RESERVE BANK
OF NEW ZEALAND

Annual Report

1997 | 1998

Our commitment to **New Zealanders**

As New Zealand's central bank, we will do everything in our power to build national and international confidence in the stability and integrity of New Zealand's money and monetary system.

We will do that by:

- operating monetary policy so as to maintain price stability;
- promoting the maintenance of a sound and efficient financial system; and
- meeting the currency needs of the public.

We will critically review our performance regularly and will aim to ensure that we use tax-payers' resources efficiently and effectively.

Reserve Bank of New Zealand ***Annual Report*** and financial statements for the financial year ended 30 June 1998, prepared pursuant to section 163 of the Reserve Bank of New Zealand Act 1989; published September 1998.

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Contents

Editor's note: This *Annual Report* is based on a new format, in terms of the editorial content. Previous *Annual Reports* were written around function delivery. We concluded that this had become stilted. Thus this year's editorial section is based on a plain language description of key events and activities of interest to the lay reader. Also included is a chronology and a brief summary of particular things that the Reserve Bank intends to achieve in the coming year.

Year at a Glance

- A new Policy Targets Agreement was signed on 15 December 1997, on the reappointment of the Governor, with an unchanged 0 to 3 per cent inflation target.
- However, the target was redefined in terms of the All Groups Consumers Price Index excluding credit services (CPIX), as published by Statistics New Zealand.

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- Throughout the year to June 1998, inflation was close to the middle of the 0 to 3 per cent target. In the 12 months to June 1998, CPIX inflation was 1.7 per cent.
- In July 1997, the Thai baht fell sharply, which was the first serious sign of turbulence in the financial markets of East Asia.
- As the consequences of the Asian financial crisis became more severe, in New Zealand the monetary policy easing that had begun back in December 1996 accelerated.

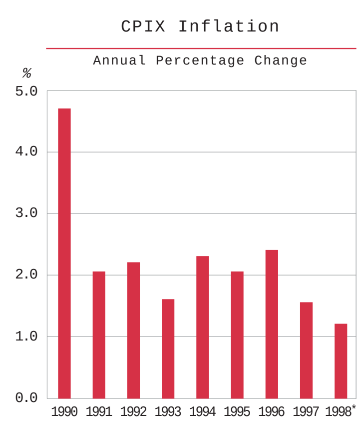
The New Zealand financial system remained in good health during the 1997/98 year.

Real-time gross settlement of inter-bank transactions was implemented in March 1998.

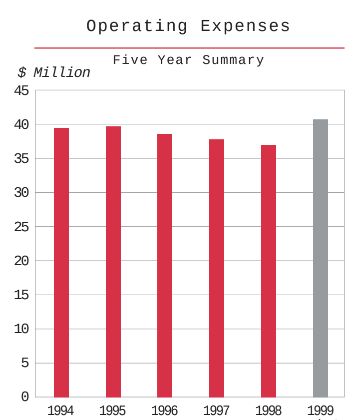
Two new banks were registered.

The decision was made that, as from mid 1999, the nation's bank notes would be made of a new material, a flexible "polymer" plastic.

The Reserve Bank's operating costs, where covered by its Funding Agreement with the Government, were 17.6 per cent below the provision of the Agreement and 3 per cent below actual costs the year before.



*Projection to December 1998 as at August 1998



Governor's Statement

Throughout the year to June 1998, inflation measured by the Consumers Price Index excluding credit services (CPIX) was close to the middle of the 0 to 3 per cent target which I have agreed with the Government to be the appropriate target for monetary policy.

But because of the long lags between monetary policy action and the effect of that action on inflation, this pleasing outcome has a great deal more to do with the stance of policy during 1996 than anything which the Bank did subsequently. Whether monetary policy has been appropriate over the last 12 months will not be clear for another year or two.

The challenge in formulating monetary policy over the last 12 months was to ensure that overall monetary conditions remained appropriate in the face of powerful and conflicting forces, and considerable uncertainty.

In July 1997 the Thai baht fell sharply, triggering a period of turbulence in the financial markets of East Asia. Many currencies declined precipitously, along with share markets and real estate prices. The banking sectors of the countries most affected were severely damaged, and real economic activity fell, in some cases sharply, for the first time in decades. The direct effect on the New Zealand economy was adverse and substantial, and looks likely to continue for some time. The indirect effect, through business and household sector confidence, was also significant. The impact of the Asian situation reduced inflationary pressures in New Zealand markedly.

On the other hand, increased government spending, substantial tax cuts and the abolition of the surcharge on National Superannuation constituted a significant fiscal stimulus. The challenge facing monetary policy was to make the right judgement about the aggregate effect of these conflicting forces. On balance, during the year under review the Reserve Bank sanctioned a significant easing of monetary conditions, which took the form of a substantial fall in the exchange rate, initially partly offset by some increase in interest rates.

The marked fall in the New Zealand dollar was not surprising, as by early 1997 it was widely regarded as being overvalued. Indeed, during much of the period through which monetary policy was being tightened, from early 1994 to late 1996, it was the exchange rate which increased rather than interest rates. When policy was eased, that process inevitably reversed. The resultant change in the mix of monetary conditions will encourage resources to move out of domestic sectors of the economy into export and import-competing sectors, which in time will reduce the balance of payments deficit.

The net effect of the easing will be to stimulate the economy overall and, even with the deflationary influences from Asia, it seems unlikely that inflation will fall below the bottom of our target range in the foreseeable future. The Reserve Bank takes its obligation to keep inflation above zero just as seriously as keeping it below 3 per cent.

There has been debate, both here and abroad, about whether New Zealand, with its large current account deficit and accumulated external liabilities, might become the next 'Asian domino'. Indeed, there has been debate about whether unregulated international capital flows, and the current account imbalances which often result, are inherently dangerous. In my view, open capital markets deliver far more benefits than costs, but they do put a large premium on sound macro- and micro-economic policies. Unregulated financial markets may not always punish poor policy quickly, but punishment when it comes is likely to be severe, and often affects those quite unconnected with the faulty policies.

Fortunately, New Zealand does not have a pegged exchange rate regime, a weak banking sector, and large, sometimes politically-driven, investment projects of low economic value - as do many of the Asian countries most affected by recent crises. With monetary policy firmly committed to delivering stable prices, and with ongoing fiscal surpluses, a robust banking sector, a freely floating exchange rate, and generally strong corporate balance sheets, the New Zealand economy is well placed to weather the current storm, though I don't pretend that it will all be easy.

There has also been debate as to where New Zealand's interests lie in the Asian context. Let me place on record my support for New Zealand assisting our Asian trading partners get through this difficult period. In this context, Deputy Governor Murray Sherwin has attended numerous meetings of central bankers in the region and the Reserve Bank is well focused on events in Asia. I have no doubt that being disengaged from these events is not an option, and would not be in our interests if it were.

On a wider front, the advantages of having an explicit, publicly-announced, numerical inflation target are increasingly recognised around the world. This was the consensus view of most central bankers and academic economists who attended a conference on 'monetary policy rules' hosted by the Swedish central bank in Stockholm in June. Several members of the Executive Board of the European Central Bank are on record saying that that institution will aim to deliver inflation between 0 and 2 per cent once it begins operation at the beginning of January 1999.

Within the New Zealand financial system, the most significant single event during the 1997/98 year was the inauguration in March of a real-time gross settlement system for inter-bank settlements. This had been under development by both the banks and the Reserve Bank for several years, and its completion took substantially longer than expected. Having said that, New Zealand now has a payments system for handling high-value transactions which very considerably reduces the risk of systemic difficulties if one bank were to get into strife.

It is now almost a decade since the passage of the Reserve Bank of New Zealand Act 1989. These years have been tumultuous, but all the Bank's staff, past and present, can take pride in what has been achieved. From the beginning, it was my hope that we could develop the Reserve Bank as a centre of excellence in everything that we did. I believe that we have come a long way in building that reputation, based on inflation outcomes since 1991, our new approach to banking supervision, and the improved efficiency of all our operations.

This has real value. In some countries, central banks have built reputations so strong and enduring that they are accepted by the public as being something in which they can have absolute confidence, regardless of whatever else is happening in politics or the economy. The Reserve Bank aspires to the same reputation in New Zealand. The empirical test of how much we have achieved is the degree to which people take for granted that stable prices are a fact of life that never needs to be questioned or even thought about.

To some extent, the Reserve Bank is now in a period of consolidation, refining and honing the things we do. This offers fresh challenges. Simplistic thinking never endures, and all our assumptions must go on being scrutinised and tested, as indeed they are. Complacency is not an option. All Reserve Bank staff can and do contribute towards achieving the goal of a central bank in which the public can have complete confidence, as a reliable, predictable, professional agency serving the public interest. In that way, they make an important contribution to the well-being of all New Zealanders, and I record my thanks to them for this.

