Research Paper

Indicators of Sovereign Risk of South Africa's International Monetary Fund Loan: The Nexus Between Political Risks and Economic Growth

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Abstract

Upon the approval of the 70 billion International Monetary Fund (IMF) loan for South Africa, concerns have emerged over the affordability of this loan and its impact on the economy and sovereignty of the country. South Africa's ability to pay its IMF loan is assured because its track record of loan repayment is good, considering that the loan is repayable in five years at an interest rate of 1.1%. This study explores political and economic indicators of sovereign risk of South Africa's IMF loan taken in 2020. The tenets of sovereign risk are being explored in a South African context. The significance of this study lies in understanding sovereign risk from a South African context and forecasting the country's capacity and sustainability of servicing its IMF debt. This study presents a special and underexplored case of sovereign risk mainly due to 2020 being the first time South Africa has taken an IMF loan since the inception of a democracy in 1994. This qualitative study heavily relies on secondary literature, theories, and predictive forecasting models and is aided by descriptive statistics to reach its conclusion. Findings from the Council of Foreign Relations used the CFR Sovereign risk tracker designed to gauge the susceptibility of emerging economy to default on external debt.

Keywords: *Sovereign Risk; Economic Growth; IMF; South Africa; Uncertainty*

INTRODUCTION

Since January 2020, the COVID-19 pandemic has significantly impacted global economic operations, resulting in stringent regulations on South Africa's economy as international trade slowed down to a trickle (International Monetary Fund, 2020). National restrictions severely impacted socializing and halted business operations (International Monetary Fund, 2020). With stagnating economies, countries had to find means to mitigate the pandemic's adversities and secure funds for state expenditure and social welfare. South Africa's application for a US$4.3 billion (R70 billion) loan to combat the COVID-19 epidemic was accepted by the Executive Board of the IM. The government borrowed over R90 billion, with 77% of the funds coming from the IMF. This shall be repaid at a 1.1% interest rate over 3.25 to five years in eight equal installments that must be repaid in 2023 (International Monetary Fund, 2020; Bradlow, 2020). To repay this loan, South Africa requires an excellent economic climate with minimal to no risks that can impede the country's economic growth. The government should avoid default or show signs of lacking the capability to repay the loan due to unfavorable fiscal deficits and a weak monetary policy. Thus, circumventing and mitigating the heightened possibility of defaulting remains a priority in protecting South Africa's economy from further deterioration. *Sovereign risk* is a risk scale that measures the possibility of a default on a financial obligation (Kolb, 2011). Deuchars (2010) argues that there is an intricate link between risk and governance. Thus, this study's key variables and indicators are the political risks that have and continue to emanate in South Africa since the approval of the IMF loan, projected economic growth, and macroeconomic indicators.

This study seeks to understand South Africa's potential sovereign risks by examining the debt indicators of South Africa and political risks that have emanated in the last two years in the country and if its projected growth will enable it to repay its International Monetary Fund (IMF) debt. The intention is to scrutinize how the recent political risks and governance challenges will

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and can affect the country's economy, the scheduled repayment plan, and the implications on the future social welfare of South African citizens. The risks include geopolitical risks, failure to implement the government's needed national fiscal adjustments and reforms, financial greylisting, load shedding, climate risk, mounting social discontent, and materializing contingent liabilities. These are critical determinants for South Africa's willingness and capacity to service its IMF obligation. The research will further analyze the debt service prospects considering the performance of the South African currency, high social welfare demands, declining business climate and sluggish economy. This predictive scenario-based research will use a qualitative approach, including descriptive statistics, to establish the four possible scenarios.

LITERATURE REVIEW

Barr and Sharp (2002:7) define *sovereign risk* as a scale that measures the risk of default on a loan or obligation. While there are numerous causes of defaulting at the government level, the government's creditworthiness is flagged as significant in the context of an emerging market (Barr & Sharp, 2002). Augustin et al. (2022) assert that COVID-19 pronounced amorous economic shocks on the global economy, which saw many economies forecast high debt levels. With tax revenues plunging and state expenditures mounting, governments had to find ways to keep afloat financially (ibid). According to Chowdhury and Duvall (2014), fiscally constrained economies are less resilient to economic disruption, and financial risk and crisis tend to be more severe in such economies because sovereign risk is intricately linked to monetary policy; thus, stabilization of fiscal and monetary policy highly influences the probability of sovereign risk (Kirchner & Rieth, 2021).

