

Abstract

This lecture reviews some of the key fiscal sustainability issues faced by developing countries and early emerging market economies. The key conclusions and recommendations include the following.

- Fiscal sustainability should focus on the fiscal-financial-monetary programme of the sovereign (the state), that is, the consolidated general government and central bank.
- It should include all present and future contingent claims owed and owned by the state. In addition to these contractual obligations, non-contractual current and future outlays and revenues must be accounted for exhaustively and comprehensively: nothing is off-budget or off-balance sheet. The special purpose vehicle veil must be torn away.
- For countries with weak economic and political institutions, the safe level of the net public debt to GDP ratio is likely to be low. If there is a history of sovereign default, the safe level of public debt is likely to be even lower. Weak borrowers will have to generate larger and earlier primary surpluses than more credit-worthy borrowers.
- The attractions of hard currency borrowing during normal times are apt to turn into major disadvantages during periods of financial turmoil.
- Privatisations should be undertaken primarily for efficiency reasons rather than for deficit financing or debt reduction reasons.
- The *permanent balance rule* for government deficits, where the state raises its net debt to GDP ratio when spending (of any kind) is temporarily high and lowers it when spending is temporarily low, has much to recommend it.

Willem H. Buiter
Office of the Chief Economist
European Bank for Reconstruction and Development
One Exchange Square, London EC2A 2JN, UK.
Tel: + 44 (0)20 7338 6805
Fax: + 44 (0)20 7338 6805
E-mail: buiterw@ebrd.com
WWW: <http://www.nber.org/wbuiter/>

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