Impact of non-performing loans on FISIM

Summary conclusion

Questions

1.   The AEG was asked to express a preference for one of the following options for recording the interest on non-performing loans.

  (a)   Option 1 is the option in the 1993 SNA, except that an amendment is needed to say that any FISIM associated with unpaid interest must also be accrued as part of the principal outstanding. It is consistent with the decision to record the even non-performing loans at nominal value. It is operationally feasible and would lead to no change in GDP.

  (b)   Option 2 appears to recommend a change in the SNA by choosing to record interest on a cash rather than an accrual basis. The possible impact on GDP, compared with measuring interest on a full accrual basis is described in the full explanation of option 2. In practice, if a statistical office records interest in the accounts on the basis of interest reported by banks, it is probable that this may be on a cash basis or at least exclude interest due on loans the bank considers to be non-performing. To the extent this is so, a conceptual change in the SNA would not lead to any change in practice.

  (c)   Option 3 is a change from the SNA. The consequences for the impacts on GDP and other aggregates is described above. Although this option starts from the reference rate approach to calculating FISIM the implication is that the final estimate for (SNA) interest is not derivable by applying the reference rate to the stock of performing loans.

  None of options 1, 2 or 3 imply changes in current recording of entries in the balance sheets.

  (d)   Option 4 is noted mainly for the record. If a decision were to be made to change the valuation of loans in the balance sheet from nominal value to market value, then options 1 and 2 would not apply and the choice would then be between options 3 and 4. However, option 4 is inconsistent with the decision to keep the valuation of NPLs at nominal value in the balance sheet.

Outcome

2.   The AEG noted that the e-discussion had revealed a clear preference for option 1.