Appendix 8. Private Sector External Debt

Introduction
1. Appendix 8 brings together a topic—private sector external debt—that cuts across different chapters. It seeks to give an overview of this topic. This appendix is designed in a “signpost” style, i.e., it gives only a brief introduction and provides references as to where more information is available in the chapters, rather than duplicate the information.

2. This appendix discusses the compilation of private sector external debt from a conceptual viewpoint, and sets out the distinct compilation principles and practices that apply to private sector external debt in comparison with those applied to the public sector external debt.

Definition of Private Sector External Debt
3. In the Guide, as in the 2008 SNA and BPM6, the institutional units and the financial instruments in which they transact, are grouped into sectors and categories, respectively, so as to enhance the analytical usefulness of the data. The institutional sector classification groups the institutional units within sectors with common economic objectives and functions: general government, central bank, deposit-taking corporations except the central bank, and other sectors: other financial corporations, nonfinancial corporations, and households and nonprofit institutions serving households.

4. To compile the private sector external debt position, the first determination is whether or not a resident unit is in the private sector. In this regard, Chapter 5, paragraph 5.5 clarifies that in comparison with the institutional sector approach outlined in Chapter 3 (see paragraphs 3.4–3.12), the public sector comprises the general government, the central bank, and those units in the deposit-taking corporations, except central bank, and other sectors that are public sector corporations. Hence, the private sector comprises those units in the deposit-taking corporations, except central bank, and other sectors that are not public sector corporations. A public sector corporation is defined as a nonfinancial or financial corporation that is subject to control by government units, with control over a corporation defined as the ability to determine general corporate policy (see more detailed information in paragraph 5.5). Therefore, the ability of the government unit to determine general corporate policy of the corporation is the decisive factor as to whether a corporation is a private or a public unit. Table A8.1 provides an overview of the coverage of private and public sector external debt in terms of institutional sectors.

5. Some ambiguous issues might arise in relation to (1) the classification of a resident unit as a public or a private sector unit, and (2) whether Direct investment: Intercompany lending may include public sector debt.

6. Any domestic institutional unit not meeting the definition of public sector is to be classified as private sector. However, the classification might not be straightforward in cases such as corporations that are jointly owned by public and private sector units (because the arrangements for the control of

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1 In terms of institutional sector attribution, the classification of a private sector corporation as a deposit-taking corporation, except the central bank, other financial corporation, or nonfinancial corporation depends on the nature of the economic activity it undertakes.

2 “General corporate policy” refers to, in a broad sense, the key financial and operating policies relating to the corporation's strategy objectives as market producer. See 2008 SNA, paragraphs 4.77–4.80 for more details. For a definition of control of a corporation by a government unit and a definition of a public corporation, see Public Sector Debt Statistics: Guide for Compilers and Users (2011), paragraphs 2.17 and 2.19, respectively.
corporations can vary considerably) and/or public-private partnerships. External debt compilers should consult with government finance statistics compilers to ensure consistent treatments. In disseminating data, compilers are encouraged to provide methodological notes (metadata) explaining the concepts, definitions, and methods used in compiling the data. For any presentation of gross external debt position of the private and public sectors, it is particularly important for the compiler to indicate the coverage of institutional units included in each sector.

7. Sometimes public sector external borrowing is on-lent to a private sector corporation; if a public sector unit borrows externally, it is this public unit—and not the private sector unit—that records the external debt. On the other hand, central government and public corporations sometimes borrow from resident banks instead of directly from foreign banks. If the bank borrows externally, it is the bank that records the external debt.

8. Direct investment: Intercompany lending covers borrowing of funds—including debt securities and trade credit and advances—from direct investors and related subsidiaries, branches, and associates (see paragraph 3.17). However, intercompany debt liabilities between two selected affiliated financial intermediaries are not classified as intercompany lending; they are rather classified by type of financial instrument (such as loans, debt security, etc.), and are attributed to the institutional sector of the debtor entity (see paragraph 3.20). Direct investment: Intercompany lending in the presentation of the gross external debt position may include external debt of both private and public corporations; the Guide recommends that borrowing for fiscal purposes by the general government through a nonresident entity owned or controlled by the government be classified as general government debt and not as Direct investment: Intercompany lending debt (see Appendix 1, Part 2 for detailed information on the definition and classification of borrowing for fiscal purposes).

### Presentation of Private Sector External Debt

9. Chapter 5 provides tables for the presentation of the gross external debt position in which the public sector is highlighted, and, consequently, the presentation of the gross external debt position of the private sector is also addressed. For convenience, this presentation is described as being a public-sector-based approach. The data for the tables in Chapter 5 should be compiled using the concepts outlined in Chapters 2 and 3, except the debt of resident entities should be attributed according to whether the debtor is a unit of the public sector or not, and if not, by whether the debt instrument is guaranteed or not by a public sector unit. The tables of Chapter 5 are essential in circumstances where the public sector is centrally involved in external debt borrowing activity, both as a borrower or guarantor.

