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EUROSTAT

Directorate C: National and European Accounts
Unit C-3: Statistics for Excessive Deficit Procedure I
Unit C-4: Statistics for Excessive Deficit Procedure II



EUROSTAT SUPPLEMENTARY TABLE FOR THE FINANCIAL CRISIS

Background note (October 2011)

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1. BACKGROUND

Eurostat collects from Member States a set of supplementary data on the financial crisis, following its decision of 15 July 2009 on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis¹. A summary of the Eurostat decision is provided in the Annex.

The aim of the supplementary table is to show a complete picture of the actual and potential impacts on government deficit and debt due to government interventions during the financial crisis. The table is only intended to show government interventions directly related to the support for financial institutions. Support operations by central banks, government support measures for non-financial institutions and general economic support measures are not included.

The first set of supplementary tables was collected by Eurostat together with the October 2009 notification. The tables are now being regularly transmitted by Member States, with each notification. The tables cover data starting from the year 2007, when the first major interventions occurred in the United Kingdom. This note analyses data for the years 2007-2010, that were reported in the October 2011 notification.

Eurostat publishes individual tables for EU Member States (where there were reportable interventions) and a summary table with the aggregated data for the EU and the Euro area².

2. EUROSTAT GUIDANCE NOTE ON FINANCIAL DEFEASANCE STRUCTURES

A number of EU Member States have been confronted with the necessity of dealing with impaired assets held by public banks. In response to questions raised and in order to ensure a homogenous statistical treatment across countries, Eurostat published a guidance note on financial defeasance structures³ on 16 March 2011. Following a consultation of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) in September

¹ The decision and the related news release 103/2009 are available on the Eurostat website:
http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/methodology/decisions_for_GFS

² Individual tables and a summary table are available on the Eurostat website:
http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/supplementary_tables_financial_turmoil

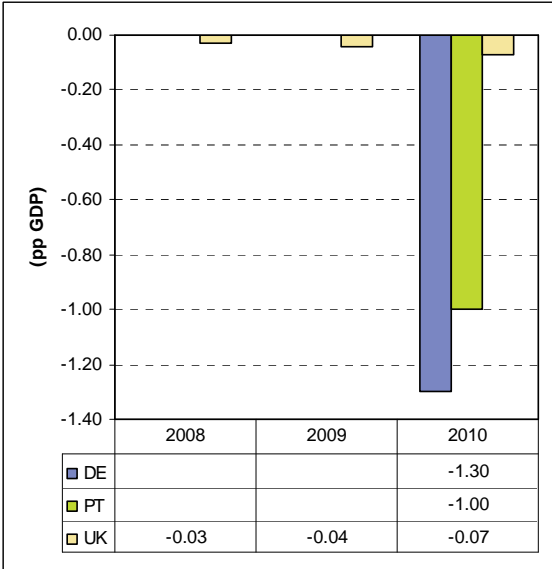
³ The guidance note is available on the Eurostat website:
http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/methodology/guidance_accounting_rules

2011, the guidance is being integrated into the relevant chapter of the ESA95 Manual on Government Deficit and Debt (MGDD).

When a public entity is created by government and has the task of assuming directly the cost of financial defeasance, it should be classified in the general government sector. This rule also applies when problematic assets are allocated to a public entity that is created through the restructuring of an existing financial institution. Such is the case of Erste Abwicklungsanstalt (EAA) and FMS Wertmanagement (FMS-WM) in Germany, Parvalorem and Parups in Portugal, as well as Bradford & Bingley (B&B) and Northern Rock Asset Management (NRAM) in the United Kingdom.

The (re)classification⁴ of these entities into general government had a significant impact on the deficit and debt of the countries concerned (graphs 1 and 2 below), as the deficit of these entities is now part of government deficit and all their liabilities are considered as government debt.

