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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on guarantees covered by the general budget - Situation at 31 December 2016

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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 EU budget at 31 December 2016. It provides further information on 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 EU budget under each programme is presented in section 2. Countries representing significant risks to the EU budget and either categorised as "severely indebted" according to criteria set by the World Bank or facing significant imbalances in their external debt situation, are included in the country risk evaluation in section 3. The evaluation comprises short analyses and tables of risk indicators. Data concerning EU loans are processed by the Commission whereas EIB ("the Bank") figures have been provided by the Bank.

The evaluated countries are grouped in 6 sub-sections: (3.1.) Member States, (3.2.) Candidate countries, (3.3.) Potential candidate countries, (3.4.) ENP countries, (3.5.) Mediterranean partners and (3.6.) Other countries.

2. Overview of capital loan operations covered by the EU guarantee

The graph hereunder shows the breakdown of outstanding amounts by financial instrument. Each financing facility is detailed in the sections below.

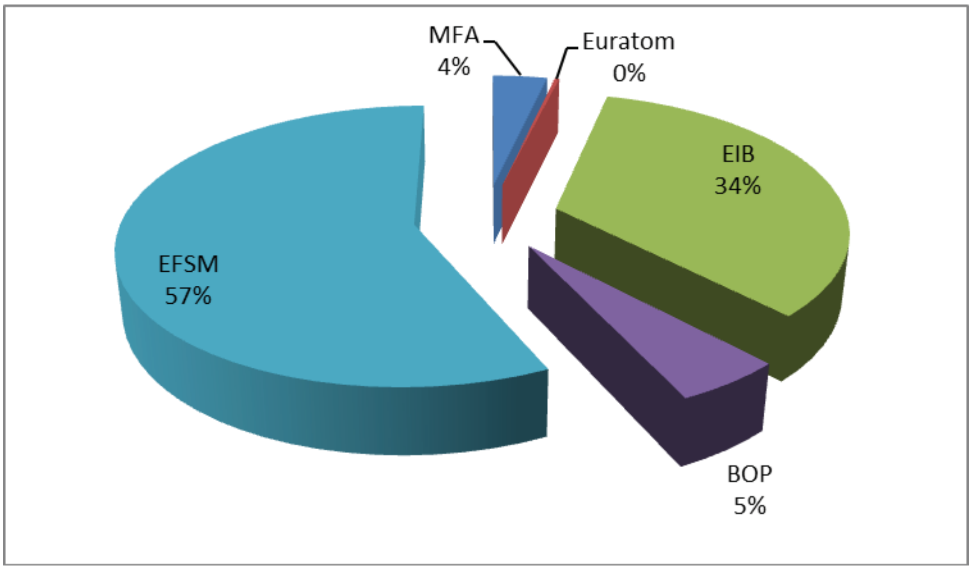


Table A1 shows the outstanding amount of capital in respect of borrowing and lending operations for which the risk is covered by the EU budget. The figures show the maximum possible risk for the EU for these operations and must not be read as meaning that these amounts will actually be drawn from the Guarantee Fund for external actions ("the Fund") or the EU budget. Accordingly, the relevant amounts are not registered as expenditure in the EU budget; rather they are formally recorded pro memoria only.

TABLE A1: CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED at 31.12.2016 (in EUR million)

Operations	Authorised ceiling (a)	Capital outstanding (b) at 31.12.2015	Capital outstanding (b) at 31.12.2016	Amount signed (minus cancellation) but not disbursed
MEMBER STATES				
EIB (1)		1,971	1,651	0
Euratom (2)	4,000			
Bulgaria		98	76	0
Romania		185	166	0
BOP				
Latvia	3,100	700	700	0
Romania	5,000	3,500	3,500	0
EFSM				
Irlande	22,500	22,500	22,500	0
Portugal	26,000	24,300	24,300	0
MEMBER STATES - TOTAL		**53,254**	**52,892**	**0**
THIRD COUNTRIES				
Macro-Financial Assistance				
Albania	9	9	9	0
Armenia	65	65	65	0
Bosnia and Herzegovina	140	120	116	0
fYRoM	90	24	14	0
Georgia	23	10	10	13 (4)
Jordan	380	180	180	200
Kyrgyzstan	15	5	15	0
Montenegro	7	4	3	0
Serbia	473	180	125	0
Tunisia	800	200	200	600
Ukraine	3,410	2,210	2,210	1200 (5)
Euratom (2)		17	10	300 (6)
EIB				
EIB Pre-Accession countries	37,842	10,364	10,812	3,277
EIB Neighbourhood and Partnership countries (3)	43,927	10,484	11,212	11,509
EIB Asia and Latin America	11,764	3,158	2,946	2,188
EIB South Africa	2,852	831	841	216
EIB Climate Change Mandate	2,000	579	672	1,056
THIRD COUNTRIES - TOTAL	**98,386**	**28,441**	**29,439**	**20,559**
GRAND TOTAL		**81,694**	**82,331**	**20,559**

(1) There is no ceiling as it concerns countries w hich w ere not Member States at the time the EIB mandates w ere adopted.
(2) The overall ceiling is EUR 4 000 million for loans to Member States and to certain non-member States.
(3) Loans subrogated to the EU follow ing Syria defaults are included in this figure.
(4) The second tranche of the loan granted to Georgia under MFA (13 milion) w as disbursed in May 2017
(5) The second tranche of the loan granted to Ukraine under MFA III (600 milion) w as disbursed in April 2017
(6) The first Euratom disbursement (EUR 50 million out of the EUR 100 million decision) w as disbursed in May 2017.

(a) Authorized ceiling: 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: this is the amount of capital still to be repaid on a given date in respect of operations disbursed.

2.1. Loan operations covered by the EU budget guarantee

The EU budget covers three types of operations. These are:

2.1.1. EU loan operations to Member States

The outstanding risk of these operations is covered by the EU Budget. They relate to BOP, EFSM and to borrowing and lending granted to certain Member States prior to their EU accession under, Euratom (table A2a) and EIB guaranteed financing operations (table A3).

TABLE A2a: BoP, EFSM and Euratom lending operations to Member States (EUR million)
Period 01.01.2016 - 31.12.2016

Instrument	Decision	Date of decision	Availability period (for Request for Funds)	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amounts decided	Amounts outstanding at 01.01.2015	Operations made in 2016 Amounts disbursed	 Amounts repaid	Amounts outstanding at 31.12.2016
BOP	2002/332/EC (*)	18/02/2002		50,000.00	16,600.00	**5,700.00**	0.00	0.00	**4,200.00**
Hungary	2009/102/EC	04/11/2008	closed (**)	(b)	6,500.00	**1,500.00**	0.00	1,500.00	**0.00**
Latvia	2009/290/EC	20/01/2009	closed	(b)	3,100.00	**700.00**	0.00	0.00	**700.00**
Romania	2009/459/EC	06/05/2009	closed	(c)	5,000.00	**3,500.00**	0.00	0.00	**3,500.00**
Precautionary BOP for Romania	2013/531/EU	22/10/2013	closed on 30/09/2015	(a)	2,000.00				
EFSM	2010/407/EU	11/05/2010		60,000.00	48,500.00	**46,800.00**	0.00	0.00	**46,800.00**
Ireland	2011/77/EU	07/12/2010	closed	(c)	22,500.00	**22,500.00**	0.00	0.00	**22,500.00**
Portugal	2011/344/EU	17/05/2011	closed	(b)	26,000.00	**24,300.00**	0.00	0.00	**24,300.00**
EURATOM	94/179/Euratom			4,000.00	436.00	**282.69**	0.00	41.62	**241.06**
	77/270-271/Euratom	29/03/1977							
Bulgaria	SEC(2000)661/2	18/04/2000	closed	(c)	212.50	**98.19**	0.00	22.62	**75.56**
Romania	C(2004)891	30/03/2004	closed	(c)	223.50	**184.50**	0.00	19.00	**165.50**
TOTAL					**65,536.00**	**55,524.32**	**0.00**	**41.62**	**51,241.06**

(*) Regulation establishing the facility stipulating that the outstanding amount of loans to be granted to Member States shall be limited to EUR billion 50 in principal
(**) Means that no further request for disbursement is possible (either because the total amount has been disbursed or because the facility has expired)

2.1.2. *EU loan operations to non-Member States*

These operations are covered by the Fund. They relate to MFA, Euratom (Table A2b) and EIB guaranteed lending operations to third countries or Member States before accession to the EU (table A3).

TABLE A2b: European Union (MFA) and Euratom loans to Third countries (EUR million)
Period 01.01.2016 - 31.12.2016

Country	Decision	Date of decision	Availability Period (for Request for Funds)	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amounts decided	Amounts outstanding outstanding at 31.12.2015	Operations made in 2016		Amounts outstanding at 31.12.2016
							Amounts disbursed	Amounts repaid	
MFA					**2,802,892.00**	**3,006.60**	**10.00**	**70.00**	**2,946.60**
ALBANIA									
	2004/580/EC	29.04.04	closed	(c)	9.00	9.00			**9.00**
ARMENIA									
	2009/890/EC	30.11.09	closed	(c)	65.00	65.00			**65.00**
BOSNIA AND						120.00		4.00	**116.00**
HERZEGOVINA	99/325/EC	10.05.99	closed	(c)	20.00				
	02/883/EC	09.11.02	closed	(c)	20.00				
	2009/891/EC	30.11.09	closed	(c)	100.00				
FYROM						23.60		10.00	**13.60**
	97/471/EC	22.07.97	closed	(c)	40.00				
	99/733/EC	08.11.99	closed	(c)	50.00				
GEORGIA									
	778/2013/EU	12.08.13	24/06/2017	(b)	23.00	10.00			**10.00**
JORDAN									
	1351/2013/EU	11.12.13	18/03/2016	(b)	180.00	180.00			**180.00**
	2371/2016/EU	14.12.16	19/06/2019	(d)	200.00				
KYRGYZ REPUBLIC									
	1025/2013/EU	22.10.13	25/11/2016	(c)	15.00	5.00	10.00		**15.00**
MONTENEGRO*						4.14		1.34	**2.80**
	2001/549/EC*	16.07.01	closed	(c)	225.00				
	2002/882/EC*	09.11.02	closed		55.00				
SERBIA *						179.86		54.66	**125.20**
	2001/549/EC*	16.07.01	closed	(c)	225.00				
	2002/882/EC*	09.11.02	closed	(c)	55.00				
	2009/892/EC	30.11.09	closed	(b)	200.00				
TUNISIA									
	534/2014/EU	15.05.14	04/09/2017	(b)	300.00	200.00			**200.00**
	1112/2016/EU	06.07.16	11/01/2019	(d)	500.00				
UKRAINE						2,210.00			**2,210.00**
	2002/639/EC	12.07.02	closed	(c)	110.00				
	2010/646/EC	7.07.10	closed	(c)	500.00				
	2014/215/EU	14.04.14	closed	(c)	1,000,000.00				
	EU/2015/601	15.04.15	03/01/2018	(b)	1,800,000.00				
EURATOM						**17.44**	**0.00**	**7.10**	**10.37**
UKRAINE (Euratom	94/179/EC	21.03.94		(c)	EUR equivalent ****	**17.44**	**0.00**	**7.10**	**10.37**
		15.03.07		(c)	39.0 EUR				
		06.10.08		(c)	22.0 USD				
		15.10.09		(c)	10.3 USD				
					of USD 83 million				
TOTAL						**3,024.04**	**10.00**	**77.10**	**2,956.97**

** The decision refers to Serbia and Montenegro but the outstanding amounts of the two countries have been split as of 01.01.11 following the signature of the loan agreement with Montenegro on 09/02/2010 confirmed by Serbia on 24/11/2010*
*** Means that the Council Decision did not foresee any expiry date and the total amount has not been disbursed*
**** Means that the Memorandum of Understanding and the Loan Agreement have not been signed or have not entered into force*
***** Including exchange rate valuation*

2.1.3. *Guarantees given to the EIB*

The EU provides a guarantee in respect of financing granted by the EIB under the external mandates.

The guarantee given to the EIB depends on the Mandate under which the loans are granted.
The EU guarantee is limited as detailled below[1]:

- 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;

- the 65% guarantee rate covers three different mandates:

- regarding the 2000/2007 Mandate, the EU budget guarantee is restricted to 65% of the aggregate amount of credits opened (i.e. loans signed and not cancelled) plus all related sums authorised by Council Decisions 1999/786/EC[2] and 2008/580/EC (codified version)[3];

- for the last two Mandates (2007-2013 and 2014-2020), the EU budget guarantee is restricted to 65% of the aggregate amount of credits disbursed and guarantees provided under EIB financing operations, less amounts reimbursed, plus all related amounts authorised by Decisions No 1080/2011/EU[4]and No 466/2014/ EU[5].

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

2 OJ L 308, 3.12.1999, p. 35.

3 OJ L 186, 15.7.2008, p. 30.

4 Decision No 1080/2011/EU of the European Parliament and of the Council of 25 October 2011 granting an EU guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Union and repealing Decision No 633/2009/EC (OJ L 280, 27.10.2011, p. 1).

5 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 L135 of 8.5.2014, p.1).

