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Editor's note

In this edition of the Reserve Bank *Bulletin*, we present a range of articles about strengthening the economy in light of the economic and financial crisis, and lessons that can be learned from history. Three of the articles feature an international perspective from recent visitors to the Reserve Bank.

In our first article, Kevin Hoskin and Stuart Irvine explain the Reserve Bank's philosophy regarding the quality of capital held by banks in New Zealand. A sound financial system requires that banks hold sufficient capital at all times. The article focuses in particular on the determination of minimum capital levels for the four largest banks in New Zealand, which have been accredited to operate as 'internal models' banks under the Basel II international framework for bank capital. The Reserve Bank's approach to Basel II aims to ensure that New Zealand banks' capital holdings are conservative and attuned to New Zealand circumstances.

Our second article is the paper supporting a public lecture about fiscal and monetary policy delivered by Eric Leeper, Professor of Economics at Indiana University and the Reserve Bank of New Zealand and Victoria University of Wellington Professorial Fellow in Monetary and Financial Economics for 2008. In the paper, Professor Leeper discusses how enhanced transparency about fiscal policy could make fiscal policy more predictable and effective, akin to the way in which greater transparency about monetary policy around the world has facilitated the effectiveness of monetary policy. He argues that, following the substantially increased fiscal activity around the world in response to the crisis, anchoring fiscal expectations will become increasingly important.

In our third article, Matthew Wright discusses the socio-economic aspects of the Great Depression of the 1930s in New Zealand. He discusses how social and political factors may have influenced popular perceptions of New Zealand's experience of that time more strongly than the actual economic circumstances as measured in the data.

Our fourth article is an interview with Michael Bordo, Professor of Economics and Director of the Center for Monetary and Financial History at Rutgers University in New Brunswick, New Jersey. Professor Bordo was the Reserve Bank of New Zealand and Victoria University of Wellington

Professorial Fellow in Monetary and Financial Economics for 2009. In the interview, he talks to John Singleton of Victoria University about his research on financial crises and New Zealand's financial vulnerability, and about the challenges for central banks in dealing with the current crisis.

Our fifth article is the text of a public speech delivered in Wellington by Howard Davies, Director of the London School of Economics, to mark the occasion of the Reserve Bank's 75th Anniversary this year. Howard Davies looks at the various parties involved in the current crisis and asks: whodunnit?

Our final article in this edition is the paper for a speech given by Governor Alan Bollard in July 2009, about the recovery from the current crisis. The Governor looks at the impact of the crisis on New Zealand, and at the factors that will promote sustainable growth and reduce the New Zealand economy's vulnerability in the future.

I hope you enjoy the range of articles in this edition.

Tim Ng
Editor



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BANK**
MUSEUM

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