



New Zealand Government Debt Market Outlook

January 2019

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Overview



New Zealand Economic Outlook



New Zealand Government: Fiscal Outlook



Debt Management: Funding Strategy and Announcements



Economic Outlook

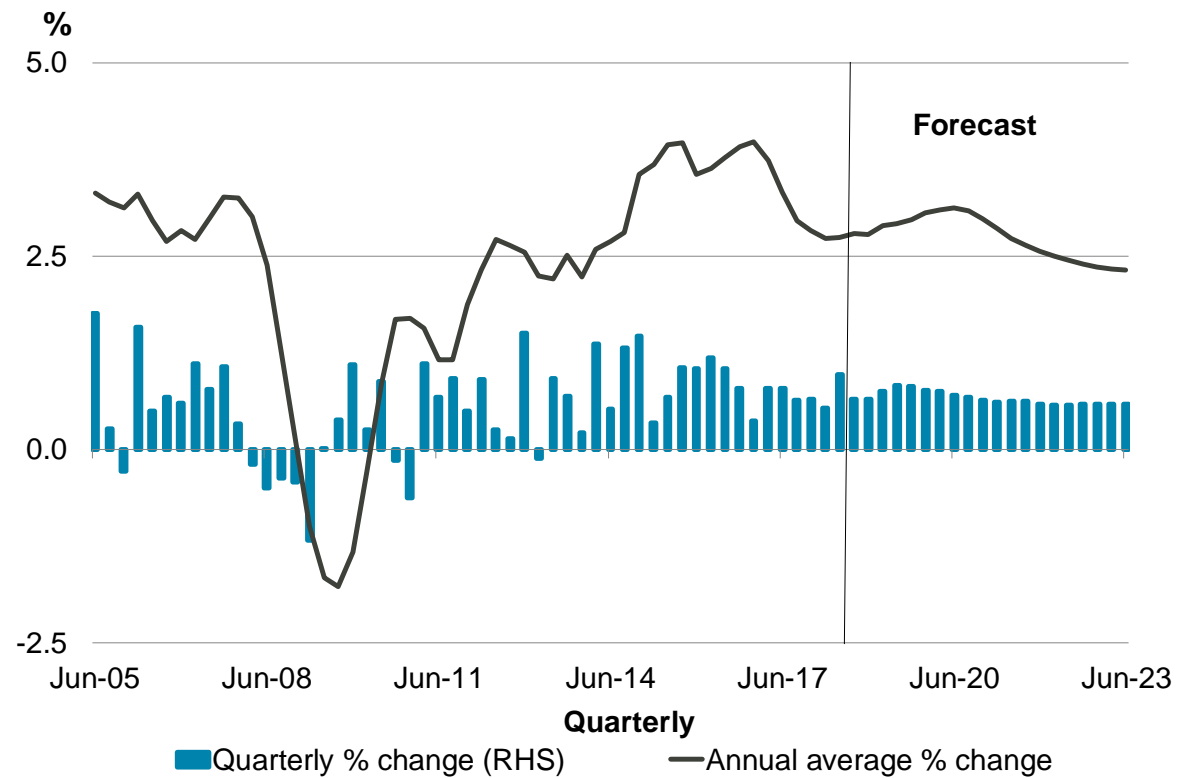
Summary of forecasts

Executive summary table

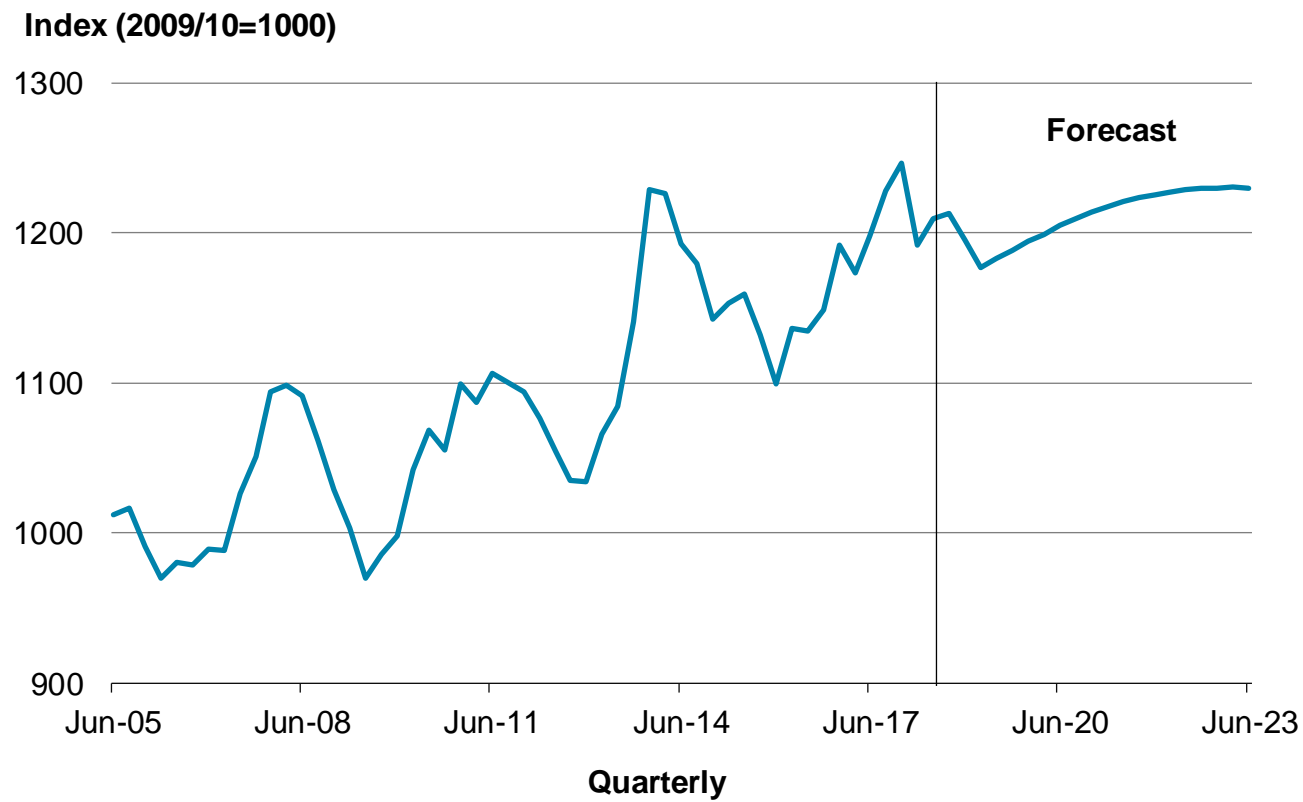
Year ended 30 June	2018	2019	2020	2021	2022	2023
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Economic						
Real GDP (production basis, annual average % change)	2.7	2.9	3.1	2.7	2.5	2.3
Real GDP per capita (production basis, annual average % change)	0.7	1.1	1.5	1.4	1.2	1.2
Unemployment rate (annual average, %)	4.5	4.1	4.0	4.0	4.0	4.1
CPI inflation (annual average % change)	1.5	2.0	1.8	2.0	2.0	2.0
Current account balance (% of GDP)	-3.4	-3.5	-3.6	-3.6	-3.6	-3.7
Fiscal (% of GDP)						
Core Crown tax revenue	27.9	28.1	28.2	28.5	28.8	28.9
Core Crown expenses	28.0	29.5	28.7	28.8	28.4	28.3
Total Crown Operating balance before gains and losses	1.9	0.6	1.3	1.5	2.2	2.3
Core Crown residual cash	0.5	-1.7	-0.8	-0.3	0.3	0.8
Net core Crown debt	20.0	20.9	20.7	20.1	19.0	17.4
Net worth attributable to the Crown	45.1	44.5	44.5	45.0	46.3	48.0