Verheyen and Quintrell (2013) claim that political risk is significant in understanding sovereign risk, which applies to the state defaulting on its loan obligations due to political risks such as currency inconvertibility, breach of contract by the state, political violence or expropriation, the effectiveness of the government and institutions in managing economic activity, geopolitical risks, security threats, and absorbing shocks (Verheyen & Quintrell, 2013; Finch Ratings, 2018). Finch Ratings (2018) defines *political risk* as any government factor or action that may affect the government's ability or willingness to settle its obligations. Finch Ratings (2018) and De et al. (2021) further note that the significance of political risk in unpacking sovereign risk stems from its ability to flag its contribution or exacerbation of defaults or monetary crises. There are numerous approaches to measuring the risk of default. However, significant factors are classified into three levels of influence: global, emerging market, and country-specific (Verheyen & Quintrell, 2013). The above factors play a crucial role in measuring the possibility of a default and the extent to which it can emanate. Five variables measure global factors: the global risk aversion index, the global indicator of economic activity, the US federal fund effective rate, the US stock market return, and oil prices (ibid). Emerging market factors include emerging market equality investment and emerging market fixed-income investment performance (ibid). Country-specific variables incorporate the external debt to GDP ratio, total government deficits to GDP, trade balance to GDP, inflation rate, current account to GDP, international reserves to GDP, real exchange rate, and real GDP growth (Finch Ratings, 2018). Although sovereign risk relies on the level of indebtedness, which accounts for 50% of the risk, the remaining 50% is accounted for by the quality of governance measured by the Country Policy and Institutional Assessment (Braga & Vincelette, 2011). Pepino (2015) reiterates that irrespective of the economic aspect playing an essential role in determining a default, the central part of politics and the government must be considered because government decisions can still result in bankruptcy (Xie et al., 2014).

Pepino (2015) presents an international political economy approach to understanding sovereign risk, in which he considers the veto's player's framework postulated by Tsebelis in 1995 and socio-political contestation (ibid). The veto player's framework classifies democratic polities

based on the distribution of authority within the political spectrum. Where specific individuals or groups have the power to influence an economic or political outcome, these veto players use political ideologies to shape the sociopolitical space of the country (Pepino, 2015). The aforementioned reiterates the points made by Braga and Vincelette on how government decisions and state actors contribute 50% to the quality of governance and how it can lead to a default. From a quantitative perspective, Maltritz and Belmann (2013) present the relationship between default and global crisis, using the stochastic approach to explain the interrelation. The model suggests that the government needs to spend to circumvent a financial problem or default; however, uncertainty may stem from the government not knowing which part of the state revenue to pay and the inability to predict the country's GDP (ibid). The model asserts that crisis or default transpires if government spending falls below the crisis or default threshold (ibid). Where the threshold equals the amount of the single payment, default or crisis is avoided when the amount the government is willing and able to spend is higher than the amount required to prevent insolvency (ibid).

To contextualize the study, Zimbabwe is one of the countries that default on an IMF loan in the African context within the Southern African Development Community (SADC) region. Key findings from this default include the numerous events that led to this situation. According to Munangagwa (2009:110), Zimbabwe's economic bankruptcy can be attributed to poor monetary policies and the failure of fiscal policies to control budget deficits. These government failures pronounced a hyperinflation rate of 231% and currency devaluation in 2007. Political risks that contributed to this crisis include, but are not limited to, the 1997 civil unrest, the 1998 war in the Democratic Republic of Congo, and the land reform program promulgated by former president Mugabe (Selelo & Mashilo, 2023). Therefore, it remains significant for South Africa to note all these political risks and government decisions. The role of political risk and the political economy remains crucial in assessing the predisposition of South Africa's possibility to default; on a national scale, numerous risks can disrupt the country's economic recovery. Although there are many risks, geopolitical risks, the failure to implement the needed fiscal and monetary adjustments and reforms by the government, mounting social discontent (unemployment), and the materialization of contingent liabilities (prioritizing highly indebted SOEs) along with corruption remain a priority to diligently scrutinizing this default vulnerability. The general political economy of South Africa is characterized by an upper-middle-income developing country that still struggles with numerous fundamental challenges that continue to exhibit poverty, inequality, and challenges with state entities (van Wyk & Coetzee, 2012). The residue of the apartheid regime remains mirrored in the current political economy of South Africa due to a lack of structural reforms (ibid).

Interestingly, many recent political risks emanate from these challenges and the reluctant political will. Therefore, understanding the relationship between South African politics and its economy remains crucial in unpacking its political risks and implications. In a recent publication by BusinessTech (2022), there are numerous possible scenarios for South Africa's economic prospects ranging from upside to downside. The Investec bank has noted five possible scenarios for the South African economy and their chances of transpiring (BusinessTech, 2022). This forecast was central to the exchange rate, geopolitical risks, repo rate, COVID aftermaths, and the global oil crisis (ibid).

