



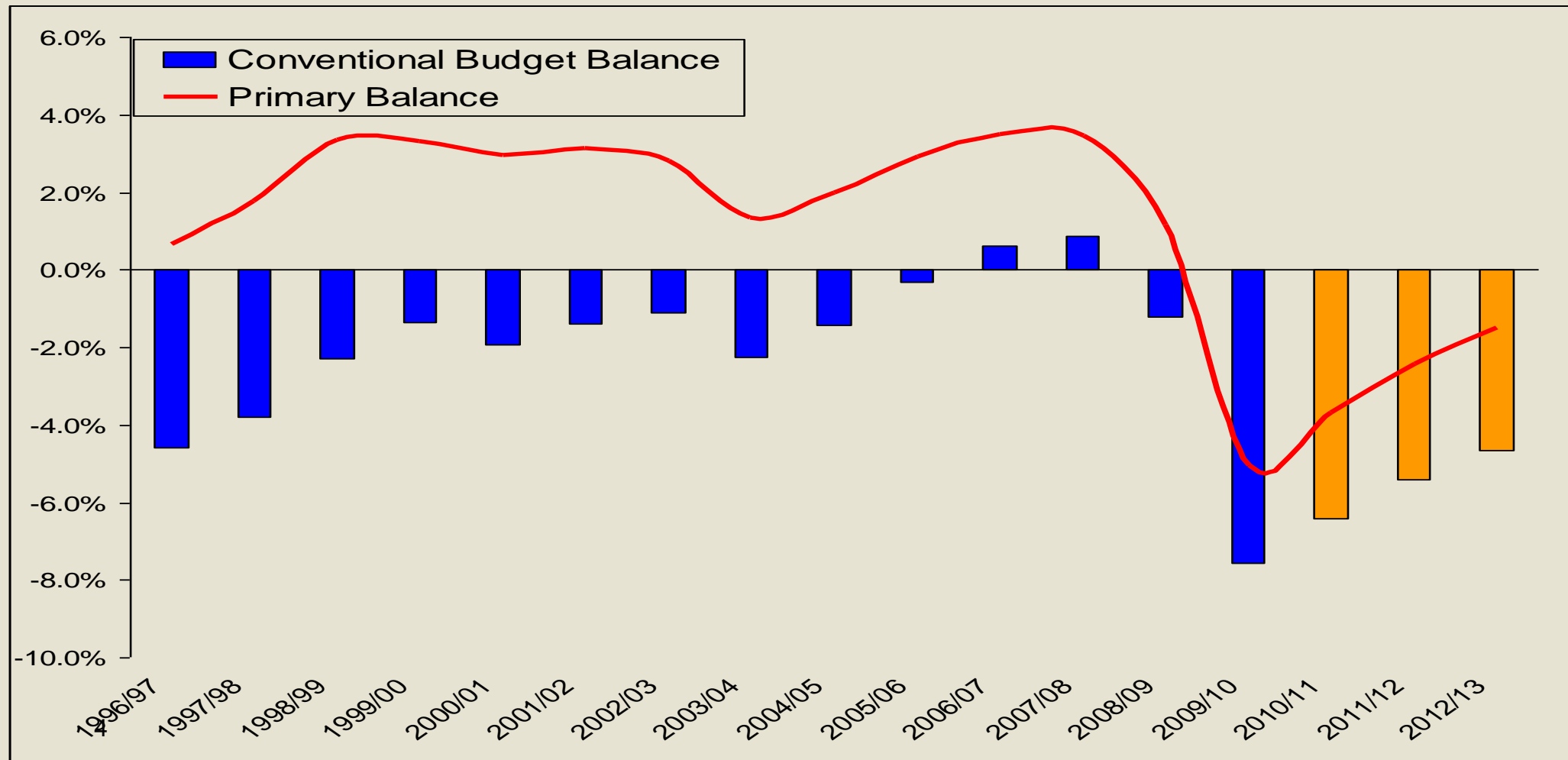
THE IMPACT OF THE GLOBAL CRISIS ON FUNDING NEEDS AND BORROWING STRATEGIES

- **Background**
- **Fiscal Response in the Global Context**
- **Supporting the recovery**
- **Borrowing trends**
- **Revised Funding Strategy**
- **Conclusion**

