



**FIRST OECD FORUM ON
PUBLIC DEBT MANAGEMENT
7 TO 8 DECEMBER 2006, AMSTERDAM**



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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- Background
- Formulation And Emulation Of Debt Management Strategies
- Asset And Liability Management Structure Within the National Treasury
- Phases In Public Debt Management (Evolution)
- Practical Steps In Implementing Public Debt Strategies
- Debt Statistics on South Africa



1. BACKGROUND

- Focus since 1994 on Macro reforms
 - RDP (The construction and development programme)
 - GEAR (Growth Employment and Redistribution Strategy)
 - ASGISA (Accelerated and Shared Growth Initiatives)



FROM RDP TO ASGISA

The **Reconstruction and Development Programme** (1993), was the **first post-Apartheid socio-economic policy** and development planning framework for rebuilding South Africa. It focused on meeting basic needs, developing human resources, **building the economy**, and **democratizing the state and society**

This was followed by the 1994 White Paper on Reconstruction and Development. It was, however, seen as inadequate to deliver the required economic growth and so a **macro-economic intervention** was needed to accelerate growth

This paved the way for South Africa's macro-economic policy, as is set out in the Growth, Employment and Redistribution (**GEAR**) strategy (1996). The GEAR strategy established certain economic targets, including a **budget deficit target**, and outlined additional financial reforms, such as improvements in **revenue collection**. An important focus of GEAR was on **restoring the international credibility of the economy**

ASGISA
Since then, South Africa has committed to achieving the targets set out in the UN's Millennium Development Goals, which include amongst others, **halving unemployment and poverty by 2014 through growth**

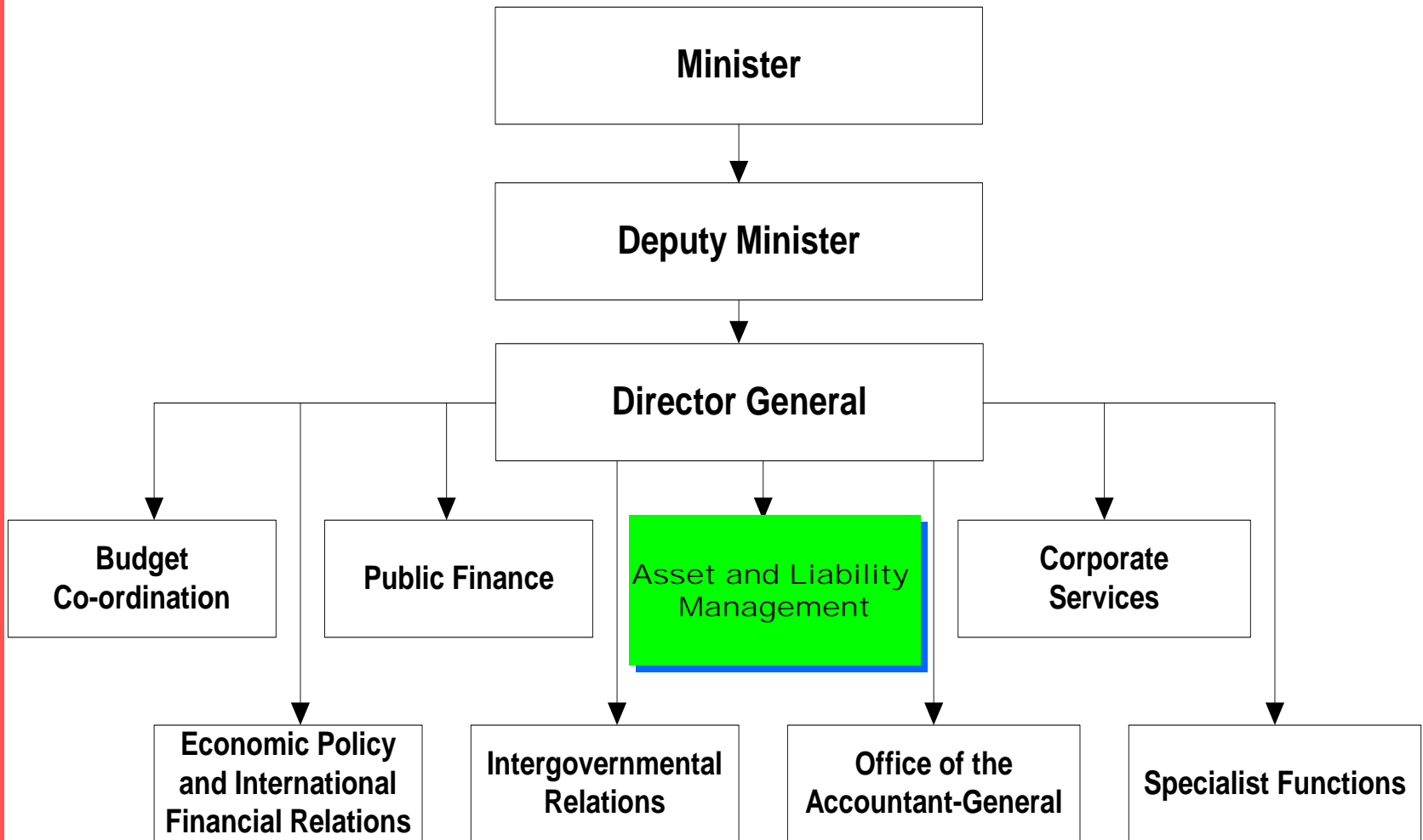


2. FORMULATION AND EMULATION OF DEBT MANAGEMENT STRATEGIES

- Obtain buy in from Highest Level - Cabinet
- Macroeconomic and Financial sector stability
- Improve credibility of Government as an Issuer (Internal/External)
- Sound Fiscal and Monetary policies
- Prudent legal framework
- Establish objectives to borrow
- Build capacity within Finance Department (ALM division)
- Co-ordinate Public Debt Management Strategies with Monetary Policies

