1993 SNA Rev 1 – Preliminary draft

List of chapters

Note by the Editor

The draft of chapter 7 dated 13 February 2007 notes in para 101 that the definition of interest in the 1993 text is problematical. It refers to the definition of interest on loans and deposits as perceived by banks and not as recorded in the System and does not cover the case of interest recorded on securities.

The text now proposed simply omits the problematical definition and relies on the preceding statement in the 1993 text describing interest as property income payable on a specific set of financial instruments. Most of the elaboration on how interest is calculated on these specific instruments now appears in chapter 17 with greater elaboration but the key features of interest are outlined in chapter 7.

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17 August 2007

Chapter 7 Add 1

The following section is intended to replace the present para 7.101

2. Interest

7.101 ***Interest is a form of property income that is receivable by the owners of certain kinds of financial assets, namely: deposits, debt securities, loans and (possibly) other accounts receivable for putting the financial asset at the disposal of another institutional unit.*** Income on SDR holdings and allocations is also treated as interest. The financial assets giving rise to interest are all claims of creditors over debtors. Creditors lend funds to debtors that lead to creation of one or other of the financial instruments listed above. The amount the debtor owes the creditor is known as the principal.

7.102 Interest may be a predetermined sum of money or percentage of the principal outstanding. If some or all of the interest accruing to the creditor is not paid during the period in question, it may be added to the amount of the principal outstanding or it may constitute an additional, separate liability incurred by the debtor. However, the interest may not necessarily be due for payment until a later date and sometimes not until the loan, or other financial instrument, matures.

The accrual basis of recording

7.103 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 is the amount receivable by the creditor and payable by the debtor. It may differ not only from the amount of interest actually paid during a given period but also the amount due to be paid within the period. Some financial instruments are drawn up in such a way that the debtor is obliged to make regular interest payments, period by period, as the interest accrues but in other cases there may be no such requirement. As explained in chapter 11, there are many different kinds of financial instruments and new instruments are continually being evolved. Interest may therefore be paid in various different ways, not always explicitly described as interest. However, streams of net settlement payments under a swap or forward rate agreement contract (possibly described as “interest” in the contract) are not considered as property income but are to be recorded as transactions in financial derivatives in the financial account (see paragraphs 11.34 to 11.43).

Interest payable and receivable on loans and deposits

7.104 As explained in chapter 6, the amounts of interest on loans and deposits payable to and receivable from financial institutions include a margin that represents an implicit payment for the services provided by the financial institutions in providing loans and accepting deposits. The actual payments or receipts to or from financial institutions, described as bank interest, need to be partitioned so that SNA interest and the service charges may be recorded in the System separately. The amounts of SNA interest paid by borrowers to financial institutions is less that bank interest by the estimated values of the charges payable, while the amounts of SNA interest receivable by depositors must be similarly increased. The values of the charges are recorded as sales of services in the production accounts of financial institutions and as uses in the accounts of their customers.

7.105 Any charges levied on borrowers that are not paid also increase the amount of principal outstanding along with interest unpaid.

Interest payable on debt securities

7.106 Certain financial instruments, for example, bills and zero coupon bonds, are such that the debtor is under no obligation to make any payments to the creditor until the asset matures. In effect, no interest becomes due for payment until the end of the asset's life at which point the debtor's liability is discharged by a single payment covering both the amount of the funds originally provided by the creditor and the interest accumulated over the entire life of the asset. In such cases the amount of interest payable is derived as the difference between the value at which the instrument is acquired less its value when it matures.

Further elaboration

7.107 Chapter 17 contains in part 4 a section detailing how all the transactions and other flows associated with financial instruments are to be recorded in the accounts. This contains, in particular, specific recommendations on how interest on each of the relevant financial instruments is to be calculated.

Nominal and real interest

7.108 When a debtor is able to discharge his liability to the creditor by repaying principal equal in money value to the funds borrowed the associated interest payments are described as "nominal". Such interest payments do not represent the "real" return to the creditor when, as a result of inflation, the purchasing power of the funds repaid is less than that of the funds borrowed. In situations of chronic inflation the nominal interest payments demanded by creditors typically rise in order to compensate them for the losses of purchasing power that they expect when their funds are eventually repaid.

7.109 In practice, the interest recorded in the allocation of primary income account is not partitioned in this way. The interest recorded is always the amount of nominal interest receivable or payable (plus or minus the charges for services of financial intermediaries for which no explicit charges are made, when relevant). However, the information needed to calculate real interest is provided within the System as a whole since the real holding losses incurred by creditors should be recorded in the revaluation account.