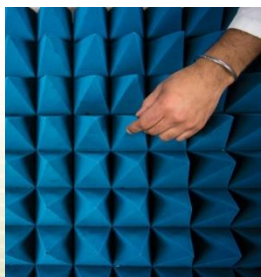


# OUTLOOK FOR THE NEW ZEALAND GOVERNMENT DEBT MARKET



NEW ZEALAND  
DEBT MANAGEMENT OFFICE



# TODAY



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



# 1. NEW ZEALAND GOVERNMENT: RISK/REWARD

# SOLID CREDIT RATINGS



## Moody's

Aaa/Aaa (stable)

*"New Zealand's Aaa rating is supported by the sovereign's very high economic resilience, very strong policy institutions... and a strong fiscal position compared to peers that provides high shock absorption capacity."* 27 Mar 2017

## 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)

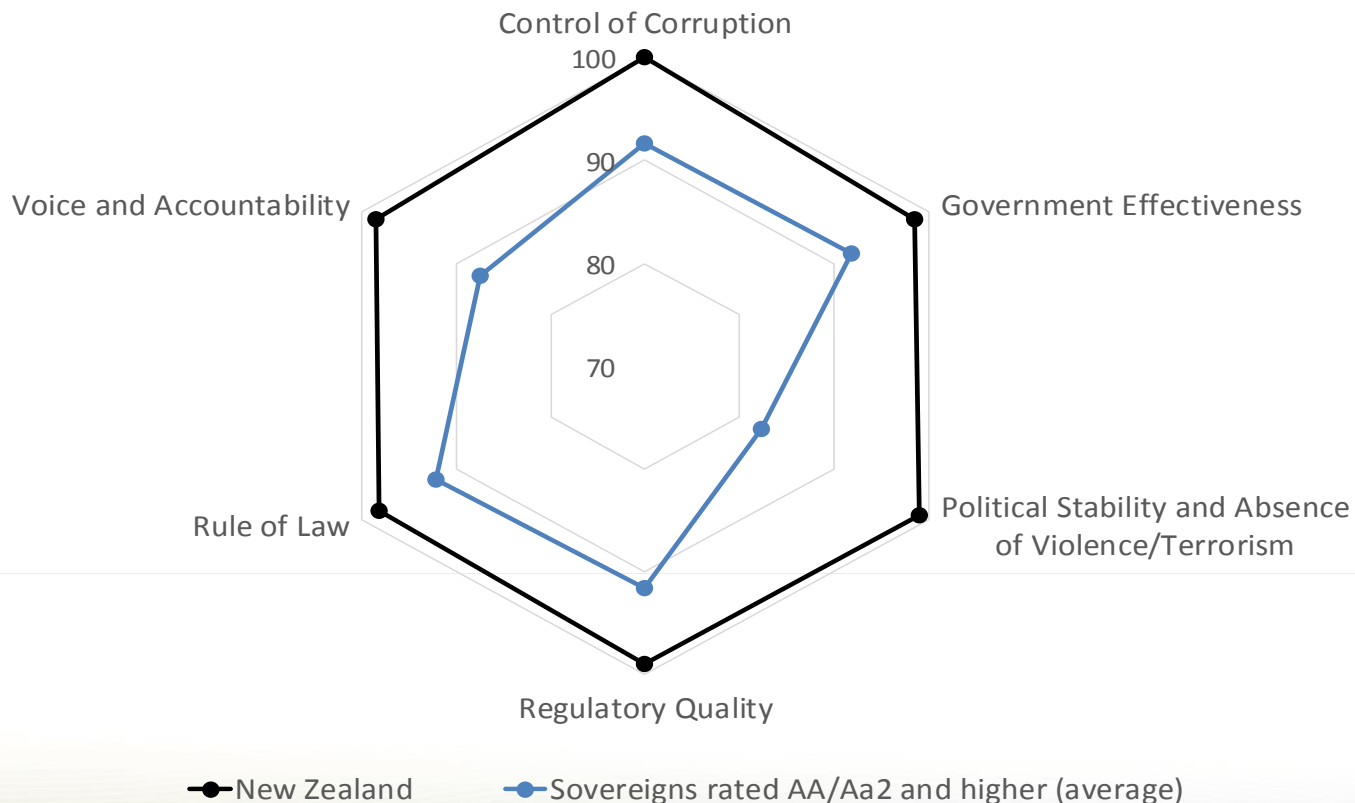
*"New Zealand's 'AA' rating reflects the country's strong macroeconomic policy framework and prudent fiscal management, reinforced by governance standards and a business environment that are rated among the best globally by the World Bank."* 13 Mar 2017



# STABLE POLITICAL AND INSTITUTIONAL BACKDROP



Worldwide Governance Indicators – World Bank (percentile rank)

