7

Government debt and contingent liabilities

In brief

- Government's net borrowing requirement – the amount needed to finance the budget deficit – is expected to decrease from R172.8 billion in 2015/16 to R151.3 billion in 2018/19. Net debt stabilises at 46.2 per cent of GDP in 2017/18.
- Government's foreign debt remains low, at 10 per cent of gross loan debt.
- In 2018/19, gross bond issuance in the domestic market will be the lowest since 2011/12, reflecting the outcome of fiscal consolidation.
- South Africa's deep and liquid domestic capital markets, and its access to international borrowing, continue to provide resources for government's financing needs. Domestic capital markets will remain the main source of borrowing.
- Global investors hold 32 per cent of rand-denominated government bonds. Their holdings are sensitive to any shifts in US monetary policy and South Africa's sovereign credit ratings.
- Over the medium term, government's borrowing strategy focuses on reducing the risks presented by the sharp increase in loan repayments beginning in 2016/17.
- The National Treasury has updated the framework for reporting government's contingent liabilities in line with international practice.

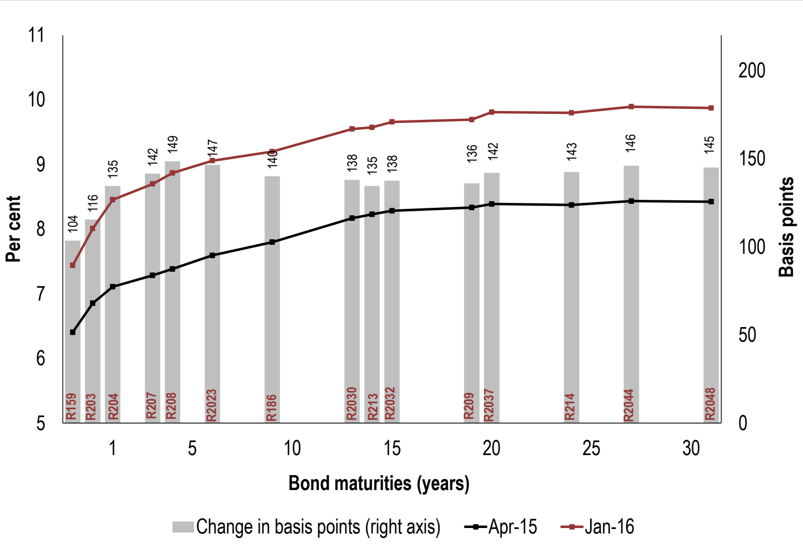
Overview

Borrowing strategy reflects prudent approach to managing debt in uncertain environment

Government's medium-term borrowing strategy reflects a prudent approach to managing debt in an environment of greater uncertainty. Over the past year, global market volatility has been fuelled by concerns about the world economic outlook, the Greek debt crisis, the pace and scope of US interest rate increases, and the course of China's economic reforms. Capital outflows from emerging markets totalled an estimated US$735 billion in 2015. In South Africa, a lower economic growth outlook and exchange rate depreciation, alongside concerns about policy certainty and sovereign credit ratings, contributed to an unfavourable funding environment.

In combination, these developments have increased the cost that government pays to borrow money. Between April 2015 and January of this year, fixed-rate government bond yields rose by an average of 136 basis points, partly reflecting a higher risk premium on state debt. Yields, which spiked in December 2015, have stabilised at a higher level, meaning that government borrowing costs will be elevated in 2016.

Figure 7.1 Fixed-rate government bond yield curve movement



Source: Bloomberg

Domestic debt markets

While government maintained the required level of borrowing over the past year, volatility took its toll on debt markets.

Demand for Treasury bills and inflation-linked bonds in 2015/16 was lower relative to previous year

In 2015/16, demand for Treasury bills was lower relative to 2014/15, with auction shortfalls of R16 billion by the end of 2015. Weaker demand was also evident in inflation-linked bond auctions, which were R1.4 billion lower than targeted over the same period. Fixed-rate government bond auctions, however, were well supported by both domestic and international investors, and will be used to make up the shortfall from inflation-linked bond auctions. The shortfalls arising from weak demand for Treasury bills will be recovered from the remaining auctions and borrowing from the Corporation for Public Deposits.

