7

Government debt and contingent liabilities

In brief

- Government's response to the COVID-19 pandemic resulted in the gross borrowing requirement increasing by R237.6 billion to R670.3 billion in 2020/21. The borrowing requirement is expected to decline to R541.7 billion in 2023/24.
- The increase has been financed in a manner that minimises its effect on government borrowing costs and debt stock.
- Gross loan debt is expected to increase to R5.23 trillion (87.3 per cent of GDP) by 2023/24, and to stabilise at 88.9 per cent of GDP in 2025/26.
- Contingent liabilities are expected to increase from R1.11 trillion in 2020/21 to R1.23 trillion by 2023/24.
- Additional credit rating downgrades would increase South Africa's cost of funding. Narrowing the budget deficit and implementing structural reforms to boost growth will strengthen government's credit rating over time.

Overview

The 2020/21 fiscal year coincided with the accelerated global spread of COVID-19. The resulting volatility and uncertainty in financial markets contributed to heightened risk aversion, leading to a large-scale sell-off of developing-country assets by international investors.

Globally, central banks took steps to maintain financial market liquidity and anchor stability in the financial system. In South Africa, the Reserve Bank conducted a bond-buying programme in the government bond secondary market. This step, announced in March 2020, contributed to continued market liquidity and stabilised government bond yields.

In 2020/21, government's gross borrowing requirement – the budget deficit plus maturing loans – increased significantly, from R432.7 billion to R670.3 billion, or from 8.0 to 13.6 per cent of GDP. This borrowing enabled government to finance essential health and economic measures to contain and mitigate the effects of the pandemic.

Gross loan debt is expected to increase from R3.95 trillion, or 80.3 per cent of GDP, in 2020/21 to R5.23 trillion, or 87.3 per cent of GDP, by 2023/24. Over the same period, net loan debt – gross loan debt less cash balances – will increase from R3.66 trillion, or 74.3 per cent of GDP, to R5.09 trillion, or 84.9 per cent of GDP. Contingent liabilities are projected to increase from R1.11 trillion in 2020/21 to R1.23 trillion in 2023/24.

Over the years, the National Treasury's prudent debt management strategy has enabled government to meet its borrowing requirement in a responsible, efficient and cost-effective manner. Large and persistent increases in budget deficits – resulting in higher debt and debt-service costs – compromise the sustainability of the public finances. Chapter 3 discusses the measures government is taking to consolidate the fiscus. These measures will contribute to gross loan debt stabilising at 88.9 per cent of GDP by 2025/26.

During 2020, two rating agencies (Moody's and Fitch) downgraded government's credit rating, and three agencies have the country on a negative outlook due to high and rising government debt, exacerbated by the negative economic effects of COVID-19. Additional downgrades would increase the cost of funding. Narrowing the budget deficit and addressing other challenges, such as structural reforms to boost growth, will contribute to improved credit ratings over time.

Financing strategy

The financing strategy is designed to ensure that government can meet its borrowing requirement, at reasonable cost, under changing conditions. The strategy prioritises funding liquidity – the ability to make agreed-on payments on time – while minimising refinancing and currency risk, and without compromising efficient functioning in the domestic bond market.

In 2020/21, government adjusted the strategy to reduce the effect of higher borrowing on the stock of state debt and debt-service costs. It drew down its cash deposits held with the Reserve Bank, increased short-term borrowing (Treasury bills and bridging finance from the Corporation for Public Deposits) and obtained loans from international financial institutions. These actions eased the burden in domestic capital markets, which were under pressure from rating downgrades and debt sales by international investors.

In 2021/22, the R547.9 billion borrowing requirement will be funded from short- and long-term borrowing in the domestic market, and foreign-currency loans. Government will continue its bond-switch programme over the medium term, switching shorter-dated for longer-dated bonds and using surplus cash balances from borrowing to reduce refinancing risk.

Better-than-expected revenue collection since the October 2020 projections increased government's cash balances. Over the medium term, this cash will be used to reduce the borrowing requirement and, consequently, debt issuance. Cash balances are expected to decline over this period.

