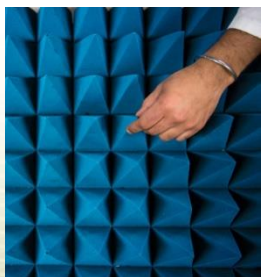


# OUTLOOK FOR THE NEW ZEALAND GOVERNMENT DEBT MARKET



NEW ZEALAND  
DEBT MANAGEMENT OFFICE



# TODAY



- Economic outlook
- New Zealand Government: risk/reward
- Fiscal priorities
- NZDMO's strategy
- What to watch for...

# 1. ECONOMIC OUTLOOK

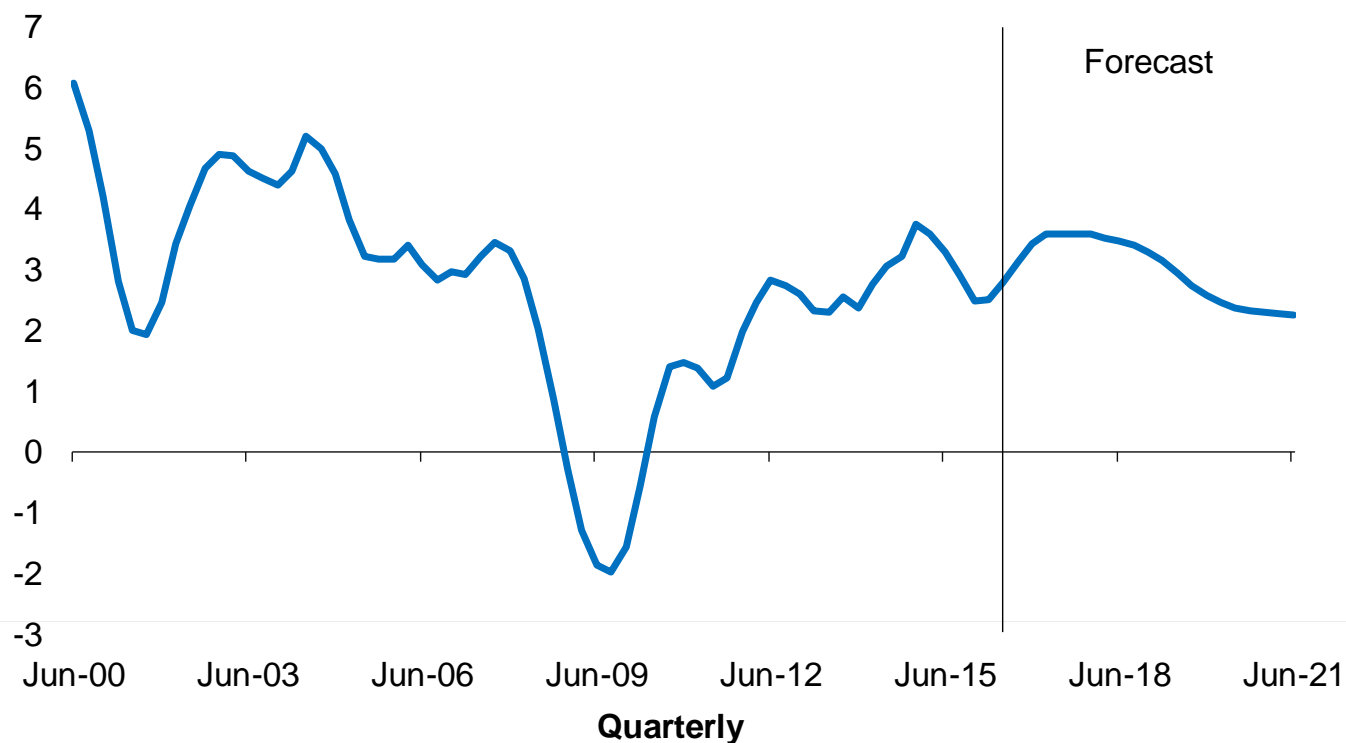


# STRONG ECONOMIC GROWTH



## Production-based GDP

Annual average % change



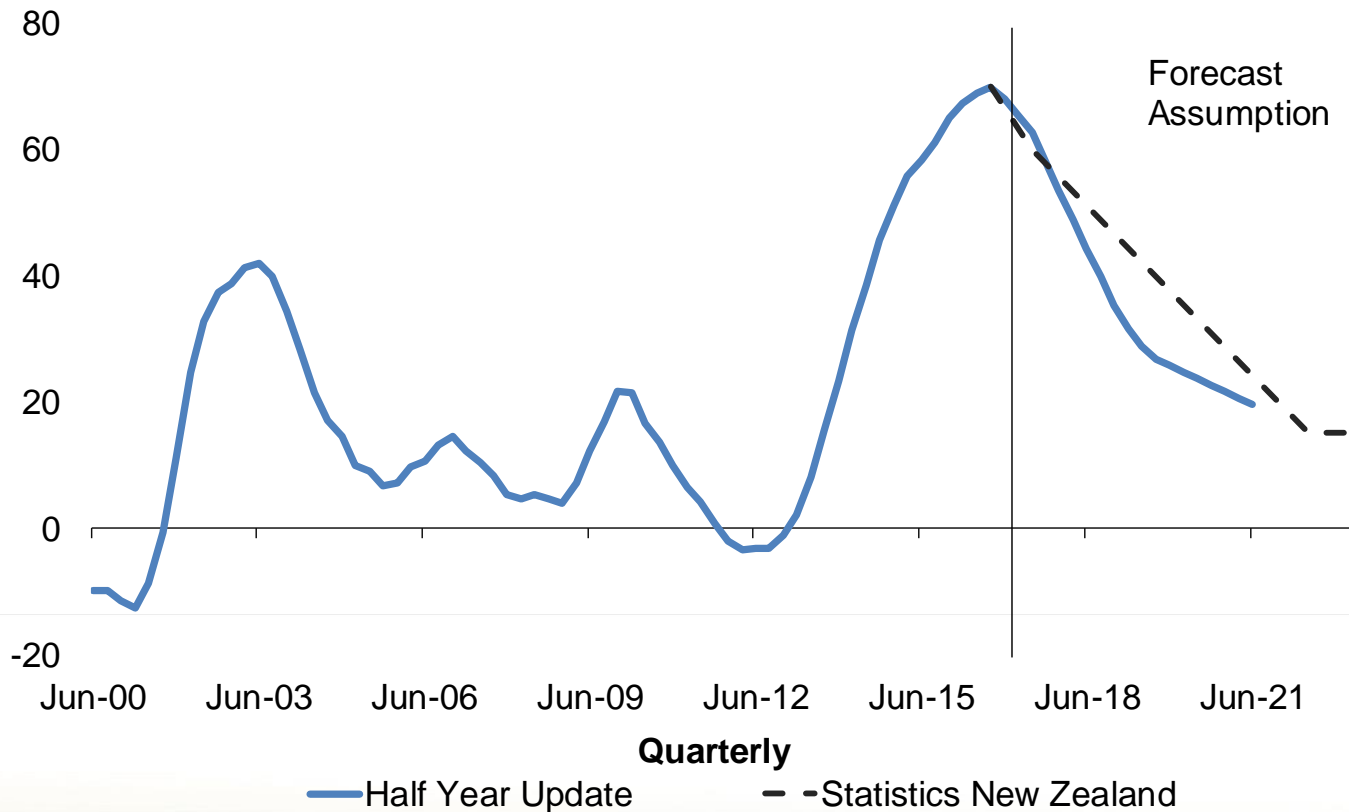


# RECORD HIGH MIGRATION...

Net inward migration



Annual total (000s)

