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Editor's Note

This edition of the *Bulletin* contains three articles. Two of the articles deal with the Bank's core function of monetary policy, although covering very different aspects of it, while the third article covers matters relating to the Bank's financial stability function.

The first article summarises the outcomes of the review of monetary policy conducted by Professor Lars Svensson, with a particular emphasis on the changes to the Bank's governance arrangements resulting from the review. Following the completion of Professor Svensson's report in February this year, and the response to it from the Reserve Bank, the Bank's Board of Directors and the Treasury, the Government announced on 7 August its decisions in respect of the review. The most significant changes arising from the review relate to the Bank's governance arrangements, particularly the removal of the Governor as chairperson of the Board in favour of a non-executive chairperson. The review has also contributed to a further strengthening of the monetary policy decision-making structure, whereby the Bank will engage one or two people from outside the Bank to provide advice on monetary policy issues on a part time basis. In addition to summarising these and other outcomes of the review, the article also compares the Bank's governance arrangements with those applicable to a number of other central banks, focusing in particular on those aspects of governance that relate to monetary policy decision-making.

Still on a monetary policy theme, but focusing on a very different aspect of it, the second article looks at the issue of the neutral real interest rate and the role it plays in monetary policy. The article explains the Bank's conception of the neutral real interest rate and describes how it is used by the Bank and other central banks in formulating monetary policy. It notes the difficulties inherent in measuring the neutral real interest rate and the uncertainties this creates for central banks. But within these uncertainties, the article lays out a framework for thinking about the neutral real interest rate and sets out some broad estimates of it for New Zealand.

The final article in this *Bulletin* is on macro-prudential indicators and analysis. This is a theme that was featured in an article in last year's *Bulletin*, when we explained the international context within which increasing attention is being given to macro-prudential indicators as a means of

monitoring and assessing potential instability in countries' financial systems. The article in this issue of the *Bulletin* builds on the earlier article by explaining the way the Bank thinks about macro-prudential indicators and related issues in a New Zealand context. It outlines the kinds of indicators to which we have regard when assessing financial system stability in New Zealand and discusses a range of indicators for the financial system. This is the first in what is intended to be a series of articles on macro-prudential analysis and related issues.

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