



EUROPEAN COMMISSION

Brussels, 31.8.2011  
SEC(2011) 1011 final

**COMMISSION STAFF WORKING PAPER**

*Accompanying the document*

**REPORT FROM THE COMMISSION**

**TO THE EUROPEAN PARLIAMENT AND THE COUNCIL  
on guarantees covered by the general budget  
situation at 31 December 2010**

{COM(2011) 528 final}

## TABLE OF CONTENTS

1.	Introduction .....	2
2.	Situation of risks covered by the Budget.....	2
2.1.	Overview of capital loan operations covered by the EU guarantee .....	2
2.2.	Risk factors .....	4
2.3.	Cumulative and annual Budget guarantee exposures .....	4
2.4.	Loan operations covered by the Budget guarantee.....	6
2.5.	Evolution of risk .....	9
2.5.1.	Situation of loans to Member States.....	9
2.5.2.	Situation of loans to third countries.....	10
2.6.	Payment under the Budget guarantees.....	12
2.6.1.	Borrowing/lending operations .....	12
2.6.2.	Guarantees given to third parties .....	13
2.6.3.	Default interest penalties for late payment .....	14
3.	Country-risk evaluation .....	15
3.1.	Candidate countries .....	15
3.1.1.	Turkey.....	15
3.2.	Potential candidate countries .....	17
3.2.1.	Serbia.....	17
3.3.	Mediterranean partners .....	18
3.3.1.	Egypt.....	18
3.3.2.	Lebanon .....	20
3.3.3.	Tunisia .....	21
3.3.4.	Morocco.....	22
3.3.5.	Syria.....	23
3.3.6.	Jordan.....	25
3.4.	Other countries .....	26
3.4.1.	South Africa.....	26
3.4.2.	Brazil .....	27

## 1. INTRODUCTION

This working document is published in parallel with the report from the Commission to the European Parliament and the Council on guarantees covered by the budget at 31 December 2010. It provides information on quantitative aspects of the risk borne by the Budget, relating to third countries and Member States. An overview of the outstanding amount of loans covered by the budget under each programme is presented in section 2. The third countries representing important risks to the Budget in 2010, and either categorised as “severely indebted” according to criteria set by the World Bank or facing significant imbalances in their external or debt situation, are included in the country risk evaluation in section 3. The evaluation comprises short analyses and tables of risk indicators. The evaluated countries are grouped in 4 sub-sections: candidate countries (3.1), potential candidate countries (3.2), Mediterranean partners (0) and other countries (3.4).

## 2. SITUATION OF RISKS COVERED BY THE BUDGET

### 2.1. Overview of capital loan operations covered by the EU guarantee

Table A1 shows the outstanding amount and annual repayments of capital and interest in respect of borrowing and lending operations for which the risk is covered by the Budget. The figures show the maximum possible risk for the EU in respect of these operations and must not be read as meaning that these amounts will actually be drawn from the Fund or the Budget.

**TABLE A1: CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED at 31.12.2010 (in EUR million)**

Operations	Authorised ceiling (a)	Capital outstanding at 30.06.2010 (b)	Capital outstanding at 31.12.2010 (b)	Remainder to be disbursed at 31.12.2010 (c)
<b>MEMBER STATES</b>				
EIB (Member States)		3 363	3 240	533
MFA to Bulgaria and Romania		65	38	
Euratom to Bulgaria and Romania		422	417	
<b>BoP<sup>1</sup></b>				
Hungary	6 500	5 500	5 500	1 000
Latvia	3 100	2 700	2 900	200
Romania	5 000	2 500	3 650	1 350
<b>MEMBER STATES - TOTAL</b>	<b>14 600</b>	<b>14 550</b>	<b>15 744</b>	<b>3 083</b>
<b>THIRD COUNTRIES</b>				
<b>A. Macro-Financial Assistance</b>				
Albania	9	9	9	
Bosnia-Herzegovina	40	40	38	
FYROM	90	74	69	
Georgia	142	36	14	
Lebanon	50	25	25	25
Serbia and Montenegro	280	280	280	
Tajikistan	75	28	28	
<b>Sub total MFA</b>	<b>686</b>	<b>492</b>	<b>463</b>	<b>25</b>
<b>B. EURATOM<sup>2</sup></b>		<b>55</b>	<b>49</b>	<b>9</b>
<b>C. Other</b>				
EIB Pre-Accession countries	28 755	7 092	8 173	5 487
EIB Neighbourhood and Partnership countries	28 342	6 985	7 204	6 022
EIB Asia and Latin America	8 205	2 647	2 524	1 277
EIB South Africa	2 400	743	845	454
<b>Sub total EIB<sup>3</sup></b>	<b>67 702</b>	<b>20 830</b>	<b>21 987</b>	<b>8 286</b>
<b>THIRD COUNTRIES - TOTAL</b>	<b>68 388</b>	<b>18 013</b>	<b>19 259</b>	<b>7 787</b>
<b>GRAND TOTAL</b>	<b>82 988</b>	<b>32 563</b>	<b>35 002</b>	<b>10 870</b>

(1) By Decision 431/2008/EC of 18 May 2009 the Council decided to increase the ceiling from EUR 25 000 million to EUR 50 000 million.

(2) The overall ceiling is EUR 4 000 million for loans to Member States and to certain non-member States.

(3) The subtotal EIB includes the EIB loans to Member States.

- Explanatory notes to table (A1)

(a) Authorised ceiling (Table A1)

This is the aggregate of the maximum amounts of capital authorised (ceilings) for each operation decided by the Council or by the European Parliament and the Council.

(b) Capital outstanding (Table A1)

This is the amount of capital still to be repaid on a given date in respect of operations disbursed.

(c) Remainder to be disbursed (Table A1)

Amount of loans signed not yet disbursed at the date of the report.

- EIB operations

- EIB loans operations account for 63% of the total loan operations covered by the budget. The following table provides further details in this respect.

**ANNEX TO TABLE A1: SITUATION IN RESPECT OF EIB OPERATIONS at 31.12.2010 (in EUR million)**

Operations	Credit line authorised (a)	Loans made available minus cancellations	Amounts disbursed	Amounts outstanding at 31.12.2010 (b)
<b>Mandate 2007/2013:</b>	<b>25 800</b>	<b>16 600</b>	<b>6 129</b>	<b>6 003</b>
<i>Pre-Accession countries</i>	8 700	6 807	2 829	2 826
<i>Neighbourhood and Partnership countries:</i>	<u>12 400</u>	<u>6 762</u>	<u>1 759</u>	<u>1 642</u>
Mediterranean	8 700	5 729	1 583	1 581
Eastern Europe, Southern Caucasus and Russia	3 700	1 033	176	61
<i>Asia and Latin America:</i>	<u>3 800</u>	<u>2 500</u>	<u>1 348</u>	<u>1 343</u>
Asia	1 000	779	284	284
Latin America	2 800	1 720	1 064	1 060
<i>South Africa</i>	<u>900</u>	<u>531</u>	192	191
<b>Previous General Mandate 2000/2007<sup>6</sup>:</b>	<b>20 060</b>	<b>19 230</b>	<b>15 796</b>	<b>12 215</b>
<i>Pre-Accession countries</i>	10 235	7 335	5 843	5 001
<i>Neighbourhood and Partnership countries</i>	6 520	6 202	5 238	4 232
<i>Asia and Latin America</i>	2 480	2 125	1 757	938
<i>South Africa</i>	825	824	711	576
<i>Member States (following the accession)<sup>5</sup></i>		2 744	2 247	1 468
<b>sub-total 65 %<sup>4</sup></b>	<b>45 860</b>	<b>35 830</b>	<b>21 926</b>	<b>18 218</b>
<b>Financial agreements (70% Guarantee rate)</b>	<b>7 477</b>	<b>6 512</b>	<b>6 067</b>	<b>2 284</b>
<i>Pre-Accession countries</i>	3 770	477	450	267
<i>Neighbourhood and Partnership countries</i>	2 310	1 617	1 508	531
<i>Asia and Latin America:</i>	<u>1 022</u>	<u>809</u>	<u>670</u>	<u>135</u>
<i>South Africa</i>	<u>375</u>	<u>375</u>	<u>275</u>	<u>76</u>
<i>Member States (following the accession)<sup>5</sup></i>		3 235	3 163	1 275
<b>sub-total 70 %<sup>4</sup></b>	<b>7 477</b>	<b>6 512</b>	<b>6 067</b>	<b>2 284</b>
<b>Financial agreements (75% Guarantee rate)</b>	<b>7 712</b>	<b>7 062</b>	<b>7 212</b>	<b>695</b>
<i>Pre-Accession countries</i>	1 350	713	723	74
<i>Neighbourhood and Partnership countries</i>	6 362	4 492	4 530	568
<i>Member States (following the accession)<sup>5</sup></i>		1 857	1 959	53
<b>sub-total 75 %<sup>4</sup></b>	<b>7 712</b>	<b>7 062</b>	<b>7 212</b>	<b>695</b>
<b>Financial agreements (100% Guarantee rate)</b>	<b>6 653</b>	<b>5 320</b>	<b>5 327</b>	<b>789</b>
<i>Pre-Accession countries</i>	4 700	29	29	4
<i>Neighbourhood and Partnership countries</i>	750	315	246	232
<i>Asia and Latin America:</i>	<u>903</u>	<u>710</u>	<u>722</u>	<u>107</u>
<i>South Africa</i>	<u>300</u>	<u>285</u>	<u>204</u>	<u>3</u>
<i>Member States (following the accession)<sup>5</sup></i>		3 982	4 127	443
<b>sub-total 100 %<sup>4</sup></b>	<b>6 653</b>	<b>5 320</b>	<b>5 327</b>	<b>789</b>
<b>Total</b>	<b>67 702</b>	<b>54 724</b>	<b>40 532</b>	<b>21 987</b>

(4) Percentage figures relate to the Guarantee rate.

(5) Loans to Member States were drawn from 'Pre-Accession countries' or from 'Neighbourhood and Partnership countries' ceilings.

(6) Including Turkey Terra and Special Action Turkey.

## 2.2. Risk factors

### **Factor increasing the risk:**

- the interest on the loans must be added to the authorised ceiling.

### **Factors reducing the risk:**

- limitation of the guarantee given to the EIB<sup>1</sup>:

75% of the total amounts of loans signed in the Mediterranean countries based on the Mediterranean protocols of 1977 and Council Regulations 1762/92/EEC and 1763/92/EEC.