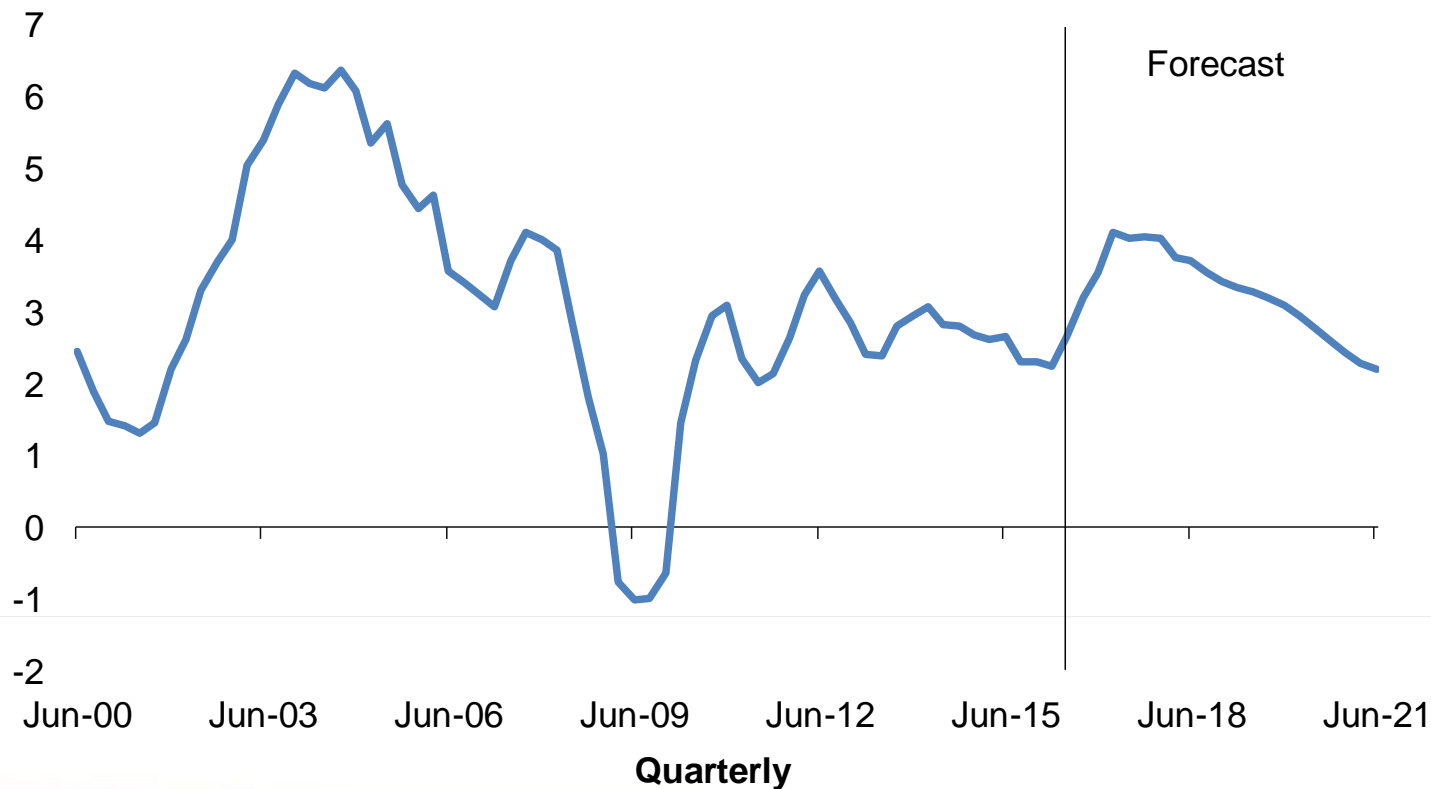


# ... DRIVING CONSUMER SPENDING...



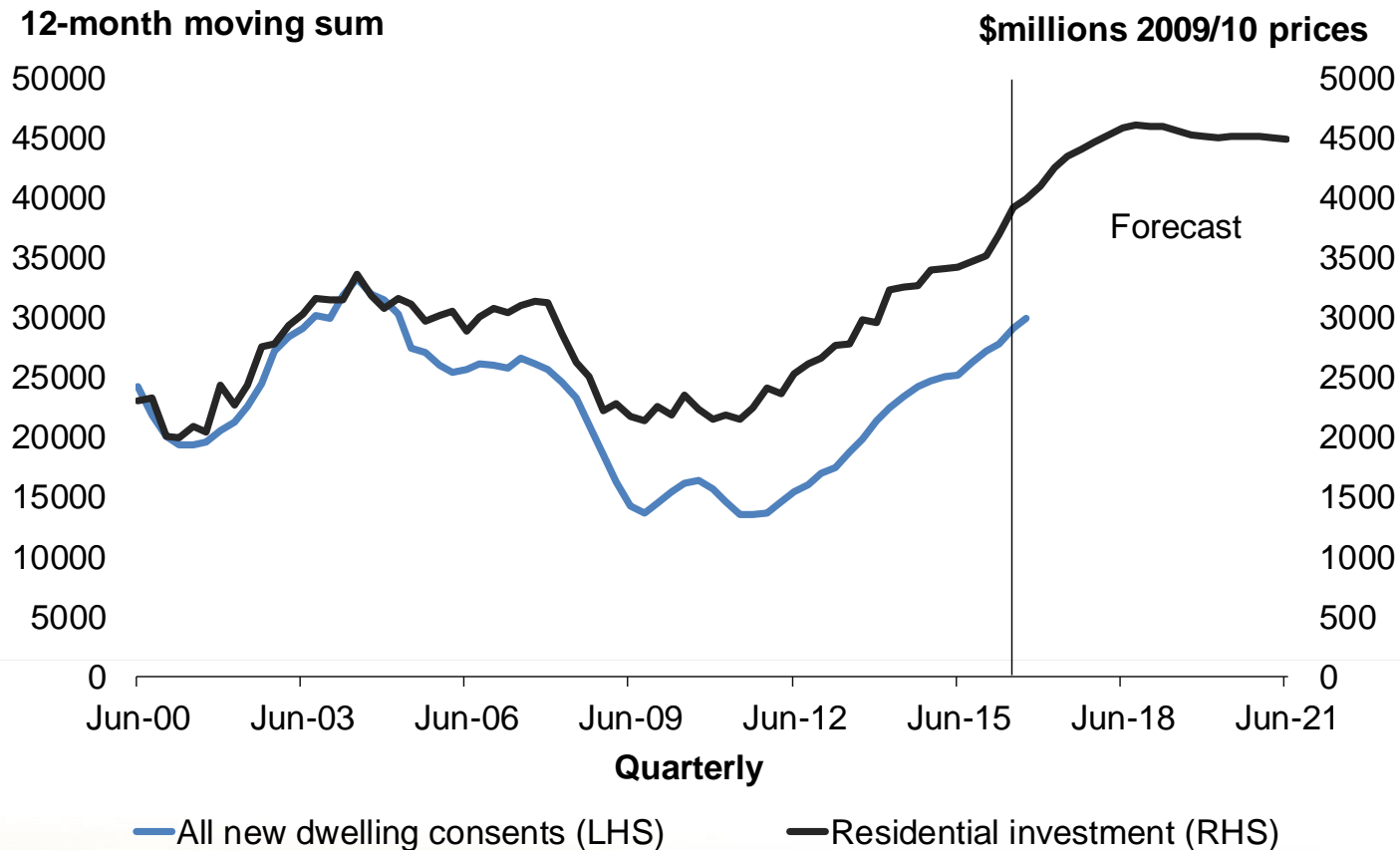
## Private consumption

Annual average % change



# ... AND HOUSING CONSTRUCTION

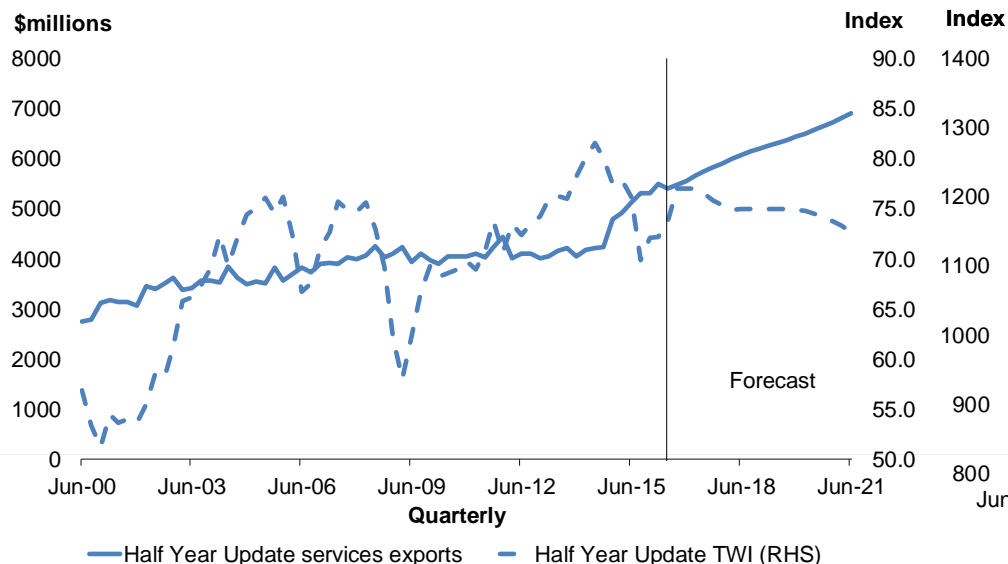
## Residential consents and construction



