



New Zealand Government Debt Market Outlook

June 2018

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Overview



New Zealand Economic Outlook



New Zealand Government: Fiscal Priorities



New Zealand Government Bonds:
Risk/Reward

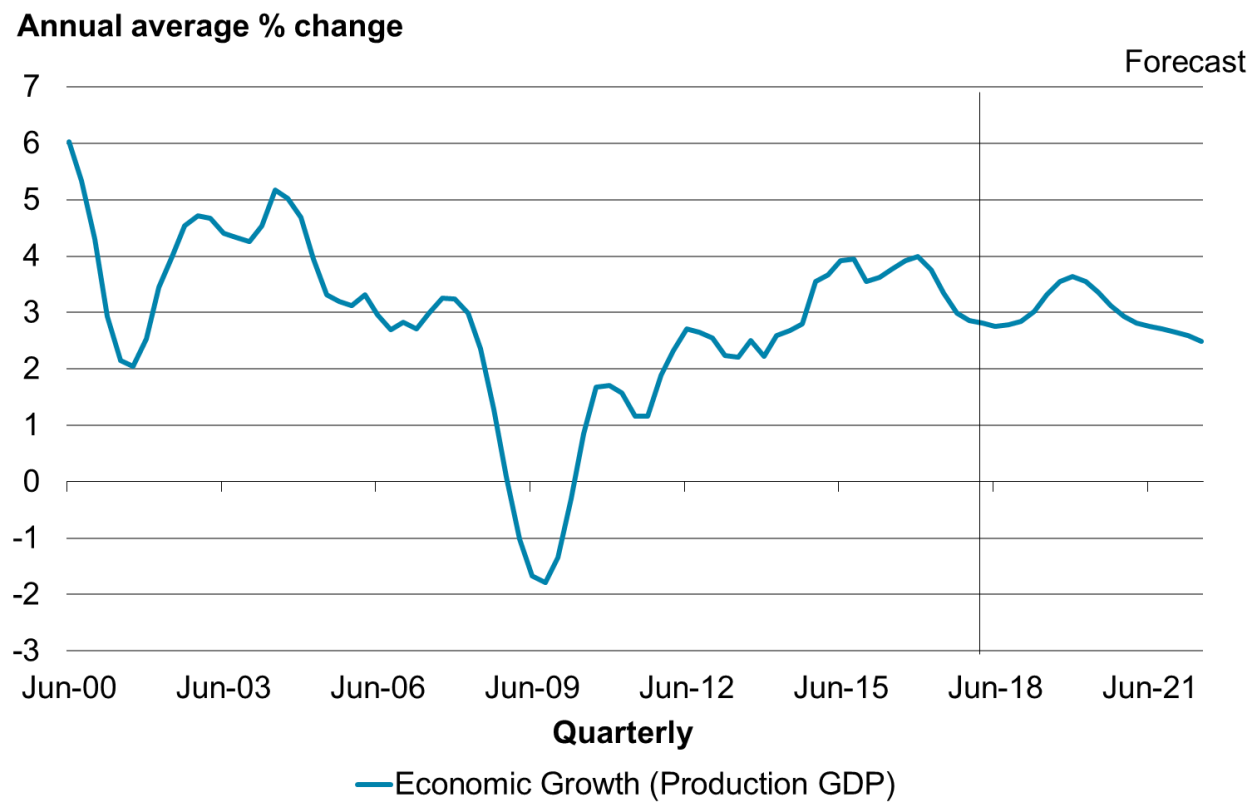


NZDMO: Strategy and Announcements



Economic Outlook

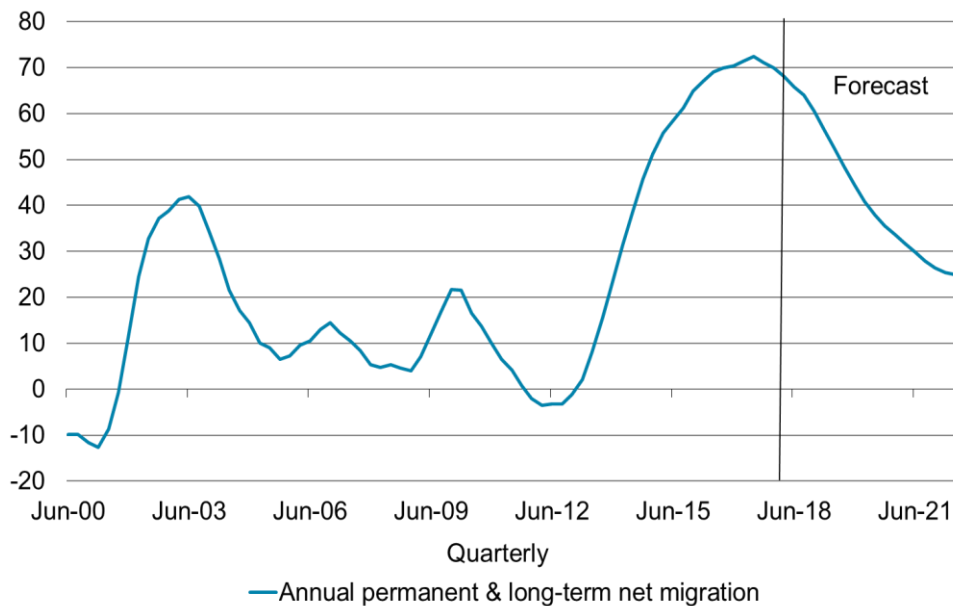
Growth remains robust



Source: The Treasury, BEFU 2018

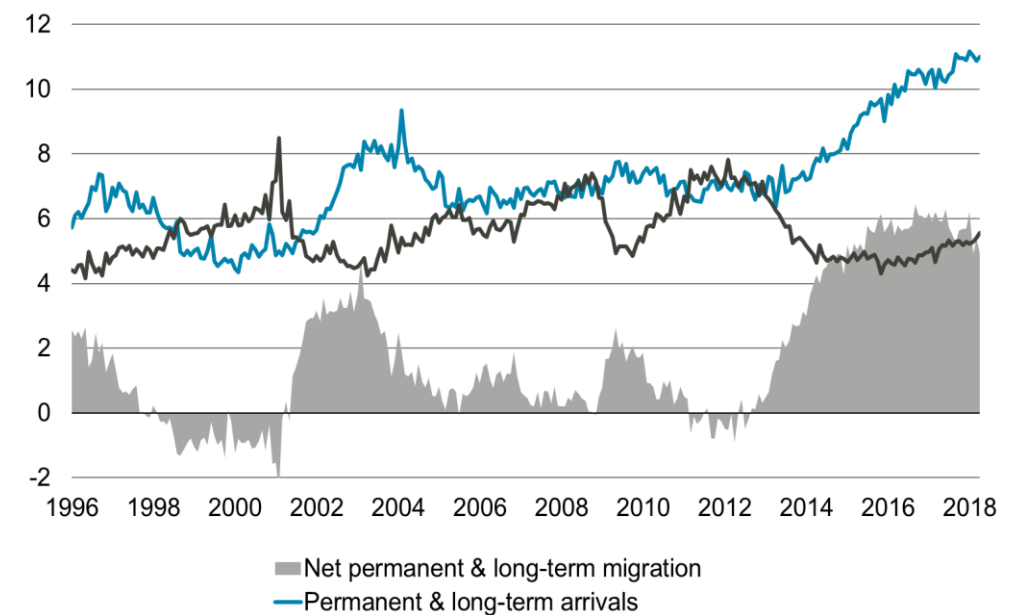
Net migration to moderate

Net inflow (000s)



Source: The Treasury, BEFU 2018

per month (000s)

