# 7

# Government debt and contingent liabilities

**In brief**

- Government continues to manage its debt and meet the country's financing needs in a sustainable and responsible manner.
- Over the past year, government's gross borrowing requirement has risen by R15.3 billion to R239.5 billion. This was mainly the result of lower-than-expected revenue collection.
- The borrowing requirement, which will increase to R335.3 billion in 2019/20, will be financed primarily by domestic capital markets.
- Net loan debt is expected to reach R2.52 trillion or 49.9 per cent of GDP in 2018/19, increasing to R3.47 trillion or 55.5 per cent of GDP by 2021/22. Net debt is expected to stabilise at 57.3 per cent in 2024/25.
- Contingent liabilities are expected to increase from R879.6 billion in 2018/19 to R1.02 trillion by 2021/22.

## Overview

*Gross borrowing requirement expected to reach R335.3 billion in 2019/20*

Since the 2018 Budget, government's gross borrowing requirement, which consists of the difference between revenue and expenditure, and payments for maturing debt, has risen by R15.3 billion. The increase is due mainly to weaker economic growth and associated revenue shortfalls. The 2018/19 requirement is expected to total R239.5 billion, rising to R335.3 billion in 2019/20.

Over the past year, developing economies experienced market volatility emanating from uncertainty over US monetary policy, US-China trade tensions and the terms of Brexit. As a result, borrowing costs and currency volatility rose.

Over the medium term, the stock of debt and debt-service costs will continue to increase. Government's gross loan debt reached an estimated R2.81 trillion or 55.6 per cent of GDP in 2018/19 and is expected to stabilise at 60.2 per cent of GDP by 2023/24. Net debt is expected to stabilise a year later at 57.3 per cent of GDP. Contingent liabilities – mainly guarantees to public entities – are projected to reach R879.6 billion on 31 March 2019. Guarantees to state-owned companies amount to R529.4 billion, of which Eskom accounts for 55.7 per cent. These guarantees remain a major risk to the fiscus.

*Government continues to manage debt and financing needs responsibly*

Despite these pressures, government continues to manage its debt and financing needs in a sustainable and responsible manner. As a percentage of GDP, the gross borrowing requirement is projected to decline from 6.2 per cent in 2019/20 to 5.3 per cent in 2021/22.

During 2018, all four credit rating agencies affirmed South Africa's ratings, with the outlook now held at stable. Favourable ratings support government's continued access to funding at reasonable rates. However, the agencies' concerns about South Africa's tepid growth, rising debt burden and contingent liabilities are reflected in two sub-investment grade ratings. A downgrade would have negative consequences for the economy and the public finances.

*Government is focused on restoring investor confidence*

Government remains focused on restoring investor confidence by narrowing the budget deficit, stabilising debt, enacting structural reforms to boost growth, and improving the financial position of state-owned companies.

## Financing strategy

The financing strategy is a framework that ensures government can fund the budget deficit in a sustainable manner. In implementing the strategy, government monitors global and domestic economic trends and regulatory developments. The strategy outlines the amounts to be funded, the funding instruments to be used, and their respective maturities and risk considerations.

In 2019/20, government's total borrowing requirement will be R335.3 billion. To ensure a diversified debt portfolio that spreads risk, the requirement will be funded by short- and long-term borrowing in the domestic market, and foreign-currency loans. Short-term borrowing consists of Treasury bills with maturities of 12 months or less and bridging finance from the Corporation for Public Deposits. Long-term loans include fixed-rate, inflation-linked and retail savings bonds. Foreign-currency loans take the form of foreign bonds.

*New debt instruments and innovative borrowing options being explored*

As part of diversifying the debt portfolio, government expects to issue a rand-denominated Islamic bond for the first time in 2019/20. In addition, borrowing from multilateral institutions to fund infrastructure projects will be considered.

The main risks to the financing strategy are:

- The fiscal position. A widening of the budget deficit in response to unforeseen expenditure or calls on government guarantees would lead to an increase in debt and borrowing costs.
- Inflation and exchange rate risk. Unanticipated increases in inflation or depreciation of the exchange rate would increase the cost of outstanding inflation-linked or foreign-currency debt.

- Higher global interest rates. Continued monetary policy tightening in developed countries could make South African bonds less attractive by reducing the difference in bond yields, leading to capital outflows or volatility.

