



Tokyo Fiscal Forum

The Relevance of the Fiscal-Monetary Policy Mix for Disinflation

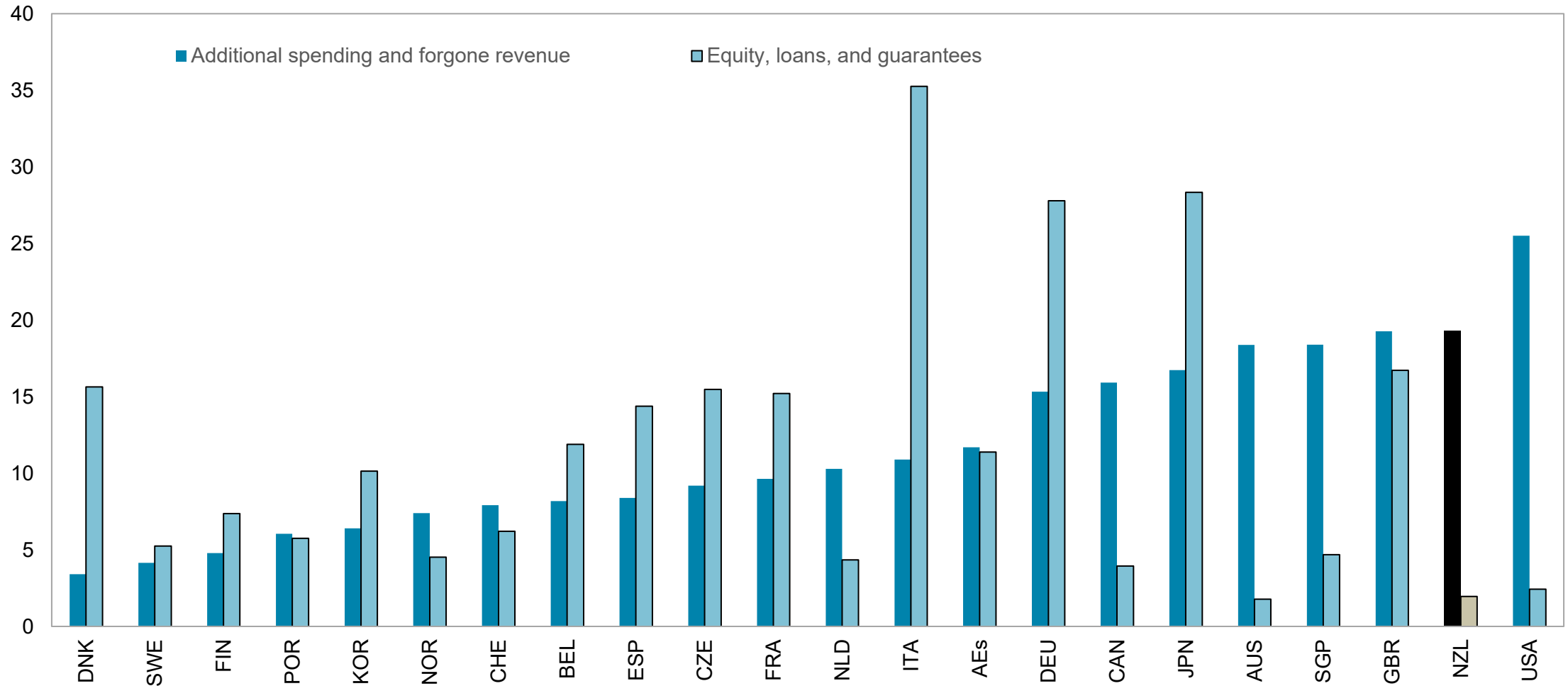
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6 June 2023

