

SURVEY OF OVERSEAS BORROWING BY PRIVATE SECTOR

The level of New Zealand overseas debt has been the subject of recent discussion in New Zealand. The discussion has, however, been hampered by shortcomings in the statistical data available on the topic. The main statistical problem has been the absence of a reliable measure of the level of private sector overseas debt. To help in this area, the Department of Statistics is to conduct a survey on an annual basis covering private overseas equity and debt, but the results of the first survey will not be available until the latter part of 1984. As an interim measure, the Reserve Bank has recently undertaken a limited survey of private sector borrowing from overseas sources.

This article begins by summarising regulations and policies relating to overseas borrowings undertaken by the private sector. It goes on to describe the survey undertaken by the Reserve Bank and to provide an indication of the total overseas debt of New Zealand by aggregating the borrowing figures for the official, quasi-Government and private sectors.

In most cases, private overseas borrowings are arranged with the assistance of a New Zealand financial intermediary (trading bank, merchant bank or broker/agent). The intermediary may be involved in one or more of the following ways:

1. Providing an introduction between the borrower and overseas lender.
2. Arranging the details of the loan directly between the borrower and overseas lender (especially where the lender is a related company of the intermediary).
3. Providing a guarantee to the overseas lender (for a fee charged to the borrower).
4. Borrowing overseas in its own name for on-lending directly in foreign currency to the New Zealand borrower (at a margin above its cost of funds).

Regulations

The Exchange Control Regulations 1978 administered by the Reserve Bank of New Zealand, and the Overseas Investment Regulations 1974 administered by the Overseas Investment Commission (for which the Reserve Bank provides the Secretariat), apply to New Zealand persons borrowing overseas. In this context, 'persons' includes individuals, companies and other entities.

Consent is required under the Exchange Control Regulations 1978 for all persons ordinarily resident in New Zealand to borrow money outside New Zealand, to issue a security to a non-resident or to export a security.

New Zealand incorporated companies (and a few other entities) also require consent under the Overseas Investment Regulations 1974 to borrow money outside New Zealand or to issue a security to a person resident overseas.

Most borrowings overseas to finance trade transactions are exempt from the Regulations. Consent is not required for borrowings overseas for a total term of up to 12 months where the funds are to be used

exclusively to finance the export of goods from New Zealand or the import of goods into New Zealand by the borrower.

All remittances from New Zealand, including interest and principal repayments, require approval under the Exchange Control Regulations 1978. The Reserve Bank freely approves remittances for interest and principal repayments provided:

1. The proceeds of the borrowing were disbursed when the loan was drawn in a manner approved by the Reserve Bank.
2. The payments to service and repay the debt are in line with the term and conditions approved by the Bank before the loan was drawn.

Policy

The Reserve Bank, and where appropriate the Overseas Investment Commission, will generally give approval to an application, other than from a financial institution, to borrow overseas where:

1. The loan is for a fixed term of at least 12 months with a fixed repayment schedule.
2. The interest rate and any fees payable overseas are not in excess of market rates for the currency concerned. (As a guideline, they should not exceed a margin of 2% above LIBOR/SIBOR or equivalent. This does not preclude a guarantee fee or higher margin being paid to a New Zealand resident company).
3. The funds are remitted to New Zealand through a trading bank or other authorised foreign exchange dealer immediately when the loan is drawn, unless prior approval is obtained from the Reserve Bank for disbursement overseas.

It should be noted that under current policy, the Reserve Bank would not normally approve a remittance from New Zealand to effect an early repayment of all or part of a loan at the option of the borrower. However, approval would normally be given to a borrower refinancing an overseas loan from overseas sources provided the term to maturity of the new loan is no earlier than the original term.

Approval is not generally given to New Zealand financial institutions wishing to borrow overseas for general funding purposes. Under current policy, however, approval for a financial institution to borrow overseas will normally be given where:

1. The funds are to be directly on-lent in foreign currency to a local client which is not a financial institution.
2. The funds are to be disbursed offshore to finance the establishment and/or operation of its overseas business or subsidiary.

