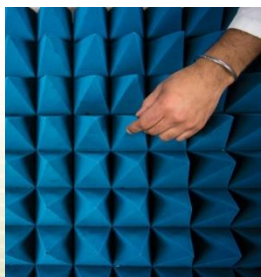


OUTLOOK FOR THE NEW ZEALAND GOVERNMENT DEBT MARKET



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

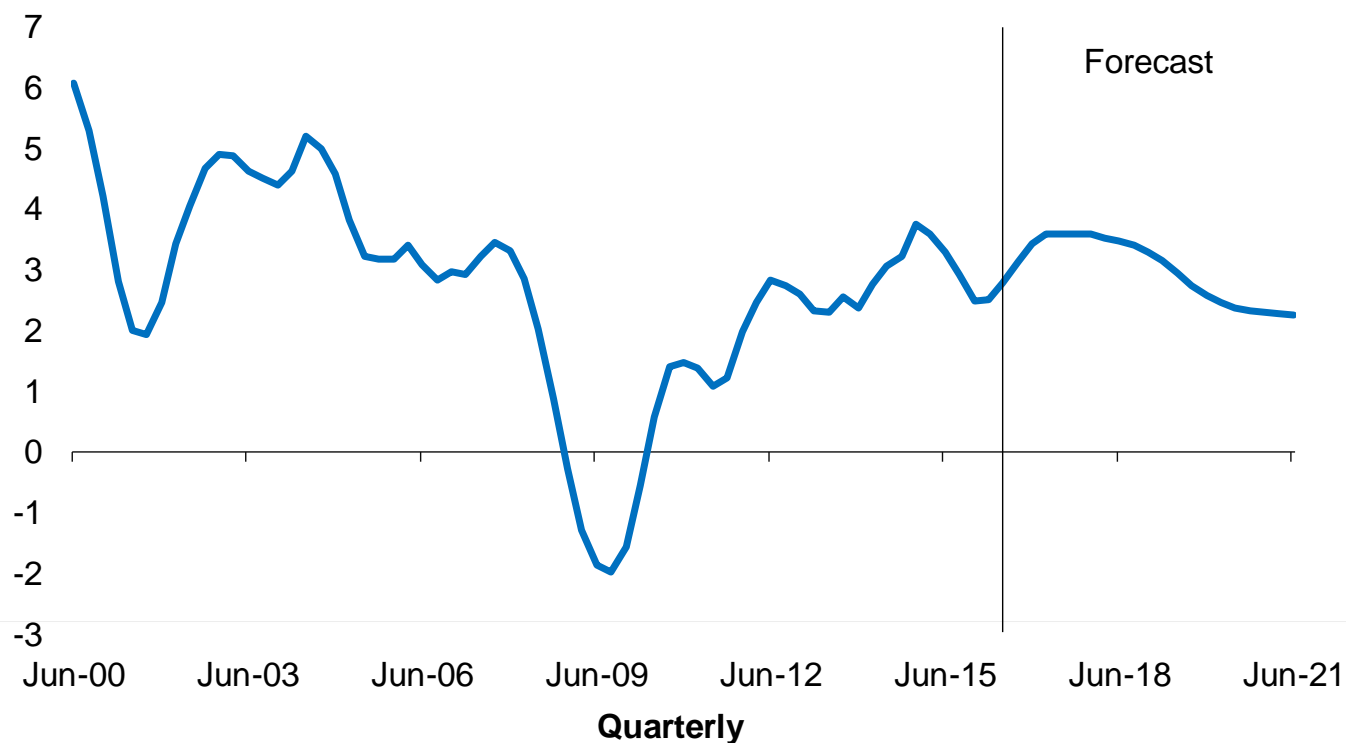


STRONG ECONOMIC GROWTH



Production-based GDP

Annual average % change

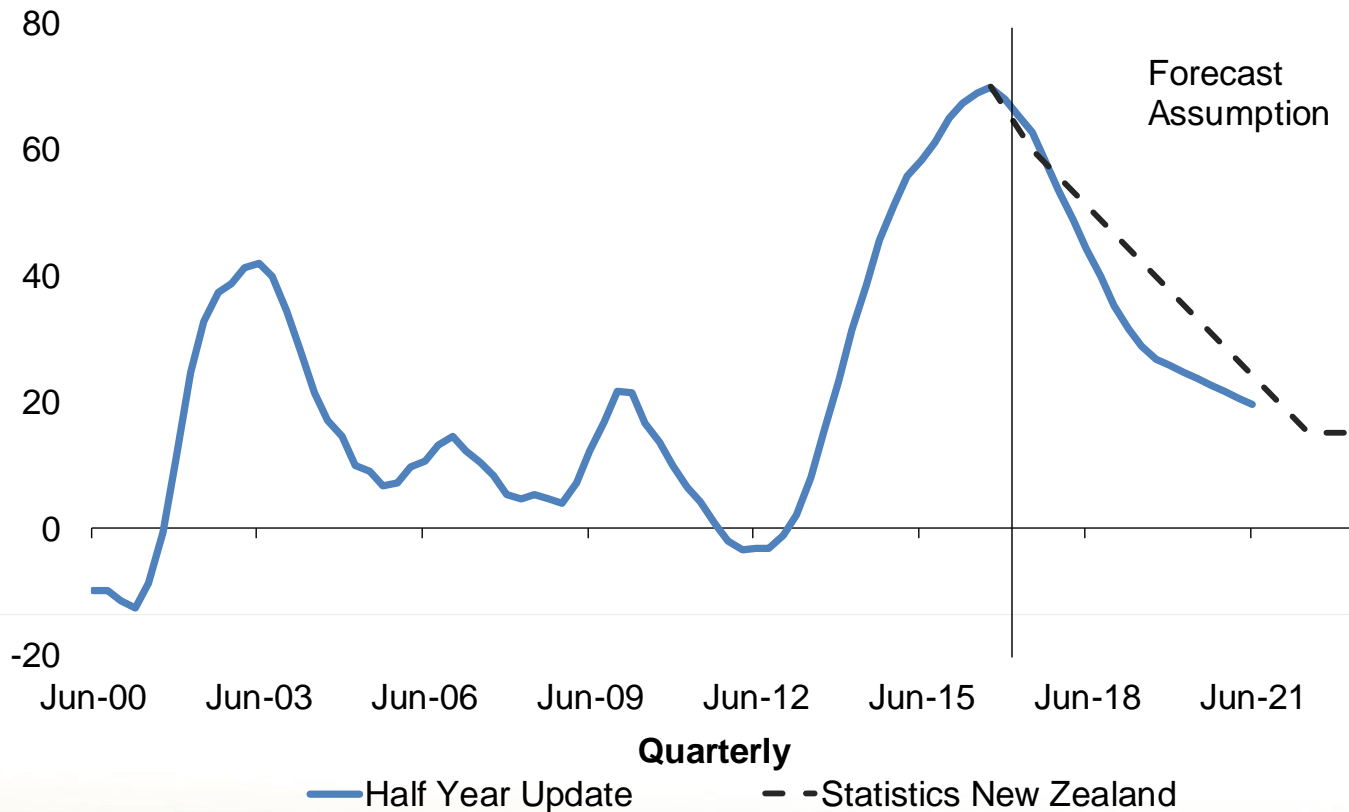


RECORD HIGH MIGRATION...

Net inward migration



Annual total (000s)

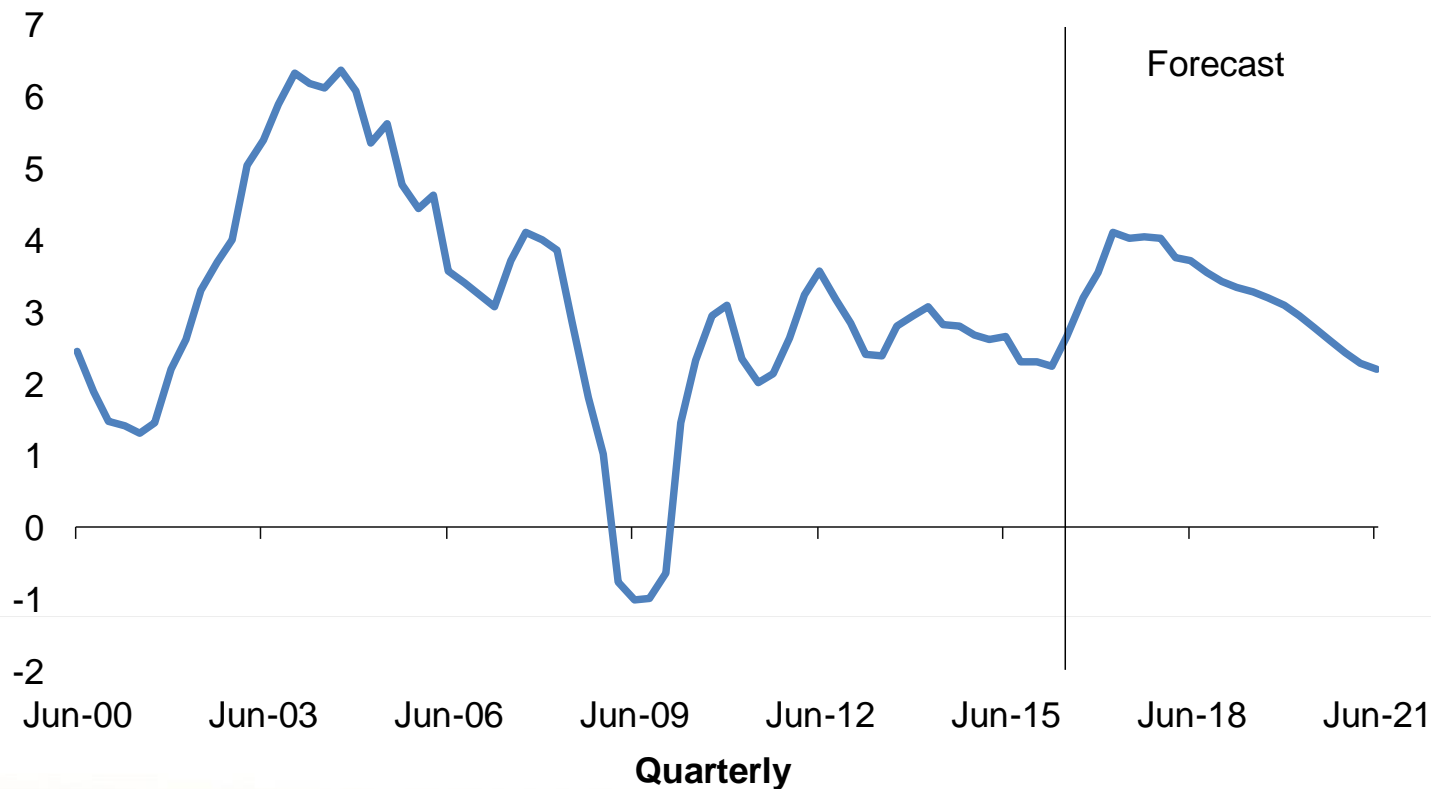


... DRIVING CONSUMER SPENDING...



