

Reference: 20200263

28 August 2020

s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received on 27 July 2020.

Some of the questions in your request were transferred to the Treasury from the Office of the Prime Minister as your questions are more closely connected to the functions of the Treasury.

Information being released

I have set out the questions that make up your request and the Treasury's responses below. As questions (f) to (j) in your letter ((a) to (j) below) overlap and cover similar issues, I have provided a combined response to those questions.

- a) *What is the new debt quantum you and your Government have borrowed in total since October 2017; seek new debt quantum specifically month by month since 1 December 2019 to 1 June 2020?*

At 31 October 2017, total New Zealand Government Bonds (Nominal Bonds and Inflation-indexed Bonds) on issue were NZ\$76,115 million. At 1 June 2020, there were NZ\$82,954 million New Zealand Government Bonds on issue. This is an increase of NZ\$6,839 million.

At 31 October 2017, total New Zealand Treasury Bills on issue were NZ\$4,100 million. At 1 June 2020, New Zealand Treasury Bills on issue were NZ\$10,260 million. This is an increase of NZ\$6,160 million.

This information, on a monthly basis, can be sourced publicly here: <https://debtmanagement.treasury.govt.nz/investor-resources/data>. Please refer to the "Government Bonds – on issue (history at month end)" and the "Treasury Bills – on issue (history at month end)" spreadsheets.

- b) *As well as advising me of quantum of new debt in the above time periods, I seek to be told what are the interest rates; and are interest rates fixed or adjustable by lender or bond; and who was it borrowed from, and when and how is it to be repaid?*

I have separated out the answers to the different parts of this question.

I seek to be told what are the interest rates;

When Government bonds are first issued they have an associated “coupon” rate. The coupon rate is the amount that investors can expect to receive in income as the owner of the bond. For most bonds, this is paid out to them over two payments within the year. Coupon rates are determined when the bond is issued for the first time, based on prevailing market interest rates at the time of the issuance.

In turn, market interest rates (commonly referred to as the ‘yield’ of a Bond) are influenced by factors such as the level of the Reserve Bank of New Zealand’s (RBNZ) official cash rate and the level of bond rates in other countries. Accordingly, if and when we do issue new bonds they will reflect these rates, which at present are at historic lows.

The Coupon rates on Government Bonds are listed in column D of the spreadsheet “Government Bonds – on issue (history at month end)”. (See link in the response to question (a) above.)

The weighted average successful yield from our regular Government Bond tenders can be found in the “Government bonds – tender issuance history” spreadsheet. Similarly, yields on Treasury bills (which do not pay a regular coupon, and only pay interest when the bill matures) can be found in the “Treasury bills – tender issuance history” spreadsheet.

and are interest rates fixed or adjustable by lender or bond

For nominal bonds, the coupon rates are fixed for the duration of the bond.

For inflation-indexed bonds, the coupon rate is adjusted in line with movements in the consumer price index (CPI).

and who was it borrowed from

New Zealand Government Bonds (NZGBs) are issued by two mechanisms:

- Regular weekly tenders, competitive, open and transparent mechanisms for Registered Tender Counterparties to regularly purchase bonds on behalf of investors, (<https://debtmanagement.treasury.govt.nz/government-securities/primary-market-access-information>) or

- Syndications, which involve appointing a group of intermediaries to a panel, whose key function is to achieve a relatively large volume of interest across a diverse range of investors at cost-effective pricing.

Bonds sold in a tender (primary market) are only able to be allocated to Registered Tender Counterparties. These bonds can then be sold on to investors in the secondary bond market. The Treasury's New Zealand Debt Management function does not have visibility over who the bonds are sold to in the secondary market, however the RBNZ provides data (<https://www.rbnz.govt.nz/statistics/d30>) on aggregate non-resident holdings of NZGBs. At the end of June 2020, about 50% of NZGBs were held by non-residents (i.e. offshore investors) while the remaining 50% were held by residents. Holders of these bonds include asset managers, banks, hedge funds, insurance companies and central banks.

and when and how is it to be repaid?

NZGBs are sold with a specific maturity date – the date the NZGB needs to be repaid. The Government issues NZGBs with a range of different maturity dates. These can be found in column E of the spreadsheet “Government Bonds – on issue (history at month end)”. (See link above.) Since the onset of COVID-19, NZGBs have been issued with maturity dates ranging from April 2023 to May 2041.

Before a NZGB matures, funds are built up in advance to ensure the NZGB can be repaid on the maturity date. If the Government has a cash surplus (i.e. general Government revenue, with tax revenue the largest source, is higher than general Government expenses), these funds can be used to repay the NZGB. Alternatively, additional NZGBs can be issued which effectively extends the borrowing.

- c) *I also seek to be told of total guarantees and/or indemnities NZ Government or and/or NZ Treasury has entered into month by month since 1 December 2019 to 1 June 2020?*

The Treasury does not hold information to provide an answer that covers “NZ Government”. I have restricted the answer to the information that is held by the Treasury, i.e. relating to Vote Finance/NZ Treasury.

