

Guarantee Fund for external actions. Codification

2008/0117(CNS) - 05/07/2016 - Follow-up document

In accordance with Council Regulation (EC, Euratom) No 480/2009, the Commission is required to send a report to the European Parliament, the Council and the Court of Auditors on the situation of the guarantee fund for external action and its management in 2015. The Fund was set up in order to repay the Union's creditors in the event of default by beneficiaries of loans granted or guaranteed by the European Union. The financial management of the Fund is entrusted to the European Investment Bank (EIB).

Financial position of the Fund at 31 December 2015: the Fund totalled **EUR 2 343 091 110.14** which corresponds to the sum of all the financial flows since the setting up of the Fund in 1994.

The accounting value of the Fund increased by about **EUR 205 million in 2015**. This is explained by:

Increasing:

- the contribution from the budget (provisioning amount) of EUR 257 million to adjust the Fund to the 9 % target amount;
- the net revenues on financial operations amounted to EUR 32 million.

Decreasing:

- intervention of the Fund to cover defaulted payments by Syria for a total amount of EUR 60 million.
- the portfolio valuation decrease by EUR 24 million due to the mark to market adjustment of its value.

Significant transactions: the report noted that since November 2011, the EIB is facing **arrears on Syrian sovereign loans**. As a consequence, and in line with the guarantee agreement between the EU and the EIB, the EIB has made 29 calls on the EU Guarantee Fund up to 31 December 2015 for a total amount of EUR 225.1 million.

The Regulation sets a target amount for the Fund of 9 % of the total outstanding capital liabilities arising from each operation, plus any unpaid interest due.

To adjust the Fund to the 9 % of the total outstanding capital liabilities, **an amount of EUR 257.1 million was entered in the 2016 budget** for the provisioning of the Fund.

At 31.12.2014, the target amount was EUR 2 371.8 million corresponding to the 9 % of the total outstanding guaranteed operations (EUR 26 353.2 million). The difference between the target amount and the net assets of the Fund of EUR 2 114.7 million at 31.12.2014 was equal to EUR 257.1 million.

This amount was requested for the provisioning of the Fund in 2016 and was **approved by the Council and the European Parliament** as part of the approval of the 2016 budget in November 2015. It was subsequently recognised as a receivable of the Fund from the budget.

In February 2015, an amount of **EUR 144.4 million** was transferred from the budget to the Fund corresponding to the provisioning amount for 2015.

Interest from the investment of the Fund's liquid assets:

- **Investment policy:** 20 % of the Fund must be invested in short-term investments (up to one year). These investments include variable-rate securities, irrespective of their maturity dates, and fixed-rate securities with a maximum of one year remaining to maturity, irrespective of their initial maturity period. To maintain a balance between the various instruments providing the required liquidity, a minimum of EUR 100 million is kept in money market instruments, particularly bank deposits. Up to 80% of the Fund can be placed in a portfolio of bonds with a remaining maturity of no more than 10 years and 6 months from the date of payment. In order to ensure a good risk diversification, the total amount invested in the bonds per single issuer must not exceed 10% of the total nominal amount of the portfolio.
- **Performance:** during the year 2015, the macro economic conditions and the very accommodative monetary policy environment has resulted in decreasing, and often negative, interest rates. The Fund delivered an absolute return of +0.47% during 2015, over performing its benchmark by 0.9 basis points.
- **Financial operations revenues:** in 2015, interest income on cash and cash equivalents, on securities and accrued income on subrogated loans totalled EUR 40 109 123.

Products and operating activities: the result from operating activities amounted to EUR -1 113 894, which include the EIB management fees for EUR 861 228, other operating expenses (mainly custody fees) for EUR 190 955, the external audit fees for EUR 39 500, unrealised exchange gain on subrogated Loans for EUR 477 789 and accrued EIB recovery fees for EUR 500 000 (maximum agreed amount).

Default payments: in the wake of the deteriorating **situation in Syria**, the Foreign Affairs Council, the European Parliament and the Council had taken some decisions in 2011 towards the country. In particular, they prohibited disbursements by the EIB in connection with existing loan agreements as well as they suspended EIB technical assistance contracts for sovereign projects in Syria.

As a consequence, no new financing operation has been pursued by the EIB since May 2011 and all on-going disbursements and technical assistance services to the Syrian Arab Republic have been suspended since November 2011 until further notice.

During the first two months of 2016, an additional call for defaulting payments in Syria has been made for a total amount of EUR 7.8 million.