

Banking and Business Environment

Supervision of the Financial Sector

The Reserve Bank of New Zealand

The Reserve Bank of New Zealand was established in 1934 as New Zealand's central bank by Act of Parliament. It is government-owned and holds most of the powers normally associated with a central bank. The Reserve Bank of New Zealand Act 1989 provides the Bank with autonomy to implement monetary policy within the framework of the Act and the Policy Targets Agreement entered into under the Act.

Since 1984, New Zealand's financial sector has undergone a process of comprehensive deregulation. The principal objective of deregulation has been to improve the efficiency of the financial sector by making it more competitive and to promote market discipline in financial markets. Policy initiatives have therefore been directed at reducing impediments to competition. Interest-rate and other controls have been removed and regulatory and legislative distinctions between different institutional groups have been reduced.

Deregulation contributed to rapid growth in money market activity, the development of a sizeable secondary market in government securities, the introduction of a wider range of financial instruments, including forward contracts, options and interest and exchange-rate futures, and the growing use of such devices to hedge interest-rate and exchange-rate risk.

Legislation affecting the financial sector is reviewed as necessary to ensure that it fits with modern banking practices. The Reserve Bank of New Zealand Act has been amended a number of times over the years to facilitate the coordination of home and host banking supervision between New Zealand and Australia, to extend the Reserve Bank's regulatory powers to include non-bank deposit takers and to allow the Reserve Bank to designate payment systems.

Registered Banks

The Reserve Bank, in addition to its role in determining and carrying out monetary policy, is the supervisory authority for New Zealand's registered banks. Entities wishing to use "bank" in their name or title must be authorised under the Reserve Bank Act as a "registered bank" and are subject to prudential supervision by the Reserve Bank.

The objective of supervision is to promote and maintain the overall soundness and efficiency of the financial system and to avoid significant damage to the financial system that could result from the failure of a registered bank. Until October 2008, there were no deposit insurance arrangements operating in New Zealand in respect of registered banks or other financial institutions. In line with many countries, the New Zealand government moved in October 2008 to provide a partial guarantee of retail deposits in registered bank and non-bank deposit takers and an opt-in guarantee scheme for wholesale debt issues by New Zealand financial institutions.

New Zealand's major banks are subsidiaries of Australian banks. The Reserve Bank recognises the principles underlying the Basle Concordat that the home country should supervise on a consolidated basis and the host country is responsible for the supervision of the operations in the host country. The Reserve Bank is working with the Australian Prudential Regulation Authority to improve regulatory co-ordination under this home-host model. The government has established a Trans-Tasman Council to progress co-ordination issues.

The Reserve Bank utilises a combination of regulatory, self and market disciplines to deliver its objectives. Market discipline has been achieved principally by requiring banks to publish disclosure statements at quarterly intervals. The disclosure statements contain comprehensive information on a bank's financial position and risk profile, director attestations as to the adequacy and proper application of a bank's risk management system and also include the disclosure of a bank's credit rating.

To instil regulatory discipline, registered banks are required to comply with conditions of registration such as minimum capital requirements and limits on lending to connected parties.

Should a registered bank experience financial distress, the Reserve Bank, with the approval of the Minister of Finance, has wide-ranging powers to intervene for the purpose of avoiding significant damage to the financial system. These powers include giving the bank directions, removing directors and implementing statutory management.

Before April 1987, New Zealand had four authorised banks. Bank registrations rose to a peak of 23 in August 1990. Since then, a number of banks have merged with other banks or withdrawn from the market, although this decline in numbers has been partly offset by new registrations. As at January 2009, there were 19 registered banks. Sixteen of these were subsidiaries or branches of foreign banks.

Most banks offer banking services on the Internet. Most of the registered banks and a few other financial institutions operate in the wholesale banking area, while some registered banks provide mainly retail banking services.

The Reserve Bank has recently implemented the Basel II international framework for bank capital adequacy. The large international banks were accredited to use the advanced Basel II approaches to determine minimum capital requirements. Banks not using their own models use the standard approach prescribed in Basel II. The Reserve Bank is in the process of implementing a liquidity policy for banks, consultation for which began in November 2008.

All inter-bank settlement and cheque-clearing is performed using modern and well-integrated computerised systems. Systems are in place to allow all large value payments to be settled on a real-time gross basis. Given their importance, the Reserve Bank oversees the operation of payment systems for the purposes of soundness and efficiency in the financial system.

Non-bank Financial Institutions

At present, it is not necessary to become a registered bank or to obtain a licence to accept deposits from the public. Non-bank financial institutions taking deposits from the public are subject to prospectus and trust deed requirements under the Securities Act 1978.

In September 2008, new legislation was passed increasing the prudential regulation of non-bank deposit takers. Under the new regime, 'deposit-taker' will be defined in legislation and deposit-takers will have to be licensed by the Reserve Bank. They will also be subject to minimum prudential requirements that will be formulated by the Reserve Bank in consultation with the Securities Commission. Trustees will set the company specific requirements and oversee compliance with the prudential rules. Further legislation will be put in place to require all registered deposit takers to maintain policies and processes to check the suitability and integrity of prospective directors and senior managers. It is proposed that the Reserve Bank will have the power to disapprove proposed appointees and remove directors and senior managers that have already been appointed.

Another key feature of the registered deposit-taking framework will require registered deposit takers to obtain and disclose a credit rating from an approved rating agency (unless they hold assets of less than a minimum amount that is yet to be determined). These reforms will be implemented during 2009 and 2010.

The Cabinet also agreed that the Reserve Bank will be the prudential regulator and supervisor of the insurance sector. The key features of this regime are currently being refined with the aim of introducing legislation in 2010.

Business Law Environment

Company Law

The Companies Act 1993 provides the framework for the formation and governance of companies.

Securities Law

The Securities Act 1978 applies to securities that are advertised or offered to the public. The Act places restrictions on advertisements for securities and requires a prospectus to be prepared before securities can be offered. It also requires an investment statement, which summarises the key features of the offer, to be distributed to an investor before they subscribe to the securities.

The Act also establishes the Securities Commission, which has powers of investigation and enforcement, as well as the power to issue exemptions from some securities law requirements.

The Securities Markets Act 1988 regulates the operation of securities markets and trading behaviour on those markets. The Act establishes a system for registration of securities exchanges and approval of the rules of securities exchanges and provides for oversight of exchanges by the Securities Commission. It contains prohibitions on insider trading and requires exchanges to have specific rules for continuous disclosure of price-sensitive information. It also requires disclosure of substantial security holdings and directors' and officers' shareholdings.

Both the Securities Act and the Securities Markets Act were amended in October 2006 to overhaul the law on insider trading, introduce new law on 'market manipulation' and require more effective disclosure by investment advisers and brokers. These changes came into effect on 29 February 2008.

The Takeovers Act 1993 applies to takeovers of listed companies and those with 50 or more members or shareholders. The Takeovers Code, established under the Act, regulates acquisitions of over 20% of the securities in those companies. The Code seeks to ensure that all shareholders are treated equally and, on the basis of proper disclosure, are able to make an informed decision as to whether to accept or reject an offer made under the Code.

The Financial Advisers Act 2008 regulates financial advisers, regulating who may provide financial advice and what information financial advisers must disclose to potential investors. This Act also makes financial advisers accountable for the advice they provide and includes extensive public enforcement provisions to protect investors, including providing the Securities Commission with the ability to apply to the Court for various orders and seek civil penalties and remedies for a breach of the Act.

