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COMPILATION GUIDE ON GOVERNMENT ASSISTANCE TO THE FINANCIAL SECTOR

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1. Introduction

This guide presents an overview of the European System of Central Banks (ESCB) dataset on the financial assistance measures (FAM) provided by governments to assist the financial sector during the financial crisis. The guide gives specific details to support the compilation of data by the national central banks (NCBs).

2. FAM data request in detail

2.1 Background

Since 2008 the European Central Bank (ECB) has been collecting statistics on financial assistance measures (FAM), also known as government assistance to the financial sector. The data relate to transactions undertaken by governments to provide assistance to the financial sector and, conversely, to the reimbursement of this support from the financial sector to governments.

These data are frequently requested by economists to analyse the economic impact (actual and potential) of such public policy interventions, and by policymakers to attune fiscal policy instruments[1].

More specifically, the data aim to provide an overview of:

- the (net) direct financing needs related to the FAM provided by governments, comprising (i) the net issuance of debt used in the financial assistance deducted from any reimbursement, and (ii) changes to government deficit or surplus due to such interventions. It is assumed that each government intervention that results in a transfer of cash to the banking sector (e.g. capital injections, purchase of financial assets, loans granted) is financed. Hence, each intervention (including capital transfers) affects government financing needs, irrespective of the way the intervention is financed (i.e. through an Excessive Deficit Procedure (EDP) debt instrument, other accounts payable or disposal of financial assets);
- the subsequent (net) indirect financing needs triggered by such financial assistance and the acquisition by government of financial instruments (e.g. interest payable and receivable, dividends and guarantee fees);
- possible future risks to fiscal positions related to government contingent liabilities provided to the financial sector during the crisis (e.g. explicit guarantees).

The statistical information requested directly by the ECB covers (i) the (net) financing needs broken down by type of financial instrument and measure, (ii) the impact on deficit/surplus,

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[1] For instance, see European Central Bank (2015), “The fiscal impact of financial sector support during the crisis”, *Economic Bulletin*, Issue 6, available at: **http://www.ecb.europa.eu/pub/pdf/other/eb201506_article02.en.pdf**

broken down by revenue and expenditure components, and (iii) the contingent liabilities. Moreover, there is a bridge between (net) financing needs (direct and indirect) and the impact on EDP debt, as presented in the EDP supplementary table on the financial crisis released by Eurostat. The latter includes, among others, the impact of reclassified entities from the financial sector to government without any transactions by the government.

The FAM data are being collected by the ECB on an annual basis. The data are reported in millions of national currency. All transactions are to be reported at their transaction value. The changes in contingent liabilities outstanding are to be reported at their face value.

2.2 Imputed liabilities in the FAM context (Table 1)

Table 1 is divided into three parts:

Table 1A reports the net direct impact of the interventions, e.g. the net change of borrowing needs due to the respective transactions. This core part includes the gross transactions related to the interventions, which are broken down according to financial instruments (acquisition and disposal by government of financial assets), as well as debt cancellations and other measures that have an impact on financing needs without acquisitions of financial instruments (e.g. capital transfers).

Table 1B reports the net indirect impact on government debt due to the net balance of miscellaneous revenues and expenditures derived from the interventions (e.g. interest, dividends and fees).

Together, the direct and indirect impacts represent the **total government financing needs**.

Table 1C reports the additional impact (positive or negative) on government EDP debt. In other words this part represents the bridge between the total government financing needs and the impact on EDP debt (as reported in the EDP supplementary table).

Total impact on EDP debt equals 1A+1B+1C.

Table 1 – Imputed liabilities in the FAM context

1A	Net change of government borrowing needs due to transactions ("direct impact")
1	Net acquisition of equities
1x	*of which acquisition of new equities*
1y	*of which sales of equities*
2	Net provision of loans
2x	*of which provision of new loans*
2y	*of which repayment of loans*
3	Net purchases of (impaired) assets
3x	*of which asset purchases*
3y	*of which asset sales*
4	Debt assumptions/cancellations
5	Other measures
6	**DIRECT NET IMPACT ON FINANCING NEEDS (1+2+3+4+5)**
6x	***of which total acquisitions (1x+2x+3x)***
6y	***of which redemptions (1y+2y+3y)***
7	***of which other financing by a government entity to the defeasance structure (when in general government)***
1B	Net indirect impact on government debt
8	Indirect impact due to net expenditure (+)/revenue (-)
9	**TOTAL GOVERNMENT FINANCING NEEDS (6+8)**
1C	Additional impact on government debt (EDP)
10	Memo: due to reclassified financial units and other flows

2.2.1 Net acquisition of equities

In the FAM data request, the acquisition of equities is recorded as the total amount paid for the equities, which includes a financial transaction recorded in F.5 and/or a capital transfer. (In the case of a capital transfer, its amount also has to be recorded in Table 3, Item 7 of the FAM data request.)

