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Note on the calculation of consolidated gross and net debt of the general government sector

Units of the general government sector

The general government sector consists of all units of central, state and local government, all social security funds at all levels of government; and all non-market non profit institutions that are controlled and principally financed by governmental units. Non-market non profit institutions are typically established by governments to engage in activities such as setting and maintaining health and safety standards, and thus may need to be seen as autonomous (such as the Occupational Safety and Health Administration in the United States). They are allocated to the general government sector. The general government sector does not include public corporations, regardless of the degree of ownership by the government. It also does not include quasi-corporations, defined as unincorporated enterprises that function as if they were corporations. Quasi-corporations belong in either the non-financial or financial corporate sectors.

The social security sub-sector is comprised of all of the social security funds at all levels of government. Social security funds are defined as social insurance schemes covering the community as a whole. These schemes may be either funded or unfunded. Those schemes established by governmental units to cover their own employees only are not counted as social security schemes in the general government sector. For example, the financial assets of pension funds for governmental employees are not included as financial assets of the general government sector, but rather belong in the insurance sector.

In the calculation of general government gross and net financial liabilities it is necessary to properly consolidate holdings of financial assets and liabilities within the general government sector. Consolidation refers to the reciprocal elimination of assets and liabilities that are held within the sector. For example, liabilities of the central government that are held as assets by state and local governments should be consolidated as they are not in fact liabilities or assets of the sector as a whole. Consolidation reveals the financial position of the general government sector versus other sectors of the economy.

General government net financial liabilities can be calculated either by subtracting unconsolidated financial assets from unconsolidated financial liabilities, or by subtracting consolidated assets from consolidated liabilities. The two methods yield identical results.

The classification of financial assets and liabilities follows the national accounts methodology

Under the System of National Accounts (SNA) assets and liabilities are valued on an accrual basis. With respect to the valuation of government financial liabilities this accounting method includes accrued interest, whereas cash accounting would

only record nominal values at the time the liability was incurred (e.g. at the time a debt security was issued). Additionally, for debt management operations involving derivative securities such as interest rate and currency swaps accrual accounting is essential in order to properly value the financial instruments.

In practice many national statistical authorities use a mix of accrual and cash accounting, recording certain assets and liabilities on an accrual basis and others on a cash basis. Statistical authorities thus have a wide degree of discretion in determining what assets and liabilities to include as part of the general government sector. In general, the debt figures exclude both implicit and explicit future liabilities and assets such as pensions, foreseeable health care costs and deferred taxes. Moreover, whereas the government liabilities are generally clearly identifiable and their value easily measured, the financial assets of the government are often much harder to measure accurately, especially if those assets include equity in 100 per cent state state owned enterprises (ie. no market valuation exists) or "soft loans" with high default rates. Finally, it should be noted that the value of the government real assets is excluded from the calculations. Table 1 shows the SNA classification of different types of financial assets and liabilities.

Table 1. Classification of financial assets and liabilities of general government

Assets	Liabilities
Monetary Gold and SDRs	
Currency and deposits	Currency and deposits
Securities other than shares:	Securities other than shares:
Short-term	Short-term
Long-term	Long-term
Loans:	Loans:
Short-term	Short-term
Long-term	Long-term
Shares and other equity	
Trade credits and advances	Trade credits and advances
Other accounts receivable	Other accounts payable

Financial liabilities

Currency should be recorded as a liability of the institutional unit responsible for its issue. This is usually the central bank but in some countries it is the central government (and in some countries the central bank issues bank notes and the central government issues coins).

The bulk of general government liabilities is typically composed of bills and bonds, recorded as Securities other than shares under SNA rules. Long-term securities are typically defined as securities with more than one year to maturity.

Loans are financial assets created when creditors lend money directly to debtors - including bank loans, repurchase agreements not included in national definitions of broad money aggregates and financial leases and other agreements.

The general government sector may have additional liabilities in the form of trade credits and advances. Other accounts payable may include tax refunds payable, purchases of securities, and wages and salaries and social contributions.

Financial assets

In general financial assets or liabilities of the general government sector have a corresponding liability existing outside that sector. The exceptions are monetary gold and Special Drawing Rights, financial assets for which there is no counterpart liability. Monetary gold and Special Drawing Rights may be included as assets of the general government sector or they may be classified as assets of the central bank, at the discretion of the government. The United States includes monetary gold and Special Drawing Rights as assets of the general government sector while most other countries classify their gold holdings as assets of the central bank.

Governments also hold securities other than shares and loans as financial assets. Since many forms of loan agreements extended by governments are on concessionary terms, questions of valuation often arise.

Currency and deposits can also be assets of the general government sector. Deposits include claims on the International Monetary Fund that make up a portion of international reserves, other than those composed of loans from the fund.

The general government sector may also hold as financial assets shares and other equity as well as trade credits and advances. Other accounts receivable may include taxes receivable and sales of securities.

