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Financial assistance measures in the euro area from 2008 to 2013: statistical framework and fiscal impact

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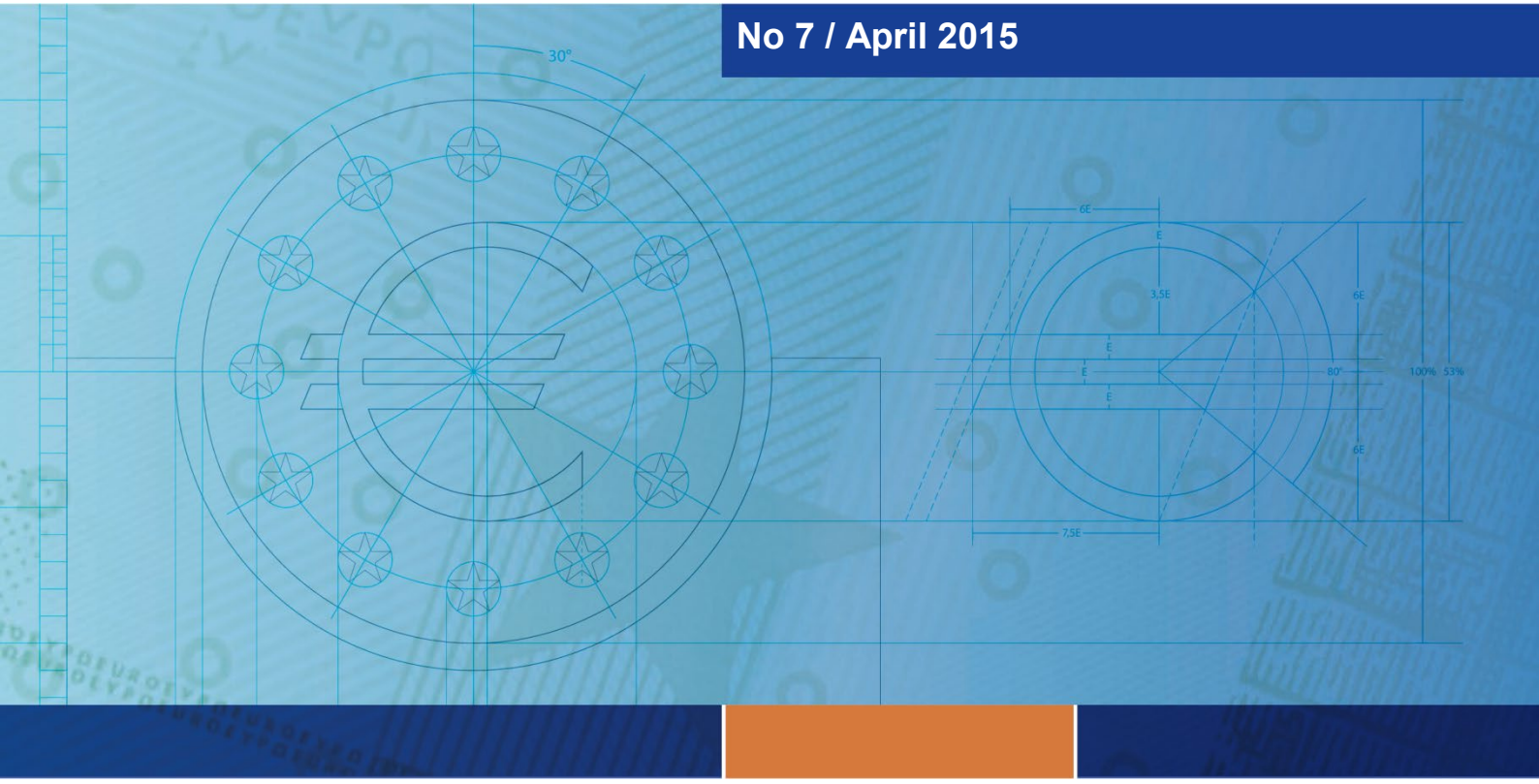

CONTENTS

ABSTRACT

This paper summarises the accounting principles and methodology used by statisticians within the European System of Central Banks (ESCB) to assess the impact on the government's fiscal position of the assistance measures undertaken to support the financial sector during the financial crisis. It then presents for the euro area and its participating countries the main fiscal impact of these measures for the period 2008-2013. The results are mainly structured around three important questions for the wider public: (i) What is the magnitude of the financial resources needed by governments to provide financial support? (ii) What is the current gain or loss to governments from interventions to support the financial sector? And (iii) How did the guarantees provided by governments to the financing sector change over the period? Finally, the paper discusses further accounting challenges associated with this topic.

Keywords

Bailout measures, impact on government debt and deficit, financial needs and estimated loss, earmarking and recording imputation, capital transfers to the financial sector, change in net financial worth on balance sheet.

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NON-TECHNICAL SUMMARY

This paper takes stock of the work achieved so far by government finance statisticians within the European System of Central Banks (ESCB) to assess the impact on the government's fiscal position of the assistance measures to support the financial sector during the financial crisis. The fiscal impact covered in this report is restricted to direct bailout costs in the euro area, excluding all indirect effects on the real economy ("second-round effects") described in the introduction.

The second section of this paper summarises the coordinated European measures to deal with the accounting consequences of the financial crisis and, in particular, with the impact of public sector interventions on the deficit and debt, as defined by the Excessive Deficit Procedure (EDP)[1]. At an early stage of the financial crisis, statisticians faced a few methodological challenges in the recording of financial assistance measures: (i) the volatility and uncertainty of asset valuations when the assets had been bought by the government from financial institutions in distress; and (ii) the classification of new entities or vehicles to support ailing financial institutions. While the main answers to the recording of interventions were already available through the transactions described in the European System of Accounts 1995 (ESA95), supplementary decisions and guidance on the recording of transactions have been provided by Eurostat. Many decisions were taken following a consultation procedure with statisticians from central banks and national statistical offices.

The third section illustrates two statistical frameworks for the collection of data on European financial assistance measures that have been set up: first within the ESCB and then within the European Statistical System (ESS). These two complementary frameworks generate data about the impact on deficit, debt and contingent liabilities with additional breakdowns. The ESCB framework caters more for policymakers, with a breakdown by type of financial assistance measure for which debt has been issued. The approach taken by the ESS is more focused on the stocks of financial assets held as a result of the financial crisis interventions as well as the concomitant liabilities (including EDP debt).

Bridging these two approaches, the fourth section presents the main fiscal impact of the financial assistance measures in the euro area for the period 2008-2013.

In terms of magnitude, the financial resources needed to finance government bailouts in the euro area are estimated at 5.1% of GDP for the whole period 2008-2013. The government acquires these resources either by issuing debt, or in fewer cases, by selling financial assets. These financial needs were essentially recorded during the first three years (4.9% of GDP) of the period 2008-2010. The governments allocated 3.4% of GDP to the net acquisition of financial

[1] See Annex 1 for more details on the EDP framework

assets. The situation is very heterogeneous among euro area countries. The impact on debt for half of the countries was over 5% of GDP up to end-2013. Taking into account the impact for the guarantors of the European Financial Stability Facility (EFSF)[2], the whole impact of the bailouts on gross government debt, as defined by the Excessive Deficit Procedure (EDP) for the euro area from 2008 to 2013, is about 6% of GDP out of a total change in debt of 26% of GDP in the same period.

Up to end-2013, the cumulative losses for euro area government balances are estimated at 1.7% of GDP, including capital transfers to financial institutions of up to 2% of GDP. These capital transfers consist, for instance, of deficit-increasing recapitalisations, debt assumptions or the purchase of impaired assets (such as "bad loans" or "toxic assets") by governments. The losses are spread equally over the whole period. Miscellaneous revenues such as guarantee fees, dividends and net interest arising from the interventions represent, on average, a gain of 0.3% of GDP for the government. Further information on the current holding gains/losses on the acquired assets is derived from the useful but incomplete balance sheet of the EDP supplementary table collected by the ESS.

The outstanding amount of contingent liabilities (guarantees) of euro area governments declines at a slow pace from 7.8% of GDP at end-2009 to 4.7% at end-2013. When compared with the huge guarantees made in the UK in 2009 (34% of GDP), which have already vanished, this suggests that persistent difficulties might exist for some financial institutions in the euro area at the end of 2013 as assets need to be further guaranteed by governments. On the other hand, the euro area governments that intervened at the earliest stage of the crisis by taking on the bulk of the losses associated with the bailout are now granting a much-reduced amount of guarantees to the banking sector.

Compared with the euro area, the impact of the UK government's interventions to its financial sector were rather similar up to the end of 2013. The relative magnitude of both the respective financial needs and the estimated loss to the government is just slightly higher and could be explained by the importance of its financial sector. However, as these interventions took place in the earliest period of the financial crisis, it can be seen that the unwinding phase in the UK is slightly ahead of the euro area. Indeed, the net acquired assets have decreased more since 2011, and all the guarantees granted to the financial sector have now been withdrawn.

However, since 2014, over seven years after the crisis began, the phasing-out of financial assistance measures in the euro area has become more prevalent than the development of new measures. In this closing stage, governments are predominantly unwinding past interventions by

[2] See Section 2.4.1 for further details on the recording of support to Euro Area countries

selling the financial assets acquired in the initial phase of the crisis. This unwinding phase of the interventions is bringing new accounting challenges such as measuring the holding gains and losses, which are described in the fifth section.