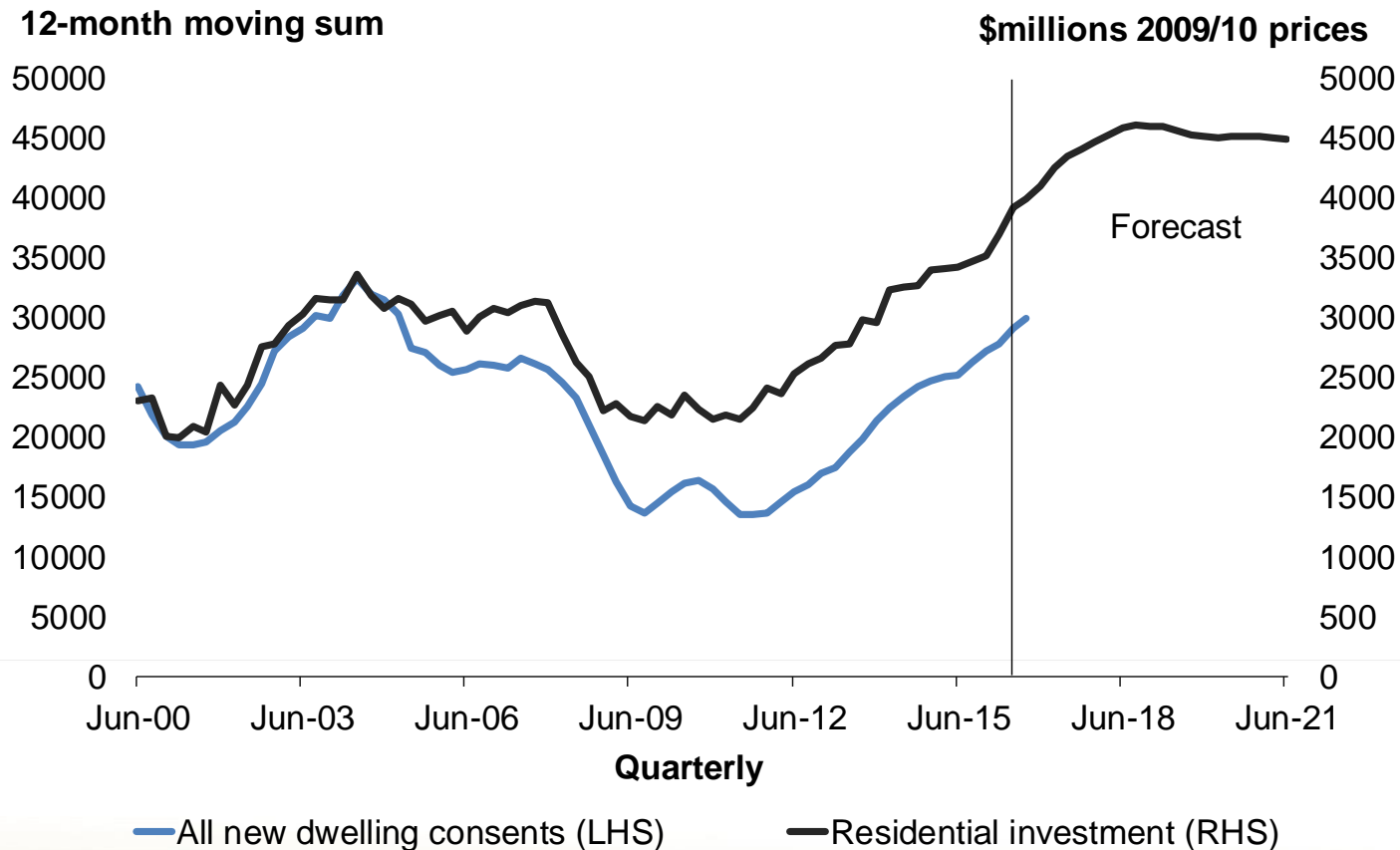
Private consumption

Annual average % change



... AND HOUSING CONSTRUCTION

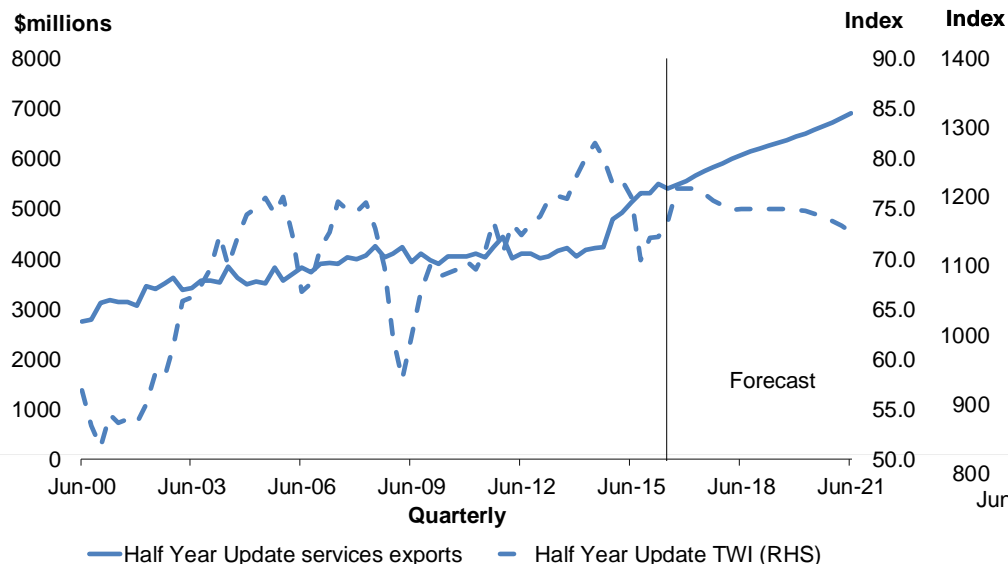
Residential consents and construction



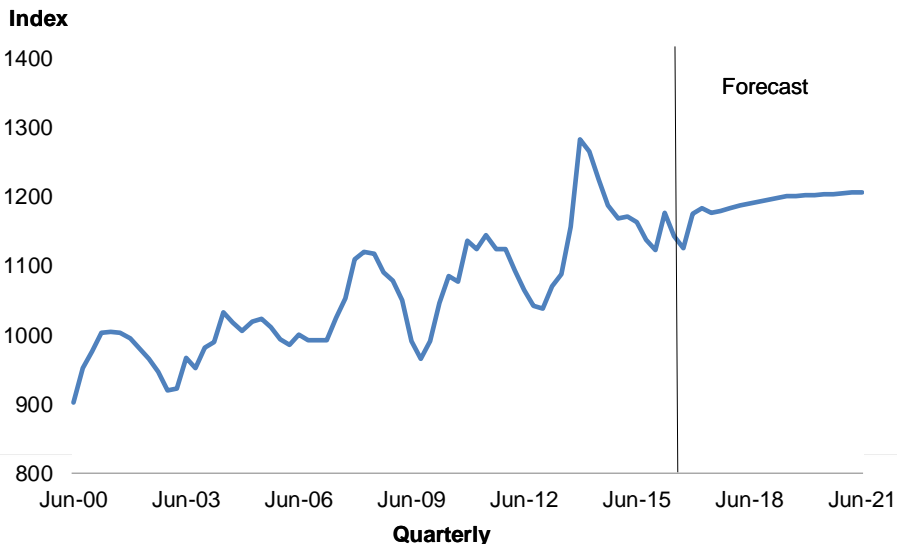
EXPORT OUTLOOK ALSO POSITIVE



Services exports and exchange rate



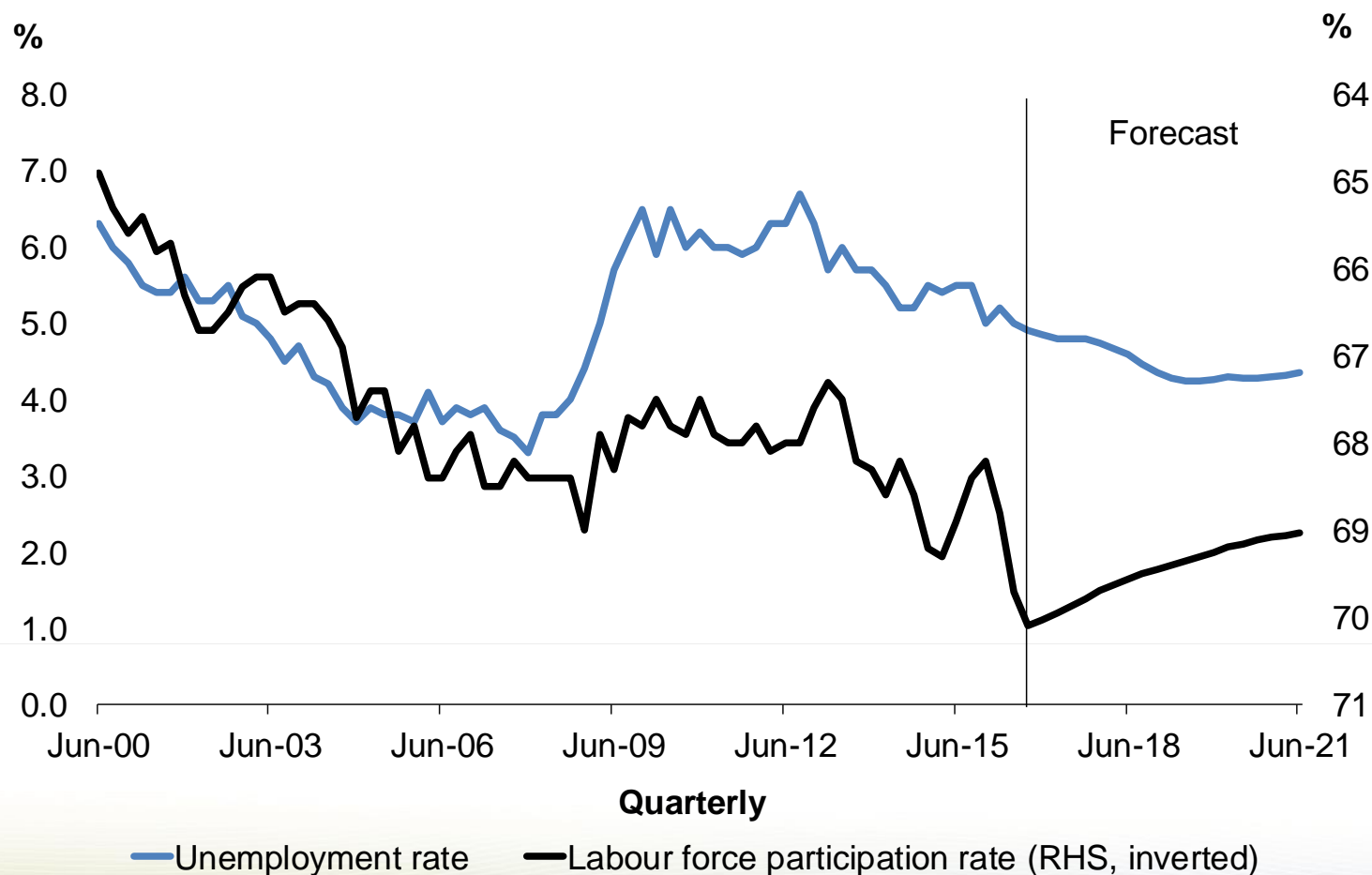
Goods terms of trade



LABOUR SUPPLY MATCHING DEMAND



Unemployment and labour force participation rate

