
Chronology

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The Reserve Bank's annual update of the Chronology lists key economic and financial events that shaped the conduct of our business over 2007. This edition will be the last published in the *Bulletin*. We will continue to update the Chronology annually on line.

January

- 17 Statistics New Zealand figures show that the Consumer's Price Index (CPI) fell by 0.2 percent in the December 2006 quarter. This brings inflation for the year to December 2006 to 2.6 percent.
- 25 The Reserve Bank leaves the Official Cash Rate (OCR) unchanged at 7.25 percent at its interim review. The Bank notes that in the near term, the inflation outlook is relatively benign as a result of lower oil prices and a strengthening exchange rate. In the medium term, upside risks to inflation remain due to uncertainty relating to domestic demand, the housing market and fiscal policy. In the absence of clear indications of slowing demand, further policy tightening is possible.

March

- 8 The Reserve Bank raises the OCR by 25 basis points to 7.5 percent when releasing its *Monetary Policy Statement*. The Bank notes clear evidence of a pick-up in economic activity at the end of 2006 and in early 2007 with a resurgence in the housing market, an expansionary fiscal policy, net immigration, recovery in business confidence, continued expansion of mortgage credit, growth in household incomes and increasing dairy prices. While the OCR is the primary instrument of monetary policy, the Bank will work with relevant government agencies to assess alternative measures that may support the OCR.
- 29 Statistics New Zealand figures indicate a current account deficit for the year ended December 2006 of 9.0 percent of GDP.
- 30 Statistics New Zealand figures indicate an increase in GDP of 0.8 percent for the December 2006 quarter.

This brings annual growth to 1.5 percent for the year to December 2006.

April

- 1 Statutory minimum annual leave increases from three to four weeks. Minimum wage increases from \$10.25 to \$11.25 an hour.
- 18 Statistics New Zealand figures show the CPI rose 0.5 percent in the March 2007 quarter, bringing CPI inflation to 2.5 percent for the year to March 2007.
- 26 The Reserve Bank raises the OCR by 25 basis points to 7.75 percent at its interim review. The Bank notes continued expansion in domestic demand, which is fuelled by a buoyant housing market, increases in government expenditure, a rising terms of trade, ongoing net immigration, and a robust labour market. The Bank states that the exchange rate is at a level which is exceptional by historical standards and unjustified based on medium-term fundamentals.

May

- 9 The Reserve Bank releases its first *Financial Stability Report* for 2007. The report notes that while the financial system has continued to be stable, the economic imbalances that have risen from the ongoing housing boom, and the large savings deficit in the household sector funded by international borrowing, pose risks to the system. Further, the systemic risks associated with the rapid growth in the aggregate lending by banks are also highlighted.
- 17 The Minister of Finance, Dr. Michael Cullen, releases the 2007 Budget. Key features include:

- Further investment, especially in education, health, research and development, justice, and police.
- Enhancement of the KiwiSaver scheme, including tax credits for member contributions to a maximum of \$20 per week, and compulsory employer subsidy payments.
- Business tax reform, including a reduction in the company tax rate from 33 percent to 30 percent with effect from 2008-09.
- The OBERAC (Operating Balance Excluding Revaluations and Accounting Changes) excluding returns on the New Zealand Superannuation Fund is forecast to be at a surplus of around 3.1 percent of GDP over 2007, 2008 and 2009. The OBERAC in 2005/06 turned out at 5.5 percent of GDP.

29 Alan Bollard is reappointed as Reserve Bank Governor for a five-year term expiring in 2012. Finance Minister Dr. Michael Cullen and Dr. Bollard sign an unchanged Policy Target Agreement (PTA).

June

- 7 The Reserve Bank raises the OCR by 25 basis points to 8 percent when it releases its *Monetary Policy Statement*. The Reserve Bank notes continued strength in domestic demand. Though there are indications that growth may be beginning to soften, the risks to inflation are on the upside. The marked increase in dairy prices is noted as a significant development in the past six months and the exchange rate is highlighted to be at a level that is unjustified based on fundamentals.
- 11 The Reserve Bank confirms that it intervened in the foreign exchange market to sell New Zealand dollars due to the unjustifiable strength of the exchange rate based on medium-term economic fundamentals.
- 19 The Ministers of Finance and Commerce announce that the Reserve Bank of New Zealand will be the single prudential regulator for banks, non-bank deposit takers and insurers. Legislation to this effect is expected to be passed in 2008.

The Reserve Bank publishes its submission to the Commerce Select Committee on the inquiry into housing affordability in New Zealand.

- 28 Statistics New Zealand figures indicate a current account deficit of 8.5 percent of GDP for the year ended March 2007.
- 29 Statistics New Zealand figures show an increase in GDP of 1.0 percent in the March 2007 quarter, bringing annual growth to 1.7 percent for the year to March 2007.

