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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on guarantees covered by the general budget - Situation at 31 December 2014

{COM(2015) 373 final}

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1. INTRODUCTION

This working document is published in parallel with the report of the Commission to the European Parliament and the Council on guarantees covered by the EU budget at 31 December 2014. It provides further information on the risk borne by the EU budget related to Member States and third countries. An overview of the outstanding amount of loans covered by the EU budget under each programme is presented in section 2. The third countries representing important risks to the EU budget in 2014, and either categorised as "severely indebted" according to criteria set by the World Bank or facing significant imbalances in their external or debt situation, are included in the country risk evaluation in section 3. The evaluation comprises short analyses and tables of risk indicators. Data concerning EU loans are processed by the Commission whereas EIB ("the Bank") figures have been provided by the Bank.

The evaluated countries are grouped in 6 sub-sections: (3.1.) Member States, (3.2.) Candidate countries, (3.3.) Potential candidate countries, (3.4.) ENP countries, (3.5.) Mediterranean partners and (3.6.) Other countries.

2. OVERVIEW OF CAPITAL LOAN OPERATIONS COVERED BY THE EU GUARANTEE

Table A1 shows the outstanding amount of capital in respect of borrowing and lending operations for which the risk is covered by the EU budget. The figures show the maximum possible risk for the EU for these operations and must not be read as meaning that these amounts will actually be drawn from the Guarantee Fund for external actions ("the Fund") or the EU budget. Accordingly, the relevant amounts are not registered as expenditure in the EU budget; rather they are formally recorded pro memoria only.

TABLE A1: CAPITAL OUTSTANDING AND BALANCES TO BE DISBURSED (in EUR million)

Operations	Authorised ceiling (a)	Capital outstanding at 31.12.2013 (b)	Capital outstanding at 31.12.2014 (b)	Amounts signed (minus cancellation) but not yet disbursed at 31.12.2014
MEMBER STATES				
EIB (Member States) (1)		2,657	2,315	83
Euratom to Bulgaria and Romania (2)	4,000	357	324	
BoP				
Hungary	6,500	3,500	1,500	0
Latvia	3,100	2,900	1,900	0
Romania	7,000	5,000	5,000	2,000
EFSM				
Ireland	22,500	21,700	22,500	0
Portugal	26,000	22,100	24,300	0
MEMBER STATES - TOTAL	**69,100**	**58,214**	**57,840**	**2,083**
THIRD COUNTRIES				
Macro-Financial Assistance				
Albania	9	9	9	0
Armenia	65	65	65	0
Bosnia and Herzegovina	140	128	124	0
fYRoM	90	44	34	0
Lebanon	50	25	0	0
Montenegro	7	6	5	0
Serbia	473	284	232	0
Tajikistan	75	4	0	0
Ukraine	1,610	0	1,360	250
Euratom to Ukraine (2)	4,000	29	24	300
EIB				
EIB Pre-Accession countries	37,842	10,003	10,322	3,613
EIB Neighbourhood and Partnership countries (3)	43,927	9,237	10,048	8,832
EIB Asia and Latin America	11,764	2,692	2,761	1,834
EIB South Africa	2,852	769	827	301
EIB Climate Change Mandate (2011-2013) (4)	2,000	217	474	1,455
THIRD COUNTRIES - TOTAL	**100,905**	**23,512**	**26,283**	**16,585**
GRAND TOTAL	**170,005**	**81,726**	**84,123**	**18,667**

(1) EIB lending to Member States prior to accession to EU was carried out under the mandate ceilings relating to Third Countries (below).

(2) The overall ceiling is EUR 4 000 million for loans to Member States and to certain non-member States.

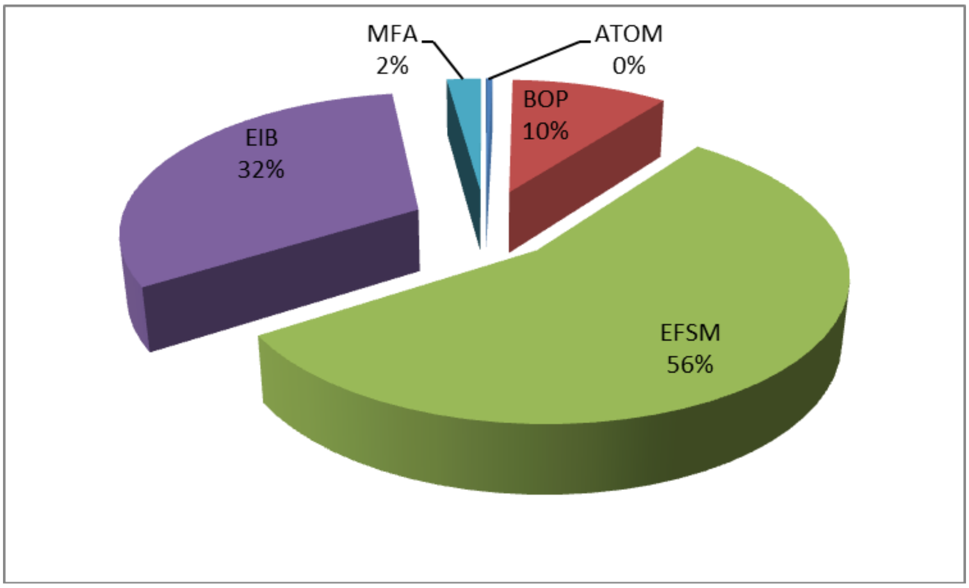
(3) Loans subrogated to the EU following Syria defaults are included in this figure.

(4) EIB Climate Change Mandate covers the above regions.

(a) Authorized ceiling: this is the aggregate of the maximum amounts of capital authorised (ceilings), or in the case of EIB: guarantee ceilings, as decided by the Council or by the European Parliament and the Council.

(b) Capital outstanding: this is the amount of capital still to be repaid on a given date in respect of operations disbursed.

The graph hereunder shows the breakdown of outstanding amounts by financial instrument:



The breakdown of each financing facility is detailed in the sections below..

2.1. Loan operations covered by the EU budget guarantee

The EU budget covers three types of operations. These are:

2.1.1. EU loan operations to Member States

The outstanding risk of these operations is covered by the EU Budget. They relate to BOP, EFSM and to borrowing and lending granted to certain Member States prior to their EU accession under MFA, Euratom (table A2a) and EIB guaranteed financing operations (table A3).

TABLE A2a: BoP, EFSM and Euratom lending operations to Member States (EUR million)

Period 01.01.2014 - 31.12.2014

Instrument	Decision	Date of decision	Availability period (for Request for Funds)	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amounts decided	Amounts outstanding at 01.01.2014	Operations made in 2014: Amounts disbursed	Operations made in 2014: Amounts repaid	Amounts outstanding at 31.12.2014
BOP	2002/332/EC (1)	18/02/2002		50,000.0	16,600.0	**11,400.0**	0.0	3,000.0	**8,400.0**
Hungary	2009/102/EC	04/11/2008	closed (**)	(b)	6,500.0	**3,500.0**	0.0	2,000.0	**1,500.0**
Latvia	2009/290/EC	20/01/2009	closed	(b)	3,100.0	**2,900.0**	0.0	1,000.0	**1,900.0**
Romania	2009/459/EC	06/05/2009	closed	(c)	5,000.0	**5,000.0**	0.0	0.0	**5,000.0**
Precautionary BOP for Romania	2013/531/EU	22/10/2013	Funds are available until 30/09/2015	(d)	2,000.0				
EFSM	2010/407/EU	11/05/2010		60,000.0	48,500.0	**43,800.0**	3,000.0	0.0	**46,800.0**
Ireland	2011/77/EU	07/12/2010	closed	(c)	22,500.0	**21,700.0**	800.0	0.0	**22,500.0**
Portugal	2011/344/EU	17/05/2011	closed	(b)	26,000.0	**22,100.0**	2,200.0	0.0	**24,300.0**
EURATOM	94/179/Euratom			4,000.0	436.0	**356.9**	0.0	32.6	**324.3**
	77/270-271/Euratom	29/03/1977							
Bulgaria	SEC(2000)661/2	18/04/2000	closed	(c)	212.5	**143.4**	0.0	22.6	**120.8**
Romania	C(2004)891	30/03/2004	closed	(c)	223.5	**213.5**	0.0	10.0	**203.5**
TOTAL					**65,536.0**	**55,556.9**	**3,000.0**	**3,032.6**	**55,524.3**

** Means that no further request for disbursement are not possible (either because the total amount has been disbursed or because the facility has expired)

(1) Regulation establishing the facility stipulating that the outstanding amount of loans to be granted to Member States shall be limited to EUR billion 50 in principal

2.1.2. *EU loan operations to non-Member States*

These operations are covered by the Fund. They relate to MFA, Euratom (Table A2b) and EIB guaranteed lending operations to third countries or Member States before accession to the EU (table A3).

TABLE A2b: European Union (MFA) and Euratom loans to Third countries (EUR million)
Period 01.01.2014 - 31.12.2014

Country	Decision	Date of decision	Availability Period (for Request for Funds)	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amounts decided	Amounts outstanding at 31.12.2013	Operations made in 2014		Amounts outstanding at 31.12.2014
							Amounts disbursed	Amounts repaid	
MFA					**1,001,737.0**	**564.6**	**1,360.0**	**96.0**	**1,828.6**
ALBANIA									
	2004/580/EC	29.04.04	closed	(c)	9.0	9.0			**9.0**
ARMENIA									
	2009/890/EC	30.11.09	closed	(c)	65.0	65.0			**65.0**
BOSNIA AND HERZEGOVINA						128.0		4.0	**124.0**
	99/325/EC	10.05.99	closed	(c)	20.0				
	02/883/EC	09.11.02	closed	(c)	20.0				
	2009/891/EC	30.11.09	closed	(c)	100.0				
FYROM						43.6		10.0	**33.6**
	97/471/EC	22.07.97	closed	(c)	40.0				
	99/733/EC	08.11.99	closed	(c)	50.0				
GEORGIA									
	778/2013/EU	12.08.13	24/06/2017	(d)	23.0	0.0			**0.0**
JORDAN									
	1351/2013/EU	11.12.13	18/03/2016	(d)	180.0	0.0			**0.0**
KYRGYZ REPUBLIC									
	1025/2013/EU	22.10.13	not yet fixed ***	(d)	15.0	0.0			**0.0**
LEBANON									
	2007/860/EC	21.12.07	closed	(b)	50.0	25.0		25.0	**0.0**
MONTENEGRO*						6.2		1.0	**5.2**
	2001/549/EC*	16.07.01	closed	(c)	225.0				
	2002/882/EC*	09.11.02	closed		55.0				
SERBIA *						283.8		52.0	**231.8**
	2001/549/EC*	16.07.01	closed	(c)	225.0				
	2002/882/EC*	09.11.02	closed	(c)	55.0				
	2009/892/EC	30.11.09	closed	(b)	200.0				
TADJIKISTAN									
	2000/244/EC	20.03.00	closed	(b)	75.0	4.0		4.0	**0.0**
TUNISIA	534/2014/EU	15.05.14	not yet fixed ***	(d)					
UKRAINE						0.0	1,360.0		**1,360.0**
	2002/639/EC	12.07.02	closed	(c)	110.0				
	2010/646/EC	7.07.10	not yet fixed ***	(b)	500.0				
	2014/215/EU	14.04.14	closed	(c)	1,000,000.0				
EURATOM						**28.9**	**0.0**	**5.4**	**23.5**
UKRAINE (Euratom)	94/179/EC	21.03.94		(c)	EUR equivalent ****	**28.9**		**5.4**	**23.5**
		15.03.07		(c)	39.0 EUR				
		06.10.08		(c)	22.0 USD				
		15.10.09		(c)	10.3 USD				
					of USD 83 million				
TOTAL						**593.5**	**1360.0**	**101.4**	**1852.1**

* The decision refers to Serbia and Montenegro but the outstanding amounts of the two countries have been split as of 01.01.11 following the signature of the loan agreement with Montenegro on 09/02/2010 confirmed by Serbia on 24/11/2010

** Means that the Council Decision did not foresee any expiry date and the total amount has not been disbursed

*** Means that the Memorandum of Understanding and the Loan Agreement have not been signed or have not entered into force

**** Including exchange rate valuation

2.1.3. Guarantees given to the EIB

The EU provides a guarantee in respect of financing granted by the EIB under the external mandates.

The guarantee given to the EIB depends on the Mandate under which the loans are granted. The EU guarantee is limited as detailled below[1]:

- 75% of the total amounts of loans signed in the Mediterranean countries based on the Mediterranean protocols of 1977 and Council Regulations 1762/92/EEC and 1763/92/EEC;

- 70% of the total amounts of loans signed as part of lending operations with certain non-Member States authorised by Council Decisions 96/723/EC, 97/256/EC, 98/348/EC and 98/729/EC;

- the 65% guarantee rate covers three different mandates:

- regarding the 2000/2007 Mandate, the EU budget guarantee is restricted to 65% of the aggregate amount of credits opened (i.e. loans signed and not cancelled) plus all related sums authorised by Council Decisions 1999/786/EC[2] and 2008/580/EC (codified version)[3];

- for the last two Mandates (2007-2013 and 2014-2020), the EU budget guarantee is restricted to 65% of the aggregate amount of credits disbursed and guarantees provided under EIB financing operations, less amounts reimbursed, plus all related amounts authorised by Decisions No 1080/2011/EU[4]and No 466/2014/ EU[5].

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1 Within each portfolio individual EIB loans are, de facto, guaranteed at 100% until the global ceiling is reached.

2 OJ L 308, 3.12.1999, p. 35.

3 OJ L 186, 15.7.2008, p. 30.

4 Decision No 1080/2011/EU of the European Parliament and of the Council of 25 October 2011 granting an EU guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Union and repealing Decision No 633/2009/EC (OJ L 280, 27.10.2011, p. 1).

5 Decision No 466/2014/EU of the European Parliament and of the Council of 16 April 2014 granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union (OJ L135 of 8.5.2014, p.1).

TABLE A3: EIB FINANCING OPERATIONS WITH EU GUARANTEE at 31.12.2014 (in EUR million)

Operations	Authorised ceiling	Net signatures (a)	Amounts disbursed	Outstanding capital
Mandate 2014/2020:	**27,000**	**2,095**	**8**	**8**
Pre-Accession countries	8,739	200	-	-
Neighbourhood and Partnership countries:	14,437			
Mediterranean countries	9,606	390	-	-
Eastern Europe, Southern Caucasus and Russia	4,831	1,090	8	8
Asia and Latin America:	3,407			
Latin America	2,289	300	-	-
Asia	936	45	-	-
Central Asia	182	70	-	-
South Africa	416	-	-	-
Mandate 2007/2013:	**29,484**	**29,026**	**15,842**	**14,984**
Pre-Accession countries	9,048	9,121	6,215	5,941
Neighbourhood and Partnership countries:	13,548			
Mediterranean countries	9,700	9,325	4,869	4,669
Eastern Europe, Southern Caucasus and Russia	3,848	3,930	1,273	1,180
Asia and Latin America:	3,952			
Latin America	2,912	2,543	1,917	1,771
Asia	1,040	1,219	460	421
South Africa	936	936	635	528
Climate change mandate	2,000	1,953	473	474
Mandate 2000/2007(3):	**20,060**	**18,717**	**17,906**	**10,046**
Pre-Accession countries	10,235	6,712	6,205	4,208
Neighbourhood and Partnership countries	6,520	5,896	5,674	3,516
Asia and Latin America	2,480	2,105	2,105	510
South Africa	825	817	817	255
Member States (following the accession)2		3,187	3,105	1,557
sub-total 65 % (1)	**76,544**	**49,839**	**33,756**	**25,038**
Financial agreements (70% Guarantee rate)	**7,477**			
Pre-Accession countries	3,770	477	477	156
Neighbourhood and Partnership countries	2,310	1,587	1,587	207
Asia and Latin America:	1,022	809	809	38
South Africa	375	375	375	43
Member States (following the accession)2		3,235	3,235	674
sub-total 70 % (1)	**7,477**	**6,482**	**6,482**	**1,118**
Financial agreements (75% Guarantee rate)	**7,712**			
Pre-Accession countries	1,350	590	590	16
Neighbourhood and Partnership countries	6,362	4,478	4,478	190
Member States (following the accession)2		1,980	1,980	6
sub-total 75 % (1)	**7,712**	**7,047**	**7,047**	**213**
Financial agreements (100% Guarantee rate)	**6,653**			
Pre-Accession countries	4,700	29	29	0
Neighbourhood and Partnership countries	750	315	315	278
Asia and Latin America	903	710	710	21
South Africa	300	285	285	0
Member States (following the accession)2		3,982	3,982	78
sub-total 100 % (1)	**6,653**	**5,320**	**5,320**	**377**
Total	**98,386**	**68,688**	**52,606**	**26,746**

(1) Percentage figures relate to the Guarantee rate.

