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

**ON BORROWING AND LENDING ACTIVITIES OF THE EUROPEAN UNION IN
2014**

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1. INTRODUCTION

The Commission is required to inform every year the European Parliament and the Council on the use of the various lending instruments of the European Union.

This report describes the lending operations for each instrument as well as the respective borrowing activities.

Table 1: Evolution of operations of the European Union (outstanding amounts of capital in EUR million)

	ECSC i.l.(1) (2)	Euratom (1)	BOP	MFA	EFSM	Total
2010	219	466	12 050	500		13 235
2011	225	447	11 400	590	28 000	40 662
2012	183	423	11 400	545	43 800	56 351
2013	179	386	11 400	565	43 800	56 330
2014	192	348	8 400	1 829	46 800	57 569

(1)The conversion rates used are those of 31 December of each year.

(2)The European Coal & Steel Community is in liquidation since 2002. The last bond issued by ECSC matures in 2019.

2. LENDING ACTIVITIES OF THE EUROPEAN UNION

Financial support for third countries and Member States in the form of bilateral loans financed from the capital markets with the guarantee of the EU budget is provided by the Commission under various legal acts of the Council or of the Council and the European Parliament, depending on the objectives pursued¹. The consistency of financial support to third countries with the overall objectives of the EU external action is ensured by the Commission and the High Representative of the Union for Foreign Affairs and Security Policy assisted by the European External Action Service (EEAS).

2.1. BOP facility

Balance-of-payments (BOP) assistance under Article 143 of the Treaty on the Functioning of the European Union (TFEU) and Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments² (BOP Regulation) takes the form of medium-term loans provided by the Union. It is generally granted in conjunction with financing by the International Monetary

¹ Detailed presentation of the borrowing and lending activities of the Commission is available at http://ec.europa.eu/economy_finance/eu_borrower/index_en.htm.

² OJ L 53, 23.2.2002, p.1.

Fund (IMF) and other multilateral lenders, such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) or the World Bank.

BOP assistance is granted on a case-by-case basis by the Council acting by qualified majority. Potential beneficiaries are Member States outside the euro-area being faced with serious balance-of-payments difficulties. It aims at easing the recipient Member States' external financing constraints and at restoring the viability of a country's balance-of-payments. It is released subject to the fulfilment of economic policy conditions decided by the Council – after consultation with the Economic and Financial Committee (EFC) on a draft adjustment programme – and whose details are agreed by the Commission and the beneficiary Member State in a Memorandum of Understanding (MoU) prior to the conclusion of a loan agreement. The continued compliance with measures in the adjustment programme is reviewed regularly and is a condition for the disbursements of further instalments. The required funds are raised on the capital markets by the Commission on behalf of the European Union.

The Commission reports regularly to the EFC and to the Council on the implementation of the BOP Regulation.

The BOP facility was re-activated in 2008 in response to the international economic and financial crisis and its ceiling was increased from EUR 12 billion to finally EUR 50 billion in May 2009³ to enable the EU to respond quickly to any further demand for BOP assistance. Up to 31 December 2014, a total amount of EUR 16.6 billion had been committed to Hungary⁴, Latvia⁵ and Romania⁶ of which EUR 13.4 billion were disbursed.

In 2013, the Council adopted a second precautionary financial assistance (PFA) programme for Romania⁷ of up to EUR 2 billion. Disbursements may be requested until 30 September 2015.

In 2014, no disbursements were made under the BOP facility. The total outstanding amount of capital at the end of 2014 was EUR 8.4 billion.

³ Council Regulation (EC) No 431/2009 of 18 May 2009 amending Regulation (EC) No 332/2002 establishing a facility providing medium-term financial assistance to Member States' balances of payments (OJ L 128, 27.5.2009, p.1).

⁴ Council Decision 2009/102/EC of 4 November 2008 providing Community medium-term financial assistance for Hungary (OJ L 37, 6.2.2009, p. 5).

⁵ Council Decision 2009/290/EC of 20 January 2009 providing Community medium-term financial assistance for Latvia (OJ L 79, 25.3.2009, p. 39).

