

Research Economy Watch

18 February 2026

RBNZ Holds, Plays Straight Bat

- **OCR held steady at 2.25%, as widely expected**
- **Previous chance of further easing removed**
- **Policy to remain accommodative for some time**
- **RBNZ projected track implies hike by end 2026**
- **We continue to see first hike in September**

We thought the RBNZ would hold its cash rate at 2.25% today, remove the previously projected possibility of easing further, and take a cautious approach to projected rate hikes down the track, but still modestly strengthen that outlook. That is exactly what the Bank delivered today.

The Bank held its cash rate at 2.25% and noted that if the economy evolves as expected, 'monetary policy is likely to remain accommodative for some time'. Judging by a relatively flat near term projected rate track, this is a signal that the RBNZ expects the OCR to be held steady over coming meetings. We see that as a cautious approach.

That said, 'remain accommodative for some time' is not necessarily the same as remaining on hold for some time given the starting position of the cash rate.

The statement goes on to say that 'The Committee will continue to assess incoming data carefully. As the recovery strengthens and inflation falls sustainably towards the target midpoint, monetary policy settings will gradually normalise.'

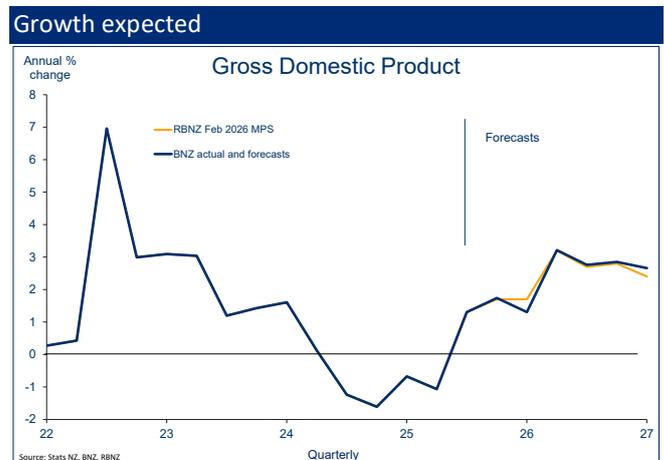
The forward track rate shows a Q4 2026 average of 2.38%. This is 10 basis points higher than projected in the November Monetary Policy Statement and implies a rate hike by the end of this year. The Bank projects the OCR to drift higher next year with a nudge higher from the previous projection in the order of 10-18 basis points. This qualifies as a modest strengthening in the rate outlook.

The Summary Record of Meeting notes that one member supported maintaining the OCR at current levels for now but noted that if economic activity recovers as expected, monetary stimulus could begin to be withdrawn somewhat earlier without comprising the economy recovery.

The Bank noted that economic growth is broadening across sectors of the economy and is expected to increase over 2026. Nothing controversial there.

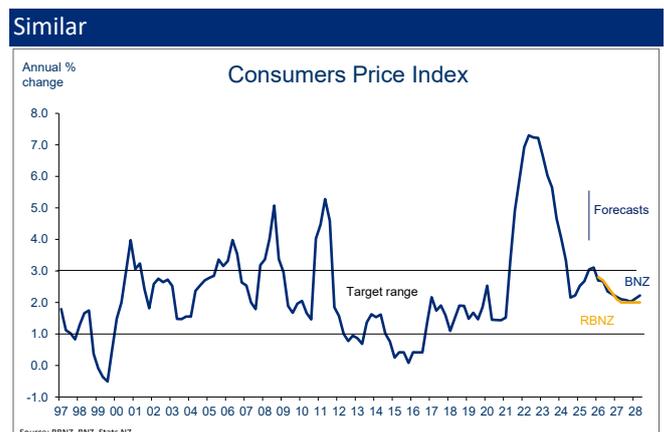
The Bank estimates GDP expanded 0.5% in Q4 2025, in line with our own forecast. However, the RBNZ forecasts a chunky 1.1% expansion projected for Q1 2026. That is well above our forecast of 0.7% and looks difficult to beat on

the top side, even with it bolstered by seasonal adjustment oddities (the Bank seems to have added 0.4% to what might be considered underlying growth). Beyond statistical quirks, the Bank's growth projections are not too different to our own.



