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## State Debt - characteristics, dynamics and comparison

Technical box extracted from:

[Inflation Report no.3, August 2013](#) [1]

The euro area debt crisis and state budget problems of the United States of America have conditioned the global economy in the past two years. Thus, the term „public debt”, „government debt” and „state debt” became mandatory in the macroeconomic analysis of experts and specialized organizations. Although the phenomenon was first presented as relatively simple, now the euro area debt crisis has become very complex, emphasizing the need for deeper knowledge of the processes involved. However, the phenomenon is not new, most countries recorded at a certain moment a high level of public debt, including the Republic of Moldova. For example, during the Second World War, the debt has increased substantially in the U.S., a phenomenon quite common in the 80s in Latin America, in some European countries the high levels of public debt have been recorded since the early 2000, while the limit of indebtedness of the United States or its related problems are often present since 2011. The data on the public debt of the Republic of Moldova indicate that until 2002 the national economy recorded high levels of state debt, peaking in 1998, when the Moldovan state debt to GDP ratio was 159.4<sup>1</sup> percent.

EU Member States debts are regulated by the Protocol on the excessive deficit procedure annexed to the Maastricht Treaty. The term “public debt”, used by the European countries, is defined as general government consolidated gross debt at nominal value at the end of the year and includes the debts of the central government, state government, local government and social security funds<sup>2</sup> - which is equivalent to state debt or government debt. According to the aforementioned document for the stability of the EU countries the percentage of debt to GDP shall be less than 60 percent. The Member States are also obliged to comply with the limit of 3 percent for the ratio of the planned or actual public deficit and GDP. IMF data for 2012 indicate that Greece (159.6 percent) holds the largest share of public debt to GDP in the euro area - a fact well known since Greece has come into prominence by keeping suspense on the financial markets with regard to the funding programs to avoid bankruptcy and population strikes that took place in response to the austerity measures taken by the Greek authorities. According to the IMF data for 2012, other countries facing sovereign debt crisis are: Italy (127.0 percent), Portugal (123.0 percent) and Ireland (117.1 percent). At the same time, the public debt to GDP of Spain has substantially increased in 2012, from 69.1 percent in 2011 to 84.1 percent in 2012, because of state involvement in private debt relief in order to avoid the deepening of the banking crisis and, of course, due to the GDP reduction, which from a mathematical perspective contributed to the increase of public debt to GDP. Currently, Cyprus is on the list of European countries with problems, but as with Spain, it is a crisis of the banking system, although the growing public debt shall not be neglected (Chart no.1).

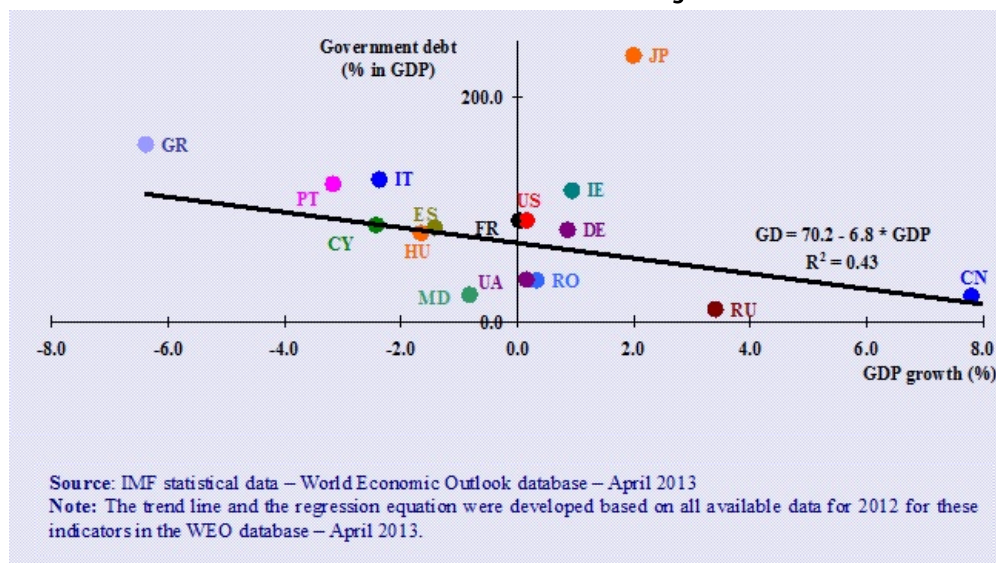
U.S. Constitution gives the Congress the sole power to borrow money. By 1917, Congress authorized directly each bond issue, but to provide more flexibility to finance the U.S. involvement in World War I, the Congress modified the method by which the state borrowing level is authorized in the so-called “Liberty Bond Act”. According to this Act, the Congress established a limit or ceiling on the amount of bonds that could be issued for state borrowing. Between 1940 and 2013, the ceiling was raised 94 times. Typically, the U.S. debt ceiling is changed with the adoption of the budget for the next year, and the disparity of such actions in 2011 caused the so-called debt ceiling crisis. The Congress has resolved this issue in August 2011 by increasing the borrowing ceiling from USD 14.294 billion to USD 14.694 billion, thus avoiding the U.S. entry into a default. Although the debt ceiling has been increased again after August 2011, the 2011 crisis resulted in the establishment of more complex mechanisms for the latter increases of the ceiling and decreases of budgetary spending. A

