



**National Treasury**

# **Domestic Road Show**



**South African Reserve Bank**

**5 – 11 March 2009**

- **Macroeconomic environment**
- **Borrowing requirement and financing**
- **Management of SOEs**

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# **Macroeconomic environment**

# Macroeconomic environment

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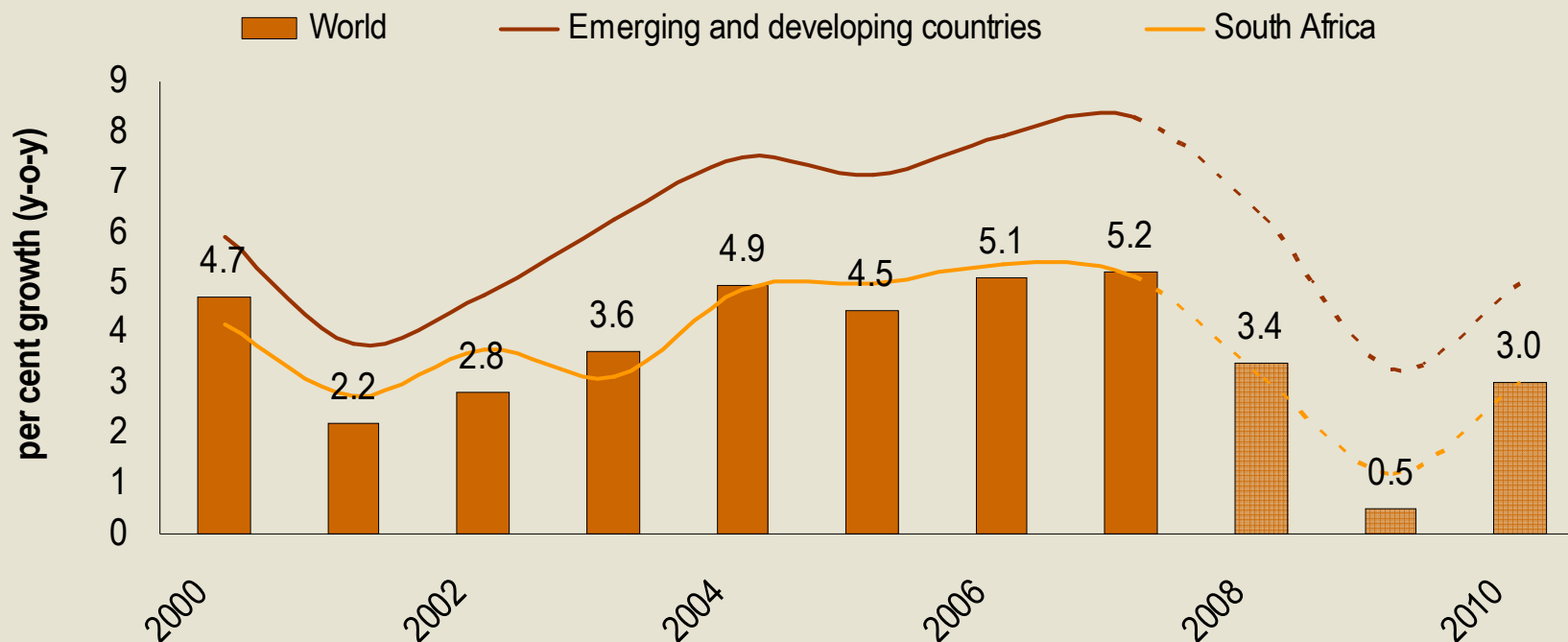
- Sharp deterioration in global economic outlook
  - WEO revised five times in last ten months
- Our growth forecasts have been revised downwards steadily
- Major areas of concern
  - Export volumes
  - Fall in manufacturing
  - Private investment slowing
- This is a difficult period ahead, but we can be confident of the choices we have made
- Changing GDP forecasts due to changing global environment

	<b>C a l e n d a r   2 0 0 8</b>	<b>C a l e n d a r   2 0 0 9</b>
Oct-07	4.5	4.8
Feb-08	4.0	4.2
Oct-08	3.7	3.0
Feb-09	3.1	1.2

# Impact of global economic crisis on South Africa

- SA affected through falling commodity prices, lower exports, reduced capital flows, higher risk appetite, correction in asset prices.
- Sound banking system provides some protection from global contagion.
- Countercyclical fiscal and monetary policies can support demand.

