Public Debt Dynamics in Emerging Market Economies: The Experience of South Africa

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Abstract: This paper discusses the composition, structure and progression of central government debt in emerging economies, critically analysing the experience of South Africa. The paper provides a comprehensive analysis of the public debt reforms, public debt trends, and public debt challenges and associated debt management practices in South Africa between 1960 and 2015. The paper found that South Africa's domestic public debt is mostly composed of long-term bonds and partly of treasury bills. In addition, the study found that a combination of current account deterioration and the subsequent budget deficit financing between 1980 and 1993 were among the major causes of exponential increases in public debt stocks in South Africa. The study recommends the government of South Africa to continuously monitor its debt structure and composition to avoid debt explosion in the long run.

Keywords: Public debt; domestic public debt; foreign public debt; South Africa

1. Introduction

The empirical debate over the association between public debt and economic growth has focused mostly on developing countries and on the debt overhang hypothesis. However, the recent empirical findings on the debt-growth relationship in emerging economies have been mixed. While most policy makers and economists agree that public debt has an impact on the growth process of any economy, they vary, however, on (1) the nature of association between public debt and economic growth (Panizza & Presbitero, 2012; Reinhart & Rogoff, 2010; Aizenman et al., 2007; Elmendorf & Mankiw, 1999; Chenery & Strout, 1966), and (2) the optimal balance

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between domestic and foreign public debt (Adam & Bevan, 2005; Patillo et al., 2002; Singh, 1999).

Conversely, the proponents of the Ricardian Equivalence Hypothesis argue for the neutrality of government debt on economic growth (Barro, 1974). In Ricardo's setting, the public view the current issuance of government securities to finance budget deficits as an eminent future increase in taxes, hence they reduce current consumption and increase savings, leaving the long-run equilibrium state of macroeconomic variables unchanged (Barro, 1989). Ricardo's proposition has brought renewed sparkling debates among policy makers and researchers after 2008 following the emergence of public debt crises in most emerging and developed economies (Bernaerdini & Forni, 2017; Fincke & Greiner, 2014). This swift change from developing countries to emerging and developed countries may have been triggered by the impact of public debt on budget sustainability, exchange rate and domestic interest rate volatilities, economic growth, and financial stability prospects in these respective economies (Panizza & Presbitero, 2013).

Whereas the South African government has increasingly relied on domestic debt securities, citing reduced sovereign exposure to currency and exchange rate risks, there are other challenges associated with rising domestic public debt relative to foreign public debt. These challenges include, among others, high and volatile domestic interest rates, which may aggravate fiscal imbalances, maturity mismatches, and crowding-out of private sector players (Arnone et al., 2008; Panizza, 2008). South Africa was, until 1994, under anti-apartheid economic and financial sanctions, particularly from the European countries and the United States of America (Ashman et al., 2013). This international isolation prompted massive disinvestments and capital flight, and necessitated the development of domestic capital markets.

In the 1960s and 1970s, South Africa had no active secondary bond markets, with only underdeveloped primary debt markets, and it lacked distinct separations between monetary and fiscal operations (Leape & Ncube, 2009). Government, therefore, issued its securities, mainly bonds, on an open-ended tap basis until the early 1980s (Hirsch, 2005). Between the mid-1980s and 1994, rising fiscal deficits emanating from adverse movements in mineral world market prices, particularly of gold, rising interest rates, rising costs of servicing government debts, high levels of disinvestment and divestment by foreigners, capital flight and low foreign exchange

reserves, culminated in rising public indebtedness, both domestic and foreign (Government of the Republic of South Africa (GSA), 2014).

During the post-apartheid period, growth in government debt stocks, and variations in public debt structure and composition were largely shaped by massive institutional and legal public debt management reforms, resulting in (1) deepening of domestic capital markets - characterised by sound public debt management policies and modern financial settlement mechanisms; and (2) formation of numerous debt-related institutions, such as the Bond Exchange of South Africa, the Fiscal Finance Commission and the Asset and Liability Management division of the National Treasury (GSA, 2014). Resultantly, South Africa's government debt is largely denominated in local currency, Rands, with a small proportion of the country's domestic debt being held by non-residents (National Treasury, 2015).

Against this background, the goal of this paper is to analyse the evolution and share of domestic and foreign government debt in South Africa from 1960 to 2015, with emphasis on the debt reforms, public debt trends, debt structure and composition and debt management practices during the review period. The rest of the paper is structured as follows: section 2 discusses public debt reforms in South Africa; section 3 examines trends in public debt in South Africa; section 4 discusses the challenges facing public debt management in South Africa; and section 5 provides the conclusion of the paper.

