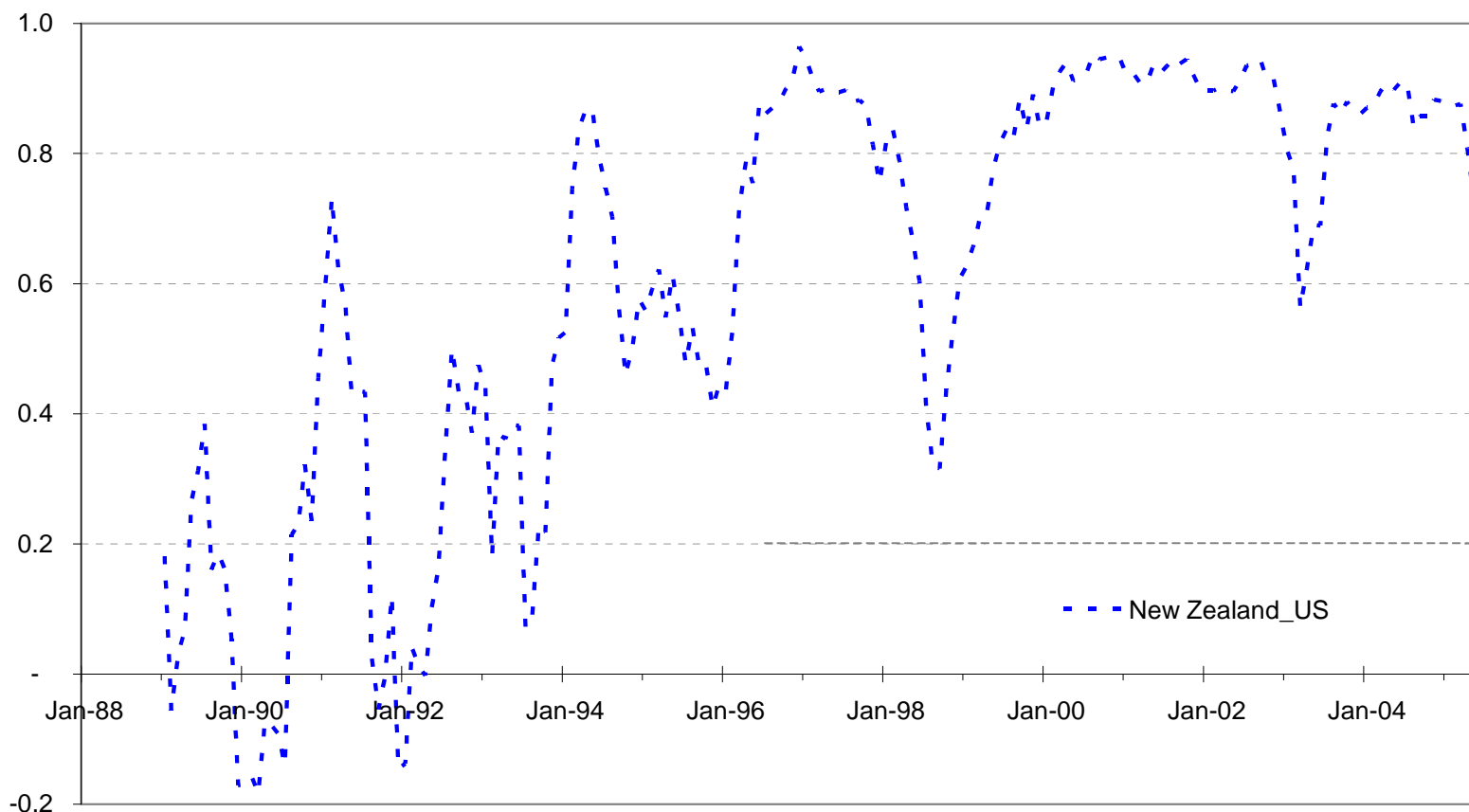
Attracted by lower fixed rates



Asset prices are increasingly correlated internationally

