



Tenth Annual
OECD/World Bank/IMF
Bond Market Forum

Secondary Market Liquidity in Domestic Debt Markets

April 29–30, 2008
Washington, D.C. • IFC Auditorium

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10th Annual OECD-WBG-IMF Global Bond Market Forum

Secondary Market Liquidity in Domestic Debt Markets

April 29, 2008

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Presentation

By

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Director: Domestic Debt Management



CONTENT

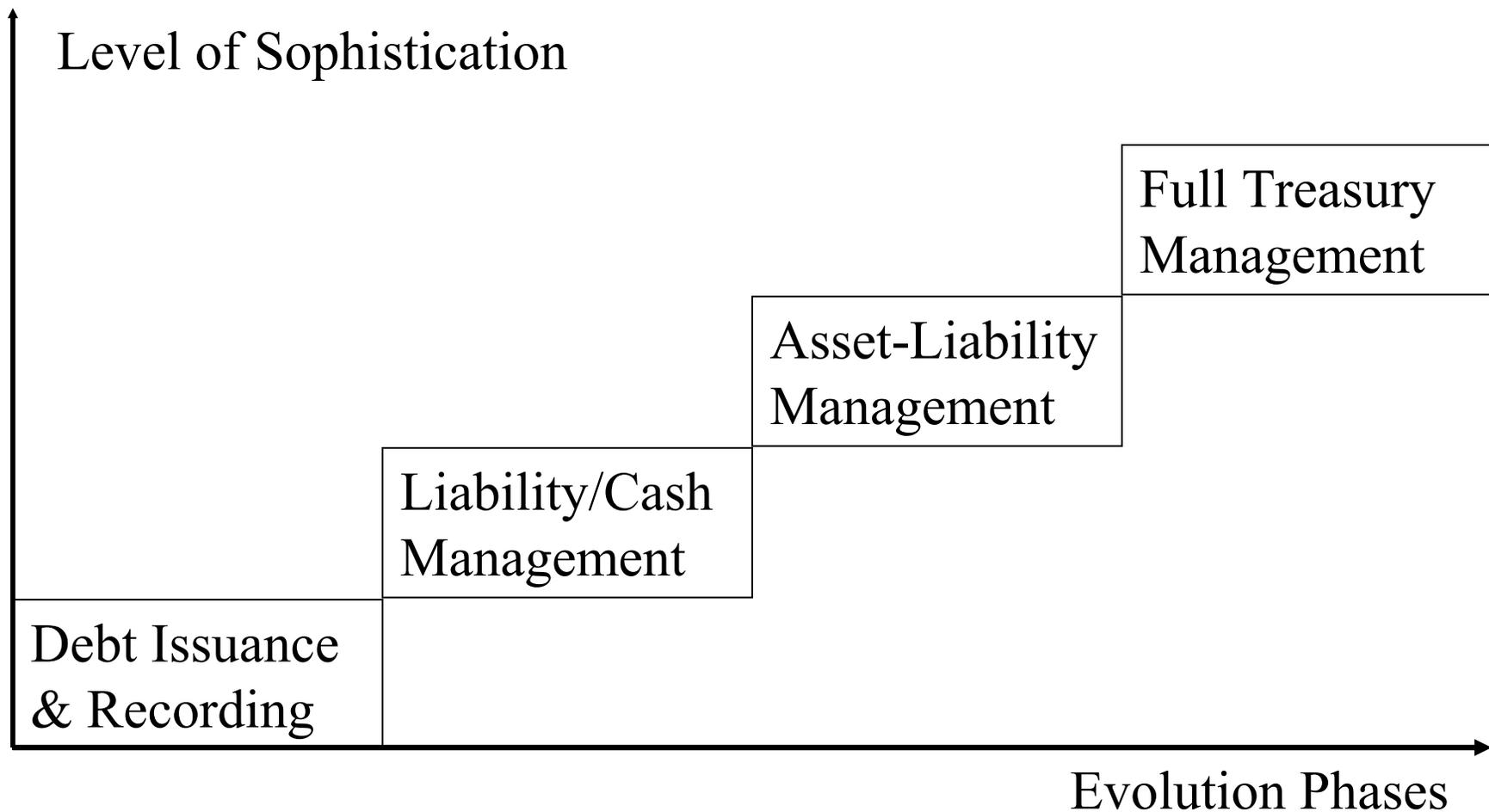
The focus of the RSA presentation is on the

