7

Government debt and contingent liabilities

In brief

- Over the past year, government's gross borrowing requirement has risen by R71.9 billion to R407.3 billion.
- Government has financed this steep increase in a responsible manner, despite a deteriorating fiscal position resulting from weak economic growth and the precarious finances of state-owned companies.
- Deep and liquid domestic capital markets remain the primary source of financing over the next three years.
- Gross loan debt is expected to increase to R4.38 trillion, or 71.6 per cent of GDP, by 2022/23, with foreign debt averaging 9.6 per cent of gross debt over the medium term. Net loan debt is expected to reach R4.15 trillion, or 67.8 per cent of GDP, by 2022/23.
- Contingent liabilities are expected to increase from R979.9 billion in 2019/20 to R1.16 trillion by 2022/23.
- The risk to South Africa's credit ratings became more pronounced in 2019. Only Moody's and Ratings and Investment Information (R&I) rate the country's debt at investment grade.

Overview

Over the past year, government's gross borrowing requirement – the budget balance plus maturing loans – has increased by 21.4 per cent to R407.3 billion. Borrowing is expected to reach R497.5 billion in 2022/23. The steep increase is the result of weak economic growth, the deteriorating fiscal position, an increase in domestic bond redemptions and large-scale support to distressed state-owned companies. About 90 per cent of government debt is rand-denominated, shielding government from some volatility in debt costs due to fluctuations in the exchange rate. However, higher yields, especially on longer-dated domestic bonds, have increased borrowing costs.

Government's gross borrowing requirement grew by 21.4 per cent over the past year

Debt and debt-service costs will continue to rise over the medium term. Gross loan debt is estimated to increase from R3.18 trillion (61.6 per cent of GDP) in 2019/20 to R4.38 trillion (71.6 per cent of GDP) in 2022/23. Net loan debt is estimated to increase from R2.94 trillion (57 per cent of GDP) in 2019/20 to R4.15 trillion (67.8 per cent of GDP) in 2022/23. Contingent liabilities – mainly guarantees to state-owned companies – are projected to reach R979.9 billion on 31 March 2020.

Prudent debt management strategies allow government to finance higher borrowing requirements

Government's long record of prudent debt management has enabled the National Treasury to consistently match higher borrowing requirements without dramatically increasing the cost of debt. Nonetheless, prudent debt management cannot substitute for sustainable public finances, or for a growing economy. Debt is not expected to stabilise over the medium term. The risk to South Africa's remaining investment-grade credit ratings has become more pronounced. As discussed in Chapter 3, urgent interventions are required to stabilise the public finances.

Financing strategy

Government's financing strategy remains efficient and cost-effective, and minimises risk

Despite the challenging economic environment, government has continued to implement an efficient and cost-effective financing strategy. Global and domestic economic trends are considered when establishing the mix of funding instruments and maturities, as well as risk and debt management plans. The strategy prioritises funding liquidity – that is, the ability to make agreed-upon payments in a timely manner – while minimising refinancing and currency risk, without compromising the efficient functioning of the domestic bond market.

In 2020/21, the borrowing requirement will be R432.7 billion. To ensure a diversified debt portfolio that spreads risk, the requirement will be met from short- and long-term borrowing in the domestic market, and from 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 will be in the form of foreign bonds. Government is preparing to issue a domestic Islamic bond in 2020/21. In addition, government is considering borrowing from multilateral institutions to finance infrastructure projects, with the benefit of additional technical expertise.

Government's strategic portfolio risk benchmarks help to ensure that the debt structure is configured to minimise risk. The debt portfolio is expected to remain within the current benchmarks during 2020/21.

