

Global shockwaves to Kiwi shores: The impact of the Iran conflict on New Zealand

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By Dr Anna Breman, Governor

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Opening remarks

Thank you for the warm welcome and the opportunity to speak with you today. I always find it valuable to meet with businesses and hear directly from you about the New Zealand economy. In times of high uncertainty, it is more important than ever.

Today, I am going to talk about the ongoing conflict in the Middle East and how it could impact the outlook for the New Zealand economy. We are likely to see higher headline inflation over the near term, and somewhat weaker growth momentum. I want to acknowledge the uncertainty and hardship that many households and firms are experiencing at this difficult time.

Importantly, I'd like to emphasise that the Reserve Bank is well positioned to handle the challenges to our price stability and financial stability mandates.

On financial stability, there is a risk that global financial stability risks could emerge and affect the cost and availability of funding for New Zealand banks. However, recent stress testing suggests that banks are resilient with strong capital and liquidity buffers, and are well-placed to weather severe geopolitical shocks.² Domestically, the most likely concerns for financial stability are around the resilience of borrowers, and squeezed profitability for businesses. We expect that banks will work with customers experiencing hardship, and support them through this difficult and uncertain time.

On monetary policy, we have the tools to ensure that inflation remains at our 2 percent target midpoint over the medium term. The Official Cash Rate (OCR) is now at 2.25 percent after a series of rate cuts. Headline inflation is slightly above the target range, but core inflation has been steady at 2.4 percent for some time.³ We are at the early stages of an economic recovery. Inflation expectations over the medium term remain well anchored, and wage growth is subdued.

I do not want to pre-empt the Monetary Policy Committee's (MPC) April decision. But I would like to set out the frameworks we use as a Committee to assess the appropriate monetary policy reaction to global supply shocks such as this one. I'll also talk about the data that will be important to us as we assess the risks to the medium-term inflation outlook.

This shock has sent waves through complex global supply chains, and it will take time for the full effects of this shock on the global economy to play out. We should try to avoid reacting too early to near-term inflation pressures that monetary policy can do little about – or reacting too late if above-target inflation becomes embedded in the economy. To meet our core mandate of price stability, monetary policy can and should ensure that a near-term inflation spike does not turn into enduring inflationary pressures. The Committee will be vigilant to this risk.

¹ I would like to thank Caitlin Davies for excellent work drafting the speech, and Paul Conway, Rebecca Williams, Hayley Gourley, Prasanna Gai, Carl Hansen, and Karen Silk for valuable comments.

² See Nicholls et al. (2025).

³ This estimate of 2.4 percent is calculated by taking the average of a suite of core inflation measures. For more information, see the RBNZ's [Monetary Policy Handbook](#), Section 4.7.2.

What we know so far

In late February, military action by the US and Israel against Iran escalated regional conflict in the Middle East. This conflict has had a substantial impact on the region and the wider global economy.

Global trade has been particularly impacted by the disruption of transport through the Strait of Hormuz, which borders on Iran and handles a large portion of the world's energy and oil flows. Roughly 20 percent of globally traded oil, 20 percent of globally traded liquified natural gas (LNG), and one third of the global supply of fertiliser flows through this Strait (Figure 1).

