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Editor's Note

In the March 2003 issue of the *Bulletin*, we ran an article on the Financial Sector Assessment Programme (FSAP) – an international surveillance programme administered by the International Monetary Fund and World Bank. We noted that this programme is designed to evaluate countries' financial systems to assess the quality of financial sector regulation and the capacity of the financial system to withstand economic and financial shocks.

New Zealand underwent an FSAP assessment this year. The results of the FSAP will be released in the first half of 2004 and the Reserve Bank will publish various articles in the *Bulletin* on aspects of the FSAP and related matters.

In the course of preparing for the FSAP, the Reserve Bank prepared a wide range of information on the financial system, including self-assessments of New Zealand's financial sector regulatory frameworks against international standards and an assessment of the current state of the financial system. Included in this preparation was a paper that provides an overview of the financial system in New Zealand and the main components of the regulatory framework. The paper is reproduced in this issue of the *Bulletin*. It sets out the functions and structure of the financial system, the infrastructure required to support the financial system and the regulatory framework governing the financial system. In the latter respect, the paper has a particular focus on the banking supervision framework and the regulation of the securities market and non-bank financial sector.

The second article in this edition of the *Bulletin* deals with the subject of inflation expectations. The article explains

how the Reserve Bank uses data on inflation expectations in assessing inflationary pressures and in formulating monetary policy. It looks at the various measures of inflation expectations data in New Zealand and discusses the extent to which inflation expectations provide a meaningful basis for forecasting future inflation.

The final article discusses the Bank's Inflation Calculator, which is located on the Bank website. This was introduced earlier this year as a mechanism to enable people to calculate the effect that consumer price inflation has had on the domestic purchasing power of the New Zealand dollar. The article explains some of the pitfalls in using the CPI as a measure of inflation and provides guidance on the use of the Inflation Calculator.

We hope readers will enjoy the material in this edition of the *Bulletin*. On behalf of my colleagues at the Reserve Bank, I wish our readers a joyous Christmas and a productive and satisfying year ahead.

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