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Photography by Stephen A'Court.

Editor's note

In this first edition of the Reserve Bank *Bulletin* for 2010, we present a number of articles, most of which are directly concerned about the fallout from the global financial crisis and the implications for policy, both in New Zealand and across the globe.

In our lead article, Bevan Cook and Felix Delbrück examine the role of stabilisation policy in the light of the global financial crisis. They note that the crisis has demonstrated the huge costs financial imbalances can wreak on an economy at times of economic stress. While inflation targeting has been successful in reducing the level and volatility in inflation, thus removing a source of macroeconomic volatility, inflation targeting has been clearly shown to not guarantee financial stability or macroeconomic stability more broadly. The article notes that the financial crisis was in a large part, a function of specific vulnerabilities in the financial sector. Accordingly, reform is primarily aimed at ensuring financial system risk is adequately managed. The article also discusses prudential policies that not only aim at promoting a sound and efficient financial system, but also dampen the credit cycle and hence play a role in reducing broader macroeconomic volatility.

The second article by David Baqaee and Christie Smith summarises some of the issues discussed at a monetary policy conference jointly organised with Northwestern University's Center for International Economics and Development in December 2009. The conference marked the 20th anniversary of the Reserve Bank of New Zealand Act, which was a seminal event in the development of inflation targeting. The stresses that the global financial crisis has placed on the global economy and policy frameworks made the timing of the conference an apt one. One of the themes of the conference was the role that credit frictions played in amplifying and propagating volatility in the housing market to the rest of the economy. While global interaction of financial markets has facilitated risk-sharing across and between nations, this has opened up an additional channel through which shocks can be propagated.

As part of the conference, Mark Gertler, Professor of Economics at New York University and the author of a key paper on the crisis, visited the Reserve Bank of New Zealand. In an interview with Özer Karagedikli, Mark Gertler offered his thoughts on a variety of topics, including inflation

targeting, the global financial crisis and macroeconomics in general. The third article in the bulletin is a record of this interview.

In a continuation of the theme of visitors, Professor Charles Goodhart, from the London School of Economics and previously an external advisor to the Bank of England's Monetary Policy Committee, visited the Reserve Bank of New Zealand as a Professorial Fellow. His talk at Victoria University in Wellington detailed his thoughts on "How may the new architecture of financial regulations may develop?" A lightly edited transcript of that talk forms the fourth article for this edition. His comments are wide ranging and touch on a variety of issues associated with the global financial crisis and the appropriate policy response. Audio of the speech is available within the seminar and workshops section on the Reserve Bank of New Zealand's website.

The fifth article, by Satish Ranchhod, details lessons from past US recessions and recoveries. Examination of the depth and duration of past recessions, in addition to a range of factors around the extent of financial disruptions and the strength of household balance sheets, can help draw implications for how the US economy might recover out of the current recession.

The sixth article in the *Bulletin* is a background paper to an address given by Governor Alan Bollard to the Canterbury Employer's Chamber of Commerce in late January. The Governor covers the crisis and monetary policy, focusing on the lessons to be learned from the crisis.

The final article by Kristin Langwasser details recent trends in currency, our notes and coins in circulation, over the past year. Interestingly, New Zealanders used constant amounts of currency in proportion to their purchasing power and their income until late 2008, but since then people have decided to hold larger sums of currency. The article also documents the low level of counterfeits with New Zealand's polymer notes.

I know our readers have competitors for their attention but I trust the articles in this edition are found to be both interesting and useful.

Kirdan Lees
Editor

