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Editor's note

Twenty years have passed since the New Zealand dollar was floated on 4 March 1985. To mark this anniversary, your copy of the *Bulletin* contains a poster showing the path of the exchange rate over the period, which I hope you will find interesting. Those wishing to read more about the background to the float may wish to consult an article entitled 'Exchange Rate Policy Developments', which appeared in the May 1985 issue of the *Bulletin* and can be accessed at www.rbnz.govt.nz.

Two articles in this issue of the *Bulletin* also focus on matters related to the exchange rate. During 2003, the Bank conducted a comprehensive review of its policies on foreign exchange intervention. The first stage of this review looked at the level of reserves the Bank holds for crisis management purposes – those rare occasions when the normal operations of the foreign exchange market break down, requiring supportive action on the part of the Reserve Bank. Following the review, the Bank recommended to the Minister of Finance in March 2004 that the Bank's intervention capacity for this purpose be increased to around \$7 billion. The first article, by Michael Gordon of the Financial Stability Department, looks at the issues around foreign exchange market dysfunction, the rationale for holding reserves, and the framework the Bank used to review the optimal level of reserves.

The other part of the review culminated in an extension to the Reserve Bank's intervention capacity to allow for intervention at the extremes of the exchange rate cycle. In effect, the Bank now has some scope to lean against trends in the exchange rate at times when it assesses the level of the exchange rate to be unjustified by economic fundamentals. In the second article, Kelly Eckhold (Financial Stability Department) and Chris Hunt (Economics Department) describe this new intervention role and the implications for the management of the Bank's foreign exchange reserves.

While intervention to influence the level of the exchange rate may affect the level of foreign reserves held by the Bank, it should be pointed out that the Bank did not seek any additional foreign exchange reserves for the purposes of carrying out such intervention. However, as intervention does imply a higher level of financial risk compared to the Reserve Bank's other activities, the Bank has been given a

\$1 billion capital injection to cover the potential for short-term losses associated with intervention.

In the third article, Jane Turner of the Economics Department provides a brief overview of trends in the manufacturing sector over the past few years. An interesting finding is that strong domestic conditions appear to have bolstered sales for some manufacturers at a time when export revenues have been under some pressure. I am hoping that this article will be the start of a series focusing on particular sectors of the economy.

The fourth article, by Ken Matthews of the Financial Stability Department, briefly outlines amendments to the rules covering disclosures by registered banks on a range of financial matters.

Finally, this *Bulletin* contains a chronology of key economic and financial events during 2004. It was prepared by Madeline Penny, a summer student in the Economics Department, and should be useful to anyone wanting to quickly locate and date key events. Madeline has now backdated the chronology to the early 1990s and it is intended to make the full period available on the Bank's website shortly.

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