

New Zealand Government Debt Market Outlook

March 2018



Overview



New Zealand Economic Outlook



New Zealand Government: Fiscal Priorities



New Zealand Government Bonds:
Risk/Reward

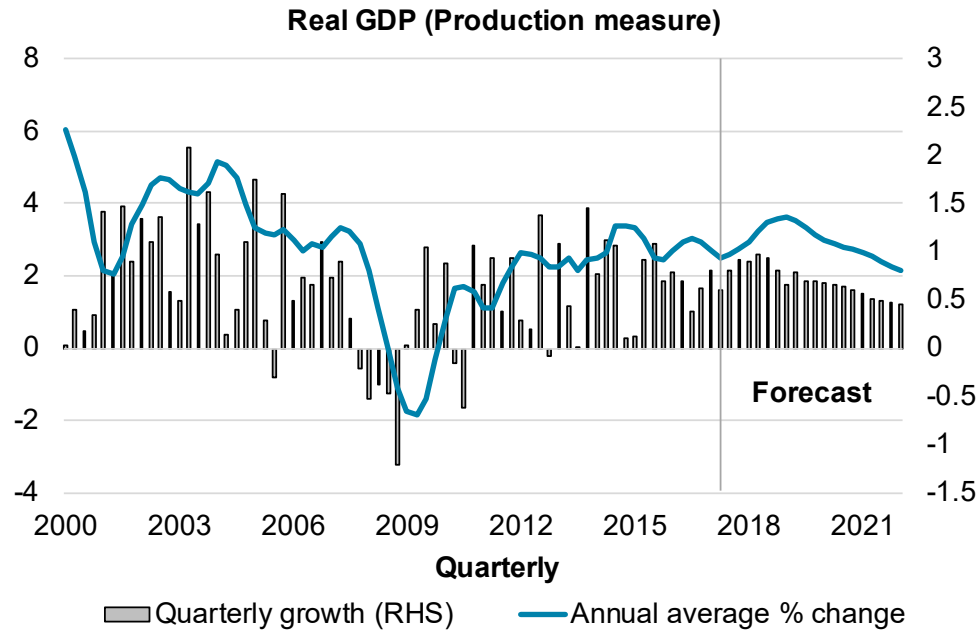


NZDMO: Strategy and Announcements



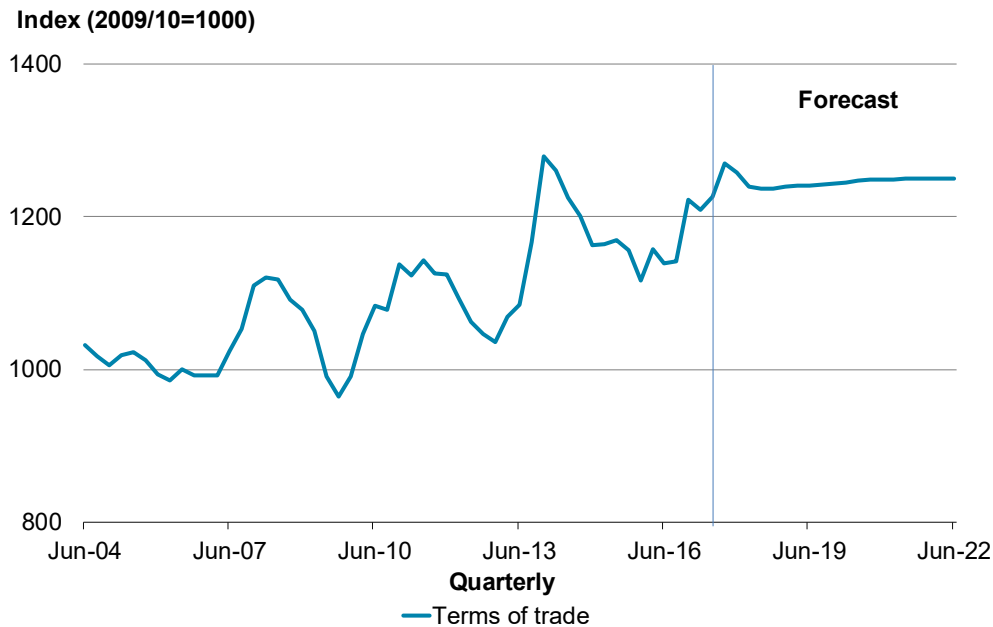
Economic Outlook

Growth remains robust



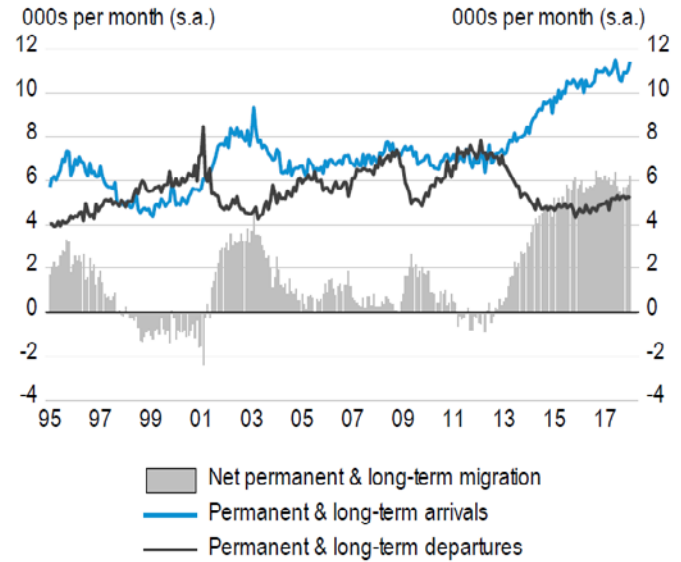
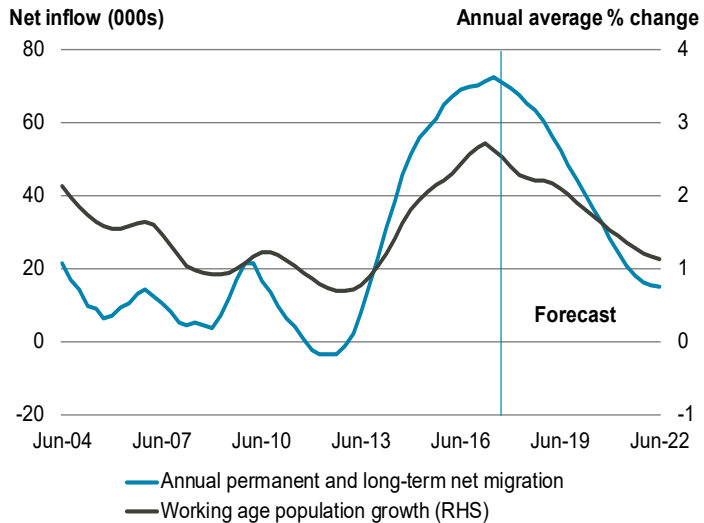
Source: The Treasury, HYEPU 2017