- **RSA entered recession in good fiscal health**
 - **Low budget deficit**
 - **Small surpluses**
 - **Reduced public debt (22% of GDP by 2008 from 46% in 1998)**
 - **Low external debt**
 - **Efficient tax administration contributed to reduced debt interest**
- **The magnitude of fiscal adjustment to crisis has been among the biggest in the world**
 - **Budget balance shift from deficit of 1% to an expected 7,6% of GDP**
- **RSA compares favorable to other economies**
 - **Debt as a percentage of GDP at historic lows**
 - **Historically low nominal interest rates helped to contain debt service costs**

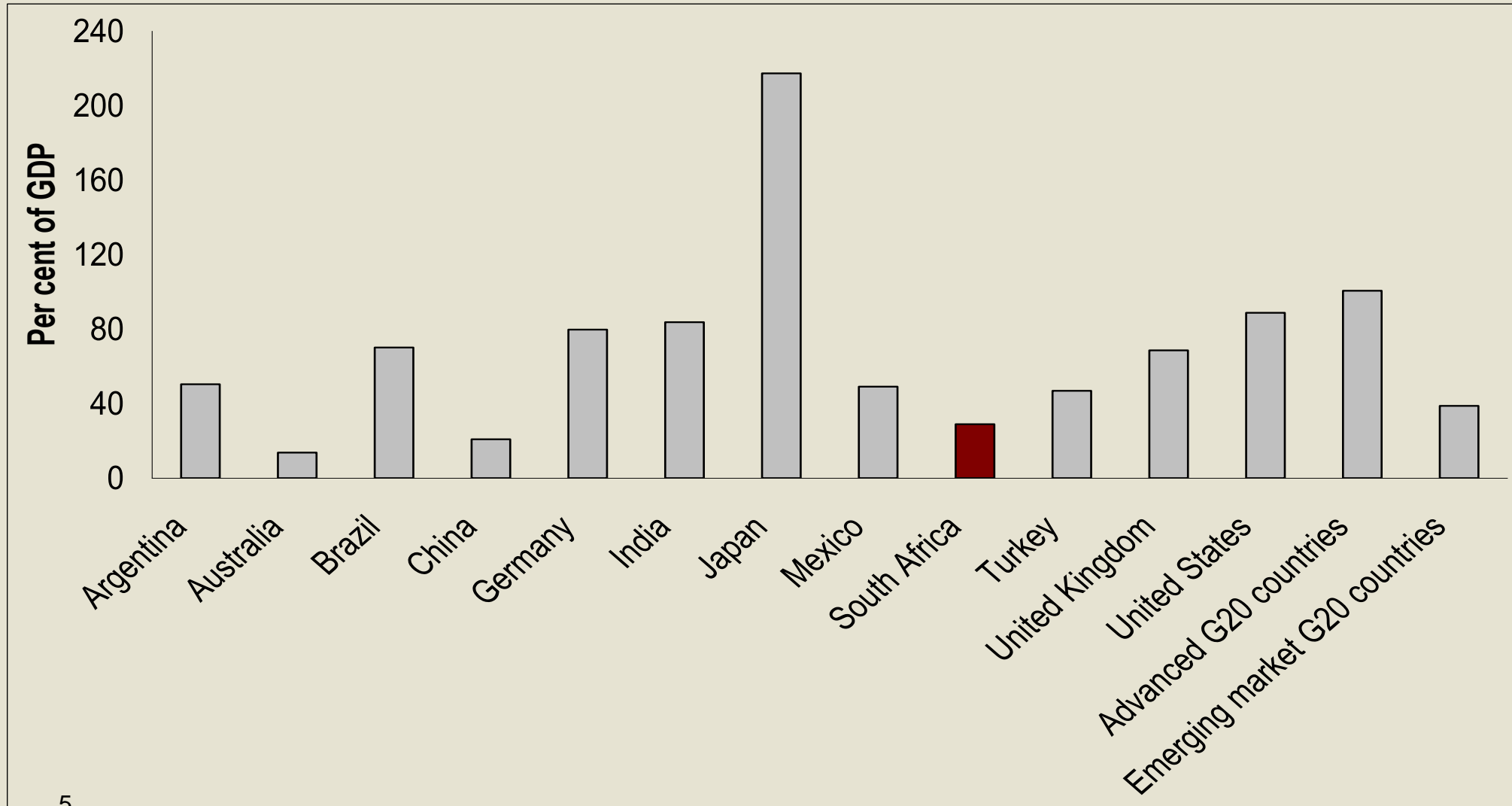
Fiscal response in a global context

- Deterioration of budget balance mainly due to falling revenue
- Issuance of additional debt to continue to finance planned and priority non-interest spending



Fiscal response in a global context

- Government debt as a per cent of GDP, 2009



Fiscal response - Supporting the recovery

- **Lower levels of public debt enables rapid increase in infrastructure spending**
- **Assisting sectors affected by cyclical slowdown and bolstering municipal capital spending through DFIs**
