

26 July 2024

Chris McCashin
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Dear Chris

Official information request relating to RBNZ's foreign currency reserves and the US dollar

We refer to your Official Information Act 1982 (OIA) request of 27 June 2024 for the following:

- 1. What specific measures, if any, is the Reserve Bank of New Zealand (RBNZ) taking to hedge against the potential significant devaluation or collapse of the US dollar?*
- 2. Has the RBNZ conducted any risk assessments or scenario planning related to a major decline in the value of the US dollar? If so, please provide summaries of these assessments.*
- 3. What strategies does the RBNZ have in place to protect the New Zealand dollar and the country's foreign exchange reserves in the event of a US dollar crisis?*
- 4. How does the RBNZ plan to safeguard the savings of New Zealanders in the case of a global financial crisis triggered by US dollar instability?*
- 5. Has the RBNZ considered diversifying its foreign exchange reserves away from the US dollar? If so, what alternative currencies or assets are being considered?*
- 6. What coordination, if any, exists between the RBNZ and other central banks or international financial institutions regarding preparation for potential US dollar instability?*
- 7. Are there any specific policies or mechanisms in place to support the stability of the New Zealand financial system in the event of a major international currency crisis?*

The following information is being provided to you as a summary response to your questions, as provided for by section 16(e) of the OIA.

As required under the Reserve Bank Act 2021, the Reserve Bank of New Zealand – Te Pūtea Matua (RBNZ) holds a portfolio of foreign reserves (assets denominated in currencies other than the New Zealand dollar (NZD)), so that we are ready and able to transact in the foreign exchange market when needed. By holding and using foreign reserves when needed, we can make sure there is global confidence in the NZD and wider New Zealand economy.

In a crisis, we may intervene in the NZD foreign exchange market for financial stability reasons to help keep the market functioning during a period of severe market dysfunction. This helps facilitate the continuation of foreign exchange market transactions, like those for our exporters or importers, even should there be a crisis elsewhere in the world. The RBNZ may also intervene in foreign exchange markets for monetary policy purposes however, this is rare and not intended to maintain a specific level of the exchange rate. Monetary policy interventions are consistent with New Zealand's floating exchange rate regime and aimed at smoothing material fluctuations in the NZD. If these

fluctuations were unaddressed, it could place undue pressure on certain parts of the economy and affect inflation or employment outcomes.

For more information on why the RBNZ holds foreign reserves please see the following link: <https://www.rbnz.govt.nz/financial-markets/foreign-reserves/foreign-currency-reserves>.

We hold foreign reserves to respond to unlikely but extreme events. As the timing of these events is unpredictable, we must be ready and able to respond at any time. To support the underlying purpose and objectives for holding foreign reserves, the primary principles for managing the portfolio of assets are safety (a low risk of issuer default) and liquidity (a low risk of not being able to sell the asset when needed). Subject to these criteria being met, we will look to maximise returns. In practice, this means that the foreign reserves are mainly invested in government bonds from major advanced economies.

The foreign reserves are managed in line with a Strategic Asset Allocation, which sets the benchmark currency weights for the portfolios. These weights are published on the RBNZ website and show that the foreign reserves are invested across different currencies, including the USD. The investment of the foreign reserves is diversified to manage concentration risk, in terms of exposure to one single currency. Data collected and reported by the International Monetary Fund (IMF) shows the USD continues to be the main international reserve currency.

Our Strategic Asset Allocation is reviewed periodically to ensure we maintain convertibility of the foreign reserves and are held in line with best international practice. This process includes a risk assessment of how currencies and assets have performed under historical stressed events, for example during the Global Financial Crisis or Covid, and where we look at the degree of volatility, safety and, importantly, how the liquidity of currencies have performed. Our current mix of foreign reserve currencies has remained fairly constant given they represent most of the major currencies used in foreign exchange transactions and which have maintained a relatively high degree of liquidity in crisis situations.

For more details on how the foreign reserves are managed including specific details on the RBNZ's currency benchmarks please see the following link: <https://www.rbnz.govt.nz/financial-markets/foreign-reserves/how-we-manage-foreign-reserves>.

For more details on the currency composition of global foreign reserves please see the following link: <https://data.imf.org/?sk=e6a5f467-c14b-4aa8-9f6d-5a09ec4e62a4>.

With regards to coordination with other central banks or other international institutions, we belong to a variety of networks including the Bank for International Settlements (often commonly referred to as a central bank for central banks), the Executive Meeting for East Asia-Pacific (a regular meeting of the East Asia-Pacific region's central banks) and being a member of the International Monetary Fund, which represents 190 member countries and is tasked with supporting the economic policies of its members and promoting financial stability. Your question relating to 'preparation for potential US dollar instability' is not something any of these organisations have specifically raised as an area of particular concern.

Your other comments and request for advice (including about buying gold) are not seeking official information and therefore have not been addressed in this response.

You have the right to seek an investigation and review by the Ombudsman of this OIA response. Information about how to make a complaint is available at www.ombudsman.parliament.nz or freephone 0800 802 602.

Please note that we intend to publish a copy of this response on the RBNZ website at www.rbnz.govt.nz/research-and-publications/official-information-requests. Responses to requests

are published in order to improve public transparency and provide an additional resource for anyone seeking information.

Yours sincerely

Government and Industry Relations
Reserve Bank of New Zealand – Te Pūtea Matua