



IMPLICATIONS OF A CHANGING ENVIRONMENT OF DEBT MANAGERS

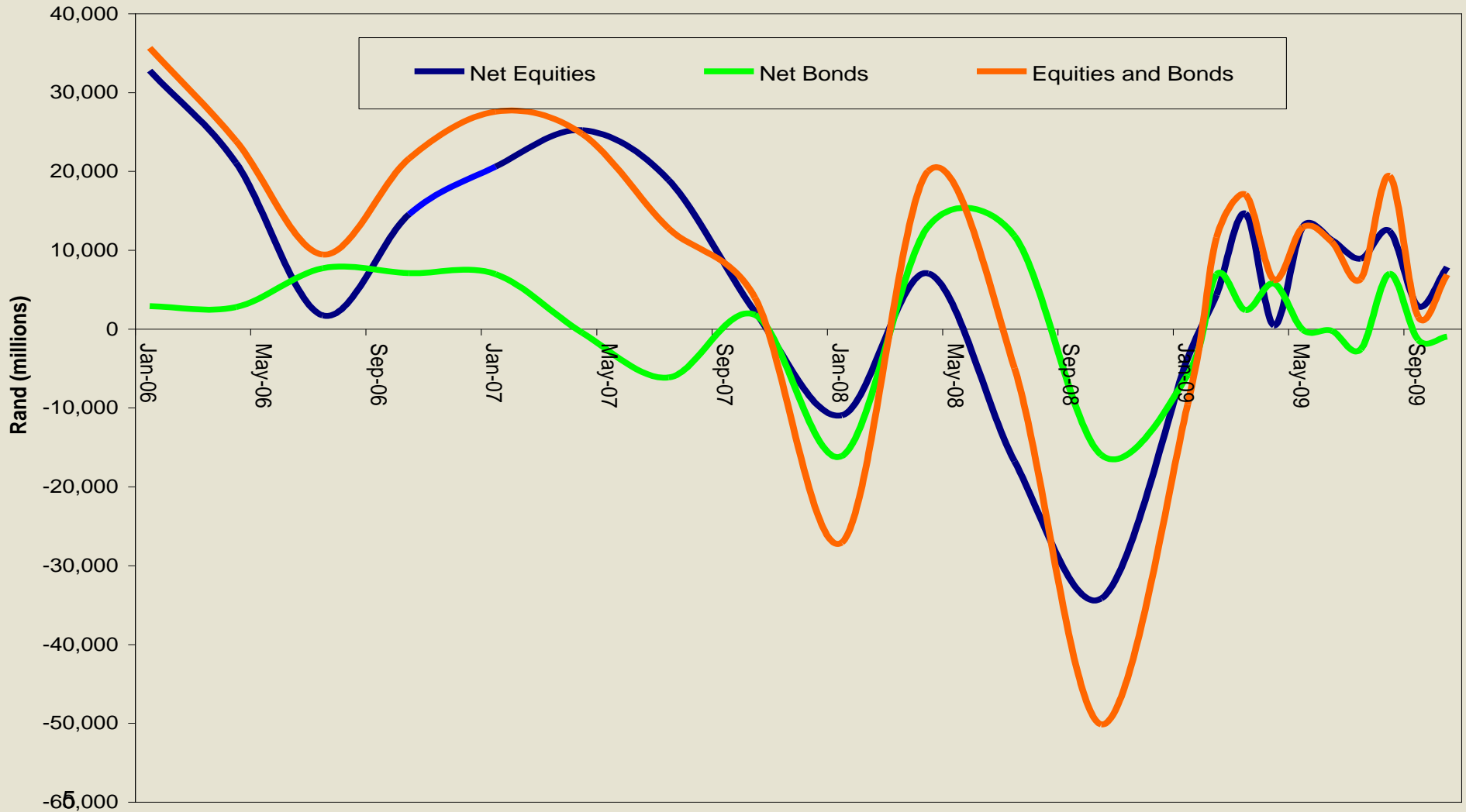
IMPLICATIONS OF CHANGING BORROWING ENVIRONMENTS FOR DEBT MANAGERS

- **THE NEW BORROWING LANDSCAPE**
- **DEVELOPING DOMESTIC CURRENCY BOND MARKETS**
- **FLEXIBILITY AND TRANSPARENCY**
- **TRADE-OFF BETWEEN RISK AND COST**
- **CONCLUDING REMARKS**

Borrowing landscape

- **INCREASING DEBT – growing government deficits**
- **GOVERNMENT INTERVENTION THROUGH BAILOUT PACKAGES –**
 - Infrastructure spending
 - Government guaranteed borrowings by state-owned-entities
- **DISTRESSED INSTITUTIONS - weak balance sheets**
- **LIQUIDITY CONSTRAINTS – structure of money market impacted?**
- **APPETITE FOR CREDIT AMONG INVESTORS – foreign investors looking at relatively higher yields in EM**
- **CHALLENGES FACED BY DEBT MANAGERS – budget, supply-demand issues**

Purchases and sales



Developing domestic currency markets

- **IMPORTANCE OF THE DEVELOPMENT OF DOMESTIC CURRENCY BOND MARKETS HAS INCREASED**
 - RSA bond market considered well-developed in relation to EM peers
 - Although further enhancement is required to improve participation
 - Key ingredient of domestic currency markets is strong debt management framework supported by monetary and fiscal policies
 - Advantages: reduce foreign exchange risk and external shock – external vulnerability indicator
 - Primary market – ensure access
 - Secondary market – liquidity issues for different investors
 - Enhanced investor base

