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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO THE DEVELOPMENT FINANCE CORPORATION OF NEW ZEALAND WITH THE GUARANTEE OF NEW ZEALAND

January 12, 1972

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REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO THE DEVELOPMENT FINANCE CORPORATION OF NEW ZEALAND WITH THE GUARANTEE OF NEW ZEALAND

1. I submit the following report and recommendation on a proposed loan to the Development Finance Corporation of New Zealand (DFCNZ) with the guarantee of New Zealand for the equivalent of US$8 million to enable DFCNZ to finance the capital goods imports of its clients for the next two years. The initial amortization schedule provides for repayment over a period of seventeen years, including two years of grace, but is subject to change in order to conform substantially to the aggregate of the amortization schedules applicable to the specific investment projects financed out of the proceeds of the loan. The interest rate would be 7¼ percent per annum.

PART I - INTRODUCTION

2. New Zealand joined the Bank in August, 1961. It is not a member of IDA, but the Government has undertaken to make a voluntary contribution to IDA of NZ$5 million payable in equal annual installments in the years 1971 to 1975. The first such payment has been received by the Association.

3. During the period 1963-65, the Bank made four loans to New Zealand, totalling US$96 million (after cancellations of US$6.8 million), but thereafter lending was discontinued in view of New Zealand's relatively advanced stage of economic development. In 1968, a Bank economic mission which had been requested by the Government to consider the measures best suited to establish a sound basis for a long-term economic policy for the nation submitted its report to the Government. It advised restructuring the economy with a view to finding new export markets and rationalizing the hitherto heavily protected manufacturing sector to enable it to compete in world markets, thus reducing New Zealand's dependence on the export of pastoral products. In furtherance of this policy, the New Zealand Government convened a national development conference in 1968, which published an indicative plan for all major sectors of the economy, the National Development Program. The achievement of the growth targets proposed in this program would require capital investment in amounts that exceeded New Zealand's already high level of domestic savings. Restrictions imposed by all the principal capital exporting countries, especially those whose capital markets were traditionally used by New Zealand, were, at the same time, limiting its ability to raise the capital required abroad. A request for assistance was therefore made to the Bank and I agreed in late 1969 to consider a limited lending program in an amount of US$30 to US$40 million over three to four years, which would be directed to the restructuring of the New Zealand economy.

4. The first loan in this program was made in January, 1971, in an amount of US$16 million to New Zealand for a railway project. This financed part of the foreign exchange costs of the first three years of

a six year investment plan of the railways and of an overall transport study. The investment plan is designed to equip the railways to meet demands arising from the changes in New Zealand's economic structure called for in the Government's development plans. The transport study, for which consultants have now been selected, will help develop an efficient and economic national transport policy and forward the dismantling of the regulatory framework introduced in the 1930's. Contracts had been signed for the bulk of the procurement to be financed under the loan and US$528,600 had been disbursed at December 31, 1971.

5. Apart from the loan herein proposed a second Bank loan to the DFCNZ will be considered in fiscal year 1974. In this way the Bank will have made a contribution which, although small in money terms, will have been of significant help to New Zealand's economy by promoting an efficient industrial sector.

PART II - THE ECONOMY

6. An economic report entitled "Recent Development and Prospects of the New Zealand Economy" (EAP-20a) was circulated to the Executive Directors on February 10, 1971. The following is a summary of recent developments.

7. After two fairly buoyant years, the New Zealand economy is now in a phase of slower growth with strong inflationary pressures. The current year's growth rate may fall below 4 percent, compared with about 4 percent in FY 1970/71 1/ and 5.2 percent the year before. Much of the gain this year has been due to the recovery of dairy production from preceding drought years and the present excellent world market dairy prices. Manufacturing, previously one of the fastest growing sectors, expanded by only 2.5 percent in 1970 and may have recently grown even less. Private investment, after a boom in FY's 1969/70 and 1970/71, probably declined this year.

