



EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS)

19 March 2013

Decision of Eurostat on government deficit and debt

Clarification of the criteria to be taken into account for the recording of government capital injections into banks

1. Introduction

Many governments have been obliged to recapitalise banks in the financial crisis. In such a situation, it is necessary to decide whether a recapitalisation is to be treated as a ‘capital transfer’, impacting the deficit/surplus, or as a ‘financial transaction’, not impacting the deficit/surplus.

This Eurostat Decision is fully consistent with the European System of Accounts 1995 (ESA 95). The statistical methodology for the recording of capital injections by government is covered by part III.2 ‘Capital injections into public corporations’ of the Eurostat Manual on Government Deficit and Debt (MGDD). The MGDD complies with ESA 95. Furthermore, the Eurostat Decision of 15 July 2009 specifies ‘the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis’. On 18 July 2012 Eurostat produced a guidance note on ‘the impact of bank recapitalisation on government finance statistics during the financial crisis’ intended to summarise the above methodological rules.

In Eurostat’s 2009 decision it was indicated that ‘recapitalisations in form of preference shares will be recorded as financial transactions if EU State Aid rules on rates of return are complied with’. The rationale for this decision was that State Aid approval would give assurance that there is a sufficient guaranteed rate of return on the recapitalisation, thereby justifying its recording as a financial transaction.

In view of recent government injections into banks in several EU Member States, a need for a further clarification was identified on the criteria related to the classification of such capital injections, notably in the case of entities exiting the market. In application of Article 10 of EC regulation 479/2009, as amended, a consultation of the CMFB was requested to clarify this aspect.

2. Conclusion

Further to this consultation, Eurostat has decided that the simple compliance with State Aid rules, although providing some indication, cannot be used as the sole element for the classification of the transaction, especially when the entity will exit the market and not exercise future competitive activity. The essential criterion to be taken into account is whether or not the financial instrument used ensures a sufficient non-contingent rate of return. In the case this criterion is not complied with, the other criteria developed in part III.2 of the MGDD (among which the existence or not of participation of private shareholders, and of accumulated net losses) have to be applied.

This decision is consistent with the opinion of the Committee for Monetary, Financial and Balance of Payments statistics (CMFB), see annex. This decision complements the Eurostat decision of 15 July 2009 and will be reflected in the MGDD and in the guidance note of 18 July 2012.

ANNEX



CMFB opinion

regarding a clarification of the criteria used for the recording of capital injections

1. At Eurostat's request, the CMFB Chairman, with the assistance of the CMFB Executive Body, asked the CMFB Members on 26 February 2013 to state their opinion regarding a clarification of the criteria used for the recording of capital injections. The deadline for the replies was 12 March 2013. Twenty-five (25) national statistical institutes and twenty-four (24) national central banks from the EU Member States returned the questionnaire by the deadline. The ECB and the Norwegian and Icelandic statistical institutes also provided their opinions.
2. The consultation took its starting point in the national accounts recording of a capital injection by the Belgian and French governments into their joint bank Dexia.
3. The national accounts recording is laid down in Council Regulation (EC) 223/96 as amended (ESA-95). The framework for the recording of capital injections by government is covered by part III.2 "Capital injections into public corporations" of the Eurostat Manual on Government Deficit and Debt (MGDD). Furthermore, the Eurostat Decision of 15 July 2009 specifies "The statistical recording of public interventions to support financial institutions and financial markets during the financial crisis". A Eurostat guidance note of 18 July 2012 on "The impact of bank recapitalisations on government finance statistics during the financial crisis" summarises the rules set forth in these two documents. In order to ensure a harmonised application of the practices, Eurostat requested the CMFB to further clarify the criteria used for the recording of capital injections, in particular as regards the reference to EU State Aid rules and the relevance for ensuring that the recapitalisation ensures a sufficient fixed rate of return.
4. The CMFB agreed with a large majority that compliance with EU State Aid rules in some cases may not provide decisive evidence on a sufficient fixed rate of return, notably where the involved bank will exit the market and will no longer exercise competitive activity. In such case, the CMFB agreed that the other criteria of part III.2 of the MGDD (existence or not of participation of private shareholders, existence or not of accumulation of net losses) have to be used to determine the nature of a capital injection.
5. Furthermore, on the basis of the factual material provided in the background notes prepared by Eurostat and the Belgian authorities for this consultation, and taking into account all criteria of Eurostat's 2009 Decision and part III.2 of the MGDD, the CMFB agreed with a large majority that the 2012 capital injection into Dexia has the characteristics of a capital transfer.
6. This Opinion has been transmitted to Eurostat and will be kept in the records of the CMFB secretariat.

(Signed)

Joe Grice
CMFB Chairman

Newport, 18 March 2013