I INTRODUCTION

A financial crisis that leads to public interventions is not a new phenomenon. A study published by IMF in 2012 identified 147 systemic banking crises occurring all over the world for the period 1970-2011[3]. Estimating the size of these crises is a challenging task. Also in 2012, Patrick Honohan and Gerard Caprio estimated the average fiscal cost of 39 systemic crises at 12.5% of GDP in a study entitled *"Banking Crises"*. In 2014, Kenneth Rogoff and Carmen Reinhart concluded in a study entitled, *"Recovery from Financial Crises: Evidence from 100 Episodes"*, that, on average, it takes about eight years to return to the pre-crisis level of real income. The authors of these studies admitted to difficulties in measuring the fiscal impact of events in a cross-country or intertemporal comparison.

In the economic literature, efforts have been made to separate the fiscal costs related to financial instability or financial crises into various categories. The most comprehensive analysis available is the ECB working paper entitled "*The fiscal costs of financial instability revisited"*, published in November 2002, and written by Felix Eschenbach and Ludger Schuknecht. The authors identified the three major transmission channels of financial instability (or crisis) on a country's fiscal stance, namely (i) direct bailout costs; (ii) direct revenue effects and (iii) indirect effects via the impact on the real economy.

Direct bailout costs arise when a government provides support to distressed financial institutions in order to avoid a systemic financial crisis. The impact on fiscal accounts depends on the form of government intervention. This paper focuses strictly on these direct bailout costs without examining the resulting two spillover effects.

The second transmission channel of the financial crisis to the fiscal accounts relates to the direct revenue effects on a country's tax system. Fiscal revenues are directly impacted through the downward change in asset prices driven by financial instability. As examples, direct taxes paid by households on wealth, direct taxes paid by corporations on assets and sales taxes are affected by a decrease in asset prices. A reduction in real estate transactions (in price and volume), slowdown of equity markets, decrease in dividends or the emergence of other depreciated assets all have a negative impact on fiscal revenues due to various tax rules.

As a third transmission channel, financial turmoil can affect fiscal accounts indirectly through its impact on the real economy. These second-round effects on fiscal variables are revealed in the medium term in various ways. Lower salaries and higher unemployment trigger a reduction in personal income tax and in social contributions but an increase in unemployment benefits. The negative wealth effect generated by the depreciation of financial and non-financial assets

[3] See Luc Laeven and Fabian Valencia (IMF WP/12/163) in *"Systemic Banking Crises Database: An Update "*

curbs consumption and investment. Thus it reduces indirect tax revenues. Moreover, tighter credit conditions would further exacerbate this decrease. Finally, the subsequent increase in government debt would, in turn, affect the fiscal deficit via higher interest payments. All in all, the government debt ratio would increase as a result of effects on both the numerator and the denominator.

During the 2008-2013 period under analysis, government debt in the euro area has increased by 26.3% of GDP. For the preceding six-year period (2002-2007), it decreased by 1.7% of GDP. The scope of the paper is to determine precisely the fiscal impact of direct bailouts on the deterioration of the fiscal ratio. The impact generated by the second and third transmission channels are not covered by our analysis.

The financial crisis that started in the summer of 2007 originated in the US mortgage market. The sharp increase in defaults revealed the exuberance in the housing market and brought the sub-prime lending business to a sudden halt. The securitisations market froze, banks had to record assets held by special purpose vehicles on their balance sheets and confidence in funding markets was eroded. The crisis spread rapidly through the worldwide financial sector. Central banks across the world responded to the emerging crisis by injecting very large amounts of liquidity into the financial system. The liquidity crisis appeared to be turning into a solvency crisis and governments started to take traditional rescue measures directed at financial institutions. The early support measures took the form of credit lines to failing institutions and rescue mergers. In September 2008, the collapse of Lehman Brothers sent a shockwave through the global financial system, leading to a sharp rise in risk aversion, mistrust between financial players and a drying-up of the funding markets. When the confidence of depositors was affected, governments and central banks were forced to act swiftly to avert the failure of their financial systems. In Europe, after an emergency meeting of the euro area countries in October 2008, EU governments implemented coordinated support measures to alleviate the strain on their banking systems and to restore confidence.

2 ACCOUNTING PRINCIPLES FOR GOVERNMENT BAILOUTS

2.1 CHALLENGES RELATING TO THE RECORDING OF BAILOUTS

In general, statisticians are confronted by the following main methodological challenges in the recording of financial assistance measures: (i) the volatility and uncertainty over asset values when bought by governments from financial institutions in distress; (ii) the classification of new entities to support ailing financial institutions. Moreover, at the early stage of a financial crisis, statisticians are required to capture and interpret a new flow of information for the recording of sometimes complex interventions in national accounts.

As per the general accounting principle in ESA 95[4], financial transactions are recorded at transaction values, which are assumed to represent the market values in normal circumstances. In the case of bailouts, the difficulty lies in the purchase by governments of assets from distressed institutions whose markets are temporarily inactive or somewhat dysfunctional at the peak of the crisis, with highly volatile values. It raises the question of whether the government paid more than the market value for the assets it acquired. This assessment is important because if the government paid more than the market price for the assets, the difference is recorded as a capital transfer (gift) to the entity that sold it, which impacts the government deficit.

In national accounts, when a new body is created, its sector classification must be determined. In particular, it must be assessed as to whether or not this entity is a separate institutional unit (e.g. with autonomy of decision-making and a complete set of accounts) and, if so, whether its activities are predominantly market-based. This issue may trigger a significant fiscal impact, as a non-autonomous entity controlled by the government or a non-market unit controlled by the government is classified within general government[5]. It implies that the liabilities of such entities are part of the government debt and their balances contribute to the government deficit/surplus.

2.2 EUROPEAN ACCOUNTING FRAMEWORK

In a rapidly deteriorating macro-economic environment, the national and European statistical authorities have had to deliver timely and reliable deficit and debt ratios, which remain a cornerstone of the fiscal discipline laid down in the Stability and Growth Pact (SGP) and its

[4] ESA 95 was replaced by ESA 2010 from September 2014 onwards. The main accounting principles are unchanged while there is more guidance in ESA 2010 on special purpose entities (SPEs) in particular.

[5] A Eurostat decision in July 2009 gave further guidance on the classification of Special Purpose Entities (SPEs), addressing the financial crisis for a short temporary duration, as described in Section 2.2.

corollary, the Excessive Deficit Procedure (EDP). Providing reliable fiscal data is essential to restore public confidence when many governments have embarked on bank rescue packages.

As part of the European coordinated measures, the Committee on Monetary, Financial and Balance of Payments (CMFB)[6] set up a Task Force in November 2008 to deal with the accounting consequences of the financial crisis and, in particular, with the impact of public sector intervention in response to it. Eurostat consults the CMFB before taking its final decision on difficult or controversial methodological issues impacting government deficit and debt.

The cornerstone of the statistical response to the recording challenges from government bailouts has been the application of the existing legal framework of national accounts in the EU, the ESA, as well as the former Eurostat's guidance or decisions in the context of the Excessive Deficit Procedure (EDP). The various interventions carried out by public authorities to support the financial sector could be classified into seven types:

(i) A recapitalisation of a unit;

(ii) A loan granted to a financial unit;

(iii) The purchase of existing assets;

(iv) An exchange of assets;

(v) Debt assumption or a debt cancellation;

(vi) Guarantees provided to a financial unit;

(vii) Setting-up of new units or special vehicle entities.

In general, the recording of underlying transactions included in interventions is already well grounded in national accounts. The respective transactions consist mainly of the purchase by governments of financial assets (e.g. equities, unquoted shares, etc.), in granting loans, assuming debt or providing guarantees in various ways. Statisticians, however, require additional recording guidance due to the specific features of these interventions, especially in the European statistical context when striving for harmonised statistical compilation practices across countries.

2.3 EUROSTAT DECISIONS ON OPEN ISSUES IN 2009

In respect of the typology of interventions and existing accounting rules, the CMFB Task Force examined the first wave of individual intervention cases. It then arranged a consultation in

[6] The CMFB is an advisory committee of senior statisticians from national statistical offices and central banks, Eurostat and the ECB.

March 2009 for the remaining open issues. Based on the opinion of the CMFB, Eurostat published a decision in July 2009 to ensure consistent treatment across countries for interventions that are the same in substantive terms.

This decision refers in its various provisions to existing ESA rules such as those on the classification of units and the valuation rules for financial transactions. It stresses that substance should prevail over form meaning that the accounting treatment should reflect the economic reality rather than the legal or administrative framework of the interventions.

2.3.1 GUIDANCE ON RECORDING INTERVENTIONS THAT IMPACT DEFICIT

The decision further determines how to distinguish, within interventions, the transactions that impact the deficit (e.g. transactions recorded as a capital transfer from government to banks) from those which are neutral to it (e.g. financial transactions), as this distinction is paramount for the EDP. As main examples:

a) In the case of governments' recapitalisation operations for banks in the form of ordinary shares, this intervention is a financial transaction as long as the transaction takes place at the market price. If, in the capital injection, the government pays for the ordinary shares above the market price, the difference should be recorded as expenditure that impacts the deficit (e.g. a capital transfer to the bank). In the common case of recapitalisation in the form of preference shares, a capital transfer is recorded only if the expected rate of return is deemed insufficient under EU State Aid rules. Where the EU State Aid rules are not complied with, injections could be divided into a financial transaction and a government expenditure component.

b) In the case of lending to a financial institution, this should be recorded as a capital transfer (government expenditure); if there is a written or any other irrefutable evidence that the loan – or a defined portion of it – will not be repaid. Any subsequent cancellation or forgiveness of loans will lead to the recording of government expenditure (capital transfer) for the full amount of the loans involved.

c) In the case of the purchase of assets by governments from financial institutions in distress (commonly involving equity instruments and debt securities), a decision tree is used to value the assets when there is no adequate market operating. In short, if the purchase price paid by the government is higher than the estimated market price, a capital transfer (government expenditure) is recorded from the government to the financial institution for the price difference. If the market is disrupted, the estimated market price is determined using the seller's accounting book or a valuation by an independent entity. However, if the

assets are later sold in similar market conditions at a lower price than the price paid by the government, the difference in price should be recorded as a capital transfer from the government to the private sector.