(2) Loans to Member States were drawn from 'Pre-Accession countries' or from 'Neighbourhood and Partnership countries' ceilings.

(3) Including Turkey Terra and Special Action Turkey.

(a) Net signatures equal amounts signed less cancellations

ANNEX TO TABLE A3 **COUNCIL DECISIONS GRANTING AN EU GUARANTEE TO THE EIB**

Geographical Area/Mandate	Decision	Date of decision	Rate of guarantee	Date of the Guarantee Agreement	Amount decided
MED. Financial protocols(1)		08.03.77	75% (2)	30.10.78/10.11.78	6,062
MED. Horizontal cooperation	1762/92/EEC	29.06.92	75% (2)	09.11.92/18.11.92	1,800
TOTAL MED. (3)					**7,862**
C and E Europe I	90/62/EEC(4)	12.02.90	100%	24.04.90/14.05.90	1,000
	91/252/EEC(5)	14.05.91	100%	19.01.93/04.02.93	700
C and E Europe II	93/696/EC(6)	13.12.93	100%	22.07.94/12.08.94	3,000
Asia, Latin America I	93/115/EEC	15.02.93	100%	04.11.93/17.11.93	750
Asia, Latin America Interim	96/723/EC	12.12.96	100%	18.03.97/26.03.97	153
Asia, Latin America Interim	96/723/EC	12.12.96	70%	21.10.97	122
South Africa	95/207/EC	01.06.95	100%	04.10.95/16.10.95	300
New mandates	97/256/EC(7)	14.04.97	70%	25.07.97/29.07.97	7,105
FYROM	98/348/EC	19.05.98	70%	29.07.98/07.08.98	150
Bosnia and Herzegovina	98/729/CE	14.12.98	70%	16.06.99/22.06.99	100
Turkey Terra	99/786/EC	29.11.99	65%	18.04.00/23.05.00	600
Mandates 2000-2007	2000/24/EC(8)	22.12.99	65%	19.07.00/24.07.00 (11)	19,460
The Baltic Sea basin of Russia	2001/777/EC(9)	06.11.01	100%	06.05.02/07.05.02	100
Russia, Belarus, Rep. Of Moldova and Ukraine	2005/48/EC(10)	22.12.04	100%	21.12.05/09.12.05	500
Mandate 2007-2013	2006/1016/EC(12) (13)	19.12.06	65%	01.08.07/29.08.07 (14)	27,484
Climate change	1080/2011/EU (13)	13.10.11	65%	22.11.11	2,000
Mandate 2014-2020	466/2014/EU (14)	16.04.14	65%	22.07.14	27,000
TOTAL					**98,386**

(1) Including EUR 1,500 million for Spain, Greece and Portugal.
(2) General guarantee of 75% for all credits made available under lending operations under a guarantee contract signed between the Community and the EIB on 30.10.78 and 10.11.78.
(3) The Community has guaranteed EUR 5,497 million, of which EUR 141.5 million were covered by a 100% guarantee for Portugal.
(4) Poland, Hungary.
(5) Czech Republic and Slovak Republic, Bulgaria, Romania.
(6) Poland, Hungary, Czech Republic and Slovak Republic, Bulgaria, Romania, Baltic States and Albania.
(7) Central and Eastern Europe, Mediterranean, Asia and Latin America, South Africa.
(8) South-eastern Neighbours, Mediterranean countries, Latin America and Asia, Republic of South Africa, Special action Turkey, as amended (2005/47/EC).
(9) A special lending action for selected environmental projects in the Baltic Sea basin of Russia under the Northern Dimension.
(10) A special lending action for certain types of projects in Russia, Belarus,Republic of Moldova and Ukraine.
(11) Restated and amended in 2005.
(12) Pre-Accession countries, Neighbourhood and Partnership countries, Asia and Latin America, Republic of South Africa.
(13) The initial amount of EUR 25,800 has been increased up to EUR 29,484 million further to a Council and European Parliament Decision of 13.10.2011, granting an additional mandate of EUR 2,000 million to tackle climate change and an amount of EUR 1,684 million to foster EIB risk policy.
(14) The Decision establishes a fixed ceiling of EUR 27 billion + an optional additional amount of EUR 3 billion to be decided and activated in whole or in part following the mid-term review of the EIB Mandate.

2.2. Cumulative and annual EU budget guarantee exposures

With the amortization profile based on the existing loans disbursed it is possible to calculate the total capital exposure of the EU budget and the total capital and interest payments due to be received each year. The following table A4 includes the estimated amount of principal and interest due each financial year by each country according to disbursements made until 31 December 2014[6]. Data related to Member States are highlighted in yellow in the next table.

[6] For the purpose of this calculation, it is assumed that defaulting loans are not accelerated, i.e. only due payments are taken into account.

Table A4: Total Annual Risk borne by the Budget in EUR million based on the amounts (capital and interest) due under all operations (ATOM, BOP, EFSM, MFA and EIB) disbursed at 31.12.2014

Ranking	Country	Total repayments due	2015	2016	2017	2018	2019	2020	2021	2022	2023-2050
1	Portugal	31,426.83	684.46	5,434.13	553.50	1,153.50	539.25	539.25	7,289.25	3,040.50	12,193.00
2	Ireland	29,368.16	5,676.41	551.00	551.00	4,451.00	428.63	428.63	3,428.63	323.63	13,529.25
3	Turkey	9,184.86	535.91	538.19	982.45	575.75	936.82	574.96	590.64	562.78	3,887.37
4	Romania	7,122.61	1,882.54	313.27	1,453.27	1,604.09	1,188.75	143.32	113.95	96.15	327.28
5	Morocco	3,186.82	309.85	202.78	210.35	240.13	232.86	228.38	224.21	196.99	1,341.27
6	Tunisia	2,685.85	227.32	260.02	263.04	247.52	235.14	213.21	203.00	192.68	843.93
7	Ukraine	2,435.69	33.52	43.20	76.96	113.22	110.52	109.00	107.31	98.25	1,743.72
8	Egypt	2,240.13	204.19	213.94	235.62	235.58	229.24	191.93	180.58	131.10	617.95
9	Latvia	2,104.92	1,265.26	26.89	26.09	26.03	524.04	7.16	6.45	5.75	217.25
10	Serbia	2,060.24	242.00	199.70	196.26	210.98	173.70	124.89	110.32	103.17	699.24
11	Hungary	1,623.89	62.98	1,558.78	2.12	0.00	0.00	0.00	0.00	0.00	0.00
12	South Africa	1,133.29	86.27	91.04	89.05	107.69	67.43	90.67	72.71	68.61	459.81
13	Bosnia and Herzegovina	1,110.77	99.94	61.22	72.86	66.49	78.36	76.65	66.97	61.43	526.84
14	Brazil	975.34	256.97	255.07	91.30	52.86	151.15	98.11	25.60	11.34	32.93
15	Bulgaria	553.22	86.11	83.40	78.10	67.65	54.88	46.53	39.33	30.32	66.91
16	Israel	544.44	22.28	15.51	18.57	21.78	102.29	20.72	22.03	19.47	301.79
17	Jordan	521.72	33.50	31.23	33.89	36.84	36.26	35.06	34.46	37.32	243.14
18	Panama	474.80	3.00	3.25	3.82	3.82	49.18	48.75	48.32	47.89	266.77
19	Lebanon	469.12	86.90	80.83	71.13	65.47	47.21	33.90	25.59	17.56	40.54
20	Syria	445.08	56.96	56.09	55.71	55.33	54.53	52.18	31.35	26.37	56.55
21	Croatia	347.38	40.56	38.86	38.00	35.77	34.11	32.63	28.49	23.74	75.23
22	Georgia	330.62	8.36	14.69	26.80	27.71	28.20	25.82	23.64	18.08	157.33
23	Albania	293.72	23.52	23.20	26.78	26.36	26.85	26.69	25.43	21.00	93.90
24	Argentina	255.81	47.03	47.55	45.81	44.07	42.32	11.83	11.54	5.67	0.00
25	Russia	248.00	15.42	26.79	27.50	24.29	24.09	20.98	20.77	20.57	67.60
26	Montenegro	244.77	25.25	26.24	25.00	30.05	22.34	17.42	15.91	14.18	68.39
27	India	222.28	35.42	36.01	32.56	22.56	20.55	16.22	6.08	6.08	46.80
28	Vietnam	216.88	20.93	21.49	23.19	21.32	19.20	16.73	16.05	11.74	66.22
29	Poland	184.98	42.79	29.34	21.53	20.69	18.90	18.07	17.24	16.41	0.00
30	Czech Republic	175.69	45.73	43.66	25.93	13.16	12.62	12.07	11.53	10.99	0.00
31	FYROM	160.62	39.51	27.34	21.18	16.39	9.16	9.67	8.36	7.05	21.99
32	Republic of Moldova	157.65	3.56	7.55	10.56	13.94	14.46	16.82	16.65	14.78	59.34
33	Armenia	149.32	2.58	4.78	5.21	6.17	5.24	5.67	6.02	6.03	107.62
34	Sri Lanka	132.53	15.97	14.16	14.08	15.05	14.99	14.51	9.23	6.22	28.32
35	Slovak Republic	131.17	15.09	14.66	14.24	13.82	13.40	12.98	11.52	7.09	28.37
36	Colombia	110.86	27.89	27.50	27.50	19.22	7.91	0.84	-	-	0.00
37	China	99.68	10.61	5.10	5.78	6.59	7.00	7.43	7.71	5.53	43.91
38	Laos	74.28	2.95	2.98	3.02	3.05	3.10	3.15	3.21	3.27	49.54
39	Mexico	60.18	3.80	3.80	3.80	3.80	44.98	-	-	-	0.00
40	Nicaragua	57.51	-	0.44	1.33	2.24	3.23	4.32	4.22	4.11	37.63
41	Peru	52.56	17.39	14.30	14.30	5.99	0.59	-	-	-	0.00
42	Indonesia	46.86	13.71	8.98	8.98	6.62	5.71	2.86	-	-	0.00
43	Gaza West Bank	44.74	3.00	4.33	5.66	5.17	3.05	2.94	2.94	2.94	14.72
44	Philippines	42.82	12.40	11.07	6.80	2.52	2.32	2.28	2.23	1.91	1.28
45	Paraguay	37.06	16.47	12.35	8.24	-	-	-	-	-	0.00
46	Honduras	34.39	2.30	3.14	2.20	2.20	2.20	2.20	2.20	2.20	15.73
47	Maldives	24.81	5.90	5.85	3.94	3.94	3.50	1.69	-	-	0.00
48	Lithuania	22.64	4.78	4.60	4.42	3.49	2.74	1.83	0.78	-	0.00
49	Pakistan	22.19	6.95	4.95	4.12	4.12	2.06	-	-	-	0.00
50	Ecuador	21.11	4.73	4.68	4.68	4.68	2.34	-	-	-	0.00
51	Uruguay	11.11	4.47	4.43	2.21	-	-	-	-	-	0.00
52	Azerbaijan	8.20	-	2.14	2.08	2.02	1.95	-	-	-	0.00
53	Slovenia	6.48	4.39	2.09				-	-	-	0.00
	Grand Total	**103,696.69**	**12,379.79**	**10,518.57**	**5,532.55**	**9,742.73**	**5,639.33**	**3,350.93**	**12,872.45**	**5,280.88**	**38,379.46**
	Total MS	73,067.97	9,811.08	8,100.69	2,768.21	7,389.19	2,817.30	1,242.46	10,947.17	3,554.57	26,437.29
	Total non MS	30,628.72	2,568.71	2,417.89	2,764.34	2,353.53	2,822.03	2,108.47	1,925.27	1,726.31	11,942.17
	Percentage MS	70.46%	79.25%	77.01%	50.04%	75.84%	49.96%	37.08%	85.04%	67.31%	68.88%

2.3. Evolution of risk

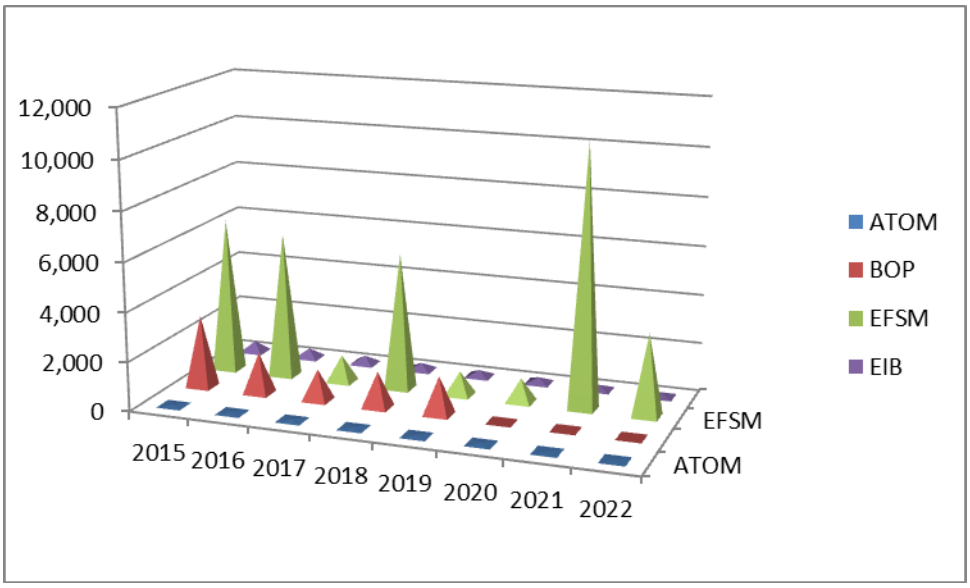
The evolution of risk corresponds to the schedule of the total annual repayments (amount in capital including interests due) under all financial instruments covered by the EU budget. In case of loans to Member States, the risk is *directly* covered by the EU budget. Regarding loans to third countries, the risk is covered in the first instance by the Fund.

The weight of EFSM (56% of the total oustanding) clearly highlights that most of the risk is nowadays directly borne by the EU budget, whereas before the financial crisis, EIB loans to non-Member States made up the highest exposure via the Fund.

2.3.1. EU loans operations to Member States

In 2014, non-Member States represented 70.5% of the EU budget exposure (cumulated total risk borne by the EU budget, see table A2 of the SWD) with the following breakdown between the financial instruments:

Graph A1: Total annual risk borne by the EU budget (EUR million) at 31.12.2014 for the period 2015-2022 (based on amortization plans of existing loans)

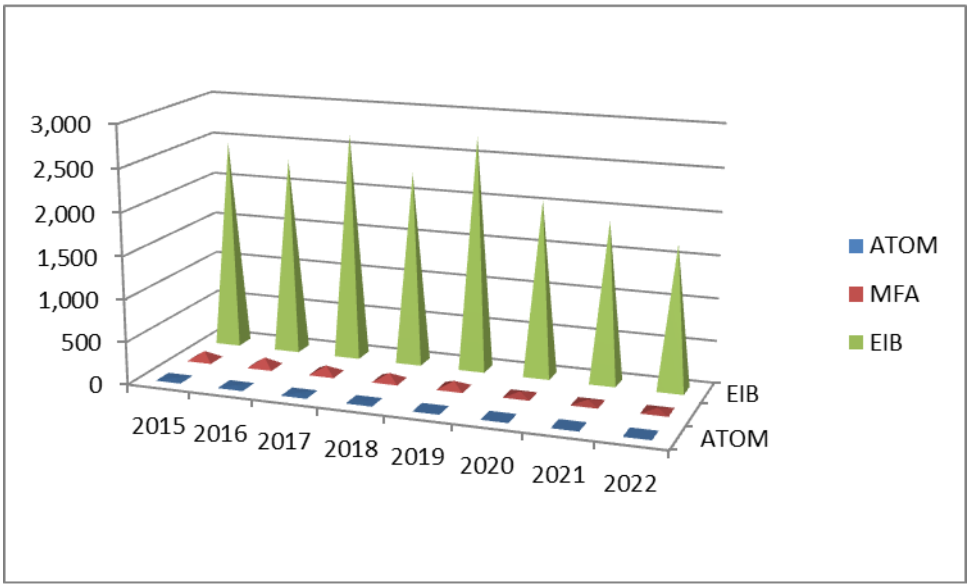


As Graph 1 illustrates, the main risk for the EU budget is linked to EFSM loans, which represent 80% of the total outstanding of Member States.

