5

Asset and liability management

Government's financial obligations, assets and risks are overseen by the Asset and Liability Management Division of the National Treasury. Progress in the restructuring of state assets, and in debt management are highlighted in this Chapter. Key developments include the following:

- *Proceeds of R18,0 billion from the restructuring of public enterprises are expected over the next year.*
- *In keeping with principles underpinning the Public Finance Management Act, state owned enterprises will become taxpayers and pay dividends to Government.*
- *As part of a more active debt management policy, a programme of debt consolidation is underway, a new long-dated inflation-linked bond will be issued and a bond-stripping facility introduced.*
- *Foreign borrowing is expected to raise R11,3 billion in 2001/02, building on the healthy international credit rating achieved in recent years.*
- *R7,4 billion of domestic long-term bonds will be repaid in 2001/02.*

Restructuring of state assets

Goals of asset restructuring

In order to broaden economic participation, recapitalise public enterprises and reduce state debt, Government has embarked on a programme of restructuring state owned assets.

This is co-ordinated by the Ministry of Public Enterprises, and is undertaken within the context of the *Policy Framework on the Restructuring of State Assets*, published in August 2000, and the National Framework Agreement. Restructuring of state owned assets includes corporatisation, concessioning, strategic equity partners, business re-engineering and divestiture.

Proceeds of R18,0 billion expected for 2001/02

To date a total investment of R19,0 billion has been raised, mainly from international equity partners, of which R12,4 billion has been paid to the exchequer to reduce debt. Preparations are in progress for further equity partnerships or outright sale of government businesses. An amount of R18,0 billion is anticipated for the reduction of state debt from restructuring proceeds during 2001/02.

Table 5.1 summarises the restructuring transactions that have been completed so far. Further details, and plans for 2001/02, are provided below.

Table 5.1 Proceeds from the restructuring of state enterprises

R million	Date of transaction	Stake sold (%)	Total proceeds	Proceeds paid to exchequer
SABC radio stations	March 1997	100	510	510
Telkom	May 1997	30	5 631	1 165
Sun Air	November 1997	100	42	21
Airports Company	June 1998	25	1 035	1 035
South African Airways	July 1999	20	1 400	611
Connex	August 1999	100	15	–
Sasria	February 2000	Special restructuring dividend	7 100	7 100
MTN	June 2000	6	2 400	2 000
Transwerk Perway	September 2000	65	19	–
SAFCOL				
Kwazulu Natal	October 2000	75	100	–
Eastern Cape North	October 2000	75	45	–
Telkom: Ucingo	March 2001	–	690	–
Total			**18 987**	**12 442**

Telkom

Telkom 30% share sold

In 1997 a 30 per cent stake in Telkom was sold to the SBC/Telekom Malaysia consortium. Government received US$961 million (R5,6 billion) for the initial sale, and invested US$700 million as its share of a US$1,0 billion recapitalisation programme. The net proceeds (R1,2 billion) were paid to the exchequer. A further 3,0 per cent or R690 million was allocated to a black economic empowerment group, Ucingo.

Telkom initial public offer (IPO)

Government has endorsed an initial public offering (IPO) of Telkom shares by the end of 2001. Deutsche Bank and JP Morgan have been appointed joint global co-ordinators of the IPO. A consortium led by Booz, Allen and Hamilton has been appointed to advise Government on the new telecommunications regulatory framework, which will aim at further liberalisaton of the telecommunications market, including the number of additional network operators to compete with Telkom.

Transnet

Review of options for Transnet core entities

Structural options and restructuring strategies for core businesses, Portnet, Petronet and Spoornet are currently being discussed, with due regard to the role of these entities in the broader transport sector. Spoornet's different business units will become separate corporate entities. Coallink, Orex, Luxrail and Linkrail will be concessioned. Spoortnet's General Freight Business will be commercialised with a view to an IPO or partial sale to a strategic equity partner. A new ports policy and regulatory framework are being drafted. Portnet will be corporatised to form a port authority entity and a port operations entity. The port operations will then be privatised. Petronet will be incorporated and an assessment of synergies with other pipeline projects (i.e. gas pipelines) undertaken.

Sale of Transnet's non-core enterprises

The corporatisation, restructuring and sale of Transnet's non-core business units have been approved. The sale of Connex Travel for R15 million has been completed. The disposal of Autonet, Protekon, Air Chefs, Apron Service, Production House and Chemical Services is underway. Transwerk has been corporatised into four entities – Transwerk Rollstock, Transwerk Traction, Transwerk Foundries and Transwerk Perway.

South African Airways

South African Airways 20 per cent stake sold

The sale of a 20 per cent stake in South African Airways to Swissair for R1,4 billion was finalised in 1999. Government agreed to the disposal of a further 10 per cent equity stake to economic empowerment groups, the National Empowerment Fund and employees. In keeping with a burden-sharing agreement, Government has taken over R1,3 billion of the shortfall in the Transnet Pension Fund attributable to South African Airways through the promulgation of the South African Airways Unallocatable Debt Act.

Denel

Arms industry restructuring

Denel will be corporatised and strategic equity partners sought for several of its business units. BAE Systems has been identified as the preferred strategic equity partner for Denel Ordnance and Aerospace. The preferred strategic partner for the Airmotive division of Aerospace has been identified as the French company Turbomeca. The sale of non-core units of Denel (i.e. Pumpall, Ambidex, Carboxylcellulose, Fibretek, Massey Fergusson, Prohatch, Voltco and the Sand and Investment Foundry) has commenced. The Denel Ordnance Group (Mechem) will be transferred to the CSIR.

Eskom

Division of Eskom into three entities

The Eskom Amendment Act of 1998 constituted an important step in the restructuring of Eskom. The Act vested ownership of the equity in the State and established the legal basis for revoking Eskom's tax-exempt status and for the payment of dividends. Eskom is currently restructuring into separate generation, transmission and distribution corporate entities, while the non-core assets have been transferred to Eskom Enterprises. Government has approved the restructuring of Rotek Industries and divestiture of certain of its divisions. In addition approval has also been granted for the merging of Eskom and Anker Coal's coal operations into a joint venture company, Usuthu Coal.

Sasria

Sasria special dividend of R7,1 billion…

The conversion of Sasria Act of 1998 provided for the conversion of the SA Special Risks Association into a public company owned by the state. At the time of the conversion, Sasria held reserves in excess of R10,0 billion. In terms of the Act, Government appointed an independent actuary to advise on the portion of the reserves that the converted Sasria would require to continue its business. Based on the actuarial report, a special restructuring dividend of R7,1 billion was declared from the excess reserves and applied to reduce public debt.

… with restructuring to follow

Transaction advisors have been appointed to investigate and make recommendations to Government on options for the restructuring of Sasria.

SAFCOL

Forestry restructuring

Government approved the sale of a 75 percent share in SAFCOL and Department of Water Affairs' forests in Kwazulu-Natal and Eastern Cape North for R100,0 million and R45,0 million, respectively. As soon as negotiations regarding SAFCOL's pension fund shortfall and issues regarding the transfer of land have been resolved, the sale will be concluded. The bidding for the Mpumalanga and Eastern Cape South package has been reopened for previously short listed bidders. Alternative land-use options for the Western Cape and Eastern Cape South assets are being developed. In addition to the proceeds of these transactions, Government will receive an annual income from the lease of the land and significant savings will be achieved in respect of forests currently managed by the Department of Water Affairs and Forestry.

Airports Company

Airports Company empowerment and employee participation

A 20 per cent equity stake in the Airports Company was sold for R819 million to Aeroporti di Roma, which also has an option to acquire a further 10 per cent stake on the public listing of the company. A 10 per cent share has been reserved for black economic empowerment, of which 4,2 per cent was taken up for an amount of R173 million. Of the 9 per cent set aside for sale to management and employees, 1,2 per cent, valued at R43,8 million, was sold in October 1999.

Consolidation of IT and telecommunications interests

Mergers of IT and telecommunications divisions

The information technology service providers within Denel (Ariel Technologies), Eskom and Transnet (Datavia) have been merged into a single company arivia.kom.

The merger and corporatisation of the telecommunications divisions of Transnet (Transtel) and Eskom is still awaiting the completion of the sector Policy Framework by the advisors. A steering committee comprising representatives of these entities and Government is driving the process.

Radio stations

Radio stations sold

An amount of R510,4 million was received in 1997 from the sale of six radio stations and was paid to the exchequer.