8. The current recession was largely the result of stringent anti-inflationary fiscal and monetary measures during 1970 and early 1971. These measures, which froze public investments, cut other public spending and curbed private credit expansion, had a significant deflationary impact and halted the expansion of domestic demand. Despite this, however, prices continued to rise from the push of sharply rising wages, a situation caused by New Zealand's chronic labor shortage but seriously aggravated by the still unresolved breakdown of the traditional labor-management arbitration machinery. The Government's attempt to limit wage increases during 1971 by legal controls has largely failed. Direct price controls have also proved rather ineffective. In the year ended September 1971, consumer prices rose by over 11 percent. More recent indicators show a slowdown in price rises, but prices are still increasing at an annual rate of 7 - 8 percent.

1/ New Zealand Fiscal Year April 1 - March 31.

9. With sluggish business activity, the Government began in late 1971 cautiously to relax fiscal and credit policies, hoping thereby to revive growth without causing further demand-pull inflation. Additional funds have been made available for farming, housing and local authorities, Government capital outlays have been increased, and some tax relief has been granted with probably more to come.

10. While struggling domestically with both rising prices and slow growth, New Zealand has at the same time enjoyed a fairly favorable balance of payments. In the 1971/72 trading year (July 1 - June 30), there have been significant improvements on current account which will probably result in a comfortable current account surplus of around NZ$50 million as against a deficit of NZ$14 million in 1970/71. This reflects partly a slower increase in imports this year as a result of currently sluggish investments, and partly a rise in exports, probably by over 15 percent, because of increased earnings from dairy and forestry exports. In 1970/71, exports hardly rose because of a slowdown in the growth of meat exports to the U.K., Canada and Japan which virtually cancelled gains in other meat markets, including the U.S. In both years, wool exports have been depressed by low world market prices. On capital account, only a small net surplus is expected in 1971/72, due to large public debt repayments (NZ$45 million), as compared to a record net capital inflow in 1970/71. However, official foreign reserves have continued to rise, owing to the favorable current account. Reserves reached a gross figure of NZ$522 million in October 1971 covering over 4 months of New Zealand's current import requirements of goods and services.

11. Although preoccupied with problems of short-term economic management, the Government is making headway with the fundamental structural problems of the New Zealand economy. These are the heavy dependence on a few pastoral exports, mainly to the U.K. market, and an inefficient and partly outmoded manufacturing sector.

12. The Luxembourg Agreement on the terms of Britain's entry into EEC has removed the uncertainty which had pervaded the New Zealand economy and especially its vital dairy sector for the past ten years and provides a favorable framework for agricultural and foreign trade policies. Under the agreement, New Zealand's dairy exports to the U.K. would decline only gradually to 80 percent of present butter exports and to 20 percent of present cheese exports by 1977. While cheese exports to the U.K. market would no longer be guaranteed after 1977, the butter situation would be reassessed during the third year after British entry (i.e. 1975) to determine the level of guaranteed butter exports to the U.K. after 1977. Dairy prices during the transition period would be based on the relatively high average price during 1969-72.

13. Long-term prospects in dairying are now reasonably favorable even though export prices to the U.K. are bound to decline in 1973, when the 1969-72 average price formula under the EEC-U.K. accession agreement will be applied. Prospects for the beef industry are also satisfactory. The sheep farmers, on the other hand, are in a plight. Wool prices are

depressed, and lamb prices in the U.K. market have dropped. In addition, the U.K. Government has imposed a gradually increasing import levy on sheepmeat which is seriously affecting New Zealand because about 80 percent of its lamb exports still go to the U.K. These adverse external conditions coincide with sharp increases in domestic costs and shipping rates. To alleviate the situation, the Government has initiated a credit scheme and a NZ$45 million emergency cash assistance program for the 1971/72 season to encourage sheep farmers to hold on to their flocks until a long-term policy for the depressed sector can be developed.

14. New Zealand's rising costs and prices point again to the fact that labor shortage and lagging productivity have become a serious threat to both sustained growth at an acceptable rate and also to price stability. The need for diversification and efficiency in production is well recognized and New Zealand's National Development Program emphasizes the promotion of non-pastoral, forestry, and manufacturing production and exports. This will require, apart from the development of new production lines, increased productivity especially in manufacturing and in the tertiary sector. To this end additional efforts seem necessary to achieve a better utilization of resources.