Government's strategic portfolio risk benchmarks help to ensure that the debt structure is sustainable. The benchmarks have been reviewed and will remain unchanged. The debt portfolio is expected to remain within the strategic benchmark limits during 2019/20.

*Government expects to remain within strategic risk benchmarks in 2019/20*

Government continues to manage refinancing risk through cash accumulation and the bond-switch programme, which exchanges shorter-dated bonds for bonds with longer maturities.

**Table 7.1 Performance against strategic portfolio risk benchmarks**

| Description | Benchmark range or limit | 2018/19 | 2019/20 |
|---|---|---|---|
| | | Estimates | |
| **Benchmark**[1] | | | |
| Treasury bills as % of domestic debt | 15 | 12.5 | 11.7 |
| Long-term debt maturing in 5 years as % of fixed-rate and inflation-linked bonds | 25 | 12.5 | 11.2 |
| Inflation-linked bonds as % of domestic debt | 20-25 | 24.0 | 24.2 |
| Foreign debt as % of total debt | 15 | 10.1 | 9.3 |
| Weighted term-to-maturity of fixed-rate bonds and Treasury bills (years) | 10-14 | 13.4 | 13.7 |
| Weighted term-to-maturity of inflation-linked bonds (years) | 14-17 | 14.3 | 14.5 |
| **Other indicators (weighted average)**[2] | | | |
| Term-to-maturity of total debt (years) | | 13.2 | 13.5 |
| Term-to-maturity of foreign debt (years) | | 9.9 | 10.0 |

*1. Excludes borrowing from the Corporation for Public Deposits, retail savings and zero-coupon bonds*
*2. Indicators without specific benchmarks*
*Source: National Treasury*

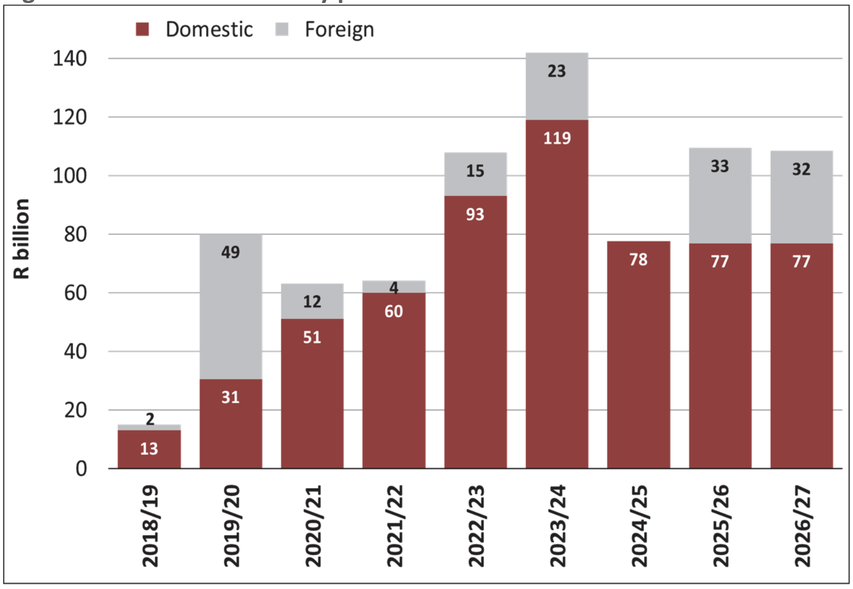
## Borrowing performance and projections

In 2018/19, the budget deficit increased by R33.4 billion relative to projections in the 2018 Budget. The increase was partially offset by lower domestic bond redemptions of R18.1 billion. As a result, the gross borrowing requirement rose from a projected R224.2 billion to R239.5 billion for 2018/19, or from 4.5 to 4.7 per cent of GDP.

*Gross borrowing requirement for 2018/19 was 4.7 per cent of GDP*

Over the next three years, R207.6 billion of domestic and foreign debt is scheduled for redemption. This is a relatively high volume, particularly in 2019/20, due to higher foreign-currency redemptions. In 2018, the bond-switch programme reduced domestic redemptions between 2018/19 and 2020/21 by R44 billion. Pre-funded foreign-currency cash balances will be used to meet foreign-currency bond redemptions in 2019/20.

**Figure 7.1 Loan debt maturity profile***




**Excludes Treasury bills and borrowing from the Corporation for Public Deposits*
*Source: National Treasury*

The main budget is expected to approach a primary balance – meaning that non-interest expenditure will no longer exceed total revenue – by 2023/24. As a percentage of GDP, the gross borrowing requirement is expected to decline, reaching 5.3 per cent in 2021/22.

