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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on guarantees covered by the general budget
Situation at 31 December 2017

{SWD(2018) 397 final}

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1. INTRODUCTION

The objective of this report is to monitor the credit risks borne by the EU budget resulting from the guarantees given for lending operations implemented directly by the European Union or indirectly through the guarantee granted for EIB financing projects outside the Union.

This report is submitted pursuant to Article 149 of the Financial Regulation[1] which requires the Commission to report annually to the European Parliament and to the Council on EU budget guarantees and the corresponding risks.

The report is structured as follows: Section 2 recalls the key features of the operations guaranteed by the EU budget; several other additional crisis management mechanisms, which do not imply any risk for the EU budget, are also presented. Section 3 lays out the evolution of the guaranteed operations. Section 4 highlights the main risks covered by the EU budget. Section 5 outlines the activation of the guarantees and the evolution of the Guarantee Fund for external actions ("the Fund")[2] while section 6 outlines the evolution of the European Fund for Strategic Investments (EFSI)[3].

A Commission Staff Working Document (SWD) complements this report with a set of detailed tables and explanatory notes. It also provides a macroeconomic analysis of the countries benefitting from EU loans and/or guarantees, representing the bulk of the exposure of the Fund.

2. OPERATIONS GUARANTEED BY THE EU BUDGET AND CRISIS MECHANISMS OF THE EURO-AREA NOT COVERED BY THE EU BUDGET

The risks covered by the EU budget derive from a variety of lending and guarantee operations which can be divided into four categories:

2.1 Loans granted by the European Union with macroeconomic objectives

Such loans comprise (1) Macro-Financial Assistance[4] ("MFA") loans to third countries, (2) Balance-of-Payments[5] ("BOP") loans granting support to non-euro Member States experiencing balance-of-payments difficulties and (3) loans under the European Financial

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1 Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).

2 Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions (codified version), the "Guarantee Fund Regulation" (OJ L 145, 10.6.2009, p.10).

3 Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments (the "EFSI Regulation"). OJ L 169, 1.7.2015, p. 1.

4 MFA may also take the form of grants to third countries (not covered by this report). References to legal bases are listed in the Annex of Table A2B of the SWD.

5 Council Regulation (EC) N° 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments (OJ L 53, 23.2.2002, p.1).

Stabilisation Mechanism ("EFSM")[6] granting support to all Member States experiencing or seriously threatened with a severe economic financial disturbance caused by exceptional occurrences beyond their control. They are activated in conjunction with financial support by the International Monetary Fund (IMF);

2.2 Loans with microeconomic objectives

This heading refers to Euratom loans[7]. The Euratom loan facility may be used:

- *[in Member States]:* investments in nuclear power stations and in industrial installations in the nuclear fuel cycle [8] and

- *[in certain non-member countries]:* investments to improve the safety and efficiency of nuclear power stations that exist or are under construction, as well as decommissioning projects[9].

2.3 European Investment Bank ("EIB") financing of operations in non-Member States ("EIB external financing") covered by EU guarantees[10] (ELM).

Under the External Lending Mandate (ELM), the EU provides a guarantee from the EU budget to enable the EIB to increase its lending outside the EU in support of EU policies. The ELM supports EIB activity in the pre-accession countries, the Eastern and Southern Neighbourhood, Asia, Latin America and South Africa. Under the current ELM period (2014-2020), the EU budget guarantees up to EUR 32.3 billion of EIB operations. On 14 March 2018, the European Parliament and the Council adopted the Decision (EU) 2018/412 amending Decision No 466/2014/EU in the context of the mid-term review of the ELM notably increasing the maximum ceiling for the current ELM from 27 billion to EUR 32.3 billion. This review adds a new objective of the long-term economic resilience of refugees, migrants, host and transit communities, and communities of origin as a strategic response to addressing root causes of migration.

The EU guarantee to the EIB covers risks of a sovereign and political nature in connection with its financing operations carried out outside the Union in support of the Union's external policy objectives. In addition, the EIB finances investment grade operations outside the Union at its own risk, as well as activities under specific mandates such as in ACP countries.

With a view to supporting Union external action, and in order to enable the EIB to finance investments outside the Union without affecting the credit standing of the EIB, the majority of its operations outside the Union benefit from an EU budgetary guarantee.

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6 Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism (OJ L 118, 12.5.2010, p.1).

7 Treaty dated 25 March 1957 establishing The European Atomic Energy Community (Euratom) as amended and supplemented.

8 For Member States: Council Decision 77/270/Euratom of 29 March 1977 empowering the Commission to issue Euratom loans for the purpose of contributing to the financing of nuclear power stations (Official Journal n° L 88 of 6 April 1977, p. 9) as amended and supplemented.

9 For certain non-Member States: Council Decision 94/179/Euratom of 21 March 1994 (Official Journal n° L 84 of 29 March 1994) as amended and supplemented.

10 References to legal bases are listed in the Annex of Table A3 of the SWD. Cf footnote 6. Either all legal basis in the annex or all in footnotes.

