Box 4 The compilation of public sector debt statistics

The measurement and presentation of internationally comparable public sector debt statistics are based on methodological guidance provided by the International Monetary Fund (IMF) in various statistical manuals.[1]

IMF member countries do not necessarily fully conform to the guidelines provided, mainly due to country-specific limitations such as challenges regarding the availability of data and the recommended requirements to:

- record transactions on an accrual basis;[2]
- value debt instruments at both nominal and market value;
- convert foreign currency-denominated debt to domestic currency at the market spot exchange rate using the midpoint between the buying and selling rates;
- record debt as short- and long-term on both an original and a remaining maturity basis;[3] and
- include accrued interest.

Non-conformity, even partial, inevitably complicates international comparability and can lead to misunderstandings in interpreting government finance statistics.

This box briefly describes international methodological best practice in compiling public sector debt statistics in accordance with the guidance provided by IMF manuals, and describes some differences in reported data between countries. This is followed by a description of the compilation and availability of public sector debt statistics in South Africa.

Some concepts related to international methodological best practice in compiling public sector debt statistics are important to mention. Total gross debt comprises all the financial debt instruments on the liability side of the public sector's balance sheet. In this context, financial debt instruments are defined as financial claims which require future payment(s) of interest and/or a principal by the public sector debtor. Total net debt of the public sector is calculated as liabilities in the form of financial debt instruments minus corresponding financial assets.

To obtain a comprehensive picture of the public sector's financial obligations, the following are regarded as financial debt instruments:

- special drawing rights (SDRs);
- currency and deposits;
- debt securities;
- loans;
- insurance, pension and standardised guarantee schemes; and
- other accounts payable.

All the financial liabilities in the balance sheet are therefore considered to be debt, except contingent liabilities[4] and equity.[5] Due to country-specific legal, institutional and practical arrangements, other definitions of debt may also exist. It is therefore prudent to always ensure that the identified financial debt instrument meets the definitional requirements of debt.

The calculation of public sector debt includes the financial debt instruments of all the institutions at all levels of general government and in all resident public corporations, (i.e. their debt to all residents and non-residents). The diagram on the next page, as adapted for South Africa from the *Public Sector Debt Statistics Guide for Compilers and Users 2013*, shows the institutional coverage.

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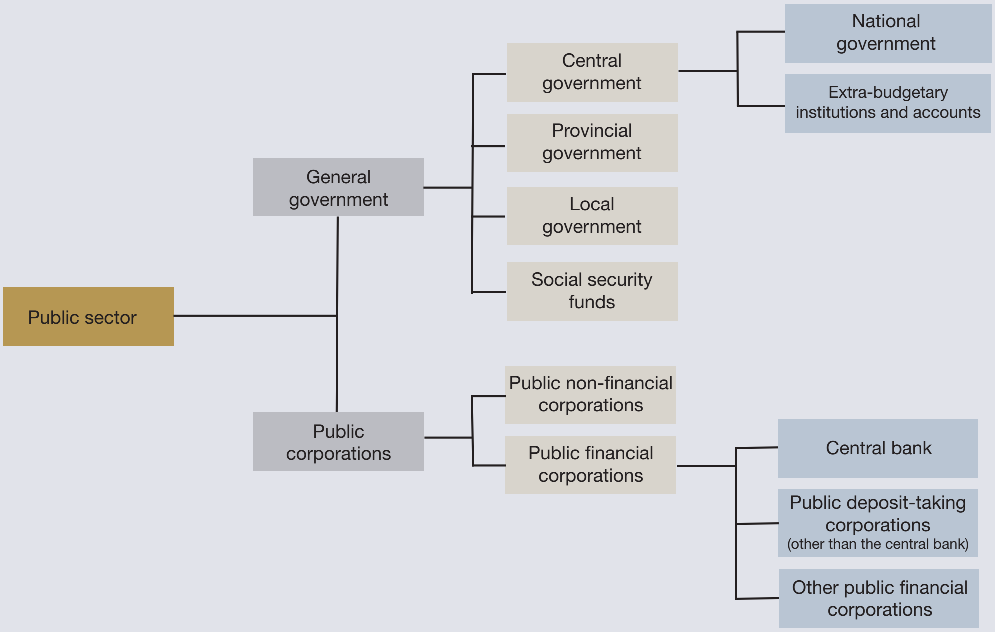
1 These would include the *Public Sector Debt Statistics Guide for Compilers and Users 2013 and the Government Finance Statistics Manual 2014.*

2 Accrual accounting matches the time of recording with that of the event that gave rise to the transaction. The deviation occurs because countries report on a cash basis, which means that the time of recording tends to mostly differ from the time of the event to which the cash flow relates.

3 Short-term debt is payable on demand or has a maturity of one year or less, whereas long-term debt has a maturity of more than one year. Original maturity is as from date of issue, whereas remaining maturity is as from the current period to the date of repayment.

4 To be defined as debt, a liability must exist and must be outstanding. Contingent liabilities are therefore not included as part of public sector debt; they are only included after certain conditions are fulfilled, (e.g. a government guarantee becomes part of government debt only after the guarantee is called).

