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# Economic and financial chronology 2005

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## January

- 19 Statistics New Zealand figures show that the CPI rose 0.9 per cent in the December 2004 quarter, bringing CPI inflation for the year to December 2004 to 2.7 per cent.
- 27 The Reserve Bank decides to keep the OCR unchanged at 6.5 per cent. The Bank notes inflation is expected to remain in the upper part of the 1–3 per cent band, with strong domestic demand and rising wage and salary pressures being partly offset by weakness in the export sector.

## February

- 4 Public submissions close on the Reserve Bank's proposal to modernise New Zealand's 'silver' coins. Consultancy firm AC Nielsen begins analysis of public feedback.

## March

- 10 The Reserve Bank increases the OCR 25 basis points to 6.75 per cent when releasing its *Monetary Policy Statement*. The inflationary pressures associated with continued employment growth and high consumer and business confidence are cited as reasons for the tightening of policy. The Bank notes that the economy is close to a turning point and slower growth is expected later in 2005.
- 18 A letter is sent to all New Zealand banks regarding proposed consultation about the implementation of the new Basel II capital framework. The new rules aim to increase the banks' solvency.
- 20 The New Zealand dollar buys US\$.7465, a 23 year high.
- 24 Statistics New Zealand's GDP figures show an increase in economic activity of 0.4 per cent for the December 2004 quarter. Annual growth in GDP was 4.8 per cent for the year to December 2004.
- 31 The Reserve Bank confirms changes to the currency. Fifty, twenty and ten cent coins will be smaller in the

future and made of lower cost steel-plate. The five cent coin will be removed from circulation.

## April

- 11 Statistics New Zealand figures show the CPI rose 0.4 per cent in the March 2005 quarter, bringing CPI inflation for the year to March 2005 to 2.8 per cent.
- 28 The Reserve Bank keeps the OCR unchanged at 6.75 per cent. The Bank notes that overall household demand is very strong, especially in the housing sector. The labour market shows little sign of softening. There are some signs the economy is slowing in some sectors but further tightening of policy cannot be ruled out in the near future, given strong inflation pressures

## May

- 4 Minister for the Environment Pete Hodgson announces details of the proposed Kyoto Protocol based carbon tax. It will commence in April 2007, and be set at \$15 per tonne of carbon dioxide. This will apply to 2012.
- 13 Commerce Minister Pete Hodgson announces proposed changes to legislation governing friendly societies and credit unions, included in a general review of non-bank financial products.
- 17 The Reserve Bank releases its first *Financial Stability Report* for the year. It notes that, despite an increase in risks faced by households and some businesses, the financial system is in a good position to weather a possible downturn in the economy.
- 19 The Minister of Finance, Dr. Michael Cullen, releases the 2005 Budget. Key features include:
  - Additional spending especially in health, education, defence, police and social welfare (via an increase in the Working for Families package).
  - the creation of Kiwisaver, a new work based savings scheme.

- changes to tax, including cuts to encourage savings and investment and to assist small business;
- a carbon charge in line with Kyoto Protocol obligations; and
- the OBERAC (Operating Balance Excluding Revaluations and Accounting Changes) is projected to be a surplus of \$7.4 billion for 2005/2006.

## June

- 9 The Reserve Bank decides to keep the OCR unchanged at 6.75 per cent when it releases its *Monetary Policy Statement*. It notes that the balance of inflation risks is on the upside with continued strength in the household spending and housing markets. However, the effect of past monetary policy tightening has not yet been fully realised and a number of indicators point to a slowing economy.
- 16 The Finance Minister, Dr. Michael Cullen, announces changes to tax laws. Changes include:
- foreign owned banks having to pay sufficient tax on income earned in New Zealand;
  - making it easier for businesses to claim tax deductions on environmental expenditure; and
  - the income of banks cannot be sheltered by interest deductions arising from excessive debt.

- 24 Statistics New Zealand figures show GDP increased 0.6 per cent over the March 2005 quarter. Annual growth in GDP was 4.2 per cent for the year to March 2005.

## July

- 14 Statistics New Zealand figures show the CPI rose 0.9 per cent in the June 2005 quarter, bringing CPI inflation for the year to June 2005 to 2.8 per cent.
- 28 The Reserve Bank keeps the OCR unchanged at 6.75 per cent at its interim review. It notes a weaker exporting sector influenced by the high New Zealand dollar, and the subsequent softening of GDP growth, as partly offsetting the inflationary effects of the strong housing

market. The Bank does not rule out increasing the OCR in the future if short-term pressures from rising oil prices start to affect medium-term inflation expectations.