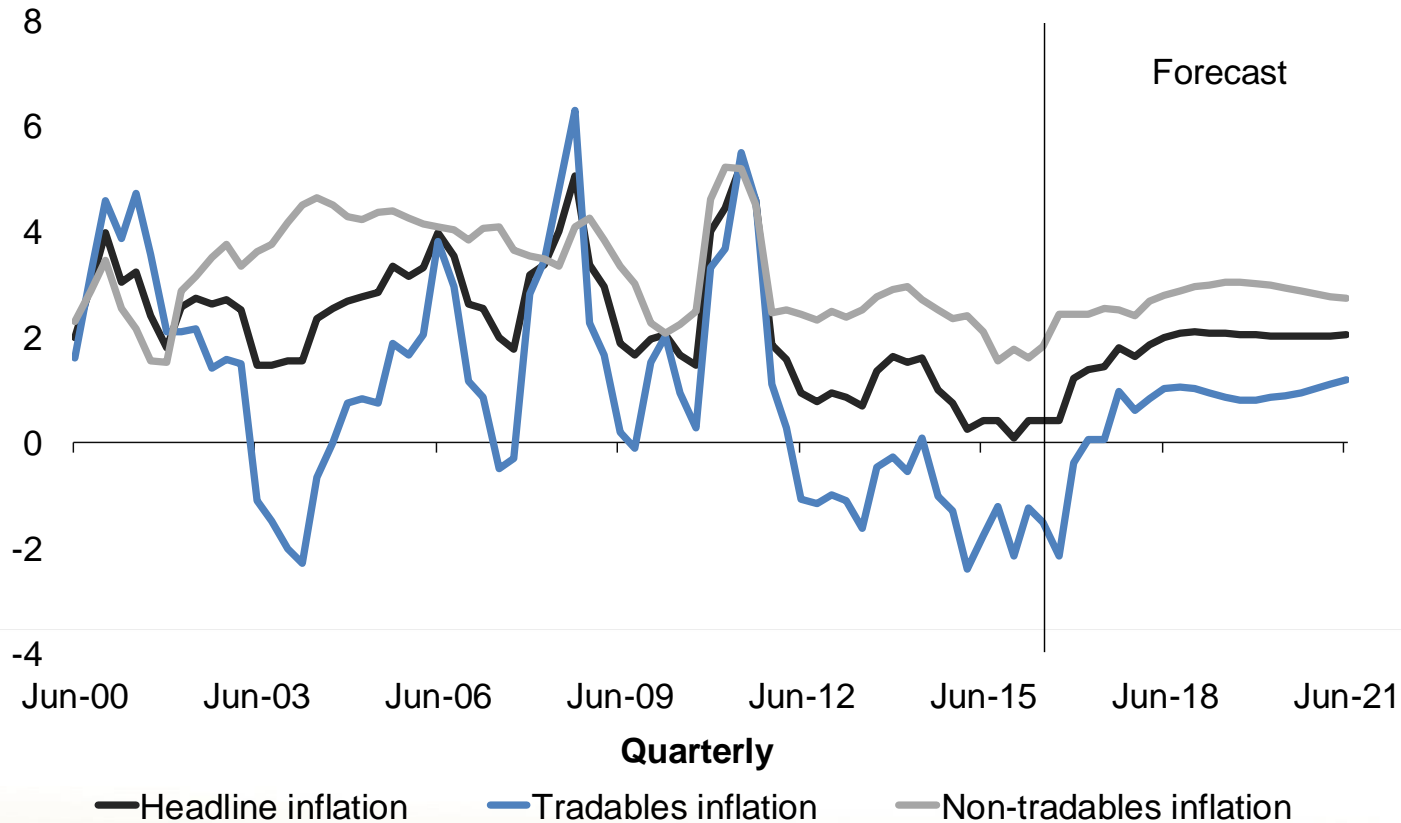


INFLATION TO RETURN TO MIDDLE OF BAND



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." 22 Dec 2016

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." 19 Jan 2017

Fitch

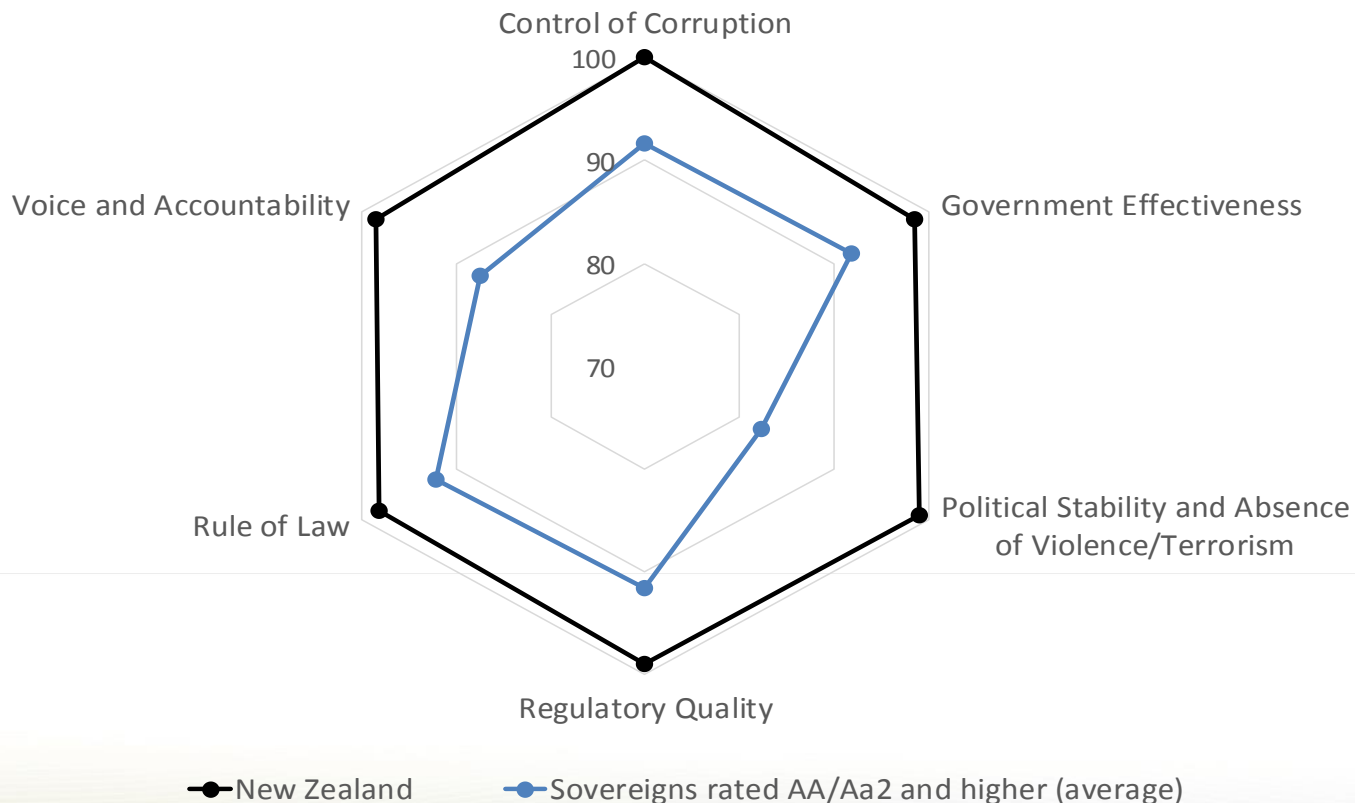
AA+/AA (stable)

"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." 13 Mar 2017

STABLE POLITICAL AND INSTITUTIONAL BACKDROP



Worldwide Governance Indicators – World Bank (percentile rank)

