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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 2017

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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 2017. 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.

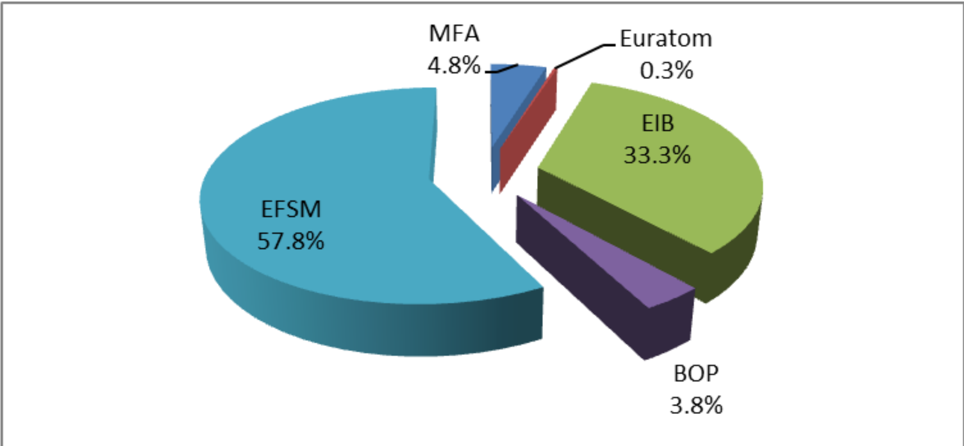


Table A1 shows the outstanding amount of capital in respect of borrowing and lending operations for which the risk is covered by the EU budget. The figures show the maximum possible risk for the EU for these operations and must not be read as meaning that these amounts will actually be drawn from the 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 31.12.2017 (in EUR million)

Operations	Authorised ceiling (a)	Capital outstanding (b) at 31.12.2016	Capital outstanding (b) at 31.12.2017	Amount signed (minus cancellation) but not disbursed
MEMBER STATES				
EIB (1)		1,651	1,378	0
Euratom (2)	4,000			
Bulgaria		76	54	0
Romania		166	142	0
BOP				
Latvia	3,100	700	700	0
Romania	5,000	3,500	2,350	0
EFSM				
Irlande	22,500	22,500	22,500	0
Portugal	26,000	24,300	24,300	0
MEMBER STATES - TOTAL	**60,600**	**52,892**	**51,424**	**0**
THIRD COUNTRIES				
Macro-Financial Assistance				
Albania	9	9	7	0
Armenia	65	65	65	0
Bosnia and Herzegovina	140	116	112	0
fYRoM	90	14	6	0
Georgia	23	10	23	0
Jordan	380	180	280	100
Kyrgyzstan	15	15	15	0
Montenegro	7	3	2	0
Serbia	473	125	82	0
Tunisia	800	200	500	300
Ukraine	2,810	2,210	2,810	0
Euratom (2)		10	53	250
EIB				
EIB Pre-Accession countries	37,842	10,812	10,487	2,255
EIB Neighbourhood and Partnership countries (3)	43,927	11,212	11,622	10,838
EIB Asia and Latin America	11,764	2,946	2,278	2,290
EIB South Africa	2,852	841	771	155
EIB Climate Change Mandate	2,000	672	633	983
THIRD COUNTRIES - TOTAL	**103,198**	**29,439**	**29,746**	**17,170**
GRAND TOTAL		**82,331**	**81,170**	**17,170**

(1) There is no ceiling as it concerns countries which were not Member States at the time the EIB mandates were 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 following Syria defaults are included in this figure.

(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 01.01.2017 - 31.12.2017

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 31.12.2016	Operations made in 2017		Amounts outstanding at 31.12.2017
							Amounts disbursed	Amounts repaid	
BOP	2002/332/EC (*)	18/02/2002		50,000.00	10,100.00	**4,200.00**	0.00	1,150.00	**3,050.00**
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	1,150.00	**2,350.00**
Precautionary BOP for Romania	2013/531/EU	22/10/2013	closed	(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	**241.06**	0.00	45.08	**195.99**
	77/270-271/Euratom	29/03/1977							
Bulgaria	SEC(2000)661/2	18/04/2000	closed	(c)	212.50	**75.56**	0.00	21.88	**53.69**
Romania	C(2004)891	30/03/2004	closed	(c)	223.50	**165.50**	0.00	23.20	**142.30**
TOTAL					**59,036.00**	**51,241.06**	**0.00**	**1,195.08**	**50,045.99**

(*) 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 01.01.2017 - 31.12.2017

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 31.12.2016	Operations made in 2017		Amounts outstanding at 31.12.2017
							Amounts disbursed	Amounts repaid	
MFA					**2,802,952.00**	**2,946.60**	**1,013.00**	**58.13**	**3,901.47**
ALBANIA						9.00		1.80	**7.20**
	2004/580/EC	29.04.04	closed	(c)	9.00				
ARMENIA						65.00			**65.00**
	2009/890/EC	30.11.09	closed	(c)	65.00				
BOSNIA AND HERZEGOVINA						116.00		4.00	**112.00**
	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						13.60		8.00	**5.60**
	97/471/EC	22.07.97	closed	(c)	40.00				
	99/733/EC	08.11.99	closed	(c)	50.00				
GEORGIA						10.00	13.00		**23.00**
	778/2013/EU	12.08.13	closed	(c)	23.00				
JORDAN						180.00	100.00		**280.00**
	1351/2013/EU	11.12.13	closed	(c)	180.00				
	2371/2016/EU	14.12.16	19/06/2019	(b)	200.00				
KYRGYZ REPUBLIC						15.00			**15.00**
	1025/2013/EU	22.10.13	closed	(c)	15.00				
MONTENEGRO*						2.80		1.10	**1.70**
	2001/549/EC*	16.07.01	closed	(c)	225.00				
	2002/882/EC*	09.11.02	closed		55.00				
REPUBLIC OF MOLDOVA									
	2017/1565/EU	13.09.2017	15.06.2020	(d)	60.00				
SERBIA *						125.20		43.23	**81.97**
	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						200.00	300.00		**500.00**
	534/2014/EU	15.05.14	closed	(c)	300.00				
	1112/2016/EU	06.07.16	11/01/2019	(b)	500.00				
UKRAINE						2,210.00	600.00		**2,810.00**
	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	closed	(b)	1,800,000.00				
EURATOM									
UKRAINE (Euratom)	94/179/EC	21.03.94				**10.37**	**50.00**	**7.06**	**52.92**
					EUR equivalent ****				
		15.03.07		(c)	39.0 EUR				
	K2-R4 project	06.10.08		(c)	22.0 USD				
		15.10.09		(c)	10.3 USD				
					of USD 83 million				
	Safety Upgrade C(2013) 3496	24.6.2013		(b)	300.00				
TOTAL						**2,956.97**	**1,063.00**	**65.20**	**3,954.38**

** 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 31.12.2017 (in EUR million)

Operations	Authorised ceiling	Net signatures (a)	Amounts disbursed	Outstanding capital
Mandate 2014/2020:	**27,000**	**13,879**	**3,516**	**3,185**
Pre-Accession countries	*8,739*	*1,909*	*794*	*787*
Neighbourhood and Partnership countries:	*14,437*	*9,570*	*2,046*	*1,888*
Mediterranean countries	9,606	4,829	1,141	1,058
Eastern Europe, Southern Caucasus and Russia	4,831	4,741	906	829
Asia and Latin America:	*3,407*	*2,201*	*627*	*464*
Latin America	2,289	1,378	447	288
Asia	936	641	180	176
Central Asia	182	182	-	-
South Africa	*416*	*200*	*50*	*47*
Mandate 2007/2013:	**29,484**	**26,423**	**20,429**	**16,014**
Pre-Accession countries	*9,048*	*8,863*	*7,848*	*6,433*
Neighbourhood and Partnership countries:	*13,548*	*11,403*	*8,180*	*6,847*
Mediterranean countries	9,700	8,630	6,534	5,504
Eastern Europe, Southern Caucasus and Russia	3,848	2,773	1,645	1,343
Asia and Latin America:	*3,952*	*3,672*	*2,923*	*1,562*
Latin America	2,912	2,483	2,285	1,134
Asia	1,040	1,119	631	420
Central Asia		70	7	8
South Africa	*936*	*760*	*756*	*538*
Climate change mandate	*2,000*	*1,725*	*723*	*633*
Mandate 2000/2007(3):	**20,060**	**18,570**	**18,328**	**7,126**
Pre-Accession countries	10,235	6,691	6,566	3,188
Neighbourhood and Partnership countries	6,520	5,852	5,735	2,464
Asia and Latin America	2,480	2,105	2,105	242
South Africa	825	817	817	161
Member States (following the accession)2		3,105	3,105	1,071
sub-total 65 %(1)	**76,544**	**58,872**	**42,274**	**26,325**
Financial agreements (70% Guarantee rate)	**7,477**	**6,482**	**6,482**	**488**
Pre-Accession countries	3,770	477	477	79
Neighbourhood and Partnership countries	2,310	1,587	1,587	67
Asia and Latin America:	1,022	809	809	10
South Africa	375	375	375	25
Member States (following the accession)2		3,235	3,235	306
sub-total 70 %(1)	**7,477**	**6,482**	**6,482**	**488**
Financial agreements (75% Guarantee rate)	**7,712**	**7,047**	**7,047**	**133**
Pre-Accession countries	1,350	590	590	0
Neighbourhood and Partnership countries	6,362	4,478	4,478	133
Member States (following the accession)2		1,980	1,980	0
sub-total 75 %(1)	**7,712**	**7,047**	**7,047**	**133**
Financial agreements (100% Guarantee rate)	**6,653**	**5,320**	**5,320**	**223**
Pre-Accession countries	4,700	29	29	-
Neighbourhood and Partnership countries	750	315	315	223
Asia and Latin America	903	710	710	-
South Africa	300	285	285	-
Member States (following the accession)2		3,982	3,982	1
sub-total 100 %(1)	**6,653**	**5,320**	**5,320**	**223**
Total	**98,386**	**77,722**	**61,123**	**27,170**

(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 betw een the Community and the EIB on 30.10.78 and 10.11.78.
(3) The Community has guaranteed EUR 5,497 million, of w hich EUR 141.5 million w ere 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 w hole or in part follow ing 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 2017[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 31.12.2017 (in EUR million)

Ranking	Country	Total repayments due	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028-2047
1	Portugal	30,011	1,191	577	577	7,327	3,078	1,804	2,094	261	2,261	2,201	8,642
2	Ireland	28,370	4,507	485	485	3,485	380	2,380	1,167	352	2,352	1,292	11,484
3	Turkey	8,917	605	962	617	682	660	593	559	486	464	421	2,869
4	Ukraine	4,631	132	133	736	145	141	128	707	65	115	165	2,164
5	Romania	3,472	1,604	1,189	143	114	96	83	81	54	39	33	35
6	Morocco	3,531	247	255	287	312	303	289	276	254	215	160	933
7	Tunisia	2,961	274	270	255	249	241	212	195	174	164	210	718
8	Egypt	2,485	267	691	206	208	162	148	134	125	102	103	338
9	Serbia	2,140	209	191	142	135	133	123	119	113	104	96	775
10	Bosnia and Herzegovina	1,222	63	73	77	73	72	127	63	60	58	55	501
11	South Africa	1,017	111	67	101	91	87	86	79	63	56	48	229
12	Latvia	787	26	524	7	6	6	6	6	206	-	-	-
13	Jordan	675	44	40	39	39	42	41	19	39	39	40	292
14	Israel	648	26	133	27	29	30	31	32	31	32	30	248
15	Panama	471	4	50	49	49	48	48	45	44	44	43	46
16	Georgia	460	25	28	28	26	27	23	18	17	20	21	226
17	Brazil	419	54	51	48	34	19	25	24	24	13	13	114
18	Lebanon	401	77	61	57	48	39	32	29	25	18	8	6
19	India	349	24	21	17	6	9	9	9	9	9	139	99
20	Armenia	315	8	10	15	22	22	23	22	22	82	11	79
21	Montenegro	313	30	24	23	29	31	28	26	26	24	23	50
22	Bulgaria	306	68	55	47	39	30	23	18	10	4	4	7
23	Syrian Arab Republic	276	55	55	52	31	26	20	18	3	3	3	8
24	Albania	235	26	27	27	26	22	20	18	16	14	13	26
25	Croatia	230	36	34	33	28	24	21	19	15	7	4	8
26	Ecuador	225	5	2		12	15	16	15	15	15	14	116
27	Moldova, Republic of	222	13	14	23	27	23	19	18	15	14	12	44
28	Sri Lanka	172	15	15	15	15	12	11	10	10	10	8	50
29	Viet Nam	167	14	13	12	12	9	10	10	11	11	11	55
30	FYROM	148	17	10	12	14	13	13	11	9	9	9	29
31	Russian Federation	146	18	18	17	17	17	17	16	14	11		-
32	Argentina	117	45	43	12	12	6						-
33	Poland	91	21	19	18	17	16						-
34	Nicaragua	88	3	4	5	6	6	6	6	6	6	6	34
35	Slovakia	87	14	13	13	12	7	6	5	5	5	5	3
36	China	79	7	7	8	8	6	3	3	3	3	3	28
37	Mexico	68	4	46		19							-
38	Lao People's Democratic Rep.	66	3	3	3	3	3	3	3	4	4	4	32
39	Czech Republic	60	13	13	12	12	11						-
40	Paraguay	56		2	4	5	2	2	2	2	2	2	32
41	Bolivia	49			1	2	3	3	3	3	3	3	27
42	Honduras	48	2	2	2	3	4	4	4	4	4	4	17
43	Palestine	45	6	4	4	4	4	4	4	4	4	4	2
44	Costa Rica	42				1	2	2	2	2	2	2	28
45	Bangladesh	34					1	2	2	2	2	2	25
46	Colombia	29	20	8	1								-
47	Azerbaijan	21	6	8	5	1							-
48	Kyrgyzstan	17	0	0	0	0	0	0	0	0	0	0	15
49	Indonesia	15	7	6	3								-
50	Maldives	9	4	4	2								-
51	Lithuania	9	3	3	2	1							-
52	Tajikistan	8			1	1	1	1	1	1	1	1	3
53	Peru	7	6	1									-
54	Pakistan	6	4	2									-
55	Nepal	3				0	0	0	0	0	0	0	1
56	Mongolia	2				0	0	0	0	0	0	0	1
Grand total		**96,781**	**9,965**	**6,263**	**4,269**	**13,438**	**5,890**	**6,445**	**5,894**	**2,606**	**6,344**	**5,227**	**30,441**
Total MS		63,423	7,483	2,911	1,336	11,041	3,648	4,323	3,390	904	4,669	3,540	20,179
Total non MS		33,358	2,482	3,353	2,933	2,397	2,242	2,122	2,504	1,702	1,675	1,687	10,261
Percentage MS		66%	75%	46%	31%	82%	62%	67%	58%	35%	74%	68%	66%

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 (57.8% of the total oustanding 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.

