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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

ON BORROWING AND LENDING ACTIVITIES OF THE EUROPEAN UNION IN 2013

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1. INTRODUCTION

The Commission is required to inform every year the European Parliament and the Council on the use of the various lending instruments of the European Union.

This report describes the lending operations for each instrument as well as the respective borrowing activities.

Table 1: Evolution of operations of the European Union (outstanding amounts of capital in EUR million)

	ECSC i.l.(1) (2)	Euratom (1)	BOP	MFA	EFSM	Total
2009	214	481	9,200	584		10,479
2010	219	466	12,050	500		13,235
2011	225	447	11,400	590	28,000	40,662
2012	183	423	11,400	545	43,800	56,351
2013	179	386	11,400	565	43,800	56,330

(1)The conversion rates used are those of 31 December of each year.
(2)The European Coal & Steel Community is in liquidation since 2002. The last bond issued by ECSC matures in 2019.

2. LENDING ACTIVITIES OF THE EUROPEAN UNION

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[1]. The consistency of financial support to third countries with the overall objectives of the EU external action is ensured by the Commission and the High Representative of the Union for Foreign Affairs and Security Policy assisted by the EEAS.

2.1. BOP facility

Balance-of-payments (BOP) assistance under Article 143 of the Treaty on the Functioning of the European Union (TFEU) and Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments[2] (BOP Regulation) takes the form of medium-term loans provided by the Union. It is generally granted in conjunction with financing by the International Monetary

1 Detailed presentation of the borrowing and lending activities of the Commission is available at http://ec.europa.eu/economy_finance/eu_borrower/index_en.htm.

2 OJ L 53, 23.2.2002, p.1.

Fund (IMF) and other multilateral lenders, such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) or the World Bank.

BOP assistance is granted on a case-by-case basis by the Council acting by qualified majority. Potential beneficiaries are Member States outside the euro-area being faced with serious balance-of-payments difficulties. It aims at easing the recipient Member States' external financing constraints and at restoring the viability of a country's balance-of-payments. It is released subject to the fulfilment of economic policy conditions decided by the Council – after consultation with the Economic and Financial Committee (EFC) on a draft adjustment programme – and whose details are agreed by the Commission and the beneficiary Member State in a Memorandum of Understanding (MoU) prior to the conclusion of a loan agreement. The continued compliance with measures in the adjustment programme is reviewed regularly and is a condition for the disbursements of further instalments. The required funds are raised by the Commission on behalf of the European Union in capital markets.

The Commission reports regularly to the EFC and to the Council on the implementation of the BOP Regulation.

The BOP facility was re-activated in 2008 in response to the international economic and financial crisis and its ceiling was increased from EUR 12 billion to finally EUR 50 billion in May 2009[3] to enable the EU to respond quickly to any further demand for BOP assistance. Up to 31 December 2013, a total amount of EUR 18.0 billion had been committed to Hungary[4], Latvia[5] and Romania[6] of which EUR 13.4 billion were disbursed.

The precautionary financial assistance (PFA) for Romania of up to EUR 1.4 billion[7] expired on 31 March 2013 without having been drawn down.

In 2013, the Council adopted a second PFA programme for Romania[8] of up to EUR 2 billion. Disbursements may be requested until 30 September 2015.

In 2013, no disbursements were made under the BOP facility.

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3 Council Regulation (EC) No 431/2009 of 18 May 2009 amending Regulation (EC) No 332/2002 establishing a facility providing medium-term financial assistance to Member States' balances of payments (OJ L 128, 27.5.2009, p.1).

4 Council Decision 2009/102/EC of 4 November 2008 providing Community medium-term financial assistance for Hungary (OJ L 37, 6.2.2009, p. 5).

5 Council Decision 2009/290/EC of 20 January 2009 providing Community medium-term financial assistance for Latvia (OJ L 79, 25.3.2009, p. 39).

6 Council Decision 2009/459/EC of 6 May 2009 providing Community medium-term financial assistance for Romania (OJ L 150, 13.6.2009, p. 8).

7 Council Decision 2011/288/EU of 12 May 2011 providing precautionary EU medium-term financial assistance for Romania (OJ L 132, 19.5.2011, p. 15).