Terms of trade elevated



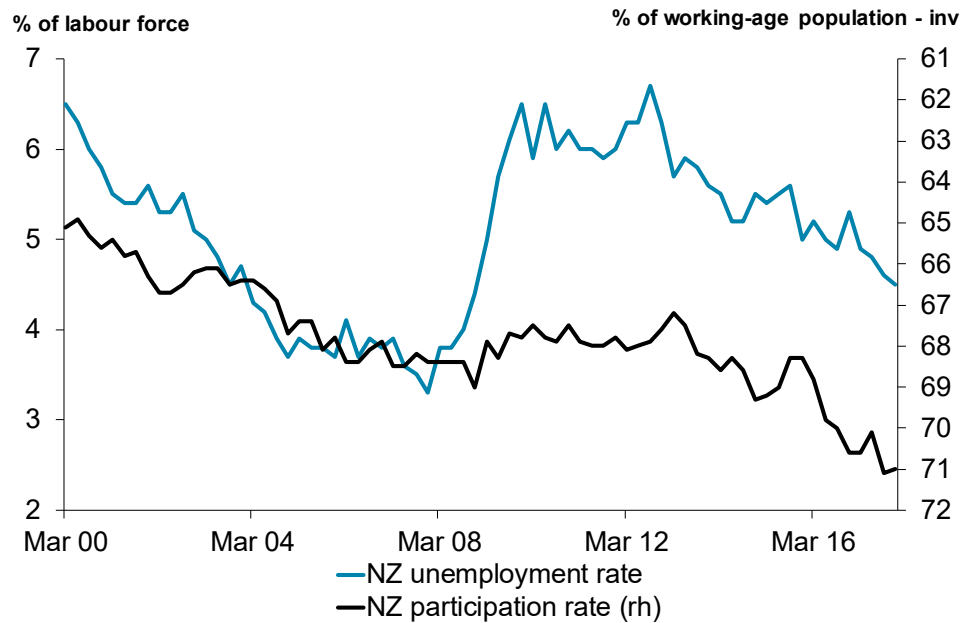
Source: The Treasury, HYEPU 2017

Net migration to moderate



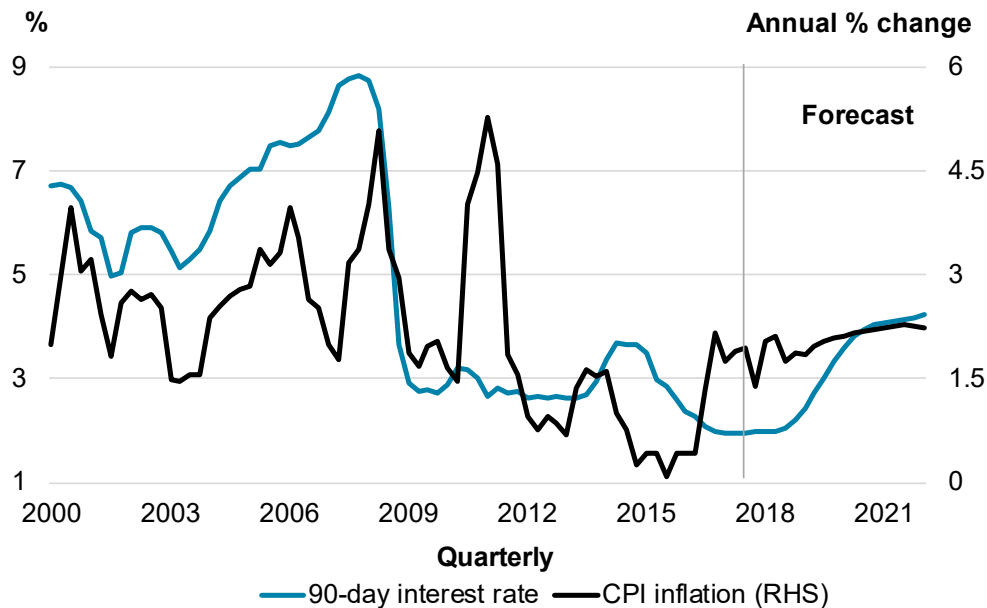
Source: The Treasury, HYEPU 2017

Labour market tightening



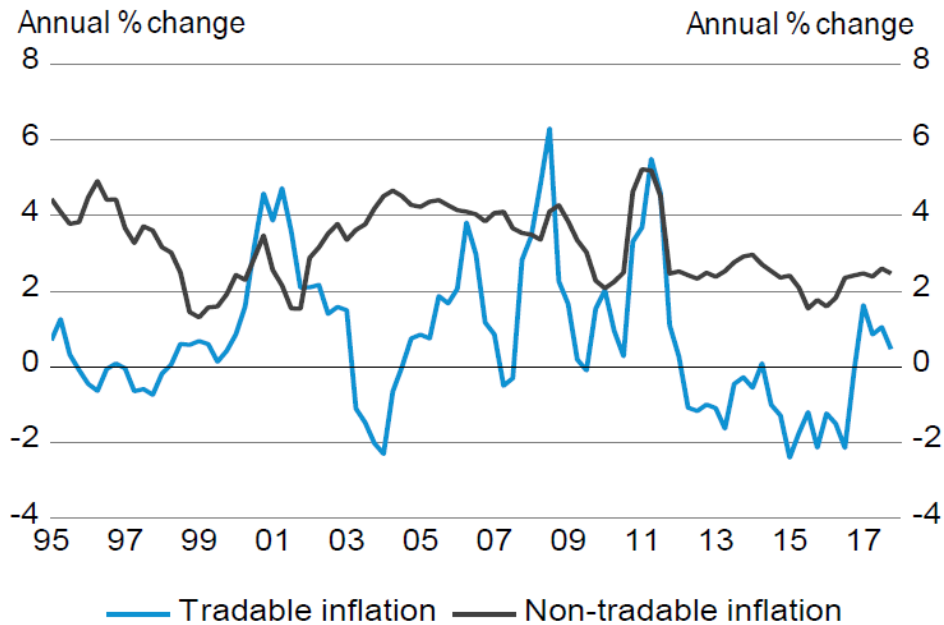
Source: Bloomberg

Gradual rise in inflation



Source: The Treasury, HYEUFU 2017

Inflation divergence



Source: Statistics New Zealand



Fiscal Priorities

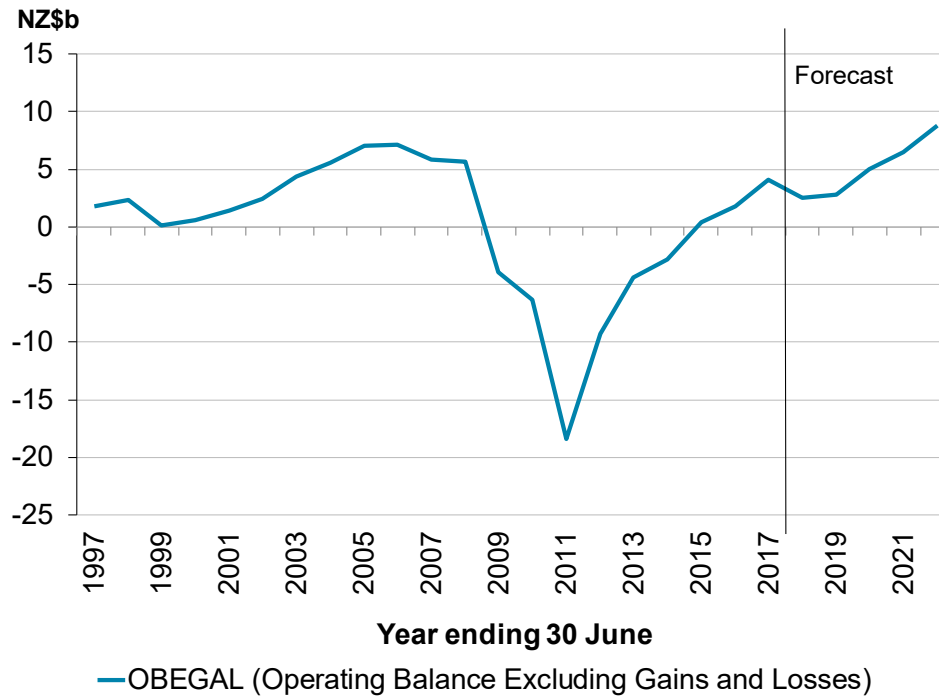


