EUROPEAN CENTRAL BANK
EUROSYSTEM

Explanatory note on adjusted loans series

- The European Central Bank (ECB) publishes “adjusted loans” data, which provide a better view of lending to the real economy by euro area monetary financial institutions (MFIs).
- The adjusted loans series include an adjustment for sales and securitisation, as well as for the impact of “notional cash pooling” positions that result from cash management services provided by certain banks to corporate groups. This note provides information on how the adjusted loans series are derived.
- Data on adjusted loans give a better signal of underlying developments in credit to euro area borrowers and improve the comparability of country-level data. It is therefore the adjusted loans series that are used by the ECB as the headline series on credit developments, for example in the monthly press releases on monetary developments in the euro area.

1 Introduction

Monitoring banks’ financing of the economy is a key element of the ECB’s monetary analysis. Bank lending is the main source of monetary expansion in the euro area and a key channel through which monetary policy conditions are transmitted to the real economy. The primary source of bank lending figures published by the ECB is statistics on the balance sheets of monetary financial institutions (MFIs). However, unadjusted measures of lending are affected by certain features – in particular loan sales and securitisations and notional cash pooling (a type of cash management service mainly offered by MFIs in the Netherlands) – which impede the analysis of lending to the real economy.

The purpose of this note is to provide information to users on the derivation of adjusted loans. Links to relevant series on the ECB’s Statistical Data Warehouse are provided at the end of the note.

2 Adjustment for loan sales and securitisation

Loan transfers may affect outstanding loans reported by MFIs, while the actual amount of financing received by the real economy remains unchanged. The ECB has been publishing loans series adjusted for sales and securitisation since December 2008, with the aim of providing a measure of bank lending which is not affected by loan transfers.

The adjustment for loan sales and securitisation takes into account the (net) impact of loan transfers at the time they take place, but also the ongoing developments in derecognised loans (i.e. repayments of principal by borrowers), insofar as data are available. Besides providing a more complete and accurate picture of lending to the real economy originated by euro area banks, this also provides comparability in statistics between countries that may have differing practices with regard to loan derecognition.

Adjusting loans for sales and securitisation utilises data collected on the following three components.

1. Impact of **loan transfers** on MFI balance sheets: these loan transfers are defined as disposals minus acquisitions of loans that have an impact on loans reported on MFI balance sheets. This definition covers all loans derecognised during the period[1] whether or not the outstanding amounts and repayments of those transferred loans are captured on an ongoing basis (see the below components).

2. **Outstanding amounts of derecognised loans**: data on these are collected from euro area MFIs under Regulation ECB/2021/2 where the loans are still serviced by the MFIs. Some national central banks also provide data that are available on loans not serviced by MFIs (e.g. where the servicing of loans is performed by another part of the banking group) or for loans that have been transferred to non-MFIs in transactions other than securitisations. Overall, this enables there to be an almost complete coverage of securitised loans that are derecognised, along with coverage of some other volumes of non-securitised derecognised loans.

3. **Transactions in derecognised loans excluding loan transfers**: data on these transactions basically correspond to the principal repayments of derecognised loans.

While Regulation ECB/2013/33 has been implemented with respect to the December 2014 reference period, national central banks and the ECB have compiled data on a comparable basis (usually going as far back as 2003) in order to provide long and consistent statistical series on loans to the euro area private sector, households and non-financial corporations.

3 Adjustment for notional cash pooling

Notional cash pooling, which is a cash management service that some banks provide to corporate groups, affects reported loans vis-à-vis entities in the group. These services are very common in the Netherlands, where they have been subject to specific data collection since December 2014. The service is also offered by banks

[1] Securitisations and all other transfers (except transfers of loan portfolios between domestic MFIs) are captured. From December 2014 cross-border transfers between euro area MFIs are included in the net transfers data, e.g. to take into account the possible impact of restructurings of cross-border banking groups. Prior to December 2014, transfers between MFIs resident in the euro area were not covered in the data on transfers.

resident in other euro area countries, but anecdotal evidence would seem to indicate that in those cases the impact on MFI balance sheet statistics, and thus on MFI loan aggregates, is not as significant.[2]

