5

Asset and liability management

Progress in Government's debt management strategy, proposals for financing the budget deficit in the years ahead, trends in total debt and debt costs and developments in the restructuring of state assets are outlined in this chapter. Highlights include:

- *A further credit rating upgrade in November 2001 confirms the favourable outlook for South Africa's foreign and domestic debt*
- *Following repayment of R11,1 billion in 2001/02, R11 billion of domestic long-term debt will be repaid next year*
- *New medium term CPI-linked and floating rate bonds are to be issued in the year ahead*
- *Foreign borrowing raised R33,2 billion in 2001/02 and R16,3 billion is planned for 2002/03*
- *Proceeds of R12 billion from the restructuring of public enterprises are expected in 2002/03.*

South Africa in the world capital markets

The evolution of Government's debt management strategy, foreign and domestic borrowing and financial asset management are the subject of this chapter. The funding strategy for the years ahead is outlined and implications for debt costs and the overall debt portfolio are discussed. Progress with the restructuring of state assets is summarised.

Increasing international recognition of RSA debt

South Africa's debt – both domestic rand-denominated bonds and foreign debt issues – enjoys increasing recognition on international capital markets and continues to attract a diverse range of investors.

This reflects the country's success in adopting sustainable fiscal and macroeconomic policies, the evolution of a sound and transparent approach to debt management, the healthy balance of payments position and the maturity of South Africa's financial markets. In the course of the last two years, both Standard and Poor's and Moody's Investors' Service upgraded their ratings of South African debt, affirming their confidence in macroeconomic and fiscal management. These assessments contribute to broadening South Africa's international investor base and reinforce the favourable outlook for interest rates and the cost of the capital.

Improved confidence in SA bonds

RSA debt continues to trade at tighter spreads than the Emerging Market Bond Index (EMBI), indicating that investors share the confidence expressed by international rating agencies and regard South Africa positively by comparison with its competitors.

An evolving debt management strategy

Developing the capital market

Government loan debt was over 50 per cent of GDP in 1996, almost entirely rand-denominated and characterised by an unwieldy and fragmented distribution of maturities and security types. Debt has since been reduced to 43 per cent of GDP, domestic liquidity has increased and foreign debt markets have been successfully entered.

Extension of the capital market prioritised

In the period to 1999, the primary objective of debt management was to develop the domestic capital market, with the promotion of a more balanced maturity schedule a secondary goal. Ventures into foreign capital markets focused on establishing benchmark issues in the principal currency areas.

By 1999:

- Domestic market liquidity had improved markedly
- A markedly greater willingness of investors to commit funds at the long end of the yield curve was evident
- Participation of foreign investors in the domestic market had increased
- Several foreign debt issues had been successfully concluded, and
- The maturity of the domestic capital market had been demonstrated in its resilient performance during the 1997-1998 financial crises.

Main goal has shifted to reducing the cost of debt

The primary objective of domestic debt management has since shifted to the reduction of the cost of debt within acceptable risk limits, with diversification of funding instruments and ensuring flexible government access to markets as secondary goals. Recourse to foreign borrowing has been stepped up, allowing the fiscus to contribute to reducing the foreign currency exposure of the Reserve Bank in its forward market portfolio.

Domestic debt management reforms have addressed several policy and instrument gaps:

- Lower coupon bonds have been introduced, consistent with government's approach to reducing inflation in the years ahead.

South Africa's credit ratings

The Government first sought ratings for its domestic and international debt securities in 1994, and since then credit ratings have been maintained by Moody's Investors' Service, Standard and Poor's, Fitch IBCA (Originally Duff and Phelps and Fitch IBCA) and the Japanese rating agency, Nippon Investors Service.

A credit rating agency's primary task is to measure the debt servicing default risk of a country. Economic social and political factors all play a role, and a typical ratings methodology covers at least the following:

- Political risk
- Socio economic status
- Economic growth prospects
- Fiscal flexibility
- Public debt burden
- Price stability
- Balance of payments flexibility
- External debt and liquidity.

The first rating by Moody's in 1994 led to an investment grade assessment of both foreign and domestic debt, confirmed annually until 2000. In 2001 Moody's upgraded South Africa's foreign debt rating by one notch to Baa2.

Standard and Poor's issued an investment grade rating of domestic debt in 1994 and a stable (BB-) rating of Government's long-term foreign debt. This was upgraded to "BB with a positive outlook" in 1995 and to an investment grade (BBB-) in February 2000.

Prior to their merger, Fitch IBCA issued a foreign debt BB rating while Duff and Phelps maintained a BBB assessment. After the merger both domestic and foreign obligations were affirmed as investment grade.

Since 1994 Nippon Investors Service has rated South Africa BBB, investment grade with a positive outlook.

The improvements in credit ratings reflect South Africa's consistent pursuit of a sustainable growth-oriented macroeconomic strategy, the strength of financial institutions, reduced liquidity concerns and appropriate fiscal and monetary policies. Amongst the factors that were listed by Moody's as responsible for the upgrade of South Africa's rating was the advances made in the domestic capital market. The agencies also point to several social and development challenges to be addressed if South Africa is to build successfully on sound macroeconomic foundations and improved international competitiveness.

- Greater liquidity in the medium term market has been achieved with the introduction of the R194(10,0%;2007/08/09) bond and consolidation of illiquid instruments into it.
- Borrowing across the public sector is effectively coordinated now and a Public Sector Borrowers' Forum was established last year.
- Coordination between monetary policy and liability management has been strengthened through more effective liaison between the National Treasury and the Reserve Bank.
- Regular meetings with the primary dealers, the Reserve Bank and the futures and bond exchanges provide a forum for ensuring a transparent and efficient bond market.

Good relations with investors maintained

Sound relations with investors and other market participants remain a key priority, ensuring a shared understanding of developments in the capital market and appropriate consultation on reform options. Annual road-shows provide opportunities for both the National Treasury and the Reserve Bank to meet more widely with both domestic and foreign investors.

Active debt management enhancing liquidity

More active debt management supported by analysis

With the reduction in the budget deficit and the net borrowing requirement in recent years, the emphasis has shifted from extending the market and design of debt instruments to managing the outstanding stock of debt and its composition. This involves more active debt and risk management and greater use of quantitative analysis.

Increased liquidity achieved despite reduced supply of new issues

The Government's budget deficit decreased (as a per cent of GDP) from 5,1 per cent in 1994/95 to 1,4 per cent in the 2001/02 fiscal year. The slowdown in the supply of government paper is sometimes mistaken for a decrease in the liquidity of the bond market. In fact, while Government's annual financing needs have fallen, liquidity in the bond market has been enhanced. This has been achieved in several ways:

- Debt consolidation has reduced fragmentation on the yield curve and improved liquidity of the benchmark issues. Illiquid bonds were consolidated into five liquid benchmark bonds, thereby smoothing the maturity profile and reducing refinancing risks.
- The integrity and efficiency of the government securities market has been strengthened through buying back illiquid bonds, including diverse "ex-homeland" bonds of limited issue size.
- Inflation-linked bonds were introduced to diversify the government's investor base and to signal confidence in Government's macroeconomic policy, while also providing an objective measure of inflationary expectations and benchmarks for other issuers.
- A "Strips" (Separate Trading of Registered Interest and Principal Securities) programme has been introduced, with a view to increasing demand for the underlying instruments and encouraging active portfolio management.

A risk management framework

Shift in strategy requires focus on risk management

In actively managing its debt portfolio, the National Treasury has responsibility for identifying, controlling, and managing the risks to which Government is exposed. A comprehensive risk management framework calls for quantitative analysis, to model, monitor and manage risk exposure. The framework provides for a set of benchmarks or reference criteria against which the structure and evolution of the debt portfolio can be tested and understood.

