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# New Zealand economic and financial chronology 2004

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This chronology documents key economic and financial events that occurred during 2004. A longer chronology, covering the period from 1993 to 2004, will shortly be published on the Bank's website.

## **20 January**

The CPI increases by 0.7 per cent in the December quarter, bringing CPI inflation for the year to December 2003 to 1.6 per cent.

## **29 January**

The Reserve Bank increases the OCR by 25 basis points to 5.25 per cent at its intra-quarter review, noting that it is prudent to begin returning interest rates to levels that will have less stimulatory effects on demand.

## **11 March**

The Reserve Bank releases its March *Monetary Policy Statement* and leaves the OCR unchanged at 5.25 per cent. It notes that the latest activity indicators remain quite robust and that bottlenecks in the economy could persist for some time, raising policy risks. The Bank notes that it is appropriate to wait and watch the data, to see whether a further small increase in interest rates will be required during 2004.

The Reserve Bank announces it has provided advice to the Minister of Finance recommending that, as one of its monetary policy implementation tools, it should have the capacity to intervene in the foreign exchange market to influence the level of the exchange rate. The Reserve Bank's stance to date has been to use its foreign exchange reserves to intervene only if the foreign exchange market became "disorderly".

## **26 March**

Production GDP figures show that the New Zealand economy grew by 0.6 per cent in the December quarter 2003, bringing growth for the year to December 2003 to 3.5 per cent.

## **29 March**

Meridian Energy cancels Project Aqua, its proposed hydro scheme on the Lower Waitaki River in North Otago.

## **6 April**

The Government ratifies an amendment to the Reserve Bank's Funding Agreement to broaden its foreign exchange intervention capacity.

## **19 April**

Figures show the CPI increased by 0.4 per cent in the March quarter, bringing CPI inflation for the year to March 2004 to 1.5 per cent.

## **29 April**

The Reserve Bank increases the OCR by 25 basis points to 5.50 per cent, noting that "moving interest rates to less stimulatory levels appears prudent to ensure inflation remains within the target range over the medium term".

## **1 May**

The European Union undergoes its biggest enlargement with 10 new countries, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia joining with a combined population of over 100 million people.

## **5 May**

The IMF publishes its Financial System Stability Assessment for New Zealand following an examination undertaken in October/November 2003. The main findings are that

- There is a profitable and well-functioning financial system.
- Banking regulation is based on disclosure and market discipline.
- Foreign ownership of major banks poses unique challenges to the RBNZ.
- Recent reforms had strengthened the securities regulatory framework, but further reform is needed to fully implement the International Organization for Governmental Securities Commissions (IOSCO) principles.

## **27 May**

The Budget 2004 is released by Finance Minister, Michael Cullen. Key features include:

- \$2.4 billion of new spending for 2004/05, including a \$1.1 billion Working for Families programme .
- An appropriation for a capital injection to the Reserve Bank to provide capacity to weather short-term financial losses that could arise under the Bank's new foreign exchange intervention policy.
- The Operating Balance excluding revaluations and accounting changes (OBERAC) is estimated to be a surplus of \$5,986 million for the 2003/04 fiscal year, higher than forecast in the December 2003 Economic and Fiscal Update.

#### **10 June**

The Reserve Bank releases its June *Monetary Policy Statement*. The OCR is increased by 25 basis points to 5.75 percent. The Bank notes that the economy has enjoyed strong growth over an extended period. Stretched productive resources are causing inflation pressures to increase across a range of industries. The Bank states that further increases in interest rates are likely to be needed over the year ahead, but to a modest degree by historical standards.

#### **25 June**

The Reserve Bank agrees to a merger between ANZ and the National Bank, to form a single bank known as ANZ National Bank Ltd.

Production GDP figures show that the New Zealand economy grew by 2.3 per cent in the March quarter of 2004, bringing growth for the year to March 2004 to 3.6 per cent.

#### **15 July**

Statistics New Zealand figures show that the CPI increased by 0.8 per cent in the June quarter, bringing CPI inflation for the year to June 2004 to 2.4 per cent.

#### **29 July**

The Reserve Bank increases the OCR by 25 basis points to 5.75 per cent at the interim review in line with forecasts in the June *Monetary Policy Statement*.

#### **11 August**

In a speech to the Trans-Tasman Business Circle in Sydney, Reserve Bank Governor, Alan Bollard, says that the Reserve Bank still needs to be vigilant in its banking supervision role

, even though most of the main banks in New Zealand are foreign owned.

#### **17 August**

The Reserve Bank issues a *Statement of Intent*, outlining its plans for the 2004-07 period. The document is a pilot for an accountability obligation that will be required of the Bank prior to each financial year from 2005 onwards.

