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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.





Evidence.
Ideas.
Change.



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Assessing debt sustainability in the 2030 Agenda

Annalisa Prizzon, Senior Research Fellow





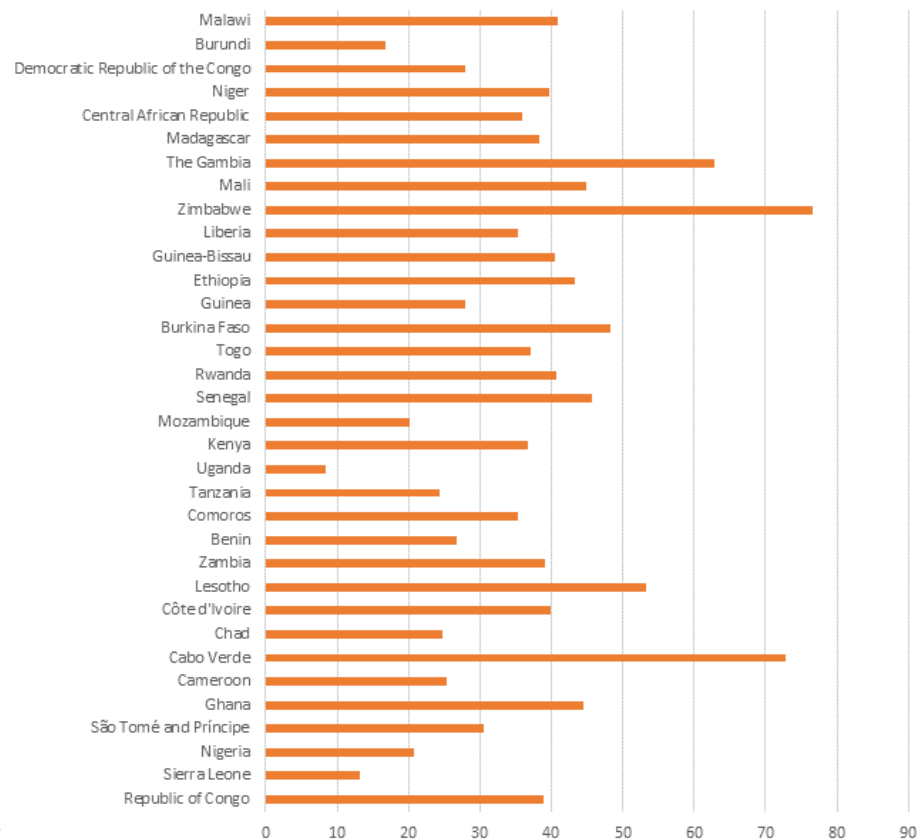
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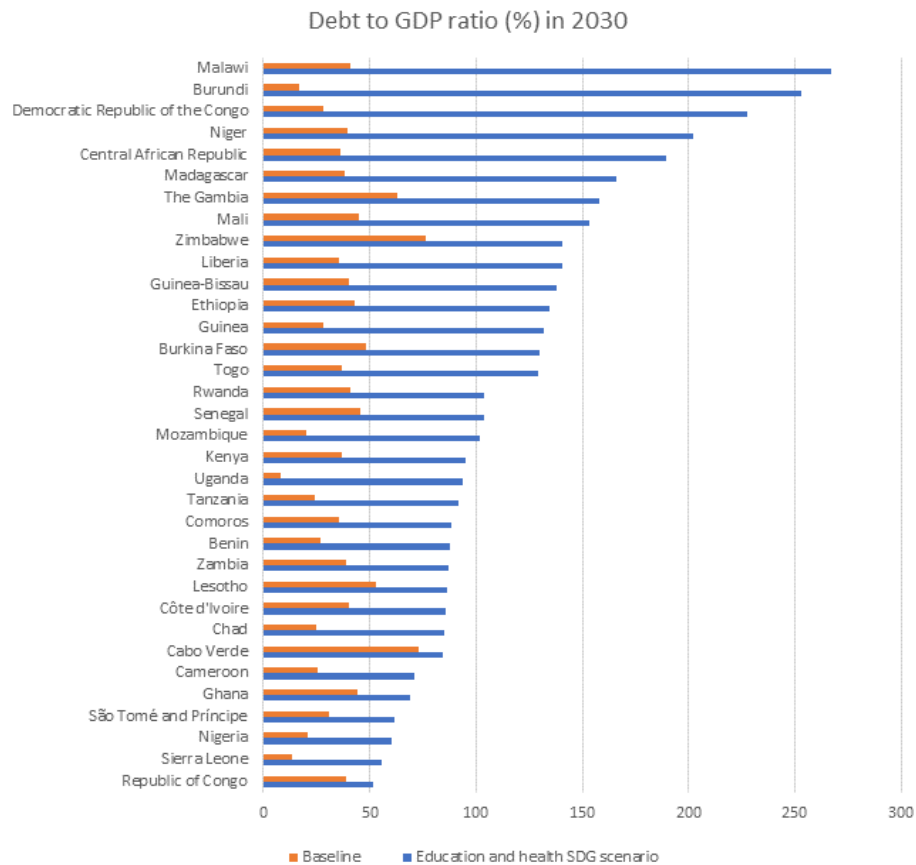
Baseline scenario