❑ EVOLUTION PHASES

❑ FACTORS THAT AFFECT LIQUIDITY

❑ ROLE OF DEBT MANAGEMENT

EVOLUTION PHASES

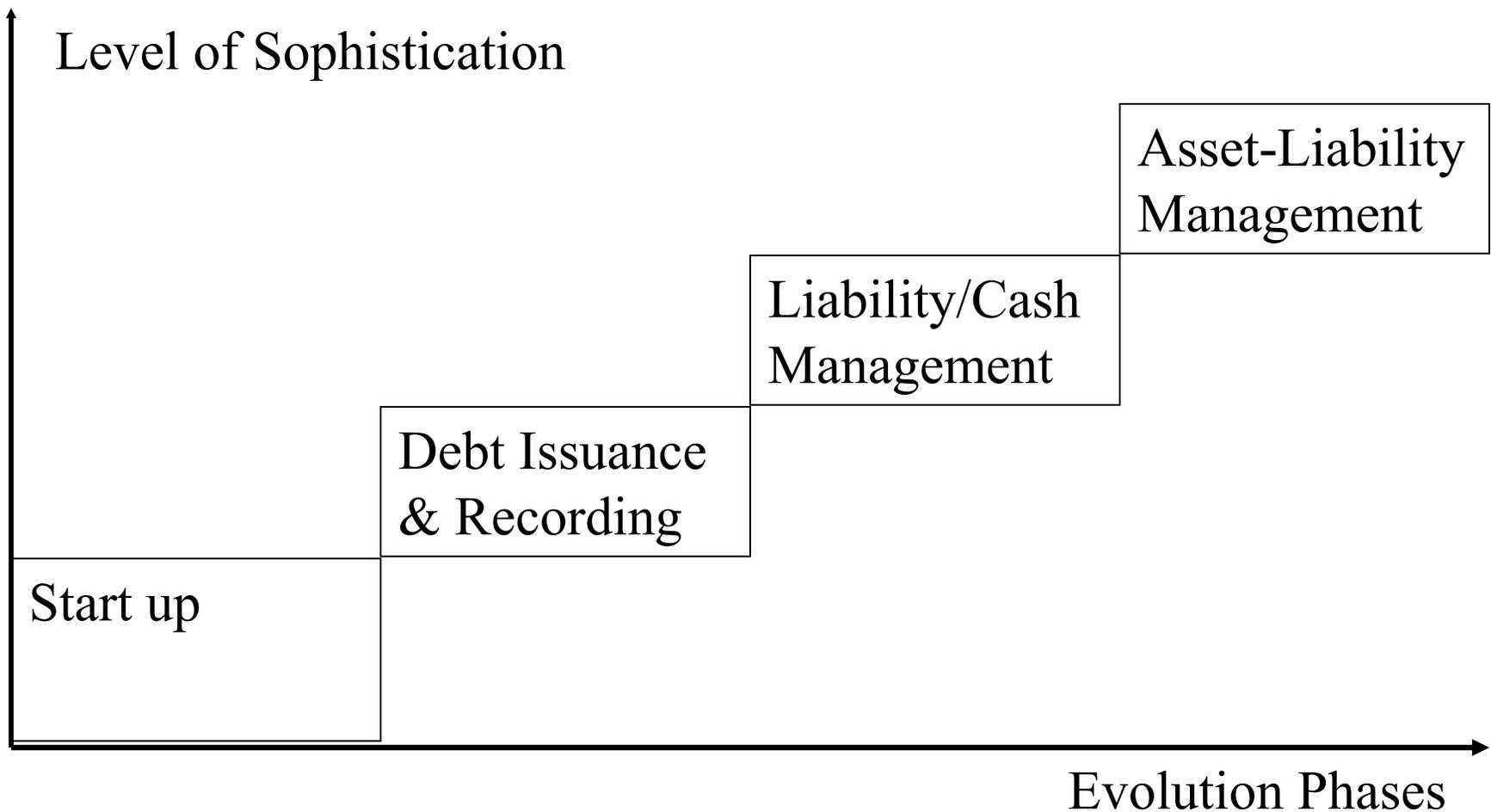




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EVOLUTION PHASES – RSA EXPERIENCE



