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Methodological note

CLARIFICATION ON THE TREATMENT OF GUARANTEES PROVIDED BY MEMBER STATES UNDER THE SURE INSTRUMENT

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Introduction

1. The European instrument for temporary support to mitigate unemployment risks in an emergency (SURE or Instrument)[1] is one of the measures adopted by the European Union to provide financial assistance to a Member State which is experiencing, or is seriously threatened with, a severe economic disturbance caused by the COVID-19 outbreak. It has been established by the Council Regulation 672/2020 and is aiming at allowing financial assistance of up to EUR 100 billion in the form of loans from the EU to the affected Member States. The Union financial assistance under SURE can be requested when a Member State's actual (and possibly also planned) public expenditure has suddenly and severely increased due to national measures directly related to short-time work schemes or due to similar measures aimed at addressing the adverse effects of the COVID-19 outbreak. The SURE financing should be primarily used to support short-time work schemes or similar measures and, where applicable and relevant, for health-related measures.
2. The Instrument shall complement national measures and shall be made available by means of a Council implementing decision adopted on the basis of a proposal from the Commission. The Member State concerned shall provide the Commission with appropriate evidence of the sudden and severely increased public expenditure.
3. The financial assistance under SURE should be financed by recourse to international capital markets. To that end, the Commission shall be empowered to borrow on the capital markets or with financial institutions on behalf of the Union, in order to ensure the financing of the SURE Instrument. The Commission shall establish the necessary arrangements for the administration of the loans with the European Central Bank. The beneficiary Member State shall open a special account with its national central bank for the management of the financial assistance received.

[1] Council Regulation 2020/672 of 19 May 2020: https://eur-lex.europa.eu/legal-content/AUTO/?uri=CELEX:32020R0672&qid=1594931057645&rid=1

4. The SURE Instrument is meant to be short-term and its initial validity should end on 31 December 2022. The Council, on a proposal from the Commission, may extend its validity each time for an additional period of 6 months. The loans granted, on the other hand, are expected to be repaid at the latest by 31 December 2053.

Government guarantees

5. The legislation foresees that Member States will provide irrevocable, unconditional and on-demand guarantees to the loans from the European Union budget. The minimum amount of committed guarantees of the EU MS is 25 billion EUR and amounts to 25% of the maximum amount of the loans which will be provided under SURE. Each participating Member State will sign a Guarantee agreement with the Commission. Each Member State will be liable for an amount defined in the guarantee contribution key[2], as a percentage of total Gross National Income of the Union. The Member States will be counter-guaranteeing the risk borne by the Union.
6. In case one Member State would not be able to meet its obligations under the SURE loan agreement and the Commission would not receive in full from the MS a scheduled payment, the Commission will make a demand under the guarantee agreement. An additional call on guarantee could be made if a Member State would not pay an amount called. The Commission would be allowed to make further demands on guarantors on a pro-rata basis, but the Guarantor shall not be liable to pay an amount in excess of its guaranteed contribution (see Annex I).
7. Calls on Member States guarantees will be made pro-rata according to the relevant share of each Member State in the Gross National Income of the Union. The Commission is expected, before calling a guarantee, to draw on the margin available under the own-resources ceiling for payment appropriations, to the extent that it is deemed sustainable by the Commission.
8. As for the defaulting Member State, after non-payment, the Commission will initiate recovery procedure either in the framework of the Loan agreement or in the framework of both the Loan and the Guarantee agreement. The recovered amounts will be reimbursed to the Guarantors.

Statistical analysis of MS guarantees issued under SURE instrument

9. As regards the statistical recording of the Member States’ guarantees issued for SURE, one of the factors to consider is the nature of the provided guarantee. The Sure guarantees do not seem to fulfil the definition of standardised guarantees, as they are not intended to be issued in big numbers and relatively small amounts, where future calls could be anticipated with enough certainty.
10. When analysing the SURE guarantees as one off guarantees, the important factor to consider is the existence of the near-certainty that these guarantees will be called. The triggering event in this context will be the default of a Member State on the repayment of the SURE loan instalment. The likelihood of such an event is not deemed high, in this context. The fact that, before a call on a guarantee is made, the Commission will draw on the margin available under the own-resources ceiling for payment appropriations to the extent that it is deemed sustainable by the Commission, decreases the probability of the call even more.

[2] Please see Annex I.

A parallel in this respect could be drawn to the loans given to the Member States in the context of the 2008 financial crisis under the Balance of Payments assistance, where there were no observed defaults and some of the loans were even repaid earlier. In addition, the rather low likelihood of a call is also supported by the fact that only 25% of the total loan portfolio is being guaranteed.

11. Following the reasoning above, it is appropriate to apply the general guarantee recording rules and to treat MS guarantees issued in the context of SURE instrument as contingent liabilities at inception. In case any guarantee calls would occur during the loan period, they would be treated as government expenditure (capital transfer expenditure), impacting the deficit/surplus of government. Similarly, any repayments should be recorded as D.9 revenue, positively impacting government deficit/surplus.

Annex I

Guaranteed Contribution

Member State	Amount (EUR)
Kingdom of Belgium	838 224 250
Republic of Bulgaria	107 466 500
Czech Republic	374 538 500
Kingdom of Denmark	563 837 750
Federal Republic of Germany	6 383 820 000
Republic of Estonia	48 716 500
Ireland	483 401 250
Hellenic Republic	342 618 750
Kingdom of Spain	2 252 890 750
French Republic	4 406 976 250
Republic of Croatia	95 693 500
Italian Republic	3 183 786 000
Republic of Cyprus	38 114 750
Republic of Latvia	57 070 750
Republic of Lithuania	83 953 500
Grand Duchy of Luxembourg	76 856 750
Hungary	249 596 000
Republic of Malta	23 044 250
Kingdom of the Netherlands	1 441 199 500
Republic of Austria	717 215 750
Republic of Poland	930 103 250
Portuguese Republic	365 571 000
Romania	393 384 250
Republic of Slovenia	88 126 500
Slovak Republic	173 516 250
Republic of Finland	431 740 250
Kingdom of Sweden	848 537 250
Total	**25 000 000 000**