Guarantee Fund for External Actions

The guaranteed EIB external financing, MFA and Euratom loans to third countries have since 1994 been covered by the Guarantee Fund for External Actions ("the Fund"), while BOP, EFSM and Euratom loans to Member States are directly covered by the EU budget.

The Fund covers defaults on loans and loan guarantees granted to non-Member States or for projects in non-Member States. It was established:

- to provide a 'liquidity cushion' in order to avoid calling on the EU budget every time a default or late payment on a guaranteed loan arises; and

- to create an instrument of budgetary discipline by laying down a financial framework for the development of the EU policy on guarantees for EU and EIB loans to third countries[11].

If third countries become Member States, loans relating to such countries are no longer covered by the Fund and the risk has to be directly borne by the EU budget. The Fund is provisioned from the EU budget and has to be maintained at a certain percentage of the outstanding amount of the loans and loan guarantees covered by the Fund. This percentage, known as the target rate, is currently 9%[12]. If resources of the Fund are not sufficient, the EU budget will provide the necessary funds.

2.4 European Investment Bank ("EIB") and European Investment Fund ("EIF") financing of operations in Member States covered by EU guarantees - The European Fund for Strategic Investments (EFSI)

The European Fund for Strategic Investments (EFSI) is the core of the investment plan for Europe, aimed at boosting long-term economic growth and competitiveness in the European Union.

The EU Guarantee covers part of the financing and investment operations signed by the EIB under the Infrastructure and Innovation Window ("IIW") and by the EIF under the SME Window ("SMEW") while the other part is carried out at the own risk of the EIB Group.

The EIB and the EIF are responsible for assessing and monitoring the risk of the individual operations and report back to the Commission and the European Court of Auditors.

Guarantee Fund of the European Fund for Strategic Investments (EFSI GF)[13]

According to Article 12 of the EFSI Regulation[14], the EFSI GF shall constitute a liquidity cushion from which the EIB shall be paid in the event of a call on the EU guarantee. In

11 Although external risks are covered *in fine* by the EU budget, the Guarantee Fund acts as an instrument to protect the EU budget against the risk of payment defaults. For the latest annual report on the Fund and its management, see COM(2017) 488 final of 14.09.2017 and its Staff Working Document (SWD(2017) 296 final of 14.09.2017). The report for 2017 is expected to be available by June 2018 on http://eur-lex.europa.eu/homepage.html .

12 For a comprehensive report on the functioning of the Fund and the provisioning target rate, see COM(2014) 214 final of 8.4.2014 and its Staff Working Document (2014) 129 final

13 For more information on the management of the EFSI Guarantee Fund, see COM(2017)326 final of 16.6.2017.

accordance with the EFSI Agreement between the EU and the EIB, calls are paid by the EFSI GF if their amount is in excess of the funds at the disposal of the EIB on the EFSI Account. The EFSI Account, managed by the EIB, has been established for the purposes of collecting the EU revenues resulting from EFSI operations under the EU guarantee and recovered amounts and to the extent of the available balance, for the payment of calls under the EU guarantee.

The EFSI GF is provisioned progressively taking into account the increase in exposure borne by the EU Guarantee.

According to Article 12(4), the resources of the EFSI GF are directly managed by the Commission and invested in accordance with the principle of sound financial management following appropriate prudential rules.

2.5 Crisis management mechanisms which are not covered by the EU budget

As part of the response to the crisis, several other mechanisms have been established which, however, do ***not*** imply any risk to the EU budget and they are only mentioned below for the sake of completeness:

- *the Greek Loan Facility (GLF)*[15] which is financed via bilateral loans from other euro area Member States to Greece, centrally administered by the Commission.

- *European Financial Stability Facility (EFSF)*[16]: The EFSF was created by the euro area Member States as a temporary rescue mechanism in June 2010 to provide financial assistance to euro area Member States within the framework of a macroeconomic adjustment programme. The Treaty establishing a permanent rescue mechanism, the European Stability Mechanism (ESM), entered into force on 27 September 2012. Since 1 July 2013, the EFSF continues with its ongoing programmes to Greece (together with the IMF and some Member States) as well as to Ireland and Portugal (together with the IMF, some Member States and EU/EFSM)[17] but is no longer engaged in new financing programmes or loan facility agreements.

- *European Stability Mechanism (ESM)*[18]: The ESM is an important component of the comprehensive EU strategy designed to safeguard financial stability within the euro area by providing financial assistance to euro area Member States experiencing or threatened by financing difficulties. It is an intergovernmental organization under public international law, based in Luxembourg, with an effective lending capacity of EUR 500 billion.

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14 Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments (the "EFSI Regulation"). The agreement on the management of the EFSI and on the granting of the EU guarantee (the "EFSI Agreement") was signed by the European Commission and the European Investment Bank (the "EIB") on 22 July 2015. An amendment to this Agreement was signed on 21 July 2016.

15 About the GLF: http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm.

16 About the EFSF: http://www.efsf.europa.eu.

17 The loans granted under the EU/EFSM are guaranteed by the EU budget.

18 About the ESM: http://esm.europa.eu.

3. EVOLUTIONS OF GUARANTEED OPERATIONS

This section sets out the evolution of the guaranteed operations; firstly of those managed directly by the Commission and secondly those managed by the EIB.