Long-term loans include fixed-rate, inflation-linked and retail savings bonds. Government will consider issuing bonds across a range of maturities – over the yield curve – based on investor demand and borrowing costs. National Treasury analysis indicates that increasing issuance for bonds maturing between three and 17 years may reduce borrowing costs, and that maintaining an average term to maturity of 9.5 years to 14 years reduces refinancing risk.

Following a successful issuance in global capital markets in 2014, the National Treasury will issue a domestic rand-denominated Islamic sukuk bond in 2021/22 to diversify funding sources and reach new investors. In addition, the National Treasury is in the process of listing retail savings bonds to improve their accessibility and funding levels.

Government's strategic portfolio risk benchmarks help to ensure that the debt structure is configured to minimise risk. The debt portfolio is expected to remain within its current benchmarks during 2021/22.

Table 7.1 Performance against strategic portfolio risk benchmarks

Description	Benchmark range or limit	2020/21	2021/22
		Estimates	
Treasury bills as % of domestic debt[1]	15	12.7	12.8
Long-term debt maturing in 5 years as % of bonds	25	14.4	13.8
Inflation-linked bonds as % of domestic debt	20-25	22.4	19.4
Foreign debt as % of total debt	15	10.6	11.0
Weighted term-to-maturity of fixed-rate bonds and Treasury bills (years)	10-14	11.7	11.4
Weighted term-to-maturity of inflation-linked bonds (years)	14-17	13.2	13.0
Other indicators (weighted average)			
Term-to-maturity of total debt (years)		12.2	11.8
Term-to-maturity of foreign debt (years)		13.5	13.1

1. Excludes borrowing from the Corporation for Public Deposits and retail savings bonds
Source: National Treasury

Risks to the financing strategy

The main risks to the financing strategy are:

- A widening budget deficit. A rising budget deficit would likely increase the cost of funding alongside the stock of debt.
- Inflation and exchange-rate risks. Unanticipated increases in inflation or depreciation in the rand exchange rate would increase the cost of outstanding inflation-linked or foreign-currency debt.
- Sovereign credit ratings. Further downgrades deeper into sub-investment territory would result in a higher budget deficit, rising debt levels and weak economic growth.

Borrowing performance and projections

Government's gross borrowing requirement consists of the budget deficit and maturing loans. As a result of the COVID-19 pandemic, the 2020/21 budget deficit increased by R235.4 billion relative to the 2020 Budget estimate. Loan redemptions increased, mainly due to the weaker currency. As a result, the gross borrowing requirement rose from a projected R432.7 billion to R670.3 billion for 2020/21, or from 8.0 to 13.6 per cent of GDP. The borrowing requirement is expected to decline over the medium term, as shown in Table 7.2, reaching 9.0 per cent of GDP in the outer year. Over the same period, loan redemptions will increase from R66.9 billion to R152.7 billion.

Table 7.2 Financing of national government gross borrowing requirement[1]

	2019/20	2020/21		2021/22	2022/23	2023/24
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
Main budget balance	**-345 053**	**-367 999**	**-603 388**	**-482 580**	**-417 164**	**-389 011**
Redemptions	**-70 657**	**-64 699**	**-66 881**	**-65 280**	**-144 797**	**-152 657**
Domestic long-term loans	-19 428	-52 465	-52 465	-60 815	-129 357	-112 428
Foreign loans	-51 229	-12 234	-14 416	-4 465	-15 440	-40 229
Total	**-415 710**	**-432 698**	**-670 269**	**-547 860**	**-561 961**	**-541 668**
Financing						
Domestic short-term loans	**36 078**	**48 000**	**97 184**	**9 000**	**52 000**	**56 000**
Treasury bills (net)	26 001	48 000	124 539	9 000	52 000	56 000
Corporation for Public Deposits	10 077	–	-27 355	–	–	–
Domestic long-term loans	**305 449**	**337 700**	**518 457**	**380 000**	**440 800**	**396 900**
Market loans	305 738	337 700	518 500	380 000	440 800	396 900
Loans issued for switches	-289	–	-43	–	–	–
Foreign loans	**76 052**	**29 260**	**107 070**	**46 260**	**46 320**	**62 600**
Market loans	76 052	29 260	107 070	46 260	46 320	62 600
Loans issued for switches	–	–	–	–	–	–
Change in cash and other balances[2]	**-1 869**	**17 738**	**-52 442**	**112 600**	**22 841**	**26 168**
Cash balances	2 474	12 596	-58 957	107 876	17 544	19 219
Other balances[3]	-4 343	5 142	6 515	4 724	5 297	6 949
Total	**415 710**	**432 698**	**670 269**	**547 860**	**561 961**	**541 668**
Percentage of GDP	*8.1%*	*8.0%*	*13.6%*	*10.2%*	*9.9%*	*9.0%*

