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THE IMPACT OF PUBLIC DEBT ON POPULATION WELFARE

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The public debt represents „the state debt, the debt of the National Bank of Moldova, the debt of administrative-territorial units, public institutions fully or partially financed by the state or local budget, the debt arising from internal and external loans of commercial companies in which the state and the administrative-territorial unit hold more than 50 percent of the share capital, and the debt of state and municipal enterprises." The purpose of the study is to analyze the impact of public debt on the well-being of the population, highlighting how efficient debt management can influence the standard of living and social equity in a modern economy. The objectives are: analyzing the relationship between public debt and the well-being of the population, evaluating the impact of public debt on the population's access to essential services, identifying the effects of public debt on the standard of living and social equity, and studying the influence of public debt on economic and social stability.

Keywords: *public debt, welfare, quality of life, economic development, Gross Domestic Product, standard of living, economic stability.*

IMPACTUL DATORIEI PUBLICE ASUPRA BUNASTĂRII POPULAȚIEI

Datoria publică reprezintă „datoria statului, datoria Băncii Naționale a Moldovei, datoria unităților administrativ-teritoriale, a instituțiilor publice finanțate integral sau parțial din bugetul de stat sau din bugetele locale, datoria provenită din împrumuturile interne și externe ale societăților comerciale în care statul și unitățile administrativ-teritoriale dețin peste 50% din capitalul social, precum și datoria întreprinderilor de stat și municipale". Scopul studiului este de a analiza impactul datoriei publice asupra bunăstării populației, evidențiind modul în care gestionarea eficientă a datoriei poate influența nivelul de trai și echitatea socială într-o economie modernă. Obiectivele sunt: analizarea relației dintre datoria publică și bunăstarea populației, evaluarea impactului datoriei publice asupra accesului populației la servicii esențiale, identificarea efectelor datoriei publice asupra nivelului de trai și echității sociale, precum și studierea influenței datoriei publice asupra stabilității economice și sociale.

Cuvinte-cheie: *datorie publică, bunăstare, calitatea vieții, dezvoltare economică, Produs Intern Brut, nivelul de trai, stabilitatea economică.*

Introduction

In the current economic context, marked by financial instability, inflationary pressures, and budgetary imbalances, public debt management has become an essential factor in ensuring economic and social stability. The level and structure of government indebtedness directly influence the authorities' capacity to support public investment, social policies, and essential services for citizens. Thus, public debt, through its dimensions, affects not only the state's fiscal balance but also the general living conditions of the population. In this regard, studying the impact of public debt on population welfare is of particular strategic importance in contemporary economic analysis.

The premises of the evolution and development of the modern economy quantify public debt as a structural element that can influence the standard of living and economic stability. An important reason for analyzing public debt lies in the fact that it affects not only the fiscal sustainability of the state but also its capacity to invest in essential sectors such as healthcare, education, and infrastructure, thereby influencing the overall level of public welfare.

The issue of managing public debt in relation to citizens' welfare is fundamental for maintaining economic and social stability. Considering the core aspects of public debt, and as the economy and society evolve, the study of the concept of public debt has been subject to various interpretations. In this respect, the views of prominent personalities over time are reflected through different economic theories. Thus, the Keynesian theory, developed by the English economist John Maynard Keynes, argues that public debt represents “an instrument that can stimulate the economy during periods of recession by increasing government spending” [1, p. 8]. In contrast, the Monetarist theory, whose leading representative is the American economist Milton Friedman, suggests that public debt is “a source of economic instability, as financing deficits through borrowing or increasing the money supply leads to inflation and economic instability,” arguing that excessive government indebtedness should be avoided [6, p. 10].

At the national level, concepts related to public debt are also addressed. According to Marin Gospodarenco, former Director General of the National Bureau of Statistics of the Republic of Moldova, public debt represents “all the money that public institutions and enterprises have borrowed from domestic and foreign creditors and have not yet repaid.”

At the same time, according to Law No. 419/2006 on public sector debt, state guarantees, and state on-lending, public debt represents “the state debt, the debt of the National Bank of Moldova, the debt of administrative-territorial units, public institutions financed, fully or partially, from the state or local budget, the debt resulting from internal and external loans of commercial companies in which the state and/or the administrative-territorial unit holds more than 50 percent of the share capital, as well as the debt of state and municipal enterprises.” From this perspective, this definition includes a broader spectrum of economic and administrative entities compared to international approaches, which are generally more generalized.