DEBT ISSUANCE AND RECORDING

- Focus on issuing debt given significant imbalance and accounting for debt**

- Characterised by:**
 - Developing domestic debt markets**

 - Fragmentation and problems in coordinating debt management and with monetary policy**

 - Problems in analysing & controlling impact of debt servicing on the budget**

 - Problem controlling contingent liabilities**

DEBT ISSUANCE AND RECORDING

Local currency denominated debt

- Debt management strategies focused on access to market and smoothing of maturity profile
- Primary issues done through the SA Reserve Bank and PIC
- Market making risk for account of Government
- Debt instruments limited to TB's, fixed income bonds & zeros
- Maturity profile fragmented extending over 23 years
- Low bond market turnover - R2.3 trillion
- Establishment of
 - Bond Exchange of South Africa (BESA) – 1996
 - A clearing house (UNEXCOR/STRATE)T
 - Trade reporting, matching and settlement conducted electronically on a daily basis

LIABILITY/CASH MANAGEMENT

- Focus on debt issuance & managing debt within a risk management framework

- Characterised by :**
 - Full integration of assets (CASH) and liabilities
 - Full identification of contingent liabilities
 - Risk management
 - Benchmark portfolios



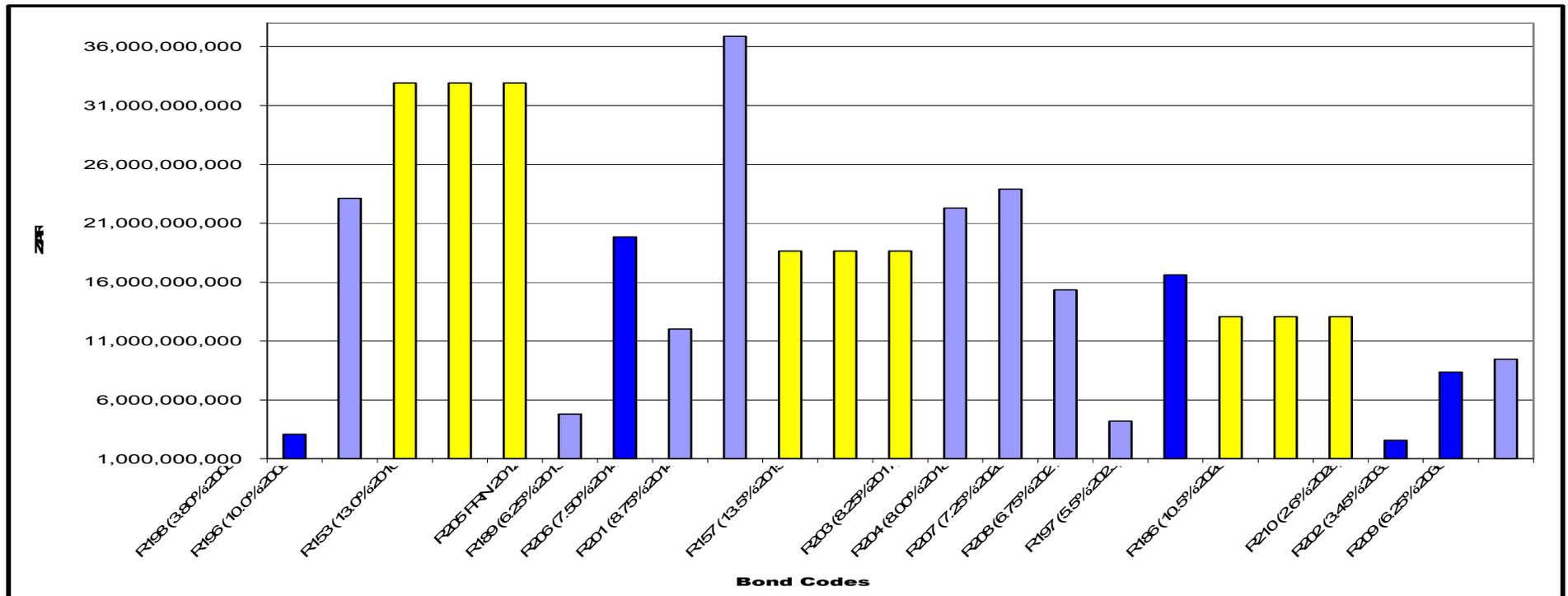
LIABILITY/CASH MANAGEMENT

- Debt management strategies focused on reducing debt cost within acceptable levels of risk**
- Domestic primary issues & secondary market making through Primary Dealers on benchmark issues**
- Market making risk for account of Primary Dealers**
- Diversified domestic debt portfolio, Vanilla, Floaters, ILB's, Retail Bonds and STRIPS added**
- Restructure the maturity profile through switches (R63,2 billion) and buy-backs (R4,5 billion)**
- 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 R13,8 trillion (2007)**
- Integrated cash coordination**

LIABILITY/CASH MANAGEMENT

- ☐ PRIMARY DEALERS 9
 - ☐ 5 LOCAL & 4 FOREIGN

- ☐ BENCHMARKS – Debt Portfolio





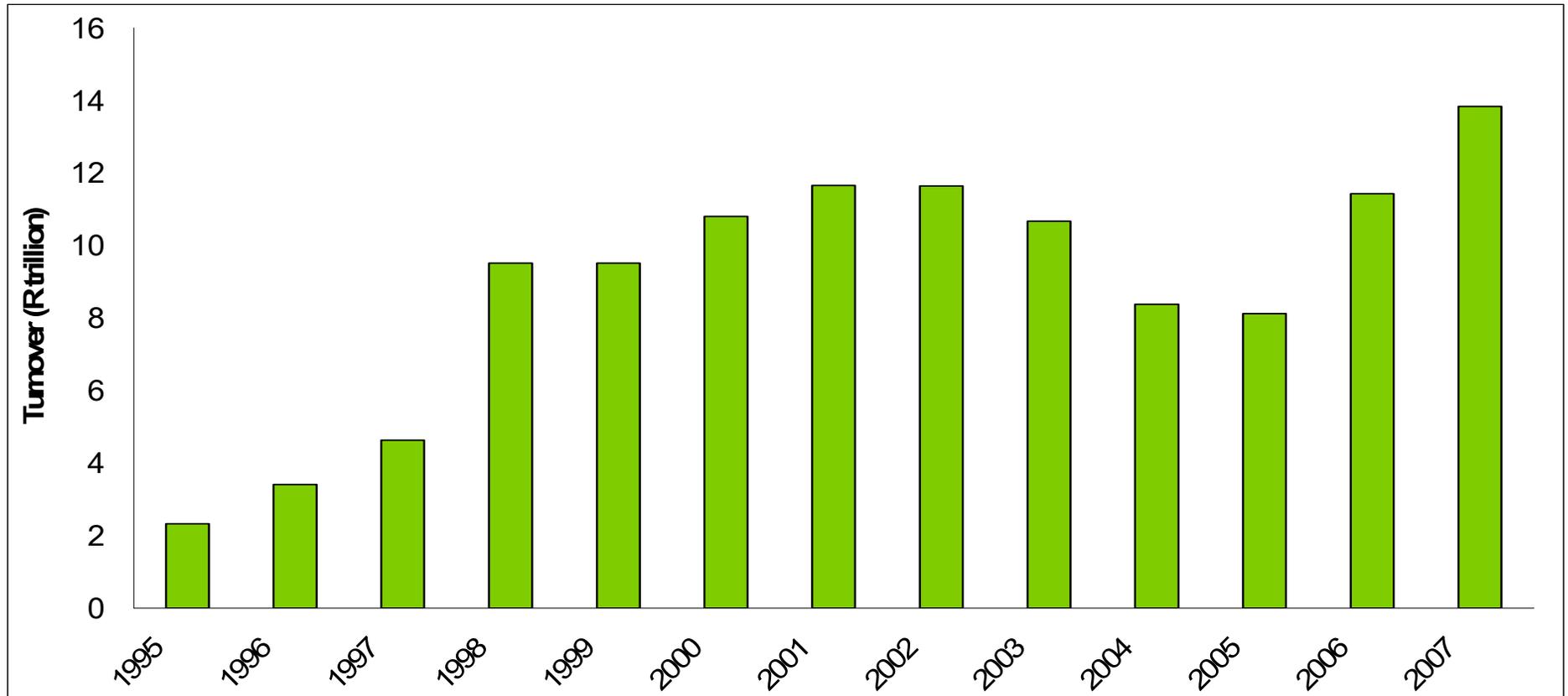
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LIABILITY/CASH MANAGEMENT