Aim is to minimise risk-adjusted costs

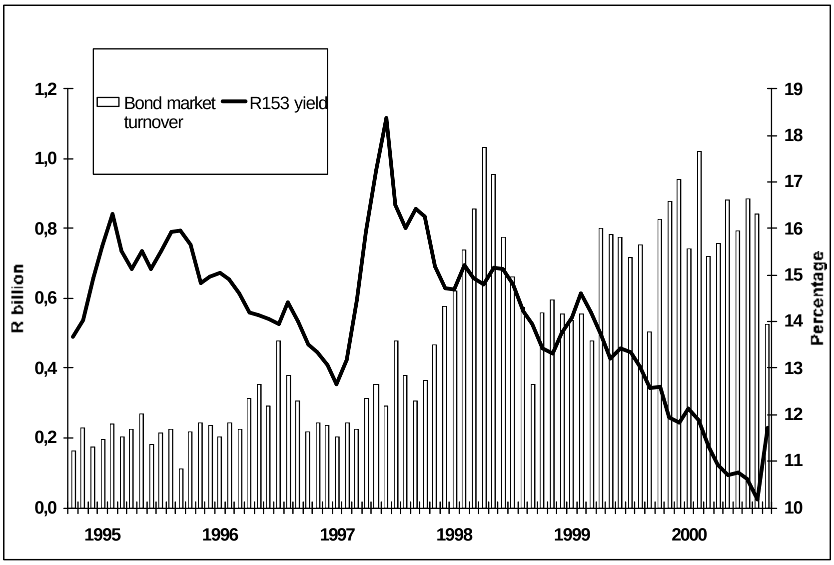
The objective is to minimise cost subject to acceptable levels of risk. The risk management framework allows the maturity profile, duration and currency exposure to be assessed, and it serves to:

- Express a strategic debt objective of the government
- Quantify debt management objectives
- Provide reference criteria for performance measurement
- Align debt policy to macroeconomic policies and goals
- Enable appropriate risk management and control options to be identified, and
- Ensure accountability and appropriate assignment of risk management responsibilities.

Liquidity in government debt issues

As shown in Figure 5.1, the liquidity in the domestic government bond market, measured by the increase in the nominal trades, improved substantially during recent years, especially since the appointment of primary dealers in government bonds in April 1998.

Figure 5.1 Turnover in RSA bonds and yield on the R153, monthly averages, 1995 - 2000



Bond market turnover increases to R10,7 trillion

Despite the adverse impact of the Asian financial crisis in 1998, the turnover in the secondary market for government bonds more than doubled that year. Turnover has increased further to R9 824 billion and to R10 671 billion in 2000 and 2001 respectively.

While the nominal turnover has increased markedly, there has also been considerable volatility in bond yields at times – in part an outcome of the substantial role of international investors in the domestic bond market.

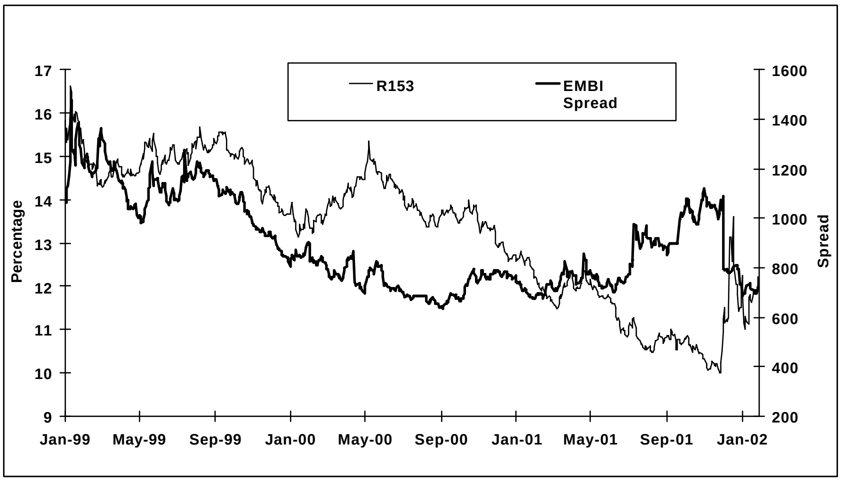
Interest rates declined in 2001

Since reaching levels close to 22 per cent in August 1998, bond yields rates have fallen, reaching single digit levels in November 2001. Since then, yields have reverted to higher levels mainly due to the sharp depreciation in the value of the rand against major currencies.

Outstanding performance of SA bonds

Figure 5.2 shows the exceptional performance of the domestic bond yields relative to other emerging markets between January 1999 and January 2002. During the past year, the JP Morgan Emerging Market Bond Index weakened relative to US treasuries. However, South African bonds recorded an outstanding performance, as indicated by the widening of the differential between the R153 bond yield and the EMBI spread for most of 2001.

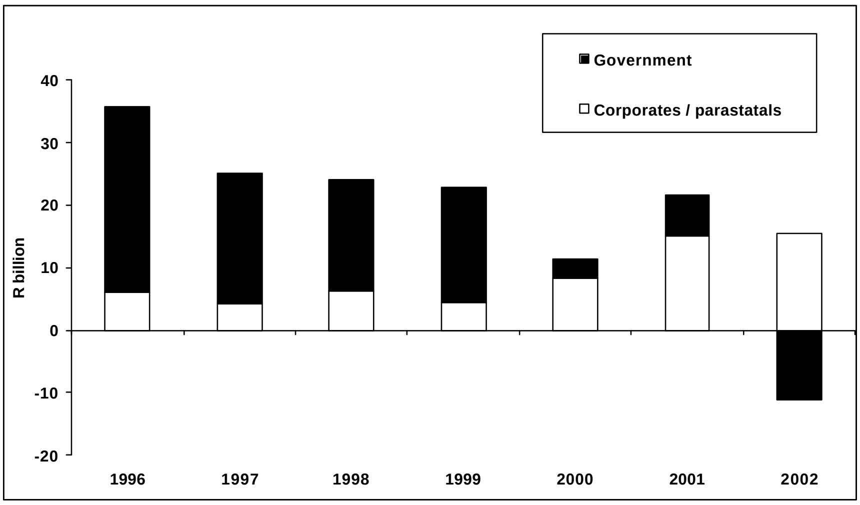
Figure 5.2 R153 yield and EMBI spread over 10 year US treasuries, 1999-2002



Increased corporate bond issues

In the wake of a lower supply of government bonds, corporate and parastatal bonds dominated the supply of new bonds listed by the Bond Exchange of South Africa during 2001. Corporate and parastatal bonds amounting to almost R15,5 billion were issued in the 2001/02 fiscal year, compared to a R11,1 billion net reduction in the supply of government bonds. Corporate and parastatal bond issues increased over the previous year and currently constitute approximately 5 per cent (2 per cent in previous year) of outstanding long-term listed debt. Debt issues by borrowers other than the national fiscus are likely to increase in importance in the years ahead.

Figure 5.3 Government, corporate and parastatal net domestic bond issues, 1995/96 – 2001/02



R150 turnover 57 times nominal issue

The turnover ratios of the most liquid government bond are summarised in Table 5.1. Turnover in the benchmark R150 bond relative to the amount issued was 57,1 times, compared to 56,9 in the previous year.

Table 5.1 Turnover in RSA bonds – 2000 and 2001

	2000	2001		
R'billion	**Turnover ratio**	**Nominal issues**	**Market turnover**	**Turnover ratio**
R162 (12,5%; 2002)	43,8	21,7	566,2	26,1
R150 (12,0%; 2004/05/06)	56,9	78,0	4 454,8	57,1
R153 (13,0%, 2009/10/11)	24,1	91,8	2 225,4	24,2
R157 (13,5%; 2014/15/16)	15,7	54,9	1 186,0	21,6
R186 (10,5%; 2025/26/27)	25,9	22,2	457,4	20,6
R189 (6,25%; 2013)	–	9,9	41,5	4,2
R194 (10,0%; 2007/08/09)	–	35,4	507,2	14,3
R197 (5,5%; 2023)	–	2,5	12,9	5,2

RSA bonds in the world capital markets

The current trading performance of outstanding foreign bonds is set out in Table 5.2.

Table 5.2 Foreign bonds performance – 2 February 2002

Bond	Coupon	Maturity Date	Current Spread
US Dollars			
USD750MN	9.125%	May 2009	237 bps
USD300MN	8.375%	October 2006	210 bps
USD500MN	8.5%	June 2017	290 bps
Euro			
EURO300MN	7.000%	October 2004	124 bps
EURO500MN	6.750%	May 2006	170 bps
EURO500MIN	7.000%	April 2008	235 bps

Spreads are quoted relative to underlying benchmark bonds.

RSA foreign bonds outperform EMBI spreads

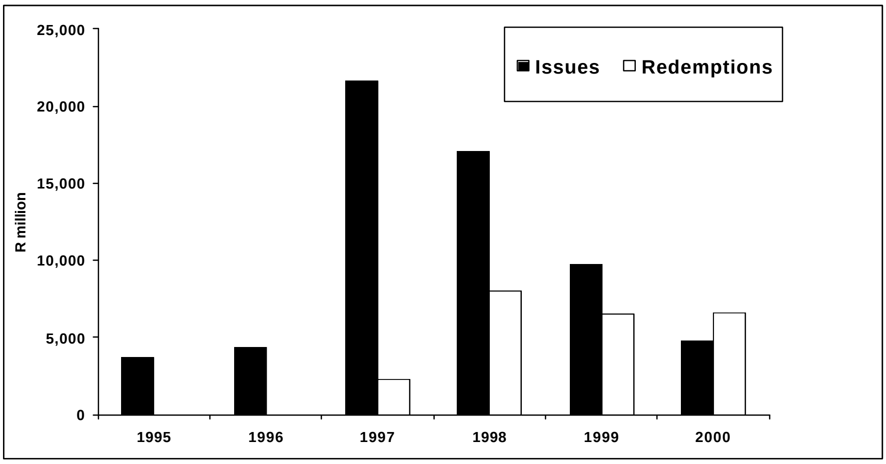
South Africa's main euro bond issues traded between 150 and 300 basis points (bps) above comparable German bunds early last year, while the US$ 2009 global bond was at 330 bps over benchmark US treasuries. At this time, the Emerging Bond Index (EMBI) was trading some 780 bps above US treasuries.