The extreme upside case with a 1% chance of occurring sees rapid economic growth ranging from 3% to 5% and 5% to 7%, while the upside case with a 4% chance of occurrence entails a quick rebound from the COVID woes with improved business climate and investment confidence along with fundamental structural reforms (ibid). A base case with a 50% chance of occurrence sees the country recover from the global economic meltdown by 2024 with good monetary and fiscal policies and less political and civil unrest while making strides toward a green energy transition. The base case remains a light downside case with a 39% chance of occurrence (ibid). Unpleasantly, in a severe downside case with a 6% chance of occurrence, there is a global recession that sees

South Africa enter an economic depression, leading to a weaker rand and high inflation where the government will be forced to borrow more, which would eventually lead to default (BusinessTech, 2022). Reviewing the existing literature on sovereign risk, a research gap in a South African context emerges. There has been limited literature on sovereign risk, mainly because the country has not taken an IMF loan since 1994. Therefore, further exploration of this research angle may inform how South Africa can better service sovereign debt.

Research gap research does not necessarily address a research gap. Instead, this study aims to contribute extensively to the existing literature and growing scholarship on political risk and sovereign risk in South Africa and Africa by studying the nexus between debt and risk in the African setting.

RESEARCH METHOD

This desktop study takes a qualitative approach and uses descriptive statistics. Blatter et al. (2016) defined a *qualitative study* within political science as ontological and epistemologically founded research with literature that exemplifies the traditional cross-comparison. Moreover, it is devoted to various approaches that focus on factor analysis while providing evidence. The spectrum of qualitative approaches is significant in context and social constructions. The research design is an explorative approach that seeks to sufficiently investigate an under-investigated research question (Stebbins, 2001). The exploration lies in contextualizing and positioning a sovereign risk study within a South African context. The topic is underexplored mainly because the 2020 IMF loan is the first since the inception of democracy. The appropriateness of using a qualitative approach is in enabling the exploration of political risk, political economy, and sovereign risk from both a political lens and the economic aspect, which is expressed through statistics. To holistically capture all the components of the study, this study has a large footprint of books, journal articles, and news articles.

FINDINGS AND DISCUSSION

Findings

Political Risks in the South African Economy

Rice and Zegart (2018) define *twenty-first-century political risk* as the probability of political action significantly affecting business operations and an unexpected cost or loss incurred by businesses. In the twenty-first century, political risk has evolved to be generated by several state and non-state actors (Rice & Zegart, 2018). The list includes individuals and their social media activism, local organizations such as Operation Dudula, and national government actors and institutions such as presidents and ruling parties. Transnational groups include terrorist groups, regional groups, hackers, and supranational and international institutions such as the United Nations and the African Union (Rice & Zegart, 2018). This section aims to capture all current political risks in the South African context and their impact on the overall economy and the much-anticipated debt service of the IMF loan. In South Africa, political risks are captured in social discontent, non-functional state-owned entities, and rampant corruption.

According to Steil (2022), the CFR Sovereign risk tracker was designed to gauge the susceptibility of emerging economies to default on external debt. It assesses the likelihood of a country defaulting within the next five years, where a score of 10 indicates a 50% or higher probability of defaulting. South Africa scored three out of 10 and has a credit default swap spread of 301 bps (Steil, 2022). Since the approval of the loan, several political risks have configured the economy and political landscape of South Africa.

Geopolitical risks

As 2022 started and the COVID-19 pressure subsided, more excellent global economic prospects were highly anticipated. However, all these prospects were diminished at the height of the longstanding Russia–Ukraine war, which started in 2014 but intensified on February 24, 2022 (Psaropoulas, 2022). Irrespective of the geopolitical nature of the war, it is significant to acknowledge its geopolitical risks and global impact. *Geopolitical risks* can be defined as the intersection of geographical factors and political decisions or events and their overlapping impact beyond the country's borders and premises (Rice & Zegart, 2018). The Russia and Ukraine war, understood from a realist theory or school of thought, has had a beggar-thy-neighbor effect on the globe or rather a security dilemma that has exhibited vulnerability on global food security. The United Nations (2022) conceded that the war has exhibited the most significant cost of living crisis the twenty-first century has ever witnessed due to the severe price shocks it presented. Energy market volatility has increased energy prices, and commodity and food prices have followed suit.