Growth remains solid

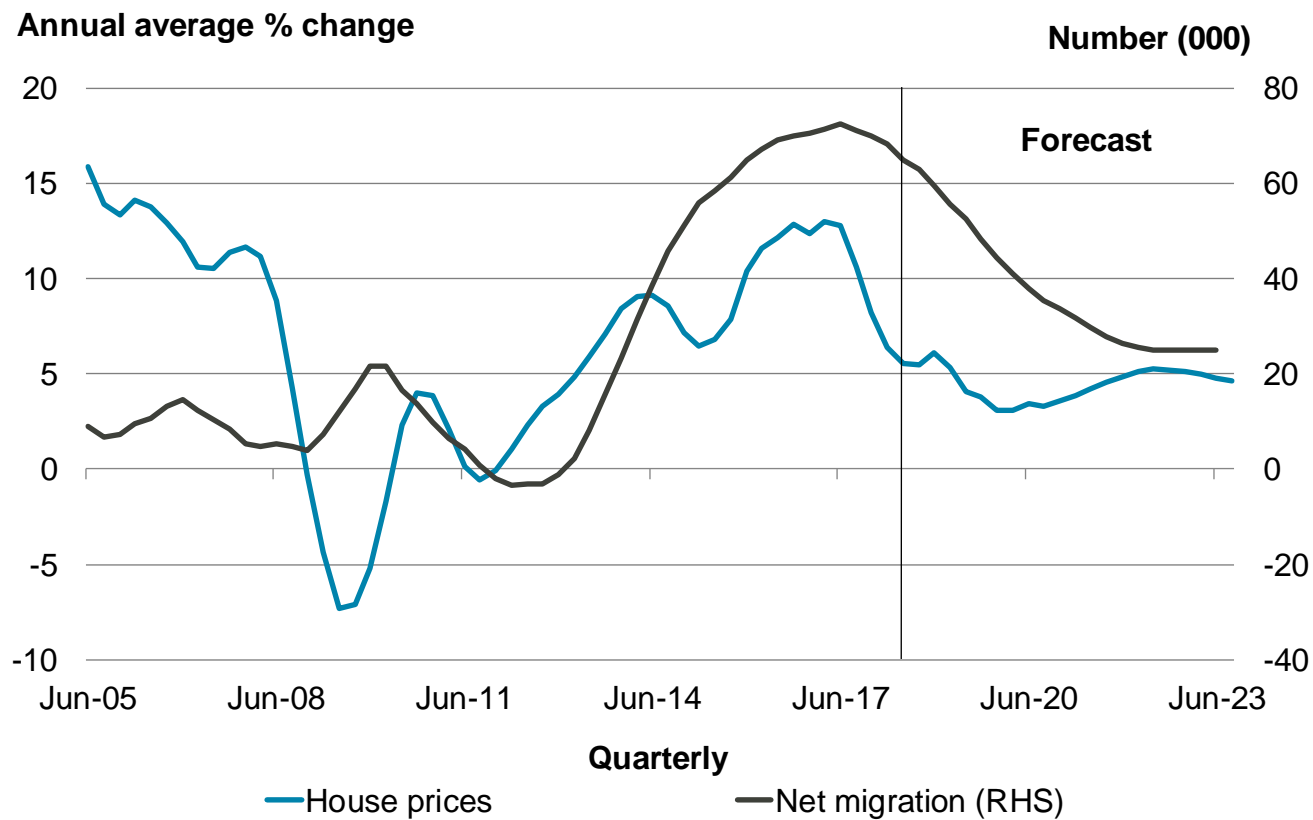
Real GDP growth



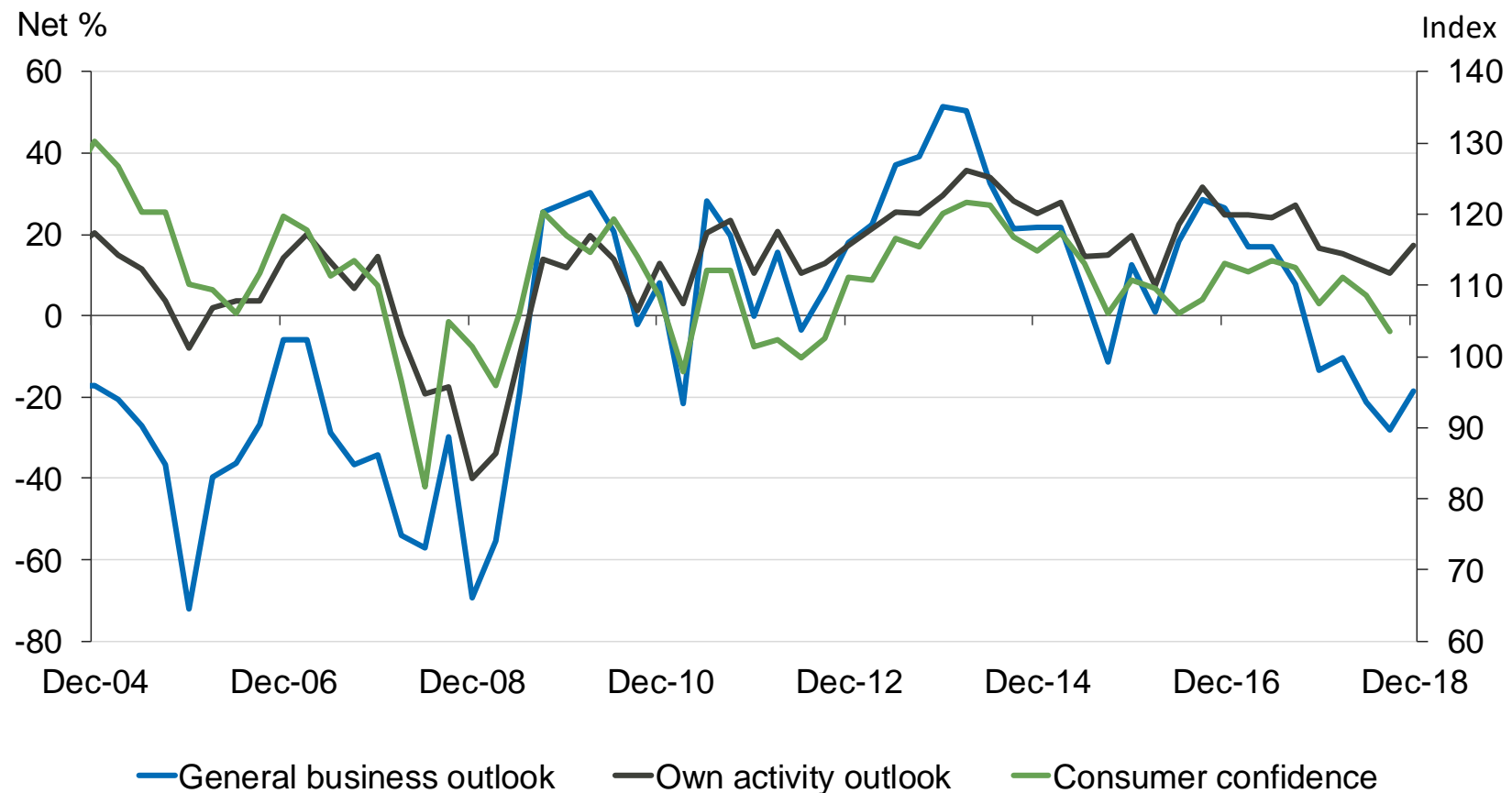
Terms of trade supportive



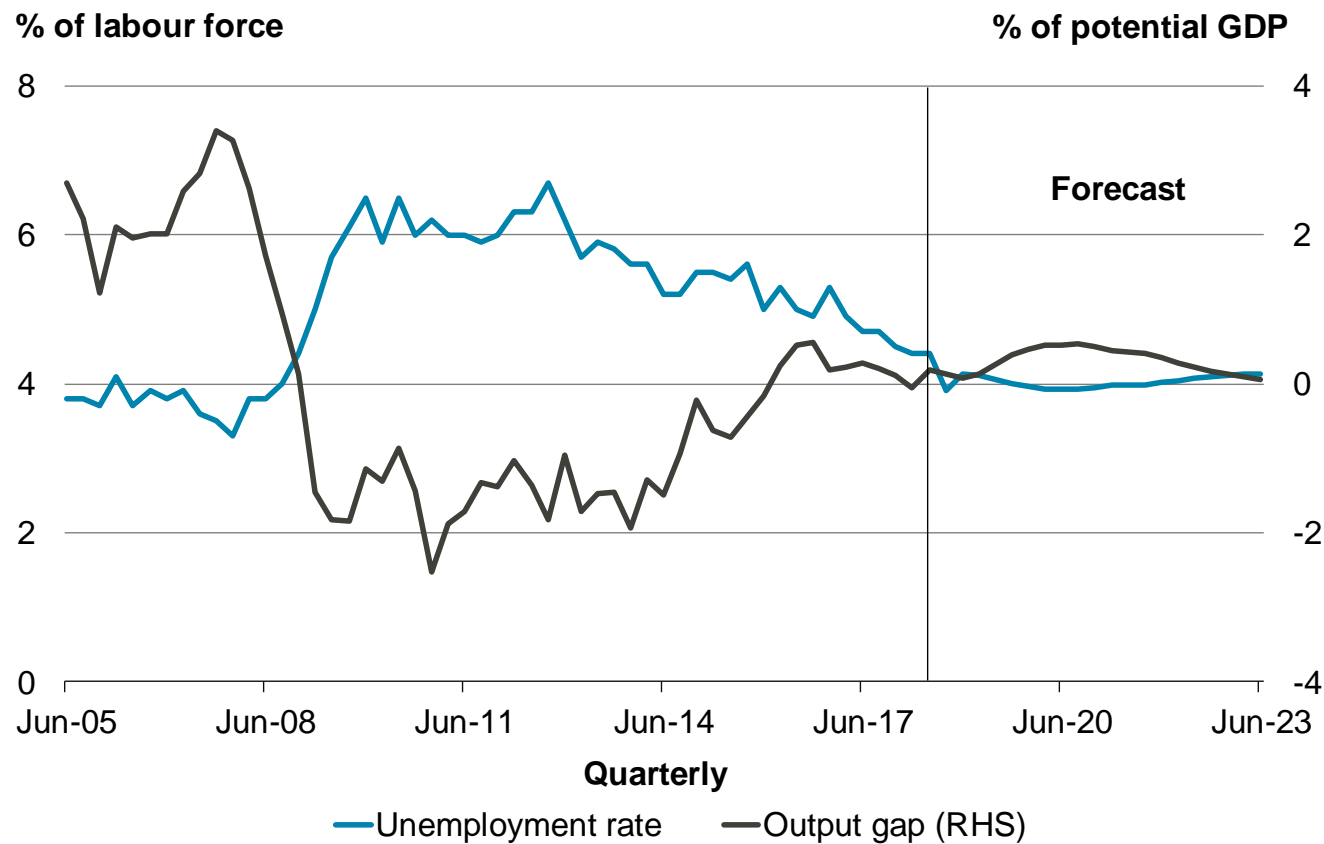
House prices and net migration



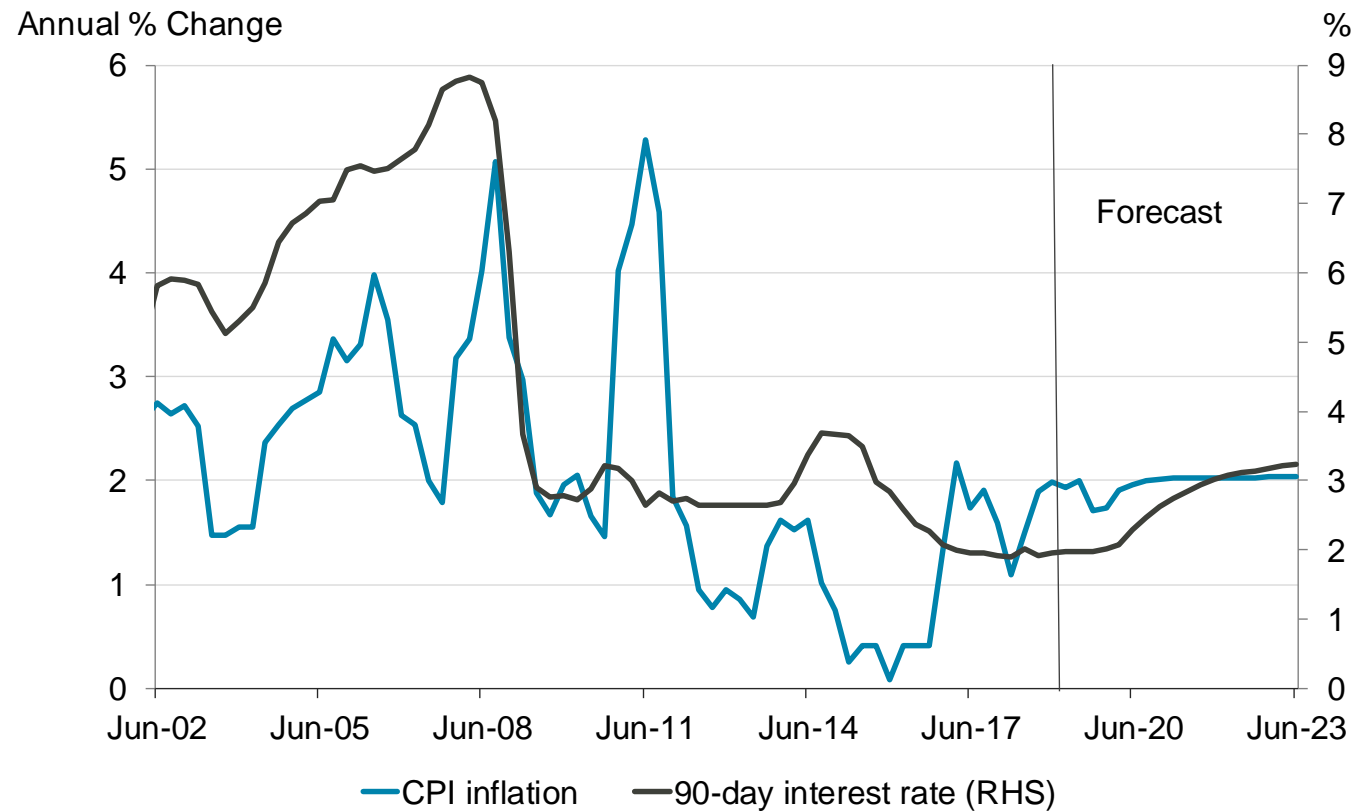
Business confidence a risk



