EIB loans: Community guarantee to the EIB against losses under loans and loan guarantees for projects outside the Community

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The Commission presents a report on the borrowing and lending activities of the EU in 2008. The Council decisions establishing the various lending instruments of the EU require the Commission to report each year on the use of these instruments. The report describes the lending operations for each of the areas concerned. It gives a brief presentation of lending and borrowing activities under the balance-of-payment support to non-euro area Member States (BOP), and the macrofinancial assistance provided by the EC to third countries (MFA), as well as guarantees associated with Community loans. In addition, it provides information on Euratom lending and borrowing activities.

To complete the picture of lending activities, the respective Council decisions for EIB

lending activities outside the Community require the Commission to report on an annual basis on the situation regarding European Investment Bank (EIB) financing operations (loans and loan guarantees) guaranteed by the Union budget in pre-accession countries, the Mediterranean, Eastern Europe, the Southern Caucasus and Russia, Asia and Latin America and the Republic of South Africa.

EU lending activities: financial operations administered by the Commission under various Council decisions generally take the form of bilateral loans i.e macro-financial support to non-member States (MFA) or balance-of-payments support to non-euro area Member States (BOP)), where the Community helps to re-establish a country's macro-economic balance. The Euratom lending instrument is available for financing operations in Member States and certain non-member States (Armenia, Russia and Ukraine). The total amount of loan disbursements for MAF, Euratom to non-member States, BOP loans to non-euro Member States in 2008 was **EUR 2.016 billion**.

BOP: the activation of the BOP to non-euro area Member States was the major event of the year 2008 in the lending (and borrowing) operations of the EC. The increased number of eligible Member States following enlargement and the intensity of the international financial crisis called for the BOP facility to be activated and extended in December 2008 **from EUR 12 billion to EUR 25 billion**, and this was increased to EUR **50 billion in May 2009.**

On 4 November 2008 the Council decided to provide medium-term financial assistance to **Hungary of up to EUR 6.5 billion** under the BOP facility for non-euro Member States. The EU financial assistance was provided to restore investor confidence at a time when Hungary was seriously threatened by difficulties in its balance of current payments as a result of heightened financial market volatility and uncertainty as well as a severely disrupted funding environment for most of the last quarter of 2008. BOP is expected to represent a substantial part of future EU lending activity in terms of volume. In 2009, the Council decided to support two additional countries under the BOP facility:

- EUR 3.1 billion for Latvia (Council Decision 2009/290/EC), and
- EUR 5 billion for Romania (Council Decision 2009/459/EC).

MFA facility: the key MFA activities in 2008 focused on the following:

- the terms of the assistance to Lebanon (Memorandum of Understanding and Loan Agreement signed in December 2008.) The MFA programme with Lebanon consists of a grant of EUR 30 million and a loan of EUR 50 million, both to be disbursed in two instalments;
- the regularisation of the split between Serbia and Montenegro of the MFA loans granted in favour of former Yugoslavia. In 2008, the Council adopted Decision 2008/784/EC establishing a separate liability of Montenegro and reducing proportionately the liability of Serbia with regard to the loans granted by the Community pursuant to Decisions 2001/549/EC and 2002/882/EC;
- the Commission completed the implementation of the macro-financial assistance programme totalling EUR 45 million for Moldova. The second and third instalments of the grant (EUR 10 million and EUR 15 million respectively) were released in June and December 2008;
- the Commission released the first grant instalment of EUR 15 million under the programme of macro-financial assistance to Lebanon approved in 2007;
- there were no loan disbursements under MFA in 2008.

MFA focuses on neighbouring regions, such as the Western Balkans and the Caucasus. The impact of the prevailing economic and financial crisis has been particularly severe in those regions. Several pre-accession and neighbouring countries have approached the Commission with requests for MFA, and the Community faced intense activity in 2009 to meet the demands under this facility. It is difficult to predict for how long such a high demand will persist, but in any case it will be linked to an overall return to normality in the more economically developed countries.

Euratom facility: Euratom activities in 2008 focused on the second disbursement (USD 22 million) under the K2R4 project (loan for a total amount in EUR equivalent to USD 83 million for the safety upgrade of the nuclear power units Khmelnitsky Unit 2 and Rovno Unit 4 (K2R4) in Ukraine. A first tranche of EUR 39 million was disbursed in 2007 and, in 2008, a second tranche of USD 22 million (EUR 15.2 million equivalent) was disbursed, following the corresponding borrowing operation. In 2009 lending and borrowing activity was to include the disbursement of the third (and last) tranche under the loan agreement for the K2R4 project (USD 10.3 million).

Borrowing activities of the EU: the report recalls that there is a strict 'back-to-back' link between a borrowing operation and the related lending operation, which ensures that the EU budget is free of any interest rate or foreign exchange risk. It notes that the issuance of a 3 year bond for the loan to Hungary described above brought the EC as issuer back to the euro benchmark bond market. The bond was very well received. As investor interest was very strong, the bond was quickly oversubscribed. The bond price was close to the best in its reference group. The secondary market performance was very satisfactory and confirmed the EC's strong standing as a first class benchmark bond issuer. This standing was reinforced with subsequent benchmark bonds issued throughout 2009, building on the foundations laid with the 2008 benchmark issuance.

An amount of USD 22 million was raised for Euratom in 2008.

EIB lending activities: the total volume of EIB operations signed increased by 20 % to EUR 57.6 billion in 2008, of which an amount of EUR 51.5 billion was signed with Member States and EUR 6.1 billion with partner countries.

EIB borrowing activities: under the 2008 funding programme the EIB raised an amount of EUR 59.5 billion. This represents a significant increase over 2007 (EUR 54.7 billion i.e. +9 %). This increase was realised in 2008 in a difficult funding environment, characterised by volatility, market uncertainty, and from mid-October, a severely disrupted funding environment. Therefore, reliance on larger, liquid transactions and low levels of demand for structured issues continued.