2.3.2. EU loans operations to non-Member States

In 2014, non-Member States represented 29.5% of the EU budget exposure (cumulated total risk borne by the EU budget, see table A2 of the SWD) with the following breakdown between the financial instruments:

Graph A2: Total annual risk borne by the EU budget (EUR million) at 31.12.2014 for the period 2015-2022 (based on amortization plans of existing loans)



As graph A2 illustrates that the weight of MFA and Euratom loans are marginal in the total annual risk in comparison with the EIB loans granted (these amounts include of loans signed and disbursed under all EIB mandates).

2.3.3. Guarantes given to the EIB

98,5% of the 2007-2013 EIB external Mandate has been signed but an amount of EUR 13,262 million still remains to be disbursed within 10 years from the end of the Mandate.

Table A5a: EIB loan balances remaining to be disbursed under 2007 - 2013 financial framework (at 31.12.2014)

EUR million

	Ceiling (a)	Net signatures (b)	Balances to be disbursed ©
A. Pre-Accession Countries	9,048	9,121	2,906
B. Neighbourhood and partnership countries	13,548	13,255	7,136
C. Asia and Latin America	3,952	3,762	1,417
D. South Africa	936	936	301
E. Climate Change Mandate (2011-2013)	2,000	1,953	1,455
	29,484	**29,026**	**13,214**

(a) During the last 6 months of implementation, EUR 100m was re-allocated from the Neighbourhood and Partnership countries to Pre-Accession.

(b) For the limited number of loan commitments signed in USD: conversion into EUR using the exchange rates at signature.

(c) For the limited number of loan commitments signed in USD: conversion of balance into EUR using exchange rate as at 31.12.2014.

The 2014-2020 Mandate covers EIB financing operations to be signed during the period from 1 January 2014 to 31 December 2020.

Table A5b: EIB loan balances remaining to be disbursed under 2014 - 2020 financial framework (at 31.12.2014)

EUR million

	Ceiling	Net signatures (b)	Balances to be disbursed
A. Pre-Accession Countries	8,739	200	200
B. Neighbourhood and partnership countries	14,437	1,480	1,474
C. Asia and Latin America	3,407	415	418
D. South Africa	416	0	0
	27,000	**2,095**	**2,092**

(a) For the limited number of loan commitments signed in USD: conversion into EUR using the exchange rates at signature.

(b) For the limited number of loan commitments signed in USD: conversion of balance into EUR using exchange rate as at 31.12.2014.

Risk factors

Factors increasing the risk:

- the interest on the loans must be added to the authorised ceiling;

- an additional factor to be considered is that some loans are disbursed in currencies other than the EUR. Due to exchange rate fluctuations, the ceiling may be exceeded when the amounts disbursed are converted into EUR at the year end.

Factors reducing the risk:

- the limitation of the guarantee given to the EIB;

- operations already repaid;

- the ceilings are not necessarily taken up in full;

- in some cases, notably private sector operations, the EU budget guarantee covers only well defined political risk events, with the EIB (or a third party guarantee) covering other risks (e.g. commercial).

2.4. Payment under the EU budget guarantees

The EU borrows on financial markets and on-lends the proceeds to Member States (balance of payment, EFSM) and to third countries (macro-financial assistance) or nuclear sector companies (Euratom).

Procedures have been set up to guarantee the repayments of the borrowings due by the EU and also the guarantees given in connection with the EIB financing operations.

2.4.1. EU loan operations

The loan repayments are scheduled to match the repayments of the borrowings due by the EU. If the recipient of the loan is in default, the Commission will first draw on its own cash resources to ensure a timely repayment of the EU borrowing on the contractual due date.

Should the amounts needed for the necessary cash coverage exceed, for a certain period or date, the available treasury funds of the Commission, the Commission would, in accordance with Article 12 of Council Regulation No 1150/2000[7], draw on additional cash resources from the Member States in order to fulfil its legal obligations towards its lenders.

In the case of BOP loans, where amounts to be reimbursed can be very high, the beneficiary Member States are required to transfer the amounts due to the European Central Bank 7 business days in advance of the contractual due date. This gives enough time for the Commission and Member States to provide for the cash advance to ensure timely repayment

[7] Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000 (OJ L 130, 31.5.2000, p.1) implementing Council Decision 2007/436/EC, Euratom of 7 June 2007 on the system of European Communities' own resources (OJ L 163, 23.6.2007, p. 17).

in case of default. The same process is being applied for the EFSM loans with 14 days lead time.

In a second step, the treasury situation would be regularised as follows:

<u>BOP and EFSM loans</u>

a) The Commission may need to propose a transfer or an Amending Budget to budget the cash advance under the corresponding budget line "01 02 02 European Union guarantee for Union borrowings for balance-of-payments support" or "01 02 03 European Union guarantee for Union borrowings for financial assistance under the European financial stabilisation mechanism".

b) The recovered funds will be re-paid to the EU budget.

<u>Euratom and MFA loans</u>

a) If the payment delay reaches three months after the due date, the Commission draws on the Fund to cover the default[8] and to replenish its treasury.

b) The Commission might also need to draw on the EU budget, most likely by means of a transfer, to provide the corresponding budget lines under articles "01 03 04 Guarantee for Euratom borrowings to improve the degre of efficiency and safety of nuclear power stations in third countries" or "01 04 03 Guarantee for Euratom borrowings" or "01 03 03 European Union Guarantee for Union borrowings for macro-financial assistance to third countries" with the necessary appropriations needed to cover the default. This method is used when there are insufficient appropriations in the Fund or if the borrower is a Member State and the transfers are likely to require advance authorisation by the budgetary authority.

c) The recovered funds may either be kept on the Fund account (the next annual provisioning from the EU budget being reduced accordingly) or re-paid to the EU budget.

2.4.2. Guarantees given to EIB

The EU provides a guarantee in respect of financing granted by the EIB under the external mandates. When the recipient of a guaranteed financing fails to make a payment on the due date, the EIB asks the Commission to pay via the Fund the amounts owed by the defaulting entity in accordance with the relevant guarantee agreement.

The guarantee call must be paid within three months of receiving the EIB's request, either from the Fund[9] or directly from the EU budget should the resources of the Fund be insufficient[10].

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8 Except for Bulgaria and Romania which were granted Euratom loans before joining the Union. The loans (and loans guarantees) to accession countries were covered by the Fund until the date of accession. From that date, those that remained outstanding ceased to be external actions of the Union and are therefore covered directly by the EU budget.

9 Since the entry into force of Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions (codified version), the "Guarantee Fund Regulation" (OJ L 145, 10.6.2009, p.10), the agreement between the EU and the EIB on the management of the

The EIB administers the loan with all the care required by good banking practice and is obliged to seek the recovery of the payments due after the guarantee has been activated.

2.4.3. Default interest penalties for late payment

a) EU loans

- For loans granted by the EU, default interest is owed by loan beneficiaries for the time between the date at which cash resources are made available by the EU budget and the date of repayment to the EU.

b) EIB loans

- For EIB loans, EIB is entitled to default interest which is calculated during the period between the due date of a defaulted loan instalment and the date of receipt of the cash resources by the EIB from the Commission. From the latter date, default interest is due to the Commission.

3. COUNTRY-RISK EVALUATION

Countries benefitting from EU loans and/or representing important risks to the EU budget, and either categorised as "severely indebted" according to criteria set by the World Bank or facing significant imbalances in their external or debt situation, are included in the country risk evaluation.

The evaluation presented below comprises short macroeconomic analyses and tables of risk indicators. The evaluated countries are grouped in 6 sub-sections: (3.1.) Member States, (3.2.) Candidate countries, (3.3.) Potential candidate countries, (3.4.) ENP countries, (3.5.) Mediterranean partners and (3.6.) Other countries.

Explanatory notes for country-risk indicators

Abbreviations used in tables

S&P: Standard and Poor's
FDI: Foreign Direct Investment
GD: Gross Domestic Product
CPI: Consumer Price Index
est.: Estimates
m EUR: EUR million
n.a.: not available

Fund foresees that the Commission must authorise the Bank to withdraw the corresponding amounts from the Fund within three months from the date the EIB calls on the guarantee.

10 If there are insufficient resources in the Fund, the procedure for activating the guarantee is the same as for borrowing/lending operations, see 0 above.

Standard footnotes used in the table

1) Includes only EU and EIB loans (outstanding disbursements) to CEEC[11], NIS[12] and MED[13].

2) The higher the ranking number, the lower the creditworthiness of the country. Countries are rated on a scale of zero to 185 or to 100 (the number of countries has been reduced from 185 to 100 from January 2011). 185, respectively 100, represents the highest risk of default. A given country may improve its rating and still fall in the ranking if the average global rating for all rated countries improves.

3.1. Member States

3.1.1. Bulgaria

Economic growth has been subdued in Bulgaria in the post-crisis period. Real GDP growth is expected to have reached 1.4% in 2014, compared to 1.1% in 2013. Last year growth was mainly driven by private consumption and government investment, while net exports and private investment had a negative contribution. The current-account deficit has been broadly balanced since 2010 and posted a small surplus in 2014. The inflation rate has remained negative since mid-2013. In 2014, this reflected a broad-based decline in import prices, weak domestic demand pressures, and lowered administratively-set prices (mainly for energy, telecom and healthcare services).

The banking sector experienced significant turbulence in the summer of 2014, when two domestically-owned banks experienced bank runs spurred by rumours of their instability. One of the banks was put under special administration by the central bank for a period of five months and a review of the bank's assets and business practices was conducted. As a result, the bank was found to have negative equity and its licence was revoked. The other bank received liquidity support from the government, approved by DG COMP under state-aid rules. The support is scheduled to last until mid-2016.

Public finances deteriorated markedly in 2014, with a general-government deficit reaching 3.4% of GDP, compared to a 1.2% deficit in 2013. Further deficits around 3% of GDP per year are planned for 2015 and 2016. In addition, the government borrowed funds to support the financial sector, including the liquidity support and guaranteed deposits pay-outs. As a result, government gross debt is expected to increase from 18.3% of GDP in 2013 to 27% of GDP in 2014 and exceed 30% of GDP by the end of 2016.

[11] Central and Eastern European Countries.
[12] New Independent States.
[13] Mediterranean countries.

Country-risk indicators : Bulgaria		2012	2013	2014
Output and prices				
Real GDP growth rate	(%)	0.5	1.1	1.4
Unemployment (end of period)*	(% labour force)	12.3	13.0	11.7
Inflation rate (CPI) (Dec/Dec)	(% change)	3.0	0.9	-1.0
Public finances				
General government balance	(% of GDP)	-0.5	-1.2	-3.4
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	26,437	28,071	28,110
Current account balance	(% of GDP)	-0.7	2.2	1.7
Net inflow of foreign direct investment	(m EUR)	1,142	1,275	1,182
Official reserves, including gold (end of period)	(m EUR)	15,553	14,426	16,534
In months of subsequent year's imports	(months)	7	6	7
Exchange rate (end of period)	(per EUR)	1.96	1.96	1.96
External debt				
External debt (end of period)	(m EUR)	3,580	3,412	5,056
External debt/GDP	(%)	8.7	8.3	12.1
Debt service/exports of goods and services	(%)	NA	NA	NA
Arrears (on both interest and principal)	(%)	NA	NA	NA
Debt relief agreements and rescheduling	(m EUR)	NA	NA	NA
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	702.0	639.0	553.0
EU exposure/total EU exposure	(%) (1)	0.7	0.6	0.5
EU exposure/external debt	(%)	19.6	18.7	10.9
EU exposure/exports of goods and services	(%)	2.7	2.3	2.0
IMF arrangements				
Type: Extended Fund Facility/Extended Credit Facility		NA	NA	NA
Started June 2010 - completed June 2013		NA	NA	NA
On track		NA	NA	NA
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)				Baa2
S&P long-term foreign currency rating (end of period)				BB+
Fitch long-term foreign currency rating (end of period)				BBB-

3.1.2. *Hungary*

After a moderate growth of 1.5% in 2013, the Hungarian GDP grew by 3.6% in 2014. On the demand side, gross fixed capital formation grew by more than 10%, mainly on account of public investment, boosted by EU fund absorption. Private investment was supported by the central bank's Funding for Growth Scheme of subsidised loans to SMEs. Household consumption continued to grow on the back of rising real incomes. With growth accelerating, employment reached 4.2 million in the last quarter of 2014, a level not seen since the early 1990s. However, sizeable employment gains were due to the extension of the public work scheme. In 2014, inflation fell to a historically low rate of well below -0.2%, as a result of three successive waves of cuts in regulated energy and other utility prices in 2013-2014, the fall in oil prices as well as historically low inflationary pressures from the euro area. The external balance of goods and services decreased to around 7% of GDP in 2014 from 7.6% in 2013. At the same time the balance of primary incomes and current transfers decreased in absolute terms, so the current account remained broadly unstable at around 4% of GDP.

The still high Hungarian government debt has been decreasing since the beginning of the decade, which was facilitated by a sizeable capital transfer from the takeover of mandatory second pillar pension schemes as well as by a primary surplus maintained since 2012. Compared to the peak level of 81% in 2011, the government gross debt-to-GDP ratio is forecast to reach 76% by 2016. In the medium term up to 2025, the Commission's baseline projection indicates a steady decline of government debt progressing towards the threshold value mainly due to the projected savings in age-related expenditures. Nevertheless, vulnerabilities remain with a relatively high sensitivity of the debt-reduction path to adverse macroeconomic shocks and exchange rate movements.

Hungary faces declining but still substantial financial needs, which are expected to amount to around 20% of GDP in 2015 and 2016. Debt financing is supported by favourable market conditions. The sovereign bond market proved rather resilient in recent months amid heightened economic and geopolitical risks allowing for larger issuances at historically low yields. Financial buffers of the government stay at a comfortably high level, currently above 7% of GDP. In addition, the high level of FX reserves (some EUR 35.1 billion) of the central bank provides an additional safeguard against liquidity shocks and other funding risks, covering around four and half months of imports. With the EUR 2 billion repayment of the second tranche of the EU balance of payments loan in early November, Hungary has already repaid over 70% of the originally disbursed amount, and the country's repayment capacity remains sound.