Finally, 1997/98 marked the end of Dick Lang's long career at the Reserve Bank. Dick first joined the Bank in 1956 and became Deputy Governor in 1991, a position he held until retiring on 3 July 1998. He made an enormous contribution to the Bank, especially in driving the efficiency improvements of the late eighties and early nineties. To Dick especially I owe very sincere thanks.

Donald T. Brash

Donald T. Brash

Governor

The Reserve Bank of New Zealand is the nation's central bank, and, as such, it provides banking services to the Government and registered banks.

The Reserve Bank has three main functions. These are:

- operating monetary policy to maintain price stability;
- promoting the maintenance of a sound and efficient financial system;
- meeting the currency needs of the public.

Under the Reserve Bank of New Zealand Act 1989, the Reserve Bank is required to independently manage monetary policy (management of the supply of money and credit) to maintain overall price stability. Overall price stability is defined in a separate agreement with the Government as inflation of between 0 and 3 per cent annually.

This is achieved largely through influencing short term interest rates, which in turn influence the saving and borrowing behaviour of the public and businesses. Decisions on short-term interest rates influence the exchange rate as well, and therefore prices of imports and exports as measured in New Zealand dollars.

What RESERVE BANK We OF Do NEW ZEALAND

The Reserve Bank is responsible for the registration and prudential supervision of registered banks, based on a high degree of public disclosure. The Reserve Bank issues New Zealand's currency and manages the nation's foreign exchange reserves.

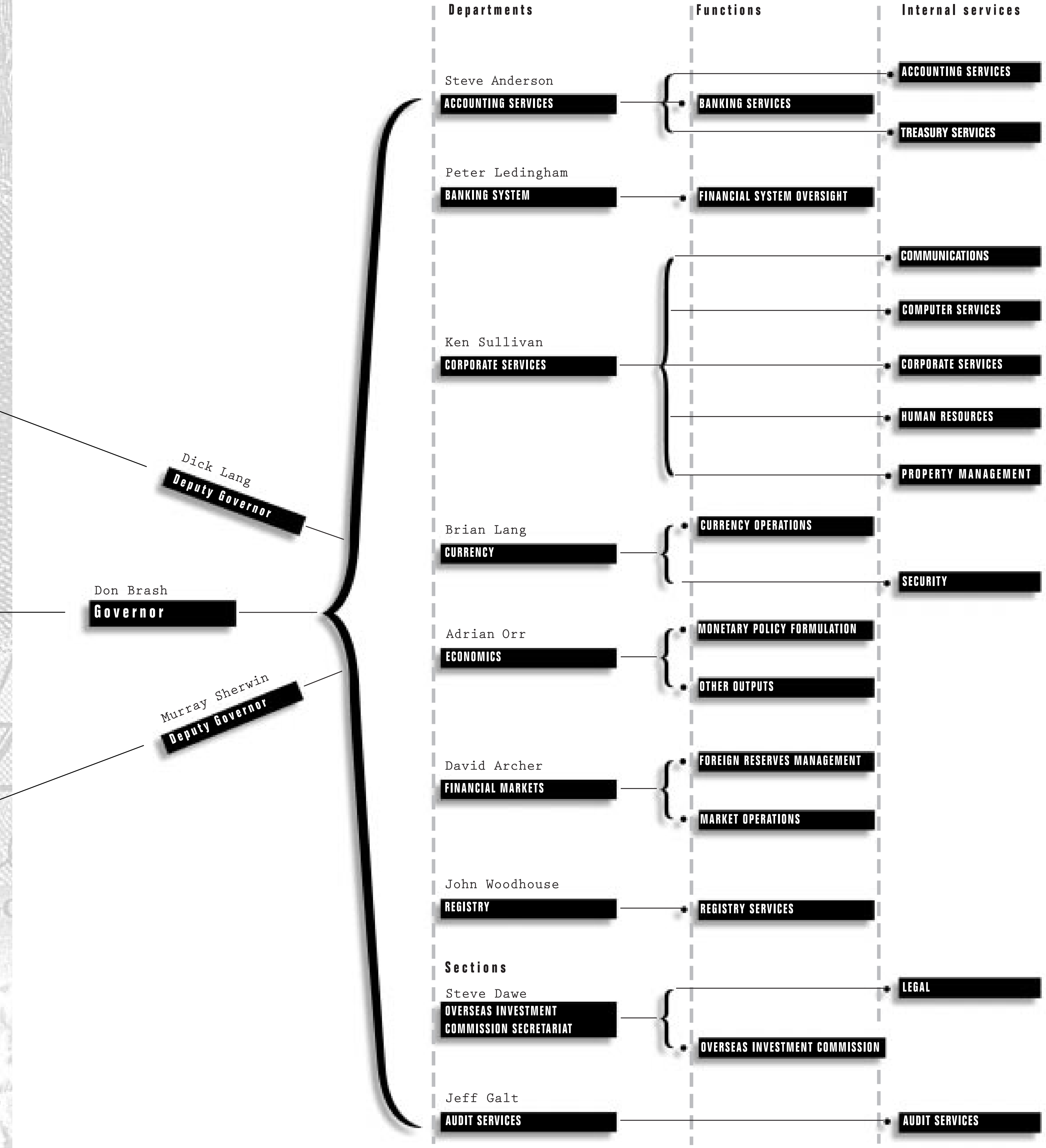
The Reserve Bank also provides cash, debt management and foreign exchange services to the Government, and secretariat services to the Overseas Investment Commission.

The Reserve Bank's internal organisation is illustrated in the chart opposite. Operationally, the Bank's activities are spread over seven departments and two smaller units, as also illustrated opposite, along with the functions that departments carry out and any internal services that they provide.

At the Reserve Bank's head is the Governor, assisted by the two Deputy Governors and, appointed after the year under review, an Assistant Governor. A Governor's Committee meets weekly to consider policy and management issues. It is chaired by the Governor, and consists of the deputy governors and department heads. The Monetary Policy Committee is chaired by Deputy Governor Murray Sherwin, and meets weekly to provide the Governor with advice on monetary policy, though actual decisions lie with the Governor alone.

In total the Reserve Bank employs about 300 staff. Day-to-day currency operations take place in Auckland and Christchurch, as well as in Wellington.

Reserve Bank Structure



Board of Directors: executive

Governor Don Brash (Chief Executive)
Deputy Governor Dick Lang* (Deputy Chief Executive)

Deputy Governor Murray Sherwin

Paul Jackman (Secretary)

The role of the Board of Directors of the Reserve Bank is different from that of a company. The Board has no involvement in directing Reserve Bank policy, monetary or otherwise. Rather the Board's primary function is to monitor the performance of the Reserve Bank and its Governor, reporting to the Treasurer. As well, the Board provides advice to the Governor, typically on the consequences of the Reserve Bank's activities for the commercial community. 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 non-executive directors, which is chaired by Sir Peter Elworthy and, for these purposes, meets independently of the executive directors. Two other Board committees, audit and registry, meet regularly. The Board as a whole met 11 times during the year under review.

* Mr Lang retired on 3 July 1998, his replacement as Deputy Governor being Dr Roderick Carr. Mr Sherwin became Deputy Chief Executive.

non-executive

Lindsay Fergusson
Professor Viv Hall

Gil Simpson

Bill Wilson
Alison Paterson

Sir Peter Elworthy
Stuart Young

Lindsay Fergusson
Company director: Chairman, AIT Foundation, America's Cup Village Ltd, Business in the Community Ltd, RBNZ Registry Ltd; Director, Auckland Regional Chamber of Commerce and Industry, Property Development Services Ltd, Tauranga Civic Holdings Ltd, Terabyte Interactive Ltd; National Councillor, New Zealand Institute of Management; Councillor, Auckland Institute of Technology; Auckland Committee Member, Institute of Directors in New Zealand (Inc).

(First appointed 1 December 1988 - current term expires 31 January 2000.)

Professor Viv Hall
University professor: Macarthy Professor of Economics and Head of the School of Economics and Finance, Victoria University of Wellington; Trustee, New Zealand Institute of Economic Research (Inc).

(First appointed 1 March 1992 - current term expires 28 February 2002.)

Gil Simpson
Computer programmer: Chief Executive Officer, Aoraki Corporation Ltd; member, New Zealand Business Roundtable, Minister for Information Technology's Advisory Group; board member, Genesis Research and Development Corporation Limited; joint venture partner in Canterbury Technology Park; Chairman, Christchurch City Mission Special Gifts Campaign.