New Zealand's fiscal response was one of the largest among advanced economies

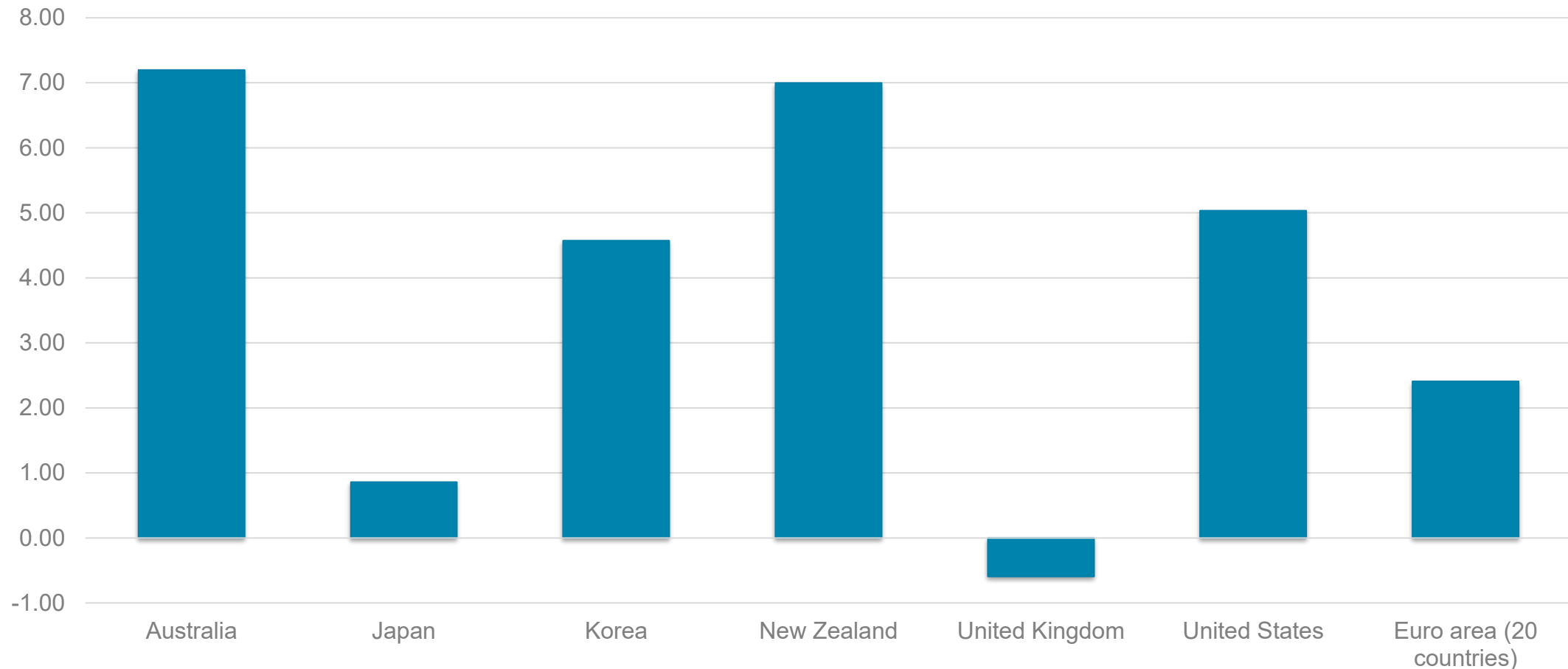
Figure 1: Scale of discretionary fiscal responses to the pandemic in advanced economies (% of 2020 GDP)



Source: IMF – “Database of Fiscal Policy Responses to COVID-19 (IMF, 2021)”

