From the Vancouver Sun Business Section (front page), December 12, 1996:

Canada losing out to N.Z.
Bill Constantineau

Investors like Kiwis' consistent fiscal debt-cutting policies and strong dollar

New Zealand, a virtually bankrupt nation just 11 years ago, not is much more attractive to foreign investors than Canada, New Zealand's former public debt manager told the Fraser Institute on Tuesday.

Alex Jurshevski said that to attract investors, New Zealand bonds now pay a premium of about a half percentage point above the average rate paid on the bonds belonging to most industrialized countries. Canadian bonds must pay a premium of about two and a half percentage points to lure those same investors.

Jurshevski, a Canadian who went to New Zealand in 1993, said investors like New Zealand's consistent debt-cutting fiscal policies and the recent strong performance of the New Zealand dollar.

"You need to cultivate the offshore investor. If you don't, you end up paying higher interest rates here."

Jurshevski estimated the interest-rate premium attached to Canadian bonds, above the average rate paid by most industrialized countries, will cost the country about $20 billion in higher payments.

"You have to ask yourself in Canada whether or not its really time to bit the bullet now and make some very significant changes in spending policies to ensure you get a stabilization in the debt to GDP ratio," he said in an interview.

In 1994, New Zealand's net debt was about 43 per cent of its gross domestic product and that is estimated to drop to 30 per cent in 1997.

In Canada, the figure was 74 per cent last year and could go even higher in 1997.

"The government in New Zealand has targeted that ratio at between 20 and 30 per cent – maybe even below 20," Jurshevski said. "But in Canada, I don't even hear that as being part of the debate. The amount of indebtedness keeps going up and up and up and up."

(Jurshevski's presentation to the Fraser Institute addressed the impact felt by the debt managers in New Zealand after foreign investors gradually embraced the country's severe belt-tightening measures following its 1984 fiscal crisis. Critics note Canada's larger economy still enjoys a higher credit rating than New Zealand and that restraint came with a heavy price – including slashed social benefits and rising foreign ownership."

Jurshevski said Canada risks a lower credit rating and higher borrowing costs if it doesn’t cut its growing debt soon because even more investors will look elsewhere in much more stable financial markets.

“Investors involved in the New Zealand market in the 1980’s were rodeo guys, speculators, because there was a lot of volatility in the market and a high risk premium,” he said. “Now the investors are stable, long-term, buy and hold investors.”