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

| | 2017/18 | 2018/19 | | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|
| **R million** | **Outcome** | **Budget** | **Revised** | **Medium-term estimates** | | |
| **Main budget balance** | **-208 587** | **-191 054** | **-224 472** | **-255 243** | **-264 449** | **-267 560** |
| **Redemptions** | **-28 375** | **-33 192** | **-15 060** | **-80 088** | **-63 215** | **-64 256** |
| Domestic long-term loans | -24 254 | -31 084 | -13 019 | -30 596 | -51 075 | -59 964 |
| Foreign loans | -4 121 | -2 108 | -2 041 | -49 492 | -12 140 | -4 292 |
| **Total** | **-236 962** | **-224 246** | **-239 532** | **-335 331** | **-327 664** | **-331 816** |
| **Financing** | | | | | | |
| **Domestic short-term loans** | **33 407** | **14 200** | **14 000** | **25 000** | **35 000** | **36 000** |
| Treasury bills (net) | 43 350 | 4 200 | 14 000 | 15 000 | 35 000 | 36 000 |
| Corporation for Public Deposits | -9 943 | 10 000 | – | 10 000 | – | – |
| **Domestic long-term loans** | **198 692** | **191 000** | **180 500** | **216 000** | **244 000** | **254 000** |
| Market loans | 200 200 | 191 000 | 181 000 | 216 000 | 244 000 | 254 000 |
| Loans issued for switches | -1 508 | – | -500 | – | – | – |
| **Foreign loans** | **33 895** | **38 040** | **54 198** | **28 520** | **43 050** | **43 560** |
| Market loans | 33 895 | 38 040 | 54 198 | 28 520 | 43 050 | 43 560 |
| Loans issued for switches | – | – | – | – | – | – |
| **Change in cash and other balances[2]** | **-29 032** | **-18 994** | **-9 166** | **65 811** | **5 614** | **-1 744** |
| Cash balances | -31 538 | -23 085 | -47 498 | 71 644 | 930 | -6 268 |
| Other balances[3] | 2 506 | 4 091 | 38 332 | -5 833 | 4 684 | 4 524 |
| **Total** | **236 962** | **224 246** | **239 532** | **335 331** | **327 664** | **331 816** |
| *Percentage of GDP* | *5.0%* | *4.5%* | *4.7%* | *6.2%* | *5.6%* | *5.3%* |

*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

Short-term loans are made up of a highly liquid Corporation for Public Deposits borrowing facility and Treasury bills. During 2018/19, government issued an additional R9.8 billion in Treasury bills (relative to 2018 Budget projections) to partly finance the higher borrowing and compensate for lower issuance in domestic bonds. Loans from the Corporation for Public Deposits remained unchanged at R17.3 billion.

In 2019/20, net Treasury bill issuance will amount to R15 billion, while borrowing from the Corporation for Public Deposits will increase to R27.3 billion.

**Table 7.3 Domestic short-term borrowing**

| | 2018/19 | | | 2019/20 | | 2018/19 | 2019/20 |
|---|---|---|---|---|---|---|---|
| R million | Opening balance | Net change | Closing balance | Net change | Closing balance | Weekly auction estimates | |
| **Corporation for Public Deposits** | **17 256** | **–** | **17 256** | **10 000** | **27 256** | | |
| **Treasury bills** | **293 321** | **14 000** | **307 321** | **15 000** | **322 321** | **8 255** | **9 020** |
| 91-days | 27 430 | -10 430 | 17 000 | 1 200 | 18 200 | 1 000 | 1 400 |
| 182-days | 56 833 | 2 985 | 59 818 | -6 448 | 53 370 | 2 125 | 2 145 |
| 273-days | 88 948 | 9 556 | 98 504 | 2 896 | 101 400 | 2 395 | 2 600 |
| 364-days | 120 110 | 11 889 | 131 999 | 17 352 | 149 351 | 2 735 | 2 875 |
| **Total** | **310 577** | **14 000** | **324 577** | **25 000** | **349 577** | | |

*Source: National Treasury*

### Domestic long-term borrowing

Domestic long-term loans consist of fixed-rate, inflation-linked and retail savings bonds. In 2018/19, domestic long-term loans amounted to R180.5 billion. Between April 2018 and January 2019, government issued R147.5 billion in bonds. Fixed-rate instruments, with an average auction-clearing yield of 9.3 per cent, accounted for 81 per cent of this issuance. The auctions were well supported.