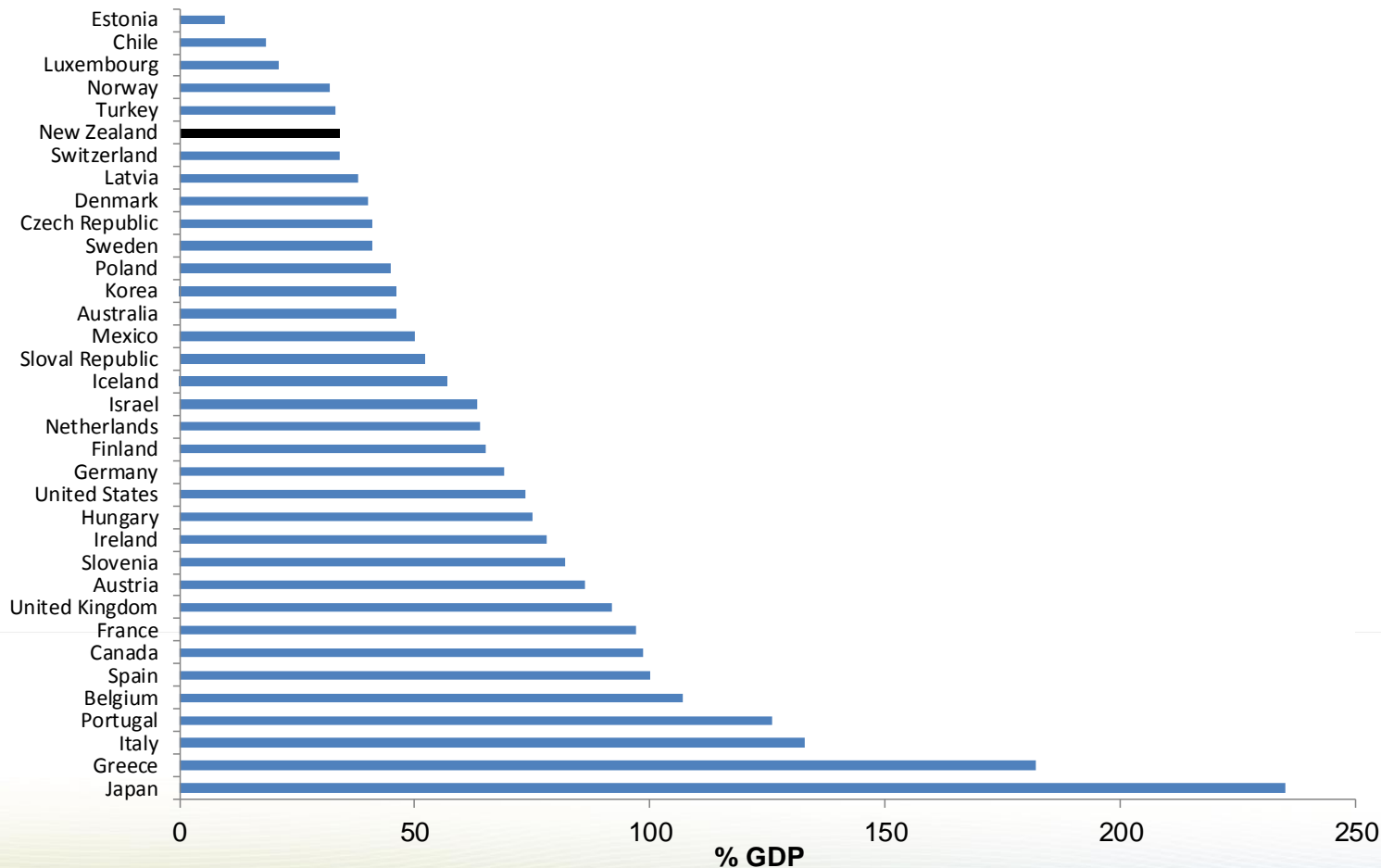


Source: World Bank, Bloomberg, Moody's Investor Service, Standard and Poor's, Fitch Ratings

