

New decision of Eurostat on deficit and debt

The statistical recording of operations undertaken by the European Financial Stability Facility

Eurostat, the statistical office of the European Union, has today published a decision on the recording of operations undertaken by the European Financial Stability Facility. A more detailed technical note¹ is also published on the Eurostat website.

Eurostat has decided that the funds raised in the framework of the European Financial Stability Facility must be recorded in the gross government debt of the euro area Member States participating in a support operation, in proportion to their share of the guarantee given.

This decision is consistent with the opinion, approved by a large majority, of the Committee for Monetary, Financial and Balance of Payments statistics² (CMFB) as described in annex.

The set-up of the EFSF

The creation of a European Financial Stability Facility (EFSF) was finalised by the agreement reached on 7 June 2010 between the 16 states who were members of the euro area at that date. This Facility, created for three years and available for members of the euro area, allows up to 440 billion euro to be borrowed to loan to a Member State which is no longer able to borrow from the markets, or only under too severe conditions. This raising of funds by the EFSF is supported by an irrevocable and unconditional guarantee given by the members of the euro area, in proportion to their share in the capital of the European Central Bank, adjusted for each support operation.

The entity managing the Facility is a limited company based in Luxembourg. This company (whose start-up capital is 30 million euro) is not a financial institution subject to the legal arrangements in force in Luxembourg for this type of institution.

If a Member State makes a request to benefit from this Facility, the European Commission, together with the European Central Bank and the International Monetary Fund, makes a proposal on a "loan facility" to the euro area Member States, who then take a unanimous decision. The EFSF is charged with raising the funding on the market and making the loan, with the technical assistance of other institutions, notably the European Investment Bank (EIB) and the Finanzagentur (the German public debt agency).

Analysis of the EFSF in national accounts

For Eurostat, the main question is to decide, in the case that the Facility comes into operation, to whom the debt raised should be attributed. The Member State benefiting from the loan will of course have a debt, but to whom belongs the initial debt acquired by the Facility in order to make the loan?

Eurostat's opinion is that the EFSF does not possess all the normal characteristics of an *institutional unit* under ESA 95. It has no capacity for initiative and a limited autonomy of decision in the exercise of its primary function, providing loans to countries in difficulty and their financing. Decisions related to this primary function are in practice subject to the prior approval, usually unanimous, of the Eurogroup members taking part in a support operation. Furthermore, Eurostat considers that EFSF can not be regarded as an international financial institution, of which it

has none of the usual characteristics. It cannot also be consolidated with any of the European institutions established by the Treaties (such as the European Commission, Council or Parliament). In practice, the EFSF only reports on its activities to the Eurogroup (recognized in the Treaty of Lisbon as just a working group of the Council) and is not under the control of existing European institutions.

Eurostat therefore considers that the EFSF is an accounting and treasury tool to enable the same conditions for access to borrowing for members of the euro area, acting exclusively on behalf of them and under their total control. Not being an institutional unit as defined in national accounts, EFSF operations must be partially consolidated in national accounts tables with the institutional units to which it belongs, in this case, the governments of euro area Member States.

Eurostat's decision

Based on the preceding analysis, Eurostat therefore considers that the debt issued by the EFSF for each support operation for a member of the euro area must be reallocated to the public accounts of States providing guarantees, in proportion to their share of the guarantees for each debt issuing operation. It will be therefore accounted for in the government debt of States having provided guarantees.

In accounting terms, EFSF will be classified in national accounts in the financial corporations sector in Luxembourg. The loans made by it will remain under its own name but, in the national accounts, this debt will result in addition to the recording of a loan from the EFSF to the guarantor Member States, based on their share of the guarantee for the loan transaction. These Member States will record in their national accounts, in proportion to their share and for an amount equal to the EFSF loan registered in their accounts, a loan to the euro area Member State which has requested the activation of the mutual support mechanism through the EFSF. This will not affect the amount of the government debt of the borrowing Member State, but simply the geographical breakdown of it.

The recording of these flows via the Member States providing guarantees will have an impact on their gross government debt (as defined in the Maastricht Treaty), but this transaction will be neutral in terms of debt, net of the loans they have granted for support operations to other Member States.

