



TE TAI ŌHANGA  
THE TREASURY



# New Zealand Government Debt Market Outlook

September 2019

New Zealand Government



# Overview



Economic/Fiscal outlook



New Zealand Government Bonds: risk-reward



Government debt funding strategy



**Economic/fiscal outlook**

# Summary of forecasts

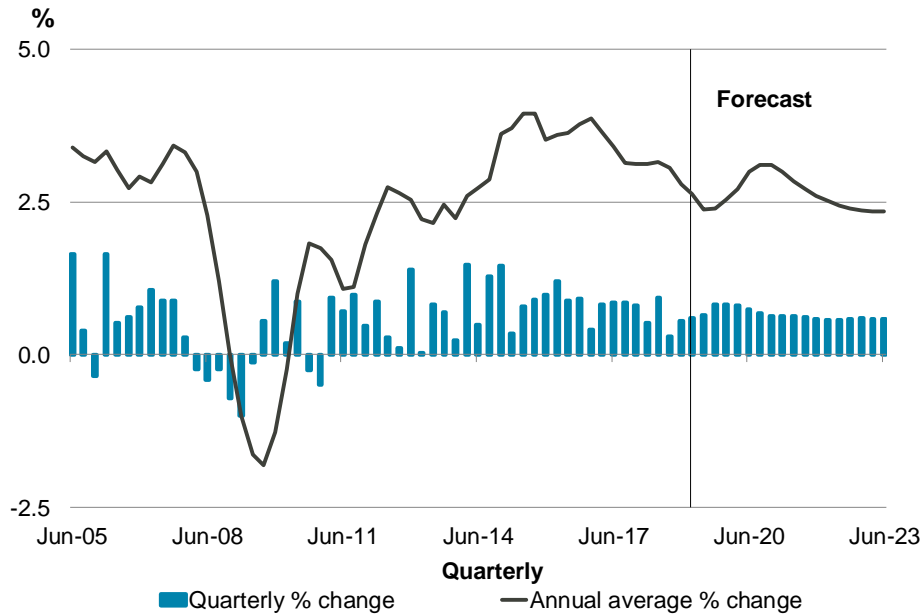
## Executive summary table

June years	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
<b>Economic</b>						
Real production GDP (annual average % change)	3.2	2.4	3.0	2.8	2.4	2.4
Real GDP per capita (annual average % change)	1.1	0.7	1.5	1.5	1.3	1.2
Unemployment rate (June quarter)	4.4	4.1	4.0	4.1	4.2	4.3
CPI inflation (annual % change, June quarter)	1.5	1.8	2.0	2.1	2.0	2.0
Current account balance (% of GDP)	-3.4	-3.4	-3.4	-3.4	-3.3	-3.3
<b>Fiscal (% of GDP)</b>						
Core Crown tax revenue	27.8	28.2	28.2	28.5	28.6	28.8
Core Crown expenses	27.9	29.1	29.4	29.6	29.0	28.8
Total Crown operating balance before gains and losses	1.9	1.2	0.4	0.6	1.3	1.7
Core Crown residual cash	0.5	-0.9	-1.3	-1.3	-0.2	0.3
Net core Crown debt	19.9	20.1	20.4	20.7	19.9	18.7
Net worth attributable to the Crown	44.9	43.4	42.5	42.1	42.8	43.9