The conflict disrupted the global supply chain and further eroded the country's ability and capacity to cope due to its prolonged nature (Economist Intelligence, 2022). These geopolitical effects are familiar to South Africa. Maize prices have gone up by 21%, wheat (35%), soybeans (20%), and sunflower oil by 11% compared to 2021 prices that were already affected by the pandemic. Across Africa, over 340 million people face food insecurity (Muche & Tolossa, 2022). BusinessTech (2022) notes that inflation prices have been significantly impacted by fuel prices increasing over R24, making fuel about 40% more expensive than in the previous year. Irrespective of some omitted government taxes on fuel, citizens continue to be burdened by these price shocks (Abou-Chadi & Kurer, 2021).

Consequently, a ripple effect is evident in the astonishingly high cost of living experienced by many low-income individuals. The hike has seen many individuals quitting their jobs due to transport fees exceeding their salaries and reshaping their financial priorities. This was coupled with high inflation and eroded buying power, which currently stands at 7.4% yearly (Smith, 2022). With such a gloomy outlook, social discontent has worsened, and investor uncertainty has increased over asset prices and the rand's depreciation. The impact is further captured in the labor protests instigated by salary demands above the inflation rate. These protests saw workers' unions, such as COSATU and SACCAWU, threaten to embark on an indefinite strike across several sectors in the country, including the retail and mining sectors. Undoubtedly, the Russia-Ukraine war has resulted in several insecurity that further impede efforts to economic rebound but, more significantly, have given rise to a new risk that undermines development efforts, such as the cost-of-living crisis (World Economic Forum, 2023).

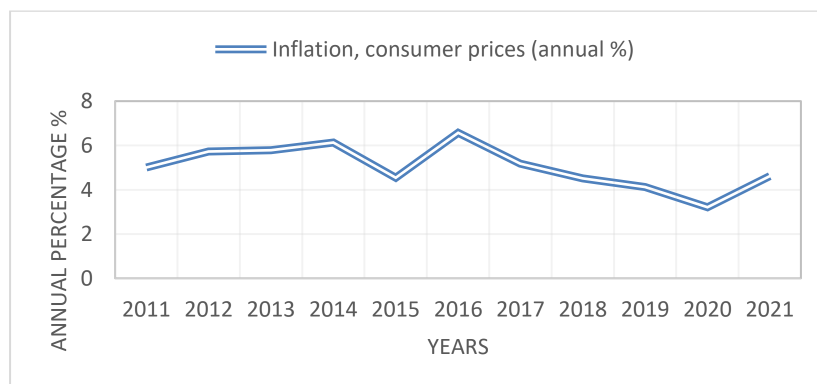

Figure 1. Inflation and consumer prices (annual %)

Author's computation using data from the World Bank (2022)

The data plotted above shows the inflation trends over the past decade, where it has been neutral but spiked over periods of global economic and political volatility. As of 2021, inflation rose because of the effects of the pandemic, but more significantly because of the Russia-Ukraine conflict that threatened global food security. The spillover effect of this heightened inflation on sovereign risk is the effect on the economy it presents as it reduces purchasing power and fuels social unrest. These prominent risks affect the economic growth of South Africa and its debt servicing prospects. Naidoo (2022) submits that South Africa has suffered a loss of R1.6 million due to strike action in the first half of 2022. The non-ending wage negotiations prolonged these labor protests. This, coupled with high inflation and eroded purchasing power, has led to stagflation, characterized by persistent rising inflation and high unemployment, and slow growth tied to the rising cost of living (Marx & Struweg, 2015). Stagflation is indicated by the compounded nature of the country's cost of living since the war's inception. With the pandemic shedding up to two million jobs, inflation hitting 7.8 with food and non-alcoholic beverages standing at 9.7%, electricity tariffs up to 7.5%, and hiked interest rates, several households default on their mortgage commitments, car financing, and personal loans. This economic outlook does not only emanate labor unrest but also leads to social unrest and may have detrimental effects on the economy and prospective debt servicing.

