EUROPEAN
COMMISSION

Brussels, 15.6.2016
COM(2016) 387 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

ON BORROWING AND LENDING ACTIVITIES OF THE EUROPEAN UNION IN 2015

Table of Contents

1. INTRODUCTION

The Council decisions establishing the various lending instruments of the European Union (EU) require the Commission to inform the European Parliament and the Council, on a yearly basis, on the use of these instruments. In order to meet these information requirements, this report describes the lending operations for each instrument as well as the respective borrowing activities.

To complete the picture of EU activities, this report also includes, in the last section, a summary overview of the lending and borrowing activities in 2015 of the European Investment Bank (EIB).

The table below reports the evolution of the EU operations in the last 5 years.

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

	ECSC i.l.(1) (2)	Euratom (1)	BOP	MFA	EFSM	Total
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
2014	192	348	8 400	1 829	46 800	57 569
2015	204	300	5 700	3 007	46 800	56 011

(1)The conversion rates used are those of 31 December of each year.
(2)The European Coal and Steel Community (ECSC) is in liquidation since 2002. The last bond issued by ECSC matures in 2019. The increase of the outstanding amount is due to the exchange rate movements.

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 decisions of the European Parliament and of the Council or of the Council only, 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 European External Action Service (EEAS).

2.1. Balance-of-Payments 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'

[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.

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 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) – the details of which 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, as outlined in the MoU, is reviewed regularly and is a condition for the disbursements of further instalments. The required funds are raised on the capital markets by the Commission on behalf of the European Union.

In accordance with the BOP Regulation, the Commission, every three years, reports to the EFC and to the Council on the implementation of the BOP facility.

In 2013, the Council adopted a second precautionary financial assistance (PFA) programme for Romania[3] of up to EUR 2 billion, which expired at the end of September 2015 without having been drawn down. Currently no new programme is envisaged.

In January 2015, an amount of EUR 1.2 billion was reimbursed by Latvia and EUR 1.5 billion by Romania. At 31 December 2015, the total outstanding amount under the BOP program was EUR 5.7 billion[4].

The following table reports the evolution of the loans activated under the BoP assistance up to 31 December 2015.

Table 2: BoP assistance up to 31.12.2015 (amounts of capital in EUR billion)

Country	Amount decided	Amount disbursed	Amount reimbursed	Amount outstanding	Weighted average maturity (years)
Hungary	6.5	5.5	4.0	1.5	0.3
Latvia	3.1	2.9	2.2	0.7	5.2
Romania	5.0	5.0	1.5	3.5	2.4
Romania (PFA)	1.4	0	0	0	-
Romania (PFA)	2.0	0	0	0.0	-
Total	**18.0**	**13.4**	**7.7**	**5.7**	**2.2**

2 OJ L 53, 23.2.2002, p.1.

3 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).

4 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. European Financial Stabilisation Mechanism

Council Regulation (EU) No 407/2010 of 11 May 2010[5] established the European Financial Stabilisation Mechanism (EFSM) based on Article 122(2)[6] of the TFEU. The EFSM is fully backed by the EU budget and has a total lending capacity of up to EUR 60 billion[7].

The EFSM facility was activated in 2011 for Ireland[8] and Portugal[9], committing loans of up to EUR 22.5 billion and EUR 26 billion, respectively.

In 2013, an extension of the maximum average maturity of the disbursed loans from 12.5 years to 19.5 years was decided for both Member States. EFSM beneficiaries can request a lengthening and refinancing of all EFSM loans as long as the average maturity of disbursed loans (calculated from initial disbursement) does not exceed 19.5 years.

In this context, in September and October 2015, a total of EUR 5 billion was raised in three tranches with maturities of 8, 14 and 20 years to extend the maturity of Ireland's EUR 5 billion loan due on 4 December 2015. The current average maturity of outstanding loans to Ireland, as of 31 December 2015, is 15.4 years.

In addition, a bridge loan amounting to EUR 7.16 billion was funded and granted to Greece[10] for a period of one month between 20 July and 20 August 2015. This loan was fully repaid.

