Eurostat Guidance Note

The statistical recording of public interventions to support financial institutions and financial markets during the financial crisis

1. Context

The ongoing financial crisis, which first affected EU countries in the summer of 2007, has been addressed by EU governments in interventions of unprecedented magnitude. These interventions have evolved in their nature over time, and have comprised both individual rescue operations for failing financial institutions and systematic programmes of support for financial institutions and markets more widely.

Eurostat has therefore taken a Decision on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis. In taking this decision it has analysed the particular circumstances of the financial turmoil, notably the high level of uncertainty over asset values and the unquantifiable nature of risks that government is taking on.

The Eurostat Decision is intended to provide a general framework of statistical rules, fully consistent with the European System of Accounts 1995 (ESA 95). Individual national interventions often have specific characteristics which must be carefully analysed in the context of this general framework. The Decision covers the main forms of public intervention observed to date, however it is possible that the Decision will have to be supplemented if new forms of public intervention emerge in the coming months.

This technical note is intended to elaborate on the Eurostat Decision, and to provide statisticians with further guidance on the practical recording of public interventions.

It is important to underline that the Eurostat Decision applies exclusively to activities undertaken within the context of the financial crisis, that is from the summer of 2007 until the point where Eurostat informs Member State authorities that (for statistical purposes) the financial crisis can be assumed to have ended.

2. Applicable ESA 95 rules

It is helpful to recall again the key rules which are to be applied from ESA95 in the context of the Decision:

***Substance over form**:* National Accounts principles imply that the accounting treatment of operations should reflect economic reality and not the legal or administrative framework in which those operations are carried out. This may lead to the need to record operations in the national accounts in a different way from the way in which they are recorded in other accounting frameworks, for example as set out in ESA 95 paragraphs 1.38 to 1.41 which refer to the re-routing, partitioning and recognising the principal party to transactions.

***The valuation of financial transactions**:* In principle the ESA 95 provides for financial transactions (which do not impact on the government deficit) to be recorded "*at the* *transaction values, that is, the values in national currency at which the financial assets and/or liabilities involved* are created, liquidated, exchanged or assumed between institutional units, or between them and the rest of the world, on the basis of commercial considerations only" (paragraph 5.134). However it is acknowledged in paragraph 5.136 that "*in cases where the counterpart transaction of a financial transaction is, for example, a transfer and therefore the financial transaction is undertaken other than for purely commercial considerations, the transaction value is identified with the current market value of the financial assets and/or liabilities involved*".

***Contingent liabilities**:* ESA 95 paragraph 5.05 explains that "*Contingent assets are contractual arrangements between institutional units, and between them and the rest of the world, which specify one or more conditions which must be fulfilled before a financial transaction takes place. Examples are guarantees of payment by third parties, letters of credit, lines of credit, underwritten note issuance facilities (NIFs) and many of the derivative instruments. In the system, a contingent asset is a financial asset in cases where the contractual arrangement itself has a market value because it is tradable or can be offset on the market. Otherwise, a contingent asset is not recorded in the system."* Usually, guarantees granted by government are not tradable.

***Classification of bodies**:* ESA 95 chapter 2 explains the national accounting rules for the classification of bodies. In particular it defines when an institutional unit should be recognised (paragraphs 2.12 to 2.16) and the characteristics of general government units (paragraphs 2.68 to 2.70). ESA 95 chapter 3 (paragraphs 3.27 to 3.37) sets out the rules for determining if a unit is undertaking predominantly market or non-market activities. It is also important to note that national central banks are not classified in the general government sector, but with financial corporations (paragraphs 2.45 to 2.47).

The analysis also draws upon the existing guidance set out in the ESA95 Manual on Government Deficit and Debt (MGDD), notably with regard to classification of units, financial defeasance and the recording of guarantees.

3. Recapitalisation operations

The issue

Recapitalisation occurs when an equity instrument issued by a financial institution is acquired. This may involve a range of instruments, including ordinary shares, preference shares and hybrid debt-equity instruments.

Decision

Recapitalisations in the form of ordinary shares (and conversions of preference shares) will be examined to determine if they are made in line with the prevailing market price, in line with ESA95 paragraph 5.136. Any government payment above the prevailing market price of the equity, or an equivalent valuation (see section 6 below), would require the recording of government expenditure (capital transfer) - for the difference - to the unit selling the equity.