2. Public Debt Reforms in South Africa

The exceptional rise in fiscal and political challenges in the 1960s impelled the need for substantial public debt reforms, not only in South Africa, but in most emerging economies such as Brazil, Colombia, Thailand and Mexico (Abbas et al., 2011). Similar to many other emerging economies in the 1970s and 1980s, South Africa lacked comprehensive legal and regulatory debt policy frameworks so that expenditure and financing decisions of the government were driven mostly by political desires and partially by the need to ease debt servicing costs, regardless of the debt composition or structure (Ajam & Aron, 2007; Van der Merwe, 1993). Nevertheless, the state had some *ad hoc* public financial management measures, which included exchange rate and domestic interest rate controls, introduction of new debt instruments, deregulation of the domestic financial markets and partial debt sustainability analyses (Bhorat et al., 2014; Hirsch, 1989; Harris & Keynes, 1986).

In the late 1980s, the government of South Africa embarked on some stern macroeconomic and formal domestic public debt management reforms. These included carrying out partial debt risk assessments, especially on the linkage between debt and the general performance of the economy (National Treasury, 1994). The deregulation of domestic financial markets by the South African government promoted the development of domestic debt markets and the separation of fiscal and monetary operations (South Africa Reserve Bank (SARB), 2006). Accordingly, the deregulation initiative also meant that the government was to place its concerted focus on selling its debt securities in the secondary debt markets while the central bank was to concentrate on auctioning government securities in the primary debt markets (National Treasury, 2008). In the early 1990s, increased volatility in domestic and world interest rates, exchange rates and commodity prices compelled the country's fiscal authorities to intensify its liberalisation of capital markets, in addition to seeking regularisation of financial and economic relations with the outside world (Parliament of the Republic of South Africa, 2011; Nowok & Ricci, 2005).

Public debt reforms in the post-apartheid period were concentrated extensively on enhancing public debt management practices, both domestic and foreign, through (1) lengthening of government securities maturity periods; (2) restructuring of the money market; (3) establishing appropriate debt management institutional arrangements; (4) broadening of public debt instruments - thus increasing diversification of government debt portfolio; (5) introducing comprehensive public debt analysis and risk management frameworks; (6) integrating cash and government debt management roles; and (7) improving the legal and regulatory frameworks that guide in the issuance, management and payment of government debt securities (Bhorat et al., 2014; Calitz et al., 2010; Faulkner & Loewald, 2008; National Treasury, 1994; 2008; 2012a; 2012b; 2015; World Bank, 2011). Consequentially, the adopted debt reforms not only increased the deepening of the domestic debt market, but also reduced both the country's fiscal risk and exposure to external financial and economic shocks.

Among the newly introduced domestic debt instruments after 2000 were retail savings bonds, retirement annuities, post retirement savings bonds, fixed-rate bonds, zero coupon and inflation-linked bonds (through reverse purchase facility), in addition to switch or exchange programmes (National Treasury, 2013). According to the National Treasury (2013), the introduction of these new government securities increased participation of local and foreign investors in government domestic

securities, mostly in the secondary markets. With the above listed instruments at its disposal, it was possible for the South African government to finance its total budget requirements in a sophisticated and liquid domestic debt market without reverting to foreign borrowing (IMF and the World Bank, 2003).

Contrary to most Southern Africa Development Community (SADC) countries whose public debt management roles are the primary responsibility of the central bank, the South African government in 1996 assigned to the Asset and Liability Management (ALM) division of the National Treasury (formerly the Department of Finance) the responsibility of controlling domestic and foreign public debt portfolios (Government Gazette, 2001). The ALM division was therefore mandated to (1) perform cash management operations, including trading government financial instruments in the money market and making cash flow forecasts; (2) undertake credit risk assessments for government securities; (3) invest government money; and (4) manage government loans and guarantees (Government Gazette, 2001). This debt management rearrangement fostered effective public debt management resulting in sound improvement in the country's international creditworthiness.

Institutional domestic public debt management reforms in South Africa included the establishment of the South African Revenue Service (SARS) in 1994, through the Katz Commission (National Treasury, 2002). SARS is an autonomous revenue service body, which was formed by combining the Inland Revenue and the Customs and Excise departments (National Treasury, 2002). The government's goal in establishing SARS was to curtail rising fiscal deficits through enhanced revenue collection mechanisms. As such, to achieve this state mandate, SARS was delegated with the responsibility of enacting and implementing extensive tax reforms and more efficient tax collection approaches (GSA, 1997, p. 6).