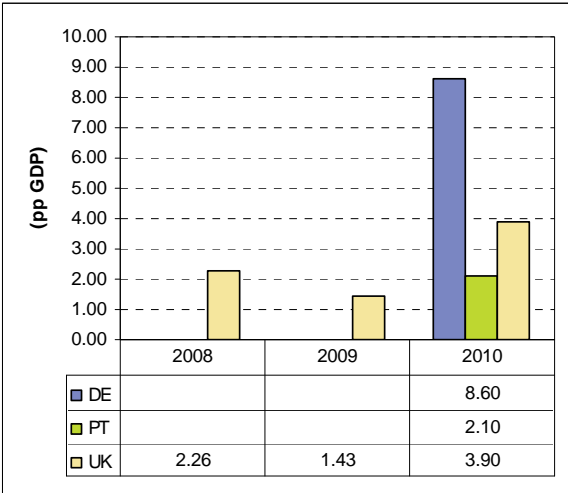
Graph 1. (Re)classification of financial defeasance structures. Impact on government deficit (pp GDP⁵)



⁴ The United Kingdom did not comply with the Eurostat guidance note for the October 2011 notification. Therefore Eurostat amended the UK deficit and debt figures in relation to B&B and NRAM in EDP tables. However, for technical reasons this amendment of data is not reflected in the supplementary table for the financial crisis.

⁵ Changes in ratios to GDP are expressed as percentage points throughout the text. The sign convention is (-) for deficit and (+) for debt.

Graph 2. (Re)classification of financial defeasance structures. Impact on government debt (pp GDP)



A question has been raised with regard to entities in other countries, which have the features of a defeasance structure, but are still on the list of the Monetary Financial Institutions (MFI), monitored by Central Banks. This is the case of KA Finanz in Austria, Parex Banka in Latvia, Anglo Irish Bank and Irish Nationwide Building Society in Ireland, and Roskilde Bank in Denmark.

Eurostat has consulted the European Central Bank (ECB) for the Euro area cases and the national Central Banks for other cases, and received a confirmation that the entities in question were to remain classified in the financial corporations sector. Therefore they have not been consolidated with general government, in line with paragraphs 2.41 and 2.49 of the European System of Accounts (ESA95).

Nevertheless, even if an entity is not part of general government, it may have an impact on government deficit and debt. When the government grants a guarantee to a heavily loss-making bank, and this guarantee is effectively called or there is irrefutable evidence that it will be called, a debt assumption is recorded by the government, with an impact on government deficit and debt at that time. In Austria both deficit and debt ratios increased by 0.35 pp of GDP for 2010 because there was irrefutable evidence in 2010 that a government guarantee for KA Finanz will be called.

Similarly, capital injections in heavily loss-making banks are considered as government expenditure (“capital transfers”), and not as acquisition of equity. This was the case in Ireland in 2010 when the government made massive capital transfers to Anglo Irish Bank, Irish Nationwide Building Society and EBS Building Society, which had a very big impact on government deficit figures. The resulting increase in deficit amounts to -20.2 pp of GDP for 2010. Significant capital transfers were also made to Latvian banks, mainly Parex Banka, in 2009 (-1.1 pp of GDP) and in 2010 (-2.3 pp of GDP).

The table below summarises the impact on government accounts of the (re)classification of public entities managing problematic assets in the general government sector, and lists relevant transactions with an impact on deficit and (or) debt.

Table 1. Financial defeasance structures. Impact on government accounts

Country	Entity	Statistical (re)classification in the general government sector	Transactions with an impact on government deficit and (or) debt
Denmark	Roskilde Bank	No (in the MFI list)	None
Germany	Erste Abwicklungsanstalt (EAA)	Yes	Capital transfer
	FMS Wertmanagement (FMS-WM)	Yes	Capital transfer
Ireland	Anglo Irish Bank	No (in the MFI list)	Capital transfer
	Irish Nationwide Building Society	No (in the MFI list)	Capital transfer
Latvia	Parex Banka	No (in the MFI list)	Capital transfer
Austria	KA Finanz	No (in the MFI list)	Debt assumption
Portugal	Parvalorem	Yes	Capital transfer
	Parups	Yes	Capital transfer
United Kingdom	Bradford & Bingley (B&B)	Yes ⁶	Capital transfer
	Northern Rock Asset Management (NRAM)	Yes ⁷	Capital transfer
	Dunfermline Building Society in administration (DBSiA)	No (in the MFI list)	None

3. CONTENT OF THE TABLE

The supplementary table for the financial crisis collected by Eurostat is divided into two parts:

Part 1 shows data on net revenue and expenditure for government relating to interventions which are recorded in the national accounts (ESA95) for the general government sector, and therefore have a statistical impact on government deficit:

Part 1 : Net revenue/cost for general government (impact on ESA95 government deficit)

Millions of national currency

A	REVENUE (a+b+c+d)	x
a)	Guarantee fees receivable	x
b)	Interest receivable	x
c)	Dividends receivable	x
d)	Other	x
B	EXPENDITURE (e+f+g+h)	x
e)	Interest payable	x
f)	Capital injections recorded as deficit-increasing (capital transfer)	x
g)	Calls on guarantees	x
h)	Other	x
C	Net revenue/cost for general government (A-B)	x

The most relevant elements of revenue and expenditure arising from government interventions in the context of the financial crisis are explicitly listed under, respectively, blocks “A. Revenue” and “B. Expenditure”.

