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The Burden of Sovereignty: A Critical Analysis of External Debt Servicing and Its Impact on South Sudan's Economic Trajectory

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Abstract

This study examined the effect of external debt service on South Sudan's economic growth for the period 2013–2018. External debt service refers to the periodic payments of principal and interest that a debtor country makes to its external creditors, representing a direct drain on fiscal resources and foreign exchange reserves. The study employed a case study research design with a mixed-methods approach. Data were collected from 60 respondents across government departments, financial institutions, academia, and opinion leaders, using structured questionnaires and interview guides, and analyzed using descriptive statistics in SPSS. The findings revealed that 81.6% of respondents confirmed that South Sudan faces severe external payment difficulties, while 71.6% agreed that the country maintains critically low foreign exchange reserves. The study established that debt service obligations have significantly constrained fiscal resources, with over 70% of government expenditure allocated to defense and security, leaving approximately 6% for health and education combined. The study further found that the depreciation of the South Sudan Pound from SSP 2.95 to over SSP 170 per US dollar between 2014 and 2017 dramatically increased the local currency cost of debt service, compounding the fiscal burden. Regarding growth determinants, respondents identified human capital (88.3%), government policies (83.3%), and sustainable fiscal policy (75%) as critical, yet these areas receive minimal debt-financed investment. The study concludes that external debt service has crowded out productive public investment, depleted foreign reserves, and undermined macroeconomic stability, thereby retarding economic growth. The study recommends exchange rate stabilization, renegotiation of debt service schedules, reallocation of fiscal resources toward growth-enhancing sectors, and development of a comprehensive medium-term debt management strategy.

Keywords: External Debt, Economic Growth, South Sudan, Fiscal Policy, Debt Sustainability, Post-Conflict Development

Introduction

External debt service refers to the periodic payments of principal and interest that a debtor country makes to its external creditors in fulfillment of its contractual loan obligations (International Monetary Fund [IMF], 2020). For developing countries, particularly those in sub-Saharan Africa, debt service obligations represent a significant and growing drain on limited fiscal resources, reducing the funds available for productive public investment and social expenditure critical to long-term economic growth (Ogunlana, 2022). The distinction between external debt stock and debt service is analytically important: while the debt stock represents the cumulative burden of past borrowing, debt service captures the immediate fiscal cost of that borrowing—the actual outflow of resources from the debtor economy to external creditors in any given period.

When debt service payments consume a disproportionate share of government revenue or export earnings, the effect on economic growth can be profoundly negative, operating through multiple interconnected channels. The most direct channel is the crowding-out effect: as the government allocates an increasing share of its fiscal resources to meeting debt service obligations, fewer resources remain available for productive public investment in infrastructure, health, education, and other growth-enhancing sectors (Agenor & Montiel, 2018). A second channel operates through the depletion of foreign exchange reserves: debt service payments in foreign currency draw down the country's reserves, reducing import capacity and undermining confidence in the domestic currency. A third channel involves the macroeconomic instability that results when governments resort to money creation or additional borrowing to meet debt service obligations, fuelling inflation and currency depreciation.

The global debt service burden for low-income developing countries has risen sharply in recent years, reflecting both the accumulation of new debt and the tightening of global financial conditions. According to the World Bank (2023), debt service payments by the poorest countries reached $88.9 billion in 2022, the highest level in two decades. For many

sub-Saharan African countries, debt service now absorbs between 15% and 30% of government revenue, significantly exceeding expenditure on critical social sectors such as health and education (Jubilee Debt Campaign, 2021). This trend has been exacerbated by rising global interest rates, which increase the cost of servicing variable-rate and newly contracted debt, and by currency depreciation, which increases the domestic currency cost of servicing foreign-denominated obligations.

The historical experience of developing countries with external debt service difficulties provides important context for understanding contemporary challenges. The debt crisis of the 1980s demonstrated how rapidly debt service obligations could become unmanageable when external shocks such as the oil price increases of 1973 and 1979 and the interest rate hikes of the early 1980s combined with domestic policy weaknesses to create a debt service trap. The London Inter Bank Offered Rate (LIBOR) rose from 9.5% in mid-1978 to 16.6% by mid-1981, dramatically increasing debt service costs for developing countries that had borrowed at variable rates (Federal Deposit Insurance Corporation, 1996). The fraction of GNP dedicated to interest payments rose sharply across developing regions, with sub-Saharan African countries seeing this ratio increase from 1.7% in 1980 to 2.2% by 1983.