The September 11 events and Argentina's default saw EMBI spreads reaching 1000 bps and RSA spreads widened, but remained well below EMBI levels. In January 2002 South African foreign bonds tightened, to reach the spreads shown in table 5.2 in early February.

Active market in eurorands abroad

Alongside the growing market for South African foreign debt issues, there is an active market in rand-denominated bonds abroad. Figure 5.4 sets out eurorand bond issues and maturing bonds from 1995 to 2000. The eurorand bond market has grown since September 1995 to a current nominal outstanding value of R200,8 billion, with original maturities up to 35 years. During 2001, the nominal value of maturing bonds was R4,5 billion. The demand for rand-denominated bonds issued by highly rated institutions contributes positively to the value of the rand and of South African domestic bonds.

Figure 5.4 Eurorand bond market issues and redemptions, 1995 – 2000



Borrowing requirements

Government's net borrowing requirement is determined by the budget deficit together with extraordinary financing receipts and payments. In addition the redemption of loans on maturity and loans bought back in advance need to be refinanced.

National government borrowing

Table 5.3 sets out Government's net borrowing requirements from 2000/01 to the present financial year, with projections to 2004/05.

Table 5.3 Budget deficit and net borrowing requirement, 2000/01–2004/05

	2000/01	2001/02		2002/03	2003/04	2004/05
R million	Outcome	Budget	Revised	Medium-term estimates		
Budget deficit	18 350	24 880	14 143	22 692	22 523	21 350
Extraordinary receipts[1] (net of book profit)	-2 984	-18 000	-4 721	-12 000	-5 000	-5 000
Extraordinary payments[2]	2 297	571	2 075	1 571	–	–
Net borrowing requirement	**17 664**	**7 451**	**11 496**	**12 263**	**17 523**	**16 350**
Excludes: Book profit	468	–	1 064	–	–	–

1 Premiums and book profit realising from debt restructuring, previously included in revenue, are now reflected under extraordinary receipts. Book profit is regarded as a negative receipt for purposes of analysis as it does not represent an actual cash flow.

2 Premiums paid in debt portfolio restructuring, previously included in state debt cost expenditure, are now reflected under extraordinary payments.

Budget deficit of 2,1 per cent of GDP in 2002/03

The revised estimates of expenditure and revenue for 2001/02 yield a budget deficit of R14,1 billion, increasing to R22,7 billion in 2002/03, or 2,1 per cent of projected GDP.

Extraordinary receipts of R12 billion in 2002/03

Provision was made in the 2001 Budget for extraordinary receipts of R18 billion. Of this, R4,3 billion has been received in a special dividend from Sasria and proceeds from the transfer of Transnet's M-Cell shares. After taking into account premiums and book profits on the restructuring of government's domestic debt portfolio and new loan issues, extraordinary receipts, net of book profit, for 2001/02 came to

R4,7 billion. For the 2002/03 year, extraordinary receipts of R12 billion are anticipated.

Extraordinary payments adding to borrowing

Extraordinary payments, which add to borrowing, includes premiums paid on the restructuring of government's domestic debt portfolio amounting to R2,1 billion in 2001/02 and projected at R1 billion for 2002/03. The R571 million anticipated in the 2001 Budget for winding down the South African Housing Trust will be paid during 2002/03.

Net borrowing requirement of R12,3 billion in 2002/03

After extraordinary receipts and payments, the net borrowing requirement will be R11,5 billion and R12,3 billion in 2001/02 and 2002/03 respectively.

Table 5.4 Loan redemptions, 2000/01–2004/05

	2000/01	2001/02		2002/03	2003/04	2004/05
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
Government bonds	**15 121**	**23 889**	**26 366**	**24 532**	**26 080**	**26 025**
Scheduled	15 118	22 889	22 388	21 532	26 080	26 025
Early redemptions / buy-backs	3	1 000	3 978	3 000	–	–
Former Namibian debt	**5**	**24**	**24**	**50**	**9**	**65**
Former regional authorities	**38**	**12**	**20**	**46**	**43**	**68**
Foreign loans	**2 063**	**56**	**69**	**28**	**3 802**	**26 249**
Principal	1 328	12	22	20	1 601	21 237
Revaluation[1]	735	43	47	8	2 201	5 012
Total loan redemptions	**17 228**	**23 981**	**26 479**	**24 656**	**29 934**	**52 407**
Excludes:						
Book profit[2]	–	–	152	–	–	–
Source bonds in switch auctions	5 453	–	37 022	–	–	–

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. Revaulation estimates for future years are based on Treasury projections of exchange rates.

2 "Book profit" on domestic government bond buy-back transactions is regarded as "negative" loan redemptions for purposes of analysis as it does not represent an actual cash flow.

Table 5.4 sets out loan redemptions from 2000/01 to the present financial year, with projections to 2004/05.

Buy-backs of R4 billion

At the time of the 2001 Budget, it was envisaged that buy-backs of illiquid bonds would amount to R1 billion in 2001/02. In view of the strong fiscal position during the year, bonds amounting to R4 billion were bought back, including R1,7 billion of the R177 bond due to mature in 2007.

Final debt standstill payments of R69 million

Total loan redemptions, including buy-backs, amount to R26,5 billion in 2001/02. Of this amount, R69 million was in respect of the final payments under the Republic of South Africa 1994 Debt Arrangements.

Redemptions of R26,5 billion in 2001/02

Total loans repaid in 2001/02 were R2,5 billion higher than the R24 billion projected at the time of the budget. A breakdown of this increase is provided in Table 5.5.

Redemptions of R24,7 billion in 2002/03

For the 2002/03 year, loan redemptions are projected at R24,7 billion. This includes R3 billion provided for the domestic government bond cash buy-back programme. A foreign loan of R28 million is payable in 2002/03.

Table 5.5 Increase in loan redemptions, 2001/02

	R million
Lower scheduled redemptions for 2001/02 due to buy-backs	-500
Buy-backs of bonds	2 978
Former regional authorities	8
Higher rand value on maturing debt	4
Option executed in terms of the Arms Procurement financing	10
Increase in loan redemptions	**2 500**

Domestic bond switches

Switches in government bonds of R37 billion

Bond repurchases during the 2001/02 switch auction programme amounted to R37 billion. This included R2,3 billion in switches for monetary management purposes, of which R1,3 billion of former nil coupon bonds issued to the Reserve Bank to compensate for realised losses on the Gold and Foreign Exchange Contingency Reserve Account were converted to interest-bearing securities.

During the year to 13 February 2002, source bonds of R34,8 billion were switched to destination bonds of R38,5 billion through the switch auction programme to restructure government's domestic debt portfolio. Details are shown in Table 5.6.

Table 5.6 Switches in government bonds, 2001/02

As at 13 February	Source bond		Destination bond	
R million	Bond	Amount	Bond	Amount
Monetary Management purposes:		**2 266**		**2 427**
	R150 (12.0%; 2004/05/06)	500	R150 (12.0%; 2004/05/06)	488
	R162 (12.5%; 2002)	500	R194 (10.0%; 2007/08/09)	1 939
	R186 (10.5%;2025/26/27)	13		
	Z16 (nil coupon, 2014)	1 253		
Portfolio management purposes:		**34 756**		**38 487**
	R173 (13.75%; 2006)	1 400	R186 (10.5%; 2025/26/27)	765
	R175 (9.0%; 2002)	523	R189 (CPI 6.25%; 2013)	9 434
	R177 (9.5%; 2007)	4 931	R194 (10.0%; 2007/08/09)	28 132
	R178 (9.75%; 2008)	642	R197 (CPI 5.5%; 2023)	156
	R179 (10.0%; 2013)	3 055		
	R180 (13.45%; 2007)	1 400		
	R181 (13.45%; 2008)	1 400		
	R182 (13.55%; 2012)	1 400		
	R183 (13.55%; 2013)	1 300		
	R184 (12.5%; 2006)	18 705		
Total		**37 022**	**Total**	**40 914**
Excludes: Book profit		911	Includes: Discount	1 675

