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# High indebtedness – responsible and transparent debt management and reporting

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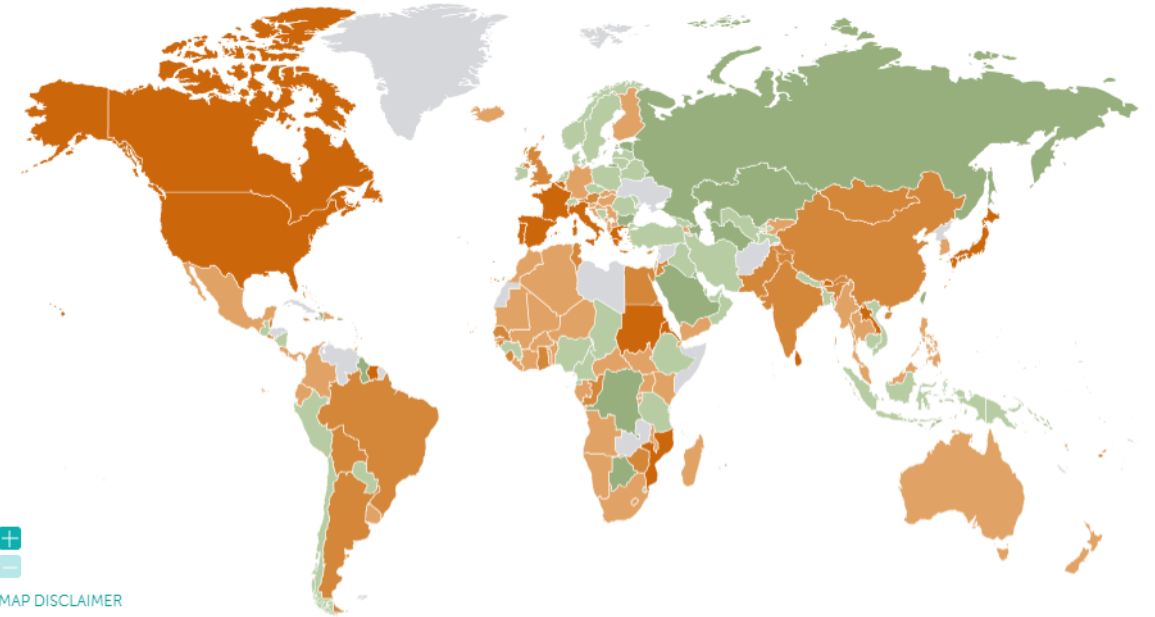
# Agenda:

- 01 How bad is it? 
- 02 The traditional Debt Definition ignores two Dimensions of Liabilities 
- 03 Measurement of debt 
- 04 Conclusions and Recommendations 

# How bad is it?

MAP (2022)

