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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**on guarantees covered by the general budget - Situation at 30 June 2012**

{COM(2013) 211 final}

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## **1. INTRODUCTION**

This working document is published in parallel with the report of the Commission to the European Parliament and the Council on guarantees covered by the budget at 30 June 2012. It provides information on quantitative aspects of the risk borne by the EU Budget related to Member States and third countries. 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 during the first semester 2012, 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 5 sub-sections: candidate countries (3.1), potential candidate countries (3.2), European Neighbourhood Policy (ENP) countries (3.3), Mediterranean partners (3.4), and other countries (3.5).

## **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 of capital 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.

<b>TABLE A1: CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED at 30.06.2012 (in EUR million)</b>				
Operations	Authorised ceiling (a)	Capital outstanding at 31.12.2011 (b)	Capital outstanding at 30.06.2012 (b)	Remainder to be disbursed at 30.06.2012 (c)
<b>MEMBER STATES</b>				
EIB (Member States)		2,965	2,838	265
MFA to Romania		25	25	
Euratom to Bulgaria and Romania		404	393	
<b>BoP</b>				
Hungary	6,500	3,500	3,500	
Latvia	3,100	2,900	2,900	
Romania	5,000	5,000	5,000	
<b>EFSM</b>				
Ireland	22,500	13,900	18,400	4,100
Portugal	26,000	14,100	20,100	5,900
<b>MEMBER STATES - TOTAL</b>	<b>63,100</b>	<b>42,794</b>	<b>53,156</b>	<b>10,265</b>
<b>THIRD COUNTRIES</b>				
<b>A. Macro-Financial Assistance</b>				
Albania	9	9	9	
Armenia	65	26	65	
Bosnia-Herzegovina	40	36	34	
FYROM	90	61	56	
Lebanon	50	25	25	25
Serbia	473	373	373	100
Montenegro	7	7	7	
Tajikistan	75	28	16	
<b>Sub total MFA</b>	<b>809</b>	<b>565</b>	<b>585</b>	<b>125</b>
<b>B. EURATOM (1)</b>		43	41	
<b>C. Other</b>				
EIB Pre-Accession countries (climate change included) (3)	31,103	9,224	9,707	4,720
EIB Neighbourhood and Partnership countries	29,490	7,506	7,701	6,400
EIB Asia and Latin America	8,357	2,703	2,780	1,049
EIB South Africa	2,436	1,034	1,017	132
<b>Sub total EIB (2)</b>	<b>71,386</b>	<b>23,431</b>	<b>24,043</b>	<b>12,567</b>
<b>THIRD COUNTRIES - TOTAL</b>	<b>72,195</b>	<b>21,074</b>	<b>21,831</b>	<b>12,427</b>
<b>GRAND TOTAL</b>	<b>135,295</b>	<b>63,867</b>	<b>74,987</b>	<b>22,691</b>
(1) The overall ceiling is EUR 4 000 million for loans to Member States and to certain non-member States.				
(2) The subtotal EIB includes the EIB loans to Member States.				
(3) The Climate change mandate (EUR 2,000 million) has been adopted together with the 2007-2013 Mandate's increase up to EUR 29,484 million (Decision n°1080/2011/EU)				

- 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, but not yet disbursed at the reporting date.

- EIB financing operations

In the past, EIB financing operations represented the largest category of the total loan operations covered by the Budget. At the date of this report, they still amount to 32%. However, the implementation of the EFSM gradually increases the portion of the risk borne by the Budget that relates to the Member States.

The following table provides further details on the breakdown of EIB financing operations.

<b>ANNEX TO TABLE A1: SITUATION IN RESPECT OF EIB OPERATIONS at 30.06.2012 (in EUR million)</b>				
Operations	Authorised ceiling (a)	Loans made available minus cancellations	Amounts disbursed	Amounts outstanding at 30.06.2012 (b)
<b>Mandate 2007/2013:</b>	<b>29,484</b>	<b>19,998</b>	<b>9,626</b>	<b>9,333</b>
<i>Pre-Accession countries</i>	9,048	7,982	4,435	4,375
<i>Neighbourhood and Partnership countries:</i>	13,548	8,612	2,768	2,586
Mediterranean	9,700	6,717	2,406	2,340
Eastern Europe, Southern Caucasus and Russia	3,848	1,895	362	246
<i>Asia and Latin America:</i>	3,952	2,663	1,819	1,774
Asia	1,040	783	443	443
Latin America	2,912	1,881	1,376	1,331
<i>South Africa</i>	936	591	455	447
<i>Climate change mandate</i>	2,000	150	150	150
<b>Previous General Mandate 2000/2007<sup>3</sup>:</b>	<b>20,060</b>	<b>18,869</b>	<b>16,717</b>	<b>11,761</b>
<i>Pre-Accession countries</i>	10,235	7,303	6,247	4,922
<i>Neighbourhood and Partnership countries</i>	6,520	5,905	5,409	4,030
<i>Asia and Latin America</i>	2,480	2,105	1,835	831
<i>South Africa</i>	825	817	739	506
<i>Member States (following the accession)<sup>2</sup></i>		2,739	2,488	1,471
<b>sub-total 65 %<sup>1</sup></b>	<b>49,544</b>	<b>38,867</b>	<b>26,344</b>	<b>21,094</b>
<b>Financial agreements (70% Guarantee rate)</b>	<b>7,477</b>			
<i>Pre-Accession countries</i>	3,770	477	451	218
<i>Neighbourhood and Partnership countries</i>	2,310	1,587	1,521	410
<i>Asia and Latin America:</i>	1,022	809	675	96
<i>South Africa</i>	375	375	274	62
<i>Member States (following the accession)<sup>2</sup></i>		3,235	3,190	1,047
<b>sub-total 70 %<sup>1</sup></b>	<b>7,477</b>	<b>6,482</b>	<b>6,111</b>	<b>1,833</b>
<b>Financial agreements (75% Guarantee rate)</b>	<b>7,712</b>			
<i>Pre-Accession countries</i>	1,350	713	725	42
<i>Neighbourhood and Partnership countries</i>	6,362	4,478	4,538	383
<i>Member States (following the accession)<sup>2</sup></i>		1,857	1,959	32
<b>sub-total 75 %<sup>1</sup></b>	<b>7,712</b>	<b>7,047</b>	<b>7,222</b>	<b>457</b>
<b>Financial agreements (100% Guarantee rate)</b>	<b>6,653</b>			
<i>Pre-Accession countries</i>	4,700	29	29	1
<i>Neighbourhood and Partnership countries</i>	750	315	312	290
<i>Asia and Latin America</i>	903	710	725	78
<i>South Africa</i>	300	285	204	2
<i>Member States (following the accession)<sup>2</sup></i>		3,982	4,132	289
<b>sub-total 100 %<sup>1</sup></b>	<b>6,653</b>	<b>5,320</b>	<b>5,402</b>	<b>660</b>
<b>Total</b>	<b>71,386</b>	<b>57,717</b>	<b>45,078</b>	<b>24,043</b>

(1) Percentage figures relate to the Guarantee rate.

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

(3) 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, by Decision N° 633/2009/EC and by Decision N°1080/2011/EU 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;
- the ceilings are not necessarily taken up in full.

An additional 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 30 June 2012<sup>2</sup>.

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, EFSM and EIB) disbursed at 30.06.2012.

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<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, EFSM and EIB) disbursed at 30.06.2012**

Ranking	Country	2012	2013	2014	2015	2016	2017	2018	2019-2042	Total outstanding
1	Turkey	249.38	463.06	516.89	601.72	578.98	970.41	537.66	4,855.57	8,773.67
2	Portugal	207.57	597.58	594.88	594.88	5,344.88	464.25	1,064.25	18,688.25	27,556.53
3	Ireland	192.71	590.32	569.88	5,569.88	444.88	444.88	4,344.88	13,062.50	25,219.91
4	Romania	160.37	391.55	372.56	1,872.14	301.96	1,442.21	1,593.22	1,781.96	7,915.97
5	Serbia	103.15	164.03	182.77	242.45	196.01	185.39	195.40	826.70	2,095.91
6	Tunisia	96.80	199.89	198.92	197.74	198.36	190.23	169.84	1,121.45	2,373.23
7	Egypt	95.78	204.89	186.65	186.20	190.70	173.38	170.85	750.18	1,958.62
8	Morocco	93.39	186.44	189.90	292.98	169.60	168.67	163.65	1,269.20	2,533.81
9	Hungary	78.99	133.46	2,128.42	62.98	1,558.78	2.12	0.00	0.00	3,964.76
10	South Africa	57.47	85.72	91.68	100.19	110.00	104.25	114.46	636.66	1,300.43
11	Lebanon	48.79	92.14	102.34	80.62	72.22	60.39	53.53	109.11	619.13
12	Bulgaria	43.38	85.87	86.92	83.84	81.19	75.88	65.44	218.27	740.79
13	Syria	41.51	77.78	77.00	81.84	80.70	55.70	55.32	220.93	690.77
14	Poland	40.25	74.89	53.69	43.64	29.34	21.53	20.69	70.62	354.65
15	Czech Republic	35.10	68.19	56.44	45.73	43.66	25.93	13.16	47.21	335.41
16	Bosnia and Herzegovina	28.00	50.50	50.71	93.27	51.80	61.57	54.78	370.88	761.50
17	Jordan	26.82	43.97	42.37	35.53	33.89	34.75	35.99	203.29	456.63
18	FYROM	24.05	45.49	47.93	41.66	29.31	21.11	15.62	33.45	258.62
19	Croatia	23.24	45.88	42.55	40.51	38.86	38.00	35.77	194.19	459.00
20	Brazil	22.89	81.64	113.27	253.99	237.08	76.24	70.70	80.73	936.55
21	Slovak Republic	22.10	37.22	25.76	15.08	14.66	14.24	13.82	73.37	216.25
22	Colombia	14.20	26.52	26.52	26.52	26.52	26.52	18.53	8.44	173.78
23	Argentina	11.25	50.18	40.40	38.99	33.35	31.94	30.54	29.13	265.77
24	Vietnam	10.25	20.72	24.38	21.17	21.89	21.01	19.21	106.44	245.07
25	Albania	9.91	17.94	22.34	23.27	22.97	25.35	23.88	144.86	290.52
26	India	8.88	22.40	29.06	33.95	36.19	33.44	23.44	61.84	249.21
27	Peru	8.67	16.65	16.64	16.65	13.79	13.79	5.78	0.56	92.52
28	Latvia	8.49	96.70	1,096.57	1,265.19	26.83	26.03	25.98	760.65	3,306.44
29	Israel	8.05	14.85	20.69	17.33	14.93	14.38	14.55	234.22	339.00
30	the Philippines	7.78	15.53	17.13	15.80	14.47	9.10	3.66	14.53	98.00
31	Montenegro	6.91	14.20	17.03	19.17	19.29	18.67	22.35	82.74	200.37
32	Pakistan	6.69	10.02	6.80	6.80	4.80	3.97	3.97	1.99	45.04
33	Indonesia	6.65	13.23	13.23	13.22	8.66	8.66	6.38	8.26	78.30
34	Ukraine	6.09	7.01	6.94	11.42	17.96	20.10	16.19	157.67	243.38
35	Sri Lanka	5.74	10.83	13.94	15.63	14.03	13.93	14.86	54.91	143.86
36	Slovenia	5.66	9.40	7.44	4.39	2.09	0.00	0.00	0.00	28.97
37	Russia	5.30	10.24	9.94	12.17	19.58	17.83	14.83	113.42	203.28
38	Thailand	4.56	9.48	2.29	0.00	0.00	0.00	0.00	0.00	16.34
39	Bangladesh	4.44	8.61	0.00	0.00	0.00	0.00	0.00	0.00	13.05
40	China	4.20	7.83	8.20	10.15	5.16	5.44	5.58	48.89	95.44
41	Paraguay	4.15	15.89	15.89	15.89	11.91	7.94	0.00	0.00	71.66
42	Cyprus	3.92	5.14	3.34	0.00	0.00	0.00	0.00	0.00	12.41
43	Panama	3.60	6.84	6.84	6.98	7.26	7.81	7.81	126.76	173.90
44	Maldives	3.06	5.69	5.69	5.69	5.69	3.85	3.85	5.11	38.62
45	Lithuania	2.63	5.13	4.95	4.78	4.60	4.42	3.49	5.35	35.36
46	Mexico	2.61	3.66	3.66	3.66	3.66	3.66	88.49	3.66	113.08
47	Ecuador	2.39	4.52	4.52	4.52	4.52	4.52	4.52	2.26	31.74
48	Uruguay	2.08	4.64	5.18	4.27	4.27	2.14	0.00	0.00	22.57
49	Costa Rica	2.03	4.05	0.00	0.00	0.00	0.00	0.00	0.00	6.08
50	Armenia	1.99	2.29	2.29	2.44	2.55	2.53	2.52	84.63	101.22
51	The West Bank and the G	1.50	3.03	3.03	3.03	3.07	3.10	2.63	4.47	23.86
52	Republic of Moldova	1.49	2.69	2.85	4.30	5.84	6.91	6.81	35.29	66.20
53	Laos	1.38	2.79	2.81	2.84	2.88	2.91	2.95	60.06	78.61
54	Malaysia	1.02	1.01	0.00	0.00	0.00	0.00	0.00	0.00	2.03
55	Georgia	0.70	0.11	1.83	3.10	4.43	5.44	5.42	59.92	80.96
56	El Salvador	0.52	1.68	1.40	2.05	2.75	2.13	2.13	23.67	36.32
57	Malta	0.35	0.35	0.00	0.00	0.00	0.00	0.00	0.00	0.70
58	Nicaragua	0.16	0.33	0.33	0.33	0.43	0.85	0.83	8.64	11.90
59	Tadjikistan	0.09	12.04	4.01	0.00	0.00	0.00	0.00	0.00	16.14
	Grand total	1,871.12	4,184.73	7,179.66	12,152.55	10,173.23	4,979.52	9,170.19	46,862.88	96,573.86
	MS	801.5	2,095.8	5,000.8	9,562.5	7,852.9	2,521.5	7,144.9	34,708.2	69,688.1
	% of MS in the total	43%	50%	70%	79%	77%	51%	78%	74%	72%

