1 Policy assessment

The Reserve Bank has decided to leave the Official Cash Rate unchanged at 5.25 percent.

New Zealand has continued to enjoy a period of sustained economic growth over recent years. Partly related to this, inflation pressures have been increasing in a number of domestic industries, including housing and construction. It is for this reason the Reserve Bank raised the OCR in January. Meanwhile, the overall CPI inflation rate has so far been offset by weak imported inflation due to the rising NZ dollar exchange rate.

In recent *Statements* we have projected a slowing in growth which would ease capacity and inflation pressures. This projected growth slowdown is due mainly to the lagged effects of the high New Zealand dollar and an expected slowdown in population growth. With tentative signs becoming more evident in recent weeks, it remains our view that this projected growth slowdown will occur and eventually will reduce the accumulated inflation pressures.

However, the latest activity indicators remain quite robust. This implies that, in the short-term, there are ongoing risks that the bottlenecks in the economy persist for some time yet. Any persistence in the current inflation pressures could see actual inflation nearing the top of the Bank's target range, raising policy risks. With this uncertainty, we judge it as appropriate at this stage to wait and watch the data, to see whether a further small increase in interest rates will be required this year.

Alan Bollard
Governor