100% or more 75% - 100% 50% - 75% 25% - 50% Less than 25% no data

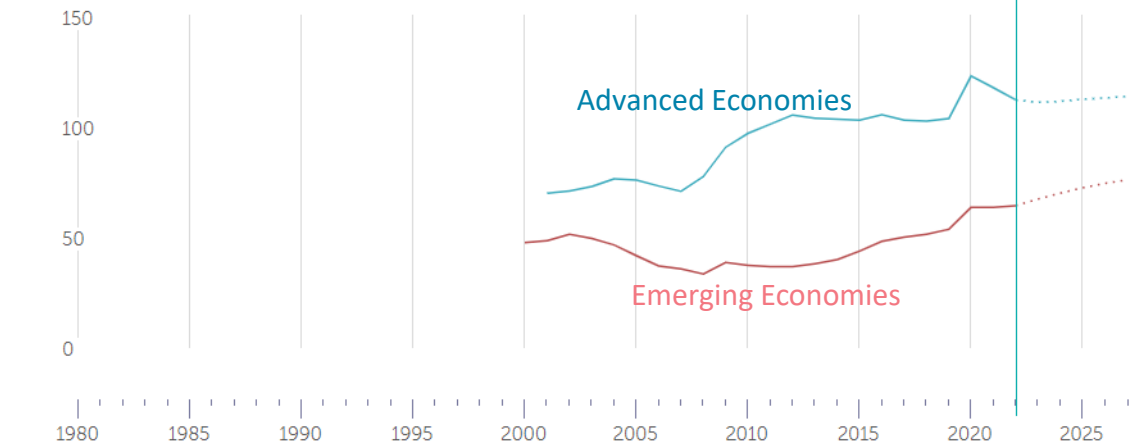


MAP DISCLAIMER



TREND (1980-2027)

Percent of GDP



Source: IMF Datamapper, retrieved 22 Nov 2022

# The traditional Debt Definition ignores two Dimensions of Liabilities

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(1) Definition of debt of the state in SNA08 22.103, based on specified instruments

*“All liabilities that require payment or payments of interest or principal by the debtor to the creditor at a date or dates in the future. Consequently, all debt instruments are liabilities, but some liabilities (...) are not debt.”*

→ There are **some obligations left out**, e.g., pension obligations, financial leasing etc.

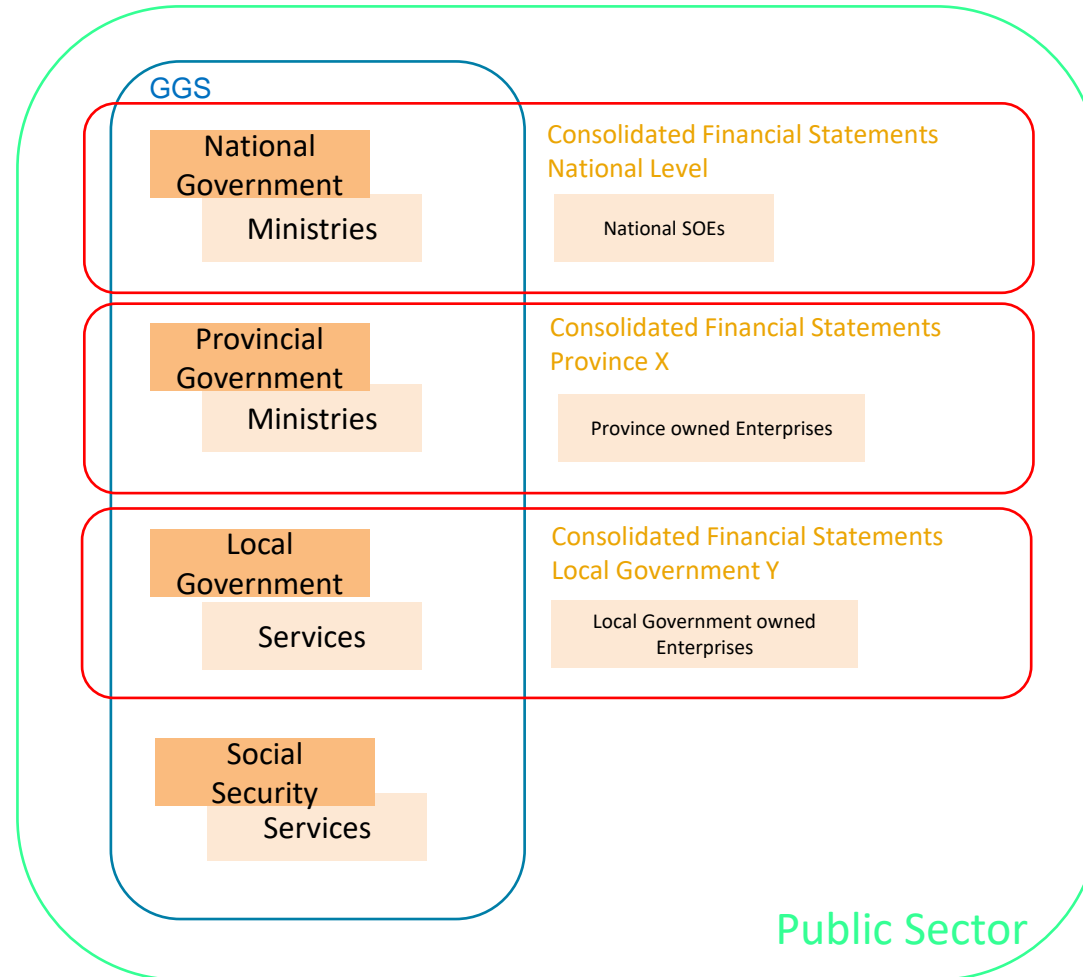
(2) Government Debts are given Instruments from the General Government Sector (GGS)