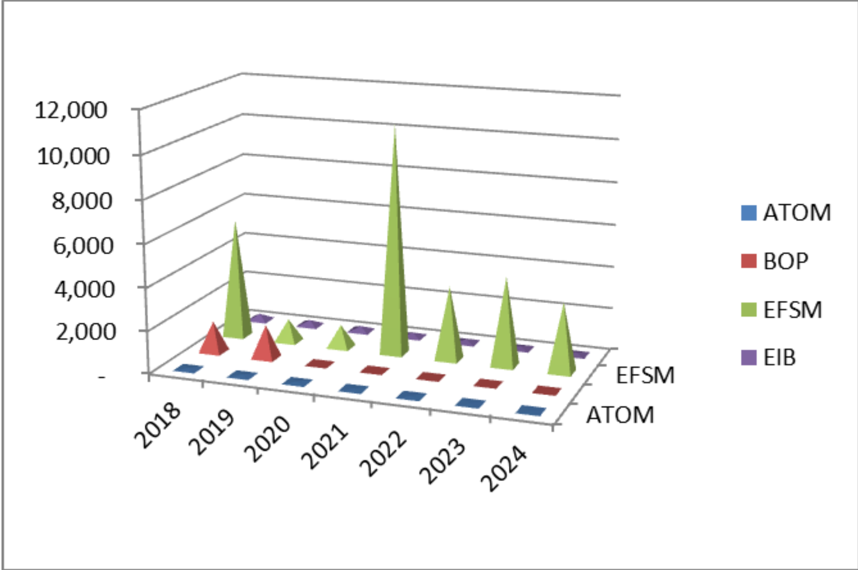
Table 1: Total outstanding amounts covered by the EU budget at 31 December 2017 (in EUR million

		Outstanding Capital 31.12.2016	Accrued Interest 31.12.2016	Total	%	Outstanding Capital 31.12.2017	Accrued Interest 31.12.2017	Total	%
Member States	Euratom	241.1	0.8	241.9	0.3%	196.0	0.6	196.6	0.2%
	BOP	4,200.0	71.6	4,271.6	5.1%	3,050.0	64.1	3,114.1	3.8%
	EIB	1,651.3	13.1	1,664.5	2.0%	1,378.4	10.9	1,389.3	1.7%
	EFSM	46,800.0	655.8	47,455.8	57.0%	46,800.0	656.0	47,456.0	57.8%
	Sub-total	***52,892.4***	***741.3***	***53,633.7***	***64.4%***	***51,424.4***	***731.7***	***52,156.0***	***63.6%***
Third Countries	MFA	2,946.6	17.3	2,963.9	3.6%	3,901.5	22.2	3,923.7	4.8%
	Euratom	10.4	0.0	10.4	0.01%	52.9	0.3	53.2	0.1%
	EIB****	26,482.0	156.9	26,638.9	32.0%	25,791.2	146.0	25,937.2	31.6%
	Sub-total	***29,439.0***	***174.2***	***29,613.2***	***35.6%***	***29,745.6***	***168.5***	***29,914.1***	***36.4%***
Grand Total		**82,331.4**	**915.6**	**83,247.0**	**100%**	**81,170.0**	**900.1**	**82,070.1**	**100%**

2.3.1. EU loan operations to Member States

In 2017, Member States represented 63.6% 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 A1: Total annual risk borne by the EU budget (EUR million) related to Member States at 31.12.2017 for the period 2018-2024 (based on amortization plans of existing loans)

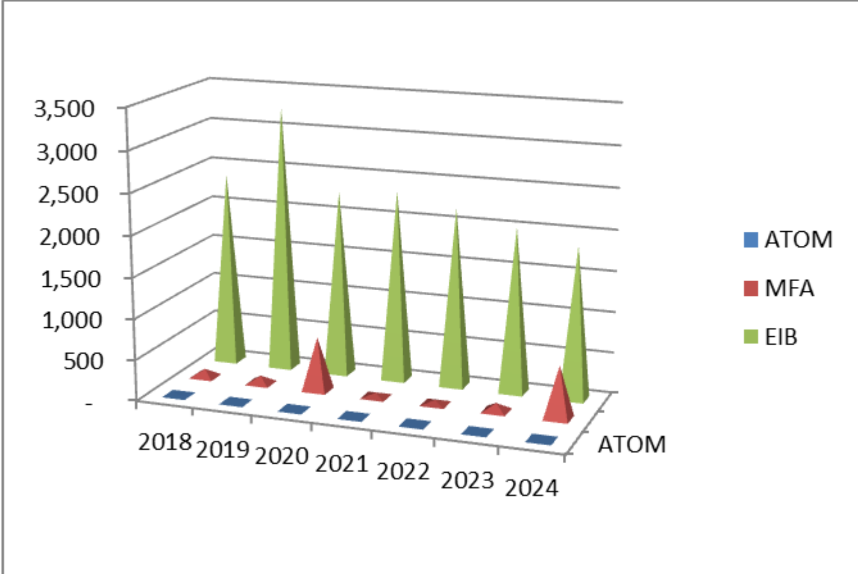


As Graph 1 illustrates, the main risk for the EU budget is linked to EFSM loans, which represent 92.1% of the total outstanding of Member States.

2.3.2. EU loan operations to non-Member States

In 2017, non-Member States represented 36.4% 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 A2: Total annual risk borne by the EU budget (EUR million) related to non-Member States at 31.12.2017 for the period 2018-2024 (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. Guarantees given to the EIB

90% of the 2007-2013 EIB external Mandate has been signed but an amount of EUR 6,055 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 (at 31.12.2017) EUR million			
	Ceiling (a)	Net signatures (b)	Balances to be disbursed (c)
A. Pre-Accession Countries	9,048	8,863	1,015
B. Neighbourhood and partnership countries	13,548	11,403	3,261
C. Asia and Latin America	3,952	3,672	791
D. South Africa	936	760	5
E. Climate Change Mandate (2011-2013)	2,000	1,725	983
	29,484	**26,423**	**6,055**

(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 31.12.2017.

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 (at 31.12.2017) EUR million			
	Ceiling	Net signatures (a)	Balances to be disbursed (b)
A. Pre-Accession Countries	8,739	1,909	1,115
B. Neighbourhood and partnership countries	14,437	9,570	7,459
C. Asia and Latin America	3,407	2,201	1,499
D. South Africa	416	200	150
	27,000	**13,879**	**10,223**

(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 31.12.2017.

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:

BOP and EFSM loans

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.

Euratom and MFA loans

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.

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 degree 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

[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.

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.

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.

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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.

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 3.8% in 2017, following strong growth performance over the last two years. Private consumption was the main growth driver, while investment also made a positive contribution. GDP growth is projected to remain strong at 3.7% and 3.5% in 2018 and 2019, respectively, with domestic demand as the predominant growth driver. Risks to the growth outlook are broadly balanced. Increasing wages and incomes might increase private consumption, while a slower-than-expected implementation of EU funds could moderate the contribution of investment to growth. Labour market conditions have further improved with the rising investment, as wages are expected to increase and unemployment rate to decrease to 5.7% in 2019. After three years, annual inflation turned positive in 2017 and is expected to reach 1.4% and 1.6% in 2018 and 2019, respectively. The growth in prices is mainly supported by the global oil and food prices but it is expected to increase also due to growth in household disposable incomes, fuelled by positive labour market developments.

The government budget balance and debt indicators stand well below the underlying benchmarks of the EU stability and growth pact. The balanced general government budget achieved in 2016 was maintained in 2017. Recovering public investment and public sector wage increases were counterbalanced with rising taxes and social security revenues. The general government budget is forecast to remain balanced in 2018 and to record a surplus of 0.2% of GDP in 2019. The further rise in public sector wages and investment is expected to be offset by strong revenue performance. The general government debt in 2017 is estimated to drop by more than 3 pp. to 25.7% GDP and it is projected to decline further, reaching 22.8% of GDP in 2019. This reduction is stemming from the improvement in the primary surplus, low interest payments and higher nominal GDP growth.

Country-risk indicators : Bulgaria		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	3.6	3.9	3.8
Unemployment (end of period)	(% labour force)	8.4	7.1	5.9
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.9	-0.5	1.8
Public finances				
General government balance	(% of GDP)	-1.6	0.0	0.0
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	29 031.9	30 792.1	32 900.2
Current account balance	(% of GDP)	-0.4	5.3	2.5
Net inflow of foreign direct investment	(m EUR)	142.8	368.7	18.7
Official reserves, including gold (end of period)	(m EUR)	20 285.4	23 898.6	23 662.1
In months of average GNFS imports for the last 12 months	(months)	8.4	10.0	8.7
Exchange rate (end of period, fixed, Euro adopted as of 01.01.2014)	(per EUR)	2.0	2.0	2.0
External debt				
External debt (end of period)	(m EUR)	33 317.1	34 046.3	32 388.6*
External debt/GDP	(%)	75.3	70.7	63.5*
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)	467.7	379.5	305.6
EU exposure/total EU exposure	(%)	0.5	0.4	0.3
EU exposure/external debt	(%)	1.4	1.1	0.9
EU exposure/exports of goods and services	(%)	1.6	1.2	0.9
IMF arrangements				
Type: no IMF involvement				
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)		BB+	BB+	BBB-
Fitch long-term foreign currency rating (end of period)		BBB-	BBB-	BBB

* data of 11/2017

3.1.2. Ireland

In the first three quarters of 2017, real GDP increased by 7.6 % year-on-year (y-o-y), well above the euro area average. While headline figures were driven up by the activities of multinational companies in the country, underlying domestic activity, which excludes some of the impact of multinationals, also grew robustly, by 4.9 % year-on-year in the first three quarters of 2017. According to the Commission 2018 Winter Forecast, GDP is estimated to have grown by 7.3 % in 2017 and growth is expected to moderate to 4.4 % in 2018 and 3.1 % in 2019. Risks to the economic outlook are mainly linked to the outcome of the negotiations between the UK and the EU, and changes to the international taxation environment. Domestic demand is expected to remain the main driver of the economy supported by private consumption and investment in construction. Strong employment growth, particularly for full

time jobs, should underpin a rise in disposable income and household consumption over the next two years. Supported by various government policies, investment in construction, both in the residential and commercial sectors, is projected to further contribute substantially to the economic expansion. However, headline investment figures are likely to remain volatile. In 2017, HICP inflation increased by just 0.3 %, mainly due to the fall in the value of the pound, which lowered the prices of imports from the UK. HICP inflation is expected to rise gradually in 2018, driven by higher services and energy prices, and in 2019 with higher prices for services the prime driver.

Based on the Commission 2017 Autumn Forecast, the general government deficit is estimated to have fallen to 0.4 % in 2017 from 0.7 % in 2016, reflecting the sustained pace of Ireland’s economic growth. The structural deficit is expected to reach Ireland's medium-term objective of 0.5% in 2018. The government debt-to-GDP ratio is estimated to have declined to 69.9 % in 2017 from 72.8 % in 2016. The debt sustainability analysis shows that the public debt-to-GDP ratio is expected to decrease further in the medium-term but remains vulnerable to economic shocks. Assuming that Ireland continues to implement prudent economic policies and sovereign market conditions are not impaired, repayment risks for European Financial Stability Mechanism (EFSM) and European Financial Stability Facility (EFSF) loans remain low. Market access conditions for the Irish sovereign remain favourable. The next repayment of loans from EU lenders is scheduled in 2018, although the 2018 EFSM maturities are expected to be refinanced, owing to the maturity extensions granted in 2013. The National Treasury Management Agency plans to maintain strong cash buffers in advance of large redemptions over the medium-term, notably in 2019 and 2020. The completed early and full repayment of the outstanding IMF loans together with bilateral loans from Denmark and Sweden further reduces Ireland’s interest repayment burden, and smoothens and extends the debt maturity profile.