70% of the total amounts of loans signed as part of lending operations with certain non-Member States authorised by Council Decisions 96/723/EC, 97/256/EC, 98/348/EC and 98/729/EC and a sharing of risk between the EU and the EIB as the Budget guarantee covers only political risks in some cases;

65% of the total amounts of loans signed as part of financing operations with certain non-Member States authorised by Council Decisions 99/786/EC, 2000/24/EC and Decision 2009/633/EC of the European Parliament and of the Council, and a sharing of risk between the EU and the EIB as the Budget guarantee covers only political risks in some cases, as regards the two first-mentioned decisions, and only risks of a political or sovereign nature in the case of the last decision;

- operations already repaid, since the amounts concerned are the maximum amounts of capital authorised (ceilings) and not outstanding amounts;
- the ceilings are not necessarily taken up in full.

Another factor to be considered is that some loans are disbursed in currencies other than the EUR. Due to exchange rate fluctuations, the ceiling may be exceeded when the amounts disbursed up to the date of the report are converted into EUR.

## 2.3. Cumulative and annual Budget guarantee exposures

With the cash flow approach based on the existing loans disbursed it is possible to calculate the total capital exposure of the budget and the total capital and interest payments due to be received each year. The following table A2 includes the estimated amount of principal and interest due each financial year by each country according to disbursements made until 31 December 2010<sup>2</sup>.

---

<sup>1</sup> Within each portfolio individual EIB loans are, de facto, guaranteed at 100% until the global ceiling is reached.

<sup>2</sup> For the purpose of this calculation, it is assumed that defaulting loans are not accelerated, i.e. only due payments are taken into account.

**Table A2: Total Annual Risk borne by the Budget in EUR million based on the amounts (capital and interest) due under all operations (MFA, BoP, Euratom and EIB) disbursed at 31.12.2010**

Ranking	Country	2011	2012	2013	2014	2015	2016	2017 until 2040	Total Outstanding
1	Hungary	2 209,6	142,1	133,2	2 128,4	63,0	1 558,8	2,1	6 237,2
2	Turkey	395,9	417,1	425,5	475,5	538,7	482,9	4 693,5	7 429,0
3	Romania	383,9	335,7	334,6	314,9	1 813,8	243,8	3 248,0	6 674,6
4	Egypt	211,4	202,0	198,6	181,4	181,1	181,4	1 022,2	2 177,9
5	Morocco	171,3	175,0	178,1	179,4	272,1	153,6	1 295,4	2 425,0
6	Tunisia	166,3	175,0	185,5	182,0	179,2	173,3	1 158,5	2 219,8
7	South Africa	99,5	109,3	82,5	84,8	86,8	86,9	537,4	1 087,1
8	Latvia	98,3	96,7	96,6	1 096,5	1 265,1	26,7	812,5	3 492,4
9	Serbia	88,0	134,5	141,5	155,3	207,6	156,7	725,3	1 608,8
10	Poland	81,9	79,1	73,2	53,5	43,4	29,4	112,9	473,5
11	Bulgaria	76,9	90,0	77,0	77,4	73,7	71,2	280,3	746,4
12	Syria	76,8	78,1	76,2	75,5	80,0	78,9	330,4	796,0
13	Lebanon	76,0	79,8	82,5	90,4	63,0	55,4	151,2	598,2
14	Czech Republic	73,6	71,0	68,4	56,4	45,7	43,7	86,3	445,1
15	Slovak Republic	58,1	51,0	37,2	25,8	15,1	14,7	101,4	303,3
16	Brazil	55,0	47,5	77,1	106,7	230,7	206,1	103,2	826,4
17	Jordan	47,1	46,3	39,4	35,3	27,7	25,7	173,2	394,7
18	Bosnia and Herzegovina	44,6	66,9	40,3	39,8	81,9	37,1	272,9	583,4
19	Croatia	42,4	45,4	45,5	42,1	40,1	38,7	267,2	521,3
20	The former Yugoslav Republic of Macedonia	33,9	44,2	40,7	42,5	36,1	25,5	59,9	282,8
21	Argentina	24,5	21,2	47,3	38,1	36,7	31,4	86,3	285,5
22	Peru	18,8	19,5	19,3	15,7	15,7	13,0	19,0	120,9
23	Vietnam	16,6	16,0	17,5	17,9	14,1	14,8	76,5	173,3
24	Indonesia	15,8	13,6	13,6	13,6	13,6	9,3	23,7	103,2
25	Albania	15,6	17,2	15,2	18,8	19,8	19,1	139,0	244,8
26	Slovenia	14,3	11,4	9,4	7,4	4,4	2,1	0,0	49,1
27	Israel	14,3	14,3	14,6	14,8	12,9	11,2	147,2	229,4
28	Colombia	14,1	22,0	25,0	25,0	25,0	25,0	50,4	186,5
29	Georgia	13,9	0,0	0,0	0,8	1,7	1,7	22,9	41,1
30	the Philippines	13,3	13,8	14,4	15,9	14,6	13,4	25,2	110,6
31	Pakistan	12,7	12,6	9,6	6,5	6,5	4,6	9,4	61,8
32	Cyprus	9,8	7,6	5,0	3,2	0,0	0,0	0,0	25,7
33	Ukraine	8,1	7,1	7,0	6,9	11,4	16,6	143,1	200,1
34	China	7,6	7,2	7,4	7,7	8,1	3,4	28,3	69,7
35	Panama	6,5	6,4	6,4	6,4	6,6	6,7	124,5	163,6
36	Montenegro	5,8	14,3	15,9	18,0	19,4	19,4	95,0	187,8
37	Sri Lanka	5,7	7,9	10,6	13,7	15,4	13,8	57,7	125,0
38	Russia	5,6	8,1	8,0	7,9	10,5	10,5	57,4	108,0
39	Lithuania	5,5	5,3	5,1	5,0	4,8	4,6	13,3	43,5
40	India	5,1	8,2	22,1	28,5	33,1	33,1	68,6	199,0
41	Bangladesh	5,1	5,0	5,0	0,0	0,0	0,0	0,0	15,1
42	Maldives	4,8	5,4	5,4	5,4	5,4	5,4	12,4	44,5
43	Thailand	4,8	6,5	8,9	2,2	0,0	0,0	0,0	22,4
44	Ecuador	4,4	4,3	4,3	4,3	4,3	4,3	10,6	36,3
45	Paraguay	3,9	7,5	15,0	15,0	15,0	11,2	7,5	75,0
46	Mexico	3,8	4,0	6,4	6,3	6,3	6,2	20,7	53,6
47	Costa Rica	3,8	3,8	3,8	0,0	0,0	0,0	0,0	11,5
48	Uruguay	3,3	3,7	4,4	4,9	4,0	4,0	2,0	26,3
49	The West Bank and the Gaza Strip	2,7	2,7	2,7	2,7	2,7	2,6	4,6	20,8
50	Laos	2,4	2,6	2,6	2,6	2,7	2,7	62,1	77,7
51	Regional - Central America	2,1	1,0	1,5	1,3	1,8	1,4	11,9	21,0
52	Regional Andean Pact	1,9	1,9	1,0	0,0	0,0	0,0	0,0	4,8
53	Estonia	1,0	0,5	0,0	0,0	0,0	0,0	0,0	1,5
54	Malta	0,7	0,7	0,3	0,0	0,0	0,0	0,0	1,7
55	Tajikistan	0,4	12,3	12,1	4,0	0,0	0,0	0,0	28,8
56	Republic of Moldova	0,3	0,3	0,3	0,5	1,3	1,5	11,0	15,3
	Total Outstanding	4 769,5	2 782,7	2 780,8	5 765,0	5 662,5	3 983,6	16 764,0	42 508,0
	Member States	3 013,7	891,2	840,0	3 768,5	3 329,0	1 994,9	4 656,8	18 494,1
	Non Member States	1 755,9	1 891,5	1 940,8	1 996,5	2 333,5	1 988,7	12 107,2	24 013,9

## 2.4. Loan operations covered by the Budget guarantee

The Budget covers two types of lending operations. These are:

- (a) Lending operations to **Member States**. These are BoP, MFA, Euratom, (table A3a) and EIB guaranteed lending operations (table A4).

Instrument	Decision	Date of decision	Loan term (years)	Guarantee Rate	Maturity Date	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Outstanding amount at 30.06.2010	Operations in		Outstanding amount at 31.12.2010
									Amounts disbursed	Amounts repaid	
<b>BOP</b>	2009/431/EC (1)	8/05/2009		100%		(b)	<b>50.000,00</b>				
<b>Total</b>							<b>14.600,00</b>	<b>10.700,00</b>	<b>1.350,00</b>	<b>0,00</b>	<b>12.050,00</b>
<b>Hungary</b>	2009/102/EC	4/11/2008				(b)	<b>6.500,00</b>	<b>5.500,00</b>	<b>0,00</b>	<b>0,00</b>	<b>5.500,00</b>
1st tranche		9/12/2008	3		9/12/2011	(c)		2.000,00			2.000,00
2nd tranche		26/03/2009	5,6		7/11/2014	(c)		2.000,00			2.000,00
3rd tranche		6/07/2009	6,8		6/04/2016	(c)		1.500,00			1.500,00
<b>Latvia</b>	2009/290/EC	20/01/2009				(b)	<b>3.100,00</b>	<b>2.700,00</b>	<b>200,00</b>	<b>0,00</b>	<b>2.900,00</b>
1st tranche		25/02/2009	5,1		3/04/2014	(c)		1.000,00			1.000,00
2nd tranche		27/07/2009	5,5		27/01/2015	(c)		1.200,00			1.200,00
3rd tranche		17/02/2010	9,2		10/05/2019	(c)		500,00			500,00
4th tranche		16/07/2010	15		20/10/2025	(c)			200,00		200,00
<b>Romania</b>	2009/459/EC	6/05/2009				(b)	<b>5.000,00</b>	<b>2.500,00</b>	<b>1.150,00</b>	<b>0,00</b>	<b>3.650,00</b>
1st tranche		27/07/2009	5,5		27/01/2015	(c)		1.500,00			1.500,00
2nd tranche		17/02/2010	9,2		10/05/2019	(c)		1.000,00			1.000,00
3rd tranche		22/09/2010	7		22/09/2017	(c)			1.150,00		1.150,00
<b>EURATOM</b>				100%			<b>4.000,00</b>	<b>421,75</b>	<b>0,00</b>	<b>5,00</b>	<b>416,75</b>
	77/270-271/Euratom	29/03/1977				(c)	500,00				
	80/29/Euratom	20/12/1979				(c)	500,00				
	82/170/Euratom	15/03/1982				(c)	1.000,00				
	85/537/Euratom	5/12/1985				(c)	1.000,00				
	90/212/Euratom	23/04/1990				(b)	1.000,00				
<b>Bulgaria</b>							<b>212,50</b>				<b>193,25</b>
1st tranche			20		10/05/2021	(c)		40,00			40,00
2nd tranche			15		15/01/2017	(c)		9,25		0,75	8,50
3rd tranche			17		19/08/2019	(c)		25,00		1,25	23,75
4th tranche			15		18/06/2018	(c)		20,00		1,25	18,75
5th tranche			15		16/01/2019	(c)		31,50		1,75	29,75
6th tranche			16		10/09/2020	(c)		30,00			30,00
7th tranche			16		4/04/2021	(c)		25,00			25,00
8th tranche			14		23/02/2020	(c)		17,50			17,50
<b>Romania</b>							<b>223,50</b>				<b>223,50</b>
1st tranche			17		21.07.2022	(c)		100,00			100,00
2nd tranche			19		26.11.2024	(c)		90,00			90,00
3rd tranche			18		23.02.2024	(c)		33,50			33,50
<b>MFA*</b>							<b>300,00</b>	<b>65,00</b>	<b>0,00</b>	<b>27,50</b>	<b>37,50</b>
<b>BULGARIA IV*</b>	99/731/EC	08.11.99					<b>100,00</b>	<b>15,00</b>	<b>0,00</b>	<b>15,00</b>	<b>0,00</b>
1st tranche			10		21.12.2009	(c)	40,00	0,00			0,00
2nd tranche			-		-	(c)	60,00	15,00		15,00	0,00
<b>ROMANIA IV*</b>	99/732/EC	08.11.99					<b>200,00</b>	<b>50,00</b>	<b>0,00</b>	<b>12,50</b>	<b>37,50</b>
1st tranche			10		29.06.2010	(c)	100,00	0,00			0,00
2nd tranche			10		17.07.2013	(c)	50,00	50,00		12,50	37,50
3rd tranche			-		-	(a)	50,00				0,00
* Member States as of 01.01.2007											
<b>TOTAL</b>							<b>54.300,00</b>	<b>11.186,75</b>	<b>1.350,00</b>	<b>32,50</b>	<b>12.504,25</b>

