



Institute of
International
Finance, Inc.



Investor Relations Practices by Leading Emerging Market Authorities South Africa

By

Lambertus Van Zyl, General Manager, South Africa Reserve Bank

Presented at the High-Level Seminar

Investor Relations: A Tool for Crisis Prevention

At the IMF Headquarters, Meeting Hall A and B, Washington, D.C.

November 5 – 6, 2001

**Sponsored by the International Monetary Fund and
the Institute of International Finance, Inc.**

**INVESTOR RELATIONS PRACTICES BY
LEADING EMERGING MARKET AUTHORITIES
SOUTH AFRICA
REMARKS BY L. VAN ZYL, SOUTH AFRICAN RESERVE BANK
6 NOVEMBER 2001**

1. Introduction

Thank you very much for the opportunity to make a few remarks on how South Africa manages investor relations. I believe both the Reserve Bank and the National Treasury feel flattered to be referred to as leading emerging market authorities. Nonetheless, it is rather daunting to try and add any value this late in the seminar. It does seem as if everything has been said and asked that could be of importance.

Besides, Mr El-Erian and Ms Falls confirmed yesterday what we like to hear, namely that in the field of investor relations we as a country do quite well by being accessible in various ways and by providing high quality information timeously. Even so, I believe we can bring an interesting and slightly different perspective to managing investor relations.

South Africa has a long history of borrowing money from the international banking community as an adjunct to borrowing on the international capital markets. In terms of an understanding between the Reserve Bank and the National Treasury, the former is responsible for tapping the banking community and the latter for borrowing in the international capital markets. This distinction is not watertight but serves as a generalisation.

The Research Department of the Reserve Bank believes that some 75 per cent of the country's foreign currency denominated debt is bank debt. There are certainly historical reasons for this development, such as the fact that, until the early 1990s, the international capital markets were effectively closed for South Africa owing to sanctions. Bank lending was the only real source of funding for South Africa.

In the new South Africa, our colleagues in the National Treasury have followed a very responsible and prudent approach to accessing the capital markets, certainly not taking up every offer from the investment banks.

I should really add that the banking community has been very supportive of South Africa post the sanctions' era and the lines available to us have increased by multiples. Owing to the preponderance of bank lending in foreign currency denominated debt of South Africa, it is perhaps appropriate that a central bank staff member holds the floor. However, there are two senior staff members of the National Treasury also present here, Mr Kganyago and Mr Hadebe, who, no doubt, will have some comments to add to my remarks.

My address will be structured in three parts:

1. An overview of some aspects relating to South Africa's foreign reserves and borrowing ;
2. Very brief comments on the management of investor relations by National

Treasury ;

3. An overview of how the Reserve Bank manages the relations with the international banks, especially in view of their importance for South Africa.

Almost by definition, the term foreign investor encompasses buyers of foreign currency denominated bonds and international banks. As will be obvious, investors in rand denominated bonds, equity and direct investment in bricks and mortar are not excluded from the information flow or direct contact provided to the investors just mentioned.

2. An overview of some aspects relating to South Africa's foreign reserves and international borrowing

South Africa has for many years been characterised by a relatively low level of gross reserves. Over the last few years, this has improved and currently we have in excess of 16 weeks import cover. One should add, however, that all these reserves do not belong to the Reserve Bank, almost 40 per cent belong to the South African banks and the branches of foreign banks designated as authorised dealers in foreign exchange.

The other side of the coin is, fortunately, that our foreign reserves are low because South Africa is not overborrowed in the international markets. Our foreign currency denominated debt, at USD24.8 billion, is only some 19.7 per cent of GDP. Including the rand denominated foreign debt of USD12 billion, total international debt is just more than 29 per cent of GDP.

With the heavy role played by bank lending in the foreign debt figures, it is not surprising that the maturity structure of our foreign currency denominated debt tends to be short-term in nature. As at the end of December 2000, 51.8 per cent of this debt matured in twelve months. With National Treasury borrowing in the international capital market and the Reserve Bank borrowing from the banks to the tune of USD1.5 billion this year for a three year period, I believe this ratio will have improved by the end of this year.

