



New Zealand Government Debt Market Outlook

February 2018

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Overview



New Zealand Economic Outlook



New Zealand Government: Fiscal Priorities



New Zealand Government Bonds:
Risk/Reward

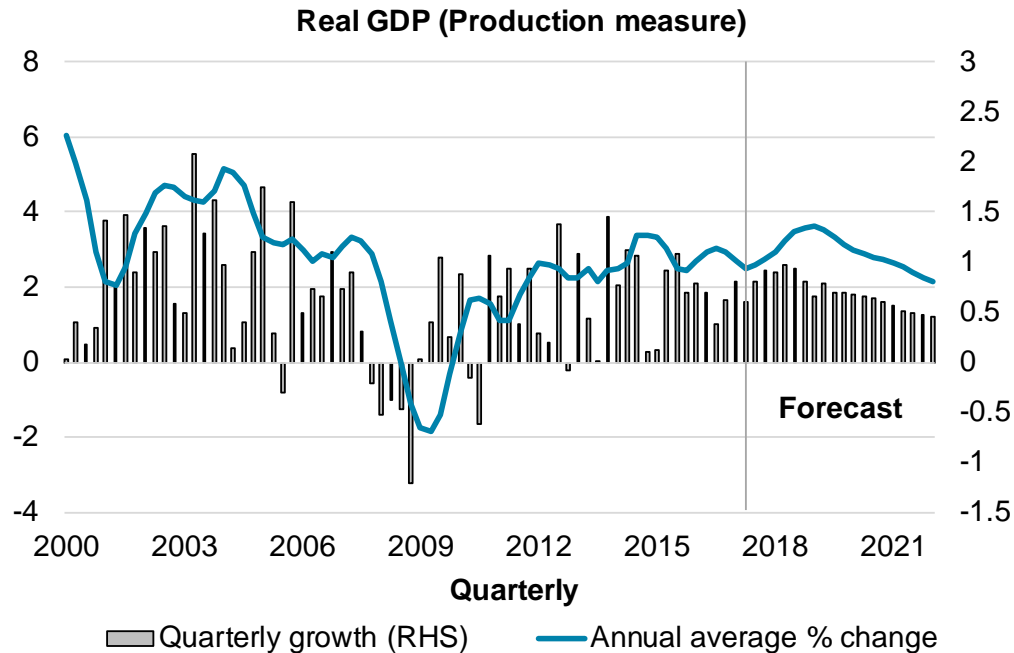


NZDMO: Strategy and Announcements

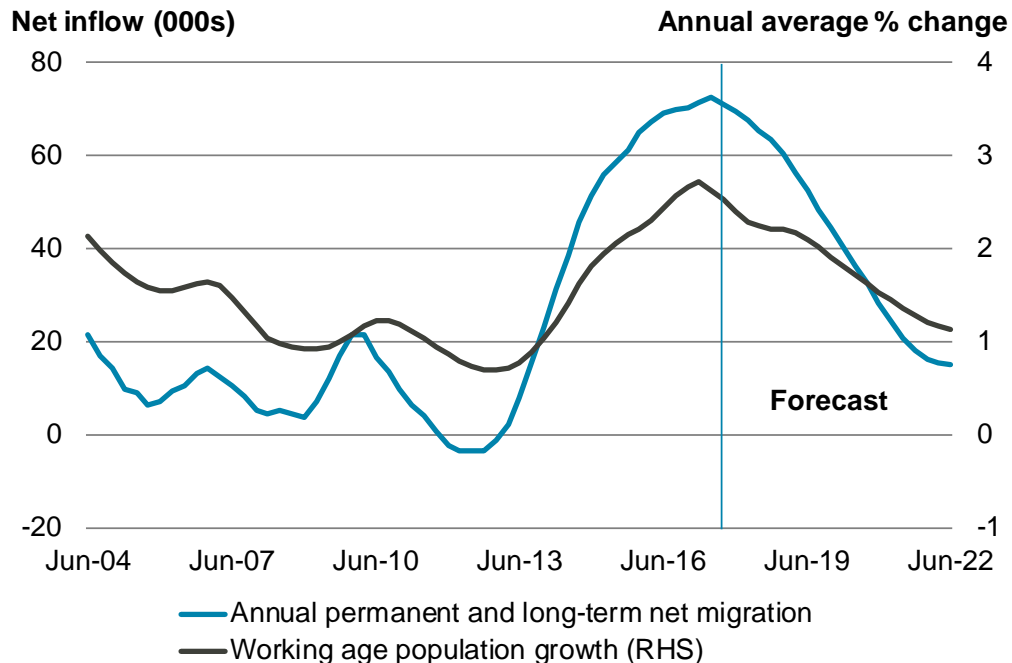


Economic Outlook

Growth remains robust

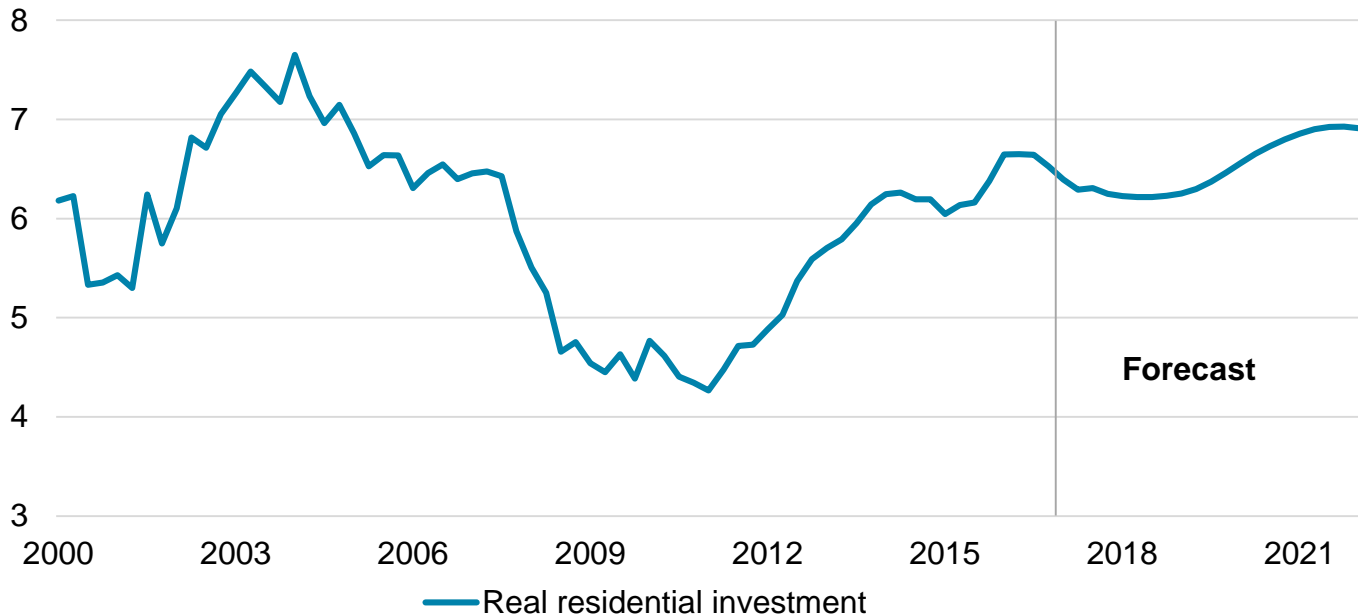


Net migration moderating



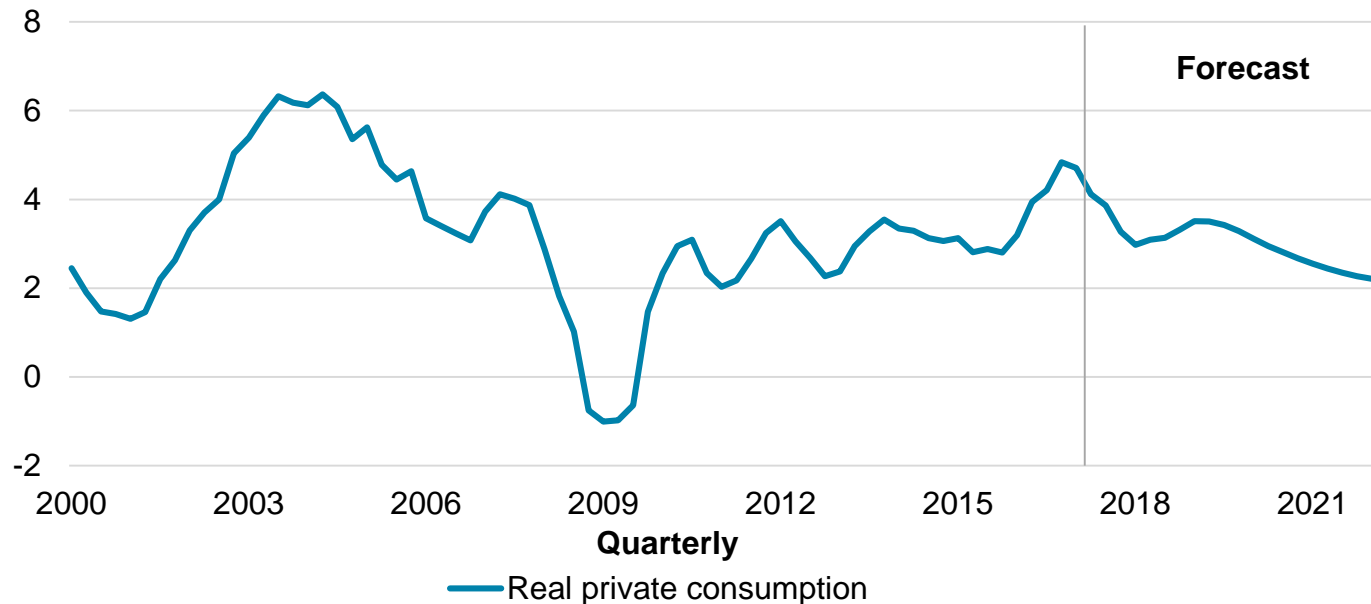
Housing construction picks up

% of real expenditure GDP

