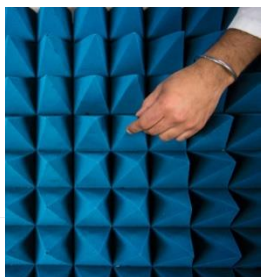




OUTLOOK FOR THE NEW ZEALAND GOVERNMENT DEBT MARKET



NEW ZEALAND
DEBT MANAGEMENT OFFICE



TODAY



- Snapshot: the New Zealand economy
- New Zealand Government: risk/reward
- Fiscal priorities: May 2016
- NZDMO's strategy
- What to watch for...

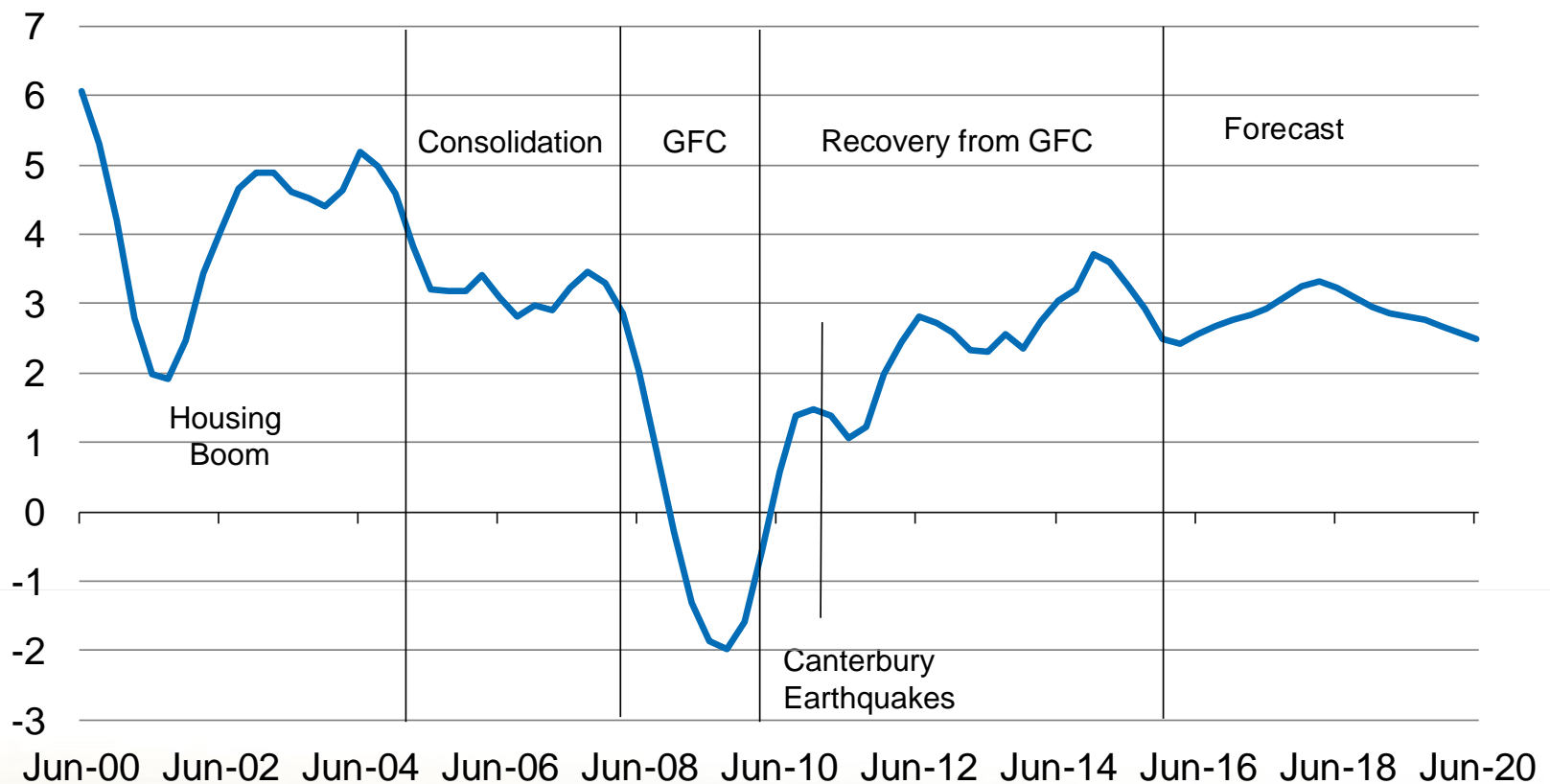


1. SNAPSHOT: THE NEW ZEALAND ECONOMY

ECONOMIC PERFORMANCE



Annual average % change



Source: Statistics NZ, The Treasury

Quarterly

GOODS TERMS OF TRADE

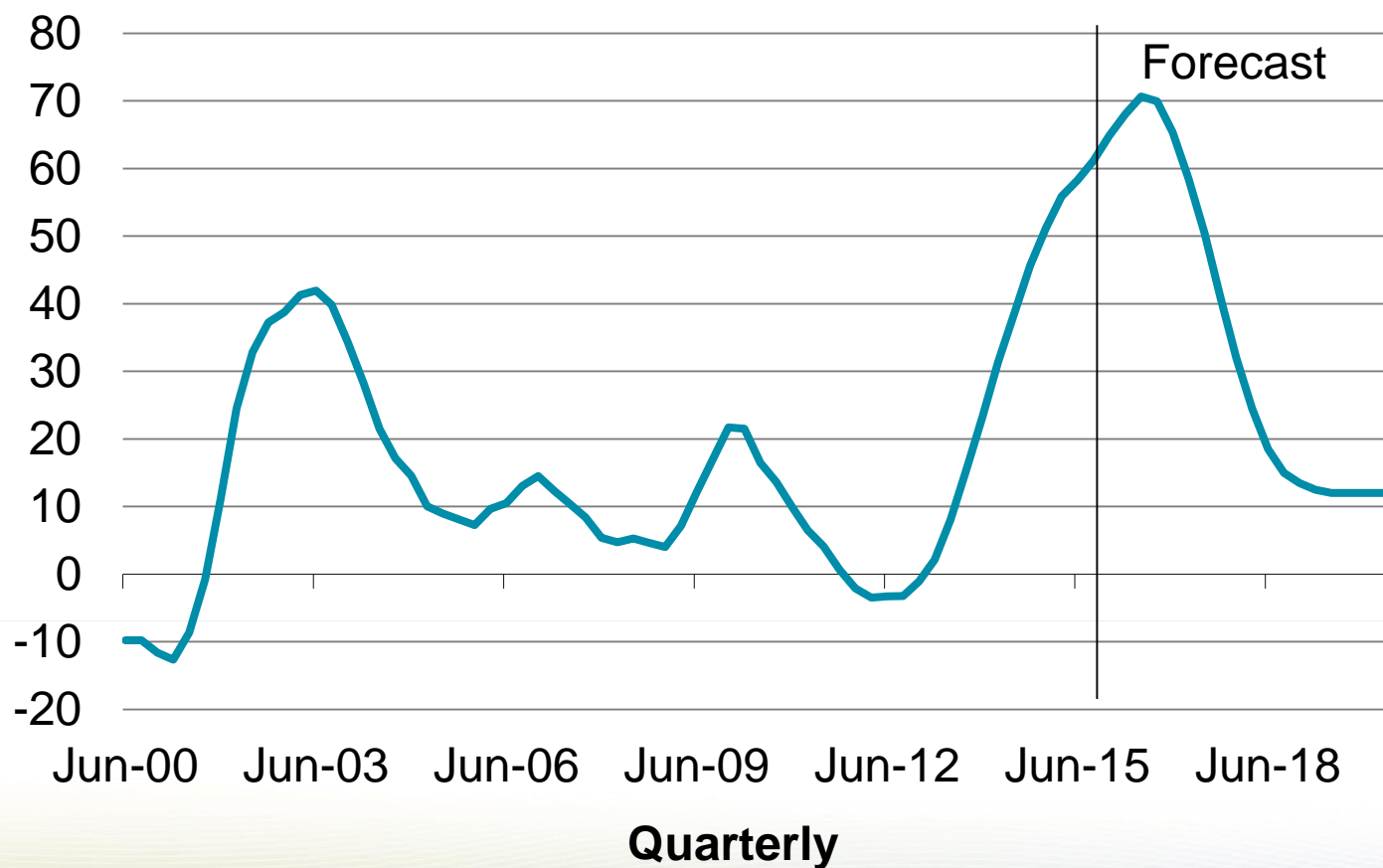


Source: Statistics NZ, The Treasury

NET INWARD MIGRATION



Annual total (000's)

