



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

COURTESY TRANSLATION

Mario DRAGHI
President

Mr Dimitrios Papadimoulis
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 1 September 2015

L/MD/15/496

Re: Your letter (QZ-101)

Honourable Member of the European Parliament, dear Mr Papadimoulis,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 22 June 2015.

The Directorate General Statistics of the ECB has been collecting, on a voluntary basis, statistics on financial sector assistance measures provided by governments since 2008. This data collection is similar to the data collected by Eurostat in its supplementary table to the Excessive Deficit Procedure notification tables.

Contingent liabilities (such as guarantees and liabilities of special purpose entities) are part of the data collected under this initiative. However, the data collected only concern government contingent liabilities to the financial institutions that needed government financial support because of the financial crisis. ECB Statistics Paper Series No 7 provides further information about these data and their statistical framework.¹

According to the ECB data, the outstanding amount of contingent liabilities (guarantees) of euro area central governments at end-2013 was equal to 4.7% of GDP, declining at a slow pace from 7.8% of GDP at end-2009. Following major one-off events during the financial crisis, the stock of outstanding support to the financial sector is expected to decrease in almost all euro area countries, with many countries having already recovered or starting to recover part of the liquidity and/or capital support provided to financial institutions.

¹ The document is accessible on the ECB's website at: <https://www.ecb.europa.eu/pub/research/statistics-papers/html/index.en.html>

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This unwinding of financial sector support is expected to contribute to the improvement of fiscal balances in many countries.

The ECB intends to release in its forthcoming Economic Bulletin (Issue 6; September 2015) an article about the fiscal impact of government financial interventions benefiting the financial sector with a specific section on the risks associated with contingent liabilities. At the time of the publication of this article, some of the underlying data will also be made available to the general public through the ECB's Statistical Data Warehouse.²

In considering the risks posed to the financial stability of the euro area by these liabilities, let me underline that, going forward, the bail-in and bank resolution arrangements based on the provisions of the Bank Recovery and Resolution Directive and the Single Resolution Mechanism Regulation should limit government contingent liabilities of any given country vis-à-vis its financial sector. This is expected to successfully break the sovereign-bank nexus that has negatively affected some countries during the crisis.

Concerning your question on the appropriateness of conducting stress tests on non-systemic banks of Member States that have excessive contingent liabilities vis-à-vis the financial sector, let me emphasise that the 2014 EU-wide stress test included 123 banking groups across the EU with total assets of EUR 28,000 billion, accounting for more than 70% of total EU banking assets. An additional stress test of less-significant institutions could be envisaged only after due analysis of the extent to which such institutions depend disproportionately more on such contingent liabilities than the banks that were stress-tested in 2014.

Yours sincerely,

[signed]

Mario Draghi

² Data on contingent liabilities have also been collected by Eurostat and were published for the first time on 10 February 2015. The contingent liabilities published comprise (a) government guarantees, (b) liabilities related to public-private partnerships recorded off-balance sheet of government, and (c) liabilities of government-controlled entities classified outside general government (public corporations). Whereas the comparability of (a) and (b) across countries is satisfactory, the comparability of (c) is limited.

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