2.3.2 CLASSIFICATION OF NEW DEFEASANCE BODIES

Another important aspect of the decision consists of carefully defining the classification of new bodies set up by government or by public or private corporations to address specific aspects of the turmoil. In usual cases, specific assets are incorporated into a special vehicle or entity and treated differently from those assets which are kept within the balance sheet of the residual financial institutions.

The decision states that government-owned special purpose entities with no autonomy of decision-making, whose purpose is to conduct specific government policies related, for example, to defeasance or to recapitalisation, are to be classified as belonging to the general government sector. Conversely, majority privately-owned special purpose entities which are established for a short temporary duration to address the financial crisis, even if they receive a government guarantee, are to be recorded outside the general government sector if the losses they are expected to bear are small in comparison with the total size of their liabilities.

2.3.3 RECORDING OF THE TEMPORARY EXCHANGE OF FINANCIAL ASSETS

The decision defines the treatment for recording a specific scheme involving the temporary exchange of financial assets, which is carried out by national central banks to improve the liquidity of the financial sector[7]. Under this scheme, government securities are exchanged but they are to return to the government at a pre-determined date in a short period of time and with the risk of loss expected to be small. Fulfilling these conditions, the exchange of securities is recorded as a securities lending transaction. This recording is justified as the government retains economic ownership of these securities. As a consequence, these government-owned securities do not form part of government consolidated debt but act as a guarantee. In the case that triggered this accounting rule, the respective national central bank (NCB) played a pivotal role under this scheme by receiving as collateral from the private banks discounted asset backed securities or covered bonds against securities lent by government.

When the exchange of financial assets is not constrained by a specific duration or is exposed to the risk of loss, the government that issued the securities can no longer retain economic

[7] The sizeable scheme that initiated the consultation was the "Special Liquidity Scheme (SLS)" conducted by the UK Treasury together with the Bank of England. Treasury bills with a face value of £185 bn have been lent under this Scheme (more than 12% of GDP).

ownership of them. Therefore, the transaction is recorded as a back-to-back repurchase agreement rather than as securities lent by the government. Under these circumstances, the government-issued securities are initially held by banks before the agreed repurchase. In this case, these issued securities are part of government gross debt.

2.3.4 CONTINGENT LIABILITIES (GUARANTEES)

The Eurostat decision confirms that guarantees are contingent liabilities (i.e. contractual arrangements where specified conditions must be fulfilled before a transaction takes place) with no direct impact on the government accounts when they are granted, unless there is irrefutable written evidence that they will be called. In the context of financial institutions, guarantees provide an assurance that should a debtor (financial institution) be unable to meet its liability, the guarantor (here the government) will meet it. Guarantees are granted in relation to deposits or borrowing, or might be extended to the value of assets in some circumstances.

2.4 FURTHER ACCOUNTING DECISIONS, GUIDANCE AND ADVICE

Since the Eurostat decision in 2009, the recording of bailout interventions in national accounts has been supported by other accounting decisions and advice that can be classified as follows: (i) a Eurostat decision to define the statistical treatment for lending money to euro area countries in financial difficulties; (ii) advice granted by Eurostat to individual Member States on the statistical treatment of specific cases in their country; (iii) further guidance supplementing initial accounting rules.

2.4.1 RECORDING OF THE SUPPORT TO EURO AREA COUNTRIES

The severe economic downward spiral due to the financial crisis and all subsequent rapid fiscal deterioration obliged the European authorities to find support mechanisms consisting of the granting of loans to a few euro area countries. At that stage, the risk premium on their sovereign bonds was an obstacle to obtaining further financing by the market and returning to fiscal balance. The first solutions such as the Greek loan facility, the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF) were deemed to be temporary[8]. The European Council, at its meeting in March 2011, agreed on important steps to

[8] The EFSF granted loans to Greece, Ireland and Portugal. As of 1 July 2013, the EFSF is no longer engaging in new financing programmes. Ireland and Portugal officially exited the EFSF financial assistance programme in 2013 and 2014 respectively.

strengthen the EU economic governance framework. The package included the establishment of a permanent financing facility (ESM)[9] in case of imbalances in individual countries.

There is a major difference in the statistical treatment decided on for the EFSF and ESM. The EFSF is acting on behalf of the guarantor euro area countries when lending to a country in financial need. Therefore, the fact that the guarantor countries lend the money to the respective country is recorded. As a consequence, it is not only the government debt of the country receiving financing that increases but also the gross debt of the guarantor countries rises in proportion to their respective shares in the guarantees provided to the EFSF. On the other hand, the ESM is treated in the same way as similar international financial organisation such as the IMF. Accordingly, loans from the ESM impact the debt of the debtor country but not the guarantors of the ESM. Therefore, loans from the ESM have no impact on the government debt of the guarantors.

2.4.2 BILATERAL ADVICE TO MEMBER STATES

During the period of financial turmoil, EU Member States have regularly consulted Eurostat for advice on the recording treatment of specific cases. Further interpretation of the rules is needed for borderline cases. In the European context of harmonised fiscal data, the published response of Eurostat to the National Statistical Institutes (NSIs) goes beyond bilateral advice as it may set a precedent for similar cases in other Member States.

This response can take the progressive form of a "preliminary view", "advice" or "decision". Unless a decision is taken by Eurostat, a methodological discussion might be held among appropriate experts. As an example, in the event of substantial new methodological developments, Eurostat drafts a note with the support of the national experts of NCBs, NSIs and the ECB. After consultation, this guidance note is included in the Manual on Government Deficit and Debt (MGDD).

2.4.3 FURTHER GUIDANCE ON BANK RECAPITALISATIONS AND THE CLASSIFICATION OF UNITS

The recording of government capital injections to banks had to be further clarified beyond the Eurostat decision in July 2009 as the reference to compliance with the State Aid rules does not guarantee a market return to the government. This is especially the case where the bailed out entity is to exit the market.

[9] The ESM (with financial assistance for Cyprus and Spain) entered into force on 8 October 2012 replacing the EFSF. The assistance to Spain expired in 2013.

The recording of the recapitalisation of Dexia in 2012 led to a CMFB consultation[10]. As a consequence, Eurostat published a new decision in March 2013 which created a hierarchy in the criteria for a recapitalisation. Accordingly, the most decisive criterion is to assess whether the financial instrument used for recapitalisation ensures a sufficient non-contingent rate of return for the government. As complementary criteria to define the transaction, the existence of private shareholders (in favour of a financial transaction) and the accumulations of net losses (in favour of a capital transfer) might be applied.

Due to the magnitude of the transaction, the decision to record the recapitalisation as a capital transfer or financial transaction is sensitive because it impacts the government's deficit during the year concerned. Future holding gains and losses related to the acquired asset through the recapitalisation (usually unquoted shares) might offset or worsen the initial recording. During a financial crisis, bank recapitalisations have been a frequent state aid measure. A survey carried out at the ECB[11] identified 80 recapitalised banks in the euro area from 1 July 2007 to 30 June 2013. Among them, 25 banks were nationalised, i.e. the government gained, at least temporarily, more than 90% of the votes due to capital injection(s).

[10] This CMFB consultation of March 2013 (see opinion: http://www.cmfb.org/main-topics/excessive.htm) supplements the guidance note published in July in 2012 on the impact of bank recapitalisations by creating a further hierarchy in the criteria for classification. (see http://ec.europa.eu/eurostat/documents/1015035/2041337/Impact_bank_recapital_on_gov_fin_v20130514.pdf/5be8a175-cd55-4ebf-971d-2efd64e3ca00)

[11] A survey carried out by the General Financial Stability Directorate.

3 STATISTICAL FRAMEWORKS FOR THE COLLECTION OF DATA ON EUROPEAN FINANCIAL ASSISTANCE MEASURES

Since the beginning of the financial turmoil in 2008, the members of the ESCB Working Group on Government Finance Statistics have provided the ECB with information on the financial interventions taken by their respective governments to stabilise the financial markets. It enabled the ECB's decision-making body, the Executive Board, to be regularly informed of the fiscal impact of these interventions on the government deficit, debt and contingent liabilities. The initial data collection allowed the ECB to communicate the impact of the first wave of interventions to the wider public through various outputs such as an article in the Monthly Bulletin in July 2009 and an Occasional Paper in April 2010 *(see references)*.

Later, the Eurostat decision in July 2009 required national statisticians to inform the wider public of the direct fiscal impact of the bailout measures. In order to do so, supplementary tables were set up within the statistical reporting area of the Excessive Deficit Procedure (EDP) to collect and publish, twice a year, national data on guarantees, liquidity support measures and special purpose entity operations relating to the financial turmoil. As this decision was backed by the CMFB Task Force, NCBs joined forces with NSIs to produce this output.

As a result of these initiatives at the ESCB and Eurostat, two statistical frameworks for the collection of data on European financial assistance measures have been set up. Based on similar source data, the compiled data are presented with different breakdowns. The two approaches, however, have the same three fundamental features:

(i) The recording in national accounts of the transactions relating to the interventions is the same. It follows the accounting principles, rules and guidance described in the previous section;

(ii) It is assumed that each government intervention resulting in a transfer of cash to the banking sector (e.g. capital injections, purchase of financial assets, loans granted) is financed and impacts government debt.