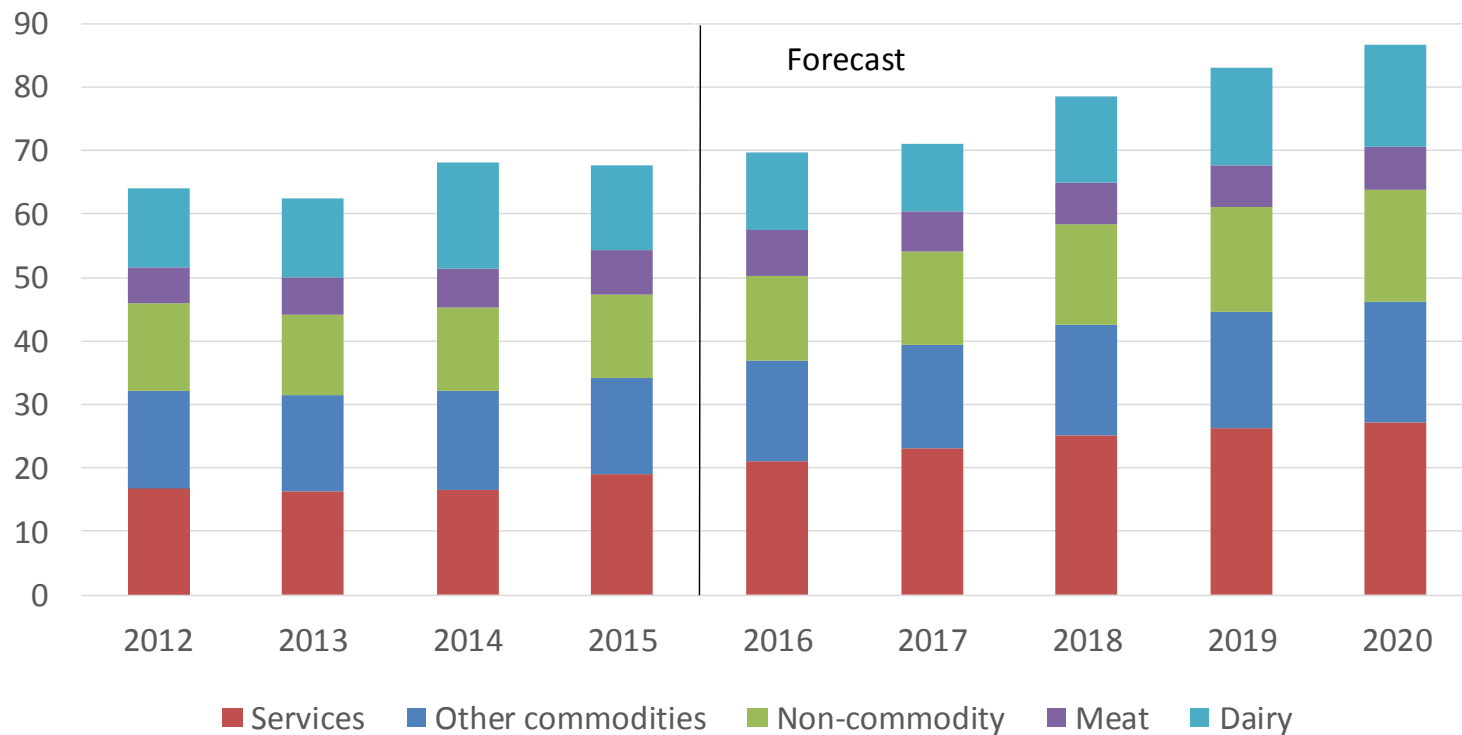


Source: Statistics NZ, The Treasury

NZ EXPORTS THROUGH TIME



Value (\$ Billion)



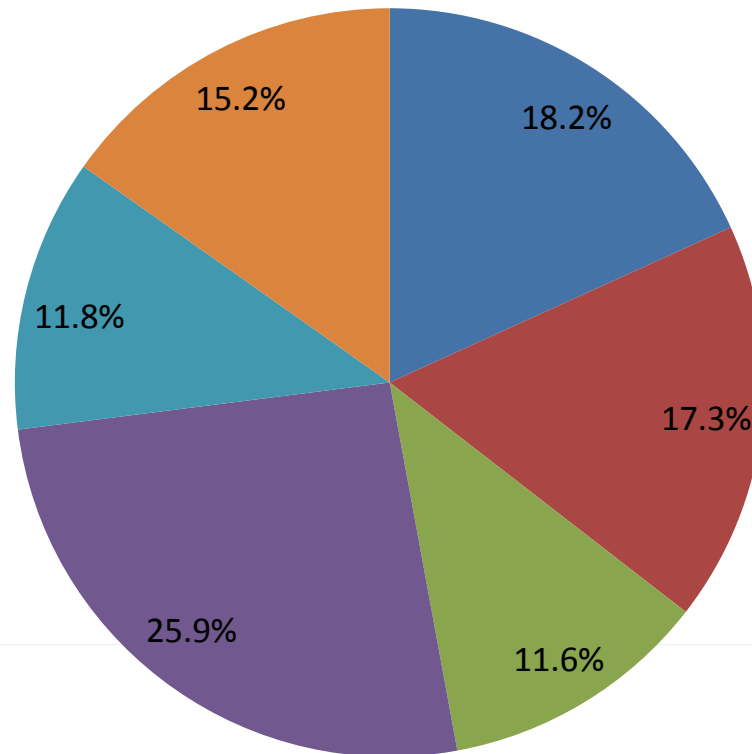
Source: Statistics NZ

VISITOR ARRIVALS CONTINUE RECORD-BREAKING RUN



- 3.27 million visitor arrivals in the April 2016 year.
- 11% more than the previous year.
- Biggest annual changes by country of residence:
 - China (up 88,100 to 390,200)
 - Australia (up 87,100 to 1.36 million)
 - United States (up 24,400 to 254,200).

