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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 2022

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1. Introduction

This report is issued in accordance with the requirements of Article 250 of the Financial Regulation[1] and should be read in conjunction with:

- working documents X and XI, which accompany the draft EU budget for the financial year 2024[2] and which provide detailed information on the EU financial instruments and budgetary guarantees[3]; and
- the long-term forecast report on future inflows and outflows of the EU budget, which gives projections for the EU's available financial capacity in 2024-2028 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** and **headroom-backed**[5] contingent liabilities - borne by the EU budget as of 31 December 2022. 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, and the size of any such calls, will depend on future events which cannot be predicted ex-ante..

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 comparison with:

- the market value of existing provisions held in the respective compartments of the Common Provisioning Fund (CPF)[7] 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**, i.e. those stemming from financial assistance to Member States.

The main conclusion of the end-2022 sustainability analysis is that the EU budget has adequate resources to cope with the potential materialisation of contingent liabilities. More in detail:

- **At the end of 2022, the EU budget was exposed to contingent liabilities amounting to over EUR 206 billion (EUR 163 billion at the end of 2021) relating to loans granted to Member States and third countries, and approximately EUR 106 billion (EUR 60 billion at the end of 2021) relating to budgetary guarantees provided in the**

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1. Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.7.2018, p. 1).
2. COM(2023) 300 of 5.7.2023
3. Working document X on the use made of financial instruments, pursuant to Article 41(4) of Financial Regulation. Working document XI on the implementation of budgetary guarantees, the Common Provisioning Fund and the assessment of the sustainability of the contingent liabilities arising from budgetary guarantees and financial assistance pursuant to Article 41(5) of the Financial Regulation.
4. COM(2023) 390 final of 20.6.2023.
5. In this document the term "provisioning" is used in the meaning of the Financial Regulation and in particular Article 211 thereof. The Financial Regulation explains that 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. For details on the CPF see the Report from the Commission to the European Parliament and the Council on the common provisioning fund in 2022 (COM(2023) 288 final of 31.5.2023) and the accompanying Staff Working Document (SWD(2023) 170 final).

context of InvestEU[8], the European Fund for Strategic Investments (EFSI)[9], the European Fund for Sustainable Development (EFSD)[10], EFSD+[11] and the External Lending Mandate (ELM)[12]. The total amount of contingent liabilities has increased by approximately 40% in comparison with 2021. The bulk of this increase comes from additional loan disbursements to Member States under the Recovery and Resilience Facility (RRF)[13] and from the first guarantee amounts signed with implementing partners under InvestEU and EFSD+.

- **For contingent liabilities arising from budgetary guarantees and financial assistance to third countries, the provisioning available at the end of 2022 is adequate considering the requirements of the respective legal frameworks.**
- **For headroom-backed contingent liabilities, the EU financial capacity under the existing legal framework (i.e. the Own Resources Decision (ORD)[14] and the 2021-2027 multiannual financial framework (MFF) Regulation[15]) is by far sufficient to cover the EU existing obligations in relation to both spending programmes and financial markets (for debt issued under financial assistance programmes to Member States), even under extreme adverse circumstances affecting simultaneously economic growth, expenditure and loans repayment**.

This report covers contingent liabilities incurred before the end of 2022 and analyses how they are catered for under the 2021-2027 MFF.

The management and monitoring of the risk arising from contingent liabilities is carried out 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[16].

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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 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).

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).

12 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).

13 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).

14 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).

15 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).

16 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).

The Steering Committee on Contingent Liabilities (SCCL)[17] plays a central role in that framework for provisioned exposures. In 2022, the SCCL met four times to further the development of common methodologies for the design, negotiation and implementation of budgetary guarantees and financial assistance. Particular relevance was given to the close monitoring of the evolution in volume and risk profile of the exposures to Ukraine and to the design of adequate budgetary safeguards to cope with potential losses originating from those exposures.

For the sake of completeness, it should be mentioned that **financial instruments** in the form of guarantees are *stricto sensu* also a source of contingent liabilities. However, the budget always includes full provisioning for such financial instruments, i.e. the budget has set aside the maximum financial liability that can arise from each financial instrument. Contingent liabilities stemming from financial instruments are therefore not subject to the assessment of the sustainability of contingent liabilities borne by the EU budget.

More detailed information on financial instruments can be found in the working document X accompanying the draft 2024 budget which provides a detailed description of 79 financial instruments as of 31 December 2022.

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 InvestEU, EFSI, EFSD, EFSD+ and ELM mandates. Under all these instruments, the EU provides guarantees to implementing partners to cover a share of potential losses and costs[18] resulting from their financing and investment operations (i.e. debt or equity operations).

In 2022, 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.

The oldest budgetary guarantee is the one provided under the **ELM.** Its basic purpose is to enhance the 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 2015, **EFSI** was launched to remedy the problem of prolonged subdued private investments 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 EIB own resources allocation of EUR 7.5 billion. In 2020, the **EFSD** guarantee was put in place to support investments and improve access to finance primarily in Africa and the neighbourhood countries and to help those countries meet the UN Sustainable Development Goals.

Under the 2021-2027 MFF, the **InvestEU** programme combines the activities previously conducted under EFSI and several other financial instruments. It has also provided

[17] 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. In 2022, this decision was amended so as to make the Chief Risk Officer a full member of the steering committee.

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

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 recovery, resilience, green growth and employment in the EU over the 2021-2027 period. This goal is to be achieved by mobilising public and private financing sources, in order to provide long-term funding and support to companies and projects in line with the EU priorities in the current challenging economic and social context. Building on the successful implementation of ELM and EFSD, **EFSD+** has been established for the 2021-2027 MFF period as an integrated financial package providing financing capacity to sub-Saharan Africa, Asia and the Pacific, Latin America and the Caribbean and to the neighbourhood and enlargement countries in areas such as the reduction of socio-economic inequalities; sustainable and inclusive growth; climate change adaptation and mitigation; environmental protection and management; and job creation.

