DIRECT MONETARY FINANCE

A BRIEF EXPLAINER

POSITIVE MONEY NEW ZEALAND

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UNLOCKING NEW ZEALAND'S FUTURE

DIRECT MONETARY FINANCING FOR PUBLIC INFRASTRUCTURE

Positive Money New Zealand
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EXECUTIVE SUMMARY

New Zealand stands at a crossroads. Decades of underinvestment have left core infrastructure—transport, energy, housing, water—strained and increasingly unfit for purpose. At the same time, fiscal constraints, rising debt servicing costs, and political caution have made it difficult to fund the transformational upgrades the country urgently needs.

This paper presents **Direct Monetary Financing (DMF)** as a safe, timely, and pragmatic solution for public infrastructure financing. Under this proposed use of DMF, the Reserve Bank would provide the credit required to fund non-recurring, productivity-enhancing public investments. These funds are not externally borrowed and do not have to place future tax burdens on New Zealanders.

Key Advantages

- Enables large-scale infrastructure investment without borrowing from foreign sources and private markets
- Strengthens long-term productivity, resilience, and equity
- Enhances New Zealand's monetary sovereignty and economic independence
- Demonstrates innovative leadership through transparent and disciplined rollout

- Saves on interest costs which can double the original loan
- Potential for use as an alternative monetary policy tool.

DMF is not radical. It has international precedents—including in New Zealand's own history—and can be implemented safely with appropriate legal, economic, and institutional safeguards.

1. THE PROBLEM: A NATIONAL INFRASTRUCTURE BOTTLENECK

Current Challenges

- Overloaded transport, energy, housing, and water systems constrain productivity and well-being
- Traditional borrowing increases debt servicing costs and competes with essential public spending

The Opportunity Cost of Inaction

Every year of underinvestment worsens infrastructure bottlenecks and raises long-term costs. Climate adaptation, population growth, and digital transformation demand bold, front-loaded investment—not incrementalism.

2. WHAT IS DIRECT MONETARY FINANCING?

With **DMF**, the Reserve Bank issues currency directly. It does this with simple accounting entries on its balance sheet that create new electronic money which is then spent into the economy by the government. This can fund high-impact public infrastructure investments at zero or low interest rates, tightly targeted, and legally ring-fenced. It may be non-repayable or structured for long-term repayment.

How It Can Work

- The Reserve Bank directly purchases government or local government bonds, or credits designated accounts for approved capital projects
- Parliament sets legal and financial boundaries for eligible investment
- An independent oversight body ensures transparency and compliance.

DMF is not Modern Monetary Theory (MMT) or Quantitative Easing (QE) but shares some characteristics of both while addressing downsides. As proposed here, it is a limited, rules-based use of central bank capacity to finance nation-building infrastructure —essentially credit issued against the nation's future productive capacity.

In response to an OIA request, our Treasury stated, "There is nothing in New Zealand legislation that would prohibit or preclude the government from using [direct] monetary financing."

3. PRECEDENTS & CASE STUDIES

DMF and DMF-like mechanisms have been successfully implemented when:

- Directed toward long-term productive assets
- Governed by strong legal and institutional frameworks
- Coordinated between monetary and fiscal authorities

Historical and International Examples

- New Zealand (1935–1979): The Reserve Bank funded state housing, industry development and infrastructure through controlled credit issuance*
- Canada (1935–1974): The Bank of Canada financed public infrastructure without increasing sovereign debt†
- Japan (1950s–1970s): Direct lending from the Bank of Japan enabled rapid industrialisation‡
- China (present): The People's Bank of China supports long-term development through targeted infrastructure investment.§

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* Greasley, D., & Oxley, L. (2002). *Regime shift and fast recovery on the periphery: New Zealand in the 1930s*. *Economic History Review*, 55(4), 697–720. https://onlinelibrary.wiley.com/doi/10.1111/1468-0289.00237

This article discusses New Zealand's economic recovery in the 1930s, highlighting the role of monetary policy and government intervention.

† Ryan-Collins J (2019). Breaking the taboo: a history of monetary financing in Canada, 1930-1975 https://pubmed.ncbi.nlm.nih.gov/28783229/

‡ Werner, R. A. (2003). Princes of the Yen: Japan's Central Bankers and the Transformation of the Economy. https://www.amazon.com/dp/0765610493/

§ Sanderson, H., & Forsythe, M. (2013). *China's Superbank: Debt, Oil and Influence – How China Development Bank is Rewriting the Rules of Finance*. Wiley. https://onlinelibrary.wiley.com/doi/book/10.1002/9781119199151

4. OBJECTIONS AND SAFEGUARDS

Will DMF Cause Inflation?

Not if implemented carefully along the lines that we propose. DMF will be non-inflationary as long as the physical resources needed for the work are available. If they are scarce, any form of financing could be inflationary.

