



TE TAI ŌHANGA
THE TREASURY

New Zealand Government Securities Overview

2020/2021: Edition 1

New Zealand Government Securities

New Zealand Government Securities are issued by the Treasury¹ on behalf of the New Zealand Crown². These securities provide investors with exposure to a strong fiscal and institutional framework, a diverse and robust economy, a sovereign credit rating in the top twenty globally, and a yield above many peers.

This overview provides investors with insights into New Zealand's³:

Institutional Framework and Economic Structure Economic and Fiscal Performance Government Securities Market

The overview also includes background information on participating in the New Zealand Government Securities Market.

Institutional Framework and Economic Structure

New Zealand is globally recognised for its robust institutional framework. This institutional strength is demonstrated through high rankings across each of the World Bank's Governance indicators, shown below.

Chart 1: Percentile Ranking on Key Governance Indicators



Source: World Bank Worldwide Governance Indicators – 2018

Form of Government

New Zealand is a sovereign state with a democratic parliamentary government based on the Westminster system. Its constitutional history dates back to the signing of the Treaty of Waitangi in 1840, between the indigenous Māori people and the British Crown.

The New Zealand Constitution Act 1852 provided for the establishment of a Parliament with an elected House of Representatives. Universal suffrage was introduced in 1893. New Zealand has the British monarch as titular Head of State. The Queen is represented in New Zealand by the Governor-General, appointed by her on the advice of the New Zealand Government.

As in the United Kingdom, constitutional practice in New Zealand is an accumulation of convention, precedent and tradition. As such, there is no single document that can be termed the New Zealand constitution. The Constitution Act 1986 however, updated, clarified, and combined in one piece of legislation, the most important constitutional provisions that had been enacted in various statutes. It provides for a legislative body, an executive and administrative structure and specific protection for the judiciary.

Legislative power is vested in Parliament, a single chambered body titled the House of Representatives. The 120 members are elected for three-year terms through general elections. Eligible residents over 18 years of age may vote in general elections.

The executive Government of New Zealand is carried out by the Executive Council – a formal body made up of the Cabinet and the Governor-General, who acts on the Cabinet's advice. The Cabinet itself consists of the Prime Minister and her/his Ministers, who must be chosen from among elected Members of Parliament. Each Minister supervises and is responsible for particular areas of government administration. Collectively, the Cabinet is responsible for all decisions of the Government.

The judicial system in New Zealand is based on the British model. By convention and the Constitution Act 1986, the judiciary is independent from the executive.

Electoral System

As a result of a referendum held in conjunction with the 1993 election, New Zealand changed from a "First Past the Post" system of electing Members of Parliament to a "Mixed Member Proportional" (MMP) system of proportional representation. Under MMP each voter has two votes to cast – a party vote and an electorate vote. A party vote helps decide the share of the 120 seats in Parliament that is allocated to each political party, while the electorate vote determines the local member of Parliament. This change was implemented in the 1996 election.

Economic Structure

New Zealand is a small open economy and operates on free market principles. A large services sector and sizable manufacturing sector complement an efficient export-oriented primary sector (Chart 2).

New Zealand's land size is similar to Japan and the UK but with a resident population of 5 million. The climate is temperate, supporting agriculture, forestry and horticulture. It has abundant natural resources and makes wide use of hydroelectric power generation.

External trade is of fundamental importance to the New Zealand economy. Primary sector products, commodities, manufactured products and services are all important sources of export income. Tourism is typically the largest services export, as New Zealand is a popular destination for overseas visitors.⁴ Additional services exports include; education, transport, financial and business services, and information technology. Raw materials, consumer goods and capital equipment for industry are key components of New Zealand's imports.