(iii) The fiscal results of the bailouts are converging into three indicators: a) the impact of interventions on government gross debt; b) the impact on annual government balances (deficit/surplus) and c) the impact on government contingent liabilities.

A closer examination of these three fiscal measurements in both approaches (see Table 1 below) shows the following differences:

Table 1
Data requests on the fiscal impact on government debt of financial assistance measures

(Status in March 2014)

ECB DG-Statistics

1: Impact on general government gross debt *(change in relation to the previous year)*
Net acquisition of shares
of which acquisition of new shares
of which sales of shares
Net provision of loans
of which provision of new loans
of which repayment of loans
Net purchases of (impaired) assets
of which asset purchases
of which asset sales
Debt assumptions / cancellations
Other measures
DIRECT NET IMPACT ON GROSS DEBT
of which total acquisitions
of which redemptions
Indirect impact on debt
TOTAL IMPACT ON GROSS DEBT

2: Contingent liabilities of general government (g) (h)
(change in relation to the previous year)
Change in debt of other special purpose entities
of which covered by government guarantee
Other guarantees provided
Asset swaps / lending
Total contingent liabilities

3: Impact on general government net lending / borrowing
REVENUE
Guarantee fees receivable
Interest receivable
Dividends receivable
Other
EXPENDITURE
Interest payable
Guarantees called
Capital injections recorded as deficit increasing (capital transfers)
Capital transfers recorded in the context of asset purchases
Other
NET LENDING / BORROWING

Eurostat

Part 1 : Net revenue/cost for general government *(impact on ESA95 government deficit)*
REVENUE
Guarantee fees receivable
Interest receivable
Dividends receivable
Other
EXPENDITURE
Interest payable
Capital injections recorded as deficit-increasing (capital transfer)
Calls on guarantees
Other
Net revenue/cost for general government

Part 2A : Outstanding amount of assets, actual liabilities
2A.1 Assets - Closing balance sheet
Loans
Securities other than shares
Shares and other equity
2A.2 Liabilties - Closing balance sheet
Loans
Securities other than shares

Part 2B: Contingent liabilities of general government
Outside general government - Contingent liabilities
Liabilities and assets outside general government under guarantee
Securities issued under liquidity schemes
Special purpose entities

With regard to the impact on the debt (*part 2A.2 of the Eurostat table and part 1 of the ECB table)*, the ECB data requirement does not include a breakdown of the EDP debt by instrument.

Instead, it contains a breakdown of the change in debt by type of financial assistance measure (e.g. net purchases of impaired assets, debt assumption). Second, the ECB requires gross acquisitions and redemptions of financial instruments in order to collect information on both the building-up and unwinding of the financial assistance measures. These alternative breakdowns are deemed useful for policy analysis, especially in the second phase of the crisis when the assets acquired by government are progressively disposed of.

Third, the last difference is that the ECB DG-S table requires two levels of liabilities: (i) the immediate borrowing needs related to financial assistance measures and (ii) the (net) subsequent borrowing needs or financing costs triggered by those measures. Second-round effects include items such as compound income or expenditure generated in subsequent accounting periods. For instance, the financial income generated by the fees received from banks against guarantees granted by the government in the initial accounting period.

By contrast, in the Eurostat presentation, the liabilities recognised in respect of the financing of measures are part of EDP debt and are classified under the item, "securities other than shares"[12].

For the fiscal balance (deficit/surplus) of governments (*part 1 of the Eurostat table and part 3 of the ECB table)*, the headings for government revenues and expenditure are almost identical. ECB Table 3 has an additional heading with "Guarantees called" in the expenditure section. Likewise, the difference for contingent liabilities (*part 2B of the Eurostat table and part 1 of the ECB table*) is just in the presentation. The Eurostat table shows an outstanding amount while the ECB table shows a yearly net change compared with the previous year).

In Table 2A.1, Eurostat also presents a balance sheet of the financial assets acquired by the government as part of the intervention. This data set will be used in the next section to calculate changes in balance sheet positions and its methodology will be discussed in the conclusions.

Despite these differences in statistical frameworks[13], the major fiscal aggregates on the impact of the interventions generated by them are almost identical, especially when reported as a percentage of GDP. Some differences can be removed through appropriate bridges between data. With further co-ordination, the two presentations could have been merged into a single harmonised data requirement encompassing the benefits of both approaches and reducing the need for further methodological clarification between compilers.

[12] This heading is renamed "debt securities" under the ESA 2010.

[13] The two data requirements as presented above are those which were used until Spring 2014. A few enhancements to the two frameworks were made later in order to address specific recording challenges related to the unwinding phase of the interventions including the reclassification of financial entities. These issues are further described in Section 5.

4 FISCAL IMPACTS OF EURO AREA INTERVENTIONS ON THE FINANCIAL SECTOR FROM 2008 TO 2013

4.1 INTRODUCTION TO THE STATISTICAL ANALYSIS

The government assistance measures to the financial sector initiated since 2008 are not yet over in the whole euro area, although the last phase of the crisis seems to have been almost reached or is under way in many countries. Indeed, most national governments are no longer introducing any new supportive measures but are phasing out past interventions by selling the financial assets acquired in the initial phase of the crisis. However, a final series of interventions can be observed in a few countries in 2014.

The following analysis should, therefore, be considered as a first interim report on the estimated direct fiscal impact of the bailouts up to 2013.

The analytical presentation of the fiscal impact of government financial assistance measures in the euro area from 2008 to 2013 mainly seeks to answer three questions:

1. *"What is the magnitude of the financial resources needed by euro area governments from 2008 to 2013 to provide the financial support?"* (see section 4.2)
2. *"What is the current gain or loss (up to 2013) for euro area governments due to the interventions to support the financial sector?"* (see section 4.3)
3. *"How did the guarantees granted by euro area governments to the financing sector develop over the period?"* (see section 4.4)

In all cases, the answers are given as a ratio expressed as a percentage of 2013 GDP.

4.2 FINANCING NEEDS FOR GOVERNMENT SUPPORT TO THE FINANCIAL SECTOR

As a general principle, all measures to support the financial sector need to be financed. These financing needs are met either by issuing debt or through the sale of financial assets. In most countries, these financing needs were solely met through the issuance of debt, or it is assumed to be so unless there is evidence that the sale of financial assets financed the respective support. This was only the case in Ireland where a government intervention was financed through the disposal of a pensions reserve fund. Accordingly, Table 2 assumes that a debt is imputed to any net acquisitions of financial assets by government.

Table 2
Financial needs for government bail-outs & impact on EDP debt

(In ratio expressed as a % of 2013 GDP)

	A. Financial needs to support Financial Sector from 2008 to 2013					B. Impact on EDP Debt	
	1. Total & breakdown per period			2. Breakdown of transactions per kind of need		3. Non-transaction	*2. + 3.*
	% of GDP	***from 2008 to 2010***	***from 2011 to 2013***	**2.1. Financial balance** ***Net acquisitions of financial assets (*)***	**2.2. Non-financial balance** ***Cumulated deficit/surplus (**) (***)***	**Reclassification and other flows (****)**	**Impact on EDP Debt up to 2013**
BE	**3.9**	*5.1*	*-1.2*	3.7	0.2	0.9	*4.8*
DE	**8.8**	*10.9*	*-2.1*	7.3	1.4	0.0	*8.8*
EE	**0.0**	*0.0*	*0.0*	0.0	0.0	0.0	*0.0*
IE	**37.3**	*28.7*	*8.6*	12.1	25.2	-9.6	*27.7*
GR	**24.8**	*1.1*	*23.6*	12.6	12.1	-1.8	*23.0*
ES	**4.9**	*2.3*	*2.6*	0.6	4.3	0.4	*5.3*
FR	**0.0**	*0.0*	*-0.1*	0.1	-0.1	0.1	*0.1*
IT	**0.2**	*0.3*	*-0.1*	0.3	-0.1	0.1	*0.3*
CY	**10.5**	*-0.2*	*10.7*	10.4	0.1	0.5	*11.0*
LV	**5.0**	*5.7*	*-0.7*	1.5	3.6	0.4	*5.4*
LU	**5.7**	*5.7*	*0.0*	5.8	-0.1	-0.2	*5.5*
MT	**0.0**	*0.0*	*0.0*	0.0	0.0	0.0	*0.0*
NL	**6.1**	*8.3*	*-2.2*	5.4	0.7	1.8	*8.0*
AT	**3.1**	*2.8*	*0.3*	1.2	1.9	2.7	*5.8*
PT	**10.4**	*3.7*	*6.8*	7.7	2.8	-0.1	*10.3*
SI	**14.2**	*3.9*	*10.3*	3.3	10.9	0.0	*14.2*
SK	**0.0**	*0.0*	*0.0*	0.0	0.0	0.0	*0.0*
FI	**0.0**	*0.0*	*0.0*	0.0	0.0	0.0	*0.0*
EA	**5.1**	***4.9***	***0.2***	**3.4**	**1.7**	**0.1**	**5.2**
UK	**6.3**	*6.9*	*-0.7*	*4.4*	1.9	1.7	8.0

Sources: ESCB (for columns 1, 2 and 3) ; Eurostat (impact on EDP debt, last column)
(*) A debt is imputed to the net acquisitions of financial assets by government (equities, loans, debt securities,..)
The capital transfers to the banks are excluded from these transactions as they are recorded in (**)
(**) Should the interventions lead to a deficit, the balance is presented here with a positive sign (+) because it expresses a financing need related to these interventions
(***) The revenue of government excludes non-cash transfer imputed from financial corporations to central government
(****) In addition to the impact due to reclassification and other flows (i.e. change in liabilities valuation) this data set contains also in a few countries some miscellaneous financing cost or revenue not imputed in the debt for the EDP supplementary table

As illustrated by the above Table 2 (section A), the financial needs for government bailouts in the euro area are estimated at 5.1% of GDP for the whole period 2008-2013.