New Zealand's economic recovery has been among the top 10 OECD countries

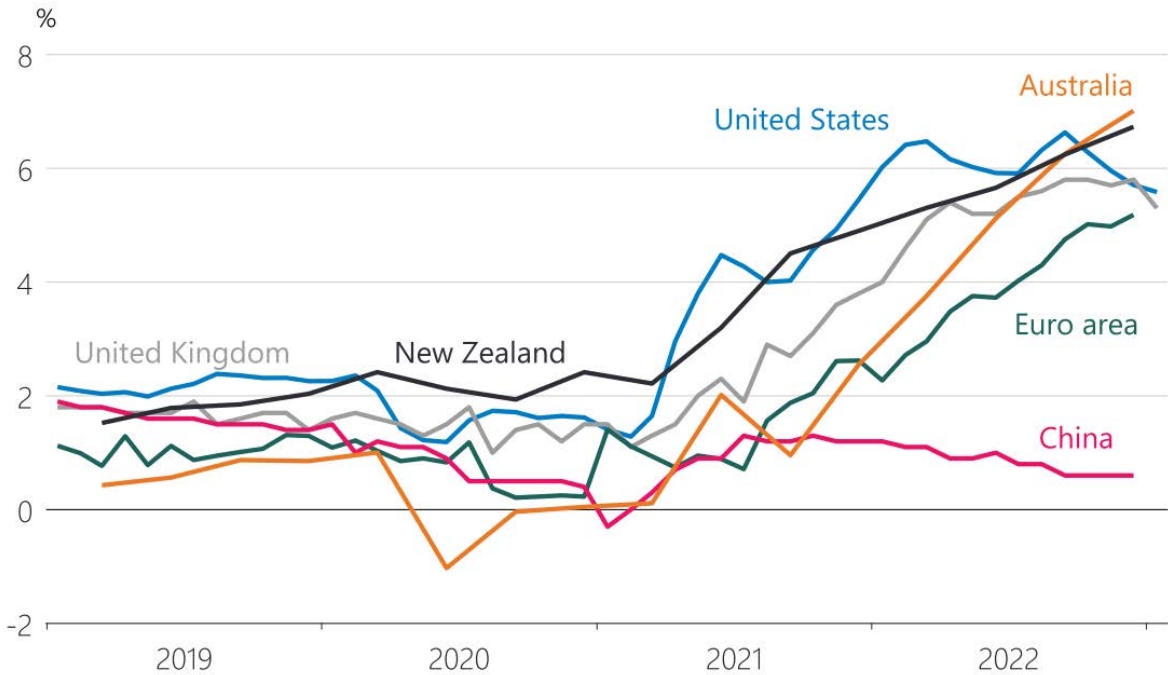
Figure 2: Change in real expenditure GDP between 2019 and 2022 December quarter



Source: OECD

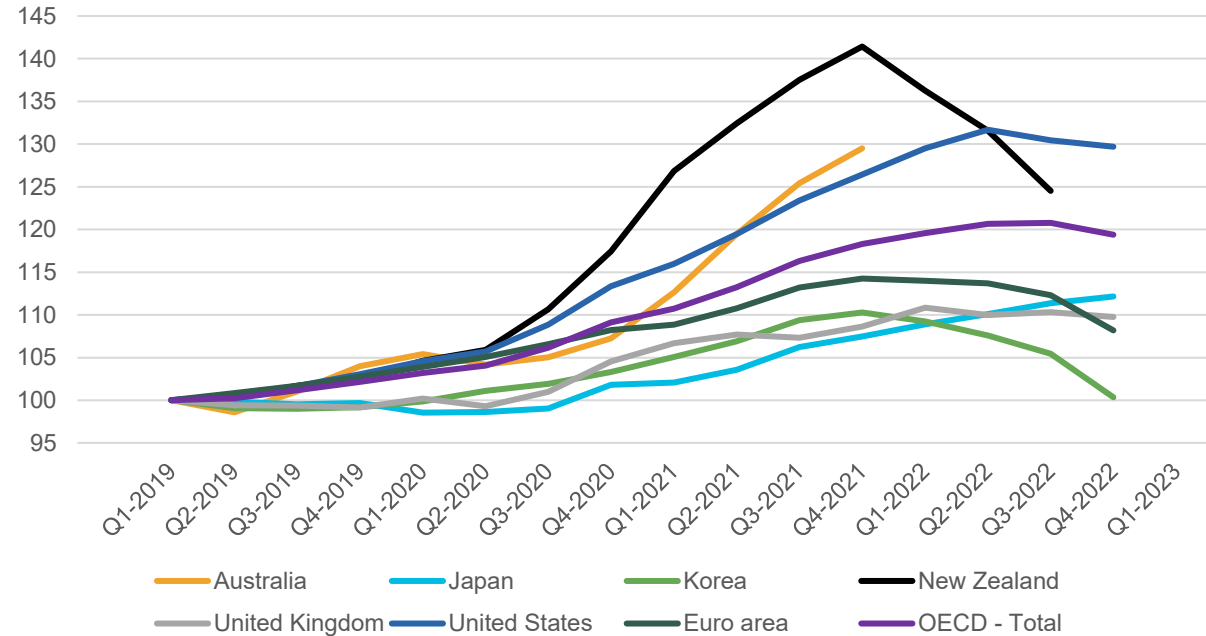
New Zealand experienced a significant increase in inflation