## World GDP growth and SA growth



## SA macroeconomic forecasts: 2009-2011

- **Falling consumption and exports and slowdown in private investment in 2009.**
- **Weak domestic demand and lower dividend payments reduce CAD in 2009.**
- **Headline CPI inflation within target range by mid-2009.**
- **Modest recovery in GDP growth from 2010.**

Calendar year	2005	2006	2007	2008	2009	2010	2011
		Actual		Estimate		Forecast	
<i>Percentage change unless otherwise indicated</i>							
Final household consumption	6.9	8.3	6.6	2.5	-0.2	1.9	3.2
Final government consumption	4.8	5.1	4.8	4.5	4.0	4.0	4.0
Gross fixed capital formation	10.2	13.2	16.3	11.5	3.7	5.7	9.0
Gross domestic expenditure	5.7	9.1	6.0	3.4	0.2	4.0	5.0
Exports	8.0	6.0	7.5	2.1	-1.4	3.3	4.9
Imports	10.3	18.9	10.0	3.2	-3.7	6.7	7.7
<b>Real GDP growth</b>	<b>5.0</b>	<b>5.3</b>	<b>5.1</b>	<b>3.1</b>	<b>1.2</b>	<b>3.0</b>	<b>4.0</b>
GDP inflation	5.4	7.3	9.0	10.5	5.3	5.0	5.7
<b>GDP at current prices (R billion)</b>	<b>1 543.9</b>	<b>1 745.2</b>	<b>1 999.1</b>	<b>2 277.0</b>	<b>2 426.4</b>	<b>2 622.7</b>	<b>2 884.6</b>
Headline CPI inflation	3.3	4.6	7.2	11.6	5.8	5.3	4.7
Current account balance (% of GDP)	-4.0	-6.3	-7.3	-8.1	-6.3	-6.9	-6.9