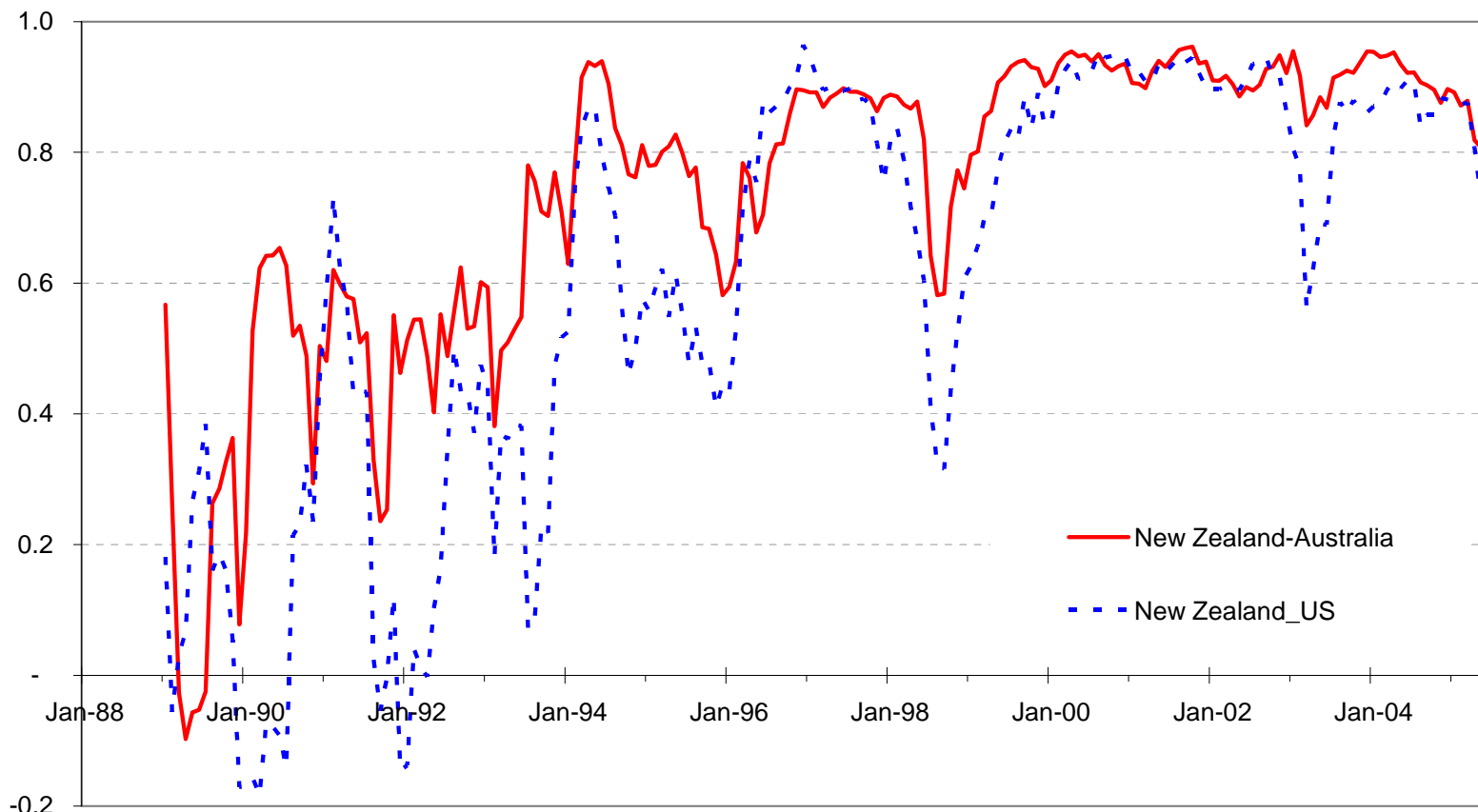
- Equity cycles
- Commodity prices
- Housing prices
- Bond rates

Long-term NZ rates are increasingly linked to long term global rates