Country-risk indicators : Ireland		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	25.6[(1)]	5.1	7.3[(2)]
Unemployment [(3)]	(% labour force)	9.9	8.4	6.7
Inflation rate (HICP)	(% change)	0	-0.2	0.3
Public finances				
General government balance	(% of GDP)	-1.9	-0.7	-0.4[(4)]
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	326 610	335 042	349 816[(4)]
Current account balance	(% of GDP)	10.9[(1)]	3.3	2.9[(4)]
Net inflow of foreign direct investment[(1)]	(m EUR)	-42 790	13 435	n.a.
Official reserves, including gold (end of period)	(m EUR)	2 024	3 406	3 681
In months of subsequent year's imports	(months)	0.1	0.2	0.2[(4)]
Exchange rate (end of period)	(per EUR)	Euro	Euro	Euro
External debt				
Gross external debt[(1)]	(m EUR)	201 133.9	199 843.6	n.a.
Gross external debt	(% of GDP)	76.9[(1)]	72.8[(1)]	69.9[(4)]
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)	29 586.4	28 977.0	28 369.8
EU exposure/total EU exposure	(%)	29.1	29.1	29.3
EU exposure/external debt	(%)	14.7	14.5	n.a.
EU exposure/exports of goods and services	(%)	9.1	8.6	8.1
IMF arrangements				
Type: SDR 19.5 bn drawn down in 12 disbursements				
Date: January 2011 – December 2013				
State: SDR 7.65 bn repaid in 2014 and SDR 8.05 bn repaid in 2015. SDR 3.8 bn repaid in 2017				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa1	A3	A2
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+
DBRS - long-term credit rating (end of period)		A (low)	A (high)	A (high)

(1)Figure revised by the Irish Central Statistics Office

(2)Preliminary data for 2017 based on the Commission 2018 Winter Forecast

(3)Unemployment figures have been revised since last year due to new methodology applied

(4)Preliminary data for 2017 based on the Commission 2017 Autumn Forecast

3.1.3. Latvia

Latvia's real GDP growth reached 4.5% in 2017, as investment recovered from the drop in 2016 and buoyant private consumption was driven by rapid wage growth. In 2018, GDP growth is expected to moderate to 3.5%, as a boost to investment wears off. Inflation picked up to 2.9% in 2017 on the back of a recovery in energy prices globally, as well as the strong wage growth domestically. In the short run, inflation of around 3% is expected to dampen the

growth of real disposable incomes and therefore private consumption. With domestic demand cooling off, exports are set to be the main growth driver in 2019, given also favourable external outlook. Due to shrinking labour force, the unemployment rate continued to decrease, but the number of people employed barely changed.

The general government deficit is projected to remain at around 1% of GDP in 2017-2019. The underlying fiscal position has improved in 2017 on the back of the stronger-than-planned economic growth, which is used to pre-pay government's support for electricity production. The medium-tem budgetary plans accommodate the costs of the tax reform, including the labour and corporate tax cuts, which are partly balanced by revenue increasing measures, but this leaves limited room for expenditure increases.

The government debt-to-GDP ratio is expected to decline from around 39% of GDP in 2017 to 36% in 2018-2019. The reduction mostly reflects the low government borrowing compared to nominal GDP growth, as well as an assumption of lower cash reserves. While some risks have materialised in the banks serving non-residents, their effect on the domestic financing sector and the economy are expected to be limited. Overall, the solid economic growth and the sound fiscal performance support the assessment of very low debt refinancing risks for Latvia.

Country-risk indicators : Latvia		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	2.9	2.2	4.6
Unemployment (end of period)	(% labour force)	9.9	9.6	8.7
Inflation rate (CPI) (Dec/Dec)	(% change)	0.4	2.2	2.2
Public finances				
General government balance	(% of GDP)	-1.2	0.04	-0.9
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	14 690.4	14 965.8	16 172.4
Current account balance	(% of GDP)	-0.5	1.4	-1.2
Net inflow of foreign direct investment	(m EUR)	626	3	558
Official reserves, including gold (end of period)	(m EUR)	4 055	4 100	4 298
In months of subsequent year's imports	(months)	3.3	2.9	2.8
Exchange rate (end of period, fixed, Euro adopted as of 01.01.2014)	(per EUR)	Euro	Euro	Euro
External debt				
External debt (end of period)	(m EUR)	34 921	37 079	37 824
External debt/GDP	(%)	143.6	148.8	140.9
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)	840.0	813.3	786.7
EU exposure/total EU exposure	(%)	0.8	0.8	0.8
EU exposure/external debt	(%)	2.4	2.2	2.1
EU exposure/exports of goods and services	(%)	5.7	5.4	4.9
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-

3.1.4. Portugal

Economic growth in Portugal improved from 1.5% in 2016 to 2.7% in 2017. The economy benefited from a strong rebound in investment, yet from a low base, a steady increase in private consumption, and further acceleration in external trade flows. On the supply side, the positive cycle in tourism continued to support growth along with some recovery in construction and a large capacity upgrade in the country's largest car manufacturer. The Commission's Economic Sentiment Indicator remains significantly above the long-term average, shaping up a broadly favourable outlook for 2018. Economic growth is nevertheless expected to slow down somewhat due to the projected moderation in private consumption and investment. In the external sector, exports are supported by the continuous positive cycle in tourism but also by the manufacturing sector, particularly car production where more than

90% of sales are directed to foreign markets. The large import component of car exporters is also set to keep imports on a strong growth path. The labour market continued to perform strongly, bringing down the unemployment rate from 11.2% in 2016 to 9.0% in 2017 in year-average terms. Towards the end of 2017, unemployment dropped to 7.8%, which is the lowest level since 2004 and is nearly 1pp below the average in the euro area. Employment also performed above expectations rising by 3.2% in 2017 while wage growth remained subdued at around 1.5%. The labour market is forecast to improve further in 2018 though at a slower pace that is more in line with the long-term potential of the economy. Inflation (HICP) increased to a yearly average of 1.6% in 2017 and is expected to stay close to this level in 2018.

General budget deficit is estimated to have dropped to 1.4% of GDP in 2017 from 2.0% in 2016. The deficit is expected to remain below 1.5% of GDP in 2018, supported by the favourable economic cycle. On the expenditure side, the budget balance is also benefiting from the decline in interest rate costs, helped by the country's rating upgrade to investment grade by Standard & Poor's and Fitch. Yields on 10-year government bonds dropped to about 2.0% at the beginning of 2018 from 4.2% a year earlier. The overall burden of interest expenditures of the general government declined from 4.2% in 2016 to estimated 3.9% in 2017 and is projected to decline further to 3.6% in 2018. The structural budget deficit is estimated at 1.8% of GDP in 2017 and is forecast to stabilise at this level in 2018. Standard debt sustainability analysis indicates that the debt-to-GDP ratio is expected to gradually decline from the estimated 126.4% at the end of 2017 to 114.5% by 2028. However, debt dynamics remain vulnerable to adverse shocks, in particular risks of shortfalls in nominal growth and increase in interest rates. In 2017 and early 2018, Portugal continued its early repayments to the IMF, bringing down its outstating debt to EUR 4.5bn or 187.5% of its quota at the end of January 2018 as compared to initially disbursed IMF loans for a total of EUR 28.7bn. The outstanding debt to EFSM stands at EUR 24.3bn.

Country-risk indicators : Portugal		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	1.8	1.5	2.7
Unemployment (end of period)	(% labour force)	12.2	10.2	7.8
Inflation rate (CPI) (Dec/Dec)	(% change)	0.3	0.9	1.5
Public finances				
General government balance	(% of GDP)	-4.4	-2	-1.4*
General government gross debt	(% of GDP)	128.8	130.1	126.4*
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	74 073.6	75 828.3	84 315.6
Current account balance	(% of GDP)	0.1	0.6	0.5
Net inflow of foreign direct investment	(m EUR)	1 220.4	3 248.8	8 300.9
Official reserves, including gold (end of period)	(m EUR)	17 815.7	23 841.8	21 771.7
In months of subsequent year's imports	(months)	2.9	4	3.2
Exchange rate (end of period)	(per EUR)	Euro	Euro	Euro
External debt				
Gross external debt (end of period)	(m EUR)	399 222.2	399 345.5	407 482.0
Gross external debt/GDP	(%)	222	215.7	212
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)	30 742	30 602.2	30 011
EU exposure/total EU exposure	(%)	30.2	30.7	31
EU exposure/external debt	(%)	7.7	7.7	7.4
EU exposure/exports of goods and services	(%)	41.5	40.4	35.6
IMF arrangements				
Type: Extended Fund Facility				
Date: May 2011 – June 2014				
State: EUR 28.7bn disbursed; EUR 4.5bn outstanding (31.01.2018)				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba1	Ba1	Ba1
S&P long-term foreign currency rating (end of period)		BB+	BB+	BBB-
Fitch long-term foreign currency rating (end of period)		BB+	BB+	BBB
DBRS - long-term credit rating (end of period)		BBB(low)	BBB(low)	BBB(low)

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

3.1.5. Romania

The Romanian economy accelerated in 2017, with real GDP growing by 7 % - a post-crisis high. The main driver of growth was private consumption, supported by indirect tax cuts and wage hikes both in the public and the private sectors. After two consecutive years of falling consumer prices, inflation turned positive in 2017 and reached 3.4 % (y-o-y) in January 2018. Labour market conditions improved in line with the strong economic growth and the unemployment rate dropped to 4.9 %, its lowest level in more than 20 years. The current account deficit continued to widen and is estimated to have reached 3.1% in 2017. Looking ahead, GDP growth is forecast to decelerate to 4.5% in 2018 and 4% in 2019. The growth of private consumption is expected to be more tempered, as inflation weighs increasingly on real

disposable income and nominal wage growth slows down. Nevertheless, private consumption is expected to continue acting as the main growth driver. The current account deficit is forecast to widen further to 3.2% in 2018 and 3.4% in 2019. Inflation is projected to further pick up as demand pressures mount and the effect of the January 2017 tax cuts fades away. The reversal, in October 2017, of the January excise duties cut should further push up inflation in 2018. Thus, inflation is forecast to be 4.1% in 2018, before easing somewhat to 3% in 2019. The output gap is estimated to have closed in 2017 and is projected to continue expanding into positive territory in 2018 and 2019.

Romania has been pursuing an expansionary, pro-cyclical fiscal policy. In 2017, the structural deficit is projected to have increased to 3% % of GDP (from 2% % in the previous year) while the headline deficit is projected to have remained at 3% of GDP thanks to the increasing, positive output gap. This deterioration is mainly driven by the significant increases to public wages and the VAT rate cut. The budgetary outturn for 2017 will be published in spring. The Commission projects a headline general government deficit of 3.9 % of GDP in 2018 and 4.1 % in 2019, while the structural deficit is projected to deteriorate to around 4% % of GDP in 2018 and 414 % of GDP in 2019. This deterioration reflects further significant increases to public wages, as well as increases to old-age pensions and a reduction of the personal income tax rate. The 2018 budget law contains a deficit target of just below 3 % of GDP. However, this projection seems overly optimistic, in particular due to the optimistic macroeconomic scenario and revenue projection.

While growth has been strong in Romania in the last few years, the stalling and even unwinding of structural reforms risks damaging the country's long term economic prospects. In particular, the judicial framework and the fight against corruption have faced increasing pressures from the authorities in 2017 and early 2018. The corporate governance framework of state-owned enterprises is also being weakened. The national fiscal framework has been repeatedly ignored and fiscal policy has been persistently pro-cyclical. As these developments risk setting the stage for a hard landing of the economy, a close and continuous monitoring of the Romanian situation is necessary.

Country-risk indicators : Romania		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	4.0	4.6	7.0
Unemployment (end of period)	(% labour force)	6.8	5.9	4.9
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.7	-0.1	2.6
Public finances				
General government balance	(% of GDP)	-0.8	-3.0	-3.0
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	65 759	70 178	77 673
Current account balance	(% of GDP)	-0.6	-2.3	-3.1
Net inflow of foreign direct investment	(m EUR)	3 885	5 656	4 379
Official reserves, including gold (end of period)	(m EUR)	35 485	37 905	37 107
In months of subsequent year's imports	(months)	6.4	5.6	4.9
Exchange rate (end of period)	(per EUR)	4.5	4.5	4.7
External debt				
Gross external debt (end of period)	(m EUR)	90 433.6	92 909.8	93 953.9
Gross external debt/GDP	(%)	56.5	54.7	51.0
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)	5 241	4 926.2	3 471.9
EU exposure/total EU exposure	(%)	5.2	4.9	3.6
EU exposure/external debt	(%)	5.8	5.3	3.7
EU exposure/exports of goods and services	(%)	8	7	4.5
IMF arrangements				
Type: Stand-By Arrangement				
Started: May 2009 - completed January 2016				
Status: Drawn amount of SDR 11.4bn is fully repaid				
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-

3.2. Pre-accession countries

3.2.1. Albania

Economic growth has remained on an upward trajectory in 2017. GDP growth increased to 3.9 % y-o-y in the first three quarters, up from 3.4 % in 2016. All components of domestic demand provided a positive contribution to output expansion with gross fixed capital formation as the main driver. Net exports also added to GDP growth based on strong export of services (including tourism) and a recovery of goods export. Inflation increased slightly to an average annual rate of 2.0 % in 2017 following a weather-related spike in food prices, but remained well below the 3.0 % target. The central bank has kept its key interest rate at the record low of 1.25 % since May 2016. In spite of the very accommodative monetary policy, bank lending has remained very subdued. Financial stability has improved as the overhang of

non-performing loans was reduced by 5.1 percentage points to 13.2 % of total gross loans in the course of 2017.