The following elements of government revenue are provided in the table:

- Fees received as remuneration for guarantees granted to financial institutions on the value of their (impaired) assets or for the repayment of their liabilities, e.g. inter-bank lending, general bank loans etc.;
- Accrued interest receivable on loans granted;

⁶ See footnote 4 above.

⁷ See footnote 4 above.

- Distributions received on equity subscribed by government in financial institutions.

Similarly, the following elements of government expenditure are provided:

- Accrued interest payable arising from financing of interventions, mainly due to issuance of debt instruments⁸.
- Granting of funds in the form of capital injections which were recorded in statistics as capital transfer expenditure (having an impact on the government deficit).
- Amounts of payments arising from government guarantees granted to financial institutions that have been called by the beneficiary and consequently paid by government, or the associated debt that has been assumed.

Amounts relating to any transactions not falling under the most common types listed above are reported under the residual lines “other” (for both revenue and expenditure). These can cover, for example, expenditure on commission fees, relating to special entities involved in the financial crisis, contributions of banks for deposit guarantees, or revenue fees on securities issued under special liquidity schemes.

Finally, block C shows the net impact on government deficit resulting from the difference between totals of revenue and expenditure.

Part 2 of the table shows data on government stocks of financial assets and liabilities arising from the support for financial institutions.

It distinguishes between activities which have contributed to actual government liabilities (debt), whether directly or indirectly, and activities which may contribute to government liabilities in the future, but at the moment of the reporting are considered as contingent on future events.

Part 2 : Outstanding amount of assets, actual liabilities and contingent liabilities of general government

Millions of national currency

		General government		Outside general government
		Assets (D=a+b+c)	Liabilities (D=a+b)	Contingent liabilities
D	Closing balance sheet	x	x	x
a)	Loans	x	x	
b)	Securities other than shares	x	x	
c)	Shares and other equity	x		
d)	Liabilities and assets outside general government under guarantee			x
e)	Securities issued under liquidity schemes			x
f)	Special purpose entities			x

Similarly to part 1, part 2 provides for the most common types of asset and liability instruments recorded in government accounts due to government interventions:

- Loans granted by government or acquired from financial institutions (assets); loans incurred (directly or indirectly) by government in order to finance various interventions (liabilities).
- Debt instruments issued by financial institutions and bought by government as provision of liquidity (assets); debt securities issued by government to finance the interventions (liabilities).

⁸ The impact on government liabilities from an activity can be direct (since specifically identifiable instruments are issued) or indirect (since the financing of the activity is hidden within general government financing activity). This leads to the result that the interest payable shown here is the sum of actually observed and imputed financing costs (estimated by Member States).

- Equity subscribed by government in financial institutions as a counterpart for a provision of liquidity to the banks (assets).

Whereas statistical source information is usually readily available for measuring government assets in loans and securities other than shares, certain assumptions might need to be implemented for government liabilities. For instance, for those government interventions that were not financed specifically by means of dedicated issues of debt, it is assumed that they were financed through the general issuance of debt. By convention these liabilities are to be reported under the instrument “securities other than shares”, but, if more relevant, they may also cover loans.

In addition, part 2 of the table lists the most frequent ways through which contingent liabilities arise for government in the context of the assistance to financial institutions. As a general rule of ESA95, contingent liabilities are not recorded in national accounts. Thus, for example, government guarantees granted in the context of the financial crisis do not give rise to any immediate entries in government accounts, but have an impact only later, if they are called. The data provided by the EU countries in this part of the table are an indication of the potential maximum impact that could (theoretically) arise for government finances from such contingent liabilities, i.e.:

- Value of the assets and liabilities of financial institutions guaranteed by government (except for guarantees for special purpose entities).
- Securities issued by government under liquidity schemes, e.g. repurchase agreements and securities lending.
- Liabilities of special purpose entities created during the crisis, including those to which certain impaired assets of financial institutions were transferred.

