

**Eighteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Washington, D.C., June 27–July 1, 2005**

Distinction Between Deposits and Loans in Macroeconomic Statistics

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

OUTCOME PAPER (BOPTTEG) # 30

JANUARY 2005

(1) Topic: **Distinction between Loans and Deposits**

(2) Issues – see BOPTTEG Issues Paper # 30 and Background Paper # 30

(3) Recommendations:

(i) The group generally supported keeping the distinction between the two instruments because of the analytical value.

(ii) It was recognized that current standards do not allow a distinction to be made clearly and consistently between loans and deposits for positions and transactions among banks. A range of views on possible criteria were expressed, including the financial/non-financial nature of the borrower or the parties' own definitions and contractual arrangements. An argument in favor of the first criterion was mentioned concerning the definition of money supply as depository corporations, the money issuing sector, are defined to include those accepting deposits.

(4) Rejected Alternatives:

The criterion of classifying the instrument according to the classification of the party who initiates the arrangement was rejected by most participants as impractical.

(5) Questions for the Committee:

- (i) *Does the Committee agree that the distinction between loans and deposits should be retained? See 3(i) above.*
- (ii) *What is the view of the Committee on the appropriate criteria for such a distinction for positions and transactions among banks? See 3(ii) above.*

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

BOPTTEG ISSUES PAPER # 30

The distinction between deposits and loans in macro-economic statistics

**Prepared by Pierre Sola and Carlos Sánchez Muñoz¹
Directorate General Statistics
European Central Bank**

November 2004

¹ The views expressed in this Paper are those of the authors and do not necessarily represent those of the European Central Bank.

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

BOPTTEG ISSUE PAPER #30

The distinction between deposits and loans in macro-economic statistics

Current international statistical standards include a distinction between deposits and loans. However, the criteria to perform the distinction between these instruments are not very clear in most of these standards, and/or require additional guidance for the practical compilation of the data. Furthermore, experience suggests that the analytical usefulness of this split may need to be further assessed, taking into account recent financial innovation.

I. Current international standards

The guidance provided by relevant international statistical standards may be summarised as follows:

The 5th IMF Manual on Balance of Payments (BPM5) describes in paragraph 421 deposits as including “both transferable and other deposits. Transferable deposits consist of deposits that are exchangeable on demand at par without restriction or penalty, freely transferable by check or giro order, and otherwise commonly used to make payments (...). Other deposits include all claims reflecting evidence of deposit other than transferable deposits”². According to paragraph 415, loans “comprise those financial assets created through the direct lending of funds by a creditor (lender) to a debtor (borrower) through an arrangement in which the lender either receives no security evidencing the transaction or receives a non-negotiable document or instrument”. However, no clear-cut criterion to distinguish deposits from loans is provided in the Manual.

In terms of sectors, it may be noted that the b.o.p. and i.i.p. standard components (Table in Chapter VIII and Table 7 of the Manual) show only two sectors for the item “currency and deposits liabilities”: monetary authorities and banks. This suggests that non-banks would not be expected in principle to receive deposits.

² A similar definition can be found in Paragraph 516 of the Manual: deposits include “those payable on demand and transferable by check or otherwise usable for making payments and those that may not be readily transferable but that may be viewed as substitutes for transferable deposits”.

The System of National Accounts (SNA 1993) describes, under items 11.71 and 11.72, "transferable deposits" and "other" deposits, the latter including "all claims, other than transferable deposits, on the central bank, other depository institutions, government units, and in some cases other institutional units that are represented by evidence of deposit". Conversely, according to item 11.83, "loans include all financial assets that (a) are created when creditors lend funds directly to debtors, (b) are evidenced by non-negotiable instruments, or (c) for which the lender receives no security evidencing the transaction"³.

The same item 11.83 mentions that "all sectors may acquire assets and incur liabilities in the form of loans", which is in general not the case for deposits, the latter often being part of the liabilities of few sectors, i.e. central banks, other depository corporations and government units. However, as clarified by article 11.73, deposits may appear within the liabilities of other institutional units in some cases: "deposits are most often accepted as liabilities by financial corporations and general government, but institutional arrangements in some countries permit non-financial corporations and households to accept deposits".

The European System of Accounts (ESA 1995) proposes the following criterion to distinguish loans from deposits, in article 5.74: "The distinction between transactions in loans (F.4) and transactions in deposits (F.22, F.29) may often be based on the criterion who is taking the initiative for the transaction. In cases where the initiative is taken by a borrower, the transaction is to classify in the category loans. In cases where the initiative is taken by a lender, the transaction is to classify in one of the deposit sub-categories".

