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A Dynamic Analysis of Public Debt: Philippines vs Romania

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Abstract

This paper examines how sustainable public debt really is and whether that depends mainly on how much debt a country carries or, instead, on fiscal discipline, institutional credibility, and the broader macroeconomic picture. To make this concrete, we apply the standard debt-dynamics equation, which links changes in the debt ratio to the gap between the interest rate and economic growth, and to the primary balance. The paper first lays out the theoretical background, then compares the Philippines and Romania. We track public debt, budget deficits, growth, and fiscal frameworks across three periods — pre-pandemic, pandemic, and post-pandemic (2016–2024). Both countries borrowed heavily once COVID-19 hit, but their paths afterwards looked quite different. By 2024, the debt-dynamics calculation pointed to a debt-reducing effect for the Philippines, while Romania was still being pulled toward higher debt, mostly because of its large primary deficit. The Philippines simply entered the crisis in better fiscal shape, whereas Romania was already running persistent deficits that only got worse during the pandemic. Here, "fiscal buffer" mainly means having a moderate debt ratio combined with a healthier primary and overall balance going into the crisis. Taken together, the findings suggest that debt sustainability isn't something you can read off the debt ratio alone — it has to be weighed against fiscal discipline, growth prospects, financing conditions, and how credible a country's institutions are.

Keywords: public debt; debt sustainability; fiscal discipline; institutional credibility; fiscal frameworks; Philippines; Romania

Introduction

Governments borrow for good reasons — to fund investment, cover temporary shortfalls, or cushion the economy during a crisis. But debt can also turn into a liability of its own: if it grows faster than a country can manage, if interest costs climb, or if fiscal policy starts to look less credible, the same tool that stabilises an economy can start to destabilise it. That's why looking at the debt-to-GDP ratio alone doesn't tell the whole story. Two countries can carry similar — or very different — debt loads and still face very different risks, depending on growth, borrowing costs, primary balances, and how much markets trust their institutions. A debt ratio is, in the end, just a snapshot; what determines whether a country gets into trouble is how that ratio is likely to move, and that depends on a mix of economic and institutional factors working

together, not on any single number. So, the real question this paper asks isn't "how much debt does a country have," but "can that debt be managed without shaking public finances, investor confidence, or long-term growth?"

The Philippines and Romania make an interesting pair to compare here. Both are emerging economies that leaned heavily on borrowing once COVID-19 hit, and on paper their pre-pandemic debt ratios were not far apart. Yet they came into the crisis from different starting points in terms of fiscal balance, and they took noticeably different paths out of it — one moving toward a clearer, more sustained consolidation, the other still wrestling with a large deficit years later. Part of that divergence likely traces back to the institutional context each country operates in: the Philippines runs largely on domestic fiscal rules and medium-term planning, while Romania also answers to EU fiscal surveillance and the Stability and Growth Pact, mechanisms that are meant to enforce discipline but don't automatically guarantee it. Comparing two countries with broadly similar starting debt levels but different institutional settings and different post-shock trajectories offers a useful lens for asking what actually drives sustainability once the initial shock has passed.

The central idea we test is simple: debt sustainability can't be judged from the debt level alone — it has to be read alongside fiscal discipline, institutional credibility, and the macroeconomic backdrop, and the interaction between growth, interest rates, and the primary balance ultimately matters more than the debt stock in isolation.

To test this, the study pursues five objectives:

O1. Explaining the theoretical mechanism of public debt dynamics.

O2. Clarifying the relationship between economic growth, interest rates, the primary balance, and debt sustainability.

O3. Comparing debt ratios, fiscal balances, and growth performance in the Philippines and Romania.

O4. Assessing the role of the institutional framework in shaping fiscal credibility. **O5.** Formulating policy recommendations aimed at strengthening public debt sustainability.

The paper follows a comparative, analytical methodology, drawing on IMF, European Commission, and Philippine government sources across three periods — pre-pandemic (2016–2019), pandemic (2020–2021), and post-pandemic (2022–2024). The approach is descriptive rather than econometric: it is built to surface differences between the two cases rather than to establish statistical causation between institutional quality, fiscal policy, and debt outcomes. Institutional credibility is assessed qualitatively — through fiscal rules, surveillance mechanisms, and evidence of actual compliance — rather than through a numerical institutional-quality index, since the aim here is to understand the mechanisms at work rather than to rank the two countries on an abstract scale.