Table 1: Total outstanding amounts covered by the EU budget at 31 December 2017 (in EUR million)

	Outstanding Capital	Accrued Interest	Total	%
Member States*				
Euratom	195.99	0.64	196.62	0.24%
BOP	3 050.00	64.08	3 114.08	3.79%
EIB	1 378.38	10.90	1 389.28	1.69%
EFSM	46 800.00	656.03	47 456.03	57.82%
Sub-total Member States**	51 424.36	731.65	52 156.02	63.55%
Third Countries***				
MFA	3 901.47	22.23	3 923.70	4.78%
Euratom	52.92	0.26	53.17	0.06%
EIB******	25 791.24	145.98	25 937.22	31.60%
Sub-total third countries	29 745.62	168.47	29 914.09	36.45%
Total	**81 169.98**	**900.12**	**82 070.11**	**100.00%**

* This risk is directly covered by the EU budget. This also includes Euratom and EIB loans granted to Member State countries prior to their accession to the EU.

** This figures does not include EFSI operations, where EUR 10 128 million have been disbursed at the reporting date.

*** The risk covered by the Fund is limited to 18.58 billion.

**** Loans subrogated to the EU following Syria and Enfidha (Tunisia) defaults on EIB loans are included (amount: EUR 432.16 million including outstanding capital, accrued interest and penalties). These loans have been fully impaired in the EU Financial Statements of 2015, 2016 and 2017.

Tables A1, A2a, A2b and A3 of the SWD provide more detailed information on these outstanding amounts, in particular in terms of ceiling, disbursed amounts or guarantee rates.

3.1. Operations managed directly by the Commission

Financial support for third countries and Member States in the form of bilateral loans financed from the capital markets with the guarantee of the EU budget is provided by the Commission under various legal acts of the Council or of the Council and the European Parliament, depending on the objectives pursued. The consistency of financial support to third countries with the overall objectives of the EU external action policy is ensured by the Commission and the High Representative of the Union for Foreign Affairs and Security Policy, assisted by the European External Action Service (EEAS).

Therefore, in order to finance the lending activities decided by the Council, the Commission is empowered to borrow funds on the capital markets on behalf of both the European Union and Euratom. Borrowing and lending is conducted as back to back operations, which ensures that the EU budget does not take any interest rate or foreign exchange risk[19]. Outstanding borrowings are matched by outstanding loans.

Table 1: Operations of the EU in 2017 (in EUR million)

Instrument	Beneficiary	Disbursament Date	Amount Issued
MFA	Ukraine MFA III - 2nd instalment - 04/04/2031	04/04/2017	600
	Georgia - 2nd instalment - 18/05/2032	18/05/2017	13
	Tunisia MFAI - 3rd instalment - 20/07/2032	20/07/2017	100
	Tunisia MFAII - 1st instalment - 04/04/2031	25/10/2017	200
	Jordan MFAII - 1st instalment - 04/04/2031	25/10/2017	100
Euratom	Energoatom (Ukraine) - 1st instalment - 04/05/2027	04/05/2017	50
		Total	**1 063**

[19] The EFSM Regulation allows resorting to pre-funding as it authorises the Commission "to borrow on the capital markets or from financial institutions at the most appropriate time in between planned disbursements so as to optimise the cost of funding and preserve its reputation as the Union's issuer in the markets." However, any resulting cost of carry is borne by the borrower.

Table 2: New Borrowing-and-lending operations (guaranteed by the Union budget) planned for 2018 and 2019 (in EUR million)

Instrument	2018	2019
A. Union and Euratom borrowing-and-lending operations with a Union budget guarantee		
1. *Union macro-financial assistance for third countries (MFA)s*		
Operations decided or scheduled:		
Georgia III	15	20
Jordan II	100	
Moldova	20	40
Tunisia II	300	
Ukraine IV	500	500
Subtotal MFA	**935**	**560**
2. *Euratom loans*	**50**	**100**
3. *Balance of payments*	**0**	**0**
4. *European Financial Stabilisation Mechanism (EFSM)*	**4 500**[1]	**0**
Subtotal A	**5 485**	**660**
B. European Investment Bank loans with a Union budget guarantee		
1. Pre-accession countries	983	1 135
2. Neighbourhood and partnership countries	2 061	2 037
3. Asia and Latin America	563	417
4. Republic of South Africa	74	69
Subtotal B	**3 681**	**3 657**
Grand total	**9 166**	**4 317**

[1]Portugal and Ireland are entitled to request a lengthening of maturities on their existing EU loans. The next maturing EFSM loans are due on 4 April 2018 and Ireland has requested an extension. Further EUR 1 100 000 000 are due from Ireland (EU 500 000 000) and Portugal (EUR 600 000 000) on 4 October 2018.