# Forecast drivers and risks

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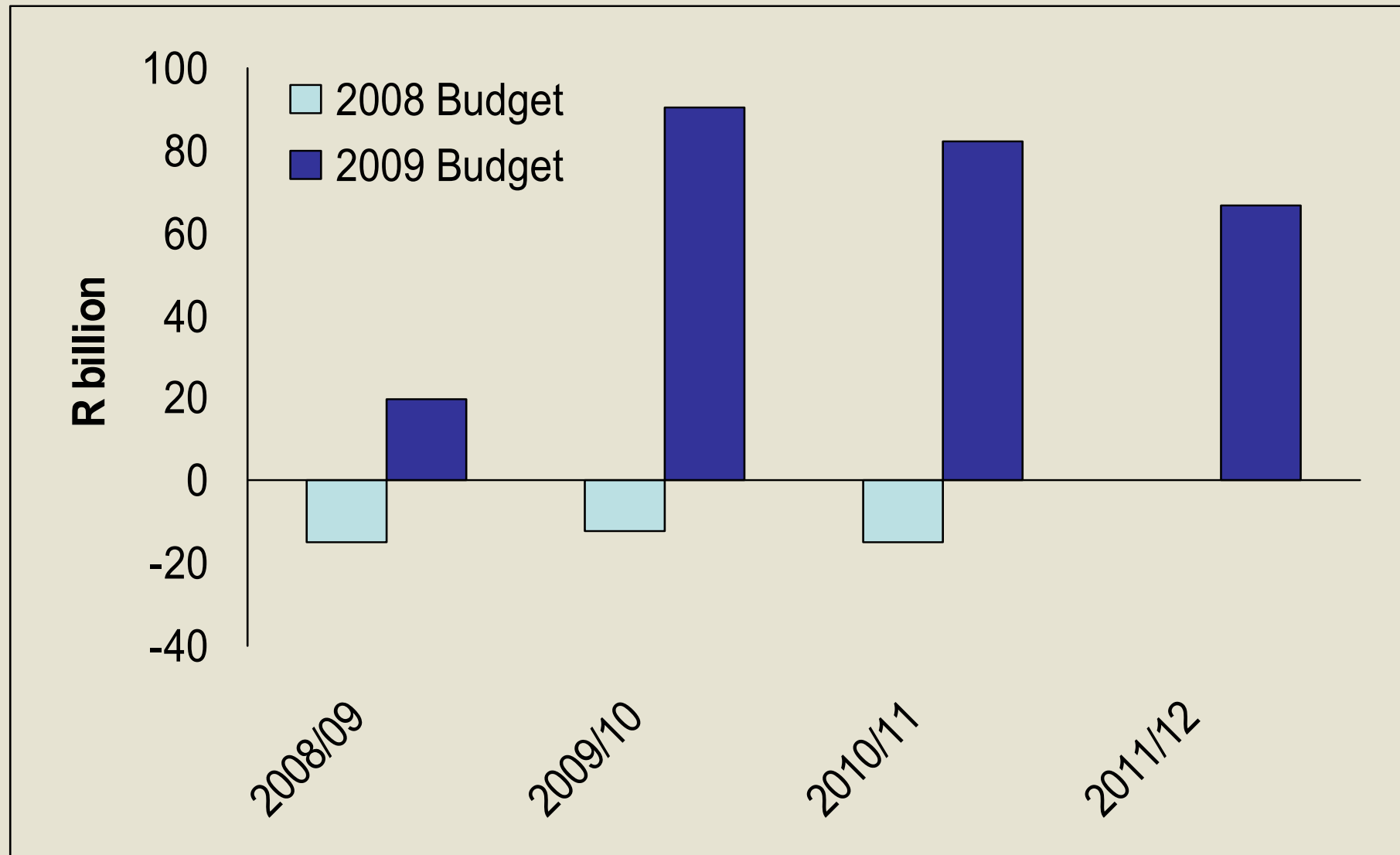
- **Lower GDP forecast is driven by**
  - Weak consumption growth
  - Lower demand for exports impacts on mining and manufacturing
  - Slow down in private investment
  - Lower commodity prices
  - Reduced wealth due to lower asset prices, both housing and equities
- **Overall growth will be supported by**
  - Government consumption and public sector investments remain strong
  - Falling inflation and easing monetary policy eases burden on households
  - Weaker real exchange rate improves export competitiveness and reduces import demand
  - 2010 World Cup
- **Risks to GDP growth are probably on the downside**
  - A global economic recovery might not happen for two to three years
  - Commodity prices could fall further, impacting on revenues
  - Global trade could collapse
  - The world could go into a deep depression, in which zero growth for us would be realistic

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# **Borrowing requirement and financing**



