7

Government debt and contingent liabilities

In brief

- Government adjusted its debt management strategy during 2017/18 to finance a large revenue shortfall. Compared with the 2017 Budget projection, the gross borrowing requirement for 2017/18 increased by R25.1 billion to a total of R246 billion.
- Demand for government debt remains robust, despite two sovereign credit-rating downgrades during 2017.
- Net debt is expected to be R2.28 trillion in 2017/18, or 48.6 per cent of GDP, increasing to R3.03 trillion, or 52.2 per cent of GDP in 2020/21. Net debt is expected to stabilise at 53.2 per cent in 2023/24.
- Debt-service costs have increased to an estimated R163.2 billion in 2017/18, or 3.5 per cent of GDP, and are projected to increase to R213.9 billion, or 3.7 per cent of GDP, in 2020/21.
- Deep and liquid domestic capital markets will remain government's main source of borrowing. The debt portfolio remains well structured with an emphasis on longer-dated loans.
- Eskom, independent power producers and the Road Accident Fund account for the majority of government's contingent liabilities.

Overview

Over the past year, government has maintained a prudent approach to debt management as it adjusted to an increase in the borrowing requirement and higher financing costs. In response to major fiscal decisions taken in recent months, the medium-term borrowing requirement has declined substantially from projections set out in the 2017 *Medium Term Budget Policy Statement* (MTBPS). Investor confidence also improved following political developments in December 2017, leading to a stronger exchange rate and lower government funding costs.

Prudent debt management enabled government to adjust to increase in borrowing requirement

Government's borrowing requirement consists of the difference between revenue and expenditure, and payments for maturing debt. The gross borrowing requirement in 2017/18 was R246 billion, consisting of

R217.3 billion for the budget deficit and R28.7 billion for debt repayments. Government finances most of its borrowing through South Africa's deep and liquid domestic capital markets. In addition, the country is well integrated into global capital markets, which enables foreign-currency borrowing at reasonable rates. The international appetite for South African debt remains strong.

Rating downgrades stemmed from concerns about low growth and policy uncertainty

During 2017, two rating agencies downgraded South Africa's credit ratings, which contributed to heightened volatility in the domestic capital markets. The agencies and international investors share persistent concerns over South Africa's low economic growth, policy uncertainty and a combination of governance failures and weak balance sheets at state-owned companies. Government has begun to address these matters more decisively to ensure continued investment flows and funding at reasonable rates.

Table 7.1 South Africa's current sovereign credit ratings

Rating agency	LTFC[1]	LTLC[2]	Outlook
Fitch Ratings	BB+ (Sub-investment grade)	BB+ (Sub-investment grade)	Stable
Moody's Investors Service	Baa3 (Investment grade)	Baa3 (Investment grade)	Negative
Ratings & Investment Information, Inc.	BBB (Investment grade)	BBB+ (Investment grade)	Negative
S&P Global Ratings	BB (Sub-investment grade)	BB+ (Sub-investment grade)	Stable

1. LTFC = Long-term foreign-currency rating 2. LTLC = Long-term local-currency rating
Source: Ratings agencies

Financing strategy

Government's financing strategy is a framework to fund borrowing in a sustainable and affordable manner. The strategy outlines risk management, debt issuances, maturities and the funding instruments to be used.

In 2018/19, the total borrowing requirement will be R224.2 billion. The requirement will be funded through three main sources: short-term borrowing, which consists of Treasury bills (with maturities of 12 months or less) and loans from the Corporation for Public Deposits; long-term loans, which include fixed-rate, inflation-linked and retail savings bonds; and foreign-currency loans. The use of multiple borrowing sources helps to diversify government's debt portfolio.

Managing refinancing risk is a central requirement over the medium term

One of the central requirements over the medium term is to manage refinancing risks arising from a high level of debt redemptions. Over the next three years, redemptions amount to R197.4 billion, compared with R133.8 billion over the past three years. As a result, government will continue its bond-switch programme, which exchanges shorter-dated bonds for bonds with longer maturities.