1. A longer time series is presented in Table 1 of the statistical annexure at the back of the Budget Review
2. A positive value indicates that cash is used to finance part of the borrowing requirement
3. Differences between funds requested and actual cash flows of national departments
Source: National Treasury

Domestic short-term borrowing

During 2020/21, government issued an additional R76.5 billion in Treasury bills (relative to 2020 Budget projections) to partly finance the higher gross borrowing requirement and to reduce domestic bond issuance. As a result, Treasury bills increased from 12.4 to 15.8 per cent of domestic debt issuance.

Table 7.3 Domestic short-term borrowing

	2020/21			2021/22		2020/21	2021/22
R million	**Opening balance**	**Net change**	**Closing balance**	**Net change**	**Closing balance**	**Weekly auction estimates**	
Corporation for Public Deposits	**27 355**	**-27 355**	**–**	**–**	**–**		
Treasury bills	**333 360**	**124 539**	**457 899**	**9 000**	**466 899**	**12 950**	**12 330**
91-days	10 601	7 102	17 703	727	18 429	1 400	1 310
182-days	57 368	16 027	73 395	7 321	80 716	3 070	2 940
273-days	109 293	44 211	153 504	-4 693	148 811	4 040	3 840
364-days	156 098	57 200	213 298	5 645	218 942	4 440	4 240
Total	**360 715**	**97 184**	**457 899**	**9 000**	**466 899**		

Source: National Treasury

In addition, borrowing from the Corporation for Public Deposits was reduced by R27.4 billion. In 2021/22, net Treasury bill issuance will amount to R9.0 billion, while borrowing from the Corporation for Public

Deposits will remain unchanged. Over the medium term, Treasury bill issuance will average R39.0 billion, or 8.4 per cent of total domestic borrowing.

Domestic long-term borrowing

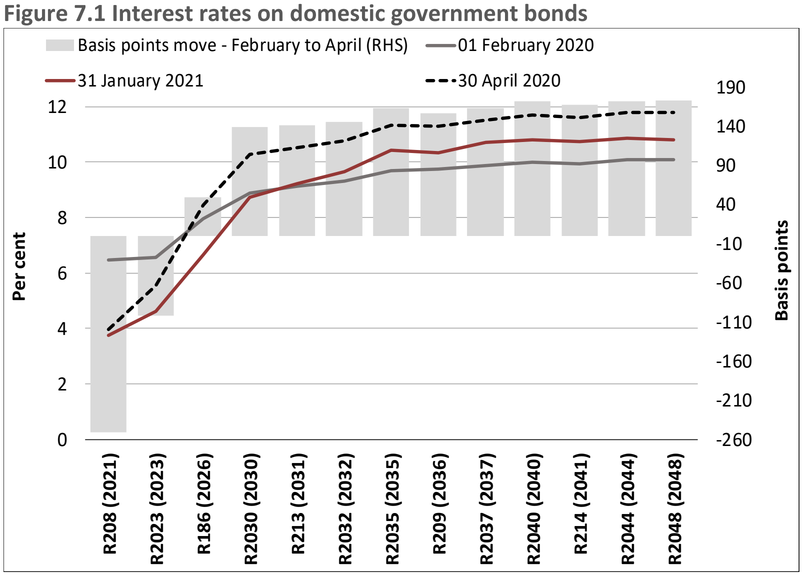
In 2020/21, domestic long-term borrowing relative to the 2020 Budget estimate increased by R180.8 billion to R518.5 billion. Between April 2020 and January 2021, government raised R438.8 billion by issuing domestic long-term debt. Fixed-rate bonds accounted for 81.5 per cent of bond issuances, with inflation-linked bonds making up the remainder. In 2020/21, retail savings bonds raised R7.6 billion compared with R3.6 billion in the previous year. This increase reflects the sound value proposition offered by retail savings bonds, and the National Treasury's commitment to enhancing their visibility and diversifying funding sources.

