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*Accompanying the document*

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**on guarantees covered by the general budget - Situation at 31 December 2018**

{COM(2019) 484 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 2018. 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. Countries representing significant 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 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 4 sub-sections: (3.1.) Member States, (3.2.) Pre-accession countries, (3.3.) Neighbourhood countries, (3.4.) Other countries.

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

The graph hereunder shows the breakdown of outstanding amounts by financial instrument. Each financing facility is detailed in the sections below.

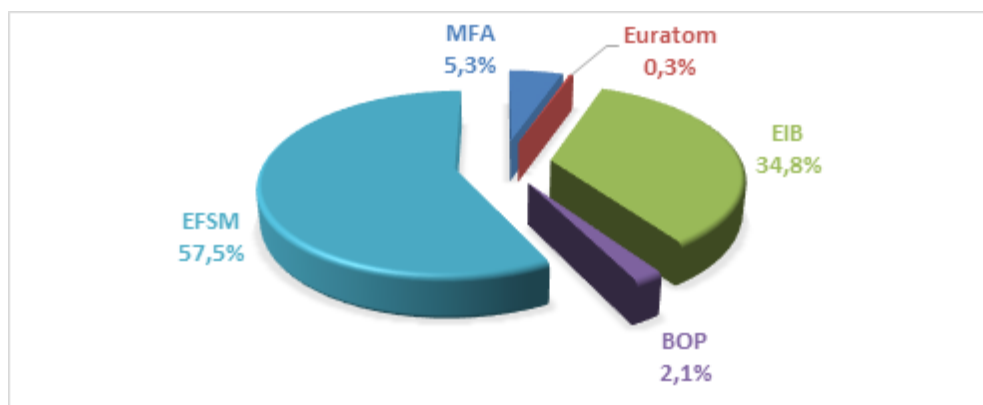


Table A1 shows the outstanding amount of capital in respect of borrowing and lending operations for which the risk is covered by the EU budget. The figures show the maximum possible risk for the EU for these operations and must not be read as meaning that these amounts will actually be drawn from the 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 IN RESPECT OF OPERATIONS DISBURSED at 31.12.2018 (in EUR million)**

Operations	Authorised ceiling (a)	Capital outstanding (b) at 31.12.2017	Capital outstanding (b) at 31.12.2018	Amount signed (minus cancellation) but not disbursed
<b>MEMBER STATES</b>				
<b>EIB (1)</b>		1,378	1,141	0
<b>Euratom (2)</b>	4,000			
Bulgaria		54	34	0
Romania		142	119	0
<b>BOP</b>				
Latvia	3,100	700	700	0
Romania	5,000	2,350	1,000	0
<b>EFSM</b>				
Irlande	22,500	22,500	22,500	0
Portugal	26,000	24,300	24,300	0
<b>MEMBER STATES - TOTAL</b>	<b>60,600</b>	<b>51,424</b>	<b>49,794</b>	<b>0</b>
<b>THIRD COUNTRIES</b>				
<b>Macro-Financial Assistance</b>				
Albania	9	7	5	0
Armenia	65	65	65	0
Bosnia and Herzegovina	140	112	108	0
fYRoM	90	6	0	0
Georgia	58	23	38	20
Jordan	380	280	280	100
Kyrgyzstan	15	15	15	0
Moldova	60	0	0	0
Montenegro	7	2	1	0
Serbia	473	82	39	0
Tunisia	800	500	500	300
Ukraine	3,810	2,810	3,310	500
<b>Euratom (2)</b>		53	100	200
<b>EIB</b>				
EIB Pre-Accession countries	37,178	10,487	10,718	2,401
EIB Neighbourhood and Partnership countries (3)	49,170	11,622	12,552	10,530
EIB Asia and Latin America	12,440	2,278	2,545	2,355
EIB South Africa	2,898	771	694	148
EIB Climate Change Mandate	2,000	633	887	465
<b>THIRD COUNTRIES - TOTAL</b>	<b>109,593</b>	<b>29,745</b>	<b>31,856</b>	<b>17,019</b>
<b>GRAND TOTAL</b>		<b>81,169</b>	<b>81,650</b>	<b>17,019</b>

(1) There is no ceiling as it concerns countries which were not Member States at the time the EIB mandates were adopted.

(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.

(a) Authorized ceiling: this is the aggregate of the maximum amounts of capital authorised (ceilings) for each operation 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.

## 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 Euratom (table A2a) and EIB guaranteed financing operations (table A3).

TABLE A2a: BoP, EFSM and Euratom lending operations to Member States (EUR million)  
Period 01.01.2018 - 31.12.2018

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 31.12.2017	Operations made in 2018		Amounts outstanding at 31.12.2018
							Amounts disbursed	Amounts repaid	
<b>BOP</b>	2002/332/EC (*)	18-02-2002		50,000.00	10,100.00	3,050.00	0.00	1,350.00	1,700.00
Latvia	2009/290/EC	20-01-2009	closed	(b)	3,100.00	700.00	0.00	0.00	700.00
Romania	2009/459/EC	06-05-2009	closed	(c)	5,000.00	2,350.00	0.00	1,350.00	1,000.00
Precautionary BOP for Romania	2013/531/EU	22-10-2013	closed	(a)	2,000.00				
<b>EFSM</b>	2010/407/EU	11-05-2010		60,000.00	48,500.00	46,800.00	3,900.00	3,900.00	46,800.00
Ireland	2011/77/EU	07-12-2010	closed	(c)	22,500.00	22,500.00	3,900.00	3,900.00	22,500.00
Portugal	2011/344/EU	17-05-2011	closed	(b)	26,000.00	24,300.00	600.00	600.00	24,300.00
<b>EURATOM</b>	94/179/Euratom	29-03-1977		4,000.00	436.00	195.99	0.00	43.08	152.91
Bulgaria	77/270-271/Euratom SEC(2000)661/2	18-04-2000	closed	(c)	212.50	53.69	0.00	19.88	33.81
Romania	C(2004)891	30-03-2004	closed	(c)	223.50	142.30	0.00	23.20	119.10
<b>TOTAL</b>					59,036.00	50,045.99	3,900.00	5,293.08	48,652.91

(\*) 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

(\*\*) Means that no further request for disbursement is possible (either because the total amount has been disbursed or because the facility has expired)

## 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 01.01.2018 - 31.12.2018

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 outstanding at 31.12.2017	Operations made in 2018		Amounts outstanding at 31.12.2018
							Amounts disbursed	Amounts repaid	
<b>MFA</b>					<b>3,802,987.00</b>	<b>3,901.47</b>	<b>515.00</b>	<b>55.73</b>	<b>4,360.73</b>
ALBANIA	2004/580/EC	29.04.04	closed	(c)	9.00	7.20		1.80	5.40
ARMENIA	2009/890/EC	30.11.09	closed	(c)	65.00	65.00			65.00
BOSNIA AND HERZEGOVINA	99/325/EC	10.05.99	closed	(c)	20.00	112.00		4.00	108.00
	02/883/EC	09.11.02	closed	(c)	20.00				
	2009/891/EC	30.11.09	closed	(c)	100.00				
FYROM	97/471/EC	22.07.97	closed	(c)	40.00	5.60		5.60	0.00
	99/733/EC	08.11.99	closed	(c)	50.00				
GEORGIA	778/2013/EU (EU) 2018/598	12.08.13	closed	(c)	23.00	23.00	15.00		38.00
		18.04.18	29.05.21	(b)	35.00				
JORDAN	1351/2013/EU 2371/2016/EU	11.12.13	closed	(c)	180.00	280.00			280.00
		14.12.16	03.04.20	(b)	200.00				
KYRGYZ REPUBLIC	1025/2013/EU	22.10.13	closed	(c)	15.00	15.00			15.00
MONTENEGRO*	2001/549/EC* 2002/882/EC*	16.07.01	closed	(c)	225.00	1.70		1.10	0.60
		09.11.02	closed	(c)	55.00				
REPUBLIC OF MOLDOVA	2017/1565/EU	13.09.17	18.07.20	(d)	60.00				
SERBIA *	2001/549/EC* 2002/882/EC* 2009/892/EC	16.07.01	closed	(c)	225.00	81.97		43.23	38.73
		09.11.02	closed	(c)	55.00				
		30.11.09	closed	(b)	200.00				
TUNISIA	534/2014/EU 1112/2016/EU	15.05.14	closed	(c)	300.00	500.00			500.00
		06.07.16	08.03.20	(b)	500.00				
UKRAINE	2002/639/EC 2010/646/EC 2014/215/EU EU/2015/601 (EU) 2018/947	12.07.02	closed	(c)	110.00	2,810.00	500.00		3,310.00
		7.07.10	closed	(c)	500.00				
		14.04.14	closed	(c)	1,000,000.00				
		15.04.15	closed	(c)	1,800,000.00				
		04.07.18	22.05.21	(b)	1,000,000.00				
<b>EURATOM</b>									
UKRAINE (Euratom)	94/179/EC  K2-R4 project  Safety Upgrade	21.03.94				52.92	50.00	2.91	100.00
		15.03.07		(c)	EUR equivalent ****				
		06.10.08		(c)	39.0 EUR				
		15.10.09		(c)	22.0 USD				
				(c)	10.3 USD				
				(b)	300.00				
<b>TOTAL</b>						<b>3,954.38</b>	<b>565.00</b>	<b>58.64</b>	<b>4,460.73</b>

\* 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 lending mandates (ELM).

The guarantee given to the EIB depends on the Mandate under which the loans are granted. The EU guarantee is limited as detailed below<sup>1</sup>:

- 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<sup>2</sup> and 2008/580/EC (codified version)<sup>3</sup>;
  - 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<sup>4</sup> and No 466/2014/ EU<sup>5</sup>.

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

<sup>2</sup> OJ L 308, 3.12.1999, p. 35.

<sup>3</sup> OJ L 186, 15.7.2008, p. 30.

<sup>4</sup> 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).

<sup>5</sup> 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 31.12.2018 (in EUR million)**

Operations	Authorised ceiling	Net signatures (a)	Amounts disbursed	Outstanding capital
<b>Mandate 2014/2020:</b>	<b>32,300</b>	<b>17,641</b>	<b>5,767</b>	<b>5,412</b>
<i>Pre-Accession countries</i>	<u>8,075</u>	<u>3,099</u>	<u>1,267</u>	<u>1,262</u>
<i>Neighbourhood and Partnership countries:</i>	<u>19,680</u>	<u>11,520</u>	<u>3,549</u>	<u>3,352</u>
<i>Mediterranean countries</i>	13,030	6,362	2,368	2,232
<i>Eastern Europe, Southern Caucasus and Russia</i>	6,650	5,158	1,180	1,120
<i>Asia and Latin America:</i>	<u>4,083</u>	<u>2,752</u>	<u>824</u>	<u>670</u>
<i>Latin America</i>	2,694	1,724	611	458
<i>Asia</i>	1,165	846	204	203
<i>Central Asia</i>	224	182	9	9
<i>South Africa</i>	<u>462</u>	<u>270</u>	<u>127</u>	<u>129</u>
<b>Mandate 2007/2013:</b>	<b>29,484</b>	<b>25,540</b>	<b>21,619</b>	<b>16,140</b>
<i>Pre-Accession countries</i>	<u>9,048</u>	<u>8,728</u>	<u>8,234</u>	<u>6,424</u>
<i>Neighbourhood and Partnership countries:</i>	<u>13,548</u>	<u>11,074</u>	<u>8,545</u>	<u>6,735</u>
<i>Mediterranean countries</i>	9,700	8,361	6,780	5,393
<i>Eastern Europe, Southern Caucasus and Russia</i>	3,848	2,713	1,765	1,342
<i>Asia and Latin America:</i>	<u>3,952</u>	<u>3,509</u>	<u>3,100</u>	<u>1,684</u>
<i>Latin America</i>	2,912	2,483	2,442	1,259
<i>Asia</i>	1,040	1,019	650	417
<i>Central Asia</i>		7	7	9
<i>South Africa</i>	<u>936</u>	<u>760</u>	<u>756</u>	<u>410</u>
<i>Climate change mandate</i>	<u>2,000</u>	<u>1,469</u>	<u>985</u>	<u>887</u>
<b>Mandate 2000/2007(3):</b>	<b>20,060</b>	<b>18,420</b>	<b>18,292</b>	<b>6,296</b>
<i>Pre-Accession countries</i>	10,235	6,691	6,616	2,971
<i>Neighbourhood and Partnership countries</i>	6,520	5,702	5,649	2,088
<i>Asia and Latin America</i>	2,480	2,105	2,105	187
<i>South Africa</i>	825	817	817	132
<i>Member States (following the accession)2</i>		3,105	3,105	918
<b>sub-total 65 % (1)</b>	<b>81,844</b>	<b>61,602</b>	<b>45,678</b>	<b>27,849</b>
<b>Financial agreements (70% Guarantee rate)</b>	<b>7,477</b>	<b>6,482</b>	<b>6,482</b>	<b>356</b>
<i>Pre-Accession countries</i>	3,770	477	477	61
<i>Neighbourhood and Partnership countries</i>	2,310	1,587	1,587	45
<i>Asia and Latin America:</i>	1,022	809	809	4
<i>South Africa</i>	375	375	375	22
<i>Member States (following the accession)2</i>		3,235	3,235	223
<b>sub-total 70 % (1)</b>	<b>7,477</b>	<b>6,482</b>	<b>6,482</b>	<b>356</b>
<b>Financial agreements (75% Guarantee rate)</b>	<b>7,712</b>	<b>7,047</b>	<b>7,047</b>	<b>127</b>
<i>Pre-Accession countries</i>	1,350	590	590	-
<i>Neighbourhood and Partnership countries</i>	6,362	4,478	4,478	127
<i>Member States (following the accession)2</i>		1,980	1,980	-
<b>sub-total 75 % (1)</b>	<b>7,712</b>	<b>7,047</b>	<b>7,047</b>	<b>127</b>
<b>Financial agreements (100% Guarantee rate)</b>	<b>6,653</b>	<b>5,320</b>	<b>5,320</b>	<b>204</b>
<i>Pre-Accession countries</i>	4,700	29	29	-
<i>Neighbourhood and Partnership countries</i>	750	315	315	204
<i>Asia and Latin America</i>	903	710	710	-
<i>South Africa</i>	300	285	285	-
<i>Member States (following the accession)2</i>		3,982	3,982	-
<b>sub-total 100 % (1)</b>	<b>6,653</b>	<b>5,320</b>	<b>5,320</b>	<b>204</b>
<b>Total</b>	<b>103,686</b>	<b>80,451</b>	<b>64,528</b>	<b>28,536</b>

(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 EUR m
<b>MED. Financial protocols(1)</b>		08.03.77	75% (2)	30.10.78/10.11.78	6,062
<b>MED. Horizontal cooperation</b>	1762/92/EEC	29.06.92	75% (2)	09.11.92/18.11.92	1,800
<b>TOTAL MED. (3)</b>					<b>7,862</b>
<b>C and E Europe I</b>	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
<b>C and E Europe II</b>	93/696/EC(6)	13.12.93	100%	22.07.94/12.08.94	3,000
<b>Asia, Latin America I</b>	93/115/EEC	15.02.93	100%	04.11.93/17.11.93	750
<b>Asia, Latin America Interim</b>	96/723/EC	12.12.96	100%	18.03.97/26.03.97	153
<b>Asia, Latin America Interim</b>	96/723/EC	12.12.96	70%	21.10.97	122
<b>South Africa</b>	95/207/EC	01.06.95	100%	04.10.95/16.10.95	300
<b>New mandates</b>	97/256/EC(7)	14.04.97	70%	25.07.97/29.07.97	7,105
<b>FYROM</b>	98/348/EC	19.05.98	70%	29.07.98/07.08.98	150
<b>Bosnia and Herzegovina</b>	98/729/EC	14.12.98	70%	16.06.99/22.06.99	100
<b>Turkey Terra</b>	99/786/EC	29.11.99	65%	18.04.00/23.05.00	600
<b>Mandates 2000-2007</b>	2000/24/EC(8)	22.12.99	65%	19.07.00/24.07.00 (11)	19,460
<b>The Baltic Sea basin of Russia</b>	2001/777/EC(9)	06.11.01	100%	06.05.02/07.05.02	100
<b>Russia, Belarus, Rep. Of Moldova and Ukraine</b>	2005/48/EC(10)	22.12.04	100%	21.12.05/09.12.05	500
<b>Mandate 2007-2013</b>	2006/1016/EC(12) (13)	19.12.06	65%	01.08.07/29.08.07 (14)	27,484
<b>Climate change</b>	1080/2011/EU (13)	13.10.11	65%	22.11.11	2,000
<b>Mandate 2014-2020</b>	466/2014/EU (14)	16.04.14	65%	22.07.14/25.07.14	27,000
<b>Amendment to Mandate 2014-2020</b>	2018/412 (15)	14.03.18	65%	30.08.18/03.10.18	5,300
<b>TOTAL</b>					<b>103,686</b>

(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.

