

THE ISSUE OF THE EXTERNAL DEBT OF THE WORLD'S STATES AND THE REPUBLIC OF MOLDOVA AND POSSIBLE WAYS TO ADDRESS IT

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Abstract. The article analyzes the problem of global external debt of sovereign states and integrationist unions. In the context of the cyclical nature of the development of the world economy, the periodicity of crisis phenomena is obvious, which significantly influences the dynamics of external borrowing of states. Global external debt has been growing steadily over the past 50 years, with the main debtors being developed countries.

A detailed analysis of the current state of the world debt market is provided, along with a brief assessment of the structure of global debt and the Republic of Moldova by certain indicators. Based on the examples of developed and developing countries, the main directions in which threats to national economic security are manifested are presented. The urgent need to develop an effective national strategy for managing external debt, a crucial priority for both developing and developed countries, is also argued.

Solving the problem of external debt of states does not seem feasible in the short term. However, international financial organizations have proposed practical recommendations to counter the continued growth of external debt. Regulatory methods include debt restructuring, promoting sustainable economic growth, fiscal consolidation, accelerating inflation, and creating a unified, clear and transparent database on the economic condition of debtor countries to facilitate an accurate assessment of credit risks.

Keywords: external debt, lending, debt obligations, International Monetary Fund (IMF), World Bank Group.

JEL CLASSIFICATION: E44, F34

INTRODUCTION

According to IMF statistics, global external debt has been growing steadily, more than doubling over the past 50 years. Even a decade after the global financial crisis and after a brief respite, the upward trend in global external debt has resumed. In advanced economies, the average total debt of households, businesses and governments now exceeds 250% of GDP. In emerging markets, the same average has grown more rapidly in recent years and is now around 150% of GDP².

The analysis of external debt evolution is a topical topic, essential for assessing the level of indebtedness both internationally and in the context of the Republic of Moldova. Over time, the Republic of Moldova has gone through multiple economic crises, which have had a direct impact on the country's external debt, leading to a rapid increase in the burden of outstanding debts. Currently, we are facing a similar situation, being deeply affected by the energy crisis and economic instability in the Republic of Moldova. In this context, it is imperative to establish clear priorities and effective solutions to address the debt problem.

The objectives of this research are to provide a conceptual approach to external debt, a detailed analysis of its evolution, as well as the identification of the causes and factors contributing to the increase in state indebtedness. Through this research, we aim to establish future trends, assess the impact of external debt on the country's economic stability, and formulate external debt management strategies aimed at minimizing and stopping the budget deficit and dependence on external loans.

² Global Debt Monitor [online]. [citat 20.11.2025]. Disponibil: 2024 Global Debt Monitor.pdf

Methodological basis of the analysis. General scientific research methods were used, including methods of systemic analysis and operational research, the method of comparisons and analogies, as well as formal-logical methods to move from the general to the specific.

The concept of external debt of the state and non-payment of debts. It is essential to emphasize that gross external debt is defined as the sum of current, unconditional obligations, in the form of principal and interest, that residents of a country have towards non-residents, obligations that require payment in the future. In order for a nation's debts to be considered external, they must be owed to non-residents, and the property of the resident is usually determined by the center of his economic interest.

Gross external debt is calculated as the sum of debts in the public and private sectors. The main causes of the accumulation of external debt include the development and liberalization of international trade, the state of the global economy, including the stage of the production cycle and fluctuations in world prices for energy resources and other components of production, as well as the macroeconomic situation. The most significant reason remains the inequality in the level of socio-economic and political development between the countries of the world. Developed countries, often exporters of energy resources or issuers of currencies with international circulation, have historically been in a more favorable position than emerging market countries and economies in transition. Poor developing countries lack sufficient domestic resources and cannot attract external funds due to already accumulated debts, which often leads to insolvency, accompanied by a precarious humanitarian and social situation.

An external debt crisis or insolvency refers to a situation in which states refuse to meet their debts or officially recognize that they cannot manage their own financial commitments. The starting point of the modern external debt crisis is considered to be August 1982, when the declared insolvency of Mexico was quickly followed by Brazil, Chile and Argentina. It was then realized that the bankruptcy of just three developing countries could generate a domino effect, threatening even the largest American financial institutions. To date, a continuous trend of increasing foreign debt of nations has been observed.

