

CMFB opinion
on the recording of low interest rate loans

1. At Eurostat's request the CMFB Chairman, with the assistance of the CMFB Executive Body, asked the CMFB Members on 16 November 2012 to state their opinion on the recording of low interest rate loans. The deadline for replies was 30 November 2012. Twenty-one (21) national statistical institutes and twenty-three (23) national central banks from the EU Member States returned the questionnaire within the specified time. A total of forty-seven (47) institutions, including the ECB, the Norwegian and Swiss National Statistical Institutes provided their opinion.

The consultation concerned the treatment in national accounts of low interest rate loans (i.e. below market interest rate for the debtor) granted by a government unit in the context of its usual public policy activities and of the sale of those loans to a third party. It was emphasised that government is a non-market producer in national accounts.

Main results of the consultation

2. The CMFB agreed, based on a large majority, that the interest of such loans should be recorded on the basis of the contractually agreed interest rate. In other words, the implicit benefit for the debtor, by means of lower interest rate than market interest rate for the debtor's loan, should not be imputed as revenue of the debtor and expenditure of government in national accounts. It was noted that such imputations would not change the net lending / net borrowing of general government as they would impact in equal amounts the expenditure and revenue of government.
 - Many CMFB members recognised the implicit benefit element (implicit transfer component) but noted that ESA95 does not require thorough imputations in order to record all transactions undertaken by government by reference to market prices.
 - Some members noted the need for consistency in the accounts, emphasising that non-tradable debt (loans) – unlike tradable instruments – are to be recorded at nominal value in the national accounts and interest is to be recorded at the contractual interest rate.

- Some members noted that this issue is on the SNA2008 research agenda, that further work is required to clarify the recording of concessional loans in national accounts, and that the recording could be made in supplementary tables.
3. Concerning the case in which a loan, as specified above, is sold by government to a third party at a discount with no change in the contractual conditions for the debtor, a majority of CMFB members agreed that the discount (difference between nominal value and sales price) should be recorded as a revaluation for both the third party and the government.

Supplementary information

4. In case the main results of the consultation would have required the recording of an implicit transfer component (see para. 2) or that the discount in case of sale would be recorded as government expenditure (see para. 3), the CMFB provided the following supplementary information:
- a majority of CMFB members supported the view that the benefit to the debtor, if it were to be imputed, should be allocated to the respective reporting periods over the life time of the loan.
 - some CMFB members noted that, if the sale with a discount to a third party were to be recorded as expenditure for government, and not as a revaluation, the discount should be (retroactively) imputed at the time of issuance as a revenue for the debtor instead of at the time of sale as a revenue for the third party.
 - a majority of CMFB members supported the view that government expenditure reflecting benefits to the debtor, if it were to be recorded, should be made with reference to an interest rate at which government can borrow funds.
5. The CMFB recommends that Eurostat take account of the specific remarks raised.
6. In addition to this opinion, all the anonymised answers from CMFB Members have been transmitted to Eurostat and will be kept in the records of the CMFB secretariat.

(Signed)

João Cadete de Matos
CMFB Chairman

Lisboa, 18 December 2012