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EUROPEAN COMMISSION
Budget

The Accounting Officer of the Commission

Accounting Officer's Status Report at 30 June 2021

Article 251 of the Financial Regulation

INDEX

Annexes

1. Purpose and scope

Article 251 of the Financial Regulation (2018)[1] requires that by 15 September of each financial year, the Accounting Officer of the Commission shall send to the European Parliament and to the Council a report containing information on current risks noted, general trends observed, new accounting issues encountered and progress on existing accounting matters, including where identified by the Court of Auditors, as well as information on recoveries.

It is thus the purpose of this status report to provide the reader with a high-level overview of the main issues concerning the EU accounting environment at 30 June 2021. It includes information on the evolution of major situations up to 15 September 2021.

2. 2020 EU annual accounts & audit

2.1 Introduction

This chapter provides an overview of key elements of the annual accounts of 2020 and serves as a comparative to section **3** on the main developments in 2021.

2.2 Key elements of the 2020 EU annual accounts

2.2.1 Budgetary guarantees and contingent liabilities

As at 31 December 2020, the EU contingent liabilities concerning the budgetary guarantee programmes amounted to EUR 62.3 billion at the level of available guarantee ceiling, EUR 56.8 billion at the level of operations signed and EUR 38.7 billion for actual disbursed amounts.

The guarantees relate to the following budgetary guarantee programmes: the EIB external lending mandates (ELM), the European Fund Strategic Investment (EFSI) and the European Fund for Sustainable Development (EFSD).

EFSI

Under EFSI, the EU provides guarantee to the EIB Group for its debt and equity operations in the EU. At the end of 2020, the EFSI available EU guarantee amounted to EUR 25.8 billion. The total assets in the EFSI Guarantee Fund amount to EUR 8.0 billion as at 31 December 2020. It covers the risk related to the operations signed by the EIB Group up to EUR 24.1 billion and to disbursed operations up to EUR 18.9 billion, of which EUR 0.3 billion was recognised as a provisional liability in the 2020 EU annual accounts.

[1] Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193/1, 30/07/2018); hereinafter referred to as 'Financial Regulation'.

EFSD

Under EFSD, the EU provides guarantees to financial institutions to support investments in partner countries in Africa and in the European Neighbourhood. As at 31 December 2020, 15 EFSD guarantee agreements were effective, for a total cover limit of EUR 1 370 million (of which EUR 438 million related to operations signed and EUR 34 million disbursed) as disclosed in the 2020 EU annual accounts. The EFSD Guarantee Fund amounted to EUR 0.8 billion.

ELM

Under the ELM, the EU has given guarantees on the EIB loans granted outside of the EU. As at 31 December 2020, the EU guarantee supporting the outstanding amount of disbursed operations amounted to EUR 20.3 billion, of which EUR 20.1 billion was disclosed as a contingent liability and EUR 0.2 billion was recognised as a liability in 2020 EU annual accounts. This included EUR 740 million of loans granted to current EU Member States before their accession. The value of the Guarantee Fund for External Actions totals EUR 2.8 billion at the end of 2020.

2.2.2 Borrowing & lending activities

SURE

Support to mitigate Unemployment Risks in an Emergency (SURE) is a new financial assistance instrument tackling the economic impact of the COVID-19 pandemic. According to the Council Regulation (EU) 2020/672 establishing the instrument, Member States can request loans of up to a total of EUR 100 billion to finance national work or health related measures. To provide the loans, the Commission can borrow up to a maximum amount of EUR 100 billion.

The loan under the SURE programme are given based on the back-to-back principle, whereby terms and conditions of the funding side correspond to the ones on the lending side. Consequently, the same effective interest rate is applied to both the loans and the borrowings.

SURE loans are backed by guarantees provided by Member States according to their share in the EU's GNI and ultimately the EU budget. This guarantee received from the Member States, amounting to EUR 25 billion, acts as a first loss piece, to shield the EU budget from the materialisation of 2.5 years of maximum possible losses. Issuances under the SURE programme have taken place across a wide spread of maturities (5 to 30 years) to spread the contingent liabilities for EU budget over time.

The Commission can enter into a loan agreement with a Member State only after the Commission has proposed, and the Council has adopted, an implementing decision.

At 31 December 2020, the Council had approved EUR 90 363 million of loans, out of which the Commission had signed loan agreements with Member States for EUR 85 863 million and had disbursed EUR 39 500 million to Member States.