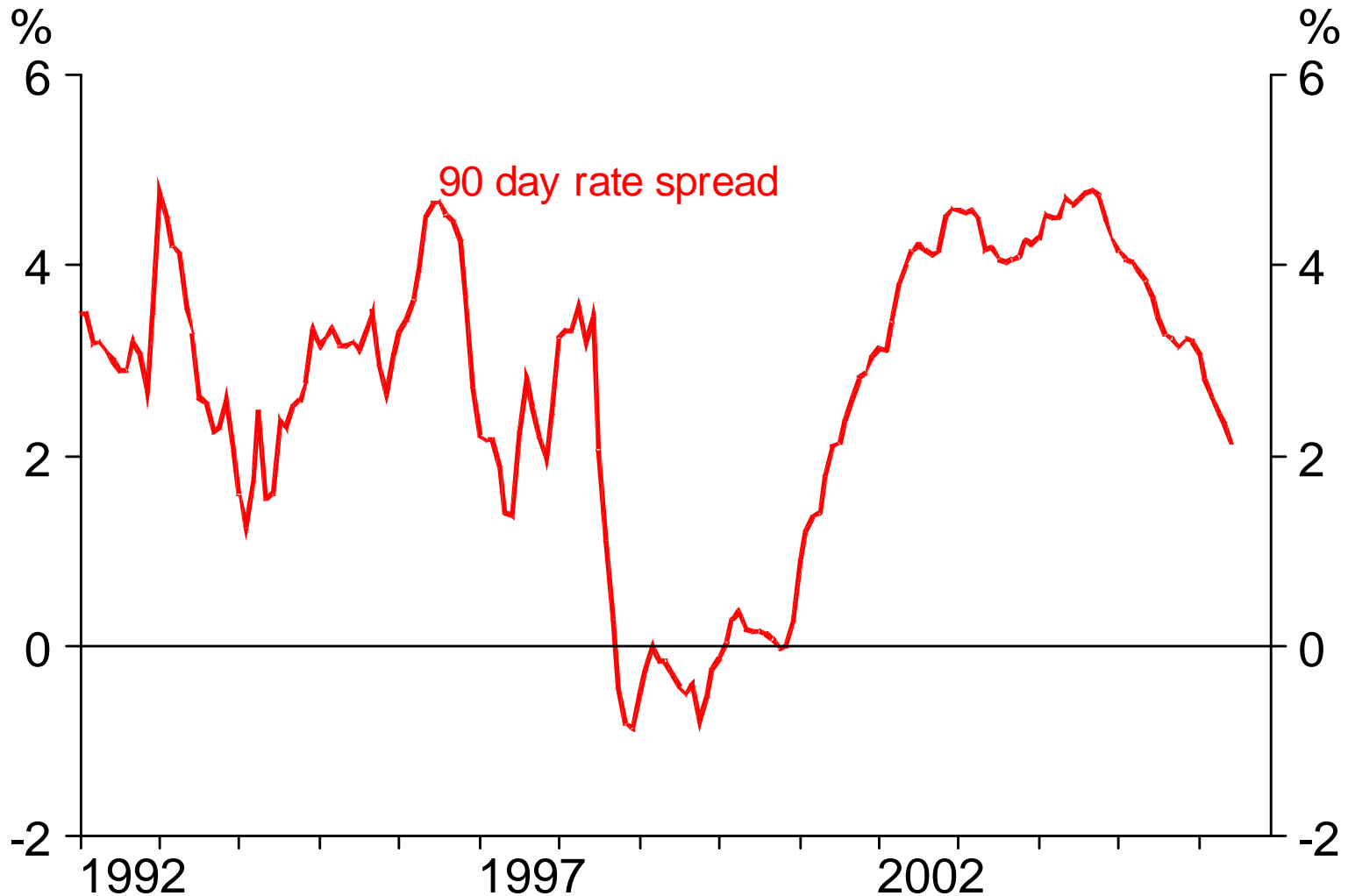
Correlation of changes in New Zealand and foreign interest rates over the previous year.

