Economic Alert

MONETARY POLICY STATEMENT — MAY 2025

Wednesday, 28 May 2025

"The Monetary Policy Committee today agreed to reduce the Official Cash Rate by 25 basis points to 3.25%."

Because:

"Annual consumer price inflation remains within the Monetary Policy Committee's 1.0% to 3.0% target band."

The good news is:

"Elevated export prices and recent reductions in the OCR are expected to support a modest pace of growth in the New Zealand economy, even as increased global tariffs are expected to slow global economic growth."

But the global outlook remains weak:

"The Committee noted that projections for global economic activity have weakened since the February Statement, reflecting the shift towards protectionist policies in some major economies. There have been downward revisions to economic growth projections for China and the US, reflecting the scale of tariff increases between these two countries."

And for the bears, a 50bps cut wasn't discussed:

"The Committee discussed the options of keeping the OCR on hold at 3.50% or reducing it to 3.25%."

To sum it up ...

"On Wednesday 28 May, the Committee took the decision to vote on the two options. By a majority of 5 votes to 1, the Committee agreed to decrease the OCR by 25bps from 3.50% to 3.25%."

Comment:

Ahead of the press conference, the new Governor is already making his presence felt by disclosing the options that were discussed, and the vote. While five of the voting members supported the 25bp rate cut, the vote suggests the dissenter favoured leaving the OCR unchanged at 3.50%. Interestingly, a 50bp cut wasn't discussed.

It was also interesting to note that while inflation expectations across firms and households have risen, the statement noted that core inflation is declining and highlighted there is spare productive capacity in the economy. Global economic growth is also expected to slow, due to the tariffs and geo-political uncertainty, which will reduce New Zealand's medium-term inflationary pressures and weigh on the domestic recovery. One positive was that the full impact of the cutting cycle to date (a cumulative 2.25% of OCR cuts) has yet to be fully realised.

In terms of the RBNZ's projections, the key take-aways were a broad realignment of the OCR projections with market pricing, essentially going a dollar each-way as to whether the OCR will bottom at 2.75% or 3.00% towards the end of this year. The RBNZ track also suggests the base will remain in place throughout 2026, before a tentative hiking cycle penciled in for 2027. Interestingly, the forecasts also suggest modestly weaker GDP growth this year compared to the February forecasts.

Market Implications:

The market reaction was very subdued in the immediate aftermath of the release, which is not surprising given that the RBNZ's forecasts are more aligned with the market's projections than at any time in the past 5-years.

The NZD firmed, both against the USD and on the crosses, in the region of 0.1%-0.2%, while swap prices firmed 3bps-4bps across the curve.

To summarise, it was a steady start from the new Governor, and perhaps a return to more traditional central bank governorship.