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signed by Mr Jordi AYET PUIGARNAU, Director

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to: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European  
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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 2011**

{SWD(2012) 347 final}

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## 1. INTRODUCTION

The objective of this report is to monitor the credit risks borne by the budget of the European Union resulting from the guarantees given and the lending operations implemented directly by the European Union or indirectly through the EIB external mandates.

This report is submitted pursuant to Article 130 of the Financial Regulation which requires the Commission *to report to the European Parliament and to the Council twice a year on budgetary guarantees and the corresponding risks*<sup>1</sup>. It is completed by a Commission Staff Working Document with a set of detailed tables and explanatory notes (the "SWD").

## 2. TYPES OF OPERATIONS COVERED BY THE BUDGET

The risks covered by the budget of the European Union (the "Budget") derive from a variety of lending and guarantee operations which can be divided into two categories:

- loans granted by the European Union with macroeconomic objectives, i.e. macro-financial assistance<sup>2</sup> ("MFA") loans to third countries in conjunction with the Bretton Woods institutions, balance-of-payments<sup>3</sup> ("BOP") loans granting support to non-euro Member States experiencing balance-of-payments difficulties, loans under the European financial stabilisation mechanism ("EFSM")<sup>4</sup> granting support to Member States experiencing, or seriously threatened with a severe economical financial disturbance caused by exceptional occurrences beyond their control; and
- loans with microeconomic objectives, i.e. Euratom loans and most importantly European Investment Bank ("EIB") financing of operations in non-Member States ("EIB external financing")<sup>5</sup> that are covered by EU guarantees<sup>6</sup>.

The guaranteed EIB external financing, the Euratom loans and the MFA loans have since 1994 been covered by the Guarantee Fund for external actions ("the Fund"),<sup>7</sup> while BOP and EFSM loans are directly covered by the Budget.

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<sup>1</sup> COM(2012)66 and SEC(2012)15 make up the previous report on the guarantees covered by the Budget at 30 June 2011.

<sup>2</sup> MFA may also take the form of grants to third countries. For more information on MFA, see Commission report COM(2011)408 and SEC(2011)874.

<sup>3</sup> Council Regulation (EC) N° 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).

<sup>4</sup> The EFSM was set up on 11 May 2010 on the basis of Council Regulation (EU) No 407/2010 of 11 May 2010 (OJ L 118, 12.5.2010, p.1). It functions in a similar way as the BOP facility but is available to all Member States, i.e. including Euro area Member States.

<sup>5</sup> The figures concerning the EIB mandates are displayed in Table A1 and references to legal bases are listed in Table A4 of the SWD.

<sup>6</sup> The current Decision N°1080/2011/EU of the European Parliament and of the Council of 25 October 2011 (OJ L 280, 27.10.2011, p. 1) granting an EU guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Union and repealing Decision N° 633/2009/EC covers the period 1.2.2007-31.12.2013.

<sup>7</sup> 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 Fund covers defaults on loans and loan guarantees granted to non-Member States or for projects in non-Member States. It was established:

- to provide a 'liquidity cushion' in order to avoid calling on the Budget every time a default or late payment on a guaranteed loan arises; and
- to create an instrument of budgetary discipline by laying down a financial framework for the development of the EU policy on guarantees for Commission and EIB loans to non-member countries<sup>8</sup>.

If third countries become Member States, loans relating to such countries are no longer covered by the Fund and the risk has to be directly borne by the Budget. The Fund is provisioned from the Budget and has to be maintained at a certain percentage of the outstanding amount of the loans and loan guarantees covered by the Fund. This percentage, known as the target rate, is currently 9%. If there are insufficient resources in the Fund, the Budget will have to provide the necessary funds.

### **3. EVENTS SINCE THE LAST REPORT AT 30 JUNE 2011**

#### **3.1. Balance of payments support to non-euro Member States**

During the second semester 2011, Hungary repaid EUR 2.0 billion. Since no disbursements were made, the outstanding amount of the BOP facility has decreased to EUR 11.4 billion.

The precautionary EU medium-term financial assistance for Romania decided on 12 May 2011 by the Council to provide a maximum of EUR 1.4 billion<sup>9</sup> is in place but has not been activated for drawdowns.

