

# New Zealand Fixed Income Monthly October 2023

Impact of new government to be felt most in long-term monetary policy

By Matthew Johnson, Fixed Income Manager  
13 November 2023

## Change in government to redouble RBNZ's long-term focus on inflation

The general election held on 14 October resulted in a change in government for New Zealand, with the ruling Labour Party set to be replaced by a coalition led by the centre-right National Party. Although it is difficult to gain a full picture of how the coalition will govern at this stage, we can make some key observations on monetary policy. One of these is that both the National Party and ACT New Zealand (one of the party's likely coalition partners) are in favour of paring back the mandate of the Reserve Bank of New Zealand (RBNZ) to ensure that its sole focus is on managing inflation. This would remove the need for the RBNZ to devote attention to supporting maximum employment or house price sustainability. Although the change is unlikely to affect monetary policy settings in the near term given how advanced the current interest rate cycle is, we expect it to have a more noticeable long-term impact. Going forward, having a singular goal without competing considerations should allow the RBNZ to manage inflation with more vigour and focus. This may lead to quicker action and larger moves in both directions from the central bank when it responds to future conditions.

## Fiscal impact unlikely to be as pronounced

Although much has been made about the National Party being more fiscally prudent than the outgoing Labour government, we do not expect to see a significant difference under the new government based on the National Party's fiscal projections and its likely impact on aggregate demand. Although the new government intends to spend less than the outgoing government, this is likely to be offset by tax cuts. Given the ongoing cost-of-living crisis, we expect that most households will spend the entirety of any income gains they receive. Regardless of the smaller role to be played by the government, we also expect private sector entities to spend a large part of any gains they receive. We therefore believe that the change in government is unlikely to have a large impact on aggregate demand. The likely form of the coalition government may also limit the scope for fiscal conservatism. Although ACT New Zealand has been calling for larger spending cuts and more constraint, the party will need to carefully consider which policy positions it has the most scope to push for in a coalition. It is also important to observe that halting government expenditure is a significant task and is unlikely to happen immediately. Even with more conservative fiscal management it will take time to reduce borrowing, especially given the ongoing impact of monetary policy.

## RBNZ remains unlikely to adjust rates in near future

Even with the significant political change New Zealand has just seen, we maintain our view that the RBNZ is unlikely to adjust the Official Cash Rate (OCR) in its next quarterly Monetary Policy Statement, which is scheduled for 29 November. This is borne out by the consumers price index figure for the September quarter, which came in below expectations with an annual rise of just 5.6% despite elevated oil prices. We believe that there is sufficient scope for the RBNZ to hold course and allow the interest rate lag from previous OCR hikes to continue working on the economy.

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