In 1997, the government constituted the Fiscal and Financial Commission, an independent body mandated with researching on government spending and revenue matters, and to make appropriate recommendations to Parliament (Government Gazette, 1997). On the legal front, the country, in 1999, reformed its public finance management practices by enacting the Public Finance Management Act. The reform did not only result in increased fiscal transparency, but also in the formation of the National Treasury, a merger of former departments of Finance and State Expenditure (Siebrits & Calitz, 2004, pp. 767-768). In 2003, the government's Municipal Finance Management Act extended budget reforms to local governments. Additional domestic public debt reforms in South Africa included the restructuring and

rearrangement of public sector entities, resulting in the privatisation and commercialisation of some state enterprises, with privatisation receipts being channelled towards public debt service repayments (World Bank, 2011).

Foreign public debt reforms, both before and after 1994, were less pronounced owing to the smaller size of foreign public debt relative to the domestic public debt component (World Bank, 2015). During the 1980s, foreign public debt reforms took the form of stringent capital and exchange rate controls (SARB, 1998). For instance, in 1985, the government introduced a two-tier exchange rate system, the managed-float commercial Rand and the free-floating financial Rand, and strict exchange controls, partly in response to the punitive economic and financial isolation, as well as a strategy of managing foreign debt through reducing rampant capital outflows (Bhorat et al., 2014; SARB, 1998, p. 6). Supplementary foreign public debt management measures comprised (1) the imposition of a foreign public debt repayment moratorium in the mid-1980s; (2) a revamp of the foreign public loan contraction process; and (3) undertaking of scheduled comprehensive annual debt sustainability analyses by the National Treasury after 1996, in line with the foreign debt risk benchmarks of 20% to 25% of GDP (Bhorat et al*.,* 2014; National Treasury, 2014a).

3. Public Debt Structure, Composition and Trends in South Africa

Similar to most emerging economies, the South African government has been relying extensively on both domestic and foreign capital and money markets for budget financing to stimulate economic growth and national development (SARB, 2016). As a result, public debt structure and trends in South Africa over the period from 1960 to 2015 have generally been influenced largely by movements in domestic and foreign interest rates, exchange rates and inflation rates (Farell & Todani, 2004). In 1994, South Africa's new government officially took over foreign public debt worth more than US$18.7 billion (approximately R20 billion), owed mostly to private banks in Germany, Switzerland, the United Kingdom and the United States of America (African Forum and Network on Debt and Development, 2005). Since then, the country has undertaken massive fiscal, economic and financial reforms which ultimately defined the current structure, composition and trends of its public debt and economic growth process. In December 2015, net loan public debt of South Africa amounted to R1.998 trillion, representing 44.4% of GDP (SARB, 2017). Of

this amount, foreign public debt accounted for only 10.5%, with the balance being local currency-denominated domestic debt (Statistics South Africa, 2016).

Since the 1960s, domestic public debt has always constituted the largest proportion of total government debt in South Africa, averaging 96.6% between 1960 and 1979, and 92.3% between 1980 and 2015, and it grew from R89.3 billion in 1990 to R1.8 trillion in 2016 (National Treasury, 1994; 2016b). According to the National Treasury (2016b), the high domestic public indebtedness had been a cumulative outcome of the government's need to finance rising annual budget deficits, refinance maturing debt securities and/or where necessary used as a tool to regulate the domestic aggregate money supply. Extensive government interference in market operations, in conjunction with depressed world mineral prices, led to exponential growth in fiscal deficits in South Africa in the 1980s (Khamfula, 2004). The combined effect of (1) foreign exchange and capital controls; (2) international isolation; (3) high world interest rates; and (4) new government borrowing preferences, all contributed to limited access to international finance, resulting in exponential rise in domestic public debts to fund growing budget deficits (Nowak & Ricci, 2005). Figure 1 shows the trends in fiscal deficits and domestic public debt growth in South Africa from 1990 to 2015.

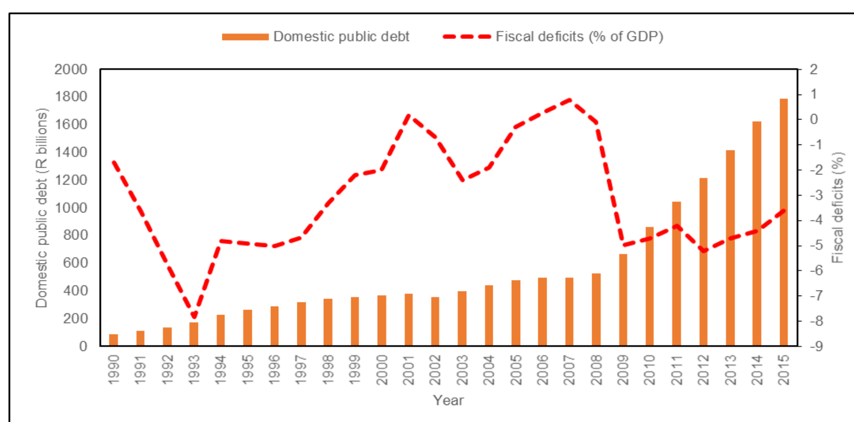

Figure 1. Trends in fiscal deficits and domestic public debt in South Africa (1990-2015)

