Monetary Policy ***Snapshots***

February 2021

The Reserve Bank will continue to keep interest rates low.

*The Official Cash Rate remains at **0.25 percent**, and we will continue to keep interest rates low through our Large Scale Asset Purchase and Funding for Lending programmes.*

The economic rebound has been stronger than expected

The domestic recovery has been uneven

The outlook is highly uncertain

Significant stimulus is still required

The Monetary Policy Committee uses a range of tools to support full employment and keep inflation stable. The Official Cash Rate (OCR), large scale asset purchases, and the Funding for Lending Programme (FLP) affect the interest rates faced by New Zealand households and businesses. The seven members of the Monetary Policy Committee have agreed to maintain the current stimulatory level of monetary conditions.

Latest key statistics

- Annual economic growth: 0.4 percent (Q3 2020)
- Annual inflation: 1.4 percent (Q4 2020)
- Unemployment rate: 4.9 percent (Q4 2020)

The economic rebound has been stronger than expected

- Following the sharp decline in economic activity during Alert Levels 3 and 4, New Zealand's economy has rebounded to a stronger position than anticipated at the outset of the pandemic.
- Significant fiscal and monetary support, resilient demand for our goods exports, pent-up household demand, and a robust housing market have resulted in GDP increasing above its pre-COVID-19 level.

The domestic recovery has been uneven

- Demand in tourism-related sectors remains weak. The lack of international visitors is acting as a drag on economic activity, and has been only partially offset by an increase in New Zealanders travelling domestically.
- However, the construction and retail sectors have recovered strongly. The housing market has been robust, encouraging increased residential construction and boosting household wealth.
- Although some sectors remain weak, the labour market as a whole has been more resilient than expected. The unemployment rate fell to less than 5 percent at the end of 2020.

The outlook is highly uncertain

- The outlook for the economy is highly uncertain, and reliant on the progression of the pandemic and global vaccination programmes.
- Momentum in activity and the labour market will depend on the persistence of the headwinds facing tourism-related sectors, and the extent that ongoing weakness from these sectors spills over into the rest of the economy.

Significant stimulus is still required

- The baseline economic scenario is subdued, despite starting from a stronger position than assumed in November.
- Ongoing domestic momentum is required to ensure that remaining spare capacity in the economy is absorbed, so that inflation and employment increase sustainably.
- As a result, interest rates are assumed to remain at historically low levels for an extended period.