Increases of the gross debt related to the acquisition of equities of financial institutions are recorded in the FAM dataset in the Item "acquisition of new equities" (Table 1A, Item 1x). A sale of equities held by government is recorded as a reduction of government debt in the Item "sales of equities" (see Table 1A, Item 1y).

2.2.2 Net provision of loans

Borrowing needs that arise from lending to financial institutions are recorded in FAM data as increases of the government gross debt.

In some cases, part of the loan is highly unlikely to be repaid (impaired loans). Such unrepaid amounts are not recorded as loans (financial transaction), but as capital transfers (which also appear in Table 3, Item 7 of the FAM dataset). Both the capital transfer and the (part of the) loan increase the borrowing requirement of the general government. Therefore, they are reported together in Item 2x of Table 1A ("provision of new loans").

Redemptions of principal amounts, excluding any accrued interest not yet paid, are recorded as a reduction of the borrowing needs in the Item "repayment of loans" (see Table 1A, Item 2y).

Any subsequent cancellations or forgiveness of loans, by mutual agreement between debtor and creditor, leads to the recording of government expenditure (capital transfer) for the amount of the loans involved (see Table 3, Item 9 of the FAM data request). In Table 1A, the data request shows both the reduction of loans (Item 2y) compensated by the recording of debt cancellation (Item 4). In other words forgiveness of loans has an impact on the balance (deficit/surplus) of governments, but it is neutral for the net change of government borrowing needs.

2.2.3 Net purchases of (impaired) assets

Borrowing needs resulting from the acquisition of financial assets that include impaired assets, such as "bad loans" or "toxic assets", from a financial institution by the government, or by a government unit undertaking this task (a "defeasance structure" or "bad bank" classified inside general government), are recorded in the Item "net purchases of (impaired) assets" (Table 1A, Item 3 of the FAM request). The purchase of a "bad bank" may include impaired assets involving various financial instruments, such as equities, securities other than shares, loans, derivatives and deposits. In addition, defeasance structures may also take over corresponding liabilities from financial institutions. To avoid double-counting, liabilities are not reflected under Item 4 of Table 1A ("debt assumptions/debt cancellations").

The total amount paid for the (impaired) financial assets, i.e. those that consist of a financial transaction and/or a capital transfer, is recorded as "asset purchases" (Table 1A, Item 3x). If the purchase of impaired assets involves the recording of capital transfers, reflecting a difference between the amount paid and the market value of such assets, the capital transfer is also reported in the FAM data in Table 3, Item 8 ("capital transfers recorded in the context of asset purchases").

The total amount of the sale of (impaired) assets by government reduces government borrowing needs and is recorded as "asset sales" (Table 1A, Item 3y).

2.2.4 Debt assumption and cancellation

Debt assumption is explained in Chapter VII.2 of the Manual on Government Deficit and Debt (MGDD)[2], and usually involves the recording of a financial transaction and a capital transaction in the government accounts. In the FAM data request, both "debt" (Table 1A, Item 4) and "government expenditure" (Table 3, Item 9) record the same amount.

[2] Available on the Eurostat website.

Debt cancellation is also treated in MGDD Chapter VII.2. It occurs when government forgives outstanding debt vis-à-vis a financial institution. In the FAM data request this entails the recording of a debt cancellation (Table 1A, Item 4), the recording of a capital transfer in the Item “other expenditure” (Table 3, Item 9) and the reduction of loans (Table 1A, Item 2y).

2.2.5 Other measures

Finally, any other government measures to support the financial sector that lead to an increase in borrowing needs that are not included in the previous items are to be recorded under “other measures” (Table 1A, Item 5).

For instance, a significant and deliberate increase of government deposits in a financial institution in distress to provide it a liquidity boost is recorded in FAM data in the Item “other measures”.