A positive output gap



No urgency to raise OCR



Source: The Treasury, HYEPU 2018



Fiscal Outlook

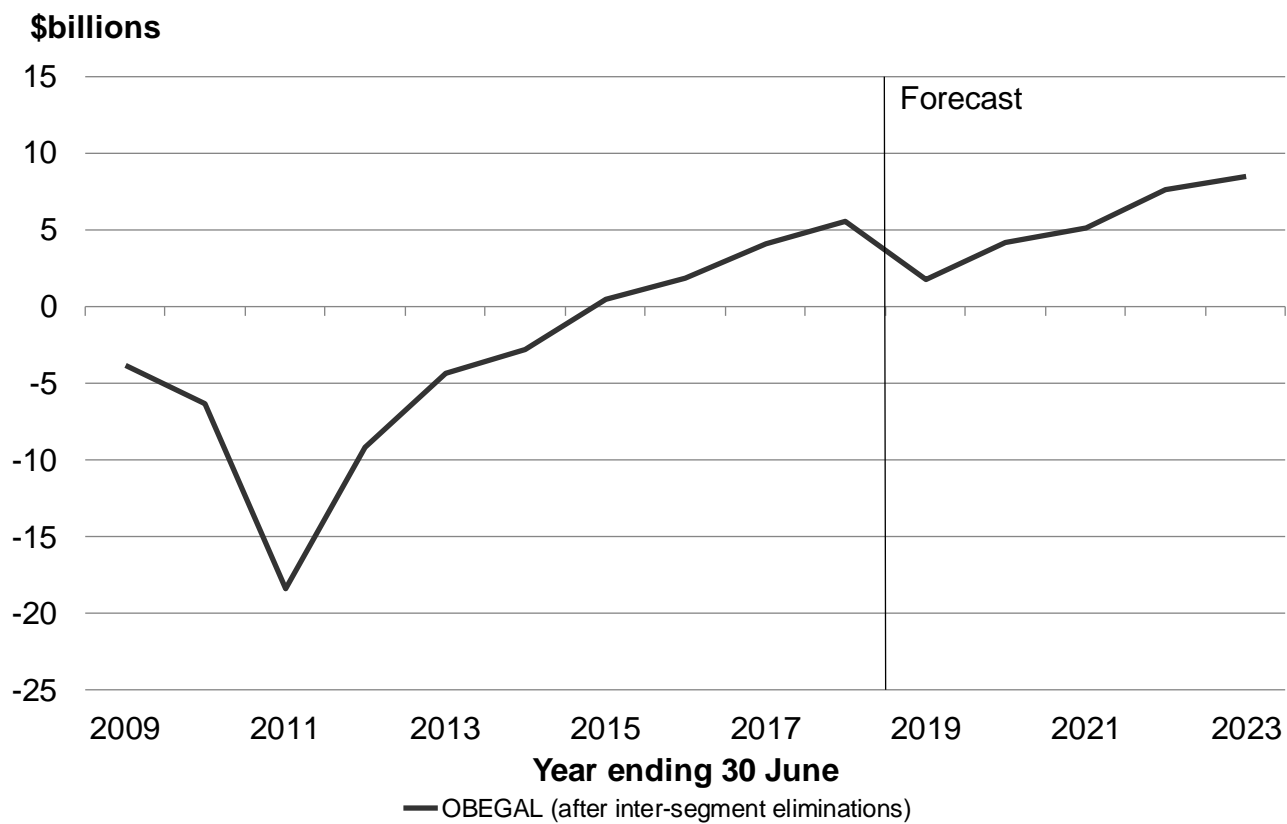


Budget Responsibility Rules

Current Government is committed to prudent fiscal strategy with 5 Budget Responsibility Rules:

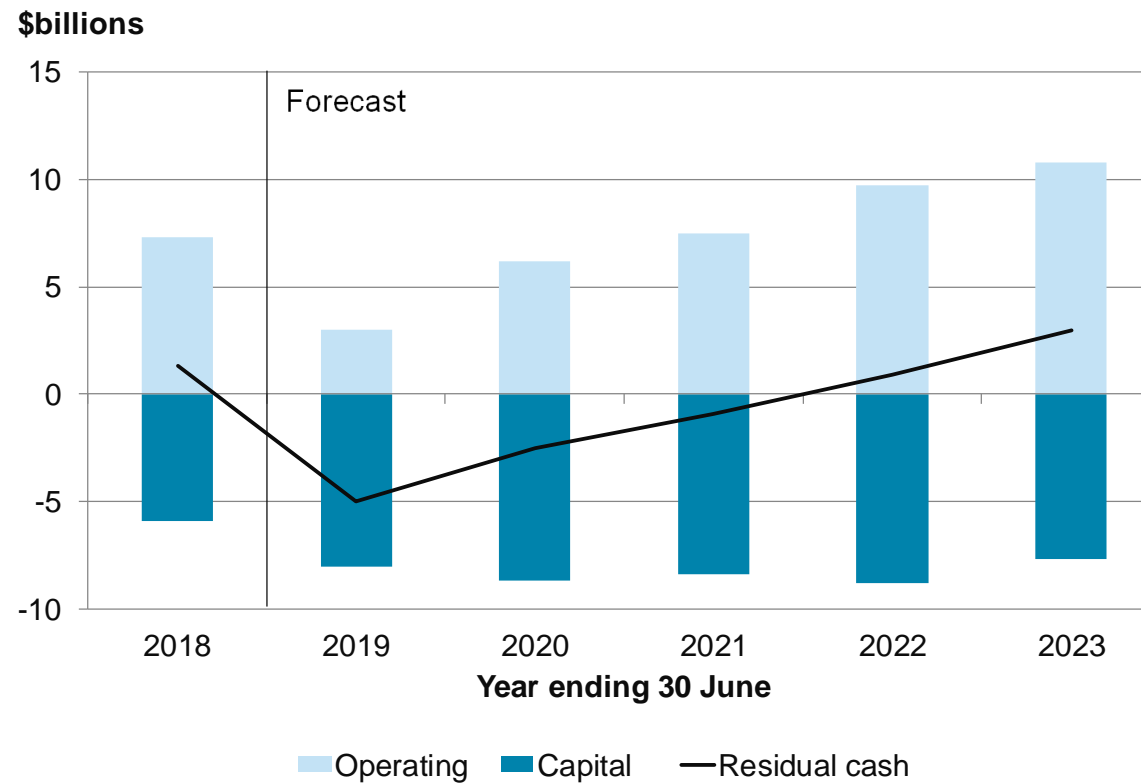
- Deliver a sustainable operating surplus across an economic cycle.
- Reduce the level of net core Crown debt to 20 per cent of GDP within five years of taking office.
- Prioritise investments to address the long-term financial and sustainability challenges facing New Zealand.
- Take a prudent approach to ensure expenditure is phased, controlled and directed to maximise its benefits. The Government will maintain its expenditure to within the recent historical range of spending to GDP ratio.
- Ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy.

Operating surpluses sustained



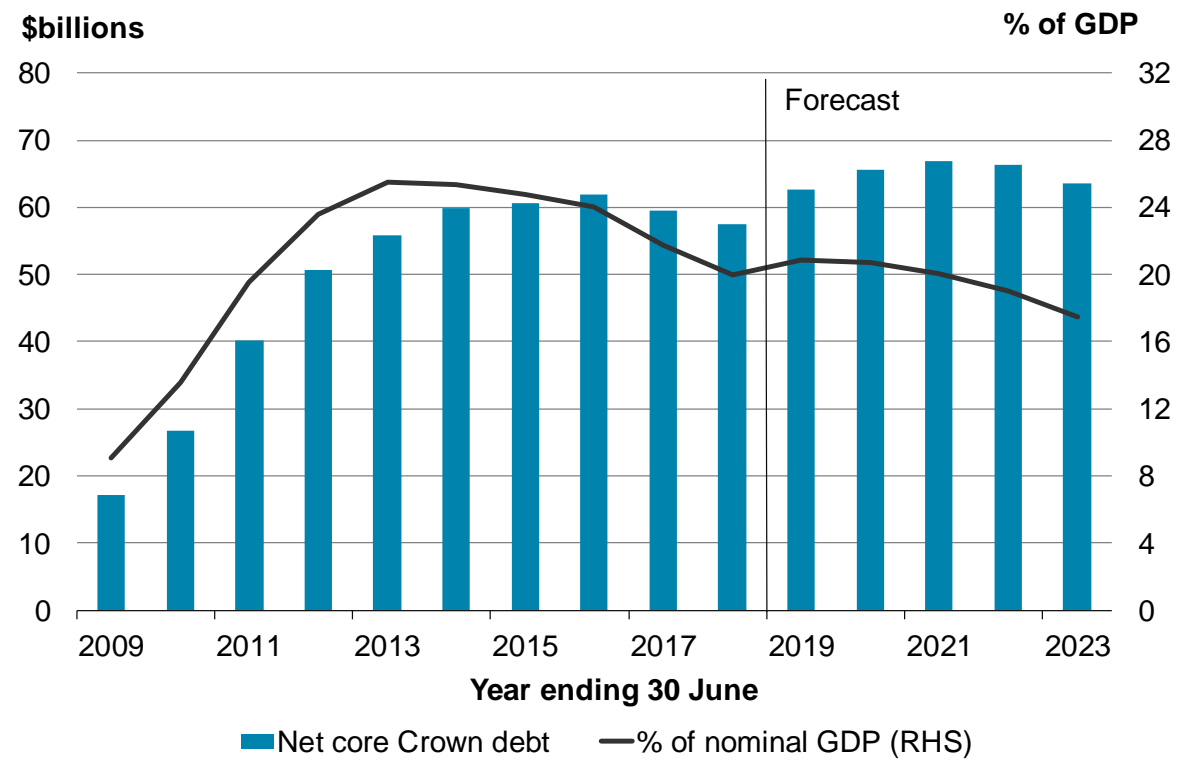
Source: The Treasury, HYEPU 2018

Capital spending impacts residual cash



Source: The Treasury, HYEPU 2018

Net core Crown debt contained



Source: The Treasury, HYEPU 2018

A wide-angle, high-angle photograph of a city harbor at night. The city is densely packed with buildings, many of which are brightly lit, creating a vibrant display of lights that reflect on the calm water of the harbor. The harbor is filled with numerous boats, including a large ferry in the foreground. In the background, dark, silhouetted mountains rise against a twilight sky with soft, wispy clouds. The overall scene is a picturesque view of a coastal city at night.