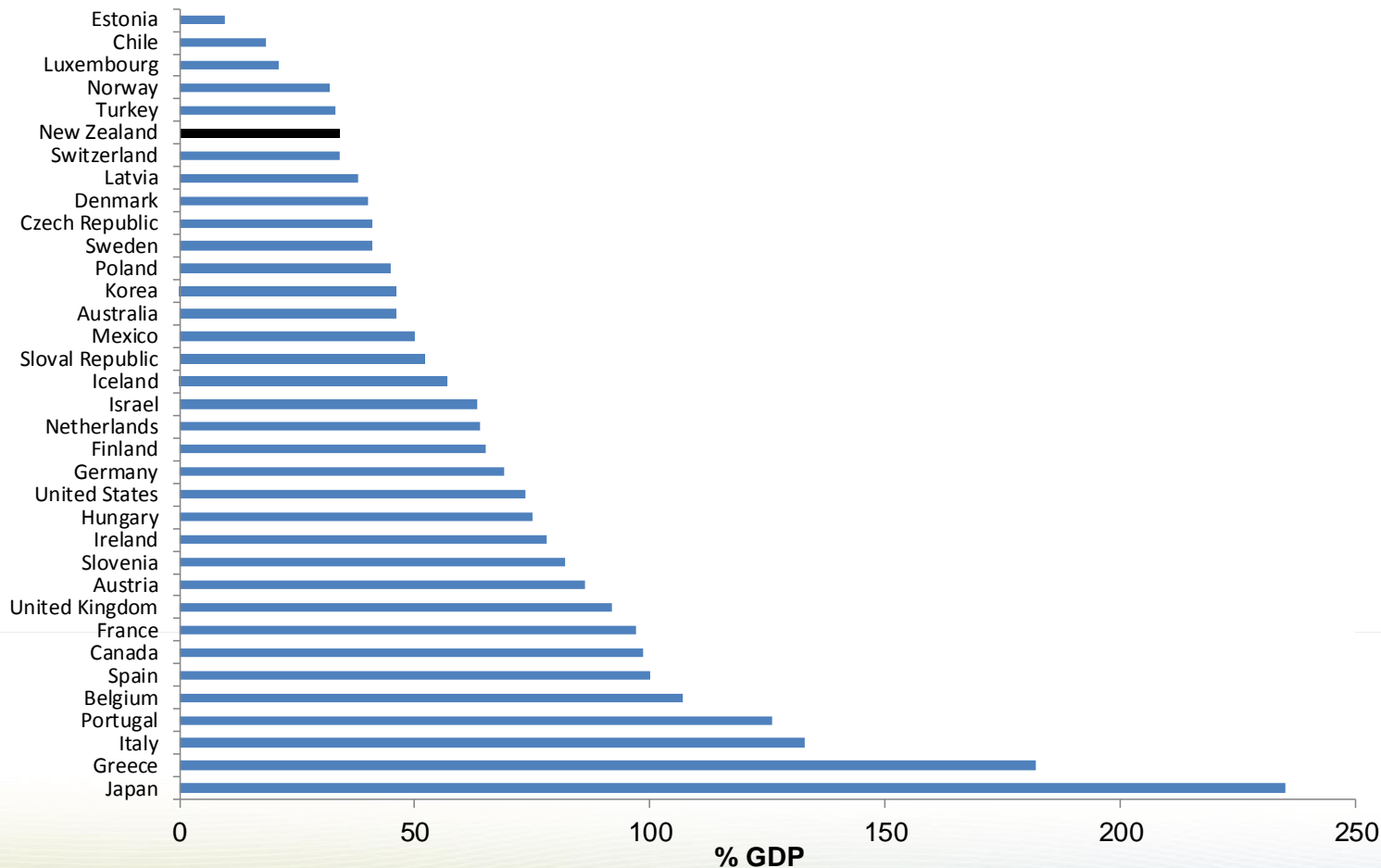


Source: World Bank, Bloomberg, Moody's Investor Service, Standard and Poor's, Fitch Ratings