Treasury bills and loans from the Corporation for Public Deposits are used to finance the borrowing requirement and to manage in-year cash flows. To diversify funding sources, government will explore a rand-denominated Islamic bond in 2018/19. In addition, government will

increase the variation in maturities across inflation-linked and fixed-rate bonds by considering issuing a new bond in each category.

The National Treasury has been working with the Johannesburg Stock Exchange, the Reserve Bank, STRATE, primary dealer banks and the World Bank to develop an electronic trading platform for government bonds. The pilot phase will be launched in 2018/19. The platform is expected to increase liquidity and transparency, and to reduce funding costs, by simplifying access to government bonds.

The main risks to the financing strategy are:

- The fiscal position. Increases in the fiscal deficit or calls on guarantees to, or bailouts for, state-owned companies would increase the budget deficit, and government debt and borrowing costs.
- Inflation and exchange rate risk. Unexpected increases in inflation or depreciation of the exchange rate would increase the cost of outstanding inflation-linked or foreign-currency bonds.
- Further sovereign credit-rating downgrades. A downgrade by Moody's into a sub-investment grade rating would exclude South Africa from the Citi World Government Bond Index. This will trigger compulsory bond sell-offs by some institutional investors.
- Higher global interest rates. Monetary policy tightening in developed countries could make South African bonds less attractive by reducing the interest rate differential, leading to capital outflows or volatility.

To manage these risks, government maintains a set of strategic portfolio risk benchmarks that help to ensure that the debt structure is sustainable. These benchmarks, established in 2014/15 for a period of five years, will be reviewed in 2018/19. Government expects that the debt metrics will remain within their ranges or limits through 2018/19.

Table 7.2 Performance against strategic portfolio risk benchmarks

Description	Benchmark range or limit	2017/18	2018/19
		Estimates	
Benchmark[1]			
Treasury bills as % of domestic debt	15	13.0	12.1
Long-term debt maturing in 5 years as % of fixed-rate bonds and inflation-linked bonds	25	12.9	14.9
Inflation-linked bonds as % of domestic debt	20-25	22.8	23.3
Foreign debt as % of total debt	15	8.9	9.8
Weighted term-to-maturity of fixed-rate bonds and Treasury bills (years)	10-14	13.2	13.0
Weighted term-to-maturity of inflation-linked bonds (years)	14-17	15.2	14.3
Other indicators (weighted average)[2]			
Term-to-maturity of total debt (years)		15.1	14.5
Term-to-maturity of foreign debt (years)		10.2	9.2

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

Gross borrowing requirement for 2017/18 was 5.2 per cent of GDP

During 2017/18, the budget deficit increased sharply relative to projections in the 2017 Budget. While the deficit rose by R50.5 billion, this was partially offset by a reduction in loan redemptions. As a result,

the final gross borrowing requirement rose by R25.1 billion, from a projected R220.9 billion to R246 billion for 2017/18, or from 4.7 per cent to 5.2 per cent of GDP.

Table 7.3 Financing of national government gross borrowing requirement[1]

	2016/17	2017/18		2018/19	2019/20	2020/21
R million	Outcome	Budget	Revised	Medium-term estimates		
Main budget balance	**-167 589**	**-166 798**	**-217 345**	**-191 054**	**-204 785**	**-214 797**
Redemptions	**-73 040**	**-54 078**	**-28 698**	**-33 192**	**-96 762**	**-67 480**
Domestic long-term loans	-57 350	-49 514	-24 577	-31 084	-51 347	-56 228
Foreign loans	-15 690	-4 564	-4 121	-2 108	-45 415	-11 252
Total	**-240 629**	**-220 876**	**-246 043**	**-224 246**	**-301 547**	**-282 277**
Financing						
Domestic short-term loans	**40 507**	**21 000**	**33 000**	**14 200**	**22 700**	**30 000**
Treasury bills (net)	40 502	21 000	43 000	4 200	22 700	30 000
Corporation for Public Deposits	5	–	-10 000	10 000	–	–
Domestic long-term loans	**174 034**	**191 500**	**193 800**	**191 000**	**200 500**	**208 900**
Market loans	175 070	191 500	195 274	191 000	200 500	208 900
Loans issued for switches	-1 036	–	-1 474	–	–	–
Foreign loans	**52 070**	**29 600**	**33 895**	**38 040**	**39 210**	**40 650**
Market loans	50 959	29 600	33 895	38 040	39 210	40 650
Loans issued for switches	1 111	–	–	–	–	–
Change in cash and other balances[2]	**-25 982**	**-21 224**	**-14 652**	**-18 994**	**39 137**	**2 727**
Cash balances	-26 216	-25 443	-22 071	-23 085	35 099	-1 286
Other balances[3]	234	4 219	7 419	4 091	4 038	4 013
Total	**240 629**	**220 876**	**246 043**	**224 246**	**301 547**	**282 277**
Percentage of GDP	*5.5%*	*4.7%*	*5.2%*	*4.5%*	*5.6%*	*4.9%*