Debt to GDP ratio (%) in 2030



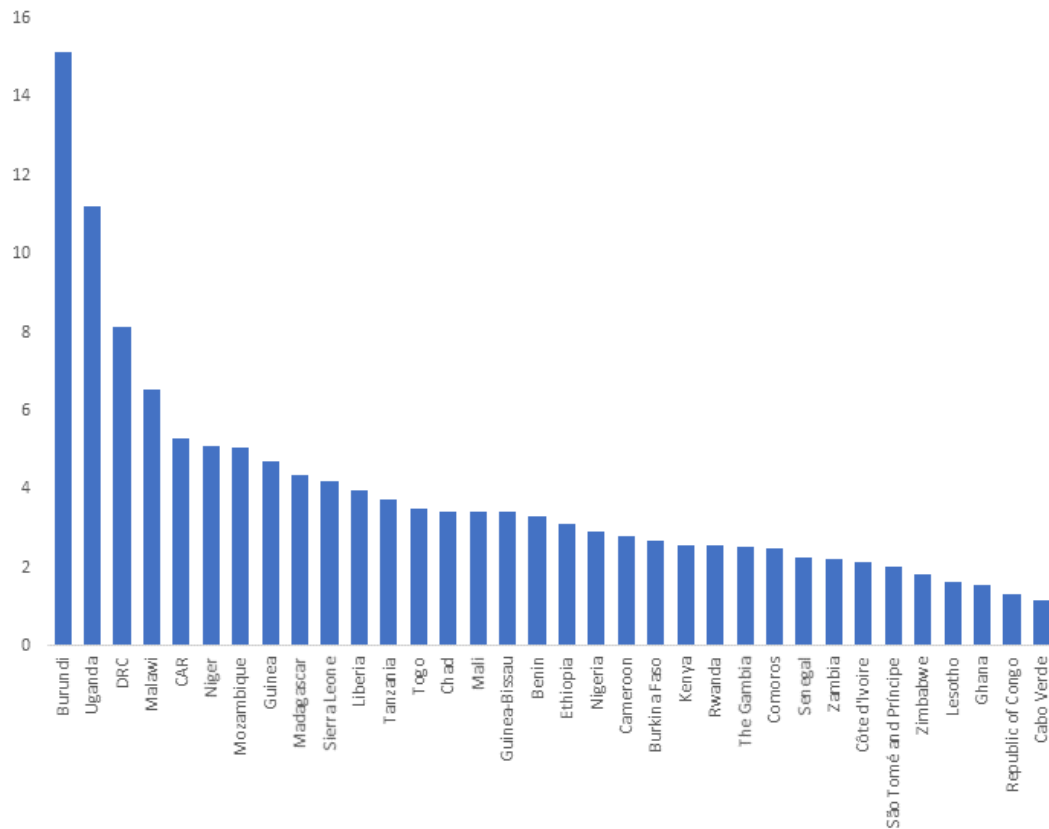
Source: ODI (forthcoming) *preliminary not for citation*