South Sudan represents an extreme contemporary case of debt service vulnerability. Since gaining independence in July 2011, the country has accumulated external debts exceeding US$1.4 billion, while its capacity to generate the revenue needed for debt service has been severely undermined by civil conflict and collapsing oil prices (African Economic Outlook, 2018). Oil revenues, which account for more than 95% of government revenue, dropped precipitously as global oil prices fell from $110 per barrel in 2014 to approximately $50 by 2017. Simultaneously, civil conflict that erupted in December 2013 disrupted oil production, destroyed productive infrastructure, displaced millions of people, and diverted government spending toward military operations.

The budget deficit reached 25.2% of GDP in 2016, financed primarily through Central Bank borrowing, which fuelled hyperinflation and currency depreciation (IMF, 2018). The South Sudan Pound (SSP) depreciated from SSP 2.95 to over SSP 170 per US dollar between December 2014 and October 2017, increasing the domestic currency cost of servicing foreign-denominated debt by over 5,000%. Year-on-year consumer price inflation reached 88.5% by June 2018, eroding household purchasing power and deepening poverty. Real GDP contracted by 5.3% in 2015, 13.1% in 2016, and 6.1% in 2017, reflecting the profound macroeconomic disruption.

In this context, external debt service obligations have emerged as a critical constraint on South Sudan's economic performance, operating through the crowding out of productive investment, depletion of foreign reserves, and amplification of macroeconomic instability through currency depreciation. The interplay between these channels creates a self-reinforcing cycle: debt service depletes reserves, which triggers depreciation, which increases the domestic cost of future debt service, which requires further reserve drawdowns or additional borrowing, which deepens the cycle.

The significance of this study extends beyond the specific case of South Sudan to broader questions about debt sustainability in fragile and conflict-affected states. The intersection of conflict, commodity dependence, and institutional weakness that characterises South Sudan is shared by a number of other low-income countries in sub-Saharan Africa and beyond. Understanding how external debt service affects growth in these extreme contexts is essential for designing appropriate policy responses, including debt relief initiatives, fiscal management frameworks, and development assistance strategies that account for the unique challenges of fragile states.

This study therefore examined the effect of external debt service on the economic growth of South Sudan during the period 2013–2018, with a view to informing policy interventions for sustainable debt management in one of the world's most fragile economies. The study contributes to the empirical literature by providing primary evidence from a context that has been largely overlooked in formal academic research on the debt-growth nexus, despite its growing policy importance.

Statement of the Problem

South Sudan's external debt service obligations have escalated rapidly since independence, creating an unsustainable fiscal burden on an already fragile and conflict-affected economy. The country's international reserves have declined to near exhaustion, severely constraining its ability to meet external payment obligations and access new financing on either concessional or commercial terms (World Bank, 2019). By 2018, debt service payments, combined with defence expenditure exceeding 70% of the total budget, had left minimal fiscal space for investment in the growth-enhancing sectors—agriculture, health, education, and infrastructure—that are essential for economic recovery and development.

The consequences of this unsustainable debt service burden have been devastating across multiple dimensions of the economy. The South Sudan Pound depreciated from SSP 2.95 to over SSP 170 per US dollar between December 2014 and October 2017, representing a loss of more than 98% of its value. This catastrophic depreciation had a direct and dramatic effect on debt service costs: because external debt is denominated in foreign currency (primarily US dollars), each unit of debt service became progressively more expensive in domestic currency terms, increasing the domestic resource cost of servicing the same nominal foreign currency obligation by over 5,000%.

The resulting inflationary spiral further compounded the problem. Year-on-year consumer price inflation reached 88.5% by June 2018, eroding the real value of government revenue, destroying household savings, and undermining the purchasing power of the population. Real GDP contracted consecutively—by 5.3% in 2015, 13.1% in 2016, and 6.1%

in 2017—reflecting the profound macroeconomic disruption caused, in significant part, by unsustainable debt service obligations and their cascading effects on the exchange rate, inflation, and fiscal capacity.

Government expenditure during the study period remained heavily skewed toward defence and security, which consumed over 70% of the total budget, while combined spending on health and education amounted to approximately 6% of total government spending (African Economic Outlook, 2018). This extreme misallocation meant that debt service obligations, far from financing growth-enhancing investment, were being serviced through a fiscal framework that prioritised military expenditure over human capital development, agricultural modernisation, and infrastructure construction.

