Methodological note

GUIDANCE ON DEFERRED AND WAIVED INTEREST PAYMENTS OF HOUSEHOLDS IN THE CONTEXT OF THE COVID-19 CRISIS

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UNIT C1 — NATIONAL ACCOUNTS METHODOLOGY; STANDARDS AND INDICATORS

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Introduction

The measures taken to reduce the spread of COVID-19 have reduced the income of many households.

One measure that may be introduced by financial corporations to mitigate this situation is that interest payments on loans to households are deferred (postponed) or even waived for a period. Such measures may be agreed between financial corporations and their customers on an individual basis. They may also be part of a broader agreement between the financial corporations and the government, with or without government financial support.

This note discusses the recording of these measures in the national accounts. In some countries banks are also deferring payments of principal - this situation is not addressed in this note, as it is evident that the outstanding asset/liability will remain in balance sheets at the end of the period([1]).

Deferred interest payments

According to ESA 2010 paragraph 4.50, deferred interest payments should be recorded as if they were accrued, and then added to the principal of the loan until paid:

"Interest is recorded on an accrual basis, that is, interest is recorded as accruing continuously over time to the creditor on the amount of principal outstanding. The interest accruing in each accounting period must be recorded whether or not it is actually paid or added to the principal outstanding. When it is not paid, the increase in the principal is recorded in the financial account

([1]) Total future interest payments will be higher than if the principal had been paid down according to the original schedule, unless the borrower pays the accrued interest right after the deferral period ends as an acquisition of a financial asset by the creditor and an equal acquisition of a liability by the debtor."

When the period of deferred interest ends, the borrower may pay back the deferred interest in full. Alternatively, the payments could be higher until the loan's end of term, or the loan may be extended.

Since the interest is recorded on an accrual basis, independently of their payment, Financial Intermediation Services Indirectly Measured (FISIM([2])) between households and financial institutions should also be recorded, calculated with the usual method. . This means that the accrued bank interest is divided into the FISIM service charge and the national accounts concept of interest. The latter is recorded as D.41 in the accounts.

Waived interest payments

The situation where interest payments are waived, i.e. they do not have to be paid later, is not mentioned explicitly in ESA 2010. In general, the accrual recording of interest should be applied is this case as well. A capital transfer (D.99) of the same amount should be recorded in the same period from the financial institution to the customer, in order to remove the accrued interest from the financial stock positions at the end of the period. FISIM should be recorded in the normal way, like in the case with deferred interest described above.

An exception could be if the grace period without interest payments is part of the loan agreement from the beginning. In this case, no accrued interest should be recorded, see the UN and ECB handbook Financial Production, Flows and Stocks in the System of National Accounts, paragraph 5.154. The example in the handbook does not consider FISIM, but with no interest recorded, it would be logical that FISIM in current prices should not be recorded either, since the result of the normal approach to calculate it would be negative. FISIM in volume would still be recorded in the normal way, based on the base period margin multiplied by stocks of loans deflated to base period prices using a general price index, see ESA 2010 paragraph 14.14.

For the COVID-19 related measures discussed in this note, it seems reasonable to regard them mainly as modifications of existing loan agreements, rather than new agreements. This suggests that recording accrued interest will be the most appropriate, and it would also reflect the situation more transparently. The bank continues to provide the services of the loan, and therefore FISIM should be recorded over the period. The bank's waiving of interest would be reflected as a capital transfer. This capital transfer can be seen as a cancellation of the increased debt that would have accumulated if the interest had been deferred, rather than waived.

However there is also a practical aspect to consider - how financial corporations report data on accrued interest to statistical authorities. The choice between the two options for recording waived interest (accrued interest or no interest) may require source data to be adjusted before it is used in the national accounts. The expectation is that banks' accounting systems will record waived interest in a gross way (accruing interest revenue, and then writing it off at the end of the accounting period), in line with normal practice for impaired loans. The amount of interest that is

([2]) FISIM is an imputation of the services provided by some financial institutions (banks) to households, reflecting that banks earn revenues from the difference between the interest they receive on loans and the interest they pay on deposits.

written off may not be directly identifiable in the statistical data reported by the financial corporations. Discussion on this is ongoing.

Because of the different recording of FISIM, the choice between the two options for recording waived interest could have an impact on GDP and GNI. FISIM recorded as household final consumption expenditure will increase GDP and GNI. (FISIM attributed to households in their capacity as owners of dwellings or of unincorporated enterprises should be recorded as intermediate consumption, see ESA 2010 paragraph 14.12.)

It is important to establish a harmonised approach across Member States for waived interest. The recommended approach is to record interest accruing from households to financial corporations in line with the terms of the loans, calculate FISIM appropriately, and record an other capital transfer (D.99) to remove the accrued interest from financial assets and liabilities at the end of the period.

Government financial support

Some governments may provide explicit government financial support to financial corporations, to provide an incentive for them to postpone or waive interest payments of households. For example, this may take the form of loans, interest rate subsidies, and/or guarantees. The recording of such support measures is out of scope of this note. This support should be recorded in accordance with the appropriate rules of ESA 2010 and the Eurostat Manual on Government Deficit and Debt (MGDD), as well as specific COVID-19 related Eurostat guidance, where appropriate.