#### 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 relate to BOP, EFSM, and to lending granted to certain Member States prior to their EU accession under MFA, Euratom (table A3a) and EIB guaranteed lending operations (table A4).

TABLE A3a												
BoP, EFSM, Euratom and MFA lending operations to Member States (EUR million)												
Period 31.12.2011 - 30.06.2012												
Instrument	Decision	Date of decision	Loan term (years)	Availability period (for Request for Funds)	Guarantee Rate	Maturity Date (***)	Loan situation	Amount decided	Outstanding amount at 31.12.2011	Operations carried out during the 1st semester 2012		Outstanding amount at 30.06.2012
										Amounts disbursed	Amounts repaid	
							- closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)					
<b>BOP</b>	2009/431/EC (1)	08/05/2009			100%		50,000.0					
<b>Total</b>								16,000.0	11,400.0	0.0	0.0	11,400.0
<b>Hungary</b>	2009/102/EC	04/11/2008		closed **				6,500.0	3,500.0	0.0	0.0	3,500.0
1st tranche			3.0			9/12/2011	(c)	2,000.0	0.0			0.0
2nd tranche			5.6			7/11/2014	(c)		2,000.0			2,000.0
3rd tranche			6.8			6/04/2016	(c)		1,500.0			1,500.0
<b>Latvia</b>	2009/290/EC	20/01/2009		closed **				3,100.0	2,900.0	0.0	0.0	2,900.0
1st tranche			5.1			3/04/2014	(c)		1,000.0			1,000.0
2nd tranche			5.5			27/01/2015	(c)		1,200.0			1,200.0
3rd tranche			9.2			10/05/2019	(c)		500.0			500.0
4th tranche			15.3			20/10/2025	(c)		200.0			200.0
<b>Romania</b>	2009/459/EC	06/05/2009		closed				5,000.0	5,000.0	0.0	0.0	5,000.0
1st tranche			5.5			27/01/2015	(c)		1,500.0			1,500.0
2nd tranche			9.2			10/05/2019	(c)		1,000.0			1,000.0
3rd tranche			7.0			22/09/2017	(c)		1,150.0			1,150.0
4th tranche			7.0			4/04/2018	(c)		1,200.0			1,200.0
5th tranche			7.3			4/10/2018	(c)		150.0			150.0
<b>Precautionary EU medium-term financial assistance for Romania</b>	2011/288/EU	12/05/2011		31/03/2013				1,400.0				
<b>EFSM</b>	2010/407/EU	11/05/2010			100%		60,000.0					
<b>Total</b>								48,500.0	28,000.0	10,500.0	0.0	38,500.0
<b>Ireland</b>	2011/77/EU	07/12/2010		08/12/2013				22,500.0	13,900.0	4,500.0	0.0	18,400.0
1st tranche			4.9			04/12/2015	(c)		5,000.0			5,000.0
2nd tranche			7.0			04/04/2018	(c)		3,400.0			3,400.0
3rd tranche			10.0			04/06/2021	(c)		3,000.0			3,000.0
4th tranche			14.9			04/09/2026	(c)		2,000.0			2,000.0
5th tranche			7.0			04/10/2018	(c)		500.0			500.0
6th tranche			30.2			04/04/2042	(c)			1,500.0		1,500.0
7th tranche			20.1			04/04/2032	(c)			3,000.0		3,000.0
<b>Portugal</b>	2011/344/EU	17/05/2011		18/05/2014				26,000.0	14,100.0	6,000.0	0.0	20,100.0
1st tranche			10.0			04/06/2021	(c)		1,750.0			1,750.0
2nd tranche			5.0			03/06/2016	(c)		4,750.0			4,750.0
3rd tranche			10.0			21/09/2021	(c)		5,000.0			5,000.0
4th tranche			14.9			04/09/2026	(c)		2,000.0			2,000.0
5th tranche			7.0			04/10/2018	(c)		600.0			600.0
6th tranche			30.2			04/04/2042	(c)			1,500.0		1,500.0
7th tranche			25.9			04/04/2038	(c)			1,800.0		1,800.0
8th tranche			9.9			04/04/2022	(c)			2,700.0		2,700.0
<b>EURATOM</b>					100%		4,000.0	4,000.0	403.8	0.0	10.5	393.3
	77/270-271/Euratom	29/03/1977					(c)	500.0				
	80/29/Euratom						(c)	500.0				
	82/170/Euratom						(c)	1,000.0				
	85/537/Euratom						(c)	1,000.0				
	90/212/Euratom						(b)	1,000.0				
<b>Bulgaria</b>	SEC(2000)661/2	18/04/2000		closed				212.5	180.3	0.0	10.5	169.8
1st tranche			20.0			10/05/2021	(c)		40.0		4.0	36.0
2nd tranche			15.0			15/01/2017	(c)		8.3		0.8	7.5
3rd tranche			17.0			19/08/2019	(c)		20.0		1.3	18.8
4th tranche			15.0			18/06/2018	(c)		16.3		1.3	15.0
5th tranche			15.0			16/01/2019	(c)		26.3		1.8	24.5
6th tranche			16.0			10/09/2020	(c)		27.0		1.5	25.5
7th tranche			16.0			4/04/2021	(c)		25.0			25.0
8th tranche			14.0			23/02/2020	(c)		17.5			17.5
<b>Romania</b>	C(2004)891	30/03/2004		closed				223.5	223.5	0.0	0.0	223.5
1st tranche			17.0			21/07/2022	(c)		100.0			100.0
2nd tranche			19.0			26/11/2024	(c)		90.0			90.0
3rd tranche			124.1			23/02/2024	(c)		33.5			33.5
<b>MFA*</b>								200.0	25.0	0.0	0.0	25.0
<b>ROMANIA IV*</b>	99/732/EC	08.11.99		closed				200.0	25.0	0.0	0.0	25.0
1st tranche			10.0			29/06/2010	(c)		100.0			0.0
2nd tranche			10.0			17/07/2013	(c)		50.0			25.0
3rd tranche			-			-	(a)		50.0			0.0
<b>TOTAL</b>								68,700.0	39,828.8	10,500.0	10.5	50,318.3

\* Member States as of 01.01.2007

\*\* Means that no further request for disbursement are possible (either because the total amount has been disbursed or because the facility has expired)

\*\*\* Effective payment date maybe different from maturity date as the Conventions stipulate that if annual payment date is not a business day, payment date will be postponed to the next business day without any impact on the interest

(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).

COUNTRY	Decision	Date of decision	Availability Period (for Request for Funds)	Loan term (years)	Expiry date	Loan situation	Amount decided	Amount outstanding at 31.12.2011	Operations in six-month period		Amount outstanding at 30.06.2012
									Amounts disbursed	Amounts repaid	
						- closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)					
<b>MFA</b>											
BOSNIA AND HERZEGOVINA I	99/325/EC	10.05.99					1629.0	565.0	39.0	19.0	585.0
1st tranche				15	22.12.14	(c)	10.0	6.0			6.0
2nd tranche				-	-	(c)	10.0	10.0		2.0	8.0
BOSNIA AND HERZEGOVINA II	02/883/EC	09.11.02					20.0	0.0			0.0
1st tranche				15	16.01.19	(c)	10.0	10.0			10.0
2nd tranche				15	9.02.21	(c)	10.0	10.0			10.0
FYROM I	97/471/EC	22.07.97					40.0	0.0			0.0
1st tranche				15	27.09.12	(c)	25.0	5.0			5.0
2nd tranche				15	13.02.13	(c)	15.0	6.0		3.0	3.0
FYROM II	99/733/EC	08.11.99					50.0	0.0			0.0
1st tranche				15	15.01.16	(c)	10.0	10.0		2.0	8.0
2nd tranche				15	30.01.17	(c)	12.0	12.0			12.0
3rd tranche				15	04.06.18	(c)	10.0	10.0			10.0
4th tranche				15	23.12.18	(c)	18.0	18.0			18.0
GEORGIA	97/787/EC	17.11.97				(a)	110.0	0.0			0.0
TADJIKISTAN	2000/244/EC	20.03.00	closed			(b)	75.0				
1st tranche				15	30.03.16	(c)	60.0	28.0		12.0	16.0
SERBIA AND MONTENEGRO * Serbia	2001/549/EC	16.07.01		15	17.10.16	(c)	225.0	0.0			0.0
Montenegro								223.8			223.8
SERBIA AND MONTENEGRO * Serbia	2002/882/EC	09.11.02					55.0		1.2		1.2
1st tranche				15	28.02.18	(c)	10.0				
Montenegro								9.0			9.0
2nd tranche				15	1.09.18	(c)	30.0	1.0			1.0
Montenegro								27.0			27.0
3rd tranche				15	4.05.20	(c)	15.0	3.0			3.0
Montenegro								13.5			13.5
ALBANIA	2004/580/EC	29.04.04		15	23.03.21	(c)	9.0	1.5			1.5
LEBANON	2007/860/EC	21.12.07	closed	10	4.06.14	(b)	50.0	25.0			25.0
ARMENIA	2009/890/EC	30.11.09	15/11/2012	15	27.07.2026	(b)	65.0	26.0	39.0		65.0
BOSNIA & HERZEGOVINA	2009/891/EC	30.11.09	08/08/2012			(d)	100.0				
SERBIA	2009/892/EC	30.11.09	05/04/2012	8	12.07.2019	(b)	200.0	100.0			100.0
UKRAINE IV	2002/639/EC	12.07.02	open **			(d)	110.0				
UKRAINE V	2010/646/EC	7.07.10	not yet fixed ***			(d)	500.0				
<b>EURATOM</b>											
UKRAINE (Euratom)	94/179/EC	21.03.94		11	29.07.18	(c)	EUR equivalent ****	43.0		2.8	40.8
		15.03.07				(c)	39.0 EUR	25.3		2.0	23.4
		06.10.08				(c)	22.0 USD	11.7		0.9	11.2
		15.10.09				(c)	10.3 USD	6.0			6.2
							of USD 83 million				
<b>TOTAL</b>								<b>608.0</b>	<b>39.0</b>	<b>21.8</b>	<b>625.8</b>