(15) The ceiling fixed in 2014 was increased to EUR 32,300 million, to allow responding to potential upcoming challenges and Union priorities, as well as to fulfil a new objective on economic resilience.

## 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 2017<sup>6</sup>. Data related to Member States are highlighted in yellow in the following table.

<sup>6</sup> 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 based on the amounts (capital and interest) due under MFA, BOP, Euratom, EFSM and EIB operations disbursed at 31.12.2018 (in EUR million)

Ranking	Country	Total repayments due	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029-2048
1	Portugal	29,533.09	584.84	584.25	7,334.25	3,085.50	1,811.25	2,101.88	268.13	2,268.13	2,208.13	158.13	9,128.63
2	Ireland	28,131.11	518.98	515.63	3,515.63	410.63	2,410.63	1,198.13	2,783.13	2,371.13	1,311.13	2,586.13	10,510.00
3	Turkey	9,193.47	977.50	624.65	693.10	677.95	616.80	581.85	510.74	497.91	470.47	424.07	3,118.43
4	Ukraine	5,425.53	161.05	782.97	192.57	193.17	174.29	727.33	84.51	125.82	175.48	163.69	2,644.65
5	Morocco	3,413.18	260.06	291.78	318.41	311.01	297.19	284.44	262.63	222.76	167.67	162.50	834.73
6	Egypt	3,320.64	739.28	253.91	550.55	352.38	243.04	232.29	221.66	131.96	134.09	82.15	379.32
7	Tunisia	2,877.05	279.98	265.24	273.35	265.08	236.50	219.11	193.98	179.08	223.58	190.25	550.90
8	Serbia	2,232.53	187.00	145.96	146.91	145.41	137.28	136.31	133.67	123.16	115.02	103.46	858.37
9	Romania	1,868.02	1,188.58	143.10	113.77	95.99	83.45	80.81	54.25	39.27	33.49	25.83	9.48
10	Bosnia and Herzegovina	1,188.38	73.41	76.68	73.21	72.83	127.59	63.48	61.51	58.80	56.26	54.59	470.02
11	South Africa	907.63	62.76	92.01	95.61	92.05	91.23	83.70	90.81	50.39	41.98	38.74	168.34
12	Latvia	760.67	524.04	7.17	6.46	5.75	5.75	5.75	205.75	-	-	-	-
13	Jordan	759.70	46.01	48.99	56.30	59.84	60.19	37.19	57.53	41.88	42.23	42.94	266.61
14	Georgia	575.12	29.85	30.20	28.39	28.57	24.79	21.15	20.13	25.85	27.28	26.02	312.90
15	Israel	544.21	28.09	27.42	29.95	30.89	32.33	33.43	32.78	33.27	31.09	32.14	232.82
16	Panama	514.33	58.94	51.69	51.24	50.78	50.85	48.38	47.89	47.40	46.91	46.42	13.83
17	Lebanon	472.13	64.53	68.70	73.10	63.11	55.01	50.87	43.95	25.57	15.19	7.77	4.33
18	Ecuador	417.66	2.52	-	13.58	16.49	24.36	30.64	30.01	29.38	28.75	28.12	213.82
19	Montenegro	393.16	25.88	27.86	36.53	40.75	38.66	37.05	36.08	34.46	32.90	27.12	55.87
20	Brazil	373.85	53.90	49.69	34.81	19.69	25.17	24.97	24.78	13.33	13.33	13.33	100.83
21	India	338.76	23.59	17.49	6.74	9.08	9.08	9.08	9.08	9.08	141.49	69.50	34.57
22	Armenia	318.88	10.36	15.31	22.22	22.93	23.31	23.23	22.78	83.28	11.67	11.35	72.45
23	Moldova, Republic of	273.07	14.68	23.71	27.55	25.43	22.80	23.25	20.80	19.12	17.14	14.94	63.65
24	Bulgaria	237.93	54.85	46.52	39.32	30.32	23.11	17.85	10.44	4.16	4.03	3.90	3.42
25	Syrian Arab Republic	221.21	54.67	52.23	31.37	26.38	19.74	18.08	3.41	3.41	3.41	3.41	5.08
26	Albania	208.82	26.91	27.13	26.43	22.10	19.91	17.65	15.73	13.91	12.57	9.79	16.69
27	Croatia	194.19	34.11	32.63	28.49	23.74	20.89	18.74	15.41	7.44	4.33	3.06	5.36
28	Viet Nam	173.44	14.81	12.78	12.27	9.81	10.35	10.73	11.51	11.80	11.70	11.60	56.09
29	Sri Lanka	159.13	15.88	14.79	15.53	12.43	11.36	10.53	9.95	9.87	8.31	6.74	43.75
30	FYROM	157.48	10.09	12.18	14.04	13.47	14.67	14.14	12.05	11.61	11.25	10.44	33.53
31	Argentina	137.30	44.88	12.54	21.05	14.81	8.80	8.80	8.80	8.80	8.80	-	-
32	Nicaragua	125.74	4.44	6.40	7.09	7.30	8.01	9.00	8.78	8.56	8.34	8.12	49.71
33	Russian Federation	105.02	15.50	13.53	13.38	13.23	13.08	12.92	12.32	11.05	-	-	-
34	Paraguay	90.84	1.70	6.54	10.30	8.00	3.34	3.34	3.34	3.34	3.34	3.34	44.27
35	Costa Rica	79.21	-	-	2.22	2.90	3.08	3.89	3.87	3.86	3.84	3.83	51.73
36	China	76.83	8.44	7.86	8.16	5.85	3.38	3.38	3.38	3.38	3.38	3.38	26.23
37	Honduras	74.48	2.54	2.34	3.01	4.04	5.33	5.33	5.33	5.33	5.33	4.85	31.05
38	Slovakia	73.37	13.40	12.98	11.52	7.09	6.05	5.06	4.93	4.80	4.67	2.85	-
39	Poland	70.62	18.90	18.07	17.24	16.41	-	-	-	-	-	-	-
40	Mexico	67.45	47.70	-	19.75	-	-	-	-	-	-	-	-
41	Lao People's Democratic Rep.	66.04	3.29	3.34	3.40	3.47	3.54	3.62	3.70	3.80	3.90	4.02	29.95
42	Bolivia	59.45	-	1.20	2.25	3.46	3.72	3.72	3.72	3.72	3.72	3.72	30.24
43	Czech Republic	47.21	12.62	12.07	11.53	10.99	-	-	-	-	-	-	-
44	Bangladesh	47.07	-	-	-	0.66	1.80	2.48	2.46	2.45	2.44	2.42	32.36
45	Palestine	41.74	4.44	4.32	4.32	4.32	4.32	4.32	4.32	4.32	4.32	1.38	1.38
46	Tajikistan	18.40	-	0.77	0.77	1.13	1.48	1.47	1.46	1.45	1.45	1.44	6.98
47	Kyrgyzstan	16.73	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	15.29
48	Nepal	15.50	-	-	0.13	0.66	1.11	1.11	1.11	1.11	1.11	1.11	8.07
49	Azerbaijan	15.08	7.97	5.71	1.40	-	-	-	-	-	-	-	-
50	Colombia	9.41	8.52	0.89	-	-	-	-	-	-	-	-	-
51	Indonesia	9.09	6.06	3.03	-	-	-	-	-	-	-	-	-
52	Mongolia	7.99	-	-	0.31	0.43	0.42	0.42	0.42	0.41	0.41	0.40	4.77
53	Maldives	5.36	3.66	1.70	-	-	-	-	-	-	-	-	-
54	Lithuania	5.35	2.74	1.83	0.78	-	-	-	-	-	-	-	-
55	Pakistan	2.20	2.20	-	-	-	-	-	-	-	-	-	-
56	Peru	0.63	0.63	-	-	-	-	-	-	-	-	-	-
<b>Grand total</b>		<b>96,452</b>	<b>6,336.9</b>	<b>4,458</b>	<b>14,000</b>	<b>6,318</b>	<b>6,789</b>	<b>6,231</b>	<b>5,363</b>	<b>6,560</b>	<b>5,456</b>	<b>4,399</b>	<b>30,541</b>
<b>Total MS</b>		<b>60,922</b>	<b>2,953.1</b>	<b>1,374</b>	<b>11,079</b>	<b>3,686</b>	<b>4,361</b>	<b>3,428</b>	<b>3,342</b>	<b>4,695</b>	<b>3,566</b>	<b>2,780</b>	<b>19,657</b>
<b>Total non MS</b>		<b>35,531</b>	<b>3,383.8</b>	<b>3,084</b>	<b>2,921</b>	<b>2,632</b>	<b>2,428</b>	<b>2,803</b>	<b>2,021</b>	<b>1,865</b>	<b>1,890</b>	<b>1,619</b>	<b>10,884</b>
<b>Percentage MS</b>		<b>63%</b>	<b>46.6%</b>	<b>31%</b>	<b>79%</b>	<b>58%</b>	<b>64%</b>	<b>55%</b>	<b>62%</b>	<b>72%</b>	<b>65%</b>	<b>63%</b>	<b>64%</b>

### 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 Guarantee Fund for external Actions.

The weight of EFSM (57.5% of the total outstanding including accrued interest) 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 Guarantee Fund for external Actions.

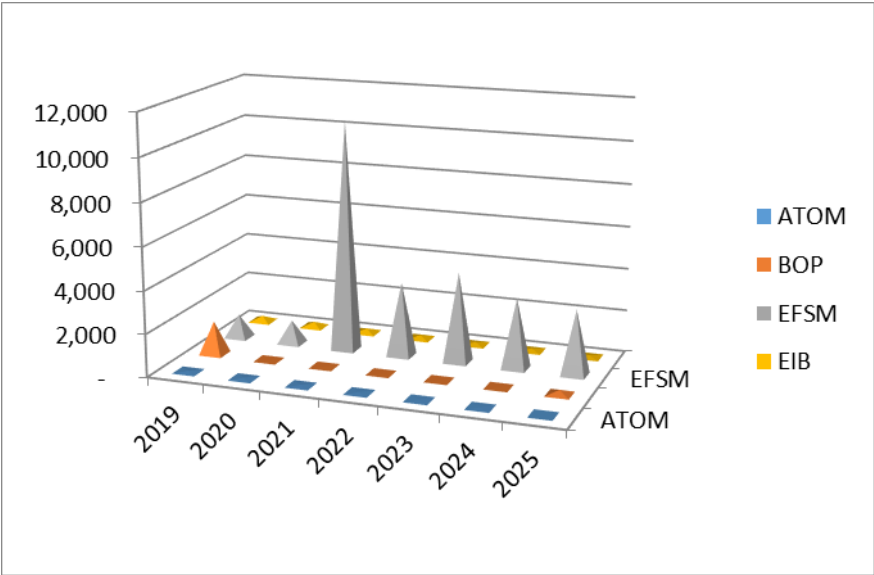
**Table 1: Total outstanding amounts covered by the EU budget at 31 December 2018 (in EUR million)**

	Outstanding Capital 31.12.2017	Accrued Interest 31.12.2017	Total	%	Outstanding Capital 31.12.2018	Accrued Interest 31.12.2018	Total	%
<b>Member States</b>								
Euratom	196.0	0.6	196.6	0.2%	152.9	0.5	153.4	0.2%
BOP	3,050.0	64.1	3,114.1	3.8%	1,700.0	33.9	1,733.9	2.1%
EIB	1,378.4	10.9	1,389.3	1.7%	1,141.0	9.0	1,150.0	1.4%
EFSM	46,800.0	656.0	47,456.0	57.8%	46,800.0	600.0	47,400.0	57.5%
<b>Sub-total Member States</b>	<b>51,424.4</b>	<b>731.7</b>	<b>52,156.0</b>	<b>63.6%</b>	<b>49,793.9</b>	<b>643.3</b>	<b>50,437.2</b>	<b>61.2%</b>
<b>Third Countries</b>								
MFA	3,901.5	22.2	3,923.7	4.8%	4,360.7	26.8	4,387.6	5.3%
Euratom	52.9	0.3	53.2	0.06%	100.0	0.5	100.5	0.1%
EIB	25,791.2	146.0	25,937.2	31.6%	27,395.2	147.6	27,542.8	33.4%
<b>Sub-total third countries</b>	<b>29,745.6</b>	<b>168.5</b>	<b>29,914.1</b>	<b>36.4%</b>	<b>31,855.9</b>	<b>174.9</b>	<b>32,030.9</b>	<b>38.8%</b>
<b>Grand Total</b>	<b>81,170.0</b>	<b>900.1</b>	<b>82,070.1</b>	<b>100%</b>	<b>81,649.9</b>	<b>818.2</b>	<b>82,468.1</b>	<b>100%</b>

#### 2.3.1. EU loan operations to Member States

In 2018, Member States represented 61.2% of the EU budget exposure (cumulated total risk borne by the EU budget, see table 1 above) with the following breakdown between the financial instruments:

**Graph A1:** Total annual risk borne by the EU budget (EUR million) related to Member States at 31.12.2018 for the period 2019-2025 (based on amortization plans of existing loans)

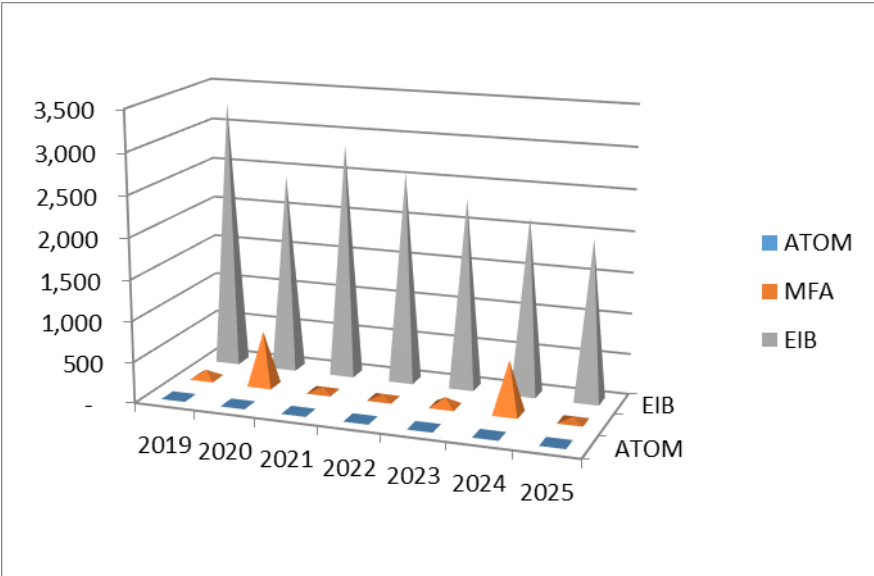


As Graph 1 illustrates, the main risk for the EU budget is linked to EFSM loans, which represent 94.7% of the total outstanding of Member States.