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

Loan redemptions for 2017/18 were reduced by R24.4 billion due to government's bond-switch programme. In addition, the programme reduced redemptions by R26.2 billion over the medium term. Domestic and global demand for South African government debt remained strong. Additional Treasury bills were issued in anticipation of a higher budget deficit and seasonal cash flow pressures in the fourth quarter of 2017. In addition, government raised US$2.5 billion in foreign loans, of which US$388 million is advance funding for future commitments (prefunding).

Gross borrowing requirement expected to peak at R301.6 billion in 2019/20

The gross borrowing requirement is expected to peak at R301.6 billion in 2019/20 due to high domestic and foreign debt redemptions. Although redemptions remain relatively large over the medium term, the main budget balance constitutes a much larger proportion of the borrowing requirement. The main budget is expected to approach a primary balance by 2020/21 and to move into surplus thereafter.

Domestic short-term borrowing

Short-term loans are largely stable at about 12 per cent of debt stock. Distribution of these loans is spread between a highly liquid Corporation for Public Deposits borrowing facility and Treasury bills. During 2017/18, government issued an additional R22 billion in Treasury bills relative to 2017 Budget projections. This met short-term funding pressures and helped finance the higher borrowing requirement. Government also reduced borrowing from the Corporation for Public Deposits by

R10 billion to R17.2 billion. In 2018/19, net Treasury bill issuance is expected to decline significantly, reaching R297.2 billion by year-end, which will reduce short-term refinancing risk. Borrowing from the Corporation for Public Deposits will increase to R27.2 billion.

Table 7.4 Domestic short-term borrowing

	2017/18			2018/19		2017/18	2018/19
R million	Opening balance	Net change	Closing balance	Net change	Closing balance	Weekly auction estimates	
Corporation for Public Deposits	**27 199**	**-10 000**	**17 199**	**10 000**	**27 199**		
Treasury bills	**249 970**	**43 000**	**292 970**	**4 200**	**297 170**	**8 200**	**8 880**
91-days	37 719	-10 809	26 910	-910	26 000	1 800	2 000
182-days	54 749	2 084	56 833	367	57 200	2 000	2 200
273-days	70 080	18 868	88 948	-418	88 530	2 100	2 270
364-days	87 422	32 857	120 279	5 161	125 440	2 300	2 410
Total	**277 169**	**33 000**	**310 169**	**14 200**	**324 369**		

Source: National Treasury

Domestic long-term borrowing

Long-term loans denominated in rands are government's primary debt instrument, accounting for 78.9 per cent of the debt stock.

