

Box 2 The structure of South Africa's external debt¹

South Africa's total external debt² has increased significantly from 2002. This increase gained further momentum from 2010 as the currency composition changed, with rand-denominated debt mostly exceeding foreign currency-denominated debt. The change in currency composition was driven by non-residents' increased holdings of domestically issued rand-denominated debt of national government, and as a consequence general government³ became a significant contributor to total external debt. Despite government's dominance of debt securities, the value of other debt – comprising loans and deposits, and reflecting borrowing by the non-monetary private, monetary and public sectors – always exceeded that of debt securities.

1 This discussion is based on the statistics presented in the tables on pages S-102 and S-103 of this *Quarterly Bulletin*.

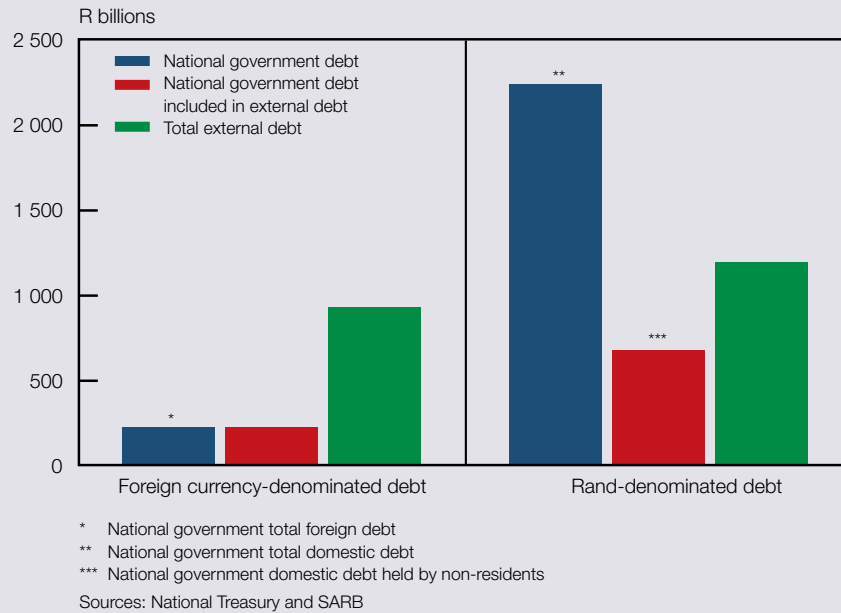
2 External debt is all the liabilities of residents, denominated in both domestic and foreign currencies, to non-residents that require repayment of principal and/or payment of interest.

3 General government includes national, provincial and local governments.

General government and public corporations dominate foreign currency-denominated debt securities, with just more than half maturing in 2024 and beyond. By contrast, the monetary and non-monetary private sectors dominate other debt denominated in foreign currency, with more than half due in the short term.

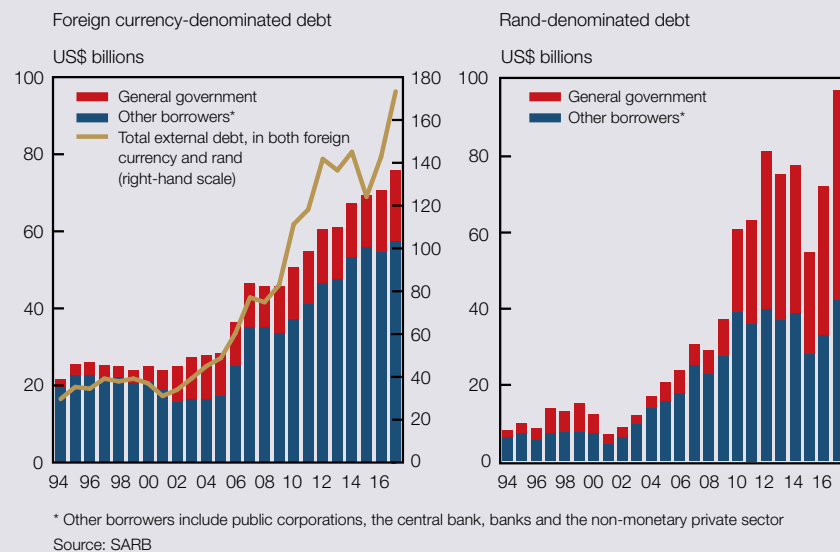
From a general government debt perspective, the contribution to external foreign currency-denominated debt was modest whereas that to external rand-denominated debt through non-resident holdings was significant as at the end of 2017.