Table 7.1 Performance against strategic portfolio risk benchmarks

Description	Benchmark range or limit	2019/20	2020/21
		Estimates	
Treasury bills as % of domestic debt[1]	15	11.8	12.0
Long-term debt maturing in 5 years as % of bonds	25	11.3	14.6
Inflation-linked bonds as % of domestic debt	20-25	22.9	23.3
Foreign debt as % of total debt	15	10.1	9.5
Weighted term-to-maturity of fixed-rate bonds and Treasury bills (years)	10-14	12.8	11.8
Weighted term-to-maturity of inflation-linked bonds (years)	14-17	13.8	12.6
Other indicators (weighted average)			
Term-to-maturity of total debt (years)		13.0	11.8
Term-to-maturity of foreign debt (years)		13.1	11.5

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

Risks to the financing strategy

The main risks to the financing strategy are:

Budget deficit, inflation and exchange-rate fluctuations, and credit rating downgrades are risks to financing strategy

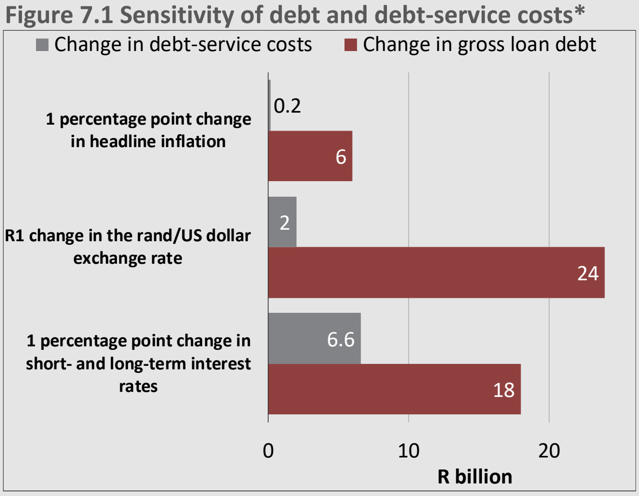
- A widening budget deficit. If GDP growth contracts or spending increases – for example, through additional support to state-owned companies – debt and borrowing costs would increase.
- Inflation and exchange-rate risks. Unanticipated increases in inflation or depreciation in the rand exchange rate would increase the cost of outstanding inflation-linked or foreign-currency debt.
- Sovereign credit ratings. Further downgrades of South Africa's credit ratings could lead to higher costs of borrowing.

Sovereign credit ratings and the borrowing requirement

South Africa's credit ratings from Moody's, Standard & Poor's and Fitch carry a negative outlook. Moody's and R&I maintain an investment-grade rating. A downgrade by Moody's would trigger exclusion from indices such as the FTSE World Government Bond Index, and would prevent some institutions from holding the country's debt. Such an event could lead to short-term volatility in financial markets, including an increase in borrowing costs and exchange-rate depreciation. Given the country's highly developed and liquid financial markets, however, it would be unlikely to affect government's ability to finance its medium-term borrowing requirements.

Figure 7.1 illustrates the sensitivity of debt and debt-service costs to changes in selected macroeconomic variables, such as interest, inflation and exchange rates. A further deterioration in sovereign credit ratings, for example, would result in adverse movements in exchange and interest rates, resulting in higher debt and borrowing costs.

Figure 7.1 Sensitivity of debt and debt-service costs*



**Assuming all other variables remain unchanged*
Source: National Treasury

Rating agencies are concerned about the country's low economic growth, rising fiscal deficit, growing debt and high contingent liabilities. Nonetheless, South Africa is supported by strong core institutions such as the judiciary and Reserve Bank, deep domestic financial markets and a well-capitalised financial sector.

Borrowing performance and projections

Borrowing requirement set to reach R497.5 billion in 2022/23 as result of higher budget deficit, redemptions

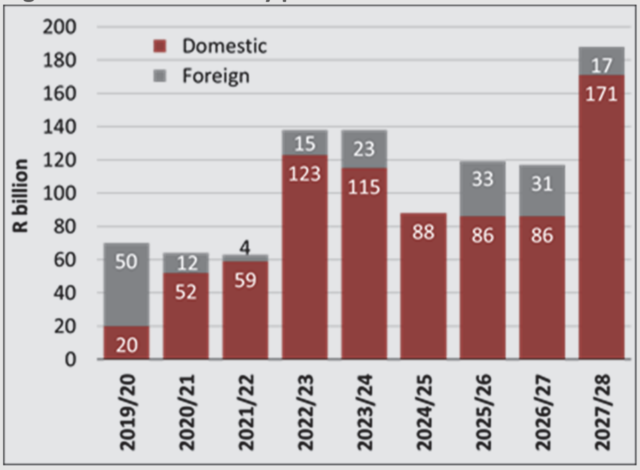
In 2019/20, the budget deficit increased by R82.3 billion relative to projections in the 2019 Budget, partially offset by lower domestic bond redemptions of R11.1 billion. As a result, the gross borrowing requirement rose from a projected R335.3 billion to R407.3 billion for 2019/20, or from 6.2 to 7.9 per cent of GDP. Over the medium term, the gross borrowing requirement will increase from R407.3 billion to R497.5 billion as a result of higher budget deficits and loan redemptions. Over the next three years, R266.4 billion of debt is scheduled for redemption, of which domestic debt accounts for 88.1 per cent. The high redemption levels will be addressed by exchanging shorter- for longer-dated bonds and using cash balances.

