Brussels, 28.10.2022
COM(2022) 560 final

REPORT FROM THE COMMISSION

TO THE EUROPEAN PARLIAMENT AND THE COUNCIL
on financial instruments, budgetary guarantees, financial assistance and contingent liabilities
Situation at 31 December 2021

EN EN

Table of Contents

1. Introduction ... 2

2. What are contingent liabilities? ... 4

3. Contingent liabilities arising from provisioned instruments: budgetary guarantees and financial assistance to third countries ... 7

4. Contingent liabilities arising from financial assistance to Member States ... 9

5. Assessing the sustainability of EU contingent liabilities ... 10

5.1. Assessment Framework ... 10

5.2. Assessment of the sustainability of the provisioned contingent liabilities ... 11

5.3. Assessment of the sustainability of the contingent liabilities in respect of the limits of the Own Resources ceiling ... 13

6. Conclusions ... 15

Annex: Sustainability and headroom in respect of the permanent Own Resources ceiling ... 17

1. Introduction

This report is issued in accordance with the requirements of Article 250 of the Financial Regulation[1]. It has been prepared in conjunction with:

- working documents X and XI, which accompany the draft EU budget for the financial year 2023[2] and provide detailed information on the EU's financial instruments and budgetary guarantees[3]; and
- the long-term forecast report on future inflows and outflows of the EU budget, which gives projections for the EU's available financial capacity in 2023-2027 once planned budget expenditures have been taken into consideration[4].

The objective of this report is to provide an overview of the amount and composition of contingent liabilities borne by the EU budget as at 31 December 2021, paying particular regard to the distinction between provisioned and unprovisioned contingent liabilities. This report also presents an assessment of the long-term sustainability of contingent liabilities based on both qualitative and quantitative factors. This assessment was performed by comparison with:

- the amount of existing provisions held in the respective compartments of the common provisioning fund (CPF) set up by the Commission for budgetary guarantees and financial assistance to third countries;
- the limits of the own resources ceiling and the available headroom for unprovisioned contingent liabilities stemming from financial assistance to Member States.

Financial instruments in the form of guarantees are a source of contingent liabilities. However, the budget always includes full provision for such financial instruments, i.e. the budget has set aside the maximum financial liability that can arise from each financial instrument. Contingent liabilities stemming from financial instruments are therefore not subject to the assessment of the sustainability of contingent liabilities borne by the EU budget.

The main conclusion of the 2021 sustainability analysis is that the EU budget has adequate resources in principle to cope with the potential materialisation of contingent liabilities. More in detail:

- **At the end of 2021, the EU budget included contingent liabilities amounting to approximately EUR 163 billion relating to loans granted to Member States and third countries, and over EUR 60 billion relating to guarantees provided in the context of the European Fund for Strategic Investments (EFSI)[5], the European**

---

[1] Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.7.2018, p. 1).

[2] COM(2022) 400 final of 1.7.2022.

[3] Working document X on the use made of financial instruments, pursuant to Article 41(4) of Financial Regulation. Working document XI on the implementation of budgetary guarantees, the Common Provisioning Fund and the assessment of the sustainability of the contingent liabilities arising from budgetary guarantees and financial assistance pursuant to Article 41(5) of the Financial Regulation.

[4] COM(2022) 315 final of 30.6.2022.

[5] Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 (OJ L 169, 1.7.2015, p. 1).

Fund for Sustainable Development (EFSD)[6], the EFSD+[7] and the External Lending Mandate (ELM)[8]. This represents a 43% increase in contingent liabilities compared to the end of 2020. The bulk of this is accounted for by loans to Member States under the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE)[9] and the Recovery and Resilience Facility (RRF)[10].

- **At the end of 2021, no under-provisioning issues had been identified for contingent liabilities arising from budgetary guarantees and financial assistance to third countries.**
- **The EU's financial capacity under the existing legal framework (i.e. the Own Resources Decision (ORD)[11] and the 2021-2027 multiannual financial framework (MFF) Regulation[12]) is sufficient to cover the EU's existing obligations in relation to both spending programmes and financial markets (for debt issued under financial assistance programmes to Member States) - even under extreme adverse circumstances**.

This report covers contingent liabilities incurred before the end of 2021 and analyses how they are catered for under the 2021-2027 MFF.

The 2020 report already detailed the extensive measures and safeguards which the Commission can use to protect the EU budget from potential losses arising from contingent liabilities[13]. These notably include a horizontal cross-Commission framework for the close monitoring of contingent liabilities. The Steering Committee on Contingent Liabilities[14] plays a central role in that framework. In 2021, this steering committee met five times to further the development of common methodologies for the design, negotiation and implementation of budgetary guarantees and financial assistance.

---

[6] Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund (OJ L 249, 27.9.2017, p. 1).

[7] The EFSD+ was established by the Neighbourhood, Development and International Cooperation Instrument (NDICI) – Global Europe Regulation. Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe, amending and repealing Decision No 466/2014/EU and repealing Regulation (EU) 2017/1601 and Council Regulation (EC, Euratom) No 480/2009 (OJ L 209, 14.6.2021, p. 1).

[8] An overview of the relevant legislative acts and corresponding guarantee agreements between the Commission and the European Investment Bank is available in the Definitive Adoption (EU, Euratom) 2021/417 of the European Union's general budget for the financial year 2021 (Section III – Commission, Remarks for Item 14 20 03 02 of the statement of expenditure 'External Action Guarantee for NDICI, EINS, IPA III and MFA') (OJ L 93, 17.3.2021, p. 959).

[9] Council Regulation (EU) No 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak (OJ L 159, 20.5.2020, p. 1).

[10] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

[11] Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom (OJ L 424, 15.12.2020, p. 1).

[12] Council Regulation (EU, Euratom) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027 (OJ L 433 I, 22.12.2020, p. 11).

[13] See paragraphs 3.2 and 4.2 of the report from the Commission to the European Parliament and the Council on financial instruments, budgetary guarantees, financial assistance and contingent liabilities - situation at 31 December 2020 (COM(2021) 676 final of 5.11.2021).

[14] Commission decision of 24.7.2020 on establishing the Steering Committee on Contingent Liabilities arising from Budgetary Guarantees (C(2020) 5154 final). The present report also contains all the information which is referred to in Article 7 of that Decision.

Pursuant to Article 250, this report also provides a snapshot of financial instruments that are funded by the EU budget and related to both internal and external policies.

2. What are contingent liabilities?

Contingent liabilities are potential financial liabilities which stem from existing binding commitments or past events. Whether or not these contingent liabilities result in actual losses, and the size of any such losses, will depend on future events which are difficult to predict. There are three main sources of contingent liabilities for the EU.