With regard to the coverage of data on contingent liabilities, it is important to note, that general government guarantees on bank deposits are not included here⁹.

4. DATA FINDINGS

All but seven Member States (Bulgaria, the Czech Republic, Estonia, Malta, Poland, Romania and Slovakia) report various interventions undertaken by government in the context of the financial crisis.

4.1. Statistical impact on government deficit

The impact of interventions on government finance statistics depends on their country-specific features. Certain interventions, where losses of financial institutions have already been borne by government, require immediate recording of government expenditure. This is the case of HRE Bank, WestLB, SachsenLB and KfW in Germany, Anglo Irish Bank, Irish Nationwide Building Society and EBS Building Society in Ireland, Parex Banka in Latvia, ABN AMRO in the Netherlands, as well as Northern Rock, Royal Bank of Scotland and Lloyds Banking Group in the United Kingdom.

In some other cases, government interventions do not lead to an immediate statistical impact on deficit. However, the national statistical authorities need to monitor future developments. Should the associated risks eventually crystallise into losses for government, they would

⁹ However, in the context of the financial crisis, payments relating to general deposit schemes effectively increased the value of government financial assets and liabilities in two cases: the United Kingdom and the Netherlands. These countries pre-financed the compensation paid to the depositors of the Icesave and now have a claim against Iceland as a consequence of accountability of the Icelandic deposit guarantee scheme.

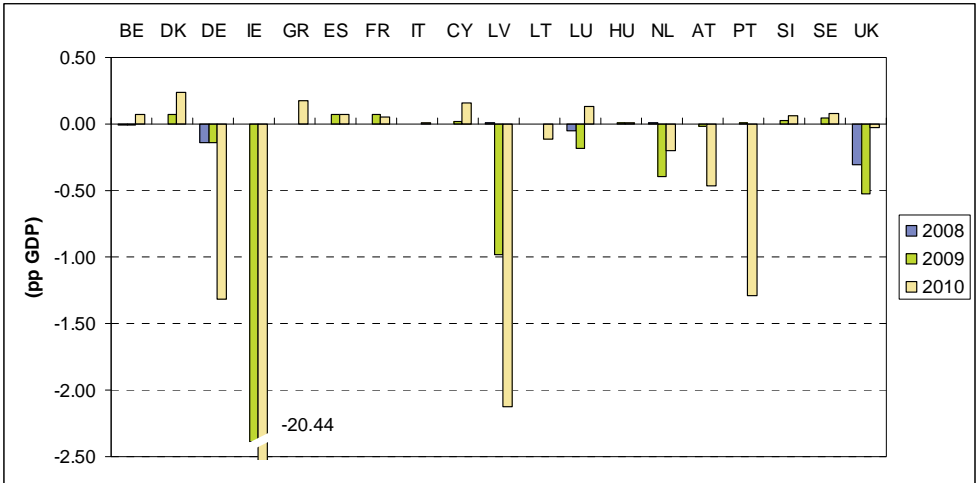
usually need to be recorded as government expenditure, with an impact on the government deficit.

Part 1 of the table provides detailed data on the impact on the EDP deficit.

The most significant increase in deficit due to government interventions in financial institutions is noted for Ireland (close to 23 pp, cumulated over the reference period of 2007-2010). For several other EU countries, such as Germany, Latvia, the Netherlands, Austria, Portugal and the United Kingdom, deficit increased to a significant, but a more limited extent: from around 0.5 pp to 3 pp over the reference period. A further two countries, Lithuania and Luxembourg, reported negative impacts, but for marginal amounts.

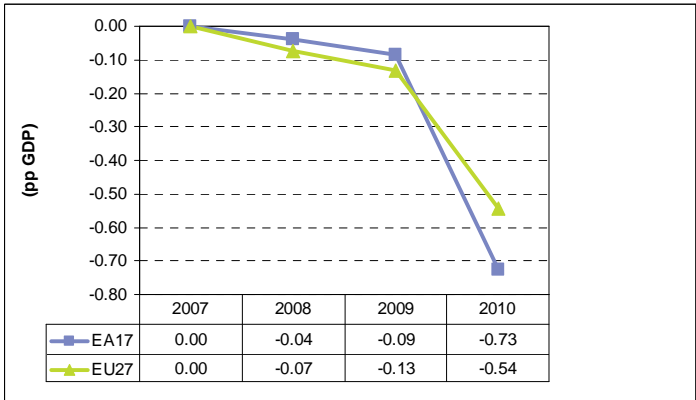
In some of the EU countries (Belgium, Denmark, Greece, Spain, France, Cyprus, Hungary, Slovenia and Sweden) government deficits were marginally reduced due to government interventions. This resulted mostly from the increased government revenue from fees on guarantees granted to financial institutions and from the interest accrued on the financial instruments acquired by governments (debt securities and loans).