Country-risk indicators : Hungary		2012	2013	2014	
Output and prices					
Real GDP growth rate	(%)	-1.5	1.5	3.3	**
Unemployment (end of period)*	(% labour force)	11.0	10.2	7.7	**
Inflation rate (CPI) (Dec/Dec)	(% change)	5.7	1.7	-0.2	
Public finances					
General government balance	(% of GDP)	-2.3	-2.4	-2.6	**
Balance of payments					
Exports of goods and services f.o.b.***	(m EUR)	86,423.9	89,197.0	n.a.	
Current account balance	(% of GDP)	1.7	4.2	4.1	**
Net inflow of foreign direct investment	(m EUR)	-2,020.8	-373.1	n.a.	
Official reserves, including gold (end of period)	(m EUR)	33881.3	33782.5	n.a.	
In months of subsequent year's imports	(months)	5.0	4.7	n.a.	****
Exchange rate (end of period)	(per EUR)	291.3	296.9	314.9	
External debt					
External debt (end of period)*****	(m EUR)	97362.6	89131.5	n.a.	
External debt/GDP*****	(%)	98.7	88.7	n.a.	
Debt service/exports of goods and services*****	(%)	22.2	23.5	n.a.	
Arrears (on both interest and principal)	(%)	none	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	none	
Indicators of EU exposure					
EU exposure (capital and interest due)	(m EUR)	3,886.0	3,752.0	1,623.0	
EU exposure/total EU exposure	(%) (1)	3.7	3.6	1.6	
EU exposure/external debt	(%)	4.0	4.2	n.a.	
EU exposure/exports of goods and services	(%)	4.5	4.2	n.a.	
IMF arrangements					
Type	Stand-by arrangement, SDR 10.5 bn (amount drawn until September 2009: SDR 7.6 bn)				
Date	Approved on 06/11/2008 - expired on 05/10/2010				
Status	All outstanding obligations were repaid in August 2013 (ahead of schedule)				
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)		Ba1	Ba1	Ba1	
S&P long-term foreign currency rating (end of period)		BB	BB	BB	
Fitch long-term foreign currency rating (end of period)		BB+ (FX credit) BBB- (HUF credit)	BB+ (FX credit) BBB- (HUF credit)	BB (FX credit) BBB- (HUF credit)	

* *Some numbers may differ from previous reporting due to the release of final data replacing preliminary estimates, changes in National Accounts and BOP standards*

** *Source: Commission services' 2015 winter forecast*

*** *The figure was recalculated with the end-of-the-year official MNB exchange rate*

**** *Calculation based on Commission services' 2015 winter forecast for imports*

***** *Excluding direct investment debt instruments*

3.1.3. Ireland

After two years of near zero growth, real GDP grew by 4.9% y-o-y in the first three quarters of 2014, setting the ground for a strong expected annual growth rate of at least 4.7% in 2014. Growth has been driven by net exports and investment. Yet, some uncertainty underlies net export figures, which are driven to some extent by the production of goods abroad on behalf of Irish companies. Household spending did not grow significantly in real terms in 2014, although some of this sluggishness is due to statistical effects — employment figures, retail sales and tax receipts all point to a recovery in consumption that should become apparent in 2015. Inflation remained lower than the euro-area average for the 6th consecutive year at 0.3% in 2014. Low energy prices pushed the HIPC index down to -0.3% y-o-y in December 2014. Unemployment fell steadily throughout 2014 to 10.6% in December. However, long-term unemployment remained high at 46% of claimants at the end of the year.

The Irish domestic banks' performance continued to improve, though challenges remain. Albeit declining gradually, non-performing loans remain high at about 25% of total loans in 2014 and private-sector debt at 278.3% of GDP at end Q3-2014. Two of the three main domestic banks turned profitable in 2014. The government recapitalised the three main Irish banks in 2011 and one restructuring plan is still being formulated and awaiting approval by the European Commission. Bank liquidity and funding have continued to improve with expanding market access, while the regulatory and supervisory framework has been strengthened. In 2014, the government deficit is forecast to drop to around 4.0% of GDP, down from 5.7% in 2013. This reduction reflects the effects of strong economic growth, windfall revenues and lower debt servicing costs. Tax revenues increased by 9.2% in 2014 but spending pressures vis-à-vis the budgeted profile intensified. Unlike in previous years, sizeable budget overruns in the health service were not offset by savings in other departments. In structural terms, the deficit is estimated to have improved by 0.9 pps. to 3.9% of GDP. Gross government debt is projected to fall to 110.8% of GDP in 2014, down from 123.3 % in 2013, mostly due to the liquidation of the Irish Banking Resolution Corporation.

Country-risk indicators : Ireland		2012	2013	2014	
Output and prices					
Real GDP growth rate	(%)	-0.3	0.2	4.8%	*
Unemployment (end of period)	(% labour force)	14.7	13.1	11.1	
Inflation rate (CPI) (Dec/Dec)	(% change)	1.9	0.5	0.3	
Public finances					
General government balance	(% of GDP)	-8.0	-5.7	-4.0	*
Balance of payments					
Exports of goods f.o.b.	(m EUR)	90,900.0	86,100.0	101,500.0	
Current account balance	(% of GDP)	1.6	4.4	5.2	
Net inflow of foreign direct investment	(m EUR)	-23,288.0	-9,835.0	13,876.0	***
Official reserves, including gold (end of period)	(m EUR)	1,334.0	1,230.0	n/a	
In months of subsequent year's imports	(months)	0.2	0.2	n/a	
Exchange rate (end of period)	(per EUR)	n/a	n/a	n/a	
External debt					
External debt (end of period) (IFSC only)	(m EUR)	467,075.7	470,014.4	356,045.7	***
External debt/GDP	(%)	276.4	277.6	200.8	***
Debt service/exports of goods and services	(%)	n/a	n/a	n/a	
Arrears (on both interest and principal)	(%)	n/a	n/a	n/a	
Debt relief agreements and rescheduling	(m EUR)	n/a	n/a	n/a	
Indicators of EU exposure					
EU exposure (capital and interest due)	(m EUR)	29,744.0	29,079.0	29,368.0	
EU exposure/total EU exposure	(%)	28.5	28.3	28.3	
EU exposure/external debt	(%)	6.4	6.2	8.2	
EU exposure/exports of goods and services	(%)	32.7	33.8	28.9	
IMF arrangements	Extended Fund Facility: XDR 19.5 billion drawn down between 18 January 2011 and 18 December 2013 (XDR 7.65 billion repaid in December 2014 and XDR 2.83 billion repaid in February 2015) (**)				
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)		Ba1	Baa3	Baa1	
S&P long-term foreign currency rating (end of period)		BBB+	BBB+	A	
Fitch long-term foreign currency rating (end of period)		BBB+	BBB+	A-	

* *Source: 2015 Winter Forecast, European Commission.*

** *These repayments discharge all scheduled IMF principal repayment obligations that were originally to fall due from July 2015 to June 2019. Ireland plans to repay a total of XDR 15.7 of IMF loans in 2014 and 2015, subject to funding and market conditions. Subsequent repayments in 2015 will target loans falling due up to January 2021, subject to funding and market conditions.*

*** *Q1-Q3 2014. Source: Central Statistical Office of Ireland (CSO).*

3.1.4. Latvia

The Latvian economy grew by 2.4% in 2014, according to the latest estimate. Following a cumulative GDP contraction of about 20% in 2008-2010, the country experienced a steep recovery afterwards and was among the fastest growing in Europe over the past years. The growth outlook also remains favourable despite the slowdown in 2014 and the risks related to the Russia-Ukraine conflict. The year-average inflation, as measured by the harmonised index of consumer prices (HICP), increased from 0% in 2013 to 0.7% in 2014 and is projected to reach 2.2% in 2016. The unemployment rate for the age group of 15-74 fell to below 11% in 2014 from about 12 % in 2013. The rate is set to decline further to about 9% % in 2016.

Sound fiscal performance over the past years have stabilised the general government debt at levels well below the benchmark of 60% of GDP. The country's adoption of the euro as of 1 January 2014 is contributing to a further reduction in debt refinancing costs and the access to bond markets was further facilitated by a series of rating upgrades in 2013 and 2014. The general government debt stood at 40% of GDP in 2014 and is projected to decline to about 37% of GDP in 2015 as a repayment of EUR 1.2 billion under the EU financial assistance was made on 16 January 2015. With this repayment, Latvia has repaid a total of EUR 2.2 billion or 75% of its liabilities to the European Commission and has successfully concluded the postprogramme surveillance procedure. The general budget deficit expanded from 0.7% in 2013 to 1.4% in 2014, due mostly to a one-off expenditure related to a guarantee enactment.

Country-risk indicators : Latvia		2012	2013	2014
Output and prices				
Real GDP growth rate	(%)	4.8	4.2	2.4
Unemployment (end of period)*	(% labour force)	13.9	11.3	10.8
Inflation rate (CPI) (Dec/Dec)	(% change)	1.6	-0.4	0.2
Public finances				
General government balance	(% of GDP)	-0.8	-0.9	-1.5
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	13,412.9	13,710.4	13,856.6
Current account balance	(% of GDP)	-3.3	-2.3	-2.5
Net inflow of foreign direct investment	(m EUR)	713.5	370.3	210.0
Official reserves, including gold (end of period)	(m EUR)	5,684.1	5,783.2	4,490.2
In months of subsequent year's imports	(months)	5.1	5.1	3.9
Exchange rate (end of period, fixed, Euro adopted as of 01.01.2014)	(per EUR)	1.42	1.42	Euro
External debt				
External debt (end of period)	(m EUR)	30,253.9	30,501.2	33,761.3
External debt/GDP	(%)	137.2	131.6	140.1
Debt service/exports of goods and services	(%)	n.a.	n.a.	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	3,298.0	3,200.0	2,103.0
EU exposure/total EU exposure	(%)	3.2	3.1	2.0
EU exposure/external debt	(%)	10.9	10.5	6.2
EU exposure/exports of goods and services	(%)	24.6	23.3	15.2
IMF arrangements				
Type		Standby agreement		
(Date)		Started December 2008 - completed December 2012		
On track		Drawn amount of SDR 982mn is fully repaid		
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa3	Baa2	Baa1
S&P long-term foreign currency rating (end of period)		BBB-	BBB+	A-
Fitch long-term foreign currency rating (end of period)		BBB-	BBB+	A-

* *Some numbers may differ from previous reporting due to revisions made by national authorities (for 2011) or release of final data replacing*

3.1.5. Portugal

Portugal has experienced a modest economic recovery since spring 2013. In 2014 the Portuguese economy is estimated to have grown at 0.9%, after three years of GDP contraction. The recent economic growth has been driven by accelerating private consumption and investment, while the weak external environment exerts a drag on export performance. Short-run economic indicators and low commodity prices suggest that the domestic demand recovery should continue further. In 2014, the labour market improved faster than GDP; employment grew by 1.6% y-o-y and unemployment declined to 14.1%. However, over the medium term, the progress in labour market developments is expected to become more aligned with the economic expansion. HICP inflation fell to -0.2% in 2014, mostly due to the sharp decrease in energy prices, but it is expected to reach positive figures in the second half of 2015 as wages accelerate and oil prices stabilise. The adjustment of the external imbalances may have decelerated in 2014 and the current account balance is projected to recover marginally, mainly due to the outstanding performance in the tourism sector and improvements in terms of trade.

Fiscal consolidation continued in 2014, while the accumulation of arrears has been halted and the stock of arrears reduced. The general government deficit is estimated to have reached 4.6% of GDP at the end of 2014, down from 4.9% of GDP in 2013. Risks to the projection relate to the cash-accrual adjustments and to the one-off operation related to Novo Banco. The gross debt-to-GDP ratio is forecast to increase from 128% in 2013 to about 129% of GDP in

2014. The downward path is expected to materialise in 2015, supported by debt-reducing operations, the projected economic recovery and primary budget surpluses if fiscal discipline is maintained.

The stabilisation of the financial sector has been preserved. Most banks, to reinforce market confidence, decreased their loans-to-deposits leverage and raised capital, notwithstanding the low profitability environment. However, some financial institutions remain fragile, as non-performing loans have until recently risen and the deleveraging process in the private sector is still on-going. As a result, credit recovery continues facing obstacles, due to the timid economic growth and low inflation environment which also weigh on domestic banking sector profitability and firms' economic performance.

Since spring 2014, Portugal successfully established market presence with several medium- and long-term bond issuances. Regular auctions and syndications helped Portugal to meet its 2014 funding target and experienced significant market demand in early 2015. The Portuguese 10-year government bond remains at low yields at the beginning of 2015, around 2.5%, and represents a reduction by 250 bps vis-à-vis the interest rate one-year-ago.

Country-risk indicators : Portugal		**2012**	**2013**	**2014**
Output and prices				
Real GDP growth rate	(%)	-3.2	-1.4	0.9
Unemployment (end of period)	(% labour force)	15.9	16.5	14.1
Inflation rate (CPI) (Dec/Dec)	(% change)	1.5	0.2	-0.4
Public finances				
General government balance	(% of GDP)	-6.4	-4.9	-4.6
Balance of payments (estimates for 2014)				
Exports of goods and services f.o.b.	(mn EUR)	63,400.0	67,200.0	68,900.0
Current account balance***	(% of GDP)	-2.0	0.7	na
Net inflow of foreign direct investment	(bn EUR)	6.6	1.3	na
Official reserves, including gold (end of period)	(bn EUR)	17.2	12.7	na
In months of subsequent year's imports	(months)	3.2	2.3	na
Exchange rate (end of period)	(per EUR)	EUR	EUR	EUR
External debt				
External debt (end of period)	(mn EUR)	399,200.0	388,000.0	na
External debt/GDP	(%)	235.3	226.6	na
Debt service/exports of goods and services****	(%)	13.2	12.7	12.6
Arrears (on both interest and principal)	(%)	na	na	na
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	30,100.0	29,451.0	31,427.0
EU exposure/total EU exposure	(%) (1)	28.8	28.6	30.3
EU exposure/external debt	(%)	7.5	7.6	n.a.
EU exposure/exports of goods and services	(%)	47.5	43.8	45.6
IMF arrangements				
Type: Extended Fund Facility (EFF)		EFF	EFF	EFF
Started May 2011 - finalised in June 2014				
Completed*****		On track	On track	Completed
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba3	Ba3	Ba1
S&P long-term foreign currency rating (end of period)		BB	BB	BB
Fitch long-term foreign currency rating (end of period)		BB+	BB+	BB+

* *Quarterly National Accounts - Flash Estimate by the National Statistical Office.*

** *Commission services' 2015 winter forecast.*

*** *GDP in national account terms was still negative in 2013 (-0.3% of GDP) and it is projected to only improve up to -0.2% of GDP in 2014.*

**** *Debt service is defined as interests on public debt.*

***** *EUR 26.9bn were disbursed by the EFF, the last tranche of about EUR 0.9bn was not disbursed after the Portuguese government decided to lapse the Programme.*

Sources: Commission services, UNCTAD, Banco de Portugal, IMF, Moody's, S&P, Fitch.

3.1.6. Romania

The Romanian economy continued to register strong growth in 2014 with real GDP increasing by 2.9%. This follows a GDP expansion of 3.4% in 2013. In the Commission's 2015 winter forecast (2015WF), GDP is forecast to grow by 2.7% in 2015 and by 2.9% in 2016, driven by domestic demand and supported by a stable labour market and an expected gradual recovery in the global outlook. Private consumption is projected to remain strong whereas, after two years of contraction, investments are forecast to recover. Annual average inflation declined sharply from 3.2% in 2013 to 1.4% in 2014. It is forecast to remain moderate and reach an annual average of 1.2% in 2015 and of 2.5% in 2016. Unemployment was 6.8% at the end of 2014 and it is forecast to marginally decrease over the forecast horizon against a slowly declining working-age population.

After a strong adjustment in 2013, the current account is expected to remain broadly stable at around 1% of GDP in 2014-16. Net exports' contribution to growth remained positive in 2014 but it is expected to turn slightly negative in 2015 and 2016. Exports are forecast to continue increasing in 2015 and 2016 thanks to the expected recovery of Romania’s main trading partners, but the pace of growth will be slower. Imports are expected to rise at a faster rate, propelled by the strengthening of domestic demand. The stable external position shall reduce Romania's vulnerability to potential financial market volatility affecting emerging economies.

The ESA budget deficit in Romania is estimated to have been reduced to 1.8% of GDP in 2014, from 2.2% in 2013 (according to 2015WF). For 2015, the budget deficit is forecast at 1.5% of GDP. For 2016, it is projected to remain around 1.5% of GDP, benefiting from the expected acceleration in economic activity and based on the customary no-policy-change assumption. Government debt increased from 30.5% of GDP in 2010 to 38.0% of GDP in 2013. It is projected to increase slightly to around 39% before levelling off. Public debt is forecast to remain sustainable in the medium term.

Financial market conditions have significantly improved throughout 2014 even if some volatility was noticeable in early 2014 amid turmoil in emerging markets, in particular Turkey. The government bond market coped relatively well with geopolitical tensions and political uncertainty surrounding Greece sovereign financing conditions. Indicators of financing conditions such as CDS spreads or yields do not point to any major disruptions on the sovereign debt market. Recent auctions of government securities on the domestic market appear to have attracted more foreign investors. Sovereign refinancing conditions are likely to remain favourable this year as the effects of the FED's tapering might be outbalanced by the ECB's liquidity enhancing measures. The government is further optimising its debt management.

A third consecutive, joint EU/IMF financial assistance programme, which the authorities treat as precautionary, was formally agreed in autumn 2013. In 2014 and 2015, EC and IMF staff paid four visits to Romania in the context of the programme. It was not possible to conclude any review of the EC 2013-15 Balance of Payment programme so far. While progress was achieved in various, including important areas, no agreement could be reached on several key points.