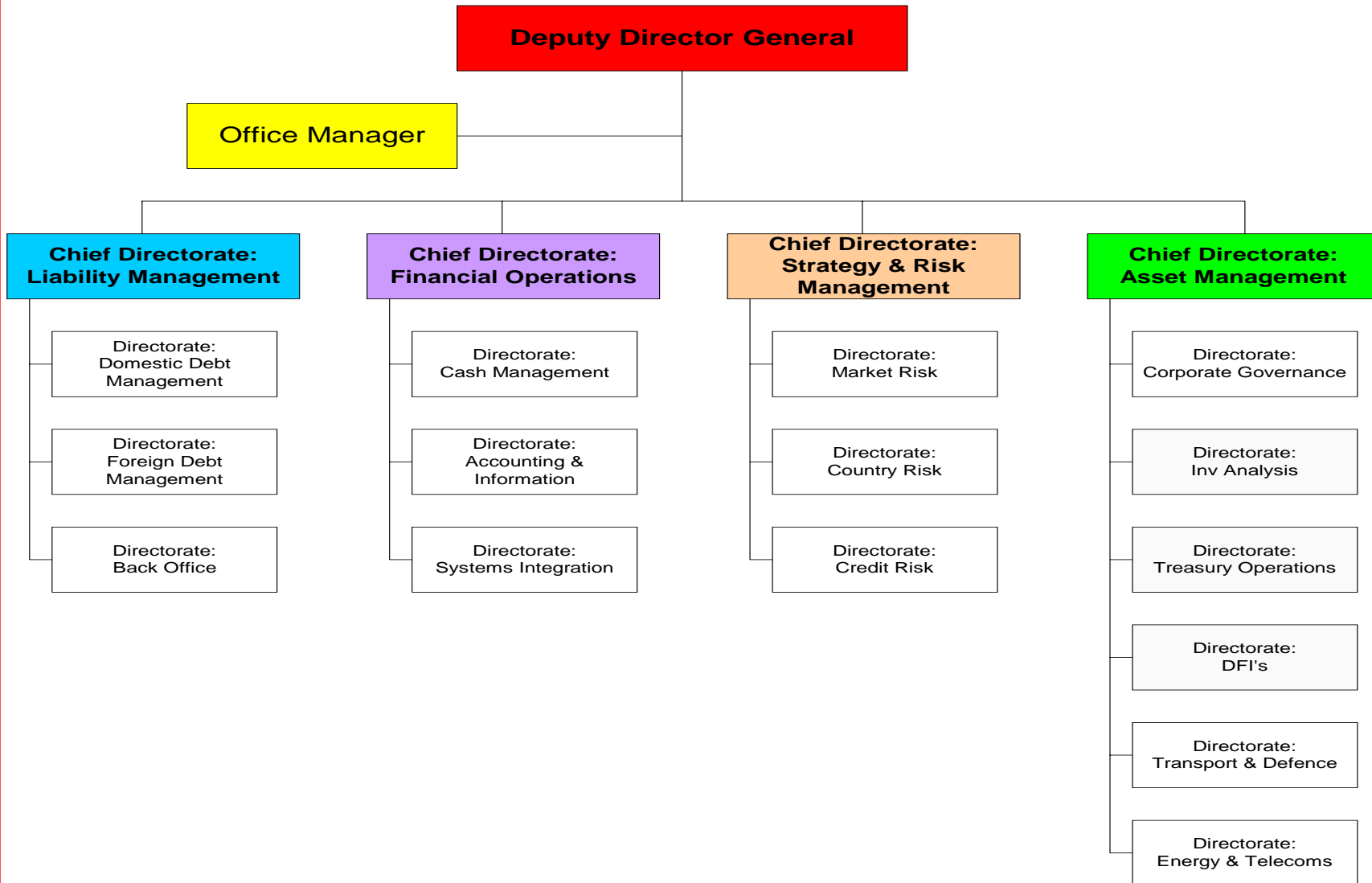


3. ALM STRUCTURE / NATIONAL TREASURY SOUTH AFRICAN CASE





ASSET & LIABILITY MANAGEMENT STRUCTURE





4. EVOLUTION OF PUBLIC DEBT

WHAT IS GOVERNMENT DEBT

MANAGEMENT?

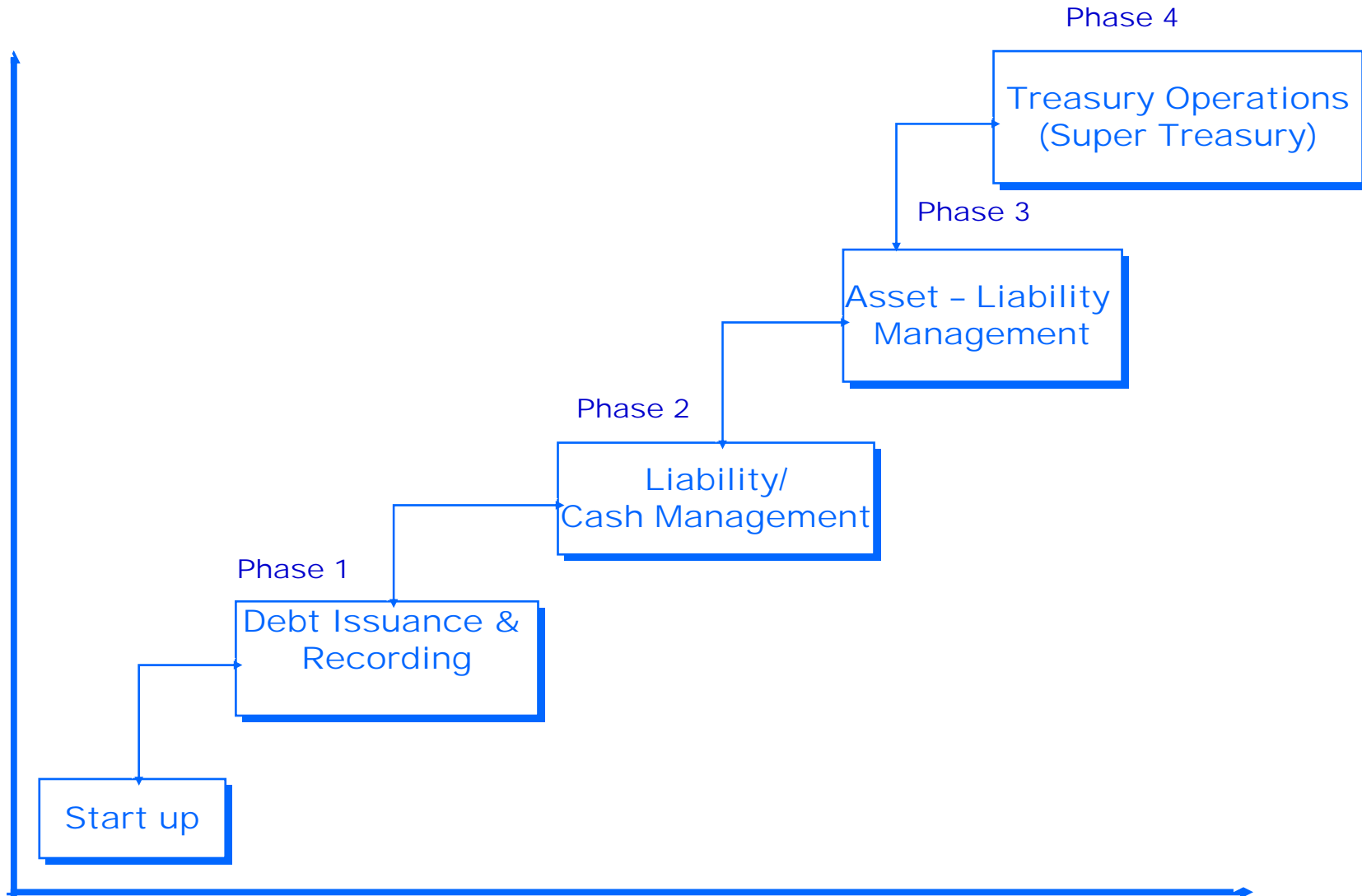


DEFINITION

“The process of establishing and executing a strategy for managing the government’s debt in order to raise the required amount of funding, pursue its cost and risk objectives, and to meet any other public debt management goals the government may have set.”



Evolution phases in Public Debt Management





**Evolution of Global
Debt Management
"See South Africa's
Experience attached
Annexure "A"**



Phase 1

Debt Issuance and recording

- Focus is on issuing debt given significant fiscal imbalance and no clear debt management strategy
- Focus on developing domestic debt markets
- Fragmentation and problems in coordinating debt management with monetary policy
- Problems in analysing and controlling the impact of debt servicing on the budget
- Problems controlling contingent liabilities



Phase 2

Liability/Cash Management

- Focus on integration of liabilities and cash flows within a risk management framework
- Reducing or eliminating foreign currency debt
- Integration of debt management and aggregate government cashflows
- Risk management around debt portfolio



Phase 3

Asset – Liability Management

- Focus is on debt issuance and managing debt within a risk management framework
- Full integration of assets and liabilities
- Full identification of contingent obligations
- Risk management based on market values
- Primary objective is reducing debt costs subject to acceptable risk levels



5. PRACTICAL STEPS IN IMPLEMENTING DEBT MANAGEMENT STRATEGIES

- Compile funding strategy before each fiscal year – part of the budget process: - (Questions to ask)

What is the budget deficit?; How will it be funded?; What is the cost of service debt?; What instruments will be issued; What new instruments to be introduced; Composition of debt?; Reflect on previous year?; Develop an auction calendar? Etc.



PRACTICAL STEPS IN IMPLEMENTING DEBT MANAGEMENT STRATEGIES

- Communicate funding strategy to market –
openness, transparency, information sharing
- Actively involvement in Market Development
- Issue short, then slowly build yield curve and benchmarks over time
- Convert illiquid into benchmarks bonds