Table 1: State of play of budgetary guarantees (as at 31 December 2022) (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	25 793.34	24 615.20	21 083.72
EFSD	1 176.02	534.00	446.13
ELM	30 598.89	30 598.89	20 908.78
InvestEU	21 280.36	2 107.69	324.25
EFSD+	27 020.00	4 515.09	156.20
Total	**105 868.61**	**62 370.87**	**42 919.08**

(*) 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.

The five budgetary guarantee programmes vary in respect of several features, including the different stage of implementation. While the ELM (that came into existence in 1977) has a long track record and the EFSI constitution period ended in 2022, the investment phase of InvestEU and EFSD+ has started only recently.

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)[19] loans and Euratom loans to third countries[20].

Financial support to third countries in the form of bilateral loans from the EU (and funded back-to-back from the capital markets, until the MFA+ programme for Ukraine) has been granted mainly in the context of the **macro-financial assistance programme**, which targets

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

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

countries outside the EU experiencing a balance of payment crisis. In 2022, new MFA loans for an amount of EUR 7 535 million were disbursed[21].

A smaller portion of financial support to third countries takes the form of Euratom loans. **The Euratom loan facility**[22] helps both Member States and third countries finance investments in nuclear power stations and in industrial installations in the nuclear fuel cycle.

Table 2: Outstanding amounts in respect of loans to third countries (as at 31 December 2022) (EUR million)

	Outstanding loans	Accrued interests	Total
MFA	14 963.00	70.85	**15 033.85**
Euratom	300.00	0.47	**300.47**
Total	**15 263.00**	**71.32**	**15 334.32**

Traditionally, loans to third countries 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. This means that investors in EU bonds are only exposed to the EU credit risk and not to the credit risk of each single beneficiary country. The liability for the EU is contingent because the beneficiary country is contractually obliged to provide the revenue flow to repay the EU bonds. In principle no outflow of EU resources is required to settle the EU debt.

The repayment amounts reported in Table 3 are therefore to be seen as the maximum envisageable amounts that could be called against provisions in the years 2023-2027.

Table 3: Yearly repayment schedule of outstanding loans to third countries (capital + interest) under the existing programmes for the years 2023-2027 (at 31 December 2022) (EUR million)

Year	Euratom	MFA	All programmes
2023	0.82	234.04	**234.86**
2024	0.82	863.55	**864.37**
2025	0.82	251.34	**252.16**
2026	0.82	368.18	**369.00**
2027	50.82	400.58	**451.40**
Total	**54.10**	**2 117.69**	**2 171.79**

[21] These includes also A) the first instalment of EUR 35 million of a new MFA loan of EUR 120 million granted to Moldova in 2022, and B) the second instalment of COVID-19 MFA to Tunisia of EUR 300 million. 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 2022 COM(2023) 409 final of 11.7.2023 and the accompanying SWD(2023) 244 final of 11.7.2023.

[22] 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.

2.3 Headroom-backed loans to EU Member States

The contingent liabilities under this heading arise from loans **to EU Member States** (i.e. Balance of Payments (BoP) loans[23], European Financial Stabilisation Mechanism (EFSM) loans[24], Euratom loans[25], loans under SURE[26] and loans under the RRF which are provided to support investment and reform).

Contingent liabilities stemming from loans to EU Member States are not provisioned ex-ante. Instead, they are back-stopped by the remaining scope ('headroom') for calling additional 'own resources' from Member States under the Union's budgetary framework.

This means that, if a beneficiary Member State would 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 respect of the own resources ceiling.

As a general rule, these loans – with the exception of the RRF loans – were granted to EU Member States using the same back-to-back technique that was used for financial assistance to third countries. RRF loans by contrast have been financed from the start through the Diversified Funding Strategy (DFS)[27].

In 2022 the Commission, acting on behalf of the EU, operated five programmes under which it had granted loans to Member States:

- **Balance of Payments (BoP)** assistance was created to help EU countries outside the euro area that experience or run the risk of experiencing balance of payments difficulties.
- The **European Financial Stabilisation Mechanism (EFSM)** was created to provide financial support to EU Member States experiencing or threatened by severe financial difficulties caused by exceptional occurrences beyond their control.
- The **Euratom Loan Facility**.
- The **SURE** programme was agreed in June 2020 to help finance sudden and severe increases of national public expenditure related to national short-time work schemes and similar measures in response to the COVID-19 crisis. All Member States have agreed to provide irrevocable, unconditional and on-demand guarantees for 25% of the

[23] 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).

[24] 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).

[25] 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] 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)

[27] 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. The NGEU borrowing-to-lend activities (i.e. to fund RRF loans) do, however, give rise to new contingent liabilities and are addressed in this report.

maximum amount of financial assistance[28]. 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 NGEU programme[29] and is a temporary instrument to support reforms and investments in the EU Member States with the ultimate goal of facilitating recovery from the COVID-19 pandemic while helping the green and digital transitions.

  Under the EU recovery instrument, the Commission borrows funds which the RRF then uses to finance the Member States' reforms and investments. The financing can be either a loan (repayable support) or a grant (non-repayable support). To benefit from the support, Member States submitted national recovery and resilience plans to the Commission. Each plan sets out the reforms and investments, setting clear milestones and targets for their implementation by 31 August 2026. Each plan must be positively assessed by the Commission and approved by the Council.

  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 a diversified funding strategy and not via the traditional back-to-back approach. All NGEU borrowings, amounting to EUR 188 billion at the end of 2022, 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% GNI, which is exclusively available for NGEU liabilities.

