



Ministerie van Financiën



How to deal with Contingent Liabilities

The Dutch approach

9th meeting of the Network of public
finance economists in public
administration

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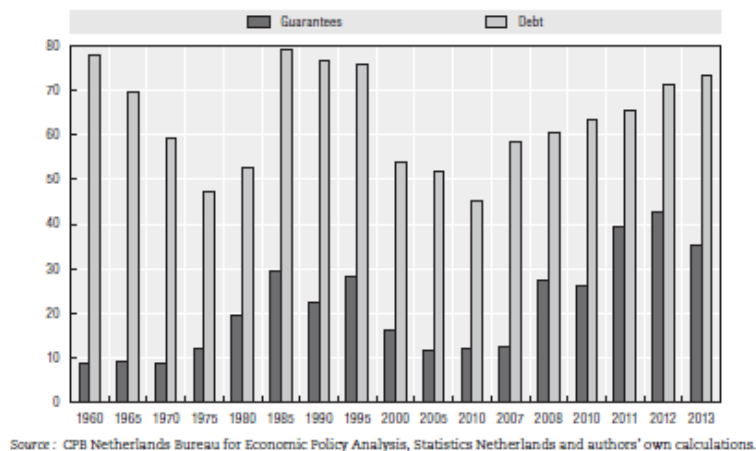
Inhoud

1. Why a CL framework
2. What did we do
3. How did we do it
4. Challenges
5. Future steps



1. Why a CL framework

Figure 1. Government guarantees and debt
As percentage of GDP



Our motivation to act:

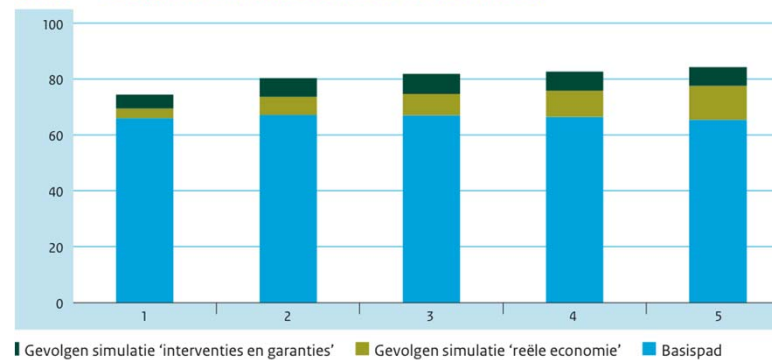
- Sharp increase in guarantees
- Prevent increase CL's "to undo" budget cuts or reforms
- Better grip on explicit and implicit fiscal risks

Tested some scenario's using existing guarantees and expected financial interventions:

For example: relieve the financial crisis in 2008/2009:

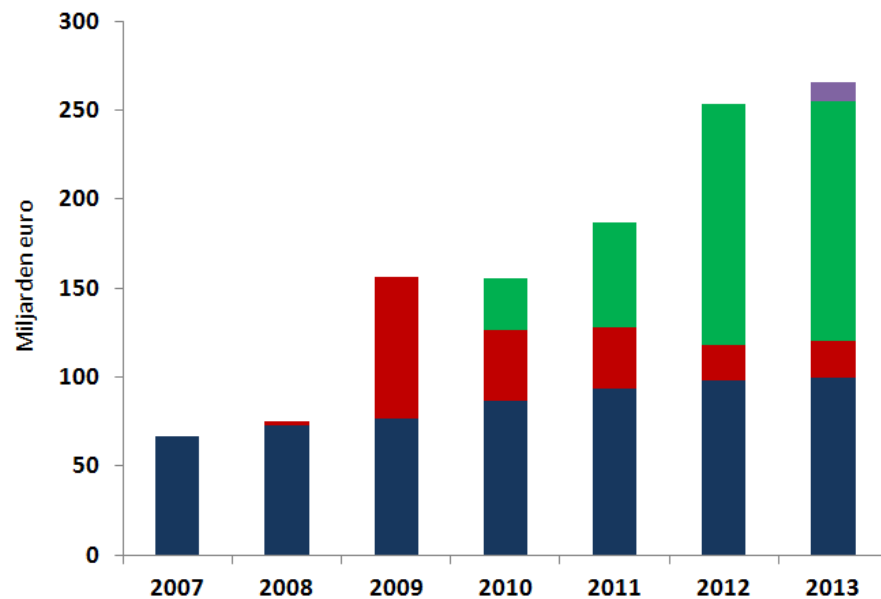
- Export: -10%
- BBP: -5%
- Etc.

figuur 5 Gevolgen van simulatie 2 voor de EMU-schuld (% bbp)





1. What type of guarantees do we have?



Blue: guarantees excl crisis
 Red: guarantees crisis interventions financial sector
 Green: Euro-area related guarantees

Table 1. Development of direct guarantees, indirect guarantees, loans and financial interventions