Survey of Private Sector Overseas Borrowing

A review of the overseas borrowing approvals granted under the Overseas Investment Regulations 1974 since January 1978 identified about 270 companies (excluding merchant banks, trading banks and quasi-Government

organisations) which have had approval to borrow more than the equivalent of NZ\$1,000,000 in total from overseas sources. Questionnaires were sent to 267 companies and to 11 merchant banks requesting the following information for each qualifying loan:

1. Country of the lender.
2. Currency in which the loan was denominated at 31 March 1983.
3. A schedule of the repayments.
4. The principal outstanding as at 31 March 1983 (in foreign currency).
5. Whether or not the loan was to finance overseas investment.

Entities that do not require consent under the Overseas Investment Regulations 1974 to borrow overseas were not included in the survey. In this category are:

1. Branches of overseas incorporated companies.
2. Individuals or partnerships of individuals (except where they were borrowing through a New Zealand financial institution which required consent).

Also excluded from the survey were:

1. Loans for terms not exceeding 12 months to finance imports and exports.
2. Small individual loans, ie those where the outstanding balance was less than NZ\$100,000.
3. Loans by companies where their approvals to borrow overseas total less than NZ\$1,000,000.
4. Loans repayable in New Zealand in New Zealand currency (including NZ\$ bond issues which are sold on the secondary market in New Zealand to overseas institutional investors).
5. Lease and hire-purchase arrangements, including leverage leases (the borrowings by a New Zealand equity party are included however).
6. Preference shares and other classes of shares.
7. Retained earnings.
8. Borrowings by New Zealand financial institutions for direct on-lending to clients (to avoid double counting the questionnaires were to be completed by the ultimate borrower).
9. Borrowings undertaken by the trading banks, including their borrowings for leverage leases.
10. Guarantees given by New Zealand incorporated companies to support borrowings undertaken by their overseas subsidiary or associated companies.

The loans included in the survey were:

1. Loans from related and unrelated companies overseas.
2. Loans from overseas sources through New Zealand financial intermediaries.
3. Deferred payments for imports where the term exceeded 12 months.
4. Loans denominated in New Zealand dollars but repayable overseas (e.g. NZ\$ bond issues in Europe).
5. Loans entered into prior to January 1978.
6. Loans to finance the establishment and/or operation of overseas subsidiaries, or to acquire shareholdings in overseas incorporated companies (such as the borrowing by Fletcher Challenge Ltd to acquire Crown Zellerbach Canada Ltd).

The response to the questionnaires was very pleasing — returns were also received from nine companies not included in the original mailing list. The overall response is summarised as follows:

	<i>No. of Companies</i>
Replied:	
Borrowing outstanding	163
Nil returns	80
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Total Replied	243
No Reply:	44
	<hr/>
	287

A review of the responses suggested two areas of incomplete coverage in compiling the mailing list:

1. Borrowings overseas by New Zealand companies to finance their overseas investments (6. in the preceding list).
2. Borrowings overseas by New Zealand film ventures which will be repaid from overseas earnings of the films.

A subsequent review of approvals has enabled an estimate to be made of the amounts outstanding in these two areas. The interest and principal repayments of these loans are expected to be met mainly from overseas income and hence they will not impact directly on the overseas exchange transactions.

Total overseas borrowings outstanding of New Zealand incorporated companies as at 31 March 1983 is estimated at nearly NZ\$3 billion:

	<i>NZ\$ million</i>
Borrowings other than to finance overseas investments and film ventures:	
From survey questionnaires	2,263
Estimate of borrowings of companies that did not reply to the survey and of small borrowers not included in the survey	100
	<hr/>
	2,363
Borrowings to finance overseas investments and film ventures:	
From survey questionnaires	570
Estimate of other borrowings	50
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	620
Total	<hr/> <hr/> 2,983

This summary should be interpreted in the light of the preceding description of the coverage of the survey and the list of exclusions.

