Accepted Manuscript

Title: Debt Threshold for Fiscal Sustainability Assessment in Emerging economies

Author: Ngan Tran

PII: S0161-8938(18)30017-6
DOI: https://doi.org/10.1016/j.jpolmod.2018.01.011
Reference: JPO 6411

To appear in: *Journal of Policy Modeling*

Received date: 12-9-2017
Revised date: 12-1-2018
Accepted date: 20-1-2018

Please cite this article as: & Tran, Ngan., Debt Threshold for Fiscal Sustainability Assessment in Emerging economies.*Journal of Policy Modeling* https://doi.org/10.1016/j.jpolmod.2018.01.011

Debt Threshold for Fiscal Sustainability Assesin Emerging economies

Ngan Tran[1]

[1] RMIT University, Melbourne, Australia.

Email: ngan.tranthanh@rmit.edu.au

November 20, 2017

This paper explores the debt threshold for fiscal sustainability assessment for 14 emerging economies during the period 1999 to 2016. The threshold point is identified as the level which, if exceeded, promptly raises sovereign risk to an unsustainable level. As such, we employ a panel threshold analysis to the determination of debt limit, which can serve as a distinctive feature from other studies on fiscal sustainability. Our results demonstrate that non-Latin American economies are considered to be sustainable in the short run, as their debts remain below the threshold bounds of 40-55% of GDP. However, the long-run sustainability risk may emerge from a continuous upward trend in debt paths, implying the need for rebuilding fiscal buffers. It is important to emphasize that fiscal sustainability is far more challenging for most Latin-American economies. This is indicated by their debt accumulation beyond the threshold level of roughly 35% of GDP which is relatively lower than that estimated for the other countries. Indeed, during times of high debt, emerging countries in Latin America also face higher default risk since their sovereign risk premium respond more strongly to debt rise. Their paths toward fiscal sustainability, hence, requires an immediate imposition of strict fiscal discipline to relieve the debt pressure.

Keyword: Fiscal sustainability; Government debt; Sovereign risk premium; Panel threshold regression models;