ALLIANCE

Alliance Party of Aotearoa New Zealand

Alliance Monetary Policy

A Triple Mandate for the Reserve Bank: Stable Prices, Full Employment, and a Productive Economy

The Alliance believes monetary policy should work for the people who do the work. We also believe that monetary policy needs to deliver for New Zealand – an economy of underemployed, underpaid workers wastes potential as well as damaging society.

Monetary policy influences interest rates, financial conditions, and the exchange rate. Prudential policy sets rules intended to keep banks and the financial system sound, including capital requirements and restrictions on higher-risk lending. Together, these policies influence the price and availability of credit; lenders decide individual loans. This policy coordinates reforms to both frameworks and gives monetary policy three objectives of equal standing.

Aotearoa New Zealand has the savings, the firms, and the people to become a high-wage, exporting economy. Its savings and investment assets include ACC's investment fund, NZ$138.8 billion in KiwiSaver at 31 March 2026 and NZ$94.4 billion in the NZ Super Fund at 30 June 2026. Resident bank deposits totalled NZ$460.2 billion in August 2026, and the Māori economy had an estimated asset base of NZ$126 billion in 2023. We have firms of world-standing in agritech, software, medical devices, aerospace, marine, and food science.

What New Zealand lacks is a monetary and credit system that puts that capital to work.

Since 1989 inflation control has dominated the Reserve Bank's purpose. Employment returned as an objective for several years, but productive development did not. The credit system has been left to turn the country's savings into house prices. Almost two-thirds of bank loans are housing loans.

The Alliance will change what monetary policy is for. We will give the Reserve Bank three objectives of equal standing: price stability, full employment, and economic development, and the tools to pursue them.

The Bank will be required to keep inflation within a clear target band. But inflation will no longer outrank jobs and industry, and the Bank will be judged on all three.

This is the Alliance's monetary policy. Our tax, trade, employment, housing, and economic development policies, including the public development bank, the Ministry of Works and New Zealand Electricity Department and the expanded role of Kiwibank, are set out separately.

Our Currency and Exchange Rate Policy sets out the Trade-Weighted Crawling Band in detail.

1. The Problem with Monetary Policy Today

In August 2026, housing accounted for 64.3 percent of bank loans, including owner-occupiers and residential landlords. Business received 21.6 percent and agriculture 10.4 percent. More than a third of business lending was classified as commercial property, including property investment and commercial and residential development. Residential landlord mortgages are counted in the housing total.

KiwiSaver managers invested about 40 percent of their funds in New Zealand a decade ago. They invest about 30 percent now.

This is not an accident. Monetary and prudential policy has created this.

Financial deregulation in the 1980s removed credit controls. The Reserve Bank Act 1989 then made price stability the statutory monetary-policy objective. The capital rules then locked in the bias. Under internal models the four Australian-owned banks hold far less capital against a mortgage than against a business loan, so every dollar of shareholder capital earns more on housing.

The Commerce Commission's 2024 market study found that New Zealand's banking sector was highly profitable compared with peer countries, partly because of the market power of the major banks.

When the Bank tightens, this raises the exchange rate and hurts exporters. When it eases, the money goes into land.

The housing crisis and the productivity gap are the same fact seen from two sides. Mortgage credit bids up land. Land absorbs savings and collateral. Firms whose assets are code and people cannot borrow against them.

Exports accounted for about a quarter of GDP in 2025, which is low for a small, open economy. NZ’s exports may be gradually falling over time, which is not acceptable to the Alliance.

The OECD's 2026 Economic Survey forecast growth of 1.4 percent for 2026. Unemployment was 5.6 percent in the June 2026 quarter.

Neither the single mandate adopted in December 2023, nor the dual mandate Labour has promised to restore, changes any of this.

2. What Central Banks Do Elsewhere

Central banks that steer credit are the norm in the economies that caught up, and the tools are back in use in the West.

The Bank of Japan guided bank lending through the post-war boom. The Bank of Korea ran credit ceilings and still runs a lending-support facility for small firms.

China's central bank lends cheaply to banks in proportion to their loans in five designated areas: technology, green, inclusive, elderly care, and digital finance. Balances passed RMB 7 trillion (NZ$1.8 trillion) in early 2026. Loans to those areas are outgrowing total lending, and R&D-intensive firms have reached about 30 percent of listed-company profits while property contracts.