3.1.1. European Financial Stabilisation Mechanism (EFSM)

In its conclusions of 9/10 May 2010, the Ecofin Council foresaw a volume of the mechanism of EUR 60 000 million[20]. In addition, euro-area Member States stood ready to complement such resources if necessary. Article 2(2) of Council Regulation No 407/2010[21] limits the outstanding amount of loans or credit lines to be granted to Member States to the margin available under the own resources ceiling for payment appropriations.

Following the Council decisions to grant Union financial assistance to Ireland[22] (up to EUR 22 500 million) and Portugal[23] (up to EUR 26 000 million), disbursements reached EUR 22 500 million to Ireland and EUR 24 300 million to Portugal (the remaining

[20] Cf. Press release on extraordinary Ecofin Council meeting 9/10 May 2010 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/114324.pdf).

[21] Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism (OJ L 118, 12.5.2010, p.1).

[22] Council Implementing Decision 2011/77/EU of 7 December 2010 on granting Union financial assistance to Ireland (OJ L 30, 4.2.2011, p. 348).

[23] Council Implementing Decision 2011/344/EU of 30 May 2011 on granting Union financial assistance to Portugal (OJ L 159, 17.6.2011, p. 88); see also corrigendum (OJ L 178, 10.7.2012, p.15).

EUR 1 700 million were not requested by the Portuguese government). Accordingly, the EFSM has a remaining capacity of EUR 13 200 million to provide further assistance, if required.

In April 2013 the Eurogroup/ECOFIN decided to increase the maximum weighted average maturity of EFSM loans from 12.5 to 19.5 years, thus offering an option to the beneficiary countries to request a lengthening of loan maturities up to 2026 (tranche by tranche).

Developments during 2017

Ireland

A request to lengthen the EFSM loan of EUR 3.4 billion - disbursed to Ireland in March 2011 and due on 4 April 2018 - was received from Ireland on 27 November 2017. The loan has been refinanced during the first quarter of 2018 in two transactions with maturities in April 2025 (EUR 2.4 billion) and April 2033 (EUR 1 billion).

Furthermore, an additional request to lengthen the EFSM loan of EUR 0.5 billion disbursed to Ireland in October 2011 - which is due on 4 October 2018 – is expected to be received from Ireland in the second quarter of 2018.

Following the maturity extension in Q1/2018, the weighted average maturity of the EFSM loans to Ireland is now 16.8 years.

Portugal

A request to lengthen the EFSM loan of EUR 600 million disbursed to Portugal in October 2011 - which is due on 4 October 2018 - is expected to be received from Portugal in the second quarter of 2018.

3.1.2. Balance of Payments facility (BOP)

The EU medium-term financial assistance under the BOP facility was re-activated at the end of 2008 to support Hungary and subsequently Latvia and Romania to restore market confidence for a total commitment of EUR 14 600 million, of which EUR 13 400 million were disbursed.

Developments during 2017

Romania repaid a loan tranche of EUR 1 150 million in September 2017. The outstanding amount of BOP loans has thus decreased from EUR 4 200 million to EUR 3 050 million in 2017.

At 31 December 2017, the BOP facility had a remaining capacity of EUR 46 950 million out of an overall ceiling of EUR 50 000 million to provide further assistance if required.

3.1.3. Macro-Financial Assistance loans (MFA)

As a general rule, MFA decisions are taken by the European Parliament and the Council (Article 212 of the TFEU). However, the Council may adopt the decision on a proposal from the Commission when the situation in a third country requires urgent financial assistance

(Article 213 of the TFEU) and that procedure was used in the second MFA package for Ukraine in 2014.

Developments during 2017

Georgia

The second and last tranche (EUR 13 million out of the EUR 23 million decision in loans) of the loan granted to Georgia[24] under its previous MFA programme (MFA I) was disbursed on 18th May 2017.

Hashemite Kingdom of Jordan

Jordan's second programme (MFA II)

The Memorandum of Understanding (MoU) and the Loan Facility Agreement (LFA) for Jordan II were signed on the 19th September 2017. The ratification by the Jordanian Authorities also took place on the 19th September 2017 and the entry into force of the Loan Agreement on the 3rd October 2017. The first tranche of EUR 100 million (out of the EUR 200 million decision) of Jordan's second programme (MFA II)[25] was disbursed on 25th October 2017.

Tunisia

Tunisia's first programme (MFA I)

The remaining amount of EUR 100 million (out of the EUR 300 million decision) of Tunisia's first programme (MFA I)[26] was disbursed on 20th July 2017.

Tunisia's second programme (MFA II)

The Memorandum of Understanding (MoU) and the Loan Facility Agreement (LFA) for Tunisia II were signed on the 27th April 2017. The ratification by the Tunisian Authorities took place on the 11th August 2017 and the entry into force of the Loan Agreement on the 8th September 2017. The first tranche of EUR 200 million (out of the EUR 500 million decision) of Tunisia's second programme (MFA II)[27] was disbursed on 25th October 2017.

Ukraine

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[24] Decision 778/2013/EU of the European Parliament and of the Council of 12 August 2013 providing macro-financial assistance to Georgia (OJ L 218, 14.8.2013, p. 15).

