Organisation of Asset and Liability Management in South Africa – Coordination of Institutions

Workshop on Asset and Liability Management

Presenter: Johan Redelinghuys | Chief Director, National Treasury | 2 October 2013
• Legal framework enabling Asset and Liability Management (ALM) in South Africa

• ALM coordination framework between main economic policy areas
Legal framework enabling ALM in South Africa

- Constitution of the Republic of South Africa
  - Section 216 (1) provides for the establishing of a National Treasury and to prescribe measures to ensure transparency and expenditure, central in each sphere of Government by introducing amongst others generally recognised accounting practice

- Public Finance Management Act and Regulations
  - Section 8 (1) (a) requires the National Treasury to compile consolidated financial statements annually in accordance with generally recognised accounting practice
  - Section 40 (1) (b) determines that departments must prepare financial statements in accordance with generally recognised accounting practice

- Municipal Finance Management Act (MFMA) and Regulations
- Finance and Financial Adjustments Acts Consolidations Act
- South African Reserve Bank Act
- Gold and Foreign Exchange Contingency Reserve Account (GFECRA) Defrayal Act
ALM coordination framework within following economic policy areas

- Debt Management Policy
- Fiscal Policy
- Monetary Policy
Bilateral
(Minister of Finance and Governor)

Standing Committees
(Reserve Bank and National Treasury Officials)

- Macroeconomic
- Banking and Financial Markets
- International Relations
- Financial and Regulatory

- Banking Subcommittee
- Financial Markets Subcommittee
- Financial Stability Oversight Committee
- Working Committees
- Public Debt Working Group
- Financial Regulatory Reform Steering Committee
• Formal structure between areas contributing to Fiscal Framework

• Informal engagements on debt service cost/total debt
Coordination within Fiscal Policy areas

- National Treasury organisational structure
Coordination within Fiscal Policy areas (cont)

- To improve coordination within National Treasury formal groups were established:

  Director-General

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<tr>
<th>COO/Office of the DG</th>
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<td>Corporate service</td>
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<td>Financial Management Group</td>
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Coordination within Fiscal Policy areas (cont)

• Revenue Analysis Committee
  – National Treasury
  – Reserve Bank
  – Statistics South Africa
  – South African Revenue Service

• Expenditure Budget Process
  – Medium Term Expenditure Committee
  – Minister’s Committee on the Budget
  – Cabinet

• Provincial Government oversight
  – Technical Committee on Finance
  – Budget Council
  – One on One meetings

• Local Government Oversight
  – Budget Forum
  – South African Local Government Association
  – One on One meetings
Coordination within Debt Management
Policy areas

- ALM Division’s organisational structure

- Specific engagements with Reserve Bank:
  - Roles and responsibilities (slides 11 and 12)
  - Coordination with Reserve Bank’s money market liquidity management (slide 13)
  - Monthly statistical information report (slide 17)
Reserve Bank’s roles and responsibilities

- Announce and execute Treasury bill and bond auctions (primary issues, switches and buy-backs)
- Settlement of auctions
- Central Security Depository Participant for Treasury bills
- Surveillance of Primary Dealers
- Issue foreign loans for foreign reserve purposes
- Manage money market liquidity
- Banker to government
National Treasury’s roles and responsibilities

• Formulate debt management and annual funding strategies
• Notify Reserve Bank of weekly funding strategy
• Registrar of domestic bonds
• Manage state debt cost budget
• Appoint primary dealers
• Issue foreign loans for financing purposes
• Maintain investor relations
Coordination, money market liquidity management

- Reserve Bank’s liquidity management tools:
  - Debentures;
  - Repurchase agreements using own government bond portfolio;
  - Currency swaps; and
  - Notes and coin flows
- Sterilisation assistance provided by government to the Reserve Bank on request:
  - Government deposits with the Reserve Bank to facilitate accumulation of FX reserves; and
  - Short-term cash deposits/withdrawals from government accounts at the Reserve Bank
- Government’s cash flows should not impact on market liquidity:
  - Revenue collections not flowing to the Reserve Bank (tax and loan accounts); (slide 14)
  - Government’s local currency payments made by the Reserve Bank, sterilised through transfer of money from commercial banks; and (slide 15)
  - Foreign exchange borrowing/purchases not converted to local currency but deposited with the Reserve Bank for future use (slide 16)
Tax revenue receipt cycle

**Commercial Bank**

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<th>Tax collecting agency’s deposit accounts</th>
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Roll-up over night

**Tax and Loan Account**

Treasury investment account

Loan receipts

Borrowing by Treasury
Daily settlement of local currency expenditure

Departments/ spending agencies Accounts

Departmental expenditure

Debit balance cleared

Transfer to clear debit balance

Tax revenue

Tax and loan accounts (investments)

Surplus invested

Loan receipts (Borrowing)

Credit balance cleared

Commercial banks

Reserve bank

Departmental revenue
Daily settlement of foreign currency expenditure

- Departmental foreign expenditure
- Reserve Bank
- Departments/spending agencies accounts
- Foreign loans
- Foreign currency investment account
- Domestic foreign currency purchases

Utilise Fx investments to meet Fx expenditure
Reserve Bank’s monthly statistical information report

- Provides information on foreign currency operations performed on behalf of Government
- Official gold and foreign reserve position
  - Gross reserves;
  - Forward position; and
  - International Liquidity Position (ILP)
- Currency composition of net foreign reserves
- Reserve accumulation progress
- Money market and long-term foreign exchange swap transactions
- Detailed analysis of the GFECRA
Coordination within Debt Management Policy areas (cont)

• Public Sector Borrowers Forum
• Contributing to market development:
  – Transparency;
  – Investor relations programme;
  – Appropriate funding strategy;
  – Contribute to money and bond markets advisory committees; and
  – Drive structural changes (electronic trading platform)
• Participate in Financial Regulatory Reform Steering Committee
• Cash Management Operations:
  – Alignment of tax revenue/expenditure flows; (including interest/redemptions)
  – Maintain appropriate cash buffer and bridging finance facilities (to enable stable funding plan);
  – Onlending to Provinces; and
  – Coordination of broader public sector cash (slide 19)
Coordination of broader public sector cash

Reserve Bank

Subsidiary
Corporation for Public Deposits

Invest

Bridging finance borrowing

Sub- National Governments

State-Owned Companies

Invest

Invest

Bridging finance borrowing

National Government
Coordination within Debt Management Policy areas (cont)

- Contingent Liability Management
  - Fiscal Liability Committee
  - Specific reporting rules for Departments/Public Entities
  - Central Guarantee register

- Development/implementation of annual debt management strategy
  - Funding Strategy Committee
  - Public debt analytical tool (moving to formal system)
  - Weekly funding monitoring committee meeting (National/Public Companies borrowing)
  - Consolidated public sector auction calendar (slide 21)
  - Consolidated public sector maturity profile (slide 22)
Consolidated auction calendar of National Government and SOEs

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Actual bonds and amounts to be auctioned will be published on announcement dates.

Issued by National Treasury.
Consolidated maturity profile of National Government and SOEs
Thank you