We note that the RBNZ nudged its estimates of potential growth upwards. This may be associated with the higher-than-expected Q3 GDP outturn. The implication of nudging potential growth higher is less inflationary pressure for any given forecast growth.

The RBNZ also noted Q4 inflation 'was slightly' above the target band, while noting big contributions from food and electricity prices and local authority rates. Importantly, but not surprisingly, the Bank sees inflation 'most likely' returning to within the target band 'in the current quarter'. The Bank's 2.8% and 2.7% annual inflation forecast for Q1 and Q2 2026 respectively is very close to our own view.



The MPC did not seem too bothered by the nudge higher in some of the more closely watched inflation expectation indicators, noting long term expectations remain close to target. And on pricing intentions, in the Record Summary of Minutes, a member note that 'responding too quickly to firms' pricing intentions could reinforce perceptions of strong demand and encourage firms to align on further price increases.

The current inflation dynamics are obviously very important to monitor. There is a risk that inflation may be a little stickier on the way down than is currently forecast.

The Bank sees risks to the inflation outlook as balanced, citing high global uncertainty, the possibility of greater domestic household caution on the downside and the risk that businesses could try and increase prices faster than expected given demand is increasing.

It looks like a very straight bat from the MPC under new Governor Dr Breman's leadership. Dr Breman also came across as considered and orthodox at the press

conference, reinforcing the main messages from the Statement.

The RBNZ intend to move to eight meetings in 2027. This is one more than has been the case.

There were no major surprises to us from the Bank today. As we thought might be the case on a Statement along the lines of what we thought would be delivered, short end fixed interest rates nudged lower in yield and the NZD fell around a ½ cent.

Ultimately, the future trajectory of the OCR will depend on how the economy and outlook for inflation evolve. There was nothing in today's Monetary Policy Statement that changes our view of the world. We continue to expect the economy to expand, the output gap to close, and outlook for inflation to be sufficient to encourage the RBNZ to start lifting the OCR later in the year. We continue to see the first OCR hike in September.

doug_steel@bnz.co.nz

Full text of today's RBNZ OCR Review:

Annual consumers price inflation was slightly above the Monetary Policy Committee's 1 to 3 percent target band at the end of 2025. Increases in food and electricity prices and local council rates were the biggest contributors to above-target inflation.

The economy is at an early stage in its recovery. With ongoing strength in commodity prices, economic activity in the agricultural sector and regional New Zealand remains strong. Although residential and business investment is increasing, households remain cautious in their spending. The labour market is stabilising, but unemployment remains elevated. House price growth remains weak, dampening household wealth and inclination to spend.

In response to previous cuts in the OCR, economic growth is broadening across sectors of the economy, such as manufacturing, construction and some retail. Economic growth is expected to increase over 2026.

Inflation is most likely returning to within the Committee's 1 to 3 percent target band in the current quarter. The Committee is confident that inflation will fall to the 2 percent midpoint over the next 12 months due to spare capacity in the economy, modest wage growth, and core inflation within the target band.

Risks to the inflation outlook are balanced. The global environment remains highly uncertain. Domestically, greater caution by households in their spending decisions could slow the pace of New Zealand's economic recovery, risking inflation falling below the target midpoint. But with demand increasing in the economy, businesses could try to increase prices faster than expected, leaving inflation above the target midpoint.

The Committee agreed to hold the OCR at 2.25 percent. If the economy evolves as expected, monetary policy is likely to remain accommodative for some time. The Committee will continue to assess incoming data carefully. As the recovery strengthens and inflation falls sustainably towards the target midpoint, monetary policy settings will gradually normalise.

Summary record of meeting – February 2026

A significant easing in monetary policy since August 2024 is supporting a recovery in economic activity. Annual consumers price inflation increased to 3.1 percent in the December 2025 quarter, slightly above the Monetary Policy Committee's 1 to 3 percent target range. The Committee is confident, however, that with significant excess capacity in the economy, inflation will fall to around the mid-point of the target range over the next 12 months.

