



Tackling Inflation during a Pandemic

Release Date: 25 February 2022

Central banks around the world are currently being confronted by a challenge we have not experienced for some time: high and sustained inflationary pressure, Reserve Bank of New Zealand – Te Pūtea Matua – Governor Adrian Orr says in a speech delivered today to the Waikato University Economics Forum.

While the inflationary challenge is a familiar one, the environment within which we are tackling it is unique and uncertain.

The speech focuses on the context for the Monetary Policy Committee's decision this week, and the key challenges ahead. In his speech, Mr Orr says since COVID-19 began we managed to avoid the worst-case scenario of embedded deflation and unemployment.

We now face a more traditional challenge – constraining consumer price inflation – in the unique context of the COVID-19 pandemic.

Employment is above a broad range of estimates of its maximum sustainable level and consumer price inflation is uncomfortably high. This is occurring at a time when the global economy is still adjusting to an evolving health situation, as the COVID-19 virus moves from its pandemic to endemic status, and New Zealand is experiencing its first widespread and significant virus outbreak.

To a significant extent, the recent increase in New Zealand's consumer price inflation has been driven by global disruptions that have caused sharp price increases for critical commodities and a broad range of imported goods and services.

While global factors do account for much of the recent high inflation, domestic factors are now also playing a large role. This is an important reason why the



Committee has responded by acting to reduce the level of monetary stimulus over recent months, and expects to continue to do so until convinced inflation is confidently contained, and employment levels are sustainable.

Our 'path of least regrets' has now become one where we must ensure that consumer price inflation and inflation expectations do not rise persistently above our target level. Anything less from the Committee risks spiralling long-term economic costs and reduced wellbeing for New Zealanders.

The Reserve Bank is continually considering how we can improve the implementation and formulation of monetary policy. The new RBNZ legislation requires the Reserve Bank to review the framework for monetary policy every five years.

This review, now underway, will be an opportunity to consider how the Reserve Bank balances our inflation and employment objectives, and what weight, if any, should be put on secondary considerations such as the winners and losers- the distributional impacts- of our policy, and on housing.

This review and remit advice process will involve public consultation, held over two rounds, with the first round starting mid-year.

For more information:

- [Speech: Tackling Inflation during a Pandemic](#)
- [Monetary Policy Statement February 2022](#)