International investor participation in South African rand-denominated bonds remained resilient, though less so compared with the previous year.

Table 7.1 Ownership of domestic government bonds, 2010 – 2015

Percentage of total	2010	2011	2012	2013	2014	2015
Non-residents	**21.8**	**29.1**	**35.9**	**36.4**	**36.0**	**32.4**
Residents	**78.2**	**70.9**	**64.1**	**63.6**	**64.0**	**67.6**
Pension funds	36.5	33.0	29.8	29.1	31.7	30.7
Monetary institutions	17.7	16.3	17.0	14.6	14.7	17.6
Insurers	14.1	11.6	9.4	8.6	8.2	8.3
Other financial institutions	8.1	8.0	5.8	8.2	8.7	10.3
Other	1.8	2.0	2.1	3.1	0.7	0.7

Source: Share Transactions Totally Electronic (STRATE)

Non-residents increased their total holdings of local currency bonds to R450.1 billion in 2015, a net purchase of R1.2 billion relative to the net of R47 billion in 2014. The decline in net purchases is largely due to increasing risk aversion towards developing economies. At the end of 2015, global investors held about 32 per cent of government's rand-denominated bonds, down from 36 per cent a year earlier. Domestic buyers continued to purchase government bonds, illustrating the depth and liquidity of South Africa's capital markets.

Managing risks

The main risks to government's borrowing programme are as follows:

A deterioration in sovereign credit ratings would increase bond yields

- Rising interest rates and bond yields. The Reserve Bank, noting the deteriorating inflation outlook, has raised interest rates by 100 basis points since July 2015. If inflationary pressures continue during 2016, investors will demand higher yields to compensate for inflation risk. In addition, any deterioration in South Africa's sovereign credit ratings would increase bond yields. Standard & Poor's and Fitch Ratings currently rate South Africa at one notch above sub-investment grade for foreign-currency denominated debt, with a negative and stable outlook respectively. Moody's is two notches higher, with a negative outlook.
- Volatile capital flows. Interest rate hikes by the US Federal Reserve could reduce capital flows to developing countries, resulting in further depreciation of the rand-dollar exchange rate, as well as reduced demand and the re-pricing of government debt at a higher level.
- Economic growth and the fiscal position. Continued deterioration of the economic outlook or the fiscal position, or accelerated funding difficulties at state-owned companies, could increase both the level and cost of borrowing.

Debt portfolio well within prudent ranges and limits

Government actively manages these risks. The borrowing programme is underpinned by strategic benchmarks for refinancing, interest, inflation and currency risks. As shown in Table 7.2, the debt portfolio remains well within prudent ranges and limits.

Table 7.2 Performance against strategic portfolio risk benchmarks

	Range or limits		
Benchmark description[1]	**Benchmark**	**March 2015**	**January 2016**
Short-term debt maturing in 12 months (Treasury bills) as a share of total domestic debt[2]	15%	12.6%	12.0%
Long-term debt maturing in 5 years as a share of fixed-rate and inflation-linked bonds	25%	21.0%	14.8%
Inflation-linked bonds as a share of total domestic debt	20-25%	22.4%	23.0%
Foreign debt as a share of total government debt	15%	9.3%	10.7%
Weighted term-to-maturity of fixed-rate bonds plus Treasury bills (in years)	10-14	11.6	12.6
Weighted term-to-maturity of inflation-linked bonds (in years)	14-17	15.0	14.9
Weighted term-to-maturity of total government debt (in years)	–	12.3	12.7

1. Government uses the best-practice benchmarks of the World Bank
2. Excludes borrowing from the Corporation for Public Deposits
Source: National Treasury

Medium-term borrowing strategy

Borrowing strategy maintains broad range of funding options

Government's medium-term borrowing strategy takes a risk-sensitive approach to financing debt over the next three years. In addition to benchmarking, the strategy maintains a broad range of funding options in the domestic and global markets. It includes measures to manage refinancing risk – the risk that the state will not be able to raise money to repay debt, or will have to do so at a higher cost – by adjusting the composition and maturity of the debt portfolio.