TABLE A3: EIB FINANCING OPERATIONS WITH EU GUARANTEE at 31.12.2016 (in EUR million)

Operations	Authorised ceiling	Net signatures (a)	Amounts disbursed	Outstanding capital
Mandate 2014/2020:	**27,000**	**10,741**	**1,882**	**1,893**
Pre-Accession countries	*8,739*	*1,739*	*396*	*398*
Neighbourhood and Partnership countries:	*14,437*	*7,163*	*1,030*	*1,032*
Mediterranean countries	9,606	3,049	851	853
Eastern Europe, Southern Caucasus and Russia	4,831	4,114	179	179
Asia and Latin America:	*3,407*	*1,690*	*455*	*463*
Latin America	2,289	1,007	297	301
Asia	936	523	158	162
Central Asia	182	160	-	-
South Africa	*416*	*150*	*0*	*0*
Mandate 2007/2013:	**29,484**	**27,887**	**19,228**	**16,888**
Pre-Accession countries	*9,048*	*8,998*	*7,461*	*6,677*
Neighbourhood and Partnership countries:	*13,548*	*12,570*	*7,447*	*6,807*
Mediterranean countries	9,700	8,784	5,894	5,421
Eastern Europe, Southern Caucasus and Russia	3,848	3,786	1,553	1,386
Asia and Latin America:	*3,952*	*3,699*	*2,842*	*2,111*
Latin America	1,040	2,483	2,225	1,619
Asia	2,912	1,216	617	492
South Africa	*936*	*825*	*756*	*621*
Climate change mandate	*2,000*	*1,795*	*723*	*672*
Mandate 2000/2007(3):	**20,060**	**18,591**	**18,052**	**8,272**
Pre-Accession countries	10,235	6,712	6,314	3,636
Neighbourhood and Partnership countries	6,520	5,852	5,711	2,872
Asia and Latin America	2,480	2,105	2,105	350
South Africa	825	817	817	188
Member States (following the accession)2		3,105	3,105	1,227
sub-total 65 % (1)	**76,544**	**57,219**	**39,161**	**27,053**
Financial agreements (70% Guarantee rate)	**7,477**	**6,482**	**6,482**	**686**
Pre-Accession countries	3,770	477	477	101
Neighbourhood and Partnership countries	2,310	1,587	1,587	109
Asia and Latin America:	1,022	809	809	22
South Africa	375	375	375	31
Member States (following the accession)2		3,235	3,235	423
sub-total 70 % (1)	**7,477**	**6,482**	**6,482**	**686**
Financial agreements (75% Guarantee rate)	**7,712**	**7,047**	**7,047**	**144**
Pre-Accession countries	1,350	590	590	0
Neighbourhood and Partnership countries	6,362	4,478	4,478	144
Member States (following the accession)2		1,980	1,980	0
sub-total 75 % (1)	**7,712**	**7,047**	**7,047**	**144**
Financial agreements (100% Guarantee rate)	**6,653**	**5,320**	**5,320**	**251**
Pre-Accession countries	4,700	29	29	-
Neighbourhood and Partnership countries	750	315	315	249
Asia and Latin America	903	710	710	0
South Africa	300	285	285	-
Member States (following the accession)2		3,982	3,982	2
sub-total 100 % (1)	**6,653**	**5,320**	**5,320**	**251**
Total	**98,386**	**76,068**	**58,011**	**28,133**

(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.

(a) Net signatures equal amounts signed less cancellations

Annex to TABLE A3 **COUNCIL DECISIONS GRANTING AN EU GUARANTEE TO THE EIB**

Geographical Area/Mandate	Decision	Date of decision	Rate of guarantee	Date of the Guarantee Agreement	Amount decided
MED. Financial protocols(1)		08.03.77	75% (2)	30.10.78/10.11.78	6,062
MED. Horizontal cooperation	1762/92/EEC	29.06.92	75% (2)	09.11.92/18.11.92	1,800
TOTAL MED. (3)					**7,862**
C and E Europe I	90/62/EEC(4)	12.02.90	100%	24.04.90/14.05.90	1,000
	91/252/EEC(5)	14.05.91	100%	19.01.93/04.02.93	700
C and E Europe II	93/696/EC(6)	13.12.93	100%	22.07.94/12.08.94	3,000
Asia, Latin America I	93/115/EEC	15.02.93	100%	04.11.93/17.11.93	750
Asia, Latin America Interim	96/723/EC	12.12.96	100%	18.03.97/26.03.97	153
Asia, Latin America Interim	96/723/EC	12.12.96	70%	21.10.97	122
South Africa	95/207/EC	01.06.95	100%	04.10.95/16.10.95	300
New mandates	97/256/EC(7)	14.04.97	70%	25.07.97/29.07.97	7,105
FYROM	98/348/EC	19.05.98	70%	29.07.98/07.08.98	150
Bosnia and Herzegovina	98/729/CE	14.12.98	70%	16.06.99/22.06.99	100
Turkey Terra	99/786/EC	29.11.99	65%	18.04.00/23.05.00	600
Mandates 2000-2007	2000/24/EC(8)	22.12.99	65%	19.07.00/24.07.00 (11)	19,460
The Baltic Sea basin of Russia	2001/777/EC(9)	06.11.01	100%	06.05.02/07.05.02	100
Russia, Belarus, Rep. Of Moldova and Ukraine	2005/48/EC(10)	22.12.04	100%	21.12.05/09.12.05	500
Mandate 2007-2013	2006/1016/EC(12) (13)	19.12.06	65%	01.08.07/29.08.07 (14)	27,484
Climate change	1080/2011/EU (13)	13.10.11	65%	22.11.11	2,000
Mandate 2014-2020	466/2014/EU (14)	16.04.14	65%	22.07.14/25.07.14	27,000
TOTAL					**98,386**

(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, 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.
(14) The Decision establishes a fixed ceiling of EUR 27 billion + an optional additional amount of EUR 3 billion to be decided and activated in whole or in part following the mid-term review of the EIB Mandate.

2.2. Cumulative and annual EU budget guarantee exposures

With the amortization profile based on the existing loans disbursed, it is possible to calculate the total capital exposure of the EU budget and the total capital and interest payments due to be received each year. The following table A4 includes the estimated amount of principal and interest due each financial year by each country according to disbursements made until 31 December 2016[6]. Data related to Member States are highlighted in yellow in the next table.

6 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 A4: Total annual risk borne by the Budget based on the amounts (capital and interest) due under MFA, BOP, Euratom, EFSM and EIB operations disbursed at 31.12.2016 (in EUR million)

Ranking	Country	Total repayments	2017	2018	2019	2020	2021	2022	2023	2024-2046
1	Portugal	30,602	591	1,191	577	577	7,327	3,078	1,804	15,458
2	Ireland	28,977	607	4,507	485	485	3,485	380	2,380	16,648
3	Turkey	9,453	1,026	615	982	636	667	642	570	4,315
4	Romania	4,926	1,454	1,604	1,189	143	114	96	83	243
5	Ukraine	3,431	88	122	121	720	120	113	104	2,044
6	Morocco	3,333	221	253	251	261	273	236	245	1,592
7	Egypt	2,831	278	267	769	220	215	164	150	767
8	Tunisia	2,756	284	278	269	248	238	229	196	1,014
9	Serbia	2,106	205	214	192	142	133	129	115	977
10	Bosnia and Herzegovina	1,162	63	64	74	77	72	71	122	619
11	South Africa	1,127	100	109	70	100	84	80	79	504
12	Latvia	813	26	26	524	7	6	6	6	212
13	Brazil	762	65	61	174	270	37	21	21	113
14	Israel	697	24	29	149	28	31	25	32	378
15	Jordan	645	46	45	45	44	43	46	44	332
16	Panama	540	5	4	57	56	56	55	55	253
17	Lebanon	434	85	84	65	49	40	31	23	57
18	India	418	36	25	24	19	7	10	10	287
19	Georgia	413	31	32	36	34	31	26	20	204
20	Bulgaria	379	73	68	55	47	39	30	23	44
21	Syria	333	56	55	55	52	31	26	20	37
22	Croatia	268	38	36	34	33	28	24	21	54
23	Montenegro	267	25	30	24	23	24	22	19	100
24	Armenia	265	3	9	11	11	14	14	14	189
25	Albania	262	27	26	27	27	26	22	20	86
26	Ecuador	217	5	5	3		14	15	15	159
27	Republic of Moldova	196	9	13	14	17	19	19	16	89
28	Sri Lanka	193	15	16	16	15	16	13	12	91
29	Argentina	186	53	51	49	14	13	7		-
30	Vietnam	182	17	15	15	14	13	11	11	87
31	Russia	171	22	18	18	18	18	17	17	42
32	Mexico	167	4	4	52		106			-
33	FYROM	164	21	17	10	12	14	13	13	63
34	Poland	113	22	21	19	18	17	16		-
35	Slovak Republic	101	14	14	13	13	12	7	6	22
36	China	97	7	7	8	9	9	6	4	47
37	Nicaragua	86	2	3	4	6	6	6	6	54
38	Czech Republic	86	26	13	13	12	12	11		-
39	Laos	79	3	4	4	4	4	4	4	53
40	Colombia	64	32	22	9	1				-
41	The West Bank and the Gaza Strip	42	6	6	3	3	3	3	3	14
42	Bolivia	39				1	2	2	2	30
43	Paraguay	35	9			1	1	1	1	21
44	Honduras	33	3	3	3	3	3	3	3	16
45	Costa Rica	31					1	2	2	27
46	Indonesia	28	10	8	7	3				-
47	Azerbaijan	26	2	7	9	6	2			-
48	Peru	24	17	7	1					-
49	Kyrgyzstan	17	0.1	0.1	0.1	0.1	0.1	0.1	0.1	16
50	Maldives	14	4	4	4	2				-
51	Lithuania	13	4	3	3	2	1			-
52	Bangladesh	13						1	1	11
53	Pakistan	12	5	5	2					-
54	Georgia	11	0.1	0.1	0.1	0.1	0.1	0.1	0.1	10
55	Tajikistan	5				0.4	0.4	0.4	0.4	3
56	Uruguay	3	3							-
57	Mongola	2					0.1	0.1	0.1	2
58	Hungary	2	2							-
59	Nepal	1					0.1	0.1	0.1	1
Grand Total		99,652	5,777	10,022	6,533	4,479	13,430	5,735	6,291	47,385
Total MS		66,282	2,858	7,484	2,911	1,336	11,041	3,648	4,323	32,681
Total non MS		33,370	2,919	2,538	3,622	3,143	2,389	2,087	1,968	14,704
Percentage MS		67%	49%	75%	45%	30%	82%	64%	69%	69%

2.3. 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 covered by the EU budget. In case of loans to Member States, the risk is *directly* covered by the EU budget. Regarding loans to third countries, the risk is covered in the first instance by the Guarantee Fund for external Actions.

The weight of EFSM (57% of the total outstanding including accrued interest) clearly highlights that most of the risk is nowadays directly borne by the EU budget, whereas before the financial crisis, EIB loans to non-Member States made up the highest exposure via the Guarantee Fund for external Actions.

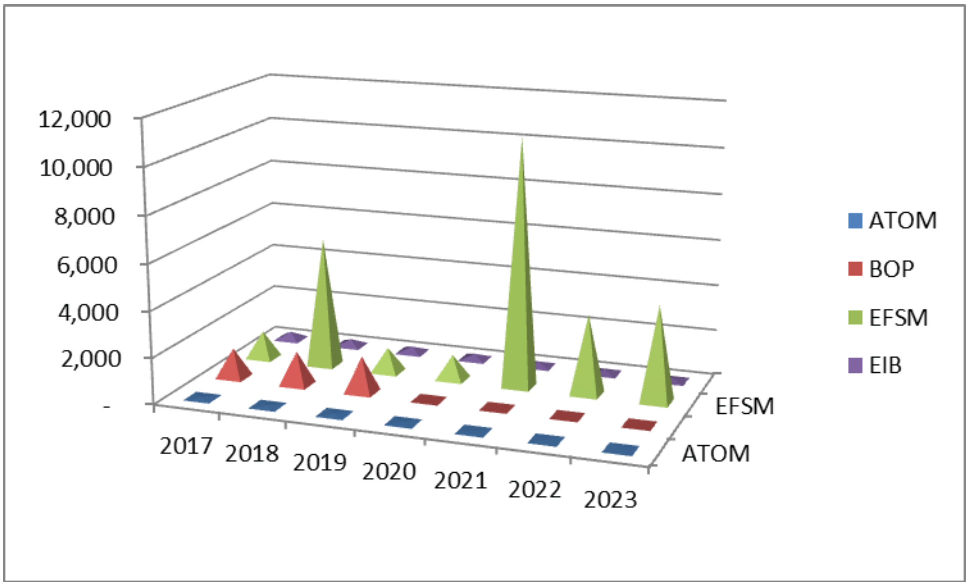
Table 1: Total outstanding amounts covered by the EU budget at 31 December 2016 (in EUR million)

	Outstanding Capital 31.12.2015	Accrued Interest 31.12.2015	Total	%	Outstanding Capital 31.12.2016	Accrued Interest 31.12.2016	Total	%
Member States*								
Euratom	283	1	284	0.3%	241	0.80	241.86	0.29%
BOP	5,700	111	5,811	6.9%	4,200	71.60	4,271.60	5.13%
EIB	1,971	16	1,987	2.4%	1,651	13.15	1,664.47	2.00%
EFSM	46,800	709	47,509	56.4%	46,800	655.79	47,455.79	57.01%
Sub-total Member States**	***54,753***	***837***	***55,591***	***66%***	***52,892***	***741.34***	***53,633.72***	***64.43%***
Third Countries								
MFA	3,007	17	3,024	3.6%	2,947	17.30	2,963.90	3.56%
Euratom	17	< 1	17	0.02%	10	0.02	10.39	0.01%
EIB******	25,417	149	25,565	30%	26,482	156.89	26,638.94	32.00%
Sub-total third countries***	***28,441***	***166***	***28,606***	***34%***	***29,439***	***174.21***	***29,613.23***	***35.57%***
Grand Total	**83,194**	**1,003**	**84,197**	**100.0%**	**82,331**	**915.55**	**83,246.95**	**100.0%**

2.3.1. EU loan operations to Member States

In 2016, Member States represented 64.4% of the EU budget exposure (cumulated total risk borne by the EU budget, see table 1 above) with the following breakdown between the financial instruments:

Graph A1: Total annual risk borne by the EU budget (EUR million) related to Member States at 31.12.2016 for the period 2017-2023 (based on amortization plans of existing loans)

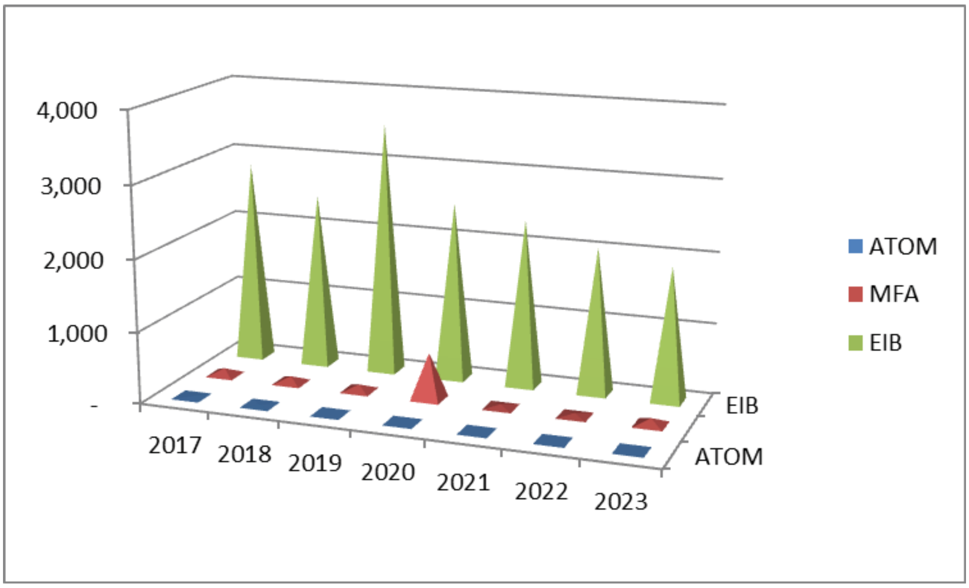


As Graph 1 illustrates, the main risk for the EU budget is linked to EFSM loans, which represent 88.5% of the total outstanding of Member States.

