

Economic Alert

MONETARY POLICY STATEMENT – AUGUST 2025

Wednesday, 20 August 2025

“The Monetary Policy Committee today voted to decrease the Official Cash Rate by 25bps to 3.00%.”

And it should be noted that ...

“Further data on the speed of New Zealand’s economic recovery will influence the future path of the OCR. If medium-term inflation pressures continue to ease as expected, there is scope to lower the OCR further.”

But the statement noted ongoing uncertainties

“There are upside and downside risks to the economic outlook. Cautious behaviour by households and businesses could further dampen economic growth. Alternatively, the economic recovery could accelerate as the full effects of interest rate reductions flow through the economy.”

Ultimately though, there was a definite downward bias as ...

“The Committee discussed three policy options; keeping the OCR on hold at 3.25%; cutting the OCR by 25bps to 3.0%; or cutting the OCR by 50bps to 2.75%.”

Despite the fact the RBNZ is expecting inflation to spike ...

“Headline inflation is expected to spike to 3.0% in the September quarter, reflecting large increases in administered prices, food prices, and the prices of other tradeable goods and services.”

To sum it up ...

“The Committee voted on the options of either reducing the OCR by 25bps or reducing the OCR by 50bps. By a majority of 4 votes to 2, the Committee agreed to decrease the OCR by 25bps to 3.0%”
... which means two members voted to cut the OCR by 50bps!

Comment:

While the statement tried to paint a balanced outlook, the fact that two members voted to cut by 50bps, and the fact that the RBNZ lowered its projections for the OCR (to a floor of 2.5%), implies a more dovish outlook from the members than many market participants had anticipated. Interestingly, the forward projections also only expect the OCR to firm to the 2.8% level over the medium term, not the 3.1% anticipated in May.

The central bank also scaled back its growth projections, with Q2 downgraded from 0.3% to -0.3%, while its Q3 inflation projection increased from 0.8% to 0.9% to generate an annual rate of 3.0%. As a generalisation, the RBNZ’s forecasts are all a tad worse, as most businesses and households will relate to.

Ultimately, we will get a clearer understanding from the Governor in the Q&A session, but it is refreshing to see a statement that aligns with the feelings of the wider economy, as opposed to some of the more obtuse interpretations from the prior Governor.

Market Implications:

The more pessimistic outlook, and outright dovishness from two of the members, saw the NZD come under sustained selling pressure with NZD/USD falling from 0.5890 to 0.5825, while the NZD/AUD fell through the 0.9100 level to trade near 0.9050. These moves were mirrored on all of the crosses, with NZD/EUR likely to reach a 15-year low in the coming hours.

New Zealand swap rates also fell aggressively. The 2-year swap is currently trading 16bps lower, with the 3-years falling 15bps, and while the longer-end swaps are lower they haven’t fallen as much - with the longer end 10bps lower as the curve continues its steepening bias. OCR cuts at the two remaining policy meetings of this year (8 October and 26 November) now seem likely.



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