

6 August 2024

Don Richards
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Dear Don

Official information request relating to interest paid on settlement accounts

We refer to your Official Information Act 1982 (OIA) request of 10 July 2024. You have requested the following information:

- 1. Please provide the interest RBNZ has paid on settlement balances for each of the past five financial years.*
- 2. Please confirm the amount for each year that will be or has been (a) reimbursed by the Treasury to RBNZ or (b) reflected in a reduced dividend payment to the Treasury.*

The Reserve Bank of New Zealand – Te Pūtea Matua (RBNZ) both receives and pays interest at rates equal to, or near, the Official Cash Rate (OCR) in order to implement monetary policy and support financial system liquidity. The RBNZ pays daily interest at the rate of the OCR on settlement accounts (accounts that banks hold with the RBNZ for daily transactions). This is the main way the RBNZ implements monetary policy.

More information is available in the RBNZ bulletin *How the Reserve Bank Implements Monetary Policy* and can be accessed at the following link:

<https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/bulletins/2023/how-the-reserve-bank-implements-monetary-policy.pdf>

The RBNZ can also lend to banks, typically at rates close to the OCR. A summary of liquidity facilities is available on the RBNZ website at this link: <https://www.rbnz.govt.nz/financial-markets/domestic-markets/our-monetary-policy-implementation-framework/key-facilities/facilities-at-a-glance>

Typically, banks have more cash deposited with the RBNZ than owed to the RBNZ. Other things may contribute to the RBNZ's overall net investment income including interest on its investments, such as in foreign reserves.

RBNZ Annual Reports, including those from 2018-2019 to 2022-2023, which provide the financial information for the last five years you have requested, can be found at the following link:

<https://www.rbnz.govt.nz/about-us/responsibility-and-accountability/our-annual-reports#sort=%40computedsortdate%20descending>

For example, the RBNZ Annual Report for the 2022-2023 financial year sets out net investment income of \$338 million, at Note 18 on page 148. The interest paid to banks on settlement accounts (at the OCR) is recorded within this under "Interest Expense from Financial Liabilities Measured at Amortised Cost" in the line item "Settlement Institution Deposits".

Any operating surplus made by RBNZ contributes to higher capital, which is then considered for distribution to the Government by way of a dividend. This is considered each year, at the end of the financial year (noting that some years this has led to no dividend being paid, including in 2019-2020, 2021-2022, and 2022-2023). The RBNZ's operating expenditure is determined by a 5-year funding agreement agreed with the Government. The funding agreement specifies how much of the RBNZ's revenues can be retained by RBNZ to meet its operating costs.

The RBNZ Annual Report for 2022-2023 (which can be found at the link provided earlier) contains further information and explanation of the process for considering and deciding a dividend. We refer you to the following sections of the Annual Report:

- Page 59 contains the dividend principles.
- Page 72 contains information on the dividend for 2022/23 along with a graph of any dividends in the previous five financial years.
- Pages 132-133 contains information on the management of RBNZ's capital and any potential dividend. There is also a table showing the components of equity, including the amount of unrealised gains, and sets out how equity, excluding unrealised gains is compared with target capital to arrive at the recommendation for a dividend for the 2022-2023 financial year.

You have the right to seek an investigation and review by the Ombudsman of this OIA response. Information about how to make a complaint is available at www.ombudsman.parliament.nz or freephone 0800 802 602.

Please note that we intend to publish a copy of this response on the RBNZ website at www.rbnz.govt.nz/research-and-publications/official-information-requests. Responses to requests are published in order to improve public transparency and provide an additional resource for anyone seeking information.

Yours sincerely

Government and Industry Relations
Reserve Bank of New Zealand – Te Pūtea Matua