Competition Law

The purpose of the Commerce Act 1986, as amended by the Commerce Amendment Act 2001, is to promote competition in markets for the long-term benefit of consumers within New Zealand. Very broadly, the Act prohibits:

- agreements that have the purpose, effect, or likely effect of substantially lessening competition in a market;
- the taking advantage of a substantial degree of power in a market to prevent a person entering or engaging in competitive conduct in that or any other market; and
- business acquisitions that would have, or would be likely to have, the effect of substantially lessening competition in a market.

The Act also provides for:

- the authorisation of restrictive trade practices or business acquisitions that would substantially lessen competition if the public benefits of allowing such practices or acquisitions to go ahead would be expected to exceed the detriments;
- the control of goods and services in markets where competition is limited and where it is in the interest of consumers to do so;
- other kinds of regulatory intervention, including information disclosure and arbitration;
- information disclosure by the major airports; and
- a targeted control regime for regulating electricity lines and gas pipelines businesses, where regulated businesses are required to adopt either a default price-quality path set by the regulator or else one customised for the business and sanctioned by the regulator.

Financial Reporting Law

Issuers of securities and large profit-oriented reporting entities in New Zealand are required to fully comply with International Financial Reporting Standards (IFRS). The arrangements to achieve this and to cater for entities pursuing public benefit rather than profit and small and medium-sized entities are described below.

The Financial Reporting Act 1993 applies to “reporting entities”, which are defined as issuers of securities under the Securities Act, and companies and other entities whose legislation requires them to comply with the Act.

The Act places obligations on such organisations to prepare financial statements that comply with generally accepted accounting practice within five months of their financial year or balance date. Smaller companies that meet prescribed criteria (except issuers of securities and overseas companies) can comply with less stringent reporting requirements, as the benefits of full financial reporting are unlikely to justify the costs for small privately held companies.

The Act also requires issuers of securities and overseas companies to have their financial statements audited and to file those financial statements with the Registrar of Companies on a public register. However, the obligation on small overseas companies to audit and file financial statements under the Act has been removed. The auditing requirements for other entities are found in other legislation (for example the auditing requirements for New Zealand companies are found in the Companies Act 1993).

The Act establishes the Accounting Standards Review Board (ASRB) to approve Financial Reporting Standards (which form the basis of generally accepted accounting practice). While any entity can submit standards to the ASRB, the practice has been for the Institute of Chartered Accountants New Zealand, a professional body, to develop and submit Financial Reporting Standards for approval by the Board.

These procedures have the effect of requiring large profit-oriented reporting entities to fully comply with the IFRS. The ASRB may also agree to approve additional reporting requirements for these entities. A number of amendments to these standards cater for financial reporting requirements of public sector entities and not-for-profit entities. The set of approved standards are collectively known as “New Zealand equivalents to International Financial Reporting Standards”.

The decision to adopt IFRS was taken in 2002 and the New Zealand equivalents to the IFRS were fully operational for issuers and for publicly accountable and large entities for reporting periods beginning on or after 1 January 2007. Small entities have the option to delay the adoption of the New Zealand equivalents to IFRS pending a government review of the financial reporting requirements applying to small and medium companies under the Financial Reporting Act.

Monetary Policy

Objectives

The Reserve Bank of New Zealand Act 1989 stipulates that the Bank is to formulate and implement monetary policy directed to the economic objective of achieving and maintaining stability in the general level of prices. The Act requires that there be a Policy Targets Agreement (PTA) between the Minister of Finance and the Governor of the Reserve Bank. The most recent PTA was signed in December 2008 after the new government took office. There were no substantive changes to the Agreement. For the purpose of the PTA, the policy target is to keep future CPI inflation outcomes between 1% and 3% on average over the medium term.

Section 3 of the PTA notes that there is a range of events that will cause the actual rate of CPI inflation to vary about its medium-term trend. When such disturbances occur, the Bank is tasked with responding in a manner consistent with meeting its medium-term target.

The PTA requires the Bank, in pursuing the price stability target, to seek to avoid unnecessary instability in output, interest rates and the exchange rate and to implement policy in a sustainable, consistent and transparent manner.

The Reserve Bank Act provides the Bank with a considerable degree of autonomy to carry out the price stability objective. However, the Act contains certain provisions that enable the government to override the price stability objective and the PTA, provided this is done in accordance with a set of procedures that would make the override publicly transparent.

Implementation

The Official Cash Rate (OCR) is the interest rate set by the Reserve Bank to meet the inflation target specified in the Policy Targets Agreement. The OCR influences the price of borrowing money in New Zealand and provides the Reserve Bank with a means of influencing the level of economic activity and inflation. The OCR is a fairly conventional tool by international standards. The OCR was introduced in March 1999 and is reviewed eight times a year by the Bank. The Bank issues "*Monetary Policy Statements*" with the OCR announcement on four of these occasions. Unscheduled adjustments to the OCR may occur at other times in response to unexpected or sudden developments but, to date, this has occurred only once – following the 11 September 2001 attacks in the United States.

During 2006, the Bank moved to a new liquidity management regime. Under the regime, the Reserve Bank sets no limit on the amount of cash it will borrow or lend at rates related to the OCR. The Bank stands ready to lend cash overnight at 50 basis points above the OCR when secured over government liabilities in its overnight reverse repurchase facility. Overnight balances in exchange settlement accounts are remunerated at the OCR.

The Bank publishes an assessment of economic conditions at quarterly intervals in its *Monetary Policy Statements*. The *Statements* contain projections that incorporate a forward path for interest rates that is consistent with achieving the inflation target. These projections are highly conditional, being based on a range of technical assumptions, but they serve to provide some indication of the Bank's current thinking on the policy outlook.

From 2004 until mid-2008, monetary policy was in a tightening phase with the Reserve Bank increasing the OCR by a total of 325 basis points from 5.0% in January 2004 to a peak of 8.25% in July 2007. The policy tightening reflected a prolonged period of strength in the domestic economy which left productive resources stretched and led to a rise in non-tradable inflation.

Economic activity declined through the first half of 2008, reflecting four concurrent shocks: a housing correction, sharply rising commodities prices, the global credit crunch and domestic drought. Despite this, annual CPI inflation increased to 5.1 percent in the September 2008 quarter, principally due to high international oil and food prices. Economic activity is expected to continue to be constrained by adverse international economic developments. Reflecting the weak outlook for economic activity and projections of inflation moving back inside the target band, the Reserve Bank reduced the OCR from 8.25 percent to 6.5 percent between July and October 2008. In response to the worsening international financial crisis, the OCR was further reduced by 150 basis points in December 2008 and again in January 2009, bringing the OCR to 3.5%.

Recent statements from the Reserve Bank, the latest being in January 2009, suggest that the easing cycle will continue despite annual CPI inflation reaching 3.5% in the December quarter 2008. The financial crisis is expected to slow growth in domestic demand, reducing non-tradable inflation pressure, while falling oil prices should also assist in easing inflationary pressures. The Bank noted that the current policy settings are consistent with inflation returning within the target band over the medium term as both tradable and non-tradable inflation looked set to ease.

Interest Rates and Money and Credit Aggregates

The following tables show developments in major interest rates and money and credit aggregates since the March quarter of 2004.

