

NEW ZEALAND PUBLIC DEBT AND DEBT SERVICING COSTS

This article presents details of New Zealand's external and internal public debt, and the debt servicing costs associated with each of these aggregates, during the past decade. The two are examined separately in the sections which follow. Recent trends are reviewed for each and brief comment offered on the importance of their impact on the economy.

EXTERNAL DEBT

This section details the scope of official overseas capital transactions in recent years, the amount of official overseas debt outstanding and trends in servicing costs and comments on the impact which the growth of official overseas debt has on the economy. It should be noted that the aggregate being examined, official overseas debt, includes overseas debt of the Reserve Bank in addition to that of the Government. In this respect the presentation differs from tables showing overseas-held public debt published in the Government's public accounts and Budget documents.

Table 1 sets out official capital transactions derived from the overseas exchange transactions statistics for the past decade. It shows both the gross capital flows and the net official capital flow in addition to the current account balances and official overseas reserves at the end of each year. The statistics show the net proceeds of overseas loans and repayments made recorded at the exchange rates ruling at the time the transaction took place.

TABLE 1
Official Overseas Capital Transactions¹
(*\$ million*)

Year ended March	Total Receipts	Total Payments	Net		
			Official Capital Flow	Current Account Balance	Official Overseas Reserves
1970	17.5	77.0	- 59.5	+ 78.5	332.7
1971	68.1	99.0	- 30.9	- 38.9	372.6
1972	107.3	56.0	+ 51.3	+ 95.0	629.9
1973	30.7	90.4	- 59.7	+ 285.9	917.2
1974	2.6	72.0	- 69.4	- 30.0	778.5
1975	525.2	35.8	+ 489.4	- 992.6	542.1
1976	905.5	276.2	+ 629.3	- 814.5	684.8
1977	565.1	291.0	+ 274.1	- 590.5	720.6
1978	908.9	436.6	+ 472.3	- 509.5	983.6
1979	695.0	418.7	+ 276.3	- 426.4	803.9
1980	923.6	604.2	+ 319.4	- 481.8	937.9

¹ Includes Reserve Bank borrowings and repayments.

The two most useful measures for assessing the relative size of official overseas debt are considered to be the ratio of debt to gross national product and the cost of debt servicing (in terms of official interest payments) as a proportion of export receipts or total current receipts. Details of these ratios are given in

tables 2 and 3. The debt figures given in table 2 are valued at the exchange rates which applied at the end of each year.

TABLE 2
Ratio of Official Overseas Debt to GNP
(*\$ million*)

Year ended March	Official Debt			Gross National Product	Ratio of Debt to GNP %
	Government	Reserve Bank	Total		
1970	525.9	10.5	536.3	4,809	11.2
1971	576.4	5.4	581.8	5,534	10.5
1972	653.5	—	653.5	6,850	9.5
1973	564.0	—	564.0	7,878	7.2
1974	465.2	—	465.2	9,158	5.1
1975	862.8	218.4	1,081.2	10,005	10.8
1976	1,463.2	520.3	2,163.5	11,462	18.9
1977	1,826.6	736.7	2,563.3	13,767p	18.6
1978	2,446.7	809.1	3,255.8	14,979p	21.7
1979	2,920.2	756.3	3,676.4	17,651p	20.8
1980	3,567.5	729.3	4,296.8	20,400f	21.1

p = provisional
f = forecast

TABLE 3
Ratio of Official Overseas Debt Interest to Current Receipts

Year ended March	Official Overseas Debt Interest Payments (\$m.)	Total Export Receipts (\$m.)	Official Overseas Debt Interest as a % of Export Receipts	Total Current Receipts (\$m.)	Official Overseas Debt Interest as a % of Current Receipts
	1970	35.3	1,129.4	3.1	1,285.7
1971	32.6	1,165.1	2.8	1,359.6	2.4
1972	32.8	1,332.5	2.5	1,579.9	2.1
1973	37.3	1,652.7	2.3	1,980.0	1.9
1974	34.0	1,813.7	1.9	2,228.2	1.5
1975	50.5	1,656.6	3.0	2,139.5	2.4
1976	103.6	2,209.5	4.7	2,801.6	3.7
1977	159.0	3,120.9	5.1	3,783.1	4.2
1978	194.6	3,395.1	5.7	4,142.5	4.7
1979	243.6	3,849.9	6.3	4,661.6	5.2
1980	303.7	4,941.3	6.1	5,933.3	5.1