Financial Greylisting

Campher (2022) notes that the Financial Action Task Force (FATF), an international watchdog, has warned of South Africa being possibly relisted financially. This warning follows findings suggesting that in recent years, South Africa has emerged as a prominent hub for financial terrorism and money laundering (Campher, 2022). The latter is attributed to rampant corruption and the country's weakening criminal justice system. Masenya and Mthombeni (2023) maintain that corruption is recognized as a big hurdle in the South African government, which continues to undermine democracy and perpetuate poverty and social injustice. South Africa has an 85% chance of being greylisted, which not only signals greater scrutiny but also reputational costs, which can lose its investors and drive away foreign direct investment. Hogg (2022) asserts that greylisting would result in higher consumer prices for an ordinary citizen. An IMF study estimates that capital inflow can decline by 7.6% of the GDP in South Africa if greylisted (Delport, 2022). Financial greylisting essentially refers to exclusion from the troubled financial system through sanctions, compromised and constrained international trade, downward pressure on the exchange rate committed to training business confidence, and higher bank transaction costs. Consequently, greylisting is expected to discourage investment and affect the country's GDP. Gillmer et al. (2023) posit that South Africa could suffer a shortfall of about 1-3% of its GDP due to greylisting, which can also result in reduced capital inflow.

Eskom-Load shedding

Load shedding is understood as a shortfall in the electricity supply when the supply is less than the electricity demand. Therefore, the circulation of electricity in different areas prevents the total collapse of the entire entity (Marta & Agnieszka, 2015). The persistence of load shedding in recent years, however, that dates back to 2007, now qualifies as rolling blackouts. Marta and Agnieszka (2015) posit that 1998 the Eskom generation capacity model and demand warned of the rolling blackouts experienced in a decade. Indeed, in 2007, nine years after the forecast, South Africa began experiencing load shedding that has been persistent and worsening to date. Consequently, these rolling blackouts are taking a toll on South Africa's economy, accelerating economic volatility and vulnerability. Undoubtedly, load shedding is among the priorities and most significant major risks the country's economy faces. GDP decreased by 0.7% in the second quarter

of 2022, and load shedding was the primary attribute (BusinessTech, 2022). There has been a significant dip in South Africa's manufacturing sector; Stats SA (2022) notes that the manufacturing sector decreased by 1.1% in November 2022. With an estimated 4 billion loss per day on stage 6 load shedding, the 2022 economic growth forecast has been revised from 2.1% to 1.9%. Mofokeng and Alberts (2022) maintain that load-shedding weighs on the government's tax revenue since job cuts parallel a decreased tax base for the government. Moreover, it has reduced the country's GDP extensively.

Macroeconomic outlook and debt indicators in South Africa

Sithole (2022) notes that South Africa is expected to run a deficit of -4.1 percentage in 2023. However, the deficit is expected to be narrow over the next three years, closing in 2026 at 3.6 percentage. This demonstrates significant fiscal consolidation. Over the next three years, the South African government expects to consolidate its public finances and reduce its deficit by increasing revenues and containing costs. The current fiscal year (2022/23) has seen a substantial boost to nominal (actual) GDP due to high inflation, which has eased the fiscal debt and deficit projections as a share of GDP. However, this does not boost real GDP, which measures the country's growth and removes the distorting effect of inflation (Sithole, 2022). Nuru (2020) argues that since the early 1990s in South Africa, monetary policy has been a crucial stabilizing policy instrument (Du Plessis, 2006).

The 2022 National Budget was an assurance of fiscal consolidation with market-friendly policies that resulted in job creation (Casanova, 2022). Irrespective of the unbudgeted and extended health expenditures, GDP forecasted a positive fiscal consolidation (Casanova, 2022). However, the mid-term budget was questioned for its inability to acknowledge and propose solutions toward the economy's biggest threat, Esko, while overlooking the entrenched socioeconomic challenges of inequality, where race is a prominent factor in determining educational and employment prospects. The National Treasury (2020) submits that the 2022 budget improved South Africa's credit rating outlook as Moody's revised the outlook from negative to stable, affirming that the fiscal outlook signals a high likelihood of government debt stabilizing over the medium term.

Table 1. South Africa's Credit Ratings

Agency	Rating	Outlook	Date
S&P	**BB-**	Positive	May 2022
Moody's	**Ba2**	Stable	Apr 2022
Fitch	**BB-**	Stable	Dec 2021

Author's computations using data from Trading Economics (2022)

The credit ratings of South Africa above indicate a positive outlook on debt sustainability and affordability. They also indicate positive fiscal consolidation and economic stability over the medium term. Regarding monetary policy, the repo rate has been increased by 75 basis points, bringing it to 7.0% by the Monetary Policy Committee of the South African Reserve Bank. This hike was prompted by the risky outlook of inflation, which invites high volatility (Cassanova, 2022). Moreover, the committee repeated these factors' intricate dependence on monetary policy decisions. The South African Reserve Bank's efforts to stabilize and anchor inflation expectations might keep the inflation rate high (Casanova, 2022). The Bureau of Market Research (2022) notes that high food and fuel prices continue to drive the inflation rate to tighten the country's monetary policy. However, the Bureau further posits that such hiked food and flue prices can also be attributed to the disrupted global supply chain. The current macroeconomic forecast of South Africa

exhibits stagflation, a state of low-income growth, high unemployment, and a higher cost of living.

