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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
2016**

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1. INTRODUCTION

This report is submitted pursuant to Article 149 of the Financial Regulation¹ which requires the Commission to report annually to the European Parliament and to the Council on EU budget guarantees and the corresponding risks.

Therefore, the Commission informs every year the European Parliament and the Council on the use of the various lending instruments of the European Union (EU).

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

In view of the foreseen changes to the Financial Regulation, information on borrowing and lending activities will in future be integrated into the financial reporting package provided for by the revised Financial Regulation. To avoid duplication, this separate report on borrowing and lending will then be discontinued.

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 pursued². 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).

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

Year	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
2016	175	251	4 200	2 947	46 800	54 373

(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. The increase and decrease of the outstanding amount is due to the evolution of the exchange rate (GBP vs EUR).

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 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 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 payments³ (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) 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 on the capital markets by the Commission on behalf of the European Union.

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

In April 2016, Hungary repaid its final loan tranche of EUR 1.5 billion. At 31 December 2016, the total outstanding amount under the BOP program was EUR 4.2 billion⁴.

Table 2: BoP assistance up to 31.12.2016 (amounts of capital in EUR billion)

Country	Amount decided	Amount disbursed	Amount reimbursed	Amount outstanding	Weighted average maturity (years)
Latvia	3.1	2.9	2.2	0.7	4.2
Romania	5.0	5.0	1.5	3.5	1.4
Total	8.1	7.9	3.7	4.2	1.9

2.2. European Financial Stabilisation Mechanism

Council Regulation (EU) No 407/2010 of 11 May 2010⁵ set up 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 billion⁷.

The EFSM facility was activated in 2011 for Ireland⁸ and Portugal⁹, committing loans amount of up to EUR 22.5 billion and EUR 26 billion, respectively.

³ OJ L 53, 23.2.2002, 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

⁵ As amended by the Council 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).

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, a request to lengthen the EFSM loan of EUR 4.75 billion disbursed to Portugal in 2011 - which was due on 3 June 2016 - was received. The loan was refinanced in three transactions with maturities in 2023 (EUR 1.5 billion), 2031 (EUR 2.25 billion) and 2036 (EUR 1 billion). Following this maturity extension, the weighted average maturity of the EFSM loans to Portugal is now 14.9 years.

The total outstanding amount of the EFSM facility is EUR 46.8 billion at the end of 2016 (Ireland: EUR 22.5 billion, Portugal: EUR 24.3 billion).

2.3. Macro-Financial Assistance

Macro-Financial Assistance (MFA)¹⁰ 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 adjustment 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 grants¹¹.

Should a beneficiary country fail to honour its repayment obligations, the Commission may have recourse to the Guarantee Fund for External Actions¹² so that the repayment of the corresponding borrowing by the Commission is done from its funds¹³.

The second and final tranche of EUR 10 million of the EUR 15 million loan granted to the Kyrgyz Republic¹⁴ was disbursed in April 2016.

On 6 July 2016, the European Parliament and the Council decided to provide further macro-financial assistance to Tunisia¹⁵ of a maximum amount of EUR 500 million in the form of loans (three loan instalments of EUR 200, 150 and 150 million).

On 14 December 2016, the European Parliament and the Council decided to provide further macro-financial assistance to the Hashemite Kingdom of Jordan¹⁶ of a maximum amount of EUR 200 million in the form of loans (two loan instalments of EUR 100 million).

¹⁰ Art. 212 of The Treaty on the Functioning of the European Union (TFEU), 2012/C 326/142.

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 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).

¹⁵ 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).

¹⁶ 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).

Loan repayments totalling EUR 70 million were received as due from the beneficiary countries (Bosnia and Herzegovina EUR 4 million, former Yugoslav Republic of Macedonia EUR 10 million, Montenegro EUR 1.34 million and Serbia EUR 54.66 million).

The outstanding amount of MFA loans has decreased from EUR 3,006.6 million to EUR 2,946.6 million between 31 December 2015 and 31 December 2016. Loans to Ukraine represent 75% of the total MFA exposure.