Figure 1: Traffic through the Strait of Hormuz

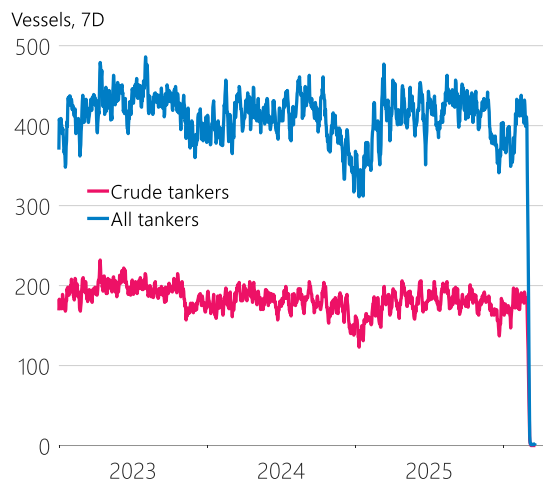
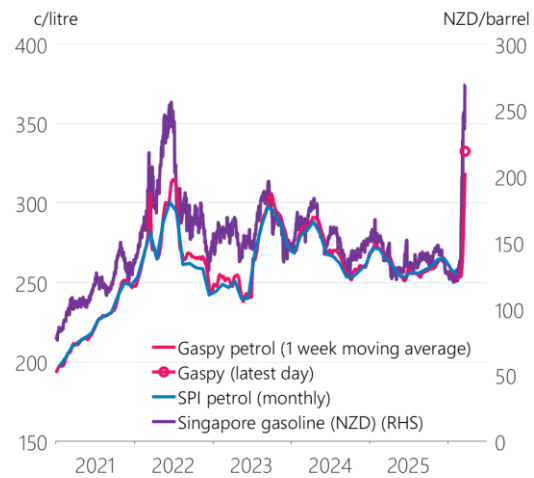


Figure 2: Global and local oil prices (as of Monday 23 March 2026)



Sources: Bloomberg, Gaspy, Statistics New Zealand

Markets have immediately reacted to these events

The closure of the Strait of Hormuz has caused a significant immediate shock to the global supply chain. The supply of oil, gas, and fertilisers in particular have been directly affected. As a result, energy prices have increased quickly over the last few weeks (Figure 2).

The price of crude oil has reached over USD\$100 a barrel, its highest level since Russia's invasion of Ukraine in early 2022. Oil prices have remained high despite the G7 group's decision to coordinate a release of strategic oil reserves earlier this month.

Prices for many refined petroleum products have increased by even more than the prices for crude oil. Higher refined petrol prices directly impact petrol and diesel prices at our local pumps. Oil and gas products are also a key input for things like fertilizer and food production, and are critical for global and domestic shipping.

Futures pricing for fertiliser in the Middle East has increased considerably since the end of February, and global prices for wheat, corn, and soybeans have also picked up (Figure 3). We are seeing announcements of higher airfares and have heard from our business contacts about rising costs of domestic and global transport.

We have seen considerable volatility in global financial markets over the last few weeks, as well. Longer-term global interest rates have increased in line with higher inflation expectations for the US and euro area, which is the usual pattern after an oil price shock of this size (Figures 4 and 5). Global stock markets have fallen in anticipation of weaker earnings by businesses and heightened uncertainty (Figure 6). The US dollar has appreciated, as expected given its role as a safe-haven currency during turbulent times.

