

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 1349 [NW1637E]
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1349. Mr N F Shivambu (EFF) to ask the Minister of Finance:

What (a) is the full list of financial institutions that have issued (i) long-term loans, such as bonds and (ii) short-term loans, such as Treasury bills to the Government and (b) are the (i) names of (aa) the market participants and (bb) their clients, (ii) interest rates, (iii) term(s) of each loan and (iv) total amounts borrowed in each case?

NW1637E

REPLY

Treasury Bills (t-bills) are held by every commercial bank in the country that holds a banking license since they form part of the High-Quality Liquid Assets (HQLA) which are required by the Prudential Authority. These assets allow banks to meet their short-term liquidity requirements and can be used as collateral for central bank operations, as well as benchmarking for pricing financial assets. The same banks may hold both t-bills and bonds on behalf of clients in their stockbroking or wealth management units in both discretionary, non-discretionary and segregated income portfolios. For the latter reason, it would be near impossible for the National Treasury (NT) to determine what rate investors bought the bonds at and who the clients are.

Long term loans are bought by the nine primary dealers in the primary market on behalf of insurers, asset managers and hedge funds on a weekly basis. Furthermore, these bonds are then traded in the secondary market where they are bought and sold by different entities. The nine primary dealers are:

1. ABSA
2. HSBC
3. NEDBANK
4. CITIBANK
5. STANDARD BANK
6. INVESTEC BANK
7. DEUTSCHE BANK
8. RMB
9. JP MORGAN

To qualify as a primary dealer, applying banks are required to comply with capital adequacy requirements per the banks act as well as additional NT requirements. These banks would buy these bonds at different rates on a weekly basis and distribute these bonds for a turn in the secondary markets both on exchange and over the

counter which also impacts the rates at which the bonds trade. The interest rates and amounts at which the bonds are auctioned in the primary market are available on the NT website on a weekly basis however, the amount that each bank buys in the auction is not public information since this information is sensitive for the ongoing auction process. There are no terms associated with each bond purchase except the obligation to pay the interest rate and principal when it is due on NT's part.

The ultimate holders of the bonds can be categorized as follows:

1. Monetary Institutions
 - a. Banks
 - b. SARB
2. Insurers
 - a. Long Term Insurers
 - b. Short Term Insurers
3. Pension Funds
 - a. PIC
 - b. Private self-administered pension funds
 - c. Official Pension Funds
4. Other Financial Institutions
 - a. Unit Trusts
 - b. Participation Mortgage bond schemes
 - c. Financial Public enterprises

The details of the ultimate holders are not recorded by the NT since the NT's purview is the primary market. It is in the secondary market where these bonds are bought and sold by various institutions. The JSE, Strate and the institutions themselves would be best placed to provide details in terms of the quantity of bonds they hold since they transact both on and off-exchange. Market data systems like Bloomberg, Reuters would also provide details for the reported market.

It is worth remembering that these institutions would themselves be holding these bonds on behalf of individual investors or policy holders who cannot be legally disclosed as per FICA and POPIA act. The holdings change regularly owing to the needs of each category of holder. For example, insurers would buy long term debt to meet long term obligations however they may need to liquidate short- and medium-term bond holdings if claims rose suddenly. Pension funds would rebalance their portfolios regularly based on the investment mandate of their portfolios and whether or not they are managing an external portfolio. For this reason and many others, it is impractical for NT to quantify how much each institutional holder owns at a point in time or what interest rate they are receiving since they would hold bonds along the yield curve.

Institutions also frequently engage in interest rate swaps to manage their risk which would transfer those rates to other entities. Retail bonds are held by individual investors

whose names cannot be disclosed. Retail bond interest rates are available on the retail bonds website along with the terms and conditions of each retail bond.

The National Treasury publishes monthly detailed information on outstanding bonds, redemption dates, redemption amounts, and coupon rates can be found on the National Treasury's investor website. The same details can be found in the SARB's quarterly bulletin.

<http://investor.treasury.gov.za/pages/default.aspx>

Table 7.5 of the 2022 Budget Review reflects the international financing institution borrowings. The table provides information on the institution, disbursement date, interest rate, terms (years), grace period (years), and amount (billion). From the table, the borrowing has only been long-term in nature, with no short-term loans being entered into.

Borrowing from international finance institutions

Institutions	Disbursement date	Interest rate	Terms (years)	Grace period ¹ (years)	Amount billion
New Development Bank	20 July 2020	6-month LIBOR ² plus 1.25%	30	5	US\$1.0
International Monetary Fund	29 July 2020	1.0660%	5	3	US\$4.3
African Development Bank	15 October 2020	3-month JIBAR ³ plus 0.8%	20	5	R5.0 ⁵
New Development Bank	17 June 2021	6-month LIBOR ² plus 1.25%	30	5	US\$1.0
New Development Bank	15 November 2021	6-month LIBOR ² plus 1.05%	25	4.5	US\$1.0 ⁶
World Bank	18 March 2022	6-month SOFR ⁴ plus 0.75%	13	3	US\$0.75

1. A period after the disbursement where no capital repayments are required
 2. LIBOR (London Interbank Offered Rate)
 3. JIBAR (Johannesburg Interbank Average Rate)
 4. SOFR (Secured Overnight Financing Rate)
 5. The US dollar equivalent is US\$0.29 billion
 6. Loan approved for US\$1 billion, first tranche of US\$0.4 billion received
 Source: National Treasury