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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 2016**

{SWD(2017) 435 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 and the 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 OTHER CRISIS MANAGEMENT MECHANISMS

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 Stabilisation Mechanism ("EFSM")[6] granting support to all Member States experiencing or

[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. 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).

[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).

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.

### 2.3 European Investment Bank ("EIB") financing of operations in non-Member States ("EIB external financing") covered by EU guarantees[7]

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[8].

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%[9]. 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.

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7 References to legal bases are listed in the Annex of Table A3 of the SWD.

8 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 September 2018 on http://eur-lex.europa.eu/homepage.html .

9 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

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.

<u>Guarantee Fund of the European Fund for Strategic Investments (EFSI GF)</u>[10]

According to Article 12 of the EFSI Regulation[11], 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 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:

- *the Greek Loan Facility (GLF)*[12] which is financed via bilateral loans from other euro area Member States to Greece, centrally administered by the Commission.

- *European Financial Stability Facility (EFSF)*[13]: 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)[14] but is no longer engaged in new financing programmes or loan facility agreements.

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

11 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.

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

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

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

- *European Stability Mechanism (ESM)*[15]: 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 500 000 million.

## 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 2016 (in EUR million)

| | Outstanding Capital | Accrued Interest | Total | % |
|---|---|---|---|---|
| **Member States*** | | | | |
| **Euratom** | 241.06 | 0.80 | 241.86 | 0.29% |
| **BOP** | 4 200.00 | 71.60 | 4 271.60 | 5.13% |
| **EIB** | 1 651.32 | 13.15 | 1 664.47 | 2.00% |
| **EFSM** | 46 800.00 | 655.79 | 47 455.79 | 57.01% |
| **Sub-total Member States**** | 52 892.38 | 741.34 | 53 633.72 | 64.43% |
| **Third Countries***** | | | | |
| **MFA** | 2 946.60 | 17.30 | 2 963.90 | 3.56% |
| **Euratom** | 10.37 | 0.02 | 10.39 | 0.01% |
| **EIB****** | 26 482.04 | 156.89 | 26 638.94 | 32.00% |
| **Sub-total third countries** | 29 439.01 | 174.21 | 29 613.23 | 35.57% |
| **Total** | 82 331.40 | 915.55 | 83 246.95 | 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 4 392 million have been disbursed at the reporting date...

*** The risk covered by the Fund is limited to 20.03 billion.

**** Loans subrogated to the EU following Syria defaults on EIB loans are included (amount: EUR 247.20 million). These loans have been fully impaired in the EU Financial Statements of 2015 and 2016.

[15] About the ESM: http://esm.europa.eu.

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

### *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[16]. In addition, euro-area Member States stood ready to complement such resources if necessary. Article 2(2) of Council Regulation No 407/2010[17] 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[18] (up to EUR 22 500 million) and Portugal[19] (up to EUR 26 000 million), disbursements reached EUR 22 500 million to Ireland and EUR 24 300 million to Portugal (the remaining 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[20].

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).

<u>Developments during 2016</u>

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 from Portugal on 11 January 2016. 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.

### *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.

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16 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).

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

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

19 Council Implementing Decision 2011/344/EU of 17 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).

20 For further information on EFSM, see also the report from the Commission on borrowing and lending activities of the European Union in 2016 (COM(2016)387 final). The report for 2016 is expected to be available by October 2017 on http://eur-lex.europa.eu/homepage.html.

Developments during 2016

Hungary repaid its final loan tranche of EUR 1 500 million in April 2016. The outstanding amount of BOP loans has thus decreased from EUR 5,700 million to EUR 4,200 million in 2016.

At 31 December 2016, the BOP facility had a remaining capacity of EUR 45 800 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 2016

The second tranche (EUR 10 million out of the EUR 15 million decision) of the loan granted to the Kyrgyz Republic[21] was disbursed in April 2016.

On 6 July 2016, the European Parliament and the Council decided to provide further macro-financial assistance to Tunisia[22] of a maximum amount of EUR 500 milion 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 Jordan [23] of a maximum amount of EUR 200 milion in the form of loans (two loan instalments of EUR 100 million).

Regarding repayments, EUR 70 million were repaid by 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.

Developments subsequent to 31 December 2016 (until 30 June 2017)

The second tranche of the loan granted to Ukraine under the third programme MFA-III[24] (EUR 600 milion) was disbursed in April 2017.

[21] 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).

[22] 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).

[23] 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).