Source: National Treasury (2016d)

Figure 1 portrays a radical improvement in the country's fiscal balance between 1993 and 2008, rising from negative 7.8% of GDP in 1993 to a surplus of 0.8% of GDP in 2008. This noticeable positive development in the fiscal deficits after 1993 can be

attributed to the newly adopted structural economic, financial and fiscal reforms by the government (as described in section 2). As depicted in Figure 1, the period between 1990 and 2008 was characterised by a steady growth in domestic public debt. However, the abrupt deterioration in fiscal balance from 0.8% of GDP in 2008 to an average of negative 4.6% of GDP between 2009 and 2015, as shown in Figure 1, is likely to have been prompted by the government's increased reliance on domestic financial and capital markets for budget financing. The noticeable abrupt waning of the country's fiscal deficit in 2009 could be a result of the government's adopted expansionary fiscal policy measures in response to the global economic crisis of 2008. Although fiscal deficits have marginally improved since 2012, domestic public debt continued to rise astronomically in the same period. The issuance of Euro bonds and the need to diversify the government's debt portfolio after 2012 partly contributed to this exponential growth in domestic public debt stocks.

The establishment of the Bond Exchange of South Africa in 1996 spearheaded the development of the country's domestic debt market and the growth in the number of issued domestic public debt securities. After 1999, the government's focus switched principally towards the minimisation of domestic debt issuance related costs, public debt risk management, diversification of domestic debt instruments and increased access to both domestic and foreign capital markets (National Treasury, 2016b). These developments have shaped the composition of the South African domestic public debt stock during the period under review, as indicated in Table 1.

Table 1. Structure of domestic public debt in South Africa (1970-2015) (in R'millions)

	Total bills	Total bonds	Total domestic public debt	Bills/Total domestic public debt (%)
1970	122	5022	5144	2.4
1975	1088	8120	9208	11.8
1980	1571	17809	19380	8.1
1985	2551	33282	35833	7.1
1990	8041	81223	89264	9.0
1995	8360	254007	262367	3.2
2000	32899	336146	369045	8.9
2005	40022	435566	475588	8.4
2010	154293	709658	863951	17.9
2011	183352	861234	1044586	17.6
2012	180096	1036975	1217071	14.8
2013	216809	1201234	1418043	15.3
2014	258184	1367515	1625699	15.9
2015	252873	1535029	1787902	14.1

Source: The SARB Annual Economic Reports (various) (2016)

In Table 1, bonds, which comprised mainly of fixed-rate savings bonds, inflation-linked bonds and retail bonds, accounted for the greatest component of the outstanding stock of domestic public debt in South Africa, representing 97.6% and 85.9% in 1970 and 2015, respectively. The government's preference for bonds over treasury bills was partly because bonds provided a reliable source of current income and that they enhanced liquidity within the economy (Hassan, 2013). Thus, Table 1 indicates a rapidly rising issuance of bonds largely in response to increasing fiscal financial requirements and to the government's initiative to develop the domestic capital markets. The rise in bonds was also in response to the growing foreign demand of government securities by non-residents, which was being necessitated by robust economic growth rates and sound financial management policies (IMF and the World Bank, 2003). The portrayed growth in treasury bills in Table 1 beginning the mid-1970s, rising from 2.4% in 1970 to 14.1% in 2015, was in response to the newly introduced treasury bill auction system by the central bank.

The general composition of holders of government debt in South Africa varied significantly on the type of instrument during the period under review. For instance, retail savings bonds were held mostly by investors aged fifty years and above; fixed-rate bonds were held largely by foreign investors, while inflation-linked bonds were held mainly by domestic pensioners who would want to hedge against inflation (National Treasury, 2016b, pp. 37-44). After 2008, the high interest rates on government securities in South Africa, averaging 7.88%, relative to 6.35% in developed economies, attracted more foreign investors who now hold a relatively high volume of South Africa's government debt compared to the 1980s, increasing from 21.8% in 2010 to 32.4% in 2015 (National Treasury, 2016b).