(1) Regulation establishing the facility stipulating that the outstanding amount of loans to be granted to Member States shall be limited to EUR 50 billion in principal

- (b) Lending operations to **non Member States** are covered by the Guarantee Fund for external actions. These include MFA, Euratom (Table A3b) and EIB guaranteed lending operations to third countries (table A4).

**TABLE A3b**  
**European Union (MFA) and Euratom loans to non-member States (EUR million)**  
**Changes in amounts outstanding during six-month period 30.06.2010 to 31.12.2010, broken down by countries and tranches**

COUNTRY	Decision	Date of decision	Loan term (years)	Expiry date	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 30.06.2010	Operations in six-month period		Amount outstanding at 31.12.2010
								Amounts disbursed	Amounts repaid	
<b>MFA</b>						<b>792.00</b>	<b>491.50</b>	<b>0.00</b>	<b>29.00</b>	<b>462.50</b>
<b>BOSNIA AND HERZEGOVINA I</b>	99/325/EC	10.05.99				<b>20.00</b>				0.00
1st tranche			15	22.12.2014	(c)	10.00	10.00		2.00	8.00
2nd tranche			-	-	(c)	10.00	10.00			10.00
<b>BOSNIA AND HERZEGOVINA II</b>	02/883/EC	09.11.02				<b>20.00</b>				0.00
1st tranche			15	16.01.2019	(c)	10.00	10.00			10.00
2nd tranche			15	09.02.2021	(c)	10.00	10.00			10.00
<b>FYROM I</b>	97/471/EC	22.07.97				<b>40.00</b>				0.00
1st tranche			15	27.09.2012	(c)	25.00	15.00		5.00	10.00
2nd tranche			15	13.02.2013	(c)	15.00	9.00			9.00
<b>FYROM II</b>	99/733/EC	08.11.99				<b>50.00</b>				0.00
1st tranche			15	15.01.2016	(c)	10.00	10.00			10.00
2nd tranche			15	30.01.2017	(c)	12.00	12.00			12.00
3rd tranche			15	04.06.2018	(c)	10.00	10.00			10.00
4th tranche			15	23.12.2018	(c)	18.00	18.00			18.00
<b>UKRAINE IV</b>	2002/639/EC	12.07.02			(d)	<b>110.00</b>				
<b>GEORGIA</b>	97/787/EC	17.11.97	15	24.07.2013	(c)	<b>110.00</b>	35.50		22.00	13.50
<b>ARMENIA</b>	97/787/EC	17.11.97	15	30.12.2013	(a)	<b>28.00</b>				
<b>TAJIKISTAN</b>	2000/244/EC	20.03.00			(b)	<b>75.00</b>				
1st tranche			15	30.03.2016	(c)	60.00	28.00			28.00
<b>SERBIA AND MONTENEGRO</b>	2001/549/EC	16.07.01	15	17.10.2016	(c)	<b>225.00</b>	225.00			225.00
<b>SERBIA AND MONTENEGRO</b>	2002/882/EC	09.11.02				<b>55.00</b>				
1st tranche			15	28.02.2018	(c)	10.00	10.00			10.00
2nd tranche			15	01.09.2018	(c)	30.00	30.00			30.00
3rd tranche			15	04.05.2020	(c)	15.00	15.00			15.00
<b>ALBANIA</b>	2004/580/EC	29.04.04	15	23.03.2021	(c)	<b>9.00</b>	9.00			9.00
<b>LEBANON</b>	2007/860/EC	21.12.07		04.06.2014	(b)	<b>50.00</b>	25.00			25.00
<b>EURATOM</b>										
<b>UKRAINE (Euratom)</b>	94/179/EC	21.03.94	11	15.03.2018	(b)	<b>EUR equivalent</b>	<b>54.72</b>			<b>49.01</b>
		15.03.2007			(c)	39.00 EUR	31.20		1.95	29.25
		06.10.2008			(c)	<b>22.00 USD</b>	15.10		0.85	<b>13.00</b>
		15.10.2009			(c)	<b>10.34 USD</b>	8.42		0.95	<b>6.77</b>
						of USD 83 million				
<b>TOTAL</b>							<b>546.22</b>	<b>0.00</b>	<b>32.75</b>	<b>511.51</b>

\* including exchange rate valuation



TABLE A4

## LOAN GUARANTEES TO EIB

in EUR million

Geographical Area	Decision	Date of decision	Rate of guarantee	Date of guarantee contract	Amount decided	Loans signed (minus cancellations)		Amount outstanding	
						at 30.06.10	at 31.12.10	at 30.06.10	at 31.12.10
<b>MED. Financial protocols(1)</b>		8.03.77	75% (2)	30.10.78/10.11.78	6 062	5 548	5548	469	402
<b>MED. Horizontal cooperation</b>	1762/92/EEC	29.06.92	75% (2)	09.11.92/18.11.92	1 800	1 656	1656	338	293
<b>TOTAL MED. (3)</b>					<b>7 862</b>	<b>7 204</b>	<b>7204</b>	<b>806</b>	<b>695</b>
<b>C and E Europe I</b>	90/62/EEC(4)	12.02.90	100%	24.04.90/14.05.90	1 000	912	912	92	76
	91/252/EEC(5)	14.05.91	100%	19.01.93/04.02.93	700	493	493	0	0
<b>C and E Europe II</b>	93/696/EC(6)	13.12.93	100%	22.07.94/12.08.94	3 000	2 464	2 464	418	372
<b>Asia, Latin America I</b>	93/115/EEC	15.02.93	100%	04.11.93/17.11.93	750	571	571	121	103
<b>Asia, Latin America Interim</b>	96/723/EC	12.12.96	100%	18.03.97/26.03.97	153	139	139	5	4
<b>Asia, Latin America Interim</b>	96/723/EC	12.12.96	70%	21.10.97	122	122	122	7	5
<b>South Africa</b>	95/207/EC	01.06.95	100%	04.10.95/16.10.95	300	285	285	4	3
<b>New mandates</b>	97/256/EC(7)	14.04.97	70%	25.07.97/29.07.97	7 105	6 142	6 139	2 328	2 116
<b>FYROM</b>	98/348/EC	19.05.98	70%	29.07.98/07.08.98	150	150	150	101	96
<b>Bosnia and Herzegovina</b>	98/729/CE	14.12.98	70%	16.06.99/22.06.99	100	100	100	69	67
<b>Turkey Terra</b>	99/786/EC	29.11.99	65%	18.04.00/23.05.00	600	600	600	504	491
<b>Mandates 2000-2007</b>	2000/24/EC(8)	22.12.99	65%	19.07.00/24.07.00 (11)	19 460	18 709	18 630	11 853	11 724
<b>The Baltic Sea basin of Russia</b>	2001/777/EC(9)	06.11.01	100%	06.05.02/07.05.02	100	85	85	78	72
<b>Russia, Belarus, Rep. Of Moldova and Ukraine</b>	2005/48/EC(10)	22.12.04	100%	21.12.05/09.12.05	500	230	230	80	160
<b>Mandate 2007-2013</b>	2006/1016/EC(12)	19.12.06	65%	01.08.07/29.08.07 (13)	25 800	13 124	16 600	4 366	6 003
<b>TOTAL</b>					<b>67 702</b>	<b>51 330</b>	<b>54 724</b>	<b>20 832</b>	<b>21 987</b>

(1) Including EUR 1 500 million for Spain, Greece and Portugal.

(2) General guarantee of 75% for all credits made available under lending operations under a guarantee contract signed between the Community and the EIB on 30.10.78 and 10.11.78.

(3) The Community has guaranteed EUR 5 497 million, of which EUR 141.5 million were covered by a 100% guarantee for Portugal.

(4) Poland, Hungary.

(5) Czech Republic and Slovak Republic, Bulgaria, Romania.

(6) Poland, Hungary, Czech Republic and Slovak Republic, Bulgaria, Romania, Baltic States and Albania.

(7) Central and Eastern Europe, Mediterranean, Asia and Latin America, South Africa.

(8) South-eastern Neighbours, Mediterranean countries, Latin America and Asia, Republic of South Africa, Special action Turkey, as amended (2005/47/EC).

(9) A special lending action for selected environmental projects in the Baltic Sea basin of Russia under the Northern Dimension.

(10) A special lending action for certain types of projects in Russia, Belarus, Republic of Moldova and Ukraine.

(11) Restated and amended in 2005.

(12) Pre-Accession countries, Neighbourhood and Partnership countries, Asia and Latin America, Republic of South Africa.

