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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**on implicit liabilities with potential impact on public budgets**

# REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

## on implicit liabilities with potential impact on public budgets

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## 1. BACKGROUND

Article 11 of Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union<sup>1</sup> (ESA 2010) requires that by 2014 the Commission shall submit a report to the European Parliament and to the Council containing existing information on public-private partnerships (PPPs) and other implicit liabilities, including contingent liabilities, outside government.<sup>2</sup>

The liabilities are called *contingent* in the sense that they are by nature only potential and not actual liabilities. The relevance of collecting this kind of information is explicitly recognised by ESA2010, paragraph 5.11: *"Although contingent assets and contingent liabilities are not recorded in the accounts, they are important for policy and analysis, and information on them needs to be collected and presented as supplementary data. Even though no payments may turn out to be due for contingent assets and contingent liabilities, a high level of contingencies may indicate an undesirable level of risk on the part of those units offering them"*. It should be further underlined that contingent liabilities are not part of the government debt as defined in Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community<sup>3</sup>.

This report provides an overview of the information available to Eurostat. It mainly focuses on the data on contingent liabilities collected by Eurostat in the context of the reinforcement of the EU economic governance which took place in 2011 (the 'six-pack'), and in particular of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States<sup>4</sup>. Article 14(3) of this Directive laid down new statistical requirements on the Member States:

*"For all sub-sectors of general government, Member States shall publish relevant information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof. Member States shall also publish information on the participation of general government in the capital of private and public corporations in respect of economically significant amounts"*.

The data collected in the context of the above mentioned Directive are the main source of information related to government contingent liabilities in Member States. In addition, other Eurostat data collections exist (i.e. *Supplementary table for financial crisis, EDP related questionnaire, etc.*) providing limited and/or

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<sup>1</sup> OJ L 174, 26.6.2013, p. 1.

<sup>2</sup> The report is compiled after the Regulation deadline in order to be able to include the relevant information on the results of the Eurostat first data collection on contingent liabilities that took place at the end of December 2014.

<sup>3</sup> OJ L 145, 10.6.2009, p. 1.

<sup>4</sup> OJ L 306, 23.11.2011, p. 41.

confidential information on particular types of contingent liabilities. The scope of information available from these sources will be also presented in this report.

## **2. OVERVIEW OF THE EUROSTAT DATA COLLECTION IN THE CONTEXT OF COUNCIL DIRECTIVE 2011/85/EU**

### **2.1. Reporting in the context of Article 14(3) of Council Directive 2011/85/EU**

In order to assist Member States in the implementation of the new statistical requirements of the Directive, Eurostat conducted a Task Force in co-operation with Member States and DG ECFIN<sup>5</sup>. Its final report provides, *inter alia*, a set of templates and related notes indicating the methodology, the scope of compulsory information, the periodicity and the timeliness for national and Eurostat publication of data on contingent liabilities.

It specifies that Eurostat would collect and publish selected indicators related to contingent liabilities, i.e. *government guarantees, off-balance public-private partnerships (PPPs), liabilities of government controlled entities classified outside general government (public corporations) and non-performing loans (government assets)*. The Member States should publish the same indicators at a national level and, in addition, the data on the participation of government in the capital of corporations.

The changes needed in Eurostat's collection systems were formalised by way of introduction of a supplement to the EDP questionnaire, under the provisions of Article 8(2d) of Council Regulation (EC) No 479/2009. The templates and the implementation guidance were provided in Eurostat's decision of 22 July 2013 on *Supplement on contingent liabilities and potential obligations to the EDP related questionnaire*<sup>6</sup>. This decision also specifies that the data on liabilities of government controlled entities classified outside general government (public corporations) would be compiled by Eurostat on the basis of information already collected via the Questionnaire on government controlled units classified outside general government introduced in 2011<sup>7</sup>.

All indicators are to be reported to Eurostat in millions of national currency at the level of individual general government subsectors. The metadata clarifying the completeness, definitions, use of estimations or timeliness of the data are to be provided to Eurostat alongside the data.

### **2.2. Timeliness**

Data on contingent liabilities should be transmitted to Eurostat annually before 31 December of the following year (T+12 months) by the national statistical authority, alongside the Questionnaire on government controlled units classified outside

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<sup>5</sup> Three Task Force meetings took place in 2012: 29 June, 5 September and 6 November.