(First appointed 9 June 1997 - current term expires 8 June 2002.)

Bill Wilson
Company director: Chairman, FERNZ Corporation Ltd, Fletcher Challenge Ltd, Property Leaders Australia Ltd, Property Leaders New Zealand Ltd, Property Leaders Australia and New Zealand Ltd, New Zealand Guardian Trust Company Ltd; Director, BOP Fertiliser Ltd.

(First appointed 1 February 1990 - current term expires 31 January 2003.)

Alison Paterson
Chartered accountant: Consultant, Beattie Rickman; Chairman, Waitemata Health Ltd; Director, Health Waikato Ltd, National Insurance Ltd, Transpower New Zealand Ltd, Wrightson Ltd; Trustee, Donny Charitable Trust, Health Waikato Charitable Trust, Wrightson Retirement Plan.

(First appointed 1 February 1995 - current term expires 31 January 2000.)

Sir Peter Elworthy
Agriculturalist: Chairman, Alan Duff Charitable Foundation, Opuha Dam Ltd, Primary Industry Consultants Board, Wild Peter Products Ltd; Director, New Zealand Rural Property Trust, BP New Zealand Ltd, Pacific Beef Ltd, Sky City Ltd, Stanfield Oaks Ltd, Trans Tasman Properties Ltd; Trustee, Lincoln University Foundation, New Zealand Institute of Economic Research (Inc), Waitangi Foundation; Patron, Croydon Aviation Heritage Trust, South Canterbury Conservation Trust.

(First appointed 1 September 1985 - current term expires 31 January 1999.)

Stuart Young
Industrialist: Retired Co-Founder and Chairman of the Interlock Group; Director, Musacus International Ltd.

(First appointed 1 July 1994 - current term expires 30 June 1999.)

RESERVE BANK OF NEW ZEALAND ANNUAL REPORT 1998

Chronology

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3 July

The Reserve Bank tells the markets that monetary conditions have eased too much since the release of the June *MPS*.

11 July

The Reserve Bank again tells the markets that monetary conditions have eased too much.

14 July

The Kookmin Bank from South Korea is registered in New Zealand, to operate as a branch.

15 July

Underlying inflation for the year to June 1997 is announced at 1.5 per cent.

25 July

Governor Don Brash attends EMEAP Governors' meeting in Shanghai.

18 August

The Reserve Bank tells markets that monetary conditions are "too loose".

21 August

The Reserve Bank agrees to participate in the provision of a bridging facility prior to IMF assistance to Thailand in response to the Asian financial crisis.

22 August

Governor Don Brash gives a speech entitled *Exchange rates, export prices and the Reserve Bank's Monetary Conditions Index.*

18 September

The September *Economic Projections* endorses the recent market-led easing in monetary conditions, taking the desired level of the MCI down 100 points to 725.

6 October

Governor Don Brash gives a speech entitled *How fast can the New Zealand economy grow?*

8 October

The Reserve Bank announces that it is considering scrapping 5 cent coins and making the 20 and 50 cent coins smaller.

14 October

The Reserve Bank's 1997 *Annual Report* is tabled in Parliament.

15 October

Underlying inflation for the year to September 1997 is announced at 1.8 per cent.

17 November

Governor Don Brash is reappointed for a third five year term.

18 November

Deputy Governor Murray Sherwin attends a gathering of EMEAP and G7 finance and central bank deputies in Manila, in response to the Asian crisis.

19 November

Governor Don Brash gives a speech entitled *The implications of the global financial marketplace for New Zealand.*

25 November

The Reserve Bank welcomes Statistics New Zealand's decision to take interest rates out of the Consumers Price Index from 1999.

27 November

The Reserve Bank warns the public to beware of counterfeit bank notes.

5 December

The Reserve Bank tells the markets that monetary conditions have become too loose.

5 December

The Treasurer announces the reappointment of Mr Bill Wilson to the Reserve Bank Board.

8 December

Decisions on changes to the coinage are delayed after extensive public feedback.

15 December

A new Policy Targets Agreement is signed, which defines the 0 to 3 per cent inflation target in terms of the Consumers Price Index excluding credit services (interest rates), known as CPIX. The concept of "underlying inflation" is discarded.

16 December

The December *MPS* endorses the recent market-led easing in monetary conditions, taking the desired level of the MCI down 75 points to 650.

7 January 1998

New $2 coins cause problems in some cash machines.

20 January

CPIX inflation for the year to December 1997 is announced at 1.6 per cent.

20 January

The Reserve Bank announces that new 1997 $2 coins are being withdrawn.

26 January

Reserve Bank initiates minor changes to disclosure requirements for registered banks.

30 January

Governor Don Brash gives a speech entitled *New Zealand's balance of payments deficit: does it matter?*

19 February

The Reserve Bank hosts the EMEAP Study Group on Banking Supervision and the EMEAP Central Banking Operations Working Group

23 February

The Reserve Bank tells the markets that "monetary conditions have eased too far over recent days."

27 February

The Reserve Bank announces that, following extensive public submissions, it has decided to retain 5 cent coins and make no changes to the size of 20 and 50 cent coins.

2 March

The ABN AMRO Bank N.V., of the Netherlands, is registered in New Zealand, to operate as a branch.

5 March

Real-time gross settlement (RTGS) goes live.

13 March

Governor Don Brash gives a speech entitled *In a world of open capital markets, how can central banks best help banking systems remain strong?*

18 March

The March *Economic Projections* eases monetary policy, taking the desired level of the MCI down 150 points to 500. The Asian crisis is cited as to why this is more than the markets expect. Also, from now on all quarterly projections will be known as *Monetary Policy Statements.*

26 March

Deputy Governor Murray Sherwin attends a gathering of the Manila Group finance and central bank deputies in Tokyo, in response to the Asian crisis.

27 March

A Bank press statement says the markets are over-reacting to the 18 March easing and the cash settlement target may need to be adjusted.

2 April

The Reserve Bank announces that some 1997 $2 coins were rejected by some cash machines because of a metallurgical variation and that new coins will be ordered.

2 April

Governor Don Brash gives a speech entitled *Living with low inflation: farming for profit.*

7 April

The Reserve Bank announces that as of 1999 it will switch to "polymer" (plastic) bank notes, instead of paper bank notes as at present.

8 April

A new Reserve Bank booklet *The Reserve Bank of New Zealand Act 1989: Our accountability to New Zealanders* is issued.

17 April

CPIX inflation for the year to March 1998 is announced at 1.7 per cent.

20 April

A new look *Reserve Bank of New Zealand Bulletin* is published, with statistical tables in a separate new publication called *Financial Statistics.*

20 April

Governor Don Brash gives a speech entitled *Monetary Policy in New Zealand: business as usual.*

27 April

A new Reserve Bank booklet *The impact of monetary policy on the economy* is issued.

29 April

New bilateral linkages between the central securities depositories in Hong Kong and New Zealand are announced.

6 May

Dr Roderick Carr is announced as the Bank's new Deputy Governor, to replace Dick Lang who retires in early July.

26 May

The May 1998 *MPS* eases monetary policy, taking the desired level of the MCI down 150 points to 350. It is also announced that, from now on, if the Reserve Bank needs to comment on current monetary conditions it will generally do so on Wednesdays at 9.00 am.

3 June

Governor Don Brash gives a speech entitled *New Zealand's economic reforms: a model for change?*

10 June

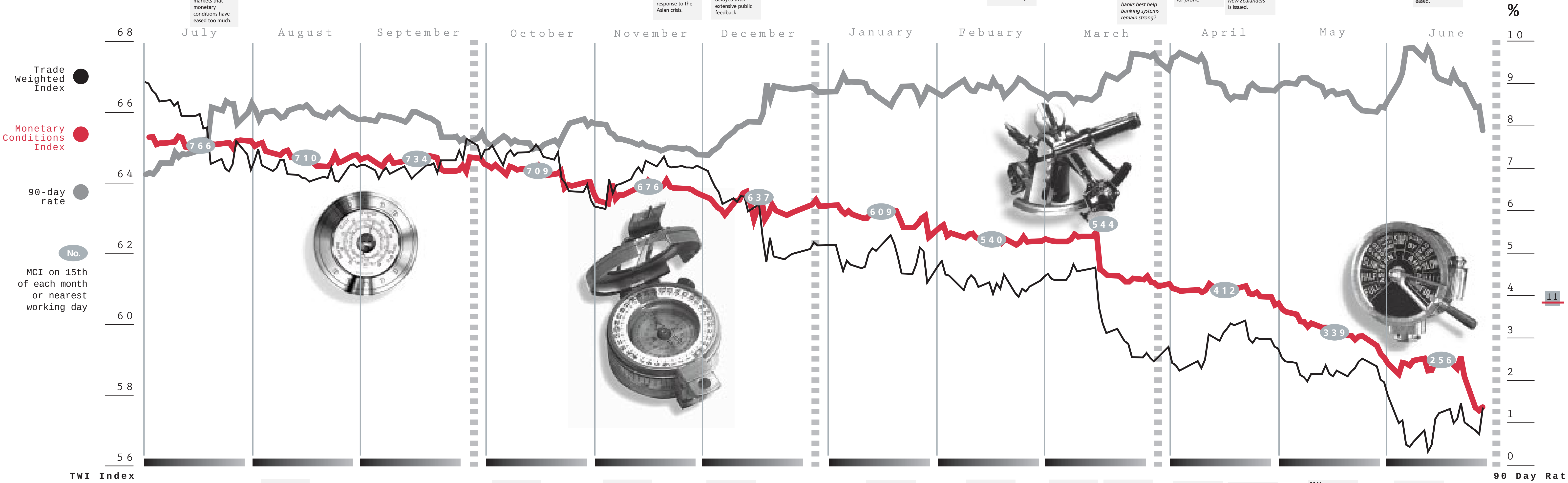
The Reserve Bank cautions the markets about the extent to which monetary conditions have eased.