Literature review

Research on public debt sustainability has increasingly moved away from treating the debt-to-GDP ratio as a stand-alone indicator. Based on the framework developed by (Abbas et al., 2010), the change in the debt ratio is explained jointly by the interest-growth differential and the primary balance, an approach also adopted by (Detoya et al., 2025), who group the determinants of sustainability into macroeconomic conditions, fiscal performance, institutional credibility and debt-related financial risks. Similarly, (Kulal, 2025)argue that sustainability should be treated as a dynamic condition rather than a fixed threshold. (Socol et al., 2025) closely examined the behaviour of the interest-growth differential and found

that it tends to worsen during recessions and in already highly indebted countries, a result consistent with the divergence documented later in this paper between the Philippines and Romania.

A separate line of research has tested whether a specific debt ratio marks a threshold beyond which growth deteriorates sharply. (Reinhart & Rogoff, 2010) analysed two centuries of data across 44 countries and reported a marked growth slowdown above a 90 per cent debt-to-GDP ratio. This result was later challenged by (Mechkova et al., 2025) who identified coding errors and questionable weighting choices in the original dataset and found no dramatic difference in growth above versus below the 90 per cent mark. Focusing specifically on the euro area, (Detoya et al., 2025) found that the effect of debt on growth turns negative once the ratio exceeds roughly 90–100 per cent of GDP, while (Odoño & Senden, n.d.) applying a dynamic threshold-panel model, located this turning point closer to 67 per cent. Taken together, these studies caution against treating any single debt ratio as a hard ceiling.

Other research has focused on institutional credibility and fiscal rules as an explanation for why countries with similar debt ratios can face different sustainability risks. Debuque-Gonzales et al., (2026) identify several rationales for fiscal rules, including anchoring macroeconomic stability and building the credibility of government commitments over time. Building on this, (Claeys et al., 2016) argue that fiscal rules strengthen credibility mainly by constraining politicians' discretion and signaling genuine commitment to discipline, a mechanism empirically associated with improved budget balances and lower debt.

On the country-specific side, (Abuega et al., 2025) assessed the Philippines' debt sustainability risk as low across solvency, liquidity and debt-profile dimensions, while recommending continued fiscal consolidation. (Debuque-Gonzales et al., 2026) reached a similar conclusion, showing that the country's post-pandemic debt episode stemmed from an exogenous shock rather than structural imbalance and projecting a gradual decline in the debt ratio. More recently, (Yap et al., 2026) found that Philippine debt sustainability is more sensitive to growth shocks than to financing conditions. For Romania, (Lazarescu et al., 2025) and (Ioana et al., 2020) tracked the evolution of the country's debt indicators between 2015 and 2020 and documented a reversal driven by the pandemic, while (Alexandrina et al., 2026)showed that a rigid public expenditure structure, dominated by wages and current spending, limits Romania's fiscal flexibility despite adequate tax revenue. (Bostan et al., 2018) similarly found that Romanian fiscal policy is sustainable only when debt growth stays below the long-term interest rate, and (Pana & Mircea, 2025) concluded, based on a stochastic debt-sustainability analysis, that only a primary balance close to zero would meaningfully slow Romania's rising debt ratio. (Grigoras-Ichim et al., 2026) documented that Romania's public debt nearly tripled between 2017 and 2024 alongside a rapidly growing debt-service burden.

To situate this comparison within the existing body of research, a keyword co-occurrence analysis of the reviewed literature was performed in VOSviewer, shown in Figure no 1 below.

