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REPORT FROM THE COMMISSION

TO THE EUROPEAN PARLIAMENT AND THE COUNCIL
on contingent liabilities arising from budgetary guarantees and financial assistance and the sustainability of those contingent liabilities
Situation at 31 December 2023

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1. Introduction

This report is issued in accordance with the requirements of Article 256 of the Financial Regulation[1] and should be read in conjunction with:

- working document XI, which accompanies the draft EU budget for the financial year 2025[2] and which provides detailed information on the EU budgetary guarantees (Art. 41(5) Report)[3;] and
- the long-term forecast report on future inflows and outflows of the EU budget, which gives projections for the EU's available financial capacity in 2025-2029 taking into consideration planned budget expenditures[4].

The objective of this report is to provide an overview of the amount and composition of contingent liabilities – both **provisioned**[5] and **headroom-backed** contingent liabilities - borne by the EU budget as of 31 December 2023. Contingent liabilities are potential financial liabilities which stem from existing binding commitments or past events[6]. Whether or not these contingent liabilities result in actual calls on the EU budget, and the size of any such calls, will depend on future events which cannot be predicted ex-ante.

At the end of 2023, the EU budget was exposed to contingent liabilities amounting to over EUR 255 billion (EUR 206 billion at the end of 2022) relating to loans granted to Member States (EUR 221 billion) and third countries (EUR 34 billion), and over EUR 108 billion (EUR 106 billion at the end of 2022) relating to budgetary guarantees provided in the context of the European Fund for Strategic Investments (EFSI)[7], InvestEU[8], the External Lending Mandate (ELM)[9], the European Fund for Sustainable Development (EFSD)[10], and the EFSD+[11]. The upward trend in the amount of contingent liabilities has slowed with an increase of 16% in 2023 compared to a 40% increase observed in 2022.

1 Regulation (EU, Euratom) 2024/2509 of the European Parliament and of the Council of 23 September 2024 on the financial rules applicable to the general budget of the Union (recast) (OJ L, 2024/2509, 26.9.2024).

2 COM(2024) 300 of 19.6.2024.

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

4 COM(2024) 276 final of 28.6.2024.

5 In this document the term "*provisioning*" is used in the meaning of the Financial Regulation and in particular Article 214 thereof. As laid down by Article 214(2), the provisioning rate needs to cover net expected losses plus an adequate safety buffer for unexpected losses. In other circumstances, the term provisioning (e.g. in an accounting context) might have a different meaning.

6 A separate source of contingent liabilities is represented by the 'legal risks'. These are not covered by the present report.

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

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

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

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

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

The bulk of this increase comes from additional loan disbursements to Member States under the Recovery and Resilience Facility (RRF)[12] and from the extraordinary financial support to Ukraine (via the Macro-Financial Assistance (MFA)+ Instrument)[13].

This report also presents an assessment of the long-term sustainability of contingent liabilities based on qualitative and quantitative factors, including stress-testing. This sustainability assessment is performed by comparing contingent liabilities with:

- the market value of existing provisions held in the respective compartments of the Common Provisioning Fund (CPF)[14] set up by the Commission for **provisioned contingent liabilities**, i.e. those arising from budgetary guarantees and financial assistance to third countries;
- the limits of the own resources ceiling and the available headroom for **headroom-backed contingent liabilities.**

The main conclusion of the end-2023 sustainability analysis is that the EU budget has adequate resources to cope with the potential materialisation of contingent liabilities:

- For contingent liabilities arising from budgetary guarantees and financial assistance to third countries, the provisioning available at the end of 2023 is adequate considering the requirements of the respective legal frameworks[15.]
- The EU's financial capacity under the existing legal framework (i.e. the Own Resources Decision (ORD)[16] and the 2021-2027 Multiannual Financial framework (MFF) Regulation[17]) is sufficient at the end of 2023 to cover the existing obligations of the EU in relation to both spending programmes and financial markets (for debt issued under financial assistance programmes to Member States and the MFA+ instrument), even under extreme adverse circumstances. In other words, the headroom is well-resourced to ensure the robustness of the EU financial system and its credit worthiness even under an extreme negative scenario that combines adverse impacts in economic conditions, revenue and expenditure.

The management and monitoring of the risks arising from contingent liabilities is implemented through a horizontal cross-Commission framework including extensive measures and safeguards which the Commission can use to protect the EU budget from potential losses stemming from contingent liabilities[18]. The Steering Committee on Contingent Liabilities (SCCL)[19] plays an important role in that framework. In 2023 the SCCL met four times in order to, inter alia, assess the evolution in volume and risk profile of the exposures to the Middle East and to Ukraine. In relation to Ukraine, the SCCL served as a platform to prepare the review process of the adequacy

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

13 Regulation (EU) 2022/2463 of the European Parliament and of the Council of 14 December 2022 establishing an instrument for providing support to Ukraine for 2023 (macro-financial assistance +) (OJ L 322, 16.12.2022, p. 1–14).

14 For details on the CPF see the Report from the Commission to the European Parliament and the Council on the common provisioning fund in 2023 (COM(2024) 180 final of 25.6.2024) and the accompanying Staff Working Document (SWD(2024) 161 final of 25.6.2024).

15 See Section 3 of the Art 41(5) Report.

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

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

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

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

of the provisioning rate of specific liabilities on Ukraine (as laid down by Article 13 of the "MFA II Decision"[20]).

This report maps the three different categories of contingent liabilities (budgetary guarantees, provisioned loans to third countries, and loans backed by the headroom) before providing an assessment of their sustainability against the relevant sources of budgetary cover.

2. Analysis of the different sources of contingent liabilities

2.1 Budgetary guarantees

These are guarantees provided to different implementing partners under the ELM, EFSI, EFSD, InvestEU and EFSD+ mandates. Under all these instruments, the EU provides guarantees to implementing partners[21] to cover a share of potential losses and costs[22] resulting from their financing and investment operations (i.e. debt or equity operations).

The five guarantee programmes have a different geographical focus which influences the risks which they bear. The EFSI and InvestEU help to overcome investment gaps within the European Union. The ELM, EFSD and EFSD+ are part of the European Union's external policies and support investment in third countries (with the ELM and EFSD+ Investment Window 1 mainly focusing on sovereign counterparts, while the EFSD and EFSD+ Open Architecture and Investment Window 4 mainly targeting private operations).

a) Budgetary guarantees to support investment outside the EU

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

In 2017, the **EFSD** guarantee was put in place to support investments and improve access to finance - primarily in Africa and the neighbourhood countries - and help those countries meet the UN Sustainable Development Goals.

Building on the experience of the ELM and the EFSD, the **EFSD+** was set-up for the 2021-2027 MFF period as an integrated financial package providing financing capacity to sub-Saharan Africa, Asia, the Pacific Region, Latin America, the Caribbean and the neighbourhood and enlargement countries in areas such as the (i) reduction of socio-economic inequalities; (ii) sustainable and inclusive growth; (iii) climate change adaptation and mitigation; (iv) environmental protection and management; and (v) job creation.

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

[21] In 2023, the EU provided budgetary support in the form of guarantees to the EIB Group and to other financial institutions (including EBRD and National Promotional Banks) under the different existing guarantee programmes.

[22] In some cases, the guarantee can also cover additional items such as funding costs and other fees.

b) Budgetary guarantees to support investment within the EU

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

Under the 2021-2027 MFF, the **InvestEU** programme puts under the same umbrella the activities previously conducted under the EFSI and several other financial instruments. It has also provided implementing partners other than the EIB Group with access to a 25% portion of the total EU guarantee. The InvestEU programme aims to ensure an additional boost to investments fostering economic recovery, resilience, green growth and employment in the EU over the 2021-2027 period. It seeks to achieve this goal by mobilising public and private financing sources, to provide long-term funding and support to companies and projects in line with the EU's priorities in the current challenging economic and social context.