Managing refinancing risk through the bond switch programme

The bond switch programme has succeeded in managing government's refinancing risk – the risk that the state will not be able to raise money to repay debt at a scheduled point, or that it will have to do so at higher cost. The programme exchanges short- for longer-dated debt. Since 2015, R247 billion has been switched out of shorter-term bonds.

The programme will be enhanced in 2020/21. The revised structure will increase transparency, in line with other government funding instruments, and reduce speculation about the timing and size of switch auctions. A calendar for switch auctions that use Dutch auction pricing – where bonds are allotted at a single price – will be introduced. To further manage bond market volatility, a maximum amount will be set for each switch auction. A detailed description of the enhanced programme will be published on the National Treasury's investor relations portal.

Figure 7.2 Debt maturity profile



Source: National Treasury

Table 7.2 shows how the gross borrowing requirement will be financed over the next three years. As a percentage of GDP, the borrowing requirement reaches 8 per cent in 2020/21, increasing to 8.1 per cent in the outer year.

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

	2018/19	2019/20		2020/21	2021/22	2022/23
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
Main budget balance	**-231 342**	**-255 243**	**-337 508**	**-367 999**	**-366 374**	**-359 348**
Redemptions	**-15 570**	**-80 088**	**-69 743**	**-64 699**	**-63 531**	**-138 137**
Domestic long-term loans	-13 529	-30 596	-19 535	-52 465	-59 239	-122 937
Foreign loans	-2 041	-49 492	-50 208	-12 234	-4 292	-15 200
Total	**-246 912**	**-335 331**	**-407 251**	**-432 698**	**-429 905**	**-497 485**
Financing						
Domestic short-term loans	**14 061**	**25 000**	**36 000**	**48 000**	**48 000**	**55 000**
Treasury bills (net)	14 039	15 000	26 000	48 000	48 000	55 000
Corporation for Public Deposits	22	10 000	10 000	–	–	–
Domestic long-term loans	**183 003**	**216 000**	**298 900**	**337 700**	**337 400**	**385 800**
Market loans	183 503	216 000	299 189	337 700	337 400	385 800
Loans issued for switches	-500	–	-289	–	–	–
Foreign loans	**25 258**	**28 520**	**76 052**	**29 260**	**44 790**	**53 200**
Market loans	25 258	28 520	76 052	29 260	44 790	53 200
Loans issued for switches	–	–	–	–	–	–
Change in cash and other balances[2]	**24 590**	**65 811**	**-3 701**	**17 738**	**-285**	**3 485**
Cash balances	-2 274	71 644	-724	12 596	-5 321	-1 647
Other balances[3]	26 864	-5 833	-2 977	5 142	5 036	5 132
Total	**246 912**	**335 331**	**407 251**	**432 698**	**429 905**	**497 485**
Percentage of GDP	*5.0%*	*6.2%*	*7.9%*	*8.0%*	*7.5%*	*8.1%*

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 2019/20, government issued an additional R11 billion in Treasury bills (relative to 2019 Budget projections) to partly finance the higher gross borrowing requirement. Loans from the Corporation for Public Deposits increased from R17.3 billion to R27.3 billion. Over the medium term, Treasury bill issuance will amount to 12.4 per cent of total domestic borrowing.

Treasury bill issuance will amount to 12.4 per cent of total domestic borrowing over medium term

In 2020/21, net Treasury bill issuance will amount to R48 billion, while borrowing from the Corporation for Public Deposits will remain unchanged at R27.3 billion.