According to Figure 1, global debt reached \$251 trillion in 2024, up slightly from 2023 in nominal terms. As a share of GDP, global debt – which peaked at 258% of GDP in 2020 – has almost completely stabilized at just above 235%, still higher than the pre-COVID level of 230% of GDP.

Global private debt exceeded \$150 trillion in 2024. As a share of GDP, it fell by 2.8 percentage points to 143% of GDP, back to its 2019 level. Global household and non-financial corporate debt fell to 54% and 90% of GDP, respectively.

Private debt fell in both advanced and low-income developing economies and remained constant in emerging market economies (excluding China).

Private debt fell sharply in the United States by 6 percentage points of GDP, while it rose in China by 6.5 percentage points of GDP in 2024.

Global public debt rose to \$98 trillion in the same year. As a share of GDP, it resumed an upward trend, increasing by 2 percentage points to 94% of GDP. On average, the public debt-to-GDP ratio increased in emerging and developing economies, while it decreased in advanced economies.

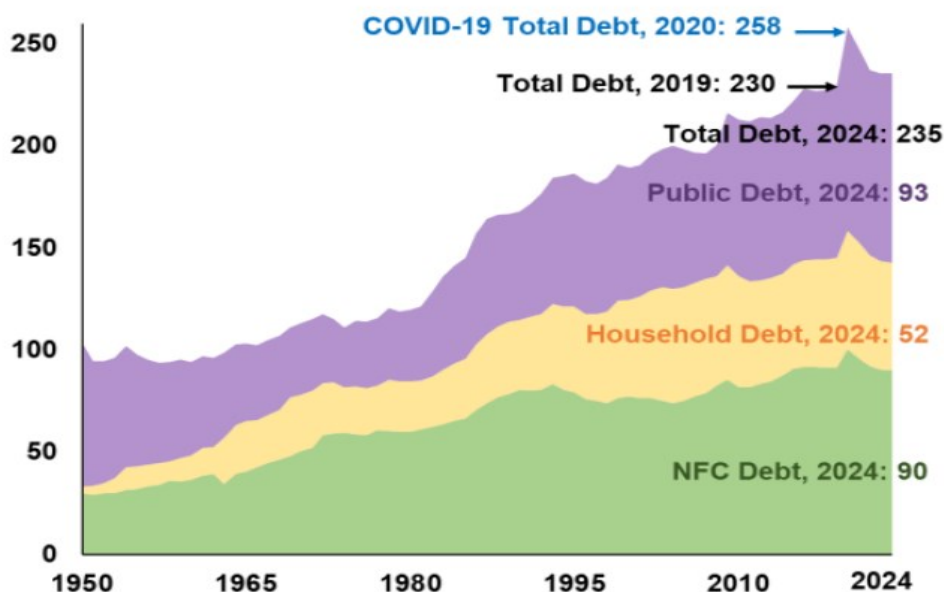


Figure 1. Diagram of the evolution of the components of global external debt.

Source: Global Debt Monitor [online]. [cited 20.11.2025]. Available: 2024 Global Debt Monitor.pdf

According to available data, the most significant turning points in the 21st century occurred during the global financial crisis of 2007-2008 and in 2020. In 2009, the level of external debt increased by 20 percentage points compared to 2007, and in 2024, external debt reached a level of 235% of global GDP, registering a decrease of 2%, as a result of the decrease in debt. It is important to note that the dynamics of debt growth vary significantly from one country to another. The pandemic had a considerable impact on China's external debt, which contributed 26% to the global debt growth. Another significant player on the global economic stage is the United States, the country with the highest level of external debt in the world.

The total volume of the United States' external debt in 2022 was \$31.12 trillion, of which \$6.82 trillion was intra-governmental debt, and the remaining \$24.29 trillion was public debt. However, despite this, in the ranking of countries by the ratio of external debt to GDP in 2021, the United States is not in the top ten.

Thus, according to the IMF, in 2021, Venezuela occupied the first position in terms of the studied indicator, having an external debt to GDP of 304%, reaching \$160 million. A significant deterioration in recent years was caused, among other things, by the sanctions imposed by US President Donald Trump on oil imports from Venezuela.

The second place is occupied by Japan, with a ratio of 256% of GDP, which has long maintained a leading position in this ranking. Japan's external debt stands at \$8.7 trillion, a situation that is explained by the effects of World War II, the economic stagnation of the 1990s, and the collapse of the Japanese stock market in 1989, from which the country has never recovered. In third place is Sudan, with a ratio of 211% of GDP. The country's first default occurred in 1984, and its significant external debt has continued to accumulate. Most of the country's debts are owed to the World Bank, the IMF, and Western governments, but Sudan was recently accepted into the IMF's debt restructuring program, which will result in the cancellation of almost 90% of its debts.