The five budgetary guarantee programmes vary in respect of several features, including their different stages of implementation. While the ELM (that came into existence in 1977) has a long track record, the EFSI constitution period ended in 2022 and the EFSD constitution period will end in 2024. At the same time, the investment phase of InvestEU and EFSD+ has started only recently. These different stages of implementation for the five budgetary guarantee programmes are reflected in the table below, which shows that operations consuming the full amount of the ELM guarantee and close to the full amount of the EFSI have been signed, and a large part of the support guaranteed by these instruments has been disbursed. The EFSD+ and InvestEU, by contrast, are at a much earlier stage in their ramp-up.

Table 1: State of play of budgetary guarantees (as at 31 December 2023) (EUR million)(*)

	Available guarantee signed with counterparts	Available guarantee related to operations signed by counterparts	Available guarantee related to operations signed by counterparts and disbursed
EFSI	25 591	23 635	21 551
EFSD	1 077	548	478
ELM	27 729	27 729	19 856
InvestEU	25 767	6 592	1 433
EFSD+	28 115	7 660	634
Total	**108 279**	**66 164**	**43 952**

(*) The guarantee signed with counterparts represents the amount of the guarantee granted to the implementing partner through the signature of the guarantee agreement. The guarantee related to operations signed by counterparts includes amounts of the guarantee in all operations signed by the counterparts with the final recipients/financial intermediaries. The guarantee related to operations signed and disbursed includes the amounts of operations disbursed from the counterpart to the final recipient/the financial intermediaries.

Other notable differences between the guarantee programmes are summarised in the bullet points below:

- The ELM offers two types of products (mainly direct sovereign lending and, to a limited extent, also private lending) and is operated on an exclusive basis by the EIB[23].
- The EFSI is structured into two windows (an Infrastructure and Innovation window ("IIW") and an SME window ("SMEW") with different products implemented under both windows) and is also using one exclusive implementing partner, namely the EIB Group.
- The EFSD is implemented by 10 counterparts deploying different financial products with different risk levels, and investing in five key sectors: i.e. small business financing; sustainable energy and connectivity; local currency financing; digitalisation; and sustainable cities.
- The new budgetary guarantees such as InvestEU and EFSD+ have built on the experience of older guarantees and have similar features to the older guarantees. However, both InvestEU and EFSD+ have a larger number of implementing partners ("open architecture") and a relatively broader variety of products.

2.2 Provisioned loans for financial assistance to third countries

The contingent liabilities under this heading arise from financial assistance provided in the form of **Macro-Financial Assistance programme** (MFA)[24] loans and **Euratom** loans to third countries[25].

Financial support to third countries in the form of bilateral loans from the EU has been granted mainly in the context of the MFA programme, which targets countries outside the EU experiencing a balance-of-payments crisis. In 2023, new MFA loans to the value of EUR 18.3 billion were disbursed[26]. EUR 18 billion of this amount was accounted for by MFA+ loans to Ukraine which are backed by the headroom.

In addition to MFA to third country sovereigns, EUR 300 million in Euratom loans provided to the Ukrainian nuclear energy programme are still oustanding.

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[23] The private entity exposures mainly relate to the Economic Resilience Initiative Private Mandate of EUR 2.3 billion (supported under the ELM 2014-2020 on the basis of Decision (EU) 2018/412, amending the original Decision No 466/2014/EU) and to a number of political risk guarantees to commercial exposures.

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

[25] The Euratom loan facility helps both Member States and third countries finance investments in nuclear power stations and in industrial installations in the nuclear fuel cycle. See Council Decision 77/270/Euratom of 29 March 1977 empowering the Commission to issue Euratom loans for the purpose of contributing to the financing of nuclear power stations (OJ L 88, 6.4.1977, p. 9) as amended and supplemented.

[26] These include EUR 18 billion to Ukraine under the MFA+ instrument, the third instalment of 200 million of the MFA loan to Jordan, the second instalment of EUR 40 million of the 120 million MFA loan to Moldova originally granted in 2022, and the first instalment of EUR 50 million of the 100 million top-up of the loan to Moldova decided in 2023. For more details, including the outstanding amount per individual beneficiary, see the report from the Commission to the European Parliament and the Council on the implementation of macro-financial assistance to third countries in 2023 COM(2024) 240 final of 10.6.2024 and the accompanying SWD(2024) 150 final of 10.6.2024.

Table 2: Outstanding amounts in respect of loans to third countries (as at 31 December 2023) (EUR million)

	Outstanding loans	Accrued interests	Total
MFA(*)	15 193	150	**15 343**
Euratom	300	1	**301**
Total	**15 493**	**151**	**15 644**

(*) Excluding MFA+ loans (backed by the headroom)

Traditionally, loans to third countries (with the exception of the MFA+ loans) have been funded through 'back-to-back' borrowing operations, i.e. each loan is funded with a corresponding EU bond that fully matches the EU loan in terms of its maturity, interest rate and repayment schedule. Investors in EU bonds are only exposed to the EU credit risk and not to the credit risk of the ultimate beneficiary country. The liability for the EU is contingent because the beneficiary country is contractually obliged to provide the revenue flow to repay the EU bonds. In principle, no outflow of EU resources is planned to settle the EU debt.

However, as contingency against the eventuality that the beneficiary country does not repay interest or principal on the loan received, the EU budget sets aside provisions for these loans. Traditionally, 9% of the value of the loans is held as provisions for MFA or Euratom loans to third countries in dedicated compartments in the CPF. As the possibility that losses are experienced across two or more MFA loans simultaneously is relatively remote, the pooling of provisions strengthens the capacity of the EU budget to absorb losses through this diversification effect. The levels of provisioning against these loans are discussed further in section 3.2.

The repayment amounts reported in Table 3 are therefore to be seen as the maximum foreseeable amounts that could be called against provisions in the years 2024-2029.

Table 3: Yearly repayment schedule of outstanding provisioned loans to third countries (principal + interest) under the existing programmes for the years 2024-2029 (at 31 December 2023) (EUR million)

Year	Euratom	MFA	All programmes
2024	1	877	**878**
2025	1	261	**262**
2026	1	378	**379**
2027	51	410	**461**
2028	50	409	**459**
2029	0	1 153	**1 153**
Total	**104**	**3 488**	**3 592**

2.3 Headroom-backed loans

The contingent liabilities under this heading arise from **loans to EU Member States** (i.e. Balance-of-Payments (BoP) Facility loans[27], European Financial Stabilisation Mechanism (EFSM) loans[28], Euratom Facility loans, loans under SURE[29] and loans under the RRF which are provided to support investments and reforms) and recent **loans to Ukraine** (EUR 18 billion in MFA+ loans to Ukraine and – from 2024 on – loans granted under the Ukraine Facility[30]).

Contingent liabilities stemming from loans to EU Member States and from recent loans to Ukraine are not provisioned ex-ante. Instead, they are back-stopped by the possibility of calling on additional 'own resources' from Member States under the EU's budgetary framework (up to the limits of the own resources ceiling, i.e. using the 'headroom' of the budget).

This means that, if a beneficiary did not honour its obligations towards the EU, the EU would be entitled – as a last resort and only after having exhausted all other possibilities to find solutions within the existing budgetary framework – to call on the Member States to temporarily cover the amount in question. Such calls for funds would be made over and above the MFF ceilings, but in full compliance with of the own resources ceiling.