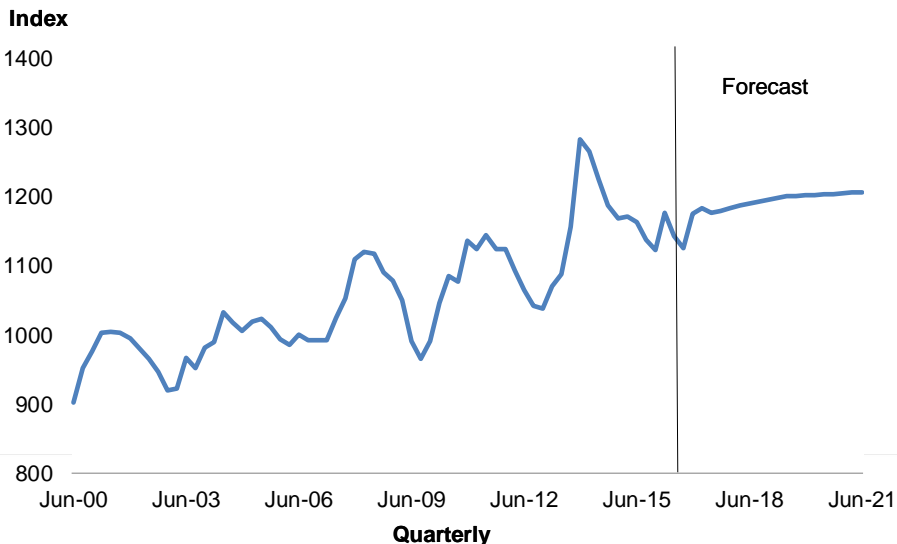
# EXPORT OUTLOOK ALSO POSITIVE



## Services exports and exchange rate



## Goods terms of trade

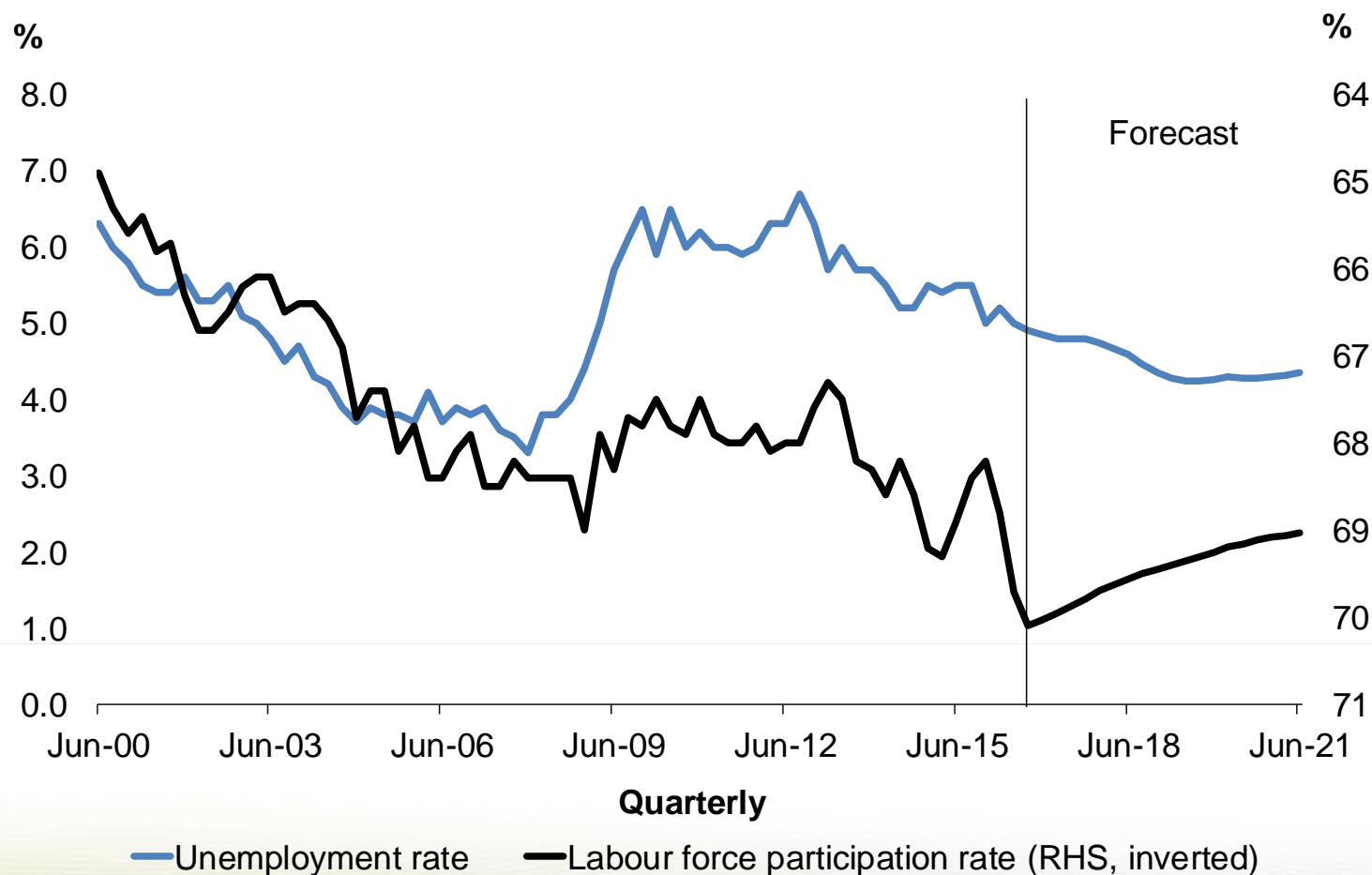




# LABOUR SUPPLY MATCHING DEMAND



## Unemployment and labour force participation rate

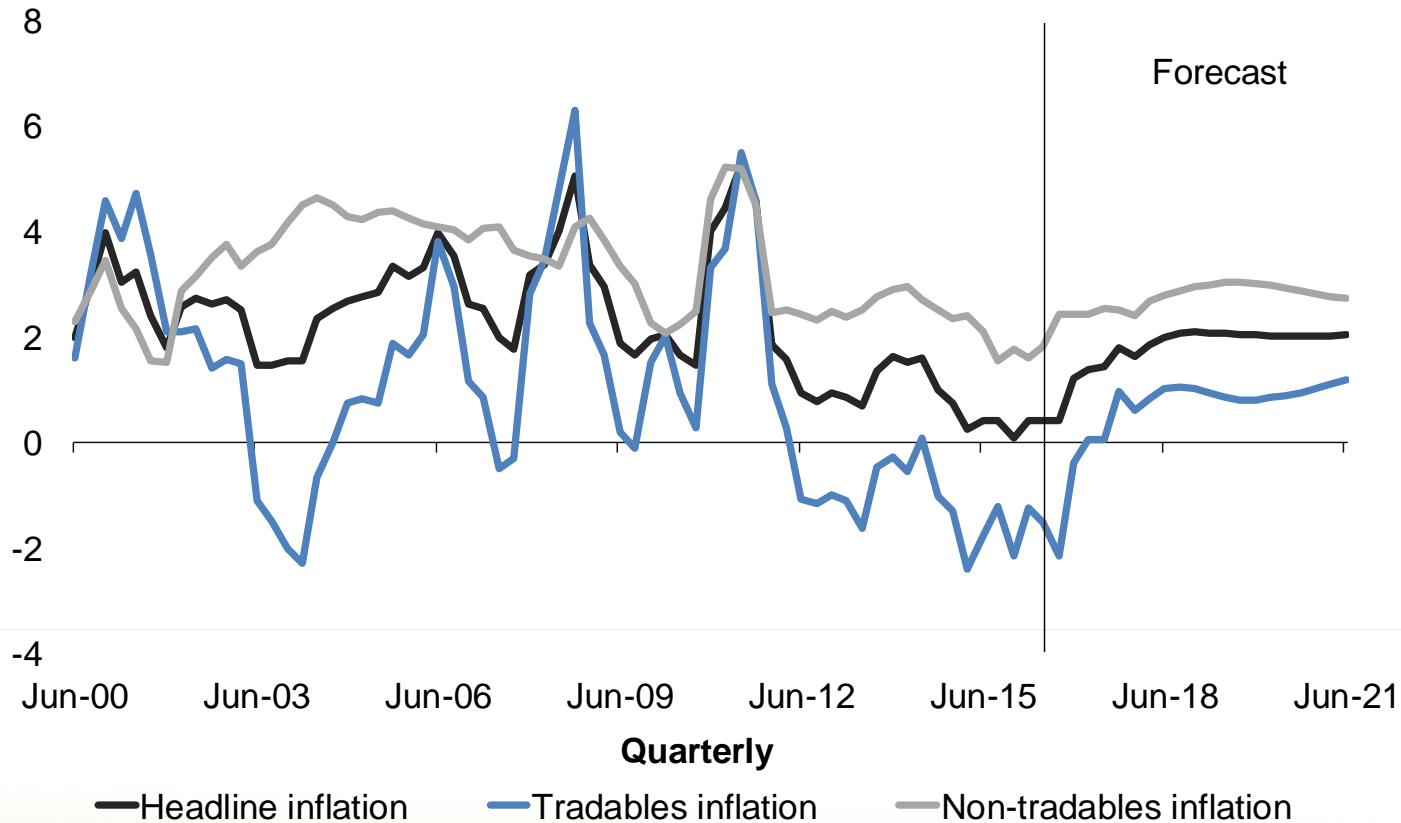


# INFLATION STARTING TO NORMALISE



## CPI inflation

Annual % change





## 2. NEW ZEALAND GOVERNMENT: RISK/REWARD

# SOLID CREDIT RATINGS



## Moody's

Aaa/Aaa (stable)

*"New Zealand's Aaa rating is based on the country's very high economic strength, very high institutional and fiscal strength and low susceptibility to event risk."*

## Standard & Poor's

AA+/AA (stable)

*"New Zealand has monetary and fiscal flexibility, a resilient economy, and institutions conducive to swift and decisive policy actions."*

## Fitch

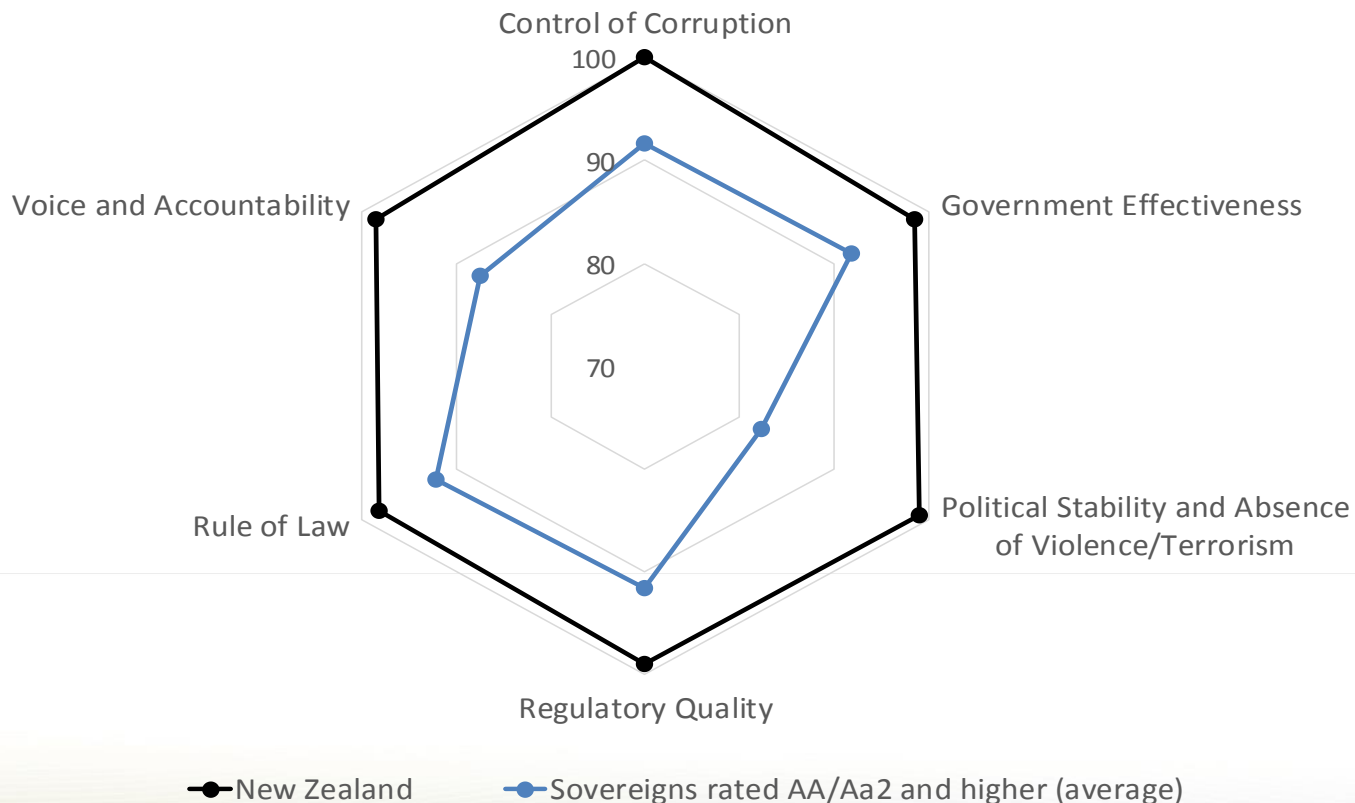
AA+/AA (stable)