Key Interest Rates: Monthly Averages

Month		Overnight Cash Rate	90-Day Bank Bill Rate	Government Loan Stock Rates			Bank Base Lending Rates(1)
				(2 Year)	(5 Year)	(10 Year)	
2004	March	5.25	5.54	5.38	5.59	5.74	9.88
	June	5.68	6.07	5.97	6.16	6.29	10.35
	September	6.18	6.64	6.26	6.18	6.16	10.92
	December	6.50	6.71	6.11	5.98	5.95	11.18
2005	March	6.67	6.99	6.39	6.29	6.16	11.38
	June	6.75	7.03	6.05	5.84	5.71	11.43
	September	6.75	7.09	5.95	5.74	5.71	11.78
	December	7.19	7.66	6.23	5.95	5.83	12.28
2006	March	7.25	7.49	6.00	5.80	5.72	12.34
	June	7.25	7.47	6.37	5.97	5.84	12.34
	September	7.25	7.56	6.64	6.19	5.80	12.34
	December	7.51	7.66	6.49	6.22	5.77	12.34
2007	March	7.59	7.88	6.79	6.50	5.87	12.58
	June	8.10	8.32	7.33	7.13	6.72	13.04
	September	8.02	8.81	6.93	6.55	6.16	13.33
	December	8.18	8.90	7.47	7.16	6.40	13.39
2008	March	8.10	8.91	6.74	6.68	6.36	13.52
	June	8.21	8.68	6.58	6.45	6.42	13.67
	September	7.52	7.95	5.77	5.77	5.82	13.80
	December	5.05	5.23	4.52	4.58	4.88	13.25

(1) Weighted average base lending rates of the four largest registered banks.

Money and Credit Aggregates: Annual % Change

Quarter		M1(1)	M3	Private Sector Credit	Domestic Credit
2004	March	12.6	7.3	9.5	8.1
	June	9.6	8.8	9.2	9.5
	September	2.9	5.9	14.6	13.7
	December	3.2	6.3	12.2	12.0
2005	March	0.7	6.3	13.2	13.7
	June	0.0	8.4	11.9	11.1
	September	0.3	9.8	8.3	8.5
	December	(1.8)	7.3	10.2	9.9
2006	March	(1.8)	9.8	7.3	6.7
	June	2.3	10.9	10.7	9.1
	September	3.7	13.4	11.5	9.4
	December	4.1	16.5	12.5	11.2
2007	March	3.4	12.7	13.4	11.6
	June	(2.0)	10.7	13.8	12.1
	September	(0.5)	9.4	13.5	12.2
	December	1.2	7.4	12.8	10.9
2008	March	2.4	6.5	11.6	9.4
	June	4.3	7.4	10.5	8.9
	September	6.9	6.9	9.5	9.7
	December	3.0	7.3	7.3	8.8

(1) M1 figures include currency in the hands of the public and cheque account balances only.



The historic gold mining town of Arrowtown, Central Otago. *Andris Apse*



Vineyard on the shores of Lake Hayes near Arrowtown. *Andris Apse*

Public Finance and Fiscal Policy

Public Sector Financial System

No public money may be spent by the government except pursuant to an appropriation by Parliament. At present there are two methods of appropriation. The first is permanent appropriation, which covers principally the payment of interest on debt and certain fixed charges of the government and which does not require the passage of a specific Appropriation Act by Parliament. The second is by annual appropriation, which provides for most of the expenditure of the government and which does require the passage of a specific Act or Acts each year.

All borrowing by the government is undertaken under the Public Finance Act 1989, which provides that the Minister of Finance may from time to time, if it appears necessary or expedient in the public interest to do so, borrow money from any person, organisation or government, either within or outside New Zealand, on such terms and conditions as the Minister thinks fit.

Public Sector Financial Management

In 1994, the fiscal deficit in New Zealand was eliminated after 10 years of difficult political decision-making and management reform. Reform of the public sector financial management system was an integral component of this. New Zealand's public sector financial management system is now underpinned by two key pieces of legislation, the State Sector Act 1988 and the Public Finance Act 1989, which has been amended and now incorporates the provisions previously contained in the Fiscal Responsibility Act 1994.

State Sector Act 1988. This Act defines the responsibilities of chief executives of departments and their accountability to Ministers. The main objectives of the Act are to improve productivity, to ensure that managers have greater freedom and flexibility to manage effectively and, at the same time, to ensure that managers are fully accountable to the government for their performance. This has led to the formulation of performance contracts between Ministers and chief executives. These contracts specify expectations of performance and provide a basis for assessment, which may result in a combination of rewards or sanctions.

Public Finance Act 1989. The Public Finance Act 1989 provides the legislative basis for improving the quality and transparency of financial management and information. This is an essential component of the accountability arrangements established under the State Sector Act.

The driving principle behind the Public Finance Act is a move of focus from what departments consume to what they produce. Hence, budgeting and reporting is on an output basis rather than relying solely on information relating to how outputs are produced. Departments were made responsible for outputs (the goods and services they produce) while Ministers were made responsible for selecting the output mix to achieve government outcomes (desired goals).

The Act requires the Crown and all its sub-entities to report on a basis consistent with GAAP. This has significantly improved the comparability and reliability of the financial information reported.

Consistent with the output focus, the Public Finance Act requires additional disclosures such as statements of intent and statements of service performance. The documents go beyond disclosure of financial information and require disclosure of objectives and service and financial management performance. In addition, the Act specifies other Crown disclosures specific to the public sector such as a statement of unappropriated expenditure and a statement of emergency expenditure or expenses or liabilities.

In addition, the Public Finance Act outlines requirements for ex ante information essential for a robust system of government budgeting. The Public Finance Act specifies a number of specific disclosures required for the Estimates (the government's Budget documentation). Also as part of ex ante information disclosure requirements, the Act requires departmental Statements of Intent and forecast financial statements, Crown Entity statements of intent and statements of corporate intent for SOEs.

The first set of financial statements for the combined Crown (the Government of New Zealand) was produced for the six months ended 31 December 1991. The first annual set was produced for the financial year ended 30 June 1992. From 1 July 1992, the statements also included the Crown's interest in SOEs and Crown Entities. Monthly Crown Financial Statements are now published for the period from the beginning of the financial year to the end of each month from September onwards.

Since 30 June 2003, the Crown financial statements have been prepared on a fully consolidated basis incorporating line by line the total revenue and expenses of SOEs and Crown entities.

Fiscal Responsibility Provisions

The Fiscal Responsibility Act 1994 promoted consistent, good quality fiscal management. This Act has now been repealed but its provisions have largely been incorporated into Part 2 of the Public Finance Act 1989.

Part 2 of the Public Finance Act 1989 now provides the legislative framework for the conduct of fiscal policy in New Zealand. Part 2 encourages better decision-making by the government, strengthens accountability and ensures more informed public debate about fiscal policy.

