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# AN EXPLORATORY REVIEW OF GOVERNMENT DEBT SERVICE MANAGEMENT IN SOUTH AFRICA

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## ABSTRACT

This paper provides a critical review of public debt service dynamics in emerging economies using South Africa as the case for the period from 1960 to 2015 – highlighting on fiscal and monetary reforms, public debt service trends and public debt service management challenges. The debt service management reforms were divided into fiscal, monetary, institutional and legal framework rearrangements. The paper revealed that public debt service burden in South Africa lessened after 1994 due to some significant improvements in macroeconomic fundamentals, as well as due to fundamental changes in the composition of government debt portfolio. Among the discovered public debt service management strategies adopted in South Africa are: (i) the broadening of government debt securities, (ii) the embracing of sound contingent liability management policies, and (iii) the opening up of new foreign sources of finance to reduce public borrowing on domestic capital markets. To promote the stability of domestic capital markets and also enhance public debt repayment capacity, the paper recommends the country to continuously improve public debt management by increasing its industrial diversification pace in order to expand and maintain a sustainable government revenue base. In addition, the paper recommends a continuous restructuring of public debt service portfolio in order to minimize possibilities of maturity mismatches, domestic liquidity crises and build-up of inflation pressures in the economy.

***Key words:*** *Public debt service; reforms; trends; South Africa*

## 1. INTRODUCTION

The potential economic and financial risks associated with excessive public debt service in emerging market economies has been a major area of focus by policymakers since the late 1990s. As postulated by Koepke (2015) and Acharya et al. (2015), the scale, structure, composition, and volatility of domestic and international financial flow patterns are a clear concern for economists and policymakers in emerging economies owing to deterioration in macro-financial fundamentals since 2007. According to Fincke and Greiner (2015, p.358), the future need to contain mounting budget imbalances in these emerging economies may mean imposing austerity measures, higher taxes to service increased debt obligations or monetarization of debt, which may negatively influence consumption, investment and overall economic growth. Thus, increased financial movements in emerging market economies through a variety of channels is assumed to be correlated with exposure to high risks of domestic financial markets and real sector instabilities. Neumeyer and Perri (2005) concluded that the optimal trade-off between efficient borrowing *ex ante* and the cost of default *ex post* play a critical role in explaining the distinctive features of economic growth dynamics being observed in emerging economies. Hence, the need to understand the management of public debt structures, compositions and repayment patterns in emerging economies has become indispensable in contemporary literature. Currently, emerging economies account for almost 40% of world gross domestic product (GDP) and have a combined share of more than 30% in global markets for goods and services (Organization for Economic Co-operation and Development, 2014).

Although, on average, most emerging market economies have, between 1999 and 2007, been recording current account surpluses and positive economic growth rates, a mixture of domestic and external factors led to a partial reversal of these gains after 2007. Consequentially, some emerging market economies began to amass substantial foreign public debt and rising domestic public debt repayment obligations (Acharya et al., 2015, p.15). On one hand, between 1999 and 2007 emerging market economies were on the transition path that was characterized by both robust growth rates and expanding public sector that invested largely in energy and infrastructure (Fincke and Greiner, 2013). On the other hand, between 2010 and 2015, there was a surge in public borrowing in emerging market economies, both domestic and foreign, and a deterioration in net external public debt positions (Lane and Ferretti, 2015). During the latter period, the average public debt service ratio of emerging market economies increased from 10% to 12.5% relative to a decrease from 21% to 18% realised in developed economies (Acharya et al., 2015). Analyzing these debt trends, Koepke (2015) concluded that most policy makers in emerging market economies have in recent years been concerned with the size, structure, composition, and volatility of international financial flows as this has directly impacted on rollover risks, domestic financial markets stability, exchange rate movements, and domestic interest rate stability. Thus, as stated by Blanchard et al. (2010) and Catão and Milesi-Ferretti (2014), if public debt size is not managed prudently in emerging market economies, government debt service, both domestic and foreign, can pose high risks on budget sustainability, which then directly impact on current and future tax levels, financial stability and investor confidence.