## Substantial increase in net borrowing requirement



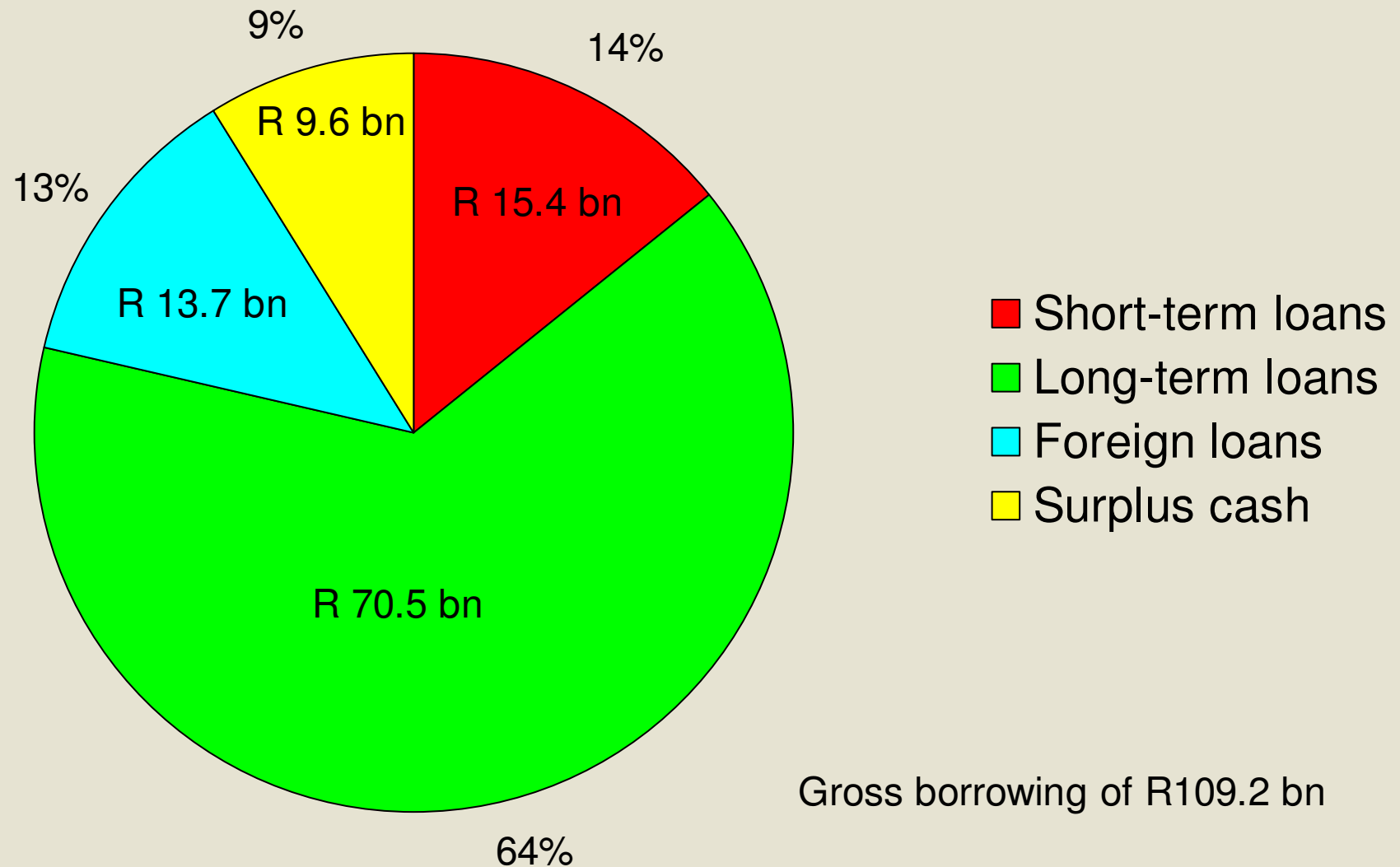
## **Space created over time to finance increased borrowing**

