



EUROPEAN COMMISSION  
EUROSTAT

Directorate D: Government Finance Statistics (GFS)

Luxembourg, 31 January 2013

## Decision of Eurostat on deficit and debt

### Statistical classification of the European Stability Mechanism

#### Introduction

In December 2010 the European Council agreed “*on the need to set up a permanent crisis mechanism to safeguard the financial stability of the euro area as a whole.*” The new permanent European Stability Mechanism (ESM) replaced the temporary European Financial Stability Facility (EFSF).<sup>1</sup>

The Treaty establishing the European Stability Mechanism<sup>2</sup> was ratified by all 17 Euro Area Member States and entered into force on 27 September 2012. The ESM was launched on 8 October 2012 when its Board of Governors held its inaugural meeting.

This note provides Eurostat’s decision on the statistical classification of the ESM. This decision, based on the final features of the ESM, is made in accordance with the process defined by Article 10.2 of Regulation 479, as amended. It is consistent with the opinion of the Committee for Monetary, Financial and Balance of Payments statistics (CMFB) which is included in annex.

#### The issue

The final features of the ESM are defined in the Treaty establishing the ESM<sup>3</sup> and in the ESM By-Laws.<sup>4</sup> Based on these features, the ESM has the status of an international organisation, as defined in the System of National Accounts,<sup>5</sup> and meets the criteria of an institutional unit, as defined in the European System of Accounts.<sup>6</sup>

These aspects were confirmed in paragraph 4 of the CMFB opinion.

In particular, the ESM:

- (1) was established by a treaty between the Euro Area Member States, as a permanent “*international financial institution*” governed by public international law;

<sup>1</sup> The EFSF will not enter into new programmes but will continue the management and repayment of any outstanding debt and will close down once all outstanding debt has been repaid.

<sup>2</sup> Available at: <http://www.european-council.europa.eu/media/582311/05-tesm2.en12.pdf>.

<sup>3</sup> Please refer notably to Articles 1, 3, 5-9, 41 and Annex I.

<sup>4</sup> Please refer notably to Article 21 of the ESM By-Laws, available at: <http://www.esm.europa.eu/pdf/ESM%20By-Laws.pdf>.

<sup>5</sup> As the European System of Accounts (ESA 95 and ESA 2010) does not provide much detail with regard to the conditions for being considered in statistics as an international organisation, it is necessary to refer to the System of National Accounts, notably SNA 1993 paragraphs 4.164 and 4.165 (renumbered as paragraphs 4.173-4.175 in SNA 2008).

<sup>6</sup> ESA 95 paragraph 2.12.

- (2) can enter into contracts, issue liabilities and own assets on its own behalf;
- (3) has a total of 700 billion euros of subscribed capital, of which a minimum of 80 billion euros are in the form of paid-in capital (to be paid in five instalments in 2012-2014) that will at any time respect a 15% ratio in relation to the outstanding amount of ESM issuances;
- (4) has a large range of types of interventions and a governance structure similar to that observed in other international organisations (a Board of Governors who are responsible for the broad policy of the organisation, and a Board of Directors as well as a General Manager who run “*the current business of the ESM*”);
- (5) keeps a complete set of audited accounts.

For these reasons, Eurostat’s decision is that the ESM should be statistically classified in the Rest of the World sector (subsector S.212, Institutions and Bodies of the European Union) in the accounts of the Euro Area Member States. In the accounts of the European Institutions, the ESM should be classified in the Financial Corporations sector.

As a consequence, borrowing of the ESM on financial markets will be recorded as ESM debt, and not re-routed to Euro Area Member States. Debt of a beneficiary country will be recorded as due to the ESM, and not to other Euro Area Member States.

Payment of the paid-in capital is considered as an increase in equity for the participating Member States, that is as a financial transaction (F.5) with no impact on government deficit.

The callable capital has no impact on government accounts, as it is a contingent liability of governments. The impact on government accounts of an actual call will depend on its circumstances. If a call covers losses of the ESM or a shortfall in payments by a beneficiary country to the ESM, it will be treated as a capital transfer (D.9) and, thus, an expenditure of government.

Any revenue of the ESM transferred to the Euro Area Member States, notably relating to investment of the paid-in capital or to a margin charged to a beneficiary country, will have a positive impact on their deficit/surplus.

## **Conclusion**

The ESM is statistically classified in the Rest of the World sector (subsector S.212, Institutions and Bodies of the European Union) in the accounts of the Euro Area Member States. In the accounts of the European Institutions, the ESM is classified in the Financial Corporations sector.

As a consequence, and contrary to the EFSF,<sup>7</sup> debt of a beneficiary country will be recorded as due to the ESM. Operations undertaken by the ESM, such as borrowing on financial markets and granting loans to beneficiary countries, will be recorded in the books of the ESM and will not be re-routed to the Euro Area Member States.

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<sup>7</sup> Please refer to Eurostat’s decision of 27 January 2011, available at:  
[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/methodology/decisions\\_for\\_GFS](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/methodology/decisions_for_GFS).



**CMFB opinion**  
**on the European Stability Mechanism (ESM)**

1. At Eurostat's request, the then CMFB Chairman, with the assistance of the CMFB Executive Body, asked the CMFB Members on 18 December 2012 to state their opinion on the recording in national accounts of the "European Stability Mechanism" (ESM). The deadline for the replies was 9 January 2013. Nineteen (19) national statistical institutes and twenty-five (25) national central banks from the EU Member States returned the questionnaire by 9 January. The ECB also provided its opinion.
2. The CMFB previously finalised a first Opinion on the recording in national accounts of the ESM on 10 March 2011. The first Opinion was based on the potential features of the ESM. It outlined that the ESM would have the status of an international organisation and would meet the criteria of an institutional unit, as defined in the European System of Accounts (1995). Since the March 2011 consultation of the CMFB took place while the preparatory work for setting up the ESM was under way, the CMFB reserved its right to re-examine the statistical accounting until the features of the ESM would become final.
3. The Treaty establishing the ESM entered into force 27 September 2012 with the ratification of the Treaty by all 17 Euro Area Member States. The ESM was launched on 8 October 2012 when its Board of Governors held the inaugural meeting. Hence, Eurostat requested the CMFB to review its initial Opinion.
4. With reference to the actual features defined in the Treaty establishing the ESM and the ESM By-Laws, a very large majority of the CMFB agrees that the ESM should be statistically classified in the Rest of the World sector (subsector S.212, Institutions and Bodies of the European Union); furthermore, that the ESM has the status of an international organisation and it meets the criteria of an institutional unit. The CMFB, thereby, confirms its Opinion of March 2011.
5. A few members provided additional comments regarding the classification of ESM for the purpose of compiling euro area and EU aggregates, while a few members were concerned that the proposed system of governance for the ESM would not provide enough autonomy in its decision-making process.
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, 22 January 2013