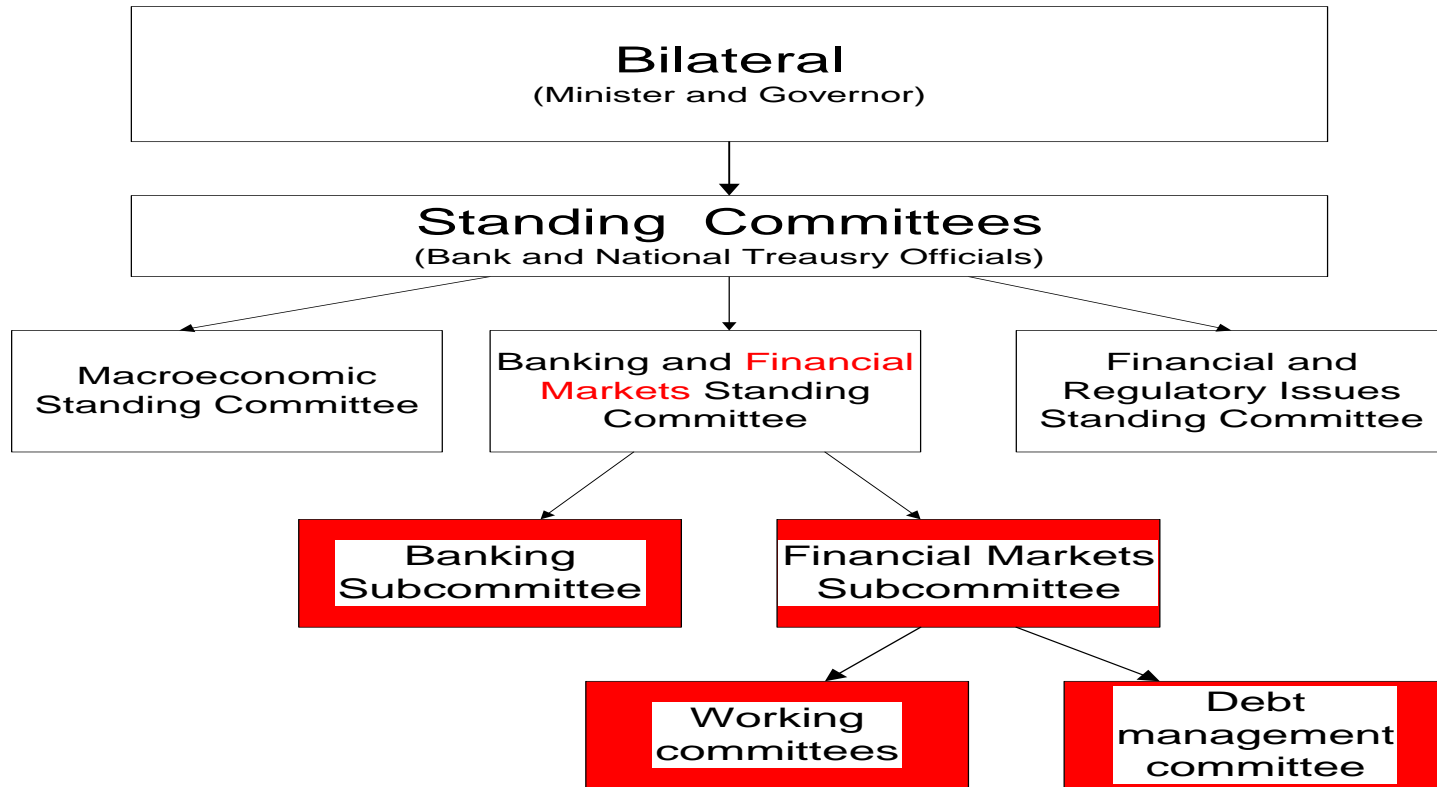


PRACTICAL STEPS IN IMPLEMENTING DEBT MANAGEMENT STRATEGIES

- Savings cost – prime objective
- How to design and use of instruments
- How primary issuances designed and managed
- Reporting and Information on monthly basis