⁶ Council Decision 2009/459/EC of 6 May 2009 providing Community medium-term financial assistance for Romania (OJ L 150, 13.6.2009, p. 8).

⁷ Council Decision 2013/531/EU of 22 October 2013 providing precautionary EU medium-term financial assistance to Romania (OJ L 286, 29.10.2013, p.1).

Table 2: BoP assistance up to 31.12.2014 (amounts of capital in EUR billion)

Country	Amount decided	Amount disbursed	Amount reimbursed	Amount outstanding	Average loan maturity (years)
Hungary	6.5	5.5	4.0	1.5	5.0
Latvia	3.1	2.9	1.0	1.9	6.6
Romania	5.0	5.0	0	5.0	7.0
Romania (PFA)	2.0	0	0	0.0	0
Total	16.6	13.4	5.0	8.4	

Operations since 31 December 2014

In January 2015, EUR 1 200 million was reimbursed by Latvia and EUR 1 500 million by Romania, decreasing the total outstanding amount of capital to EUR 5 700 million.

Detailed information on BOP operations can be found at:

http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/index_en.htm

2.2. EFSM

Council Regulation (EU) No 407/2010 of 11 May 2010 set up the European Financial Stabilisation Mechanism (EFSM) based on Article 122(2)⁸ of the TFEU. The EFSM is fully backed by the EU budget and has a total lending capacity of up to EUR 60 billion.

Potential beneficiaries for the EFSM assistance are Member States faced with difficulties caused by a serious deterioration in the international economic and financial environment. The use of EFSM is subject to policy conditionality in the context of an economic and financial adjustment programme as agreed under a MoU concluded between the Commission and the beneficiary Member State and it follows a similar decision making process as for the BOP assistance. The assesment of the financial needs and regular surveillance in the programme implementation are made by the Commission in consultation with the European Central Bank (ECB), at least every six months regarding the general economic policy conditions of the adjustment programme and every three months for the verification of fulfilment by the Member State of economic policy conditions attached to the assistance. Any changes that may be needed to the adjustment programme are discussed with the beneficiary Member State. The Council, acting by a qualified majority on a proposal from the Commission, shall decide on any adjustments to be made to the initial general economic policy conditions and shall approve the revised adjustment programme as prepared by the beneficiary Member State.

⁸ Article 122(2) of the TFEU foresees financial support for Member States in difficulties caused by exceptional circumstances beyond their control.

The EFSM facility was activated in 2011 for Ireland⁹ and Portugal¹⁰, committing a loan amount of up to a EUR 22.5 billion and EUR 26 billion respectively. The total commitments, including also the European Financial Stability Facility (EFSF), the IMF and other Member States amount to up to EUR 85 billion and EUR 78 billion respectively:

Table 3: Breakdown of commitments (in EUR billion)

Country	EFSM	EFSF	IMF	Others	Total
Ireland	22.5	17.7	22.5	22.3*	85.0
Portugal	26.0	26.0	26.0		78.0
Total	48.5	43.7	48.5	22.3	163.0

* EUR 4.8 billion from other Member States (United Kingdom, Sweden, Denmark) and EUR 17.5 billion from the Irish State (Treasury and National Pension Reserve Fund).

Since the implementation of the EFSM facility, reductions in the interest rate margin and extension of maturities have been decided and applied to all the loans.

In March 2014, EUR 1 800 million were disbursed to Portugal and EUR 800 million to Ireland (final tranche).

In November 2014, EUR 400 million was disbursed to Portugal (final tranche).

The total outstanding amount of the EFSM facility is EUR 46 800 million at the end of 2014 (Ireland: EUR 22 500 million, Portugal: EUR 24 300 million).

Ireland completed the EU/IMF financial assistance programme in February 2014¹¹, while Portugal exited the programme in June 2014¹².

