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# 1 Policy assessment

The Official Cash Rate (OCR) will remain unchanged at 8.25 percent.

Economic activity has occurred largely as outlined in the September *Monetary Policy Statement*. Capacity pressures – particularly in the labour market – remain significant, while the housing market has clearly slowed. A substantial income boost is still expected to occur through 2008, as recent dairy price gains reach farmers.

Nevertheless, the outlook has changed somewhat due to recent developments. Oil prices, which are nearly 30 percent higher than we assumed in September, and rapidly rising global food prices are likely to result in headline inflation above 3 percent for much of next year. In the medium term, despite ongoing fiscal surpluses, the likelihood of future personal tax cuts adds to the inflation outlook.

There are considerable risks around our view. The price effects of the Government's proposed emissions trading scheme add upside risk to inflation. Global financial markets remain unusually turbulent, posing significant downside risk for some of our key trading partner economies.

Overall, inflationary pressures have increased, and interest rates are now likely to remain around current levels for longer than previously thought. We believe that the current level of the OCR remains consistent with future inflation outcomes of 1 to 3 percent on average over the medium term, based on the information to hand at present.

Alan Bollard



Governor