DESTINATIONS: GOODS EXPORTS



■ China ■ Australia ■ USA ■ Other asia ■ Europe ■ Rest of World

Source: Statistics NZ, The Treasury

TRADING PARTNER GROWTH



Annual average % change



Source: Statistics NZ, The Treasury

UNEMPLOYMENT



% of Labour Force

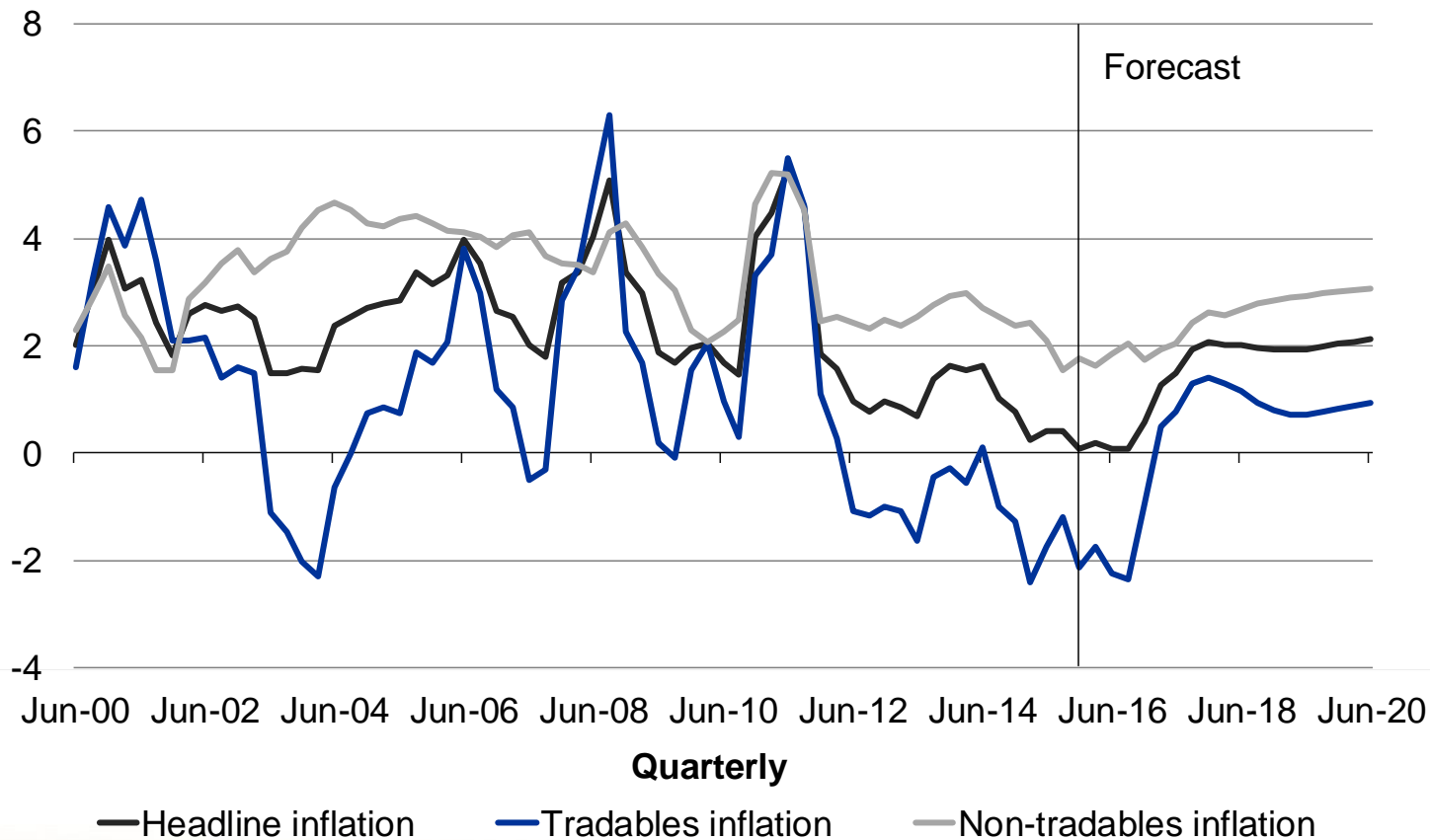


Source: Statistics NZ, The Treasury

CPI INFLATION

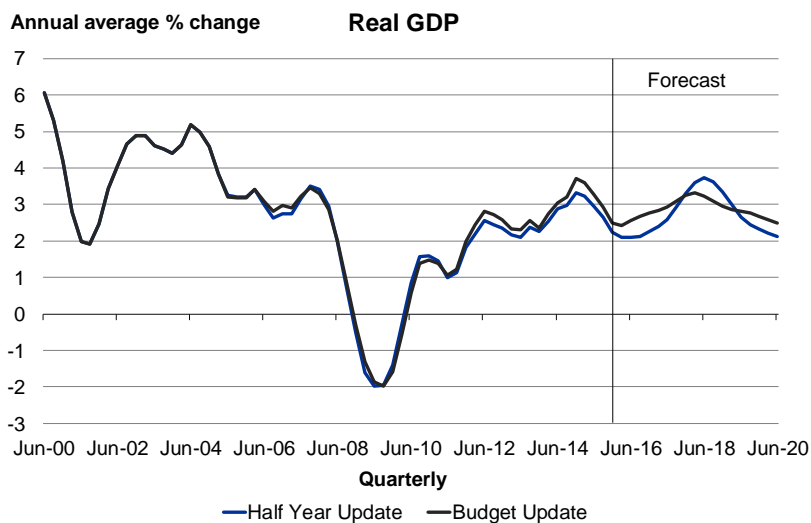


Annual % change

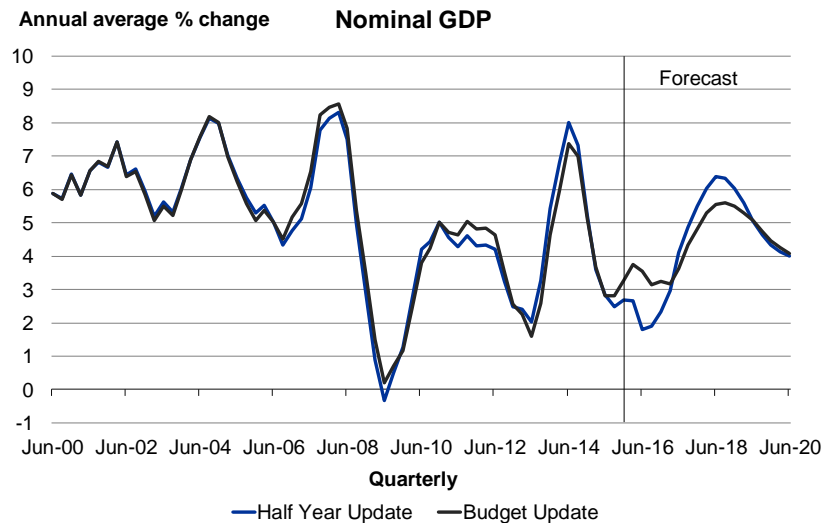


Source: Statistics NZ, Treasury

THE ECONOMIC OUTLOOK



- Recent strength in real GDP growth is sustained in near term by migration, construction, low interest rates and services exports



- Despite lower inflation, nominal GDP boosted by real GDP
- Terms of trade similar as lower oil offsets lower dairy prices



2. NEW ZEALAND GOVERNMENT: RISK/REWARD

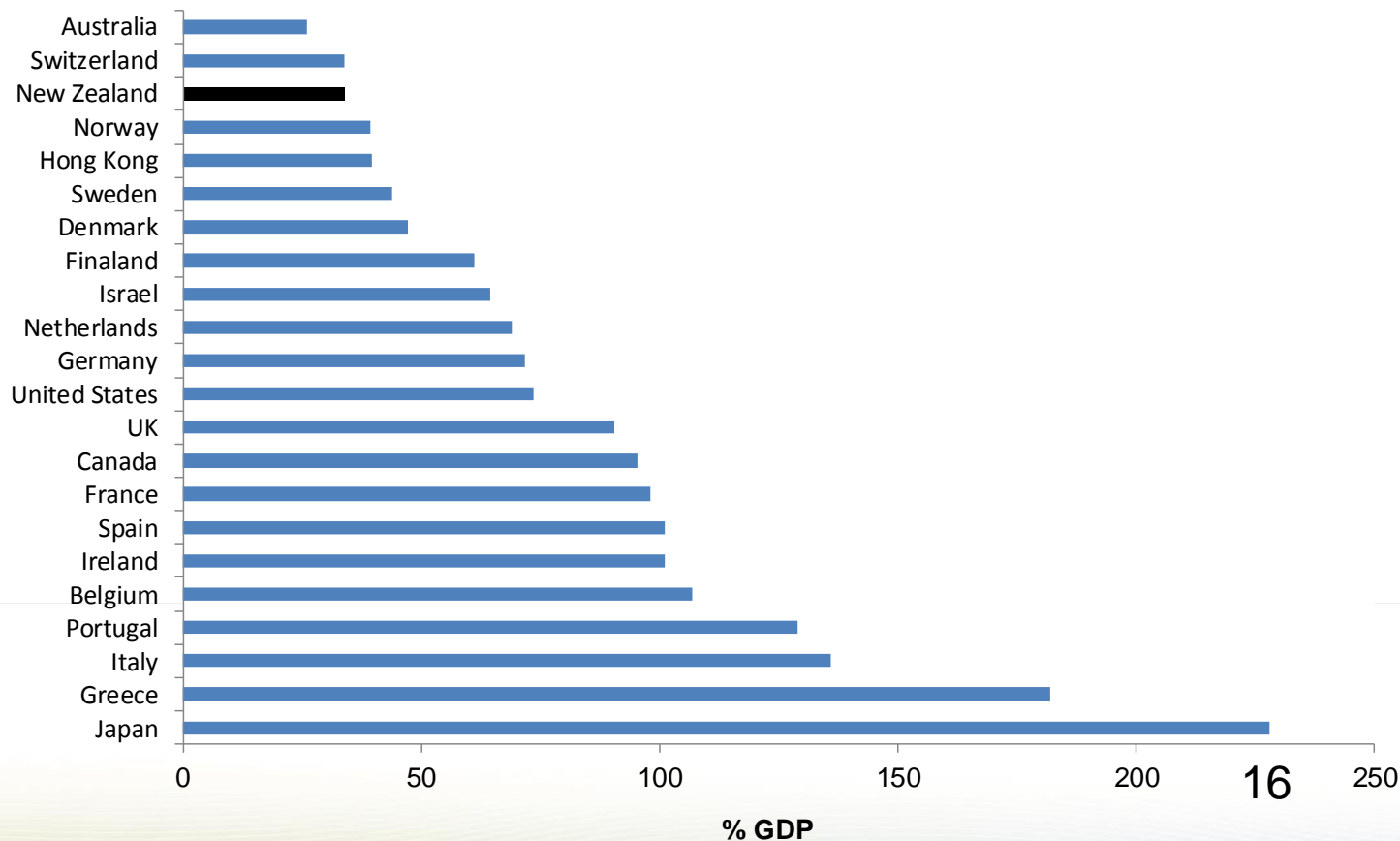
SOLID CREDIT RATINGS



Rating Agency	Domestic Currency	Foreign Currency
Moody's Investor Service	Aaa (stable outlook)	Aaa (stable outlook)
Standard and Poor's	AA+ (stable outlook)	AA (stable outlook)
Fitch Ratings	AA+ (stable outlook)	AA (stable outlook)