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 countries¹⁷ (Council Decision 94/179/Euratom).

In 1990, the Council fixed a borrowing limit of EUR 4 billion, of which 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 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 on 7 August 2013. In parallel, a EUR 300 million loan agreement was signed in March 2013 by the EBRD.

While a borrowing decision for a first tranche up to EUR 100 million was adopted on 27 May 2015, due to delays in the implementation process no disbursements have taken place until the end of 2016. The first loan tranche of EUR 50 million has been disbursed in May 2017.

Repaid amounts consisted of EUR 22.62 million from Bulgaria, EUR 19 million from Romania and EUR equivalent of 7.1 million from Ukraine¹⁸.

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 risk¹⁹. Outstanding borrowings are matched by outstanding loans.

3.1. Balance-of-Payments facility

In 2016, under the BOP facility, no borrowings were raised in the market. The total outstanding amount raised for BOP is EUR 4.2 billion at the end of 2016.

3.2. European Financial Stabilisation Mechanism

Following the request of Portugal to extend the maturity of its EFSM loan due on 3 June 2016, in March and April 2016 the EU issued three bonds with maturities in 2023 (EUR 1.5 billion), 2031 (EUR 2.25 billion) and 2036 (EUR 1 billion) to refinance the expiring bond.

¹⁷ Currently Ukraine, Russia and Armenia.

¹⁸ Reimbursements of USD 3,607,665.00 and EUR 3,900,000.00.

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 4: EU EFSM borrowing operations during 2016 (in EUR million)

Country	Issue date	Maturity Date	Size
Portugal – 1 st Tranche	15/03/2016	04/04/2036	1 000
Portugal – 2 nd Tranche*	13/04/2016	04/04/2031	2 250
Portugal – 3 rd Tranche	19/04/2016	04/11/2023	1 500
Total			4 750

*Together with EUR 10 million for MFA Kyrgyz Republic; (see 3.3 below)

3.3. Macro-Financial Assistance

The second tranche (EUR 10 million out of the EUR 15 million decision) of the loan granted to the Kyrgyz Republic was disbursed in April 2016.

Table 5: EU MFA borrowing operations during 2016 (in EUR million)

Country	Issue date	Maturity Date	Size
Kyrgyz Republic	13/04/2016	04/04/2031	10
Total			10

3.4. Euratom facility

In 2016, 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 2016, the EIB signed a total financing volume of EUR 74.6 billion (compared to EUR 77.5 billion in 2015); Financing of the EIB Group (including the EIF activity) amounted to EUR 83.8 billion, catalysing almost EUR 280 billion of investment.

In addition, by the end of 2016, the EIB Group approved 422 Investment Plan loans and guarantees that were backed by the EU guarantee under EFSI²⁰. Resources committed totalled EUR 30.2 billion approved under EFSI. The value of the projects and the investment mobilised in total adds up to EUR 163.9 billion. This is 52% of the overall objective of EUR 315 billion over three years.

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

²⁰ 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.

- EIB financing operations carried out under the external lending 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. A separate report on the 2016 EIB external lending activity will be issued by the Commission during the second semester 2017.
- 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).

In 2016, EIB's lending operations outside the EU totalled EUR 7.9 billion, of which EUR 6.8 billion in the regions covered by the External Lending Mandate (ELM). Approximately EUR 5.9 bn, or 74% of total financing outside EU, was carried out in the Pre-Accession and in the Neighbourhood regions. The rest (26%) was signed in Asia, Central Asia and Latin America.

Of the total EUR 6.8 billion signed by the EIB during 2016 in the regions covered by the ELM, almost EUR 4 billion (58%) was covered by the EU guarantee.

The Decision granting an EU guarantee for EIB operations outside the EU was adopted on 16 April 2014 by the European Parliament and the Council ²¹. The size of the overall 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 Lending Mandate.

