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Editor's Note

Earlier this month, the Reserve Bank opened its new public heritage museum, a facility to document the Bank's history, display its valuable currency artefacts and explain the role it plays in the economy today. The museum, which is based on the ground floor of the Bank's premises in Wellington, is open to the public during weekdays. We hope that people with an interest in the origins of the Bank and its evolving policy role will find visiting the museum an informative and stimulating experience.

To mark the opening, it seemed fitting to include an article in this issue of the *Bulletin* on the events leading to the establishment of the Reserve Bank in August 1934. To that end, Matthew Wright of the Bank's Communications Department looks at the forces that culminated in the establishment of the Bank, which included the specific pressures created by the Great Depression as well as a push by Britain to see its Dominions establish their own central banks.

In the second article of this issue, David Hargreaves, Hannah Kite and I (all from the Economics Department) discuss some recent changes to the specification of the inflation process in the Bank's main policy model (known as the Forecasting and Policy System or FPS). The article presents some estimates of 'Phillips curves' for New Zealand, which relate the level of inflation to pressures on the economy's productive resources. A Phillips curve relationship appears to have held up reasonably well for non-tradables inflation (the portion

of CPI inflation emanating from the domestic economy) over the past decade. The article explains how this finding has been used to guide the redesign of the inflation system within FPS.

Assessing the quality of its forecasts of activity and inflation is something the Bank does regularly, since a forward-looking monetary policy is dependent on good quality projections of future inflation pressures. The last comprehensive review of our forecasts was published in 2002. In our third article, Jane Turner of the Economics Department provides an update of that work by comparing the Bank's projections for key economic variables with forecasts made by other forecasters over the past three years. The article finds that the Bank's forecast performance over this period has been broadly comparable to that of other forecasters. However, in the case of inflation and short term interest rates, the Bank's forecasts were slightly better than the average of other forecasts.

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