20 June

Deputy Governor Murray Sherwin attends a gathering of G7 and EMEAP finance and central bank deputies in Tokyo, in response to the Asian crisis.

26 June

Dr Brash gives a speech entitled *Monetary policy in a dangerous world.*



Box 1

CPIX - A New Measure of the Inflation Target

CPIX is calculated by the Government Statistician and is the official Consumers Price Index (CPI) with credit services (interest rates) removed.

Previously the Reserve Bank relied on a measure known as "underlying inflation", which the Bank calculated from Statistics New Zealand data. However, this had a weakness, in that there was a potential conflict of interest for the Reserve Bank in calculating the key benchmark number against which it was accountable. For this reason, the Bank is now using an inflation measure that is calculated externally.

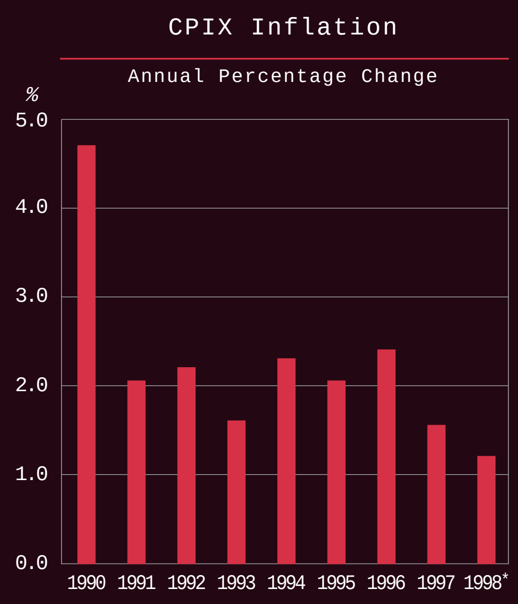
The Reserve Bank uses CPIX for its inflation target, as opposed to the CPI, because, if interest rates were in the inflation measure, a perverse effect would occur every time interest rates have to go up to contain inflation. In that situation measured inflation would appear to go up yet again, as a result of the higher interest rates, requiring even tighter monetary conditions, and so on, like a cat chasing its tail. To avoid this, interest rates are taken out of the measure.

"Underlying inflation" was calculated by removing not only interest rates from the CPI, but also significant changes in government charges, indirect taxation and external commodity prices, as provided for in earlier Policy Targets Agreements. These price shocks were deemed to be one-offs and not part of generalised inflation. Under the new approach, inflation caused by these one-off events would be included in the published inflation result (CPIX), even if that meant a breach of the inflation target. In that situation the Reserve Bank would cite the PTA, when explaining why the breach had occurred.

Statistics New Zealand has announced that interest rates will be taken out of the CPI from 1999. In the meantime the Reserve Bank targets CPIX.

A new Policy Targets Agreement was signed on 15 December 1997

Graph 1



*Projection to December 1998 as at August 1998

The Year in Review

Monetary Policy

A new Policy Targets Agreement (PTA) was signed on 15 December 1997, as required by statute when Governor Don Brash was reappointed. This resulted in the concept of underlying inflation being discarded. The new agreement requires the Reserve Bank to deliver 0 to 3 per cent inflation defined in terms of the All Groups Consumers Price Index excluding credit services (CPIX), as published by Statistics New Zealand (see box 1 opposite page)

In terms of actual inflation outcomes, underlying inflation and then CPIX inflation were close to the middle of the 0 to 3 per cent target throughout the year to June 1998. In the 12 months to June 1998 CPIX inflation was 1.7 per cent (see graph 1).

Over the same period monetary conditions eased substantially. The Monetary Conditions Index (MCI) dropped from 779 on 1 July 1997 to 133 on 30 June 1998. This was approximately equivalent to a 6 percentage point fall in short-term interest rates, assuming a stable exchange rate (see chronology p10-11).

Inflationary pressures had been slowing for some time previously, so that as far back as December 1996 monetary policy began to ease in response. Then late in 1997 and into 1998 the Asian financial crisis added to the slow-down, as growth prospects in many Asian economies, including Japan, deteriorated (see box 2). In December 1997, when easing monetary policy further, the Bank cited the likely impact of the Asian crisis on the New Zealand economy, and noted that the disinflationary impact of that crisis could become markedly worse. During 1998, this happened, and in response monetary policy was eased more aggressively still.

Box 2

The Financial Crisis in East Asia

During 1996, external trading conditions facing a number of East Asian countries deteriorated. Many Asian economies were already fragile, because of indiscriminate investment in real estate and lending to highly leveraged corporates. This was fuelled by large scale inflows of capital from abroad, which added to domestic liquidity in many countries. The fact that much of this borrowing was denominated in foreign currencies left many institutions and enterprises, and especially banks, highly exposed in the event of a devaluation.

The crisis broke in July 1997, when Thailand ceased defending its currency and adopted an IMF-supported adjustment programme. Subsequently, Indonesia and Korea experienced severe currency instability. All three countries faced serious break-downs in their financial systems, and the credit and payment mechanisms that support their domestic and international trade became impaired. Economic activity contracted sharply. By mid 1998, Japan was in recession, and growth prospects for China, Hong Kong, Malaysia and Singapore had become more uncertain.

For New Zealand, reduced exports to the region, which previously accounted for 36% of our merchandise exports, had a negative impact on economic activity. The likely effects of the crisis were a particular focus in each of the Bank's quarterly *Monetary Policy Statements* from December 1997 onwards. In the Reserve Bank's March 1998 projections, we judged that the severity of the crisis was being underestimated by many observers. As a result the Reserve Bank eased monetary policy by more than New Zealand markets had expected.

The Reserve Bank was able to draw considerable satisfaction from the fact that New Zealand's monetary policy framework responded to these events effectively, facilitating a very significant shift in monetary conditions, without drama or loss of credibility.

For the year as a whole, all of the monetary policy easing came through a sharply lower exchange rate, while interest rates actually increased slightly (see chronology p10-11). This new mix of conditions will assist exporters and those competing with imports. Given the significant appreciation of the currency between 1993 and early 1997, and New Zealand's sizeable current account deficit, the fall in the exchange rate was to be expected.

Monetary Policy Implementation

During the year under review, the Reserve Bank sought to bed down the concept of the Monetary Conditions Index (MCI) as a published indicator of monetary conditions. The MCI combines both the 90-day bill interest rate and the TWI exchange rate into a single index number. Both are important in determining the level of demand for goods and services, and therefore inflation, in an open economy such as New Zealand.

The MCI was first published in June 1997. This was done to assist public understanding of the relationship between the exchange rate, interest rates and aggregate monetary conditions. In particular, we wanted the public to realise that the exchange rate and interest rates are both relevant when considering the impact of monetary policy. The MCI was also intended to give a rough guide to the appropriate level of monetary conditions between quarterly projections.

At year's end the Reserve Bank judged that the publication of the MCI had been a success, though careful work is still needed to explain its place in the implementation of monetary policy and the considerations influencing the Bank's responsiveness to MCI movements.

The Reserve Bank also moved to reduce the market's focus on the possibility of Reserve Bank intervention at any moment in time. We did this by saying that, bar exceptional circumstances, the Bank would only comment on monetary conditions, if required, at 9.00 am on the day after the weekly meeting of the Bank's Monetary Policy Committee. Most weeks the Reserve Bank says nothing.