Source: StatsNZ, The Treasury, BEFU 2019

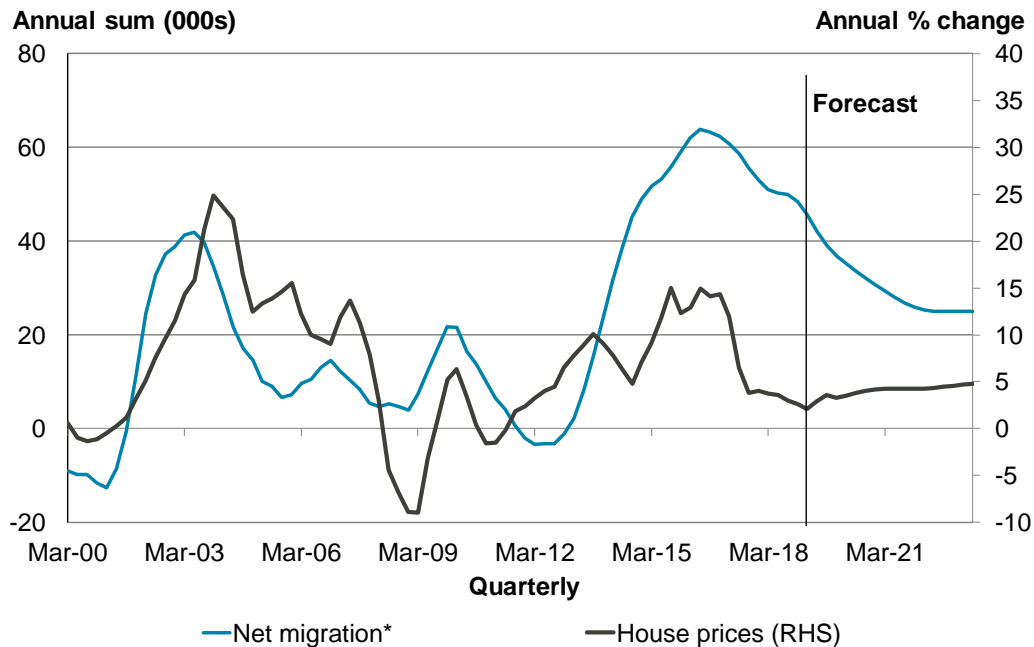
# Growth cycle extended

## Real GDP growth

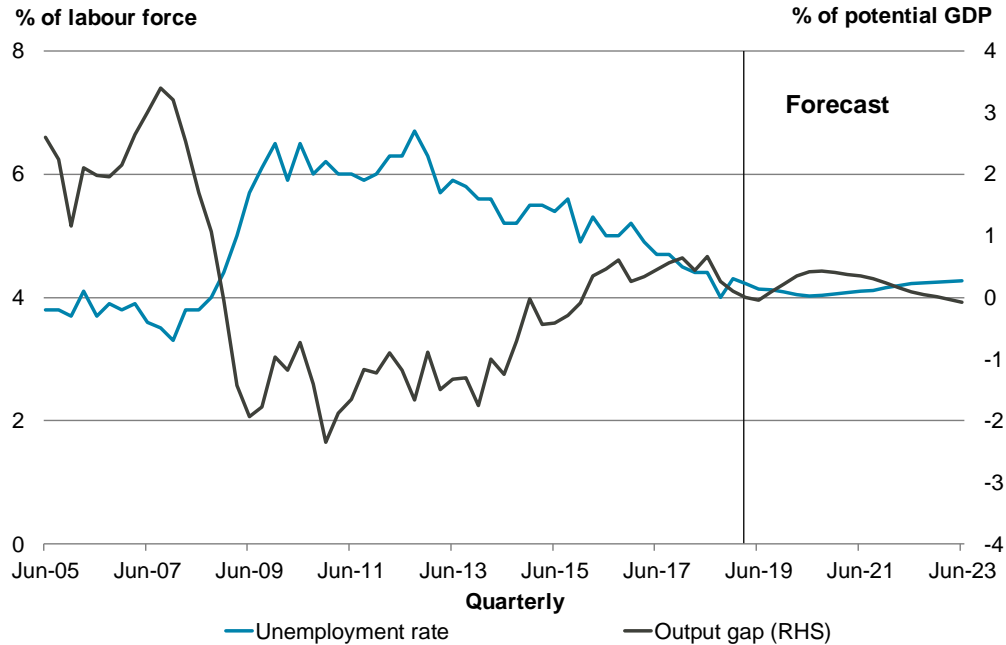




# Net migration and house prices



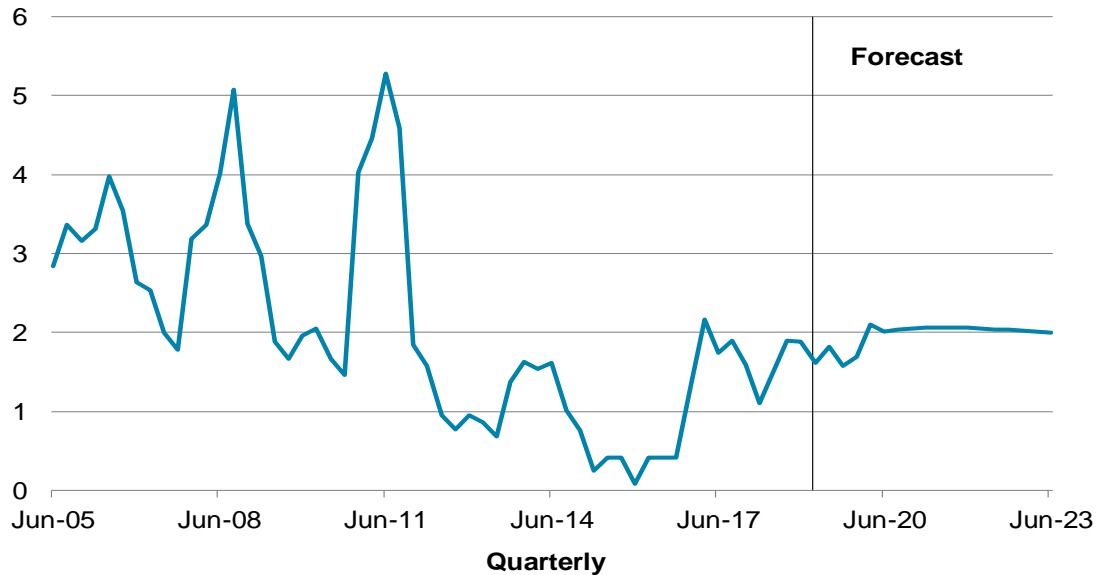
# Economy near full capacity



# But inflation remains muted

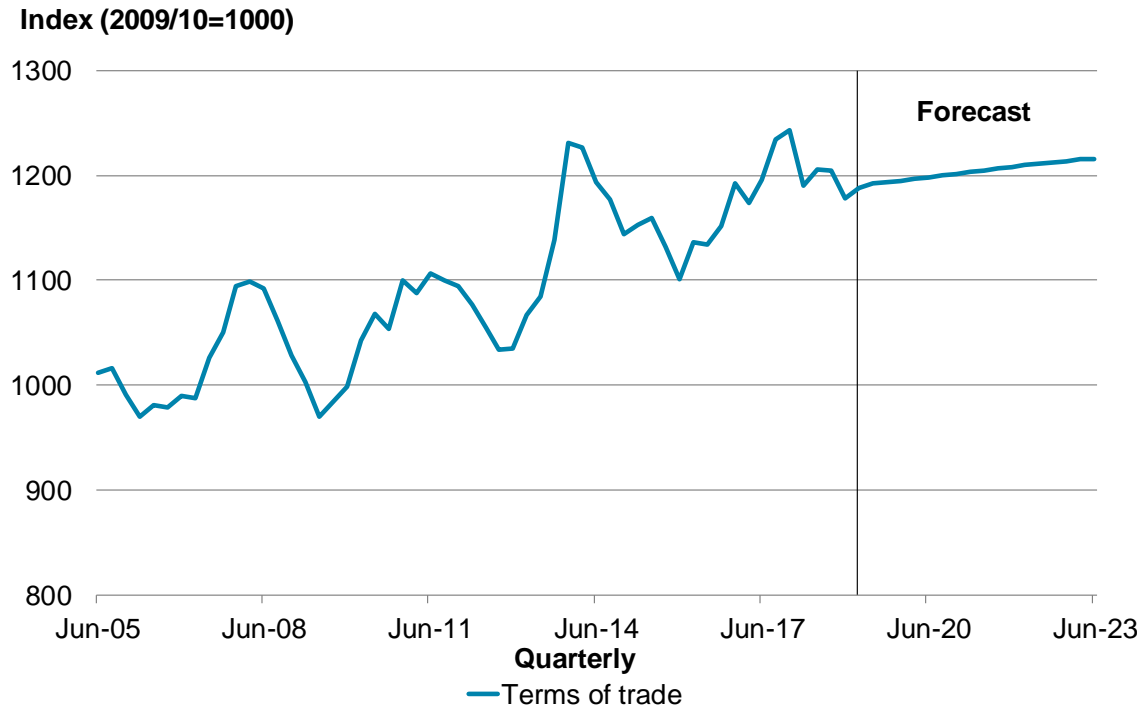
## CPI inflation

Annual % change

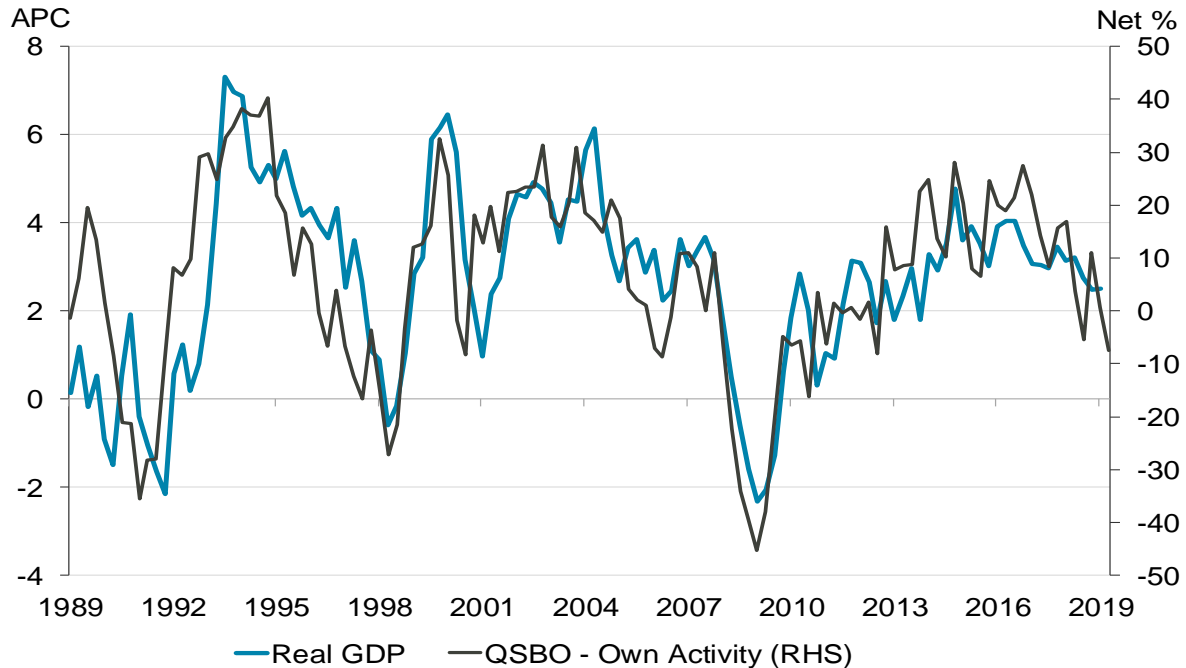




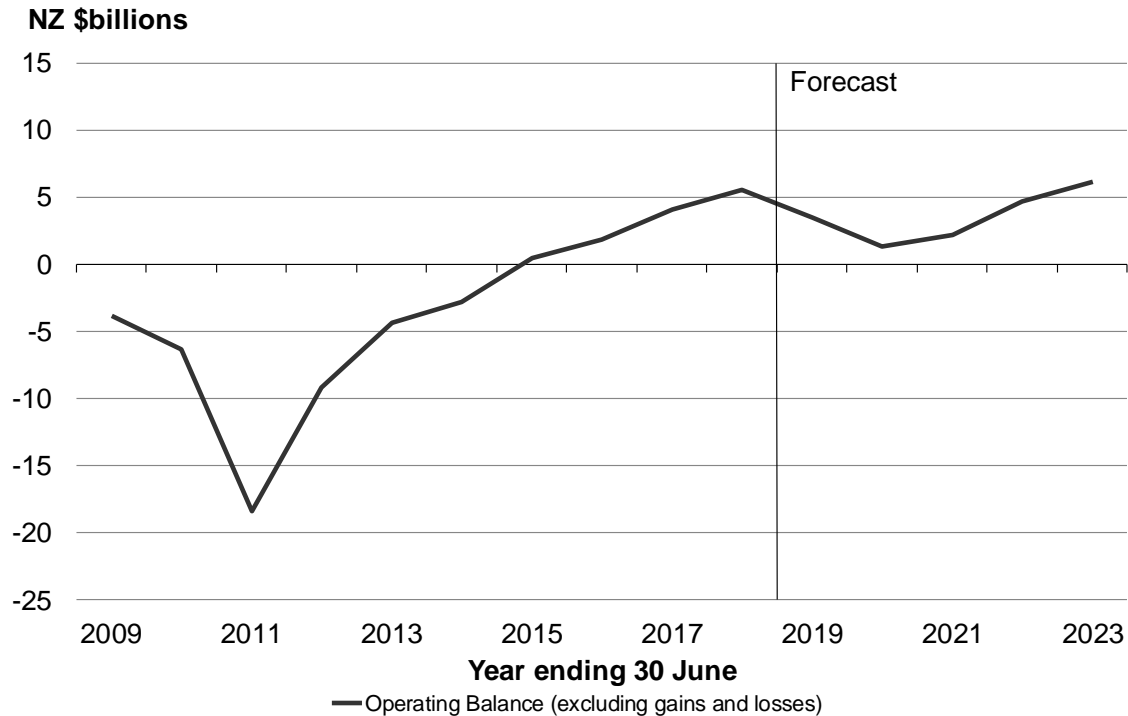
# Terms of trade strong



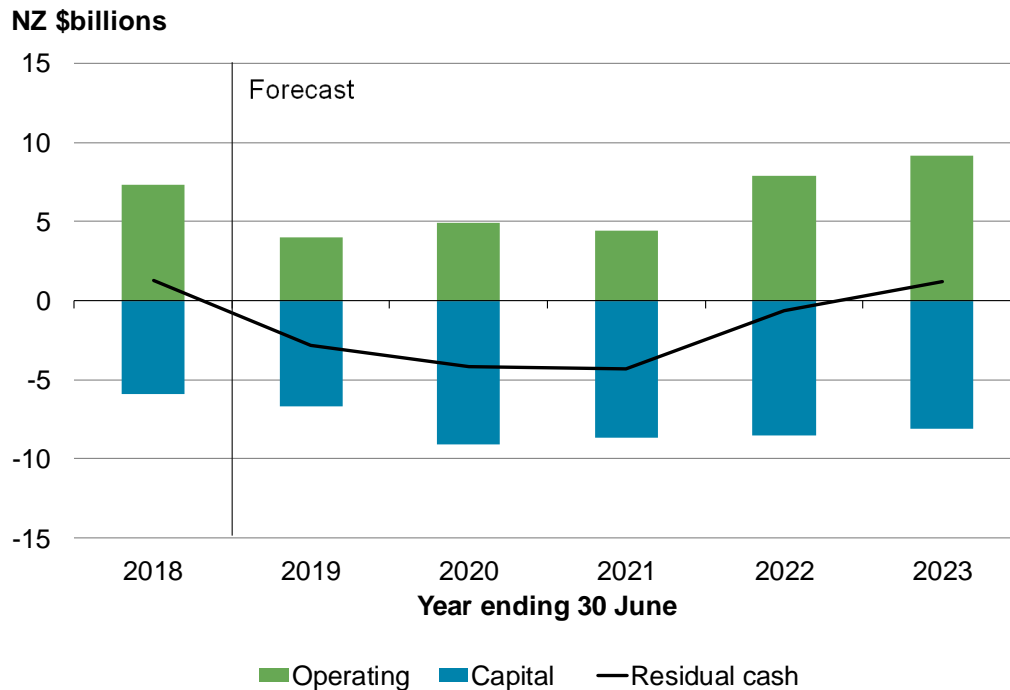
