NATIONAL TREASURY OF SOUTH AFRICA, UNCTAD AND MEFMI WORKSHOP ON ASSET AND LIABILITY MANAGEMENT

ALM IN SOUTH AFRICA—PRACTICAL ASPECTS OF ALM IMPLEMENTATION

Presenter: Tshepis Moahloli, Director: Foreign Debt Management | National Treasury – South Africa | 02 October 2013
Overview of the presentation

• Background on ALM implementation

• Asset and Liability Management approach
  – Objectives of ALM
  – Constraints and challenges to ALM
  – Prerequisites for ALM implementation
    ▪ Market development,
    ▪ Institutional organization
    ▪ Public Enterprises, Local Governments coordination; and
    ▪ Co-operation with Central Bank

• Benefits of ALM approach
Background on ALM implementation

• Implementation of a debt management framework to reduce possible risks areas –
  – Development of liquidity in both financial instruments and the domestic debt capital market
  – Development of a yield curve and issuing of bonds across the yield curve
  – Diversification of fixed-income instruments such as fixed, floating, variable rates, inflation and retail savings bonds
  – Market making, trading and investment risks transferred to market through Primary Dealers
  – Opportunity to issue bonds in proper, well-structured(regulated) and developed market
  – Introduction of active cash management for Government
  – Identify, control and manage total government’s risk exposures
• The following is important in an ALM approach in detecting and managing sovereign risk exposures –

  – Objectives of ALM

  – Constraints and challenges to ALM

  – Prerequisites for ALM
Objectives of ALM

• Based on the Comprehensive Debt Management Framework the initial primary objective shifted from developing the domestic debt capital market and to promote a balanced maturity structure to –

**Primary Objective** -

‘Focusing on the reduction of the costs of debt within acceptable risks levels’

**Secondary Objective** -

‘Ensuring government access to financial markets and diversifying funding instruments’
Constraints and challenges to ALM

- Assets and Liabilities (type, level and composition of Debt)
- Domestic constraints (policy interest rates and inflation, contingent liabilities, market development, institutional organization, political environment and coordination)
- External constraints (exchange rates, external interest rates etc.)
- Challenges differ through various stages of market development and economic cycles
Prerequisites for ALM

• In order to start moving towards ALM approach, focus should be on –
  – Market development,
  – Institutional organization
  – Public Enterprises, Local Governments coordination; and
  – Co-operation with Central Bank

• How the interaction takes place between the above entities and structures were identified as key to the practical implementation of an ALM approach
1. Market Development
## Establishment of ALM in South Africa

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>No formal auctions, no benchmarks, limited access to capital markets</td>
<td>Macro stability, principles of debt, cash &amp; risk management</td>
<td>Comprehensive debt management framework</td>
</tr>
<tr>
<td>Debt issuance and recording (Pre-1990)</td>
<td>Phase 2</td>
<td>Asset and liability management (1999-to-date)</td>
</tr>
<tr>
<td>Start up</td>
<td>Liability and cash management (1990-1999)</td>
<td></td>
</tr>
</tbody>
</table>
2. Institutional Organisation
Prior 2000

- Asset Management responsible for oversight of SOCs
- Liability Management responsible for funding in the domestic and foreign capital markets
- Cash Management and Debt Operations embedded in Domestic Debt activities
2000 - 2002

- Cash Management split from the Domestic Debt and moved to Asset Management
  - simple excel sheets created to
    - Forecast required cash buffers
    - Forecast revenue on a daily basis
- Debt Operations separated from front office operations
• Risks Management framework adopted in 1996
  – Focus on advanced tactical and quantitative models
  – Ensure that policies and procedures to quantify, control and manage risks exposure were in place
2005-2006

- Management of money market paper (Treasury Bills (TBs)) moved to Cash Management
- TBs used as short-term bridging financing, when needed
2007 onwards

Asset Management split into two, risks emanating from SOCs increasing

Deputy Director-General

- Strategy and Risk Management (SRM)
- Liability Management
- Financial Operations
- Governance & Analysis
- Sectoral Oversight

- Market Risk
- Foreign Debt
- Cash Management
- Corporate Governance
- Water Sector

- Country Risk
- Domestic Debt
- Accounting and Information
- Treasury Operations
- General Sector

- Credit Risk
- Debt Operations
- System Integration
- Investment Analysis
- Energy and Telecoms

General Sector
- Transport and Defence

National DFIs
- Provincial DFIs

Department of National Treasury
Republic of South Africa
Benefits of ALM approach

• Benefits of ALM include:
  – Introduction of integrated government balance sheet
  – Much greater shareholder oversight of risks associated with government assets and liabilities
  – Establishment of sound government protocols
  – Coordination in accessing financial markets
  – Uniform government policies regarding SOCs resulting in:
    ▪ Stronger financial performance
    ▪ Sounder risk management
  – Improved policy coordination among monetary policy, budgetary policy, and debt management policy
Conclusion

• It is important to develop **capacity** when considering a move to a debt management framework based on ALM approach
• The development of debt capital markets and institutional organization key
• Benefits of ALM approach definitely outweigh any challenges raised
• ALM frameworks do not happen overnight, start somewhere and work towards a framework that makes sense for one’s environment