European Commission proposed an amendment to the External lending mandate in September 2016, proposing to raise the ceiling to EUR 32.3 billion, which is currently under discussion by the legislators.

4.2. EIB borrowing activities

The EIB has a resilient funding strategy, raising long-term funds via bond issuance in international capital markets to support its lending operations. With the objectives of attaining sufficient volumes and in maturities needed for asset and liability management, as well as optimising 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 2016, EIB borrowing activity amounted to EUR 66.4 billion with an average maturity of 7.1 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 budget²².

5.1. Greek Loan Facility

Following the unanimous agreement of the euro-area Finance Ministers on 2 May 2010²³ to support Greece, a three-year joint programme with the IMF involving a financial package of

²¹ 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. 1–20).

²² Additional information on the three existing facilities can be found at: http://ec.europa.eu/economy_finance/assistance_eu_ms/index_en.htm

up to EUR 110 billion to help Greece was set up, accompanied by strong policy conditionality²⁴ 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 the Greek Loan Facility (GLF) amount to EUR 52.9 billion which were disbursed between May 2010 and December 2011.

5.2. European Financial Stability Facility

The European Financial Stability Facility (EFSF)²⁵ was created by the euro-area Member States as a Luxembourg-registered company owned by them and 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 started its operations on 8 October 2012.

On 14 March 2012, a Second Economic Adjustment Programme for Greece 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 (GLF) 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 was financed via the EFSF.

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

The European Stability Mechanism (ESM)²⁶ became as of 1 July 2013 the permanent mechanism for responding to new requests for financial assistance by euro area Member States.

ESM has a maximum lending capacity of EUR 500 billion. Total subscribed capital amounts to EUR 704.8 billion, with paid-in capital by euro-area Member States of EUR 80.5 billion and committed callable capital of EUR 624.3 billion.

²³ 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.

²⁴ 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 MoU concluded between the Greek authorities and the Commission on behalf of euro-area Member States.

²⁵ The European Financial Stability Facility (EFSF) is a special purpose vehicle financed by members of the eurozone to address the European sovereign-debt crisis. It was agreed by the Council of the European Union on 9 May 2010, with the objective of preserving financial stability in Europe by providing financial assistance to eurozone states in economic difficulty. The Facility's headquarters are in Luxembourg City as the EFSF was established as a public limited liability company under the laws of the Grand-Duchy of Luxembourg. (Journal Officiel du Grand-Duché de Luxembourg - C — N° 1189 8 juin 2010).

²⁶ On 11 July 2011, finance ministers of the 17 euro-area countries signed the Treaty establishing the European Stability Mechanism (ESM). The Treaty follows the European Council decision of 25 March 2011 and builds on an amendment of Article 136 of the Treaty on the Functioning of the European Union (TFEU).

The ESM has provided financial assistance to Greece and Cyprus (subject to a macroeconomic adjustment programme), and to Spain for the recapitalisation of the banking sector. The programme for Spain expired in December 2013 with a total disbursement of EUR 41.3 billion and Cyprus concluded its programme on 31 March 2016 with loan disbursements totalling EUR 6.3 billion.

On 8 July 2015, the Greek government submitted a request for financial assistance to ESM. The financial assistance to Greece provided by ESM will be up to EUR 86 billion over three years. The leaders of euro area countries reached an agreement with Greece on 13 July 2015 concerning a set of prior actions to be implemented urgently in order to start negotiations on an overarching reform agenda, set out in a Memorandum of Understanding (MoU). On 19 August 2015 the ESM approved the MoU. The MoU focuses on four key areas: restoring fiscal sustainability; safeguarding financial stability; boosting growth, competitiveness and investment; and reforming the public administration.

At 31 December 2016, the total amount of ESM financial assistance for Greece reached EUR 31.7 billion (which is around 37% of the total programme volume)

An additional disbursement of EUR 7.7 billion took place on 10 July 2017, leaving the ESM Cumulative amount disbursed for Greece in EUR 39.4 billion.