
Stungwa, Sanele

North West University

3 March 2022

Online at https://mpra.ub.uni-muenchen.de/112527/
MPRA Paper No. 112527, posted 23 Mar 2022 17:01 UTC

Stungwa Sanele
Department of Economics
School of Economic Sciences
North-West University, South Africa
Email: stungwasanele@gmail.com

Abstract: The objective of this study is to examine the asymmetric relationship between external debt and economic growth in South Africa for a period spanning from 1994 to 2020. The study consumed an annual time series data. The study further used bounds test cointegration to investigate the long run relationship between GDP and external debt. However, the long run relationship was not found, therefore, the long run NARDL cannot estimated. The short run findings of the study state that the positive and negative shocks in foreign debt stock is -0.198 and -0.288 for each, respectively. Every 1% rise in the foreign debt stock reduces GDP growth by 0.198 percent, whereas every 1% reduction in the external debt stock boosts GDP growth by 0.288 percent. When the foreign debt stock value is positive, GDP increases faster than when it is negative. Conversely, falling foreign debt leads to faster GDP growth than rising external debt. Because the estimated elasticities range greatly in importance and direction, it seems that a change in ED has an uneven impact on GDP. Therefore, South African policymakers should concentrate on enacting measures that would allow the South African economy to decrease its foreign debt.

Keywords: Gross domestic product, external debt, NARDL, South Africa.

JEL specification: C1, E62, F43, H63,

1.INTRODUCTION

Many economists and policymakers are engaged in a heated debate over the idea that increasing the country’s external debt is a policy to boost economic growth. The most important question is whether or not external borrowing helps to boost the economic growth of debtor countries. When it comes to examining the relationship between external debt and economic growth, this debate is divided into two categories. The first point to make is that both the Neoclassical and Endogenous growth models stipulate that there is a positive relationship between external debt and economic expansion. They pointed out that debt is one of the sources of financing capital formation, and that if financing capital formation through debt has a positive effect on investment, it may have a positive effect on economic growth as a whole (Ijirshar, Joseph et al. 2016). Finally, Ajayi and Oke (2012), among other researchers, challenge this notion by stating that external debts and economic growth have a negative relationship in their study based in Nigeria. They are not alone in this belief. Further evidence was provided by Malik, Hayat et al. (2010) that external debt has a negative relationship with economic growth. According to the evidence, an increase in external debt will result in a decrease in economic growth over the long term.

Figure 1: External debt in South African
South Africa is one the emerging economies that are facing an increasing external debt, which is problematic since it depresses the economic growth of the country and decrease the foreign assets. However, to understand the behaviour of external in the last decade the above figure 1 shows how South Africa’s external debt has been performing from 2009 to 2020. Looking at the figure 1 itself, we can clearly say that external debt has increased immensely from 2009 to 2020 from 27.844% on GDP to 56.549% on GDP with a difference of 28.705%. Therefore, external debt in South Africa’s economy accounts for a huge amount of nation income, meaning that the debt servicing rate in South Africa is too high which decreases the national disposable income leading to low economic growth.

However, the purpose of this study is to model the effect of positive and negative shocks of external debt on economic growth in South Africa for the period from 1994 to 2020 using non-linear autoregressive distributed lag (NARDL) cointegration approach that was introduced by (Shin, Yu et al. 2014). As far as our knowledge goes, there is only one study investigated this relationship in South Africa by Ayadi and Ayadi (2008) who used OLS and GLS approach. Therefore, this study contributes to the body of knowledge in macroeconomics and microeconomics with a different model.

2. LITERATURE REVIEW

Countries that have budget deficits, especially those that are still developing, borrow money to help their economies grow. Loans are made by the government as a general rule to pay for public goods that improve people’s lives and boost the economy (Ogunmuyiwa 2011). Any country’s external debt is one of the main ways that the economy can build up its capital (Ayadi and Ayadi 2008). External debt is taken out in order to make a big difference in the economy, but the debt service payments that must be made in the future are bad for the economy. The theoretical framework underpinning this study includes the Debt Laffer curve proposed by (Sachs 1989). Sachs (1989) argued that an increasing debt boosts economic growth until it reaches a certain point where it hurts the economic growth of the country. The Debt Overhanging Hypothesis proposed by (Krugman 1988). The debt overhang refers to a scenario in which a country’s projected debt repayment is less than the debt’s existing face value. It has also been characterized as a situation in which an economy’s inherited debt has grown to such an extent that lenders are no longer confident in their ability to recover their money in full from borrowers (Krugman 1988). A lot of scholars have looked into how foreign debt affects the economy in different countries.

