

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 \$9,384 million including swaps between 1 July 2008 and 30 June 2009. This increase was due to a net increase in internal debt of \$7,254 million and an increase of \$2,130 million in external debt principally due to increased issuance of Treasury bills and government domestic bonds to meet the government's funding requirements in the wake of the international credit crisis. (The increase in external debt arose through increases in collateral and the impact of foreign-currency swaps.)

As of 30 June 2009, 4.3% 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, SOEs and Crown Entities, amounted to approximately \$8,489 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 (\$339.3 million at June 2009) 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.

	2005	2006	As at 30 June		
			2007	2008	2009
			(dollar amounts in millions)		
Funded Debt(1)					
Internal (2)	26,555.3	25,346.9	26,860.4	28,210.4	29,614.5
External (3)(4)	3,536.4	5,116.4	2,048.0	2,048.5	4,025.7
Floating Debt					
Internal Debt (5)	5,595.0	5,057.0	2,303.4	1,655.0	7,505.0
External Debt (3)(6)	394.9	-	-	-	153.0
TOTAL DIRECT DEBT	36,081.6	35,520.3	31,211.4	31,913.9	41,298.2
TOTAL PUBLIC DEBT AS A % OF GDP(7)	23.9%	22.7%	18.9%	17.7%	23.1%

- (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 pm 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 2009 by currency of payment after swap positions are taken into account and shows the estimated interest for the year ending 30 June 2010, including swap positions.

	Amount outstanding at 30 June 2009(1)	Estimated interest for the year to 30 June 2010(2)
	(dollar amounts in millions)	
External Debt		
Repayable in United States Dollars	1,424.8	34.8
Repayable in Japanese Yen	319.0	0.2
Repayable in Pounds Sterling	12.3	(0.1)
Repayable in Euro	0.0	23.9
Repayable in Other Currencies	0.0	21.7
Internal Debt	39,202.8	1,838.3
Subtotal	40,958.9	1,918.8
Swaps	339.3	-
TOTAL DIRECT PUBLIC DEBT	41,298.2	-

- (1) Converted at the midpoint of the 3.00 pm spot exchange rates on 30 June 2009 which were:
NZD 1 = US\$0.6537 = Yen 62.69 = Pounds 0.3927 = Aus\$0.8054 = Euro 0.4628.
- (2) In some cases, interest payments are offset by interest receipts.

Details of External Public Debt at 30 June 2009(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	2010	2011	2012	2013	2014	2015	2016-19	2020+	Total
(dollar amounts in millions)									
United States dollar	1,168	62	153	(13)	93	252	705	0	2,420
Japanese Yen	43	0	159	160	0	0	0	0	362
British pounds	0	0	0	0	0	12	0	0	12
Euro	0	0	245	184	0	302	504	0	1,235
Australian dollars	19	0	94	37	0	0	0	0	150
TOTAL EXTERNAL DEBT	1,230	62	651	368	93	566	1,209	0	4,179
Percentage of Total Foreign Debt	29.5%	1.5%	15.6%	8.8%	2.2%	13.5%	28.9%	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 2009, the total payment of interest on public debt of the government was \$1,917 million. The following table indicates the movements in external interest-bearing public debt since 2000, 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 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
30 June 2009	1,756.1	4.3	48.1	0.1

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

(2) External debt is converted at the midpoint of the 3.00 pm 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 2009, including the effect of swap positions.

Loans Maturing in Year Ending 30 June(1)	External(2)	Internal	Total Debt
(dollar amounts in millions)			
2010	1,076.6	5,642.6	6,719.2
2011	62.2	7.0	69.2
2012	651.3	5,765.3	6,416.6
2013	368.1	5,201.7	5,569.8
2014	92.4	(72.4)	20.0
2015	566.0	3,916.7	4,482.7
2016 to 30 June 2019	1,209.1	7,738.2	8,947.3
After 30 June 2019	0.0	928.0	928.0
Treasury Bills	-	7,505.0	7,505.0
Other	153.0	487.4(3)	640.4
TOTAL	4,178.7	37,119.5	41,298.2

(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 pm spot exchange rate on 30 June 2009.

(3) Retail Stock.

Tables and Supplementary Information

Table I – Internal Debt as of 30 June 2009

Currency (NZD)	Principal Outstanding	Maturity Date	Coupon Rate % per annum	Fiscal Year of Issue	Amortisation
Government Stock	5,810,000,000	15/07/09	7.00	1998	
	6,025,000,000	15/11/11	6.00	1999	
	5,324,000,000	15/04/13	6.50	2001	
	4,375,000,000	15/04/15	6.00	2003	
	2,064,757,500	15/02/16	4.5	1996	
	6,587,000,000	15/12/17	6.00	2005	
	928,000,000	15/05/21	6.00	2009	
	<u>31,113,757,500</u>				
Treasury Bills	7,505,000,000	01/07/09 - 06/01/10	2.52 - 3.20	2009	
Loans	166,035	01/09/13	Variable	1994	2010-2013
	95,325,975	09/05/11 - 25/06/13	Variable	2006	
	<u>1,174,700</u>	15/07/09 - 01/03/17	4.875 - 5.75	(1)	
	96,666,710				
Retail stock(2)	487,395,786	01/07/09 - 26/07/11	2.50 - 7.00	2005 - 2009(2)	
Total NZD Internal Debt	30,202,819,997				

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

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

Table II – External Debt as of 30 June 2009

Currency	Principal Outstanding	Maturity Date	Coupon Rate (% per annum)	Fiscal Year of Issue	Amortisation
USD	581,530,000	Call	Variable	2009	
	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	
	27,543,000	25/09/16	9.13	1987	
	<u>100,000,000(1)</u>				
	931,415,000				
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				

(1) Euro Commercial Paper Programme.

Table III – External Debt Issued 1 July 2009 to 31 January 2010 – 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 Quantifiable Contingent Liabilities

Quantifiable Contingent Liabilities	30 June 2009	30 June 2008
	(dollar amounts in millions)	
Guarantees and Indemnities	96	286
Uncalled Capital	2,506	2,205
Legal Proceedings and Disputes	1,754	383
Other Contingent Liabilities	4,133	1,995
TOTAL QUANTIFIABLE CONTINGENT LIABILITIES	8,489	4,869
TOTAL QUANTIFIABLE CONTINGENT ASSETS	1,582	389

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.



A fly fisherman waits for the evening rise on the shores of Lake Moana, Westland.
Andris Apse



The Kawarau River, near Queenstown. *Andris Apse*