Fourth and fifth place are occupied by Greece (210% of GDP) and Eritrea (176% of GDP). Sixth and seventh places are shared by Italy and Suriname, both with a similar external debt ratio of 133% of GDP. Eighth, ninth and tenth places are occupied by the economies of Lebanon (154%), Barbados (143%) and Maldives (140%).

The United States ranked 12th in 2021 in terms of external debt as a percentage of GDP, with a ratio of 137%. In China, this ratio is about 55% of GDP and has increased significantly from 41.5%

in 2014. Russia is considered one of the countries with the lowest level of external debt, which amounts to \$ 480 billion (as of 01.01.2022) and accounts for about 21% of GDP, ranking 7-8th from the bottom of the list. The bulk of Russia's external debt comes from private loans. Compared to 2020, Russia's external debt increased by 2.8%, and the largest annual increase was observed in the banking sector, by 11%.

Global external debt during the crises of 2008 and 2020. As during the crisis of 2007-2008, developed countries recorded the highest debt growth rates. In 2020, China and developed countries were responsible for more than 90% of the increase in external debt, with total borrowing of \$28 trillion. This was facilitated by low interest rates, stimulus measures adopted by central banks (including the purchase of government bonds), and a well-developed financial system. Developed countries are also facing a significant increase in budget deficits due to the global decline in income, caused, among other things, by the reduction in global production.

Turning to developing countries and those with economies in transition, in the pre-COVID period, external debt was characterized by the following aspects. First, the growth rate of external debt did not exceed the dynamics of GDP. Second, an increase in domestic debt was observed, accompanied by a reduction in the growth rate of external borrowing. Third, there was stability or negative dynamics of creditworthiness. Fourth, there has been a partial replacement of bank loans with long-term bonds. In 2020, emerging market countries (excluding China) accounted for an average of \$1-1.2 trillion each, a relatively small proportion of total growth. However, developing countries, especially low-income countries, have seen high debt ratios due to the significant decline in nominal GDP. In emerging market countries, public debt has reached record levels, and in low-income countries it has risen to levels seen in the 2000s, when most countries in this group had to resort to debt relief initiatives.

A distinctive feature of the 2020 crisis was the sharp increase in private borrowing, against the background of the general dynamics of corporate debt growth: over the course of a decade, there was a 60% increase in advanced economies compared to 2008 levels, while in emerging economies the increase was only 20%. In 2020 alone, private sector debt increased by 14 percentage points, almost double the amount in 2009. During the pandemic, government institutions and central banks decided to provide financial assistance to private sector enterprises through concessional loans, in order to provide them with external resources. Until then, governments had sought to limit the extremely high degree of lending to the private sector.

Thus, the year 2020 highlighted the need to prevent a devastating socio-economic impact on the lives of the population, even by deliberately increasing the volume of external borrowing. Government institutions were forced to urgently support healthcare systems, which were unprepared for the global crisis, and private sector enterprises that suffered significant losses due to global lockdowns. Developed countries, especially exporting ones, also lost income due to the record low price of oil, which fell to \$ 20 per barrel. All these factors, combined with the global economic recession, led to an increase in the budget deficit and, as a result, a record jump in external debt.

Risks associated with the high external public debt of countries. The accumulation of external debt is dangerous, as it turns into an unbearable burden on the economy of the debtor country, which leads to a decrease in its solvency and a direct impact on the economic and financial security of the nation. The state's international credit relations with other countries are based on solvency, which reflects not only the state's ability to pay its obligations, but also the degree of confidence of creditors in it.

To assess the level of solvency, a number of indicators are used, in addition to the debt service ratio and the ratio of total debt to GDP:

- the share of short-term loans in external debt;
- the ratio of official reserves to the volume of debt.

The size of these indicators allows for a direct assessment of the solvency of the debtor country, which determines the degree of its involvement in international capital markets. Well-known

international rating agencies, such as Fitch and Moody's, monitor the parameters of external debt, as well as the actions of governments in the field of international economic relations and monetary policy. Based on the analysis of the collected data, the agencies periodically make rating adjustments, downgrades or upgrades, depending on the state of the debtor state. Even a slight change in the ranking positions can influence the cost of lending and the attitude of creditors and investors around the world. Countries with a low rating are considered risky debtors, which reduces their ability to attract external resources and makes loans less profitable.