Why Not

- Targeted Investment: Funds go to capacity-building, not consumer spending, which lowers inflation risk
- Economic Slack: Underutilised labour and capital act as buffers
- Phased Rollout: Gradual implementation prevents supply-side shocks
- Long-term financing certainty: Capital and labour resources can be planned to match future work pipeline
- Repayment: DMF finance can (and, we propose, in most cases should) come with repayment obligations so that it need not lead to a large, permanent increase in the monetary base.

Built-in Safeguards

- Stop Clauses: Suspension or slow-down if inflation exceeds set thresholds
- Oversight Committee: Co-managed by Treasury and the Reserve Bank
- Legal Limits: Restricted to high-impact, capital projects

Concern: Credit Ratings

DMF does not increase external public debt. Disciplined implementation can improve fiscal sustainability—reassuring credit rating agencies.

When used for infrastructure financing, it is balanced by a corresponding increase in public assets.

Concern: Debt-to-GDP Ratio

DMF boosts GDP through increased productivity and economic activity, improving the debt-to-GDP ratio over time—even if headline debt remains static.

Will DMF replace government bonds?

No, it provides an alternative that will suit some uses, but not all. There are advantages and disadvantages to both forms of financing.

Will DMF replace the need to tax?

Definitely not, but it will help tax dollars to go further and improve our monetary sovereignty and resilience. Like government bond issues, taxation remains essential to a well-managed modern economy and well-governed society.

5. THE ECONOMIC CASE: BOOSTING PRODUCTIVE CAPACITY

DMF directly funds infrastructure that underpins long-term economic performance. Every DMF-funded dollar yields structural returns, unlike cyclical stimulus.

Example Gains

- **Water infrastructure** – Significant savings to ratepayers and water users
- **Hospitals** – Built as required with future proof capacity
- **Transport** – Faster freight, lower costs across industries
- **Energy** – Renewable growth, cheaper and more reliable power
- **Digital** – Enables innovation, remote work and regional development
- **Housing** – Improves supply, reduces prices and boosts labour flexibility
- **Climate** – Builds resilience, avoids future economic shocks

Every $1 in DMF could return $3–$6 or more in long-term GDP growth.*

Economist and former Christchurch City Councillor Raf Manji said in a TVNZ interview, "For an infrastructure project that needs, say, a billion dollars, the Government can actually issue that directly into circulation. There is no interest."†

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* International Monetary Fund IMF Survey (2014): The Time Is Right for an Infrastructure Push Abdul Abiad, David Furceri, and Petia Topalova. OECD (2016) studies also support long-run multipliers between 2 and 6, especially when projects are well targeted and when borrowing costs are low.

† TVNZ Seven Sharp interview (2014) with Raf Manji by Heather du Plessis-Allan on Who creates our Money.

6. WHY ISN'T THIS ALREADY HAPPENING?

DMF has been used successfully in the past and is still used in some countries, but it challenges current economic orthodoxy. Concerns about inflation, institutional caution, and international perception have slowed progress.

These fears can be addressed and are now outweighed by the growing costs of inaction. The tools exist. Legal frameworks can be built. The opportunity is ready.

7. IMPLEMENTATION STRATEGY

Step 1: Legislative Framework

- Enact a DMF Act defining scope, eligibility, and controls to address inflation and overuse

Step 2: Infrastructure Investment Authority

- Establish an independent body to assess, prioritise, and approve projects for DMF financing

Step 3: Phased Pilot

- To anticipate and mitigate perceived risk, launch with 1–2 high-impact, visible projects (e.g., large water infrastructure project, major transport corridor, renewable grid etc)

Step 4: Public Engagement

- Initiate a nationwide education campaign to build understanding and trust

Step 5: Regional and Treaty Alignment

- Partner with iwi and align projects with regional development strategies.

CONCLUSION: A SMARTER WAY FORWARD

DMF does not abandon fiscal discipline—it modernises it. It enables New Zealand to shed outdated constraints and invest in its future without mortgaging it.

In a time that demands bold thinking, DMF offers a safe, sovereign, and strategic pathway to resilience, equity, and prosperity.

OUR PETITION

We presented a parliamentary Petition in October 2025 asking the House of Representatives to inquire into the Reserve Bank providing financing towards significant infrastructure projects at zero, or near to zero interest rates.

We are seeking cross party support for the petition's objectives.

CALL TO ACTION

This paper calls on policymakers, Treasury officials, Reserve Bank leaders, and political strategists to also initiate a cross-agency dialogue.

Let us align monetary innovation with national purpose—and unlock New Zealand's future.

ABOUT POSITIVE MONEY NEW ZEALAND

PositiveMoneyNZ
Campaign to Reform Money and Banking

Positive Money is an independent, non-profit group. For more than a decade, we have advocated for a fairer, more productive monetary system that benefits everyone, not just a few. Our patron is Bryan Gould and we are part of a global movement of organisations campaigning to change money and banking so they serve society better.

www.positivemoney.org.nz