2.3.2. EU loan operations to non-Member States

In 2016, non-Member States represented 35.6% of the EU budget exposure (cumulated total risk borne by the EU budget, see table 1 above) with the following breakdown between the financial instruments:

Graph A2: Total annual risk borne by the EU budget (EUR million) related to non-Member States at 31.12.2016 for the period 2017-2023 (based on amortization plans of existing loans)



As graph A2 illustrates that the weight of MFA and Euratom loans are marginal in the total annual risk in comparison with the EIB loans granted (these amounts include loans signed and disbursed under all EIB mandates).

2.3.3. *Guarantes given to the EIB*

94.6% of the 2007-2013 EIB external Mandate has been signed but an amount of EUR 8,743 million still remains to be disbursed within 10 years from the end of the Mandate.

Table A5a: EIB loan balances remaining to be disbursed under 2007 - 2013 financial framework - EUR million (at 31.12.2016)

	Ceiling (a)	Net signatures (b)	Balances to be disbursed (c)
A. Pre-Accession Countries	9,048	8,998	1,538
B. Neighbourhood and partnership countries	13,548	12,570	5,165
C. Asia and Latin America	3,952	3,699	918
D. South Africa	936	825	66
E. Climate Change Mandate (2011-2013)	2,000	1,795	1,056
	29,484	**27,887**	**8,743**

(a) During the last 6 months of implementation, EUR 100m was re-allocated from the Neighbourhood and Partnership countries to Pre-Accession.

(b) For the limited number of loan commitments signed in USD: conversion into EUR using the exchange rates at signature.

(c) For the limited number of loan commitments signed in USD: conversion of balance into EUR using exchange rate as at 31.12.2016.

The 2014-2020 Mandate covers EIB financing operations to be signed during the period from 1 January 2014 to 31 December 2020.

Table A5b: EIB loan balances remaining to be disbursed under 2014 - 2020 financial framework - EUR million (at 31.12.2016)

	Ceiling	Net signatures (a)	Balances to be disbursed (b)
A. Pre-Accession Countries	8,739	1,739	1,342
B. Neighbourhood and partnership countries	14,437	7,163	6,202
C. Asia and Latin America	3,407	1,690	1,270
D. South Africa	416	150	150
	27,000	**10,741**	**8,964**

(a) For the limited number of loan commitments signed in USD: conversion into EUR using the exchange rates at signature.

(b) For the limited number of loan commitments signed in USD: conversion of balance into EUR using exchange rate as at 31.12.2016.

Risk factors:

a) Factors increasing the risk:

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

- 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 are converted into EUR at the year end.

b) Factors reducing the risk:

- the limitation of the guarantee given to the EIB;

- operations already repaid;

- the ceilings are not necessarily taken up in full;

- in some cases, notably private sector operations, the EU budget guarantee covers only well defined political risk events, with the EIB (or a third party guarantee) covering other risks (e.g. commercial).

2.4. Payments under the EU budget guarantees

The EU borrows on the financial markets and on-lends the proceeds to Member States (BOP, EFSM) and to third countries (MFA) or nuclear sector 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.

2.4.1. EU loan 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, for a certain period or date, the available treasury funds of the Commission, the Commission would, in accordance with in accordance with Article 14 of Council Regulation 609/2014[7], 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 seven business days in advance of the contractual due date. This gives enough time for the Commission and Member States to provide for the cash advance to ensure timely repayment in case of default. The same process applies for the EFSM loans with 14 days lead time.

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

<u>BOP and EFSM loans</u>

a) The Commission may need to propose a transfer or an Amending Budget to budget the cash advance under the corresponding budget line "01 02 02 European Union guarantee for Union borrowings for balance-of-payments support" or "01 02 03 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 EU budget.

<u>Euratom and MFA loans</u>

a) If the payment delay reaches three months after the due date, the Commission draws on the Fund to cover the default[8] and to replenish its treasury.

7 See Article 14 of Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements (OJ L 168, 7.6.2014, p. 39).

8 Except for Bulgaria and Romania which were granted Euratom loans before joining the Union. The loans (and loans guarantees) to accession countries were covered by the 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 EU budget.

b) The Commission might also need to draw on the EU budget, most likely by means of a transfer, to provide the corresponding budget lines under articles "01 03 04 Guarantee for Euratom borrowings to improve the degre of efficiency and safety of nuclear power stations in third countries" or "01 04 03 Guarantee for Euratom borrowings" or "01 03 03 European Union Guarantee for Union borrowings for macro-financial assistance to third countries" 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 and the transfers are likely to require advance authorisation by the budgetary authority.

c) The recovered funds may either be kept on the Fund account (the next annual provisioning from the EU budget being reduced accordingly) or re-paid to the EU budget.

2.4.2. Guarantees given to EIB

The EU provides a guarantee in respect of financing granted by the EIB under the external mandates. When the recipient of a guaranteed financing fails to make a payment on the due date, the EIB asks the Commission to pay via the Fund 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[9] or directly from the EU budget should the resources of the Fund be insufficient[10].

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.

2.4.3. Default interest penalties for late payment

a) EU loans

- For loans granted by the EU, default interest is owed by loan beneficiaries for the time between the date at which cash resources are made available by the EU 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.

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[9] Since the entry into force of 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), 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 on the guarantee.

[10] If there are insufficient resources in the Fund, the procedure for activating the guarantee is the same as for borrowing/lending operations, see point 2.4.1 above and footnote 7.

3. COUNTRY-RISK EVALUATION

Countries benefitting from EU loans and/or representing important risks to the EU budget, 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: (3.1.) Member States, (3.2.) Candidate countries, (3.3.) Potential candidate countries, (3.4.) ENP countries, (3.5.) Mediterranean partners and (3.6.) Other countries.

Explanatory notes for country-risk indicators

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. The higher the ranking number, the lower the creditworthiness of the country.

Abbreviations 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
n.a.: not available

3.1. Member States

3.1.1. Bulgaria

Economic growth remains robust and is estimated at 3.3% in 2016, following a strong growth performance in 2015 with 3.6%. Private consumption growth was the main growth driver, while net exports also made a positive contribution. GDP growth is projected to slightly taper off to 2.9% and 2.8% in 2017 and 2018, respectively, with strong domestic demand as the predominant growth driver. Risks to the growth outlook are tilted to the downside and include a slower-than-expected absorption of EU funds, weaker external conditions as well as political uncertainty related to the upcoming elections. Annual inflation was negative in 2016, but is expected to reach 0.8% in 2017 due to strong domestic demand, rising prices for processed food as well as recovering energy prices. Labour market conditions have significantly improved during the economic recovery with an unemployment rate forecast at 7.1 % in 2017.

The government budget balance and debt indicators moved well below the underlying benchmarks of the EU stability and growth pact. Fiscal consolidation continued in 2016 with the public deficit estimated to have decreased from 1.7% in 2015 to 0.4% of GDP in 2016. In particular, both tax revenue increases and public investment reductions were the key drivers of the adjustment. For 2017, the general government deficit is forecast slightly higher at 0.5% of GDP. Increases in social security contributions are expected to lead to higher revenues, but expenditure growth is forecast to outpace revenue growth, mainly as a result of increases in the public wage bill and public investment. The general government debt in 2016 is estimated at 29% of GDP and forecast to decline in 2017 and reach 26% of GDP in 2018 as a result of the improved fiscal performance and public debt financing conditions. Contingent liabilities of state-owned enterprises pose downside risks to public finances, while the fiscal performance might also be influenced by political uncertainties and potential changes in policy priorities.

Country-risk indicators : Bulgaria		2014	2015	2016*
Output and prices				
Real GDP growth rate	(%)	1.5	3.6	3.3
Unemployment (average)	(% labour force)	10.4	8.0	7.2
Inflation rate (CPI) (Dec/Dec)	(% change)	-2.0	-0.9	-0.5
Public finances				
General government balance**	(% of GDP)	-5.8	-1.7	-0.4
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	27,835.7	29,031.9	29,899.1
Current account balance	(% of GDP)	0.7	0.4	2.6
Net inflow of foreign direct investment	(m EUR)	877.1	-114.3	27.7
Official reserves, including gold (end of period)	(m EUR)	16,534.1	20,285.4	23898.6
In months of subsequent year's imports	(months)	7.0	8.4	9.8
Exchange rate (end of period)	(per EUR)	1.96	2.00	2.00
External debt				
External debt (end of period)	(m EUR)	39,356.5	34,088.5	34,164.8
External debt/GDP	(%)	92.1	75.3	73.3
Debt service/exports of goods and services	(%)	4.4	n.a.	n.a.
Arrears (on both interest and principal)	(%)	none	n.a.	n.a.
Debt relief agreements and rescheduling	(m EUR)	none	n.a.	n.a.
Indicators of EU exposure				
Ind EU exposure (capital and interest due)	(m EUR)	553.2	467.7	379.5
EU exposure/total EU exposure	(%)	7,122.0	5,241.0	4,926.2
EU exposure/external debt	(%)	1.4	1.4	1.1
EU exposure/exports of goods and services	(%)	2.0	1.6	1.3
IMF arrangements				
Type				
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa2	Baa2	Baa2
S&P long-term foreign currency rating (end of period)		BBB	BB+	BB+
Fitch long-term foreign currency rating (end of period)		BBB-	BBB-	BBB-

** EC staff estimate*

***does not include the operational deficit of state-owned gas company Naftogaz (1.9% in 2013, 5.5% in 2014, 0.9% in 2015)*

3.1.2. Hungary

After a deep double dip recession, a steady recovery started in Hungary in early 2013. The rebound was helped by a modest recovery in Europe and a strong pick-up in EU-funded investment. More recently, economic growth was driven by private consumption and net exports supported by improved cost competitiveness, but in 2016 – with the end of the 2007-2013 Multiannual Financial Framework – EU funds and thus investment declined significantly. In 2016, the Hungarian economy grew by 2.0 %, down from 3.1 % in 2015. Headline inflation has remained around zero since 2014 as falling energy prices fully offset the limited inflation in services and food. Core inflation, which excludes energy and unprocessed food prices, remained stable at around 1.3 %. The unemployment rate fell to around 5 % in 2016. The employment rate has increased significantly since the recovery started in 2013, while activity rates have been steadily increasing since 2008. Employment reached 4.4 million in 2016, supported also by the public works scheme, which employed approximately 220 000 persons on average in 2016. Private sector job creation amounted to around 130 000 in the same year, bringing full-time equivalent employment in the domestic private sector close to its pre-crisis level. The trade balance surplus of goods and services increased to over 10% of GDP in 2016 from 8.9% in 2015. At the same time, the combined current account and capital account surplus is expected to have declined below 2.0% of GDP in 2016 reflecting the low absorption of EU funds.

From its peak level of close to 81 % in 2011, the public debt-to-GDP ratio is estimated to have declined to below 74.1 % by 2016. The pace of debt reduction received an impetus from the takeover of mandatory private pension assets by the State. More recently, debt reduction benefited also from economic recovery and declining interest rates. In parallel, the primary deficit turned into a surplus (of around 2 % of GDP between 2012 and 2015). However, the structural primary balance is forecast to move into deficit in coming years reflecting the estimated widening of the positive output gap. This poses some risk for Hungary's debt reduction path.

Public debt is still high for a middle-income economy, but sovereign financing risks have been considerably reduced since the crisis years. On the basis of the Commission's short-term risk indicator, the country faces a low risk of immediate fiscal distress. This is also confirmed by the recent upgrades of the country's sovereign risk ratings. The maturity structure of debt has improved. The initially high proportion of foreign exchange-denominated public debt has been decreasing, supported by the central bank's self-financing programme.

Country-risk indicators : Hungary		2014	2015	2016
Output and prices*				
Real GDP growth rate	(%)	4.0	3.1	2.0
Unemployment (end of period)*	(% labour force)	7.7	6.8	5.1
Inflation rate (CPI) (Dec/Dec)	(% change)	0.0	0.1	0.4
Public finances*				
General government balance	(% of GDP)	-2.1	-1.6	-1.8
Balance of payments**				
Exports of goods and services f.o.b.	(m EUR)	93,046.7	99,503.8	103,977.3
Current account balance	(% of GDP)	2.0	3.1	5.4
Net inflow of foreign direct investment	(m EUR)	-2,972.8	-1,075.8	n.a.
Official reserves, including gold (end of period)	(m EUR)	34,578.3	30,322.0	24,384.0
In months of subsequent year's imports	(months)	4.8	4.1	3.2
Exchange rate (end of period)	(EG£ per EUR)	314.9	313.1	311.0
External debt**				
External debt (end of period)	(m EUR)	87,079.5	81,817.0	n.a.
External debt/GDP***	(%)	83.5	74.6	n.a.
Debt service/exports of goods and services	(%)	19.5	15.8	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	1,623.9	1,560.9	2.1
EU exposure/total EU exposure	(%) (1)	1.6	1.5	<0.1
EU exposure/external debt	(%)	1.9	n.a.	n.a.
EU exposure/exports of goods and services	(%)	1.7	n.a.	<0.1
IMF arrangements				
Type		no	no	no
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Caa1	B3/stable	Baa3/stable
S&P long-term foreign currency rating (end of period)		B-	B-/stable	BBB-/stable
Fitch long-term foreign currency rating (end of period)		B	B/stable	BBB-/stable

* *Source: European Commission*
** *Source: Central Bank of Hungary (MNB)*
*** *Excluding direct investment debt instruments*

3.1.3. Ireland

After a mixed picture in the first half of 2016, Ireland's economy performed better in the third quarter. The headline figures were driven up by the activities of some multinational companies in the country. However, domestic activity also grew in Q3-2016, with core domestic demand up by 3.4 % on the year. GDP is expected to have grown by 4.3 % in 2016 and it is forecast to decelerate over the forecast horizon but remain brisk amid heightened risks and an uncertain global backdrop. Domestic demand is expected to remain the main driver of the economy supported by the improving labour market. The unemployment rate declined to 7.9 % in 2016 despite an increase in the labour force and net inward migration, and is forecast to further fall in the next years. Annual harmonised consumer prices (HICP) dropped by 0.2% in 2016.

Banks' asset quality is improving and profitability is recovering but remains fragile. A number of factors continue to drag on bank profitability. These include the high stock of non-performing loans and low yielding tracker mortgages, weak credit demand, difficulties in accessing collateral, and continued pressure on net interest margins. The NPL ratio for domestic banks fell to 14.2 % in Q3-2016 , down from a peak of 27.1 % at the end of 2013. The share of arrears in the total mortgage balance remains high at 14 %. New lending is growing only gradually, with measures in place to ensure it is prudent, however net lending for both households and companies remains negative.