Part 2 works by requiring the government to:

- follow a legislated set of principles of responsible fiscal management and publicly assess their fiscal policies against these principles. The government may temporarily depart from the principles but must do so publicly, explain why they have departed and reveal how and when they intend to conform to the principles;
- publish two fiscal responsibility documents: the Budget Policy Statement (BPS) and the Fiscal Strategy Report (FSR). These documents focus on different aspects of the government's fiscal policy. The BPS has a shorter-term focus. It sets out the over-arching policy goals that will guide the government's Budget decisions and the government's priorities for the forthcoming Budget. The FSR sets out the government's long-term fiscal strategy and explains how that strategy accords with the principles of responsible fiscal management;
- publish economic and fiscal forecasts (Economic and Fiscal Updates – EFU) twice each financial year: at the time of the Budget and again before the end of the calendar year. The Treasury is also required to publish an EFU prior to a general election. In addition, the Treasury is required to publish, at least every four years, a Statement on the Long-term Fiscal Position, looking out at least 40 years. The first such Statement was presented to Parliament in June 2006;
- present all financial information under GAAP;
- require the Treasury to prepare forecasts based on its best professional judgement about the impact of policy, rather than relying on the judgement of the government. It also requires the Minister of Finance to communicate all of the government's policy decisions to the Treasury so that the forecasts are comprehensive; and
- refer all reports required under the Act to a parliamentary select committee.

These requirements mean that the government of the day has to be transparent about both its intentions and the short and long-term impact of its spending and taxation decisions. Such transparency is likely to lead governments to give more weight to the longer-term consequences of their decisions and is therefore likely to lead to more sustainable fiscal policy. This increases predictability about, and stability in, fiscal policy settings, which helps promote economic growth and gives people a degree of certainty about the on-going provision of government services and transfers.

Part 2 of the Public Finance Act establishes a set of principles for use as a benchmark against which the fiscal policies of the government can be judged by Parliament and its Finance and Expenditure Committee.

These principles are:

- to reduce debt to prudent levels to provide a buffer against future adverse events;
- to run operating surpluses until prudent debt levels are achieved;
- to maintain prudent debt levels by ensuring that, on average, total operating expenses do not exceed total operating revenues i.e., the government is to live within its means over time, with some scope for flexibility through the business cycle;
- to achieve and maintain levels of net worth to provide a buffer against adverse events;
- to manage the risks facing the Crown; and
- to pursue policies that are consistent with a reasonable degree of predictability about the level and stability of future tax rates.

The presumption is that the government should follow these principles, although it may depart temporarily from these principles if it wishes. The legislation requires, however, that the government specify its reasons for departure from the principles, how it expects to return to the principles, and when. This recognises the difficulty of attempting to anticipate all future events and, therefore, the need for some short-term policy flexibility, but also requires that departures are transparent and should only be temporary.

Adoption of New Reporting Standard

The government implemented the New Zealand International Financial Reporting Standard (NZIFRS) from 1 July 2007. The impacts of the adoption of NZIFRS are:

- more disclosures in financial statements;
- more volatility in financial performance as a result of greater use of fair value measurement; and
- previously off-balance-sheet items (e.g., derivatives) brought into the balance sheet.

Current Fiscal Position and 2008 Budget

The following table summarises the government's fiscal position according to GAAP in line with the provisions of Part 2 of the Public Finance Act 1989.

	Year ended 30 June						
	2004	2005	2006	2007	2008	2009 Budget Update(1)	2009 December Update(2)
(dollar amounts in millions)							
Statement of Financial Performance							
Core Crown tax revenue	43,358	47,468	50,973	53,477	56,747	56,058	55,400
Core Crown other revenue	2,861	3,577	4,762	4,734	5,072	5,149	5,406
Core Crown revenue	46,219	51,045	55,735	58,211	61,819	61,207	60,806
Crown entities, SOE revenue and eliminations	13,051	14,322	15,690	16,378	19,660	20,483	NA
TOTAL CROWN REVENUE	59,271	65,367	71,425	74,589	81,479	81,690	NA
Social security and welfare	14,252	14,682	15,598	16,768	17,877	19,156	NA
Health	8,111	8,813	9,547	10,355	11,297	12,377	NA
Education	7,585	7,930	9,914	9,269	9,551	10,739	NA
Core government services	2,091	2,567	2,507	4,817	3,371	3,649	NA
Other core Crown expenses	9,843	10,903	11,754	12,795	14,901	16,438	NA
CORE CROWN EXPENSES	41,882	44,895	49,320	54,004	56,997	62,359	62,741
Crown entities, SOE expenses and eliminations	11,816	13,397	15,015	14,725	18,845	19,395	NA
TOTAL CROWN EXPENSES	53,698	58,292	64,334	68,729	75,842	81,754	NA
OBEGAL	5,573	7,075	7,091	5,860	5,637	(64)	(550)
Gains/(losses)	1,736	(1,144)	2,451	2,162	(3,253)	1,973	(3,779)
Operating balance	7,309	5,931	9,542	8,022	2,384	1,909	(4,329)
Statement of Financial Position							
Property, plant and equipment	57,940	67,494	89,141	95,598	103,329	107,895	NA
Financial assets	32,654	42,005	66,396	73,719	85,063	87,145	NA
Other assets	18,756	19,714	9,503	11,031	12,443	13,579	NA
TOTAL ASSETS	109,351	129,212	165,040	180,348	200,835	208,619	NA
Borrowings	37,720	37,728	40,027	41,898	46,110	48,618	NA
Other liabilities	32,036	37,243	41,042	41,623	49,211	52,232	NA
TOTAL LIABILITIES	69,756	74,972	81,069	83,521	95,321	100,850	NA
Net worth	39,595	54,240	83,971	96,827	105,514	107,769	NA
Fiscal Indicators							
Core Crown revenue (excl NZS Fund)	46,165	51,088	55,844	58,482	61,671	61,102	60,406
Core Crown expenses	41,882	44,895	49,320	54,004	56,997	62,359	62,741
OBEGAL	5,573	7,075	7,091	5,860	5,637	(64)	(550)
OBEGAL (excl NZS Fund)	5,526	7,140	7,252	6,250	5,586	(31)	(812)
Operating balance	7,309	5,931	9,542	8,022	2,384	1,909	(4,329)
Core Crown residual cash	520	3,104	2,985	2,793	2,057	(5,909)	(6,633)
GSID (excluding settlement cash)	36,017	35,478	33,903	30,647	31,390	32,087	34,786
Net core Crown debt	15,569	11,093	8,044	4,109	(19)	5,207	5,631
NZS Fund net worth	3,956	6,555	9,855	12,973	14,212	17,440	14,335

(1) Pre-election Budget Update published 6 October 2008.

(2) Partial Update published 18 December 2008 – main scenario.

