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# Economic and financial chronology 2006

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## January

18 The Reserve Bank issues its finalised policy on the requirements that will apply to large New Zealand banks that have entered into outsourcing arrangements. The final policy follows consideration of comments on a draft policy issued in October 2005. The policy focuses on ensuring that the boards of large New Zealand banks maintain the legal and practical ability to control outsourced functions so that they can continue to provide critical services in a crisis situation. The policy also requires the boards to exercise meaningful control and oversight over the bank's chief executive and staff.

Statistics New Zealand figures show that the Consumer's Price Index (CPI) rose 0.7 percent in the December 2005 quarter. This brings inflation for the year to December 2005 to 3.2 percent.

26 The Reserve Bank leaves the Official Cash Rate (OCR) unchanged at 7.25 percent at its interim review. The Bank notes that there is no firm evidence of a slowing in domestic demand as employment, wage growth, and house prices have remained strong. Though resource constraints are easing, inflation expectations remain high and the Bank states that an early decline in interest rates would reignite inflationary pressures.

31 The Reserve Bank temporarily raises the Settlement Cash Level from \$20 million to \$500 million for value date 2 February. This move reflects concern over increasing liquidity pressures, which are expected to be exacerbated by the upcoming New Zealand Government bond maturity on 15 February.

## February

9 The New Zealand Companies Office signs a memorandum of understanding with the Australian Securities and Investment Commission reflecting an intention to work toward the alignment of processes and practices that will simplify the obligations of trans-Tasman companies.

10 The Reserve Bank temporarily raises the Settlement Cash Level from \$500 million to \$2,000 million, for value date 13 February.

20 The Reserve Bank announces that 31 July 2006 will be the date for the introduction of New Zealand's new, smaller and lighter 50, 20 and 10 cent coins. There will be a three-month transition period from 31 July to 31 October during which all coins may be used. From 1 November the old coins will no longer be legal tender.

22 Commerce Minister, Leanne Dalziel, signs a revised memorandum of understanding with the Australian Treasurer affirming a commitment to the coordination of trans-Tasman business law and to reduce impediments to trans-Tasman commerce.

28 The Government introduces the Kiwisaver Bill to Parliament.

## March

9 The Reserve Bank leaves the OCR unchanged at 7.25 percent when releasing its *Monetary Policy Statement*. The Bank notes that while economic growth is slowing and there is some cooling in household spending, productive capacity is stretched and the labour market remains tight. The Bank notes that it does not expect to be able to reduce the OCR during the current year.

17 The Reserve Bank issues a consultation document and calls for submissions on proposed changes to the Bank's liquidity management system (Exchange Settlement Account System). The review addresses issues of insufficient liquidity and inefficient injection of liquidity into the banking system. Closing date for submissions on the options presented is 20 April 2006.

22 Parliament passes the Taxation (Depreciation, Payment Dates Alignment, FBT, and Miscellaneous Provisions) Bill, issuing in a set of comprehensive business tax cuts at a fiscal cost of \$1.1 billion over four years.

24 Statistics New Zealand figures indicate a decline in GDP

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of 0.1 percent for the December 2005 quarter. This brings annual growth to 2.2 percent for the year to December 2005.

## April

- 6 The Reserve Bank and The Treasury release a joint report on possible additional instruments to supplement the role of interest rates in managing demand pressures and inflation. Prompted by the persistence of domestic demand and house price pressures, the report considers structural and cyclical policies and instruments in addition to the Official Cash Rate that could be used to manage specific demand or inflationary pressures. The report notes that there are no readily implemented options without significant complications or costs and further work is warranted in some areas.
- 19 Statistics New Zealand figures show the CPI rose 0.6 percent in the March 2006 quarter, bringing CPI inflation for the year to March 2006 to 3.3 percent.
- 27 The Reserve Bank leaves the OCR unchanged at 7.25 percent at its interim review. The Bank notes that while the economy has weakened faster than expected, short-term inflation pressures have intensified, due to a fall in the New Zealand dollar exchange rate and the ongoing effects of the world oil price shock. The Bank reiterates that it sees no scope for a cut in the OCR during the current year.

