



**STATISTICS**

## **2.2. Debt assumption and debt payments on behalf of others**

***Discussion Note***

**GFSAC MEETING  
OCTOBER 22-23, 2025**

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# Background

# Background and 4 Issues

**Debt assumption** refers to trilateral arrangements – the new debtor assumes the former debtor's outstanding liability to the creditor and becomes liable for the repayment of the original debt.

Issue D

Cash vs Accrual?

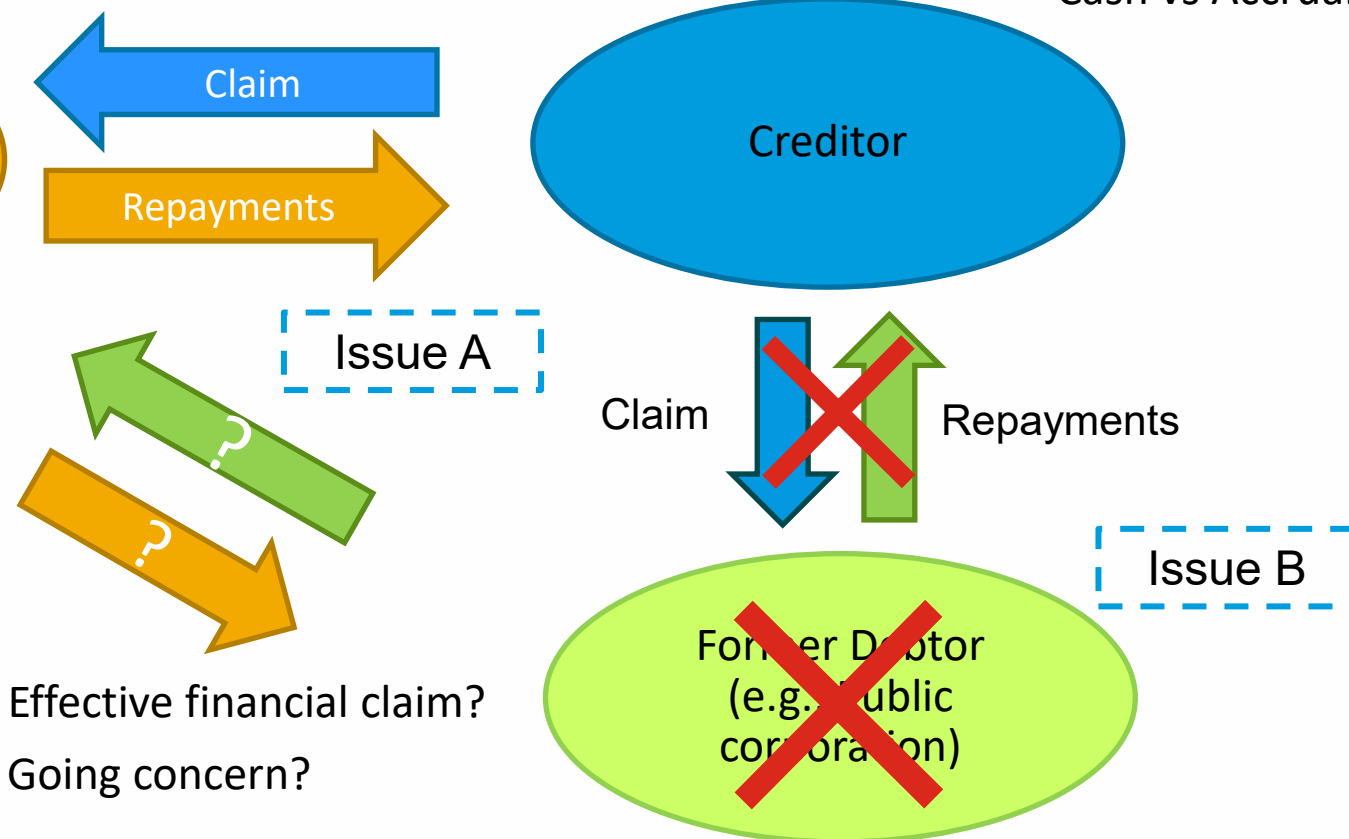
An institutional unit may decide to make **debt payments on behalf of others** instead of assuming debt.