The European Central Bank priced its bank funding on lending to firms and excluded mortgages for a decade. The Bank of England paid banks extra for small-business lending. Korea has taxed offshore bank funding since 2011 to slow credit booms financed abroad.

On mandates, the United States Federal Reserve runs equal objectives for employment and prices, and reaffirmed its balanced approach in 2025. Australia made its dual mandate explicit in 2023.

New Zealand's own Reserve Bank did this until 1989. Its statute directed monetary policy to "promoting the highest degree of production, trade, and employment" alongside a stable price level.

The Alliance will restore that purpose and legislate the additional tools needed to make it real.

3. A Triple Mandate for Monetary Policy

The Alliance will amend the Reserve Bank of New Zealand Act so that the Bank has three objectives of equal standing:

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

None outranks the others. The Bank will be required to explain its decisions against all three objectives.

The present law gives monetary policy a price-stability objective. Under the former dual mandate, the Reserve Bank defined maximum sustainable employment as the level consistent with stable inflation.

Price stability. Inflation will be targeted at 3 percent inside a 2 to 4 percent band, measured on a core index that leaves out imported fuel, insurance premiums, and council rates.

This is a deliberate choice. A slightly higher target buys room for investment and employment that a 2 percent target does not, and the Bank stops raising rates against prices it cannot influence.

The band will be defended. The Alliance's tax and welfare policies provide tax relief and protect core social security payments through indexation. The danger to avoid is Korea's 20 percent inflation of the 1970s, not the modest inflation of an economy that is finally investing.

Full employment. Everyone who wants paid work should be able to 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. People will still move between jobs. They should not be left without work. The Bank will report on unemployment, underemployment and time out of work, including differences between regions and communities.

The Alliance's employment policy is set out separately. The Bank's job is to run rates and credit in support of that employment policy, within the triple mandate.

Economic development. The Bank will publish every quarter how much credit flows to the missions set out below. Development stops being a speech and becomes a number the Governor answers for.

4. Accountability for Prices, Jobs, and Development

The Alliance will require the Bank to:

- say in public how it weighed the three objectives whenever they conflict, as the Federal Reserve's framework requires;
- publish, before any rate rise or credit tightening, what the move will cost in jobs and mission lending and why that cost is worth paying;
- look through price rises caused by oil, insurers, and councils unless they reach wages and inflation expectations; and
- write an open letter to the Minister of Finance when unemployment stays above 3 percent for two quarters or the productive share of credit falls over a year. The letter will explain why, what the Bank will do and how it will support progress towards unemployment below 2 percent.

Accountability will run both ways.

5. The Development Remit and the Missions

The Minister of Finance issues a Monetary Policy Remit and a separate Financial Policy Remit. The Alliance will make the monetary remit give effect to all three objectives.

It will include a five-year Development Schedule, tabled in Parliament, that names the missions the Bank's credit tools serve, sets the measures the Bank reports against, and defines productive lending.

The Bank will decide how to pursue it, just as it decides how to hit the inflation target.

The first Development Schedule will name five missions:

- **Energy independence:** credit for renewable generation, transmission, storage, and electrification, so that New Zealand halves its imported fossil fuel bill by 2035 and removes the channel through which the 2026 oil shock reached every household;
- **Exports:** double export earnings by 2034, with manufactured, technology and services exports growing faster than commodities. Cheaper credit will favour processing and other production that adds value here. Producing more of what we import will also strengthen our external position, a policy that is increasingly popular globally;
- **Health and care:** credit for health technology, medical devices, digital health, facilities, and training infrastructure that help recruit and retain the workforce, improve working conditions and give staff more time to care;
- **Housing supply:** lending to build homes, with state housing at the centre, alongside community and iwi housing, construction finance, and build-to-rent. Lending to buy existing houses does not count as mission lending; and
- **The Māori economy:** finance for iwi, hapū, and Māori enterprise on whenua Māori and in the primary, energy, and technology sectors, on terms that recognise collective ownership and intergenerational horizons.

Productive means the firms and services that advance these missions. It does not mean finance, insurance, or real estate investment, which are the sectors credit is being moved away from. The exclusion of real estate investment does not extend to new housing that qualifies under the housing mission.

6. Monetary and Credit Policy Tools

Many of the levers already exist. The Reserve Bank sets how much capital a bank must hold against each loan, limits how much households can borrow against a house, decides what it will accept as collateral, lends to banks itself, and holds the country's foreign reserves. Where a clear power is missing, the Alliance will legislate one.