Country-risk indicators : Romania		2012	2013	2014*
Output and prices				
Real GDP growth rate	(%)	0.6	3.4	3.0
Unemployment (end of period)	(% labour force)	6.8	7.0	6.4
Inflation rate (CPI) (Dec/Dec)	(% change)	3.3	1.6	1.1
Public finances				
General government balance	(% of GDP)	-3.0	-2.2	-1.8
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	50,184.7	56,670.8	60,188.0
Current account balance	(% of GDP)	-4.7	-1.2	-0.9
Net inflow of foreign direct investment	(m EUR)	211,916.0	231,616.2	244,034.9
Official reserves, including gold (end of period)	(m EUR)	35,413.0	35,434.5	35,505.7
In months of subsequent year's imports	(months)	7.5	7.3	7.0
Exchange rate (end of period)	(per EUR)	4.4	4.47	4.48
External debt				
External debt (end of period)	(m EUR)	99,680.6	98,068.9	94,259.2
External debt/GDP	(%)	75.8	68.9	63.9
Debt service/exports of goods and services**	(%)	4.7	4.4	4.1
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	7,789.0	7,466.0	7,122.0
EU exposure/total EU exposure	(%) (1)	7.5	7.3	6.9
EU exposure/external debt	(%)	7.8	7.6	7.6
EU exposure/exports of goods and services	(%)	15.5	13.2	11.8
IMF arrangements				
Type:	Stand-by arrangement			
Date:	2009-2011			
Status:	Drawn amount of SDR 10.6 bn, 5.2 bn to be repaid			
Type:	Precautionary Standby arrangement			
Date:	2011-2013			
Status:	Available amount of SDR 3.1 bn not drawn			
Type:	Precautionary Standby arrangement			
Date:	2013-2015			
Status:	On-going, available ammount of SDR 1.8 bn			
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		BAA3	BAA3	BAA3
S&P long-term foreign currency rating (end of period)		BB+	BB+	BB+
Fitch long-term foreign currency rating (end of period)		BBB-	BBB-	BBB-

* *Commission 2015 Winter Forecast*

** *Debt service is based on the fiscal*

3.2. Candidate countries

3.2.1. Former Yugoslav Republic of Macedonia

Growth picked up markedly in the first three quarters of 2014, averaging almost 4%, carried by strong investment and export activity. Household consumption growth gathered pace compared to the average of 2013, amounting to 3.1% y-o-y, stimulated by employment gains, a rise in real net wages and in pensions, and firming credit growth. The government delayed its fiscal consolidation strategy, and key reform measures on the expenditure side are yet to be laid out. The general government is likely to have exceeded the revised target of 3.7% of GDP, by some 0.4pp, in 2014, mainly on account of higher than anticipated rise in transfer payments in the second half of the year. General government debt is expected to have increased further in 2014, by over 3pp to some 38% of GDP, while public debt, taking into account high financing needs of state-owned enterprises, in particular for infrastructure projects, stood at some 46% of GDP at end-November. The National Bank phased out monetary relaxation against the background of firming domestic demand.

External vulnerabilities remained contained in 2014. In the four quarters to September 2014, the current account deficit amounted on average to 1.9% of GDP, almost unchanged from full-year 2013 (1.8%). Private transfers continued to provide the main support to the current account. In the first ten months, they were some 4% above their pre-year level, over-compensating the deficit in the goods and services trade balance. Merchandise exports are estimated to have grown strongly in 2014, on account of increased production by foreign companies. Imports rose markedly, due to import-intensive investment in public infrastructure and in new foreign capacities. Overall, the merchandise trade balance deteriorated slightly. Net FDI inflows were some 6.4% below their pre-year level during this period. At end-October, they stood at 2.3% of projected full-year GDP, compared to 2.6% one year earlier. Total gross external debt amounted to some 71% of GDP at the end of the third quarter, up from 68% a year earlier, mainly on account of a 500 mio Eurobond launched by the government in July, destined in large part to finance the repayment of 114 mio EUR in IMF loans and a 150 mio EUR Eurobond due in 2015. The level of external debt likely declined in the fourth quarter, as the government repaid 85 mio EUR in IMF loans. Government borrowing abroad led to a renewed increase in foreign exchange reserves in the second half of the year, which, at end-2014, comfortably covered about 5 months of prospective imports.

Country-risk indicators : The former Yugoslav Republic of Macedonia		2012	2013	2014	
Output and prices					
Real GDP growth rate	(%)	-0.4	2.7	3.9	f
Unemployment (end of period)	(% labour force)	31.0	29.0	28.5	f
Inflation rate (CPI) (Dec/Dec)	(% change)	3.3	2.8	0.7	f
Public finances					
General government balance	(% of GDP)	-4.2	-3.9	-4.0f	
Balance of payments					
Exports of goods and services f.o.b.	(m EUR)	3,374.0	3,552.1	3,007.0	Q3
Current account balance	(% of GDP)	-2.9	-1.8	-3.3	f
Net inflow of foreign direct investment	(m EUR)	117.3	263.8	212.0	Q3
Official reserves, including gold (end of period)	(m EUR)	2,193.3	1,993.0	2,432.2	
In months of subsequent year's imports *	(months)	6.1	5.7	6.5	Q3
Exchange rate (end of period)	(per EUR)	61.53	61.58	61.6	
External debt					
External debt (end of period)	(m EUR)	5,171.7	5,219.7	6,334.8	
External debt/GDP	(%)	68.2	64.3	74.9	e
Debt service/exports of goods and services	(%)	n.a.	n.a.	n.a.	
Arrears (on both interest and principal)	(%)	none	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	none	
Indicators of EU exposure					
EU exposure (capital and interest due)	(m EUR)	241.0	194.0	160.0	
EU exposure/total EU exposure	(%) (1)	0.2	0.2	0.2	
EU exposure/external debt	(%)	4.7	3.7	2.5	
EU exposure/exports of goods and services	(%)	7.1	5.5	5.3	
IMF arrangements					
Type		PCL	none	none	
(Date)					
On track		On-track	(post-program monitoring)	(post-program monitoring)	
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)		none	none	none	
S&P long-term foreign currency rating (end of period)			BB-	BB-	
Fitch long-term foreign currency rating (end of period)			BB+	BB+	

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

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

f *Commission Autumn 2014 Forecast.*

e *ECFIN estimation.*

3.2.2. *Montenegro*

The country recorded a mild recovery in 2014, reflecting failing industrial production and exports. In 2014, the year-average consumer price index contracted by 0.7%, driven by falling prices of food, communications and transport. The labour market recorded some marginal improvement in the third quarter of 2014, with the unemployment rate falling to 16.4% compared to 17.6% a year earlier, while the employment rate increased by 2.6 percentage points over the year. In the four quarters to September 2014, the current account deficit broadened to 15.5% of GDP, as merchandise exports declined substantially over the year and imports remained practically flat. The external deficit is being financed by FDI inflows which, together with other investments, fully covered the current account gap. No reliable statistics exist on international investment position, making it difficult to assess the country's net external debt. Yet, a cutback in capital inflows (notably on greenfield investments) remains a major risk as it would depress domestic demand and weaken fiscal performance given the reliance of public finances on indirect tax revenue from imports. In 2014, the central government budget deficit totalled 3% of GDP, compared to 5.3% gap a year earlier. Total budget revenue grew 8.6% y-o-y boosted by higher revenue from taxes and social contributions, while budget expenditures rose much more moderately (by 0.6% y-o-y). Public debt stood at 57.8% of GDP in November 2014 of which, public external debt accounted for 46.3% of GDP. On 14 November 2014, Standard & Poor's cut Montenegro's rating to B+ from BB- while maintaining the outlook stable on deteriorating fiscal metrics resulting from the imminent construction of a highway On 2nd December, Moody's changed the outlook on government bonds from stable to negative but affirmed the rating at Ba3, reflecting the country's high revenue generation capacity and favourable average funding costs supporting debt affordability.

Country-risk indicators : Montenegro		2012	2013	2014	
Output and prices					
Real GDP growth rate	(%)	-2.5	3.3	1.4	
Unemployment (end of period)	(% labour force)	19.7	19.5	19.3	f
Inflation rate (CPI) (Dec/Dec)	(% change)	4.1	2.2	-0.3	
Public finances					
General government balance	(% of GDP)	-5.6	-5.3	-3.0	f
Balance of payments					
Exports of goods and services f.o.b.	(m EUR)	1,389.4	1,390.1	1353.9	f
Current account balance	(% of GDP)	-18.7	-14.6	-14.2	
Net inflow of foreign direct investment	(m EUR)	461.6	323.9	256.4	Q3
Official reserves, including gold (end of period)	(m EUR)	347.9	423.7	544.9	Q3
In months of subsequent year's imports *	(months)	2.3	2.9	3.7	Q3
Exchange rate (end of period)	(per EUR)	1.00	1.00	1.00	
External debt					
External debt (end of period)	(m EUR)	3,603.2	2,936.5	3,854.7	
External debt/GDP	(%)	108.4	113.3	113.6	
Debt service/exports of goods and services	(%)	4.3	5.1	5.5	
Arrears (on both interest and principal)	(%)	none	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	none	
Indicators of EU exposure					
EU exposure (capital and interest due)	(m EUR)	204.0	218.0	244.0	
EU exposure/total EU exposure	(%) (1)	0.2	0.2	0.2	
EU exposure/external debt	(%)	5.7	7.4	6.3	
EU exposure/exports of goods and services	(%)	14.7	15.7	18.0	
IMF arrangements					
Type		none	none	none	
(Date)					
On track					
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)		Ba3	Ba3	Ba3	
S&P long-term foreign currency rating (end of period)		BB-	BB-	B+	
Fitch long-term foreign currency rating (end of period)		none	none	none	

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

** *flow up to and including Q3.*

f *Commission Winter 2015 Forecast.*

3.2.3. Serbia

Impacted by heavy floods in the spring and weaker external environment, the economy is estimated to have contracted by 2% in 2014. Domestic demand, which had already been a drag on growth, weakened further with all components registering negative growth rates in the third quarter. External imbalances deteriorated slightly and the current account deficit is estimated to have risen to around 6% of GDP. Price stability has been a remarkable achievement, as inflation remained on average at close to 2% in 2014. The National Bank reacted to the low inflationary environment, to first steps at fiscal consolidation and to the anticipated agreement with the IMF by cutting its key policy rate to 8% in November. In 2014, although budget execution was better than planned, the consolidated deficit has still turned out very high at an estimated 4.5% of GDP. While there is still no clarity on the medium-term fiscal strategy, the recently adopted set of consolidated measures, including a cut in pensions and government wages and the announced steps to restructure state-owned enterprises and reduce state exposure to them, have send a strong signal about government intentions to rein in fiscal imbalances. Government debt continued to increase in 2014, reaching close to 70% of GDP.

The dinar had remained broadly stable against the euro until late July, supported by central bank interventions, before coming again under depreciating pressures in the last few months of the year and losing some 5.5% y-o-y of its value against the euro. The foreign exchange reserves of the central bank fell to EUR 9.9 billion by the end of the year, covering over six months' worth of imports of goods and services. In November, the authorities reached a staff-level agreement on an economic program that could be supported by a 36-month precautionary Stand-By Arrangement with the IMF. The agreement is scheduled for approval by the IMF Executive Board in the second half of February 2015. There were no changes in Serbia's sovereign rating in 2014.

Country-risk indicators : Serbia		**2012**	**2013**	**2014**	
Output and prices					
Real GDP growth rate	(%)	-1.0	2.6	-2.0	e
Unemployment (end of period)	(% labour force)	23.9	22.1	20.2	f
Inflation rate (CPI) (Dec/Dec)	(% change)	12.2	2.2	1.7	
Public finances					
General government balance	(% of GDP)	-6.1	-4.7	-4.5	f
Balance of payments					
Exports of goods and services f.o.b.	(m EUR)	11,482.8	13,972.0	13,244.7	
Current account balance	(% of GDP)	-11.5	-6.1	-6.3	f
Net inflow of foreign direct investment	(m EUR)	690.6	1,256.5	1 010.6	Q3
Official reserves, including gold (end of period)	(m EUR)	10,914.7	11,188.8	10 270.5	Nov
In months of subsequent year's imports *	(months)	9.3	9.1	8.8	Q3
Exchange rate (end of period)	(per EUR)	113.01	113.09	117.25	
External debt					
External debt (end of period)	(m EUR)	25,645.0	25,788.0	26.400	f
External debt/GDP	(%)	80.9	75.3	79.8	f
Debt service/exports of goods and services	(%)	34.3	N.A.	N.A.	
Arrears (on both interest and principal)	(%)	none	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	none	
Indicators of EU exposure					
EU exposure (capital and interest due)	(m EUR)	2,102.0	2,174.0	2,060.0	
EU exposure/total EU exposure	(%) (1)	2.0	2.1	2.0	
EU exposure/external debt	(%)	8.2	8.4	7,803.0	
EU exposure/exports of goods and services	(%)	18.3	15.6	15.6	
IMF arrangements					
Type		none	none	none	
(Date)					
On track					
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)		none	B1	B1	
S&P long-term foreign currency rating (end of period)		BB-	BB-	BB-	
Fitch long-term foreign currency rating (end of period)		BB-	B+	B+	

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

f - Commission Autumn 2014 Forecast.

e - ECFIN estimation.

3.2.4. Turkey

Following a strong start, the Turkish economy slowed down significantly in the course of 2014. GDP growth declined from 4.8 % year-on-year in the first quarter to 1.7 % in the third quarter. Consumer spending softened in response to higher interest rates and macro-prudential measures to rein in household borrowing. Business investment contracted in the first half of the year and was still flat in the third quarter. Sluggish domestic demand was partly offset by improving net exports. Apart from monetary tightening, net exports benefitted from a more competitive exchange rate in the early part of the year and from sharply lower imports of non-monetary gold. Employment continued to expand strongly in 2014, but the labour force grew even faster, resulting in rising unemployment.

Inflationary pressures were fuelled by a lower exchange value of the Turkish lira and by a drought-related surge in food prices, particularly in the first half of 2014. End-of-year inflation increased by 0.8 percentage points to 8.2 %, which was above the central bank's 5 %

target for the fourth consecutive year. In January 2014, the central bank had tightened monetary policy significantly in the context of a broad sell-off of Turkish bonds and stocks and strong depreciation pressure against the lira. When the lira had recovered in the foreign exchange markets, the central bank lowered its key interest rate (the one-week repo rate) gradually from 10 % to 8.25 % in mid-2014. After a six-month pause, monetary policy easing was resumed in January 2015 with a 50 basis-point cut in the key policy rate. The current account deficit narrowed to EUR 34.5 billion in 2014, corresponding to an estimated 5.8 % of GDP. Export revenues (goods and services) increased by 5.4 % while much reduced gold imports lowered the overall import bill by 2.8 %. The central government recorded a budget deficit of 1.3 % in 2014, up by 0.1 percentage point from the preceding year. General government debt as a ratio of GDP has declined from 46 % in 2009 to around 34 % at the end of 2014.