Table 4: Outstanding amounts in respect of loans to EU Member States (as at 31 December 2022) (EUR million)

	Outstanding loans	Accrued interests	Total
BoP	200.00	1.15	201.15
Euratom	26.30	0.07	26.37
EFSM	46 300.00	415.49	46 715.49
SURE	98 355.00	104.02	98 459.02
RRF (loans)	45 156.37	183.80	45 340.17
Total	**190 037.67**	**704.53**	**190 742.2**

A measure of the total annual risk to the EU budget emanating from the contingent liabilities arising from financial assistance to Member States is the total amount of annual capital and interest repayments due from beneficiary Member States under the different programmes in a given year. In the case of back-to-back lending, the repayment flows coincide in amounts and timing with the payments owed to investors in EU bonds issued to fund the loans to Member States. For RRF loans, funded by the diversified funding strategy, the central funding pool is able at all times to meet payments owed to EU-Bond investors.

[28] In addition to the guarantee provided by all Member States, there are a number of safeguards foreseen in the SURE Regulation to mitigate the risk sourced by 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 shall not exceed EUR 10 billion), and the possibility for the Commission to roll over its borrowings if necessary.

[29] 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).

The Union 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 a beneficiary defaults on its loans to the EU.

Table 5: Yearly repayment schedule of outstanding loans to EU Member States (capital + interest) under the existing programmes for the years 2023-2027 (at 31 December 2022) (EUR million)

Year	Euratom	BoP	EFSM	SURE	RRF loans (*)	All programmes
2023	13.83	5.75	4 239.25	326.56	516.11	**5 101.49**
2024	13.50	5.75	3 317.38	326.98	552.62	**4 216.23**
2025	0	205.75	3 068.63	8 326.98	552.78	**12 154.14**
2026	0	0	6 856.63	8 326.98	552.78	**15 736.39**
2027	0	0	3 531.13	326.98	552.78	**4 410.89**
Total	**27.32**	**217.25**	**21 013.02**	**17 634.48**	**2 727.07**	**41 619.14**

(*) 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.

Contingent liabilities stemming from the 'Macro-Financial Assistance +' (MFA+) programme for Ukraine[30] adopted in December 2022, and where EUR 15 billion in loans have been provided to date in 2023, are also not provisioned as traditional MFA loans. This is the only financial assistance programme to a third country for which the borrowed amounts are back-stopped by the Union budgetary headroom.

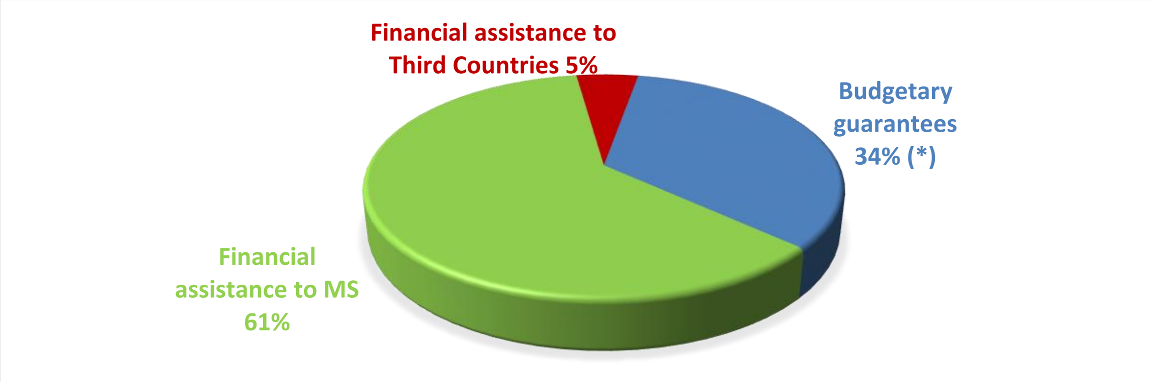
Looking beyond 2027, taking into account all outstanding loans at the end of 2022, in the period 2028-2053 the yearly repayments (principal + interest) in relation to loans backed by the headroom under the permanent own resources ceiling amount to 4.6 EUR billion on average. Average yearly repayments (principal + interest) for RRF loans, backed by the headroom under the temporary own resources ceiling, amount to EUR 2.1 billion over the same period.

2.4 Overview of contingent liabilities at the end of 2022

At the end of 2022, the EU budget was exposed to contingent liabilities for a total amount of **EUR 312 billion** (over EUR 206 billion relating to loans granted to Member States and third countries, and EUR 106 billion relating to guarantees provided in the context of InvestEU, EFSI, EFSD, EFSD+ and ELM). The largest exposure for the EU budget originated from financial assistance programmes targeting Member States.

[30] 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). More details on the MFA+ can be found in Box 1.