Graph 3. Impact of interventions on government deficit (pp GDP)



The impact of interventions on government deficit in the EU and the Euro area is summarised in graph 4. It shows that, both for the EU and the Euro area, the net impact was marginally deficit-increasing in 2007, 2008 and 2009, and became much more pronounced in 2010.

Graph 4. Impact of interventions on government deficit, Euro area (EA17) and EU27 (pp GDP)

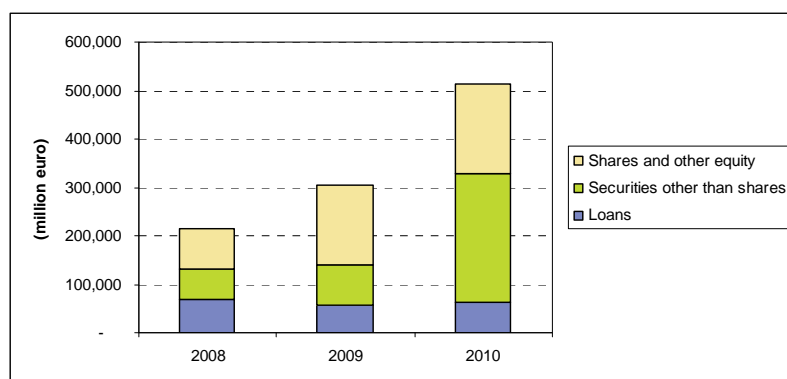


4.2. Statistical impact on government debt

Part 2 of the table shows stocks of government financial assets and liabilities arising from the support for financial institutions.

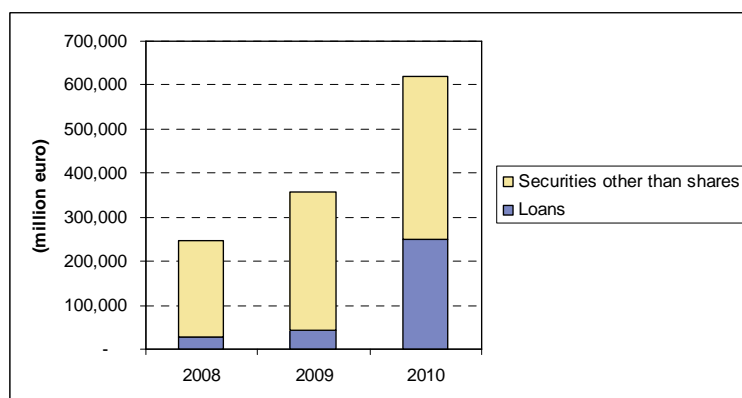
Around 41% of the total value of assets acquired by the EU governments over the reference period is attributable to the increased government shareholdings in the financial institutions. A similar proportion of the total value of interventions relates to purchases of securities other than shares. The remaining amount (around 18%) is linked to loans granted by government or acquired from financial institutions. Graph 5 shows developments in the structure of assets from 2008 to 2010.

Graph 5. Structure of government assets, EU27 (million euro)



Turning to liabilities, the data show that the EU governments financed their interventions predominantly by new issuances of debt securities (more than 72% of the total over 2008-2010), though it is important to realise that this is the default recording if the instrument is not known. The remaining financing comes from the incurrence of loans. Developments in the structure of liabilities from 2008 to 2010 are summarised in the graph below.

Graph 6. Structure of government liabilities, EU27 (million euro)



The increase in the amount of loans for 2010 mainly reflects the transfer of liabilities into federal and state-level liquidation agencies in Germany.