In 2020/21, government bond yields rose substantially compared with the previous year. While demand was concentrated in shorter-dated debt, the reduction in the repo rate and the increase in the budget deficit contributed to a particularly steep yield curve – the relationship between bonds of different maturities – as the risk premium is much higher for long-term debt. This is shown in the difference between the February and April 2020 yield curves in Figure 7.1. Government adjusted its issuance strategy by issuing more bonds in the short-to-medium term, lowering its average borrowing costs.

Between April 2020 and January 2021, yields over most of the fixed-rate bond yield curve declined. This reflects improved confidence in the bond market. However, relative to February 2020 – before the COVID-19 pandemic reached South Africa – borrowing is still more expensive.

Over the medium term, domestic long-term borrowing will average R405.9 billion.

Figure 7.1 Interest rates on domestic government bonds



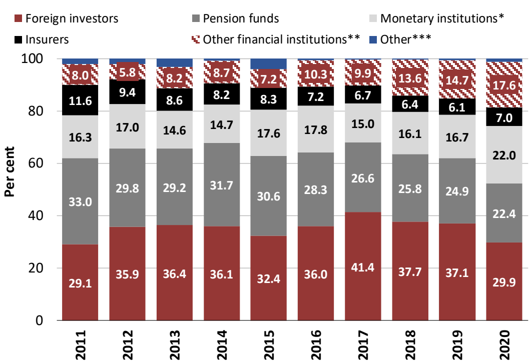
Source: National Treasury

Investor trends in government bond holdings

International investors hold 29.9 per cent of government's domestic bond portfolio. Their holdings fell by R8 billion in 2020 relative to an increase of R95 billion in 2019, reflecting concerns about sovereign credit risk and uncertainty around the pandemic. As a result of the sudden sell-off by foreign investors and the reduction in the short-term interest rates by the Reserve Bank, domestic banks and other financial institutions increased their holdings significantly, from 16.7 per cent and 14.7 per cent in 2019 to 22 per cent and 17.6 per cent in 2020 respectively. Pension funds, which are driven by the longer-term outlook, reduced their holdings in response to increased short- and medium-term bond issuance.

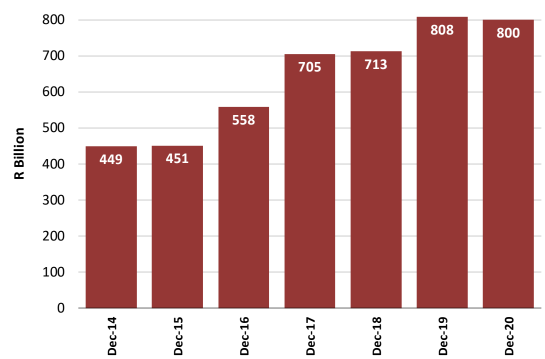
International investors remain the largest category of domestic bondholders. The National Treasury continues to engage regularly with global investors, although its meetings and roadshows are now virtual in light of the pandemic.

Figure 7.2 Ownership of domestic bonds



*South African registered banks, mutual banks and South African branches of foreign banks.
**Unit trusts, financial companies and holding companies.
***Public sector, private non-financial corporates, households and nominee companies.
Source: Share Transactions Totally Electronic

Figure 7.3 Domestic bonds held by foreign investors



International borrowing

Government's foreign-currency bonds – mainly denominated in dollars and euros – are issued to meet foreign-currency commitments. In 2020/21, given unfavourable conditions, government did not issue any bonds in global capital markets. Instead, it raised US$5.6 billion from the International Monetary Fund, the New Development Bank, and the African Development Bank. Of this amount, US$4.6 billion has been converted into rands to partially fund domestic commitments. Government will continue to explore lower-cost funding from international financial institutions to meet foreign-currency commitments.