[25] Decision (EU) 2016/2371 of the European Parliament and of the Council of 14 December 2016 providing further macro-financial assistance to the Hashemite Kingdom of Jordan (OJ L 352, 23.12.2016, p. 18).

[26] Decision 534/2014/EU of the European Parliament and of the Council of 15 May 2014 providing macro-financial assistance to the Republic of Tunisia (OJ L 151, 21.05.2014, p. 9).

[27] Decision (EU) 2016/1112 of the European Parliament and of the Council of 6 July 2016 providing further macro-financial assistance to Tunisia (OJ L 186, 09.07.2016, p. 1).

On 16th March 2017, the Commission adopted a decision to disburse the second tranche of EUR 600 million under Ukraine's third MFA programme (MFA III)[28]. The disbursement took place on 4th April 2017. The third and final tranche (EUR 600 million) under that programme was cancelled.

On 13 September 2017, the European Parliament and the Council decided to provide further macro-financial assistance to the Republic of Moldova[29] of EUR 100 million (up to EUR 60 million provided in the form of loans and up to EUR 40 million in the form of grants).

In 2017 the Commission also adopted a proposal for a new MFA operation of EUR 45 million to Georgia (The adoption by the co-legislators was still pending at the end of the year).

Regarding repayments, EUR 58.13 million were repaid by the beneficiary countries (Albania EUR 1.8 million, Bosnia and Herzegovina EUR 4 million, former Yugoslav Republic of Macedonia EUR 8 million, Montenegro EUR 1.10 million and Serbia EUR 43.23 million).

The outstanding amount of MFA loans has increased from EUR 2 946.6 million to EUR 3 901.47 million between 31 December 2016 and 31 December 2017. Loans to Ukraine represent 72% of the total MFA exposure.

Developments subsequent to 31 December 2017 (until 30 June 2018)

Adoption of the Decision (EU) 2018/598 of the European Parliament and of the Council of 18 April 2018 providing further macro-financial assistance to Georgia[30].

3.1.4. Euratom loans

The Euratom lending to Member States or in certain eligible non-member countries (currently Russian Federation, Armenia, Ukraine) has a ceiling of EUR 4 000 million of which around 92% has already been disbursed. EUR 326 million remain under the EUR 4 000 million Decision.

A loan of EUR 300 million to Ukraine dedicated to the safety upgrade of existing nuclear facilities was signed on 7 August 2013 and the Guarantee Agreement was ratified by the Ukrainian Parliament on 15 May 2014. The loan will be provided in close cooperation with the EBRD, which provides another EUR 300 million loan in parallel.

On 27 May 2015 the Commission authorised disbursements under the Euratom loan to Energoatom in the amount of up to EUR 100 million, subject to Energoatom having drawn the loan amount granted by the EBRD in an amount not less than EUR 50 million. These

[28] Decision (EU) 2015/601 of the European Parliament and of the Council of 15 April 2015 providing further macro-financial assistance to Ukraine (OJ L 100/1, 17.04.2015).

[29] Decision (EU) 2017/1565 of the European Parliament and of the Council of 13 September 2017 on providing macro-financial assistance to the Republic of Moldova (OJ L 242, 20.9.2017, p. 14).

[30] Decision (EU) 2018/598of the European Parliament and of the Council of 18 April 2018 providing further macro-financial assistance to Georgia (OJ L 103, 23.4.2018, p. 8–13).

loans benefit from State guarantees which cover 100% of the amounts outstanding at year end.

Developments during 2017

The first Euratom tranche of EUR 50 million was disbursed in May 2017.

Developments subsequent to 31 December 2017

A second loan tranche of EUR 50 million is planned for June 2018.

3.2. Evolution of the EIB external financing operations

Developments during 2017

Under the EIB general mandate covering the period 2014-2020, a total amount of EUR 13 879 million had been signed at 31 December 2017, of which only EUR 3 516 million was disbursed at that date, leaving the outstanding capital at EUR 3 185 million (see Table A3 of the SWD). For more information on the countries covered by the EIB mandates, see Tables A1, A3 and A4 of the SWD.

For previous EIB external mandates, see Table A3 of the SWD.

Defaults on interests payments and loan repayments from the Syrian Government continued in 2017. The EIB has called on the Guarantee Fund to cover those defaults (see paragraph 5.1.3 below).

Outstanding amounts at 31 December 2017 for the various facilities referred to in this section are presented in section 3 above (Table 1).

4. RISKS COVERED BY THE EU BUDGET

4.1. Definition of risk

The risk borne by the EU budget derives from the outstanding amount of capital and interest in respect of guaranteed operations.

For the purpose of this report, two methods are used for evaluating the risks borne by the EU budget (either directly or indirectly via the Fund):

– "The total risk covered" is based on the sum of the total amount of capital outstanding for the operations concerned on a given date including accrued interest[31].

– The budgetary approach defined as "the annual risk borne by the EU budget" is based on the calculation of the maximum amount of annual payments due which the EU would have to pay out in a financial year assuming that all payments of the guaranteed loans are in default[32].

