

Economic Alert

MONETARY POLICY REVIEW – FEBRUARY 2026

Wednesday, 18 February 2026

“The Committee agreed to hold the OCR at 2.25%”

Noting that:

“Annual consumer price inflation was slightly above the Monetary Policy Committee’s 1 to 3% target band at the end of 2025.”

The good news is that ...

“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.”

And the prior cutting cycle is working...

“In response to previous cuts in the OCR, economic growth is broadening across sectors of the economy, such as manufacturing, construction and some retail.”

However, inflation risks remain two-sided...

“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.”

Looking ahead...

“If the economy evolves as expected, monetary policy is likely to remain accommodative for some time.”

Comment:

The RBNZ delivered what was expected today: a pause at 2.25%. With Q4 CPI breaching the upper limit at 3.1%, the era of rate cuts is in the rear-view mirror. Under Governor Breman’s stewardship, the Central Bank has executed a shift in tone, presenting a balanced but undeniably firmer outlook.

Policymakers acknowledged early signs of recovery are appearing across the domestic economy, driven increasingly by a stabilising labour market rather than the sluggish housing sector. However, they remain acutely aware that resurging demand could encourage businesses to increase prices faster than anticipated.

By holding the line, the RBNZ is buying time to see if the inflation dragon has truly been slain or just wounded. The underlying assumption is that corporate price-setting behaviour will naturally adapt to a lower-inflation environment, justifying an extended accommodative stance. The rhetoric implies that while policy remains stimulatory for now, the Central Bank is prepared to act if disinflation stalls, keeping the door open for potential rate hikes later this year or in early 2027.

Market Implications:

Heading into the meeting, markets were positioned for a hawkish pivot, pricing in hikes by October and early 2027. However, with expectations having already cooled from recent extremes, the RBNZ’s cautious tone triggered a less dramatic market reaction than initially feared.

Confirming policy will remain accommodative, stripped out the lingering hawkish pricing, bringing the NZD under selling pressure. The NZD/USD, which was trading around 0.6050 before the release, fell 0.7% to settle near 0.6005, while the NZD/AUD traded lower to 0.8494. These moves were largely mirrored on the crosses, with NZD/EUR sitting around 0.5070, NZD/GBP near 0.4430, and NZD/JPY trading at 92.27.

New Zealand short-end interest rates moved lower as the market downgraded the probability of immediate rate hikes. Reflecting a slightly more dovish-than-anticipated reality, the 2-year swap rate dropped 5bps to 2.97%. Traders have digested the reality that the bottom of the easing cycle is behind us, but the next move up lacks immediate urgency.



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