

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

OUTCOME PAPER (BOPTTEG) # 3

JUNE 2004

(1) Topic: **Application of Accrual Principles to Debt Arrears**

(2) Issues – see BOPTTEG Issues Paper #3

(3) Recommendations:

(i) The group agreed unanimously to harmonize the time of recording, and treatment of, arrears in various macroeconomic statistics.

(ii) The group unanimously recommended that when arrears occur, no transactions should be imputed, but the arrears should continue to be shown in the same instrument until the liability is extinguished.

(iii) If the terms and characteristics of financial instruments change when a liability goes into arrears, the majority of the group favored the treatment of this change as reclassification/other volume change but several supported its treatment as a transaction.

(iv) The group reinforced the view that data on arrears are important. There was a general consensus that data on arrears should be presented as memorandum or supplementary items rather than as subheadings under relevant instruments of the international investment position. Although it is useful to identify some commonly important arrears (such as arrears on public and publicly guaranteed debt), most members favored flexibility in determining which items of arrears are important to disseminate depending on each country's circumstances.

(v) The group noted that, in the accrual system, the accrual of interest is a separate event from payments and both are recorded. The arrears refer to payment arrears. The payments could be related to interest and/or principal. The group suggested that appropriate and consistent terminologies be used in drafting the manual.

(vi) The group raised questions on how the recommended treatment impacts on the analytic presentation of balance of payments, in which certain arrears are recorded presently as exceptional financing transactions. The group indicated that the new manual should address this issue.

(4) Rejected Alternatives:

The group rejected the imputation to account for the liability being repaid and its replacement by a new short-term debt (representing the arrears) when a liability goes into arrears.

(5) Questions for the Committee:

- (i) *Does the Committee agree that the time of recording and treatment of arrears be harmonized in various macroeconomic statistics? See 3(i) above.*
- (ii) *Does the Committee agree with the recommendation that no transactions should be imputed when a liability goes into arrears? See 3(ii) above.*
- (iii) *Which of the two alternative treatments -- transactions or reclassification/other changes -- is appropriate if the terms and characteristics of financial instruments change when a liability goes into arrears? See 3(iii) above.*
- (iv) *Is there a need for some guidelines for presenting data on arrears as supplementary items, where relevant, based on a country's circumstances? Or could it be left entirely to the compilers? See 3(iv) above.*
- (v) *Does the Committee have views on what constitute commonly important arrears (such as, arrears on public and publicly guaranteed debt) that could be presented as memorandum items? See 3(iv) above.*