While the evolution of domestic public debt in South Africa was so pronounced after 1975, the origin of South Africa's foreign government indebtedness dates back to the 1940s. According to Davies and Seventer (2004), South Africa's foreign borrowing increased after 1946 mainly due to its import substitution industrialisation policies, and the country's extensive infrastructural development activities, especially in transport and energy sectors. Between 1946 and 1982, South Africa was the major recipient of loans from the Bretton Woods's institutions in sub-Saharan Africa (World Bank, 2001; IMF, 2000). Additionally, the rising world interest rates and marginal new borrowings from few private creditors contributed to the steady increase in foreign public debt stocks in South Africa in the 1980s (Faulkerner & Loewald, 2008). The new borrowings were being necessitated by the government's desire to ensure economic stability following the plummeting of world

mineral prices, and the subsequent severe deteriorations in both current account and fiscal balances (World Bank, 2012; Hirsch, 2005). According to Hirsch (2005), approximately two-thirds of the South Africa's foreign public debt, amounting to nearly US$24 billion in 1985, was mostly short-term, making the country susceptible to external shocks.

In the post-apartheid era, the new government's thrust was to reduce foreign borrowings in financing its budget requirements, but instead rely profoundly either on domestic debt or local currency denominated foreign debt. As a result, a large percentage of foreign public debt issued after 1994 was denominated in Rands (Nowak & Ricci, 2005; SARB, 2014). More so, the failure by some state entities to honour their government-guaranteed foreign financial commitments added to the mild growth in the state's foreign contingent liabilities between 1994 and 2015 (National Treasury, 2016c). Figure 2 shows the evolution of foreign public debt in South Africa from 1980 to 2015.

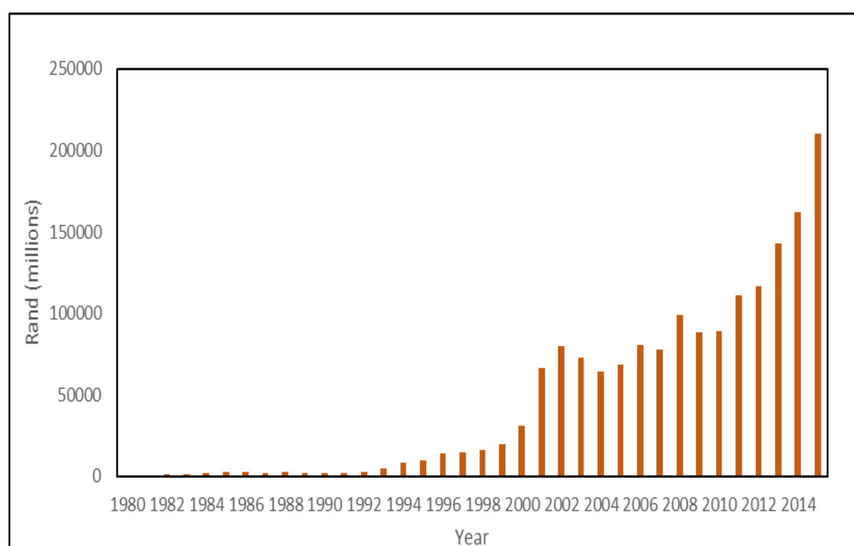

Figure 2. Foreign public debt trends in South Africa (1980-2015)

Source: The SARB Annual Economic Reports (various) (2016)

Figure 2 describes two distinct periods of foreign public debt evolvement in South Africa; 1980 to 1993 and 1994 to 2015. In the first phase, 1980 to 1993, the country had limited access to international money and capital markets due to economic, financial and political sanctions, hence the noticeable small stocks of foreign public debt, averaging R2.1 billion. In contrast, Phase two is associated with an exponential

rise in foreign public debt stocks, which could be a result of renewed access to world capital markets following the uplifting of sanctions by the international creditor community. For instance, the IMF in December 1993 resumed its lending to South Africa, disbursing a loan of US$850 million (World Bank, 2001). Notwithstanding the portrayed rise in foreign public debt stocks between 1994 and 2015, its proportion to total central government debt remained low (SARB, 2014). During this period, the country's National Treasury made hysterical efforts to reduce the country's foreign indebtedness in a bid to (1) minimise the possibilities of currency and exchange rate risks, (2) promote budget sustainability and fiscal flexibility, and (3) encourage broadening of the domestic debt base (National Treasury, 2014a; 2014b, p. 74).

Generally, from 1960 to 2015, the local nonbanking financial sector was the dominant holder of government marketable bonds, followed by the banking system and lastly non-residents; each with an average holding of 71%, 18% and 11%, respectively (National Treasury, 2016a). The composition of public debt by instrument in 2010, for instance, showed that fixed income long-term bonds, inflation-linked long-term bonds and short-term debt bills constituted 62%, 19% and 19%, respectively (SARB, 2016). Figure 3 provides a summary of the overall structure of public debt in South Africa from 1970 to 2016.