STRONG BALANCE SHEET



Gross Sovereign Debt to GDP



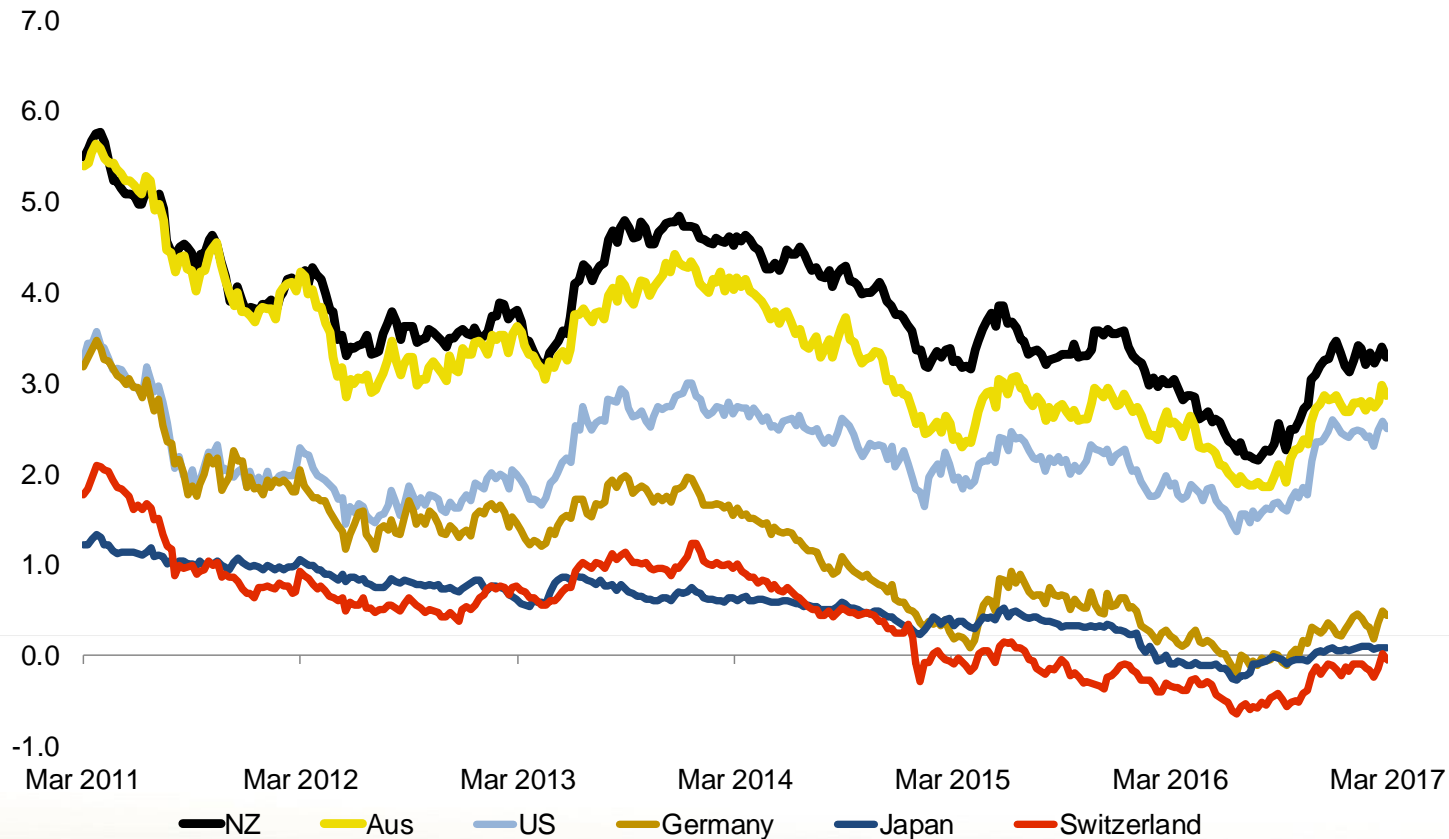
Source: Bloomberg

ATTRACTIVE NOMINAL YIELDS

10-year Nominal Bonds



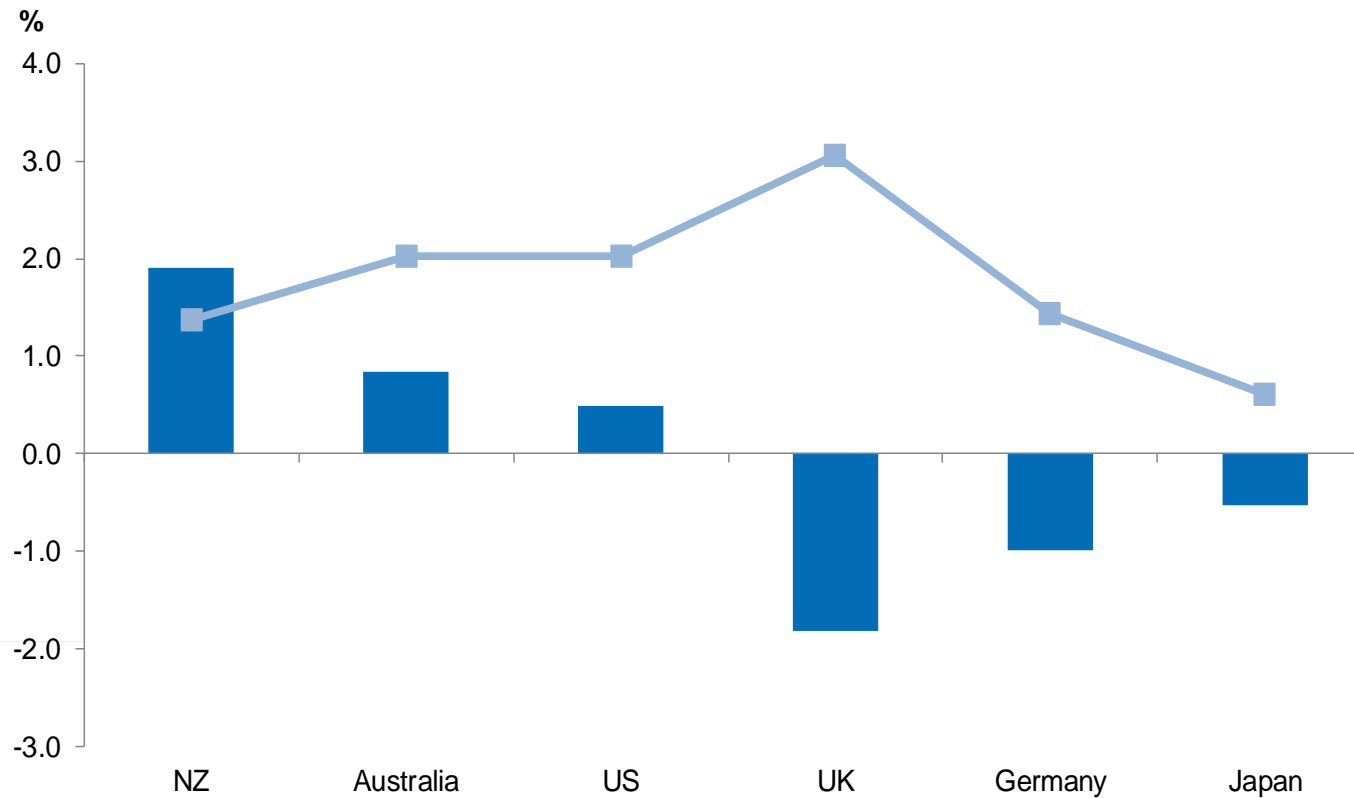
Yield %



Source: Bloomberg

ATTRACTIVE REAL YIELDS

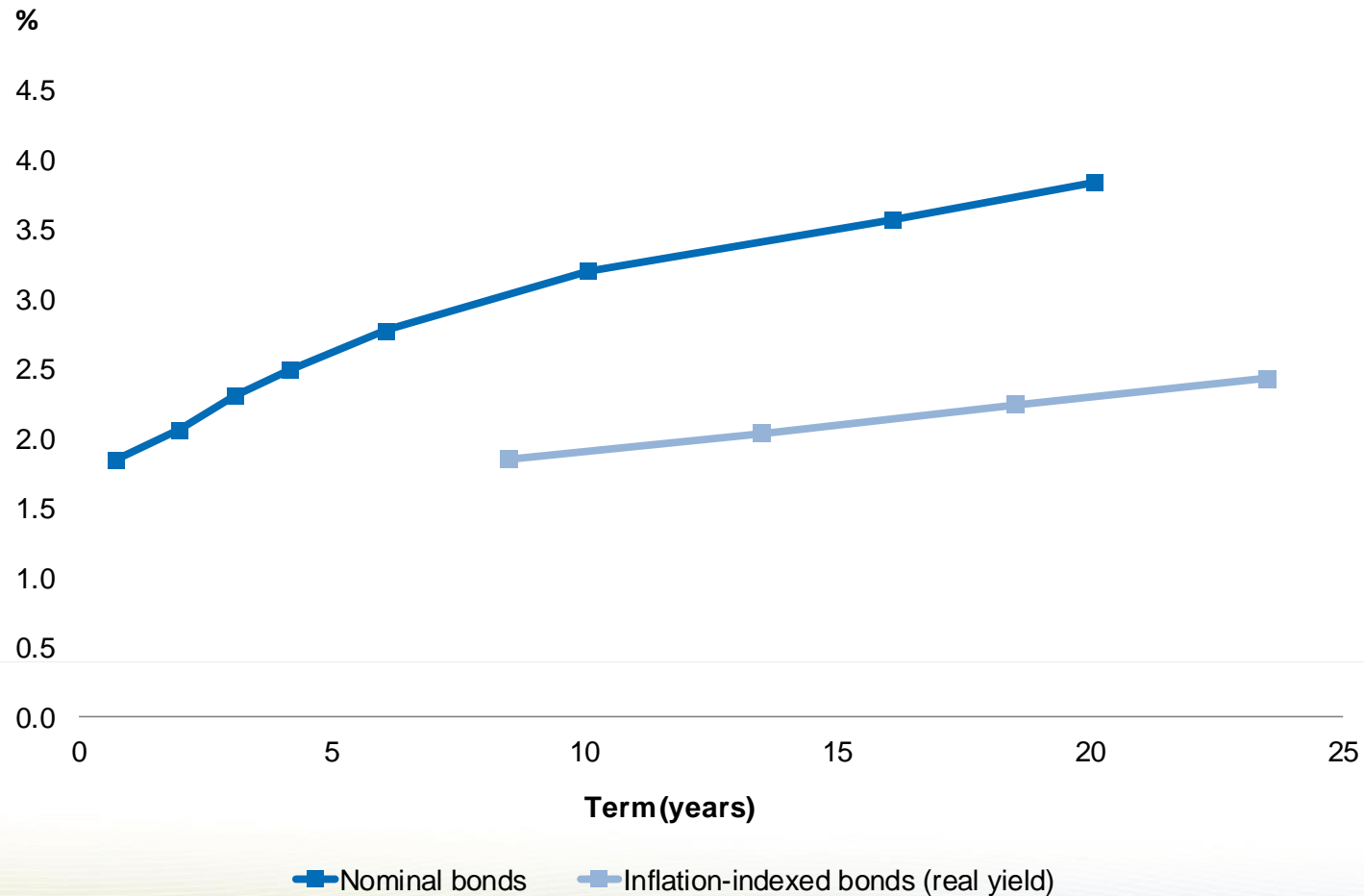
10-year Inflation-Indexed Bonds



Source: Bloomberg

Real yield Break-even inflation

GOVERNMENT BOND YIELD CURVES



Source: Bloomberg