Detailed information on EFSM operations can be found at: http://ec.europa.eu/economy_finance/eu_borrower/efsm/index_en.htm

2.3. MFA facility

Macro-Financial Assistance (MFA) is being provided to support EU candidate, potential candidate and neighbourhood countries to resolve short-term balance-of-payments problems, to stabilise public finances and to encourage structural reform implementation. MFA is

⁹ Council Implementing Decision No 2011/77/EU of 7 December 2010 on granting Union financial assistance to Ireland (OJ L 30, 4.2.2011, p. 34).

¹⁰ Council Implementing Decision No 2011/344/EU of 30 May 2011 on granting Union financial assistance to Portugal (OJ L 159, 17.6.2011, p. 88).

¹¹ Council Implementing Decision No 2013/525/EU of 22 October 2013 amending Council Implementing Decision No 2011/77/EU on granting Union financial assistance to Ireland (OJ L 282, 24.10.2013, p. 71).

¹² Council Implementing Decision No 2014/234/EU of 23 April 2014 amending Council Implementing Decision No 2011/344/EU on granting Union financial assistance to Portugal (OJ L 125, 23.4.2014, p. 75).

provided on an exceptional and temporary basis and is based on strict economic policy conditionality. MFA operations typically complement IMF adjustment programmes. MFA can be provided in the form of loans and/or non-reimbursable grants.

Should a beneficiary country fail to honour its repayment obligations, the Commission may activate the Guarantee Fund for External Actions¹³ so that the repayment of the corresponding borrowing by the Commission is done from its funds¹⁴.

Regarding the implementation of the MFA to Ukraine, approved in 2010¹⁵, which, together with the funds available from a previous operation approved in 2002¹⁶, amounts to EUR 610 million in loans (MFA I), the MoU was signed in the framework of a Ukraine-EU summit in February 2013. The first tranche of EUR 100 million was disbursed in May 2014, while the second tranche, in the amount of EUR 260 million, was disbursed in November 2014.

On 14 April 2014, the Council decided to make MFA available to Ukraine¹⁷ in the form of loans for a maximum amount of EUR 1 billion and with a maximum maturity of 15 years (MFA II), to cover Ukraine's urgent balance of payments needs as identified in the government's economic programme supported by the IMF. The first tranche of EUR 500 million was disbursed in June 2014 while the second tranche, also of EUR 500 million, was disbursed in December 2014.

On 15 May 2014, the European Parliament and the Council decided to make MFA available to Tunisia of a maximum amount of EUR 300 million, all in loans, with a maximum maturity of 15 years¹⁸.

No disbursements were made in 2014 under the MFA decisions adopted by the European Parliament and the Council in 2013 for Georgia (EUR 46 million, of which EUR 23 million in loans¹⁹), the Kyrgyz Republic (EUR 30 million, of which EUR 15 million in loans²⁰) and Jordan (EUR 180 million, all in loans²¹).

¹³ See Council Regulation (EC, Euratom) No 480/2009 establishing a Guarantee Fund for external actions (Codified version) (OJ L 145, 10.6.2009, p. 10). No default has been registered so far for MFA loans.

¹⁴ Although the repayment of the borrowing is covered *in fine* by the EU budget, the Guarantee Fund acts as liquidity buffer protecting the EU budget against the risk of calls resulting from payment defaults. For a comprehensive report on the functioning of the Fund, see COM(2014)214 and the accompanying Staff Working Document SEC(2014)129.

¹⁵ Decision No 388/2010/EU of the European Parliament and of the Council of 7 July 2010 providing macro-financial assistance to Ukraine (OJ L 179, 14.7.2010, p. 1).

¹⁶ Council Decision 2002/639/EC of 12 July 2002 providing supplementary macro-financial assistance to Ukraine (OJ L 209, 6.8.2002, p. 22).

¹⁷ Council Decision No 2014/215/EU of 14 April 2014 providing macro-financial assistance to Ukraine (OJ L 111, 15.4.2014, p. 85).

¹⁸ Decision No 534/2014/EU of the European Parliament and of the Council of 15 May 2014 providing macro-financial assistance to the Republic of Tunisia (OJ L 151, 21.5.2014, p. 9).