*Increasing yields made it more expensive for government to issue debt in 2018*

During 2018, yields increased by an average of 79 basis points, making it more expensive for government to issue debt. The weekly nominal auction amounts rose due to more expensive debt and higher borrowing. Over the medium term, bond issuance will increase from R216 billion to R254 billion.

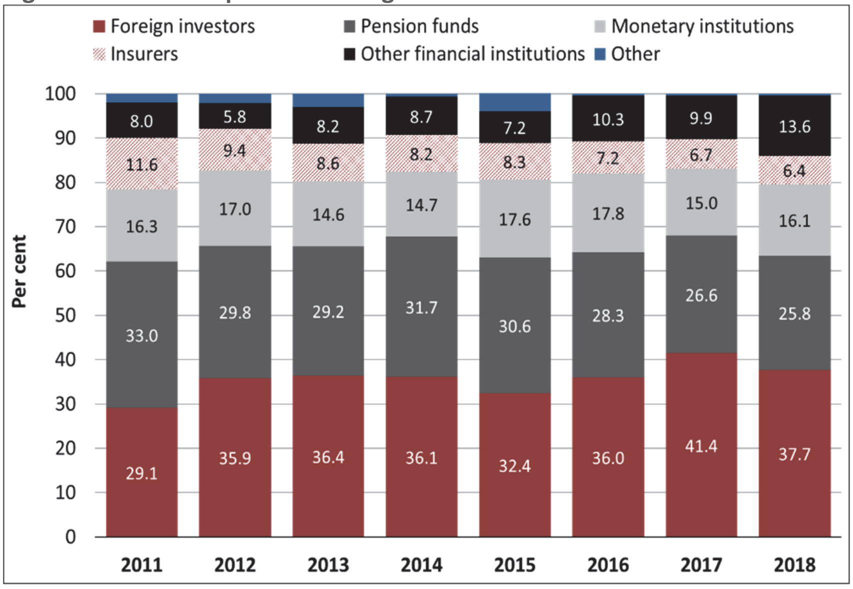
An electronic government bond trading platform was launched in July 2018. Trading on this platform has surpassed expectations. Daily volumes average R2.2 billion, compared with an expected daily trade of R1 billion. The platform is already increasing liquidity and transparency. It collects daily data that will help to assess its effect on primary bond auctions and secondary market pricing.

### Non-resident holdings

*Foreign investors hold 37.7 per cent of domestic government bonds*

Foreign investors remain the largest single category of holders of domestic government bonds. By the end of December 2018, they held 37.7 per cent (R712.9 billion) of domestic government bonds.

**Figure 7.2 Ownership of domestic government bonds**




*Source: Share Transactions Totally Electronic*

### International borrowing

*Government to raise US$8 billion in global capital markets over medium term*

Government raises financing in the international capital markets to fund its foreign-currency commitments. In 2018, it issued US$2 billion in foreign bonds, and the transaction was oversubscribed. Further issuance of US$2 billion is expected in 2018/19. Over the next three years, government will raise an additional US$8 billion in global capital markets.

**Table 7.4 Foreign-currency commitments and financing**

| US$ million | 2017/18 Outcome | 2018/19 Estimate | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|
| | | | Medium-term estimates | | |
| **Commitments** | | | | | |
| Redemptions | 311 | 154 | 3 471 | 846 | 296 |
| Interest | 916 | 1 022 | 1 257 | 1 268 | 1 426 |
| Departmental | 995 | 1 235 | 1 190 | 1 250 | 1 310 |
| **Total** | **2 222** | **2 411** | **5 918** | **3 364** | **3 032** |
| **Financing** | | | | | |
| Loans | 2 500 | 4 000 | 2 000 | 3 000 | 3 000 |
| Purchases | – | – | – | – | – |
| Interest | 49 | 86 | 86 | 87 | 79 |
| Change in cash balances[1] | -327 | -1 675 | 3 832 | 277 | -47 |
| **Total** | **2 222** | **2 411** | **5 918** | **3 364** | **3 032** |

*1. A positive value indicates that cash is used to finance part of borrowing requirement*
*Source: National Treasury*

