

Swaziland Government Bonds Issuances

Analysis of Swaziland Government Bond SG020 Auction

1.0 Introduction

In October 2014, on behalf of the Government of Swaziland, the Central Bank of Swaziland (the Bank) announced the listing of a New Government Note Programme to the value of E2 billion. The Programme is listed on the Swaziland Stock Exchange (the SSX). The listing of the New Note Programme has become necessary as the current E2 billion Programme of 2010 is near exhaustion. All Government bonds are listed on the SSX. The E2 billion Note Programme of 2010 was listed on the SSX through a sponsoring broker. The subsequent Note Programme of 2014 was listed directly on the Exchange by the Bank acting as a Debt Sponsor. The status of a Debt Sponsor was granted by the Financial Services Regulatory Authority, who are undertaking modification of the SSX Regulations, to widen the scope to include Debt Sponsors.

The SSX acts as a regulator, and the listing of the New Note Programme (the Programme) adds a credibility to the Issuance Programme, as it has undergone and complied with the necessary listing requirements.

The Programme is in line with the objectives of financing Government budgetary needs and developing the domestic bond market. The amount listed under this Programme will be raised over a maximum period of 5 years, with the initial issuance of a 5-year bond auctioned on October 15, 2014 (the results of the auction are outlined below). Subsequent issuances will be communicated in the form of an auction calendar after the delivery of the Budget Speech by the Minister of Finance.

2.0 Background Information

The issuance of bonds to raise funds by Government through the Bank as its agent is not a unique practice since other Governments world-wide use this method of borrowing and it has proven less costly compared to other forms of raising debt on behalf of Government. Raising funds through this method would also provide an instrument for the banking system to manage liquidity in an effective manner; maintain our reserves position at the appropriate levels; develop the secondary market; establish a fair market price which will compensate both the

borrower and investors for interest rate risks; facilitate financial intermediation and provide a liquid investment alternative with no risk of default for individuals and institutions. In addition, the Ministry of Finance, in consultation with the Bank will endeavor to ensure that all borrowings (including external borrowing) will be done in an efficient manner to ensure its actions are sustainable in the medium to long-term.

The domestic borrowing is conducted with caution to ensure that there is no crowding out effect of the private sector. The issue of crowding out of the private sector in the domestic debt market is not a concern for now considering that the resources mobilized are below the excess liquidity observed in the domestic financial market.

3.0 Government Bonds Issuance Mechanism

The Bank acts as the agent for Government in the issuance of domestic debt, and undertakes the issue, placement and service of any Government securities.

The mechanisms of the bonds auction process are summarized as follows:

- Competitive Multiple Bid/ Multiple Price Auction;
- Auctions are open to the public including individuals, corporate and institutional investors;
- Competitive bids exceeding E1 million may be submitted on a yield to maturity basis in multiples of 0.005%;
- Non-competitive bids starting at minimum of E10,000 are allocated at the weighted average yield; and
- A Primary Dealer system is employed, and all bids are submitted through the PDs at Initial Public Offering.

Primary Dealers have been appointed in the market by the Central Bank, and these are currently limited to the four local commercial banks namely Standard Bank Swaziland, Nedbank Swaziland, First National Bank and Swaziland Development and Savings Bank.

The secondary market trading of Government securities is conducted on an Over-the-Counter (OTC) basis through Exempt Dealers and Stockbrokers who play the role of market-makers by quoting two-way prices for bonds. As the bonds are listed on the SSX which vets all secondary market trades to ensure that pricing is within the stipulated market bands, and to ensure compliance.

Bonds are long-term debt instruments, and an issuance calendar is made available to the public to enable market players and investors to plan ahead and invest more efficiently. This facilitates greater transparency, and meets the market's need for greater predictability. The Issuance Calendar and all other documents pertaining to the Programme are published on the Central Bank website, and are also available for viewing at the Financial Markets Department of the Central Bank of Swaziland.

4.0 Bids Analysis of the 5-year E100 million Bond Issued on October 15, 2014 *15 October 2014 - On behalf of the Government of the Kingdom of Swaziland, the Central Bank of Swaziland auctioned a 5-year bond on October 15, 2014 where E100 million was on offer.*

The bond will mature on October 20, 2019. Coupon rate was fixed at 8.25 percent per-annum payable semi-annual. The bond was issued using multiple bid/multiple price auction and was open to the public; including individuals, corporates and institutional investors. The Ministry of Finance officials represented Government in the auction.

Total bids received amounted to E117.20 million, indicating a 117 percent subscription rate (when considering that E100 million was offered). Of the bids received, E117 million were competitive whilst E0.2 million were on the non-competitive category. Commercial banks submitted the most bids accounting for 85.33 percent of bids tendered followed by corporates at 8.53 percent, Non-bank Financial Institutions (NBFIs) with 5.97 percent and individuals being the least at 0.17 percent.