<sup>6</sup> <http://ec.europa.eu/eurostat/documents/1015035/2041337/ESTAT-decision-Suppl-on-conting-liab-EDP-Q.pdf/0b35165a-ee53-470a-a15a-7beaa98aac8b>

<sup>7</sup> The questionnaire received a positive opinion from the CMFB in 2011. Data are collected on an annual basis and the first data transmission took place in December 2012.

general government. The first data transmission took place in December 2014 and covered the year 2013 whereas the data for 2010-2012 were reported on a voluntary basis. In case of guarantees, data for the previous years were required on a compulsory basis. The intention is to gradually build up time series and to eventually cover four past years for all the indicators in the regular reporting.

## **2.3. Description of indicators**

This section presents the agreed concepts and definitions for publication of data on contingent liabilities whereas their application by the Member States in the data provided to Eurostat is described in section 3.

### **2.3.1. Government guarantees**

Eurostat collects information on the outstanding amount of the guarantees granted by general government. Only guarantees provided to units classified outside general government are covered by reporting. A breakdown by subsectors is available except for social security funds. Information is expressed in total stock of guarantees, excluding the debt already assumed by government, as recorded in ESA2010 accounts. Data are reported at nominal value.

Data cover both one-off and standardised guarantees. A one-off guarantee is defined as individual, and guarantors are not able to make a reliable estimate of the risk of calls. One-off guarantees are linked to debt instruments (e.g. loans, bonds). Additional breakdown is available for one-off guarantees granted to public corporations and financial corporations. Standardised guarantees are guarantees that are issued in large numbers, usually for fairly small amounts, along identical lines. It is not possible to estimate precisely the risk of each loan being in default but it is possible to estimate how many, out of a large number of such loans, will default. Examples are mortgage loan guarantees, student loan guarantees, etc.

### **2.3.2. Off-balance PPPs**

Public-private partnership (PPPs)<sup>8</sup> recorded off the balance sheet of government means that the assets are not considered as economically owned by government and the gross-fixed capital formation is not recorded as an expenditure of government at the moment it is incurred.

Eurostat collects data on the total outstanding liabilities recorded off-balance. They should be expressed in the adjusted capital value corresponding to an initial contractual capital value that is progressively reduced over time by the amount of the "economic depreciation" calculated on the basis of estimates or actual data. The adjusted capital value reflects the current value of the asset at the time of reporting. The amount represents an estimate of the gross fixed capital formation and debt impact in case government would have to take over the assets during the life of the contract. Data are collected for general government and by all sub-sectors and are reported at nominal value.

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<sup>8</sup> Public-private partnerships (PPPs) as defined by ESA 2010, paragraph 20.276 and further detailed by [the Eurostat Manual on Government Deficit and Debt](#), part VI.4.

### 2.3.3. *Non-performing loans of General Government*

Information is collected on the stock of non-performing loans (government assets) provided by general government. A loan is non-performing when payments of interest or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons (such as a debtor filing for bankruptcy) to doubt that payments will be made in full. Data are reported at nominal value. The consolidated figure for general government and details by sub-sectors are made available.

### 2.3.4. *Liabilities of government controlled entities classified outside general government (public corporations)*

Government controlled entities are units for which government has the ability to determine the general policy or programme (ESA2010, paragraph 20.18)<sup>9</sup>. Those government controlled entities are classified outside general government in most cases due to their behaviour as market units.

Liabilities of government controlled entities classified outside general government (public corporations) are defined as the stock of liabilities at the end of the year, based on the business accounts of corporations. Member States can choose which concept to use for the reporting, either business accounts (including all the liabilities from the financial statements of the company) or national accounts concept (excluding other accounts payable). If available, data on liabilities for Maastricht debt items could also be reported.

Data cover government controlled units reporting liabilities higher than 0.01% of GDP and classified according to ESA2010 in the sectors of non-financial corporations and financial corporations and rest of the world. The data are reported for individual units and not for consolidated group accounts.

Data provide a breakdown for the liabilities of units involved in financial activities<sup>10</sup> and liabilities of units involved in other activities, among which loss-making non-financial units. Furthermore, the controlling subsector of the general government is also identifiable from the data.

