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Treasury mulls life after debt

The Treasury is expected to start taking soundings in the next few weeks on a tricky and imminent problem – what to repay once the Government's foreign debt is gone.

Economists have calculated that if the crown asset sales go ahead, particularly the sale of cutting rights to North Island forests, net foreign debt could be zero by the middle of this year.

This would, ironically, force difficult decisions about whether to pay off domestic debt, which could reduce liquidity in the government bond market – a popular playground for overseas investors impressed by the New Zealand economic success story.

Market players joke that the Treasury's debt management office could soon be renamed the asset management office, but many say it is too early to worry about lack of liquidity in domestic bonds or the impact of changes in supply on yields.

"If they sell the Forestry Corp. then the end of this year [fiscal year in June] they're finished [effectively repaying foreign debt], so many surpluses next year get applied to "retiring domestic debt," one bank treasurer said.

He estimated that \$2.5 billion of government bonds would mature next year and suggested that the Government issue only \$1 billion in bonds in the February 2001 maturity in, for example, tenders of \$100 million each. Any further repayments could be directed at the large treasury bill market.

Other treasurers generally suggested keeping a few benchmark bonds liquid and tidying up the overall portfolio by repurchases of less-liquid bonds.

"I think it won't be an immediate problem. Tidying up the portfolio should allow them to continue with liquid benchmark stocks, which should keep the market effectively liquid from the point of view of foreign investors for some time," ANZ treasurer Grant Spencer said.

One treasurer said the Government had to repay domestic debt to be consistent about its overall stance of repaying debt and that corporate and foreign debt issues would gradually replace those of the Government.

"My own view is they should just retire the stuff," the treasurer said.

"I don't buy the argument at all that non-issuing is bad for the market. They are the Government. They can come to the market at any time and issue."