New Zealand Institute of Economic Research (Inc)
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For immediate release

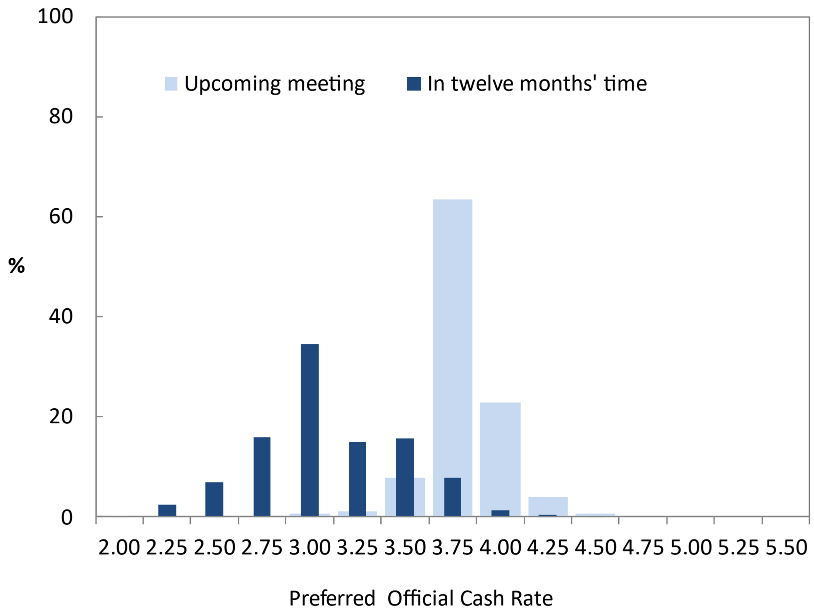
Shadow Board recommends a 50 basis-point OCR cut in February

The NZIER *Monetary Policy Shadow Board* recommends the Reserve Bank of New Zealand (RBNZ) cut the Official Cash Rate (OCR) by another 50 basis points to 3.75 percent in the upcoming February *Monetary Policy Statement*. With annual inflation contained within the RBNZ's 1 to 3 percent inflation target band and economic activity and the labour market remaining soft, Shadow Board members agreed that a 50 basis-point cut in February is appropriate.

Regarding where the OCR should be in a year's time, the majority of Shadow Board members picked an OCR ranging between 2.75 percent and 3.5 percent. This reflects the Shadow Board's broad view that the RBNZ should take a more cautious approach to the pace of OCR cuts over the coming year. In particular, several Shadow Board members had pointed out their concerns over the potential inflationary impacts of the US fiscal and trade policies and a lower New Zealand dollar. However, two members viewed that the central bank should reduce the OCR at a more rapid pace given the weak conditions in the New Zealand economy.

Figure 1 Majority viewed the OCR in a year's time, ranging between 2.75 percent and 3.5 percent

% strength of policy preference on stance RBNZ should take



Source: NZIER *Monetary Policy Shadow Board*

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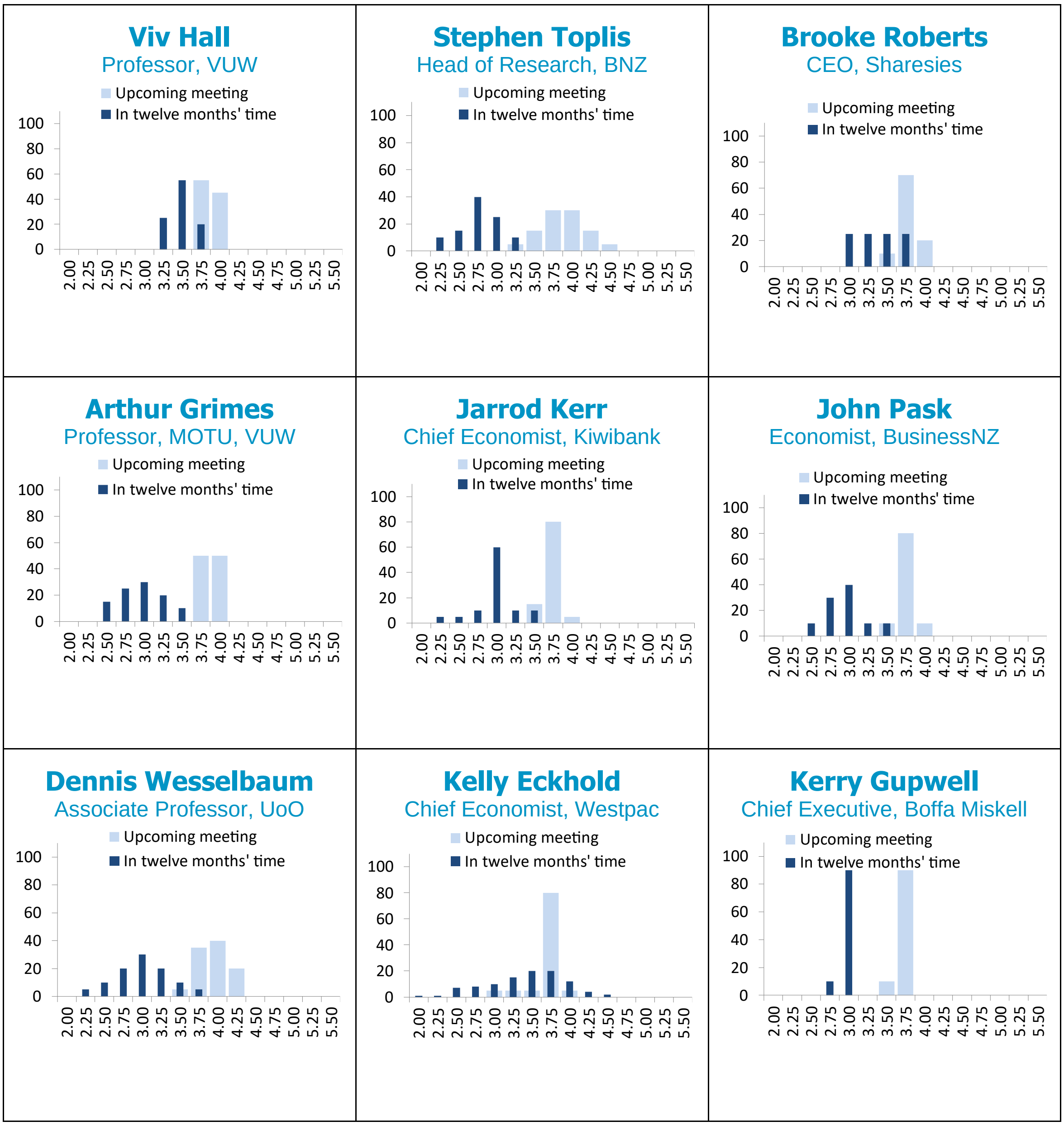
Figure 2 Individual participants' recommended rate settings – 12 February 2025