5 Equity – inclusive of investment fund shares, financial derivatives and employee stock options – is not a debt instrument as it does not require the payment of principal or interest.



In compiling public sector debt statistics, financial debt instruments, as identified, are firstly aggregated for all the institutional sectors in the public sector. However, public sector debt statistics should be presented on a consolidated basis and not on an aggregated basis. Consolidation in this context eliminates all transactions (debtor and creditor relationships) among institutions. Each subsector within the public sector should be consolidated, followed by consolidation among subsectors to produce consolidated public sector debt statistics at each level and the total gross public sector debt.[6]

The measurement of public sector debt in different countries is affected by the coverage of financial debt instruments and availability of data at all institutional levels as well as the treatment of all the possible methodological issues referred to at the onset. Furthermore, some countries include SDRs as part of debt while others do not. In other cases, some countries include the central bank as part of public financial corporations while others show it as a memorandum item. In many countries, public sector debt data often only include two of the six debt instruments listed above: debt securities and loans. Debt securities and loans are also not necessarily recorded for all levels of the public sector, with some recorded at nominal and others at market value. All this complicates the international comparison of public sector debt statistics, even though the IMF group countries in terms of the level of coverage.[7]

Statistics South Africa and National Treasury, along with the South African Reserve Bank (SARB), have specific responsibilities for the compilation, analysis and dissemination of public sector statistics. The SARB, in particular, reports public debt statistics in accordance with the *Government Finance Statistics Manual.* The table on the next page shows the current coverage in the compilation of South Africa's public debt statistics in terms of instruments and institutional sectors.

A number of country-specific issues unique to South Africa deserve mention. SDR allocations are not incorporated into long-term foreign debt and a full accrual accounting framework is still being pursued, while the current system can be best described as modified cash accounting. In South Africa, aggregate nominal gross loan debt is only published at national government level and includes only debt securities and loans. Gross loan debt comprises domestic and foreign debt by unexpired outstanding maturity, enabling a distinction between short- and long-term debt.

6 Consolidation refers to the process of netting out intragovernmental obligations. Unconsolidated data tend to overstate public sector debt and if intragovernmental debt is significant, (e.g. if a high proportion of government bonds is held by a social security fund, this creates a misleading picture of the size of public sector debt as a whole).

7 R Dippelsman, C Dziobek, CA and Gutiérrez Mangas, 'What lies beneath: the statistical definition of public sector debt – an overview of the coverage of public sector debt for 61 countries', *IMF Staff Discussion Note SDN/12/09*, July 2012.

Coverage of South Africa's public sector debt in terms of institutional sectors and financial instruments

Financial debt instruments	Institutional units of the public sector						
	General government					Public corporations	
	National government	Extra-budgetary institutions and accounts	Provincial governments	Local governments	Social security funds	Non-financial	Financial*
Special drawing rights (SDRs)	√	x	x	x	x	x	x
Currency and deposits	x	x	x	x	x	x	x
Debt securities	√	x	x	√	x	√	√
Loans	√	x	x	√	x	√	√
Insurance, pension and standardised guarantee schemes	x	x	x	√	x	√	x
Other accounts payable	x	x	x	√	√	√	√

* Excluding the central bank and other deposit-taking public financial enterprises and corporations

Domestic and foreign debt is disaggregated into marketable and non-marketable financial instruments with a distinction between different types of bonds. Foreign debt is valued at the appropriate end-of-period exchange rates. National government's net loan debt is calculated as gross loan debt minus its cash balances.[8] National government's net debt can be augmented with provisions (liabilities of which the amount and/or payment date is uncertain) and contingent liabilities (where the recognition of a liability is event-driven). Contingent liabilities include national government guarantees to, for instance, public corporations. However, guarantees only become debt when the entity in question defaults. These statistics are published in the SARB's *Quarterly Bulletin* in tables S–52 to S–62.

National government debt

R billions

	Domestic debt			Foreign debt			Total gross loan debt	Cash balances	Total net loan debt	Financial guarantees by national government
	Marketable	Non-marketable	Total	Marketable	Non-marketable	Total				
2013	1 210.8	30.3	1 241.1	106.6	18.0	124.6	1 365.6	211.6	1 154.0	180.2
2014	1 409.7	31.3	1 441.0	127.0	16.7	143.7	1 584.7	206.6	1 378.1	209.6
2015	1 601.6	30.4	1 632.0	155.1	11.7	166.8	1 798.8	218.0	1 580.8	224.9
2016	1 782.0	37.2	1 819.3	189.3	10.3	199.6	2 018.9	212.5	1 806.4	263.4
2017	1 981.6	38.4	2 020.0	206.8	6.0	212.8	2 232.8	238.7	1 994.1	291.9

Significant data gaps need to be addressed through various initiatives to facilitate the publication of total consolidated gross and net public sector debt statistics for South Africa.

8 National government's cash balances include balances held at the SARB, inclusive of the net transfers to the Stabilisation Account, and balances on the Paymaster-General Account, inclusive of investments as well as Exchequer and Paymaster-General balances with private banks.