The general government deficit is estimated to have fallen to 0.9 % in 2016 from 1.9% in 2015. On a cumulative basis, on the revenue side, tax receipts increased by 5% in 2016, mainly on the back of the strong performance of corporate tax (+7%) and excise duties (+7.9%). The sovereign's financing situation remains healthy. Gross public debt is expected to have declined to 75.1% in 2016 from 78.6% in 2015 and to further decline gradually contingent on moderate yet robust GDP growth. The sale holdings in the domestic banks could accelerate debt reduction further. According to the most recent assessment, the government stakes in the three major domestic banks is valued at about EUR 13 billion (around 5.1% of GDP). However, subdued bank profitability could further hinder government plans for early sales. Additional cash over the medium term can be expected from surpluses arising from the closing operation of the National Asset Management Agency and the Irish Banking Resolution Corporation.

Country-risk indicators : Ireland		2014	2015	2016
Output and prices				
Real GDP growth rate (a)	(%)	8.5	26.3	4.3*
Unemployment (a)	(% labour force)	11.3	9.4	7.9
Inflation rate (HICP) (a)	(% change)	0.3	0	-0.2
Public finances				
General government balance (a)	(% of GDP)	-3.7	-1.9	-0.9*
Primary Balance (a)	(% of GDP)	0.1	0.7	1.4*
Interest Expenditure (a)	(% of GDP)	3.9	2.6	2.3*
Balance of payments				
Exports of goods and services f.o.b. (a)	(m EUR)	219,790	317,197	321,223*
Current account balance (a)	(% of GDP)	1.7	10.2	9.6*
Net inflow of foreign direct investment (b)	(m EUR)	28,200	169,809	n.a.
Official reserves, including gold (c)	(m EUR)	1,439	2,024	3,406
In months of subsequent year's imports	(months)	0.1	0.1	0.2
Exchange rate (end of period)	(per EUR)	Euro	Euro	Euro
External debt				
Gross external debt (a)	(m EUR)	203,299.4	201,133.9	199,843.6
Gross external debt (a)	(% of GDP)	105.2	78.6	75.1*
Debt service/exports of goods and services	(%)	n.a.	n.a.	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	29,368.0	29,586.4	28,977.0
EU exposure/total EU exposure	(%)	28.3	29.1	29.1
EU exposure/external debt	(%)	14.4	14.7	14.5
EU exposure/exports of goods and services	(%)	13.4	9.3	9.0
IMF arrangements (c)				
Type:	SDR 19.5 bn drawn down in 12 disbursements			
Date:	January 2011 – December 2013			
Status:	SDR 7.65 bn repaid in 2014 and SDR 8.05 bn repaid in 2015.			
Market's perception of creditworthiness (e)				
Moody's - long-term credit rating (end of period)		Baa1	Baa1	A3
S&P - long-term credit rating (end of period)		A+	A+	A+
Fitch - long-term credit rating (end of period)		A-	A	A
DBRS - long-term credit rating (end of period)		A (low)	A (low)	A (high)

(*) Commission 2017 Winter Forecast

Source: *(a) European Commission ; (b) Central Statistical Office; (c) Central Bank of Ireland; (d) IMF; (e) Ireland National Treasury Management Agency*

3.1.4. Latvia

In 2016 GDP, growth is expected to have been subdued in Latvia (+1.6% after +2.7% in 2015). While private consumption and exports remained strong, investments plummeted. In particular, delays in the implementation of EU-funded projects, related to the changeover to a new programming period, had a marked impact in the construction sector. Inflation as measured by the harmonised index of consumer prices (HICP) remained subdued at 0.1% after 0.2% in 2015. This low rate was driven by falling energy prices while non-energy prices hovered closer to 2%. With energy prices projected to rise again, the inflation is forecast to return to its 2% target. The trade deficit has been increasing in volume terms as domestic demand outpaced external demand. As a consequence, trade weighed on growth in 2016 (-1.0% in 2016 after +0.3% in 2015). In nominal terms, low energy prices on the import side brought the current-account close to balance in 2016 (-0.1% of GDP after -0.8% in 2015). However, higher energy prices are expected to lead to a current-account deficit of 3.3% by 2018. Employment declined slightly, in particular due to a contraction in the construction sector. Nevertheless, the unemployment rate gradually declined in 2016 to 9.5% (against 9.9% on average in 2015), as Latvia suffers from adverse demographic dynamics negatively affecting its labour force.

The general government budget is estimated to have reached a balanced position in 2016 against a deficit of 1.3% of GDP in 2015. This improved deficit is due to both improved tax revenues and lower public spending (incl. investment). At the same time, the government debt-to-GDP ratio has increased from 36.3% of GDP in 2015 to 39.4% in 2016, as debt repayments were pre-financed. As a result, the debt ratio is expected to decline to around 35% of GDP in 2018. The well-established access to bond markets, combined with the low interest rate environment and the sound fiscal performance and solid growth expectations, lead to the overall assessment of very low debt refinancing risks for Latvia.

Country-risk indicators : Latvia		**2014**	**2015**	**2016**
Output and prices				
Real GDP growth rate	(%)	2.1	2.7	1.6
Unemployment (period average)	(% labour force)	10.8	9.9	9.7
Inflation rate (CPI) (Dec/Dec)	(% change)	0.2	0.3	2.2
Public finances				
General government balance	(% of GDP)	-1.6	-1.3	0.0
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	14,067.8	14,360.7	14,363.4
Current account balance	(% of GDP)	-2.0	-0.8	-0.1
Net inflow of foreign direct investment*	(m EUR)	371.5	571.2	-181.5
Official reserves, including gold (end of period)	(m EUR)	3,180.5	4,054.7	4100.7
In months of subsequent year's imports	(months)	2.6	3.4	3.1
Exchange rate (end of period, fixed, Euro adopted as of (	(per EUR)	Euro	Euro	Euro
External debt				
External debt (end of period)*	(m EUR)	33,794.2	34,505.4	36,865.7
External debt/GDP*	(%)	143.1	141.7	148.1
Debt service/exports of goods and services	(%)	n.a.	n.a.	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	2013.0	840.0	813.3
EU exposure/total EU exposure	(%) (1)	1.9	0.8	0.8
EU exposure/external debt	(%)	6.0	2.4	2.2
EU exposure/exports of goods and services	(%)	14.3	5.8	5.7
IMF arrangements	Type: Standby agreement Started December 2008 - completed December 2012 Drawn amount of SDR 982mn is fully repaid			
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa1	A3	A3
S&P long-term foreign currency rating (end of period)		A-	A-	A-
Fitch long-term foreign currency rating (end of period)		A-	A-	A-
* latest data Q3/2016				

3.1.5. *Portugal*

The economic recovery of the Portuguese economy slowed down slightly to a preliminary estimated growth of 1.4% in 2016 relative to 1.6% in 2015. This was due to a weaker performance in the first half of the year while growth picked up again in the second half, helped by a strong expansion in tourism. The Commission's Economic Sentiment Indicator has improved substantially over the past months and together with the latest favourable data on industrial output, services and retail trade set a broadly favourable outlook for the economic growth in 2017. Investment is estimated to have declined in 2016 as bank lending remains relatively weak and the inflow of EU funding suffered a temporary drop after the switch to the new programming period. Nevertheless, the expected gradual recovery in bank lending and the projected rebound in EU co-financing are set to support strongly investment growth over the forecast horizon. Improving net incomes in the corporate sector are also set to push up investments. Private consumption retained a growth rate of about 2% in 2016 fuelled by rising household income and a rebound in consumer lending. Consumption is forecast to decelerate slightly in 2017 but is nevertheless set to remain a key contributor to the overall economic growth. In the external sector, the strong tourism performance improved the Portugal's export market share in 2016 and the positive carryover from the second half of the year is likely to keep the market gains in 2017. The labour market continued to improve markedly in 2016 as unemployment fell to 10.2% at the end of the year, down by 2pps from a year earlier. Job creation remained strong for a third year in a row as employment increased by 1.3% in 2016. Inflation (HICP) increased marginally to a yearly average of 0.6% in 2016. The recent dynamics in oil prices are set to push up inflation further over the forecast horizon in line with the projections for the average inflation in the euro area.

General budget deficit is estimated to have dropped to 2.3% of GDP in 2016 (2.6% net of one-offs) from 4.4% in 2015 (3.1% net of one-offs). Both the headline and structural budget deficits are expected to remain below 2.5% of the GDP in 2017 supported by the moderate economic growth while the impact of structural measures is expected to be broadly neutral. The general government debt is estimated at 130.5% of GDP at the end of 2016 and is forecast to drop slightly in 2017. Standard debt sustainability analysis indicates stabilisation of the debt-to-GDP ratio at around 124% of GDP in the medium run. However, debt dynamics are vulnerable to adverse shocks, in particular shortfalls in nominal growth and increase in interest rates. The high level of government debt and the resulting interest expenditures of about 4.5% of GDP impose a high burden on public finances. Yields on the government 10-year bonds meanwhile grew to around 4.2% at the beginning of 2017 posing further pressure on debt refinancing costs. However, the yields on short-term debt have been relatively stable and overall the average interest rate on newly issued debt has remained below the one for outstanding debt. This has allowed Portugal to continue its early repayments to the IMF. As a result, the outstanding debt to the IMF dropped to EUR 16.4bn at the end of 2016 from initially disbursed EUR 28.7bn. The outstanding debt to EFSM stands at EUR 24.3bn and repayments are expected to start in 2026.

Country-risk indicators : Portugal		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	0.9	1.6	1.4
Unemployment (end of period)	(% labour force)	13.6	12.2	10.2
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.3	0.3	0.9
Public finances				
General government balance	(% of GDP)	-7.2	-4.4	-2.3*
General government gross debt	(% of GDP)	130.6	129	130.5*
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	70,717.50	74,293.80	75,779.20
Current account balance	(% of GDP)	0.1	0.1	0.8
Net inflow of foreign direct investment	(m EUR)	2,634.40	1,124.70	4,051.50
Official reserves, including gold (end of period)	(m EUR)	16,156.50	17,815.70	23,841.80
In months of subsequent year's imports	(months)	2.7	2.9	4
Exchange rate (end of period)	(per EUR)	Euro	Euro	Euro
External debt				
Gross external debt (end of period)	(m EUR)	407,598.40	398,293.00	398,850.10
Gross external debt/GDP	(%)	235.5	221.8	216
Debt service/exports of goods and services	(%)	n.a.	n.a.	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	31,427.0	30,742.0	30,602.2
EU exposure/total EU exposure	(%)	30.3	30.2	30.7
EU exposure/external debt	(%)	7.7	7.7	7.7
EU exposure/exports of goods and services	(%)	44.4	41.4	40.4
IMF arrangements				
Type:	Extended Fund Facility			
Date:	May 2011 – June 2014			
Status:	EUR 28.7bn disbursed; EUR 16.4bn outstanding			
Market's perception of creditworthiness				
Moody's - long-term credit rating (end of period)		Ba1	Ba1	Ba1
S&P - long-term credit rating (end of period)		BB	BB+	BB+
Fitch - long-term credit rating (end of period)		BB+	BB+	BB+
DBRS - long-term credit rating (end of period)		BBB(low)	BBB(low)	BBB(low)

* Preliminary data for 2016 based on the European Commission 2017 Winter Forecast

3.1.6. *Romania*

GDP growth continues to be strong (4.8% in the first nine months of 2016, after 3.9% in 2015). Inflation is low (-1.1% on annual average in 2016). Unemployment is approaching pre-crisis lows at 6.0% in 2016 and continues to fall. The current account deficit is widening (from 1.1% of GDP in 2015 to 2.2% of GDP in 2016). GDP growth is expected to remain strong in 2017, at 4.4%, largely driven by consumption. The current account deficit is forecast to widen further to 2.9% in 2017 and 3.1% in 2018. Inflation is slowly picking up and is expected to reach 1.6% in 2017 and 2.9% in 2018 as the base effect of the substantial VAT cuts in 2015 and 2016 fades out. The output gap is estimated to have closed in 2016.

Romania reached its medium-term objective (MTO) of 1% of GDP in structural terms in 2014 and remained below the MTO in 2015 (structural deficit of 0.6%). However, the government was targeting a deficit of 2.8% of GDP in 2016, departing from its commitments under the Stability and Growth Pact and from national legislation. The budgetary outturn for 2016 will be published in spring. The Commission projects in the winter 2017 forecast a headline general government deficit of 3.6% of GDP in 2017. The structural deficit is projected to deteriorate from around 2 ½ % of GDP in 2016 to almost 4 % of GDP in 2017. This deterioration reflects a package of significant tax cuts and public-sector wage increases approved by the parliament in the course of 2015 and 2016 as well as additional tax cuts and increases of public wages and social spending enacted since the December 2016 elections. The 2017 budget law, adopted at the beginning of February, contains a deficit target of 2.96% of GDP in cash and 2.98% in ESA terms. However, this projection seems overly optimistic, in particular due to macroeconomic assumptions, optimistic revenue projection and not-specified savings in current expenditure.

Country-risk indicators : Romania		**2014**	**2015**	**2016**
Output and prices				
Real GDP growth rate	(%)	3.1	3.9	4.9
Unemployment (average)	(% labour force)	6.6	6.8	5.6
Inflation rate (CPI) (Dec/Dec)	(% change)	1.0	-0.7	-0.1
Public finances				
General government balance**	(% of GDP)	-0.8	-0.8	-2.8
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	61,934.4	65,759.2	68,956.1
Current account balance	(% of GDP)	-0.1	-0.6	-2.2
Net inflow of foreign direct investment	(m EUR)	281.5	-506.9	-217.6
Official reserves, including gold (end of peri	(m EUR)	35,505.7	35,485.1	37905.4
In months of subsequent year's imports	(months)	6.8	6.4	6.3
Exchange rate (end of period)	(per EUR)	4.50	4.50	4.50
External debt				
External debt (end of period)	(m EUR)	94,744.3	90,433.6	92,531.8
External debt/GDP	(%)	63.0	56.5	54.8
Debt service/exports of goods and services	(%)	n.a.	n.a.	n.a.
Arrears (on both interest and principal)	(%)	n.a.	n.a.	n.a.
Debt relief agreements and rescheduling	(m EUR)	n.a.	n.a.	n.a.
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	7,122.0	5,241.0	4,926.2
EU exposure/total EU exposure	(%)	6.9	5.2	4.9
EU exposure/external debt	(%)	7.5	5.8	5.3
EU exposure/exports of goods and services	(%)	11.5	8.0	7.1
IMF arrangements				
Type				
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa3	Baa3	Baa3
S&P long-term foreign currency rating (end of period)		BBB-	BBB-	BBB-
Fitch long-term foreign currency rating (end of period)		BBB-	BBB-	BBB-

** EC staff estimate*

***does not include the operational deficit of state-owned gas company Naftogaz (1.9% in 2013, 5.5% in 2014, 0.9% in 2015)*

3.2. Candidate countries

3.2.1. Former Yugoslav Republic of Macedonia

The economy remained resilient in 2016 amidst a protracted political crisis and sluggish investment. GDP growth in the first three quarters of 2016 amounted to 2.7% y-o-y. It was driven by a surge in private consumption, supported by robust increases in disposable income and a benign price environment. Exports, fuelled by enhanced production capacities of foreign companies, also provided an important contribution to the expansion. However, negative confidence effects from the enduring political crisis restrained private investment, and credit growth to corporates was almost flat. The government, too, reigned in capital expenditure, mainly as a result of mid-year budget rebalancing, but also on account of constraints from the domestic political situation. Consumer prices dropped for the third consecutive year, propelled by lower food, energy, transport and housing and utilities costs. The core inflation rate remained positive.