The total outstanding amount of the EFSM facility is EUR 46.8 billion at the end of 2015 (Ireland: EUR 22.5 billion, Portugal: EUR 24.3 billion).

The following table reports the evolution of the loans activated under the EFSM facility up to 31 December 2015.

Table 3: EFSM facility up to 31.12.2015 (amounts of capital in EUR billion)

Country	Amount decided	Amount disbursed	Amount reimbursed	Amount outstanding	Weighted average maturity (years)
Greece	7.16	7.16	7.16	0	-
Ireland	22.50	22.50	0	22.5	15.4
Portugal	26.00	24.30	0	24.3	12.3
Total	**55.66**	**53.96**	**7.16**	**46.8**	**13.8**

5 As amended by the Coucil Regulation (EU) 2015/1360 of 4 August 2015 (OJ L 210, 7.8.2015, p.1).

6 Article 122(2) of the TFEU provides for financial support for Member States in difficulties caused by exceptional circumstances beyond their control.

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

8 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).

9 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).

10 Council Implementing Decision (EU) 2015/1181 of 17 July 2015 on granting short-term Union financial assistance to Greece (OJ L 192, 18.7.2015, p. 15).

2.3. Macro-Financial Assistance

Macro-Financial Assistance (MFA) is designed to address exceptional external financing needs of countries that are geographically, economically and politically close to the EU. Its objective is to restore macroeconomic and financial stability in EU candidate, potential candidate and neighbourhood countries (and, in exceptional circumstances, other third countries), while encouraging the implementation of macroeconomic and structural reforms. MFA is provided on an exceptional and temporary basis and is released in tranches based on strict economic policy conditionality. MFA complements and is conditional on the existence of IMF adjustment programmes. MFA can be provided in the form of loans and/or, under certain circumstances, non-reimbursable grants[11].

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

In January 2015, the Commision proposed a third MFA programme for **Ukraine** up to EUR 1.8 billion in loans, which was adopted by the Parliament and the Council on 15 April 2015[14]. The corresponding Loan Agreement was signed on 22 May 2015. Together with the two previous programmes, the three operations to Ukraine would, once fully disbursed, amount to EUR 3.41 billion, which represents the largest EU financial assistance provided to a third country in such a short time. The first tranche (EUR 600 million) of the third MFA programme for Ukraine was disbursed in July 2015. The disbursement of the second tranche (also amounting to EUR 600 million), which was originally foreseen to take place in 2015, has been delayed, reflecting slow progress on a number of reform measures.

The last tranche (EUR 250 million) of the first MFA programme for Ukraine, based on decisions from 2002[15] and 2010[16], was disbursed in April 2015.

On 15 May 2014, the European Parliament and the Council decided to make MFA available to **Tunisia** for a maximum amount of EUR 300 million, all in loans, with a maximum maturity of 15 years[17]. The first tranche (EUR 100 million) was disbursed in May 2015 and the second tranche (EUR 100 million) was disbursed in December 2015.

On 11 December 2013, the European Parliament and the Council decided to make MFA available to **Jordan**, in the form of loans for a maximum amount of EUR 180 million[18]. The first tranche (EUR 100 million) was disbursed in February 2015 and the second and final tranche (EUR 80 million) in October 2015.

---

[11] Detailed information on MFA at: http://ec.europa.eu/economy_finance/eu_borrower/macro-financial_assistance/index_en.htm

[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] Decision (EU) 2015/601 of the European Parliament and of the Council of 15 April 2015 providing macro-financial assistance to Ukraine (OJ L 100, 17.4.2015, p. 1).

[15] Decision No 2002/639/EC of the Council of 12 July 2002 providing macro-financial assistance to Ukraine (OJ L 209, 6.08.2002, p. 23).

[16] 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).

[17] Decision No 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, 21.5.2014, p. 9).

[18] 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, 18.12.2013, p. 4).

On 12 August 2013, the European Parliament and the Council decided to make MFA available to **Georgia** for 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[19]). The grant element of the first tranche (EUR 13 million) was disbursed in January 2015 and the loan part (EUR 10 million) in April 2015. The disbursement of the second grant and loan tranches, planned for the second half of 2015, has been delayed to 2016 following the postponement of the second review of the IMF programme.

