

WHAT ARE RSA BONDS

The Government of South Africa via the National Treasury has to raise money in the financial market to finance the total Budget deficit during a fiscal year.

Most governments raise funds via the taxation system. However, to raise as much money as would be needed to fund the total government spending, the rate of taxation would be higher than is politically or economically acceptable.

To fund any shortfall (budget deficit) the government may borrow money by issuing bonds. These bonds are issued in the domestic currency and are deemed to be the securest form of investment in that currency.

RSA Bonds, as issued by the Asset and Liability Management division of the National Treasury, are interest bearing bonds.

The bonds are listed on the Bond Exchange of South Africa. They trade in the capital market at the yield to maturity. The yield to maturity is the rate that your holding will yield over the life time of your Bond. There is an inverse relationship between a bond's yield to maturity and the price. If the yield goes up the price will go down and visa versa. Various economical internal and external factors e.g. the inflation rate, GDP, the currency etc. will influence the yield to maturity on a daily basis.

Bonds are normally bought at a discount (95.35672%) and mature at its nominal value (100%).

It pays interest semi-annually to the holder at the coupon rate. The coupon rate is a fixed rate and interest payments are determined as follows:

- $\text{Nominal} * \text{coupon rate} / 100 \div 2$.

Bonds can however, trade at a premium, that is when the yield to maturity is lower than a particular bond's coupon rate.

The National Treasury issues various types of bonds, e.g. Vanilla Bonds, Variable Bonds, CPI Bonds and Zero Coupon bonds. These Bonds are currently available across the yield curve until 2027.

The most liquid bonds are referred to as benchmarked bonds:

VANILLA BONDS:

- R150 (12% IRB 2004/5/6)
- R194 (10% IRB 2007/8/9)
- R153 (13% IRB 2009/10/11)
- R157 (13.5% IRB 2014/15/16)
- R186 (10.5% IRB 2025/26/27)

CPI BONDS:

- R198 (3.08% IRB 2008)
- R189 (6.25% IRB 2013)
- R197 (5.5% IRB 2023).

VARIABLE RATE BONDS:

- R193 (Variable 2003)
- R199 (Variable 2007)

For more detail on RSA Bonds you may contact the following:

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WHERE DO YOU BUY RSA BONDS

RSA Bonds can be bought at any Bank or Broker who is a member of the South African Bond Exchange. For the telephone numbers of these members, contact the Bond Exchange at:- (011) 215-4145