Net financing of R2,2 billion from switch programme

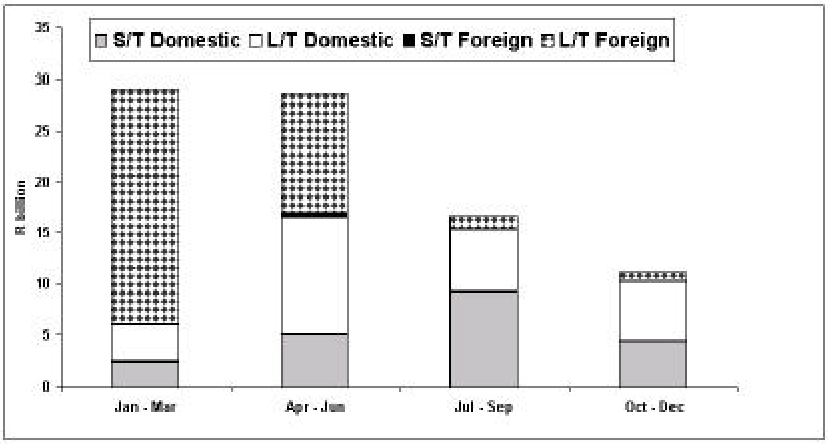
Net financing of R2,2 billion was raised during the 2001/02 switch auction programme. While switch transactions are cash neutral for the market, they result in changes to nominal values in the Government's debt stock. The nominal value of domestic debt increased by R3,9 billion as a result of the 2001/02 switch programme, comprising the R1,7 billion discount paid on destination bonds and financing raised amounting to R2,2 billion.

Consolidated public sector borrowing

Public sector borrowing requirement

To assist with the management and coordination of the borrowing activities of the public sector, the National Treasury compiles a consolidated quarterly gross public sector borrowing requirement for the ensuing 12 month period. Figure 5.5 provides an estimate as of 31 December 2001 of the gross quarterly borrowing requirement for the public sector on a quarterly basis for the 2002 calendar year. 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 5.5 Public sector gross borrowing requirement, 2002



Financing the borrowing requirement

Government's borrowing requirement is financed through domestic short- and long-term loans, foreign loans and the change in cash and other balances. As noted above, the switch programme also contributed to financing in 2001/02.

Domestic Financing

Table 5.7 shows the financing of the net borrowing requirement in 2000/01 and 2001/02, with projections to 2004/05. These estimates and those for previous years are set out in Table 1 of Annexure B.

Opening cash balances and surrenders of R4 billion

At the beginning of 2001/02, the exchequer and tax and loan accounts cash balances amounted to R2,7 billion. Departmental surrenders (net of late requests) of R1,3 billion brought the balances available for 2001/02 to R4 billion.

2001/02 year-end balances of R7 billion

To provide for the government's forecast cash requirements in April 2002, a 2001/02 year-end balance of R7 billion is expected to be carried forward to the new year. End-of-year balances of R4 billion are projected for 2002/03 and 2004/05. To ease the pressure on domestic long-term financing in 2004/05, the closing balance for 2003/04 is projected to be R12 billion.

Table 5.7 Financing of net borrowing requirement, 2000/01–2004/05

R million	2000/01 Outcome	2001/02 Budget	2001/02 Revised	2002/03	2003/04	2004/05
				Medium-term estimates		
Domestic short-term loans (net)	**4 979**	**3 500**	**-7 590**	**4 000**	**6 000**	**6 000**
Domestic long-term loans (net)	**6 406**	**-7 354**	**-11 061**	**-10 960**	**8 959**	**20 593**
Loans issued for financing:	6 464	-7 354	-13 277	-11 460	8 959	20 593
New loans	22 593	16 985	13 457	13 259	35 210	46 751
Discount on issue of new loans	-965	-414	-323	-91	-119	–
Scheduled redemptions	-15 162	-22 925	-22 432	-21 628	-26 132	-26 158
Buy back (net of book profit)	-3	-1 000	-3 978	-3 000	–	–
Loans issued for switches:	-57	–	2 217	500	–	–
New loans	5 564	–	40 914	500	–	–
Discount on issue of new loans	-169	–	-1 675	–	–	–
Loans switched (net of book profit)	-5 453	–	-37 022	–	–	–
Foreign loans (net)	**1 902**	**11 304**	**33 117**	**16 275**	**10 564**	**-18 243**
New loans:						
Market loans	1 988	8 000	29 874	10 770	8 228	2 795
Export credit facilities	1 977	3 360	3 370	5 533	6 139	5 211
Discount on issues of new loans	–	–	-57	–	–	–
Redemptions (including revaluation of loans)	-2 063	-56	-69	-28	-3 802	-26 249
Change in cash and other balances[1]	**4 377**	**–**	**-2 971**	**2 948**	**-8 000**	**8 000**
Opening balance:	8 761	2 000	3 977	6 948	4 000	12 000
Cash balance	7 285	2 000	2 650	6 948	4 000	12 000
Outstanding transfers	-136	–	–	–	–	–
Surrenders/Late requests	1 612	–	1 327	–	–	–
Cash flow adjustment	-1 734	–	–	–	–	–
Closing balance	-2 650	-2 000	-6 948	-4 000	-12 000	-4 000
Total financing (net)	**17 664**	**7 451**	**11 496**	**12 263**	**17 523**	**16 350**

1 A positive change indicates a reduction in cash balances.

Short-term loans decrease by R7,6 billion

Due to excess liquidity towards the end of the year, short-term financing was decreased by R7,6 billion in 2001/02. In 2001/02 treasury bills were issued at an average interest rate of 9,4 per cent (budgeted 10,0 per cent). The volume of treasury bill issues will be increased by R4,0 billion in 2002/03 and by R6 billion over 2003/04 and 2004/05.

Table 5.8 Short-term loans outstanding, 2000/01–2004/05

As at 31 March R million	2001	2002 Estimate	2003	2004	2005
			Medium-term estimates		
Treasury bills:	**26 980**	**19 390**	**23 323**	**29 323**	**35 323**
Shorter than 91 days[1]	1 480	1 480	1 413	1 413	1 413
91 day	20 300	13 000	17 000	23 000	29 000
182 day	5 200	4 910	4 910	4 910	4 910
Other[2]	**10**	**10**	**10**	**10**	**10**
Total	**26 990**	**19 400**	**23 333**	**29 333**	**35 333**

1 Mainly 1 day bills issued to the Corporation for Public Deposits.

2 Loan levies and former Bophuthatswana bonds.

Domestic bonds decreased by R11,1 billion in 2001/02

Domestic long-term debt of R11,1 billion was repaid in 2001/02, which is R3,7 billion more than budgeted. Redemptions and buy-backs exceeded new loan issues for financing purposes by R13,3 billion, and R2,2 billion was raised through the switch auction programme.

New domestic bonds with a total nominal value of R13,5 billion were issued for financing purposes up to 13 February 2002. New issues carried an average coupon rate of 10,5 per cent and an average yield of 11,0 per cent (budgeted 11,8 and 11,6 per cent respectively), excluding CPI-linked bonds. Details are set out in Table 5.9.

CPI-linked bonds of R5 billion issued

Of the new domestic bonds issued for financing purposes, 37,4 per cent were CPI-linked bonds. The new R194 fixed interest bond made up 39,4 per cent of new issues for financing purposes and medium-term bonds comprised 51,3 per cent.

Table 5.9 Government bonds issued for financing, 2001/02

As at 13 February 2002

R million	Nominal value	Cash value	Discount	Average yield (%)
Medium-term:	**6 904**	**6 622**	**282**	
R150 (12,0%; 2004/05/06)	1 035	1 033	2	*11.31*
R153 (13,0%; 2009/10/11)	564	564	–	*10.73*
R194 (10,0%; 2007/08/09)	5 305	5 025	280	*11.14*
Long-term:	**6 349**	**6 308**	**41**	
R186 (10,5%; 2025/26/27)	1 317	1 293	24	*10.49*
R189 (CPI 6.25%;2013)	3 264	3 247	17	*5.37*
R197 (CPI, 5,5%; 2023)	1 768	1 768	–	*5.26*
Amortised interest on zero coupon bonds[1]	**204**	**204**	–	
Total domestic bonds issued	**13 457**	**13 134**	**323**	

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.

Additional take-up of domestic bonds by primary dealers

Primary dealers are permitted to take up a further 15 per cent of their allotted amounts in any auction, on a non-competitive basis, within 24 hours of the close of the auction. About 6,3 per cent or R454,2 million of the total bond issues for 2001/02 was taken up by primary dealers.