The same ESA article recognises however that the application of this criterion is often a matter of judgement and therefore it is not a practical criterion either. For this reason, the criterion is supplemented by an additional "convention", in article 5.75: "by convention, short term⁴ loans granted to monetary financial institutions, resident or non-resident, are normally classified in one of the deposit sub-categories (AF22, AF29), and short term deposits accepted by institutional units other than MFIs, resident or non-resident, are normally classified in sub-category short term loans". This is

³ Paragraph 11.53 gives more general indications on the classification of financial assets: "the classification scheme is based primarily on two kinds of criteria: the liquidity of the asset and the legal characteristics that describe the form of the underlying creditor/debtor relationship. The concept of liquidity embraces other more specific characteristics - such as negotiability, transferability, marketability or convertibility - and these characteristics play a major role in determining the categories".

⁴ According to paragraph 5.22, "short term financial assets (liabilities) are financial assets (liabilities) whose original maturity is normally one year or less, and in exceptional cases two years at the maximum."

further elaborated: “Therefore deposits are liabilities predominantly of resident and non-resident MFIs, while MFIs normally have no short-term loan liabilities in the system.”

Corresponding definitions in the **IMF Monetary and Financial Statistics Manual** (paragraphs 127 and 139) and **the (IMF) Government Finance Statistics Manual** (paragraphs and 7.101 and 7.110) are very close to those of the SNA. However, the latter includes in paragraph 7.110 an additional footnote stating that "a loan is distinguished from a deposit (6212) on the basis of the representation in the documents that evidence them".

The **External Debt Statistics Guide** similarly defines loans (paragraphs 3.28) as including “those financial assets created through the direct lending of funds by a creditor (lender) to a debtor (borrower) through an arrangement in which the lender either receives no security evidencing the transactions or receives a non-negotiable document or instrument”. Deposits are defined in paragraph 3.34 as transferable and other deposits, along the lines of the SNA.

A more exhaustive description of international statistical and accounting standards (including references to IAS) can be found in the background document “The borderline between deposits and loans in macroeconomic statistics”.

II. Concerns/shortcomings of the current treatment

The definitions of the SNA93 and BPM5 are not fully clear, though both reflect that deposits cover both transferable and other deposits. The ESA95 provides more detailed guidance. However, as described above, this Manual recognises that the criterion to distinguish loans from deposits, i.e. who is taking the initiative, "is often a matter of judgement". While clear guidance is provided in paragraph 5.75 on how to overcome this difficulty regarding transactions/positions in short term loans/deposits, very few practical indications are available for longer term deposits or loans (the condition set up in paragraph 5.70 being also difficult to identify in statistical reporting). As described in the above-mentioned background document, the ESA95 suggests in its paragraph 5.76 that exceptions to the above-mentioned conventions may be useful.

From a purely conceptual point of view, this approach does not permit to fully define the borderline between long term loans and deposits, given in particular that the exceptions in paragraph 5.76 might not apply to all countries or situations, and are not listed in a comprehensive manner.

The compilation of fully consistent macro-economic statistics would in principle require the development of a harmonised and fully consistent approach to distinguish between deposits and loans

in MFI balance sheet statistics, b.o.p. and i.i.p. statistics and financial accounts statistics. However, the current situation may be summarised as follows:

- The current criteria to make the split between deposits and loans are seen as requiring further practical guidance, which might be elaborated in the context of the review of international statistical standards;
- Nevertheless, from an analytical point of view, it is not certain that the strict application of international statistical standards would meet in particular the requirement of monetary analysts to identify assets which may be close substitutes to money. Indeed, these standards recognise that the definition of money may vary across countries and over time, and is therefore out of the scope of such standards: cf. SNA 11.57 and ESA Annex 5.1⁵. This is one reason why, for instance, the euro area b.o.p./i.i.p. currently considers as deposits funds placed with banks, while they regard as loans funds lent to non-banks.

More generally, it could be asked whether from a conceptual point of view, the split between “loans” and “deposits” is still relevant in an environment of financial innovation. Indeed, financial innovation tends in general on the one hand to reduce the asymmetric position between financial and non-financial operators when they lend and borrow, and on the other hand to reduce the different barriers to access to specific types of financial instruments that may exist for different categories of economic agents. Any long-term work, in particular in the context of the review of international statistical standards, could therefore be preceded by an analysis of the relevance of this split, and whether it would be preferable to discontinue it or, alternatively, to replace it by a more up to date split.

III. Possible alternative treatments

One possible approach may be to clarify the definition of deposits and loans in the BPM5 and SNA93, possibly along the lines of the ESA95 or, alternatively, considering the euro area b.o.p./i.i.p. approach, i.e. performing this split on the basis of the institutional sector of the cash borrower. However, it might be necessary to assess whether any guidance is sufficiently clear to allow for a consistent data collection across countries.