Country-risk indicators : Turkey		**2012**	**2013**	**2014**
Output and prices				
Real GDP growth rate (1)	(%)	2.1	4.1	2.8
Unemployment (2)	(% labour force)	8.4	9.0	9.8
Inflation rate (CPI) (Dec/Dec)	(% change)	6.2	7.4	8.2
Public finances				
General government balance (3)	(% of GDP)	-0.3	-1.6	-1.5
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	159,555	158,163	166,694
Current account balance	(% of GDP)	-6.2	-7.9	5.8
Net inflow of foreign direct investment	(m EUR)	7,137	6,867	4,127
Official reserves, including gold, (end of period) (4)	(m EUR)	104,208	107,216	118,643
In months of subsequent year's imports	(months)	6.2	6.8	n.a.
Exchange rate (end of period)	(per EUR)	2.36	2.96	2.83
External debt				
External debt (end of period) (5)	(m EUR)	256,966	282,460	315,346
External debt/GDP (5)	(%)	42.9	47.3	50.2
Debt service/exports of goods and services	(%)	n.a.	n.a.	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	9,125	9,253	9,185
EU exposure/total EU exposure	(%)	8.7	9.0	8.9
EU exposure/external debt	(%)	3.6	3.3	2.9
EU exposure/exports of goods and services	(%)	5.7	5.9	5.5
IMF arrangements				
Type		none	none	none
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba1 /positive	Baa3 /stable	Baa3 /negative
S&P long-term foreign currency rating (end of period)		BB /stable	BB+/stable	BB+/negative
Fitch long-term foreign currency rating (end of period)		BBB- /stable	BBB- /stable	BBB- /stable

(1) 2014 figure based on 3 quarters
(2) Labour force 15 years and older, 2014 figure based on January - October
(3) General government balance for 2013 and 2014 from DG ECFIN Winter 2015 Forecast
(4) Gross International reserves, 2014 figure as of 30 November 2014
(5) 2014 figure as of 30 September

3.3. Potential candidate countries

3.3.1. Albania

Economic growth was still subdued in the first three quarters of 2014 at an estimated 1.4% year-on-year, but indirect indicators point to a firming of private consumption and investment. The clearance of a large portion of government arrears in 2014 improved private sector liquidity and confidence. The still negative output gap and the absence of supply-side shocks exerted little pressure on prices, leading to a deceleration of inflation to 1.6% in 2014, i.e. below the lower band of Bank of Albania (BoA)'s target range of 2%-4%. This created room for further monetary policy easing, with BoA lowering the key interest rate in several steps to an historic low of 2.25% in November 2014. Following twelve consecutive months of decline, lending has been on an upward trend since July 2014, but the continuing very high level of non-performing loans (24.9% in the third quarter of 2014), highlights remaining vulnerabilities in the banking sector, which is otherwise well capitalised and liquid.

The current account deficit widened by almost 30% year-on-year in the first three quarters of 2014 as a pick-up in imports, driven by strengthening domestic demand, outweighed the continued increase in exports. The primary income balance also worsened due to increased repatriation of investment income. On the other hand, remittances inflows stopped their long-standing decline. Overall, the current account deficit in the four quarters to September 2014 rose to 12.4% of GDP from 9.3% in the corresponding period a year earlier. Net FDI inflows in January to September 2014 decreased by 24% from the previous year (partly reflecting privatisation-related base effects) and financed 58% of the current account deficit in this period. On the financing side, Albania can also draw on resources made available to it under a three-year EUR 330 million IMF loan approved in February 2014. Following an annual increase of 2.2 %, foreign reserves stood at €2.1 billion in September 2014, covering 4.7 months of imports. The stock of gross external debt increased by 9.8 % year-on-year and stood at 65 % of projected full-year GDP in September. Long-term debt increased most and continues to make up more than 80 % of the total.

The 2014 budget outcome, at 5.1% of estimated full-year GDP, undershot the target of 6.3% that had already been revised downwards in September from the initial estimate of 6.6%. Reflecting rate hikes as well as efforts to improve tax collection, revenues increased by 12.1% year-on-year, broadly in line with the revised plan. However, it was the shortfall of expenditure (in particular operating expenses and investment spending) that kept the deficit below target. The 2015 budget raised excise and fuel taxes as well as the tax levied on capital income. This, coupled with an expected continuation of efficiency gains in tax collection, should create space for the continuation of arrears clearance, while starting to lower public debt which reached an estimated 71.3% of GDP in 2014.

Country-risk indicators : Albania		2012	2013	2014	
Output and prices					
Real GDP growth rate	(%)	1.6	1.4	1.7	f
Unemployment (end of period)	(% labour force)	13.8	16.4	17.5	f
Inflation rate (CPI) (Dec/Dec)	(% change)	2.0	1.9	1.6	
Public finances					
General government balance	(% of GDP)	-3.4	-4.8	-5.1	
Balance of payments					
Exports of goods and services f.o.b.	(m EUR)	3,180.7	3,412.1	2,676.0	Q3
Current account balance	(% of GDP)	-10.2	-10.6	-12.8	f
Net inflow of foreign direct investment	(m EUR)	727.2	923.2	526.0	Q3
Official reserves, including gold (end of period)	(m EUR)	1,907.7	1,955.7	2 063.4	Nov
In months of subsequent year's imports *	(months)	6.5	6.8	n.a.	
Exchange rate (end of period)	(per EUR)	139.04	140.26	140.10	
External debt					
External debt (end of period)	(m EUR)	5,512.7	6,177.4	6,618.1	Q3
External debt/GDP	(%)	57.4	63.6	65.4	e
Debt service/exports of goods and services	(%)	9.4	n.a.	n.a.	
Arrears (on both interest and principal)	(%)	none	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	none	
Indicators of EU exposure					
EU exposure (capital and interest due)	(m EUR)	287.0	301.0	294.0	
EU exposure/total EU exposure	(%) (1)	0.3	0.3	0.3	
EU exposure/external debt	(%)	5.2	4.9	4.4	
EU exposure/exports of goods and services	(%)	9.0	8.8	11.0	
IMF arrangements					
Type		none	none	EFF	
(Date)				28/02/2014	
On track				on track	
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)		B1	B1	B1	
S&P long-term foreign currency rating (end of period)		B+	B	B	
Fitch long-term foreign currency rating (end of period)		none	none	none	

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

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

e *ECFIN estimation.*

f *Commission Winter 2015 Forecast.*

3.3.2. Bosnia and Herzegovina

Even though the economic revival started in 2013 came abruptly to a halt in the second quarter of 2014 mainly as a result of the heavy spring floods, GDP growth in the first three quarters of 2014 remained in positive territory and stood at 1.1% year-on-year. In contrast to 2013 when the strong contribution of net exports was the main driver of economic growth, indicators for the first three quarters of 2014 point to a firming of private consumption despite a persistently high registered unemployment rate staying at 43.7% in the third quarter of 2014. However, on a positive note, the first eleven months of 2014 were featured by a strengthening credit activity in the household sector (5.7% year-on-year), which was however partly balanced off by a stagnating lending to the private non-financial corporate sector (1% year-on-year) with the growth of the latter turning even negative in November 2014. At the same time, the rising level of non-performing loans (16.1% of total loans in the third quarter of 2014) highlight remaining vulnerabilities in the banking sector, which is otherwise well-capitalised and liquid. The deflationary trend that started in August 2013 came eventually to a halt in October-November 2014 partly due to the one-off increase of the excise tax on tobacco as of August. Thus, annual CPI in November stood at 0% bringing the 12-month moving average inflation rate slightly up to -1%.

Following a substantial narrowing of the current account deficit in 2013, external imbalances started to widen again through January-September 2014 as a pick-up of imports could only partly be balanced off by the minor increase in exports. Accordingly, the current account deficit deteriorated markedly to 7.7% of GDP in the four quarters to September 2014 up from 5.9% of GDP in 2013. As of financing, net FDI inflows continued their downward trend to reach 2% of GDP in the third quarter of 2014 and covering thus only slightly less than a quarter of the current account deficit. Boosted by government borrowing, foreign exchange reserves increased by 11.2% on annual basis and stood at €3.9 billion in November 2014, covering 5.8 months of imports.

The heavy spring floods caused revisions of the budgets of the two entities and the Institutions of Bosnia and Herzegovina in 2014 with a view to providing emergency financing for the flooded areas. Accordingly, the fiscal deficit is expected to have increased to 4.5% of GDP in 2014, up from 0.8% of GDP as originally foreseen in the Global framework of fiscal balance and policies 2014-2016. On a positive note, however, preliminary data for the first three quarters of 2014 point towards a stronger-than-expected growth of revenues (4% year-on-year), mainly on the back of rising revenues from indirect taxes. This was, however, still in parallel with an equal rise of current spending (e.g. on social contributions and wages). Consequently, public foreign debt increased to 30.2% of GDP in September 2014, compared to 28.4% of GDP in 2013. Although the Stand-By Arrangement with the IMF remains on track, the eighth review could not be concluded in December 2014 and the disbursement of a tranche in the amount of approximately BAM 130 million has been postponed again as agreed measures to rein in public spending not related to the spring floods and to strengthen financial sector stability and banking supervision were not adopted on time.

Country-risk indicators : Bosnia and Herzegovina		2012	2013	2014
Output and prices				
Real GDP growth rate	(%)	-1.2	2.5	0.6
Unemployment (end of period)	(% labour force)	45.9	44.5	43.7
Inflation rate (CPI) (Dec/Dec)	(% change)	2.0	-0.1	-0.5
Public finances				
General government balance	(% of GDP)	-2.0	-2.2	0.5
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	3,949.7	4,187.6	3,356.4
Current account balance	(% of GDP)	-9.2	-5.9	-7.7
Net inflow of foreign direct investment	(m EUR)	259.8	224.2	340.3
Official reserves, including gold (end of period)	(m EUR)	3,327.8	3,614.0	3 941.8
In months of subsequent year's imports *	(months)	5.1	5.6	5.8
Exchange rate (end of period)	(per EUR)	1.96	1.96	1.96
External debt				
External debt (end of period)	(m EUR)	8,214.4	8,327.1	n.a.
External debt/GDP	(%)	62.6	62.1	n.a.
Debt service/exports of goods and services	(%)	12.6	13.7	14.8
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	874.0	1,025.0	1,111.0
EU exposure/total EU exposure	(%) (1)	0.8	1.0	1.1
EU exposure/external debt	(%)	10.6	12.3	n.a.
EU exposure/exports of goods and services	(%)	22.1	24.5	33.1
IMF arrangements				
Type		SBA	SBA	SBA
(Date)		41178	26-Sep-12	26-Sep-12
On track		on-track	on-track	on-track
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		B3	B3	B3
S&P long-term foreign currency rating (end of period)		B	B	B
Fitch long-term foreign currency rating (end of period)		none	none	none

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

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

3.4. ENP countries

3.4.1. Armenia

Economic growth slowed down from 3.5% in 2013 to 2.6% in 2014. This was mainly the result of the economic slowdown in Russia which led to a decline in exports and foreign inflows for Armenia. Average inflation receded from 5.8% in 2013 to 2.2% in 2014, as a result of the lower gas prices from Russia. Fiscal discipline was maintained thanks to expenditure restraint and to increased revenue collection. Despite the slowdown of the economy, the fiscal deficit is estimated to have widened to 2.3% of GDP in 2014 from 1% of GDP in 2013. The economy benefitted as well from the gas deal that Armenia reached with Russia at the end of 2013 saving around 1.5% of GDP in import cost.

External public debt was estimated at 43.7% of GDP (with the total public debt at 49% of GDP) at the end of 2014, a 16.2% increase from year-end 2013 due to the currency depreciation in late 2014. The total external debt to GDP ratio increased to 93.7% of GDP at year-end 2014 from 82% one year before.

The consolidation of the current account did not advance in 2014. The current account recorded an estimated 8.1% of GDP deficit in 2014 (from 8% in 2013 and 10.6% in 2012) as a result of a decline in exports (notably to Russia) and remittances in the second half of 2014. FDI continued to weaken: it is estimated to have reached around USD 360 million in 2014 shrinking by 28% compared to 2013. In this context, the Armenian Dram lost around 18% of its value against the USD in Q4 2014. This had a negative impact on Armenia's credit profile as Moody's and Fitch downgraded Armenia's default ratings to Ba3 and B+ respectively. Foreign reserves declined significantly as the Central Bank of Armenia intervened to smooth FX market conditions. The level of foreign reserves stood at around USD 1,573 million at year-end 2014, which is estimated to be equivalent to 4.1 months of next year's imports (from 5.4 months in 2013).

Armenia's financial sector remains well capitalised but relatively under-developed. Non-performing loans have increased as a result of the economic slowdown. Provisions for NPLs have had to be increased in response to the economic slowdown. The authorities aim at aligning the regulatory and supervisory framework with Basel III guidance as well as strengthening de-dollarisation policies.

On 22 of December 2014, the IMF Executive Board approved the first review of Armenia's IMF programme.

Country-risk indicators : Armenia		2012	2013	2014**
Output and prices				
Real GDP growth rate	(%)	7.1	3.5	2.6
Unemployment (end of period)*	(% labour force)	19.0	18.5	18.0
Inflation rate (CPI) (Dec/Dec)	(% change)	3.2	5.6	2.9
Public finances				
General government balance	(% of GDP)	-1.5	-1.0	-2.3
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	1,980.9	1,996.5	2,365.5
Current account balance	(% of GDP)	-11.1	-8.0	-8.1
Net inflow of foreign direct investment	(m EUR)	366.9	370.2	293.0
Official reserves, including gold (end of period)	(m EUR)	1,395.3	1,645.2	1,276.9
In months of subsequent year's imports	(months)	4.4	5.4	4.1
Exchange rate (end of period)	(per EUR)	497.7	554.7	565.1
External debt				
External debt (end of period)	(m EUR)	5,783.0	6,244.3	7,175.9
External debt/GDP	(%)	74.9	82.0	93.8
Debt service/exports of goods and services	(%)	22.1	42	24
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	104.0	122.0	149.0
EU exposure/total EU exposure	(%) (1)	0.1	0.1	0.1
EU exposure/external debt	(%)	1.8	2.0	2.1
EU exposure/exports of goods and services	(%)	5.3	6.1	6.3
IMF arrangements				
Type: Extended Fund Facility (EFF)		EFF/ECF	EFF/ECF	EFF
Started February 2014		Started June 2010 - completed June 2013	Started June 2010 - completed June 2013	Started in February 2014, 38-months duration
On track		On track	On track	On track
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba2	Ba2	Ba3
S&P long-term foreign currency rating (end of period)		none	none	none
Fitch long-term foreign currency rating (end of period)		BB-	BB-	B+

* IMF First Programme Review

** Numbers for 2014 are estimates

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

3.4.2. Ukraine

Following two years of stagnation, Ukraine's economy entered a deep recession in 2014 due to a confidence crisis as a result of a major separatist conflict in the eastern part of the country. This crisis was reflected in a sharp currency depreciation, as well as lower investment and consumption activity. The loss of productive capacity in the East, Ukraine's industrial hub, further contributed to the contraction of GDP by an estimated 7.1% in 2014. The weaker currency, coupled with significant increases in administered prices, resulted in acceleration of CPI inflation to 24.9% year-on-year in December 2014. Despite the introduction of various corrective measures (on both the revenue and expenditure side), the fiscal position of the country worsened as the overall fiscal deficit, including the deficit of the state-owned gas monopoly Naftogaz, rose to an estimated 10% of GDP in 2014 from 6.7% a year earlier. This high deficit, coupled with the currency depreciation and funds allocated in support of the banking sector, led to a strong worsening of public debt metrics with the debt-to-GDP figure reaching an estimated 72.4% of GDP at the end of 2014 from 40.3% a year earlier.

On the external front, an adjustment of the current account deficit (to 4.0% of GDP from 8.7% in 2013) driven by reduced imports was accompanied by sizeable private-sector financial outflows and payments for gas arrears. As a result, Ukraine's gross international reserves fell by nearly 60% (EUR 10 billion) in 2014 to only EUR 6.2 billion at the end of the year, or only 1.4 months of next year's imports. The drop of reserves took place despite official support of close to EUR 7 billion that Ukraine received in the year as part of the international support programme for the country that was led by the IMF. Out of this, the EU disbursed EUR 1.36 billion in loans to Ukraine under two macro-financial assistance programmes and provided EUR 250 million in budget support grants for institution building.

The confidence-driven recession and currency depreciation have acted as a drag on the banking sector. Bank deposits, adjusted for foreign exchange effects, fell by nearly a quarter in 2014, driven by a 31% drop of household savings despite various controls introduced by the central bank to limit the outflow. Weak economic activity and significant capitalisation needs faced by commercial banks translated into a 16% fall in the stock of credits in the year. The banking sector finished 2014 with a loss of UAH 53 billion, which resulted in a negative return on assets of 4.1%. The share of non-performing loans has been gradually increasing, reaching 19% at the end of 2014. In an attempt to stabilise the banking sector, the National Bank of Ukraine (NBU) started a clean-up of unviable banks by introducing temporary administration in a number of lenders, while simultaneously improving the operational and financial capacity of the Deposit Guarantee Fund. Based on the results of stress tests that were carried out for the major 35 commercial banks in 2014, the NBU also launched a comprehensive recapitalisation exercise for the sector.