In this context, most states are trying to maintain a certain level of external debt, building their economic and social policies in such a way that there is no threat to the interests of the national economy and the country's position in the international financial system. In order to avoid falling into a "debt hole", the governments of borrowing countries must actively manage external debt. First, it is essential to use external loans to achieve planned socio-economic, scientific, technical, production and structural goals. Secondly, it is necessary to look for ways to reduce external debt and pay interest on time.

The danger exists for both developed and emerging market countries. In the case of developed countries, especially the United States, an increase in the share of public debt in the volume of external debt, which is financed by non-residents through the purchase of treasury bonds, directly affects the exchange rate of the national currency, the US dollar, and leads to a weakening of the currency in international trade.

External debt of the Republic of Moldova. According to data provided by the World Bank, external debt includes public loans, state-guaranteed loans, unsecured private loans, credits granted by the International Monetary Fund (IMF), as well as short-term obligations. According to the provisions of the Law of the Republic of Moldova "On State Debt and State Guarantees", external state debt is a fundamental component of the national debt, summing up the total of unfulfilled commitments and the related unfulfilled interests, assumed on behalf of the Republic of Moldova by the Government, through the Ministry of Finance, from non-resident creditors.

In order to assess the future trajectory of external debt, we will examine the dynamics of the main macroeconomic indicators in the period 2020–2023, which will allow us to outline the probable trends in the medium term and to deepen the analysis of the evolution of external debt. In Table 1, extracted from the International Accounts of the Republic of Moldova for the period 2019–2024, we have highlighted a relevant set of macroeconomic indicators that will constitute the main basis of this analysis.

**Table 1. Evolution of macroeconomic indicators of the Republic of Moldovain the period
2019-2024 (million USD)**

	2019	2020	2021	2022	2023	2024
Gross domestic product	11740	11530	13690	14510	16540	18200
Population	2664000	2635000	2596000	2529000	2458000	2381300
Export volume	2118,04	1944,42	2562,23	3701,42	3425,50	3014,47
Foreign exchange reserves	3059,63	3783,54	3901,88	4474,17	5453,14	5483,57
Gross external debt	7182,59	8088,26	8723,31	9574,99	10118,84	10213,33
including:						
Public administration	1717,96	2255,12	2606,58	3172,85	3751,24	4235,71
Central bank	180,51	141,11	92,39	63,98	56,58	44,95

Deposit-taking corporations excluding the central bank	295	302,7	325,03	486,67	494,4	453,56
Other sectors	3108,55	3490,85	3816,68	3978,57	3936,17	3665,72
Direct investment: intra-group lending	1880,57	1898,48	1882,63	1872,92	1880,45	1813,39

Source: International Accounts of the Republic of Moldova. National Bank of Moldova: interactive database [online]. [cited 02 December 2025]. Available: www.bnm.md.

According to Table 1, the evolution of the main selected macroeconomic indicators in the period 2019–2024 shows a mixed picture, with elements of resilience, but also persistent structural challenges for the economy of the Republic of Moldova.

The foreign exchange reserve (official international reserve assets) recorded a significant and continuous increase throughout the period: from approximately USD 3.06 billion in 2019 to approximately USD 5.48 billion in 2024. This represents a clear improvement in the intervention capacity of the National Bank of Moldova in the foreign exchange market and a solid buffer against external shocks (cumulative increase of almost 80%). The level of reserves remained relatively stable and even slightly increased in 2024 compared to 2023, providing a comfortable position (usually covering 4–6 months of imports, according to international standards).

Gross external debt has seen a moderate but steady increase from USD 7.18 billion in 2019 to USD 10.21 billion in 2024 (an increase of 42%). The public component (general government) was the main driver of this expansion (from USD 1.72 billion to USD 4.24 billion), reflecting concessional external loans (from international financial institutions) to finance the budget deficit, infrastructure projects and support in times of crisis (energy, refugees, pandemic). Private debt (other sectors + intergroup + banks) remained relatively stable or even decreased slightly in some segments towards the end of the period.