2.3.2. EU loan operations to non-Member States

In 2018, non-Member States represented 36.8% of the EU budget exposure (cumulated total risk borne by the EU budget, see table 1 above) with the following breakdown between the financial instruments:

**Graph A2:** Total annual risk borne by the EU budget (EUR million) related to non-Member States at 31.12.2018 for the period 2019-2025 (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 loans signed and disbursed under all EIB mandates).

### 2.3.3. Guarantes given to the EIB

90% of the 2007-2013 EIB external Mandate has been signed but an amount of EUR 3,985 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 31.12.2018) EUR million**

	Ceiling (a)	Net signatures (b)	Balances to be disbursed (c)
<b>A. Pre-Accession Countries</b>	9,048	8,728	494
<b>B. Neighbourhood and partnership countries</b>	13,548	11,074	2,567
<b>C. Asia and Latin America</b>	3,952	3,509	456
<b>D. South Africa</b>	936	760	5
<b>E. Climate Change Mandate (2011-2013)</b>	2,000	1,469	465
	<b>29,484</b>	<b>25,540</b>	<b>3,985</b>

(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 31.12.2018.

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 31.12.2018) EUR million**

	Ceiling	Net signatures (a)	Balances to be disbursed (b)
<b>A. Pre-Accession Countries</b>	8,075	3,099	1,832
<b>B. Neighbourhood and partnership countries</b>	19,680	11,520	7,911
<b>C. Asia and Latin America</b>	4,083	2,752	1,899
<b>D. South Africa</b>	462	270	143
	<b>32,300</b>	<b>17,641</b>	<b>11,785</b>

(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 31.12.2018.

### Risk factors:

#### a) 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.

#### b) 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. Payments under the EU budget guarantees

The EU borrows on the financial markets and on-lends the proceeds to Member States (BOP, EFSM) and to third countries (MFA) 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 the budget cash resources to ensure a timely repayment of the EU borrowing on the contractual due date. Therefore, the Commission would draw on its cash resources in order to avoid delays and any resulting costs in servicing its borrowing operations. Furthermore, being mindful of most expenditures taking place during the first quarter of each year, debt redemption is structured for the months thereafter as well as for the beginning of each month when cash balances are highest.

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 14 of Council Regulation 609/2014<sup>7</sup>, 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 seven 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 in case of default. The same process applies for the EFSM loans with 14 days lead time.

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

##### BOP and EFSM loans

- 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.

##### Euratom and MFA loans

- a) If the payment delay reaches three months after the due date and if the borrower is a third country, the Commission draws on the Guarantee Fund for external action to cover the default<sup>8</sup> 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 degree 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.

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<sup>7</sup> See Article 14 of Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements (OJ L 168, 7.6.2014, p. 39).

<sup>8</sup> 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.

- 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 lending 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<sup>9</sup> or directly from the EU budget should the resources of the Fund be insufficient<sup>10</sup>.

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 evaluated countries are grouped in 4 sub-sections: (3.1.) Member States, (3.2.) Pre-accession countries, (3.3.) Neighbourhood countries, (3.4.) Other countries.

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<sup>9</sup> 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 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.

<sup>10</sup> If there are insufficient resources in the Fund, the procedure for activating the guarantee is the same as for borrowing/lending operations, see point 2.4.1 above and footnote 7.



### **Explanatory notes for country-risk indicators**

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. The higher the ranking number, the lower the creditworthiness of the country.

#### 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

### **3.1. Member States**

#### *3.1.1. Bulgaria*

Real GDP growth lost momentum in 2018, when Bulgaria's economy grew by 3.2%, compared to 3.8% in the previous year. The main driver of this slowdown was the weakening of exports due to softer external demand from large trading partners, as well as country-specific one-off events. Trends in the domestic economy were more positive. Wage increases continued to fuel private consumption growth and the recovery in the use of EU investment funding provided a boost to investment growth. In the last three months of 2018 final consumption registered a small decline (-0.1%) compared to the previous quarter, but domestic demand is expected to remain the main engine for growth in 2019 and 2020. Labour market tightening and additional public sector wage increases should provide continued support for private consumption in 2019. Overall, real GDP growth is expected to increase to 3.6% in 2019 and remain at 3.6% in 2020. The current growth pattern suggests a relatively small impact from external shocks and exports are expected to stage a moderate recovery. Risks to the economic outlook are tilted to the downside and mainly stem from the possibility of weaker demand in the main export markets. Price pressures increased in 2018. Overall, headline inflation reached 2.6% in 2018, mainly due to the rise in energy prices. However, strong domestic demand and increases in unprocessed food prices, due to disappointing harvest, added to inflationary pressures. Despite the support of strong demand and high wage growth, inflation is expected to fall to 2.0% in 2019, mainly as a result of base effects, and ease further to 1.8% in 2020.

The government budget balance and debt indicators fully respect the margins of the EU stability and growth pact. The general government budget is in surplus since 2016. Rising taxes and social security revenues more than counterbalanced a slowly recovering public investment and increases in public sector wage. According to the Commission 2018 autumn economic forecast the general government budget will remain in surplus in 2019, despite some expansionary measures, and in 2020 under no policy change assumption. The general government debt in 2018 is estimated to have dropped by more than 2 pp., to 23.3% of GDP, and is projected to decline to below 20% of GDP by 2020. This reduction is due to increases in the primary surplus, low interest payments and higher nominal GDP growth. Moreover, Bulgaria is operating under a currency board arrangement since 1997, which serves as a key macroeconomic policy anchor and is currently targeting to join ERMII and banking union, implementing a number of reforms to further improve the stability of the financial system and the quality of institutions.

Country-risk indicators : Bulgaria		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	3.9	3.8	3.1
Unemployment (end of period)	(% labour force)	6.7	5.7	4.7
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.5	1.8	2.3
<b>Public finances</b>				
General government balance	(% of GDP)	0.2	1.1	0.8
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	30 791.6	34 763.3	35 877.4
Current account balance	(% of GDP)	2.6	6.5	4.6
Net inflow of foreign direct investment	(m EUR)	615.4	1 078.9	1 222.6
Official reserves, including gold (end of period)	(m EUR)	23 898.6	23 662.1	25 076
In months of average GNFS imports for the last 12 months	(months)	10	8.7	8.6
Exchange rate (end of period, fixed, Euro adopted as of 01.01.2014)	(per EUR)	1.95	1.96	1.96
<b>External debt</b>				
External debt (end of period)	(m EUR)	34 221.5	33 397.3	32 715.5
External debt/GDP	(%)	71.1	64.6	59.3
Debt service/exports of goods and services	(%)	22.5	18.6	17.1
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.
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	379.5	305.6	237.9
EU exposure/total EU exposure	(%)	0.4	0.3	0.2
EU exposure/external debt	(%)	1.1	0.9	0.7
EU exposure/exports of goods and services	(%)	1.2	0.9	0.7
<b>IMF arrangements</b>				
Type: no IMF involvement				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Baa2	Baa2	Baa2
S&P long-term foreign currency rating (end of period)		BB+	BBB-	BBB-
Fitch long-term foreign currency rating (end of period)		BBB-	BBB	BBB

### 3.1.2. Ireland

Ireland's domestic economy grew at a strong pace in 2018, underpinned by continued momentum in employment and investment in construction. In the first three quarters of 2018, real GDP increased by 7.4% year-on-year (y-o-y), well above the euro area average, but inflated by the activities of multinational companies. Over the same period, underlying domestic activity, which excludes some of the impact of multinationals, also grew robustly, by 5.1% y-o-y. The European Commission 2019 Winter Forecast estimates real GDP to have increased by 6.8% in 2018 but projects a moderation in growth to 4.1% in 2019 and 3.7% in 2020. The labour market performed strongly in 2018, with the number of people in employment reaching a record high at the end of the year although the rate of growth is beginning to slow down. Unemployment was also low last year, at 5.7%. The robust and broad based employment growth, combined with stronger wage growth and weak inflation are set to further support private consumption. Construction activity has been strong in 2018 and is expected to continue expanding at a brisk pace, supported by government supply measures. Consumer price inflation (HICP) was low in 2018, at 0.7%. It was sustained by energy prices, while core inflation remained subdued. Headline inflation is projected to reach 0.9% in 2019 and to pick up to 1.4% in 2020. The economic outlook remains clouded by uncertainty. This

relates primarily to the terms of the UK's withdrawal from the EU and changes in the international taxation and trade environment.

The budgetary position is expected to have been close to balance in 2018, helped by positive surprises in corporate tax. It is forecast to remain broadly stable in 2019. Based on the Commission 2018 Autumn Forecast, the structural balance is projected to have reached -0.2% in 2018 and be at Ireland's Medium Term Objective of -0.5% in 2019. The government debt to GDP ratio is estimated to have declined to 63.9 % in 2018 from 68.4% in 2017. The debt sustainability analysis shows that, while falling, public debt remains vulnerable to unfavourable shocks. The latest post programme surveillance review found that risks for Ireland's capacity to service the European Financial Stability Mechanism (EFSM) and European Financial Stability Facility (EFSF) debt remain low. The maturity of EFSM loans, including those originally due in 2018, has been extended, and it is not expected that Ireland will have to repay any of its EFSF and EFSM loans before 2027. The sovereign's financing situation is comfortable and the National Treasury Management Agency plans to maintain strong cash buffers in advance of large redemptions in 2019 and 2020. Market access conditions for the Irish sovereign remain favourable.

Country-risk indicators : Ireland		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	5.0 <sup>(1)</sup>	7.2	6.8 <sup>(2)</sup>
Unemployment <sup>(4)</sup>	(% labour force)	8.4	6.7	5.7
Inflation rate (HICP)	(% change)	-0.2	0.3	0.7
<b>Public finances</b>				
General government balance	(% of GDP)	-0.5	-0.2	-0.1 <sup>(3)</sup>
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	328 236 <sup>(1)</sup>	352 555 <sup>(1)</sup>	n.a.
Current account balance	(% of GDP)	-4.2 <sup>(1)</sup>	8.5 <sup>(1)</sup>	11.7 <sup>(3)</sup>
Net inflow of foreign direct investment <sup>(1)</sup>	(m EUR)	8 427	33 581	n.a.
Official reserves, including gold (end of period)	(m EUR)	3 406	3 681	4 572
In months of subsequent year's imports	(months)	0.1	0.1	0.2 <sup>(3)</sup>
Exchange rate (end of period)	(per EUR)	Euro	Euro	Euro
<b>External debt</b>				
Gross external debt	(m EUR)	200 600	201 300	205 900 <sup>(3)</sup>
Gross external debt	(% of GDP)	73.4 <sup>(1)</sup>	68.4	63.9 <sup>(3)</sup>
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
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	29 586.4	28 977	28 369.8
EU exposure/total EU exposure	(%)	29.1	29.1	29.3
EU exposure/external debt	(%)	14.7	14.4	13.8
EU exposure/exports of goods and services	(%)	9	8.2	n.a.
<b>IMF arrangements</b>				
Type: SDR 19.5 bn drawn down in 12 disbursements				
Date: January 2011 – December 2013				
State: SDR 7.65 bn repaid in 2014 and SDR 8.05 bn repaid in 2015.				
SDR 3.8 bn repaid in 2017				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		A3	A2	A2
S&P long-term foreign currency rating (end of period)		A+	A+	A+
Fitch long-term foreign currency rating (end of period)		A	A+	A+
DBRS - long-term credit rating (end of period)		A (high)	A (high)	A (high)

(1)Figure revised by the Irish Central Statistics Office

(2)Preliminary data for 2018 based on the Commission 2019 Winter Forecast

(3)Preliminary data for 2018 based on the Commission 2018 Autumn Forecast

(4)Unemployment figures have been revised since last year due to new methodology applied

### 3.1.3. Latvia

In 2019, GDP growth of around 3% is expected, carried by persistently strong private consumption, despite a slowdown in investment growth. Rapid investment growth coupled with persistently strong private consumption are estimated to have pushed GDP growth to 4.7% in 2018. Export growth in 2018, however, slowed down mostly due to weaker agricultural and food exports, but also due to a decline in road transport and financial services. The unemployment rate fell further below its long-term average level as the investment boom helped substantially increase employment for the first time in three years. This supported a

continued rapid growth in wages, but HICP inflation decelerated to 2.5% largely due to moderating growth in food prices. In 2019, with external demand weakening and financial and transport services projected to continue struggling, export growth is set to be modest. Furthermore, limited fiscal space is set to constrain public consumption growth. On the back of these factors GDP growth in 2019 is forecast to reach 3.1%. In 2020, slowing growth is expected to gradually weigh on consumer optimism and private consumption, the backbone of GDP growth over the previous 3 years and as a consequence GDP growth is projected to slow down further in 2020 to 2.6%.

The government deficit is projected to narrow slightly from 0.7% of GDP in 2018 to 0.6% of GDP in 2019. The government revenue and expenditure (as a share to GDP) are forecast to contract by 0.7 and 0.8 percentage points, respectively. The decline in the overall tax burden is linked to the costs of the tax reform announced in 2017 and implemented over the period of 2018-2020. At the same time, the underlying tax revenue growth follows the dynamic wage and nominal private consumption developments. Government expenditure growth is constrained by the authorities in order to meet the deficit requirements. In particular, purchases of goods and services are planned to be reduced in 2019. Nevertheless, spending is increased for a few priority areas, notably for wages for medical personnel. The structural deficit is estimated to decline from 1.9% of GDP in 2018 to 1.6% of GDP in 2019, which broadly complies with the fiscal requirements for Latvia. The gross debt ratio stood at 37% of GDP in 2018 and is projected to decline to around 36% of GDP in 2019, assuming a reduction of the previously accumulated cash reserves in 2018 and 2019.