Table 7.3 Domestic short-term borrowing

	2019/20			2020/21		2019/20	2020/21
R million	**Opening balance**	**Net change**	**Closing balance**	**Net change**	**Closing balance**	**Weekly auction estimates**	
Corporation for Public Deposits	**17 278**	**10 000**	**27 278**	**–**	**27 278**		
Treasury bills	**307 360**	**26 000**	**333 360**	**48 000**	**381 360**	**7 930**	**10 375**
91-days	17 000	-4 729	12 271	3 329	15 600	1 000	1 200
182-days	59 818	-2 604	57 214	11 556	68 770	2 055	2 645
273-days	98 504	9 840	108 344	16 066	124 410	2 370	3 190
364-days	132 038	23 493	155 531	17 049	172 580	2 505	3 340
Total	**324 638**	**36 000**	**360 638**	**48 000**	**408 638**		

Source: National Treasury

Domestic long-term borrowing

Domestic long-term borrowing consists of fixed-rate, inflation-linked and retail savings bonds. Between April 2019 and January 2020, government raised R250.6 billion by issuing domestic long-term debt. Fixed-rate bonds accounted for 82.6 per cent of bond issuances, with inflation-linked instruments making up the remainder. Fixed-rate bonds were issued across a range of maturities. About half were issued for between four and 15 years, as the bond exchange programme created space to issue more bonds in the short-to-medium term.

Average cost of borrowing of 9.1 per cent for fixed-rate bonds

In 2019/20, interest rates on long-term bonds increased compared with the previous year. Government was able to issue more bonds in the short-to-medium term, lowering its average borrowing costs. For instance, in 2018/19, fixed-rate bonds were funded at an average interest rate of 9.3 per cent, while in 2019/20, they were funded at an average interest rate of 9.1 per cent.

Over the medium term, domestic long-term borrowing will increase from R298.9 billion in 2019/20 to R385.8 billion in 2022/23.

Non-resident holdings

Foreign holdings of government bonds increased by R95 billion in 2019

As a category, international investors remain the largest holders of domestic government bonds, with 37.1 per cent of the portfolio. Moreover, foreign holdings increased by R95 billion in 2019, relative to an increase of R8 billion in 2018, showing global investors remain positive about South African assets despite concern about sovereign credit risk.

Figure 7.3 Ownership of domestic bonds

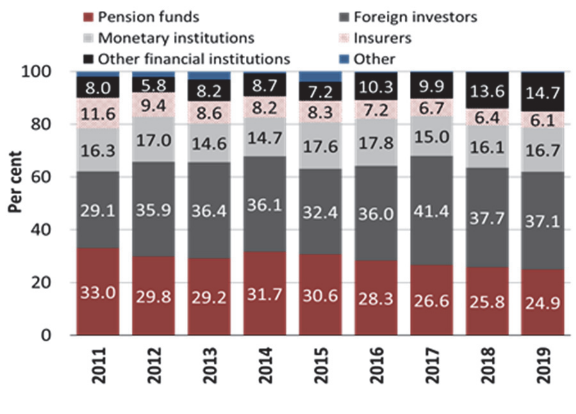
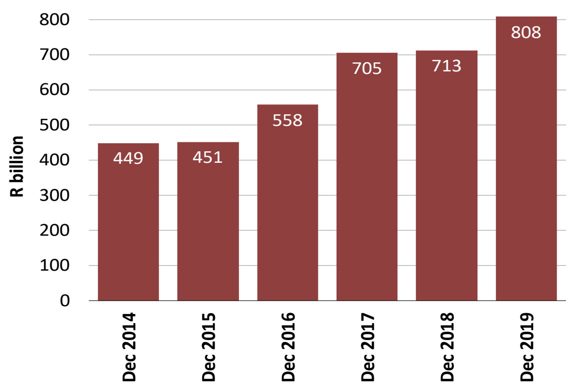


Figure 7.4 Domestic bonds held by foreign investors



Source: Share Transactions Totally Electronic

International borrowing

Government's foreign-currency bonds – mainly denominated in dollars and euros – are issued to meet foreign-currency commitments. In 2019/20, favourable pricing and continued investor interest allowed government to raise US$5 billion in 10-year and 30-year bonds, compared with the US$4 billion required for the year. Over the medium term, an additional US$8.5 billion will be raised in global capital markets.