8 Council Decision 2013/531/EU of 22 October 2013 providing precautionary EU medium-term financial assistance to Romania (OJ L 286, 29.10.2013, p.1).

Table 2: BoP assistance up to 31.12.2013 (in EUR billion)

Country	Amount decided	Amount disbursed	Amount reimbursed	Amount outstanding	Average loan maturity (years)
Hungary	6.5	5.5	2.0	3.5	5.0
Latvia	3.1	2.9	0	2.9	6.6
Romania	5.0	5.0	0	5.0	7.0
Romania (PFA)	1.4	0	0	0.0	0
Romania (PFA)	2.0	0	0	0.0	0
Total	**18.0**	**13.4**	**2.0**	**11.4**	

Operations made since 31 December 2013

In April 2014, EUR 1,000 million was reimbursed by Latvia.

Detailed information on BOP operations can be found at: http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/index_en.htm

2.2. EFSM

Council Regulation (EU) No 407/2010 of 11 May 2010 set up the European Financial Stabilisation Mechanism (EFSM) based on Article 122(2)[9] of the TFEU. The EFSM is fully backed by the EU budget and has a total lending capacity of up to EUR 60 billion.

Potential beneficiaries for the EFSM assistance are Member States faced with difficulties caused by a serious deterioration in the international economic and financial environment. The use of EFSM is subject to policy conditionality in the context of an economic and financial adjustment programme as agreed under a Memorandum of Understanding concluded between the Commission and the beneficiary Member State and it follows a similar decision making process as for the BOP assistance. The assesment of the financial needs and regular surveillance in the programme implementation are made by the Commission in consultation with the European Central Bank (ECB), at least every six months regarding the general economic policy conditions of the adjustment programme and every three months for the verification of fulfilment by the Member State of economic policy conditions attached to the assistance. Any changes that may be needed to the adjustment programme are discussed with the beneficiary Member State. The Council, acting by a qualified majority on a proposal from the Commission, shall decide on any adjustments to be made to the initial general economic policy conditions and shall approve the revised adjustment programme as prepared by the beneficiary Member State.

[9] Article 122(2) of the TFEU foresees financial support for Member States in difficulties caused by exceptional circumstances beyond their control.

The EFSM facility was activated in 2011 for Ireland[10] and Portugal[11], committing a loan amount of up to a EUR 22.5 billion and EUR 26 billion respectively. The total commitments, including also the EFSF, the IMF and other Member States amount to up to EUR 85 billion and EUR 78 billion respectively:

Table 3: Breakdown of commitments (in EUR billion)

Country	EFSM	EFSF	IMF	Others	Total
Ireland	22.5	17.7	22.5	22.3*	85.0
Portugal	26.0	26.0	26.0		78.0
Total	48.5	43.7	48.5	22.3	163.0

* EUR 4.8 billion from other Member States (United Kingdom, Sweden, Denmark) and EUR 17.5 billion from the Irish State.

Since the implementation of the Facility, reductions in the interest rate margin and extension of maturities have been decided and applied to all the loans.

In 2013, no disbursements were made under the EFSM facility.

The total outstanding amount of the Facility is EUR 43,800 million at the end of 2013 (Ireland: EUR 21,700 million, Portugal: EUR 22,100 million).

Operations made since 31 December 2013

In March 2014, EUR 1,800 million were disbursed to Portugal and EUR 800 million to Ireland (final tranche).

Ireland completed the EU/IMF financial assistance programme in December 2013, while Portugal exited the programme in May 2014.

Detailed information on EFSM operations can be found at: http://ec.europa.eu/economy_finance/eu_borrower/efsm/index_en.htm

2.3. MFA facility

Macro-Financial Assistance (MFA) is being provided to support EU candidate, potential candidate and neighbourhood countries to resolve short-term balance-of-payments problems, to stabilise public finances and to encourage structural reform implementation. MFA is provided on an exceptional and temporary basis and is based on strict economic policy conditionality. MFA operations typically complement IMF adjustment programmes. MFA can be provided in the form of loans and/or non-reimbursable grants.

10 Council Implementing Decision No 2011/77/EU of 7 December 2010 on granting Union financial assistance to Ireland (OJ L 30, 4.2.2011, p. 34).