The biggest impact on the government balance sheet is observed in Ireland (an increase in liabilities by almost 23 pp in 2010)¹⁰. The impact is also big in Belgium¹¹, Denmark¹²,

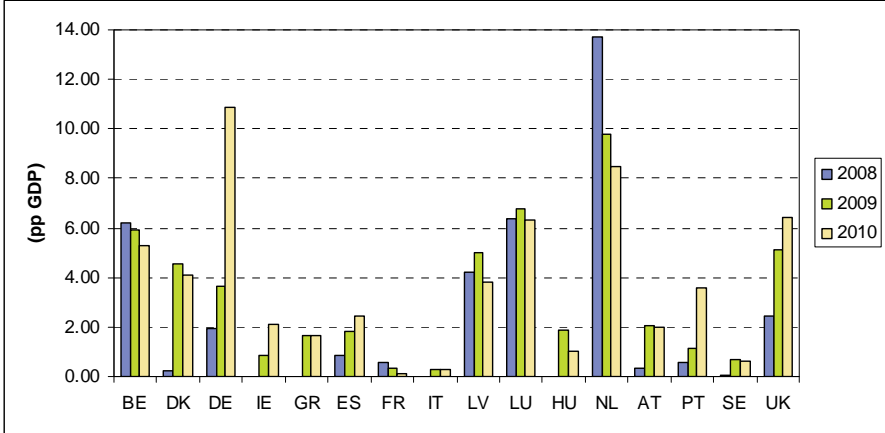
¹⁰ Mainly due to capital transfers.

¹¹ Due to rescue operations in Fortis, Dexia, Ethias and KBC involving different financial instruments.

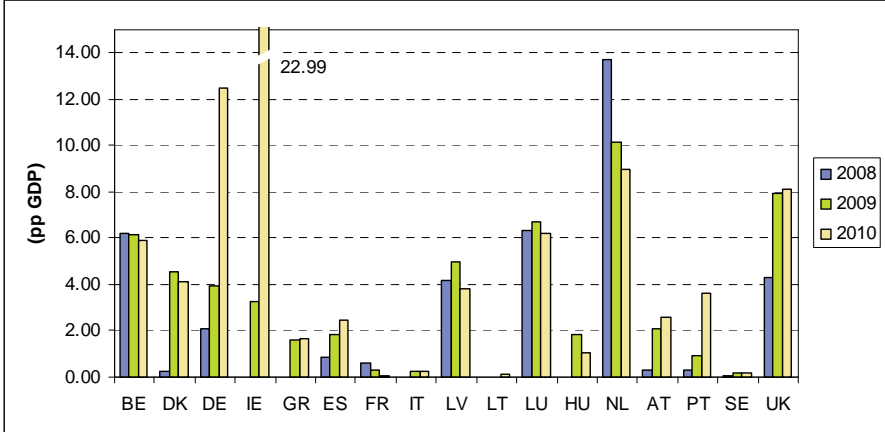
Germany¹³, Latvia¹⁴, Luxembourg¹⁵, the Netherlands¹⁶ and the United Kingdom¹⁷, with the highest annual impact on the balance sheet varying from 4 pp to 14 pp. Other countries with a noticeable impact on the stock of government assets and liabilities are Spain, Austria and Portugal, reporting the highest annual impact of 2-4 pp. In the remaining Member States reporting such data, the impact over 2008-2010 was relatively limited and remained under 2 pp of GDP.

Graphs 6 and 7 show the impact of interventions on, respectively, government assets and liabilities.

Graph 7. Impact of interventions on government assets (pp GDP)



Graph 8. Impact of interventions on government liabilities (pp GDP)



¹² Due to government on-lending, mainly relating to Roskilde Bank, and capital injections of hybrid capital into banks and mortgage institutions.

¹³ Mainly due to the transfer of assets (including deposits and loans) into federal- and state-level liquidation agencies.

¹⁴ Mainly due to the intervention in Parex Banka.

¹⁵ Due to the acquisition of equity in Fortis.

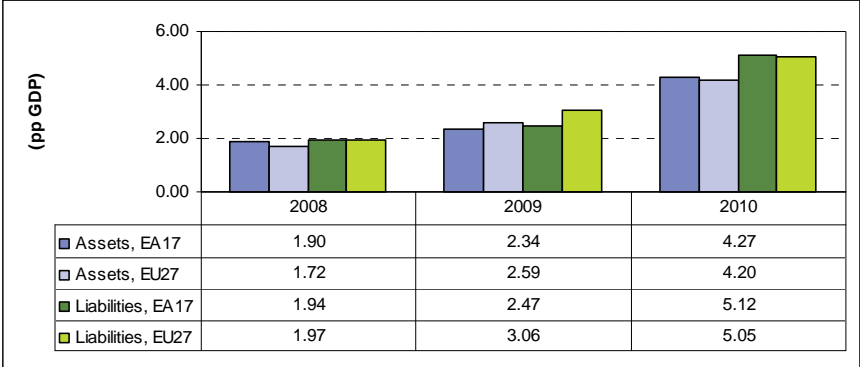
¹⁶ Mainly due to the acquisition of equity in Fortis/ABN AMRO.