Summarizing the above, the outlined approaches are characterized by their diversity. Nevertheless, the consolidated theoretical foundation within modern economics confirms that public debt represents the totality of the state’s obligations to domestic and foreign creditors at a given moment [7, p. 216]. Therefore, public debt constitutes a significant burden, and financing deficits entails implications for interest rates and economic growth.

The concept of population welfare is multidimensional, as it encompasses numerous aspects of human life, such as health, education, environmental conditions, income, and consumption [2, p. 40]. Furthermore, welfare assessment involves a dual approach: subjective and objective. While the objective approach is used to compare welfare levels between countries and across different periods of time, the subjective approach is necessary to identify the determinants of welfare.

According to the 2019 study by Olivier Blanchard, public debt affects population welfare through two main mechanisms: it reduces investment in capital (the “crowding-out” effect) and transfers risks from current generations to future ones, potentially limiting their ability to benefit from quality public services and to enjoy a level of economic stability similar to that of previous generations.

At the same time, in order to manage high levels of debt, governments may be forced to increase taxes or reduce public expenditures, which can lead to a higher fiscal burden on citizens and increased living costs, in line with the Ricardian concept. In this context, citizens may experience reductions in disposable income or increased economic uncertainty. Moreover, high levels of debt may make an economy more vulnerable to external shocks, such as financial crises or fluctuations in international markets, which may ultimately lead to economic instability.

Methods and materials applied

The object of the study consists in analyzing the impact of public debt on population welfare through the prism of its economic and social effects on the standard of living.

Research methodology:

a) The informational basis of the study consists of the analysis of the legislative and regulatory framework, specialized literature and scientific works referring to the impact of public debt on population welfare, as well as the examination of statistical data sources regarding the evolution of public debt, relevant economic indicators, and official government reports.

b) The research is carried out using quantitative methods, such as the analysis of the relationship between the level of public debt and economic indicators. The qualitative methods used in the study consist of the examination of the strategic documents of the Republic of Moldova regarding public debt management, assessing the impact of these policies on population welfare and economic development.

Results obtained and discussions

In the context of the evolution of the economy of the Republic of Moldova, public sector debt represents an important indicator of economic stability. According to national legislation, the outstanding public sector debt consists of state debt, the debt of the National Bank of Moldova, the debts of public sector enterprises, and the debts of administrative-territorial units, with a maturity of at least one year, as shown in Figure 1.

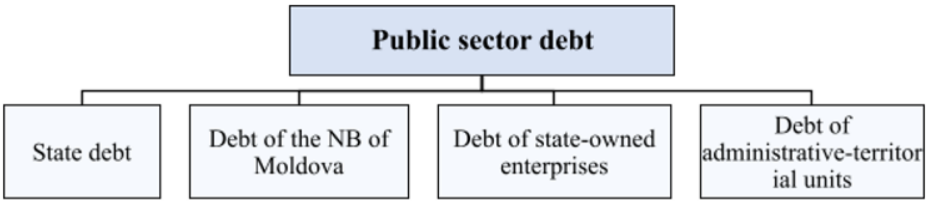

Figure 1. Components of the Public Debt of the Republic of Moldova Source: developed by the author based on [3, p. 2]

Moreover, as of December 31, 2024, state debt accounted for 96.7% of the total public sector debt, the majority of public debt being attributed to the state, as shown in Figure 2.

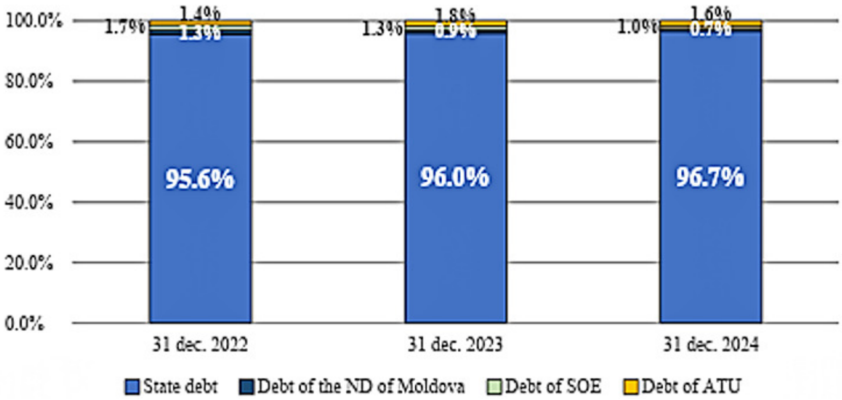

Figure 2. Evolution of public sector debt, by components, as of 31.12.2022 – 31.12.2024 Source: developed by the author based on [6, p. 3]

