NATIONAL TREASURY OF SOUTH AFRICA,UNCTAD AND MEFMI WORKSHOP ON ASSET AND LIABILTY MANAGEMNENT

ALM IN SOUTH AFRICA-PRACTICAL ASPECTS OF ALM IMPLEMENTATION

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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

Asset and Liability Management approach

- **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

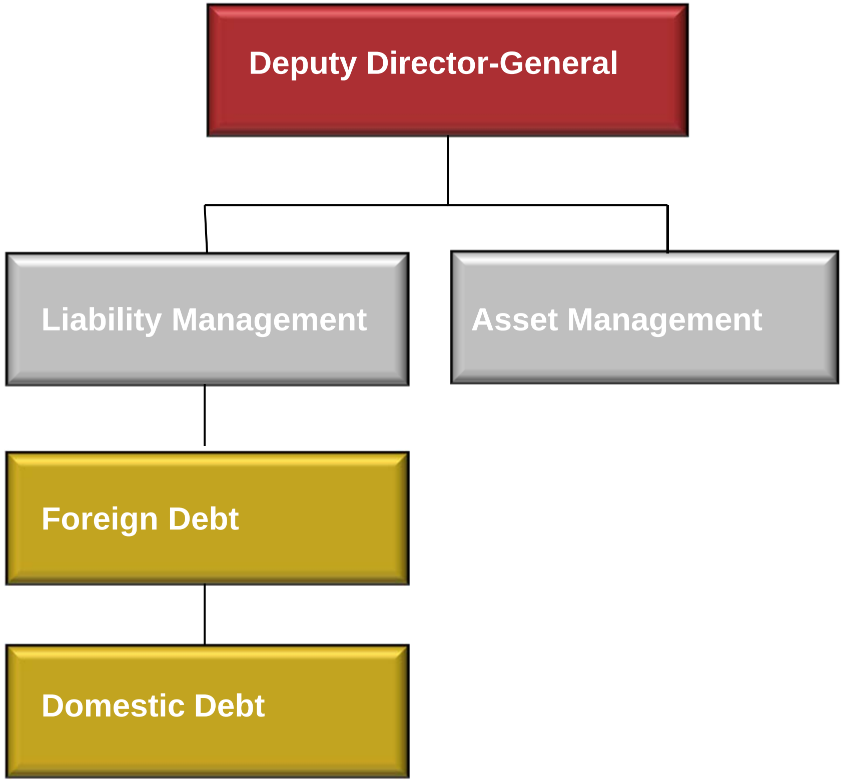
1. Market Development

Establishment of ALM in South Africa

		Comprehensive debt management framework	Phase 3
	Macro stability, principles of debt, cash & risk management	Phase 2	Asset and liability management (1999-to-date)
No formal auctions, no benchmarks, limited access to capital markets	Phase 1	Liability and cash management (1990-1999)	
Start up	Debt issuance and recording (Pre-1990)		

