

## **PRESS RELEASE FROM THE MINISTRY OF FINANCE**

### **GOVERNMENT TO ISSUE INFLATION-LINKED BONDS**

The Ministry of Finance will, for the first time, issue inflation-linked bonds. Inflation-linked bonds are government bonds that will offer investors an inflation-protected investment opportunity by compensating holders for inflation.

These bonds will add to the instruments already in government's basket used to manage our debt. Because the government is confident that inflation will fall over the medium-term, the issuing of inflation-linked bonds will reduce the costs of servicing our debt in real terms, and allow more space in future Budgets for social expenditure.

The inflation-linked bonds will be auctioned on 15 March for the first time.

The instrument has been introduced after extensive research by the Department of Finance, which included consultation with foreign treasuries and market actors both at home and abroad. An extensive market education process has also been conducted with Standard Corporate and Merchant Bank.

The instrument will be indexed to headline inflation, with interest adjusted after a three-month lag. Interest will be paid twice a year. In the case of deflation, the redemption value will be a guaranteed minimum of the capital investment.

The introduction of this bond clearly indicates the intention of the government to keep inflation under control. Apart from allowing government to save on its debt-servicing costs, for investors the instrument offers an opportunity to match their liabilities with real returns.

The Finance Department intends to develop a yield curve of inflation-linked bonds from 10 to 30 years. The instruments will form part of the government's annual financing program. The first auction will be for bonds maturing in 2013.

The first two auctions will be on a uniform price/yield basis to enable market participants to feel comfortable with the instrument, but subsequent auctions will be on a multiple price/yield competitive basis. Initially the bond will be issued mainly into demand.

The SA Reserve Bank will invite market participants to tender for these bonds during the course of this week. The market is expected to comprise mainly long-term institutional investors.

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