

VARIATION TO THE RESERVE BANK OF NEW ZEALAND FUNDING AGREEMENT

1. This is a variation to the Funding Agreement (the Agreement) between the Minister of Finance and the Governor of the Reserve Bank of New Zealand (the Bank) entered into pursuant to section 159 of the Reserve Bank of New Zealand Act 1989 (the Act) on 16 May 2000. This variation is made pursuant to section 159(3)(a) of the Act and takes effect from the date of ratification in Parliament, to apply for the period from ratification through to 30 June 2004 and for the following financial year to 30 June 2005. The Minister of Finance and the Governor of the Bank agree that paragraphs 2 to 8 of this variation supersede and replace paragraphs 2 to 7 of the Agreement of 16 May 2000.
2. The amount of the Bank's income to be applied in meeting the expenditure incurred in carrying out the functions and exercising the powers specified in section 159(1) of the Act is the sum of:
 - (i) \$31,000,000 for the year commencing 1 July 2003;
\$33,000,000 for the year commencing 1 July 2004; and
 - (ii) the amount of income actually earned by the Bank in the relevant year in respect of the following activities:
 - (a) provision of settlement account services (ESAS);
 - (b) property management rental;
 - (c) collectors' currency;
 - (d) scrapping obsolete coins;
 - (e) registry services; and
 - (f) OIC secretariat.
3. Pursuant to section 159(1)(f) of the Act, expenditure included within this Agreement shall include expenditure incurred in providing settlement banking, government banking and securities registry services, pursuant to sections 32, 34 and 35 of the Act.
4. Pursuant to section 159(1)(g) of the Act, expenditure included within this Agreement shall include expenditure incurred in providing secretariat services to the Overseas Investment Commission.
5. In recognition of the requirements of section 158 of the Act, and the inherent difficulties of projecting interest expenditure, market gains or losses and foreign exchange gains and losses for the duration of this Agreement, it is agreed that it is expedient and appropriate to estimate the income to be paid or applied in meeting expenditure on those matters as zero. The Minister of Finance and the Governor acknowledge that, to the extent that movements in foreign exchange rates and interest rates impact on the Bank's expenditure under this Agreement, it will be appropriate that this be taken into account under section 162(4)(c) of the Act.
6. If the policy target for inflation agreed by the Minister of Finance and the Governor pursuant to section 9 of the Act is reviewed and a new policy target substituted, the agreed net expenditure limits as specified in paragraph 2(i) above will be adjusted to

reflect any difference between the mid-points of the Bank's new and old path for inflation.

7. If there are 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 of Finance and Governor will re-determine expenditure levels set out in paragraph 2(i) above to reflect such changes.
8. This Agreement may be suspended and renegotiated at any time by mutual agreement between the Minister of Finance and the Governor, provided however that any new Agreement or variation to this Agreement will require ratification by Parliament.

Hon Dr Michael Cullen
Minister of Finance

Dr Alan Bollard
Governor of the Reserve Bank

Dated

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