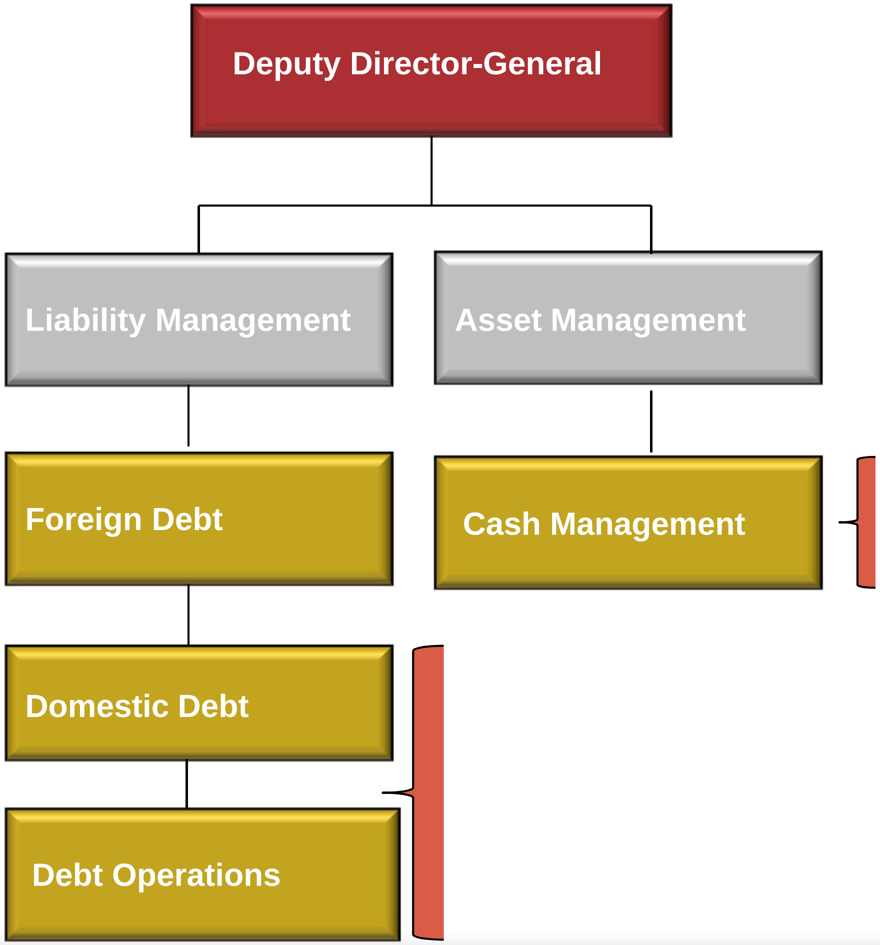
2. Institutional Organisation

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

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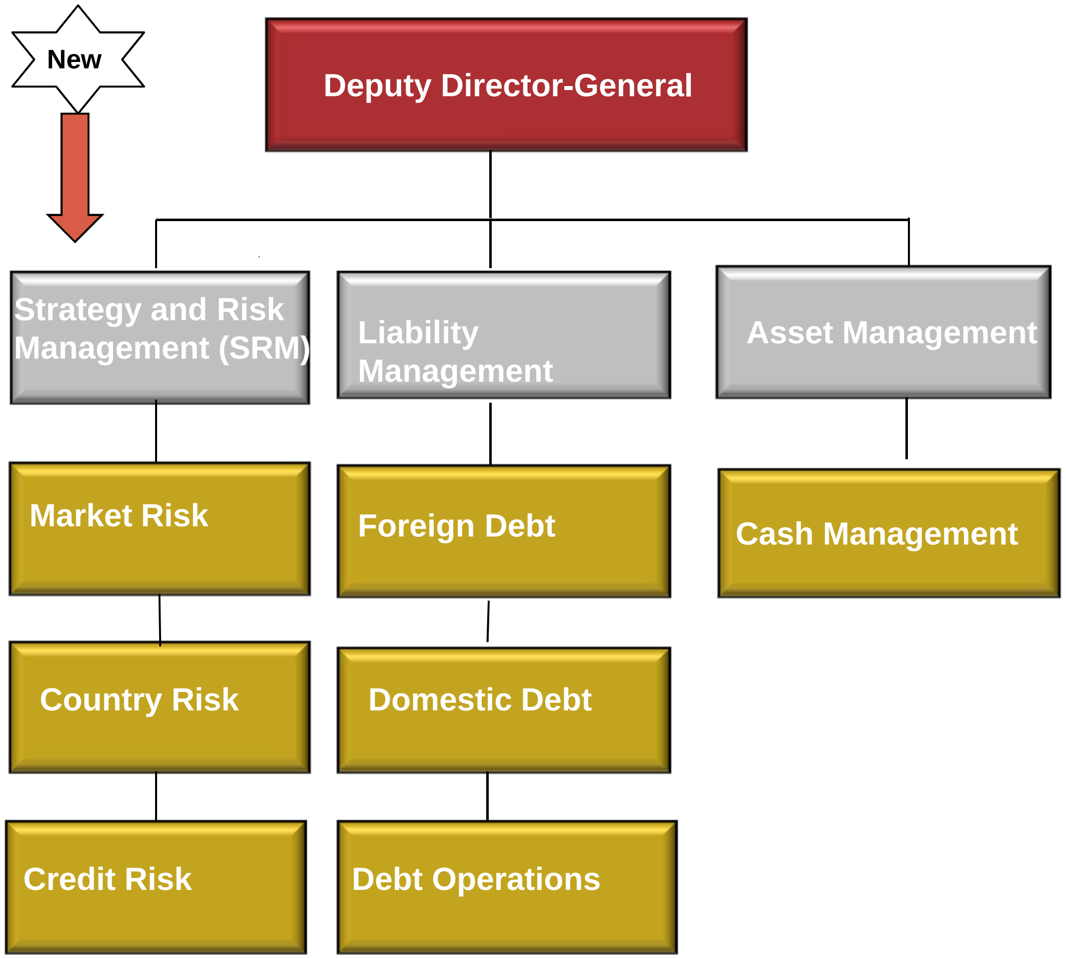
2002 - 2005