3. FISCAL PRIORITIES: DEC 2016

FISCAL PRIORITIES

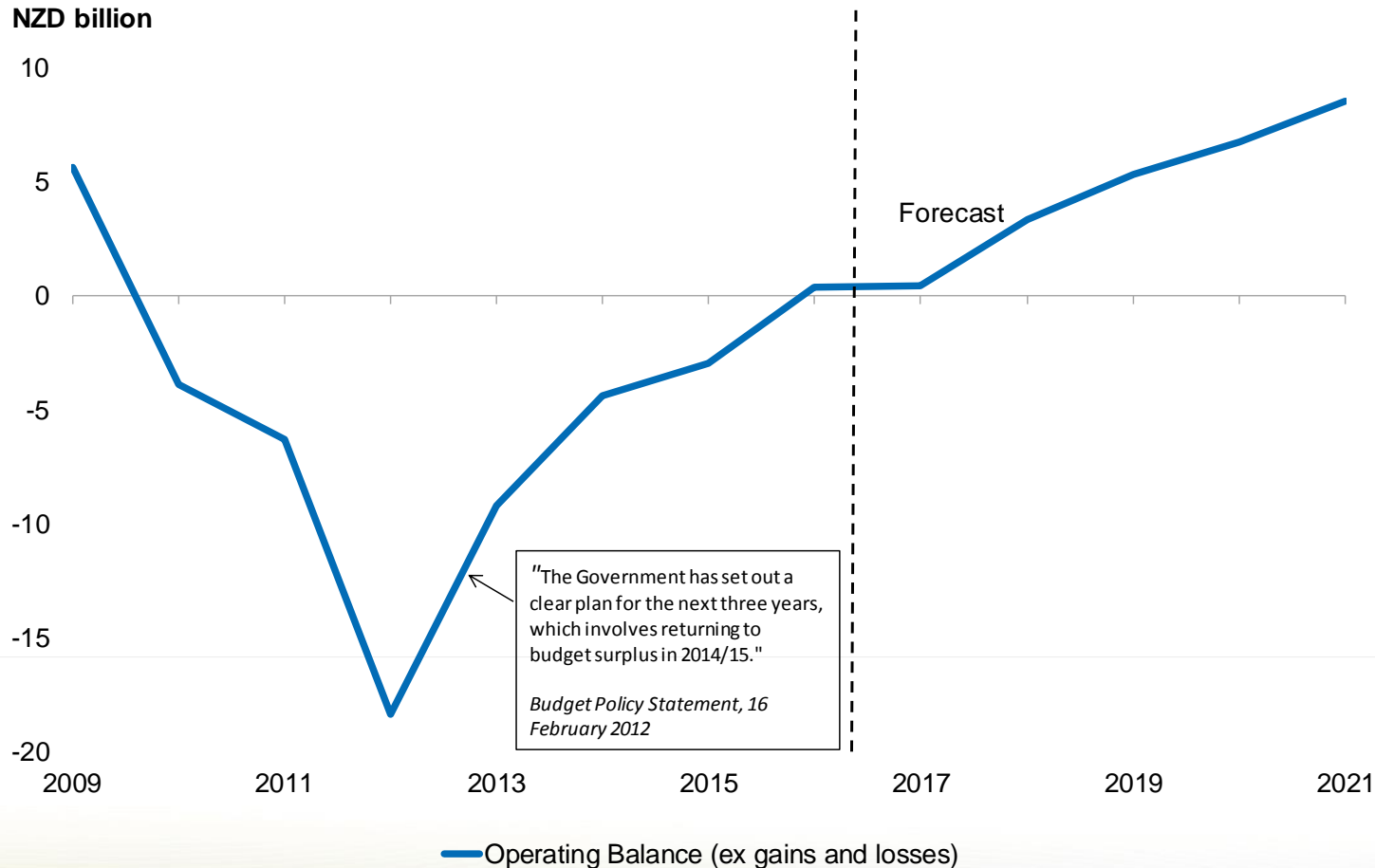


- Previous fiscal priorities:
 - Achieve operating surplus in 2014/15
 - Reduce net government debt to below 20% of GDP by 2020
- Current fiscal priorities:
 - Maintain rising operating surpluses
 - Reduce net government debt to around 20% of GDP in 2020
 - Reduce net debt to within a range of 0 per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