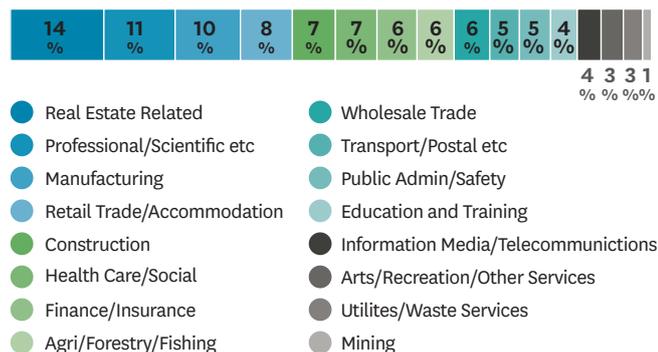
1 The Treasury is the Government's lead economic and financial adviser. The Treasury provide advice to the Government on its overarching economic framework, on its fiscal strategy and on achieving value for money from its investments.

2 New Zealand Government Securities are issued in the name of "Her Majesty the Queen in right of New Zealand".

3 The data is updated as at 31 July 2020.

4 However, this is expected to be significantly dampened over the year ahead with international borders expected to remain closed for some time due to COVID-19.

Chart 2: New Zealand GDP by Industry – Year Ended March 2020



Source: Stats NZ

New Zealand has had a freely floating exchange rate of its currency, the New Zealand Dollar (NZD), since March 1985. There are no exchange controls on foreign-exchange transactions undertaken in New Zealand, with the NZD one of the top ten traded currencies globally⁵.

Monetary Policy Framework

The Reserve Bank of New Zealand (RBNZ), was established as a Central Bank in 1934 and is responsible for monetary policy and financial stability policy. The Reserve Bank of New Zealand Act 1989 (the Act) cemented its independence and introduced inflation targeting.

The focus of monetary policy is to maintain price stability and support maximum sustainable employment. Monetary policy decisions are made by a committee – the Monetary Policy Committee (MPC). A remit is issued from the Minister of Finance to the MPC which sets out the specific operational objectives. The latest remit, signed in May 2019, stated that the objectives are “to keep future annual inflation between 1 and 3% over the medium term, with a focus on keeping future inflation near the 2% mid-point”, and “to support maximum sustainable employment”. In particular, the MPC is required to seek to avoid unnecessary instability in output, interest rates, and the exchange rate. It must also have regard to the efficiency and soundness of the financial system.

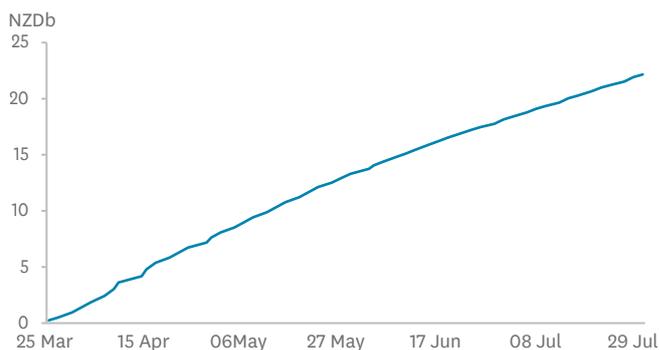
A review of the Act is currently underway, and will address the RBNZ’s responsibilities in promoting the maintenance of a sound and efficient financial system. This includes the implementation of prudential policies, such as capital and liquidity standards, macro-prudential policy and undertaking supervision of banks. The review is currently undergoing its third round of consultation, with the advancement of legislation delayed due to COVID-19.

In March 2020, the RBNZ implemented alternative monetary policy via a Large Scale Asset Purchase (LSAP) programme. The Government has provided an indemnity to cover losses the RBNZ may incur as a result of operating the LSAP programme, set as a proportion of specific assets outstanding. The assets currently covered by the indemnity are limited to nominal New Zealand Government Bonds (NZGBs), Inflation-Indexed NZGBs and Local Government Funding Agency (LGFA) bonds.

⁵ Bank for International Settlements, Triennial Survey, April 2019, percentage shares of average daily turnover.

⁶ Publication of the HYEPU is not required in the year if the PREFU is published between 1 October and 31 December.

Chart 3: Cumulative NZGB purchases by the RBNZ under LSAP programme in 2020



Source: RBNZ

Fiscal Policy Framework

The Public Finance Act 1989 requires the New Zealand Government to be transparent in both its short- and long-term fiscal objectives and to maintain prudent debt levels. The current and recent Governments show a strong commitment to prudent fiscal management.