[31] See Table 1 of the Report.

[32] For the purpose of that calculation, it is assumed that defaulting loans are not accelerated, i.e. only payments due are taken into account (see Tables 2 and 3 of the report and Table A4 of the SWD).

4.2. Total risk composition

Until 2010 the maximum risk in terms of total outstanding amounts covered was mainly linked to loans granted to third countries. Since 2011, the financial crisis has heavily affected the public finances of the Member States leading to an increase in the lending activity of the EU to support sovereign financing needs in Member States.

As a consequence the composition of risk has changed. At 31 December 2017, 64% of the total outstanding amount[33] concerns borrowing operations linked to loans to Member States which are directly covered by the EU budget (compared to 45% at 31.12.2010).

4.3. Annual risk covered by the EU budget

With reference to outstanding loans at 31 December 2017 (see Table 1 above) the maximum amount which the EU would have to pay out during the year 2018 (directly and via the Fund) - *assuming* that *all* guaranteed loans would be in default - is EUR 9 965 million. That amount represents the capital and interest payments from guaranteed loans falling due during 2018, assuming that defaulting loans are not accelerated (for details see Table A4 in SWD).

4.3.1. Member State exposure

In 2018, the EU will bear a maximum annual risk related to operations with Member States (MS) of EUR 7 482.8 million (75.1% of the total annual risk). That risk concerns:

(a) EIB lending and/or Euratom loans granted before Member States' accession to the EU;

(b) the loans granted under the BOP facility, and

(c) the loans granted under the EFSM scheme.

Table 2: Ranking of the Member States according to the annual risk borne by the EU budget in 2018 (EUR million)

Ranking	Country	Loans	Max annual risk	Weight of the country vis-à-vis annual risk of MS	Weight of the country vis-à-vis total annual risk (MS and non-MS)
1	Ireland	c)	4 507.25	60.2%	45.2%
2	Romania	a+b)	1 603.89	21.4%	16.1%
3	Portugal	c)	1 191.00	15.9%	12.0%
4	Bulgaria	a)	67.65	0.9%	0.7%
5	Croatia	a)	35.77	0.5%	0.4%
6	Latvia	a+b)	26.06	0.3%	0.3%
7	Poland	a)	20.70	0.3%	0.2%

[33] See Table 1.

8	Slovakia	a)	13.82	0.2%	0.1%
9	Czech Republic	a)	13.16	0.2%	0.1%
10	Lithuania	a)	3.49	0.0%	0.0%
Total			7 482.8	100.0%	75.1%

4.3.2. Third country exposure

In 2018, the Fund will bear a maximum annual risk related to the exposure to third countries of EUR 2 482.09 million (24.9% of the total annual risk). The risk linked to third countries concerns EIB lending, MFA and Euratom loans (details are included in Table A2b of the SWD). The Fund covers guaranteed loans to third countries with maturities extending up to 2042.

The top ten countries (out of 46 non-MS) are ranked below according to the repayments due in 2018. They account for EUR 2 041.42 million or 82% of the annual risk related to third countries borne by the Fund for 2018. The economic situation of those countries is analysed and commented in point 3 of the SWD. Creditworthiness, as assessed by the rating agencies, is also indicated in each country table.

Table 3: Ranking of the **10 third countries** with the highest exposure according to the annual risk borne by the EU budget in 2018 (EUR million)

Ranking	Country	Max annual risk	Weight of the country vis-à-vis annual risk of third countries	Weight of the country vis-à-vis total annual risk (MS and non-MS)
1	Turkey	604.90	24.4%	6.1%
2	Tunisia	273.93	11.0%	2.7%
3	Egypt	267.21	10.8%	2.7%
4	Morocco	247.22	10.0%	2.5%
5	Serbia	209.08	8.4%	2.1%
6	Ukraine	131.92	5.3%	1.3%
7	South Africa	111.47	4.5%	1.1%
8	Lebanon	77.07	3.1%	0.8%
9	Bosnia and Herzegovina	63.20	2.5%	0.6%
10	Syrian Arab Republic	55.44	2.2%	0.6%
Total (top 10)		2 041.42	82.2%	20.5%

5. ACTIVATION AND PAYMENT OF GUARANTEES

5.1. Debt service not covered by the Guarantee Fund for External Action (Euratom loans to Member States, EFSM and BoP)

5.1.1. Payments from cash resources

The EU budget provisionally covers the debt service at due dates in case a debtor fails to repay its loan to the EU on time. The Commission draws on its cash resources in order to avoid delays and any resulting costs in servicing its borrowing operations[34].

Being mindful of most expenditures taking place during the first quarter of each year, debt redemption is structured for the months thereafter as well as for the beginning of each month when cash balances are highest.

[34] See Article 14 of Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements (OJ L 168, 7.6.2014, p. 39).

5.1.2. *Payments from the EU budget*

In the event that one or more Member States do not meet their legal obligations[35] and that the EU's own resources are insufficient, the Commission can use available EU budget resources and prioritise debt repayment over other non-obligatory expenditures. According to the MFF, if this proves to be insufficient, EU legislation obliges Member States to provide additional contributions necessary to repay the debt and to balance the budget, up to a ceiling of 1.20% of EU GNI. If needed, EU legislation allows Member States to contribute independently of their share to the EU budget.