Table 1 shows the repayment schedule by currency and table 3 provides an analysis by country of lender for borrowings covered by the questionnaires returned. In both tables the borrowings to finance overseas investments and film ventures are shown separately.

Quasi-Government

The quasi-Government sector includes enterprises in which the Government has a shareholding of 50% or more, but excludes the Reserve Bank which is included in the official sector. Quasi-Government includes:

Air New Zealand
Development Finance Corporation of New Zealand Ltd
National Provident Fund

New Zealand Railways Corporation
 New Zealand Steel Development Ltd
 Petrocorp Group of Companies
 Shipping Corporation of New Zealand Ltd
 Synthetic Fuels Corporation Ltd

Their total overseas borrowing outstanding as at 31 March 1983 was NZ\$2,218 million.

Tables 2 and 3 provide the repayment schedules by currency and an analysis of country of lender respectively for the quasi-Government organisations on the same basis as for the private sector survey.

Borrowings by the Development Finance Corporation which have been directly on-lent in foreign currency to New Zealand clients have been excluded as these would be included by the clients in the private sector survey. Also excluded are borrowings by some of the quasi-Government organisations which have been left on deposit with the Reserve Bank, denominated in foreign currency. These borrowings are included in the figures for official debt. The figures include overseas borrowings undertaken by the National Provident Fund for on-lending in foreign currency to local authorities.

Official Sector

Official overseas debt includes the overseas debt of the Reserve Bank in addition to that of the Government. The article entitled 'New Zealand Public Debt' in the March 1983 Reserve Bank *Bulletin* described recent trends in official debt. As at 31 March 1983, the published official debt was as follows:

	<i>NZ\$ million</i>
Government	7,765
Reserve Bank	1,487
Total	<u>9,252</u>

However, the Government debt figure above includes NZ\$74 million outstanding on loans undertaken prior to 1 April 1982 by the Crown for the Railways Department. The Railways Corporation, which commenced business on 1 April 1982, is now meeting the obligations under these loans. These loans, and more recent borrowings undertaken by the Railways Corporation, have been included in the quasi-Government sector in the attached tables.

In the above figures, the Government debt has been converted to New Zealand dollar equivalents using the mid-rates as at 8 March 1983 (after the New Zealand dollar devaluation) while interdealer buy rates for 31 March 1983 have been used to convert the Reserve Bank debt. These exchange rates are the ones used in accordance with the accounting practices in each of the organisations.

The total official foreign debt as at 31 March 1983 excluding Railways debt and converted to New Zealand dollar equivalents using mid-rates for 31 March 1983 is \$9,119 million. This can be related to the previously published figure as follows:

	<i>NZ\$ million</i>
Published Official debt	9,252
Less Railways debt	- 74
Less Foreign exchange valuation differences	- 59
Official Debt excluding Railways and using mid-rates for 31 March 1983	<u>9,119</u>

Table 4 provides the repayment schedule by currency as at 31 March 1983.

Indication of Total Borrowing

An indication of New Zealand's total borrowing from the rest of the world as at 31 March 1983 can be obtained by aggregating the borrowings of the various sectors as follows:

	<i>NZ\$ billion</i>
Official	9.1
Quasi-Government	2.2
Private Sector (excluding loans to finance overseas investments) and film ventures) — estimate	2.4
	<u>13.7</u>
Private Sector to finance overseas investments and film ventures — estimate	0.6
	<u>14.3</u>

Table 5 shows the total borrowing of each sector, classified by maturity date. It can be seen that the bulk of the debt falls due for repayment between 1985 and 1989, with the largest amount in 1988.

The survey of private sector overseas borrowing has of necessity been restricted in its coverage. The Reserve Bank is grateful for the co-operation of the companies involved. The omissions and shortcomings in the survey have been noted, but it is considered that the results provide a useful indication of private overseas indebtedness in the area covered. Certainly, the figures improve our knowledge of an important area of economic behaviour and performance.

