For the Record
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Brash promotes inflation targeting to international forum

5 January 1999

Reserve Bank Governor Don Brash has suggested international policy makers should consider carefully the virtues of having a central bank that's operationally independent and required to deliver price stability, but also having the Government of the day publicly decide the specifics of what the inflation target should be.

That's come in an address in Manila, marking the 50th anniversary of central banking in the Philippines.

Dr Brash told the gathering that the New Zealand central banking framework, as expressed in the Reserve Bank of New Zealand Act 1989, was based on six principles, these being:

- monetary policy affects the inflation rate, but can not successfully engineer a sustainably higher rate of economic growth or level of employment;
- the most sensible inflation rate for monetary policy to target is price stability;
- in a democratic society, it is entirely appropriate that the elected government has an explicit role in defining what 'price stability' means;
- central banks independent of political control do a very much better job of keeping inflation low than do central banks subject to political direction;
- with total instrument independence should go accountability; and
- a very high level of transparency is an important discipline for the central bank and the government alike.

Dr Brash told the gathering that these principles, as expressed in the 1989 Act, have served New Zealand well. He added, "The framework was of major benefit in the New Zealand context. ... For the last eight years consumer price inflation has been within a range of 0 to 3 per cent, and for most of that time it has in fact been below 2 per cent."

"In recent years explicit inflation targeting has become more and more common, while quite a few countries have also adopted the distinction between goal independence and instrument independence. ... While the optimal approach will clearly depend to some degree on the traditions and constitutional structure of individual countries, explicit inflation targeting is an approach to achieving price stability which is worthy of serious consideration," Dr Brash concluded.

RBNZ research yields warning to exporters

29 January 1999

Reserve Bank Governor Don Brash today warned exporters that, based on Reserve Bank research, they should NOT rely on the current low exchange rate continuing indefinitely.

That's come in a speech to the Canterbury Employers' Chamber of Commerce, detailing recent research into the exchange rate over the last business cycle.

In the mid 1990s the marked appreciation of the exchange rate was widely criticised by exporters. However Don Brash told the gathering: "The conclusion we reached from all this analysis is that the appreciation of the New Zealand dollar in the mid-nineties was not unusual, either internationally or in terms of our own history."

Dr Brash said he was NOT predicting that the dollar would go up in the short term and it might even go down, but in the longer term the exchange rate went through a cycle and that cycle would repeat itself.

"The current relatively low dollar is not the norm, and will not last indefinitely....The exchange rate cycle experienced over the last decade was not exceptional ... Exchange rate fluctuations of that magnitude are just part of the normal rough and tumble of an economy such as New Zealand's. It will happen again."

Dr Brash said exporters, and those competing with imports, should not use the low dollar as an excuse to sit on their hands. Instead they needed to, "… invest in quality, keep costs under tight control, reduce vulnerability to exchange-rate-driven price fluctuations, (not) pay too much for land, develop brands that are less price sensitive."

As evidence that the mid 1990s exchange rate appreciation was not an aberration, Dr Brash said the New Zealand real exchange rate rose between early 1993 and April 1997 by 29 per cent, compared with an increase of 36 per cent between late 1984 and mid 1988. In addition, he said, in the mid 1990s Japan's real exchange rate rose by 62 per cent, the United Kingdom's by 31 per cent, Germany's by 25 per cent and the US's by 24 per cent.

Reserve Bank to issue bank note celebrating the new millennium

5 February 1999

The Reserve Bank announced today that it would issue later this year a special $10 bank note to commemorate the new millennium.

Reserve Bank Currency Department Chief Manager Brian Lang said, "The millennium bank note will be of a special design to mark this event.

"We will be releasing up to three million millennium bank notes into general circulation, so that members of the public can keep these notes as millennium souvenirs if they wish. In addition, there will be special collector's packs available.

"The millennium bank note will be printed on the same flexible plastic that is soon to be used for all New Zealand bank notes", Mr Lang said.

The millennium note has been designed by Wellington-based graphic design company, Cue Design Limited. The Reserve Bank chose the design after viewing a number of submissions prior to Christmas.

"The millennium bank note will incorporate new technology security features, which we will test for future use with our other plastic bank notes. For security reasons, the final design of the note will not be released until shortly before it is issued", Mr Lang concluded.

RBNZ simplifies monetary policy implementation

8 February 1999

Following a long-running review, the Reserve Bank today announced a series of changes that will simplify the way it implements monetary policy.

In future the Reserve Bank will announce an Official Cash (interest) Rate, of the sort used by most major overseas central banks. This rate will be the lever the Reserve Bank uses to influence overall monetary conditions to maintain price stability.