The Public Finance Act stipulates the Treasury must publish economic and fiscal forecasts twice a year. These occur at the time of the mid-year Budget (*Budget Economic and Fiscal Update – BEFU*) and at the end of the calendar year (*Half Year Economic and Fiscal Update – HYEPU*). The Treasury must also provide a *Pre-election Economic and Fiscal Update (PREFU)* prior to general elections, which occur at least every three years.⁶ The forecasts extend for four years beyond the current fiscal year ie, “the forecast period”.

Without parliamentary authority, the Government has no authorisation to incur expenses and capital expenditure. An Appropriation Act is the means by which Parliament approves expenses and capital expenditure for the Government for the coming year.

This is supplemented by spending that is authorised under Permanent Legislative Authority which continues in effect until revoked by Parliament. The payment of interest on debt is an example of spending authorised under Permanent Legislative Authority.

Securities Law

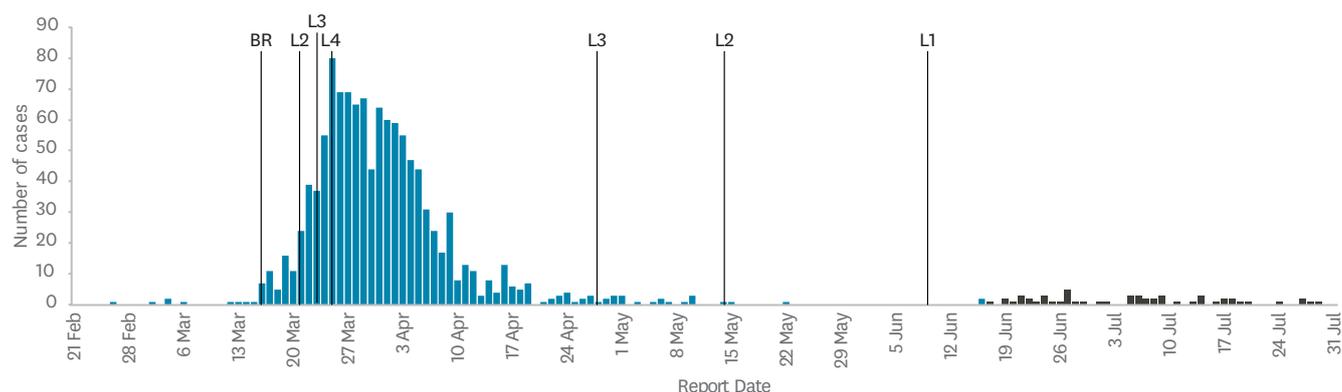
The Financial Markets Authority Act 2011 established the Financial Markets Authority (FMA) as New Zealand’s market conduct regulator. The FMA is an independent Crown Entity whose main objective is to promote and facilitate the development of fair, efficient and transparent financial markets. The FMA enforces financial markets legislation, including the Financial Markets Conduct (FMC) Act.

The FMC Act 2013 regulates the offering and trading of investments and the provision of certain financial services. It regulates the operation of securities and derivatives exchanges and trading behaviour on those exchanges. It also provides general prohibitions on misleading and deceptive conduct in financial markets. New Zealand Government Securities are “securities” for the purposes of the FMC Act.



Economic and Fiscal Performance

Chart 4: Number of daily confirmed COVID-19 cases in New Zealand



| | | | |
|---------------------------------|---|---------------------------|---|
| Border Restrictions (BR) | Border restrictions imposed | Alert Level 3 (L3) | Restrict – High risk the disease is not contained |
| Alert Level 1 (L1) | Prepare – The disease is contained in New Zealand | Alert Level 4 (L4) | Lockdown – Likely the disease is not contained |
| Alert Level 2 (L2) | Reduce – The disease is contained, but the risk of community transmission remains | ● Confirmed cases | ● Confirmed cases identified at border |

Source: Ministry of Health/the Treasury

COVID-19 Developments in New Zealand

The first COVID-19 case in New Zealand was detected in late February. As the number of confirmed cases increased, the New Zealand Government introduced international border restrictions and implemented a four level alert system. The alert levels specify the public health and social measures taken to address the pandemic.

