

## POLICY BRIEF NO. 3

Budget & Fiscal Federalism Series

# Evaluating the impact of government guarantees on fiscal sustainability

## Executive Summary

Government guarantees represent significant contingent liabilities that can undermine South Africa's fiscal sustainability. Although guarantees are not an immediate expenditure but a potential expenditure for the budget given that the guaranteed entity fails to honour the borrowing terms, they have fiscal implications in reporting terms and represent contingent liabilities that can impact the fiscal position without going through the appropriation process. In South Africa, government guarantees are not usually included directly in the national budget and fiscal framework; rather they are considered through other documents such as Table 11 of the Budget Review and contingent liability annexures on the National Treasury website. While National Treasury has embarked on a budget process reform to improve transparency, efficiency, and fiscal sustainability, concerns persist on whether these reforms will adequately address the existing challenges regarding the administration of government guarantees.

**PUBLISHED:** 2027 Division of Revenue cycle

**FOCUS AREA:** Fiscal risk management & contingent liabilities

**RELATED:** Budget Review Table 11; National Treasury contingent liability annexures

## THE FINANCIAL AND FISCAL COMMISSION

The Financial and Fiscal Commission is a constitutional institution that makes recommendations to organs of state on financial and fiscal matters. As an institution created in the Constitution of the Republic of South Africa, it is an independent juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) (as amended) and relevant legislative prescripts. It may perform its functions on its own initiative or at the request of an organ of state.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government. This relates to the equitable division of government revenue among three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly to both Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February each year.

The Commission consists of commissioners appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

# Evaluating the impact of government guarantees on fiscal sustainability

## Background

The absence of a comprehensive and structured policy framework governing the administration of government guarantees has resulted in the issuing of guarantees on an ad hoc basis, often without a uniform set of criteria or established procedures to guide the decision-making process, leading to inconsistent practices and increased fiscal risk. This has created accountability and oversight challenges for Parliament, oversight institutions, and the public, who cannot assess the country's complete exposure to fiscal risk. The current reporting of guarantees in a fragmented and incomplete form, and the absence of a comprehensive and uniform policy framework, creates room for discretionary practices and also weakens the alignment of guarantees with broader fiscal policy objectives and constitutional imperatives.

When guarantees materialise, as has often been the case with Eskom and other large state-owned entities such as Denel and South African Airways, the resulting liabilities are absorbed by the state without prior alignment with the budget planning process. This practice diminishes the credibility of the budget process and poses long-term sustainability risks to the fiscus.

***Strengthening the integration of government guarantees in the primary budget documents and fiscal framework, in a consistent and transparent manner, is essential for aligning public finance management with constitutional principles and long-term economic stability.***

## Research Findings

### 1. Evaluation of Government Guarantees and Contingent Liabilities

Government guarantees and contingent liabilities have grown steadily due to frequent fiscal interventions and structural weaknesses in state-owned enterprises (SOEs) – reaching a high of R663 billion and R1.2 trillion in 2025/26, respectively. Growth was largely driven by the escalating financial distress of SOEs, particularly Eskom and SAA, that led to government intervention in the form of expanded guarantees. These interventions weakened the fiscal position by converting implicit risks into explicit liabilities, thereby accelerating debt accumulation and increasing debt-servicing costs.

Guarantees as a share of total contingent liabilities are a predominant component, remaining continuously above 50 per cent throughout the period, indicating that guarantees continue to constitute the largest and most persistent source of fiscal risk within government's broader contingent liability portfolio. However, guarantees as a share of GDP show a more moderate pattern, rising gradually until around 2019/20, reflecting growing exposure relative to economic performance. This directly impacts fiscal sustainability, with reduced fiscal space and increased vulnerability to shocks due to accelerating debt accumulation, increasing borrowing costs, constrained service delivery budgets, and potentially weakened investor confidence and sovereign credit ratings.

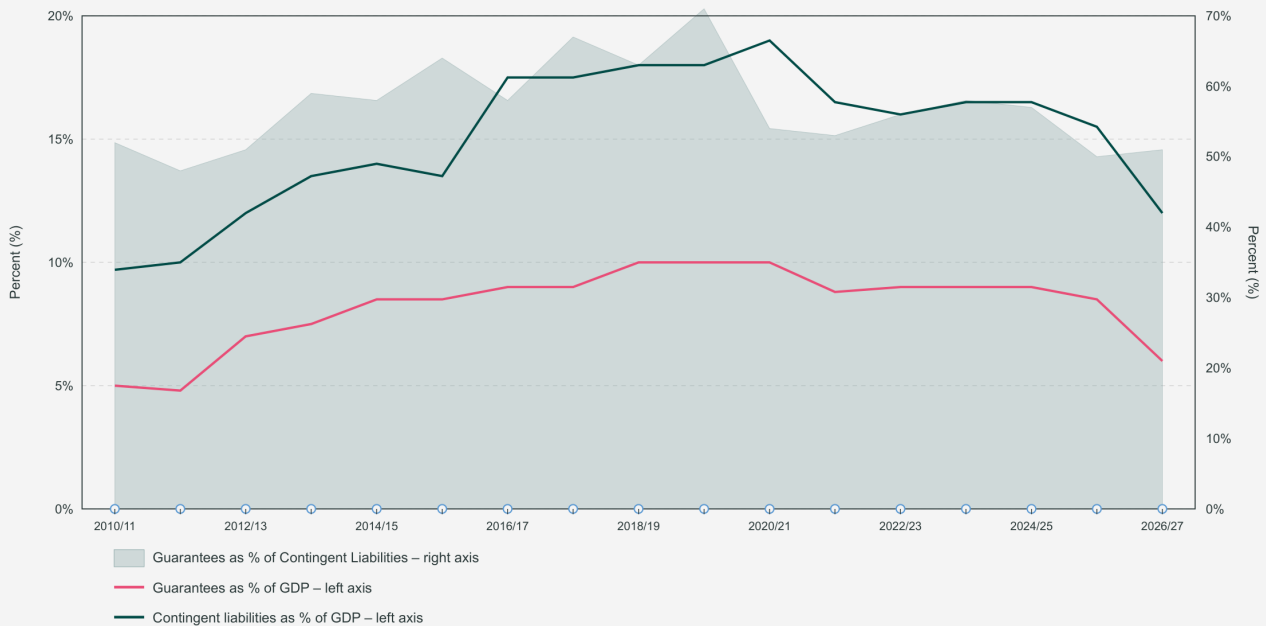
# Evaluating the impact of government guarantees on fiscal sustainability