Government responses have varied greatly among euro area countries. Those requesting the most significant financial resources up to the end of 2013 - more than 3.5% of their GDP - are Ireland (37.3%), Greece (24.8%), Slovenia (14.2%), Cyprus (10.5%), Portugal (10.4%),

Germany (8.8%), the Netherlands (6.1%), Luxembourg (5.7%), Latvia (5.0%), Spain (4.9%) and Belgium (3.9%). In Austria, the financial needs associated with government interventions are valued at 3.1%. By contrast, four euro area governments did not require any interventions (Estonia, Malta, Finland and Slovakia). The remaining two euro area governments (France and Italy) conducted relatively minor interventions (less than 0.2% of GDP) to support their financial sector during the six-year period.

These financial needs were essentially expressed in the first three years 2008-2010 (4.9% of GDP), while additional needs were almost negligible (i.e. 0.2% of GDP) in the three subsequent years 2011-2013 for the euro area (sub-section 1). On the one hand, financial needs were high in the second period for the government interventions in Greece, Cyprus, Slovenia, Ireland and Portugal (over 6% of their respective GDP). On the other hand, these needs were broadly offset by the resources recovered through the unwinding of banking assets acquired by other governments of the three larger economies (Germany, the Netherlands and Belgium).

Compared with the euro area, the financial needs related to the UK government interventions to its financial sector were estimated at 6.3% of its GDP up to the end of 2013. This percentage is similar but just slightly higher and could be explained by the importance of its financial sector. However, as these interventions took place in the earliest period of the financial crisis, the unwinding phase in the UK is slightly ahead of the euro area with a decrease in financial needs of 0.7% of GDP in the period 2011-2013.

Table 2 shows the financial needs relating to euro area government interventions, broken down into two different types (or components) in sub-section 2:

(i) The financing need resulting from the net acquisitions of financial assets by governments amounted to 3.4% of GDP from 2008 to 2013 (column 2.1). This first component includes the net financing investments by governments in equity instruments, loans, debt securities or other assets acquired from the financial sector against the support in cash. It excludes capital transfers to the financial sector from the transactions. Governments' net transactions in financial assets are shown in detail in Table 3.

(ii) The financing need resulting from the non-financial balance of the interventions is estimated at 1.7% of GDP (column 2.2). From 2008 to 2013, the respective expenditure such as capital transfers to banks and interest payable for the financing were higher than the revenues such as interest receivable, dividends of acquired equities or fees from granted guarantees. Unlike the first component, this financial need is not reversible as it results

from cumulative past balances without any asset being held to offset it. This component is shown in detail in Table 4.

Finally, section B of the same Table 2 illustrates the impact of interventions on EDP gross debt, as recorded in the EDP supplementary table (based on the balance sheet). According to this approach, the impact on debt also includes the change in government liabilities due to the statistical reclassification of financial entities (sub-section 3). However, a reclassification is an administrative event unconnected with any transactions incurring financial disbursement by the government. The impact on EDP debt is also affected by "other flows" (changes in the balance sheet without transactions) related to e.g. liabilities denominated in non-euro area currencies.

All in all, the difference over the period between the financial needs of government interventions due to transactions in assets and the impact on EDP debt amounts to just 0.1% of GDP for the euro area. At country level, major differences (over 2% of GDP) between the two concepts are recorded for Ireland due to a substantial portion of the interventions being financed through the disposal of assets (then not included in the EDP debt) and for Austria (mainly due to a reclassification of financial entity).

Table 3 fully illustrates the net acquisitions of financial assets by euro area governments from 2008 to 2013 which amounted to 3.4% of GDP. Financial assistance measures to the financial sector come from both acquisitions of financial assets[14] estimated at 5.8% of GDP and the disposal of these financial instruments for 2.5% of GDP. The progression over the period shows a significant decrease in the net acquisition of financial assets. At the early stage of the financial crisis in 2008-2009, governments acquired financial assets worth up to 2.3% of GDP, while selling them for 0.6% of GDP. In the last two years under review, 2012-2013, new acquisitions of financial assets worth 1.4% of GDP were broadly offset by the sales of acquired assets, which came to 1.3% of GDP.

[14] Capital transfers to banks associated with the purchase of assets are excluded from this value.

Table 3
Acquisitions of financial instruments in Euro Area

(Expressed as a % of 2013 GDP)

		2008-2009	2010-2011	2012-2013	TOTAL
A) Net acquisitions of equity instruments		1.0	0.1	0.6	***1.7***
	Acquisitions of new equity instruments	1.3	0.3	0.8	***2.4***
(minus)	*Sales of equity instruments*	0.3	0.2	0.2	***0.7***
B) Net provision of loans		0.1	0.0	-0.1	***0.0***
	Provision of new loans	0.4	0.0	0.2	***0.6***
(minus)	*Repayment of loans*	0.3	0.0	0.2	***0.6***
C) Other net acquisition of assets		0.6	1.5	-0.5	***1.6***
	Acquisitions of new assets	0.6	1.7	0.4	***2.8***
(minus)	*Sales of assets*	0.1	0.2	0.9	***1.2***
TOTAL : Net acquisition of financial assets		1.7	1.6	0.0	***3.4***
	Acquisitions of financial assets	2.3	2.1	1.4	***5.8***
(minus)	*Sales of financial assets*	0.6	0.5	1.3	***2.5***

Source: ESCB

At financial instrument level, the emergence of an unwinding phase is compared. Interventions by governments through acquisitions of equity instruments (mainly in the form of recapitalisations) totalled 1.3% of GDP in the first period 2008-2009 and slowed significantly in 2010-2011, with a second wave of new acquisitions reaching 0.8% of GDP in 2012-2013. Sales of acquired equity instruments were roughly constant at a lower level of about 0.2% to 0.3% of GDP per period, leaving a significant net acquisition of equity instruments of 1.7% of GDP at the end of 2013. The net provision of loans is already balancing out at the end of 2013 with cumulative repayments of loans of 0.6% of GDP against the provision of new loans worth 0.6% of GDP. The shift to the unwinding phase appears more striking for the transactions in other financial assets (for instance, debt securities and undefined assets acquired by government through the defeasance structure). While the net acquisition of these assets reached a peak in 2010-2011, their sales by government exceed new acquisitions by 0.5% of GDP in the last period, 2012-2013.

As explained in section 2.4.1 earlier, financial support from some euro area Member States to others (either directly or via the EFSF) impacts both government EDP debt and government revenue and expenditure. This financial support is already included in the main body of Table 2. When the receiving country uses the funds for support to its financial sector, the financial needs associated with the respective interventions are already included in the ECB FAM Table 1. The source of financing is irrelevant to it.

Total loans guaranteed by euro area countries in the EFSF at the end of 2013 are about EUR 178 bn (i.e. 1.9% of euro area GDP, see Annex 2). Bilateral loans from euro area countries to Greece (part of the joint "Greek loan facility" scheme) amounted to EUR 53 bn (0.6% of euro area GDP). Assuming, for instance, that the debtors allocate one-third of this financing support to the bailouts of the banks, the impact on the EDP debt of the euro area as an aggregate would increase by about 0.8% of GDP (from 5.2% to about 6.0% of GDP) through the recognised impact on the guarantors (in the case of EFSF) and on the creditors (for bilateral loans).

4.3 CUMULATIVE DEFICITS AND ESTIMATED LOSS TO GOVERNMENTS DUE TO THE FINANCIAL BAILOUTS

The analytical framework can respond to this second key question "what is the current gain or loss (up to 2013) for euro area governments due to the interventions to support the financial sector?"