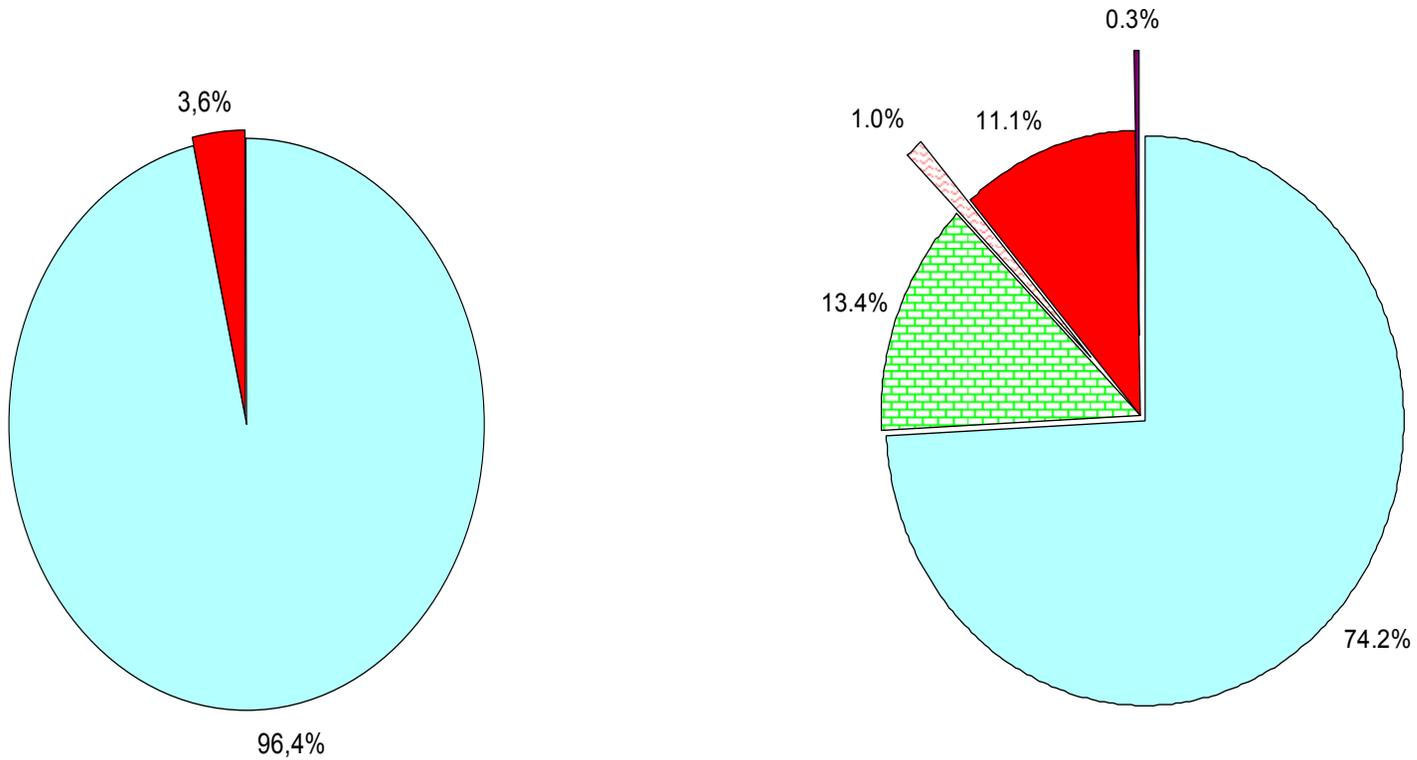
BOND MARKET TURNOVER IMPROVING



LIABILITY/CASH MANAGEMENT



DIVERSIFIED INSTRUMENTS



Fixed Income ILB Floating rate Treasury Bills Retail

LIABILITY/CASH MANAGEMENT

IMPROVED TRANSPARENCY

- Auction calendars (Annual FI & Quarterly ILB)**
- 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 road shows**
- Daily interaction with markets and media**

LIABILITY/CASH MANAGEMENT

| REPUBLIC OF SOUTH AFRICA | | | | | | | | | | | | | | | | | | | | |
|---|----|----|----|----|----|----|----------|----|----|----|----|----|----|-----------|----|----|----|----|----|----|
| AUCTION CALENDAR FOR GOVERNMENT INFLATION LINKED BONDS: 2008/2009 | | | | | | | | | | | | | | | | | | | | |
| APRIL 2008 | | | | | | | MAY 2008 | | | | | | | JUNE 2008 | | | | | | |
| S | M | T | W | T | F | S | S | M | T | W | T | F | S | S | M | T | W | T | F | S |