# Business confidence - key risk



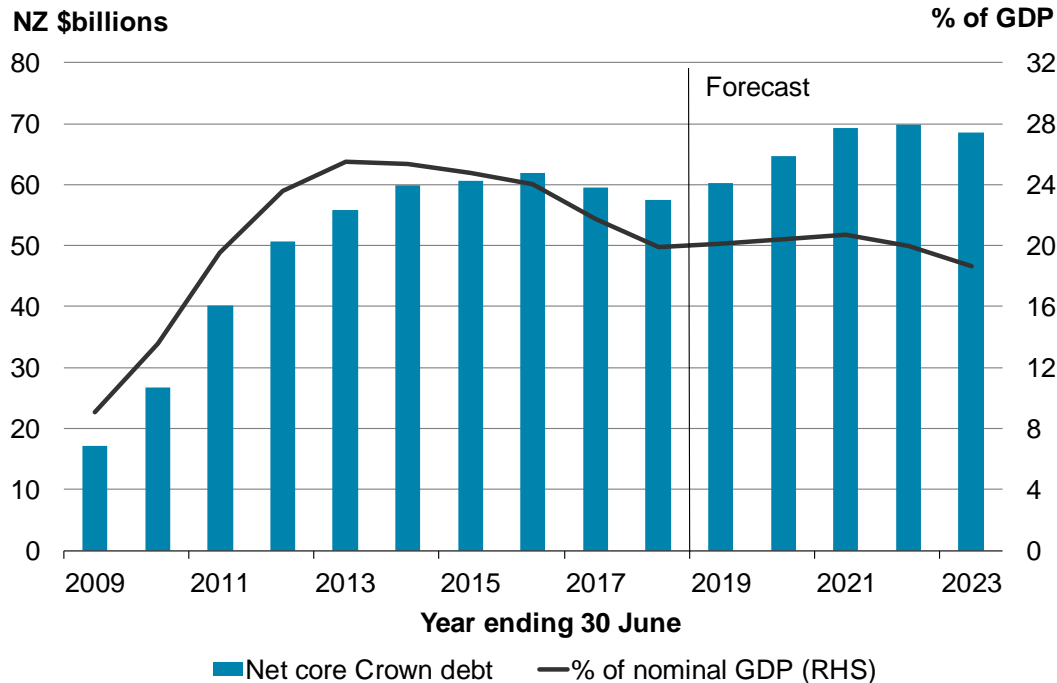
# Operating surpluses sustained



# Plans for capital spending



# Net debt contained



# New Zealand Government Bonds: risk-reward





# S&P recently upgraded outlook



**Moody's**  
Aaa/Aaa (stable)

*"New Zealand's credit profile reflects its **very strong institutions** and policy effectiveness and a strong fiscal position compared to peers. These credit features mitigate external and domestic vulnerabilities related to high reliance on external financing and elevated household debt."* Feb 2019

