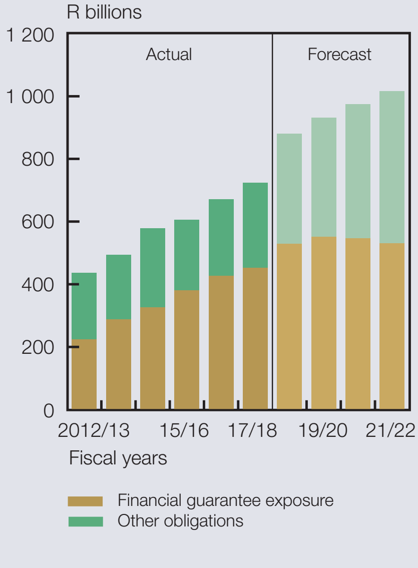
Box 4 National government exposure to contingent liabilities

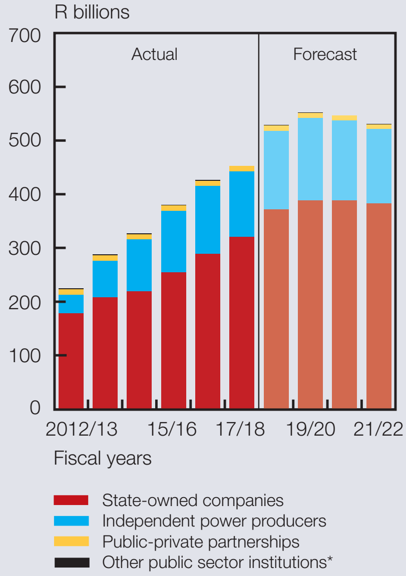
National government contingent liabilities[1] consist of exposure to guarantees[2] and other obligations[3] extended to state-owned companies (SOCs), independent power producers (IPPs), public–private partnerships (PPPs)[4] and other public sector institutions. Contingent liabilities exclude national government's provision for the recapitalisation of multilateral institutions and other provisions.[5]

Notwithstanding a slight decline in the projected ratio of guarantees to gross domestic product (GDP), total contingent liabilities are expected to reach R1.0 *trillion* by the end of fiscal 2021/22 due to an increase in other obligations. SOCs, Eskom in particular, and IPPs account for most of the guarantees, with the Road Accident Fund (RAF) dominating other obligations, which are expected to increase further.

Contingent liabilities of national government



Government exposure to financial guarantees



* Including agricultural cooperatives, former regional authorities, irrigation boards, Komati Basin Water Authority and housing loans to employees

Source: National Treasury

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1 Contingent liabilities represent the exposure of national government to guarantees and other obligations that could change into fiscal obligations and result in expenditure upon the occurrence of a specific event.

2 The exposure to guarantees includes amounts drawn against financial guarantees and accrued interest.

3 For a full list of institutions with guarantees and other obligations, see pages 216–217 of the *2019 Budget Review*, available at http://www.treasury.gov.za/documents/national%20budget/2019/review/FullBR.pdf.

4 A PPP relates to a contractual agreement according to which a private entity performs a government function for a fee, with the associated risks, in terms of predetermined criteria.

5 The provision for multilateral institutions represents the unpaid portion of government's subscription, and other provisions represent liabilities with uncertain payment dates or amounts.

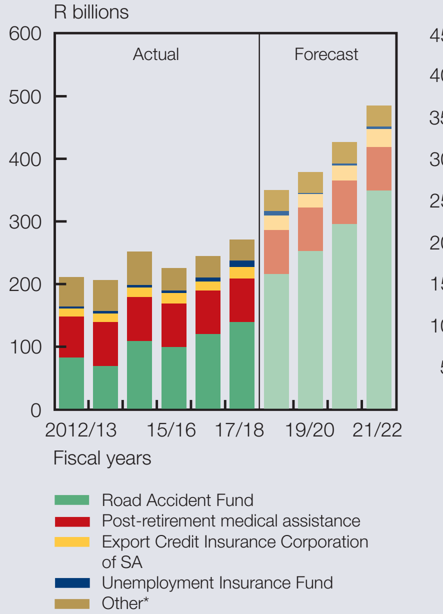
Eskom, including its power-purchase agreements with IPPs, accounts for the largest part of government guarantees. Other contingent liabilities of government include obligations of the RAF, post-retirement medical assistance to government employees, the net underwriting exposure of the Export Credit Insurance Corporation of South Africa, the exposure of the Unemployment Insurance Fund, and other claims such as those against government departments.