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 31.12.11	at 30.06.12	at 31.12.11	at 30.06.12	
MED. Financial protocols(1)		8.03.77	75% (2)	30.10.78/10.11.78	6,062	5,533	5,533	318	293	
MED. Horizontal cooperation	1762/92/EEC	29.06.92	75% (2)	09.11.92/18.11.92	1,800	1,656	1,656	212	163	
<b>TOTAL MED. (3)</b>					<b>7,862</b>	<b>7,189</b>	<b>7,189</b>	<b>530</b>	<b>456</b>	
C and E Europe I	90/62/EEC(4)	12.02.90	100%	24.04.90/14.05.90	1,000	912	912	51	37	
	91/252/EEC(5)	14.05.91	100%	19.01.93/04.02.93	700	493	493	-	-	
C and E Europe II	93/696/EC(6)	13.12.93	100%	22.07.94/12.08.94	3,000	2,464	2,464	290	253	
Asia, Latin America I	93/115/EEC	15.02.93	100%	04.11.93/17.11.93	750	571	571	84	75	
Asia, Latin America Interim	96/723/EC	12.12.96	100%	18.03.97/26.03.97	153	139	139	4	3	
Asia, Latin America Interim	96/723/EC	12.12.96	70%	21.10.97	122	122	122	3	2	
South Africa	95/207/EC	01.06.95	100%	04.10.95/16.10.95	300	285	285	2	2	
New mandates	97/256/EC(7)	14.04.97	70%	25.07.97/29.07.97	7,105	6,110	6,110	1,826	1,691	
FYROM	98/348/EC	19.05.98	70%	29.07.98/07.08.98	150	150	150	86	80	
Bosnia and Herzegovina	98/729/CE	14.12.98	70%	16.06.99/22.06.99	100	100	100	62	60	
Turkey Terra	99/786/EC	29.11.99	65%	18.04.00/23.05.00	600	588	588	464	451	
Mandates 2000-2007	2000/24/EC(8)	22.12.99	65%	19.07.00/24.07.00 (11)	19,460	18,524	18,280	11,399	11,310	
The Baltic Sea basin of Russia	2001/777/EC(9)	06.11.01	100%	06.05.02/07.05.02	100	85	85	68	66	
Russia, Belarus, Rep. Of Moldova and Ukraine	2005/48/EC(10)	22.12.04	100%	21.12.05/09.12.05	500	230	230	219	225	
Mandate 2007-2013	2006/1016/EC(12) (13)	19.12.06	65%	01.08.07/29.08.07 (14)	29,484	19,393	19,998	8,243	9,333	
<b>TOTAL</b>					<b>71,386</b>	<b>57,355</b>	<b>57,717</b>	<b>23,331</b>	<b>24,043</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 initial amount of EUR 25,800 has been increased up to EUR 29,484 million further to a Council and European Parliament Decision of 13.10.2011 (1080/2011/EU of 25 October 2011), granting an additional mandate of EUR 2,000 million to tackle climate change and an amount of EUR 1,684 million to foster EIB risk policy.

## 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. In case of loans to Member States, the risk is *directly* covered by the Budget. Regarding loans to third countries, the risk is covered in the first instance by the Guarantee Fund for external actions.

### 2.5.1. Situation of loans to Member States at 30 June 2012

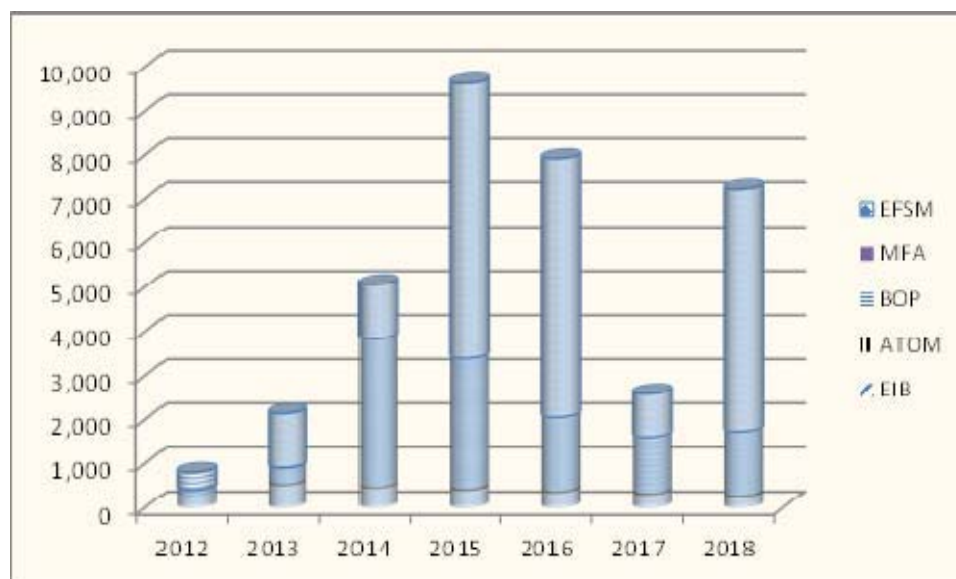
With the implementation of the EFSM the total risk towards Member States including BOP, Euratom, EIB and MFA lending has drastically increased since 2011.

**EFSM** assistance for Ireland and Portugal reached a total of respectively EUR 18.4 billion and EUR 20.1 billion at 30.06.2012. Total outstanding for **BOP** loans amounted to EUR 11.4 billion.

Regarding **Euratom** loans, no disbursement took place during the six first months of 2012. EUR 10.5 million were reimbursed by Bulgaria so that the outstanding for Member States is EUR 383 million.

Member States represent 72% of the Budget exposure (cumulated total risk borne by the Budget, see table A2 of the SWD) with the following breakdown between the financial instruments:

**Graph A1: Total Annual Risk to the Budget<sup>3</sup> relating to Member States at 30.06.2012<sup>4</sup> (EUR million) for the period 2012-2018**



### 2.5.2. Situation of loans to third countries

At 30 June 2012, a total of EUR 1,783 million remained to be disbursed (loans signed but not yet disbursed) by the EIB under the EUR 20,060 million EIB external lending mandate for 2000 – 2007:

	EUR million	EUR million	EUR million
	Ceiling	Loans made available (minus cancellations) at 30.06.2012***	to be disbursed
<b>A. Pre-Accession Countries *</b>	10,235	7,303	1,061
<b>B. Neighbourhood and partnership countries**</b>	6,520	5,905	458
<b>C. Asia and Latin America</b>	2,480	2,105	0
<b>D. South Africa</b>	825	817	0
<b>Sub-total third countries</b>	<b>20,060</b>		
<b>Member States*</b>		2,739	265
	<b>20,060</b>	<b>18,869</b>	<b>1,783</b>

\* The ceiling includes Terra Turkey and Special Action Turkey.  
\*\* 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.  
\*\*\* Signatures up to 31.07.2008 (end of the Mandate 2000-2007). No additional signatures allowed after this date.

At the same date, an amount of EUR 10,765 million remained to be disbursed under commitments made under the EIB external mandate for 2007-2013.

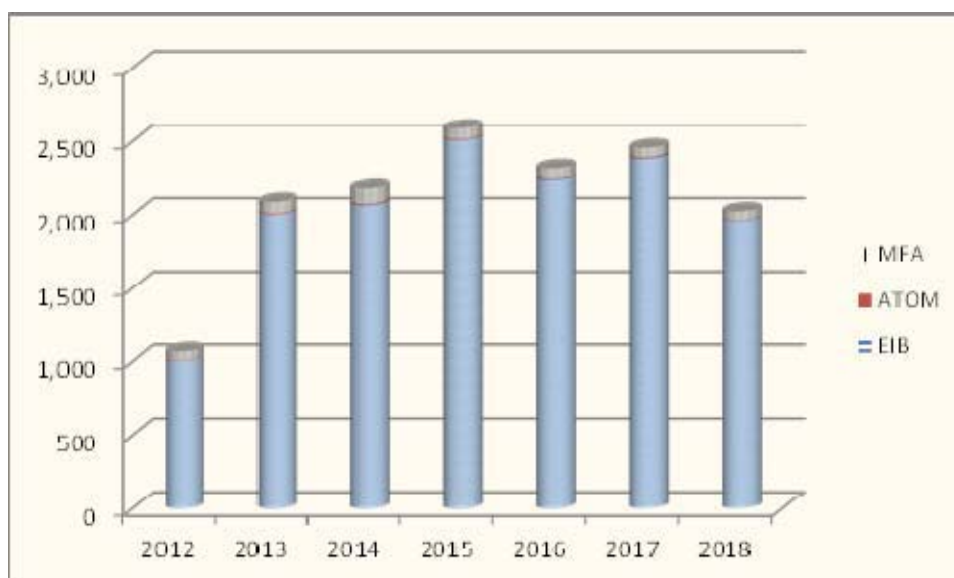
<sup>3</sup> Based on the amounts due (capital and interest) under operations disbursed at 30.06.2012.

<sup>4</sup> As of 31 December 2011, the 2012 annual risk for Member States was EUR 1,769 million.

Table A6: Disbursement forecast for EIB loans on general mandate 2007 - 2013			
			EUR million
	Ceiling	Loans made available (minus cancellations) at 30.06.2012	to be disbursed
A. Pre-Accession Countries (Climate change included)	11,048	8,132	3,646
B. Neighbourhood and partnership countries	13,548	8,612	5,937
C. Asia and Latin America	3,952	2,663	1,049
D. South Africa	936	591	132
	29,484	19,998	10,765

For both mandates (2000-2007 and 2007-2013), loans have to be drawn within 10 years from the end of the Mandate.