Despite the severity of these challenges, limited empirical research has examined the specific mechanisms through which external debt service affects economic growth in South Sudan. Most existing studies on the debt service-growth nexus in Africa have focused on larger economies with better data availability, such as Nigeria, Kenya, and South Africa. This study addresses this critical gap by providing primary evidence on the debt service-growth nexus in one of the world's most fragile and conflict-affected economies.

Purpose of the Study

The overarching purpose of this study is to critically evaluate the impact of external debt servicing on the economic growth trajectory of South Sudan between 2013 and 2018. The study aims to move beyond a simple accounting of debt stock to determine how the mechanical obligations of repayment influence the government's ability to invest in productive sectors.

Literature Review

Theoretical Framework

The theoretical foundation for the relationship between external debt service and economic growth rests on three interconnected frameworks: the crowding-out hypothesis, the liquidity constraint model, and the direct effect of debt hypothesis. Each provides a distinct mechanism through which debt service payments can impede economic growth.

The crowding-out hypothesis posits that when a government allocates a large and growing share of its revenue to debt service payments, fewer resources remain available for productive public investment in infrastructure, health, education, and other sectors that promote long-term growth (Agenor & Montiel, 2018). This mechanism is particularly damaging in developing countries where the government plays a catalytic role in providing the public goods and infrastructure that attract private investment, stimulate economic diversification, and promote human capital development. In the absence of adequate public investment, private sector activity stagnates, productive capacity declines, and the economy's growth potential is progressively eroded.

The liquidity constraint model, advanced by Cohen (1993) and elaborated by Hofman and Reisen (1991), provides a complementary perspective by emphasising the flow of debt service payments rather than the stock of debt as the primary channel through which external debt impedes growth. According to this model, debt service obligations reduce the net financial resources available to an economy, creating a binding constraint on both public and private investment. When debt service absorbs a large portion of export earnings, the country's ability to import essential capital goods, intermediate inputs, and raw materials is compromised, directly reducing productive capacity and output. The liquidity constraint is particularly binding for countries like South Sudan, where the manufacturing sector is virtually non-existent and the economy is almost entirely dependent on imported goods for both consumption and investment.

Fosu (1996, 2011) proposed the direct effect of debt hypothesis, arguing that even when debt service payments do not significantly reduce measured investment levels, high debt burdens can still reduce GDP growth through diminished marginal productivity of capital. This occurs because the uncertainty generated by a large debt service burden discourages efficient resource allocation: investors become risk-averse, firms delay expansion plans, and the government prioritises short-term fiscal survival over long-term development strategy. Fosu estimated that on average, a highly indebted sub-Saharan African country faces approximately one percentage point reduction in annual GDP growth attributable to the direct effect of the debt burden on productivity.

Sachs (1986) provided an important extension by arguing that when indebted countries pay their debt service obligations, these payments require a transfer of resources from the private sector to the public sector (through taxation) and from the domestic economy to external creditors. The increasing taxation needed to finance debt service reduces the net returns on investment, thereby discouraging domestic capital formation. This mechanism is particularly relevant in contexts where the tax base is narrow and where increases in taxation are likely to fall disproportionately on the few productive sectors of the economy, as is the case in South Sudan.

Empirical Literature

Recent empirical evidence consistently supports the negative relationship between external debt service and economic growth in developing countries. Ogunlana (2022), using panel data from 30 sub-Saharan African countries for the period 2000–2019, found that debt service payments had a statistically significant negative effect on GDP growth. The study employed both fixed effects and generalised method of moments (GMM) estimation and found that each percentage point increase in the debt service-to-revenue ratio was associated with a 0.12 percentage point decline in real GDP growth. The negative effect was found to be more pronounced in countries with weaker institutional frameworks, higher dependence on commodity exports, and more limited diversification of government revenue sources. However,

significant gaps remain in understanding how institutional quality and governance impact the debt-growth relationship, particularly in fragile and post-conflict economies like South Sudan. There is limited research on how debt composition such as concessional versus non-concessional debt affects growth outcomes in such contexts. Moreover, the role of systemic vulnerabilities, including social instability and weak infrastructure, in moderating the effects of debt on growth has not been adequately explored. Future studies should adopt a more nuanced and context-specific approach to better inform debt management strategies tailored for post-conflict economies.