Theoretically there are two main views of how public debt impacts the distribution of resources and growth prospects. Whereas the Classical point of view is largely pessimistic and takes a medium to long-term perspective, the Keynesian approach is mostly optimistic and explains the debt-growth nexus in the short-term. On the one hand, the neoclassical school argues that government borrowing invariably leads to extravagance and to the crowding out of investment (Salsman, 2017, p.90). On the other hand, the Keynesian school and other exceptions (such as Davenant, Malthus, Hamilton and McCulloch), argue that public debt is indispensable to economic stabilization and growth, citing that debt financed investments have a multiplier growth effect which leads to increased employment, large infrastructural base, extended export market base, better terms of trade and greater debt repayment ability (Fosu, 2007). Thus, to guard against economic distortions and debt refinancing risks, Were (2001) concluded that the ideal situation would be to use the borrowed public funds in expanding the revenue generating capacity of the economy.

Against this background, this paper seeks to critically analyze the dynamics of public debt service management in South Africa during the period from 1960 to 2015, highlighting on the public debt service reforms, trends, composition and challenges. The rest of the paper is structured as follows: Section 2 gives an overview of both the economy and public debt service in South Africa; section 3 discusses public debt service reforms in South Africa; section 4 examines trends in public debt service in South Africa; section 5 discusses the management challenges of public debt service in South Africa; and finally, section 6 concludes the paper.

## 2. ECONOMIC OVERVIEW AND PUBLIC DEBT SERVICE IN SOUTH AFRICA

The South African economy accounted for approximately a third of African manufacturing capacities during the 1990s (United Nations Industrial Development Organization 'UNIDO', 2011, p.48). According to UNIDO (2011), South

Africa's economic performance is mostly concentrated on mining, manufacturing, services, and agriculture. The country is a financial, transportation, retail, and business services hub in the sub-Saharan African region; and its manufacturing sector is mostly into value-addition and beneficiation of both agricultural produce and mineral ores (United States International Trade Commission 'USITC', 2015). For instance, services accounted for $351 billion in 2015, representing 70% of South Africa's GDP (USITC, 2015). Between 1960 and 1980, South Africa's income per capita was rising rapidly owing to booming world mineral prices and massive foreign direct investment inflows (Du Plessis and Smit, 2003). However, between 1981 and 1993, the country's growth trend was reversed by a combination of weakening terms of trade, global oil crisis, and economic sanctions, leading to a collapse of private and public investment and to the amassing of public debt, mainly domestic (Du Plessis and Smit, 2006). Following a series of economic and financial reforms after 1994, the South African economy rebounded, recording period high growth rates of 4.4%, 5.2% and 5.8% in 2004, 2005 and 2006, respectively (Government of the Republic of South Africa 'GSA', 2014). Inflation that was hovering between 10% and 15% in the early 1990s was progressively reduced to about 3% by mid-2005 (IMF, 2005a).

Although South Africa was enjoying significant foreign capital inflows since 1999, like many other emerging market economies, the country's growth was associated with a large current account deficit, which topped 6% of GDP in 2006 (Frankel et al., 2007). Nonetheless, the South African foreign public debt levels remained low, possibly because a substantial amount of the capital inflow took the form of equity and foreign direct investment (International Monetary Fund 'IMF', 2004, p.48). Contrary to many developing countries in the sub-Saharan Africa, South Africa's financial markets are developed such that much of the government's debt is denominated in local currency (National Treasury, 2016a). As at end of 2015, net loan public debt of South Africa amounted to R1.998 trillion (domestic debt and foreign debt accounting for 89.5% and 10.5%, respectively), representing 44.4% of GDP (South Africa Reserve Bank 'SARB', 2017).

Like many emerging market economies, South Africa's public debt payments were mostly vulnerable to fluctuations in mineral prices, movements in domestic interest rates and overall domestic public debt maturity profiles (GSA, 2014). From a historical perspective, government debt servicing costs in South Africa dates from the 1940s, when the country used to rely extensively on loans from the World Bank (Davies and Seventer, 2004). Until 1985, the country was making consistent debt repayments to its domestic and international creditors. However, between 1985 and 1996, a combination of deteriorating terms of trade and international economic and political sanctions narrowed the fiscal space of the government and increased debt servicing costs (GSA, 2014). Further, the economic crises of 1997/98 and 2008/09 contributed significantly to the increased public debt servicing burden in South Africa (National Treasury, 2010). Overall, South Africa undertook stern economic and financial reforms between 1994 and 2015 which have strongly influenced the public debt structure, composition and repayment trends in this country.