- **Public employment increased with the expanded public work programme**
- **Appropriate fiscal and monetary measure while avoiding the build-up of unsustainable debt**

Borrowing trends

- A projected consolidated budget deficit of 7.6% of GDP
- The financing of falling revenue and increasing expenditure
 - must be financed through raising debt
- Borrowing has to be increased
 - Increasing debt means rising debt-service costs

Total government debt, 2006/07 – 2012/13

As at 31 March	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
R billion	Outcome			Estimate	Medium-term estimates		
Domestic debt ¹	471.1	480.8	529.7	709.3	884.3	1,049.1	1,218.6
Foreign debt ¹	82.6	96.2	97.3	100.2	117.1	140.6	167.5
Gross loan debt	553.7	577.0	627.0	809.5	1,001.4	1,189.7	1,386.1
Less: National Revenue Fund bank balances	-75.3	-93.8	-101.3	-106.1	-106.1	-106.1	-106.1
Net loan debt²	478.4	483.2	525.7	703.4	895.3	1,083.6	1,280.0
<i>As percentage of GDP :</i>							
<i>Total net loan debt</i>	26.4	23.4	22.6	29.2	34.2	37.8	41.1
<i>of which foreign debt</i>	4.6	4.7	4.2	4.2	4.5	4.9	5.4
<i>As percentage of gross loan debt:</i>							
<i>Foreign debt</i>	14.9	16.7	15.5	12.4	11.7	11.8	12.1

