Treasury targets 'not dependent' on privatisation inflows

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Johannesburg – The government is on track to meet its fiscal deficit and bond buyback targets in the current financial year even if privatisation flows do not come in on budget, a senior official has confirmed.

Phakamani Hadebe, the director of domestic debt management at the national treasury, said on Wednesday that even if the full R18 billion privatisation inflows budgeted for the 2001/02 fiscal year did not materialise before the end of March, the government would not have to go to local debt market to make up the shortfall.

This, he said, was because $500 million more had been raised through foreign loans than had originally been budgeted.

Also, there had been a R2,4 billion revenue overshoot in the last fiscal year, R2,2 billion had come into the state's coffers from the restructuring of state-owned insurance company Sasria and the treasury could draw down on the $1,5 billion syndicated loan jointly raised by the treasury and the reserve bank.

"None of these things were budgeted for," Hadebe said.

He said he was still confident the budgeted-for privatisation would take place before end of March, but "in the unlikely event that it does not, we will not have to go to the domestic market [for funding] ... and domestic debt in issue will still decrease by R7,4 billion in this fiscal year."

In the six months to September the treasury had raised about R9,6 billion from issuing local bonds. It had redeemed or bought back R2,1 billion.

Net issues of domestic government debt have therefore increased R7,4 billion since April.

According to the national budget, a total of R16,98 billion of local debt will be issued and R23,9 billion will be redeemed in the year.

This will see the amount of paper in the market fall by the net R7,4 billion budgeted for the year.

Expectations of an upcoming shortage of paper is, alongside perceptions that inflation and interest rates are moving lower, behind the local bond market's stellar performance in the year to date. In January, about R22,2 billion of R162 bonds are due to be redeemed and Hadebe confirmed this would not be rolled over.

Nico Czypionka, the chief economist at SG Securities, said although he was convinced the budgeted privatisation would not take place this fiscal year, the bond market would not be spooked because the treasury had a back up plan in place

"It is just a question of timing," he said, adding that "there is nothing holy about a calendar year or a fiscal year as long as they [the government] have a fallback position that covers more than they need".

Foreign exchange markets, however, are likely to be less forgiving of the failure to meet privatisation targets.

They were expecting to see large-scale foreign involvement in the restructuring of state-owned enterprises and had been counting on the associated hard currency inflows.