Issue C

Temporary liquidity difficulties

vs

Permanent solvency problems?



Effective financial claim?

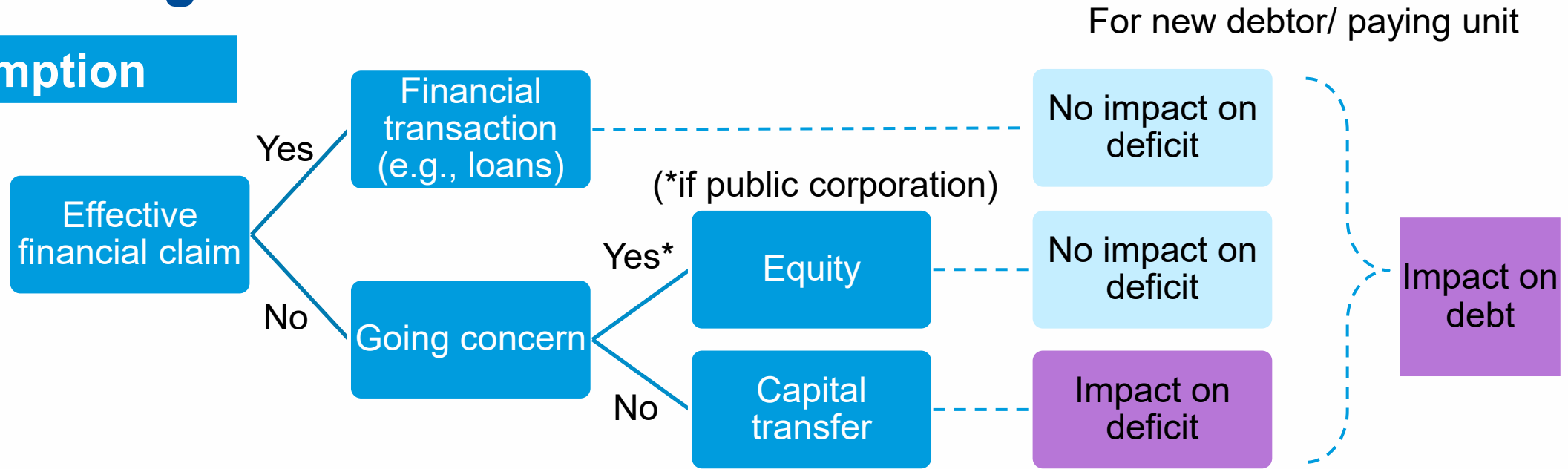
Going concern?

Issue B

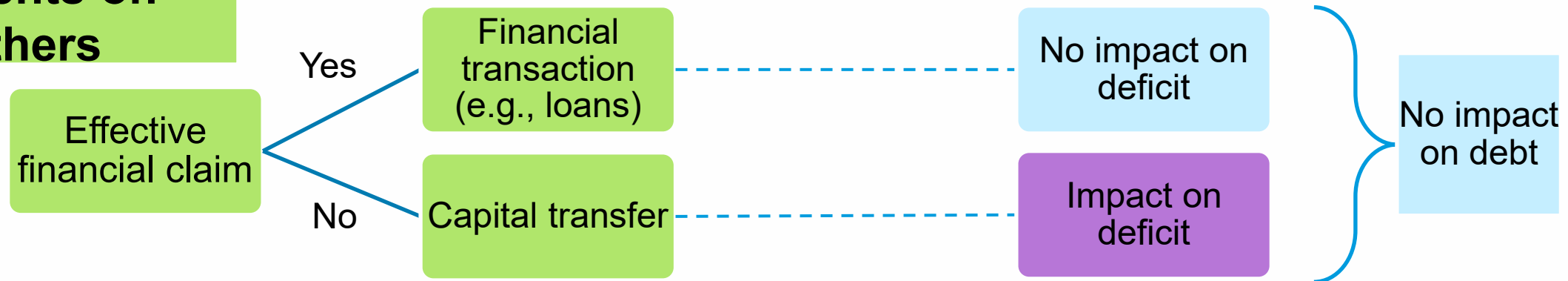
# Decision Tree and Implications for Deficit/Debt