15. An important step towards more competitiveness in industry and less inflation would be the gradual abolition of quantitative import controls, which have over decades excessively sheltered New Zealand's manufacturing. In 1971 the ruling National Party strongly endorsed the Government's plan to replace virtually all quantitative controls within the next five years by a rational tariff structure. This has given new impetus to import liberalization which had been slowing down because of controversies over adequate levels of tariff protection. The first list of proposed exemptions from import licensing, to become effective in January 1972, in fact contains a number of sensitive items, e.g. cement, glass bottles, paperbags, and canned food. The adoption of a firm time-table for trade liberalization should force faster improvement of the manufacturing structure.

16. The advisory Monetary and Economic Council has also proposed intensified Government promotion, through credit and tax measures, of manufacturing exports and of the restructuring of selected potentially efficient domestic industries. This may quicken the process of moving manufacturing away from labor-intensive to more capital-intensive production lines, thereby contributing to a better allocation of capital and labor. It is in this context that the New Zealand Development Finance Corporation can be expected to play an increasingly important role.

17. Another line of attack both on inflationary pressures and structural inefficiencies would be the improvement of labor-management relations which have been seriously disrupted since the breakdown of traditional arbitration machinery in 1967. Recently, meaningful communications between the top employers' and union organizations have been reestablished and this may have a moderating effect on wage demands.

18. New Zealand's efforts to modernize the economy and to adjust to changing international trade patterns require a substantial and increasing inflow of foreign capital. The recent high net capital inflow indicates that the country has been successful in attracting more foreign private investment. In addition, New Zealand has not recently encountered significant difficulties in borrowing long-term funds on reasonable terms in the major international markets. However, such difficulties were occasionally experienced in the past and may occur again in the future. Moreover, the record net inflow of NZ$104 million in 1970/71 will not be repeated easily because it was somewhat inflated by large direct investments in the Bluff aluminum smelter and substantial short-term borrowings in the Euro-dollar market by New Zealand firms encountering liquidity problems at home.

19. There has been no change in the assessment of New Zealand's creditworthiness since the last economic mission. Debt service on incurred Government-guaranteed debt was around 6 percent of export earnings in 1969/70 and no significant increase is expected over the next 5 years.

PART III - THE PROJECT

The Company

20. DFCNZ was established in 1964 to provide medium- and long-term finance for the establishment of new industries or the expansion of existing ones, and to encourage and promote the industrial development of New Zealand by providing technical assistance and advice. DFCNZ began operations in 1965 but grew very slowly. Growth was hampered by the requirement that the Corporation act as a lender of last resort, as well as by its own cautious approach to lending.

21. In 1969 DFCNZ's role changed when the National Development Conference adopted a resolution calling for the DFCNZ to play a more substantial role in the financing of industrial expansion. Later in the same year, a Bank mission visited DFCNZ at the invitation of the Government and made a number of suggestions for strengthening it. In the light of these suggestions, the Development Finance Corporation Act (under which DFCNZ was established) was amended in 1970. The amendments included repeal of the clause that made DFCNZ a lender of last resort. The new orientation of DFCNZ led to a significant increase in the rate of commitments from NZ$1.5 million in 1969 to NZ$2.6 million in 1970 and NZ$3.6 million in 1971. So far DFCNZ has made no equity investment but intends to do so over the next few years.

22. The bulk of DFCNZ's commitments so far has been in the processing of primary products, fishing and fish processing. Recently there has been a trend towards more capital intensive industries such as heavy equipment manufacturing. About half of DFCNZ's loans have been to new companies.

23. As of September 30, 1971 DFCNZ's authorized capital was NZ$4 million, of which NZ$2 million was subscribed, and NZ$1.5 million paid in. Some 48 percent of the subscribed capital was held by the Government and the balance by private institutions, mainly banks and insurance companies. The small size of the share capital represented a serious constraint on DFCNZ's ability to expand. The Government has authority under the DFC Act to make interest-free loans to DFCNZ, subordinated to all other debt to a total amount of NZ$4 million. As of September 30, 1971 the total of such outstanding loans to DFCNZ was NZ$1.75 million. The DFCNZ has also made three bond issues, all guaranteed by the Government, totalling about NZ$4 million. The latest issue made early in 1971, was not fully subscribed because the rate of interest offered, viz. 6½ percent, was relatively low for the market conditions then prevailing.

