11th Meeting of the Advisory Expert Group on National Accounts,
5-7 December 2017, New York, USA

Agenda item: 5.2

Outcome of AEG consultation on the treatment of negative interest rates

5.2.1 Summary of outcome of AEG consultation on the treatment of negative interest rates

Below is a summary of the response to the consultation among members of the Advisory Expert Group on National Accounts (AEG) on the issue of the Treatment of Negative Interest Rates. The consultation paper was posted on 16 February 2017 and the deadline for comments was 17 April 2017. 12 AEG members provided comments (the summary is based on these comments) and 4 responded with no comments.

In general members agreed with the proposed treatment of negative interest rates as negative receipts of investment income. This treatment is seen to:

- be in line with the principles set out in existing manuals, for example, following the parallel treatment of reinvested earnings on direct investment in BPM6
- be logical in that negative interest rates give rise to negative income flows and negative income flows are recorded with a negative sign in the appropriate side of the accounts
- maintain the association between investment income and the related instrument
- allow for more accurate rate of return analysis
- better serve data needs for policy and analytical purposes.

The departure from the IFRS decision on this issue was considered acceptable, as the treatment proposed here is more appropriate for economic statistics. Members felt that similar treatment to the proposed way forward could be extended to reinvested earnings and other financial instruments that may have negative rates of return.

However, it should be noted that some members noted that the proposal should be seen as a practical short-term solution to what may be a temporary phenomenon caused by extraordinary monetary policy, and that further research is needed to improve accounting guidance on this issue.

There was a request for more in-depth analysis in this area, with a stronger justification for the proposed treatment, also addressing issues regarding the (im)possibility of having negative FISIM and/or negative 'pure' interest, including related issues around risk premiums and storage fees.

Regarding implications of this proposal on the calculation of FISIM, there should perhaps be a reconsideration of the appropriate methodology and/or reference rate to use, with one suggestion being a cost of service approach instead of a reference rate method. One member disagreed with the treatment of negative interest rates as negative receipts of investment income as setting negative interest rates has nothing to do with earning income on the part of the investor (depositor), and therefore it seems odd to call this ‘service’ an (negative) income flow. In many ways, it seems more like an explicit banking charge, and the charge would be calculated as the negative interest rate times the stock of deposits. This treatment would be recorded as an ‘expenditure’ of households and an intermediate expense by business and would therefore be consistent with the IFRS recommendation.

Members agreed that a note should be posted on the BPM6 website to clarify the proposed treatment, and both the BPM6 and 2008 SNA position with respect to negative interest rates should be clarified to help clear up confusion. The BOP Committee and other relevant bodies should be involved in this process to maintain consistency among macroeconomic statistics manuals.

Regarding the need for separate information on negative interest rates in national publications, there was hesitation over creating additional reporting obligations, however if negative yielding deposits are significant in a given country supplementary information should be provided on them – they should not be hidden within total interest transactions.