Alexcor

Recapitalisation of Alexcor

Nabera's strategic management contract will end in June 2001. Options to recapitalise Alexcor through an IPO or partial sale to a strategic equity partner are being considered. The equity capital raised will be applied to fund exploration, thus terminating the current practise to fund exploration through debt.

Government Printing Works

Government approved that the Government Printing Works be established as a State Owned Enterprise and incorporated in terms of the Companies Act. An investigation is also to be conducted to finalise the option of selling a minority stake to a strategic equity partner.

Post Office

The South African Post Office signed a management agreement in September 1999 appointing New Zealand Post International as a strategic management partner.

Aventura

Aventura under management by Protea

The successful bidder for Aventura holiday resorts did not meet the payment obligations and Government was forced to terminate the sale contract. Government has since appointed the Protea Group to manage and restructure the company.

Sun Air

Government has received 50 per cent of the proceeds of the sale of Sun Air. The balance was to be paid in January 2000, but Sun Air has since been liquidated. Government is negotiating with the former shareholders, Rethabile/Consolidated Network Investments, regarding payment of the outstanding debt of R20,0 million and commitments under the employee share ownership programme.

Corporate governance and financial management

Corporate governance protocols

In consultation with the Department of Public Enterprises, a corporate governance protocol for Public Entities was developed in 1996 and approved by Cabinet. It provides a framework for financial performance, including tax and dividend policies, and a code of corporate practice and conduct. This Protocol is in the process of being updated in line with international best practice.

Framework for financial management and corporate governance

In addition, the Public Finance Management Act and Regulations for Public Entities now provide a framework for financial management and corporate governance principles, including measures to normalise tax and dividend policies.

Shareholder's compacts

Government is in the process of entering into shareholders' compacts with all state owned enterprises. These compacts will set out performance benchmarks as agreed by the public entity and the shareholder Minister.

Tax and dividend policies for public enterprises

In the interests of transparency, integrity of the budget and prudence in the management of public entities, tax and dividend policies will be determined within the regulatory framework of the Public Finance

Management Act and corporate governance protocol to ensure that any warranted subsidisation of government enterprises is done through budget allocations, and not through the retention of tax or dividends.

Dividend receipts of R310 million in 2000/01

In 1999/00 Government received dividend payments of R610 million and in 2000/01 R310 million. The fact that Telkom did not declare a dividend for 2000/01 contributed to the lower dividend receipts. Telkom applied profits to recapitalise prior to the envisaged initial public offering.

Since 1999, progress with the normalisation of tax and dividend payments has been as follows:

- *Central Energy Fund (CEF)*: Consolidation of the group accounts and payment of a first dividend of R180 million.
- *Sasria*: Following receipt of a special restructuring dividend in 2000, Sasria will in future pay normal dividends to Government, based on its profit levels.
- *Eskom*: In terms of the Eskom Amendment Act of 1998 Eskom's tax-exempt status was revoked with effect from 1 January 2000 and Eskom will pay its first dividend to Government in 2001, and
- *Development Bank of Southern Africa (DBSA)*: The DBSA Board has accepted the principle of becoming a tax- and dividend- paying entity. Negotiations currently focus on appropriate mechanisms to implement the policy, while protecting the capital base of this development finance institution.

Cash management

The Treasury's asset management responsibilities include control of short-term investments and cash management.

Investment of surplus cash

Since February 1994, Government has invested surplus cash in tax and loans accounts at the four major clearing banks. This assists the Reserve Bank in managing the money market shortage and earns interest for the exchequer. Interest earned on tax and loans accounts since 1996/97 is set out in Table 5.2.

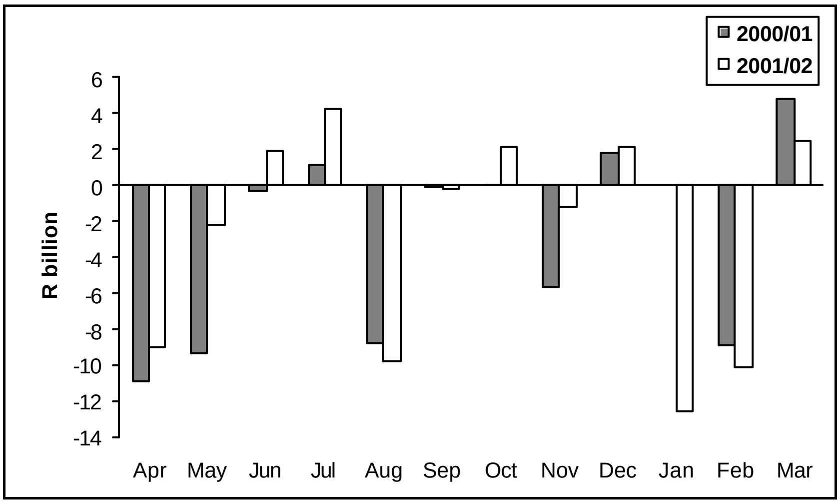
Table 5.2 Interest on tax and loan accounts, 1996/97–2000/01

R million	1996/97	1997/98	1998/99	1999/00	2000/01 estimate
Interest	943	452	750	499	510

Monthly peaks in cash flows

Cash flow requirements in 2000/01 are illustrated in Figure 5.1. Peaks arise from seasonally high expenditure during April, interest payments of about R10,0 billion in August 2000 and February 2001, and repayments of loans of R7,5 billion, R2,0 billion and R7,5 billion in May, June and November 2000 respectively.

Figure 5.1 Monthly surplus/deficit before borrowing, 2000/01–2001/02



For similar reasons, monthly cash requirements in 2001/02 are expected to be high in April, August and February. The repayment of domestic loans of R22,2 billion in January 2002 will also result in high cash flow requirements during the second half of the year.

Intergovernmental cash to be co-ordinated

To contribute to the reduction of borrowing costs at national and provincial level, the cash management office will co-ordinate all intergovernmental cash through the Corporation for Public Deposits. There will be an added benefit in the opportunity to optimise credit risk management for the whole government.

Developments in debt management policy

Domestic debt management

Shift to more active debt management

The increasingly more active debt management strategy of the Government reflects the need to maintain liquidity and integrity under conditions of a declining government funding requirement, and is facilitated by the growing sophistication and efficiency of the South African bond market.

Among measures to maintain and enhance the liquidity of the government securities market are the following:

Switch auction programme

- *Switch auctions*: In a switch auction programme a liquid bond is issued as payment for the purchase of an illiquid bond. Switches are intended to concentrate liquidity across the yield curve, thereby contributing to a more efficient capital market.

Programme to buy-back bonds

- *Buy-backs*: In a buy-back transaction, payment for the repurchased bonds is in the form of cash. Only bonds with less than R1,0 billion total outstanding nominal will be considered for buy-backs. Efforts will be made to buy-back the bonds of the former regional authorities, which all fall below the R1,0 billion threshold, and

Bond strip facility

- *STRIPS*[1]: "Stripping" is a process of separating a standard coupon-bearing bond into its constituent interest and principal payments, so that these can be separately held or traded as zero coupon instruments. Coupon strips and principal strips will remain direct obligations of the South African Government, and will be registered securities on the Bond Exchange of South Africa. All strips will be dematerialised in the central depository book-entry system.

Foreign debt management

Developed Euro and Dollar yield curves

Government has tapped the public international bond markets regularly and is an established issuer, with a well developed yield curve in both the Euro and Dollar currencies. Government's foreign borrowing strategy has until now been focused on the following:

- Establishment of sovereign benchmarks in key currencies in the international capital markets
- Broadening and improving the quality of its foreign investor base, and
- Lengthening and smoothing the maturity structure of its debt profile.

Risk management

Commitment to prudent liability management

Recent debt crises highlight the importance of prudent liability management. To this end a risk management framework is currently under development, with the view of minimising government's long-term debt service costs, subject to acceptable levels of risks.

Optimal benchmarks to be developed

This entails the quantification and limiting of risks arising from exogenous factors, and the development of a benchmark for optimising the structure of government's debt portfolio. This will enable government to manage the risks with respect to the medium-to long-term cost of debt.

This benchmark will describe approaches to:

- The maturity profile for domestic and foreign debt
- The fixed/floating mix (or duration), and
- The currency exposure for government debt.

Credit ratings confirmed

The general improvement in emerging market sovereign credit fundamentals has been pronounced over 2000 and early 2001. Standard & Poor's has confirmed South Africa as an investment grade issuer on 12 January 2001. South Africa has also benefited from positive ratings from both Fitch and Moody's Investor Services, which confirmed their investment grade ratings in June and December 2000 respectively.