*"New Zealand's 'AA' rating reflects the country's strong macroeconomic policy framework and prudent fiscal management, reinforced by governance standards and a business environment that are rated among the best globally by the World Bank."*

# STABLE POLITICAL AND INSTITUTIONAL BACKDROP



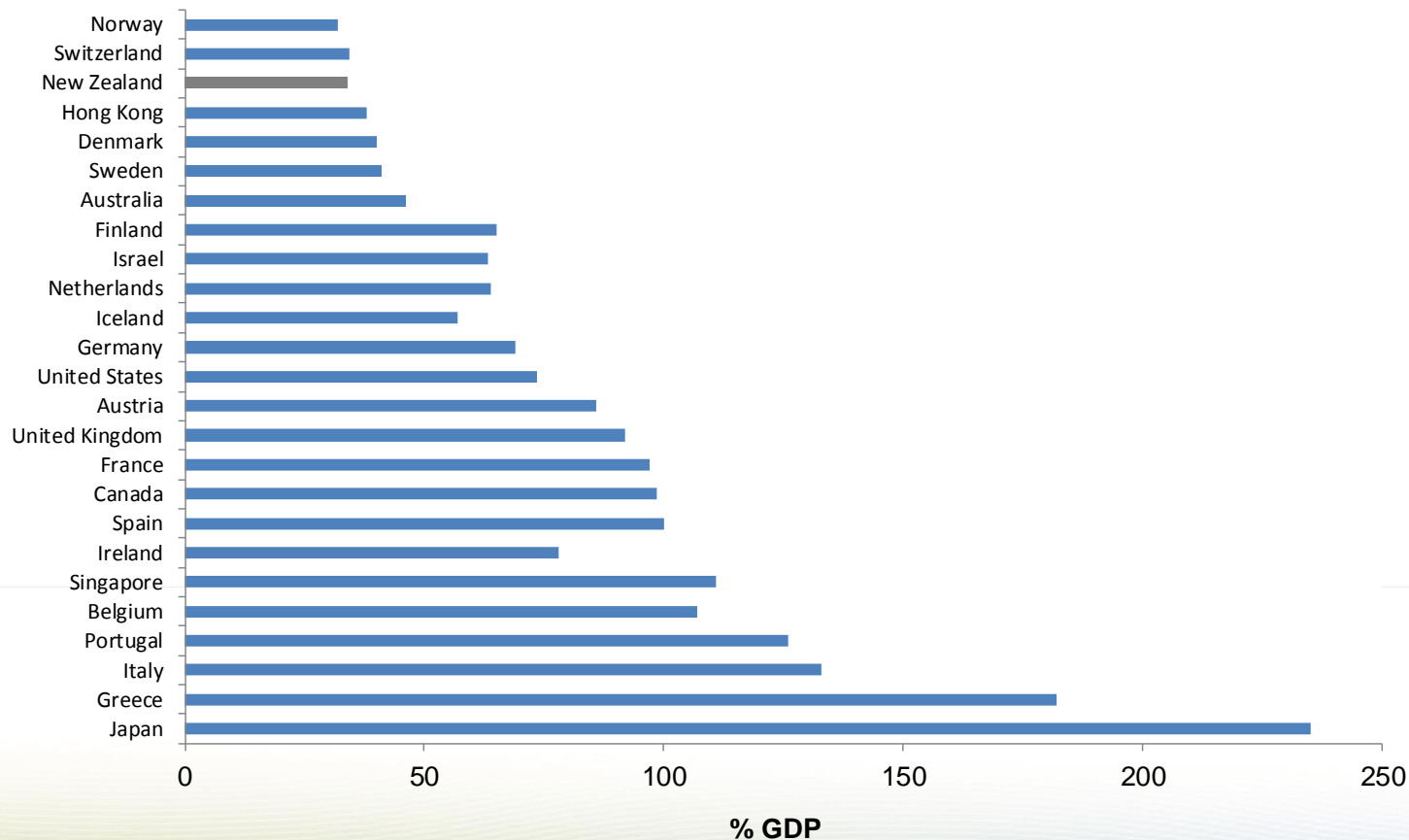
Worldwide Governance Indicators – World Bank (percentile rank)



Source: World Bank, Bloomberg, Moody's Investor Service, Standard and Poor's, Fitch Ratings