→ But also **State-owned Enterprises (SOE)** are often **debt financed**



# The traditional Debt Definition ignores two Dimensions of Liabilities

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Bergmann (2019)


# The traditional Debt Definition ignores two Dimensions of Liabilities

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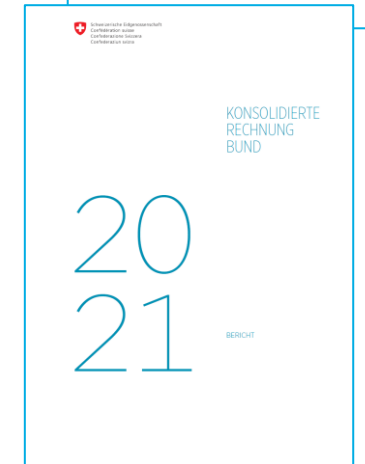
	General Government Sector (GGS)	Public Sector
Debt (Loans and Securities)	Traditional (gross) Government Debt	GGS <u>plus</u> state-owned enterprises
Liabilities	Traditional Debt <u>plus</u> PPP, Pension obligations, Financial leases etc.	Traditional Debt <u>plus</u> Other Liabilities <u>plus</u> entire Public Sector

# The traditional Debt Definition ignores two Dimensions of Liabilities

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 Schweizerische Eidgenossenschaft  
 Confédération suisse  
 Confederazione Svizzera  
 Confederaziun svizra  
  
 Swiss Confederation

<i>(only national level, «Bund»)</i>	<b>General Government Sector (GGS)</b>	<b>Public Sector</b>
<b>Debt (Loans and Securities)</b>	108 bn CHF (14% of GDP)	118 bn CHF (16% of GDP)
<b>Liabilities</b>	170 bn CHF (23% of GDP)	304 bn CHF (42% of GDP)