4.1 Allotments

Accepted yields ranged from 8.00 percent to 8.40 percent. The weighted average yield accepted was 8.15 percent (at a premium). Investors who did not participate missed on an opportunity to invest in a higher return paper considering that a similar paper in RSA is paying 7.48 percent. The 5-year bond issued by the Government of Swaziland will be paying a return of 8.25 percent per-annum until it matures on October 20, 2019.

On allotments made, a total of E82.20 million was allotted with commercial banks taking the largest share at 91.24 percent followed by NBFIs at 8.52 percent and individuals at 0.24 percent.

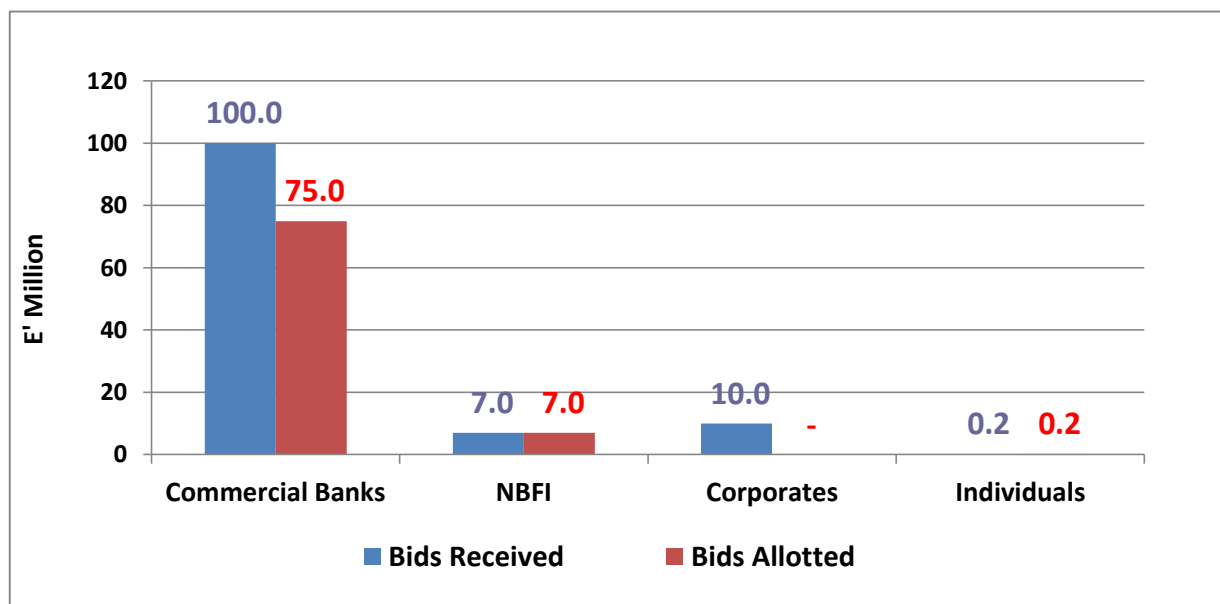
Bids received and allotments made are summarised below:

Bids By Category for E100 million 5-Year Government Bond

Bidder Category	Bids Received		Bids Allotted	
	E	% Share	E	% Share
Commercial banks	100,000,000	85.33	75,000,000	91.24
NBFIs	7,000,000	5.97	7,000,000	8.52
Corporates	10,000,000	8.53	-	-
Individuals	200,000	0.17	200,000	0.24
Total	117,200,000	100	82,200,000	100

Source: Central Bank of Swaziland

Graphical Presentation of Bids By Category



5.0 WAY FORWARD

Investors and the public are informed that the Government Bonds Auction Calendar for 2014/15 previously published, is hereby maintained hence the next issuances will be in November 2014 and January 2015 as indicated in the calendar below.

The 5-year bond SG020 will be re-opened as and when Government deems necessary and investors will be informed accordingly.

2014/15 Government Bonds Auction Calendar

<i>Issue Date</i>	<i>Original Tenor</i>	<i>Coupon (%)</i>	<i>Amount</i>	<i>Maturity Date</i>
25-06-2014	3-years (already issued)	7.75	E200 million offered E160.11 million bids received E70.11 million bids allotted	30/06/2017
15/10/2014	5-years (already issued)	8.25	E100 million offered E117.20 million bids received E82.20 million bids allotted	20/10/2019
Nov-2014	7-years (re-opening)	8.50	E200 million	31/10/2020
Jan-2015	10-years (re-opening)	9.25	E100 million	31/01/2024

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