CONSULTATIVE PROCESS – SARB & NATIONAL TREASURY

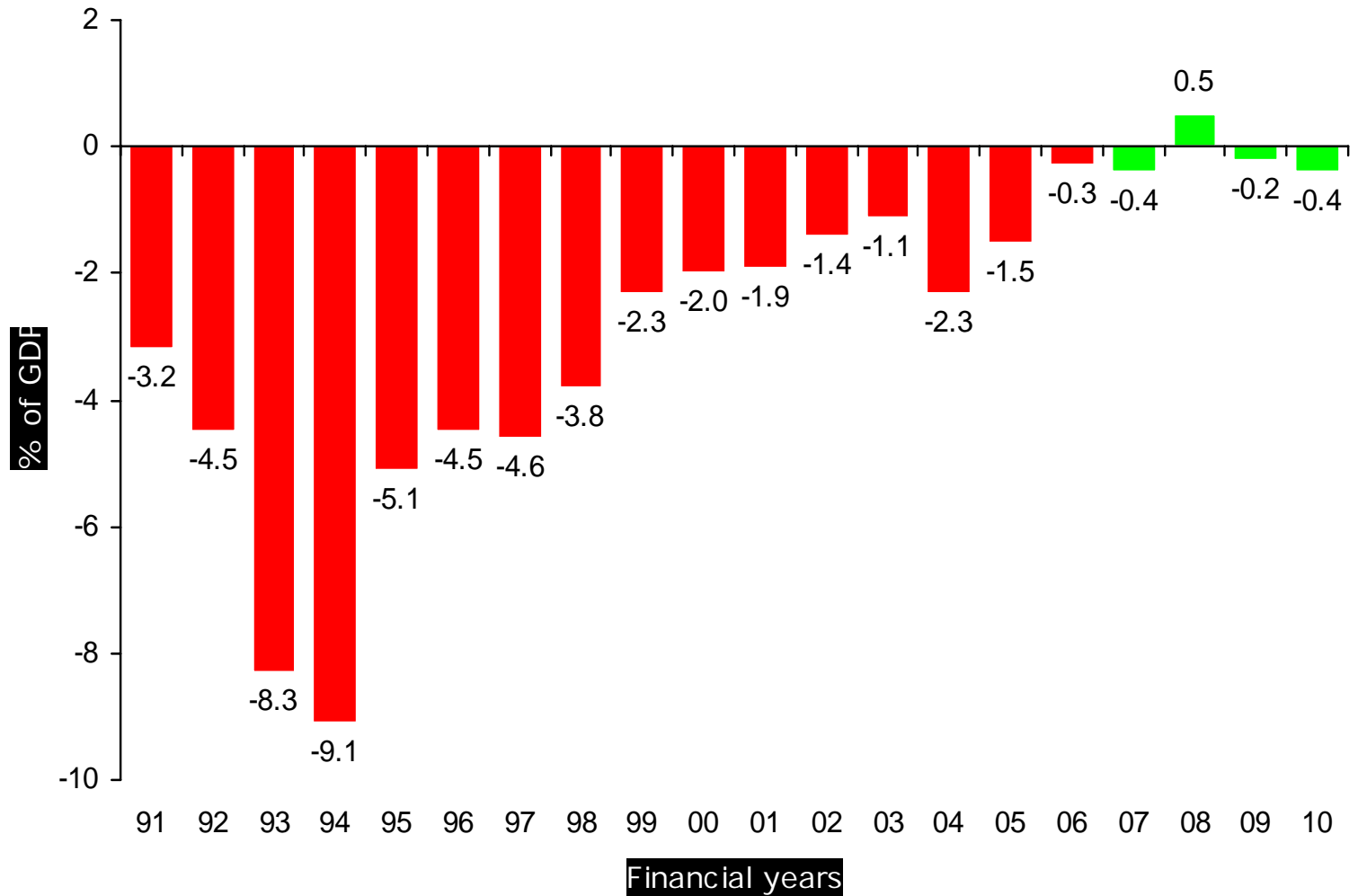




6. DEBT STATISTICS ON SOUTH AFRICA

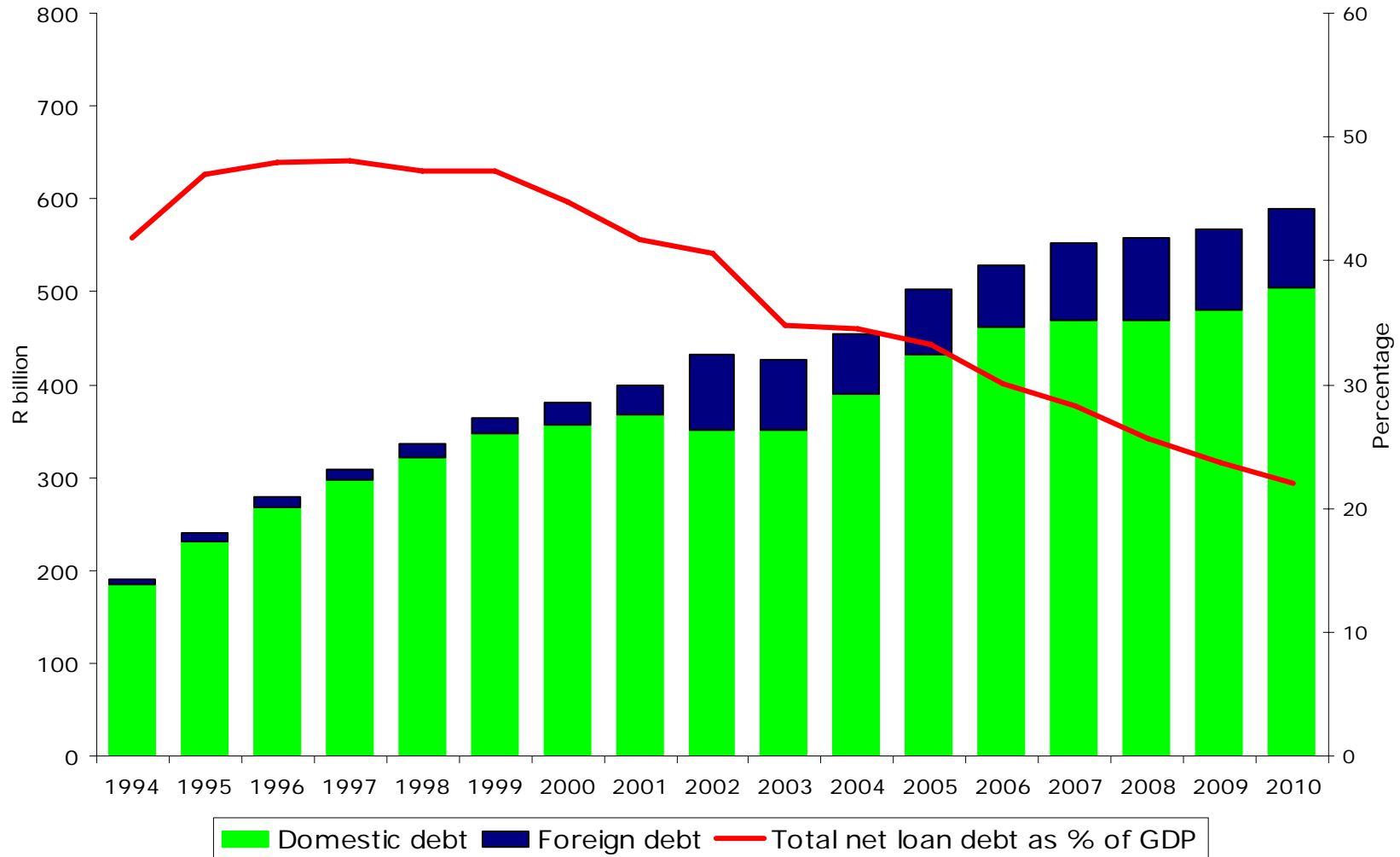


Declining budget deficits as % of GDP



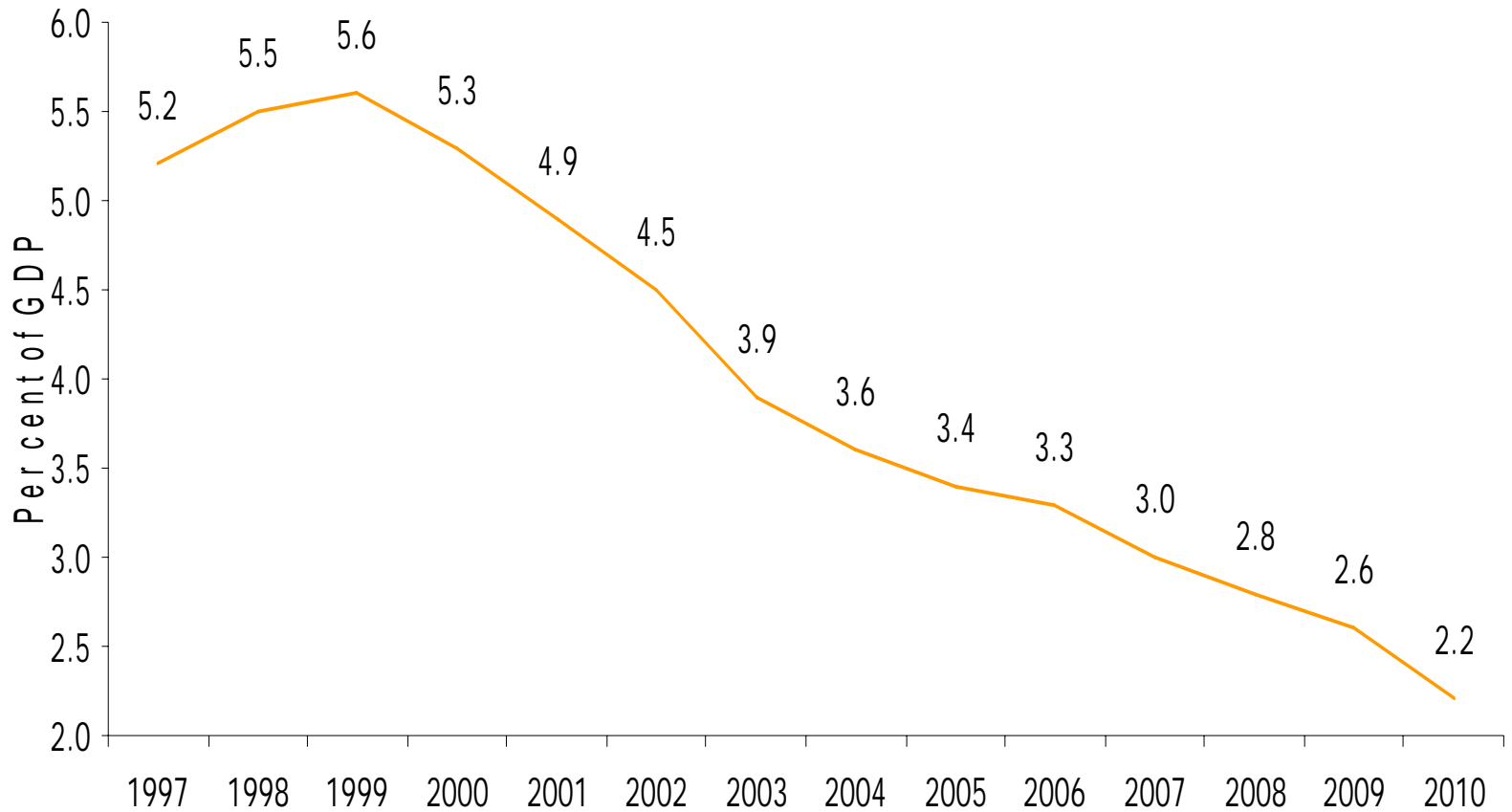


Declining Government debt as % of GDP



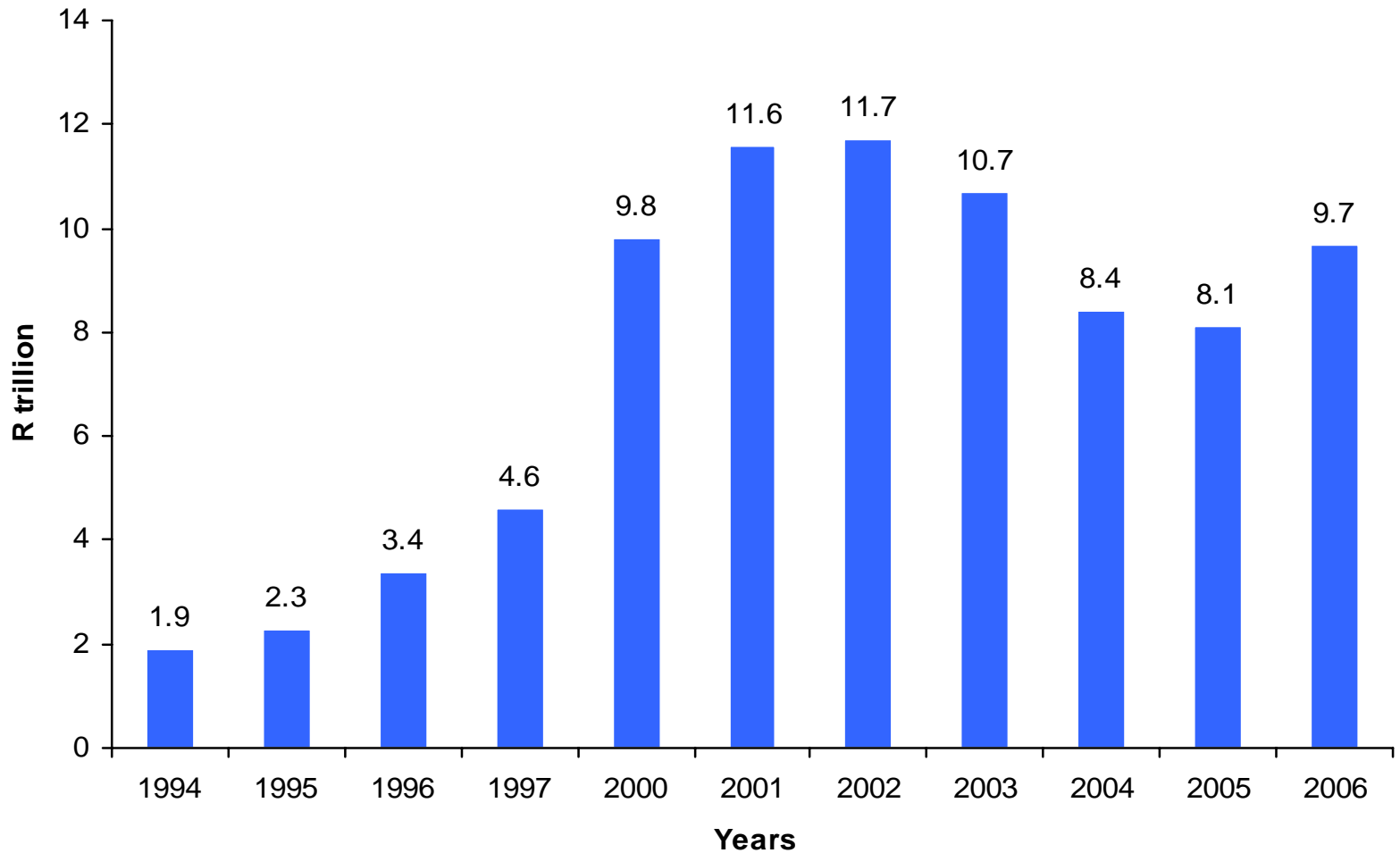


Declining debt service cost as % of GDP