Flexibility and Transparency

- **Data dissemination**

- **Information sharing, frequency of communication, ad hoc information circulation**

- **Benefits for debt managers and investors**

- **Market confidence** – investors are familiar with credit story

- **Interactive communication to stimulate feedback and enhanced relations**

- **Investor relations –**

- **RSA investor relations website project**

- **Targeted investor road show across investor base**

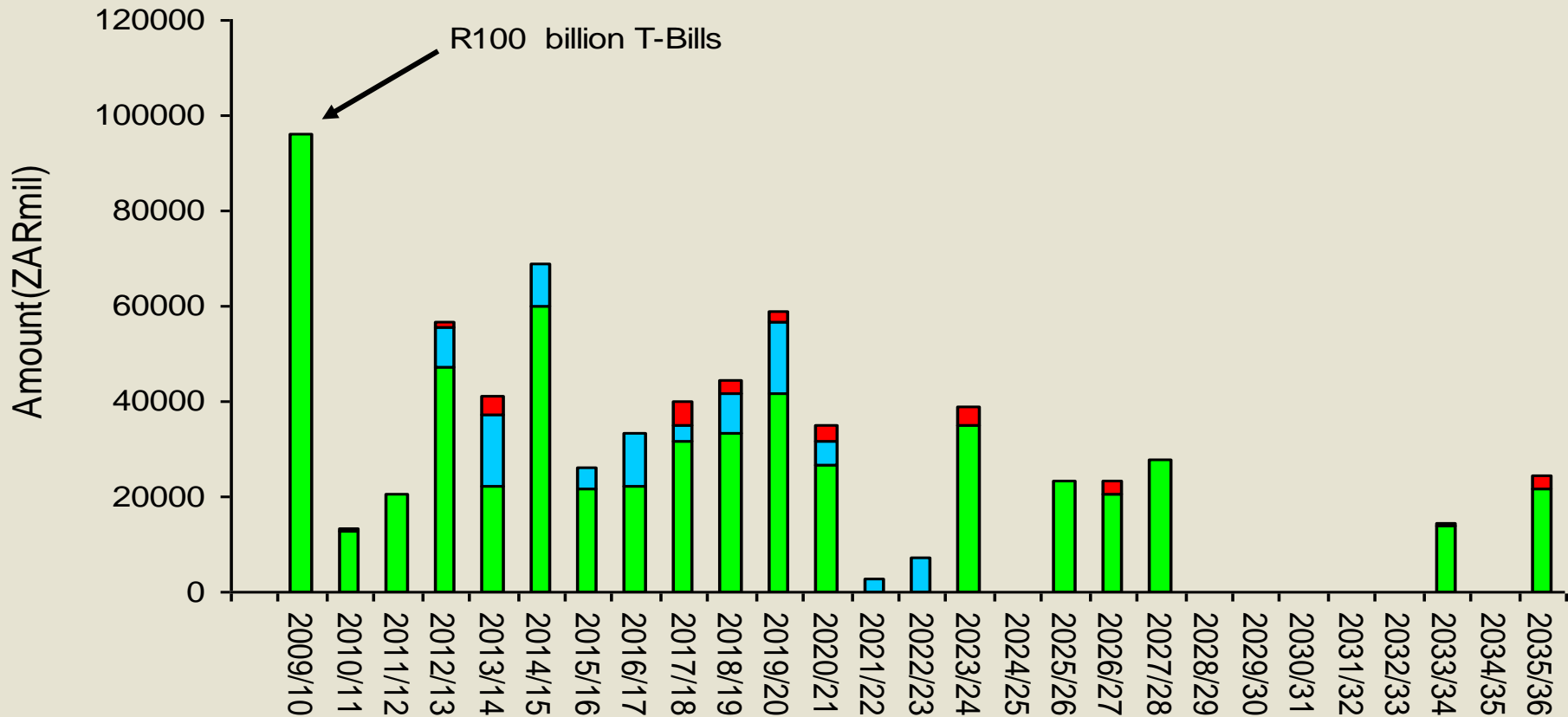
- **Media – Radio, TV campaigns, print- intensified during holiday season**

- **Regular feedback (individual letters, emails)**

Trade-off between risk and cost

- **Evolving debt management strategy**
 - **Prioritising objectives over time – primary vs secondary**
- **Strategy and benchmarks**
 - **Creating benchmarks**
 - **Too many maturities require key benchmarks**
- **Increased short term debt and the roll-over and refinancing risk**
 - **Challenges of short term funding as TB issuance rise**
 - **Roll over risk for maturing off-the-run benchmarks**
- **Concentration of capital market instruments issuance and issuance strategies**

Trade-off between risk and cost – Maturity Profile



Concluding remarks

- **Impact on short dated rates**
 - **TBs as the main funding stocks**
 - **Banks still need to fund their lending books, maintain market share while competing with government issuance and asset manager demand**
 - **Money market funding accounts for +-50% of their funding**
 - **Competing with government resulted in a dislocation between SWAP and cash curves**
- **Impact on long term rates**
 - **Index trackers concern about issuance extending duration**
- **Demand prevails despite increased supply**