---

[1] STRIPS is an acronym for Separate Trading of Registered Interest and Principal of Securities

Borrowing requirements

National government borrowing

Table 5.3 sets out Government's net borrowing requirements from 1999/00 to the present financial year, with projections to 2003/04.

Budget deficit

The revised estimates of expenditure and revenue for 2000/01 yield a budget deficit of R21,7 billion, increasing to R24,9 billion in 2001/02, or 2,5 per cent of projected GDP.

Table 5.3 Budget deficit and net borrowing requirement, 1999/00–2003/04

R million	1999/00 Outcome	2000/01 Budget	2000/01 Revised	2001/02	2002/03	2003/04
				Medium-term estimates		
Budget deficit	16 172	23 053	21 663	24 880	24 472	24 402
Extraordinary receipts	-7 145	-5 000	-2 831	-18 000	-5 000	-5 000
Extraordinary payments	1 485	2 200	2 281	571	–	–
Net borrowing requirement	**10 512**	**20 253**	**21 113**	**7 451**	**19 472**	**19 402**

Extraordinary receipts

Provision was made in the 2000 Budget for extraordinary receipts of R5,0 billion, of which R2,8 billion will be realised. For the 2001/02 year, extraordinary receipts of R18,0 billion are anticipated.

Extraordinary payments adding to borrowing

Extraordinary payments, which add to borrowing, include the take-over of South African Rail Commuter Corporation debt in 2000/01, amounting to R2,3 billion. Cabinet approved the winding down of the South African Housing Trust. This could result in Government guaranteed debt obligations of about R571 million in 2001/02.

Net borrowing requirement

After extraordinary receipts and payments, the net borrowing requirement for 2000/01 is expected to be R21,1 billion. After adjustments for restructuring proceeds and extraordinary payments, the net borrowing requirement for 2001/02 is R7,5 billion.

Table 5.4 Loan redemptions, 1999/00–2003/04

R million	1999/00 Outcome	2000/01 Budget	2000/01 Revised	2001/02	2002/03	2003/04
				Medium-term estimates		
Government bonds	**15 856**	**15 118**	**15 118**	**23 889**	**23 340**	**25 706**
Scheduled	14 460	15 118	15 118	22 889	22 840	25 206
Early redemptions / buy-backs	1 396	–	–	1 000	500	500
Foreign loans	**4 679**	**1 888**	**2 061**	**55**	–	**2168**
Principal	2 696	1 328	1 328	12	–	1 542
Revaluation[1]	1 983	560	733	43	–	626
Former Namibian debt	**79**	**5**	**5**	**24**	**50**	**8**
Former regional authorities	**51**	**20**	**38**	**12**	**42**	**44**
Total loan redemptions	**20 665**	**17 031**	**17 222**	**23 980**	**23 432**	**27 926**
Excludes: Book profit[2]	237	–	267	–	–	–

1. *The revaluation of maturing foreign loans, previously reflected as a "management cost" in state debt cost, is now included in the redemption of foreign loans as part of financing, in line with international practice. Forward estimates are based on exchange rates prevailing at 31 December 2000, projected to depreciate in line with inflation differentials.*
2. *"Book profit" on domestic government bond transactions, regarded as "negative" loan redemptions for purposes of analysis as it does not represent an actual cash flow.*

Table 5.5 Loan redemptions by instrument, 2000/01

R'million	Maturity date	Amount		Maturity date	Amount
R148 (11,5%; 2000)	30 May'00	7 501,7	5% Japanese Yen Bond	5 June'00	1 960,8
R085 (10,5%; 2000)	15 April'00	7,8	Principal		1 303,2
R086 (10,25%; 2000)	15 April'00	15,7	Revaluation		657,6
R083 (10,625%; 2000)	15 April'00	9,2	Credit Suisse Revolving Credit	15 Aug'01	29,3
QW01 (9,67%; 2000)	30 April'00	1,5	Principal		4,6
SL03 (9.60%, 2000)	01 July'00	20,0	Revaluation		24,7
SL06 (10,20%, 2000)	01 July'00	18,4	Dresdner Bank	15 Aug'01	29,9
GZ11 (17,10%, 2000)	31 Aug'00	7,0	Principal		2,1
CK03 (9,70%; 2000)	31 Oct'00	2,0	Revaluation		27,8
R055 (10,00%; 2000)	15 Oct'00	9,9	Krediet Bank	15 Aug'01	3,6
R149 (11,50%; 2000)	30 Nov'00	7 500,2	Principal		1,8
TR04 (10,25%; 2000)	01 Nov'00	25,0	Revaluation		1,8
Former Namibian Central			Union Bank	15 Aug'01	30,1
Bank loan facility	30 April'00	5,3	Principal		14,9
Former regional authorities	Various	37,7	Revaluation		15,2
			SBIEFCO	15 Aug'01	6,9
			Principal		1,2
			Revaluation		5,7
Domestic loans		**15 161,4**	**Foreign loans**		**2 060,6**
			Principal		1 327,8
			Revaluation		732,8

Table 5.4 sets out loan redemptions from 1999/00 to the present financial year, with projections to 2003/04. Table 5.5 shows loan redemptions by instrument for 2000/01.

Redemptions of R17,2 billion in 2000/01

Total loan redemptions amount to R17,2 billion in 2000/01. Of this amount, R2,1 billion was on foreign loans, including R100 million in respect of payments under the Republic of South Africa 1994 Debt Arrangements. The remaining commitments under the arrangements, R52 million, will be paid on 15 August 2001.

Total loans redeemed in 2000/01 were marginally higher than the R17,0 billion projected at the time of the budget. The revised amount includes higher payments of R18 million on Development Board loans to former provincial administrations, and R173 million higher rand value on maturing foreign loans, both of which were not provided for in the original estimates.

Redemptions of R24,0 billion in 2001/02

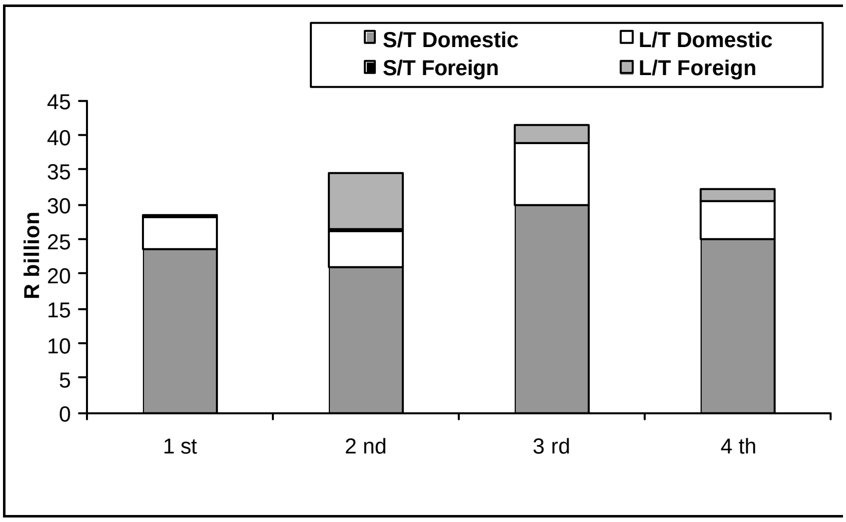
For the 2001/02 year, loan redemptions are projected at R24,0 billion. This includes R1,0 billion provided for the domestic government bond buy-back programme.

Consolidated public sector borrowing

Public sector borrowing requirement

To assist with the management and co-ordination of the borrowing activities of the public sector, the National Treasury compiles an estimated consolidated quarterly gross public sector borrowing requirement for the ensuing 12 month period. Figure 5.2 provides an estimate as of 31 December 2000 of the gross borrowing requirement for the public sector on a quarterly basis for the period 1 January to 31 December 2001. Actual borrowing may vary from these estimates, and is subject to negotiations between public enterprises and the National Treasury on timing and actual debt requirements.

Figure 5.2 Public sector gross borrowing requirement, 1 January to 31 December 2001



Financing the borrowing requirement

Table 5.6 shows the financing of the net borrowing requirement in 2000/01, with projections to 2003/04. These estimates and those for previous years are set out in Table 1, Annexure B.