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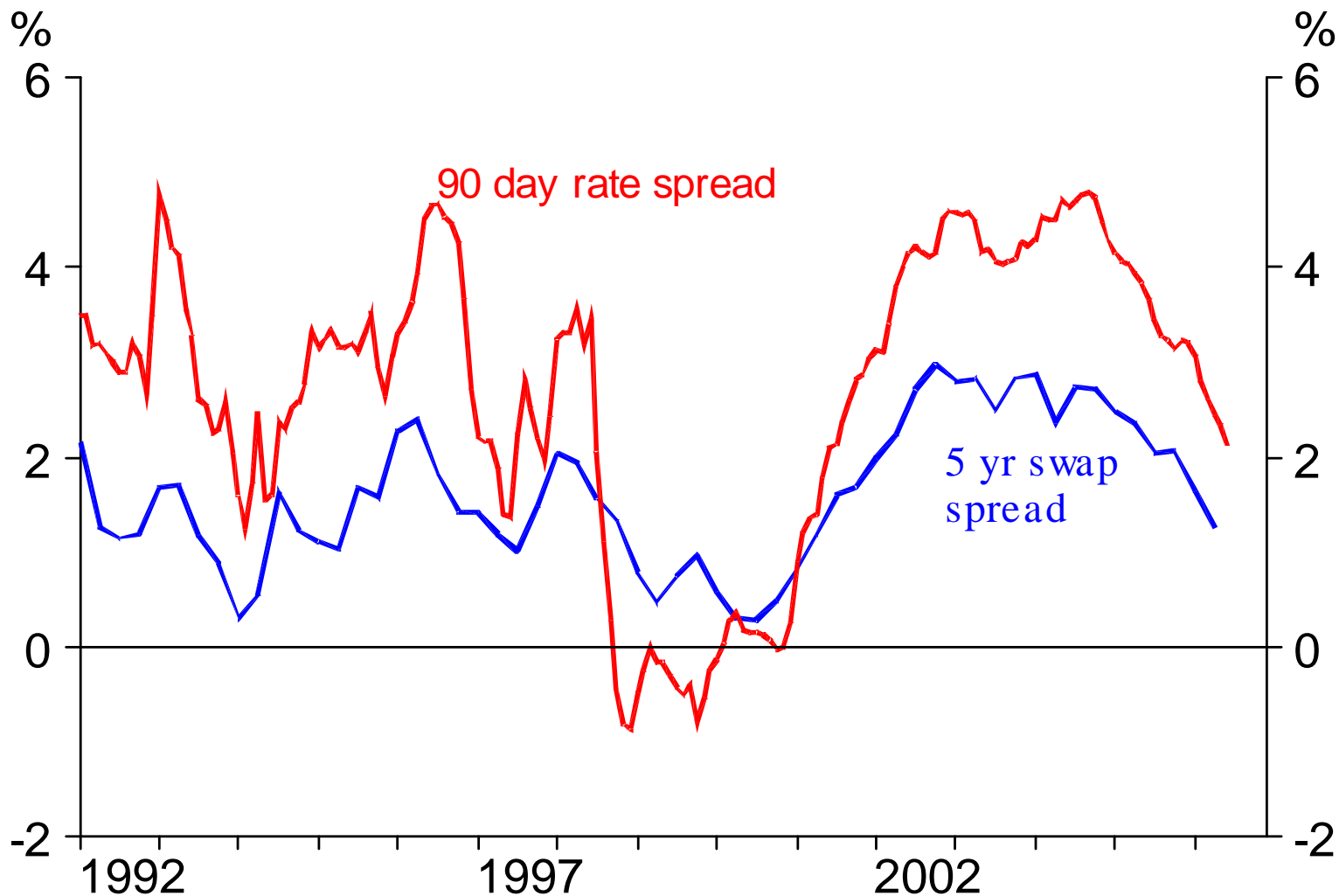


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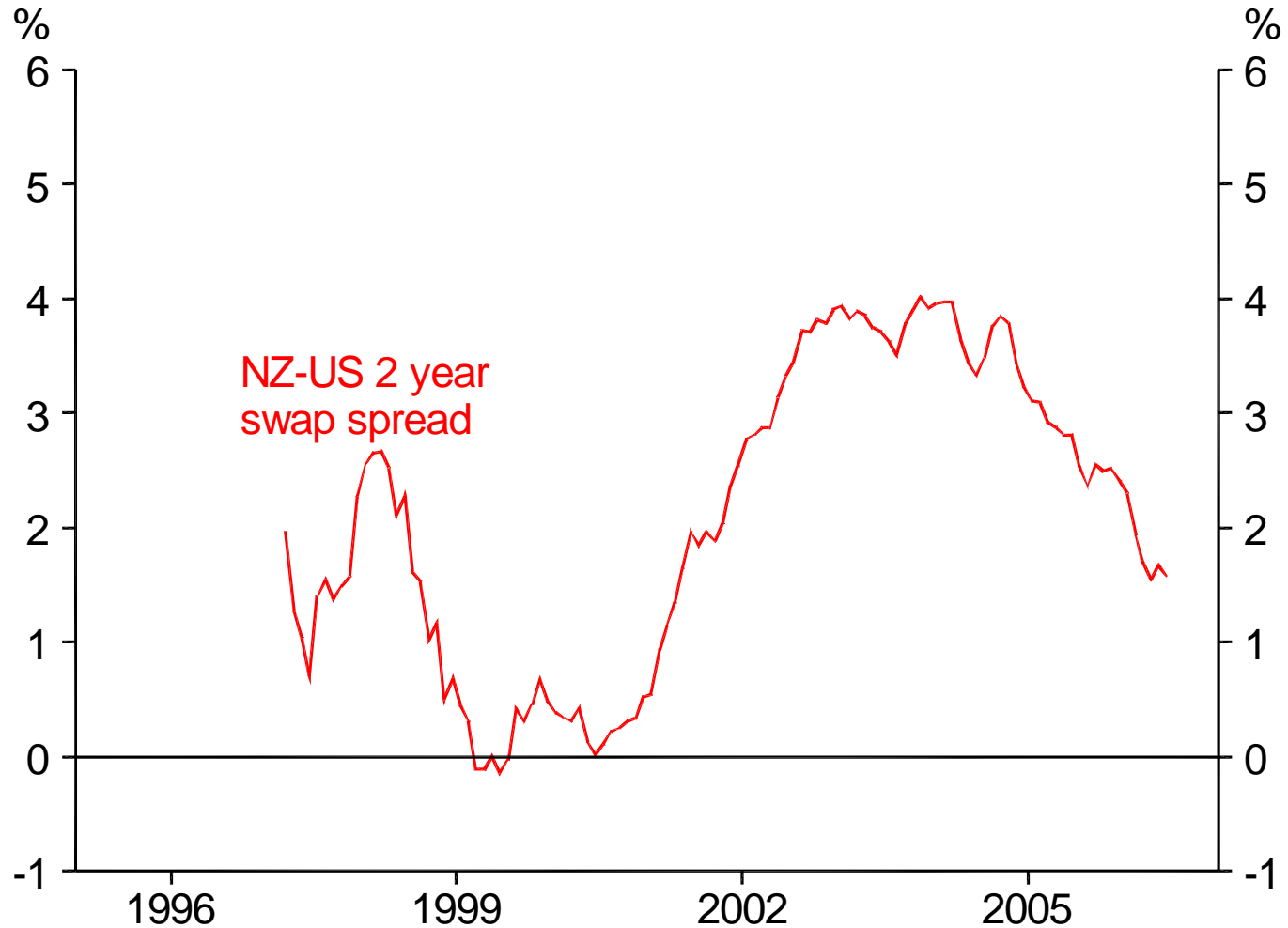