Table 7.5 Domestic long-term borrowing, 2017/18

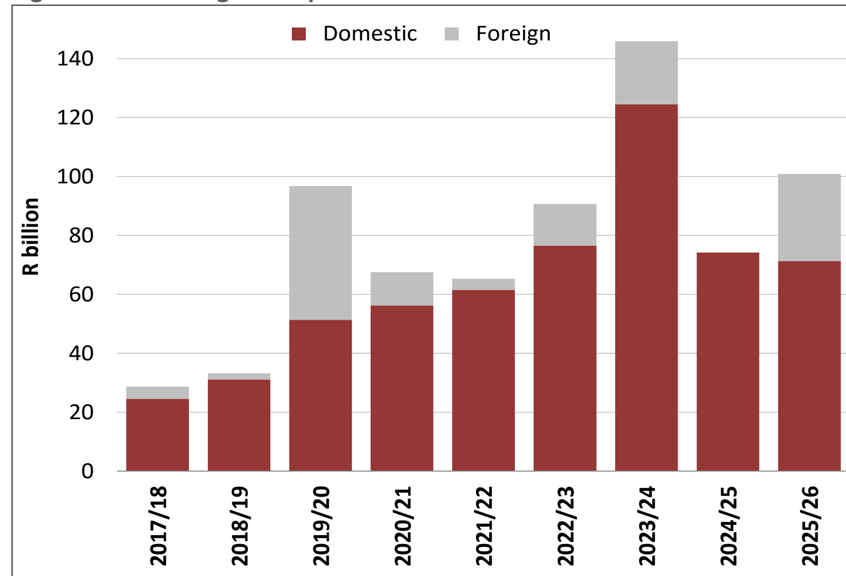
As at 31 January 2018 Bond code (coupon rate; maturity)	Cash value (R million)	Average yield (%)	Average bid-to-cover ratio (times)
Fixed-rate[1]	**125 219**	**9.5**	
R2023 (7.75%; 2023)	7 953	7.9	3.8
R186 (10.5%; 2025/26/27)	6 432	8.8	4.2
R2030 (8%; 2030)	8 651	9.2	3.3
R213 (7%; 2031)	3 386	9.4	2.3
R2032 (8.25%; 2032)	9 876	9.5	3.4
R2035 (8.88%; 2035)	13 262	9.6	3.0
R209 (6.25%; 2036)	3 305	9.7	3.7
R2037 (8.5%; 2037)	5 350	9.9	3.5
R2040 (9%; 2040)	18 587	9.9	2.9
R214 (6.5%; 2041)	1 197	9.7	4.1
R2044 (8.75%; 2043/44/45)	20 442	9.9	2.8
R2048 (8.75%; 2047/48/49)	24 614	9.8	3.2
Retail	2 164	7.8	
Inflation-linked	**32 176**	**2.6**	
I2025 (2%; 2025)	5 332	2.5	2.2
I2029 (1.88%; 2029)	5 333	2.6	2.4
I2033 (1.88%; 2033)	5 899	2.6	1.9
I2038 (2.25%; 2038)	2 900	2.6	2.7
I2046 (2.5%; 2046)	6 135	2.5	1.1
I2050 (2.5%; 2049/50/51)	6 533	2.8	1.8
Retail	44	3.3	
Total	**157 395**		

1. Includes non-competitive auction allocations of R22.2 billion
Source: National Treasury

Between April 2017 and January 2018, government issued R157.4 billion in long-term domestic bonds: R123 billion in fixed-rate bonds, R2.2 billion

in retail savings bonds and R32.2 billion in inflation-linked bonds. Weekly bond auction amounts increased in November 2017 to meet the higher borrowing requirement. The auction amounts will be reduced in 2018/19 as these requirements begin to decline.

