Long-term debt sustainability and the Sustainable Development Goals: Beyond the short-term prioritization of creditor interests

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Assessing debt sustainability in the 2030 Agenda

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Baseline scenario

Source: ODI (forthcoming) preliminary not for citation
Education & health
SDG scenario

Source: ODI (forthcoming) preliminary not for citation
In comparative terms:
Ratio between education/health SDG & baseline scenario in 2030

Source: ODI (forthcoming) *preliminary not for citation*
Infrastructure and social-sector shares of sector-allocable ODF, by income classification
(three-year moving averages)

Source: Engen and Prizzon (2019)
Based on World Bank World Development data – 2014-2016 average values for health expenditure; 2015-2017 average values for education expenditure – different data availability
The geometry of debt sustainability

- Adapted on Pasinetti (1998) – from public to external debt
- **Non-interest current account** (NICA) – indicator of long-term sustainability
- Starting from the equilibrium of the balance of payments we define

  **Sustainability area (upper part of the graph)**
  \[ c \geq (i - g)d \]

  **State equation (lower part of the graph)**
  \[ \dot{d} = -c + (i - g)d \]

**Legend:** \( c = \frac{NICA}{Y}; \) \( d = \frac{D}{Y}; \) \( g \) = GDP growth rate; \( i \) = interest rate

![Diagram](image)

The geometry of debt sustainability: Four considerations

1. Analytical relation between financial and structural dimension of debt sustainability – NICA improvements are key for long-term debt sustainability

2. Relationship between short-term and long-term aspects of debt sustainability – lower debt ratio is a necessary but not sufficient condition for long-term sustainability (again NICA improvements matter!)

3. Improving NICA takes time (somehow “easier” for public finance)

4. Debt relief offers a “fresh start” but the borrowing country needs to improve $g$, $i$ and $NICA$ for long-term debt sustainability
## Measuring debt sustainability: Affordability

<table>
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<th>Reference</th>
<th>Criteria</th>
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<tr>
<td>Vaggi (1993)</td>
<td>Human factor approach</td>
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<td>Northover et al. (1998)</td>
<td>Incomes below $1 PPP/day not taxed</td>
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<tr>
<td>Oxfam (2001)</td>
<td>10% of government revenues max for debt service</td>
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<td>Birdsall and Williamson (2001)</td>
<td>2% of GDP max for debt service</td>
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