However, we still have scope to influence short term rates



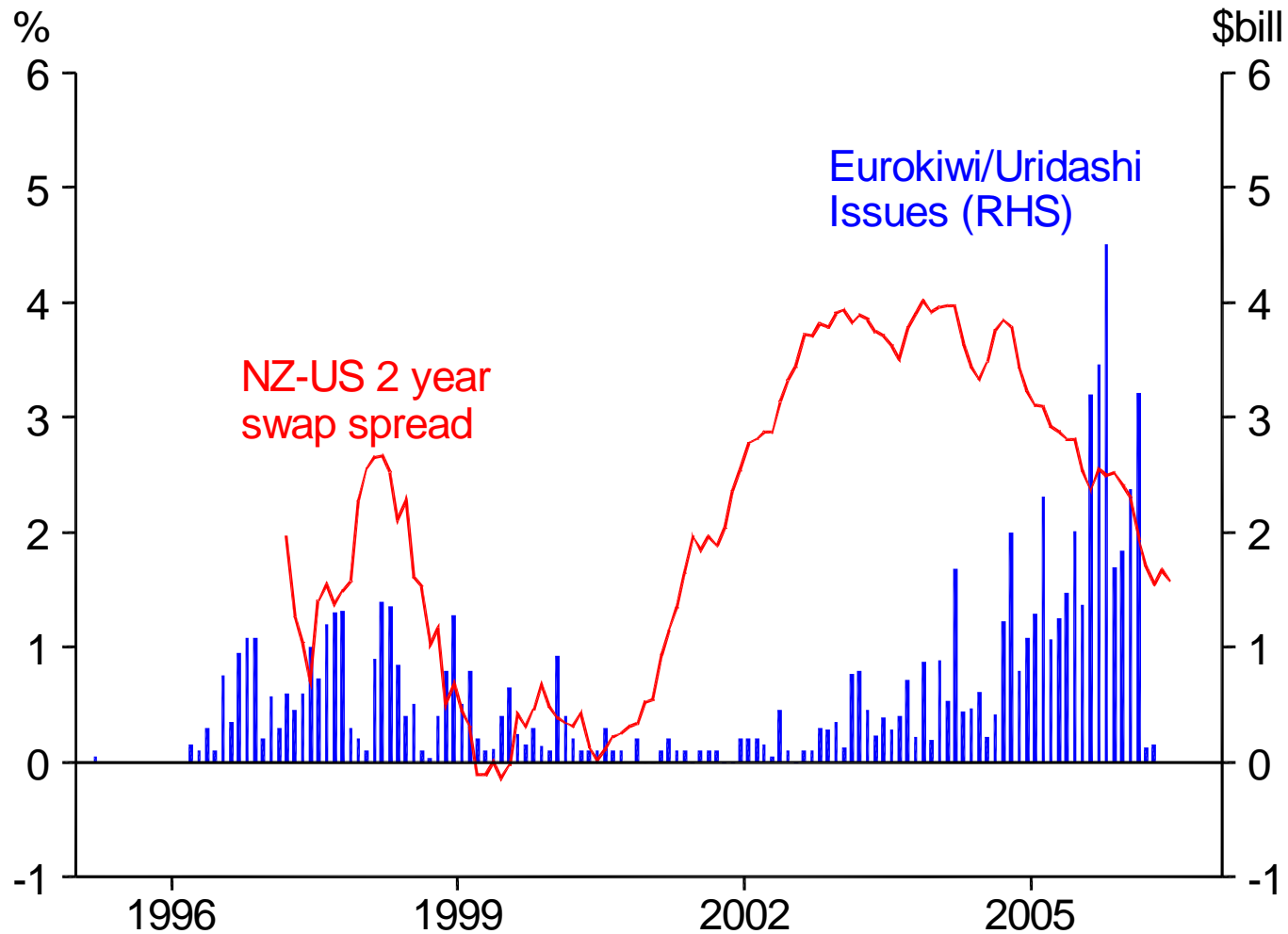
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