

Reserve Bank Email Service

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Reserve Bank raises OCR to 2.75 percent

The Reserve Bank today increased the Official Cash Rate (OCR) by 25 basis points to 2.75 percent.

Reserve Bank Governor Alan Bollard said: "The economy has entered its second year of recovery with growth becoming more broad-based.

"The recovery in trading partner activity is continuing, with growth in Asia particularly strong. Along with ongoing growth in Australia and recovery in the United States, this has so far offset weak growth in some other export markets. Against this backdrop, New Zealand's export commodity prices have increased sharply over the past few months, boosting export incomes.

"In contrast to signs of global economic recovery there has been renewed turmoil in financial markets. Currently, we expect the main impact on New Zealand to come through continuing upward pressure on the cost of funds to the banking system.

"In New Zealand, growth of around 3½ percent is expected this year and next. The main drivers of this outlook are higher export prices and volume growth, an improving labour market and a pick-up in residential and business investment. However, we expect households to remain relatively cautious, with the housing market and credit growth staying subdued. This moderate household spending contributes to some rebalancing in the economy.

"Underlying CPI inflation is expected to track within the target range even as the economy expands further. That said, headline CPI inflation will be boosted temporarily by the announced increase in GST and other government-related price changes. Provided households and firms do not reflect this price spike in their wage and price-setting behaviours we do not expect a lasting impact on inflation.

"Given this outlook and as previously signalled, we have decided to begin removing some of the monetary policy stimulus that is currently in place. The further removal of stimulus will be reviewed in light of economic and financial market developments.

"The fact that bank funding costs are higher, long-term interest rates are higher than short-term interest rates, and a greater proportion of borrowers use floating rate mortgages should all reduce the extent to which the OCR will need to be increased relative to previous cycles."

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Read the June 2010 Monetary Policy statement at the following link:
<http://www.rbnz.govt.nz/monpol/statements/>

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