#### **3.2. Macro-financial assistance**

During the second semester 2011, two disbursements under MFA took place : EUR 100 million to Serbia and EUR 26 million to Armenia, whereas Georgia reimbursed EUR 13.5 million and Romania EUR 12.5 million.

#### **3.3. Euratom**

No loan disbursements took place during the reported period. Repaid amounts consisted of EUR 6.5 million from Bulgaria and EUR 3.8 million from Ukraine.

#### **3.4. European Financial Stabilisation Mechanism**

Disbursements to Ireland and Portugal amounted respectively to EUR 2.5 billion and EUR 7.6 billion during the second semester 2011.

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<sup>8</sup> Although external risks are covered *in fine* by the EU budget, the Guarantee Fund acts as an instrument to protect the EU budget against the risk of payment defaults. For a comprehensive report on the functioning of the Fund, see COM(2010)418 and the accompanying Staff Working Document (SEC(2010)968).

<sup>9</sup> Council Decision 2011/288/EU of 12 May 2011 providing precautionary EU medium-term financial assistance for Romania (OJ L 132, 19.05.2011, p.15).

The Council decided in October 2011 to extend the loan maturities and to eliminate retroactively the margin cost which was applied to the loans for Ireland<sup>10</sup> and Portugal<sup>11</sup>.

As part of the response to the crisis, two other mechanisms have been established which, however, do not imply any risk to the Budget:

- *European Financial Stability Facility (EFSF)*<sup>12</sup> which is guarantee by participating Member States, on a pro-rata basis, and
- *the Greek Loan Facility*<sup>13</sup> which is financed via bilateral loans from the other euro area Member States, centrally administered by the Commission.

### **3.5. Budget guarantee for EIB external financing**

Under the 2007-2013 external mandate, the loan signatures increased by 10% during the second semester of 2011 and amounted to EUR 1,745 million. The amount of loans disbursed was EUR 1,381 million for the reported period. Thus, the cumulative amount of loans disbursed under the mandate reached EUR 8,561 million at 31 December 2011, up by 19% compared to 30 June 2011.

## **4. DATA ON RISKS COVERED BY THE BUDGET**

### **4.1. Definition of risk**

The risk borne by the Budget derives from the outstanding amount of capital and interest in respect of guaranteed operations.

For the purpose of this report, two methods are used for evaluating the risks borne by the Budget (either directly or indirectly via the Fund):

- "The total risk covered" is based on the sum of the total amount of capital outstanding for the operations concerned on a given date including accrued interest<sup>14</sup>.
- The budgetary approach defined as "the annual risk borne by the Budget" is based on the calculation of the maximum amount of annual payments due which the EU would have to pay out in a financial year assuming that all payments of the guaranteed loans are in default<sup>15</sup>.

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<sup>10</sup> Council Decision 2011/682/EU of 11 October 2011 (OJ L 269, 14.10.2011, p.31).

<sup>11</sup> Council Decision 2011/683/EU of 11 October 2011 (OJ L 269, 14.10.2011, p.32).

<sup>12</sup> About EFSF: <http://www.efsf.europa.eu/about/index.htm>

<sup>13</sup> The Greek Loan Facility - ECFIN - European Commission:  
[http://ec.europa.eu/economy\\_finance/eu\\_borrower/greek\\_loan\\_facility/index\\_en.htm](http://ec.europa.eu/economy_finance/eu_borrower/greek_loan_facility/index_en.htm)

<sup>14</sup> See Table 1 of the Report.

<sup>15</sup> For the purpose of this calculation, it is assumed that defaulting loans are not accelerated, i.e. only payments due are taken into account (see also Tables 2 and 3 of the Report and Table A2 of the SWD).

## **4.2. Risk composition**

Until 2010 the maximum risk in terms of total outstanding amounts covered was mainly linked to loans granted to third countries. In 2011 the financial crisis has impacted heavily on the public finances of the Member States leading to an increase in the lending activity of the EU to support higher government financing needs.

As a consequence the composition of risk has changed. At 31 December 2011:

- 67% of the total outstanding amount guaranteed concerns borrowing operations linked to loans to Member States which are directly covered by the Budget (45% at 31.12.2010).
- 33% of the total outstanding amount guaranteed relates to borrowing and loan operations in third countries which are covered in the first place by the Guarantee Fund for external actions ("the Fund"), whereas they represented 55% at 31.12.2010.