Liquidity

The Reserve Bank is required to manage "daily liquidity" - that is the total amount of money that banks hold in their accounts at the Reserve Bank. This matters because otherwise interest rates could fluctuate wildly as the Government spends and collects taxes, and as people's need for cash changes, especially around holiday times. To avoid this, the Reserve Bank undertakes offsetting transactions in the financial markets to smooth out these liquidity peaks and troughs.

The traditional focus of liquidity management has been the total amount of money in bank settlement accounts at the end of each day - the "settlement cash target" - set at $5 million since August 1995. This was adequate for monetary policy purposes and for keeping the financial system stable.

However, the introduction of real-time gross settlement (RTGS) means banks must make large scale settlements with each other throughout the day, some individual settlements ranging up to $1,500 million, while still keeping their accounts with the Reserve Bank in credit at all times (see box 3). As a result, RTGS has meant much more liquidity is now needed during the day.

This has been resolved by the Reserve Bank providing an automated facility through which banks sell securities to the Reserve Bank to raise cash during the day. Then, by prior agreement, the banks buy those same securities back at the same price at the end of the day. This adds cash to the banks' accounts when required, while leaving the target level of $5 million intact at the end of the day. The amount of liquidity used each day to settle these transactions has so far been around $3 billion.

Financial System Oversight

The Reserve Bank Act requires the Bank to promote a sound and efficient financial system in New Zealand. This, in part, involves seeking to minimise the damage to the financial system that could result from a bank failure. The Reserve Bank registers banks, develops banking supervision policies and checks registered banks' compliance with supervisory requirements. We also constantly monitor banks' financial robustness. As a result, we judged that the New Zealand financial system remained in good health during the 1997/98 year.

New Zealand's bank supervisory requirements are largely based on the mandatory public disclosure by banks of detailed information about their finances. During the 1997/98 year, we completed a review of these rules, and we expect to implement some minor changes in late 1998.

Two new banks were registered during the 1997/98 year. These were ABN-AMRO Bank N.V., of the Netherlands, which purchased the New Zealand operation of Barclays Bank (itself voluntarily deregistered), and Kookmin Bank, of South Korea.

A major initiative was the successful introduction of a real-time gross settlement payment system for banks (see box 3).

Box 3

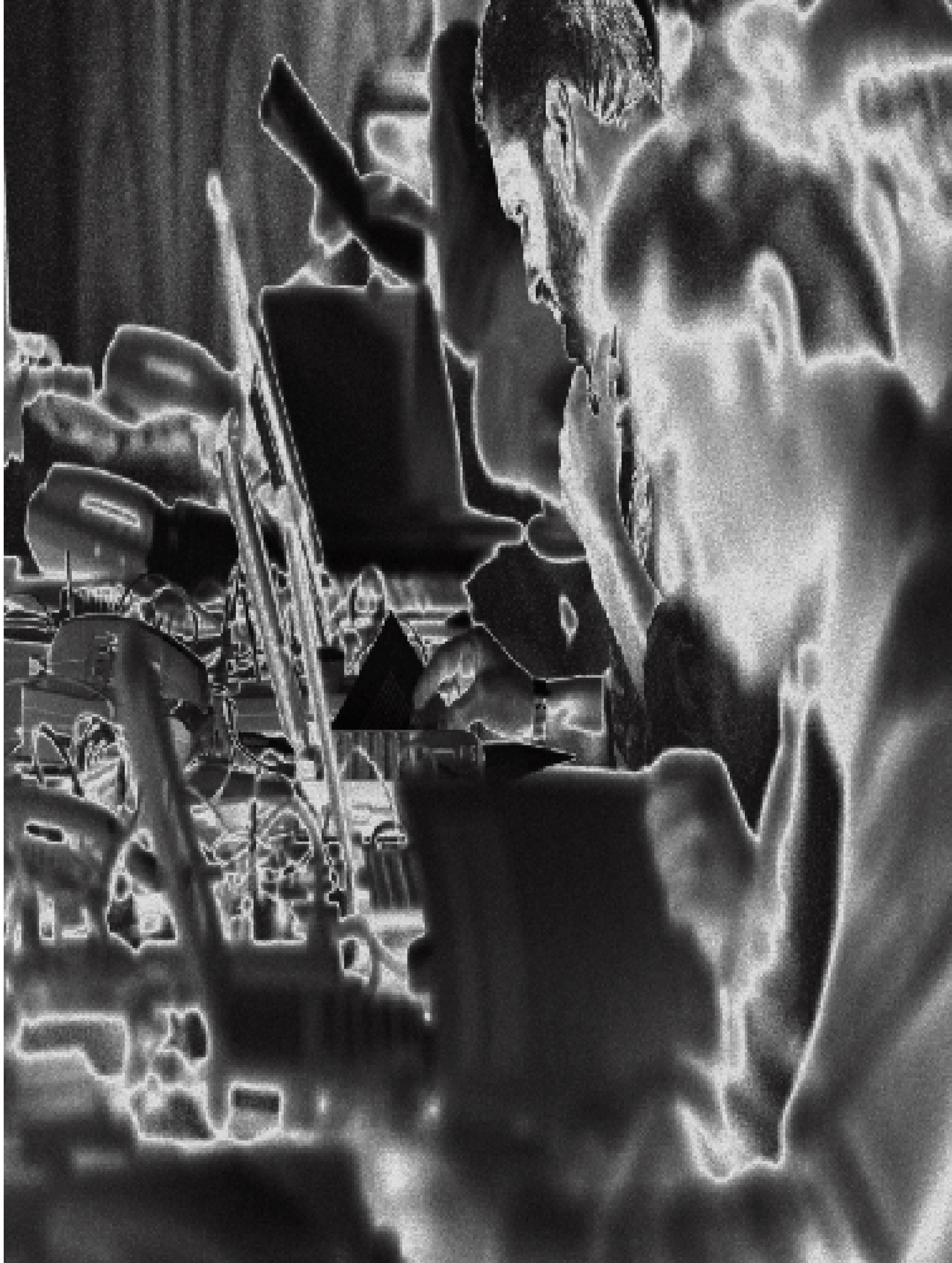
Real-Time Gross Settlement

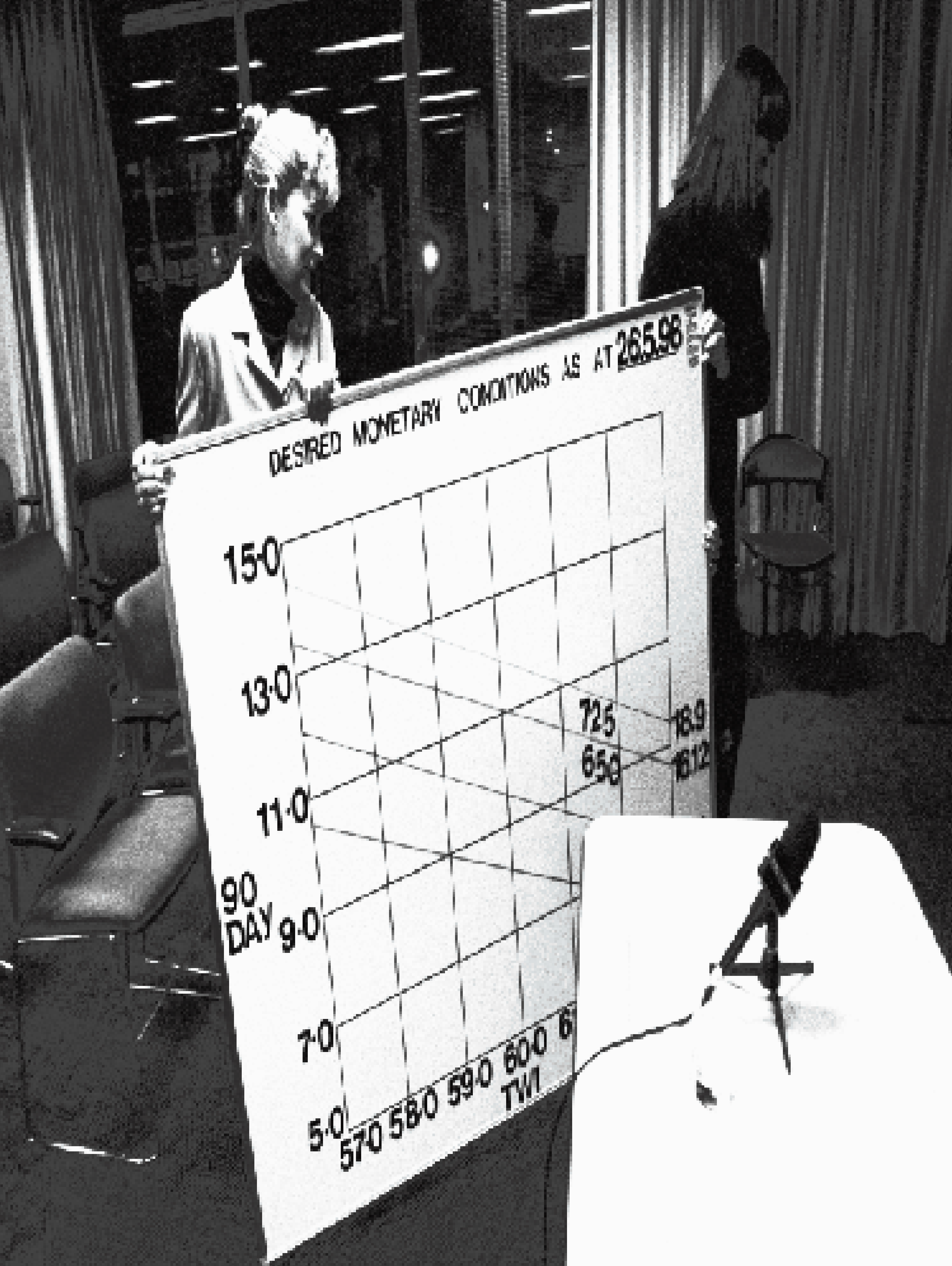
Real-time gross settlement (RTGS) was implemented in March 1998. This changed the way banks in New Zealand settle most high value transactions, including those in the wholesale securities and foreign exchange markets. Previously, at the end of the day banks tallied up all their inter-bank obligations, and then settled net amounts with each other through their accounts at the Reserve Bank. However, with RTGS, individual transactions between banks are settled electronically as the transactions happen.