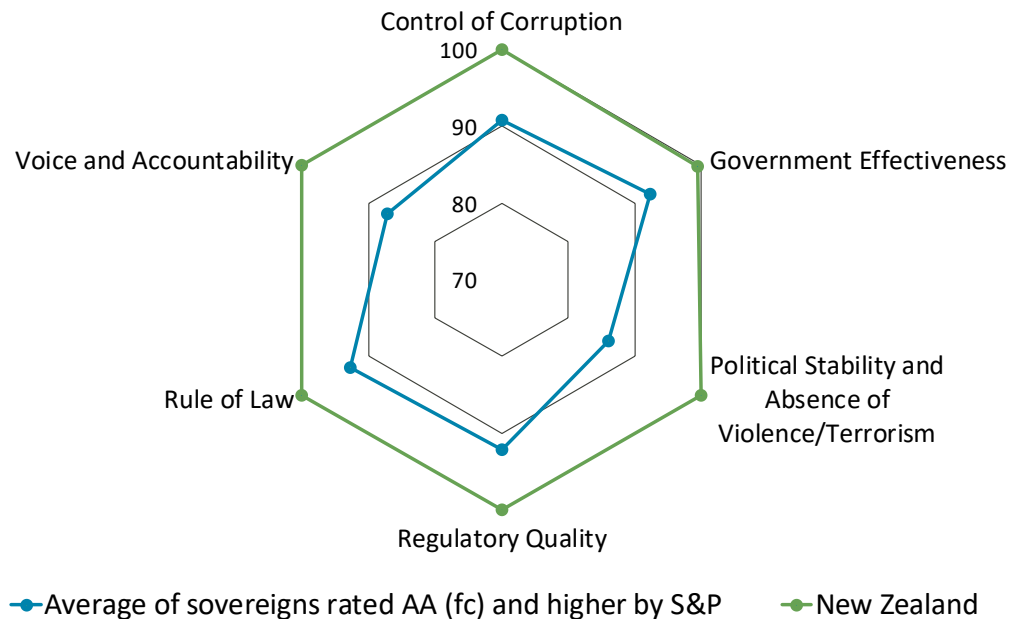
**Standard & Poor's**  
AA+/AA (positive)

*"The ratings on New Zealand reflect the country's fiscal and monetary policy flexibility, economic wealth and resilience, and **stable public policy settings**. These strengths provide the country with flexibility to offset potential risks related to its large external imbalances, high household and agriculture sector debt, dependence on commodity income, and financial system stability."*  
Jan 2019

