Box 1: Gross loan debt compared to net loan debt of national government

In 2000 National Treasury decided to disclose national government debt not only on a gross, but also on a net basis in its annual *Budget Review.* This approach is followed by other countries and is consistent with the disclosure recommendations of the International Monetary Fund (IMF) released in its publication *Public Debt Statistics: Guide for Compilers and Users*. This approach highlights the importance of monitoring not only one side of an institutional unit's balance sheet, but both sides in order to gauge true net exposures, net worth, and other indicators where relevant asset and liability items are combined or netted.

National gross loan debt consists of all outstanding debt instruments. A 'debt instrument' is defined as a financial claim that requires payment of interest and/or principal by the debtor to the creditor.

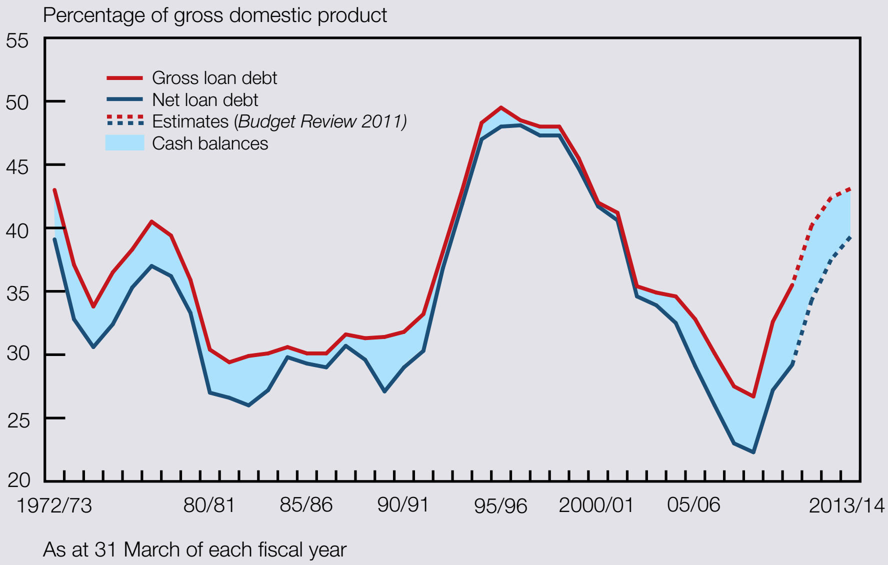
Gross loan debt includes total outstanding domestic and foreign debt instruments. Outstanding domestic debt consists of domestic short- and long-term loans, and debt securities, but excludes shares and other equity, financial derivatives, and accounts payable. Allocations of Special Drawing Rights (SDRs) by the IMF are also excluded but are shown separately, given their unique characteristics. Domestic debt includes inflation-linked bonds, which are adjusted in line with inflation, while foreign debt is valued at the appropriate end-of-period foreign-exchange rates.

Government's net debt is calculated as gross debt minus the stock of government deposits. Net loan debt therefore includes total domestic and foreign debt, less the cash balances of the National Revenue Fund (i.e., deposit balances on government's accounts with the South African Reserve Bank (the Bank) and private-sector banks). Government incurred debt to raise cash and therefore its cash balances should be deducted from gross loan debt at a given point to determine government's net exposure.

Government deposits are needed for a variety of reasons, including for the conduct of the ordinary operations of government which require expenditure to be incurred. Changes in government deposits may also impact on money supply[1] and money-market liquidity. For instance, M3 deposits are reduced when the private sector pays taxes to government, all other things being equal. Government deposits at the Bank are often utilised in the money-market operations of the Bank, for example, to drain excess liquidity resulting from foreign-exchange transactions.

The accompanying graph compares the data for national government's gross loan debt with its net loan debt. While the graph shows these aggregates as a percentage of gross domestic product, in absolute terms, gross loan debt at the end of March 2011 amounted to R976 billion, with net loan debt of R802 billion given the R174 billion in government deposits at that time.

Gross loan debt compared to net loan debt



1 Government deposits are excluded from M3 and the narrower monetary aggregates because the financial constraints faced by government and its principles of conduct and motives for holding deposits differ from those of private-sector entities.