EFSM

EFSM was created to provide financial assistance to all Member States experiencing or seriously threatened by a severe economic financial disturbance caused by exceptional occurrences beyond their control. The EFSM was used to provide financial assistance, conditional on the implementation of reforms, to Ireland and Portugal between 2011 and 2014. This programme expired and no additional loans can be drawn, though it remains in place for specific tasks such as the lengthening of maturities for loans to Ireland and Portugal and providing bridging loans.

At 31 December 2020, the nominal amount of disbursed loans amounted to a total of EUR 46.8 billion (thereof EUR 22.5 billion to Ireland and EUR 24.3 billion to Portugal) all of which remained outstanding.

MFA assistance in the context of the COVID-19 pandemic

MFA is a form of financial aid through medium/long-term loans which the EU extends to partner countries under certain conditions. On 25 May 2020 the European Parliament and the Council adopted Decision (EU) 2020/701 on providing, as part of the Macro-Financial Assistance, assistance to ten enlargement and neighbourhood partners in the context of the COVID-19 pandemic. Under this decision a maximum of EUR 3 billion was to be made available in the form of loans to ten countries. The first instalments amounting to EUR 1.04 billion took place in 2020 – subject to the applicable legal procedures being respected, and conditions being fulfilled.

2.2.3 Departure of the United Kingdom from the European Union

On 31 January 2020, the United Kingdom (UK) withdrew from the European Union. The terms of its departure are defined in an Agreement on the withdrawal of the UK from the EU and the European Atomic Energy Community , also known as the 'Withdrawal Agreement' or 'WA'.[2] As part of this deal, the UK agreed to honour all financial obligations undertaken while it was a member of the EU. The agreement entered into force on 31 January 2020 and, according to the financial settlement, the UK contributed to the EU's budget for the whole of 2020 during a so-called 'Transition period' until 31 December 2020.

The WA identifies payments obligations between the two parties in several defined areas, resulting in a net receivable from the UK of EUR 47.5 billion being recognised in the EU annual accounts at 31 December 2020. This amount comprises mainly the UK's share of the EU's outstanding commitments under Article 140 WA (EUR 35.0 billion) and the UK's share of the Union liabilities under Article 142 WA (EUR 14.3 billion) at 31 December 2020, counterbalanced by the UK's share of fines under Article 141 WA (EUR 1.8 billion).

The WA also lays down the methodology as to how these obligations will be dealt with each year. In summary, the EU communicates twice a year to the UK the amounts due and from the UK, and the UK pays the net amount due on a monthly basis – see section **3.4** for more details.

[2] OJ L 29, 31.1.2020, p. 7-187.

2.3 2020 audit

The ECA's audit of the EU and EDF accounts is completed with the related opinions and the annual reports of the Court of Auditors will be published in October 2021. No major issues remained following the audit and subsequent adversarial processes.

3. Main developments in 2021

3.1 Introduction

This chapter provides an overview of the main topics, developments and actions made so far during the financial year 2021.

3.2 Budgetary guarantees and contingent liabilities

EFSI

As of 30 June 2021, contracts signed by the EIB Group covered by the EU guarantee amounted to EUR 25.0 billion, out of which EUR 21.0 billion has been disbursed and is still outstanding.[3]

As of 1 January 2021 the EFSI GF net assets (EUR 8 028 million) were transferred to the Common Provisioning Fund (CPF). In the first half of 2021, the EU budget transferred EUR 110 million to the EFSI GF compartment of the CPF. As at 30 June 2021, the value of the EFSI GF compartment in CPF stood at EUR 8 082 million.

EFSD

At the end of 2020, a total of 15 EFSD guarantee agreements had been signed, out of which three were not yet effective. One of these three guarantee agreements – EU Market Creation Facility – TCX-Pricing Component – has become effective, with a guarantee ceiling of EUR 20 million. No other agreements or amendments were signed in the first semester of 2021.

Regulation (EU) 2021/947 of the European Parliament and of the Council (known as the NDICI Regulation) was adopted on 9 June 2021. The NDICI Regulation establishes the new European Fund for Sustainable Development Plus (the 'EFSD+') and the External Action Guarantee. The EFSD+, building on its predecessor the EFSD, shall support budgetary guarantees, financing instruments and investment operations in partner countries across Sub-Saharan Africa, the European Neighbourhood, the Africa, Caribbean and Pacific region, and other NDICI partnering countries worldwide. Up to 30 June 2021, no guarantee agreements had been signed under EFSD+.