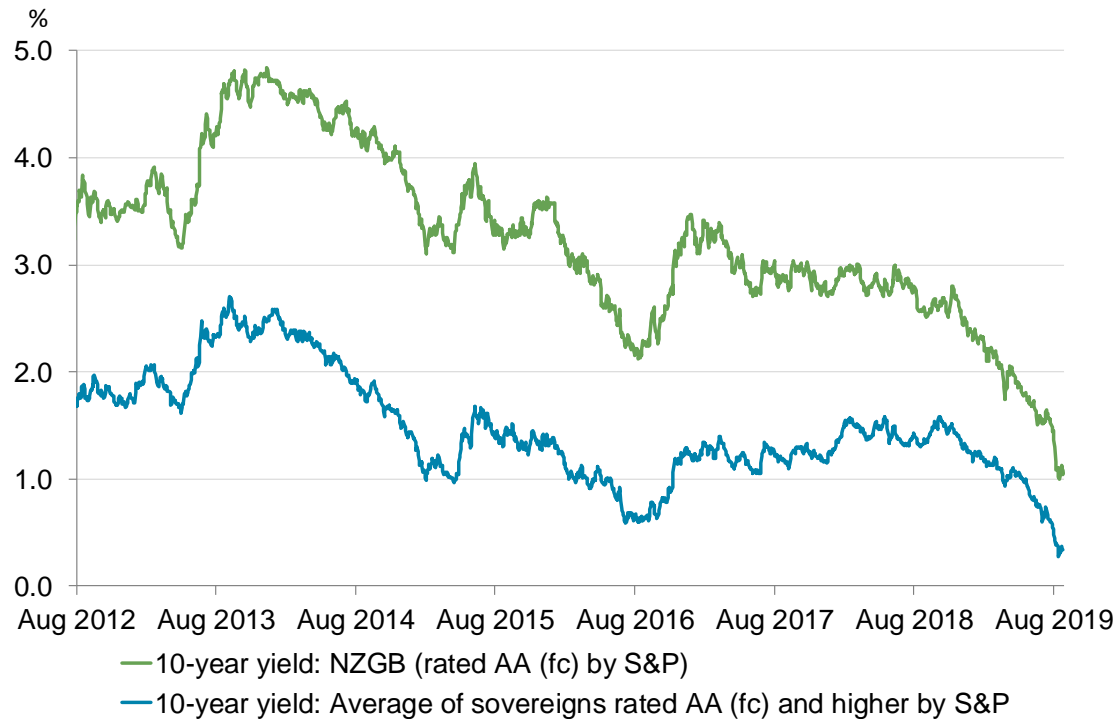
**Fitch**  
AA+/AA (stable)

*"New Zealand's ratings are underpinned by **very high governance standards, a demonstrated commitment to prudent fiscal management, and a credible policymaking framework** that helps manage risks and respond to pressures. The country's high net external debt and elevated household debt are the key weaknesses for the credit profile."* Jan 2019

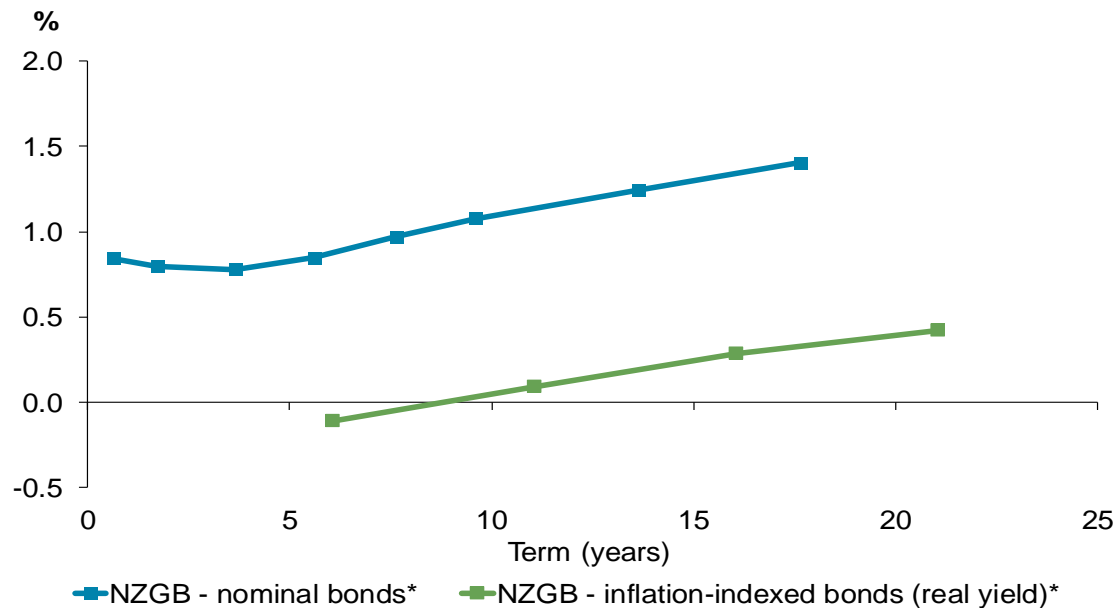
# Strong institutions



# Relative yield



# NZGB yields



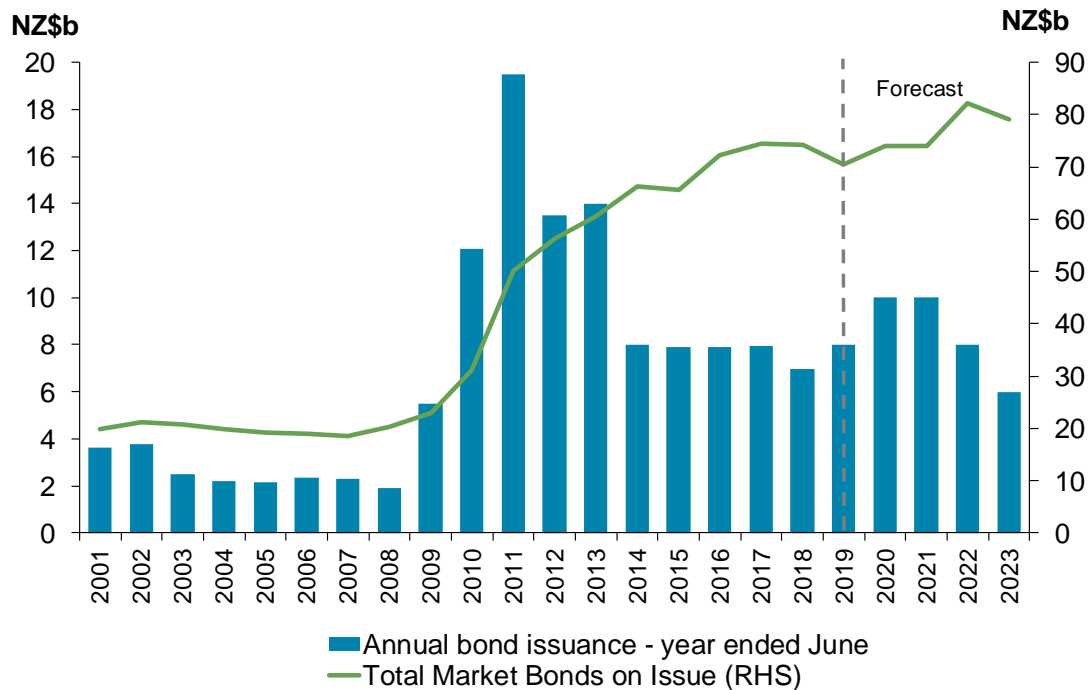
\* yields (mid rate) as at 27 August, 2019

