Special Series on COVID-19

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How to Record Debt Reorganization in External Sector and Government Finance Statistics—Debt Service Suspension Initiative

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Under the extraordinary circumstances brought on by COVID-19, the G20 and the Paris Club have agreed to a time-bound suspension of debt service payments for the poorest countries that request forbearance. The financial resources freed up by this initiative are to be used to increase spending to mitigate the health, social, and economic impact of the COVID-19 crisis in the beneficiary countries. This note provides methodological guidance[1] on recording suspended debt service transactions as debt reorganization[2] in external sector statistics and government finance statistics (GFS).

I. BACKGROUND OF THE G20 DSSI

The Debt Service Suspension Initiative (DSSI) is oriented to provide temporary debt relief to the world's poorest 77 countries. The debt service suspension—for both principal repayments and interest payments—runs from May 1, 2020, through the end of 2020, and payment deferrals will be net present value (NPV) neutral, with a three-year repayment schedule following a one-year grace period. NPV neutrality implies that the NPV of the new debt service cashflows after the moratorium will be equal to the NPV of the suspended debt service cashflows. A possible extension of the initiative will be considered in late 2020, taking into account an assessment by the World Bank and the IMF of the liquidity needs of the eligible countries. The initiative has a cut-off date of March 24, 2020, to protect new financing in case of possible future restructuring.

All G20 official bilateral creditors will participate in the DSSI, upon eligible borrower requests. The DSSI treatment will be through either rescheduling or refinancing. The beneficiary countries should commit to use the created fiscal space to increase social, health, or economic spending in response to the COVID-19 crisis. In

[1] The methodological guidance provided is based on the *Balance of Payments and International Investment Position Manual, Sixth Edition* (BPM6) and the *Government Finance Statistics Manual 2014* (GFSM 2014).

[2] The four main types of debt reorganization are (1) debt forgiveness, (2) debt rescheduling or refinancing, (3) debt conversion and debt prepayment (or debt buybacks for cash), and (4) debt assumption and debt payments on behalf of others (see BPM6, paragraph A2.5, and GFSM 2014, paragraph A3.5).

addition, beneficiaries should disclose all public sector financial commitments (that is, debt),[3] respecting commercially sensitive information; and should not contract new non-concessional debt during the suspension period, other than agreements under the initiative or in compliance with the limit agreements under the IMF Debt Limit Policy (DLP) or the World Bank Group policy on non-concessional borrowing.

In macroeconomic statistics, debt service suspension can be effected through debt rescheduling and/or debt refinancing. Both involve a change in an existing debt contract and replacement with a new debt contract, generally with extended debt-service payments.[4] *Debt rescheduling* is a bilateral arrangement between the debtor and the creditor involving rearrangements of the same type of instrument, with the same principal value, and the same creditor as with the old debt. In contrast, *debt refinancing* entails the creation of a new debt instrument—including any arrears—typically at different value and, in some cases with a different creditor. The debt refinancing is valued at the value of the new debt.

II. RECORDING OF THE DSSI-RELATED TRANSACTIONS IN EXTERNAL SECTOR STATISTICS

Total external debt in NPV terms is not affected by the debt rescheduling and/or debt refinancing under the DSSI due to the NPV neutrality terms. However, the term structure of the external debt is extended due to the replacement of one external debt instrument by another with new terms and conditions. Debt rescheduling involves the exchange of the same type[5] of debt instrument. Conversely, debt refinancing can involve the exchange of the same type of debt instrument or different types of debt instruments. In addition, there are differences in the recording of transactions in the standard[6] and analytic[7] presentations of the balance of payments during the period of the debt service suspension (moratorium).

In the case of debt rescheduling of the debtor economy, in the standard balance of payments presentation, for accrued interest, a debit entry is recorded in the current account in primary income and for the principal due, a decrease in the net incurrence of debt liabilities is recorded in the financial account under the appropriate components representing the repayment of obligations falling due in the current period. Corresponding entries in the financial account to the above two transactions (accrued interest and principal due) are made to reflect an increase in the net incurrence of liabilities under the same instrument resulting in an increase in debt liabilities in the international investment position (IIP) which represents the creation of a new debt.

In the analytic presentation, for accrued interest, a debit entry is recorded in the current account in primary income for obligations falling due in the current period, and for the principal due, a decrease in the net incurrence of liabilities is recorded in the financial account under the appropriate component above-the-line. Contra-entries to the above two transactions (accrued interest and principal due) are recorded below-the-line as an increase in rescheduled debt liabilities under the appropriate instrument in exceptional financing (BPM6, paragraph A2.14).

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[3] According to GFSM 2014 definitions.

[4] See BPM6 paragraphs A.210 to A 2.22; *External Debt Statistics: Guide for Compilers and Users* 2013 (EDS 2013) paragraphs 8.17 to 8.31; GFSM 2014 paragraphs A3.10 to A3.14; and *Public Sector Debt Statistics: Guide for Compilers and Users* (PSDSG) paragraphs 4.37 to 4.41.

