



31 July 2020

Decision of Eurostat on government deficit and debt

The statistical classification of the Hellenic Deposit and Investment Guarantee Fund (TEKE)

1. Introduction

This note provides Eurostat's decision on the statistical classification of the Hellenic Deposit and Investment Guarantee Fund, hereinafter referred to as TEKE. The main issue to be determined is whether the entity should be classified in the general government sector (S.13) or in the financial corporations sector (S.12).

This decision is made in accordance with the process defined by Article 10.2 of Regulation 479/2009, as amended, and after consultation of the Committee for Monetary, Financial and Balance of Payments Statistics (CMFB). The related CMFB opinion is included in annex.

2. The issue

TEKE is the operator of the deposit guarantee, investment compensation and bank resolution schemes in Greece. Since its creation in 1995, several amendments to the original legislation have taken place, amongst other, to implement the latest EU directives on deposit guarantee schemes and banking resolution. It is currently governed by Law 4370/2016, as amended.

TEKE has the following purpose:

- to pay compensation to depositors in the event that their bank is unable to repay the deposits;
- to pay compensation to investors in the event that their investment firm is unable to fulfil its obligations;
- to finance resolution measures of credit institutions.

Accordingly, it operates three different schemes: a Deposit Cover Scheme for the protection of depositors, an Investment Cover Scheme for the protection of investors, and, a Resolution Scheme for the financing of resolution measures. Participation in these schemes is compulsory. The assets of the three schemes are distinct from each other and constitute independent groups of assets, or 'segregated' compartments. Each of them can be used exclusively for the fulfilment of the purpose it serves; however, borrowing across compartments is possible.

The three schemes appear to share similar characteristics, notwithstanding some specificities of the Resolution Scheme linked to the resolution activity. Hence, this decision considers TEKE as a single entity, rather than each of the schemes separately.

The following issues relevant for TEKE are determined by Greek legislation transposing the EU Directives on deposit guarantee and banking resolution:

- The resources of TEKE, including the basis for calculating the regular contributions, the thresholds to be reached, the cap for supplementary contributions and the circumstances in which contributions may be reduced or suspended;
- The placement of available funds;
- The activation modalities of TEKE;
- The coverage of depositors and the mechanism and deadlines for payment.

TEKE is supervised by the Ministry of Finance of the Hellenic Republic. It is governed by a seven-member Board appointed and dismissed by the Minister of Finance. Its operational structure shall be determined by decision of the Minister of Finance (hereinafter, MoF).

TEKE is mainly funded by compulsory contributions from the participating institutions. The methodology for calculating annual regular contributions shall be determined by a decision of the MoF, following the recommendation of the Board of TEKE and the concurrent opinion of the Bank of Greece. Should the funds available to TEKE not suffice to cover compensation claims, extraordinary contributions shall be levied. The Board may also decide to borrow the necessary funds from the institutions participating in the scheme or from other sources. Loans can be guaranteed by the Greek State.

In case of activation of the Resolution Scheme, the claims per beneficiary are subject to a limit, defined by a decision of the MoF. In addition, in the case of the Resolution Scheme, the law foresees that the initial funds required can be provided in the form of a loan either by the Greek State or by other government entities, with the guarantee of the Greek State. The legislation also enables the Resolution Scheme to receive temporary loans from the other two schemes of TEKE. The terms for the provision of such loans and guarantees shall be determined by a decision of the MoF. The law further states that, in some cases where the available amounts to the Resolution Scheme would not be sufficient, the Hellenic Financial Stability Fund (HFSF, which is classified in the government sector) should grant a direct loan by decision of the MoF, upon recommendation of the Bank of Greece. In addition, the law imposed to the HFSF the obligation to finance the Resolution Scheme for a limited period after its creation.

Law 4335/2015 designated the Central Bank of Greece as the national resolution authority for credit institutions and the Hellenic Capital Markets Commission as the national resolution authority for investment firms. According to this law, however, the prior consent of the MoF is needed before taking resolution actions in a broad range of circumstances.

3. The decision

Based on the rationale provided below, **Eurostat has decided that TEKE must be classified in the general government sector**. Eurostat's decision is based on ESA 2010 chapter 20 on the general government accounts and on chapter 1.5 of the Manual on Government Deficit and Debt (MGDD), which includes a section for "national protection funds".

TEKE is a statutory protection fund, set up by the Greek government in the context of the transposition of EU Directives into national legislation. It carries out its functions for public policy purposes, its main function being to protect the savings of the general public and ensure financial stability. It is mainly financed by financial corporations' compulsory contributions defined in the legislation.