Funding Strategy and Announcements

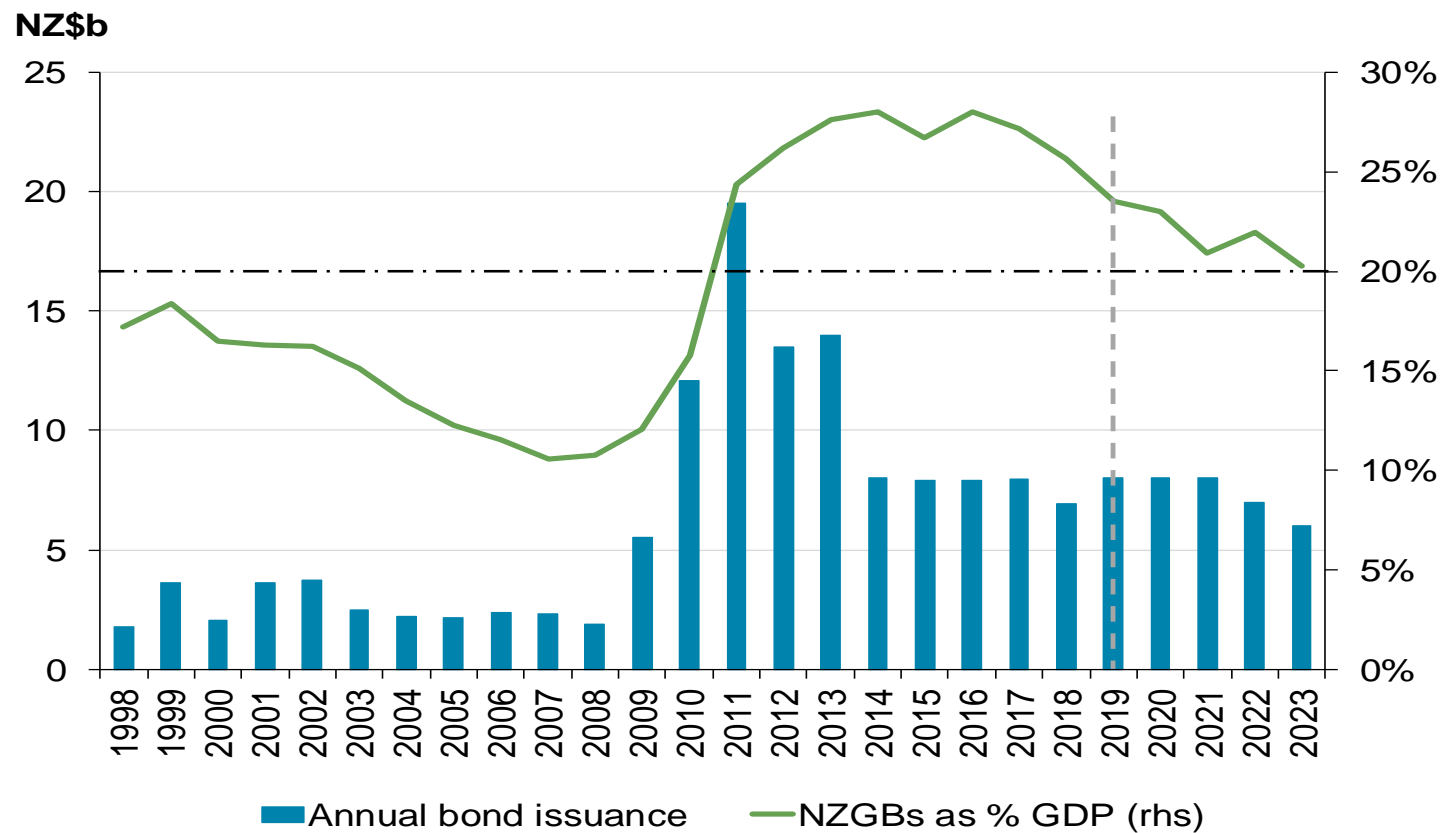
Announcements at HYEUFU

Forecasts – New Zealand Government Bonds and Treasury Bills

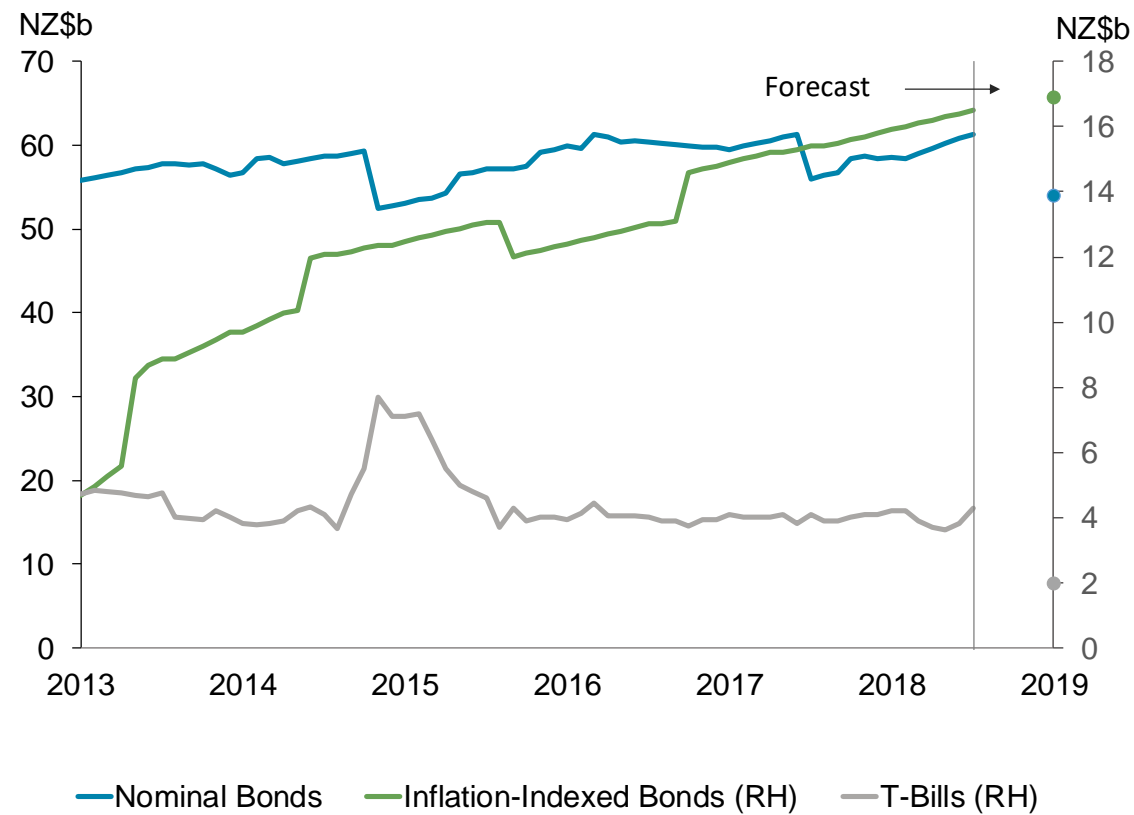
Year ending 30 June (face value)	2019	2020	2021	2022	2023	Total
Gross NZGB issuance (NZ\$ billion)	8.0	8.0	8.0	7.0	6.0	37.0
NZGB maturities and repurchases (NZ\$ billion)	11.2	5.8	11.1	0.0	8.9	37.0
Net NZGB issuance (NZ\$ billion)	-3.2	2.2	-3.1	7.0	-2.9	0.0
NZGBs on issue (NZ\$ billion)	71.0	73.2	70.1	77.1	74.2	n/a
NZGBs on issue (percent of GDP)	23.5%	23.0%	20.9%	22.0%	20.2%	n/a
Forecast T-Bills on issue (NZ\$ billion)	2	2	4	2	2	n/a

- Inflation-indexed bond issuance is expected to be around NZ\$1 billion of the NZ\$8 billion 2018/19 bond programme.
- There are plans to commence a repurchase programme of the 15 April 2020 nominal bond before the 30 June 2019. Repurchase activities will be dependent on portfolio requirements and market conditions.
- Forecast NZGBs on issue are consistent with the Government's commitment to maintain levels of NZGBs on issue at not less than 20 percent of GDP over time. This commitment was taken into consideration when setting the forecast annual bond programme for the 2022/23 year.