Figure 1: Breakdown of contingent liabilities by source as at 31 December 2022

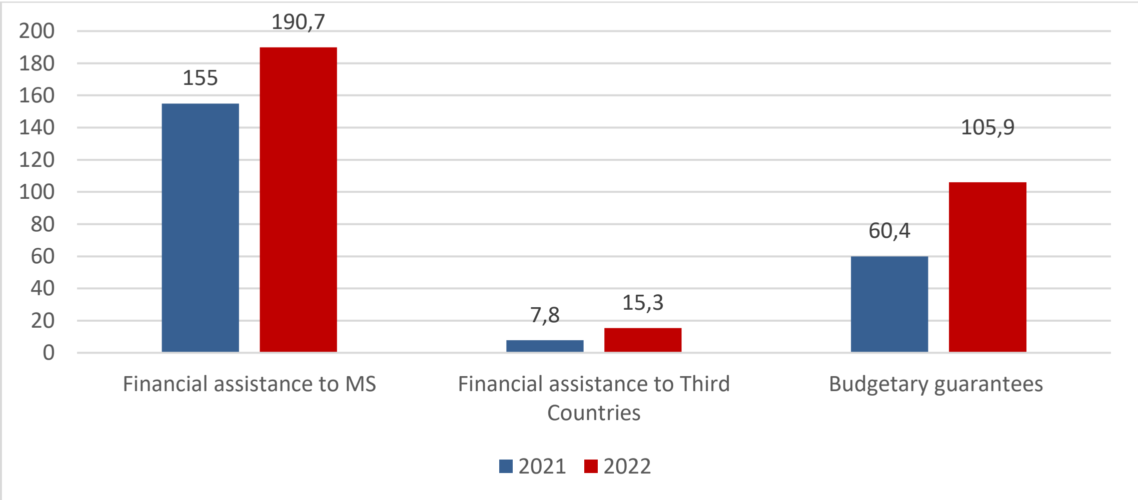


(*) Based on the total amount of 'available guarantee signed with counterparts' (see Table 1).

The increasing importance of budgetary guarantees and financial assistance programmes for the implementation of EU policies is demonstrated by the substantial increase of 40% in the total amount of contingent liabilities between year-end 2021 and year-end 2022. Financial assistance to third countries almost doubled (+ 96%), primarily because of the extraordinary efforts to financially support Ukraine.

Contingent liabilities stemming from the budgetary guarantee programmes also increased substantially (+75%) because of the start of the implementation phase for InvestEU and EFSD+. A moderate increase for loans to Member States (+23%) was also recorded, in particular because of additional loan disbursements under the RRF.

Figure 2: Breakdown of contingent liabilities by source at the end of 2021 and 2022 (EUR billion)



EU contingent liabilities are expected to increase further by the end of 2023 in relation to the additional support to third countries, the additional disbursement of RRF loans and the further progress in the implementation of InvestEU and EFSD+.

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 210(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 2014/335/EU, Euratom.' (i.e. the MFF ceilings and the own resources ceiling).

This means that the resources that the EU is able to draw on in a single year under the current MFF (own resources ceiling) should be enough to finance the expenditures arising under the MFF as well as any 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 foreseen 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 2022.

Payments related to materialising contingent liabilities resulting from **headroom-backed financial assistance** to EU Member States[31] can be financed by calling on additional own resources up to the ceiling established by the Own Resources Decision. The difference between the own resources ceiling and the own resources necessary to finance the EU budget (known as the 'headroom') represents the EU financial capacity to cover additional outflows relating to the materialisation of contingent liabilities arising from headroom-backed financial assistance to EU Member States. The assessment framework for this set of contingent liabilities was described in detail in the 2021 report[32]. The results of the assessment of sustainability of headroom-backed contingent liabilities existing at the end of 2022 are presented in Section 3.3 below. The 2020 Own Resources Decision temporarily increases the own resources ceiling in order to cater for the liabilities incurred during the implementation of 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 2022

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 cover a portion of the unexpected losses). The provisions protecting the EU budget against losses which may arise from budgetary guarantees and financial assistance to third countries are held in the CPF. On 31 December 2022, the CPF was composed of 14 compartments, including those for all the on-going guarantee programmes, that for the legacy ELM, Euratom and MFA loans (the former Guarantee Fund For External Action or GFEA), and those for the post 2020 MFA and Euratom loans.

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

- the legacy exposures (EUR 7.7 billion of MFA loans and EUR 300 million of Euratom loans) are backed by the GFEA compartment;

- the new MFA loans (EUR 1.2 billion) committed in 2022 are covered by the Post-2020 MFA compartment[33];

[31] And, since the adoption of the MFA+ instrument, financial assistance provided to Ukraine in 2023 under this instrument.
[32] COM(2021) 676 final of 5.11.2021.
[33] These include the first disbursement (EUR 35 million) in July 2022 of the MFA to Moldova adopted by the European Parliament and the Council on 6.4.2022.

- the exceptional MFA loans to Ukraine of EUR 6 billion (exceptional MFA I[34] and MFA II[35]) are in a newly created separate compartment given their special risk sharing set-up. *Pro memoria*, for this exceptional MFA loans package to Ukraine, a coverage rate of 70% is foreseen: 9% in the form of paid-in provisioning from the EU budget and 61% in the form of callable second loss guarantees from the Member States (see Box 1 below).

As at 31 December 2022, the market value of net assets in the CPF amounted to EUR 14.39 billion, as compared to EUR 12.31 billion as at 31 December 2021[36]. For the remaining years of this MFF, the Commission has already assigned further provisions to the CPF (in particular provisions related to InvestEU and EFSD+), which will lead to a further increase of the CPF.

The assets of the CPF are currently invested in compliance with the Asset Management Guidelines with the aim of delivering capital preservation over its investment horizon. The portfolio is made up of Euro-denominated money market instruments, fixed income securities denominated in Euro and US Dollar.

The unprecedented and unexpected steep increase in interest rates led to a reduction of the market value of the CPF portfolio in 2022 of around 8.8%, mainly due to unrealised valuation losses.

However, in the longer-term, higher interest rates should provide the foundation for a sustained positive investment return and make the CPF well-placed to recover a large portion of the lost value over the coming years.

To further improve the long-term return/risk profile of the CPF the Commission in 2022 continued to work on asset diversification and incorporated small equity exposures in the CPF benchmark. The CPF benchmark was also updated to ensure a stronger ESG (Environmental, Social and Governance) focus of the portfolio[37].

b) Assessment of sustainability of Budgetary guarantees

As a preliminary remark, EU budgetary guarantees might differ substantially in terms of policy objectives and risk profile of the underlying operations supported under a specific programme. This might in turn lead to a different provisioning level, per programme, based on a lifetime Value-at-Risk (VaR)[38] at a certain (predefined) percentage of confidence level to ensure appropriate coverage of potential losses. Despite the fact that in some cases the available provisions at the end of 2022 were somewhat lower than the respective VaRs with the applicable confidence level, the provisioning adequacy conclusion is underpinned by

[34] Decision (EU) 2022/1201 of the European Parliament and of the Council of 12 July 2022 providing exceptional macro-financial assistance to Ukraine (OJ L 186, 13.7.2022, p. 1–7).