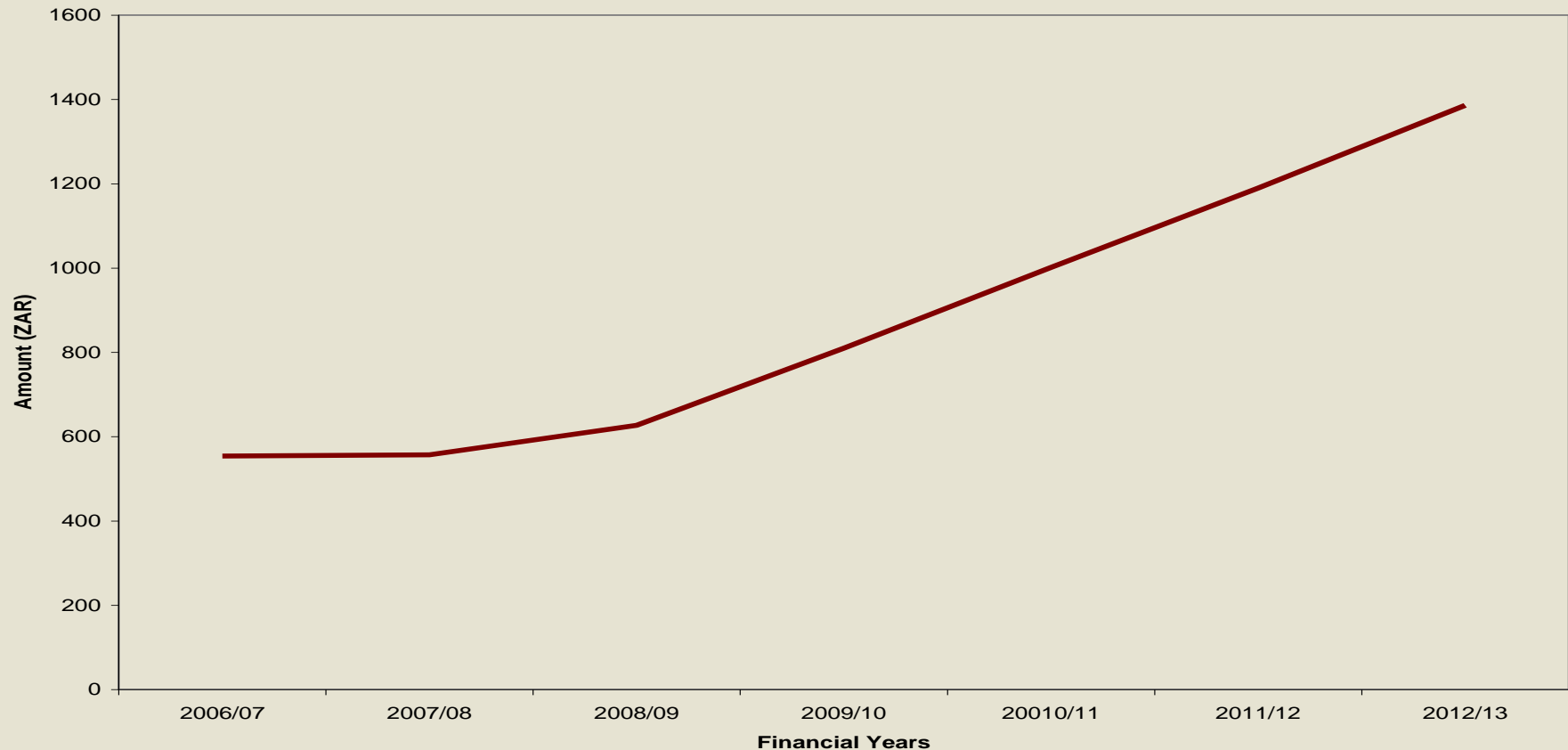
1. Forward estimates are based on National Treasury's projections of exchange and inflation rates.