Headline inflation is expected to fall to near the mid-point of the target band

The Committee noted that headline inflation is most likely returning to the target band in the March 2026 quarter. Recent increases in inflation have been driven by higher tradables inflation, partly due to larger increases in volatile items such as food, international airfares, and overseas accommodation. Tradables inflation is expected to fall back over the next 12 months due to relatively stable import prices and some support from the recent appreciation in the New Zealand dollar.

Inflation has also been held up by some components of non-tradables inflation that are less sensitive to monetary policy, particularly administered prices. These are prices that are set or heavily influenced by central or local government. Inflation in these components has been due to a lagged response to previous high inflation and a range of structural factors. The Committee expects there to be less inflation in some administered prices over the coming year, such as electricity lines fees, university fees and vehicle licensing fees.

Components of the non-tradables basket that are sensitive to monetary policy have declined to around historic average levels. Measures of core inflation have remained stable, albeit mostly above the target midpoint. Rates of wage inflation remain consistent with inflation trending back towards 2 percent.

The Committee emphasised the importance that higher near-term inflation not become embedded in longer-run expectations. Inflation expectations for professional forecasters and business leaders increased slightly across all tenors, but long-term expectations remain close to the target mid-point. Inflation expectations of households have continued to decline from elevated levels.

Significant spare capacity remains

The Committee noted that there is still significant spare capacity in the economy. The output gap is estimated to be -1.5 percent of potential GDP in the December 2025 quarter.

Spare capacity in the labour market is substantial but stabilising. While the unemployment rate increased to 5.4 percent, key measures of employment strengthened over the December quarter. The labour market is expected to continue to strengthen as the nascent recovery in economic activity broadens through 2026.

Continued spare capacity, subdued wage growth and measures of core inflation within the target band provide the Committee with confidence that the conditions are in place to return and sustain inflation at 2 percent over the medium term.

Economic activity is now recovering

Economic activity began recovering over the second half of last year in response to strong export prices and supportive monetary policy settings. GDP increased by 1.1 percent in the September quarter, after falling 1.0 percent in the June quarter. The Committee noted that measured GDP data has been more volatile than usual, in part due to a range of temporary factors and measurement issues.

There are signs that the recovery is broadening across the economy, although the September quarter GDP likely overstates the true level of momentum in the economy. Residential and business investment both increased from low levels, and measures of investment intentions and building consent issuance have all increased. More timely measures of economic activity such as the QSBO, PMI, and PSI suggest that growth has been maintained in 2025Q4 and 2026Q1.

The economic recovery has been uneven across sectors and regions. Stronger activity has been observed in the rural economy and in the primary sector. Consumer spending has been constrained by low growth in employment income and the negative effect of falling real house prices on household wealth.

House prices have continued to edge downwards despite lower mortgage rates and a modest pick-up in housing market activity. This possibly reflects weak population growth and elevated long-term interest rates. House price growth is expected to gradually increase over 2026 and then grow at around the rate of household income growth over the medium term.

Household consumption is projected to increase over the medium term as past reductions in the Official Cash Rate (OCR) continue to support demand. The Committee noted that labour market conditions are likely to become more important relative to house prices in influencing consumption.

Government expenditure is assumed to grow at a subdued pace over the medium term, consistent with the Half Year Economic and Fiscal Update 2025 projections.

Domestic financial conditions have tightened since November

The New Zealand dollar Trade Weighted Index has appreciated, reflecting higher domestic interest rates and a weakening US dollar. Wholesale interest rates beyond 12 months have increased due to higher global interest rates and investor expectations of future increases in the OCR. Banks have passed these increases through to fixed-term mortgage rates.

The flow of mortgage borrowing priced in the 1–2-year terms increased substantially since November. While the average mortgage rate has declined to 5.1 percent, further downward adjustments are expected to be less than assumed in November.

Global growth has been resilient but risks remain high

The Committee noted that the global economy was more resilient than expected in 2025. Tariffs have had less impact on global growth than previously expected, while strong investment in artificial intelligence technology has supported exports from our trading partners in Asia. Expansionary fiscal policy has also supported growth in a number of economies. The Committee continues to expect trade barriers to present a headwind to growth, with trading partner growth expected to weaken slightly over 2026.

On a trade weighted basis, global inflation has declined, but there has been significant divergence across countries. Tariff policies have increased inflation pressure in some economies such as the US, but these have been offset by disinflationary pressure in China and the broader Asia region.