Traditionally loans were granted to EU Member States using the same back-to-back technique that was used for financial assistance to third countries. By contrast, RRF loans, and loans under the Ukraine MFA+ Instrument (and under the Ukraine Facility from 2024 on) are financed through the unified funding approach[31].

In 2023 the Commission, acting on behalf of the EU, operated five programmes under which it had granted loans to Member States. These five programmes are discussed in the five bullet points below:

- The **BoP Facility** was created in 2002 to help EU countries outside the euro area that experience or run the risk of experiencing balance of payments difficulties.
- The **EFSM** was put in place in 2010 to provide financial support to EU Member States experiencing or threatened by severe financial difficulties caused by exceptional occurrences beyond their control.
- The **Euratom Loan Facility**.

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

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

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

30 Regulation (EU) 2024/792 of the European Parliament and of the Council of 29.2.2024 establishing the Ukraine Facility. See Box 1 below for details.

31 At the end of 2022, in conjunction with the adoption of the so called 'MFA+' instrument which was designed to help Ukraine to cover part of its short-term funding needs, the unified funding approach has been established as the baseline method for the implementation of all borrowing operations including MFAs. Under this funding strategy the Commission issues single branded EU bonds and allocates the proceeds to a central funding pool from which the EU's different policy programmes are funded. In essence the unified funding approach makes it possible to fully delink the disbursement of loans to a Member State or a third country from the issuance of the EU bonds. Under NGEU the Commission also borrows on the markets to finance non-repayable support (including RRF grants). The repayment of these borrowing operations is covered through the appropriations of the future annual budgets, within the ceilings of the Multiannual Financial Frameworks, and therefore does not constitute a contingent liability for the EU. Nevertheless, the NGEU borrowing-to-lend activities (i.e. to fund RRF loans) do give rise to new contingent liabilities and are addressed in this report.

- The **SURE** programme was agreed in June 2020 to help finance sudden and severe increases in national public expenditure related to national short-time work schemes and similar measures in response to the COVID-19 crisis. As this emergency instrument was put in place before the increase in the own resources ceiling and headroom entered into effect, all Member States have agreed to provide irrevocable, unconditional and on-demand guarantees for 25% of the maximum amount of financial assistance[32]. Each Member State contributes to the overall amount of the guarantee proportionate to its relative share in the total gross national income of the EU (based on the 2020 EU Budget).
- The **RRF** is the central pillar of the NextGenerationEU (NGEU) programme (2020)[33] and is a temporary instrument to support reforms and investments in the EU Member States with the ultimate goal of facilitating recovery from the COVID-19 pandemic while helping the green and digital transitions.

  Under the EU recovery instrument, the Commission borrows funds which the RRF then uses to finance the Member States' reforms and investments. The financing can be either a loan (repayable support) or a grant (non-repayable support).

  All NGEU borrowings, amounting to EUR 284 billion at the end of 2023, are guaranteed by the EU budget under Article 9(4) of the ORD through a temporary increase of the own resources ceiling of 0.6% of EU gross national income (GNI), which is exclusively available for NGEU liabilities. Only RRF loans (as opposed to RRF grants) give rise to contingent liabilities, and therefore only RRF loans are considered in this analysis. It is important to underline, as mentioned above, that the funding of the RRF loans is financed via the unified funding approach.

Table 4: Outstanding amounts in respect of headroom-backed loans (as at 31 December 2023) (EUR million)

	Outstanding loans	Accrued interests	Total
BoP Facility	200	1	**201**
Euratom	13	0	**13**
EFSM	42 800	411	**43 211**
SURE	98 355	104	**98 459**
RRF (loans)	79 240	349	**79 589**
MFA +	18 000	270	**18 270**
Total	**238 608**	**1 135**	**239 743**

32 In addition to the guarantee provided by all Member States, there are a number of safeguards laid down in the SURE Regulation to mitigate the risk from SURE contingent liabilities. These include a concentration limit on the three largest loans of 60% of the maximum amount granted under SURE, a maximum annual exposure of 10% (i.e. payments due each year may not exceed EUR 10 billion), and the possibility for the Commission to roll over its borrowings if necessary.

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

Table 5 below presents the amounts of the total yearly repayments (principal + interest) due by all the beneficiaries of the EU loans granted in the context of the financial assistance to Member States and the MFA+ instrument.

For each of the years under consideration, these amounts provide an indicator of the theoretical maximum outflow to be covered by the EU budget in relation to the contingent liabilities arising from financial assistance to Member States and the MFA+ exposures. However, the EU budget has identified budgetary resources to meet the payments arising from its bonds at any time including in the extreme and unprecedented situation in which one or more beneficiaries default simultaneously on their loans to the EU.

Table 5: Yearly repayment schedule of outstanding headroom-backed loans (capital + interest) under the existing programmes for the years 2024-2029 (at 31 December 2023) (EUR million)

Year	Euratom	BoP	EFSM	SURE	RRF loans (*)	MFA+ (**)	All programmes
2024	14	6	3 317	327	918	419	**5 001**
2025	0	206	3 069	8 327	917	567	**13 086**
2026	0	0	6 857	8 327	917	566	**16 667**
2027	0	0	3 531	327	917	566	**5 341**
2028	0	0	2 756	10 327	919	567	**14 569**
2029	0	0	1 790	8 464	917	567	**11 738**
Total	**14**	**212**	**21 320**	**36 099**	**5 505**	**3 252**	**66 402**

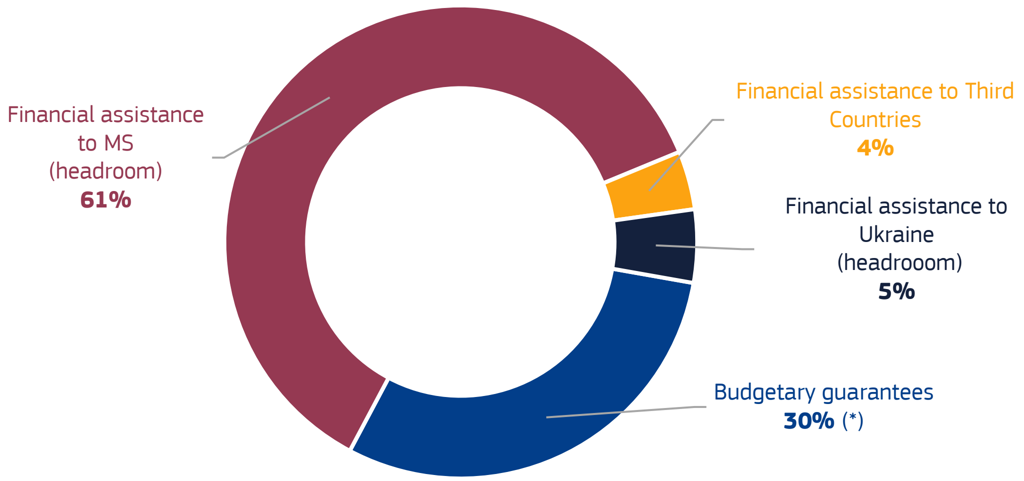
(*) Interests for RRF loans under the NGEU programme are calculated on a rolling basis according to a specific methodology (see Commission implementing decision C(2022)9701 final of 19.12.2022). The annual interest charge for these loans presented above is therefore an estimate based on current funding conditions.
(**) In accordance with Article 17 of Regulation 2022/2463, each year the EU, upon Ukraine's request, may grant an interest rate subsidy to cover interest costs related to MFA+ loans.

Taking into account all outstanding loans at the end of 2023, in the period 2028-2054 the yearly repayments (principal + interest) in relation to loans backed by the headroom under the permanent own resources ceiling amount to EUR 5.4 billion on average. Average yearly repayments (principal + interest) for RRF loans, backed by the headroom under the temporary own resources ceiling, amount to EUR 3.5 billion over the same period.