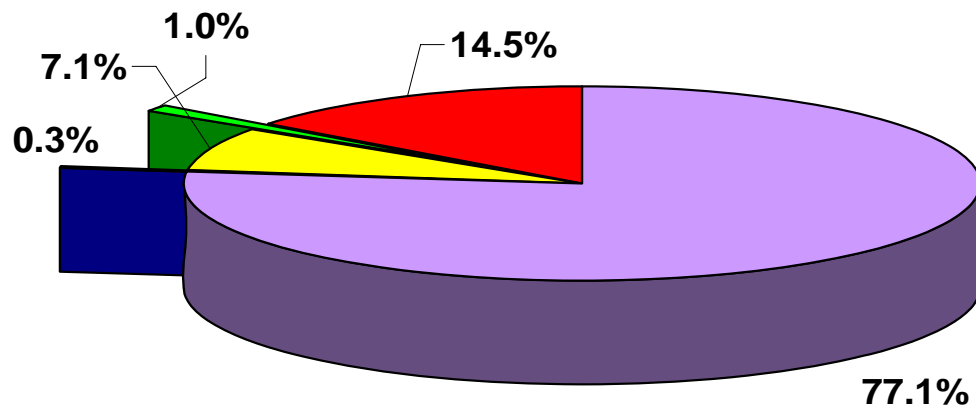


Liquidity in domestic bond market increased





Portfolio diversification



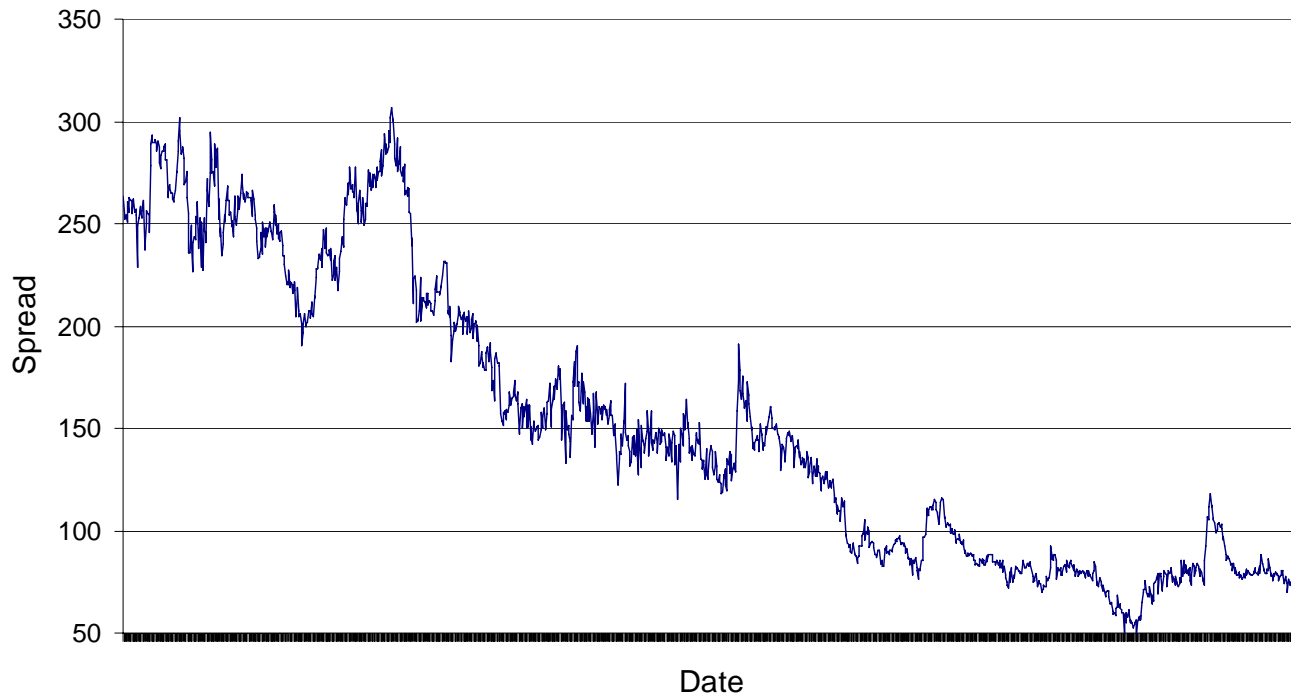
- Domestic capital market bonds: R447,3 bn
- Retail bonds: R1,6 bn
- Treasury bills: R41,5 bn
- CPD deposits: R6,0 bn
- Foreign loans: R84,3 bn

Total debt:
Gross R581,2 bn (33,3% of budget GDP)
Net R496,6 bn (28,4% of budget GDP)