Current Fiscal Position and 2008 Budget

	Year ended 30 June						
	2004	2005	2006	2007	2008	2009 Budget Update(1)	2009 December Update(2)
	(as % of GDP)						
GDP	142,251	150,789	156,933	168,106	180,077	184,390	181,100
Core Crown tax revenue	30.5%	31.5%	32.5%	31.8%	31.5%	30.4%	30.6%
Core Crown other revenue	2.0%	2.4%	3.0%	2.8%	2.8%	2.8%	3.0%
Core Crown revenue	32.5%	33.9%	35.5%	34.6%	34.3%	33.2%	33.6%
Crown entities, SOE and elimination revenue	9.2%	9.5%	10.0%	9.7%	10.9%	11.1%	NA
TOTAL CROWN REVENUE	41.7%	43.3%	45.5%	44.4%	45.2%	44.3%	NA
Social security and welfare	10.0%	9.7%	9.9%	10.0%	9.9%	10.4%	NA
Health	5.7%	5.8%	6.1%	6.2%	6.3%	6.7%	NA
Education	5.3%	5.3%	6.3%	5.5%	5.3%	5.8%	NA
Core government services	1.5%	1.7%	1.6%	2.9%	1.9%	2.0%	NA
Other core Crown expenses	6.9%	7.2%	7.5%	7.6%	8.3%	8.9%	NA
CORE CROWN EXPENSES	29.4%	29.8%	31.4%	32.1%	31.7%	33.8%	34.6%
Crown entities, SOE expenses and eliminations	8.3%	8.9%	9.6%	8.8%	10.5%	10.5%	NA
TOTAL CROWN EXPENSES	37.7%	38.7%	41.0%	40.9%	42.1%	44.3%	NA
OBEGAL	3.9%	4.7%	4.5%	3.5%	3.1%	(0.0%)	(0.3%)
Gains/(losses)	1.2%	(0.8%)	1.6%	1.3%	(1.8%)	1.1%	(2.1%)
Operating balance	5.1%	3.9%	6.1%	4.8%	1.3%	1.0%	(2.4%)
Statement of Financial Position							
Property, plant and equipment	40.7%	44.8%	56.8%	56.9%	57.4%	58.5%	NA
Financial assets	23.0%	27.9%	42.3%	43.9%	47.2%	47.3%	NA
Other assets	13.2%	13.1%	6.1%	6.6%	6.9%	7.4%	NA
TOTAL ASSETS	76.9%	85.7%	105.2%	107.3%	111.5%	113.1%	NA
Borrowings	26.5%	25.0%	25.5%	24.9%	25.6%	26.4%	NA
Other liabilities	22.5%	24.7%	26.2%	24.8%	27.3%	28.3%	NA
TOTAL LIABILITIES	49.0%	49.7%	51.7%	49.7%	52.9%	54.7%	NA
Net worth	27.8%	36.0%	53.5%	57.6%	58.6%	58.4%	NA
Fiscal Indicators							
Core Crown revenue (excl NZS Fund)	32.5%	33.9%	35.6%	34.8%	34.2%	33.1%	33.3%
Core Crown expenses	29.4%	29.8%	31.4%	32.1%	31.7%	33.8%	34.6%
OBEGAL	3.9%	4.7%	4.5%	3.5%	3.1%	(0.0%)	(0.3%)
OBEGAL (excl NZS Fund)	3.9%	4.7%	4.6%	3.7%	3.1%	(0.0%)	(0.4%)
Operating balance	5.1%	3.9%	6.1%	4.8%	1.3%	1.0%	(2.4%)
Core Crown residual cash	0.4%	2.1%	1.9%	1.7%	1.1%	(3.2%)	(3.7%)
GSID (excluding settlement cash)	25.3%	23.5%	21.6%	18.2%	17.4%	17.4%	19.2%
Net core Crown debt	10.9%	7.4%	5.1%	2.4%	(0.0%)	2.8%	3.1%
NZS Fund net worth	2.8%	4.3%	6.3%	7.7%	7.9%	9.5%	7.9%

(1) Pre-election Budget Update published 6 October 2008.

(2) Partial Update published 18 December 2008 – main scenario.

Taxation

The main taxes are the income tax and Goods and Services Tax (GST), a value-added tax. Both are applied at low rates to broad bases. This is the result of the major tax reforms undertaken since the mid-1980s. The introduction of GST in 1986 marked a significant shift in the mix of taxation from direct to indirect tax.

Personal Income Tax

All income other than capital gains is taxed. As at 1 October 2008, the effective personal tax scale applying to people who earn wage and salary income was as follows: 15% on income up to \$14,000 per annum; 21% on income between \$14,000 and \$40,000; 33% on income between \$40,000 and \$70,000 and 39% on income above \$70,000.

The new government announced during the election campaign that it would implement further changes to personal tax rates and thresholds to come into effect on 1 April 2009, 2010 and 2011, as well as a tax credit for some independent earners who are not currently entitled to government assistance. The new rates of personal income tax that will apply from 1 April 2009 are as follows: 12.5% on income up to \$14,000 per annum; 21% on income between \$14,000 and \$48,000; 33% on income between \$48,000 and \$70,000 and 38% on income above \$70,000.

Withholding taxes apply to wages and salaries and to interest income and dividends. Fringe benefits are taxed separately.

Tax credits based on combined family income are available to families with children.

The tax treatment of pension funds and other savings is "TTE": contributions are made from Tax-paid income, fund earnings are Taxed, and withdrawals are Exempt. Changes introduced on 1 October 2007 in conjunction with the introduction of a work-based savings scheme have reduced the tax on savings, these include:

- investment income earned through a managed fund that qualifies as a Portfolio Investment Entity (PIE) is taxed at a maximum rate of 30%. PIEs are not taxed on realised gains from shares in New Zealand companies and some Australian listed companies;
- a tax exemption for employer contributions to registered employee superannuation schemes.

Indirect Taxes

GST applies at a uniform rate of 12.5%. Financial services and housing rentals are exempt. Additional indirect taxes are applied to alcohol and tobacco products, petroleum fuels and gaming. There are also cheque and gift duties.

Company Taxes

The company tax rate is 30%. Imputation credits are attached to dividends. Inter-corporate dividends (other than from wholly-owned subsidiaries) are taxed as income. Depreciation rates for new assets are based on the economic life of the asset plus a 20% loading. There is immediate deductibility against income of forestry and mineral mining development costs, petroleum exploration expenditure and of most agricultural development costs.

International Taxation

The foreign-source income of New Zealand residents is subject to tax. Controlled foreign company rules apply for direct investment, with foreign income taxed on accrual according to the resident controller's interest. Credits are available for foreign tax paid. There is, however, a general exception for foreign income derived from a "grey list" of eight countries with comparable tax regimes (Australia, Canada, Germany, Japan, Norway, Spain, United Kingdom and United States). Investment income from grey list countries is not taxed on accrual.

The government has proposed an income tax exemption for the active foreign income of controlled foreign companies. The proposed exemption will be similar to that operating in other OECD countries. This regime will effectively replace the grey list. Legislation to give effect to these changes was introduced in July 2008.

Investments in the shares of foreign companies (except for some Australian listed companies) of less than 10% are taxed under the new Fair Dividend Rate method, introduced from 1 April 2007. The investor is attributed income equal to 5% of the investment's opening value. Dividend income is exempt. Where an individual can show the unrealised gain on their investments is less than 5%, the investor is taxed on this lower amount.

The tax treatment of the New Zealand income of non-residents encourages inward capital flows where this is feasible. Interest payments to non-residents are subject either to non-resident withholding tax (in most cases at a 10% rate where a double tax agreement applies and 15% otherwise) or to a 2% levy. In the case of New Zealand government debt, the issuer absorbs the levy.

Dividends paid to non-residents are also subject to withholding taxes. Companies paying fully imputed dividends to non-resident investors can receive a credit of part of the company tax paid, which the company then pays to the investor. The net effect is that the maximum combined level of company tax and withholding tax is 30%. The government has implemented transfer pricing and thin capitalisation regimes and partially relieves New Zealand tax on offshore income derived by New Zealand companies on behalf of non-resident shareholders.