The exceptionally favourable market conditions for New Zealand's exports in 1972 and 1973 resulted in a current account surplus of \$286 million being recorded in the latter year and a rapid build up in official overseas reserves. These reached a peak level of \$1,094 million at the end of June 1973. With the collapse of the export boom in 1974 a very substantial deterioration in New Zealand's balance of payments occurred which necessitated the introduction of a substantial official borrowing programme which still continues. The total official debt has risen since March 1974 from \$465 million to a

total of \$4,297 million at the end of March 1980. This represents a very large increase in relation to GNP. Official external debt expressed as a ratio to GNP in 1974 was 5.1 per cent whereas it is forecast to be 21.1 per cent in 1980. Official debt interest payments as a percentage of export receipts increased from 1.9 per cent in 1973/74 to 6.3 in 1978/79 before easing slightly in 1979/80.

Overseas borrowing has a useful role to play in facilitating the development of the economy and reducing the immediate impact of external shocks. As a means of financing large development projects which would otherwise strain domestic financial institutions' resources, such borrowing has a positive role to play in developing the infrastructure of the economy. The recent and future development of the Maui gas field and other energy related projects are examples where it is prudent to finance by making use of foreign capital.

Similarly, the severe downturn in terms of trade in 1974 created a situation where it was desirable to meet some of the balance of payments shortfall by borrowing overseas in order to reduce the level of disruption to the economy which would otherwise have occurred. However, extensive overseas borrowing carries with it costs to the economy. The most obvious relates to debt servicing where, as a result of the capital inflow now, future earnings are committed to meet the interest and capital repayment requirements of the borrowing.

When a severe deterioration in the balance of payments current account occurs there is a strong incentive to undertake foreign borrowing to moderate the impact on the domestic economy. This borrowing can have beneficial effects, permitting a more orderly adjustment to the new situation and where the deterioration is of short duration it can be the means of avoiding destabilising fluctuations in the level of activity.

However, the economic effect of such borrowing is to support domestic demand at a level higher than that which is warranted by the balance of payments situation. It is important therefore that, while undertaking such a programme of borrowing, other policies be put in place to encourage the readjustment necessary if balance is to be restored in the external accounts.

New Zealand's official overseas debt and debt servicing costs, at their present levels, do not represent serious impediments to the country's future development. Nevertheless, there is widespread recognition of the need for readjustment within the economy to meet the additional pressures being exerted on the country by recent trends in international oil prices and a more depressed economic situation in the large industrial countries.

INTERNAL DEBT

This section details trends in the growth of internal public debt, servicing costs and the relationship between internal public debt and GNP over the last decade. It then outlines the nature of the ownership and role of

public debt in the economy. Internal public debt is that part of the debt of the New Zealand Government held in New Zealand.

Table 4 sets out for the past decade details of the public debt of New Zealand. This is broken down to show that part of the debt held overseas and that part held within New Zealand. It should be noted however that the overseas held debt in this table does not include that of the Reserve Bank (see table 2 for details). The table also shows details of GNP for the period and shows the relationships of the internal and total public debt to GNP.

Public debt servicing costs are outlined in table 5 with internal debt interest and total debt services also expressed as a percentage of internal debt and total public debt respectively.

In considering the internal public debt and its economic significance, the absolute size of the debt and its servicing costs are of less importance than the size of annual increments and the means adopted to finance these. The implications of various methods of financing the government's deficit before borrowing were spelled out recently in *The Stabilisation Role of Fiscal Policy*¹ published by the New Zealand Planning Council earlier this year.

A major part of the debt created is held by financial institutions and agencies of government itself. Table 6 gives details of the ownership of New Zealand's internal public debt and it can be seen that at 31st March 1980, of a total internal debt of \$6,867 million, 33 per cent was held by government or its agencies (mainly the Post Office), 42 per cent was held by the banking system (excluding the Post Office), and 7 per cent by insurance companies (not including those operated by government). The remaining 14 per cent was held by a variety of other financial institutions and the public at large.

For most holders of the internal public debt a major proportion of their holdings involve a prudential obligation to hold assets of this form. In recent years, as a consequence of the adoption by government of a policy of offering yields on securities more closely in line with market interest rates, the proportion of public debt held for other reasons has grown but still remains relatively small. From a level of \$437 million in 1978 (9 per cent of the total) holdings of public debt, other than that held by Government institutions, banks and insurance companies, rose to \$988 million in 1980 (14 per cent of the total).