Table 4 answers the question of government cumulative deficits (or surpluses) due to financial assistance measures up to 2013, as follows:

Table 4
Cumulative impact on the government deficit due to support to the financial sector (until 2013)

(In ratio expressed as a % of 2013 GDP)

	Cumulated deficit ((+) /surplus (-)) (**) due to interventions				
	% of GDP	*from 2008 to 2010*	*from 2011 to 2013*	*A. Capital Transfers*	*B. Net miscellaneous financing cost or revenue (*)*
BE	**0.2**	*0.0*	*0.3*	0.9	-0.7
DE	**1.4**	*1.4*	*0.1*	1.8	-0.4
EE	**0.0**	*0.0*	*0.0*	0.0	0.0
IE	**25.2**	*22.4*	*2.2*	26.8	-1.6
GR	**12.1**	*-0.8*	*12.9*	14.6	-2.5
ES	**4.3**	*-0.1*	*4.5*	4.7	-0.4
FR	**-0.1**	*-0.1*	*0.1*	0.1	-0.2
IT	**-0.1**	*0.0*	*-0.1*	0.0	-0.1
CY	**0.1**	*-0.2*	*0.3*	0.5	-0.5
LV	**3.6**	*2.5*	*1.1*	3.8	-0.2
LU	**-0.1**	*0.1*	*-0.2*	0.0	-0.1
MT	**0.0**	*0.0*	*0.0*	0.0	0.0
NL	**0.7**	*0.5*	*0.2*	0.7	0.1
AT	**1.9**	*1.0*	*0.9*	2.3	-0.4
PT	**2.8**	*1.3*	*1.5*	2.3	0.5
Sl	**10.9**	*0.0*	*11.0*	10.9	0.0
SK	**0.0**	*0.0*	*0.0*	*0.0*	0.0
FI	**0.0**	*0.0*	*0.0*	0.0	0.0
EA	**1.7**	***0.8***	***0.9***	**2.0**	**-0.3**
UK	**1.9**	*1.9*	*-0.1*	*2.6*	-0.7

Sources: ESCB and Eurostat
(*) a negative sign (-) means that the revenues exceed the expenditures and then reducing the impact on deficit
(**) The revenue of government excludes non-cash transfer imputed from financial corporations to central government

(i) For the euro area as a whole, government cumulative deficits[15] up to 2013 due to the interventions are 1.7% of GDP. In the face of various waves of interventions since 2008, the impact on the government deficit for the euro area due to these bailouts is equally spread over the period with a cumulative impact of 0.8% of GDP for the years 2008-2010 and a cumulative impact of 0.9% of GDP for the years 2011-2013. The situation varies greatly among euro area countries. The UK government's cumulative deficit due to

[15] The ratio of cumulative deficits from 2008 to 2013 is expressed as a % of 2013 GDP so as to be consistent with the measurement of financial needs.

interventions was of a similar magnitude as measured in a comparable way (1.9% of GDP) but it derived only from the interventions in the first period (before the end of 2010).

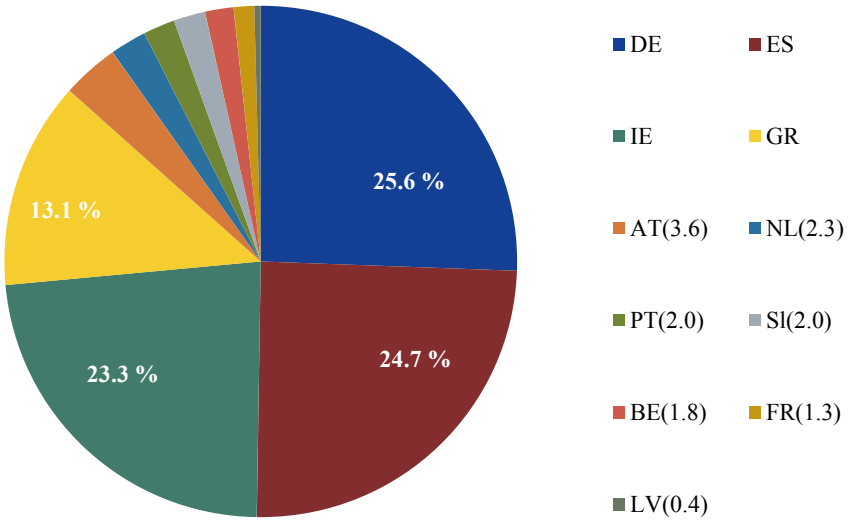
(ii) Cumulative deficits can be broken down into two different components:

a) Capital transfers from the government to the financial sector through the bailouts in the euro area came to 2.0% of GDP. Capital transfers might take various forms such as guarantee calls from a bank taken on by the government; a debt assumption or cancellation, an acquisition of impaired assets at a price above the market price or above all deficit-increasing capital injections *(see the methodological explanations in 2.3.1 and 2.4.3)*. This direct support to financial sector was particularly high (over 10% of GDP) in Ireland, Greece and Slovenia compared with the size of their economies as illustrated in Table 4. The substantial haircut on the Greek bonds, which were an important asset held mainly by Greek banks, contributed to the magnitude of the interventions.

The amount of the capital transfers from the government to the financial sector in the euro area corresponded to about Euro 200 billion up to the end of 2013. Chart 1 below illustrates this support, broken down by euro area country. In fact, the transfers from the German, Spanish and Irish governments to the banks together accounted for almost three-quarters of this sum (respectively 25.6%; 24.7% and 23.3%). The support of the Greek government represented 13.1% of the whole amount up to the end of 2013 and the remaining share granted by seven other governments (AT, NL, PT, SI, BE, FR and LV) in the euro area together only came to the same amount.

Chart 1
Breakdown by country of the capital transfers to the financial sector of the euro area

(In % of the total)

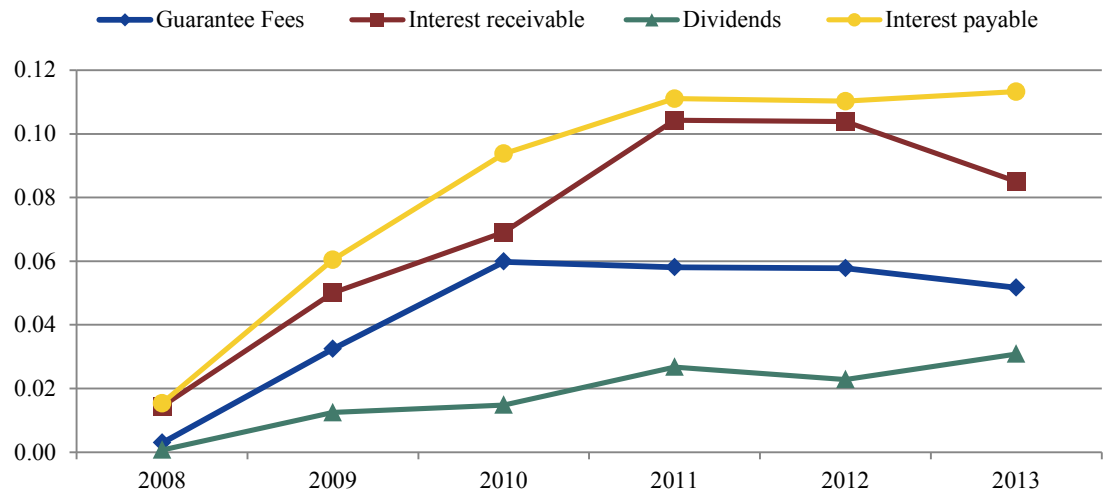


Source : ESCB.

b) Net miscellaneous indirect financing costs and revenues associated with the interventions have helped improve the cumulative fiscal balance of the euro area up to 2013 by 0.3% of GDP. Revenues generated by the interventions include guarantee fees, accrued interest on loans granted and dividends from acquired equity instruments. The financing cost includes the accrued interest payable on recognised debt. Chart 2 fully illustrates changes in miscellaneous financing costs and revenues for the euro area over the period. As revenues, cumulative guarantee fees came to 0.3% of GDP for the period with a peak in 2010. Cumulative interest receivable for euro area governments totalled 0.4% of GDP with a peak in 2011 and cumulative dividends came to 0.1% of GDP (growing over the period). As expenditure, cumulative interest payable came to 0.5% of GDP. This indirect balance is particularly significant for governments that have provided substantial support to their financial sector through financial assets or guarantees (Greece, Ireland, Belgium and Cyprus).

Chart 2
Changes in miscellaneous indirect financing costs & revenues for the euro area

(As a % of GDP)



Sources: ESCB and Eurostat.

For the whole non-financial cumulative balance, it turns out that governments in France, Italy and Luxembourg could even make a slight cumulative surplus (0.1% of GDP) as revenues generated by the interventions (mainly guarantee fees) were higher than expenditure.

In Table 5, a further step is taken towards the concept of "estimated (current) loss or gain" for the government up to 2013 due to assistance measures.

In order to estimate the loss or gain to governments up to 2013 due to assistance measures, information available on the holding gain/loss of the acquired assets is added to the cumulative deficit (or surplus) illustrated in Table 4 above. This information on holding gains/losses is derived from Eurostat's published EDP earmarked balance sheet of government interventions *(see part 2A.1 of Eurostat's statistical framework*).

Table 5
Estimated loss (gain) for governments due to assistance measures (up to 2013)

(In ratio expressed as a % of 2013 GDP)

	Estimated loss (+) or revenue (-) up to end 2013		
			Memo (*)
		Cumulated deficit (+)/surplus (-)	*Holding gains (-) / loss (+)*
BE	**0.2**	0.2	0.0
DE	**1.2**	1.4	-0.2
EE	**0.0**	0.0	0.0
IE	**26.7**	25.2	1.5
GR	**12.7**	12.1	0.6
ES	**4.2**	4.3	-0.1
FR	**-0.1**	-0.1	0.0
IT	**-0.1**	-0.1	0.0
CY	**10.6**	0.1	10.5
LV	**3.4**	3.6	-0.2
LU	**-0.3**	-0.1	-0.2
MT	**0.0**	0.0	0.0
NL	**0.2**	0.7	-0.5
AT	**1.9**	1.9	0.0
PT	**6.8**	2.8	4.0
Sl	**10.9**	10.9	0.0
SK	**0.0**	0.0	0.0
FI	**0.0**	0.0	0.0
EA	**1.7**	**1.7**	**0.0**
UK	**2.2**	**1.9**	0.3

Sources: ESCB; Memo: Eurostat (EDP supplementary table)
(*) The holding gains/loss of the acquired assets are based on the information released in the EDP supplementary table; The note indicates some caveats related to this balance sheet.