Country-risk indicators : Latvia		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	2.1	4.6	4.7
Unemployment (end of period)	(% labour force)	9.6	8.7	7.4
Inflation rate (CPI) (Dec/Dec)	(% change)	0.1	2.9	2.5
<b>Public finances</b>				
General government balance	(% of GDP)	0.1	-0.6	-0.7
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	15 017.4	16 515.7	17 382
Current account balance	(% of GDP)	1.6	0.7	-1
Net inflow of foreign direct investment	(m EUR)	23	526	618
Official reserves, including gold (end of period)	(m EUR)	4 100	4 298	4 284
In months of subsequent year's imports	(months)	2.8	2.9	2.7
Exchange rate (end of period, fixed, Euro adopted as of 01.01.2014)	(per EUR)	Euro	Euro	Euro
<b>External debt</b>				
External debt (end of period)	(m EUR)	37 289	37 984	35 732
External debt/GDP	(%)	149	141	122
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
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	813.3	786.7	760.7
EU exposure/total EU exposure	(%)	0.8	0.8	0.8
EU exposure/external debt	(%)	2.2	2.1	2
EU exposure/exports of goods and services	(%)	5.4	4.8	4.4
<b>IMF arrangements</b>				
Type: Standby agreement				
Started December 2008 - completed December 2012				
Drawn amount of SDR 982mn is fully repaid				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		A3	A3	A3
S&P long-term foreign currency rating (end of period)		A-	A-	A
Fitch long-term foreign currency rating (end of period)		A-	A-	A-

#### 3.1.4. Portugal

Economic growth in Portugal moderated from a peak of 2.8% in 2017 to 2.1% in 2018, driven mainly by weaker external demand. Domestic demand remained robust although investment growth also slowed down after a very strong performance in 2017. Economic growth is expected to moderate further in 2019 reflecting downward revisions in the forecasts for main trading partners and uncertain global environment, which is likely to have a negative impact on private investments. The improvement in the labour market decelerated in 2018, particularly in the second half of the year, but remained significant. Unemployment thus dropped to a 16-year low of 6.7% at the end of 2018, converging towards the EU average. Consumer prices faced substantial volatility on a monthly basis in 2018 reflecting abrupt changes in energy and accommodation prices. However, inflation decreased considerably towards the end of the year and the annual average rate moved down from 1.6% in 2017 to 1.2% in 2018.

The general government budget deficit declined to 0.7% of GDP in 2018, according to estimates based on the Commission 2018 autumn forecast. The fiscal performance continued to benefit from the positive economic cycle, decreasing interest expenditure and lower-than-budgeted public investment. The government is targeting a further decrease in the headline budget deficit to 0.2% of GDP in 2019. Accordingly, public debt is also projected to retain a downward trend. Standard debt sustainability analysis indicates that the debt-to-GDP ratio is expected to gradually decline from the estimated 121.5% at the end of 2018 to about 107% by 2029. In 2018, Portugal completed the last series of early repayments to the IMF, closing the extended fund facility well ahead of schedule. The outstanding debt to EFSM stands at EUR 24.3bn and repayments are expected to start in 2026.

<b>Country-risk indicators : Portugal</b>		<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Output and prices</b>				
Real GDP growth rate	(%)	1.9	2.8	2.1
Unemployment (end of period)	(% labour force)	10.1	7.9	6.7
Inflation rate (CPI) (Dec/Dec)	(% change)	0.9	1.5	0.6
<b>Public finances</b>				
General government balance	(% of GDP)	-2	-3	-0.7*
General government gross debt	(% of GDP)	129.2	124.8	121.5*
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	75 828.3	84 315.6	89 222.0
Current account balance	(% of GDP)	0.6	0.5	-0.6
Net inflow of foreign direct investment	(m EUR)	3 248.8	8 300.9	3 917.3
Official reserves, including gold (end of period)	(m EUR)	23 841.8	21 771.7	21 786.8
In months of subsequent year's imports	(months)	4	3.2	3
Exchange rate (end of period)	(per EUR)	Euro	Euro	Euro
<b>External debt</b>				
Gross external debt (end of period)	(m EUR)	399 345.5	407 482	412 766
Gross external debt/GDP	(%)	214.1	209.4	205.8
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
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	30 602.2	30 011	29 533.1
EU exposure/total EU exposure	(%)	30.7	31	30.6
EU exposure/external debt	(%)	7.7	7.4	7.2
EU exposure/exports of goods and services	(%)	40.4	35.6	33.1
<b>IMF arrangements</b>				
Type: Extended Fund Facility (SDR 22.9bn disbursed)				
Date: May 2011 – June 2014				
State: Fully repaid by December 2018 (ahead of schedule)				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba1	Ba1	Baa3
S&P long-term foreign currency rating (end of period)		BB+	BBB-	BBB-
Fitch long-term foreign currency rating (end of period)		BB+	BBB	BBB
DBRS - long-term credit rating (end of period)		BBB(low)	BBB(low)	BBB

\* Preliminary public finances data for 2018 based on the European Commission 2018 Autumn Forecast



### 3.1.5. Romania

The economic boom experienced in 2017 has wound down in 2018. Real GDP grew 4.1% in 2018. As in recent years, private consumption was the main growth driver, spurred by continuous public policies aiming at increasing disposable income. Investment strongly underperformed, with a negative contribution to growth of 0.7% of GDP. Also, the trade balance is worsening, as the international environment has led to a slowdown in the performance of exports while imports have been decelerating more slowly. As a result, the current account deficit continued to deteriorate fast, to 4.7 % of GDP in 2018, after having been close to balance in 2014. Real GDP growth is forecast by the Commission to further decrease to 3.8 % in 2019 and 3.6 % in 2020, with private consumption still the main driver. Risks to GDP growth are clearly on the downside. Annual headline inflation reached 4.5% in September 2018, the highest level since 2013, but has decelerated towards the end of 2018 mainly on account of decreasing food and, above all, energy prices. It is forecast to decelerate further, to 3.3% in 2019 and 3.1% in 2020, driven by base effects and falling oil prices. However, a further depreciation of the currency vis-à-vis the euro poses an upward risk to the price levels. The adoption in December 2018 of a wide-encompassing Government Emergency Ordinance (GEO 114/2018) increased substantially macroeconomic risks. The Ordinance included several measures which may hinder investment, while the new tax on banks' assets creates financial stability risks and may constrain the conduct of monetary policy. The lack of public consultation or impact assessment also added to the already prevailing sense of unpredictability of policy making, which may further hurt investment and macroeconomic stability.

Romania's fiscal policy has been expansionary, in a context of strong growth. Romania has been under significant deviation procedures since spring 2017. In 2018, the headline deficit is projected to have increased to 3.3% of GDP from 2.9% in the previous year, mainly driven by the significant increases to public wages. The 2018 government deficit was 2.9% of GDP in cash terms. [The deficit in accrual terms, the relevant figure under the Stability and Growth Pact, is not yet available, but there is a risk that it may be above 3% of GDP. The Commission projects the general government deficit at 3.4 % of GDP in 2019 and to sharply increase to 4.7 % of GDP in 2020, mostly driven by planned significant increases to old-age pensions. The structural deficit is also projected to deteriorate, to around 4½ % of GDP in 2020. The 2019 budget law contains a deficit target of 2.8 % of GDP. However, this projection seems overly optimistic, in particular due to the optimistic macroeconomic scenario and revenue projection.

The stalling and even unwinding of structural reforms risks damaging the country's long term economic prospects. In particular, the judicial framework and the fight against corruption have faced increasing pressures from the authorities since 2017. The corporate governance framework of state-owned enterprises is also being weakened. The government has also weakened the second pension pillar. The national fiscal framework has been repeatedly ignored. As these developments risk setting the stage for a hard landing of the economy, a close and continuous monitoring of the Romanian situation is necessary.

Country-risk indicators : Romania		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	4.8	7	4.1
Unemployment (end of period)	(% labour force)	5.9	4.9	4.2
Inflation rate (CPI) (Dec/Dec)	(% change)	-1.2	1.5	4.7
<b>Public finances</b>				
General government balance	(% of GDP)	-2.9	-2.9	-3.3
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	70 178	77 880	83 897
Current account balance	(% of GDP)	-2.1	-3.2	-4.7
Net inflow of foreign direct investment	(m EUR)	5 656	5 853	6 224
Official reserves, including gold (end of period)	(m EUR)	37 905	37 107	36 800
In months of subsequent year's imports	(months)	5.6	5.4	5.4
Exchange rate (end of period)	(per EUR)	4.5	4.6	4.6
<b>External debt</b>				
Gross external debt (end of period)	(m EUR)	92 910	97 361	98 476
Gross external debt/GDP	(%)	54.5	51.8	48.7
Debt service/exports of goods and services	(%)	n.a.	n.a.	
Arrears (on both interest and principal)	(%)	n.a.	n.a.	
Debt relief agreements and rescheduling	(m EUR)	n.a.	n.a.	
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	4 926.2	3 471.9	1 868
EU exposure/total EU exposure	(%)	4.9	3.6	1.9
EU exposure/external debt	(%)	5.3	3.6	1.9
EU exposure/exports of goods and services	(%)	7	4.5	2.2
<b>IMF arrangements</b>				
Type: Stand-By Arrangement				
Started: May 2009 - completed January 2016				
Status: Drawn amount of SDR 11.4bn is fully repaid				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Baa3	Baa3	Baa3
S&P long-term foreign currency rating (end of period)		BBB-	BBB-	BBB-
Fitch long-term foreign currency rating (end of period)		BBB-	BBB-	BBB-

## 3.2. Pre-accession countries

### 3.2.1. Albania

The Albanian economy has continued to expand thanks to both domestic and foreign demand. Annual real GDP growth, averaging 2.2% over 2010-15, accelerated to over 4% in 2018. Private consumption has been the main driver, supported by rising employment and low interest and inflation rates. Net exports' contribution to GDP growth, remained slightly negative in 2018, as high imports off-set the recovery of goods export. Inflation persisted at slightly below 2% and thus below the Central Bank's 3% target in the wake of the rapidly strengthening currency which off-set the slight upward price trend of domestic products. The Bank of Albania has maintained a very accommodative monetary policy by lowering the key policy rate (the repo rate) to the record low of 1% in July and intervening on the foreign exchange market to contain the appreciation of the lek. Financial stability has improved as the stock of non-performing loans was further reduced to 11% of total gross loans by the end of 2018. Nevertheless, bank lending to business has remained subdued while lending to households picked up.

The current account deficit continued narrowing to 6.3% of GDP in 2018. It is supported by increasing remittances and rising exports of both goods and services and continues being mainly financed by FDI inflows. Due to the appreciation of the Albanian currency, the real effective exchange rate index (REER) climbed by 8 points over 2018 which reflects improving fundamentals but also once-off exceptional capital inflows. Foreign exchange reserves totalled EUR 3.0 billion (25.7% of GDP) at the end of 2018, covering 6.5 months of imports and 37% of total external debt. Supported by exchange rate movements, gross external debt decreased to 64.5% of GDP at the end of September 2018, down from 68.4% at the end of 2017. About 80% of the external debt is long-term, with more than half of it owed by the government mainly to bilateral and international donors.

The government's fiscal deficit came down more than expected to 1.5% of GDP in 2018 2.1% in 2017 as did public debt which declined to 67.2% (70% in 2017). A broader tax base, reduced informality and increasing social contributions from increased formal employment supported the revenue increase. Supported by the appreciation of the Lek, under spending of the budget and the low deficit, the gross public debt-to-GDP ratio declined more than expected and the Government confirmed its commitment to reduce public debt below 60% of GDP by 2021.

Sovereign credit ratings confirmed the improving macro-fiscal fundamentals in Albania. Standard & Poor's said it has affirmed its long- and short-term foreign and local currency sovereign credit ratings on Albania at B+/B, with a stable outlook in February 2019. This rating is based on the lengthening of the average maturity of public debt, high economic growth and the political commitment to public debt reduction. Public debt consisted of about 53% domestic debt and 47% external debt which is mostly denominated in Euro and owed to bilateral and multilateral lenders. Short-term debt still accounts for 35% of debt, but interest rate risks were lowered as the share of domestic debt with variable interest rates was reduced. Gross financing needs remain above 20% of GDP and a risk to debt sustainability. The domestic market is expected to remain the main financing source, while external sources are foreseen to finance up to 25% of the government's gross financing needs, mostly through concessional and semi-concessional project loans. Moody's also confirmed their rating of B1 stable in February 2019. Overall, there is no objective evidence for impairment of the MFA loan to Albania.

Country-risk indicators : Albania		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	3.4	3.8	4.1f
Unemployment (average)	(% labour force)	15.6	14.1	12.7f
Inflation rate (CPI) (average)	(% change)	1.3	1.9	2
<b>Public finances</b>				
General government balance	(% of GDP)	-1.8	-1.9	-1.6
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	3 106.4	3 649.5	3 115.8**
Current account balance	(% of GDP)	-7.6	-7.5	-6.3f
Net inflow of foreign direct investment	(m EUR)	936.5	993.8	782.1**
Official reserves, including gold (end of period)	(m EUR)	2 945	2 996	2 756 Q2
In months of subsequent year's imports *	(months)	7	6.7	6.8 Q2
Exchange rate (end of period)	(per EUR)	135.3	133.2	123.4
<b>External debt</b>				
External debt (end of period)	(m EUR)	7 882	7 949	8 401 Q3
External debt/GDP	(%)	72.4	69.6	66.3 Q3
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
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	261.8	235.2	208.8
EU exposure/total EU exposure	(%)	0.3	0.2	0.2
EU exposure/external debt	(%)	3.3	3	2.5
EU exposure/exports of goods and services	(%)	8.4	6.4	6.7
<b>IMF arrangements</b>				
Type		EFF	EFF	
Date		28-02-2014	28-02-2014	
On track		on track	completed	
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B1	B1	
S&P long-term foreign currency rating (end of period)		B+	B+	
Fitch long-term foreign currency rating (end of period)		none	none	

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

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

e - ECFIN estimation.

f - Commission Autumn 2018 Forecast.

### 3.2.2. Bosnia and Herzegovina

Output growth was at about 3½% in the first 3 quarters of 2018, benefitting from a favourable external environment and solid private consumption. The labour market benefitted from economic growth, but also from active labour market measures, which resulted in an increase in registered employment by 2.5% in 2018. The average rate of unemployment based on registered unemployment figures dropped to 34.7% in December 2018 compared to 37.4% the year before. According the Labour Force Survey (the LFS), the unemployment rate declined to 18.4% in mid-2018 from 20.5% a year earlier. Still, the level of unemployment remains one of the highest in the region. The overall level of consumer prices was 1.3% higher in 2018, compared to a largely unchanged price level (+0.3%) in the previous year. However, during the second half of 2018, inflation rates were close to 1.8% year-on-year, mainly as a result of higher prices for transport.

The current account deficit remained largely unchanged in the third quarter. Its 4-quarter moving average stood at around 4.3% of GDP, compared to 4.5% in the four quarters to September 2017. Commodity exports slowed down markedly during the year, bringing annual export growth down to 7.6% in 2018, compared to 12.0% in 2017, largely reflecting decelerating import demand from the EU, but also from non-EU countries from the region, such as Turkey and Kosovo. However, the lower growth dynamics of commodity exports was largely compensated by higher service exports, in particular in the form of tourism. Growth of commodity imports slowed down too, from 12.5% in 2017 to 6.0% in 2018, which is in line with the solid private consumption. FDI inflows accounted for about 2.4% of GDP (4-quarter moving average) by end-September 2018, compared to 1.4% of GDP in the corresponding period the year before. The main source of FDI continued to be retained earnings, with Switzerland, Slovenia and Saudi-Arabia being the main countries of origin. Foreign reserves continued to increase, resulting in a further rise in terms of import coverage, reaching some 7¼ months at the end of the year.