[5] Same type of instrument means that a loan is replaced with a loan, or a bond with a bond. A new or different type of instrument implies, for example, a loan being replaced with a bond, or vice versa.

[6] The standard presentation groups economic processes and phenomena consistently with the *national accounts* and other macroeconomic statistics and delineates balances between current account entries and accumulation entries (the balancing item is the current account balance), and between financial and nonfinancial entries (the balancing item is net lending/net borrowing) as the two major lines.

[7] The analytic presentation is a reorganization of the standard presentation to facilitate distinction between (1) reserves and closely related items and (2) other transactions. It shows how reserves, along with the related items of IMF credit and loans, and exceptional financing (such as accumulation of arrears, debt forgiveness, intergovernmental grants, and debt restructuring) are used to finance other "autonomous" international transactions.

In the case of debt refinancing of the debtor economy that involves direct debt exchange, such as a loan-for-bond swap, in the standard balance of payments presentation, for accrued interest, a debit entry is recorded in current account in primary income and for the principal due a decrease in the net incurrence of loan liabilities is recorded in the financial account representing the repayment of obligations falling due in the current period. Corresponding entries in the financial account to the above two transactions (accrued interest and principal due) are made to reflect an increase in the net incurrence of liabilities under portfolio investment debt securities, resulting in an increase in liabilities of portfolio investment debt securities in the IIP representing the creation of the new obligation (BPM6, paragraph A2.17) and a reduction in loan liabilities in the IIP.

In the analytic presentation, the loan-for-bond exchange of obligations falling due in the current period are recorded below-the-line as an increase in portfolio investment liabilities in exceptional financing, with a debit entry made above-the-line for accrued interest in the current account in primary income and a decrease in the net incurrence of loan liabilities in the financial account for the principal due representing the repayment of obligations falling due in the current period (BPM6, paragraph A2.20).

Table 1 shows how to record debt rescheduling of interest and principal of a government bond and a loan, and debt refinancing of a government loan for a bond swap in the debtor economy's balance of payments and IIP.

TABLE 1. Statistical Treatment of DSSI-Related Transactions in External Sector Statistics

Recording of debt service suspension rescheduling of (1) interest ($5 million) and principal ($10 million) on government bonds, (2) interest ($15 million) and principal ($40 million) on loans to government falling due during the suspension period, and debt refinancing of (3) a government loan for a government bond swap, with loan interest of $25 million and principal of $35 million falling due during the suspension period.

	Standard presentation					Analytic presentation				
	OPENING IIP	**Balance of payments**		**Other flows**	**CLOSING IIP**	**OPENING IIP**	**Balance of payments**		**Other flows**	**CLOSING IIP**
		Credit	**Debit**				**Credit**	**Debit**		
Current account			45					45		
Primary income										
Investment income Portfolio investment, interest Rescheduled bond			5(a)					5(a)		
Investment income Other investment, interest			40 = 15 + 25					40 = 15 + 25		
Rescheduled loan			15(b)					15(b)		
Loan-for-bond swap			25(c)					25(c)		
		Net acquisition of financial assets	**Net incurrence of financial liabilities**				**Net acquisition of financial assets**	**Net incurrence of financial liabilities**		
Financial account			45					–85		
Portfolio investment Debt securities General government	10		65 = –10 + 5 + 10 + 25 + 35		75	10		–10		0
Extinction of existing bond			–10(a)					–10(a)		
New bonds										
Rescheduled bond			15 = 5 + 10(a)							
Loan-for-bond swap			60 = 25 + 35(c)							
Other investment Loans General government	75		–20 = –40 – 35 + 15 + 40		55	75		–75 = –40 – 35		0
Extinction of existing loans										
Rescheduled loan			–40(b)					–40(b)		
Loan-for-bond swap			–35(c)					–35(c)		
New loans			55 = 15 + 40(b)							

Recording of debt service suspension rescheduling of (1) interest ($5 million) and principal ($10 million) on government bonds, (2) interest ($15 million) and principal ($40 million) on loans to government falling due during the suspension period, and debt refinancing of (3) a government loan for a government bond swap, with loan interest of $25 million and principal of $35 million falling due during the suspension period.										
	Standard presentation					**Analytic presentation**				
	OPENING IIP	**Balance of payments**		**Other flows**	**CLOSING IIP**	**OPENING IIP**	**Balance of payments**		**Other flows**	**CLOSING IIP**
		Credit	**Debit**				**Credit**	**Debit**		
Memorandum items: Below the line							**Credit**	**Debit**		
Exceptional financing	*Not applicable*						130			
Portfolio investment liabilities						*0*	75 = 5 + 10 + 25 + 35			*75*
Rescheduled bond							15 = 5 + 10(a)			
Loan-for-bond swap							60 = 25 + 35(c)			
Other investment liabilities Rescheduling of existing loan						*0*	55 = 15 + 40(b)			*55*