Following Oman's yearly budget borrowing, Kharusi and Ada (2018) investigated the link between foreign debt and economic growth. World Bank and Oman Central Bank time series data from 1990 to 2015 were available. The research employed autoregressive distributed lag cointegration to examine short-run movements in foreign debt and economic growth. They found that Oman's foreign debt had a detrimental impact on economic growth. Oman also found gross fixed capital beneficial.

Ajayi and Oke (2012) studied the influence of Nigeria’s external debt on economic growth. National income, debt service payment, foreign reserves, and interest rate were employed as variables in OLS regression analysis. The data show that foreign debt negatively impacts national and per capita income.

From 1972 to 2005, Shahnawaz et al. (2010) utilized time series econometrics to study Pakistan's foreign debt and economic development. They looked at Pakistan’s debt and economic performance. As shown in the article, external debt has a negative and statistically significant impact on economic growth. According to study, rising external debt slows economic growth. Debt service also has a negative impact on GDP growth. Economic growth potential will shrink as debt repayment prices increase.

Ayadi and Ayadi (2008) studied the influence of high external debt on economic growth in Nigeria and South Africa. The external debts of Nigeria and South Africa are analysed using novel models and econometric methodologies. The analysis uses both OLS and GLS (GLS). Debt (and the expenses associated with its servicing) has a detrimental influence on growth in Nigeria and South Africa. In contrast, South Africa beats Nigeria in leveraging foreign loans to drive development. Also, external debt helps favourably to development in Nigeria until it becomes a drag (reflecting the presence of non-linearity effects).

Decades of data on 43 African countries' external debt and economic growth were reviewed by Ighodalo Ehikioya, Omakhanlen et al. (2020). Using World Development Indicators from the World Bank and the
World Economic Outlook database from the International Monetary Fund (IMF). The research illustrates how misusing foreign debt may diminish its significance. External debt and African economic growth have long-run equilibrium. Short-run convergence to long-run equilibrium occurs above a certain capacity, and foreign debt harms African economic growth.

Using World Bank time series data from 1970 to 2016, Govdeli (2019) examined how external debt, openness, and the CPI effect economic growth. The ARDL bounds-testing approach was utilized to find a cointegration connection. External debt is beneficial for the economy, while openness and the CPI are negative.

From 2006 to 2016, Shkolnyk and Koilo (2018) examined the link between external debt and economic growth in emerging markets. The writers employed economic instruments. Their method was ARDL model adjustment. The regression findings demonstrated that the initial values had little influence on the parameter estimation process. That developing markets have non-linear effects on macroeconomic variables like foreign debt and economic growth was conceived of. Nations with significant external and volatile macroeconomics develop slower than other countries, according to the researchers. For developing countries, the marginal impact of foreign debt on growth is negative at some point, the regression model discovered. The debt cap is at this point.

Between 1980 and 2018, Makun (2021) studied Fiji’s economic progress and foreign debt. They use neoclassical growth and ARDL models to derive long term linear and nonlinear relationships. The research shows that a linear measure of foreign debt is harmful to economic development. A nonlinear analysis shows that external debt affects economic growth differently. Export and total factor productivity contribute significantly to economic growth. An alternative formulation with exogenous domestic debt yields consistently unequal results. As debt levels increase, so does the impact on growth. Threshold study shows that public debt causes growth to slow.

The impact of external debt on Ghana’s economic growth from 1970 to 2017 was studied by Matuka and Asafo (2018). For their variables of interest, co-integrating growth equation coefficients are indistinguishable. Inflows of foreign debt tend to benefit Ghana’s economic growth, both long and short term. A large foreign debt has a non-linear influence on Ghana’s economic growth.

