7

2024 BUDGET REVIEW

GOVERNMENT DEBT AND CONTINGENT LIABILITIES

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CHAPTER 7

GOVERNMENT DEBT AND CONTINGENT LIABILITIES

In brief

- Government's gross borrowing requirement is projected to decrease from R553.1 billion in 2023/24 to R428.5 billion in 2026/27.
- The decrease is driven mainly by the Gold and Foreign Exchange Contingency Reserve Account settlement amounting to R150 billion over the medium term.
- Gross loan debt is projected to stabilise at 75.3 per cent of GDP in 2025/26, slightly lower than the level of 77.7 per cent projected in the 2023 *Medium Term Budget Policy Statement* (MTBPS).
- Debt-service costs will stabilise at 21.3 per cent of revenue in 2025/26 and decline thereafter.

OVERVIEW

Relative to the 2023 Budget, government's gross borrowing requirement in 2023/24 has increased by R37.6 billion to an estimated R553.1 billion, or 7.8 per cent of GDP. This increase is due to lower revenue collection and higher spending.

The medium-term gross borrowing requirement will be R196 billion lower than projected in the 2023 MTBPS, mainly due to a change in the arrangements governing the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) between the National Treasury and the Reserve Bank. Accordingly, government will receive distributions of R100 billion in 2024/25, R25 billion in 2025/26 and R25 billion in 2026/27 from the Reserve Bank. This will reduce domestic market financing requirements, as well as the growth of debt stock and debt-service costs.

Gross debt stock is expected to increase from R5.21 trillion (73.9 per cent of GDP) in 2023/24 to R6.29 trillion in 2026/27 (74.7 per cent of GDP). Net loan debt – gross loan debt less cash balances – will increase from R5.06 trillion (71.7 per cent of GDP) to R6.22 trillion (73.8 per cent of GDP) over the same period. In line with government's fiscal strategy, gross loan debt is expected to stabilise at 75.3 per cent of GDP in 2025/26, an improvement on the 2023 MTBPS estimate of 77.7 per cent of GDP.

To combat inflation, the Reserve Bank has kept the repo rate – the rate at which it lends to commercial banks – unchanged at 8.25 per cent since May 2023. The yield curve – the relationship between bonds of different maturities – continues to steepen, reflecting higher borrowing costs stemming from the impact of prolonged power cuts and concerns about growth and rising debt stock.

In 2023, Moody's and S&P maintained South Africa's sovereign credit rating at sub-investment grade with a stable outlook. In January 2024, Fitch affirmed the country's long-term foreign and local currency debt ratings at "BB-" and maintained its stable outlook. Fitch cited the constraints of low real GDP growth, high inequality, a high and rising government debt-to-GDP ratio and a modest fiscal consolidation path. Over the medium term, government will focus on raising GDP growth through structural reforms, and stabilising debt and debt-service costs.

Gold and Foreign Exchange Contingency Reserve Account reform

GFECRA captures valuation gains on South Africa's foreign exchange reserves. Currently, such gains or losses are not settled but are reflected as assets or liabilities on the financial statements of the National Treasury and the Reserve Bank.

As the rand has depreciated against the US dollar – making foreign reserve holdings more valuable when reported in the local currency – the GFECRA balance has grown from R1.8 billion in March 2006 to R507.3 billion in January 2024. Under the existing practice, these balances do not qualify for settlement.

GFECRA helps insulate the central bank's profit-and-loss statement from currency swings, as valuation losses are charged to the National Treasury. However, this account is now larger than any plausible losses on foreign exchange reserves from rand appreciation. Moreover, this system is unusual. Other countries typically account for valuation gains differently, making the Reserve Bank an outlier among central banks for the size of its liability to government.

A proposed settlement agreement to be formalised between the National Treasury and the Reserve Bank will establish a new framework, the effect of which will be to reduce government borrowing and improve the central bank's equity position. These adjustments will take South Africa closer to peer norms.

The agreement will allocate funds across three "buckets". The first bucket, GFECRA, will retain sufficient funds to absorb exchange rate swings. Failure to do so would create an obligation for the National Treasury to cover exchange rate losses. Once this arrangement has been fulfilled, funds will be distributed to the second bucket, a Reserve Bank contingency reserve, to ensure the central bank's solvency and to pay sterilisation costs to neutralise the interest rate impact. Once the first two obligations have been settled, funds will be distributed to the National Treasury.