Budget Responsibility Rules

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

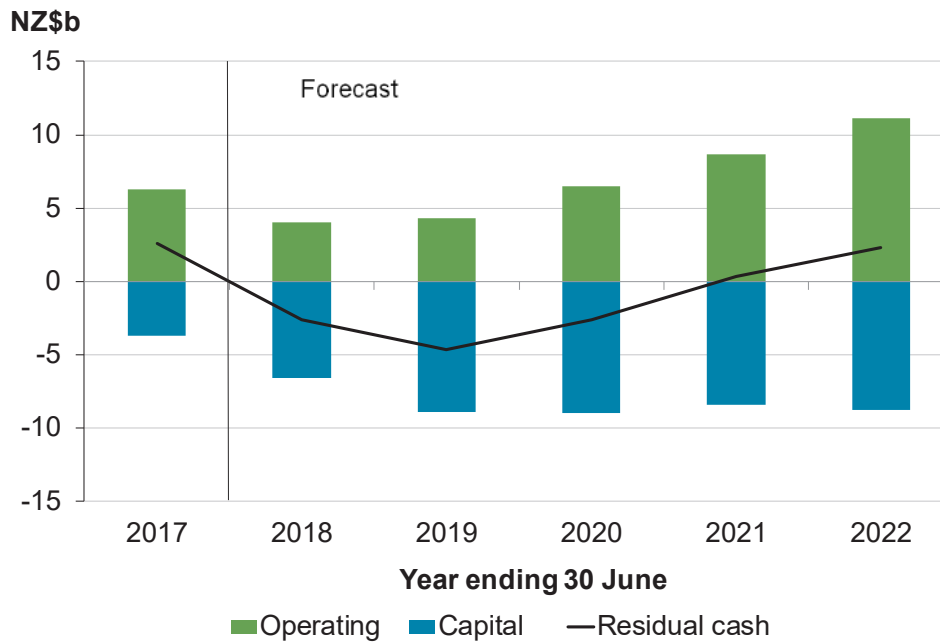
- Deliver a sustainable operating surplus across an economic cycle.
- Reduce the level of net core Crown debt to 20 per cent of GDP within five years of taking office.
- Prioritise investments to address the long-term financial and sustainability challenges facing New Zealand.
- Take a prudent approach 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