Public sector revenues performed well in the first three quarters of 2018, increasing by 7% year-on-year. The main driver of this growth was tax revenue. Public spending remained contained. The general government accounts might again register a slight surplus in 2018, as in the previous years. Public debt continued to decline slightly in 2018, largely as a result of nominal GDP growth, declining to some 37.2% of GDP compared to 38.7% a year earlier. However, the country's general government data is not fully in line with EU accounting standards. The three largest holders of foreign debt are the World Bank, the European Investment Bank (EIB) and the International Monetary Funds (IMF), accounting for 22%, 19% and 12% of the country's total foreign public debt, respectively. The IMF's current 3-year, 550 million EUR Extended Funds Facility is on hold, following discussions on compliance with the IMF conditionality and the absence of a country-wide government due to general elections, held in October 2018.

Overall, there is no evidence for impairment of the MFA loan to Bosnia and Herzegovina.

Country-risk indicators : Bosnia and Herzegovina		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	3.3	3.5	3.3 Q3
Unemployment (end of period)	(% labour force)	25.4	20.5	18.4
Inflation rate (CPI) (Dec/Dec)	(% change)	-1.1	1.2	1.6
<b>Public finances</b>				
General government balance	(% of GDP)	1.2	2.5	N.A.
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	5 450.4	6 429.3	5 185.8 **
Current account balance	(% of GDP)	-4.2	-4.5	-4.3 Q3
Net inflow of foreign direct investment	(m EUR)	256.8	330.1	323.8 **
Official reserves, including gold (end of period)	(m EUR)	4 884.1	5 392.9	5 962.3
In months of subsequent year's imports *	(months)	7.1	6.9	7.2
Exchange rate (end of period)	(per EUR)	1.9	1.9	1.9
<b>External debt</b>				
External debt (GG, end of period)	(m EUR)	4 526.8	4 156.6	4 233.9 Q3
External debt/GDP	(%)	29.7	26	25.5
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
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	1 161.5	1 222.2	1 188.4
EU exposure/total EU exposure	(%)	1.2	1.3	1.2
EU exposure/external debt	(%)	25.7	29.4	28.1
EU exposure/exports of goods and services	(%)	21.3	19	22.9
<b>IMF arrangements</b>				
Type		EFF	EFF	EFF
Date		07-09-2016	07-09-2016	07-09-2016
On track		on-track	on-track	on-hold
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B3	B3	
S&P long-term foreign currency rating (end of period)		B	B	
Fitch long-term foreign currency rating (end of period)		none		

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

\*\* flow up to and including Q3.

### 3.2.3. North Macedonia

Economic growth resumed during the first three quarters of 2018. With the return of political stability, GDP growth picked up in the year to September (+2.3% y-o-y). The biggest growth contribution came from net exports. Supported by increased FDI-based production capacities, export growth accelerated. Import growth weakened, due to lower demand for investment-related goods. Gross capital formation declined by 11.4% and public investment was at a record low. Supported by steady wage increases and rising transfers, household spending remained robust (+2.3%). Real disposable incomes were bolstered by low inflation, with consumer prices rising only slightly faster, on average, than in 2017 (1.5% compared to 1.4% in 2017), driven by rising energy prices and related spillovers, in particular to the transport sector. Core inflation remained muted. Supported by stable foreign exchange markets, the central bank lowered the key interest rate in three consecutive steps of 25bps each in 2018, to 2.5%, a historic low. Economic activity was supported by strengthening credit growth. While household loans accounted for the bulk of the increase, lending to corporates also picked up in 2018.

External vulnerabilities remained contained. The current account moved into surplus in the four quarters to September 2018 (0.2% of GDP), driven by an improving trade balance and recovering private transfers. Foreign direct investment inflows increased, after a slump in 2017, and stood at 4.6% of GDP. External debt continued to rise further, on the back of public sector borrowing and rising intercompany debt. At 77% of projected GDP at the end of September 2018, it is higher by 7pps than the average in 2013-2017. Its maturity structure, with about one quarter short-term, remained unchanged from previous years. Foreign exchange reserves were replenished after the drop in 2017, supported by the January Eurobond issuance (500 mio), which more than compensated for the government's early partial repayment of a Eurobond due in 2020. At end-September, reserves stood 19% higher than one year earlier, covering some 4 months of prospective imports.

The budget deficit narrowed on the back of a severe decline in capital spending. At around 1.8% of projected GDP, the 2018 general government deficit likely remained significantly below target, resulting mainly from severe under-execution of capital expenditure and lower spending on goods and services. Fiscal performance was supported by higher tax revenue (+9.3%) and social contributions (+6.9%). Current spending increased by 6.4%, as the government stepped up social transfers and subsidies. At year-end, public debt stood at some 48.7% of projected full-year GDP, compared to 47.8% at the end of 2017. The level of government-guaranteed debt of state enterprises dropped slightly, compared to one year earlier (-0.3pps to 8% of projected GDP). Overall, there is no objective evidence for impairment of the MFA loan to North Macedonia.

Country-risk indicators : North Macedonia		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	2.9	0.2	2.1f
Unemployment (end of period)	(% labour force)	23.8	22.4	21.3f
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.3	1.4	1.45
<b>Public finances</b>				
General government balance	(% of GDP)	-2.7	-2.7	-2.8f
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	4 858.8	5 547.7	4 684.5**
Current account balance	(% of GDP)	-3.1	-1.3	-0.7f
Net inflow of foreign direct investment	(m EUR)	354	229.1	310.5**
Official reserves, including gold (end of period)	(m EUR)	2 613.4	2 335.3	2 867.1
In months of subsequent year's imports *	(months)	5.9	4.8	5.1 Q3
Exchange rate (end of period)	(per EUR)	61.5	61.6	61.5
<b>External debt</b>				
External General debt (end of period)	(m EUR)	3 286	3 188	3 538
External debt/GDP	(%)	74.7	73.6	77.6(end Q3)
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
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	164.1	147.5	157.5
EU exposure/total EU exposure	(%)	0.2	0.2	0.2
EU exposure/external debt	(%)	5	4.6	4.5
EU exposure/exports of goods and services	(%)	3.4	2.7	3.4
<b>IMF arrangements</b>				
Type		none	none	none
Date				
Status: On track				
<b>Indicators of market's perception of creditworthiness</b>				
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-	BB-
Fitch long-term foreign currency rating (end of period)		BB	BB+	BB+

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

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

f - Commission Autumn 2018 Forecast.

e - ECFIN estimation.

### 3.2.4. Montenegro

After strong 4.7% expansion in 2017, economic growth is estimated to have also exceeded 4% in 2018, driven by strong household consumption and investment. The economy is expected to slow down in 2018 due to the strong deceleration in investment activity. Annual inflation averaged 2.8 % in 2018, driven by the increase of tax rates at the beginning of the year. Economic growth combined with some active labour policy measures in favour of young workers are slowly improving labour market trends. In the third quarter of 2018, the unemployment rate (according to the labour force survey) declined to 14.4%, down from 15.1 % a year before.

The current account deficit remains one of the main structural problems facing the economy. External balances deteriorated in 2018 as stronger imports widened the trade deficit in spite of the marked improvement of the services account surplus. As a result, the current account deficit expanded to 17.2% in 2018, up from 16.1% a year earlier. Net FDI financed 41.3% of



the external gap in 2018, the rest being covered by net inflows of portfolio investment and loans. The current level of external debt is estimated at 166% of GDP, which implies pronounced external vulnerability.

Fiscal outcomes are improving, supported by the medium-term fiscal adjustment strategy. The fiscal deficit improved from 5.3% of GDP in 2017 to a preliminary estimate of 2.7% of GDP in 2018 as revenues increased faster than expenditure. In 2018, the fiscal strategy raised VAT and excise tax rates, and reduced expenditures by implementing a partial public sector wage freeze and phasing out some social benefits. The public debt ratio is expected to have reached a peak in 2018, but it is still high, at 65.3% of GDP (without guarantees). The authorities have been able to lengthen the average maturity of the public debt stock significantly and reduce the share of variable rate instruments. This shifting in debt composition means that rollover and interest rate risks have been lowered and, consequently, debt-refinancing risks appear moderate.

On 14 September 2018, Standard and Poor's affirmed Montenegro's B+/B sovereign credit rating with a stable outlook. The rating reflects the balance between a favourable growth potential and fiscal consolidation measures against elevated external vulnerabilities and a high debt burden. On 21 September, Moody's shifted its outlook for Montenegro's credit rating from stable to positive, maintaining the rating unchanged at B1. The agency underlined the country's favourable prospects for growth. However, the rating is negatively impacted by limited economic diversification, high debt levels and heavy reliance on external funding.

Overall, there is no objective evidence for impairment of the MFA loan to Montenegro.

<b>Country-risk indicators : Montenegro</b>		<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Output and prices</b>				
Real GDP growth rate	(%)	2.9	4.7	3.9f
Unemployment (end of period)	(% labour force)	18	16.4	15.5f
Inflation rate (CPI) (Dec/Dec)	(% change)	0.1	2.8	2.8
<b>Public finances</b>				
General government balance	(% of GDP)	-3.6	-5.3	-2.7f
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	1 605.4	1 765	1 643.7**
Current account balance	(% of GDP)	-16.2	-16.1	-16.5f
Net inflow of foreign direct investment	(m EUR)	371.6	484.6	218.4**
Official reserves, including gold (end of period)	(m EUR)	803	897.7	1 100.6
In months of subsequent year's imports *	(months)	4.7	4.7	5.2
Exchange rate (end of period)	(per EUR)	1	1	1
<b>External debt</b>				
External debt (end of period)	(m EUR)	6 314.5	7 458.8	7 560.6b
External debt/GDP	(%)	159.7	173.5	164.2b
Debt service/exports of goods and services	(%)	34.3	21.1	27.6
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	267.1	313.4	393.2
EU exposure/total EU exposure	(%)	0.3	0.3	0.4
EU exposure/external debt	(%)	4.2	4.2	5.2
EU exposure/exports of goods and services	(%)	16.6	17.8	23.9
<b>IMF arrangements</b>				
Type		none	none	
Date				
On track				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B1	B1	
S&P long-term foreign currency rating (end of period)		B+	B+	
Fitch long-term foreign currency rating (end of period)		none	none	

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

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

f - Commission Autumn 2018 Forecast.

b - Budget 2018

### 3.2.5. Serbia

Economic growth accelerated in 2018, to over 4% from 2% in 2017, boosted by robust domestic demand and base effects. Investment activity, in particular, was very strong. Rising domestic demand led to a strong import growth and net exports contribution to growth remained negative. Driven by a widening merchandise trade deficit, the current account deficit has nearly doubled since 2016, staying above 5% of GDP in 2018. However, it was fully covered by large and broad based net inflows of foreign direct investment. Price pressures remained subdued and inflation expectations contained. Despite strong economic growth, inflation remained low in 2018, below the mid-point of the central bank tolerance band of 3%  $\pm$  1.5 pps. Price stability was supported by a continuously strong dinar exchange rate and steady fiscal performance. Monetary policy has cautiously supported economic activity: the key policy rate of the central bank was cut twice by 25 basis points in March and

April to 3.0%. In April, the central bank also narrowed the interest rate corridor around its key rate from  $\pm 1.5$  pps to  $\pm 1.25$  pps.

Major fiscal adjustment over previous years has significantly improved debt sustainability. In 2018, the general government budget was in surplus (0.6 of GDP) for a second consecutive year. The 2019 budget envisages a small deficit of 0.5% of GDP, equal to the medium term budgetary objective. The good fiscal performance has created room to unwind the crisis era pension cuts, increase capital spending and reduce, albeit only marginally, labour taxation. Government debt went down from a peak above 70% of GDP in 2015 to less than 55% of GDP in 2018.

The dinar exchange rate remained broadly stable against the euro. The central bank continued its frequent interventions on the foreign exchange market, buying a net EUR 1.6 billion in 2018. The official foreign exchange reserves remained adequate, covering more than twice the short term external debt and around five months' worth of imports of goods and services. After successfully completing a 3-year Stand By Arrangement with the International Monetary Fund, in July Serbia agreed to a new non-disbursing programme supported by a 30-month Policy coordination instrument. In December 2018, S&P upgraded the perspective on Serbia's long term foreign currency rating from stable to positive, while Moody's and Fitch have left their ratings unchanged.

Country-risk indicators : Serbia		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	3.3	2	4.4
Unemployment (average)	(% labour force)	15.3	13.5	13.1f
Inflation rate (CPI) (average)	(% change)	1.1	3	2
<b>Public finances</b>				
General government balance	(% of GDP)	-1.2	1.1	0.6
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	17 384.9	19 311.9	21 238.5
Current account balance	(% of GDP)	-2.9	-5.2	-5.2
Net inflow of foreign direct investment	(m EUR)	1 899.2	2 418.1	3 187.9
Official reserves, including gold (end of period)	(m EUR)	10 204.6	9 961.7	11 268.4
In months of subsequent year's imports *	(months)	6.8e	6.0e	6.2e
Exchange rate (end of period)	(per EUR)	123.5	118.5	118.2
<b>External debt</b>				
External debt (end of period)	(m EUR)	26 494.4	25 587.9	26 517.4**
External debt/GDP	(%)	72.2	65.3	63.2
Debt service/exports of goods and services	(%)	25.9	22.2	17.9**
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	2 106.4	2 139.9	2 232.5
EU exposure/total EU exposure	(%) (1)	2.1	2.2	2.3
EU exposure/external debt	(%)	8	8.4	8.4
EU exposure/exports of goods and services	(%)	12.1	11.1	10.5
<b>IMF arrangements</b>				
Type		SBA (precautionary)	SBA (precautionary)	PCI
Date		01-02-2015	01-02-2015	01-07-2018
On track		On track	On track	On track
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B1/positive	Ba3/stable	Ba3/stable
S&P long-term foreign currency rating (end of period)		BB-/positive	BB/stable	BB/positive
Fitch long-term foreign currency rating (end of period)		BB-/stable	BB/stable	BB/stable

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

\*\* Q3 2018

f - Commission Autumn 2018 Forecast.

e - ECFIN estimation.

### 3.2.6. Turkey

The Turkish economy started to lose momentum in the second quarter of 2018. Following the capital outflow and the strong depreciation of the Turkish lira in the third quarter, domestic financial conditions sharply worsened. This accelerated the stalling of economic growth and Turkey entered into a recession. Indicators for the real economy have been in recessionary territory since. Financial conditions have recovered but loan growth is still deeply in negative territory in real terms. The improvement in financial conditions is mostly due to short-term capital inflows into Turkey. These inflows are supported by the Fed turning more dovish in recent months and are part of less risk aversion of the investment industry as consequence. The inflation rate jumped to a high of 25.2% in October following the strong TL depreciation but in recent months the stabilization of the lira, lowering of tax rates and the fall-out in domestic demand led to a deceleration of inflation to 20.4% y-o-y in January.

The current account sharply corrected following the TL crisis, turning positive in the final four months of 2018. The reduction in the current account is mainly due to the drop in imports that resulted from recent declines in the real exchange rate and domestic demand, and the deceleration in the growth rate of loans as analysis by the Turkish central bank shows. Exports initially jumped in USD terms (+15.7% y-o-y, seasonally adjusted), following the

strong depreciation of the lira, but subsequently lost momentum (latest figure for December: +0.8% y-o-y). Capital inflows have surged in January but this has been limited to portfolio investment (equity and debt instruments). The correction of the current account was supported by declining energy prices from October, a fall in demand for petrochemicals as well as a near-complete fall-out of gold imports. These factors are likely to be temporary and the recovery can be expected to come with a renewed increase in the current account deficit. In addition, even if the number of tourists has recovered, the amount they spent was in 2018 16% below the level of 2015 and the services balances was at about the same level in percent of GDP as in 2015 (2.9%).