The total risk covered by the Budget at 31 December 2011 is presented in the following table 1.

Table 1: Total outstanding amounts covered by the Budget at 31 December 2011 in EUR million				
	<b>Outstanding Capital</b>	<b>Accrued Interest</b>	<b>Total</b>	<b>%</b>
<b><u>Member States*</u></b>				
<b>MFA</b>	25	0	25	<1%
<b>Euratom</b>	404	4	408	1%
<b>BOP</b>	11,400	225	11,625	18%
<b>EIB***</b>	2,965	26	2,991	5%
<b><u>EFSM</u></b>	28,000	344	28,344	44%
<b><u>Sub-total Member States</u></b>	42,794	599	43,393	67%
<b><u>Third Countries**</u></b>				
<b>MFA</b>	565	5	570	1%
<b>Euratom</b>	43	0	43	<1%
<b>EIB***</b>	20,466	156	20,621	32%
<b><u>Sub-total third countries</u></b>	21,074	161	21,234	33%
<b>Total</b>	<b>63,868</b>	<b>760</b>	<b>64,628</b>	<b>100%</b>
<p>* This risk is directly covered by the Budget. This also includes MFA, Euratom and EIB loans granted prior to EU accession.</p> <p>** This risk is covered by the Fund.</p> <p>***About 82% of EIB lending operations (sovereign and sub-sovereign lending operations) are covered by a comprehensive guarantee while on the remaining operations the EIB benefits from a political risk coverage only.</p>				



Tables A1, A2, A3 and A4 of the SWD provide more detailed information on these outstanding amounts, in particular in terms of ceiling, disbursed amounts or guarantee rates.

The total outstanding amount of capital and interest covered by the budget significantly increased to EUR 64.63 billion up by 17.6% compared to 30.06.2011.

This increase is mainly explained by:

- the disbursements of EUR 10.1 billion under the EFSM (EUR 2.5 billion to Ireland and EUR 7.6 billion to Portugal);
- EIB net disbursements to third countries increased by EUR 2.45 million during the second semester 2011.

#### **4.3. Annual risk covered by the Budget**

For 2012, the Budget may cover (directly and via the Fund) EUR 3.782 billion<sup>16</sup> representing the amounts (capital and interests) which fall due during this period out of the total amount outstanding at 31 December 2011. EUR 1.769 billion of this amount is due directly from Member States (47%). Table A2 of the SWD provides details on the weight of each country in the total risk covered.

##### *4.3.1. Risk linked to Member States*

The risk linked to Member States concerns:

- (a) EIB lending and/or MFA and/or Euratom loans granted before the accession to the EU
- (b) the loans granted under the BOP facility, and
- (c) the loans granted under the EFSM scheme.

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<sup>16</sup> Representing the amounts due in 2012 (out of the total outstanings at 31 December 2012) and assuming that defaulting loans are not accelerated (for details see Table A2 in SWD).

Table 2: Ranking of the Member States according to the maximum risk borne by the Budget in 2012 (EUR million)

Ranking	Country	Loans	Maximum risk	Weight of the country vis-à-vis total risk of Member States (MS)	Weight of the country vis a vis total risk (MS and non-MS)
1	Ireland	c)	412.7	23.3%	10.9%
2	Portugal	c)	400.8	22.7%	10.6%
3	Romania	a)+b)	395.1	22.3%	10.4%
4	Hungary	a)+b)	142.4	8.0%	3.8%
5	Latvia	a)+b)	96.8	5.5%	2.6%
6	Bulgaria	a)	92.8	5.2%	2.5%
7	Poland	a)	81.0	4.6%	2.1%
8	Czech Republic	a)	70.8	4.0%	1.9%
9	Slovak Republic	a)	51.1	2.9%	1.4%
10	Slovenia	a)	11.4	0.6%	0.3%
11	Cyprus	a)	7.7	0.4%	0.2%
12	Lithuania	a)	5.3	0.3%	0.1%
13	Malta	a)	0.7	0.0%	0.0%
14	Estonia	a)	0.5	0.0%	0.0%
Total			1,796.3	100%	46.8%

#### 4.3.2. Risk linked to third countries

The Fund covers guaranteed loans concerning third countries with maturities extending up to 2041. In 2012, the Fund will bear a maximum annual risk related to third countries of EUR 2,013 million (53.2% of the total annual risk).

