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## Editor's Note

Although this is the last *Bulletin* for 2004, it is my first as editor, having recently taken over the role from Geof Mortlock. I hope readers will continue to find the *Bulletin* interesting and informative and would welcome any feedback on this or future issues.

The first article in this issue provides a comprehensive discussion of the Bank's liquidity management function. Liquidity management plays an important role in helping to maintain the stability of the banking system and in supporting monetary policy. There have been subtle changes to the framework in recent years and an update of earlier material published in the *Bulletin* is warranted. Jan Frazer of the Bank's Financial Stability Department describes the objectives of liquidity management as well as the framework and tools currently used to carry it out. Liquidity management is an area ripe with acronyms, but these are all carefully defined and explained. I am sure the article will serve as an invaluable reference for those wishing to learn about this area.

In the second article, Phil Briggs of the Economics Department reports on some recent work examining foreign exchange hedging practices by New Zealand exporters and importers. Much of this work involved discussions with businesses and the banks providing hedging instruments to customers. The article contains some interesting simulations showing how exporters and importers may have fared in the face of the recent sharp appreciation of the New Zealand dollar. It shows that in the case of exporters in particular, hedging appears to have had a significant smoothing impact on the pattern of incomes.

Regular readers of the Bank's monetary policy statements will be familiar with the 12 region index of GDP that the Bank uses as a proxy for demand in its main trading partners. In response to regular requests from readers, the third article by Mark Smith of the Economics Department, provides further details about how we construct this index, its uses and shortcomings.

Last year, the Reserve Bank released a web-based inflation calculator, enabling users to select two dates and a dollar amount, and calculate an amount adjusted for inflation between those two dates. The calculator can be accessed at

[www.rbnz.govt.nz](http://www.rbnz.govt.nz). The calculator has been expanded and is now capable of providing estimates of purchasing power as far back as 1862. A brief note by Matthew Wright and Graham Howard contains further details.

This issue also documents two recent Reserve Bank speeches. The first, delivered by Governor, Alan Bollard, addresses the issue of how a banking supervisory authority can most effectively maintain a sound banking system and respond to bank failures when the system is dominated by foreign-owned banks. The second is in the form of a brief extract from an address by Deputy Governor, Adrian Orr, on the level of household indebtedness and the issues that this may create for financial sector stability.

I hope readers enjoy the material in this *Bulletin*. On behalf of the staff of the Reserve Bank, I would like to wish all readers a Merry Christmas and rewarding year ahead.

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Editor

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