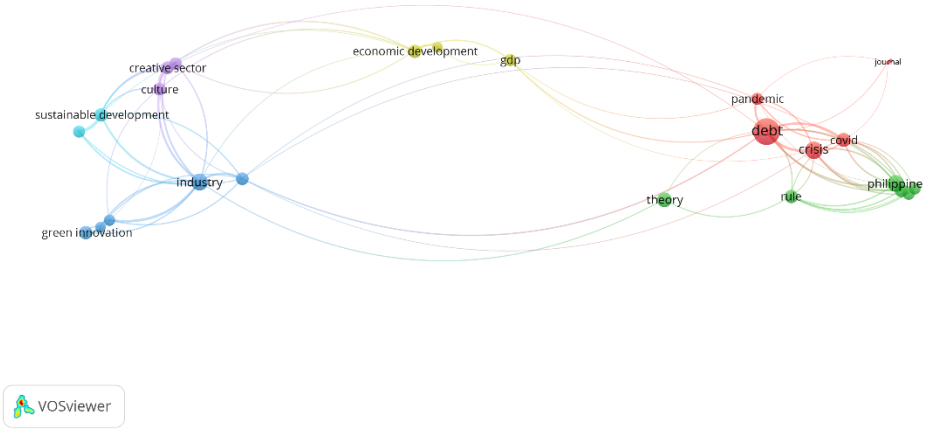


Figure 1 – Keyword co-occurrence map in the analysis of public debt

Source: Author's contribution using VOSviewer

The map shows that the reviewed literature does not yet treat the Philippines and Romania as a natural pair. Terms tied to the Philippines cluster tightly around debt, crisis, deficit and vulnerability, placing the country squarely within the existing debt-sustainability discourse. Romania, by contrast, appears on the opposite side of the map, closer to terms such as sustainable development, creative sector and culture, with only an indirect link back to the debt cluster through general macroeconomic terms like GDP and economic development. This gap in the literature — the absence of a direct link between Romania and the debt-sustainability vocabulary that already surrounds the Philippines — is part of what motivates the comparative approach taken in this paper.

Methodology

This paper follows a comparative, descriptive-analytical research design, combining a theoretical review of public debt dynamics with an empirical case study of the Philippines and Romania over the period 2016–2024. The approach is not econometric: it aims to identify and interpret differences in debt trajectories between the two countries rather than to establish statistical causality between institutional quality, fiscal policy and debt outcomes.

For analytical purposes, the 2016–2024 interval is divided into three phases — pre-pandemic (2016–2019), pandemic (2020–2021) and post-pandemic (2022–2024) — allowing the comparison to capture both the initial fiscal shock and the subsequent adjustment path in each country.

The core analytical tool is the standard public debt-dynamics equation:

$$\mathbf{\Delta d = [(r - g)/(1 + g)]d(t-1) - pb}, \text{ where:}$$

Δd is the change in the debt-to-GDP ratio, r is the real effective interest rate, g is real GDP growth;

d(t−1) is the previous period's debt ratio, and pb is the primary balance.

The real effective interest rate is not directly observable and is therefore derived in two steps: first, an implied nominal effective interest rate is estimated from the ratio of interest expenditure to the previous year's debt stock; second, this nominal rate is converted into a real rate using GDP-deflator inflation, to keep it conceptually consistent with real GDP growth. This decomposition allows the overall change in the debt ratio to be split into a

"snowball effect" (the interest-growth differential applied to the inherited debt stock) and the contribution of the primary balance, making it possible to identify, year by year, whether debt dynamics were driven mainly by growth and financing conditions or by the fiscal balance itself.

Data were compiled from IMF country reports and the IMF Fiscal Monitor and World Economic Outlook databases, European Commission fiscal-surveillance documents, and official Philippine Treasury and fiscal-policy sources, covering public debt, the budget and primary balance, real GDP growth, and GDP-deflator inflation for both countries. Institutional credibility is not measured through a numerical index; instead, it is assessed qualitatively, based on the design and enforcement record of each country's fiscal rules, surveillance mechanisms and medium-term fiscal planning.

Results and discussions

Before turning to the debt-dynamics calculations themselves, it helps to look at the raw picture first — because, taken at face value, the numbers are almost unremarkable. Both countries end up in roughly the same place. It is only once the layers underneath are pulled apart that the comparison becomes genuinely interesting.

Factor	Philippines	Romania
Pre-2020 debt direction	Declining; stronger buffer	Lower debt level, but weaker fiscal balance
Fiscal model	Primarily domestically driven	Domestic rules plus EU surveillance
Deficit pattern	Pandemic spike followed by gradual consolidation	Persistent and comparatively deeper deficits
Policy implication	Preserve consolidation without weakening growth	Persistent deficit correction

Table 1 Comparative fiscal position, institutional framework and policy implications

Source: Author's synthesis based on IMF, European Commission, and Philippine fiscal reports.

