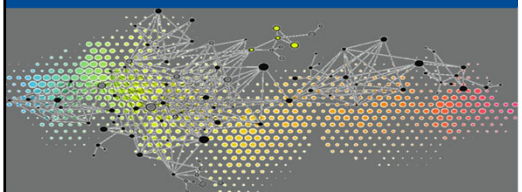

STATISTICS

INTER SECRETARIAT WORKING GROUP ON NATIONAL ACCOUNTS

F.15 Debt Concessionality (BOPCOM VM1 22/04)

Joint (Virtual) Thirty-Eighth Meeting of the IMF Committee on Balance of Payments Statistics and Eighteenth Meeting of the Advisory Expert Group on National Accounts

March 7–10, 2022

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Outline

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Background

- *BPM6* and *2008 SNA* include Debt Concessionality as part of their research agenda.
  - Reflect the economic substance of the transaction more adequately.
  - How the debt instrument should be valued in the balance sheets of debtors and creditors.
  - Whether the transfer element should be recorded in the core accounts and if so, how and when to affect the accounts.
- The GN's scope is restricted to low interest loans provided in a non-commercial context with an intention to convey a benefit.

Issues 1: Current Treatment of Concessional Lending

- Statistics manuals recognize the presence of a gift/transfer in concessional lending but remain silent on an explicit/uniform recommendation for recording/measuring it in the core accounts.
- *2008 SNA* and *BPM6* point to memorandum items/supplementary information
- *2013 EDS Guide* goes further and recommends to reduce the principal of non-negotiable long-term debt instruments that charge no interest.
- *2008 SNA* paragraph 22.124, *BPM6* paragraph 12.51, and *GFSM 2014* paragraph A3.40 refer to this lack of agreement on how to record concessional lending.

Issues 1: Definition/Measurement of Concessionality

- There is often a discussion on what would be the appropriate discount rate to measure the transfer element (and thus to define a concessional loan). The GN covers the use of the observed funding cost of the grantor/creditor, the OECD's Commercial Interest Reference Rates (CIRR), and the funding cost of the borrower.
- The GN recommends the average cost of the grantor/creditor (loans provided at an interest rate below its own financing terms provides an undisputable indication of the presence of a "transfer" element).
- It is also recognized that the CIRR seem more aligned with current orientations of statistics manuals and being easily observable.

Options for Issue 1

- **Option A**: No change in the updated BPM and SNA.
  - **Option A1**: Same as above but adding more detailed information on the transfer element (the fair value of the loan and the entailed accrued interest in memorandum/supplementary information).
- **Option B**: Record in the core accounts both the concessional loans at their face/nominal value at inception and the transfer element spread over time by increasing the stream of interest earned (D.41) on the loan using a suitable non-concessional rate together with a matching transfer expense (deficit neutral in every accounting period).
- **Option C**: Partition concessional loans at inception between a 'genuine' loan element (F.4) and an explicit 'transfer element', imputation of interest receivable (D.41, of the same cumulated size over the lifetime of the loan) that capitalizes on the new nominal value/principal of the loan over time, to reach the face value before maturity (deficit neutral across the life of the loan).

Options for Issue 1—Example

Creditor

Item	Option	Year 1: Inception	Year 1: Rest of Year 1	Year 2	Year 3	Year 4	Year 5	Total
Financial Asset	A	100	100	100	100	100	0	
	B	100	100	100	100	100	0	
	C	78.4	82.3	86.4	90.7	95.2	0	
Revenue / Resources (interest)	A	0	0	0	0	0	0	0
	B	0	5	5	5	5	5	25.0
	C	0	3.9	4.1	4.3	4.5	4.8	21.6
Expense / Uses (transfers)	A	0	0	0	0	0	0	0
	B	0	5	5	5	5	5	25.0
	C	21.6	0	0	0	0	0	21.6
Net Lending / Net Borrowing	A	0	0	0	0	0	0	0
	B	0	0	0	0	0	0	0
	C	-21.6	3.9	4.1	4.3	4.5	4.8	0

Debtor

Item	Option	Year 1: Inception	Year 1: Rest of Year 1	Year 2	Year 3	Year 4	Year 5	Total
Financial Liability	A	100	100	100	100	100	0	
	B	100	100	100	100	100	0	
	C	78.4	82.3	86.4	90.7	95.2	0.0	
Revenue / Resources (transfers)	A	0	0	0	0	0	0	0
	B	0	5	5	5	5	5	25.0
	C	21.6	0	0	0	0	0	21.6
Expense / Uses (interest)	A	0	0	0	0	0	0	0
	B	0	5	5	5	5	5	25.0
	C	0	3.9	4.1	4.3	4.5	4.8	21.6
Net Lending / Net Borrowing	A	0	0	0	0	0	0	0
	B	0	0	0	0	0	0	0
	C	21.6	-3.9	-4.1	-4.3	-4.5	-4.8	0

Note: The net present value at inception of the stream of payments {0, 0, 0, 0, 100}, at a 5% discount rate, is 78.4 U. The transfer recorded at inception is thus 21.6 (=100-78.4).