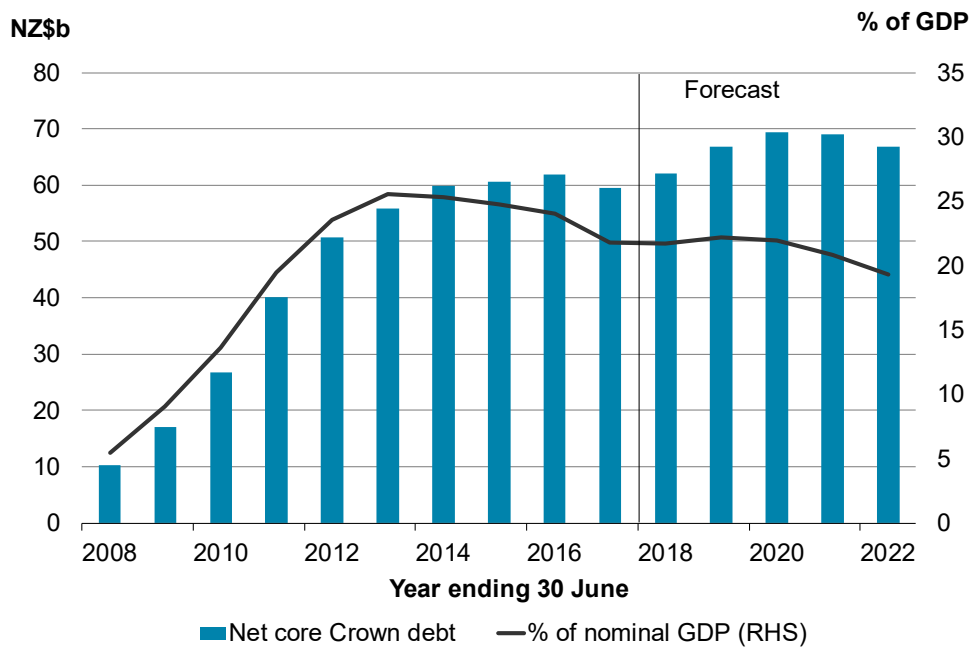
Source: The Treasury, HYEPU 2017

Capital spending impacts residual cash



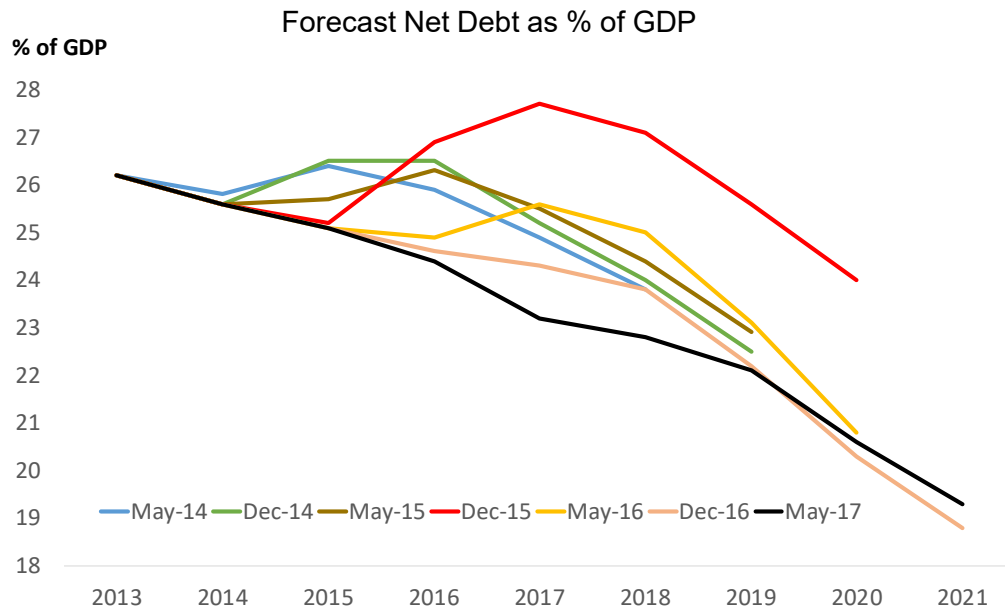
Source: The Treasury, HYEPU 2017

Net core Crown debt contained



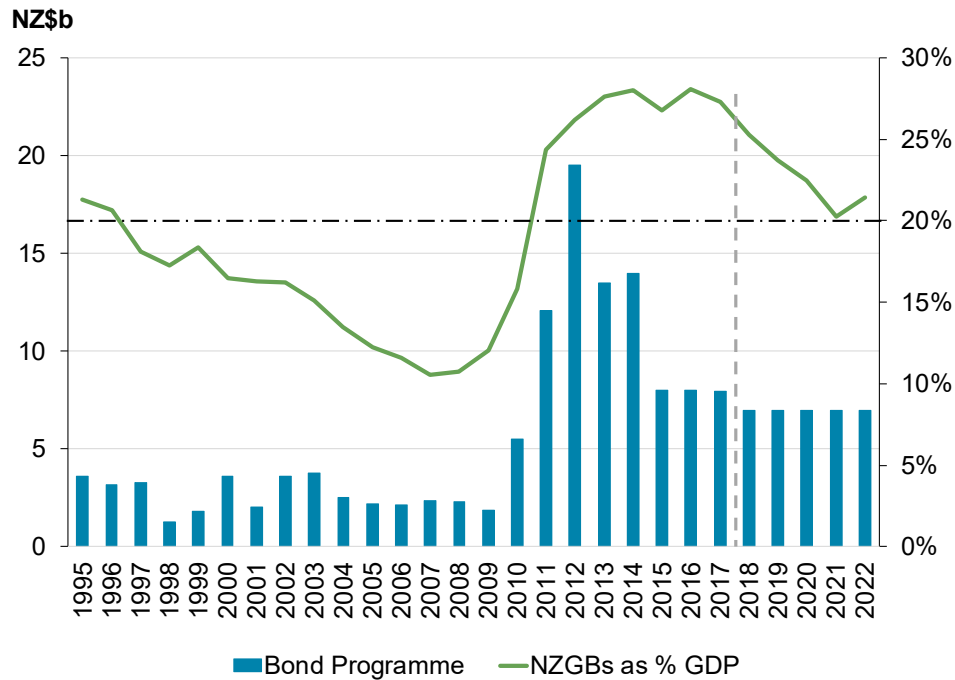
Source: The Treasury, HYEPU 2017