# STRONG BALANCE SHEET



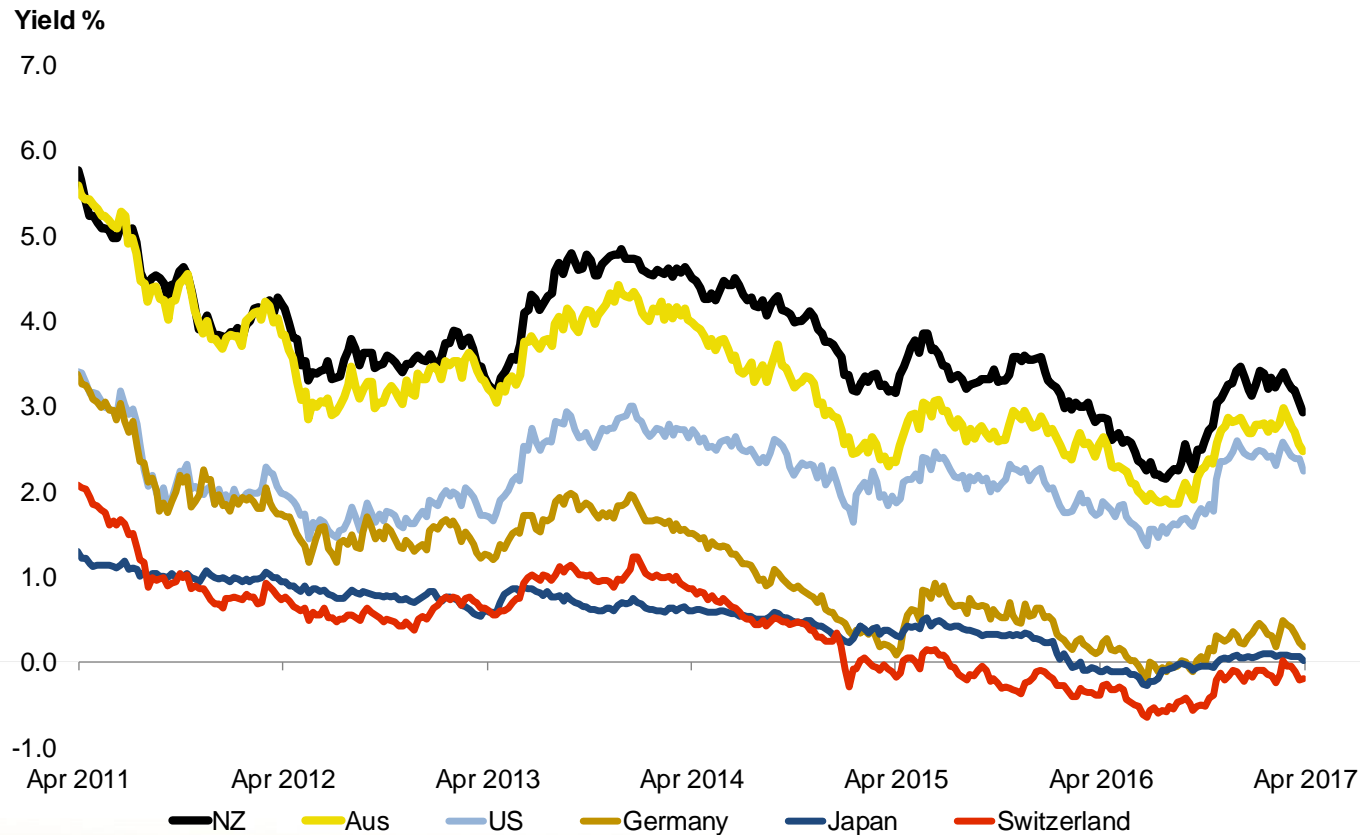
## Gross Sovereign Debt to GDP



Source: Bloomberg

# ATTRACTIVE NOMINAL YIELDS

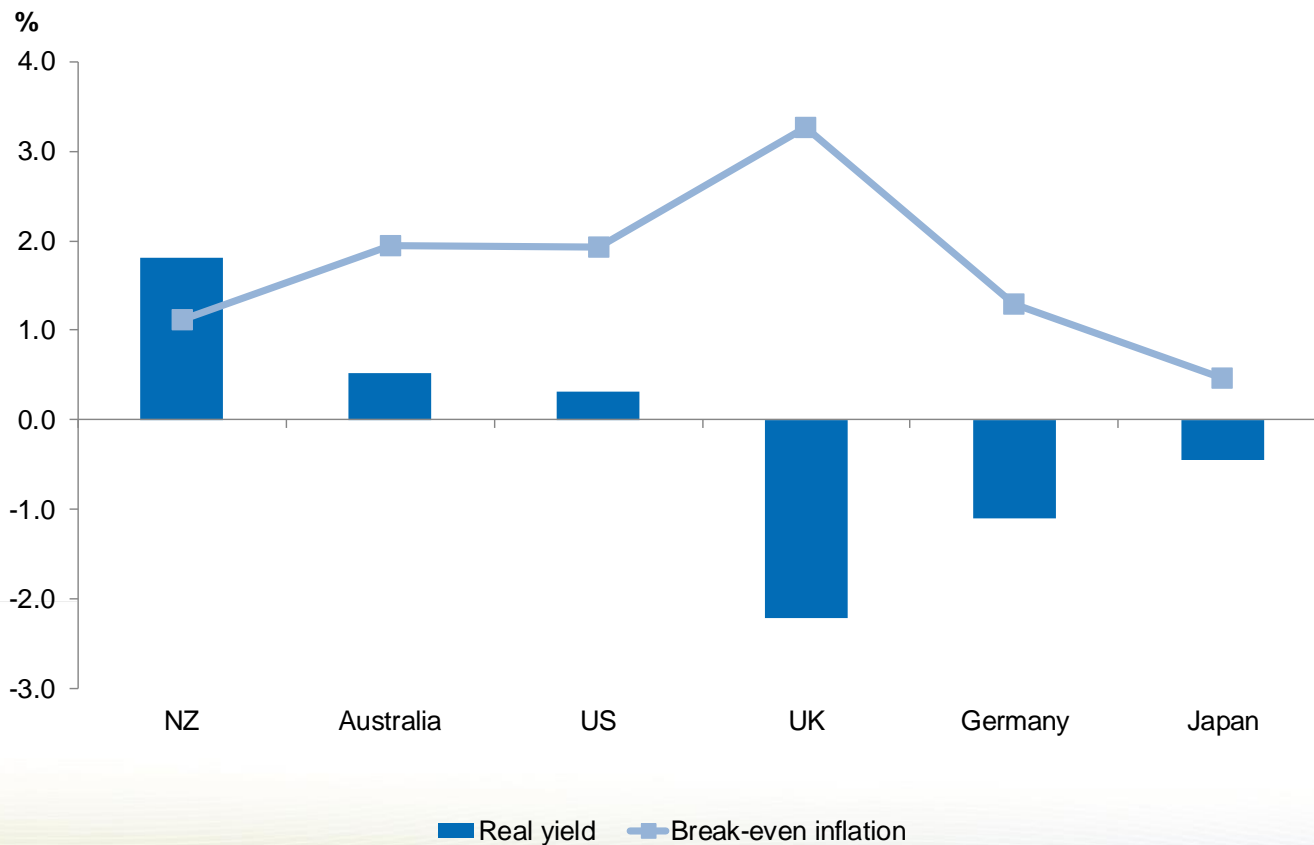
## 10-year Nominal Bonds



Source: Bloomberg

# ATTRACTIVE REAL YIELDS

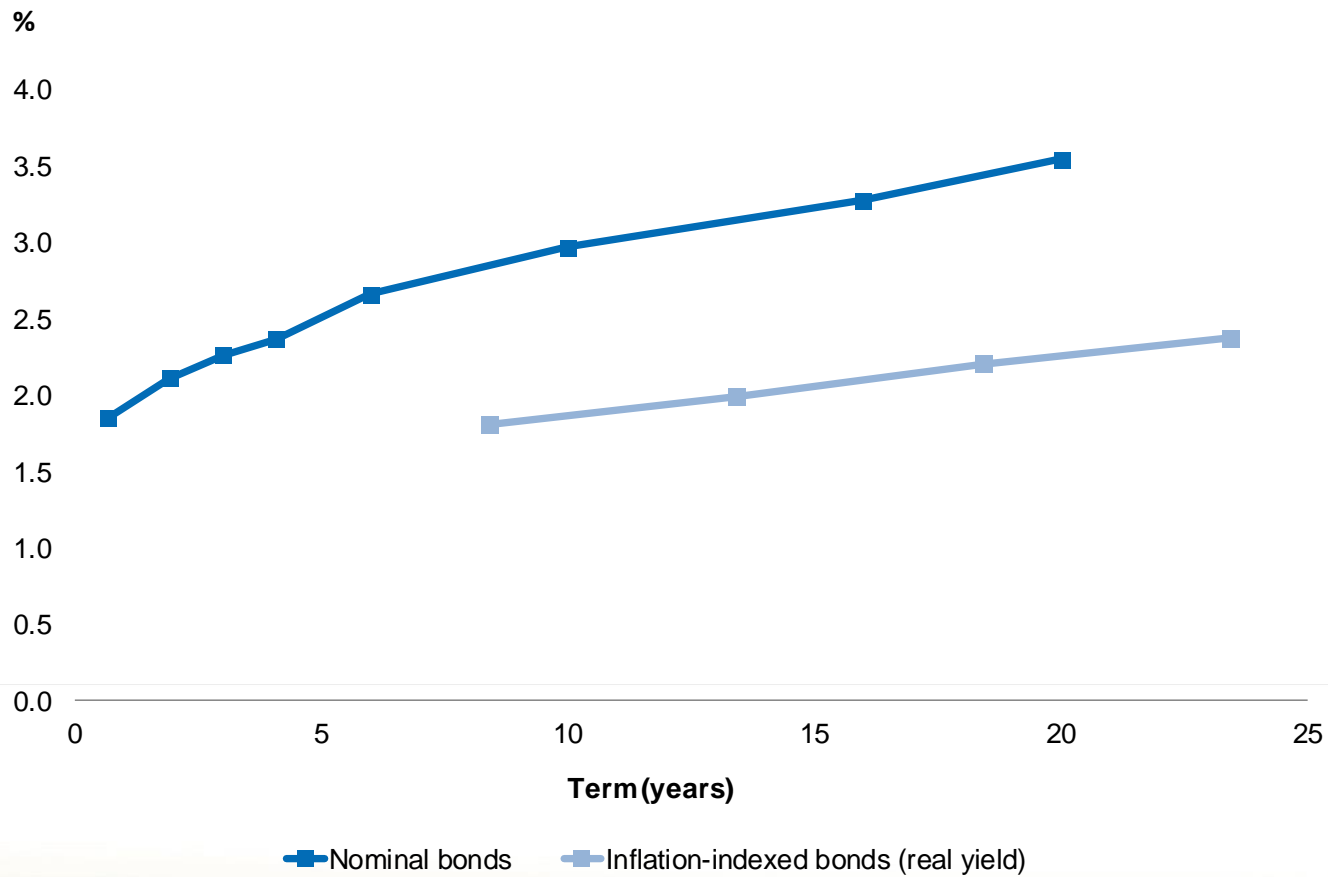
