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**EXPLANATORY MEMORANDUM ON EUROPEAN UNION DOCUMENT**

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL ON THE GUARANTEE FUND AND ITS MANAGEMENT IN 2012**

**October 2013**

Submitted by HM Treasury

# SUBJECT MATTER

1. This report covers the management and position of the Guarantee Fund for external actions (‘the Fund’), which was set up in order to repay EU creditors in the event of default of beneficiaries of loans granted or guaranteed by the EU. The European Investment Bank (EIB) is responsible for the financial management of the Fund. The EIB are legally required to report on the annual status of the Fund and its management every year.
2. The financial position of the Fund is the sum of all the financial flows since the setting up of the Fund in 1994. As of 31 December 2012 the Fund totalled EUR 2.02 billion (bn) (£1.69bn)[[1]](#footnote-1). The major positive constituents include: EU budget payments to the Fund of EUR 3.54bn (£2.96bn); successive yearly net results EUR 0.85bn (£0.71bn); and recoveries of payments made by the Fund for defaults EUR 0.58bn (£0.48bn). Major deductions include: successive repayments to the budget EUR 2.50bn (£2.09bn); and calls on the Fund’s resources EUR 0.52bn (£0.43bn).
3. According to Article 3 of Council Regulation (EC, Euratom) No. 480/2009 of May 2009 the Fund should amount to 9% of the total outstanding capital liabilities arising from each operation, plus any unpaid interest due. To adjust the Fund to 9% of total outstanding capital liabilities, an amount of EUR 0.16bn (£0.13bn) was transferred on the 20 February 2013 from the EU budget for the provisioning of the Fund.
4. Since November 2011, the EIB has faced arrears on Syrian sovereign loans. As a consequence the EIB has made four calls on the EU Guarantee Fund in 2012 for a total amount of EUR 0.04bn (£0.03bn), of which EUR 2.15 million (£1.80 million) has been recovered. The report notes that no new financing operations have been pursued by the EIB in Syria since May 2011 and all ongoing disbursements and technical assistance services to the Syrian Arab Republic have been suspended since November 2011 until further notice.
5. The Funds liquid assets are invested in accordance with the management principles agreed between the Commission and the EIB. Accordingly, 20% of the Fund must be invested in short-term investments (up to one year). In 2012 the Fund delivered an absolute return of +7.80%.
6. The operations covered by the Fund include the operations of the EIB outside the EU. The External Mandate for the EIB is currently in the process of being discussed at the Council and Parliament. The outcome of these discussions will impact on the amount required for the Fund.

**MINISTERIAL RESPONSIBILITY**

1. The Chancellor of the Exchequer has responsibility for United Kingdom policy on European Union monetary and economic issues. The Foreign and Commonwealth Secretary is responsible for overall United Kingdom policy towards the European Union.

# INTEREST OF DEVOLVED ADMINISTRATIONS

1. EU budget policy is a reserved matter under the UK's devolution settlements and no devolved administration interests arise. The devolved administrations have therefore not been consulted in the preparation of this EM.

# LEGAL AND PROCEDURAL ISSUES

1. Legal basis
2. Article 8 of Council Regulation (EC, Euratom) No. 480/2009 of May 2009, in conjunction with Article 352 of the Treaty on the Functioning of the European Union and Article 203 of the Treaty establishing the European Atomic Energy Community.
3. Legislative procedure
4. Not applicable: this is not a proposal for legislation.
5. Voting procedure
6. Not applicable: this is not a proposal for legislation.
7. Impact on United Kingdom Law
8. Not applicable: this is not a proposal for legislation
9. Application to Gibraltar
10. Not applicable: this is not a proposal for legislation.
11. Analysis of Fundamental Rights Compliance
12. Not applicable: this is not a proposal for legislation.

**APPLICATION TO THE EUROPEAN ECONOMIC AREA**

1. Not applicable.

**SUBSIDIARITY**

1. No subsidiarity issues arise.

**POLICY IMPLICATIONS**

1. The Fund helps to manage some risks associated with borrowing and lending activities undertaken by the EU and the EIB. The Government notes this update on the position and management of the Fund at 31 December 2012. The report is an important contribution to the transparent operation and proper scrutiny of the Fund’s activities.
2. The Government will continue to monitor the operation of the Fund, in order to ensure sound financial management.

**REGULATORY IMPACT ASSESSMENT**

1. Not applicable.

**FINANCIAL IMPLICATIONS**

1. This report has no financial implications for the UK Government. The Government notes however that EUR 0.16bn (£0.13bn) was transferred on 20 February 2013 from the EU budget for the provisioning of the fund at its target level of 9%.

# TIMETABLE

1. Currently, there are no plans for ministerial discussion of this document.

**NICKY MORGAN**

### ECONOMIC Secretary

## HM Treasury

1. This and all other sterling figures have been converted using the rate EUR 1 = £0.8361, which was the EUR/£ exchange rate effective on 30th September 2013. [↑](#footnote-ref-1)