RESERVE BANK OF NEW ZEALAND

The history of the Reserve Bank of New Zealand

In 2009 the Reserve Bank marked its 75th year of operations – three quarters of a century spanning some of New Zealand's most tumultuous decades.

The origins of the Reserve Bank

The origins of the Reserve Bank stretch back many years before its founding in 1934. Initially – apart from one short-lived experiment – New Zealand had no central bank able to issue currency. Notes were issued by the main trading banks.

That worked after a fashion, but by the early twentieth century, central banks also fulfilled a number of policy roles within national economies. The British were eager for New Zealand and Australia to set up their own, modelled after the Bank of England. Although interested, the New Zealand government was initially reluctant to do so. But that changed during the 1920s; and in 1930, visiting British expert Otto Niemeyer recommended a New Zealand central bank.

The government of the day was still reluctant, but some of the economic issues driving the need for a central bank – including exchange-rate and foreign reserve control – were sharpened by the Great Depression that began in 1930-31. The Finance Minister J. G. Coates, talented economist Bernard Ashwin and others began developing legislation to create New Zealand's central bank.

This work continued during 1932 and 1933, culminating in the Reserve Bank Act 1934, which came into effect from 1 April. The Bank itself began operations on 1 August when the new Governor, former Bank of England Chief Cashier Leslie Lefeaux, began work in the office of the Postmaster General.

Although prompted by what amounted to technical policy reasons, the Bank also had the task of issuing New Zealand's first centralised banknotes – and that day, one of the largest cheques ever written in New Zealand up to that time changed hands as part of the Reserve Bank's acquisition of the trading banks' currency.

Top: Leslie Lefeaux, first Governor of the Reserve Bank of New Zealand.

Centre: The first cheque issued by the Reserve Bank, the equivalent of about $2.3 billion in 2009 values.

Above: Reserve Bank Board of Directors, 1934-35. Silver platters on the wall were a gift from the Bank of England.

Some design highlights of the Reserve Bank's currency over 75 years. Top to bottom: Series 1 one pound (1934) – temporary first issue; Series 2 one pound (1940) – classic mid-twentieth century designs; Series 3, two and ten dollar (1967) – the switch to decimals; Series 6 (1999) five and ten dollar – polymer notes with a range of sophisticated security features.

Currency issue

The Reserve Bank's initial public impact was immediate and obvious – all the old trading bank notes disappeared and were replaced by Reserve Bank tender. The first note series, issued in 1934, was hastily designed and intended to be temporary. The second series, issued in 1940, survived until decimalisation in 1967.

Changing technology and styles prompted further revisions. The decimal notes were re-designed in the early 1990s, and by 2009 the Bank was issuing sophisticated polymer notes containing a range of security features. Authority over coins, gained in 1989 from The Treasury, gave the Bank full responsibility for all New Zealand's currency. In 2006, smaller plated-steel coins replaced the original cupro-nickel coins that had been circulating since 1967.

75 years of policy developments

Wider policy developments affecting the Bank's operations over the 75 years of its operations have been profound, ultimately reflecting the way that economy, society and politics have changed over three generations.

When founded, the Bank was partly privately owned and the main policy role was exchange rate stability. In 1935, however, a newly elected Labour government changed the basis of operations, nationalised the Bank, and gave it authority to underwrite loans. This was the beginning of what can be called New Zealand's 'big government' era, a period when the state took a significant role across a wide range of functions, including the economy.

A succession of amendment acts revised and expanded the functions of the Bank over the next few years – most notably in 1936, 1950, and 1960. While some of these changes were technical or administrative and did not affect the broader role, there was a significant revision in 1964.

Staff cafeteria, Dominion Farmers Institute building, probably 1950s.

The Bank's tasks over these years included being government stock registrar, government banker, operating foreign reserve controls, administering foreign exchange, conducting prudential management of the banks, and conducting monetary policy to meet a variety of targets. This included general price stability, but the Bank was also variously required to use monetary policy to promote growth, employment and other economic goals.

The basis of operation changed again in the 1980s. By this time the economy was reeling under the multiple shocks of the oil crises of the 1970s and disengagement from Britain as a major market. Inflation was very high and apparently entrenched.

The Reserve Bank Act 1989 identified a wide range of functions and powers for the Bank, of which the use of monetary policy to tackle inflation was the most important at the time. This was defined by means of a 'Policy Targets Agreement', signed by the Minister of Finance and the Governor of the Reserve Bank.

Although this approach was pioneering for its day, it was in in line with worldwide trends and, during the 1990s, became the conventional approach around the world. Later legislation continued to amend and develop the role of the Reserve Bank, most recently developing the oversight and regulatory function relative to the financial sector.

By 2009 the Reserve Bank was one of the few 'full service' central banks in the world, able to bring a full range of policy tools to bear across a wide range of normal central banking roles. These included inplementing monetary policy, financial system oversight, financial markets activities, clearing and settlement services, banking system liquidity management and oversight – and, as always, providing currency to the public.

Working for the Bank

The size of the Bank has changed dramatically over 75 years. Initial plans called for a staff of just 20. This was far too low even by 1930s standards, and by 1935 the Bank had sixty staff. This grew dramatically as the role and task of the Bank was altered by successive governments. Regulatory functions demanded people, particularly in pre-computing days.

The culture of the Bank was very much that of a contemporary government department, infused with a degree of tradition imported from the Bank of England. Staff policies were strict and, by later standards, rather stuffy. But with a fair number of long-standing career staff on board, the organisation gained something of the feel of a family.

During the late 1980s the Bank underwent down-sizing and restructuring as much of the regulatory role was shed, and by 2002 staff numbers had fallen from highs of more than 600 to just over 170. Further role changes in the early 21st century produced another expansion, and by 2009 there were around 230 staff working for the Reserve Bank of New Zealand.




Right, top to bottom: working the Addressograph machine, 1950s; Chief Accountant's typing pool, same period; the Loan Committee of 1956; Economics Department, early 2000s. Ongoing use of technology is noteworthy; computers eventually became essential tools. The Bank invariably looked to take advantage of whatever technology was available in the day – even, at one stage, devoting a floor of the building on 2 The Terrace to an immense IBM mainframe.

Housing the Reserve Bank

The Reserve Bank first operated from temporary premises in the Dominion Farmers' Institute building on Featherston Street in central Wellington – complete with a replica moa in the foyer. Although intended only as a stop-gap until the Bank could obtain purpose-built premises, this remained the Bank's home for 38 years.

Efforts to develop a permanent building began in the 1940s, but a final decision proved elusive. A property was finally purchased on the corner of The Terrace and Bowen Street, however an early proposal in 1954 was cancelled for cost reasons. Work finally began in the mid-1960s to a new design by Allied Architects, and the Reserve Bank building opened in 1972. It has been the home of the Bank since and includes office and vault facilities.

Homes for the Reserve Bank. Top right: Dominion Farmers' Institute, 1934-72. Above, top: proposed 1944 building. Above, right: draft design for The Terrace site. Above: final building under construction, September 1967. Right: Reserve Bank building, 2008.

Further reading

Gary Hawke, *Between Governments and Banks*, Reserve Bank, Wellington 1973.

John Singleton *Innovation + Independence: the Reserve Bank of New Zealand 1973-2002*, Auckland University Press, 2006.

Matthew Wright, 'The Policy Origins of the Reserve Bank of New Zealand', Reserve Bank of New Zealand *Bulletin*, 69/3, September 2006.

Reserve Bank of New Zealand, 2 The Terrace, Wellington, New Zealand

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