(13) The amount decided of EUR 27 800 million is broken down into a basic ceiling of a fixed maximum amount of EUR 25 800 million and an optional mandate of EUR 2 000 million (which has been decided in the context of ongoing mid-term review beginning of 2011).

## 2.5. Evolution of risk

The evolution of risk corresponds to the schedule of the total annual repayments (amount in capital including interests due) under all financial instruments guaranteed by the Budget. The situation of loans to Member States implies that the risk is *directly* covered by the Budget. Regarding the situation of loans to third countries the risk is covered by the guarantee Fund for external actions.

### 2.5.1. Situation of loans to Member States

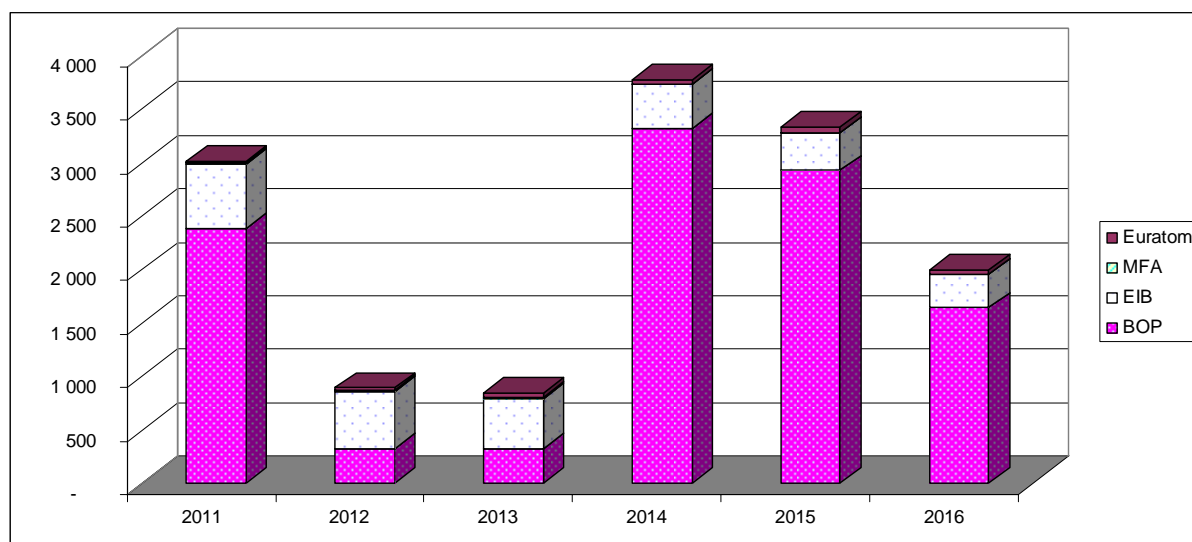
The total risk towards Member States arising from BoP, Euratom, EIB and MFA lending has increased during the second semester 2010.

Two additional tranches for **BoP** loans were disbursed for a total amount of EUR 1.35 billion (EUR 200 million for Latvia and EUR 1.15 billion for Romania). Further BoP loan disbursements are planned up to 2012.

As regards reimbursements, Hungary will repay in 2011 its first tranche of EUR 2 billion disbursed in December 2008 (included in Graph A1). Two other tranches of EUR 1 billion for Latvia and EUR 2 billion for Hungary, disbursed in 2009, will be reimbursed in 2014. Three additional tranches totalling EUR 4.2 billion disbursed during the second semester 2009 will be reimbursed in 2015 and 2016.

**EFSM** was activated for Ireland in early January with a first disbursement of EUR 5 billion and EUR 3.5 billion in March. Further disbursements are scheduled during the year 2011 up to 2012. At the end of April 2011, Portugal had required lending under this programme. Both countries have not been taken into consideration in the graph A1 below since at 31.12.2010 the relating loan operations were not disbursed.

**Graph A1: Total Annual Risk to the Budget<sup>3</sup> relating to Member States at 31.12.2010<sup>4</sup> (EUR million) for the period 2011-2016**



<sup>3</sup> Based on the amounts (capital and interest) due under operations disbursed at 31.12.2010.

<sup>4</sup> As of 31 December 2010, the 2011 annual risk for Member States was EUR 1,756 million.

## 2.5.2. Situation of loans to third countries

At 31 December 2010, a total of EUR 3 022 million remained to be disbursed by the EIB under the EUR 20 060 million EIB external lending mandate for 2000 – 2007:

Table A5: Disbursement forecast for EIB loans on general mandate 2000 - 2007

	EUR million		
	Ceiling	Loans made available (minus cancellations) at 31.12.2010***	to be disbursed****
Mediterranean	6 520	6 202	871
South-Eastern Neighbours**	10 235	7 335	1 482
Asia, Latin America	2 480	2 125	63
South Africa	825	824	95
<b>Sub-total third countries</b>	<b>20 060</b>	<b>16 486</b>	<b>2 511</b>
Member States*		2 744	511
	<b>20 060</b>	<b>19 230</b>	<b>3 022</b>

\* No ceiling for Member States as the loan operations were decided before enlargement rounds under the Mandate. Mediterranean and South-Eastern Neighbours ceilings were amended following the enlargements rounds.

\*\* The ceiling includes Terra Turkey and Special Action Turkey.

\*\*\* Signatures up to 31.07.2008 (end of the Mandate 2000-2007). No additional signatures allowed after this date.

\*\*\*\* Loans have to be drawn within 10 years from the end of the Mandate.

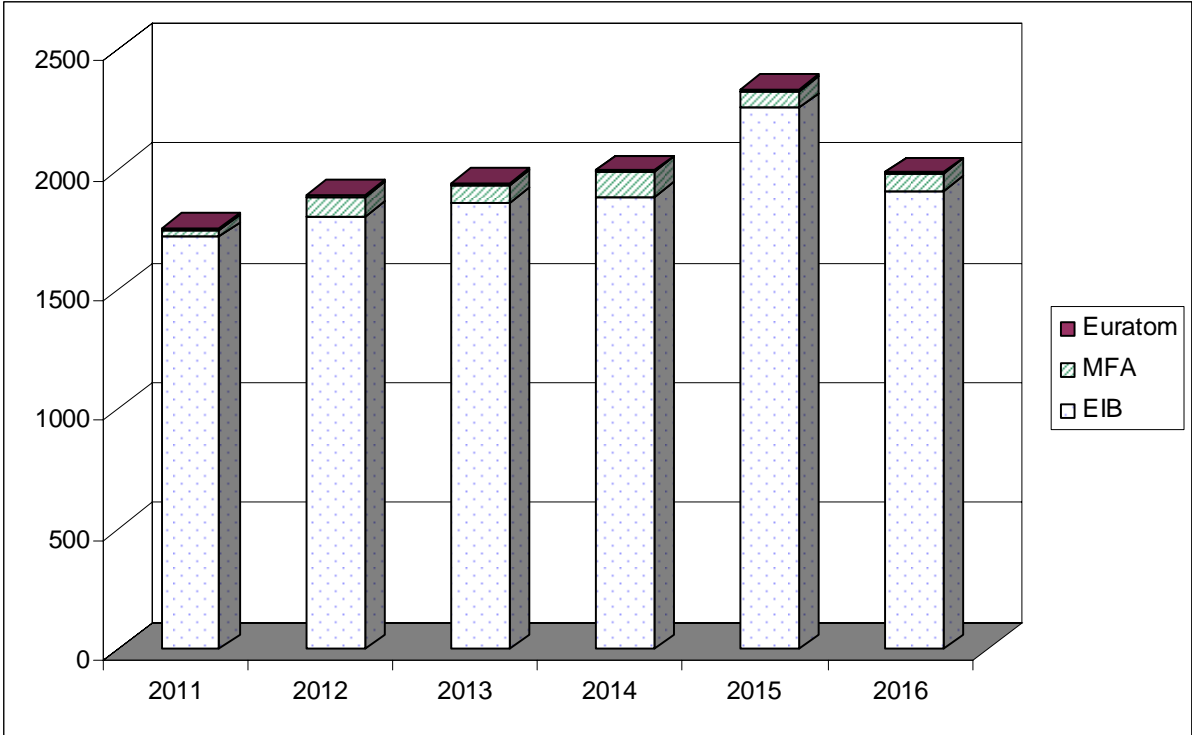
At the same date, an amount of EUR 10 603 million remained to be disbursed out of signatures made under the EIB external mandate for 2007-2013.

Table A6: Disbursement forecast for EIB loans on general mandate 2007 - 2013\*

	EUR million		
	Ceiling	Loans made available (minus cancellations) at 31.12.2010	to be disbursed
A. Pre-Accession Countries	8 700	6 807	3 992
B. Neighbourhood and partnership countries	12 400	6 762	5 037
C. Asia and Latin America	3 800	2 500	1 214
D. South Africa	900	531	360
	<b>25 800</b>	<b>16 600</b>	<b>10 603</b>

\*the current mandate only covers the period until 31 October 2011.

