Journal of Economic Cooperation and Development

Legal and Political Dimensions of Public Debt Sustainability in Developing Countries

Sezer Ferhad[1], Mevludin Ibish[2] and Muhammed Fatih Kaytan[3]

ABSTRACT

In this study, the legal and political aspects of public debt sustainability in developing countries is highlighted through an emphasis on the role of institutional quality and capacity on the matter. While previous literature mainly focuses on fiscal and macroeconomic factors, this paper provides a new highlight on the importance and characteristics of legal frameworks, governance structures as well as political dynamics on public debt management and its outcomes, particularly in developing countries which are prone to vulnerability and volatility. The empirical data consists of an encompassing analysis of 21 developing countries over the period of 2000-2024, utilizing IMF and World Bank data sources through the utilization of a fiscal reaction function, a debt dynamics model and a logistic debt distress model. The empirical findings demonstrate that although macroeconomic variables are still the primary drivers of debt dynamics, the models also highlight the importance of institutional capacities, particularly their indirect impact on public debt management, with a specific emphasis on the impact of corruption in this regard. These results suggest that while legal and political factors may not exert immediate mechanical effects on fiscal outcomes, they are essential in strengthening credibility, transparency, and resilience in debt management systems.

Keywords: Public debt management, Fiscal governance, Sovereign debt, Rule of law, Corruption

JEL Classification: H63, O23, O43, D72, D02

[1] Teaching assistant at Faculty of Law, International Balkan University, Skopje, North Macedonia. E-mail: ferhad.sezer@ibu.edu.mk
[2] Full professor at Faculty of Law, International Balkan University, Skopje, North Macedonia. E-mail: m.ibis@ibu.edu.mk
[3] Teaching assistant at Faculty of Law, International Balkan University, Skopje, North Macedonia. E-mail: mfatihkaytan@ibu.edu.mk