

## Box 2 The characteristics of interest payments in South Africa's balance of payments<sup>1, 2</sup>

Interest paid<sup>3</sup> to non-residents is the second largest payment category (after dividends) in the services, income and current transfer account of South Africa's balance of payments. These interest payments are related to the debt<sup>4</sup> portion of total foreign liabilities, in particular general government rand-denominated debt held by non-residents. Interest payments also dwarf receipts as interest rates on general government rand-denominated and foreign currency-denominated debt liabilities exceed that on foreign debt assets. The significant increase in interest payments by general government since 2010 has impacted both the income and current account balances. Notwithstanding this, South Africa's interest payments as a percentage of gross domestic product (GDP) remained internationally comparable. Similar to other countries, this ratio reflects developments in both the stock of foreign debt and interest rates.

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1 The methodology used to compile balance of payments statistics adheres to the guidelines of the *Balance of Payments and International Investment Position Manual – Sixth Edition (BPM6)* of the International Monetary Fund, available at [www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf](http://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf)

2 This box relates to the statistics published in the tables on pages S-87 and S-92 of this *Quarterly Bulletin* and some unpublished data in respect of interest payments by general government.

3 In the balance of payments, interest paid is measured at date payable, on an accrual basis.

4 Debt includes debt securities, short- and long-term loans, and deposits.

## Components of the current account balance

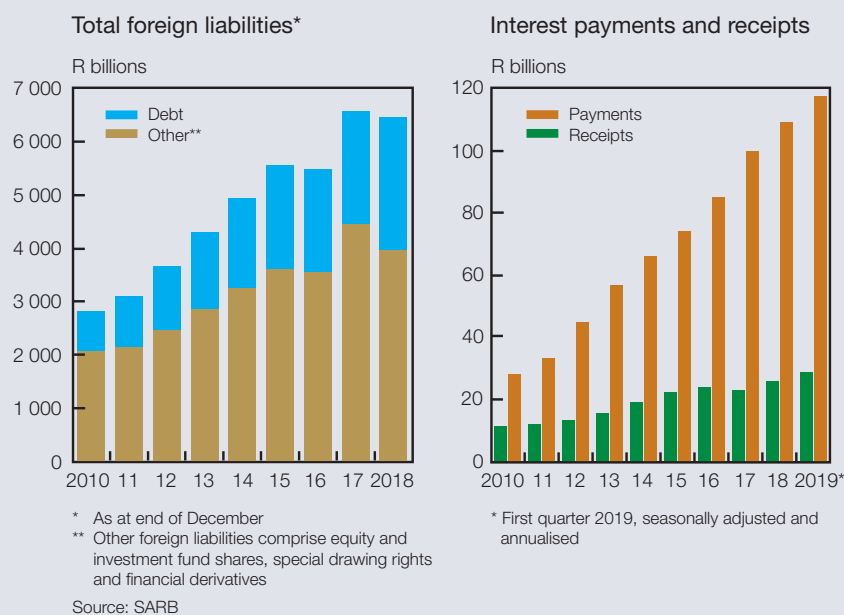
As a percentage of gross domestic product

|  | 2010        | 2011        | 2012        | 2013        | 2014        | 2015        | 2016        | 2017        | 2018        |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Trade balance.....                                 | 2.2         | 1.6         | -1.1        | -2.0        | -1.4        | -1.2        | 0.7         | 1.4         | 0.5         |
| Services, income and current transfer balance..... | -3.7        | -3.8        | -4.0        | -3.8        | -3.6        | -3.5        | -3.6        | -3.9        | -4.0        |
| <b>Current account balance .....</b>               | <b>-1.5</b> | <b>-2.2</b> | <b>-5.1</b> | <b>-5.8</b> | <b>-5.1</b> | <b>-4.6</b> | <b>-2.9</b> | <b>-2.5</b> | <b>-3.5</b> |
| <b>Memorandum items</b>                            |             |             |             |             |             |             |             |             |             |
| Income balance.....                                | -2.1        | -2.6        | -2.7        | -2.6        | -2.7        | -2.5        | -2.8        | -3.0        | -3.2        |
| Interest balance.....                              | -0.6        | -0.7        | -1.0        | -1.2        | -1.2        | -1.3        | -1.3        | -1.6        | -1.7        |
| Interest receipts .....                            | 0.4         | 0.4         | 0.4         | 0.4         | 0.5         | 0.5         | 0.6         | 0.5         | 0.5         |
| <b>Interest payments .....</b>                     | <b>1.0</b>  | <b>1.1</b>  | <b>1.4</b>  | <b>1.6</b>  | <b>1.7</b>  | <b>1.8</b>  | <b>1.9</b>  | <b>2.1</b>  | <b>2.2</b>  |