The new system will come into effect on 17 March, when the first Official Cash Rate will be announced at the release of the Reserve Bank's next *Monetary Policy Statement*. Key features of the new system include:

- the Official Cash Rate will be reviewed approximately every six weeks;
- in its dealings with financial markets, the Reserve Bank will pay an interest rate
- 0.25 percentage points below the Official Cash Rate for money deposited in Reserve Bank settlement accounts, and the Bank will provide overnight cash at 0.25 percentage points above the Official Cash Rate.

Managing overnight interest rates in this way will provide substantial leverage over other short-term interest rates, enabling the Reserve Bank to influence monetary conditions.

Reserve Bank Assistant Governor David Archer said: "This technical change will make the implementation of monetary policy simpler and easier to understand. The previous implementation system was complex – mostly we influenced monetary conditions by making public statements, and behind that was the seldom-used sanction of adjusting the settlement cash target.

"Many features of the system will be unchanged. The Monetary Conditions Index (MCI) will remain an important indicator of actual monetary conditions, though we won't use it to describe so-called "desired conditions". The way we formulate monetary policy - assessing inflation pressures prior to implementation - will not change. Nor will this change have any significant impact on cyclical swings in interest rates or the exchange rate. However, the Reserve Bank's monetary policy actions will be better understood," Mr Archer concluded.

Further information is attached, and a media briefing by Mr Archer will be held this afternoon at 2.00 p.m. on Level 7, the Reserve Bank, Wellington.

Wednesday Window Closed

10 February 1999

The Reserve Bank has closed the Wednesday Window, previously used to comment on current monetary conditions.

Reserve Bank Assistant Governor David Archer said today: "We have decided to close the Wednesday Window now because, on reflection, the risks of misinterpretation of either using the window to make a comment, or being silent with the window open, are too great.

"This announcement conveys no information either way about the Reserve Bank's view of current monetary conditions," Mr Archer concluded.

RBNZ Chairman of Non-Executive Directors

23 February 1999

The Reserve Bank today announced that Mr Bill Wilson had been elected chairman of the non-executive directors of the Board of the Reserve Bank.

This follows the retirement from the Board of the previous chairman of the non-executive directors, Sir Peter Elworthy.

Mr Wilson was appointed to the Board in February 1990. Mr Wilson is a prominent business leader, most notably as Chairman of Fletcher Challenge Ltd and FERNZ Corporation Ltd.

The Board of the Reserve Bank consists of the Reserve Bank's Governor and two deputy Governors, and seven outside appointees. When required, the Board makes recommendations to the Treasurer on the appointment or reappointment of the Governor, and appoints Deputy Governors on the recommendation of the Governor. These duties, and some others, are carried out by a committee of the outside appointees, known as the "non-executive directors". This committee, now chaired by Mr Wilson, for these purposes meets independently of the executive directors.

The overall role of the Board is different from that of a listed company, in that the Board does not make policy decisions. Instead, its primary function is to monitor the Reserve Bank's performance, reporting to the Treasurer.

Y2000: Savings in banks will be safe

25 February 1999

The Reserve Bank today made public a report (attached), outlining its assessment of the implications of the Year 2000 issue for the banking sector.

The key message of that report is that people's savings in banks will be safe.

Reserve Bank Deputy Governor Rod Carr said: "For the public, the main question is how banks would manage, if people withdraw substantial amounts of cash just before the New Year. The clear answer is that there is no rational reason for people to take out their money, but that if they do the banking sector will cope.

"Many people may withdraw a few hundred dollars beforehand for groceries, in case EFT POS or ATM machines have problems on 1 January. That additional demand can be easily met. The Reserve Bank is increasing its reserves of bank notes, so that at year's end the total value of bank notes in circulation and in reserve will be approximately $6.5 billion, the norm being $4 billion.

"We have also been asked what would happen if people attempt to withdraw **all** their savings, either because they fear that bank computer records might be lost or that large scale withdrawals by others could cause banks to collapse.

"Neither scenario makes any sense. Banks have multiple back-up copies of all records in case of power failure or the like. The Y2000 problem will not cause any loss of customer records.

"Bank failures also don't fit the facts. Banks fail when their bad debts are so great that their capital is lost or their liquidity runs short. Banks in New Zealand are robust, and even potential debt losses from Y2000 business failures would not be sufficient to threaten bank solvency. The Reserve Bank will ensure adequate liquidity, so large scale withdrawals of cash at worst might lead to temporary shortages of available cash, but would not threaten banks' viability.

"The Reserve Bank's advice to depositors is that come Y2000 the safest place for their money is its normal place – in the bank. That's where my money will be," Dr Carr concluded.