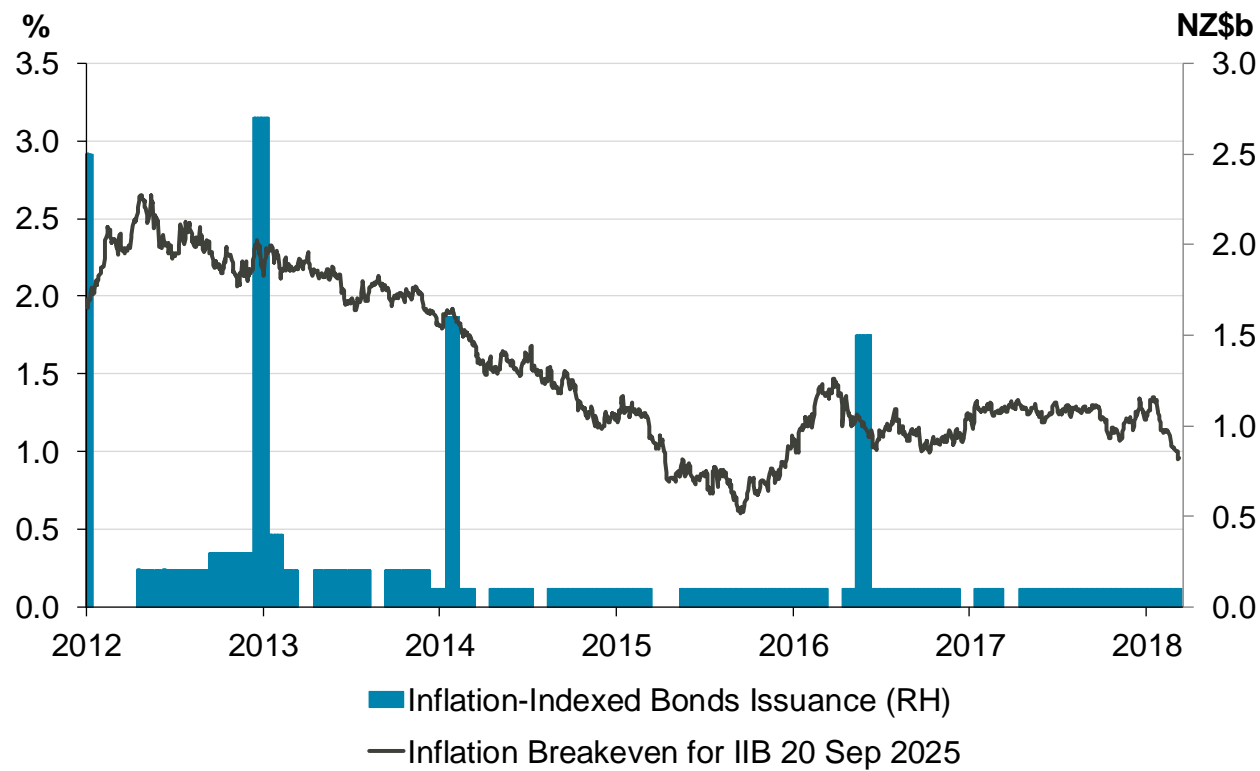
NZGBs – not less than 20% of GDP



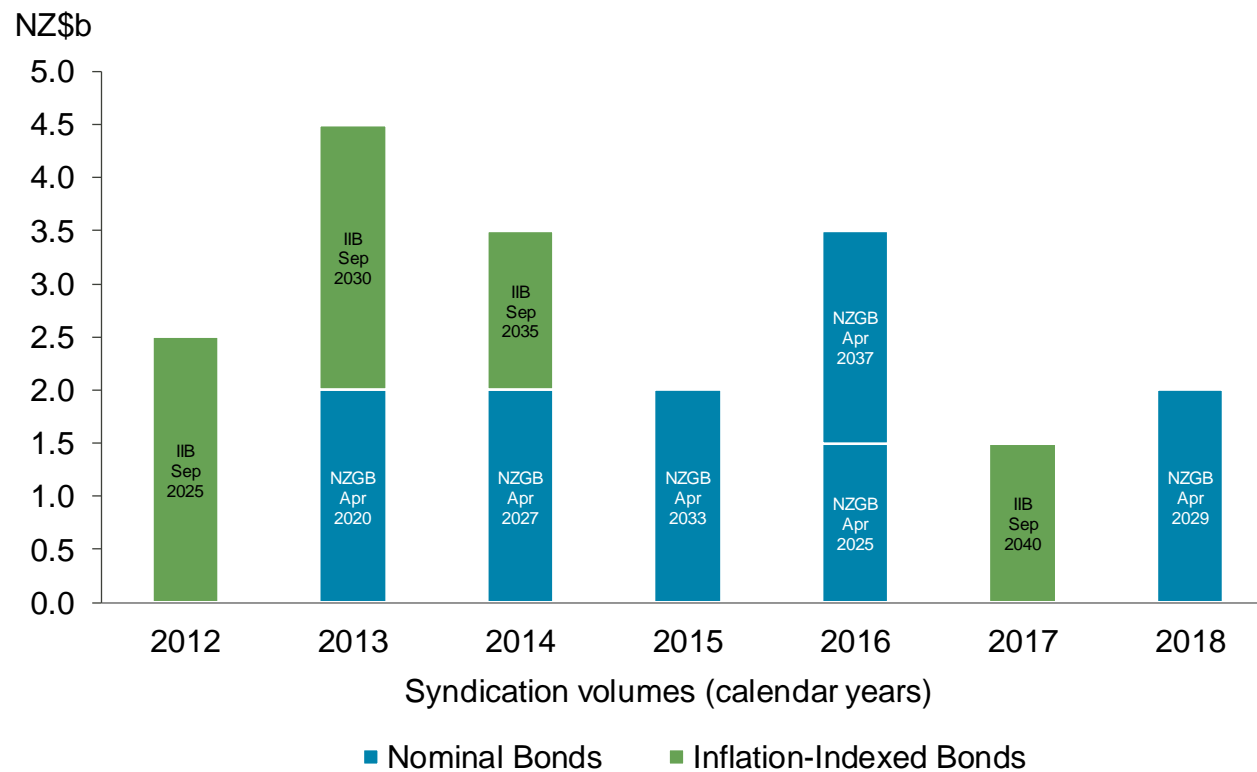
IIBs remain important part of funding portfolio



A strategic approach to IIB issuance

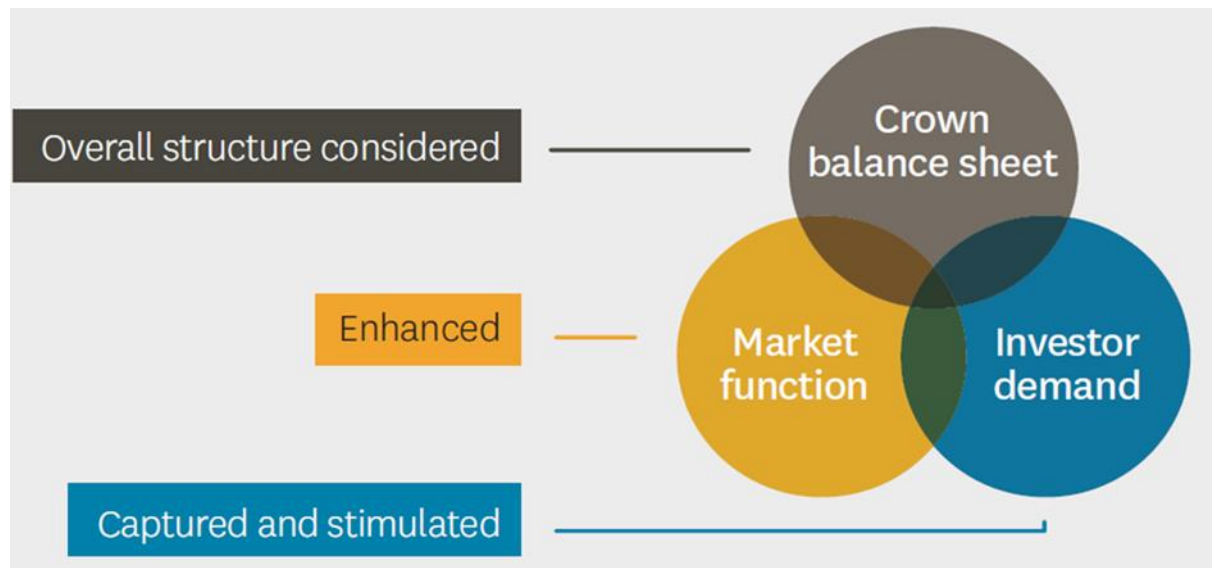


Syndication preferred for new bonds



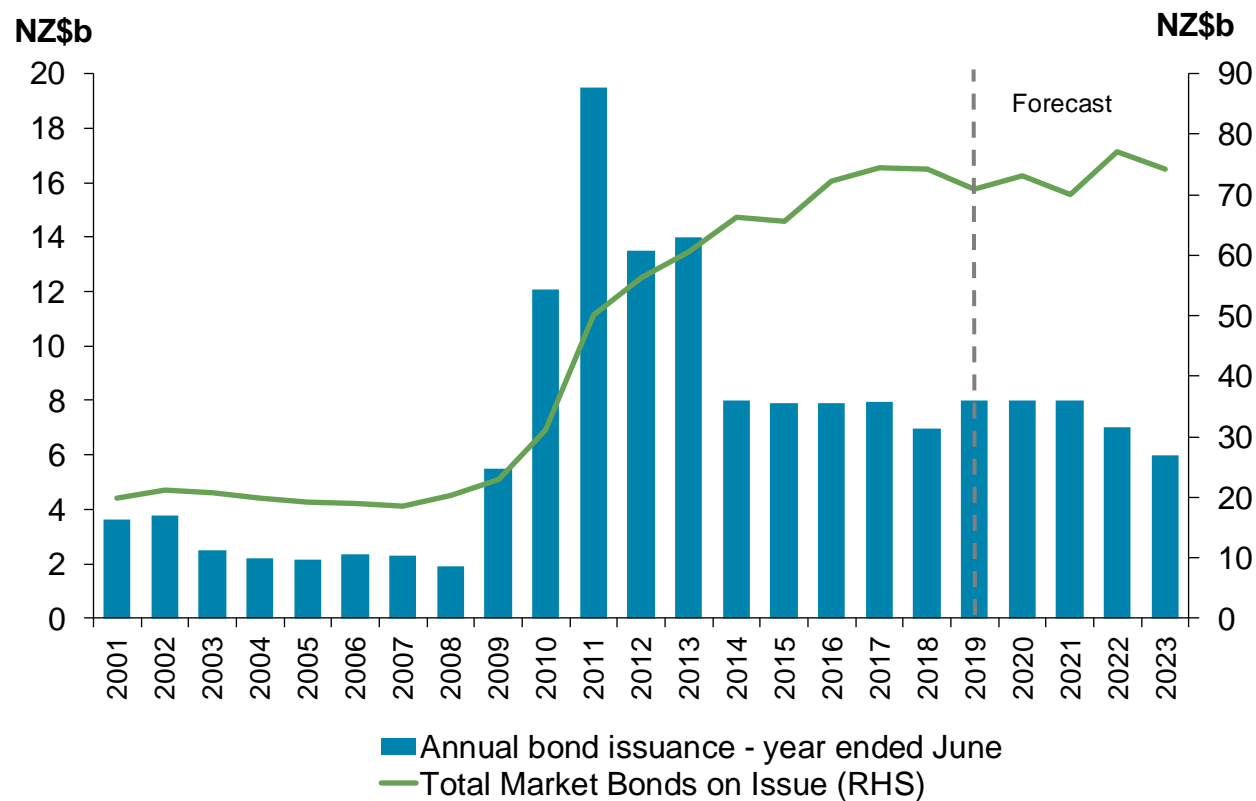
Funding strategy priorities

The debt funding strategy aims to minimise the Crown's borrowing costs over the long-term, while keeping risk at an appropriate level.



