Conceptual issues related to the definition of government debt

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This paper discusses several concepts as regards the definition of public debt, in particular possible changes related with the range of financial instruments included, valuation, and the delimitation of the public sector.

Firstly, it describes the different definitions of government debt that can be found in macroeconomic statistics. It considers the advantages and disadvantages of the various concepts, namely by taking into account the different coverage of entities and instruments and the different ways to value them.
From here, the paper examines the arguments that support possible changes in the government debt definition, in particular on some conceptual issues raised recently regarding the definition of the Maastricht debt, which is the concept commonly used in Europe to measure the indebtedness level of a country's general government.

In this respect, the latest discussion focused on the possible inclusion of trade credits in the definition of the Maastricht debt and the possible valuation of debt at nominal value rather than face value. Trade credits are compiled for financial accounts and the expenditure financed by trade credits is included in the calculation of government deficit. However, they are not part of the definition of the Maastricht government debt. Since significant accumulation of trade credits has been identified in many European Union Member States in recent years, the exclusion of trade credits in the current definition of the Maastricht debt appears to be something to be discussed in the future. In order to approximate the definition of debt to the national accounts definitions, the replacement of "face value" by "nominal value" was also considered, given that the first can be a misleading indicator of the value of the debt to investors. The face value does not reflect the amount of the debt that will be redeemed by the debtor, in particular because it does not include interest accrued but not paid. This has also particular implications for the recording of zero-coupon bonds and similar instruments in the EU sovereign debt market for which the face value is different from the nominal value.

The paper proceeds by looking at net debt measures, which are especially relevant in times of financial crisis, when governments tend to hold more financial assets. Some countries, like Portugal, publish their own net debt measures, as does the IMF and the ECB. However, at international level, there is currently no agreed common definition for net government debt.

Finally, the paper discusses possible advantages of taking into account, for fiscal policy purposes, the debt of the whole public sector rather than just the debt of the general government sector. This indicator may be seen as showing a more comprehensive and accurate portrait of the financial position of governments.

Keywords:. Public debt; Maastricht debt; gross and net debt; debt valuation.