New Zealand is currently at the lowest alert level (1), with no known community transmission since May, and is operating business as usual but with the international borders largely closed.

While New Zealand has the health impacts of COVID-19 largely under control, the economic and fiscal impacts will be more enduring. To cushion the impact on the economy, the Government announced significant fiscal stimulus. A NZD 12.1 billion package was announced on 17 March, and a NZD 50 billion COVID-19 Response and Recovery Fund (CRRF) was announced at BEFU, to cover subsequent COVID-19 related expenditure. Stimulus packages include a wage subsidy scheme, business support packages, a trades training package, and funding for education, health and other social sectors. NZD 14 billion of the CRRF has been set aside for in the event, for example, New Zealand experiences a second wave.

Current Fiscal Strategy

The Government's fiscal strategy is formally communicated twice a year, typically alongside the BEFU and HYEUFU. The Government sets out its short-term intentions and long-term objectives with respect to core parameters such as; debt, operating expenses, operating revenue, the operating balance and net worth. The Fiscal Strategy Report is released alongside the BEFU. The Budget Policy Statement is generally released alongside HYEUFU.

Successive Governments have demonstrated a continued commitment to prudent fiscal strategy. However, as a result of COVID-19, the short-term fiscal intentions have been updated to recognise the need for a period of fiscal expansion to support the economy. The Government's most recent [Fiscal Strategy Report](#) was published in May 2020. The Government's five short-term fiscal intentions for the next three years are to:

- allow the level of net core Crown debt to rise in the short term
- run operating deficits in the short term
- ensure expenses are consistent with the operating balance objective
- ensure revenue is consistent with the operating balance objective
- use the Crown's net worth to fight COVID-19, cushion its impact and position New Zealand for recovery.

While short-term fiscal intentions reflect a period of fiscal expansion, the Government's long-term fiscal objectives continue to focus on fiscal prudence. This includes stabilising and reducing net core Crown debt to prudent levels, and returning the operating balance to surplus. The long-term fiscal objectives are less specific than usual, but will be refined as uncertainty in the economic and fiscal outlook recedes.

Fiscal Performance

Prior to the onset of COVID-19, the Government had been maintaining an operating surplus and had reduced net core Crown debt to below 20% of GDP. To cushion the economy from the impact of COVID-19, operating deficits of around 10% of GDP are now forecast in 2019/20 and 2020/21. Over the remainder of the forecast period, deficits are expected to gradually reduce.



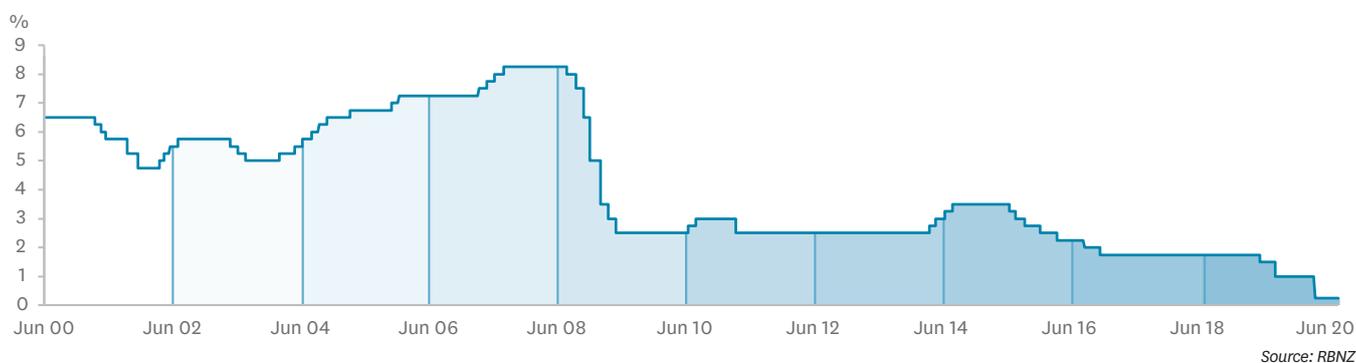
A core Crown residual cash deficit is anticipated in each of the forecast years, due to both operating and capital spending. The core Crown residual cash deficit peaks at 15% of GDP in 2020/21, in order to fund the response and recovery to COVID-19. Over the five year forecast period, a cumulative cash deficit of about NZD 150 billion is expected.