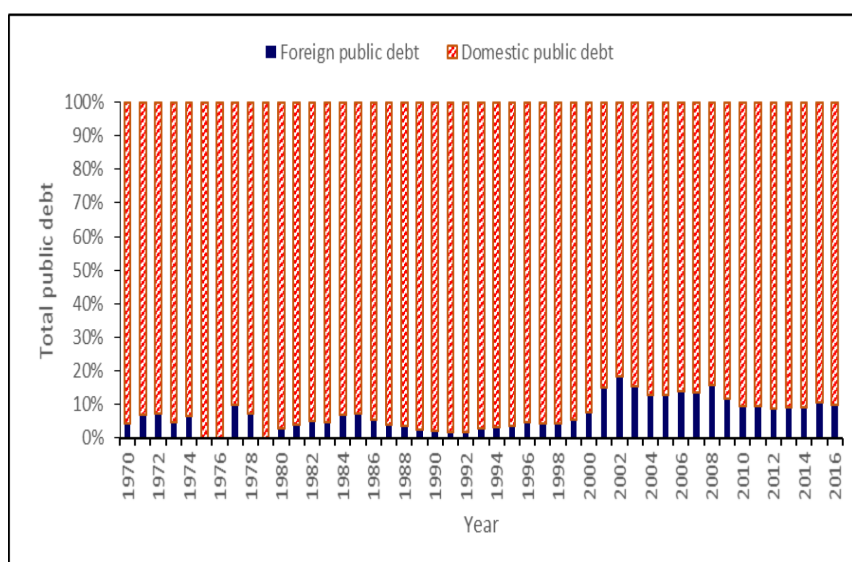

Figure 3. Public debt structure in South Africa (1970-2016)

Source: SARB (2016)

As depicted in Figure 3, domestic public debt has been predominantly South Africa's reliable source of budget financing, constituting an average of 92.3% between 1970 and 2016. At the height of economic and political problems in South Africa, that is, between 1990 and 1993, the percentage of foreign public debt denominated in foreign currency was very low, meaning that the South African government was financing its budget from funds sourced almost entirely from the domestic capital markets. Even after the crisis, the government continued to issue local currency debt on the domestic capital market with attractive interest rates resulting in it attracting several foreign investors (SARB, 2006). As of 2015, foreign investors were the largest holders of the fixed rate bonds in South Africa (National Treasury, 2016). Figure 4 provides a summary of the dynamics of public debt as a proportion of GDP in South Africa over the period 1975 to 2015.

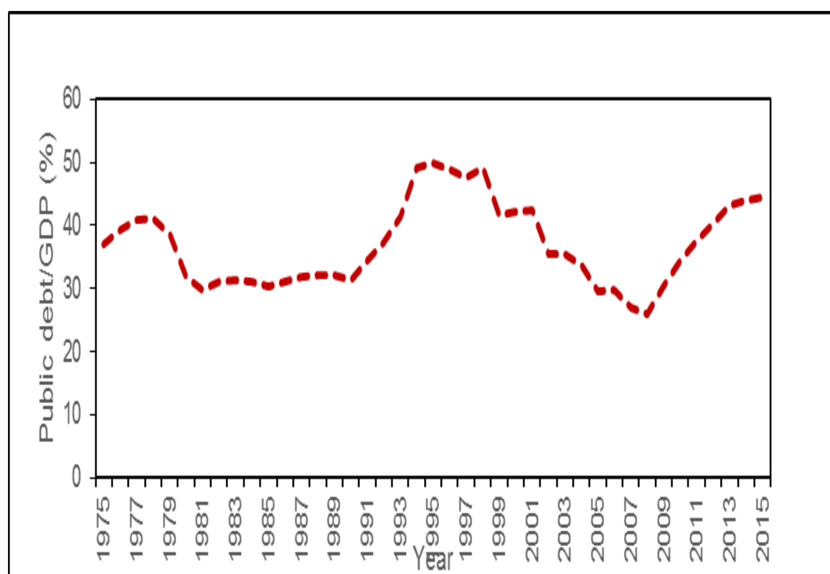

Figure 4. The dynamics of public debt in South Africa (1975-2015)

Source: SARB (2016); National Treasury (2016d)