Small share of borrowing financed through short-term debt

A small proportion of government borrowing is financed through short-term debt with maturities of less than a year – bought mainly by banks to meet their prescribed liquid asset requirements. Government also maintains a bond-switch programme that exchanges short- for longer-term debt to ease pressure on targeted areas of the loan-redemption profile. Through the foreign-borrowing programme, government partially finances the state's foreign-currency commitments and maintains benchmarks in major currencies.

Financing the borrowing requirement

Over medium term, borrowing requirement will decline to R151.3 billion

In 2015/16, government's net borrowing requirement – the amount needed to finance the budget deficit – will total R172.8 billion, marginally lower than projected in the 2015 Budget. The borrowing requirement for 2016/17 is expected to amount to R156.3 billion, declining to R151.3 billion in 2018/19. In addition, government will borrow R191.7 billion over the medium term to finance debt due (loan redemptions).

Table 7.3 Financing of national government borrowing requirement,[1] 2014/15 – 2018/19

	2014/15	2015/16		2016/17	2017/18	2018/19
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
Main budget balance[2]	**-166 580**	**-173 054**	**-172 799**	**-156 342**	**-157 396**	**-151 337**
Financing						
Domestic short-term loans (net)	**9 569**	**13 000**	**13 000**	**25 000**	**33 000**	**23 000**
Treasury bills	10 011	13 000	7 557	25 000	33 000	23 000
Corporation for Public Deposits	-442	–	5 443	–	–	–
Domestic long-term loans (net)	**157 014**	**144 809**	**144 457**	**116 200**	**106 681**	**107 850**
Market loans (gross)	192 414	172 500	174 979	174 000	165 500	160 500
Loans issued for switches[3]	-1 160	–	-2 479	–	–	–
Redemptions	-34 240	-27 691	-28 043	-57 800	-58 819	-52 650
Foreign loans (net)	**8 361**	**7 797**	**12 372**	**7 811**	**17 914**	**19 566**
Market loans (gross)	22 952	11 530	16 220	23 205	22 635	21 900
Redemptions (including revaluation of loans)	-14 591	-3 733	-3 848	-15 394	-4 721	-2 334
Change in cash and other balances[4]	**-8 364**	**7 448**	**2 970**	**7 331**	**-199**	**921**
Cash balances	-5 838	3 662	-7 655	3 230	-4 342	-3 006
Other balances[5]	-2 526	3 786	10 625	4 101	4 143	3 927
Total	**166 580**	**173 054**	**172 799**	**156 342**	**157 396**	**151 337**

1. A longer time series is presented in Table 1 of the statistical tables at the back of the Budget Review
2. A negative number reflects a deficit
3. Net of loans issued and redeemed in switch transactions
4. A negative value indicates an increase in cash balances. A positive value indicates that cash is used to finance part of the borrowing requirement
5. Net movement in national departments' bank balances due to differences between funds requested and actual cash flows
Source: National Treasury

Domestic short-term debt is made up of Treasury bills and borrowing from the public sector through the Corporation for Public Deposits. Domestic long-term loans consist of fixed-rate, inflation-linked and RSA retail savings bonds with maturities up to 35 years, and are mainly held by pension funds and other long-term investors to cover their future commitments.

Domestic short-term borrowing

Increase in supply of Treasury bills over medium term

Net short-term loans will increase from R13 billion in 2015/16 to an annual average of R27 billion over the medium term. This increase is in line with government's strategy to use surplus cash to temporarily pay down short-term borrowing in 2014/15 and 2015/16, and to increase borrowing when needed to finance loan redemptions. Short-term financing will focus on Treasury bills, bringing the outstanding stock to R234.8 billion by the end of 2016/17.

Provinces and state-owned companies are required to invest their surplus cash in the Corporation for Public Deposits. Borrowing from the corporation is actively monitored and aligned with government's cash requirements to ensure the effective use and investment of the surplus.