The internal debt arises as a consequence of the Government's decision to finance part of its expenditure programme by borrowing within New Zealand rather than by levying extra taxes. The means chosen to finance the increase in public debt will affect the rate of credit creation and growth of monetary aggregates which, in turn, will play their part in shaping the future development of the economy.

¹ New Zealand Planning Council Paper No. 5; R. S. Deane and R. G. Smith, *The Stabilisation Role of Fiscal Policy*, p.16.

TABLE 4
Public Debt of New Zealand¹

March Years	Held Overseas (\$m.)	Public Debt Held in		G.N.P. (\$m.)	Public Debt as % of G.N.P.	
		New Zealand (\$m.)	Total (\$m.)		Internal	Total
1970	525.9	2,351.3	2,877.1	4,809	48.9	59.8
1971	576.4	2,430.5	3,006.9	5,534	43.9	54.3
1972	653.5	2,533.1	3,186.6	6,850	37.0	46.5
1973	564.0	2,939.1	3,503.1	7,878	37.3	44.5
1974	465.2	3,269.3	3,734.5	9,158	35.7	40.8
1975	862.8	3,336.9	4,199.7	10,005	33.4	42.0
1976	1,463.2	4,094.7	5,557.9	11,462	35.4	48.5
1977	1,826.6	4,462.7	6,289.3	13,767p	32.4	45.7
1978	2,446.7	5,037.0	7,483.7	14,979p	33.6	50.0
1979	2,920.2	5,899.4	8,819.5	17,651p	33.4	50.0
1980	3,567.5	6,778.9	10,346.4	20,400f	33.2	50.7

p = provisional

f = forecast

¹ Government debt, does not include Reserve Bank debt.

TABLE 5
Public Debt Servicing Costs

March Years	Interest			Total Debt Services (\$m.)	Internal Debt Interest as % N.Z. Held Debt	Total Debt Services as % Total Public Debt
	Debt Held in N.Z. (\$m.)	Debt Held Overseas (\$m.)	Other ⁽¹⁾ Charges (\$m.)			
1970	113.4	30.8	41.0	185.2	4.8	6.4
1971	120.9	32.1	51.1	204.1	5.0	6.8
1972	130.5	36.3	51.2	218.0	5.2	6.8
1973	146.5	38.3	51.7	236.5	5.0	6.8
1974	166.2	34.1	51.6	251.9	5.1	6.7
1975	179.7	41.3	50.7	271.8	5.4	6.5
1976	201.2	68.8	52.7	322.8	4.9	5.8
1977	256.7	110.4	64.3	431.3	5.8	6.9
1978	331.3	133.2	71.8	536.3	6.6	7.2
1979	415.9	174.2	80.1	670.2	7.0	7.6
1980	537.6	220.1	67.8	825.6	7.9	8.0

⁽¹⁾ Includes contributions to Loans Redemption Account, administrative and management charges against loans raised and repaid.

TABLE 6
Ownership of New Zealand's Internal Public Debt¹
(\$ million)

As at 31 March	Government and Public Agencies ²	Reserve Bank	Trading and Savings Banks	Insurance Companies	Other ³	Total
1970	1,057	53	606	237	397	2,351
1971	1,106	53	648	251	373	2,431
1972	1,155	13	720	273	372	2,533
1973	1,325	..	869	314	431	2,939
1974	1,544	128	917	352	329	3,269
1975	1,542	302	852	317	323	3,337
1976	1,655	542	1,211	379	308	4,095
1977	1,790	884	1,060	396	333	4,463
1978	2,016	344	1,826	415	437	5,037
1979	2,292	289	2,090	460	763	5,894
1980	2,511	392	2,495	481	988	6,867

¹ A more comprehensive disaggregation is shown in the regular Bulletin table.² Government accounts and public agencies including Post Office Savings Bank and government insurance offices but excluding Reserve Bank and Bank of New Zealand.³ Includes local authorities, producer organisations, building societies, trustee and nominee companies, finance and investment companies, pensions and benefit funds, money market, stock and station agents, charitable organisations, other business holders and the public.