2. Net loan debt is calculated with due account of the bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks).

Gross loan debt

- **Medium term estimates**

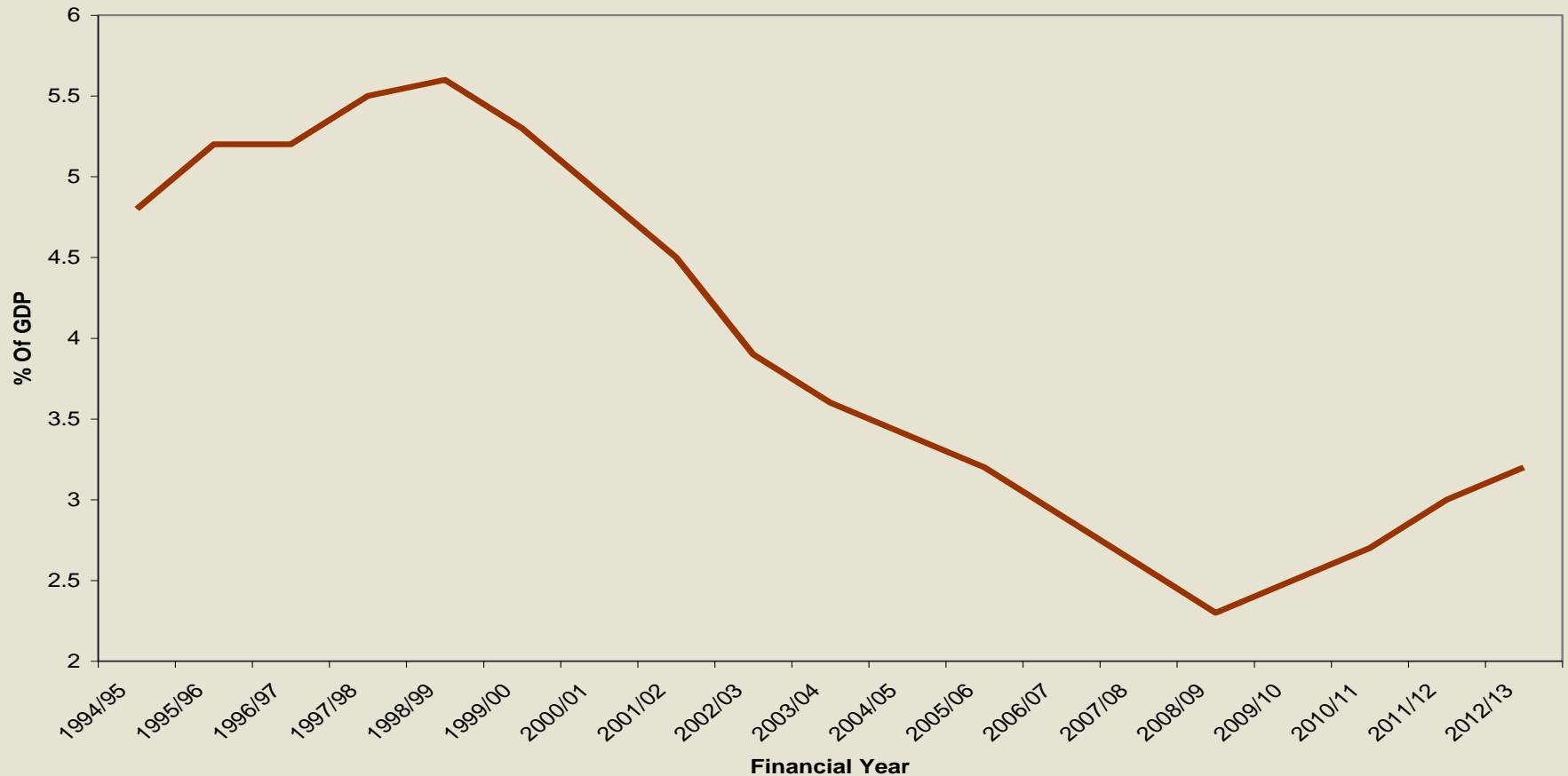
- **total net loan rise to 41% in 2012/13 of GDP from current 29.2% in 2009/10**
- **Low foreign debt**