## 3. GOVERNMENT DEBT SERVICE MANAGEMENT REFORMS IN SOUTH AFRICA

The rapid growth in public debt stocks, current account deficit and budget deficit since the 1960s brought about an increase in public debt payment costs in South Africa during the period under review (National Treasury, 2015a). By the second half of the 1980s, South Africa had accumulated enormous domestic and foreign debt and the burden of debt service became an obstacle to the country's growth and development (UNIDO, 2011, p.13). Cognisant of the rising debt stocks and a shrinking revenue base, the government of South Africa in 1994 undertook numerous fiscal and financial reforms in order to promote financial stability. Legislature aimed at controlling fiscal deficits through budget cuts and good State spending practices, as well as better financial management frameworks were put in place between 1994 and 2015 (Government Gazette, 2001; National Treasury, 2015b). Thus, the debt service reform agenda focused on the establishment of stringent revenue collection initiatives, creation of new debt management institutional rearrangements, and establishment of a legal and regulatory framework that enhances budget credibility and transparency.

Among the new institutional rearrangements done after 1994 was the formation of the Debt Management Office, South African Revenue Service (SARS), Fiscal and Financial Commission, and the Asset and Liability Management (ALM) (Government Gazette, 2001). The Debt Management Office of the National Treasury of South Africa was mandated to assess government debt payment ability through undertaking annual debt sustainability analyzes, financial risk assessments and debt risk benchmarks, as well as making public debt portfolio projections (National Treasury, 2003). These institutional reforms were further strengthened by the enactment of the Public Finance Management Act in 1999 and the development of accurate debt recording and reporting systems (National Treasury, 2006). To reduce excessive domestic debt service payments arising from over-borrowing by State arms, local authorities and other government departments, the State from 1999 increased its oversight on the borrowing needs and spending patterns of these entities (Parliament of

South Africa, 2011). Measures taken by the central government in administering debt from affiliated organizations include monitoring borrowing plans and debt maturity profiles; enforcing stringent regulatory frameworks, such as the compilation of a treasury best practice manual; setting up maximum borrowing restrictions on all levels of government and State-owned enterprises; and managing contingent liability exposure (GSA, 1999; 2014). Other debt service control measures after 2010 included regular publication of outstanding stock and composition of central government debt liabilities, loan guarantees and other contingent liabilities, including their currency denomination, maturity, and interest rate structure (GSA, 2014).

According to the South African Reserve Bank (2006), after 1994, the government instituted a debt portfolio and funding strategy to limit debt service costs, both domestic and foreign. The adopted funding strategy included the establishment of fixed and floating rate domestic debt ratio, lengthening of government debt instruments and establishment of switch and buy-back programmes, which all culminated in the smoothing of government debt maturity profile (SARB, 2006). The setting of a fixed and floating rate domestic debt ratio minimised the South African government budgets exposure to changing growth and financial market conditions; and reduced variations in the country's creditworthiness when the debt had to be refinanced.

From 2012, the government established an expenditure ceiling target, a nominal limit on federal budget non-interest expenditure (National Treasury, 2013). For instance, the government announced a spending limit of R1.03 trillion, R1.11 trillion and R1.18 trillion in in 2014/15, in 2015/16 and 2016/17, respectively (National Treasury, 2017). The objective of putting government spending limits was to curtail rising fiscal deficits and foster a substantial reduction in mounting domestic debt service obligations (National Treasury, 2013). Additionally, the government of South Africa has after 2000 increased transparency and simplicity in debt management operations and in the designing of debt instruments with the goal of lowering transaction costs, reducing uncertainty among investors, boosting greater investor participation and reducing debt servicing costs (National Treasury, 2006).

The carrying out of fiscal forecasts, timely government debt stock checks and cash management practices has continuously improved the government's debt repayment ability. Currently, regular public debt assessments in South Africa are being monitored using the Adabas system, which assesses the country's public debt levels and the corresponding public debt service costs (Ecorys, 2014). Furthermore, the undertaking of inflation targeting has significantly reduced perceived local currency and sovereign credit risks, in addition to reducing public debt service default risk (National Treasury, 2006).