- **Budgetary guarantees** are guarantees provided to different implementing partners under the EFSI, EFSD and ELM mandates. Under all these instruments, the EU provides guarantees to implementing partners to cover a share of potential losses resulting from their financing and investment operations (i.e. debt or equity operations). Under the 2021-2027 MFF, the InvestEU programme[15] combines – within a single EU guarantee – the activities previously conducted under EFSI and several other financial instruments. It has provided implementing partners other than the European Investment Bank (EIB) Group with access to a portion of the EU guarantee. The EFSD and the ELM have similarly been succeeded by the EFSD+, which was established by the Neighbourhood, Development and International Cooperation Instrument (NDICI) – Global Europe Regulation and which now acts as the financing arm of a reinforced External Investment Plan.
- Loans and related borrowings to provide **financial assistance to third countries** (i.e. macro-financial assistance programme (MFA)[16] loans and Euratom loans to third countries[17]). Loans to third countries are financed through 'back-to-back' borrowing operations, i.e. each loan is funded with a corresponding EU bond that fully matches the EU loan in terms of its maturity, interest rate and repayment schedule. This means that investors in EU bonds are only exposed to the EU credit risk and not to the credit risk of each single beneficiary country. The liability for the EU is contingent, because the beneficiary country is contractually obliged to provide the revenue flow to repay the EU bonds. So no outflow of EU resources is in principle required to settle the EU debt.
- Loans and related borrowings to provide **financial assistance to EU Member States** (i.e. Balance of Payments (BoP) loans[18], European Financial Stabilisation Mechanism (EFSM) loans[19], Euratom loans[20], loans under SURE and loans under the RRF). As a

[15] Regulation (EU) 2021/523 of the European Parliament and of the Council establishing the InvestEU Programme and amending Regulation (EU) 2015/1017 (OJ L 107, 26.3.2021, p. 30).

[16] The legal basis for macro-financial assistance to non-EU countries other than developing countries is Article 212 of the Treaty on the Functioning of the European Union (TFEU). Article 213 TFEU may be used as a legal basis when a third country requires urgent financial assistance.

[17] Council Decision 94/179/Euratom of 21 March 1994 amending Decision 77/270/Euratom to authorize the Commission to contract Euratom borrowings in order to contribute to the financing required for improving the degree of safety and efficiency of nuclear power stations in certain non-member countries (OJ L 84, 29.3.1994, p. 41).

[18] Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments (OJ L 53, 23.2.2002, p. 1).

[19] Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism (OJ L 118, 12.5.2010, p. 1). Council Regulation (EU) 2015/1360 of 4 August 2015 amending Regulation (EU) No 407/2010 establishing a European financial stabilisation mechanism (OJ L 210, 7.8.2015, p. 1).

[20] Council Decision 77/270/Euratom of 29 March 1977 empowering the Commission to issue Euratom loans for the purpose of contributing to the financing of nuclear power stations (OJ L 88, 6.4.1977, p. 9) as amended and supplemented.

general rule, these loans – with the exception of the RRF loans – are granted to EU Member States using the same back-to-back technique that is used for financial assistance to third countries[21]. RRF loans are by contrast financed through a diversified funding strategy, which delinks the disbursement of loans to a Member State from the issuance of the EU bonds. Irrespective of the funding method, the repayments by the beneficiary Member States are used to service the EU debt. They do not count as own resources under the corresponding own resources ceiling.

Contingent liabilities arising from **budgetary guarantees** and from **financial assistance to third countries** are provisioned based on conservative assessments of the expected losses for each instrument plus an additional safety buffer to cover a portion of the unexpected losses.

The CPF holds the provisions protecting the EU budget against losses which may arise from budgetary guarantees and financial assistance to third countries. On 31 December 2021, the CPF was composed of four compartments (EFSI, EFSD, the former Guarantee Fund for External Actions (GFEA) and InvestEU). The CPF is by far the largest portfolio directly managed by the Commission. The market value of the outstanding shares on 31 December 2021 was EUR 12.31 billion, which is equal to the value of net assets[22].

As reported in May 2022[23], the CPF experienced a 1% loss in market valuation in 2021 as interest rates began to rise, reducing the value of bonds already held by the portfolio. These accounting losses arise from the application of "mark-to-market' accounting standards to EU managed portfolios. They will only be crystallised as actual losses if the Commission sells the bond in question before its maturity date. The accounting losses incurred by the CPF in 2021 did not materially affect the capacity of the CPF to absorb expected/unexpected losses in 2021, and were more than offset by large inflows. The provisioning of all compartments remained in line with the amounts stipulated in the legislation establishing the different sources of contingent liabilities. The CPF, along with all funds investing in bonds, incurred further losses through 2022 as interest rates rose steeply[24]. The Commission monitors the situation continuously and will report on these developments in the context of the annual reporting on CPF performance in 2022.

Contingent liabilities stemming from **financial assistance to EU Member States** are not provisioned. The amounts borrowed by the EU constitute direct and unconditional obligations of the EU[25]. This means that, if a beneficiary Member State were to fail to honour its obligations towards the EU, the EU would be entitled – as a last resort and only after having exhausted all other possibilities to find solutions within the existing budgetary framework – to call on the other Member States to temporarily cover the amount in

[21] Under NGEU the Commission also borrows on the markets to finance non-repayable support (including RRF grants). The repayment of these borrowing operations is covered through the appropriations of the annual budgets, within the ceilings of the Multiannual Financial Frameworks, and therefore does not constitute a contingent liability for the EU. The NGEU's borrowing-to-lend activities (i.e. to fund RRF loans) do, however, give rise to new contingent liabilities and are addressed in this report.

[22] The assets of the common provisioning fund are currently invested in compliance with the Asset Management Guidelines with the aim of delivering capital preservation over its investment horizon. The portfolio is made up of Euro-denominated money market instruments, fixed income securities denominated in Euro and US Dollar. The Commission is currently reviewing the CPF benchmark to include new asset classes (i.e. equity instruments). Together with the emerging more favourable market conditions, the new investment policy is expected to improve the expected returns of the CPF benchmark over the long term.

[23] See Report from the Commission to the European Parliament and the Council on the common provisioning fund in 2021 (COM(2022) 213 final of 16.5.2022) and the accompanying Commission Staff Working Document (SWD(2022) 143 final of 16.5.2022).

