

Reserve Bank Email Service

This was announced a short time ago

29 October 2009

9am

The Official Cash Rate (OCR) remains unchanged at 2.5 percent.

Reserve Bank Governor Alan Bollard said: "There are welcome signs that economic activity is growing again.

"Activity in New Zealand's trading partners continued to rebound during the September quarter and financial market sentiment has improved further. However, there remain significant vulnerabilities and challenges to be worked through in many economies. This process could weigh on global growth going forward.

"In New Zealand, the housing market has reversed some of the decline in prices experienced over the past couple of years and a very gradual increase in household spending appears to be taking place. Government spending is also supporting activity. Business spending, however, remains weak and credit growth is very subdued.

"The high level of the New Zealand dollar has limited the scope for exports to contribute to the recovery, and reinforces a bias towards domestic expenditure. After some short-term correction it is also likely to see the current account deficit begin to widen in the medium term.

"The current composition of growth continues to raise questions about its sustainability. These concerns would intensify if credit growth began to propel stronger domestic demand.

"Annual CPI inflation is expected to continue to track comfortably within the target range over the medium term.

"The forecast recovery in economic activity is based on fiscal and monetary policy continuing to provide substantial support to the economy. We think such support remains appropriate. Further ahead, removing some of the current fiscal stimulus is likely to reduce the work that monetary policy will otherwise need to do.

"In contrast to current market pricing, we see no urgency to begin withdrawing monetary policy stimulus, and we expect to keep the OCR at the current level until the second half of 2010."

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