Table 7.4 Foreign-currency commitments and financing

US$ million	2018/19 Outcome	2019/20 Estimate	2020/21	2021/22	2022/23
			Medium-term estimates		
Opening balance	**8 942**	**8 722**	**8 285**	**7 142**	**7 325**
Commitments	**-2 479**	**-5 717**	**-3 382**	**-3 051**	**-3 620**
Redemptions	-154	-3 456	-836	-287	-1 000
Interest	-1 025	-1 147	-1 296	-1 454	-1 600
Departments	-1 300	-1 114	-1 250	-1 310	-1 020
Financing	**2 259**	**5 280**	**2 239**	**3 234**	**3 730**
Loans	2 000	5 000	2 000	3 000	3 500
Purchases	–	–	–	–	–
Interest	259	280	239	234	230
Closing balance	**8 722**	**8 285**	**7 142**	**7 325**	**7 435**

Source: National Treasury

Cash balances

Government's total cash holdings consist of deposits held at the commercial banks and the Reserve Bank. At the end of 2019/20, these balances stood at R238.8 billion. About 74.2 per cent, or R177.2 billion, of these holdings constitutes official foreign exchange reserve deposits made with the central bank, which is available as bridging finance. Over the medium term, foreign-currency deposits will remain slightly below US$7.5 billion, in line with government's commitment to the Reserve Bank.

Government's total cash balances stand at R238.8 billion

Table 7.5 Change in cash balances

R million	2018/19 Outcome	2019/20 Budget	2019/20 Revised	2020/21	2021/22	2022/23
				Medium-term estimates		
Rand currency						
Opening balance	**123 241**	**138 657**	**120 575**	**117 157**	**117 157**	**117 157**
Closing balance	**120 575**	**117 157**	**117 157**	**117 157**	**117 157**	**117 157**
of which:						
Tax and loan accounts	*63 418*	*50 000*	*50 000*	*50 000*	*50 000*	*50 000*
Change in rand cash balance[1] (opening less closing balance)	**2 666**	**21 500**	**3 418**	**–**	**–**	**–**
Foreign currency[2]						
Opening balance	**112 546**	**144 628**	**117 486**	**121 628**	**109 032**	**114 353**
Closing balance	**117 486**	**94 484**	**121 628**	**109 032**	**114 353**	**116 000**
US$ equivalent	*8 722*	*6 786*	*8 285*	*7 142*	*7 325*	*7 435*
Change in foreign currency cash balance[1] (opening less closing balance)	**-4 940**	**50 144**	**-4 142**	**12 596**	**-5 321**	**-1 647**
Total change in cash balances[1]	**-2 274**	**71 644**	**-724**	**12 596**	**-5 321**	**-1 647**
Total closing cash balance	**238 061**	**211 641**	**238 785**	**226 189**	**231 510**	**233 157**
of which:						
Operational cash[3]	*79 878*	*40 059*	*61 537*	*44 551*	*47 284*	*49 002*
Official reserves[4]	*158 183*	*171 582*	*177 248*	*181 638*	*184 226*	*184 155*

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

Table 7.6 summarises the distribution and stock of national government debt.

Table 7.6 Total national government debt[1]

End of period	2018/19	2019/20	2020/21	2021/22	2022/23
R billion	Outcome	Estimate	Medium-term estimates		
Domestic loans[2]	**2 497**	**2 859**	**3 228**	**3 597**	**3 957**
Short-term	325	361	409	457	512
Long-term	2 173	2 498	2 819	3 140	3 445
Fixed-rate	*1 605*	*1 851*	*2 075*	*2 350*	*2 542*
Inflation-linked	*568*	*647*	*744*	*790*	*903*
Foreign loans[2]	**291**	**317**	**334**	**382**	**427**
Gross loan debt	**2 788**	**3 176**	**3 562**	**3 979**	**4 384**
Less: National Revenue Fund bank balances[2]	-243	-238	-222	-227	-230
Net loan debt	**2 545**	**2 938**	**3 340**	**3 752**	**4 154**
As percentage of GDP:					
Gross loan debt	*56.7*	*61.6*	*65.6*	*69.1*	*71.6*
Net loan debt	*51.7*	*57.0*	*61.5*	*65.1*	*67.8*

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

Debt is not expected to stabilise over the medium term

Debt is not expected to stabilise over the medium term. Gross loan debt is expected to increase to R4.38 trillion, or 71.6 per cent of GDP, by 2022/23, with net debt reaching 67.8 per cent of GDP over the same period.