RESERVE BANK OF NEW ZEALAND
Liabilities and Assets

(NZ\$ millions)

Year and Month	LIABILITIES							ASSETS								
	DEMAND DEPOSITS						O'SEAS ASSETS ⁴				ADVANCES IN N.Z.					
	Note Issue	State	Marketing Organs	¹ Banks	Other	All Other L'ibilities ²	Gold	SDRs.	³ Short Term	Investments	Investments in N.Z.	State	Marketing Organs	Other Advan. & Disc.	Export Credits	All Other Assets in N.Z.
Weekly Average																
1967 ⁴	163.8	34.7	3.0	39.1	106.7	46.2	0.4	...	71.1	16.1	70.7	84.0	113.8	25.9	...	11.5
1968 ⁴	162.1	51.1	5.0	35.4	102.6	48.4	0.7	...	108.6	24.2	61.5	45.4	139.1	7.6	...	17.5
1969	173.9	74.2	4.5	36.3	60.2	40.8	1.0	...	72.0	44.9	69.2	13.2	150.8	24.0	...	14.8
1970	182.9	74.1	4.1	44.7	36.9	59.9	0.8	16.4	57.5	51.5	74.7	7.4	148.3	28.8	0.9	16.3
1971	201.8	80.1	3.4	32.3	15.9	76.4	0.7	20.6	86.2	60.3	65.3	5.7	135.9	11.7	7.4	16.1
1972	223.9	195.8	3.6	38.0	18.8	124.6	0.7	49.7	193.4	121.3	39.6	0.2	156.0	2.0	9.5	32.4
1973 ⁴	262.3	276.4	17.9	31.5	63.8	308.9	0.7	52.0	240.1	315.0	82.8	0.2	205.6	3.4	9.2	51.8
1974 ⁴	305.8	154.7	21.1	25.0	165.1	328.8	0.7	27.7	72.4	258.4	256.2	54.8	248.1	9.1	10.8	62.3
1975 ⁴	343.5	136.3	16.8	26.6	350.3	309.4	0.7	3.0	108.1	139.9	322.0	164.8	340.1	19.7	18.7	66.0
1976 ⁴	382.8	145.0	22.4	12.4	466.7	357.5	0.7	9.9	178.8	53.4	583.3	93.9	369.6	13.8	22.7	60.7
1977	414.9	164.9	33.4	11.4	538.1	455.6	0.7	25.8	166.7	55.7	796.9	113.3	377.1	6.2	28.2	47.8
1978 ⁴	447.4	198.7	13.8	4.6	507.1	509.0	0.7	51.2	242.9	53.3	496.8	256.5	426.8	94.9	28.5	47.1
1979	492.5	219.6	46.7	2.4	438.3	576.4	0.7	38.3	213.4	9.3	668.4	129.5	525.3	87.9	34.0	68.1
As At —																
1978																
Mar. 29	438.6	650.8	9.3	27.6	518.5	513.3	0.7	48.0	430.0	58.0	475.6	67.4	473.1	510.9	27.9	66.6
Apr. 26	435.9	166.2	9.9	0.1	512.5	675.0	0.7	48.3	440.9	57.7	344.3	71.3	471.1	293.2	28.6	43.3
May 31	429.4	109.7	8.3	--	499.3	606.5	0.7	54.7	378.0	57.8	464.9	165.6	440.4	25.2	30.3	35.5
June 28	432.9	163.0	10.3	11.3	494.0	516.5	0.7	54.7	352.0	57.9	466.5	158.7	462.7	7.8	29.0	38.1
July 26	428.4	147.7	8.6	--	483.7	506.9	0.7	54.5	341.0	52.8	413.3	226.7	416.5	5.6	29.3	34.9
Aug. 30	437.3	131.2	13.2	1.7	458.4	494.9	0.7	46.8	234.0	51.9	440.6	318.3	370.9	6.9	28.6	38.0
Sept. 27	442.7	132.4	14.5	0.3	471.7	503.3	0.7	62.8	147.3	52.3	519.6	221.4	365.5	119.5	27.7	48.3
Oct. 25	468.0	123.8	9.1	--	495.4	509.6	0.7	62.8	146.0	52.4	548.1	257.4	387.2	73.6	28.6	49.3
Nov. 29	467.3	150.0	8.4	--	532.8	511.2	0.7	55.5	80.0	52.6	609.7	327.6	445.0	15.1	30.0	55.5
Dec. 27	619.4	245.9	10.6	--	562.5	534.0	0.7	56.2	98.5	19.2	472.1	515.7	519.1	195.3	28.3	67.3
1979																
Jan. 31	477.0	184.2	9.2	--	512.8	559.9	0.7	71.5	296.4	8.3	650.7	49.9	544.0	12.8	29.5	79.3
Feb. 28	475.9	177.7	9.7	--	414.5	552.6	0.7	48.5	184.6	9.2	538.6	159.0	570.6	13.7	28.3	77.2
Mar. 28	477.4	482.0	8.7	--	411.5	561.4	0.7	48.5	222.8	8.9	561.1	17.8	570.0	411.0	28.8	71.3
Apr. 24	492.2	317.8	19.9	--	429.5	566.6	0.7	48.4	252.8	8.9	434.5	102.8	570.3	258.7	30.0	119.1
May 30	480.9	393.5	40.1	0.2	418.8	551.0	0.7	39.8	295.4	8.9	848.4	0.3	579.8	18.7	30.6	61.8
June 27	481.8	167.4	52.8	--	414.7	554.7	0.7	39.8	167.8	8.9	776.5	17.7	549.3	9.0	33.6	68.1
July 25	475.1	193.9	58.8	--	405.2	596.5	0.7	41.9	171.5	9.4	684.3	180.2	526.6	8.6	36.2	70.4
Aug. 29	481.7	175.3	67.0	--	351.0	585.5	0.7	19.0	189.0	9.3	732.2	160.6	459.5	8.6	38.2	43.5
Sept. 26	486.6	176.4	68.4	--	356.1	577.2	0.7	19.0	142.1	9.4	606.6	177.7	467.3	154.9	38.5	48.5
Oct. 31	494.7	110.1	77.5	--	634.1	610.0	0.7	19.4	202.9	9.4	828.4	170.7	495.0	86.9	38.4	74.5
Nov. 28	504.1	133.1	84.8	--	436.5	616.2	0.7	19.4	244.9	9.4	737.0	102.4	535.7	19.5	40.2	65.5
Dec. 26	657.8	196.4	82.1	--	446.0	635.3	0.7	13.1	161.1	9.7	671.9	362.7	635.1	0.6	39.6	123.3
1980																
Jan. 30	514.2	140.6	82.0	--	371.0	662.6	0.7	45.5	131.1	9.6	766.8	28.3	635.1	9.3	37.6	110.2
Feb. 27	514.8	149.1	85.5	0.1	351.7	760.2	0.7	39.1	253.6	9.7	649.5	93.6	650.7	8.7	37.1	118.7
Mar. 26	513.8	629.8	90.8	--	361.5	755.2	0.7	39.2	302.2	9.5	573.9	--	652.7	644.8	38.0	90.2

