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Debt Spikes and Stock Flow Adjustments: Emerging Economies in Perspective

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JEL Classification Numbers: H60, H63

Keywords: Public Debt, Debt Spikes, Stock Flow Adjustment, Debt Forecasting

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Abstract

What explains public debt spikes? Are debt spikes different in emerging economies than in advanced countries? Analysis of 179 episodes from 1945 to 2014 shows that debt spikes are not rare events and their probability increases with time. Large debt spikes in advanced and emerging countries are neither driven by high primary deficits nor by output declines but instead by sizable stock-flow adjustments (SFAs). Higher SFA accumulation is associated with a higher probability of suffering non-declining debt paths in the aftermath of public debt spikes. Importantly, despite their sizeable impact on debt accumulation, SFAs have been largely ignored in debt sustainability analyses.

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Highlights