Figure 7.1 Maturing redemptions



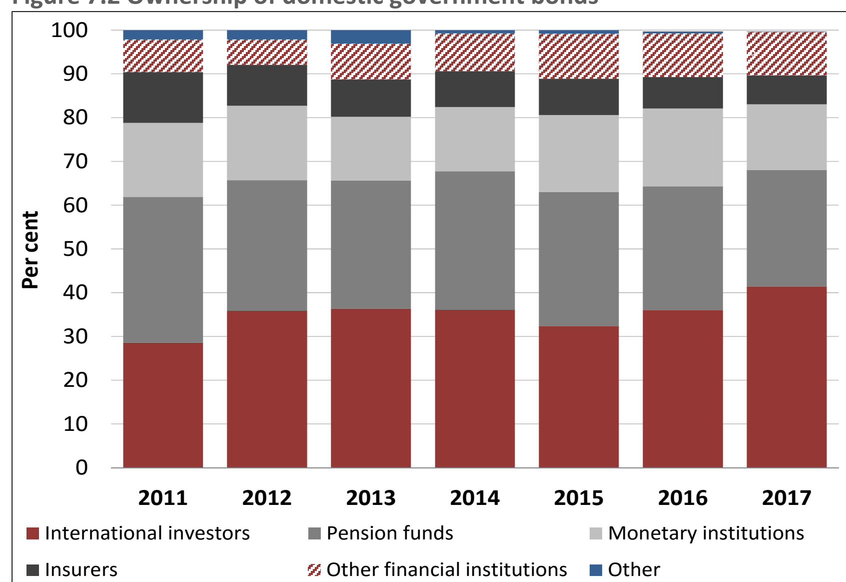
Source: National Treasury

Over the next three years, scheduled debt redemptions of domestic and foreign loans are set to total R197.4 billion, of which R96.8 billion is due in 2019/20. The bond-switch programme will continue to reduce redemptions to levels that do not severely affect market liquidity.

Non-resident holdings

By the end of 2017, global investors held 41.4 per cent of domestic government bonds, a nominal increase of R147.8 billion from a year earlier.

Figure 7.2 Ownership of domestic government bonds



Source: Share Transactions Totally Electronic

The rise in non-resident holdings is partly a result of extremely low interest rates in advanced economies, which has prompted global investors to look for higher yields in developing countries. South Africa's sophisticated capital markets and strong institutions also support continued investment flows.

International borrowing

In September 2017, government started to fully finance its foreign-currency commitments by borrowing in global capital markets. This marked a shift from previous practice. The rand value of this international debt fluctuates with exchange rates, which is why the strategic risk portfolio benchmark limits foreign-currency debt to 15 per cent of the total portfolio. This debt currently stands at 8.8 per cent, and is expected to remain within the limit over the medium term.

Government now fully financing foreign-currency commitments by borrowing in global capital markets

Funding foreign-currency commitments

Government has various commitments that must be paid in foreign currency. These include foreign-currency loans and associated interest, subscription fees to multilateral organisations such as the International Monetary Fund, and obligations such as contributions to the New Development Bank. In addition, the Department of International Relations and Cooperation and other government agencies require foreign currency to implement their mandates.

During 2017, in response to the higher gross borrowing requirement, government decided to change the funding structure for these commitments. Previously, government had borrowed in the domestic market to buy foreign currency, as well as borrowing directly in foreign capital markets. Over the period ahead, government will not borrow in the domestic market to fund such commitments. This shift is expected to reduce funding pressures in the domestic market by about R13 billion in each of the next three years.

To meet foreign-currency commitments fully, government has increased its foreign financing levels to US$9 billion over the next three years. Government will continue to build up cash for a large redemption of US$3.5 billion due in 2019/20. By 31 January 2018, US$1.4 billion of cash had been accumulated.

Table 7.6 Foreign-currency commitments and financing

US$ million	2016/17	2017/18	2018/19	2019/20	2020/21
	Outcome	Estimate	Medium-term estimates		
Commitments					
Redemptions	-1 079	-311	-166	-3 475	-830
Interest	-724	-911	-1 129	-1 235	-1 245
Departmental	-806	-890	-900	-900	-950
Total	**-2 609**	**-2 112**	**-2 195**	**-5 610**	**-3 025**
Financing					
Loans	3 523	2 500	3 000	3 000	3 000
Purchases	256	–	–	–	–
Change in cash balances[1]	-1 170	-388	-805	2 610	25
Total	**2 609**	**2 112**	**2 195**	**5 610**	**3 025**

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

Cash balances

Government's total cash holdings, which consist of deposits held at commercial banks and the Reserve Bank, stood at R204.3 billion at the end of 2016/17. As Table 7.7 shows, these balances have increased sharply to prefund large foreign currency commitments due in 2019/20. Following this redemption, cash balances will decline to R215.6 billion by

Cash balances to decline following 2019/20 redemption

the end of 2020/21. Of this total, almost 77 per cent, or R165.6 billion, constitutes official foreign exchange reserve deposits made with the Reserve Bank, which is available for government use as bridging finance.