2014/15 SURPLUS ACHIEVED

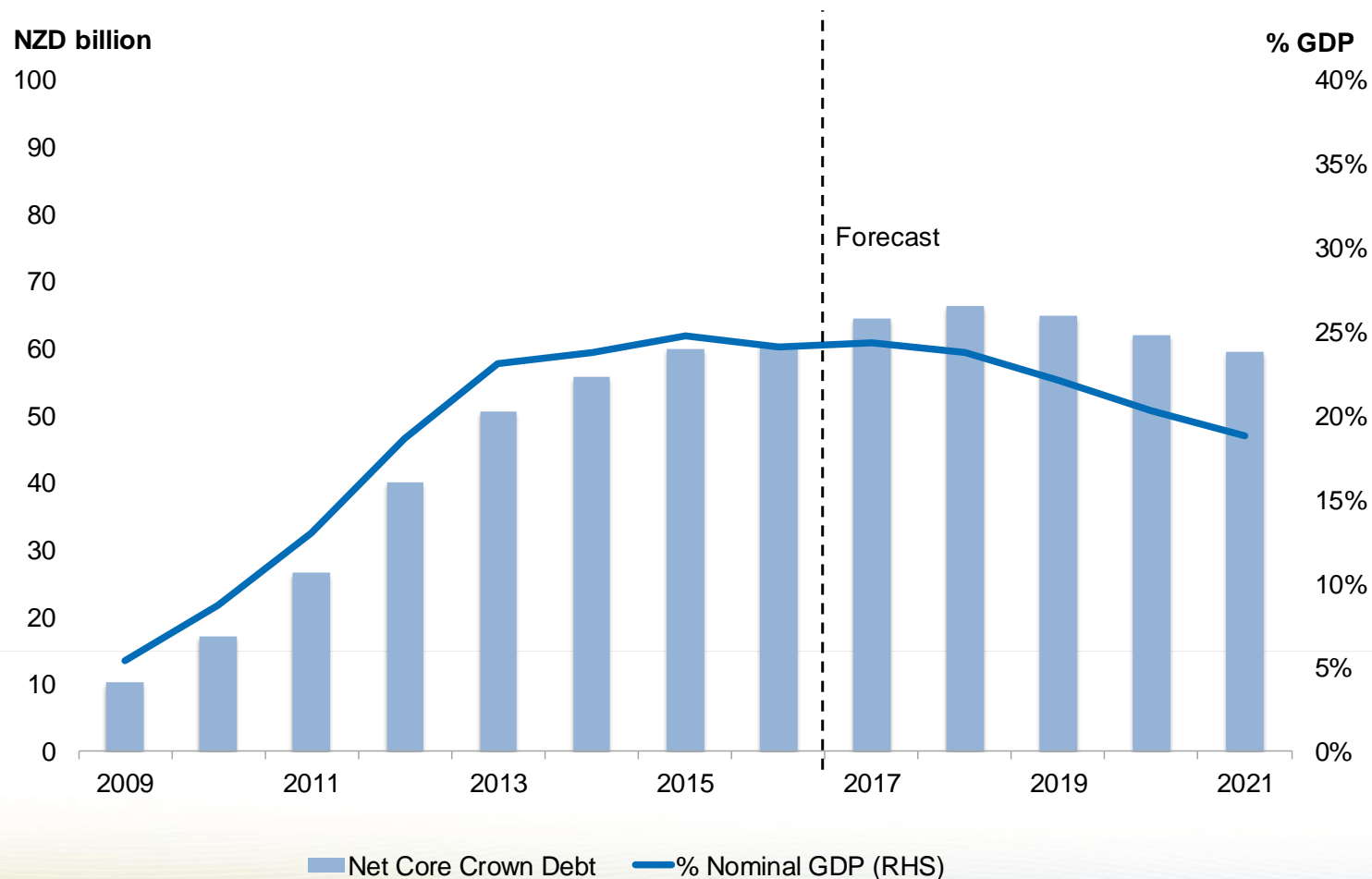


NZD billion



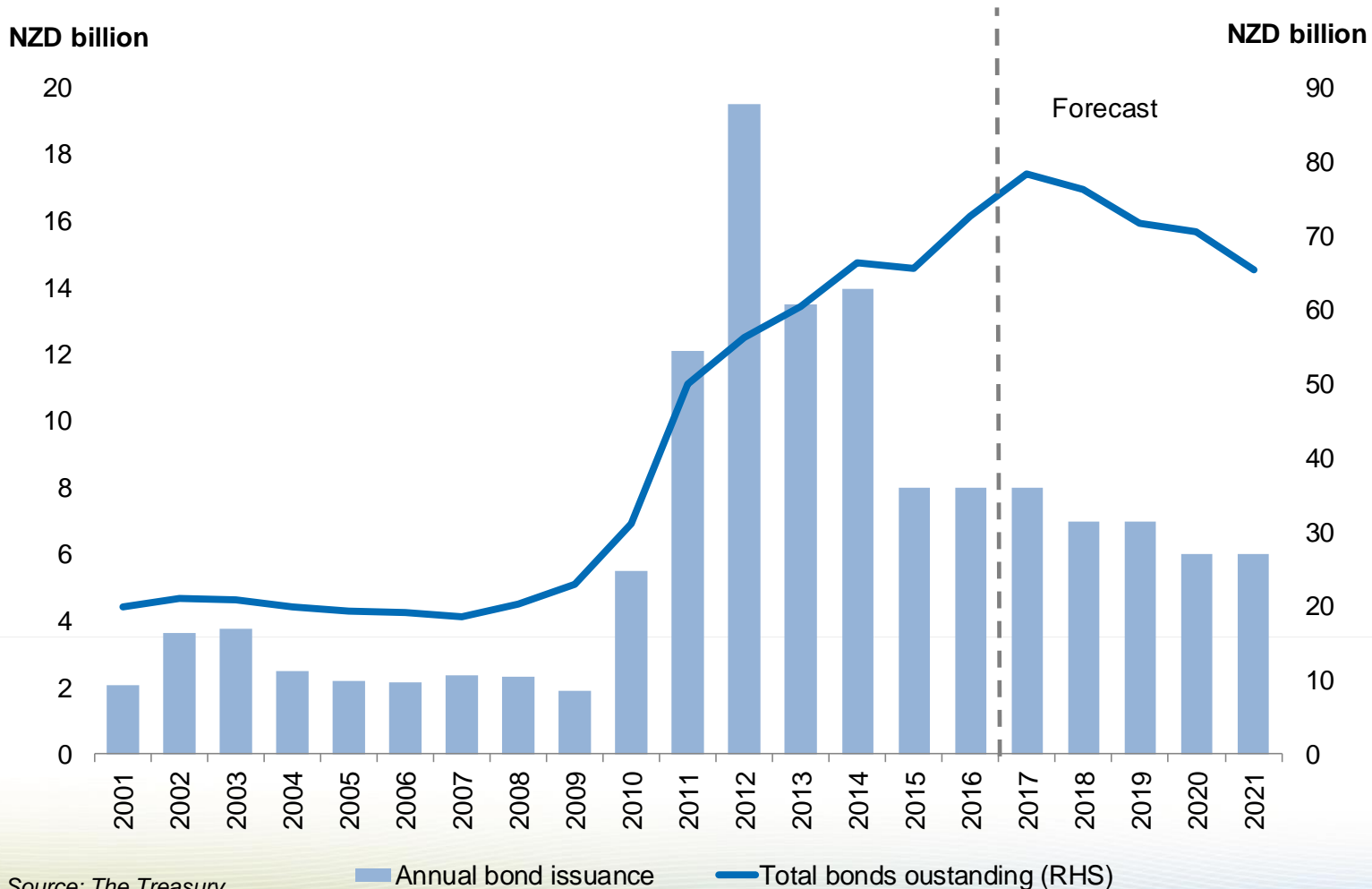
Source: The Treasury

OUTLOOK FOR NET DEBT



Source: The Treasury

STOCK AND FLOWS: 3-4 TIMES PRE-GFC



Source: The Treasury

4. NZDMO'S STRATEGY

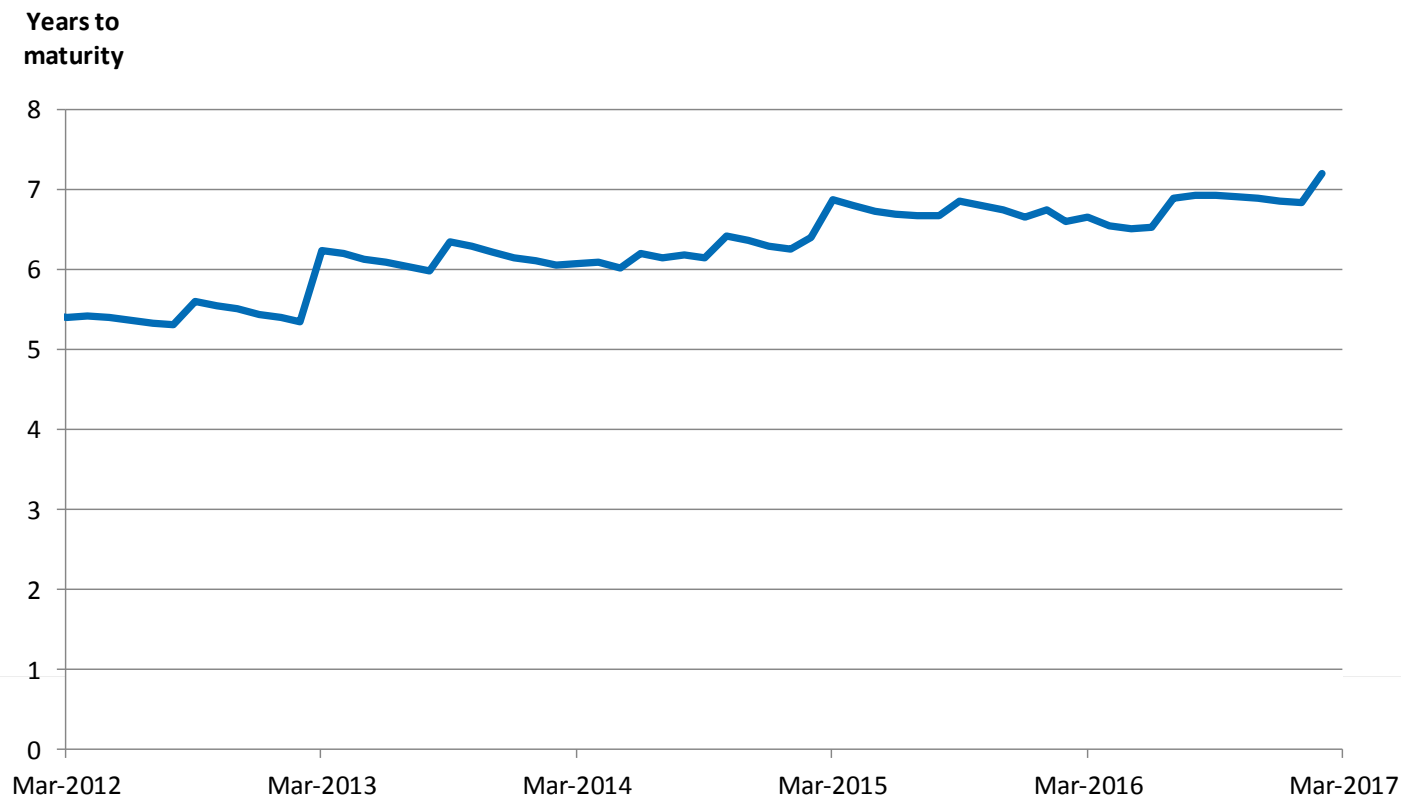


FUNDING STRATEGY



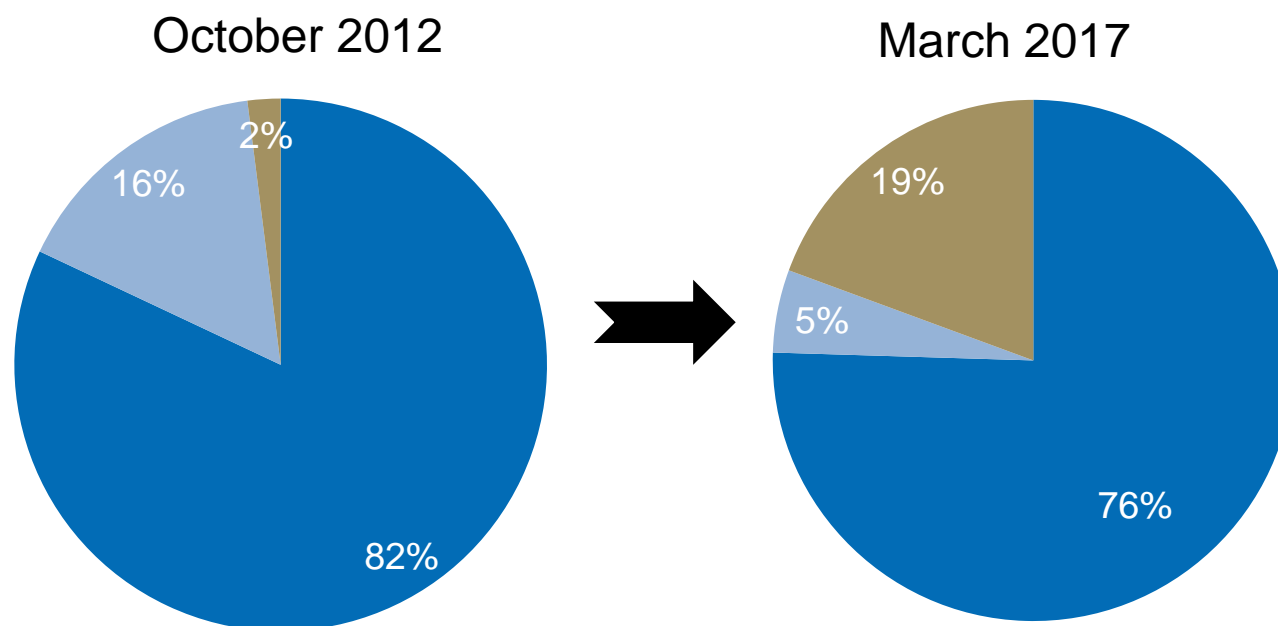
- Balance Sheet Management approach
 - Extend duration of the debt portfolio
 - Reduce overall fiscal variability
 - Reduce refinancing risk
 - The role of Inflation-indexed bonds
- Build and maintain liquidity
 - Diversify investor base
 - Encourage intermediary participation
- Focus on domestic market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

AVERAGE DURATION EXTENDED



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	\$14.6 billion
% of total bond portfolio	17.8%
Maturities	Sep-25, Sep-30, Sep-35, Sep-40
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*