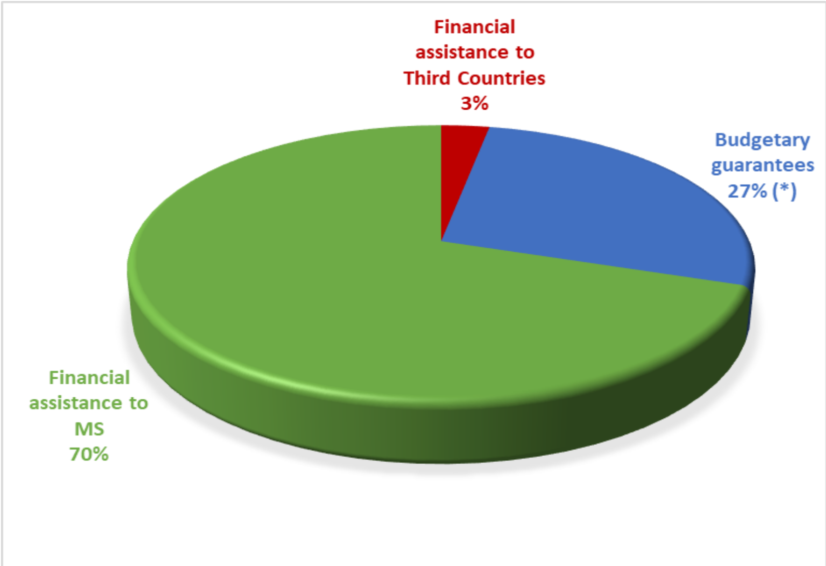
[24] The present report was completed on 30th September, 2022.

[25] This also applies to the amounts borrowed for the purpose of on-lending to third countries.

question. Such calls for funds would be made over and above the MFF ceilings, while respecting the own resources ceiling[26].

At the end of 2021, the EU budget included total contingent liabilities of **EUR 223 billion** (approximately EUR 163 billion relating to loans granted to Member States and third countries, and over EUR 60 billion relating to guarantees provided in the context of EFSI, EFSD, EFSD+ and ELM). The largest exposure for the EU budget originated in financial assistance programmes targeting Member States (see Figure 1).

Figure 1: Breakdown of contingent liabilities by source as at 31 December 2021



(*) Based on the total amount of 'available guarantee signed with counterparts' (see Table 1).

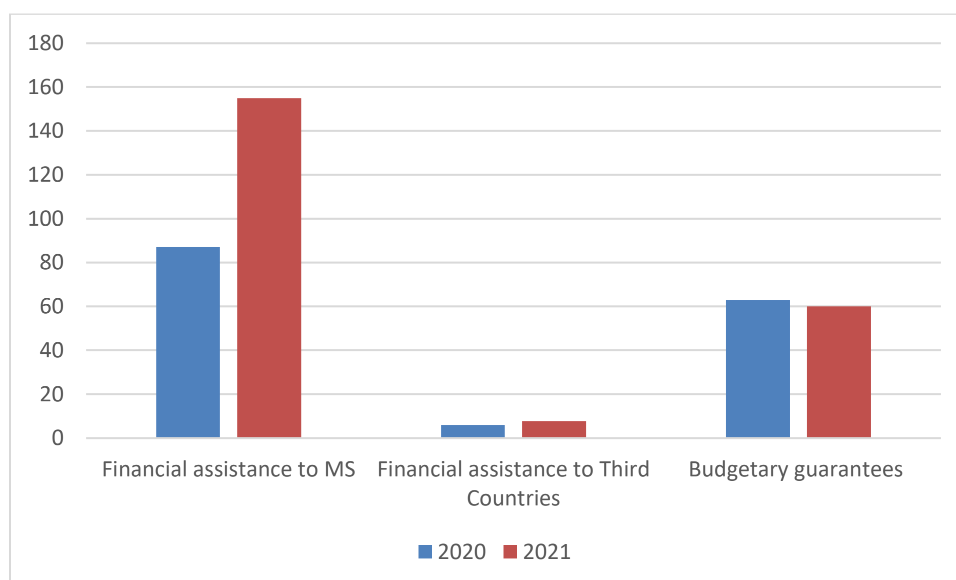
The increasing importance of budgetary guarantees and financial assistance programmes for the implementation of EU policies is demonstrated by the steep increase of 43% in the total amount of contingent liabilities between 2020 and 2021 year ends. Loans to Member States increased the most (+78%). This was primarily due to the additional loan disbursements under SURE and the first disbursements under the RRF. Contingent liabilities stemming from financial assistance to third countries also increased substantially (+30%) while contingent liabilities arising from budgetary guarantees remained fairly stable (see Figure 2 below).

The amount of contingent liabilities arising from the use of budgetary guarantees is expected to increase in 2022, when the investment phase of InvestEU and EFSD+ (involving EUR 26.2 billion and EUR 39.8 billion of guarantees respectively) will actually start. This will be partly offset by maturing underlying exposures under EFSI and ELM.

EU contingent liabilities are also expected to increase significantly by the end of 2022 in relation to the additional disbursement of RRF loans to Member States.

[26] See Articles 2(3) and 3(1) of Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027.

Figure 2: Breakdown of contingent liabilities by source at the end of 2020 and 2021



As already explained above, **financial instruments** in the form of guarantee do not create any risk exposure to the EU budget as they are fully provisioned.

The EU budget funds a wide variety of financial instruments (equity, debt, loan guarantees, venture capital, capacity building and risk sharing facilities). These can be classified into two main categories: those related to the EU internal policies and those related to the EU external policies (depending on whether the final recipients are mainly located in or outside the EU). An internal policy example is the Marguerite Fund[27], an equity fund that has allowed the Commission to promote investments in infrastructure projects and companies in the transport, energy and mature renewable energy sectors. An external policy example is the European Fund for Southern Europe (EFSE)[28], one of the world's largest microfinance funds with around EUR 1 billion in capital commitments. The EFSE is the leading provider of long-term funding to selected partner lending institutions in south-east Europe and Turkey, and in the Eastern Neighbourhood Region. It serves the financing needs of micro and small enterprises and low-income households.

Working document X accompanying the draft 2023 budget provides a detailed description of the 36 financial instruments that existed on 31 December 2021.

3. Contingent liabilities arising from provisioned instruments: budgetary guarantees and financial assistance to third countries

In 2021 the EU provided budgetary support in the form of guarantees to the EIB Group on debt and equity operations covered by the EFSI; and to the EIB Group and nine other financial institutions (including the European Bank for Reconstruction and Development

[27] See Regulation (EC) No 680/2007 of the European Parliament and of the Council of 20 June 2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks (OJ L 162, 22.6.2007, p. 1), and Commission Decision C(2010) 941 of 25 February 2010 on European Union participation in the 2020 European Fund for Energy, Climate Change and Infrastructure (the Marguerite Fund).