In EUR billion

	2008	2009	2010	2011	2012	2013
Total guarantees	63.5	152.7	152.2	238.2	258.0	217.5
<i>Of which:</i>						
European Financial Stability Facility (EFSF)	-	-	25.9	97.8	97.8	49.6
Participation in capital IMF	9.9	23.4	28.8	47.3	46.5	46.5
European Stability Mechanism (ESM)	-	-	-	-	35.4	35.4
State guarantee facility interbank loans	2.7	47.1	39.0	33.2	17.2	14.1
Export insurance	17.6	12.3	13.4	14.5	17.4	17.4
Facility for nuclear disasters	14.0	14.0	14.0	14.0	14.0	14.0
European Investment Bank (EIB)	7.0	9.9	9.9	9.9	9.9	9.9
Guarantee De Nederlandsche Bank (DNB)	-	-	-	-	-	5.7
Guarantee SNS REAAL	-	-	-	-	-	5.0
Guarantee for loans to SMEs	1.9	2.0	2.2	2.6	2.4	2.2
Total indirect guarantees	177.7	192.7	228.2	231.2	250.3	259.1
<i>Of which:</i>						
Social Housing Guarantee Fund (WSW)	71.7	75.8	85.3	86.3	87.4	86.2
National Mortgage Guarantee (NHG)	98.3	108.9	126.4	136.2	154.0	164.0
Total participations	23.3	26.9	28.0	28.0	29.8	34.4
<i>Of which:</i>						
ABN Amro, ASR, RFS	23.3	26.9	28.0	28.0	28.0	28.0
ESM	-	-	-	-	1.8	3.7
SNS REAAL	-	-	-	-	-	2.2
Bridge bank for real estate portfolio	-	-	-	-	-	0.5
Total loans and claims	60.8	30.2	29.4	31.2	32.9	35.6
<i>Of which:</i>						
Student loans	13.6	15.4	16.9	18.3	19.8	21.2
Fortis	44.3	7.8	4.6	3.8	3.8	3.8
Iceland	1.3	1.3	1.3	1.0	0.8	0.8
Greece	-	-	1.2	3.2	3.2	3.2
SNS REAAL	-	-	-	-	-	1.1
Total core tier 1 securities	13.8	7.6	7.1	3.6	2.3	1.5
<i>Of which:</i>						
Aegon	3.0	2.0	1.5	-	-	-
SNS REAAL	0.8	0.6	0.6	0.6	-	-
ING	10.0	5.0	5.0	3.0	2.3	1.5
ING back up facility	-	18.4	16.4	12.9	11.1	8.8

2.3 Long run developments in guarantees³



2. What did we do

Target:

- Guarantees: direct / indirect, explicit / implicit
- Government loans

Goal setting:

1. No free lunch
2. No implicit subsidies
3. Kill or further contain existing fiscal risks
4. Further increase quality of public finance
5. More transparency and better decision making

Strategy:

Phase I: Identify and assess all contingent liabilities.

Phase II: Develop a policy framework to kill or contain fiscal risks



2. What did we do, phase I

Phase I: Identify and assess all (implicit and explicit) CL's.

The objectives of the Risk Commission:

- Field reconnaissance mission to identify and assess all CLs and the fiscal risks

- Prerequisites for a successful mission:
 - Expertise (e.g. central bank)
 - Strong political mandate
 - Strong support high level civil servants



2. What did we do, phase II

The Dutch Policy Framework on Contingent Liabilities:

- **Budget rule:** “no, unless MoF itself can be convinced otherwise” regime
- Use a **premium**
 - Expected loss, operational costs and risk premium
 - Premiums should not feed into the budgets of spending departments
- **Sunset clause**
- Only when risk **cannot be insured** on the market (or lvl pf)
- Guarantee **ceilings**
 - Nominal ceilings, unless decided otherwise
 - Extra CLs should be compensated (national CL facilities)
- **Transparency**
 - All info in budget memorandum
 - Proactive approach to parliament Commission on Financial Affairs, National Court of Audit
- **Second opinion** in case of complex risk (financial or judicial)
- **Top level decision-making** using **standardized assessment sheets**
- Part of **normal budget cycle**



3. How did we do it

How we proactively pushed forward the CL framework:

- Public Finance stress test
- Budget rules (“no, unless” regime)
- Budget cycle
- Prior surveillance Minister of Finance
- The works of auditors
- All sorts of trainings, seminars and workshops



4. Challenges

- Not much **international comparable data** (go EUROSTAT!)
- Watch out for ESA2010: increase of **government control** to reduce risks can lead to reclassification (captive financial institution)
- CLs are **very technical** and **newish** with very little **market data**
- Asymmetric info, **specialized <-> non-specialized agents**
- A push for **quantitative comparison of incomparable risks**
- How to further design a quantified assessment whilst preventing additional space to “game the system”.
- How to properly **weigh in CL** in budget decision making on government expenditure and revenue.
- Huge CL facilities to EU and IFIs set a wrong example ;-)



5. Future steps

- How to further **quantitative insights and comparability**
 - Daydreaming about a unified and un-gameable method to calculate premiums, risk profiles and a common denominator to compare different types of risks.
- How to further increase **transparency on CLs**
- How to further increase **international comparability**
 - Is the EUROSTAT overview of fiscal risks related to all CL's exhaustive?



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Thank you!

Please also read:

OECD Journal on budgetting. How to deal with
Contingent Liabilities – Lessons from the Dutch
experience

http://www.oecd-ilibrary.org/governance/how-to-deal-with-contingent-liabilities-lessons-from-the-dutch-experience_budget-14-5jxv7kxm9fbq?crawler=true