## **3. RESULTS OF THE EUROSTAT FIRST DATA COLLECTION ON CONTINGENT LIABILITIES**

In December 2014, Eurostat collected for the first time data on contingent liabilities. All Member States provided the data to Eurostat around the reporting deadline. On the 10<sup>th</sup> of February 2015, Eurostat published the figures in millions of national currency and in percentage of GDP<sup>11</sup> in its database<sup>12</sup> together with the related

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<sup>9</sup> A set of indicators is to be considered to determine government control (detail on each criterion is defined in ESA 2010, paragraph 20.309).

<sup>10</sup> Liabilities of units involved in financial activities include the following NACE categories: (64) Financial service activities, except for Central Bank, (65) Insurance activities, (66) Activities auxiliary to financial services.

<sup>11</sup> GDP figures provided during the October 2014 Excessive Deficit Procedure notification are used for calculation of indicators.

metadata and country specific footnotes<sup>13</sup>. An accompanying press release was also issued<sup>14</sup>. The main results are presented in Annex 1 of this report.

### **3.1. Completeness and coverage of data**

All Member States provided the completed Supplement on contingent liabilities and potential obligations as well as a reply to the Questionnaire on government controlled entities classified outside general government. The completeness of data varies depending on the indicator and on Member States.

#### *3.1.1. Government guarantees*

All Member States provided figures for the total government guarantees for general government for the years 2010-2013. For France, Croatia and Slovenia, this aggregate does not cover the local government subsector where data are not available. For Denmark, data for local government are available from 2013 onwards only.

Concerning standardised guarantees, data is missing for Belgium, Croatia and Portugal for all the government subsectors. For Denmark, France and Poland, data on standardised guarantees are not available at the level of local government. For Italy, the data for local government include both one-off and standardised guarantees and are not split. For Germany, data for the total stock of loans covered by standardized guarantees are only available for the largest guarantee scheme which is organized by central government, whereas data on the stock of loans covered by the two other standardized guarantee schemes are not available.

#### *3.1.2. Off-balance PPPs*

All countries provided data on off-balance PPPs for 2013. A great majority of countries also reported figures for the years 2010-2012. Data are not exhaustive for Austria where central government is not covered and for the United Kingdom where data for local government are not available. For Germany, assets of all PPP projects are recorded on the government's balance sheet.

#### *3.1.3. Non-performing loans*

For 2013, 23 out of 28 countries provided information on non-performing loans of general government. The missing countries are Belgium, France, Croatia, Cyprus and Slovakia.

Data is not exhaustive for Spain as it does not cover the local government subsector and for Italy and Finland, where non-performing loans of both local government and social security funds are not reported.

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<sup>12</sup> <http://ec.europa.eu/eurostat/web/government-finance-statistics/data/database>

<sup>13</sup> [http://ec.europa.eu/eurostat/cache/metadata/en/gov\\_cl\\_esms.htm](http://ec.europa.eu/eurostat/cache/metadata/en/gov_cl_esms.htm) and

<http://ec.europa.eu/eurostat/documents/1015035/6611302/Contingent-Liabilities-Footnotes.pdf>

<sup>14</sup> <http://ec.europa.eu/eurostat/documents/2995521/6616449/2-10022015-AP-EN.pdf/d75df6fe-100b-4ae7-a09e-00400edb183a>



A number of countries also voluntarily provided data on non-performing loans for the years 2010-2012. These were as follows: Greece, Latvia, Luxembourg, Malta, the Netherlands, Poland, Portugal, Sweden and the United Kingdom.

#### *3.1.4. Liabilities of government controlled entities classified outside general government*

All countries replied to the Eurostat questionnaire on government controlled entities which is the basis for calculating the data series on liabilities of government controlled entities classified outside general government. For most countries, data refer to 2013 except for Germany, Cyprus and partly Ireland, where data refer to the year 2012. A majority of countries provided exhaustive data covering all controlling sub-sectors of general government. However, some Member States data are not exhaustive, not including the liabilities of financial institutions and/or the liabilities of units controlled by local government.

In particular, for Greece and Ireland data coverage is limited to public corporations controlled by central government. In the case of Greece and Cyprus, there are also some units controlled by central government that are not reported in the data. For Poland, the data does not include units employing less than 10 persons.