Consistent with the residual cash deficit forecasts, net core Crown debt to GDP is expected to increase significantly, reaching almost 55% in 2022/23. In addition, Crown net worth as a percent of GDP is forecast to decrease from 47% to 10% in 2023/24, reflecting increased fiscal stimulus.

Economic Performance

The New Zealand economy had been on a solid footing, with annual real production GDP growth averaging 3.2% over the five years to December 2019. However, the emergence of COVID-19 and associated restrictions has led to a contraction in economic activity. The Treasury forecasts real production GDP to decline nearly 12% in the year to March 2021, before recovering and averaging over 5% per year for the remainder of the forecast period (2021/22 to 2023/24).

Chart 5: New Zealand OCR



Source: RBNZ

Table 1: Summary of the Treasury's Economic and Fiscal Forecasts

| Year Ending 30 June | Actual 2019 | 2020 | 2021 | Forecast 2022 | 2023 | 2024 |
|---|-------------|-------|-------|---------------|------|------|
| Economic | | | | | | |
| Real GDP (production basis, annual average % change) | 2.8 | -4.6 | -1.0 | 8.6 | 4.6 | 3.6 |
| Unemployment rate (% of labour force, June quarter) | 4.0 | 8.3 | 7.6 | 5.7 | 5.2 | 4.8 |
| CPI inflation (annual % change, June quarter) | 1.7 | 1.5 | 0.8 | 1.5 | 1.8 | 1.9 |
| Current account balance (% of GDP) | -3.4 | -2.0 | -5.7 | -4.2 | -3.8 | -3.6 |
| Fiscal (% of GDP) | | | | | | |
| Core Crown tax revenue | 28.5 | 28.0 | 27.2 | 26.6 | 27.4 | 27.3 |
| Core Crown expenses | 28.7 | 38.7 | 38.6 | 36.5 | 33.7 | 30.2 |
| Total Crown operating balance before gains and losses | 2.4 | -9.6 | -10.1 | -8.3 | -4.7 | -1.3 |
| Core Crown residual cash | -0.2 | -10.9 | -14.7 | -10.7 | -7.6 | -3.6 |
| Net core Crown debt | 19.0 | 30.2 | 44.0 | 49.8 | 53.6 | 53.6 |
| Net worth attributable to the Crown | 47.2 | 36.0 | 26.0 | 16.0 | 11.2 | 10.3 |

Source: The Treasury, in conjunction with BEFU, 14 May 2020



Wellbeing and Sustainability

The New Zealand Government has clearly outlined wellbeing objectives to improve living standards of New Zealanders. The inaugural [Wellbeing Budget](#) was delivered in 2019 and included a package of initiatives to measure progress focused on the wellbeing of people, the health of the environment and the strength of the community. There were two key environmental initiatives as part of the Wellbeing Budget; setting a provisional emissions target and revised cap and price controls for the emissions trading scheme⁷; and the formation of an independent Climate Change Commission to advise on carbon reduction techniques.

In the [2020 Wellbeing Budget](#), a number of the new initiatives were postponed in order to fund the targeted COVID-19 response and recovery measures. However, Budget Initiatives remain focused on the wellbeing of current and future generations of New Zealanders.

In addition, New Zealand is amongst the highest rated sovereigns on sustainability and Environmental Social and Governance (ESG) ratings. This includes a ranking of 16 out of 193 countries on the [SDG \(Sustainable Development Goals\) Index](#).

Credit Ratings

New Zealand's credit rating is within the top twenty sovereign ratings globally. S&P Global Ratings and Fitch Ratings currently maintain an AA+ long-term local currency rating for New Zealand, while Moody's Investors Service has maintained an Aaa rating for New Zealand since October 2002.