The current account has improved in parallel with the export performance. In the four quarters to September 2017, the current account deficit corresponded to 6.3 % of GDP, down from 7.6 % in 2016. The deficit has been fully financed by foreign direct investment inflows over the past two years. Official foreign reserves have remained relatively stable amounting to EUR 2.85 billion at the end of the third quarter (equal to 6½ months of imports of goods and services). The stock of gross external debt has decreased by 0.6 % y-o-y at the end of the third quarter, corresponding to 68.4 % of GDP. Long-term debt, mostly owed by the government, makes up 80% of the total.

The fiscal deficit of general government has changed little in 2017 despite a favourable economic environment. Total revenues are estimated to have increased by 0.9 pps to 28.5% of GDP while total expenditures are estimated to have increased by 1.1 pps to 30.5%. As a result, the fiscal deficit is estimated to have increased from 1.8 % of GDP in 2016 to 2.0%. Public debt (including guarantees) declined from 72.4 % of GDP at the end of 2016 to 69.7% of GDP at the end of the third quarter. In conclusion however, there is no objective evidence for impairment of the MFA loan to Albania.

Country-risk indicators : Albania		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	2.2	3.4	4.0f
Unemployment (average)	(% labour force)	17.5	15.6	14.2f
Inflation rate (CPI) (average)	(% change)	1.9	1.3	1.9
Public finances				
General government balance	(% of GDP)	-4.1	-1.8	-2.1f
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	2 799.2	3 106.4	2 778.0 Q3
Current account balance	(% of GDP)	-8.6	-7.6	-7.9f
Net inflow of foreign direct investment	(m EUR)	818.4	936.5	724.6 Q3
Official reserves, including gold (end of period)	(m EUR)	2 637.7	2 880.3	N.A.
In months of subsequent year's imports *	(months)	N.A.	N.A.	N.A.
Exchange rate (end of period)	(per EUR)	137.7	135.3	133.2
External debt				
External debt (end of period)	(m EUR)	7 578.7	7 884.7	8 076.1 Q3
External debt/GDP	(%)	73.1	72.4	68.4 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)	285.0	261.8	235.2
EU exposure/total EU exposure	(%)	0.3	0.3	0.2
EU exposure/external debt	(%)	3.8	3.3	2.9
EU exposure/exports of goods and services	(%)	10.2	8.4	8.5
IMF arrangements				
Type		EFF	EFF	EFF
Date		28-Feb-14	28-Feb-14	28-Feb-14
On track		on track	on track	completed
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.*

*** flow up to and in including Q3.*

e - ECFIN estimation.

f - Commission Autumn 2017 Forecast.

3.2.2. Bosnia and Herzegovina

Output growth was at about 3% in the first 3 quarters of 2017, benefitting from a favourable external environment and solid private consumption. The labour market benefitted from economic growth, but also from active labour market measures, which resulted in an increase in registered employment by 2.5% in the first three quarters of 2017. The average rate of registered unemployment dropped to below 40% in December 2017, compared to 41% the year before. According to the Labour Force Survey, the unemployment rate declined to 20.5% in mid-2017 from 25.4% a year earlier. Still, the level of unemployment remains one of the highest in the region. Following negative inflation in 2016 (-1.2%), consumer prices rose by 1.2% in 2017, mainly due to higher prices for food and non-alcoholic beverages.

The current account deficit remained largely unchanged in the third quarter of 2017, with its 4-quarter moving average at around 4.7% of GDP, compared to 4.6% a year before. Commodity exports increased by 21.2% year-on-year in the third quarter, but commodity imports also grew strongly (+13.6%). FDI inflows accounted for about 2.2% of GDP

(4-quarter moving average) by end-September 2017, compared to 1.3% in the corresponding period the year before. The main source of FDI was retained earnings. Foreign reserves remained stable in terms of import coverage, at slightly above 7 months.

Public sector revenues performed well in the first three quarters of 2017, increasing by 8% year-on-year. The main driver of this growth was tax revenue. Public spending was only 2% higher than a year before. The general government accounts might again register a slight surplus in 2017, as in the previous two years. Public debt dropped slightly in mid-2017, to 38% of GDP compared to 40% a year earlier. 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% of the country's total foreign public debt, respectively. The IMF's current 3-year, EUR 550 million Extended Funds Facility is still on track, despite significant election-related delays in programme implementation in 2017. In conclusion, therefore, there is no objective evidence for impairment of the MFA loan to Bosnia and Herzegovina.

Country-risk indicators : Bosnia and Herzegovina		**2015**	**2016**	**2017**
Output and prices				
Real GDP growth rate	(%)	3.8	3.3	2.3 Q3
Unemployment (end of period)	(% labour force)	27.7	25.4	20.5
Inflation rate (CPI) (Dec/Dec)	(% change)	-1	-1.1	1.2
Public finances				
General government balance	(% of GDP)	0.6	1.2	N.A.
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	5 045.0	5 360.3	4 581.0 **
Current account balance	(% of GDP)	-5.4	-4.9	-4.6 Q3
Net inflow of foreign direct investment	(m EUR)	248.4	239.9	281.9 **
Official reserves, including gold (end of period)	(m EUR)	4 290.6	4 928.3	5 376.5
In months of subsequent year's imports *	(months)	6.3	7.2	7.0
Exchange rate (end of period)	(per EUR)	1.96	1.96	1.96
External debt				
External debt (GG, end of period)	(m EUR)	6 113.3	6 183.6	5 893.0 Q3
External debt/GDP	(%)	40.4	39.1	36.6 Q3
Debt service/exports of goods and services	(%)	15.8	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)	1 058.0	1 161.5	1 222.2
EU exposure/total EU exposure	(%)	1	1.2	1.3
EU exposure/external debt	(%)	17.3	18.8	20.7
EU exposure/exports of goods and services	(%)	21	21.7	26.7
IMF arrangements				
Type		SBA	EFF	EFF
Date		26-Sep-12	07-Sep-16	07-Sep-16
On track		expired	on-track	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		

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

*** flow up to and including Q3.*

3.2.3. Former Yugoslav Republic of Macedonia

During most of 2017, the economy has still been strongly affected by political uncertainties related to the formation of a new government. During the first three quarters of 2017, output was 0.4% lower than a year before, compared to 3% output growth in previous years. The main factors were a sharp drop in investment (-5.9% yoy), but also a decline in public consumption by 1.4%, largely reflecting a technical spending freeze due to the absence of a functioning government. Private consumption remained resilient, (+2.9% yoy), benefitting from strong employment growth and low inflation, which supported real disposal income. Exports rose by 8.1%, reflecting a favourable international environment and positive effects of new production capacities as a result of recent FDI inflows. Unemployment dropped to 22.1% in the third quarter, while employment growth remained robust (2.1% y-o-y). Consumer price inflation accelerated to 1.4%, after slightly negative inflation rates in the previous years. The key interest policy rate remained unchanged since February (3.25%).

The current account deficit narrowed during 2017, driven by a steadily improving merchandise trade balance. In the four quarters to September, it amounted to 1.8% of GDP, compared to 3% in the same period one year earlier. Net private transfer inflows remained almost unchanged, at some 16.5% of GDP. FDI inflows amounted to 1.9% of GDP in the four quarters to September, which was considerably less than a year before (-1.3pps).

The central government budget deficit stood at 2.2% of the projected 2017 GDP in November compared to an expected full-year deficit of 2.9%. Public revenues were 4.6% higher y-o-y in the first eleven months of 2017, while government expenditure was only 3.9% higher, mainly due to pensions rising by 6.9%, while the spending on goods and services was lower by 9%. At the end of September, public debt stood at some 47.9% of projected full-year GDP, compared to 48.4% at the end of 2016. The level of government-guaranteed debt of state enterprises dropped, for the first time since recording started in 2002, and stood at 8% of GDP at end-September (-0.8pps compared to end-2016). In conclusion, overall, there is no objective evidence for impairment of the MFA loan to FYROM.

Country-risk indicators : The former Yugoslav Republic of		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	3.8	2.9	1.7f
Unemployment (end of period)	(% labour force)	26.1	23.8	22.2f
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.3	-0.3	1.4
Public finances				
General government balance	(% of GDP)	-3.5	-2.7	-2.9f
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	4 421.7	4 858.4	4 090.9 **
Current account balance	(% of GDP)	-2	-3.1	-2.5f
Net inflow of foreign direct investment	(m EUR)	202.8	354	50.6 **
Official reserves, including gold (end of perio	(m EUR)	2 261.8	2 613.4	2 335.3
In months of subsequent year's imports *	(months)	5.6	6	4.8 Q3
Exchange rate (end of period)	(per EUR)	61.7	61.5	61.6
External debt				
External General debt (end of period)	(m EUR)	3 453.3	3 851.5	3 958.5
External debt/GDP	(%)	38.1	39.1	38.7
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	164.1	147.5
EU exposure/total EU exposure	(%)	0.2	0.2	0.2
EU exposure/external debt	(%)	4.6	4.3	3.7
EU exposure/exports of goods and services	(%)	3.6	3.4	3.6
IMF arrangements				
Type		none	none	none
Date				
Status: On track		(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 Autumn 2017 Forecast.
e - ECFIN estimation.

3.2.4. Montenegro

Full-year 2017 growth is estimated to have exceeded 4%, benefitting from strong household consumption and fixed investment, and a more modest contribution from government consumption. Exports have been supported by a boom in tourism. However, a simultaneous growth in imports led to a negative contribution from net exports. GDP growth is expected to slow down in 2018 as the government's fiscal consolidation measures impact on consumption. Inflation has picked up, driven by rising international commodity prices. The harmonised index of consumer prices grew by 2.8 % y-o-y in 2017, compared to 0.7 % a year before. Higher value added taxes and an increase in regulated electricity prices are set to generate additional inflationary pressures in 2018. In 2017, the merchandise trade deficit rose to 44.2% of GDP, up from 41.9% a year before, driving a further broadening of the current account deficit to 19% of GDP (+ 1 pp. y-o-y) in spite of the marked improvement of the services

account surplus as a result of the strong performance of the tourism sector. Economic growth and the rollback of some unaffordable social benefits are slowly improving labour market trends. In the third quarter of 2017, the unemployment rate according to the labour force survey declined to 15.1 % from 17.1 % a year before.

In 2017, a plan was adopted for redressing public finances as well as a medium-term fiscal strategy introducing further tax increases, cuts in public sector wages and adjustments to social benefits. Budget performance in 2017 reflects a threefold surge in capital spending over the year, totalling 6% of GDP, along with improved tax revenue collection, rising by 20% y-o-y. As a result, the central government accumulated a deficit of 5.6% of GDP compared with 3.4% in 2016. Preliminary estimates from the Ministry of Finance indicate public debt reached 66% of GDP at the end of 2017, up from 64.4% a year before. Overall however, despite the high levels of public debt, its repayment profile and the tightening of global financial conditions, there does not seem to be any objective evidence for loan impairment.

Country-risk indicators : Montenegro		**2015**	**2016**	**2017**
Output and prices				
Real GDP growth rate	(%)	3.4	2.9	3.9f
Unemployment (end of period)	(% labour force)	17.8	18	17.2f
Inflation rate (CPI) (Dec/Dec)	(% change)	1.4	0.1	2.8
Public finances				
General government balance	(% of GDP)	-8.3	-3.6	-6.2f
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	1 539.2	1 599.9	1 738.7
Current account balance	(% of GDP)	-13.2	-18.1	-19
Net inflow of foreign direct investment	(m EUR)	619.3	371.6	475.3
Official reserves, including gold (end of period)	(m EUR)	673.7	803	897.7
In months of subsequent year's imports *	(months)	4.4	4.7	4.7
Exchange rate (end of period)	(per EUR)	1	1	1
External debt				
External debt (end of period)	(m EUR)	5 865.5	6 247.7	N/A
External debt/GDP	(%)	160.5	158	N/A
Debt service/exports of goods and services	(%)	36.9	34.4	20.6
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)	251.3	267.1	313.4
EU exposure/total EU exposure	(%)	0.2	0.3	0.3
EU exposure/external debt	(%)	4.3	4.3	N/A
EU exposure/exports of goods and services	(%)	16.3	16.7	18.0
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	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.*

*** flow up to and in including Q3.*

f - Commission Autumn 2017 Forecast.

3.2.5. Serbia

Although economic growth decelerated to 1.9% in 2017 due to temporary supply shocks, the underlying growth trend remains sound. Economic activity continues to be driven by double digit export expansion and rising investment. The current account deficit went up to 5.7% of GDP. The deficit was, however, fully covered by net foreign direct investment which continued to be broad based and increased for a third year in a row to reach 6.7% of GDP. By the end of the year, inflation stayed at the target of 3%. The continuing strong fiscal consolidation and appreciation of the dinar due to significant capital inflows were instrumental in achieving price stability. They also allowed monetary policy to become more accommodative: cuts in the key policy rate resumed in the autumn when it was lowered in two steps of 25 basis points each, to 3.5%.

Fiscal consolidation remained very strong and the consolidated budget was in surplus of 1.2% of GDP in 2017. This outcome outperformed by far initially planned targets mainly because of unexpectedly strong revenue performance, including some one-offs. The budget targets a medium-term deficit of 0.5% of GDP, which is sufficient to ensure fiscal sustainability and further reduction of government debt. Government debt fell markedly to an estimated 61.5% of GDP last year.