On 22 October 2013, the European Parliament and the Council decided to make MFA available to the **Kyrgyz Republic** for 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[20]). The grant element of the first tranche (EUR 10 million) was disbursed in June 2015, the first tranche of the loan (EUR 5 million) was disbursed in October 2015.

Including the EUR 1,245 million loan disbursements in 2015 the total amount of outstanding MFA loans as of 31 December 2015 is EUR 3 billion (as reported in the table below).

Table 4: MFA loans up to 31.12.2015 (amounts of capital in EUR million)

Country	Amount disbursed in 2015	Amount reimbursed in 2015	Amount outstanding as of 31/12/2015	Amount to be disbursed
Albania	0	0	9	0
Armenia	0	0	65	0
Bosnia Herzegovina	0	4	120	0
FYROM*	0	10	24	0
Georgia	10	0	10	13
Jordan	180	0	180	0
Kyrgyz Republic	5	0	5	10
Montenegro	0	1	4	0
Serbia	0	52	180	0
Tunisia	200	0	200	100
Ukraine	850	0	2 210	1 200
Total	**1 245**	**67**	**3 007**	**1 323**

*Former Yugoslav Republic of Macedonia

19 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).

20 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).

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. According to the Council decision on the lending ceiling (77/271/Euratom, as amended), the Commission shall inform the Council once the signed amount reaches EUR 3.8 billion and, if appropriate, propose a new lending ceiling.

In 2013, the Commission adopted Decision C(2013) 3496 on granting a Euratom loan of up to EUR 300 million in support of Ukraine's safety upgrade program of nuclear power units. The Loan Agreement was signed on 7 August 2013. In parallel, a similar EUR 300 million loan agreement was signed in March 2013 by the EBRD.

All conditions precedent to initial avalaibility of the loan having been satisfactorily completed, on 27 May 2015 a Commission Decision authorising the release of an amount up to EUR 100 million was adopted.

However, due to delays in the implementation, no disbursements under the Euratom facility to Ukraine have occurred.

3. BORROWING ACTIVITIES OF THE EUROPEAN UNION

In order to finance the lending activities, the Commission is empowered to borrow funds in 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[21]. Outstanding borrowings are matched by outstanding loans.

3.1. Balance-of-Payments facility

In 2015, under the BOP facility, no borrowings were raised in the market. The total outstanding amount under the BOP was EUR 5.7 billion at the end of 2015.

[21] 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.

3.2. European Financial Stabilisation Mechanism

Following the request of Ireland to extend the maturity of its EUR 5 billion EFSM loan due in December 2015, the EU issued, in September and October 2015, three bonds with maturities of 8, 14 and 20 years for a total of EUR 5 billion, as shown in the table below.

These bonds issued by the EU met high demand in the market resulting in largely oversubscribed order books. All important groups of investors, in particular long-term investors (investment funds, asset managers, insurance and pension funds) as well as official institutions, purchased these bonds issued by the EU.

Table 5: EU EFSM borrowing operations during 2015 (in EUR million)

Country	Issue date	Maturity date	Size
Ireland – 1st Tranche	22/09/2015	04/10/2035	2 000
Ireland – 2nd Tranche	01/10/2015	04/11/2023	2 000
Ireland – 3rd Tranche*	15/10/2015	04/10/2029	1 000
Total			**5 000**

*Together with EUR 80 million for MFA Jordan and EUR 5 million for MFA Kyrgyz Republic; (see 3.3 below)

3.3. Macro-Financial Assistance

In 2015, eight borrowing operations were successfully executed for a total amount of EUR 1,245 million, as shown in the table 6.

On 3 February 2015, the first tranche for Jordan, amounting to EUR 100 million was funded through a private placement. The transaction was based on an amortising structure (5 bullet bonds mimicking the amortising repayment structure of the loan) and disbursed on 10 February 2015.

Based on a similar structure with an amortising repayment profile, a nominal amount of EUR 260 million was raised on 14 April 2015 and disbursed on 21 April 2015 for the loan to Ukraine (EUR 250 million) and the loan to Georgia (EUR 10 million).