STRONG BALANCE SHEET

Gross Sovereign Debt to GDP



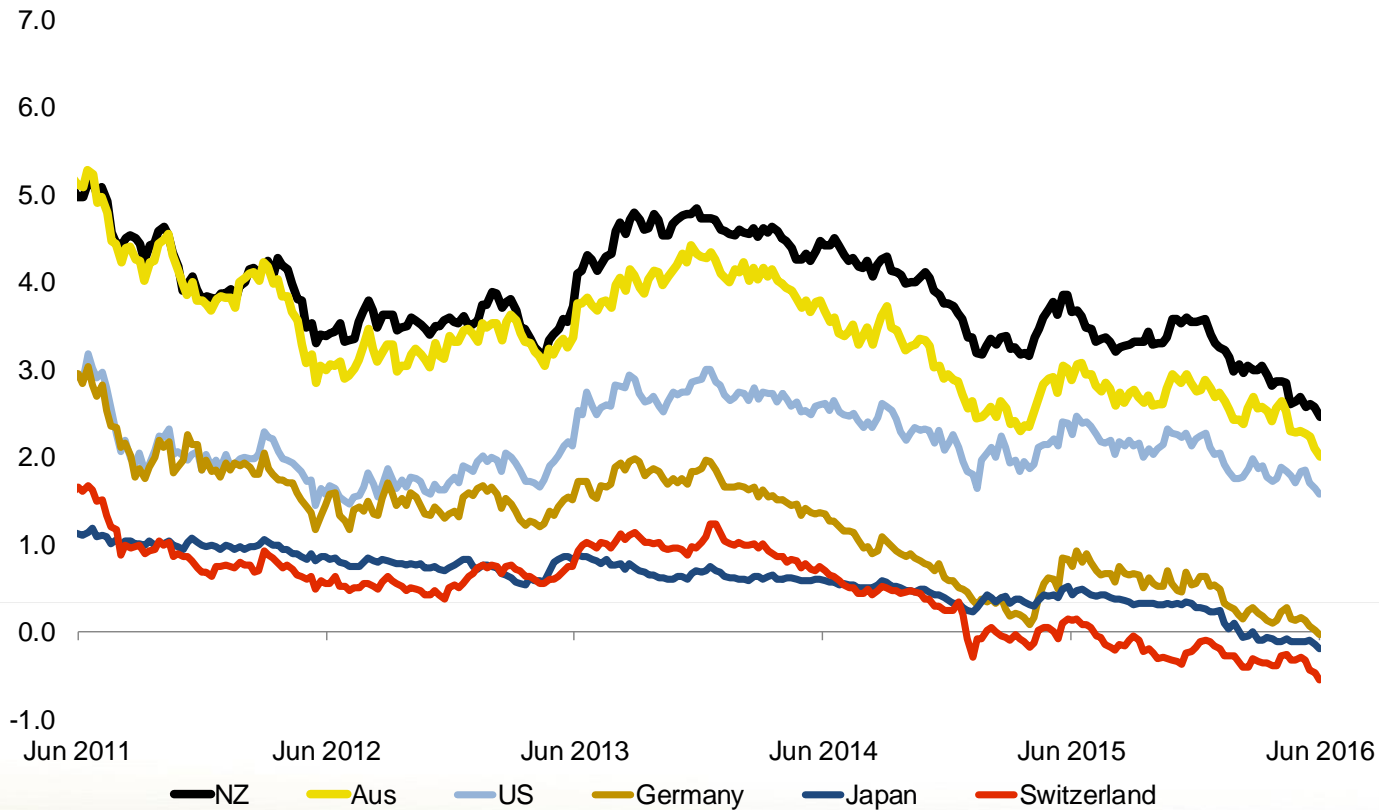
Source: NZ HYEFO, Aus MYEFO, Bloomberg

ATTRACTIVE YIELDS: NOMINAL

10-year Nominal Bonds



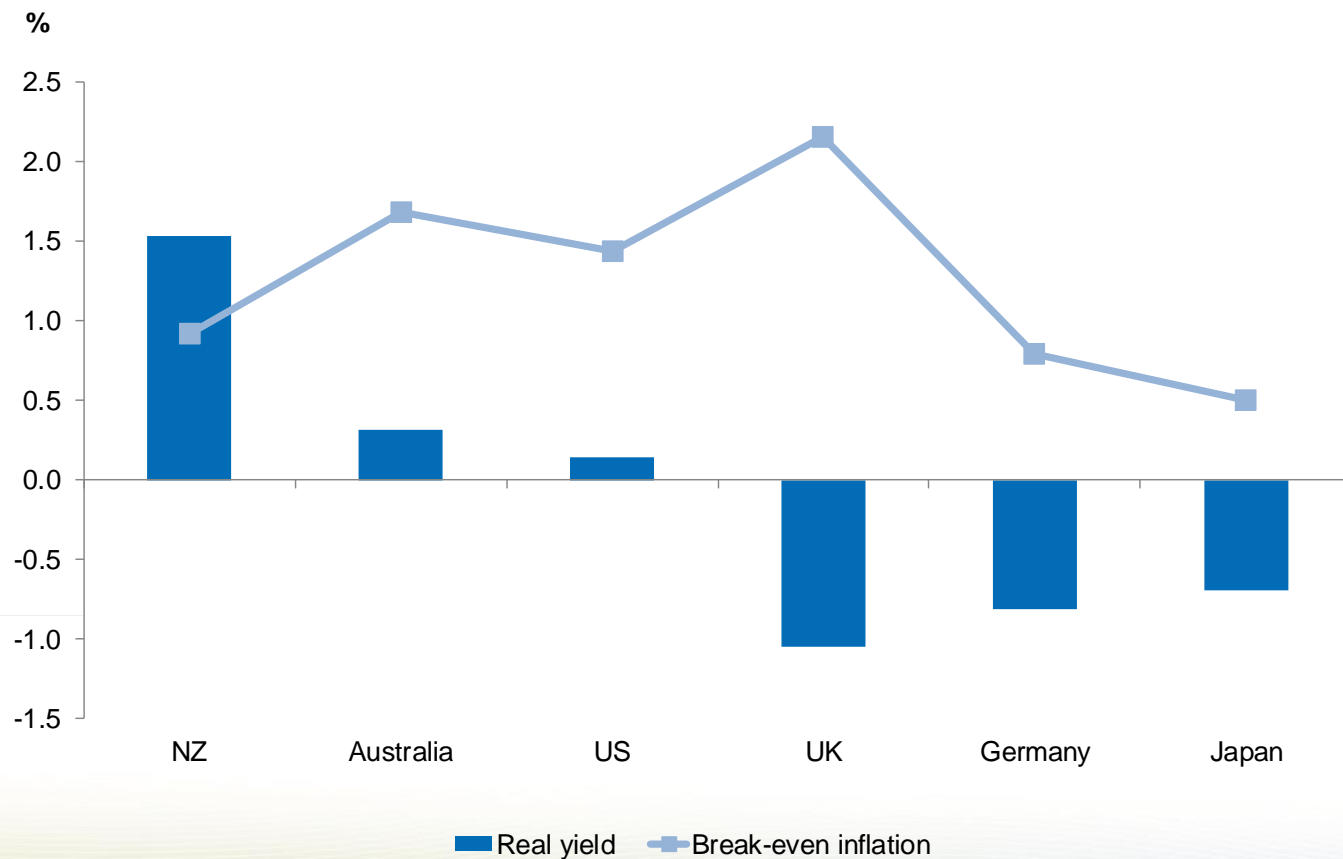
Yield %



Source: Bloomberg

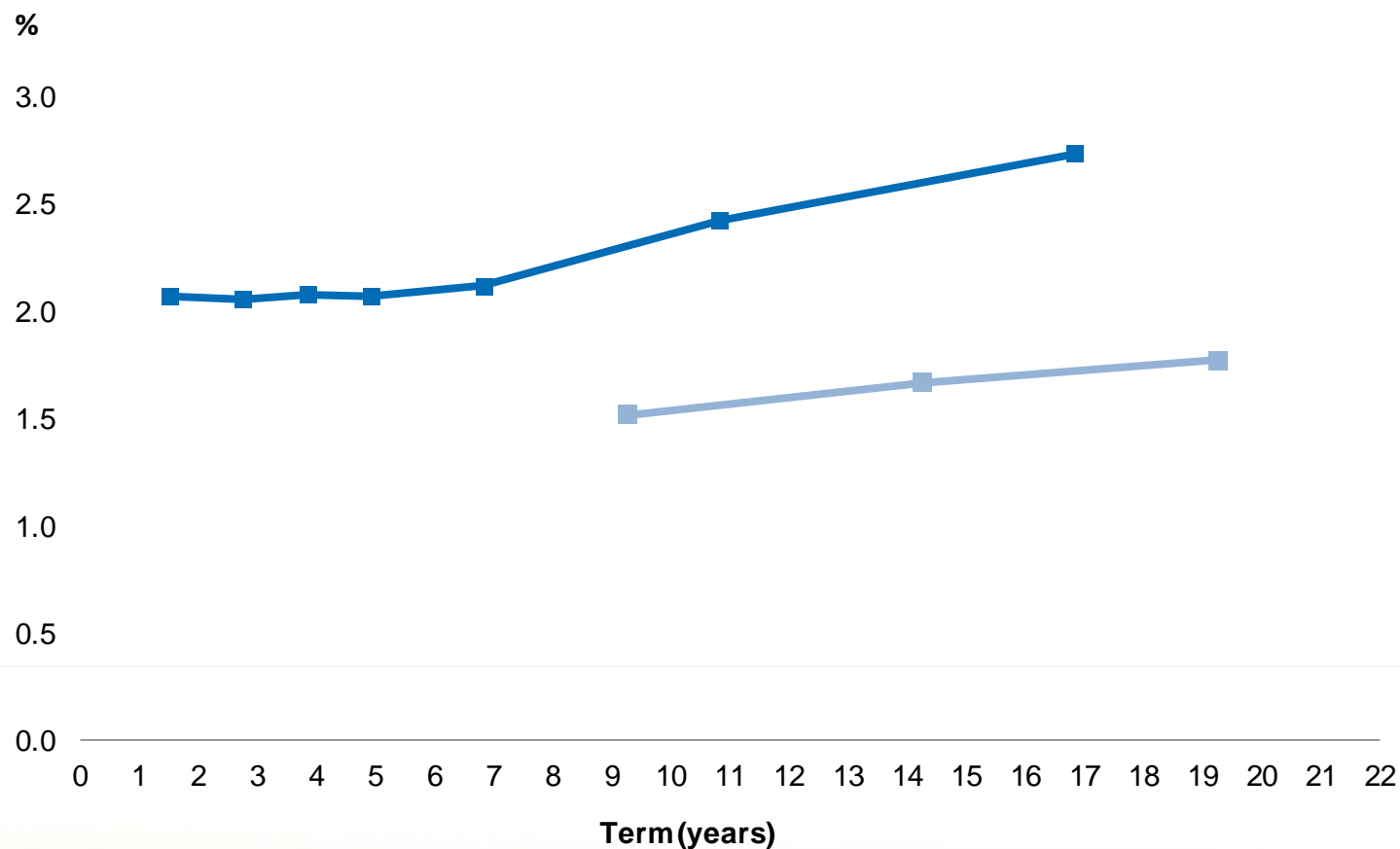
ATTRACTIVE YIELDS: REAL

10-year Inflation-Indexed Bonds



Source: Bloomberg

GOVERNMENT BOND YIELD CURVES



■ Nominal bonds

■ Inflation-indexed bonds (real yield)

