Monetary Policy ***Snapshots***

May 2020

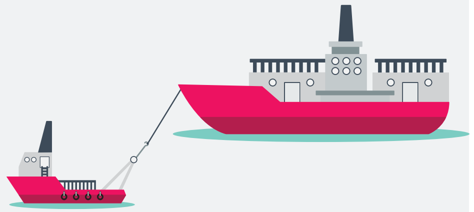
Monetary policy has been eased to lower interest rates and support the economy

The Reserve Bank will now purchase more assets to help lower interest rates. The Official Cash Rate remains at ***0.25 percent.***

COVID-19 containment measures are significantly reducing economic activity

The impacts on households and businesses will be ongoing

There has been unprecedented support from the Government



Monetary policy is supporting the recovery

The Monetary Policy Committee uses a range of instruments to influence the economy. The OCR and asset purchases affect interest rates in the economy, including bank lending rates and term deposit rates. Interest rates can be reduced by lowering the OCR or increasing the amount of asset purchases. The seven members of the Monetary Policy Committee set the level of these instruments to support full employment and keep inflation stable.

Latest key statistics

- Economic growth: 1.8 percent (December quarter 2019)
- Inflation: 2.5 percent (March quarter 2020)
- Unemployment rate: 4.2 percent (March quarter 2020)

COVID-19 containment measures are significantly reducing economic activity

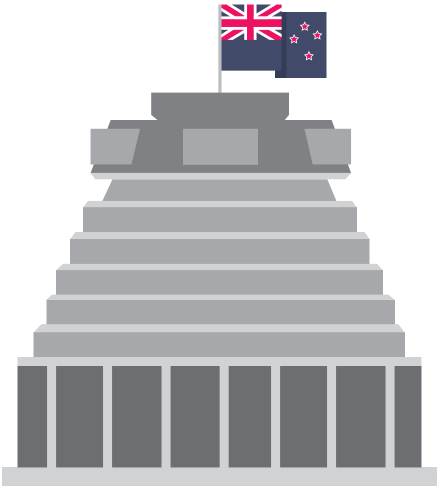
- Measures have been put in place worldwide to contain the spread of COVID-19. In New Zealand, the borders have been closed to foreign visitors, some businesses have had to temporarily close, and people have had to stay home.
- While limiting the spread of the virus, the measures have reduced economic activity. Businesses' revenues have fallen substantially causing financial strain. Wages and working hours have been cut, and workers have been laid off.
- All major economies have been affected, which has meant global financial markets have been volatile and our export prices have fallen somewhat.

The impacts on households and businesses will be ongoing

- Even when the containment measures are relaxed, there will be ongoing impacts. Job losses and lower incomes will reduce spending. Population growth will be lower due to border restrictions and house prices could fall, further reducing spending.
- Business activity will be lower for some time. With households spending less, businesses will receive less revenue. Businesses also face ongoing uncertainty. These factors mean businesses will invest less and hire fewer workers.

There has been unprecedented support from the Government

- The Government has provided substantial support to businesses and workers affected by the impacts of COVID-19. The Government has announced more than $20 billion of additional fiscal support to date.
- The Government's wage subsidy has supported more than 1.7 million jobs already, helping to keep people in work until restrictions ease and firms get back to business.
- Higher government spending will be a key driver of the recovery in the economy over the next three years.



Monetary policy is supporting the recovery

- To complement the Government's actions, the Monetary Policy Committee has reduced the OCR to 0.25 percent and signalled its intention to keep the OCR at this level for at least a year.
- The Committee also initiated a Large Scale Asset Purchase programme. The Reserve Bank will purchase up to a maximum of $60 billion of government debt over the next 12 months. This helps to reduce interest rates in a similar fashion to lowering the OCR, and also supports the smooth functioning of financial markets.
- These actions are about reducing interest rates for businesses and households. They will encourage spending and investment, supporting the economic recovery.