As no default from Member States occurred during the year 2017, no appropriation was requested.

5.2 Calls on the Guarantee Fund for External Actions and recoveries (ELM, MFA and Euratom loans to Third countries)

In the event of late payment by the beneficiary of a loan to third countries granted or guaranteed by the EU, the Guarantee Fund is called on to cover the default within three months of the request.

The amounts called by the EIB are withdrawn from the Guarantee Fund account after authorization by the Commission services. When the EU makes a payment under the EU Guarantee, it is subrogated into the rights and remedies of the EIB [36]. For Euratom and MFA loans, If the payment delay reaches three months after the due date, the Commission draws on the Fund to cover the default[37] and to replenish its treasury.

Recovery proceedings are undertaken by the EIB on behalf of the EU in respect of the subrogated sums[38].

EIB loans to projects in Syria

Starting from December 2011, the EIB has experienced defaults on certain interest payments and loan repayments from the Syrian Government. Since official payment requests have remained unsuccessful, the EIB started to call on the Guarantee Fund in May 2012. The evolution of the calls corresponding to defaulting loans in Syria is presented in Table 4a.

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35 Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements (OJ L 168, 7.6.2014, p. 39).

36 See Article 8.7 of Decision No 466/2014/EU of the European Parliament and of the Council of 16 April 2014 granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union.

37 Except for Bulgaria and Romania which were granted Euratom loans before joining the Union. The loans (and loans guarantees) to accession countries were covered by the Fund until the date of accession. From that date, those that remained outstanding ceased to be external actions of the Union and are therefore covered directly by the EU budget.

38 For further information on recovery proceedings, see also the Recovery Agreement signed on 25 July 2014 between the European Union and The European Investment Bank governing modalities and procedures for recovery of payments made by the EU under the guarantees granted by it to the EIB against losses under financing operations supporting investment projects outside the EU.

Table 4a: Calls on the Guarantee Fund due to defaulting loans in Syria (in EUR million)

Year (Withdrawal from GF account on)	Number of calls paid	Amount of due instalments	Penalties and accrued interests[39]	Amount recovered	Total
2012	2	24.0	0.0	2.2	21.8
2013	8	59.3	1.4	0.0	60.7
2014	8	58.7	1.5	0.0	60.2
2015	8	58.7	1.5	0.0	60.2
2016	12	103.8	2.4	0.0	106.2
2017	13	56.1	0.2	0.0	56.3
Total	38	360.5	6.9	2.2	365.3

At 31 December 2017, the total capital outstanding of guaranteed loans related to Syria amounted to EUR 555 million[40], with the final loan maturity in 2030.

<u>TAV Tunisie S.A. (Enfidha airport)</u>

The EIB called on 29 June 2016 the EU guarantee under the external lending mandate in relation to a loan to TAV Tunisie S.A. (Enfidha airport).

In 2017, the Commission paid EUR 28.7 million to the EIB for 3 calls on a defaulted loan to Enfidha Airport (Tunisia). From September 2016 until December 2017, the Commission paid in total EUR 33.4 million to the EIB for 4 calls (paid from the Fund). The last payment took place on 15 December 2017.

The calls on the Fund corresponding to the defaulting loan to TAV Tunisie S.A. (Enfidha airport) are presented in Table 4b.

39 Penalties and accrued interests are claimed by the EIB only with the second payment request of each individual loan and run from the default date until the payment date by the Guarantee Fund.

40 This includes the amount of EUR 360.52 million (principal + interest) already called by the EIB.

Table 4b: Call on the Guarantee Fund relating to TAV Tunisie S.A. (Enfidha airport) (in EUR million)

Year of withdrawal	Number of calls paid	Amount of due instalments	Penalties and accrued interest[32]	Amount recovered	Total
2016	1	4.56	0.09	0.00	4.65
2017	3	28.69	0.01	0.00	28.70
Total	4	33.25	0.10	0.00	33.35

Developments subsequent to 31 December 2017 (until 30 June 2018)

In February and March 2018, EUR 10.6 million in total were paid in two calls for defaulted payments of Syria (EUR 3.2 million and EUR 7.4 million including penalties applied by EIB).

On 15 January 2018, EUR 0.14 million recovered from Enfidha Airport were credited to the Guarantee Fund. This amount was already recognised as an asset (receivable) in the balance sheet of 31 December 2017.

5.3. Evolution of the Fund

In accordance with Regulation establishing the Guarantee Fund for External Actions ("the Guarantee Fund Regulation")[41], the Fund has to reach an appropriate level (target amount) set at 9% of the total outstanding capital liabilities arising from each operation, plus accrued interest. A provisioning mechanism is in place to ensure the target amount is met.

On the basis of the provisioning mechanism, the EU budget paid EUR 240.54 million to the Fund in February 2017, while in February 2018 the respective payment amounted to EUR 137.8 million.