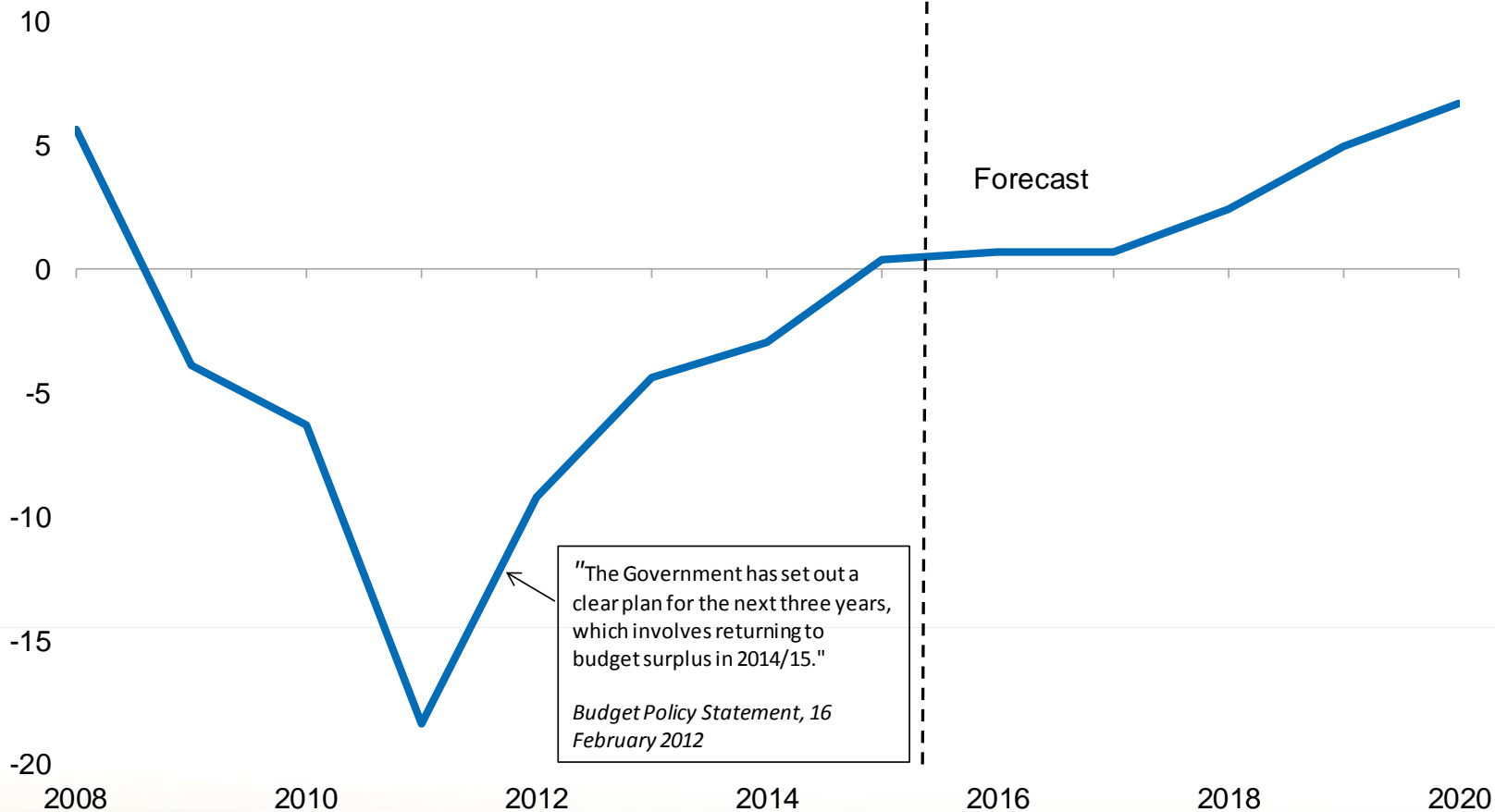
Source: Bloomberg

3. FISCAL PRIORITIES: DEC 2015

2014/15 SURPLUS ACHIEVED



NZD billion



Source: The Treasury

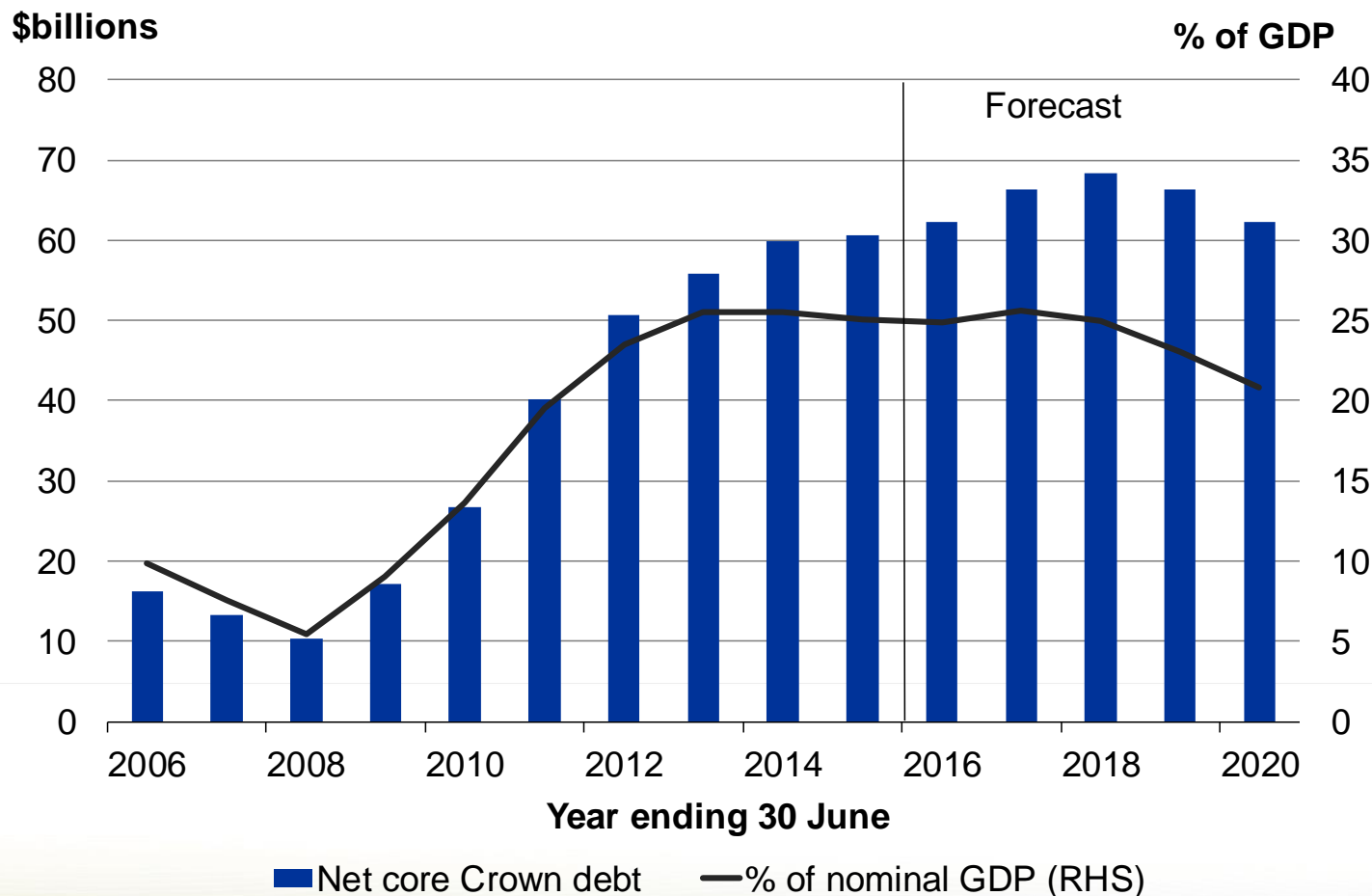
— Operating Balance (ex gains and losses)