## May

- 11 Statistics New Zealand Household Labour Force Survey figures reveal an unemployment level of 3.9 percent for the March 2006 quarter.
- 18 The Minister of Finance, Dr. Michael Cullen, releases the 2006 Budget. Key features include:
  - Additional spending especially in health, education, research, science and technology, defence and transport infrastructure.
  - Further tax relief for families through the expansion of the Working for Families package.

- The implementation of interest-free student loans from 1 April 2006.
- The OBERAC (Operating Balance Excluding Revaluations and Accounting Changes) is projected to be a surplus of \$7.0 billion for 2006/07, following an actual surplus of \$8.9 billion for the 2005/2006 year.

- 19 The Reserve Bank releases its first *Financial Stability Report* for 2006. The report notes that household indebtedness has reached an all-time high, creating some additional vulnerability in the face of a slowing economy. A sharp but orderly depreciation of the New Zealand dollar has significantly reduced risks to the financial system. Overall, banks are profitable and well capitalised and the financial system remains well placed to weather the slowdown of the economy.
- 26 The Reserve Bank hosts the EMEAP (Executives' Meeting of East Asia and Pacific Central Banks) governors, furthering moves to strengthen financial market regulation and operation, and regional cooperation in central banking.

## June

- 8 The Reserve Bank leaves the OCR unchanged at 7.25 percent when it releases its *Monetary Policy Statement*. The Bank notes that weaker economic activity has reduced medium-term inflationary pressures. However headline CPI inflation is expected to remain above 3 percent into 2007 due to the effects of further petrol price increases and higher import prices. The Bank continues to see no scope for an easing of the OCR.
- 23 Statistics New Zealand figures show an increase in GDP of 0.7 percent in the March 2006 quarter, bringing annual growth in GDP to 2.2 percent for the year to March 2006.
- 29 The New Zealand dollar exchange rate hits a 25-month low of US59.51 cents, while the Trade Weighted Index (TWI) slips to a three year low of 60.5.
- 30 The Reserve Bank releases the details of the liquidity management regime adopted following proposals

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publicised in March 2006. The new regime involves the removal of the Bank's autorepo facility and the use of bank paper, government bonds and corporate securities as security in liquidity operations, in return for cash injections into the system as is consistent with revealed demand. The Settlement Cash Level will be gradually increased until a target can be established at a steady state level.

## July

17 Statistics New Zealand figures indicate the CPI rose 1.5 percent in the June 2006 quarter. Annual CPI inflation for the year to June 2006 was 4 percent.

25 The Government releases a Business Tax Review discussion document containing proposals for reductions of the corporate tax rate and compliance costs, changes to the tax base, and the introduction of targeted tax credits. Submissions close on 8 September 2006. The review seeks to deliver the new business tax package by April 2008.

27 The Reserve Bank leaves the OCR unchanged at 7.25 percent at its interim review. The Bank notes short term inflationary pressures arising from stronger than anticipated business activity and consumer demand and the continued upward trend in oil prices. While a rebalancing of economic activity from domestic demand toward exports and import substitution is expected to continue, second round wage and price effects remain a risk. The Bank states that it will be some time before an easing in the OCR can be considered.

31 The Reserve Bank releases the new plated steel 50, 20 and 10 cent coins into circulation and begins the phasing out of the 5 cent piece. A three month transitional period will continue until 31 October 2006 during which the existing coins can be used.

Petrol prices at the pump hit a record high of 176.9 cents per litre (91 unleaded). A high in real petrol prices (inflation adjusted) was reached in the June 2006 quarter.

## August

2 Dubai oil prices reach a record high of US\$72.49 per barrel.

10 Statistics New Zealand figures indicate an unemployment rate of 3.6 percent for the June 2006 quarter.

30 The Kiwisaver Bill passes into law. Key changes to the draft bill have included the extension of opt out terms, amendment of employer exemption criteria, and the allowance of employer contributions to count toward the minimum contribution of 4 percent. The implementation date for the scheme is 1 July 2007.