Country-risk indicators : Ukraine		2012	2013	2014	
Output and prices					
Real GDP growth rate*	(%)	0.2	0.2	-7.1	**
Unemployment	(% labour force)	7.5	7.2	9.2	*
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.2	0.5	24.9	
Public finances					
General government balance**	(% of GDP)	-3.5	-4.8	-4.6	
Balance of payments					
Exports of goods and services f.o.b.	(m EUR)	70,077	64,364	51,770	
Current account balance	(% of GDP)	-8.1	-8.7	-4.0	
Net inflow of foreign direct investment	(m EUR)	5,600	3,071	311	
Official reserves, including gold (end of period)	(m EUR)	18,604	14,804	6,205	
In months of subsequent year's imports	(months)	2.9	3.3	1.4	**
Exchange rate (end of period)	(per EUR)	10.5	10.9	19.3	
External debt					
External debt (end of period)	(m EUR)	102,035	103,023	108,723	**
External debt/GDP	(%)	74.6	75.4	112.4	**
Debt service/exports of goods and services	(%)	65.9	76.7	85.1	**
Arrears (on both interest and principal)	(%)	none	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	none	
Indicators of EU exposure					
EU exposure (capital and interest due)	(m EUR)	343.0	549.0	2,436.0	
EU exposure/total EU exposure	(%) (1)	0.3	0.5	2.3	
EU exposure/external debt	(%)	0.3	0.5	2.2	
EU exposure/exports of goods and services	(%)	0.5	0.9	4.7	
IMF arrangements					
Type (Date) On track		SBA 15.2bn USD Jul 2010 - Dec 2012 Off track	none	SBA 17.0bn USD Apr 2014 - Mar 2016 On track	
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)		B3	Caa1	Caa3	
S&P long-term foreign currency rating (end of period)		B	B-	CCC-	
Fitch long-term foreign currency rating (end of period)		B	B-	CCC	

* *excluding the temporarily occupied territories of the Autonomous Republic of Crimea and the city of Sevastopol (EC staff estimate)*

** *does not include the deficit of state-owned Naftogaz (1.0% of GDP in 2012, 1.9% in 2013, 5.4% in 2014)*

3.5. Mediterranean partners

3.5.1. Egypt

Despite the gradual stabilisation of the political situation in Egypt, the underlying macroeconomic situation remains relatively weak and vulnerable, affected by large internal and external imbalances, and strongly dependent on substantial official inflows from the Gulf countries. Nevertheless, the Government has embarked on an ambitious, but reachable, reform path aimed towards fiscal consolidation and a better socially targeted and sustainable economic growth. Relations with the IMF have improved, with the first Article IV Consultation in over 4 years being completed in January 2015, but recent developments suggest that the Egyptian authorities will not seek a financial arrangement with the IMF in the short-term.

Real GDP growth, which decelerated to around 2% in the three fiscal years after the 2011 revolution, seems to be picking up and is forecast to reach 3.8% in FY 2014/15, mainly on the back of domestic consumption and large public investments. Monetary policy continues to be supportive of the growth momentum, but remains focused on containing inflationary pressures which could build up through ongoing currency depreciation and fiscal reforms, despite being on a downward trend since mid-2014. The unemployment rate remains at high levels, closing 2014 at over 13%, up from 9% prior to the 2011 revolution. Egypt's fiscal position remains at unsustainable levels, reaching a deficit of 13.6% of GDP in FY13/14 which was higher if taking into account the large grants provided by Gulf countries. The

Government has started to implement a fiscal consolidation plan which aims at reducing the fiscal deficit down to around 8% of GDP in FY2018/19, a still very high level. Total Government debt is expected to peak at around 90% of GDP this fiscal year, before gradually diminishing to a projected 80% of GDP in FY2018/19.

On the external side, the balance of payments remains vulnerable, mainly due to a persistently high trade deficit, although the current account deficit has been supported in the past few years by large official inflows from Gulf countries of around USD 20 billion. Reserves currently stand at around USD 16 billion, which represent an import cover ratio of just under 3 months.

Country-risk indicators : Egypt (1)		2011/2012	2012/2013	2013/2014
Output and prices				
Real GDP growth rate	(%)	2.2	2.1	2.2
Unemployment (end of period)*	(% labour force)	12.4	13.0	13.4
Inflation rate (CPI) (Dec/Dec)	(% change)	7.3	9.8	8.2
Public finances				
General government balance	(% of GDP)	-10.5	-14.1	-13.6
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	34,086.7	37,884.6	32,139.2
Current account balance	(% of GDP)	-3.9	-2.4	-0.8
Net inflow of foreign direct investment	(m EUR)	2,759.8	2,783.4	2,801.1
Official reserves, including gold (end of period)	(m EUR)	11,337.4	11,210.8	12,015.3
In months of subsequent year's imports	(months)	2.7	2.5	2.8
Exchange rate (end of period)	(EG£ per EUR)	7.41	9.11	9.74
External debt				
External debt (end of period)	(m EUR)	25,658.2	33,400.3	33,982.0
External debt/GDP	(%)	13.1	15.9	16.1
Debt service/exports of goods and services	(%)	5.6	5.7	6.6
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	2,303.0	2,087.0	2,240.0
EU exposure/total EU exposure	(%) (1)	2.2	2.0	2.2
EU exposure/external debt	(%)	9.0	6.2	6.6
EU exposure/exports of goods and services	(%)	6.8	5.5	7.0
IMF arrangements				
Type		no	no*	no
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		B2 /negative	Caa1/negative	Caa1/stable
S&P long-term foreign currency rating (end of period)		B /negative	CCC+	B-/stable
Fitch long-term foreign currency rating (end of period)		B+ /negative	B-	B/stable

(1) Fiscal year ends 30th June

** Sources: IMF, Ministry of Finance, Central Bank of Egypt, EIU*

*** The Government withthdrew its request for an IMF programme in mid 2011. Discussions were renewed in early 2012 and a Stand-By was agreed at Staff level in November 2012 but was not finalised and is not expected to be in the short-term.*

3.5.2. Lebanon

The Lebanese economy continues to be seriously affected by the conflict in Syria, in particular through the inflow of refugees, the disruption of its trade flows and the negative impact on investor confidence and tourism. The Syria war is also affecting Lebanon's delicate balance between religious and political groups, exacerbating its political stalemate and delaying critical structural reforms. Lebanon's real GDP growth, although still positive (it accelerated from 1.5% in 2013 to 1.8% in 2014), remains very weak and still below the levels of 2010. The expectations of a recovery in 2015 (GDP growth is forecasted (IMF) at 2.5%)

carry a high degree of uncertainty given the volatile political situation in the region. Average inflation decelerated to 1.9% in at the end of 2014 (from 4.8% the year before), reflecting the reduction of international food and energy prices, and it's expected to reach 2.5% in 2015 as the effect of such reduction fades way.

The Syrian refugee crisis is causing serious strains on the Lebanese fiscal situation, which remains very weak. Although the central government deficit decreased from 8.7% of GDP in 2013 to 7.1% of GDP in 2014, this was largely a result of one-off factors, such as the arrears settlement by the telecom company. Given the complex domestic political situation, little progress has been made with key pending fiscal reforms such as tax reform, public finance management (the Lebanese parliament has not approved any budget since 2005) and electricity subsidies. Gross public debt remains among the highest in the world, recording 136% of GDP in 2014, and has again been in an increasing trend (from 134% in 2011). For 2015, the Lebanese Ministry of Finance estimates a gross debt-to-GDP ratio of 137%.

Lebanon's current account deficit remains very large (19.4% of GDP in 2014), although it declined moderately compared to 2013 (20.7% of GDP) supported by the reduction in imported energy prices and the weakness of domestic demand. The central bank maintains a very large foreign exchange reserve cushion (USD 39.6 billion), excluding gold holdings[14], at end-2014, or the equivalent of about 20 months of imports). This contributes to the credibility of the currency peg against the US dollar and, more generally, to the resilience of the Lebanese economy. However, this situation is increasingly risky and may become unsustainable if the country's large macroeconomic imbalances are not addressed and the country loses its financial credibility meanwhile.

[14] Lebanon Central Bank holds around USD 11bn (as of end-December 2014) in gold reserves.

Country-risk indicators : Lebanon		2012	2013	2014
Output and prices				
Real GDP growth rate	(%)	2.5	1.5	1.8
Unemployment (end of period)	(% labour force)	8.9	15.0	24.0
Inflation rate (CPI) (Dec/Dec)	(% change)	6.6	4.8	1.9
Public finances				
Central government balance	(% of GDP)	-8.6	-9.0	-8.5
Balance of payments				
Exports of goods and services f.o.b.	(mn EUR)	1,840.0	1,770.0	1,800.0
Current account balance	(% of GDP)	-17.8	-20.7	-19.4
Net inflow of foreign direct investment	(mn EUR)	190.0	70.0	n.a.
Official reserves (end of period)*	(mn EUR)	2,500.0	2,550.0	2,980.0
In months of subsequent year's imports	(months)	16.0	18.0	21.0
Exchange rate (end of period)	(per EUR)	1,938.9	2,002.4	2,003.8
External debt				
External debt (end of period)	(mn EUR)	5,620.0	5,870.0	6,290.0
External debt/GDP	(%)	165.8	168.7	173.1
Debt service/exports of goods and services	(%)	15.4	16.2	n.a.
Arrears (on both interest and principal)	(%)	no	no	no
Debt relief agreements and rescheduling	(m EUR)	no	no	no
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	89.0	100.0	87.0
EU exposure/total EU exposure	(%) (1)	0.1	0.1	0.1
EU exposure/external debt	(%)	1.6	1.7	1.4
EU exposure/exports of goods and services	(%)	4.8	5.6	4.8
IMF arrangements				
Type			none	
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		B1	B1	B2
S&P long-term foreign currency rating (end of period)		B	B-	B-
Fitch long-term foreign currency rating (end of period)		B	B	B

* *excludes gold and encubered assests*

Sources: IMF, EIU

3.5.3. Morocco

The Moroccan economy performed well in 2013, with GDP growth accelerating from 2.7% in 2012 to 4.5% in 2013, boosted by a strong rebound in the agricultural sector, which is estimated to have grown by almost 20% after a bad harvest in 2012. GDP growth is forecast to remain solid in 2014, at 3.9%. The fiscal deficit declined from 7.3% of GDP in 2012 to 5.5% in 2013, owing to lower international oil prices that reduced the cost of subsidies as well as measures taken by the government to control spending. Average inflation remained low at 1.9% in 2013, a slight decrease from the 2.3% registered in 2012. Expectations in the medium term are that inflation remains below 3% with occasional spikes, as certain subsidies are gradually cut back due to their significant fiscal cost. Monetary policy remains focused on controlling inflation. The exchange rate continues to be tightly managed against a basket of euro-dominated currencies.

Morocco's current account deficit, which had reached a substantial 9.7% of GDP in 2012, narrowed to 7.4% in 2013 and should continue to decline in the medium term thanks to increased domestic production and lower energy imports. The current account deficit was partly financed by the resilient capital account surplus, including substantial FDI flows.

Public debt continued its upward trend, gradually increasing from 54.4% of GDP in 2011 to 61.9% in 2013. The level of total external debt also gradually increased from 25.1% of GDP at year-end 2011 to 30.9% at year-end 2013, as Morocco tapped the international USD-denominated bond market for the first time in December 2012 (for USD 1.5 billion) and again in May 2013 (USD 750 million). Still, it remains sustainable. Gross foreign reserves slightly increased from EUR 13.6 billion at year-end 2012 to roughly EUR 14.3 billion at year-end 2013, representing 4.1 months of the following year's imports. In August 2012, Morocco entered into a two-year USD 6.3 billion financing arrangement with the IMF under the Precautionary and Liquidity Line (PLL). The Moroccan authorities have not drawn on the PLL so far and have not declared the intention to do so.

Country-risk indicators : Morocco		2012	2013	2014
Output and prices				
Real GDP growth rate	(%)	2.7	4.4	3.0
Unemployment (end of period)	(% labour force)	9.0	8.9	9.2
Inflation rate (CPI) (Dec/Dec)	(% change)	1.3	1.9	1.1
Public finances				
General government balance	(% of GDP)	-€7.4	-5.5	-4.9
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	20,703.6	20,781.6	26,601.9
Current account balance	(% of GDP)	-9.7	-7.6	-6.8
Net inflow of foreign direct investment	(m EUR)	1,790.2	2,258.9	2,474.6
Official reserves, including gold (end of period)	(m EUR)	13,620.8	14,532.0	18,647.8
In months of subsequent year's imports	(months)	4.2	4.3	4.5
Exchange rate (end of period)	(MAD per EUR)	11.10	11.20	11.0
External debt				
External debt (end of period)	(m EUR)	19,631.1	21,685.9	22,922.0
External debt/GDP	(%)	29.2	30.2	32.2
Debt service/exports of goods and services	(%)	5.8	6.7	6.6
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	2,745.0	3,020.0	3,187.0
EU exposure/total EU exposure	(%) (1)	2.6	2.9	3.1
EU exposure/external debt	(%)	14.0	13.9	13.9
EU exposure/exports of goods and services	(%)	13.3	14.5	12.0
IMF arrangements				
Type		Precautionary Liquidity Line 4.12 SDR	Precautionary Liquidity Line 4.12 SDR	Precautionary Liquidity Line 3.23bn SDR
(Date)		August 2012	August 2012	July 2014
On track		on track	on track	on track
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba1 /stable	Ba1 /negative	Ba1 /stable
S&P long-term foreign currency rating (end of period)		BBB- /negative	BBB- /negative	BBB- /stable
Fitch long-term foreign currency rating (end of period)		BBB- /stable	BBB- /stable	BBB- /stable

3.5.4. *Syria*

The outlook of the economic and financial situation of Syria is difficult to assess, given the significant disruption caused by the ongoing conflict and the scarcity of reliable figures. It is clear that the conflict is having a strong negative impact on the macroeconomic situation of the country and in particular its balance of payments position. Estimates of a drop of nominal GDP of 40% between 2010 and 2014 are not uncommon, but it is extremely hard to derive an accurate figure.

With the outbreak of the conflict in 2011, growth has been significantly affected by a sharp slowdown in trade, tourism and private investment, as well as the extensive destruction of infrastructure. According to the Syrian Central Bureau of Statistics, average consumer prices more than tripled between 2010 and 2013. The highest increase in prices by far (of about 360%) was recorded in Aleppo. Price increases mainly affected various categories of food, beverages, utilities and fuel due to the sharp lack of supply. The value of the Syrian pound (SYP) has declined markedly from an average of 66.57 SYP against the euro in 2011 to 81.62 SYP in 2012, 140.83 SYP in 2013, and finally 204.1 SYP in 2014.

It is clear that the main sources of revenues have been significantly affected by the conflict, including oil exports (which constituted 25% of government revenue in 2010) and customs revenue on imports. The pressure on the government budget will not ease as its expenditures on the military, subsidy and wages remain challenging.

Considering the sharp drop in export revenue combined with the absence of any stable major net capital inflows, foreign exchange reserves are believed to have dropped considerably. The latest IMF data available indicates exchange reserves around EUR 16 billion at end-August 2012.