# STRONG BALANCE SHEET

## Gross Sovereign Debt to GDP



Source: Bloomberg

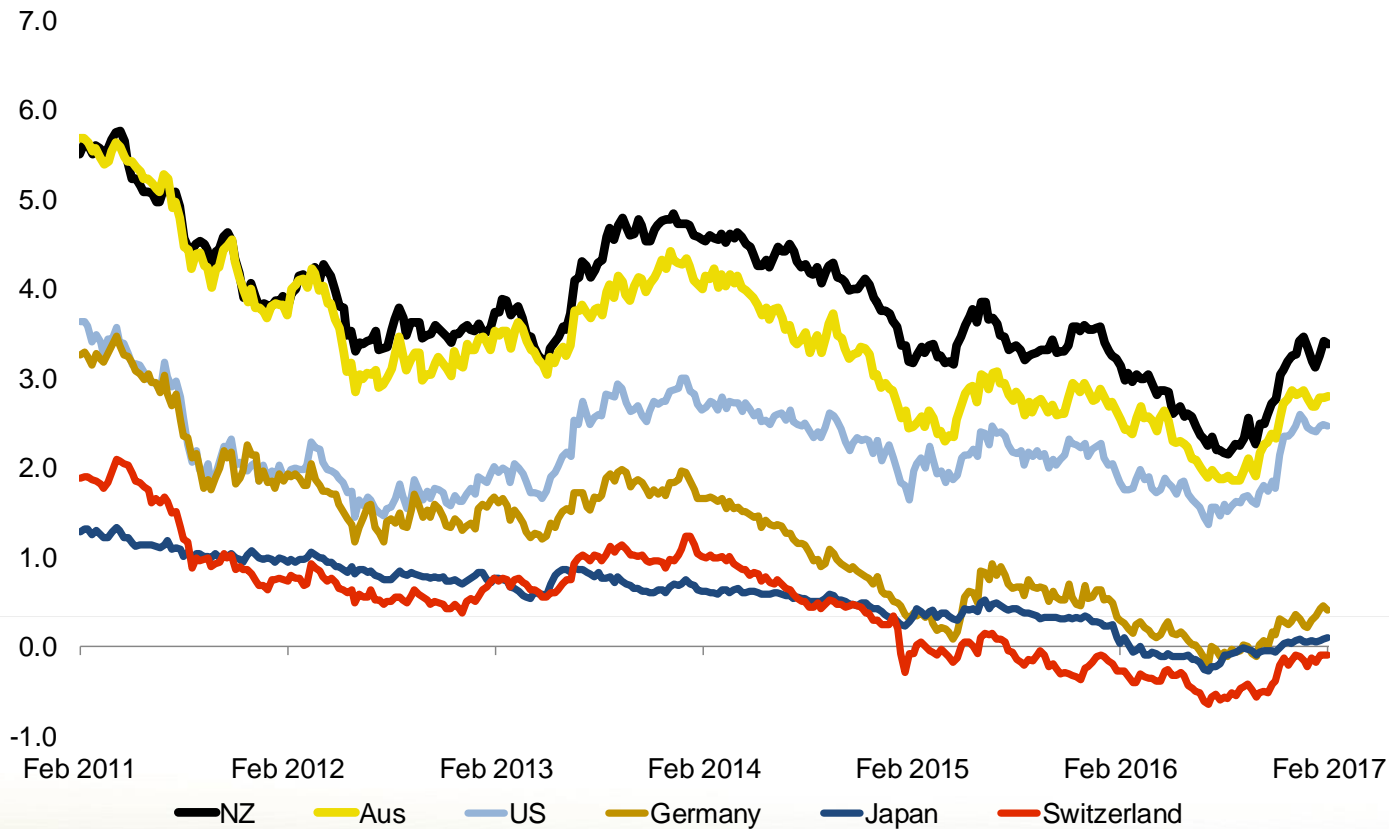


# ATTRACTIVE NOMINAL YIELDS

## 10-year Nominal Bonds



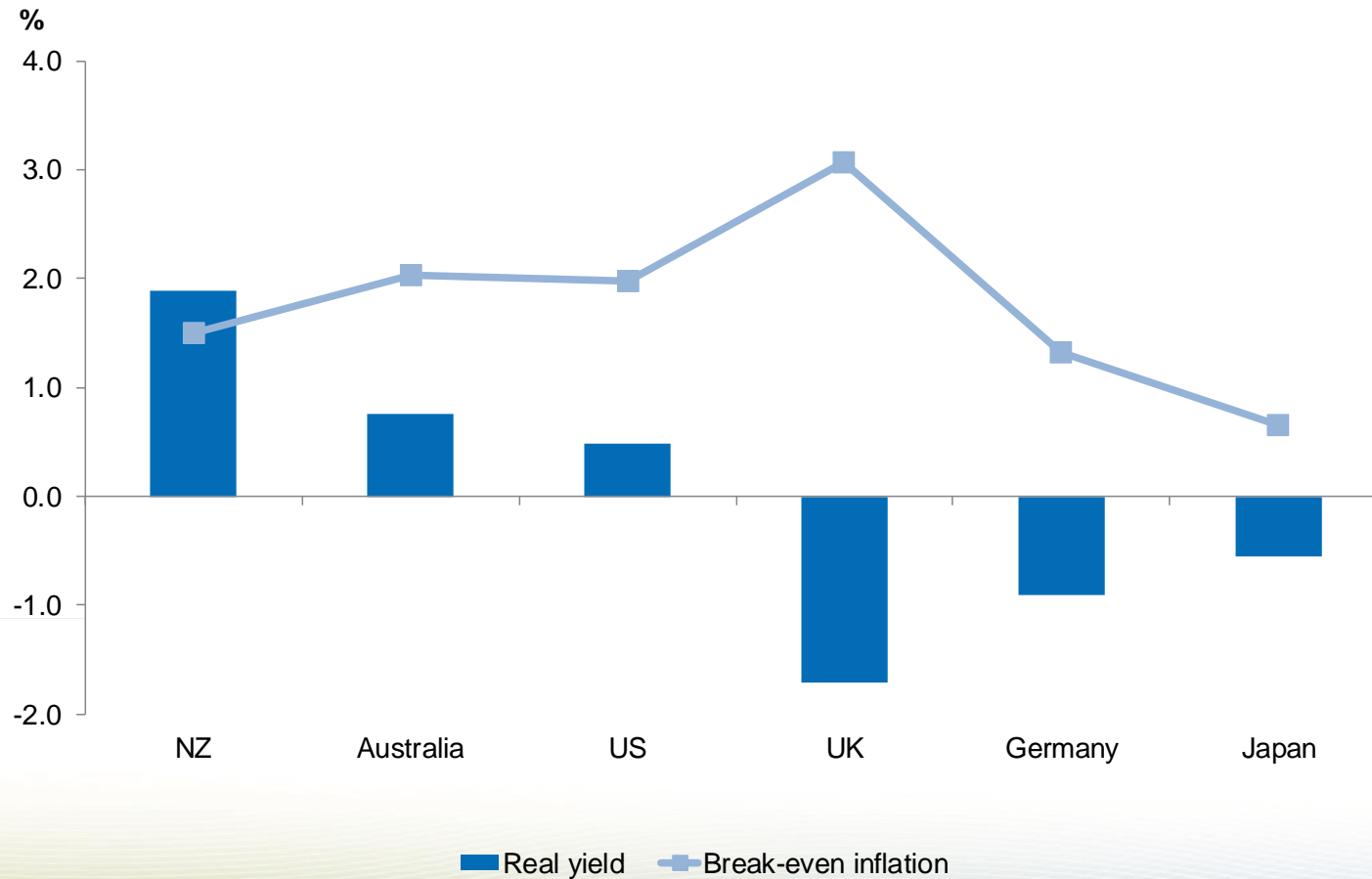
Yield %



Source: Bloomberg

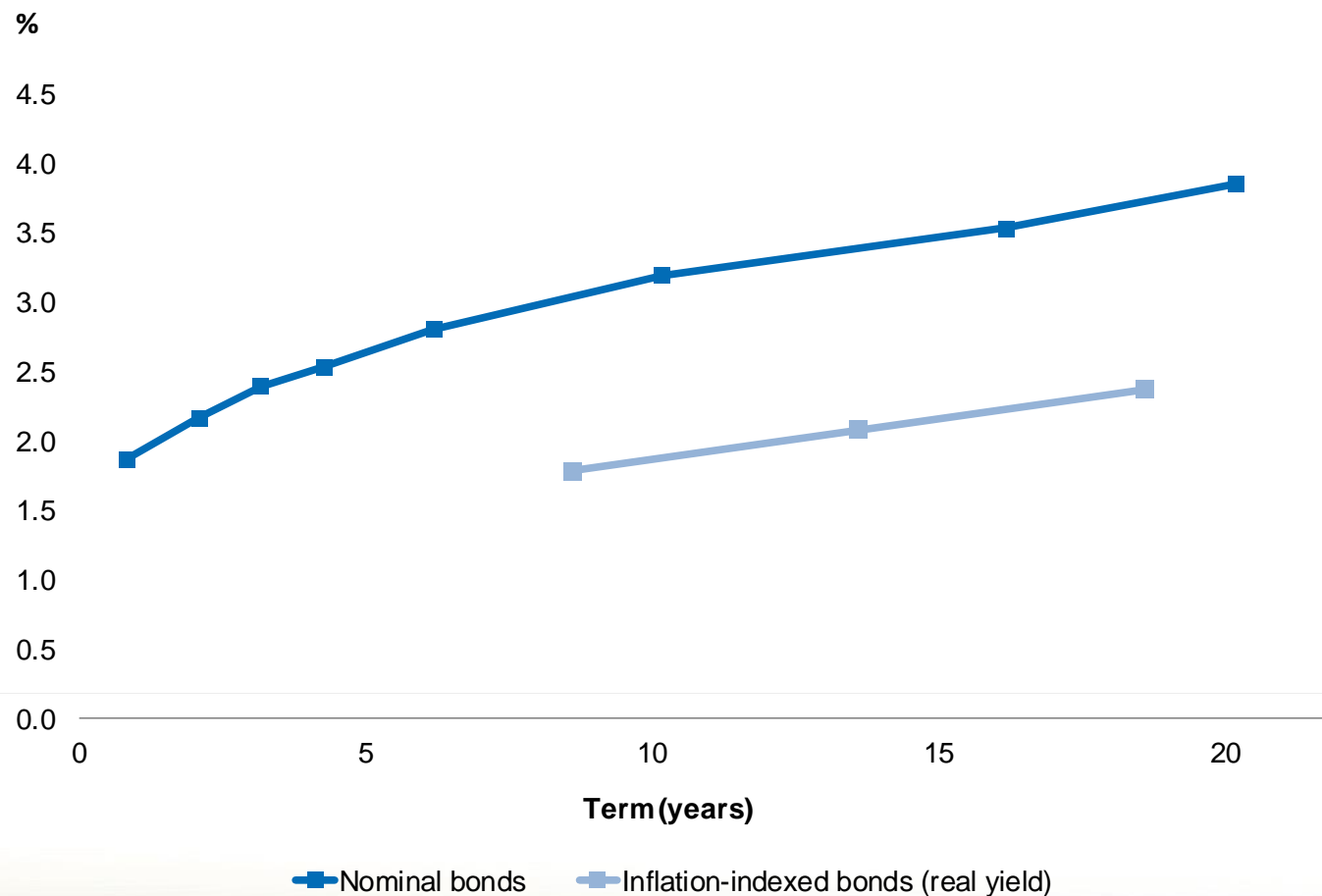
# ATTRACTIVE REAL YIELDS

## 10-year Inflation-Indexed Bonds



Source: Bloomberg

# GOVERNMENT BOND YIELD CURVES





# 3. FISCAL PRIORITIES: DEC 2016

# CURRENT FISCAL PRIORITIES

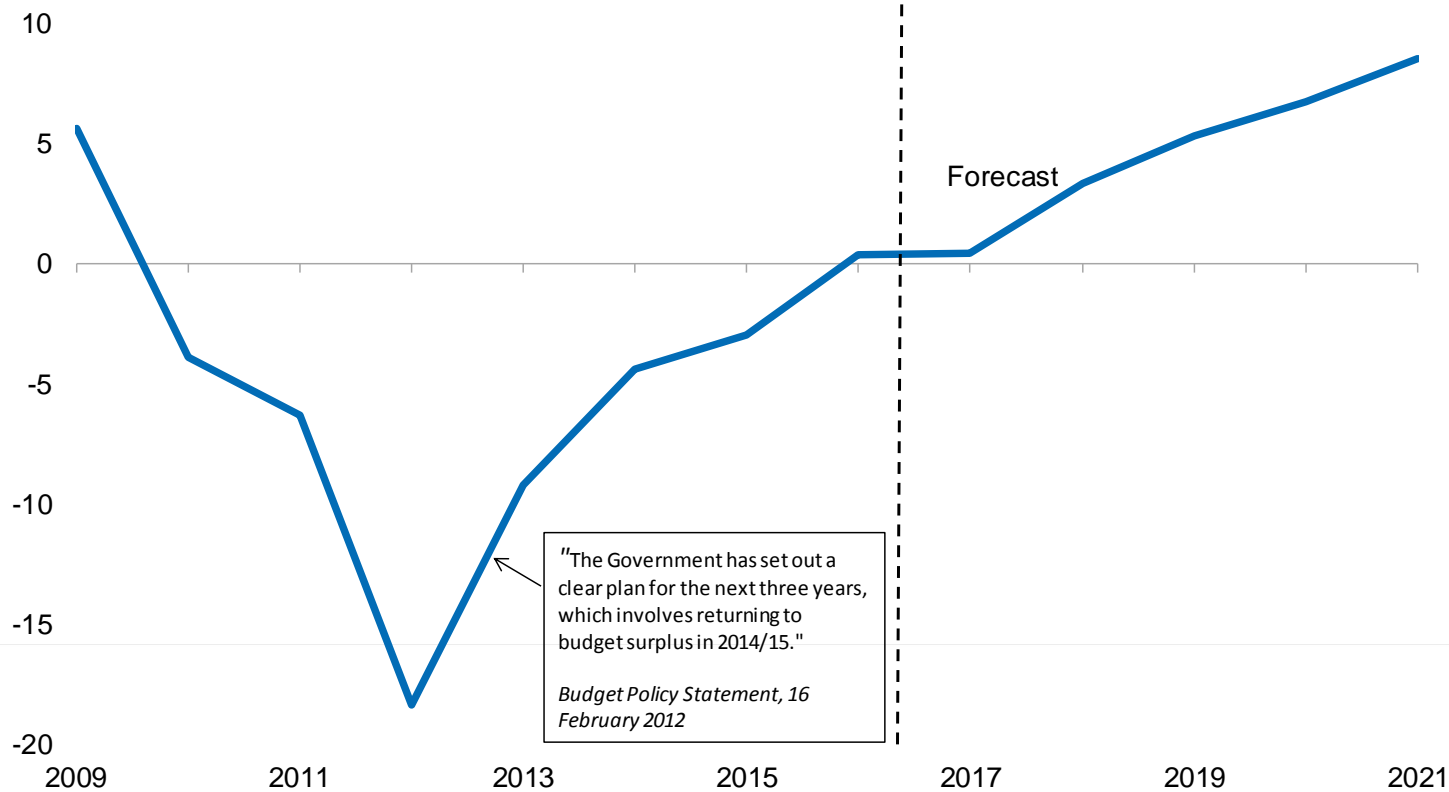


- Previous fiscal priorities:
  - Achieve operating surplus in 2014/15
  - Reduce net government debt to below 20% of GDP by 2020
- Current fiscal priorities:
  - Maintain rising operating surpluses
  - Reduce net government debt to around 20% of GDP in 2020
  - Reduce net debt to within a range of 0 per cent to 20% of GDP in the long term