## 10-year Inflation-Indexed Bonds



Source: Bloomberg



# GOVERNMENT BOND YIELD CURVES

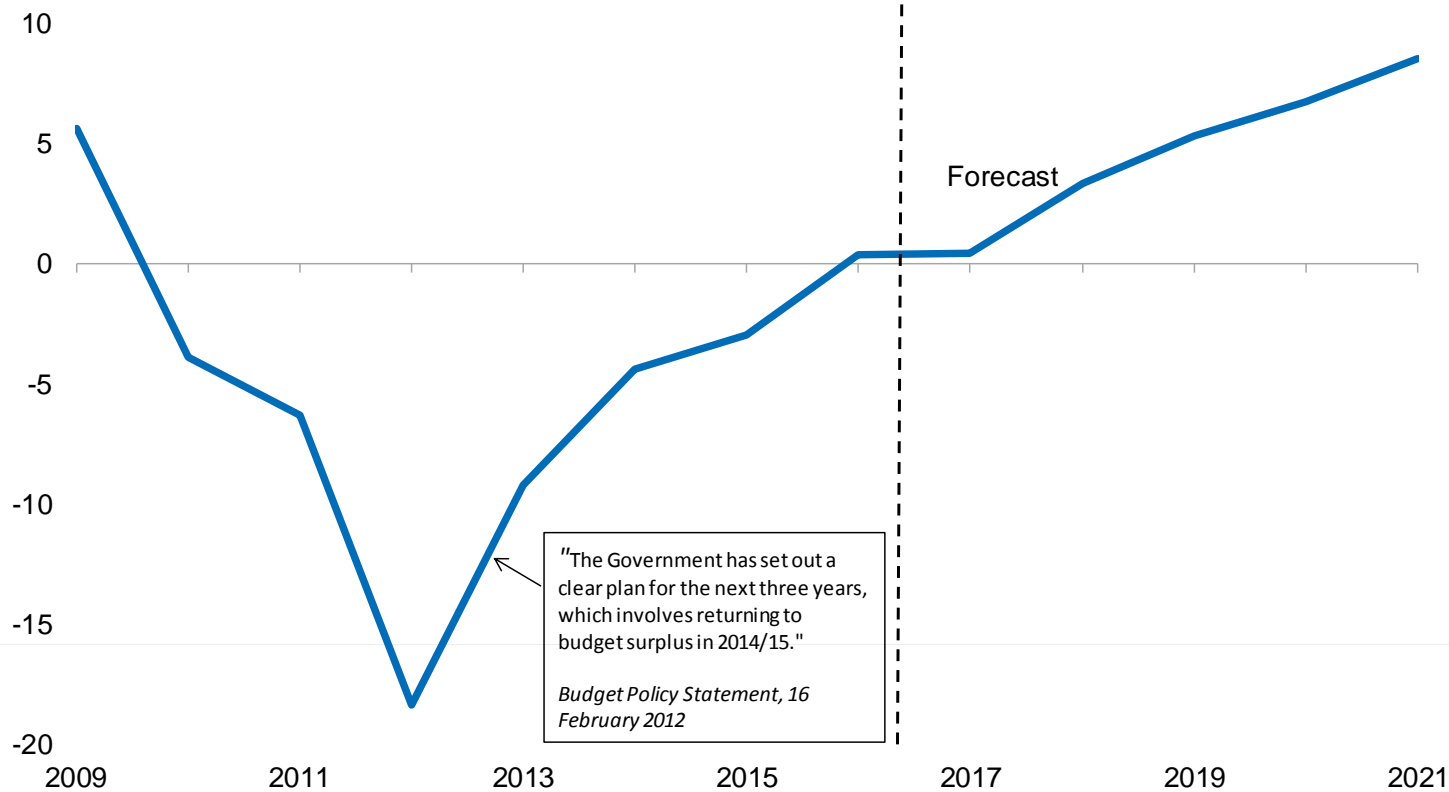


## 2. FISCAL PRIORITIES: DEC 2016

# 2014/15 SURPLUS ACHIEVED



NZD billion



— Operating Balance (ex gains and losses)