Geopolitical developments over recent months have led to continued high economic uncertainty and financial market volatility. The US dollar has declined, while the prices of oil and precious metals have risen, along with sovereign bond term premia.

The domestic financial system remains stable

The Committee was briefed on financial system stability. Measures of domestic financial stress have eased as lower interest rates reduce debt servicing pressures. Non-performing housing loans have also declined, and banks expect further reductions in housing and commercial property impairments over 2026. The Committee agreed that there is currently no material trade-off between meeting its inflation objectives and maintaining financial system stability.

Risks to the outlook for inflation are balanced

There are upside and downside risks to the near-term outlook for inflation. The Committee noted the contribution that administered price inflation had played in recent inflation outturns and the risk that this could remain high for longer than currently assumed. Conversely, the Committee discussed the risk that volatile components of tradable inflation could fall more rapidly.

The Committee discussed the risks around firms' price-setting behaviour. While weak demand has constrained the ability of firms to pass on higher costs, the Committee noted the risk that changing price setting behaviour could result in higher inflation. In this context the Committee also discussed the risk that the output gap could be smaller than currently estimated, accentuating the risk that firms raise prices as demand improves. This could lead to more persistence in domestically generated inflation pressure that would require tighter monetary policy than otherwise.

Members noted risks regarding the speed of the economic recovery. The Committee noted the risk that household spending could be slower to recover than currently assumed, particularly if house price growth remains subdued. This could lead to households continuing to maintain higher levels of precautionary saving. Conversely members noted a risk that higher export incomes and the return of capital to dairy farmers from the sale of Fonterra's consumer brands business could spur higher investment and consumer spending by farmers.

The global outlook is uncertain

The Committee noted that the global economic outlook continues to be highly uncertain. In the near-term, key uncertainties relate to the direction of global trade policy, market valuations of artificial intelligence investment and geopolitical tensions. Downside risks remain to growth in China as policy makers attempt to maintain growth targets

in the face of weak domestic demand. Continued excess capacity and subdued demand in China could create greater disinflationary pressure.

Over the longer term, the Committee noted risks associated with unsustainable fiscal dynamics in several countries. This could put ongoing pressure on central bank independence and create conditions for more persistent global inflation. This could lead to higher long-term global real interest rates and create risks to global financial stability.

The Committee reached consensus to hold the OCR at 2.25 percent

The Committee discussed the monetary conditions required to achieve their medium-term inflation mandate.

The Committee agreed that the economic recovery remains nascent, and a premature normalisation of monetary conditions could dampen the recovery and lead inflation to undershoot the target. The Committee also considered the risk that policy remains accommodative for too long, leading inflation to persist above the mid-point of the target range for longer.

Members agreed that the monetary policy stance would need to remain accommodative for some time to support a sustained recovery in economic activity. There is a risk that prolonged caution on the part of households could slow the recovery in consumption activity, particularly in the context of a recent tightening in financial conditions. Members also noted global risks that could slow domestic economic recovery. Significant excess capacity, modest wage growth and core inflation within the target band provides confidence that inflation will return to the midpoint of the target band.

Members noted the risk of inflation remaining more persistent, given surveys showing somewhat elevated inflation expectations and business pricing intentions. One member supported maintaining the OCR at current levels for now but noted that if economic activity recovers as expected, monetary stimulus could begin to be withdrawn somewhat earlier without compromising the economic recovery. Another member noted that responding too quickly to firms' pricing intentions could reinforce perceptions of strong demand and encourage firms to align on further price increases.

On Wednesday 18 February the Committee reached consensus to hold the OCR at 2.25 percent. The forward OCR path reflects a somewhat stronger economic outlook and balanced risks to inflation.

If the economy evolves as expected, monetary policy is likely to remain accommodative for some time. The Committee will continue to assess incoming data carefully. As the recovery strengthens and inflation falls sustainably towards the target midpoint, monetary policy settings will gradually normalise.

Attendees:

MPC members: Anna Breman (Chair), Carl Hansen, Hayley Gourley, Karen Silk, Paul Conway, Prasanna Gai

Treasury Observer: Struan Little

MPC Secretary: Chris Bloor

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington

Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.