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Themed issue: Money and credit
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Editor's note

In this edition of the Reserve Bank *Bulletin*, we focus on the theme of money and credit. The Reserve Bank uses money and credit measures for analysing economic and financial developments, produces money and credit in the form of currency and settlement balances in the interbank payment system, collects and disseminates statistics on money and credit, and depends on money and credit creation by the financial system for the transmission of OCR decisions through to the economy. Money and credit are thus not only a vital part of the economy; they are also essential to the performance of the Reserve Bank's duties.

In the first of our four articles on this theme, Chris Bloor, Chris Hunt, Hamish Pepper and I look at how the use of money and credit measures in monetary policy formulation has evolved over recent decades. There is growing emphasis on the interaction between monetary policy and financial stability, and the financial system is becoming increasingly sophisticated and internationally interconnected. Arguably, these factors make developments in credit worthy of increased attention from policymakers. Indeed, in the current circumstances of uncertainty and friction in credit markets across the globe – from which New Zealand has not escaped – the need for increased understanding of credit dynamics is all the more urgent.

The second article focuses on the most tangible of the Reserve Bank's products, banknotes and coins – physical money. Alan Boaden discusses trends and developments in the use of notes and coins in New Zealand, and reviews our efforts to ensure the quality and integrity of the nation's currency. He looks in detail at the Reserve Bank's new machine for banknote processing, and at the demand for the new 10, 20 and 50 cent coins after their introduction in July 2006 – as well as what happened to the old ones.

Like other central banks, the Reserve Bank has produced money and credit statistics for decades. We also produce a range of other financial and economic statistics. In our third article, Rochelle Barrow discusses our activities as a producer of statistics. As Rochelle observes, there is a broad range of users of the Reserve Bank's statistics, whose diverse needs we strive to understand and to meet. With this in mind, she discusses some of the trade-offs and challenges we face

in producing statistics, and some future directions for our activities in this area.

Our fourth article provides an overview of money and credit creation in the financial system. Gillian Lawrence describes how the Reserve Bank's provision of money to the economy is used by the financial system to create its own money and credit, and the role that this process plays in the economy and in monetary policy. The article briefly looks at the nature of money, the interbank payment system, and the Reserve Bank's operations in the money markets to implement monetary policy.

In this edition, we also provide a short article by Bob Buckle and Aaron Drew summarising the proceedings of a conference held in December 2007 hosted by The Treasury and the Reserve Bank, on the theme of the business cycle, housing and the role of policy. This conference followed up on research themes identified at an earlier conference in 2006, which brought together international macroeconomic policy experts to share views on New Zealand's macroeconomic policy issues.

Finally, we present an update of the Chronology, listing key economic and financial events that shaped the conduct of the Reserve Bank's business over 2007.

I hope you enjoy the range of articles in this edition.

Tim Ng

Editor



**RESERVE
BANK**
MUSEUM

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

Displays range from timelines and interactive exhibits to comprehensive display panels outlining both the Reserve Bank's history and role, and how the New Zealand economic system has developed.

Artefacts include the only working example in New Zealand of the MONIAC hydro-mechanical econometric computer developed by New Zealand economist and inventor Bill Phillips in the late 1940s.

In early 2008, the museum received its 10,000th visitor.

The museum is open 9.30 a.m.–4.00 p.m. weekdays. It is closed weekends, public holidays, and for special events. Please call to confirm opening hours.

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Photography by Stephen A'Court.