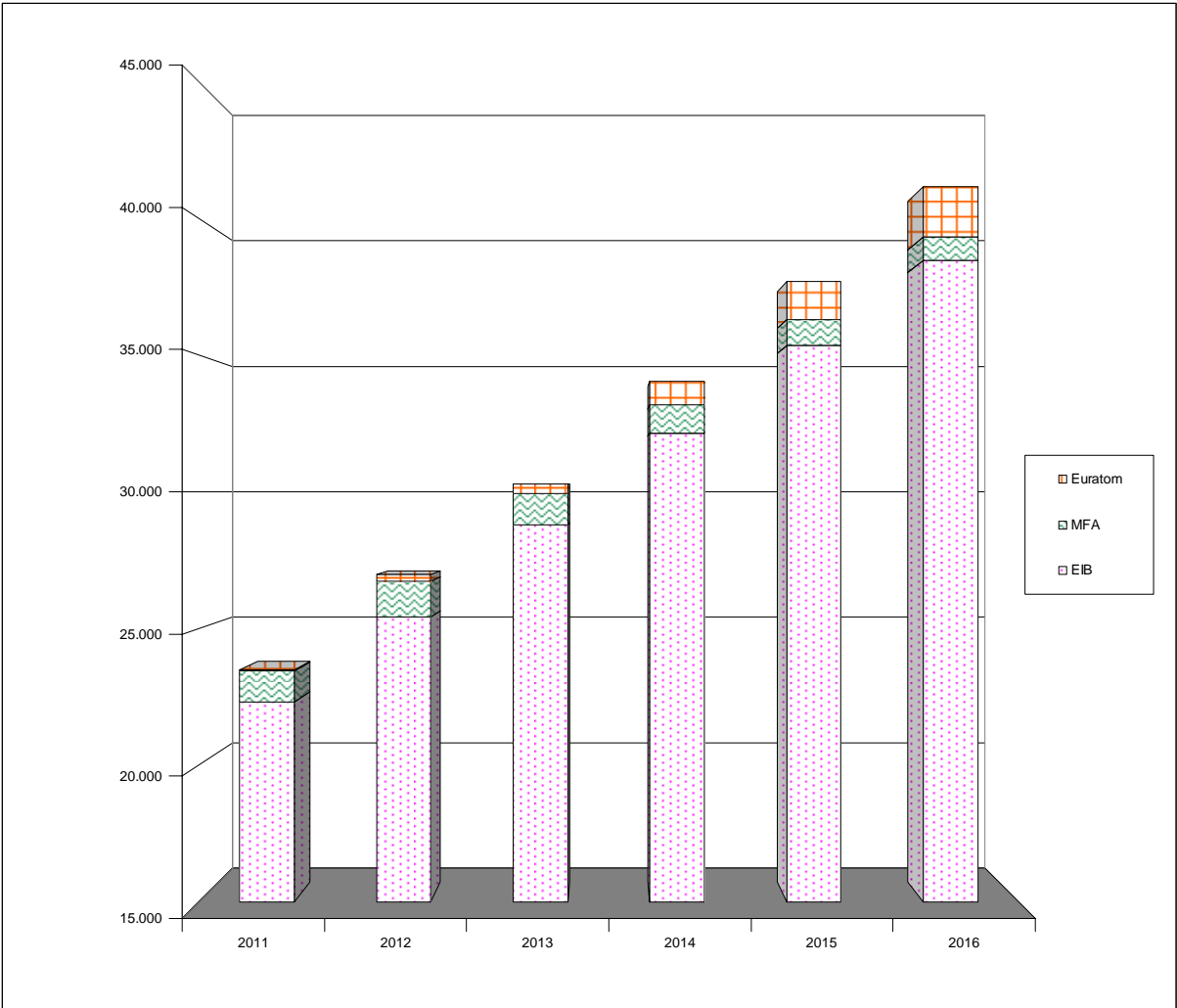
**Graph A2: Total Annual Risk borne by the Budget related to third countries (EUR million) at 31.12.2010 for the period 2011-2016**



Graph A3 presents the result of simulations aiming at estimating the outstanding amount covered by the Fund for the period 2011 to 2016. These simulations are based on disbursement scenarios under the mandates preceding the current EIB external mandate, as well as under the current mandate, established for the period 1 February 2007—31 October 2011 by Decision No 633/2009/EC of the European Parliament and of the Council.

The rhythm of disbursements has a strong impact on the amount of the provisioning of the Fund in future years. The simulation is therefore subject to a non-negligible degree of uncertainty.

**Graph A3: Estimated outstanding amount covered by the Fund from 2011 to 2016 (EUR million).**



**2.6. Payment under the Budget guarantees**

The EU borrows on the financial market and on-lends the proceeds (back-to-back) to Member States (balance of payments), third countries (macro-financial assistance) or utility companies (Euratom).

Procedures have been set up to guarantee the repayments of the borrowings due from the EU and also the guarantees given to third parties in connection with the EIB lending operations.

*2.6.1. Borrowing/lending operations*

The loan repayments are scheduled to match the repayments of the borrowings due from the EU. If the recipient of the loan is in default, the Commission will first draw on its own cash resources to ensure a timely repayment of the EU borrowing on the contractual due date.

Should the amounts needed for the necessary cash coverage exceed, in a certain period or date, the available Commission's treasury balances, the Commission would, in accordance

with Article 12 of Council Regulation 1150/2000<sup>5</sup>, draw on additional cash resources from the Member States in order to fulfil its legal obligations towards its lenders.

In the case of BoP loans, where reimbursed amounts can be very high, the beneficiary Member States are requested to deposit the amounts due at the European Central Bank seven business days in advance of the contractual due date. This gives enough time for the Commission and Member States to provide for the cash advance to ensure timely repayment in case of default.

In a second step, the treasury situation would be regularised as follows:

#### Euratom and MFA loans

- a) if the payment delay reaches three months after the due date, the Commission draws on the Fund to cover for the default and obtain the necessary funds to replenish its treasury.
- b) the Commission might also need to draw on the Budget, most likely by means of a transfer, to provide the corresponding Budget line under article "01 04 01 European Union guarantees for Union and Euratom borrowing operations and for EIB lending operations" with the necessary appropriations needed to cover the default. This method is used when there are insufficient appropriations in the Fund or if the borrower is a Member State<sup>6</sup> and the transfers are likely to require advance authorisation by the budgetary authority.
- c) by the re-use of recovered funds, if any.

#### Balance of Payments (BoP) loans

- a) by the re-use of funds from late payments
- b) the Commission may also need to propose a transfer or an Amending Budget to budget the cash advance under the corresponding budget line "01 04 01 01 European Union guarantee for Union borrowings for balance-of-payments support.

#### *2.6.2. Guarantees given to third parties*

The EU provides a guarantee in respect of financing granted by the EIB under the external mandates. When the recipient of a guaranteed loan fails to make a payment on the due date, the EIB asks the Commission to pay the amounts owed by the defaulting entity in accordance with the relevant guarantee agreement.

---

<sup>5</sup> Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000 (OJ L 130, 31.5.2000, p.1-12) implementing Council Decision 2007/436/EC, Euratom of 7 June 2007 on the system of European Communities' own resources (OJ L 163, 23.6.2007, p. 17-21). [the regulation of 2000 implements a decision of 2007?]

<sup>6</sup> The loans (and loans guarantees) to accession countries were covered by the Guarantee Fund until the date of accession. From that date, those that remained outstanding ceased to be external actions of the Union and are therefore covered directly by the Budget.

The guarantee call must be paid within three months of receiving the EIB's request, either from the Fund<sup>7</sup> or directly from the Budget should the resources of the Fund be insufficient<sup>8</sup>.

The EIB administers the loan with all the care required by good banking practice and is obliged to seek the recovery of the payments due after the guarantee has been activated.

### 2.6.3. *Default interest penalties for late payment*

#### (a) EU or Euratom loans

For loans granted by the EU or Euratom, default interest is owed by loan beneficiaries for the time between the date on which cash resources are made available by the Budget and the date of repayment to the Budget.

#### (b) EIB loans

For EIB loans, EIB is entitled to default interest which is calculated during the period between the due date of a defaulted loan instalment and the date of receipt of the cash resources by the EIB from the Commission. From the latter date, default interest is due to the Commission.

---

<sup>7</sup> Since the entry into force of the Regulation establishing the Guarantee Fund for external actions, the Agreement between the EU and the EIB on the management of the Fund foresees that the Commission must authorise the Bank to withdraw the corresponding amounts from the Fund within three months from the date the EIB calls in the guarantee. Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions (codified version), the "Guarantee Fund Regulation" (OJ L 145, 10.6.2009, p.10).

<sup>8</sup> If there are insufficient resources in the Fund, the procedure for activating the guarantee is the same as for borrowing/lending operations, see 2.6.1 above.

### 3. COUNTRY-RISK EVALUATION

Third countries representing important risks to the Budget in 2010, and either categorised as “severely indebted” according to criteria set by the World Bank or facing significant imbalances in their external or debt situation, are included in the country risk evaluation.

The evaluation presented below comprises short analyses and tables of risk indicators. The evaluated countries are grouped in 4 sub-sections: candidate countries (3.1), potential candidate countries (3.2), Mediterranean partners (0) and other countries (3.4).

#### **Explanatory notes for country-risk indicators**

##### *Abbreviations and English words used in tables*

S&P	Standard and Poor's
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
CPI	Consumer Price Index
est.	Estimates
m EUR	EUR million
bn USD	USD billion
n.a.	not available

##### *Standard footnotes used in the table*

- 1) Includes only EU and EIB loans (outstanding disbursements) to CEEC, NIS and MED.
- 2) The higher the ranking number, the lower the creditworthiness of the country. Countries are rated on a scale of zero to 185; 185 represents the highest risk of default. A given country may improve its rating and still fall in the ranking if the average global rating for all rated countries improves.

#### **3.1. Candidate countries**

##### *3.1.1. Turkey*

The Turkish economy has recovered strongly, and grew by 8% in 2010 after a contraction by 4.7% in 2009. A double-digit growth of imports combined with a domestic credit boom accommodated rising private consumption and in particular investment. Headline inflation eased after reaching 10% in early 2010 and came down to 6.5% by the end of the year. On the back of the strong GDP growth, the fiscal deficit has narrowed to about 3.5% of GDP in 2010, and the ratio of public debt stock to GDP has come down by almost 4 percentage points in the previous year and amounted to 41% at the end of 2010. The current account deficit tripled in 2010 as imports increased by more than 15% in volume terms and the terms of trade worsened on higher oil and commodity prices. FDI inflows fell marginally to about 1% of GDP. Turkey's gross external debt declined by about 5% of GDP in 2010 and currently amounts to about 38% of GDP. Private external debt represents two thirds of the total debt



and showed a similar decline. International reserves fell by about 3% to EUR 80 billion, covering about 4 months of imports. Largely as a result of the improved risk-appetite for emerging markets, the domestic currency appreciated against the USD and the EURO, in particular in the first three quarters of 2010.

<b>Country-risk indicators: Turkey</b>		<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Output and prices</b>				
Real GDP growth rate	(%)	0.7	-4.7	8.0
Unemployment (end of period)	(% of labour force)	11.0	14.0	12.0
Inflation rate (CPI) (Dec/Dec)	(% change)	10.1	6.5	8.5
<b>Public Finances</b>				
General government balance	(% of GDP)	-2.2	-6.7	-4.0
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	119 607	102 519	123 692
Current account balance	(% of GDP)	-5.6	-2.3	-6.5
Net inflow of foreign direct investment	(m EUR)	10723	4374	4500
Official reserves, including gold (end of period) m EUR		79235	82400	80000
Months' imports of goods and services		5.0	5.0	4.5
Exchange rate (end of period)	(TL per EUR)	1.90	2.20	2.00
<b>External debt</b>				
External debt (end of period)	(m EUR)	277 000	268 000	245 000
External debt/GDP (end of period)	(%)	37.3	43.4	38.3
Debt service/exports of goods and services	(%)	29.0	35.6	32.6
Arrears (on both interest and principal)	(m EUR)	none	none	none
Debt relief agreements and rescheduling		none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	4848	5705	7429
EU exposure/total EU exposure	(%)	34.5	35.1	40.2
EU exposure/external debt	(%)	3.3	3.1	3.6
EU exposure/exports of goods and services	(%)	4.1	5.6	6.0
<b>IMF arrangements</b>				
Type		SBA	no	no
(Date)		(until 05/08)		
On track		yes		
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba3	Ba3	Ba2
S&P long-term foreign currency rating (end of period)		BB-	BB-	BB
Euromoney		03/08 09/08	03/09 09/09	03/10 09/10
Position in the ranking		69 76	68 67	59 50
(number of countries)		(185) (186)	(186) (186)	(186) (186)

(a) See explanatory notes at beginning of the tables.