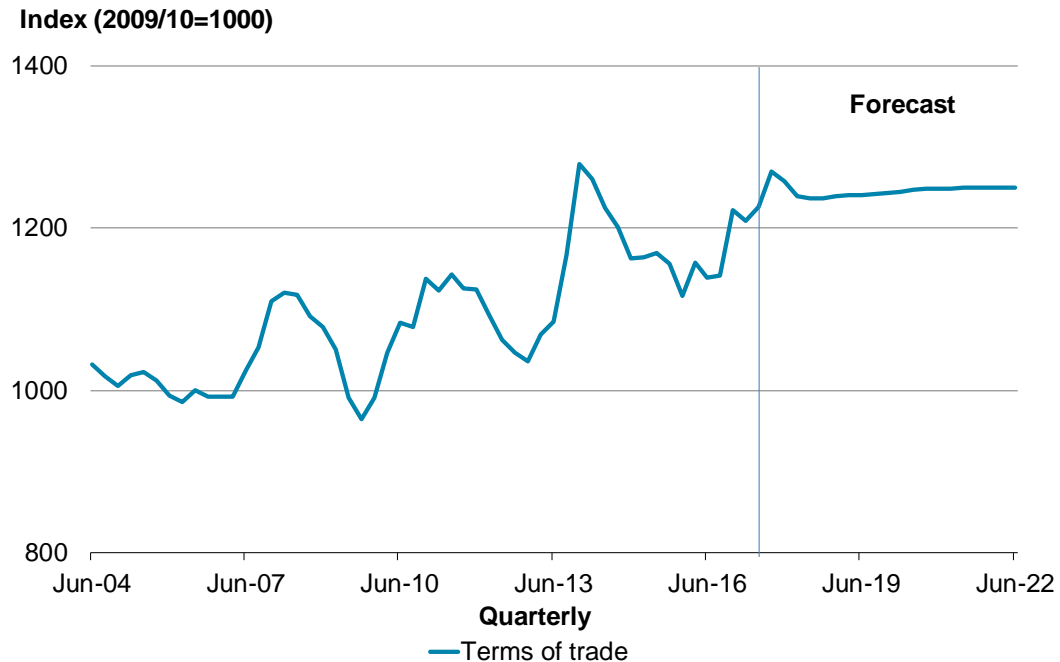


Private consumption supported

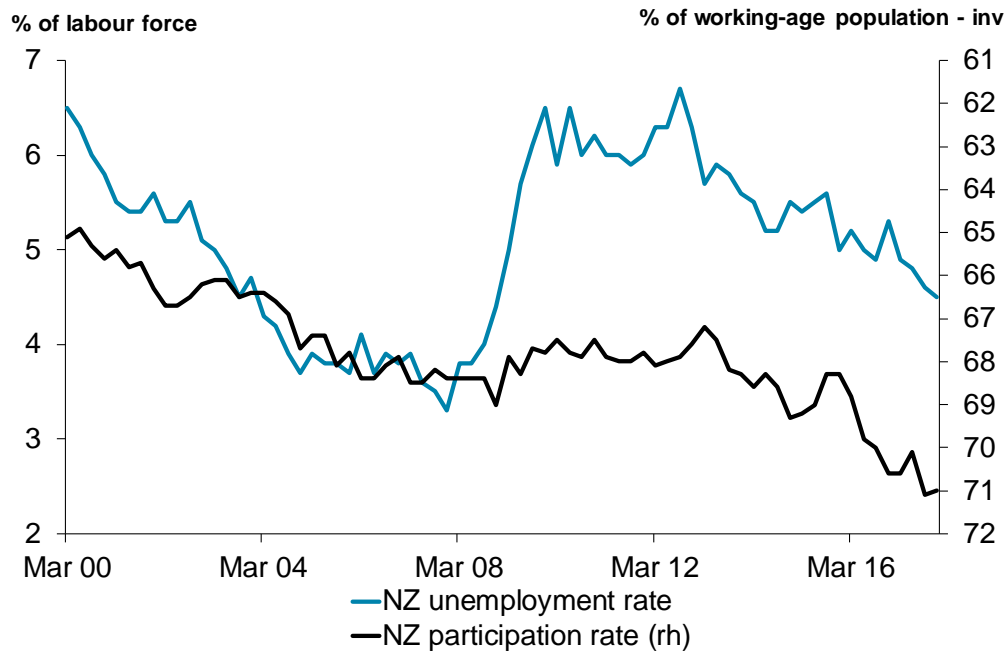
Annual average % change



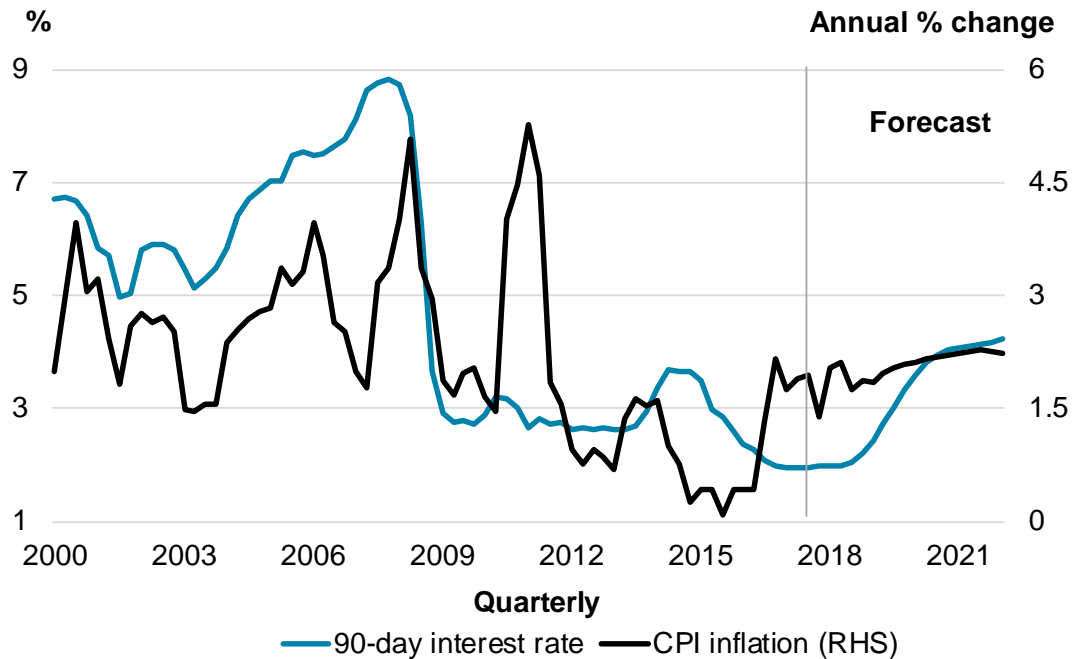
Terms of trade elevated



Labour market tightens



Gradual rise in inflation





Fiscal Priorities

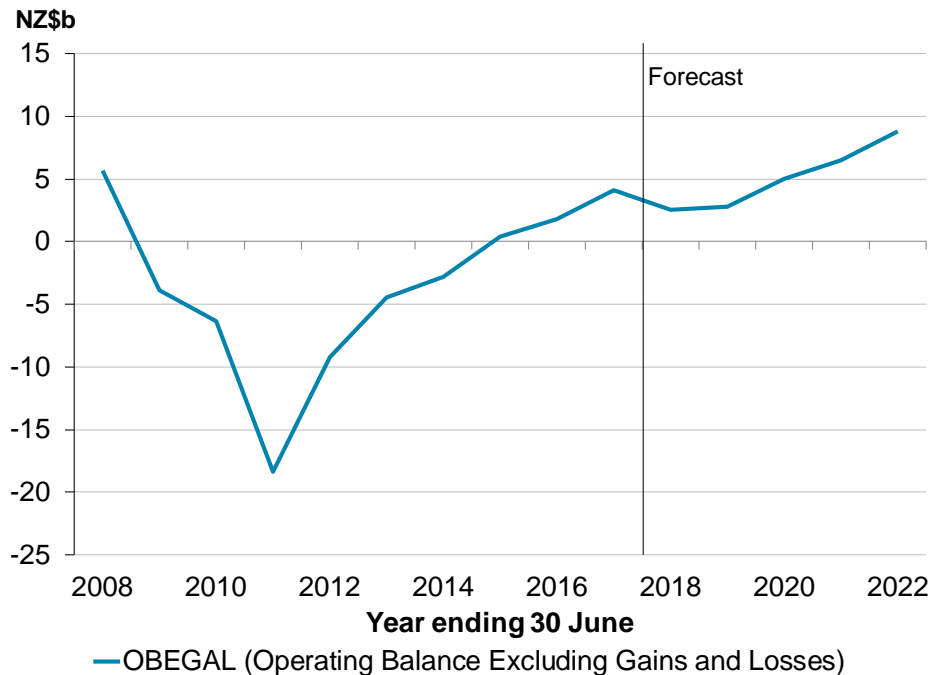


Budget Responsibility Rules

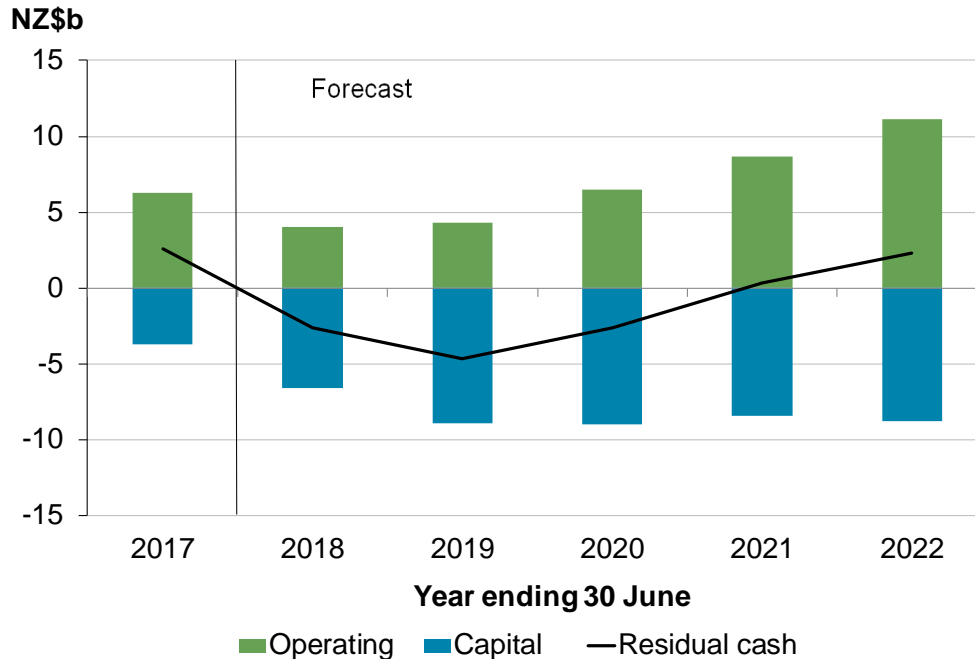
Current Government is committed to prudent fiscal strategy with 5 Budget Responsibility Rules:

- Deliver a sustainable operating surplus across an economic cycle.
- Reduce the level of net core Crown debt to 20 per cent of GDP within five years of taking office.
- Prioritise investments to address the long-term financial and sustainability challenges facing New Zealand.
- Take a prudent approach to ensure expenditure is phased, controlled and directed to maximise its benefits. The Government will maintain its expenditure to within the recent historical range of spending to GDP ratio.
- Ensure a progressive taxation system that is fair, balanced and promotes the long-term sustainability and productivity of the economy.