Table 5.6 Financing of net borrowing requirement, 2000/01–2003/04

	1999/00	2000/01		2001/02	2002/03	2003/04
R million	Outcome	Budget	Revised	Medium-term estimates		
Domestic short-term loans (net)	**1 884**	**3 500**	**4 616**	**3 500**	**4 000**	**4 500**
Domestic long-term loans (net)	**3 032**	**10 140**	**7 647**	**-7 354**	**3 167**	**4 020**
New loans	22 704	26 292	24 068	16 985	26 816	29 778
Discount on issue of new loans	-3 686	-1 009	-1 260	-414	-217	–
Redemptions (net of book profit)	-15 986	-15 143	-15 161	-23 925	-23 432	-25 758
Foreign loans (net)	**8 514**	**4 612**	**1 939**	**11 305**	**12 305**	**10 882**
New loans:						
Market loans	13 260	4 500	2 000	8 000	8 250	8 500
Export credit facilities	–	2 000	2 000	3 360	4 055	4 550
Discount on issues of new loans	-67	–	–	–	–	–
Redemptions (including revaluation of loans)	-4 679	-1 888	-2 061	-55	–	-2 168
Change in cash and other balances[1]	**-2 918**	**2 000**	**6 911**	**–**	**–**	**–**
Opening balance	4 367	4 000	8 910	2 000	2 000	2 000
Cash balance	2 615	4 000	7 285	2 000	2 000	2 000
Surrenders/Late requests	1 752	–	1 625	–	–	–
Closing balance	-7 285	-2 000	-2 000	-2 000	-2 000	-2 000
Total financing (net)	**10 512**	**20 252**	**21 113**	**7 451**	**19 472**	**19 402**

1. A positive change indicates a reduction in cash balances.

Cash balances and surrenders of R8,9 billion

To provide for the government's forecast cash requirements in the first quarter of 2000/01 the exchequer cash balance at the beginning of 2000/01 amounted to R7,3 billion, including surplus balances of R713 million on the account of the former "own affairs" administrations. Departmental surrenders (net of late requests) of R1,6 billion brought the balances available for 2000/01 to R8,9 billion, of which some R6,9 billion is expected to contribute to the 2000/01 financing requirement.

Year-end balances of R2,0 billion

A 2000/01 year-end balance of R2,0 billion will be carried forward to the new year. End-of-year balances of R2,0 billion are projected over 2001/02 to 2003/04.

Short-term loans increase by R 4,6 billion

The increase in short-term financing since 1999 is set out in Table 5.7.

Short-term borrowing in 2000/01 is expected to contribute about R4,6 billion to financing, at an average interest rate of 9,9 per cent (budgeted 11,0 per cent). Government will continue to promote liquidity at the short end of the market by increasing the volume of treasury bill issues in 2001/02 by R3,5 billion.

Table 5.7 Short-term loans outstanding, 1998/99–2003/04

As at 31 March	1999	2000	2001	2002	2003	2004
R million				Medium-term estimates		
Treasury bills:						
91 day	13 800	16 800	20 300	23 800	27 800	32 300
182 day	5 200	5 200	5 200	5 200	5 200	5 200
Corporation for Public Deposits	1 117	1	1 116	1 116	1 116	1 116
Other[1]	10	10	10	10	10	10
Total	**20 127**	**22 011**	**26 626**	**30 126**	**34 126**	**38 626**

1. Loan levies and former Bophuthatswana bonds

Domestic bond issues raised R7,6 billion in 2000/01

Net finance raised through domestic bond issues in 2000/01 is projected to be R7,6 billion, R2,5 billion lower than budgeted.

Up to 31 December 2000, new domestic bonds with a total nominal value of R21,5 billion were issued, at an average coupon rate of 11,2 per cent and an average yield of 12,2 per cent (budgeted 12,3 and 13,6 per cent respectively). Details are set out in Table 5.8.

CPI linked and floating-rate bonds issued

Of the new domestic bonds issued, 21,0 per cent were floating rate bonds and 6,2 per cent CPI linked bonds. The R150 (12,0%;2004/05/06) benchmark bond made up 30,3 per cent of total new bond issues.

Medium-term bonds comprised 56,0 per cent of nominal issues and long-term bonds 43,4 per cent.

Table 5.8 Government bonds issued, 2000/01

As at 31 December 2000 R million	Nominal value	Cash value	Discount	Average yield (%)
Medium-term:	**12 019**	**11 688**	**331**	
R175 (9,0%; 2002)	529	505	24	11,63
R162 (12,5%; 2002)	485	485	–	11,12
R193 (floating; 2003)	4 500	4 482	18	10,36
R150 (12,0%; 2004/05/06)	6 505	6 216	289	13,13
Long-term:	**9 325**	**8 612**	**713**	
R153 (13,0%; 2009/10/11)	2 222	2 125	97	14,29
R189 (CPI 2013)	1 321	1 321	–	6,27
R157 (13,5%; 2014/15/16)	3 343	3 223	120	14,03
R186 (10,5%; 2025/26/27)	2 439	1 943	496	13,28
Amortised interest on zero coupon bonds[1]	**131**	**131**	–	
Total domestic bonds issued	**21 475**	**20 431**	**1 044**	
For financing purposes	18 116	17 200	916	
For switch purposes	3 359	3 231	128	

1. *The discount on zero coupon bonds is treated on an accrual basis. The discount is written off over the life of the bond and provided for annually as interest expenditure. At the same time a corresponding amount is added to new loans received by the Exchequer.*

Switches in government bonds

A switch auction programme to restructure government's debt portfolio was introduced in November 2000. Up to 31 December 2000, bonds of a nominal value of R1,2 billion were switched. Of the nil coupon bonds issued to the South African Reserve Bank to compensate for realised losses on the Gold and Foreign Exchange Contingency Reserve Account, R2,0 billion were switched for interest bearing bonds during the year. Further details relating to switches are shown in Table 5.9.

Table 5.9 Switches in government bonds, 2000/01

As at 31 December 2000	Source bond		Destination bond	
R million	Bond	Amount	Bond	Amount
Monetary Management purposes:				
25 May 00	Z16 (nil coupon; 2014)	979	R150 (12%; 2004/05/06)	1 060
1 Jun 00	Z16 (nil coupon; 2014)	69	R186 (10,5%; 2025/26/27)	93
28 Sept 00	Z16 (nil coupon; 2014)	493	R162 (12,5%; 2002)	485
19 Oct 00	Z16 (nil coupon; 2014)	505	R175 (9,0%; 2002)	529
		2 046		**2 167**
Portfolio management purposes:				
9 Nov 00	R177 (9,75%; 2007)	389	R157 (13,50%; 2015)	375
13 Dec 00	R179 (10,00%; 2013)	812	R153 (13,00%; 2010)	817
		1 201		**1 192**

Additional take-up of bonds by primary dealers

Primary dealers are permitted to take up a further 10 per cent of their allotted amounts at any auction, on a non-competitive basis, within 24 hours of the close of the auction. About 3,0 per cent or

R515 million of the total bond issues for 2000/01 were taken up in terms of this option.

US$ global bond issue reopened, US$750 million raised

At the time of the 2000 Budget, it was projected that foreign borrowing in 2000/2001 would be equivalent to US$1,0 billion. In March 2000, the Government reopened the RSA 2009 Dollar bond at a spread of 275 basis points over the 10-year US Treasuries. The spread was 95 basis points tighter than the initial spread of 370 basis points in May 1999. The Government expected to raise $500 million, but due to overwhelming demand, the issue size was raised to US$750 million, bringing the total amount raised to US$1,25 billion. The bond was oversubscribed (US$1,42 billion orders placed), with 120 investors and is the most liquid South African foreign bond ever issued. Proceeds of this issue were received in 1999/00.

Table 5.10 Foreign loan issues, 2000/01

As at 31 December 2000 R million	Amount
Market sales: 3,8 % Japanese Yen Bond issue / Due 2020	**1 961**
Concessionary: IBRD World Bank Loan	**20**
Export credit (Armament procurement Programme):	**1 963**
AKA-Commerzbank (Corvette)	865
AKA-Commerzbank (Submarines)	97
Barclays (Hawk / Gripen)	623
Societe Generale (Corvette)	260
Mediocredito Centrale (Light Utility Helicopters)	118
Total foreign loan issues	**3 944**

Japanese private placement of ¥30 billion

In June 2000, the Government entered into a 20-year ¥30 billion private placement. This private placement in Yen was executed at a yield of 3,8 percent and the spread was 170 basis points over Yen/Libor.