The dinar appreciated strongly, especially against the U.S. dollar. In order to ease excessive daily volatility of the exchange rate, the central bank intervened on both sides of the market, buying a net EUR 725 million. Balance of payment flows have continued to support a relatively high level of central bank foreign exchange reserves, which stood at EUR 10.0 billion by the end of the year, covering around six months' worth of imports of goods and services. The 36-month precautionary Stand-By Arrangement with the IMF was implemented successfully and expired in February 2018. S&P, Moody's, and Fitch upgraded Serbia's long-term foreign currency credit rating in 2017. In conclusion, overall, there is no objective evidence for impairment of the MFA loan to Serbia.

Country-risk indicators : Serbia		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	0.8	2.8	1.9
Unemployment (average)	(% labour force)	17.7	15.3	13.5f
Inflation rate (CPI) (average)	(% change)	1.4	1.1	3
Public finances				
General government balance	(% of GDP)	-3.7	-1.3	1.2
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	15 630.6	17 384.9	19 330.0
Current account balance	(% of GDP)	-4.7	-3.1	-5.7
Net inflow of foreign direct investment	(m EUR)	1 803.8	1 899.2	2 414.7
Official reserves, including gold (end of period)	(m EUR)	10 378	10 204.6	9 961.7
In months of subsequent year's imports *	(months)	7.6	7.2	6.1
Exchange rate (end of period)	(per EUR)	121.8	123.4	119.1
External debt				
External debt (end of period)	(m EUR)	26 234.4	26 488.1	26 032.6**
External debt/GDP	(%)	78.3	76.5	72.4
Debt service/exports of goods and services	(%)	25.9	25.6	17.0**
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)	2 047.9	2 106.4	2 139.9
EU exposure/total EU exposure	(%) (1)	2	2.1	2.2
EU exposure/external debt	(%)	7.8	8.0	8.2
EU exposure/exports of goods and services	(%)	13.1	12.1	11.1
IMF arrangements				
Type		SBA (precautionary)	SBA (precautionary)	SBA (precautionary)
Date		Feb-15	Feb-15	Feb-15
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/stable	B1/positive	Ba3/stable
S&P long-term foreign currency rating (end of period)		BB-/negative	BB-/positive	BB/stable
Fitch long-term foreign currency rating (end of period)		B+/positive	BB-/stable	BB/stable

** Ratio of 12 months imports of goods moving average.*
*** Q3 2017*
f - Commission Autumn 2017 Forecast.
e - ECFIN estimation.

3.2.6. Turkey

Economic growth has recovered in the aftermath of the failed coup attempt in the third quarter of 2016. Annual GDP growth was a spectacular 11.2% in the third quarter of 2017. However, nearly half of this can be explained by one-off effects, i.e. a different number of calendar days, and a base effect due to low economic activity in the aftermath of the failed coup attempt. Growth in 2017 was spurred by sizable stimulus measures. Net exports also added to GDP growth in 2017 based on a recovery of the services balance as tourists returned to the country and due to strong foreign demand for Turkish goods helped by the depreciating currency. Inflation expectations have become increasingly unanchored as core inflation reached double digits. Inflation averaged 11.2% over 2017. Loose monetary policy has led to low real interest rates and high money growth which makes meeting the central bank's inflation target of 5% unlikely in the coming years.

The current account balance has gone deeper into deficit toward the end of 2017 (estimated at 5.6% of GDP for full 2017) and will continue to be under pressure from increased private domestic demand. It is also vulnerable to energy price increases. High inflation and nominal wage growth have erased much of the competitiveness gains from nominal exchange rate developments. Second round effects due to imported inflation now risk undoing further the gains in competitiveness.

Public finances have deteriorated in recent years due to ad hoc budgetary measures on both the expenditure and revenue side. The government has embarked on a trajectory of fiscal stimulus in the aftermath of the failed coup attempt and the run-up to the presidential referendum. At the same time, implicit liabilities in the banking sector, from PPP commitments and from government guarantees to the GfK credit fund have built up in recent years. The general government ran a deficit of 2.0% of GDP in 2017 and public debt stood at 28.2% of GDP at the end of the third quarter. General government revenues increased by 13.8% y-o-y whereas general government expenditures increased by 15.8% y-o-y.

The Turkish lira has depreciated by roughly 20% in the past three months. The current account deficit has widened to an estimated 6.5% of GDP and reserves have dropped further since their recent peak in October 2017. The influence of the state in the economy is growing and a large number of incentive schemes have been launched by the national authorities with a view to boost growth. However, it is unclear on what basis prioritisation of reforms takes place. Longer term economic reforms intended to raise potential growth and to reduce external vulnerabilities have been side-lined, given the political focus on several election cycles the country experienced in recent years. In addition, the credibility of Turkey's policy institutions has been undermined by the ineffectiveness of monetary policy, in part reflecting political interference in the policy-making process. These factors have led to a decrease in investors' confidence in the future direction of macroeconomic policy. This, in the context of the country's already vulnerable external position, raises the risk of severe pressure on Turkey's balance of payments.

Country-risk indicators : Turkey		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	6.1	3.2	5.3f
Unemployment	(% labour force)	10.5	11.1	11.3f
Inflation rate (CPI) (Dec/Dec)	(% change)	7.7	7.8	11.1
Public finances				
General government balance	(% of GDP)	1.3	-0.9	-2.4f
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	180 191.1	171 546.4	134 535 **
Current account balance	(% of GDP)	-3.8	-3.8	-3.9f
Net inflow of foreign direct investment	(m EUR)	18 002	13 343	10 830
Official reserves, including gold, (end of period)	(m EUR)	110 500	106 100	107 700
In months of subsequent year's imports *	(months)	6.4	6.4	5.5
Exchange rate (end of period)	(per EUR)	3.2	3.7	4.6
External debt				
External debt (end of period)	(m EUR)	86 905.8	94 963.2	n.a.
External debt/GDP	(%)	10.1	11	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)	9 263.2	9 453	8 917.5
EU exposure/total EU exposure	(%)	9.1	9.5	9.2
EU exposure/external debt	(%)	10.7	10	n.a.
EU exposure/exports of goods and services	(%)	5.1	5.5	6.6
IMF arrangements				
Type				
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa3 /negative	Ba1 /negative	
S&P long-term foreign currency rating (end of period)		BB+/negative	BB /negative	
Fitch long-term foreign currency rating (end of period)		BBB- /stable	BB+/stable	

f - Commission Autumn 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. Neighbourhood countries

3.3.1. Armenia

Armenia's current account deficit was further contained at moderate levels in 2017 as a result of robust export growth and recovery in remittances that offset the surge in imports with the pick-up of economic activity in the country. In view of the improved economic environment, credit rating agency Fitch revised in December 2017 the outlook of Armenia's sovereign debt to 'positive' from 'stable'. Despite the good performance, Armenia's economy remains subject to considerable external risks because of its small size and weak diversification as well as the relatively high (public and external) indebtedness. Overall, irrespective of these external risks, there is no objective evidence for impairment of MFA loans in Armenia.

Economic activity rebounded strongly in 2017 as GDP growth surged to 7.5% from only 0.2% a year earlier. Good economic performance and ongoing measures to improve tax administration resulted in increased budget revenues. This, coupled with an expenditure restraint, contributed to the reduction of the budget deficit from 5.5% in 2016 to 3.3% in 2017, according to the estimates of the Ministry of Finance. The fiscal adjustment was also required by the breach of the fiscal rule as the public debt exceeded 50% of GDP at end-2016. While Armenia's public debt structure consists of a high share of concessional loans (around two-thirds of the total), it remains exposed to significant exchange-rate risk due to the high share (approximately 80%) of foreign currency liabilities.

Armenia's external outlook has gradually improved since 2015 as exports outperformed imports. This, in turn helped narrow the current account deficit to 2.3% in 2016 from 7.6% in 2014. Despite the import recovery in 2017 that was driven by robust domestic demand, the current account deficit further contracted in the first three quarters of the year as a result of the increase in remittances and lower outflows of investment income. Export growth also remained strong in the year. Partially due to improvements in the current account, international reserves gradually increased in the last years to USD 2.3 billion at the end of 2017, which represents nearly 5 months of imports of goods and services.

Armenia's gross external debt amounted to USD 9.9 billion at the end of September 2017, thus remaining unchanged from its end-2016 level. This debt level represents 87% of the estimated GDP for the year. The share of the short-term external debt is relatively small (just under 10%), which reflects the highly-concessional nature of the state debt.

Country-risk indicators : Armenia		2015	2016	2017*
Output and prices				
Real GDP growth rate	(%)	3.2	0.2	7.5
Unemployment (avg)	(% labour force)	18.5	18	17.6
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.1	-1.1	2.6
Public finances				
General government balance	(% of GDP)	-4.8	-5.5	-3.3
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	2 827.2	3 161.0	3 776.6
Current account balance	(% of GDP)	-2.6	-2.3	-2
Net inflow of foreign direct investment	(m EUR)	160.8	245.6	184.0
Official reserves, including gold (end of period)	(m EUR)	1 630.7	2 078.5	1 931.0
In months of subsequent year's imports	(months)	4.9	5	4.8
Exchange rate (end of period)	(per EUR)	528.7	512.2	580.1
External debt				
External debt (end of period)	(m EUR)	8 161.0	9 404.0	8 470.0
External debt/GDP	(%)	84.5	94.2	88.0
Debt service/exports of goods and services	(%)	12.5	7.2	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
EU exposure				
EU exposure (capital and interest due)	(m EUR)	245.6	265.1	315.5
EU exposure/total EU exposure	(%)	0.2	0.3	0.3
EU exposure/external debt	(%)	3	2.8	3.7
EU exposure/exports of goods and services	(%)	8.7	8.4	8.4
IMF arrangements				
Type: Extended Fund Facility (EFF)		EFF	EFF	none
Date		February 2014 - April 2017	February 2014 - April 2017	
On track		On track	On track	
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba3	B1	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+

** Numbers for 2017 are estimates*

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

3.3.2. Georgia

Overall, the macroeconomic outlook for Georgia remains vulnerable. The economic growth, which picked up to 4.8% in 2017 after two years of deceleration, has allowed reducing the fiscal deficit to 2.9% of GDP in 2017 and stabilise public debt (at around 42% of GDP). However, annual consumer price inflation (6% in 2017) was above the central bank's target throughout the last year, and the national currency remained volatile in relation to the US dollar – a major risk in a highly dollarised economy.

Georgia also faces risks due to external imbalances in the form of a large current account deficit (around 10% in 2017) and high external debt (107% in 2017). The inflows of foreign direct investment have been lower than expected in 2017 (around 9% of GDP) due to the fact that some large investment projects are nearing completion. Georgia's international reserves have been broadly stable in absolute terms since 2011, totalling USD 3.1 billion at end-January 2018, or less than 4 months of import. However, reserve needs have been increasing (mainly due to the larger current account deficit, higher external debt and additional liquidity buffers warranted by dollarisation-associated risks in a floating exchange rate regime) and are currently below the level estimated by the IMF to be adequate.

Overall however, there is no objective evidence for impairment of loans to Georgia. Georgia's level of public debt is considered as sustainable by the IMF, based on its latest Debt Sustainability Analysis produced in the context of the Extended Fund Facility (EFF) programme agreed in April 2017. Georgia's public debt and external debt ratios increased significantly in recent years, partly due to the depreciation of the national currency. Public debt increased to estimated 42% of GDP in 2017, compared to 45% in 2016 and around 35% GDP in 2011-2014, before the economic slowdown of 2015-2016. External debt which hovered around 80% of GDP in 2008-2014 increased to estimated 107% of GDP at end-2017.

Georgia's sovereign debt ratings remained broadly stable in 2017, with Standard & Poor's and Fitch maintaining the BB- rating and Moody's upgrading the rating one notch, from Ba3 to Ba2 in September 2017. The ratings reflect the view that economic reforms and stable macroeconomic policy, both supported by the IMF programme (a three-year EFF programme of USD 285 million), will help to mitigate Georgia's credit weaknesses, notably external vulnerabilities. Reforms and sound policy are likely to be further anchored by new Macro-Financial Assistance from the EU, which Georgia requested in June 2017 and the Commission proposed in September 2017 (the proposed amount of EUR 45 million, of which EUR 10 million in grants and EUR 35 million in loans).