Another example of this would be guarantees called on assets of the financial sector. In the FAM data request this entails the recording of a capital transfer under “guarantees called” (Table 3, Item 6) and the recording under “other measures”.

A third example is when the government is providing liquidity to a defeasance structure (even if classified within government) either to cover a loss or to maintain a certain market value of the acquired assets (as sometimes required by national rules or law). It is assumed that the government has to finance itself to provide this support to this defeasance structure. Therefore, the government increases its borrowing needs. The same amount is also to be recorded under Item 7 of Table 1A as a component of the direct net impact of financial needs. Should the defeasance structure pay back the government, the reverse transaction(s) reduce the direct impact on government financial needs accordingly, so these reimbursements should also be recorded under Item 7 of Table 1A.

Item 5 does not include acquisition of assets by the government (such as equities, impaired assets or loans), whether they be undertaken within the framework of the setting-up of a defeasance structure (classified in general government) or before the reclassification of a defeasance structure. These acquisitions of assets were recorded directly in the appropriate items in Table 1A (Item 1x, 2x or 3x). Similarly, the disposal of these acquired assets will be further recorded in the successive periods of the “unwinding phase” under the appropriate items in Table 1A (Item 1y, 2y or 3y).

One last example is when the government grants a loan to a deposit guarantee fund (classified in the government sector) enabling the latter to reimburse account holders in the context of the financial crisis. It is assumed that the government has to finance itself to grant this loan. Therefore, the government increases its borrowing needs. Conversely, the reimbursement of the government loan reduces the government’s borrowing needs. A fuller explanation of transactions between government and deposit holders can be found in Section 2.5.

2.2.6 Indirect impact on debt

The indirect impact on debt aims to capture any subsequent streams of revenue and expenditure related to the issuance of (actual and contingent) liabilities and holdings of financial assets linked to the government assistance. It mainly comprises guarantee fees and property income receivable and payable by government associated with the financial assistance provided to the financial sector (see Section 2.4 for a fuller explanation of which expenditure and revenue items are included in the indirect impact on debt).

2.2.7 Additional impact on government debt

Memo Item 10 of Table 1C bridges the direct and indirect impacts on government gross debt (i.e. total government financing needs – see Table 1, Item 9) with the impact on the EDP debt in Eurostat's EDP supplementary table (as recorded at end of period).

It represents the difference between the ECB and Eurostat measurements on the impact on debt. This difference is explained by events that are not transactions but which nevertheless increase the EDP debt, such as the reclassification of entities from the financial sector to general government. This difference also includes transactions that increase the financial needs of government without impacting the EDP liabilities, such as interventions financed through disposal of assets or through other accounts payable (not EDP instrument). Third, it might be explained by a change (either way) in the valuation of EDP debt instruments, such as exchange rate effects. Finally, a few limited differences (see also Section 2.5) might be explained either way by the different scope of interventions recorded in the FAM table and the EDP supplementary table.

As memo Item 10 bridges the difference between the financing needs and the EDP debt, all of its components increasing the EDP debt without modifying the financing needs have a positive sign (and vice versa).

2.2.8 Termination of financial assistance

When governments liquidate acquired assets or extinguish debt assumptions, which have been previously recorded in Table 1A of the FAM data request, government borrowing needs are reduced accordingly. Therefore the financial needs recorded in FAM Table 1 are also reduced. The reduction is recorded irrespective of whether government reimburses debt instruments issued specifically for the financial assistance or not.

The reduction in financial needs to be recorded in the FAM data request corresponds to the transaction value, which may also incorporate adjustments in valuation (brought about, for example, by fluctuations in either equity prices or exchange rates) since the time when the assets were acquired and the repayments of accrued interest not yet paid. In some cases the proceeds from the sales of acquired assets might exceed the initial payments for the acquisition of these assets. As a consequence, cumulated financial needs can turn out to be negative over the whole period.