## September

6 The Reserve Bank officially opens the Reserve Bank Museum. The museum focuses on the New Zealand economy, the role of central banking, and the production of currency.

14 The Reserve Bank leaves the OCR unchanged at 7.25 percent at the release of its *Monetary Policy Statement*. Resource pressures and economic activity have been easing more slowly than expected despite clear evidence of rebalancing in the economy. The Bank notes that significant inflationary pressures are being generated from higher oil prices and the depreciation of the exchange rate.

28 Statistics New Zealand figures indicate an increase in total foreign investment in New Zealand of \$19.5 billion (9 percent) in the year ended March 2006, while New Zealand investment abroad increased by \$10.7 billion (11.4 percent). Australia remains the most important investment partner, accounting for 23.9 percent of all New Zealand investment abroad and 29.3 percent of foreign investment in New Zealand.

29 Statistics New Zealand figures indicate an increase in GDP of 0.5 percent for the June 2006 quarter. Annual growth in GDP was 1.9 percent for the year to June 2006.

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## October

- 13 The Securities Legislation Bill is passed into law, amending the Securities Act 1978, the Securities Markets Act 1988, the Takeovers Act 1993, and the Takeovers Code. Changes include prohibitions against market manipulation, amendment of broker and advisor disclosure law, and a new insider trading regime.
- 25 Statistics New Zealand figures show the CPI rose 0.7 percent in the September 2006 quarter, bringing CPI inflation for the year to September 2006 to 3.5 percent. As from this release, the CPI has been reweighted using the 2003/04 Household Economic Survey and other information. The reweighted CPI results in a higher weight on petrol prices and rents and a lower weight on the purchase and construction cost of new dwellings than under the previous regimen. The CPI was last reweighted in 2002.
- 26 The Reserve Bank holds the OCR unchanged at 7.25 percent. The Bank notes an improvement in the short-term inflation outlook due to a fall in the price of oil. However, medium-term pressures remain significant, with a resilient housing market and an expected increase in consumer demand resulting from declining petrol prices and a strong labour market.
- 30 The Reserve Bank of New Zealand Amendment Act 2006 is passed into law. The Act amends part of the existing act passed in 1989 and is being matched by equivalent legislation in Australia. The legislation provides greater assurance of cooperation between New Zealand and Australian prudential regulators by imposing obligations to consult each other on proposed policy action and to avoid actions that may have a detrimental effect on financial stability without unduly constraining the actions of the regulators.

## November

- 1 The Reserve Bank registers Westpac New Zealand Limited as a New Zealand Subsidiary of Westpac Banking Corporation. This completes the local incorporation of all systemically important banks operating in New Zealand

in line with the Reserve Bank's local incorporation policy.

The Government business tax review releases three issues papers exploring the tax credit options of the proposed tax reform. Proposals focus on the encouragement of research and development, export market development, and skills training. Submissions close on 1 December 2006.

- 9 Statistics New Zealand figures show an unemployment rate of 3.8 percent for the September 2006 quarter, a slight increase.
- 15 The Reserve Bank releases its second *Financial Stability Report* for the year. The report notes that banks are competing aggressively with decreased margins and higher risk lending and thus remain vulnerable to any increased strain on households' ability to service debts.

Standard and Poor's affirms New Zealand sovereign ratings of AA+/A-1+ for foreign currency and AAA/A-1+ for local currency.

## December

- 7 The Reserve Bank holds the OCR unchanged at 7.25 percent at the release of its *Monetary Policy Statement*. The Bank notes an improvement in the near-term inflation outlook. However, household spending has remained resilient, the labour market has remained firm, and there is new momentum in the housing market. The Bank states further tightening cannot be ruled out and this is particularly dependent upon trends in housing and domestic demand indicators.
- 15 The trans-Tasman provisions in the Reserve Bank of New Zealand Amendment Act come into force.
- 20 Statistics New Zealand figures indicate a current account deficit of 9.1 percent of Gross Domestic Product in the year to September 2006.
- 21 Statistics New Zealand figures show that GDP increased 0.3 percent in the September 2006 quarter. Annual growth in GDP for the year to September 2006 is 1.4 percent.