The Reserve Bank does not intend to repeat the survey as the Department of Statistics will be publishing the results of its first comprehensive survey next year.

TABLE 1
PRIVATE SECTOR OVERSEAS BORROWING SURVEY RESULTS
REPAYMENT SCHEDULE BY CURRENCY AS AT 31 MARCH 1983
(NZ\$ million)

Year Ended March	CURRENCY								TOTAL
	U.K.	Switz	W.Germ	U.S.A.	Japan	Aust	N.Z.	Others	
A. Borrowing other than to finance overseas investments and film ventures									
At Call	3	—	1	97	—	—	7	—	108
1984	8	39	4	187	6	3	17	1	265
1985	13	6	3	102	11	3	8	6	151
1986	12	2	5	288	35	6	6	1	354
1987	15	3	4	190	9	2	4	—	230
1988	9	3	—	245	9	2	27	7	303
1989	7	4	—	181	9	2	23	6	232
1990	1	3	—	138	9	1	28	6	187
1991	1	—	—	123	9	1	4	—	137
1992	1	—	—	119	9	1	—	—	130
1993	—	—	—	34	7	—	1	—	42
Apr 93 + ¹	2	—	—	61	21	8	20	12	125
TOTAL A	72	61	18	1,765	134	29	144	40	2,263
B. Borrowing to finance overseas investment and film ventures									
TOTAL B	—	—	—	323	—	—	11	236	570
TOTAL A + B	72	61	18	2,088	134	29	155	276	2,833
C. Estimate of unsurveyed borrowing									
TOTAL C									150
GRAND TOTAL									2,983

Source: Survey of companies undertaken by the Reserve Bank. See text for a description of the coverage of the survey. Columns and rows may not add to totals due to roundings.

Amounts converted to New Zealand dollars using indicative mid-rates of exchange for 31 March 1983.

¹ Scheduled to be repaid on or after 1 April 1993 and loans for an indefinite but long term.

TABLE 2
OVERSEAS BORROWING OF QUASI-GOVERNMENT ORGANISATIONS.
REPAYMENT SCHEDULE BY CURRENCY AS AT 31 MARCH 1983
(NZ\$ million)

Year Ended March	CURRENCY								TOTAL
	U.K.	Switz	W.Germ	U.S.A.	Japan	Aust	N.Z.	Others	
1984	9	1	1	105	25	8	—	5	152
1985	22	112	8	98	9	5	—	5	258
1986	40	1	19	238	12	4	—	66	380
1987	52	1	24	94	13	2	—	1	188
1988	35	75	15	157	10	1	—	—	293
1989	11	1	—	110	37	—	—	—	158
1990	11	1	—	149	5	—	—	—	166
1991	8	1	—	123	5	—	—	—	137
1992	4	—	—	120	5	—	—	—	129
1993	2	—	—	97	5	—	61	—	165
Apr 93 + ¹	1	—	—	164	27	—	—	—	191
TOTAL	194	191	68	1,454	155	20	61	76	2,218

Source: Information provided by the organisations to the Reserve Bank. See text for the list of the organisations included. Columns and rows may not add to totals due to roundings.

Amounts converted to New Zealand dollars using indicative mid-rates of exchange for 31 March 1983.

¹ Scheduled to be repaid on or after 1 April 1993.

