
Volume 74 No. 3, September 2011

Contents

Editor's note	3
Articles	
A primer on Open Bank Resolution <i>Kevin Hoskin and Ian Woolford</i>	5
Conference summary: New Zealand's macroeconomic imbalances — causes and remedies <i>Christie Smith</i>	11
Recent trends and developments in currency <i>Kristin Flavall</i>	22
Submission to the Productivity Commission inquiry on housing affordability <i>Reserve Bank of New Zealand</i>	30
Workshop on national accounts and financial statistics <i>Phil Briggs and Rochelle Barrow</i>	39
For the record	
Discussion papers	46
Analytical notes	47
News releases	48
Publications	55
Articles in recent issues of the Reserve Bank of New Zealand <i>Bulletin</i>	56

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This document is also available at www.rbnz.govt.nz

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ISSN 1174-7943 (print)
ISSN 1177-8644 (online)



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Photography by Stephen A'Court.

Editor's note

This issue of the *Bulletin* reflects something of the diversity of the Reserve Bank's responsibilities and interests.

The question of how best to handle bank failures has been thrown into stark relief again by the financial crises of the last few years. Each bank failure differs, but in many cases authorities want to be able to keep a failed bank functional, while being appropriately wary of the costs and risks associated with government recapitalisations. In our lead article, Ian Woolford and Kevin Hoskin explain the Open Bank Resolution (OBR) model that the Reserve Bank has been developing. OBR is designed to provide a credible option that would enable the core functions of a failed bank to be maintained, while ensuring that as far as possible the costs and risks of a bank failure are borne by the shareholders and creditors. For the OBR option to be able to be used, banks' operating systems must have the capability to freeze a portion of funds in customers' accounts whilst providing immediate access to the remaining portion. The Reserve Bank is requiring all registered banks with retail funding of over \$1 billion to pre-position their internal systems in this way.

In our second article, Christie Smith summarises the policy forum, *New Zealand's macroeconomic imbalances – causes and remedies*, organised by the Treasury, the Reserve Bank, and Victoria University earlier this year. The well-attended two-day conference was intended to try to shed fresh light on issues such as New Zealand's heavy net dependence on foreign debt and equity and its persistent relatively high real interest rates, and to pose the question of what, if any, policy framework changes might improve these outcomes, and, in turn, lift New Zealand's longer-term growth prospects.

The issuance of physical currency (notes and coins) is one of the Reserve Bank's core responsibilities. Kristin Flavall outlines recent developments in the currency area, including data on demand for currency and on the incidence of counterfeiting. Despite continuing technological advances, the public's holdings of physical currency have risen by 27 percent over the last five years. The article also reports on some interesting survey results, which shed light on the way in which New Zealanders use notes and coins, and indicate that people are generally happy with the quality of the currency.

What happens in the housing market matters to the Reserve Bank in a number of ways. Big swings in house prices, of the sort seen in the last decade, can exaggerate fluctuations in the overall economy, by influencing households' perceptions of wealth. And housing represents the largest chunk of the collateral against which banks have lent on. We reproduce here the Reserve Bank's recent submission to the Productivity Commission, which is undertaking an inquiry into housing affordability. In that submission, we encouraged the Commission to focus on changes that would mean that the supply of new housing was more responsive to the inevitable fluctuations in demand, leaving New Zealand less exposed to large swings in house prices.

Finally, Phil Briggs and Rochelle Barrow report on a workshop hosted by the Reserve Bank earlier in the year on New Zealand's macroeconomic and financial statistics, which involved both users and producers of statistics. The workshop highlighted significant areas where New Zealand's data could usefully be improved over the medium term, to enrich the quality of analysis and of policy making in New Zealand.

Michael Reddell

For the Editorial Committee

