Guarantee Fund for external actions

1993/1004(CNS) - 08/04/2014 - Follow-up document

The Commission presented a comprehensive report on the functioning of the Guarantee Fund for external actions. This Fund was established in 1994 by Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 in order to shield the Union budget in the event of any default by the beneficiaries of loans granted or guaranteed by the European Union. The Regulation has been amended three times and the Fund is currently operated under Council Regulation (EU, Euratom) No 480/2009 of 25 May 2009 (codified version).

Four reviews of the functioning of the Fund have taken place (in 1998, 2003, 2006 and 2010).

Further to the review in 2006, a new provisioning mechanism was implemented. It entered into force in 2007.

This report presents the **fifth review** of the Fund and is structured as follows:

- the key features of the current provisioning mechanism and the functioning of the Fund;
- the main events which affected the Fund since the last comprehensive report in 2010;
- the management of the Fund's assets;
- the outlook of operations covered by the Fund and their impact on provisioning needs for the MFF 2014-2020;
- the target provisioning rate.

Two events which affected the Fund in the period were the **defaults of guaranteed loans provided by the EIB to Syria and the EU membership of Croatia**:

Defaults of guaranteed loans to Syria: in the wake of the deteriorating situation in Syria, the Foreign Affairs Council, the European Parliament and the European Council took certain decisions in 2011 towards the country. In particular, they prohibited disbursements by the EIB in connection with existing loan agreements. Whereas in previous years Syria had fully and timely serviced its loans to the EIB, since November 2011 the bank is facing **arrears on loans to projects in Syria**. As a consequence, and in line with the Guarantee Agreement between the EU and the EIB, the EIB has made 4 calls on the Fund in 2012 for a total amount of about **EUR 42 million**. During 2013, 8 supplementary calls were made on the Fund, for a total amount of **EUR 82.5 million**. An amount of EUR 2.1 million was recovered in 2012. The **total outstanding capital of guaranteed loans related to Syria amounts to approximately EUR 551 million** with the last loan maturity in 2030. In conformity with the Guarantee Agreement, when the EU has made a payment under the EU Guarantee, it subrogates into the rights and remedies of the EIB. Recovery proceedings are to be undertaken by the EIB in respect of the subrogated sums.

Croatia has become an EU member in 2013: following Croatia's accession into the EU in June 2013, the risk associated with this country continues to be covered by the EU budget but will no longer be covered by the Fund. Consequently, an amount of about EUR 30.3 million corresponding to an exposure on Croatia of about EUR 337 million (outstanding amounts plus accrued interest) was transferred from the Fund to the EU budget in 2013.

Provisioning proposal for the 2014-2020 MFF: according to the Commission proposal of 23 May 2013 for a new EIB external mandate, the total ceiling for the provisioning of the Fund for the 2014-2020 mandate would amount to **EUR 1.193 billion**, compared to EUR 1.4 billion under the 2007-2013 financial framework (both amounts in current prices).

The subsequent agreement of 17 December 2013 (in the course of negotiations between the Council, the Parliament and the Commission, still to be adopted by the co-legislator) to increase by **EUR 2 billion** the fixed ceiling of the EU Guarantee to the EIB also foresees an additional amount of EUR 110 million in assigned revenue to cover the additional provisioning needs of the Fund.

The total provisioning amount for the 2014-2020 MFF is expected to cover the needs of the Fund over the period 2014-2020, on the basis of the information available at the writing of this report and on the basis of expected patterns of disbursements and reimbursements of the guaranteed loans. The effective annual needs for the provisioning of the Fund in 2014-2020 will nevertheless ultimately depend on the **actual rhythm of signatures, disbursements and reimbursements of the loans on the three activities covered by the Fund** (EIB's guaranteed loans, MFA and Euratom).

Another important factor which has an impact on the potential change in the needs of budgetary resources for this period is the impact of the calls on the Fund's assets following **defaulted payments on guaranteed loans to Syria** since 2011. The expected provisioning needs for 2014-2020 take account of the impact of existing calls related to Syrian defaulted loans having taken place in 2012 and 2013, as well as the hypothesis of continuing defaults on payments falling due until mid-2015.

Target provisioning rate: the report noted that a quantitative analysis of the risk covered by the Fund and the Fund's **9% target rate** has shown that this target rate, coupled with the other key features of the Fund, are **appropriate**. The Commission therefore does not see a need to change the target rate, or other Fund features. Nevertheless, the target rate should be reviewed from time to time in order to assess if it continues to be commensurate with the risk profile borne by the Fund. Such a review will be undertaken at the time of the mid-term review of the external mandate. If such review concludes that changes in the functioning of the Fund are required, a new comprehensive report on the functioning of the Fund would be issued.