**Graph A2: Total Annual Risk borne by the Budget related to third countries (EUR million) at 30.06.2012 for the period 2012-2018**



Graph A2 presents the result of simulations aiming at estimating the outstanding amount covered by the Fund for the period 2012 to 2018. These simulations are based on disbursements of loans signed and disbursed at the reporting date under all EIB mandates. As graph A2 illustrates, the weight of MFA and Euratom loans are marginal in the total annual risk.

#### Payment under the Budget guarantees

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

Procedures have been set up to guarantee the repayments of the borrowings due by the EU and also the guarantees given in connection with the EIB financing operations.

### 2.5.3. *Borrowing/lending operations*

The loan repayments are scheduled to match the repayments of the borrowings due by 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 amounts to be reimbursed can be very high, the beneficiary Member States are required to transfer the amounts due to the European Central Bank 7 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. The same process is being applied for the EFSM loans with 14 days lead time.

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,:
  - for loans outside the EU, the Commission draws on the Guarantee Fund to cover the default and to replenish its treasury.
  - for loans inside the EU, the amounts are directly covered by the Budget.
- 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) The recovered funds may either be re-paid to the General Budget or kept on the GF account (the next annual provisioning from the General Budget being reduced accordingly).

#### BOP and EFSM loans

- a) the Commission may 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" or "01 04 01 03

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<sup>5</sup> Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000 (OJ L 130, 31.5.2000, p.1) 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).

<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.

European Union guarantee for Union borrowings for financial assistance under the European financial stabilisation mechanism".

- b) The recovered funds will be re-paid to the General Budget.

#### 2.5.4. *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.

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.

#### 2.5.5. *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 at which cash resources are made available by the Budget and the date of repayment to the EU.

- (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.

### 3. COUNTRY-RISK EVALUATION

Third countries representing important risks to the Budget during the second semester 2011, 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 macroeconomic analyses and tables of risk indicators. The evaluated countries are grouped in 6 sub-sections: candidate countries (3.1)

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<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 0 above.

Candidate countries, (3.2) Potential candidate countries, (3.3) ENP countries, (3.4) Mediterranean partners and (3.5) other countries.

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

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

S&P: Standard and Poor's  
FDI: Foreign Direct Investment  
GD: 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<sup>9</sup>, NIS<sup>10</sup> and MED<sup>11</sup>.
- 2) The higher the ranking number, the lower the creditworthiness of the country. Countries are rated on a scale of zero to 185 or to 100 (the number of countries has been reduced from 185 to 100 from January 2011). 185, respectively 100, 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. Former Yugoslav Republic of Macedonia*

In the first half of 2012, economic output was about 1% lower than a year before, reflecting lower exports but also rather strong growth in 2011. Private consumption remained stable with an increase by nearly 1%, although real disposable income declined. Increasing current transfers from abroad, such as workers remittances, income from cross-border trade, foreign loans but also higher FDI inflows provided important support for economic activity. As a result of the high import content of capital formation, imports rose by 2.7% in real terms, which together with declining exports resulted in a negative contribution of net exports by more than 3 percentage points. High-frequency data for the first ten months of 2012 point to continued weak growth. The trade deficit rose by  $\frac{3}{4}$  percentage points of GDP in the first half of 2012, while worker remittances further increased to about 10% of the estimated full-year GDP, which resulted in a lower current-account deficit at about 2% of GDP, compared to 4% the year before. Inflation picked up in mid-2012, increasing by more than 5% year-on-year in September and October. This brought average inflation for the first ten months to 3.1%, clearly above the Central Bank's inflation target. The main factors for the strong increase were agricultural products, but also housing, textiles and energy. The labour market experienced a weak first quarter and a slightly better second quarter, resulting in a largely unchanged

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<sup>9</sup> Central and Eastern European Countries.

<sup>10</sup> New Independent States.

<sup>11</sup> Mediterranean countries

unemployment rate in the first half of 2012 at 31.4%, compared to 31.5% the year before. Public finances registered a significantly weaker-than-expected revenue performance in the first half of 2012. In response to underperforming revenues, the authorities revised the deficit target for 2012 from 2.5% to 3.5% of GDP which should allow maintaining spending targets largely unchanged. The deficit target for 2013 was also planned at 3.5% of GDP. Gross external debt rose to 63.8% of GDP by June 2012, up from 60.9% of GDP the year before. The main reason is increased public sector borrowing, while private borrowing declined slightly. In the context of a monetary policy that maintains an informal peg of the domestic currency to the euro, the exchange rate has remained largely unchanged at around 61.5 MKD/EUR.

Country-risk indicators : The former Yugoslav Republic of Macedonia		2010	2011	2012 (proj)*
<b>Output and prices</b>				
Real GDP growth rate	(%)	2.9	2.8	0.8
Unemployment (end of period)	(% labour force)	32.0	31.4	30.8
Inflation rate (CPI) (Dec/Dec)	(% change)	1.6	3.9	2.9
<b>Public finances</b>				
General government balance	(% of GDP)	-2.5	-2.5	-3.5
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	2,566.8	3,277.0	3,326.1
Current account balance	(% of GDP)	-2.2	-2.7	-3.6
Net inflow of foreign direct investment	(m EUR)	158.6	336.8	n.a.
Official reserves, including gold (end of period)	(m EUR)	1,715.3	2,302.3	n.a.
In months of subsequent year's imports	(months)	5.2	5.7	n.a.
Exchange rate (end of period)	(per EUR)	61.51	61.53	n.a.
<b>External debt</b>				
External debt (end of period)	(m EUR)	4,105.7	4,846.6	n.a.
External debt/GDP	(%)	58.2	64.6	n.a.
Debt service/exports of goods and services	(%)	49.8	44.0	n.a.
Arrears (on both interest and principal)	(%)	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	283.0	284.0	259.0
EU exposure/total EU exposure	(%) (1)	1.5	1.3	1.2
EU exposure/external debt	(%)	6.8	6.1	n.a.
EU exposure/exports of goods and services	(%)	11.1	8.7	7.8
<b>IMF arrangements</b>				
Type			Precautionary and Liquidity Line	
(Date)			from 19/01/2011	
On track			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)		BB	BB	BB
Fitch long-term foreign currency rating (end of period)		BB+	BB+	BB+
(1) See explanatory notes				
* ECFIN Autumn 2012 Forecast				

### 3.1.2. Montenegro

The economy expanded by 3.2% in real terms in 2011, driven by the expansion of private consumption as well as by the acceleration of exports. However, in the first half of 2012 real GDP declined by 0.9% year-on-year, due to lower contribution of net exports and a significant fall in industrial output. The negative impact of harsh winter conditions in the first quarter of 2012 led real GDP fall by 2.4%, followed by a slightly positive annual growth of 0.3% in the second quarter. Unilateral use of the euro implies that there is only limited scope for domestic monetary policy instruments. The foreign exchange risk was reduced, but the external financing risks remained significant. Consolidation efforts continued, but the weak

performance of revenues and the activation of some state guarantees in 2011 and in the first half of 2012, resulted in consolidated budget deficits of 5.4% and 3.7% of GDP respectively. Public debt increased to 46% of GDP in 2011, and reached 48% in June 2012, although it remains primarily on concessional terms, with average interest rates and maturity at about 3.9% and 6.7 years, respectively. In the first half of 2012 the current account deficit increased, reaching 20.7% of GDP in annualised terms, or one percentage point of GDP higher compared to end-2011. The deterioration largely reflects trade dynamics. The financial account balance covered 93% of the current account deficit, while Central Bank reserves contributed with EUR 15 million to close the gap. Net FDI contracted markedly, by 21% year-on-year, but still covered 54% of the deficit, while additional 40% came from other investments (i.e. bank loans). A cutback in capital inflows, notably on greenfield investments, represents a major risk as it would depress domestic demand, and further weaken fiscal performance, given the reliance of indirect tax revenue from imports.

<b>Country-risk indicators : Montenegro</b>		<b>2010</b>	<b>2011</b>	<b>2012 (proj)*</b>
<b>Output and prices</b>				
Real GDP growth rate	(%)	2.5	3.2	0.2
Unemployment (end of period)	(% labour force)	12.2	13.2	13.3
Inflation rate (CPI) (Dec/Dec)	(% change)	0.5	3.1	3.9
<b>Public finances</b>				
General government balance	(% of GDP)	-4.9	-5.4	-4.0
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	1,103.6	1,321.5	1,316.2
Current account balance	(% of GDP)	-24.7	-19.6	-20.1
Net inflow of foreign direct investment	(m EUR)	543.1	389.1	n.a.
Official reserves, including gold (end of period)	(m EUR)	416.0	303.0	n.a.
In months of subsequent year's imports	(months)	3.0	2.0	n.a.
Exchange rate (end of period)	(per EUR)	1.00	1.00	n.a.
<b>External debt</b>				
External debt (end of period)	(m EUR)	3,110.1	3,089.2	n.a.
External debt/GDP	(%)	98.9	99.3	n.a.
Debt service/exports of goods and services	(%)	3.6	3.6	n.a.
Arrears (on both interest and principal)	(%)	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	188.0	197.2	200.0
EU exposure/total EU exposure	(%) (1)	1.0	0.9	0.9
EU exposure/external debt	(%)	6.0	6.4	n.a.
EU exposure/exports of goods and services	(%)	17.0	14.9	15.2
<b>IMF arrangements</b>				
Type		none	none	
(Date)				
On track				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba3	Ba3 /stable	Ba3 /stable
S&P long-term foreign currency rating (end of period)		BB	BB	BB- /stable
Fitch long-term foreign currency rating (end of period)		none	none	none
(1) See explanatory notes				
* ECFIN Autumn 2012 Forecast				

### 3.1.3. Serbia

Economic activity deteriorated sharply in early 2012, with negative growth rates of -2.5% y-o-y in the first and -0.8% y-o-y in the second quarter. Flash estimates for the third quarter point at a continuing recession with a further 2.2% drop in the GDP. On the back of renewed pressure from food prices, affected also by a drought in the summer, inflation accelerated strongly, reaching 10.3% (y-o-y) in September and moving above the central bank target

band. The overall uncertainty in the pre-election period, the unchecked fiscal expansion and deteriorating external imbalances led to a depreciation of the dinar, which has lost about 10% of its value against the euro since the beginning of 2012. In order to stem further depreciation of the dinar and reduce inflationary expectations, the central bank raised its main policy interest rate in several steps to 10.95% in early November. In September, the Parliament adopted a rebalancing of the 2012 budget, targeting a much higher than originally planned consolidated deficit of 6.7% of GDP. Government debt increased further in the summer months and reached 54% of GDP in August. The inflow of net foreign direct investments was significant in 2011 but turned negative in the first half of 2012. The external debt rose slightly, to about 80% of GDP, as the debt level as expressed in domestic currency increased following the dinar depreciation. Foreign exchange reserves of the central bank have fallen. However, they still remain at a relatively healthy level of EUR 9.9 billion, covering about 7 months of imports. The deteriorating fiscal performance, among other factors, triggered a downgrade of Serbia's long term sovereign credit rating in August. The completion of the first review of the precautionary Stand-By Arrangement with the IMF from September 2011 has been postponed because the 2012 budget deviated from the agreed fiscal programme.