⁵ In the case of the euro area, the definition of money focuses on funds deposited with banks [and to the extent possible central government] with an original maturity up to two years.

Alternatively, it could be checked whether the distinction is still considered as useful from an analytical point of view. Should that not be the case, one should consider to discontinue the distinction between these two instruments in the BPM5 and SNA93. An instrument “loans and deposits” could then be created (possibly under a different name). Within this category, some sub-breakdowns might be seen as useful, e.g. by maturity or by sector of counterpart. The separate identification of repos (if it were possible) could also be made under this instrument. This alternative may be considered only if the usefulness of this distinction for analytical purposes could not be confirmed, or if it were deemed less useful than other breakdowns, which may allow e.g. to better identify aggregates closely connected with the national definition of broad money.

IV. Questions/points for discussion

- 1. What are the views of BOPTEG members on the analytical use of the split between deposits and loans?*
- 2. Should the usefulness of this split be confirmed, do BOPTEG members agree that current international standards do not provide clear criteria to perform such a distinction?*
- 3. Do BOPTEG members have any preference for any of the criteria mentioned in the note, i.e. (i) looking at who takes the initiative (and whether or not a distinction should be made between short-term and long-term instruments); (ii) taking into account the nature of the borrower (banks \approx deposits / non-banks \approx loans); (iii) defining in a very precise way which instruments meet the definition of “transferable” and “other deposits”; (iv) considering the representation in the documents that evidence loans or deposits; etc.?*

References

Balance of Payment Manual, fifth edition, (BPM5), paragraphs 415, 421 and 516

BOPTTEG background paper # 30 “The borderline between deposits and loans in macroeconomic statistics” (Pierre Sola)

European System of Accounts (ESA95), paragraphs 5.70-5.76

Government Finance Statistics Manual, paragraphs and 7.101 and 7.110

Monetary and Financial Statistics Manual, paragraphs 127 and 139

System of National Accounts (SNA93), paragraphs 11.71-11.73 and 11.83

IMF Committee on Balance of Payments Statistics

Balance of Payments Technical Expert Group (BOPTTEG)

BACKGROUND PAPER BOPTTEG ISSUE # 30

**THE DISTINCTION BETWEEN DEPOSITS AND LOANS IN MACRO-
ECONOMIC STATISTICS**

Prepared by Pierre Sola¹

European Central Bank

October 2004

¹ This note has benefited from helpful comments from colleagues in the ECB's Directorate General Statistics, as well as from the Statistics Committee of the ESCB. However, this note should be regarded as reflecting only the views of its authors.

Introduction

1. The treatment of loans in macroeconomic statistics is currently being discussed in the context of the review of international statistical standards, with a focus mainly on the valuation of loans and treatment of "non-performing" loans. The borderline between loans and securities is also intended to be discussed, in the Balance of Payments Technical Expert Group set up by the Balance of Payments Committee. The present note addresses an additional issue that has emerged concerning the exact borderline between loans and deposits.

2. This note intends to describe the criteria currently applied to distinguish deposits from loans for all economic sectors within the various macroeconomic financial statistics (esp. money and banking, b.o.p./i.i.p., financial accounts and government finance statistics). Section 1 reviews the conceptual guidance provided by relevant international statistical standards; Section 2 then refers to the practical application of these standards and proposes a way forward regarding the compilation of this split in the longer term.

Section 1 - Conceptual criteria to distinguish loan/deposits

3. The guidance provided by relevant international statistical standards may be summarised as follows:

4. **The 5th IMF Manual on Balance of Payments (BPM5)** describes in paragraph 421 deposits as including "both transferable and other deposits. Transferable deposits consist of deposits that are exchangeable on demand at par without restriction or penalty, freely transferable by check or giro order, and otherwise commonly used to make payments (...). Other deposits include all claims reflecting evidence of deposit other than transferable deposits"². According to paragraph 415, loans "comprise those financial assets created through the direct lending of funds by a creditor (lender) to a debtor (borrower) through an arrangement in which the lender either receives no security evidencing the transaction or receives a non-negotiable document or instrument". However, no clear-cut criterion to distinguish deposits from loans is provided in the Manual.

5. In terms of sectors, it may be noted that the b.o.p. and i.i.p. standard components (Table in Chapter VIII and Table 7 of the Manual) show only two sectors for the item "currency and deposits liabilities": monetary authorities and banks. This suggests that non-banks would not be expected in principle to receive deposits.