## **3.2. Potential candidate countries**

### *3.2.1. Serbia*

Following a 3% drop of output in real terms in 2009, Serbia's economy began to slowly recover in 2010. The economic upturn in 2010 was broad-based, driven by foreign demand in the first half of the year while domestic consumption and investment began to pick up towards the end of the year. Vigorous export activity, supported by the gradual economic revival in Serbia's main trading partners, and the dinar depreciation, helped to narrow the current account deficit further, well below the pre-crisis level. However, the deficit of the income account was by a third higher and the surplus of the current transfers account slightly lower than a year ago. Financial and capital flows remained modest, with FDI and other investment markedly lower in comparison with 2009. Foreign exchange reserves of the National Bank of Serbia remained largely stable at over EUR 10 billion, covering some 8 months of imports. Foreign currency inflows have been insufficient to cover the current account deficit and Serbia's foreign debt continued to increase. In 2010 gross external debt rose by almost EUR 1.3 billion, to around EUR 23.8 billion, i.e. close to 80% of GDP. Renewed inflationary pressures became a key policy concern. At end-December, inflation soared to 10.3% year-on-year (6.6% in 2009), overshooting the 6%  $\pm$  2% target range set by the National Bank of Serbia. In 2010, public finances deteriorated as the fiscal policy allowed automatic stabilisers to operate. While revenue performance improved in the second half of the year as economic activity was picking up, a supplementary budget was nevertheless adopted in November. At 4.8% of GDP, the deficit is the highest in the past decade. Public debt increased in 2010 to over 41% of GDP, mostly in the form of foreign loans.

Country-risk indicators: <u>Serbia</u>		2008	2009	2010
<b>Output and prices</b>				
Real GDP growth rate	(%)	5.5	-3.0	1.8 (Q4 estim.)
Unemployment (end of period)	(% labour force)	14.4	16.9	20
Inflation rate (CPI) (Dec/Dec)	(% change)	8.6	6.6	6.8
<b>Public finances</b>				
General government balance	(% of GDP)	-2.6	-4.3	-4.8 (estim.)
<b>Balance of payments</b>				
Exports of goods and services f.o.b	(bn EUR)	6	6	6.3
Current account balance	(% of GDP)	-17.1	-5.7	-7.3
Net inflow of foreign direct investment	(m EUR)	1824	1372	860
Official reserves, including gold (end of period) m EUR		8189	10601	10001
Months' imports of goods and services		6.5	11.5	9.8
Exchange rate (end of period)	( per EUR)	88.60	95.90	105.50
<b>External debt</b>				
External debt (end of period)	(m EUR)	21088	22487	23786
External debt/GDP	(%)	63.6	72.3	82.0
Debt service/exports of goods and services	(%)	42.8	57.7	36.6
Arrears (on both interest and principal)	(%)	2 161	no	no
Debt relief agreements and rescheduling	(m EUR)	no	no	no
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	1194	m	1609
EU exposure/total EU exposure	(%) (1)	8.5	8.1	8.7
EU exposure/external debt	(%)	5.7	5.9	6.8
EU exposure/exports of goods and services	(%)	20.2	22.0	25.5
<b>IMF arrangements</b>				
Type			SBA, 27 m,	SBA, 27 m,
(Date)			01 (05 rev.)	01 (05 rev.)
On track			yes	yes
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		BB-	BB-	BB-
Euromoney		03/08 09/08	03/09 09/09	03/10 09/10
Position in the ranking	(2)	88 126	122 109	76 70
(number of countries)		(185) (186)	(186) (186)	(186) (186)

(1) (2) See explanatory notes

### 3.3. Mediterranean partners

#### 3.3.1. Egypt

The Egyptian economy gathered momentum in 2010 with GDP growing by 5.1%, up from 4.7% in 2009. Growth was mainly driven by domestic demand. Private consumption continued to grow strongly helped by falling inflation and supported by three government stimulus packages which also contributed to an increase in gross fixed investment following a sharp decline in 2009. The external side of the economy remained weak with both exports and imports falling compared to the previous year. Exports suffered from weak consumer demand in Egypt's main trading partners, in particular the EU and the USA. The current account remained in deficit at -1.5% of GDP. Compared to the situation before the crisis when it was regularly in surplus, the current account is still weighed down by lower revenues from tourism and the Suez Canal, weaker remittances and only a tentative pick-up in FDI inflows. Inflation (CPI) continued to decrease to 11% in 2010, having fallen from 18.3% in 2008. The general government balance expanded to -8% of GDP in 2010 from -6.6% of GDP in 2009 linked to government stimulus measures.

The domestic political crisis starting in the spring of 2011 will cause short-term disruption to the Egyptian economy. On the domestic side, strikes involving numerous sectors of activity and the damage caused to governments buildings and property will have a negative impact. On the external side, there has been a sharp fall in tourism revenue, early indications of a decline in capital inflows, including FDI, and lower remittances as a result of the conflict in Libya where many Egyptians are employed. Output growth in 2011 is set to be significantly

lower than in 2010, although the economy is expected to continue to grow, and the political and economic outlook remains highly uncertain. The general government deficit is set to expand further on account of higher public spending. Economic reforms are likely to be put on hold until promised elections are held in 2011 as the interim government focuses on maintaining stability.

Country-risk indicators: <u>Egypt</u>		2008	2009	2010
<b>Output and prices</b>				
Real GDP growth rate	(%)	7.2	4.7	5.2
Unemployment (end of period)	(% labour force)	8.7	9.4	9.6
Inflation rate (CPI) (Dec/Dec)	(% change)	18.3	11.8	11.1
<b>Public finances</b>				
general government balance	(% of GDP)	-6.8	-6.6	-8.0
<b>Balance of payments</b>				
Exports of goods and services f.o.b	(bn USD)	56.6	49.0	50.3
Current account balance	(% of GDP)	1.9	0.5	-2.4
Net inflow of foreign direct investment	(b USD)	10.5	12.1	6.8
Official reserves, including gold (end of period) m EUR		31.2	35.1	37.9
Months' imports of goods and services		5.8	5.8	5.5
Exchange rate (end of period)	(per USD)	5.4	5.5	5.6
<b>External debt</b>				
External debt (end of period)	(bn USD)	31.5	36.4	39.8
External debt/GDP (end of period)	(%)	20.9	16.7	16.8
Debt service/exports of goods and services	(%)	5.6	6.8	5.1
Arrears (on both interest and principal)	(%)	no	no	no
Debt relief agreements and rescheduling	(m USD)	no	no	no
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	2141	2241	2178
EU exposure/total EU exposure	(%) (1)	15.2	13.8	11.8
EU exposure/external debt	(%)	9.1	8.2	7.3
EU exposure/exports of goods and services	(%)	5.1	6.1	5.8
<b>IMF arrangements</b>				
Type		no	no	no
(Date)		-	-	-
On track		-	-	-
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba1	Ba1	Ba2
S&P long-term foreign currency rating (end of period)		BB+	BB+	BB
Euromoney		03/08 09/08	03/09 09/09	03/10 09/10
Position in the ranking	(2)	68 68	70 70	69 64
(number of countries)		(185) (186)	(186) (186)	(186) (186)

(1) (2) See explanatory notes

### 3.3.2. Lebanon

Lebanon's economy performed remarkably well during the global financial crisis with real GDP growing by 8% in 2010 from nearly 7% in 2009, backed by buoyant activity in construction, tourism, commerce, and financial services. Consumer price inflation increased to 4.7% in 2010 from nearly 1.2% in 2009, driven partly by fuel and commodity price increases. The country also experienced a significant inflow of foreign capital during 2010, which helped the Central bank rebuild its foreign exchange reserves. The government deficit widened to 8.7% in 2010 from 8.1% in 2009 and the current account balance improved slightly partly due to a moderate increase in FDI inflows. The external debt-to-GDP ratio went down to 160% from almost 170% in 2009 but it remains the highest in the world; almost half of it is denominated in foreign currencies. However, little progress has been made on structural reforms regarding the loss-making electricity sector, the value added tax (VAT) rate, elimination of extra-budgetary funds, or the improvement of the budget process. Lowering the government debt-to-GDP ratio and alleviating the pressure on public finances still remain the top medium-term priorities; they require expenditure rationalization and socially balanced tax measures. The banking sector is characterized by prudent regulations and supervision; however it depends heavily on short-term deposit inflows from non-residents. Lebanon continues to suffer from high underlying vulnerabilities fed by the maintenance of a fragile political system and regional tensions.

Country-risk indicators: <u>Lebanon</u>		2008	2009	2010
<b>Output and prices</b>				
Real GDP growth rate	(%)	9.3	6.9	8.0
Unemployment (end of period)	(% labour force)	n.a.	n.a.	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)	10.8	1.2	4.7
<b>Public finances</b>				
General government balance	(% of GDP)	-9.6	-8.1	-8.7
<b>Balance of payments</b>				
Export of goods and services f.o.b	( bn USD)	5.3	4.7	5.3
Current account balance	(% of GDP)	-11.4	-11.3	-11.1
Net inflow of foreign direct investment	(m USD)	2.6	3.7	3.9
Official reserves, including gold (end of period) bn EUR		19.3	28.6	32.2
Months' imports of goods and services		7.9	10.3	10.3
Exchange rate (end of period)	( per USD)	1 507.5	1 507.5	1 493.91
<b>External debt</b>				
External debt (end of period)	(m USD)	30 611	31 892	34 440
External debt/GDP (end of period, includes non-resident deposits)	(%)	172.0	171.0	160.00
Debt service/exports of goods and services	(%)	41.0	33.6	no
Arrears (on both interest and principal)	(%)	no	no	no
Debt relief agreements and rescheduling	(m USD)	no	no	no
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	508	539	598
EU exposure/total EU exposure	(%) (1)	3.6	3.3	3.2
EU exposure/external debt	(%)	2.2	2.3	2.3
EU exposure/exports of goods and services	(%)	12.8	15.3	15.1
<b>IMF arrangements</b>				
Type			EPCA II	
(Date)			adopted 3-11	
On track			yes (concluded June 2009)	
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B3	B3	B1
S&P long-term foreign currency rating (end of period)		B-	B-	B
Euromoney		03/08 09/08	03/09 09/09	03/10 09/10
Position in the ranking	(2)	127 134	102 80	82 76
(number of countries)		(185) (186)	(186) (186)	(185) (185)

(1) (2) See explanatory notes

### 3.3.3. Tunisia

Tunisia showed remarkable resilience to the global economic crisis during 2010 with real GDP growth reaching 3.8% from 3.0% in 2009, supported by a rebound in industrial activity and investment. The budget deficit (excluding grants and privatization) stabilized at 3% of GDP and the current account deficit narrowed to 2.2% from 3.1% in 2009. However, Tunisia's official reserves had fallen to EUR 7.2 billion by the end of 2010 (corresponding to 6 months of imports of goods and services) partly reflecting seasonal factors, but remaining at a comfortable level. Public debt remained stable, corresponding to 11.4 months of exports of goods. Unemployment increased only marginally but concerns mainly young educated people. Inflation reached 4.5% from 3.5% in the previous year, due to rising food prices. Low dependence on external financing and a significant growth on deposits enabled to good functioning of the banking sector during 2010. Tunisia has made great progress in macroeconomic reforms with the implementation of new tax system establishing public spending controls (including subsidies) units. These reforms are expected to reduce the debt-to-GDP ratio below 40% and the government deficit to 2% by 2015.