The reform is informed by principles developed in consultation between the National Treasury, the Reserve Bank and international experts, including the following:

- The Reserve Bank's policy solvency should not be undermined by any GFECRA distribution. In practical terms, this means the central bank should not suffer sustained negative equity.
- There should be no sales of foreign exchange reserves to realise GFECRA gains if such reserves are below estimated adequacy levels.
- There should be no distribution of unrealised GFECRA balances that could plausibly be unwound by future rand appreciation.
- Any GFECRA distributions should be governed by a framework that rules out ad hoc decisions; should be public to ensure transparency; and should be used to reduce government borrowing.

Figure 7.1 Outstanding GFECRA balance

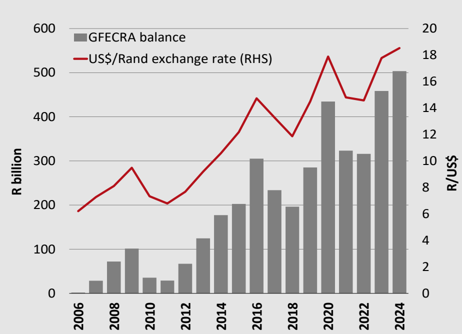
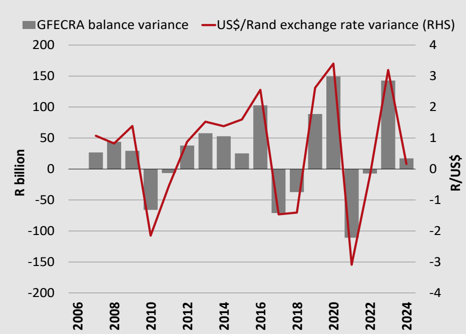


Figure 7.2 Fluctuations in GFECRA balances



Source: National Treasury

FINANCING STRATEGY

Government continues to finance its gross borrowing requirement in a prudent and sustainable manner within its strategic risk benchmarks. The financing strategy enables government to employ a range of instruments to meet its borrowing needs, while reducing risks associated with refinancing and currency fluctuations, and containing aggregate borrowing costs. In 2023/24, government successfully introduced a rand-denominated sukuk (Islamic bond) and a second floating rate note. In 2024/25, the gross borrowing requirement will be financed through domestic short- and long-term loans, foreign-currency-denominated instruments and cash balances.

Over the period ahead, government will ensure that the financing strategy can support infrastructure financing, with emphasis on frameworks and models that can crowd in private-sector capital investment at scale. Special purpose vehicles, dedicated infrastructure instruments and other public-private partnerships are being assessed. Providers of concessional funding, such as multilateral development banks and bilateral development institutions, will play an important role in this regard.

Table 7.1 Performance against strategic portfolio risk benchmarks

Description	Benchmark range or limit	2023/24	2024/25
		Estimates	
Treasury bills as % of domestic debt[1]	15.0	11.8	12.5
Long-term debt maturing in 5 years as % of bonds	25.0	15.4	20.0
Inflation-linked bonds as % of domestic debt	20-25	21.8	19.3
Foreign debt as % of total debt	15.0	10.6	10.8
Weighted term-to-maturity of fixed-rate bonds and Treasury bills (years)	10-14	10.5	9.7
Weighted term-to-maturity of inflation-linked bonds (years)	14-17	13.7	14.7
Other indicators (weighted average)			
Term-to-maturity of total debt (years)		11.2	10.7
Term-to-maturity of foreign debt (years)		12.8	12.1

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

Risks to the financing strategy

The main risks to the strategy are as follows:

- Higher borrowing costs.
- Weaker growth and revenue performance.
- A weaker exchange rate, which could pose risks to the domestic and foreign debt portfolios.
- The materialisation of contingent liabilities at state-owned companies, which could increase funding needs and associated costs.

BORROWING PERFORMANCE AND PROJECTIONS

Government's gross borrowing requirement consists of the budget deficit, maturing loans and the Eskom debt-relief arrangement. Over the next three years, the borrowing requirement will be reduced through the GFECRA settlement. This will be applied in three tranches: R100 billion in 2024/25 and R25 billion in each of the subsequent two years.