Recapitalisations in the form of preference shares will be recorded as financial transactions if EU State Aid rules on rates of return are complied with. Where EU State Aid rules are not complied with, the injections should be partitioned into a financial and a government expenditure component, the latter representing the difference between the actual rate of return and the appropriate EU State Aid rate of return, over the expected life of the instrument.

Analysis

Governments may purchase newly-issued equity of public or private banks, in order to boost the banks' capitalisation ratios. Governments might also purchase other forms of assets, such as subordinated debt or hybrid debt/equity instruments, which can be assimilated to equity.
It is important to determine unambiguously the statistical nature of the tier 1 and tier 2 capital instruments[1] that are often acquired by government, sometimes termed 'preference shares' or 'non-voting shares' or 'preferred shares'. Treatment in national accounts as securities other than shares or loans might be considered in some circumstances, where the definitions of these financial instruments apply (see chapters 5 and 6 of ESA95).

With regard to injections in the form of new quoted equity (usually in the form of ordinary shares), ESA95 rules lead to the conclusion that a government payment above the prevailing market price of the equity, or an equivalent valuation, would require the recording of a capital transfer from government to the units selling the equity. It would be expected that the market price, or equivalent valuation, would take into account past losses, whether accumulated or exceptional. This guidance also applies to the situation where existing unquoted instruments (commonly preference shares) are converted into quoted ordinary shares, or when the government acquires quoted equity as the underwriter of a share issue by a financial institution.

With regard to injections in the form of new unquoted equity (which might also include the case where the equity will be quoted but has not yet been valued), many of the injections have taken place in the form of preference shares that pay a fixed income and may (or may not) provide for a participation in the distribution of the residual value on dissolution of the corporation.

The MGDD rules on capital injections into public corporations point to the role of accumulated losses, and the prospects for future returns, in their statistical classification.

Where a government makes an injection into a financial institution which has shown losses over more than one accounting period, the injection should be considered as a capital transfer (expenditure of government). However a one-off exceptional loss should not be considered, in the context of the financial turmoil, as being statistically relevant for the classification of a capital injection.

The expected return on an investment is a crucial indicator to test whether the government acts similarly to a private investor, so that the capital injection can be treated as an increase in equity. With respect to a "forward-looking approach" (expectation of a return) to the statistical classification of capital injections, the European Commission’s State Aid authorities have established some thresholds for the rate of return at which government is considered not to be providing state aid, based on recommendations of experts in the field. The State Aid rules, defined with the aim to prevent distortions of competition within the EU, represent a reasonable level of return for a conventional approach in statistics – government injections at

[1] The precise definitions of these terms are explained in Basel II: International Convergence of Capital measurement and capital standards.

or above the prevailing levels for State Aid could therefore be considered as satisfying the requirement of a sufficient rate of return.

In the event that the rate of return falls below State Aid levels, a partitioning of the injection will be needed into a non-financial and financial element, based on the difference of the required rate of return and the relevant State Aid level.

4. Lending

The issue

Lending occurs when a loan is granted to a financial institution.

Decision

Lending is to be recorded as a financial transaction when granted, if there is no written or other irrefutable evidence that the loan will not be repaid. Any subsequent cancellations or forgiveness of loans will lead to the recording of government expenditure (capital transfer) for the full amount of the loans involved.

Analysis

The MGDD (part II, chapter 3) specifies that a government loan to a public corporation would usually be recorded as a financial transaction. However it specifies that if the government grants a loan to a loss-making <u>public</u> corporation, in a context where it is very likely that the corporation would not be in a position to repay the loan, the transferred funds are viewed as capital transfers (with an impact on the government deficit). The conditions under which this applies are that the corporation has made recurrent losses and there is no expectation of restoring profitability before the maturity date of the loan.

However, caution is needed when recording any capital transfer at the time of granting of loan during the period of financial turmoil - such a recording should only be made where the evidence is irrefutable or documented.

The same statistical rules should apply to recording of government loans to public and private financial corporations.

5. Guarantees

The issue

Guarantees provide an assurance that should a debtor be unable to meet its liability, the guarantor will meet the liability. In the context of financial institutions this includes guarantees on deposits and on borrowing. Guarantees might also be extended to the value of assets in some circumstances.

Decision

Guarantees are contingent instruments with no direct impact on government accounts when they are granted, unless there is written or other irrefutable evidence that they will be called.

In all cases, calls on government guarantees relating to the financial turmoil, whether met by cash payment or assumption of debt, are to be recorded as expenditure of government (capital transfers).

