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Contents

Editor's note	3
Articles	
Assessing core inflation <i>Rachel Holden, Economics Department</i>	5
The Reserve Bank's local-incorporation policy <i>Willy Chetwin, Financial Stability Department</i>	12
The Reserve Bank of New Zealand Amendment Act 2006 <i>Loretta DeSourdy, Financial Stability Department</i>	22
Changes to the liquidity management regime <i>Ian Nield, Financial Stability Department</i>	26
Testing stabilisation policy limits in a small open economy: editor's summary of a macroeconomic policy forum <i>Bob Buckle, the Treasury, and Aaron Drew, Reserve Bank</i>	32
For the record	
Discussion papers	41
News releases	42
Publications	51
Articles and speeches in recent issues of the Reserve Bank <i>Bulletin</i>	52

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The Reserve Bank Museum celebrates and records New Zealand's economic and banking heritage.

It is the first museum of its type in New Zealand, and was developed during 2006 by the Reserve Bank and consultants 3D Creative. A blend of artefacts, graphics, diagrams – even a simulated vault door – are designed to appeal to those interested in the history of our economy, and the role played by the central bank, and in learning more about our currency and the way in which it has evolved.

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Photography by Stephen A'Court

Editor's note

When assessing the strength of inflation pressures, most central banks employ core inflation indicators. These statistics are based on various adjustments to the headline Consumers Price Index (CPI) inflation rate (or whatever inflation measure the central bank is interested in) that remove the effects of temporary fluctuations. The general aim is to provide a better fix on the underlying trend in inflation. However, core inflation has always been a rather imprecise concept and there is little consensus on the best way to calculate it.

In the first article of this issue, Rachel Holden of the Economics Department considers the role of core inflation statistics and outlines a range of possible calculation methods. The article sets out some characteristics that a core inflation measure might ideally possess and then goes on to assess seven core inflation measures used at the Reserve Bank in light of these criteria. Whilst there are trade-offs involved, the article identifies three measures that appear to meet these criteria better than the others. It notes that the Bank intends to report regularly on these three measures in its future *Monetary Policy Statements* and publish them on our website.

Under the Reserve Bank's local-incorporation policy, systemically important banks are now required to incorporate locally to provide a degree of assurance that the Reserve Bank would have the ability to manage a failure affecting one of these banks. In the second article, Willy Chetwin of the Financial Stability Department provides an outline of this policy and the rationale for it. As Willy explains, local incorporation provides, among other things, a well-understood legal framework for the conduct of business in New Zealand and a local board to act in the best interests of the New Zealand bank.

In the third article, Loretta DeSourdy of the Financial Stability Department briefly discusses the Reserve Bank of New Zealand Amendment Act 2006, passed in October, which makes further amendments to the existing Reserve Bank Act passed in 1989. An amendment to the Reserve Bank Act in 2003 introduced measures designed to further strengthen the Reserve Bank's role in promoting a sound and efficient

financial system. The 2006 legislation is intended to provide greater assurance of cooperation between New Zealand and Australian regulators by imposing obligations on them to consult each other and to avoid actions that may have a detrimental effect on financial stability without unduly constraining their actions. Reciprocal legislation is being passed in Australia.

The fourth article, by Ian Nield of the Financial Stability Department, describes changes to the liquidity management regime that were implemented between July and October of this year. The changes involve a significant increase in the level of liquidity left in the payments system overnight. Ian explains the reasons for the changes and provides some initial observations on their impact.

Finally, this issue includes the Editors' summary of the policy forum held earlier this year to examine New Zealand's macroeconomic policy frameworks and consider whether alternative, possibly non-conventional, policy tools could be used to provide a smoother ride for the exposed sectors of the economy over the business cycle. The full conference proceedings and papers can be downloaded from <http://www.rbnz.govt.nz/research/workshops/12jun06/2837468.html>.

Another year has passed and I hope you have continued to find the *Bulletin* interesting and informative. On behalf of the Reserve Bank, I wish our readers the best for 2007.

Bernard Hodgetts

Editor

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