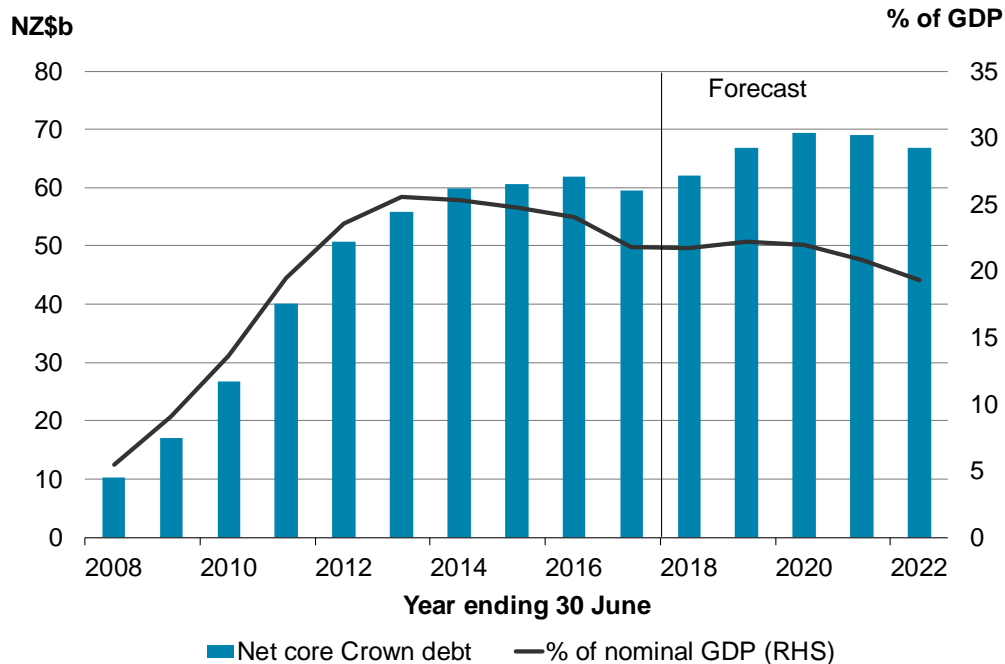
Operating surpluses sustained



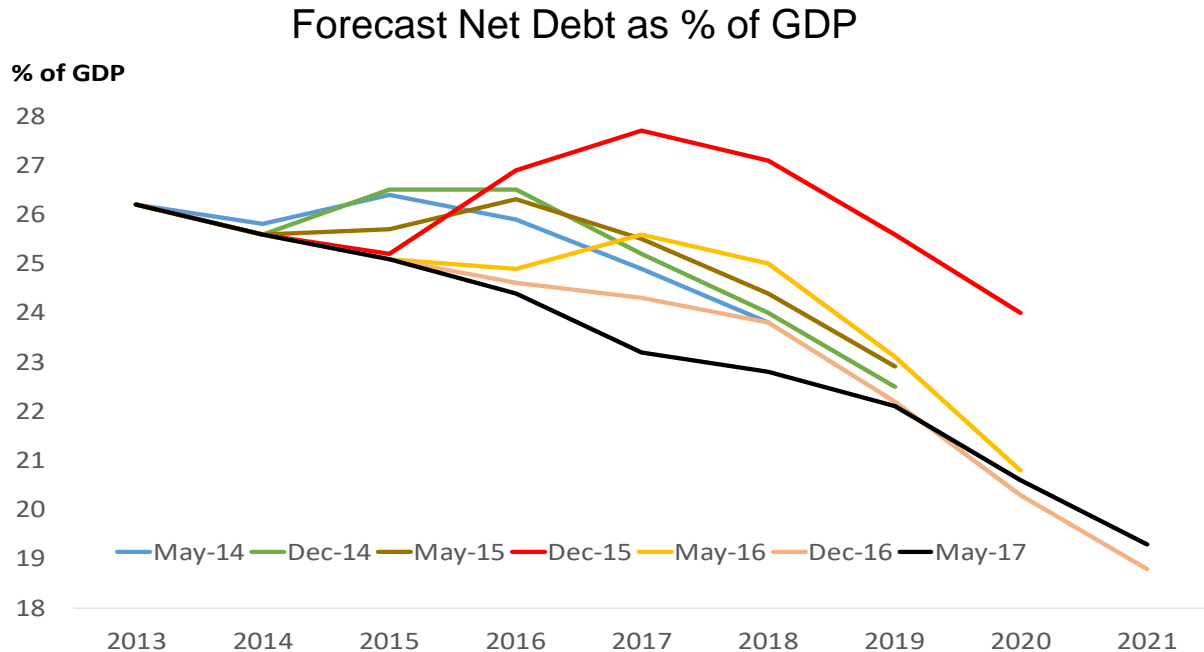
Capital spending impacts residual cash



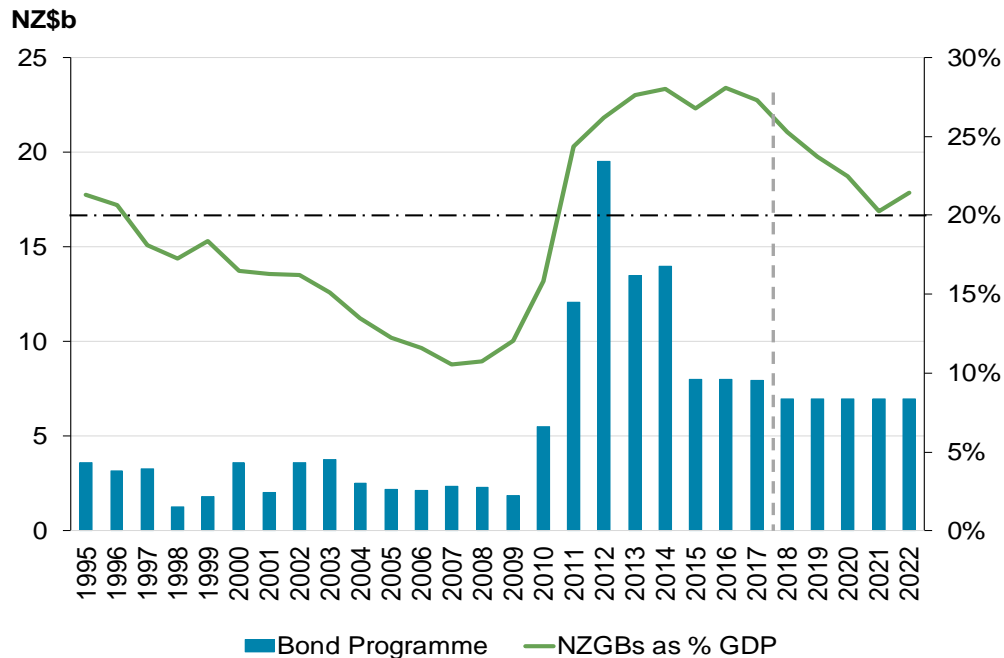
Net core Crown debt contained



Credibility in achieving forecasts



NZGBs maintained above 20% of GDP





New Zealand Government Bonds: Risk/Reward



Solid Credit Rating

Moody's

Aaa/Aaa (stable)

"New Zealand's credit profile reflects its very high economic resilience, very strong institutions and political effectiveness and a strong