

A holistic assessment of concessional lending in macroeconomic statistics

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Towards the
2025 SNA
and BPM7

Background

- **Guidance Note F.15 on “Debt concessionality”** was discussed at the AEG/BOPCOM meeting on March 7, 2022
- Main issue: **How to treat concessional lending in a non-market context?**
- Conclusion: No recording in the “central framework”, but provide more detailed information on the transfer element, notably the fair value of the loan and the entailed accrued interest, in **memorandum/supplementary information (option A/A1)**
 - Feasibility
 - Upwards impact on potential for generating asymmetries
 - Consistency in the valuation of loans (at nominal value)

Background, cont.

- **Issues regarding consistency of guidance:**
 - **Inconsistent with valuation principles** of the SNA and BPM, to include adjustments for concessional lending (para. 3.134)
 - **Inconsistent treatment of concessional lending** remains, as in some cases adjustments are made for concessional lending:
 - i. Loans provided by employers to employees at reduced, or even zero, rates of interest (para. 7.54)
 - ii. Below and above market rates on reserve deposits (para. 7.124 and 7.125)
 - iii. Loans by central banks to priority industries at below market rates (para. 7.126)
 - Moreover, transfer element is recorded **period-by-period**, creating an **inconsistency with the recording of the transfer element in full at inception** for the supplementary items

Background, cont.

- **Issues note with a more holistic approach** to concessional lending, basically dealing with two issues:
 - **To what extent should adjustments be made** for concessional lending in the “central framework” (or in supplementary tables)?
 - In the case of accounting for concessional lending, **how should the transfer element be recorded**: at inception for the full amount (capital transfer), or period-by-period (current transfer)

Extent of adjusting for concessional lending

- **Objective is to arrive at a consistent treatment:** either (i) to include a complete accounting for concessional lending, or (ii) to simply accept the actual transactions and positions
- **Concessional lending can be quite significant,** and may involve, for example,
 - Concessional lending by governments to households (e.g., student loans, loans to support households, loans to promote certain policies) as well as lending to corporations for a wide range of purposes
 - Concessional lending between different governments or different government units
 - Lending/borrowing by central banks, as explicitly included in the guidance of the 2008 SNA
 - Concessional lending by international organisations
 - Lending at favourable terms by households to family and friends
 - Concessional lending between affiliates of the same (multinational) corporation
 - Concessional lending by employers to employees

Extent of adjusting for concessional lending, cont.

- Examples show that, for reasons of **feasibility**, it won't be possible to arrive at an accounting for concessional lending; it will always be a very partial approach, leading to inconsistencies in the treatment
- Therefore, it is considered preferable to turn around the line of reasoning, by **accepting that it is practically not possible to make adjustments for concessional lending, with the exception of a limited number of cases where it is considered very important**
- The latter is basically **equivalent to the treatment of transfer pricing**, where one can also observe that making adjustments to the accounts of MNEs is not feasible

The preferred way of accounting for the transfer element

- As noted, **two basic options** are available:
 - i. recording of a continuous **stream of current transfers**
 - ii. recording of a **one-off capital transfer at inception** (and a concomitant revaluation of the loans)
- **Advantages and disadvantages:**
 - First option is more **consistent with the valuation of loans at nominal value**
 - Second option may better represent **economic reality**
 - Second option may be **problematic when applying it, for example, to concessional lending by employers to employees**, where the transfer element is recorded as part of compensation of employees
 - Finally, recording the concessional element as a current transfer could have the advantage of **not affecting saving and net lending/net borrowing of sectors, including the rest of the world**
- Again, one would prefer to arrive at a **consistent recording**, unless there are good reasons for a difference in treatment

Possible options

- **Option 1** (equivalent to Option A in the GN): Never record a transfer element for concessional lending and accept the actual interest transactions paid/received
 - **Option 1A** (equivalent to Option A1 in the GN): Provide information on the impact of concessional lending as supplementary items
- **Option 2**: Apply an exhaustive and fully consistent recording of all forms of concessional lending, by either recording a continuous stream of current transfers to account for the difference between the actual loan interest rate and the market-equivalent interest rate at loan issuance (equivalent to Option B in the GN), or by recording the whole concessional element at the time of inception (Option C in the GN)
- **Option 3**: Apply option 1 but apply option 2 to a limited number of exceptions (see below) to the general rule of not accounting for concessional lending.
 - **Option 3A**: Provide additional information on the impact of concessional lending as supplementary items

Note: The way of recording the concessional element also may become relevant in the case of Option 1A and Option 3A

Recommendations of the issues note

- **To never record a transfer element for concessional lending in the central framework, with the exception of a very limited number of clearly defined cases**
- The **exceptions are limited to concessional loans provided by employers to employees**, mainly because of a more accurate accounting for compensation of employees. In this respect, it is also recommended to remove the exception made for loans/deposits by central banks, as currently included in the 2008 SNA
- **Supplementary items** for the transfer element included in concessional lending are compiled **for concessional loans provided in a non-market context**, i.e., those provided by governments, central banks and international organizations
- In order to arrive at a consistent treatment of concessional loans, the **transfer element will always be recorded as a continuous stream of current transfers** over the relevant period of the concessional loans

Written feedback received from AEG and BPTT

- **Eleven responses received**, four agreeing to circulation for discussion at AEG/BOPCOM, **five agreeing with the recommendations of the issues note**
- Eurostat (three responses, counted as two in the above), **disagrees, mainly based on the following points:**
 - **Preference to recording of a one-off capital transfer at inception**
 - **From an economic point of view, recording of a one-off capital transfer at inception is superior** to recording a continuous stream of current transfers
 - Recording of a one-off capital transfer at inception would be **consistent with IPSAS**
 - Implicitly, para. 3.144 of the 2008 **SNA already recommends discounting the value of other account payable/receivable** in the case of long time gaps between delivery of an asset and its payment
 - **Doubts are raised regarding the inconsistency with valuation of loans at nominal value**
 - **Removing accounting for concessional loans by central banks to priority industries is considered a step back**

Written feedback received from AEG and BPTT

- **Initial responses to comments raised:**
 - **Way of recording transfer element**
 - Good arguments for the recording of a one-off capital transfer for concessional loans
 - Quite problematic to apply to concessional loans by employers to employees
 - Consistency in recording was driving the recommendations
 - However, if there are good reasons for a difference in treatment, then one could indeed accept a different treatment
 - **Concessional lending by central banks**
 - Removed for reasons of consistency; happy to include them in the context of a more complete accounting for concessional lending in a non-market context, as supplementary items (or central framework, as Eurostat seems to prefer)
 - Does not hold for below and above market rates on reserve deposits (cf. ECB)

Questions to the AEG and BOPCOM

The advice of the AEG and BOPCOM is sought regarding the following issues:

- Does the AEG and BOPCOM agree to never record a transfer element for concessional lending in the central framework, with the exception of a very limited number of clearly defined cases?
- Does the AEG and BOPCOM agree with restricting the exceptions to concessional loans provided by employers to employees, mainly because of a more accurate accounting for compensation of employees?
- Does the AEG and BOPCOM agree, in line with GN F.15, to include supplementary items for the transfer element included in concessional lending are compiled for concessional loans provided in a non-market context, i.e., those provided by governments, central banks and international organizations?
- How does the AEG and BOPCOM look upon the recording of the transfer element?

Thank you for your attention!