Table 7.7 Change in cash balances

R million	2016/17 Outcome	2017/18 Budget	2017/18 Revised	2018/19 Medium-term estimates	2019/20 Medium-term estimates	2020/21 Medium-term estimates
Rand currency						
Opening balance	**112 249**	**112 157**	**110 262**	**112 157**	**117 157**	**117 157**
Closing balance	**110 262**	**112 157**	**112 157**	**117 157**	**117 157**	**117 157**
of which:						
Tax and loan accounts	*43 105*	*45 000*	*45 000*	*50 000*	*50 000*	*50 000*
Change in rand cash balance[1] (opening less closing balance)	**1 987**	**–**	**-1 895**	**-5 000**	**–**	**–**
Foreign currency[2]						
Opening balance	**65 785**	**95 056**	**93 988**	**114 164**	**132 249**	**97 150**
Closing balance	**93 988**	**120 499**	**114 164**	**132 249**	**97 150**	**98 436**
US$ equivalent	*8 615*	*9 399*	*9 104*	*10 007*	*7 491*	*7 558*
Change in foreign currency cash balance[1] (opening less closing balance)	**-28 203**	**-25 443**	**-20 176**	**-18 085**	**35 099**	**-1 286**
Total change in cash balances[1]	**-26 216**	**-25 443**	**-22 071**	**-23 085**	**35 099**	**-1 286**
Total closing cash balance	**204 250**	**232 656**	**226 321**	**249 406**	**214 307**	**215 593**
of which:						
Operational cash[3]	*54 037*	*66 525*	*62 430*	*79 008*	*50 000*	*50 000*
Official reserves[4]	*150 213*	*166 131*	*163 891*	*170 398*	*164 307*	*165 593*

1. 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
3. Deposits in rands and US dollars to meet government's commitments
4. Deposits in rands and US dollars made with the Reserve Bank to increase official foreign exchange reserves
Source: National Treasury

Government debt and debt-service costs

National government debt

Government debt is determined primarily by past borrowing requirements. It is also affected by changes in inflation and exchange rates. Table 7.8 summarises the distribution and stock of national government debt, which remains well-structured but has increased relative to the 2017 Budget.

Net loan debt is expected to increase to R3.03 trillion, or 52.2 per cent of GDP, over the medium term

Net loan debt is expected to increase to R3.03 trillion, or 52.2 per cent of GDP, over the medium term. By the end of this period, instruments with a maturity of more than one year will make up 78.9 per cent of debt stock and foreign-denominated bonds account for 9.6 per cent of debt stock.

Table 7.8 Total national government debt[1]

End of period	2016/17	2017/18	2018/19	2019/20	2020/21
R billion	Outcome	Estimate	Medium-term estimates		
Domestic loans[2]	**2 020**	**2 286**	**2 502**	**2 712**	**2 940**
Short-term	277	310	324	347	377
Long-term	1 743	1 976	2 178	2 365	2 563
Fixed-rate	*1 300*	*1 449*	*1 584*	*1 700*	*1 818*
Inflation-linked	*443*	*527*	*594*	*665*	*745*
Foreign loans[2]	**213**	**220**	**269**	**271**	**310**
Gross loan debt	**2 233**	**2 506**	**2 771**	**2 983**	**3 250**
Less: National Revenue Fund bank balances	-225	-221	-244	-215	-220
Net loan debt	**2 008**	**2 285**	**2 527**	**2 768**	**3 030**
As percentage of GDP:					
Gross loan debt	*50.7*	*53.3*	*55.1*	*55.3*	*56.0*
Net loan debt	*45.6*	*48.6*	*50.3*	*51.4*	*52.2*

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

In 2017/18, the stock of debt increased by R273.2 billion. The main budget deficit accounted for R217.4 billion of this increase. Upward revaluation of inflation-linked bonds was partly offset by the appreciation of the exchange rate.