Any guarantee fees collected are to be recorded as revenue of government, accrued across the period to which they relate. Where guarantee fees are paid by financial institutions voluntarily, they are to be recorded as a sale of services by government. Where guarantee fees are to be paid on a compulsory basis, they are to be recorded as other taxes on production.

Analysis

In principle the treatment of a guarantee in national accounts is the same, irrespective of whether it is a guarantee on bank deposits, on assets, on inter-bank lending, or a guarantee on general bank debts.

ESA95 (paragraphs 5.05 and 7.22) specifies that a guarantee is a contingent financial instrument that is not recorded in the national accounts system. Provisions established to meet future guarantee calls are not recorded in national accounts according to ESA95 4.165f. The recording of a call on a guarantee will usually result in the government making a payment to the original creditors or assuming a debt. In both cases, a capital transfer will be recorded from government for the amount called. These rules are not called into question by the situation of financial turmoil.

The MGDD (part II, chapter II.4.3) describes special cases when a guarantee is considered "systematically exercised" at issuance through the certainty that government is committed to meeting future payments of interest and principal on the debt. Three specific conditions are mentioned there: (a) the law authorising issuance of the debt by the corporation specifies the government's obligation of repayment; (b) the budget of the State specifies each year the amount of repayment; (c) the debt, issued by the corporation, is systematically repaid by the State (interest and principal). The liability, with an accompanying capital transfer, must then be recorded directly – as soon as at issuance in the government financial account and balance sheet. This guidance should also be applied in cases of financial turmoil.

As for loans, there should be a caution in recording any imputed call on a guarantee during the period of financial turmoil – such a recording should only be made where the evidence is irrefutable or documented.

Fees paid to government for the guarantee schemes observed during the financial turmoil should be recorded as payments for a service, unless the fees are compulsory (in which case they should be recorded as other taxes on production). The fees should be recorded on an accrual basis across the period for which the guarantees are in operation.

6. Purchase of assets and defeasance

The issue

Purchases of existing financial assets commonly involve equity and securities other than shares with the acquisition of loans taking place in some cases. The term "defeasance" is used to describe a situation where government buys directly impaired assets from financial institutions, or creates a public body to undertake this task.

Decision

The purchase by government of financial assets (notably securities other than shares) will be recorded as financial transactions if they take place at or very close to a market price, which may be determined (directly or by proxy) by reference to the following steps:

> Step 1. Is the market adequately operating? Examples of features which would indicate this are a balance of buyers and sellers, market clearance, sufficient market volumes to establish a market price, smoothly evolving prices and/or an absence of large bid/offer spreads.
>
> > If yes, the appropriate valuation is the market value. If no, continue to step 2.
>
> Step 2. Is the conduct of the transaction undertaken in such a way as to determine a market value? An example of this would be a conventional auction with many bidders.
>
> > If yes, the amount paid is considered to be a market value. If no, continue to step 3.
>
> Step 3. Is the price paid greater than the carrying value of the asset in the business accounts of the seller? The conditions for this step are that the carrying value should be based on suitable business accounting principles and should correspond to a point in time reasonably close to the time of the transaction.
>
> > If yes, impute a capital transfer for the difference between the price paid and the book value.
> >
> > If no, but the conditions set out above for step 3 are met, the amount paid is considered a market price. If these conditions are not met, continue to step 4.
>
> Step 4. Is the price paid based on a demonstrably independent valuation founded on a market-based technique, or is at or close to a recent (possibly average) price observed in an adequately operating market for the same or very similar securities?
>
> > If yes, the price paid is considered to be a market value.
> >
> > If no, provisionally record the price paid as equivalent to the market value, then continue to step 5.
>
> Step 5. Has the asset been sold or re-valued in the year following the transaction?
>
> > If yes, analyse to see if the sale value can be considered as arising from a market under similar conditions as the original purchase, or if the accounting revaluation makes an assumption of markets under similar conditions as the original purchase. If this is the case, impute a capital transfer (at the moment of sale or revaluation) where the sale or new carrying value is lower than the original payment to purchase the asset.

If no, keep the existing recording from step 4 above.

Step 6. Has the asset been sold at a later stage following the transaction?

If yes, and if steps 3-4 above were used to determine the initial value at time of purchase, compare the sale value with the original purchase price of the assets. Where the original price paid was higher, impute a capital transfer for the difference at the time of sale.

If no, keep the existing recording from steps 1-4 above.