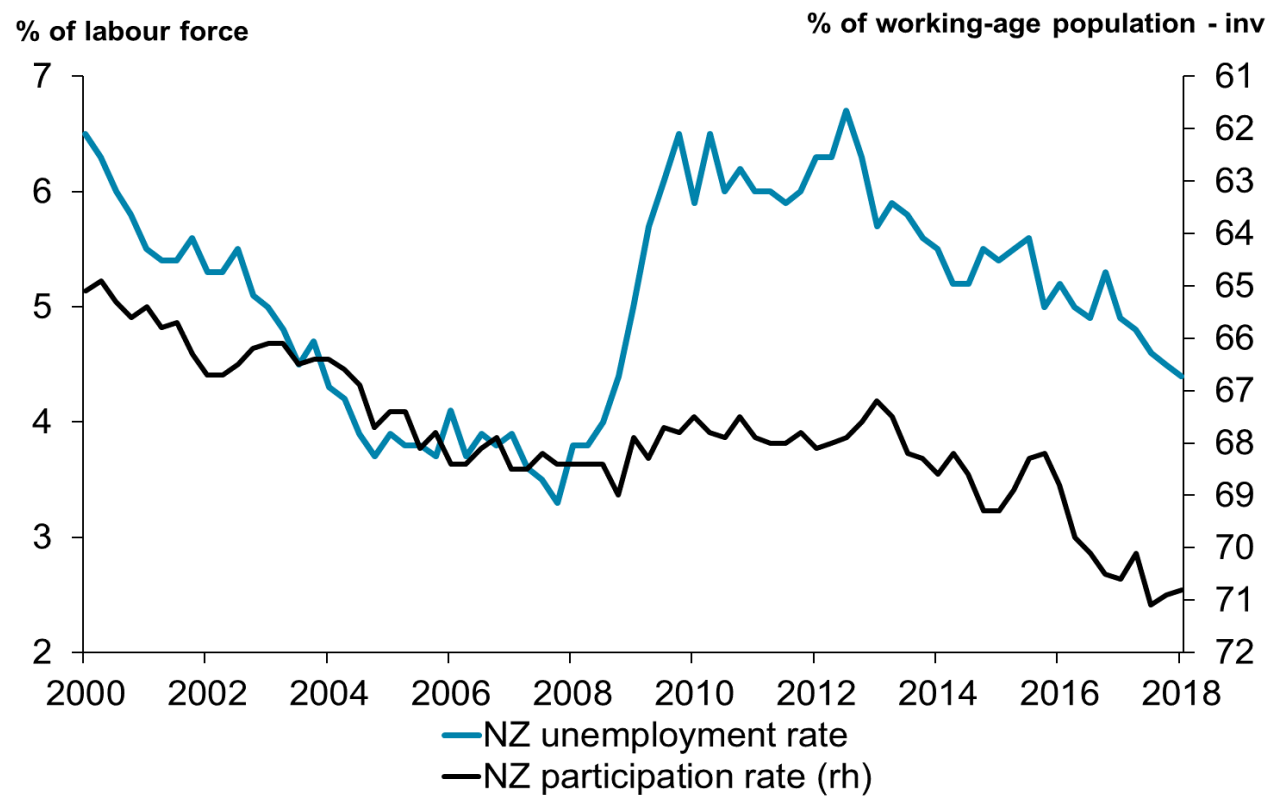


Terms of trade elevated



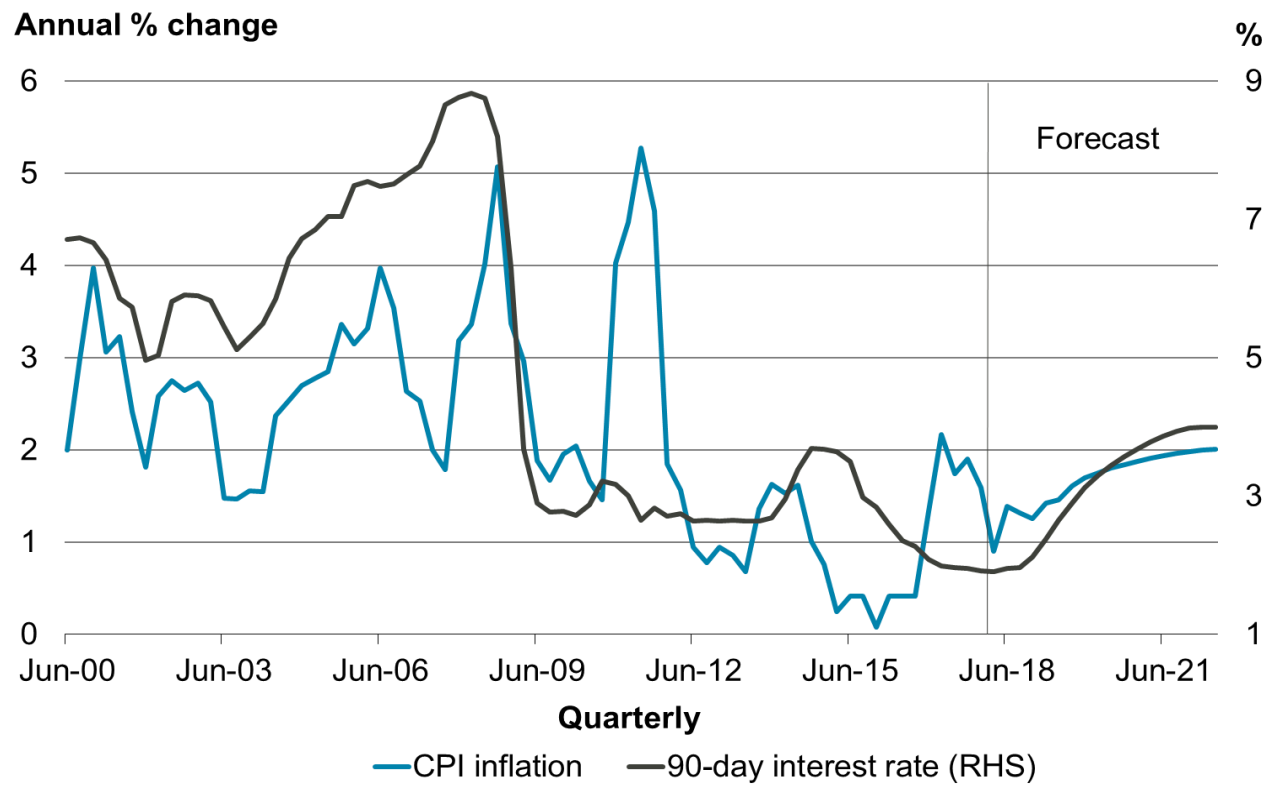
Source: The Treasury, BEFU 2018

Labour market tightening



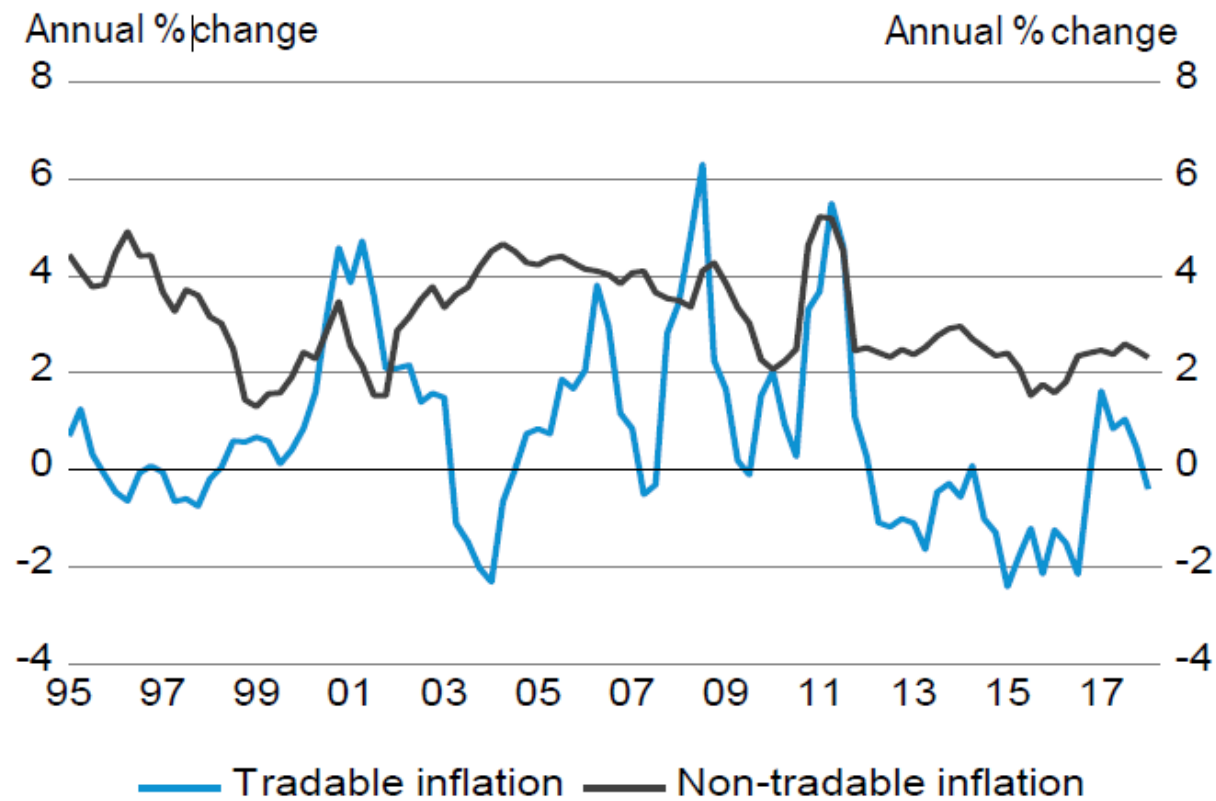
Source: Bloomberg

Gradual rise in inflation



