Research Title: Debt Sustainability Analysis

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Abstract: A debt sustainability issue is important when governments do not follow any fiscal cliff and interest payments are consuming significant part of the resources. This thesis calculates sufficient condition of debt sustainability in Pakistan. It uses simple textbook methodology of government budget constraint, accounting approach to measure sustainability of debt. We have checked the extent of nominal as well as real GDP growth required to main the debt-GDP ratio level at 60 percent, 50 percent and 40 percent with level of fiscal deficit 5 percent, 4.5 percent, 4 percent, 3.5 percent and 3 percent. Thesis concludes that lower the fiscal deficit higher possibility of maintaining the debt at its sustainable level. Moreover, lower the fiscal deficit higher will be the chances to finance development expenditures as well redistribute the impact of growth. Moreover, it is also examined that maintaining debt-GDP ratio at certain level implies that we do not need to retire debt further and growth in national income is used to serve development expenditures instead of using it for debt retirement. Reducing the debt to GDP ratio by debt repayments may costs us the projects which can be beneficial for growth in those year. The projects may not set up during the time of debt retirement, thus long run growth may suffer and long run impact will be negative. Therefore, it is better to select a threshold level which maximizes the use of government spending.