Country-risk indicators : Georgia		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	2.9	2.8	4.8e
Unemployment (end of period)	(% labour force)	12	11.8	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)	4.9	1.8	6.7
Public finances				
General government balance	(% of GDP)	-3.8	-4.1	-2.8
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	5 733.4	5 967.9	6 116.3e
Current account balance	(% of GDP)	-12	-12.8	-10.4
Net inflow of foreign direct investment	(m EUR)	1 165.6	1 203.7	1 051.6e
Official reserves, including gold (end of period)	(m EUR)	2 319.3	2 618.2	2 522.4
In months of subsequent year's imports	(months)	3.5	3.6	3.7
Exchange rate (end of period)	(per EUR)	2.4	2.7	2.6
External debt				
External debt (end of period)	(m EUR)	13 866.3	14 990.6	13 871.5*
External debt/GDP	(%)	103	107.8	107.0e
Debt service/exports of goods and services	(%)	21.4	20.7	19.0e
Arrears (on both interest and principal)	(m EUR)	765.4	318.2	190.9*
Debt relief agreements and rescheduling	(m EUR)	0	0	0
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	366	413.1	460.2
EU exposure/total EU exposure	(%)	0.4	0.4	0.5
EU exposure/external debt	(%)	2.6	2.8	3.3
EU exposure/exports of goods and services	(%)	6.4	6.9	7.5
IMF arrangements				
Type		SBA	SBA	EFF
Date		Jul. 2014 - Jul. 2017	Jul. 2014 - Jul. 2017	Apr 2017 - Apr 2020
On track		2nd and 3rd reviews pending	2nd and 3rd reviews pending	
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba3	Ba3	Ba2***
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-

e estimation

** Q3 2017*

*** Medium and long-term debt*

**** Upgraded from Ba3 in September 2017*

3.3.3. Egypt

Towards the end of 2016 Egypt embarked on an ambitious fiscal consolidation programme, aimed at redressing the 2015/16 situation of low growth and investment, high public debt, widening current account deficit and unsustainable shortages of foreign currency. In November 2016 Egypt moved to a floating exchange rate regime and liberalised its foreign exchange market, which immediately translated into a sharp depreciation of the Egyptian pound and double-digit inflation, which peaked at 35% in July 2017. Although the current account deficit deteriorated (from -5.9% of GDP in 2015/16 to 6.6% in 2016/17), the depreciation determined a strengthening of tourism revenues, remittances and non-oil merchandise trade, as well as a marked replenishing of international reserves (from USD 16.4 billion before November 2016 to around USD 36 billion in October 2017, or 6 months of import cover, the highest level since 2011). The capital account also improved in 2017, with a 14.4% increase of net FDI flows from 2015/16 (USD 6.9 billion) to 2016/17 (USD 7.9 billion). The portfolio investment in Egypt recorded a net inflow of USD 16 billion, reflecting a rise in foreign investment in Egyptian Treasury bonds (including USD 7 billion in Eurobonds), which points to rising international confidence in the Egyptian economy from the international sphere.

In 2016/17, Egypt grew by an estimated 4.2%, up from 3.5% the previous year. The government has adopted a restrictive monetary policy to address inflation by increasing interest rates by a total of 700 bps between November 2016 and July 2017, which has increased the Central Bank's credibility and is expected to reduce inflation to 12% in 2017/18 and to single digit later on. The Government is similarly addressing the fiscal deficit by strongly reducing fuel and energy subsidies, which stood at 3.3% of GDP in 2016/17 (down from 5.9% in 2013/14) and are expected to be completely eliminated by the end of 2019. Public debt increased from about 97% of GDP in 2015/2016 to 103% in 2016/2017, but is projected to decline to 87% of GDP by 2018/19 by the IMF. External debt in 2016/17 amounted to about 30% of GDP, up from 16.8% in 2015/16, reflecting the increase in external funding to support the reform programme.

The IMF's latest Public Debt Sustainability Assessment (February 2018) indicates Egypt's public debt as sustainable, but subject to significant risks, namely weaker growth and a less forceful fiscal consolidation than expected, which would affect the forecast reduction of the overall levels of debt. Egypt's credit ratings have also recently improved: S&P changed the outlook from "stable" to "positive" in November 2017, followed by Fitch in January 2018. The IMF is supporting Egypt's reform efforts through a 36-months Extended Fund Facility programme for a total amount of about USD 12 billion. The country's economic development programme is fully covered until the end of 2018, and the financing gap (of about USD 1.5 billion) is planned to be covered through bilateral funding, reserves, and the issuance of international bonds. In conclusion therefore, given the positive outlook, we consider that there is no objective evidence for impairment of loans in Egypt.

Country-risk indicators : Egypt (1)		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	4.4	3.5	4.2
Unemployment (end of period)*	(% labour force)	12.8	12.5	12
Inflation rate (CPI) (Dec/Dec)	(% change)	11.4	14.8	35
Public finances				
General government balance	(% of GDP)	-11.4	-12.5	-10.9
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	39 603.4	31 578.9	35 118.3
Current account balance	(% of GDP)	-3.7	-6.0	-6.0
Net inflow of foreign direct investment	(m EUR)	5 593.2	5 626.1	6 235.1
Official reserves, including gold (end of period)	(m EUR)	17 591.5	15 517.2	28 149.6
In months of subsequent year's impo	(months)	3.5	3.1	5.5
Exchange rate (end of period)	(EG£ per EUR)	8.5	9.9	20.6
External debt				
External debt (end of period)	(m EUR)	43 392.4	50 635.2	72 437.2
External debt/GDP	(%)	14.3	14.0	14.0
Debt service/exports of goods and services	(%)	6.7	10.1	10.0
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)	2 274.0	2 830.7	2 484.9
EU exposure/total EU exposure	(%) (1)	2.2	2.8	2.6
EU exposure/external debt	(%)	5.2	5.6	3.4
EU exposure/exports of goods and services	(%)	5.7	9	7.1
IMF arrangements				
Type		no	EFF	EFF
(Date)			11-Nov-16	11-Nov-16
On track			Yes	Yes
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		B3/stable	B3/stable	B3/stable
S&P long-term foreign currency rating (end of period)		B-/stable	B-/negative	B-/stable
Fitch long-term foreign currency rating (end of period)		B/stable	B/stable	B/stable

(1) Fiscal year ends 30th June

* EC estimates

** 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

3.3.4. Jordan

Reflecting substantial official borrowing (notably from the IMF and the World Bank) as well as the issuance of international bonds, gross public debt increased marginally from 95.1% of GDP at the end of 2016 to 95.3% of GDP at the end of 2017. Nevertheless, public debt's dynamics are judged to be sustainable provided that the country continues to deliver on further fiscal reforms such as streamlining the general sales tax and customs duty exemptions and broadening the income tax base through an income tax law that reduces the exceptionally high personal income tax exemption thresholds. This was confirmed by IMF's Debt Sustainability analysis in the context of the First Programme Review of the Extended Fund Facility approved by the IMF Board on 21th June 2017. Jordan's external public debt stood at the moderate levels of 41.5% of GDP at the end of 2017 from 37.5% of GDP at the end of 2016 while Jordan's external private debt is estimated to 30% of GDP. Credit ratings by Moody's remained stable at B1. However, S&P and downgraded in October 2017 its long-term sovereign rating from BB- to B+ reflecting Jordan's slower than anticipated progress on implementing fiscal reforms, the mounting social pressures and the increase of the external

liabilities. Overall, with the country engaged in a process of macroeconomic adjustment and structural reform in the context of programmes supported by the IMF, and benefiting from substantial foreign donor support, there is no objective evidence for impairment of MFA loans in Jordan, and this despite a still difficult political and economic regional environment.

In 2017, real GDP growth is estimated to an average of around 2.2%, only marginally improved from 2.1% in 2016. And, given the regional context, growth is expected to remain below potential in the next years. As a result, unemployment hiked to 18.5% in the third quarter of 2017 from 18.2% in the first quarter of 2017, 15.3% in 2016 and 11.9% in 2014. Fiscal consolidation advanced; the fiscal deficit improved to around 2.6% of GDP in 2017 from 3.2% of GDP in 2016.

Following government's decision to increase external borrowing and reduce domestic, external public debt rose to 41.5% of GDP at the end of 2017 from 37.5% of GDP at the end of 2016 while domestic public debt decreased to 53.9% of GDP from 57.5% of GDP at the same period. In line with this strategy, Jordan issued in March 2017 a USD 1 billion Eurobond with a coupon of 7.375%, for the first time with 30-years maturity. Exchange-rate risk would increase only marginally, as around 67% of Jordan's external public debt remains in USD with which the Jordanian Dinar is pegged. Jordan's external private debt is estimated to 30% of GDP and is expected to remain at that level in the medium-term.

The current account deficit increased to 11.6% of GDP (excluding grants 12.7% of GDP) in the first three quarters of 2017 compared to 9.8% of GDP during the first three quarters of 2016 driven by a 28% increase in fuel imports as a result of the surge in oil prices. In January 2018, net international reserves in foreign currency stood at a comfortable level of USD 13.4 billion, equivalent to 7.6 months of next year’s imports.

In June 2017, the IMF Board approved the first review of the three-year Extended Fund Facility (EFF) programme of a total the amount of USD 723 million (150% of quota-approved in August 2016). The first tranche (EUR 100 million) of the second MFA programme (approved by the co-legislators in 14 December 2016) was released in October 2017.

A joint declaration adopted by European Parliament, the Council and the Commission in the context of the decision approving the second MFA operation, committed the Commission to submitting a proposal for a third MFA operation of a larger amount after the successful conclusion of the second MFA and provided that the usual preconditions for this type of assistance, including an updated assessment by the Commission of Jordan's external financing needs, are met.

Country-risk indicators : Jordan		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	2.4	2.1	2.2
Unemployment (end of period)*	(% labour force)	13.1	15.3	18.5*
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.9	-0.8	3.3
Public finances				
General government balance	(% of GDP)	-5.3	-3.2	-2.6
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	7 192.7	7 111.4	6 308.0
Current account balance	(% of GDP)	-9	-9.3	-8.4
Net inflow of foreign direct investment	(m EUR)	1 268.8	1 466.0	1 280.0
Official reserves, including gold (end of period)	(m EUR)	14 383.5	14 818.0	12 763.0
In months of subsequent year's imports	(months)	8.5	7.2	7.6
Exchange rate (end of period)	(per EUR)	0.8	0.8	0.9
External debt				
External debt (end of period)	(m EUR)	12 166.6	14 023.0	13 692.0
External debt/GDP	(%)	35.3	37.5	41.5
Debt service/exports of goods and services	(%)	18.1	20.5	14.2
Arrears (on both interest and principal)	(%)			
Debt relief agreements and rescheduling	(m EUR)			
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	664.2	645.1	675.1
EU exposure/total EU exposure	(%) (1)	0.7	0.6	0.7
EU exposure/external debt	(%)	5.5	4.6	4.9
EU exposure/exports of goods and services	(%)	9.2	9.1	10.7
IMF arrangements				
Type: Extended Fund Facility (EFF) Date On track				Started in 24th August 2016 Duration: three years
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)		BB- negative	B+ stable	B+ stable
Fitch long-term foreign currency rating (end of period)				

Sources: IMF, Jordanian Ministrty of Finane and Commission staff calculations

recommendations by the International Labour Organisation (ILO). Therefore it may not be fully comparable to the figures cited for 2016

3.3.5. *Morocco*

Following relatively weak performance in 2016 (+1.2% year-on-year), economic activity in Morocco rebounded in 2017, where real GDP growth reached 3.8% year-on-year in the third quarter. The rebound was mainly driven by a significant pick-up in agricultural activity (+14.5%), following the drought in 2016, while non-agricultural activities improved moderately (+2.7%). On the demand side, private consumption was the main growth driver (+4.5%).

The rebound in 2017 was also supported by the continuation of sound macroeconomic policies. As a result of growth-friendly fiscal consolidation measures, the budget deficit in 2017 is expected to be in line with the government target of 3.5% of GDP (down from 4% of GDP in 2016), as revenue growth outpaced expenditure growth. Inflation remains low (0.7% on average in 2017), despite an acceleration in the last quarter of the year (to +1.9% in

December) due to an increase in the price of food products. Inflation expectations remain anchored, and the central bank's key policy rate has been unchanged at 2.25% since March 2016. Risks to Morocco's financial stability remain limited, as the banking sector is well capitalised.

External vulnerabilities also abated in 2017. Following significant deterioration in 2016 (from -2.1% of GDP at end-2015 to -4.4% of GDP at end-2016), Morocco's current account situation improved in 2017. Driven by strong export growth (+ 9.4%), the current account deficit is estimated to have fallen to 4.0% of GDP. External debt remained stable in 2017, representing slightly less than 30% of GDP, while net foreign direct investment picked up (+15.4%). International reserves remained comfortable (MAD 240.9 billion at end-December 2017), covering close to six months of imports. As an additional buffer against external shocks, Morocco benefits from an IMF Precautionary and Liquidity Line of USD 3.6 billion, approved in July 2016 and expiring in July 2018. The authorities have continued to treat this arrangement as precautionary, not drawing any funds in 2017.

Country-risk indicators : Morocco		**2015**	**2016**	**2017**
Output and prices				
Real GDP growth rate	(%)	4.5	1.2	4.1e
Unemployment (end of period)	(% labour force)	9.7	9.9	10.2
Inflation rate (CPI) (Dec/Dec)	(% change)	0.6	1.8	1.9
Public finances				
General government balance	(% of GDP)	-4.2	-4	-3.5e
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	20 253.8	21 046.6	22 500.0e
Current account balance	(% of GDP)	-2.1	-4.4	-4.0e
Net inflow of foreign direct investment	(m EUR)	2 117.9	1 987.6	2 177.8
Official reserves, including gold (end of period)	(m EUR)	20 631.0	23 412.3	21 483.5
In months of subsequent year's imports	(months)	6.7	6.8	5.8
Exchange rate (end of period)	(MAD per EUR)	10.8	10.7	11.2
External debt				
External debt (end of period)	(m EUR)	27 958.5	29 356.4	28 655.7e
External debt/GDP	(%)	30.5	30.8	28.3e
Debt service/exports of goods and services	(%)	11.3	13	11.4e
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)	3 124.3	3 332.6	3 531.1
EU exposure/total EU exposure	(%)	3.1	3.3	3.6
EU exposure/external debt	(%)	11.2	11.4	12.3
EU exposure/exports of goods and services	(%)	15.4	15.8	15.7
IMF arrangements				
Type		Precautionary Liquidity Line SDR 3.24 bn	Precautionary Liquidity Line SDR 2.5bn	Precautionary Liquidity Line SDR 2.5bn
(Date)		July 2015	July 2016	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 /positive
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

e: *estimate*

3.3.6. Syria

Syria has not received any direct loans from the EU under MFA or EURATOM instruments. However, the Syrian Government has defaulted on EIB loans following the imposition of financial sanctions by the EU, the Arab League and the US in early 2012. As of 31 December 2016, the total stock of outstanding of guaranteed loans related to Syria amounted to EUR 555 million (capital - this amount does not include interest), with the last loan maturity in 2030. So far the total amount of paid EIB calls on the EU Budget Guarantee Fund for External Action related to Syria is EUR 302.28 million (Capital + Interest excluding penalties).