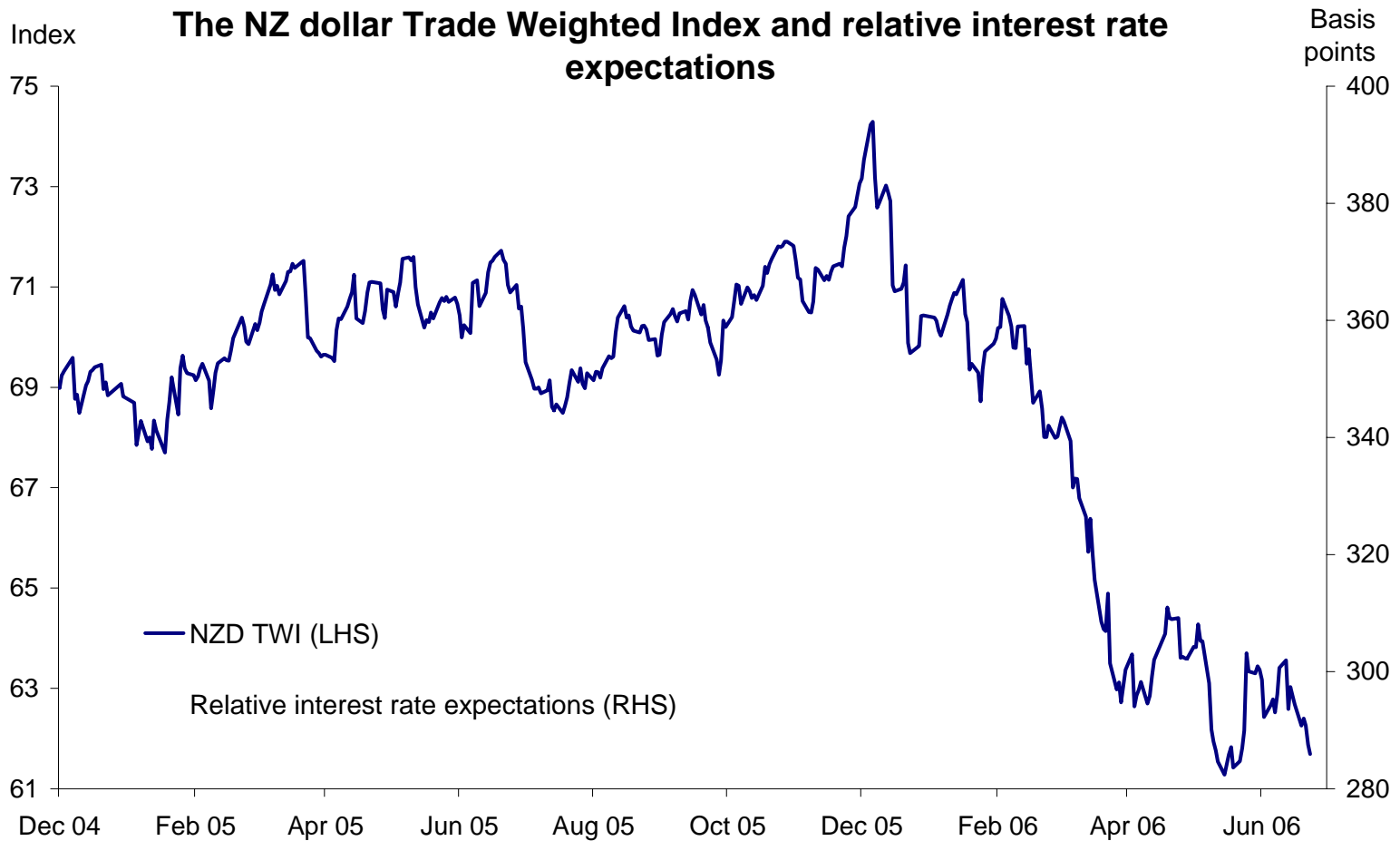
But out-of-cycle monetary policy stance can attract capital



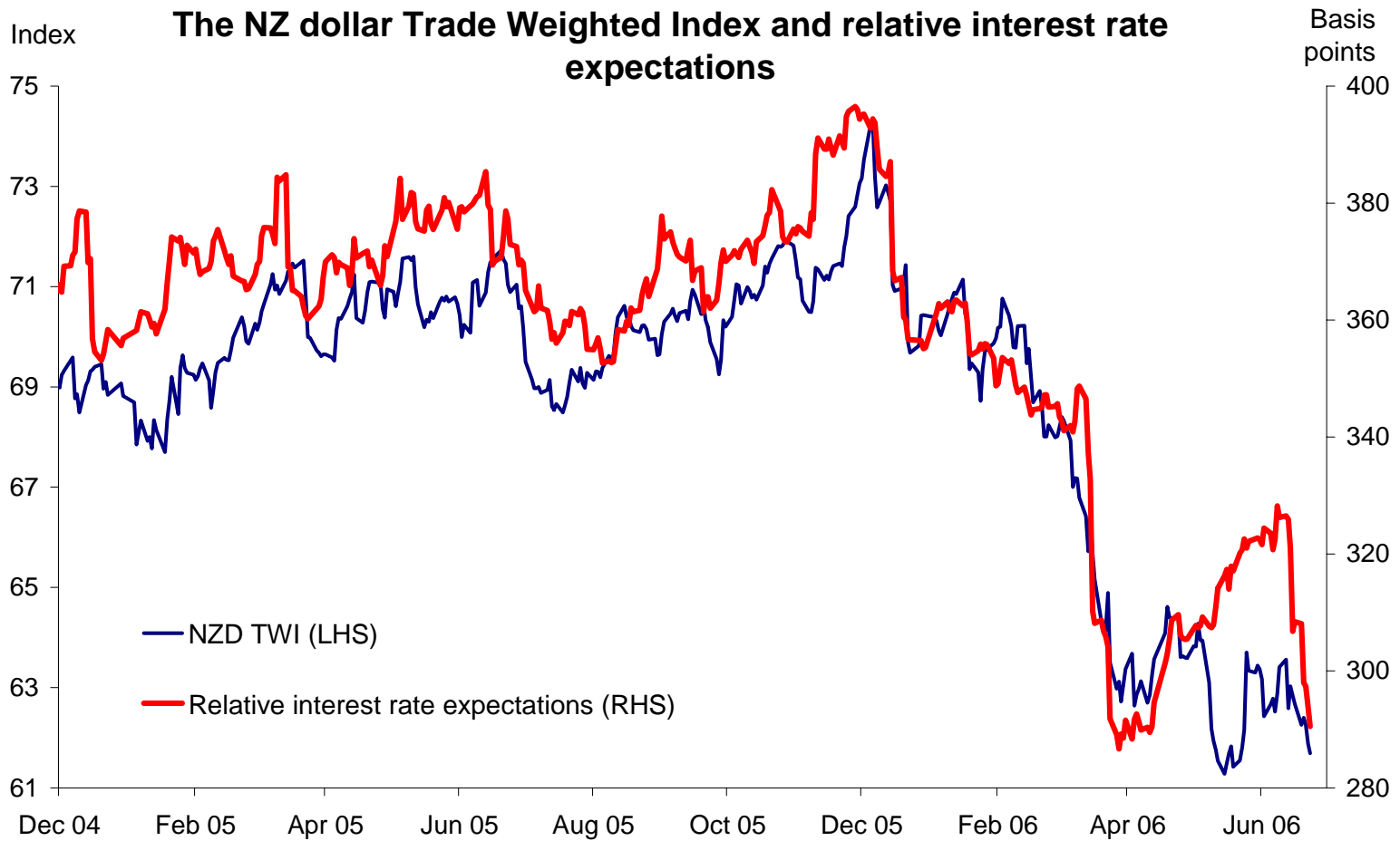
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Impacting the exchange rate



Impacting the exchange rate



Is this problem unique?

- An occasional cyclical problem
- Other economies are facing the problem
- Fiscal, industry and immigration policies all internationally constrained
- External sector pressures handled better this cycle
- Monetary policy not a perfect tool

End of presentation