**Figure 1: Guarantee exposure and Contingent liabilities with Year-on-Year Growth Rate**



Source: National Treasury (2025) and Financial and Fiscal Commission's calculations

**Figure 2: Proportion of Guarantee exposure and contingent liability to GDP (%)**



Source: National Treasury (2025) and Financial and Fiscal Commission's calculations

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## Econometric Analysis

### ARDL Bounds Test (Long-run dynamics)

The results indicate that the F-statistic is lower than the upper and lower bounds at all significance levels. This signals the absence of a long-run equilibrium relationship, challenging the assumption that budgetary overspending and the provision of bailouts to state-owned enterprises (SOEs) are necessary to stabilise or safeguard the economy and the fiscus.

**Table 1: Summary of ARDL Bounds Test results (F-statistic = 1.618)**

Significance Level	Lower Bound	Upper Bound
10%	2.72	3.77
5%	3.23	4.35
2.5%	3.69	4.89
1%	4.29	5.61

Asterisks: \*\*\*, \*\* and \* denote significant levels at 1, 5 and 10%, respectively.

Source: Financial and Fiscal Commission's calculations

### ARDL Model (Short-run dynamics)

The estimation results indicate that an expanding stock of government guarantees, coupled with sluggish economic growth, poses a significant risk to fiscal sustainability by contributing to a rising debt-to-GDP ratio. For government guarantees, the results are positive and significant, indicating that any increase in guarantee stock tends to raise debt-to-GDP over time, reflecting the fiscal burden of contingent liabilities once they materialise; however, this can be offset in the long term, possibly due to repayments, reversals, offsetting measures, or the temporary nature of guarantee exposure, which reduces the impact.

In terms of economic growth, the model results show a consistently negative and significant relationship with debt-to-GDP. This implies that stronger growth reduces debt ratios due to improved fiscal capacity. Overall, the estimation results show that the debt-to-GDP ratio is mostly determined by its own historical values, with economic growth acting as the most reliable stabilising factor, government guarantees having significant but delayed effects, and inflation having little bearing.

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**Table 2: Summary of ARDL results**

Debt/GDP	Coef.	Std.err.	t-stat	P> t	95% CI
Debt-to-GDP L1.	1.4293	0.2092	6.83	0.000	[0.956, 1.902]
Debt-to-GDP L2.	-0.4235	0.2047	-2.07	0.069	[-0.887, 0.040]
lnGuarantees --.	-2.2408	3.7157	-0.60	0.561	[-10.646, 6.165]
lnGuarantees L1.	10.9726	4.7691	2.30	0.047	[0.184, 21.761]
lnGuarantees L2.	-10.3478	3.9055	-2.65	0.026	[-19.183, -1.513]
Inflation	-0.2505	0.1888	-1.33	0.217	[-0.678, 0.177]
GDP Growth --.	-1.2148	0.1282	-9.47	0.000	[-1.505, -0.925]
GDP Growth L1.	0.6771	0.2755	2.46	0.036	[0.054, 1.300]
GDP Growth L2.	-0.2221	0.1171	-1.90	0.090	[-0.487, 0.043]
_cons	12.2591	11.4881	1.07	0.314	[-13.729, 38.247]

$F(9, 9) = 560.74$  Prob > F = 0.0000

Source: Financial and Fiscal Commission's calculations

## The Commission Recommends That:

- 1 The National Treasury should ensure that the devised guarantee framework is aligned with international best practice through the introduction of explicit guarantee ceilings, such as guarantee-to-GDP thresholds, and reserves or contingency funds, to prevent unchecked growth of contingent liabilities and mitigate fiscal risks.
- 2 The National Treasury must strengthen oversight of government guarantees by establishing a real-time, centralised tracking system. This system should continuously update and disclose all guarantees and contingent liabilities within budget documentation and fiscal risk reports. Such measures will enhance transparency and reinforce Parliament's oversight obligations in managing fiscal risks.

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