Analysis

Commonly, financial institutions in difficulties hold a portfolio of impaired assets whose market value may or may not be determinable. An operation may be conducted to move these assets into a separate body in exchange for a payment (perhaps in the form of a swap arrangement), thereby "cleaning" the bank's balance sheet. This is termed in the MGDD as "financial defeasance" (see part II chapter II.5.2, which is in the process of update by the MGDD Editorial Committee). The statistical classification of the defeasance body, if one is created, is an important factor in determining the potential impact on the government account.

With regard to the purchase of loans, ESA95 specifies that loans are to be recorded at nominal value in national accounts balance sheets. The MGDD (section II.5.2) makes the assumption that loans are sold by financial institutions at their redemption value, however it specifies that "if there is reliable information that these loans are irrecoverable (fully or for nearly their total amount)" then they should be written off by the financial institution before they are sold to the defeasance body, and therefore the operation should be partitioned into financial and non-financial transactions (the latter reflecting the difference between the price paid and the value of the loans after write-off) when they are purchased by the defeasance body.

Valuation is a key factor in the recording of purchases of assets. ESA95 (para 5.134) says that "financial transactions are to be recorded at transaction values" and (in para 5.136) that where the "financial transaction is undertaken other than for purely commercial considerations, the transaction value is identified with the current market value of the financial assets and/or liabilities involved". This means that if government has paid more than the market price for the assets, by a non-negligible amount, then a government expenditure (capital transfer) is to be recorded for the difference between the two values at the time of purchase. Nevertheless, this might be difficult or impossible to determine where no reliable market price exists due to financial turmoil, and therefore statisticians would need to exercise caution in the recording of operations in these conditions.

The Eurostat Decision sets out a series of steps to follow, in the case of purchase of securities other than shares, and it is important that the correct order of steps is followed.

With regard to Step 3, it is important to underline that "suitable business accounting principles" refer to a "fair valuation" which has been undertaken in line with international financial reporting standards, or equivalent national standards; it would not be appropriate to take an accounting valuation based on a historic cost basis, where no account has been taken of market movements.

The purpose of Step 6, which is to be activated if steps 3 or 4 have been applied and the assets are sold more than one year after their initial purchase, is to provide the statistician with further evidence of the soundness of the valuation process in steps 3 and 4. Where the statistician concludes that the original valuation was unsoundly based and was too high, a capital transfer, equivalent to the sale value minus the original purchase price, is recorded at the time of sale from government to the unit which sold the assets to government. A capital transfer to government should not be recorded if the value at which the asset is sold by government is higher than the value at which it was purchased by government.

7. Exchange of assets

The issue

Exchange of assets occurs when an asset is exchanged for another (different) asset, commonly over a fixed period of time. Examples include repurchase agreements and securities lending, but may also encompass other types of arrangement. This type of operation is commonly made to improve the liquidity situation of one party to the exchange.

Decision

The government securities exchanged in temporary liquidity schemes, where the securities will return to government at a pre-determined future date in a short period of time (and the risk of loss is expected to be small), are recorded as a securities lending transaction (i.e. they remain under the economic ownership of government and do not form part of government consolidated gross debt). This holds for both schemes directly between the government and financial institutions, and for schemes conducted via the National Central Banks.

Where the liquidity scheme is of indeterminate or not short duration and/or where the risk of loss is not expected to be small, the government securities concerned will either be considered as not remaining under the economic ownership of government (schemes operated via central banks) or recorded as back-to-back repurchase agreements (schemes operated directly by government). In both cases, government consolidated gross debt would be higher by the value of the securities concerned.

General liquidity operations carried out by national central banks are to be recorded in the accounts of the central banks, which are classified within the financial corporations sector in national accounts.

Analysis

A conventional issue of government securities would be recorded in the financial account in the F.33 transaction category; as a government liability and an asset of the holder. The accounts would be balanced by a transaction in cash (F.2). However, when the securities issued are to be used in exchange of assets operations, and therefore legally pass out of the ownership of government, the key question here is whether the transactions should have any implications for gross government debt.

ESA95 paragraph 5.64a states that AF.332 long-term securities "lent or subject to repurchase does not change balance sheet and remains classified in AF.332." This is included in the description of the AF.332 category because these are the types of securities usually associated with such an exchange but as other types of assets can be used the guidance can be extended to also cover AF.331 short-term securities. Thus the statistical recording of standard repurchase agreements is clear.

While the classification category of the government securities will indisputably remain as AF.331 if recognised, the guidance suggests that under normal circumstances the asset holding of the securities does not change to the central bank or other counterparty sub-sector's balance sheet. There are however arguments, explored later, that consider the situation to be different from a conventional stock-lending or repo transaction.