Table 1 sets the stage. Going into 2020, the Philippines carried a declining debt ratio and a domestically driven fiscal model, with a pandemic spike followed by gradual consolidation. Romania entered with an even lower debt level, but a visibly weaker fiscal balance, operating under both domestic fiscal rules and EU surveillance.

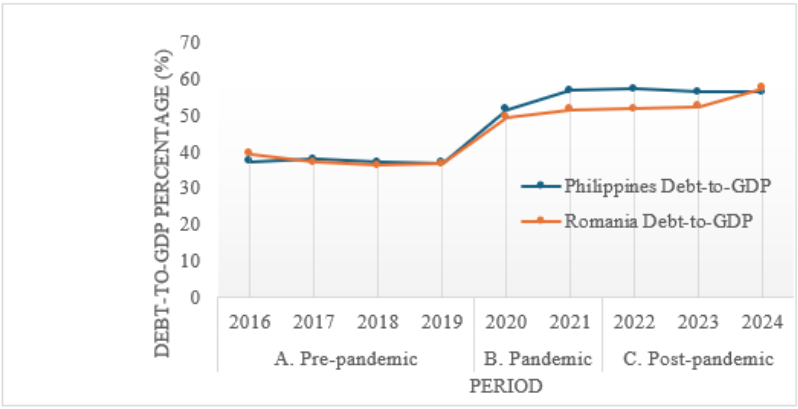


Figure 2 – Public debt-to-GDP ratio, Philippines and Romania, 2016–2024 (%)

Source: Author's contribution based on IMF data

Figure 2 shows what happened next: the two debt-to-GDP lines climb almost in lockstep for the entire period — the Philippines from 37.4% to 56.6%, Romania from 39.5% to 57.5% — and cross only at the very end, in 2024. If this were the whole story, there would be little left to say: two countries, a similar shock, a similar outcome.

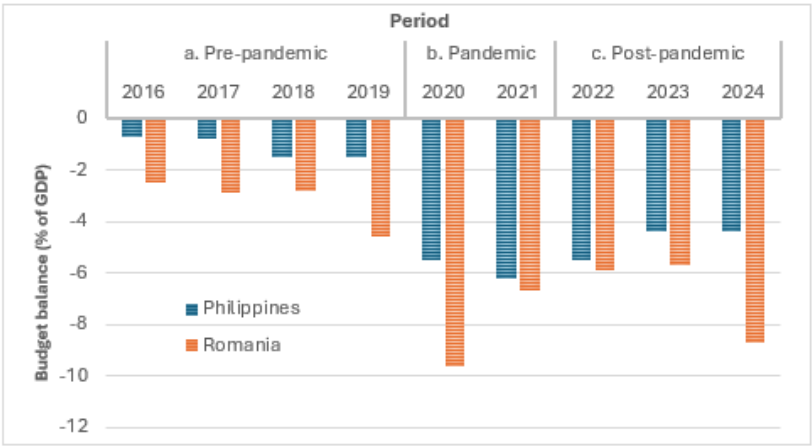


Figure 3 – General government budget balance, 2016–2024 (% of GDP)

Source: Author's contribution based on IMF country data

But Figure 3 already hints that something does not add up. Romania's budget deficit is wider than the Philippines' in every single year of the sample — not only during the pandemic, when both deficits spiked, but before and after it as well.

Indicator	Philippines	Romania
Average real GDP growth, 2016–2019	6.60%	5.13%
Average real GDP growth, 2022–2024	6.26%	2.47%
Primary balance, 2019	0.10%	-3.50%
Primary balance, 2024	-1.40%	-6.60%
Implied nominal effective interest rate, 2019 (Note 1)	4.61%	3.36%
Implied nominal effective interest rate, 2024 (Note 1)	5.78%	4.38%

Debt-to-GDP, 2019	37.00%	36.80%
Debt-to-GDP, 2024	56.60%	57.50%
Estimated General Government Gross Debt 2024 (USD) *(These nominal values are presented for scale only and should not be interpreted as a direct measure of debt sustainability.)*	261.28 billion	220.02 billion

Table 2 – Selected indicators relevant to public debt sustainability

Source: Author's calculations based on IMF country data, IMF Fiscal Monitor and World Economic Outlook data, and GDP-deflator data from the World Bank series accessed through Trading Economics.