Careful attention needs to be paid to the interest component. In the FAM data, contrary to what the European System of National and Regional Accounts (ESA 2010) prescribes, it is assumed that the interest linked to the financial assistance is not combined with the instrument of the transaction as it would have been financed by means of new borrowing. Here it is recorded in the Item "indirect impact on debt" (Table 1B, Item 7). Therefore, the transaction value to record in FAM Table 1A, Items 1 to 5 excludes any interest component. The interest is recorded in Table 3 of the FAM dataset and indirectly in Table 1, Item 7 (indirect impact on gross debt). If the interest component is not excluded from the transaction value, the impact on gross debt will include a double-accounting of the interest. For example, suppose that a government issued a one-year debt security at discount (face value EUR 100, present value EUR 90) to extend a one year loan of EUR 90 to a bank in financial distress with interest of EUR 10. In the next year, by the time of the redemption of the loan, the FAM data request will show the repayment of the loan (Table 1A, Item 2y) of EUR 90, and not EUR 100, and an amount of EUR 0 related to the net interest (EUR 10 as expenditure linked to the debt security and EUR 10 as revenue linked to the loan) in the Item "indirect impact" (Table 1, Item 7).

If there is a component of capital transfer when liquidating any acquired assets, the FAM data request will record the capital transfer in Table 3 either as revenue or expenditure.

2.3 Contingent liabilities of general government (Table 2)

The second part of the FAM data request relates to government's contingent liabilities (see Table 2). Contingent liabilities are not recognised in the core accounts of national accounts, as they are contingent on the occurrence of specific events, such as the calling of guarantees.

Table 2 – Contingent liabilities of general government, changes in stocks

1	Change in debt of other special purpose entities
2	*of which covered by government guarantee*
3	Other guarantees provided
4	Asset swaps/lending
5	**TOTAL CONTINGENT LIABILITIES (2+3+4)**

2.3.1 Change in debt of other special purpose entities

Governments may create special purpose entities to stabilise the financial markets/sector. The special purpose entities covered in Table 2 are those that are classified outside the government sector. Item 1 shows the change in debt of these entities while Item 2 shows to what extent this change in debt is covered by a government guarantee.

2.3.2 Other guarantees provided

The item “other guarantees provided” records the change in government guarantees provided to financial institutions other than special purpose entities. For instance, it includes direct government guarantees on interbank deposits, other liabilities (except guarantees on retail deposits) of banks and assets.

2.3.3 Asset swaps/lending

Securities lending without cash collateral and repurchase agreements are not shown in the national accounts, as the assets involved remain on the balance sheet of the original owner. However, if the government engages in a securities lending scheme or asset swap scheme involving government securities, there is a potential risk that the party borrowing the government securities will not be able to return them. This is why government securities lent in such a government operation are considered a contingent liability of government.

General liquidity operations carried out by the NCBs are not recorded in the FAM dataset.

2.4 Impact on general government net lending/borrowing (Table 3)

The third part of the FAM data request deals with the impact on government non-financial transactions related to the assistance provided to the financial sector. The data request is broken down by revenue and expenditure (see Table 3).

Table 3 – Impact on general government net lending/borrowing

A	**REVENUE (1+2+3+4)**
1	Guarantee fees receivable
2	Interest receivable
3	Dividends receivable
4	Other
B	**EXPENDITURE (5+6+7+8+9)**
5	Interest payable
6	Guarantees called
7	Capital injections recorded as capital transfers
8	Capital transfers recorded in the context of asset purchases
9	Other
C	**NET LENDING/BORROWING (A-B)**

2.4.1 Guarantee fees receivable

The item “guarantee fees receivable” record the remuneration of government for issuing guarantees to financial institutions. This item is included (with a minus sign) in the item “indirect impact on debt” (Table 1B, Item 8).

2.4.2 Interest receivable

“Interest receivable” records accrued interest earned by government on financial assets acquired in the financial assistance provided. This item is included (with a minus sign) in the item “indirect impact on debt” (Table 1B, Item 8). See MGDD Chapter II.4 for further information on the recording.

2.4.3 Dividends receivable

“Dividends receivable” records dividends obtained by government on the shares it acquired as a result of the FAM. This item is included (with a minus sign) in the item “indirect impact on debt” (Table 1B, Item 8). See MGDD Chapter III.5 for further information on the recording.

2.4.4 Other

The item “other” includes any other revenue not specified elsewhere in the FAM data request. For instance, it may include fees charged to financial institutions. Typically, this item is included (with a minus sign) in the item “indirect impact on debt” (Table 1B, Item 8). However, there may be some revenue that is directly used to reduce the debt, and therefore it should not be included in the item “indirect impact on debt” (Table 1B, Item 8).

2.4.5 Interest payable

“Interest payable” includes the interest accrued on the debt issued by the government in relation to the financial assistance. This item is included in the item “indirect impact on debt” (Table 1B, Item 8).