In May 2015 and in December 2015, the first and second tranches for Tunisia (EUR 100 million each, in the form of bullet loans) were funded through private placements.

In July 2015, the first instalment of the third program to Ukraine (EUR 600 million) was funded through a public bond issue.

In October 2015, two additional transactions of EUR 80 million and EUR 5 million were combined with the third tranche of the refinancing of Ireland's EFSM loan (see 3.2 above).

Table 6: EU MFA borrowing operations during 2015 (in EUR million)

Country	Description	Issue date	Maturity date	Size
Jordan	Jordan 1st tranche	10/02/2015	04/12/2029	100
Ukraine	Ukraine (MFA I) 4th tranche	21/04/2015	04/04/2023	250
Georgia	Georgia 1st tranche	21/04/2015	04/04/2030	10
Tunisia	Tunisia 1st tranche	07/05/2015	04/05/2027	100
Ukraine	Ukraine (MFA III) 1st tranche	22/07/2015	04/07/2020	600
Jordan	Jordan 2nd tranche	15/10/2015	04/10/2029	80
Kyrgyz Republic	Kyrgyz Republic 1st tranche	15/10/2015	04/10/2029	5
Tunisia	Tunisia 2nd tranche	01/12/2015	01/12/2028	100
Total				**1,245**

3.4. Euratom facility

In 2015, there were no borrowing operations under the Euratom framework.

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 small and medium-sized enterprises or by local authorities and municipalities. The EIB Group, which includes the European Investment Fund (EIF), also provides loan guarantees, technical assistance and venture capital.

In 2015, the EIB signed a total financing volume of EUR 77.5 billion (compared to EUR 77 billion in 2014). Including the EIF activity, the EIB Group financed projects to the tune of EUR 84.5 billion, supporting 462 projects in 68 countries around the world and catalysing almost EUR 230 billion of investment.

In addition, by the end of 2015, the EIB Group had approved more than 100 loans and guarantees for submission under the European Fund for Strategic Investments (EFSI)[22] as part of the Investment Plan. EIB financing and investment operations under EFSI benefit from a guarantee from the EU budget. Resources committed totalled EUR 7.5 billion, of which EUR 5.7 billion from the EIB and EUR 1.8 billion from the EIF, mobilising total investments of up to EUR 50 billion.

EIB financing activities have an impact on the EU budget where they are accompanied by EU guarantees or other EU budget funds. In addition to EFSI, this is the case for:

- EIB financing operations carried out under the so-called "external mandate" covering Pre-Accession countries, Neighbourhood and Partnership countries, Asia and Latin America, South Africa. Such financing benefits from an EU budget guarantee covering risks of sovereign or political nature (the "external EU guarantee")[23]. A separate report on the EIB financing activity under the external mandate will be issued by the Commission during the second half of 2016.
- risk sharing financing facilities involving the use of the EU budget to support EU policies (e.g. the Risk Sharing Finance Facility (RSFF) for research and development projects and the Project Bond Initiative).

In 2015, EIB financing in EU Member States amounted to EUR 69.7 billion – or 90% of EIB's total lending. EIB's lending operations outside the EU amounted to EUR 7.8 billion of which EUR 4.8 billion are covered by the external EU guarantee.

The size of the overall external mandate amounts to EUR 27 billion plus an additional optional amount of EUR 3 billion. The activation in whole or in part of the optional amount shall be decided by the European Parliament and the Council in accordance with the ordinary legislative procedure and based on the results of a mid-term review of the external mandate.

[22] 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, OJ L 169, 1.7.2015, p. 1.

[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.

4.2. EIB borrowing activities

The EIB lending activities are mainly funded via bond issuance in the international capital markets. The overall objective of the EIB's funding strategy is to optimise the funding cost on a sustainable basis. The EIB’s funding strategy combines the issuance of large and liquid bonds in core currencies with targeted and tailor-made issuance across a number of other currencies.

In 2015, the EIB's borrowing activity amounted to EUR 62.4 billion with an average maturity of 6.4 years.