Defence procurement packages

The Minister of Finance signed financing agreements for the defence procurement packages with the lending banks on 21 January 2000. Amounts equivalent to about US$250 million were drawn from the defence financing agreements for the current fiscal year. These loans provide very favourable terms, drawn in current market conditions at 150-200 basis points below the cost of long dated funding in the foreign public bond markets.

Financing proposals, 2001/02

Domestic loans

Bond issues for 2001/02

The domestic funding strategy for 2001/02 will continue to spread the funding over the medium and long end of the curve. The funding will concentrate on the liquid benchmark bonds. These are the R150(12,0%;2004/05/06), R153(13,0%;2009/10/11), R157(13,5%; 2014/15/16) and R186(10,5%; 2025/26/27).

New domestic benchmark bond

These bonds will be complemented by a new three-legged bond in the 2007/08/09 maturity area. The new bond has been introduced as a result of market requests that the National Treasury establish a liquid benchmark between the R150 and the R153 bonds. This new bond will also act as a destination bond in the switch auction programme for the 2001/02 fiscal year, and like other benchmark bonds will not act as a source bond.

Longer dated inflation linked bond

Complementing the fixed income benchmarks will be the R193(2003) floating rate bond and the R189(6,5%; 2013) inflation linked bond. In light of the good performance of the inflation linked bond during the 2000/01 fiscal year, and given the difficulties faced by investors in fully matching their total assets and liabilities through the use of the R189 bond, a longer dated inflation linked bond in the 2023 maturity area will be issued. The Government is committed to developing a full yield curve of inflation linked bonds, subject to demand.

Further issues of floating rate bonds

Investors have shown great interest in the R193 floating rate bond. For the 2000/01 fiscal year, the R193 contributed R4,5 billion to the total domestic bonds issued. The government will continue issuing this instrument in 2001/02.

Foreign loans

Foreign issues

About $1,0 billion equivalent will be borrowed in the foreign markets. Government will continue to execute its foreign borrowing programme according to the following broad strategic objectives:

- Establish liquid benchmarks in major currency markets
- Maintain a balanced portfolio of foreign currency denominated debt
- Broaden and improve the quality of the Republic of South Africa’s foreign investor base, and
- Borrow at the most cost effective rates.

R3,4 billion to be drawn on export credit facilities

The expected disbursements on credit facilities in respect of the armaments procurement programme is R3,4 billion. The majority of drawdowns will be in April 2001.

Draw downs on concessionary loans

In addition amounts will be drawn down in disbursement on concessionary loans. Cabinet has approved that consideration can be given to project lending from international institutions when:

- the expenditure to be financed forms part of a department’s medium-term expenditure allocations
- the terms and conditions of the loans are acceptable, and
- the project brings technical expertise, additional grant funding and/or capacity building as part of a broader partnership relationship.

Project loans used to finance departmental expenditure will be treated as part of Government’s overall borrowing. The terms and conditions of proposed loans will be assessed in relation to Government’s overall debt and financial risk management policies.

State debt cost

Projections of state debt costs to 2003/04 are set out in Table 5.11.

Debt cost R304 million lower for 2000/01

State debt cost is recorded on a cash basis, in keeping with current government accounting practice. Debt costs amounted to R46,2 billion in 2000/01, or R304 million lower than budgeted, due to both lower than anticipated interest rates and a change in cash and other balances of R6,9 billion against a budget figure of R2,0 billion.

Debt cost of R48,1 billion for 2001/02

For 2001/02 the cost of servicing state debt is expected to amount to R48,1 billion, or 4,9 per cent of GDP. This estimate assumes:

- A national budget deficit of R24,9 billion
- Scheduled domestic and foreign loan redemptions of R24,0 billion
- An average coupon rate of 11,8 per cent on domestic bond issues
- Average capital market yields of 11,6 per cent, and
- Average short-term interest rates of 10,0 per cent.

Table 5.11 Projected state debt costs, 1999/00–2003/04

	1999/00	2000/01		2001/02	2002/03	2003/04
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimate**		
Interest:	44 168	46 425	46 107	48 086	49 599	50 970
Domestic debt	42 792	44 630	44 058	45 053	45 252	45 539
Foreign debt	1 376	1 795	2 049	3 033	4 347	5 431
Management cost	81	15	78	2	2	2
Cost of raising loans	41	50	1	50	50	50
Total state debt cost	**44 290**	**46 490**	**46 186**	**48 138**	**49 651**	**51 022**
Percentage of GDP	*5,5%*	*5,3%*	*5,1%*	*4,9%*	*4,6%*	*4,4%*
Excludes:						
Revaluation of maturing foreign loans	2 109	560	733	42	–	978
Discount on issues of government bonds	3 753	878	1 260	414	217	–

Revaluation of maturing foreign loans

As announced in the 1999 *Budget Review*, internationally recognised practice in the treatment of foreign currency denominated debt has now been adopted. State debt cost therefore excludes the revaluation of maturing foreign loans, previously reflected as a management cost. The full redemption value of foreign loans is now shown in foreign loan financing.

In 2000/01 the revaluation of the 5% Japanese Yen Bond issue and other foreign loan payments amounted to R730 million.

State debt cost declines to 4,4% of GDP in 2003/04

The cost of servicing state debt is projected to fall from 5,5 per cent of GDP in 1999/00 to 4,4 per cent in 2003/04.

Discount on bonds R1,3 billion in 2000/01

Some government bonds carry interest below market rates. The discount on bond issues in 2000/01 will be about R1,3 billion. The overall discount on the issue of new bonds is expected to amount to R414 million in 2001/02.

Accounting for discount on bonds

In terms of current government accounting practice, the discount on government bonds is accounted for on a cash basis. Although the discount is recorded at the time of issue of a bond and forms part of outstanding government debt, it is not shown as part of government expenditure. However, since 1996 the discount on government bonds has been disclosed on an accrual basis in the *Budget Review*, in line with the recommendations of the revised international System of National Accounts of 1993. The amortisation of the discount over the term of the bond results in higher recorded state debt cost and government expenditure, a higher deficit and a lower aggregate measure of government debt. The adjustments for 1991/92 to 2000/01 are summarised in Table 5.12.

Amortisation of the discount would add R3,9 billion to expenditure in 2000/01, or 0,4 per cent of GDP. The adjusted aggregate of total net loan debt amounts to 39,2 per cent of GDP at the end of March 2001.

Table 5.12 Adjustment to state debt cost and total government debt to account for discount on an accrual basis, 1991/92–2000/01

	Amortised discount (R million)	Adjustments to state debt cost (% of GDP)	Total net loan debt at year-end (% of GDP)	Adjusted total net loan debt at year-end (% of GDP)
1991/92	1 031	0,3	30,0	27,1
1992/93	1 269	0,3	36,9	33,3
1993/94	1 285	0,3	42,7	38,9
1994/95	1 961	0,4	46,9	41,8
1995/96	3 091	0,5	48,0	42,1
1996/97	3 201	0,5	48,2	42,1
1997/98	3 411	0,5	47,5	41,4
1998/99	3 589	0,5	47,8	41,6
1999/00	3 797	0,5	46,1	40,4
2000/01	3 905	0,4	44,3	39,2

Government debt portfolio

Total government debt

Figure 5.3 sets out total nominal government debt since 1980 and projections to 2004.