2.4.6 Guarantees called

Usually, when a guarantee on assets or liabilities is called, governments will record a capital transfer to the guaranteed financial institutional unit (a treatment similar to debt assumption). Such a capital transfer has an immediate impact on government borrowing requirements and therefore this item is not included in “indirect impact on debt” (Table 1B, Item 8), otherwise it would consist of double-accounting. See MGDD Chapters VII.2 and VII.4 for further information.

2.4.7 Capital injections recorded as capital transfers

Where governments inject capital in the form of shares into a financial institution, there may be a capital transfer component (see Section 2.2.1). Such a capital transfer has an immediate impact on government borrowing requirements and therefore this item is not included in the “indirect impact on debt” (Table 1B, Item 8), otherwise it would consist of double-accounting.

2.4.8 Capital transfers recorded in the context of asset purchases

Governments may pay more than the market value of assets when acquiring them from the financial sector. In such cases, a capital transfer is recorded to reflect the difference between the market value and the value of the financial transaction (see Section 2.2.3). Such a capital transfer has an immediate impact on government borrowing requirements. Therefore this item is not included in “indirect impact on debt” (Table 1B, Item 8), otherwise it would consist of double-accounting.

2.4.9 Other

The item “other” covers any other expenditure not specified elsewhere in the FAM data request. For instance, it may include fees charged to government related to the setting-up of the financial assistance. This item may also be applicable for capital transfers in connection with debt assumption and cancellation, which are not linked to guarantee calls (see Sections 2.2.2 and 2.2.4). Typically, this item is included in the item “indirect impact on debt” (Table 1B, Item 8). However, cases like debt assumption and cancellation have a direct impact on the debt, and therefore should not be included in the item “indirect impact on debt” (Table 1B, Item 8), otherwise it would consist of double-accounting.

2.5 Specific methodological topics

This section describes the recording of specific events raised by NCBs or discussed with Eurostat.

2.5.1 Transactions towards the deposit guarantee scheme (DGS) in the context of a financial crisis

A) When the DGS is classified in the financial sector

If the government provides the DGS with a loan, this is to be recorded under provisions of new loans in Table 1A, Item 2x, in line with the explanation in Section 2.2.2.

B) When the DGS is classified in the government sector

The scope of the FAM table is about the interventions of general government towards the financial sector in the context of the financial crisis. Therefore, a capital transfer from government units to deposit holders or to households, for instance, falls outside the scope of the FAM tables (even though the support to depositors could be said to indirectly stabilise the financial sector). Such a reimbursement of depositors might be preceded by support (e.g. a loan) from government to the DGS. It is assumed that the government must obtain financing if it wishes to cover any short-term lack of reserves in the guarantee fund compensating the depositors. This specific transaction is to be recorded under “other measures” (Table 1A, Item 5) as imputed liabilities.

2.5.2 Transactions towards the DGS outside the context of the financial crisis

It may be the case that the government or entities classified in general government, such as the DGS, intervene by providing support to banks or to account holders in a scenario wholly unconnected with the financial crisis (for instance, compensation due to robbery at a bank or criminal embezzlement). As these events are not linked to the financial crisis, the respective transactions are not to be recorded in the FAM table.

2.5.3 Extraordinary contributions paid by the financial sector

Extraordinary contributions that are levied on the banking system and paid to government (e.g. Treasury or National Resolution Fund classified inside the government sector) should be reported in the FAM table as “other government revenue” (Table 3, Item 20), thus effectively reducing the government financing needs.

There are three criteria for payments from the banking system to government to be considered as “extraordinary contributions”. The contributions have to be:

- levied to compensate government support to the financial sector;
- limited in time (i.e. have a defined term);
- effectively disbursed by government to finance assistance to the financial sector.

Since extraordinary contributions directly compensate the corresponding assistance measures from government to the financial sector, it makes sense to include both these measures and the extraordinary contributions as government expenditure and revenue in the FAM tables respectively.

However, **regular contributions** from the banking system to the National and European Resolution Funds are not to be recorded in the FAM table.

Similarly, when governments impose new taxes applicable to the whole financial sector or to specific financial transactions, or modify the previous rate of existing taxes, it should be regarded as a modification of government tax practices and not be recorded in the FAM table. The rationale is that these taxes are not earmarked to be used to assist the financial sector, but are rather part of the general government fiscal policy.