RTGS makes the financial system as a whole more robust. Previously, if a bank collapsed during the working day, other banks could have been owed very large sums of money from incomplete transactions with the failed bank. This could have potentially put these other banks at risk, or have seen banks attempt to reverse payments, creating financial chaos.

However, with RTGS, large payments are completed transaction-by-transaction throughout the day, and are posted irrevocably to banks' accounts at the Reserve Bank before value is credited/debited to customers. Thus RTGS markedly reduces the risk that the collapse of one bank would lead to the collapse of others, or to attempts to reverse transactions. Around $30 billion a day goes through the RTGS system.

The implementation of RTGS marked the culmination of four years' work by the Reserve Bank and the banking industry. New Zealand now has an inter-bank payments system which matches international best practice.





Another initiative was the development of rules giving legal clarity to the netting of some payments not covered by RTGS between financial institutions in specific circumstances. This requires legislative changes that we hope to see enacted in late 1998.

We also encouraged New Zealand banks to better manage so called "Herstatt risk", which is the risk to banks caused by delays in settlements between banks operating in countries with different times zones.

The Reserve Bank's internal systems and procedures for bank supervision received attention during the year, as we must be ready to cope with emergencies within the sector. A completely new database was developed for handling information disclosed by banks. Our procedures and plans for dealing with a banking crisis were being reviewed at year's end.

Policy issues related to bank capital were also addressed during 1997/98. Banks are required to have minimum levels of capital to absorb unexpected losses. The definition and accounting treatment for capital was clarified, to make interpretation easier and to assist our responses to requests for variations.

The Year 2000 problem is an issue in the banking sector, as for other industries. We have been monitoring and encouraging banks' efforts to ensure that their computer systems will be free of Year 2000 errors (see box 4).

Box 4

Year 2000

The Year 2000 problem has an apparently trivial cause, but the consequences are potentially serious. Computers often use only the last two digits to represent a calendar year, so as to save memory space. The worry is that, when the year 2000 begins, older computers/software may fail to recognise 00 as the year after 1999, and stop or malfunction.

The Year 2000 issue is of concern to the Reserve Bank because widespread computer failure could severely disrupt the banking system. However, the prime responsibility for ensuring that this doesn't happen lies with banks and payment clearing services, who need to make sure that their computer systems are "Year 2000 compliant".

The banking sector has made significant progress. Banks have been addressing the problem internally, and in early 1997 the New Zealand Bankers' Association formed a Year 2000 Working Group to monitor the industry's progress and facilitate the testing of the interdependent computer systems. The Reserve Bank attends meetings of this group.

Banks have been testing their own systems for some time, and testing of interdependent systems began in July. Tests of increasing complexity will continue until early 1999. Likewise, the Reserve Bank is well advanced in testing its own computer systems.

Currency

One of the Reserve Bank's key obligations is to meet the currency needs of the public. At year's end the total value of currency in use had gone up 4 per cent to reach $1.81 billion. This comprised 66 million bank notes and 857 million coins.

The Reserve Bank processes cash for commercial banks, detecting forgeries and replacing damaged bank notes, and then issues cash back to the banks according to their daily needs. During the 12 months to 30 June 1998, the Reserve Bank processed 515 million bank notes at our Auckland, Wellington and Christchurch sites. On average, the Bank reissued 92% of all bank notes processed, the remainder being destroyed and replaced with new bank notes. Over this period 408 counterfeit bank notes were detected, compared with 1,100 in 1996/97.

Our bank note processing operation is accredited to ISO 9002, and during the year in review an audit of our operations, by Bureau Veritas Quality International, particularly commended our procedures for implementing improvements.

Plastic Bank Notes

On 7 April 1998, the Reserve Bank announced that, as from mid 1999, the nation's bank notes would be made of a new material, a flexible "polymer" plastic, instead of the cotton-based paper used currently. All the current denominations - $5, $10, $20, $50 and $100 - will be progressively issued in the new material, and by the middle of the year 2000 most bank notes in circulation will be made of the new material.

This decision followed a tendering process, and the new bank notes will be printed by Note Printing Australia Ltd, a Melbourne-based subsidiary of the Reserve Bank of Australia (see box 5).

Box 5

Plastic Bank Notes

Superficially the new "polymer" bank notes will look similar to the bank notes they will replace. The visual elements in their design will be mostly the same. However the feel of the new bank notes will be different, like bank notes already in use in Australia.

Compared to paper, plastic bank notes are stronger and non-porous. As a result, they don't get dirty and tatty, and they are much harder to tear. Compared to paper money, plastic bank notes cost roughly twice as much to produce, but they last four times longer, which will save the taxpayer about $1 million annually.

As well, superior security features will help deter forgeries. These include a transparent window, which is very difficult to fake. The material used for the new notes is initially produced as a large roll of clear plastic film, which is then printed on, apart from a small area deliberately left clear, providing the transparent window. In Australia the introduction of plastic bank notes in 1992 resulted in reported forgeries there falling significantly, and a similar result is expected here.

Plastic bank notes have the additional benefit that they can be profitably recycled into manufactured items, whereas bank note paper cannot be recycled economically, because of the strong inks used.

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Coinage

In October 1997, the Reserve Bank called for public submissions on the desirability of withdrawing the 5 cent coin from circulation and reducing the size of the 20 cent and 50 cent coins. After extensive consultations, the status quo was retained.

On 20 January 1998, the Reserve Bank announced that recently-issued 1997 $2 coins were being withdrawn. These coins had gone into circulation just prior to Christmas, but unfortunately some gaming and vending machines rejected them. The reason was a slight variation in the metals used, compared with older $2 coins already in circulation. This affected the coins' electrical conductivity, which is used as an authenticity test by many vending machines. Fresh $2 coins, dated 1998, have been minted, and will be issued later in 1998 after extensive testing.

Collectors' Currency

In January 1998, the Reserve Bank issued its first commemorative platinum coin. Other issues included a silver coin with a gold cameo insert celebrating the Queen's 50th wedding anniversary, and a coin depicting Christchurch Cathedral.

Registry Services

The Reserve Bank's Registry provides registration, transfer and payment services for debt securities issued by the Government, local authorities and other public and private sector issuers.

At 30 June 1998 the Reserve Bank was registrar for securities with a face value of $63.7 billion, compared to $54.5 billion at 30 June 1997. We provided services for just over 34,900 investors, holding over 72,400 separate investments. The total value of payments made to investors on behalf of issuers during the 12 months was $50.4 billion. This compares to $40.8 billion for the previous year.

The Reserve Bank provides the Austraclear New Zealand System, which offers electronic clearing and settlement services for debt and equity securities, and a cash transfer facility. At 30 June 1998, Austraclear had 273 members, including 129 trust memberships; and held securities on their behalf of $84.2 billion, compared to 218 members and $76.1 billion 12 months earlier. Members' securities are held by New Zealand Central Securities Depository Limited, a custodian trustee wholly owned by the Reserve Bank.

Testing the Austraclear New Zealand System to ensure that it is Year 2000 compliant has been largely completed, enabling users of the system to conduct their own Year 2000 compliance testing.