[28] Regulation (EC) 1638/2006 (OJ L 310, 9.11.2006, p. 1–14), Regulation (EU) 232/2014 (OJ L 77, 15.3.2014, p. 27–43) and Regulation (EU) 236/2014 (OJ L 77, 15.3.2014, p. 95–108).

and several national promotional banks) on operations covered by the EFSD. The EU also guaranteed loans granted by the EIB to beneficiaries outside the EU under the ELM.

The oldest budgetary guarantee is the one provided under the **ELM.** Its basic purpose is to enhance the EIB's ability to undertake financing operations in riskier environments outside the EU in areas such as local private sector development and development of socio-economic infrastructure.

The **EFSI** was launched in 2015 to remedy the problem of prolonged subdued private investment in the EU following the financial crisis. It takes the form of a EUR 26 billion budgetary guarantee from the EU budget to the EIB Group. This is supplemented by an allocation of EUR 7.5 billion from the EIB's own resources.

The guarantee under the **EFSD** was put in place to support investments and improve access to finance primarily in Africa and the neighbourhood countries and to help them to meet the UN Sustainable Development Goals.

Building on the successful implementation of the ELM and the EFSD, the **EFSD**+ has been established as an integrated financial package supplying financing capacity to sub-Saharan Africa, Asia and the Pacific, Latin America and the Caribbean and to the neighbourhood and enlargement countries in areas such as the reduction of socio-economic inequalities; sustainable and inclusive growth; climate change adaptation and mitigation; environmental protection and management; and job creation.

Table 1 provides information on the total risk exposure for the EU budget originating from the four guarantees.

Table 1: Contingent liabilities arising from budgetary guarantees (as at 31 December 2021) (EUR million)[29]

	Available guarantee signed with counterparts	**Available guarantee related to operations signed by counterparts**	**Available guarantee related to operations signed by counterparts and disbursed**
EFSI	25 825.74	24 730.24	20 358.06
EFSD	1 390.7	610.67	535.25
ELM	33 025.55	33 025.55	20 834.52
EFSD+	200	200	200
Total	**60 441.99**	**58 566.46**	**41 927.83**

Financial support to third countries in the form of bilateral loans from the EU and funded back-to-back from the capital markets has been granted mainly in the context of the **macro-financial assistance programme**, which targets countries outside the EU experiencing a

[29] Disbursed amounts represent the amounts already paid to final beneficiaries. Amounts related to operations signed by counterparts include the disbursed amounts plus agreements already signed with beneficiaries or financial intermediaries but not yet disbursed. The available guarantee signed with counterparts represents the total guarantee that is covered by the EU budget and therefore the EU's maximum potential exposure, including operations authorised for signature but not yet signed. The figures include amounts classified as 'provisions/financial liabilities' in accordance with the applicable EU accounting rules.

balance of payment crisis. New loans for an amount of EUR 1 665 million were disbursed in 2021[30].

The outstanding amounts at the end of 2021 are presented in Table 2.

Table 2: Outstanding amounts in respect of loans to third countries (as at 31 December 2021) (EUR million)

	Outstanding loans	Accrued interests	Total
MFA	7 438	28.44	**7 466.44**
Euratom	300	0.47	**300.47**
Total	**7 738**	**28.91**	**7 766.91**

4. Contingent liabilities arising from financial assistance to Member States

In 2021 the Commission, acting on behalf of the EU, operated five programmes under which it had granted loans to Member States.

- **BoP** assistance was intended to help EU countries outside the euro area that experience or run the risk of experiencing balance of payments difficulties.
- The **EFSM** was created to provide financial support to EU Member States experiencing or threatened by severe financial difficulties caused by exceptional occurrences beyond their control.
- The **SURE** programme was agreed in June 2020 to help finance sudden and severe increases of national public expenditure related to national short-time work schemes and similar measures in response to the COVID-19 crisis.
- The **RRF** is the central pillar of NextGenerationEU (NGEU)[31] and is a temporary instrument to support reforms and investments in the EU Member States with the ultimate goal of facilitating recovery from the COVID-19 pandemic while helping the green and digital transitions. Under the EU recovery instrument, the Commission borrows funds which the RRF then uses to finance the Member States' reforms and investments. The financing can be either a loan (repayable support) or a grant (non-repayable support). To benefit from the support, Member States submitted national recovery and resilience plans to the Commission. Each plan sets out the reforms and investments to be implemented by the end of 2026, setting clear milestones and targets that are to be analysed by the Commission and approved by the European Council. Only RRF loans (as opposed to RRF grants) give rise to contingent liabilities and they alone are therefore considered in this analysis. It is important to underline that the funding of the RRF loans is financed via a diversified funding strategy (DFS) and not via the traditional back-to-back approach[32]. All NGEU borrowings, amounting to

[30] For details, including the outstanding amount per individual beneficiary, see the report from the Commission to the European Parliament and the Council on the implementation of macro-financial assistance to third countries in 2021 (COM(2022) 341 final of 19.7.2022).

[31] Council Regulation (EU) 2020/2094 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis (OJ L 433 I, 22.12.2020, p. 23).

[32] NGEU issuances are used to finance indiscriminately RRF loans, RRF non-repayable support and other MFF programmes.. Issuances are based on an annual borrowing plan that is itself based on the forecasted outflows for loans and non-repayable support. The Commission follows a diversified funding strategy and uses different long- and short-term funding instruments. This allows the Commission to offer long-term

EUR 91 billion at the end of 2021, are guaranteed by the EU budget under Article 9.4 of the ORD.

- The **Euratom loan facility** helps Member States finance investments in nuclear power stations and in industrial installations in the nuclear fuel cycle.

The outstanding amounts of loans under the five different programmes at the end of 2021 are presented in Table 3.

Table 3: Outstanding amounts in respect of loans to EU Member States (as at 31 December 2021) (EUR million)

	Outstanding loans	Accrued interests	Total
BoP	200	1.15	201.15
Euratom	49.5	0.01	49.51
EFSM	46 800	469.59	47 269.59
SURE	89 637	65.15	89 702.15
RRF (loans)	17 969.73	26.06	17 995.79
Total	**154 656.23**	**561.96**	**155 218.19**

A measure of the total annual risk to the EU budget emanating from the contingent liabilities arising from financial assistance to Member States is the total amount of annual capital and interest repayments due from beneficiary Member States under the different programmes in a given year. In the case of back-to-back lending, this coincides with the total amount of repayments of the EU bonds issued to fund the loans to Member States.