Despite the robustness of the Tunisian economy to global factors, the recently unfolding political crisis of the country and the developments in Libya has turned into a major source of destabilisation. The budget deficit is expected to rise in 2011 in light of the deceleration of growth. The current account deficit is also expected to grow in 2011 due to the decline in tourism revenues, FDI inflows and remittances, and the increase in oil and commodity prices.

Country-risk indicators: Tunisia		2008	2009	2010
<b>Output and prices</b>				
Real GDP growth rate	(%)	4.6	3.0	3.8
Unemployment (end of period)	(% labour force)	14.2	13.3	14.0
Inflation rate (CPI) (Dec/Dec)	(% change)	5.0	3.5	4.5
<b>Public finances</b>				
General government balance	(% of GDP)	-0.8	-3.0	-5.0
<b>Balance of payments</b>				
Export of goods and services f.o.b.	(bn USD)	21.1	16.8	17.3
Current account balance	(% of GDP)	-4.2	-3.1	-2.2
Net inflow of foreign direct investment	(m USD)	2 300	1 300	1 296
Official reserves, including gold (end of period) bn EUR		6.1	8.1	7.2
Months' imports of goods and services		4.1	5.6	6.0
Exchange rate (end of period)	( per USD)	1.31	1.35	1.40
<b>External debt</b>				
External debt (end of period)	(m USD)	20 776	20 129	19 619
External debt/GDP (end of period)	(%)	50.7	50.9	50.7
Debt service/exports of goods	(%)	16.5	22.0	11.4
Arrears (on both interest and principal)	(%)	no	no	no
Debt relief agreements and rescheduling	(m USD)	no	no	no
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	1683	1900	2220
EU exposure/total EU exposure	(%) (1)	12.0	11.7	12.0
EU exposure/external debt	(%)	10.8	12.6	15.1
EU exposure/exports of goods and services	(%)	10.7	15.1	17.1
<b>IMF arrangements</b>				
Type		no	no	no
(Date)		-	-	-
On track		-	-	-
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Baa2	Baa2	Baa3
S&P long-term foreign currency rating (end of period)		BBB	BBB	BBB
Eurocurrency		03/08 09/08	03/09 09/09	03/10 09/10
Position in the ranking	(2)	62 64	53 52	71 69
(number of countries)		(185) (186)	(186) (186)	(185) (185)

(1) (2) See explanatory notes

### 3.3.4. Morocco

The Moroccan economy grew by 3.2% in 2010, compared to 4.8% in 2009. The slowdown is mainly due to the weak growth in agriculture. FDI inflows increased by an estimated 1.5% compared to 2009 and are likely to recover only gradually. Inflation picked-up slightly due to higher food and fuel prices but these increases have been partly absorbed by the government subsidies. The fiscal deficit expanded in 2010 to 4% of GDP from 2.1% in 2009. On the revenue side, indirect taxes and customs duties rebounded after having fallen sharply in 2009. On the expenditure side food and fuel subsidies rose to around 2% of GDP. The level of debt increased slightly to 58.5% of GDP from 57% of GDP in 2009. Higher commodity prices contributed to an increase of the current account deficit which rose from 5.8% of GDP in 2010. Average inflation in 2010 was 1.4%, up from 1% in 2009, while government subsidies will help contain further price rises. Despite the slight increase in inflationary pressure, the Bank al-Maghrib (BAM) chose not to tighten monetary policy and maintained its policy rate at 3.25%. In March 2010, the BAM also lowered reserve requirements from 8% to 6%. In a sign of growing international confidence, Morocco was assigned investment grade status by Standard and Poor's Rating Agency in March 2010. In September, the government also issued the first government bonds on the international market for three years, EUR 1 billion in ten-year Eurobonds, which were oversubscribed and mainly purchased by European and US investors. Foreign reserves increased slightly in 2010, representing about 6 months of imports, to nearly the level of external debt which stands at 23% of GDP.

Country-risk indicators: <u>Morocco</u>		2008	2009	2010
<b>Output and prices</b>				
Real GDP growth rate	(%)	5.6	4.9	3.2
Unemployment (end of period)	(% labour force)	9.6	9.1	9.8
Inflation rate (CPI) (Dec/Dec)	(% change)	3.7	1.0	1.4
<b>Public finances</b>				
General government balance	(% of GDP)	0.4	-2.1	-4.0
<b>Balance of payments</b>				
Exports of goods and services f.o.b (3)	(bn USD)	33.3	26.1	27.1
Current account balance	(% of GDP)	-6.4	-5.8	-7.1
Net inflow of foreign direct investment	(m USD)	2.0	0.7	2.4
Official reserves, including gold (end of period) m EUR		22.0	21.9	22.5
Months' imports of goods and services		7.5	6.9	6.7
Exchange rate (end of period)	( per USD)	7.25	7.84	8.33
<b>External debt</b>				
External debt (end of period)	(bn USD)	17.2	18.8	20.1
External debt/GDP (end of period)	(%)	19.4	20.9	22.8
Debt service/exports of goods	(%)	6.5	6.6	6.4
Arrears (on both interest and principal)	(%)	no	no	no
Debt relief agreements and rescheduling	(m USD)	no	no	no
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	1929	2224	2425
EU exposure/total EU exposure	(%) (1)	13.7	13.7	13.1
EU exposure/external debt	(%)	8.4	8.9	9.0
EU exposure/exports of goods and services	(%)	4.3	6.4	6.7
<b>IMF arrangements</b>				
Type		no	no	no
(Date)		-	-	-
On track		-	-	-
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba1	Ba1	Ba1
S&P long-term foreign currency rating (end of period)		BB+	BB+	BBB-
Euromoney		03/08 09/08	03/09 09/09	03/10 09/10
Position in the ranking	(2)	66 63	63 54	57 62
(number of countries)		(185) (186)	(186) (186)	(186) (186)

(1) (2) See explanatory notes

(3) Figures of the former report at 30.06.2010 did not include export of services

### 3.3.5. Syria

The Syrian economy recovered in 2010 with GDP growth reaching 3.2% despite a fourth consecutive poor harvest and the stagnation of oil production. Economic activity has been largely supported by the fiscal policy adopted by the government in order to mitigate the effects of the crisis. The services balance contributed to a reduction in the current account deficit to 3.9% of GDP from 4.5% in 2009. At the end of 2010, foreign exchange reserves covered 13 months of imports reflecting the quite robust financial situation of the country.

Since March 2011, Syria has been facing popular protests in the context of spreading unrest against authoritarian regimes of the region. The government's reaction has been a mixture of concession and repression. The political situation will have significant negative consequences for the Syrian economy with a growth forecast of only 1.1% for 2011. The unrest halted the implementation of reforms, such as the reorganisation of the public sector and the introduction of VAT. The strong increase in wages in the public sector (up to 62%) and the reintroduction of subsidies decided by the government will have a strong negative impact on the state budget by pushing up the deficit to an estimated 7.7% of GDP. The increase in minimum salaries in the private sector, comparable to the one in the public sector, is expected to cause a strong rise in unemployment. Also, inflation will surge. The Syrian pound has slipped about 15% against the dollar since April obliging the Central bank of Syria to bring back restrictions on foreign- currency transactions. The closure of borders with surrounding countries, combined with the sanctions decided by the international community in response to repressive government policy, will offset the efforts that have been made to diversify the economy. Foreign investment is expected to drop and tourism sector is faced with a major decline, due to fewer visitors especially from Western countries. The foreign reserves accumulated during the previous years, combined with higher revenues than expected from oil exports, gave Syrian authorities the possibility to compensate the loss of revenues due to the slowdown of activity. If the unrest continues, Syria will be facing a recession, or even a risk of bankruptcy, obliging national authorities to negotiate financial assistance with regional allies.



Country-risk indicators: <u>Syria</u>		2008	2009	2010
<b>Output and prices</b>				
Real GDP growth rate	(%)	4.3	5.0	5.0
Unemployment (end of period)	(% labour force)	10.9	8.5	8.4
Inflation rate (CPI) (Dec/Dec)	(% change)	15.7	3.8	4.4
<b>Public finances</b>				
General government balance	(% of GDP)	-2.5	-9.0	-3.2
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	( bn USD)	17.0	11.8	14.3
Current account balance	(% of GDP)	-1.4	-2.8	-3.9
Net inflow of foreign direct investment	(m USD)	1 627	1 514	1 850
Official reserves, including gold (end of period) m EUR		11.6	12.7	13.7
Months' imports of goods and services		9.4	10.7	9.4
Exchange rate (end of period)	( per USD)	46.0	45.5	46,7 (3 Q)
<b>External debt</b>				
External debt (end of period)	(m USD)	7 112	7 467	7 296
External debt/GDP (end of period)	(%)	14.5	13.9	12.3
Debt service/exports of goods and services	(%)	1.2	0.8	1.5
Arrears (on both interest and principal)	(%)	no	no	no
Debt relief agreements and rescheduling	(m USD)	no	no	no
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	536.1	762.8	796
EU exposure/total EU exposure	(%) (1)	3.8	4.7	4.3
EU exposure/external debt	(%)	10.1	13.7	14.6
EU exposure/exports of goods and services	(%)	4.2	8.6	7.4
<b>IMF arrangements</b>				
Type		no	no	no
(Date)		-	-	-
On track		-	-	-
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
Euromoney		03/08 09/08	03/09 09/09	03/10 09/10
Position in the ranking	(2)	116 115	163 149	140 128
(number of countries)		(185) (186)	(186) (186)	(186) (186)

(1) (2) See explanatory notes

### 3.3.6. Jordan

The global economic crisis affected economic activity in Jordan during 2010 with real GDP growing by less than 3% compared to 5.6% in 2008. The recent slowdown is partly attributed to decreased FDI inflows from surrounding Arab states. Despite the economic slowdown and the increase in international fuel and food prices, unemployment decreased slightly during 2010 and reached 2008 levels of almost 12.5% of total labour force. Inflation decreased to 5.7% from 6.7% in 2009. The government deficit narrowed to 8.4% of GDP in 2010 from 12.9% in 2009, mainly due to reductions in the operational cost of Ministries, a hiring freeze for civil servants and greater prioritization of capital spending. In response to fiscal consolidation measures, public debt-to-GDP ratio declined to about 25% from almost 32% and the current account deficit narrowed to 4.3% in 2010 from 6.8% in 2009. Following the successful first-time issuance of a USD 750 million five-year Eurobond in November 2010 external reserves increased to USD 12.6 billion in 2010, representing 11.5 months of next year's exports of goods and services.