Syria's economic and financial situation and outlook are difficult to assess, given the significant disruption caused by the ongoing conflict and the lack of reliable figures. 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.

The Syrian GDP is estimated to have declined over 50% compared to pre-crisis levels, and its structure has changed drastically. Nevertheless, as the government stabilised its control over the western part of the country it is likely that the coastal region, where industrialists and merchants have moved the bulk of their activities, experienced some growth in 2017. Growth is also being facilitated by limited reconstruction efforts in government- and Kurdish-held areas and funds held by Syrian expatriates start returning to the economy. Also, the government has recaptured agricultural areas in the north-west, which should lessen import reliance and allow some pick-up in exports. As a result, growth is estimated to around 1.9% for 2017. The unemployment rate surged from 17.5% in 2010 to 50% at end of 2016 and remains high in 2017. According to the Syrian Central Bureau of Statistics, average consumer prices almost sextupled between 2010 and 2016. However, the relative stabilisation of the currency since late 2016 helped to easer price pressures in 2017, with inflation decelerating to a still high 28.1% from 48% in 2016. The value of the Syrian pound (SYP) has depreciated dramatically from 55.89 SYP against the EUR in 2011 to 335.35 SYP against the EUR at the end of 2015, to SYP 525.12 at the end of 2016 and to SYP 618 at the end of 2017.

The conflict has markedly impacted Syria's public finances. According to the World Bank and the IMF, the overall fiscal deficit worsened sharply from 11% to 22% of GDP between 2011 and 2014 and was estimated by the IMF at around 23% by end-2015, with total fiscal revenues decreasing to around 6% of GDP, compared to 21% of GDP before the crisis. Nevertheless, fiscal deficit in 2017 is estimated to have improved to 15% of GDP benefiting from the revival of a weak economic activity in the west part of the country.

Public debt is large and mostly financed domestically with a credit from Iran assumed to have been the only external financial support between 2011 and 2015. Therefore, the remaining deficit had to be covered domestically by the Central Bank and commercial banks. The IMF estimates that public debt was above 100% of GDP at the end of 2015, up from 31% of GDP at the end of 2009.

According to EIU estimates, the external debt stock of Syria amounted to USD 4.7 billion in 2011 (or the equivalent of about 11% in terms of 2011 GDP). At the end 2017 it is estimated to have reached USD 4.9 billion or about 33% of GDP. Furthermore, debt service paid has stopped almost completely since the impositions of sanctions in early 2012 and the Syrian Government defaulted on EIB loans as well. As of 31/12/2016, the total stock of EIB outstanding loans guaranteed by the EU Budget under the external mandate amounted to EUR 555 million, with EIB calls on the Guarantee Fund on defaulting loans in Syria amounting to EUR 302.28 million.

Foreign exchange reserves are believed to have dropped considerably from USD 20 billion at end-2010 to around USD 1 billion in 2015 (equivalent to about 1 month of imports) to USD 500 million in 2016 and to USD 407 million in 2017. The maintenance of a minimum level of reserves has only been possible due to the financial support from the allies of the Syrian regime, notably Iran.

Country-risk indicators : Syria		**2015**	**2016**	**2017**
Output and prices				
Real GDP growth rate	(%)	-5.3	-3.3	1.9
Unemployment (average)	(% labour	50	50	45
Inflation rate (CPI) (average)	(% change)	38.1	45.7	28.1
Public finances				
Central government balance	(% of GDP)	-22	-23	-15
Balance of payments				
Exports of goods f.o.b.	(m EUR)	1 735.7	1 825.88	1 542.0
Current account balance	(% of GDP)	-11.4	-17	-14
Net inflow of foreign direct investment	(m EUR)	n.a.	n.a.	n.a.
Official reserves, including gold (end of period)	(m EUR)	845.43	540.8	340.0
In months of subsequent year's imports	(months)	n.a.	n.a.	n.a.
Exchange rate (end of period)	(per EUR)	335.4	525.1	618
External debt				
External debt (end of period)	(m EUR)	4 785.9	4 204.0	4 161.0
External debt/GDP	(%)	16	23.1	34
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)	389.0	332.7	276.5
EU exposure/total EU exposure	(%) (1)	0.4	0.3	0.3
EU exposure/external debt	(%)	8.1	7.9	6.6
EU exposure/exports of goods and services	(%)	22.4	18.2	17.9
IMF arrangements				
Type Date On track		none	none	none
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

3.3.7. Tunisia

In 2017 the Tunisian economy showed some signs of recovery, as real GDP grew by 1.9%, signalling a moderate recovery from 2016 (+1.1%) but falling short of the IMF target of 3%. In terms of economic sectors, tourism and phosphate production (two of the main export sectors, which were heavily affected by, respectively, the terrorist attacks of 2015 and the continuation of the social unrest exploded in 2016) considerably improved their performance in 2017. The situation, however, remains challenging.

Central government debt reached 70% of GDP in 2017, up from 62% in 2016, while the overall external debt increased from 48% of GDP in 2011 to 56.2% of GDP in 2014, and it is estimated to have reached almost 77% in 2017. A rebound in consumption and a marked depreciation of the Tunisian dinar (-6.3% against the USD and -17.6% against the EUR from end-2016 to end-2017) translated into a rocketing import bill, which, coupled with the slower

recovery of the export performance, caused the current account deficit to reach 10% of GDP. Reserves diminished throughout the year, to reach about EUR 4 billion, or slightly over 3 months of imports, at the end of 2017.

The latest IMF Public Debt Sustainability Assessment (June 2017) considers Tunisian debt as overall sustainable, due to its long maturities and stable creditor base; however, it is vulnerable to contingent liabilities and to exchange rate fluctuations, especially at times of low GDP growth. Tunisia’s sovereign ratings have been downgraded several times since 2011, the last time on 18 August 2017, when Moody's reduced it from Ba3 to B1. The rating agency had already changed the outlook from stable to negative in November 2016.

The risks associated with Tunisia's situation are being 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 2016-2020 economic programme. The first review of the programme was concluded in June 2017, while staff-level agreement on the second review was reached in December 2017 (the Board approval is expected for March 2018).

Tunisia benefitted from a first operation of EU Macro-Financial Assistance (MFA-I) for a total amount of EUR 300 million between 2015 and 2017. A second operation (MFA-II) for a total amount of EUR 500 million was approved by the EU in July 2016 and ratified by the Tunisian Parliament in August 2017. The operation was launched with the disbursement of the first instalment of EUR 200 million in October 2017. The release of the second and third tranches (of EUR 150 million each) should take place in 2018, provided that all relevant conditions are met and the IMF programme remains on track.

Considering the measures taken by the Tunisian authorities, and the relative sustainability of the country's debt, we consider that there is no objective evidence for impairment of the outstanding MFA loan to Tunisia.

Country-risk indicators : Tunisia		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	1.1	1	1.9
Unemployment (end of period)	(% labour force)	15.0	15.5	15.5
Inflation rate (CPI) (Dec/Dec)	(% change)	4	4.2	6.9
Public finances				
General government balance	(% of GDP)	-5.6	-6.1	-6.1*
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	12 441.4	13 128.6	14 024.9
Current account balance	(% of GDP)	-8.9	-8.8	-10*
Net inflow of foreign direct investment	(m EUR)	886.5	926.8	953.5*
Official reserves, including gold (end of period)	(m EUR)	6 836.3	5 718.5	4 377.1
In months of subsequent year's imports	(months)	4.7	3.5	3.1
Exchange rate (end of period)	(per EUR)	2.2	2.4	2.9
External debt				
External debt (end of period)	(m EUR)	26 351.2	27 783.3	25 218.3*
External debt/GDP	(%)	64.9	70.0	76.9*
Debt service/exports of goods and services	(%)	11.9	12.2	18.4*
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)	2 887	2 755.7	2 961.0
EU exposure/total EU exposure	(%)	2.8	2.8	3.1
EU exposure/external debt	(%)	11.0	9.9	11.7
EU exposure/exports of goods and services	(%)	23.2	21.0	21.1
IMF arrangements				
Type: Stand-by Arrangement (SBA)				
Date: started June 2013 - concluded December 2015		SBA		
Status: On track				
Type: Extended Fund Facility (EFF)				EFF
Date: started in May 2016 - expiring in May 2020			EFF	2nd review concluded at staff level in December
Status: 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)		BB-	BB-	BB-
Fitch long-term foreign currency rating (end of period)		BB-	BB-	B+

**EC staff estimates*

Exports of services are only provided on a net basis

3.3.8. *Ukraine*

Ukraine's current account deficit inched down to 3.5% of GDP in 2017 as export growth and a surge in remittances largely offset the increase of imports associated with the growing consumer and business confidence. Exports were boosted by strong external demand, in particular one from the EU, as well as favourable commodity prices. As for import growth, it remained fuelled by capital goods in line with the ongoing robust investment activity. Similar to 2016, the current account gap was entirely covered by capital inflows in view of the higher business activity and gradually improving investor perception about the country. Portfolio flows rebounded following the return of Ukraine to international debt markets in September 2017 with the placement of USD 3 billion of bonds. At the same time, FDI flows declined - they were down by 40% over the year in EUR terms to EUR 2 billion in 2017.

As a result of growing capital flows and the extension of one tranche from the financial assistance programmes of the IMF and the EU, Ukraine further increased its gross international reserves in 2017 to USD 18.8 billion (EUR 15.7 billion), or 3.6 months of expected imports of goods and services. The stock of external debt declined in 2017 around 115% of GDP but remains elevated. While Ukraine remains in default over a USD 3 billion bond held by Russia, there is no evidence for impairment of loans extended by the EU.

Ukraine's economy expanded by an estimated 2.2% in 2017 following a 2.3% growth in 2016. The increase was driven by investment activity and rising household demand as a result of considerable increase in real incomes following wage and pension rises. Following a considerable inflation slowdown in 2016, price pressures re-emerged in 2017. As a result the headline inflation accelerated to 13.7% at the end of the year, thus exceeding the 10% ceiling of the central bank’s target. In this context, the National Bank of Ukraine resumed monetary tightening as of September 2017 and raised the key policy rate by cumulative 450 percentage points to 17% as of March 2018.

Despite income loosening that aimed to compensate for the loss of purchasing power with the 2014-2015 crisis, the budget execution came again well below the plan in 2017. The consolidated government posted a deficit of 1.5% of GDP, down from 2.3% in 2016. In addition to the fiscal consolidation, the reform of the oil and gas giant Naftogaz, which helped eliminate the company's chronic deficits, and reduced capital injections in state-owned banks, aided Ukraine reverse its negative public debt dynamics. The general government debt went down, for the first time in six years, to an estimated 75% of GDP at the end of 2017 from 81% a year earlier.

As a result of the strengthening of Ukraine’s external position and the implementation of structural reforms that are supportive of improved government debt dynamics, international rating agency Moody’s upgraded in August 2017 Ukraine's long-term credit rating by one notch to 'Caa2' from 'Caa3'.

Country-risk indicators : Ukraine		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	-9.8	2.3	2.2
Unemployment (average)	(% labour force)	9.5	9.7	9.8*
Inflation rate (CPI) (Dec/Dec)	(% change)	43.3	12.4	13.7
Public finances				
General government balance**	(% of GDP)	-1.6	-2.3	-1.5
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	43 152.0	41 499.0	45 341.0
Current account balance	(% of GDP)	-0.2	-3.7	-3.5
Net inflow of foreign direct investment	(m EUR)	2 757.0	3 205.0	1 980.0
Official reserves, including gold (end of period)	(m EUR)	12 173.0	14 866.0	15 798.0
In months of subsequent year's imports	(months)	3.1	3.5	3.6
Exchange rate (end of period)	(per EUR)	26.2	28.422604	33.5
External debt				
External debt (end of period)	(m EUR)	108 666	108 200	99 200*
External debt/GDP	(%)	131.4	125.2	109*
Debt service/exports of goods and services	(%)	107	111	95*
Arrears (on both interest and principal)	(%)	yes	yes	yes
Debt relief agreements and rescheduling	(m EUR)	yes	no	no
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	3 422.0	3 430.6	4 631.1
EU exposure/total EU exposure	(%)	3.4	3.4	4.8
EU exposure/external debt	(%)	3.1	3.2	4.7
EU exposure/exports of goods and services	(%)	7.9	8.3	10.2
IMF arrangements				
Type		EFF 17.5bn	EFF 17.5bn	EFF 17.5bn
(Date)		Mar 2015 - Mar 2019	Mar 2015 - Mar 2019	Mar 2015 - Mar 2019
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	Caa2
S&P long-term foreign currency rating (end of period)		B-	B-	B-
Fitch long-term foreign currency rating (end of period)		CCC	B-	B-

** EC staff estimate*

***does not include the operational deficit of state-owned gas company Naftogaz*

3.4. Other countries

3.4.1. The Kyrgyz Republic

The assessment of the Kyrgyz Republic's external debt sustainability has remained unchanged during 2017 compared to 2016. The Kyrgyz economic is undergoing a moderate economic recovery, with growth reaching 3.2% thanks to the solid performance of the agricultural and the service sectors and inflation stabilising at 3.2% in 2017. GDP growth is expected to reach 3.3% growth in 2018. However, this economic growth was achieved with the help of loose fiscal policy. Fiscal consolidation initiated in 2016 was undermined by significant spending in the run-up to the October 2017 presidential elections. One-off expenditures, with a total cost of 3.7 % of GDP in 2017, were undertaken. Despite these slippages, the fiscal balances are expected to improve relative to 2016, with the overall deficit declining to 5.9% in 2017, compared to 6.9% of GDP in 2016.