## - GFSM 2014 guidance

### Debt assumption



### Debt payments on behalf of others



# Issue A (and C) – Unintended Consequences & Inconsistencies

- Unintended consequences?
  - A government to let a public corporation (going concern) borrow and later assume the debt (recorded as a financial transaction) to avoid the impact on the deficit of a government.
  - A government to continue making debt payments on behalf of a public corporation to avoid a large one-off increase in the assumed debt of a government.
- Inconsistencies within GFSM?

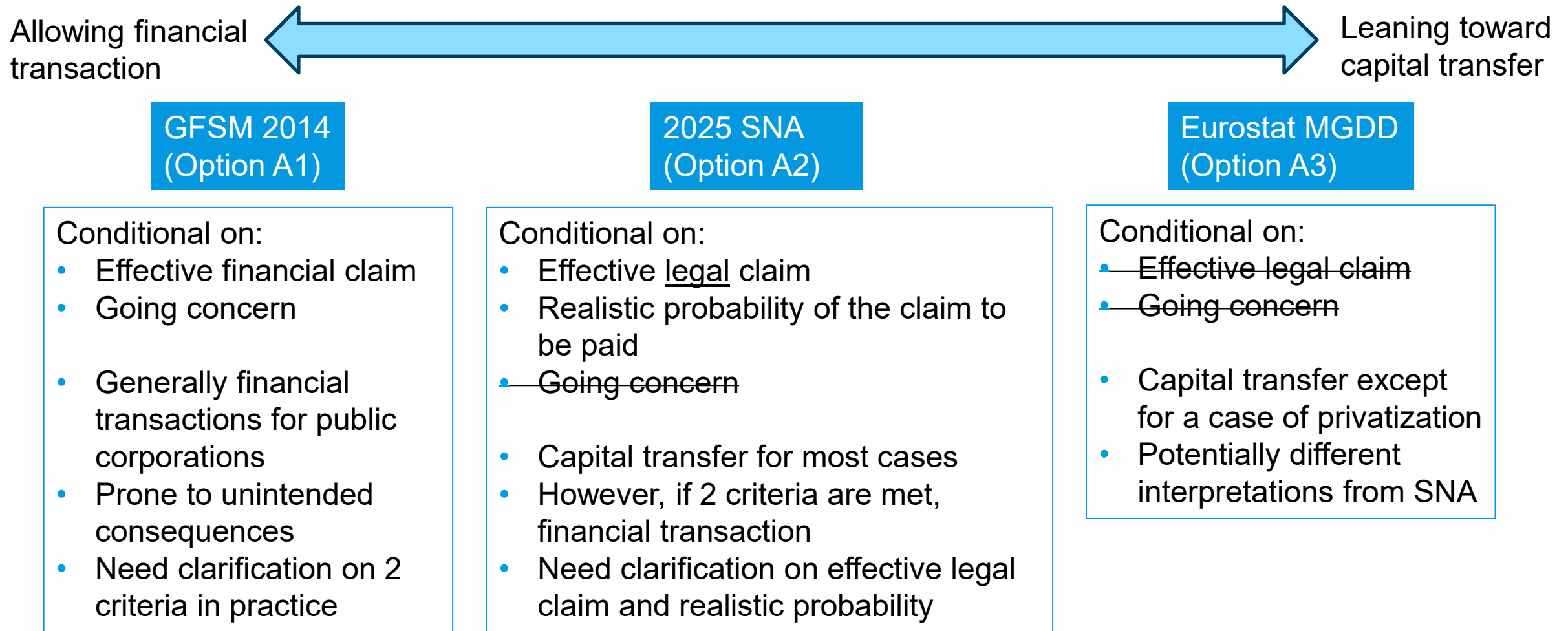
Nature of transaction	Above the line	Below the line
Subsidy	Yes	No
Transfers to cover accumulated losses	Yes	No
Debt forgiveness	Yes	No
Debt payment on behalf of others – no effective financial claim	Yes	No
Debt assumption – no effective financial claim but going concern*	No	Yes

\*if public corporation

# **Issues Identified, Options, and Recommendations to Address Issues**

# Issue A – Different Interpretations across Manuals with Options to Address

- Different manuals could lead to different interpretations by compilers and users.



