
1 Policy assessment

The Reserve Bank today left the Official Cash Rate (OCR) unchanged at 2.5 percent.

New Zealand's economic outlook has weakened a little since the March *Monetary Policy Statement*.

Political and economic stresses in Europe, along with a run of weaker-than-expected data, have seen New Zealand's trading partner outlook worsen. Furthermore, there is a small but growing risk that conditions in the euro area deteriorate more markedly than is projected in the June *Statement*. The Bank is monitoring euro-area developments carefully given the potential for rapid change.

Increased agricultural production and the weakened global outlook have driven New Zealand's export commodity prices lower. The resulting moderation in export incomes, although partially offset by depreciation in the exchange rate, will weigh on economic activity in New Zealand. Fiscal consolidation is also likely to constrain demand growth going forward.

Offsetting these negative influences, housing market activity continues to increase, supported by recent reductions in mortgage interest rates. In addition, repairs and reconstruction in Canterbury are expected to substantially boost construction sector activity in coming quarters. Aggregate GDP growth is projected to pick up slightly to just over 3 percent next year. Given this economic outlook, inflation is expected to settle near the mid-point of the target range.

It remains appropriate for monetary policy to remain stimulatory, with the OCR being held at 2.5 percent.

Alan Bollard

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

Governor