Today every one of those levers is set so that lending on housing is the easiest and most profitable thing a bank can do. The Alliance will reset them so that lending to the missions is.

Risk weights. Banks hold a cushion of their own capital against every loan, sized by how risky the regulator says the loan is. A mortgage needs a small cushion and a loan to a manufacturer a large one, so banks earn more by lending on houses.

The Bank will raise the weights on investor mortgages and commercial property, lower them on mission lending as the European Union already does for small business and infrastructure loans, and treat lending on whenua Māori fairly. The

change will apply to new loans and phase in over five years, so banks adjust rather than pull back.

Cheap funding for the right lending. The Funding for Lending Programme, launched in December 2020, provided around NZ$19 billion over its life at the cash rate. It did not tie that funding to productive missions.

The Productive Economy Funding Programme is the same tool with conditions. Banks will get funding at or below the OCR only in proportion to new loans to the missions. Lending to buy existing property will not count. New housing that meets the housing mission will. Public lenders will get first call, and the four large banks will take part only on published lending plans and at a higher price.

Within the funding programme, otherwise comparable loans for value-added production will receive a larger concession than loans for unprocessed primary exports. Banks must pass the saving to borrowers. The benefit will depend on added production, skills, and decent jobs in New Zealand.

A levy on offshore funding. New Zealand's mortgage boom was financed partly from overseas wholesale markets. A levy on that funding, on the Korean model, will make it more expensive to fund housing credit abroad, and will give the Bank a brake on credit booms that the OCR alone cannot apply without punishing exporters.

Credit guidance. Each year the Bank will set a ceiling on how fast lending to property investors and commercial property can grow, tied to the growth of incomes, and a floor for lending to the missions.

The Bank will enforce the ceilings and floors through lending standards and quarterly lending plans from each bank. Debt-to-income and loan-to-value limits will complement those standards. The Alliance will legislate where additional powers are needed. Non-bank lenders will be covered under the Deposit Takers Act and any additional powers required.

The Bank will decide how the lending pie is divided. The banks will decide who gets each slice.

Collateral. What the Bank accepts as collateral decides what banks are willing to hold. Export receivables, confirmed export orders, and the bonds of the public development bank will become eligible collateral, so that an exporter's order book and a development loan are worth as much to a bank as a mortgage.

Export refinancing. Banks will lend to exporters against confirmed orders and receivables, and the Reserve Bank will refinance those loans at a concessional rate, initially NZ$5 billion, following the Central Bank of Turkey's rediscount credits and Bangladesh Bank's Export Development Fund.

A separate Crown-funded facility may lend in foreign currencies so exporters can match debt to export earnings. It will have its own funding and loss provision.

Intervention reserves will not fund export lending. Access will be renewed on export performance and will lapse after three years without export growth.

Exchange rate. A dollar should serve working people and productive enterprise. The Alliance will establish a Trade-Weighted Crawling Band, with the existing Trade Weighted Index as its starting basket. The dollar will move within a broad, adjustable range. An opening band of plus or minus 7.5 percent remains provisional, subject to public stress testing.

The central path will be reviewed quarterly against inflation, productivity, trade prices, and the external balance. It may rise, hold, or fall. There will be no automatic devaluation. The Bank may act against damaging appreciation or depreciation, with the reasons and costs reported publicly.

The band will become binding only after at least twelve months of shadow operation, reserve and market stress testing, and separate readiness assessments from the Monetary Policy Committee, the Board, and Treasury. Severe shocks, disorderly markets, or inadequate reserves may require a temporary suspension, publicly explained and independently reviewed.

Parliament will set the objectives and the Minister the remits. The Monetary Policy Committee will decide the policy stance; the Bank will carry out trades and the Board will oversee financial risk. Ministers will not direct individual trades. The companion currency policy sets out the operating rules and reviews.

Support for the public lenders. The Alliance's economic development policy rebuilds a public development bank and expands Kiwibank. Both will get first call on the funding programme. Reserve Bank facilities will have clear legal powers, firm caps, eligible collateral and transparent Crown backing. Exporters' hedging support will sit with the public lenders or export-credit agency; the Reserve Bank will support market-wide liquidity.

7. Prices the OCR Cannot Reach

Oil, shipping, insurance premiums, and council rates have contributed to recent inflation, alongside domestic demand and capacity pressures. Workers should not bear the cost of supply shocks through avoidable unemployment.