Where corporate groups seek to optimise the use of internal funds, some banks offer services which allow the entities of the group to "pool" funds. This can be a cheaper and more efficient way to manage cash rather than making inter-company loans between group entities. There are several types of cash pooling agreements that may be used for this purpose. For example, this may involve a single legal account that pools the funds of the group and is linked to sub-accounts recording intra-group balances ("single legal account cash pooling"), or separate accounts for each entity of the group which are settled, typically on a daily basis, to bring accounts that are in debit and credit into balance ("physical cash pooling"). However, "notional cash pooling" is of most relevance with respect to the impact on MFI balance sheets.[3]

In notional cash pooling, all accounts maintain a separate legal status and the participating entities are the direct counterparties of the bank. The pooling is performed by the bank, which provides liquidity to the counterparties in need by means of overdrafts, generally under condition that the "pool" is, overall, in surplus. As such, from an economic point of view, these loans do not constitute a genuine provision of additional financing to the economy provided by the MFI sector.

In line with statistical practices of the European System of Accounts (ESA 2010) and Regulation ECB/2021/2, assets and liabilities positions of accounts in pool agreements should be reported on a gross basis, although it may be the case that netting is permitted in the applicable accounting rules (under restrictive circumstances). Consequently, notional cash pooling can result in the building-up of positions by the cash pool participants in overnight deposits and short-term loans vis-à-vis MFIs. These positions can be large and often show sharp reversals, for instance when corporate groups decide to balance out positions in the pool. Loans to non-financial corporations in particular are affected by such developments.

Besides their limited informational value when analysing credit to the euro area private sector, notional cash pooling introduces volatility to month-on-month loan transactions and annual growth rates. Therefore, similar to the practice followed by De Nederlandsche Bank for Dutch banking statistics, in July 2016 the ECB began adjusting its headline loan series by excluding notional cash pooling positions.

The adjustment for cash pooling is incorporated into the adjusted loans series based on available data commencing in December 2014 through the following components:

1. the **outstanding amounts** of loans which relate to notional cash pooling positions are subtracted from total loans on the balance sheet;

[2] Based on a survey carried out by the ECB in cooperation with national central banks, the scale of notional cash pooling activities in euro area countries other than the Netherlands is expected to be relatively small. The extent of the phenomenon will continue to be investigated; if further statistics become available, these will also be incorporated into the adjusted loans series.

[3] For further information on types of cash pooling and the implications for MFI balance sheets, see Colangelo, A. (2016), "The statistical classification of cash pooling activities", *Statistics Paper Series*, No 16, ECB, Frankfurt am Main, July.

2. the **transactions** in loans relating to notional cash pooling are subtracted from total transactions in on-balance sheet loans.

4 Conclusion

The adjusted loans series are derived using the above-mentioned components as summarised in Table 1.

Table 1

Overview of the derivation of adjusted loans

	Outstanding amounts	Transactions
Unadjusted loans	Outstanding amounts on MFI balance sheets	Transactions in loans on MFI balance sheets
***Plus* loan transfers**	-	Transfers of loans off MFI balance sheets with derecognition (disposals minus acquisitions)
***Plus* derecognised loans**	Outstanding amounts of derecognised loans	Transactions in derecognised loans excluding loan transfers (i.e. repayments of derecognised loans)
***Minus* loans related to notional cash pooling**	Outstanding amounts of notional cash pooling loans	Transactions in notional cash pooling loans

Links to data on the components of euro area adjusted loans on the ECB's Statistical Data Warehouse are provided in Table 2, along with links to euro area and national outstanding amounts, transactions and growth rates data on loans to the euro area private sector, households and non-financial corporations.

Table 2

Links to relevant series on the ECB's Statistical Data Warehouse

Reference area	Description	Links
Euro area	Adjusted loans	Seasonally adjusted: outstanding amounts; transactions; growth rates Non-seasonally adjusted: outstanding amounts; transactions; growth rates
	Loan transfers (disposals minus acquisitions) of loans from MFI balance sheets with derecognition	Net loan transfers
	Loans derecognised from MFI balance sheets	Outstanding amounts; transactions
	Loans, of which notional cash pooling positions	Outstanding amounts; transactions
National data	Adjusted loans: private sector	Outstanding amounts; transactions; growth rates
	Adjusted loans: non-financial corporations	Outstanding amounts; transactions; growth rates
	Adjusted loans: households	Outstanding amounts; transactions; growth rates