Foreign financing

Foreign loan issues of R33,2 billion

At the time of the 2001 Budget, foreign borrowing in 2001/02 of R11,3 billion (US$ 1,4 billion) was anticipated, including drawdowns of US$ 400 million on the arms procurement loan facilities.

Taking advantage of current market opportunities and in order to contribute to the reduction in the Reserve Bank’s net open forward position, Government raised R33,2 billion in foreign loans in 2001/02. Details are set out in Table 5.10.

New Eurobond issue

In April 2001, the Government issued a new (7,0%; 2008) Eurobond. It was supported by a wide range of investors and was 1,2 times oversubscribed. Launched at a spread of 272 bps over equivalent German bonds, despite volatile market conditions, it confirmed South Africa’s favourable credit standing among 57 emerging market borrowers.

RSA awarded IFR deal of the year

In May 2001, a 20-year 30 billion Yen Japanese private placement was made at a coupon of 3,8 per cent and the spread was 250 bps over yen-Libor. Positive investor sentiment and the significant tightening of the domestic market made it possible to launch a 6-year Yen 60 billion loan in July 2001 at a yield of 2,0 per cent, 141 bps above Yen-Libor and 149 bps above Japanese government bonds. This deal won the International Finance Review deal of the year award.

Foreign loans to eliminate NOFP

Among the measures to eliminate the NOFP within a short-term period, a three-year syndicated loan of US$1,5 billion was drawn down. In addition US$250 million of the 2009 global bond was re-opened through a private placement in January 2002 bringing the NOFP to just below US$3 billion on 31 January 2002.

Table 5.10 Foreign loan issues, 2001/02

As at 13 February 2002 R million	Amount
Market sales:	**29 846**
7.0% Euro 500mil Notes 2020	3 616
3.8% Notes Japanese 30 bil Yen Bond issue	1 993
2.0% Notes Japanese 60 bil Yen Bond issue	3 942
9.125% US$ 250 mil Notes 2009	2 838
US$ 1 500mil Dual Currency Term Syndicated Loan 2004	17 457
Concessionary: IBRD World Bank Loan	**28**
Export credit (Arms procurement programme):	**3 370**
AKA-Commerzbank (Submarines)	777
AKA-Commerzbank (Corvette)	953
Societe Generale (Corvette)	274
Mediocredito Centrale (Light Utility Helicopters)	246
Barclays (Hawk, Gripen)	1 120
Total foreign loan issues	**33 244**
Includes: Discount	57

US$300 million drawn on arms procurement credit facilities

Export credits amounting to R3,4 billion, equivalent to about US$300 million, were drawn on the arms procurement financing agreements for the current fiscal year. These loans provide finance at rates equivalent to about 260 bps below the cost of long-dated funding in the foreign public bond markets.

Financing proposals – 2002/03

Domestic long-term debt will again be repaid in 2002/03. The net borrowing requirement of R12,3 billion in 2002/03 will be financed by an increase in short-term loans of R4 billion, R16,3 billion in net foreign loan issues and a projected change in cash balances of R3 billion, providing for a net repayment of R11 billion in domestic bonds. Financing proposals for 2002/03 to 2004/05 are summarised in table 5.7 above.

Domestic loans

Bond issues to concentrate on benchmark bonds

Only the benchmark fixed-interest bonds will be issued in the 2002/03 fiscal year:

- R150 (12,0%; 2004/05/06)
- R194 (10,0%; 2007/08/09)
- R153 (13,0%; 2009/10/11)
- R157 (13,5%; 2014/15/16)
- R186 (10,5%; 2025/26/27).

New 2007 floating rate bond

Since the R193 (floating rate bond) matures on 30 March 2003, there is a need to introduce a new floating rate bond in the 2007 maturity area.

New 2008 inflation-linked bond

Currently there are two inflation-linked bonds in the portfolio – the R189, issued at a real yield of 6,25% and maturing in 2013, and the R197 (5,5%; 2023). To develop a full yield curve and to ensure that investors are able to hedge their positions against inflation at the short to medium area of the curve, a new inflation-linked bond will be introduced in the 2008 maturity area.

Switch auctions to continue

The switch auction programme in government bonds will continue to consolidate illiquid bonds into liquid benchmark bonds and possibly contribute to smoothing future large bond repayments.

Buy-backs of R3 billion bonds across the yield curve are anticipated.

The volume of 91 day treasury bills will be increased by R4 billion.

From April 2002 the current multi-price primary bond auction will be replaced by a single price (Dutch auction) approach.

Foreign loans

Foreign issues of US$ 1 billion

About US$1 billion equivalent will be borrowed in the foreign markets in the year ahead. The following broad objectives inform the foreign borrowing programme:

- Establishing liquid benchmarks in major currency markets
- Maintaining a balanced portfolio of foreign currency denominated debt
- Broadening and improving the quality of the Republic of South Africa's foreign investor base
- Borrowing at the most cost effective rates, and
- Contributing to the elimination of the Reserve Bank's net open forward position.

R5,5 billion to be drawn on export credit facilities

The expected disbursements in 2002/03 on arms procurement credit facilities amount to R5,5 billion, mainly in April 2002.

Drawdowns on concessionary loans

Government is also able to take advantage of concessionary loans for identified projects from time to time. A new small World Bank loan is expected to be raised in the next fiscal year to contribute to enhancing municipal financial management and capacity building.

State debt cost

State debt cost declines to 4,1% of GDP

Interest payments on foreign and domestic debt and costs associated with loan issues continue to fall as a share of government expenditure, and are projected to be 4,1 per cent of GDP in 2004/05. Details are set out in table 5.11.

Annual savings of R700 million through debt portfolio restructuring

The restructuring of government's debt portfolio by switching and buying back R37 billion of illiquid and high coupon bonds in 2001/02 contributed annual savings of R700 million to interest cost. Continued debt restructuring in 2002/03 will further reduce future interest costs.

R623 million savings in debt cost for 2001/02

In keeping with current government accounting practices, debt costs on a cash basis amounted to R47,5 billion in 2001/02, or R623 million lower than budgeted, mainly as a result of savings in domestic debt costs, partly offset by the higher net borrowing requirement for the year and increased foreign interest payments.

Debt cost of R47,5 billion for 2002/03

For 2002/03, the cost of servicing state debt is again expected to amount to R47,5 billion, or 4,4 per cent of GDP. This takes into account:

- A national budget deficit of R22,7 billion and the financing requirement set out in table 5.7
- Scheduled domestic and foreign loan redemptions of R21,7 billion
- Cash buy-backs of domestic bonds of R3 billion
- Exchange rate depreciation in line with inflation differentials
- An average coupon rate of 11,5 per cent on domestic bond issues
- Average capital market yields of 11,4 per cent, and
- Average short-term interest rates of 9,7 per cent.

Table 5.11 Projected state debt costs, 2000/01–2004/05

	2000/01	2001/02		2002/03	2003/04	2004/05
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
Interest:	46 272	48 086	47 248	47 180	49 505	52 099
Domestic debt	44 096	45 053	44 267	41 316	42 704	44 966
Foreign debt	2 175	3 033	2 981	5 864	6 801	7 133
Management costs	46	2	213	273	290	285
Cost of raising loans	4	50	54	50	50	50
Total state debt costs	**46 321**	**48 138**	**47 515**	**47 503**	**49 845**	**52 434**
Percentage of GDP	*5.1%*	*4.9%*	*4.8%*	*4.4%*	*4.2%*	*4.1%*
Excludes:						
Revaluation of maturing foreign loans [1]	735	43	47	8	2 201	5 012
Premiums paid on debt restructuring [2]	16	–	2 075	1 000	–	–
Discount on government bonds:	1 133	414	2 055	91	119	–
Financing issues	965	414	380	91	119	–
Destination bonds in switches	168	–	1 675	–	–	–

1 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.

2 State debt costs exclude premiums paid on source bonds in switch auctions, which are now shown as extraordinary payments.

Discount on bonds R2,1 billion in 2001/02

Since government bonds pay coupons at interest rates that may diverge from market yields, bonds may be issued at a premium or discount to their face value. In 2001/02, the discount on bonds issued for financing purposes was R380 million. A net discount of R91 million is anticipated for 2002/03. Destination bonds in the 2001/02 switch auction programme were issued at a discount of R1,7 billion.

Discount on bonds accounted for on an accrual basis

Current government accounting practice is to record interest expenditure on a cash basis and the discount is written to debt at the time of issue. For comparative purposes, however, an accrual-based accounting for state debt and debt costs since 1991/92 is set out in table 5.12, in line with 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, a higher deficit and a lower aggregate measure of government debt.