Components may not add up to totals due to rounding off

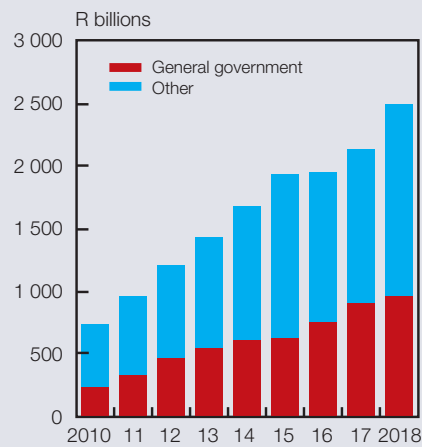
Sources: Stats SA and SARB

Interest payments (outflows in the balance of payments) reflect non-residents' return on debt extended to residents (stock position of foreign debt as part of South Africa's foreign liabilities in the international investment position). It is noteworthy that interest payments as a ratio of GDP more than doubled from 1.0% in 2010 to 2.2% in 2018, while interest receipts continued to average close to 0.5%, resulting in a deterioration in the interest balance from -0.6% to -1.7% over the same period.



The surge in interest payments reflects the significant increase in total foreign debt as from 2010, in particular the more than fourfold increase in general government debt as well as the concomitant increase in the contribution of interest payments by general government to total interest payments, from 37.0% in 2010 to 66.7% in 2018.

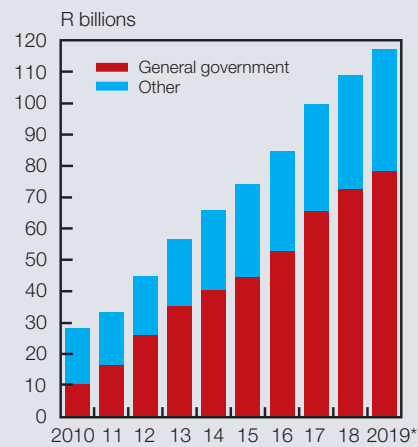
### Total foreign debt\*



\* As at end of December

Source: SARB

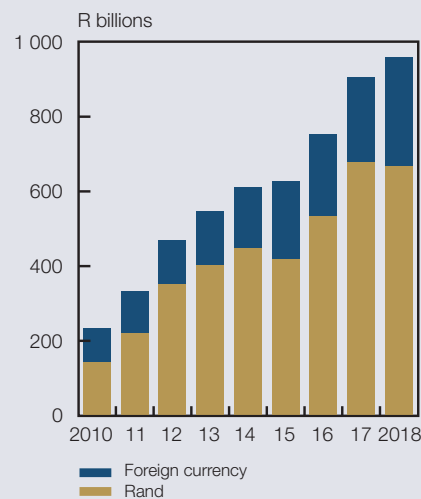
### Institutional sector composition of interest payments



\* First quarter 2019, seasonally adjusted and annualised

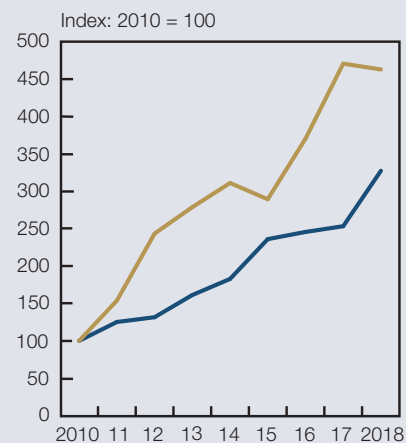
The significant increases in both general government debt and the associated interest payments reflect non-residents' increased holdings of both foreign currency-denominated debt and rand-denominated debt in particular.