A further aspect of the South African financial markets in recent years that should be mentioned is volatility. South Africa has been involved in a very significant social, political and economic transformation. This transformation has included substantial liberalisation of exchange control and the buying back of foreign exchange against the forward book. From September 1998 to the present, some \$17 billion has been bought by the central bank - a very sizeable amount for our markets. These domestic changes and a more risk averse stance towards emerging markets have contributed to volatility in the domestic financial markets. This volatility has been reflected in the equity market, the domestic bond market, and the spread on foreign currency denominated bonds, short-term interest rates and the foreign exchange market.

If regional instability is added, it is not surprising that portfolio flows to South Africa have been volatile as well. Non-residents have, over the last two years including 2001, been sizeable net sellers of domestic bonds. Fortunately they have continued to

buy equities. Foreign direct investment has also often been negative in recent years.

In this volatile environment and against the background of low foreign reserves, foreign investor relations are very important to South Africa. The international banks have proved to be an important and reliable source of funding. We still succeed in borrowing foreign reserves from the banks at considerably less than would be the case in the bond market. In comparison to the cold and unfriendly wind that sometimes blows in the bond markets, we as a country have found some comfort in the international banking market where long-term relationships are still important, even though it might be decreasing.

3. Brief comments on the management of investor relations by National Treasury

Having listened to the presentations yesterday, I do believe that the South African National Treasury does a very good job of managing investor relations. Before providing some detail, one should mention that national government debt as a ratio of gross domestic product is less than 50 per cent. Foreign currency denominated debt of national government as a ratio of total national government debt is only about 7.8 per cent as at 31 December 2000. These figures compare favourably to those in many so-called developed countries.

As could be expected, National Treasury is very accessible to investors and their bankers. They organise bi-annual international roadshows that can either be deal related or non-deal related. These roadshows are normally led by the Minister or Deputy Minister of Finance. The roadshows are structured as one-on-one meetings or group presentations, depending on what is required.

The South African Reserve Bank often plays a supportive role in the roadshows with a deputy governor accompanying the delegation. Staff members of the National Treasury are available for conference calls or to interact with investors and / or their bankers in South Africa. Modern technology, including a comprehensive website and E-mail communication, is also utilised.

4. The South African Reserve Bank's investor relations programme

I have already indicated that the South African Reserve Bank is specifically responsible for the relationship with the world's international banks. Much of the work done by the Reserve Bank with regard to information dissemination is obviously not confined to banks.

The Reserve Bank has developed an informative website which has drawn many positive comments. The website contains, inter-alia, the Reserve Bank's Quarterly Bulletin with a host of statistical information stretching over more than 150 pages and is preceded by a detailed analysis and commentary on the South African economy. Every six months the Monetary Policy Review, explaining monetary policy against the background of an inflation targeting monetary policy framework, is also available on the website. Referring back to some of the comments made yesterday, one should point out that the Monetary Policy Review is, to a large extent, also a forward

looking document.

Once a year, after the annual general meeting of the Reserve Bank, the annual economic report and the Governor's address to the shareholders are also on the website. The comprehensive statement by the Monetary Policy Committee after every six weekly meeting, as well as regular speeches by the Governor to a wide variety of audiences also appear. Perhaps I should also mention the annual report of the Banking Supervision Department. In view of the large exposures between foreign banks and South African banks, this report serves a very useful purpose indeed.

The website also contains the SDDS data template. The Minister of Finance signed South Africa's letter of subscription to the SDDS in August 1996. The most important reason for subscribing to this standard was the South African Authorities' desire to project to potential international investors an accurate, timely, comprehensive and transparent image.

In supplying South Africa's data for the SDDS, the Reserve Bank is responsible for monetary and financial statistics, the National Treasury for all fiscal and foreign trade statistics and the Central Statistical Service provides all non-financial data. In addition, the Reserve Bank has to update the advance releases calendar.

In a Public Information Notice entitled IMF Concludes Article IV Consultation with South Africa dated 9 May 2001, the Directors commended the South African authorities for their commitment to produce high-quality economic data and for subscribing to the Fund's Special Data Dissemination Standard and publishing all data on the reserves template.

That brings us finally to the last remarks I have to make, namely those on how the Reserve Bank manages the relations with the international banks.

The Reserve Bank's involvement with the international banks goes back a long way to before the Debt Standstill in 1985. It partly has its roots in the marketing of South Africa's gold production. The bullion banks did transactions with the Reserve Bank. Spot gold transactions gave way to gold swaps and later loans.