Table 5 shows that the total loss for euro area governments due to interventions does not differ from the cumulative impact on the deficit, as the holding loss on financial assets acquired through the interventions of some countries is offset by holding gains from other ones. Nevertheless, for the Cypriot government, the holding loss on equity instruments amounted to 10.5% of GDP due to the restructuring of Laiki bank. For Portugal, Ireland and Greece, the estimated holding loss amounted to 4.0%, 1.5% and 0.6% of GDP respectively. On the other hand, the Dutch, German, Latvian and Luxembourgish governments saw the value of their acquired financial assets appreciate - by 0.5% of GDP in the case of the Netherlands and by 0.2 % of GDP for the other three countries at the end of 2013.

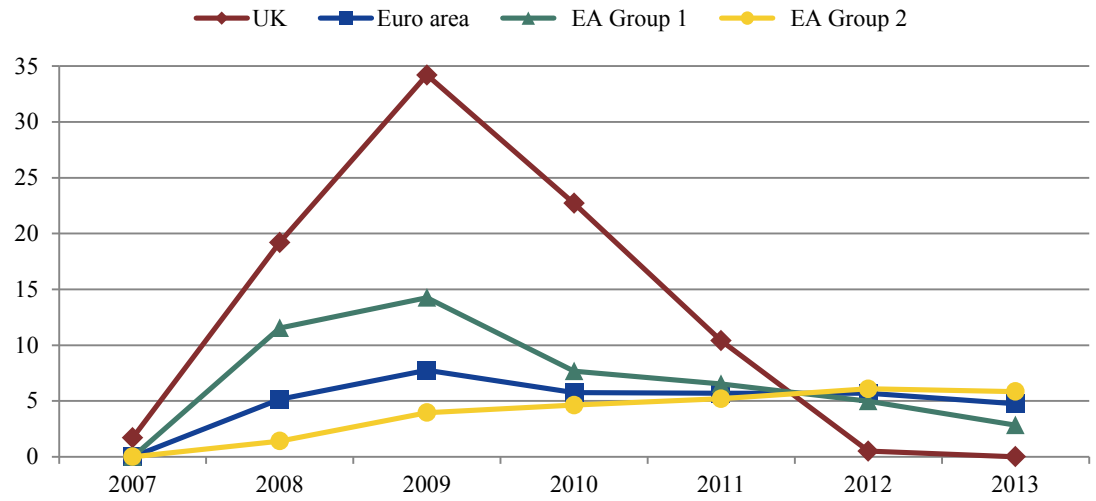
However, the way forward (in section 5) suggests improving the current statistical framework to enhance this information on holding gains/losses, which is derived from the balance sheet as published by the EDP supplementary table. So far, this latest indicator has to be analysed cautiously. First, many instruments are not valued at market value on the balance sheet. Second, the balance sheet is incomplete as it does not include transactions in deposits. Third, some potential transactions between the core government and a defeasance structure classified within government might modify this balance sheet irrespective of any holding gains/losses of acquired assets. Without appropriate adjustments, the information on holding gains/losses derived from the balance sheet could be misleading.

4.4 CHANGES IN CONTINGENT LIABILITIES

As illustrated below (Chart 3), the outstanding amounts of contingent liabilities (guarantees) of the euro area fall from 7.8% of GDP at end-2009 to 4.7% at end-2013. This decrease in contingent liabilities in the euro area appears to happen at rather a slow pace. By comparison, the UK government's contingent liabilities for assisting the financial sector were completely eliminated, from 34.2% of GDP at end-2009 (of which an amount worth 12.8% of GDP related to the Special Liquidity Scheme fully described under section 2.3.3) to nil at end-2013.

This indicator relating to contingent liabilities may contain a few heterogeneous guarantees (for instance, on bank liabilities or on bank assets) and it may not include all exposure the government might have towards the banks. Nevertheless, as each country records these contingent liabilities consistently over time, the trends could reflect changes in risk to the government associated with the financial sector.

Chart 3
Contingent liabilities



% of 2013 GDP	2007	2008	2009	2010	2011	2012	2013
UK	1.7	19.2	34.2	22.7	10.4	0.5	0.0
Euro area	0.0	5.1	7.8	5.7	5.7	5.7	4.7
EA Group 1	0.0	11.5	14.3	7.7	6.5	5.0	2.8
EA Group 2	0.0	1.4	4.0	4.6	5.2	6.1	5.8

Sources : ESCB and Eurostat

This general decrease in contingent liabilities suggests that the risk associated with potential new government interventions has reduced, on average, over time in the euro area. In the UK, the recovery phase seems to be well under way. The government is no longer granting guarantees to banks and the unwinding phase of selling the financial assets acquired in the initial phase of the crisis seems more advanced.

A breakdown of the Euro area into two groups refines the analysis. The first group includes the euro area governments which intervened at the earliest stage of the crisis by taking on the bulk of the losses associated with the bailout (i.e. Germany, Ireland, Latvia and the Netherlands, see Table 4). In this first group, the guarantees granted by governments to the banking sector dropped sharply from 14.3% of GDP at the end of 2009 to 2.8% at the end of 2013. The second group is composed of the other 14 euro area countries. For the same period, the guarantees granted to the banking sector went up from 4.0% of GDP at the end of 2009 to 5.8% at the end of 2013 (with a peak in 2012).

Among the driving factors of the trends of the second group there are countries with still-high levels of contingent liabilities or increasing levels over the period. For instance, in Spain,

Portugal and Italy, the outstanding amounts of contingent liabilities at the end of 2013 (9.1%; 9.5% and 5.0% of GDP respectively) is largely above the initial level in 2009 (4.7%; 4.9% and 0.0% of GDP respectively). In Greece, the situation is more acute with the level of guarantees provided to the banking sector reaching 28.0% of GDP by the end of 2013, although the peak was reached in 2011 with 37.0% of GDP.

All things being equal, it suggests that persistent difficulties might still exist in some financial institutions at the end of 2013, whose liabilities/assets need to be further guaranteed by governments. As a further step, it might be interesting to fully analyse the econometric link between changes in the level of guarantees granted by government and the occurrence of events impacting the financial needs of, or financial cost to governments.

The level and trends in guarantees act in this statistical analysis as an indicator of the remaining fiscal risk associated with the financial sector. A certain portion of these guarantees might be called (increasing both the financial needs and cost). In general, they signal potential difficulties of the financial entities that request them against payment of fees. The experts in the prudential supervision of credit institutions are competent to make a documented assessment in this field[16].

[16] On the basis of Article 127(6) of the Treaty on the Functioning of the European Union and of the Council Regulation (EC) 1024/2013 (the "SSM Regulation"), the ECB is responsible for specific tasks concerning the prudential supervision of credit institutions established in participating Member States. It carries out these tasks within a Single Supervisory Mechanism composed of the ECB and the national competent authorities.
https://www.bankingsupervision.europa.eu/home/html/index.en.html

5 THE WAY FORWARD AND FURTHER ACCOUNTING CHALLENGES

In the previous section, the main direct fiscal impacts of the bailouts for the euro area up to end-2013 have been presented. They represent a first interim report, since by 2014 only a few other financial assistance measures had been undertaken by euro area governments compared with previous years. The analysis of these fiscal impacts will be updated at a later stage when further annual data is available[17].

However, since end-2013, the phasing-out of the financial assistance measures seems to have been more prevalent than the development of new supports. In this closing stage, governments are mainly unwinding past interventions by selling the financial assets acquired in the initial phase of the financial crisis. It is expected that the financial needs related to the bailouts that came to around 5.1% of euro area GDP at end-2013 will decrease. These final financial needs could even turn out to be negative for countries where the capital gains from acquired assets would overtake past losses.

Similarly, the outstanding amounts of guarantees provided by governments to the financial sector are expected to decline further over time. As regards changes in the cumulative loss (estimated so far at 1.7% of GDP for the euro area as a whole), there might not be any further trends forecast. Past losses are mainly due to irreversible capital transfers to the banks. At the margin, other future revenues such as fees (on remaining guarantees), dividends, and interest payable or even special levies minus the recognised financing costs could slightly modify the picture.

Within the framework of the unwinding phase, the final recording of the direct fiscal impacts of the bailouts is facing several new challenges.

- The first challenge is caused by the asymmetry within the cycle of bailouts. When governments intervened at an initial stage, for instance, through recapitalisations or by temporarily acquiring a "bad bank", the respective transactions had defined values. By contrast, the unwinding of the operation is often spread over time and the final values related to the disposal of assets are for a long time undefined. As examples, unquoted shares reveal the holding gains or their true market values only when sold. Some loans are kept until maturity to optimise the return. "Bad banks" are often sold in multiple steps over some years. This scattered unwinding phase requires statisticians to trace or earmark the various financial assets bought initially by government. Unless unlimited resources are

[17] In the Economic Bulletin to be published by the ECB in 2015, there is expected to be an article that updates the fiscal impact of these interventions including those which took place in 2014.

available, the time horizon for measuring all the unwinding operations should also be defined.

- As a consequence, the statistical framework has to be adapted to measure precisely, during the chosen horizon, the holding gains and losses to the government. Section 4.3 illustrated that the information derived from the balance sheet in the EDP supplementary table is useful but incomplete. In order to avoid biased indicators[18] the balance sheet should include all the financial instruments used for the transactions. Compared to its status in the EDP notification in March 2014 of currency and deposits, the other accounts receivable and possibly the financial derivatives have to be added. Furthermore, the market value of instruments such as quoted shares always has to be updated (i.e. rather than keeping the historical value from the time of the initial transaction).