National government's contribution to external debt as at the end of 2017



South Africa's total external debt, in US dollar terms, increased at a compounded annual growth rate of 8.0% from US\$29.7 billion at the end of 1994 to US\$173.3 billion at the end of 2017. The rand-denominated portion grew at a much faster pace of 11.5% while the foreign currency-denominated share increased at a slower rate of 5.6%. This markedly changed the currency composition of total external debt, away from foreign currency-denominated debt (comprising 73.0% of the total at the end of 1994) to rand-denominated debt (comprising 56.2% of the total at the end of 2017). At the end of 2017, rand-denominated debt held by non-residents amounted to US\$97.4 billion and exceeded foreign currency-denominated debt of US\$75.9 billion.

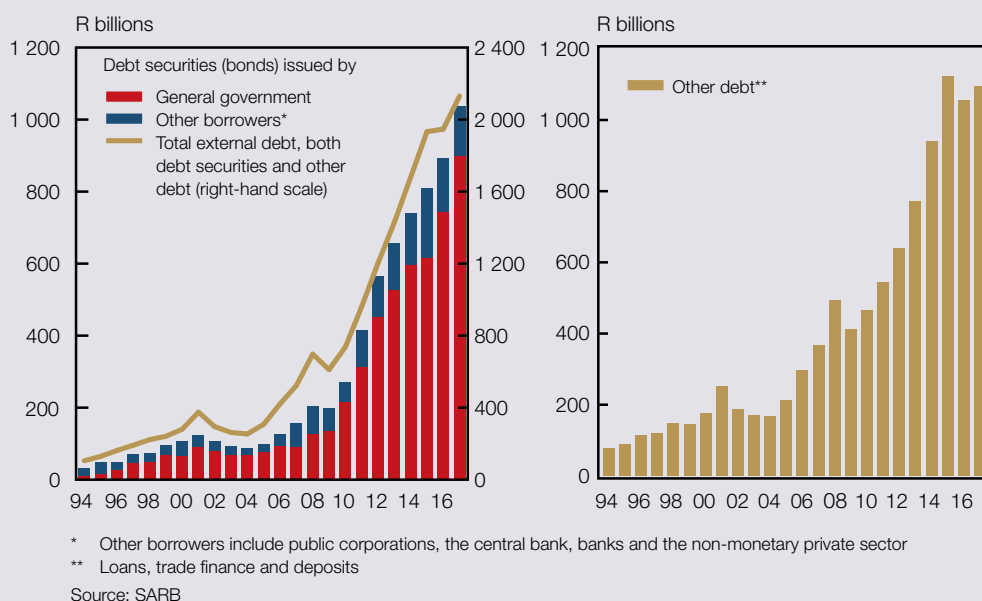
Currency and issuer of South Africa's external debt



Growth in South Africa's total external debt has accelerated since 2010 as the outstanding amount of domestically issued rand-denominated bonds of the general government held by non-residents increased from US\$6.4 billion at the end of 2008 to US\$55.2 billion at the end of 2017. Non-resident holdings of South African general government domestically issued rand-denominated bonds accounted for 31.8% of total external debt at the end of December 2017 compared to only 8.6% at the end of December 2008. This increase can mainly be attributed to a search for yield by non-resident investors following the global financial crisis as well as the inclusion of South Africa in the Citi World Government Bond Index in 2012.

South Africa's total external debt, in rand terms, amounted to R2 131 billion (equivalent to US\$173.3 billion) at the end of 2017, comprising debt securities (bonds) of R1 037 billion and other debt (loans and deposits) of R1 094 billion. Loans and deposits have always exceeded bonds. The non-monetary private sector contributed most to other debt through loans and trade finance, followed by loans and deposits of the banking sector and then public sector loans. General government's debt securities accounted for 86.6% of total debt securities at the end of 2017, with almost two-thirds being rand-denominated.