Table 7.4 Domestic short-term borrowing, 2015/16 – 2016/17

	2015/16			2016/17		2015/16	2016/17
R million	Opening balance	Net change	Closing balance	Net change	Closing balance	Weekly auction estimates	
Corporation for Public Deposits	**21 370**	**5 443**	**26 813**	**–**	**26 813**		
Treasury bills	**202 217**	**7 557**	**209 774**	**25 000**	**234 774**	**7 370**	**7 811**
91-day	33 205	-321	32 884	331	33 215	2 555	2 555
182-day	46 090	-135	45 955	5 031	50 986	1 845	1 961
273-day	56 330	3 180	59 510	7 180	66 690	1 560	1 710
364-day	66 592	4 833	71 425	12 458	83 883	1 410	1 585
Total	**223 587**	**13 000**	**236 587**	**25 000**	**261 587**		

Source: National Treasury

Domestic long-term borrowing

Domestic bond issuance in 2018/19 lowest since 2011/12

New issuances in domestic capital markets will decrease marginally to R174 billion in 2016/17 from R175 billion in 2015/16, before declining to R160.5 billion in 2018/19 in line with an improved budget balance. This will be the lowest bond issuance in the domestic market since 2011/12. Issuance will be concentrated in longer maturities and fixed-rate bonds, with only about 20 per cent of issuance in inflation-linked bonds.

Current weekly nominal fixed-rate bond auction levels will be maintained in 2016/17. Inflation-linked bond auction levels will vary depending on the level of take-up of non-competitive fixed-rate bond auctions. Non-competitive auctions, which follow competitive auctions, give successful bidders an option to take up an additional 50 per cent of their allocation within 48 hours. It is expected that R33 billion in 2015/16, or about 18.9 per cent of total issuance in bonds, will be raised through non-competitive auctions.

New 13-year maturity inflation-linked bond introduced in 2016/17

Since 2013/14, government has introduced five new fixed-rate bonds and two new inflation-linked bonds. To continue broadening funding options, a new 13-year maturity inflation-linked bond will be introduced in 2016/17.

No new fixed-rated bonds will be introduced in 2016/17. Issuance will be concentrated in recently introduced bonds to allow the amounts outstanding on these bonds to increase and improve liquidity.

Table 7.5 Domestic long-term borrowing, 2015/16

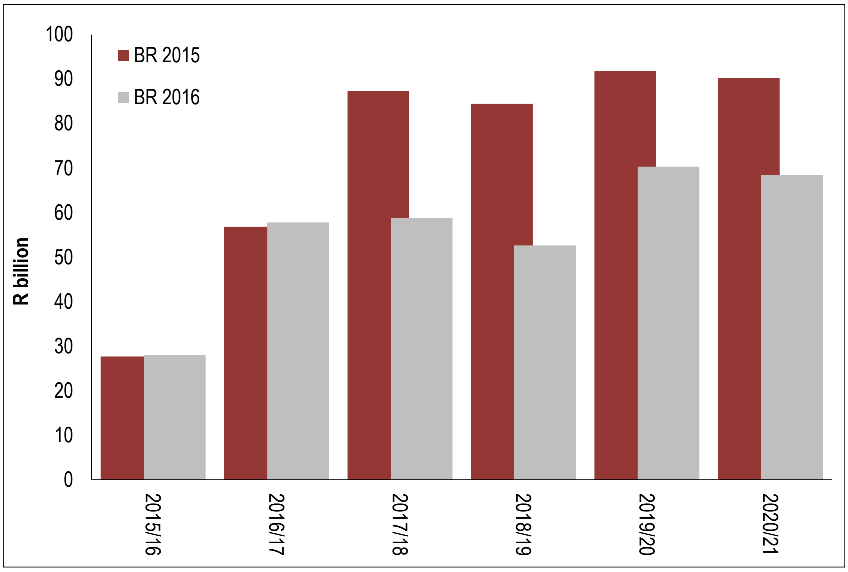
As of 31 January 2016 R million	Cash value	Average yield %	Outstanding value
Fixed-rate[1]	**119 667**	**8.9**	
R186 (10.5%; 2025/26/27)	32	8.2	165 705
R2030 (8%; 2030)	17 730	8.6	85 102
R213 (7%; 2031)	3 956	8.8	90 091
R2032 (8.25%; 2032)	17 076	8.9	62 549
R2035 (8.88%; 2035)	16 624	9.2	17 246
R2037 (8.5%; 2037)	14 540	9.0	74 539
R2040 (9%; 2040)	7 317	9.1	7 420
R2044 (8.75%; 2043/44/45)	20 359	9.2	50 604
R2048 (8.75%; 2047/48/49)	20 075	9.1	100 041
Retail	1 958		8 163
Inflation-linked[2]	**26 059**	**1.9**	
I2025 (2%; 2025)	2 458	1.6	33 882
I2033 (1.88%; 2033)	5 214	1.9	5 289
I2038 (2.25%; 2038)	3 783	1.8	37 069
I2046 (2.5%; 2046)	6 204	1.9	24 387
I2050 (2.5%; 2049/50/51)	8 297	2.0	38 061
Retail	103		430
Total	**145 726**		