In their analysis, Omodero and Alpheaus (2019) explore how low-income countries facing persistent budget deficits and unfavourable trade balances are compelled to seek external loans from international financial institutions. They argue that such borrowing often results in ongoing debt servicing obligations that divert resources away from crucial growth and development projects. These continuous debt payments act as a drain on national income, restricting governments' ability to invest in vital sectors like education, health, and infrastructure. The authors highlight that the priorities of debt repayment can sometimes distort the purpose of borrowing, turning loans into a financial burden rather than a development tool. However, the study does not delve into debt management strategies like fiscal reforms or debt sustainability frameworks that could mitigate these adverse effects. Moreover, it overlooks the social and political implications of dependence on international loans, including the erosion of sovereignty and diminished policy autonomy. Future research should investigate how debt management policies and transparency measures can help prevent debt crises and support national sovereignty.

Al Kharusi and Ada's (2023) study confirms that external debt has a statistically significant negative impact on a country's economic growth. They attribute this adverse effect primarily to the "crowding out" phenomenon, where high levels of debt increase interest rates and borrowing costs, making both consumption and investment more expensive. This escalation in debt servicing costs constrains fiscal space, thereby limiting the government's capacity to fund growth-promoting activities. The authors describe debt repayment as a financial "cost" or a future tax burden that hampers economic flexibility and overall development prospects. While the study effectively establishes the detrimental effects of excessive debt, it does not examine how debt structure—such as concessional versus non-concessional debt—might influence these outcomes. Furthermore, the role of institutional quality and governance in moderating the impact of debt on growth remains underexplored. Future research should analyze how debt composition and institutional reforms can influence the sustainability and growth effects of external borrowing.

Furqani et al. (2023) critically examine the transformation of external debt from a development aid instrument into a complex financial product aimed at profit generation. They observe that many poor countries, especially in developing regions, are now burdened with debt servicing costs that surpass their expenditures on vital social services like health and education. The authors highlight the paradox that debt, which is often perceived as a catalyst for economic growth, frequently results in economic crises and deepens poverty levels. They argue that this debt dependency compromises national sovereignty, as countries become increasingly beholden to international creditors and financial markets. However, the study does not thoroughly investigate the long-term political and social consequences of debt dependence, such as social unrest or loss of policy independence. Future research should evaluate the effectiveness of debt relief programs in restoring sovereignty and fostering inclusive growth, especially in fragile and post-conflict states.

Edo (2024) comprehensive analysis of 43 Sub-Saharan African countries from 1990 to 2022 reveals that external debt vulnerability significantly hampers economic growth across the region. Their findings suggest that high debt levels, coupled with weak domestic financial systems, create structural vulnerabilities that inhibit sustainable development. The authors emphasize that passive factors like domestic credit expansion and economic openness are insufficient to cushion the negative effects of excessive debt. They conclude that countries with weak institutions, poor fiscal discipline, and limited macroeconomic stability are particularly vulnerable to debt-related crises. Despite the robustness of their findings, the authors do not explore how debt management reforms, institutional strengthening, or policy interventions could mitigate these vulnerabilities. Future research should focus on evaluating the effectiveness of debt control policies, fiscal discipline measures, and institutional reforms in reducing debt vulnerability and promoting resilient growth.

For South Sudan, the IMF (2018) and World Bank (2019) have documented the severe fiscal consequences of rising debt service obligations, including depleted international reserves, currency depreciation, hyperinflation, and the crowding out of social sector expenditure. Despite these observations, no formal empirical study has specifically examined the effect of debt service on economic growth using primary data from South Sudan. This represents a significant research gap that this study aims to address by providing context-specific evidence on how debt repayment impacts economic performance in a fragile post-conflict setting.

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Research Methodology

Research Design

The study adopted a case study research design, employing both quantitative and qualitative approaches. The case study design was selected because it allows for an in-depth examination of the debt service-growth nexus within the specific context of South Sudan, capturing the unique institutional, political, and economic factors that shape the relationship. The mixed-methods approach was chosen to leverage the complementary strengths of quantitative data, which provides generalisable statistical patterns, and qualitative data, which provides depth of understanding and contextual explanation. A cross-sectional survey was conducted in Juba, the capital of South Sudan, allowing for the collection of information from various categories of respondents within the same time period (Amin, 2005).