6. **The System of National Accounts (SNA 1993)** describes, under items 11.71 and 11.72, "transferable deposits" and "other" deposits, the latter including "all claims, other than transferable deposits,

² A similar definition can be found in Paragraph 516 of the Manual: deposits include "those payable on demand and transferable by check or otherwise usable for making payments and those that may not be readily transferable but that may be viewed as substitutes for transferable deposits".

on the central bank, other depository institutions, government units, and in some cases other institutional units that are represented by evidence of deposit". Conversely, according to item 11.83, "loans include all financial assets that (a) are created when creditors lend funds directly to debtors, (b) are evidenced by non-negotiable instruments, or (c) for which the lender receives no security evidencing the transaction"³.

7. The same item 11.83 mentions that "all sectors may acquire assets and incur liabilities in the form of loans", which is in general not the case for deposits, the latter often being part of the liabilities of few sectors, i.e. central banks, other depository corporations and government units. However, as clarified by article 11.73, deposits may appear within the liabilities of other institutional units in some cases: "deposits are most often accepted as liabilities by financial corporations and general government, but institutional arrangements in some countries permit non-financial corporations and households to accept deposits".

8. **The European System of Accounts (ESA 1995)** proposes the following criterion to distinguish loans from deposits, in article 5.74: "The distinction between transactions in loans (F.4) and transactions in deposits (F.22, F.29) may often be based on the criterion who is taking the initiative for the transaction. In cases where the initiative is taken by a borrower, the transaction is to classify in the category loans. In cases where the initiative is taken by a lender, the transaction is to classify in one of the deposit sub-categories".

9. The same ESA article recognises however that the application of this criterion is often a matter of judgement and therefore it is not a practical criterion either. For this reason, the criterion is supplemented by an additional "convention", in article 5.75: "by convention, short term⁴ loans granted to monetary financial institutions, resident or non-resident, are normally classified in one of the deposit sub-categories (AF22, AF29), and short term deposits accepted by institutional units other than MFIs, resident or non-resident, are normally classified in sub-category short term loans". This is further elaborated: "Therefore deposits are liabilities predominantly of resident and non-resident MFIs, while MFIs normally have no short-term loan liabilities in the system."

10. One additional, implicit source of guidance might be derived from the description of a general characteristic of loans in paragraph 5.70: "the conditions governing a loan are either fixed by the financial corporation granting the loan or negotiated by the lender and the borrower directly or through a broker". This setting of the conditions by the lender or by both lender and borrower is in contrast to deposits where it is generally the borrower alone who sets the conditions whilst the lender only chooses to accept or not accept⁵.

11. The ESA95 does not provide further explicit guidance regarding the distinction to be drawn between longer term loans and deposits, and mentions in paragraph 5.76 that "it might be useful analytically to allow for exceptions" to the convention described in 5.75. The ESA95 does not further elaborate on this, except to provide two examples for such potential exceptions: one case when non-MFIs (general

³ Paragraph 11.53 gives more general indications on the classification of financial assets: "the classification scheme is based primarily on two kinds of criteria: the liquidity of the asset and the legal characteristics that describe the form of the underlying creditor/debtor relationship. The concept of liquidity embraces other more specific characteristics - such as negotiability, transferability, marketability or convertibility - and these characteristics play a major role in determining the categories".

⁴ According to paragraph 5.22, "short term financial assets (liabilities) are financial assets (liabilities) whose original maturity is normally one year or less, and in exceptional cases two years at the maximum."

⁵ Although in the case of wholesale deposits, the investor may be able to negotiate terms.

government) can have deposit liabilities and one when MFIs can have short-term loan liabilities (non-monetary gold swaps).

12. Corresponding definitions in the **IMF Monetary and Financial Statistics Manual** (paragraphs 127 and 139) and **the (IMF) Government Finance Statistics Manual** (paragraphs and 7.101 and 7.110) are very close to those of the SNA. However, the latter includes in paragraph 7.110 an additional footnote stating that "a loan is distinguished from a deposit (6212) on the basis of the representation in the documents that evidence them".

13. The **External Debt Statistics Guide** similarly defines loans (paragraphs 3.28) as including "those financial assets created through the direct lending of funds by a creditor (lender) to a debtor (borrower) through an arrangement in which the lender either receives no security evidencing the transactions or receives a non-negotiable document or instrument". Deposits are defined in paragraph 3.34 as transferable and other deposits, along the lines of the SNA.

14. The instrument classification of financial instruments in **international accounting standards** is defined mainly in IAS 32 (financial instruments: disclosure and presentation). The main categories of instruments are financial assets, financial liabilities, equity instruments and derivatives financial instruments. The Application Guidance to this standard states⁶ that "loans receivable" and "deposits of cash" are examples of financial assets, but does not provide more detailed definitions.

