

THE YEAR AHEAD

Strategic priorities for 2006/07

	Department	Priority
1	Bank-wide	Management <i>Improve leadership and management competencies through training and development.</i>
2	Economics	Core model redevelopment <i>Replace or redevelop the current forecasting model.</i>
3	Economics	Macroeconomic policy framework <i>Assess how to maintain price stability without unnecessary damage to the external sector.</i>
4	Financial Stability	Non-bank regulatory arrangements <i>Help to develop institutional arrangements for prudential regulation, including for deposit-taking institutions and insurance providers, and contribute to the review of anti-money laundering arrangements.</i>
5	Financial Stability	Basel II implementation <i>Develop and implement policy on bank capital requirements under Basel II international standards.</i>
6	Financial Stability and Financial Services	Review of the Bank's balance sheet <i>Review the balance sheet structure to best meet monetary policy, currency, bank liquidity, and foreign reserve requirements.</i>
7	Currency	'Silver' coin modernisation <i>Implement the modernisation of New Zealand's 'silver' coins.</i>

Budget information for 2006/07

The following outlines the budget for the Bank for 2006/07.

Key assumptions are that:

- the Bank's current functions will continue;
- there will be continued growth in the level of foreign reserves and implementation of changes to the Bank's liquidity management operations;
- interest rates and exchange rates will be those prevailing as at 22 April 2006;
- the Bank has no material open foreign currency positions during the year;
- currency costs will increase with the issue of new 'silver' coins. The Bank will receive funds from the sale for scrap of demonetised 'silver' coins; and
- the Bank will join CLS Bank to manage the risk of settling foreign currency transactions.

Tables 11 and 12 provide more detail.

Table 11: Budgeted financial performance 2006/07

	2007 Budget	2006 Actual
For the year ended 30 June	(\$m)	(\$m)
<i>Operating Income:</i>		
Net Investment Income	346.4	289.8
Other Income	20.0	8.2
Total Operating Income	366.4	297.9
<i>Operating Expenses:</i>		
Personnel Expenses	22.1	21.6
New Currency Issued Expenses	10.1	6.1
Asset Management Expenses	6.7	5.2
Other Operating Expenses	14.4	11.1
Total Operating Expenses	53.3	44.0
Operating Surplus	313.1	253.9
Funding Agreement Underexpenditure	0.6	3.1

Table 12: Budgeted costs of services 2006/07²⁹

	Operating Income	Operating Income	Operating Expenses	Operating Expenses	Operating Surplus (Deficit)	Operating Surplus (Deficit)
	Budget 2007	Actual 2006	Budget 2007	Actual 2006	Budget 2007	Actual 2006
For the year ended 30 June	\$000	\$000	\$000	\$000	\$000	\$000
<i>Functions:</i>						
Monetary Policy Formulation	0	0	9,267	8,719	(9,267)	(8,719)
Market Operations	2,908	9,554	4,927	4,270	(2,019)	5,284
Financial System Surveillance	36	0	8,951	7,670	(8,915)	(7,670)
Currency Operations	230,648	215,913	15,762	10,686	214,886	205,227
Foreign Reserves Management	21,977	(50,961)	8,452	6,729	13,525	(57,690)
Settlement Services	4,302	4,549	2,028	1,855	2,274	2,694
Registry and Depository Services	3,730	3,860	3,094	3,188	636	672
Overseas Investment Commission Secretariat	0	159	0	178	0	(19)
Other Outputs	0	0	731	720	(731)	(720)
Total for Bank before Earnings on Investments funded by Equity	263,601	183,074	53,213	44,015	210,388	139,059
Earnings on Investments funded by Equity	102,793	114,848	0	0	102,793	114,848
Total for Bank	366,394	297,922	53,213	44,015	313,181	253,907
Income Retained under the Funding Agreement			19,905	8,143		
Net Expenditure under the Funding Agreement			33,307	35,872		

²⁹ Figures in this section have been rounded. Totals have not been adjusted for rounding error.

FIVE