Challenges from the external sector remain contained. The current-account deficit increased markedly in 2016 compared to one year earlier, amounting to some 3% of projected full-year GDP. The shortfall in the primary balance became more acute, and private transfer inflows slowed down. The merchandise trade balance widened slightly, benefitting from low price pressures from fuel imports. Net FDI inflows increased some 65% y-o-y, amounting to some 3.5% of projected full-year GDP, and more than covering the current account deficit. Foreign exchange reserves declined in the first half of the year but recovered after the July Eurobond issuance (450 mil.) and, at end-2016 were some 16% higher than one year earlier, comfortably covering over 6 months of prospective imports. Gross external debt stood at 74.4% of GDP at the end of the third quarter, some 5.5pps higher than at end-2015, mainly as a result of foreign borrowing by the public sector. Three quarters of external debt is long-term, hence reducing refinancing risks. Some 80% of foreign debt is denominated in Euro.

Budget execution remained weak in 2016. The government continued providing a fiscal stimulus to the economy throughout 2016, mainly through a marked rise in social transfers. Revenues increased by 5% over 2015, although still underperforming compared to the revised budget. The government resorted to two supplementary budgets over the summer, necessitated by a downward revision of growth, and by compensation for flood victims, respectively. These raised the deficit target to 4% from originally 3.2%, and increased budgeted current spending by 0.7% of GDP, while lowering revenue projections and capital expenditure. There was marked under-execution of capital expenditure (75% of budget, or 2.9% of projected 2016 GDP), in part as a result of legal restraints to capital spending imposed by the complex political situation, but also, as these fell prey to ad hoc pressures from current spending and from revenues. The fiscal deficit outcome likely remained below the revised target, amounting to some 3% of projected full-year GDP.

Country-risk indicators : The former Yugoslav Republic of Macedonia		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	3.5	3.8	2.1f
Unemployment (end of period)	(% labour force)	28.0	26.1	24.4f
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.3	-0.3	-0.2
Public finances				
General government balance	(% of GDP)	-4.2	-3.5	-3.6f
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	4,081.2	4,422.0	3 586.3**
Current account balance	(% of GDP)	-0.5	-2.1	-2.5f
Net inflow of foreign direct investment	(m EUR)	197.4	202.8	163.3**
Official reserves, including gold (end of period)	(m EUR)	2,436.5	2,261.8	2,613.4
In months of subsequent year's imports *	(months)	6.3	5.6	6.2 Q3
Exchange rate (end of period)	(per EUR)	61.61	61.66	61.48
External debt				
External debt (end of period)	(m EUR)	5,992.3	6,290.5	7 503.9 Q3
External debt/GDP	(%)	70.0	69.4	77.9e Q3
Debt service/exports of goods and services	(%)	N.A.	N.A.	N.A.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	160.0	160.0	164.1
EU exposure/total EU exposure	(%)	0.2	0.2	0.2
EU exposure/external debt	(%)	2.7	2.5	2.2
EU exposure/exports of goods and services	(%)	3.9	3.6	4.6
IMF arrangements				
Type		none	none	none
Date				
On track		(post-program monitoring)	(post-program monitoring)	
Indicators of market's perception of creditworthiness				
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

** Ratio of 12 months imports of goods moving average.*
*** flow up to and in including Q3.*
f - Commission Winter 2017 Forecast.
e - ECFIN estimation.

3.2.2. Montenegro

Economic growth decelerated in 2016 dampened by a surge in investment-related imports. GDP growth was 2% y-o-y in the first three quarters of 2016, halving from 4% growth a year before. All components of domestic demand provided a positive contribution to output expansion with gross fixed capital formation remaining the main driver. However, net exports had a negative contribution to growth as imports, driven by the high import content of large infrastructure investments, surged by 16% y-o-y. After several months of price contraction, inflation rebounded in the last three months of 2016, to reach 0.9% annual growth in December. Price developments were driven by the rebound of global oil and food prices. Despite economic growth, the unemployment rate remained high at 16.9% in September 2016. The overall credit activity of the banking sector appears to be improving gradually and the non-performing loans ratio declined to 10.3% as of end-December 2016, down from 13.4% a year earlier. However, lending to the non-financial business sector remains weak.

The current account deficit increased substantially as investment activity intensified. In 2016, the deficit grew to 19% of GDP, up from 13% in 2015, reflecting the 33% rise in investment and its high import content given the narrow production base. The surplus in the balance of services (mostly driven by tourism) could not offset the faster expansion of the merchandise trade deficit. Net FDI inflows remain the main source of external financing, accounting for 10% of GDP, although debt-related financing has also picked up.

The budget deficit declined in 2016 driven by significant underspending on capital investment. The central government budget deficit amounted to 3.5% of GDP in 2016, down from 8.4% a year before. However, despite an increase in budget revenue (by 4.5% above the plan), current expenditures rose much faster (by 11% above the plan) due to significant increases in public wages and social benefits. In 2016, the public debt reached 64.3% of GDP, of which, 83.4% accounted for external debt.

Country-risk indicators : Montenegro		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	1.8	3.4	2.6f
Unemployment (end of period)	(% labour force)	18.0	17.6	17.9f
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.5	1.4	0.1
Public finances				
General government balance	(% of GDP)	-3.1	-7.3	-3.8f
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	1,388.1	1,539.2	1,593.4
Current account balance	(% of GDP)	-15.2	-13.3	-19.1
Net inflow of foreign direct investment	(m EUR)	353.9	619.3	371.5
Official reserves, including gold (end of period)	(m EUR)	544.7	673.7	803.0
In months of subsequent year's imports *	(months)	3.7	4.4	4.7
Exchange rate (end of period)	(per EUR)	1.00	1.00	1.00
External debt				
External debt (end of period)	(m EUR)	5,352.9	5,853.9	6,155.3
External debt/GDP	(%)	154.8	161.5	164.8
Debt service/exports of goods and services	(%)	5.7	6.4	5.1
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	244.8	251.3	267.1
EU exposure/total EU exposure	(%)	0.2	0.2	0.3
EU exposure/external debt	(%)	4.6	4.3	4.3
EU exposure/exports of goods and services	(%)	17.6	16.3	16.8
IMF arrangements				
Type		none	none	none
Date				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba3	Ba3	B1
S&P long-term foreign currency rating (end of period)		B+	B+	B+
Fitch long-term foreign currency rating (end of period)		none	none	none

** Ratio of 12 months imports of goods moving average.*
*** flow up to and in including Q3.*
f - Commission Winter 2017 Forecast.

3.2.3. Serbia

In 2016, the economy expanded faster than expected and surpassed its pre-crisis peak. Growth was driven mainly by investment and exports and accelerated to an estimated 2.8%. External imbalances have narrowed further and the current account deficit is estimated to have shrunk to around 4% of GDP. Net FDI inflows increased slightly over the previous year to EUR 1.9 billion, and covered 136% of the current account deficit. Inflation was stable and at historically low levels, averaging 1.1% and undershooting expectations and the central bank target tolerance band. The low inflationary pressure and strong fiscal consolidation helped tame inflation expectations and supported further reductions in the key policy rate of the central bank from 4.5% in the beginning of 2016 to 4% in July 2016.

Fiscal consolidation has been very strong and the consolidated budget deficit is estimated to have fallen to 1.4% of GDP in 2016. This outcome was significantly better than initially expected, mainly as a result of over-performance on the revenue side. The medium term budget framework targets further reduction of the deficit to 1.0% of GDP in 2019. Government debt has stabilised at an estimated 74% of GDP at the end of 2016.

The dinar had remained broadly stable against the euro throughout most of the year. In order to ease excessive daily volatility of the exchange rate, however, the central bank remained active, intervening on both sides of the market selling a net EUR 120 million. Balance of payment flows have continued to support a relatively high level of central bank foreign exchange reserves, which stood at EUR 10.2 billion by the end of the year, covering more than six months' worth of imports of goods and services. The 36-month precautionary Stand-By Arrangement with the IMF has remained on track and the Executive Board of the IMF completed the sixth review in December. Serbia's sovereign rating improved in 2016: S&P and Moody's increased their perspectives, while Fitch raised Serbia's rating from B+/positive to BB-/stable.

Country-risk indicators : Serbia		**2014**	**2015**	**2016**
Output and prices				
Real GDP growth rate	(%)	-1.8	0.8	2.8
Unemployment (average)	(% labour force)	19.2	17.7	15.3
Inflation rate (CPI) (average)	(% change)	2.1	1.4	1.1
Public finances				
General government balance	(% of GDP)	-6.6	-3.7	-1.4
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	14,470.2	15,631.0	17,314.0
Current account balance	(% of GDP)	-6.0	-4.7	-4.0
Net inflow of foreign direct investment	(m EUR)	1,244.4	1,804.0	1,861.0
Official reserves, including gold (end of period)	(m EUR)	9,907.2	10,378.0	10,204.6
In months of subsequent year's imports *	(months)	8.0	8.1	7.3 Q3
Exchange rate (end of period)	(per EUR)	121.53	121.75	123.42
External debt				
External debt (end of period)	(m EUR)	25,679.0	26,294.0	25 727.0 Q3
External debt/GDP	(%)	77.1	78.5	N.A.
Debt service/exports of goods and services	(%)	N.A.	N.A.	N.A.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	2,060.2	2,047.9	2,106.4
EU exposure/total EU exposure	(%) (1)	2.0	2.0	2.1
EU exposure/external debt	(%)	8.0	7.8	8.2
EU exposure/exports of goods and services	(%)	14.2	13.1	12.2
IMF arrangements				
Type		none	SBA (precautionary)	SBA (precautionary)
Date			Feb-15	Feb-15
On track			On track	On track
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		B1/stable	B1/stable	B1/positive
S&P long-term foreign currency rating (end of period)		BB-/negative	BB-/negative	BB-/positive
Fitch long-term foreign currency rating (end of period)		B+/stable	B+/positive	BB-/stable

** Ratio of 12 months imports of goods moving average.*

f - Commission Winter 2017 Forecast.

e - ECFIN estimation.

3.2.4. Turkey

Economic growth strongly lost momentum in 2016. GDP growth went from +6.1% y-o-y in 2015 to -0.8% in the first three quarters of 2016. The deceleration was the strongest in the third quarter and for the demand categories net trade, due to a drop in tourist arrivals, and private consumption. Loan growth has been high in the corporate sector. Non-financial corporations have seen their liabilities surge from 30% of GDP in 2007 to over 60% in 2015 with about 45% of this borrowing in foreign currency. In important sectors like tourism, construction and manufacturing the stability of the NPL ratio is a consequence of high loan growth off-setting high growth of non-performing loans.

Notwithstanding the output gap, which is estimated by the central bank to be negative and which it expects to close only in 2018, inflation has been above the central bank's end-of-year target range (5% +/- 2 pps.) for five years. In response to the accelerating depreciation of the Lira towards the end of 2016, the central bank raised the weighted average cost of funding by about 200bps. The Lira has subsequently appreciated but the exchange rate vis-à-vis the euro and the US dollar continues to be volatile.

The current account deficit declined from 4.5% to 3.7% of GDP in 2016 under the new national accounting methodology. Still the assessment of the external imbalances does not change materially. The large negative current account deficits of the past have led to a further deterioration of Turkey's already highly negative Net International Investment Position (NIIP). Its NIIP is one of the largest among emerging market economies at about 41% of GDP at the end of 2016, reflecting foreign liabilities to the tune of 66% of GDP and assets abroad totalling 25% of GDP. Gross external debt, as reported by the IMF, stood at 46.3% of GDP in 2015 according to the new figures. Foreign currency reserves stood at USD 106.1 bn in December 2016 (12.4% of GDP). The only investment inflow to register an increase when comparing end 2016 with end 2015, was other investment.

Government bonds lost their last investment grade rating on 27 January. The last rating agency to cut Turkish government bonds' status to junk, Fitch, gave political and security risks undermining economic performance and institutional independence as explanation. At the same time, the current headline figures for fiscal stability are solid with government debt amounting to 27.5% of GDP and a budget surplus of 1.3% of GDP in 2015 according to Turkstat's revised national accounting methodology.