Figure 3: Urea fertiliser prices and futures

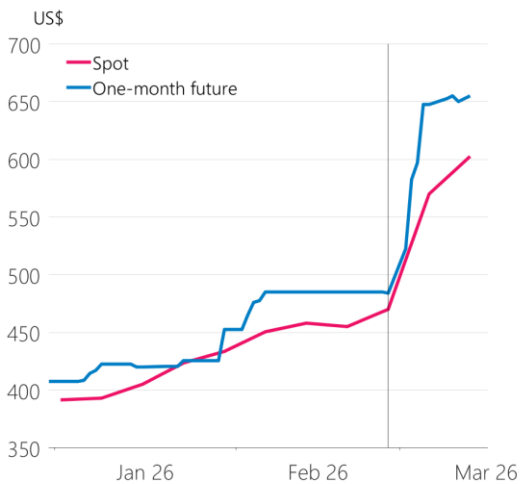


Figure 4: Global 10-year bond yields

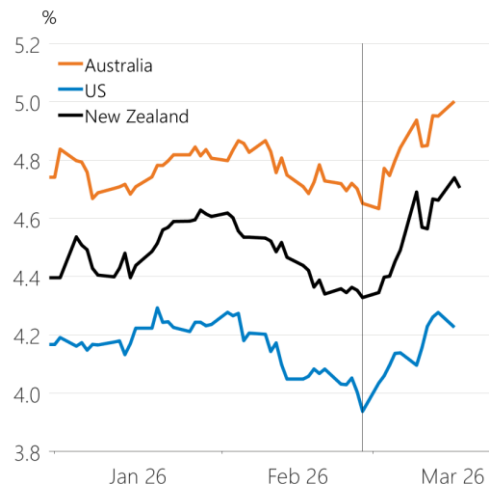


Figure 5: Market-implied pricing for policy rates⁴

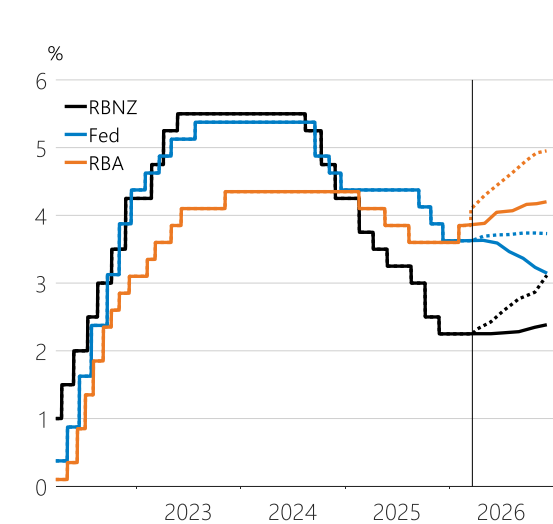
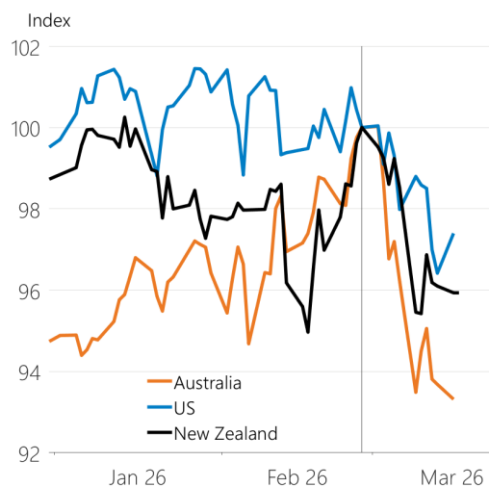


Figure 6: Change in selected global equities markets (indexed, 100 = Feb 28)



Source: Bloomberg

⁴ The solid lines indicate market pricing for policy rates as of 27 February 2026, while the dotted lines indicate market pricing for policy rates as of 23 March 2026.

The impact on the global economy will continue for some time

There is currently significant uncertainty about how and when this conflict will be resolved. It is a fast-moving situation, and we are closely monitoring developments as they arise.

Even in a situation where this conflict ends in the near term, the effects will linger. The Middle East is likely to be severely impacted for a long time due to the loss of infrastructure and global confidence.

It is important that we do not underestimate the complexities of the disruptions caused by the conflict in the Middle East. The shock is reverberating through complex global supply chains. It will take time for the full effects on the global economy to play out, and before the full picture emerges in the data.

How recent events could affect economic growth and inflation in New Zealand

Let's turn to likely impacts on the New Zealand economy. In broad terms, events in the Middle East will influence the New Zealand economy through disruptions to trade, financial markets, and elevated uncertainty. For monetary policy, it is essential that we understand the net impact on inflation and growth over the coming months from disruptions coming through these channels.

I will be referring to three types of impacts throughout my discussion today:

- a. *First round direct* effects from an immediate change in the prices of goods facing shortages of oil and gas, such as petrol and fertiliser;
- b. *First round indirect* effects from changes in the prices of other goods and services that use these directly affected goods as inputs; and
- c. *Second round* effects resulting from changes to medium-term inflation expectations and the growth outlook.

As a forward-looking Committee, we tend to look through first round direct and indirect effects, and focus on medium-term second round effects. As such, I will also discuss our approach to assessing risks to inflation expectations, and the data used in that assessment.

Inflation will be higher over the near term

The conflict in the Middle East will mean higher near-term inflation in New Zealand – primarily through higher petrol and diesel prices, which make up about 4 percent of our Consumers Price Index (CPI). First, there is the direct impact to petrol prices at the pump. For example, the average price of 91 Octane across New Zealand was about \$3.29 per litre on Monday morning – compared to \$2.50 in late February.