# Government debt funding strategy





# Changing funding needs

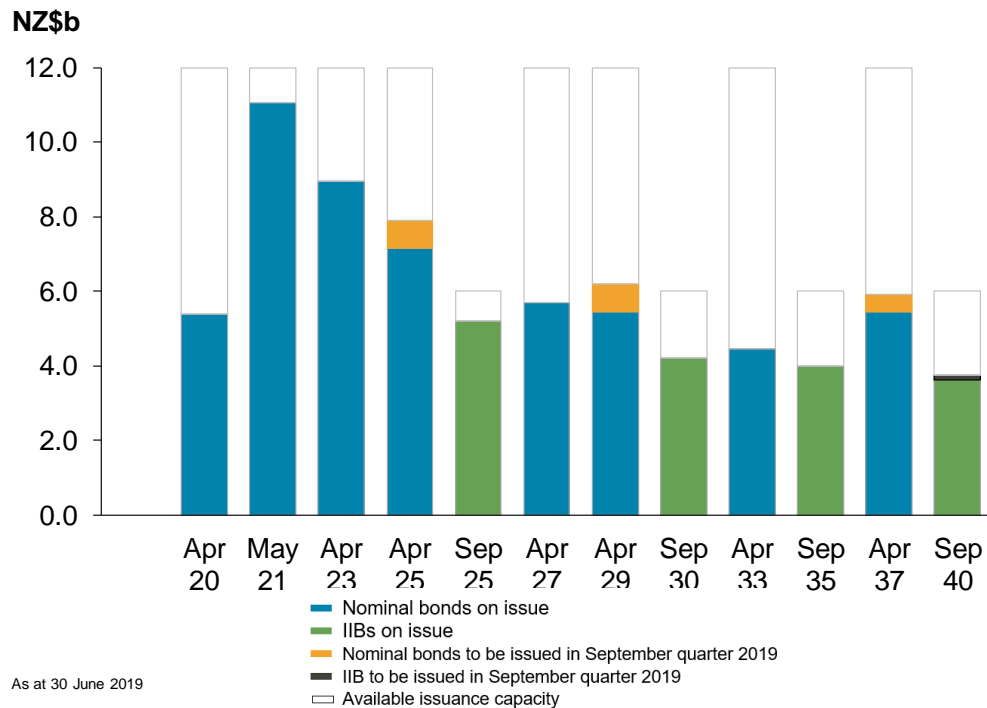




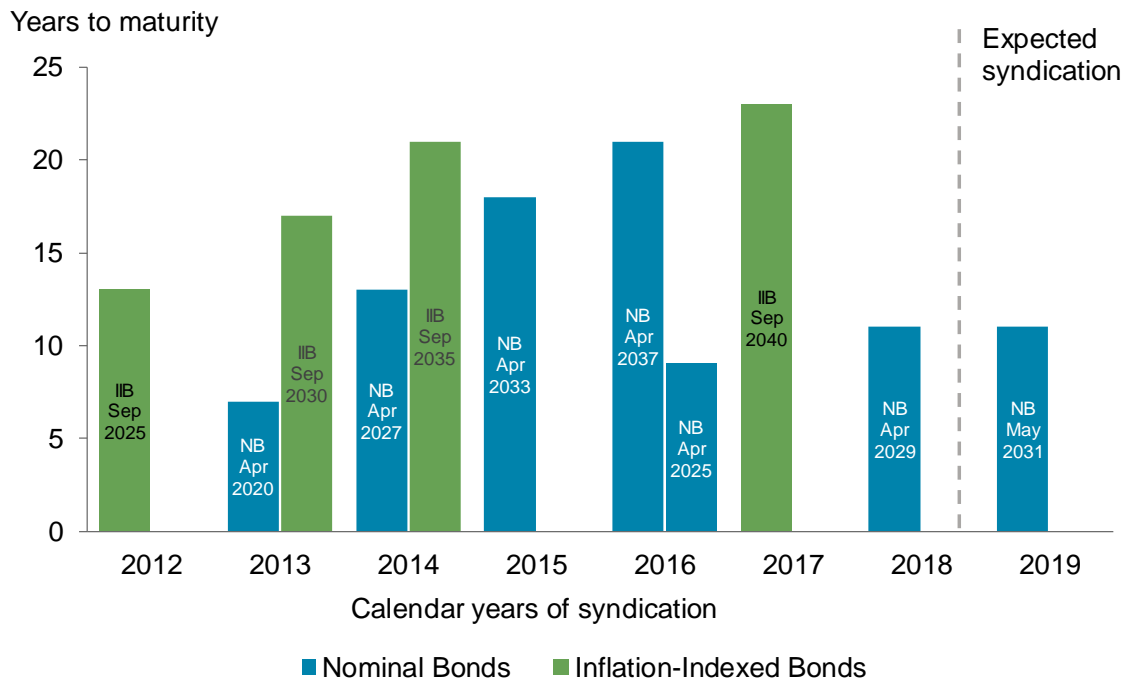
# Forecast borrowing programme

<b>Year ending 30 June (face value)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Total</b>
Gross NZGB issuance (NZ\$ billion)	8.0	10.0	10.0	8.0	6.0	42.0
NZGB maturities and repurchases (NZ\$ billion)	11.7	6.6	9.8	0.0	8.9	37.0
Net NZGB issuance (NZ\$ billion)	-3.7	3.4	0.2	8.0	-2.9	5.0
NZGBs on issue (NZ\$ billion)	70.5	73.9	74.1	82.1	79.2	n/a
NZGBs on issue (percent of GDP)	23.5%	23.3%	22.2%	23.4%	21.6%	n/a
Forecast T-Bills on issue (NZ\$ billion)	3	3	4	4	3	n/a