### Cash balances

*Sharp increase in cash balances to prefund large foreign-currency commitments*

Government's total cash holdings, which consist of deposits held at commercial banks and the Reserve Bank, stood at R235.8 billion at the end of 2017/18. As Table 7.5 shows, these balances have increased sharply, mainly to prefund large foreign-currency commitments due in 2019/20. In 2018/19, rand cash balances increased by R21.5 billion relative to the 2018 Budget. This is due to a shift in the cash flow of social-grant and interest payments from March to April 2019. Of government's total cash holdings for 2019/20, almost 81 per cent, or R171.6 billion, constitutes official foreign exchange reserve deposits made with the Reserve Bank, which is available for government to use as bridging finance.

**Table 7.5 Change in cash balances**

| R million | 2017/18<br>Outcome | 2018/19<br>Budget | Revised | 2019/20 | 2020/21<br>Medium-term estimates | 2021/22 |
|---|---|---|---|---|---|---|
| **Rand currency** | | | | | | |
| **Opening balance** | **110 262** | **112 157** | **123 241** | **138 657** | **117 157** | **117 157** |
| **Closing balance** | **123 241** | **117 157** | **138 657** | **117 157** | **117 157** | **117 157** |
| *of which:* | | | | | | |
| *Tax and loan accounts* | *56 084* | *50 000* | *71 500* | *50 000* | *50 000* | *50 000* |
| **Change in rand cash balance**[1]<br>(opening less closing balance) | **-12 979** | **-5 000** | **-15 416** | **21 500** | **–** | **–** |
| **Foreign currency**[2] | | | | | | |
| **Opening balance** | **93 987** | **114 164** | **112 546** | **144 628** | **94 484** | **93 554** |
| **Closing balance** | **112 546** | **132 249** | **144 628** | **94 484** | **93 554** | **99 822** |
| *US$ equivalent* | *8 942* | *10 007* | *10 617* | *6 786* | *6 509* | *6 556* |
| **Change in foreign currency cash balance**[1]<br>(opening less closing balance) | **-18 559** | **-18 085** | **-32 082** | **50 144** | **930** | **-6 268** |
| **Total change in cash balances**[1] | **-31 538** | **-23 085** | **-47 498** | **71 644** | **930** | **-6 268** |
| **Total closing cash balance** | **235 787** | **249 406** | **283 285** | **211 641** | **210 711** | **216 979** |
| *of which:* | | | | | | |
| *Operational cash* [3] | *72 194* | *79 008* | *113 961* | *40 059* | *35 756* | *35 627* |
| *Official reserves* [4] | *163 593* | *170 398* | *169 324* | *171 582* | *174 955* | *181 352* |

*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*
*3. Deposits in rands and US dollars to meet government's commitments*
*4. Deposits in rands and US dollars made with Reserve Bank to increase official foreign exchange reserves*
*Source: National Treasury*

## Government debt and debt-service costs

### National government debt

Government debt, determined primarily by its borrowing requirement, is also affected by changes in inflation and exchange rates. Table 7.6 summarises the distribution and stock of national government debt. Gross loan debt is expected to increase by R869 billion over the medium term. Net debt is expected to stabilise at R4.52 trillion, or 57.3 per cent of GDP, by 2024/25 and gross debt at 60.2 per cent of GDP by 2023/24.

*Net loan debt expected to stabilise at 57.3 per cent of GDP by 2024/25*

**Distinguishing gross and net loan debt**

In line with global reporting standards, government discloses its debt on a gross and net basis. **Gross loan debt** represents the nominal value of all outstanding loan debt, as well as inflation-linked and foreign debt, which are revalued at current and projected inflation and exchange rates. It includes debt that was incurred to accumulate cash balances, which help to increase official foreign exchange reserves and meet future cash flow requirements. Debt-service costs are based on gross loan debt. **Net loan debt** excludes cash balances.