<b>Country-risk indicators : Serbia</b>		<b>2010</b>	<b>2011</b>	<b>2012 (proj)*</b>
<b>Output and prices</b>				
Real GDP growth rate	(%)	1.0	1.6	-1.6
Unemployment (end of period)	(% labour force)	19.2	23.0*	26.4
Inflation rate (CPI) (Dec/Dec)	(% change)	10.3	7.0	7.3
<b>Public finances</b>				
General government balance	(% of GDP)	-4.7	-5.1	-6.7
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	10,069.5	11,472.0	11,781.7
Current account balance	(% of GDP)	-7.8	-9.6	-12.4
Net inflow of foreign direct investment	(m EUR)	861.4	1,840.1	n.a.
Official reserves, including gold (end of period)	(m EUR)	10,001.6	12,057.7	n.a.
In months of subsequent year's imports	(months)	9.8	10.5	n.a.
Exchange rate (end of period)	(per EUR)	105.93	106.95	n.a.
<b>External debt</b>				
External debt (end of period)	(m EUR)	23,763.3	24,101.6	n.a.
External debt/GDP	(%)	84.7	78.9	n.a.
Debt service/exports of goods and services	(%)	5.8	6.3	n.a.
Arrears (on both interest and principal)	(%)	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	1609.0	1,959.0	2,096.0
EU exposure/total EU exposure	(%) (1)	8.7	9.2	9.5
EU exposure/external debt	(%)	6.8	8.1	n.a.
EU exposure/exports of goods and services	(%)	16.0	17.1	17.8
<b>IMF arrangements</b>				
Type		Stand-By		
(Date)				
On track		on track	on track	none
<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- /negative
Fitch long-term foreign currency rating (end of period)		BB-	BB-	BB- /negative
(1) See explanatory notes				
* ECFIN Autumn 2012 Forecast				

#### 3.1.4. Turkey

Economic growth in Turkey has slowed sharply from 9.2% in 2010 and 8.5% in 2011 to a projected 3% in 2012 on the back of contracting private consumption and investment.

Inflationary pressures have persisted, and headline inflation reached 8% by October 2012, primarily caused by significant increases in food and energy prices and hikes in administered prices. On the back of the slowing GDP growth, the fiscal deficit has increased to about 2.5% of GDP in 2011. Public debt as a share of GDP has continued to fall from 39.2% of GDP, registered at the end of 2011. The current account deficit has been narrowing in tandem with a decreasing merchandise trade deficit, driven in particular by the impact of weaker domestic demand. As a result, it was projected at around 8% of GDP in 2012, down from 10% in 2011. Turkey's gross external debt amounted to less than 40% of GDP with private external debt representing two thirds of the total. International reserves increased to about EUR 80 billion covering around 5 months of imports. The domestic currency has appreciated by about 10% against the US dollar and the EUR in 2012. In early November 2012 Fitch Ratings upgraded Turkey's long-term foreign currency debt to investment grade.

Country-risk indicators : Turkey		2010	2011	2012 (proj)*
<b>Output and prices</b>				
Real GDP growth rate	(%)	9.2	8.5	3.0
Unemployment (end of period)	(% labour force)	12.0	9.8	7.5
Inflation rate (CPI) (Dec/Dec)	(% change)	8.6	6.5	8.0
<b>Public finances</b>				
General government balance	(% of GDP)	-3.6	-2.0*	-2.4
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	117,781.4	130,703.5	143,381.8
Current account balance	(% of GDP)	-6.4	-10.0	-8.0
Net inflow of foreign direct investment	(m EUR)	5,726.0	9,776.4	n.a.
Official reserves, including gold (end of period)	(m EUR)	83,215.5	84,127.3	n.a.
In months of subsequent year's imports	(months)	7.1	5.8	n.a.
Exchange rate (end of period)	(per EUR)	2.00	2.33	n.a.
<b>External debt</b>				
External debt (end of period)	(m EUR)	215,356.0	227,821.0	n.a.
External debt/GDP	(%)	39.9	39.7	n.a.
Debt service/exports of goods and services	(%)	28.3	23.8	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	7429.0	8,330.0	8,774.0
EU exposure/total EU exposure	(%) (1)	40.2	39.2	39.8
EU exposure/external debt	(%)	3.6	3.6	n.a.
EU exposure/exports of goods and services	(%)	6.0	6.4	6.1
<b>IMF arrangements</b>				
Type		none	none	none
(Date)				
On track				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba2	Ba2	Ba1 /positive
S&P long-term foreign currency rating (end of period)		BB	BB	BB /stable
Fitch long-term foreign currency rating (end of period)		BB+	BB+	BBB- /stable
(1) See explanatory notes				
* ECFIN Autumn 2012 Forecast				

### 3.2. Potential candidate countries

#### 3.2.1. Albania

Following a contraction of 0.2% year on year in the first quarter of 2012, Albania's real GDP grew by an estimated 2% in the second quarter, well below the historical average. In the first half of 2012, employment grew by approximately 1%, continuing the decelerating rate which

started in the second half of 2011. Private non-agriculture sector was the main driver of job creation. Inflation accelerated during the course of 2012, from an average of slightly above 1% year on year in the period January-March to 2.7% in the third quarter reflecting higher food prices, which account for a substantial share in the CPI. The banking sector, the main source of financial intermediation in Albania, remains well capitalised and liquid. However, non-performing loans continued to rise and stood at 22.7% in the third quarter of 2012. The current account deficit improved in the first half of 2012 as exports of goods turned positive in the second quarter which, together with a drop in imports, led to a lower merchandise trade gap. In addition, the services account posted a surplus in the first six months of 2012 helped mainly by strong inbound tourism which more than offset a decline in remittances. The government deficit was estimated to have reached around 2% of GDP in September 2012, against a planned deficit of 3% of GDP for the whole year. Public debt remains relatively high, with the total debt-to-GDP ratio estimated at 58.6% at end-September 2012. This includes some 3.5% of GDP in contingent liabilities from state guarantees.

Country-risk indicators : Albania		2010	2011	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate	(%)	3.8	3.1	n.a.
Unemployment (end of period)	(% labour force)	13.7	13.3	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)	3.6	3.5	n.a.
<b>Public finances</b>				
General government balance	(% of GDP)	-3.1	-3.5	n.a.
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	2,922.2	3,152.9	n.a.
Current account balance	(% of GDP)	-11.5	-12.0	n.a.
Net inflow of foreign direct investment	(m EUR)	793.5	747.2	n.a.
Official reserves, including gold (end of period)	(m EUR)	1,825.3	1,852.4	n.a.
In months of subsequent year's imports (2)	(months)	6.7	6.1	n.a.
Exchange rate (end of period)	(per EUR)	137.48	140.07	n.a.
<b>External debt</b>				
External debt (end of period)	(m EUR)	3,919.1	4,599.5	n.a.
External debt/GDP	(%)	41.0	46.5	n.a.
Debt service/exports of goods and services	(%)	9.9	3.4	n.a.
Arrears (on both interest and principal)	(%)	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	244.0	267.0	290.0
EU exposure/total EU exposure	(%) (1)	1.3	1.3	1.3
EU exposure/external debt	(%)	10.9	5.8	n.a.
EU exposure/exports of goods and services	(%)	8.5	8.5	n.a.
<b>IMF arrangements</b>				
Type		none	none	
(Date)				
On track				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B1	B1 /stable	B1 /stable
S&P long-term foreign currency rating (end of period)		B+ /stable	B+ /stable	B+ /stable
Fitch long-term foreign currency rating (end of period)		none	none	none

(1) See explanatory notes

(2) Ratio of 12 months imports of goods moving average.

### 3.2.2. Bosnia and Herzegovina

After a mild recovery from the initial effects of the global economic crisis, the economy of Bosnia and Herzegovina was facing renewed weaknesses. Real GDP growth reached 1.3% in 2011 - slightly accelerating from a marginal 0.7% rise in the previous year -, but the indicators available for 2012 suggest that the economic recovery stalled, negatively affected

by the worsened external environment. Industrial production fell by 5.6% in the first nine months of the year. Employment dropped by 0.8% and the officially registered unemployment rate climbed up to 44.3% in August 2012, compared with 43.4% a year before. After being on a downward trend since mid-2011, the inflation was moderately accelerating in second half of 2012 (driven by surging food prices), reaching 2.3% in September. In the first half of 2012 the repercussions of the worsened external environment were increasingly felt in public finances. Tax revenue fell by 0.8% year-on-year reflecting the downturn in economic activity, while most expenditure categories increased in year-on-year comparison. Following the significant expansion in 2011, the current account deficit widened further in the first half of 2012, reaching an estimated 14.7% of GDP. The deterioration was mainly driven by the falling exports of goods, while imports still grew, even though at a significantly slower rate. Net inflow of FDI remained low, covering about one third of the current account deficit. The stock of official foreign exchange reserves fell by 3.4% year-on-year in the first half of 2012. External public debt rose by 5.1% year-on-year, reaching 25% of GDP at the end of June. In September, the IMF Board approved a two-year, SDR 338 million Stand-By Arrangement, aiming at countering the effects of the worsening external environment, preserving fiscal sustainability and improving the resilience of the financial sector. Following the Board approval, the first tranche of about EUR 60 million was immediately disbursed. The international rating agency Moody's revised in July its outlook on Bosnia's sovereign ratings to "stable" on the perspectives for an IMF funded programme.

Country-risk indicators : Bosnia and Herzegovina		2010	2011	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate	(%)	0.7	1.3	n.a.
Unemployment (end of period)	(% labour force)	42.7	43.8	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)	2.1	3.7	n.a.
<b>Public finances</b>				
General government balance	(% of GDP)	-2.5	-1.3	n.a.
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	4,794.5	5,331.4	n.a.
Current account balance	(% of GDP)	-10.5	-14.3	n.a.
Net inflow of foreign direct investment	(m EUR)	143.6	302.2	n.a.
Official reserves, including gold (end of period)	(m EUR)	3,330.5	3,333.3	n.a.
In months of subsequent year's imports	(months)	5.6	4.9	n.a.
Exchange rate (end of period)	(per EUR)	1.93	1.93	n.a.
<b>External debt</b>				
External debt (end of period)	(m EUR)	3,256.9	3,449.8	n.a.
External debt/GDP	(%)	25.6	26.1	n.a.
Debt service/exports of goods and services	(%)	11.8	12.4	n.a.
Arrears (on both interest and principal)	(%)	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	583.0	666.4	761.0
EU exposure/total EU exposure	(%) (1)	3.2	3.1	3.5
EU exposure/external debt	(%)	18.1	19.4	n.a.
EU exposure/exports of goods and services	(%)	12.4	13.6	n.a.
<b>IMF arrangements</b>				
Type		Stand-By		Stand-By
(Date)		July 2009 - July 2012		September 2012
On track		off-track	off-track	on track
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B2	B2	B3 /stable
S&P long-term foreign currency rating (end of period)		B+	B	B /stable
Fitch long-term foreign currency rating (end of period)		none	none	none
(1) See explanatory notes				

### **3.3. ENP countries**

#### *3.3.1. Armenia*

The economic activity in Armenia strengthened in 2012; for the first half of 2012 GDP growth was estimated at 6.1%, after growing 4.7% in 2011. It was mainly driven by an increase in private consumption and further increase in exports, though the investment continued to weaken. Consumer price growth remained moderate. After year on year inflation dropped to 0.5% in May 2012, it rebounded slightly following the increase in world energy prices. The inflation rate was expected to remain within the central bank's target of  $4\% \pm 1.5$  percentage points in 2012. The fiscal position continued to improve. The budget deficit was expected to decline to 2.1% of GDP in 2012, from 3.6% in 2011. According to the IMF, public debt was expected to reach 45% of GDP at the end of 2012 from 40.6% in 2011 reflecting loans taken from the international community. Close to 90% of the debt continues to be formed by external liabilities, indicating significant exchange rate vulnerability. The external situation remains fragile. The current account deficit was expected to remain close to 11% of GDP in 2012 (10.9% in 2011). Remittances continued to increase, though at a slower pace. In the first half of 2012 they grew by 9.4%, against 24.5% in 2011. Exports, mostly driven by mining and agriculture, increased by 12.2% in the first half of 2012 (in 2011 the export growth reached 32.8%). The FDI continued to weaken, in 2011 it shrank by 20.1% and in the first half of 2012 it was 40% lower than in the same period a year before. Foreign reserves were expected to drop to 3.6 months of next year's imports in 2012 (from 4.6 months of imports in 2011) due to the central bank's interventions to limit the exchange rate fluctuations. In June 2012, the IMF Board successfully completed its fourth review of Armenia's economic performance under the on-going three year programme supported by Extended Fund Facility and Extended Credit Facility arrangements. Given that Armenia was expected to face substantial financing needs in 2013 and 2014 linked, inter alia, to the external debt payments, a new financing arrangement with the IMF was being considered upon the expiry of the current one (in mid-2013).

