**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER: 2515 [NW2929E]**

**DATE OF PUBLICATION: 11 NOVEMBER 2016**

**2515. Mr D J Maynier (DA) to ask the Minister of Finance:**

What is the (a) total value of contingent liabilities and (b) detailed breakdown of each contingent liability into (i) type, (ii) institution, (iii) exposure amount or amount drawn against the guarantee and (iv) total amount on the latest date for which information is available? NW2929E

**REPLY:**

**Government obligations**

**Government guarantees and exposure**

Government issues guarantees to various state-owned companies. As at 30 June 2016, these guarantees amounted to R469 billion. Of the total guarantee portfolio, 67 per cent is issued to Eskom and 13 per cent to the South African National Roads Agency Limited (SANRAL).

Table 1: Guarantees and exposure amount



*Source: National Treasury*

Only the portion of the guarantees that these companies have borrowed against – known as the exposure amount – is a contingent liability to government. Creditors can call on government to service or pay off the guaranteed debt on which an entity has defaulted. Exposure amounts increased from R264 billion as at 31 March 2016 to R266 billion as at 30 June 2016. Most of the increase is accounted for by Eskom (R2.3 billion), Development Bank of Southern Africa (DBSA) (R20 million) and Land Bank (R88 million).

As part of the bailout of African Bank in 2014/15, the South African Reserve Bank (SARB) provided support on the back of a government guarantee constituting an explicit contingent liability of R7 billion. As at 30 June 2016, the guarantee amount has declined to R3 billion and the Reserve Bank has not realised any exposure against this guarantee.

Power-purchase agreements between Eskom and Independent Power Producers (IPPs) are now categorised as contingent liabilities. This change adds about R200 billion to contingent liabilities in 2016/17. The agreements oblige Eskom to buy power from these producers over a 20-year period at a price agreed to by the National Energy Regulator of South Africa. Government provides support in the form of guarantees to Eskom. In the event that Eskom is unable to purchase power as stipulated, government must buy the power on Eskom’s behalf. The probability of default is low, since the regulator generally approves tariff increases that accommodate these agreements. However, significant deterioration in Eskom’s financial position may increase government’s risk exposure.

In Public Private Partnerships (PPPs), contingent liabilities only arise where contract termination would require the state to reimburse the private partner. As at 30 June 2016, the inclusion of PPPs adds R9 billion to contingent liabilities, of which national PPPs account for 37 per cent and provincial PPPs 63 per cent. Given that none of the contingent liabilities in this category have been realised since the first PPP contract was entered into, they are considered very low risk.

**Other contingent liabilities**

Government’s other contingent liabilities include the actuarial deficits of social security funds – the difference between the claims owed by these entities and their total assets. Government commitments to the Export Credit Insurance Corporation of South Africa – the net underwriting exposure of the company and its total assets – also fall into this category, as do claims against government departments, and post-retirement medical assistance to government employees.

Other contingent liabilities were projected at R286 billion in 2015/16, R34 billion higher than in 2014/15, due to an increase in claims by exporters and increased exposure of the Road Accident Fund. Over the medium term, these contingent liabilities are projected to increase to R323 billion