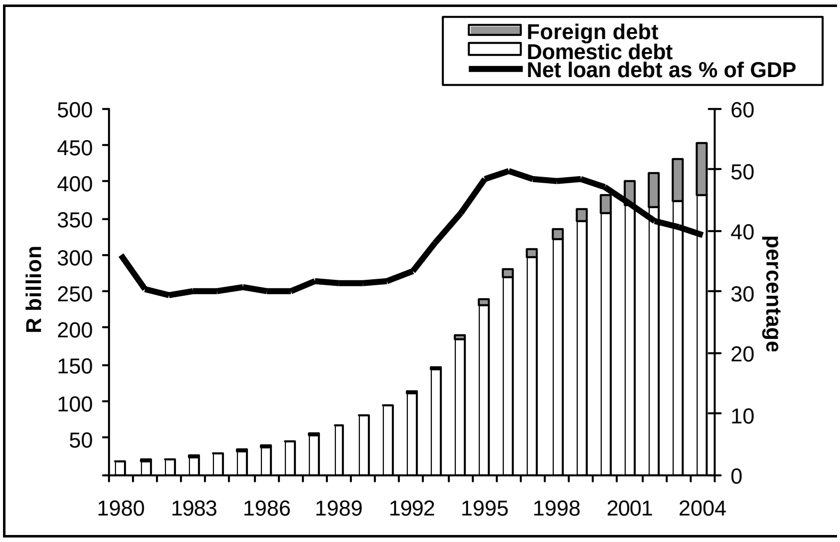
Consolidation of RSA debt

Over the last decade Government's debt portfolio has accommodated a number of obligations in addition to financing of the budget deficit. Among these are:

- R13,9 billion debt of the former regional authorities, which was converted to national debt during 1994/95, in terms of the 1993 Constitution
- About R1,4 billion in obligations of the Republic of Namibia, taken over by Government in 1998
- Government bonds amounting to R10,6 billion issued to the South African Reserve Bank to compensate for losses on the Gold and Foreign Exchange Contingency Reserve Account

- A transfer of R7,4 billion to the government pension fund in 1993/94 to compensate for the impact of the early retirement offers to civil servants
- Government's share of South African Airways' unallocatible debt, amounting to R1,3 billion, taken over in 1999/00, and
- Debt of the Rail Commuter Corporation of R2,3 billion, settled during 2000/01.

Figure 5.3 Government debt, 1980–2004



After taking into account the balances of the National Revenue Fund (Government's accounts with the South African Reserve Bank and commercial banks), total net loan debt is projected at R397,5 billion for the end of 2000/01.

Decline in net loan debt as per cent of GDP

In absolute terms this represents an increase of R23,3 billion on 1999/2000. A breakdown of this increase is set out in Table 5.13. As a percentage of GDP, however, net loan debt declines, as it has consistently from the 48,2 per cent level of 31 March 1997 to 44,3 per cent at the end of 2000/01.

Table 5.13 Increase in government debt, 2000/01

	R million
Net financing in domestic and foreign loans	14 202
Discount on new loans	1 260
Revaluation of foreign loan portfolio	2 692
Net of switches in domestic bonds	-146
Increase in loan debt	**18 008**
Change in cash balances (decrease +)	5 285
Increase in net loan debt	**23 293**

Further decline in debt to GDP ratio

Total net loan debt is projected to be R408,8 billion on 31 March 2002, or 41,4 per cent of expected GDP. This estimate is subject to a number of factors, including:

- Revaluation of foreign loans because of exchange rate movements
- Restructuring proceeds, and
- Financing required to meet the budget deficit and prevailing interest rates.

Total net loan debt is expected to decline further to 39,1 per cent of GDP by 31 March 2004.

The composition of government debt since 1996/97 is summarised in Table 5.14. Table 7 of Annexure B sets out the figures since 1977.

Table 5.14 Total government debt, 1997–2004

As at 31 March	1997	1998	1999	2000	2001	2002	2003	2004
R'billion						**Medium-term estimates**		
Marketable domestic debt	290,4	318,8	344,9	354,7	367,0	363,6	371,1	379,7
Non-marketable domestic debt	6,4	2,8	2,0	1,0	2,1	2,0	1,9	1,9
Total domestic debt	296,8	321,5	346,9	355,7	369,1	365,6	373,0	381,6
Total foreign debt[1]	11,4	14,6	16,3	25,8	30,4	45,2	59,4	72,3
Total gross loan debt	**308,2**	**336,1**	**363,2**	**381,5**	**399,5**	**410,8**	**432,4**	**453,9**
Percentage of GDP	*48,6%*	*48,1%*	*48,5%*	*47,0%*	*44,5 %*	*41,6%*	*40,4%*	*39,3%*
Less: National Revenue Fund balance	-2,8	-4,8	-5,2	-7,3	-2,0	-2,0	-2,0	-2,0
Total net loan debt[2]	**305,5**	**331,3**	**358,0**	**374,2**	**397,5**	**408,8**	**430,4**	**451,9**
Percentage of GDP	*48,2%*	*47,5%*	*47,8%*	*46,1%*	*44,3 %*	*41,4%*	*40,3%*	*39,1%*

1. *Forward estimates are based on exchange rates prevailing at 31 December 2000, projected to depreciate in line with inflation differentials.*
2. *The total net government loan debt is calculated with due account of the balance of the National Revenue Fund (balances of government's accounts with the South African Reserve Bank and the Tax and Loans Accounts with commercial banks).*

Forward cover losses

Total government debt includes the balance on the Gold and Foreign Exchange Contingency Reserve Account at the Reserve Bank. Over the past year losses made on forward contracts have brought the projected balance on this account to R17,5 billion, an increase of R8,3 billion over last year's balance, bringing total net debt to an estimated R415 billion on 31 March 2001.

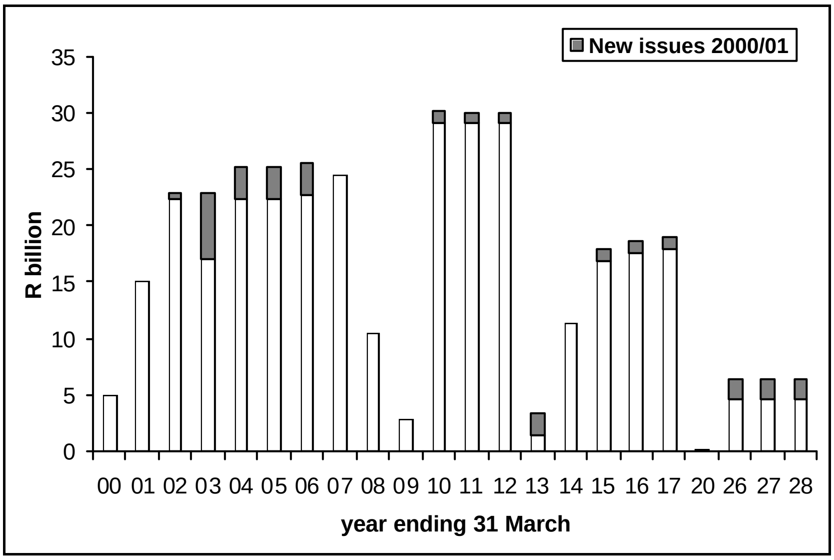
Debt maturity profile

Figure 5.4 sets out the maturity profile of domestic marketable bonds, as of 31 December 2000.

Average maturity / duration of domestic marketable bonds

Bonds with an outstanding maturity of less than three years comprise 13,7 per cent of the total domestic marketable bonds in issue, 33,0 per cent lie between three and seven years, 18,8 per cent between 7 and 10 years, 28,8 per cent between 10 and 19 years and 5,7 per cent are dated longer than 19 years ahead. The average maturity is 8,8 years. The weighted average term (duration) of the interest and redemption cash flows of domestic marketable bonds is 4,7 years.

Figure 5.4 Maturity profile of domestic marketable bonds, 31 December 2000



Composition and ownership of domestic debt

Composition of domestic debt

Table 5.15 sets out the composition of domestic debt from 1996/97 to 2000/01. Table 5.16 sets out the distribution of ownership of government bonds as of 30 September 2000.

On 31 March 2001 fixed-interest bonds are expected to comprise 89,0 per cent of total domestic debt, while treasury bills should account for 6,9 per cent.

Planned improvement of ownership classification

The ownership distribution of government bonds is based on provisional figures furnished by the Central Depository, and excludes bonds held outside the Central Depository. The National Treasury, Central Depository, banks and their dients are considering revised processes to improve the accuracy of the classification of ownership.

Table 5.15 Composition of domestic debt, 1996/97–2000/01

As at 31 March R'billion	1997	1998	1999	2000	2001 estimate
Government bonds:					
Fixed-interest	253,7	286,2	311,0	324,1	328,5
Floating	5,4	5,2	4,9	1,3	5,7
Zero coupon	17,2	10,0	10,0	6,8	4,8
Index linked	–	–	–	0,5	2,5
Treasury bills	14,3	17,3	19,0	22,0	25,5
Corporation for Public Deposits	2,5	1,5	1,1	–	1,1
Namibian loans	–	0,7	0,7	0,6	0,6
Other	3,7	0,6	0,2	0,4	0,4
Total	**296,8**	**321,5**	**346,9**	**355,7**	**369,1**

Table 5.16 Ownership distribution of domestic bonds

As at 30 September 2000	% of total
Nominee companies	0,4
Government enterprises and public sector	2,9
Pension funds	6,2
Insurers	5,0
Private	1,3
Monetary authorities/institutions	9,8
Foreign	11,5
Other financial institutions	33,9
Public Investment Commissioners	29,0

Source: Central Depository

Composition of foreign debt

Table 5.17 shows a currency breakdown of foreign loan debt obligations as of 31 March, for 1997 to 2001.