Eurostat's *Manual on Government Deficit and Debt (MGDD),* Part V Section 3 states:

> Securities lending without a flow in cash (generally without collateral and for very short maturity) should not be treated as a repurchase agreement. This case is not specified in ESA95 (or SNA). It is in fact a kind of "loan in materials" that is not recognised as a financial instrument. ESA 5.69 specifies that there is a loan "...when creditors lend funds to debtors".

Nevertheless, operations in the period of financial turmoil involving government securities have certain characteristics which are not observed in 'regular' securities lending operations, most notably the long periods over which assets are exchanged, the fact that such securities lending involves securities issued by the lender (rather than securities issued by third parties), and that the transaction is often subject to a government guarantee (if carried out through an intermediary institution).

Therefore the recording of securities issued in these types of securities can be seen in two different lights and, for the sake of consistency of recording, it is necessary to develop a general recording convention. Since the issues of length of the operation and allocation of risks, the convention adopted is that exchange of government securities is recorded as a securities lending transaction (i.e. they remain under the economic ownership of government and do not form part of government consolidated gross debt) when the liquidity scheme is temporary and when the risk for government that the securities will not be returned is small (usually due to arrangements in place for the valuation and substitution of the assets provided in exchange for the government securities).

Where the liquidity scheme is not temporary or the risk for government is not considered to be very small, the treatment of the government securities issued varies depending on the type of operation involved:

a) When the operation is conducted via an intermediary (for example, the central bank), so that government securities are provided to the intermediary, the government securities concerned should be considered as having changed economic ownership from the government to the intermediary. This means that they are considered as assets of the intermediary, and therefore should no longer be consolidated within general government consolidated gross debt.

b) When the operation is directly between government and the financial institutions covered by the scheme, the government securities remain as the assets of government, however the operation is considered as to be recorded as back-to-back repurchase operations (ie. a repurchase agreement for the government securities and a matching repurchase agreement for the financial institution's assets which are being exchanged). In National Accounts the underlying asset in a repurchase agreement is deemed not to have been sold, and a loan or a deposit is to be reported (the latter in the case of a short-term repurchase agreement where an MFI is the seller). This has the impact in the government accounts of recording a financial liability (part of government consolidated gross debt) and a financial asset.

The term "short duration" is used in the Eurostat Decision for schemes in a different sense from its existing use in financial accounts statistics (where the borderline between short and long term financial instruments, for example the maturity of securities, is one year). It is used in the Eurostat Decision to reinforce the idea of a temporary scheme, where the initial issuance of the stock of government securities involved takes place only during the period of the financial crisis, rather than to denote a particular length of time. That the stock of government securities may later be effectively rolled over (either directly or through the use of replacement securities) and this rollover may occur outside the period of the financial crisis is not important. However, if the scheme allows new exchanges to occur, or increases to the level of assets exchanged, outside the period of the financial crisis then the government securities used are included in government debt.

8. Classification of certain new bodies

The issue

New bodies may be created by government, by public corporations or by private corporations, to address specific aspects of the financial turmoil.

Decision

Government-owned special purpose entities, which have as their purpose to conduct specific government policies (for example with regard to defeasance or recapitalisation) with no autonomy of decision, are to be classified in the general government sector.

Majority privately-owned special purpose entities which are established with a short temporary duration (their existence would be for a short period of time strictly linked to the actual duration of the financial crisis) and have a sole purpose to address the financial crisis, even if they receive a government guarantee, are to be recorded outside the general government sector if the expected losses that they will bear are small in comparison with the total size of their liabilities. This latter condition may be determined, for example, by the extent and form of collateral arrangements which are in place.

Analysis

It is important to recall the definition of the general government sector in national accounts (see ESA95 paragraphs 2.68-2.74). The Central Bank is not classified to the general government sector (but rather as a financial corporation in sub-sector S.121). If a financial institution is nationalised, it may still need to be classified within the financial corporations sector according to ESA95 rules.

Where an *existing public body*, classified outside the general government sector, undertakes an operation relating to exceptional situations like a financial turmoil, it is unlikely that this would call into question its sector classification, unless the operation is large and completely different from the body's existing remit.

Where a *new body* is created (which is the case in many EU countries), the sector classification of the body must be determined. In particular it must be assessed whether or not this body is a separate institutional unit and, if so, whether its activities are of a market or non-market nature. These aspects are treated in ESA95 Chapters 2 and 3, and also in the first part of the MGDD.