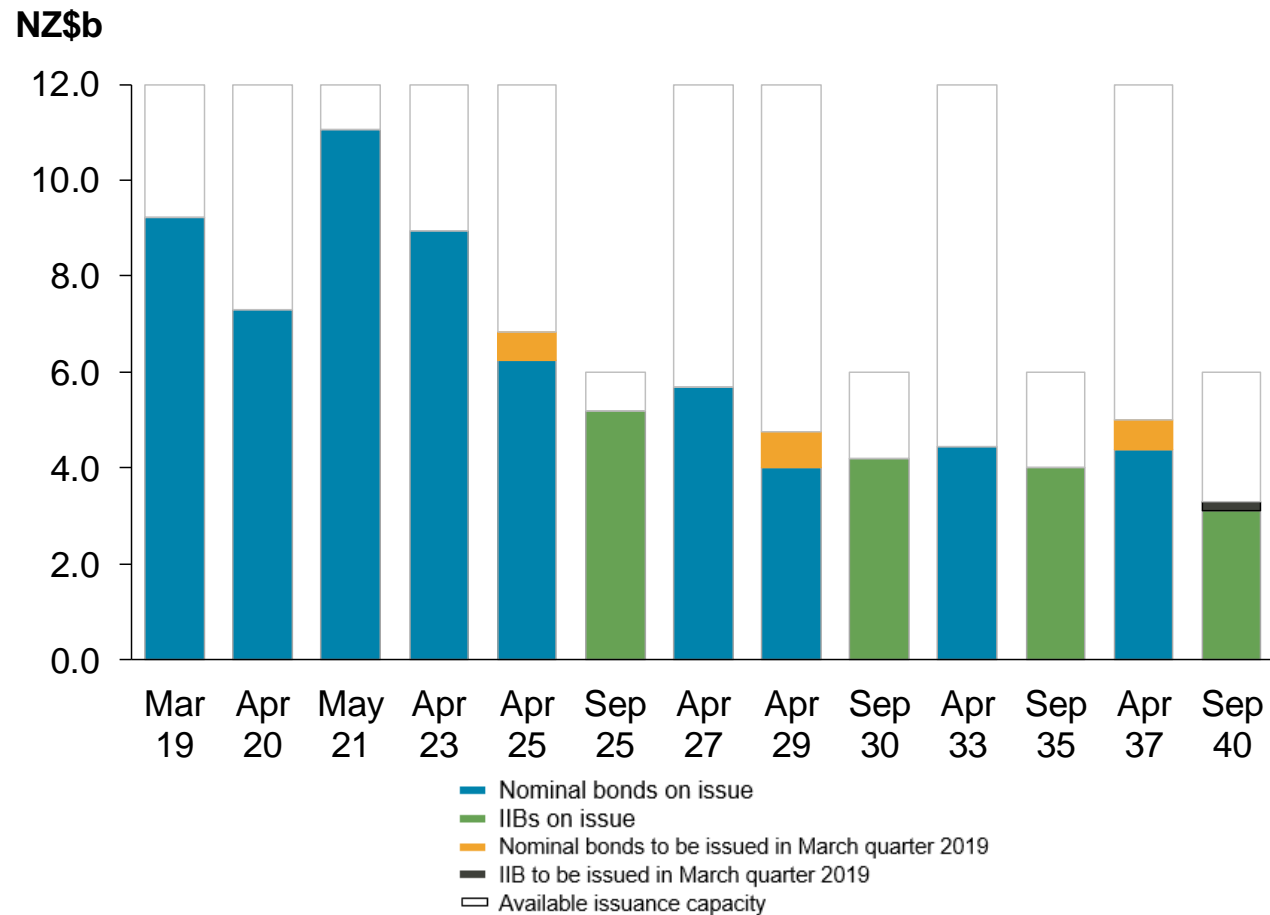
Implemented in a **transparent**, **even-handed** and **consistent** manner.