TABLE 3
PRIVATE SECTOR AND QUASI-GOVERNMENT
OVERSEAS BORROWING BY COUNTRY OF LENDER
AS AT 31 MARCH 1983
(NZ\$ million)

Country of Lender	Private Sector Survey Results		
	Borrowings to finance Overseas Investments and film ventures	Other	Quasi-Government
Europe:			
United Kingdom	83	191	407
Switzerland	—	132	185
West Germany	—	9	26
Other	—	118	26
Americas:			
USA	220	216	126
Other	125	98	97
Mid East/Asia/Pacific:			
Japan	11	226	204
Hong Kong	62	114	302
Singapore	68	112	29
Australia	—	118	20
Other	—	27	39
Not Specific:			
Unknown ¹	2	110	51
Multiple Countries ²	—	790	706
Estimate of unsurveyed borrowings:	50	100	—
TOTAL	620	2,363	2,218

Sources: Private Sector — survey of companies undertaken by Reserve Bank.

Quasi Government — information provided by organisations to Reserve Bank. See text for a description of the coverage of the survey and a list of the quasi-Government organisations.

Columns may not add to totals due to roundings. Amounts converted to New Zealand dollars using indicative mid rates of exchange for 31 March 1983.

¹ In most cases the funds are on-lent by a New Zealand financial intermediary and the country of the overseas lender is not known to the borrower.

² Includes syndicated loans and Eurobond issues.

TABLE 4
OFFICIAL OVERSEAS DEBT
REPAYMENT SCHEDULE BY CURRENCY AS AT 31 MARCH 1983
(NZ\$ million)

Year Ended March	CURRENCY								
	U.K.	Switz	W.Germ	U.S.A.	Japan	Aust	N.Z.	Others	TOTAL
1984	22	397	39	96	31	1	—	133	719
1985	154	320	235	341	30	1	—	85	1,167
1986	471	226	266	126	33	1	—	31	1,154
1987	39	281	171	459	59	1	—	59	1,069
1988	237	222	190	596	315	—	—	61	1,622
1989	8	226	127	629	110	—	—	86	1,185
1990	3	71	222	179	199	—	—	1	676
1991	1	113	32	151	111	—	—	1	408
1992	1	192	—	151	183	—	—	—	527
1993	33	225	—	1	220	—	—	—	479
Apr 93 + ¹	1	40	—	—	72	—	—	—	113
TOTAL	970	2,316	1,282	2,728	1,362	4	—	457	9,119

Source: Government — *The Public Accounts for the year ended 31 March 1983* and information supplied by Treasury Dept.

Reserve Bank — internal records.

The public debt figures published in the Public Accounts include NZ\$74 million of Railways Corporation debt and are valued using mid-rates of exchange for 8 March, 1983. The IBRD loans which are listed separately in the Public Accounts are multicurrency loans and have been classified in the appropriate currency in this table.

Columns and rows may not add to totals due to rounding.

Amounts converted to New Zealand dollars using indicative mid-rates of exchange for 31 March 1983.

Loans have been recorded in the year of the actual legal obligation to repay the loan except for flexible financing facilities which have been recorded in the year in which the facility expires.

¹ Scheduled to be repaid on or after 1 April 1993.

TABLE 5
SUMMARY OF OVERSEAS BORROWING
REPAYMENT SCHEDULE
(NZ\$ million)

<i>Year Ended March</i>	<i>Private</i>	<i>Quasi-Govt</i>	<i>Official</i>	<i>Total</i>
At Call	108	—	—	108
1984	265	152	719	1,136
1985	151	258	1,167	1,576
1986	354	380	1,154	1,888
1987	230	188	1,069	1,487
1988	303	293	1,622	2,218
1989	232	158	1,185	1,575
1990	187	166	676	1,028
1991	137	137	408	682
1992	130	129	527	786
1993	42	165	479	686
Apr 93 + ¹	125	191	113	428
TOTAL	2,263	2,218	9,119	13,600
Borrowings to finance overseas investments and film ventures	570	—	—	570
Estimate of unsurveyed borrowings	150	—	—	150
GRAND TOTAL	2,983	2,218	9,119	14,320

Sources: Tables 1, 2 and 4. See footnotes to those tables and text for a description of the coverage.
Columns and rows may not add due to rounding.

¹ Scheduled to be repaid on or after 1 April 1993 or loans for an indefinite but long term.