Source: The Treasury, BEFU 2018

Inflation divergence





Fiscal Priorities



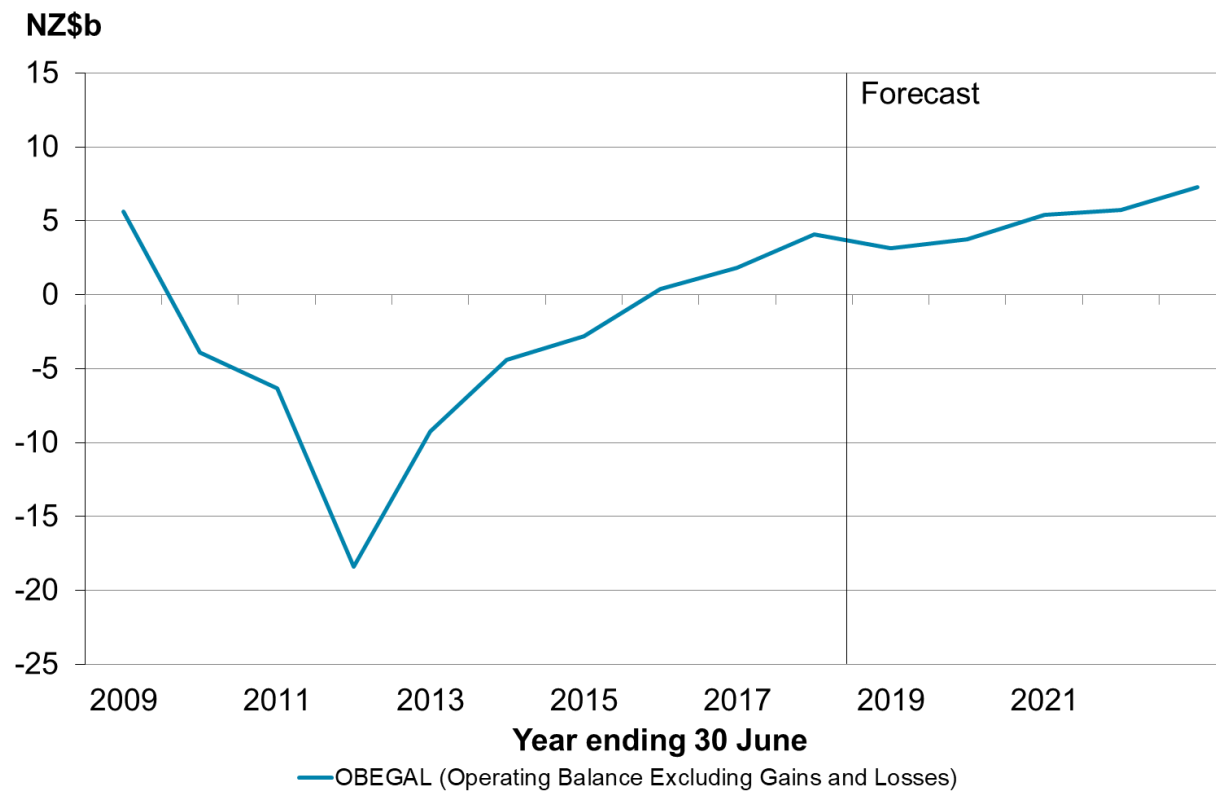
Budget Responsibility Rules

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.

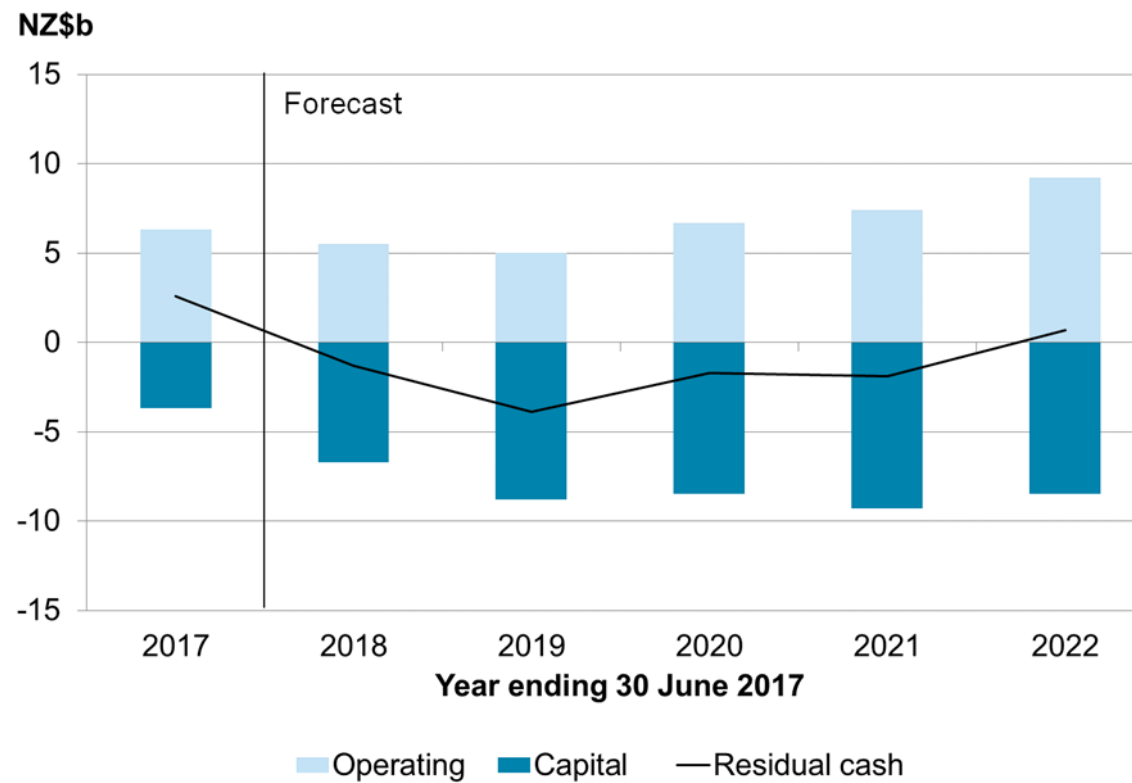
Source: Fiscal Strategy Report, Budget 2018