2.4 Overview of contingent liabilities at the end of 2023

At the end of 2023, the EU budget was exposed to contingent liabilities for a total amount of **EUR 255 billion** relating to loans granted to Member States and third countries, and **EUR 108 billion** relating to guarantees provided through the EFSI, InvestEU, ELM, EFSD, and EFSD+. The largest exposure for the EU budget originated from financial assistance programmes targeting Member States.

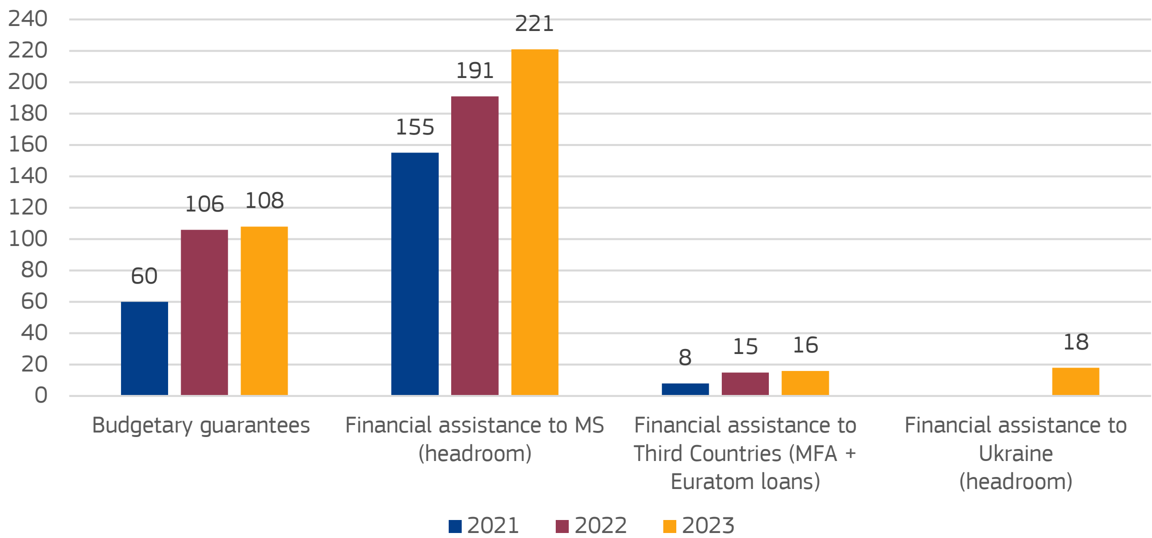
Figure 1: Breakdown of contingent liabilities by source as at 31 December 2023



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

The increasing importance of budgetary guarantees and financial assistance programmes for the implementation of EU policies can be seen in the constant upward trend in the period 2021-2023. A more moderate increase of 16% in the total amount was registered between year-end 2022 and year-end 2023 compared to the 40% increase seen between year-end 2021 and year-end 2022.

Figure 2: Breakdown of contingent liabilities by source in the period 2021-2023 (EUR billion)



A moderate increase in loans to Member States (+16%) was recorded between year-end 2022 and year-end 2023, in particular because of additional loan disbursements under the RRF. Financial assistance to third countries more than doubled, mostly in relation to the extraordinary efforts to support Ukraine financially, while contingent liabilities stemming from the budgetary guarantee programmes remained largely stable. The increase in liabilities arising from the budgetary guarantee programmes due to the start of the implementation phase for InvestEU and EFSD+ was almost entirely compensated by the decline in ELM and EFSI exposures due to increasing reimbursement by the final recipients.

EU contingent liabilities are expected to increase further by the end of 2024 in relation to: (i) the additional support to third countries (notably under the Ukraine Facility); (ii) the additional disbursements of RRF loans; and (iii) further progress in the implementation of the budgetary guarantee programmes (InvestEU, EFSD+ and the Ukraine Facility).

3. Assessing the sustainability of EU contingent liabilities

3.1 Assessment framework

Without prejudice to the assessment of provisioning of certain financial liabilities over their entire lifetime that is required when liabilities are incurred, Article 213(3) of the Financial Regulation stipulates that '*contingent liabilities arising from budgetary guarantees or financial assistance borne by the budget shall be deemed sustainable if their forecast multiannual evolution is compatible with the limits set by the regulation laying down the multiannual financial framework provided for in Article 312(2) TFEU and the ceiling on annual payment appropriations set out in Article 3(1) of Decision (EU, Euratom) 2020/2053.*' (i.e. the MFF ceilings and the own resources ceiling).

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

In particular, payments relating to **provisioned contingent liabilities** for budgetary guarantees and financial assistance to third countries must be financed from the established provisions and any further payments planned under the MFF. Section 3.2 of this report presents the assessment of the adequacy of the available provisions to meet the expected and unexpected payments arising from budgetary guarantees and financial assistance to third countries for the liabilities as they stood at the end of 2023.

Payments related to materialising contingent liabilities resulting from **headroom-backed financial assistance** to EU Member States and to Ukraine can be financed by calling on additional own resources up to the ceiling laid down by the Own Resources Decision. The headroom (i.e. difference between the own resources ceiling and the own resources necessary to finance the EU budget expenditures) represents the EU's financial capacity to cover additional outflows relating to the materialisation of contingent liabilities arising from headroom-backed financial assistance. The assessment framework for this set of contingent liabilities was described in detail in the 2021 report under former Art. 250 of the Financial Regulation[34]. The results of the assessment of the sustainability of headroom-backed contingent liabilities existing at the end of 2023 are presented in Section 3.3 below. The 2020 Own Resources Decision temporarily increases the own resources ceiling to cater for the liabilities incurred during the implementation of the NGEU, including headroom-backed contingent liabilities arising from RRF loans to Member States.

3.2 Assessment of the sustainability of the provisioned contingent liabilities

a) Provisioning available at end of 2023

Contingent liabilities arising from budgetary guarantees and from financial assistance to third countries are provisioned for in the EU budget based on a conservative assessment of the expected losses for each instrument plus an additional safety buffer (to cater for unexpected losses). The provisions protecting the EU budget against losses that may arise from budgetary guarantees and financial assistance to third countries are held in the compartments of the CPF. On 31 December 2023, the CPF was composed of 16 compartments (13 of which were fully operational and contained funds), including the compartments for all the on-going guarantee programmes, the Guarantee Fund for External Action (GFEA) compartment (that covers legacy ELM, Euratom and MFA loans) and those for the post 2020 MFA and Euratom loans.

[34] COM(2021) 676 final of 5.11.2021.

In particular, the MFA and Euratom loans are backed by different compartments of the CPF:

- the legacy exposures (EUR 7.9 billion of MFA loans and EUR 300 million of Euratom loans) are part of the GFEA compartment;
- the new MFA loans (EUR 1.4 billion), including the emergency MFA loan to Ukraine, committed in 2022 and 2023 are in the post-2020 MFA compartment;
- the exceptional MFA loans to Ukraine of EUR 6 billion (exceptional MFA I and MFA II) are in a newly created separate compartment given that these loans benefit from supplementary coverage of risks (i.e. for this exceptional MFA loans package to Ukraine, a coverage rate of 70% is required: 9% paid-in provisioning from the EU budget and 61% of callable guarantees from Member States).

As at 31 December 2023, the market value of net assets in the CPF amounted to EUR 18.8 billion, up from EUR 14.39 billion at the end of 2022[35]. For the remaining years of this MFF, the Commission has already assigned further provisions to the CPF (in particular provisions related to InvestEU, the EFSD+ and Pillar 2 of the Ukraine Facility), which will lead to a further increase in the CPF.