Source: NZIER *Monetary Policy Shadow Board*

Table 1 Participant comments

Participants' comments are optional

Stephen Toplis	There is no doubt the cash rate needs to continue falling. The only debate is how far and how fast. With inflationary pressures far from extinguished, the NZD weakening, the cash rate converging on neutral, and Trump-driven uncertainty elevated, the RBNZ may soon need to adopt a more cautious approach while still pushing rates inexorably lower.
Viv Hall	It is pleasing to see modest further easing in core inflation and some non-tradables inflation. But there also remains considerable uncertainty for the neutral OCR and for forthcoming global inflation. On balance, I opt for a 50bp cut in the OCR for this round, and a somewhat cautious approach to the degree of easing over the next 12 months.
John Pask	Minimal economic growth and inflationary pressures are continuing to ease, which justifies a 0.5 percent cut now. Beyond the short term, the presence of very fluid international risks could impact NZ with respect to tradable inflation, which would suggest that the Reserve Bank will tread carefully with regard to further cuts over the coming year.
Jarrod Kerr	Inflation is back in its box, and should average 2% from here. There are growing risks to the downside offshore. Our recovery is fragile and needs a neutral policy setting – which is closer to 3%. And if any of these downside risks begin to dominate, then an easier policy prescription could be required.
Arthur Grimes	It is important that monetary policy does not overreact again, as it has done both on the downside and the upside in recent years. A gradual decline in rates is warranted.
Kelly Eckhold	The easy wins on the inflation are over, and there are a number of factors that mean inflation will remain in the top half of the target range – even if the economic recovery is modest. The strength in the terms of trade could persist, even with the worse global trade environment, as our exchange rate is likely to buffer the worst impacts, and we won't likely be directly subject to tariffs.
Dennis Wesselbaum	Very uncertain and volatile policy times – both domestic and foreign. Cuts are still needed but one has to carefully monitor fiscal spending/debt in New Zealand and the US.
Kerry Gupwell	A further OCR cut (50 or 75 basis points) is warranted, given the recent GDP and unemployment figures for the last quarter of 2024, revealing just how tough that year was. There is still a lot of uncertainty/hesitancy in the market; the Government needs to pick up the pace with its policy development and decisions. It feels like the first half of 2025 will still be somewhat subdued, which is not good news for those trying to maintain workforce capacity.

Brooke Roberts	Unemployment has hit a 4-year high. Inflation is approximately at the mid-point of the target range, and the rate is not yet at the ‘’neutral’ rate.

About the NZIER *Monetary Policy Shadow Board*

NZIER’s *Monetary Policy Shadow Board* is independent of the Reserve Bank of New Zealand. Individuals’ views are their own, not those of their respective organisations. The next Shadow Board release will be Monday, 7 April 2025, ahead of the RBNZ’s *Monetary Policy Review*. Past releases are available from the NZIER website: www.nzier.org.nz.

Shadow Board participants put a percentage preference on each policy action. Combined, the average of these preferences forms a Shadow Board view ahead of each monetary policy decision.

The NZIER *Monetary Policy Shadow Board* aims to:

- encourage informed debate on each interest rate decision
- help inform how a Board structure might operate
- explore how Board members could use probabilities to express uncertainty.