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The Treatment of Concessional Loans in the Government Accounts

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EUROPEAN CENTRAL BANK

EUROSYSTEM

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The treatment of concessional loans in the government accounts

The European experience

Outline of the presentation

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3	ECB position
4	European Commission (Eurostat) decision
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1 **Background**

2 The European discussion: issues at stake

3 ECB position

4 European Commission (Eurostat) decision

5 The research agenda

Background

- **Governments can grant low/zero interest rate loans for public policy purposes:**
  - Student loans
  - Real estate loans
  - Loans to newly created companies
- **The government of one European Member State regularly sold <u>well-performing</u> low interest rate loans to banks at a large discount**
- **Topic of discussion among European statisticians in the period of 2009-2012**

Issues at stake

- **When a low interest rate loan is sold below its nominal value, how is the difference to be treated?**
  - Expenditure, revaluation or both (partitioning)?
- **General treatment of low interest rate loans:**
  - Hidden benefit: difference between the contractually agreed interest rate and the market interest rate
  - Should the hidden benefit to the debtor be shown in the national accounts?
  - What would be the time of recording of such a benefit?
  - What would be a good proxy for the market interest rate?

The process

- **Eurostat (European Commission) issued a questionnaire**
  - Imputations were made in three Member States only
- **Need for clarification/harmonisation**
- **Eurostat consulted the Committee on Monetary, Financial and Balance of Payment Statistics (CMFB)**
  - Composed of senior statisticians from
    - EU National Statistical Institutes/National Central Banks
    - Eurostat/European Central Bank
  - Consulted on complex methodological cases
  - CMFB Opinion → Eurostat Decision

The ECB position

- **The statistical guidance in force:**
  - Interest is accrued at the contractually agreed interest rate (ESA 95 § 4.44, ESA 2010 § 4.43, SNA 2008 § 7.115, BPM6 § 11.51)
  - Difference between the redemption price and the transaction price → revaluation account of the seller and the purchaser at the time of transaction (ESA 95 § 6.51, ESA 2010 § 6.58, BPM6 § 9.33)
  - Balance sheet: amount of principal that the debtor is contractually obliged to repay even in cases where the loan was traded at a discount or premium (ESA 95 § 7.51, ESA 2010 § 7.70 / 7.99, SNA 2008 § 13.62, BPM6 § 3.86)
- **Conclusion:**
  - No benefit to be imputed
  - Neither over the lifetime of the loan nor when sold at a discount

Eurostat decision

- In line with the CMFB Opinion and ECB stance
- Interest to be recorded at contractually agreed rate
- No benefit imputed
- Difference between nominal value and sales price to be recorded as revaluation
- Impact on the deficit is already implicitly reflected: difference between cost of government financing and interest revenue

Research agenda

- **Summarised in SNA 2008 § A4.44:**

Further work is required to clarify whether concessional loans involve a subsidy on any service charge associated with interest payments or a transfer representing the difference between the market rate of interest and the agreed rate.

If the latter, the next problem is whether the System of National Accounts transfer should be paid period by period on an ongoing basis as a current transfer or as a one-off capital transfer at the time the loan is issued.

Lessons from the CMFB consultation

- **Subsidy on service charge was not considered**
- **A majority of the CMFB members supported the view that**

  – the benefit should be allocated over the life time of the loan

  ECB view: accrual principle

  – interest rate at which government can borrow is a proxy for the market interest rate

  ECB view: an interest rate at which the debtor can take up a loan

Research topics

- **If you impute benefits related to government concessional loans, how to record benefits after sale to a bank?**

  –Bank does not provide social benefits

  –Record a benefit from government, but also record a tax paid to government by the bank?

  –See box 6.2 of the IMF GFSM 2014 (Implicit Subsidies of Central Banks)

- **If you use market interest rates, should you then also use fair valuation of loans ? (SNA 2008 § A4.40)**

Your views are welcome!