This is coupled with risks that can delay recovery over the next few years. Economic stagflation, high unemployment, livelihood crisis, decay of public infrastructure, and proliferation of illicit economic operations. These risks are identified as derailing the country's economic recovery while also extending social cohesion (World Economic Forum, 2023). The World Bank (2022) asserts that South Africa's tax revenue shows a fluctuating trend and sharply declined in 2020 due to the pandemic. In the last decade, GDP indicated a regressive pattern of growth where economic growth has been sluggish and low. In 2020, however, the economy contracted because of the pandemic and recovered in 2021, where the latter signaled a shrinking tax base. A minimized tax base means reduced tax revenue, which affects the stability of debt servicing and its scheduled installments. Since debt servicing remains a dependent variable on the tax revenue and GDP of the country, the poor performance of this variable also indicates that it needs to be revised to be adequate for debt servicing.

Statista (2023) assets show that from 2011 to 2022, the average risk premium has increased to 3.7%. This percentage was determined by political stability, inflation, and trade deficit, to name a few. The high-risk premium also reflects high chances of default attributed to macroeconomic instabilities, particularly GDP, inflation, terms of trade, and external debt. Considering the findings illustrated in the graph, the macroeconomic indicators paint a picture

Debt indicators for South Africa

The International Organization of Supreme Audit Institutions (2010) posits that debt indicators assess a country's public debt performance. It measures the risk that their current economic conditions emanate from debt servicing and the government's ability to face unplanned contingencies. These indicators include maturity profiles, sensitivity to interest rates, foreign currency debt compensation, and reinvestment schedules. Notably, the South African government spends R303 billion annually on debt, which is forecasted to reach 1 trillion rand in the next three years. Therefore, South Africa spends 20 cents or 20% on every rent to service debt. Contextualizing these variables in a South African setting, the National Treasury (2022) notes that portfolio risk shows that since 2016, structural weaknesses resulting in wider budget deficits have contributed to higher borrowing and higher debt levels.

Due to the prolonged effects of the pandemic and geopolitics, South Africa continues to experience low growth, fiscal pressure, and increased data and borrowing costs. Debt service costs are attributed to the volume of debt and the range of market variables. In 2021 and 2022, the debt service cost was 268.1 billion rand and 4.3% of the GDP (National Treasury, 2022). Stoddard and Noy (2015) posits that South Africa's debt redemption profile should be embraced in efforts to stabilize the country's debt servicing. With their fiscal average of 43.8 billion rand per year from 2017 to 2022, the fiscal average is expected to reach 192.8 billion rand per annum from 2023 to 2030. To maintain debt sustainability, the Treasury must ensure loyalty to fiscal budgets and obligations. Arman (2023) argues that states can predict sustainability by reviewing GDP and per capita income. Debt redemption profiles can ensure fiscal commitments and leave a diminutive scope for mistakes. Additionally, Stoddard and Noy (2015) submits that having a debt redemption profile maintains the confidence of markets, and such a profile is instrumental for countries and emerging markets experiencing low growth, like South Africa.

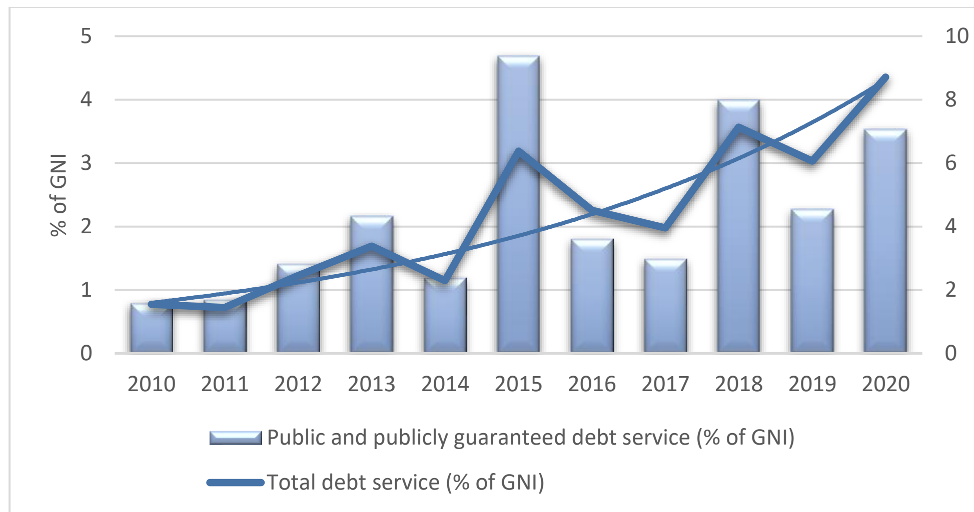

Figure 2. Total Debt service and publicly guaranteed debt service (% of GNI)
Author's computation using data from the World Bank (2022)