# 2014/15 SURPLUS ACHIEVED



NZD billion

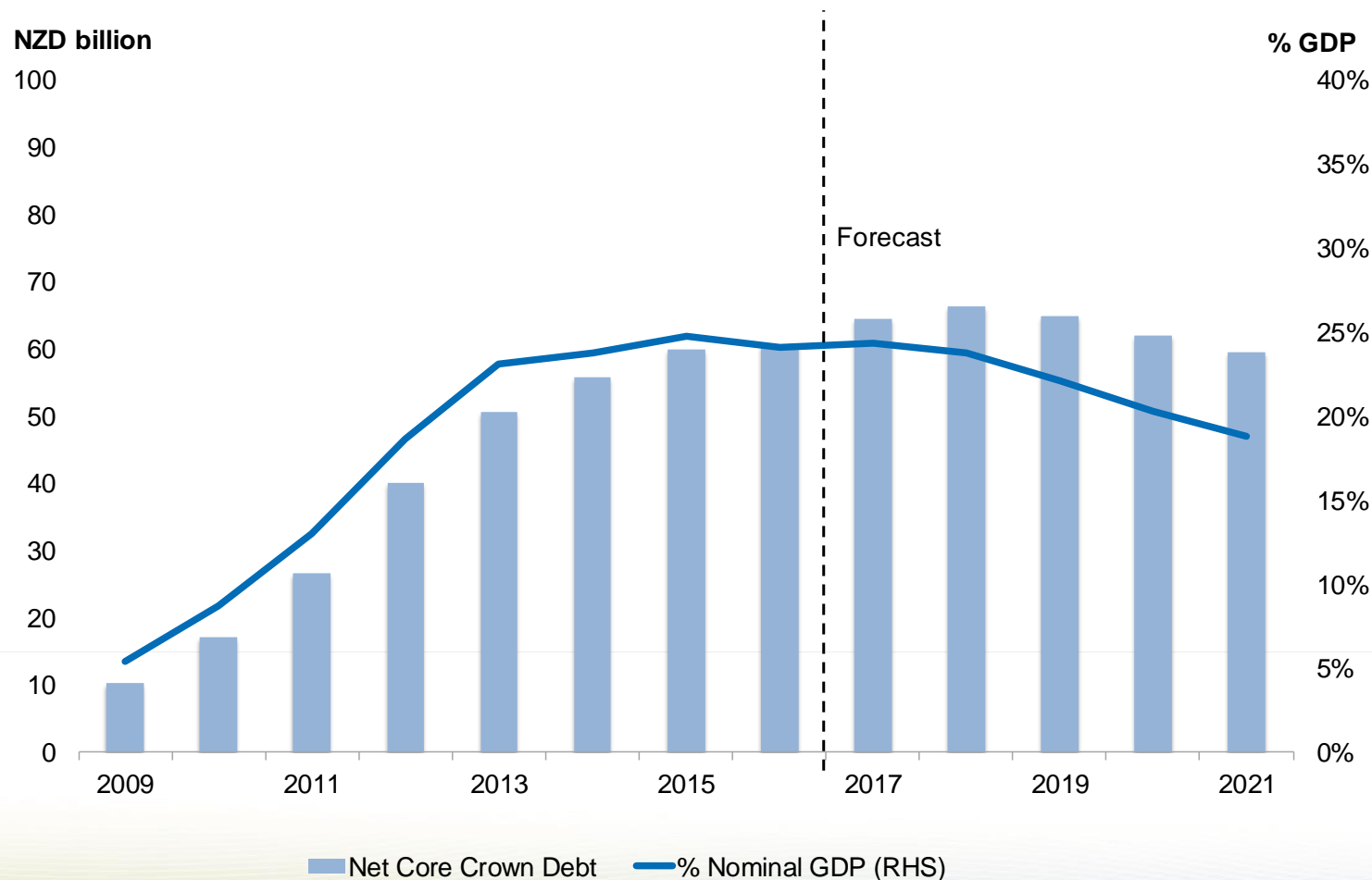


— Operating Balance (ex gains and losses)