Table 7.4 Borrowing from international finance institutions

Institutions	Disbursement date	Interest rate	Terms (years)	Grace period[1] (years)	Amount billions
New Development Bank	20 July 2020	6-month LIBOR[2] plus 1.25%	30	5	US$1.0
International Monetary Fund	29 July 2020	1.0660%	5	3	US$4.3
African Development Bank	15 October 2020	3-month JIBAR[3] plus 0.8%	20	5	R5.0[4]

1. A period after the disbursement where no capital repayments are required
2. LIBOR (London Interbank Offered Rate)
3. JIBAR (Johannesburg Interbank Average Rate)
4. The US dollar equivalent is US$0.29 billion
Source: National Treasury

Over the medium term, government will raise an additional US$10 billion in global capital markets, as shown in Table 7.5.

Table 7.5 Foreign-currency commitments and financing

	2019/20	2020/21	2021/22	2022/23	2023/24
US$ million	**Outcome**	**Estimate**	**Medium-term estimates**		
Opening balance	**8 727**	**8 489**	**7 620**	**7 748**	**7 260**
Commitments	**-5 660**	**-7 573**	**-2 937**	**-3 504**	**-5 341**
Redemptions	-3 427	-824	-289	-1 000	-2 571
Interest	-1 173	-1 154	-1 338	-1 484	-1 690
Departments	-1 060	-5 595	-1 310	-1 020	-1 080
Financing	**5 422**	**6 704**	**3 065**	**3 016**	**4 015**
Loans	5 000	6 570	3 000	3 000	4 000
Purchases	–	–	–	–	–
Interest	422	134	65	16	15
Closing balance	**8 489**	**7 620**	**7 748**	**7 260**	**5 934**

Source: National Treasury

Cash balances

Government’s total cash holdings consist of deposits held at the commercial banks and the Reserve Bank. The latter consist of sterilisation deposits – deposits that neutralise excess cash created in the money market – and foreign-currency accumulation deposits, relating to all proceeds from foreign loans.

Historically, sterilisation deposits were used as bridging finance to cover obligations over the short term. In 2020/21, government decided to use these deposits to partly finance the higher gross borrowing requirement. The funds will be drawn down in the current fiscal year and over the next two years in line with cash flow requirements.

At the end of 2020/21, total cash balances stood at R294.6 billion. Over the medium term, foreign currency deposits will average US$7.0 billion.

Table 7.6 Change in cash balances

R million	2019/20 Outcome	2020/21 Budget	 Revised	2021/22	2022/23 Medium-term estimates	2023/24
Rand currency						
Opening balance	**120 575**	**117 157**	**111 693**	**175 509**	**60 815**	**50 000**
Closing balance	**111 693**	**117 157**	**175 509**	**60 815**	**50 000**	**50 000**
of which:						
Tax and loan accounts	*44 536*	*50 000*	*134 352*	*50 000*	*50 000*	*50 000*
Change in rand cash balance[1] (opening less closing balance)	**8 882**	**–**	**-63 816**	**114 694**	**10 815**	**–**
Foreign currency[2]						
Opening balance	**117 560**	**121 628**	**123 968**	**119 109**	**125 927**	**119 198**
Closing balance	**123 968**	**109 032**	**119 109**	**125 927**	**119 198**	**99 979**
US$ equivalent	*8 489*	*7 142*	*7 620*	*7 748*	*7 260*	*5 934*
Change in foreign currency cash balance[1] (opening less closing balance)	**-6 408**	**12 596**	**4 859**	**-6 818**	**6 729**	**19 219**
Total change in cash balances[1]	**2 474**	**12 596**	**-58 957**	**107 876**	**17 544**	**19 219**
Total closing cash balance	**235 661**	**226 189**	**294 618**	**186 742**	**169 198**	**149 979**