provision in this sense (adopted on December 31, 2012) states that if until December 31 no agreement has been concluded on budget spending for next year, in order to reach the level of USD 1.2 billion deficit in the next 10 years, government spending cuts and tax increases shall be made.

Japan is the leader in terms of the public debt level, with a public debt to GDP ratio of 237.9 percent recorded in 2012. Typically, the countries with the highest level of quality of life have higher public debt. Developing countries, however, have an acceptable level of public debt. For example, in the Russian Federation, the natural reserves are significant sources of financing the budget. Neighboring economies, Romania and Ukraine have an acceptable level of public debt to GDP ratio, but in recent years they record significant growth, for 2012 IMF indicates values of 37.0 percent for Romania and 37.4 percent for Ukraine (Chart no.1).

For the Republic of Moldova, the equivalent debt indicator, representative and comparable internationally, represents the sum of state debt and the ATU Gagauzia debt from to the reports submitted by the Ministry of Finance (according to the data presented by the IMF for the category Gross Government Debt). According to the legislation of the Republic of Moldova, the state debt<sup>3</sup> represents current and outstanding monetary contractual obligations of the state and the due and unpaid interest, arising from the quality of the state as debtor or guarantor, being contracted in national currency or foreign currency by the Government on behalf of the Republic of Moldova through the Ministry of Finance. For 2012, the IMF indicates that the state debt of the Republic of Moldova to GDP is 23.8 percent – a relatively acceptable value compared with the data for other countries mentioned above. The significant decrease in the indicator from 159.4 percent – the maximum amount recorded in 1998 – to the minimum of 18.8 percent in 2008 is due to the fact that the GDP growth rate exceeded the debt state growth rate. Since 2009, the debt of the Republic of Moldova has been slightly increasing due to the reversal of the growth rates of these indicators, the debt increase being determined by the increase in the loans contracted by the Republic of Moldova.

**Chart no. 1. Government debt in relation to the economic growth in 2012**



It should be also mentioned that, in order to assess the economic sustainability of a state, the public debt to GDP is only one of many important macroeconomic indicators to be analyzed.

**Note:** In the text above, unless stated otherwise, any reference to public debt, national debt, state debt, government debt is equivalent to **General Government Gross Debt**, in the context of its use for comparison at the global level.

1 IMF, World Economic Outlook database – April 2013, General government gross debt (% of GDP)

2 Eurostat, Macroeconomic Procedure Imbalance Methodology

3 Law of Republic of Moldova no.419-XVI from 22.12.2006 „On public debt, state guarantees and re-crediting” Totodată, de menționat că pentru aprecierea sustenabilității economiei unui stat, nivelul datoriei publice raportat la PIB reprezintă doar unul dintre mulți indicatori macroeconomici importanți de analizat.

See also

Tags

[datoria de stat](#) <sup>[2]</sup>

[datorii de stat](#) <sup>[3]</sup>

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