In April 1998 a bilateral linkage with the Hong Kong Monetary Authority was established, to facilitate efficient cross-border holding and trading of debt securities, and to reduce settlement risks for cross-border securities transactions. The Registry acts as the New Zealand depository for Cedel Bank SA and the Euroclear Operations Centre, which are international securities clearing and settlement systems. Securities held for these systems increased 5 per cent over the past year.

Financial Results

We record all registry services activity through a wholly-owned subsidiary, RBNZ Registry Limited, to enhance the accountability and transparency of this self-funding function.

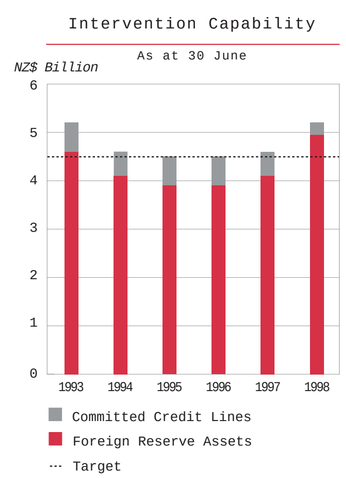
Foreign Reserves Management

The Bank holds foreign currency assets to enable intervention in the foreign exchange market, should that ever prove necessary in the national interest. Additional intervention capability is provided by the Reserve Bank having committed credit lines arranged with international banks, although for cost reasons these have been scaled back over the last year. The target intervention capability – determined by the Government – has been around NZ$4.5 billion in recent years, with fluctuations occurring due to exchange rate movements (see graph 2). There has been no intervention in the market for New Zealand dollars since our currency was floated in March 1985.

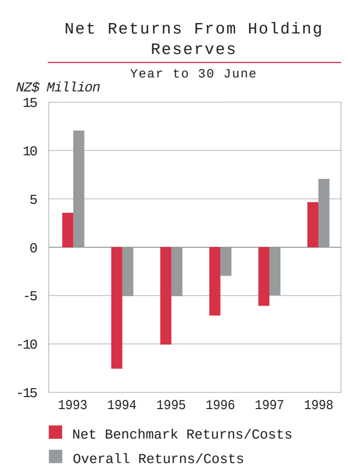
Unusually for a central bank, our foreign currency reserves are fully funded by foreign currency borrowings, via the Treasury, to avoid losses due to exchange rate or interest rate movements. Typically, New Zealand pays more to borrow overseas than it earns in interest by investing those borrowings in high quality assets. As a result, holding reserves normally involves a cost. To reduce this, the Reserve Bank actively manages the reserves.

We assess the scale of the savings that result from this active management by comparing the gap between the net cost actually incurred and what would have resulted from holding a passive "benchmark" portfolio (see graph 3). On that basis, in 1997/98 active management saved $2.7million, which was up from 1996/97, but below budget and earlier years' savings. In recent years variations in the portfolio's net returns have been within a +$10 million to -$5 million range. This is about 0.1 percent of the value of the reserves. We continue to devote attention to improving our returns.

Graph 2



Graph 3



International

International representation and liaison expanded in 1997/98, largely as a consequence of the Asian crisis.

The focal points for our response to these difficulties were EMEAP (Executives' Meeting of East Asia and Pacific central banks) and the "Manila Group". The Manila Group was formed in November 1997 from both EMEAP and G7 countries, its purpose being to co-ordinate international financial assistance for East Asian countries experiencing financial stress.

In February 1998 the Bank hosted meetings of the EMEAP working groups on banking supervision and on central bank operations, including a joint meeting to discuss aspects of the Asian crisis.

As current chair of the SEANZA group of central banks, the Reserve Bank represented SEANZA banking supervisors when the Basle Committee on Banking Supervision finalised its so-called "core principles" on banking supervision in September 1997. In November 1998 the Bank will host a SEANZA training programme for central bankers, along with meetings of SEANZA Governors and of EMEAP Deputies. Although SEANZA was originally an acronym for South East Asia, New Zealand and Australia, today it embraces 19 countries from throughout East and South Asia, as well as Australasia.

The Reserve Bank hosted two workshops on monetary policy, focused on "Inflation Targeting" and "Monetary Policy Under Uncertainty". Numerous overseas participants attended. We also organised a group of experts on financial fraud and "scams", which visited some South Pacific countries to alert their authorities to the kinds of risks that they could face.

During 1997/98 the Reserve Bank maintained relationships with the major international economic agencies, including the IMF, OECD, and Bank for International Settlements. The IMF and OECD conducted regular reviews of the New Zealand economy, in August 1997 and October 1997 respectively, and these included meetings with the Bank.

The Reserve Bank received a number of short-term overseas visits from other central banks, including from China, Vietnam, Indonesia, Sweden, Uganda, Finland and Mongolia.

Our People

The Reserve Bank employed a total of 300 staff (281.5 full-time equivalents (FTE)) as at 30 June 1998. Of those, 251 staff were based in Wellington, 36 at our Auckland office and 13 at our Christchurch office. Staff levels remained stable across all departments. The Reserve Bank's turnover rate has reduced to 8.8 percent (see table 1).

Table 1

Human resource statistics

	1992/93	*1993/94*	*1994/95*	*1995/96*	*1996/97*	*1997/98*
Total staff at 30 June (FTE)	321	286	293	290	289	281
Average years of service at 30 June	7.8	8.7	8.6	8.6	8.7	8.3
Annual staff turnover	11.8%	10.9%	9.6%	15.0%	10.6%	8.8%
Average sick days per staff member	7.2	7.1	5.3	4.9	5.5	4.9

Performance and Development Reviews

This year the Reserve Bank adopted a new competency-based method of assessing employee performance. Instead of merely prescribing required outputs, we developed a specific set of attributes, or "competencies", required of employees to perform their duties effectively. This new method of performance review encourages a clear focus on staff training and development to achieve the required attributes. The importance of managerial skills, in addition to technical expertise, is also reinforced.

As well, reverse appraisals have been widely introduced. These enable staff to give their managers feedback on their managerial competence.

Retention of Women

In August 1997 the Reserve Bank initiated a study to examine why the Bank has not been very successful in retaining senior professional women, despite having an active equal employment opportunities (EEO) policy, including an on-site crèche in Wellington. Our aim was to establish why senior professional women leave the Bank, and to identify strategies to attract and retain them.

External consultants were commissioned to develop and administer a questionnaire to all employees within the Bank, as well as a sample of former staff. The survey data has provided valuable information, not just on why senior professional women leave the Reserve Bank, but also on the Bank's culture and management style in general. The Reserve Bank has been carefully considering this information, and will seek to identify and implement appropriate strategies over the 1998/99 year.

Health and Safety

The Reserve Bank is proactive in regard to employee health and safety. We seek to prevent injuries and accidents by hazard identification, ergonomic equipment, induction education, and training. We encourage continuous improvement and monitor our work practices as required under the Health and Safety in Employment Act (1993).

Remuneration

The Reserve Bank spent $16.7 million on personnel in 1997/98. This included all forms of remuneration, direct expenditure on training, and redundancy payments. Table 2 shows the number of staff who received over $100,000 in total remuneration† in 1997/98.

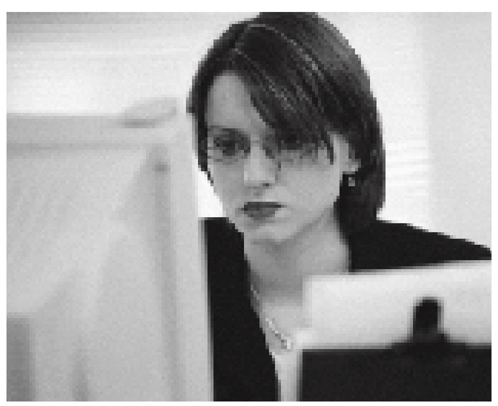


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Table 2

Staff receiving $100,000 or more in 1997/98

Total Remuneration†	*Number of staff*
$100,000 to $109,000	1
$110,000 to $119,999	8
$120,000 to $129,999	1
$130,000 to $139,999	1
$140,000 to $149,999	3
$150,000 to $159,999	2
$160,000 to $169,999	3
$180,000 to $189,999	1
$190,000 to $199,999	1
$240,000 to $249,999	1
$280,000 to $289,999	1
$350,000 to $359,999	1
Total	**24**

Box 6

Retirement of Dick Lang

As the year under review came to a close, the Reserve Bank also marked the retirement of Deputy Governor Dick Lang, after over 40 years of service to the Bank. In January 1956, as a sixteen year old, Dick Lang worked at the Reserve Bank during his school holidays and in December that year he began full-time work as a junior clerk in the banking office. In January 1991 Mr Lang was appointed Deputy Governor.