Debt service cost

- **Medium term estimates**

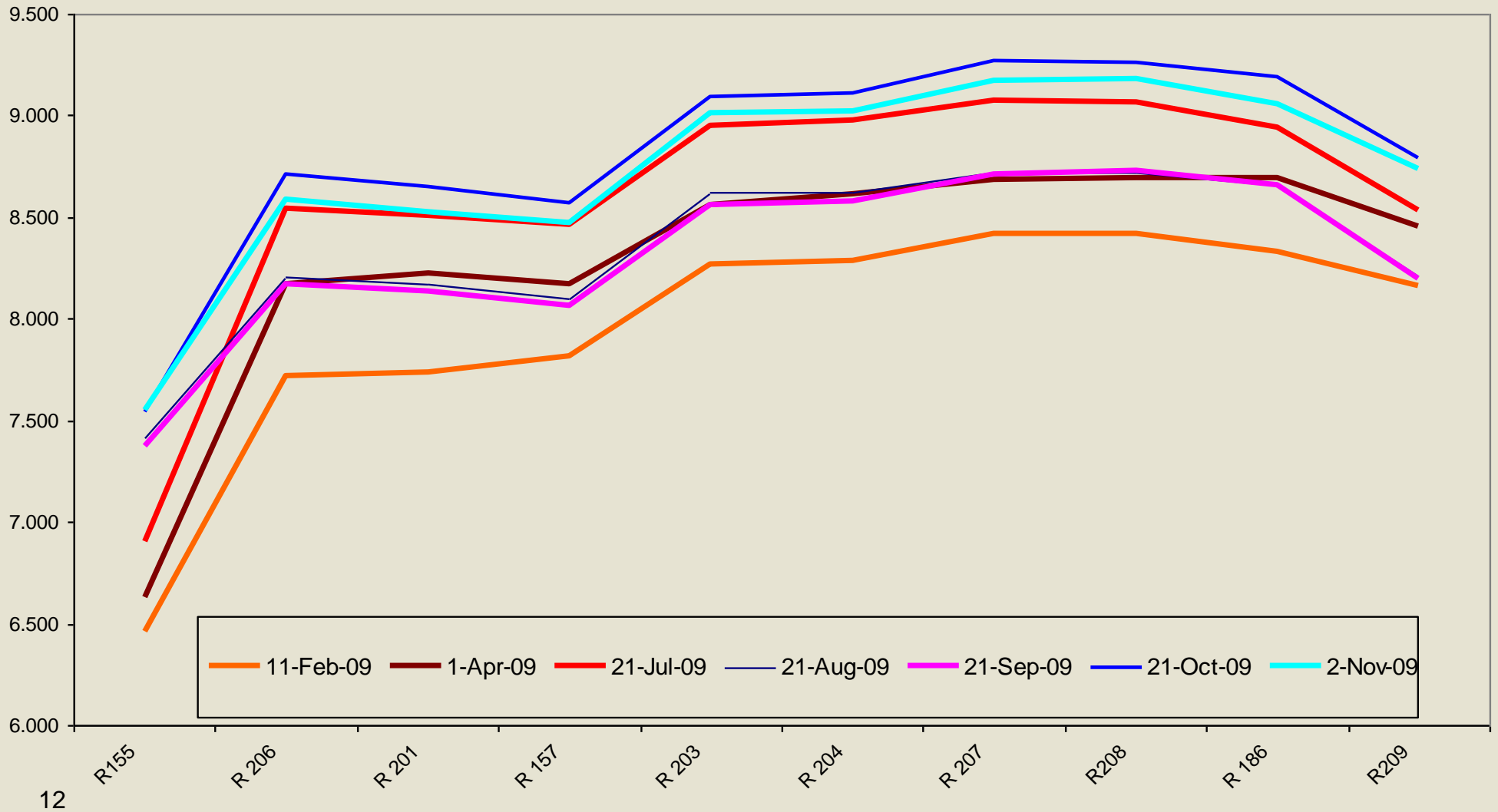
–Increase to 3.2% in 2012/13 from 2.3% in 2009/10



- **Revised funding strategy at least 4 times in 2009**
- **Upward adjustment in both short and long term debt**
 - **TBs across all maturities**
 - **Long term weekly funding**
 - **Inflation linked bond – positive demand**
 - **Issued additional foreign currency debt**
- **Impact on yields and auctions**
 - **Upward trend in yields and Undersubscribed auctions**
- **Primary dealers – pressure as some leave panel**

