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## 4.5 Government debt management

The Reserve Bank undertakes a number of functions for the Treasury's Debt Management Office (NZDMO). These include selling Treasury bills, Government bonds and Index Linked bonds at competitive tenders, on a timetable and to amounts determined by the NZDMO under approvals from the Treasurer.

That the Bank undertakes these functions (rather than the NZDMO directly) reflects the Bank's experience in, and close relationship with, financial markets, and the importance of government cashflows for the cash position of the banking system.

In view of the overlapping and potentially conflicting interests of the Bank and NZDMO in relation to these aspects of the management of the government's cash position, the allocation of responsibilities and functions is made explicit in an Agency Agreement between the Bank and Treasury.

The Agreement reflects two basic understandings that have been in place for several years, and that have worked well: first, that the government "fully funds" its borrowing requirement by way of sales of debt instruments to the private sector, and second, that government debt sales will not be used as a vehicle for attempting to influence market interest rates. Full funding and the associated acceptance of market interest rates is crucial both to making clear to government the true costs of fiscal decisions, and to keeping monetary policy implementation independent of the political process.

Acceptance of market interest rates for government debt issuance does not imply that the costs of borrowing are entirely outside the control of the government. The volume of issuance will to some extent affect the interest rates that lenders demand before lending to the government. Additionally, at the margin, choices on the structuring of the borrowing programme can make a small but important difference to costs, with a programme suited to lenders' tastes potentially being a lower cost one than the alternative. The Bank, with its close contacts with financial markets, can thus offer a source of advice to NZDMO on programme structuring.

Ultimately, the government must balance its preferences against the market's – at least to the extent that fundamen-

tally different interests are involved. As the NZDMO is charged with identifying the best balance sheet structuring approach, given the government's policy objectives, the Bank's advice as to market preferences is one ingredient in the equation that determines how and what to borrow. Additionally, the Bank can at times offer alternative perspectives on what constitutes the best approach to structuring the Crown balance sheet structuring approach.

## 4.6 Overseas Investment Commission Secretariat

Under an agreement for services, the Reserve Bank provides the Secretariat for the Overseas Investment Commission.

The Governor of the Reserve Bank, or such officer of the Reserve Bank the Governor may nominate, is an *ex-officio* member of the Commission. The Governor has nominated Deputy Governor Dr Rod Carr as his representative on the Commission.