Principles of recording and valuation

Valuation of financial assets and liabilities follows a basic balance sheet identity defined by the SNA as follows:

The value of the stock of the asset (liability) in the opening balance sheet

plus: the value of quantities of the asset (liability) acquired, or disposed of, in transactions;

plus: the value of other volume changes in the asset (liability);

plus: the value of the nominal holding gains on the asset (liability);

equals: the value of the stock of the asset (liability) in the closing balance sheet.

To be consistent with accrual accounting principles assets and liabilities are to be valued using prices valid at the date referred to in the relevant balance sheet. Where there are organised financial markets trading the assets and liabilities in question current prices can be taken from these markets, where the relevant price is the price excluding service charges, fees, or commissions. For example, bills would be recorded at issue price plus accrued interest, which would be equivalent to market prices. For a claim not traded on an organised financial market valuation should in principle be based on the amount that a debtor would have to pay a creditor to satisfy the claim. Where prices of particular assets and liabilities are not observable national authorities should attempt to estimate what market prices would be on the date to which the balance sheet relates. For example, shares and other equity should be valued at their current prices when they are traded on organised financial markets. In the case of a wholly owned public corporation, its equity value should be estimated using the prices of quoted shares that are comparable in earnings and dividend history and prospects, adjusting downward if necessary to allow for the inferior liquidity of unquoted shares. In practice, valuation is up to the national authorities and not all authorities value their financial assets and liabilities on an accrual basis.

An application of the methodology to the major OECD economies

Table 2 contains calendar-year measures of gross and net debt (as of 1996) for the major OECD economies (as a per cent of their respective GDPs) compiled by the Secretariat from national sources. These gross debt data, before any consolidation of government held assets takes place (Line 1), show Japan to be heavily indebted, although not more so than the United States and much less so than Italy and Canada. Differences among countries emerge when consolidation takes place (Line 2) and these have to do with the proportion of claims on the government that are held by agencies or other institutions which are themselves considered as being part of the government sector. For example, in the United States, social security funds are invested in government bonds and the total is netted out in consolidation. This definition of gross debt is essentially debt held by the public (including non-residents). In Japan, however, a large portion of social security funds is held by agencies outside of the government and only a marginal part is invested in government bonds; most of these funds are invested in assets of the Trust Fund Bureau (TFB), a branch of the Ministry of Finance. Because these agencies are officially outside government, the public debt they hold is, by definition, not consolidated in the figures reported by either the Japanese authorities or the OECD Secretariat. In continental European countries and Canada, social security funds are, by comparison, small. Those invested in government bonds are netted out in the consolidation process but, as in Japan, some of these funds are also held outside of government accounts.

Table 2 also shows the holdings of consolidated assets (i.e. assets exclusive of government bonds and other claims on government units, which are consolidated out between line 1 and line 2 of the table) in the social security funds and in other parts of the government, with a breakdown of the latter on different instruments.

Table 2. Consolidated debt and assets, CY 1996

(Per cent of GDP)



	United States	Japan	Germany	France	Italy	United Kingdom	Canada
1. Unconsolidated gross debt	84.6	85.7	64.9	76.6	133.0	65.4	109.6
Minus consolidation	21.5	3.0	4.7	13.6	9.3	5.7	12.1
Of which consolidation in social security funds (SSF) ¹	12.5	1.0	2.7	4.1	1.3	0.0	4.1
2. Consolidated gross debt	63.1	82.72	60.2	63.0	123.7	59.7	97.5
3. Consolidated government assets	14.7	67.3	12.1	22.2	13.3	15.7	29.1
Breakdown of assets							
SSF holdings of non-government assets	0.0	44.0	3.4	5.5	1.3	0.0	2.2
Assets held by other parts of government	14.7	23.3	8.7	16.7	12.0	15.7	26.9
Cash, deposits, etc.	4.4	7.3	6.8	2.9	3.8	6.6	2.7
Trade credits	0.3	0.0	0.0	3.8	0.0	0.7	0.6
Bonds	4.2	0.0	0.0	0.0	0.3	0.3	0.9
Loans	1.9	3.2	0.0	2.9	0.1	4.9	2.5
Shares	1.1	0.1	1.9	7.1	7.7	0.0	14.4
Miscellaneous	2.8	12.7	0.0	0.0	0.1	3.2	5.8
4. Net debt (line 2 minus line 3)	48.4	15.4	48.1	40.8	110.4	44.0	68.4
Memorandum item:							
Total SSF assets	12.5	45.0	6.1	9.6	2.6	0.0	6.3
Maastricht definition of gross debt	-	-	60.4	55.4	124.0	54.5	-

Notes: Figures for consolidated gross and net debt correspond to those presented in *Economic Outlook 63* except for Germany (unconsolidated in EO63) and the United Kingdom (which have been revised). Japan: government non-profit institutions not included. Germany: trade credits included in other assets. Social security funds are estimated from 1989 figures. Consolidated assets split proportionally between sectors based on unconsolidated assets. Italy: trade credits not included. The term social security funds generally reflects all types of assets connected to social insurance programmes, including health services. This is the figure that appears in *OECD Economic Outlook 63*, annex Table 34. Further consolidation would reduce this figure to 79.8 per cent of GDP.

Source: OECD.



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