| | | 1 | 2 | 3 | 4 | 5 | | | | | 1 | 2 | 3 | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 6 | 7 | 8 | 9 | 10 | 11 | 12 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 13 | 14 | 15 | 16 | 17 | 18 | 19 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 20 | 21 | 22 | 23 | 24 | 25 | 26 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 27 | 28 | 29 | 30 | | | | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 29 | 30 | | | | | |

Public Holiday
 Announcement
 Auction
 Settlement

FULL TREASURY MANAGEMENT

- FOCUS ON PROVIDING FULL TREASURY SERVICES TO GOVERNMENT AND ITS AGENCIES**

- CHARACTERISED BY:**
 - CLIENT SERVICING**

 - ASSET-LIABILITY MANAGEMENT FRAMEWORK**

 - RISK MANAGEMENT BASED ON MARKET VALUES WITH TECHNIQUES AS VAR**

 - BENCHMARKPORTFOLIOS AND RAPM**



FACTORS THAT IMPACT ON LIQUIDITY

- TRANSPARENCY**

- ACTIVE DEBT MANAGEMENT**
 - SWITCHES & BUYBACKS – CONTRIBUTE TO TURNOVER IN MARKET**

- BUILDING BENCHMARKS**

- REDUCE THE CROWDING OUT EFFECT by Government issuance**
 - ALLOWING SPACE FOR CORPORATES TO ENTER CAPITAL MARKET**