Financial instrument composition of South Africa's external debt

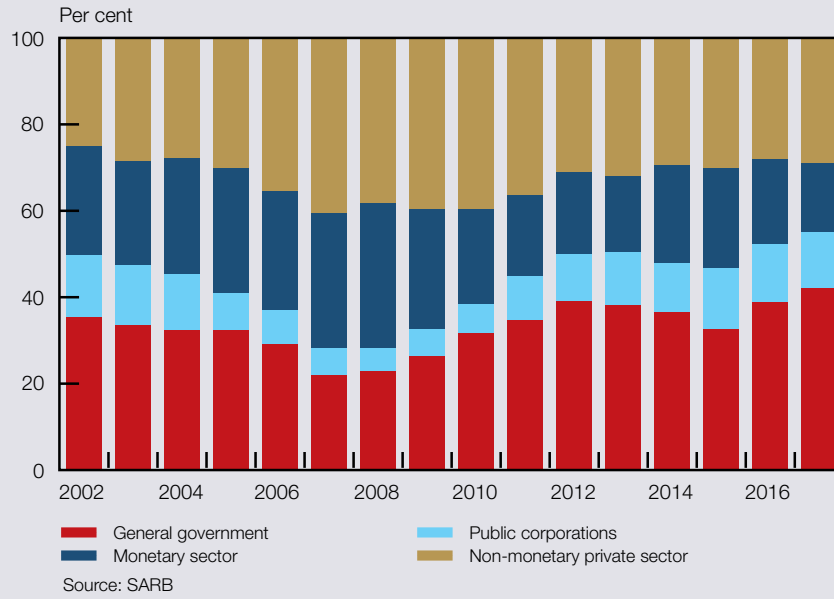


At the end of 2017, general government accounted for the largest overall share of total external debt at 42% followed by the non-monetary private sector at 29%. However, since 2002, the share of both general government and public corporations has increased while that of the monetary sector and the non-monetary private sector has decreased. The increase in the external debt of general government reflects fiscal deficit funding requirements while that of public corporations points to the upgrading of South Africa's transport and energy infrastructure.

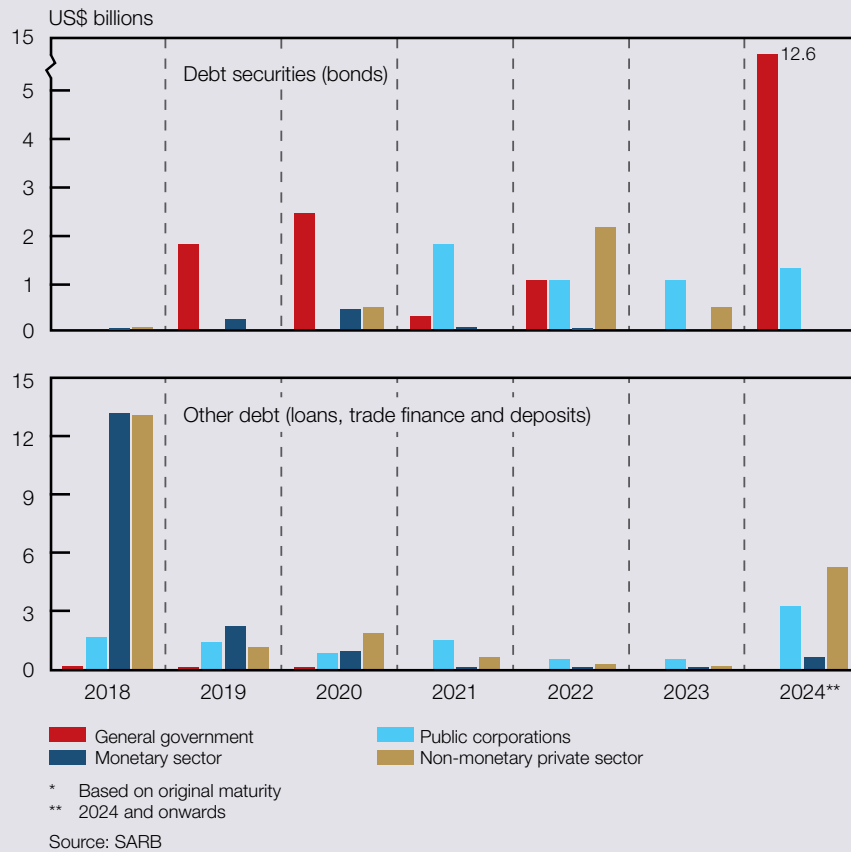
The redemption schedule of the US\$26.7 billion total foreign currency-denominated debt securities as at the end of 2017, according to original maturity, shows that 51.8% are due as from 2024, most of which is general government debt.

The repayment schedule of the US\$49.2 billion total foreign currency-denominated other debt as at the end of 2017, according to original maturity, shows that 56.9% is due in 2018, of which the monetary sector and the non-monetary private sector together account for 53.3%. While these percentages are quite high, the majority of this debt is usually rolled over and therefore not repaid. The non-monetary private sector's external debt is mostly between entities in a foreign direct investment relationship and therefore usually of a longer-term nature.

Sectoral issuer contribution to South Africa's external debt



Maturity structure of foreign currency-denominated external debt as at the end of 2017*



In conclusion, while South Africa's external debt in absolute terms has increased from 2008 to the current period, the relative contribution of foreign currency-denominated debt to rand-denominated debt in US dollar terms has declined. In addition, most of government's external debt continues to be denominated in rand. Where government is exposed to foreign-currency debt, this effectively constitutes long-term debt that matures in 2024 and beyond.