Country-risk indicators : Armenia		2010	2011	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate	(%)	2.2	4.7	6.1
Unemployment (end of period)*	(% labour force)	19.0	18.4	17.4
Inflation rate (CPI) (Dec/Dec)	(% change)	9.4	4.7	3.0
<b>Public finances</b>				
General government balance	(% of GDP)	-4.5	-3.6	-2.1
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	1,442.3	1,782.5	2,004.5
Current account balance	(% of GDP)	-14.8	-10.9	-10.5
Net inflow of foreign direct investment	(m EUR)	423.2	321.3	241.0
Official reserves, including gold (end of period)	(m EUR)	1,315.8	1,317.9	1,110.6
In months of subsequent year's imports	(months)	4.8	4.5	3.6
Exchange rate (end of period)	(per EUR)	476.4	504.6	527.45
<b>External debt</b>				
External debt (end of period)	(m EUR)	4,759.3	5,615.6	5,700.9
External debt/GDP	(%)	65.6	70.7	67.7
Debt service/exports of goods and services	(%)	21.6	19.4	24.6
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	n.a.	100.6	101.0
EU exposure/total EU exposure	(%) (1)	n.a.	0.5	0.5
EU exposure/external debt	(%)	n.a.	2.2	1.8
EU exposure/exports of goods and services	(%)	n.a.	6.2	5.0
<b>IMF arrangements</b>				
Type		Extended Fund Facility & Extended Credit Facility		
(Date)		from June 2010		
On track		on track	on track	on track
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba2	Ba2 /negative	Ba2 /negative
S&P long-term foreign currency rating (end of period)		none	none	none
Fitch long-term foreign currency rating (end of period)		BB- /stable	BB- /stable	BB- /stable
(1) See explanatory notes				
*Integrated Living Condition Survey				
Sources: Central Bank of Armenia, National Statistical Service of Armenia, Commission, IMF, Moody's, Fitch				

### 3.3.2. Ukraine

Ukraine's economy was increasingly affected by a negative global environment in 2012. Following strong growth at 4.2% of GDP in 2010 and 5.2% of GDP in 2011, real GDP growth was expected to slow to about 1% in 2012, as a consequence of declining industrial production, weaker agricultural output and tight credit conditions. In the absence of a strong global economic recovery leading to higher external demand, real growth in 2013 was expected to remain below potential. Low food prices helped keeping inflation under control. Headline inflation was forecasted to reach 7.4% at year end of 2012, after 9.1% and 4.6% in December 2010 and 2011 respectively. Ukraine's fiscal deficit exceeded the target agreed with the IMF in 2012, which expected it to increase to 5.3% of GDP in 2012 (up from 4.2% of GDP in 2011), mainly as a result of authorities' refusal to increase gas tariffs for households and utilities to cost-recovery levels as well as of increased government spending before the October 2012 elections. After a marked rise following the 2008-09 crisis, public debt has stabilised at around 36-40% of GDP in 2011-2012. The current account deficit, already high, grew further in 2012, reaching a forecasted estimated 6.4% of GDP (up from 5.5% in 2011). Currency reserves declined to USD 30 billion (EUR 23 billion) in September 2012. Ukraine received no disbursements under the IMF standby arrangement in 2012, as authorities have not reached agreement with the Fund on gas prices and the budget parameters. As a consequence, the EUR 610 million macro-financial assistance made available by the

European Union remained on hold, despite reaching an agreement on the policy conditions. Progress in the implementation of structural reforms to boost competitiveness has been slow, and FDI remains very weak in regional comparison. Public administration and public financial management remained largely unreformed and non-transparent, weakened by red tape and prone to corruption.

Country-risk indicators : Ukraine		2010	2011	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate	(%)	4.2	5.2	1.0
Unemployment (end of period)	(% labour force)	8.8	7.9	7.8
Inflation rate (CPI) (Dec/Dec)	(% change)	9.4	4.6	7.4
<b>Public finances</b>				
General government balance*	(% of GDP)	-5.8	-2.7	-3.3
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	51,020	58,461	61,799.0
Current account balance	(% of GDP)	-2.2	-5.9	-6.4
Net inflow of foreign direct investment	(m EUR)	4,349	5,384	4,846
Official reserves, including gold (end of period)	(m EUR)	26,108	24,460	20,769
In months of subsequent year's imports	(months)	5.7	3.9	2.8
Exchange rate (end of period)	(per EUR)	10.5	10.5	11.50
<b>External debt</b>				
External debt (end of period)	(m EUR)	88,605	98,610	93,468
External debt/GDP	(%)	86	76.4	69.8
Debt service/exports of goods and services	(%)	35.77	n.a.	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	200.0	247.2	243.0
EU exposure/total EU exposure	(%) (1)	1.1	1.2	1.1
EU exposure/external debt	(%)	0.2	0.3	0.3
EU exposure/exports of goods and services	(%)	0.4	0.4	0.4
<b>IMF arrangements</b>				
Type		Stand-By 15.2bn USD		
(Date)		28 July 2010 - 27 December 2012		
On track		on track	off track	off track
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B2	B2 /negative	B2 /negative
S&P long-term foreign currency rating (end of period)		B+	B+	B+ /negative
Fitch long-term foreign currency rating (end of period)		B	B /stable	B /stable
(1) See explanatory notes				
*does not include the deficit of state-owned Naftogas (approx. 2% of GDP in 2012)				

### 3.4. Mediterranean partners

#### 3.4.1. Egypt

Economic growth in Egypt continued to be affected by uncertainties triggered by the January 2011 revolution. Real GDP growth increased only slightly to 2.2% in the 2011/12 fiscal year (FY) ending in June 2012, after 1.8% a year earlier. Recent growth trends point to some degree of stabilisation of the economic situation. The FY 2011/12 fiscal deficit stood at 10.8% of GDP – up from 9.7% the year before. While the FY 2012/13 budget foresaw a reduction of the deficit to 7.6% of GDP, this figure was likely to be missed, as an economic and social reform programme would take time to be implemented. In the medium-term, the programme, in particular through a reformed system of energy subsidies, to be implemented by spring 2013, could bring the deficit down to 3.8% of GDP while decreasing gross public debt to about 70% by FY 2016/17 (from 86.1% of GDP in 2011/12). On the external side, the current account deficit deteriorated slightly to 3.4% of GDP in FY 2011/12, although it was expected

to stabilise in FY 2012/13. The deterioration was primarily due to the increasing import price of commodities, namely oil, as well as a significant drop in tourism receipts, despite resilient Suez Canal revenues, and a large rise in remittances. Egypt's outflow of portfolio investments has not been contained and foreign direct investment inflows continue to be muted. The above developments have led to a quick depletion of the central bank's net international reserves. However, reserves have stabilised at approximately USD 15 billion between February and November 2012. Negotiations on a USD 4.8 billion Stand-By-Arrangement with the International Monetary Fund were launched in November 2012.

Country-risk indicators : Egypt		2010	2011	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate	(%)	5.1	1.8	2.2
Unemployment (end of period)*	(% labour force)	9.2	12.1	12.7
Inflation rate (CPI) (Dec/Dec)	(% change)	10.7	11.8	7.3
<b>Public finances</b>				
General government balance	(% of GDP)	-8.0	-9.7	-10.8
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	35,751.6	33,929.0	31,467.0
Current account balance	(% of GDP)	-2.0	-2.6	-3.4
Net inflow of foreign direct investment	(m EUR)	5,097.8	1,572.3	1,968.0
Official reserves, including gold (end of period)	(m EUR)	26,998.6	13,760.8	11,538.0
In months of subsequent year's imports	(months)	6.6	3.3	3.0
Exchange rate (end of period)	(EG£ per EUR)	7.8	8.3	7.70
<b>External debt</b>				
External debt (end of period)	(m EUR)	26,363.4	26,575.0	28,007.0
External debt/GDP	(%)	16.3	14.6	14.0
Debt service/exports of goods and services	(%)	6.8	10.0	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	2,178.0	2,037.0	1,959.0
EU exposure/total EU exposure	(%) (1)	11.8	9.6	8.9
EU exposure/external debt	(%)	7.3	8.3	7.0
EU exposure/exports of goods and services	(%)	5.8	5.8	6.2
<b>IMF arrangements</b>				
Type		no	no	Stand-By***
(Date)				
On track				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba1	B2	B2 /negative
S&P long-term foreign currency rating (end of period)		BB+	B+	B /negative
Fitch long-term foreign currency rating (end of period)		BB+	BB-	B+ /negative
(1) Fiscal year ends 30th June				
* source: Economist Intelligence Unit Country Report Egypt, October 2012				
** The Government withdrew its request for an IMF programme in mid 2011. Discussions were renewed in early 2012.				
*** The Stand-By was still being negotiated as of mid-November 2012				

### 3.4.2. Jordan

Despite the positive economic spillovers from the Gulf Cooperation Council countries, the fiscal and balance of payments position of Jordan deteriorated in 2012, reflecting higher oil prices, the impact of regional tensions on inward investment, and the gas supply disruptions from Egypt that forced to increase the import of more expensive fuels. The macroeconomic situation improved only in the second half of 2012, following a USD 2 billion adjustment program with the IMF, thereby contributing to a forecasted real GDP growth of 3% for 2012 against 2.6% in 2011. As a result, consumer price inflation was projected to accelerate to 4.4% on average in 2012 from 3.3% in 2011. The negative shocks to the energy sector had a significant impact on public finances, including through the losses of the state-owned

electricity power company (estimated at USD 2 billion). The fiscal situation was further aggravated by the continuing Syria crisis that resulted in an increasing flow of refugees. By the end of 2012, the fiscal deficit was projected to reach 6.5% of GDP (against 5.7% of GDP in 2011) and the public debt 75.2% of GDP (against 66.8% of GDP in 2011). On external balances, the current account deficit (excluding grants) was forecasted to stabilise in 2012 at the 2011 level of 19% of GDP as the increased energy import bill was largely offset by the overall rebound of tourism and remittances. However, the overall balance of payments position was projected to deteriorate in 2012, broadly due to a significant slowdown in inward investment, notably in the first half of the 2012, which, at the same time, contributed to a sizeable reduction of foreign exchange reserves (40% in the first 6 months of 2012). Soon after the events of the Arab Spring, major rating agencies downgraded Jordan's sovereign ratings, reflecting concerns about the economic impact of the regional unrest. Moody's lowered the government's local currency bond rating to Ba2 with a negative outlook from Baa3 in February 2011. Standard & Poor's revised the outlook on long-term foreign currency and local currency ratings to negative in 2011. Under the pressure of an increasing energy import bill, broadly related to supply disruptions of natural gas from Egypt, the IMF Board approved in early August 2012 a USD 2 billion (800% of quota) 36-month Stand-By arrangement with Jordan. The programme was relatively frontloaded, with 300% of quota to be paid out in 2012.