In January 2019, S&P Global Ratings revised the outlook on New Zealand's long-term ratings from stable to positive. S&P Global Ratings subsequently affirmed the positive outlook in May 2020, due to their expectation that the impact of COVID-19 on fiscal measures will be temporary. Fitch Ratings also revised the New Zealand long-term foreign currency credit rating outlook from stable to positive in January 2020.

Table 2: New Zealand Long-term Credit Ratings

| Rating Agency | Local Currency | Foreign Currency | Latest Update |
|---------------------------|------------------------|-----------------------|---------------|
| Moody's Investors Service | Aaa (stable outlook) | Aaa (stable outlook) | Apr-20 |
| S&P Global Ratings | AA+ (positive outlook) | AA (positive outlook) | May-20 |
| Fitch Ratings | AA+ (stable outlook) | AA (positive outlook) | Jan-20 |

Source: Moody's Investors Service, S&P Global Ratings, Fitch Ratings

New Zealand Government Securities Market

New Zealand Debt Management (NZDM) is a function within the New Zealand Treasury. Its primary responsibility is the efficient management of the Crown's debt and associated financial assets within an appropriate risk management framework. The maintenance of a well-functioning New Zealand Government Securities (NZGS) market is central to this remit.

The New Zealand Crown has always paid, when due, the full amount of principal, interest and amortisation requirements upon its external and internal debt, including guaranteed debt.

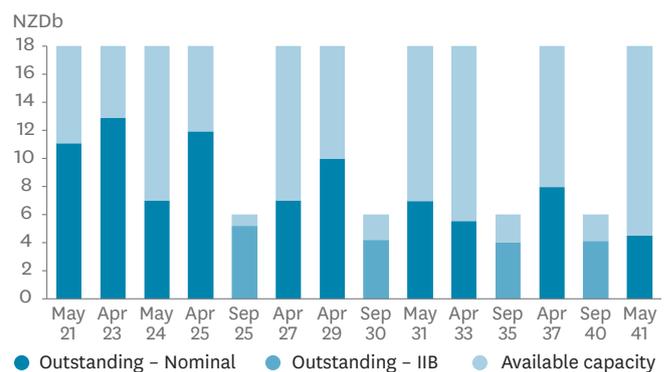
New Zealand Government Securities

NZDM manages the issuance of NZGS, which includes: nominal bonds, inflation-indexed bonds (IIBs), Treasury Bills (T-Bills) and European Commercial Paper (ECP) in the wholesale market. At 31 July 2020, there were NZD 105.5 billion of bonds on issue. Of these, NZD 102.3 billion were market bonds that may be freely traded in the secondary market. In addition, there were NZD 11.0 billion of T-Bills and USD 1.2 billion of ECP on issue.

Over the five year forecast period, total outstanding market bonds are projected to increase to NZD 217 billion.

At 31 July 2020, there were ten nominal bond and four IIB maturities as shown in Chart 6. Individual nominal bond lines are capped at a maximum of NZD 18 billion face value, while IIB maturities are capped at NZD 6 billion. Coupons on nominal bonds are paid on a semi-annual basis, in arrears. For IIBs, coupons are paid quarterly, in arrears.

Chart 6: Outstanding NZGBs and Capacity for Issuance - At 31 July 2020



Source: The Treasury

7 <https://www.mfe.govt.nz/overview-reforming-new-zealand-emissions-trading-scheme>