Operating surpluses sustained



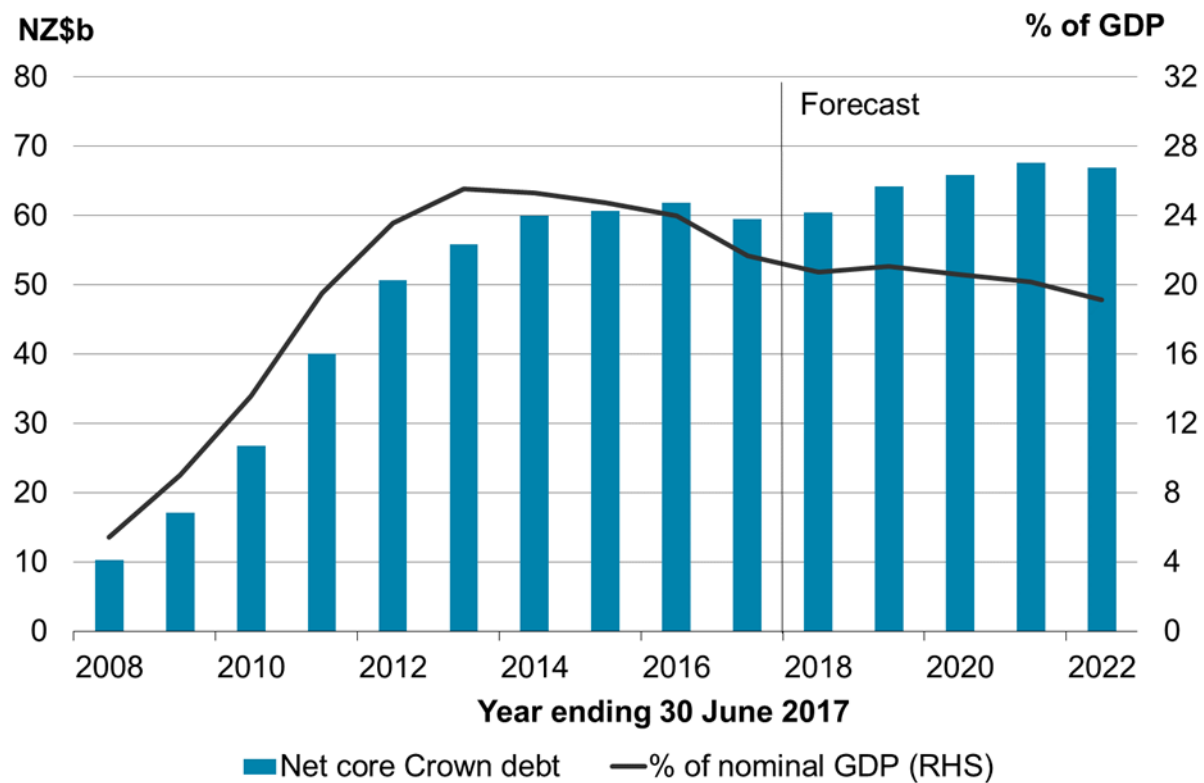
Source: The Treasury, BEFU 2018

Capital spending impacts residual cash



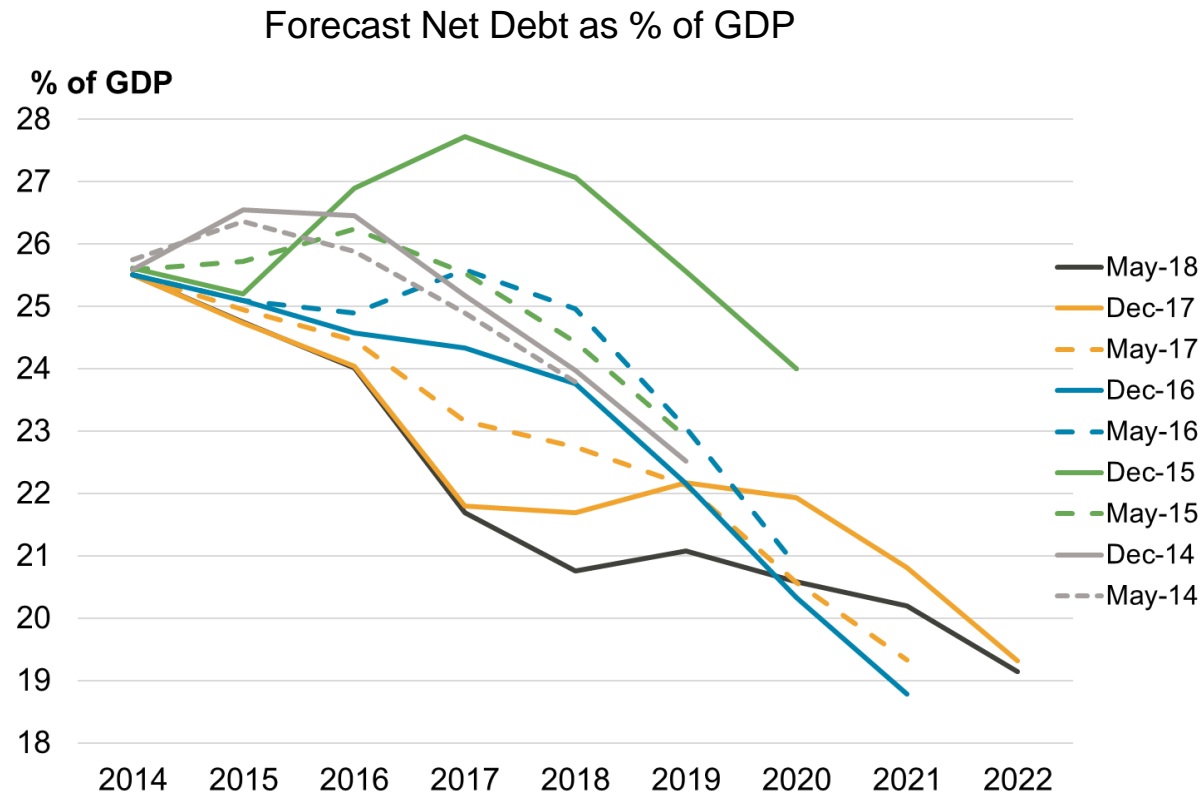
Source: The Treasury, BEFU 2018

Net core Crown debt contained



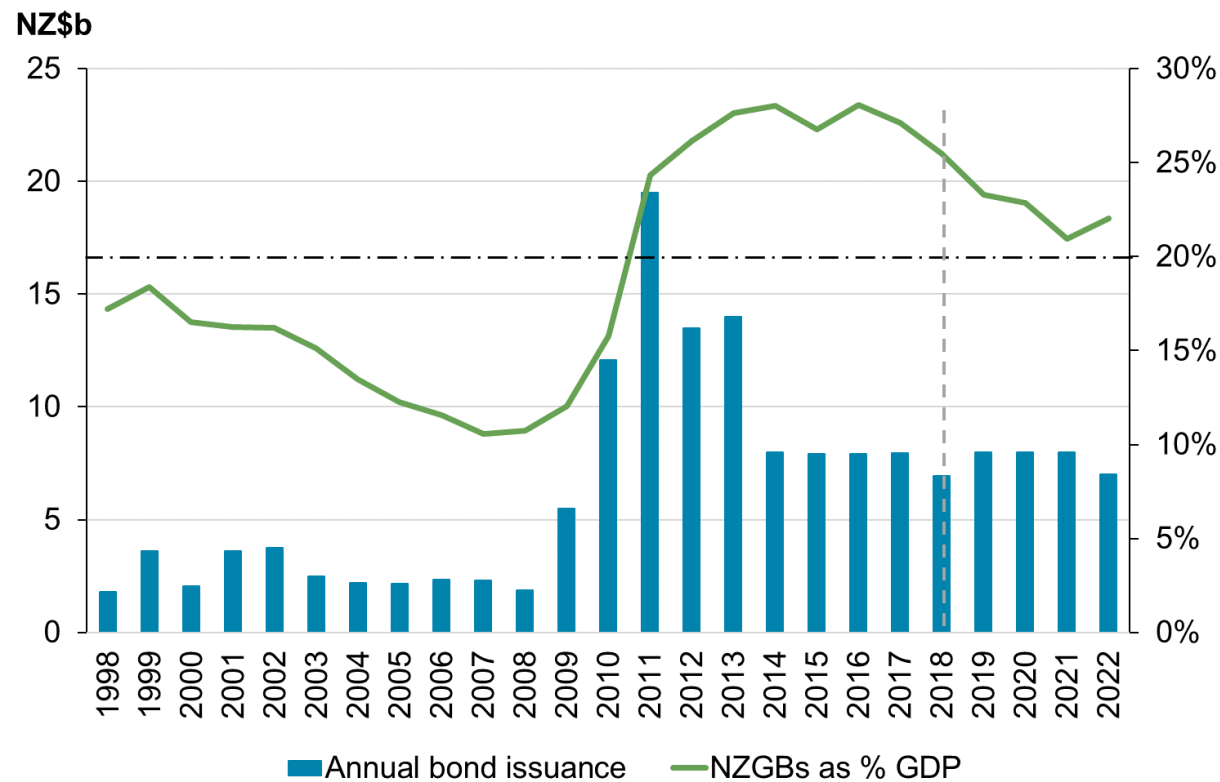
Source: The Treasury, BEFU 2018

Credibility in achieving forecasts



Source: Moody's Investor Service, Standard & Poor's, Fitch Ratings

NZGBs maintained above 20% of GDP



Source: The Treasury's NZDMO



New Zealand Government Bonds: Risk/Reward

A photograph of several white wind turbines on a green, hilly landscape. The turbines are positioned at different heights and angles, with the sea visible in the background under a clear sky.