fiscal position compared to peers." July 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. The high level of external liabilities is New Zealand's main credit weakness"
Jan 2018

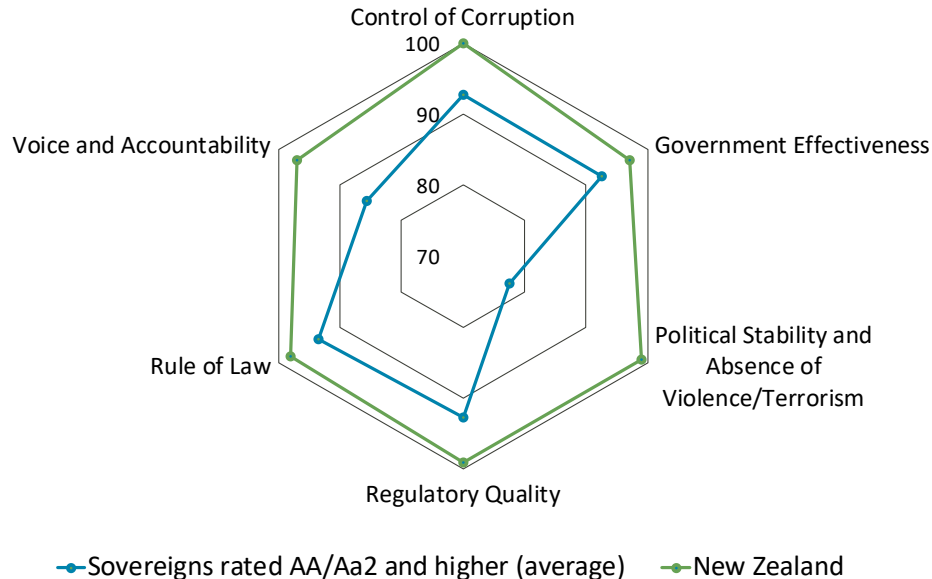
Fitch

AA+/AA (stable)

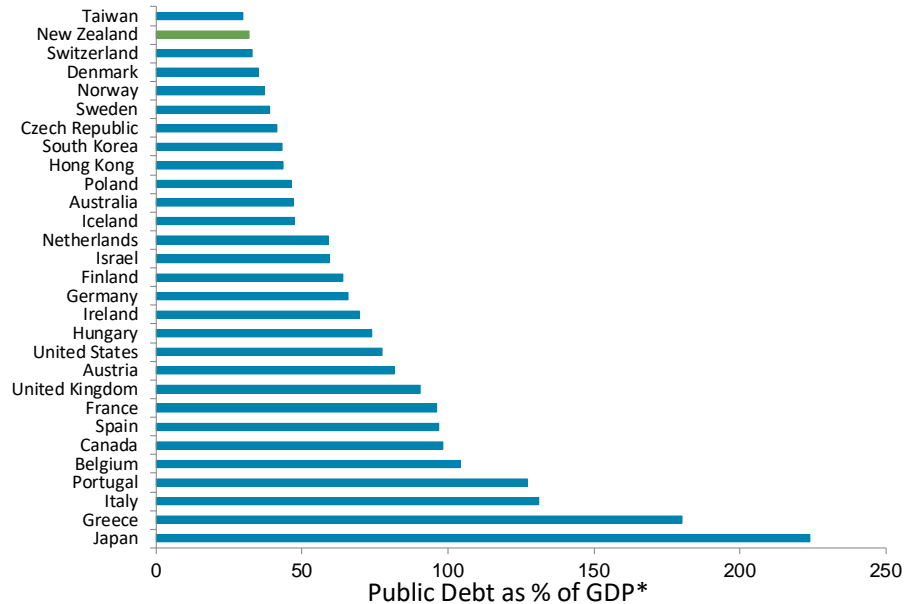
"New Zealand's 'AA' rating reflects the country's strong macroeconomic policy framework and prudent fiscal management, reinforced by governance standards and a business environment that are rated among the best globally by the World Bank." Mar 2017

