

Economic Alert

MONETARY POLICY REVIEW – APRIL 2026

Wednesday, 08 April 2026

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

Noting that:

“In the near term, inflation is expected to increase and the economic recovery to weaken.”

The good news is that ...

“The Committee’s decision to hold the OCR balances the potential benefits of responding pre-emptively to the risk of higher medium-term inflation against the cost of unnecessarily stifling the economic recovery.”

The risk is ...

“Medium-term inflationary pressure will depend on the extent to which higher costs influence price- and wage-setting behaviour by firms and workers in the economy.”

But there is some breathing space as ...

“Weak demand and spare productive capacity in the economy should constrain the degree to which higher costs can be passed on.”

The statement focused on the central banks’ mandate ...

“The Monetary Policy Committee is focused on ensuring that inflation returns to the 2.0% target midpoint over the medium term. This requires core inflation and wage growth to remain contained and medium- and long-term inflation expectations to remain around 2.0%.”

Meaning that ...

“If these conditions are not met, decisive and timely increases in the OCR would be required.”

Comment:

The RBNZ delivered a statement largely in line with market expectations, opting for a hold and a balanced outlook. While the central bank acknowledged the risk of ‘second-round’ effects from energy-related price spikes becoming embedded, it noted that weak demand and sufficient spare capacity in the economy should limit cost pass-through. However, with inflation now tentatively forecast at 3.0% in Q1 and 4.2% in Q2, the RBNZ issued a clear warning: it stands ready to act decisively to return inflation to its 2.0% mid-point target over the medium term.

Market Implications:

Just prior to the RBNZ announcement, news of a 14-day ceasefire between the US and Iran immediately saw financial markets reverse their recent risk-aversion trend, the AUD and NZD both jumping higher against the USD. Fixed income markets also followed suit, with swap rates easing 5-8bps across the curve.

Within the parameters of the ceasefire, the market reaction to the RBNZ announcement was muted, with the NZD/USD continuing to trade around the 0.5800 level.

Like all central banks, the RBNZ faces a difficult communication challenge over the coming months. The spike in oil prices will quickly send headline inflation readings outside of its target range but will not garner a policy response unless it becomes embedded in pricing behaviour. That looks unlikely in an economy still suffering after several years of rolling recession.

Let’s hope today’s ceasefire announcement sees oil prices and availability return to more normal levels, allowing the RBNZ to remain on the sidelines.



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