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# Reserve Bank of New Zealand Bulletin

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# Editor's Note

This issue of the Bulletin contains three articles and three speeches.

The first article in this Bulletin, *Developments in the New Zealand banking industry*, is the annual review of the New Zealand banking system, prepared by the Bank's Banking System Department. Drawing from prudential information contained in registered banks' public disclosure statements, the article discusses recent developments in the banking system and summarises the financial condition of the banking industry. The article notes that the banking system continues to be in good health, with strong capitalisation, a low level of non-performing loans and sound profitability. It also notes that the banking industry has continued to evolve its use of technology to better meet the needs of customers and discusses other innovations in the banking industry.

In the June 2000 issue of the Bulletin, we published, for the first time, a comprehensive summary of data relating to household balance sheets, the institutional sources of lending to households and the nature of households' financial investments. In this issue of the Bulletin we provide an update of data on these matters and set out further analysis of trends in household saving, borrowing and investment. The article includes comparisons with similar data for other advanced economies. It also discusses the evolution in the institutional provision of financial services to the household sector and explains some of the factors underlying these developments.

The last of the articles in this Bulletin deals with the issue of market expectations of the Official Cash Rate (OCR). It explains the importance of understanding market expectations of the OCR and the uses we make of data on market expectations, including in respect of formulating views on monetary conditions. The article also explains the different ways by which data on market expectations are derived, with reference to survey data and techniques for inferring expectations from interest rate data.

Of the three speeches in the Bulletin, one deals with monetary policy issues while the other two address issues relating to the Bank's responsibility for financial system oversight. The first of these speeches, *Should the Reserve Bank have eased as fast as the Federal Reserve?*, delivered by Dr Don Brash, Governor of the Bank, on 21 May this year to the Rotary Club of Auckland, sets out the Governor's thinking on the

considerations influencing the Bank's monetary policy stance and why the Bank has not eased interest rates as sharply as the United States Federal Reserve.

The second speech, *Promoting financial stability: the New Zealand approach*, delivered on 6 June to a Conference for Commonwealth Central Banks in London by Dr Brash, sets out the Bank's approach to the promotion of financial stability. In particular, it deals with the important themes of corporate governance and market discipline in the financial sector. It includes reference to some work currently being undertaken by the Bank on a possible approach to the management of bank failures, whereby creditors' funds would be used to absorb losses in the failed bank and to facilitate the bank's re-capitalisation and re-entry into the banking system.

The third speech in this issue of the Bulletin is by Dr Roderick Carr, Deputy Governor, to the New Zealand Association of Economists on 27 June, entitled *Banking on capital punishment*. This speech discusses a number of issues relating to the supervision of banks, with particular emphasis on the regulation of bank capital and the proposed changes to the Basel Capital Accord. In that context, Dr Carr refers to the moral hazard risks that can arise from the intensive supervision of banks and the bailing out of insolvent banks, and discusses options for reducing these risks.

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