1. Includes non-competitive auction allocations of R25.6 billion
2. Outstanding value is revalued using the relevant reference consumer price index
Source: National Treasury

Bond-switch programme has lowered redemptions by R103 billion over four years

Domestic bond redemptions will increase sharply from R28 billion in 2015/16 to R57.8 billion in 2016/17, averaging R63 billion in each of the subsequent four years. As Figure 7.2 shows, the bond-switch programme has successfully lowered total redemptions over the 2017/18 – 2020/21 period by R103 billion.

Figure 7.2 Domestic government bond maturities, 2015/16 – 2020/21



Source: National Treasury

During 2015/16, investments in RSA retail savings bonds amounted to R2.1 billion, of which R1 billion were reinvestments of maturing bonds and capitalised interest. As at 31 January 2016, a total of R8.6 billion was invested in these bonds. In 2016/17, government will introduce new retail bond products to allow for a top-up bond with regular deposits and tax-free savings.

Table 7.6 Interest rates, RSA retail savings bonds, February 2016

Percentage	Bond maturity		
Fixed-rate	**2-year**	**3-year**	**5-year**
	9.25	9.50	10.00
Inflation-linked	**3-year**	**5-year**	**10-year**
	1.50	1.75	2.00

Source: National Treasury

International borrowing

During the remainder of 2015/16, government plans to raise the equivalent of US$1 billion in global capital markets. If market conditions are not conducive, issuances will be postponed to 2016/17. In the meantime, foreign-currency commitments are financed from government's foreign-exchange deposits held at the Reserve Bank. Over the medium term, government intends to borrow the equivalent of about US$4.5 billion to cover its total foreign-currency commitments of US$6.4 billion in global markets. The rest will be financed through foreign-exchange purchases.

Over medium term, government to borrow equivalent of US$4.5 billion in global capital markets

Cash balances

Government's total cash holdings, which consist of deposits held at commercial banks and the Reserve Bank, will total R197.4 billion by the end of 2015/16, decreasing marginally to R194.2 billion in 2016/17.

Cash balances decrease marginally to R194.2 billion in 2016/17

Table 7.7 Change in cash balances, 2014/15 – 2018/19

	2014/15	2015/16		2016/17	2017/18	2018/19
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
Rand currency						
Opening balance	**120 807**	**112 157**	**120 304**	**115 657**	**112 157**	**112 157**
Closing balance	**120 304**	**112 157**	**115 657**	**112 157**	**112 157**	**112 157**
of which:						
Tax and loan accounts	*53 147*	*45 000*	*48 500*	*45 000*	*45 000*	*45 000*
Change in rand cash balance[1] (opening less closing balance)	**503**	**–**	**4 647**	**3 500**	**–**	**–**
Foreign currency[2]						
Opening balance	**63 087**	**69 890**	**69 428**	**81 730**	**82 000**	**86 342**
Closing balance	**69 428**	**66 228**	**81 730**	**82 000**	**86 342**	**89 348**
US$ equivalent	*8 231*	*7 779*	*8 362*	*7 633*	*7 666*	*7 700*
Change in foreign currency cash balance[1] (opening less closing balance)	**-6 341**	**3 662**	**-12 302**	**-270**	**-4 342**	**-3 006**
Total change in cash balances[1]	**-5 838**	**3 662**	**-7 655**	**3 230**	**-4 342**	**-3 006**
Total closing cash balance	**189 732**	**178 385**	**197 387**	**194 157**	**198 499**	**201 505**

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

In the current year, of the total, R138.9 billion are deposits made with the Reserve Bank to increase the level of official foreign-exchange reserves and are only available for use by government as bridging finance.