Source: The Treasury

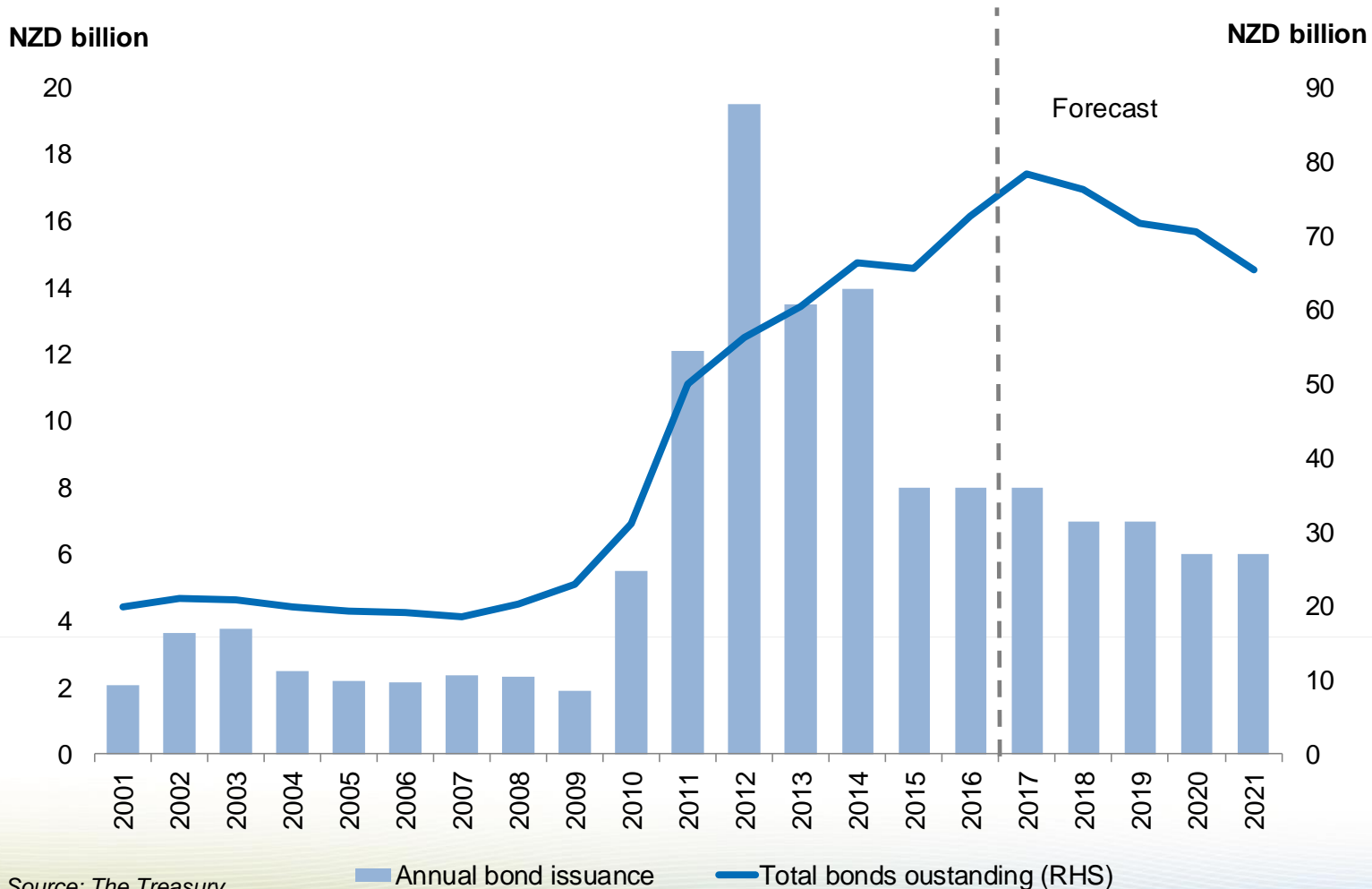


# FISCAL PRIORITIES



- 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

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



Source: The Treasury

### 3. NZDMO'S STRATEGY



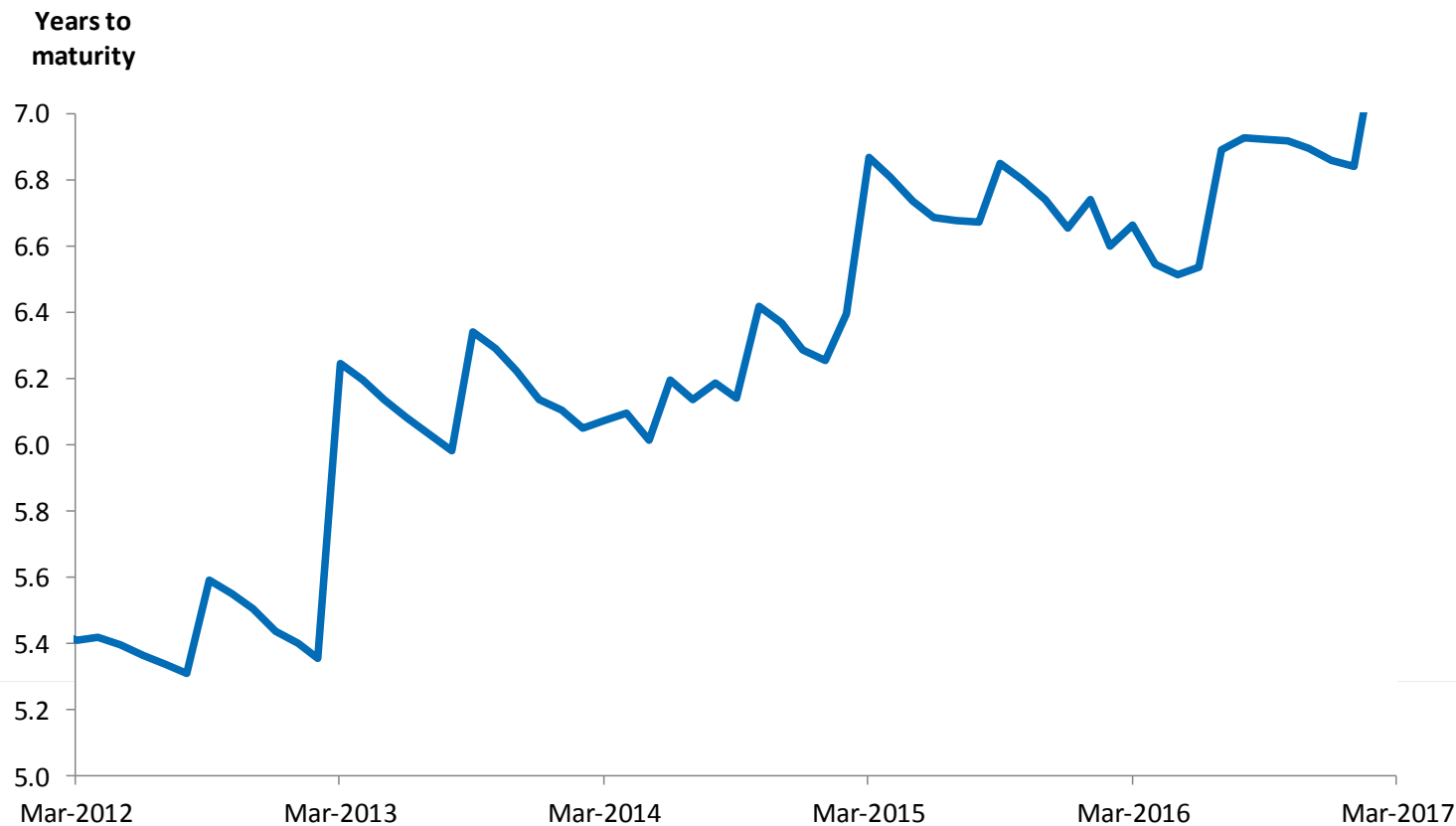


# FUNDING STRATEGY



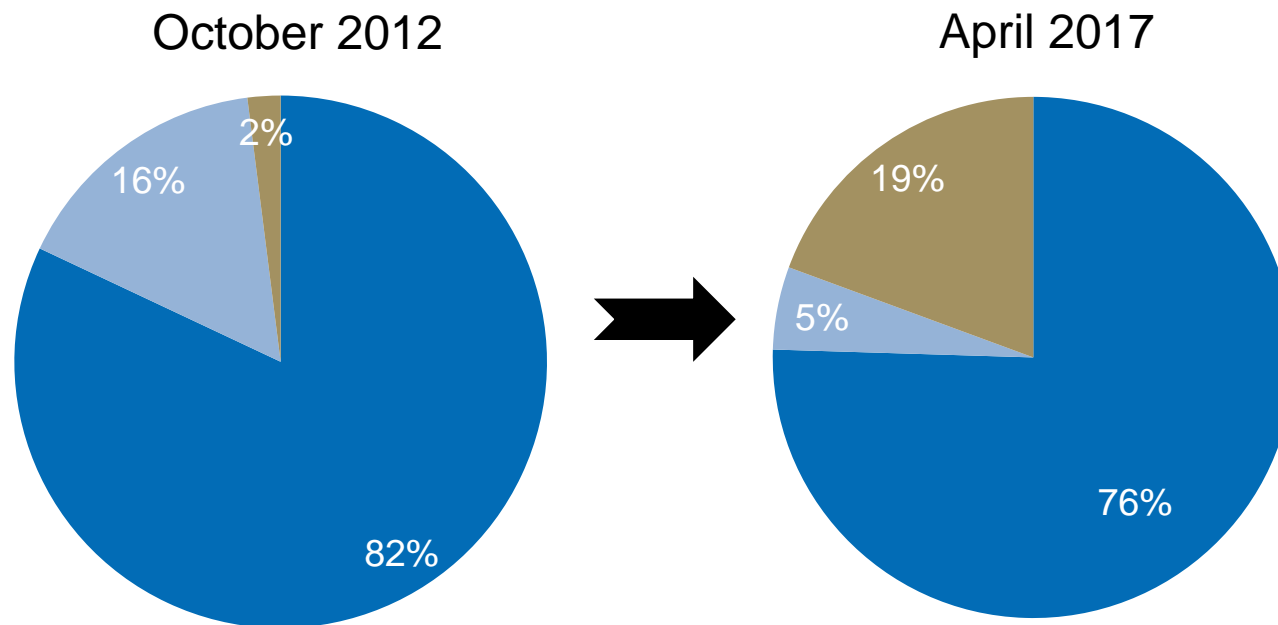
- Balance Sheet Management approach
  - Extend duration of the debt portfolio
  - Reduce overall fiscal variability
  - Reduce refinancing risk
  - The role of Inflation-indexed bonds
- Build and maintain liquidity
  - Diversify investor base
  - Encourage intermediary participation
- Focus on domestic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