III. RECORDING OF THE DEBT REORGANIZATION UNDER THE DSSI IN GOVERNMENT FINANCE STATISTICS

Debt rescheduling is recorded as replacing an existing debt with a new, but same-type, debt instrument(s) at the same value, with new terms and conditions. The GFS guidelines prescribe that the applicable existing debt must be recorded as being repaid and replaced with a new debt instrument(s) of the same type which is created with new terms and conditions. The transaction must be recorded at the time agreed to by both parties (the contractually agreed time), and at the value of the new debt, which, under a debt rescheduling, is the same value as that of the old debt (GFSM 2014, paragraph A3.13 and PSDSG, paragraph 4.40).

Debt refinancing usually implies replacing an existing debt instrument with a similar or new type of debt instrument(s), possibly at a different value from the old debt instrument. The GFS guidelines prescribe that the replacement of the old debt instrument by the new debt instrument(s) must be valued at the value of the new debt instrument(s) and any difference between the value of the old and new debt instruments must be recorded as a holding gain or loss. The exception is nonmarketable debt owed to official creditors, in which case the difference should be recorded as debt forgiveness (GFSM 2014, paragraph A3.16 and PSDSG, paragraphs 4.42–4.43), which involve a capital transfer (expense) from the creditor to the debtor.

Under the DSSI, the debt rescheduling and/or debt refinancing does not affect the total government debt and total government external debt in NPV terms.[8] Owing to the NPV neutrality of the DSSI, no change in debt value at the time of debt rescheduling/refinancing operations (principal plus any interest) will be recorded. The only changes to be recorded include (1) the replacement of one external debt instrument by another similar instrument with new terms and conditions, including a different term structure of the debt (debt rescheduling) [9] and (2) the replacement of an external debt instrument by another different external debt instrument (debt refinancing).

Table 2 shows how to record debt rescheduling of interest and principal of a government bond and a loan, and debt refinancing of a government loan for a bond in a debtor economy's GFS under DSSI. The examples refer only to the principal and any interest to be serviced during the DSSI term. Also, to ensure consistency with the presentation of external statistics, it is considered that the interest accrues from the beginning of the accounting period until the time when the debt rescheduling/refinancing operations take place; implying that the value equivalence between the old and new debt instruments must be assessed by comparing the extinction values (principal plus interest) of the existing debt instruments with the value of the closing balance of the new debt instruments (that is, the values measured immediately before and after the debt rescheduling/refinancing operations take place).

[8] Although DSSI operations are NPV neutral by design, the debt stock before and after the DSSI may or may not be the same under other valuation methods that are used in compiling public sector debt statistics.

[9] The extended term structure of the debt could be regarded as a replacement of the existing debt by a longer-term debt for the same instrument.

TABLE 2. Statistical Treatment of DSSI-Related Transactions in Government Finance Statistics by Type of Instrument

Recording of debt service suspension rescheduling of (1) interest ($5 million) and principal ($10 million) on bonds, (2) interest ($15 million) and principal ($40 million) on loans falling due in the suspension period, and debt refinancing of (3) a loan-for-bond swap, with loan interest of $25 million and principal of $35 million falling due in the suspension period.				
	Opening balance sheet [a]	Transactions	Other economic flows	Closing balance sheet [b]
Revenue		**0**		
Expense		**45**		
Interest		45		
Existing bond (a)		5		
Existing loans		40		
Rescheduled loan (b)		15		
Loan-for-bond swap (c)		25		
Net worth/Net operating balance	***–85***	***–45***		***–130***
Net financial worth/ Net lending (+)/Net borrowing (–)	***–85***	***–45***		***–130***
Liabilities	**85**	**45**		**130**
External	85	45		130
Debt securities-bonds	10	65		75
Existing bonds (a)	10	–10		0
Interest current period (a)		5		
Extinction (a)		–15 = –(5 + 10)		
New bonds	0	75		75
Rescheduled bond (a)		15 = 5 + 10		15
Loan-for-bond swap (c)		60= 25 + 35		60
Loans	75	–20		55
Existing loans	75 = 40 + 35	–75		0
Interest current period		40		
Rescheduled loan (b)		15		
Loan-for-bond swap (c)		25		
Extinction		–115		
Rescheduled loan (b)		–55 = –(15 + 40)		
Loan-for-bond swap (c)		–60 = –(25 + 35)		
New loans	0	55 = 15 + 40		55
Gross debt	**85**	**45**		**130**
Net debt	**85**	**45**		**130**

[a] Opening balance sheet at the beginning of the accounting period.
[b] Closing balance sheet dated immediately after the debt rescheduling/refinancing transactions take place.