Solid Credit Rating

Moody's
Aaa/Aaa (stable)

"The credit profile of New Zealand (Aaa stable) reflects its very high economic resilience, very strong institutions and policy effectiveness, and a strong fiscal position compared with its peers." April 2018

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

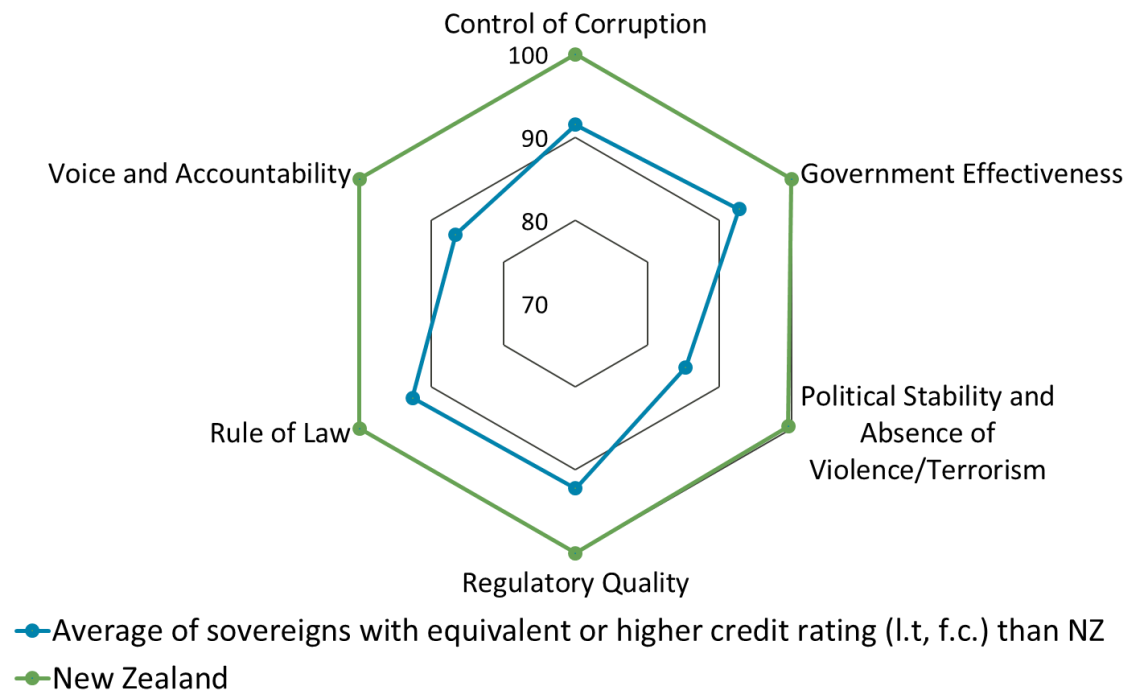
Fitch
AA+/AA (stable)

"New Zealand's ratings are underpinned by very high governance standards, a strong policy framework and institutions, and a commitment to prudent fiscal management." Mar 2018

Source: Moody's Investor Service, Standard & Poor's, Fitch Ratings

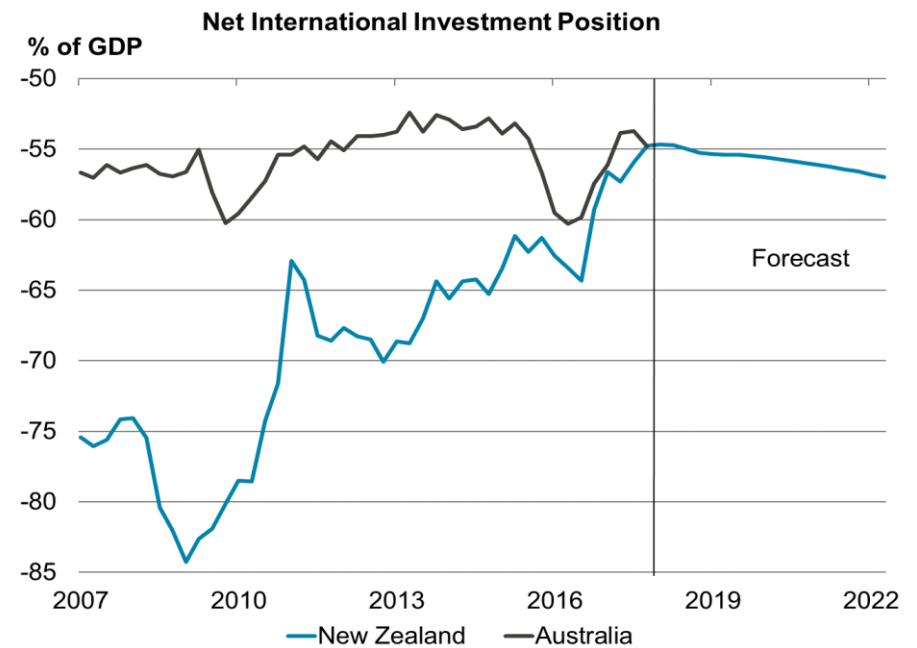
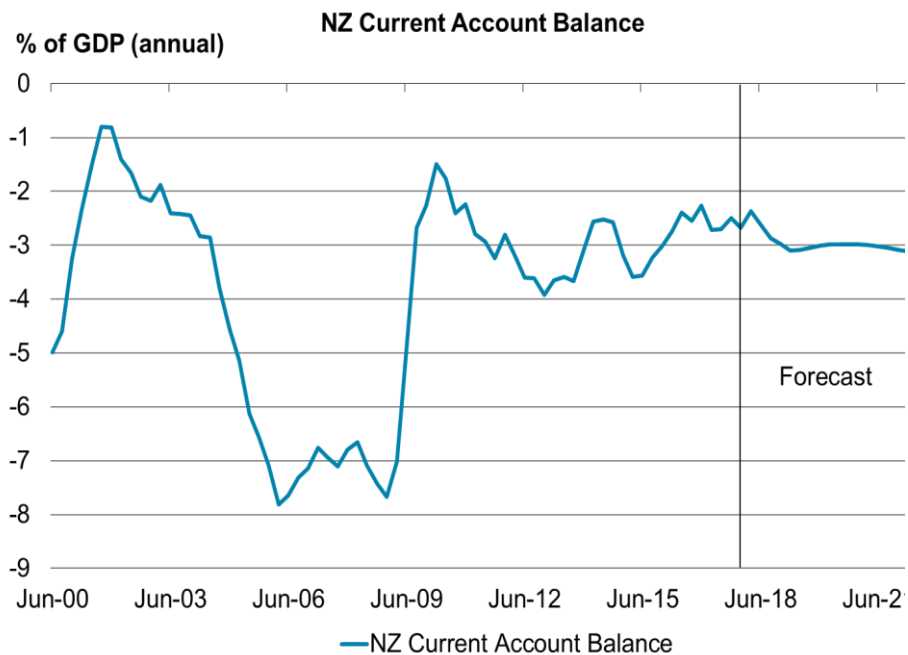
Strong institutions

Worldwide Governance Indicators – World Bank (percentile rank)