11 Council Implementing Decision No 2011/344/EU of 30 May 2011 on granting Union financial assistance to Portugal (OJ L 159, 17.6.2011, p. 88).

Should a beneficiary country fail to honour its repayment obligations, the Commission may activate the Guarantee Fund for External Actions[12] so that the repayment of the corresponding borrowing by the Commission is done from its funds[13].

In 2013, the MFA operation for Bosnia and Herzegovina[14], approved in 2009 (amounting to a total of EUR 100 million in loans) was completed. The first tranche of EUR 50 million was disbursed in February 2013 and the second one, also EUR 50 million, in September 2013.

On 12 August 2013, the European Parliament and the Council decided to make MFA available to Georgia of a maximum amount of EUR 46 million (up to EUR 23 million in the form of grants and up to EUR 23 million in the form of loans) for a maximum maturity of 15 years[15]. No disbursements have been made yet.

On 22 October 2013, the European Parliament and the Council decided to make MFA available to the Kyrgyz Republic of a maximum amount of EUR 30 million (up to EUR 15 million in the form of grants and up to EUR 15 million in the form of loans) for a maximum maturity of 15 years[16]. No disbursements have been made yet.

On 11 December 2013, the European Parliament and the Council decided to make MFA available to Jordan[17] in the form of loans for a maximum amount of EUR 180 million and with a maximum maturity of 15 years, to covering Jordan's balance of payments needs as identified in the IMF programme. No disbursements have been made yet.

<u>Operations made since 31 December 2013</u>

On 14 April 2014, the Council decided to make MFA available to Ukraine[18] in the form of loans for a maximum amount of EUR 1 billion and with a maximum maturity of 15 years, to cover Ukraine's urgent balance of payments needs as identified in the government's economic programme supported by the IMF. The first tranche of EUR 500 million was disbursed in June 2014.

Regarding the implementation of the MFA to Ukraine, approved in 2010[19], which, together with the funds available from a previous operation approved in 2002[20], amounts to EUR 610

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12 See Council Regulation (EC, Euratom) No 480/2009 establishing a Guarantee Fund for external actions (Codified version) (OJ L 145, 10.6.2009, p. 10). No default has been registered so far for MFA loans.

13 Although the repayment of the borrowing is covered in fine by the EU budget, the Guarantee Fund acts as liquidity buffer protecting the EU budget against the risk of calls resulting from payment defaults. For a comprehensive report on the functioning of the Fund, see COM(2014)214 and the accompanying Staff Working Document SEC(2014)129.

14 Council Decision 2009/891/EC of 30 November 2009 providing macro-financial assistance to Bosnia and Herzegovina (OJ L 320, 5.12.2009, p. 6).

15 Decision No 778/2013/EU of the European Parliament and of the Council of 12 August 2013 providing further macro-financial assistance to Georgia (OJ L 218, 14.8.2013, p. 15).

16 Decision No 1025/2013/EU of the European Parliament and of the Council of 22 October 2013 providing macro-financial assistance to the Kyrgyz Republic (OJ L 283, 25.10.2013, p. 1).

17 Decision No 1351/2013/EU of the European Parliament and of the Council of 11 December 2013 on providing macro-financial assistance to the Hashemite Kingdom of Jordan (OJ L 341, 11.12.2013, p. 4).

18 Council Decision No 2014/215/EU of 14 April 2014 providing macro-financial assistance to Ukraine (OJ L 111, 15.4.2014, p. 85).

19 Decision No 388/2010/EU of the European Parliament and of the Council of 7 July 2010 providing macro-financial assistance to Ukraine (OJ L 179, 14.7.2010, p. 1).

million in loans, the MoU was signed in the framework of a Ukraine-EU summit in February 2013. The first tranche of EUR 100 million was disbursed mid-May 2014.

Detailed information on MFA operations can be found in the annual Commission Report to the European Parliament and the Council on the implementation of MFA to third countries[21] and at: http://ec.europa.eu/economy_finance/eu_borrower/macro-financial_assistance/index_en.htm.

