Guarantee Fund for external actions. Codification

2008/0117(CNS) - 05/08/2019 - Follow-up document

In accordance with the requirements of Council Regulation (EC, Euratom) No 480/2009, the Commission submits to Council and Parliament a report on the situation of the Guarantee Fund and its management for 2018.

The Fund was established 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 Commission entrusted the financial management of the Fund to the European Investment Bank (EIB).

Financial position of the Fund at 31 December 2018

The Guarantee Fund totalled EUR 2 609 881 747.51 as of 31 December 2018. The total balance sheet value of the Fund increased by about EUR 49.1 million in 2018.

This is mainly explained by the following:

Increases: (i) the contribution from the EU budget (provisioning amount) of EUR 103.2 million to adjust the Fund to its target amount of 9% of the total outstanding liabilities; (ii) the economic result on financial operations amounted to EUR 12.0 million.

Decreases: (i) interventions of the Fund to cover defaulted payments for a total amount of EUR 55.7 million; (ii) the portfolio valuation decreased by EUR 10.5 million due to the mark-to-market adjustment of its value.

Significant transactions in 2018

- ***Syria***: the EIB continued facing arrears on Syrian sovereign loans. As a consequence, and in line with the Guarantee Agreements between the EU and the EIB, the EIB has made 9 additional calls on the EU Guarantee Fund up to 31 December 2018 for a total amount of EUR 55.73 million.

- **Tunisia**: the EIB recovered EUR 136 092.88 from the loan to Enfidha Airport (Tunisia) which were credited to the Guarantee Fund bank account with the value date 15 January 2018.

Provisioning of the Fund

In February 2018 an amount of EUR 137.8 million was transferred from the budget to the Fund corresponding to the provisioning amount for 2018. The calculation of the contribution from the EU budget to the Fund for 2019 was also calculated in February 2018 resulting in EUR 103.2 million to be transferred in February 2019.

Interest from the investment of the Fund’s liquid assets

- ***Investment policy***: sufficient assets shall be placed in monetary assets to cover the short term (less than one year) outflows, at a proportion to be set out in the annual investment strategy. The remaining assets may be allocated to medium and long term instruments, with a maximum maturity of 10 years and 6 months from the payment date (medium and long-term portfolio).

- ***Performance***: 2018 was characterised by volatile yield movements on European fixed income markets with rates moving higher in Q1 due to expectations relating to the end of the ECB's quantitative easing policy (QE). Rates then moved to annual lows at the end of the year due to softening economic growth. Credit spreads edged higher during the year and the move accelerated in December on falling equity markets and expectation of tighter monetary policies. Throughout the year, financial markets were affected by the following risk factors:

- the imposition of trade tariffs by president Trump slowed economic growth, and inflation remained below the central bank targets due to low commodity prices and globalisation factors;
- the uncertain outlook of Brexit negotiations weighed on UK financials and corporates;
- the ramifications of the March Italian elections were felt in May, as Italian spreads widened out to more than 250 basis points vs Germany;
- monetary policy of major global central banks became tighter in 2018;
- economic growth is expected to slow down from 2.9% in 2018 to 2.5% in 2019 for US, and from 1.9% to 1.4% for the Euro area.

The performance of the Fund portfolio was monitored on a marked-to-market (MTM) basis (fair value). During 2018, the portfolio delivered a 0.1005% MTM yearly return, outperforming its benchmark by +13. 5 basis points.