
1 Policy assessment

The Official Cash Rate (OCR) remains unchanged at 8.25 percent.

The global economy is currently experiencing significant increases in oil and food prices. These price increases are occurring at the same time as activity is weakening in many economies in response to the global credit crisis and slowing housing markets. In New Zealand, this confluence of factors is producing a challenging environment of weak activity and high inflation.

We project annual CPI inflation to peak at 4.7 percent in the September quarter of this year. Although much of this reflects higher food and energy prices, underlying inflation pressure also remains persistent. Nevertheless, we do still expect inflation to return comfortably inside the target band over the medium term. This is based on the expectation that commodity prices stop rising, inflation expectations remain anchored, and weakening economic activity contributes to an easing in non-tradable inflation.

The outlook for economic activity is now weaker than in our previous Statement. We project little GDP growth over 2008, and only a modest recovery thereafter, largely reflecting a weaker household sector. Government spending and personal tax cuts will provide some offset to this lower growth but will also add to medium-term inflation pressure.

Consistent with the Policy Targets Agreement, the Bank's focus will remain on medium-term inflation. Provided the economy evolves in line with our projection, we are now likely to be in a position to lower the OCR later this year, which is sooner than previously envisaged.

Alan Bollard

A handwritten signature in black ink that reads "Alan Bollard". The signature is written in a cursive, flowing style.

Governor