Issue 2: Treatment of the Grant Element of Concessional Loans Provided as Substitutes of Contributions to Agencies

- Donor governments provide their official contributions (or other grants) to agencies (or other beneficiaries) in the form of long-term zero-interest loans.
- The grant/transfer element of the concessional loans is provided as an explicit substitute to a normal grant (i.e., when these contributions to beneficiaries are expensed).
- Contributions to beneficiaries that are not expensed, for instance when existing rules prescribe recording a transaction in equity in the accounts of the donor for paid-in capital.

Options for Issue 2

If Option C is not selected for Issue 1, the GN proposes the following options for Issue 2:

- **Option A:** statistics manuals should not foresee a specific rule for the cases where a concessional loan is offered as a clear substitute for a contribution/transfer by donor governments.
- **Option B:** statistics manuals should foresee that the grant/transfer element provided as substitute to regular contributions should be explicitly recorded in the core accounts at inception, thus ensuring the substance over form principle.

FITT Recommendation for Issues 1 and 2

- Consultation within FITT showed majority support for Option C for Issue 1.
- Option A/A1 rejected by most members mainly because macroeconomic statistics should explicitly capture all transfers extended by government within the core accounts.
- Most members preferred Option C to Option B because it would recognize the transfer element at the correct time (i.e., at inception) and provide the present value of the loans consistent with international accounting standards.
- Most members supported Option B for Issue 2, calling for explicit recording of the grant/transfer element in core accounts for cases where a concessional loan is offered as a clear substitute for a contribution/transfer by donor governments.
- Consistent treatment of Issues 1 and 2 should be reached.

Global Consultation Outcomes

- For Issue 1, none of the options gained majority support. Option C received the highest support (47 percent), which was considered as a better representation of economic reality—the time value of money matters.
- Supporters of Option A/A1 (30 percent) and those undecided (15 percent) perceived Option C as too complex that could face practicality issues and generate asymmetries.
- For Issue 2, most respondents (49 percent) supported the Option B advocating for the statistics manuals to foresee that the grant/transfer element provided as substitute to regular contributions to agencies should be explicitly recorded in the core accounts at inception.

Global Consultation Outcomes

- Strong support for the following proposals:
  - changing the terminology “concessional loans” to “concessionary loans” (60 percent of respondents)
  - clarifying that the scope of concessionary loans is limited to loans granted by creditors that are nonmarket or that conduct their loans on behalf of another nonmarket unit (72 percent)
  - using the same approach for new concessional loans and cases of restructured loans (68 percent).
- Not a significant preference among respondents for a particular discount rate to define and measure concessionality for new loans.
- However, the CIRR had a slightly larger preference (21 percent). For debt reorganization, the largest support (30 percent) was given to the option recommending to apply the same discount rate as for new loans.

Questions for Discussions

1. *What option do the Committee and AEG favor for the statistical treatment of concessional lending (**Issue 1**)?*
2. *What option do the Committee and AEG favor for the statistical treatment of the grant element of concessional loans provided as substitutes of contributions to agencies (**Issue 2**)?*
3. *Do the Committee and AEG support the proposal to **change the terminology "concessional loans" to "concessionary loans"** in the update to the SNA/BPM?*
4. *Do the Committee and AEG support the proposal to clarify in the SNA/BPM that **the scope of concessional loans** is limited to loans granted by creditors that are nonmarket or that conduct their loans on behalf of another nonmarket unit?*
5. *Which **discount rate (s)** do the Committee and AEG favor to define and measure concessionality for new concessional loans and cases of debt reorganization (Annex III)?*
6. *Do the Committee and AEG support the proposal that the option recommended for new concessional loans should also be applicable to **cases of restructured loans** (Annex VII)? If not, what alternative option(s) do members support for cases of restructuring?*
7. *Do the Committee and AEG have any other views on the statistical treatment of concessional lending and the grant element of concessional loans provided as substitutes of contributions to agencies?*