From 1990 to 2017, Asafo, Matuka et al. (2019) employed a two-step General Method of Moments (GMM) strategy to assess the relationship between foreign debt and economic growth in 48 SSA countries. Their research found that foreign debt has a negative and statistically significant impact on GDP growth. However, the early lag of foreign debt factors boosts GDP growth. The consequence is that earlier foreign debt frees up capital for future growth-enhancing investment. Their research also found no evidence of a non-linear link between debt and economic growth. Finally, they observed that the impact of foreign debt on GDP growth does not discriminate between affluent and poor SSA states.

3. DATA AND METHODOLOGY

This research looks at the impact of foreign debt sustainability and structural changes on economic growth in South Africa from 1994 to 2020. Since the literature suggests that there is a possible non-linear relationship between the external debt and economic growth, therefore, the study apply Non-linear Autoregressive Distributed Lag (NARDL) proposed by Shin, Yu et al. (2014) to cater for the presence of non-linearity effect in the model. The assumption is that external debt is detrimental to economic growth, the other assumption is that external debt helps economic growth until a certain stage where the external debt harms economic growth. The variables are subjected to unit root tests based on the Augmented Dickey-Fuller (ADF) test provided by Dickey and Fuller (1981), and the Philips Perron unit root test (PP) proposed by Phillips and Perron (1988). The diagnostic tests are performed to check for stability, serial correlation, heteroscedasticity, and normality test.

3.1. Model specification

The model specification to investigate the relationship between external debt sustainability and structural breaks on economic growth in South Africa is based on the simple bivariate framework where the relationship is presented as follows:
\[ GDP_t = \alpha_0 + \alpha_1 ED_t + \varepsilon_t \]  

Where \( GDP_t \) denotes the country’s gross domestic product, \( ED_t \) denotes South Africa’s external debt stock, and \( \varepsilon_t \) denotes an error term. \( \beta_0 \) is the constant, and \( \beta_1 \) is the coefficients. All of the variables in the research are already expressed as percentages. The estimated model in this work is based on Shahnawaz, Hayat et al. (2010) and Ogunmuyiwa (2011). Since NARDL is an enhanced version of the basic ARDL model, we first re-adjust (Eq. 1) into an error correction system by capturing both the long-run and short-run dynamics in accordance with the ARDL framework developed by Pesaran, Shin et al. (2001). The error correction of the ARDL form may be stated mathematically as follows:

\[ \Delta GDP_t = \alpha_0 + \sum_{k=1}^p \alpha_1 \Delta GDP_{t-k} + \sum_{k=0}^p \alpha_2 \Delta ED_{t-k} + \partial_1 GDP_{t-1} + \partial_2 ED_{t-1} + \varepsilon_t \]  
\[ \Delta GDP_t = \phi_0 + \sum_{k=1}^p \phi_1 \Delta GDP_{t-k} + \sum_{k=0}^p \phi_2 \Delta ED_{t-k} + \phi_3 ECM_{t} + \varepsilon_t \]  

whereas \( \Delta \) indicates the first difference and \( k \) represents the lagged values, \( \alpha_1 \) to \( \alpha_2 \) and \( \phi_1 \) to \( \phi_2 \) are short-term coefficients, \( \alpha_3 \) to \( \alpha_4 \) are the long-term coefficients, and \( \varepsilon_t \) is the residual term. The Bounds test is used to determine whether or not there is a long-run connection between the variables. The null hypothesis, which indicates no cointegration, is \( H_0: \partial_1 = \partial_2 = 0 \) versus the alternative hypothesis \( H_0: \partial_1 = \partial_2 = 0 \). The null hypothesis will be rejected if the estimated F statistic is greater than the upper limit critical value \( I(1) \) for the number of explanatory variables (\( k \)) proposed by Pesaran, Shin et al. (2001). The null hypothesis cannot be rejected if the F statistic is less than the lower limit critical value \( I(0) \). The F statistic being

3.2. Data source
Using yearly time series data, this article examines the impact of external debt sustainability and structural breaks in South Africa from 1994 to 2020, with a focus on the period 1994 to 2020. Unit root tests are performed on the macroeconomic variables, however, since they are more likely to follow a random walk than the other variables. The data for the GDP is gathered from South African Reserve Bank and External debt stock is collected from World Bank. Table 1 below has a description of the variables, while Table 2 contains descriptive statistics, and Tables 3 has the results of the unit root tests, respectively.