2.4. Euratom facility

The Euratom loan facility may be used to finance projects within Member States (Council Decision 77/270/Euratom) or in certain third countries (Ukraine, Russia or Armenia) (Council Decision 94/179/Euratom).

In 1990, the Council fixed a borrowing limit of EUR 4 billion, of which some EUR 3.7 billion have been decided and EUR 3.4 billion already disbursed. The Council asked the Commission to propose a new lending ceiling once the signed amount reaches EUR 3.8 billion.

In 2013, the Commision adopted Decision C(2013) 3496 on granting an up to EUR 300 million Euratom loan in support of the Ukraine safety upgrade program of nuclear power units. The Loan Agreement was signed in August 2013. The loan will enter into force once all conditions for effectiveness have been satisfactorily completed. A parallel EUR 300 million loan was signed in March 2013 by the EBRD.

3. BORROWING ACTIVITIES OF THE EUROPEAN UNION

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[22]. Outstanding borrowings are matched by outstanding loans.

3.1. BOP

In 2013, under the BOP facility, no borrowings were raised in the market.

The total outstanding amount raised for BOP is EUR 11.4 billion at the end of 2013.

3.2. EFSM

In 2013, under the EFSM facility, no borrowings were raised in the market.

The total outstanding amount raised for EFSM is EUR 43.8 billion at the end of 2013.

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[20] Council Decision 2002/639/EC of 12 July 2002 providing supplementary macro-financial assistance to Ukraine (OJ L 209, 6.8.2002, p. 22).

[21] COM (2013)426 and SWD(2013)211.

[22] 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 resultant cost of carry is borne by the borrower.

3.3. MFA

In 2013, the MFA operation for Bosnia and Herzegovina, approved in 2009 (amounting to a total of EUR 100 million in loans), was completed. The first tranche, amounting to EUR 50 million, was disbursed in February 2013 and the second one, also amounting to EUR 50 million, in September 2013.

The total outstanding amount for MFA is EUR 565 million in the end of 2013.

Table 4: EU private placement during 2013 (in EUR million)

Country	Description	Issue date	Maturity Date	Size
Bosnia and Herzegovina	EMTN EU 2.000/2023	04/02/2013	10/02/2023	50
Bosnia and Herzegovina	SSD EU 1,991/2023	19/09/2013	26/09/2019 (10M) 28/09/2020 (10M) 27/09/2021 (10M) 26/09/2022 (10M) 26/09/2023 (10M)	50
Total				**100**

3.4. Euratom

In 2013, there was no borrowing operation under Euratom.

4. EUROPEAN INVESTMENT BANK

4.1. EIB lending activities

The EIB provides financing either *directly* to individual investment projects or *through financial intermediaries* to smaller-scale projects undertaken by SMEs or by local authorities and municipalities. The EIB also provides loan guarantees, technical assistance and venture capital.

In 2013, EIB signed a total financing volume of EUR 71.7 billion (compared to EUR 52.2 billion in 2012).

Financing in EU Member States represented EUR 64 billion. This amount is not covered by EU guarantee. EUR 7.7 billion was signed outside the EU, of which EUR 4.4 billion is covered by EU guarantee (the so-called "external mandate").

2013 saw the first year of the implementation of the EIB capital increase. Following the entry into force at the end of 2012 of the Member States' decision to increase the EIB's paid-in capital by EUR 10 billion, the EIB is expected to increase its volume of lending by EUR 60 billion over the years 2013-2015.

The EU guarantee granted under Decision 1080/2011/EU for a period expiring on 31 December 2013 was automatically extended by 6 months since a new decision granting EU guarantee for EIB operations outside the EU had not yet been adopted.

The new Decision granting an EU guarantee for EIB operations outside the EU[23] has been adopted on 16 April 2014 by the European Parliament and the Council. The size of the overall mandate amounts to EUR 27 billion (plus an additional optional amount of EUR 3 billion which may be activated following a mid-term review).

EIB financing activities have an impact on the EU budget when they are accompanied by EU guarantees. This is the case for:

- EIB financing operations carried out under the external mandate (covering Pre-Accession countries, Neighbourhood and Partnership countries, Asia and Latin America, South Africa as well as a Climate Change mandate). Such financing benefit from an EU budget guarantee covering risks of sovereign or political nature. A separate report on the 2013 EIB external lending activity will be issued by the Commission during the second semester 2014.

