

## Debt of non-financial corporations

As of October 2019, the European Central Bank (ECB) will present a consolidated measure for non-financial corporation (NFC) debt in addition to the non-consolidated measure in its statistical publications.<sup>1</sup> The consolidated measure covers loan and debt securities liabilities, but excludes debt positions between NFCs. The nature and statistical coverage of intra-NFC debt varies from country to country. Intra-NFC debt consists of both debt between NFCs within the same group and debt between NFCs belonging to different groups. These two types of intra-NFC debt are very different in nature and pose different issues as regards, for instance, debt sustainability. Intra-group lending can be very significant, with large cross-country heterogeneity. Therefore, it should ideally be analysed separately from debt owed to unrelated NFC creditors. However, sector accounts do not allow any distinction to be made between the two types of debt.

Consolidated debt has therefore become the preferred measure for cross-country comparisons. The consolidated NFC debt concept is in line with the private sector debt indicator in the macroeconomic imbalance procedure (MIP) surveillance mechanism of the European Commission.

In addition to consolidated NFC debt, the ECB will continue to publish the wider, non-consolidated measure. As well as loans and debt securities (including positions between NFCs), this also includes liabilities from pension schemes and trade credits. Non-consolidated debt is therefore always higher than consolidated debt.

### Explanation of alternative measurement concepts

Macroeconomic measures of debt are based on the financial accounts of a country or economic area, as these provide comprehensive data on the financial assets and liabilities of the economy, broken down by institutional sector (i.e. households, NFCs, financial corporations and government). In the EU, the financial accounts are compiled according to the concepts and definitions laid down in the European System of Accounts 2010 (ESA 2010), which ensures comparability across countries.<sup>2</sup> For the NFC sector, several measures are used to analyse debt. These measures are used by, among others, the ECB, the European Systemic Risk Board (ESRB) and the Bank for International Settlements (BIS) for economic and financial

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<sup>1</sup> See, for example, the ECB's press releases on euro area economic and financial developments by institutional sector, which are available on the [ECB's website](#). National tables are available in the [ECB's Statistical Data Warehouse](#).

<sup>2</sup> In particular, the ESA 2010 defines institutional sectors and financial instruments (such as loans and debt securities) and how the latter are to be recorded. Unlike other accounting standards, the ESA 2010 requires liabilities from debt securities to be recorded at market value.

stability analysis. The European Commission uses debt measures for households and NFCs to calculate private sector debt for the surveillance mechanism under the MIP.<sup>3</sup>

The differences between alternative measures of NFC debt concern (a) their coverage of debt instruments and (b) their coverage of debt *within* the sector, i.e. whether or not funds lent between NFCs of the same country or area are consolidated at the sectoral level. The availability of the underlying data at quarterly or annual frequency may also be a factor in the choice of measure.

### Differences regarding the inclusion of financial instruments

In general terms, debt is defined as all liabilities that require payment of interest or principal by the debtor to the creditor.<sup>4</sup> All measures of NFC debt include liabilities from **loans received** and **debt securities issued**. The inclusion of other, similar financial instruments depends on analytical requirements, data availability and data quality considerations:

- **Trade credit**, i.e. credit extended directly by suppliers of goods and services to their customers, is generally recognised as an important short-term financing tool for NFCs. As trade credit is often granted by other NFCs, it is more important for measures of non-consolidated debt than for measures of consolidated debt (see also below). It is not included in the MIP definition of private debt.
- **Pension scheme liabilities** of NFCs vis-à-vis their (current and former) employees represent in some countries, depending on the national pension system, large liabilities which are similar to other debt components, as they require predetermined, legally enforceable payments in the future. This item is also not included in the MIP definition of private debt.
- None of the debt measures consider **financial derivatives** or **other accounts payable** (i.e. payment obligations which arise as a result of timing differences, for example in relation to taxes payable) as a component of NFC debt, as the recording of such liabilities is not fully comparable across countries and data quality varies. Any “off-balance sheet” positions are also excluded, as they are not recorded in the national accounts.

### Consolidation – the treatment of lending between NFCs

Debt of NFCs can be measured on a consolidated basis (excluding lending between resident NFCs) or on a non-consolidated basis (including lending between resident NFCs). Non-consolidated debt does not distinguish between financing between resident NFCs belonging to different groups and intra-group lending, e.g. between a parent company and a subsidiary resident in the same country. While intra-group lending would ideally be analysed separately from debt owed to unrelated creditors, international statistical standards, and thus euro area financial accounts, do not provide for such a breakdown. Users therefore need to decide whether to use consolidated or non-consolidated debt, or both.

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<sup>3</sup> More information on the MIP is available on [Eurostat's website](#).

<sup>4</sup> See paragraph 22.104 of the System of National Accounts 2008 (2008 SNA). 2008 SNA is the international statistical standard and the basis for the European System of National and Regional Accounts (ESA 2010).

- **Consolidated debt** measures the amounts of funds received by NFCs from all resident non-NFC sectors and from non-resident sectors, thereby providing an overview of the flow of funds between resident NFCs and other sectors.
- **Non-consolidated debt** measures the same amounts plus the funds received from other resident NFCs and is therefore helpful in assessing the sustainability of NFCs' debt as well as their refinancing or credit risk.

The table below provides a summary of alternative debt measures based on the financial accounts.

#### Overview of concepts, use and availability of measures of NFC debt

	Use	Liabilities included	Treatment of debt between NFCs	Available at:
<b>Quarterly, consolidated NFC debt</b>	<b>ECB, quarterly statistical press releases:</b> <ul style="list-style-type: none"> <li>– Euro area households and NFCs</li> <li>– Euro area economic and financial developments by institutional sector</li> <li>– Statistical Bulletin (Table 3.5)</li> </ul> <b>ESRB Risk Dashboard</b>	Loans Debt securities	Excludes all loans and debt securities between resident <sup>2</sup> NFCs.	Euro area: <a href="#">Debt</a> <a href="#">Debt-to-GDP ratio</a> Country data: <a href="#">Debt</a> <a href="#">Debt-to-GDP ratio</a>
<b>Quarterly, non-consolidated NFC debt</b>	Supplementary debt measure with extended coverage published by the ECB	Loans Debt securities Pension schemes <sup>1</sup> Trade credit	Includes debt between resident <sup>2</sup> NFCs (does not distinguish between debt between NFCs belonging to different groups and intra-group debt).	Euro area: <a href="#">Debt</a> <a href="#">Debt-to-GDP ratio</a> Country data: <a href="#">Debt</a> <a href="#">Debt-to-GDP ratio</a>
Annual, consolidated NFC debt	The European Commission's headline indicator for the MIP refers to private sector debt, i.e. the sum of households' and NFCs' consolidated debt.	Loans Debt securities	Excludes all loans and debt securities between resident <sup>2</sup> NFCs (and households).	(see Eurostat's website: <a href="#">NFC loans</a> <a href="#">NFC debt securities</a> )

1: Liabilities of NFCs vis-à-vis their employees (current and former) resulting from pension commitments. These liabilities arise from non-autonomous pension funds where the NFC is directly responsible for the pension scheme. In addition, if an NFC has outsourced a pension scheme to a pension fund, but retains the legal responsibility for a deficit in funding, the underfunding is a liability of the NFC.

2: "Resident" in the case of country data means resident in the same country, whereas for euro area aggregates residency refers to the euro area (i.e. the euro area aggregate for quarterly, consolidated NFC debt excludes loans between NFCs resident in different euro area countries as well as between NFCs resident in the same country).