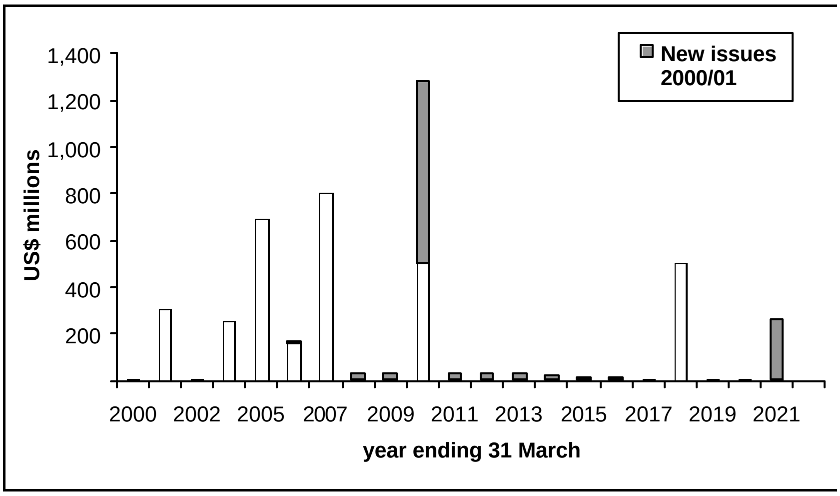
Increase in foreign debt

Foreign debt has increased from 2,7 per cent of net loan debt at the end of March 1994 to 7,7 per cent at the end of March 2001.

Table 5.17 Composition of foreign debt, 1996/97–2000/01

As at 31 March Percentage of total	1997	1998	1999	2000	2001 estimate
United States dollar	36,8	49,0	60,4	41,5	51,9
ECU/Euro	6,6	0,6	–	24,5	23,5
Deutschemark	16,3	11,2	10,5	7,8	5,8
British pound	5,4	6,4	6,1	5,1	3,6
Austrian schilling	0,5	–	–	–	–
Japanese yen	9,8	22,2	23,0	21,0	15,2
Special Drawing Rights	24,6	10,5	–	–	–

Figure 5.5 Maturity profile of foreign debt of government



Foreign debt maturity profile

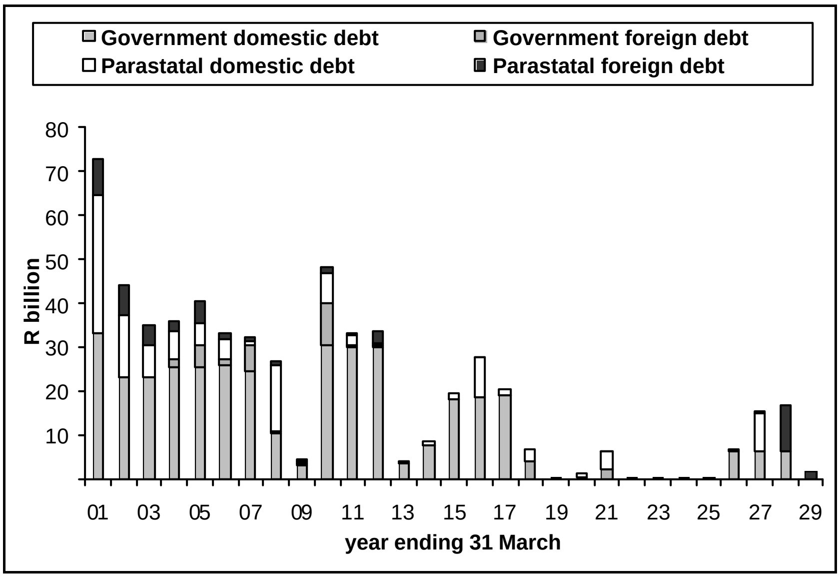
South Africa's foreign debt maturity profile is illustrated in Figure 5.5.

Consolidated debt maturity profile

Consolidated debt maturity profile

The National Treasury compiles a consolidated debt maturity profile of the domestic and foreign debt of the national government and other public sector borrowers, to assist with the management and coordination of the borrowing activities of these entities. This profile as at 31 December 2000 is illustrated in Figure 5.6.

Figure 5.6 Consolidated maturity profile of domestic and foreign debt of the national government and parastatals, 31 December 2000



Financial Statements

Contingent liabilities

Statement of Liabilities and Financially Related Assets

A Statement of Liabilities and Financially Related Assets of the national government is compiled annually by the National Treasury. The statement includes information on off balance sheet items, including accrued unfunded commitments and other contingent liabilities. The statement as at 31 March 2000 (unaudited) appears in Table 5.18.

Contingent liabilities

Contingent liabilities amounted to R116,4 billion on 31 March 2000. These include

- Actuarially determined liabilities for post-retirement medical assistance, which amounted to R14,2 billion on 28 February 1999
- An actuarial liability with respect to government pension funds, amounting to R5,5 billion
- Underfunding of future claims against the Road Accident Fund to the value of R12,4 billion, and
- Guarantees to various institutions amounting to R79,0 billion in total, including R1,0 billion in respect of the guaranteed liabilities of the former TBVC-states and self-governing territories.

Table 5.18 Statement of liabilities and financially related assets

At 31 March:	1996	1997	1998	1999	2000
R'billion					Unaudited
Liabilities					
Long-term liabilities					
Bonds, debentures and loans	245,0	273,7	298,3	323,9	339,8
Domestic	*236,3*	*262,2*	*285,4*	*312,3*	*315,9*
Foreign	*8,7*	*11,5*	*12,9*	*11,6*	*23,9*
Closed pension fund	0,3	0,3	0,2	0,2	–
	245,3	**274,0**	**298,5**	**324,1**	**339,8**
Other liabilities					
Provisions	13,6	14,3	14,5	19,6	22,2
Short-term liabilities	38,8	34,8	34,7	36,8	39,3
Bonds, debentures and loans	*33,1*	*33,1*	*34,9*	*36,7*	*39,0*
Domestic	*30,9*	*33,0*	*33,4*	*32,1*	*37,1*
Foreign	*2,2*	*0,1*	*1,5*	*4,6*	*1,9*
Creditors	*5,7*	*1,7*	*(0,2)*	*0,1*	*0,3*
	52,4	**49,1**	**49,2**	**56,4**	**61,5**
Total liabilities	**297,7**	**323,1**	**347,7**	**380,5**	**401,3**
Financially related assets					
Investments	81,0	103,3	108,2	116,2	117,3
Loans	1,2	1,2	1,6	1,1	1,0
Debtors	11,4	11,6	15,2	36,1	42,8
Balances on hand	8,6	2,8	4,8	5,2	7,3
Total	**102,2**	**118,9**	**129,8**	**158,6**	**168,4**
Off balance sheet items					
Capital commitments	3,7	3,9	3,9	5,1	7,3
Contingent liabilities	135,9	138,7	144,6	117,5	116,4
Total	**139,5**	**142,6**	**148,5**	**122,6**	**123,7**

Forward cover losses

Government is also liable for losses incurred as a result of the forward market operations of the Reserve Bank. The outstanding oversold forward book stood at US$14,5 billion at the end of December 2000. Potential future profits or losses from this open position are not included in the statement of contingent liabilities, as unanticipated movements in the exchange rate limit the usefulness of such estimates.

Issue of guarantees to public entities

Guarantees and borrowing powers

The granting of borrowing powers to general government bodies and the issuing of government guarantees is managed within approved guidelines. In 2000/01, guarantees were largely restricted to concessionary loans to public enterprises, project finance for infrastructure development schemes and, in exceptional cases, facilities in support of public enterprise restructuring.

Average maturity of guarantees issued

The average maturity of foreign loans for which government guarantees were issued in 2000/01 was 19,3 years. This lengthening of the maturity was made possible largely by improved access to the euro-rand market and various sources of concessionary finance.

Guarantee fees of R3,7 million received

Guarantee fees were increased to 2,5 per cent on the nominal value of each loan. Government received fees to the amount of R3,7 million during 2000/01.

Total government guarantees on 31 March 2000 amounted to R79,0 billion. A detailed account of Government's exposure as of 31 March 2000 is set out in Table 8, Annexure B.

