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# Appendices

## Appendix 1

### Funding Agreement

- 1 This is an Agreement between the Minister of Finance and the Governor of the Reserve Bank pursuant to section 159 of the Reserve Bank Act 1989. It supersedes and replaces the Agreement signed on 17 April 1991.
- 2 It is hereby agreed that the amount of the Bank's income to be applied in meeting the expenditure of the Bank needed to carry out the functions and to exercise the powers specified in section 159 shall be:
  - \$38,000,000 for each of the years commencing 1 July 1995 and 1 July 1996,
  - \$39,000,000 for the year commencing 1 July 1997, and
  - \$40,000,000 for each of the years commencing 1 July 1998 and 1 July 1999.
- 3 It is agreed, under section 159 (1) (f), to include within this limit expenditure on foreign exchange dealings, settlement banking and government banking as defined in Part II sections 16, 32 and 34 of the Act.
- 4 It is further agreed that -
  - (a) if the policy target for inflation agreed by the Minister and the Governor in terms of section 9 of the Act of 0 to 2 percent per annum is reviewed and a new policy target substituted, the agreed level of Bank expenditure as specified above will be adjusted to reflect any difference between the Bank's new and old path for inflation:
  - (b) if there is any material changes in the nature or extent of the work undertaken by the Bank in respect of any of the functions or activities covered by this Agreement, the Minister and Governor will redetermine the levels of expenditure set out in 2 above to reflect such changes:
  - (c) this Agreement may be suspended and renegotiated at any time by mutual agreement between the Minister and the Governor but any such renegotiation will require ratification by Parliament.

[Bill Birch]  
Minister of Finance

[Donald T Brash]  
Governor of the Reserve Bank

30 June 1995

30 June 1995

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14 January, 1997

The Hon Winston Peters  
Treasurer  
Parliament Buildings  
WELLINGTON

Dear Mr Peters

### Funding Agreement

The Reserve Bank Act provides that the Bank and the Minister of Finance shall agree every five years on how much of the Bank's income may be utilised to meet its operating expenses over each of the succeeding five years. The last agreement was signed in June 1995 and applies until year ended 30 June 2000.

A copy of the existing agreement is attached.

Clause 4(a) of the agreement provides that if the policy target for inflation is changed, the agreed specified level of Bank expenditure is automatically adjusted to reflect this change.

While the Agreement is silent on exactly how the change in the inflation target should be reflected, the shift from 0 to 2 percent to 0 to 3 percent involves a 0.5 percent increase in the mid point of the inflation range and this appears to be the appropriate percentage to adjust the Funding Agreement.

The effect of this adjustment is as follows:

| Year ended   | Present Agreement | Adjusted Figure         |
|--------------|-------------------|-------------------------|
| 30 June 1997 | \$38,000,000      | \$38,095,000 (1/2 year) |
| 1998         | \$39,000,000      | \$39,195,000            |
| 1999         | \$40,000,000      | \$40,200,000            |
| 2000         | \$40,000,000      | \$40,200,000            |

In the overall context, these adjustments are negligible and I think it unlikely that the Bank will need to go above the previously agreed spending limits. However, the Act requires the actual agreed levels to be used in determining how much of any annual surplus or deficit is accrued to or met from the Bank's reserves.

No action is required on your part. The purpose of this note is to keep you informed.

Yours sincerely

[Don Brash]

cc Minister of Finance  
Secretary to the Treasury