#### **9 September**

The Reserve Bank releases its September *Monetary Policy Statement* and increases the OCR by 25 basis points to 6.25 per cent, noting that further tightening in monetary policy may be required given a strong economy and limited inflation headroom.

#### **24 September**

Production GDP figures show that the New Zealand economy grew by 0.9 per cent in the June quarter of 2004, bringing growth for the year to March 2004 to 3.6 per cent.

#### **12 October**

Oil prices reach record highs, with the West Texas Intermediate price rising to over US\$54 a barrel.

#### **15 October**

The CPI increased by 0.6 per cent in the September quarter, bringing CPI inflation for the year to September 2004 to 2.5 per cent.

#### **20 October**

The Reserve Bank issues its first *Financial Stability Report*, a document assessing and reporting on the soundness and efficiency of the New Zealand financial system. The Bank notes that it sees the New Zealand financial system as being stable and functioning effectively, and the banking system as being financially robust and resilient. However, in discussing the risks to this outlook it notes that financial instability often has its origins in periods of long economic expansion, such as New Zealand has enjoyed in recent years.

#### **28 October**

The Reserve Bank increases the OCR from 6.25 to 6.50 per cent at its interim review, noting that it believes monetary policy is now doing enough to ensure price stability as defined under the Policy Targets Agreement (PTA).

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### **11 November**

The Reserve Bank announces proposals to modernise New Zealand's 'silver' coloured coins and seeks feedback from the public with a final decision to be made in early 2005. The proposals are that the current 50, 20 and 10 cent coins be made smaller, and of lighter and lower-cost plated steel, and that the 5 cent coin be taken out of circulation.

Statistics New Zealand's Household Labour Force survey shows that the unemployment rate in the September 2004 quarter fell to 3.8 per cent, the lowest level since 1985 and the second lowest in the OCED.

### **2 November**

The Reserve Bank publishes a proposed policy on outsourcing by large New Zealand banks. Under the proposal, boards of directors would need to ensure their banks have the legal and operational ability to operate their bank as a stand-alone entity if necessary.

### **2 December**

New Zealand and Thailand conclude a Closer Economic Partnership (CER). The CER involves preferential liberalisation of trade in goods investment and the scope for cooperation in areas such as standards and conformance, competition policy, labour and environment issues and technology transfer.

### **6 December**

The New Zealand dollar reaches a 16 year high of 72.68 cents against the US dollar.

The Reserve Bank announces that, as from 6 December, the New Zealand dollar has been included in an international system designed to eliminate risks associated with settling foreign exchange transactions across national boundaries. The system is known as 'continuous linked settlement' (CLS) and addresses the risks that can arise after one party has transferred funds as its part of a deal and is waiting for the other side of the transaction to be completed. Under CLS, both legs of foreign exchange transactions can be settled simultaneously. This is done through a New York-based multi-currency bank called CLS Bank International (CLS Bank), which holds accounts for each settlement member and an account at each eligible currency's central bank, through which funds are received and paid.

### **9 December**

The Reserve Bank releases its December *Monetary Policy Statement*. The Bank leaves the OCR unchanged at 6.50 per cent, noting that this appears sufficient to achieve inflation between 1 and 3 per cent on average over the medium term, with significant pipeline effects from past interest and exchange rate increases to work through and constrain the economy over the period ahead. The Bank notes that economic indicators have continued to surprise on the upside, however, a slowdown is still expected in 2005. Inflation is projected to rise close to 3 per cent before easing back later in 2006, with little headroom, if stronger than expected pressures emerge a further policy tightening cannot be ruled out.

### **14 December**

The Government releases its December Economic and Fiscal Update. Forecasted GDP growth for the 2004/05 fiscal year is considerably revised upwards from the Budget 2004; it is now expected to be 4.0 per cent (up from 2.4 per cent).

### **15 December**

The Reserve Bank confirms that Westpac has decided to incorporate in New Zealand, meaning that all systemically important banks operating in New Zealand will be locally incorporated on the conclusion of this process. The Reserve Bank's local incorporation policy provides, among other things, a well-understood legal framework for the conduct of business in New Zealand and a local board to act in the best interests of the New Zealand bank. These features promote the maintenance of a sound and efficient financial system, and assist in the avoidance of significant damage to the financial system that could result from the failure of a registered bank.

### **16 December**

The Reserve Bank announces that it intends to invest USD 50 million in the newly created Executive Meeting of East Asian and Pacific central banks (EMEAP) Asian Bond Fund 2 (ABF2) as part of its foreign reserves. ABF2 will be a fund devoted to investing in bonds denominated in the home currencies of EMEAP countries and follows on from ABF1, launched in June 2003, which invested in USD denominated bonds of EMEAP nations.