Strong institutions

Worldwide Governance Indicators – World Bank (percentile rank)

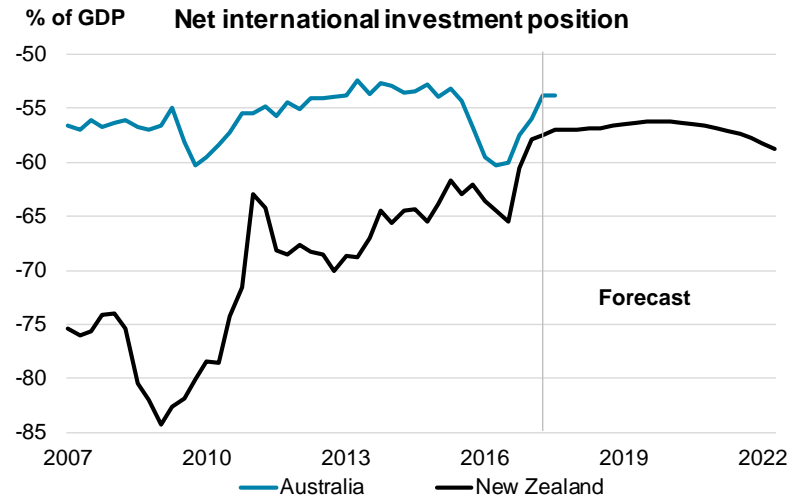
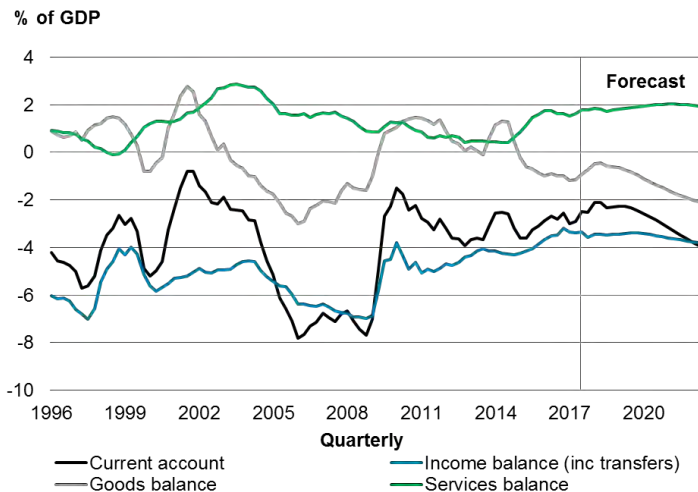


Strong balance sheet

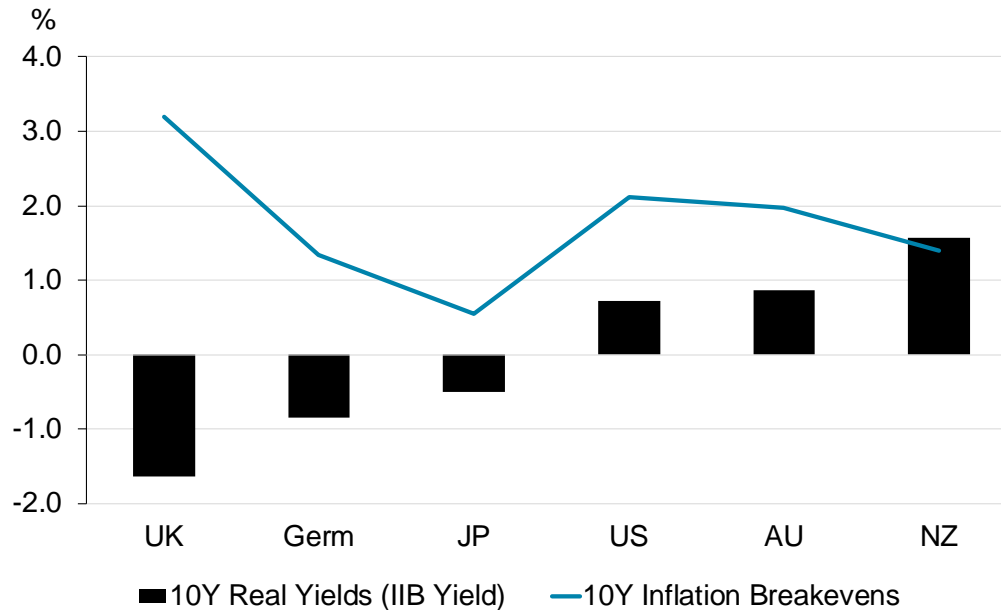


*Public debt compares the cumulative total of all government borrowings less repayments that are denominated in a country's home currency.

Improvement in NIIP



Attractive real yields



A wide-angle, high-angle photograph of a city harbor at night. The city is densely packed with buildings, their lights reflecting on the water. The harbor is filled with boats and a large pier. In the background, dark mountains rise against a twilight sky. The overall scene is vibrant and colorful, with a mix of warm and cool tones.