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

	2022/23	2023/24		2024/25	2025/26	2026/27
R million	Outcome	Budget	Revised	Medium-term estimates		
Main budget balance	**-309 938**	**-275 351**	**-331 386**	**-320 946**	**-308 151**	**-287 218**
Redemptions	**-90 324**	**-162 232**	**-145 759**	**-172 568**	**-185 598**	**-166 295**
Domestic long-term loans	-74 562	-117 865	-98 614	-132 087	-126 730	-126 730
Foreign loans	-15 762	-44 367	-47 145	-40 481	-58 868	-39 565
Eskom debt-relief arrangement	**–**	**-78 000**	**-76 000**	**-64 154**	**-110 223**	**–**
GFECRA settlement (net)[4]	**–**	**–**	**–**	**100 000**	**25 000**	**25 000**
Total	**-400 262**	**-515 583**	**-553 145**	**-457 669**	**-578 972**	**-428 513**
Financing						
Domestic short-term loans	**-25 577**	**48 000**	**88 000**	**33 000**	**47 000**	**34 000**
Treasury bills (net)	-25 493	48 000	88 000	33 000	47 000	34 000
Corporation for Public Deposits	-84	–	–	–	–	–
Domestic long-term loans	**322 420**	**329 900**	**327 900**	**328 100**	**422 200**	**303 200**
Market loans	321 669	329 900	328 032	328 100	352 200	303 200
Loans issued for switches	87	–	532	–	–	–
Loans issued for repos (net)	664	–	-664	–	–	–
Eskom debt-relief arrangement	–	–	–	–	70 000	–
Foreign loans	**64 466**	**44 360**	**45 166**	**36 700**	**82 163**	**92 195**
Market loans	64 466	44 360	45 166	36 700	82 163	92 195
Change in cash and other balances[2]	**38 954**	**93 323**	**92 079**	**59 869**	**27 609**	**-882**
Cash balances	29 332	86 321	83 649	53 112	21 753	-5 866
Other balances[3]	9 622	7 002	8 430	6 757	5 856	4 984
Total	**400 262**	**515 583**	**553 145**	**457 669**	**578 972**	**428 513**
Percentage of GDP	*6.0%*	*7.4%*	*7.8%*	*6.1%*	*7.3%*	*5.1%*

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
4. In 2024/25, the Reserve Bank will pay R200 billion to government in partial settlement of the GFECRA balances. Of this amount government will pay the Reserve Bank R100 billion towards the contingency reserve
Source: National Treasury

In 2023/24, the budget deficit has increased by R56 billion relative to the 2023 Budget estimate. As a result, the gross borrowing requirement increased from a projected R515.6 billion to R553.1 billion for 2023/24, or from 7.4 per cent to 7.8 per cent of GDP.

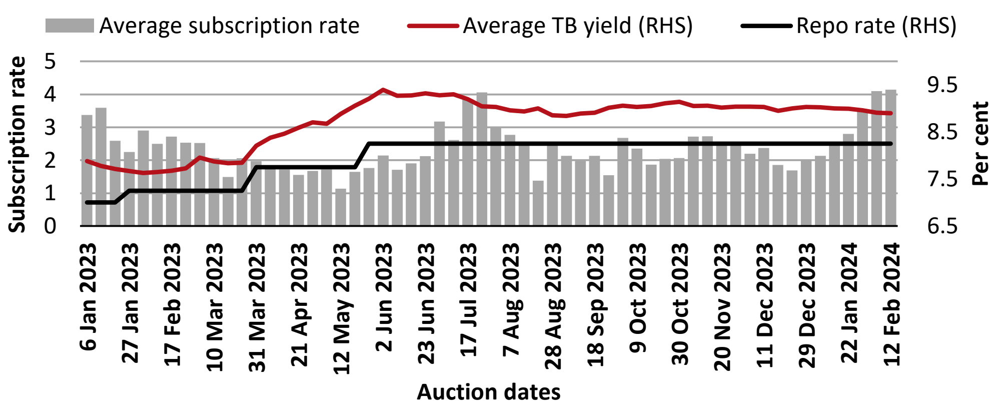
Over the next three years, government will make three transfers to Eskom for capital and interest payments. In 2023/24 and 2024/25, government will transfer R76 billion and R64.2 billion respectively to Eskom. Transfers in each of these years are R2 billion lower than projected as a result of the entity's failure to conclude disposal of the Eskom Finance Company, as stipulated in the debt-relief conditions. In 2025/26, government will transfer R40.2 billion to Eskom. In the same year, government will take over a maximum of R70 billion of Eskom's debt by switching selected debt instruments into government debt.

Domestic and foreign redemptions will average R174.8 billion over the next three years. To mitigate the refinancing risk as a result of high redemptions, government will continue its bond-switch programme, which exchanges short-dated bonds for long-dated bonds.