As per its Asset Management Guidelines, the CPF maintains a liquid diversified portfolio, primarily investing in highly-rated debt instruments, such as bonds issued by governments, supra-nationals, state agencies and corporates with the aim of delivering capital preservation over its investment horizon. The CPF portfolio at year-end was well diversified across the different asset classes in the eligible fixed income universe, including some limited exposure to non-euro denominated securities (USD), equity exchange-traded funds (ETFs) and cash or cash equivalents.

In 2023 the CPF achieved an annual return of +5.21%, broadly in line with its portfolio benchmark (+5.40%)[36].

b) Assessment of sustainability of Budgetary guarantees

As a preliminary remark, EU budgetary guarantees differ substantially in terms of the policy objectives, risk sharing structures and risk profile of the underlying operations. This can in turn lead to a different provisioning rate for different programmes, based on a lifetime value-at-risk (VaR)[37] which ensures appropriate coverage of potential losses at a certain (predefined) confidence level. Although in some cases the available provisions at the end of 2023 were somewhat lower than the respective VaRs with the applicable confidence level, the provisioning adequacy conclusion is underpinned by several elements including the lifecycle phase of the guarantee (fully constituted or not fully constituted), and the specific provisioning rules for the respective budgetary guarantees (e.g. for the ELM).

The following conclusions can be drawn from the available data on lifetime net losses on 31 December 2023 concerning the budgetary guarantees in place on that date:

- For the **EFSI** the results of the risk analysis conducted based on a credit risk model for IIW debt operations[38] and on expert judgment for IIW and SMEW equity and SMEW debt products, indicate

[35] In 2023 the CPF received EUR 3.53 billion of net contributions from the EU budget or contributed by participating Member States and EFTA countries.

[36] For additional information see the Report from the Commission to the European Parliament and the Council on the common provisioning fund in 2023.

[37] The VaR can be defined as the portfolio loss level which, statistically, over a certain time horizon, will not be exceeded with a certain confidence level. The respective confidence levels for internal programmes (EFSI, InvestEU) and external programmes (EFSD, EFSD+) are 95% and 90% respectively and take into account factors such as the different policy objectives and the respective frameworks.

[38] For details on the risk assessment see the Art 41(5) report.

a VaR amount of EUR 7.4 billion at a 95% lifetime confidence level. This VaR is fully covered by the currently available EFSI provisions of EUR 9.2 billion [39].

- For the **EFSD**, the results of the risk analysis indicate a lifetime VaR amount of EUR 700.7 million at the desired 90% lifetime confidence level. This amount is fully covered by the market value of the EFSD CPF compartment as of end 2023 (EUR 765 million).
- The **ELM** programme, across its several mandates, has experienced some deterioration in its main credit risk metrics due in part to the fact that the ELM has legacy Ukrainian exposures of EUR 2.3 billion[40]. The results of the risk analysis indicate a VaR amount of EUR 3.2 billion at the 90% confidence level over the full lifetime of the guarantee which exceeds the corresponding *pro-rata* provisioning in the CPF compartment (EUR 2.3 billion). In this respect it must be stressed that the ELM is an old instrument without a predefined confidence level which follows specific under and over-provisioning rules. The GFEA compartment (in which the ELM is housed) is topped-up on a yearly basis if the provisioning falls below 9% of the outstanding disbursed amounts guaranteed. Moeover, the ELM consists of amortising loans with long repayment periods, where losses tend to crystallise in a non-abrupt manner.
- For **InvestEU** and the **EFSD+**, given that the ramp-up of the programmes is still in an early stage and the first operations were signed in 2022, it is premature to draw any conclusions about provisioning adequacy.

c) Assessment of sustainability of provisioned loans to third countries

The composition of the outstanding MFA loan portfolio to third countries comprises loans to a diversified set of: (i) EU candidate and potential candidate countries; (ii) countries and territories covered by the European Neighbourhood Policy; and (iii) other third countries that play a determining role in regional stability and which are of strategic importance for the EU, and are politically, economically, and geographically close to the EU.

The considerations set out in the three bullet points below support the continued suitability of the overall 9% target provisioning rate for MFA loans.

- The economic standing of MFA beneficiaries (taking into account factors such as GDP per capita, relative maturity of the economy, proximity to the EU economy, etc.).
- The conditions imposed for MFA loans being on satisfactory track record in implementation of an IMF programme, which provides confidence in the financial viability of the third country and the full repayment of EU funds.
- An assessment of the economic situation of the MFA beneficiaries and the recent macroeconomic developments in partner countries showing that in 2023 most countries reported a solid post-COVID-19 recovery. However, Russia’s war of aggression against Ukraine has increased economic uncertainty, aggravated the energy crisis and contributed to high food and energy inflation in the region. The geopolitical outlook for beneficiaries located in the Middle East has further deteriorated after the conflict in the Gaza Strip following the Hamas terrorist attack in October 2023, although the economic impact (through trade, tourism and consumption) on the region overall is limited so far.

On liquidity risk, it should also be borne in mind that the current structure of MFA loans, maturities and repayments from beneficiaries are well-spread over current and subsequent MFFs thereby reducing the magnitude of the EU budget’s exposure if there is a delay or default event.

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[39] The current EFSI provisioning is above the legally required provisions (35% of the amount of the total guarantee signed with counterparties) by EUR 859 million. This surplus, in line with the provisions of the Public Sector Loan Facility (PSLF) and the InvestEU Regulation, will be allocated to the financing of the PSLF and the provisioning of InvestEU.

[40] Another EUR 1.3 billion of ELM repurposed loans were also disbursed. These are subject to a 70% provisioning rate and are backed by a dedicated compartment (see Box 1 below)

Box 1: EU contingent liabilities arising from EU financial support to Ukraine – Main developments in 2024

Since Russia's invasion of Ukraine in 2022, the EU has consistently provided strong political, economic, military, financial and humanitarian support to Ukraine. The full set of direct and indirect exposures to Ukraine (capital) under existing programmes at 30 June 2024 are presented in Table 6 below.

The main vehicle for delivering financial support to Ukraine for the period 2024-2027 is the **Ukraine Facility**, with an overall capacity of up to EUR 50 billion for 2024-2027. Support will be provided in the form of loans, grants and guarantees based on the three pillars described below.

- Pillar 1 (Support to Ukraine through the Ukrainian plan): this pillar entails providing financial assistance to Ukraine, totalling EUR 38.27 billion, comprising both grants (EUR 5.27 billion) and loans (EUR 33 billion). Loans disbursed under the Ukraine Facility, like those granted under the MFA+ package, are financed via borrowing and backed by the 'headroom'.
- Pillar 2 (Ukraine Investment Framework): with nearly EUR 7 billion of EU budget allocation, this pillar aims at attracting and mobilising public and private investments for Ukraine's recovery and reconstruction. To implement Pillar 2, a Ukraine Guarantee of EUR 7.8 billion is established with a provisioning rate of 70% (and €1.51 billion available for blended finance).
- Pillar 3 (EUR 4.6 billion non-repayable support): this pillar will, among other things, cover the interest rate subsidy for the exceptional MFA loans and for the loans granted under Pillar I.

The Ukraine Facility loans are provided with high concessionality, given the interest subsidisation and the long repayment period of 35 years, with a 10-year grace period. This reduces the annual burden on Ukraine's public finances while also minimising the risks for the EU budget. Loans for a total amount of EUR 7.9 billion were disbursed under the Ukraine Facility in the first half of 2024 (EUR 4.5 billion in March, EUR 1.5 billion in April and EUR 1.9 billion in June). Additionally, guarantee agreements to support operations in Ukraine for a total value of EUR 940 million were signed in the first half of 2024 under the Ukraine Guarantee.