[24] Decision (EU) 2015/601 of the European Parliament and of the Council of 17 April 2015 providing further macro-financial assistance to Ukraine (OJ L 100/1, 17.04.2015).

The second tranche of the loan granted to Georgia under MFA (13 milion) was disbursed in May 2017.

### *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. Due to delays in the implementation of the project, as of 31 December 2016 no Euratom disbursements had taken place.

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

Developments during 2016

No disbursements took place in 2016. Repaid amounts consisted of EUR 22.62 million from Bulgaria, EUR 19 million from Romania and EUR equivalent of 7.1 million from Ukraine.

Developments subsequent to 31 December 2016

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

## 3.2. Evolution of the EIB external financing operations

Developments during 2016

Under the EIB general mandate covering the period 2014-2020, a total amount of EUR 10 741 million had been signed at 31 December 2016, of which only EUR 1 882 million was disbursed at that date, leaving the outstanding capital at EUR 1 893 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 2016. The EIB has called on the Guarantee Fund to cover those defaults (see paragraph 5.1.3 below).

Outstanding amounts at 31 December 2016 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[25].

– 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[26].

## 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 2016, 64% of the total outstanding amount[27] 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 2016 (see Table 1 above) the maximum amount which the EU would have to pay out during the year 2017 (directly and via the Fund) - *assuming* that *all* guaranteed loans would be in default - is EUR 5 777 million. That amount represents the capital and interest payments from guaranteed loans falling due during 2017, assuming that defaulting loans are not accelerated (for details see Table A4 in SWD).

### *4.3.1. Member State exposure*

In 2017, the EU will bear a maximum annual risk related to operations with Member States (MS) of EUR 2 858 million (49.5% 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.

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25 See Table 1 of the Report.

26 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).

27 See Table 1.

Table 2: Ranking of the Member States according to the annual risk borne by the EU budget in 2017 (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** | Romania | a+b) | 1 453.75 | 50.9% | 25.2% |
| **2** | Ireland | c) | 607.25 | 21.2% | 10.5% |
| **3** | Portugal | c) | 591.22 | 20.7% | 10.2% |
| **4** | Bulgaria | a) | 73.39 | 2.6% | 1.3% |
| **5** | Croatia | a) | 38.01 | 1.3% | 0.7% |
| **6** | Latvia | a+b) | 26.34 | 0.9% | 0.5% |
| **7** | Czech Republic | a) | 25.93 | 0.9% | 0.4% |
| **8** | Poland | a) | 21.53 | 0.8% | 0.4% |
| **9** | Slovak Republic | a) | 14.24 | 0.5% | 0.2% |
| **10** | Lithuania | a) | 4.42 | 0.2% | 0.1% |
| **11** | Hungary | a) | 2.12 | 0.1% | 0.04% |
| **Total** | | | 2 858.20 | 100% | 49.5% |

#### *4.3.2. Third country exposure*

In 2017, the Fund will bear a maximum annual risk related to the exposure to third countries of EUR 2 918.8 million (50.5% 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 forty-eight) are ranked below according to the repayments due in 2017. They account for EUR 2 415 million or 83% of the annual risk related to third countries borne by the Fund. 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 2017 (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 | 1 025.74 | 35.1% | 17.8% |
| **2** | Tunisia | 283.98 | 9.7% | 4.9% |
| **3** | Egypt | 278.37 | 9.5% | 4.8% |
| **4** | Morocco | 221.09 | 7.6% | 3.8% |
| **5** | Serbia | 204.78 | 7.0% | 3.5% |
| **6** | South Africa | 99.73 | 3.4% | 1.7% |
| **7** | Ukraine | 88.12 | 3.0% | 1.5% |
| **8** | Lebanon | 85.15 | 2.9% | 1.5% |
| **9** | Brazil | 65.14 | 2.2% | 1.1% |
| **10** | Bosnia and Herzegovina | 62.94 | 2.2% | 1.1% |
| **Total (top 10)** | | 2 415.03 | 82.7% | 41.8% |

# 5. THE GUARANTEE FUND FOR EXTERNAL ACTIONS

## 5.1. Activation of guarantees

### *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[28].

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.

In 2016 cash for about EUR 1 million was used for a limited period of 16 days due to a technical default for one payment of one debtor.

### *5.1.2. Payments from the EU budget*

In the event that one or more Member States do not meet their legal obligations 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 2016, no appropriation was requested.

### *5.1.3. Calls on the Guarantee Fund and recoveries*

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 [29].

Recovery proceedings are undertaken by the EIB on behalf of the EU in respect of the subrogated sums[30].