The top ten (out of forty-seven) countries are ranked below according to their total outstanding. They account for EUR 1,580.4 million or 78.5% of the annual risk borne by the

Fund related to third countries. The economic situation of these countries is analysed and commented in point 3 of the SWD. Creditworthiness as assessed by the rating agencies is also indicated in each country table.

The risk linked to third countries concerns EIB lending and/or MFA and/or Euratom loans (details are included in table A3b and A4 of the SWD).

Table 3: Ranking of the **10 most important third countries** according to the maximum risk borne by the Fund during 2012 (EUR million).

Ranking	Country	Maximum risk	Weight of the country vis-à-vis total risk of third countries	Weight of the country vis-à-vis total risk (MS and non-MS)
1	Turkey	458.8	22,8%	12.1%
2	Egypt	207.9	10.32	5.5%
3	Tunisia	185.8	9.2%	4.9%
4	Morocco	179.4	8.9%	4.7%
5	Serbia	154.2	7.7%	4.1%
6	South Africa	122.3	6.1%	3.2%
7	Lebanon	84.6	4.2%	2.2%
8	Syria	81.3	4.0%	2.1%
9	Bosnia and Herzegovina	54.8	2.7%	1.4%
10	Brazil	51.2	2.5%	1.4%
Total of the 10		1,580.4	78%	41.8%

#### 4.4. Evolution of risk

The level of uncertainty remains high as the global economic and financial crisis continues to affect the economic recovery in the EU and the global growth. Geopolitical tensions affecting some Southern Mediterranean countries added also uncertainty on the economic recovery in certain third countries.

- Balance of payments facility

The EU medium-term financial assistance under the BOP facility was re-activated in November 2008 to help Hungary and subsequently in January and May 2009 to help Latvia and Romania to restore market confidence for a total commitment of EUR 14.6 billion. EUR 1.2 billion will not be disbursed as the deadline for disbursement has expired. The first loan repayment of EUR 2 billion from Hungary was made in December 2011.

In addition to the EUR 5 billion of BOP assistance for Romania already provided, the Council decided on 12 May 2011 to provide precautionary financial assistance for this country of up to EUR 1.4 billion<sup>17</sup> of which no disbursements has been made yet.

The BOP facility with its overall ceiling of EUR 50 billion has a remaining capacity of EUR 37 billion EUR to provide further BOP assistance if required.

- European Financial Stabilisation Mechanism (EFSM)

Tensions in the sovereign bond markets remained high during the second semester 2011. Issuing conditions for peripheral euro-area sovereigns remain stressed despite the activation of the EFSM - supplemented by bilateral loans - and the EFSF. The successful fulfilment of the increased refinancing needs of Member States' governments in the coming months and years will remain challenging.

The Ecofin Council conclusions set the maximum volume of the mechanism to EUR 60 billion<sup>18</sup>, but the legal limit is provided in Article 2(2) of the Council Regulation, which limits the outstanding amount to the margin available under the own resources ceiling<sup>19</sup>.

Following the Council decisions to grant Union financial assistance to Ireland<sup>20</sup> and Portugal<sup>21</sup>, disbursements were made in 2011 for EUR 13.9 billion to Ireland and EUR 14.1 billion to Portugal.

Out of its maximum volume of EUR 60 billion, the EFSM has a remaining capacity of EUR 11.5 billion to provide further assistance if required<sup>22</sup>.

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<sup>17</sup> Council Decision 2011/288/EU of 12 May 2011 providing precautionary EU medium-term financial assistance for Romania (OJ L 132, 19.5.2011, p.15).

<sup>18</sup> Cf. Press release on extraordinary Ecofin Council meeting 9/10 May 2010 ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/114324.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/114324.pdf))

<sup>19</sup> Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism (OJ L 118, 12.5.2010, p.1).