Table 5.12 State debt cost and total debt on an accrual basis, 1991/92–2001/02

	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	30.3	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	48,1	42,0
1997/98	3 411	0.5	47,4	41,3
1998/99	3 589	0.5	47,5	41,3
1999/00	3 797	0.5	45,6	40,0
2000/01	4 056	0.4	43,6	38,6
2001/02	5 036	0.5	42.9	38,8

Amortisation of the discount would add R5 billion to expenditure in 2001/02, or 0,5 per cent of GDP. The adjusted aggregate of total net loan debt amounts to 38,8 per cent of GDP at the end of March 2002.

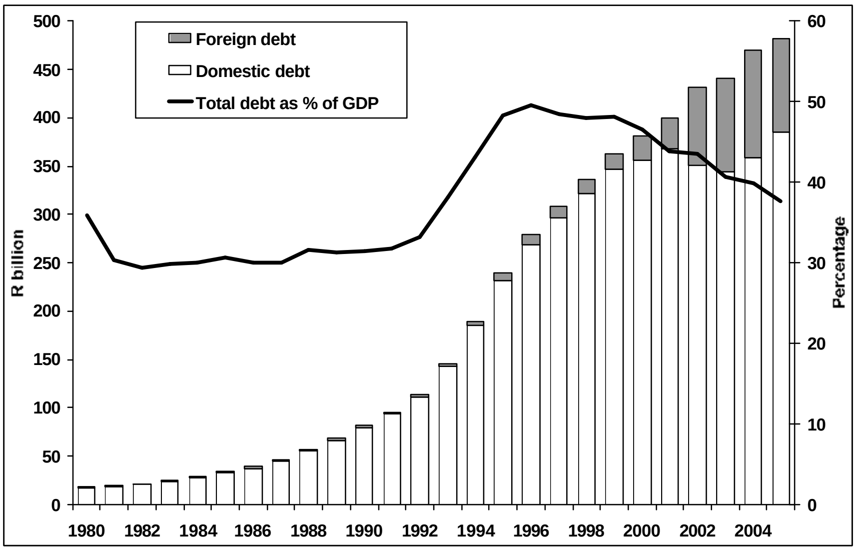
Government debt portfolio

Total government debt

Figure 5.6 sets out total nominal government debt since 1980 and projections to 2005. In addition to increases associated with financing the annual net borrowing requirement of the fiscus, government debt has risen since 1994/95 by R36,9 billion to accommodate obligations of the former regional authorities and other public entities.

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 expected to amount to R425,1 billion at the end of 2001/02.

Figure 5.6 Government debt, 1980–2005



Decline in net loan debt as per cent of GDP

The increase in net loan debt of R28,3 billion since the end of the previous year is explained in table 5.13.

Further decline in debt to GDP ratio

As a percentage of GDP, net loan debt declines to a projected 43,0 per cent on 31 March 2002, from 48,2 per cent at the end of 1996/97. Based on current projections of the financing requirement, interest rates and exchange rates, total net loan debt is expected to decline further to 37,4 per cent over the next three years.

Table 5.13 Increase in government debt, 2001/02

	R million
Financing of net borrowing requirement (net of change in cash balances)	14 467
Discount on new loans	2 055
Revaluation of foreign loan portfolio	16 034
Increase in gross loan debt	**32 556**
Change in cash balances (decrease +)	-4 298
Increase in net loan debt	**28 258**

The composition of government debt since 1998 is summarised in table 5.14. Table 7 of Annexure B sets out details since 1978.

Forward cover losses of R27,6 billion

The total debt of government includes the balance on the Gold and Foreign Exchange Contingency Reserve Account maintained by the Reserve Bank. Over the past year losses made on forward foreign exchange contracts have brought the projected end-of-year balance on this account to R27,6 billion, an increase of R9,4 billion since 31 March 2001. This brings projected total net debt to R452,7 billion on 31 March 2002.

Table 5.14 Total government debt, 1998–2005

As at 31 March R billion	1998	1999	2000	2001	2002 Estimate	2003	2004 Medium-term estimates	2005
Marketable domestic debt	318.8	344.9	354.7	365.1	348.7	341.9	357.0	383.7
Non-marketable domestic debt	2.8	2.0	1.0	2.4	2.3	2.2	2.1	2.0
Total domestic debt	321.6	347.0	355.7	367.5	350.9	344.1	359.1	385.7
Total foreign debt[1]	14.6	16.3	25.8	32.0	81.1	96.6	110.7	96.1
Total gross loan debt	**336.1**	**363.2**	**381.5**	**399.5**	**432.0**	**440.6**	**469.8**	**481.9**
Percentage of GDP	*48.0%*	*48.2%*	*46.5%*	*43.9%*	*43.6%*	*40.7%*	*39.9%*	*37.7%*
Less: National Revenue Fund balance	-4.8	-5.2	-7.3	-2.7	-7.0	-4.0	-12.0	-4.0
Total net loan debt[2]	**331.3**	**358.1**	**374.2**	**396.8**	**425.1**	**436.6**	**457.8**	**477.9**
Percentage of GDP	*47.4%*	*47.5%*	*45.6%*	*43.6%*	*42.9%*	*40.3%*	*38.8%*	*37.4%*

1 Forward estimates are based on Treasury projections of exchange rates.
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).

Debt maturity

Reduced maturity and duration of debt

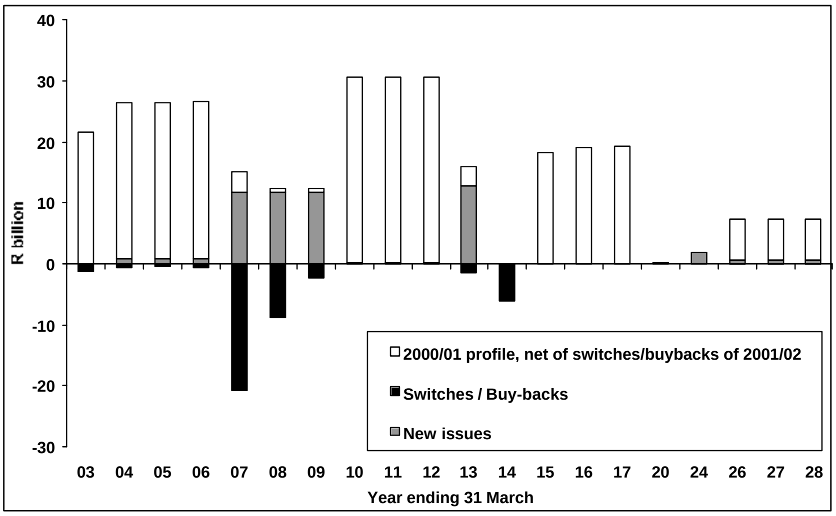
The average maturity of the domestic marketable bond portfolio has decreased from 9,0 years in 1999/00 to 8,6 years in 2001/02, while the weighted average term (duration) of interest and redemption cash flows has decreased from 5,0 years to 4,8 years. Table 5.15 provides details.

Table 5.15 Average maturity / duration of domestic marketable bonds

As at 31 March Percentage of total	2000	2001	2002
0 – 3 years	16.3	13.7	14.6
3 – 7 years	28.7	33.0	25.8
7 – 10 years	4.1	18.8	31.7
10 – 19 years	46.6	28.8	20.4
Longer than 19 years	4.3	5.7	7.5
Years			
Average duration	5.0	4.7	4.8
Average maturity	9.0	8.8	8.6

Figure 5.7 shows the domestic bond portfolio as at 13 February 2002, the volume and maturities where new bonds were added during 2001/02 and the buy-backs and switches for the year.

Figure 5.7 Restructured maturity profile of domestic marketable debt, 13 February 2002



Composition and ownership of domestic debt

Fixed-interest debt is 88 per cent of total

Table 5.18 sets out the composition of domestic debt since 1998. On 31 March 2002 fixed-interest bonds are expected to comprise 87,6 per cent of total domestic debt, while treasury bills should account for 5,1 per cent and index-linked securities 4,0 per cent.

Table 5.16 Composition of domestic debt, 1997/98–2001/02

As at 31 March	1998	1999	2000	2001	2002
R billion					Estimate
Government bonds:	**301.4**	**325.9**	**332.7**	**339.6**	**330.7**
Fixed-interest	286.2	311.0	324.1	325.6	307.3
Floating	5.2	4.9	1.3	5.8	5.8
Zero coupon	10.0	10.0	6.8	4.8	3.5
Index linked	–	–	0.5	3.4	14.1
Treasury bills	**18.8**	**20.1**	**22.0**	**27.0**	**19.4**
Namibian loans	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
Other[1]	**0.6**	**0.2**	**0.4**	**0.3**	**0.3**
Total	**321.5**	**346.9**	**355.7**	**367.5**	**351.0**

1 Loan levies and former regional authorities debt.

Ownership distribution of domestic debt

The ownership distribution of government bonds illustrated in table 5.17 is based on provisional figures for bonds held by the Central Depository only.