¹⁹ Decision No 778/2013/EU of the European Parliament and of the Council of 12 August 2013 providing further macro-financial assistance to Georgia (OJ L 218, 14.8.2013, p. 15).

²⁰ Decision No 1025/2013/EU of the European Parliament and of the Council of 22 October 2013 providing macro-financial assistance to the Kyrgyz Republic (OJ L 283, 25.10.2013, p. 1).

²¹ Decision No 1351/2013/EU of the European Parliament and of the Council of 11 December 2013 on providing macro-financial assistance to the Hashemite Kingdom of Jordan (OJ L 341, 18.12.2013, p. 4).

Operations since 31 December 2014

On 10 February 2015, the first tranche of EUR 100 million was disbursed to Jordan.

On 15 April 2015, the European Parliament and the Council decided to make macro-financial assistance available to Ukraine for a third MFA loan (MFA III) of a maximum amount of EUR 1 800 million²².

On 21 April 2015, the third tranche of EUR 250 million was disbursed to Ukraine (MFA I).

On 21 April 2015, the first tranche of EUR 10 million was disbursed to Georgia.

On 07 May 2015, the first tranche of EUR 100 million was disbursed to Tunisia.

Detailed information on MFA operations can be found in the annual Commission Report to the European Parliament and the Council on the implementation of MFA to third countries²³ and at: http://ec.europa.eu/economy_finance/eu_borrower/macro-financial_assistance/index_en.htm.

2.4. Euratom facility

The Euratom loan facility may be used to finance projects within Member States (Council Decision 77/270/Euratom) or in certain third countries (Ukraine, Russia or Armenia) (Council Decision 94/179/Euratom).

In 1990, the Council fixed a borrowing limit of EUR 4 billion, of which some EUR 3.7 billion have been decided and EUR 3.4 billion already disbursed. According to the Council decision on the lending ceiling (77/271/Euratom, as amended) the Commission shall inform the Council once the signed amount reaches EUR 3.8 billion and, if appropriate, propose a new lending ceiling.

In 2013, the Commission adopted Decision C(2013) 3496 on granting an up to EUR 300 million Euratom loan in support of the Ukraine safety upgrade program of nuclear power units. The loan will enter into force once all conditions for effectiveness have been satisfactorily completed.

3. BORROWING ACTIVITIES OF THE EUROPEAN UNION

In order to finance the lending activities decided by the Council, the Commission is empowered to borrow funds on the capital markets on behalf of both the European Union and Euratom. Borrowing and lending is conducted as back to back operations, which ensures that the EU budget does not take any interest rate or foreign exchange risk²⁴. Outstanding borrowings are matched by outstanding loans.

²² Decision (EU) 2015/601 of the European Parliament and of the Council of 15 April 2015 providing macro-financial assistance to Ukraine (OJ L 100, 17.4.2015, p. 1).

²³ COM(2014) 372 and SWD(2014) 193.

²⁴ The EFSM Regulation allows resorting to pre-funding as it authorises the Commission "to borrow on the capital markets or from financial institutions at the most appropriate time in between planned

3.1. BOP

In 2014, under the BOP facility, no borrowings were raised in the market.

The total outstanding amount raised for BOP is EUR 8.4 billion at the end of 2014.

3.2. EFSM

During 2014, EUR 3 billion were raised in two transactions; in March 2014 a EUR 2.6 billion benchmark bond (maturity 4 April 2024 and coupon of 1.875%) was issued to support Ireland and Portugal, as part of their financial assistance packages under the EFSM.

In November 2014, a EUR 660 million bond was issued (maturity 4 October 2029 and coupon of 1.375%). Of this amount, EUR 400 million were used to fund the last disbursement to Portugal under the EFSM.

These EU bonds met high demand in the market resulting in largely oversubscribed order books. All important groups of investors and in particular long-term investors (investment funds, asset managers, insurance and pension funds) as well as official institutions purchased these EU bonds.

The secondary market performance of these EU bonds was positive and confirmed the EU's standing as a strong benchmark bond issuer. According to the calculations and using input from 22 banks, secondary market turnover in EU benchmark bonds was EUR 26.3 billion in 2014 (which compares to EUR 31 billion in 2013).