A snow storm approaches Lake Pukaki, South Canterbury. *Andris Apse*

Government Enterprises

State-Owned Enterprises

In May 1986, the government announced a major programme for reform of government enterprises. The aim of the reforms was to improve the efficiency and accountability of the enterprises and reduce the government's exposure to business risk. To this end, the government restructured a large number of its departmental trading activities and established them as businesses operating on a basis as close as possible to private sector companies.

SOEs are required to operate on the basis of principles and procedures contained in the State-Owned Enterprises Act 1986. Under the Act, the boards of SOEs have complete autonomy on operational matters, such as to how resources are used, pricing and marketing of output. Competitive advantages and disadvantages, including barriers to entry, have been removed, first, so that commercial criteria provide an objective assessment of performance and, secondly, to increase efficiency. Under the Act, SOEs have no responsibility for continuing non-commercial operations and the government is required to negotiate an explicit contract if it wishes an SOE to carry out such activities.

Boards of directors drawn from the private sector have been formed to manage SOEs. Each board is required to present to the shareholding Ministers a statement of corporate intent and an outline of business objectives, defining the nature and scope of activities and performance targets. These are closely monitored and SOEs are expected to achieve performance targets and pay dividends on a basis comparable to their private sector competitors. The shareholding Ministers may determine the levels of the dividends.

The SOEs borrow in their own names and on their own credit, in most cases without a guarantee or other form of credit support from the Government. All SOEs have been informed that Government policy requires that they disclaim in loan documentation the existence of such guarantees or credit supports.

Crown Entities

Crown Entity is a collective term for bodies owned by the Crown that are not departments, Offices of Parliament or State-Owned Enterprises. Crown Entities range from Crown Research Institutes to regulatory bodies, such as the Commerce Commission and the Securities Commission. Crown Entities are required to table their annual financial statements in Parliament.

Performance of Government Enterprises

The following tables show the Government's financial interest in SOEs and Crown Entities.

Except for those entities listed below, all SOEs and significant Crown Entities have a balance date of 30 June, and the information reported in these tables is for the period ended 30 June 2008.

	Balance date	Information reported to
State-Owned Enterprises		
Asure New Zealand Limited	30 September	30 June 2008
Crown Entities		
School boards of trustees	31 December	31 December 2007
Tertiary education institutions	31 December	30 June 2008

Performance of Government Enterprises

	30 June 2008			30 June 2007		
	Total revenue	Operating balance	Distributions to Crown	Total revenue	Operating balance	Distributions to Crown
(dollar amounts in millions)						
State-Owned Enterprises						
AgriQuality New Zealand Limited	17	(5)	-	85	-	-
Airways Corporation of New Zealand Limited	139	11	(6)	132	7	(6)
Asure New Zealand Limited	10	1	(2)	53	3	(2)
AsureQuality Limited	104	5	-	-	-	-
Electricity Corporation of New Zealand Limited	1	-	-	1	-	-
Genesis Power Limited	2,545	99	(29)	1,776	89	(10)
Landcorp Farming Limited	8	59	(12)	6	20	(3)
Meridian Energy Limited	2,609	129	(298)	1,774	241	(368)
Meteorological Service of New Zealand Limited	35	3	-	31	2	(2)
Mighty River Power Limited	1,176	113	(56)	789	98	(50)
New Zealand Post Limited	1,729	110	(27)	1,486	86	(31)
New Zealand Railways Corporation	241	(45)	-	223	(20)	-
Solid Energy New Zealand Limited	555	36	-	540	95	-
Timberlands West Coast Limited	19	(24)	-	18	(4)	-
Transpower New Zealand Limited	642	76	-	626	206	-
Kordia Group Limited	239	1	(9)	261	14	(5)
Animal Control Products Limited	6	1	(1)	6	1	(1)
Learning Media Limited	24	(2)	-	25	-	-
Quotable Value New Zealand	41	18	(5)	42	2	(1)
TOTAL STATE-OWNED ENTERPRISES	10,140	586	(445)	7,874	840	(479)
Air New Zealand Limited	4,784	278	(105)	4,380	(50)	(162)
TOTAL SOES AND AIR NEW ZEALAND	14,924	864	(550)	12,254	790	(641)
Intra-segmental eliminations	(327)	(141)	-	(366)	17	-
TOTAL PER STATEMENT OF SEGMENTS	14,597	723	(550)	11,888	807	(641)
Crown Entities						
Accident Compensation Corporation	4,200	(2,408)	-	3,684	(112)	-
Crown research institutes	644	21	-	594	8	-
District health boards (including the Crown Health Funding Agency)	9,896	(24)	-	9,046	2	-
Earthquake Commission	439	107	-	215	16	-
Housing New Zealand Corporation	891	18	(13)	826	97	(20)
Museum of New Zealand Te Papa Tongarewa	44	(14)	-	46	(9)	-
New Zealand Fire Service Commission	296	3	-	282	14	-
Public Trust	124	(28)	-	105	4	-
Schools Boards of Trustees	5,403	52	-	4,487	33	-
Tertiary Education Commission	2,642	2	-	2,404	5	-
TEIs	-	225	-	-	108	-
Transit New Zealand	1,206	600	-	1,156	550	-
Television New Zealand Limited	392	19	(10)	375	(8)	(15)
Other	4,925	47	(2)	4,918	410	(1)
TOTAL CROWN ENTITIES	31,102	(1,380)	(25)	28,138	1,118	(36)
Intra-segmental eliminations	(2,089)	(146)	-	(1,938)	(95)	-
TOTAL PER STATEMENT OF SEGMENTS	29,013	(1,526)	(25)	26,200	1,023	(36)
TOTAL FINANCIAL INTEREST IN SOES, CROWN ENTITIES AND AIR NEW ZEALAND LIMITED	43,610	(803)	(575)	38,088	1,830	(677)