CURRENT FISCAL PRIORITIES



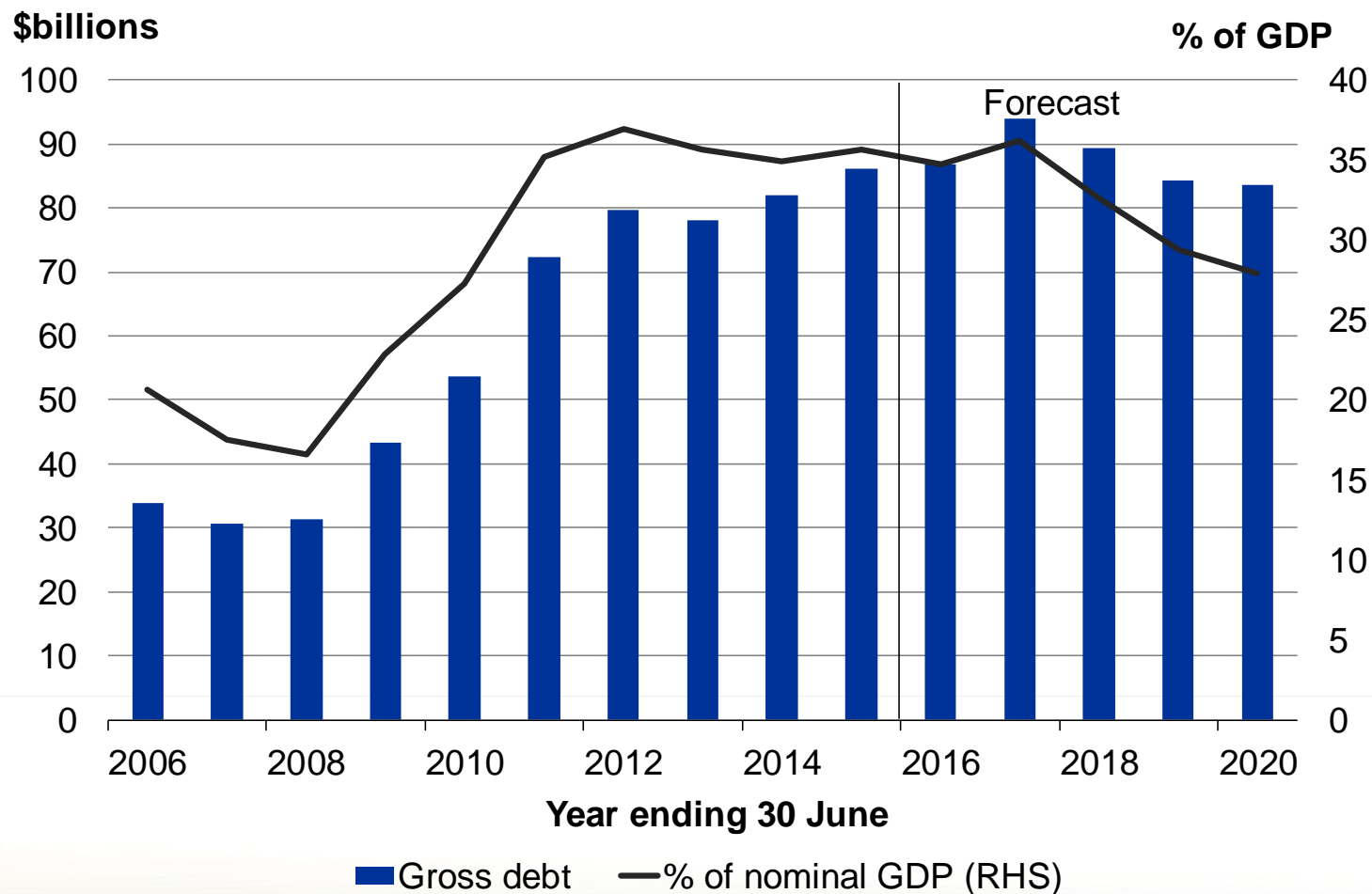
- Previous fiscal priorities:
 - Achieve operating surplus in 2014/15
 - Reduce net government debt to below 20% of GDP by 2020
- New fiscal priorities:
 - Maintain rising operating surpluses
 - Reduce net government debt to around 20% of GDP in 2020
 - Reduce net debt to within a range of 0 per cent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

OUTLOOK FOR NET DEBT



Source: The Treasury

OUTLOOK FOR GROSS DEBT

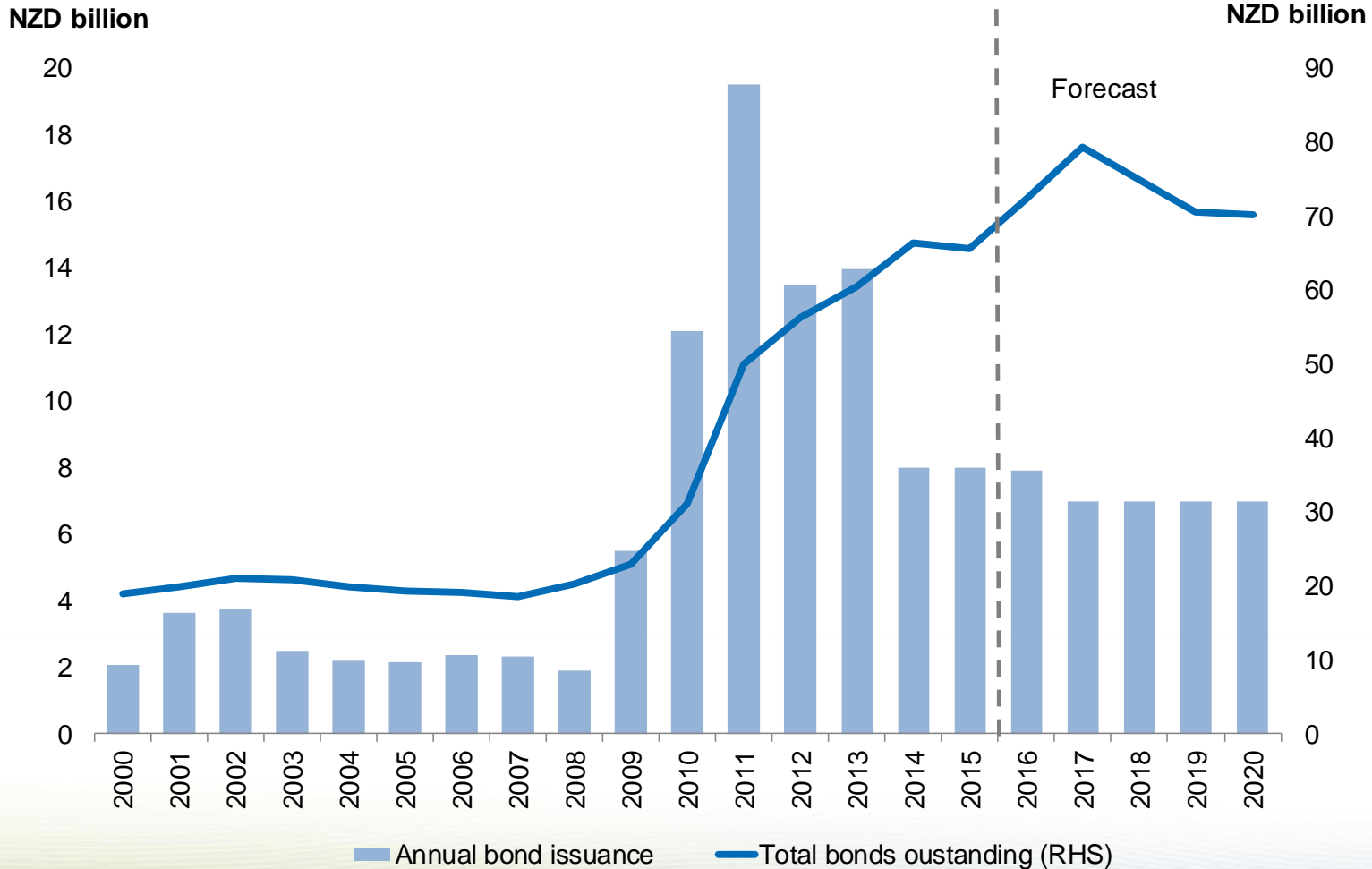


Gross debt (Gross Sovereign Issued Debt (GSID) excl Reserve Bank settlement cash and bank bills). Source: The Treasury

