



Reserve Bank of New Zealand Fact Sheet

What is the Official Cash Rate?

The Official Cash Rate (OCR) is an interest rate set by the Reserve Bank. It influences all other interest rates and is, in effect, the wholesale price of borrowing or lending money in New Zealand. It allows the Reserve Bank to meet its primary goal of ensuring price stability for New Zealand.

History of the OCR

The OCR was introduced in March 1999 and is reviewed eight times a year by the Bank. *Monetary Policy Statements* are issued with the OCR on four of those occasions. Unscheduled adjustments to the OCR may occur at other times in response to unexpected or sudden developments, but to date this has occurred only once, following the 11 September 2001 attacks on the World Trade Centre in New York.

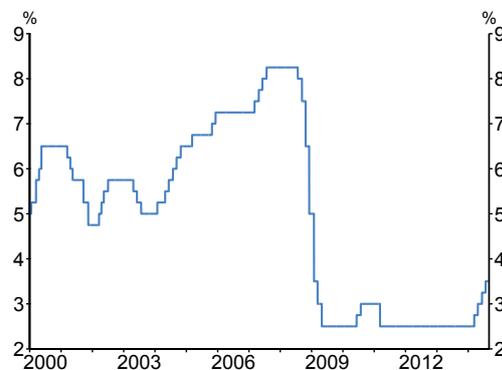
For the latest OCR, visit the Reserve Bank website:

<http://www.rbnz.govt.nz/monetary-policy/official-cash-rate-decisions>

How the OCR works

It may seem odd to think that control of the 'wholesale' interest rate allows the Reserve Bank to control inflation. But it does. And it can do so because of the way the banking system works.

The Official Cash Rate
March 1999 - June 2014



Every day, New Zealanders conduct many hundreds of thousands of transactions by EFT-POS or cheque that involve their bank, ranging from something as ordinary as buying a cup of coffee with EFT-POS, to something as significant as buying a house.

Every time you write out a cheque or make an EFT-POS payment, the money is paid by your bank to the bank of the recipient. They do this via settlement accounts held by the Reserve Bank. The Reserve Bank pays interest on settlement account balances, and charges interest on overnight borrowing, at rates related to the OCR. These rates are reviewed from time to time, as is the OCR. The

most crucial part of the system is the fact that the Reserve Bank sets no limit on the amount of cash it will borrow or lend at rates related to the OCR.

The result is that the registered banks either pay – or receive – interest at around the rate of the OCR. As a result, market interest rates are generally held around the Reserve Bank's OCR level. The practical result, over time, is that when market interest rates increase, people are inclined to spend less on goods and services. This is because their savings get a higher rate of interest and there is an incentive to save; and conversely, people with mortgages and other loans may experience higher interest payments.

When people save more or spend less, there is less pressure on prices to rise, and therefore inflation pressures tend to reduce.

Although the OCR influences New Zealand's market interest rates, it is not the only factor doing so. Market interest rates – particularly for longer terms – are also affected by the interest rates prevailing offshore since New Zealand financial institutions are net borrowers in overseas financial markets. Movements in overseas rates can lead to changes in interest rates even if the OCR has not changed.

Watch a video discussing inflation: <http://www.rbnz.govt.nz/research-and-publications/videos/inflation-a-thief-in-your-wallet>

Learn more

Watch the news conference discussing the most recent OCR:

<http://www.rbnz.govt.nz/research-and-publications/videos/monetary-policy-statement-news-conferences>