ALLIANCE

Alliance Party of Aotearoa New Zealand

Alliance Currency and Exchange Rate Policy

A Stable Dollar. Secure Jobs. A Stronger New Zealand.

A dollar that works for Aotearoa New Zealand should make it easier to build a life, grow a local business, and keep good jobs in our communities.

Today the dollar is largely set by global financial markets. A sudden fall can lift the price of essentials, while a long period of overvaluation can push production and skilled jobs overseas.

The Alliance will bring greater stability and control. Our **Trade-Weighted Crawling Band** will let the dollar move, but within a broad and adjustable range linked to our trading relationships. It will help working people and productive businesses plan with confidence.

1. Our Commitment

The Alliance will establish a **New Zealand Trade-Weighted Crawling Band** administered by the Reserve Bank.

- The existing seventeen-currency Trade Weighted Index will form the starting basket.
- We propose a provisional opening band of plus or minus 7.5 percent around a published central path. The final range will follow public tests of inflation, reserves, foreign-currency exposure and market liquidity.
- The central path will be reviewed quarterly using published measures of inflation, productivity, trade prices, and the external balance. It may rise, remain level or fall, with every change explained. There will be no automatic devaluation.

The dollar will keep room to move, but damaging swings will no longer be ignored.

2. A Reserve Bank That Serves Working People

The Alliance will amend the Reserve Bank of New Zealand Act so monetary policy has three co-equal responsibilities:

- **price stability;**
- **full employment;**
- **economic development.**

The band sits within the Alliance Monetary Policy. Parliament will legislate the objectives and the Minister of Finance will issue the remits. The monetary remit will

give effect to all three objectives, with a five-year Development Schedule. The Financial Policy Remit remains separate. The Monetary Policy Committee will set the policy stance; the Bank will implement trades. The Board will oversee financial risk and performance. Ministers will not direct individual trades.

If the Bank has to balance these responsibilities, it must explain its decision and who will be affected.

Full employment means that everyone who wants paid work can find a decent, freely chosen job with enough hours. We will work towards unemployment below 2 percent, with below 3 percent as an intermediate milestone, and end long-term involuntary unemployment. The Bank will report on underemployment and time out of work, as well as the headline rate, including differences between regions and communities.

Under the monetary policy, unemployment above 3 percent for two quarters, or a fall in the productive share of credit over a year, will require an open letter to the Minister of Finance. The Bank must explain what it will do and how it will support progress towards full employment.

3. How This Will Make Life Better

A more stable dollar will give New Zealanders greater security.

- **Households** will have better protection from currency-driven increases in the price of fuel, medicines and imported essentials.
- **Working people** will benefit when local manufacturers and exporters can invest with confidence and keep skilled jobs here.
- **Farmers, small businesses, and cooperatives** will have a clearer range for planning sales, machinery purchases, and wages.
- **Regions and Māori enterprises** will gain from a stronger productive economy, more local processing and higher-value exports.

The band may reduce pressure on the Official Cash Rate during exchange-rate overshooting. It will not replace interest rates or fiscal policy.

The monetary policy pairs currency stability with cheaper credit for processing and other production that adds value here. Producing more of what we import will also strengthen our external position. The funding terms and lending rules are set out in that policy.

4. Strong Rules That Build Confidence

The Bank will build adequate reserves before the band begins, publish a minimum level of reserve cover and report on intervention, sterilisation, costs, and results. Costs and contingent liabilities will be disclosed in the Crown accounts and backed

by explicit capital, appropriations or indemnities. Intervention reserves will not fund export lending or Crown spending.

Any foreign-currency export facility will be separately funded by the Crown, with its own provision for losses. Exporters' hedging support will sit with public lenders or an export-credit agency. The Reserve Bank will support market-wide liquidity.

The rules will:

- act symmetrically against unjustified appreciation or depreciation and publish who gains and who bears costs;
- update basket weights each year and explain every major change;
- allow a temporary suspension during a severe shock, market disorder or inadequate reserve cover, publicly explained and independently reviewed, with published conditions for returning to the band;
- rule out unlimited reserve spending, political direction of individual trades, and a peg to one foreign currency.

Clear rules will give working people and businesses confidence that the system is stable, transparent, and fair.

5. A Proven Choice for Open Economies

Other countries show that a fully free float is a choice, not an economic law.

Singapore has made a trade-weighted exchange-rate band its main monetary-policy tool since the early 1980s. It shows that a small, highly trade-exposed economy can manage its currency while maintaining price stability.

Botswana uses a published crawling arrangement against a basket of currencies, with regular reviews of the basket and crawl. It is a practical alternative to tying a country to one major trading partner.

Morocco widened its basket-based band in stages, reaching plus or minus 5 percent in 2020. It shows how careful preparation can support a gradual change in the currency regime.

Poland shows a related point. A flexible currency can coexist with a clear public power to intervene when disorderly markets threaten wider economic goals.

New Zealand already accepts this principle. The Reserve Bank can intervene when the dollar is exceptionally high or low and out of line with economic fundamentals. Our proposal makes that public capacity clearer, more regular, and more accountable.

6. A Careful Transition

We will introduce the new system in three clear stages:

- **Prepare:** legislate the mandate, consult workers, iwi, and businesses, map foreign-currency exposure, and build reserves.
- **Test:** publish and operate a shadow band for at least twelve months while the dollar continues to float, and stress-test reserves, foreign-currency exposure, and market liquidity.
- **Begin:** make the band binding only after the Monetary Policy Committee, the Board, and Treasury publish separate readiness assessments.

Parliament will review the system after its first year and every three years after that. The test will be simple: is it delivering steadier prices, secure work, and a stronger productive economy?

Our Vision

The Alliance believes **New Zealand's currency should work for New Zealanders**.

We will build a system that protects household budgets, supports full employment, and gives local producers the confidence to invest. Together, we can use monetary policy to build a fairer, stronger, and more secure Aotearoa New Zealand.

Sources: Reserve Bank of New Zealand exchange-rate and intervention records; Bank for International Settlements Paper No. 73; IMF reports for Botswana and Morocco; and National Bank of Poland monetary-policy reports.