Figure 3: Annual core inflation (excluding food and energy) for selected economies



Source: RBNZ Monetary Policy Statement, February 2023

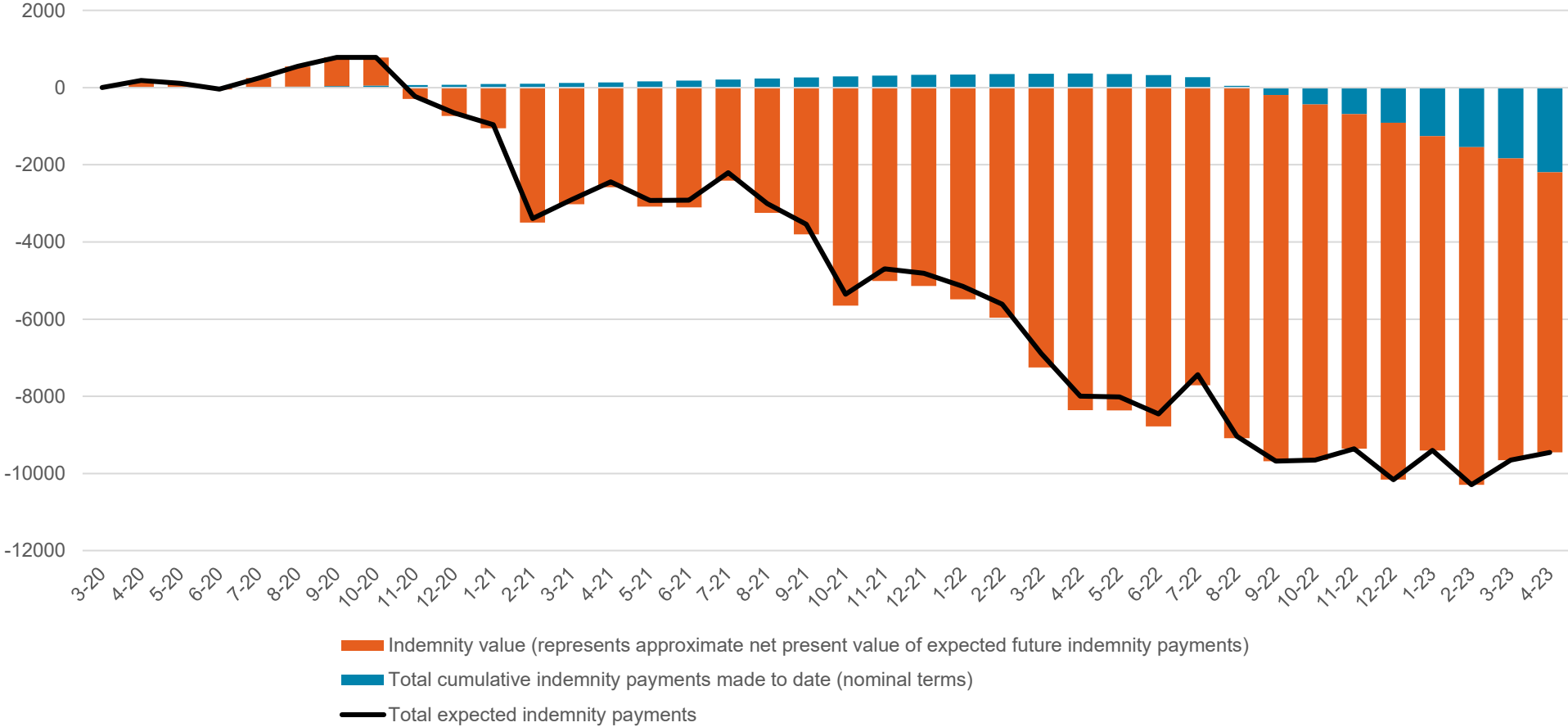
Figure 4: Real house prices in selected advanced economies (Q1-2019=100)