## August

- 30 The price of Brent crude oil hits a record high of US\$70.58 a barrel following Hurricane Katrina. The storm hits the southern coast of the United States causing loss of life, widespread destruction to oil drilling and refining facilities, and flooding to the city of New Orleans and surrounding areas.
- 31 Following a tender process, the Royal Canadian Mint is chosen to manufacture the new range of New Zealand coins.

## September

- 15 The Reserve Bank leaves the OCR unchanged at 6.75 per cent when it releases its *Monetary Policy Statement*. With the housing market still strong, consumer spending continues to rise despite high oil prices. Inflationary pressures remain strong, although there is now growing evidence of a slowdown in sectors such as tourism and manufacturing.
- 18 The General Election results in Labour winning 50 seats, National 48, New Zealand First seven, the Greens six, the Maori Party four, United Future three, Act two, and the Progressives one.
- 28 Statistics New Zealand figures show total foreign investment in New Zealand at 31 March 2005 was \$224.1 billion, up \$21.9 billion (10.8 per cent), from a year earlier. Of this increase, increased investment by Australian investors accounted for \$6.7 billion. The value of New Zealand's investment abroad was \$98.0 billion.
- 29 Statistics New Zealand figures show GDP increased 1.1 per cent over the June 2005 quarter. Annual growth in GDP was 3.1 per cent for the year to June 2005.

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## October

- 4 The NZSX-50 Sharemarket index reaches a record high of 3470.74.
- 14 Reserve Bank Governor, Dr. Alan Bollard, voices concerns about perceived “imbalances” in New Zealand’s economy including the current account deficit (now at 8 per cent of GDP), and steady growth in the household debt to income ratio.
- 17 Statistics New Zealand figures show the CPI rose 1.1 per cent in the September 2005 quarter, bringing CPI inflation for the year to September 2005 to 3.4 per cent.
- 18 Prime Minister Helen Clark announces details of the new Labour-led Government. It consists of a Labour-Progressives coalition with confidence and supply agreements with New Zealand First and United Future. Progressives leader Jim Anderton will have a post in cabinet, with New Zealand First’s Winston Peters and United Future’s Peter Dunne both being Ministers outside Cabinet.
- 27 The Reserve Bank increases the OCR 25 basis points to 7.00 per cent at its interim review. The Bank notes its concerns about high oil prices, a housing market that shows little sign of weakening, and the expansionary fiscal policy of the new government.

## November

- 10 Statistics New Zealand figures show that the employment rate, as measured by the Household Labour Force Survey, reached the lowest level in the survey’s 19 year history at a figure of 3.4 per cent in the September quarter. This represents the lowest rate among the OECD group of countries.
- 11 The Reserve Bank announces a joint project with The Treasury and Inland Revenue Department that will explore whether ancillary instruments could be deployed to complement monetary policy in the task of managing inflation pressures. The Bank notes that the project has been prompted by the strength and persistence of domestic demand, the scale of the accompanying

external imbalances, and the key role being played by the current house price cycle. The Bank notes that such tools, if they exist, may enable less reliance to be placed on the Official Cash Rate, thereby reducing some of the pressure on the exchange rate.

- 17 The APEC ministerial meeting concludes in Busan, South Korea. Member nations agree to continue to support the Doha Round of global trade talks despite the current deadlock at the World Trade Organisation.
- 18 The Reserve Bank releases its second *Financial Stability Report* for the year. Overall the financial sector is still well placed to weather a slowdown in the economy. The risks to the market continue to grow, however, as the combination of rising household debt and a large current account deficit increases the chance of a hard-landing from a fall in the New Zealand dollar.

## December

- 8 The Reserve Bank increases the OCR 25 basis points to 7.25 per cent when releasing its *Monetary Policy Statement*. It highlights that consumer demand and household spending remains strong, despite previous interest rate rises. These inflationary pressures are being driven by a housing market that still shows limited signs of cooling.
- 19 The World Trade Organisation, meeting in Hong Kong, agrees to end farm export subsidies by 2013.
- 21 It is announced that Cabinet has agreed in principle that the Reserve Bank should be the sole prudential regulator of the financial sector. This announcement follows a review of financial products and providers undertaken by the Ministry for Economic Development.

Labour Minister Ruth Dyson announces the adult minimum wage is to increase from \$9.50 to \$10.25 an hour from 27 March 2006.

The Government announces it has scrapped plans to introduce a carbon tax in April 2006 and will instead look at alternative methods of meeting commitments to cut greenhouse gas emissions.

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22 Statistics New Zealand figures show that GDP increased 0.2 per cent for the September 2005 quarter. Annual growth in GDP was 2.3 per cent for the year to September 2005.

The current account deficit reaches 8.5 per cent of Gross Domestic Product, the highest since 1986.