Foreign public debt service reforms since 1960 have mainly focussed on diversifying maturity periods of foreign debt instruments and the establishment of liquid benchmark bonds across the yield curve (SARB, 2013). The benchmark exercise recommended for a net foreign currency exposure of 15%, comprising foreign currency debt and foreign exchange reserves (National Treasury, 2012). Because of the risks associated with transacting swaps, between 2001 and 2011, the government replaced duration target with foreign debt portfolio risk benchmarks of between 20% and 25% of total government debt (National Treasury, 2012). By establishing targets and ranges for foreign debt portfolios to guide borrowing activities and other government debt transactions, South Africa managed to maintain sustainable foreign public debt repayment structures since 2001. From 2012, the government undertook risks benchmarks using the World Bank's Government Debt and Risk Management Program (GDRM) (National Treasury, 2014c). These post-1994 foreign public debt service reforms helped the government of South Africa to objectively maintain sustainable budgets, keep manageable public debt levels and to realise positive economic growth rates, except for 2009, in addition to enhancing the country's public debt repayment ability. In 2015, for instance, the foreign public debt risk was 10.5% against a benchmark range of 20% to 25% of GDP (SARB, 2016).

The implementation of the prudent debt service reforms described above has led to the following: a remarkable decline in budget deficits as a percentage of GDP since 1994 (*see Figure 1*), a substantial reduction in public debt payment costs since 1999 (*see Figure 1*), a notable increase in government funding instruments diversification, a smooth debt redemption profile of domestic bonds, a significant increase in sovereign credit ratings, as well as a considerable increase in access to cheap credit for the public sector (National Treasury, 2014a; 2014b; SARB, 2006). Thus, the sensible government debt service management reforms, together with sound economic policies, created the required fiscal space and minimised the country's susceptibility to contagion and financial risk (IMF, 2014). The robust government debt service portfolio placed South Africa in a better position to effectively implement counter-cyclical fiscal policy initiatives and manage financial crises.

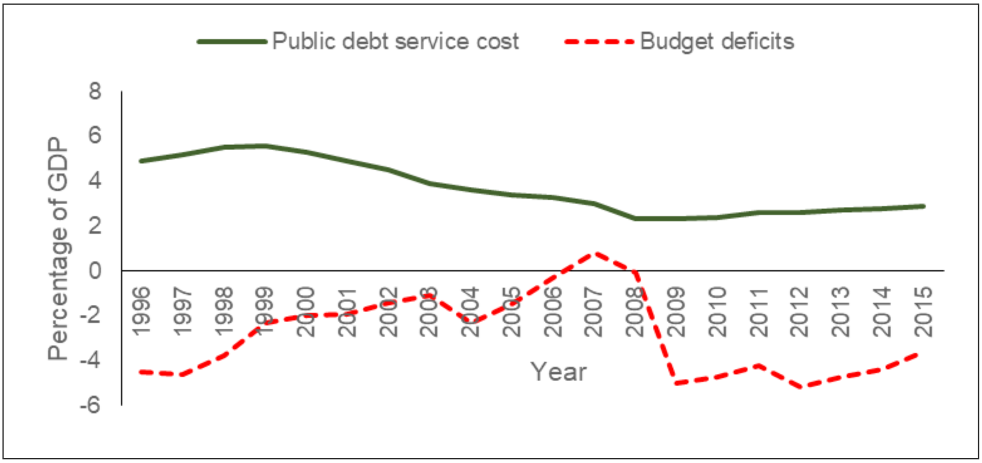
## 4. PUBLIC DEBT SERVICE TRENDS IN SOUTH AFRICA

The trends in government debt servicing costs in South Africa were largely influenced by the overall level, structure and composition of public debt; the rate of new government borrowings; the general economic performance of the country; and the fluctuations in market variables such as interest, exchange and inflation rates (National Treasury, 2015; SARB, 2006). The rapidly rising government debt, which was nearing 51.7% of GDP by end of 2016, resulted in mounting debt servicing costs, which have recently become the fastest growing statutory expenditure item of the government budget (National Treasury, 2017). Approximately R146.3 billion was paid as public debt service in the fiscal year 2016/17, representing 11.2% of overall government expenditure (National Treasury, 2017). According to Clement et al. (2003), high public debt service payments negatively impact on government's ability to finance social expenditure programmes, such as health and education. Soydan and Bedir (2015) added that high public debt payments create uncertainty which distorts investment choices and accelerates capital flight leading to slowdown in economic growth.