Source: The Treasury

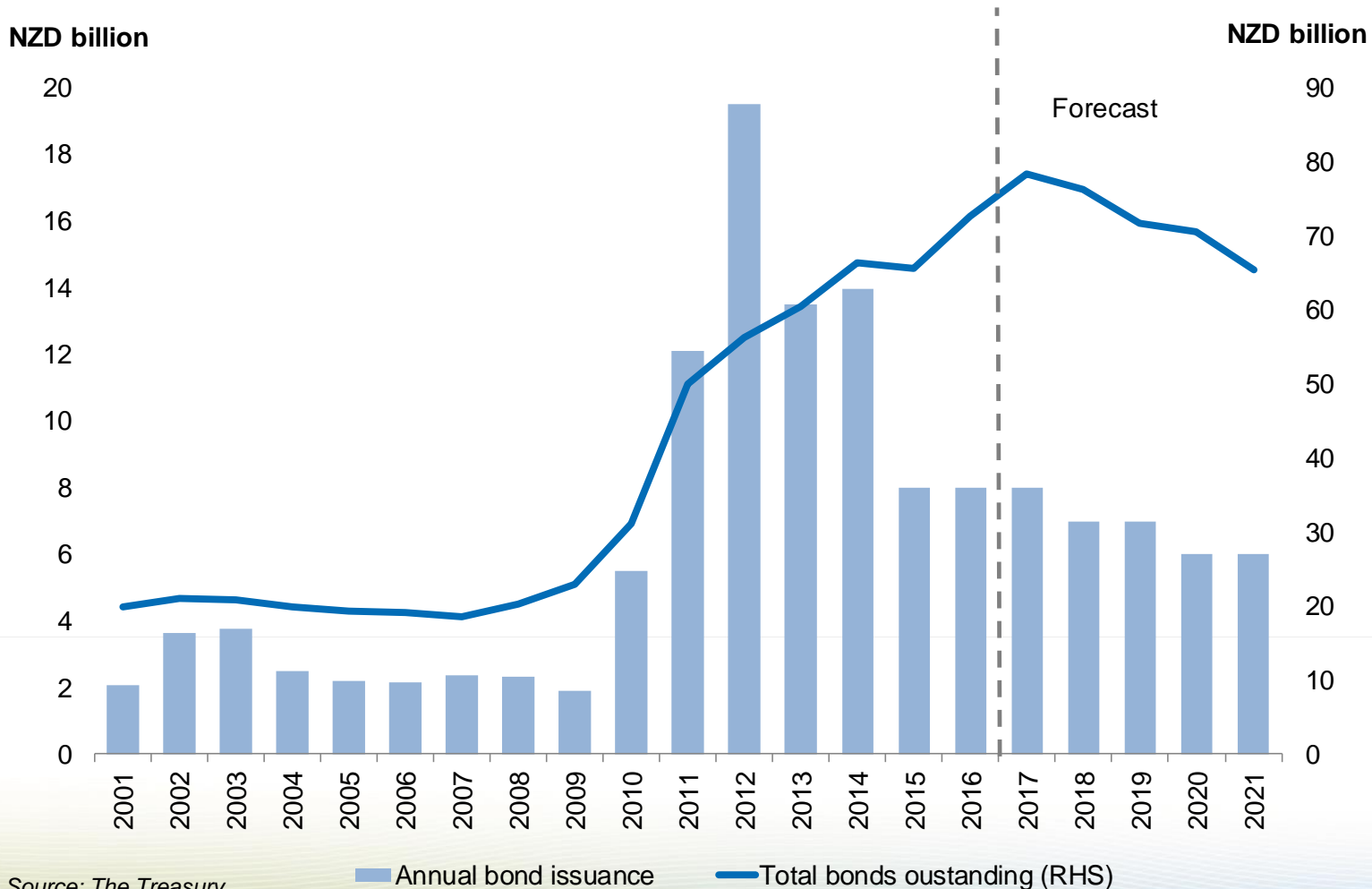


# OUTLOOK FOR NET DEBT



Source: The Treasury

# STOCK AND FLOWS: 3-4 TIMES PRE-GFC



Source: The Treasury

## 4. NZDMO'S STRATEGY



# FUNDING STRATEGY

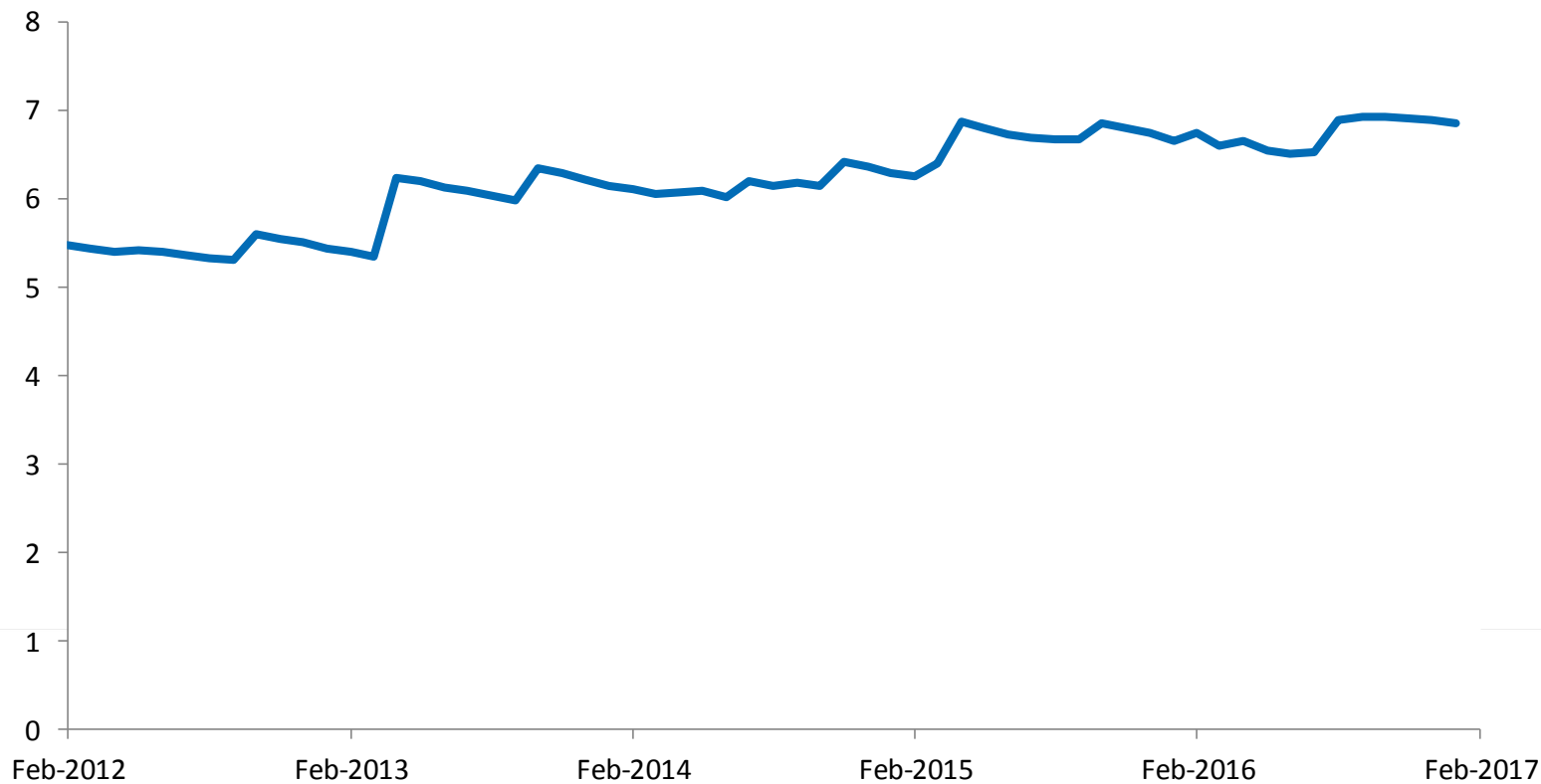


- Balance Sheet Management approach
  - Extend duration of the debt portfolio
  - Reduce overall fiscal variability
  - Reduce refinancing risk
  - The role of Inflation-indexed bonds
- Build and maintain liquidity
  - Diversify investor base
  - Encourage intermediary participation
- Focus on domestic market issuance

# AVERAGE DURATION EXTENDED



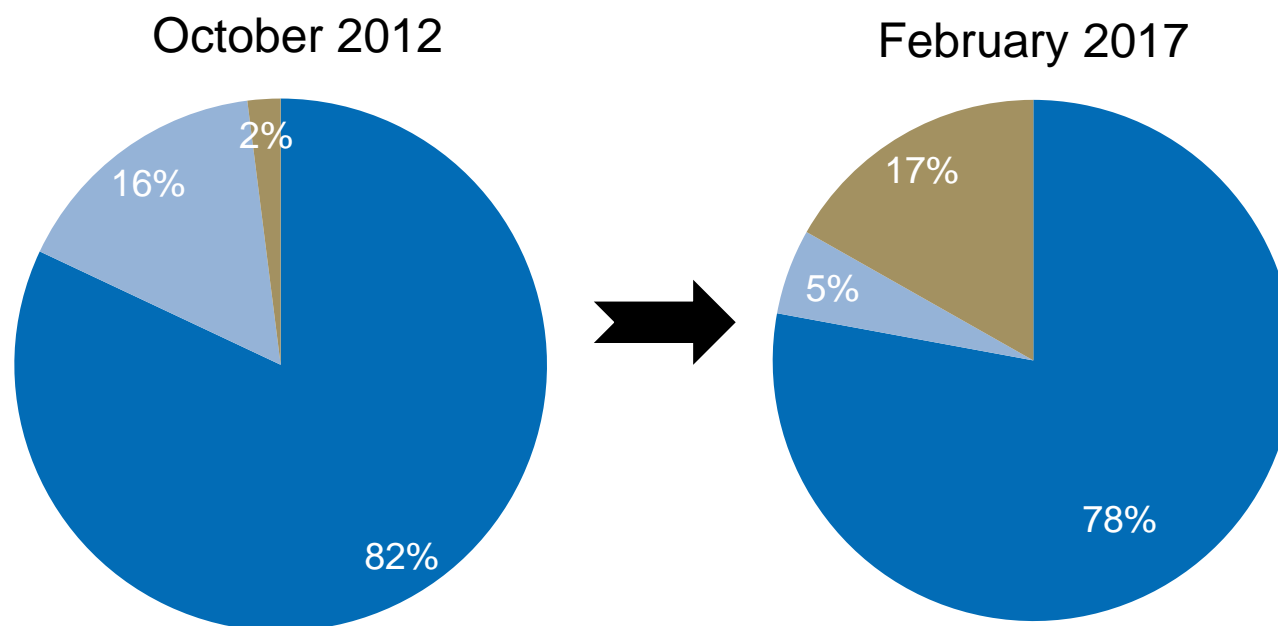
Years to  
maturity  
(12mma)



Source: The Treasury



# PORTFOLIO COMPOSITION REDUCES FISCAL VARIABILITY, REFINANCING RISK



Source: The Treasury

■ Nominal bonds ■ Treasury bills ■ Inflation-indexed bonds



# INFLATION-INDEXED BONDS - OVERVIEW



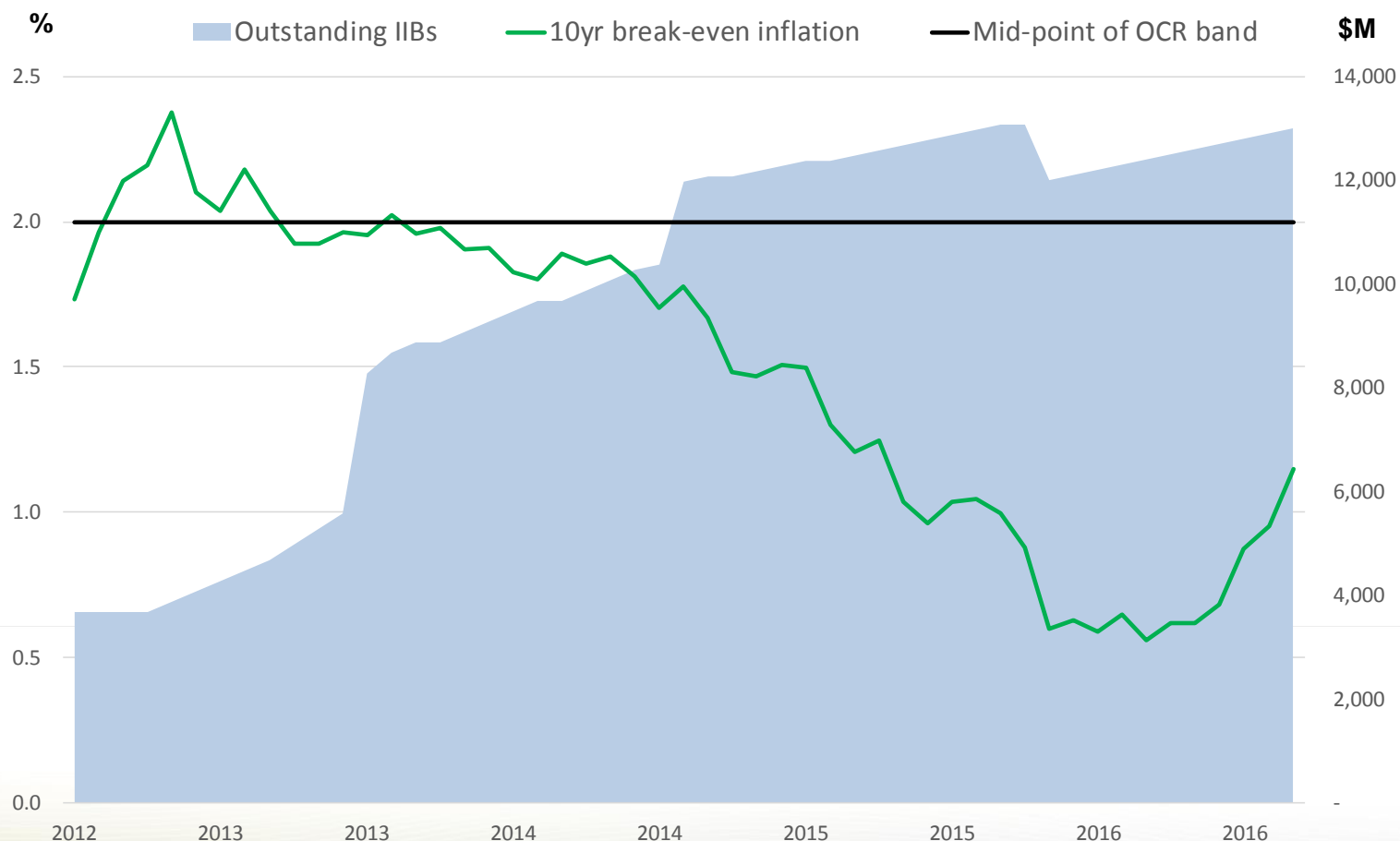
Instrument	New Zealand Government Inflation-Indexed Bonds
Total outstanding	\$13.1 billion
% of total bond portfolio	17.8%
Maturities	Sep-25, Sep-30, Sep-35, new Sep-40 before 30 June 2017
Currency	NZD
Domestic Currency Rating	AA+/Aaa/AA+ (all stable)
Linked to	Consumers Price Index (CPI), with no floor in place
Primary Issuance	Issued in multiples of \$1m via syndication and tender
Fees and Taxation	No fees, AIL or NRWT applies to coupon payments*