24. The DFCNZ has also raised one loan of US$1 million in the Euro-dollar market, involving an exchange risk only part of which DFCNZ has passed on to its borrowers. To relieve itself of this risk DFCNZ has proposed that it repay the loan, part in July and the rest in November 1972. The timing of these repayments reflects the terms of the loan and DFCNZ's liquidity position.

25. The Board of DFCNZ consists of 13 directors, including the Chairman, of whom three are from the Government and ten from the private sector. The Board is highly regarded in New Zealand and, following recommendations made by the Bank mission, was strengthened in 1971 by the addition of two new directors primarily representing the industrial sector since in previous years representation from the private sector had come from banks and insurance companies. In November 1971 DFCNZ strengthened its management by engaging as its Managing Director a man of considerable financial experience. The professional staff of the DFCNZ is small, consisting of four staff members, and the DFCNZ has therefore relied heavily on consultants and other outside experts in its appraisal of projects. Additional permanent staff will be recruited as the volume of business increases.

26. The growth of the portfolio in recent years has led to a sharp increase in net profits from NZ$27,118 in 1969 1/ to NZ$192,026 in 1971. All net profits after provision for dividends, which at present are effectively restricted to 6 percent under the DFC Act, have been transferred to a Reserve Fund.

27. Since April 1971 its lending rate has been 9¼ percent. Despite the recent inflationary trends, DFCNZ intends to maintain this rate, taking into account the need for an adequate spread and the interest rate structure in New Zealand. The majority of DFCNZ's loans are for a term of 10 years or more with grace periods of 6 months to two and a half years. The trend is towards longer terms.

28. The DFCNZ's loan portfolio, amounting to about NZ$7.6 million, as of June 30, 1971, is sound. At the 30th of June 1971 arrears of principal amounted to NZ$114,625, equal to only 1.5 percent of total

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1/ DFCNZ's fiscal year July 1 - June 30.

portfolio. The arrears related to six loans and no repayment was overdue more than six months. NZ$80,000 has been provided for bad debts (1 percent of portfolio) and accumulated reserves amounted to NZ$303,000. DFCNZ proposes to increase and maintain the provision for doubtful accounts at 1.5 percent of total portfolio.

The Financial Environment

29. In the past few years changes have taken place in the composition of the sources of funds for the financing of the manufacturing sector in New Zealand. Traditionally, internal cash generation has financed about two-thirds of industrial capital expenditures. This proportion fell in 1970 to about one-half, probably reflecting a fall in industrial profits.

30. The manufacturing sector has sought institutional finance from five principal sources: (i) the trading banks in the form of overdrafts, at an average rate of 6 percent, and, more recently, medium-term (five to eight years) loans at 7 percent; (ii) the finance companies, which have grown rapidly in recent years, in the form of loans primarily for industrial equipment; (iii) the life insurance companies in the form of mortgage loans of 15-20 years at 8 percent; (iv) the State Advances Corporation, a Government institution primarily responsible for lending to agriculture, which also lends a small amount to industry; and (v) the capital market, which has traditionally been a source of funds for well-established companies, although it has recently been depressed and relatively inactive.

31. Another recent development has been the establishment by certain finance companies of subsidiary merchant banks with links with American and European banks, which may eventually open an important new source of funds in New Zealand. However, the role of the merchant banks is expected to grow only slowly.

32. DFCNZ's role is to fill a gap in the structure of institutional financing, namely the provision of large-scale long-term loans in the 8-15 year range for projects having a development potential ranking high in the Government's scale of economic priorities. For such projects the amounts involved would often be too large and the maturities too long for the finance companies. Moreover, lending by the trading banks and insurance companies for such projects will be inhibited by the fact that these institutions base their lending decisions on rather short-run security considerations rather than the long-term prospects of such projects.

DFCNZ's Prospects

33. The future volume of DFCNZ's business is likely to be determined by the availability of resources and the capacity of its management and staff. In discussions with the Bank DFCNZ has agreed on policies, both operational and staffing, which are likely to give a more dynamic character to the organization. The Board of Directors of DFCNZ has adopted a Policy Statement which is satisfactory.