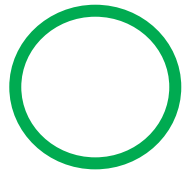


Source: Financial Statements (2022) – State and Consolidated

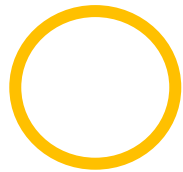
# Measurement of Debt

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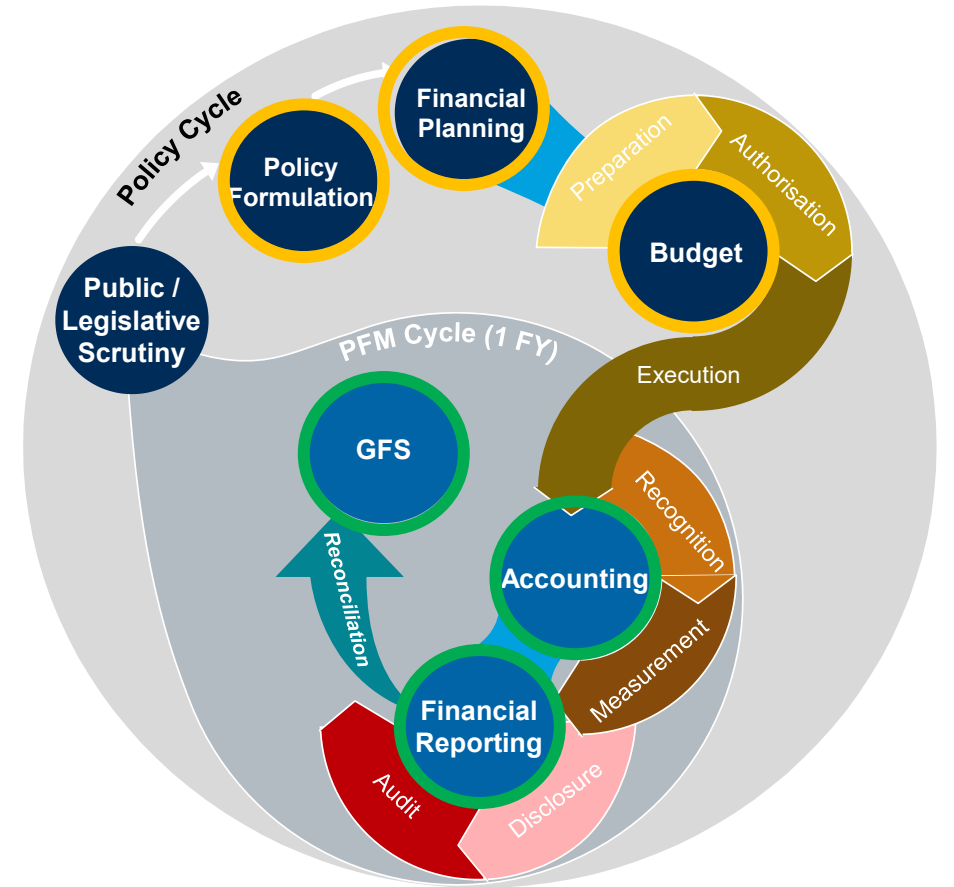
Measurement of Debt depends on **where** and **what** you measure



International Standards



Jurisdictional Norms and Standards



Source: World Bank/ZHAW, 2019



# Measurement of Debt: Initial measurement

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	IPSAS 41 (IFRS 9)	Financial statistics (IMF)	Maastricht Debt
Measurement method	Fair value	Market value or Nominal value: Present value of future payment obligations, discounted at contractual interest rate	Face value
Premium or discount (“Agio/Disagio”)	Taken into account, i.e. distributed over duration	Taken into account, i.e. distributed over duration	Not taken into account, i.e. revenue or expense on issuance
Transaction costs	Taken into account	Not taken in account, i.e. revenue or expense on issuance	Not taken in account, i.e. revenue or expense on issuance

# Measurement of Debt: Subsequent measurement

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	IPSAS 41 (IFRS 9)	Financial statistics (IMF)	Maastricht Debt (EDP)
Measurement method	Amortized cost using the Effective interest rate method	Nominal value: Present value of future payment obligations, discounted at contractual interest rate	Face value (i.e. value on the cover sheet of the contract)
Transaction cost	Taken in account when calculating effective interest	Not taken into account	Not taken into account

# Measurement of Debt: Does it matter?



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(in bn EUR)	IPSAS/IFRS (Amortized Cost)	Financial statistics (IMF, Nominal Value)	EDP («Maastricht», Face Value)
Gross government debt	125	155	311
in % of GDP	71%	88%	177%
Net government debt	72	102	n/a
in % of GDP	41%	58%	n/a

Allocation of all costs on an accrual basis

Future payment obligations

Amount mentioned on cover sheet of the contract



# Conclusions and Recommendations

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## Conclusions

- Government debt is NOT equal to public sector liabilities
- Measurement varies significantly!

## Recommendations

- Manage liabilities, not only debt
- Manage public sector, not only general government sector
- Use an economic concept (IMF and/or IPSAS; not «Maastricht»)
- Reduce **public sector liabilities** whenever the economic situation permits