Country-risk indicators : Turkey		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	5.2	6.1	2.2f
Unemployment	(% labour force)	10.1	10.5	10.7f
Inflation rate (CPI) (Dec/Dec)	(% change)	8.9	7.7	7.8
Public finances				
General government balance	(% of GDP)	-1.2	-1.0	-1.1f
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	166,889	180,587	123 284**
Current account balance	(% of GDP)	-5.0	-3.8	-5.2f
Net inflow of foreign direct investment	(m EUR)	9,598	15,379	6 449**
Official reserves, including gold, (end of period)	(m EUR)	115,012	117,721	123 352 Q3
In months of subsequent year's imports *	(months)	7.6	7.6	8.5 Q3
Exchange rate (end of period)	(per EUR)	2.82	3.17	3.68
External debt				
External debt (end of period)	(m EUR)	331,506	n.a.	n.a.
External debt/GDP	(%)	50.4	n.a.	n.a.
Debt service/exports of goods and services	(%)	n.a.	n.a.	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	9,184.9	9,263.2	9,453.0
EU exposure/total EU exposure	(%)	8.9	9.1	9.5
EU exposure/external debt	(%)	2.8	n.a.	n.a.
EU exposure/exports of goods and services	(%)	5.5	5.1	7.7
IMF arrangements				
Type		none	none	none
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa3 /negative	Baa3 /negative	Ba1 /negative
S&P long-term foreign currency rating (end of period)		BB+/negative	BB+/negative	BB /negative
Fitch long-term foreign currency rating (end of period)		BBB- /stable	BBB- /stable	BB+/stable

f - Commission Winter 2017 Forecast.
(1) 2014 figure based on 3 quarters
(2) Labour force 15 years and older, 2014 figure based on January - October
(3) General government balance for 2013 and 2014 from DG ECFIN Winter 2015 Forecast
(4) Gross International reserves, 2014 figure as of 30 November 2014
(5) 2014 figure as of 30 September
** Ratio of 12 months imports of goods moving average.*
*** flow up to and in including Q3.*

3.3. Potential candidate countries

3.3.1. Albania

Economic growth has remained on an upward trajectory in 2016. GDP growth increased to 3.3% y-o-y in the first three quarters, up from 2.6% in 2015. All components of domestic demand provided a positive contribution to output expansion with gross fixed capital formation remaining the main driver. Exports and imports expanded at similarly high rates, but since the level of imports continued to exceed the level of exports by a significant margin, net exports subtracted from GDP growth. Reflecting still below-potential economic activity, the annual rate of inflation declined to 1.3% in 2016, undershooting the Bank of Albania's target of 3% for the fifth consecutive year. The central bank stepped up monetary easing by cutting its policy rate to a new historic low of 1.25% in May. However, the pass-through of monetary stimulus continued to be hampered by weak bank lending to the non-financial business sector in the context of a sizeable overhang of non-performing loans (18.2% of total gross loans in December).

The current account deficit has widened again in response to stronger domestic demand. In the four quarters to September 2016, the deficit corresponded to 11.2% of GDP, up from 10.8% in 2015. Net FDI inflows remained the main source of external financing covering two thirds of the current account deficit in the year to September. Official foreign reserves have remained relatively stable amounting to EUR 2.7 billion at the end of the third quarter (equal to 6.6 months of imports of goods and services). The stock of gross external debt was up by 6.6% y-o-y at the end of the third quarter, corresponding to 73.7% of GDP. Long-term debt, mostly owed by the government, makes up 80% of the total.

The fiscal deficit of general government continued to narrow. The deficit is estimated to have equalled 1.7% of GDP in 2016, compared to 4.1% in 2015. The lower deficit was the combined result of strong revenue growth (9.3% year-on-year) and modest expenditure growth (2.9% year-on-year). Public debt (including guarantees) declined from 72.7% of GDP at the end of 2015 to 71.0% of GDP at the end of 2016.

Country-risk indicators : Albania		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	1.8	2.6	3.3f
Unemployment (average)	(% labour force)	17.9	17.5	15.3f
Inflation rate (CPI) (average)	(% change)	1.6	1.9	1.3
Public finances				
General government balance	(% of GDP)	-5.2	-4.1	-2.4
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	2,813.1	2,799.2	2,252.2
Current account balance	(% of GDP)	-12.9	-10.8	-11.8f
Net inflow of foreign direct investment	(m EUR)	811.5	818.4	660.1**
Official reserves, including gold (end of perioc	(m EUR)	2,191.7	2,880.0	2945.0
In months of subsequent year's imports *	(months)	N.A.	N.A.	N.A.
Exchange rate (end of period)	(per EUR)	140.11	137.65	135.27
External debt				
External debt (end of period)	(m EUR)	6,927.5	7,686.0	7,924.2
External debt/GDP	(%)	69.6	74.9	73.7 Q3
Debt service/exports of goods and services	(%)	N.A.	N.A.	N.A.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	294.0	285.0	261.8
EU exposure/total EU exposure	(%)	0.3	0.3	0.3
EU exposure/external debt	(%)	4.2	3.7	3.3
EU exposure/exports of goods and services	(%)	10.5	10.2	11.6
IMF arrangements				
Type		EFF	EFF	EFF
Date		28-Feb-14	28-Feb-14	28-Feb-14
On track		on track	on track	on track
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		B1	B1	B1
S&P long-term foreign currency rating (end of period)		B	B	B+
Fitch long-term foreign currency rating (end of period)		none	none	none

** Ratio of 12 months imports of goods moving average.*
e - ECFIN estimation.
f - Commission Winter 2017 Forecast.

3.3.2. Bosnia and Herzegovina

The economy registered moderate growth of 1.8% in the first 3 quarters of 2016. The year before, output growth was 3.4%. The main sources of growth have been manufacturing and industry, while the contribution of public consumption to growth remained limited. The labour market situation remained difficult. Output growth led to an increase in registered employment by 2.1% in 2016, compared to an increase of 1.5% the year before. The average rate of unemployment based on registered unemployment figures dropped to 41.8% in 2016 from 43.6% the year before, while the LFS unemployment rate declined to 25.4% in mid-2016 from 27.7% a year earlier. Still, the level of unemployment remains one of the highest in the region. The price level continued to decline: in 2016, overall consumer prices were 1%

lower than a year before. Lower prices for energy played an important part in price developments.

Financial sector indicators point to a moderate expansion. During 2016, credit growth remained low at 2.1%. Liquidity in the financial system is sufficient; however, demand for loans from private companies is weak. Deposit growth has maintained its markedly stronger performance, increasing by 7.7% in 2016, compared to 6.2% the year before. As a result, the loan to deposit ratio continued to improve, dropping below 100% in November. The share of non-performing loans in total loans continued to improve slightly, declining to 12.1% in the third quarter from 12.8% a year earlier.

The current account improved slightly in the first three quarters of the year, mainly reflecting lower prices for energy imports, low investment and stronger exports. As a share of GDP, the current account deficit for the first 9 months of 2016 dropped to 4.5% of GDP from 5.9% of GDP the year before. The share of commodity exports rose to 25% of GDP, compared to 24.0% the year before. Spending for imports declined slightly, reaching 49.2% of GDP, compared to 49.7% the year before, reflecting lower prices for energy imports but also low growth of private and public investment. The share of primary income and workers remittances remained largely unchanged, while FDI inflows dropped further, reaching 1.3% of GDP in the first nine months, compared to 2.3% the year before. The drop in FDI inflows is probably related to slow progress with structural reforms and a recent increase in inter-entity political tensions.

The performance of fiscal revenues during the first three quarters appears to have remained in line with the overall economic development, increasing by 1.8%. However, due to delays in accessing planned external finances, public spending had to be contained. This led to a markedly lower increase in current spending, of some 0.8% year-on-year, according to preliminary Central Bank data. In particular, spending on public employment was lower than a year before. Public debt stood at 41.2% of GDP in the third quarter, unchanged from the second quarter and slightly lower compared to end-2015 (41.9%). Compared to the end-year level, foreign denominated debt rose by 1.3%, which however was largely compensated by a 3.1% decrease in debt denominated in the local currency. The three largest holders of foreign debt are the World Bank, the European Investment Bank (EIB) and the International Monetary Funds (IMF), accounting for 22%, 19% and 12% respectively of the country's total foreign public debt.

On 7 September, the IMF approved a 3-year, 550 million EUR Extended Funds Facility, which should alleviate external financing constraints while proceeding with structural reforms.

Country-risk indicators : Bosnia and Herzegovina		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	1.4	3.2	2.4 Q3
Unemployment (end of period)	(% labour force)	27.5	27.7	25.4
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.9	-1.0	-0.3
Public finances				
General government balance	(% of GDP)	-2.0	0.7	N.A.
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	4,739.0	5,035.9	3 974.0**
Current account balance	(% of GDP)	-7.4	-5.7	-4.6 Q3
Net inflow of foreign direct investment	(m EUR)	385.2	220.7	128.9**
Official reserves, including gold (end of period)	(m EUR)	4,001.2	4,400.3	4 816.5 Nov
In months of subsequent year's imports *	(months)	5.8	6.5	7.1 Nov
Exchange rate (end of period)	(per EUR)	1.96	1.96	1.96
External debt				
External debt (end of period)	(m EUR)	10,616.5	11,594.1	N.A.
External debt/GDP	(%)	76.2	79.6	N.A.
Debt service/exports of goods and services	(%)	14.2	15.8	N.A.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	1,111.0	1,058.0	1,161.5
EU exposure/total EU exposure	(%)	1.1	1.0	1.2
EU exposure/external debt	(%)	10.5	9.1	N.A.
EU exposure/exports of goods and services	(%)	23.4	21.0	29.2
IMF arrangements				
Type		SBA	SBA	EFF
Date		26-Sep-12	26-Sep-12	07-Sep-16
On track		on-track	expired	on-track
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		B3	B3	B3
S&P long-term foreign currency rating (end of period)		B	B	B
Fitch long-term foreign currency rating (end of period)		none	none	none

** Ratio of 12 months imports of goods moving average.*
*** flow up to and including Q3.*

3.4. ENP countries

3.4.1. Armenia

Armenia's real GDP growth remained positive in 2016, albeit slowing down from 3% in 2015 to around 0.2% in 2016, notably on the back of weakness primarily in domestic demand. The economy registered relatively high growth in the first half of the year, although subsequently slowing down sharply in the second part of 2016, prompted mainly by a decline in construction and agriculture. Domestic demand remains constrained by reduced remittances (-13.4% y-o-y in first half of 2016, following a contraction of 29% in 2015), while the unemployment rate continues to be high at 18.1% (Q3 2016), although at a lower level than the one witnessed for 2015 (18.5%).

Year-end inflation turned negative at the end of 2015, well below the Central Bank's target range of 4%±1.5 percentage points. The deflationary trend persisted in 2016, with consumer prices down 1.1% y-o-y at year end, mainly on the account of falling food prices. Accounting for this and for the economic slowdown, the Central Bank of Armenia continued easing monetary conditions in 2016, cutting the interest rate to 6.25% in December. Rates were further cut to 6% in February 2017.

Partly due to low tax revenues, public finances in Armenia are structurally vulnerable, with both the budget deficit and public debt rising in 2016, to an estimated 5.5% and 56% of GDP, respectively. The breach of 50% of GDP of public debt in 2016 has triggered Armenia's fiscal rule, which prescribes a significant fiscal consolidation in 2017 in response (the fiscal deficit for the following year shall be lower than 3% of the average GDP for the last three years). Thus, the approved budget for 2017 foresees a deficit of 2.8% of GDP. However, this will be difficult to achieve and would impose a significant fiscal retrenchment at a time of slow growth, as well as endanger the continuation of some key public investments.

On the other hand, the external sector has improved and is gradually adjusting. Armenia's current account deficit is expected to narrow further in 2016, from the 2015 figure of 2.7%, and still well below the 7.6% level of 2014. The depreciation of the dram contributed to the resilience of exports, while the steep decline in imports was partly due to the fall in remittances, overall domestic demand weakness as well as low FDI. Gross international reserves have increased, partially due to improvements in the current account. Reserves in 2016 are now estimated to cover 5 months of imports. Total external debt is expected to have amounted to over 88% of GDP at the end of 2016, up from close to 71% in 2014. While Armenia's high external debt represents a source of vulnerability, the level is expected to decrease in the medium-term, provided that the authorities implement a credible, balanced medium-term fiscal consolidation strategy.

On 7 December 2016, the IMF completed the fourth review under the extended arrangement, recognising generally good performance, except for the fiscal target that was missed. The completion enabled the release of SDR 15.65 million (about US$21.24 million), bringing total disbursements under the arrangement to SDR 66.52 million (about US$90.28 million).

Country-risk indicators : Armenia		2014	2015	2016*
Output and prices				
Real GDP growth rate	(%)	3.6	3.0	0.2
Unemployment (end of period)	(% labour force)	17.6	18.5	18.2
Inflation rate (CPI) (Dec/Dec)	(% change)	4.6	-0.1	-1.1
Public finances				
General government balance	(% of GDP)	-2.1	-4.8	-5.5
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	2,496.1	2,827.1	3,056.4
Current account balance	(% of GDP)	-7.6	-2.7	-2.1
Net inflow of foreign direct investment	(m EUR)	304.1	160.8	180.6
Official reserves, including gold (end of period)	(m EUR)	1,226.8	1,630.7	2,087.4
In months of subsequent year's imports	(months)	4.0	4.9	5.0
Exchange rate (end of period)	(per EUR)	577.5	528.7	512.2
External debt				
External debt (end of period)	(m EUR)	7,031.2	8,198.0	8,919.5
External debt/GDP	(%)	71.3	84.6	88.1
Debt service/exports of goods and services	(%)	8.6	12.5	7.2
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	149.0	245.6	265.1
EU exposure/total EU exposure	(%)	0.1	0.2	0.3
EU exposure/external debt	(%)	2.1	3.0	3.0
EU exposure/exports of goods and services	(%)	6.0	8.7	8.7
IMF arrangements				
Type: Extended Fund Facility (EFF)		EFF	EFF	EFF
Date		March 2014 - April 2017	March 2014 - April 2017	March 2014 - April 2017
On track		On track	On track	On track
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba3	Ba3	B1
S&P long-term foreign currency rating (end of period)		none	none	none
Fitch long-term foreign currency rating (end of period)		B+	B+	B+

** Values for 2016 are estimates*

Sources: Central Bank of Armenia, National Statistical Service of Armenia, Commission, IMF, Moody's, Fitch

3.4.2. Ukraine

Ukraine's economy stabilised in 2016. This was achieved by a strong policy response to address long-term imbalances and ongoing international financial and technical support that helped to rein in the confidence crisis that unfolded with the conflict in eastern Ukraine in 2014 and in early 2015. As a result, the economy expanded in real terms for the first time in four years. GDP growth amounted to an estimated 2.2% in 2016 (compared with a 9.8% contraction in 2015), supported by rising household demand following considerable growth in real incomes but also a strong rebound in investment activity. On the supply side, the economy benefited from a bumper harvest, increased retail activity as a result of improving consumer confidence and a strong pick-up in construction. Industrial production also rose in 2016, although moderately by 2.4%, after contracting in each of the previous four years. The pick-up in economic activity did not feed into the labour market as the unemployment rate remained largely stable over the year.

Absent significant demand-side pressures and due to reduced volatility on the foreign exchange market, consumer price inflation moderated significantly throughout 2016 - to 12.4% at the end of the year from 43.4% at end-2015. Prudent monetary and fiscal policies, coupled with weak commodity prices, were also conducive to the disinflation. Similar to 2015, price growth in 2016 was largely the result of increases of administratively-regulated prices, in particular gas tariffs, and core inflation stood at a relatively moderate 5.8% at the end of the year. The more stable inflationary environment and exchange market situation allowed the central bank to gradually ease many of its currency and capital controls and further reduce the key policy rate – by a cumulative 8 percentage points over the course of the year to 14%.