Table 7.9 Analysis of annual increase in gross loan debt

	2016/17	2017/18	2018/19	2019/20	2020/21
R million	Outcome	Estimate	Medium-term estimates		
Budget deficit	167 589	217 345	191 054	204 785	214 797
Discount on loan transactions	14 359	22 797	12 660	7 019	7 684
Revaluation of inflation-linked bonds[1]	28 328	36 996	28 939	31 433	36 881
Revaluation of foreign-currency debt[1]	-22 340	-18 563	12 821	8 599	10 100
Change in cash and other balances[2]	25 982	14 652	18 994	-39 137	-2 727
Total	**213 918**	**273 227**	**264 468**	**212 699**	**266 735**

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

The cost of servicing government debt is influenced by the volume of debt, new borrowing and macroeconomic variables such as interest, inflation and exchange rates.

Table 7.10 National government debt-service costs

	2016/17	2017/18		2018/19	2019/20	2020/21
R million	Outcome	Budget	Revised	Medium-term estimates		
Domestic loans	135 614	148 078	151 292	165 754	181 477	196 937
Short-term	21 669	22 983	24 796	22 848	24 628	26 526
Long-term	113 945	125 095	126 496	142 906	156 849	170 411
Foreign loans	10 883	14 275	11 863	14 370	16 187	16 922
Total	**146 497**	**162 353**	**163 155**	**180 124**	**197 664**	**213 859**
As percentage of:						
GDP	*3.3*	*3.4*	*3.5*	*3.6*	*3.7*	*3.7*
Expenditure	*11.2*	*11.5*	*11.6*	*11.9*	*12.1*	*12.2*
Revenue	*12.9*	*13.1*	*13.7*	*13.6*	*13.8*	*13.9*

Source: National Treasury

On average, 13.8 per cent of revenue will go to debt service over next three years

In 2017/18, debt-service costs have been revised upwards by R802 million due to the higher borrowing requirement. Exchange rate appreciation, however, reduced the debt-service costs on foreign loans. Debt-service costs are also revised upwards over the medium term. As a share of GDP, these costs are stable, averaging 3.7 per cent. On average, 13.8 per cent of revenue will be used for debt service over the next three years.

Contingent liabilities

Government closely monitors the status of its contingent liabilities – commitments that may give rise to financial obligations in future – and other fiscal obligations. These obligations include guarantees to state-owned companies, independent power producers, public-private partnerships and provisions for multilateral institutions. Any underfunding of social security funds (according to their actuarial valuations) also constitutes an obligation. Levels of contingent liability risk vary, as do the likelihood of default and callability (when creditors call on the guarantee).

Government is developing a framework to reduce new guarantees to state-owned companies

To improve monitoring and reduce the risk of these liabilities materialising, government has been working with the World Bank to improve assessment methodologies. In addition, government is developing a framework to reduce new guarantees to state-owned companies. The financial position of state-owned companies is discussed in Chapter 8. Details of contingent liabilities and other obligations are shown in Table 11 of the statistical annexure.

Government guarantees and other liabilities

Eskom, SAA, the South African Post Office and Denel required guarantees or recapitalisation during 2017/18

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. Government is committed to reducing guarantees as part of its efforts to maintain prudent levels of liabilities.

Changes in government's guarantee profile in 2017/18 were as follows:

- Eskom used an additional R18 billion of its guarantee and is expected to use R17.9 billion annually over the medium term. The unallocated portion of Eskom's R350 billion guarantee framework agreement, which amounted to R96 billion, was extended to 2023.
- Government recapitalised South African Airways (SAA) by R10 billion to redeem maturing debt and provide working capital. While SAA's guarantee exposure decreased by R6 billion, the airline's guarantee facilities were not reduced and remain at R19.1 billion.
- The South African Post Office was recapitalised by R3.7 billion, which reduced its guarantee exposure to R400 million.
- The R3 billion guarantee to the Reserve Bank, which formed part of the African Bank bailout in 2014/15, expired in March 2017 without being called on.
- A guarantee of R1.2 billion provided to the Passenger Rail Agency of South Africa expired.