According to Table 1, it can be observed that state debt recorded the largest increase (+17.4 billion lei), followed by the debt of public enterprises (+2,390.4 million lei), while the debt of the National Bank of Moldova decreased by 157.7 million lei, and the debt of administrative-territorial units decreased by 9.2 million lei.

Tabel 1. Evolution of public sector debt, by components, as of 31.12.2022, 31.12.2023 and 31.12.2024

Outstanding debt, million lei	**31 dec. 2022**	**31 dec. 2023**	**31 dec. 2024**
State debt	94 660,0	104 003,1	121 394,0
Debt of the National Bank of Moldova	1 229,1	1038,4	880,7
Debt of state-owned enterprises	7 387,2	5 662,7	8 053,1
Debt of administrative-territorial units	1 943,6	2 399,8	2 390,6
Total	**98 992,7**	**108 355,9**	**125 567,0**

Source: developed by the author based on [6, p. 13]

At the end of 2024, the outstanding public sector debt reached 125,567 million lei, representing a 15.9% increase compared to the previous year. The largest share in the growth of public debt was accounted for by external debt (63.8%), as the government sought to cover the budget deficit by contracting financing from external sources. On the other hand, domestic debt accounted for 36.2% of the total amount. These aspects are illustrated in Figure 3.

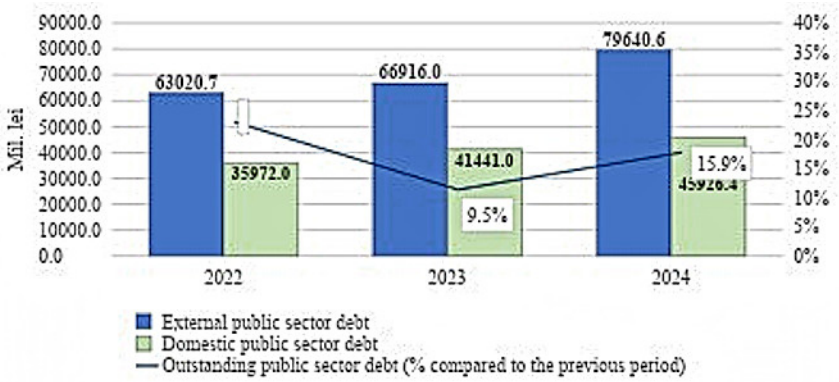

Figure 3. Evolution of the growth rate of the outstanding public sector debt, as of 31.12.2022, 31.12.2023 and 31.12.2024

Source: developed by the author based on [6, p. 11]

According to Table 2, the share of domestic state debt (36.2%) exceeds the minimum sustainability threshold of 30%. This is favorable, as the state does not depend exclusively on external sources. Accordingly, a sufficient level of domestic debt is important for reducing risks associated with exchange rate fluctuations and the conditions imposed by foreign creditors. On the other hand, external debt (63.8%) exceeds the recommended ceiling of 60% for foreign currency-denominated debt. Therefore, this generates a significant currency risk, as a potential depreciation of the national currency would lead to an increase in the real cost of servicing public debt, affecting macroeconomic balance and fiscal sustainability.

Table 2. Risk indicators related to state debt for 2024

Risk parameters	Values set for 2024
Currency risk	
Share of domestic state debt in total, % of total	minimum 30
Share of state debt in a specific foreign currency, % of total	maximum 60
Sustainability parameters	
Share of state debt in GDP, %	maximum 43

Source: developed by the author based on [5, p. 1]

At the same time, an important difference can be observed between developed and developing countries. In this regard, the debt of developed countries originates predominantly from domestic sources and only to a small extent, or not at all, from external sources. On the other hand, developing countries, such as the Republic of Moldova, are compelled to resort to external resources not only because of the underdevelopment of the domestic loan capital market, but also due to the insufficiency of foreign currency resources obtained from foreign trade [3, p. 1].