- Another challenge relates to the possible classification of units set up during bailouts, such as special vehicle entities or defeasance structures within general government. At an initial stage of the interventions, the general government was conducting transactions with units classified in another sector of the economy, i.e. in financial corporations. In national accounts, the transactions between units from different sectors or sub-sectors of the economy are recorded in the accounting system (in a double-entry system). Transactions between units within central government itself are, for instance, not recorded by statisticians, except where there are specific arrangements. In order to analyse the unwinding phase, potential transactions between the core government entities and financial entities classified within central government (for instance defeasance structures) should be traced further. This requires specific arrangements beyond the usual accounting practices for statisticians. The statistical frameworks as described under Section 3 (both from the ESCB and Eurostat) should ideally be enhanced to capture these transactions.

- One final challenge is to continue defining the scope of government interventions to the financial sector appropriate to this analysis in a changing environment since 2008. Indeed, the international authorities have taken corrective measures in response to deficiencies revealed by the financial crisis. For instance, the Basel III agreement, which was intended to strengthen bank capital requirements and financial stress tests conducted by the European Banking Authority, could also lead to recapitalisations. As such, the borderline between recapitalisations within the framework of government financial bailout and those

[18] In order to illustrate how an incomplete balance sheet might distort the indicator of holding gains or losses, the two balance sheets published by ONS (UK) may be compared: (i) a complete balance sheet and (ii) the partial one required by the EDP supplementary table *(see for instance the tables M9 released by ONS: http://www.ons.gov.uk/ons/dcp171778_260737.pdf)* . As a second example, category "D" in Table 4.3 for Portugal is also biased as the deposit is not recorded in the current balance sheet of the EDP supplementary table. The loans received that impact the debt have not been disbursed completely to the banks while the value of the remaining deposit is not available.

driven by supervisory authorities might be further defined. Another example is when some governments are raising special levies on the banking sector to partly offset previous support.

All in all, the unwinding phase of the interventions is bringing new accounting challenges regarding how to further measure the impacts of the bailouts. None of these challenges are insurmountable but they require specific resources in order to be achieved. There is a trade-off between the usefulness of future information in the successive steps of the unwinding phase and the cost of estimating them.

Based on experience since 2008, the optimal option would have been to merge, at an initial stage, the ECB and Eurostat statistical frameworks into a fully-fledged synchronised recording requirement. Table 2 on the impact on debt is a first step towards the reconciliation of the two frameworks. First, it identifies the impact on debt owing to transactions that require financing from government. These transactions are broken down into financial and non-financial ones. Second, the impact of other non-transactional events (without a financing requirement) such as reclassifications of financial entities and other flows (e.g. revaluations) should be identified separately.

With regard to the statistical frameworks presented under Section 3, the ECB framework could have been enhanced through a full delineation between financial and non-financial transactions. It implies a fuller identification of the heading “other measures”. The recording approach based on the acquisitions of assets is more informative than the one on debt as it further qualifies the nature of the bailout interventions. A balance sheet such as that in the Eurostat framework (EDP supplementary tables) is useful for monitoring the valuation of the acquired assets as long as, from the start, it includes all the financial instruments of the interventions. The shortcomings have been illustrated under Section 4.3. Finally, a closer analysis of the holding gains/losses of the financial assets acquired by governments based on the market value could have been considered. It assesses the losses/gains of governments due to financial assistance measures more quickly than waiting for the final disposal of the acquired assets.

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7 ANNEXES

ANNEX I
THE EXCESSIVE DEFICIT PROCEDURE (EDP)

The Maastricht Treaty signed in 1992 foresaw the creation of the Euro. It organised the way that multilateral fiscal surveillance would be conducted within the European Union. The provisions regarding the EDP are currently defined in the 2012 consolidated version of the Treaty on the Functioning of the European Union (TFEU).

The surveillance is based on the EDP, which sets out schedules and deadlines for the Council, following reports from, and on the basis of opinions by the Commission and the Economic and Financial Committee, on how to assess whether an excessive deficit exists in an EU Member State. The TFEU obliges EU Member States to comply with budgetary discipline by complying with two criteria: a deficit to GDP ratio and a debt to GDP ratio not exceeding reference values of 3% and 60% respectively, as defined in the Protocol on the EDP annexed to the TFEU.

Council Regulation (EC) No 479/2009, as amended by Council Regulation (EU) No 679/2010 and Commission Regulation (EU) No 220/2014, requires that EU Member States report EDP-related data to Eurostat twice per year at end-March and end-September. The data are reported in harmonised tables – EDP Notification Tables. These tables are designed specifically to provide a consistent framework, with a link to national budgetary aggregates and between the government net lending/net borrowing (B.9) and changes in government debt. EDP data should be fully consistent with GFS data supplied through the ESA 2010 Transmission Programme.

The reference values for government deficit and debt are based on concepts defined in the European System of Accounts (ESA 2010). (i) The surplus (+)/deficit(-) of the general government sector is referred to as the net lending (+)/borrowing(-) in the national accounts (B.9); (ii) Government debt is defined as the total consolidated gross debt at nominal value in the following categories of government liabilities (defined in ESA 2010): currency and deposits, debt securities and loans.

The Commission's reports and opinions are based on a technical assessment by the Directorate General Economic and Financial Affairs (DG ECFIN), using data reported by Eurostat. The European Commission is responsible for providing the data used for the EDP, and, within the European Commission, this task is undertaken by Eurostat. This is done on the basis of the GFS and EDP statistics provided by Member States. In addition, Eurostat is responsible, within the European Commission, for the statistical methodological basis on which the data for the EDP are compiled.

National accounts are an integrated accounting framework. This framework describes, in a structured way, the economic events of all units of the economy, grouped within sectors according to their characteristics. As such, it is the reference point for all macroeconomic statistics. The European System of National and Regional Accounts (ESA 2010) is the newest internationally compatible EU accounting framework that provides a systematic and detailed description of an economy.

The Manual on Government Deficit and Debt (MGDD), first published in 1999, provides guidance on the appropriate treatment of statistical issues raised in the European Union regarding government financial statistics. It complements ESA 2010 and is an important tool for statisticians and specialists dealing with public finance issues. It also aids understanding of the methodology applied to government finance data for the EDP.

ANNEX 2
EFSF DEBT REROUTED TO GUARANTORS

Rerouting of EFSF debt to guarantors

(at end of 2013) (*)

Country	in Euro Mio	% of GDP
Belgium	6,628	1.7
Germany	51,747	1.9
Estonia	458	2.5
Ireland	0	0.0
Greece	0	0.0
Spain	22,691	2.2
France	38,860	1.9
Italy	34,148	2.2
Cyprus	307	1.9
Latvia	0	0.0
Luxembourg	477	1.0
Malta	173	2.4
Netherlands	10,898	1.8
Austria	5,306	1.7
Portugal	110	0.1
Slovenia	898	2.5
Slovakia	1,895	2.6
Finland	3,426	1.8
Euro area	**178,022**	1.9

(*) related to loans from EFSF to Greece, Ireland & Portugal respectively for Euro 133.5 bn; 18.4 bn and 26.1 bn.
Source: ECB

ANNEX 3
OVERVIEW OF THE FINANCIAL ASSISTANCE MEASURES (FAM) UP TO END 2013

	Liquidity support above 3 % of GDP (*)	Existence of a defeasance structure (**)	Guarantees granted to financial sector (***)		GDP 2013 (****)
			above 4 % of GDP	*above 10 % of GDP*	
BE	**Yes**			**X**	€ 395,3 bn
DE	**Yes**	**Yes**	**X**		€ 2809,5 bn
EE					€ 18,8 bn
IE	**Yes**	**Yes**		**X**	€ 174,8 bn
GR	**Yes**			**X**	€ 182,4 bn
ES	**Yes**			**X**	€ 1049,2 bn
FR			**X**		€ 2113,7 bn
IT			**X**		€ 1618,9 bn
CY	**Yes**			**X**	€ 18,1 bn
LV	**Yes**	**Yes**			€ 23,2 bn
LU	**Yes**		**X**		€ 45,3 bn
MT					€ 7,5 bn
NL	**Yes**	**Yes**		**X**	€ 642,9 bn
AT	**Yes**	**Yes**	**X**		€ 322,6 bn
PT	**Yes**	**Yes**	**X**		€ 171,2 bn
Sl	**Yes**		**X**		€ 36,1 bn
SK					€ 73,6 bn
FI					€ 201,3 bn
UK	**Yes**	**Yes**		**X**	£ 1713,3 bn

Source : ESCB.
(*) Liquidity support to the financial sector through the acquisition of financial assets threshold of 3 % of GDP reached at any point in time during the period 2008-2013.
(**) Defeasance structure which acquired impaired assets and manages its disposal. Unit classified within General Government in Table 2 which is usually intended to be liquidated at term after unwinding phase.
(***) Guarantees to financial sector or other forms of contingent liabilities for the government. Threshold reached at any point in time during the period 2008-2013.
(****) GDP at 2013 (used as reference for the ratio in this paper).

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Abbreviations

CMFB	Committee on Monetary, Financial and Balance of Payments Statistics
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
ESCB	European System of Central Banks
ESA	European System of Accounting
ESM	European Stability Mechanism
ESS	European Statistical System
FAM	Financial Assistance Measures
GDP	Gross Domestic Product
MGDD	Manual of Government Deficit and Debt
SSM	Single Supervisory Mechanism
TFEU	Treaty on the Functioning of the European Union

Countries

BE	Belgium	LU	Luxembourg
DE	Germany	MT	Malta
EE	Estonia	NL	Netherlands
IE	Ireland	AT	Austria
GR	Greece	PT	Portugal
ES	Spain	SI	Slovenia
FR	France	SK	Slovakia
IT	Italy	FI	Finland
CY	Cyprus	EA	Euro Area
LV	Latvia	UK	United Kingdom

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