Country-risk indicators: Jordan		2010	2011	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate	(%)	2.3	2.6	3.0
Unemployment (end of period)	(% labour force)	12.5	12.9	11.4
Inflation rate (CPI) (Dec/Dec)	(% change)	6.1	3.3	4.4
<b>Public finances</b>				
General government balance	(% of GDP)	-5.6	-5.7	-6.5
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	5,282.4	5,750.0	6,469
Current account balance	(% of GDP)	-7.1	-19.0	-18.9
Net inflow of foreign direct investment	(m EUR)	1,264	1,064	1,236
Official reserves, including gold (end of period)	(m EUR)	9,394	7,714	5,810
In months of subsequent year's imports	(months)	7.4	6.0	4.0
Exchange rate (end of period)	(per EUR)	0.947	0.917	0.908
<b>External debt</b>				
External debt (end of period)	(m EUR)	4,909	4,601	5,076
External debt/GDP	(%)	24.6	21.9	20.8
Debt service/exports of goods and services	(%)	4.9	n.a.	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	395.0	420.0	457.0
EU exposure/total EU exposure	(%) (1)	2.1	2.0	2.1
EU exposure/external debt	(%)	8.0	9.1	9.0
EU exposure/exports of goods and services	(%)	7.5	7.3	7.1
<b>IMF arrangements</b>				
Type		no	no	Stand-By
(Date)				August 2012
On track				on track
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba2	Ba2 /negative	Ba2 /negative
S&P long-term foreign currency rating (end of period)		BB	BB	BB+ /negative
Fitch long-term foreign currency rating (end of period)		none	none	none
(*) latest estimates				
(1) See explanatory notes				

### 3.4.3. Lebanon

The Lebanese economy continued to be seriously affected by the conflict in Syria, in particular through disruptions in trade of goods and services (e.g. tourism). Real GDP growth, which dropped from 7% in 2010 to 1.5% in 2011, was projected to only partially recover in 2012 to 2%. Consumer prices decreased in 2011 to 3.1% y-o-y compared to 5.1% in 2010, curbed by the halving of the fuel excise in February 2011, but was expected to increase sharply at the end of 2012 to 10.1%, mirroring continued high global food and fuel prices. The fiscal situation remained vulnerable and there was a great need for fiscal consolidation. The central government deficit, 6.1% of GDP in 2011, was expected to increase to 7.9% in 2012. Fiscal reforms were unlikely due to political disagreements both within the Cabinet and in the Parliament. Public debt remained among the highest in the world at 134% of GDP in 2011, though it was expected to decrease to 132% in 2012, following recent years' trend of steady decline. Lebanon's widening trade deficit, combined with a negative net income due to low returns on foreign reserves and high external debt payments, only partly mitigated by remittances, translated into a large current account deficit (14% of GDP in 2011). The central bank maintained large foreign exchange reserves (EUR 27.1 billion at end-October 2012) to protect financial stability and give credibility to the currency peg against the US dollar. The external debt-to-GDP ratio remained among the highest in the world at 174% in 2011. About

80% of external debt consisted of short-term non-resident deposits in the banking sector, however, these deposits, owned by the Lebanese diaspora, have demonstrated high resilience in crisis. Bank deposits continued to grow in the first half of 2012 and exceeded 300% of GDP at the end of June 2012. No IMF arrangement was foreseen in Lebanon at the end of 2012. Long-term foreign currency ratings remained unchanged in first 10 months of 2012.

Country-risk indicators : Lebanon		2010	2011	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate	(%)	7.0	1.5	2.0
Unemployment (end of period)	(% labour force)	n.a.	n.a.	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)	5.1	3.1	10.1
<b>Public finances</b>				
Central government balance	(% of GDP)	-7.7	-6.1	-7.9
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	18,556.2	18,821.8	20,506.8
Current account balance	(% of GDP)	-9.6	-14.0	-16.2
Net inflow of foreign direct investment	(m EUR)	2,861.3	1,962.1	n.a.
Official reserves (end of period)	(m EUR)	22,451.7	24,654.1	27,247.7
In months of subsequent year's imports	(months)	10.7	11.0	11.2
Exchange rate (end of period)	(per EUR)	1,997.4	1,948.6	n.a.
<b>External debt</b>				
External debt (end of period)	(m EUR)	46,400.0	52,400.0	56,500.0
External debt/GDP	(%)	167.2	173.8	172.3
Debt service/exports of goods and services	(%)	21.2	20.0	22.3
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	598.0	594.8	619.0
EU exposure/total EU exposure	(%) (1)	3.2	2.8	2.8
EU exposure/external debt	(%)	1.4	1.3	1.1
EU exposure/exports of goods and services	(%)	16.6	3.2	3.0
<b>IMF arrangements</b>				
Type		none		
(Date)				
On track				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B1 /stable	B1 /stable	B1 /stable
S&P long-term foreign currency rating (end of period)		B	B	B
Fitch long-term foreign currency rating (end of period)		B /stable	B /stable	B /stable
(1) See explanatory notes				
Sources: IMF, EIU				

#### 3.4.4. Morocco

The Moroccan economy was expected to slow down markedly in 2012, mainly due to a poor harvest, with GDP growth estimated at 2.4%, down from 5% a year earlier. However, assuming an improved agricultural sector performance, GDP was forecasted to grow above 4% in both 2013 and 2014, with potential growth increasing thanks to sound macroeconomic policies and a better business climate. Inflation remained subdued at approximately 2%, as government subsidies on energy and food keep prices artificially low. Due to the significant fiscal cost of price subsidies, which contributed to an estimated 7.5% of GDP deficit in 2012, a gradual reform of the subsidies system, increasing inflation in the medium term, was unavoidable. Public debt continued its upward trend, increasing to a forecasted 72.2% of GDP in 2012 after 64.7% of GDP in 2011. However, this forecast was subject to downside risk due to its dependence on the Euro-area economies, where weak performance would affect Moroccan exports as well as remittances. Monetary policy has been slightly expansionary, while remaining focussed on controlling inflation. The exchange rate continues to be tightly

managed in a corridor against a basket of currencies, despite pressure from exporters to float the exchange rate to improve the terms of trade. Morocco's current account deficit was expected to remain large at about 7.8% of GDP in 2012. Apart from weaker exports, the current account was affected by higher import prices of energy and food commodities. In the medium term, the current account deficit was set to stabilise on a lower level, thanks to increased domestic production and fiscal consolidation. The current account deficit was partly financed by the resilient capital account surplus, including substantial FDI flows. The level of total external debt remained relatively stable at 31% of GDP. Gross foreign reserves were expected to decrease by about 15% to USD 17.2 billion until end 2012.

Country-risk indicators : Morocco		2010	2011 est	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate	(%)	3.7	4.9	2.9
Unemployment (end of period)	(% labour force)	9.1	8.9	8.8
Inflation rate (CPI) (Dec/Dec)	(% change)	2.2	0.9	2.5
<b>Public finances</b>				
General government balance	(% of GDP)	-4.4	-6.9	-6.1
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	23,736.0	24,739.0	26,945.0
Current account balance	(% of GDP)	-4.3	-8.0	-7.8
Net inflow of foreign direct investment	(m EUR)	982.5	1,391.3	1,969.0
Official reserves, including gold (end of period)	(m EUR)	17,255.3	16,254.0	13,543.0
In months of subsequent year's imports	(months)	5.7	4.9	4.0
Exchange rate (end of period)	(MAD per EUR)	11.2	11.1	11.00
<b>External debt</b>				
External debt (end of period)	(m EUR)	17,659.0	18,452.0	18,866.0
External debt/GDP	(%)	24.7	23.6	24.4
Debt service/exports of goods and services	(%)	8.7	10.7	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	2,425.0	2,483.5	2,534.0
EU exposure/total EU exposure	(%) (1)	13.1	11.7	11.5
EU exposure/external debt	(%)	12.1	10.5	13.4
EU exposure/exports of goods and services	(%)	8.0	7.1	9.4
<b>IMF arrangements</b>				
Type		no	no	Precautionary Liquidity Line 4.12 SDR
(Date)				August 2012
On track				on track
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba1 /stable	Ba1 /stable	Ba1 /stable
S&P long-term foreign currency rating (end of period)		BBB-	BBB-	BBB- /negative
Fitch long-term foreign currency rating (end of period)		BBB-	BBB- /stable	BBB- /stable
(1) See explanatory notes				

### 3.4.5. Syria

Though reliable figures were in scarce supply, it was clear that growth has been negative as a result of a sharp slowdown in trade, tourism and private investment, as well as the destruction of infrastructure. Consumer prices rose to 39.5% y-o-y in August according to the Syrian Central Bureau of Statistics. This rise mainly consisted of price increases in food, housing, utilities and fuel due to a combination of sharp reductions in their supply and alleged printing of money by the central bank to pay for state salaries. The 2013 budget foresaw a 4% nominal increase in expenditure, while leaving out information on revenue and deficit. However, it was clear that the main sources of revenue have been significantly affected by the conflict,

including oil exports (which constituted 25% of revenue in 2010) and customs revenue on imports. The current value of Syria's foreign exchange reserves were difficult to estimate. The central bank claimed on 5 October that they amounted to USD 15.1 billion at the end of August, which would entail a modest USD 4.7 billion drop since June 2011, the latest available IMF data. However, considering the sharp drop in export revenue combined with an increase in import costs since June 2011, as well as the absence of any major net capital inflows, the drop in reserves should have been considerably larger. The Economist Intelligence Unit estimated that official reserves were more likely to amount to much less - close to USD 5 billion at the end of 2012, which would be equivalent to 4.8 months of imports. Despite efforts to maintain the exchange rate, the Syrian pound has depreciated against the EUR by some 44% between March 2011 and September 2012.

