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Editor's note

In this final edition of the Reserve Bank *Bulletin* for 2009, we present a range of articles about the New Zealand economy, spanning a number of the Reserve Bank's functions.

In our lead article, Kevin Hoskin, Ian Nield and Jeremy Richardson outline the Reserve Bank's new prudential liquidity policy for banks. Part of the Reserve Bank's remit is the maintenance of a sound and efficient financial system. The article discusses new prudential requirements that focus on ensuring liquidity profiles for New Zealand banks are in keeping with a sound and efficient financial system. This discussion is placed within the context of recent international experience and the specific features of the New Zealand banking system.

The second article by Felipe Labbé and Hamish Pepper compares the recent forecasting performance of the Reserve Bank against a range of external forecasters. Recent turmoil associated with the global financial crisis has provided a difficult environment for professional forecasts and modellers alike. However, external forecasts continue to provide valuable information that feeds into the Reserve Bank's advice and decision making process. Reviewing the information content of these forecasts is thus important. The article suggests that although the Reserve Bank forecasts are more accurate than most, a number of forecasters perform well on particular variables and across different horizons.

In our third article, Chris Hunt provides an historical perspective on banking crises in New Zealand. The article uses the Kindleberger/Minsky framework to examine two episodes of 'systemic' banking crises in New Zealand history. The first episode is associated with a credit-fuelled rural land boom in the 1870s that resulted in a severe dislocation to the banking sector in the late 1880s and early 1890s. The second episode occurred in the late 1980s as a credit-fuelled asset price boom that ended with the October 1987 stock market crash and culminated in a government rescue of New Zealand's largest bank. One conclusion from the article is when a large shock hits the economy, the condition of the financial system is critical for understanding any subsequent damage. Current international policy efforts to mitigate the increase in risk-seeking behaviour over the cycle and increase the resilience of financial systems to shocks are appropriate and relevant in this regard.

Our final article in this edition, written by Victoria Yili Zhang, details the evolution of New Zealand's trade flows. The article documents just how much export and import patterns have changed over recent years and the approach the Reserve Bank takes to measuring these movements and indeed, changes in global activity.

I hope you find all the articles in this edition of the *Bulletin* both interesting and useful. We wish our readers an enjoyable Christmas holiday period and look forward to 2010.

Kirdan Lees
Editor

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