Rethinking Public Debt Sustainability Analysis with a Focus on SDGs
Panel Discussion

A. Context

Amid rising government debt levels, higher interest rates, sluggish global economic growth and heightened geopolitical uncertainty, the risk of public debt distress and debt overhang in developing Asia-Pacific countries will remain elevated in coming years. At the same time, large financing needs to meet the Sustainable Development Goals (SDGs) and climate ambitions are adding more pressure on fiscal and debt positions. How developing countries navigate a balancing act between ensuring post-pandemic socioeconomic recovery and pursuing the SDGs, while maintaining public debt sustainability, is an important policy consideration.

In Pakistan, the General Government Debt-to-GDP ratio increased notably from 47% in 2007 to about 76% in 2022, with almost two-thirds of total government debt as domestic debt. A combination of large fiscal shortfalls, partly driven by low government revenue-to-GDP ratio, and the weaker exchange rate explain much of the rising debt level in the country. While Pakistan's public debt sustainability is deemed as sustainable by the IMF, this is conditional on stronger fiscal discipline. Meanwhile, the country's credit ratings remain at 'speculative grade' with 'substantial risk'. As a result, Pakistan's sovereign borrowing cost is high, with the yield of a 10-year government bond currently at 16.5% or about 12.4 percentage points higher than that of the United States.

Too often, developing countries have opted to reduce near-term fiscal risks at the expense of inclusive and sustainable development in the long run. Examples include past episodes of fiscal consolidations to ensure short-term debt sustainability, which resulted in significant income and job losses, rise in poverty and inequalities, and scarring long-term socioeconomic impacts. There is a need to raise awareness that failure to timely and adequately address development deficits and climate risks can jeopardise economic stability and public debt sustainability.

In this context, the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) has launched its annual flagship publication *Economic and Social Survey of Asia and the Pacific 2023: Rethinking Public Debt for the SDGs*. The report calls for a significant shift in thinking about leveraging public debt for development gains. It argues that developing countries should continue to explore ways to strengthen fiscal positions and view public debt as a powerful tool to promote sustainable development, especially if used judiciously and with a long-term horizon. The 2023 Survey also proposes an innovative approach to long-term public debt sustainability analysis that considers a country's SDG investment needs and financing strategies along with structural development policies in determining the future trajectories of public debt.

B. Objectives and Participation

The panel aims to discuss ideas on policy issues and options to deal with elevated sovereign debt distress in Pakistan while keeping in view the SDGs and long-term climate ambitions. In particular, the discussion could include interconnected issues, such as (i) government revenue mobilisation strategies that also offer social, environmental and distributional benefits; (ii) increased public spending efficiency and effectiveness including through technological innovations; and (c) effective public debt management.

The speakers will also explore required changes in public debt sustainability assessments to ensure inclusive and sustainable development. More broadly, the discussion will also touch upon how debtor countries, creditors and the international community can work together to achieve swift and adequate sovereign debt restructuring for countries in need.

Among others, participants will include government ministries and agencies (especially those working on macroeconomic, fiscal and public debt issues as well as long-term development planning), the State Bank of Pakistan, academic institutions, think-tanks, international development partners, and private sector representatives (especially financial institutions and credit rating agencies).

Panel Organisers

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