Target Population and Sample

The study was conducted in Juba, South Sudan, where most government institutions including the Central Bank and the National Ministry of Finance are headquartered. The target population comprised government officials in economic and financial departments, financial sector professionals, academicians with expertise in economics and public finance, and opinion leaders knowledgeable about the country's external debt and macroeconomic conditions.

Using the Krejcie and Morgan (1970) sampling framework, a sample of 60 respondents was drawn from an access population of 85. The sampling strategy employed a combination of simple random sampling and purposive sampling: 45 respondents were drawn through simple random sampling from the Ministry of Finance and Planning (across the Directorate of Macroeconomic Planning and Aid Co-ordination, the Debt Management Unit, the Directorate of Accounts, and the Directorate of Budgets), while 15 respondents were selected through purposive sampling from the Ministry of Petroleum (3), academia (7), and community opinion leaders (5). Purposive sampling was used for the latter groups to ensure the inclusion of respondents with specialised knowledge relevant to the study objectives.

Data Collection

Primary data were collected through two instruments. First, structured questionnaires containing Likert-scale items (ranging from Strongly Agree to Strongly Disagree on a five-point scale) and open-ended questions were administered to all 60 respondents. The questionnaire was organised into sections covering demographic characteristics, determinants of economic growth, external debt indicators, sectoral allocation of borrowed funds, and strategies for enhancing economic growth. Second, interview guides were administered to key informants including Director Generals, heads of departments, academicians, and opinion leaders to obtain in-depth qualitative information on the impact of external debt service on economic growth.

Secondary data were obtained from IMF reports, World Bank publications, African Economic Outlook reports, Ministry of Finance and Planning documents, and other relevant government and institutional sources. These secondary sources provided contextual macroeconomic data including GDP figures, debt stock data, inflation rates, exchange rates, and budgetary allocations that complemented the primary survey data.

Validity and Reliability

The Content Validity Index (CVI) was used to assess instrument validity, with a threshold of 0.7 or above required for acceptance (Amin, 2005). Internal consistency and reliability were measured using Cronbach's alpha coefficient, with a minimum threshold of 0.7. A pilot study using 10% of the sample size was conducted prior to full data collection to identify and resolve any issues with the instrument.

Data Analysis

Quantitative data were analysed using descriptive statistics including frequencies, percentages, and means, computed with the SPSS statistical software package. Mean scores were used to show the level of agreement and disagreement among responses. Qualitative data from interviews were analysed thematically and presented in narrative form to complement the quantitative findings.

Results and Discussion

Demographic Characteristics of Respondents

The demographic profile of the respondents is presented in Table 1. Understanding the characteristics of the respondents is important for assessing the reliability and representativeness of the data collected.

Table 1: Demographic Characteristics of Respondents

Characteristic	Category	Frequency	Percent
Sex	Male	44	73.3
	Female	16	26.7
Education	Degree	44	73.3
	Diploma	7	11.7
	Certificate	3	5.0
	None	6	10.0
Age	26–40 years	28	46.7
	Above 40 years	16	26.7
	21–25 years	10	16.7
	15–20 years	6	10.0
Experience	Over 6 years	44	81.5
	4–6 years	4	7.4
	1–3 years	6	11.1
Occupation	Government employee	48	80.0
	NGO employed	3	5.0
	Self-employed	3	5.0
	Not employed	6	10.0
Position	Senior staff	32	62.7
	Middle staff	8	15.7
	Junior staff	11	21.6

Source: Primary data (2019)

The majority of respondents were male (73.3%), reflecting the gender composition of the public sector in South Sudan. Most respondents held degree-level qualifications (73.3%), were aged 26–40 years (46.7%), had more than six years of professional experience (81.5%), served as senior staff (62.7%), and were employed in government (80%). This demographic profile is significant because it indicates that the respondents were well-educated, experienced professionals occupying positions that would expose them to information and decision-making processes related to external debt service and economic management. Their responses therefore carry a reasonable degree of informed authority on the study variables.

External Debt Service and Payment Difficulties

Table 2 presents respondents' perceptions of indicators related to South Sudan's external debt service capacity and payment difficulties.