4. NZDMO'S STRATEGY



STOCK AND FLOWS: 3-4 TIMES PRE-GFC



Source: The Treasury

FUNDING STRATEGY

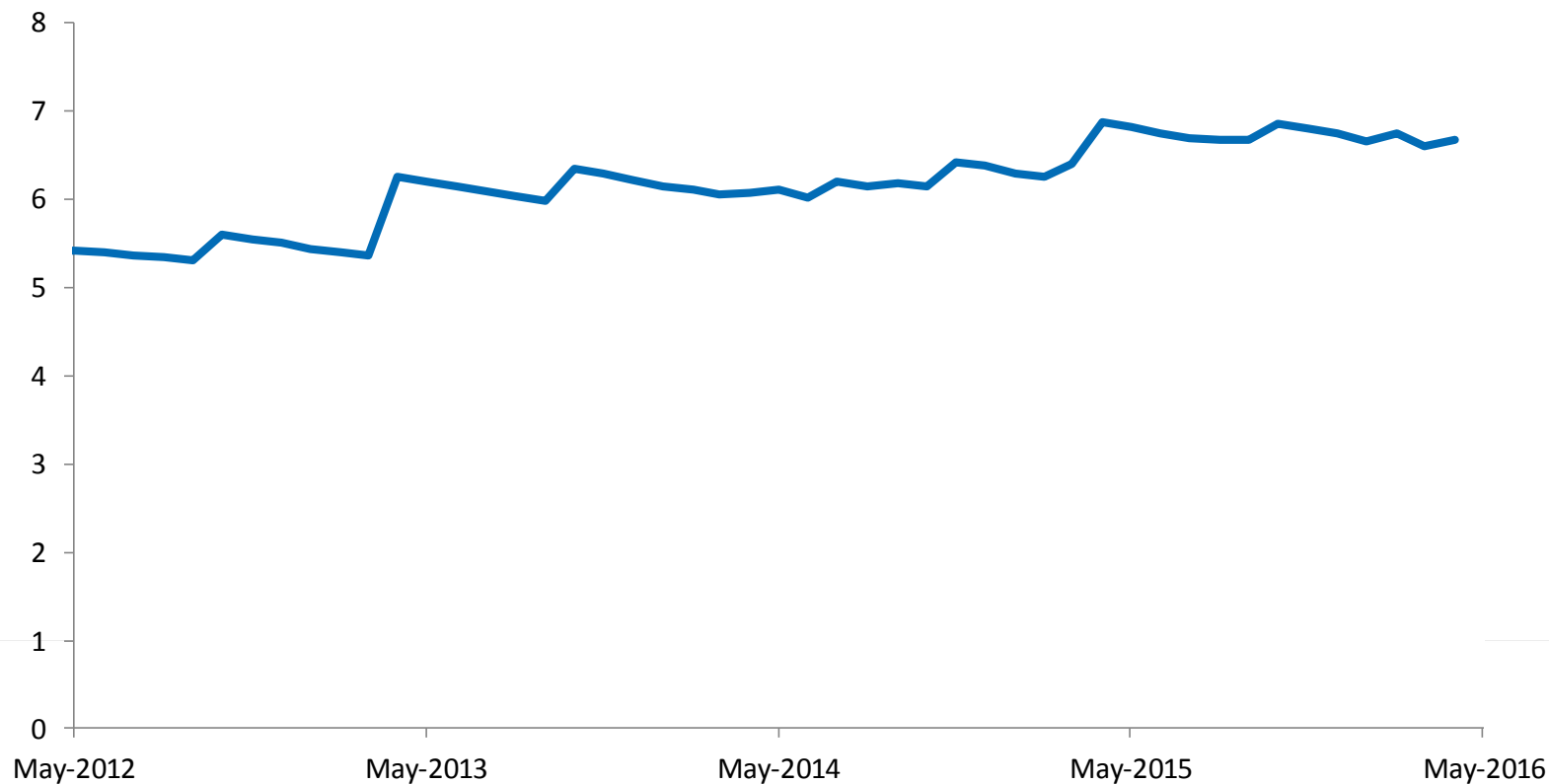


- Asset Liability Management (ALM) approach
 - Extend duration of the debt portfolio
 - Reduce overall fiscal variability
 - Reduce refinancing risk
- Build liquidity
- Encourage intermediary participation
- Diversify investor base
- Focus on domestic market issuance