¹⁷ Due to acquisition of shares in Lloyds Banking Group and Royal Bank of Scotland, and acquisition of loans from Bradford & Bingley.

The only case where government liabilities increased much more than government assets is Ireland. This can be explained by the fact that most interventions have been immediately recorded as deficit-increasing government expenditure and not as financial transactions.

The impact on the stock of government assets and liabilities across the Euro area and the EU is summarised in the graph below. It shows a growth in the balance sheet over the whole reference period, with the stock of liabilities consistently exceeding that of assets.

Graph 9. Impact of interventions on government assets and liabilities, Euro area (EA17) and EU27 (pp GDP)

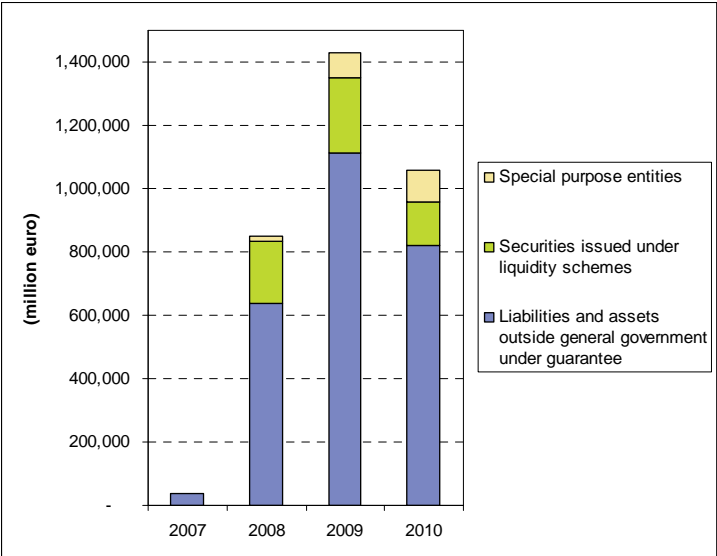


4.3. Contingent liabilities

Part 2 of the table also shows contingent liabilities which may contribute to government liabilities in the future, but currently are not recorded as government debt.

Looking at the structure of government contingent liabilities arising from the government interventions in the financial crisis over 2007-2010, the major part is attributable to the guarantees granted on the financial institutions’ assets and liabilities (more than 77% of the total value). The remaining contingent liabilities reflect the value of securities issued under liquidity schemes for banks (around 17%) and the operations of special purpose vehicles (around 6%). Developments in the structure of contingent liabilities from 2007 to 2010 are summarised in graph 10.

Graph 10. Structure of contingent liabilities, EU27 (million euro)



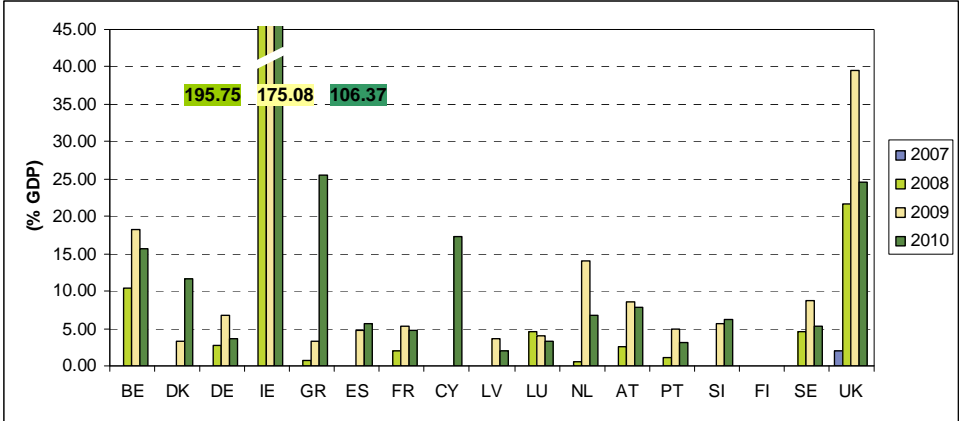
In the majority of the 15 EU countries that undertook such interventions, they result exclusively from guarantees granted on financial institutions’ assets and (or) liabilities. In two

Member States (Greece and the United Kingdom) significant amounts of contingent liabilities arose due to securities issued under liquidity schemes.