In addition, all revenue streams (interest, margins and service fees), recorded on an accrual basis, will pass through the national accounts of States having provided a guarantee. A portion of these flows (margins and service fees) will have a positive impact on government deficit/surplus of these States.

This decision contributes to the comparability of data on public finances across the EU, since it allows the recording in the same way, especially as regards the impact on gross and net debt, of all support operations, whether done on a bilateral basis - as in the case of the euro area for Greece in the spring of 2010, or by some non-members of the euro area in the case of Ireland - or through a specific entity such as the EFSF.

Eurostat will from now on publish, in its twice yearly News Release on the notification of government deficit and debt data for EU Member States, information that will permit the calculation of Member States' debt, net of the loans they have granted for support operations to other Member States.

1. http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/methodology/decisions_for_GFS
2. <http://www.cmfb.org/>

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CMFB opinion
on the recording in national accounts of the
"European Financial Stability Facility" (EFSF)

1. At Eurostat's request the CMFB Chairman, with the assistance of the CMFB Executive Body, asked CMFB Members on 17 December 2010 to state their opinion on the recording in national accounts¹ of "European Financial Stability Facility" (EFSF) operations. The deadline for replies was 11 January 2011. Twenty-one (21) national statistical institutes and twenty-six (26) national central banks from the EU Member States returned the questionnaire within the specified time. A total of fifty (50) institutions, including the ECB, Statistics Iceland, and Statistics Norway provided their opinion.
2. The EFSF was established on 7 June 2010 for the purpose of providing stability support to Euro Area Member States (EAMS). The EFSF shall finance such support by issuing or entering into bonds, notes, commercial paper, debt securities, or other financing arrangements. These financing operations are backed by irrevocable and unconditional guarantees of the EAMS on the basis of an agreed "adjusted contribution key". The EAMS act as guarantors as contemplated by the terms of the EFSF Framework Agreement.²
3. Based on a large majority of the replies received, the CMFB agrees that:
 - the EFSF is acting on behalf of the guarantor EAMS when lending to an EAMS and that, therefore, the lending needs to be rerouted through the government accounts of the guarantor EAMS, thereby increasing their EDP gross debt; and
 - this rerouting in national accounts takes the form of loans from the EFSF to the guarantor EAMS (excluding the Loan Specific Cash Buffer and on the basis of the relevant "adjusted key contribution"). At the same time, loans will be recorded from the guarantor EAMS to the borrowing EAMS.
4. The CMFB notes that the favoured recording in national accounts will imply a similar treatment of intra-EU government stability support to EAMS, whether via the EFSF or in the form of bilateral loans, as regards the impact on Maastricht debt.
5. The CMFB recognises that the rerouting will not affect the recording of the Maastricht debt (EDP gross debt) of the borrowing EAMS. For the guarantor EAMS the rerouting will increase the recorded Maastricht debt while net debt will remain unchanged. The CMFB recommends a careful analysis of the different options for presenting analysts and the public at large with the relevant statistical information in order to provide full transparency on the impact of the support mechanism on the government accounts.
6. The CMFB invites Eurostat to provide further guidance on the recording of other accounting items involving the EFSF. A number of specific issues were raised by CMFB Members, in particular regarding the treatment of the Loan Specific Cash Buffer, securities issued, fees, and interest.

¹ Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community, as amended.

² For further details see the EFSF Framework Agreement of 7 June 2010 at www.efsf.europa.eu.

7. From a practical point of view, the CMFB considers it useful that monthly, quarterly and annual source data concerning debt issued by EFSF and related transactions across EAMS would be collected in a centralised way (e.g. Eurostat) and transmitted timely to compilers of balance of payments and national accounts data in Member States.
8. The CMFB considers that the proposed recording in national accounts of the EFSF is in line with the ESA-95 Regulation and recommends that Eurostat takes account of the specific remarks raised.
9. In addition to this opinion, all the anonymised answers from CMFB Members have been transmitted to Eurostat and will be kept in the records of the CMFB secretariat.

(Signed)

João Cadete de Matos
CMFB Chairman

Lisboa, 25 January 2011