

Monetary Policy Statement, March 2012 - policy assessment

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

Inflation has settled near the middle of the Bank's target range, and inflation expectations have fallen.

The domestic economy is showing signs of recovery. Household spending appears to have picked up over the past few months and a recovery in building activity appears to be underway. That recovery will strengthen as repairs and reconstruction in Canterbury pick up later in the year. High export commodity prices are also helping to support a continuing recovery in domestic activity.

Policy actions from a number of central banks have boosted global confidence. While encouraging, financial market sentiment remains fragile and risks to the global outlook remain. Furthermore, the easing in global monetary policy and resultant recovery in risk appetite has contributed to a marked appreciation in the New Zealand dollar.

While helping contain inflation, the high value of the New Zealand dollar is detrimental to the tradable sector, undermines GDP growth and inhibits rebalancing in the New Zealand economy. Sustained strength in the New Zealand dollar would reduce the need for future increases in the OCR.

Given the medium-term outlook for inflation, it remains prudent to hold the OCR at 2.5 percent.

Alan Bollard
Governor