Table 2 sharpens this further. Romania's primary balance was already negative before COVID-19 (−3.5% in 2019, versus +0.1% for the Philippines), and it remained deeply negative in 2024 (−6.6% versus −1.4%). Meanwhile, Romania's growth, which had outpaced the Philippines before the pandemic, fell behind it afterwards (2.47% versus 6.26% in 2022–2024). So the two countries arrive at nearly the same debt ratio, but one got there while running a persistent structural deficit and slowing down, and the other while running a shrinking deficit and speeding up. Same destination, opposite direction of travel.

Year	Debt Dynamics, Δd (% of GDP)		Note
	Philippines	Romania	
2017	**−2.41**	**−1.72**	**Negative Δd** indicates a debt-reducing contribution; positive **Δd** indicates a debt-increasing contribution within the simplified framework. The estimated **Δd** should be interpreted as the contribution predicted by the simplified debt-dynamics framework rather than as the exact observed annual change in the debt-to-GDP ratio. Differences may arise from exchange-rate effects, valuation changes, stock-flow adjustments, financial transactions, and other factors excluded from the simplified model.
2018	**−2.05**	**−1.16**	
2019	**−0.88**	**0.92**	
2020	**8.72**	**9.47**	
2021	**2.33**	**1.59**	
2022	**−1.28**	**−1.55**	
2023	**−0.98**	**−1.21**	
2024	**−0.16**	**4.01**	

Table 3 – Estimated debt-dynamics components, Philippines and Romania, 2017–2024

Source: Author's calculations based on IMF data and GDP-deflator data from the World Bank series accessed through Trading Economics.

This is where the comparison turns genuinely counterintuitive. Table 3 shows that Romania's financing conditions were, if anything, more favourable than the Philippines' throughout 2017–2024 — its real effective interest rate was negative every single year, meaning growth alone was doing the heavy lifting of shrinking the debt ratio, almost for free. By the textbook logic of debt dynamics, Romania should have had an easier path than the Philippines, not a harder one. Yet the debt-dynamics contribution (Δd) tells the opposite story: by 2024, Romania is back to a debt-increasing year (+4.01%), while the Philippines has settled into a debt-reducing one (−0.16%) — despite facing a real interest rate that was, that same year, higher than Romania's. The only variable that explains this reversal is the primary balance: Romania's simply never closed; the Philippines did.

Year	Period	Debt/GDP		Overall balance / net lending-borrowing		Real GDP Growth		PH Primary Balance	
		PH	RO	PH	RO	PH	RO	PH	RO
2016	Pre-pandemic	37.4	39.5	-0.7	-2.5	7.1	2.9	1	−1.2
2017	Pre-pandemic	38.1	37.1	-0.8	-2.9	6.9	8.2	0.9	−1.7
2018	Pre-pandemic	37.1	36.4	-1.5	-2.8	6.3	5.4	0.2	−1.4
2019	Pre-pandemic	37	36.8	-1.5	-4.6	6.1	4	0.1	−3.5
2020	Pandemic	51.6	49.5	-5.5	-9.6	-9.5	-3.6	−3.7	−8.2
2021	Pandemic	57	51.8	-6.2	-6.7	5.7	5.6	−4.4	−5.2
2022	Post-pandemic	57.4	51.9	-5.5	-5.9	7.6	4.2	−3.5	−3.8
2023	Post-pandemic	56.5	52.6	-4.4	-5.7	5.5	2.3	−2.1	−3.7
2024	Post-pandemic	56.6	57.5	-4.4	-8.7	5.7	0.9	−1.4	−6.6

Table 4 – Consolidated Macroeconomic Dataset, 2016–2024

Sources: *Author's compilation based on IMF country data and IMF Fiscal Monitor DataMapper.*

Table 4, which lays out the complete year-by-year dataset behind these calculations, confirms that this pattern holds consistently across the whole period rather than being driven by any single year or shock — which is what makes it a structural difference between the two countries, not a temporary one.