At a farewell ceremony Governor Don Brash paid particular tribute to the role that Mr Lang played in the Reserve Bank's internal reforms during the 1980s and early 1990s, which saw a massive reduction in the Bank's overheads and substantially enhanced productivity. Dr Brash said Mr Lang carried the immense pressure of changing an established institution from within, which he did with distinction.

Mr Lang's replacement as Deputy Governor is Dr Roderick Carr, who was formerly with the National Australia Bank in Melbourne.

† "Total Remuneration" includes the annual cost to the Reserve Bank of all elements of contracted remuneration packages (salaries, and any benefits, motor vehicles, fringe benefit tax, superannuation), plus any bonuses or redundancy payments. The above information sets out the amount actually paid, or, in the case of benefits, actually provided, during the financial year. It does not include amounts that may be paid at some future date. These will be reported in the year they are paid. In this respect note that Dr Brash's present contract provides for his base remuneration package to remain fixed for his full five-year term, but an additional amount to be set aside each year (at 31 August), based on performance and movements in relevant market remuneration, to be paid out subject to the satisfactory completion of his term on 31 August 1998. Over the first four years of Dr Brash's second contract, the total amount set aside was $167,000. However, for his third term, Dr Brash's contract of employment provides for his remuneration to be reviewed, and adjusted if appropriate, on an annual basis, as with other Reserve Bank staff.

Communications

During 1998 the Reserve Bank's external communications had to adapt to fast-changing circumstances, as the Asian crisis dominated economic news and public perceptions. In regard to monetary policy, the previous focus of the Reserve Bank's external communications had been almost exclusively on the need to establish and enhance the Bank's credibility in terms of keeping inflation under control. However, as the Asian crisis became more pronounced, so the Bank placed more emphasis, in its external communications, on the fact that price stability requires inflation to be above zero, as well as below 3 per cent. The Bank emphasised that, when the economy is in a trough, monetary policy targeted at price stability also helps the economy get moving again. Another theme given priority was the fact that traditional expectations of capital gains from real estate well ahead of general inflation were no longer well founded.

In October 1997 the Reserve Bank published a brochure called *50, 20 and 5 cent pieces: New Zealand coinage review 1997*, which invited feedback to proposed coinage changes. Then in April 1998 the Bank published a booklet *The Reserve Bank of New Zealand Act 1989: Our accountability to New Zealanders*, which explained the legislative framework under which the Reserve Bank operates. This was in part prepared for overseas audiences. In April 1998 a booklet entitled *The impact of monetary policy on the economy* was also released, being the fourth in a series.

Regular elements in the Reserve Bank's external communications included the release of *Monetary Policy Statements*, the publication of the *Annual Report* and *Annual Plan*, and quarterly editions of the *Reserve Bank of New Zealand Bulletin*. A coinage review and difficulties with the introduction of $2 coins also required active "issues management".

The Reserve Bank's senior management maintained a busy public speaking schedule, primarily by the Governor, and mostly without the media present to avoid triggering financial market turbulence. A small number of on-the-record speeches were used to address issues of public concern.

Interest in the Reserve Bank's Internet site continued to grow, with up to 18,000 "hits" a week . The Reserve Bank's web site is at http://www.rbnz.govt.nz.

Risk Management

As a financial institution, the Reserve Bank needs to manage carefully the risks to which it is exposed. Within the Bank, a Risk Unit monitors the Bank's exposure to risk in its financial transactions and advances the Bank's understanding of the risks inherent in these transactions. A Risk Management Committee chaired by a Deputy Governor scrutinises the Bank's risk management policies.

The Bank is actively developing its disaster recovery procedures.

Financial Performance

Operating Expenses

The Reserve Bank's consolidated [∞] expenditure for 1997/98 was $37.0 million, which was 4 percent under budget. This was $758,000, or 2 per cent, below the previous year's actual expenditure. Currency issue expenses were under budget by $1.2 million or 22 per cent, accounting for most of the favourable variance in operating expenses. This was due to the Bank being able to reissue used notes, rather than issuing new notes, to a greater degree than expected, while still retaining the quality of currency in circulation. All other categories of operating expense were within 6 percent of budget.

∞ The Bank's registry services function is excluded from the Funding Agreement. The term "consolidated" is used where the figures include those of the registry services function.

Funding Agreement

Section 159 of the Reserve Bank of New Zealand Act 1989 requires the Governor to sign a Funding Agreement with the Treasurer. This limits the Bank's expenditure on non-commercial activities to a specified amount for each year of a five-year period. The intention is to constrain the Reserve Bank's expenditure, whilst ensuring that the Bank has sufficient funds to carry out its responsibilities free from political interference.

The Reserve Bank spent $32.3 million on activities covered by the Funding Agreement, 17.6 per cent below the $39.2 million level applying to the 1997/98 year and 3 per cent below equivalent actual costs in 1996/97.

Operating Surplus

The Reserve Bank recorded a net consolidated surplus of $160.3 million for the year, against $135.1 million budgeted, and compared to $142.5 million in 1996/97.

This surplus is not, however, a good indicator of the Reserve Bank's management performance, as the Bank's surplus is highly dependent on interest rate levels and maximising the surplus is not a Bank objective. The principal source of income for the Bank is interest earned on the financial assets backing currency in circulation [#], which means the Bank's income changes as interest rates change. As such the Bank's operating surplus will vary as nominal interest rates move up and down. Also, the Bank deals in financial markets to achieve policy goals. For these reasons, monitoring the Bank's operating expenditure against its Funding Agreement gives a better indication of its stewardship of public resources.

Payment to Government

The Reserve Bank Act requires the Bank to calculate the amount of its income which exceeds the agreed level of operating expenditure in the current Funding Agreement. This surplus may be added to the Reserve Bank's equity or paid to the Government. The decision rests with the Treasurer, after consultation with the Bank's Board of Directors. This year, that surplus was $151.9 million. The Bank expects to pay all of this to the Government.

The Reserve Bank Act also provides that any expenditure savings the Bank makes against Funding Agreement levels may be added to the Bank's equity. Any over-expenditure against Funding Agreement levels must be deducted from equity.

The Bank's Equity

The Reserve Bank's 1997/98 results provided a transfer to equity of $6.9 million, representing under-spending on the Funding Agreement level for the year. The Bank's subsidiary company, RBNZ Registry Limited, also recorded a surplus of $1.5 million, which forms part of the Bank's consolidated equity. RBNZ Registry Limited expects to pay a dividend of $2 million to the Reserve Bank. The Bank's consolidated equity at 30 June 1998 was $404.2 million.

The Reserve Bank's budgeted operating expenditure for 1998/99 is $40.7 million on a consolidated basis. This is 10 per cent above the 1997/98 spending of $37.0 million. The Reserve Bank's budgeted operating expenditure for functions covered by the Funding Agreement for 1998/99 is $35.6 million, 11 per cent below the Funding Agreement level of $40.2 million, and $3.3 million, or 10 per cent above actual expenditure in 1997/98. These increases primarily reflect increased expenditure on the introduction of the new polymer bank notes, on systems related to real-time gross settlement, and on expanded liaison with overseas central banks through the SEANZA and EMEAP programmes.

This is known as seigniorage.

THE YEAR AHEAD

The Reserve Bank annually undertakes a formal planning process which identifies goals for the year ahead. During the 1998/99 year, aside from carrying out its normal duties, the Reserve Bank specifically intends to:

- further enhance the Forecasting and Policy System model used in the preparation of Monetary Policy Statements, policy analysis and research;
- critically review the role of monetary policy throughout the most recent business cycle, to see if the management of monetary policy can be improved in the future;
- implement revised rules for banks' mandatory disclosure of their finances, as part of their registration obligations;
- facilitate drafting and passage of banking law reforms on netting and payments finality and amending legislation to shift Community Trust administration to the Internal Affairs Department;
- introduce the first polymer plastic bank notes around May 1999;
- participate in a review of banking industry cash-handling procedures co-ordinated by the New Zealand Bankers' Association;
- continue research into improving the risk-adjusted performance of our foreign reserves portfolio;
- address the implications for foreign reserves of the January 1999 introduction of the new European currency;
- ensure our systems are not going to be disrupted by the Year 2000 problem;
- host a SEANZA training programme for central bankers, along with meetings of SEANZA Governors and of EMEAP Deputies in November 1998;
- implement any decisions that emerge from the Retention of Women project;
- develop strategies for managing resource and personnel issues in the event of a natural disaster;
- sponsor a Journalists Training Organisation economics course and text book for mid-career journalists; and
- publish a booklet on the implications of price stability for personal savings and investment

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