The total outstanding amount raised for EFSM is EUR 46.8 billion at the end of 2014.

Table 4: EU EFSM borrowing operations during 2014 (in EUR million)

Country	Issue date	Maturity Date	Size
Ireland (800), Portugal (1 800)	25/03/2014	04/04/2024	2 600
Portugal (400) ²⁵	12/11/2014	04/10/2029	400
Total			3 000

²⁵

disbursements so as to optimise the cost of funding and preserve its reputation as the Union's issuer in the markets." However, any resulting cost of carry is borne by the borrower.
Together with EUR 260 million for MFA Ukraine; see 3.3. below.

3.3. MFA

In 2014, four MFA borrowing operations were executed successfully for Ukraine: EUR 100 million on 20 May, EUR 500 million on 17 June, EUR 260 million on 12 November and EUR 500 million on 3 December.

The first tranche of MFA I, amounting to EUR 100 million, was disbursed in May 2014. The funding was done by a tap of the EU 10-year EUR 2.6 billion bond issued in March (see 3.2 above) increasing it to EUR 2.7 billion.

The first tranche of MFA II, amounting to EUR 500 million, was disbursed in June 2014. The funding was done by another tap of the EU 10-year EUR 2.6 billion bond following the EUR 100 million increase of the same bond executed in May, which further increased its liquidity by bringing the total outstanding amount to EUR 3.2 billion.

The second tranche of MFA I, amounting to EUR 260 million, was disbursed in November 2014. This amount was included in the EUR 660 million bond issued in November 2014 (see 3.2 above). This bond was tapped in December to fund the second tranche of MFA II, amounting to EUR 500 million, increasing it to the new size of EUR 1.16 billion. For EU issuances, this tap marked a new historical record yield level as low as 1.363%.

The total outstanding amount for MFA is EUR 1 828.6 million at the end of 2014.

Table 5: EU MFA borrowing operations during 2014 (in EUR million)

Country	Description	Issue date	Maturity Date	Size
Ukraine	Ukraine (MFA I) 1 st tranche	20/05/2014	04/04/2024	100
Ukraine	Ukraine (MFA II) 1 st tranche	17/06/2014	04/04/2024	500
Ukraine	Ukraine (MFA I) 2 nd tranche	12/11/2014	04/10/2029	260
Ukraine	Ukraine (MFA II) 2 nd tranche	03/12/2014	04/10/2029	500
Total				1 360

3.4. Euratom

In 2014, there was no borrowing operation under Euratom.

4. EUROPEAN INVESTMENT BANK

4.1. EIB lending activities

The EIB provides financing either *directly* to individual investment projects or *through financial intermediaries* to smaller-scale projects undertaken by SMEs or by local authorities and municipalities. The EIB also provides loan guarantees, technical assistance and venture capital.

In 2014, EIB signed a total financing volume of EUR 77 billion (compared to EUR 71.7 billion in 2013).

EIB financing activities have an impact on the EU budget when they are accompanied by EU guarantees or other EU budget funds. This is the case for:

- EIB financing operations carried out under the external lending mandate (covering Pre-Accession countries, Neighbourhood and Partnership countries, Asia and Latin America, South Africa). Such financing benefits from an EU budget guarantee covering risks of sovereign or political nature. A separate report on the 2014 EIB external lending activity will be issued by the Commission during the second semester 2015.
- risk sharing financing facilities involving the use of the EU budget to support EU policies (e.g. Risk Sharing Finance Facility for research and development projects and the Project Bond Initiative).

In 2014, EIB financing in EU Member States represented EUR 69 billion – or 90% of EIB's total lending. In 2014, EUR 7.8 billion was signed outside the EU, of which EUR 4.1 billion is covered by an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union ("EU Guarantee").

The EU guarantee granted under Decision 1080/2011/EU for a period expiring on 31 December 2013 was automatically extended by 6 months since a new decision granting EU guarantee for EIB operations outside the EU had not yet been adopted.