Table 2: Respondents' Views on Debt Service Indicators

Indicator	SA%	A%	UD%	D%	SD%	Mean
Facing external payment difficulties	43.3	38.3	6.7	11.7	–	2.02
International reserves near exhaustion	20.0	26.7	33.3	10.0	–	2.37
Very low foreign exchange reserves	38.3	33.3	6.7	16.7	–	2.37
External debt exceeding thresholds	38.3	33.3	6.7	16.7	–	1.87
External debt exceeds US$1.4 billion	11.7	20.0	31.7	16.7	20.0	3.13

Source: Primary data (2019)

The findings demonstrate overwhelming consensus that South Sudan faces severe external payment difficulties: 81.6% of respondents agreed with this assessment (mean = 2.02), the strongest consensus among all debt indicators. This finding directly reflects the debt service burden, as payment difficulties arise when a country's debt service obligations exceed its available resources. The near-universal recognition of payment difficulties among experienced government officials and economic professionals signals that the debt service burden has reached crisis proportions.

The finding that 75.4% of respondents agreed that external debt currently exceeds sustainability thresholds (mean = 1.87) is equally significant. Debt sustainability thresholds, as defined by the IMF-World Bank Debt Sustainability Framework, are designed to identify the point at which a country's debt service obligations become incompatible with maintaining macroeconomic stability and adequate public investment. When these thresholds are breached, as respondents confirm is the case for South Sudan, the country enters a zone of debt distress where debt service obligations progressively crowd out all other fiscal priorities.

Furthermore, 71.6% confirmed critically low foreign exchange reserves (mean = 2.37), and 46.7% agreed that international reserves have declined to near exhaustion. Foreign exchange reserves serve as the primary buffer between a country's export earnings and its external payment obligations: when debt service depletes these reserves, the country loses its ability to smooth payment schedules, manage exchange rate volatility, and maintain import cover for essential goods. The depletion of South Sudan's reserves therefore represents both a symptom and a cause of the debt service crisis, as inadequate reserves trigger further depreciation, which increases the domestic cost of debt service, which further depletes reserves.

Fiscal Allocation and the Crowding-Out Effect

The study examined the sectoral allocation of government expenditure, including externally borrowed funds, to assess the extent of the crowding-out effect. The findings are presented in Table 3.

Table 3: Government Sectors Utilising Externally Borrowed Funds

Sector	Yes (%)	No (%)
Defence	83.3	16.7
Agriculture	41.7	58.3
Health	35.0	65.0
Roads and Infrastructure	30.0	70.0
Education	30.0	70.0
Sports and Games	28.3	71.7
Tourism	23.3	76.7

Source: Primary data (2019)

The findings reveal a striking pattern of fiscal allocation that exemplifies the crowding-out mechanism. Defence dominates government expenditure at 83.3%, while productive sectors receive significantly less: agriculture (41.7%), health (35%), roads and infrastructure (30%), and education (30%). Combined expenditures on health and education were estimated at approximately 6% of total government spending, while defence and security absorbed over 70%.

This allocation pattern is particularly damaging in the context of debt service. When the government must simultaneously service external debt and finance a military conflict, the competing claims on fiscal resources leave virtually no space for the productive public investment that could generate economic growth. Roads and infrastructure—which are essential for connecting agricultural producers to markets, facilitating trade, and attracting private investment—receive only 30% of borrowed funds despite being widely recognised as a critical growth enabler. Education, which respondents identified as part of the most important growth determinant (human capital, 88.3% agreement), receives only 30% of borrowed funds.

This finding directly corroborates the crowding-out hypothesis articulated by Agenor and Montiel (2018) and empirically validated by Ogunlana (2022). It also resonates with Teresa (2004), who demonstrated that debt service obligations reduce the resources available for private investment and capital formation, and with Were (2001), who showed that in Kenya, debt servicing crowded out private investment even when current debt inflows had a stimulatory effect. The implication is that the debt service burden in South Sudan is not merely reducing the volume of public investment but is fundamentally distorting its composition away from growth-enhancing sectors.

Currency Depreciation and Debt Service Amplification

A critical finding of this study is the role of currency depreciation in amplifying the debt service burden. The depreciation of the South Sudan Pound from SSP 2.95 to over SSP 170 per US dollar between December 2014 and October 2017 represents one of the most severe currency collapses in recent global history. Because South Sudan's external debt is denominated in foreign currency (primarily US dollars), this depreciation increased the local currency cost of servicing external obligations by over 5,000%. A debt service payment that cost SSP 2.95 million per US$1 million in 2014 cost SSP 170 million by 2017—an increase that transformed what might have been a manageable burden in foreign currency terms into a catastrophic fiscal drain in domestic currency terms.