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

[36] In 2022 the CPF received EUR 3.26 billion of net contributions.

[37] For additional information see the Report from the Commission to the European Parliament and the Council on the common provisioning fund in 2022.

[38] The Value-at-Risk 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+) – 95% and 90% respectively - take into account factors such as the different policy objectives, their relative sizes and the respective frameworks.

several elements including the lifecycle phase of the guarantee (fully constituted or not fully constituted), the fact that CPF market values were affected by losses of an unrealised nature, and for ELM the specific provisioning rules.

In more detail, it is possible to draw the following conclusions from the available data on lifetime net losses on 31 December 2022 concerning the budgetary guarantees in place on that date[39]:

- For EFSI, the results of the risk analysis conducted based on a credit risk model for the Infrastructure and Innovation debt operations and on expert judgment for equity and the SME Window debt products, indicate a VaR amount of EUR 8 977 800 000 at a 95% lifetime confidence level. This amount is broadly in line with the market value of the EFSI CPF compartment (EUR 8 570 691 859) in particular taking into account that the EFSI CPF compartment will book revenues[40] in 2023 and that the EFSI CPF compartment - because of rising interest rates on the markets - faced in 2022 losses but of an unrealised nature;
- with regard to EFSD, the results of the risk analysis indicate a lifetime VaR amount of EUR 766 824 213 at the targeted 90% confidence level. This amount is somewhat higher than the market value of the EFSD CPF compartment as of end 2022 (EUR 728 175 822) where the EFSD CPF compartment has reported total unrealised valuation losses of approximately EUR 75 million. The EFSD is still in the ramp-up phase;
- with regard to ELM, the results of the risk analysis indicate a lifetime VaR amount of EUR 3 863 044 953 at the 90% confidence level. This exceeds the corresponding provisioning in the CPF compartment (at 31 December 2022, the ELM pro-rata part of the GFEA compartment amounted to EUR 2 118 601 769). Note that ELM is an old instrument without a pre-defined 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 in case the provisioning falls below 9% of the outstanding disbursed amounts guaranteed. In this regard, it should be recalled that the ELM consists of amortising loans with long repayment periods, where losses tend to crystallise in a non-abrupt manner. Furthermore, the provisioning for repurposed loans to support Ukraine is set at 70% and will be paid into a ring-fenced provisioning compartment over the coming years.

c) Assessment of sustainability of provisioned loans to third countries

The composition of the outstanding MFA loan portfolio to third countries comprises of loans to a diversified set of EU candidate and potential candidate countries, countries and territories covered by the European Neighbourhood Policy and other third countries that play a determining role in regional stability and which are of strategic importance for the Union, and are politically, economically, and geographically close to the Union. The amounts of provisioning available for the different MFA exposures, in accordance with the rate under the relevant legislative acts setting up the loans, appears adequate when account is taken of the following factors:

- the absence of payment default in the 2022 reporting year as well as in previous years;
- the adjustment of provisioning levels to reflect heightened country-specific risks as with UKR MFA 1 and 2;

[39] For EFSD+ and InvestEU, still in the inception phase, formal reporting on provisioning and riskiness of the guaranteed operations as compared to the ex-ante risk appetite will start as of next year.
[40] For information, in 2022, revenues amounted to EUR 382 million.

- the structure of the maturities of the loans related to the third countries benefitting from financial assistance that are reasonably well spread over the current MFF and the subsequent MFFs, ensuring that impact of any failure by loan beneficiaries to repay amounts owed to EU are spread over time and can be accommodated by available provisions;

- The linkage between traditional MFA loans and IMF programmes and related debt sustainability assessment. The disbursement of MFA loan instalments is dependent on satisfactory track record in implementation of these programmes, which seek to ensure the financial viability of the third country and, thus, the repayment of Union funds. For the recent UKR MFA loans, the absence of a formal requirement of an IMF programme is compensated for by a close working relationship with the UKR authorities on their public finance management, continued strong focus on UKR debt sustainability and matched by an elevated level of provisioning and the respective additional budgetary covers for these specific loans.

  At the same time, Ukraine has benefitted from IMF support during the availability period of the Exceptional MFA operation in the form of both a disbursement under the Food Shock Window of the Rapid Financing Instrument in October 2022, and the approval of the non-disbursing Program Monitoring with Board Involvement (PMB) in December 2022. The successful conclusion of the PMB was an important stepping stone towards the approval of the ("full-fledged") financing arrangement under the Extended Fund Facility (EFF) in March 2023.

Box 1: EU contingent liabilities arising from EU financial support to Ukraine – Main developments in 2022-23

Since the outbreak of the unprovoked and unjustified war of aggression started by Russia against Ukraine, the EU has been committed to firmly and fully stand with Ukraine providing strong political, economic, military, financial and humanitarian support to the Country. The new 2022 MFA disbursements, amounting to EUR 7.2 billion, were vital to maintain macroeconomic stability in the country (EUR 1.2 billion in the first quarter and EUR 6 billion later in the year)[41]. Financial support to the Country was also granted via the EIB ELM portfolio by means of the repurposing of undisbursed loans for a total amount of EUR 2.28 billion (EUR 0.69 billion in March 2022 and EUR 1.59 billion to be fully disbursed by the end of 2023) as well as EUR 120 million in EBRD loans partially guaranteed by the EFSD.