Figure 4 reveals a generally stable growth in public debt to GDP ratio between 1981 and 1990. However, from 1991 through to 1998, there is a marked increase in the percentage of public debt to GDP springing from rising fiscal deficits, which reached a period high of 6.8% of GDP in 1993 (Statistics South Africa, 2016). A combination of the implementation of sound public expenditure measures (as stipulated in the Growth, Employment and Redistribution (GEAR) policy of 1996), sound improvements in economic performances and other public finance management

reforms after 1996 (as described in section 2), helped to reduce budget deficits and to promote remarkable economic growth rates, resulting in the downward trend of the public debt to GDP ratio displayed in Figure 4; reaching a period low of 25.9% in 2008 (National Treasury, 2012a). The improvement in the primary balance in South Africa beginning 1994 until 2008 led to the realisation of fiscal surpluses in 2001, 2006 and 2007 and to a debt-GDP ratio declining path (Statistics South Africa, 2016). As stated by Riet (2010), stabilising the public debt-to-GDP ratio and subsequently placing it on a declining path requires (1) a sufficiently large primary surplus to be realised over an extended period of time, (2) the interest rate-growth differential to be positive, and (3) a notable nominal growth rate of the economy. Also, the continuous economic diversification and massive industrialisation in the country led to a revenue base expansion between 1996 and 2015, making South Africa's economy the second largest in Africa, after Nigeria (African Development Bank et al., 2017). From 2009 to 2015, the noticeable upward trend in the public debt to GDP ratio can be attributed to moderately rising fiscal deficits and also to the introduction of new debt instruments by the government, such as the sukuk bond, which increased foreign public borrowing (Statistics South Africa, 2016; National Treasury, 2011). More so, the 2008/2009 global financial crisis increased government spending during those fiscal years and after, causing an upsurge in public debt levels, rising from 30.3% in 2009 to 40.5% in 2012 and 44.4% in 2015 (Statistics South Africa, 2016).

4. Challenges of Public Debt Management in South Africa

The South African economy was, between 1970 and 1993, characterised by growing public debt stocks arising from worsening current account imbalances (Lowenberg, 1997). Additionally, during this period, South Africa had no institutional and legal framework that ensured public debt management; and the country's coordination of both monetary policy and fiscal policy was generally fragmented (Nattrass & Ardington, 1990). As a result, the country's government debt accumulation, both domestic and foreign, rose unabated until it reached unsustainable levels in 1985 (Hirsch, 2005). The imposed punitive economic and financial sanctions on the country, which meant limited access to trade and foreign finances, in a way prompted the government to over-rely on domestic markets for finance, using mainly treasury bills and fixed-rate bonds (Farell & Todani, 2004). These punitive measures imposed

on the country compelled the government to borrow internally and externally at nonconcessionary basis to meet budgetary demands.

Also, prior to the 1996 institution of the Asset and Liability Management division in the South Africa's National Treasury, the coordination and responsibility for managing the public debt, both domestic and foreign, and the government's financial assets were highly disjointed (Wheeler, 2004, p. 65). According to Wheeler (2004), the central bank of South Africa was responsible for foreign currency borrowing and the Department of Finance had little input into these foreign borrowing decisions. However, after the borrowing, the Department of Finances was then mandated with the management of the foreign currency loans, while the responsibility for managing the government's cash was spread across several state agencies (Wheeler, 2004). Other challenges of public debt management in South Africa stemmed from (1) the lack of proper coordination of guaranteed debt to state owned entities; (2) limited understanding of the full nature of the government's asset and liability portfolios; and (3) an uncoordinated way of accessing financial markets, both domestic and foreign, by the government (Wheeler, 2004; IMF & the World Bank, 2003).

According to Hirsch (2005, pp. 38-41), debt instruments in the 1970s and 1980s were largely illiquid and domestic debt markets were generally underdeveloped, resulting in high costs of raising government finances. Hirsch added that the government financing and expenditure operations lacked transparency and fiscal discipline, leading to rising fiscal deficits and short-term state borrowings. Prior to 1980, secondary debt markets were non-existent in South Africa; and the government relied heavily on limited short-term debt instruments (National Treasury, 2003). Thus, the high proportion of short-term maturity debt profile, mostly domestic public debt, forced the government to experience stern liquidity difficulties in the 1980s (SARB, 1998).

Complementary factors that caused domestic debt management challenges, particularly between 1980 and 1993, were the general sluggishness in the economy and extensive capital outflow, amounting to a cumulative figure of R46.1 billion by 1993 (World Bank, 2012). According to the World Bank (2012), between 1984 and 1993, overall investment in South Africa shrank by an average of 2.9% annually. With constrained revenue flows, fiscal deficit went up to 7.8% of GDP in 1993 (Statistics South Africa, 2005). Constrained by poor revenue performance, the government reverted to domestic debt markets to increase its fiscal space, hence the exponential growth in domestic public indebtedness during this period. The need to

balance fiscal demands and the lack of stringent statutory debt control frameworks caused an incessant rise in public indebtedness, reaching a debt standstill in 1985 (Van der Merwe, 1993). The debt standstill forced the government to abolish the Prescribed Asset Requirement Act of 1958 and to start instituting minimum debt consolidation mechanisms (Financial and Fiscal Commission, 2015).