Domestic short-term borrowing

Government's short-term borrowing consists of Treasury bills and borrowing from the Corporation for Public Deposits. During 2023/24, net Treasury bills issuances were increased by R40 billion to R88 billion to manage liquidity levels. Government also borrowed from the Corporation for Public Deposits for the same purpose.

Figure 7.3 Weekly Treasury bill yield and subscription rate



Source: National Treasury

Over the next three years, net Treasury bill issuance will average R38 billion, or about 10 per cent of total domestic borrowing. The Corporation for Public Deposits will be used as a bridging finance facility over the medium term.

Table 7.3 Domestic short-term borrowing

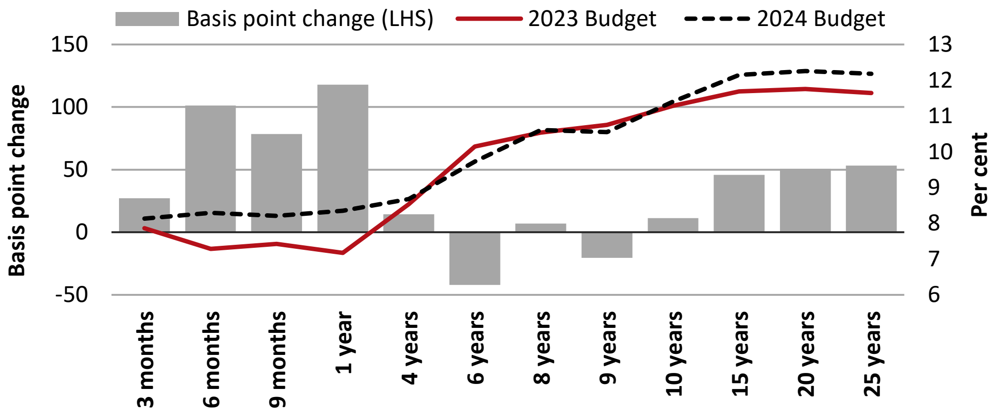
	2023/24			2024/25		2023/24	2024/25
R million	Opening balance	Net change	Closing balance	Net change	Closing balance	Weekly auction estimates	
Corporation for Public Deposits	**145**	**-145**	**–**	**–**	**–**	**–**	**–**
Treasury bills	**422 471**	**88 000**	**510 471**	**33 000**	**543 471**	**10 500**	**14 550**
91-days	6 692	8 808	15 500	4 000	19 500	1 000	1 500
182-days	69 384	15 446	84 830	7 470	92 300	2 500	3 550
273-days	143 714	23 186	166 900	12 500	179 400	3 200	4 600
364-days	202 680	40 560	243 240	9 030	252 270	3 800	4 900
Total	**422 616**	**87 855**	**510 471**	**33 000**	**543 471**		

Source: National Treasury

Domestic long-term borrowing

Government's long-term borrowing consists primarily of bonds. In 2023/24, domestic long-term borrowing will amount to R327.9 billion, and will average R327.8 billion over the next three years. Between April 2023 and January 2024, government raised R282.4 billion or 86.1 per cent of this amount. Fixed-rate bonds accounted for 56.1 per cent of the total, with floating rate notes, inflation-linked bonds, domestic sukuk and retail bonds making up the remainder. RSA retail savings bonds raised R6.6 billion in 2023/24 compared with R8.9 billion in 2022/23.

Figure 7.4 Interest rates on domestic government bonds



Source: National Treasury

The yield curve – the relationship between bonds of different maturities – has risen by 37 basis points since the 2023 Budget (Figure 7.4), reflecting investor concerns over the economic impact of prolonged power cuts, rising debt stock and associated risks.

Investor trends in the bond portfolio

Foreign investors remain the largest holders of domestic government bonds, with a 25.3 per cent share as at 31 December 2023, down from 25.6 per cent a year earlier. As shown in Figure 7.6, nominal foreign holdings rose from R846 billion in December 2022 to R899 billion in December 2023. Other financial sector and insurers increased their holdings marginally in 2023.