Country-risk indicators : Syria		2012 (est)	2013 (est)	2014 (est)
Output and prices				
Real GDP growth rate	(%)	-19.5	-20.6	0.5
Unemployment (end of period)	(% labour force)	25.0	35.0	33
Inflation rate (CPI) (average)	(% change)	37.4	89.6	26
Public finances				
Central government balance	(% of GDP)	-17.0	-12.9	-10.7
Balance of payments				
Exports of goods f.o.b.	(m EUR)	3,761.8	1,460.0	1,779.1
Current account balance	(% of GDP)	-10.6	-15.9	-12.4
Net inflow of foreign direct investment	(m EUR)	n.a.	n.a.	n.a.
Official reserves, including gold (end of period)	(m EUR)	3,730.5	1,426.9	1,524.5
In months of subsequent year's imports	(months)	n.a.	n.a.	n.a.
Exchange rate (end of period)	(per EUR)	91.8	191.1	204.1
External debt				
External debt (end of period)	(m EUR)	6,587.8	7,457.3	10,325.2
External debt/GDP	(%)	19.2	24.0	32.0
Debt service/exports of goods and services	(%)	n.a.	n.a.	n.a.
Arrears (on both interest and principal)*	(m EUR)	n.a.	n.a.	n.a.
Debt relief agreements and rescheduling	(m EUR)	n.a.	n.a.	n.a.
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	646.0	584.0	445.0
EU exposure/total EU exposure	(%) (1)	0.6	0.6	0.4
EU exposure/external debt	(%)	9.8	7.8	4.3
EU exposure/exports of goods and services	(%)	17.2	40.0	25.0
IMF arrangements				
Type	none			
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
Fitch long-term foreign currency rating (end of period)		none	none	none

* *Syria defaulted on EIB loans for a total of EUR 167 million as at end-January 2014*

Source: Economist Intelligence Unit

3.5.5. *Tunisia*

The Tunisian economy has been negatively affected by the domestic unrest that followed the 2011 revolution, regional instability (notably the war in Libya), and a weak international environment, particularly in the euro area, with which Tunisia maintains close trade and financial links. The economy experienced a recession in 2011 and, despite the moderate economic recovery witnessed in 2012, when tourism and foreign direct investment rebounded and economic activity picked up, the macroeconomic situation worsened in 2013 and remains weak in 2014. In particular, the fiscal and balance of payments situation have deteriorated quite markedly, generating important financing needs. Against this background, the Tunisian authorities reached in mid-April 2013 an agreement with the International Monetary Fund (IMF) on a 24- month Stand-By Arrangement (SBA) in the amount of USD 1.75 billion, which was approved by the IMF Board on June 2013. The Tunisian government also requested Macro-Financial Assistance (MFA) from the EU in August 2013, which was approved in May 2014 by Council and Parliament in the form of a EUR 300 million medium-term loan (3 equal tranches of EUR 100 million each).

Real GDP growth remains subdued, and is expected to slightly increase to 2.4% in 2014, from 2.3% in 2013 (and against an original government forecast of 4%). A slow pickup in economic activity amid political uncertainty and security tensions are negatively contributing to the modest growth rate. Unemployment remains high at 15.3%, particularly among the young and graduates (over 30%). Inflation has averaged around 5.5% in 2014 and is on a downward trend. The fiscal deficit remains high, but similarly to 2013 in 2014 it will over-perform (reaching 4.8% against an original forecast of 6.7%), also mainly due to an inadequate budget composition (including payment deferrals and underspending of the capex budget). The fiscal deficit for 2015 is now expected to jump to 6.2% of GDP instead of the originally forecasted 4.5%, due partly to the postponement of payments and of fiscal consolidation measures.

General government debt continued to increase, reaching 50% of GDP in 2014 and is forecast to peak at 57% of GDP by the end of 2017 before reversing the trend. However, debt service remains at a manageable 6.2% of total budget expenditures, or 1.8% of GDP. On the external side, the current account deficit has slightly improved but remains significantly high in 2014 at 7.9% of GDP, compared to 8.3% of GDP in 2013. It is expected to improve in 2015 to 6.4% of GDP on the back of lower commodity prices, improved price competitiveness and stronger exports and tourism growth. Reserves are estimated to have ended 2014 close to USD 7.8 billion, at barely 3 months of imports, which compares to an initial target of USD 9.0 billion under the IMF programme. However, this still represents USD 1 billion more than at end-2013.

Country-risk indicators : Tunisia		2012	2013	2014
Output and prices				
Real GDP growth rate	(%)	3.7	2.3	2.4
Unemployment (end of period)	(% labour force)	16.7	15.3	15.3
Inflation rate (CPI) (Dec/Dec)	(% change)	5.9	6.0	5.5
Public finances				
Central government balance (inc. grants)	(% of GDP)	-4.8	-6.0	-4.5
Balance of payments				
Exports of goods f.o.b.*	(m EUR)	12,677.7	13,182	12,705
Current account balance (exc. grants)	(% of GDP)	-8.2	-8.3	-7.9
Net inflow of foreign direct investment	(m EUR)	1322	796	753
Official reserves, including gold (end of period)	(m EUR)	6,489	5,953	5,750
In months of subsequent year's imports	(months)	3.9	3.4	3.4
Exchange rate (end of period)	(per EUR)	2.00	2.15	2.25
External debt				
External debt (end of period)	(m EUR)	13,500	14,767	15,480
External debt/GDP	(%)	40.1	40.6	42.9
Debt service/exports of goods and services	(%)	162.2	169.1	270.2
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	2,555.0	2,699.0	2,686.0
EU exposure/total EU exposure	(%) (1)	2.4	2.6	2.6
EU exposure/external debt	(%)	18.9	18.3	17.4
EU exposure/exports of goods and services	(%)	20.2	20.5	21.1
IMF arrangements				
Type		no	SBA	SBA
(Date)			Jun-13	Jun-13
On track			yes	yes
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa3 /negative	Ba2	Ba3
S&P long-term foreign currency rating (end of period)		BB /negative	BB /negative	BB-/negative
Fitch long-term foreign currency rating (end of period)		BB+ /negative	BB-	BB-/BB negative

* *Exports of services are only provided on a net basis*

3.6. Other countries

3.6.1. Brazil

Following rapid expansion in the years preceding the global economic and financial crisis (+4.8% per year on average in 2004-2008), Brazil's real GDP growth has been decelerating since 2011 (+2.1% p.y. o.a. in 2011-2013) and 2014 is expected to mark the country's lowest performance since 2009. In the third quarter of 2014, GDP expanded by +0.1% (quarter-on-quarter), re-entering positive territory by only a slight margin after two quarters of contraction (-0.2% in Q1 and -0.6% in Q2). The subdued performance was mainly due to stagnant private consumption (+0.3% q-o-q; +0.1% y-o-y) and weak gross fixed capital formation (+1.3 q-o-q; -8.5% y-o-y). A depreciating Real and lower oil prices were not sufficient to boost export growth (+1.0% q-o-q), which remained constrained by domestic supply-side bottlenecks. With imports growing relatively faster (+2.4% q-o-q), Brazil's current account deficit widened further to reach 4.2% of GDP in December 2014 - the largest deficit since 2001.

The European Commission currently forecasts GDP growth in 2014 to be virtually flat at +0.2%, before gradually picking up to +0.7% in 2015 and +1.8% in 2016. The recent growth deceleration has been weighing on Brazil's public finances: the general government debt-to-GDP ratio rose from 54.2% in 2011 to 60.7% in 2014 Q3, while the public-sector primary fiscal balance fell from a surplus of 3.1% of GDP in 2011 to a deficit of 0.6% of GDP in 2014. These growth and public finance developments prompted Moody's to revise its outlook for Brazil's long-term foreign currency rating (Baa2) from stable to negative, while Standard and Poor's downgraded Brazil's sovereign debt by one notch, from BBB to BBB-. In an effort to restore investor confidence, the new Finance Minister Joaquim Levy announced a number of fiscal adjustment measures, including tax hikes and spending cuts. The Brazilian Central Bank has also undertaken a tightening cycle in the past two years, gradually raising the benchmark interest rate to 12.25% in January 2015 from 7.25% in March 2013. Consumer price inflation however remains elevated at 7.1% in January 2015, breaching the Central Bank's upper tolerance threshold of 6.5% and marking the highest rate since April 2013.

Looking forward, some of Brazil's major policy challenges will be to ensure the effective implementation of the structural reforms designed to revive economic growth, and to safeguard the buffers necessary to shield the economy from the potential capital flow volatility that could accompany the normalisation of US monetary policy. However, the Brazilian economy is expected to remain resilient to possible external shocks, due to the reasonable level of official reserves (EUR 293 bn in December 2014, covering approx. 20 months of imports), the limited exposure to foreign-currency-denominated debt (14% of GDP in 2013) and the strengthened macro-prudential framework developed since 2009.

Country-risk indicators : Brazil		**2012**	**2013**	**2014**	
Output and prices					
Real GDP growth rate	(%)	1.0	2.5	0.2	
Unemployment (end of period)	(% labour force)	5.5	5.4	4.3	
Inflation rate (CPI) (Dec/Dec)	(% change)	5.8	5.8	6.5	
Public finances					
General government balance	(% of GDP)	-2.8	-3.3	-6.0	e
Balance of payments					
Exports of goods and services f.o.b.	(m EUR)	184,907.4	176,721.4	182,549.7	
Current account balance	(% of GDP)	-2.4	-3.6	-4.0	e
Net inflow of foreign direct investment	(m EUR)	57,686	58,992	50,681.0	
Official reserves, including gold (end of period)	(m EUR)	280,422	259,285	292,818	
In months of subsequent year's imports	(months)	19.4	18.0	20.6	
Exchange rate (average)	(per EUR)	2.5	2.9	3.1	
External debt					
External debt (end of period)	(m EUR)	237,152.0	227,042.6	286,320.1	
External debt/GDP	(%)	13.9	14.0	15.8	e
Debt service/exports of goods and services	(%)	22.3	30.9	39.3	
Arrears (on both interest and principal)	(%)	0.0	0.0	0.0	e
Debt relief agreements and rescheduling	(m EUR)	none	none	none	
Indicators of EU exposure					
EU exposure (capital and interest due)	(m EUR)	942.0	1,002.0	975.0	
EU exposure/total EU exposure	(%)	0.9	1.0	0.9	
EU exposure/external debt	(%)	0.4	0.4	0.3	
EU exposure/exports of goods and services	(%)	0.5	0.6	0.5	
IMF arrangements					
Type		no	no	no	
(Date)					
On track					
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)		Baa2 /positive	Baa2 /stable	Baa2 /negative	
S&P long-term foreign currency rating (end of period)		BBB /stable	BBB /negative	BBB- /stable	
Fitch long-term foreign currency rating (end of period)		BBB /stable	BBB /stable	BBB /stable	

e means EU Commission estimation

3.6.2. *South Africa*

Real GDP growth in South Africa has been on a decelerating trend since 2011, shifting from a 5.2% annual average in the pre-crisis period (2004-2007) to a 2.5% annual average in 2011-2014. In 2014, the five-month strike that took place in the platinum industry was a major factor in explaining the GDP contraction in the first quarter (-0.4% quarter-on-quarter). The termination of the strike drove GDP growth back into positive territory in the remaining three quarters of 2014. Annual GDP growth reached 1.5% in 2014, the lowest rate since 2009.

Looking forward, growth is expected to pick up only modestly. The government has recently revised its growth forecast downwards to 2% in 2015, 2.4% in 2016 and 3% in 2017. South Africa's growth performance remains constrained by domestic structural bottlenecks, including frequent strikes, lack of skilled labour, recurrent power supply shortages and underdeveloped infrastructure in some parts of the country. At the same time, unemployment remains extremely high (official unemployment rate hovers around 25%), contributing to persistently large income inequality. On the external front, tighter monetary policy in the United States could result in further depreciation of the rand and renewed financial market turbulence with a possibility of increased capital outflows.

With respect to medium-term macroeconomic challenges, the persistence of elevated inflation (6.1% in 2014) has limited the room for accommodative monetary policies. Inflation has eased somewhat in the first quarter of 2015 but it is likely to move up again as the effects of lower oil prices fade away and electricity tariffs will increase sharply in the course of 2015. In addition, rising government deficit (4.1% of GDP in 2014) and public debt (around 46% of GDP in 2014), together with decelerating GDP growth, prompted the main rating agencies to revise their outlook (from stable to negative for Fitch) or to downgrade their long-term foreign currency rating (from Baa1 to Baa2 for Moody's, and from BBB to BBB- for Standard and Poor's). In October 2014, the new Finance Minister Nhlanhla Nene however committed to gradually reduce the government deficit through a mix of spending cuts, tax rises and privatisation of non-core assets. While South Africa's public debt-to-GDP ratio still remains contained, some fiscal adjustment will be necessary to preserve the country's creditworthiness in the medium and long run.

Country-risk indicators : South Africa		2012	2013	2014
Output and prices				
Real GDP growth rate	(%)	2.2	2.2	1.5
Unemployment (end of period)	(% labour force)	24.9	24.1	24.3
Inflation rate (CPI) (Dec/Dec)	(% change)	5.7	5.4	5.3
Public finances				
General government balance	(% of GDP)	-4.4	-3.9	-4.1
Balance of payments				
Exports of goods and services f.o.b.	(m EUR)	66,216.8	60,954.8	67,000.0
Current account balance	(% of GDP)	-5.0	-5.8	-5.4
Net inflow of foreign direct investment	(m EUR)	3,521.5	5,923.9	6,000.0
Official reserves, including gold (end of period)	(m EUR)	33,345.1	32,802.8	39,820.0
In months of subsequent year's imports	(months)	5.2	5.4	6.2
Exchange rate (average)	(per EUR)	10.6	12.8	14.4
External debt				
External debt (end of period)	(m EUR)	107,886.2	99,757.2	115,000.0
External debt/GDP	(%)	37.0	39.1	40.0
Debt service/exports of goods and services	(%)	7.9	11.5	12.0
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	1,230.0	982.0	1,133.0
EU exposure/total EU exposure	(%)	1.2	1.0	1.1
EU exposure/external debt	(%)	1.1	1.0	1.0
EU exposure/exports of goods and services	(%)	1.9	1.6	1.7
IMF arrangements				
Type		no	no	no
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa1 /negative	Baa1 /negative	Baa2 /stable
S&P long-term foreign currency rating (end of period)		BBB /negative	BBB /negative	BBB- /stable
Fitch long-term foreign currency rating (end of period)		BBB+ /negative	BBB /stable	BBB /negative

* *EU Commission estimates for 2014*

3.6.3. Tajikistan

Real GDP growth is projected to ease to 6 percent in 2014 from 7.4 percent in 2013. Declining remittances are weighing on the services sector, and there has been a sharp fall in cotton and aluminium exports due to global market developments in 2014. Growth is expected to remain weak in 2015 due to the adverse external environment, particularly in Russia, and the slow pace of structural reforms, though some support might come from China and South Asia. Inflation increased in 2014 on the back of gradually rising costs for food, transport, and utilities, and weakening of the national currency (the somoni).

The structural weakness of the economy makes it highly vulnerable to deteriorating external environment. Tajikistan relies heavily on remittances and a narrow exports base (aluminium, cotton and electricity) in its external current account. A weak economic outlook for Tajikistan's main economic partners (China and particularly Russia) is expected to have a significant negative impact through remittances, trade and investment channels. International reserves of the central bank remain low (covering 1.5 months of imports at year-end 2012) and the initial fiscal policy space is very limited. Tajikistan's agreement with the IMF for an Extended Credit Facility (ECF) expired in May 2012. Negotiations over a new IMF-supported successor program are ongoing but have not brought any concrete result so far.

In March 2014 Tajikistan made repaid the outstanding MFA loan to the EU.

Country-risk indicators : Tajikistan		2012	2013	2014
Output and prices				
Real GDP growth rate - IMF	(%)	7.4	7.4	6
Unemployment*	(% labour force)	n.a.	n.a.	n.a.
Inflation rate (CPI) (year average) - IMF	(% change)	5.8	5.0	6.6
Public finances				
General government balance	(% of GDP)	0.6	-0.8	-0.6
Balance of payments - IMF				
Exports of goods	(m EUR)	380.0	387.5	
Current account balance	(% of GDP)	-1.5	-1.4	-4.7
Net inflow of foreign direct investment	(m EUR)	13.	39.	
Gross international reserves, (end of period)	(m EUR)	411.	515.	
In months of subsequent year's imports	(months)	1.4	1.5	
Exchange rate (end of period)	(per EUR)	6.42	6.11	6.45
External debt - IMF				
Total public and publicly guaranteed debt	(m EUR)	1,504	1,759	
External debt/GDP	(%)	35.4	32.3	
Debt service/exports of goods and services	(%)	5.9	10.4	
Arrears (on both interest and principal)	(%)	none	none	
Debt relief agreements and rescheduling	(m EUR)	none	none	
Indicators of EU exposure				
EU exposure (capital and interest due)	(m EUR)	16.0	4.0	0.0
EU exposure/total EU exposure	(%)	0.0	0.0	0.0
EU exposure/external debt	(%)	1.1	0.2	n.a.
EU exposure/exports of goods and services	(%)	4.2	1.0	n.a.
IMF arrangements		Extended Credit Facility		
Type		(April 2009 - May 2012) expired		
(Date)				
On track				
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
Fitch long-term foreign currency rating (end of period)		none	none	none

* *annual average, officially registered*