Education & health SDG scenario



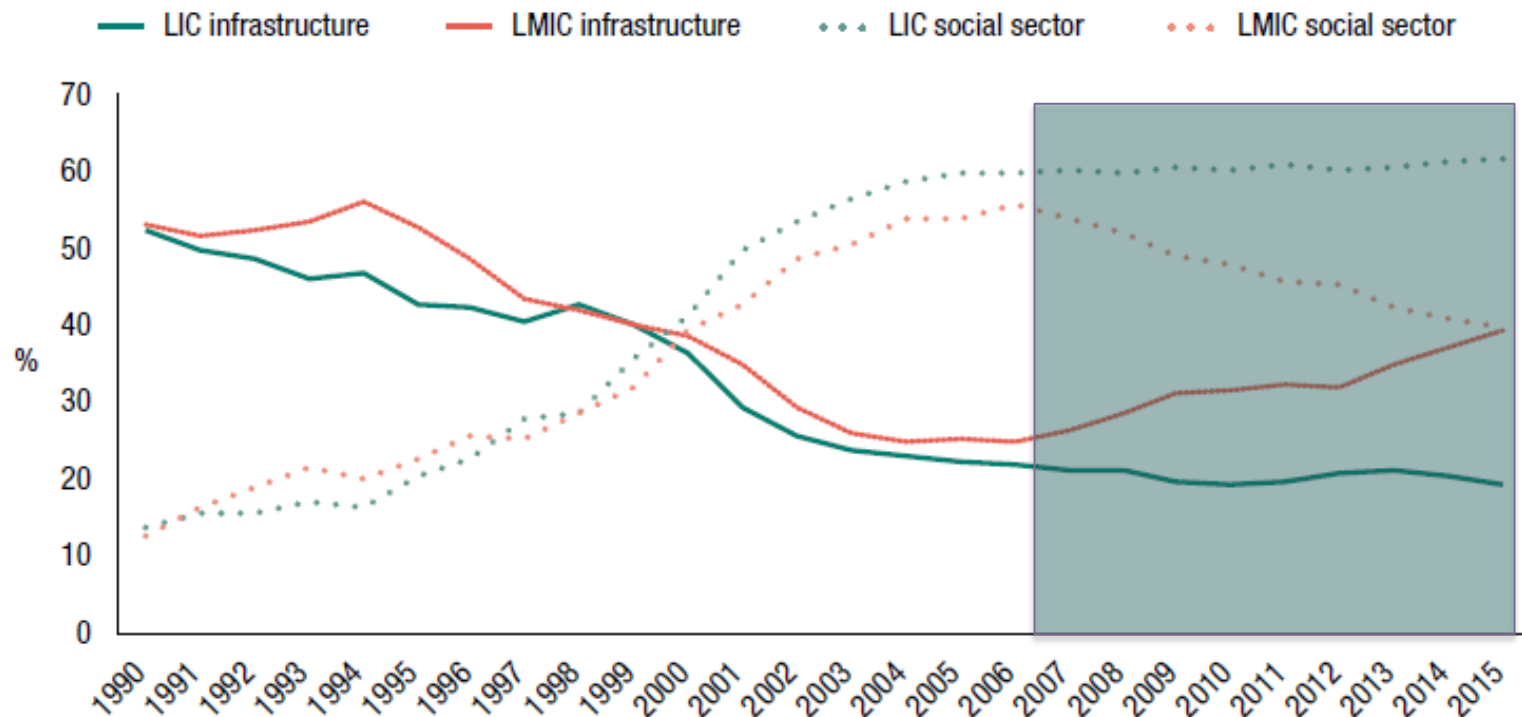
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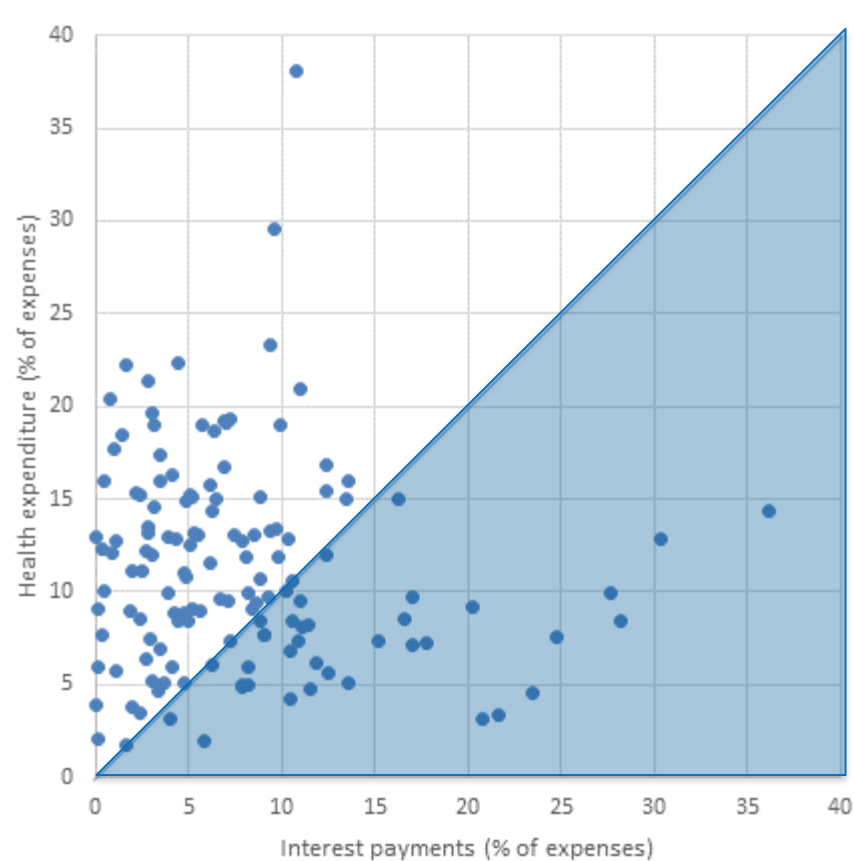
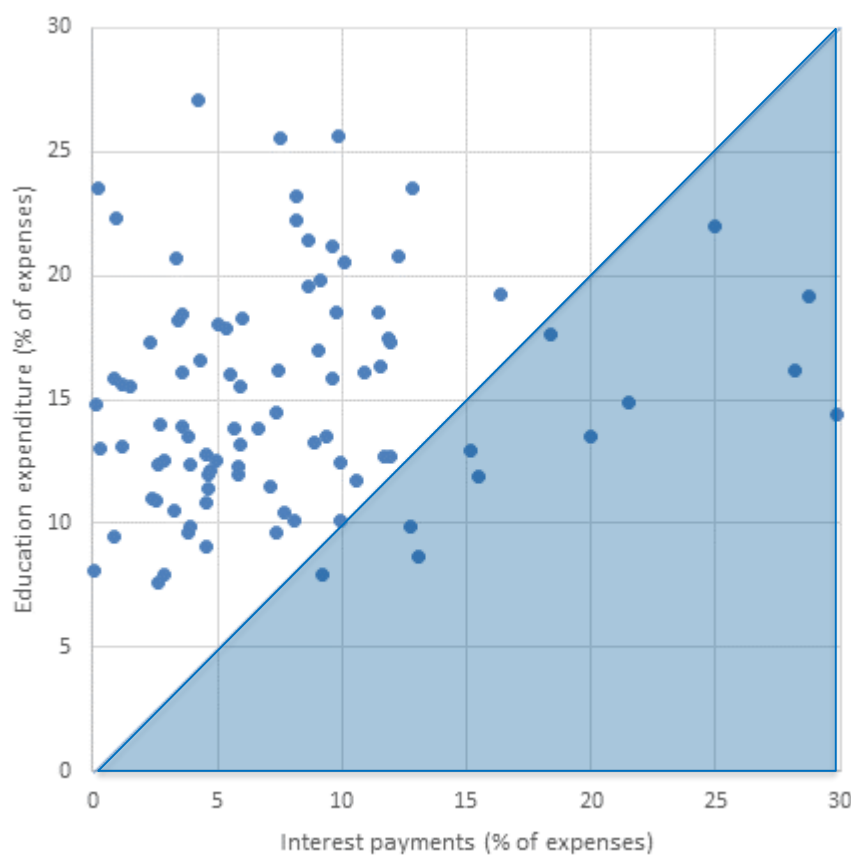
In comparative terms: Ratio between education/health SDG & baseline scenario in 2030