Fiscal prudence was largely retained in 2016. The ongoing strong tax collection enabled the authorities to finish the year with a consolidated government deficit of 2.3% of GDP compared with a 3.7% deficit target agreed under the IMF programme. In annual terms, however, the deficit widened from the 1.6%-of-GDP gap recorded in 2015. The increase reflects the halving of the social payroll tax as of 2016 and the absence of one-off revenues that positively affected the 2015 budget performance. Prudent fiscal policies, and in particular the elimination of the operational deficit of the oil and gas company Naftogaz, were important in containing the increase of the debt-to-GDP ratio despite the costs (4.5% of GDP) associated with the nationalisation of PrivatBank, the biggest commercial lender, in December. General government debt, including state guarantees, inched up to 81.6% of GDP at the end of 2016 from 79.4% a year earlier.

The pick-up in investment activity in 2016 contributed to a widening of the current account deficit to 3.6% of GDP from 0.2% a year earlier. Another factor for the increase was weak export performance due to low commodity prices and additional impediments to trade imposed by Russia in the form of a ban on transit exports to Central Asia. The current account gap was entirely covered by capital inflows despite pressures arising from the resumption of dividend payments abroad as part of the moves of the central bank to gradually ease capital controls and improve the business environment. While international financial assistance came below expectations in 2016, it supported the ongoing build-up of international reserves, which reached USD 15.5 billion at the end of 2016, or 3.5 months of next year's imports.

In the financial sector, the authorities continued implementing ambitious measures to strengthen confidence in the system, including by improving supervision, ensuring the recapitalisation of commercial banks and unwinding related-party lending. In an important move to safeguard the stability of the banking system, the authorities nationalised PrivatBank, the biggest commercial lender, in December 2016. This move was needed because of the large capital shortfalls identified in the bank related to the poor quality of the credit portfolio (97% of it is estimated to be related to companies associated with the former owners of the bank), the inability of the former owners to cover the capital gap, and the systemic nature of the bank (PrivatBank accounts for 36% of all household savings). As a result of the provisioning of PrivatBank's loan portfolio, the loss of the Ukrainian banking sector increased to UAH 159 billion in 2016 from UAH 66 billion a year earlier. Still, 2016 was marked by continuing deposit growth, mainly as a result of rising corporate deposits due to growing corporate profitability. At the same time, despite high liquidity in the banking system, credit activity remained weak. This was due to the high debt overhang and the fact that legal impediments for the resolution of non-performing loans (NPLs) remain despite some measures to address the problem, such as the entry into force in October 2016 of a new out-of-court resolution framework.

Country-risk indicators : Ukraine		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	-6.6	-9.8	2.2
Unemployment (average)	(% labour force)	9.7	9.5	9.7*
Inflation rate (CPI) (Dec/Dec)	(% change)	24.9	43.3	12.4
Public finances				
General government balance**	(% of GDP)	-4.5	-1.6	-2.3
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	49,492.0	43,152.0	41,499.0
Current account balance	(% of GDP)	-3.5	-0.2	-3.6
Net inflow of foreign direct investment	(m EUR)	245.0	2757.0	3205.0
Official reserves, including gold (end of period)	(m EUR)	6,176.0	12173.0	14866.0
In months of subsequent year's imports	(months)	1.8	3.1	3.5
Exchange rate (end of period)	(per EUR)	19.23	26.20	28.42
External debt				
External debt (end of period)	(m EUR)	103,556.0	108,666.0	110,016*
External debt/GDP	(%)	93.9	131.4	124.8*
Debt service/exports of goods and services	(%)	86.5	107	107.8*
Arrears (on both interest and principal)	(%)	none	yes	yes
Debt relief agreements and rescheduling	(m EUR)	none	yes	no
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	2,436.0	3,422.0	3,430.6
EU exposure/total EU exposure	(%)	2.3	3.4	3.4
EU exposure/external debt	(%)	2.4	3.1	3.1
EU exposure/exports of goods and services	(%)	4.9	7.9	8.3
IMF arrangements				
Type		SBA 17.0bn USD	EFF 17.5bn USD	EFF 17.5bn USD
(Date)		Apr 2014 - Mar 2016	Mar 2015 - Dec 2018	Mar 2015 - Dec 2018
On track		On track	On track	On track
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Caa3	Caa3	Caa3
S&P long-term foreign currency rating (end of period)		CCC-	B-	B-
Fitch long-term foreign currency rating (end of period)		CCC	CCC	B-

** EC staff estimate*

***does not include the operational deficit of state-owned gas company Naftogaz (1.9% in 2013, 5.5% in 2014, 0.9% in 2015)*

3.5. Mediterranean partners

3.5.1. Egypt

Following a protracted period of political instability since the revolution in January 2011, which had a strongly negative effect on the economy, Egypt seemed to have turned a corner following the election of President al-Sisi in May 2014 and renewed efforts to push forward with fiscal consolidation and key economic reforms (notably of the price subsidy system) and to support investment, including by attracting foreign investors.

However, the macroeconomic situation and the reform momentum again weakened during fiscal year (FY) 2015/16 (ending in June 2016). Indeed, the negative effects on tourism (accounting for over 11% of GDP in 2015, and a large generator of foreign currency) following the Russian plane crash of 31 October 2015 exacerbated an already vulnerable situation in the sector. This contributed to a slowdown in GDP growth to 3.8% in FY 2015/16. And, in a context of slower growth and large public investments, fiscal deficit worsened again from already very high levels (it rose to 12% of GDP in FY15/16, up from 11.7% GDP the preceding year), increasing the pressure to secure sources of financing. Public debt continued to increase in FY 2015/2016, reaching about 90% of GDP, up markedly from almost 73% in FY2010/11. Regarding Egypt's external position, the current account deficit has worsened from -0.8% of GDP in FY13/14 to -5.5% in FY15/16. This deterioration of the current account was also accompanied by substantial capital outflows and pressures on the exchange rate. Foreign reserve levels, for their part, are very vulnerable (at 3.6 months of imports, up from 3.1 at the end of FY14/15). By contrast, external debt remains low, though it has been increasing rapidly in recent years (from 13% of GDP in FY 2011/12 to a projected 23% of GDP in FY 2016/17).

In this increasingly difficult context, and as a response to the country's persistent high funding needs, in November 2016 Egypt and the IMF signed a staff-level agreement for a 3-year Extended Fund Facility programme, for a total amount of USD 12 billion, aimed at supporting the country's economic growth programme. The first measure under the IMF programme was implemented on 3 November 2016, when the Central Bank of Egypt adopted a flexible exchange rate regime, thus ending a longstanding overvaluation of the Egyptian pound in order to improve export competitiveness and replenish foreign exchange reserves. Since then the exchange rate against the USD has more than halved, with a positive impact on exports and remittances, but at the same time causing prices of imported commodities, and consumer prices in general, to rocket (the year-on-year inflation rate recorded in December 2016 exceeded 20%). The programme also targets a substantial fiscal consolidation (a 5 percentage point reduction in the primary deficit) over the IMF programme period. Fiscal consolidation measures include the recent introduction of a VAT an additional steps to cut energy subsidies.

Unemployment remains high (at an estimated rate of 12.7% at end 2016), compared to pre-2011 figures (i.e. 9%). Total government debt continued to increase in FY15/16, reaching about 90% of GDP, up from almost 73% of GDP in FY10/11. The mid-term objective announced by the government is to reduce the figure to between 80-85% of GDP within five years.

Aside from the IMF loan, Egypt has secured funding from GCC countries, the World Bank and the African Development Bank, and G7 donors. Additionally, the Government plans to issue Eurobonds for an initial amount of USD 2 billion in Q1 2017, in order to diversify its financing sources. Egypt's sovereign credit ratings have slightly improved since 2013, and remained stable since: S&P from CCC+ to B-; Fitch from B- to B, and; Moody's from Caa1 to B3. Overall, macroeconomic risks remain high in Egypt, although they are being addressed in the context of the adjustment and reform programme agreed with the IMF.

Country-risk indicators : Egypt (1)		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	2.2	4.2	3.8
Unemployment (end of period)*	(% labour force)	13.4	12.8	13.2
Inflation rate (CPI) (Dec/Dec)	(% change)	8.2	11.4	14.0
Public finances				
General government balance	(% of GDP)	-13.6	-11.7	-12.0
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	31,871.3	39,603.4	31,578.9
Current account balance	(% of GDP)	-0.8	-3.7	-5.5
Net inflow of foreign direct investment	(m EUR)	2,777.8	5,503.0	5,535.4
Official reserves, including gold (end of period)	(m EUR)	11,915.2	17,591.5	15,517.2
In months of subsequent year's imports	(months)	2.8	3.1	3.6
Exchange rate (end of period)	(EG£ per EUR)	9.78	8.46	9.85
External debt				
External debt (end of period)	(m EUR)	33,698.8	42,580.4	43,194.2
External debt/GDP	(%)	15.3	14.3	14.0
Debt service/exports of goods and services	(%)	3.3	3.8	5.5
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	2,240.0	2,274.0	2,830.7
EU exposure/total EU exposure	(%) (1)	2.2	2.2	2.8
EU exposure/external debt	(%)	6.6	5.3	6.6
EU exposure/exports of goods and services	(%)	7.0	5.7	9.0
IMF arrangements				
Type		no	no	EFF
(Date)				11-Nov-16
On track				Yes
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Caa1	B3/stable	B3/stable
S&P long-term foreign currency rating (end of period)		B-	B-/stable	B-/stable
Fitch long-term foreign currency rating (end of period)		B	B/stable	B/stable

(1) Fiscal year ends 30th June

** Sources: IMF, Ministry of Finance, Central Bank of Egypt, EIU*

*** The Government withthdrew its request for an IMF programme in mid 2011. Discussions were renewed in early 2012 and a Stand-By was agreed at Staff level in November 2012 but was not finalised*

3.5.2. Morocco

The Moroccan economy grew more slowly in 2016 due to a strong contraction in agricultural output and timid non-agricultural activity. Economic growth is estimated to have reached 1.5% in 2016, dropping substantially from the 4.5% growth in 2015. Real GDP growth for 2017 is forecast to rebound to around 4.4%, primarily on the back of a recovery in agriculture, but subject in particular to external risks. Meanwhile, internal structural challenges of the economy persist, e.g. in the labour market. The unemployment rate is estimated to have remained below 10% in 2016, with youth unemployment remaining high, estimated at almost 25%, according to the Moroccan statistics office.

Annual average inflation is estimated to have increased only slightly in 2016, reaching 1.6%. In monetary policy making, the authorities continued to balance controlling inflation and managing the exchange rate, although they reaffirmed their intention to move towards a more flexible exchange rate regime. The policy rate was lowered by 25 basis points to 2.25% in March 2016 and remained unchanged throughout the remainder of the year.

Morocco's current account deficit is estimated to have widened to 2.9% of GDP (3.8% excluding official transfers) from 2.2% of GDP (2.6% excluding official transfers) in 2015, reflecting low phosphate prices and increased equipment and food imports, despite some improvement in transfers and services. Nevertheless, the development of the trade balance in 2016 is consistent with relatively sound underlying demand and investment growth in Morocco, combined with a need to compensate for the disappointing harvest with increased food imports. According to preliminary data, net FDI inflows dropped by around 28%, but remittances increased by 3.4% (reaching more than 2.5 times the value of net FDI inflows in absolute terms). International reserves increased to EUR 24 billion in 2016, thus covering almost 7 months' worth of next year's imports.

The fiscal deficit is estimated to have narrowed from -4.4% in 2015 to -3.5% in 2016, reflecting good tax revenue performance in particular, but also lower expenditure on subsidies due to effective reforms. Given relatively weak nominal GDP growth, public debt is likely to have continued to follow a moderate upward trend, from the 64% of GDP recorded in 2015. While this is relatively high for an emerging economy and compared to the region average, there are no immediate sustainability concerns. A mitigating factor is the fact that about 75% of public debt is denominated in domestic currency.

The financial sector is well supervised and has strong fundamentals. However, non-performing loans are continuing on their upward trend, particularly due to the non-financial corporate sector, and concentration risks also must continue to be monitored. Credit growth has started to recover, notably due to increased household and investment lending.

In July 2016, the IMF approved a new 24-month Precautionary and Liquidity Line (PLL) arrangement of about EUR 3.3 billion. Morocco's two previous PLL arrangements were completed successfully and not drawn upon.

Country-risk indicators : Morocco		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	2.6	4.5	1.5
Unemployment (end of period)	(% labour force)	9.9	9.7	9.7
Inflation rate (CPI) (Dec/Dec)	(% change)	1.6	0.6	1.6
Public finances				
General government balance	(% of GDP)	-4.9	-4.4	-3.5
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	22,664.0	29,563.9	31,399.0
Current account balance	(% of GDP)	-5.7	-2.2	-2.9
Net inflow of foreign direct investment	(m EUR)	2,739.7	2,841.4	2,140.0
Official reserves, including gold (end of period)	(m EUR)	18,029.2	21,072.1	24,030.0
In months of subsequent year's imports	(months)	6.0	6.3	6.8
Exchange rate (end of period)	(MAD per EUR)	10.99	10.78	10.66
External debt				
External debt (end of period)	(m EUR)	30,052.6	30,862.9	32,040.2
External debt/GDP	(%)	33.2	33.4	32.6
Debt service/exports of goods and services	(%)	6.7	6.8	7.7
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	3,187.0	3,124.3	3,332.6
EU exposure/total EU exposure	(%)	3.1	3.1	3.3
EU exposure/external debt	(%)	10.6	10.1	10.4
EU exposure/exports of goods and services	(%)	14.1	10.6	10.6
IMF arrangements				
Type		Precautionary Liquidity Line SDR 3.24 bn	Precautionary Liquidity Line SDR 3.24 bn	Precautionary Liquidity Line SDR 2.5bn
(Date)		July 2014	July 2015	July 2016
On track		on track	on track	on track
Indicators of market's perception of creditworthiness				
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- /stable	BBB- /stable	BBB- /stable
Fitch long-term foreign currency rating (end of period)		BBB- /stable	BBB- /stable	BBB- /stable

3.5.3. *Syria*

Syria's economic and financial situation and outlook are difficult to assess, given the lack of reliable data due to the ongoing conflict. It is clear, however, that the conflict continues to have a strong negative impact on the macroeconomic situation of the country, including its balance of payments position.

Since the conflict started in 2011, growth has been significantly affected by a sharp slowdown in virtually all economic activity (including trade, tourism and agriculture) as a result of the extensive destruction of infrastructure and emigration, aggravated by the US and EU embargo. The Syrian GDP is estimated to have contracted by almost 60% between 2010 and 2015, based on IMF estimates. According to the Syrian Central Bureau of Statistics, average consumer prices have increased more than sixfold between July 2010 and July 2016. Price increases affected all categories due to the lack of supply and the collapse of the Syrian pound

(SYP) which has declined dramatically from SYP 56 against the EUR in 2011 to over SYP 550 in February 2017.