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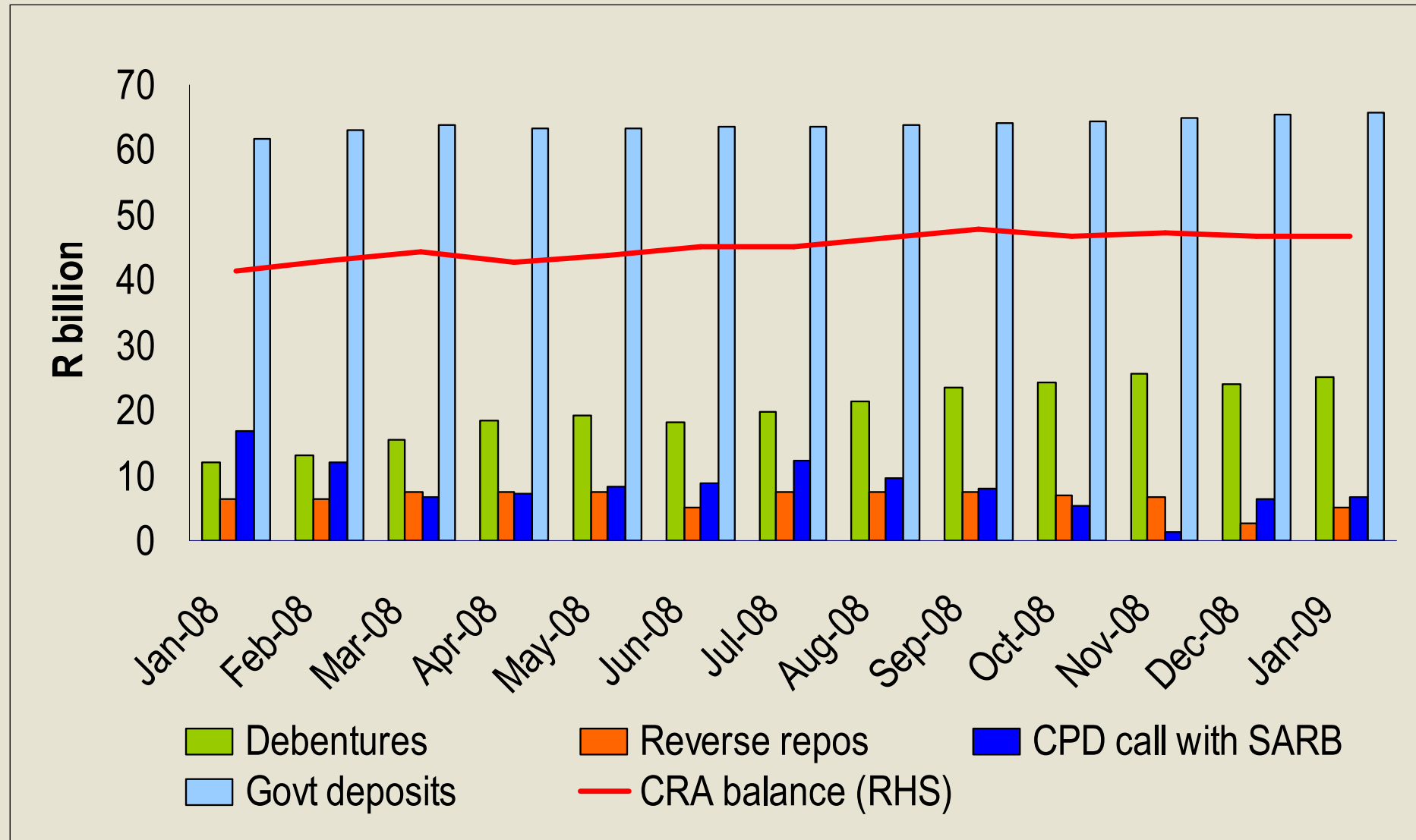
- **Lower net borrowing in the past**
- **A record of sound debt management**
- **BESA turnover in bonds reaching a record high in 2008**
- **Refinancing risk timeously reduced**
- **Government debt reduced**
- **State debt cost continues to decline**
- **Low foreign debt levels**
- **International liquidity position improved**
- **Surplus cash used to accumulate reserves**
- **External vulnerability reduced**
- **Contingent liabilities reduced**

## Financing of 2009/10 borrowing requirement

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## Sterilisation operations by SARB