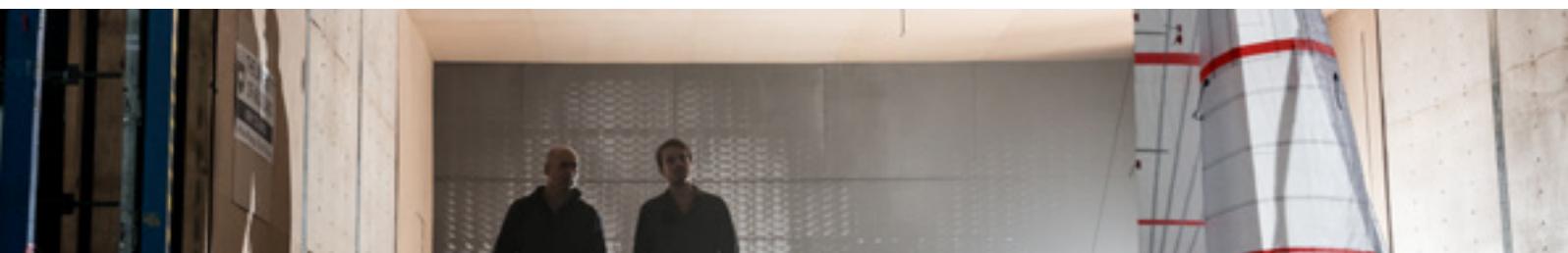
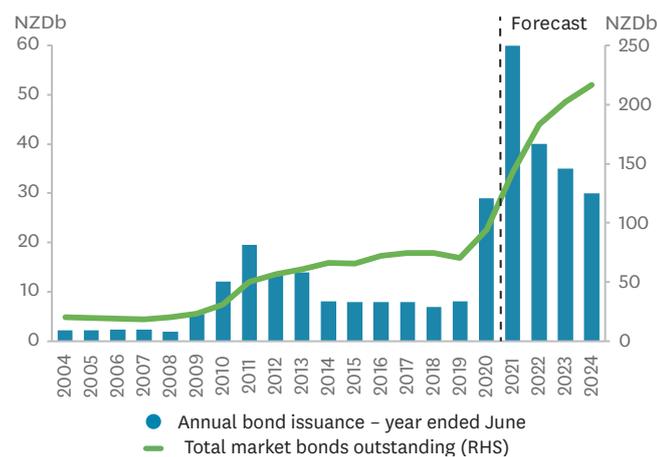


Chart 7: Total NZGBs and Projections



Source: The Treasury

For more information see the [New Zealand Government Securities Funding Strategy](#) publication.

Primary Issuance

Primary issuance of NZGBs and T-Bills is undertaken by NZDM through competitive tenders and/or syndications.

The BEFU and HYEPU announcements contain a breakdown of the core Crown’s funding needs and annual bond issuance forecasts. They also include forecasts of the level of T-Bills on issue at 30 June. The [most recent update](#), published alongside BEFU on 14 May 2020, is shown in Table 3.

Ahead of each month, a regular NZGB issuance schedule is announced, including the full details of tender dates, bond maturities, and volumes for the entire month. The announcement occurs at 8am (NZT) on the day prior to the last tender of the preceding month.

NZGB tenders are typically held on Thursdays. Only Registered Tender Counterparties⁸ (RTC) may take part in tenders, however, interested parties may offer their bids through a RTC. Bids must be submitted by 2pm on the day of tender. The minimum denomination is NZD 1 million (principal) and in multiples of NZD 1 million thereafter.

T-Bills are also issued via tenders which occur weekly on Tuesdays, when bids need to be submitted by 2pm. Typically 3 month, 6 month and 12 month maturities are offered. The volume and maturities on offer may vary and are announced the day prior to tender.

Historically, one to two syndications were undertaken annually and they were confined to launching new bonds. However, a higher annual programme has led to an increase in frequency, with three undertaken this calendar year-to-date and a further syndication planned for August. Along with syndications of new bonds, tap syndications of existing bonds are now also part of the Funding Strategy. Historically, syndication volumes were around NZD 1.5 to 2.0 billion, but the two most recent syndications were NZD 7.0 billion and NZD 4.5 billion.

Table 3: Forecast – New Zealand Government Bonds and Treasury Bills

| Year Ending 30 June | Actual | Forecast | | | | Total |
|---|--------|----------|------|------|------|-------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | |
| Economic | | | | | | |
| Gross NZGB issuance (NZD billion) | 29 | 60 | 40 | 35 | 30 | 194 |
| NZGB maturities and repurchases (NZD billion) | 5 | 11 | 0 | 16 | 15 | 48 |
| Net NZGB issuance (NZD billion) | 24 | 49 | 40 | 19 | 15 | 146 |
| Outstanding NZGBs (NZD billion) | 94 | 143 | 183 | 202 | 217 | n/a |
| Outstanding NZGBs (percent of GDP) | 32% | 49% | 56% | 57% | 58% | n/a |
| T-Bills on issue* (NZD billion) | 12 | 10 | 10 | 10 | 10 | n/a |

Source: The Treasury, in conjunction with BEFU, 14 May 2020, adjusted for 2020 actual

*The forecasts show current expectations of how short-term cash liquidity needs will be met at fiscal year-end. However, the actual issuance of T-Bills, may vary from forecast, based on actual short-term cash needs and an assessment of relative costs.