This currency effect created a vicious cycle. The depreciation increased the domestic cost of debt service, which required the government to devote even more domestic resources to external payments, which further reduced the fiscal resources available for productive investment and macroeconomic stabilisation, which further undermined confidence in the economy and the currency, which triggered further depreciation. This spiral is consistent with the mechanism described by Edo et al. (2020), who identified currency depreciation as a key amplifier of the negative debt-growth relationship in sub-Saharan Africa. The implication is profound: debt service management in South Sudan cannot be separated from exchange rate policy, and any debt management strategy that fails to address the currency dimension will be incomplete.

The inflationary consequences of the depreciation further compounded the debt service burden. With year-on-year inflation reaching 88.5% by June 2018, the real value of government revenue was being eroded even as the nominal cost of debt service in domestic currency was escalating. This meant that the government's actual fiscal capacity its ability to command real resources for debt service and other purposes was shrinking at the same time that its nominal obligations were growing, creating an impossible fiscal squeeze.

Determinants of Economic Growth and the Debt Service Constraint

Respondents identified human capital (88.3%), government policies (83.3%), inflation management (78.3%), efficient financial systems (78.3%), and sustainable fiscal policy (75%) as the most important determinants of economic growth. These findings are consistent with the broader empirical literature: Fischer (1992) identified human capital and macroeconomic stability as key growth drivers in sub-Saharan Africa, while Easterly and Levine (1997) found that underdeveloped

financial systems, political instability, and high government deficits explained a substantial portion of Africa's growth underperformance.

The policy implications of these findings are significant when read in conjunction with the debt service analysis. The growth determinants that respondents rated most highly human capital, sound government policies, inflation control, and fiscal sustainability are precisely the areas that are most constrained by unsustainable debt service obligations. Investment in human capital requires sustained fiscal commitment to education and health; sound government policies require institutional capacity and stability; inflation control requires disciplined monetary policy; and fiscal sustainability is directly undermined by growing debt service costs. The debt service burden therefore operates as a cross-cutting constraint that simultaneously undermines multiple growth drivers.

Respondents also identified strategies for enhancing economic growth, with technological progress (88.3%), improving institutional efficiency (85%), political stability (81.7%), and favourable public policies (76.7%) rated highest. These strategies all require fiscal resources and institutional capacity that are being consumed by debt service obligations and defence expenditure. The debt service burden thus creates a policy trap in which the government is unable to implement the strategies that respondents identify as most important for growth because the fiscal resources needed for implementation are pre-committed to servicing past borrowing.

Determinants of Economic Growth

Respondents were also asked to assess the relative importance of various determinants of economic growth for South Sudan, in order to understand the areas where debt service-related fiscal constraints are most damaging. The results are presented in Table 4.

Table 4: Determinants of Economic Growth

Determinant	Agree %	Disagree %	Mean
Human capital	88.3	5.0	1.72
Government policies	83.3	11.7	1.97
Inflation management	78.3	16.7	2.47
Efficient financial systems	78.3	10.0	1.85
Sustainable fiscal policy	75.0	13.4	2.13
Physical capital	71.7	21.7	2.48
Higher government savings	68.3	5.0	1.93
Political stability	63.3	23.4	2.87
Technological progress	63.3	23.4	1.87
Consumption and investment	60.0	26.7	2.40
Government spending (health/education)	51.7	35.0	2.95

Source: Primary data (2019)

Human capital was rated as the most important determinant (88.3%, mean = 1.72), followed by government policies (83.3%, mean = 1.97), inflation management (78.3%, mean = 2.47), and sustainable fiscal policy (75%, mean = 2.13). These findings are significant because each of these growth determinants is directly constrained by the debt service burden. Investment in human capital requires sustained fiscal commitment to education and health sectors that currently receive only approximately 6% of total government expenditure. Sound government policies require institutional capacity and fiscal flexibility, both of which are eroded by the pressure to meet debt service obligations. Inflation management requires disciplined monetary policy, but the government's resort to Central Bank borrowing to finance the fiscal deficit (driven partly by debt service costs) has been a primary driver of the hyperinflation experienced during the study period.

The finding that 75% of respondents identified sustainable fiscal policy as a key growth determinant is particularly relevant to the debt service discussion. Fiscal sustainability is fundamentally incompatible with a debt service burden that, combined with defence expenditure, absorbs over 70% of the budget. The respondents' recognition of this link suggests an awareness that the current fiscal framework dominated by debt service and military spending is structurally incapable of supporting sustainable economic growth.