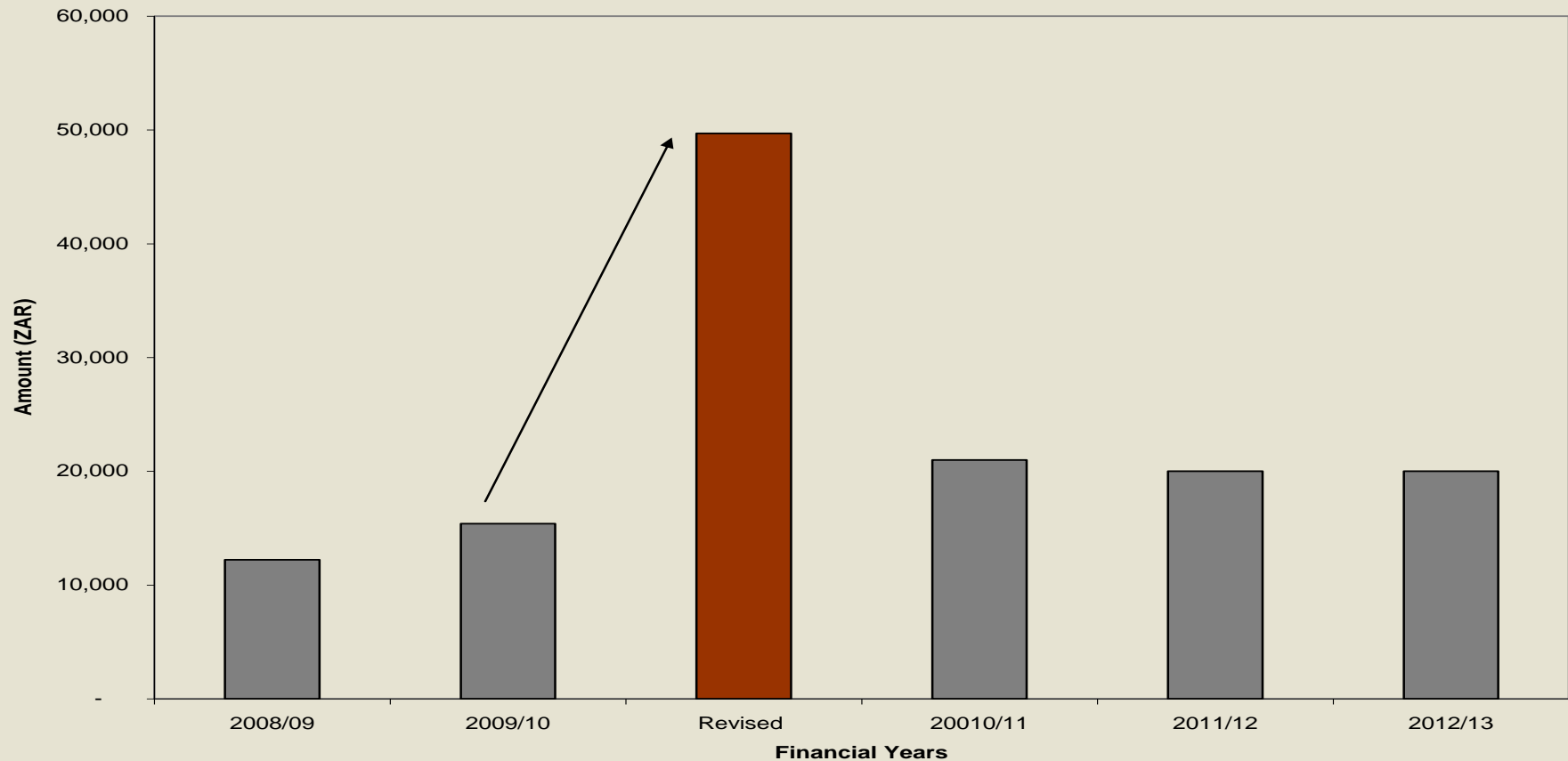
Impact on yields and auctions

• Government yield curve - rising



Short-term debt

- The use of Treasury Bills has dramatically increased
 - From the budgeted R15,4bn to R49,7bn
 - However, will gradually decrease over MTEF period

