

---

# Volume 68 No. 4, December 2005

## Contents

Editor's Note	3
<b>Articles</b>	
Oil prices and the New Zealand economy <i>Felix Delbruck</i>	4
A fresh look at the merits of a currency union <i>Chris Hunt</i>	19
Monetary policy and economic performance: the experience of New Zealand <i>Alan Bollard, Governor, and Chris Hunt</i>	31
<b>Speech</b>	
Imbalances in the New Zealand economy <i>Alan Bollard, Governor, Reserve Bank of New Zealand</i>	43
<b>For the record</b>	
Discussion Papers	48
News releases	50
Publications	54
Articles and speeches in recent issues of the Reserve Bank <i>Bulletin</i>	55

This document is also available at [www.rbnz.govt.nz](http://www.rbnz.govt.nz)

Copyright © 2005 Reserve Bank of New Zealand

ISSN 1174-7943



---

## Editor's Note

Oil prices have risen sharply in 2005, a point noted in the Bank's *Monetary Policy Statements* throughout the year. In our first article, Felix Delbruck from the Economics Department looks at the importance of oil to the New Zealand economy and the various ways in which oil prices may affect inflation. Felix finds that New Zealand's oil consumption is relatively high in relation to the size of the economy, increasing the country's potential sensitivity to an oil price shock. But he also notes that any inflationary effects will depend on a range of factors, including the degree of competition across industry and the state of the economic cycle.

Over the past 10 years, a popular topic of debate in New Zealand has been whether the country should adopt a common currency with Australia. Proponents argue that a common currency would be the natural extension to ongoing economic integration between the two countries. Opponents argue that the New Zealand's economy is fundamentally different from Australia's, meaning that a currency and independent monetary policy is warranted.

The Reserve Bank takes no position for or against a common currency recognising that a decision ever to enter into such an arrangement would ultimately be up to the government of the day. It is an issue that has political, foreign policy and national identity dimensions as well as economic ones. However, the Bank endeavours to keep abreast of the theoretical and empirical literature on common currencies in order to contribute to informed economic debate. We last reviewed this topic in the *Bulletin* in March 2001.

In the second article in this issue, Chris Hunt of the Economics Department reviews insights into the common currency debate arising from the first few years of experience with the euro. As Chris notes, the EMU has prompted some rethinking of the traditional literature on currency unions and sparked greater interest in currency unions among policymakers. Chris also briefly reviews recent research work in New Zealand looking at the potential viability of a currency union with Australia.

Our third article, by the Governor, Alan Bollard and Chris Hunt, is an abridged version of a paper prepared for a conference in mid-November commemorating the 80th anniversary of the Banco de México. The article discusses

the linkages between monetary policy and New Zealand's economic performance and asks the question – to what extent can the lift in the country's growth performance since the 1990s be attributed to monetary policy? It concludes that New Zealand's inflation targeting framework has assisted in boosting growth performance, but that many other factors are relevant.

Finally, this issue includes a recent speech by the Governor dealing with the topic of imbalances in the New Zealand economy – a growing current account deficit and falling savings and rising debt in the household sector. The speech discusses the adjustment process that is likely to occur when these imbalances begin to correct and the associated monetary policy implications. You can read all Reserve Bank speeches at [www.rbnz.govt.nz](http://www.rbnz.govt.nz).

I hope you find this issue of the *Bulletin* interesting. On behalf of the Reserve Bank, I would like wish all readers a Merry Christmas and a rewarding 2006.

Bernard Hodgetts

Editor

Reserve Bank of New Zealand *Bulletin*

PO Box 2498

Wellington 6001

Telephone 64 4 473-3781

Facsimile 64 4 473 1209

email: [hodgettsb@rbnz.govt.nz](mailto:hodgettsb@rbnz.govt.nz)