Table 5.17 Ownership distribution of domestic bonds

As at 30 November 2001	% of total
Nominee companies	1,2
Government enterprises and public sector	1,3
Pension funds	6,0
Insurers	10,0
Private	1,1
Monetary authorities/institutions	13,5
Foreign	7,7
Other financial institutions	26,9
Public Investment Commissioners	32,3

Source: Central Depository

Composition of foreign debt

Table 5.18 shows a currency breakdown of foreign loan debt obligations as of 31 March, for 1998 to 2002, and South Africa's foreign debt maturity profile is illustrated in figure 5.8.

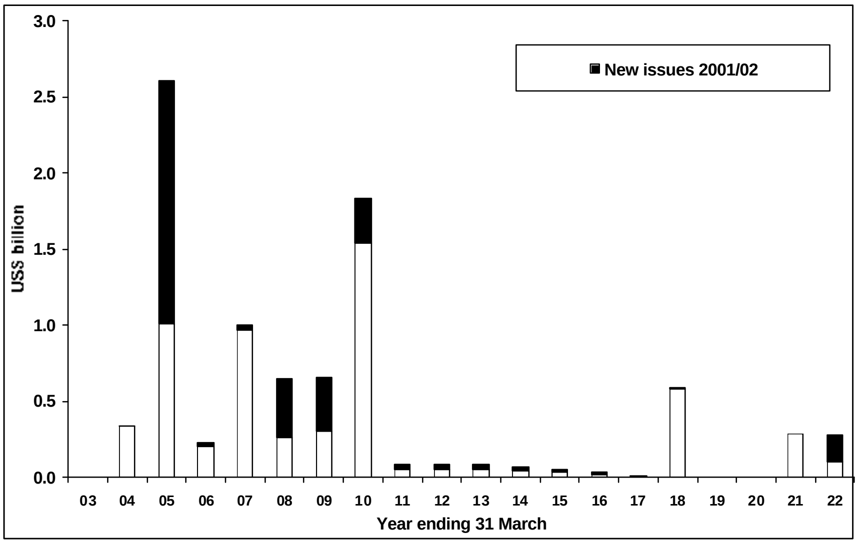
Foreign debt has increased from 8,0 per cent of net loan debt at the end of March 2001 to a projected 18,8 per cent at the end of March 2002.

Foreign debt increase to 18,8 per cent of net loan debt

Table 5.18 Composition of foreign government debt, 1997/98–2001/02

As at 31 March Percentage of total	1998	1999	2000	2001	2002 Estimate
United States dollar	49.0	60.4	41.5	53.4	43.5
ECU/Euro	0.6	–	24.5	23.0	33.5
Deutschemark	11.2	10.5	7.8	5.7	3.4
British pound	6.4	6.1	5.1	3.6	2.2
Japanese yen	22.2	23.0	21.0	14.4	16.8
Special Drawing Rights	10.5	–	–	–	–
XAU	–	–	–	–	0.3
Swedish Krone	–	–	–	–	0.3

Figure 5.8 Maturity profile of foreign government debt

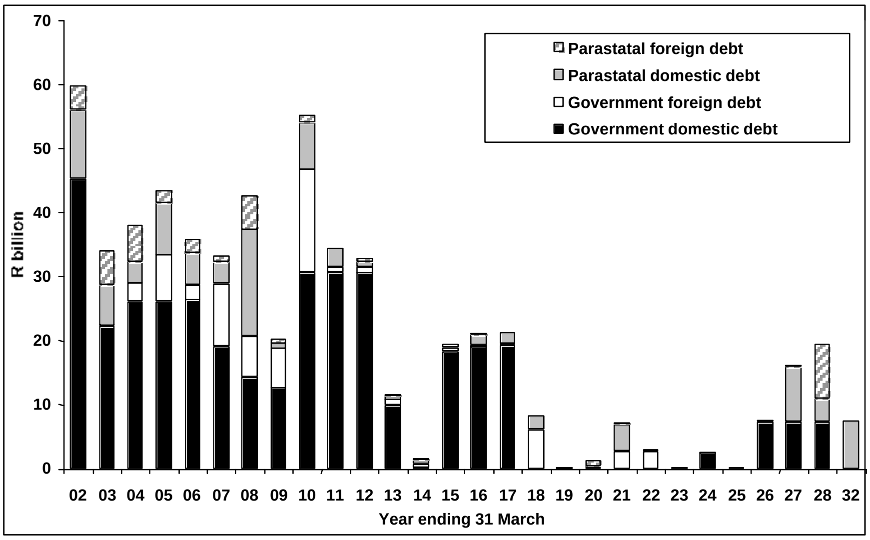


Consolidated public sector debt

Consolidated debt maturity profile

The National Treasury compiles a consolidated 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 2001 is illustrated in figure 5.9.

Figure 5.9 Consolidated maturity profile of domestic and foreign national government and parastatal debt, 31 December 2001



Municipality debt

Private lending to municipalities remained at R11 – R12 billion

Long-term private lending to municipalities has remained between R11 billion and R12 billion for the past four years. However, debt owed to public sector institutions, including the Development Bank of Southern Africa (DBSA), has grown from R5,6 billion to R8,1 billion.

Total municipal debt of R19 billion

Total outstanding long-term municipal debt is about R19 billion and has been relatively stable over the past years, though it decreased slightly in the run up to the December 2000 municipal elections.

Financial Statements

A Statement of Liabilities and Financially Related Assets of the national government is compiled annually by the National Treasury. It includes information on off balance sheet items, including accrued unfunded commitments and other contingent liabilities. The statement as at 31 March 2001 (unaudited) appears in table 5.19.

Contingent liabilities

Contingent liabilities

Contingent liabilities amounted to R110,9 billion on 31 March 2001. These include:

- Actuarially determined liabilities for post-retirement medical assistance, which amounted to R14,3 billion on 28 February 1999

- An actuarial liability with respect to government pension funds, amounting to R7,3 billion
- Underfunding of future claims against the Road Accident Fund to the value of R14,9 billion, and
- Guarantees to various institutions amounting to R70,3 billion in total, including R0,9 billion in respect of the guaranteed liabilities of the former TBVC-states and self-governing territories.

Details of Government's guarantee commitments as of 31 March 2001 are set out in table 8 of annexure B.

Table 5.19 Statement of liabilities and financially related assets

As at 31 March:	1997	1998	1999	2000	2001
R billion				Unaudited	Unaudited
Liabilities					
Long-term liabilities					
Bonds, debentures and loans	273.7	298.3	323.9	339.8	351.0
Domestic	*262.2*	*285.4*	*312.3*	*315.9*	*319.1*
Foreign	*11.5*	*12.9*	*11.6*	*23.9*	*31.9*
Closed pension fund	0.3	0.2	0.2	–	–
	274.0	**298.5**	**324.1**	**339.8**	**351.0**
Other liabilities					
Provisions	14.3	14.5	19.6	22.2	42.1
Short-term liabilities	34.8	34.7	36.8	39.3	50.5
Bonds, debentures and loans	*33.1*	*34.9*	*36.7*	*39.0*	*49.9*
Domestic	*33.0*	*33.4*	*32.1*	*37.1*	*49.8*
Foreign	*0.1*	*1.5*	*4.6*	*1.9*	*0.1*
Creditors	*1.7*	*-0.2*	*0.1*	*0.3*	*0.6*
	49.1	**49.2**	**56.4**	**61.5**	**92.6**
Total liabilities	**323.1**	**347.7**	**380.5**	**401.3**	**443.6**
Financially related assets					
Investments	103.3	108.2	116.2	117.3	118.7
Loans	1.2	1.6	1.1	1.0	1.1
Debtors	11.6	15.2	36.1	42.8	–
Balances on hand	2.8	4.8	5.2	7.3	2.7
Total	**118.9**	**129.8**	**158.6**	**168.4**	**122.5**
Off balance sheet items					
Capital commitments	3.9	3.9	5.1	7.3	10.2
Contingent liabilities	138.7	144.6	117.5	116.4	110.9
Total	**142.6**	**148.5**	**122.6**	**123.7**	**121.1**

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 was just below US$3 billion at the end of January 2002. 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 of R20,6 billion in 2001/02

The granting of borrowing powers to general government bodies and the issuing of guarantees is managed within approved guidelines. In 2001/02, guarantees of R20,6 billion were largely restricted to concessionary loans to public enterprises, project finance for infrastructure development and, in exceptional cases, facilities in support of public enterprise restructuring.

Average maturity of guarantees issued is ten years

The average maturity of loans for which government guarantees were issued in 2001/02 was ten years.