As well as these direct first-round effects on inflation, there are also indirect first-round effects to consider. Oil is a crucial input for transport and a wide range of other industries. So, an increase in oil prices tends to feed into higher prices for other goods and services. One example is higher air fares, where both higher fuel costs and the closure of important airport hubs in the Middle East are pushing up domestic and international air fares.

The extent of this pass through can vary in both timing and magnitude. For instance, over the very near term, we have heard directly from some businesses during our regular business visits that fuel surcharges have already been temporarily added to some transport costs because of higher oil prices.

In addition, higher fertilizer prices could take up to 9 months to fully pass through to supermarket prices for some foods. Autumn fertiliser requirements are already on-hand in New Zealand, and fertiliser imports usually decrease over the winter months. We expect fertiliser use to pick up for spring planting, which is when we may see more direct impacts on farms.

In the northern hemisphere, the spring planting season is just starting, meaning higher fertilizer prices could pass through more quickly into on-farm costs and consumer prices. New Zealand is a price-taker for certain foods, so we may see some price impacts in coming months.

Turning briefly to financial market developments, the New Zealand dollar (NZD) often depreciates during “risk-off” or globally turbulent times. This depreciation can boost the competitiveness of our exports, but can also generate some inflationary pressure through higher import prices. The NZD has depreciated by about 1.5 percent since the end of February after a month or so of appreciation.

As I’ll speak more about in a minute, how households and firms respond to high inflation will be critical in determining the extent of inflationary pressure in the economy and the appropriate monetary policy response.

Some people in the market have made predictions for New Zealand’s CPI for the coming year. We are currently preparing new forecasts and will comment on the inflation outlook in the April *Monetary Policy Review*. As usual, we will publish a complete set of forecasts for our May *Monetary Policy Statement* (Figure 7).

Figure 7: Headline consumer price inflation (annual, actual)

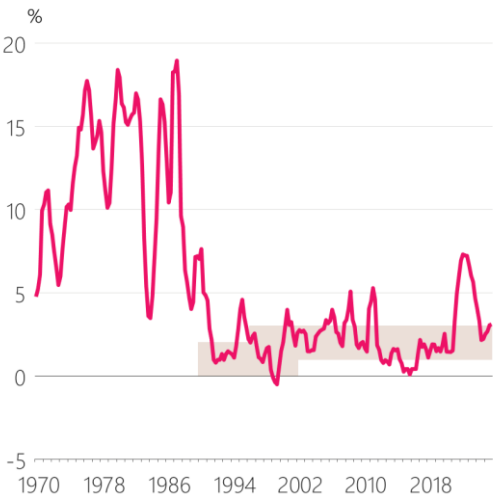
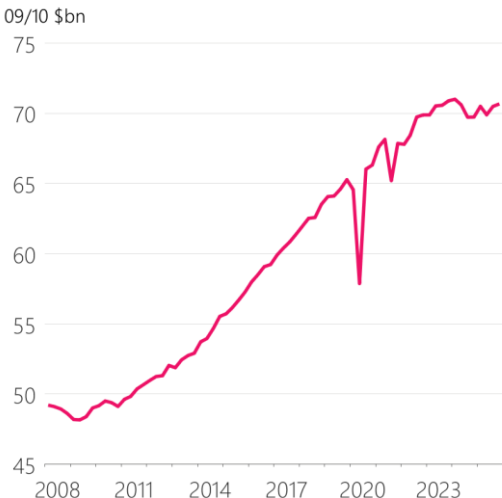


Figure 8: Real GDP (quarterly, seasonally adjusted)



Sources: Statistics New Zealand

Growth momentum will be somewhat weaker than in our previous assessment

The impact of the Middle East conflict on economic growth in New Zealand will also be important for inflationary pressures going forward. These are some of the second round effects that I mentioned earlier. Higher production costs often result in squeezed margins and lower real incomes, and tend to dampen economic growth. A slowdown in growth may in turn dampen inflationary pressures over the medium term.

In addition to price impacts, trade flows themselves are important to New Zealand as a small open economy. Most of our direct exports to the Middle East are dairy and meat products, and our Middle Eastern trading partners make up about 4 to 5 percent of the total goods and services that we sell internationally. Reduced access to those markets will have a direct impact on exposed firms if they are unable to find alternative buyers.

