Conceptual issues related to the definition of government debt

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1. European definition of general government debt

2. Other government debt definitions, net debt and alternative measures

3. Looking forward: debt of public sector and contingent liabilities

4. Conclusion
1. European definition of general government debt

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European definition of general government debt

2010

-15.0 -12.0 -9.0 -6.0 -3.0 0.0 3.0
Net lending (+)/Net borrowing (-) as % of GDP

0.0 20.0 40.0 60.0 80.0 100.0 120.0 140.0 160.0 180.0
Maastricht debt as % of GDP

Net lending (+)/Net borrowing (-) as % of GDP
European definition of general government debt

Conceptual issues related to the definition of government debt

Net lending (+)/Net borrowing (-) as % of GDP

Maastricht debt as % of GDP

2014
European definition of general government debt – Eurostat

Assets

Liabilities

- Currency and deposits
- Debt securities
- Loans
- Other accounts payable and financial derivatives

Maastricht debt

Conceptual issues related to the definition of government debt
European definition of general government debt – Eurostat

- The calculation of the debt indicator uses ESA as a reference, but differs from the stocks accounts of ESA.

- Maastricht debt is not fully integrated in the framework of national accounts. The main differences:
  1. Maastricht debt excludes some financial instruments.
  2. Maastricht debt is an end-of-a-period position at face value.
  3. Maastricht debt is a gross definition.
Conceptual issues related to the definition of government debt

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## European definition of general government debt

### Maastricht debt and net debt

<table>
<thead>
<tr>
<th>Financial assets</th>
<th>Liabilities</th>
<th>Net financial assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>AF1 Monetary gold and SDRs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AF2 Currency and deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AF3 Debt securities</td>
<td></td>
<td></td>
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<tr>
<td>AF4 Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AF5 Equity and investment fund shares</td>
<td></td>
<td>Maastricht debt</td>
</tr>
<tr>
<td>AF6 Insurance pension and standardised guarantee schemes</td>
<td></td>
<td>Net debt</td>
</tr>
<tr>
<td>AF7 Financial derivatives and employee stock options</td>
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<td></td>
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<tr>
<td>AF8 Other accounts receivable/ payable</td>
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Conceptual issues related to the definition of government debt
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Example of net debt used in Portugal

Maastricht debt and Maastricht net debt of deposits of central government
# Conceptual issues related to the definition of government debt

## Wider definitions of general government debt

### IMF – Public Sector Debt definition

<table>
<thead>
<tr>
<th>Financial assets</th>
<th>Liabilities</th>
<th>Net financial assets</th>
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</thead>
<tbody>
<tr>
<td>AF1 Monetary gold and SDRs</td>
<td>Total gross debt</td>
<td>Total net debt</td>
</tr>
<tr>
<td>AF2 Currency and deposits</td>
<td></td>
<td></td>
</tr>
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Wider definitions of general government debt

Maastricht debt and Maastricht debt including trade credits, for Portugal
Conceptual issues related to the definition of government debt

Wider definitions of general government financial position

Financial accounts

<table>
<thead>
<tr>
<th>Financial assets</th>
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<th>Net financial assets</th>
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Total liabilities

Net financial worth
Wider definitions of general government financial position

General government liabilities and Maastricht debt, for Portugal
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4. Conclusion
Delimitation of the public sector

Conceptual issues related to the definition of government debt

Public Sector

Non-financial public sector

General Government

Public corporations

Public non-financial corporations

Public non-financial corporations not included in General Government

Public financial corporations

General government entities excluding corporations

Public corporations included in the General government
Conceptual issues related to the definition of government debt

Maastricht debt and debt of non-financial public sector, for Portugal

![Graph showing Maastricht debt and debt of non-financial public sector as a percentage of GDP from December 2007 to December 2014.](image-url)
Conceptual issues related to the definition of government debt

Future liabilities of the general government sector

- Guarantees granted by government
- Pension entitlements of public social insurance schemes
- Liabilities due to long-term contracts:
  - Public-private partnerships
- Non-performing loans:
  - Student loans
  - Import / export loans
Conceptual issues related to the definition of government debt

Summary: “Layers” of government debt

**Public sector**

**Non-financial public sector**

**General government**

- Central government
  - Budgetary central government
  - Extrabudgetary units/entities
- State and local governments
- Social security funds

**Public non-financial corporations**

**Public financial corporations**

<table>
<thead>
<tr>
<th>(+) Liabilities</th>
<th>(−) Financial assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>Gross debt</td>
</tr>
<tr>
<td>Loans</td>
<td>Net debt</td>
</tr>
<tr>
<td>Currency and deposits</td>
<td></td>
</tr>
<tr>
<td>Trade credits</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td></td>
</tr>
<tr>
<td>Pension entitlements and other contingencies</td>
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**Valuation**

- Nominal value
- Face value
- Market value
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Conclusion

• The definition of public debt is not a closed concept
• The definition of debt used in the European Union is one of the most restrictive concepts in terms of sector delimitation, valuation, instrument coverage and netting
• The concept might be enlarged by including all of the public sector and not only the general government
• An important challenge also to take into account: the treatment of future liabilities of governments, namely pension entitlements of public social insurance schemes, guarantees granted, and other off-balance-sheet liabilities.
THANK YOU FOR YOUR ATTENTION!

Obrigado pela vossa atenção!

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