Jordan has made remarkable progress in structural reforms and capacity-building, such as strengthening the legal framework for public-private partnerships (PPP) and promoting draft regulations to lower the cost of credit. Economic growth is set to increase steadily in the medium-term as exports and investment recover, but the near-term outlook is subject to uncertainty related to world commodity price developments, the growth path of the Gulf countries to which Jordan's business cycle is closely linked and possible spillover of the political instability in the Arab world.

Country-risk indicators: <u>Jordan</u>		2008	2009	2010
<b>Output and prices</b>				
Real GDP growth rate	(%)	5.6	3.1	3.2
Unemployment (average)	(% of labour force)	12.7	13.5	12.5
Inflation rate (CPI) (Dec/Dec)	(% change)	9.4	6.7	5.7
<b>Public finances</b>				
General government balance	(% of GDP)	-9.9	-12.9	-8.4
<b>Balance of payments</b>				
Exports of goods and services f.o.b	(bn USD)	7.9	6.4	6.6
Current account balance	(% of GDP)	-11.9	-6.8	-4.3
Net inflow of foreign direct investment	(bn USD)	2.8	2.3	2.4
Official reserves, including gold (end of period) bn USD		8.9	10.2	12.6
Months of next years imports of goods and services		9	10	11.5
Exchange rate (end of period)	(JOD per USD)	0.7	0.7	0.7
<b>External debt</b>				
External debt (end of period)	(bn USD)	6.55	6.76	6.27
External debt/exports of goods and services	(%)	82.5	106.3	85.5
Debt service/exports of goods and services	(%)	34.2	10.3	10.2
Arrears (on both interest and principal)	(m USD)	no	no	no
Debt relief agreements and rescheduling	(m USD)	no	no	no
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	299	369	395
EU exposure/total EU exposure	(%)	2.1	2.3	2.1
EU exposure/external debt	(%)	6.1	7.3	8.4
EU exposure/exports of goods and services	(%)	5.1	7.7	8.0
<b>IMF arrangements</b>				
Type		-		
(Date)		-		
On track		-		
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Baa3	Ba2	Ba2
S&P long-term foreign currency rating (end of period)		BB	BB	BB
Euromoney		03/08 09/08	03/09 09/09	03/10 9/10
Position in the ranking	(2)	74 75	73 69	72 67
(number of countries)		(185) (186)	(186) (186)	(185) (185)

(1) (2) See explanatory notes

### 3.4. Other countries

#### 3.4.1. South Africa

Following a contraction by 1.8% of GDP in 2009, South Africa's economy has been recovering strongly in 2010 and real GDP grew by 2.8%. High commodity prices, low interest rates, and faster global growth, have been the main drivers of South Africa's economic recovery. Improving household consumption and accelerating investment will support an increase in economic growth over the medium term. South Africa relies on exports, concentrated primarily on commodities, which have been pushed up by stronger external demand and supported by the depreciation of the Rand. After running a budget deficit of an estimated 5.3% of GDP in the current 2010/11 fiscal year, national authorities project the shortfall to remain the same in 2011/12 (instead of previously forecasted deficit of 4.6% of GDP). Monetary policy is focused on trying to keep annual inflation within the official target range of 3-6%. The financial sector weathered the global financial crisis quite well. During 2010 South Africa received net inflows of 92 billion ZAR (i.e. 13.3 billion USD) in foreign capital, which contributed to upward pressure on the exchange rate. Since the fourth quarter of 2010, however, South Africa has experienced capital outflows. Along with uncertainties and volatility in global financial markets, this contributed to a depreciation of the rand. The current account deficit, which had reached more than 7% of GDP in 2007 and 2008, has returned to 4% in 2009 and is expected to stand at 3.2% of GDP in 2010. Foreign exchange reserves rose from USD 34.1 billion in 2008 to an expected USD 43.8 billion in 2010. External debt is rising from a low level, but is expected to be financed by capital inflows.

Country-risk indicators: <u>South Africa</u>		2008	2009	2010
<b>Output and prices</b>				
Real GDP growth rate	(%)	3.7	-1.8	3.0
Unemployment (average)	(% labour force)	21.9	24.3	24.8
Consumer price Inflation (average)	(% change)	11.5	7.1	5.6
<b>Public finances</b>				
General government balance	(% of GDP)	-0.3	-5.0	-4.8
<b>Balance of payments</b>				
Exports of goods and services f.o.b	(bn EUR)	66.5	56	77.6
Current account balance	(en % du PIB)	-7.1	-4.0	-4.3
Net inflow of foreign direct investment	(m €)	8060.4	9586.1	11977.9
Official reserves, including gold (end of period) bn USD		34.1	35.8	42.3
Months of imports of goods and services		4.6	6.7	6.3
Exchange rate (end of period, + is depreciation of LE)	(rands per EUR)	13.1	10.7	8.9
<b>External debt</b>				
External debt (end of period)	(m EUR)	52254	52429	54158
External debt/GDP	(%)	15.2	18.4	16.2
Debt service/exports of goods and services	(%)	9.4	10.9	10.8
Arrears (on both interest and principal)	(%)	no	no	no
Debt relief agreements and rescheduling	(m EUR)	no	no	no
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	636	743	1087
EU exposure/total EU exposure	(%) (1)	4.5	4.6	5.9
EU exposure/external debt	(%)	1.2	1.4	2.0
EU exposure/exports of goods and services	(%)	1.0	1.3	1.4
<b>IMF arrangements</b>				
Type		no	no	no
(Date)		-	-	-
On track		-	-	-
<b>Indicators of markets' perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Baa1	A3	A3
S&P long-term foreign currency rating (end of period)		BBB+	BBB+	BBB+
Euromoney		03/08 09/08	03/09 09/09	03/10 09/10
Position in the ranking (number of countries)	(2)	55 54 (185) (186)	50 47 (186) (186)	53 44 (186) (186)

(1) (2) See explanatory notes

### 3.4.2. *Brazil*

Brazil recovered strongly from the crisis and grew at a record rate of 7.5% in 2010 driven mainly by strong domestic demand. Growth is expected to slow to 4.5-5% in 2011. The output gap is currently positive and unemployment is at an historical low. Inflationary pressures have been mounting since the beginning of 2011, reflecting not only higher international food prices but also internal factors. Inflation reached 6% in February (year-to-year) compared to a midpoint target of 4.5%, but still remains within the limits of the upper band of 6.5%. The Brazilian Central Bank continued to tighten its policy, as it started at the end of 2010, by raising the SELIC twice this year up to 11.75% and introducing macro-prudential measures. Further increases in the policy rate are expected and the Brazilian Central Bank signalled its readiness to introduce additional macro-prudential measures if necessary. On the fiscal side, the government announced spending cuts worth USD 30 billion (around 1.3% of GDP) in the 2010 budget, ending the 2009 fiscal stimulus. The debt-to-GDP ratio declined from 42.8% in 2009 to 40.4% in 2010 and the Brazilian Ministry of Finance expects that the tendency will continue in 2011.

National currency continued to appreciate, due to strong capital inflows: Brazil has been one of the top recipients of capital inflows (USD 92 billion in 2009 and around USD141 billion in the first 11 months of 2010), and one of the top beneficiaries of the improvement in the terms of trade. The authorities have tried to contain the appreciation of the real through sterilized interventions in the foreign exchange markets that have pushed international reserves to a record level. Meanwhile imports grew at a record 36.2% in 2010, supported by the strong exchange rate as well as by the dynamism of the domestic demand. As a result, the current account deficit reached 2.3% of GDP in 2010 and is expected to widen in 2011.

Country-risk indicators: <u>Brazil</u>		2008	2009	2010
Output and prices				
Real GDP growth rate	(%)	5.1	-0.6	7.5
Unemployment (average)	(% labour force)	7.9	8.1	6.7
Consumer price Inflation (average)	(% change)	5.6	4.9	5
Public finances				
General government balance	(% of GDP)	-1.9	-3.5	-1.7
Balance of payments				
Exports of goods and services f.o.b	(m EUR)	140539	110072	135770
Current account balance	(en % du PIB)	-1.7	-1.5	-2.2
Net inflow of foreign direct investment	(m EUR)	20738	14153	30357
Official reserves, including gold (end of period) bn USD		193.7	238.5	288.5
Months of imports of goods and services		10.0	13.4	11.9
Exchange rate (end of period)	(reais per EUR)	2.7	2.8	2.3
External debt				
External debt (end of period)	(m EUR)	139346	142862	178203
External debt/GDP	(%)	13.2	13.1	11.9
Debt service/exports of goods and services	(%)	22	24	26
Arrears (on both interest and principal)	(m EUR)	no	no	no
Debt relief agreements and rescheduling	(m EUR)	no	no	no
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	621	691	826
EU exposure/total EU exposure	(%) (1)	4.4	4.3	4.5
EU exposure/external debt	(%)	0.4	0.5	0.5
EU exposure/exports of goods and services	(%)	0.4	0.6	0.6
IMF arrangements				
Type		no	no	no
(Date)				
On track				
Indicators of markets' perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba1	Baa3	Baa3
S&P long-term foreign currency rating (end of period)		BBB-	BBB-	BBB-
Euromoney		03/08 09/08	03/09 09/09	03/10 09/10
Position in the ranking	(2)	63 60	51 48	51 42
(number of countries)		(185) (186)	(186) (186)	(100) (100)

(1) (2) See explanatory notes