In France the most important component of contingent liabilities is the value of financial instruments transferred to a special purpose vehicle¹⁸. A further three countries (Denmark, Ireland¹⁹ and Austria²⁰) report government guarantees relating to special purpose vehicles, but for much lower amounts.

The level of contingent liabilities is presented in the graph below.

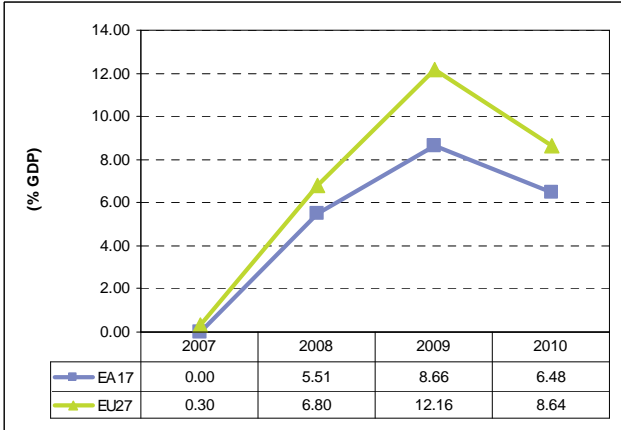
Graph 11. Level of contingent liabilities (% GDP)



Overall, the highest level of contingent liabilities in relation to GDP is observed in Ireland (a peak of almost 196% of GDP in 2008). A further seven Member States (Belgium, Denmark, Greece, Cyprus, the Netherlands and the United Kingdom) report a significant level of contingent liabilities, with the annual level peaking at 10-40%. In the remaining EU countries, the level of contingent liabilities is lower and does not exceed 10% of GDP.

The amounts of contingent liabilities across the Euro area and the EU are shown in graph 12. In both cases, contingent liabilities increased significantly in 2008 and 2009, before decreasing in 2010. The decrease in 2010 mainly reflects reduced government exposure to guarantee schemes in Germany, Ireland, the Netherlands and the United Kingdom.

Graph 12. Level of contingent liabilities, Euro area (EA17) and EU27 (% GDP)



¹⁸ Soci t  de Financement de l' conomie Fran aise (SFEF)
¹⁹ A special purpose vehicle related to the National Asset Management Agency (NAMA).
²⁰ A guarantee on the activities of the Clearingbank.

ANNEX. EUROSTAT DECISION ON GOVERNMENT MEASURES IN THE CONTEXT OF THE FINANCIAL CRISIS

The Eurostat decision of 15 July 2009 on the statistical recording of government measures in the context of the financial crisis deals with complex public interventions, such as:

- Recapitalisation occurs when an equity instrument issued by a financial institution is acquired by government and may involve a wide range of various instruments, including ordinary shares, preference shares and hybrid debt-equity instruments.
- Guarantees provide an assurance that should a debtor be unable to meet its liability, the guarantor will meet the liability. For financial institutions this includes government guarantees on deposits and on borrowing. In the context of the financial crisis, some governments also extended significant guarantees to the value of bank assets.
- Purchases of assets commonly involve acquisitions by government of equities and securities other than shares (bonds), and also, in some cases, of loans.
- Defeasance: in this case, government buys impaired assets from financial institutions, or creates a body (called usually e.g. “a special purpose vehicle” or “a bad bank”) to undertake this task.
- Liquidity operations conducted through exchange of assets: in this case, an asset is exchanged for another (different) asset, commonly over a fixed period of time. Examples include repurchase agreements and securities lending (lending against acquisition of various financial instruments), but may also encompass other types of arrangement. This type of operation is commonly made to improve the liquidity situation of one party of the exchange.

The Eurostat decision of July 2009 also deals with the statistical sector classification of temporary special purpose entities created to address specific aspects of the financial crisis, for example with regard to defeasance or recapitalisation. The main issue here is whether such entities are to be classified for statistical purposes in the general government sector (S.13) or outside. Consequently, their assets and liabilities are to be recorded in the balance sheets of the statistical sector to which they belong.