Debt and other government obligations

Government monitors debt, cash balances and credit risk emanating from contingent liabilities – commitments that may give rise to financial obligations depending on the outcome of future events. These include *explicit* liabilities – guarantees or other formal obligations binding government to future financial commitments – and *implicit* liabilities, which emanate from the state's obligation to support entities deemed to be of national interest.

PPPs and power-purchase agreements now included in contingent liabilities

The National Treasury, working with the World Bank and International Monetary Fund (IMF), has updated the framework for reporting on contingent liabilities in line with international standards. The 2016 *Budget Review* includes two categories of obligations that were previously excluded: public-private partnerships (PPPs) and power-purchasing agreements.

Contingent liabilities vary considerably by callability, risk and default probabilities. They also differ in nature and purpose.

National government debt

Net debt as share of GDP to stabilise at 46.2 per cent over medium term

Higher interest rates, rising inflation and the significant depreciation in the exchange rate, partially offset by higher cash balances, have resulted in higher net debt of R1.804 trillion in 2015/16 relative to the R1.781 trillion projected in the 2015 Budget. As the budget deficit improves over the medium term, net debt as a share of GDP is expected to stabilise at 46.2 per cent in 2017/18, compared to 43.7 per cent as projected in the 2015 Budget.

Government's foreign debt as a percentage of gross loan debt remains low, averaging 10 per cent over the medium term.

Table 7.8 Total national government debt,[1] 2012/13 – 2018/19

End of period	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
R billion		**Outcome**		**Estimate**		**Medium-term estimates**	
Domestic debt	1 241.1	1 441.1	1 632.1	1 822.9	2 003.7	2 179.9	2 352.0
Foreign debt[2]	124.6	143.7	166.8	232.8	229.9	242.7	254.9
Gross loan debt	**1 365.7**	**1 584.8**	**1 798.9**	**2 055.7**	**2 233.6**	**2 422.6**	**2 606.9**
Less: National Revenue Fund bank balances	-184.1	-205.3	-214.7	-251.3	-230.2	-227.8	-224.6
Net loan debt[3]	**1 181.6**	**1 379.5**	**1 584.2**	**1 804.4**	**2 003.4**	**2 194.8**	**2 382.3**
As percentage of GDP:							
Gross loan debt	*41.0*	*43.9*	*46.8*	*50.5*	*50.9*	*51.0*	*50.5*
Net loan debt	*35.5*	*38.2*	*41.2*	*44.3*	*45.7*	*46.2*	*46.2*
Foreign debt	*3.7*	*4.0*	*4.3*	*5.7*	*5.2*	*5.1*	*4.9*
As percentage of gross loan debt:							
Foreign debt	*9.1*	*9.1*	*9.3*	*11.3*	*10.3*	*10.0*	*9.8*

1. A longer time series is given in Table 10 of the statistical tables at the back of the Budget Review
2. Estimates include revaluation based on National Treasury's projections of exchange rates
3. Net loan debt is calculated taking into account the bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks)
Source: National Treasury

Table 7.9 shows the composition of domestic debt by various instruments. Over the medium term, in line with government's funding strategy, short-term debt will stabilise at 13.5 per cent as a share of total domestic debt.