Table 4: Yearly repayment schedule of outstanding loans (capital + interest) under the existing programmes for the years 2022-2027 (at 31 December 2021) (EUR million)

Year	Euratom	BoP	EFSM	SURE	RRF loans	All programmes
2022	23.24	5.75	3 507.86	111.11	32.76	**3 680.72**
2023	13.22	5.75	4 233.75	122.5	32.76	**4 407.98**
2024	13.11	5.75	3 311.88	122,5	32.76	**3 486**
2025	0	205.75	3 063.13	8 122,5	32.76	**11 424.14**
2026	0	0	4 651.13	8 122,5	32.76	**12 806.39**
2027	0	0	3 531.13	122.5	32.76	**3 686.39**
Total	**49.57**	**223**	**22 298.88**	**16 723.61**	**196.56**	**39 491.62**

5. Assessing the sustainability of EU contingent liabilities

5.1. Assessment framework

Without prejudice to the assessment of provisioning of certain financial liabilities over their entire lifetime that is required when liabilities are incurred, Article 210(3) of the Financial Regulation stipulates that ‘contingent liabilities arising from budgetary guarantees or

loans on attractive terms to Member States. The borrowing costs are then allocated – following a single unified approach – to beneficiaries of the loans and to the EU budget (for non-repayable support). See the Communication from the Commission to the European Parliament and the Council on a new funding strategy to finance NGEU (COM(2021) 250 final of 14.4.2021).

financial assistance borne by the budget shall be deemed sustainable if their forecast multiannual evolution is compatible with the limits set by the regulation laying down the multiannual financial framework provided for in Article 312(2) TFEU and the ceiling on annual payment appropriations set out in Article 3(1) of Decision 2014/335/EU, Euratom.' (i.e. the MFF ceilings and the own resources ceiling).

This means that the resources that the EU is able to draw on in a single year under the current MFF (own resources ceiling) should be enough to finance the expenditures arising under the MFF as well as any contingent liabilities that may materialise.

In particular, payments relating to provisioned contingent liabilities for budgetary guarantees and financial assistance to third countries must be financed from the established provisions and any further payments foreseen under the MFF. Section 5.2 of this report presents the assessment of the adequacy of the available provisions to meet the expected payments arising from budgetary guarantees and financial assistance to third countries for the liabilities as they stood at the end of 2021.

Payments related to materialising contingent liabilities resulting from unprovisioned financial assistance to EU Member States can be financed by calling on additional own resources up to the ceiling established by the Own Resources Decision. The difference between the own resources ceiling and the own resources necessary to finance the EU budget (known as the 'headroom') represents the EU's financial capacity to cover additional outflows relating to the materialisation of contingent liabilities arising from unprovisioned financial assistance to EU Member States. The assessment framework for this set of contingent liabilities was described in detail in the 2021 report. The results of this assessment of unprovisioned contingent liabilities existing at the end of 2021 are presented in Section 5.3. The 2020 Own Resources Decision temporarily increased the own resources ceiling in order to cater for the liabilities incurred during the implementation of NextGenerationEU, including unprovisioned contingent liabilities arising from RRF loans to Member States.

5.2. Assessment of the sustainability of the provisioned contingent liabilities

As a preliminary remark, EU budgetary guarantees might differ substantially in terms of policy objectives and risk profile of the underlying operations supported under a specific programme. This might in turn lead to a different risk appetite being applied to each of them. Risk appetite is usually expressed in terms of a lifetime Value at Risk (VaR)[33] at a certain (predefined) percentage of confidence level.

It is possible to draw the following conclusions from the available data on lifetime net expected losses on 31 December 2021 concerning the budgetary guarantees in place on that date:

- the applicable provisioning rate of 35% of the total EFSI guarantee is sufficient to cover estimated lifetime net losses from the operations guaranteed under the different EFSI windows with a confidence level of 95%, in line with the *ex-ante* risk appetite of the programme[34];

[33] The Value-at-Risk (VAR) can be defined as the portfolio loss level which, statistically, over a certain time horizon, will not be exceeded with a certain confidence level.

[34] Taking into consideration the results of the Commission's credit risk model with respect to the IIW debt product in combination with the evolution of exposures and losses under the Infrastructure and Innovation Window (IIW)-equity sub window and the SME Window (SMEW) as of 31 December 2021. Further details can be found in paragraph 3.3.1 of working document XI accompanying the Draft Budget 2023.

- with regard to the EFSD, the provisioning rate of 50% is consistent with the estimated lifetime losses with a target confidence level of 90%, in line with the ex-ante risk appetite of the programme;
- the provisions for the ELM held in the external action compartment of the Common Provisioning Fund (the former Guarantee Fund for External Actions or GFEA) are sufficient to cover estimated losses with a confidence level of 91%[35].

With regard to the existing exposures arising from financial assistance to third countries, the adequacy of the 9% target provisioning rate takes the following factors into consideration:

- the absence of payment default in the 2021 reporting year as well as in previous years;
- the amount of the impairment allowance recognised in the EU's 2021 accounts compared to the total outstanding amount[36];
- the geographical exposure of the outstanding loans;
- the structure of the maturities of the loans related to the third countries benefitting from financial assistance that are reasonably well spread over the current MFF and the subsequent ones;
- MFA loans' direct link to, and contingency on, an existing International Monetary Fund programme, which ensures the financial viability of the third country and thus the eventual repayment of the EU funds.

Box 1: EU contingent liabilities arising from MFA and Euratom loans and ELM operations in Ukraine

After the closing of the reporting exercise, on 24 February 2022, Russia started an unprovoked and unjustified war of aggression against Ukraine, which could impact on the exposures to beneficiary countries that are affected, either directly or indirectly, by the conflict.

At the time of writing[37], the Commission had direct exposures relating to Ukraine of EUR 6.9 billion backed by the CPF. As at 31 December 2021, the EU had granted MFA loans worth EUR 4.4 billion and a Euratom loan worth EUR 300 million.

Following the Russian invasion of Ukraine, the EU has provided an additional EUR 2.2 billion to Ukraine in the form of MFA loans. EUR 1.2 billion of emergency MFA was disbursed in March and May and a further EUR 1 billion of exceptional MFA was disbursed at the beginning of August. In September 2022 an additional extraordinary EUR 5 billion MFA to Ukraine was agreed by the Council and the European Parliament.