Source: OECD Database, 2023

There have been ongoing losses on the Crown's balance sheet as a result of Large-Scale Asset Purchases (LSAPs)

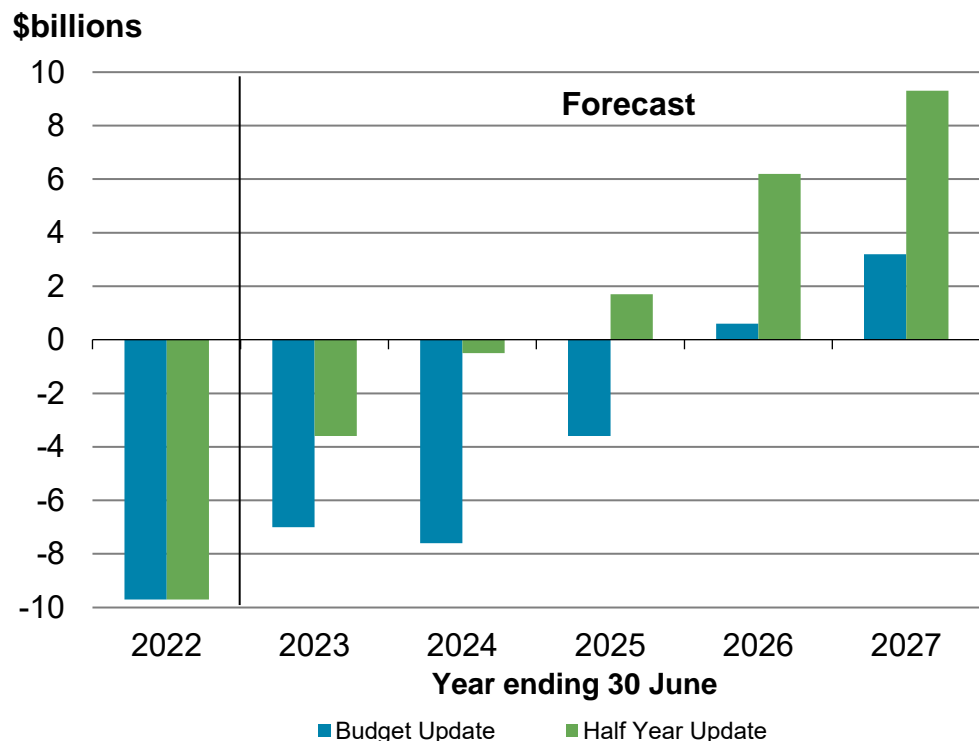
Figure 5: Total indemnity payments currently expected under the LSAP programme (\$m)