Public finances have deteriorated in recent years due to ad hoc budgetary measures on both the expenditure and revenue side. At the same time, the Turkish government identified fiscal discipline as the main pillar of the New Economy Program published in September 2018. Turkey's fiscal policy credibility and low government debt levels have been one of the main reasons for Turkey to weather the TL crisis (together with an improved relationship with the USA, central bank rate hike and a financially sound banking system). In 2018, the central government was able to meet the revised deficit target of October 2018 (1.9% of GDP), notwithstanding underlying trends in public finances turning negative at the end of the year. The general government ran a deficit of 2.4% of GDP in 2018 and public debt stood at 32.6% of GDP at the end of 2018 Q3.

Country-risk indicators : Turkey		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	3.2	7.4	3.8f
Unemployment	(% labour force)	11.1	11.2	10.1f
Inflation rate (CPI) (Dec/Dec)	(% change)	7.8	11.1	16.3
<b>Public finances</b>				
General government balance	(% of GDP)	-1.3	-1.8	-2.5f
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	171 507.4	185 847.7	136 146 **
Current account balance	(% of GDP)	-3.9	-5.6	-6.8f
Net inflow of foreign direct investment	(m EUR)	13 950	11 546	13 163
Official reserves, including gold, (end of period)	(m EUR)	106 101	107 651	93 167
In months of subsequent year's imports *	(months)	6.4	5.5	5
Exchange rate (end of period)	(per EUR)	3.7	4.6	6
<b>External debt</b>				
External debt (end of period)	(m EUR)	369 826.2	402 584.7	354 920.5 Q3
External debt/GDP	(%)	47.4	53.4	53.8 Q3
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
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	9 453	8 917.5	9 193.5
EU exposure/total EU exposure	(%)	9.5	9.2	9.5
EU exposure/external debt	(%)	2.6	2.2	n.a.
EU exposure/exports of goods and services	(%)	5.5	4.8	6.8
<b>IMF arrangements</b>				
Type		none		
(Date)				
On track				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)				
S&P long-term foreign currency rating (end of period)				
Fitch long-term foreign currency rating (end of period)				

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

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

f - Commission Autumn 2018 Forecast.

### 3.3. Neighbourhood countries

#### 3.3.1. Armenia

Following an improvement in 2015-2017, Armenia's external position weakened in 2018 as the current account deficit rose considerably on strong imports. The widening took place despite tight budgetary policies that aimed to improve fiscal sustainability. Furthermore, the economy remains subject to external risks because of its small size, weak diversification and still relatively high (public and external) indebtedness.

Economic activity moderated in 2018 as real GDP growth slowed down to 5.2% from 7.5% a year earlier. This was mainly the result of a poor harvest and conservative budgetary policies. Strong expenditure restraint helped reduce the state budget deficit to 1.8% of GDP in 2018 (4.8% in the previous year) and reverse Armenia's upward public debt dynamics (to 55.8% of GDP at end-2018, from 58.9% at end-2017). While Armenia's public debt structure consists mainly of concessional loans and the level of short-term debt is very low, it remains exposed

to significant exchange-rate risk due to the high share (about 80%) of foreign currency liabilities.

Armenia's external outlook worsened in 2018 due to strong imports, partially related to rapid growth of capital investments. As a result, the current account deficit (on a 12-month rolling basis) widened to 8.4% of GDP as of the third quarter, up from only 2.4% in 2017. This was also due to weakening exports in the second half of the year – the result of a poor agricultural harvest and lower global prices of copper, a key export. Partially due to the widening current account, gross international reserves declined by 3% in 2018 to USD 2.25 billion at the end of year, which translated into around 3.8 months of next year's expected imports.

Armenia's gross external debt amounted to EUR 9.5 billion at the end of September 2018, which is around 88% of annual GDP. The share of the short-term external debt is relatively small (11%), which reflects the highly-concessional nature of the state debt.

In March 2018, credit agency Moody's changed the outlook on Armenia's B1 long-term sovereign credit rating to positive from stable. The move reflected the country's robust growth potential and improving institutional strength. At the same time, the agency noted challenges stemming from a small and low income economy that remains exposed to external developments as well as a moderately high debt burden that relies on external funding, and latent geopolitical tensions with neighbouring Azerbaijan.

Country-risk indicators : Armenia		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	0.2	7.5	5.2
Unemployment (avg)	(% labour force)	18	17.8	20,4*
Inflation rate (CPI) (Dec/Dec)	(% change)	-1.1	2.6	1.8
<b>Public finances</b>				
General government balance	(% of GDP)	-5.5	-4.8	1.8
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	3 162.4	3 812.9	3 934.7
Current account balance	(% of GDP)	-2.3	-2.4	-8,4**
Net inflow of foreign direct investment	(m EUR)	245.6	201.4	222
Official reserves, including gold (end of period)	(m EUR)	2 082.5	1 931.2	1 965.3
In months of subsequent year's imports	(months)	4.6	4.1	3.8
Exchange rate (end of period)	(per EUR)	512.2	580.1	553.65
<b>External debt</b>				
External debt (end of period)	(m EUR)	9 404	8 783	9 468***
External debt/GDP	(%)	94.3	91.2	87.9***
Debt service/exports of goods and services	(%)	7.2	n.a.	n.a.
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>EU exposure [Dir. L to provide]</b>				
EU exposure (capital and interest due)	(m EUR)	265.1	315.5	318.9
EU exposure/total EU exposure	(%)	0.3	0.3	0.3
EU exposure/external debt	(%)	2.8	3.6	3.3
EU exposure/exports of goods and services	(%)	8.4	8.3	8.1
<b>IMF arrangements</b>				
Type: Extended Fund Facility (EFF)		EFF	none	none
Date		February 2014 - April 2017		
On track		On track		
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B1	B1	B1
S&P long-term foreign currency rating (end of period)		none	none	none
Fitch long-term foreign currency rating (end of period)		B+	B+	B+

\* as per the revised in 2018 labour statistics methodology; \*\* - 12-month rolling as of Q3; \*\*\* - as of end-Q3

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

### 3.3.2. Georgia

Georgia has experienced a solid recovery from the slowdown of 2015-2016. Nonetheless, external vulnerabilities, notably a large current account deficit and high external debt, persist and are further amplified by global and regional factors such as the risks associated with a global economic slowdown.

In 2018, Georgia's real GDP is estimated to have increased by 4.8%, driven by both domestic and external demand. The fiscal deficit of the general government is estimated to have been reduced from 3.9% GDP in 2017 to 3.3% GDP in 2018, on the back of economic growth and consolidation efforts. This also allowed Georgia to slightly reduce its public debt to 43% GDP in 2018, from 45% GDP in 2017.

However, Georgia's balance of payment position remains vulnerable due to a decreasing but still large current account deficit (6.7% GDP in the first three quarters of 2018, compared to



7.5% GDP in the same period of 2017) and high external debt (109% in 2018, compared to 113% GDP in 2017). Georgia's international reserves have been increasing in recent years, totalling USD 3.3 billion at end-2018 (3.4 months of import cover). However, reserve needs have also been increasing, and the reserves are currently below the level estimated by the IMF to be adequate.

At the same time, Georgia's level of public debt is considered sustainable by the IMF, based on its latest Debt Sustainability Analysis produced in the context of the Extended Fund Facility (EFF) programme agreed in April 2017. In 2018, Georgia's sovereign debt ratings remained stable, with all major agencies keeping them at the same BB level (the BB- rating by Standard & Poor's and Fitch, and the Ba2 rating by Moody's).

The ratings reflect the view that economic reforms and stable macroeconomic policy, both supported by the IMF programme (a three-year EFF programme of USD 285 million), will help to mitigate Georgia's credit weaknesses, notably external vulnerabilities. The IMF programme remains well on-track, with three programme reviews completed on time. Reforms and sound policy are further anchored by Macro-Financial Assistance from the EU (EUR 45 million, of which EUR 10 million in grants and EUR 35 million in loans). This further MFA was approved in April 2018, and the first instalment of EUR 20 million was disbursed to Georgia in December 2018.

Country-risk indicators : Georgia		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	2.8	5	4.8e
Unemployment (end of period)	(% labour force)	14	13.9	12.7
Inflation rate (CPI) (Dec/Dec)	(% change)	1.8	6.7	1.5
<b>Public finances</b>				
General government balance	(% of GDP)	-3.7	-4	-3.9
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	5 914.7	6 316.3	7 795e
Current account balance	(% of GDP)	-13.2	-8.8	-8.3*
Net inflow of foreign direct investment	(m EUR)	1 100.7	1 348.8	1 014*
Official reserves, including gold (end of period)	(m EUR)	2 618.6	2 522.6	2 862.2
In months of subsequent year's imports	(months)	3.5	3.3	3.4
Exchange rate (end of period)	(per EUR)	2.7	2.6	2.7
<b>External debt</b>				
External debt (end of period)	(m EUR)	15 078.2	14 326.9	14 985*
External debt/GDP	(%)	109.3	113.2	108.9e
Debt service/exports of goods and services	(%)	20.9	21.7	18.3e
Arrears (on both interest and principal)	(m EUR)	312.4	233.6	276*
Debt relief agreements and rescheduling	(m EUR)	0	0	0
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	413.1	460.2	575.1
EU exposure/total EU exposure	(%)	0.4	0.5	0.6
EU exposure/external debt	(%)	2.7	3.2	3.8
EU exposure/exports of goods and services	(%)	7	7.3	7.4
<b>IMF arrangements</b>				
Type		SBA	EFF	EFF
Date		Jul. 2014 - Jul. 2017	Apr 2017 - Apr 2020	Apr 2017 - Apr 2020
On track		reviews pending	1st review completed	reviews completed
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba3	Ba2	Ba2
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-

e = estimate

\* Q3 2018

### 3.3.3. Egypt

Egypt's economic situation has improved. Although challenges remain, the country is in a much better position than it was prior to the start of the IMF-supported programme, which was approved in November 2016 and carries a USD 12 billion envelope. Growth stood at 5.3% for FY17/18 (from 4.3% in FY15/16) and the government expects it to continue accelerating to the 6-7% range, although external risks along with uncertainty about the execution of structural reforms may limit this acceleration. As the impact of the currency devaluation waned, inflation has come down, to 12% in December 2018, after having peaked at 33% in July 2017. Unemployment dropped to 10% in the third quarter of 2018, coming from 12.7% in FY15/16. The current account deficit has narrowed to 2.4% of GDP in FY17/18, from a deficit of 6% in FY15/16, thanks to increased tourism and gas sector revenues and a reduction in energy imports. International reserves reached USD 43.5 billion, compared to USD 19.5 billion before the start of the programme, now representing over six months of imports.

The IMF considers Egypt's public debt sustainable, but subject to significant risks arising from higher interest rates due to global financial tightening, weaker growth and less ambitious fiscal consolidation. The primary fiscal balance recorded a surplus of 0.2% of GDP in FY17/18, amounting to a reduction by 3.7 percentage points over the first two years of the programme. The programme aims at a 2% primary surplus over FY18/19, based mainly on fuel subsidy reductions. This is key to bringing public debt, which stood at 92.6% of GDP in FY17/18, to a firmly downward path.

Country-risk indicators : Egypt (1)		2015/2016	2016/2017	2017/2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	4.3	4.2	5.3
Unemployment (end of period)*	(% labour force)	12.7	12.2	10.9
Inflation rate (CPI) (Dec/Dec)	(% change)	14.8	35	12
<b>Public finances</b>				
General government balance	(% of GDP)	-12.5	-10.9	-9.8
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	31 578.9	34 017.9	39 644.2
Current account balance	(% of GDP)	-6	-5.6	-2.4
Net inflow of foreign direct investment	(m EUR)	6 170.6	7 152	6 202.3
Official reserves, including gold (end of period)	(m EUR)	15 517.2	28 149.6	36 459.2
In months of subsequent year's imports	(months)	3	5	6.6
Exchange rate (end of period)	(EG£ per EUR)	9.9	20.6	20.7
<b>External debt</b>				
External debt (end of period)	(m EUR)	50 635.2	72 437.2	77 612
External debt/GDP	(%)	18.3	41.3	37.4
Debt service/exports of goods and services	(%)	14.6	19.7	28
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	2 830.7	2 484.9	3 320.6
EU exposure/total EU exposure	(%) (1)	2.8	2.6	3.4
EU exposure/external debt	(%)	5.6	3.4	4.3
EU exposure/exports of goods and services	(%)	9	7.3	8.4
<b>IMF arrangements</b>				
Type		no	EFF	EFF
(Date)			11-11-2016	11-11-2016
On track			Yes	Yes
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B3/stable	B3/stable	B3/stable
S&P long-term foreign currency rating (end of period)		B-/negative	B-/stable	B/stable
Fitch long-term foreign currency rating (end of period)		B/stable	B/stable	B/positive

(1) Fiscal year ends 30th June

Source: IMF.

### 3.3.4. Jordan

Economic conditions continue to be challenging. Growth has remained at low levels, around 2.1% in 2018. This had a negative effect on unemployment, which in the first three quarters of 2018 increased slightly to 18.7% from 18.6% in the same period in 2017. Progress in fiscal consolidation was not sustained in 2018. In the first three quarters of 2018 the overall fiscal deficit, which includes transfers to NEPCO (the electricity company) and the Water Authority of Jordan and grants, widened to 3.6% of GDP from 3.4% of GDP in the same period 2017.

Jordan's gross public debt increased to 95.4% of GDP at the end of September 2018 from 94.3% of GDP at the end of 2017. The external public debt amounted to 39.1% of GDP in the

same period. Around 70% of Jordan's external public debt was denominated in USD with which the Jordanian currency is pegged while around half of Jordan's external public debt is held by official sector creditors.

Export growth (3.4%) outpaced that of imports (0.3%) in the first three quarters of 2018. In combination with a strong increase in travel receipts (12.6%), this contributed to the narrowing of the current account deficit in the first six months of 2018 to 10.4% of GDP from 12.8% of GDP in the same period in 2017. However, it remains at high levels and would be even higher (11.4% of GDP) excluding foreign grants, which indicates the vulnerability of the external position.

External financing conditions have turned less favourable. Foreign direct investment inflows declined significantly, while some capital outflows were observed. Thus, in October 2018, gross foreign currency reserves (including gold and SDRs) stood at USD 13.0 billion (equivalent to around 7.1 months of next year's imports) from USD 14.3 billion, or 7.9 months of imports) at the end of 2017.

To successfully confront the above challenges and put the public debt in a downward path Jordan has to continue on a steady fiscal consolidation pace and to step-up structural reforms to improve business conditions and employment prospects. In addition, Jordan needs to attract significantly greater support from the international and regional donor community in grants or concessional financing, to cover its financing needs while keeping the cost of borrowing at manageable levels.

In June 2017, the IMF Board approved the first review of the three-year Extended Fund Facility (EFF) programme of a total the amount of USD 723 million (150% of quota-approved in August 2016). The first tranche (EUR 100 million) of the second MFA programme (approved by the co-legislators in 14 December 2016) was released in October 2017.

A joint declaration adopted by European Parliament, the Council and the Commission in the context of the decision approving the second MFA operation, committed the Commission to submitting a proposal for a third MFA operation of a larger amount after the successful conclusion of the second MFA and provided that the usual preconditions for this type of assistance, including an updated assessment by the Commission of Jordan's external financing needs, are met.