These elements lead to the conclusion that TEKE as a whole should be classified in the general government sector (regardless of which unit is managing the entity). The conclusion is deduced by applying paragraph 20.06-20.07 in ESA 2010 on government units. TEKE is indeed established by law to carry out government policy, by exercising authority over selected institutional units and redistributing income and wealth.

The provisions in MGDD chapter 1.5, which clarify that all statutory schemes should be classified within the general government sector also support this conclusion. This is the case even when the operator of the scheme or the host of the funds is the central bank or a financial regulator classified outside government, as these act then by delegation of government.

Notwithstanding the above, an analysis following the decision tree in diagrams 2.1 and 20.1 of ESA 2010 would lead to the same conclusion, as the entity is publicly controlled and non-market:

- TEKE is a public sector entity, which can be considered to be directly controlled by the Greek Government via excessive legislation in line with ESA 20.309 (h). Indeed, the general framework of TEKE is defined through legislation, and the entity is de facto acting as an auto-pilot. In addition, the Ministry of Finance has direct influence on the functioning of the entity, among other, acting de facto as a last resort lender and as a guarantor.
- Autonomy of decision is not a crucial factor for the sector classification of a unit if it is established that the unit is controlled by government and non-market.
- TEKE is a non-market unit because it is financed mainly by compulsory payments that are not based on the underlying risks and are therefore to be considered as taxes in national accounts. These payments cannot be considered as insurance premiums or other sales.
- Indeed, the activity to reimburse depositors in case of need and to liquidate distressed banks efficiently in order to avoid systemic risk cannot be assimilated to market insurance. Deposit insurance activities are outside the capacity of any operator in the market and should be considered either as non-insurable risk or as insurable risk of a non-market nature. Resolution activities are also not market activities, involving actions outside normal liquidation procedures and significant redistribution of wealth (e.g. deciding which creditor would bear the brunt of the resolution).
- TEKE does not carry out other financial intermediation either, as it keeps assets solely for the purpose of emergency payment and not for the purpose of conducting some kind of transformation of funds for a fee. TEKE is also not a financial auxiliary, as it does not sell market services to banks and has a balance sheet of large size.

Annex



CMFB opinion on the statistical classification of the Hellenic deposit and Investment Guarantee Fund (TEKE)

1. Pursuant to Article 9(1) of Regulation 549/2013 EU on the European system of national and regional accounts in the European Union, the National Central Bank of Greece requested the opinion of the CMFB on the statistical classification of the Hellenic deposit and Investment Guarantee Fund (TEKE). The request for an opinion of the CMFB came after the national statistical institute of Greece (Elstat), also acting on the advice of Eurostat, classified TEKE into the general government sector. The National Central Bank of Greece as well as Eurostat provided the CMFB with in-depth documentation, supporting their respective views on the matter.
2. The Chair of the CMFB, assisted by the Executive Body, launched a consultation of the CMFB members on 13 December 2016. The deadline for replies was 13 January 2017. All twenty-eight (28) national statistical institutes of the EU as well as twenty-six (26) national central banks returned the questionnaire. Eurostat, ECB DG-S and the statistical institutes of Norway and Switzerland also returned the questionnaire. A total of fifty-eight (58) institutions provided a response.
3. In the CMFB consultation, the members were provided with two options for the statistical classification of TEKE.
4. Under option 1, TEKE is considered as carrying out its functions for public policy purposes. It is mainly financed by compulsory payments from financial corporations which are to be treated as taxes. TEKE should therefore be classified in the general government sector (S13).
5. Under option 2, it is argued that TEKE consists of a resolution fund, a deposit guarantee fund and an investment guarantee fund controlled by the resolution authority, i.e. the central bank. TEKE should therefore be classified in the (public) financial corporations sector (S12).
6. A statistical classification in S13 received a large majority of the expressions of opinion from the CMFB members. Members in favour of option 1 mainly reasoned that TEKE is a non-market producer, the fees collected are not derived from the underlying risks but are compulsory contributions and it acts with little autonomy (auto-pilot), under the direct control of the Ministry of Finance which has direct influence on its functioning and acts as the guarantor.
7. A minority of members supported a classification in S12. They primarily reasoned that the general government is not TEKE's parent institution as only one in seven board members is appointed by government, TEKE has sufficient autonomy of decision, the central bank is its controlling authority and one of the three funds is a market producer.
8. Based on the outcome of the consultation, the CMFB expresses the opinion, reflecting the views of a large majority of its members, that the Hellenic deposit and Investment Guarantee Fund (TEKE) should be classified in the general government sector (S13) as defined in the ESA 2010 accounting framework.
9. In addition to the publication of this opinion, all the anonymised answers to the questionnaire will be transmitted to the CMFB Members and will be kept in the records of the CMFB secretariat.

(Signed)

Kirsten Wismer
CMFB Chair
Copenhagen, 23 January 2017