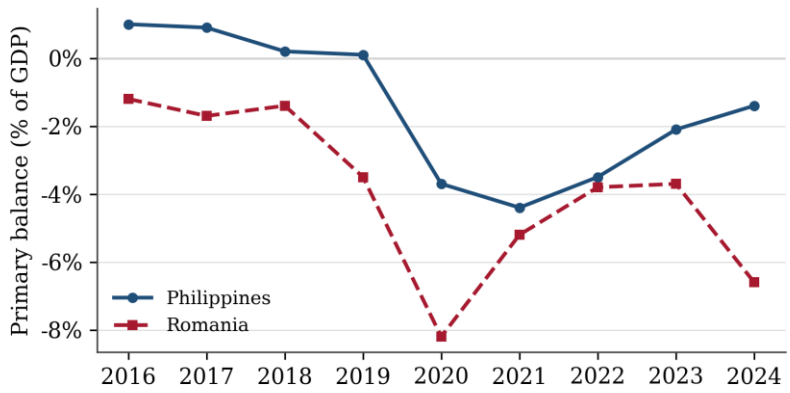


Figure 4– Primary balance, Philippines and Romania, 2016–2024 (% of GDP)

Source: Author's contribution based on IMF Fiscal Monitor data

Figure 4 makes the same point visually. What stands out immediately is the different shape of the two curves: the Philippines drops sharply in 2020–2021 but then climbs almost steadily back toward zero through 2024. Romania drops just as sharply, recovers a little in 2021–2022, and then — exactly when the adjustment should have continued — collapses again toward −6.6% in 2024. This is not a recovery interrupted by a single shock; it is a recovery abandoned halfway through.

Year	Philippines			Romania		
	Implied nominal (i)	GDP deflator (\π)	Real (r) (1+i)/(1+π)-1	Implied nominal (i)	GDP deflator (\π)	Real (r) (1+i)/(1+π)-1

2017	4.97%	2.32%	**2.59%**	3.44%	4.65%	**−1.16%**
2018	4.92%	3.74%	**1.14%**	4.22%	6.19%	**−1.86%**
2019	4.61%	0.70%	**3.88%**	3.36%	6.95%	**−3.36%**
2020	4.48%	1.65%	**2.78%**	3.82%	4.11%	**−0.28%**
2021	3.77%	2.28%	**1.46%**	3.38%	5.61%	**−2.11%**
2022	3.98%	5.49%	**−1.43%**	4.74%	12.09%	**−6.56%**
2023	4.42%	4.60%	**−0.17%**	4.45%	12.77%	**−7.38%**
2024	5.78%	2.91%	**2.79%**	4.38%	8.81%	**−4.07%**

Table 5 – Computation of the Real Effective Interest-Rate Proxy, 2017–2024

Source: Author's calculations based on IMF data and GDP-deflator data from the World Bank series accessed through Trading Economics.

Year	Primary Balance (% GDP)	Overall Balance (% GDP)	Interest Burden (% GDP)	Previous-Year Gross Debt (% GDP)	Real GDP Growth (%)	GDP Deflator (%)	Derived Nominal GDP Growth (%)	Implied Nominal Effective Interest Rate (%)
Philippines								
2017	0.9	−0.8	**1.7**	37.4	6.9	2.3203	**9.38**	**4.97**
2018	0.2	−1.5	**1.7**	38.1	6.3	3.7407	**10.28**	**4.92**
2019	0.1	−1.5	**1.6**	37.1	6.1	0.6971	**6.84**	**4.61**
2020	−3.7	−5.5	**1.8**	37	−9.5	1.6505	**−8.01**	**4.48**
2021	−4.4	−6.2	**1.8**	51.6	5.7	2.2825	**8.11**	**3.77**
2022	−3.5	−5.5	**2.0**	57	7.6	5.4887	**13.51**	**3.98**
2023	−2.1	−4.4	**2.3**	57.4	5.5	4.6014	**10.35**	**4.42**
2024	−1.4	−4.4	**3.0**	56.5	5.7	2.9142	**8.78**	**5.78**
Romania								
2017	−1.7	−2.9	**1.2**	39.5	8.2	4.6513	**13.23**	**3.44**
2018	−1.4	-2.8	**1.4**	37.1	5.4	6.1868	**11.92**	**4.22**
2019	−3.5	−4.6	**1.1**	36.4	4	6.9465	**11.22**	**3.36**
2020	−8.2	-9.6	**1.4**	36.8	−3.6	4.1105	**0.36**	**3.82**
2021	−5.2	−6.7	**1.5**	49.5	5.6	5.6103	**11.52**	**3.38**
2022	−3.8	-5.9	**2.1**	51.8	4.2	12.092	**16.8**	**4.74**
2023	−3.7	-5.7	**2.0**	51.9	2.3	12.7699	**15.36**	**4.45**
2024	−6.6	-8.7	**2.1**	52.6	0.9	8.8098	**9.79**	**4.38**