# AVERAGE DURATION EXTENDED



Source: The Treasury

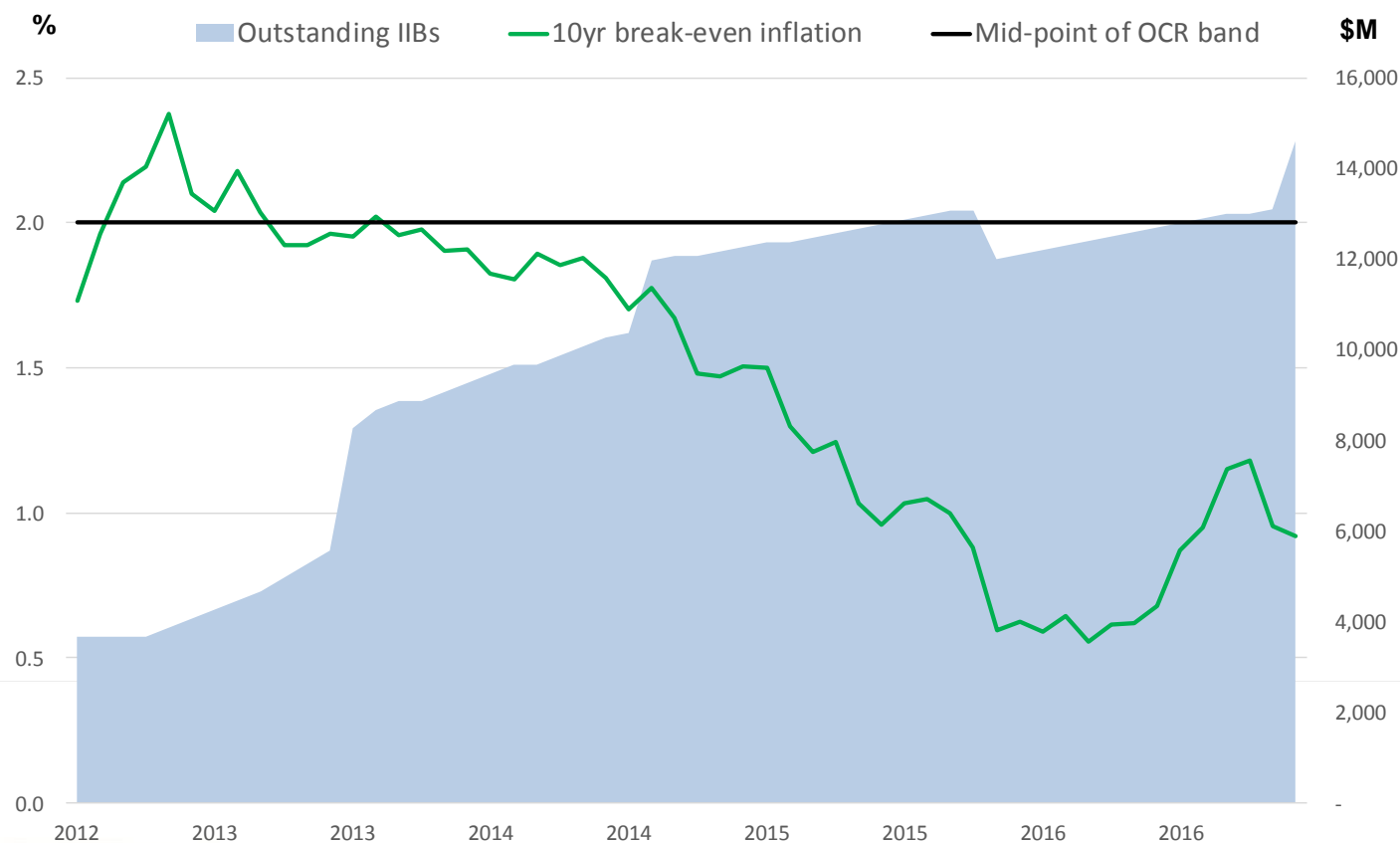
# PORTFOLIO COMPOSITION REDUCES FISCAL VARIABILITY, REFINANCING RISK



Source: The Treasury

■ Nominal bonds ■ Treasury bills ■ Inflation-indexed bonds

# INFLATION-INDEXED BONDS – ISSUING THROUGH THE CYCLE

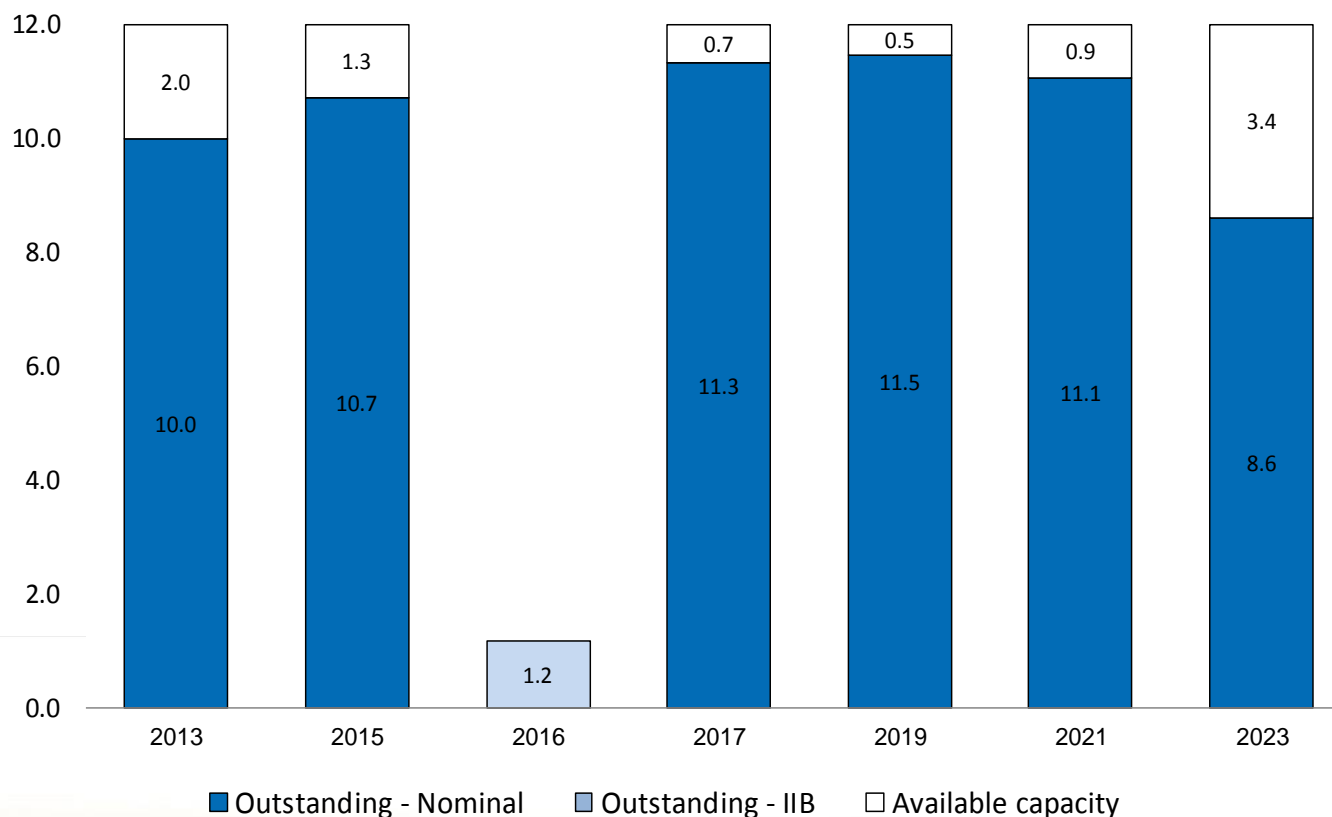


Source: The Treasury

# APRIL 2013: LIMITED CAPACITY ACROSS MATURITIES

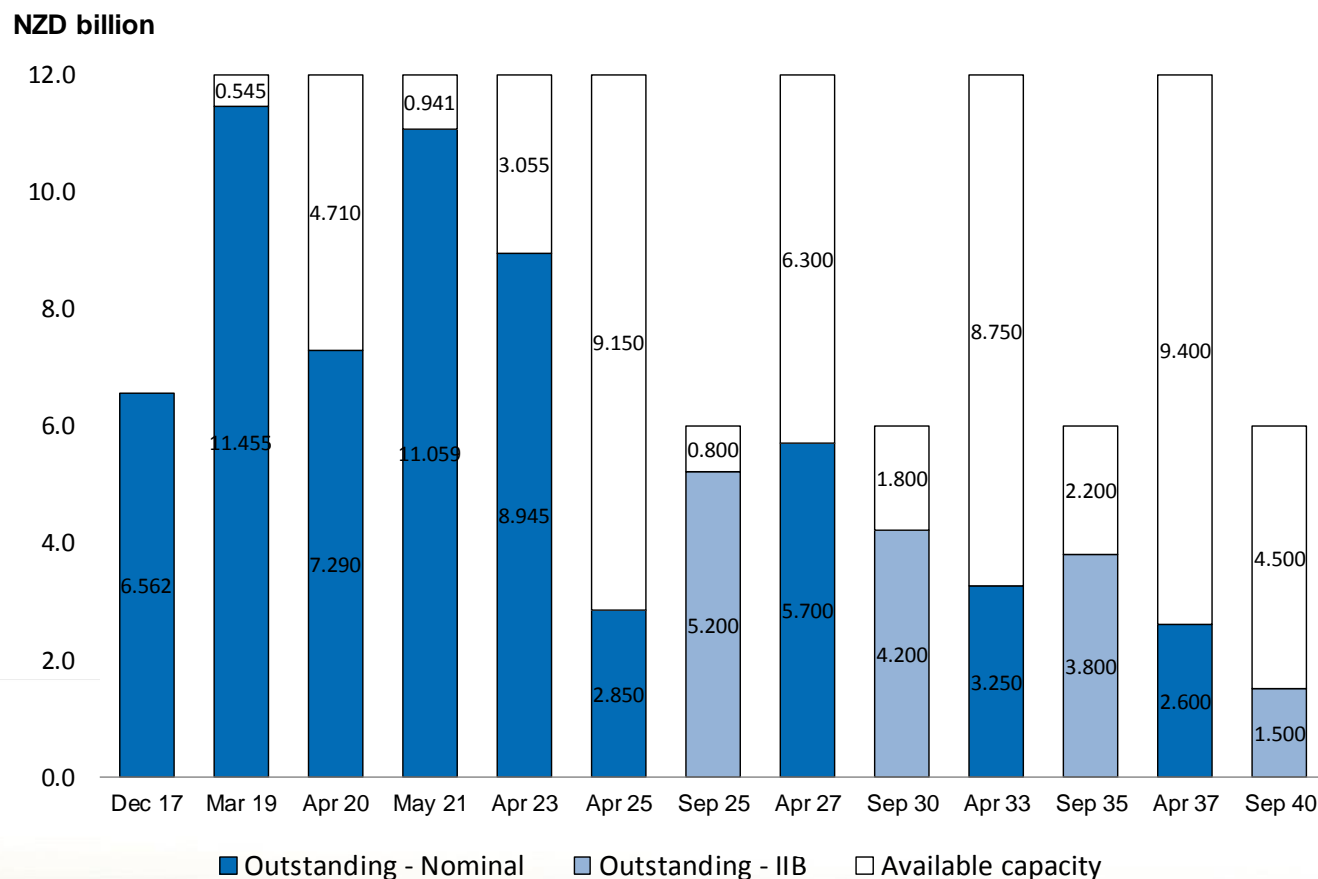


NZD billion



Source: The Treasury

# APRIL 2017: ISSUANCE CAPACITY ACROSS MATURITIES



Source: The Treasury