At 31 December 2017, the net assets[42] of the Fund amounted to EUR 2 559.81 million. The ratio between the net assets and the outstanding capital liabilities[43] (EUR 29 589.28 million), within the meaning of the Guarantee Fund Regulation, was lower than the target amount. Consequently, the Guarantee Fund will be provisioned by EUR 103.22 million in 2019[44].

A review to assess the main parameters of the Fund, in particular the target rate, should be undertaken at the time of the mid-term review of the EIB external lending mandate. Therefore, an evaluation of the Guarantee Fund was carried out by an external contractor taking into account the risk profile of the Fund and its effectiveness in the light of the evolution of the external financing covered by the Fund and the related risks. The report was

41 Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions (codified version), the "Guarantee Fund Regulation" (OJ L 145, 10.6.2009, p.10).

42 Total assets of the Fund minus accrued payables (EIB fees and audit fees).

43 Including accrued interests.

44 Due to the planned use of EUR 55 million of external assigned revenue, only EUR 48.22 million was entered in the draft 2019 budget.

delivered in August 2016 and the main conclusion was that a 9% Target Rate is still deemed optimal for the current risk level of the loans portfolio, even under a scenario of further rating downgrades of the main obligors. Therefore, the 9% Target Rate is kept unchanged.

6. THE EUROPEAN FUND FOR STRATEGIC INVESTMENTS (EFSI) [45]

The EFSI GF is provisioned progressively taking into account the increase in exposure borne by the EU Guarantee.

According to Article 12(4), the resources of the EFSI GF are directly managed by the Commission and invested in accordance with the principle of sound financial management following appropriate prudential rules.

The EIB and the EIF are responsible for assessing and monitoring the risk of the individual operations backed by the EFSI Guarantee. On the basis of this reporting and of coherent and prudent assumptions on future activity, the Commission maintains the adequacy of the target amount and the level of the EFSI GF under review. In line with Article 16(3) of the EFSI Regulation, the EIB and the EIF reported back to the Commission and the European Court of Auditors in March 2018.

Pursuant to Article 16(2) of the EFSI Regulation, the annual report of the EIB to the European Parliament and Council shall contain specific information on the aggregate risk associated with the financing and investment operations carried out under the EFSI as well as on guarantee calls.

Developments during 2017[46]

The guarantee exposure of the EU in relation to disbursed outstanding EFSI operations by the EIB Group amounted to EUR 10 128 million, as at 31 December 2017, out of the legal commitment of EUR 16 000 million guaranteed by the EU (Article 11 of the EFSI Regulation). The amount of EUR 10 128 million is recorded as a contingent liability in the notes to the 2017 financial statements of the EU.

In 2017, EFSI operations managed by the EIB under the Infrastructure and Innovation Window generated revenue of EUR 61.0 million for the EU. Of this amount, a receivable of of the Commission from the EIB as at 31 December 2017 of EUR 31.9 million was recorded in the 2017 EU financial statements.

For the EFSI operations managed by the EIF under the SME Window, the EU incurred in 2017 an estimated amount of EUR 12.7 million concerning EIF administrative fees. The amount is payable to the EIF on 30 June 2018.

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[45] Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments (the "EFSI Regulation"). OJ L 169, 1.7.2015, p. 1.

[46] Information for this section have been extracted from the Report from the Commission to the European Parliament, the Council and the Court of Auditors on the management of the Guarantee Fund of the European Fund for Strategic Investments in 2017 - COM(2018)345 final of 28.5.2018.

The net assets of the Guarantee Fund stood at EUR 3 504 million as at 31 December 2017. The assets were composed of the investment portfolio, classified as available-for-sale (EUR 3 414 million), an FX forward sale of USD with positive net present value, classified as financial assets at fair value through surplus and deficit (EUR 6 million), short term bank deposits (EUR 40 million) and cash and cash equivalents (EUR 44 million).

At the end of 2017, total cumulated signatures under EFSI amounted to EUR 37.4 billion covering 28 Member States, of which EUR 27.4 billion was signed by the EIB (278 operations) and EUR 10.0 billion was signed by the EIF (328 operations). Overall, this represents a significant increase compared to 2016, at the end of which total signatures amounted to EUR 21.3 billion.

At the end of 2017, the overall outstanding disbursed exposure covered by the EU Guarantee amounted to nearly EUR 10.1 billion, up from EUR 4.4 billion in 2016.

The exposure of the EU budget to possible future payments under the EU Guarantee in terms of signed operations (disbursed and undisbursed) amounted to EUR 13.5 billion.

Under the IIW the outstanding disbursed exposure covered by the EU Guarantee was EUR 9.57 billion, of which EUR 9.36 billion for debt operations and EUR 0.21 billion for equity-type operations.

For more information on the management of the EFSI Guarantee Fund, see the last version of the report from the Commission to the European Parliament, the Council and the Court of Auditors on the management of the Guarantee Fund of the European fund for strategic investments[47] and the associated Staff Working Document (SWD).

[47] Last version - COM(2018)345 final of 28.5.2018.