Changing funding needs

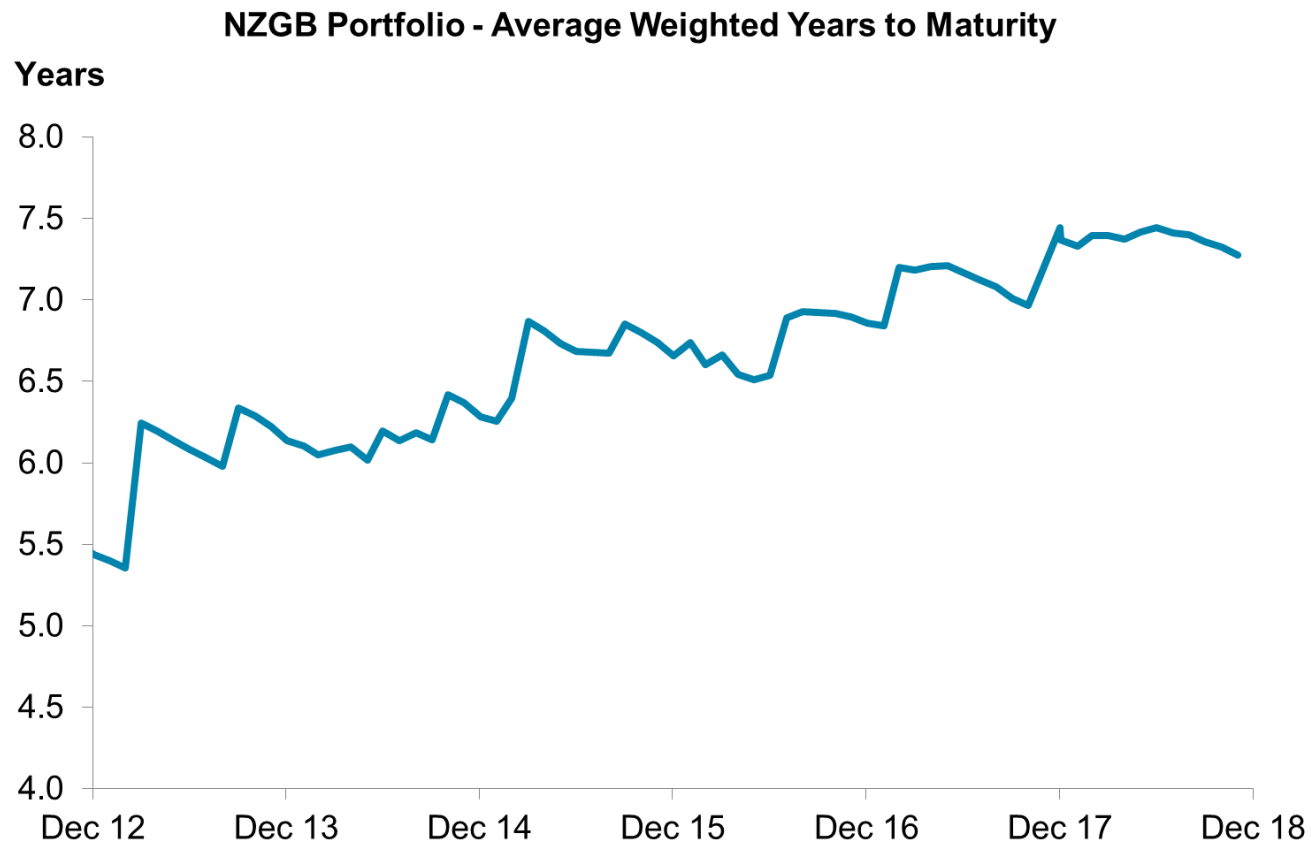


Source: The Treasury

Structure of NZGB portfolio

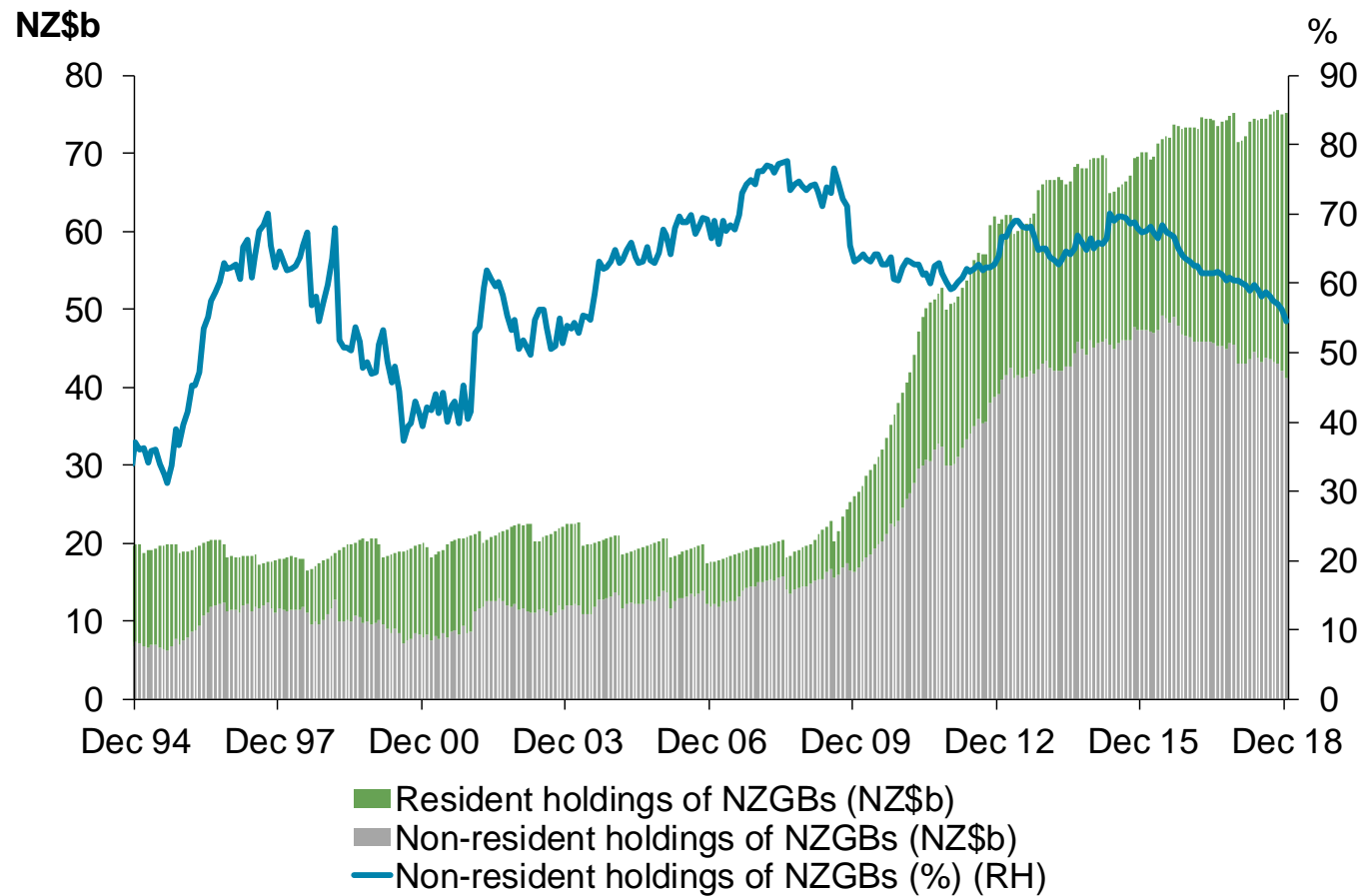


Evolution of portfolio structure



Source: The Treasury

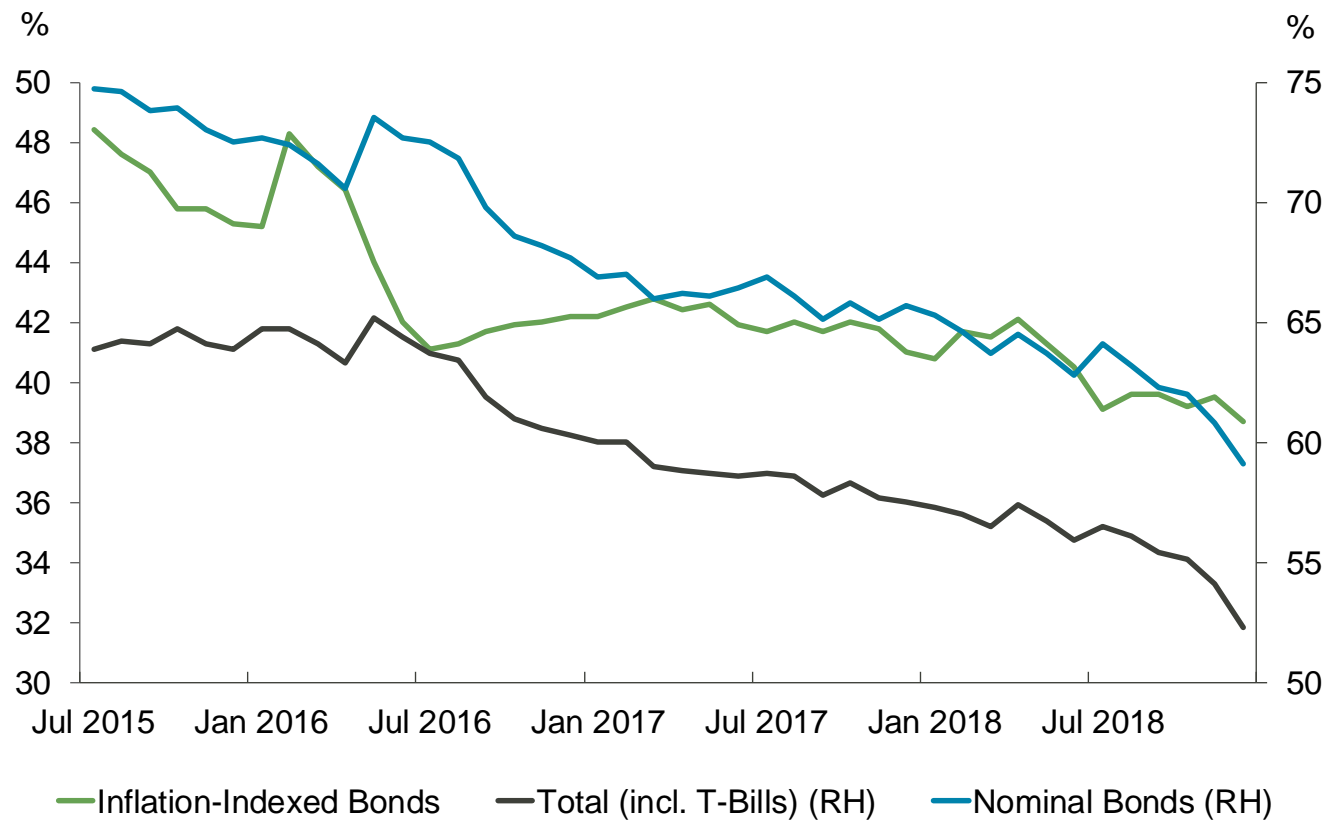
Maintaining diverse investor base



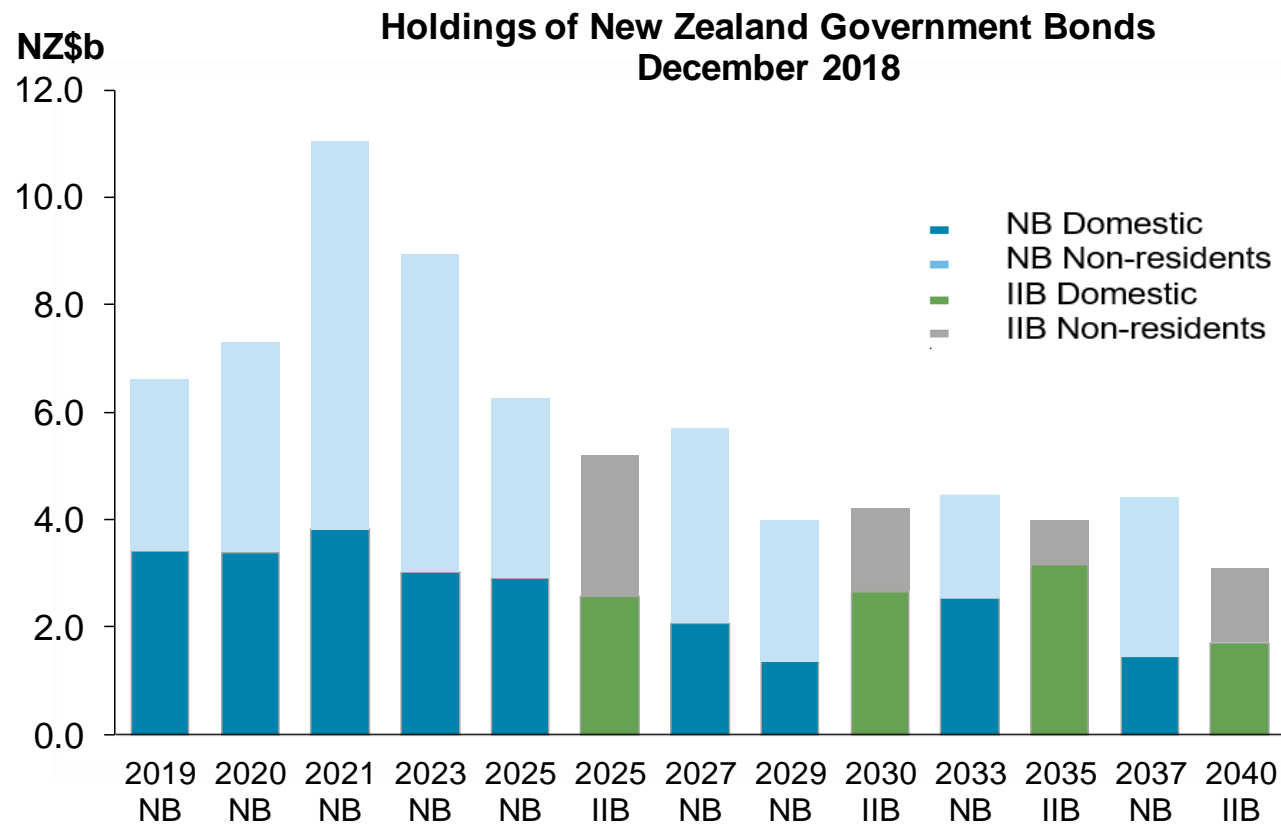
Source: Bloomberg, RBNZ

Increase in proportion of resident holdings

Non-resident proportional holdings of NZGS



Current snapshot: Holdings of NZGBs



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