**Table 1: Description of the variables**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>$GDP_t$</td>
<td>Gross domestic product</td>
<td>SARB</td>
</tr>
<tr>
<td>$ED_t$</td>
<td>External debt stock</td>
<td>World Bank</td>
</tr>
</tbody>
</table>

Source: SAR & World Bank

**Table 2: Descriptive Statistics**

<table>
<thead>
<tr>
<th>Variables</th>
<th>South Africa</th>
<th>Jarque-Bera Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean ± SD</td>
<td></td>
</tr>
<tr>
<td>$GDP_t$</td>
<td>2.294634 ± 2.517010</td>
<td>42.53457***</td>
</tr>
<tr>
<td>$ED_t$</td>
<td>27.48061 ± 11.99328</td>
<td>3.216501</td>
</tr>
</tbody>
</table>

Source: Authors' computation: significant at (*). (**) , (*** ) represent 10%, 5%, 1% respectively

The descriptive statistics are presented in Table 2. According to the Jarque-Bera test, gross domestic product does not have a normal distribution, while the stock of external debt does have a normal distribution (Jarque & Bera, 1980). The null hypothesis of normality for gross domestic product is not accepted at the 1 percent, 5 percent, and 10 percent level of significance, whereas the null hypothesis of normality for external debt stock is not rejected at the 1 percent, 5 percent, and 10 percent level of significance, respectively. For the external debt stock, the standard deviation obtained gives a strong indication of high volatility of data around the mean, whereas, for the gross domestic product, the standard deviation obtained suggests a moderate volatility of observations around the estimated mean.

**Unit root Tests**

According to the literature, unit root tests should be run first to ascertain the sequence of variable integration. The Augmented Dickey-Fuller (ADF) test (Dickey and Fuller 1981), and the Philips and Perron unit root test (Phillips and Perron 1988). Glynn, Perera et al. (2007) criticized the ADF unit root test for failing to account for an existing structural break, resulting in bias that reduces the capacity to reject a false unit root null hypothesis. According to Perron (1989), the ADF and PP unit root tests are biased toward inferring that the null hypothesis for unit roots is true when there are structural breakdowns in the data. In comparison to the ADF and PP tests, Zivot and Andrews (2002) stated that the Zivot and Andrews unit root test is stronger when structural breakdowns exist. Additionally, the null hypothesis for all tests is that the series has a unit root, which is compared to the alternative hypothesis that the series contains no unit root. The unit root tests are conducted at constant, constant and trend.

The unit root findings are shown in Tables 3. Table 3 contains the results of the ADF and PP tests. According to Tables 3, all variables are integrated at I(1). As a result, since the variables are integrated in the same order, Shin, Yu et al. (2014) NARDL bonds cointegration test is relevant, and it was used to estimate the external debt sustainability and economic growth in South Africa.

**Table 3: Unit root tests by ADF, PP**

<table>
<thead>
<tr>
<th>Variables</th>
<th>ADF</th>
<th>PP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Constant</td>
<td>Constant &amp; Trend</td>
</tr>
<tr>
<td></td>
<td>Level</td>
<td>Δ</td>
</tr>
<tr>
<td>GDP</td>
<td>-0.875</td>
<td>-4.359***</td>
</tr>
<tr>
<td>ED</td>
<td>0.245</td>
<td>-5.684***</td>
</tr>
</tbody>
</table>
4. EMPIRICAL RESULTS

4.1. Lag selection

Table 4: Lag Length

<table>
<thead>
<tr>
<th>Lag</th>
<th>LogL</th>
<th>LR</th>
<th>FPE</th>
<th>AIC</th>
<th>SC</th>
<th>HQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>-137.3048</td>
<td>NA</td>
<td>625.0410</td>
<td>12.11346</td>
<td>12.21220</td>
<td>12.13829</td>
</tr>
<tr>
<td>1</td>
<td>-110.3656</td>
<td><strong>46.85082</strong></td>
<td><strong>85.28358</strong></td>
<td><strong>10.11875</strong></td>
<td><strong>10.41496</strong></td>
<td><strong>10.19324</strong></td>
</tr>
<tr>
<td>2</td>
<td>-108.8872</td>
<td>2.314036</td>
<td>107.3786</td>
<td>10.33802</td>
<td>10.83171</td>
<td>10.46218</td>
</tr>
<tr>
<td>3</td>
<td>-105.7437</td>
<td>4.373553</td>
<td>118.6961</td>
<td>10.41249</td>
<td>11.10366</td>
<td>10.58632</td>
</tr>
<tr>
<td>4</td>
<td>-104.2277</td>
<td>1.845568</td>
<td>154.6059</td>
<td>10.62849</td>
<td>11.51714</td>
<td>10.85199</td>
</tr>
</tbody>
</table>