The strength of our exports is also affected by the economic prosperity of our other trading partners. Many of our largest trading partners are net importers of oil, which means we could expect recent oil price increases, and availability challenges, to have a dampening effect on their economic activity, and on their demand for our exports.

Oil shortages and shipping disruptions could lengthen the time it takes for us to receive inputs for production and can disrupt our ability to ship exports. This would soften economic activity until disruptions are resolved.

The conflict has also caused significant disruption to passenger travel, increasing airfares and making some international travel more challenging. In combination with weaker global demand generally, this could impact the flow of visitors to New Zealand and reduce demand for our recovering tourism sector. However, there could also be some offset if New Zealanders and Australians look to travel closer to home.

Turning to financial market impacts, higher wholesale interest rates and lower equity prices are already tightening global financial conditions, meaning higher borrowing and financial costs for some households and firms. This could also dampen growth in the near term.

Finally, rising uncertainty tends to weigh on business investment and household spending.⁵ This is something that we saw last year when there was heightened uncertainty around global trade policy.

All of this means that we may see somewhat weaker economic growth in 2026 than we were anticipating at the time of the February *Monetary Policy Statement* (Figure 8).

⁵ See Harris et al. (2025).

There are differences compared to the 2022 global oil price shock

Despite a potentially weaker growth outlook, other second round effects – such as rising inflation expectations and more inflationary wage- and price-setting behaviour – mean that we could still see higher inflation over the medium term.

It has not been long since we experienced the largest inflationary shock of a generation. The global oil and food price inflation that followed Russia's invasion of Ukraine contributed to material hardship for many people.

No one wants to see a rise in inflation – especially as many households are still grappling with high costs of living today. Our Chief Economist Paul Conway will be talking more about New Zealand's cost of living tomorrow, and I encourage you to read his speech when it is published on our website at 11 am tomorrow morning.

Recent events do have some similarities with the last time we saw consumer prices increase quickly, such as regional conflicts, global oil price increases, and shipping disruptions in the Middle East.⁶ But there are also some important differences that could impact our outlook for medium-term price pressures.

In 2022, the last time global oil prices increased above USD\$100 a barrel, we were in an environment of strong global and domestic demand. There was significant competition for limited resources, which contributed to enduring price pressures both here and abroad. Households and businesses also had stronger balance sheets and high levels of savings after COVID-19 lockdowns and support packages. High headline inflation reflected a combination of both supply and demand factors.⁷

The current economic environment is different. The latest data on New Zealand's Gross Domestic Product confirmed that the New Zealand economy continued to recover through the end of 2025, if slightly softer than our expectations at the time of our February *Monetary Policy Statement*.

However, while the recovery has broadened, it is still in its early stages, and the New Zealand economy continues to operate below capacity. Household and business balance sheets are also more fragile, with less scope to absorb significant price increases. This means it may be harder for businesses to increase prices, and it could be less likely that short-term price pressures driven by supply-side shortages will become embedded in medium-term inflation.

Over the coming months we will be looking closely at second round impacts, such as price- and wage-setting behaviour, to understand how the balance of inflationary pressures is likely to evolve. This will include higher frequency pricing intentions data, as well as our regular inflation expectations surveys (Figures 9 and 10).

⁶ For further discussion on lessons from the 2022 inflationary period, see Coibion and Gorodnichenko (2025) and Davies (2024).

⁷ See Dudson (2024) and Bayarmagnai and Jacob (2024).