Prior to 1990, the interest due each year on the accrued government debt, both domestic and foreign, was a significant category of recurrent expenditure and represented a first statutory claim on State revenues (National Treasury, 1990). For instance, according to the African Network on Debt and Development (AFRODAD) (2005), South Africa paid approximately US$1.7 billion towards foreign public debt by 1990, and about US$300 million bonds, denominated in Deutsche Marks and Swiss francs, were either rolled-over or swapped in 1990. These public debt payments contributed to the marginal reduction in foreign public indebtedness, which totalled around US$18.7 billion by end of 1994 (AFRODAD, 2005).

In February of 1994, the South African government paid US$500 million towards foreign debt, and during this period the proportion of foreign public debt to GDP was 3.4% (National Treasury, 2005). Although South Africa recorded a cumulative net capital inflow in excess of R8 billion by the end of 1994, the country contracted more foreign loans and domestic debt, which increased public debt repayments costs beginning 1999 (SARB, 2006). However, the adopted fiscal, financial and legal reforms since 1994 helped to contain public debt service costs to within sustainable levels (SARB, 2008). The public debt service reforms, which centred more on improving government debt management, in conjunction with the downward trending domestic interest rates, especially between 1999 and 2003, brought about considerable public savings on debt repayment (National Treasury, 2005). More so, privatisation earnings boosted government revenues and increased the country's capacity to service its domestic dues in the late 1990s (National Treasury, 2005). Furthermore, following the successful implementation of revenue collection measures by the government since 1996, State revenues increased rapidly relative to expenditures, making it possible for the government to redeem part of its domestic debt, especially between 2005 and 2008 (National Treasury, 2012). As a result, public debt as a percentage of GDP declined from 29.7% to 22.3% of GDP in 2005 and 2008, respectively, with public debt service payments declining substantially from 5.6% of GDP in 1999 to 2.3% of GDP in 2008, as shown in Figure 1.