Figure 7.5 Ownership of domestic bonds

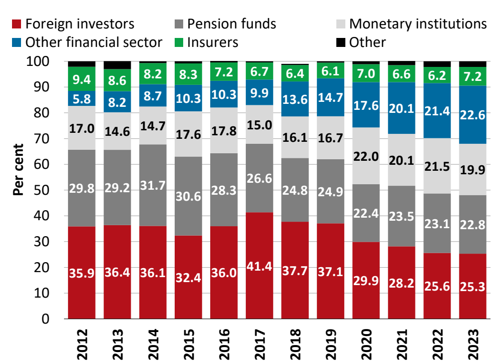
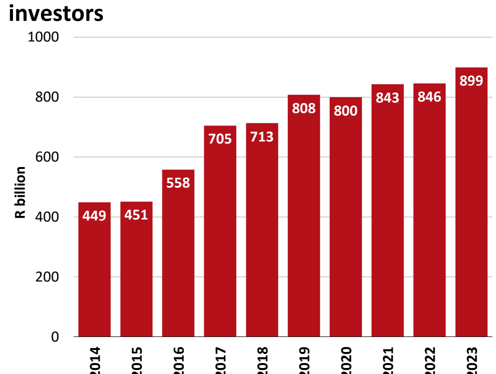


Figure 7.6 Domestic bonds held by foreign investors



Source: National Treasury

International borrowing

Government borrows in foreign currency – mainly US dollars and euros – to meet its foreign-currency commitments. In 2023/24, government will raise US$2.4 billion from multilateral developments banks and international financial institutions as part of diversifying its funding mix for international borrowing.

Table 7.4 Foreign-currency commitments and financing

	2022/23	2023/24	2024/25	2025/26	2026/27
US$ million	Outcome	Estimate	Medium-term estimates		
Opening balance	**5 925**	**7 119**	**4 590**	**2 172**	**1 030**
Commitments	**-3 009**	**-4 945**	**-4 420**	**-5 643**	**-4 705**
Redemptions	-1 000	-2 493	-2 141	-3 224	-2 146
Interest	-1 177	-1 643	-1 514	-1 645	-1 780
Departments	-832	-809	-765	-774	-779
Financing	**4 203**	**2 417**	**2 002**	**4 501**	**5 001**
Loans	4 131	2 412	2 000	4 500	5 000
Purchases	–	–	–	–	–
Interest	72	5	2	1	1
Closing balance	**7 119**	**4 590**	**2 172**	**1 030**	**1 327**

Source: National Treasury

Government will continue to explore financing instruments that offer concessional loan terms to support its developmental objectives, including implementation of the Just Energy Transition Investment Plan. In 2024/25, the equivalent of US$2 billion will be raised from international institutions – and US$9.5 billion over the next two years.

Table 7.5 Borrowing from international finance institutions

Institutions	Disbursement date	Interest rate	Terms (years)	Grace period[1] (years)	Amount billion
New Development Bank	20 July 2020	6-month LIBOR[2] plus 1.25%	30	5	US$1.0
International Monetary Fund	29 July 2020	1.0660%	5	3.25	US$4.3
African Development Bank	15 October 2020	3-month JIBAR[3] plus 0.8%	20	5	R5.0
New Development Bank	17 June 2021	6-month LIBOR[2] plus 1.25%	30	5	US$1.0
New Development Bank	15 November 2021	6-month LIBOR[2] plus 1.05%	25	4.5	US$1.0
World Bank	22 March 2022	6-month SOFR[4] plus 0.75%	13	3	US$0.75
World Bank	22 September 2022	6-month EURIBOR[5] plus 0.67%	13	3	EUR0.45
French Development Bank	22 December 2022	6 month EURIBOR[5] plus 1.29%	20	5	EUR0.3
KfW Development Bank	20 January 2023	6-month EURIBOR[5] plus 0.69%	20	5	EUR0.3
African Development Bank	22 December 2023	6-month SOFR[4] plus 1.22%	12	2	US$0.3
World Bank	26 January 2024	Fixed at 3.55%	15	5	US$1.0
KfW Development Bank	09 February 2024	Fixed at 4.4%	15	3	EUR0.5
Government of Canada		TBD[6]	10	–	CAD0.120

1. A period after the disbursement where no capital repayments are required
2. LIBOR (London Interbank Offered Rate)
3. JIBAR (Johannesburg Interbank Average Rate)
4. SOFR (Secured Overnight Financing Rate)
5. EURIBOR (Euro Interbank Offered Rate)
6. Government of Canada's 10-year zero coupon bond rate prevailing at the time of the loan signing
Source: National Treasury

Cash balances

Government's cash holdings consist of deposits held at commercial banks and the Reserve Bank. The latter is foreign-currency accumulation deposits relating to proceeds from foreign loans. At the end of 2023/24, total cash balances are estimated to be at R150.3 billion. Domestic cash balances will amount to R65 billion, of which a portion will be used to finance the gross borrowing requirement in 2024/25. Foreign-currency deposits will be used to finance a portion of the foreign-currency commitments. Over the medium term, foreign-currency balances will average US$1.5 billion.