Budgetary cover for contingent liabilities arising from loans to Ukraine since 2023 has been provided by the budgetary headroom (discussed in the next section). The loans granted to Ukraine in late 2022 (EUR 6 billion MFA and the EUR 1.59 billion in repurposed loans under the ELM) are subject to a budgetary coverage of 70%[41]. In compliance with Article 13 of the MFA II Decision, the Commission reviewed the adequacy of the 70% provisioning rate at the end of June 2024 in the context of the Article 41(5) Report and concluded that for the period under examination there were no sufficient new lasting and meaningful elements which would justify changing the provisioning rate of 70%.

[41] While for the repurposed ELM loans the coverage will take the form of paid-in provisioning funded by the EU budget, the same effect is achieved for the exceptional MFA by supplementing the paid-in provisioning rate at the level of 9% with guarantees from Member States to cover a second loss piece of up to 61% of the loan exposures.

That conclusion was based on both a qualitative and quantitative assessment of the risks as they stood at end-2023[42]. The most recent assessment by the IMF confirms that maintaining this provisioning level is a prudent approach[43] [44].

Table 6: Outstanding direct and indirect exposures to Ukraine (capital) under the existing programmes (at 30 June 2024) (EUR million)

Direct exposures	Outstanding amount	Budgetary coverage
Legacy MFA	3 810	9%
Legacy Euratom Loans	300	9%
Emergency MFA	1 200	9%
Exceptional MFA I + II	6 000	9% (+61% MS guarantees)
MFA+	18 000	Headroom
Ukraine Facility - Pillar I	7 890	Headroom
Total	**37 200**	
Indirect exposures		
ELM loans disbursed before February 2022	1 708	9%
EIB first package under ELM	668	9%
EIB second package under ELM	1 338	70%
EBRD loans under EFSD	103	50%
Ukraine Guarantee	940	70%
Total	**4 757**	

42 Besides a number of risk indicators, elements which were taken on board in the qualitative assessment included: (i) the IMF third review of the extended arrangement under the Extended Fund Facility published in March 2024; (ii) the adoption and entry of operations of the EU's Ukrainian Facility; and (iii) the US support package of May 2024. In particular the IMF provided a mixed picture with regard to the financial and macro-economic situation of the country at the time. On the positive side, the IMF underlined that the economy in 2023 was more resilient than expected, with reasonably robust growth, continued disinflation, and good foreign currency reserves figures. On the negative side, the IMF warned that headwinds were re-emerging in 2024, with growth expected to soften to 3-4% due to uncertainty about the ongoing war and labour supply constraints, including from the anticipated mobilisation. The outlook in IMF's view remained subject to exceptionally high downside risks arising from war-related factors, potential shortfalls in external financing and the socio-economic impact of policies that may be required if shocks were to materialise.

43 The IMF fourth review of the extended arrangement under the Extended Fund Facility concluded that while the Ukrainian economy was more resilient than expected in the first quarter of 2024, the outlook for the remainder of 2024 and into 2025 has worsened since the third review, largely due to devastating attacks on Ukrainian energy infrastructure and uncertainty about the length of Russia's war against Ukraine.
See Ukraine: Fourth Review of the Extended Arrangement under the Extended Fund Facility, Request for Modifications of a Performance Criterion, and Financing Assurances Review-Press Release; Staff Report; and Statement by the Executive Director for Ukraine (imf.org).

44 At the end of August 2024 the Ukrainian government announced the successful conclusions of the negotiations with commercial bondholders on the restructuring of over USD 20 billion of external debt.
See https://mof.gov.ua/en/news/ukraine_announces_successful_bondholders_vote_in_favor_of_debt_restructuring-4761.

3.3 Assessment of the sustainability of the headroom-backed contingent liabilities

The EU budget's capacity to cater for a situation where the exposure in respect of headroom-backed contingent liabilities materialises is assessed by applying the framework referred to in paragraph 3.1 above.

For NGEU liabilities, the own resources ceiling has been increased by 0.6% of EU GNI exclusively to guarantee these issuances. This ensures that the EU has the means to repay interest and principal on debt issued to fund NGEU non-reimbursable support (RRF grants) and RRF loans to Member States. As the former will be paid through amounts included in future annual budget programming, only the RRF loans represent contingent liabilities.

The headroom is therefore calculated including total NGEU liabilities, but the sensitivity analysis reported in this section focuses specifically on the materialisation of contingent liabilities arising from RRF loans, in line with the requirements of Article 213(3) of the Financial Regulation.

The first step is to establish a central scenario (baseline) that corresponds to the expected evolution of EU spending and financial capacity in the coming years. For the years up to 2027, this is in line with the draft budget for 2025 and the long-term forecast of future inflows and outflows of the EU budget.

For the years 2028-2029, a simple extrapolation is used, taking as a reference the average annual payments over the 2021-2027 period increased by the rate of growth of EU GNI. This is only a mechanical extrapolation, which is performed to provide in this report a sufficiently long horizon of analysis. It is not to be considered as prejudging in any way the proposal for the MFF post-2027. These extrapolations assume a linear repayment of NGEU debt issued over the years 2021-2023, starting in 2028.

Excluding the current budget year, the headroom available for covering existing and new contingent liabilities in 2025-2029 is on average around **EUR 106.3 billion** per year in respect of the margin under the own resources ceiling of 1.4% of EU GNI and around **EUR 111.7 billion** per year for the temporary ceiling of 0.6% of EU GNI.

Once the central scenario has been established, four additional stress tests assess the sustainability of existing contingent liabilities under extreme scenarios in 2024-2029. Further details of these four stress tests are set out in the paragraphs below.

1) **Stress test on the economy.** In the central scenario, EU GNI follows the projections for real growth and inflation set out in the Commission Spring 2024 European Economic Forecast[45]. For the stress test, the projected nominal growth rates are lower than the baseline by one percentage point for each year of the reporting period[46].

   This reduces the nominal value of the own resources ceiling and therefore the available headroom by **EUR 8.2 billion** per year for the 'unbudgeted' amounts (headroom) under the permanent own resources ceiling and by **EUR 5.2 billion** under the temporary ceiling for the NGEU over the period 2025-2029.

2) **Stress test on the revenue side of the budget.** This extreme scenario assesses whether the available headroom would be sufficient if all headroom-backed contingent liabilities were to materialise at the same time. In practical terms, this would mean that all countries benefitting from financial assistance programmes would simultaneously fail to honour their repayments when they are due. The amounts at stake reflect the repayment schedules at the end of 2023 (see Table 5 above).

45 https://economy-finance.ec.europa.eu/document/download/c63e0da2-c6d6-4d13-8dcb-646b0d1927a4_en?filename=ip286_en.pdf.

46 This is similar to the stress test on the 'adverse r-g scenario' performed in the Commission's Debt Sustainability Monitor: Debt Sustainability Monitor 2023 - European Commission (europa.eu).

This is an extremely unlikely scenario which does not take into account all the measures that the Commission can take to avoid such a situation (e.g. debt rescheduling and active cash management). Under this scenario, the headroom under the permanent own resources ceiling would be reduced by **EUR 10.5 billion** per year on average. The contingent liabilities resulting from RRF loans under NGEU would be comparatively small during the period considered (approximately **EUR 0.9 billion** per year in interest rate payments), as repayment of the principal amount of RRF loans will only start in 2032.