**Figure 1:** Trends in public debt service cost and budget deficit as a % of GDP (1997-2015)

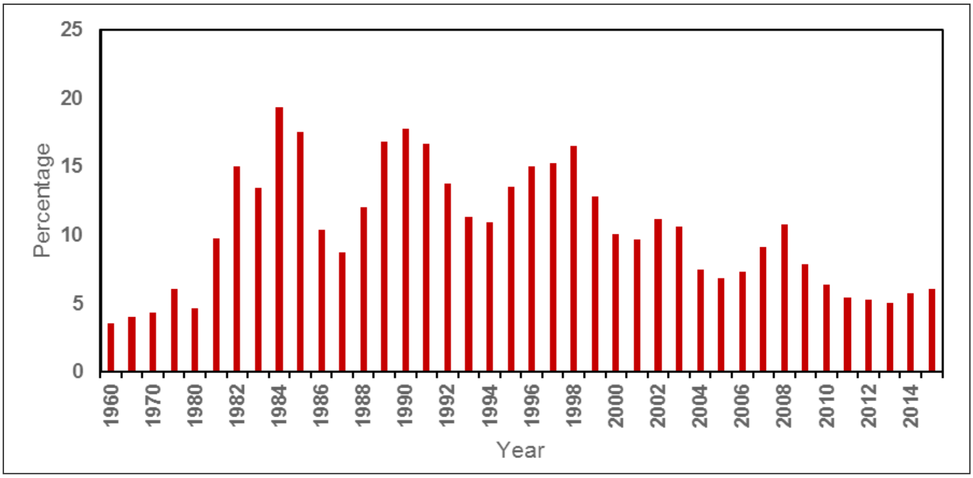



*Source: South Africa Reserve Bank (2017)*

Figure 1 displays two distinct phases of public debt service; 1999-2008 -- in which debt service payments as a percentage of GDP are declining; and 2009-2015 – in which debt repayment costs begin trending upwards. The first phase is showing a positive correlation between improvement in budget balance and a steady decrease in government service costs. However, in phase two, 2009 to 2015, debt service costs are rising despite marginal improvements in the country's fiscal position. Despite the noted rise in debt service costs after 2008 in Figure 1, the proportion of debt service payments to GDP remained relatively low, averaging 2.6% between 2008 and 2016, compared to 12.5% and 18% in most emerging market economies and advanced economies, respectively (World Bank, 2016). Notwithstanding the abrupt deterioration in budget deficit in 2008, the enactment of disciplined fiscal policies since 1994 made it feasible for the country to explicitly contain its budget deficits following the global financial crisis which started in 2007. According to the National Treasury (2016a), the rise in public debt payments after 2008 crowded out the government's allocations on productive activities, a condition which is prompting the government to relook into other fiscal measures to continuously improve the fiscal position of the country (GSA, 2014).

According to the National Treasury (2012), the government of South Africa sometimes borrowed to refinance its debts. The major instruments used by the central government to refinance its debts included fixed rate bonds, inflation-linked bonds, treasury bills and cash balances (National Treasury, 2012). Cash balances were either direct drawdowns or cash borrowings from the Corporation for Public Deposits. In 2012, the public debt service costs amounted to R88.1 billion, which was R204 million less than the budgeted amount, partly because of the non-issuance of sukuk bonds, as was previously planned (National Treasury, 2012). Conversely, in 2015/16 fiscal year, total public debt payment costs amounted to R128.8 billion, representing 3.2% of the country's annual output (National Treasury, 2016b). The rise in debt service costs in 2015/16 fiscal year by 1.8%, relative to the initially budgeted amount, was most likely caused by escalating treasury bill yields from multiple repurchase rate hikes by the central bank, deteriorating bond yields and a sharp depreciation of the South African rand against major currencies in which foreign public debt was denominated. Figure 1 presents the average annual interest rates on government domestic debt securities in South Africa from 1960 to 2015.