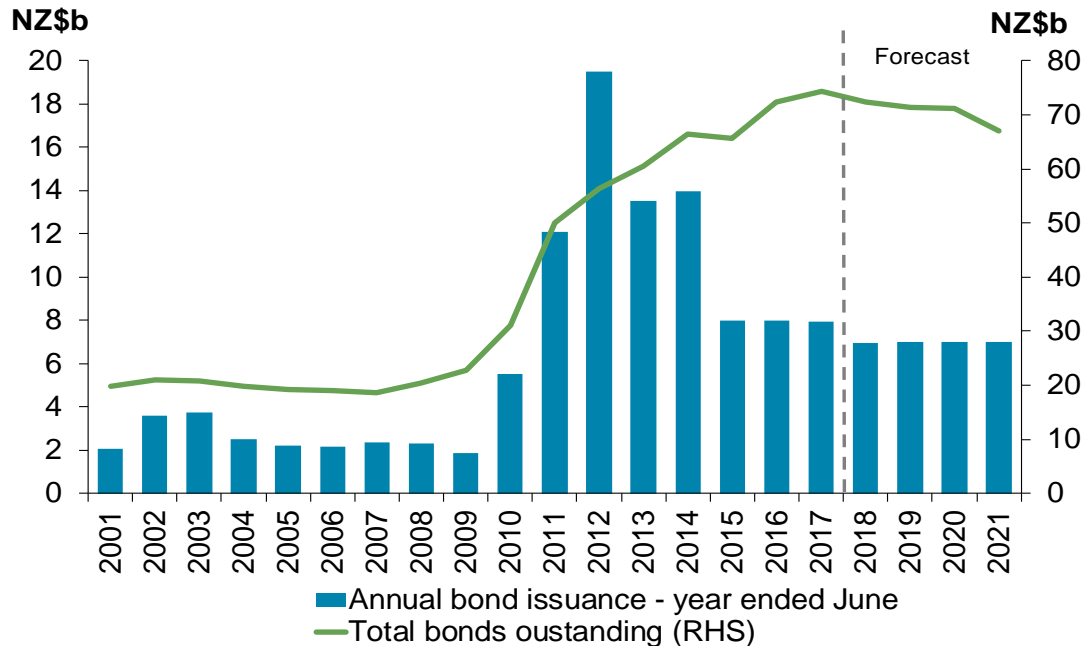
NZDMO: Strategy and Announcements



Funding strategy priorities

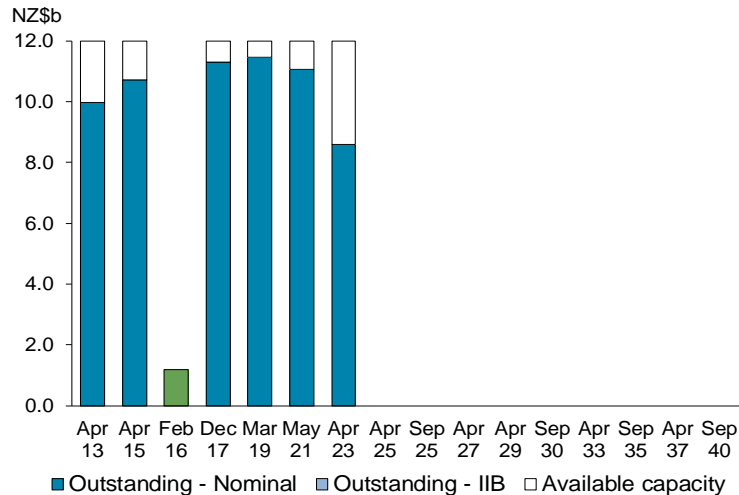
- NZDMO's debt funding strategy aims to minimise the Crown's borrowing costs over the long-term, with due consideration to risk. This requires:
 - balancing a debt portfolio structure appropriate for the Crown's balance sheet requirements with investor demand
 - building and maintaining depth, diversity and confidence of the investor base to ensure ongoing market access to funding, and
 - ensuring NZDMO's actions support secondary market liquidity and well functioning NZ capital markets to minimise borrowing costs through time.
- In implementing the debt funding strategy, NZDMO aims to execute funding programmes in a **transparent**, **even-handed** and **consistent** manner.

Steady issuance profile

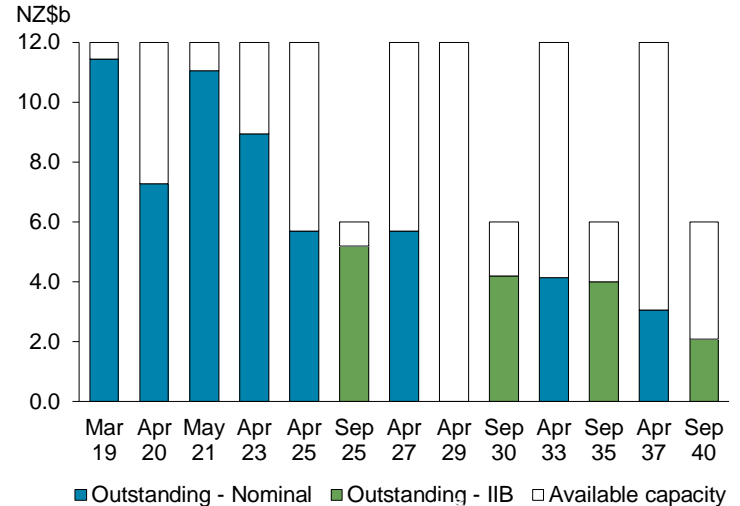


Evolution of portfolio structure (I)

From Early-2013

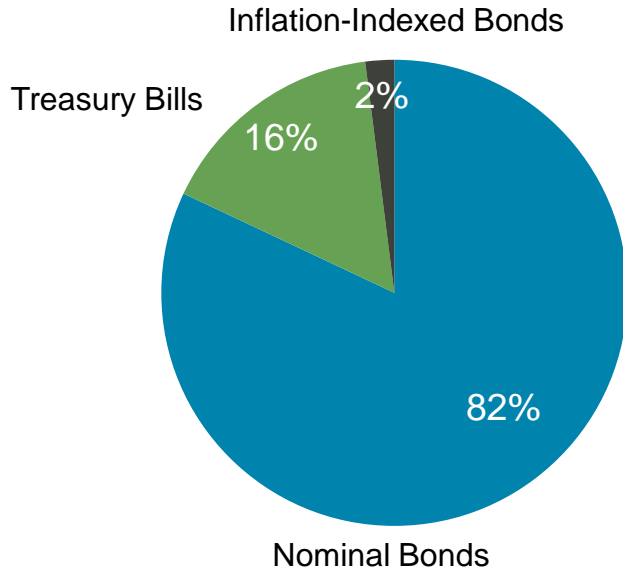


To Current

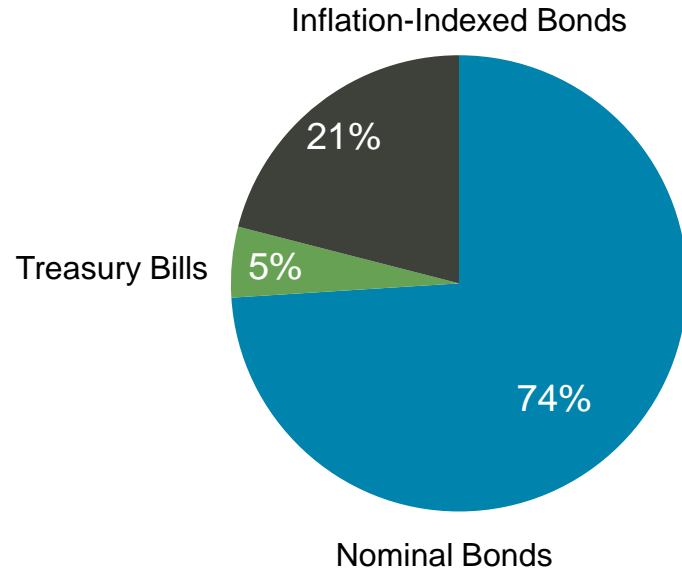


Evolution of portfolio structure (II)