Source: New Zealand Treasury

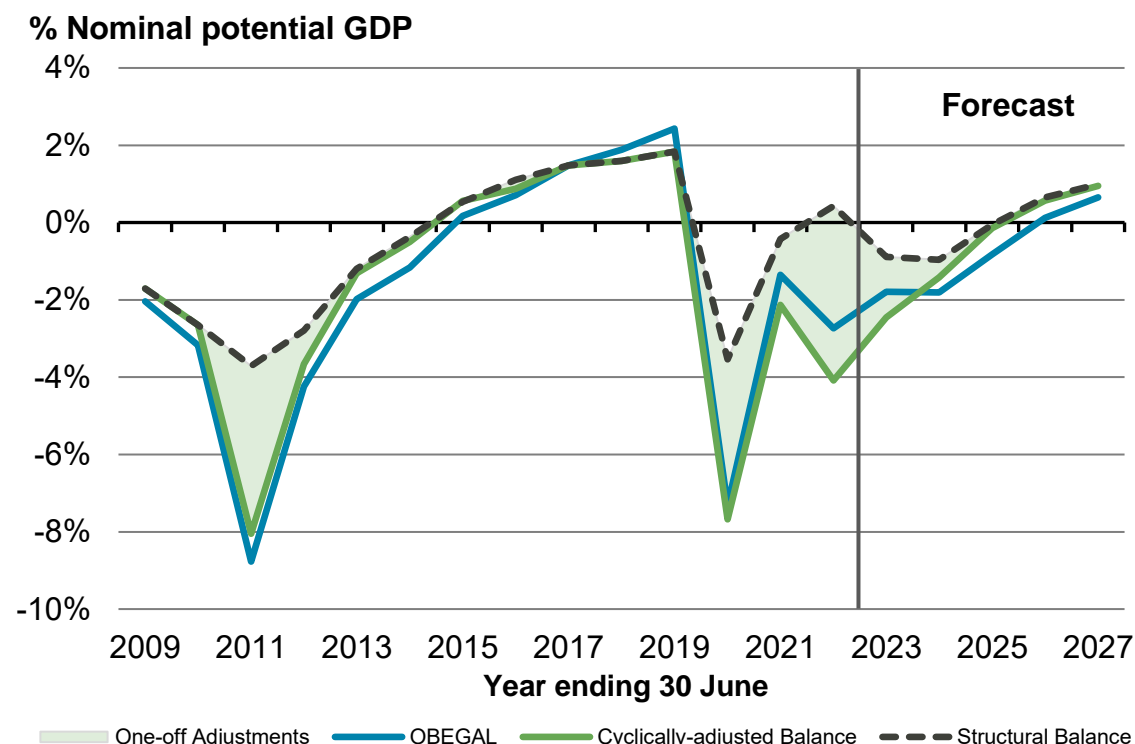
New Zealand has a strong framework supporting fiscal discipline but also experienced challenges achieving tighter fiscal policy

Figure 6: Operating balance before gains and losses at Budget 2023 compared to the Half Year Update in December 2022



Source: The New Zealand Treasury, Budget 2023

Figure 7: Operating balance before gains and losses, cyclically adjusted balance and structural balance



Source: New Zealand Treasury, Budget 2023

Wrap up

- Fiscal policy was effective at buffering the economy from the COVID-19 downturn, but in hindsight, proved to be overdone. We are now experiencing high levels of inflation and relatively high interest rates compared to recent times.
- Achieving tighter fiscal policy is difficult. A strong framework underpinning fiscal discipline can help (e.g. New Zealand's principles of responsible fiscal management).
- Stimulus measures should also be designed more carefully:
 - Temporary fiscal policy measures should mainly be used for targeted interventions rather than as a broad-based instrument
 - There is scope to better coordinate fiscal and monetary policy, and better match the policy response with the nature and severity of the economic shock
 - Fiscal tools should be underpinned by robust design and fiscal oversight, including a strategy for withdrawing fiscal support if the outlook is stronger than expected.