<sup>20</sup> Council Implementing Decision 2011/77/EU of 7 December 2011 on granting Union financial assistance to Ireland (OJ L 30, 4.2.2011, p.348).

<sup>21</sup> Council Implementing Decision 2011/344/EU of 30 May 2011 on granting Union financial assistance to Portugal (OJ L 159, 17.6.2011, p.88).

<sup>22</sup> For further information on EFSM, see also the report from the Commission on borrowing and lending activities of the European Union in 2010, COM(2011)485.

On 21 July 2011 the Euro area summit decided several measures including the extension of maturities and the lowering of lending rates of future EFSF loans to Greece to alleviate the Greek debt crisis and ensure the financial stability of the euro area as a whole. In line with the summit conclusions, the impact on the EFSM is twofold:

- a) the EFSM margin was reduced retroactively for lending operations for Portugal and Ireland and
- b) the maturities of future disbursements were extended.

These measures entered into force with two Council Decisions taken in October 2011<sup>23</sup>.

- Macro-financial assistance loans

MFA loans to third countries have been subject to individual decisions by the Council and, since the entry into force of the Lisbon Treaty, decisions by the European Parliament and the Council. A new legislative proposal for a MFA Framework Regulation has been adopted by the Commission to improve the decision-making process under the Lisbon Treaty<sup>24</sup>.

Under the proposed Framework Regulation, the procedure for MFA would become similar to that of other external financing instruments, whereby the Commission would have competence for adopting decisions granting MFA under the supervision of a committee of Member States representatives in accordance with the examination procedure introduced by the new comitology rules, which entered into force on 1 March 2011<sup>25</sup>. The Parliament and the Council are continuing discussions on the proposed Regulation in 2012, including on the procedure for the MFA decision-making.

In July 2011, two MFA loans operations for a total amount of EUR 126 million were disbursed in July 2011: EUR 26 million to Armenia and EUR 100 million to Serbia.

- Euratom loans

The Euratom lending to Member States or in certain eligible non-member countries (Russian Federation, Armenia, Ukraine) has a ceiling of EUR 4 billion of which around 85% has already been used. The remaining roughly EUR 600 million could be used for financing new projects.

- EIB loans

Under the EIB general mandate covering the period 2007-2013 a total amount of EUR 19,436 million had been signed at 31 December 2011, of which EUR 8,561 million had been disbursed at that date (see Table A6 of the SWD).

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<sup>23</sup> Council Implementing Decision 2011/682/EU for Ireland and 2011/683/EU for Portugal of 11 October 2011 (OJ L 269, 14.10.2011, p.31 and p.32).

<sup>24</sup> Following the entry into force of the Lisbon Treaty, MFA decisions are no longer taken by the Council alone, but in accordance with the ordinary legislative procedure (codecision).

<sup>25</sup> Regulation (EU) 182/2011 of the European Parliament and of the Council laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers (OJ L 55, 28.2.2011, p. 13), which replaces Council Decision 1999/468/EC.

Following the mid-term review of the EIB external mandate, the European Parliament and the Council adopted on 25 October 2011 a new Decision (No 1080/2011/EU) granting an EU guarantee to the EIB against losses under loans and loan guarantees for projects outside the Union and repealing Decision No 633/2009/EC. The new Decision entered into force on 30 October 2011. As a consequence, the aggregate amount of credits disbursed and guarantees provided under EIB Financing Operations, less amounts reimbursed plus all related sums, would be increased from EUR 25,800 million to a maximum ceiling of EUR 29,484 million<sup>26</sup>. The EU guarantee is restricted to 65% of the aggregate amount of credits disbursed and guarantees provided under EIB Financing Operations.

The EIB experienced defaults on certain interests payments and loan repayments from the Syrian Government (see paragraph 5.3 below). However, the Fund was only called in 2012.

For more information on the countries covered by the EU guarantee see Tables A1 and A2 of the SWD.

## **5. DEFAULTS, ACTIVATION OF BUDGET GUARANTEES AND ARREARS**

### **5.1. Payments from cash resources**

The Commission draws on its cash resources in order to avoid delays and resulting costs in servicing its borrowing operations when a debtor is late in paying the EU<sup>27</sup>.