**Figure 2:** Average interest rates on government domestic debt securities (1960-2015)

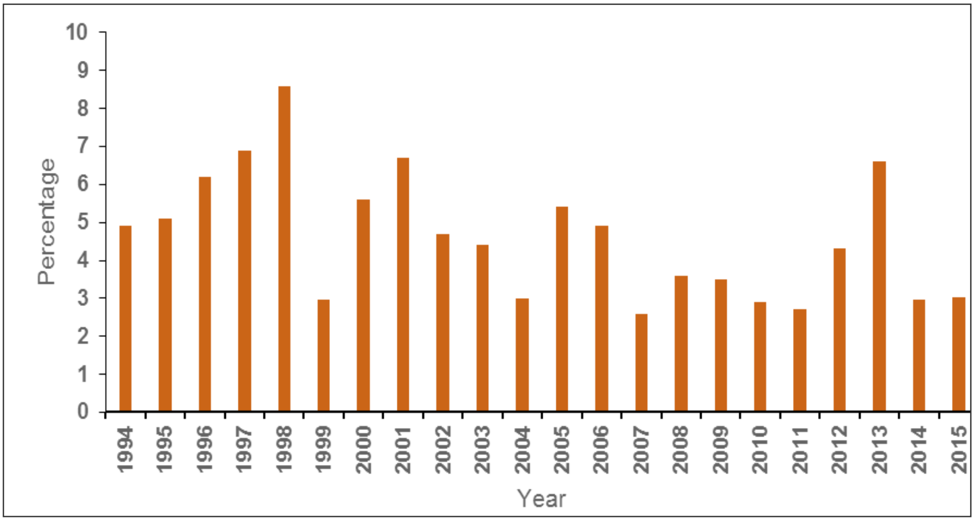



*Source: World Bank (2015)*

Figure 2 shows four major interest rate episodes; 1984/85, 1990/91, 1997/98 and 2007/8, with average interest rates of 18.45%, 17.32%, 15.89% and 9.97%, respectively (World Bank, 2015). These four periods were associated with exogenous economic and financial shocks which exacerbated the rise in domestic interest rates in South Africa (Alfaro et al., 2017). In response to these external shocks which pushed up debt service costs, the government of South Africa instituted numerous economic, fiscal and statutory debt service management reforms in a move aimed at ensuring budget sustainability (SARB, 2006). The effect of these reforms culminated in a significant reduction on domestic interest rates, beginning 1999, as depicted by the downward trend displayed in Figure 2. The process of diversifying and lengthening of government debt instruments across the yield curve that began in 2000, also contributed to the noticeable reduction in domestic interest rates, and in the elimination of net open forward position of the central bank through reduced currency, and credit risks (SARB, 2008). The upward trend in interest rates after 2014 displayed in Figure 2 has increased public debt service costs by 10.2% to R118 billion in 2015/16 fiscal year, relative to R76.46 billion in 2011/12 (National Treasury, 2016b).

Theoretically, government debt payments present a budget problem, regardless of whether it is denominated in local or foreign currency, or whether it is low or high and thus adversely affects economic growth by depressing public sector investments (Krugman, 1988). The most widely used suggestive indicator of ascertaining liquidity aspects and default risk of any given country is the debt service to exports of goods and services ratio. The lower the ratio, the better – preferably below 15%. Figure 3 shows the trend in public debt service as a percentage of exports of goods and services in South Africa between 1994 and 2015.

**Figure 3:** Public debt service as a percentage of exports of goods and services (1994-2015)




*Source: World Bank (2015)*

While Figure 3 depicts a rising ratio of public debt service to exports from 1994 to 1998, the trend is, however, reversed thereafter owing to a combination of factors that included a booming economy characterized with robust economic growth rates and rising export volumes; increased tax revenues from expanded industrial base; and reduced debt service payments following the lengthening of maturity periods for some debt instruments, among other reasons (Bhorat et al; 2014; Calitz et al., 2010). Between 1994 and 2015, the average annual ratio of government debt service to exports of goods and services was 4.6%, which is much lower compared to the IMF/World Bank threshold of 15%' making South Africa one of the few emerging market economies with well-managed public debt profiles and public debt service policies (World Bank, 2015). The implication of the above trend after 1998 was an increase in fiscal space, which subsequently increased the government's infrastructure investment spending (GSA, 2014).

## 5. PUBLIC DEBT SERVICE MANAGEMENT CHALLENGES IN SOUTH AFRICA

According to Christensen (2004), most African economies with high proportions of short-term public debts are prone to fluctuations in market conditions, given the volatility of interest rate that comes with financial liberalization. To a larger extent, the challenges of public debt servicing in South Africa, both before and after 1994, were concentrated around rising interest rates, depressed world demand for commodities and declining terms of trade on the country's major export products (Frankel et al., 2007; Du Plessis et al., 2007). Other debt service challenges prior to 1994 emanated from a large proportion of short-term debt and massive capital flight because of perceived political risk (Hirsch, 1989). In the debt crises of the 1980s and 1990s, a number of emerging market economies, South Africa included, suffered from debt service problems caused by currency mismatches between their foreign assets and liabilities, particularly given the large amounts of short-term debt denominated in foreign currency (Prasad, 2016).

According to Hirsch (1989), the problems of debt service in the pre-apartheid era originated largely from subdued economic growth rates and depressed commodity demand and prices of the country's major exports. More so, the punitive sanctions of the mid-1980s led to massive disinvestment and divestiture and to the withdrawal of foreign credit facilities, which exacerbated the cost of servicing both domestic and foreign financial commitments (Evennet, 2002).

From the 1980s until 2000, South Africa's government domestic debt was largely composed of short-term papers, which greatly increased roll-over and market risk (SARB, 2013). During this period, interest rates were high, in both nominal and real terms, and the average maturity of the public debt portfolio was below ten years; about 60% of which had to be refinanced within five years (IMF and the World Bank, 2003). According to the IMF and the World Bank (2003, p.218), the high possibility of falling into a public debt service trap and the increased uncertainty of potential liabilities in the mid-1990s, prompted the South African authorities to make a swift turn towards new prudent debt service management practices.