Generally, in the post-1994 period, domestic public debt challenges were mainly associated with the lack of legal state borrowing statutes for local governments, whose debt was mostly guaranteed by the central government (SARB, 2002). More so, the following factors contributed to public debt management complications in South Africa between 1994 and 2015: (1) unbudgeted bail-outs, (2) unreported deferred funding through public private partnerships; and (3) unreported unconventional debt instruments for addressing losses in state-owned businesses (Financial and Fiscal Commission, 2015; SARB, 2002).

Overall, however, South Africa had from 1994 instituted active debt management and macroeconomic policies that ensured (1) economic stability; (2) the deepening of domestic debt markets, with establishment of domestic capital markets; (3) the establishment of debt management laws and institutional frameworks; and (4) the setting-up of public debt analysis frameworks. A combination of these factors led to the (1) containment of domestic and foreign debt to within sustainable levels; (2) increase in foreign and domestic investment, averaging 4.7% annually between 1994 and 2003, with the capital account recording a cumulative amount of R169.6 billion by 2003; (3) establishment of an autonomous Reserve Bank of South Africa; (4) establishment of the Bond Exchange of South Africa in 1996; (5) smoothening of the government's debt maturity profile; and (6) the development of deep domestic money and capital markets (National Treasury, 2012; 2014; 2016; SARB, 2015).

Thus, unlike many SADC governments, South Africa adheres to its public debt management principles, making the country one of the few emerging economies with a well-structured government debt portfolio (Ecoryns, 2008). Current active debt management initiatives include debt consolidation, buy-backs, inflation-linked bonds and strips. Additionally, constitutional-based fiscal reforms have eliminated most of the public debt challenges in the country by containing government spending at all levels using the multi-year budgeting, making government expenditures more transparent and accountable (Farell & Todani, 2004). Effective public debt management in South Africa has also been brought about by the adoption of a three-year fiscal framework which enhanced the matching between revenue and

expenditure outturns (National Treasury, 2003). According to the National Treasury (2006), improved revenue forecasting techniques since 2000 have enhanced fiscal space and fostered credible public debt management in the country.

To ensure public awareness of the country's government debt, both domestic and foreign, the National Treasury, in a timely manner, publicises an annual debt management report stipulating the public sector's annual borrowing programme (National Treasury, 2012). The debt report provides comprehensive details on the state's debt levels, public debt composition and structure and size of issues, auction dates, public debt instruments to be issued, and their respective price trends, as well as the associated public debt payment costs (National Treasury, 2012).

The other feature which makes South Africa's public debt management practises distinctive from those of the rest of SADC countries, is the government's initiative to collaborate with international organisations to promote debt sustainability. In 2011, for instance, the National Treasury and the Organisation for Economic Cooperation and Development went into a mutual agreement aimed at fostering sound government debt management policies, as well as facilitating the development of domestic debt markets in the country (National Treasury, 2012). The government also partnered with the World Bank Treasury and the Swiss Secretariat of Economic Affairs under the World Bank's Government Debt and Risk Management Programme with the goal of developing new architecture for the secondary debt market that will boost liquidity and price discovery of government securities (World Bank, 2014). Also, the enactment of several legal debt statutes, such as the Public Audit Act of 2004, which compels the government to undertake annual financial audits at all levels of government and in state owned enterprises, culminated in reduced pubic borrowing requirements.

5. Conclusion and Recommendation

This paper discussed the dynamics of public debt in South Africa between 1960 and 2015. The paper provided a comprehensive analysis of the public debt reforms, public debt trends, and public debt challenges and associated debt management practices in South Africa between 1960 and 2015. From the discussions, it was established that the country lacked comprehensive legal and regulatory frameworks in the 1970s and 1980s, which prompted the government to undertake major debt reforms in the late 1990s – concentrating greatly on implementing sound public debt management frameworks. These debt management reforms varied from institutional

reforms and rearrangements to enactment of new legal frameworks, with the prime purpose of (1) reducing and maintaining sustainable public debt levels, and (2) reducing the country's exposure to external economic and financial shocks. As a result of the major public debt management reforms, there was massive broadening of government debt instruments, extension of public debt securities' maturity periods, increased participation of foreign players on government bonds, and intensive integration of cash and government debt management roles, among other changes. Conclusively, the paper found that South Africa's domestic public debt is mostly composed of long-term bonds and partly of treasury bills. In addition, the study found that a combination of current account deterioration and the subsequent budget deficit financing between 1980 and 1993 were among the major causes of exponential increases in public debt stocks in South Africa. Finally, the study, recommends the South African government to continuously monitor its debt structure and composition by adhering to the laid down public financial management principles, such as debt sustainability analysis frameworks, to avoid debt explosion in the long run.

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