Given the exceptional risks associated with the financial support to Ukraine in the war context the exceptional EUR 6 billion MFA and the EUR 1.59 billion repurposed loans under the ELM are subject to a budgetary coverage of 70%. 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 through maintaining the paid-in provisioning rate at the level of 9% and supplement it with guarantees by Member States covering a second loss piece of 61% of the loan exposures.

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 2023 and concluded for the period

[41] EUR 1.2 billion of emergency MFA was disbursed in March and May (See Decision (EU) 2022/313 of the European Parliament and of the Council of 24 February 2022 providing macro-financial assistance to Ukraine in OJ L55, 28.2.2022, p. 4-11). A further EUR 1 billion of exceptional MFA (MFA I) was disbursed at the beginning of August. In October-December 2022 an additional extraordinary EUR 5 billion MFA (MFAII) was disbursed to Ukraine following a decision of the Council and the European Parliament on 20 September 2022.

under examination, that there were no sufficient new lasting and meaningful elements which would justify changing the provisioning rate of 70%[42].

EU financial support to Ukraine has continued in 2023. At the date of writing, Ukraine had received additional EUR 15 billion disbursed from the EUR 18 billion MFA+ package adopted by the European Parliament and the Council on 14 December 2022[43].

This amount has brought the **direct** exposures to Ukraine to the level EUR 26.9 billion, of which EUR 4.7 billion (legacy MFA and Euratom loans) backed by the GFEA compartment, EUR 1.2 billion (Emergency MFA) by Post-2020 MFA, EUR 6 billion (Exceptional MFA I and II) by the exceptional MFA compartment, and EUR 15 billion (MFA+ loans) by the EU budget 'headroom' (which implies no provisioning in the CPF).

At the same time, at the end of 2022, the portfolio covered under the ELM (i.e. the **indirect** exposures) also contained legacy disbursed Ukrainian loans of EUR 2.5 billion. Additional EUR 1.1 billion of ELM exposures (from the EUR 1.59 billion 'repurposed loans' package of July 2022) will be backed by a dedicated compartment of the CPF (with a 70% applicable provisioning rate). An additional EU exposure of EUR 74 million was outstanding with regard to operations carried out under the EFSD guarantee.

Moreover, as of the first half of 2023, the EU has increased its exposure to Ukraine by enabling up to EUR 100 million of new EIB loans to Ukraine under the EU4Ukraine Fund provisioned at 70% under EFSD+, as well as by supporting Ukraine's private sector through the Small Loans Guarantee Programme with IFC, covering under EFSD 50% of the EUR 97.2 million aggregate portfolio of operations in Ukraine.

Finally, the Commission has proposed additional long-term financial support to Ukraine in the context of its proposal for the mid-term review/revision of the 2021-2027 MFF adopted on the 20 June 2023. In particular, to cater for the country's evolving needs until 2027, the Commission has proposed the creation of an integrated and flexible instrument, the Ukraine Facility, with an overall capacity of up to EUR 50 billion for 2024-27. Supports will be provided in the form of loans, grants and guarantees[44].

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

The EU budget 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.

As regards NGEU liabilities, the Own Resources ceiling has been increased by 0.6% of EU GNI exclusively to guarantee these issuances. This ensures that EU has 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

[42] SWD (2023) 264 of 18 July 2023.

[43] 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).

[44] See Communication of the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions Mid-term review of the Multiannual Financial Framework 2021-2027 (COM(2023) 336 final of 20.6.2023) and the Proposal for a Regulation of the European Parliament and of the Council on establishing the Ukraine Facility (COM(2023) 338 final of 20.6.2023).

arising from RRF loans, in line with the requirements of Article 210(3) of the Financial Regulation.

The first step is to establish a central scenario (baseline) that corresponds to the expected evolution of EU spending and financial capacity in the years until 2027 in line with the long-term forecast report on budget expenditure and revenue needs (Figure 3 below)[45]. Excluding the current budgetary year, the headroom available for covering existing and new contingent liabilities in 2024-2027 is on average around **EUR 97.4 billion** per year in respect of the margin under the own resources ceiling of 1.40% of EU GNI and around **EUR 109.1 billion** per year for the temporary ceiling of 0.6% of EU GNI.

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

1) **Stress test on the economy.** In the central scenario, the GNI follows the projections for real growth and inflation in the Commission spring 2023 European economic forecast[46]. 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[47]. This reduces the own resources ceiling's nominal value and therefore the available headroom by **EUR 6.5 billion** per year for the 'unbudgeted' amounts (headroom) under the permanent own resources ceiling and by **EUR 2.8 billion** under the temporary ceiling for NGEU.

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 Member States benefitting from financial assistance programmes would simultaneously fail to honour their repayments when they fall due[48]. The amounts at stake reflect the repayment schedules at the end of 2022 (see Table 4 above). This is an extremely unlikely scenario which does not take into account all the measures that the Commission can take to avoid such a situation (e.g. debt rescheduling and active cash management). Under this scenario, the headroom under the permanent own resources ceiling would be reduced by **EUR 4.3 billion**. The contingent liabilities resulting from RRF loans under NextGenerationEU would be small during the period considered (approximately **EUR 0.6 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, as regards the MFF, expenditure is projected at its theoretical maximum (i.e. the maximum possible ceilings for the MFF payments and all individual special instruments). It is important to underline that this does not reflect a bottom-up forecast and is unrelated to any actual expectations regarding the evolution of EU payments and 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. As regards budget expenditure to meet repayment obligations for NGEU non-repayable support, there

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[45] On 20 June 2023, the European Commission proposed a mid-term revision of the Multiannual Financial Framework (COM(2023)336) which, once adopted, would modify the profile of EU spending up to 2027. Since, at the time of writing, negotiations are ongoing, the impact of the MFF mid-term revision is not factored in in this analysis. Given the targeted size of the package and the size of the available headroom, however, the conclusions of the report would not be affected.