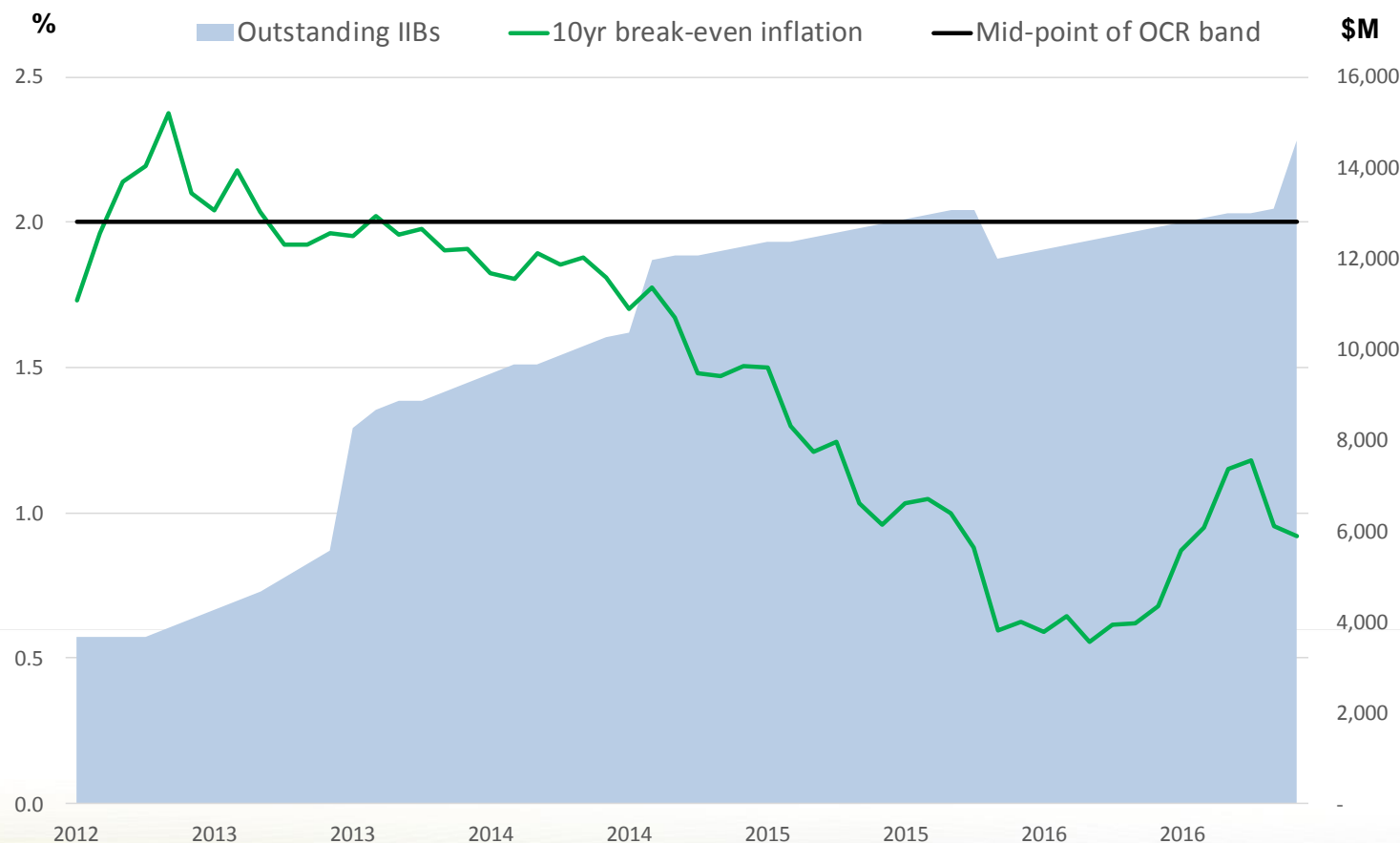
Source: The Treasury

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

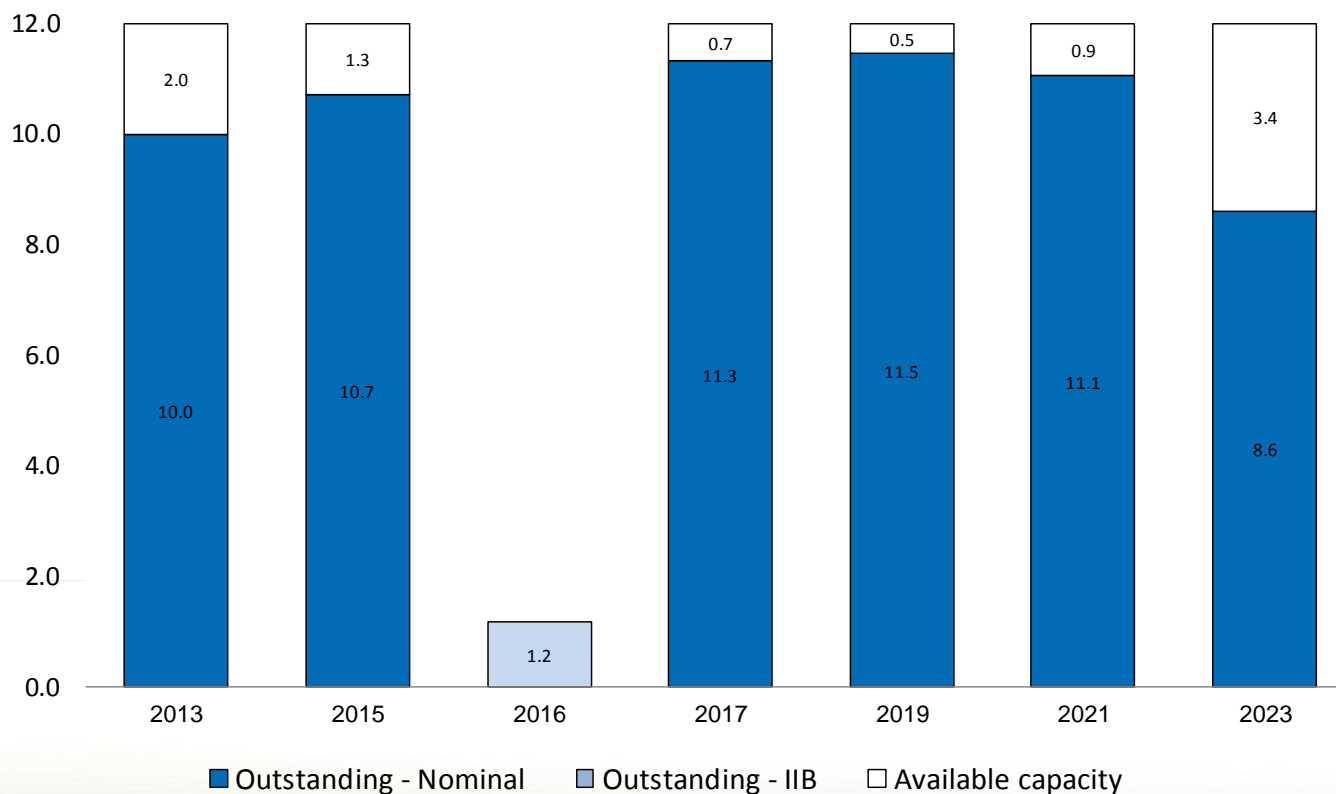


Source: The Treasury

MARCH 2013: LIMITED CAPACITY ACROSS MATURITIES

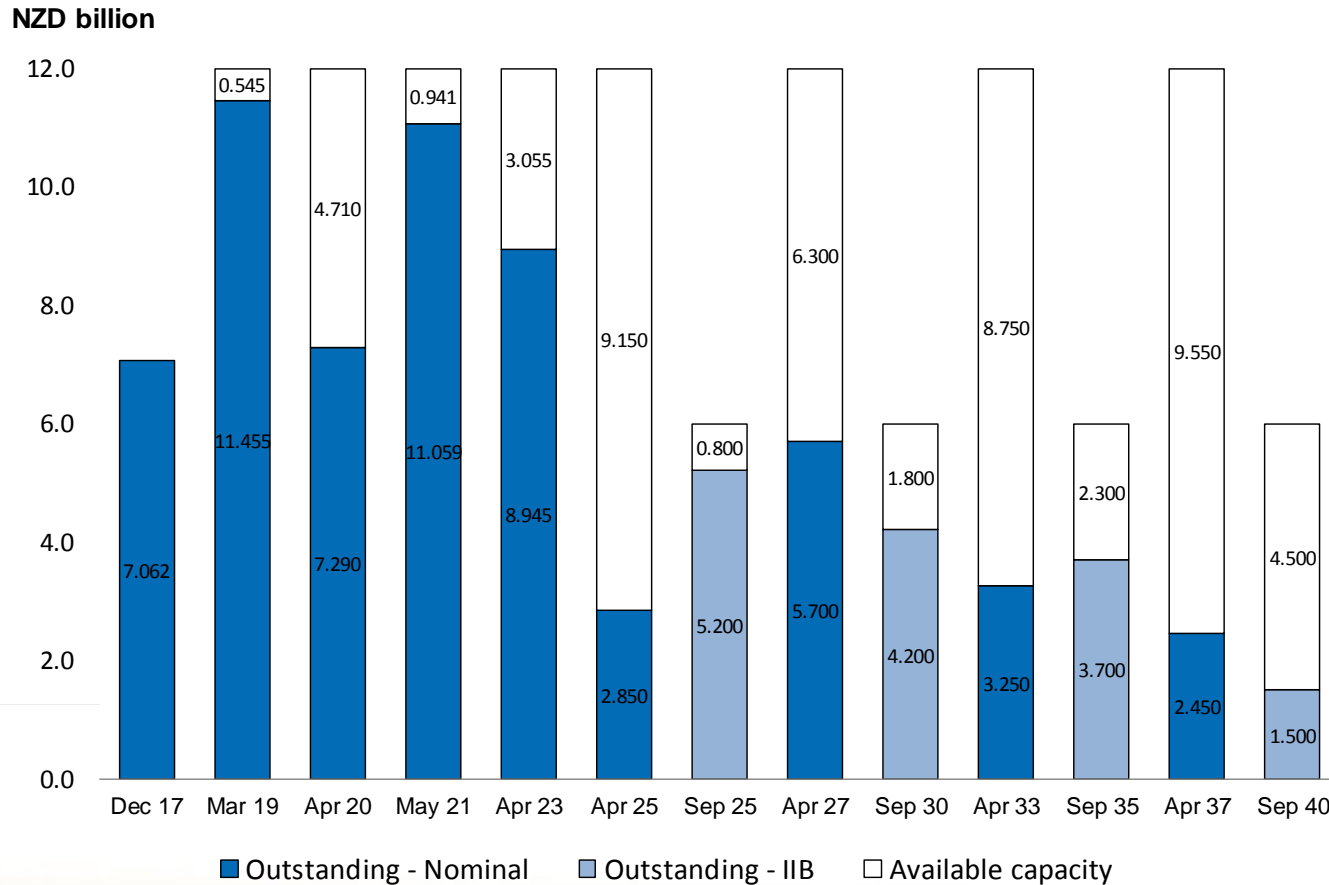


NZD billion



Source: The Treasury

MARCH 2017: ISSUANCE CAPACITY ACROSS MATURITIES



Source: The Treasury

SUPPORTING PRIMARY AND SECONDARY MARKET LIQUIDITY



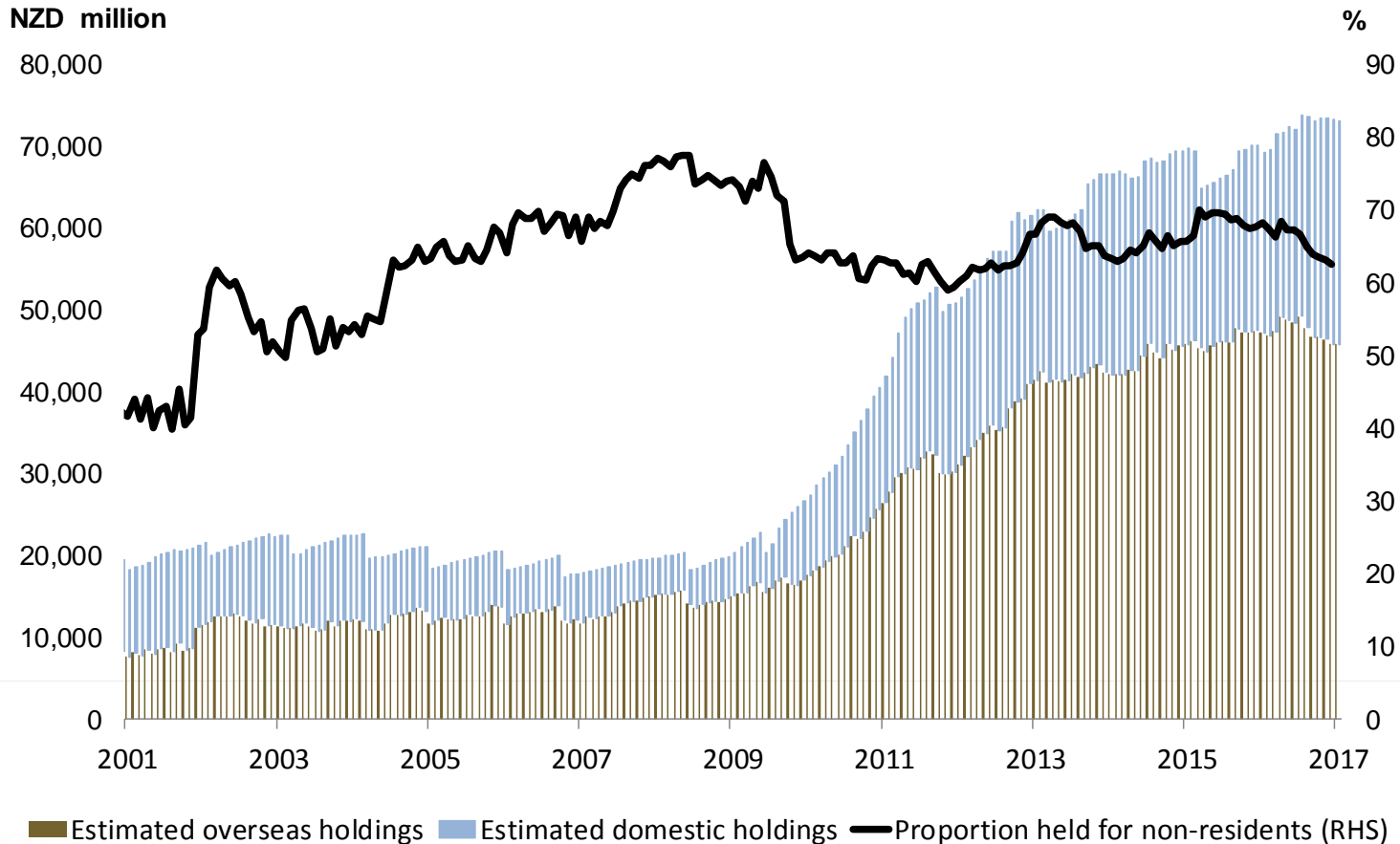
- Quarterly tender schedule announcements include fixed amounts and specific maturities
- New bonds launched via syndication
- Tender issuance into benchmark lines
- Focus on domestic market
- Manage cash flows around upcoming bond maturities
- Broadly match Australian Commonwealth Government bond maturities

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

5. WHAT TO WATCH FOR...



- Latest forecasts:
Half Year Economic & Fiscal Update
 - Updated bond programme for 2016/17
 - New Sep 2040 announced (subsequently launched)
 - Forecast bond programmes to 2020/21
- Budget set for 25 May 2017
- 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