July

- 1 KiwiSaver comes into effect.
- 2 Bridgecorp Limited and its subsidiaries are put into receivership.
- 3 The Reserve Bank releases its Statement of Intent (SOI) for 2007-2010. The Bank notes that the outcomes of the economic environment have surprised forecasters and markets. The Bank intends continued investment in upgrading forecasting and policy tools, improving the understanding of household balance sheets, and improving the quality of statistics. The Bank is also strengthening its analysis of risk in the financial sector.
- 13 The Reserve Bank announces changes to its financing and management of New Zealand's foreign currency reserves. In a move away from foreign currency assets being fully backed by foreign currency liabilities, in the future, a portion of foreign reserves will be held on an unhedged or 'open' position.
- 16 Statistics New Zealand figures show the CPI rose 1.0 percent in the June 2007 quarter. Annual CPI inflation for the year to June 2007 was 2.0 percent.
- 24 The New Zealand dollar reaches a post-float high of 0.8110 USD.
- 26 The Reserve Bank raises the OCR by 25 basis points to 8.25 percent at its interim review. The Bank states that the economy is running strongly and has sustained inflationary pressures. The Bank warns investors that the high dollar is not sustainable in the medium term.

27 The Reserve Bank releases its submission to the Finance and Expenditure Select Committee's Inquiry into the Future Monetary Policy Framework.

30 The Reserve Bank releases a separate submission made by the Bank's Board of Directors to the Finance and Expenditure Committee's Inquiry into the Future Monetary Policy Framework.

August

16 The Reserve Bank announces that it is closely following developments in the financial markets domestically and offshore, given disruptions in global credit markets. It notes that the level of cash in the domestic system is adequate and that markets continue to function satisfactorily. The Bank states that it will provide additional liquidity to the market if required.

21 Nathans Finance NZ Ltd. is put into receivership.

23 The Reserve Bank announces that it will accept New Zealand bank bills in its overnight reverse repurchase facility, to ease liquidity conditions.

The Reserve Bank also announces the introduction of the Exchange Settlement Account tiering regime, which was previously due to be introduced from 3 September 2007.

29 Property Finance Securities Ltd. is put into receivership.

30 Five Star Consumer Finance Ltd. is put into receivership.

September

4 LDC Finance Ltd. is placed in receivership.

5 Finance and Investments, a partnership that has links to LDC Finance, is placed in receivership.

12 Finance Minister Michael Cullen announces the minimum prudential requirements framework for the registration of all non-bank deposit takers, including finance companies, building societies and credit unions.

13 The Reserve Bank leaves the OCR unchanged at 8.25 percent at the release of its *Monetary Policy Statement*.

The Bank notes increased uncertainty in the outlook for economic activity and inflation due to turbulence in the global financial markets.

20 Statistics New Zealand releases Balance of Payments data for the June 2007 quarter. Reserve Bank calculations indicate a current account deficit of 8.2 percent of GDP for the year ended June 2007.

The Government announces that an emissions trading scheme is to be phased in from 2008, beginning with the forestry industry, and including all sectors over time.

28 Statistics New Zealand figures show an increase in GDP of 0.7 percent for the June 2007 quarter. Annual growth in GDP was 2.2 percent for the year to June 2007.

October

1 The Reserve Bank announces that JPMorgan Chase Bank NA has been registered as a bank in New Zealand, taking the count of registered banks in New Zealand up to 17.

4 Clegg and Co Finance Ltd. is put into receivership.

15 Statistics New Zealand figures show the CPI rose 0.5 percent in the September 2007 quarter, bringing CPI inflation for the year to September 2007 to 1.8 percent.

25 The Reserve Bank leaves the OCR unchanged at 8.25 percent at its interim review. The Bank states that while inflationary pressures persist, there are signs of a moderating housing market. Upside risks to inflation identified include the direct effects of the emissions trading scheme and rising food prices. Downside risks to key trading partners' economies from the continued turbulence in global financial markets are noted.

November

7 The Reserve Bank releases its second *Financial Stability Report* for the year. The Bank states that while the New Zealand financial system is resilient against global market

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- volatility, New Zealand, given its large external debt, is heavily reliant on foreign capital markets, which may not be as secure or liquid as previously believed.
- 21 Crude oil prices trade at US \$99.29, the highest level in real terms since 1980.
- 29 Capital and Merchant Investment Ltd. is placed in receivership.

December

- 4 The Climate Change (Emissions Trading and Renewable Preference) Bill is introduced to Parliament.
- 6 The Reserve Bank leaves the OCR unchanged at 8.25 percent at the release of its *Monetary Policy Statement*. The Bank notes that inflationary pressures have increased due to higher than anticipated oil prices, rapidly rising food prices and the likelihood of tax cuts. It also notes that global financial markets pose significant downside risk to trading partner economies.
- 10 The Reserve Bank of New Zealand announces that four banks have been accredited to adopt the internal models approach under the Basel II banking capital adequacy regime.
- 17 Finance Minister Michael Cullen announces a new prudential regulatory framework for all insurance providers to be licensed by the Reserve Bank.
- Numeria Finance Ltd. is put into receivership.
- 20 Statistics New Zealand figures show a current account deficit of 8.3 percent of GDP in the year to September 2007.
- 21 Statistics New Zealand figures show that GDP increased 0.5 percent for the September 2007 quarter, bringing annual growth in GDP to 2.7 percent for the year to September 2007.