The total amount of guarantees or indemnities entered into by the Treasury for each month starting 1 December 2019 and ending 1 June 2020 is:

Total guarantees and indemnities issued by NZ Treasury		
From 1 December 2019 to 1 June 2020		
		Sum All
		NZ\$ '000's
1-Dec-19	31-Dec-19	(970)
1-Jan-20	31-Jan-20	1,350
1-Feb-20	29-Feb-20	6,890
1-Mar-20	31-Mar-20	11,600
1-Apr-20	30-Apr-20	4,999,370
1-May-20	31-May-20	61,940

I note some guarantees are affected by exchange rates and this can cause fluctuations in the movements in totals in some months. The new Business Finance Guarantee that commenced in April 2020 is capped at \$5.0 billion. Actual loan volumes from the programme are now forecast to be considerably lower than the guarantee cap.

- d) *If you and NZ Government can borrow say a new 20 to \$50 billion in 2020, how is it that you cannot borrow more to on-lend to NZers on similar Govt borrowed terms, thereby suspending need for overseas controlled bankers to operate in NZ?*

Banks have the systems, processes and expertise to offer a range of lending products to New Zealand businesses and individuals.

If the Government borrowed money to then on-lend to the public, it is likely that this would result in some risk to the Government, i.e. the risk that some money would not be repaid. To compensate for this risk, it is likely that the Government would need to charge a higher interest rate than the one at which it originally borrowed.

- e) *Do you support the Perpetual Bond or Consol debt George Soros recommends?*

The Treasury does not have a position on, and is not considering, Perpetual Bonds.

- f) *Why don't you implement a policy to reduce the burden on NZers from banks; and to stop the profits by banks being taken outside NZ each year?*

- g) *Why cannot the NZ Government and/or Treasury provide via a 100% NZ owned bank all mortgages and business bank loans now and in future advanced to NZers? Why cannot such advances/loans be direct from a NZ Government owned bank to all NZers?*
- h) *Why do you let overseas controlled banks effect usury onto NZers, and they syphon off profits offshore, being bank profits taken direct from the average NZer and/or NZ business entity?*
- i) *Why do you favor multi-national corporations, including banks operating in NZ (but owned primarily in USA, and being co-owned by your family's MORMON Church) benefit at the expense of all NZers?*
- j) *It seems that NZ Government could become the fund source wholesaler, and then via say Kiwibank, provide all bank and other lending to all NZers on much better terms and lower costs than existing banks in NZ provide. Tell me why this can or cannot happen, and if it cannot reasons why; or if it can happen when your Government will consider implementing it?*

Banks, including foreign-owned ones, play an important role in supporting New Zealand's economy. They channel financial resources between savers and borrowers, provide clearing and settlement systems to facilitate trade, and provide various products to deal with risk and uncertainty. Competition among banks and other lenders can bring material benefits for New Zealand consumers and businesses, including a greater variety of financial products and reduced costs. Banks are also private businesses. As such, it is up to banks themselves, and not the Government, to make decisions on how they choose to operate their businesses.

As you are aware, New Zealand's four largest banks are subsidiaries of Australian banks. While these banks make large profits in New Zealand in dollar terms, these very large businesses also pay significant levels of tax that can be used to provide social services to New Zealanders. In addition, they also provide employment to a significant number of New Zealanders who themselves contribute tax revenues to the Government. It is also worth mentioning that many New Zealanders have investments (including shareholdings) in these trans-Tasman banks via investments such as KiwiSaver, so many New Zealanders derive financial returns from those banks in this way.

New Zealanders have different options for who they bank with, and I would encourage everyone to explore their options and find the right bank for them. Banks need to provide a service that is acceptable to New Zealanders.

However, banks should have prudent lending standards and comply with legislative requirements around lender responsibilities, such as those in the Credit Contracts and Consumer Finance Act 2003, and explained in the Responsible Lending Code. The RBNZ encourages banks to maintain prudent lending standards to improve the

financial resilience of households and banks. It also prescribes some standards such as loan-to-value ratios (a measure of how much a bank lends against mortgaged property, compared to the value of that property).

It is important that New Zealanders have trust and confidence in the banking system. This Government is focused on ensuring that New Zealand's banking system is resilient to domestic and international shocks, and that the conduct of banks meets their customers' expectations. In late 2017, the Government announced a review of the Reserve Bank of New Zealand Act 1989 (the review). The goal of the review is to modernise New Zealand's monetary and financial stability policy frameworks and the RBNZ's governance arrangements. You can find out more about the review at <https://treasury.govt.nz/rbnz-act-review>.

The Government also announced moves to introduce a new regime to regulate financial conduct, including for banks. We have introduced legislation to Parliament which will require banks, insurers, and other financial service providers to put systems in place to make sure they treat their customers fairly.

Please note that this letter (with your personal details removed) may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Robbie Taylor
Manager, Financial Markets