- risk sharing financing facilities involving the use of the EU budget to support EU policies (e.g. Risk Sharing Finance Facility for research and development projects and the Project Bond Initiative).

4.2. EIB borrowing activities

In a volatile market context, execution risk remained high throughout the year, especially for large benchmark transactions. The solid demand for EIB bonds first supported a tightening of shorter dated spreads, especially in EUR. Rating agencies preserved the Bank's AAA rating, supported by the plans on a capital increase.

In 2013, EIB borrowing activity [24] amounts to EUR 72.4 billion with an average maturity of 8.2 years.

5. ENSURING FINANCIAL STABILITY IN THE EURO-AREA

In response to the global economic and financial crisis, the euro-area Member States have decided on measures to preserve financial stability in the euro-area and Europe at large. These measures are outlined below and are not guaranteed by the EU Budget. Additional information on the three existing facilities can be found at: http://ec.europa.eu/economy_finance/assistance_eu_ms/index_en.htm

23 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 (OJ L 135, 8.5.2014, p. 1).

24 Sources: EIB 2013 Analytical report.

5.1. Greek Loan Facility (GLF)

Following the unanimous agreement of the euro-area Finance Ministers on 2 May 2010[25] to support Greece, a three-year joint programme with the IMF involving a financial package of up to EUR 110 billion to help Greece was set up, accompanied by strong policy conditionality[26] negotiated with the Greek authorities by the Commission and the IMF, in liaison with the ECB. The loans disbursed by the euro-area Member States under this first programme amount to EUR 52.9 billion and to EUR 20.1 billion from the IMF. The financial terms of the facility were re-adjusted in December 2012 (extension of the final maturity, reduction of the margin).

On 14 March 2012, a Second Economic Adjustment Programme was approved by the euro-area finance ministers and the IMF, adding EUR 130 billion to the undisbursed amounts of the first programme. This second programme foresees therefore a total financial assistance of EUR 164.5 billion, the IMF contribution amounting to EUR 19.8 billion. While the first programme was set up as an Inter-creditor Agreement of pooled bilateral loans from the supporting euro-area Member States, with the Commission providing coordination and management, the second one is financed via the EFSF.

5.2. European Financial Stability Facility (EFSF)

The European Financial Stability Facility (EFSF) was created by the euro-area Member States as a Luxembourg-registered company owned by them, following the decisions taken on 9 May 2010 within the framework of the Ecofin Council, entering into force on 7 June 2010.

It was designed as a temporary rescue mechanism for on-lending to euro-area Member States in difficulty by issuing bonds guaranteed by euro-area Member States. In October 2010, it was decided to create a permanent rescue mechanism, the European Stability Mechanism (ESM) which entered into force on 27 September 2012. **As of 1 July 2013**, the EFSF is no longer engaged in the financing of new financing programmes or new loan facility agreements. However; it remains active in the ongoing programmes for Greece, Portugal and Ireland where it is a lender (together with the IMF and some Member States).

5.3. European Stability Mechanism (ESM)

The new permanent crisis mechanism, the ESM, was inaugurated on 8 October 2012. As of 1 July 2013, the ESM became the permanent mechanism for responding to new requests for financial assistance by euro area Member States.

It has an effective lending capacity of EUR 500 billion. Total subscribed capital amounts to EUR 702 billion, with paid-in capital by euro-area Member States of EUR 80 billion (to be completed by the first half of 2014) and committed callable capital of EUR 622 billion.

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[25] The support is provided via bilateral loans from the other euro-area Member States, centrally pooled by the Commission, under the conditions set out in their statement of 11 April 2010.

[26] The main elements of policy conditionality were enshrined in Council Decision of 10 May 2010 addressed to Greece with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit (2010/320/EU). The conditionality was further detailed in a Memorandum of Understanding concluded between the Greek authorities and the Commission on behalf of euro-area Member States.

The ESM (together with the IMF) has provided financial assistance to address Cyprus' financial sector imbalances. It has also granted financial assistance to the Spanish government for the recapitalisation of the country's banking sector.