Government debt levels are affected by changes in inflation and exchange rates. For example, rand appreciation decreases the value of outstanding foreign debt. Foreign-currency-denominated debt will average R381 billion, or 9.6 per cent, of gross debt over the medium term. Government's foreign-currency exposure is partly offset by foreign-currency investments, which in 2019/20 amount to US$8.3 billion.

In 2019/20, the stock of debt increased by R388 billion. The main budget deficit accounted for 87 per cent of this increase, while interest and inflation rate changes explain much of the rest.

Table 7.7 Analysis of annual increase in gross loan debt

	2018/19	2019/20	2020/21	2021/22	2022/23
R million	Outcome	Estimate	Medium-term estimates		
Budget deficit	231 342	337 508	367 999	366 374	359 348
Discount on loan transactions	18 165	22 473	5 946	8 170	6 443
Revaluation of inflation-linked bonds[1]	23 440	24 531	28 677	34 427	36 248
Revaluation of foreign-currency debt[1]	50 225	-450	715	7 183	6 930
Change in cash and other balances[2]	-24 590	3 701	-17 738	285	-3 485
Total	**298 582**	**387 763**	**385 600**	**416 439**	**405 484**

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 debt stock, new borrowing and macroeconomic variables such as interest, inflation and exchange rates. In 2019/20, debt-service costs were revised upwards by R2.8 billion due to the higher borrowing requirement. In addition, increased Treasury bill issuance and greater bridging finance increased short-term borrowing costs. As a share of GDP, debt-service costs are projected to average 4.5 per cent over the medium term.

Table 7.8 National government debt-service costs

R million	2018/19 Outcome	2019/20 Budget	Revised	2020/21	2021/22	2022/23
				Medium-term estimates		
Domestic loans	167 438	184 240	188 202	211 144	237 614	266 238
Short-term	29 601	25 345	28 039	25 441	28 260	31 255
Long-term	137 837	158 895	160 163	185 703	209 354	234 983
Foreign loans	14 411	17 968	16 803	18 126	20 868	23 907
Total	**181 849**	**202 208**	**205 005**	**229 270**	**258 482**	**290 145**
As percentage of:						
GDP	*3.7*	*3.7*	*4.0*	*4.2*	*4.5*	*4.7*
Expenditure	*12.1*	*12.2*	*12.2*	*13.0*	*14.0*	*15.0*
Revenue	*14.3*	*14.4*	*15.2*	*16.4*	*17.4*	*18.4*

Source: National Treasury

Contingent liabilities

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

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

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

Guarantees to state-owned companies

Guidelines issued to improve guarantee reporting

In 2019/20, government issued guarantee reporting guidelines for national departments and state-owned companies. The guidelines state that exposure from a guarantee consists of the sum of the outstanding value of a loan, accrued interest and adjustments to inflation-linked bonds as a result of changes in the inflation rate. The approved guarantee amount, however, reflects only the capital value of the loan. As a result, the exposure amount may exceed the approved guarantee amount.

The total amount for approved guarantees is expected to decrease by R3.3 billion to R484.4 billion by the end of March 2020, with associated exposure estimated to increase by R17.2 billion to R385.3 billion. Eskom constitutes the largest exposure, at 77.2 per cent of guarantees.

Table 7.9 Government guarantee exposure[1]