¹ Includes balances in special fund accounts and wool retention accounts.² Includes capital accounts, reserves, miscellaneous liabilities in New Zealand, overseas liabilities, Special Drawing Rights and trading bank time deposits at Reserve Bank.³ Current account balances and short-term bills.⁴ The New Zealand dollar was devalued by 19.45 percent on 21 November 1967 and revalued by 3.25 percent on 9 July 1973. Since that date adjustments to the value of the New Zealand dollar against the basket of overseas currencies have been as follows. — 10th September 1973, revaluation of 10 percent, 25th September 1974, devaluation of 6.2 percent; 10th August 1975, devaluation of 15 percent, 30th November 1976, devaluation of 2.73 percent, 20th December 1976, revaluation of 2 percent; 21st June 1979, devaluation of 5 percent.

MONETARY POLICY MEASURE

On 29th July, 1980, The Deputy Governor of the Reserve Bank, Mr D. L. Wilks announced that as from August 1980, the reserve asset ratio system applied to the trading banks will be based on a single ratio covering both demand and time deposits.

Mr Wilks said that when the reserve asset ratio system was introduced in 1973, the ratio for time deposits was set lower than the ratio for demand deposits in order to encourage competition for time deposits in a situation where the banks faced interest rate controls. Now that these controls have been removed and time deposits have in consequence increased substantially as a proportion of total deposits, there is now no need for the separate ratio on time deposits. Therefore, in the interests of simplicity, it has been decided to introduce a single ratio system.

The trading bank reserve asset ratio for August 1980

will be 24.0 per cent and has been calculated on the basis of giving the trading banks an estimated margin of \$100 million of free reserves for the month, the same margin as has been allowed for when setting these ratios over recent months. (A comparable single ratio for July would have been 23 per cent, whereas the dual ratios where 24 per cent for demand deposits and 22.5 per cent for time deposits.)

Mr Wilks emphasised that neither the change to the ratio system, nor to the ratio itself for August, represent any change to current policy in relation to expected monetary conditions.