The chart above compares the public guaranteed debt service and total debt services. The chart shows a positive trend between the two axes, where the total debt service slightly surpasses the publicly guaranteed debt service. This difference can be explained as the contrast between budget and spending, where the amount budgeted for debt servicing can be more than the amount needed. Provided that there is no fiscal consolidation and the actual debt servicing costs surpass the forecasted debt servicing costs, this situation can present instability over macroeconomic markets and result in the re-budgeting of the country's government expenditures. Such instability moderately erodes the prospects of stable debt servicing while heightening the possibilities of sovereign risk and inviting uncertainty over the country's economic markets.

Looking at the debt indicators and the credit rating of South Africa, the country spends up to R303 billion annually on debt, which is forecasted to be 1 trillion in 2025/2026. This implies that South Africa spends 20 cents of every rand to service debt. If GDP does not expand above the bonds needed to service the estimated debt from December 2023, the country may be in a debt spiral, taking out more loans to service existing debt (Jacobs, 2023). Furthermore, additional expenditures and overtaxation are bound to highly affect fiscal consolidation and result in a cost-of-living crisis at the household level. This means that South Africa may rely on fictitious modes of production that are highly sustained by debt, while the economic priorities to service the debt/s can automatically create structural adjustments that may affect social welfare, such as health care expenditure, educational expenditure, and social grants. The latter would, unfortunately, undermine all efforts to eradicate poverty since the inception of democracy.

Furthermore, South Africa's portfolio risk shows that since 2016, structural weaknesses resulting from huge debt deficits have influenced higher borrowing and higher debt levels. Hence, ensuring stable debt affordability and sustainability is important. Preceding findings suggest that debt levels are bound to increase, provided the rand exchange continues to decline. Notably, the rand continues to lose value due to load shedding, financial relisting, and business decline in the country. The latter indicates a contraction in business operations and business confidence. Apart from this, Investec notes that the rand's decline is in response to the risk sentiments emanating from inflation risks in the United States. This also indicates South Africa's susceptibility to geopolitics and economic shocks. Rand's decline is further highlighted by President Ramaphosa's State of the Nation Address (9 March, 2023), which signaled no sign of prominent reforms while leaving many past priorities unfulfilled (BusinessTech, 2023). The above currency (rand) scenario

indicates risk spillover or, rather, risk contagion and is an example of how political events and decisions heavily impact economic sectors in the country.

Discussion

Since the approval of the IMF loan, South Africa's economic and risk landscape has been overwhelmed with numerous challenges, some recent and some longstanding, that continue to configure the country's debt sustainability and debt servicing prospects. Among the numerous variables covered in the study, economic growth, political risk, and debt indicators are identified as the most prominent variables that can assess the feasibility of South Africa's debt service prospects. This analysis will assess content and theories as panned out in the literature and findings. A review of the literature and findings presented reflects a level of debt sustainability and servicing that, however, is highly dependent on the economy's health and the presence of risks.

As it stands, load shedding costs the economy an estimated $4 billion per day on stage six load shedding and continuously deteriorates the GDP of the country. Simultaneously, however, the country stands to lose enormous Just Energy Transition investments given that the JET plan is not accelerated as anticipated. Since the just energy transition has secured an estimated 1.2 trillion investment and COP 27 in 2022 (Yawitch, 2022). Interestingly, load shedding has proven to be the only way Eskom can lower its carbon emissions by phasing out thermal power generation. The above is contested by the level of corruption, mismanagement, and poor policy implementation that have undermined efforts to reverse the effects of the segregationist movements in the country. Rather, what is being witnessed in these protest movements is an indication of social discontent and an outcry over the deteriorating state of the country. She lashed out through vandalism and violent looting, which unfortunately present a risk to the overall economy. The intersectional nature of these risks, as witnessed throughout the chapter, is an indication of not only the level of risk in the country but also the complex nature of risks itself. This demonstrates that a single decision or event can have a multifactored effect on every aspect of the country.