10. As the concepts and definitions for its measurement remain consistent throughout the Guide, the gross external debt position for the whole economy—depending on whether debt securities are valued at nominal or market value—should be the same regardless the classification of external debt that is followed in the presentation tables.

11. As private sector debt becomes more important in the economy, more detailed breakdowns of private sector debt are required, such as provided in the tables of Chapter 4. As mentioned above, private sector data are attributed to different institutional sectors. Therefore, the presentation of the gross external debt posi-
tion as set out in Table 4.1 can be adopted to identify public and private sector external debt within each institutional sector, i.e., within deposit-taking corporations, except central bank, other sectors, and intercompany lending between entities in a direct investment relationship.

Compilation of Private Sector External Debt

12. It is recognized that compiling comprehensive data for the private sector presents a greater degree of difficulty than for the public sector due to the potentially wide range of private entities that have external debt. Problems can arise from the limitations inherent in the available information sources. The Guide encourages comprehensive coverage of external debt but in all instances, the importance and relevance of the data needs to be weighed against the likely costs of collection, and lower cost sources and methods should be investigated to ascertain if they could produce data of an acceptable degree of accuracy and reliability.

13. Chapter 10 considers the strategies that need to be considered as the regulatory environment for cross-border financial transactions changes.

14. In circumstances where controls on foreign borrowing are still in place, it is possible for the central bank to compile information on private sector borrowing from information provided by borrowers for regulatory purposes, such as when they seek approval for foreign borrowing. Also, commercial banks might well be required to report on foreign transactions of their private sector clients. However, as liberalization of financial transactions proceeds, and such information becomes less readily available, there is a need to develop methods of collecting data on private sector debt through other means. Part of this strategy involves considering whether there is a need to strengthen the statistical infrastructure, and the introduction of new collection techniques also need to be considered (see paragraph 10.16).

15. Figure 10.1 highlights that in an environment with strict controls, data are provided primarily from administrative sources, such as foreign investment boards, and from commercial banks, for their own and their domestic clients’ transactions. As financial transactions are increasingly liberalized, the information that enterprises need to report directly increases, in terms of the number of enterprises and the information required. The information provided by the public sector and commercial banks on their own debt remains broadly unchanged throughout (see paragraphs 10.17–10.20). Chapter 12 discusses the collection of these data from deposit-taking corporations and other sectors when financial transactions are liberalized.

16. Compilation practices of private sector external debt in general differ depending on (1) whether the private sector external debt is publicly guaranteed or not, (2) whether the unit is a deposit-taking corporation, other financial corporation, or nonfinancial corporation, (3) the type of debt instrument, and (4) the nonresident creditor sector.

17. The compilation of general government, and more broadly, nonfinancial public sector external debt statistics is covered in Chapter 11. In many countries, data on private sector external debt that is publicly guaranteed could be sourced from available public sector records or statistics (see, e.g., paragraphs 11.1, 11.3, and 11.19).

18. Deposit-taking corporations are closely regulated in nearly all countries—and so are usually identifiable to the statistical agency—and have to report balance sheet data to central banks or regulatory agencies both for supervisory and monetary policy purposes. These reports can be a major source of information on the outstanding external debt of banks (see Chapter 12, paragraphs 12.5–12.9). Similarly, Other Financial Corporations data might be compiled in some countries within the frame of monetary and financial statistics. If this is the case, external debt compilers could draw on this data source (see paragraphs 12.15–12.16). In addition, financial corporations, such as investment funds, insurance companies, and pension funds may report their balance sheets to supervisory authorities. If this is the case, those reports could be accessible to statistical authorities as a data source.

19. When no comprehensive exchange controls exist, data on loans and other external debt of other sectors are best obtained through periodic surveys of those

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3Publicly guaranteed private sector external debt is defined as the external debt liabilities of the private sector, the servicing of which is contractually guaranteed by a public unit resident in the same economy as the debtor (see Chapter 5).
enterprises (including other financial corporations) that are involved in external transactions. Enterprise surveys are discussed in Chapter 12 (see paragraphs 12.17–12.31). A variation of the enterprise surveys that is also discussed is the establishment of so-called direct reporting companies (see paragraph 12.32). Some external debt compilers use so-called registers of external loans to obtain data on loans received by the nonbank sector (see paragraph 12.33).

20. Debt liabilities between affiliates might be also collected within the framework of direct investment surveys, such as the Coordinated Direct Investment Survey (CDIS) for participant economies, and these data could be used for the compilation of external debt statistics; in addition, CDIS mirror data may be compared to an economy’s own estimates vis-à-vis the counterpart (see paragraphs 12.45–12.46).

21. Instrument-by-instrument data are generally available for public sector debt; however it may be difficult to collect data on this basis from the private sector. Surveys and other collections in many countries request aggregate data, which implies that survey forms should be designed to be most efficient in obtaining the desired information. The collection of data on different debt instruments may involve different degrees of difficulty, e.g., data on long-term loans are easier to collect than data on short-term debt, particularly trade credit and advances. For cost-benefit reasons, many countries collect detailed data on long-term loans and only aggregate data for short-term debt.