**Table 7.6 Total national government debt[1]**

| End of period<br>R billion | 2017/18<br>Outcome | 2018/19<br>Estimate | 2019/20 | 2020/21<br>Medium-term estimates | 2021/22 |
|---|---|---|---|---|---|
| **Domestic loans[2]** | **2 272** | **2 494** | **2 748** | **3 029** | **3 311** |
| Short-term | 311 | 324 | 350 | 385 | 420 |
| Long-term | 1 961 | 2 170 | 2 398 | 2 644 | 2 891 |
| *Fixed-rate* | *1 455* | *1 603* | *1 759* | *1 921* | *2 136* |
| *Inflation-linked* | *506* | *567* | *639* | *723* | *755* |
| **Foreign loans[2]** | **218** | **320** | **295** | **329** | **372** |
| **Gross loan debt** | **2 490** | **2 814** | **3 043** | **3 358** | **3 683** |
| Less: National Revenue Fund bank balances[2] | -229 | -292 | -214 | -211 | -212 |
| **Net loan debt** | **2 261** | **2 522** | **2 829** | **3 147** | **3 471** |
| *As percentage of GDP:* | | | | | |
| *Gross loan debt* | *52.7* | *55.6* | *56.2* | *57.8* | *58.9* |
| *Net loan debt* | *47.9* | *49.9* | *52.3* | *54.1* | *55.5* |

*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*

Over the MTEF period, the composition of debt is relatively constant. Domestic short-term and foreign-currency debt each account for about 10 per cent of gross loan debt, while domestic long-term debt accounts for the remainder. In 2018/19, the stock of debt increased by R324.7 billion. The main budget deficit accounted for R224.5 billion of this increase. The debt portfolio is sensitive to changes in the value of the currency: rand depreciation increases the value of outstanding foreign debt. This is partly offset by an increase in the rand valuation of government's foreign cash holdings.

**Table 7.7 Analysis of annual increase in gross loan debt**

| R million | 2017/18<br>Outcome | 2018/19<br>Estimate | 2019/20 | 2020/21<br>Medium-term estimates | 2021/22 |
|---|---|---|---|---|---|
| Budget deficit | 208 587 | 224 472 | 255 243 | 264 449 | 267 560 |
| Discount on loan transactions | 22 452 | 17 716 | 13 820 | 18 451 | 13 313 |
| Revaluation of inflation-linked bonds[1] | 21 491 | 18 801 | 29 226 | 35 014 | 39 245 |
| Revaluation of foreign-currency debt[1] | -24 733 | 54 476 | -3 897 | 2 603 | 3 940 |
| Change in cash and other balances[2] | 29 032 | 9 166 | -65 811 | -5 614 | 1 744 |
| **Total** | **256 829** | **324 631** | **228 581** | **314 903** | **325 802** |

*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*

### National government debt-service costs

Government debt-service costs are determined by the debt stock, new borrowing and macroeconomic variables such as interest, inflation and exchange rates.

In 2018/19, debt-service costs were revised upwards by R2.1 billion due to the higher borrowing requirement. Higher Treasury bill issuance and greater bridging finance increase short-term borrowing costs. As a share of GDP, debt-service costs average 3.9 per cent over the medium term.

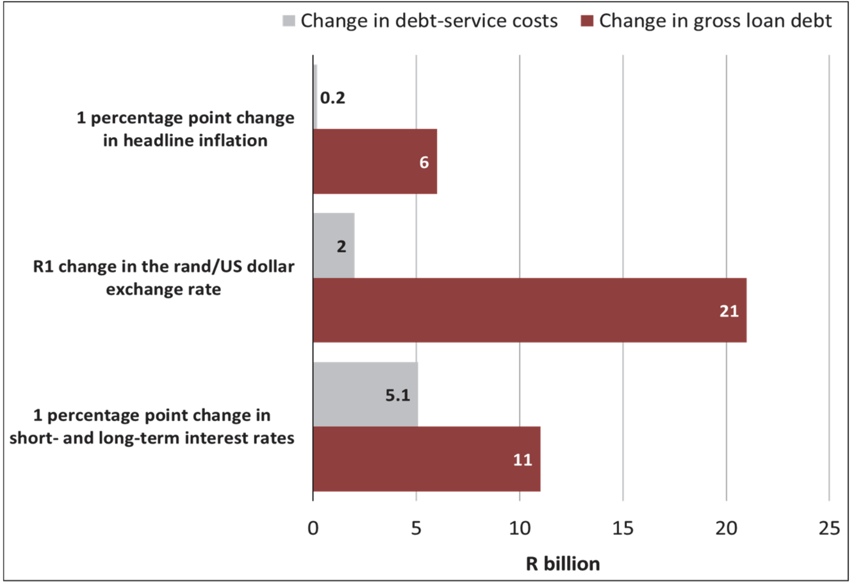
**Table 7.8 National government debt-service costs**