3) **Stress test on the expenditure side of the budget.** Under this scenario MFF expenditure is projected at its theoretical maximum (i.e. the maximum possible ceilings for the MFF payments and all individual special instruments, including the Ukraine reserve). It is important to underline that: (i) this does not reflect a bottom-up forecast and is unrelated to any actual expectations as to the evolution of EU payments; and (ii) that on the expenditure side of the budget, any decision to increase spending (within the MFF ceilings) requires a proposal by the Commission and the approval of the European Parliament and the Council.

Similarly, for 2028-2029, a simple linear projection of the current payment ceilings into the future, using forecast GNI growth, is used, without prejudice to the next MFF proposal which will also include a ceiling for payments. On the budget expenditure to meet repayment obligations for NGEU non-repayable support, there is no specific expenditure ceiling in the 2021-2027 MFF. Therefore, for NGEU debt repayments, the assumption in this stress test is that all NGEU issuances maturing in a given year are repaid. Planned debt roll-overs are thus not considered in this hypothetical situation[47].

This stress test shows that the headroom is sufficient in the scenario where expenditure reaches the theoretical maximum. The resulting headroom under the permanent own resources ceiling would be **EUR 85.3 billion** on average, i.e. **EUR 12.9 billion** less than in the baseline. The headroom under the temporary own resources ceiling of 0.6% of EU GNI that guarantees NGEU issuances would be reduced by **EUR 19.5 billion** per year on average, to a level of **EUR 92.2 billion on average** over the period 2025-2029.

4) **A combined stress test on economic conditions, revenue and expenditure.** This is an extreme scenario that combines all unfavourable scenarios described in the three points above. It would reduce the headroom under the permanent ceiling to **EUR 66.7 billion** on average over the period 2025-2029 and for the temporary ceiling to **EUR 86.1 billion**. These amounts appear to constitute a large safety buffer for the EU's financial capacity to cover its liabilities (stemming from both non-NGEU and NGEU operations).

The detailed results for the baseline and stress test scenarios are provided in the Annex and summarised in Figures 3 and 4 below.

[47] The contingent liabilities related to RRF loans are deducted from the maturing NGEU obligations in this stress test. This is because the stress test focuses on the expenditure side and not on the revenue side as stress test 2.

Figure 3: Own resources ceiling and own resources needs under a baseline and combined sensitivity tests for the permanent 1.4% of EU GNI ceiling.

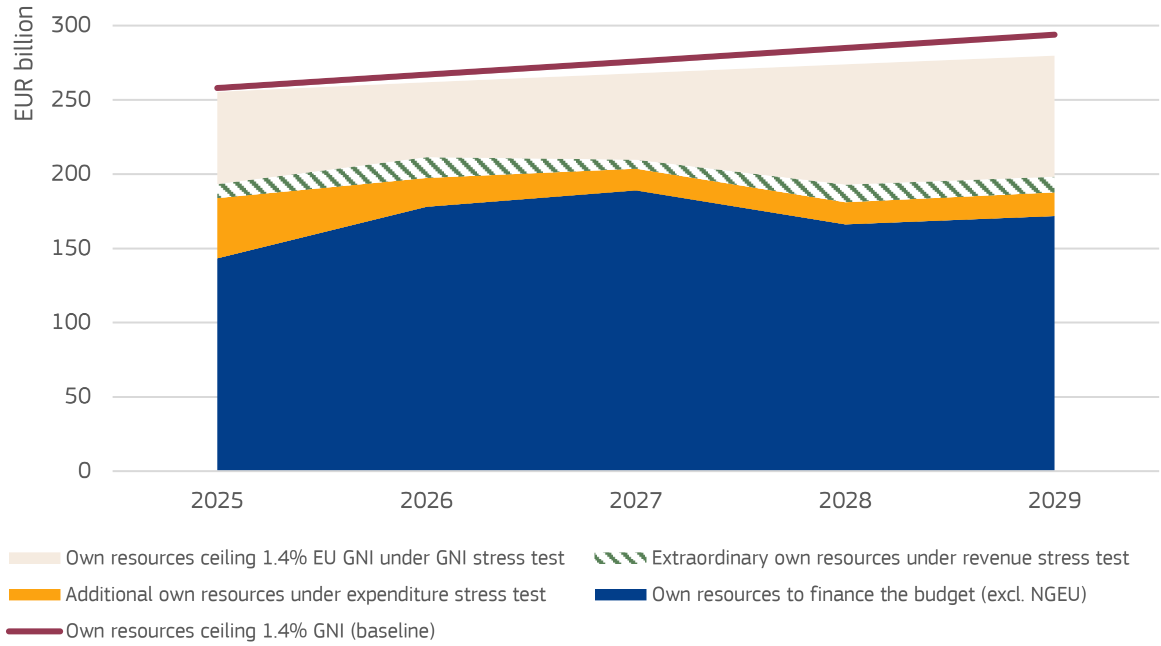
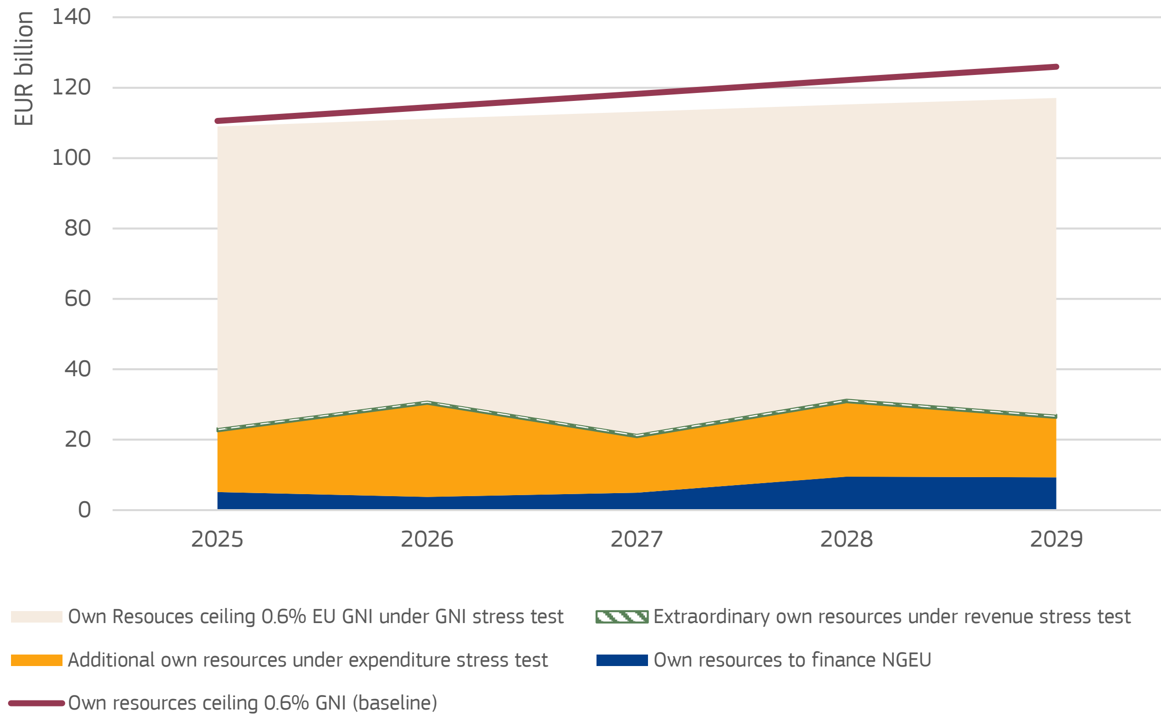


Figure 4: Own resources ceiling and own resources needs under a baseline and combined sensitivity tests for the temporary 0.6% of EU GNI ceiling.