Source: ODI (forthcoming) *preliminary not for citation*

Infrastructure and social-sector shares of sector-allocable ODF, by income classification (three-year moving averages)





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: $c = \frac{NICA}{Y}$; $d = \frac{D}{Y}$; $g = \text{GDP growth rate}$; $i = \text{interest rate}$

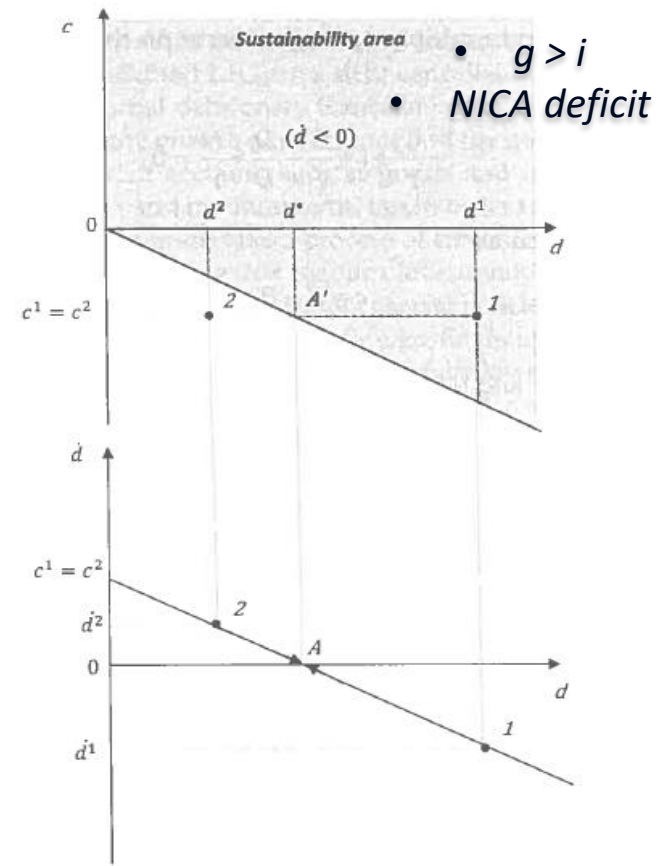


Fig. 1. The Framework of the 'geometry of debt sustainability'.

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

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



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