Table 7.6 Change in cash balance

	2022/23	2023/24		2024/25	2025/26	2026/27
R million	Outcome	Budget	Revised	Medium-term estimates		
Rand currency						
Opening balance	**169 853**	**122 081**	**120 501**	**65 000**	**50 000**	**50 000**
Closing balance	**120 501**	**61 000**	**65 000**	**50 000**	**50 000**	**50 000**
of which:						
Tax and loan accounts	*128 696*	*61 000*	*65 000*	*50 000*	*50 000*	*50 000*
Change in rand cash balance[1] (opening less closing balance)	**49 352**	**61 081**	**55 501**	**15 000**	**–**	**–**
Foreign currency[2]						
Opening balance	**93 389**	**113 209**	**113 409**	**85 261**	**47 149**	**25 396**
Closing balance	**113 409**	**87 969**	**85 261**	**47 149**	**25 396**	**31 262**
US$ equivalent	*7 119*	*5 011*	*4 590*	*2 172*	*1 030*	*1 327*
Change in foreign currency cash balance[1] (opening less closing balance)	**-20 020**	**25 240**	**28 148**	**38 112**	**21 753**	**-5 866**
Total change in cash balances[1]	**29 332**	**86 321**	**83 649**	**53 112**	**21 753**	**-5 866**
Total closing cash balance	**233 910**	**148 969**	**150 261**	**97 149**	**75 396**	**81 262**

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
Source: National Treasury

GOVERNMENT DEBT AND DEBT-SERVICE COSTS

National government debt

National government debt (Table 7.7) is expected to stabilise at 75.3 per cent of GDP in 2025/26 – lower than the 77.7 per cent projected in the 2023 MTBPS – and to decline thereafter. The GFECRA distribution is the main factor in this reduction.

Table 7.7 Total national government debt[1]

End of period R billion	2022/23 Outcome	2023/24 Estimate	2024/25 Medium-term estimates	2025/26	2026/27
Domestic loans[2]	**4 209.8**	**4 641.1**	**4 949.2**	**5 364.8**	**5 640.0**
Short-term	422.6	510.5	543.5	590.5	624.5
Long-term	3 787.2	4 130.6	4 405.7	4 774.3	5 015.6
Fixed-rate	*2 743.8*	*2 982.9*	*3 220.0*	*3 394.3*	*3 461.3*
Inflation-linked	*992.2*	*1 029.7*	*1 031.2*	*1 184.9*	*1 314.3*
Floating rate note	*51.2*	*118.0*	*154.4*	*195.1*	*239.9*
Foreign loans[2]	**555.7**	**566.2**	**573.0**	**594.4**	**653.1**
Gross loan debt	**4 765.4**	**5 207.3**	**5 522.2**	**5 959.2**	**6 293.2**
Less: National Revenue Fund	-249.2	-150.7	-89.9	-68.8	-74.5
Net loan debt	**4 516.3**	**5 056.6**	**5 432.3**	**5 890.3**	**6 218.7**
As percentage of GDP:					
Gross loan debt	*70.9*	*73.9*	*74.1*	*75.3*	*74.7*
Net loan debt	*67.2*	*71.7*	*72.9*	*74.4*	*73.8*

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

Foreign-currency debt will average R606.9 billion or 10.2 per cent of gross debt over the medium term, well within the 15 per cent risk benchmark. Foreign-currency exposure is partly offset by foreign-currency deposits, which amount to US$4.6 billion in 2023/24.

In 2023/24, debt stock increased by R441.9 billion. The main budget deficit accounts for 75 per cent of this increase, while interest-, inflation- and exchange-rate changes account for the remainder. The medium-term increase in gross loan debt will be driven by the budget deficit and the financing of the Eskom debt-relief arrangement, offset by the GFECRA distribution.