# INFLATION-INDEXED BONDS - STRATEGY



- Role of inflation-indexed bonds in the portfolio
  - Extend and maintain duration of the debt portfolio
  - Diversify the investor base
  - Reduce overall fiscal variability through the cycle
- Issuance strategy
  - Focus issuance in longest maturity
  - Syndicated launch, blackout period, regular tenders
  - Maintain capacity below \$6 billion technical limit

# INFLATION-INDEXED BONDS – ISSUING THROUGH THE CYCLE

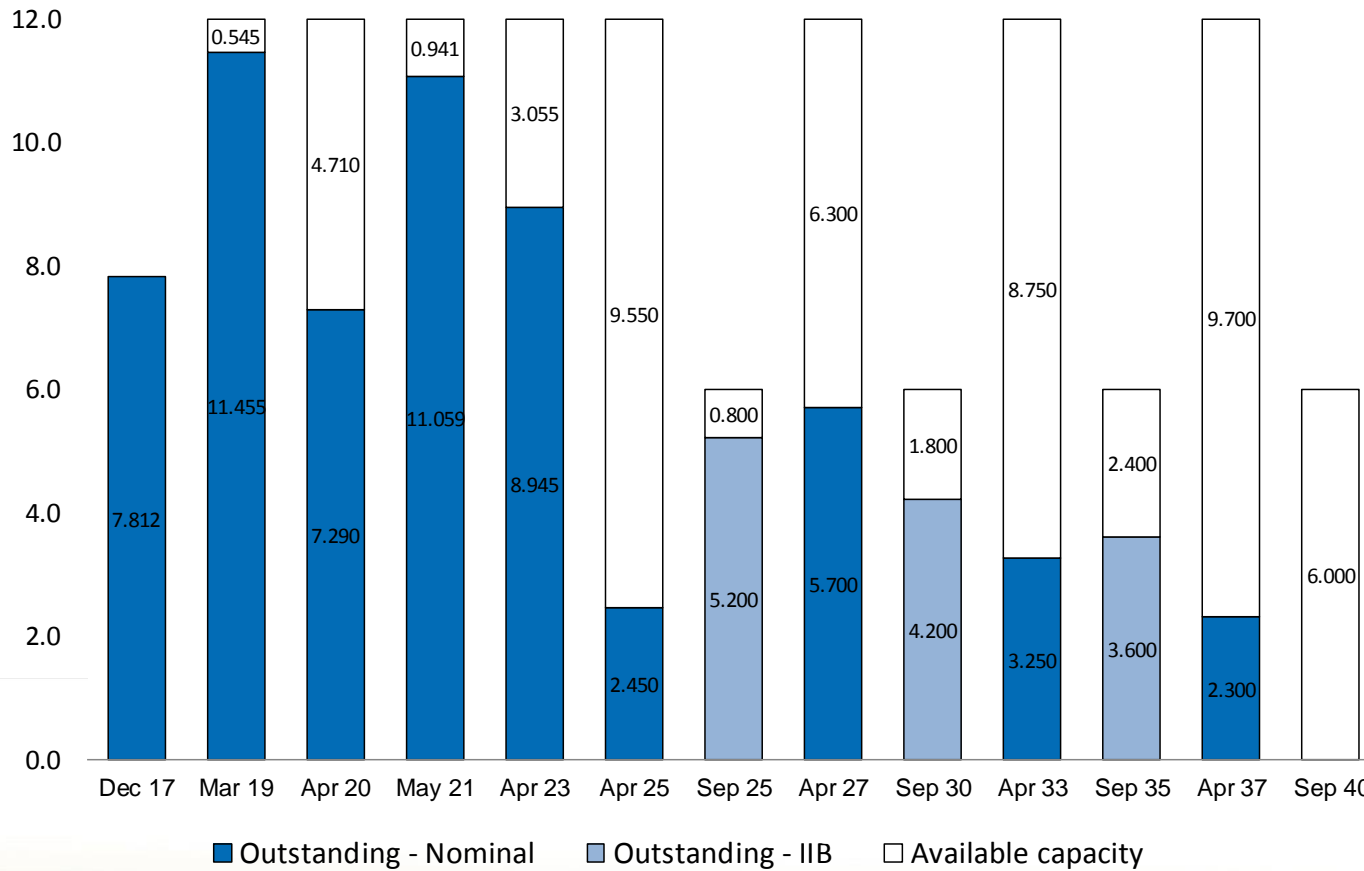


Source: The Treasury

# ISSUANCE CAPACITY ACROSS MATURITIES



NZD billion



Source: The Treasury

# SUPPORTING PRIMARY AND SECONDARY MARKET LIQUIDITY



- Quarterly tender schedule announcements include fixed amounts and specific maturities
- New bonds launched via syndication
- Tender issuance into benchmark lines
- Focus on domestic market
- Manage cash flows around upcoming bond maturities
- Broadly match Australian Commonwealth Government bond maturities

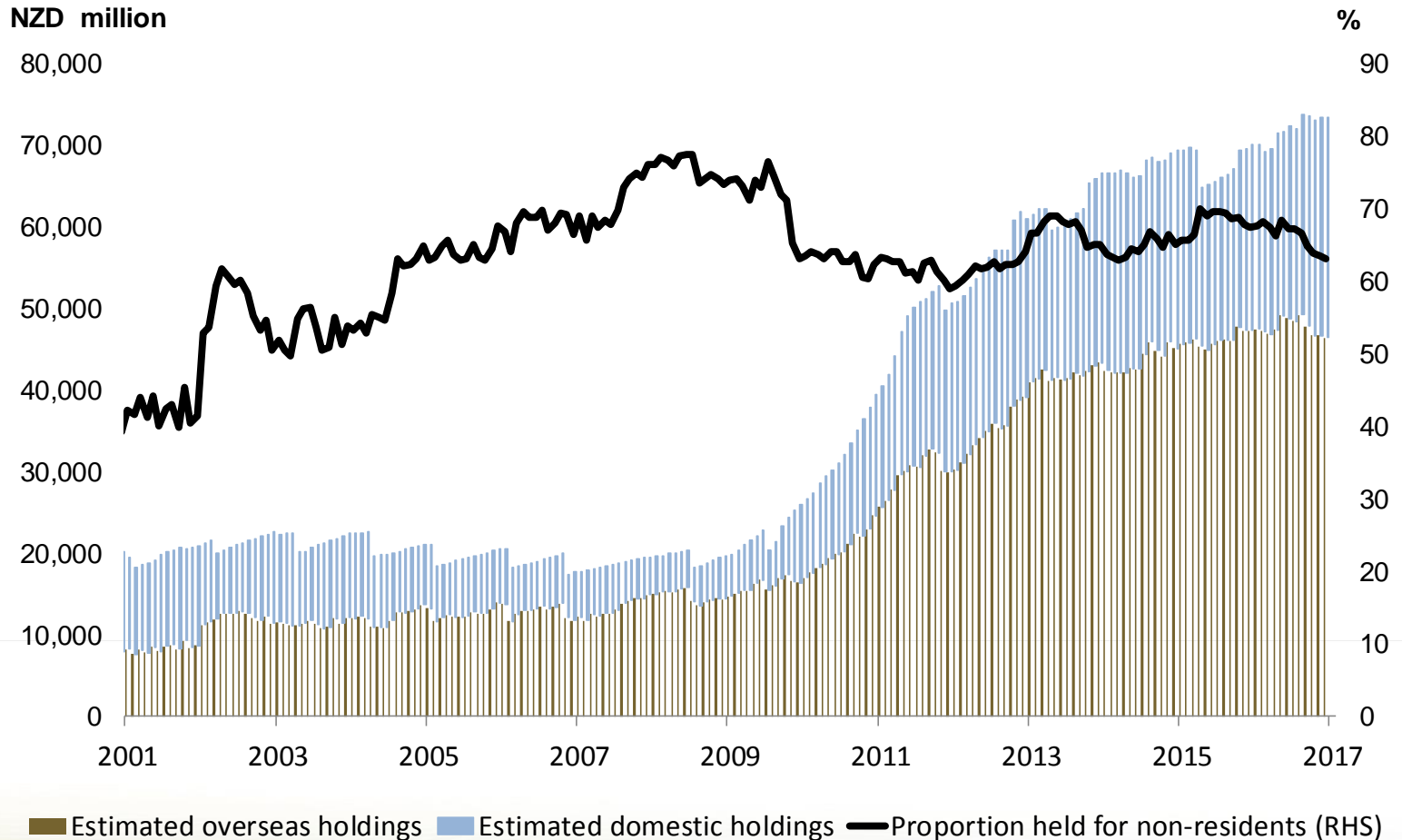
# ENCOURAGE INTERMEDIARY PARTICIPATION



- Investors need an efficient, reliable secondary market
- Intermediaries make the secondary market
- Efficient, well-functioning market benefits all participants
- NZDMO's actions are intended to support efficient, sustainable functioning of both primary and secondary markets
- NZDMO supports intermediaries who consistently support secondary market liquidity



# CONSISTENT INCREASE IN OFFSHORE AND DOMESTIC DEMAND



Source: RBNZ

## OFFSHORE DEMAND

- Central bank mandates
- Demand from duration players
- New investors in inflation indexed bonds

## DOMESTIC DEMAND

- Prudential requirements drive domestic bank balance sheet demand
- KiwiSaver

## 5. WHAT TO WATCH FOR...



- Latest forecasts:

## Half Year Economic & Fiscal Update

- Updated bond programme for 2016/17
- New September 2040 IIB planned for H2 2016/17
- Forecast bond programmes to 2020/21

- General election set for 23 Sep 2017

- Ongoing communications:

- Economic and Fiscal Updates: Budget (May), Half-Year(Dec) and Pre-Election
- Quarterly bond tender schedule released near the end of March, June, September, December
- Updates related to syndication of new bonds
- Media Statement distribution list for key communications – email [info@nzdmo.govt.nz](mailto:info@nzdmo.govt.nz)