Monetary Policy ***Snapshots***

February 2020

Official Cash Rate (OCR) remains at 1.0 percent

Inflation and employment are close to target

Economic growth to lift in 2020

Global economy stabilised before coronavirus

A low OCR remains needed

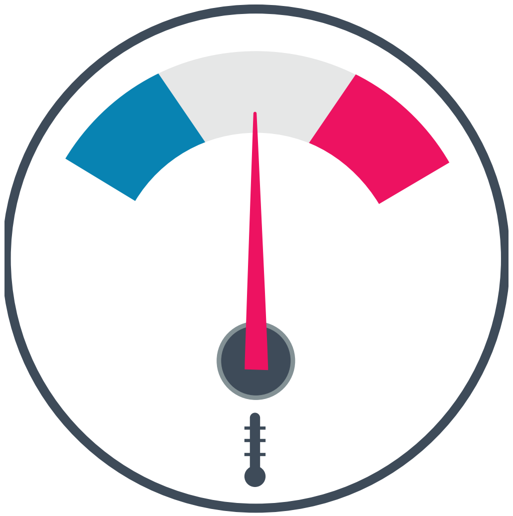
The OCR is an interest rate that affects other interest rates in the economy, including mortgage rates and term deposit rates. The seven members of the Monetary Policy Committee set the level of the OCR to support full employment and keep inflation stable.

Latest key statistics

- Economic growth: 2.3 percent
- Inflation: 1.9 percent
- Unemployment rate: 4.0 percent

Inflation and employment are close to target

- Monetary policy plays a key role in stabilising the economy through time. The primary focus of monetary policy is to keep inflation stable and support full employment.
- Inflation is low and stable, sitting just below our goal of 2 percent. Prices are growing at a slightly faster pace than before, due in part to our cuts of the OCR over 2019.
- The labour market was close to full employment in 2019. The unemployment rate is low at 4.0 percent. Growth in the labour force has slowed, in line with slower population growth and flat labour force participation.



Economic growth to lift in 2020

- Economic growth slowed over 2019. Low business confidence and headwinds from global economic conditions have contributed to this slowdown.
- This slower economic growth matters for our inflation and employment objectives. When growth is slow, fewer firms need to hire workers and they face less pressure to increase their prices.
- We expect economic growth to accelerate over the second half of 2020 driven by low interest rates, higher government spending and high export prices.

Global economy stabilised before coronavirus

- Global growth has slowed since 2018, reducing growth in New Zealand's economy. Trade tensions and policy uncertainty caused households and firms to spend less, and reduced businesses' trading activity.
- There are signs that these headwinds have eased recently, but the coronavirus outbreak has emerged as a new risk. Although the economic implications for New Zealand are still very unclear, the outbreak has caused fewer tourists to visit New Zealand and could reduce global growth.
- The impact on New Zealand of slower global growth has been partially offset by strong prices in global dairy and meat markets, which have supported our export incomes.

A low OCR remains needed

- Since March 2019, we have lowered the OCR from 1.75 to 1 percent and expect it to remain low for some time.
- It takes time before a lower OCR passes through the economy. Lower interest rates have contributed to a stronger outlook for household spending by reducing debt-servicing costs and bolstering housing wealth.
- Keeping the OCR low will help boost New Zealand's economy over the coming year. In addition, the Government has announced plans to spend and invest more over the next year.
- Increasing economic activity will underpin inflation near our goal of 2 percent while also encouraging firms to hire, keeping the economy near full employment.