The ideal lag length criterion is shown in Table 4. Because the majority of lag order selection criteria (LR, FPE, AIC, SC, and HQ) pick the first lag order, the research estimated the NARDL model using a single lag.

4.2. Cointegration test

Table 5: Bounds Test

<table>
<thead>
<tr>
<th>Country</th>
<th>F-statistics</th>
<th>Critical values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>South Africa</td>
<td>3.338576</td>
<td>I(0)</td>
</tr>
<tr>
<td></td>
<td>5.15</td>
<td>6.36</td>
</tr>
</tbody>
</table>

The research used the NARDL bounds test to investigate the long run connection between the variables under investigation, which entails the estimate of an Unrestricted Error Correction Model in the first difference. Table 5 summarizes the findings of the NARDL bounds test. The estimated F-statistics for the variables are smaller than the critical values at all significant levels, indicating that the null hypothesis of no long-term association cannot be rejected. This suggests that the NARDL model over the long term cannot be approximated. As a result, the study’s estimating approach of choice is Error Correction Mechanism.

4.3. NARDL estimation results

Table 6: Short-run NARDL results: Dependent variable: \(\Delta GDP\)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>2.903959</td>
<td>1.061944</td>
<td>2.734569</td>
<td>0.0121**</td>
</tr>
<tr>
<td>ED_ POS</td>
<td>-0.197826</td>
<td>0.067665</td>
<td>-2.923632</td>
<td>0.0079***</td>
</tr>
<tr>
<td>ED_ NEG</td>
<td>-0.288279</td>
<td>0.156594</td>
<td>-1.840926</td>
<td>0.0792*</td>
</tr>
<tr>
<td>CointEq(-1)*</td>
<td>-0.746375</td>
<td>0.225799</td>
<td>-3.305488</td>
<td>0.0032***</td>
</tr>
</tbody>
</table>

Main goal is to determine if changes in ED have a positive or negative impact on the economy’s gross domestic product (GDP). This section presents the short-run calculated coefficients of nonlinear ARDL (Table 6). Short-run parameters for positive and negative shocks to external debt stock are calculated to be -0.198 and -0.288, respectively. According to the findings, a 1% increase in the external debt stock leads in a 0.198 fall in GDP growth, whereas a 1% decrease in external debt stock results in a 0.288 boost in economic growth. This demonstrates that the response of GDP growth to positive external debt stock values differs from that of negative external debt stock values. GDP growth is more sensitive to negative external debt values than to positive external debt stock values. Given the disparities in statistical significance and direction of the estimated elasticities, change in ED seems to have an asymmetric short-run influence on GDP. The error correction term suggests a faster to adjustment to equilibrium for South Africa. 74.6% of
the previous year’s disequilibrium is corrected in the following year. These results are consistent with the results obtained by Shkolnyk and Koilo (2018) and Matuka and Asafo (2018).

4.4. Direction of Causality

The research next examines the direction of causation between the variables under investigation using Granger’s suggested causality test (Granger 1969). The following conclusions may be drawn concerning the direction of long-run causation between the variables under investigation based on Table 7. External debt does cause gross domestic product in South Africa, unidirectionally and significantly at the 5% level, indicating that the path of causation goes from external debt to gross domestic product. As a result, changes in foreign debt have a substantial impact on the amount of gross domestic product. That is, any change in foreign debt will have a causal impact on GDP. The findings are congruent with those of (Loganathan, Sukemi et al. 2010).