| R million | 2017/18 Outcome | 2018/19 Budget | Revised | 2019/20 | 2020/21 Medium-term estimates | 2021/22 |
|---|---|---|---|---|---|---|
| Domestic loans | 150 811 | 165 754 | 167 782 | 184 240 | 205 814 | 226 650 |
| Short-term | 24 954 | 22 848 | 25 882 | 25 345 | 28 861 | 31 202 |
| Long-term | 125 857 | 142 906 | 141 900 | 158 895 | 176 953 | 195 448 |
| Foreign loans | 11 834 | 14 370 | 14 436 | 17 968 | 18 252 | 20 758 |
| **Total** | **162 645** | **180 124** | **182 218** | **202 208** | **224 066** | **247 408** |
| *As percentage of:* | | | | | | |
| *GDP* | *3.4* | *3.6* | *3.6* | *3.7* | *3.9* | *4.0* |
| *Expenditure* | *11.6* | *11.9* | *12.1* | *12.2* | *12.7* | *13.0* |
| *Revenue* | *13.6* | *13.6* | *14.2* | *14.4* | *14.9* | *15.2* |

*Source: National Treasury*

Figure 7.3 uses the 2019/20 estimates to illustrate the sensitivity of debt and debt-service costs to changes in selected macroeconomic variables.

**Figure 7.3 Sensitivity of debt and debt-service costs, 2019/20***




**Assuming all other variables remain unchanged. An increase/decrease in inflation, the rand/US dollar rate or interest rates causes an increase/decrease in debt-service costs and debt*
*Source: National Treasury*

## Contingent liabilities

*Government closely monitoring contingent liabilities*

Government closely monitors the status of its contingent liabilities – financial obligations that will only result in expenditure if a specific event occurs. Contingent liabilities include guarantees to state-owned companies, independent power producers and public-private partnerships. Government also monitors other obligations, such as the provisions for multilateral institutions.

The risks posed by different categories of contingent liabilities vary. Chapter 8 discusses the financial position of state-owned companies and other public-sector institutions. Table 11 of the statistical annexure shows details of contingent liabilities and provisions for multilateral institutions.

### Government guarantees and other liabilities

*Guarantees to some state-owned companies remain a major risk to the fiscus*

A guarantee is a commitment to take responsibility for a loan in the event of default. It enables the beneficiary to access funding that would otherwise be unavailable, or to borrow at a lower cost. A high level of contingent liabilities can lead to a higher risk premium on (and increased costs of) sovereign debt. Guarantees to some state-owned companies remain a major risk to the fiscus, and government is committed to reducing its guarantee exposure.

**Table 7.9 Government guarantee exposure[1]**

| | 2016/17 | | 2017/18 | | 2018/19 | |
|---|---|---|---|---|---|---|
| **R billion** | **Guarantee** | **Exposure[2]** | **Guarantee** | **Exposure[2]** | **Guarantee** | **Exposure[2]** |
| **Public institutions** | **475.7** | **290.4** | **469.8** | **321.3** | **483.1** | **372.4** |
| *of which:* | | | | | | |
| *Eskom* | *350.0* | *202.8* | *350.0* | *244.7* | *350.0* | *294.7* |
| *SANRAL* | *38.9* | *29.4* | *38.9* | *30.4* | *38.9* | *30.3* |
| *Trans-Caledon Tunnel Authority* | *25.6* | *20.9* | *25.7* | *18.9* | *43.0* | *14.9* |
| *South African Airways* | *19.1* | *17.8* | *19.1* | *11.1* | *19.1* | *17.3* |
| *Land and Agricultural Bank of South Africa* | *11.1* | *3.8* | *9.6* | *3.8* | *9.6* | *2.5* |
| *Development Bank of Southern Africa* | *12.5* | *4.1* | *12.2* | *4.1* | *11.4* | *4.4* |
| *South African Post Office* | *4.4* | *4.0* | *4.2* | *0.4* | – | – |
| *Transnet* | *3.5* | *3.8* | *3.5* | *3.8* | *3.5* | *3.8* |
| *Denel* | *1.9* | *1.9* | *2.4* | *2.4* | *3.4* | *3.4* |
| *South African Express* | *1.1* | *0.8* | *1.1* | *0.9* | *1.2* | *0.2* |
| *Industrial Development Corporation* | *0.4* | *0.2* | *0.4* | *0.1* | *0.5* | *0.2* |
| *South African Reserve Bank* | *3.0* | – | – | – | *0.3* | – |
| **Independent power producers** | **200.2** | **125.8** | **200.2** | **122.2** | **200.2** | **146.9** |
| **Public-private partnerships[3]** | **10.0** | **10.0** | **10.0** | **9.6** | **10.1** | **10.1** |