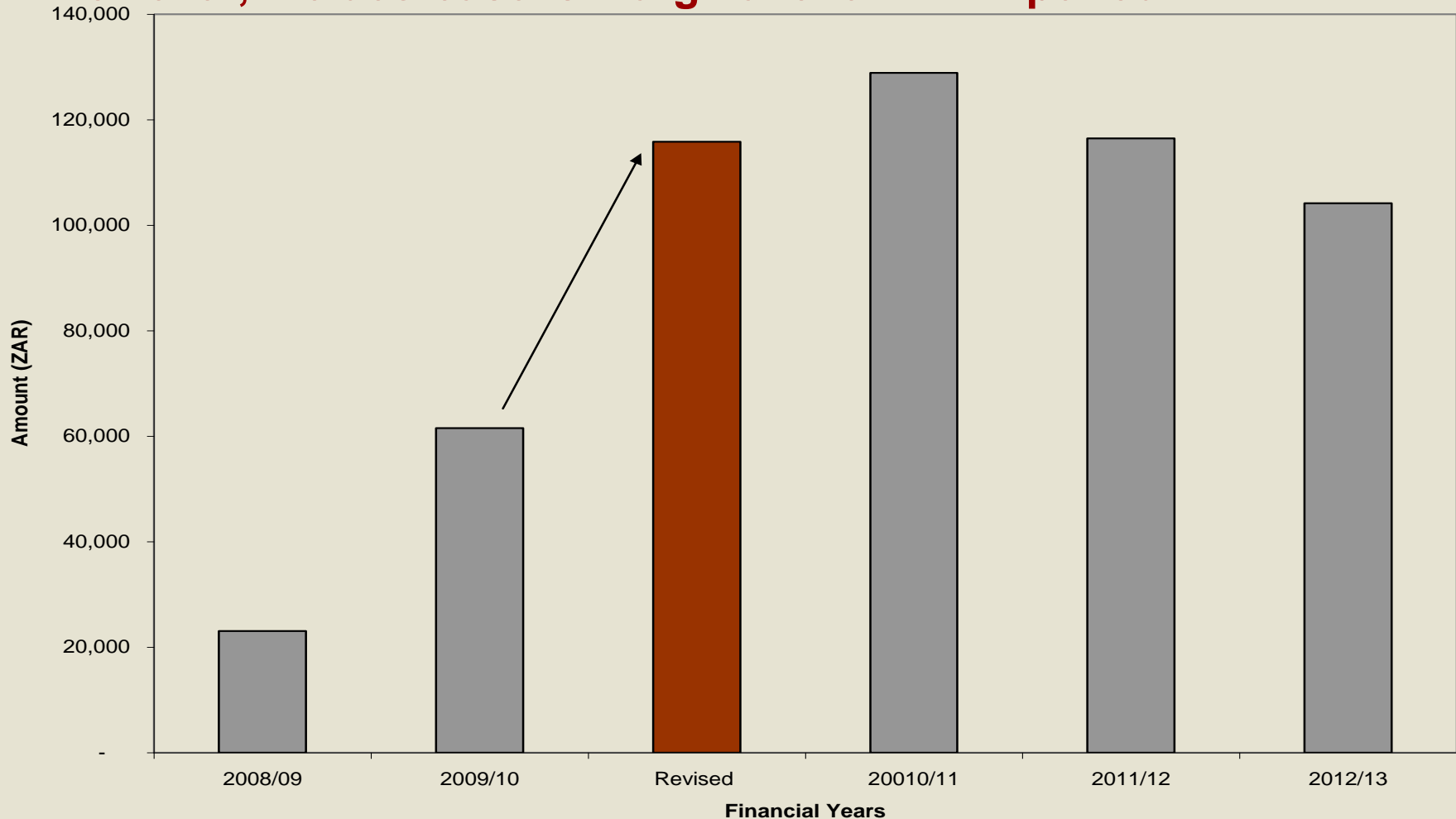


Long-term debt

- **Increased borrowing in the capital markets**

- **From ZAR61,5bn to R115,8bn – Domestic & R9,8bn to R16,1bn Forex**

- **However, the decrease is marginal over MTEF period**



- **Fiscal policy?**
 - **Remains countercyclical**
 - Contribute to economic stability
 - Protect government spending from volatility in revenue
 - **Widening Deficit**
 - Higher borrowing – remains a temporary solution
 - **Exit strategy towards a sustainable fiscus**
 - Moderation of growth of spending (in line with economic growth)
 - **Borrowing**
 - In international markets to finance foreign commitments
 - Largely in the domestic market