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Issue 8
Interest under high inflation

FOR INFORMATION

# INTEREST UNDER HIGH INFLATION

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**AEG issue number 8: Interest under high inflation**
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## Background

When the list of issues to be discussed in the context of the update of the SNA was put together, it was suggested that there should be an attempt made to reconcile the advice on measuring interest under high inflation as given in Annex B to chapter XIX of the 1993 SNA and in chapter 7 of the OECD manual on *Inflation Accounting*.

The matter was discussed in the first AEG meeting in February 2004 and the result of that discussion was recorded as follows.

> The group recommends that 1993 SNA rev.1 should include in Annex B of Chapter 19 guidance on compiling and presenting national accounts in conditions of inflation. It would cover the whole range of issues from the goods and services account, through income and financial accounts, to balance sheets.
>
> It was noted that even moderate rates of inflation have an impact on the conventional SNA aggregates and thus an alternative, satellite set of accounts is useful in many circumstances.
>
> Specifically, for the treatment of interest, the next text should reflect both Hill and Vanoli approaches.
>
> The ISWGNA will seek a suitable person or persons to make concrete proposals; several participants agreed to participate in the reflection (US, UK, ALA, NL).

## Present situation

Several assessments of the alternative treatments of interest, including that in the background paper for the February 2004 discussion and a subsequent note prepared by Marshall Reinsdorf of the BEA, suggest that there are advantages and disadvantages to both approaches to measuring interest. No single alternative avoiding all disadvantages has yet been proposed.
The ISWGNA in discussing the subject confirmed the view of the AEG. The topic of accounting under high inflation is important and more pervasive in the accounts than simply the question of how to measure interest in these circumstances. Indeed the whole issue of the measurement of production and expenditure on a current price basis is called into question when prices at the end of the period are several times those at the start of the period and a mid-period price is not a reasonable approximation for the simple average over the period.
In addition to the annex to chapter XIX, there is one section, section G which addresses the question of high inflation. This section though does not cover as comprehensively or as innovatively the question as chapters 1- 6 of *Inflation Accounting*.

The ISWGNA proposes that the existing section G of chapter XIX should be revised, taking into account the work in chapters 1 – 6 of *Inflation Accounting*. This redraft would be summary and make reference to that manual for fuller details.

Given the lack of a single universally accepted treatment of interest under high inflation, this subject should remain on the research agenda. *Inflation Accounting* is in fact now out of print, though still available as an e-book. One possibility is to consider updating the manual, replacing the current section on interest there by a more expansive treatment of alternative possibilities and referring to other work in the area.

The question of how to cover the question of the impact of inflation on interest in the current paragraphs 7.109 to 7.111 must still be dealt with.  Given other developments in the accounts, for example in the explanation of the theory of capital stocks and alternative ways of calculating interest on index linked securities or those denominated in foreign currency, there is a need to ensure this part of chapter 7 is also consistent with the approach taken elsewhere on real returns to capital and the applicability of ex-ante approaches versus ex-post ones.  This consistency issue is one for the editor to address as the draft develops.