*1. A full list of guarantees is given in Table 11 of the statistical annexure in the Budget Review*
*2. Total amount of borrowing and accrued interest for the period made against the guarantee*
*3. These amounts only include national and provincial PPP agreements*
*Source: National Treasury*

Changes in the guarantee profile in 2018/19 were as follows:

- Eskom used an additional R50 billion of its R350 billion guarantee in 2018/19.
- Denel was granted a further R1 billion guarantee to help it secure funding for working-capital requirements and alleviate cash flow pressures. This increased the entity's guarantee and exposure to R3.4 billion for the next five years.
- Government and the Trans-Caledon Tunnel Authority concluded the guarantee framework agreement for the Vaal River System, which incorporates the Lesotho Highlands Water Project and the Acid Mine Drainage project. This brings the authority's total guarantee to R43 billion.
- The National Treasury issued a R336 million guarantee to the Reserve Bank as part of the curatorship of VBS mutual bank. This guarantee is yet to be used.

*Guarantees to independent power producers*

*Contingent liability risks for independent power producers are very low*

Power-purchase agreements between Eskom and independent power producers are classified as contingent liabilities in line with global standards. These liabilities can materialise in two ways. If Eskom could not afford to buy power as set out in the power-purchase agreements, government would have to provide the utility with money to honour the agreements. Government would also be liable if it terminated such agreements owing to a change in legislation or policy. Both outcomes are unlikely, and the risk of this contingent liability materialising is low.

Government has committed to procure up to R200 billion in renewable energy from independent power producers. The value of signed projects, which represents government's exposure, is expected to amount to R146.9 billion by March 2019. Exposure is expected to decrease to R139.2 billion in 2021/22.

*Guarantees to public-private partnerships*

*PPP contingent liabilities increased by R510 million to R10.1 billion in 2018/19*

Contingent liability exposure from public-private partnerships (PPPs) arises mainly from contract cancellation or if a project does not generate minimum revenue levels. During 2018/19, contingent liabilities from these partnerships increased by about R510 million to R10.1 billion. Total exposure is expected to decline to R8.1 billion in 2021/22. Additional information appears in Annexure E.

**Provisions for multilateral institutions**

*Provisions for multilateral institutions set to increase to R322.2 billion in 2021/22*

South Africa subscribes to shares in multilateral institutions such as the International Monetary Fund, the African Development Bank and the World Bank, and contributes capital to the New Development Bank. Government has an obligation to help recapitalise these institutions if they run into financial difficulty by paying for shares that are subscribed but not paid for. The risk of this happening is very low. Provisions for multilateral institutions are R260.6 billion for 2018/19, and are expected to reach R322.2 billion in 2021/22.

**Other contingent liabilities**

Government's other obligations appear in Table 11 of the statistical annexure. They include a commitment to the Export Credit Insurance Corporation of South Africa, reflecting the net underwriting exposure of the company and its total assets. This commitment is forecast to reach R23.2 billion in 2018/19. The contingent liability for post-retirement medical assistance to government employees is unchanged from the previous year at R69.9 billion. This reflects the estimated present value of government's future commitment to state employees. Legal claims against government departments are estimated at R28.7 billion. Obligations for the Road Accident Fund have increased by R76.9 billion to R216.1 billion in 2018/19.

**Net valuation profits and losses**

Government's largest contingent asset is the Gold and Foreign Exchange Contingency Reserve Account. This account 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. The balance on this account is split into transactions with cash flow and non-cash flow valuations. Due to the depreciation of the rand, unrealised gains are expected to amount to R279 billion by end-March 2019, an increase of R85.1 billion compared with 2017/18. In 2018/19, government settled a realised loss of R142 million. Losses of R135.3 million are projected for 2019/20.

## Conclusion

*Government continues to manage its debt sustainably and responsibly*

Over the past year, the financing environment remained challenging, and the weakening financial position of some state-owned companies put pressure on government's financial resources. However, government continues to manage its debt and meet the country's financing needs in a sustainable and responsible manner, drawing mainly from deep and liquid domestic financial markets.