In addition to the provision of direct support, the Commission is also indirectly exposed via its guarantee of the EIB's ELM portfolio[38]. At the end of 2021, the portfolio covered under

[35] When the predecessors of the external action compartment of the CPF were established, an *ex-ante* risk appetite in the form of a confidence level of the provisioning for the lifetime of the operations was not defined. The time horizon of the future guarantee calls used for the analysis is 5 years.

[36] The impairment allowances for MFA and Euratom loans were EUR 293 million and EUR 13 million respectively. See paragraph 2.4.1.1. in 'Loans for RRF (NGEU) and financial assistance' of the consolidated annual accounts of the European Union - financial year 2021 (COM(2022) 323 final of 23.6.2022).

[37] 30.9.2022.

the ELM included loans disbursed to Ukraine of EUR 2 billion. The amount of ELM exposures has further increased since then. In March 2022 the EIB and the Commission decided to repurpose EUR 688 million of ELM undisbursed loans. This was followed in July 2022 by the Commission's decision to repurpose a further EUR 1.59 billion in undisbursed loans.

Given the above-average risks associated with the financial support to Ukraine in the current war context, all new exposures to Ukraine, i.e. so far the EUR 1 billion MFA disbursed in August (MFA1); the EUR 5 billion MFA agreed by the Council and the European Parliament in September 2022 (MFA2)[39]; and the EUR 1.59 billion repurposed loans under the ELM will be subject to a budgetary coverage of 70% which is higher than the traditional provisioning rate applied to countries receiving macro-financial assistance (9%). While the need for higher protection in the case of repurposed ELM loans is obtained entirely by increasing the provisioning rate to the level of 70% from the EU budget, the same is achieved for the EUR 6 billion in exceptional MFA through maintaining the provisioning rate at the level of 9% and supplement it with guarantees by Member States covering 61% of the loan exposures. As from mid-2023 the adequacy of this provisioning rate will be regularly reviewed to ensure that it reflects any future developments in the risk profile of the exposures in an adequate and prompt manner[40].

The exposures to Ukraine, whose volume and risk profile have been transformed by the Russian invasion earlier this year, are being monitored and managed continuously. They will not be discussed further here, because they fall outside the time period and scope of this report.

5.3. Assessment of the sustainability of the contingent liabilities in respect of the limits of the own resources ceiling

The EU budget's capacity to cater for a situation where the exposure in respect of unprovisioned contingent liabilities materialises is assessed by applying the framework referred to in paragraph 5.1 above.

NGEU-related issuances started in 2021 so this year's report also covers the temporary own resources ceiling of 0.6% EU GNI which is only available for all NGEU liabilities. As mentioned in Section 4 above, the Commission is financing NextGenerationEU with a DFS that provides a common funding pool for loans and non-repayable support - but only the loans represent contingent liabilities. Borrowing for the non-repayable support is repaid via the EU budget and financed from budget revenue. The headroom is therefore estimated with respect to the total NGEU liabilities, but the sensitivity analysis focuses specifically on the contingent liabilities in line with the requirements of Article 210(3) of the Financial Regulation.

The first step is to establish a central scenario (baseline) that corresponds to the expected evolution of EU spending and financial capacity in the years until 2027 in line with the long-term forecast report on budget expenditure and revenue needs (Figure 3 below). Excluding the current budgetary year, the headroom available for covering existing and new contingent

---

[38] The EU guarantee covers the losses that may arise in the guaranteed portfolio up to 65% of the guaranteed portfolio.

[39] Decision (EU) 2022/1628 of the European Parliament and of the Council of 20 September 2022 providing exceptional macro-financial assistance to Ukraine, reinforcing the common provisioning fund by guarantees by Member States and by specific provisioning for some financial liabilities related to Ukraine guaranteed under Decision No 466/2014/EU, and amending Decision (EU) 2022/1201 (OJ L 245, 22.9.2022, p. 1–13).

[40] See Article 13 of the Decision (EU) 2022/1628.

liabilities in 2023-2027 is on average **EUR 187 billion** per year (around **EUR 83 billion** for the permanent portion of the own resources ceiling of 1.40% EU GNI and around **EUR 104 billion** for the temporary ceiling of 0.6% of EU GNI).

Once the central scenario has been established, additional tests assess the sustainability of existing contingent liabilities under extreme scenarios in 2023-2027.

1) **Stress test on the economy.** In the central scenario, the GNI follows the projections for real growth and inflation in the Commission's spring 2022 European economic forecast[41]. For the stress test, the projected nominal growth rates are lower than the baseline by one percentage point for each year of the reporting period[42]. This reduces the own resources ceiling's nominal value and therefore the available headroom by **EUR 3.5 billion** per year on average (**EUR 2.4 billion** of this relates to the permanent own resources ceiling).

2) **Stress test on the revenue side of the budget.** This extreme scenario assesses whether the available headroom would be sufficient if all unprovisioned contingent liabilities were to materialise at the same time. In practical terms, this would mean that all Member States benefitting from financial assistance programmes would simultaneously fail to honour their repayments when they fall due. The amounts at stake reflect the repayment schedules at the end of 2021 (see Table 4 above). This is an extremely unlikely scenario which does not take into account all the measures that the Commission can take to avoid such a situation (e.g. debt rescheduling and active cash management). Under this scenario, the available headroom would be reduced by **EUR 3.85 billion** per year on average. This would be almost entirely (**EUR 3.82 billion)** related to the permanent own resources ceiling. The contingent liabilities resulting from RRF loans would be minimal (**EUR 0.03 billion** per year), because repayment of the principal amount of RRF loans under the temporary ceiling will only start in 2032.

3) **Stress test on the expenditure side of the budget.** Under this scenario which concerns the MFF, expenditure is projected at its theoretical maximum (i.e. the maximum possible ceilings for the MFF payments and individual special instruments). It is important to underline that this does not reflect a bottom-up forecast and is unrelated to any actual expectations regarding the evolution of EU payments. Moreover on the expenditure side of the budget - unlike a revenue stress test - the decision to increase spending (within the MFF ceilings) requires a proposal by the Commission and the approval of the European Parliament and the Council. It is unrealistic to consider that the Commission would propose a decision that would be incompatible with the EU's financial capacity in a given year. There is no specific MFF ceiling exclusively for EU budget expenditure to meet repayment obligations for NGEU non-repayable support[43]. The stress test therefore assumes, as regards NGEU debt repayments, that the maximum budget expenditure is equivalent to the maturing NGEU issuances (less the contingent liabilities tested in the above-mentioned stress test on the revenue side of the budget, because this present stress test on the expenditure side of the budget does not consider the scenario where all Member States benefitting from financial assistance simultaneously fail to honour their repayment obligations). Planned debt roll-overs are not considered in this hypothetical situation. The headroom would be around **EUR 15.8**