Country-risk indicators : Jordan		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	2	2.1	2.1
Unemployment (end of period)*	(% labour force)	15.3	18.5*	18.7
Inflation rate (CPI) (Dec/Dec)	(% change)	-0.8	3.3	4.5
<b>Public finances</b>				
General government balance	(% of GDP)	-3.2	-2.2	-3.3
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	7 111.4	6 656.6	6 921.2
Current account balance	(% of GDP)	-9.4	-10.5	-8.5
Net inflow of foreign direct investment	(m EUR)	1 466	1 792.9	929.2
Official reserves, including gold (end of period)	(m EUR)	14 818	12 615.9	11 230.9
In months of subsequent year's imports	(months)	7.2	7.3	6.4
Exchange rate (end of period)	(per EUR)	0.8	0.8	0.8
<b>External debt</b>				
External debt (end of period)	(m EUR)	14 023	19 518	19 455
External debt/GDP	(%)	37.5	39.9	40.2
Debt service/exports of goods and services	(%)	17.3	11	17.9
Arrears (on both interest and principal)	(%)			
Debt relief agreements and rescheduling	(m EUR)			
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	645.1	675.1	759.7
EU exposure/total EU exposure	(%) (1)	0.6	0.7	0.8
EU exposure/external debt	(%)	4.6	3.5	3.9
EU exposure/exports of goods and services	(%)	9.1	10.1	11
<b>IMF arrangements</b>				
Type: Extended Fund Facility (EFF)			Started in	Started in
Date			24th	24th
On track			Duration: three years	Duration: three years
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B1	B1	B1
S&P long-term foreign currency rating (end of period)		B+ stable	B+ stable	B+
Fitch long-term foreign currency rating (end of period)				

Sources: IMF, Jordanian Ministry of Finance and Commission staff calculations

\*This figure reflects a new methodology used by the Jordanian Department of Statistics (DoS) for measuring unemployment following

### 3.3.5. Morocco

Economic growth retained a decent pace at an estimated 3% of GDP in 2018, albeit slowing from the strong rebound in 2017 (4.1%). The agricultural sector and tourism supported economic activity, leading to a small reduction in the unemployment rate (to 9.9% at the end of the year). Private consumption and fixed capital investment also contributed as growth drivers, while the external sector dragged on growth due to an increased trade deficit.

The budget deficit remained stable at around 3.6% of GDP estimated in 2018, interrupting successive decreases in previous years. Expenditure grew at a faster rate than revenues due to the increase in certain subsidies, a fall in grant revenues and a shortfall in tax revenues, increasing also the net financing needs of the Treasury. Public debt has continuously increased since 2012, although it remains sustainable and has stabilized around 65.3 percent of GDP in 2018. Inflation remained relatively low (1.9% in 2018) and inflationary pressures

should remain contained yet contingent on the evolution of oil prices on the world market. Monetary expectations remained anchored, and the central bank's key policy rate has been unchanged at 2.25% since March 2016. Risks to Morocco's financial stability remain limited, as the banking sector is well capitalised.

On the external side, Morocco's current account deteriorated slightly to an estimated 4.5% of GDP in 2018 due to the worsening of the trade balance. Export growth was driven by emerging manufacturing sectors, but outpaced by growth in imports, notably of energy, capital goods and raw materials, which contributed to a third consecutive annual rise in the trade deficit. Both private and public borrowing, as well as foreign direct investment, continue to finance the current account deficit. External debt increased slightly in 2018, representing around 35% of GDP. International reserves went down over the year but remained comfortable at end-December 2018, covering over five months of imports. In talks with the IMF, Morocco recently reaffirmed its commitment to liberalising its exchange rate as soon as economic conditions are adequate. As an additional buffer against external shocks, Morocco renewed its IMF Precautionary and Liquidity Line in December 2018 for a total amount of USD 2.97 billion, valid for two years. The authorities have continued to treat this arrangement as precautionary, not drawing on any funds in the past years.

Country-risk indicators : Morocco		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	1.2	4.1	3.0e
Unemployment (end of period)	(% labour force)	9.9	10.2	9.9
Inflation rate (CPI) (Dec/Dec)	(% change)	1.6	0.8	1.9
<b>Public finances</b>				
General government balance	(% of GDP)	-4.5	-3.6	-3.6e
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	23 153	25 575	27 627.1e
Current account balance	(% of GDP)	-4.2	-3.9	-4.5e
Net inflow of foreign direct investment	(m EUR)	1 987.6	2 177.8	2 414e
Official reserves, including gold (end of period)	(m EUR)	23 412.3	21 483.5	21 016.9
In months of subsequent year's imports	(months)	6.1	5.7	5.2
Exchange rate (end of period)	(MAD per EUR)	10.7	11.2	10.9
<b>External debt</b>				
External debt (end of period)	(m EUR)	32 504	33 973	34 187e
External debt/GDP	(%)	30.8	31.8	35.1e
Debt service/exports of goods and services	(%)	13	11.4	11.7e
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	3 332.6	3 531.1	3 413.2
EU exposure/total EU exposure	(%)	3.3	3.6	3.5
EU exposure/external debt	(%)	10.3	10.4	10
EU exposure/exports of goods and services	(%)	14.4	13.8	12.4
<b>IMF arrangements</b>				
Type		Precautionary Liquidity Line	Precautionary Liquidity Line	Precautionary Liquidity Line
(Date)		SDR 2.5bn	SDR 2.5bn	SDR 2.97bn
On track		July 2016	July 2016	Dec 2018
		on track	on track	on track
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba1 /stable	Ba1 /positive	Ba1 /stable
S&P long-term foreign currency rating (end of period)		BBB- /stable	BBB- /stable	BBB- /negative
Fitch long-term foreign currency rating (end of period)		BBB- /stable	BBB- /stable	BBB- /stable

e: estimate

### 3.3.6. *Syria*

Syria has not received any direct loans from the EU under MFA or EURATOM instruments. However, the Syrian Government has defaulted on EIB loans following the imposition of financial sanctions by the EU, the Arab League and the US in early 2012. As of 31 December 2016, the total stock of outstanding of guaranteed loans related to Syria amounted to EUR 555 million (capital - this amount does not include interest), with the last loan maturity in 2030. So far the total amount of paid EIB calls on the EU Budget Guarantee Fund for External Action related to Syria is EUR 416.17 million (Capital + Interest excluding penalties).

Syria's economic and financial situation and outlook are difficult to assess, given the significant disruption caused by the ongoing conflict and the lack of reliable figures. With the conflict becoming more geographically restricted, economic growth is expected to be fairly strong on average over the medium term as funds held by Syrian expatriates start to return to the economy and limited reconstruction efforts begin. Despite the recovery, the economy will remain smaller in real terms over the medium term than it was before the conflict broke out in 2011. Nevertheless, the government is expected to be able to gradually develop industry in western Syria and to restart production at some of the country's oil and gas fields. The government has also recaptured agricultural areas in the north-west, which should reduce reliance on imports and possibly even facilitate a pick-up in exports. Some trade routes might reopen over the medium term, further stimulating economic activity.

Unemployment surged over the course of the conflict and is estimated to remain high. Inflation is expected to slow down, primarily as a result of the stabilisation of the currency. The stability of the Syrian pound since then is likely to drive a further slowing of inflation. With the government further cementing its territorial control over most of the country, tax and customs receipts and oil and gas revenue will increase while war-related expenditure will go down.

The current account will remain in deficit over the medium term, with earnings depressed by the near-cessation of oil exports and disruption to the agricultural sector, which in turn weighs on the import bill. However, as the economy gradually begins to expand and non-oil exports slowly recover, while import costs are held down by lower international oil prices, the current-account deficit will narrow. Non-merchandise exports will remain depressed, with tourism almost non-existent. However, the shortfall on trade will be partly offset by strong current transfers inflows, reflecting rising aid levels and remittances from Syria's growing diaspora.

Country-risk indicators : Syria		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	-3.6	1.9	6
Unemployment (average)	(% labour force)	50	50	48
Inflation rate (CPI) (average)	(% change)	47.3	19.4	9.8
<b>Public finances</b>				
Central government balance	(% of GDP)	-21	-15.6	-10.8
<b>Balance of payments</b>				
Exports of goods f.o.b.	(m EUR)	1 540.8	1 580.5	1 683.3
Current account balance	(% of GDP)	-16.9	-15.0	-10.5
Net inflow of foreign direct investment	(m EUR)	n.a.	n.a.	n.a.
Official reserves, including gold (end of period)	(m EUR)	456.4	360.2	457.2
In months of subsequent year's imports	(months)	n.a.	n.a.	n.a.
Exchange rate (end of period)	(per EUR)	450.6	386.3	369.6
<b>External debt</b>				
External debt (end of period)	(m EUR)	3 972.7	4 424.6	4 630.8
External debt/GDP	(%)	35.8	36.7	29.1
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.
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	332.7	276.5	221.2
EU exposure/total EU exposure	(%) (1)	0.3	0.3	0.2
EU exposure/external debt	(%)	8.4	6.2	4.8
EU exposure/exports of goods and services	(%)	21.6	17.5	13.1
<b>IMF arrangements</b>				
Type		none	none	none
Date				
On track				
<b>Indicators of market's perception of creditworthiness</b>				
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

Source: Economist Intelligence Unit

### 3.3.7. Tunisia

Tunisia's economy experienced a slight improvement in 2018, with real GDP growth of 2.5%, after a 1.9% expansion in 2017 and nearly no growth in 2015 and 2016. Unemployment is stable at around 15.5%, and inflation reached a decade high in June 2018, at 7.8%, to end the year at 7.5%. The rebound in tourism activity and a good export performance were entirely offset by the rise in oil prices and the depreciation of the Tunisian Dinar, pushing the current



account deficit to 11.2% of GDP at the end of 2018, higher than one year earlier (10.2% of GDP). External debt is expected to have reached a level of over 86% in 2018. International reserves reached a record low of 69 days of imports in September, to marginally increase to over 80 days of imports later in the year, following the issuance of international bonds and the disbursement of loans from International Financial Institutions. The fiscal deficit for the first three quarters of 2018 stood at around 4% of GDP, and most probably exceeded the 4.9% foreseen by the authorities for the entire year, while public debt is expected to have reached about 72% of GDP.

On 20 May 2016, the IMF Board approved a 48-month Extended Fund Facility (EFF) programme for Tunisia in the amount of USD 2.9 billion (375% of quota) to support the country's economic and financial reform programme. So far about USD 1.5 billion have been disbursed, following the programme's approval (June 2016) and the four first programme reviews (June 2017, March 2018, July 2018, September 2018). Tunisia also benefits from EU Macro-Financial Assistance; a second operation was approved in July 2016, with the first disbursement (EUR 200 million) taking place in October 2017. The second and third instalments (of EUR 150 million each) are pending the fulfilment of all relevant policy conditions and are expected to both be disbursed in 2019, provided that the IMF programme remains on track.

The latest IMF Public Debt Sustainability Assessment (March 2018) considers Tunisian debt sustainable, mainly due to its long maturities and stable creditor base, mostly composed of international financial institutions and bilateral donors. However, public debt has been rising rapidly and is vulnerable to contingent liabilities and exchange rate depreciation.

Tunisia's sovereign ratings were on a negative trend in 2018. Moody's downgraded Tunisia from B2 (stable) to B2 (negative) on 16 October 2018, following a previous downgrading, in March 2018, from B1 (negative) to B2 (stable). Fitch also downgraded Tunisia from B+ (stable) to B+ (negative) on 27 May 2018.

Against this background, Tunisia's external financing risks have been rising and require policy action. If Tunisia takes action – notably regarding fiscal consolidation – and keeps its IMF programme on track, the level of debt should decrease as from 2019.

Country-risk indicators : Tunisia		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	1	1.9	2.5
Unemployment (end of period)	(% labour force)	15.5	15.5	15.5
Inflation rate (CPI) (Dec/Dec)	(% change)	4.2	6.9	7.5
<b>Public finances</b>				
General government balance	(% of GDP)	-6.1	-6.1	-5.3*
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	11 994	11 591.4	11 939.2*
Current account balance	(% of GDP)	-8.8	-10.2	-11.2
Net inflow of foreign direct investment	(m EUR)	926.8	797.9	715.5*
Official reserves, including gold (end of period)	(m EUR)	5 718.5	4 377.1	4 552.1
In months of subsequent year's imports	(months)	3.5	3.1	2.8
Exchange rate (end of period)	(per EUR)	2.4	2.9	3.4
<b>External debt</b>				
External debt (end of period)	(m EUR)	27 783.2	27 960.5	28 170*
External debt/GDP	(%)	70	82.6	86.4*
Debt service/exports of goods and services	(%)	12.2	19.1	17.1*
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	2 755.7	2 961	2 877
EU exposure/total EU exposure	(%)	2.8	3.1	3
EU exposure/external debt	(%)	9.9	10.6	10.2
EU exposure/exports of goods and services	(%)	23	25.5	24.1
<b>IMF arrangements</b>				
Type: Stand-by Arrangement (SBA)				
Date: started June 2013 - concluded December 2015				
Status: On track				
Type: Extended Fund Facility (EFF)				
Date: started in May 2016 - expiring in May 2020				
Status: On track				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba3	B1	B2
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+

\*EC staff estimates

Exports of services are only provided on a net basis

### 3.3.8. Ukraine

Ukraine's economy has returned to growth after the deep recession in 2014-15; real GDP growth in 2018 is estimated at 3.2-3.3%. Inflation slowed down from 13.7% in December 2017 to 9.8% in December 2018, mainly due to contractionary monetary policy of the central bank. Public finances were consolidated over the last years; the general government deficit in 2018 stood at 2% of GDP, and the ratio of public debt fell to 61% of GDP at the end of the year. Nevertheless, public debt payments are rising as the first repayments under the bonds restructured in 2015 fall due: in 2019 Ukraine needs to pay over USD 9 billion of principal (6.7% of GDP) and USD 4.8 billion of interest (3.5% of GDP), and similar amounts in 2020.

In the external sector, Ukraine's current account deficit has widened significantly, from USD 2.4 billion in 2017 to USD 4.7 billion (3.6% GDP) in 2018, and could re-emerge as a source

of risk. In the financial account, net foreign direct investment decreased from USD 2.6 billion in 2017 to USD 2.4 billion (2.1% GDP) in 2018. Ukraine's international reserves amounted to USD 20.8 billion at end-2018, an equivalent of 3.5 months of imports. The increase of 10% since the beginning of 2018 was mainly due to disbursements of international assistance (from the IMF, the World Bank and EU Macro-Financial Assistance).

The EU has disbursed a total of €3.3 billion to Ukraine in 2014-2018 through four consecutive Macro-Financial Assistance (MFA) programmes in the form of low-interest loans. The current MFA programme was approved in July 2018. Since 2014, the EU's support to Ukraine has been an integral part of a larger international financial package. Most recently, in parallel to the new EU MFA programme, the IMF negotiated and approved in late 2018 a new programme for Ukraine (14-month Stand-by Arrangement of USD 3.9 billion). At the same time, the World Bank approved a policy-based guarantee that will enable Ukraine to borrow up to USD 1 billion in international markets.