For Belgium and Cyprus, the coverage of local government is not exhaustive.

Moreover, some countries (Belgium, Greece, Spain, Cyprus and Luxembourg) did not provide any or only partial figures on the government controlled financial institutions.

### **3.2. Comparability of data**

Due to their characteristics, data on contingent liabilities are country specific and closely linked to national particularities regarding the economic, financial and legal structure of the country. As described above and further indicated in country footnotes published with the data, data coverage is not complete for all Member States. For these reasons, the data should be interpreted with caution.

In general, the comparability for government guarantees, non-performing loans and off-balance PPPs is satisfactory whereas it is limited for the liabilities of public corporations. For this indicator, as described above, some Member States data are not exhaustive, not including the liabilities of financial institutions and/or the liabilities of units controlled by local government. In particular, the data show significant differences between countries including exhaustively the liabilities of the financial institutions (such as Germany, Ireland, the Netherlands, Slovenia) and countries which only provided partial data or no data at all (Belgium, Greece, Spain, Cyprus and Luxembourg).

Next, the data reported for liabilities of public corporations are not consolidated, which means that part of the debt of these units could be towards entities in the same company group (the debt between units in the same group is not identifiable from the data reported). Furthermore, the data collection only refers to the liabilities of the entities without balancing them with the assets. This aspect is very important in the case of financial institutions which normally have significant amounts of both

liabilities and assets. Additionally, for some of the Member States, most of the liabilities reported by financial institutions concern deposits.

It should be also mentioned that, when compiling the liabilities of public corporations, Member States could choose which concept to use for the reporting, either business accounts or national accounts concepts. Following the business accounts definitions, the countries included all the liabilities from the financial statements of the company, including also liabilities related to the item 'other accounts payable'. The majority of countries reported the liabilities following this approach. Some other countries (Belgium, Spain, the Netherlands, Portugal and Slovakia) used national accounts concept (excluding the item other accounts payables) or reported Maastricht debt items, i.e. currency and deposits, debt securities and loans.

#### **4. OTHER EUROSTAT DATA COLLECTIONS**

##### **4.1. Government contingent liabilities towards the financial sector**

Since October 2009 Eurostat regularly collects (twice a year, as part of each EDP notification<sup>15</sup>) information on government's contingent liabilities, via the 'Supplementary table for the financial crisis'<sup>16</sup>. It provides data related to the actual and potential impacts on government's deficit and debt of the support provided to financial institutions in the context of the financial turmoil.

The information on government contingent liabilities linked to the financial sector is published on Eurostat's website<sup>17</sup>, for each EU Member State, including a summary table with the aggregated data for the EU and euro area, and covers the years 2007-2014.

##### **4.2. Other Eurostat data sources**

Some data on government guarantees as well as off-balance sheet PPPs have also been collected by Eurostat in the EDP questionnaire tables (which are not public) submitted alongside the EDP notification for over ten years. The information collected is not for publication but for Eurostat internal purposes of quality assurance of the EDP reporting. In addition, aggregated data on state guarantees have been previously collected as a part of the annual 'structure of government debt questionnaire', which is published at the Eurostat website at around T+6 months after the end of the reference period.<sup>18</sup>

Finally, the ESA2010 transmission programme provides for the submission to Eurostat of supplementary tables on pension liabilities. Data in ESA table 29 are

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<sup>15</sup> <http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables>

<sup>16</sup> A «supplementary table» is collected following Eurostat's decision of 15 July 2009 on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis. For more info see "Eurostat supplementary table for the financial crisis: Background note (April 2015)" <http://ec.europa.eu/eurostat/documents/1015035/2022710/Background-note-fin-crisis-Apr-2015-final.pdf>

<sup>17</sup> <http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit/supplementary-tables-financial-crisis>

<sup>18</sup> This data collection covers two years. See <http://ec.europa.eu/eurostat/data/database>, collection gov\_dd\_sgd. ESA2010 data will become available in June 2015.

collected at T+24 months after the end of the reference period and in three-yearly intervals. The first voluntary collection took place at the end of 2014, while the first compulsory collection will take place at the end of 2017.