The new Decision granting an EU guarantee for EIB operations outside the EU²⁶ was adopted on 16 April 2014 by the European Parliament and the Council. The size of the overall mandate amounts to EUR 27 billion plus an additional optional amount of EUR 3 billion. The activation in whole or in part of the optional amount shall be decided by the European Parliament and the Council in accordance with the ordinary legislative procedure and based on the results of a mid-term review.

²⁶ Decision No 466/2014/EU of the European Parliament and of the Council of 16 April 2014 granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union (OJ L 135, 8.5.2014, p. 1).

4.2. EIB borrowing activities

In a volatile market context, execution risk remained high throughout the year, especially for large benchmark transactions. The solid demand for EIB bonds first supported a tightening of shorter dated spreads, especially in EUR. Rating agencies preserved the EIB's AAA rating, supported by the implementation of the 2012 capital increase.

In 2014, EIB borrowing activity amounted to EUR 61.6 billion with an average maturity of 7.2 years.

5. ENSURING FINANCIAL STABILITY IN THE EURO-AREA

In response to the global economic and financial crisis, the euro-area Member States have decided on measures to preserve financial stability in the euro-area and Europe at large. These measures are outlined below and are not guaranteed by the EU budget. Additional information on the three existing facilities can be found at: http://ec.europa.eu/economy_finance/assistance_eu_ms/index_en.htm

5.1. Greek Loan Facility

Following the unanimous agreement of the euro-area Finance Ministers on 2 May 2010²⁷ to support Greece, a three-year joint programme with the IMF involving a financial package of up to EUR 110 billion to help Greece was set up, accompanied by strong policy conditionality²⁸ negotiated with the Greek authorities by the Commission and the IMF, in liaison with the ECB. The loans disbursed by the euro-area Member States under this first programme amount to EUR 52.9 billion and to EUR 20.1 billion from the IMF. The financial terms of the facility were re-adjusted in December 2012 (extension of the final maturity, reduction of the margin).

On 14 March 2012, a Second Economic Adjustment Programme was approved by the euro-area finance ministers and the IMF, adding EUR 130 billion to the undisbursed amounts of the first programme. This second programme foresees therefore a total financial assistance of EUR 164.5 billion, the IMF contribution amounting to EUR 19.8 billion. While the first programme was set up as an Inter-creditor Agreement of pooled bilateral loans from the supporting euro-area Member States, with the Commission providing coordination and management, the second one is financed via the EFSF.

5.2. EFSF

The EFSF was created by the euro-area Member States as a Luxembourg-registered company owned by them and designed as a temporary rescue mechanism for on-lending to euro-area Member States in difficulty by issuing bonds guaranteed by euro-area Member States. In October 2010, it was decided to create a permanent rescue mechanism, the European Stability

²⁷ The support is provided via bilateral loans from the other euro-area Member States, centrally pooled by the Commission, under the conditions set out in their statement of 11 April 2010.

²⁸ The main elements of policy conditionality were enshrined in Council Decision of 10 May 2010 addressed to Greece with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit (2010/320/EU). The conditionality was further detailed in a MoU concluded between the Greek authorities and the Commission on behalf of euro-area Member States.

Mechanism (ESM) which entered into force on 27 September 2012. As of 1 July 2013, the EFSF is no longer engaged in the financing of new financing programmes or new loan facility agreements. However, it remains active in the ongoing programmes for Greece, Portugal and Ireland where it is a lender (together with the IMF and some Member States).

5.3. ESM

The permanent crisis mechanism, the ESM, became as of 1 July 2013 the permanent mechanism for responding to new requests for financial assistance by euro area Member States.

It has an effective lending capacity of EUR 500 billion. Total subscribed capital amounts to EUR 704.8 billion, with paid-in capital by euro-area Member States of EUR 80.5 billion and committed callable capital of EUR 624.3 billion.

The ESM (together with the IMF) has provided financial assistance to address Cyprus' financial sector imbalances. It has also granted financial assistance to the Spanish government for the recapitalisation of the country's banking sector.