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# **Management of SOEs**

## **Management of state-owned entities policy stance**

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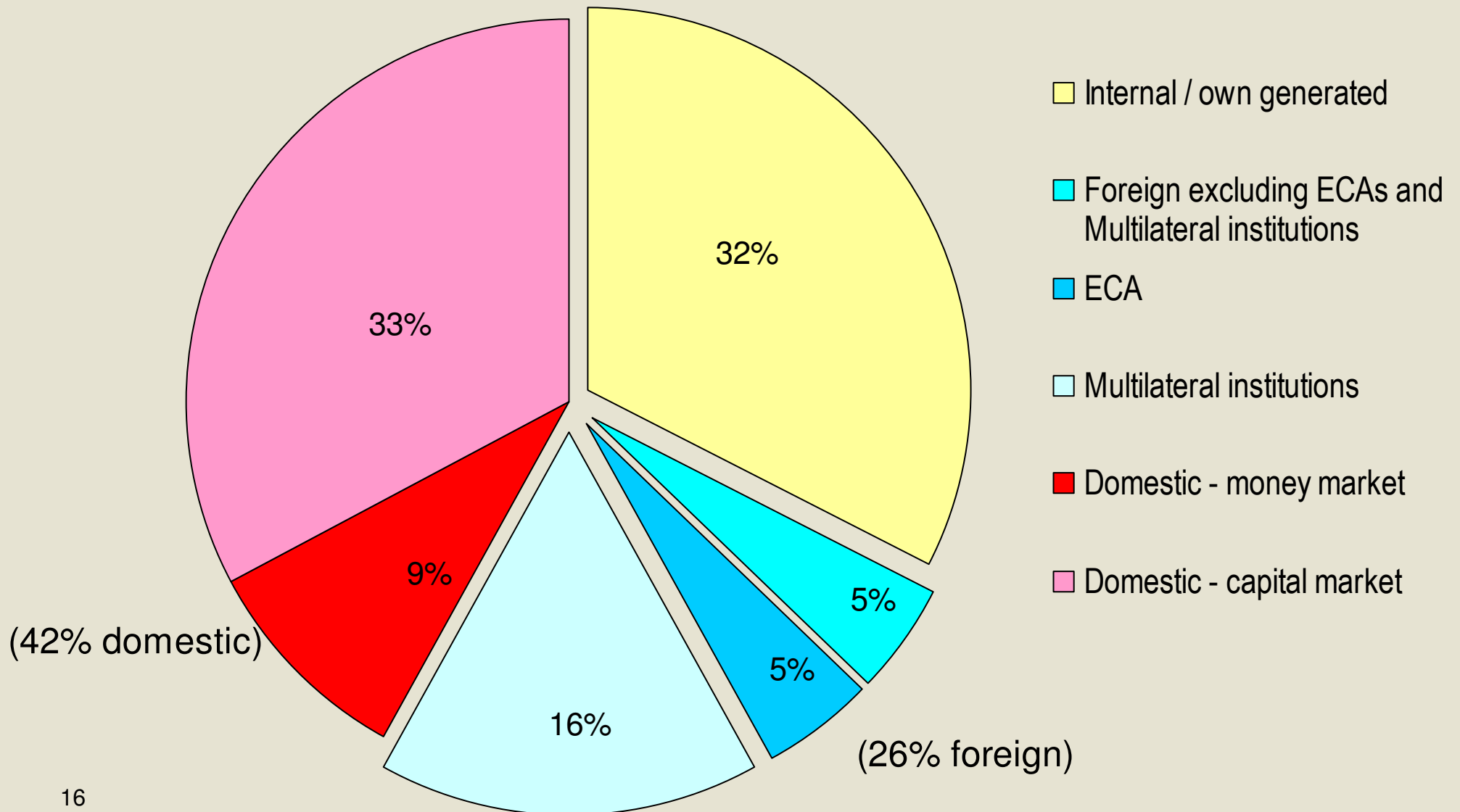
- **State-owned entities should operate on the strength of their own balance sheets**
- **If a clear need for shareholder support is identified a guarantee can be considered based on sound business plan, ensuring long-term financial sustainability**
- **In present economic environment government intends to sustain SOEs capital investment programme**
- **In extending guarantees government remains mindful of its guideline for total debt, provisions and contingent liabilities**