1. A positive value indicates that cash is used to finance part of borrowing requirement
2. Rand values at which foreign currency was purchased or borrowed
Source: National Treasury

Government debt and debt-service costs

National government debt

Table 7.7 summarises the distribution and stock of national government debt. Debt is now expected to stabilise at 88.9 per cent of GDP in 2025/26 – down from a projected 95.3 per cent of GDP estimated in the 2020 MTBPS. This is as a result of a decline in the tax revenue shortfall since the tabling of the MTBPS, which resulted in improved cash balances. Over the medium term, these cash balances and reduced budget deficits will be used to lower the government's gross borrowing requirement, resulting in reduced debt issuances. Gross loan debt is expected to increase to R5.23 trillion, or 87.3 per cent of GDP, by 2023/24, with net debt reaching 84.9 per cent of GDP over the same period.

Table 7.7 Total national government debt[1]

End of period	2019/20	2020/21	2021/22	2022/23	2023/24
R billion	Outcome	Estimate	Medium-term estimates		
Domestic loans[2]	**2 874.1**	**3 529.1**	**3 916.7**	**4 322.3**	**4 707.8**
Short-term	360.7	457.9	466.9	518.9	574.9
Long-term	2 513.4	3 071.2	3 449.8	3 803.4	4 132.9
Fixed-rate	*1 863.2*	*2 287.6*	*2 615.0*	*2 845.1*	*3 161.5*
Inflation-linked	*650.2*	*783.6*	*834.8*	*958.3*	*971.4*
Foreign loans[2]	**387.2**	**420.6**	**466.1**	**497.6**	**526.7**
Gross loan debt	**3 261.3**	**3 949.7**	**4 382.8**	**4 819.9**	**5 234.5**
Less: National Revenue Fund bank balances[2]	-263.6	-292.0	-180.3	-162.1	-142.9
Net loan debt	**2 997.7**	**3 657.7**	**4 202.5**	**4 657.8**	**5 091.6**
As percentage of GDP:					
Gross loan debt	*63.3*	*80.3*	*81.9*	*85.1*	*87.3*
Net loan debt	*58.2*	*74.3*	*78.5*	*82.2*	*84.9*

1. A longer time series is given in Table 10 of the statistical annexure at the back of the Budget Review
2. Estimates include revaluation based on National Treasury's projections of inflation and exchange rates
Source: National Treasury

Government debt levels are affected by changes in inflation and exchange rates. For example, rand appreciation decreases the value of outstanding foreign debt. Foreign-currency-denominated debt will average R496.8 billion, or 10.3 per cent, of gross debt over the medium term. Government's foreign-currency exposure is partly offset by foreign-currency investments, which in 2020/21 amount to US$7.6 billion.

Table 7.8 Analysis of annual increase in gross loan debt

	2019/20	2020/21	2021/22	2022/23	2023/24
R million	**Outcome**	**Estimate**	**Medium-term estimates**		
Budget deficit	345 053	603 388	482 580	417 164	389 011
Discount on loan transactions	31 415	72 524	26 873	6 886	2 305
Revaluation of inflation-linked bonds[1]	23 618	19 313	32 520	35 314	42 645
Revaluation of foreign-currency debt[1]	71 088	-59 275	3 673	676	6 697
Change in cash and other balances[2]	1 869	52 442	-112 600	-22 841	-26 168
Total	**473 043**	**688 392**	**433 046**	**437 199**	**414 490**

1. Revaluation based on National Treasury projections of inflation and exchange rates
2. A negative value indicates that cash is used to finance part of the borrowing requirement
Source: National Treasury

In 2020/21, the stock of debt increased by R688.4 billion. The main budget deficit accounted for 87.7 per cent of this increase, while interest and inflation rate changes explain much of the rest.

National government debt-service costs

Debt-service costs are determined by debt stock, new borrowing and macroeconomic variables such as interest, inflation and exchange rates. In 2020/21, debt-service costs were revised upwards by R3.6 billion due to the higher borrowing requirement. Short-term borrowing costs were lower than projected due to a significant decline in short-term rates following the Reserve Banks's lowering of the repo rate. As a share of GDP, debt-service costs are projected to average 5.3 per cent over the medium term.