Table 7.8 Analysis of annual increase in gross loan debt

R million	2022/23 Outcome	2023/24 Estimate	2024/25 Medium-term estimates	2025/26	2026/27
Budget deficit	309 938	331 386	320 946	308 151	287 218
Eskom debt-relief arrangement	–	76 000	64 154	110 223	–
GFECRA settlement	–	–	-100 000	-25 000	-25 000
Discount on loan transactions	62 252	59 619	30 950	25 044	11 149
Revaluation of inflation-linked bonds[1]	59 881	54 437	48 087	48 073	53 656
Revaluation of foreign-currency debt[1]	94 848	12 553	10 573	-1 913	6 114
Change in cash and other balances[2]	-38 954	-92 079	-59 869	-27 609	882
Total	**487 965**	**441 916**	**314 841**	**436 970**	**334 018**

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

Debt-service costs are determined by debt stock, new borrowing and macroeconomic variables such as interest, inflation and exchange rates. In 2023/24, debt-service costs were revised upwards by R15.7 billion compared with the 2023 Budget estimate, mainly due to the higher budget deficit. As a share of GDP, debt-service costs are projected to average 5.2 per cent over the medium term; as a share of revenue, they are expected to increase from 20.8 per cent in 2023/24 to 21.1 per cent in 2026/27.

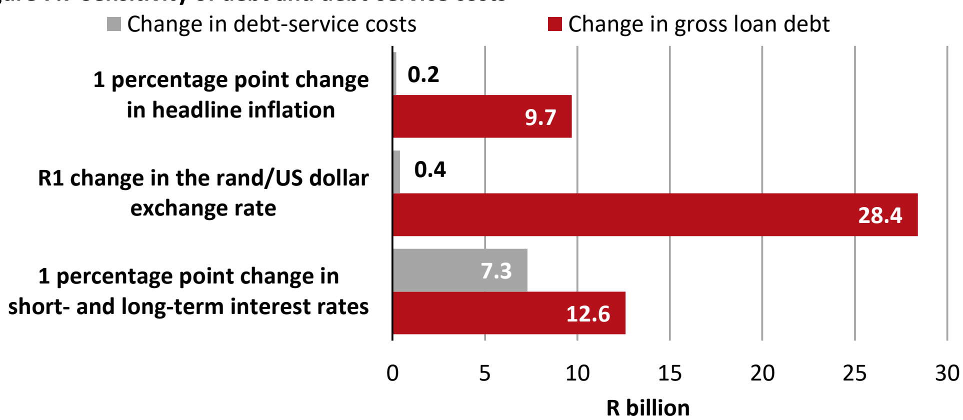
Table 7.9 National government debt-service costs

	2022/23	2023/24		2024/25	2025/26	2026/27
R million	Outcome	Budget	Revised	Medium-term estimates		
Domestic loans	284 134	317 018	325 087	354 083	384 312	407 102
Short-term	41 674	40 473	43 650	48 097	49 304	53 552
Long-term	242 459	276 545	281 437	305 986	335 008	353 550
Foreign loans	24 325	23 442	31 054	28 100	30 351	33 138
Total	**308 459**	**340 460**	**356 141**	**382 183**	**414 664**	**440 240**
As percentage of:						
GDP	*4.6*	*4.9*	*5.1*	*5.1*	*5.2*	*5.2*
Expenditure	*15.4*	*16.7*	*17.4*	*17.9*	*18.4*	*18.6*
Revenue	*18.2*	*19.4*	*20.8*	*21.1*	*21.3*	*21.1*

Source: National Treasury

Figure 7.7 illustrates the sensitivity of debt and debt-service costs to changes in macroeconomic variables such as interest-, inflation- and exchange rates. A 1 percentage point increase in inflation and interest rates, together with a R1 depreciation of the rand against the dollar, results in a R50.7 billion increase in gross loan debt and a R7.9 billion increase in debt-service costs.

Figure 7.7 Sensitivity of debt and debt-service costs



Source: National Treasury

CONTINGENT LIABILITIES

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

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

Total approved guarantees to state-owned companies are expected to increase by R33 billion to R503.3 billion by 31 March 2024, while the exposure amount will decrease by about R16.6 billion to R416.3 billion. Eskom accounts for 85 per cent of exposure.

The main guarantee and exposure changes during 2023/24 were as follows:

- South African National Roads Agency Limited exposure amounts declined by R8.7 billion to R29.5 billion due to redemptions.
- Transnet was granted a new guarantee of R47 billion, with R22.8 billion available for immediate use. The guarantee is mainly to address persistent challenges relating to liquidity and supply chain backlogs.
- In December 2023, the Minister of Finance withdrew historical guarantees from Denel totalling R5.9 billion following the expiration of part of the guarantees and the non-use of another portion.

In line with government's intent to improve transparency and the management of contingent liabilities, Cabinet members who have requested guarantees for state-owned companies are now required to report those requests to Parliament once they have been considered by the Minister of Finance.

