



Monetary Policy Statement

Reserve Bank of New Zealand

Date: 18 February 2026

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