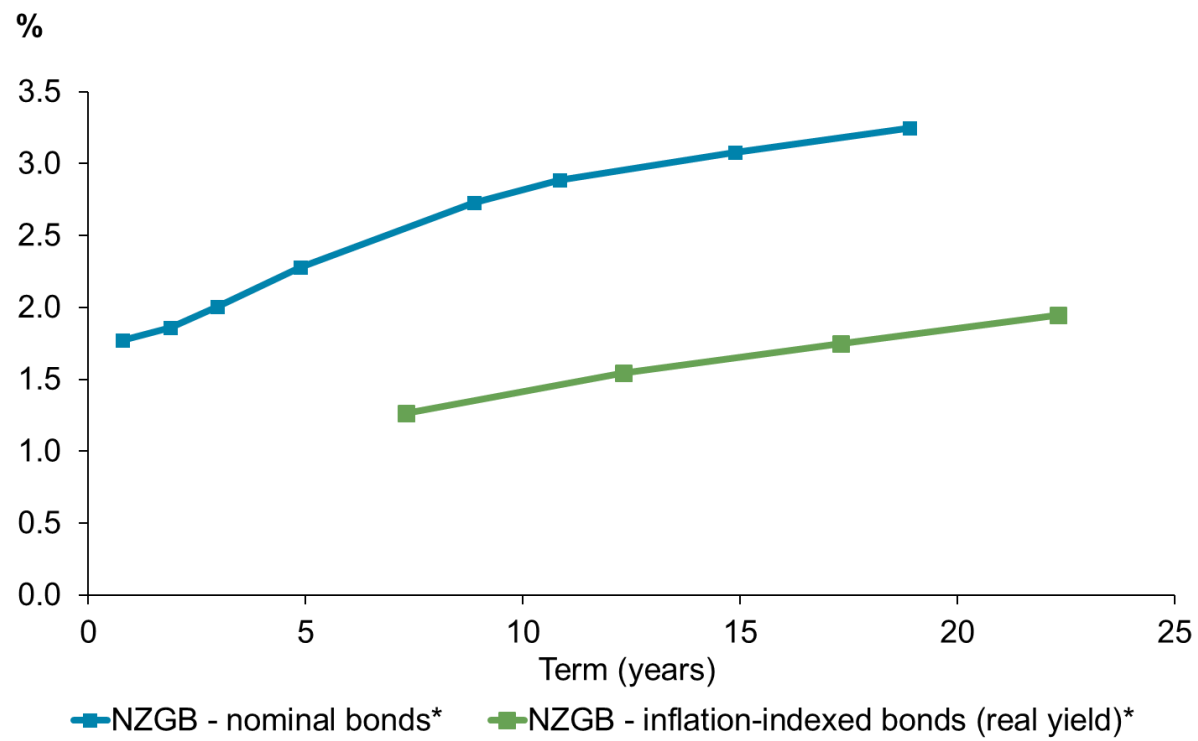
Source: World Bank Worldwide Governance Indicators 2016

Improvement in external balance



Source: The Treasury

NZGB yields



* yields (mid rate) as at 31 May, 2018

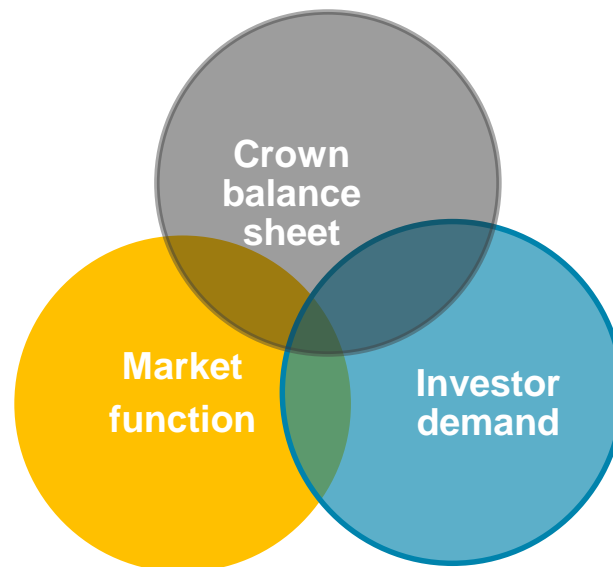
Source: Bloomberg

A wide-angle, high-angle photograph of a city harbor at night. The city is illuminated with various lights, reflecting on the water. The harbor is filled with boats and a large pier. In the background, there are dark mountains under a twilight sky. The text "NZDMO: Strategy and Announcements" is overlaid in white at the bottom.

NZDMO: Strategy and Announcements

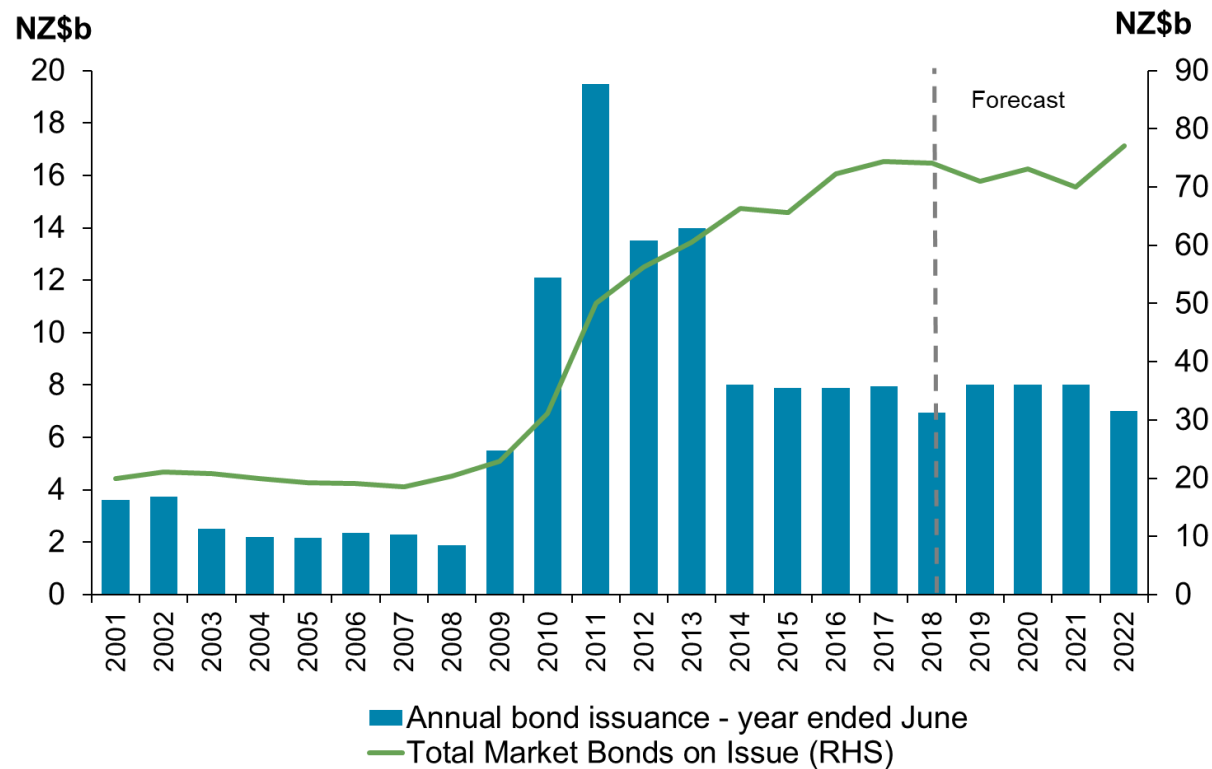
Funding strategy priorities

NZDMO's debt funding strategy aims to minimise the Crown's borrowing costs over the long-term, with due consideration to risk.



Implement in a transparent, even-handed and consistent manner.

