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Editorial Committee

Michael Reddell (chair), Bernard Hodgetts, Jason Burt.

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Reserve Bank Museum
2 The Terrace
Wellington
New Zealand
ph 04-471-3682
email: museum@rbnz.govt.nz
www.rbnzmuseum.govt.nz



Photography by Stephen A'Court.

Editor's note

Our final issue of the *Bulletin* for 2011 features three articles.

In the first article Emmanuel de Veirman and Michael Reddell look at consumption spending. More than 80 percent of all the income earned in New Zealand each year is spent on consumption of goods and services, most of that by the private sector. Fluctuations in consumer spending can matter a lot for pressure on resources, one of the main influences on monetary policy decisions. The article outlines some factors that are often thought to influence consumer spending, and takes a preliminary look at the New Zealand data for the last decade in particular. The very large rise in house prices may have had less of an influence on total consumer spending than is often thought.

David Hargreaves and Elizabeth Watson focus on the highly topical issue of financial crises. In particular, they look at some of the international literature on other countries' experiences over past decades and then reflect on New Zealand's vulnerabilities in light of that experience. The literature suggests that, if offshore funding dries up, countries can be particularly vulnerable if their debt (public or private) is denominated in foreign currency or if the

country is part of a fixed exchange rate arrangement. New Zealand, by contrast, has debt that is, in effect, mostly in New Zealand dollars, and has a freely floating exchange rate. In addition, the current account can adjust relatively more quickly when a country is small and largely an exporter of commodities.

In the final article, Richard Dean looks at the new solvency (or capital adequacy) standards the Reserve Bank is putting in place for insurance companies, now that the Reserve Bank is responsible for the regulation and supervision of the insurance sector. Of particular interest, especially in light of the huge insurance claims generated by the Canterbury earthquakes, is the question of how to determine the appropriate amount of capital insurance companies should hold to cover the risk of catastrophic events like earthquakes, to which New Zealand is exposed.

Michael Reddell

For the Editorial Committee