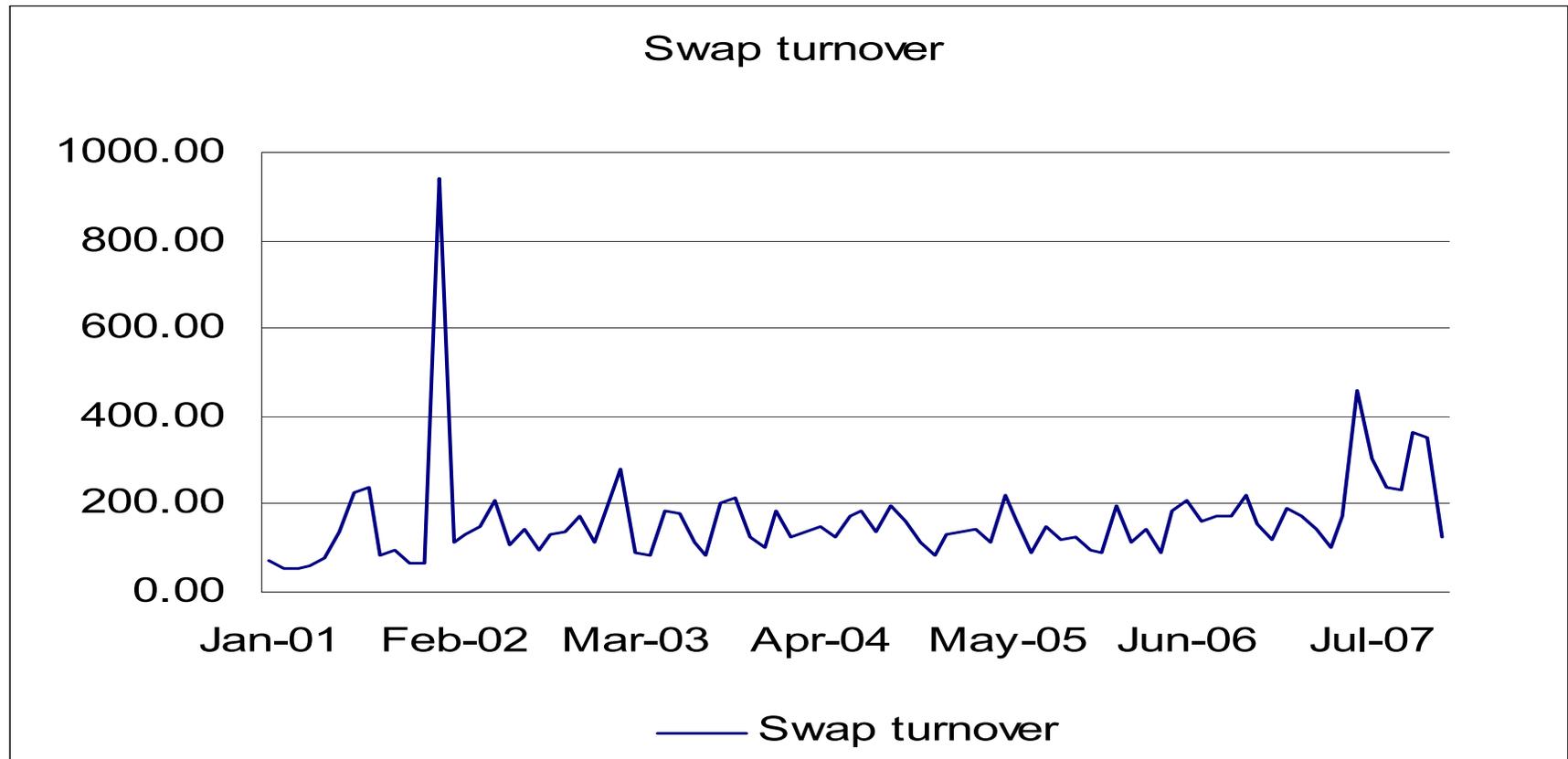
 - ACTIVE DERIVATIVES MARKETS**



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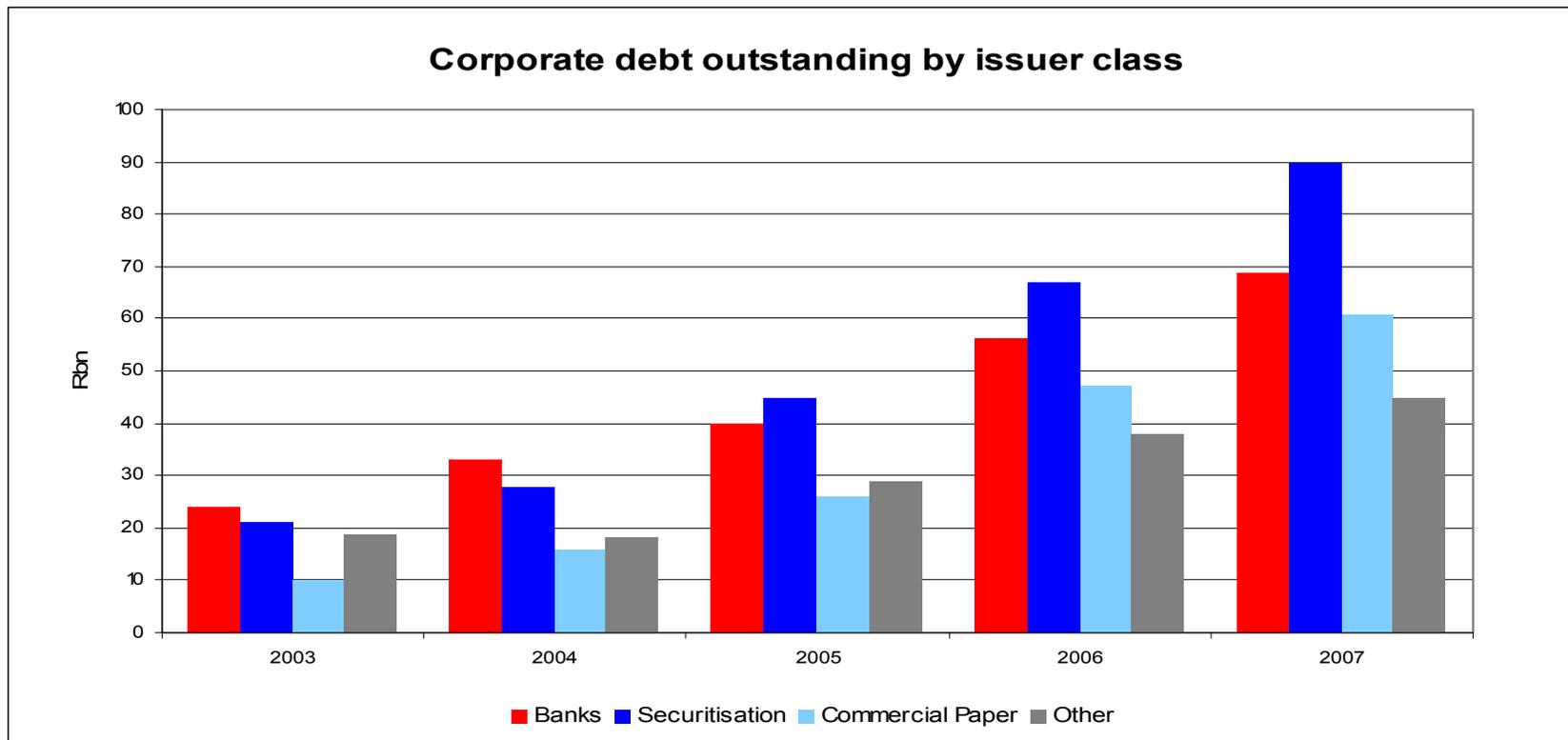
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FACTORS IMPACTING ON LIQUIDITY





FACTORS IMPACTING ON LIQUIDITY



FACTORS IMPACTING ON LIQUIDITY

| DEBT LISTED | R' millions | |
|-----------------------------------|----------------|----------------|
| | 2006 | 2007 |
| | Nominal Listed | Nominal Listed |
| CENTRAL GOVERNMENT | 438,120 | 428,426 |
| MUNICIPAL | 3,900 | 3,900 |
| STATE OWNED ENTERPRISES | 57,830 | 62,982 |
| WATER AUTHORITIES | 16,976 | 18,270 |
| BANKS | 55,719 | 68,839 |
| SECURITISATION | 67,448 | 89,557 |
| OTHER CORPORATES | 37,838 | 45,415 |
| CREDIT LINKED NOTES | 4,767 | 15,985 |
| COMMERCIAL PAPER | 40,193 | 45,366 |
| CROSS BORDER/DUAL LISTINGS | 380 | 2,080 |
| TOTAL | 723,171 | 780,820 |

- **PROPORTION OF GOVERNMENT DEBT DECREASED OVERTIME, TO 56% OF TOTAL LISTINGS**

DEBT MANAGEMENT ROLES

- Set clear objectives for debt management – should evolve with market conditions and developments**
- Formulate debt management and annual funding strategies within the risk management parameters**
- Coordinate monetary and fiscal policy issues with the Reserve Bank as Government’s agent**
- Registrar of domestic bonds**
- Manage state debt cost budget**
- Appoint primary dealers**
- Issue foreign loans for financing purposes**
- Maintain investor relations with all relevant stakeholders**

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THANK YOU