# Task Team Recommendations – Issue A

- The task team recommends either **Option A2** or **Option A3**.
- Either of those options simplifies the current guidance by treating a debt assumption as a capital transfer except for some special cases.

In addition:

- **Option A2** would harmonize the updated GFSM with the 2025 SNA. However, this option should clarify how the term, an “effective financial claim,” should be applied in practice.
- **Option A3** would be the most conservative one, reflecting the notion that debt assumption is in principle a gift from the new debtor to the former debtor. However, this option could lead to different interpretations from the 2025 SNA.



## Issue B: Debt Assumption When the Former Debtor No Longer Exists

- The current GFSM guidance has no reference to the case where the former debtor no longer exists.
  - The capital transfer (or grant) is always considered to be to the former debtor.
- The *BPM6* (para. 8.45) and draft *BPM7* (paras. 8.42-8.45, Box 8.1.) guidance:
  - The new debtor (debt assumer) should record a capital transfer (or grant) expense to the creditor (and not the former debtor).
  - The original debt is then written off in other changes in assets and liabilities.

# Options and Recommendation to address Issue B

**Option B1** proposes to maintain the current guidance.

- This option would not provide any guidance on the scenario where the former debtor no longer exists but would be in line with *2025 SNA* which does not provide such guidance either.

**Option B2** proposes to revise the current guidance by adding the scenario where the former debtor no longer exists in accordance with *BPM7*.

- Additional text will be added in the main text, and a new node corresponding to this scenario will also be added to the decision tree (*GFSM 2014* Figure A3.1 Decision Tree for the Statistical Treatment of Debt Assumption). Alternatively, the text can be added in a footnote.
- **Task team recommend this Option B2** which would harmonize the updated GFSM with *BPM7*.

## Issue C: Treatment of Debt Payments on Behalf of Others

The *GFSM 2014* provide guidance on the recording of institutional unit that makes debt payments on behalf of others instead of assuming the debt.

Although the *GFSM 2014* guides that debt payment on behalf of others is for situations “**where a debtor is experiencing temporary liquidity difficulties rather than permanent solvency problems**”.

There is no further information provided on:

When to apply the treatment for debt payments on behalf of others (temporary liquidity difficulties).

When to apply the guidance on debt assumption (permanent solvency problems).

This distinction is important for fiscal sustainability analysis:

Debt payments on behalf of others typically have a smaller and indirect impact on the debt of the unit making the debt payment.

Debt assumption typically leads to a large one-off increase in the debt of the new debtor (the debt assuming unit).

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## Issue C: Treatment of Debt Payments on Behalf of Others

The Eurostat's Manual on Government Deficit and Debt 2022 (MGDD) provide guidance on the recording of institutional unit that makes recurrent payments to another institutional unit (the former debtor), enabling the latter to meet its debt obligations.

The MGDD recommends investigating whether this arrangement constitutes a debt assumption when support becomes frequent. Such support may be considered a “disguised” or “indirect call,” which would trigger the guarantor's assumption of the debt.

As practical guidance, if guarantor repayments of the debt occur over three consecutive calls, referred to as the ‘three calls rule’, then the debt is to be considered as having been automatically assumed by the guarantor.

An exception is made when there are strong indications that the situation (i.e., defaulting) will not continue. This would mean that a fundamental restructuring of the former debtor has been decided.