[41] https://economy-finance.ec.europa.eu/publications/european-economic-forecast-spring-2022_en

[42] This is similar to the stress test performed in the Commission's Fiscal Sustainability Report: https://ec.europa.eu/info/sites/default/files/economy-finance/dp171_en_vol1.pdf

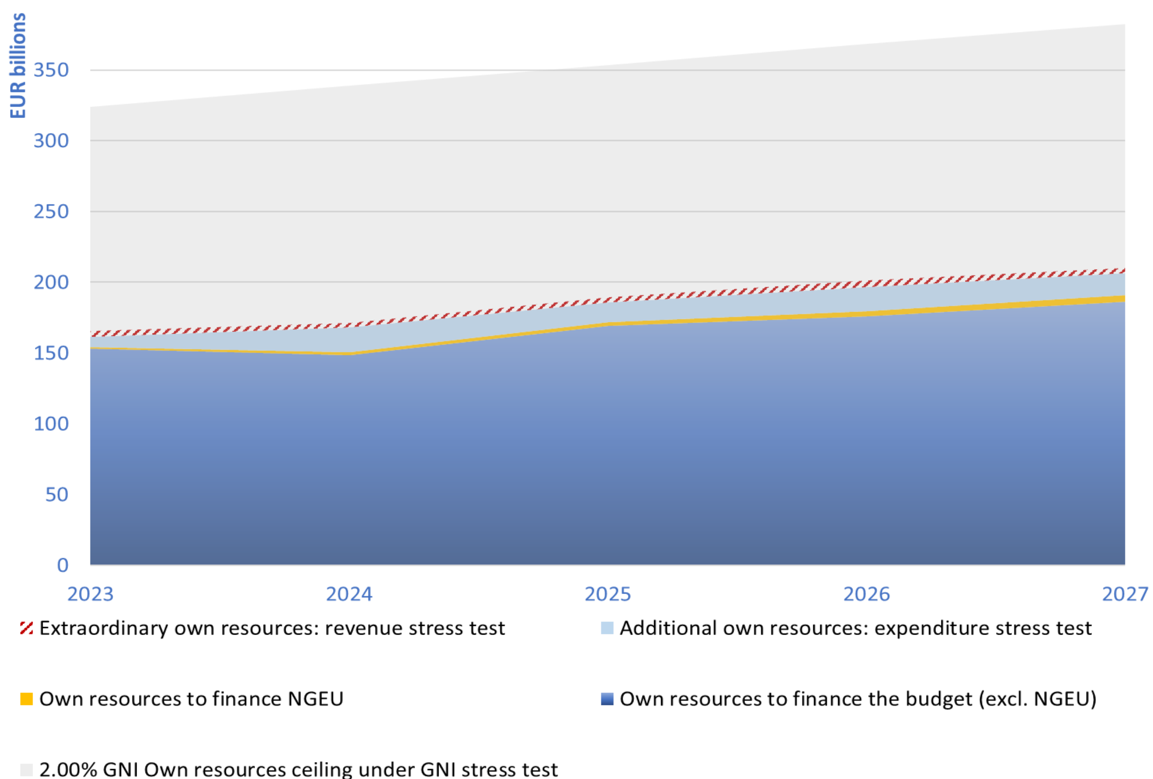
[43] Article 5(2) of the ORD limits the EU's repayment of the principal of the funds borrowed in the capital markets for NextGenerationEU in a given year to 7.5 % of EUR 390 billion in 2018 prices (i.e. EUR 29.25 billion in 2018 prices).

billion lower than in the central scenario, including **EUR 14.2 billion** for the permanent own resources ceiling.

4) **A combined stress test on the economic conditions, revenue and expenditure**. This is an extremely negative scenario that combines all unfavourable scenarios described in the three points above. It would reduce the headroom by an annual average of **EUR 23 billion** down to a level of around **EUR 164 billion** per year in 2023-2027 (including **EUR 63 billion** for the permanent own resources ceiling). This amount appears to constitute a large safety buffer for the EU's financial capacity to cover its liabilities (stemming from both non-NGEU and NGEU operations) even in the event of deep economic shocks, a potential legislative change triggering higher spending and the possible emergence of new contingent liabilities.

The detailed results for the baseline and stress test scenarios are provided in the Annex.

Figure 3: Own resources ceiling and own resources needs under a baseline and combined sensitivity test



6. Conclusions

At the end of 2021, the EU budget included contingent liabilities of approximately EUR 163 billion in relation to loans granted to Member States and third countries, and over EUR 60 billion in relation to the guarantees provided in the context of EFSI, EFSD, EFSD+ and ELM.

The risks that these loans are not repaid by beneficiary countries or that guarantees are called upon are carefully managed through a comprehensive risk management framework that includes, for certain categories of contingent liabilities, the earmarking of budgetary resources to cover potential losses with a sufficiently conservative level of confidence.

Taking into account the multiple safeguards provided in the EU framework for the monitoring and management of the risks linked to both provisioned and unprovisioned

contingent liabilities and the sustainability assessment presented in this report, it is possible to draw several conclusions.

- Risks arising from provisioned instruments (i.e. budgetary guarantees and financial assistance to third countries) are carefully managed and adequately provisioned. This assessment takes into account the build-up of risk positions in the past; data on past defaults and expected losses; the measures that are in place to ensure that losses do not exceed predefined tolerance levels; and the budgetary provisions that are available to cover expected losses.
- The EU's financial capacity under the existing legal framework (i.e. the Own Resources Decision and the MFF Regulation) is sufficient to cater for the materialisation of losses that may arise in respect of unprovisioned loans between now and the end of 2027. On average over the 2023-2027 period, **EUR 187 billion per year (i.e. 1.05% of the EU's GNI)** is available under the own resources ceiling (including 0.47% of the EU GNI under the permanent ceiling) for meeting extraordinary revenue calls to finance unforeseen expenditure or for honouring any existing and potential contingent liabilities that might materialise.
- The headroom is adequate even in an extreme negative scenario that combines adverse impacts on budget revenues, expenditures and economic growth. An average amount of **EUR 164 billion per year** (i.e. around **0.94% of the EU's GNI**) would remain available under the own resources ceiling (including 0.37% of the EU's GNI under the permanent ceiling) to ensure the robustness of the EU's financial system and its credit rating, which provides a safety buffer against further negative economic shocks, new spending initiatives and contingent liabilities.