Country-risk indicators : Syria		2010	2011	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate	(%)	3.2	-2.0	n.a.
Unemployment (end of period)	(% labour force)	8.4	n.a.	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)	6.3	6.0	n.a.
<b>Public finances</b>				
General government balance	(% of GDP)	-3.2	-8.0	n.a.
<b>Balance of payments</b>				
Exports of goods f.o.b.	(m EUR)	10,100.0	n.a.	n.a.
Current account balance	(% of GDP)	-3.9	-6.1	n.a.
Net inflow of foreign direct investment	(m EUR)	1,000.0	n.a.	n.a.
Official reserves, including gold (end of period)	(m EUR)	13,700.0	n.a.	n.a.
In months of subsequent year's imports	(months)	9.4	n.a.	n.a.
Exchange rate (end of period)	(per EUR)	62.7	65.2	89.9
<b>External debt</b>				
External debt (end of period)	(m EUR)	n.a.	n.a.	n.a.
External debt/GDP	(%)	n.a.	n.a.	n.a.
Debt service/exports of goods and services	(%)	n.a.	n.a.	n.a.
Arrears (on both interest and principal)	(m EUR)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	796.0	728.0	690.0
EU exposure/total EU exposure	(%) (1)	4.3	3.4	3.1
EU exposure/external debt	(%)	4.3	n.a.	n.a.
EU exposure/exports of goods and services	(%)	14.6	n.a.	n.a.
<b>IMF arrangements</b>				
Type			none	
(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
Fitch long-term foreign currency rating (end of period)		none	none	none
(1) See explanatory notes				

#### 3.4.6. Tunisia

Tunisia experienced a severe recession in 2011 as a result of the regional and domestic crisis, but signs of a rebound emerged already in early 2012 with tourism and foreign investment picking up, industrial production strengthening and a gradual growth-supporting fiscal expansion favouring public investment. Real GDP was forecasted to grow by 2.7% in 2012 after contracting by 1.8% in 2011 and inflation to pick up to 5% on average in 2012 (from 3.5% in 2011) on the back of stronger domestic demand and rising commodity prices. In light of these developments, the Central Bank stepped up with monetary tightening, allowing a 0.5% increase in the monthly average interbank rate. On the fiscal front, public finances came

under further strain throughout the 2012, largely due to persistently high current budget spending, that contributed to an expected doubling of the budget deficit (to 6.4% of GDP) in 2012 and to a further increase in the level of external debt (forecasted at 53.7% of GDP at end-2012 as compared to 51% of GDP at end-2011). On the external side, the rebound of tourism and (to a lower extent) remittances, contributed to a slight improvement in the current account position, despite the widening trade deficit; the current account deficit thus forecasted to narrow to 7% of GDP in 2012, as compared to 7.3% of GDP in 2011. Net foreign direct investments rebounded from 0.9% of GDP in 2011 to forecasted 2.5% of GDP in 2012, allowing a partial recovery of international reserves after their 25% drop in 2011. Reserves stood at EUR 6.3 billion at mid-November 2012 (representing 4 months of imports), a comfortable level according to the IMF. Of the three main rating agencies, only S&P further downgraded Tunisia's sovereign rating in 2012 (from BBB- to BB in May). Yet, Tunisia maintained the investment-grade category ratings. Despite the macroeconomic improvement throughout 2012, downside risks remain a concern, given regional uncertainties, the global economic dynamics and the outlook in the EU, Tunisia's main trading and investment partner. While contacts with the IMF have intensified greatly, no request for an IMF arrangement has been submitted in 2012. To meet the external and fiscal financing needs of 2013, national authorities intend to further mobilise foreign exchange reserves and to borrow both domestically and from abroad, including from Arab Funds.

Country-risk indicators : Tunisia		2010	2011	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate	(%)	3.0	-1.8	2.7
Unemployment (end of period)	(% labour force)	13.0	19.0	18.8
Inflation rate (CPI) (Dec/Dec)	(% change)	4.4	3.5	5.0
<b>Public finances</b>				
General government balance (inc. grants)	(% of GDP)	-1.0	-3.2	-6.4
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	12,399	12,811	14,210
Current account balance (exc. grants)	(% of GDP)	-4.8	-7.3	-7.0
Net inflow of foreign direct investment	(m EUR)	987	299	909
Official reserves, including gold (end of period)	(m EUR)	7,169	5,390	6,390
In months of subsequent year's imports	(months)	5.1	3.8	4.0
Exchange rate (end of period)	(per EUR)	1.87	1.94	2.00
<b>External debt</b>				
External debt (end of period)	(m EUR)	16,192	16,684	18,861
External debt/GDP	(%)	48.5	51.0	53.7
Debt service/exports of goods and services	(%)	10.5	11.7	10.4
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	2220.0	2,355.4	2,373.0
EU exposure/total EU exposure	(%) (1)	12.0	11.1	10.8
EU exposure/external debt	(%)	15.1	13.6	12.6
EU exposure/exports of goods and services	(%)	17.1	13.2	16.7
<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)		Baa2	Baa3 /negative	Baa3 /negative
S&P long-term foreign currency rating (end of period)		BBB	BBB-	BB /stable
Fitch long-term foreign currency rating (end of period)		BBB	BBB- /negative	BBB- /negative
(1) See explanatory notes				

### **3.5. Other countries**

#### *3.5.1. South Africa*

While GDP contracted by 1.5% in 2009 before recovering in 2010 (+2.9%) and 2011 (+3.1%), the South African economy was expected to experience slightly slower growth in 2012, around 2.6%. Inflation (CPI y-o-y) seems to be stabilising, coming down from 6.3% in December 2011 to an expected 5.2% in December 2012. While the repurchase rate was reduced by 50 basis points to 5% in July 2012 after having been constant for the preceding 20 months, there appears to be scope for further cuts in interest rates: monetary policy could provide a short-term stimulus without jeopardising annual inflation, which the Central Bank intends to maintain below 6% (and above 3%). As a result of subdued global growth and sluggish domestic demand, core inflation should be easily contained, unless sudden rises in food and fuel prices drive inflation upward. Fiscal policy should remain relatively loose in 2012 and 2013, with expenditure in infrastructure, public services and social welfare likely to increase in the run-up to the 2014 presidential elections. Resort to external debt should remain marginal, as public-sector borrowing essentially relies on domestic markets. Although South Africa's public debt burden continues to be manageable overall, it has increased rapidly in the past few years (with net public debt growing from 27.2% of GDP in 2008 to an estimated 43% of GDP in 2012). As debt-service costs rise, fiscal management will become more challenging and any additional debt might further damage investor confidence. Two rating agencies have already lowered South Africa's foreign currency long-term government bond rating in September and October 2012 - a sign that the country's creditworthiness was being affected by perceived uncertainties related to growing social tensions, declining institutional strength and limited flexibility for counter-cyclical policy actions.

Country-risk indicators : South Africa		2010	2011	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate	(%)	2.9	3.1	2.6
Unemployment (end of period)	(% labour force)	24.9	24.9	24.3
Inflation rate (CPI) (Dec/Dec)	(% change)	3.4	6.4	5.2
<b>Public finances</b>				
General government balance	(% of GDP)	-5.0	-4.2	-5.5
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	61,977.6	69,775.7	72,287.7
Current account balance	(% of GDP)	-2.9	-3.2	-5.9
Net inflow of foreign direct investment	(m EUR)	923.9	4,109.8	2,861.6
Official reserves, including gold (end of period)	(m EUR)	32,017.1	35,668.7	37,144.6
In months of subsequent year's imports	(months)	4.4	4.1	5.6
Exchange rate (average)	(per EUR)	10.4	9.8	10.5
<b>External debt</b>				
External debt (end of period)	(m EUR)	42,277.1	41,135.6	39,890.0
External debt/GDP	(%)	14.3	12.9	13.9
Debt service/exports of goods and services	(%)	10.8	9.7	5.7
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	1087.0	1,304.0	1,300.0
EU exposure/total EU exposure	(%) (1)	5.9	6.1	5.9
EU exposure/external debt	(%)	2.0	3.2	3.3
EU exposure/exports of goods and services	(%)	1.4	1.9	1.8
<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)		A3	A3 /negative	Baa1 /negative
S&P long-term foreign currency rating (end of period)		BBB+	BBB+	BBB /negative
Fitch long-term foreign currency rating (end of period)		BBB+	BBB+	BBB+ /negative
(1) See explanatory notes				

### 3.5.2. Tajikistan

Tajikistan safeguarded firm growth rates and resilience to the global crisis, and its growth projections remained broadly favourable. GDP rose by 7.4% in 2011 (year-on-year) and was expected to expand by another 6.8% in 2012. The outlook was subject to downside risks due to the expected global and regional slowdown, notably in Russia, and commodity price developments, i.e. weak global commodity demand and rising food prices. Inflation (CPI annual average) reached 12.4% in 2011, but it was likely to recede to 6% in 2012 reflecting the developments of global food and energy prices. The damage to export competitiveness from high inflation in 2011 was partly offset by currency depreciation. The tax base remained narrow, with a large share of revenue still linked to the performance of the aluminium and cotton sectors, which presents an ongoing risk to the government's fiscal targets. The budget deficit, including public investment programmes, was expected to increase to 2.9% of GDP in 2012 with its composition reflecting a gradual shift to higher social spending, which was low even by regional levels. With one-half of labour force working abroad, remittances were the major driver of growth in Tajikistan. According to the IMF, remittances from Russia accounted for 45% of GDP in the second quarter of 2012. Tajikistan's export performance depends on sales of aluminium, cotton and electricity. A severe fall of cotton and aluminium prices in 2012 was likely to reduce export revenues, while rising global prices of food and

energy were expected to raise the import bill. As the deteriorating trade deficit is offset by large remittances flows, Tajikistan had a broadly balanced current-account position which was set to deteriorate slightly to -0.4% GDP in 2012 from a surplus of 0.6% in 2011. Tajikistan's external debt was expected to decline from 32.1% of GDP in 2011 to 31.2% GDP in 2012, nevertheless the country's external position remained fragile, especially given a low level of international reserves (about 1.7 months of imports in 2012). The three-year Extended Credit Facility (ECF) arrangement (SDR 104.4 million) with Tajikistan, which was originally approved by the IMF's Executive Board in 2009 and subsequently augmented in 2010, expired in May 2012. Given the programme's role in maintaining macroeconomic stability, the authorities have expressed interest in a continued engagement with the IMF. So far Tajikistan's performance in implementing sound economic policies was mixed, but both parties expressed interest in adopting a new program.

Country-risk indicators : Tajikistan		2010	2011	2012 (proj)
<b>Output and prices</b>				
Real GDP growth rate - IMF	(%)	6.5	7.4	6.8
Unemployment	(% labour force)	n.a.	n.a.	n.a.
Inflation rate (CPI) (Dec/Dec) - IMF	(% change)	6.5	12.4	6.0
<b>Public finances</b>				
General government balance	(% of GDP)	-3	-2.1	-2.9
<b>Balance of payments - IMF</b>				
Exports of goods	(m EUR)	448.0	380.0	387.5
Current account balance	(% of GDP)	-0.3	0.6	-0.4
Net inflow of foreign direct investment	(m EUR)	12.0	13.0	39.0
Gross international reserves, (end of period)	(m EUR)	359.0	411.0	515.0
In months of subsequent year's imports	(months)	1.5	1.6	1.7
Exchange rate (end of period)	(per EUR)	5.81	6.42	n.a.
<b>External debt - IMF</b>				
Total public and publicly guaranteed debt	(m EUR)	1,441	1,504	1,759
External debt/GDP	(%)	33.9	32.1	31.2
Debt service/exports of goods and services	(%)	7.3	5.9	10.4
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	29.0	28.5	16.0
EU exposure/total EU exposure	(%) (1)	0.2	0.1	0.1
EU exposure/external debt	(%)	2.2	1.9	0.9
EU exposure/exports of goods and services	(%)	6.5	6.8	4.1
<b>IMF arrangements</b>				
Type		Extended Credit Facility		
(Date)		April 2009 - May 2012		
On track		on track	on track	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
Fitch long-term foreign currency rating (end of period)		none	none	none
(1) See explanatory notes				