22. For debt securities, the use of a security-by-security database potentially provides great flexibility in meeting requirements for external debt statistics, although creating and maintaining such a database can be an expensive resource, so that costs and benefits need to be carefully considered. To fully utilize the potential of such information, the compiler is advised to develop or acquire a database that contains detailed information on individual securities—price, country of issuer, industrial sector of issuer, etc.—and that uniquely identifies securities through a security identification code. Through such a database, individual securities that are reported with an identification code can be located in the database, and the associated information can be drawn upon to compile information not only on outstanding positions but, depending on the scope of the associated information contained, statistics on the debt-service payments schedule, the currency composition of external debt, etc. (see Box 13.2).

23. The identification of nonresident holders of debt securities usually presents particular challenges: in particular, the resident issuer is, in many cases, not in a position to identify the owner of their debt securities, and so may be unaware of whether the creditor is a resident or nonresident (see paragraphs 13.2–13.3). The measurement of external debt in the form of debt securities is discussed in Chapter 13: both the measurement of nonresident investment in domestically issued debt securities (see paragraphs 13.13–13.29) and foreign investment in debt securities issued abroad (see paragraphs 13.30–13.32) are addressed. An important starting point in deciding how to measure positions (and flows) in debt securities is ascertaining how and through which channels debt security investment flows into and out of the country (see paragraphs 13.8–13.12).

24. Finally, data owed to some creditors might be available from external sources, such as debt owed to international financial organizations, or data on nonbank liabilities to foreign banks that could be crosschecked with the international banking statistics from the Bank for International Settlements (BIS) (see paragraph 12.31 and www.bis.org/statistics/). Some compilers may use the BIS data from nonresident banks on loans to resident nonbanks to supplement other external debt data sources (see Appendix 3, Locational Banking Statistics [BIS]).

Other Issues

25. Debt-reorganization transactions are a feature of external debt activity (see Box 8.1). Chapter 8 discusses the debt reorganization and provides guidance on how they affect the measurement of the gross external debt position. These guidelines apply to debt-reorganization transactions of private sector external debt. These private sector transactions are conducted on a case-by-case basis, sometimes under the London Club. The four main types of debt reorganization, i.e., debt forgiveness, debt rescheduling or refinancing, debt conversion, and debt assumption are presented (see paragraphs 8.8–8.10), and the statistical treatment for each one of them is discussed. For instance, debt rescheduling and refinancing involves a change
in an existing debt contract and/or replacement by a new debt contract, generally with extended debt service payments (see paragraphs 8.17–8.18); and any agreed change in the terms of a debt instrument is to be recorded as the creation of a new debt instrument, with the original debt extinguished (see paragraphs 8.22–8.24). Similarly, for both debt conversions and debt prepayments, a reduction in the gross external debt position is recorded to the value of the debt instruments that are extinguished, irrespective of the value of the counterpart claim (or assets) being provided (see paragraph 8.35).

26. The presentation of additional information on selected explicit contingent liabilities for the whole economy is recommended in Chapter 4 (Table 4.7 Total Guaranteed External Debt Position) and in Chapter 9, where Table 9.3 presents external debt according to an “ultimate” risk concept—augmenting residence-based data to take account of the extent to which external debt is guaranteed by residents for nonresidents. Countries could potentially have debt liabilities to nonresidents in excess of those recorded as external debt on a residence basis if their residents provide guarantees to nonresidents that might be called. Also, branches of domestic institutions located abroad could create a drain on the domestic economy if they ran into difficulties and their own head offices need to provide funds. Indeed the latter circumstances arose for some economies during the global crisis of 2008–2009 (see paragraph 9.42).

27. It may be challenging to obtain data to compile these tables on selected explicit contingent liabilities for the private sector. These “off-balance-sheet” obligations include (1) the value of guarantees of residents’ external debt liabilities (liabilities of a unit of a resident sector, the servicing of which is contractually guaranteed by a unit of another sector resident in the same economy as the debtor—see paragraph 4.20), and (2) cross-border guarantees, i.e., the debt of a nonresident to a nonresident on which payments are guaranteed to the creditor(s) by a resident entity under a legally binding contract, and debt of a legally dependent nonresident branch of a resident entity that is owed to a nonresident (see paragraph 9.44).

28. Linkages and consistency between external debt and IIP statistics are discussed in paragraphs 7.48–7.51 and Appendix 4. Gross external debt liabilities are classified in the IIP by institutional sector (and debt liabilities between two affiliates are included in direct investment). As debt liabilities of deposit-taking corporations, except the central bank and other sectors, and debt liabilities included in direct investment, could include external debt of public and private sectors, in principle, there is no straightforward way of compiling private sector external debt from the standard IIP statement. 4

4BPM6 indicates that public corporations may be shown as “of which” items for the financial and nonfinancial corporations sectors and subsectors as supplementary items, when relevant (see BPM6, paragraph 4.108).