Public debt service management challenges in South Africa after 1994 emanated from lack of stern borrowing and spending policies among the three levels of government, that is, federal, provincial and local; and the sluggishness in economic growth rates after 2014 (Ecorys, 2008; SARB, 2016). According to Ecorys (2008), the scope of the Public Expenditure and Financial Accountability (PEFA) Assessment, for instance, was limited to the federal government, leaving out provincial governments and local authorities, which however contributed significantly to the upsurge in public sector debt service commitments of the central government. The persistent decline in economic growth rates since 2014, relative to the projected rates, caused an extensive contraction in fiscal space, and a rise in public debt stocks and servicing obligations (SARB, 2016). More so, the recent surge in world interest rates has pushed up the cost of servicing public debt, especially the one denominated in foreign currency (World Bank, 2015).

Despite these challenges, sound fiscal and financial management reforms in South Africa have drastically enhanced the public debt service management in the country (IMF and World Bank, 2003). Structural public debt service management improvements included, among other things, the setting up of an effective legal framework and also the introduction of risk management systems in the National Treasury (IMF and World, 2003: 217). For instance, in order to systematically administer government debt payments, the country, in its Budget Reviews, stipulated the debt management strategies to be followed, including its net borrowing targets over a three-year prospective time frame (National Treasury, 2003). These projections provided detailed information on the breakdown of public debt, both domestic and foreign, maturity profiles and the respective payment schedules.

## 6. CONCLUSION

This paper reviewed the dynamics of public debt service in South Africa for the period from 1960 to 2015. The discussions highlighted the public debt service reforms, public debt service trends and public debt service challenges in

South Africa between 1960 and 2015. The paper revealed that the weakening terms of trade, especially between 1981 and 1993, and the economic sanctions levied on South Africa by the international community in 1986, largely influenced the government debt service reforms, trends and debt service challenges in this country. The major public debt service reforms were mostly concentrated on improving the management of contingent liabilities and public sector efficiency, including the privatization and restructuring of state enterprises to lower debt service costs. Other debt service measures were focused on boosting public savings and standardizing accounting practices for government debt service obligations. By successfully implementing and upholding the public debt management reforms, South Africa is among the emerging market economies that have managed to: (i) diversify their public debt portfolios; (ii) record successive positive economic growth rates since 2000; and (iii) minimize the impact of external financial shocks on the economy. The paper recommends South Africa and other emerging economies to create sustainable government revenue bases by intensifying industrial diversification – which then minimizes terms of trade risks. In addition, emerging economies, South Africa included, are recommended to continuously restructure their public debt portfolios in order to minimize possibilities of maturity mismatches, domestic liquidity crises and the built-up of inflation pressures in the economy.

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# ISTRAŽIVAČKI PRIKAZ UPRAVLJANJA OTPLATE DUGA OD STRANE VLADE U JUŽNOJ AFRICI


## SAŽETAK RADA:

Članak daje kritički prikaz dinamike otplate javnog duga u državama čije je gospodarstvo u nastajanju, navodeći primjer Južne Afrike u razdoblju od 1960. do 2015., s posebnim naglaskom na fiskalne i monetarne reforme, kretanja otplate javnog duga i izazove upravljanja javnim dugom. Reforma upravljanja javnim dugom obuhvatila je fiskalno, monetarno, institucijsko I pravno restrukturiranje. U članku se otkriva da se teret otplate javnog duga u Južnoj Africi smanjio nakon 1994. zbog znatnog poboljšanja osnova makroekonomije kao I zbog važnih promjena u sastavu portfelja vladinog duga. Strategije upravljanja otplatom javnog duga koje su prihvaćene u Južnoj Africi su: povećanje broja instrumenata osiguranja od strane vlade, prihvaćanje politike upravljanja potencijalnim obvezama i stvaranje novih stranih izvora financiranja, kako bi se smanjilo zaduživanje na domaćem tržištu kapitala. U cilju promocije stabilnosti domaćeg tržišta kapitala i prihvaćanja mogućnosti otplate javnog duga u članku se daje preporuka da vlada kontinuirano nastavi poboljšavati upravljanje javnog duga kroz industrijsku diversifikaciju kako bi povećala i održala održivu osnovu prihoda. U članku se također savjetuje kontinuirano restrukturiranje portfelja otplate javnog duga kao bi se mogućnost neadekvatnog dospijeća svela na minimum, izbjegla kriza nelikvidnosti i smanjio pritisak rastuće inflacije.


**Ključne riječi:** *otplata javnog duga, reforme, trendovi, Južna Afrika.*