The identification of an institutional unit in the national accounts requires that the body has "autonomy of decision" in respect of its principle function and either keeps a complete set of accounts or it would be possible and meaningful, from both an economic and legal viewpoint, to compile a complete set of accounts if they were required, as described in ESA95 paras 2.12 and 2.13. Autonomy of decision in respect of its principal function is defined in ESA95 para 2.12 and applies if the unit is:

a) entitled to own goods or assets in its own right; and

b) able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law; and

c) able to incur liabilities on its own behalf, to take on other obligations or further commitments and to enter into contracts.

Where a financial body has no autonomy of decision over its principal function, it would be classified with the unit that controls it.

A particular case to be analysed is where government has a role in establishing a special purpose entity which is majority-owned by the private sector, and may also provide it with a guarantee on its debt.

It should be acknowledged that, during the period of financial turmoil, there is a substantial uncertainty over the actions and operations of such special purpose entities, notably with regard to the risks that they face and the actions that government may take. This leads to the application of the following statistical recording:

- Majority privately-owned special purpose entities which are established with a short temporary duration (their existence would be a short period of time strictly linked to the actual duration of the financial crisis) and have a sole purpose to address the financial crisis, even if they receive a government guarantee, are to be recorded outside the general government sector only if the expected losses that they will bear are small in comparison with the total size of their liabilities.

- However, should the government or the owners of the special purpose entities above, in the future, take any action which would result in a change of any of the conditions set above, the entity could be re-classified to the general government sector.

- All special purpose entities which are not established with a temporary duration, or where the expected losses government may bear are not expected to be small, or which are not created in the context of the financial crisis, should be classified to the general government sector at the time of their creation.

In some cases a majority privately-owned special purpose entity may be created during the financial crisis with a finite life which may be expected to extend beyond the period of the financial crisis, but where the entity is only active in acquiring assets (including granting loans) during the period of the financial crisis, and the entity simply disposes of assets or retains them until maturity in the subsequent period. In this case, the entity will be considered as satisfying the criterion of "short temporary duration" set out in the Eurostat Decision. Should the entity continue to acquire assets (including granting loans) with the guarantee of government outside the period of financial crisis, or if it starts to carry out new activities, its statistical sector classification, and the recording of its transactions, should be re-examined.

The expected losses to be taken into account are those of government. It should also be underlined that the expected losses should be small in relation to the liabilities relating to the activities which could lead to such losses (since a special purpose entity may take on liabilities for other types of activities).

It may be difficult to assess the potential size of expected losses for government, given the major uncertainties during the period of financial turmoil. The Decision does not set a quantitative threshold. However an analysis should be carried out of the guarantee arrangements and of the design of the scheme (for example the quality of the collateral, over-collateralisation, a daily marking-to-market of collateral, a haircut applied to an independent valuation when assets are purchased, a clause of residual loss sharing, or other arrangements) which may be in place to reduce the risks of the entity, to determine the likelihood of a loss for government.

9. Recording of certain transactions carried out by public corporations

The issue

Certain public corporations, classified to the corporations sectors in national accounts, may undertake transactions to support financial markets or individual financial institutions.

Decision

Transactions conducted by public corporations are to be considered as undertaken by general government as a principal party if there is written or other irrefutable evidence that government has issued an instruction to the public corporation to carry out the transactions for public policy purposes. In all other cases the transactions are recorded as undertaken by the public corporations concerned.

Analysis

ESA95 includes the concept of "re-arranged transactions" such as rerouting, partitioning and recognising the principal party to a transaction (ESA95 paragraphs 1.38-1.41).

In the specific case of Central Bank liquidity operations, these operations would generally fall within the Central Bank’s existing remit to preserve financial stability, and should therefore not be re-routed through government.

The scope of re-arrangement in the ESA95 and MGDD is limited (see ESA95 paragraphs 1.38 and 1.41), with social security contributions, grants for interest relief (ESA95 paragraph 4.51) and indirect privatisation receipts being the areas where it is mentioned. Yet in practice Eurostat has drawn upon the concept in several cases in the past, when it has been clear that a public body has been undertaking transactions on behalf of government, for example through written instructions or another form of irrefutable evidence (for example, a ministerial announcement or Parliamentary proceedings). There is therefore a need for caution when deciding if a re-arrangement should be shown in national accounts, with a need for evidence in such a case.