[46] https://economy-finance.ec.europa.eu/system/files/2023-05/ip200_en_1.pdf.

[47] This is similar to the stress test on the 'adverse r-g scenario' performed in the Commission's Debt Sustainability Monitor: https://economy-finance.ec.europa.eu/system/files/2023-06/ip199_en_UPD.pdf.

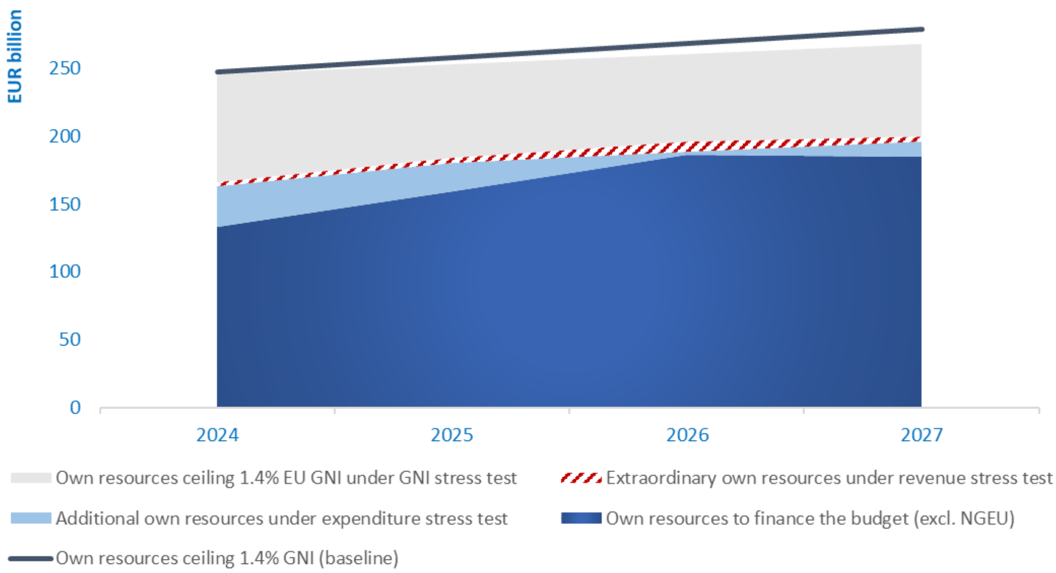
[48] As the report analyses the situation as of 31.12.2022, contingent liabilities related to the MFA+ to Ukraine are not included in the analysis.

is no specific expenditure ceiling in the 2021-2027 MFF[49]. Therefore, as regards 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[50]. 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 81.3 billion** on average, i.e. **EUR 16.1 billion** lower 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 9.8 billion** per year on average, to a level of **EUR 99.3 billion on average** over the period 2024-2027.

4) **A combined stress test on the 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 70.6 billion** on average over the period 2024-2027 and for the temporary ceiling to **EUR 96.0 billion**. This amount appears to constitute a large safety buffer for the EU's financial capacity to cover its liabilities (stemming from both non-NGEU and NGEU operations) even in the event of deep economic shocks, increased budgetary expenditures and the possible emergence of new contingent liabilities.

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

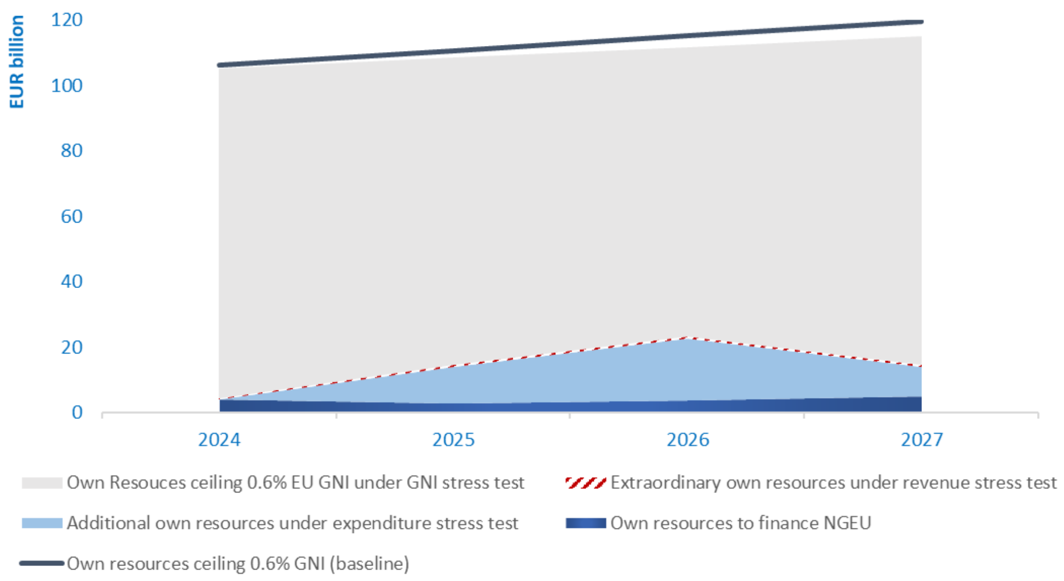
Figure 3: Own resources ceiling and own resources needs under a baseline and combined sensitivity tests for the permanent 1.4% of EU GNI ceiling.



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

50 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 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 2022, the EU budget included over **EUR 206 billion** (EUR 15.3 billion for non-Member States and EUR 190.7 billion for Member States) in contingent liabilities arising from loans granted to Member States and third countries, and **EUR 106 billion** in relation to the guarantees provided in the context of EFSI, InvestEU, EFSD, EFSD+ and ELM.