Figure 9: Professional and business leader inflation expectations

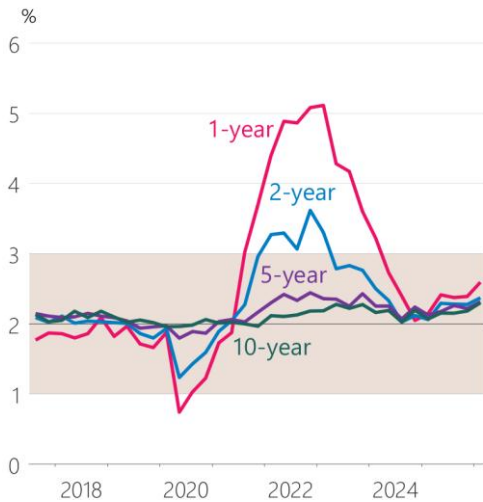
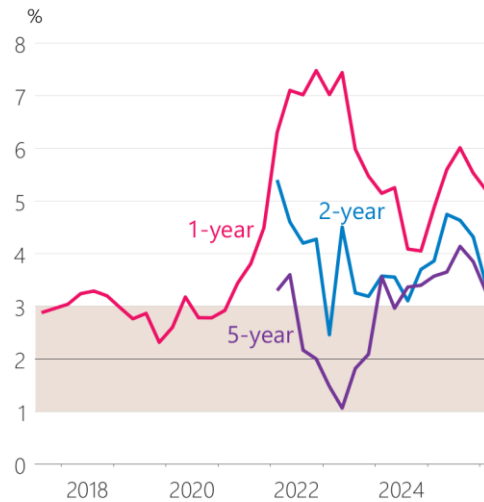


Figure 10: Household inflation expectations



Source: RBNZ

Implications for monetary policy

Now, I would like to finish with an overview of how we may think about this from a monetary policy perspective – without pre-empting the Committee’s next decision on April 8.

Our primary mandate is to keep future annual inflation between 1 and 3 percent over the medium term. Our target is forward looking, meaning it is the medium-term outlook for inflation that guides our monetary policy decisions.⁸ This means balancing higher near-term inflation and potentially higher inflation expectations against a weaker growth outlook. Key to this balance, the duration of the shock is an important factor in considering the appropriate monetary policy response.

A short-lived disruption and a temporary increase in petrol prices can – and should – be looked through from a monetary policy perspective if it is unlikely to have an impact on medium-term inflation outcomes.⁹

For this type of disruption, we would likely see higher inflation over the next few quarters, along with squeezed real incomes and demand. The peak impact of monetary policy on inflation takes about 6 to 9 quarters.¹⁰ So, tightening monetary policy in response to a short-lived disruption would only dampen growth without materially improving near-term inflation outcomes.

The picture changes if this disruption is longer lasting; if there are longer-lasting impacts on global productive capacity or domestic demand; or if there is a greater risk of heightened oil and other import prices feeding into higher inflation expectations and inflationary wage- and price-setting behaviour.

⁸ See Breman (2026).

⁹ See the RBNZ’s [Monetary Policy Handbook](#), Section 1.3.1.

¹⁰ See RBNZ (2023).

If there are effects on medium-term inflation or inflation expectations, the appropriate policy response could be to increase interest rates to prevent these second round effects. We would need tighter monetary policy to make sure inflation expectations remained well-anchored at 2 percent, and that inflation remains within our target band of 1 to 3 percent over the medium term.

Closing remarks

Reiterating what I said last month, it is critical that monetary policy is forward-looking and focused on medium-term inflationary pressures. I also stressed that there are risks to our economic outlook, and that if this outlook changes, we will adjust our monetary policy stance to reach our target.

During our policy deliberations, we use frameworks that consider how global shocks transmit through trade, uncertainty, and financial market channels – but what matters for us is how these combine into our medium-term view and strategy.

Getting this judgement right is key to avoiding reacting too early to near-term inflation pressures that monetary policy can do little about – or reacting too late if above-target inflation becomes embedded in the economy. Most importantly, monetary policy can and should ensure that a temporary inflation spike does not turn into enduring inflationary pressures. The Committee will be vigilant to this risk.

We are entering a time of uncertainty and potential hardship for many households and businesses that are still feeling the effects of high inflation in recent years. Fiscal policy, not monetary policy, is best placed to provide targeted support to households who are the most vulnerable to these price increases. However, it is important that targeted responses are timely and temporary, to avoid sustained upward pressure to inflation over the medium term. The best contribution monetary policy can make to the wellbeing of New Zealanders is to deliver low and stable inflation.

The Reserve Bank is well positioned to ensure price stability and financial stability. As with all shocks, we will undertake a full assessment of potential impacts for New Zealand's economic and inflation outlook, and take a forward-looking view in our deliberations.

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