Ironically, these relations probably received a boost from the imposition of a Debt Standstill in 1985. Reserve Bank staff were involved in the negotiations with creditor banks. In terms of the Debt Arrangements, the Reserve Bank had to host the so-called Group of Bank Economists who would visit South Africa annually to report on developments in the South African economy.

Many of the creditor banks wanted information and re-assurance on a bi-lateral basis and they visited the Reserve Bank regularly. The Governor, Deputy Governors and senior staff of various departments visited the overseas banks to negotiate credit lines and explain political and economic developments. These difficult discussions probably helped to lay the foundations of trust between the Reserve Bank and the international banks. In the end, South Africa dutifully met all its commitments in terms of the Debt Standstill.

Perhaps an important lesson could be learned from these developments. The confidence and trust of the international banks is earned over a long period of time and should never be taken for granted. The banks must always have confidence in their counterparts in the central bank and in the information provided to them.

The Reserve Bank has capitalised on this trust and developed it further by offering the banks reciprocity. Whereas previously reciprocity included gold business, today banks who lend money to the Reserve Bank can expect reciprocal business, such as clearing accounts, deposits, foreign exchange turnover or even an opportunity to manage some of the Reserve Bank's foreign reserves. The banks know that we are strong on reciprocity and that we honour any undertakings and commitments.

An interesting further aspect of the relationship is that every bank making credit lines available to the Reserve Bank can expect at least an annual visit from Reserve Bank staff to brief it on developments in South Africa. These discussions are essentially bilateral in nature, notwithstanding whether the bank involved lends us money in a bilateral relationship or via a syndicated loan. Many of these banks also pay regular visits to the Reserve Bank. All these correspondent banking visits are treated seriously, with Reserve Bank staff of appropriate seniority and expertise being involved.

It is clear from the above that senior staff from various departments in the Reserve Bank are almost remarkably accessible to foreign banks, even to those who do not lend money to the Reserve Bank. Besides the Governor and Deputy Governors, the Research, International Banking, Banking Supervision, Exchange Control and Domestic Money and Capital Market Departments all receive foreign visitors regularly.

The Reserve Bank currently has credit facilities available in excess of USD4 billion and typically draws down about USD2.6 billion. Out of total foreign reserves of about USD7.5 billion on the Reserve Bank's balance sheet, this is a sizeable amount borrowed in the Reserve Bank's own name.

The Reserve Bank enjoys access to various kinds of facilities. These would encompass pure gold loans, pre-export finance facilities, money market loans, uncommitted facilities, as well as a sizeable amount drawn under three outstanding syndicated term loans.

At this point in time, 42 different banks participate in our syndicated loan facilities, while 9 banks provide loans only on a bilateral basis. Most of the banks provide us with loans on a bilateral basis, as well as participate in the syndicated loans. The size of the individual banks exposure to the Reserve Bank ranges from around USD15 million to in excess of USD250 million.

I believe that the 51 banks lending to the Reserve Bank form the core of banks lending to South Africa. By visiting these banks, by receiving their visits and exchanging information, we are servicing by far the major source of foreign funding to South Africa.

As part of risk management, the Reserve Bank strives to diversify the bank sources of funding, not only as far as individual banks are concerned, but also geographically.

Time permitting, it is perhaps appropriate to refer to the syndicated term loan concluded this year. It was an amount of USD1.5 billion, at a margin of 85 basis points over Libor / Euribor.

With the participation of National Treasury as alternate borrower, the transaction was highly successful being subscribed by more than double the amount required. It was done at a time of increasing emerging market turmoil proving again that the international banking market can be a reliable source of funding even in difficult times. Once a customer has earned the confidence of the banks, they tend to be highly supportive in good and bad times.

5. Conclusion

Perhaps I would be forgiven committing a small sacrilege right here in Washington. Some of our very best banks have quietly and privately commented to us that we have gone to extremes in providing too much information and certainty to the market. Not all market participants are investors or correspondent banks, some are pure traders. I would not like to blame simplistically speculators for emerging markets woes but it does sometimes strike us as odd that we have to bare our souls, while the speculative community who take positions against our countries and currencies do not have report anything.

3/3/139/as