As noted, Ukraine's external position strengthened towards the end of the year. Hence, Moody's upgraded Ukraine's long-term credit rating by one notch, from Caa2 to Caa1, in December 2018. Other major agencies maintained the existing ratings (the B- rating from both Standard & Poor's and Fitch). However, international assistance remains crucial for Ukraine at least in 2019. To ensure that Ukraine can finance itself in the market in the medium term, including at times when global interest rates are rising, fiscal and monetary discipline and further structural reform implementation will continue to be required.

Country-risk indicators : Ukraine		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	2.4	2.5	3,3e
Unemployment (average)	(% labour force)	8.8	9.9	8.6*
Inflation rate (CPI) (Dec/Dec)	(% change)	12.4	13.7	9.8
<b>Public finances</b>				
General government balance**	(% of GDP)	-2.3	-1.4	-2
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	41 499	44 654	49 938
Current account balance	(% of GDP)	-1.4	-1.9	-3.6
Net inflow of foreign direct investment	(m EUR)	3 104.6	2 152.19	2 055.8
Official reserves, including gold (end of period)	(m EUR)	14 762.4	15 611	18 113.8
In months of subsequent year's imports	(months)	2.9	3.2	3.5
Exchange rate (end of period)	(per EUR)	28.4	33.9	31.5
<b>External debt</b>				
External debt (end of period)	(m EUR)	106 897.8	95 824.3	99 825*
External debt/GDP	(%)	120.5	102.9	91.8*
Debt service/exports of goods and services	(%)	23.1	20.7	n.a.
Arrears (on both interest and principal)	(%)	19 940	21 169	21 280**
Debt relief agreements and rescheduling	(m EUR)	0	0	0
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	3 430.6	4 631.1	5 425.5
EU exposure/total EU exposure	(%)	3.4	4.8	5.6
EU exposure/external debt	(%)	3.2	4.8	5.4
EU exposure/exports of goods and services	(%)	8.3	10.4	10.9
<b>IMF arrangements</b>				
Type		EFF	EFF	SBA
(Date)		Mar 2015 - Mar 2019	Mar 2015 - Mar 2019	Dec 2018 - Dec 2019
On track		On track	On track	On track
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Caa3	Caa2	Caa1
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-

e = estimate

\* Q3 2018

\*\* Q2 2018

\*\*\* Total amount of debt under restructuring

### 3.4. Other countries

#### 3.4.1. The Kyrgyz Republic

After a period of strong growth in 2016-2017 reaching on average 4.5%, driven by improved external environment, expansionary fiscal policy and a robust performance of the gold mining sector, real GDP growth moderated to 3.5% in 2018. Private consumption was the main growth driver last year boosted by stronger remittance inflows from Russia, robust wage growth and a slowdown in inflation. Exports supported growth as well driven by further progress by Kyrgyz Republic producers in upgrading their standards and procedures to EEU norms, freeing-up latent supply in agro-products and improved relations with Uzbekistan that spurred cross-border trade. Going forward, real GDP growth is expected to accelerate to around 4% in 2019-2020, on the back of rising private consumption, boosted by a steady inflow of remittances from Russia and Kazakhstan, and increasing public investments.

Inflationary pressures remain contained, as inflation declined to 1.5% in 2018 due to the favorable situation in the international commodity markets. The ongoing domestic demand recovery is likely to push inflation further up, though still below the central bank range of 5-7%.

The fiscal position has improved recently owing to higher tax revenues and reduced capital spending. Budget deficit fell sharply, from 3.3% of GDP in 2017, to 1.2% of GDP in 2018, due to cuts in public investments and increased VAT and custom revenues. In addition, the government adopted a new fiscal rule, which set a fiscal deficit ceiling at 3% of GDP and a ceiling on public debt at 60-65% of GDP. Going forward, fiscal deficits are likely to remain contained on account of higher revenues and improving tax collection and public debt should remain below the legal ceiling. Monetary policy remains accommodative amid subdued inflationary pressures with the policy interest rate at 4.75%.

Persistently high current account deficits remain a major vulnerability on the external side. After some temporary improvement to 4% of GDP in 2017 the current account deficit increased to 12.2% of GDP in the first nine months of 2018, as gold exports receipts stagnated and remittance-fueled imports boomed. High trade deficits are, however, a recurrent issue and reflect strong dependence of the economy on imports of many basic goods and raw materials and exports' concentration on mining. While they are partly counterbalanced by sizable remittances inflows and financed by FDI and public borrowing, any changes in the economic situation of the major migrant-receiving countries (Russia, Kazakhstan) or terms of external financing might have a sizable impact on the economy. External debt, at 92.4% of GDP in 2017, is expected to remain high in the short term. However, 58.1% of total external debt is owed by the state (53.7% of GDP), and generally has been incurred to improve the country's infrastructure. This debt is also typically long term in nature and owed to international institutions and foreign governments on favorable terms, thereby mitigating the potential risk.

Country-risk indicators : Kyrgyzstan		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	4.3	4.6	3.5
Unemployment (end of period)*	(% labour force)	7.7	7.6	7.5
Inflation rate (CPI) (Dec/Dec)	(% change)	0.4	3.6	0.5
<b>Public finances</b>				
General government balance	(% of GDP)	-4.8	-3.3	-1.2
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	1 448.6	1 605.2	1 592.3
Current account balance	(% of GDP)	-11.6	-4	-12.3
Net inflow of foreign direct investment	(m EUR)	521.6	-69.1	16.2
Official reserves, including gold (end of period)	(m EUR)	1 875.3	1 844.5	1 890.4
In months of subsequent year's imports	(months)	4.2	4	3.8
Exchange rate (end of period)	(per EUR)	72.8	82.7	80
<b>External debt</b>				
External debt (end of period)	(m EUR)			
External debt/GDP	(%)	99.3	92.4	83.9
Debt service/exports of goods and services	(%)	32.1	35.1	26
Arrears (on both interest and principal)	(%)	none	none	none
Debt relief agreements and rescheduling	(m EUR)	none	none	none
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	17	16.9	16.7
EU exposure/total EU exposure	(%)	0	0	0
EU exposure/external debt	(%)	n.a.	n.a.	n.a.
EU exposure/exports of goods and services	(%)	1.2	1.1	1.1
<b>IMF arrangements</b>				
Type: Extended Credit Facility (ECF) programme				
ECF I started in June 2011, ECF II started in April 2015		ECF	ECF	ECF
On track		Yes	Yes	No/ended in May 2018
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		B2 stable	B2 stable	B2 stable
S&P long-term foreign currency rating (end of period)		n/a	n/a	n/a
Fitch long-term foreign currency rating (end of period)		n/a	n/a	n/a

### 3.4.2. Brazil

The Brazilian economy is slowly emerging from the most severe recession in its history. In 2015-2016, the economy contracted by more than 7% in cumulative terms, the worst economic performance on record. Supported by an ambitious reform package and improved market confidence, economic growth turned positive in 2017 reaching 1%. The recovery has continued at only a moderate pace in 2018 (1.1%), with GDP growth hampered by a truckers strike, political and policy uncertainty. The Brazilian real depreciated strongly against the dollar in 2018 on the back of domestic economic turbulence and lower risk appetite on global financial markets. However, since October the real has rallied due to expectations regarding campaign pledges of the new president, improved valuations of EMEs assets and recent signals about the reappraisal of the future path of monetary policy tightening in the US. Inflation remained relatively low and hovered around 4% in 2018, after noting a peak of 10% in January 2016, hereby giving a boost to household real income. Private consumption has

started to increase and this trend is expected to continue due to strengthening employment growth.

An environment of easier monetary policy, improved consumer and business confidence will be supportive of growth going forward but a less favourable external environment will likely limit the pace of the recovery. High-frequency data suggests the recovery will gain steam in 2019. On the policy side, the government is expected to start rolling out plans for several economic reforms including a pension reform. Growth is forecasted to accelerate to over 2% in 2019 and 2020.

High public deficits and debt are a key challenge for Brazil's economy. The general government budget balance in 2018 stood at -8.6% of GDP and the primary balance at -2.4% of GDP. With even larger deficits recorded during the 2015-2016 recession, Brazil's public debt increased from about 62% of GDP in 2014 to 88.4% of GDP in 2018. The task of putting Brazil's public finances on a sustainable path remains very challenging, despite a new expenditure rule, limiting growth of public spending to inflation for the next 20 years. Ambitious reductions of rigid mandatory spending items will be needed to comply with the new spending cap. Thus, reforming social benefits and most notably the pension system is urgently needed to achieve fiscal sustainability.

On the positive side, inflation decreased strongly and is now floating around 4%, allowing the Central Bank to leave interest rates at record low level of 6.50% and thus providing some support for the recovery. In addition, the external position of Brazil has been improving in recent years. Reflecting weak investment and improving terms of trade, the current account deficit narrowed to 0.5% percent of GDP in 2017 (from 3.3% of GDP in 2015). For the coming years, the current account deficit is expected to widen but not to the point of compromising Brazil's external sustainability. Brazil has continued to attract sizable capital inflows and the net direct investment fully financed the current deficit in recent years. High international reserves also remain a source of strength.

Country-risk indicators : Brazil		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	-3.3	1.1	1.1*
Unemployment (end of period)	(% labour force)	11.3	12.8	12.3
Inflation rate (CPI) (Dec/Dec)	(% change)	6.3	2.9	3.7
<b>Public finances</b>				
General government balance	(% of GDP)	-9	-7.8	-8.6
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	197 270.2	221 090.6	232 161.1
Current account balance	(% of GDP)	-1.3	-0.4	-1**
Net inflow of foreign direct investment	(m EUR)	66 827.6	62 114.5	75 354.7
Official reserves, including gold (end of period)	(m EUR)	336 113.8	354 397.7	
In months of subsequent year's imports	(months)	17.1	16.3	
Exchange rate (average)	(per EUR)	3.9	3.6	4.3
<b>External debt</b>				
External debt (end of period)	(m EUR)	309 550.7	264 575.2	276 129.4
External debt/GDP	(%)	18.2		
Debt service/exports of goods and services	(%)	65.4		
Arrears (on both interest and principal)	(%)			
Debt relief agreements and rescheduling	(m EUR)			
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	761.7	419.4	373.8
EU exposure/total EU exposure	(%)	0.8	0.4	0.4
EU exposure/external debt	(%)	0.2	0.2	0.1
EU exposure/exports of goods and services	(%)	0.4	0.2	0.2
<b>IMF arrangements</b>				
Type				
(Date)				
On track				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Ba2/negative	Ba2/negative	Ba2/stable
S&P long-term foreign currency rating (end of period)		BB/negative	BB-/stable	BB-/stable
Fitch long-term foreign currency rating (end of period)		BB/negative	BB-/stable	BB-/stable

\* European Commission 2018 Winter forecast (data not published)

\*\* Commission estimate (data not published)

### 3.4.3. South Africa

South Africa has experienced a protracted economic downturn in recent years. Real GDP growth has decelerated markedly from around 5% in the run-up to the financial crisis to 0.3% in 2016, the slowest pace since 2009. Growth remained weak in 2017 (around 1%) with private consumption constrained by persistently high unemployment and investment affected by low confidence and political uncertainty. Concerns about the country's governance and deteriorating fiscal position led to credit rating downgrades by two ratings agencies to below-investment grade in November 2017 while one agency placed South Africa's rating on review. The slight uplift in economic growth in 2017 was short lived as South Africa entered in a technical recession in the first two quarters of 2018. Growth slowly picked up again in the second half of 2018 and is forecasted to average 0.6% in 2018. The economy is expected to recover moderately in 2019 and 2020 on the back of higher commodity prices, investment and household spending but political uncertainty in the run-up to elections in May 2019 and a less favourable external environment will likely limit the pace of the recovery.

The fiscal situation has deteriorated and fiscal pressures are expected to increase going forward. The general government deficit increased from 3.3% of GDP in the fiscal year



2016/17 to estimated 4.2% of GDP in 2018/19 and 4.5% of GDP in 2019/2020 on the account of sizeable revenue shortfalls and a record bailout for the heavily indebted power utility state-owned enterprise (Eskom), despite extra spending cuts in the 2018/2019 budget and tax measures. Eskom will receive R69bn spread over 3 years under the condition it cuts costs leading to an increase of the expenditure ceiling by R16 billion over the next three years. As a result, the government had to postpone budgetary consolidation beyond FY 2021/22. Consequently, the debt to GDP ratio is expected to stabilise at around 60% only in 2023-24 (instead of 56% in previous budgetary forecast). The risks to the fiscal outlook remain elevated and include uncertainty in the pace of economic recovery, public-service wage pressures, the precarious financial situation of state-owned companies and the prospect of tighter financing conditions. Inflation pressures have been easing recently on the back of lower oil prices with headline inflation averaging at 4.6 % in 2018. Hereby, the Central Bank can keep an accommodative monetary policy stance with its policy repo rate at 6.75%.

With limited policy space on the monetary and particularly on the fiscal side, structural reforms remain key. Persistently high unemployment, poverty and inequality, and a difficult business environment are among the most severe structural challenges. Deep social and political cleavages and pervasive lack of trust have so far hindered implementation of key structural reforms. Policy shifts in several key areas (e.g. reform of the mining sector, improving governance and the financial situation of the state-owned enterprises) by the new political leadership are steps in the right direction but implementing deep structural changes will be more challenging. Achieving progress on the many structural issues facing South Africa will require more trust and consensus building throughout the society.

On the external side, South Africa remains vulnerable to sudden changes in risk sentiment and capital outflows. Monetary policy normalisation in the advanced economies and tightening of global financial conditions represent a significant risk for the South African economy, not least because its current account deficit (currently above 2% but expected to increase in the coming years) is financed predominantly from portfolio flows and the external sector holds a large share of public debt.

Country-risk indicators : South Africa		2016	2017	2018
<b>Output and prices</b>				
Real GDP growth rate	(%)	0.6	1.2	0.6*
Unemployment (end of period)	(% labour force)	26.5	26.7	27.1
Inflation rate (CPI) (Dec/Dec)	(% change)	6.7	4.7	4.5
<b>Public finances</b>				
General government balance	(% of GDP)	-3.8	-4.6	-3.8
<b>Balance of payments</b>				
Exports of goods and services f.o.b.	(m EUR)	83 968.1	98 404.9	
Current account balance	(% of GDP)	-2.8	-2.4	
Net inflow of foreign direct investment	(m EUR)	2 040.1	1 300.2	
Official reserves, including gold (end of period)	(m EUR)	43 448.2	48 070.1	
In months of subsequent year's imports	(months)	5.5	5.3	
Exchange rate (average)	(per EUR)	16.3	15	15.6
<b>External debt</b>				
External debt (end of period)	(m EUR)	135 502.3		
External debt/GDP	(%)	48.3		
Debt service/exports of goods and services	(%)	13.1		
Arrears (on both interest and principal)	(%)			
Debt relief agreements and rescheduling	(m EUR)			
<b>Indicators of EU exposure</b>				
EU exposure (capital and interest due)	(m EUR)	1 126.8	1 017.4	907.6
EU exposure/total EU exposure	(%)	1.1	1.1	0.9
EU exposure/external debt	(%)	0.8	n.a	n.a
EU exposure/exports of goods and services	(%)	1.3	1	n.a
<b>IMF arrangements</b>				
Type				
(Date)				
On track				
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		Baa2/negative	Baa3/under review	Baa3/stable
S&P long-term foreign currency rating (end of period)		BBB-/negative	BB/stable	BB/stable
Fitch long-term foreign currency rating (end of period)		BBB-/negative	BB+/stable	BB+/stable

\* European Commission 2018 Winter forecast (data not published)