	30 June 2008					30 June 2007	
	Purchase of PPE	Total PPE	Total assets	Total borrowings	Total Liabilities	Equity	Equity
(dollar amounts in millions)							
State-Owned Enterprises							
AgriQuality New Zealand Limited	(2)	-	-	-	-	-	25
Airways Corporation of New Zealand Limited	(17)	107	132	27	78	54	46
Asure New Zealand Limited	-	-	-	-	-	-	10
AsureQuality Limited	(2)	27	63	13	32	31	-
Electricity Corporation of New Zealand Limited	-	-	18	16	16	2	2
Genesis Power Limited	(218)	1,851	2,680	573	1,273	1,407	1,326
Landcorp Farming Limited	(131)	1,365	1,729	251	280	1,449	1,185
Meridian Energy Limited	-	6,433	7,189	1,114	2,984	4,205	4,402
Meteorological Service of New Zealand Limited	(7)	11	19	5	10	9	6
Mighty River Power Limited	(303)	3,499	4,038	865	1,782	2,256	1,694
New Zealand Post Limited	(45)	328	8,028	7,073	7,361	667	588
New Zealand Railways Corporation	(213)	11,799	11,907	223	282	11,626	10,549
Solid Energy New Zealand Limited	(55)	352	626	28	258	368	340
Timberlands West Coast Limited	-	6	32	-	10	22	43
Transpower New Zealand Limited	(321)	2,554	2,867	1,192	1,533	1,334	1,265
Kordia Group Limited	(37)	167	259	116	158	101	106
Animal Control Products Limited	(1)	2	6	-	1	5	4
Learning Media Limited	-	2	8	-	4	4	6
Quotable Value New Zealand	(2)	2	31	-	9	22	9
TOTAL STATE-OWNED ENTERPRISES	(1,354)	28,505	39,632	11,496	16,071	23,562	21,606
Air New Zealand Limited	(238)	2,671	5,316	1,412	3,488	1,828	1,577
TOTAL SOES AND AIR NEW ZEALAND	(1,592)	31,176	44,948	12,908	19,559	25,390	23,183
Intra-segmental eliminations	(303)	(143)	(506)	(91)	(94)	(413)	(383)
TOTAL PER STATEMENT OF SEGMENTS	(1,895)	31,033	44,442	12,817	19,465	24,977	22,800
Crown Entities							
Accident Compensation Corporation	(54)	64	13,186	29	21,163	(7,977)	(5,571)
Crown research institutes	(57)	472	668	38	177	490	450
District health boards (including the Crown Health Funding Agency)	(449)	4,173	6,846	2,968	4,696	2,150	2,014
Earthquake Commission	(3)	13	5,637	-	102	5,535	5,429
Housing New Zealand Corporation	(283)	15,177	15,493	1,833	3,197	12,296	11,591
Museum of New Zealand Te Papa Tongarewa	(17)	1,006	1,038	-	14	1,024	978
New Zealand Fire Service Commission	(48)	491	559	7	87	471	448
Public Trust	(1)	8	1,011	979	991	20	49
School boards of trustees	(109)	1,300	2,343	84	675	1,668	1,436
Tertiary education commission	(2)	6	161	20	145	16	21
TEIs	(478)	-	8,386	-	-	7,037	6,310
Transit New Zealand	(1,034)	20,956	21,164	-	195	20,969	19,418
Television New Zealand Limited	(16)	127	316	30	114	201	192
Other	(37)	184	1,723	43	948	778	858
TOTAL CROWN ENTITIES	(2,588)	43,977	78,531	6,278	32,504	44,678	43,623
Intra-segmental eliminations	586	(318)	(3,193)	(1,573)	(1,543)	(301)	(297)
TOTAL PER STATEMENT OF SEGMENTS	(2,002)	43,659	75,338	4,705	30,961	44,377	43,326
TOTAL FINANCIAL INTEREST IN SOES, CROWN ENTITIES AND AIR NEW ZEALAND LIMITED							
Tertiary education institutions	(478)	6,928	8,386	247	1,349	7,037	6,310



Sunrise on the West Coast. *Andris Apse*

Westland stretches some 400 kilometres along the West Coast of the South Island, bounded by the unpredictable Tasman Sea on the one side and the grandeur of the Southern Alps on the other.



The tiny settlement of Okarito with the Southern Alps as backdrop. *Andris Apse*

Direct Public Debt(1)

Debt Management Objectives

During 1988, as part of the reform of the government's financial management, the New Zealand Debt Management Office (NZDMO) was formed to improve the management of risk associated with the government's fixed income portfolio, which comprises liabilities in both the New Zealand and overseas markets and some liquidity assets. The categories of risk managed are: market, credit, liquidity, funding, operational and concentration risk.

In 1988, the NZDMO introduced reforms of the public sector's cash management involving centralisation of surplus cash funds for investment and cash management purposes, and decentralisation to departments of the responsibility for payments and other banking operations.

The separation of the government's financial management from monetary policy enables the NZDMO to focus on defining a low-risk net liability portfolio for the Government and implementing it in a cost-effective manner.

Prior to March 1985, successive governments had borrowed under a fixed exchange-rate regime to finance the balance of payments deficit. Since the adoption of a freely floating exchange rate regime, the government has borrowed externally only to rebuild the nation's external reserves and to meet refinancing needs.

Direct public debt increased by a net amount of \$702 million including swaps between 1 July 2007 and 30 June 2008. This increase was due to a net increase in internal debt of \$702 million. There was no change in external debt.

As of 30 June 2008, 2% of the interest-bearing direct debt of the government was repayable in foreign currencies. The quantifiable contingent liabilities of the Government, including the Reserve Bank of New Zealand, State-Owned Enterprises and Crown Entities, amounted to approximately \$4,869 million.

Under existing legislation, amounts payable in respect of principal and interest upon New Zealand securities are a charge upon the public revenues of New Zealand, payable under permanent appropriation. All of the indebtedness of New Zealand is otherwise unsecured.

Debt Record

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

(1) The debt figures in this section are presented in nominal dollars and relate solely to the core Crown entity. In this respect, they will differ from the sovereign-issued debt figures as disclosed in the Crown Financial Statements of New Zealand. The latter are presented in accordance with generally accepted accounting practice and include debt issued by the Reserve Bank of New Zealand.

Summary of Direct Public Debt

Funded and Floating Debt

The following table sets out the direct funded and floating debt of the government on the dates indicated. Funded debt is indebtedness with an original maturity of one year or more and floating debt is indebtedness with an original maturity of less than one year. Funded debt, and therefore total direct debt, includes swap transactions.

Total direct debt includes a net swap payable (\$366.2 million at June 2008) with offsetting impacts on internal and external funded debt. Swap transactions, which are included in almost all the following public debt tables, increase external funded debt and reduce internal funded debt in 2008.

	2004	2005	As at 30 June		
			2006	2007	2008
			(dollar amounts in millions)		
Funded Debt(1)					
Internal (2)	26,632.0	26,555.3	25,346.9	26,860.4	28,210.4
External (3)(4)	3,736.0	3,536.4	5,116.4	2,048.0	2,048.5
Floating Debt					
Internal Debt (5)	5,815.0	5,595.0	5,057.0	2,303.4	1,655.0
External Debt (3)(6)	579.2	394.9	-	-	-
TOTAL DIRECT DEBT	36,762.2	36,081.6	35,520.3	31,211.4	31,913.9
TOTAL PUBLIC DEBT AS A % OF GDP(7)	26.7%	23.9%	22.7%	18.9%	17.7%

- (1) Includes the effect of swap transactions. Excludes indebtedness to international financial organisations arising from membership.
- (2) Includes Government Wholesale Bonds, Kiwi Bonds, Index-Linked Bonds.
- (3) External debt is converted at the mid-point of the 3:00 P.M. spot rate on 30 June for each year.
- (4) Includes Public Bonds, Private Placements, Syndicated Loans, and Medium Term Notes.
- (5) Treasury Bills and Reserve Bank Bills.
- (6) Includes Sovereign Notes and Euro-Commercial Paper.
- (7) GDP: Treasury Estimate for June years.

Direct Public Debt by Currency of Payment

As part of its debt management activities, the government enters into currency swap arrangements which have the effect of converting to a different currency principal obligations on New Zealand's external debt.

The following table shows the direct public debt of New Zealand at 30 June 2008 by currency of payment after swap positions are taken into account and shows the estimated interest for the year ending 30 June 2009, including swap positions.

	Amount outstanding at 30 June 2008(1)	Estimated interest for the year to 30 June 2009(2)
	(dollar amounts in millions)	
External Debt		
Repayable in United States Dollars	397.9	94.0
Repayable in Japanese Yen	246.6	1.0
Repayable in Pounds Sterling	12.6	0.3
Repayable in Euro	0.0	51.6
Repayable in Other Currencies	0.0	9.1
Internal Debt	30,890.3	1,669.1
Subtotal	31,547.7	1,886.4
Swaps	366.2	-
TOTAL DIRECT PUBLIC DEBT	31,913.9	-

- (1) Converted at the midpoint of the 3:00 P.M. spot exchange rates on 30 June 2008 which were:
NZD 1 = US\$0.7622 = Yen 81.01 = Pounds 0.3824 = Aus\$0.7924 = Euro 0.4828.
- (2) In some cases, interest payments are offset by interest receipts.

