

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 1259 [NW1455E]

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Mr Lekota (Cope) to ask the Minister of Finance:

Whether the National Treasury conducted an analysis of the reasons for three of National Treasury's inflation-linked bonds failing to receive adequate bids for the R800 million issue of paper for two consecutive weeks in May 2012; if not, why not; if so, what are the relevant details? a) Was there a recent comparable precedent for lacklustre demand? b) Was the market seeking a higher price and better guarantees? c) Was the prospect for incurring further debt at historic rates to support government spending becoming uncertain? d) Was local and international interest for government bonds tracking previous peaks or falling off in a noticeable manner?

NW1455E

REPLY:

Yes, weekly funding meetings are held to monitor and analyze the funding progress of both the government and state owned companies. In addition, market developments that could potentially derail the funding programme of government are discussed.

a) Yes, the demand for inflation linked bonds tends to be irregular at times. In the 2011/12 fiscal year, the National Treasury failed to receive adequate bids in three auctions. The first failed auction was in April 2011 and the other two were in September 2011. The worst auction was in September 2011 where R95 million of bids were received against an auction amount of R600 million.

In 2010/11 the National Treasury failed to allocate the full issue amount in thirteen auctions. Seven auctions out of thirteen received lesser bids than the issue amount. In the six auctions, the National Treasury decided to allocate lesser amounts than the issue amount, although the bids received were adequate. The reason being that the bidding prices were much higher than the prevailing market prices.

It should be noted that the auction held on the 18th of May 2012 received bids amounting to R1 585 million more than the auction amount of R800 million. This is an indication that the demand for inflation linked bonds is still strong.

- b) No.
- c) No, the fiscal framework remains on a sustainable path as presented in the Budget Review.
- d) Notwithstanding recent political developments in Europe, non-residents' interest in South African government bonds remains strong. Year-to-date non-residents have purchased R36 billion of government bonds.

Month-to-date they have purchased R14 billion of domestic government bonds. The ownership of domestic government bonds by non-residents more than doubled since 2007 to a record high of 31 per cent of total domestic government bonds. This foreign interest is a sign of investor confidence in the South African government's ability to service its debt.

Local investors continue to buy domestic government bonds.