34. In order to strengthen its borrowing base, DFCNZ has agreed to call the balance (NZ$500,000) of its subscribed capital not later than June 30, 1972 and to issue the balance (NZ$2 million) of its authorized share capital not later than June 30, 1973. A proportion of the subscription, possibly 10 percent, will be payable on subscription and the balance of the issued capital will be called in the light of the Corporation's needs. The Government, recognizing both the need further to enlarge DFCNZ's borrowing base and the Corporation's difficulties in building up its paid-in share capital more rapidly, undertook to increase its loans to DFCNZ by not less than NZ$4 million, on terms (subordinated to other debt and not repayable while any part of the proposed Bank loan is outstanding) which would justify inclusion of all the outstanding Government loans in DFCNZ's borrowing base. In accordance with the financial projections of DFCNZ's requirements, these further payments will be made in an amount of not less than NZ$2.25 million by June 30, 1972 and the balance by June 30, 1973. NZ$1 million had been paid to DFCNZ at the end of 1971. Legislation has been passed amending the DFC Act to give the Government authority to make the proposed additional subordinated loans.

35. A limit on the ratio of long-term debt to equity of 4:1 has been agreed. The forecasts indicate that DFCNZ's total assets will increase from about NZ$7.6 million at June 30, 1971 to NZ$47.4 million at the end of 1976 and that this ratio would increase from 1.0:1 in 1973 to 3.2:1 in 1976. DFCNZ's profits before tax are expected to grow from NZ$192,000 in 1971 to about NZ$1 million in 1976.

36. DFCNZ's total commitments from 1972 to 1976 are estimated to be about NZ$54.2 million. Of this amount, NZ$26.2 million (US$29.3 million) 1/ or 48 percent of the total is expected to be required for the financing of capital imports. The balance, NZ$28 million, will be used to finance local costs. In estimating the foreign exchange cost of individual projects the Bank has agreed to include the import content of imported goods bought in New Zealand and the import content of goods manufactured in New Zealand as well as direct imports.

37. The projected sources of domestic funds for DFCNZ through 1976 are as follows:

	NZ$ millions
Loan repayments	7.95
Share capital increase	.70
Share capital increase	1.80
Retained earnings	1.01
Bond issues at 8%	12.50
Government subordinated loan (1972), interest free	2.25
Government subordinated loan (1973), at 7%	1.75
	27.96

1/ Converted at the previous rate of exchange of NZ$1 = US$1.12. The new rate of exchange is NZ$1 = US$1.19.

At June 30, 1971 DFCNZ had undisbursed loan commitments of NZ$1.1 million in excess of funds available resulting in a tight liquidity situation for the first part of 1972. Including funds to cover this overcommitment DFCNZ requires NZ$18.2 million to cover commitments through the end of 1973. Of this amount NZ$10.2 million are estimated to be needed for the financing of local costs and NZ$8 million (US$9 million) for the financing of capital imports.

38. To cover the NZ$10.2 million required for the financing of local costs in 1972 and 1973 DFCNZ will obtain the NZ$4 million subordinated loan noted above, NZ$0.7 million in increased share capital, NZ$3.0 million in new bond issues and approximately NZ$1.8 million through loan collections and NZ$1.2 million through other internal cash generation. DFCNZ intends to plan its future funding arrangements on a commitment rather than on a disbursement basis in order to avoid liquidity problems such as those experienced recently.

39. The US$9 million required for the financing of capital imports would be covered by the proposed US$8 million Bank loan and a new overseas loan of US$1 million, on terms to be negotiated, to replace the Euro-dollar loan mentioned in paragraph 24 above. The proposed Bank loan would be available for commitment for roughly the two calendar years 1972 and 1973. It would represent about 40 percent of DFCNZ's total reserve requirements through 1973.

40. The proposed loan would be made on terms and conditions similar to those of recent Bank loans to development finance companies. DFCNZ has agreed to protect itself against the foreign exchange risk on its foreign borrowings by passing it on to sub-borrowers who will either bear the risk themselves or make use of the new exchange risk insurance scheme sponsored by the Reserve Bank. The free limit for individual sub-projects is proposed to be US$100,000 with an aggregate free limit of US$2.5 million, which is in line with recent first loans to development finance companies.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

41. The draft Loan Agreement between the Bank and the Development Finance Corporation of New Zealand, the draft Guarantee Agreement between the Government of New Zealand and the Bank, the Report of the Committee provided for in Article III Section 4 (iii) of the Articles of Agreement and the text of the Resolution approving the proposed loan are being distributed to the Executive Directors separately. The draft agreements conform to the normal pattern for loans to development finance companies.

42. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART V - RECOMMENDATION

43. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President

Attachments

January 12, 1972

ANNEX I

Statement of Bank Loans to New Zealand at December 31, 1971

Loan No.	Year[1/]	Borrower	Purpose	Amount (US$ millions) Bank	Undisbursed
364 NZ	1963	New Zealand	Ports	6.7	-
371 NZ	1964	New Zealand	Power transmission	32.5	-
438 NZ	1965	New Zealand	Railways	41.1	-
439 NZ	1965	New Zealand	Power generation	15.7	-
725 NZ	1971	New Zealand	Railways	16.0	15.5
	Total less cancellations			112.0	
	of which has been repaid to Bank and others			16.3	
	Total now outstanding			95.7	
	Amount sold		6.7		
	of which has been repaid		4.5	2.2	
	Total now held by Bank			93.5	
	Total now undisbursed				15.5

1/ Calendar year in which agreement was signed.

NEW ZEALAND

BASIC DATA

Area (two main islands only)	102,000 square miles
Population (March 1971)	2,860,500
Estimated annual growth rate 1961/71	1.7%
Gross National Product (FY 1970/71)1/	NZ$5,445 million
Per Capita GNP	US$2,268 2/
Annual real growth rate: FY's 1960/61 - 1970/71	4.4%

Percentage of GNP at Current Prices	Average FY's 1963/64 - 1968/69	FY 1969/70	FY 1970/7
Private Consumption	61.8	60.4	61.7
Public Consumption	14.0	15.2	16.2
Gross Investment	25.7	23.6	25.8
- Private Investment	13.7	13.0	14.0
- Public Investment	9.0	8.1	8.0
- Changes in Stocks	3.0	2.5	3.8
Gross Domestic Savings	23.8	24.1	22.1
Exports of Goods and Services	23.3	26.8	
Imports of Goods and Services	23.2	23.9	
Government Taxation Revenue	26.4	26.1	27.4

Resource Gap (% of GNP)	Average FY's 1963/64 - 1968/69	FY 1969/70	FY 1970/7
	1.9	-.5	3.7

Money and Credit	End of June 1971 (NZ$ million)	Increase over June 1970
Total Money Supply	65.6	6.5%
Total Domestic Credit	968.2	7.3%

Increase in Consumer Price Index	1965-70	Sept.1970/ Sept.1971
	4.7% p.a.	11.1%

1/ New Zealand Fiscal Year, April 1 - March 31.
2/ At present exchange rate NZ$1 = US$1.1916.

Government Finance (NZ$ million)	FY 1968/69	FY 1969/70	FY 1970/71
Consolidated Public Sector:			
Current Expenditure	656	729	880
Transfer Payments in New Zealand	414	447	490
Capital Expenditure	373	389	441
Total Expenditure	1,443	1,565	1,811
Revenues from Direct Taxes	791	888	1,080
Revenues from Indirect Taxes	324	352	410
Public Authority Trading Income	188	207	185
Total Revenue	1,303	1,447	1,675
Deficit Financed by Net Borrowing	140	118	136
Public Savings	(233)	(271)	(305)

External Trade (Trading years July 1 - June 30)		1970/71 (NZ$ million)	Average Annual Change (%) 1965/66-1970/71
Export Receipts		1,194	8.2
of which:			
Meat	(35%)	415	13.8
Dairy Products	(22%)	261	6.0
Wool	(17%)	206	-3.5
Import Payments		1,026	6.4

Balance of Payments (NZ$ million)	1968/69	1969/70	1970/71
Trade Balance	229	276	168
Net Invisibles (including transfers)	-179	-214	-182
Current Account Balance	50	62	-14
Capital Account Balance	-24	-13	104
IMF Transactions (incl. SDR's)	-26	5	19
Errors and Omissions, Exchange Valuation and Timing Differences	23	-34	5
Change in Official Overseas Reserves	23	20	114