Credibility in achieving forecasts



Source: The Treasury

NZGBs maintained above 20% of GDP



Source: The Treasury's NZDMO



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

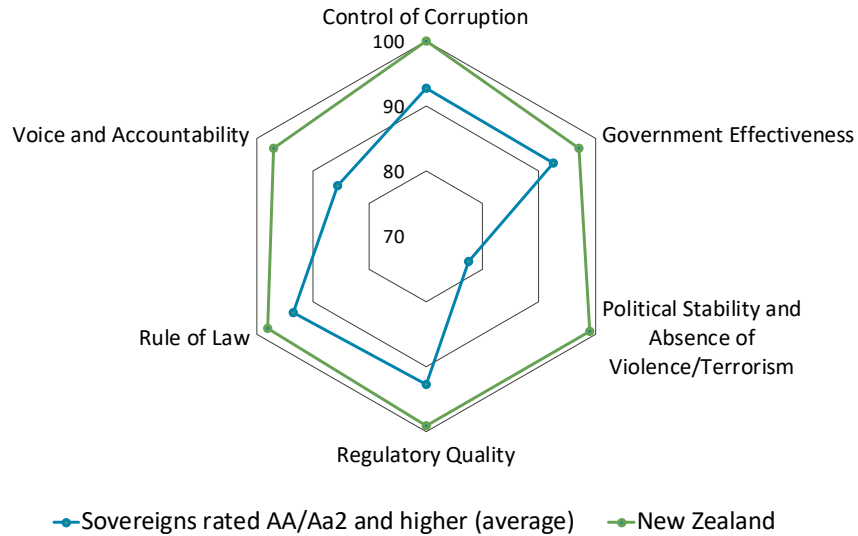
Fitch

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