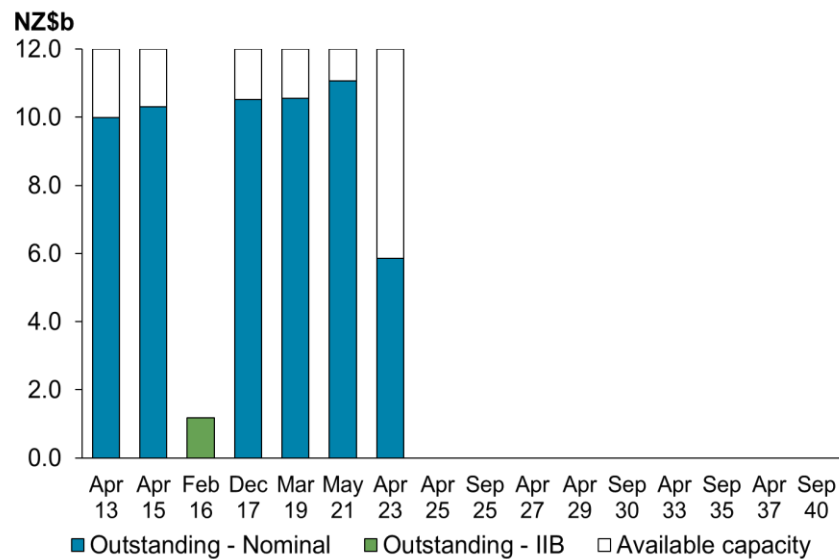
Changing funding needs



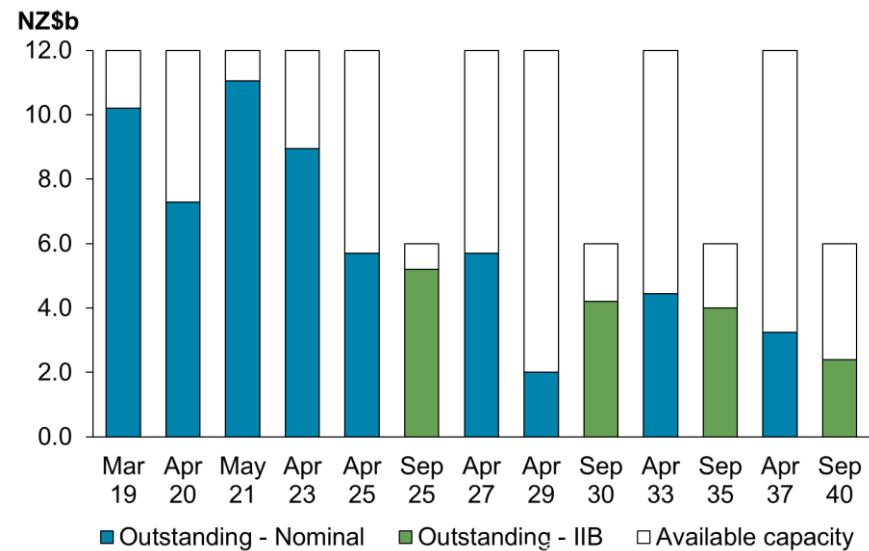
Source: The Treasury's NZDMO

Evolution of portfolio structure (I)

From End-2012

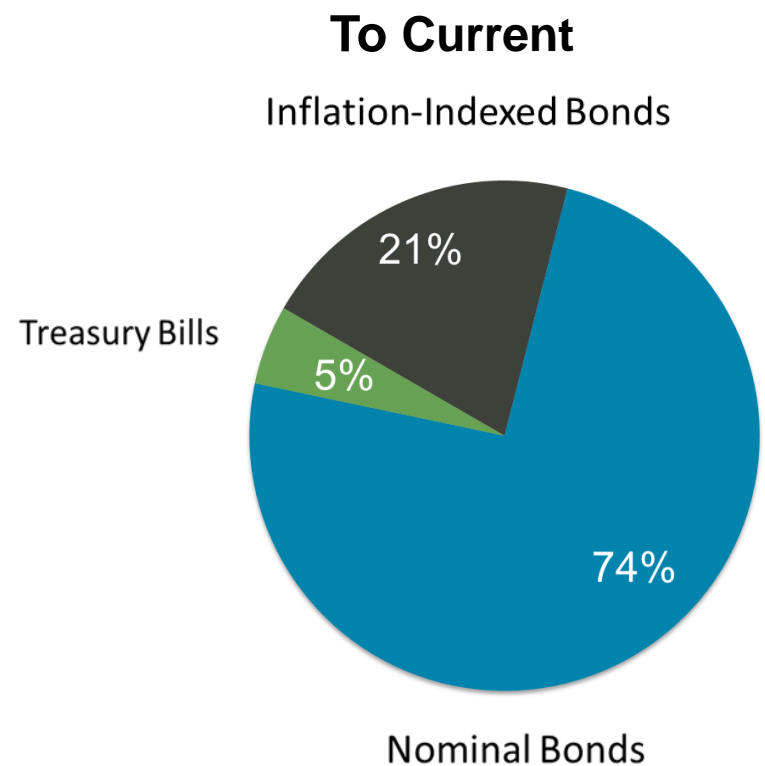
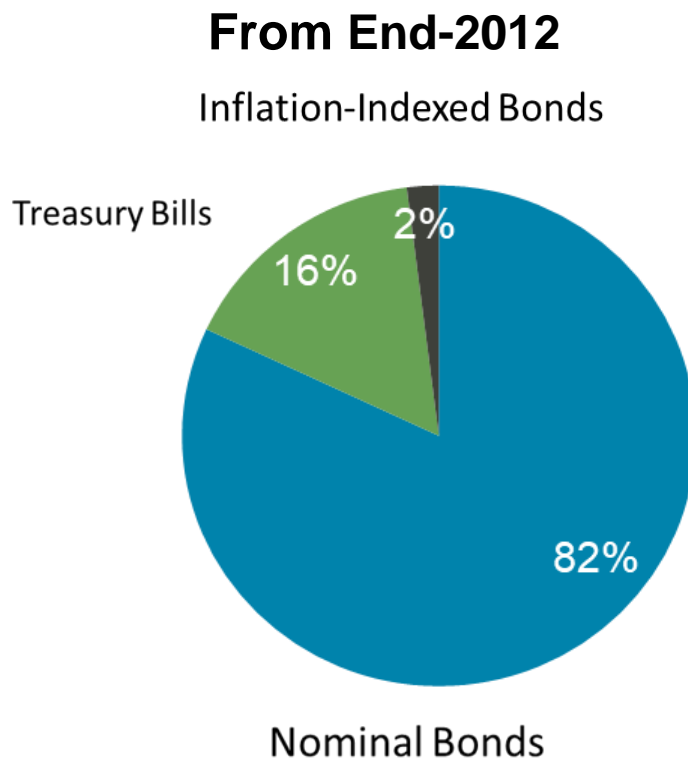


To Current

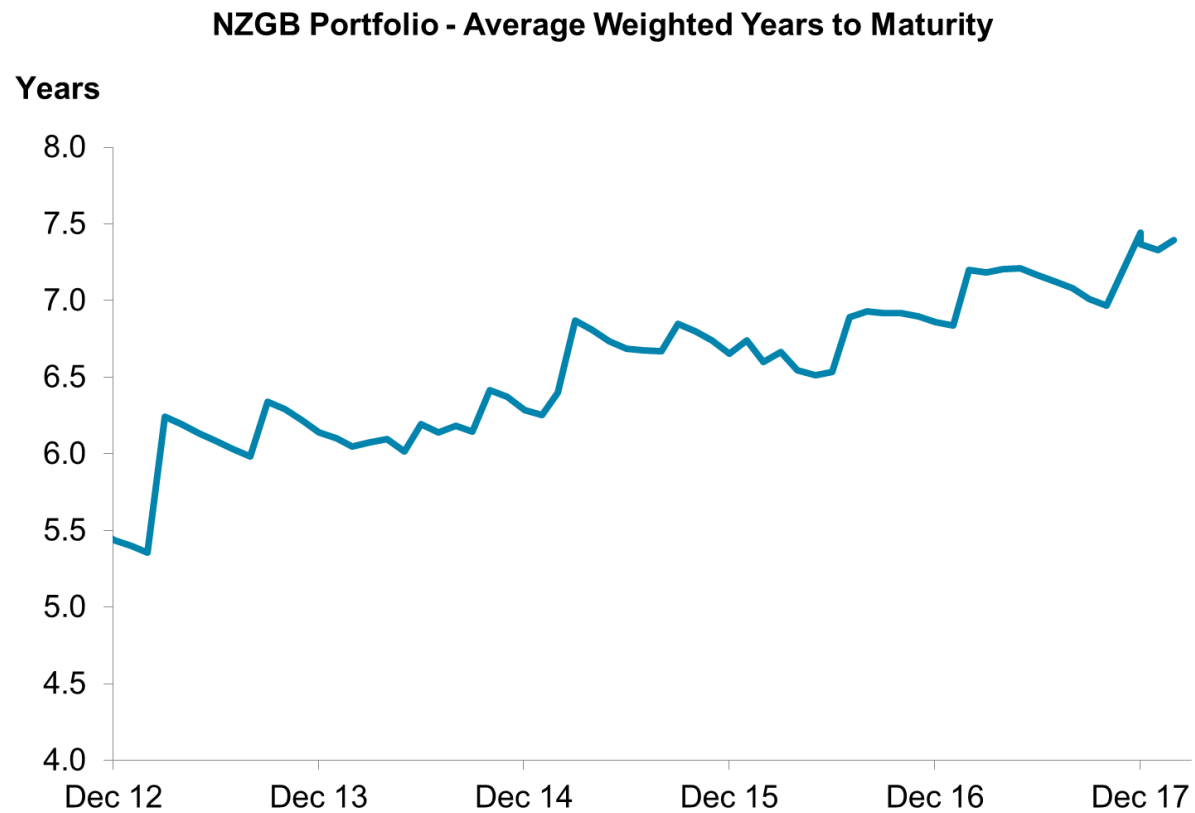


Source: The Treasury's NZDMO

Evolution of portfolio structure (II)