EXTEND DURATION OF THE DEBT PORTFOLIO



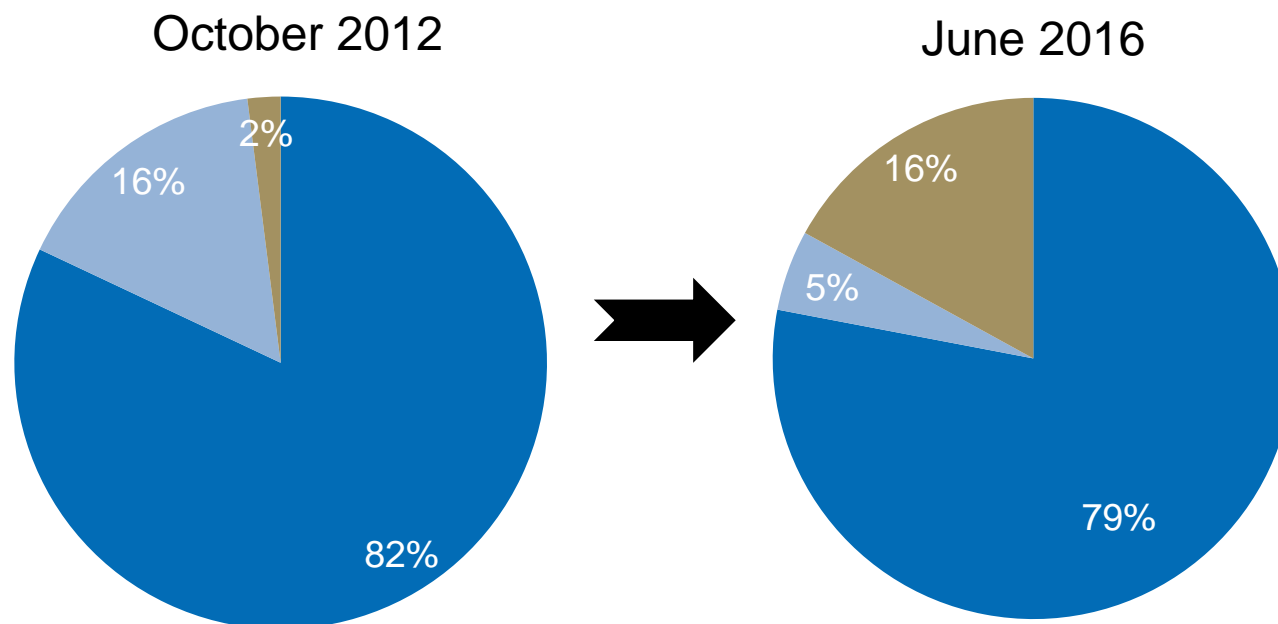
Years to
maturity



— 12-month average term to maturity

Source: The Treasury

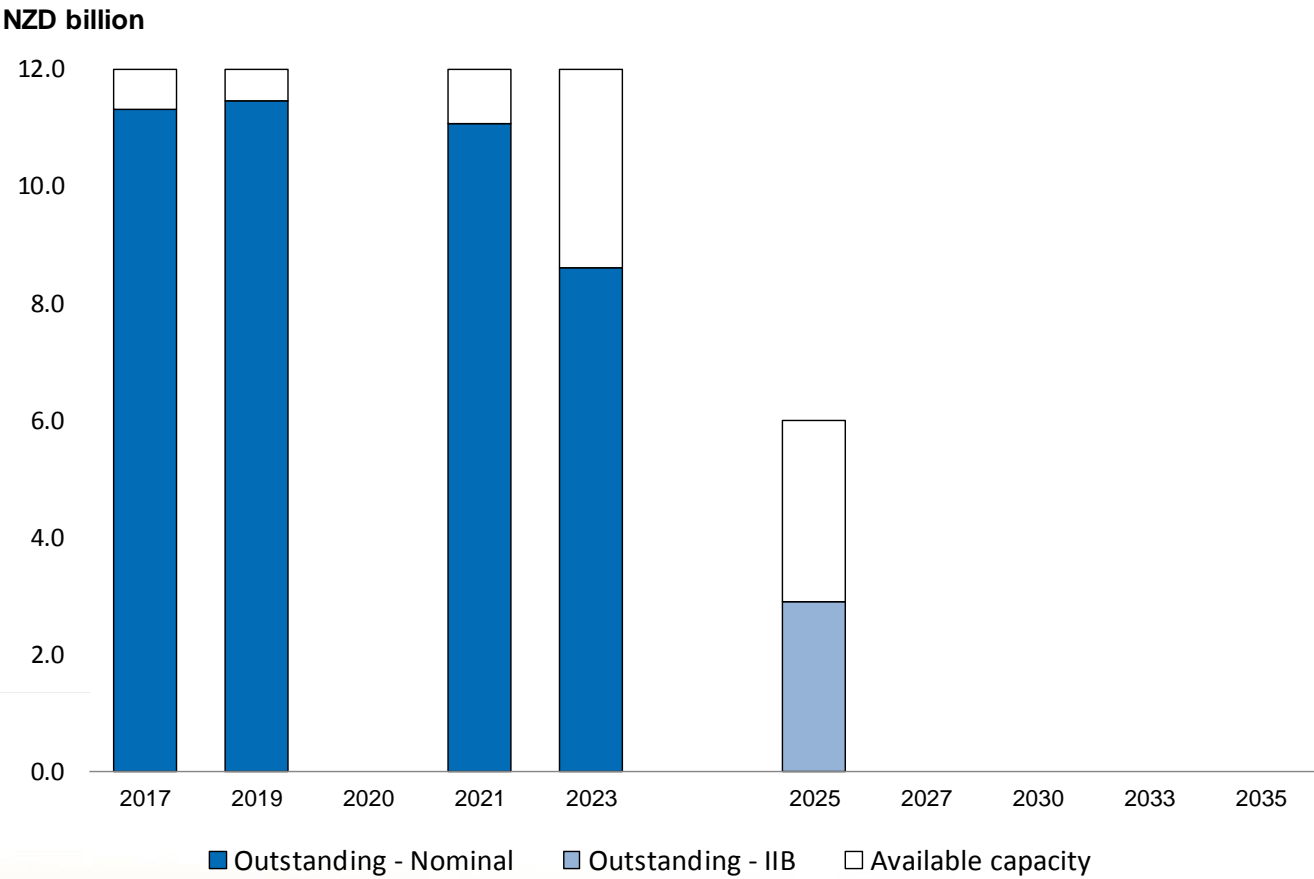
PORTFOLIO COMPOSITION REDUCES FISCAL VARIABILITY, REFINANCING RISK



Source: The Treasury

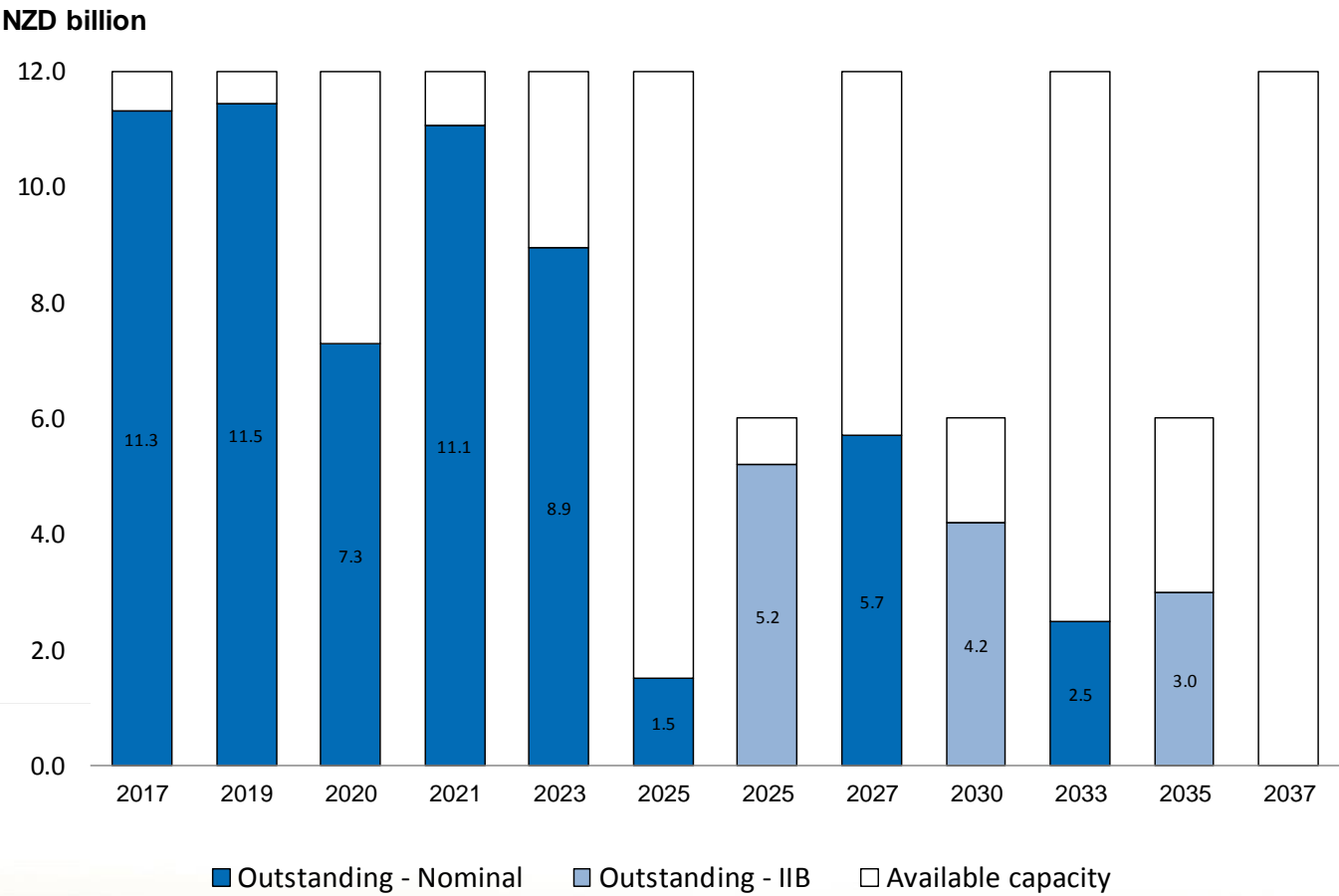
■ Nominal bonds ■ Treasury bills ■ Inflation-indexed bonds

JUNE 2013: LIMITED ISSUANCE CAPACITY, LIMITED NUMBER OF MATURITIES



Source: The Treasury

JUNE 2016: GREATER ISSUANCE CAPACITY, GREATER NUMBER OF MATURITIES



Source: The Treasury

SUPPORTING PRIMARY AND SECONDARY MARKET LIQUIDITY



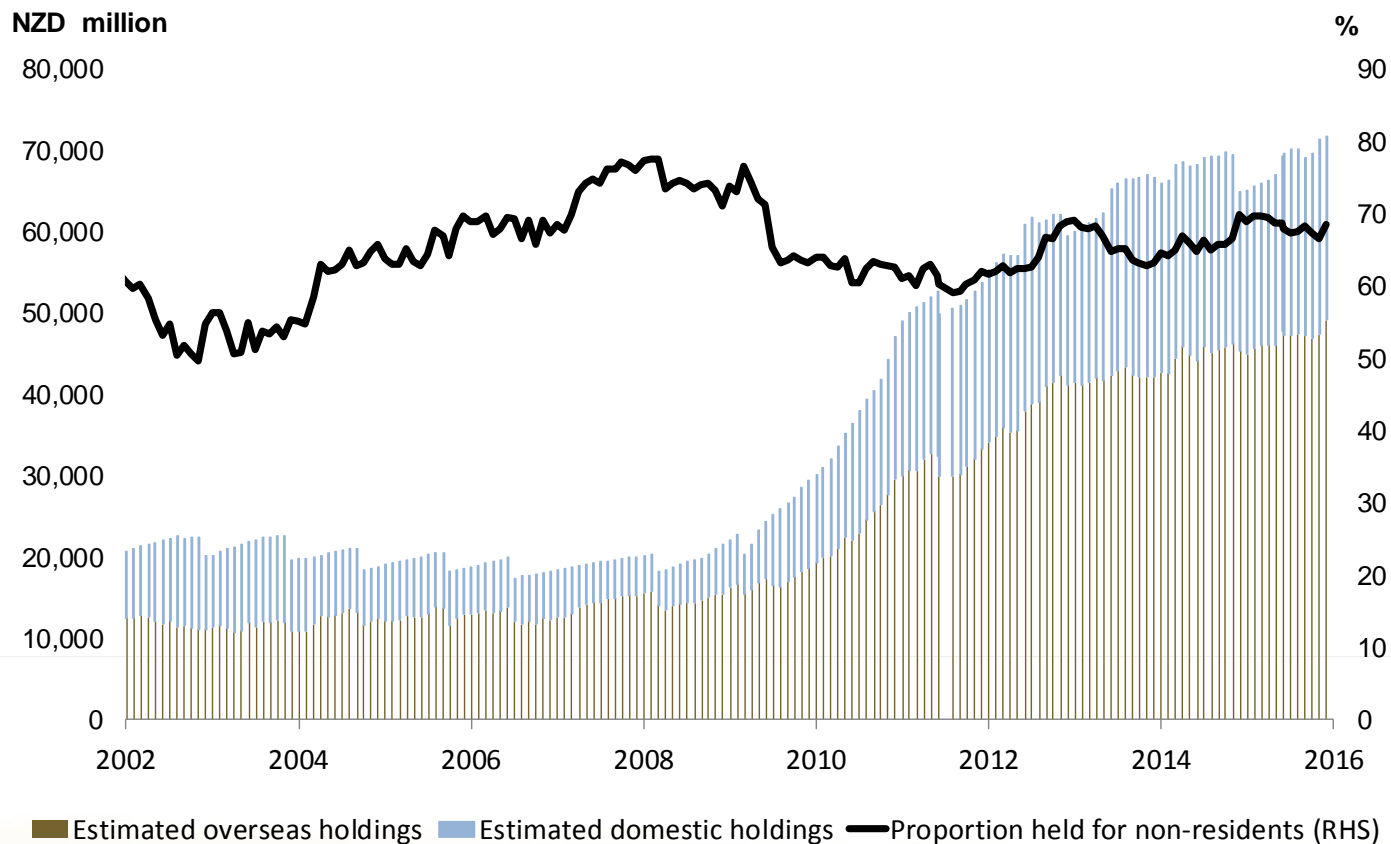
- Quarterly tender schedule announcements include fixed amounts and specific maturities
- New bonds launched via syndication
- Tender issuance into benchmark lines
- Focus on domestic market
- Manage cash flows around upcoming bond maturities
- Broadly match Australian Commonwealth Government bond maturities

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

WHY FOCUS ON DOMESTIC MARKET ISSUANCE?



- Relative cost of foreign vs. domestic issuance
- Support liquidity
- Support New Zealand capital markets

5. WHAT TO WATCH FOR...



- Latest forecasts:
Budget Economic & Fiscal Update
 - Approved bond programme for 2016/17
 - Forecast bond programmes to 2019/20
 - Launch of April 2037 nominal bond (H1 2016/17, subject to market conditions)
 - December 2017 nominal bond repurchase programme (in 2016/17 year)
- NZDMO website relaunch 30 June 2016
www.nzdmo.govt.nz
- General election prior to November 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