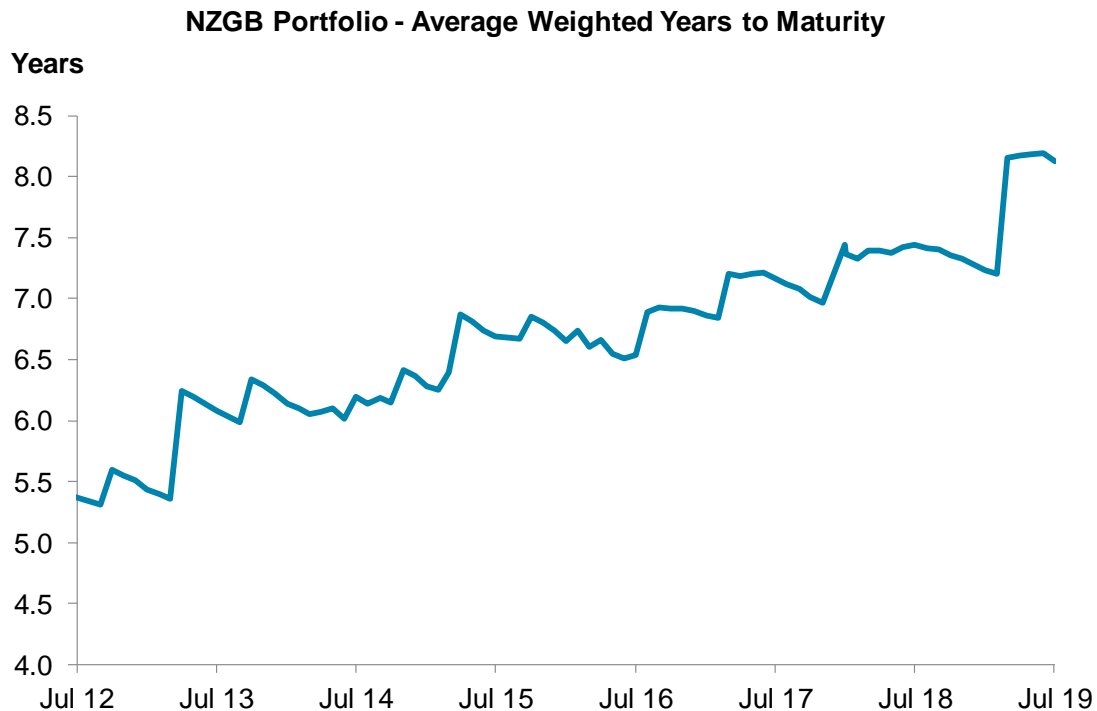
# Current NZGB portfolio



# Syndication of new bonds



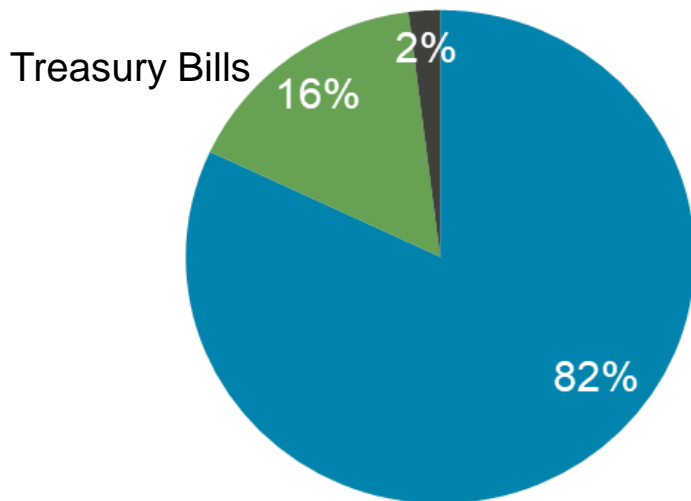
# Increasing average-weighted maturity



# Evolution of NZGB portfolio structure

From End-2012

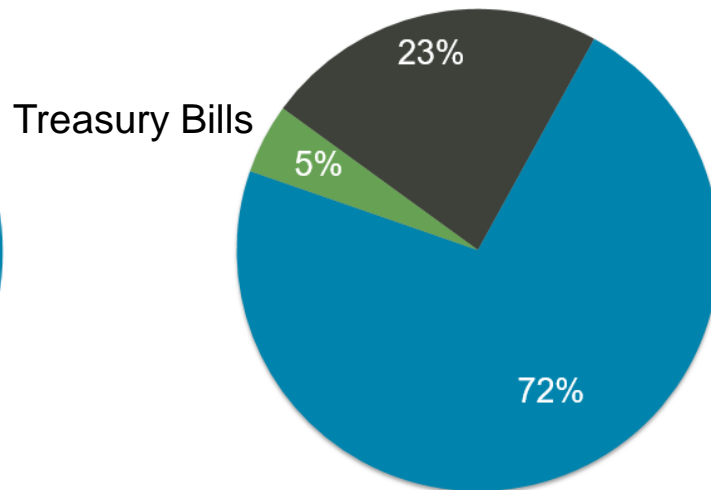
Inflation-indexed Bonds



Nominal Bonds

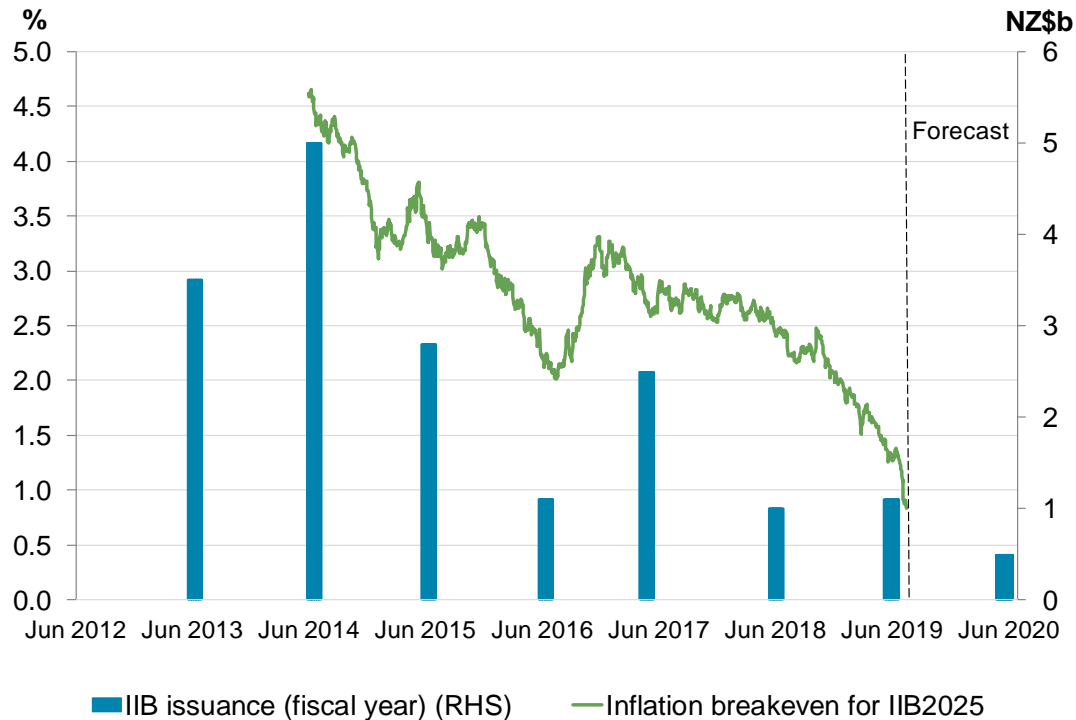
To Current

Inflation-indexed Bonds



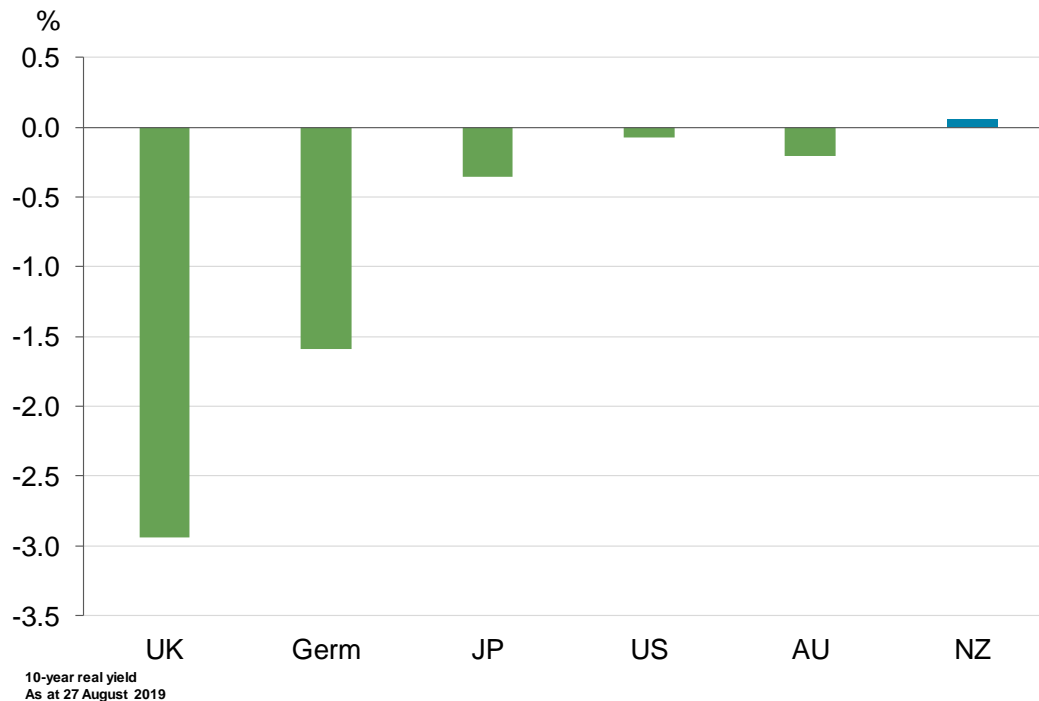
Nominal Bonds

# IIB breakeven & IIB issuance





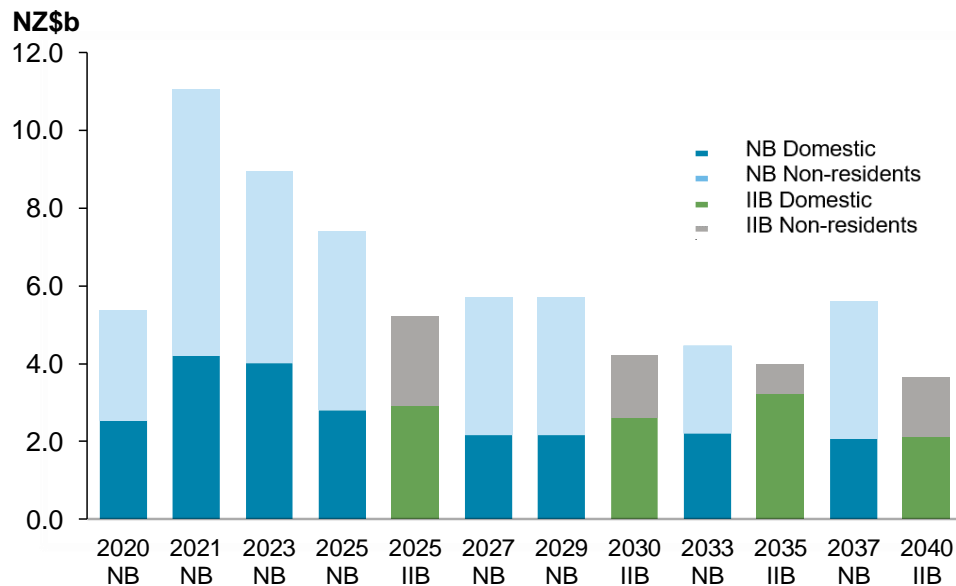
# Real yields relative to peers



# A diverse investor base



# Holdings of NZGBs as at July 2019



# Environment, Social and Governance (ESG)



- The New Zealand Government has clearly stated ESG objectives.
- Many of these are outlined in the Government's Wellbeing Budget 2019 that focuses on the wellbeing of people, the health of the environment and the strength of communities.
- <https://treasury.govt.nz/publications/wellbeing-budget/wellbeing-budget-2019>
- The Government is committed to progressing a climate change programme that allows for a just transition to a low-emissions economy.
- Cabinet has agreed a policy framework which will drive climate change policy towards low greenhouse gas emissions and climate resilience in New Zealand.
- <https://www.mfe.govt.nz/climate-change/climate-change-and-government/climate-change-programme>
- In this context, the Treasury currently has no plans to issue bonds in a specific ESG format. More broadly, it is cognizant of the contribution that efficient debt funding can make to the Government's ESG objectives.

# Supporting liquidity



- New primary access framework from 30 September 2019
- Government commitment to a minimum size for the NZGB market
- New bonds issued via syndication
- Focus on issuing into benchmark lines
- Provide certainty by publishing quarterly tender schedule
- Buyback activity to recycle funds out the curve
- Broadly match ACGB maturities

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