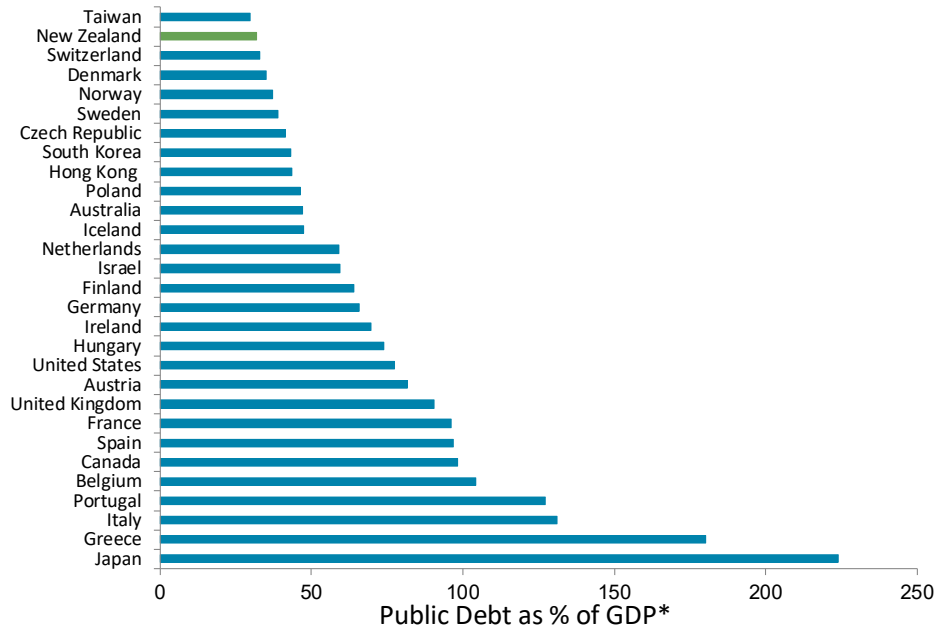
Strong institutions

Worldwide Governance Indicators – World Bank (percentile rank)



Source: World Bank Worldwide Governance Indicators 2016

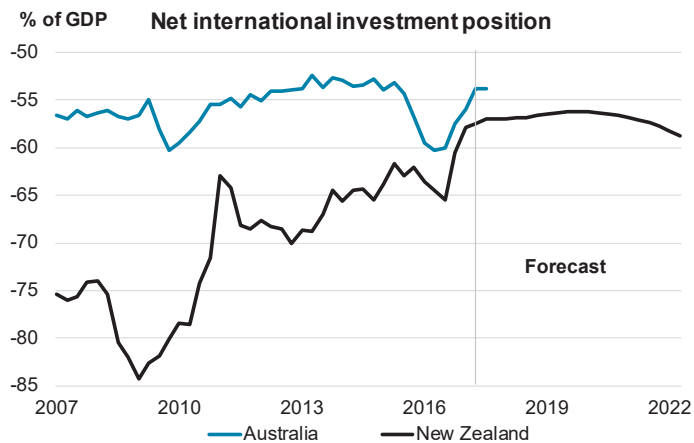
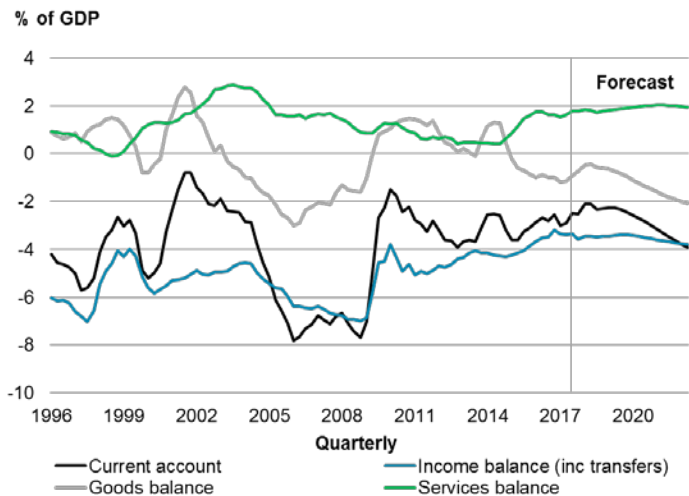
Strong balance sheet



