STATISTICS

GFSM 2014 update

Proposed Recommendations Document:

1.17 Debt concessionality

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals:	
Guidance Note (GN): F.15 on Debt Concessionality Issue Note: SNA/M4.22/17 - Holistic Assessment of the Treatment of Concessional Lending in Macroeconomic Statistics *Draft 2025 SNA and Draft BPM7* [1]	
Global Consultation(s):	SNA: February 2022
Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):	Joint AEG/BOPCOM: October 2022; March 2022
Discussions at GFSAC Meeting(s):	To be determined
Summary of Proposed Recommendation: This proposed recommendation is to clarify in the update of the *GFSM 2014* that a transfer element for concessional loans should generally not be recorded in the central framework, except in the specific case of employer loans to employees (as a continuous stream of remuneration of employees). This exception is necessary to fully account for labor costs. For concessional loans provided in non-market contexts, like those from governments or international organizations, supplementary information on the concessionary nature of the loans should be disclosed. Where a transfer element is recognized as supplementary information, it should be recorded as a capital transfer at inception of the loan.	

Background and Issues

1. Concessional loans are loans provided to borrowers at interest rates lower than those typically available in the normal market. These loans often also include favorable repayment terms, such as extended repayment periods and grace periods, making them more accessible for borrowers, particularly in low-income countries. The primary purpose of concessional loans is to support development goals by providing financing for projects and initiatives that might not be feasible under standard lending

[1] Links are to the "white cover" versions of the 2025 SNA and BPM7. While technically still considered draft only editorial amendments will be made between these versions and the final versions.

conditions. The difference between the normal market rate and the concessional rate represents a "transfer element," reflecting the financial assistance provided to the borrower.

2. The *GFSM 2014* (para. 7.246) states that information on concessional loans, along with their implicit transfer elements, should be recorded as memorandum items in the financial statements. This means that the concessionary loans are classified in the core accounts in the same way as regular loans. In addition, a memorandum item discloses the nominal value of the concessionary loans included in the balance sheet and another memorandum item shows an estimate of the benefits transferred (the implicit transfer) to the borrower. In the case of loans provided by employers to employees at reduced rates *GFSM 2014* (para. 6.17), recognizes interest forgone by employers, and guides this to be recorded as part of wages and salaries in kind. Furthermore, Box 6.2 of the *GFSM 2014* discusses the concept of implicit subsidies provided by central banks through concessional loans offered at below-market interest rates and effectively including a subsidy element. This subsidy represents the difference between the market interest rate and the concessional rate, which benefits the borrower. The box also highlights the importance of recognizing and recording this implicit subsidy separately to accurately reflect the economic reality of the concessional terms.

3. The recording of concessional loans in macroeconomic statistics has been a significant topic of discussion among international statistical committees, particularly concerning the update of the *2008 SNA and BPM6*. The primary concern is how to accurately reflect the economic reality of these loans while adhering to international accounting standards. Initial discussions emphasized the need for a consistent approach due to the unique characteristics of concessional loans.

4. Guidance Note (GN) *F.15 Debt Concessionality* explored three options for updating the guidance in the draft *2025 SNA* and *BPM7,* namely: i) maintaining existing practices; ii) recording loans at face value and recognizing the transfer element over time; and iii) separating the loan into a loan element and transfer element from inception. After extensive discussion the following was recommended for the updated SNA and BPM:

- To never record a transfer element for concessional lending in the central framework of national accounts and external sector statistics, with one exception.
- This exception is limited to concessional loans provided by employers to employees, mainly because it provides a more accurate accounting for compensation of employees (termed “remuneration of employees” in the draft *2025 SNA* and *BPM7*). Additionally, the exception made for loans/deposits by central banks (as currently included in the *2008 SNA* and *GFSM 2014,* Box 6.2) will be removed.
- The transfer element associated with concessional loans provided by employers to employees will be recorded as a continuous stream of current transfers in the central framework, over the relevant period of the concessional loan.

- Supplementary items for the transfer element associated with concessional loans provided in a non-market context (i.e., those provided by governments, central banks and international organizations) will be recorded as capital transfers at inception.[2]

Proposed Recommendations

5. It is recommended that the guidance in the updated GFSM should align with the draft *2025 SNA* (paras. 14.112-14.113), in doing so, the following are to be considered:

- Face/Nominal Value Recording: Concessional loans should be recorded at the face/nominal amount that is agreed upon at the time of issuance. This means that the value reported reflects the actual amount to be repaid by the borrower, rather than a discounted or adjusted figure that takes into account the concessional nature of the loan.

- No Transfer Element: The recommendation advises against recognizing a transfer element associated with concessional loans in the core system except in the case of employer-employee loans. In this context, a transfer element refers to the difference between the market interest rate and the concessional interest rate, which could be seen as an implicit transfer.

- Supplementary Information: While the loans are recorded at face/nominal value, the recommendation encourages the provision of supplementary information regarding the impacts of concessional lending. At minimum the supplementary information should show the imputed capital transfers at the inception of the loan. However, this could also include details about the benefits or implications of such loans on government finances and their economic effects.

- Exception for employer-employee loans: The recommendation allows for an exception in the case of employer-employee loans, where it is allowed to recognize the implicit transfer element as wages and salaries in kind, if the loan is provided at a lower interest rate than the market interest rate—this exception facilitates the correct calculation of cost of labor. This is already referenced in *GFSM 2014* (para. 6.17) and does not require a conceptual change.

- Eliminating the exception related to central banks, as described in *GFSM 2014,* Box 6.2.

Rationale for Proposed Recommendations

6. The proposed recommendations aim to harmonize the updated GFSM with the *2025 SNA* and *BPM7*, a key objective of the *GFSM 2014* update process. By recording these loans at their face/nominal value without recognizing a transfer element in the core accounts, the recommendations could be argued to better reflect the economic realities of the recipients of the concessional lending and so support transparency in fiscal statistics.

[2] There is no definitive guidance on what should be considered concessional lending, but there is some guidance included in the *External Debt Statistics Guide 2013* (paras. 6.22-6.23), which references that the concessional lending provided by the IMF is defined as concessional if it includes a grant element of at least 35 percent.

Proposed Text for GFSM Update

7. The main change will be to adjust the text in *GFSM 2014* (paras. 3.123, 6.17, 7.246, 9.12, A3.39-A3.40 and Box 6.2 to be in line with the revised guidance in the draft *2025 SNA* (paras. 4.161, 14.112-14.113, 30.123-30.124).[3] This provides the practical approach on the recording of the concessional loans, where the implicit transfer from the creditor to the debtor will be informed as a memorandum item in most cases except for the concessionality in employer-employee loans.

[3] Similar changes in the draft *BPM7* are reflected in paras. 14.41 and A2.67-A2.70.