25 March 2004

MEMORANDUM TO THE GOVERNOR OF THE RESERVE BANK OF NEW ZEALAND

Reconfirmation of direction to the Reserve Bank to intervene in the foreign exchange market under section 17 of the Reserve Bank of New Zealand Act

1. This memorandum reconfirms the delegated authority from the Minister of Finance to the Governor of the Reserve Bank of New Zealand (the Bank) in relation to the Bank's authority to intervene under section 17 of the Reserve Bank of New Zealand Act (the Act) up to a specified amount without the need for further authority from the Minister of Finance.

2. I agree with the Bank's advice that it must maintain a capacity to intervene in the foreign exchange market to prevent or resolve market dysfunction. I also accept the Bank's advice that foreign exchange intervention undertaken by the Bank for this purpose would generally occur pursuant to a direction from the Minister of Finance under section 17 of the Act. I note that this does not rule out the possibility that the Bank could choose to conduct such intervention using its powers under section 16 of the Act, without the need for a direction from the Minister of Finance, provided that the Bank is satisfied that the exercise of its powers would be consistent with its authority under the Act.

3. In a period of market dysfunction, it is recognised that the Bank may need to intervene very quickly, where it is not possible to first obtain a direction from the Minister of Finance. In recognition of this, as Minister of Finance I hereby give the Bank a standing direction, pursuant to section 17 of the Act, to intervene in the foreign exchange market for the purpose of stabilising the market in a period of, or to avoid, market dysfunction, in an amount up to SDR175 million[1], in circumstances where intervention is urgently required and the Minister of Finance or any Deputy or Associate Minister of Finance is not able to be contacted quickly.

4. In giving this direction, I require the Bank to brief the Minister of Finance or a Deputy or Associate Minister of Finance as soon as possible following the commencement of intervention. More generally, I note that, consistent with section 23 of the Act, the Bank will advise the Minister of Finance when it becomes concerned about the possibility of market dysfunction. If the Bank considers that the appropriate response should include intervention in the foreign exchange market, the Bank will make recommendations to the Minister of Finance, seeking authorisation to

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1. Currently equivalent to around US$260 million

intervene under section 17 of the Act, as soon as practicable. The Treasury will also be advised of the Bank's recommendation. The Minister of Finance and Treasury will be kept fully informed of developments in the foreign exchange market and the Bank's intentions, to the extent practicable.

Hon Dr Michael Cullen
Minister of Finance