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

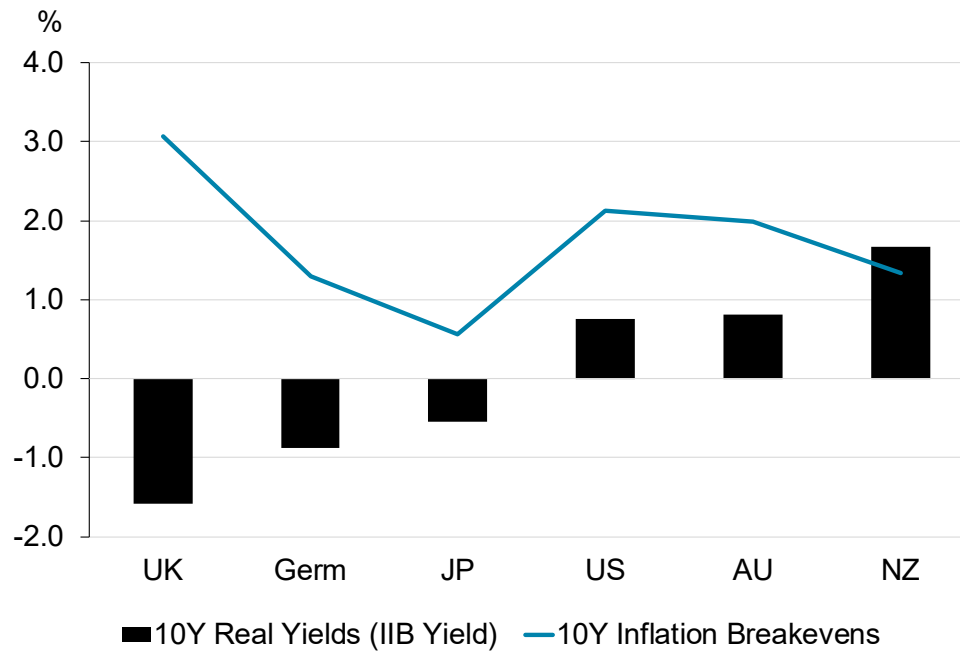
Source: CIA 2017 Estimate, Bloomberg

Improvement in NIIP



Source: The Treasury

Attractive real yields



Source: Bloomberg



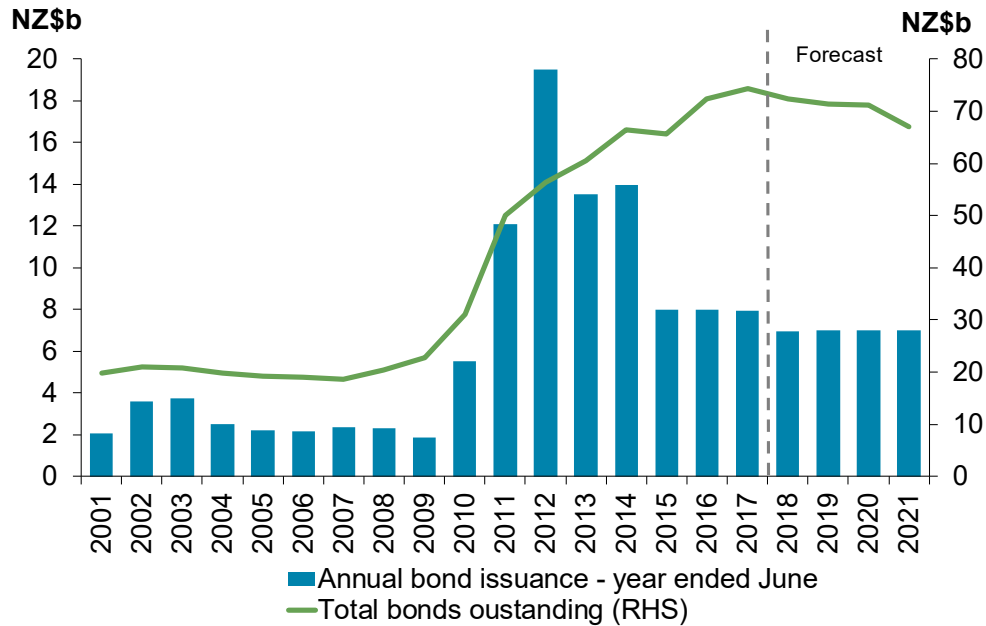
NZDMO: Strategy and Announcements



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 New Zealand 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.

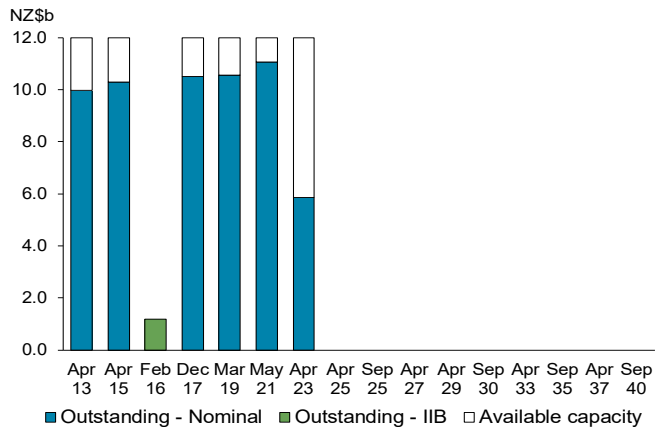
Steady issuance profile



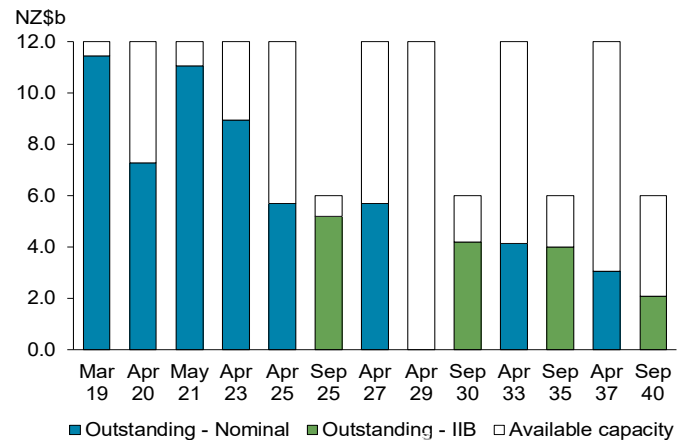
Source: The Treasury's NZDMO

Evolution of portfolio structure (I)