## **5. CONCLUSIONS**

The data collection on contingent liabilities in the context of Council Directive 2011/85/EU aims to increase the availability of information on the implicit liabilities of general government. Prior to the implementation of the Directive, only partial and mainly non-public data on guarantees and off-balance PPPs were collected by Eurostat. Following the Task Force report, the Member States should publish relevant information in a harmonised and comprehensive way. The results of the first Eurostat data collection show that major efforts had been already undertaken by the Member States. For most countries, complete and good coverage data are available for most of the indicators. Some countries still have to make progress in relation to completeness of the data and coverage, in order to include all the units in the general government. In particular, the coverage of data reported as a basis for calculation of the total liabilities of government controlled entities classified outside general government needs to be improved. At the moment, a number of countries do not report liabilities of government controlled financial institutions and/or the liabilities of units controlled by local government. In addition, the availability of the accompanying metadata could be further improved in order to better inform users about the national characteristics and limitations of the data. Eurostat will carry out a discussion with the Member States on the next steps to be undertaken in this respect. The need to improve the coverage and the completeness for the next data collection in December 2015 will be emphasised. The possibility of the harmonised collection of the metadata will be investigated.

Nevertheless, already at this stage, the new data collection represents a step forward toward further transparency of public finances in the European Union, by giving a more comprehensive picture of the EU Member States' financial positions by showing potential impact on public budgets.

Annex 1.Total general government contingent liabilities and non-performing loans in EU Member States, 2013 (% of GDP)

	Government guarantees				Outstanding liabilities related to off-balance public-private partnerships (PPPs)	Liabilities of government controlled entities classified outside general government	Non-performing loans
	Total	Of which:		Standardised			
		One-off					
Belgium <sup>a</sup>	13.29	13.29	:		0.15	11.41	:
Bulgaria	0.75	0.70	0.04		0.00	12.83	0.07
Czech Republic	1.19	1.19	0.00		0.00	15.48	0.09
Denmark <sup>a</sup>	9.18	9.10	0.07		0.13	27.17	0.22
Germany <sup>a</sup>	18.22	18.03	0.19		-	126.26	0.29
Estonia	1.71	0.00	1.71		0.23	8.93	0.00
Ireland <sup>a</sup>	32.14	32.14	0.00		2.82	64.51	11.40
Greece <sup>a</sup>	3.67	3.61	0.06		0.01	6.82	0.00
Spain <sup>a</sup>	18.41	18.41	:		0.28	12.46	0.19
France <sup>a</sup>	5.53	3.54	1.99		0.00	46.90	:
Croatia <sup>a</sup>	7.25	7.25	:		0.13	15.90	:
Italy <sup>a</sup>	6.10	5.41	0.68		0.02	45.45	0.00
Cyprus <sup>a</sup>	15.85	15.85	0.00		4.85	10.40	:
Latvia	2.31	1.85	0.47		0.03	30.65	0.13
Lithuania <sup>a</sup>	0.82	0.73	0.10		0.00	7.28	0.15
Luxembourg <sup>a</sup>	7.72	6.95	0.77		0.00	1.63	0.00
Hungary	8.03	7.70	0.34		2.18	14.72	0.05
Malta <sup>a</sup>	15.88	15.88	0.00		0.09	31.16	0.00
Netherlands <sup>a</sup>	7.22	6.75	0.47		0.39	107.15	0.70
Austria <sup>a</sup>	35.01	35.01	0.00		0.04	36.15	0.08
Poland <sup>a</sup>	6.80	6.51	0.29		0.00	25.84	0.18
Portugal <sup>a</sup>	11.97	11.97	:		5.12	51.79	1.50
Romania <sup>a</sup>	2.15	0.81	1.34		0.00	9.92	0.00
Slovenia <sup>a</sup>	17.82	17.82	0.00		0.00	93.30	2.83
Slovakia	0.03	0.03	0.00		1.44	3.88	:
Finland <sup>a</sup>	24.08	23.27	0.81		0.03	35.96	0.07
Sweden	11.56	11.56	0.00		0.00	34.50	0.80
United Kingdom <sup>a</sup>	9.47	9.47	0.00		1.89	60.88	0.77

<sup>a</sup> See [Detailed country specific footnotes](#) available in the Eurostat website; : data not available - not applicable