[28] 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).

[29] 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.

[30] 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.

*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.

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[31] | 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 |
| Total | 38 | 304.4 | 6.8 | 2.2 | 309.1 |

At 31 December 2016, the total capital outstanding of guaranteed loans related to Syria amounted to EUR 555 million[32], with the final loan maturity in 2030.

*TAV Tunisie S.A. (Enfidha airport)*

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).

On 29 September 2016, the European Commission paid EUR 4.65 million (payment of arrears and interests) to the EIB for the above mentioned guarantee call, which is currently being discussed with the EIB.

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

[31] 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.

[32] This includes the amount of EUR 304.43 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 |
| Total | 1 | 4.56 | 0.09 | 0.00 | 4.65 |

At 31 December 2016, the total capital outstanding of guaranteed loans related to TAV Tunisie S.A. (Enfidha airport) amounts to EUR 64.4 million[33], with the final loan maturity in 2028.

Developments subsequent to 31 December 2016 (until 30 June 2017)

By the end of June 2017, six additionnal calls related to Syria for a total amount of EUR 28.38 million (including interest and penalties) and one additionnal call related to TAV Tunisie S.A. (Enfidha airport) for a total amount of EUR 2.21 million (including interest and penalties) have been received.

### 5.2. Evolution of the Fund

In accordance with the Guarantee Fund Regulation, 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 257.12 million to the Fund in February 2016, while in February 2017 the respective payment amounted to EUR 240.54 million.

At 31 December 2016, the net assets[34] of the Fund amounted to EUR 2 505.14 million. The ratio between the net assets and the outstanding capital liabilities[35] (EUR 29 365.98 million), within the meaning of the Guarantee Fund Regulation, was lower than the target amount. Consequently, a provisioning of EUR 137.80 million was inserted in the preliminary EU budget of 2018.

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 delivered in August 2016 and the main conclusion was that a 9% Target Rate is still deemed

[33] This includes the amount of EUR 4.56 million (including interest) already called by the EIB.
[34] Total assets of the Fund minus accrued payables (EIB fees and audit fees).
[35] Including accrued interests.

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) [36]

The EU Guarantee covers financing and investment operations signed by the EIB under the Infrastructure and Innovation Window ("IIW") and by the EIF under the SME[37] Window ("SMEW"). Part of these operations are covered by the EU Guarantee while the other part is carried out at the own risk of the EIB Group.

According to Article 12 of the EFSI Regulation, the EFSI Guarantee Fund ("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 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.

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.

Developments during 2016

The guarantee exposure of the EU in relation to disbursed outstanding EFSI operations by the EIB Group amounted to EUR 4 392 million, as at 31 December 2016, out of the legal commitment of EUR 16 billion guaranteed by the EU (Article 11 of the EFSI Regulation). The amount of EUR 4 392 million is recorded as a contingent liability in the notes to the 2016 financial statements of the EU.

Under the IIW, the outstanding disbursed exposure covered by the EU Guarantee was EUR 4.02 billion, of which EUR 3.98 billion for debt operations and EUR 0.04 billion for equity-type operations[38].

As of end 2016 under SMEW, the total outstanding exposure covered by the EU Guarantee was EUR 369.7 million, of which EUR 364.8 million for guarantee operations and EUR 5 million for equity operations.

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36 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.

37 Micro, small or medium-sized enterprise (SME).

38 As at end 2016, the total signed (disbursed and undisbursed) exposure of the IIW portfolio benefitting from the EU Guarantee was EUR 13.38 billion of which EUR 12.84 billion for debt operations and EUR 0.54 billion for equity-type operations. However, due to the first loss piece coverage of the EU Guarantee, potential losses for the EU budget under the IIW were capped at EUR 10.6 billion.

The net assets of the Guarantee Fund stood at EUR 1 020 million as at 31/12/2016.

As of end-2016, total cumulated signatures under EFSI amounted to EUR 21.3 billion covering 28 Member States, of which an amount of EUR 14.2 billion was signed[39] by the EIB (121 operations) and EUR 7.1 was signed by the EIF (225 operations). Overall, this represents a significant increase compared to 2015, at the end of which total signatures amounted to EUR 1.2 billion.

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[40] and the associated Staff Working Document (SWD).

[39] The difference between total signatures and signed exposure depends on several factors, such as the latter excluding EIB share in equity-type operations as well as differences due to repayments and applied foreign exchange rates.

[40] Last version - COM(2017)326 final of 16.6.2017.