***Note:* Interest burden** *is calculated as the difference between the general government primary balance and overall balance.* **Nominal GDP growth** *is derived from real GDP growth and GDP-deflator inflation using* $1+gN=(1+gR)(1+\pi)$. *The implied nominal effective interest rate is approximated as current-period net interest payments divided by the previous-period gross debt stock. Because both fiscal variables and debt are originally expressed as percentages of GDP, nominal GDP growth is used to place current-period interest expenditure and previous-period debt on a consistent denominator.*

$$\text{Interest burden}_t = PB_t - OB_t$$

$$1 + g_t^N = (1 + g_t^R)(1 + \pi_t)$$

$$i_t = \frac{\text{Interest burden}_t(1 + g_t^N)}{d_{t-1}} \times 100$$

Where gt^N is nominal GDP growth, gt^R is real GDP growth, π_t is GDP-deflator inflation, and d_{t-1} is the previous-year gross-debt ratio

Table 6 – Computation of the Implied Nominal Effective Interest Rate on Government Debt, 2017–2024

Source: Author's calculations based on IMF data and GDP-deflator data from the World Bank series accessed through Trading Economics.

Tables 5 and 6 show the mechanics behind the real interest rate used above: Table 6 derives the implied nominal interest rate from the ratio of interest expenditure to the previous year's debt stock, and Table 5 converts it into a real rate using GDP-deflator inflation. This step matters because it explains why Romania's real interest rate came out negative every year: Romanian inflation was systematically higher than the nominal rate the government actually paid on its debt, which eroded the real cost of borrowing almost entirely. In other words, Romania did not earn its negative real interest rate through skilful debt management — it benefited from it because inflation quietly paid part of the bill. That is a real advantage, but a fragile one, since it can disappear as soon as inflation cools — which is already visible toward 2024, when Romania's real rate climbs back up toward −4%.

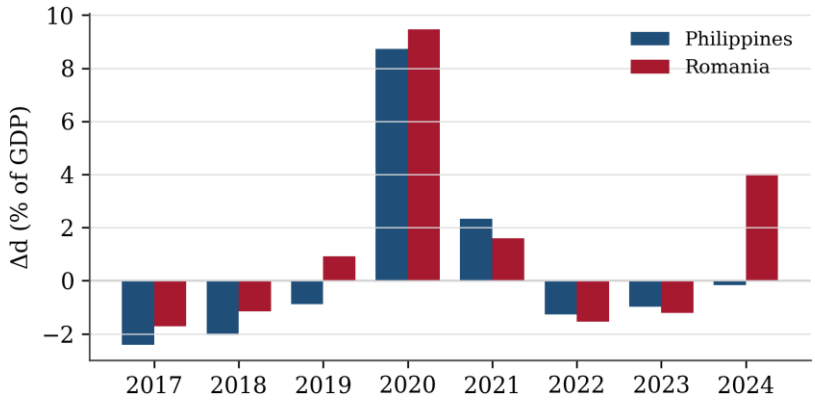


Figure 5 – Debt-dynamics contribution (Δd), Philippines and Romania, 2017–2024 (% of GDP)

Source: Author's calculations based on IMF and Trading Economics data

Figure 5 is, in effect, the summary image of this whole section: the Δd contribution for each year, for both countries. Visually, the two bars sit almost side by side in every year — including 2020, when both jump above 8–9% — with one clear exception: 2024, where the Philippine bar stays close to zero while Romania's jumps alone to +4%. That is the exact point where the two countries' shared story breaks apart, and the chart shows it more directly than any table of numbers could.