The value of contingent liabilities of R880 billion as at 31 March 2019[6] is likely to increase to R1.0 *trillion* by the end of fiscal 2021/22. However, the contribution of exposure to guarantees is expected to decline from 60% to 52% over the period, while that of other obligations is expected to increase.

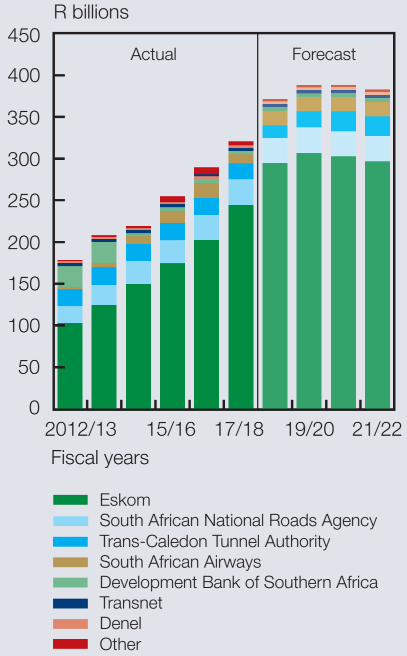
In fiscal 2018/19, SOCs accounted for most of the exposure to guarantees at 70%, followed by IPPs at 28%. Going forward, guarantees to SOCs are expected to level off and that of IPPs are expected to decrease in fiscal 2021/22.

In fiscal 2018/19, the RAF dominated the composition of other obligations at 62%, followed by post-retirement medical obligations at 20%. The RAF is expected to continue to be the main driver of increased exposure to other obligations over the forecast period.

Other obligations



Financial guarantees to state-owned companies



* Including claims against government departments

Source: National Treasury

Within guarantees to SOCs, Eskom accounted for the largest exposure of 79% in fiscal 2018/19, which is expected to decrease only marginally to 78% in fiscal 2021/22. The next largest exposures were the South African National Roads Agency and the Trans-Caledon Tunnel Authority at less than 10% each, but with the latter doubling over the forecast horizon.

Growth in exposure to SOC guarantees is projected to slow notably in fiscal 2019/20 from the 15.9% recorded in fiscal 2018/19, and to contract slightly in fiscal 2020/21, mostly driven by the expected positive evolution of guarantees to Eskom.

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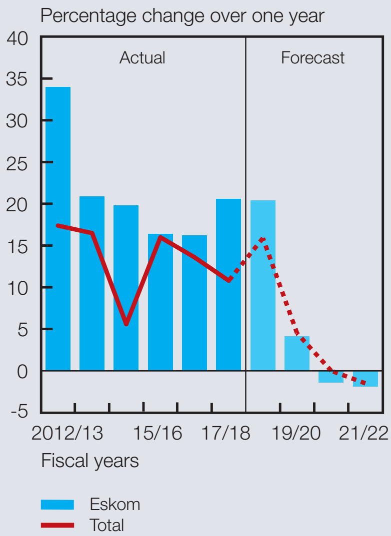
6 For the underlying data, see pages 216–217 of the *2019 Budget Review*, available at http://www.treasury.gov.za/documents/national%20budget/2019/review/FullBR.pdf, and page S–55 of this *Quarterly Bulletin*.

Growth in financial guarantee exposure to state-owned companies



Source: National Treasury

National government gross loan debt and exposure to guarantees

The gross national government debt and all guarantees relative to GDP were 52.7% and 9.6% respectively in fiscal 2017/18. The *2019 Budget Review* projected the former to increase to 58.9% of GDP and the latter to decline to 8.5% of GDP in fiscal 2021/22.