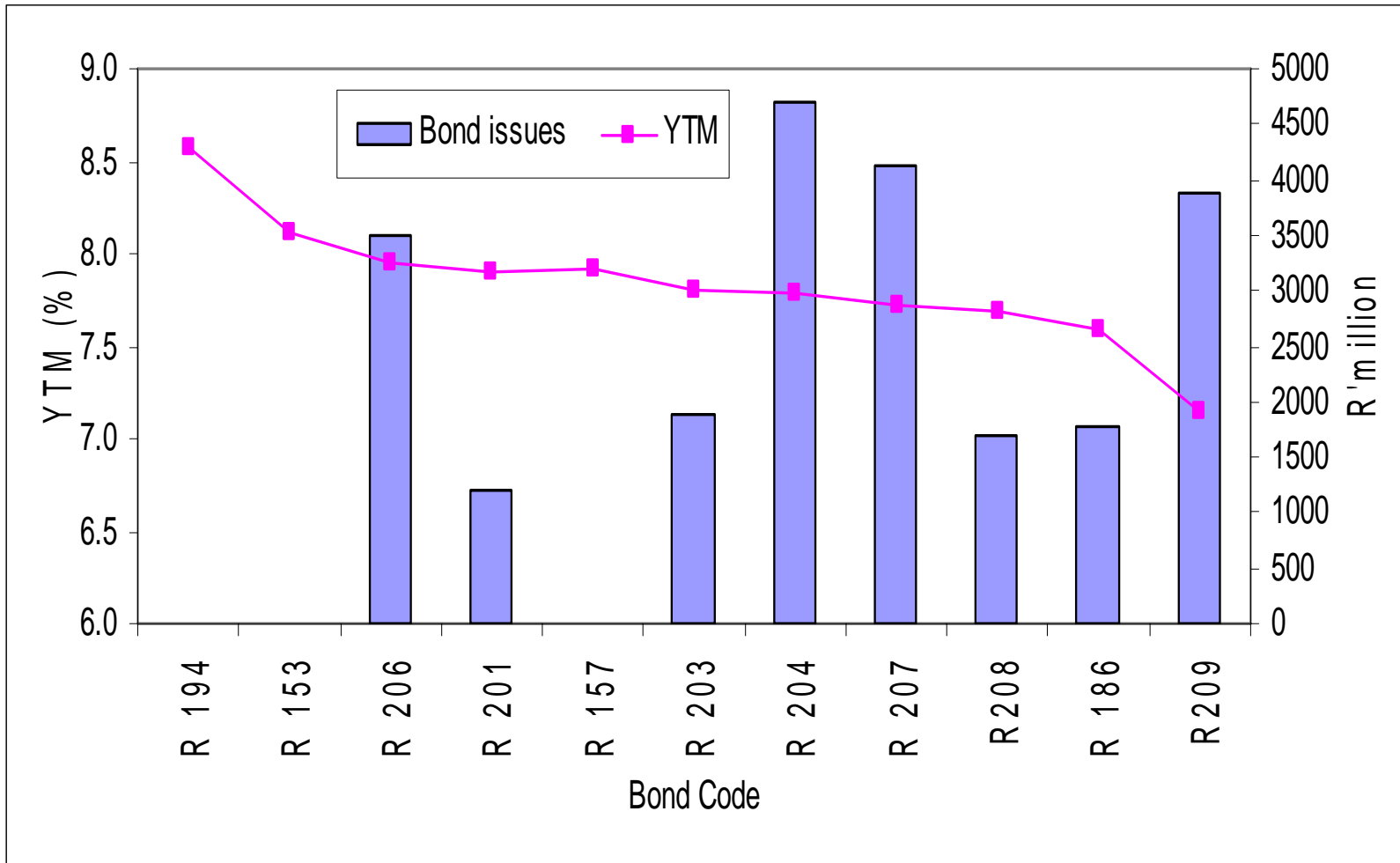
RSA FOREIGN SPREADS DECLINING

USD 09



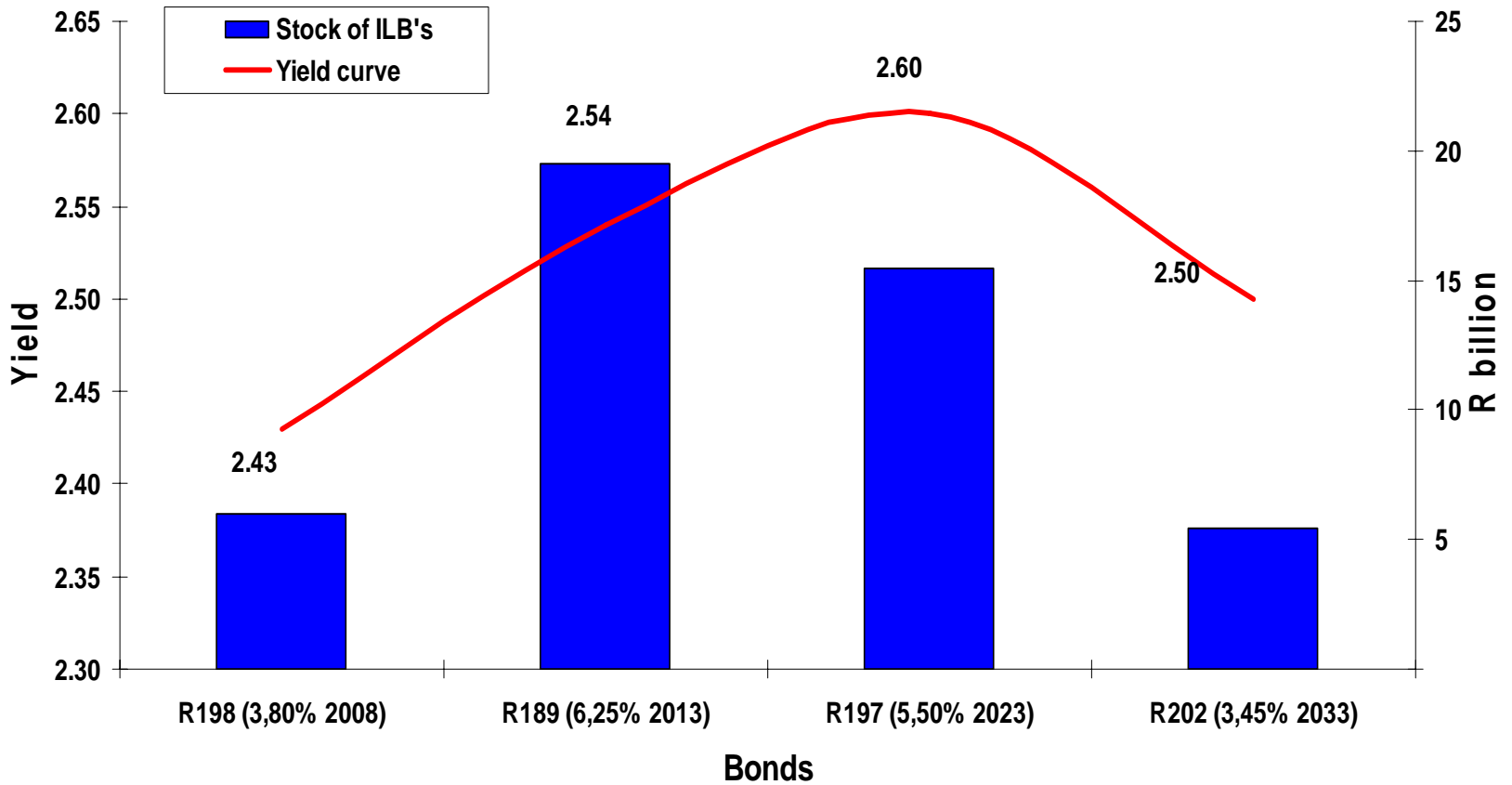


Fully developed fixed income yield curve



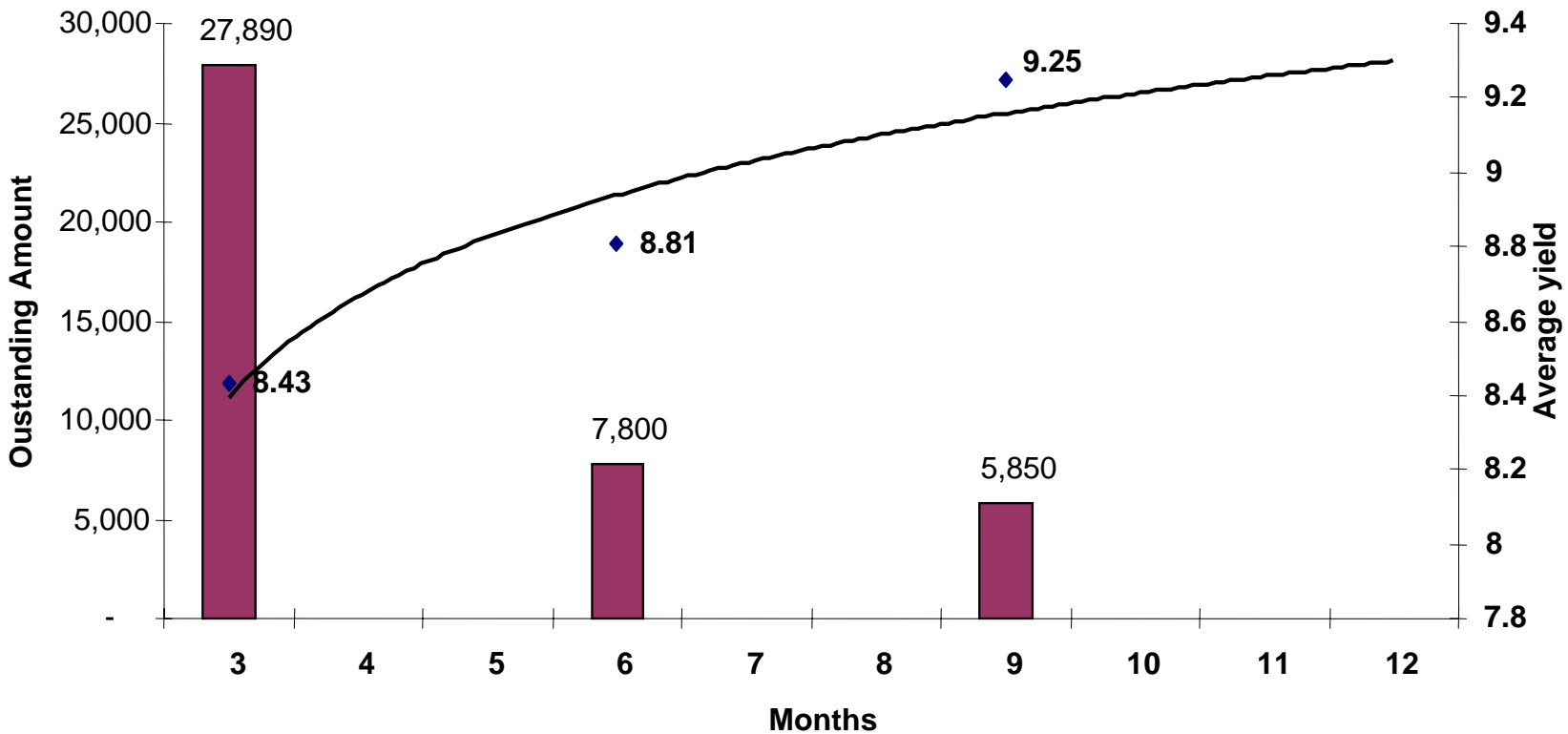