8 The list of RTC is available at <https://debtmanagement.treasury.govt.nz/government-securities/primary-market-access-information>



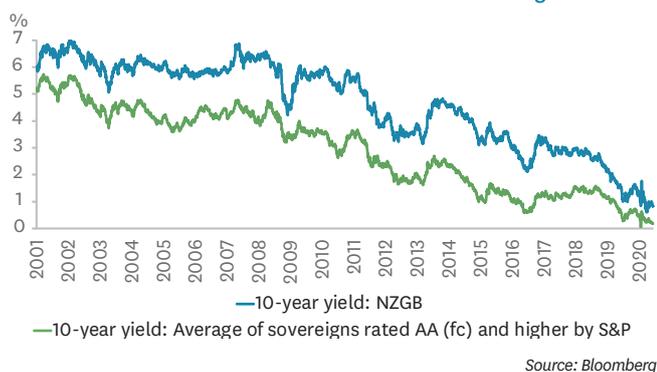
Executive Wing of the New Zealand Parliament Buildings, commonly known as 'The Beehive'. Photograph by iStock.com/travellinglight

Secondary Market

The secondary market is supported by major local banks and global intermediaries. There is a repurchase market for NZGBs and the RBNZ also offers a bond lending facility as a lender of last resort.

NZGB yields have historically traded above global developed market peers. Chart 8 shows generic 10-year NZGBs yields relative to sovereign peers with similar credit ratings, as captured in Chart 1. Over the past two decades, generic 10-year NZGBs have traded between -70bps and 320bps over their US equivalents. Over the same period, NZGBs have traded between -40bps and 110bps over Australian equivalents.

Chart 8: NZGB Yield Relative to Peers with Similar Rating⁹



In terms of absolute levels, NZGB yields have been on a declining trend in recent decades, in line with the global disinflationary trend. Specifically in New Zealand, the RBNZ Act of 1989 entrenched an inflation-targeting mandate. This has contributed to structurally lower yields as inflation expectations have declined.

9 Of the 12 sovereign peers captured in Chart 1, Kuwait, Liechtenstein and Luxembourg are excluded.

Considerations for Non-Residents

For non-resident investors, NZGBs are effectively free from withholding tax. While NZGBs are subject to an Approved Issuer Levy like other New Zealand bond issues, the Crown will pay this tax on behalf of non-resident investors.

At 30 June 2020, 50% of NZGBs were held by non-resident investors. Over the past 15 years this percentage has ranged between 50% and 80%. Participants in the market are diverse by type and by regional location. Nominal NZGBs and IIBs are currently constituents of a number of global benchmark bond indices.

NZGBs are primarily issued only in NZD. However, a small amount of foreign currency ECP is on issue and documentation for European Medium Term Note is maintained to enable issuance in foreign currencies.

Investor Communications

NZDM maintains regular communication with investors via a variety of channels and welcomes enquiries.

To receive communications via email (including the monthly Investor Update) please contact: debtmanagement@treasury.govt.nz

For further information on New Zealand Government Securities see: debtmanagement.treasury.govt.nz

For detailed current economic information see: treasury.govt.nz

For further information on the RBNZ see: rbnz.govt.nz

For further information on the New Zealand Government's Wellbeing Budget policies see: budget.govt.nz

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A Wharenui (meeting house) at Rotowhio Marae in Te Puia, Rotorua. A Marae is a central repository of Māori culture and serves as a communal meeting area for religious, cultural, social and business events. Photograph by [iStock.com/powerofforever](https://www.iStock.com/powerofforever)