

# Chairman's Address

## Review of 2007-08

- Volatile market conditions
- Anti-money laundering legislation compliance and AUSTRAC exemption
- Over \$1 billion on issue in major bond series
- All borrowing was sourced from Australia
- No outstanding foreign currency debt
- Return on surplus cash balances of 7.08 per cent

## Outlook for 2008-09

- Volatile market conditions
- Economic growth in the Territory forecast of 6.6 per cent in 2008-09
- Additional issuance into the recently launched 2013 maturing bond series
- Maturity of all outstanding derivatives
- Borrowing program of \$394 million including \$105 million of 'new money'



Any review of the past year could not ignore the impact of the credit crisis that has enveloped global financial markets. The effect of this crisis on debt securities has been significant with the corporate sector particularly affected. Government bonds have been impacted to a far lesser extent as investors have appreciated the liquidity and low risk associated with the government bond sector. As a result, Northern Territory Treasury Corporation has not to date been significantly affected by the volatility in financial markets.

The recent financial market conditions have tested the Corporation's policies and procedures. These have performed satisfactorily and confirm the value of well developed risk management practices. In addition to the testing market conditions, the requirements of new anti-money laundering and counter-terrorism financing legislation have placed an obligation on organisations to review their processes for weaknesses that could be exploited. Throughout 2007-08 the Corporation has worked to comply with the new requirements and, in conjunction with other state central financing authorities, was successful in seeking an exemption from AUSTRAC for some aspects of this legislation. Nevertheless, the Corporation has decided to retain some non-compulsory elements, as they represent good business practice.

Despite difficult global financial conditions the Territory economy has continued to perform strongly during the year, driven by mineral and energy production, construction activity and tourism. State Final Demand is estimated to have increased by 2.1 per cent this financial year and economic growth is forecast to

strengthen to 6.6 per cent in 2008-09 as the contribution from exports increases substantially.

The Corporation undertook a borrowing program of \$487 million in 2007-08. This was \$50 million less than originally budgeted and was made possible by the early repayment of loans by clients. The weighted average cost of borrowing for the year was 6.67 per cent, close to the target level of 6.50 per cent. It was pleasing to note that while the margin between Australian Government and semi-government debt has expanded and contracted during the year, the Corporation has generally maintained its issuing margins to its peers.

The Corporation again focused its annual borrowing program on the domestic bond market, maintaining \$1 billion in five major bond series throughout the year, including a new bond series maturing in 2013. In December 2007 the Treasurer approved an increase in the level of interest rate exposure to maturing debt in any year from a band of \$250-\$350 million up to \$300-\$400 million. This will allow for additional issuance into existing bond series and provide further liquidity for these bonds in the secondary market.

The Corporation's focus on borrowing from the domestic market in recent years has meant that the Euro Medium Term Note programme that was established in 1995 has not been utilised since 1997. As a result, the Corporation has decided to cease using this programme as its issuance platform for overseas borrowing. However, the Corporation will continue to consider offshore issuance if conditions are favourable.

The focus on the domestic market has also resulted in a reduction in the Corporation's derivative exposure. Currently the Corporation has no direct foreign currency exposure and only minor interest rate derivative exposure.

Investment activity continues to be a growing proportion of the Corporation's commercial operations and, despite the challenging investment environment, the returns on funds managed by the Corporation have been close to their benchmarks. The Corporation manages the investment of the Government's surplus cash balances and the Conditions of Service Reserve (COSR), a fund established to meet some of Government's long-term liabilities, such as superannuation.

The Northern Territory Government's surplus cash balances are invested primarily in secure, short-term financial products and these returned 7.08 per cent. These surplus cash balances have almost doubled in size in the past five years and, in recognition of this increase, the Treasurer approved changes to the investment guidelines in May 2008 that provide greater capacity to invest funds with high quality counterparties.

The longer term liability funds are held in COSR and are invested with a growth fund style asset allocation. This year COSR produced a weighted return of -8.81 per cent. This negative return primarily reflects weakness in equity markets and, while it is disappointing, it should be considered against its five-year return of 11.66 per cent.

A separate fund was established during the year that invests on a medium-term basis of 2-3 years. The fund commenced with an initial investment of \$50 million and an aim of providing a return similar to that of the Corporation's cost of borrowings.

There have been relatively few administrative changes during the year and most third party service providers have been retained. One change has been the engagement of Bloomberg as the service provider for financial markets information.

The financial market challenges faced in 2007-08 are likely to continue in 2008-09. While the borrowing program for 2008-09 is relatively small at \$394 million, the Corporation will apply its efforts to retaining the narrower borrowing margins it has achieved in recent years and to ensuring the delivery of the best service to its clients. I am confident that the Advisory Board and staff of the Corporation will deal with these tasks in their usual professional, timely and well considered manner.



Jennifer Prince  
Under Treasurer and Chairman