

## BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

### OUTCOME PAPER (BOPTTEG) # 29

JANUARY 2005

(1) Topic: **Concessional Debt**

(2) Issues – see BOPTTEG Issues Paper # 29

3) Recommendations:

(i) It was agreed that the general principle should be that the concessional element of a debt should be recognized as a current transfer and the interest payable be adjusted upwards by the same amount.

(ii) It was recognized that there were no clear definition for concessional loans, but the existing guidance in the *Debt Guide* and features such as an intention to convey a benefit, and occurrence in a noncommercial setting (usually government-to-government) could be mentioned.

(iii) If loans continue to be expressed at nominal value as the primary valuation, as endorsed by the IMF Committee on Balance of Payments Statistics, the concessional element would be shown as an ongoing current transfer. The transfer would be measured as the difference between the actual rate and market rate for loans to borrowers of similar creditworthiness under similar loan conditions. It was noted that this principle was to measure the size of the transfer. (As discussed at (ii) above, that the intention of BOPTTEG was not that any loan at apparently less than usual rates would be treated as concessional but rather that only loans as defined in (ii) above, should be eligible.) It was recognized that a fair valuation basis for loans would raise more complex valuation and allocation issues.

(iv) The desirability of bilateral cooperation between compilers in the two affected economies was emphasized to maximize consistency in identification and measurement.

(v) For the quantification of the transfer element and interest:

- Some members considered that the transfer element and interest for fixed-rate loans could be determined from market-equivalent interest rates at the time of inception. That is, subsequent changes in interest rates and borrower creditworthiness would not affect the value of the transfer. (The possibility that interest rate and creditworthiness could change so much that the loan was no longer concessional was discussed, but the problem was considered to be hypothetical in that such loans might well be renegotiated.) Similarly, for a floating-rate loan, it was considered that, in practice, the concessional element would also be expected to be maintained as an identifiable element in relation to the formula for the floating rate.
- Other members considered that quantification of the transfer element and interest should take into account subsequent changes in interest rates and creditworthiness.

The IMF will undertake further investigations of these issues and report to the Committee on Balance of Payments Statistics.

(4) Rejected Alternatives:

None.

(5) Questions for the Committee:

- (i) *Does the Committee agree with the general principle that concessional loans incorporate a transfer element to be recorded in current transfers with an equal adjustment of interest payable? See (3(i)) above.*
- (ii) *Does the Committee agree with the proposed approach to identifying concessional debt? See(3(ii)) above.*
- (iii) *Does the Committee agree with the proposed approach to quantifying the concessional element of debt? See (3(iii)) above.*
- (iv) *Does the Committee consider that the concessional element on a fixed-rate loan should be:*
  - (a) fixed over the life of the loan and quantified by reference to interest rates for nonconcessional loans with similar term lengths and creditworthiness at the time of inception; or*
  - (b) variable each period and quantified by reference to interest rates for nonconcessional loans with similar creditworthiness in that period?**See (3(v)) above.*