Details of External Public Debt at 30 June 2008(1)

The following table sets out by currency the estimated payments of principal, including mandatory amortisation provisions, to be made on the external direct public debt of New Zealand as at 30 June 2008, shown in New Zealand dollars based on rates of exchange on that date and with adjustment to reflect the effect of currency swap arrangements.

Maturing in year ended 30 June	2009	2010	2011	2012	2013	2014	2015-18	2019+	Total
(dollar amounts in millions)									
United States dollar	(132)	33	53	131	0	0	(98)	0	(13)
Japanese Yen	0	(46)	0	123	107	0	0	0	184
British pounds	0	0	0	0	0	0	13	0	13
Euro	352	0	0	235	176	0	773	0	1,536
Australian dollars	243	35	0	32	18	0	0	0	328
Canadian dollars	0	0	0	0	0	0	0	0	0
TOTAL EXTERNAL DEBT	463	22	53	521	301	0	688	0	2,048
Percentage of Total Foreign Debt	22.6%	1.1%	2.6%	25.4	14.7%	0.0%	33.6%	0.0%	100%

(1) Includes Sovereign Note Programme (notes not exceeding 270 days to maturity) and Euro-Commercial Paper Programme (notes not exceeding 365 days to maturity).

Interest and Principal Requirements

For the year ended 30 June 2008, the total payment of interest on public debt of the government was \$1,931 million. The following table indicates the movements in external interest-bearing public debt since 1999, excluding swap positions.

	External Debt(1)		Interest Charges	
	Amount(2)	As % of Total Public Debt	Amount	As % of Exports(3)
(dollar amounts in millions)				
30 June 1999	6,053.1	16.2	402.9	1.3
30 June 2000	6,633.2	17.7	413.9	1.2
30 June 2001	6,022.8	15.7	404.5	0.9
30 June 2002	4,733.5	12.4	311.4	0.7
30 June 2003	4,523.0	11.8	216.6	0.5
30 June 2004	3,728.9	10.1	191.8	0.5
30 June 2005	2,709.0	7.5	167.6	0.4
30 June 2006	1,866.2	5.3	122.4	0.3
30 June 2007	1,638.2	5.2	88.8	0.2
30 June 2008	657.4	2.1	69.0	0.1

(1) Excludes non-interest-bearing indebtedness to international organisations.

(2) External debt is converted at the midpoint of the 3:00 P.M. spot exchange rate on 30 June in each case.

(3) Based on exports of goods and services for each year.

Maturity Profile of Direct Public Debt

The following table sets forth the maturity dates of New Zealand public debt outstanding as at 30 June 2008, including the effect of swap positions.

Loans Maturing in Year Ending 30 June(1)	External(2)	Internal	Total Debt
(dollar amounts in millions)			
2009	462.7	3,576.9	4,039.6
2010	22.1	5,347.6	5,369.7
2011	53.3	6.7	60.0
2012	521.7	4,866.0	5,837.7
2013	301.2	4,242.0	4,543.2
2014	0.0	0.8	0.8
2015 to 30 June 2018	687.5	9,631.1	10,318.6
After 30 June 2018	0.0	0.0	0.0
Treasury Bills	-	1,655.0	1,655.0
Other	-	539.3	539.3
Total	2,048.5	29,865.4	31,913.9

(1) With respect to many of the loans, the Government has the option to redeem the securities at an earlier date.

(2) Converted at the mid-point of the 3:00 P.M. spot exchange rate on 30 June 2008.

(3) Retail Stock.

Tables and Supplementary Information

Table I – Internal Debt as of 30 June 2008

Currency	Principal Outstanding	Maturity Date	Coupon Rate	Fiscal Year of Issue	Amortisation
Government Stock	3,790,000,000	15/07/08	6.00	2005	
	5,365,000,000	15/07/09	7.00	1998	
	5,067,000,000	15/11/11	6.00	1999	
	4,347,000,000	15/04/13	6.50	2001	
	3,899,000,000	15/04/15	6.00	2003	
	1,980,646,200	15/02/16	4.5	1996	
	<u>4,165,000,000</u>	15/12/17	6.00	2005	
	28,613,646,200				
Treasury Bills	1,655,000,000	02/07/08 - 24/09/08	7.55 - 8.02	2008	
Loans	772,399	01/09/13	Variable	1994	2009-2013
	80,063,480	09/05/10 - 25/06/13	Variable	2006	
	<u>1,490,500</u>	15/07/08 - 01/03/17	4.875 - 5.75	(2)	
	39,844,147				
Retail stock	419,852,192	02/07/08 - 26/07/10	5.00 - 7.50	2004 - 2008 (3)	
	<u>119,472,000</u>	Call	3.00	(1)	
	539,342,192				
Total NZD Internal Debt	30,890,314,772				

(1) Income Equalisation Reserve Deposits – Repayable at holder’s option (subject to criteria under the Income Tax Act 1994) or after five years.

(2) Debt of the Ministry of Transport for which the Government assumed responsibility on 1 July 1997, subsequent to its fiscal issue date.

(3) Kiwi Bonds repayable at holder’s option upon seven business days’ notice.

Table II – External Debt as of 30 June 2008

Currency	Principal Outstanding	Maturity Date	Coupon Rate	Fiscal Year of Issue	Amortisation
USD	53,389,300	Call	Variable	2007	
	40,635,000	15/01/11	9.88	1986	
	100,000,000	23/04/12	4.15	2004	
	81,707,000	01/04/16	8.75	1987	
	<u>27,543,000</u>	25/09/16	9.13	1987	
	629,314,563				
Japan	10,000,000,000	11/05/12	2.59	2000	
	<u>10,000,000,000</u>	27/11/12	6.34	1993	
	20,000,000,000				
GBP	<u>4,816,651</u>	25/09/14	11.50	1985	
	4,816,651				

Table III – External Debt Issued 1 July 2008 to 31 January 2009 – Nil Issuance.

Contingent Liabilities and Non-Quantifiable Guarantees

Pursuant to Section 27(f) of the Public Finance Act 1989, a Statement of Contingent Liabilities must be provided, including guarantees given under Section 59 of the Act.

Statement of Contingent Liabilities

Quantifiable Contingent Liabilities	30 June 2008	30 June 2007
	(dollar amounts in millions)	
Guarantees and Indemnities	286	171
Uncalled Capital	2,205	2,076
Legal Proceedings and Disputes	383	1,170
Other Contingent Liabilities	1,995	1,829
TOTAL QUANTIFIABLE CONTINGENT LIABILITIES	4,869	5,246
TOTAL QUANTIFIABLE CONTINGENT ASSETS	389	86

In addition to the contingent liabilities listed above, there are a number of contingent liabilities which cannot be quantified. These are primarily in the form of institutional guarantees and indemnities to Crown Entities.



Sunrise over Okarito Lagoon, Westland. *Andris Apse*



Lake Matheson, Westland, reflecting Mount Tasman (left) and Aoraki/Mount Cook, New Zealand's highest peak (right). *Andris Apse*