While debt sustainability has improved, it remains vulnerable to external and domestic shocks. Debt-to-GDP ratio has decreased in 2016 as a result of the Russian debt write-off and the som appreciation. Overall, debt remains at a moderate risk of debt distress, as

vulnerabilities continue to persist, especially regarding the depreciation of the som and/or deterioration in the fiscal balance, including from scaling-up of public investments. A large and stable revenue base and the largely concessional nature of government debt will continue to keep debt servicing costs low.

The balance of payments situation of the country remains vulnerable, as the economy significantly relies on gold mining and remittances. Remittances amounted to 30.4% of GDP in 2016, the second-highest globally. The recovery of exports and remittances in 2017 has improved the current-account balance, despite imports also rising as a result of recovering domestic demand, to 10.0% of GDP in 2017, compared to 12.1% of GDP in 2016.

This large current-account deficit is mainly financed by China and foreign direct investment. Donor support contributes to high investment levels at around 33% of GDP in 2017. The government has engaged in large investments in infrastructure and the energy sector by borrowing externally, with about half of the projects financed by China. Improved balance of payments dynamics enabled total international reserves to increase to USD 1.89 billion by the end of 2017, up from USD 1.78 billion at the end of 2016. Accelerating growth of import slightly reduced total international reserves ratio in months of forecast imports to 3.8 months by the end of 2017 when compared to 4.0 months by the end of 2016.

On 8 April 2015, the IMF Executive Board approved a new three-year arrangement under the Extended Credit Facility (ECF) for a sum equivalent to SDR 66.6 million (75% of quota, or about USD 92.4 million). On 15 December 2017, the IMF Executive Board completed the fourth and fifth review of the Kyrgyz Republic's economic performance under the IMF programme. The Board's approval enabled the immediate disbursement of SDR 19.028 million (USD 26.9 million) to the Kyrgyz Republic. Besides, on 20 November 2017 Moody's reaffirmed its B2 sovereign rating for Moldova with a stable outlook. Based on these factors, there is no objective evidence for impairment of the outstanding MFA loan to the Kyrgyz Republic.

Country-risk indicators : Kyrgyzstan		2015	2016	2017*
Output and prices				
Real GDP growth rate	(%)	3.5	3.8	3.2
Unemployment (end of period)*	(% labour force)	8	7.7	7.6
Inflation rate (CPI) (Dec/Dec)	(% change)	6.5	0.4	3.1
Public finances				
General government balance	(% of GDP)	-3.1	-6.9	-5.9
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	2 227.0	2 206.3	2 488.5
Current account balance	(% of GDP)	-10.9	-12.1	-10
Net inflow of foreign direct investment	(m EUR)	1 027.0	420.5	n/a
Official reserves, including gold (end of period)	(m EUR)	1 352.0	1 689.1	1 575.3
In months of subsequent year's imports	(months)	3.7	4	3.8
Exchange rate (end of period)	(per EUR)	82.41	72.8	82.73
External debt				
External debt (end of period)	(m EUR)			
External debt/GDP	(%)	63.5	56.6	54.5
Debt service/exports of goods and services	(%)	5.3	5.9	5.9
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)	6	17.0	16.9
EU exposure/total EU exposure	(%)	0.0	0.0	0.0
EU exposure/external debt	(%)	n.a.	n.a.	n.a.
EU exposure/exports of goods and services	(%)	0.3	0.8	0.7
IMF arrangements				
Type: Extended Credit Facility (ECF) programme				
ECF I started in June 2011, ECF II started in April 2015		ECF	ECF	ECF
On track		Yes	Yes	Yes
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		B2 stable	B2 stable	B2 stable
S&P long-term foreign currency rating (end of period)		B stable	n/a	n/a
Fitch long-term foreign currency rating (end of period)		n/a	n/a	n/a

** Numbers for 2016 are estimates*

Sources: National Bank of the Kyrgyz Republic, Ministry of Finance, Commission, IMF, Moody's

3.4.2. Brazil

The Brazilian economy is emerging from the most severe recession in its history. In 2015-2016, the economy shrank by more than 7% in cumulative terms, the worst economic performance on record. Supported by an ambitious reform package and improved market confidence, economic growth has turned positive in 2017, reaching 1%. Inflation declined from a peak of 10% in January 2016 to 3% at the end of 2017 providing a boost to household real income. Private consumption has started to increase and this trend is expected to continue due to strengthening employment growth.

An environment of easier monetary policy and more favourable external conditions will be supportive of growth going forward but political uncertainty will likely limit the pace of the

recovery. Recent high-frequency data suggests the recovery gained steam. On the policy side, reform momentum is expected to slow as politics takes centre stage. Heightened uncertainty in the run-up to the elections later this year could generate volatility in Brazil's exchange rate and in financial markets. Growth is expected to accelerate to over 2% both this year and next year.

High public deficits and debt are a key challenge for Brazil's economy. The general government deficit reached 7.8% of GDP in 2017 (down from the peak of 10.2% in 2015) and the public debt-to-GDP ratio of around 74% is high considering the elevated debt servicing costs. The primary deficit improved from 2.5% in 2016 to 1.7% in 2017 but most of this improvement was driven by large extraordinary revenues that will not be repeated this year. The task of putting Brazil's public finances on a sustainable path remains very challenging, even with the recently approved spending cap in place. The new expenditure rule, limiting growth of public spending to inflation for the next 20 years, can only be met with ambitious reductions of rigid mandatory spending items. Thus, reforming social benefits and most notably the pension system is urgently needed to achieve fiscal sustainability. The government's structural reform agenda has advanced in several areas, e.g. labour market and business environment, but the crucial pension reform is unlikely to be adopted before this year's elections.

On the positive side, inflation has been on a sharply downward trend in recent months, allowing the Central Bank to cut interest rates more aggressively and thus providing some support for the recovery. In addition, the external position of Brazil has been improving in recent years and it is not expected to be a source of a major risk going forward. Reflecting weak investment and improving terms of trade, the current account deficit narrowed to 0.5% percent of GDP in 2017 (from 3.3% of GDP in 2015). For the coming years, the current account deficit is expected to widen but not to the point of compromising Brazil's external sustainability. Brazil has continued to attract sizable capital inflows and the net direct investment fully financed the current deficit in recent years. High international reserves also remain a source of strength.

Country-risk indicators : Brazil		2015	2016	2017	
Output and prices					
Real GDP growth rate	(%)	-3.6	-3.5	1.1	*
Unemployment (end of period)	(% labour force)	8.3	11.3	12.8	
Inflation rate (CPI) (Dec/Dec)	(% change)	10.7	6.3	2.9	
Public finances					
General government balance	(% of GDP)	-10.2	-9.0	-7.8	
Balance of payments					
Exports of goods and services f.o.b.	(m EUR)	202 940.7	197 270.2	221 090.6	
Current account balance	(% of GDP)	-3.3	-1.3	-0.5	**
Net inflow of foreign direct investment	(m EUR)	67 827.8	71 451.3	62 155.8	
Official reserves, including gold (end of period)	(m EUR)	294 653.9	336 113.8	n.a.	
In months of subsequent year's imports	(months)	14.4	17.1	n.a.	
Exchange rate (average)	(per EUR)	3.7	3.9	3.6	
External debt					
External debt (end of period)	(m EUR)	307 472.3	304 807.3	261 493.9	
External debt/GDP	(%)	18.6	18.1	n.a.	
Debt service/exports of goods and services	(%)	65.6	65.4	n.a.	
Arrears (on both interest and principal)	(%)	0	n.a.	n.a.	
Debt relief agreements and rescheduling	(m EUR)				
Indicators of EU exposure					
EU exposure (capital and interest due)	(m EUR)	1 065	761.7	419.4	
EU exposure/total EU exposure	(%)	1	0.8	0.4	
EU exposure/external debt	(%)	0.3	0.2	0.2	
EU exposure/exports of goods and services	(%)	0.5	0.4	0.2	
IMF arrangements					
Type					
(Date)					
On track					
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)		Ba2/negative	Ba2/negative	Ba2/negative	
S&P long-term foreign currency rating (end of period)		BB/negative	BB/negative	BB-/stable	
Fitch long-term foreign currency rating (end of period)		BB+/negative	BB/negative	BB-/stable	

* European Commission 2018 Winter forecast (data not published)

** Commission estimate (data not published)

3.4.3. South Africa

South Africa has experienced a protracted economic downturn in recent years. Real GDP growth has decelerated markedly from around 5% in the run-up to the financial crisis to 0.3% in 2016, the slowest pace since 2009. The decline was due to a combination of factors, including falling commodity prices, electricity shortages, droughts and, more recently, domestic political and policy uncertainty. Growth remained weak in 2017 (around 1%) with private consumption constrained by persistently high unemployment and investment affected by low confidence and uncertainty. Concerns about the country's governance and deteriorating fiscal position lead to credit rating downgrades of two ratings agencies to below-investment grade in November 2017 while one agency placed South Africa's rating on review. The economy is expected to recover moderately in 2018 and 2019 on the back of higher commodity prices, favourable external environment and improved confidence following the recent change in the country's leadership. Another credit rating downgrade appears less likely at the current juncture.

The fiscal situation has deteriorated and fiscal pressures are expected to increase going forward. The general government deficit increased from 3.3% of GDP in the fiscal year 2016/17 to estimated 4.3% of GDP in 2017/18 on the account of sizeable revenue shortfalls.

In the new budget proposal presented in February 2018, the National Treasury proposed tax increases and spending cuts that would narrow the deficit to 3.5% in 2020/21 and stabilise the public debt-to-GDP ratio at 53.2% of GDP in 2023/24. Nonetheless, the risks to the fiscal outlook remain elevated and include uncertainty in the pace of economic recovery, public-service wage pressures, the precarious financial situation of the state-owned companies, as well as a severe contraction in the Western Cape economy due to water crisis. Inflation pressures have been easing recently with headline inflation declining to 4.4% in January 2018, the lowest level in five years. The Central Bank cut its policy repo rate in July 2017 to 6.75% for the first time in five years; the rate was left unchanged since. International oil prices, wage growth and faster pace of monetary tightening in the US are among the key risks to the inflation outlook.

In the absence of policy space on the monetary and fiscal side, structural reforms remain key. Persistently high unemployment, poverty and inequality, and a difficult business environment are among the most severe structural challenges. Deep social and political cleavages and pervasive lack of trust have so far hindered implementation of key structural reforms. Policy shifts in several key areas by the new political leadership could have a quick and significant confidence effect but implementing deep structural changes will be more challenging.

On the external side, South Africa remains vulnerable to sudden changes in risk sentiment and capital outflows. Monetary policy normalisation in the advanced economies and tightening of global financial conditions represent a significant risk for the South African economy, not least because its current account deficit (currently above 2% but expected to increase in the coming years) is financed predominantly from portfolio flows and the external sector holds a large share of public debt.

Country-risk indicators : South Africa		2015	2016	2017
Output and prices				
Real GDP growth rate	(%)	1.2	0.5	0.9 *
Unemployment (end of period)	(% labour force)	24.5	26.5	26.7
Inflation rate (CPI) (Dec/Dec)	(% change)	5.3	6.7	4.7
Public finances				
General government balance	(% of GDP)	-4.1	-3.8	-4.6
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	79 908.7	82 670.6	n.a.
Current account balance	(% of GDP)	-4.4	-3.3	n.a.
Net inflow of foreign direct investment	(m EUR)	1 257.4	2072.2	n.a.
Official reserves, including gold (end of period)	(m EUR)	37 930.3	43 448.2	n.a.
In months of subsequent year's imports	(months)	4.8	5.5	n.a.
Exchange rate (average)	(per EUR)	14.2	16.3	15.0
External debt				
External debt (end of period)	(m EUR)	114 018.6	135 502.3	n.a.
External debt/GDP	(%)	39.1	48.3	n.a.
Debt service/exports of goods and services	(%)	7.7	13.2	n.a.
Arrears (on both interest and principal)	(%)	none		
Debt relief agreements and rescheduling	(m EUR)			
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	1 101.9	1 126.8	1 017.4
EU exposure/total EU exposure	(%)	1.1	1.1	1.1
EU exposure/external debt	(%)	1.0	0.8	n.a
EU exposure/exports of goods and services	(%)	1.4	1.4	n.a
IMF arrangements				
Type				
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa2/negative	Baa2/negative	Baa3/under review
S&P long-term foreign currency rating (end of period)		BBB-/negative	BBB-/negative	BB/stable
Fitch long-term foreign currency rating (end of period)		BBB-/stable	BBB-/negative	BB+/stable

* European Commission 2018 Winter forecast (data not published)