International Reserve Position	(Gross, Sept. 1971)	NZ$508 million
Months of Import Requirements of Goods and Services of trading year 1970/71	4.3	
IMF Position (Oct. 1971)	(US$ millions)	
Quota	202	
Drawings	202	

External Public Debt (Dec. 31, 1970)	(US$ millions)
Total Debt Outstanding	727
Net of undisbursed	663
Debt Service Ratio:	6.4% of merchandise export earnings in trading year 1969/70

NEW ZEALAND

DEVELOPMENT FINANCE CORPORATION OF NEW ZEALAND

Loan and Project Summary

Borrower:	Development Finance Corporation of New Zealand (DFCNZ)
Guarantor:	New Zealand
Amount:	Various currencies equivalent to US$8 million
Amortization:	To conform substantially to the aggregate of the amortization schedules applicable to the specific investment projects financed out of the proceeds of the proposed loan but with a maximum of seventeen years and two years grace; interest at 7¼ percent per year; commitment charge of 3/4 of one percent on the principal amount of the loan not withdrawn from time to time.
Purpose:	To assist the Borrower in financing part of the capital goods import requirements of its clients.
Final date for sub-project submission:	September 30, 1974
Free Limit:	US$100,000 for sub-projects; US$25 million aggregate limit.
Debt covenant:	Maximum debt/equity ratio of 4:1 (as defined in Bank loan agreement).
Procurement:	Through normal commercial channels.
Terms of loans to sub-borrowers:	Interest - Not fixed. Presently 9.25% per annum.
	Amortization - Variable, maximum of 15 years.
	Exchange risk - Borne by sub-borrowers or reinsured under Reserve Bank scheme .

Bank loan:

Years ending June 30,	1972	1973	1974	1975
	(in million US dollars)			
Estimated commitments	2.3	3.9	1.8	-
Estimated disbursements	1.2	2.8	2.7	1.3

Loan and Investment Commitments

Years ending June 30	1971 (Actual)	1972	1973	1974	1975	1976
		(Projected)				
	------------in thousands NZ dollars------------					
Projected total commitments	3,629	4,400	8,750	11,000	13,375	15,500
Financed by:						
Opening balance of uncommitted funds	(183)	(1,185)	5,848	2,008	10,186	4,547
Increase in share capital	500	-	700	1,800	-	-
Internal cash generation	232	398	524	686	932	1,063
Collections minus repayments	495	750	(457)	1,300	1,804	2,500
Domestic borrowing	1,400	2,250	3,250	2,000	5,000	4,500
Bank loans	-	7,142	-	13,392	-	-
Other foreign borrowing	-	893	893	-		10,000
Closing balance	(1,185)	5,848	2,008	10,186	4,547	7,110

Balance Sheets

Assets

Current assets, net of current liabilities	101	389	408	654	1,393	1,381
Loan portfolio, net of provisions	7,450	11,557	16,723	25,263	34,375	44,364
Equity portfolio, net of provisions	-	-	250	500	750	1,000
Other assets	3	23	33	43	73	123
Total	7,554	11,969	17,414	26,460	36,591	46,868

Liabilities

Foreign currency borrowings	-	1,964	4,419	9,568	14,818	20,460
Domestic borrowings	5,751	8,001	9,988	11,788	16,592	21,092
Equity	1,803	2,004	3,007	5,104	5,181	5,316
Total	7,554	11,969	17,414	26,460	36,591	46,868

	1971 (Actual)	1972	1973	1974	1975	1976
		(Projected)				
	------------in thousands NZ dollars------------					
Earnings						
Gross income	519	785	1,347	1,998	2,845	3,565
Financial expenses	226	297	653	1,072	1,593	2,122
Administrative expenses	61	90	170	240	320	380
Provisions	40	107	89	109	138	153
Taxes	-	-	-	-	397	455
Net profit	192	291	435	577	397	455
as % of year-end share capital	12.8	19.4	19.7	14.4	9.9	11.3
As % of average net worth	12.8	15.3	17.4	14.4	7.7	8.7
Debt/equity ratio as defined in Loan Agreements	3.2	1.0	1.0	1.4	2.3	3.2

Note: Figures exclude exchange differences.