

Community loans to third countries: Guarantee Fund and new Member States, transfer from the Fund to the budget

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PURPOSE : Comprehensive report on the functioning of the Guarantee fund and proposal to amend Regulation 2728/94/EC establishing a Guarantee fund for external action. **PROPOSED ACT :** Council Regulation. **CONTENT :** Regulation 1149/1999/EC stipulates that a comprehensive report on the functioning of the Guarantee Fund (the "Fund") has to be prepared. The present report accordingly covers the period 1998-2002. The Fund covers guaranteed loans and loan guarantees to third countries. The approaching accession of 10 countries to the EU in 2004 will affect the Fund as several of these countries have benefited from EIB loans guaranteed by the EU Budget. Guaranteed loans to these countries will no longer be covered by the target amount of the Fund as soon as they join the EU. The guarantees themselves will remain in place but the outstanding risk will be borne by the EU budget directly. The same situation will arise in the case of further accessions. The Commission encloses a proposal for an amendment to the Regulation to establish rules for addressing all such situations. It is stressed that this does not mean a withdrawal of the guarantee from these loans, rather that a call on such a guarantee would have an impact on the EU budget directly. The report analyses: - the functioning of the Fund. This covers the description and analysis of the key characteristics of the Fund such as liabilities, defaults covered by the Fund, and its financing. - the impact of enlargement. The report examines the coverage of risk on the outstanding debt guaranteed by the EC for these countries and the nature of the liabilities to be assumed by the EU budget upon accession. - the assessment of the parameters of the Fund, in the light of the experience gained so far with the functioning of the Fund and the forecast volume of additional lending to be covered by EU guarantee up to end-2006. - technical improvements in the functioning of the Fund. The report states that the Fund has continued to fulfil its main objectives period in providing a liquidity cushion for the Community budget against defaults on guaranteed loans and as a mechanism to fix a financial framework for Community guarantees covering Commission and EIB external lending. The volume of defaults has been low. On the basis of current forecasts for guaranteed loan operations and the proposed revision to the general lending mandate for the EIB set out in the Commission's midterm review, no immediate requirement to change the parameters of the Fund has been identified. The Commission does, however, envisages the introduction of some technical improvements to the Fund's provisioning procedures in order to further facilitate the functioning of the Fund. These improvements will not require any change to the Regulation. **FINANCIAL IMPLICATIONS :** This is a one-time event due to the accession of third countries to the Communities. The amount of EUR 343 Million to be reversed to the Community budget after the accession in 2004 is calculated as follows: Estimated outstanding amount at accession date: target rate = EUR 3,808 Million. 9% = 343 Million. This amount is calculated according to the mechanism of the Guarantee Fund which stipulates that the amount held in the Fund shall correspond to the target amount (currently 9% of outstanding liabilities). As a result, the deprovisioning amount shall be based only on this parameter, independently of how it has been provisioned.