Liquidity in government debt issues

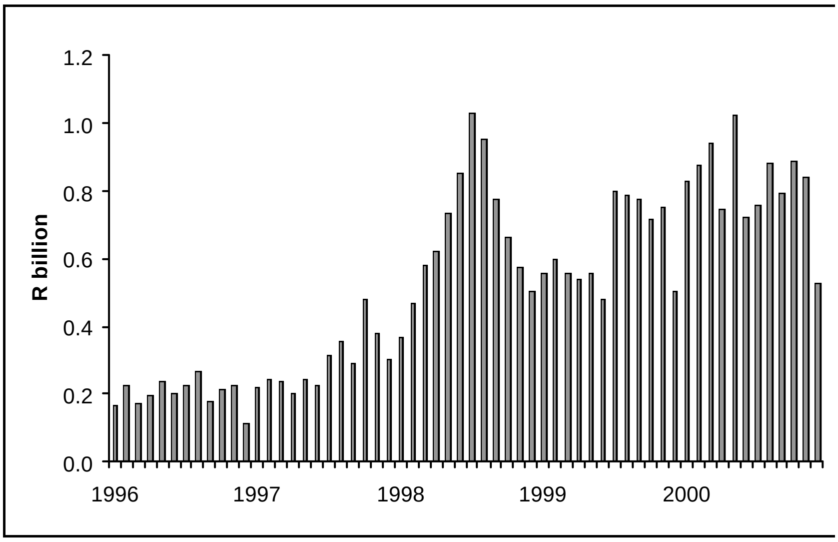
Domestic issues

Monthly nominal trade in domestic government bonds from 1997 to 2000 is reflected in Figure 5.7.

Turnover in government bonds increased to over R9 800 billion a year

Although the contagion effect of the Asian financial crisis had an adverse impact on turnover and volatility in the RSA bond market, the introduction of the panel of primary dealers in government bonds in April 1998 substantially increased the liquidity in the secondary market, increasing the average monthly turnover to R665 billion. The annual turnover in the RSA bond market has increased from R3 495 billion in 1997 to R9 824 billion in 2000.

Figure 5.7 Monthly nominal trades in domestic marketable government bonds



Bondmarket turnover in RSA bonds as a ratio of total issue

The turnover ratios of government's most liquid bonds are illustrated in Table 5.19. The turnover in the benchmark R150 (12,0%; 2004/05/06) domestic bond in relation to the amount issued is 56,9 times.

Table 5.19 Bond market turnover in RSA bonds times the total issue, 1 January to 31 December 2000

R'billion	Nominal amount issued	Market turnover	Turnover ratio[1]
R162 (12,5%; 2002)	22,2	973,0	43,8
R175 (9,0%; 2002)	15,8	547,0	34,6
R150 (12,0%; 2004/05/06)	75,2	4276,0	56,9
R184 (12,5%; 2006)	22,4	274,0	12,2
R153 (13,0%, 2009/10/11)	90,1	2173,0	24,1
R157 (13,5%; 2014/15/16)	53,7	845,0	15,7
R186 (10,5%; 2025/26/27)	19,2	497,0	25,9

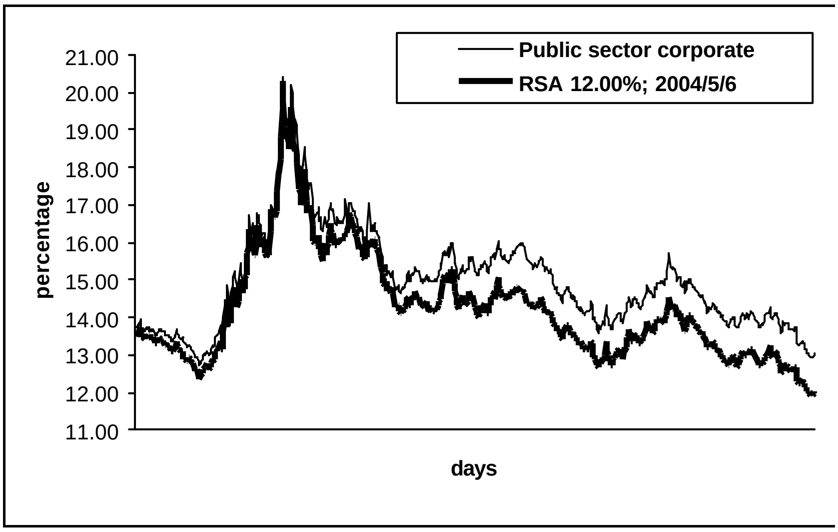
1. *Bond market turnover in a bond expressed as a ratio of the total nominal amount in issue of such bond.*

Figure 5.8 tracks the daily spread between government and public sector corporate 5 year benchmarks between 5 January 1998 and 31 December 2000.

Improved liquidity in domestic bonds

Prior to the appointment of the panel of primary dealers in April 1998, the benchmark public sector corporate bond was traded on average in a range of 15 to 40 basis points above the R150 (12,0%; 2004/05/06) government bond. This spread fluctuated substantially during 1998, primarily due to concerns about the credit worthiness of public sector corporate bonds in the domestic market and the impact of the Asian financial market crisis on the volatility in the local financial markets.

Figure 5.8 Spread between government and public sector corporate 5 year benchmarks



With more stable global markets towards the end of 1998, the spread increased, reaching a high of 123 basis points in August 1999. It has since stabilised around 100 basis points, compared with 30 basis points prior to the appointment of the primary dealers, indicative of the more liquid market that has been achieved.

Foreign issues and the eurorand bond market

The current trading performance of outstanding foreign bonds is set out in Table 5.20.

Table 5.20 Secondary market performance as of 2 February 2001

Bond	Coupon	Maturity Date	Current Spread
US Dollars			
USD750MN	9.125%	May 2009	339 bps
USD300MN	8.375%	October 2006	327 bps
USD500MN	8.5%	June 2017	361 bps
Euro			
EURO300MN	7%	October 2004	195 bps
EURO500MN	6.750%	May 2006	230 bps

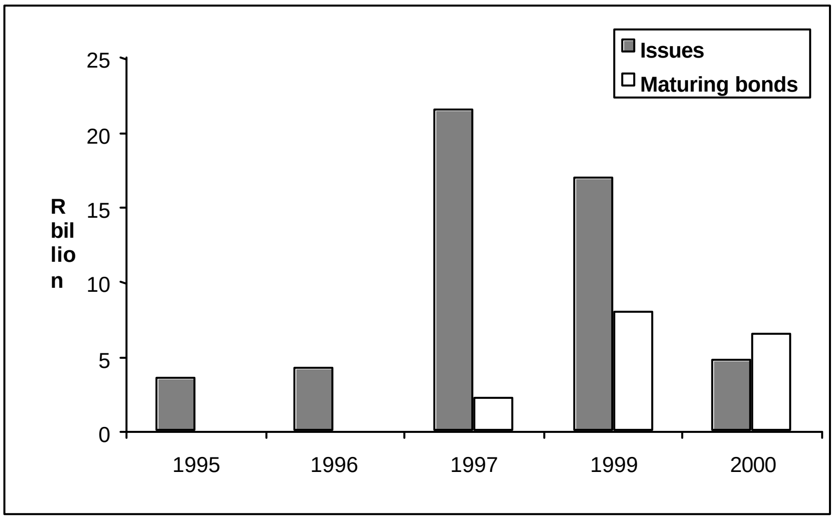
Spreads are quoted relative to underlying benchmark bonds

Improved spread on euro bonds

South African spreads performed relatively well in 2000 in a volatile market. The Euro currency denominated bonds maturing in 2004 and 2006 are currently trading at 195 and 230 basis points respectively, having tightened by about 70 basis points over the last seven months. The spread on the 10-year USD has widened by more than 100 basis points over the last 9 months, since its re-opening in March 2000, consistent with trends in the overall emerging marked bond index.

Figure 5.9 sets out South Africa's Eurorand bond market issues and maturities from 1995 – 2000.

Figure 5.9 Eurorand bond market issues and maturities, 1995 - 2000



Eurorand bond market issues of R200 billion

The Eurorand bond market has grown since September 1995 to a current nominal outstanding value of R200 billion, with maturities up to 35 years. During 2000, however, the proceeds from new issues were less than the value of maturing bonds by R1,8 billion. The demand for rand-denominated assets from highly rated overseas institutions, including the World Bank, contributes positively to the value of the rand and South African domestic bonds.