Other guarantees and contingent liabilities

Table 7.10 Government guarantee exposure[1]

	2021/22		2022/23		2023/24	
R billion	**Guarantee**	**Exposure[2]**	**Guarantee**	**Exposure[2]**	**Guarantee**	**Exposure[2]**
Public institutions	**559.9**	**395.3**	**470.3**	**433.0**	**503.3**	**416.3**
of which:						
Eskom	*350.0*	*313.0*	*341.6*	*362.3*	*326.6*	*354.0*
SANRAL	*37.9*	*42.0*	*37.9*	*38.2*	*37.9*	*29.5*
Trans-Caledon Tunnel Authority	*25.0*	*9.6*	*25.0*	*8.7*	*25.0*	*8.1*
South African Airways	*19.1*	*2.8*	*19.1*	*0.2*	*19.1*	*0.1*
Land and Agricultural Development Bank of South Africa	*9.6*	*1.9*	*8.1*	*0.6*	*8.0*	–
Development Bank of Southern Africa	*9.9*	*5.2*	*10.1*	*5.7*	*10.2*	*6.1*
Transnet	*3.5*	*3.8*	*3.5*	*3.8*	*50.5*	*9.8*
Denel	*3.4*	*3.5*	*3.4*	*3.4*	–	–
South African Express	*0.0*	*0.0*	–	–	–	–
Industrial Development Corporation	*0.5*	*0.1*	*0.6*	*0.1*	*0.6*	*0.2*
South African Reserve Bank[3]	*100.0*	*12.8*	*20.0*	*9.3*	*21.0*	*8.0*
Independent power producers	**200.2**	**165.7**	**208.5**	**187.1**	**277.9**	**207.1**
Public-private partnerships[4]	**7.9**	**7.9**	**7.1**	**7.1**	**6.2**	**6.2**

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. In April 2022, the Minister approved the reduction of the loan guarantee scheme to R20 billion
4. These amounts only include national and provincial PPP agreements
Source: National Treasury

Contingent liability risks from independent power producers present a low risk to the public finances. As at 31 March 2024, government's commitment in relation to the Renewable Energy Independent Power Producer Procurement Programme is expected to increase to R277.9 billion. The value of signed projects, which represents government's exposure, is expected to amount to R207.1 billion by 31 March 2024. The exposure will increase to R208.6 billion by 2024/25 before declining to R184.7 billion by 2025/26 and R162.6 billion by 2026/27.

Contingent liability exposure from public-private partnerships arises mainly from early termination of contracts. During 2023/24, contingent liabilities from these partnerships decreased by about R900 million to R6.2 billion as a number of projects reached maturity. Total exposure is expected to decline to R4.3 billion in 2024/25, R2.9 billion in 2025/26 and R2.4 billion in 2026/27.

Table 7.11 shows government's exposure to multilateral institutions and other implicit contingent liabilities. South Africa subscribes to shares in several multilaterals, but does not pay the full amount. These commitments represent the unpaid portion of the share subscribed to in the unlikely event these institutions run into financial difficulty.

Table 7.11 Provision for multilateral institutions and other contingent liabilities

R billion	2021/22	2022/23	2023/24
Multilateral institutions	**474.7**	**578.7**	**583.0**
of which:			
New Development Bank	*116.6*	*142.2*	*149.5*
African Development Bank	*122.7*	*149.7*	*157.4*
International Monetary Fund	*204.8*	*246.4*	*233.6*
World Bank Group	*30.6*	*40.4*	*42.5*
Other contingent liabilities	**473.1**	**430.4**	**425.7**
of which:			
Export Credit Insurance Corporation of South Africa	*10.6*	*5.5*	*3.0*
Post-retirement medical assistance	*69.9*	*69.9*	*69.9*
Road Accident Fund	*356.6*	*355.0*	*352.8*

Source: National Treasury

Net valuation profits and losses

Government's largest contingent asset is the Gold and Foreign Exchange Contingency Reserve Account. It reflects profits and losses on gold and foreign exchange reserves, held by the Reserve Bank, to meet foreign exchange obligations and to maintain liquidity in the presence of external shocks. GFECRA is estimated to reach R503.3 billion by 31 March 2024. In terms of the proposed GFECRA settlement agreement, the balance will reduce by R250 billion, of which R150 billion will go towards reducing government's gross borrowing requirement and R100 billion will be distributed to the Reserve Bank's contingency reserve.

CONCLUSION

Government will continue to manage its debt portfolio in a prudent and sustainable manner. Gross debt is now expected to stabilise in 2025/26 at 75.3 per cent of GDP.