- 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

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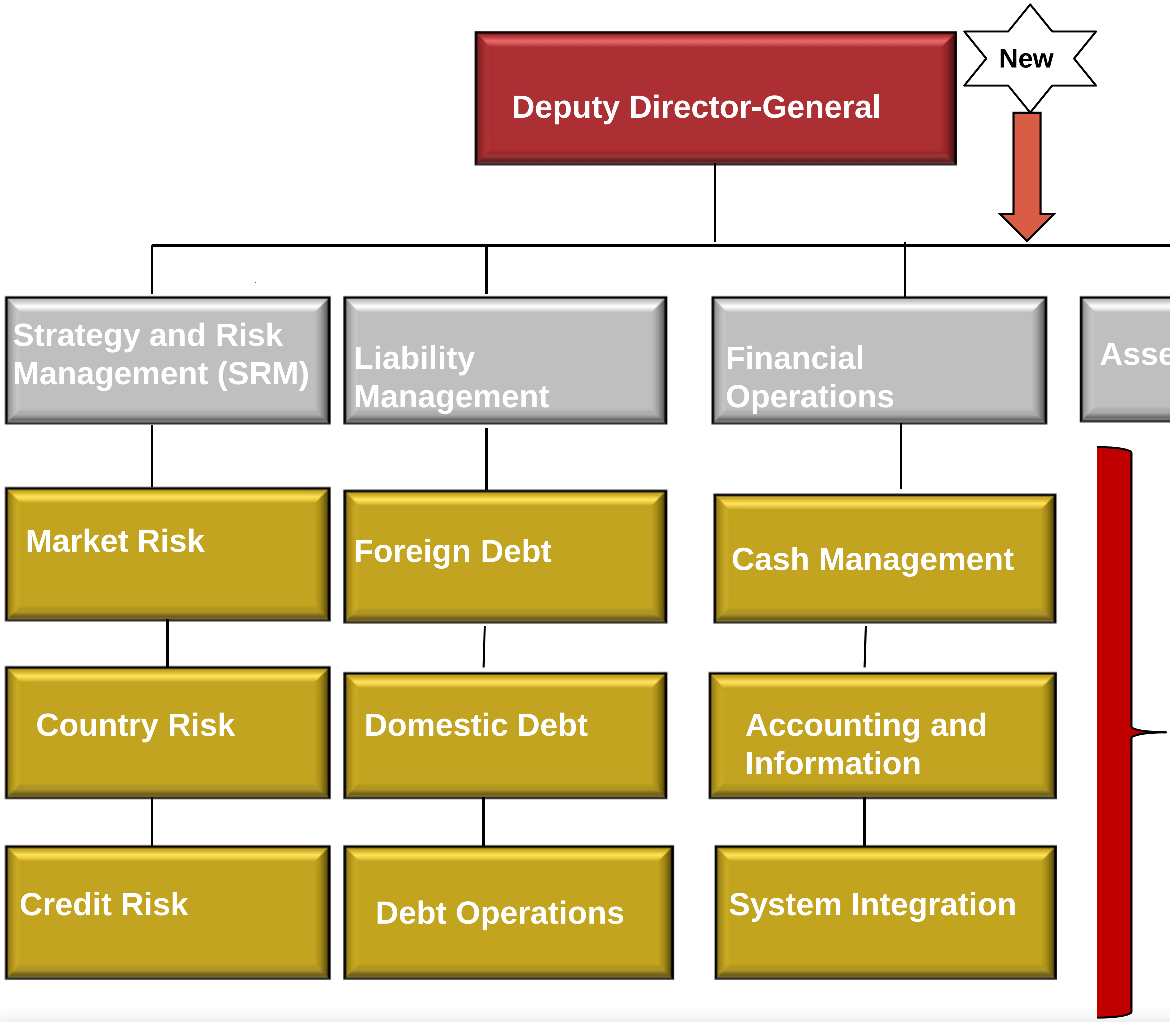
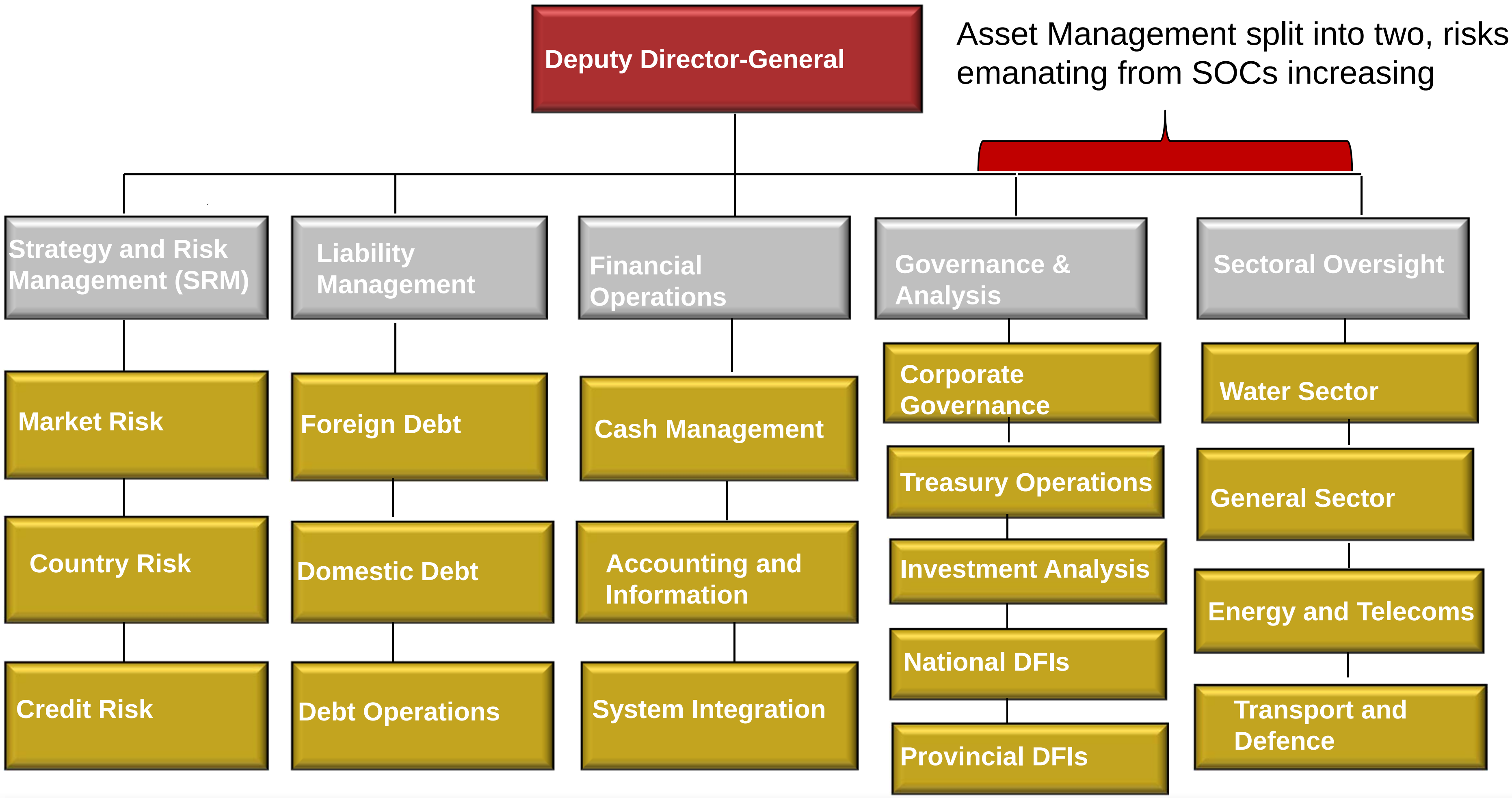
2005-2006



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

2007 onwards



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 ones environment