4. Conclusions

At the end of 2023, the EU budget supported over **EUR 255 billion** in contingent liabilities arising from loans granted to Member States and third countries. Of this, EUR 221 billion relate to loans to EU Member States and EUR 34 billion to loans to non-Member States. In addition, a further **EUR 108 billion** in contingent liabilities arises from investment guarantees provided under the ELM, EFSI, EFSD, InvestEU, and EFSD+ programmes.

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

Taking into account the multiple safeguards provided in the EU framework for the monitoring and management of the risks linked to both provisioned and headroom-backed contingent liabilities and the sustainability assessment presented in this report, it is possible to draw three main conclusions. These conclusions are set out in the three bulleted paragraphs below.

- Risks arising from provisioned instruments (i.e. budgetary guarantees and financial assistance to third countries) are carefully managed and adequately provisioned. This assessment takes into account: (i) data on past defaults and expected losses; (ii) the measures that are in place to ensure that losses do not exceed predefined tolerance levels; and (iii) the budgetary provisions that are available to cover potential payments.
- The EU's financial capacity under the existing legal framework (i.e. the Own Resources Decision and the MFF Regulation) is largely sufficient to cater for the materialisation of losses that may arise in respect of headroom-backed loans between now and the end of 2029, under mechanical extrapolations of the level of expenditures beyond 2027. On average over the 2025-2029 period, the headroom available for covering these contingent liabilities is around **EUR 106.3 billion** per year in respect of the margin under the own resources ceiling of 1.4% of EU GNI and around **EUR 111.7 billion** per year for the temporary ceiling of 0.6% of EU GNI. This headroom can be called upon to meet extraordinary revenue needs to finance unforeseen expenditure or to honour any existing and potential contingent liabilities should these materialise.
- The headroom is well-resourced to ensure the robustness of the EU's financial system and its credit worthiness even under an extreme negative scenario which combines adverse impacts in respect of the economic conditions, revenue and expenditure. In such an adverse scenario, the remaining headroom under the own resources ceiling of 1.4% of EU GNI would amount to **EUR 66.7 billion** on average per year over the 2025-2029 period and to **EUR 86.1 billion** on average per year over the 2025-2029 period under the temporary ceiling of 0.6% of EU GNI. These amounts represent a safety buffer against further negative economic shocks, potential new needs and contingent liabilities for both non-NGEU and NGEU operations.

5. Annexes:

Sustainability and headroom in respect of the permanent own resources ceiling

(in EUR billion, at current prices)

		2025	2026	2027	2028	2029
Baseline						
Own Resources ceiling (1.4% GNI)	a	257.9	267.0	275.9	285.0	293.9
Own resources to finance the budget (excl. NGEU)	b	143.2	177.9	189.0	166.1	171.8
Headroom under permanent ceiling	a-b	114.7	89.1	86.9	118.8	122.1
Stress tests						
1) Stress test on the economy						
Own Resources ceiling (1.4% GNI)	a	255.4	261.8	267.9	274.0	279.7
Own resources to finance the budget (excl. NGEU)	b	143.2	177.9	189.0	166.1	171.8
Headroom	a-b	112.2	83.9	78.9	107.8	108.0
2) Stress test on the revenue						
Own Resources ceiling (1.4% GNI)	a	257.9	267.0	275.9	285.0	293.9
Own resources to finance the budget (excl. NGEU)	b	143.2	177.9	189.0	166.1	171.8
Extraordinary own resources to cover non-NGEU CLs (*)	c	9.5	14.0	6.2	11.9	10.7
Headroom	a-b-c	105.2	75.1	80.7	106.9	111.4
3) Stress test on expenditure						
Own Resources ceiling (1.4% GNI)	a	257.9	267.0	275.9	285.0	293.9
Own resources to finance the budget (excl. NGEU)	b	143.2	177.9	189.0	166.1	171.8
Additional own resources (up to MFF ceiling maximum, and special instruments' maximum) (**)	c	40.5	19.5	14.5	14.9	15.8
Headroom	a-b-c	74.3	69.6	72.4	104.0	106.3
4) Combined adverse/unfavourable shock						
Own Resources ceiling (1.4% GNI)	a	255.4	261.8	267.9	274.0	279.7
Own resources to finance the budget (excl. NGEU)	b	143.2	177.9	189.0	166.1	171.8
Additional own resources (up to MFF ceiling maximum, and special instruments' maximum)	c	40.5	19.5	14.5	14.9	15.8
Extraordinary own resources to cover non-NGEU CLs	d	9.5	14.0	6.2	11.9	10.7
Headroom	a-b-c-d	62.2	50.4	58.2	81.1	81.5

(*) This includes loan support through the EFSM, BoP Facility, SURE and MFA+. The risk assessment linked to the SURE instrument takes into account the specific counter-guarantee provided by all the Member States for 25% of the maximum amount of financial assistance.
(**) Expenditure is projected at the theoretical maximum for: 1) the MFF payment ceiling in 2025-2027[48], 2) future adjustments up to their potential maximum in any single year[49], and 3) the annual ceilings of the thematic special instruments (the European Globalisation Adjustment Fund, Solidarity and Emergency Aid Reserve, and Brexit Adjustment Reserve), the Flexibility Instrument, and the Ukraine Reserve.

48 As set out in the most recent technical adjustment of the MFF (COM(2024)110 final of 29.2.2024).

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

Sustainability and headroom in respect of the temporary own resources ceiling

(in EUR billion, at current prices)

		2025	2026	2027	2028	2029
Baseline						
Own Resources ceiling (0.6% GNI)	a	110.5	114.4	118.3	122.1	125.9
Own resources to finance NGEU(*)	b	5.2	3.7	5	9.5	9.3
Headroom	a-b	105.4	110.7	113.3	112.6	116.6
Stress tests						
1) Stress test on the economy						
Own Resources ceiling (0.6% GNI)	a	109	111.1	113.2	115.2	117.1
Own resources to finance NGEU	b	5.2	3.7	5	9.5	9.3
Headroom	a-b	103.8	107.4	108.2	105.7	107.7
2) Stress test on the revenue						
Own Resources ceiling (0.6% GNI)	a	110.5	114.4	118.3	122.1	125.9
Own resources to finance NGEU	b	5.2	3.7	5	9.5	9.3
Extraordinary own resources to cover NGEU CLs (NGEU loan reimbursements due)	c	0.9	0.9	0.9	0.9	0.9
Headroom	a-b-c	104.5	109.8	112.4	111.7	115.7
3) Stress test on expenditure						
Own Resources ceiling (0.6% GNI)	a	110.5	114.4	118.3	122.1	125.9
Own resources to finance NGEU	b	5.2	3.7	5	9.5	9.3
Additional own resources for NGEU (maturing issuances, excluding CLs and budgeted amounts)	c	17.2	26.5	15.8	21.2	16.9
Headroom	a-b-c	88.2	84.2	97.5	91.4	99.7
4) Combined adverse/unfavourable shock						
Own Resources ceiling (0.6% GNI)	a	109	111.1	113.2	115.2	117.1
Own resources to finance NGEU	b	5.2	3.7	5	9.5	9.3
Additional own resources for NGEU (maturing issuances, excluding CLs and budgeted amounts)	c	17.2	26.5	15.8	21.2	16.9
Extraordinary own resources to cover NGEU CLs	d	0.9	0.9	0.9	0.9	0.9
Headroom	a-b-c-d	85.6	80	91.5	83.6	90.0

(*) For 2025 the amount reflects the commitments appropriations in the draft budget 2025. For 2026 and 2027 the amounts correspond to the financial programming of the EURI budget line. The amounts for 2028 and 2029 are based on a technical extrapolation including linear repayment of the principle of NGEU debt issued over the years 2021-2023 for non-repayable support.