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Measuring fiscal sustainability of African economies

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Abstract

This paper ultimately aims to test the sustainability of public debt in ten African economies. To accomplish this, the paper estimates the inter-temporal budget constraint model (IBC) by using Ordinary Least Squares (OLS) and measures the indicators of sustainability. Sustainability tests are carried out and show that, despite rising debt ratios, there is empirical evidence for Ghana, Tanzania and South Africa that public debt is sustainable and both the primary gap and tax gap indicators with a sharp rise in the debt ratios are shown to be worsening from one country to another and indicating increasingly possible unsustainable fiscal policies. It implies that the current primary deficit is too large and current taxes are too low to stabilize the debt ratio. Moreover we test Bohn's fiscal rule, by analysing how the primary surplus to GDP reacts to variations in the debt to GDP ratio and the results point to the possibility of sustainable budgetary paths in Algeria, Ghana, Rwanda and South Africa, independent of whether remittances and foreign direct investments (FDI) variables are added in the model.