Fully developed CPI-linked yield curve



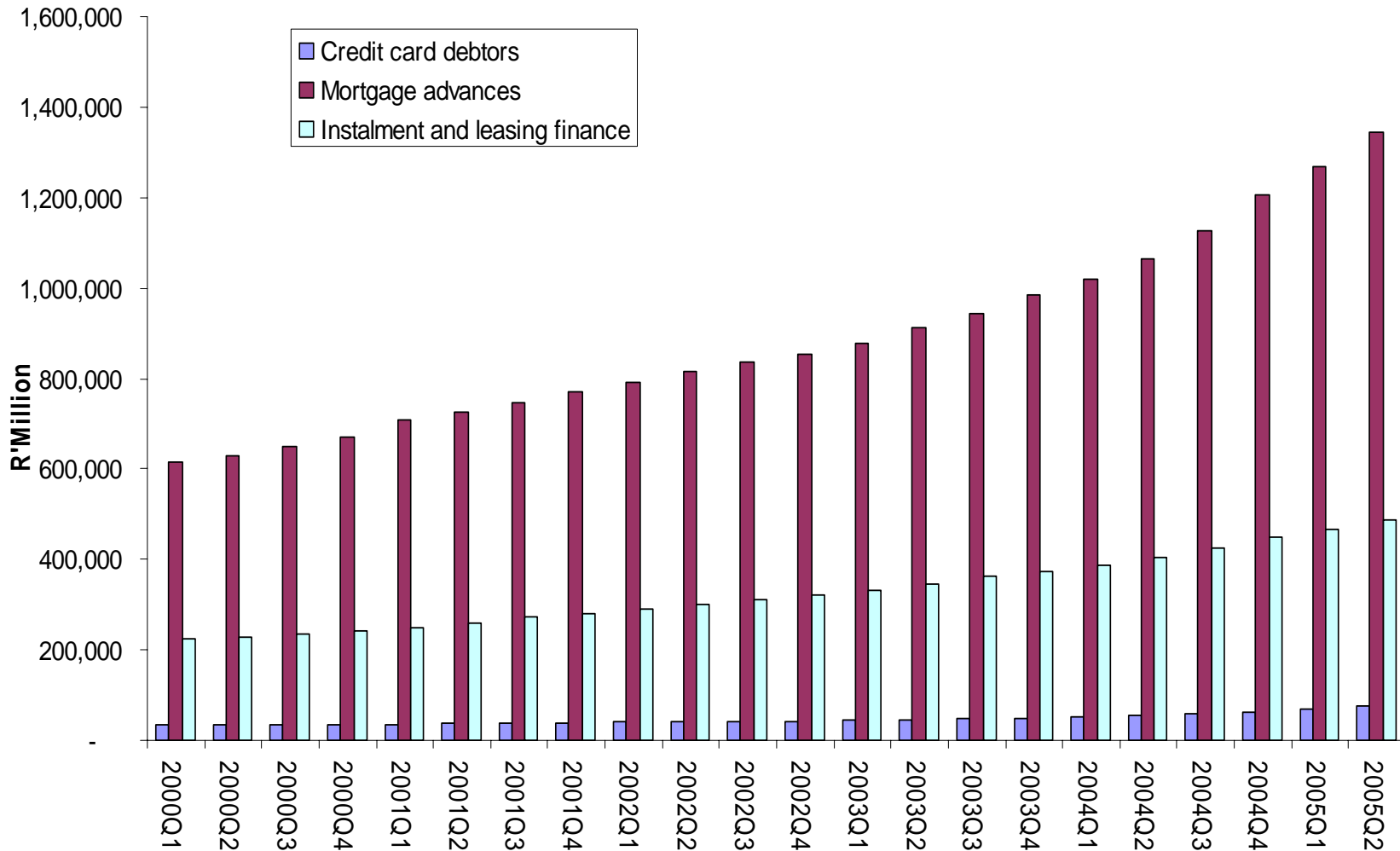


Fully developed Treasury Bill yield curve





RSA securitisation market





ANY QUESTIONS?



THANK YOU



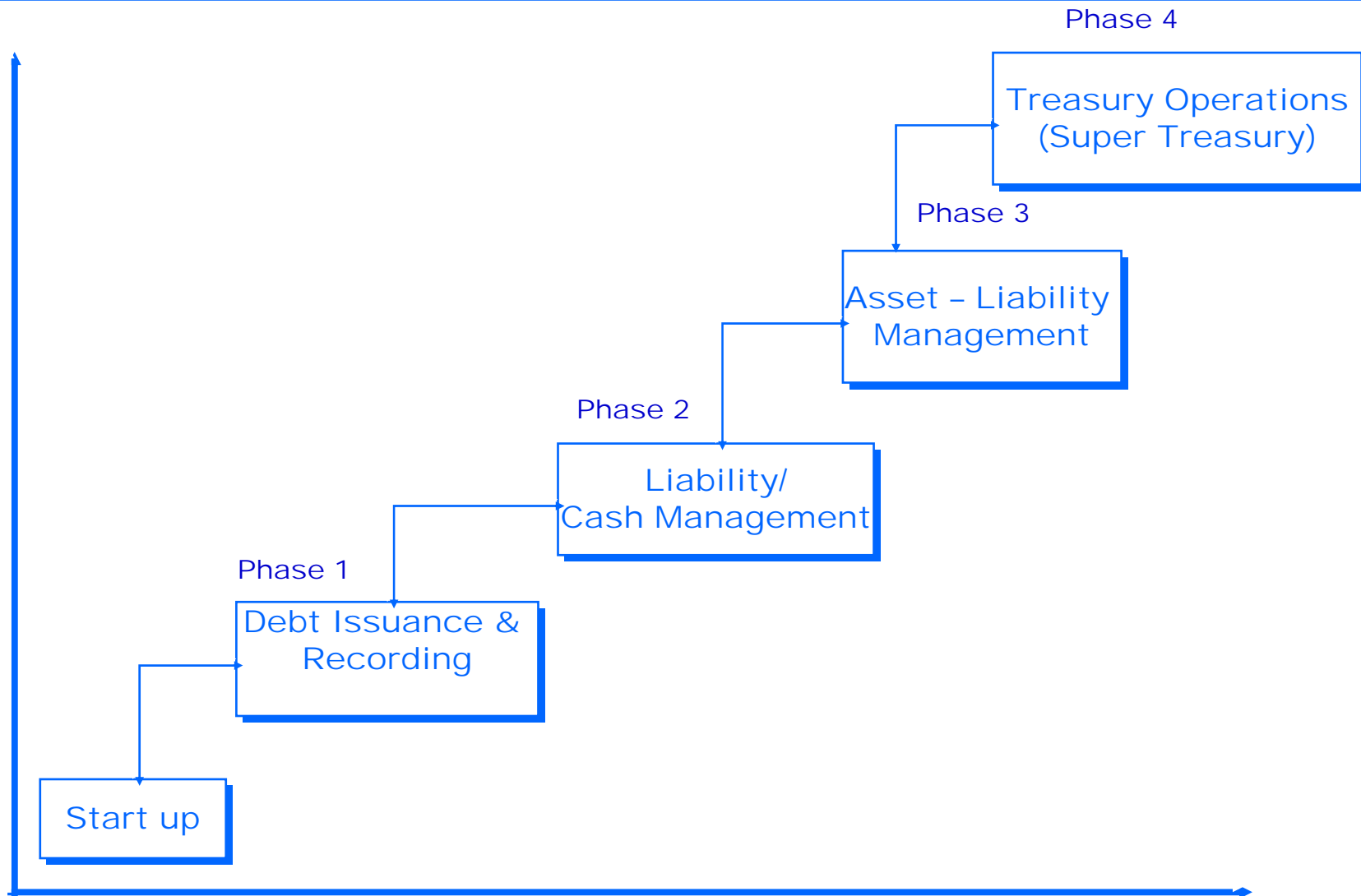
ANNEXURE "A"