For these reasons, as of December 31, 2024, external public sector debt increased by 19%, while domestic debt recorded an increase of 10.8% compared to the previous year. In this context, the growth in domestic debt suggests an increase in borrowing from domestic financial institutions, whereas the growth in external debt reflects loans contracted by the state from international financial institutions or foreign governments.

In relation to GDP, the share of public sector debt at the end of 2024 reached 38.8%, which is 3.1 percentage points higher than in 2023. In this respect, the public debt of the Republic of Moldova (38.8% of GDP) remained below the maximum ceiling of 43% established for 2024, as presented in Table 2. This ratio indicates that the previous year’s debt level was considered sustainable, without exerting excessive pressure on the state budget. Therefore, the government had the capacity to meet its obligations without compromising the budgetary balance or the country’s economic stability. Moreover, being below the risk threshold, the state had the possibility to access additional financial resources for investments or other priority expenditures without exceeding the limits considered safe for public finances. Thus, more than half of the funds used for servicing state debt were allocated to domestic payments, while the remainder was directed toward servicing external debt.

Public debt, even at relatively low levels, can significantly influence the standard of living of a country's citizens. Therefore, its impact on population welfare depends on how financial resources are managed and how the borrowed funds are utilized.

For these reasons, a continuous increase in the public debt of the Republic of Moldova is likely to have significant effects on population welfare, both in the short and long term.

The positive effect of debt depends on the type of fiscal policy adopted. In this regard, if the Government of the Republic of Moldova invests in infrastructure or stimulates private consumption through direct measures such as tax reductions or the granting of subsidies, economic growth may be achieved. Such measures generate additional demand in the economy, thereby stimulating production and employment.

Conclusions

As a result of the conducted study, through the prism of various theoretical approaches and following the practical analysis of the national economy, it can be concluded that public debt exerts a significant impact on population welfare, both in the short and long term. When the resources attracted through public debt are directed toward financing consumption and essential public investments, they can temporarily contribute to improving the population's standard of living and stimulating economic activity.

However, a continuous increase in public debt, in the absence of efficient use and budgetary sustainability, may lead to significant negative effects. In particular, rising debt places pressure on the public budget through increased interest payment costs, which implies directing substantial financial resources toward debt servicing at the expense of investments in priority areas such as healthcare, education, and social protection.

At the same time, under conditions of high debt, the perceived risk among investors and international financial institutions increases, leading to higher risk premiums and, consequently, higher financing costs for the state, the population, and the business environment. Indirectly, this phenomenon may generate economic instability, a decline in confidence in the national currency, and, in extreme situations, the triggering of financial crises, with negative effects on the population's standard of living.

Following the analysis of the current situation in the Republic of Moldova, it can be stated that public debt does not currently represent a major problem; however, it is essential for the Government to continue managing borrowings efficiently and to prioritize productive investments.

Therefore, in order to reduce the negative impact of public debt on population welfare, prudent debt management is recommended by maintaining a balance between the volume of borrowings and the state's repayment capacity, so that debt servicing does not affect essential public expenditures. At the same time, attracted funds should be primarily directed toward productive investments, especially in infrastructure, education, and healthcare, capable of supporting economic growth and improving the standard of living in the long term.

Moreover, efforts to attract external grants should be intensified in order to reduce pressure on the budget and limit additional debt accumulation. Improving the quality of economic governance, by enhancing transparency, fiscal responsibility, and the efficiency of public spending, is also essential for strengthening the confidence of both the population and investors in state policies.

As an innovative perspective, the study proposes the development of a "Debt-Financed Welfare Index" for the Republic of Moldova, designed to assess not only the sustainability of public debt but also the social benefits generated by borrowed resources. Such an index could combine indicators related to public debt, GDP, access to healthcare and education, infrastructure development, poverty reduction, and quality of life. Through this approach, public borrowing would be evaluated according to the real improvements produced in citizens' welfare rather than exclusively through fiscal and macroeconomic criteria. The implementation of such a tool could support more transparent and efficient public debt management, ensuring that future borrowing contributes directly to sustainable social and economic development.

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