Guarantee fees currently amount to 2,5 per cent on the nominal value of each loan. It is estimated that R33,2 million will be received in 2001/02.

Cash management

All national government receipts (taxes, privatisation proceeds, departmental revenue, loan issues) are paid into the National Revenue Fund. Departments draw on this fund for expenditure on state services, interest payments and the repayment of debt. All surplus cash is deposited daily in the tax and loan accounts at the four major banks.

It is the responsibility of National Treasury to maintain adequate liquidity in the National Revenue Fund and to actively manage liquidity risks associated, for example, with the need to refinance maturing debt and the uneven timing of cash flows.

Improved cash flow management

With the cooperation of government departments, the treasury can now project daily cash flows with a greater degree of accuracy. Coordination of surplus cash management with provinces, enhancements to daily projections and improvements to other aspects of cash management will contribute to further reduce borrowing costs.

Investment of surplus cash

Interest earned on surplus cash invested at the four major banks since 1996/97 is set out in table 5.20.

Table 5.20 Interest on tax and loan accounts, 1996/97–2001/02

R million	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02 Estimate
Interest	943	452	750	499	510	750

Monthly peaks in cash flows

Cash flow requirements in 2001/02 and projections for 2002/03 are illustrated in figure 5.10. Peaks arise from seasonally high expenditure during April, interest payments in August and February, and the repayment of R22,2 billion in respect of the R162 bond in January 2002. The repayment of the R175 bond of R14,5 billion in October 2002 and R193 floating rate bond of R5,8 billion in March 2003 will result in further cash flow peaks.

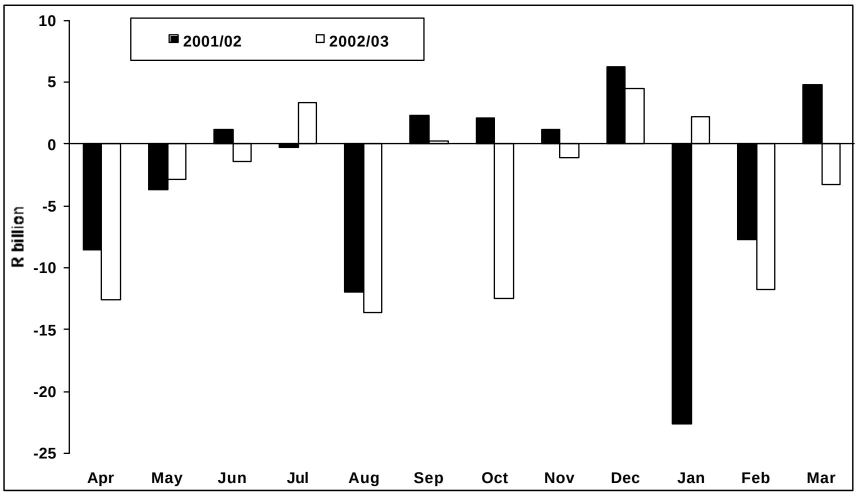
Higher cash balance

Strong revenue performance, proceeds from the M-Cell transaction and a US$250 million loan resulted in higher than anticipated cash balances towards the end of 2001/02. As a result:

- The volume of treasury bills was reduced by R7,6 billion against a budgeted net increase of R3,5 billion
- No further domestic long-term funding will be required during the last quarter of 2001/02
- The cash buy-back of illiquid bonds was increased by R2,7 billion
- The end-of-year closing balance will be R7 billion.

National Treasury will continue to use treasury bills primarily as an instrument to smooth out cash flow peaks.

Figure 5.10 Monthly gross surplus/deficit before borrowing, 2001/02– 2002/03



Public enterprise restructuring and corporate governance

Restructuring of state assets

Enhancing economic growth, employment and black economic empowerment

The restructuring of state assets is coordinated 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 a National Framework Agreement with unions. The objectives of the restructuring of state owned assets include increased efficiency, enhanced service delivery, mobilisation of private sector capital, economic growth and employment, black economic empowerment and human resources development.

The proceeds realised since 1997 amount to R27,5 billion of which R16,7 billion was paid to the National Revenue Fund. Table 5.21 contains details.

Telkom

Telkom IPO expected in 2002/03

Government has endorsed an initial public offering (IPO) of Telkom shares. The listing of Telkom is now expected to proceed this year, following finalisation of the regulatory environment and taking into account market conditions.

Table 5.21 Proceeds from the restructuring of state enterprises

	Date of transaction	Stake sold	Total proceeds	Proceeds paid to exchequer
		(%)	R million	R million
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
	April 2001	Special restructuring dividend	3 200	2 200
MTN	June 2000	6	2 400	2 000
Transwerk Perway	September 2000	65	19	–
SAFCOL				
Kwazulu Natal	October 2000	75	100	75
Eastern Cape North	October 2000	75	45	–
Telkom: Ucingo	March 2000	–	690	–
MCell	January 2002	20	5 300	2 000
Total			**27 487**	**16 717**

M Cell

Transnet has transferred its 20 per cent stake in M Cell to a passive foreign holding company for a consideration of R5,3 billion. Government and Transnet retain the right to choose a strategic buyer and the timing of the final sale. R2,0 billion wil be paid to the fiscus.

Transnet

Review of options for Transnet core entities

Structural options and restructuring strategies for Portnet, Petronet and Spoornet are currently being discussed, with due regard to the role of these entities in the broader transport sector. Discussions are currently taking place with a view to corporatising Spoornet's various business units, with General Freight Business and Coal Link remaining integrated. Flexibility will be retained in the options for Orex.

A new ports policy and regulatory framework has been finalised.

Portnet has been corporatised to form a port authority entity and a port operations entity. The port operations will be concessioned. Petronet will be incorporated and an assessment of synergies with other pipeline projects (such as gas pipelines) undertaken.

Sale of Transnet's non-core enterprises approved

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 under way. Transwerk has been separated into four entities – Transwerk Rollstock, Transwerk Traction, Transwerk Foundries and Transwerk Perway.

South African Airways

Transnet to buy back Swissair stake in SAA

With the problems facing the aviation industry after September 11, SAA's strategic equity partner was faced with solvency problems and as a result, Transnet is considering repurchasing the 20 per cent stake sold to Swissair in 1999. Negotiations are still under way. Government has agreed to the disposal of a further 10 per cent equity stake to economic empowerment groups, the National Empowerment Fund and employees.

Denel

Arms industry restructuring, sale of non-core business has commenced

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. Negotiations with preferred strategic partners are at an advanced stage. 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) was transferred to the CSIR.

Eskom

Restructuring into three separate entities

The Eskom Amendment Act of 1998 constituted an important step in the restructuring of Eskom. It 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 been granted for the merging of the coal operations of Eskom and Anker Coal into a joint venture company, Usuthu Coal.

Sasria

Sasria special dividend of R10 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. Based on the actuarial report, special restructuring dividends of R7,1 billion in 2000 and R3,2 billion in 2001 have been declared from the excess reserves and applied to reduce public debt.

Safcol

Forestry restructuring

Government sold a 75 per cent share in Safcol and Department of Water Affairs' forests in Kwazulu-Natal and Eastern Cape North for R100 million and R45 million, respectively. 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.

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.

Alexcor

An Act to restructure Alexcor passed by Parliament

Nabera's contract to provide strategic management to Alexcor ended in June 2001. Currently Mintek is managing the mine on behalf of government until a strategic equity partner is appointed. The Alexcor Limited Amendment Act, which seeks to empower the Minister of Public Enterprises to restructure Alexcor, has been enacted by Parliament. The objective of restructuring Alexcor is to overcome its financial difficulties introducing a strategic equity partner and then to seek a listing on the JSE Securities Exchange.

Corporate governance and financial management

Corporate governance protocols being updated

The corporate governance protocol established in 1996 is being updated in line with the King II Report on Corporate Governance in South Africa. It provides a framework for financial performance, including tax and dividend policies, and a code of corporate practice and conduct.

Public Finance Management Act

The Public Finance Management Act (PFMA) and Regulations for Public Entities now strengthen the framework for financial management and corporate governance principles. Since the enactment of the PFMA, 338 public entities have been listed. Treasury Regulations make it compulsory for state owned enterprises to conclude shareholder's compacts. These will set out performance benchmarks as agreed by the public entity and the responsible Minister.

Dividend receipts of R472 million in 2001/02

In 2000/01 Government received dividend payments of R344 million and in 2001/02 R472 million (excluding Sasria). The fact that Telkom did not declare a dividend for 2000/01 and 2001/02 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 made and the Central Energy Fund (CEF), Sasria and Eskom have become liable for tax and dividend payments. Negotiations are currently being conducted with the Development Bank of Southern Africa to normalise its tax and dividend position, while protecting its capital base as a development financial institution.