# Options and Recommendations to address Issue C

**Option C1:** Proposes to maintain the current guidance of GFSM 2014.

- The option will align the updated GFSM with 2025 SNA and BPM7 which are also silent on this issue.

**Option C2:** : Proposes to maintain the current guidance of GFSM 2014 as a baseline, while adding a requirement that compilers assess whether the financial situation of the former debtor reflects temporary liquidity difficulties or permanent solvency problems.

**Option C3:** Proposes to include Eurostat’s “three consecutive calls rule”, aligning the updated GFSM with the Eurostat’s Manual on Government Deficit and Debt (MGDD).

- The MGDD advises that a debt should be considered assumed if there are three consecutive calls leading to the guarantor making debt payments on behalf of the unit under guarantee.

**The task team recommends either Option C2 or Option C3.** Option C2 is a principle-based approach in line with the *GFSM 2014* while Option C3 is a rule-based approach in line with the *MGDD*.

## Issue D: Treatment of Debt Assumption Under Cash Basis of Recording

The *GFSM 2014* advises that no transactions should be recorded for debt assumption in the case of countries following a cash basis of recording.

While from a pure cash reporting concept this is appropriate, it results in cash reporting countries not reflecting the full fiscal impact of debt operations.

However, this hampers debt analysis and fiscal sustainability and vulnerability analysis.



In practice, IMF surveillance typically asks for information on debt assumptions regardless of whether countries follow a cash basis of recording.

**Effective debt analysis and fiscal sustainability and vulnerability analysis.**

## Options and Recommendations to address Issue D

**Option D1:** Proposes to maintain the current GFSM 2014 guidance that no transactions are recorded for debt assumption under the cash basis of recording.

**Option D2:** Proposes to record debt assumption transactions even under the cash basis of recording.

**Option D3:** Proposes to keep the cash basis of recording in the main reporting system (i.e., no debt assumption recording) while recording debt assumption transactions as a memorandum section.

**The task team recommends Option D3.** While the general guidance of international statistical standards recommend an accrual basis of recording, Option D2 could be viewed as undesirable by giving special guidance for cash recording only with respect to debt assumption.

# Questions for GFSAC



# Questions for GFSAC (1/2)

## Issue A: Treatment of Debt Assumption

- Do you support Option A1, Option A2 or Option A3, and why?
- If you agree with Option A2, what practical guidance would you propose to implement the term an “effective financial claim”, including the measurement of “a realistic probability that the claim will be paid”?
- If you agree with Option A1, what practical guidance would you propose to implement the term a “going concern”?
- Are there any other options you would like to propose?

## Issue B: Debt Assumption When the Former Debtor No Longer Exists

- Do you support Option B1 or Option B2, and why?
- Are there any other options you would like to propose?

