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Editor's Note

Maintaining financial system stability is a key responsibility of modern central banks and is an issue that has received considerable attention from policymakers and academics in recent years. Many countries have experienced episodes of financial instability in one form or another, and the damaging effects of that instability – and the need to avoid it in future – are well recognised. But what constitutes financial stability and how do we measure whether or not a financial system is essentially stable?

In the first article of this issue, Leni Hunter, Adrian Orr and Bruce White of the Bank's Financial Stability Department set out a conceptual framework describing the preconditions for financial stability. Needless to say, the article is not intended to be the last word on the subject, but should be seen as an important step in setting out the guiding principles behind the Bank's financial stability role. The Bank regularly reports on its assessment of the financial system in its twice yearly *Financial Stability Report* and we will continue to publish *Bulletin* articles on topics related to financial stability in the future.

The second article, written by me, considers how the inflation process in New Zealand has changed over the past two decades or so. The article is a revised version of a paper originally written for a Bank of International Settlements seminar. It identifies a range of factors, including the move to inflation targeting, low global inflation and structural changes in the domestic economy, that appear to have contributed to a more muted inflation process than was once the case.

The third article by Cath Sleeman of the Economics Department introduces a database that has been established to capture real time revisions to New Zealand's GDP statistics. The magnitude of these revisions determines the reliability of initial estimates of GDP, which in turn has implications for policymaking. It is hoped that the database will prove a useful resource for researchers interested in forecasting and policy issues. The database can be accessed free of charge at www.rbnz.govt.nz.

Finally, this issue includes an economic and financial chronology for 2005, which was prepared by Alex Deans, a summer student in the Economics Department. A full chronology running back to the early 1990s can be accessed on the Bank's website.

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