These factors tend to shape the monetary and fiscal policy of South Africa, where the real GDP of the country is significantly impacted by an increase in government revenue (Sibug, 2023). Although monetary policy has been stable in the last decade, the government has continuously been implicated in wasteful government expenditures that challenge fiscal consolidation. The country expects a deficit of -4.1% in 2023. Thus, the country's fiscal consolidation requires market-friendly policies that foster employment. However, recent repo rates and inflation rates have reflected economic volatility attributed to global economic shocks and market instability. These mounting economic impediments subsequently deem the country not to be a suitable position to service its debt while economic growth and fiscal consolidation remain strained. This reiterates the volatile state of South Africa's macroeconomic indicators. The above analogy attests to a neoliberal economy that harnesses privatization in prominent business sectors, with an oligopolistic market structure and vast political involvement in the management of those monopolistic markets. Such an economy is based on an unequal distribution of resources and opportunities. Hence, the high level of inequality in the country is also reflected in the social configuration of the country.

The above also applies to monetary and fiscal policy on a comparative spectrum, from Zimbabwe's default in 2009, which was attributed to poor monetary policies and failure of fiscal policy to control budget deficits, to Ethiopia's default in 2021, which is attributed to fiscal deficits and civil wars. To South Africa, the cases stated above serve as examples of the significance of a ridged monetary policy and stringent fiscal consolidation. The opposite of these has led to default in other African sovereigns. Therefore, the separation of power between economic policy and political involvement becomes significant in ensuring loyalty to the monetary and fiscal policy of

the state. When analyzing South Africa's economy growth against the employment prospects and prominent economic factors, South Africa has experienced degrowth, especially post COVID-19. This pertains to the economy of South Africa not only being densely affected by the pandemic but also its recovery being plagued by risks that continue to undermine all efforts to expand the economy. GDP, being a measurement of the total monetary value of all finished products of the country annually, the energy crisis has densely impacted the produce of the country. This speaks to the mining, manufacturing, and agricultural sectors of the country's output being hampered by the unfavorable business climate.

Post the pandemic, in South Africa, this resonates with an economy that did not expand as anticipated due to risks and having debt repayment serviced through high taxation. Thus, in the case of South Africa, considering its very stable debt service profile, South Africa is not likely to face a debt crisis or a debt default but rather a cost-of-living crisis that will be accounted for by the public. Since the very economy relied on to service the debt is not expanding, taxpayers will have to service the debt. In addition, the above signals financial austerity, characterized by frugality, such as strict policies aimed at controlling the growth of public debt. Thus, many of its measures include lower government spending and overtaxation. Accordingly, in the case of South Africa, debt can only lower the standard of living for many and reprioritize national budgets to service the debt through financial austerity. However, considering the robustness of the 2021 July unrests, such a financial setting could breed more unrest as an indication of dissatisfaction.

CONCLUSIONS

This study determined that South Africa is in good condition to service its debt. However, with the current sluggish economy, sustainable debt servicing only comes as a trade-off for the country's economic growth and social welfare. This pertains to the acts of panic-driven austerity and budget cuts that may see many government budgets being reprioritize to service the debt and create shortfalls in the financial resources of government expenditures or departments. Another possibility points to excessive taxation by taxpayers and economic markets to collect enough revenue to surpass South Africa's debt service cost. This study recommends that the South African government always increase the footprint of sufficiently assessing such situations using a political risk lens that can effectively determine and pinpoint risks to mitigate them. The government and reserve banks should avoid panic-driven austerity as evidence suggests that countries that have applied austerity to manage sovereign debt either fell into a debt spiral or defaulted due to the dire economic principle presented by financial austerity. Load shedding remains a risk that should be urgently addressed to save the very economy needed to service the obligation. Moreover, economic stimulation further speaks to job creation in the South African context through public and private investment. There should be more investment and funding for small and medium enterprises as they remain the backbone of job creation in the country. The research further recommends that monetary policy prioritizes economic stimulation, while fiscal policy supports essential structural reforms and economic stimulation policy. Although the extent of the risk cannot be determined at the current stage, paying attention to its prospects can help mitigate and manage the degree to which the risk can impact the scheduled debt servicing of the IMF by South Africa.

LIMITATION & FURTHER RESEARCH

The limitations of the study recline in the type of methodology used, which is the qualitative method, rather due to the nature of the study, which encompasses both qualitative and quantitative data. Thus, a missed method would result in more comprehensive results. The research suggests that a new study should be conducted on this topic once the debt repayment of South Africa has been concluded to establish a pre- and post-study on South Africa's debt servicing.

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