BUDGETARY TREATMENT OF LOAN GUARANTEES TO NON-MEMBER STATES

The European Council welcomes the conclusions of the 19 October ECO/FIN Council as follows:

1. In the context of its discussions on the Delors II package on 19 October 1992, the Council considered the question of the budgetary treatment of Community loan guarantees to non-member states.

2. The Council noted that the Community's growing international responsibilities have led to an increase in the level and scope of lending to non-member states, backed by guarantees on the EC budget. It concluded that considerations of prudent budgetary management and financial discipline call for the establishment of a new financial framework, including an appropriate form of provisioning.

3. The Council accordingly agreed that a Guarantee Fund should be established, to be financed by a reserve in the budget and the Financial Perspective on the model of the monetary reserve.

4. The Council also agreed on the following detailed elements of the Fund and reserve:

<u>FUND</u>

(a) The target size of the Fund should be 10% of the outstanding liability of the Community arising from external loans and guarantees;

(b) Each time the Community decides on a new external loan or guarantee, a provisioning payment of 14 % of the capital value of the loan or guarantee would be made into the Guarantee Fund. This provisioning rate will be reviewed when the Fund reaches its target size and in any case no later than the end of the Financial Perspectives period;

(c) In the event of a default, payments would be made directly from the Fund to the creditor. If the Fund did not contain sufficient resources to cover a default, additional payments would be called up from the budget, with any margin remaining in the reserve being the first recourse; any margin available under the ceiling of Category 4 of the Financial Perspective or redeployment within Category 4, the second recourse; a revision of the Financial Perspective in line with the provisions of the Inter-institutional Agreement, which might involve redeployment within other categories, the third recourse;

(d) If, after default, resources in the Fund stood at below a threshold of 75 % of its target size, the provisioning rate on new loans would be increased to 15 %: either until the target size had once more been reached; or, if the default occurred before the target size had been reached, until the amount of the default had been fully restored. Additionally, in the event of one or more major defaults after which the Fund stood at below 50 % of its target size, exceptional measures might be required to replenish the Fund ;

(e) If the Fund exceeded its target size, any surplus would be returned to the Member States;

(f) The Fund should be managed separately from the Budget. It remained for consideration whether the managers should be the Commission, the EIB or another body.

RESERVE

(g) A reserve should be established within the Community budget and the Financial Perspective, along the lines of the monetary reserve, to finance the Fund;

(h) Resources could not be called up from Member States until payments were required to be made into the Fund;

(i) In the Council's view, such payments should be classified as compulsory expenditure.