# SUPPORTING PRIMARY AND SECONDARY MARKET LIQUIDITY



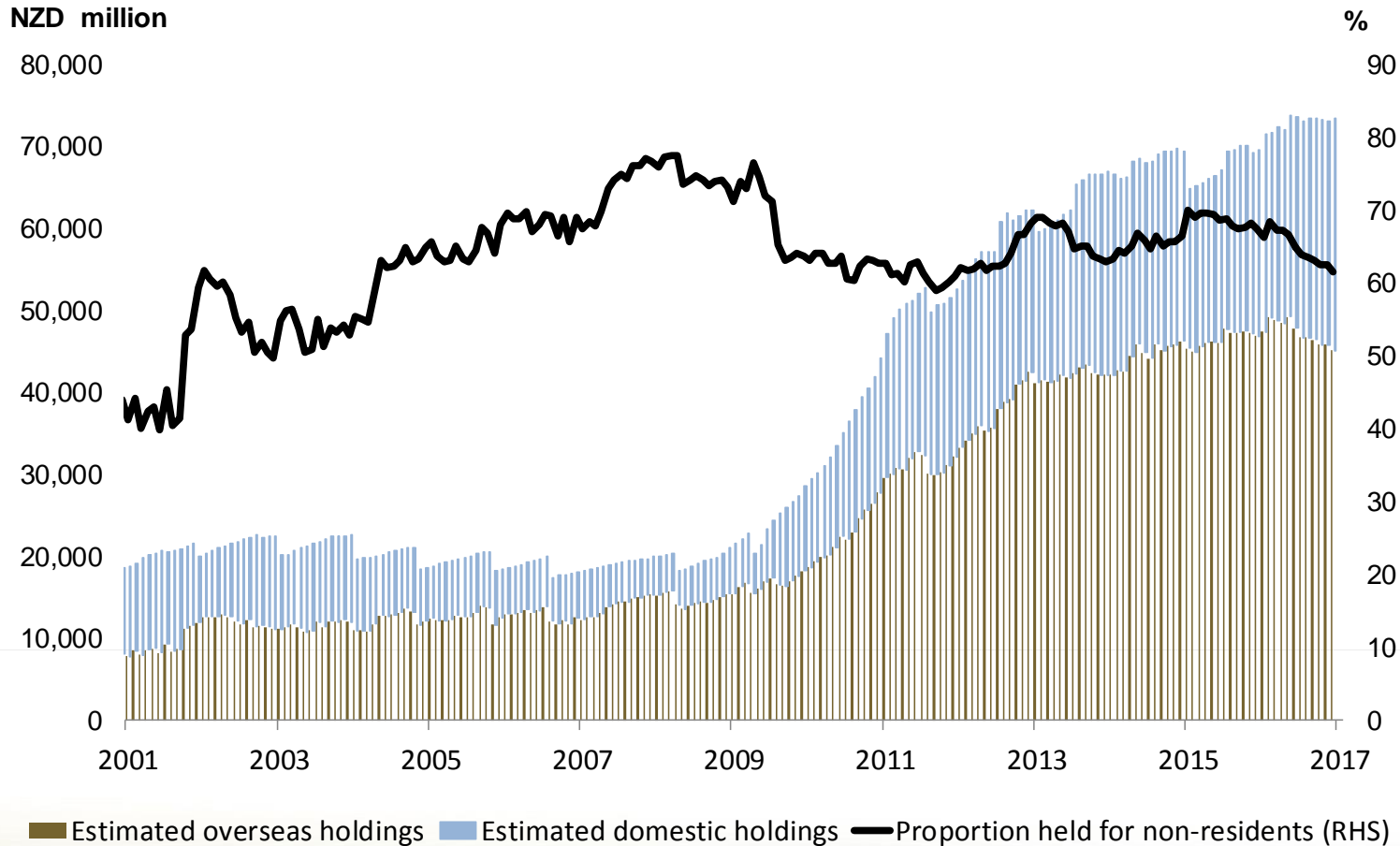
- Quarterly tender schedule announcements include fixed amounts and specific maturities
- New bonds launched via syndication
- Tender issuance into benchmark lines
- Focus on domestic market issuance
- Manage cash flows around upcoming bond maturities
- Broadly match Australian Commonwealth Government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

## 4. 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 (4-6 weeks prior to General 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)