15. IAS 30, which refers to the disclosures in the financial statements of banks and similar financial institutions, includes a requirement to disclose (inter alia), "placements with, and loans and advances to, other banks", "loans and advances to customers" on the asset side, and "deposits from other banks", "amounts owed to other depositors" in liabilities. Again, no detailed definitions of each of these instruments is provided, although the main distinction seems to be to use the word "loans" in assets and "deposits" in liabilities.

16. At European level, the Council Directive of 8 December 1986 (as amended) on the annual accounts and consolidated accounts of banks and other financial institutions also refers to instruments such as "loans and advances" only among assets, and refers to "amounts owed to customers" in liabilities. In this context, accounting standards do not provide a suitable basis to distinguish loans from deposits for statistical purposes.

⁶ Paragraphs 3 and 4 of the "Application Guidance" to this standard.

Conclusion: The conceptual criteria proposed by the ESA95 to distinguish loans from deposits, i.e. who takes the initiative of the transaction, supplemented by (i) a specific convention regarding short term loans/deposits, and (ii) some potential exceptions, provide the most concrete conceptual guideline for distinguishing deposits and loans from the existing international statistical standards. However, the difficulty of implementing such a conceptual definition in practice has been recognised by various compilers of macro-economic statistics, suggesting a need for more operational conventions to be applied in the compilation of the data.

Section 2 - Practical distinction between loans and deposits and way forward

17. As described in section 1, ESA 95 recognises that the criterion to distinguish loans from deposits, i.e. who is taking the initiative, "is often a matter of judgement". While clear guidance is provided in paragraph 5.75 on how to overcome this difficulty regarding transactions/positions in short term loans/deposits, very few practical indications are available for longer term deposits or loans (the condition set up in paragraph 5.70 being also difficult to identify in statistical reporting). As described above, the ESA95 suggests in its paragraph 5.76 that exceptions to the above-mentioned conventions may be useful.

18. From a purely conceptual point of view, this approach does not permit to fully define the borderline between long term loans and deposits, given in particular that the exceptions in paragraph 5.76 might not apply to all countries or situations, and are not listed in a comprehensive manner.

19. The compilation of fully consistent macro-economic statistics would in principle require the development of a harmonised and fully consistent approach to distinguish between deposits and loans in MFI balance sheet statistics, b.o.p. and i.i.p. statistics and supplementary financial accounts statistics. However, the current situation may be summarised as follows:

- The current criteria to make the split between deposits and loans are seen as requiring further practical guidance, which might be elaborated in the context of the review of international statistical standards;
- Nevertheless, from an analytical point of view, it is not certain that the strict application of international statistical standards would meet the requirement of monetary analysts to identify assets which may be close substitutes to money. Indeed, these standards recognise that the definition of money may vary across countries and over time, and is therefore out of the scope of such standards: cf. SNA 11.57 and ESA Annex 5.1⁷. This is one reason why, for instance, the euro area b.o.p./i.i.p. currently focus on assets placed with banks.

⁷ In the case of the euro area, the definition of money focuses on funds deposited with banks [and to the extent possible central government] with an original maturity up to two years, while international standards mainly refer to who takes the initiative of the transaction, and take into account a maturity breakdown for "short term" positions of 1 year in general.

20. More generally, the question should be asked whether from a conceptual point of view, the split between “loans” and “deposits” is still relevant in an environment of financial innovation. Indeed, financial innovation tends in general on the one hand to reduce the asymmetric position between financial and non-financial operators when they lend and borrow, and on the other hand to reduce the different barriers to access to specific types of financial instruments that may exist for different categories of economic agents. Any long-term work, in particular in the context of the review of international statistical standards, should therefore be preceded by an analysis of the relevance of this split, and whether it would be preferable to discontinue it or, alternatively, to replace it by a more up to date split.

In this context, the first priority is to better assess the relevance of this split between loans and deposits. To achieve this aim, relevant international organisations and bodies may consider including within the current review of international statistical standards⁸ such an investigation of the conceptual basis for defining this split as well as its analytical usefulness, and if necessary, of the practical statistical criteria that compilers could apply to ensure consistent application of the split.

⁸ This could possibly be done under item 44 (entitled “Financial assets classification”) of the list of issues accepted for review by the Advisory Expert Group, in charge of the update of the SNA and related Manuals: cf. the dedicated web-site of the United Nations: <http://unstats.un.org/unsd/nationalaccount/AEG/IssueList.pdf>. Due consideration should be given to users’ views.