Export volumes have had a volatile trajectory and have recently shown signs of weakness, with strong growth in 2021–2022 (from USD 1.94 billion in 2020 to USD 3.70 billion in 2022), driven by the post-pandemic recovery and the rerouting of some trade flows. However, a downward correction was observed in 2023–2024 (USD 3.43 billion in 2023 and only USD 3.01 billion in 2024). This decline reflects competitiveness challenges, the impact of the war in the region on logistics chains, weaker demand in traditional markets, and possible effects of real appreciation of the national currency or high energy costs.

Table 2. Evolution of relative debt indicators during the period 2019-2024

Year	Share of external debt in GDP, %	Share of external debt per capita	Share of external debt in exports, %	Share of foreign exchange reserves in external debt, %
	$PDE_{PIB}\%$	PDE_P \$	PDE_x %	$PRVd_x$ %
2019	61,18	2696,2		
2020	70,15	3069,6		
2021	63,72	3360,3		
2022	65,99	3786,1		
2023	61,18	4116,7		
2024				

Source: compiled by the author according to data in table 1.

The evolution of relative debt indicators in the period 2019–2024 reflects a mixed dynamic, marked by major external shocks (pandemic, war in Ukraine, energy crisis), but also by a gradual improvement in external debt sustainability on some key dimensions. The table highlights a general trend of improvement in the relative debt ratio starting with 2022–2023, in the context of nominal GDP growth and stabilization of debt accumulation. The external debt-to-GDP ratio indicator reached its highest value in 2020 (70.15%) – the combined effect of the decline in real GDP (-7% in 2020) and the increase in external loans to finance the budget deficit and anti-crisis measures. The subsequent significant decrease from 70.15% in 2020 → 63.72% in 2021 → 65.99% in 2022 → 61.18% in 2023 → 56.11% in 2024.

Thus, a clear downward trend is observed in recent years, reaching the lowest level in the analyzed period in 2024, indicating that nominal economic growth has partially offset the accumulation of gross external debt.

The level below 60% in 2024 places the Republic of Moldova in a relatively comfortable area for an emerging country with access to multilateral concessional financing (IMF, World Bank, EU). The risk of excessive indebtedness remains moderate, especially since a significant part of the external public debt is long-term and low-interest.

The share of external debt per capita (USD) shows a constant increase throughout the range: from 2,696 USD in 2019 → 4,290 USD in 2024 (cumulative increase of 59%).

The decrease in population (from 2.66 million in 2019 to 2.38 million in 2024) amplifies the individual burden, even if the total debt increases moderately.

Although the absolute value remains relatively small compared to countries in the region (below 5,000 USD/capita), the rapid increase against the background of emigration and demographic decline represents a long-term structural vulnerability, especially in the context of the need for investments in infrastructure and public services.

Another indicator is the share of external debt in the volume of exports (%) which shows a large and volatile variation. The peak of this indicator was reached in 2020 (416%) as a result of weak exports and increasing debt. In 2022, the value of this indicator was (259%) characterized by stronger exports.

Thus, we can see that the level remains very high (over 300% in most years), which indicates a pronounced dependence on external financing to balance the balance of payments.

This indicator shows the greatest external vulnerability. The repayment capacity through exports remains limited, the economy being dependent on remittances, external assistance and loans to cover the structural current account deficit (frequently 10–25% of GDP).

The share of foreign exchange reserves in external debt (%) shows a notable increase: from 42.6% in 2019 → 53.7–53.9% in 2023–2024.

Thus, the table shows that the level of this indicator has exceeded 50% in recent years, reflecting the accumulation of foreign exchange reserves (from 3 billion USD in 2019 to over 5.4 billion USD in 2024).

We can deduce a clear improvement in shock capacity. Reserves cover more than half of gross external debt, providing a solid buffer against currency risks, energy price shocks or sudden capital withdrawal. This is one of the most positive developments in the table.

Overall, this development suggests an economy that is resilient to shocks, but which still requires external support and structural reforms to reduce long-term vulnerabilities.

CONCLUSIONS

Recommendations of international financial organizations for addressing the problem of countries' external debt. International financial organizations and structures, such as the IMF, the World Bank, and the World Economic Forum, recommend debt restructuring, promoting sustainable growth, fiscal consolidation, and accelerating inflation to combat the steady growth of external debt,

which, however, should be used with caution. The most fundamental recommendation is the creation of a unified, understandable, and transparent database on the state of the economy of debtor countries for a competent assessment of credit risks. As for examples of external debt settlement, Russia stands out, given that it managed to reduce its external public debt by five times at the beginning of the 21st century, which allows it to remain a country with one of the lowest levels of indebtedness in the world today.

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