EUROPEAN COMMISSION
EUROSTAT

Directorate C: Economic and monetary statistics
Unit C-3: Public Finance and Taxation

21 September 2004

Eurostat Task Force on the SNA review — financial accounts and government finance statistics

Contribution to the EDG on Non Performing Loans

1. The Eurostat *Task Force on the SNA review (financial accounts and government finance statistics)* met on 15 September in Luxembourg and examined the progress made by various task forces or Electronic Discussion Groups (EDG) reporting to the Advisory Expert Group (AEG), and notably those of the EDG on non performing loans.[1]

2. It is the opinion of the Task force that the debate on a review of the SNA regarding the statistical treatment of non performing loans ought to take into account additional considerations not yet fully treated by the Moderator's Report, notably those related to public finance, before final submission to the AEG and final closure, currently envisaged it would seem for the November 2004 AEG meeting.[2] The Task Force notes that the question of the impact on government accounts has been raised by prominent EDG contributors, notably: Kevin O'Connor,[3] François Lequiller.[4]

3. Various members noted the impact on budgetary statistics of valuation loans for both the general government *net worth* (B.90) and the *net lending / net borrowing* (B.9). Among the questions not fully enquired in the EDG Moderator report are:
    a. The time of write-off, which is an unresolved issue of the report, and which is of significant importance for Government Finance Statistics (GFS); Government can have an incentive to time they write-off to achieve an accounting effect, instead of to reflect the economic reality;
    b. Governments can even sometimes time their cancellations instead of participating to needed recapitalization operations or internationally coordinated debt reliefs (Paris Club). More in general, the accounting of rescheduling is of importance; one principal consideration lays on the valuation of the instrument itself. There also exists an dynamic activity of

---

[1] Activities of the TFHPSA are observable at: http://www.imf.org/external/np/sta/npl/eng/discuss/index.htm
[2] See United Nations Statistics Department web site, at: http://unstats.un.org/unsd/nationalaccount/AEG/IssueList.pdf.
[3] http://www.imf.org/forum/Message2.asp?forumid=9&messageid=417&threadid=412
[4] http://www.imf.org/forum/Message2.asp?forumid=9&messageid=422&threadid=412

secondary market quotations of Paris Club (as well as London Club) debts, whilst government sometimes dispose of claims by way of secondary market transactions, or structured deals;

c. There is a consistency difficulty between the EDG report and the Eurostat *ESA 1995 Manual on Government Deficit and Debt* view of how to account for loans purchased at above market price in the case of restructuring agencies,[5] that would need to be further analysed (point raised notably by François Lequiller in his EDG contribution: *Nonperforming loans: a contribution in favour of option 3*)[6];
d. The report ought to outline the lack of consistency of the proposed loan valuation method with that required (i.e., valuation net of bad loans allowances/provisions) in most, if not all, accounting standards, such as the International Public Sector Accounting Standards (IPSAS) of the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC), or as the International Accounting Standards (IASs) of the International Accounting Standards Board (IASB).

4. The Task Force noted the implications for European government finance statistics (GFS) that such a move would entail. European GFS are fully integrated in the *ESA 1995* and are the basis for the Excessive Deficit Procedure (EDP), a process central to the multilateral fiscal surveillance in European Union (Stability and Growth Pact). Hence, it is important that ESA 1995 follows realistic accounting principles and allows proper accountability in terms of events involving loans.

5. The Task Force suggests that the EDG report be presented to the AEG only once those issues have been satisfactorily addressed.

6. The topic will be an important subject of the scheduled back-to-back meetings of the Task Force and the Eurostat's Financial Accounts Working Party (FAWP) in November 17-19, 2004 in Luxembourg. The Task Force invites the TFHPSA Chair and its Working Group 2 Chair to participate to debates. The FAWP is the forum where the European national institutes and central banks discusses methodological and compilation issues on GFS, as well as on financial accounts, and reports to the Committee on Monetary, Financial and Balance of Payments Statistics—CMFB.

[5] Called "defeasance structures" in the *ESA 1995 Manual on Government Deficit and Debt*, and sometimes referred to as "bad banks" (in the press).

[6] http://www.imf.org/forum/Message2.asp?forumid=9&messageid=422&threadid=412