Preston Rowe Paterson

International Property Consultants and Valuers

Monetary tightening brought forward

Release Date: 22 April 2022

The Monetary Policy Committee today increased the Official Cash Rate (OCR) to 1.50 percent. The Committee agreed it is appropriate to continue to tighten monetary conditions at pace to best maintain price stability and support maximum sustainable employment.

The Committee remained comfortable with the outlook for the OCR as outlined in their February Monetary Policy Statement. They agreed that moving the OCR to a more neutral stance sooner will reduce the risks of rising inflation expectations. A larger move now also provides more policy flexibility ahead in light of the highly uncertain global economic environment.

The level of global economic activity continues to generate rising inflation pressures, exacerbated by ongoing supply disruptions in large part driven by COVID-19. The Russian invasion of Ukraine has significantly added to these supply disruptions, causing prices to spike in internationally traded commodities and energy.

However, the pace of global economic activity continues to slow. There is an elevated level of uncertainty created by the persistent impacts of COVID-19, and clear signals that monetary and broader financial conditions will tighten over the course of 2022. Added to this is the high level of geopolitical tension and related economic sanctions on Russia.

In New Zealand, underlying strength remains in the economy, supported by sound balance sheets, continued fiscal support, and strong export earnings. There has been some economic disruption due to the outbreak of Omicron. However, the high vaccination rates across New Zealand are assisting to reduce this disruption.

Heightened global economic uncertainty and inflation are dampening consumer confidence. The rise in mortgage interest rates – amongst other factors – have acted to reduce mortgage demand and house prices. However, economic capacity pressures remain, with a broad range of indicators highlighting domestic capacity constraints and ongoing inflation pressures. Employment is above its maximum sustainable level and labour shortages are impacting many businesses.

The Reserve Bank's core inflation measures are at or above 3 percent. Inflationary pressure is being further accentuated by current high imported energy and commodity prices, which are lifting headline CPI inflation. The Committee will remain focused on ensuring that current high consumer price inflation does not become embedded into longer-term inflation expectations.

Media contact:
James Weir
Senior Adviser External Stakeholders
DDI: +64 4 471 3962 | MOB: 021 103 1622
Email: James.Weir@rbnz.govt.nz

Preston Rowe Paterson

International Property Consultants and Valuers