Table 7.9 National government debt-service costs

R million	2019/20 Outcome	2020/21 Budget	2020/21 Revised	2021/22	2022/23	2023/24
				Medium-term estimates		
Domestic loans	187 276	211 144	213 794	249 054	285 056	312 096
Short-term	32 096	25 441	21 133	18 025	21 802	25 566
Long-term	155 180	185 703	192 661	231 029	263 254	286 530
Foreign loans	17 493	18 126	19 058	20 687	22 957	26 495
Total	**204 769**	**229 270**	**232 852**	**269 741**	**308 013**	**338 591**
As percentage of:						
GDP	*4.0*	*4.2*	*4.7*	*5.0*	*5.4*	*5.6*
Expenditure	*12.1*	*13.0*	*12.9*	*14.7*	*16.5*	*17.7*
Revenue	*15.2*	*16.4*	*19.4*	*20.0*	*21.2*	*22.2*

Source: National Treasury

Contingent liabilities

Contingent liabilities are state obligations that will result in expenditure only if a specific event occurs. Government closely monitors the status of these liabilities and other fiscal obligations. These include guarantees to state-owned companies, independent power producers, public-private partnerships, and provisions for multilateral institutions.

Chapter 8 discusses the financial position of state-owned companies. Details of contingent liabilities and other obligations are shown in Table 11 of the statistical annexure.

Government guarantees

State-owned companies

Government's guarantee exposure consists of the sum of the outstanding value of a loan, accrued interest and adjustments to inflation-linked bonds. The guarantee amount, however, reflects only the capital value of the loan. As a result, exposure may exceed the approved guarantee amount.

The total amount for approved guarantees is expected to increase by R96.2 billion to R581 billion by the end of March 2021, with associated exposure estimated to decrease by R3.4 billion to R410.3 billion. Eskom constitutes the largest exposure, at 77.2 per cent of guarantees.

In 2020/21, the following were major changes to the guarantee profile:

- Eskom's guarantee exposure decreased by R10.1 billion due to maturing guaranteed debt.
- A loan guarantee scheme was introduced to support certain businesses affected by COVID-19 and associated lockdown measures. The National Treasury provided a R100 billion guarantee to the Reserve Bank with the option to extend to R200 billion. By 11 February 2021, loans of R89.8 billion had been approved with drawdowns of R13.3 billion.

Table 7.10 Government guarantee exposure[1]

	2018/19		2019/20		2020/21	
R billion	**Guarantee**	**Exposure[2]**	**Guarantee**	**Exposure[2]**	**Guarantee**	**Exposure[2]**
Public institutions	**487.7**	**368.1**	**484.8**	**413.7**	**581.0**	**410.3**
of which:						
Eskom	*350.0*	*285.6*	*350.0*	*326.9*	*350.0*	*316.8*
SANRAL	*38.9*	*39.5*	*37.9*	*39.0*	*37.9*	*45.3*
Trans-Caledon Tunnel Authority	*43.0*	*14.3*	*43.0*	*13.6*	*43.0*	*13.4*
South African Airways	*19.1*	*15.3*	*19.1*	*17.9*	*19.1*	*6.2*
Land and Agricultural Bank of South Africa	*9.6*	*1.0*	*9.6*	*2.6*	*9.6*	*2.6*
Development Bank of Southern Africa	*11.4*	*4.3*	*10.0*	*4.7*	*10.2*	*4.7*
South African Post Office	*2.9*	–	–	–	–	–
Transnet	*3.5*	*3.8*	*3.5*	*3.8*	*3.5*	*3.8*
Denel	*3.4*	*3.4*	*6.9*	*4.4*	*5.9*	*3.4*
South African Express	*2.8*	*0.2*	*1.9*	*0.2*	*0.2*	*0.1*
Industrial Development Corporation	*0.5*	*0.1*	*0.6*	*0.2*	*0.6*	*0.2*
South African Reserve Bank	*0.3*	–	–	–	*100.0*	*13.3*
Independent power producers	**200.2**	**146.9**	**200.2**	**161.4**	**200.2**	**176.7**
Public-private partnerships[3]	**10.5**	**10.5**	**8.7**	**8.7**	**8.0**	**8.0**

