

OCR reaction: Rates set to rise from 2022

Economists noted a "tentative shift in tone" from the Reserve Bank as it projected that interest rates may begin to rise from 2022.

- Wednesday, May 26th 2021



Adrian Orr

The RBNZ today opted to maintain monetary policy settings and keep the official cash rate at 0.25%.

The central bank's latest announcement was notable for its lack of changes, but the RBNZ dropped wording around being "willing to cut" the official cash rate further.

It also published a new OCR track which projects the OCR could rise from mid-2022, with gradual rises to 1.75% in 2024.

The projection is conditional and could change with economic circumstances.

Economists at ASB see the change in wording, and new OCR track, as signs the central bank is moving further away from another potential rate cut, and towards future rate rises.

"As expected, the RBNZ is still warning of all the challenges ahead and the need for continued policy support. Still, there are signs of a tentative shift in tone," the group's economists said.

The ASB team added: "We were a little surprised to see the bank be so forthcoming, with the publishing of an OCR track signalling rate hikes, an acknowledgement that the OCR cannot remain at emergency levels forever. While we share the RBNZ's view that the OCR will move up in 2022, their pace of hikes over the next few years is larger than what we envisage."

Both ASB and ANZ believe the OCR will begin to rise from August 2022.

Analysts at CoreLogic said the outlook for interest rates remained stable for now, but borrowers may look to lock in longer-term rates, amid a growing expectation of higher interest rates in the next 18 months.

"In regards to the property market, the prospect of a stable official cash rate for at least the next year or so suggests no major upwards pressure on mortgage rates until the second half of 2022 – although of course global financial market shifts can have a significant influence too, as well as 'upside' inflation surprises within NZ. Indeed, there could well be a slowly building trend for more borrowers to fix for longer periods in the coming months, to provide a hedge against rising rates."

Today's announcement has prompted Kiwibank economists to move forward their prediction for OCR hikes to May 2022.

The lender believes mortgage rates have bottomed out, and believes there may be a "strong bout of mortgage related fixing in coming days as households (may) rush in to lock in fixed mortgage rates".

According to the Kiwibank team, 60% of NZ mortgages are either floating or up for re-fixing in the next 3-6 months, while 80% will refix in the next 6-12 months.