Community loans to third countries: provisioning mechanism of the Guarantee Fund for external actions

2005/0025(CNS) - 05/04/2005 - Legislative proposal

PURPOSE : to amend Regulation 2728/94/EC and improve the rules of the provisioning mechanism of the Guarantee Fund, i.e. the rules that determine how the Fund's assets are brought in line with the target amount of the Fund.

PROPOSED ACT : Council Regulation.

CONTENT : experience has shown that the present rules have often led to an over-provisioning of the

Fund and therefore a sub-optimal use of budgetary funds. This problem has mainly been due to the use of uncertain forecast figures in the provisioning process. Furthermore, the present rules result in several transfers in and out of the Fund during one year, a situation that creates unnecessary administrative procedures involving not only the Commission services but also the two arms of the budgetary authority. This amendment is limited to changes of the Fund's provisioning mechanism.

The main improvements for the Fund's provisioning mechanism are:

- The improvement of the efficiency of the use of budgetary means and reducing to one the number of annual transfers between the Union Budget and the Fund;

- A provisioning based on the variations of the observed net-disbursements, thus creating more transparency and improving the precision of the budgetary programming.

In case of major defaults a smoothing mechanism is foreseen, in order to maintain the Fund's main purpose, i.e. to act as a shock absorber for the Union budget. A threshold amount of EUR 100 million is proposed.

FINANCIAL IMPLICATIONS :

- Budget lines : Line 6 (for 2006) and line 4 : the EU as a global partner (as from 2007).

- Expenditure forecast : an amount equal to the "normal" provisioning (= provisioning to cover the amount of outstanding loans and guaranteed loans plus up to EUR 100 million for losses) of up to about EUR 200 million has been indicated. This amount is the result of simulations that are based on the past observed growth rates of the amounts outstanding and the occurrence of default-induced losses of up to EUR 100 million.

In the very unlikely case that the smoothing mechanism would be triggered in case of major default-induced losses to the Fund, these "smoothing" amounts would be added to the amount to be paid by the budget under the "normal" provisioning. However, the design of the provisioning mechanism ensures that in any given year the default-induced amounts to be paid by the budget will never exceed EUR 100 million p.a. in addition to the "normal" provisioning and, therefore, the amount of EUR 200 million

will not be exceeded under normal circumstances.

As regards the observations for 2006, if the proposal is adopted before 31.12.05, the amount is zero. Otherwise, the actual regulation applies and therefore the Guarantee Reserve is set at EUR 229 million (current prices).