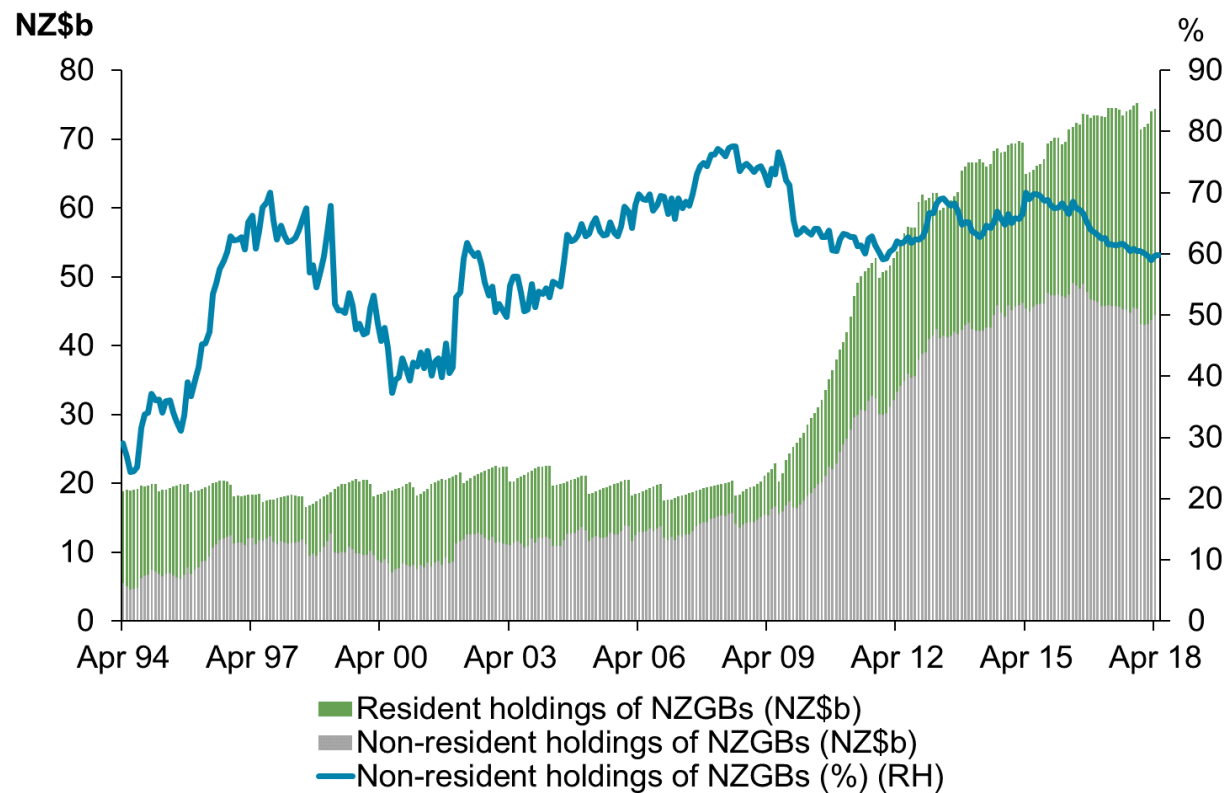


Evolution of portfolio structure (III)



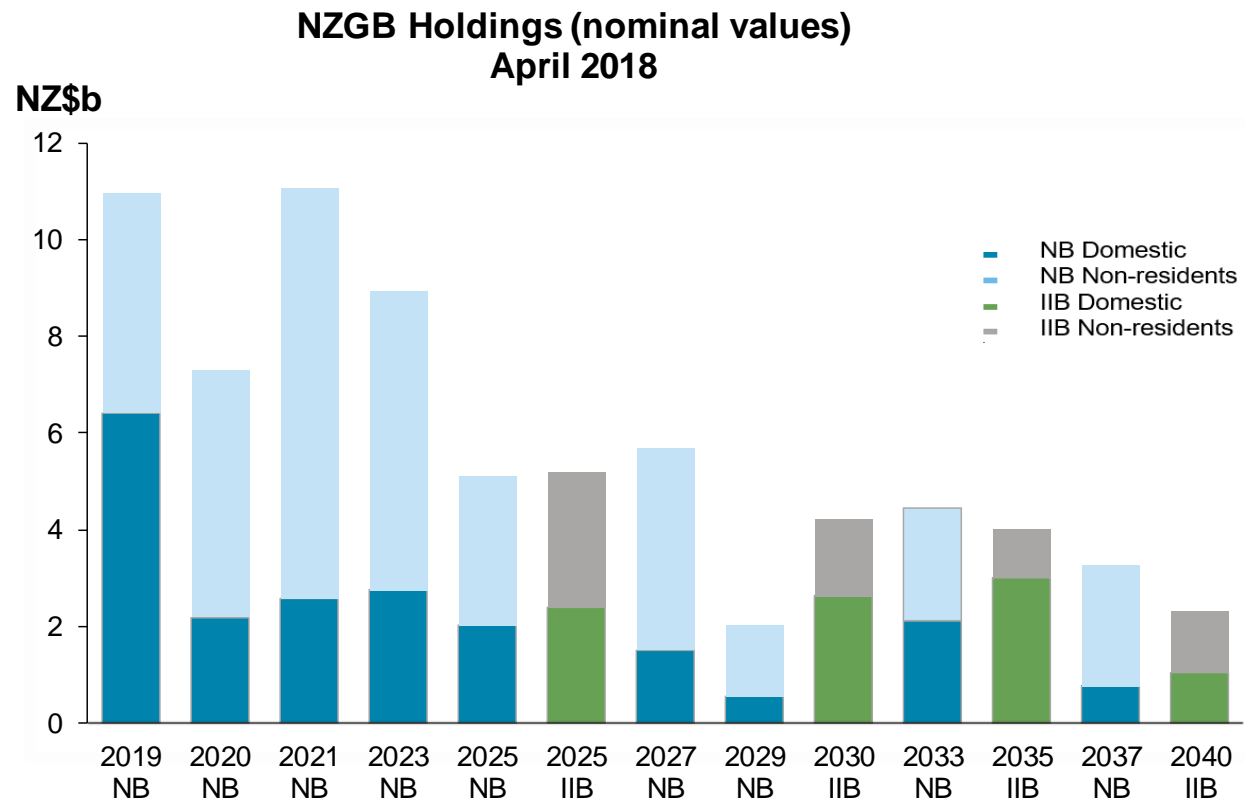
Source: The Treasury's NZDMO

Maintaining diverse investor base



Source: Bloomberg, RBNZ

Current snapshot of non-resident holdings



Source: RBNZ

Recent announcements

Forecast Borrowing Programme – BEFU, May 2018

Year Ending 30 June (face value)	2018	2019	2020	2021	2022	Total
Gross NZGB issuance (NZD billion)	7.0	8.0	8.0	8.0	7.0	38.0
NZGB maturities and repurchases (NZD billion)	7.2	11.2	5.8	11.1	0.0	35.3
Net NZGB issuance (NZD billion)	-0.2	-3.2	2.2	-3.1	7.0	2.7
NZGBs on issue (NZD billion)	74.2	71.0	73.2	70.1	77.1	n/a
NZGBs on issue (percent of GDP)	25.0%	23.3%	22.9%	20.9%	22.0%	n/a

Year ending 30 June (face value)	2018	2019	2020	2021	2022
Forecast T-Bills on issue (\$ billion)	4	2	2	4	2

- NZDMO to implement a more flexible approach to T-Bill issuance from 1 July
- Inflation-indexed bond issuance is expected to be \$1 billion of 2018/19 programme
- NZDMO plans to commence a repurchase programme of 15 April 2020 bond in 2018/19
- Forecast NZGBs on issue are consistent with the Government's commitment to maintain levels of NZGBs on issue at not less than 20% of GDP over time. Adjustments to the programme volumes were not required to specifically meet this commitment

Coming up

Events

- Economic and Fiscal Updates: Half-Year (Dec), Budget (May)
- Quarterly bond tender schedule release: End-Jun, -Sep, -Dec, -Mar
- 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