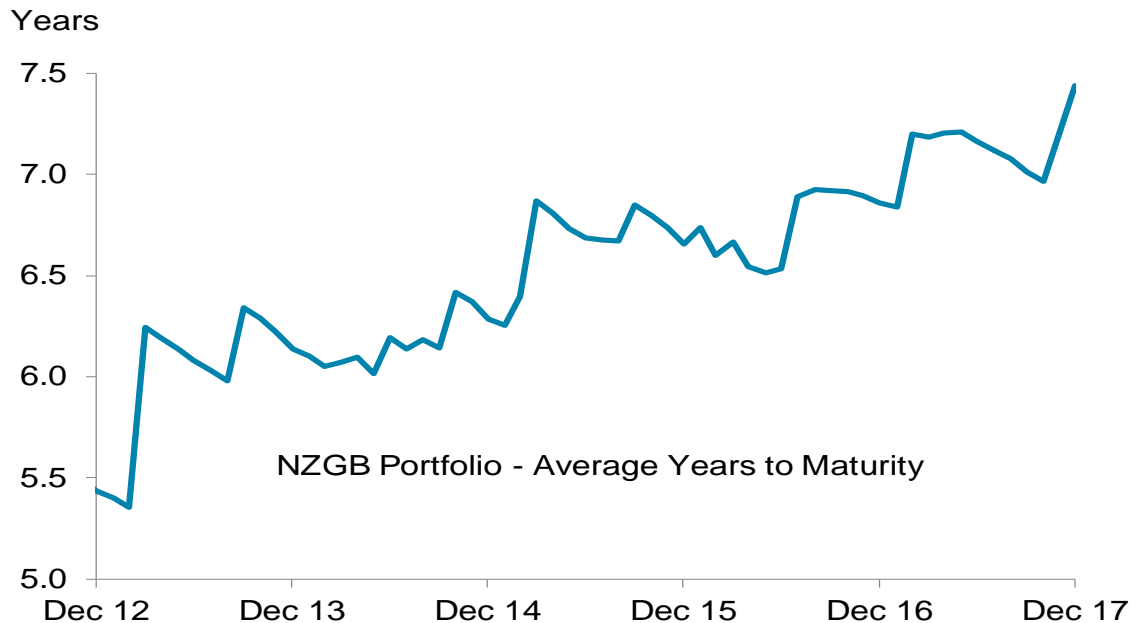
From End-2012



To End-2017



Evolution of portfolio structure (III)

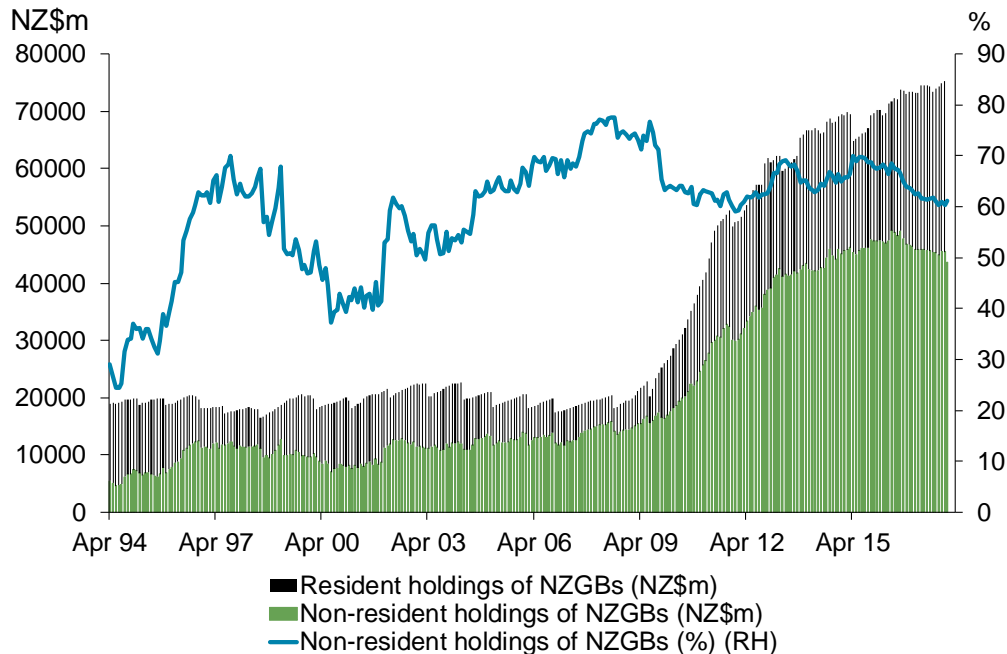




Supporting liquidity

- Stable levels of recent, current and forecast funding programmes
- Levels of outstanding bonds at 3-4 times pre GFC levels
- Government commitment to minimum level of NZGBs on issue
- Quarterly tender schedule announcements: fixed amounts and specific maturities
- Capacity to tender two nominal maturities per month
- New bonds launched via syndication for immediate volume
- Use of benchmark lines
- Focus on domestic market issuance and core products
- Management of cash flows around upcoming bond maturities
- Broadly match Australian Commonwealth Government bond maturities

Maintaining diverse investor base



Recent announcements

Forecast Domestic Bond Programme – HYEUFU, December 2017

Year ending 30 June (face value)	2018	2019	2020	2021	2022	Total
Gross NZGB issuance (\$ billion)	7.0	7.0	7.0	7.0	7.0	35.0
NZGB maturities and repurchases (\$ billion)	9.1	7.9	7.3	11.1	0.0	35.3
Net NZGB issuance (\$ billion)	-2.1	-0.9	-0.3	-4.1	7.0	-0.3
NZGBs on issue (\$ billion)	72.3	71.4	71.2	67.1	74.1	n/a
NZGBs on issue (percent of GDP)	25.2%	23.7%	22.5%	20.2%	21.4%	n/a

- Reiterated intention to syndicate NZGB 20 April 2029 before 30 June 2018
- Up to NZ\$5b of NZGB 15 March 2019 to be repurchased prior to 30 June 2018
- Maintain levels of NZGBs on issue at not less than 20% of GDP over time

Coming up

Events

- Syndication of NZGB 20 April 2029 before 30 June 2018
- Commence repurchases of NZGB 15 March 2019
- Economic and Fiscal Updates: Budget (May), Half-Year (Dec)
- Quarterly bond tender schedule release: End-Mar, -Jun, -Sep, -Dec
- Biannual release of New Zealand Government Securities Overview

Communications

- Subscribe for email updates from the NZDMO: info@nzdmo.govt.nz
- For further information see: <https://www.nzdmo.govt.nz> or
- <https://www.treasury.govt.nz>
- Contacts: Sarah Vrede, Head of New Zealand Debt Management Office
Kim Martin, Principal Strategist

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