T T Mboweni: Signing of a syndicated loan and comments on the South African economy

Comments by Mr T T Mboweni, Governor of the South African Reserve Bank, on the occasion of the signing of the USD1,5 Billion Dual Tranche Syndicated Term Loan facility, London, 18 July 2005.

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Ladies and Gentlemen,

I am delighted to address you once again on an occasion such as this and even more delighted to be back in this great city. With the weather you are having here, we could quite easily be experiencing an African winter … I mean summer. It is a pleasure to welcome you here and to be amongst friends such as yourselves who have shown great confidence in South Africa.

As many of you live in this city, and almost certainly all of you have operations in London, I think it is right and proper, as we gather here only 10 days after the attacks on London, that I express our sympathy and condolences, on behalf of the South African Reserve Bank, to those who have been affected.

The number of many familiar faces present here today reflects both your commitment to South Africa, as well as the South African Reserve Bank's commitment to building strong relationships with a range of financial institutions.

The foreign credit facilities we seek to establish with international institutions such as yourselves are utilised from time to time, or fully drawn down over the period of the loan to supplement our foreign reserves. In this case the US$1,5 billion facility is being used to prepay the US$1 billion Dual Currency Term Loan Facility concluded in June 2003 and tranche B of the Dual Currency Term Loan Facility concluded in July 2002.

In the run-up to this syndicated loan, we were very encouraged to discover during our discussions that the market was more than willing to support a dual-tranche transaction, namely a three-year and a five-year tranche, at reasonable pricing. In negotiating the 2005 facility we took into account the maturity profile of the country's foreign debt, our financing strategy, as well as the desirability of re-establishing the five-year benchmark. Whereas not too long ago, a five-year maturity would still have been the subject of debate, today it seems very natural for us to borrow for five years, and thus pave the way for other South African borrowers.

It is therefore with great pleasure that we celebrate the successful conclusion of this syndicated loan. The loan was oversubscribed and brought to the table some top names spread over a wide geographic area. As usual, we are delighted by the quality of the participating banks and we will, as is our practice at the South African Reserve Bank, make every effort to share our business with our valued counterparties.

Priced at 22.5 basis points per annum and 30 basis points per annum over Libor for the three-year and the five-year tranche respectively, this amounts to a considerable improvement over the last couple of years. (As you know, our 2004 syndicated loan, which matures in 2007, was priced at a margin of 47.5 basis points per annum over Libor. And, going even further back in time, we last raised five-year money in 2002 at a 90-basis-point margin above Libor.) The improvement in the pricing structure bears testimony to South Africa's prudent macro-economic policies and to the social and political stability characterising our democracy, which gave rise to and enhanced South Africa's laudable credit story. The successful conclusion of this syndicated loan also bears testimony to the strength of our relationships. Naturally, we grudgingly admit, the pricing also reflects the very liquid conditions prevailing in the syndicated-loan market.

The ratings upgrade afforded us by Moody's in January this year reflects South Africa's improved credit worthiness. As you know, Moody's upgraded South Africa's credit rating from Baa2 to Baa1 with a stable outlook based on the "substantial strengthening" in the country's foreign reserves position. South Africa's gross gold and foreign exchange position stood at US$18,7 billion as at the end of June 2005. We are gratified and hopeful that a ratings grid in the loan documentation will result in lower pricing should South Africa's credit rating improve further.

Now that the Net Open Foreign Currency Position or international liquidity position, as we now term it, has turned positive, we are relieved of a structural impediment to our economy and a source of much international criticism. We have and continue to concentrate on building our reserves gradually and sensibly to a level that could be regarded as appropriate for a small open economy such as South Africa. Of course, we also have to bear in mind the costs of accumulating reserves. The appropriateness of reserve levels will also change over time.

Allow me to touch on a few other salient points of South Africa's economy. As you well know, we conduct monetary policy within an inflation-targeting framework. This forms the basis for all our monetary-policy decisions. Inflation has remained within the target range of 3 to 6 percent for some 21 months now. The latest CPIX figures for May showed a year-on-year growth of 3.9 percent. The inflation-targeting framework has served us well and has enabled us to firmly anchor inflation expectations. The overriding and primary objective of monetary policy remains maintaining inflation within the target band, so as to provide a stable platform for sustainable economic growth. Since the signing ceremony last year, the Monetary Policy Committee has reduced interest rates by 100 basis points. Of course, there are a couple of risk factors going forward, the oil price being one, which could exacerbate inflationary pressures. Nonetheless, the outlook remains favourable, aided to some extent by muted increases in food prices and continued low international inflation.

The path of the rand, although volatile during some periods, has remained relatively stable over the past couple of months. As a central bank we would prefer a stable exchange rate to reduce the uncertainty of resource-allocation decisions. Since the signing ceremony last year, the rand has depreciated from a level of around R6.10 to the dollar to a level of around R6.65 to the dollar, in part due to foreign currency fluctuations, in particular, the value of the US dollar.

Growth remains robust, with the economy registering its 26th consecutive quarter of positive growth in output. Car sales have reached new peaks, and confidence in the economy is strong as reflected by healthy consumer demand underpinning the growth in money supply and credit extension. The economy grew by an annual real rate of 3,5 percent in the first quarter of 2005 after an increase of 4,0 percent in the fourth quarter of last year. There are now signs that the economy may have entered a new higher and sustainable growth trajectory.

Before I conclude, may I once more express my appreciation to each and every institution that has committed to this loan. The confidence each financial institution has displayed in South Africa, by committing to this loan, contributes to enhancing South Africa's international profile. We gratefully acknowledge the faith you have placed in us.

Finally, I must extend our thanks to the Bank of Tokyo-Mitsubishi for their efforts in finalising the documentation and driving this process under tight deadlines. We also appreciate Mizuho Corporate Bank's efforts in arranging today's signing ceremony and we look forward to working with Bayerische Landesbank as facility agent going forward.

Thank you.