The Bank will use the core inflation measure set out in section 3, apply the approach to price rises set out in section 4, and publish its estimate of how much of any overshoot is supply-driven.

Holding those prices down at the source is the work of the Alliance's energy, housing, and local government policies. The Crown will stabilise the prices it can reach. The Bank will stop treating them as a reason to put people out of work.

8. Moving Off Property Without a Crash

The aim is to make housing affordable without throwing people out of their homes or jobs. Protecting existing homeowners must be fair to renters and first-home buyers too. The Alliance will ensure that:

- ceilings and risk-weight changes apply to new lending only, and existing owner-occupier loans keep their terms;
- every tightening bites first on investor, second-home, and commercial property lending, with owner-occupiers and first-home buyers carved out up to a cap;
- the funding programme and export refinancing launch in year one, and property ceilings phase in over years two to six, so that income growth and new building restore affordability; and
- if nominal prices of owner-occupied homes fall more than 10 percent in a year, the ceilings pause. The circuit breaker will not protect investors.

Our housing policy provides shared-equity routes into ownership, and our tax policy excludes the family home from capital gains tax.

China shows that manufacturing can keep growing while property investment falls. Its response has included state-backed housing purchases and debt restructuring. But the property adjustment remains unfinished. We should learn how to protect production and jobs through the change, while being clear about who carries the losses.

9. Reserve Bank Independence and Accountability

The Monetary Policy Committee will have four external members and three internal members, including external members from labour and industry. It will publish its votes and answer to Parliament through the open-letter rule.

The Bank will report mission lending, facility usage, and programme costs to Parliament each year. It will provide analysis to the Alliance's Development Council alongside Treasury, the public lenders, the Council of Trade Unions, and a Māori representative body under Te Tiriti o Waitangi, so that credit policy and the rest of the programme move together. The Council will not direct monetary decisions, currency trades, or individual loans.

Instrument independence will stay with the Bank. Independence here means the Bank chooses how to hit the objectives Parliament sets and answers publicly for all three.

The Bank's instruments are prudential and monetary. The legislation will use the safeguards available under New Zealand's international obligations and be subject to trade-law review.

10. What This Policy Does Not Claim

The Alliance believes political parties should be plain about the limits of their own proposals.

This is not a fiscal plan. The funding programme, the foreign reserves, and the export facility carry costs and contingent liabilities. These will be disclosed in the Crown accounts and backed by explicit capital, appropriations, or indemnities. Intervention reserves will have a published adequacy floor and will not finance routine export lending. The Bank will not directly finance Crown spending.

This is not a promise that inflation will be lower. The band moves to 2 to 4 percent, and that cost is accepted. Australia has run a 2 to 3 percent band for three decades, and expectations anchor to whatever band is credible and consistently defended. Guidance changes the composition of credit, the OCR influences overall borrowing conditions, and the programmes are capped.

This is not the state picking firms, as New Zealand already picks one winner: residential property.

The Bank will steer credit towards missions rather than firms, and lending decisions will stay with lenders. Directed credit failed in the past where governments chose firms and banks could not refuse. Missions, performance conditions, a property exclusion, sunset reviews, and published sector shares are the answers.

This is not a subsidy to the Australian banks. Public lenders get first call on concessional funding. Private banks participate only on published lending plans at a less concessional rate.

And monetary policy cannot do this alone. Credit rules need the tax system behind them, demand needs public investment and wages, and the prices the OCR cannot reach need the Crown to stabilise them at the source. Those are the work of the Alliance's other policies.

11. Our Commitment

The Alliance will legislate three objectives for the Reserve Bank: price stability, full employment, and economic development, all of equal standing. We will give the Bank the credit, funding, collateral, and exchange-rate tools to pursue them, establish a Trade-Weighted Crawling Band, measure inflation on the prices the Bank can influence, and manage the move away from property so that no family loses the home it lives in.

We believe that:

- the country's savings should build the country's industries;
- a central bank should answer for jobs as well as prices;
- an oil shock should never again be the reason to put people out of work; and

- families who hold their wealth in a home should be supported through an economically sound transition.

This policy is a practical expression of a simple principle: monetary policy should serve the people who do the work to make the economy possible.

Sources

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Currency conversions at end-August 2026 rates: NZ$1 = US$0.59, RMB 3.96.

Additional sources and calculations: see accompanying review notes for employment research, ILO Convention 122, China NBS, IMF and World Bank references.