Table 7.9 Composition of domestic debt by instrument, 2012/13 – 2018/19

End of period	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
R billion		Outcome		Estimate		Medium-term estimates	
Short-term loans	**190.9**	**214.1**	**223.6**	**236.5**	**261.5**	**294.6**	**317.5**
Shorter than 91-days[1]	19.0	21.8	21.4	26.8	26.8	26.8	26.8
91-day	45.3	42.9	33.2	32.8	33.2	33.2	33.2
182-day	38.2	42.4	46.1	45.9	50.9	55.9	59.4
273-day	43.9	49.3	56.3	59.5	66.7	78.2	86.3
364-day	44.5	57.7	66.6	71.5	83.9	100.5	111.8
Long-term loans	**1 050.2**	**1 227.0**	**1 408.5**	**1 586.4**	**1 742.2**	**1 885.3**	**2 034.5**
Fixed-rate	793.3	917.7	1 039.8	1 158.3	1 281.8	1 365.3	1 451.0
Inflation-linked[2]	244.5	298.7	358.7	418.9	450.8	509.3	571.7
Retail	11.3	9.5	9.0	9.0	9.4	10.5	11.6
Zero coupon	1.0	1.0	0.9	0.1	0.1	0.1	0.1
Other[3]	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	**1 241.1**	**1 441.1**	**1 632.1**	**1 822.9**	**2 003.7**	**2 179.9**	**2 352.0**
As percentage of total domestic debt:							
Short-term loans	*15.4*	*14.9*	*13.7*	*13.0*	*13.1*	*13.5*	*13.5*
Long-term loans	*84.6*	*85.1*	*86.3*	*87.0*	*86.9*	*86.5*	*86.5*

1. Mainly borrowing from the Corporation for Public Deposits
2. Includes revaluation as a result of changes in inflation rates
3. Former regional authorities debt
Source: National Treasury

Government guarantees and exposure

Guarantees to state-owned companies

Government issues guarantees to various state-owned companies. These guarantees will amount to R467 billion as at 31 March 2016. Of the total guarantee portfolio, 75 per cent are issued to Eskom and 8 per cent to the South African National Roads Agency Limited (SANRAL). In 2015/16, one new guarantee for R2.5 billion was issued to the South African Post Office (SAPO).

Only the portion of the guarantees that these companies have borrowed against – known as the exposure amount – is a contingent liability to government. Creditors can call on government to service or pay off the guaranteed debt on which an entity has defaulted.

Increased exposure from Eskom, SAA, the Land Bank, SANRAL and SAPO

Exposure amounts are projected to increase from R225.8 billion in 2014/15 to R258 billion as at 31 March 2016. Most of the increase is accounted for by Eskom (R18.6 billion), South African Airways (SAA) (R6 billion), the Land Bank (R3.2 billion), SANRAL (R2.6 billion) and SAPO (R1 billion). Eskom constitutes 65 per cent of the total exposure amount. Chapter 8 discusses government's prudent approach to issuing any further guarantees.

Table 7.10 Government guarantee exposure,[1] 2013/14 – 2015/16

R billion	2013/14 Guarantee	2013/14 Exposure[2]	2014/15 Guarantee	2014/15 Exposure[2]	2015/16 Guarantee	2015/16 Exposure[2]
State-owned companies	**469.3**	**209.5**	**462.4**	**225.8**	**467.0**	**258.0**
of which:						
Eskom	*350.0*	*125.1*	*350.0*	*149.9*	*350.0*	*168.5*
SANRAL	*38.9*	*23.9*	*38.9*	*32.4*	*38.9*	*35.0*
Trans-Caledon Tunnel Authority	*25.7*	*20.5*	*25.6*	*20.8*	*25.8*	*20.6*
South African Airways	*7.9*	*5.0*	*14.4*	*8.4*	*14.4*	*14.4*
Land and Agricultural Bank of South Africa	*3.5*	*1.1*	*6.6*	*2.1*	*6.6*	*5.3*
Development Bank of Southern Africa	*29.6*	*25.7*	*12.9*	*4.1*	*14.0*	*4.5*
Transnet	*3.5*	*3.8*	*3.5*	*3.8*	*3.5*	*3.8*
Denel	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*
South African Express	*0.5*	*0.5*	*1.1*	*0.5*	*1.1*	*1.1*
South African Post Office	*–*	*–*	*1.9*	*0.3*	*4.4*	*1.3*
Industrial Development Corporation	*2.1*	*0.5*	*1.6*	*0.3*	*2.1*	*0.3*
Independent power producers	**–**	**–**	**–**	**–**	**200.2**	**200.2**
Public-private partnerships[3]	**10.1**	**10.1**	**10.1**	**10.1**	**8.9**	**8.9**
South African Reserve Bank	**–**	**–**	**7.0**	**–**	**7.0**	**–**