The conflict has also weighed heavily on the fiscal situation by markedly impacting productive capacity, the state's revenue-generating capacity, and by pushing up defence expenditure.

External debt estimates range from 23% to 60% of GDP, compared to 9% of GDP in 2009. Furthermore, debt service paid has stopped almost completely since 2012. The trade balance deficit has increased by an estimated 45% between 2010 and 2015, with a drop in exports estimated at almost 70% during the same period.

Considering the sharp drop in export revenue and financial inflows, foreign exchange reserves are believed to have dropped considerably. Official reserves are tentatively estimated to have decreased to USD 1 billion in 2015 (a substantial drop from the USD 19.8 billion at end-August 2012, the latest IMF data available). The maintenance of a minimum level of reserves has largely been possible due to the financial support from the allies of the Syrian regime, notably Iran.

Country-risk indicators : Syria		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	0.4	-5.3	-3.3
Unemployment (end of period)	(% labour force)	40.0	50	50
Inflation rate (CPI) (average)	(% change)	29.2	38.1	45.7
Public finances				
Central government balance	(% of GDP)	-13.6	-11.2	-10.7
Balance of payments				
Exports of goods f.o.b.	(m EUR)	2,521.1	1,735.70	1,825.88
Current account balance	(% of GDP)	-12.4	-11.4	-9.4
Net inflow of foreign direct investment	(m EUR)	n.a.	n.a.	n.a.
Official reserves, including gold (end of period)	(m EUR)	1,618.8	845.43	540.80
In months of subsequent year's imports	(months)	n.a.	n.a.	n.a.
Exchange rate (end of period)	(per EUR)	180.4	335.35	525.12
External debt				
External debt (end of period)	(m EUR)	4,062.7	4,785.98	5,100.00
External debt/GDP	(%)	12.0	16	23.1
Debt service/exports of goods and services	(%)	n.a.	n.a.	n.a.
Arrears (on both interest and principal)*	(m EUR)	n.a.	n.a.	n.a.
Debt relief agreements and rescheduling	(m EUR)	n.a.	n.a.	n.a.
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	445.0	389.0	332.7
EU exposure/total EU exposure	(%) (1)	0.4	0.4	0.3
EU exposure/external debt	(%)	11.0	8.1	6.5
EU exposure/exports of goods and services	(%)	17.7	22.4	18.2
IMF arrangements				
Type	none			
(Date)				
On track				
Indicators of market's perception of creditworthiness				
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

Source: Economist Intelligence Unit

3.5.4. *Tunisia*

In parallel to a protracted and fragile political transition process since the 2011 revolution, the Tunisian economy has suffered from continuous domestic unrest, regional instability, and a weak international environment (particularly in the euro area). These unfavourable developments substantially weakened its growth performance, as well as its fiscal and balance of payments positions. The risks associated with this situation are however partly mitigated by the adjustment and reform programme the Tunisian authorities have put in place with substantial support from the IMF, the EU and other donors. In May 2016, Tunisia and the IMF entered a USD 2.9 billion Extended Fund Facility (EFF) expiring in May 2020, aimed at supporting the country's five-year economic programme (2016-2020). The EFF follows and

IMF 24-month Stand-By Arrangement (SBA) of USD 1.75 billion approved by the IMF Board on June 2013. The completion of the first review of the EFF, initially foreseen for end September 2016, has been delayed, however, reflecting problems with compliance of some benchmarks and disagreements over fiscal policy. Moreover, Tunisia is a recipient of complementary EU Macro-Financial Assistance (MFA) for a total amount of EUR 300 million in loans, approved in May 2014 and whose first two tranches, totalling EUR 200 million, were disbursed in 2015. The disbursement of the third tranche of EUR 100 million, initially planned for 2016, had to be postponed due to the incomplete implementation of the measures attached to it and to the IMF programme being on hold. Moreover, following Tunisia's request for additional MFA support of 2015, the EU approved a second MFA operation of EUR 500 million in loans in July 2016.

The GDP growth rate for 2016 is estimated to have reached 1.1%, which, although it represents a slight acceleration from the 0.8% recorded in 2015, remains well below the growth rates achieved in the decade preceding the revolution. The unemployment rate stands at 15.5%, particularly among the young and graduates (over 30%). Inflation has averaged around 3.7% in 2016, down from 5% in 2015, and is expected to reach an average of 3.9% in 2017, according to IMF projections. Regarding public finances, in 2016 the government deficit is estimated to have reached 6.5% of GDP (up from 5.5% of GDP in 2015 and against the 4.6% agreed under the IMF programme), due to a variety of factors including lower than expected tax collections, higher debt service costs (also driven by the depreciation of the Tunisian dinar) and an increased public wage bill.

The debt of the general government has continued to increase and is estimated to have reached over 60% of GDP in 2016, up from 55% of GDP in 2015. Also, a substantial increase in public debt amortisations is scheduled to take place in the coming years (from about USD 600 million in 2015 to more than USD 1.4 billion in 2017, and almost USD 1.2 billion in 2018). External debt increased from 48% of GDP in 2011 to 56.2% of GDP in 2014, and it is estimated to have reached 70% in 2016. The latest Public Debt Sustainability Assessment by the IMF (June 2016) considered the debt dynamics sustainable, although it also highlighted their vulnerability to an overvalued exchange rate and to real GDP growth shocks. Tunisia’s sovereign ratings have been downgraded several times since 2011, most recently by Fitch from BB- to B+ (on 3 February 2017). In addition, in November 2016 Moody's changed the outlook from "stable" to "negative". Despite the decline in oil prices, weaker domestic economic activity and improved export performance, the negative effects on tourism of the terrorist attacks have contributed to keeping the current account deficit at an unsustainable high level of 8.7% of GDP in 2016. Reserves are estimated to have ended 2016 at USD 6.7 billion, or around 4.3 months of imports.

Country-risk indicators : Tunisia		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	2.3	0.8	1.1
Unemployment (end of period)	(% labour force)	15.3	15.0	15.5
Inflation rate (CPI) (Dec/Dec)	(% change)	4.8	4.0	4.2
Public finances				
General government balance	(% of GDP)	-4.1	-5.5	-6.5*
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	13,817.5	13,667.6	13,222.3
Current account balance	(% of GDP)	-9.1	-8.8	-8.7*
Net inflow of foreign direct investment	(m EUR)	876.1	893.2	957.5
Official reserves, including gold (end of peri	(m EUR)	6,358.4	6836.3	6336.9
In months of subsequent year's imports	(months)	4.2	4.7	4.3
Exchange rate (end of period)	(per EUR)	2.25	2.20	2.43
External debt				
External debt (end of period)	(m EUR)	22,543.4	26,351.2	27,255.3*
External debt/GDP	(%)	56.2	67.8	70*
Debt service/exports of goods and services	(%)	8.3	11.9	12.4*
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	2,686.0	2,887.0	2,755.7
EU exposure/total EU exposure	(%)	2.6	2.8	2.8
EU exposure/external debt	(%)	11.9	11.0	10.1
EU exposure/exports of goods and services	(%)	19.4	21.1	20.8
IMF arrangements				
Type: Stand-by Arrangement (SBA)		SBA	SBA	
Date: started June 2013 - concluded December 2015				
On track		yes	yes	
Type: Extended Fund Facility (EFF)				EFF
Date: started in May 2016 - expiring in May 2020				
On track				1st review pending
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba3	Ba3	Ba3
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-**

*EC staff estimates
** Downgraded to B+ on 3 February 2017
Exports of services are only provided on a net basis

3.6. Other countries

3.6.1. Brazil

Over the past two years, Brazil experienced the worst recession in several decades. While worsening external conditions dampened growth, the recession has been largely due to domestic factors. In particular, the largest corruption scandal in Brazil's history as well as the political turmoil surrounding the impeachment of ex-president Dilma Rousseff severely dented confidence and affected investment. GDP contracted by 3.8% in 2015. The recession continued throughout 2016 with GDP expected to have fallen by another 3.4%.

Recent economic indicators suggest that the economy is approaching a recovery phase. An environment of lower inflation, improved confidence and easier monetary policy will be supportive of growth but continued fiscal tightening together with subdued investment growth are expected to limit the pace of economic expansion. According to the European Commission Winter forecast, growth is projected to reach 0.6% and 1.7% in 2017 and 2018, respectively.

The fiscal situation has deteriorated sharply in recent years with the general government deficit reaching 10.4% of GDP in 2015. The public debt-to-GDP ratio of 67% is high considering the very high debt servicing costs. The government has outlined a fiscal consolidation plan to lower the deficit and is committed to sounder fiscal management. The recently approved spending cap and the ongoing reform of the social security system are important steps towards improving fiscal sustainability. Inflation remained significantly above the 4.5% policy target for several years despite the economic downturn, but has started to fall sharply in recent months as some inflationary factors (e.g. depreciation, hikes in regulated prices) have been fading out. The Brazilian Central Bank resumed the easing cycle in October 2016 after four years of tightening. Structural reform agenda appears to advance more slowly but the government plans to tackle the overly complex tax system and propose a reform the labour market over the coming months. One of the key priorities is to revive infrastructure investment through a revamped infrastructure concessions programme.

Country-risk indicators : Brazil		2014	2015	2016
Output and prices				
Real GDP growth rate	(%)	0.5	-3.8	-3.4
Unemployment (end of period)	(% labour force)	4.6	7.4	12
Inflation rate (CPI) (Dec/Dec)	(% change)	6.5	10.7	6.3
Public finances				
General government balance	(% of GDP)	-6.00	-10.20	-8.90
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	203,559.4	209,532.5	204,533.1
Current account balance	(% of GDP)	-4.0	-3.3	-1.3
Net inflow of foreign direct investment	(m EUR)	72,853.3	67,634.7	53,021.0
Official reserves, including gold (end of period)	(m EUR)	270,725	319,464	321,344
In months of subsequent year's imports	(months)	19.4	25.8	31.9
Exchange rate (average)	(per EUR)	3.1	3.7	3.9
External debt				
External debt (end of period)	(m EUR)	286,320.1	306,524.7	269,594.7
External debt/GDP	(%)	15.8	19.0	17.7
Debt service/exports of goods and services	(%)	22.9	38.6	N/A
Arrears (on both interest and principal)	(%)	0.0	0.0	
Debt relief agreements and rescheduling	(m EUR)	none		
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	975.0	1,065.0	761.7
EU exposure/total EU exposure	(%)	0.9	1.0	0.8
EU exposure/external debt	(%)	0.3	0.3	0.3
EU exposure/exports of goods and services	(%)	0.5	0.5	0.4
IMF arrangements				
Type		no		
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa2 /negative	Ba2/negative	Ba2/negative
S&P long-term foreign currency rating (end of period)		BBB- /stable	BB/negative	BB/negative
Fitch long-term foreign currency rating (end of period)		BBB /stable	BB+/negative	BB/negative

* European Commission Winter 2017 forecast
** Based on Q3 2016 data

3.6.2. South Africa

South Africa has experienced a protracted economic downturn in recent years. Real GDP growth has decelerated from around 5% in the run-up to the financial crisis to 1.3% in 2015. Weak external demand, domestic political and policy uncertainty, low consumer and business confidence, constrained electricity and water supply as well as tighter monetary and fiscal policies have weighed on South Africa's economic performance. Growth is expected to have reached 0.4% in 2016, the slowest pace since 2009.

While the downturn may be nearing an end, the recovery is projected to be modest. Tight fiscal policy, weak confidence and subdued investment are expected to constrain the growth outlook. At the same time, firming commodity prices and a gradual pick-up in global demand will provide some support to growth in the near term. According to the European Commission Winter 2017 forecast, growth is projected to reach 1.2% in 2017 and 1.6% in 2018. Risks point to the downside, reflecting continued political uncertainty and tensions within the government. The possibility of a credit rating downgrade to below-investment grade still represents a real risk for macroeconomic stability and fiscal sustainability.

In response to the deteriorating economic outlook, fiscal policy has set a course of more rapid fiscal consolidation. The government aims to achieve the target of 2.6% of GDP for the fiscal deficit over the next three years (from the current 3.5% of GDP) by limiting expenditure growth, bolstering tax revenues and actively managing fiscal risks emanating from State Owned Enterprises (SOEs). Net national debt is expected to stabilise at around 48% of GDP in 2019/20. Reliance on external debt is relatively modest, and the government will continue tapping local markets for the bulk of its financing needs. Inflation remains elevated, above the Central Bank's target range of 3% to 6%, but it is expected to fall gradually below the upper threshold of the range. Concerning structural reforms, some progress is being made in improving business environment, supporting investment and reforming the labour market. In particular, there are encouraging signs of less conflictual labour relations.

Country-risk indicators : South Africa		**2014**	**2015**	**2016**
Output and prices				
Real GDP growth rate	(%)	1.6	1.3	0.4*
Unemployment (end of period)	(% labour force)	24.3	24.5	26.5
Inflation rate (CPI) (Dec/Dec)	(% change)	5.4	5.3	6.7
Public finances				
General government balance	(% of GDP)	-3.70	-3.70	-3.50
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	82,487.3	87,107.3	80,347.8
Current account balance	(% of GDP)	-5.3	-4.3	-3.8
Net inflow of foreign direct investment	(m EUR)	4,354.6	1,370.4	2,057.4
Official reserves, including gold (end of period)	(m EUR)	31,022.5	35,207.3	35035.3*
In months of subsequent year's imports	(months)	4.4	4.8	5.2**
Exchange rate (average)	(per EUR)	14.4	14.2	16.3
External debt				
External debt (end of period)	(m EUR)	108,622.4	128,607.6	119294.3**
External debt/GDP	(%)	41.0	45.3	45.5**
Debt service/exports of goods and services	(%)	7.1	8.3	N/A
Arrears (on both interest and principal)	(%)	none	none	
Debt relief agreements and rescheduling	(m EUR)	none		
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	1,133.0	1,101.9	1,126.8
EU exposure/total EU exposure	(%)	1.1	1.1	1.1
EU exposure/external debt	(%)	1.0	0.9	0.9
EU exposure/exports of goods and services	(%)	1.4	1.3	1.4
IMF arrangements				
Type		no		
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa2 /stable	Baa2/negative	Baa2/negative
S&P long-term foreign currency rating (end of period)		BBB- /stable	BBB-/negative	BBB-/negative
Fitch long-term foreign currency rating (end of period)		BBB /negative	BBB-/stable	BBB-/negative

* EU Commission estimates for 2016
** Based on Q3 2016 data