NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER: 1175 [NW1365E]

1175. Mr A N Sarupen (DA) to ask the Minister of Finance:

(1) Whether, with regard to sovereign debt obligations of the Government and its entities, the current projections indicate that all national debt obligations that are to be repaid between 2022 and 2025 will be met; if not, why not; if so, what are the relevant details;

(2) whether any (a) debt roll-over and (b) defaults are anticipated; if not, why not; if so, what are the relevant details;

(3) whether the Government has contingency plans in place to ensure that it is able to meet and/or does not miss its obligations; if not, (a) why not and (b) what steps are being taken to avert a sovereign debt crisis; if so, what are the relevant details?

NW1365E

REPLY:

1. All **National debt obligations** will be met. The government gross borrowing requirement will be financed through the issuance of domestic short- and long-term loans, foreign loans and the use of surplus cash balances.

   The total debt maturing between 2021/22 and 2024/25 for the 10 largest borrowing **state-owned entities**[1] **(SOEs)** is estimated to amount to R298.9 billion[2]. The level of operational and financial underperformance as well as weak balance sheets of most SOEs suggest that SOEs may struggle to meet their maturing obligations as and when they become due and payable solely from their internally generated resources based on historic trends. As such, current indications suggests that SOEs may have to rely on fiscal support or have their debts rolled-over or refinanced. The anticipated inability to meet maturing obligations is based on

[1] The 10 largest borrowing SOEs are as follows: The 10 largest SOEs are with regards to the interest-bearing borrowings in the respective Statement of Financial Position. This includes, not in any specific order, Eskom, Transnet, South African Airways (SAA), Land Bank, Trans-Caledon Tunnel Authority (TCTA), Denel, Airports Company of South Africa (ACSA), Development Bank of Southern Africa (DBSA), IDC and South African National Roads Agency (SANRAL).

[2] The data is as at 31 December 2020.

the poor financial health of SOEs, which has worsened over the past 3 years. As an example, despite the significant fiscal support extended to Eskom in the past 2 financial years, Eskom is still expected to struggle to meet its obligations and may still need to rely on Government during the transitional period. This trend is observable in most entities. As a long-term solution, the reform of SOEs through strategic sales, mergers, corporatizations of divisions, alternative financing models, etc. will be implemented to ensure a sustainable SOE portfolio.

2. The National Treasury do not anticipate any default by the **national government,** however maturing loans forms part of governments gross borrowing requirement and will be financed as indicated in (1).

   It is expected that **SOEs** may struggle to repay maturing debt from internally generated funds. This may increase the need for entities to roll-over or refinance debt, which is only expected for entities still able to access debt funding. Roll-overs or refinancing are significantly dependent on the credit risk of SOEs (the quality of the SOEs in relation to their ability to absorb debt and service debt) as well as market conditions. The credit risk of most SOEs is unfavorable due to their strained financial positions, which may make it difficult for the respective SOEs to successfully roll-over or refinance maturing debt. The other factor relates to market conditions, which have been difficult for SOEs in the last 5 years and worsened in the last 14 months due to the Covid-19 pandemic. These factors, if they persist, may result in SOEs being unable to refinance debt successfully, which may require the sovereign to provide the necessary support to them.

3. **Government obligations** will be met as indicated in (1), of the two factors that precipitate a sovereign crisis such as excessive foreign currency denominated debt and short-term debt, in the case of South Africa, it is well below the set risk benchmarks and much better than similarly rated peers. The Government is also looking at sale of non-core assets as more requests for recaps are anticipated to avoid defaults.