Following the adoption of NDICI Regulation, the net assets of the EFSD guarantee fund as of 31 July 2021, amounting to EUR 798 million, have been transferred to the Common Provisioning Fund.

[3] These amounts are net of the EFSI guarantee calls.

ELM

In the first half year of 2021, the EIB signed new loans in the amount of EUR 2 billion that are secured by the EU guarantee (up to the ceiling of 65% of the outstanding portfolio). During this period, the EU received guarantee calls of EUR 27 million, and risk remuneration of EUR 5 million from the EIB.

Following the adoption of NDICI Regulation, the net assets of the Guarantee fund for external actions with values as of 31 July 2021, amounting to EUR 2 787 million, have been transferred from the EIB to the Common Provisioning Fund.

3.3 Borrowing and lending activities

SURE

In the first half of 2021, based on the Commission's proposals, the Council has approved a further EUR 3.9 billion in financial support to Member States, resulting in a total of EUR 94.3 billion. A further EUR 50.1 billion has been disbursed to Member States in the form of loans, resulting in a total of EUR 89.6 billion. This concludes the borrowing and lending under the SURE programme.

Detailed situation at 30 June 2021:

Member State	**Loan amount** *in billion EUR*	**Disbursed amount** *in billion EUR*
Belgium	8.197	8.197
Bulgaria	0.511	0.511
Cyprus	0.603	0.603
Estonia	0.230	0.230
Greece	5.265	5.265
Spain	21.324	21.324
Croatia	1.020	1.020
Hungary	0.504	0.504
Ireland	2.473	2.473
Italy	27.438	27.438
Lithuania	0.957	0.957
Latvia	0.305	0.305
Malta	0.420	0.420
Poland	11.236	8.236
Portugal	5.934	5.410
Romania	4.099	3.000
Slovenia	1.113	1.113
Slovakia	0.630	0.630
Czechia	2.000	2.000
Total	**94.259**	**89.636**

EFSM
In February 2021, Ireland and Portugal have requested a maturity lengthening for the amounts due in June 2021 (EUR 4.8 billion) and September 2021 (EUR 5 billion). Consequently, in April 2021, the Commission has borrowed the amounts and disbursed the bridging loans for the EUR 4.8 billion. In July 2021, another issuance of EUR 5.25 billion has been executed of which EUR 5 billion have been used for the EFSM programme and the remainder for the MFA programme.

MFA assistance in the context of the COVID-19 pandemic

The disbursement of further instalments in the context of the COVID-19 pandemic depends on the attached policy measures being implemented in a timely manner. As at 30 June 2021 some EUR 550 million have been disbursed to Albania, North Macedonia, Kosovo, Montenegro and Tunisia. A further EUR 250 million have been disbursed to Jordan in July 2021.

NextGenerationEU (NGEU)

The recovery instrument NextGenerationEU (NGEU) aims to repair the immediate economic and social damage brought about by the coronavirus pandemic, and make Europe greener, more digital, more resilient and better fit for the current and forthcoming challenges. It represents a powerful and innovative response to mitigate the economic damage caused by the pandemic while helping the EU economy to pivot to a new green and digital growth model. The Commission is empowered by Decision (EU, Euratom) 2020/2053 to borrow up to EUR 806 billion on the capital markets on behalf of the Union. In accordance with Council Regulation (EU) 2020/2094, those borrowings are to finance the recovery in the aftermath of the COVID-19 pandemic.

The Union will provide repayable and non-repayable support under different programmes, and in particular support to public investments and reforms under the Recovery and Resiliency Facility established by Regulation (EU) 2021/241 of the European Parliament and of the Council. The Commission will, on behalf of the EU, borrow the initial amounts through funding operations on international capital markets in the years 2021-2026. The financing raised by the EU will be repaid by Member States either directly (for loans) or through the EU budget (for the non-repayable support) by December 2058 at the latest.

The funds raised by NGEU will be distributed under the Recovery and Resilience Facility according to national recovery and resilience plans prepared and submitted by each Member State. As at 15 July 2021 the Commission had received 25 national recovery plans from Member States and 16 of them had been approved.