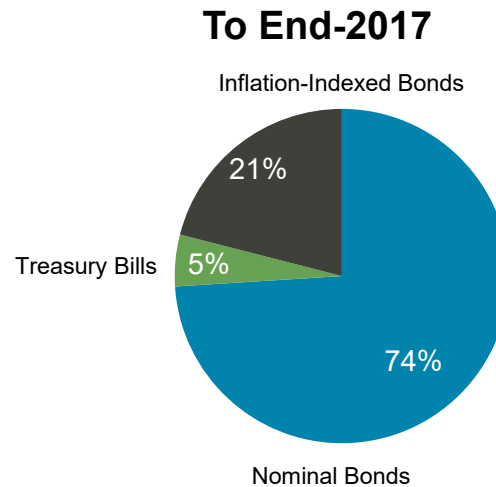
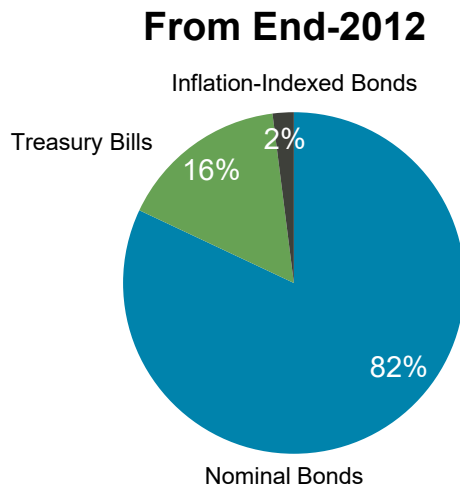
From end-2012



To Current

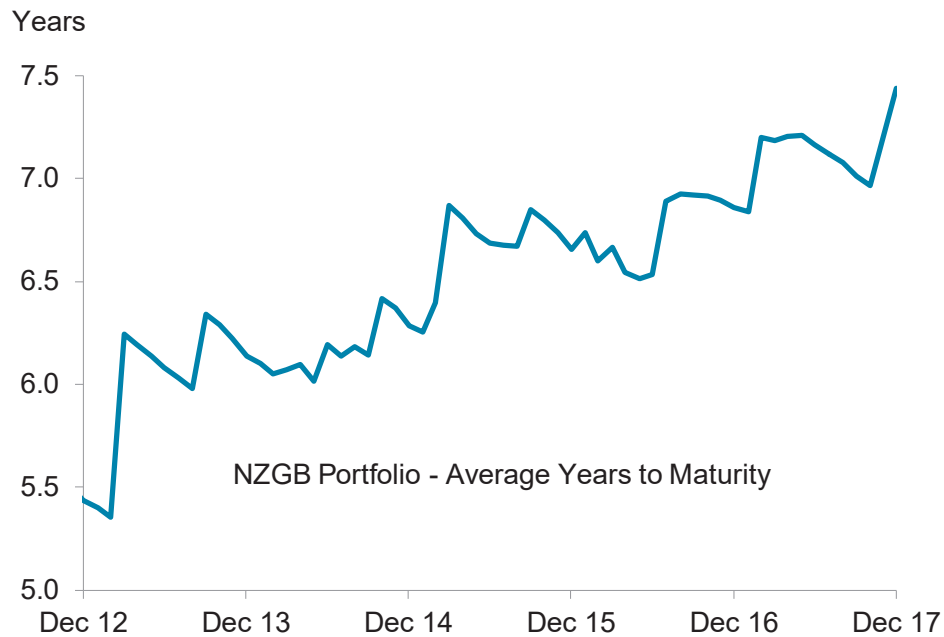


Evolution of portfolio structure (II)



Source: The Treasury's NZDMO

Evolution of portfolio structure (III)

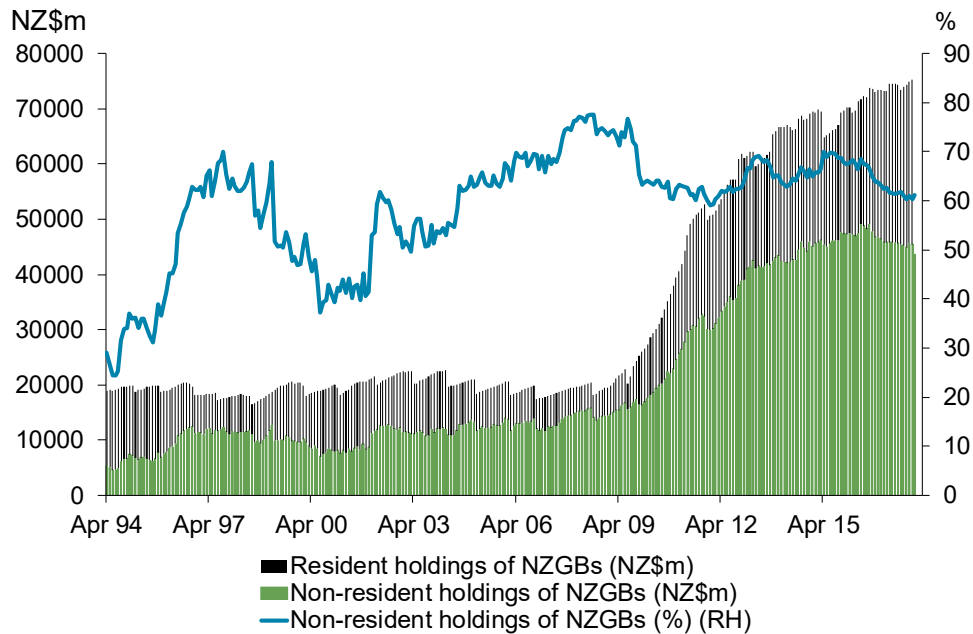


Source: The Treasury's NZDMO

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



Source: Bloomberg, RBNZ

Recent announcements

Forecast Domestic Bond Programme – HYEFU, 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

- 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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