Strategies for Enhancing Economic Growth

Respondents identified several strategies for enhancing economic growth. Technological progress was rated highest (88.3%), followed by improving government and institutional efficiency (85%), creating political stability (81.7%), developing favourable public policies (76.7%), capital accumulation (75.1%), increasing government expenditure on health, education, infrastructure, and security (75%), private and public investment (70%), and investing in human capital (63%). These findings underscore that respondents recognise the multifaceted nature of economic development and the need for a comprehensive approach that addresses institutional, human capital, and infrastructure deficits simultaneously.

The emphasis on institutional efficiency (85%) is directly relevant to debt service management. Effective debt management requires robust institutions for debt recording, monitoring, reporting, and strategic planning. South Sudan's public financial management systems are among the weakest in the world, limiting the government's ability to optimise its debt service profile, negotiate favourable terms with creditors, or ensure that borrowed funds and freed-up fiscal resources are directed toward productive purposes. Strengthening these institutions is therefore both a growth strategy in its own right and a prerequisite for more effective debt service management.

The strong support for political stability (81.7%) reflects the fundamental reality that South Sudan's debt service crisis is inseparable from its political and security challenges. The civil conflict has been both a cause of the debt accumulation (by destroying productive capacity and forcing emergency borrowing) and a consequence of the economic collapse that

debt service obligations have helped to perpetuate. Breaking this cycle requires a comprehensive approach that addresses both the financial and political dimensions of the crisis.

Conclusions

This study has established that external debt service obligations have significantly constrained the economic growth of South Sudan during the period 2013–2018. The findings demonstrate that the country faces severe external payment difficulties (81.6% agreement), critically low foreign exchange reserves (71.6%), and debt levels that exceed internationally recognised sustainability thresholds (75.4%). These indicators collectively confirm that debt service obligations have exceeded the country's fiscal and foreign exchange capacity, creating a binding constraint on economic performance.

The crowding-out of productive public investment by debt service obligations and defence expenditure has left minimal fiscal space for the growth-enhancing sectors education, health, agriculture, and infrastructure that respondents identify as critical for economic development. The severe depreciation of the South Sudan Pound has further amplified the debt service burden, creating a vicious cycle of depreciation, inflation, and fiscal distress that has driven three consecutive years of economic contraction.

The study found a significant misalignment between the growth priorities identified by respondents human capital (88.3%), government policies (83.3%), inflation management (78.3%), and fiscal sustainability (75%) and the actual allocation of fiscal resources, which overwhelmingly favours defence and debt service over productive investment. This misalignment confirms that debt service operates not merely as a direct fiscal burden but as a systemic constraint that undermines the government's capacity to pursue the policies and investments needed for economic recovery and sustainable growth.

Recommendations

First, the Government of South Sudan should urgently pursue renegotiation and restructuring of existing external debt obligations to reduce the immediate debt service burden and free fiscal resources for productive investment. This should include engagement with bilateral and multilateral creditors to explore options for extended maturity schedules, reduced interest rates, and, where possible, debt forgiveness.

Second, exchange rate stabilisation should be treated as a central component of debt management. The severe depreciation of the South Sudan Pound has been a major amplifier of the debt service burden, and measures to strengthen and stabilise the currency including reducing reliance on Central Bank deficit financing, improving export performance, and building foreign exchange reserves would directly reduce the domestic resource cost of debt service.

Third, fiscal reallocation from defence toward health, education, agriculture, and infrastructure is essential to break the cycle of unproductive borrowing and restore the link between external finance and economic growth. The peace process should be used as an opportunity to progressively reduce defence expenditure and redirect fiscal resources toward developmental priorities.

Fourth, the government should develop a comprehensive medium-term debt management strategy that sets explicit limits on debt service-to-revenue and debt service-to-export ratios, aligned with the thresholds established by the IMF-World Bank Debt Sustainability Framework. This strategy should include mechanisms for monitoring compliance, reporting debt service costs transparently, and adjusting borrowing plans in response to changing economic conditions.

Fifth, efforts to diversify the revenue base beyond oil should be intensified, as the extreme dependence on a single volatile commodity has made South Sudan's debt service capacity acutely vulnerable to external shocks. Domestic revenue mobilisation through improved tax administration, broadening of the tax base, and formalisation of economic activity would reduce reliance on external borrowing and strengthen the country's capacity to meet its debt service obligations sustainably.

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