1. A full list of guarantees is given in Table 11 of the statistical annexure in the Budget Review
2. Total amount of borrowing, adjustments to inflation-linked bonds as a result of inflation rate changes and accrued interest
3. These amounts only include national and provincial PPP agreements
Source: National Treasury

Other guarantees

Contingent liability risks for independent power producers are very low. Government has committed to procure up to R200 billion in renewable energy from these projects. The value of signed agreements, which represents government's exposure, is expected to amount to R176.7 billion by March 2021. This exposure is expected to decrease to R137.5 billion in 2023/24.

In 2020/21, government's exposure to public-private partnerships decreased by R0.7 billion to R8.0 billion, as a number of projects reached maturity. Total exposure is expected to reach R5.2 billion in 2023/24.

Reinforcing criteria for guarantee applications

Over the past several years, as financial performance and governance deteriorated in public entities and state-owned companies, requests for government guarantees and assistance have increased. Most of these requests from state-owned companies have not been in line with Cabinet-approved guidelines. As part of its efforts to reduce the level of guarantees and improve their quality, government published an instruction note in December 2020 outlining minimum criteria for guarantee applications from public entities and their shareholder departments. Public entities and state-owned companies cannot apply for guarantees they cannot afford to repay.

Other contingent liabilities

Table 7.11 shows government's exposure to multilateral institutions and other implicit contingent liabilities. South Africa subscribes to shares in these institutions but does not pay the full amount. Government's commitments represent the unpaid portion of the share subscribed to in the unlikely event these institutions run into financial difficulty. Chapter 8 discusses the Road Accident Fund.

Table 7.11 Provision for multilateral institutions and other contingent liabilities

R billion	2018/19	2019/20	2020/21
Multilateral institutions	**260.7**	**341.9**	**381.6**
of which:			
New Development Bank	*57.9*	*93.0*	*100.9*
African Development Bank	*53.9*	*66.5*	*56.8*
International Monetary Fund	*85.9*	*111.8*	*159.3*
World Bank Group	*29.5*	*36.4*	*30.4*
Other contingent liabilities	**303.1**	**472.4**	**510.3**
of which:			
Export Credit Insurance Corporation of South Africa	*20.5*	*20.5*	*15.6*
Post-retirement medical assistance	*69.9*	*69.9*	*69.9*
Road Accident Fund	*173.6*	*332.2*	*375.0*

Source: National Treasury

Membership in international financial institutions

South Africa is a member of the African Development Bank, International Monetary Fund, New Development Bank and World Bank Group. Membership incurs certain financial obligations, some of which are categorised as contingent liabilities. These obligations are capital and quota contributions to maintain the country's shareholding in the institutions and strengthen the global safety net that they support. South Africa's membership in these institutions has enabled it to obtain more competitive financing over the past years (see Table 7.4, for example). In the early stages of the coronavirus pandemic, access to private capital had been unreliable, limited and costly. Lending by the international financial institutions has helped South Africa to cope with volatile capital markets and high borrowing costs.

Net valuation profits and losses

Government's largest contingent asset is the Gold and Foreign Exchange Contingency Reserve Account. It reflects profits and losses on gold and foreign exchange reserves, held by the Reserve Bank, to meet foreign exchange obligations and to maintain liquidity in the presence of external shocks. Due to the appreciation of the rand, unrealised gains are expected to amount to R332.6 billion by end-March 2021, a decrease of R103.5 billion compared with 2019/20. In 2020/21, government settled a realised loss of R111.3 million. Losses of R59.6 million are projected for 2021/22.

Conclusion

Over the past year, government adjusted its financing strategy to ensure that commitments were met in a way that minimised the impact on the stock of debt and the cost of borrowing. Debt is expected to stabilise in 2025/26. Large and persistent increases in budget deficits – resulting in higher debt and debt-service costs – compromise fiscal sustainability.