R billion	2017/18 Guarantee	2017/18 Exposure[2]	2018/19 Guarantee	2018/19 Exposure[2]	2019/20 Guarantee	2019/20 Exposure[2]
Public institutions	**469.8**	**327.3**	**487.7**	**368.1**	**484.4**	**385.3**
of which:						
Eskom	*350.0*	*250.6*	*350.0*	*285.6*	*350.0*	*297.4*
SANRAL[3]	*38.9*	*30.4*	*38.9*	*39.5*	*37.9*	*39.9*
Trans-Caledon Tunnel Authority	*25.7*	*18.9*	*43.0*	*14.3*	*43.0*	*13.5*
South African Airways	*19.1*	*11.1*	*19.1*	*15.3*	*19.1*	*17.3*
Land and Agricultural Bank of South Africa	*9.6*	*3.8*	*9.6*	*1.0*	*9.6*	*0.9*
Development Bank of Southern Africa	*12.2*	*4.1*	*11.4*	*4.3*	*10.0*	*4.6*
South African Post Office	*4.2*	*0.4*	*2.9*	–	–	–
Transnet	*3.5*	*3.8*	*3.5*	*3.8*	*3.5*	*3.8*
Denel	*2.4*	*2.4*	*3.4*	*3.4*	*6.9*	*6.9*
South African Express	*1.1*	*0.9*	*2.8*	*0.2*	*1.9*	*0.2*
Industrial Development Corporation	*0.4*	*0.1*	*0.5*	*0.1*	*0.5*	*0.1*
South African Reserve Bank	–	–	*0.3*	–	–	–
Independent power producers	**200.2**	**122.2**	**200.2**	**146.9**	**200.2**	**161.4**
Public-private partnerships[4]	**9.6**	**9.6**	**10.5**	**10.5**	**8.7**	**8.7**

1. A full list of guarantees is given in Table 11 of the statistical annexure in the Budget Review
2. Total amount of borrowing, adjustments to inflation-linked bonds as a result of inflation rate changes and accrued interest
3. The exposure in 2017/18 excludes adjustments to inflation-linked bonds as a result of inflation rate changes
4. These amounts only include national and provincial PPP agreements
Source: National Treasury

In 2019/20, there were four significant changes to the guarantee profile:

- Eskom used an additional R12 billion of its guarantee.
- Denel was granted guarantees of R3.5 billion.
- Government recapitalised the South African Post Office and South African Express to allow the airline to settle guaranteed debt.
- The Development Bank of Southern Africa and the South African National Roads Agency Limited repaid some of their guaranteed debt.

Other guarantees

Contingent liability risks for IPPs are very low

Contingent liability risks for independent power producers (IPPs) are very low. Government has committed to procure up to R200 billion in renewable energy from IPPs. The value of signed projects, which represents government's exposure, is expected to amount to R161.4 billion by March 2020. This exposure is expected to decrease to R141.9 billion in 2022/23.

Exposure to PPPs declined by R1.8 billion as a number of projects reached maturity

During 2019/20, government's exposure to public-private partnerships decreased by about R1.8 billion to R8.7 billion, as a number of projects reached maturity. Total exposure is expected to reach R7 billion in 2022/23.

Other contingent liabilities

Table 7.10 shows government's exposure to multilateral institutions and other implicit contingent liabilities. South Africa subscribes to shares in these institutions but does not pay the full amount. Government's commitments represent the unpaid portion of the share subscribed to in the unlikely event these institutions run into financial difficulty.

Table 7.10 Provision for multilateral institutions and other contingent liabilities

R billion	2017/18	2018/19	2019/20
Multilateral institutions	**211.5**	**260.7**	**280.0**
of which:			
New Development Bank	*33.2*	*57.9*	*76.0*
African Development Bank	*44.1*	*53.9*	*54.4*
International Monetary Fund	*76.4*	*85.9*	*86.2*
Other contingent liabilities	**277.4**	**326.2**	**424.6**
of which:			
Export Credit Insurance Corporation of South Africa	*18.2*	*20.5*	*18.2*
Post-retirement medical assistance	*69.9*	*69.9*	*69.9*
Road Accident Fund	*139.2*	*173.6*	*273.1*

Source: National Treasury

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 appreciation of the rand, unrealised gains are expected to amount to R278.1 billion by end-March 2020, a decrease of R7.6 billion compared with 2018/19. In 2019/20, government settled a realised loss of R131.7 million. Losses of R97.9 million are projected for 2020/21.

Conclusion

A prudent debt management strategy, alongside deep and liquid domestic capital markets, has enabled government to finance the higher borrowing requirement. The current debt trajectory is not sustainable, however, and will have to be addressed by reducing expenditure, improving the financial positions of state-owned companies and increasing revenue collection through higher economic growth.

Debt management strategy has enabled government to finance borrowing, but debt trajectory is not sustainable

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