Variable	Definition	Calculation / Unit	Source
Public debt	General government gross debt — Gross liabilities of the general government sector expressed as a percentage of GDP.	% of GDP	IMF

Budget balance	Net lending/borrowing	% GDP	IMF
Primary balance	Fiscal balance excluding interest	% GDP	IMF
Real GDP growth	Annual real output growth	%	IMF
Implied nominal effective interest rate	Effective interest-rate proxy derived from current-period interest burden relative to the previous-period debt stock.	$i_t = (I\ B_t(1+g_t^N))/\ d_{t-1}$	Author's calculation
Real effective interest rate proxy	Implied nominal effective interest rate adjusted using GDP-deflator inflation.	%	Author's calculation
Snowball effect	Contribution of the interest-growth differential to the change in the debt-to-GDP ratio, applied to the previous-period debt stock. A negative value indicates that growth exceeds the real effective interest rate sufficiently to reduce debt pressure; a positive value indicates debt-increasing pressure	$((r-g)/(1+g))\ dt_{-1}$	Author's calculation
Debt dynamics	Model-implied change in the debt-to-GDP ratio resulting from the combined effect of the snowball effect and the primary balance. Negative Δd indicates a debt-reducing contribution, while positive Δd indicates a debt-increasing contribution within the simplified framework.	$\Delta d=[((r-g)/(1+g))d_{t-1}]-pb$	Author's calculation
GDP-deflator inflation	Annual change in the GDP deflator; used to convert the nominal effective interest rate into a real effective interest-rate proxy.	%	World Bank series is accessed through Trading Economics
Nominal GDP growth	$1 + g_N = (1 + g_R)\ (1 + \pi)$	%	Author's Calculation

Table 7 – Variable Definitions, Calculation Methods and Data Sources

Source: Author's synthesis

Table 7 closes the loop by setting out the definitions and formulas behind every variable used in this calculation (the real rate, the snowball effect, debt dynamics). Its role here is not merely methodological — it confirms that every step of the analysis above can be independently reproduced and checked, which matters most for the counterintuitive result flagged earlier: that a favourable financing environment.

Conclusions

This paper asked whether public debt sustainability can be read off the debt ratio alone, or whether something less visible underneath decides the outcome. The Philippines and Romania give a clean answer: by 2024 both had arrived at almost the same debt-to-GDP ratio, yet their underlying trajectories were moving in different directions.

What matters most here is not that the two countries diverged, but why. Romania's real interest rate stayed negative throughout the period, meaning growth alone was already working in favor of a lower debt ratio. The Philippines, facing a comparatively higher real interest rate, achieved its improvement mainly by steadily narrowing its primary deficit. This points to the primary balance as the variable with the most room to shape the outcome going forward, for both countries.

This also says something useful about institutional credibility. The Philippines' post-pandemic consolidation shows that domestic fiscal tools alone can deliver a clear, steady adjustment. Romania's dual framework — domestic rules plus EU surveillance — represents a strong institutional foundation whose full potential has yet to be reflected in the primary balance; this suggests that further alignment between the two levels of oversight could be a productive area for future fiscal strategy.

The policy conclusion follows naturally. The Philippines can continue its current path — steadily narrowing its primary deficit while protecting productive investment. Romania is, in some respects, well positioned: because its interest-growth differential is already favorable, even a moderate narrowing of the primary deficit would be enough to shift its debt trajectory onto a clearly sustainable path.

Two aspects are worth noting for future research. The debt-dynamics model used here is simplified and does not separate out exchange-rate or valuation effects that can cause the actual debt ratio to differ somewhat from the model's estimate. Institutional credibility was also assessed qualitatively rather than through a numerical index, leaving room for a more granular measure in future work. A natural next step would be extending this comparison to a wider set of emerging economies, to see how broadly the pattern observed between the Philippines and Romania applies elsewhere.

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