1. A full list of guarantees is given in Table 11 of the statistical tables at the back of the Budget Review
2. Total amount of borrowing and accrued interest for the period made against the guarantee
3. This amount only includes the national and provincial public-private partnership agreements
Source: National Treasury

Reserve Bank guarantees

No exposure on Reserve Bank guarantee

As part of the bailout of African Bank in 2014/15, the Reserve Bank provided support on the back of a government guarantee constituting an explicit contingent liability of R7 billion. The Reserve Bank has not realised any exposure against this guarantee.

Guarantees to independent power producers

Probability of default on power-purchase agreements is low

Power-purchase agreements between Eskom and independent power producers providing renewable energy are now categorised as contingent liabilities. This change adds about R200 billion to contingent liabilities in 2015/16. The agreements oblige Eskom to buy power from these producers over a 20-year period at a price agreed to by the National Energy Regulator of South Africa.

Government provides support in the form of guarantees to Eskom. In the event that Eskom is unable to purchase power as stipulated, government must buy the power on Eskom's behalf. The probability of default is low, since the regulator generally approves tariff increases that accommodate these agreements. However, significant deterioration in Eskom's financial position may increase government's risk exposure.

Guarantees to public-private partnerships

In PPPs, contingent liabilities only arise where contract termination would require the state to reimburse the private partner. In 2015/16, the inclusion of PPPs is expected to add about R9 billion to contingent liabilities, of which national PPPs account for 37 per cent and provincial PPPs 63 per cent. Given that none of the contingent liabilities in this category have been realised since the first PPP contract was entered into, they are considered very low risk.

Other contingent liabilities

Government's other contingent liabilities include the actuarial deficits of social security funds – the difference between the claims owed by these entities and their total assets. Government commitments to the Export Credit Insurance Corporation of South Africa – the net underwriting exposure of the company and its total assets – also fall into this category, as do claims against government departments, and post-retirement medical assistance to government employees.

Higher exporter claims and Road Accident Fund exposure increased contingent liabilities

Other contingent liabilities are expected to amount to R286.1 billion in 2015/16, R33.5 billion higher than in 2014/15, due to an increase in claims by exporters and increased exposure of the Road Accident Fund. Over the medium term, these contingent liabilities are projected to increase to R323.1 billion.

Provisions for multilateral institutions

South Africa subscribes to shares issued by several multilateral institutions, including the African Development Bank, the World Bank, the IMF, the New Development Bank and the Multilateral Investment Guarantee Agency.

In the unlikely event that recapitalisation of one of the institutions is required, South Africa will be called on to make a payment proportionate to its shareholding. Government makes provision for this. During 2015/16, South Africa's quota in the IMF will increase by R26.5 billion, and its participation in the New Development Bank will add R9.7 billion to government provisions.

Net provisions are projected to decrease by R4 billion in 2015/16 due to an increase in investments held in these multilateral institutions. Over the medium term, net provisions will remain at about R49 billion.

Net valuation profits and losses

Unrealised valuation gains to amount to R341 billion by end-March 2016

Government's largest contingent asset is the Gold and Foreign Exchange Contingency Reserve Account. It mainly reflects the net valuation profits earned and losses incurred on gold and foreign exchange reserves.

The balance on this account is split into transactions with a cash-flow and non-cash-flow valuation impact. Due to the depreciation of the rand, unrealised valuation gains are expected to amount to R341 billion by end-March 2016, an increase of R138 billion compared with 2014/15, with only R145 million in realised losses to be settled by government.

Summary

Over the past year, global market volatility has led to large capital outflows and currency depreciation in developing economies, putting pressure on public borrowing and debt markets.

While South Africa's borrowing costs have increased as a result of these developments and a weaker economic outlook, government's debt metrics remain well within benchmarks. Government's prudent fiscal policy and debt-management strategies, in combination with deep and liquid domestic capital markets, will continue to support investment, ensure that government can finance its borrowing requirement and improve the debt trajectory.