# Questions for GFSAC (2/2)

## Issue C: Treatment of Debt Payments on Behalf of Others

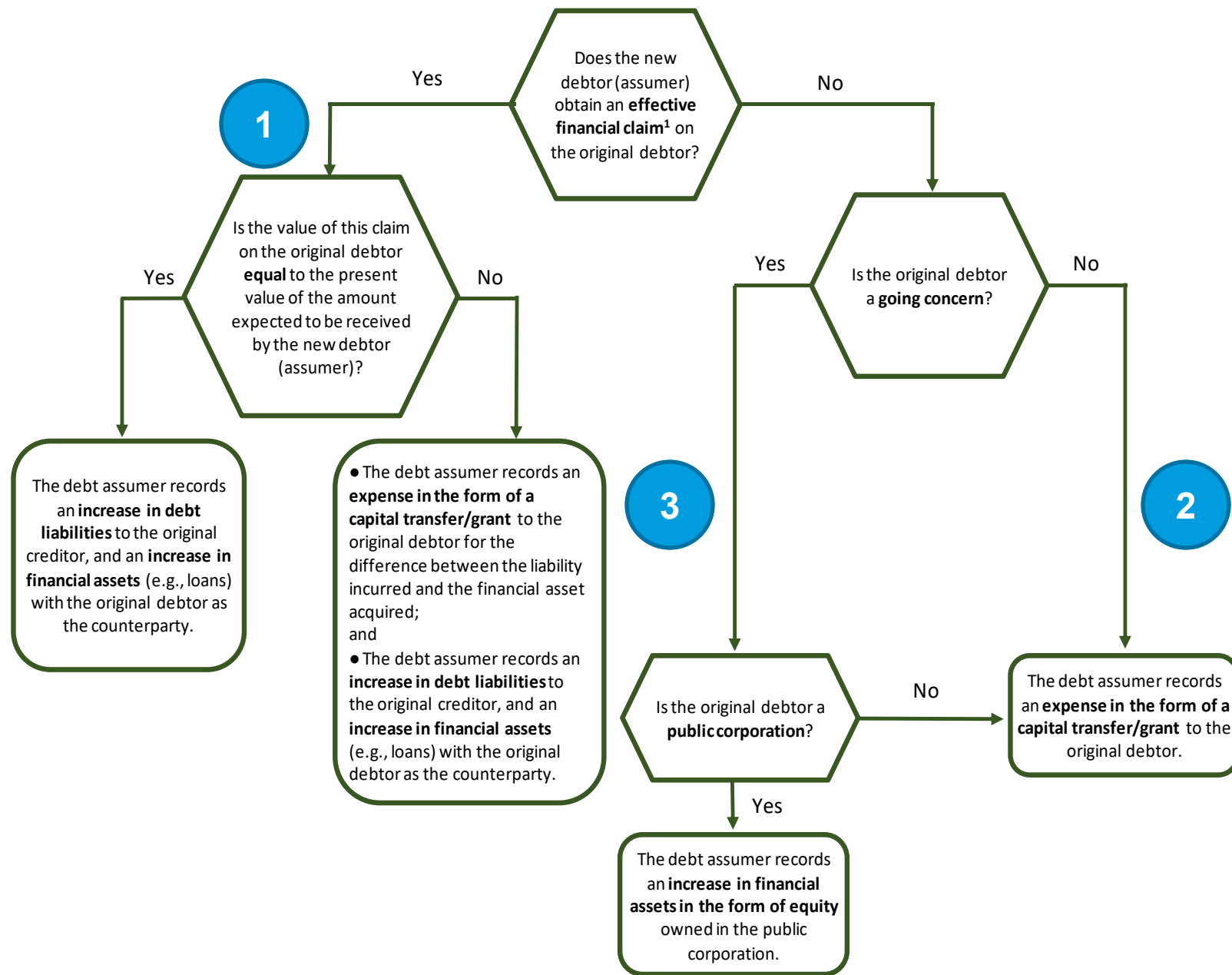
- Do you support Option C1, Option C2 or Option C3, and why?
- If you agree with Option C2, what practical guidance would you propose to implement the terms, “temporary liquidity difficulties” and “permanent solvency problems”?
- Are there any other options you would like to propose?

## Issue D: Treatment of Debt Assumption under Cash Basis of Recoding

- Do you support Option D1, Option D2 or Option D3, and why?
- Are there any other options you would like to propose?

**Thank you!!**

# Decision Tree for debt assumption (Figure A3.1, GFSM 2014)



# Subtle Differences in Debt Assumption Criteria: GFSM 2014 vs 2025 SNA

## GFSM 2014 (para. A3.27)

An “effective financial claim” is understood to be a claim that is supported by a contract between the new debtor and the former debtor, or (especially in the case of governments) an agreement, with a reasonable expectation to be honored, that the former debtor will reimburse the new debtor. A “going concern” is understood to be an entity in business or operating for the foreseeable future.

## 2025 SNA (para. 30.116)

When a government assumes a debt, in most instances the counterpart transaction of the new government liability is a capital transfer in favour of the defaulting debtor. However, if the government acquires an effective legal claim against the defaulting unit and there is a realistic probability that the claim will be paid, the government may record, as the counterpart transaction of its new liability, the acquisition of a financial asset equal to the present value of the amount expected to be received.