Annex: Sustainability and headroom in respect of the own resources ceiling (in EUR billion, at current prices)

		2023	2024	2025	2026	2027
Baseline						
Own resources ceiling (1.4% + 0.6% GNI)	*a*	326.85	342.00	356.97	371.81	386.25
Own resources to finance the budget (excl. NGEU)	*b*	153.15	148.28	169.32	175.94	186.19
Own resources to finance NGEU	*c*	1.04	2.08	2.68	3.75	4.99
Headroom	*a-b-c*	172.66	191.64	184.97	192.12	195.07
Stress tests						
1) Stress test on the economy						
Own resources ceiling (1.4% + 0.6% GNI)	*a*	323.68	338.66	353.48	368.18	382.47
Own resources to finance the budget (excl. NGEU)	*b*	153.15	148.28	169.32	175.94	186.19
Own resources to finance NGEU	*c*	1.04	2.08	2.68	3.75	4.99
Headroom	*a-b-c*	169.49	188.30	181.48	188.49	191.29
2) Stress test on the revenue						
Own resources ceiling (1.4% + 0.6% GNI)	*a*	326.85	342.00	356.97	371.81	386.25
Own resources to finance the budget (excl. NGEU)	*b*	153.15	148.28	169.32	175.94	186.19
Own resources to finance NGEU	*c*	1.04	2.08	2.68	3.75	4.99
Extraordinary own resources to cover non-NGEU CLs*	*d1*	4.25	3.33	3.27	4.65	3.58
Extraordinary own resources to cover NGEU CLs (NGEU loan reimbursements due)	*d2*	0.03	0.03	0.03	0.03	0.03
Headroom	*a-b-c-d1-d2*	168.38	188.28	181.67	187.44	191.46
3) Stress test on expenditure						
Own resources ceiling (1.4% + 0.6% GNI)	*a*	326.85	342.00	356.97	371.81	386.25
Own resources to finance the budget (excl. NGEU)	*b*	153.15	148.28	169.32	175.94	186.19
Own resources to finance NGEU	*c*	1.04	2.08	2.68	3.75	4.99
Additional own resources (up to MFF ceilings and special instruments' maximum)**	*b**	7.21	17.78	13.92	16.89	15.12
Additional own resources for NGEU (maturing issuances, excluding CLs and budgeted amounts)	*c**	0.00	0.00	0.00	7.85	0.00
Headroom	*a-(b+b*+c+c*)*	165.46	173.86	171.05	167.38	179.96
4) Combined adverse/unfavourable shock						
Own resources ceiling (1.4% + 0.6% GNI)	*a*	323.68	338.66	353.48	368.18	382.47
Own resources to finance the budget (excl. NGEU)	*b*	153.15	148.28	169.32	175.94	186.19
Own resources to finance NGEU	*c*	1.04	2.08	2.68	3.75	4.99
Additional own resources (up to MFF ceilings and special instruments' maximum)**	*b**	7.21	17.78	13.92	16.89	15.12
Additional own resources for NGEU (maturing issuances, excluding CLs and budgeted amounts)	*c**	0.00	0.00	0.00	7.85	0.00
Extraordinary own resources to cover non-NGEU CLs*	*d1*	4.25	3.33	3.27	4.65	3.58
Extraordinary own resources to cover NGEU CLs	*d2*	0.03	0.03	0.03	0.03	0.03
Headroom	*a-(b+b*)-(c+c*)-d1-d2*	158.00	167.16	164.26	159.06	172.56

Of which – permanent own resources ceiling		2023	2024	2025	2026	2027
Baseline						
Own resources ceiling 1.4% GNI	*a*	228.80	239.40	249.88	260.27	270.38
Own resources to finance the budget (excl. NGEU)	*b*	153.15	148.28	169.32	175.94	186.19
Headroom	*a-b*	75.64	91.12	80.56	84.33	84.18
Stress tests						
1) Stress test on the economy						
Own resources ceiling 1.4% GNI	*a*	226.57	237.06	247.44	257.73	267.73
Own resources to finance the budget (excl. NGEU)	*b*	153.15	148.28	169.32	175.94	186.19
Headroom	*a-b*	73.42	88.78	78.12	81.78	81.54
2) Stress test on the revenue						
Own resources ceiling 1.4% GNI	*a*	228.80	239.40	249.88	260.27	270.38
Own resources to finance the budget (excl. NGEU)	*b*	153.15	148.28	169.32	175.94	186.19
Extraordinary own resources to cover CLs*	*c*	4.25	3.33	3.27	4.65	3.58
Headroom	*a-b-c*	71.39	87.78	77.29	79.68	80.60
3) Stress test on expenditure						
Own resources ceiling 1.4% GNI	*a*	228.80	239.40	249.88	260.27	270.38
Own resources to finance the budget (excl. NGEU)	*b*	153.15	148.28	169.32	175.94	186.19
Additional own resources (up to MFF ceilings and special instruments' maximum)**	*b**	7.21	17.78	13.92	16.89	15.12
Headroom	*a-(b+b*)*	68.44	73.34	66.64	67.44	69.07
4) Combined adverse/unfavourable shock						
Own resources ceiling 1.4% GNI	*a*	226.57	237.06	247.44	257.73	267.73
Own resources to finance the budget (baseline)	*b*	153.15	148.28	169.32	175.94	186.19
Additional own resources (up to MFF ceilings and special instruments' maximum)**	*b**	7.21	17.78	13.92	16.89	15.12
Extraordinary own resources to cover CLs*	*c*	4.25	3.33	3.27	4.65	3.58
Headroom	*a-(b+b*)-c*	61.96	67.67	60.93	60.24	62.84

** The risk assessment linked to the SURE instrument takes into account the specific counter-guarantee provided by all the Member States for 25% of the maximum amount of financial assistance. In practice, all annual payments in relation to the SURE loans can be excluded from the annual risk for the years covered in the period under examination, because the amounts falling due are fully covered by the Member States' guarantees.*

*** Expenditure is projected at the theoretical maximum for: 1) the MFF payment ceiling in 2023-2027[44], 2) future adjustments up to their potential maximum in any single year[45], and 3) the annual ceilings of the thematic special instruments (the European Globalisation Adjustment Fund, Solidarity and Emergency Aid Reserve, and Brexit Adjustment Reserve) and the Flexibility Instrument.*

[44] As established in the most recent technical adjustment of the MFF (COM(2022) 266 final of 7.6.2022).

[45] In relation to the mechanism of Article 5 and Article 11(1)(b) of the MFF Regulation (up to the ceilings set in Article 11(3) of the same Regulation and taking only the possible upward adjustments into consideration).