## Provisional SOE capital investment plans

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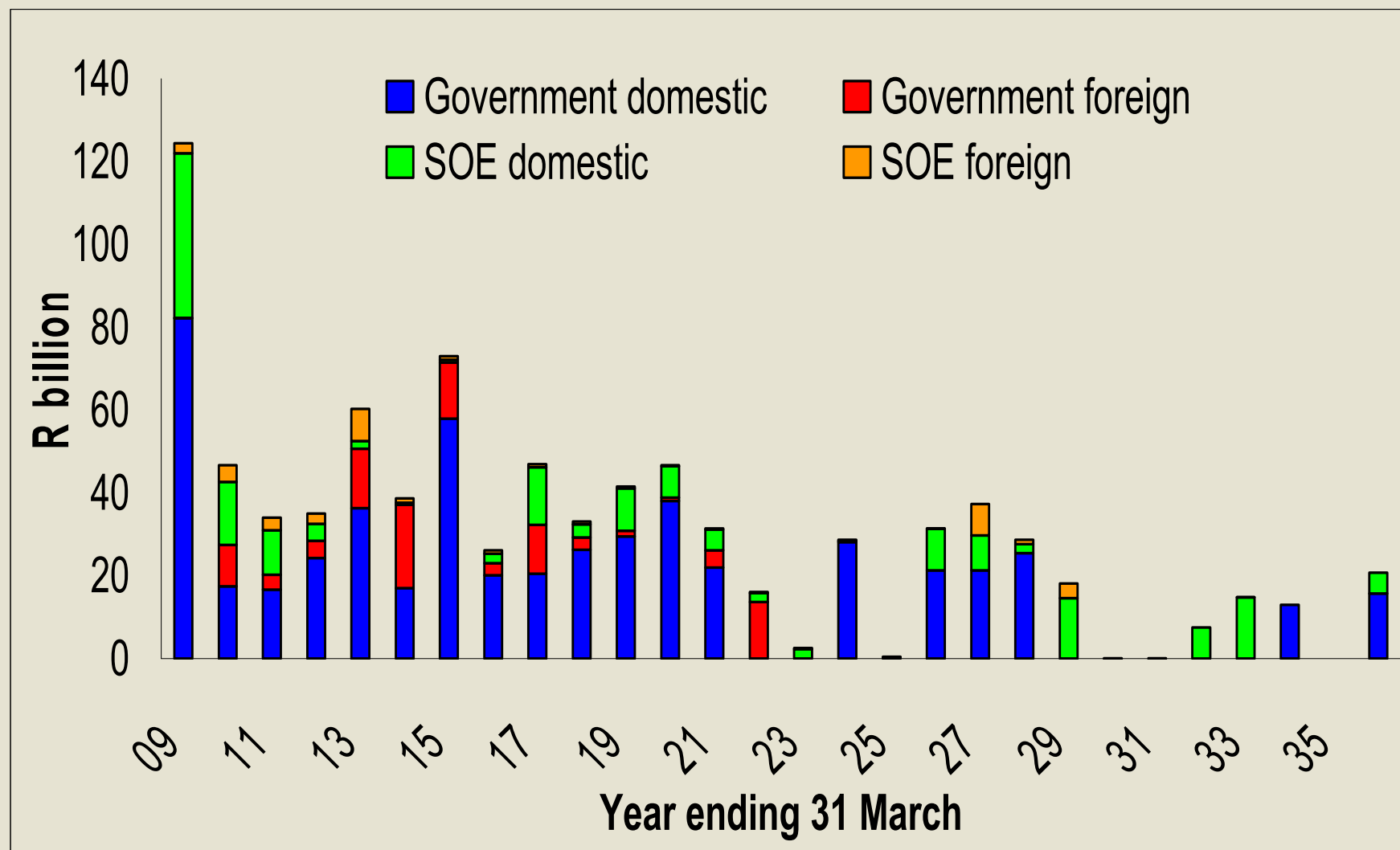
<b>R billion</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>Total</b>
Capex	152.2	163.7	153.7	141.6	58.2	669.4
Of which:						
Eskom	89.1	101.0	83.7	64.0	18.6	356.4
Transnet	23.2	20.9	17.0	11.9	8.1	81.1

## Funding of provisional capital investment plans, 2009/10 – 2013/14





## Consolidated maturity schedule of government and SOEs, 31 December 2008



## **Key features of loan and guarantees to Eskom**

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- **Eskom Subordinated Loan Special Appropriation Act provides disbursement of R60 billion over three years**
- **R176 billion in guarantees over 5 years to support capital expansion programme**
- **Existing debt to be guaranteed – ES26 (7.85%; 2026), ES33 (7.5%; 2033) and Floating rate notes**
- **Enable Eskom to utilise the existing DMTN programme to continue raising funds**
- **Remainder of the guarantees to support the issuance of new debt**
- **Government rights will be subordinated to other creditors**
- **An annual limit to be set on new debt to be raised**