SOUTH AFRICA'S EXPERIENCE

"EXTRA READING"



Followed same evolution phases as globally





Phase 1:

Debt Issuance and

recording



Domestic debt management strategies not well developed

- Debt management strategies focused on access to market and smoothing of maturity profile
- Domestic primary issues through the South African Reserve Bank (SARB) and Public Investment Commissioners
- Market making risk for account of Government
- Domestic debt instruments limited to TB's, fixed income bonds and zero coupon bonds



...Domestic debt management strategies not well developed

- Domestic maturity profile fragmented
- Domestic maturity profile of up to 23 years
- Low bond market turnover - R2,3 trillion



Issuance in foreign markets limited

- Focused on establishing country's name in the market
- Establish benchmarks for RSA financial institutions
- Foreign loan issues limited to 5 year maturity
- Foreign holdings limited to investors in UK, Germany, USA and Japan



Domestic debt markets not well developed

- Established Bond Exchange of South Africa (BESA)
- Established a clearing house (UNEXCOR)
- Trade reporting, matching and settlement conducted electronically on a daily basis



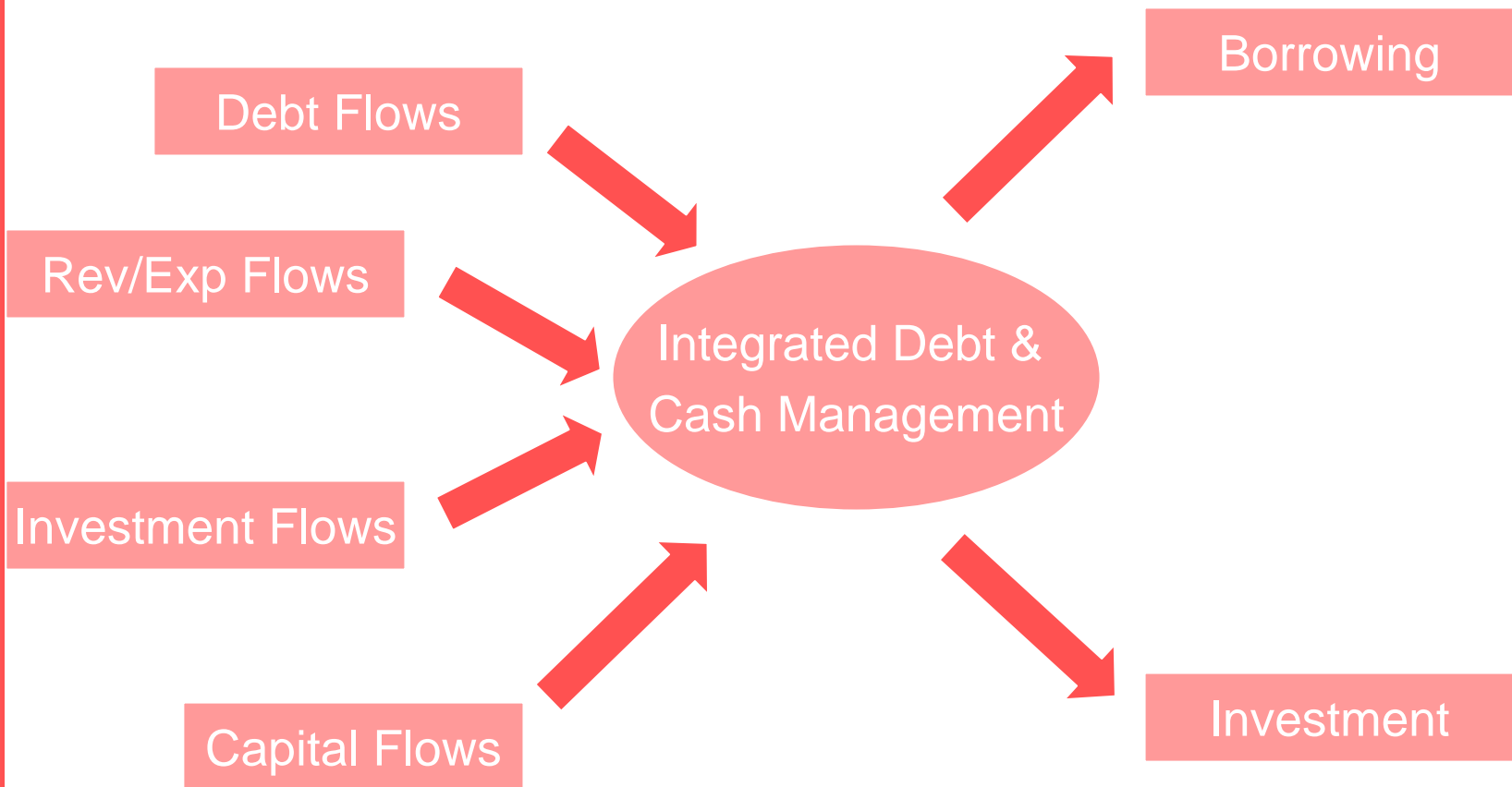
Phase 2:

Liability/Cash Management



Debt and cash management integrated

- Establish an institutional framework
 - ALM Division
 - Front, middle, back office
- Cash management function taken over from SARB
- Surplus cash invested (Tax and Loan Accounts)
- Improved cash flow forecasting
 - Non-interest earning liquidity buffer with SARB reduced from R3 billion to R50 million
- Intergovernmental Cash Coordination





Domestic debt actively managed

- Debt management strategies focused on reducing debt cost within acceptable levels of risk
- Domestic primary issues through Primary Dealers
- Market making risk for account of Primary Dealers
- Diversified domestic debt portfolio, floaters, ILB's, retail bonds and STRIPS added
- Restructure the maturity profile through switches (R63,2 billion) and buy-backs (R4,5 billion)



... Domestic debt actively managed

- Domestic maturity profile extended to 30 years
- Benchmark bonds created over the yield curve
- Established an index-linked bond yield curve
- Introduced Retail Bonds, focused on the private investors
- Bond market turnover at R10,6 billion



RSA established as credible borrower in foreign markets

- Foreign debt management concentrated on the elimination of the NOFP and refinancing of maturing loans
- Foreign loan issues up to 20 years maturity, concentrating in 10 year area
- Foreign investor base extended to a wide range of high quality investors spread across Africa, Europe, Asia, America and Middle East
- Investment grade credit ratings assigned by all major Credit Rating Agencies



Transparency improved

- Auction calendar
- Chapter 5 of Budget Review
- Monthly reporting on loan issues, redemptions, extraordinary receipts / payments and cash balances
- Complied with the IMF's Special Data Dissemination Standards (SDDS)
- Domestic and foreign deal and non-deal roadshows
- Daily interaction with markets and media



Risk Management Unit established

- **Initial focus on market risk
pertaining to the Government
debt portfolio**



Phase 3:

Asset – Liability Management



Risk Management focus shifted

- Focus shifted to government-wide risk management
- Objective of Government-wide Risk Management
 - To actively manage the risks affecting the budget emanating from debt portfolio and contingent liabilities
- Risks were identified and classified as Credit, Market and Country risk
- Risks identified were prioritised and rated



Integration of asset and liability management

- Initial focus on restructuring through privatisation
- Shift from privatisation to restructuring
 - Create opportunity to address socio economic challenges
 - Improve service delivery
 - Infrastructure for growth



... Integration of asset and liability management

- Governance over public entities
 - Public Finance Management Act (PFMA)
 - Treasury Regulations
 - Protocol on Corporate Governance
- Initiatives to enhance stakeholder value
 - Review of Treasury Operations (State Owned Ent.)
 - Review of DFI mandates
 - PFMA Amendment Bill
 - Review of public entities