Table 7: Granger causality test

<table>
<thead>
<tr>
<th>Null hypothesis</th>
<th>Obs</th>
<th>F-Statistics</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>ED does not granger cause GDP</td>
<td>25</td>
<td>8.957979</td>
<td>0.0113</td>
</tr>
<tr>
<td>GDP does not granger cause ED</td>
<td></td>
<td>0.909601</td>
<td>0.6346</td>
</tr>
</tbody>
</table>

Source: Authors’ computation: significant at (**), (***), represent 5%, 1% respectively

Table 8: Diagnostic tests

<table>
<thead>
<tr>
<th>South Africa</th>
<th>Serial correlation</th>
<th>Heteroscedasticity</th>
<th>Ramsey’s RESET test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistical test</td>
<td>0.172289</td>
<td>2.722417</td>
<td>0.766344</td>
</tr>
<tr>
<td>Probability value</td>
<td>0.6781</td>
<td>2.722417</td>
<td>0.3988</td>
</tr>
</tbody>
</table>

Source: Authors’ computation: significant at (**), (***), represent 5%, 1% respectively

Diagnostic tests are run on the variables to look for serial correlation, heteroscedasticity, and model misspecification and are presented in Table 8. The study employs the Breusch-Pagan LM test, which was independently proposed by Breusch (1978) and Godfrey (1978). The alternative hypothesis of serial correlation is tested against the null hypothesis of no serial correlation. The Glejser (1969) test detects the presence of heteroscedasticity in this study. The alternative hypothesis of heteroscedasticity is tested against the null hypothesis of homoscedasticity. This study employs the Ramsey (1969) test to investigate model misspecification to ensure that the model is correctly specified. Ramsey Test’s null hypothesis is that the model is correctly specified, and the alternative hypothesis is that the model is not correctly specified. Because the null hypotheses are not rejected, the results in Table 8 clearly show that there is strong evidence of no serial correlation, heteroscedasticity, and model misspecification. Finally, two coefficient stability tests were used in the study: the cumulative sum of recursive residuals (CUSUM) test proposed by (Brown, Durbin et al. 1975) and the CUSUM squared test. Figures 3 and 4 show the graphs for the CUSUM test and the CUSUM squared test, respectively. Figure 1&2 for CUSUM test and CUSUM squared test show that the model is stable, as the plots are within the 5% confidence interval.

Figure 2: CUSUM test
5. CONCLUSION

The existing literature gives strong evidence that external debt depresses the economic growth, or it boosts economic until it stabilizes, then after it hurts the economic growth of the country following the ideology of the Debt Laffer Curve. To further expand the literature, the study models the asymmetric relationship between external debt and the economic growth of South Africa using non-linear autoregressive distributed lag (NARDL) model for a period spanning 1994 to 2020. The study followed bivariate framework to answer the research question which consists of gross domestic product as a dependent variable and external debt stock as an explanatory variable.

The study has reached suitable decision to say that Debt Laffer Curve is valid in the case of South Africa. The findings of the study are consistent with the results obtained by Shkolnyk and Koilo (2018) and Matuka and Asafo (2018). As for positive and negative shocks to the external debt stock, short-term parameters are -0.198 and -0.288 for each. There is a 0.198 drop in GDP growth for every 1% increase in the external debt stock, and there is a 0.288 boost for every 1% decrease in the external debt stock. There is a difference in how GDP grows when there is a positive external debt stock value and when there is a negative external debt stock value. When the value of the country’s external debt drops, GDP grows more quickly than when the value of the country's external debt rises. There are a lot of differences in how important and which way the estimated elasticities are, so it looks like a change in ED has an asymmetric short-term effect on GDP, based on these differences.

Excessive amounts of foreign debt might restrict a country’s capacity to invest in its economic future, whether via infrastructure, education, or health care, since their limited income is diverted to debt payment. This has the effect of sapping long-term economic development. A debt crisis may also be triggered by poor debt management in combination with external shocks such as a fall in commodity prices or a severe economic recession. This is sometimes compounded by the fact that international debt is typically denominated in the currency of the lender's country rather than the currency of the borrower. That implies that if the currency of the borrowing nation declines, it will be much more difficult to pay those obligations. As a result, South African policymakers should concentrate on enacting measures that would allow the South African economy to decrease its foreign debt.

REFERENCE


CEIC (2021). South Africa External Debt: % of GDP.