### **5.2. Payments from the Budget**

As no default was recorded during the second half of 2011, no appropriation was requested under the p.m. lines of Article 01 04 01 of the Budget "European Union guarantees for Union and Euratom borrowing operations and for EIB lending operations".

### **5.3. Activation of the Guarantee Fund for external actions<sup>28</sup>**

In the event of late payment by the beneficiary of a loan to third countries granted or guaranteed by the EU, the Fund is called on to cover the default within three months of the date on which payment is due<sup>29</sup>.

The Fund was not called during the second half of 2011.

However, the EIB experienced defaults on certain interest payments and loan repayments from the Syrian Government. Since official payment requests have remained unsuccessful, the EIB requested the payment of the EU Guarantee via the Guarantee Fund on 10 May 2012 for

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<sup>26</sup> The increase by EUR 3,684 million is to be split between an additional mandate of EUR 2,000 million for financing climate change operations and EUR 1,684 million to enhance EIB risk-operations.

<sup>27</sup> See Article 12 of Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000 implementing Decision 2007/436/EC, Euratom, on the system of the European Communities own resources (OJ L 130, 31.5.2000,p.1).

<sup>28</sup> Since its inception in 1994, the Fund has been called for a cumulative amount of EUR 478 million.

<sup>29</sup> For more details, see Section 1.4.3 of the SWD.

an approximate amount of EUR 15.5 million<sup>30</sup>. If the situation does not improve in the country, other payment requests via the Fund may be called (the total capital outstanding of Syria amounts to EUR 551 million, with the last loan maturity in 2030). In conformity with the Guarantee Agreements, when the EU has made a payment under the EU Guarantee, it subrogates into the right and remedies of the Bank. Recovery proceedings are to be undertaken by the Bank in respect of the subrogated sums.

## **6. GUARANTEE FUND FOR EXTERNAL ACTIONS**

### **6.1. Recoveries<sup>31</sup>**

At 31 December 2011, the Fund had no arrears to recover.

### **6.2. Assets**

At 31 December 2011, the net assets<sup>32</sup> of the Fund amounted to EUR 1,755,434,096.22.

### **6.3. Target amount**

The Fund has to reach an appropriate level (target amount) set at 9% of the total outstanding capital liabilities arising from each operation, plus accrued interest. The ratio between the Fund's resources (EUR 1,755.43 million) and outstanding capital liabilities<sup>33</sup> (EUR 21,234.34 million) within the meaning of the Fund Regulation has decreased from 8.8% at 30 June 2011 to 8.3% at 31 December 2011. Since the Fund resources were lower than the target amount, a provisioning of EUR 155,66 million was inserted in the preliminary Budget of 2013.

In February 2012, the Budget paid EUR 260,17 million to the Fund as provisioned in the preliminary draft Budget of 2012 and in accordance with the rules of the Fund Regulation (the 9% target amount).

## **7. EVALUATION OF RISKS: ECONOMIC AND FINANCIAL SITUATION OF THIRD COUNTRIES WITH THE LARGEST EXPOSURE**

### **7.1. Objectives**

The previous sections of this report provided information on quantitative aspects of the risk borne by the Budget, relating to third countries. Section 3 of the SWD, provides a macroeconomic analysis of the third countries having the largest exposure to the Budget or which benefit from the EU lending facilities (MFA and Euratom loans).

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<sup>30</sup> Depending on exchange rate movements of other international currencies.

<sup>31</sup> Since its inception in 1994, the total recoveries by the Fund have amounted to EUR 576 million (it includes the amount of capital and interest repaid, plus penalties interests for late payments, plus exchange rate gains and losses realized).

<sup>32</sup> Total assets of the Fund minus accrued payables (EIB fees and audit fees).

<sup>33</sup> Including accrued interests.

## **7.2. Risk assessment methods**

The risk assessment presented in the SWD is based on the information on the economic and financial situation, ratings and other known facts of the countries having received guaranteed loans. This assessment does not include estimations of expected losses and recoveries which are inevitably highly uncertain.

Country risk indicators included in the tables in the SWD indicate the evolution of risk of defaults. This analysis is provided in the section 3 of the SWD for the countries having the highest credit risk and exposure to the Budget (MFA and Euratom loans included) at 31 December 2011.