



RESERVE
BANK

O F N E W Z E A L A N D

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NEWS RELEASE

OCR unchanged at 6.5 per cent

The Reserve Bank has again decided to leave the Official Cash Rate unchanged at 6.5 per cent, but also signalled that some increase in interest rates is likely, possibly early next year.

That's come with the release of the Reserve Bank's December *Monetary Policy Statement*.

Reserve Bank Governor Don Brash commented: "We believe that business confidence is set to strengthen, consistent with economic activity having picked up in recent months and being noticeably stronger in the second half of the year. Even with some exchange rate appreciation and slowing in world growth, exporters and those competing with imports will continue to benefit from exceptionally good trading conditions for some time. And the reality is that there is not much spare capacity in those sectors.

"We believe that the pressure on resources associated with the resurgence in growth can be kept in check with a gradual and – by historical standards – rather small firming of interest rates next year.

"It is also clear that, in the short-term, annual CPI inflation will exceed the top of the target band for the next several quarters. Even so, stripped of the transient effects of international oil prices and cigarette taxes, CPI inflation will remain well within the target range. In accordance with our longstanding agreement with Government, the Bank will continue to focus on the persistent elements of inflation and therefore ignore the transient elements.

"Inevitably, our confidence that the temporary inflation spike will not become persistent is affected by the wider situation, including the degree of pressure on the nation's resources. While there are clearly some risks that inflationary pressures will turn out to be stronger than now expected, at this stage we believe that a small firming of interest rates next year should be sufficient to ensure that the current spike in inflation will prove transitory.

"In summary, somewhat higher interest rates are likely to be needed, but not quite yet. The extent of the increase will depend very much on how the world economy evolves, on how the economy responds to the stimulus provided by the low exchange rate, and on the response of price and wage setters to the near-term increase in the inflation rate," Dr Brash concluded.

For further information contact

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