- Guaranteed debt worth R2.2 billion for the Trans-Caledon Tunnel Authority matured during 2017/18, which reduced the authority's exposure.
- The R1.9 billion guarantee to Denel was extended to September 2018. Denel was granted an additional R580 million guarantee in December 2017 to meet short-term cash requirements. This brings Denel's total guarantees to R2.4 billion.
- Total guarantees to the Land Bank declined by R1.5 billion as a guarantee matured without being called on.

Table 7.11 Government guarantee exposure[1]

	2015/16		2016/17		2017/18	
R billion	**Guarantee**	**Exposure[2]**	**Guarantee**	**Exposure[2]**	**Guarantee**	**Exposure[2]**
Public institutions	**469.9**	**255.8**	**475.7**	**290.4**	**466.0**	**300.4**
of which:						
Eskom	*350.0*	*174.6*	*350.0*	*202.8*	*350.0*	*220.8*
SANRAL	*38.9*	*27.2*	*38.9*	*29.4*	*38.9*	*30.1*
Trans-Caledon Tunnel Authority	*25.8*	*21.2*	*25.6*	*20.9*	*25.7*	*18.7*
South African Airways	*14.4*	*14.4*	*19.1*	*17.8*	*19.1*	*11.8*
Land and Agricultural Bank of South Africa	*6.6*	*5.3*	*11.1*	*3.8*	*9.6*	*6.6*
Development Bank of Southern Africa	*13.9*	*4.4*	*12.5*	*4.1*	*12.3*	*4.2*
South African Post Office	*4.4*	*1.3*	*4.4*	*4.0*	*0.4*	*0.4*
Transnet	*3.5*	*3.8*	*3.5*	*3.8*	*3.5*	*3.8*
Denel	*1.9*	*1.9*	*1.9*	*1.9*	*2.4*	*2.3*
South African Express	*1.1*	*0.5*	*1.1*	*0.8*	*0.8*	*0.8*
Industrial Development Corporation	*2.0*	*0.2*	*0.4*	*0.2*	*0.5*	*0.1*
South African Reserve Bank	*3.0*	*–*	*3.0*	*–*	*–*	*–*
Independent power producers	**200.2**	**114.0**	**200.2**	**125.8**	**200.2**	**122.2**
Public-private partnerships[3]	**10.3**	**10.3**	**10.0**	**10.0**	**9.6**	**9.6**

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 amount only include the national and provincial PPP agreements
Source: National Treasury

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

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 cannot afford to buy power as stipulated in the power-purchase agreements, government will have to loan the utility 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

R122.2 billion by March 2018. Exposure is expected to decrease to R97.6 billion in 2020/21.

Guarantees to public-private partnerships

Contingent liability exposure from public-private partnerships arises mainly from government's obligation to a private party in the case of a contract termination. It also occurs if government has agreed to top up a shortfall if the project does not generate the minimum revenue set out in a contract with the private party. During 2017/18, contingent liabilities from public-private partnerships decreased by about R469 million to R9.6 billion. Total exposure is expected to reach R7.4 billion in 2020/21. Additional information is provided in Annexure E.

Provisions for multilateral institutions

Provisions for multilateral institutions at R213.2 billion for 2017/18

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 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 R213.2 billion for 2017/18, and are expected to reach R290.8 billion in 2020/21.

Other contingent liabilities

Government's other obligations are shown 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 R18.3 billion in 2017/18. 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 for state employees.

Road Accident Fund obligations increased to R189.2 billion

Legal claims against government departments are estimated at R35 billion. Obligations for the Road Accident Fund have increased by R9.7 billion to R189.2 billion. These obligations include the provision for claims that are deemed to have happened before the valuation date, but which are not yet registered on the claims' system. Chapter 8 provides additional information on the Road Accident Fund and its proposed replacement.

Net valuation profits and losses

Losses of R135 million projected on Gold and Foreign Exchange Contingency Reserve Account

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 appreciation of the rand, unrealised gains are expected to amount to R209.4 billion by end-March 2018, a decline of R21.8 billion compared with 2016/17. In 2017/18, government settled a realised loss of R225 million. Losses of R135 million are projected for 2018/19.