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

Taking into account the multiple safeguards provided in the EU framework for the monitoring and management of the risks linked to both provisioned and headroom-backed contingent liabilities and the sustainability assessment presented in this report, it is possible to draw several conclusions.

- Risks arising from provisioned instruments (i.e. budgetary guarantees and financial assistance to third countries) are carefully managed and adequately provisioned. This assessment takes into account the build-up of risk positions in the past; data on past defaults and expected losses; the measures that are in place to ensure that losses do not exceed predefined tolerance levels; and the budgetary provisions that are available to cover potential losses.
- The EU 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 2027. On average over the 2024-2027 period, the headroom available for covering these contingent liabilities in 2024-2027 is around **EUR 97.4 billion** per year in respect of the margin under the own resources ceiling of 1.40% of EU GNI and around **EUR 109.1 billion** per year for the temporary ceiling of 0.6% of EU GNI. This headroom can be called upon to meet extraordinary revenue calls to finance unforeseen

expenditure or for honouring 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 1.40% of EU GNI would amount to **EUR 70.6 billion** on average per year over the 2024-2027 period and to **EUR 96.0 billion** on average per year over the 2024-2027 period under the temporary ceiling of 0.6% of EU GNI. These amounts represent a safety buffer against further negative economic shocks, new spending initiatives and contingent liabilities for both non-NGEU and NGEU operations.

Annex:

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

		2024	2025	2026	2027
Baseline					
Own Resources ceiling (1.4% GNI)	a	247.76	258.36	268.70	278.98
Own resources to finance the budget (excl. NGEU)	b	133.18	159.31	186.62	184.95
Headroom under permanent ceiling	a-b	114.58	99.05	82.09	94.03
Stress tests					
1) Stress test on the economy					
Own Resources ceiling (1.4% GNI)	a	245.34	253.34	260.91	268.23
Own resources to finance the budget (excl. NGEU)	b	133.18	159.31	186.62	184.95
Headroom	a-b	112.16	94.03	74.29	83.28
2) Stress test on the revenue					
Own Resources ceiling (1.4% GNI)	a	247.76	258.36	268.70	278.98
Own resources to finance the budget (excl. NGEU)	b	133.18	159.31	186.62	184.95
Extraordinary own resources to cover non-NGEU CLs*	c	3.34	3.28	6.86	3.58
Headroom	a-b-c	111.24	95.77	75.23	90.45
3) Stress test on expenditure					
Own Resources ceiling (1.4% GNI)	a	247.76	258.36	268.70	278.98
Own resources to finance the budget (excl. NGEU)	b	133.18	159.31	186.62	184.95
Additional own resources (up to MFF ceiling maximum, and special instruments' maximum)**	c	29.72	21.24	2.34	11.08
Headroom	a-b-c	84.86	77.81	79.75	82.95
4) Combined adverse/unfavourable shock					
Own Resources ceiling (1.4% GNI)	a	245.34	253.34	260.91	268.23
Own resources to finance the budget (excl. NGEU)	b	133.18	159.31	186.62	184.95
Additional own resources (up to MFF ceiling maximum, and special instruments' maximum)	c	29.72	21.24	2.34	11.08
Extraordinary own resources to cover non-NGEU CLs	d	3.34	3.28	6.86	3.58
Headroom	a-b-c-d	79.10	69.52	65.10	68.62

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

*** Expenditure is projected at the theoretical maximum for: 1) the MFF payment ceiling in 2024-2027[51], 2) future adjustments up to their potential maximum in any single year[52], and 3) the annual ceilings of the thematic special instruments (the European Globalisation Adjustment Fund, Solidarity and Emergency Aid Reserve, and Brexit Adjustment Reserve) and the Flexibility Instrument*

[51] As established in the most recent technical adjustment of the MFF (COM(2023)320 final of 6.6.2023).

[52] 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

		2024	2025	2026	2027
Baseline					
Own Resources ceiling (0.6% GNI)	a	106.18	110.73	115.16	119.56
Own resources to finance NGEU	b	3.87	2.68	3.75	4.99
Headroom	a-b	102.31	108.04	111.41	114.58
Stress tests					
1) Stress test on the economy					
Own Resources ceiling (0.6% GNI)	a	105.15	108.57	111.82	114.96
Own resources to finance NGEU	b	3.87	2.68	3.75	4.99
Headroom	a-b	101.28	105.89	108.07	109.97
2) Stress test on the revenue					
Own Resources ceiling (0.6% GNI)	a	106.18	110.73	115.16	119.56
Own resources to finance NGEU	b	3.87	2.68	3.75	4.99
Extraordinary own resources to cover NGEU CLs (NGEU loan reimbursements due)	c	0.55	0.55	0.55	0.55
Headroom	a-b-c	101.76	107.49	110.86	114.02
3) Stress test on expenditure					
Own Resources ceiling (0.6% GNI)	a	106.18	110.73	115.16	119.56
Own resources to finance NGEU	b	3.87	2.68	3.75	4.99
Additional own resources for NGEU (maturing issuances, excluding CLs and budgeted amounts)	c	0.00	11.25	18.95	8.95
Headroom	a-b-c	102.31	96.79	92.46	105.63
4) Combined adverse/unfavourable shock					
Own Resources ceiling (0.6% GNI)	a	105.15	108.57	111.82	114.96
Own resources to finance NGEU	b	3.87	2.68	3.75	4.99
Additional own resources for NGEU (maturing issuances, excluding CLs and budgeted amounts)	c	0.00	11.25	18.95	8.95
Extraordinary own resources to cover NGEU CLs	d	0.55	0.55	0.55	0.55
Headroom	a-b-c-d	100.72	94.09	88.56	100.47

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