Unlike the existing financial assistance instruments, where the Commission borrows funds from the capital market or financial institutions and grants the loans at the same terms and conditions, NGEU will not be based on a strict ‘back to back' principle for individual transactions. In order to meet the challenges associated with the NGEU in terms of flexibility and volume of operations, the Commission implements a diversified funding strategy, which combines a wide range of funding instruments of a short- and long-term nature. The estimated volume of borrowings will vary between EUR 150 and 200 billion per year.

The NGEU funding activities started in June 2021 and, as at 30 June 2021, the Commission raised funds for a total amount of EUR 35 billion with its first two NGEU issuances with maturities of 5, 10 and 30 years. The bonds issued will be shown in the EU accounts as non-current liabilities.

Up until 30 June 2021, no pre-financing has been granted and no loans have been disbursed to Member States. As regards the NGEU contribution to other programmes, EUR 816 million have been disbursed under the REACT-EU package.

The implementation of NGEU also impacted the treasury flows. A specific payment circuit through the ECB for the payment of the non-repayable support to the MS under the Recovery and Resilience Facility payments has been implemented. These payments do not impact available treasury resources as the necessary funds borrowed on the financial markets are received by the EC Treasury the same day the payments are executed to Member States. For NGEU top-ups (i.e. the additional payment appropriations for existing EC spending programmes), necessary funds are received on a monthly basis by the EC Treasury to cover the forecasted expenditure for the reference period. On average, this has increased the overall EC Treasury balance by EUR 1 billion i since end of June 2021.

3.4 Departure of the United Kingdom from the European Union

In April 2021 the EU issued the first invoice to the UK under the WA, payable in four equal instalments by the last working day of each month, starting on the reference date of 30 June (or where the reference date is not a working day, the last working day before the reference date).

The EU received the first three payments on 30 June 2021, 30 July 2021 and 31 August 2021. The fourth payment is expected on 30 September 2021. A second invoice will be issued on 16 September, which will trigger eight further monthly payments to start on 31 October (with the last payment relating to that invoice expected in May 2022).

3.5 Treasury situation (other than NGEU)

In the first half of 2021, available treasury resources were sufficient to cover all monthly payment needs, and the end of month treasury balances remained generally at a comfortable level (around EUR 5-6 billion). This was mainly due to a high amount of assigned revenue not yet spent and a significant level of offsetting between outstanding debts and receivables, carried out between programming cycles during this period. The offsetting resulted in a substantial execution of payment appropriations without a corresponding consumption of cash resources, due to netting with outstanding recovery orders.

In terms of own resources, 4.1 times one-twelfth was called from Member States to cover the structural fund payments for the first quarter of the year. As from the second quarter the anticipated twelfths were reimbursed progressively until the month of July, based on cash availabilities. The traditional own resources, mainly customs duties, show a deficit of around EUR 300 million due to a decline in trade volumes however, an economic recovery is expected later this year. Since June 2021, EC is also receiving the UK contribution (monthly instalment for the period June-September) following the Withdrawal agreement (see section 3.4).

The EC treasury flows were also impacted by the implementation of Next Generation EU (NGEU) programme following the coronavirus crisis.

3.6 Pre-financing situation

In the first half of 2021 a total amount of EUR 18.1 billion has been provided as new pre-financing (thereof EUR 15.5 billion related to the programming period 2014-2020). The split over the different management modes is as follows:

- Increase in shared management: EUR 8.1 billion (thereof EUR 7.2 billion related to the programming period 2014-2020), mainly paid under the structural funds;
- Increase in direct management: EUR 5.2 billion (thereof EUR 4.8 billion related to the programming period 2014-2020), mainly related to research and external actions;
- Increase in indirect management: EUR 4.8 billion (thereof EUR 3.6 billion related to the programming period 2014-2020), mainly related to external actions and research.

The Commission has received sufficient justifications to clear pre-financing totalling EUR 8.2 billion in the first half of 2020, mainly relating to the programming period 2014-2020.

3.7 Fines

Fines totalling EUR 502 million have been imposed by the Commission on various companies in different sectors in the first six months of 2021. Furthermore, fines amounting to EUR 252 million became definitive and were transferred to the budget. Most of these fines had been imposed in previous years.

The total amount of the financial guarantees provided by the fined companies up to June 2021 has remained stable (EUR 11 064 million at 30 June 2021 compared to EUR 11 041 million at the end of 2020).