### Currency denomination of general government foreign debt\*



\* As at end of December

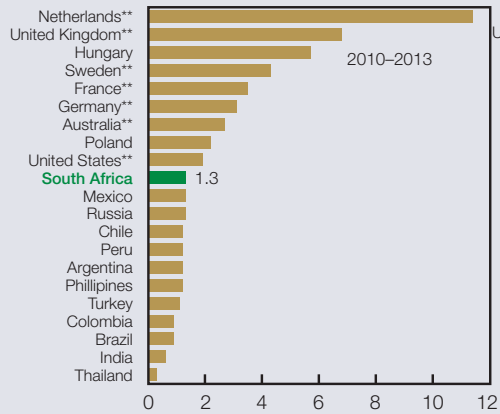
Source: SARB



A comparison of South Africa's average annual interest payments and foreign debt as a percentage of GDP with a selection of countries from 2010 to 2017 shows that, for advanced economies, both ratios generally improved during the period 2014 to 2017 compared to the period 2010 to 2013. However, for emerging market economies, both ratios mostly deteriorated, including South Africa. At a country level, the relationship between interest payments and foreign debt also reflects, among other factors, divergences in credit worthiness.

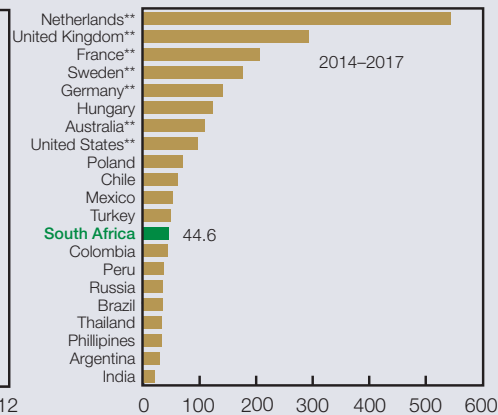
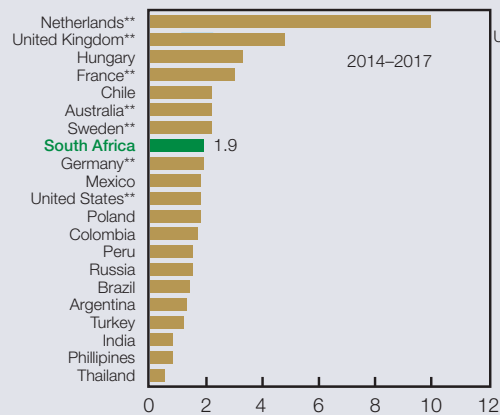
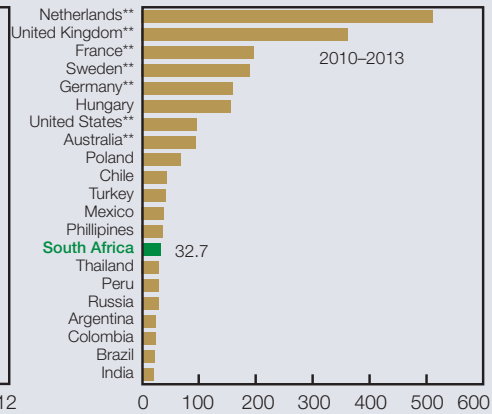
### Average annual interest payments by selected countries

Percentage of GDP\*



### Average annual foreign debt of selected countries

Percentage of GDP\*



\* Ratio calculated using nominal aggregates in US dollar

\*\*Advanced economies

Sources: IMF and SARB