



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMISSION REPORT TO THE BUDGETARY AUTHORITY
ON GUARANTEES COVERED BY THE GENERAL BUDGET -
SITUATION AT 30 JUNE 1997**

This report describes the situation as regards budget guarantees at 30 June 1997.

It is in response to the statement made by the Commission, when the vote was taken on supplementary and amending budget No 1/91, that it would report to the budgetary authority twice a year on budget guarantees and the corresponding risks.

This report is presented in accordance with Article 134(g) of the Financial Regulation applicable to the general budget of the European Communities.

The Commission has already presented twelve reports to the budgetary authority.

The report is in two parts with an annex:

- 1) Events since the last report, the risk situation and the activation of budget guarantees.
- 2) Evaluation of potential risks. Economic and financial situation of non-Community countries benefiting from the most important operations.

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PART ONE: EVENTS SINCE THE REPORT AT 31 DECEMBER 1996, THE RISK SITUATION AND ACTIVATION OF BUDGET GUARANTEES

I. INTRODUCTION: TYPES OF OPERATION

The risks covered by the Community budget derive from a variety of lending and guarantee operations which can be divided into two categories: loans with macroeconomic objectives and loans with microeconomic objectives.

I.A Operations with macroeconomic objectives

The first of these are the balance of payments loans for Member States or non-member countries, normally carrying strict economic conditions and undertakings.

This category includes the loan of ECU 1 250 million to finance imports of agricultural products and foodstuffs into the former Soviet Union, since the risk involved in this operation depends to a large extent on macroeconomic and political developments in the recipient countries.

I.B Operations with microeconomic objectives

These are loans to finance projects which are usually repaid over the long term from funds which these projects are expected to generate; as a rule, they are granted to companies, financial institutions or non-member countries and, in addition to the Community guarantee, are covered by the usual guarantees demanded by banks.

This covers Euratom and NCI loans in Member States and the Euratom and EIB loans outside the Community (Mediterranean, Central and Eastern Europe, certain non-member countries - developing countries of Asia and Latin America and South Africa).

II. EVENTS SINCE THE REPORT AT 31 DECEMBER 1996

The main events in the first half of 1997 were as follows:

II.A Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (Central and Eastern Europe countries, Mediterranean countries, Latin American and Asian countries and South Africa)

On 14 April 1997 the Council granted a global Community guarantee to the EIB on loans for investment projects carried out in the Central and Eastern European countries, in the Mediterranean countries, in the Latin American and Asian countries and in the Republic of South Africa.

This guarantee is restricted to 70% of the aggregate amount of the credits opened, plus all related sums. The overall ceiling of the credits opened is equivalent to ECU 7 105 million, broken down as follows:

- Central and Eastern European countries: ECU 3 520 million
- Mediterranean countries: ECU 2 310 million
- Latin American and Asian countries: ECU 900 million
- Republic of South Africa: ECU 375 million,

and covers a period of three years beginning on 31 January 1997 for Central and Eastern European, Mediterranean and Latin American and Asian countries and on 1 July 1997 for the Republic of South Africa. If, on expiry of this period, the loans granted by the EIB have not attained the overall amounts referred to above, the period will be automatically extended by six months.

The European Investment Bank is invited to aim to cover the commercial risk on 25% of its lending from non-sovereign guarantees.

II.B Former Yugoslav Republic of Macedonia (FYROM)

As part of an overall aid programme for the former Yugoslav Republic of Macedonia, on 22 May 1997 the Commission presented a proposal for a Council Decision providing macro-financial assistance of ECU 40 million to FYROM with a maximum maturity of fifteen years. The loan was authorised by the Council Decision of 22 July 1997.

II.C Bulgaria

As part of an overall aid programme for Bulgaria, on 22 May 1997 the Commission presented a proposal for a Council Decision providing macro-financial assistance of ECU 250 million to Bulgaria with a maximum maturity of ten years. The loan was authorised by the Council Decision of 22 July 1997.

II.D Georgia, Armenia, Tajikistan

Georgia, Armenia and Tajikistan were severely hit by the economic collapse resulting from the breaking up of the command economy and the disintegration of the Soviet Union.

Owing to the exceptionally harsh conditions presently faced by Armenia, Georgia and Tajikistan, the Commission considered that exceptional assistance was required to support the implementation of the stabilisation and structural reform programmes agreed with the IMF.

On 3 February 1997 the Commission therefore presented a proposal for a Council Decision providing exceptional financial assistance of ECU 170 million in the form of a loan with a maximum maturity of fifteen years and of ECU 50 million in the form of grants to Armenia, Georgia and, if appropriate, Tajikistan. On 7 February 1997 the Council (Economic and financial affairs) took the decision, in principle, to change this figure to ECU 95 million.

III. RISK SITUATION

There are two possible methods for evaluating the risks borne by the Community budget:

- the method, often used by bankers, of the total amount of capital outstanding for the operations concerned on a given date;
- the more budgetary approach of calculating the maximum amount which the Community could have to pay out in each financial year.

The second approach itself has been applied in two different ways:

- by reference only to actual disbursements at 30 June 1997, giving the minimum level of risk to the Community assuming that there are no early repayments (see Table 2 below);
- on a more forward-looking basis, by reference to all the operations decided by the Council or proposed by the Commission in order to estimate the impact on future budgets, giving the maximum risk borne by the Community assuming that the Commission's proposals are accepted (see Table 3 below).

The latter exercise gives some idea about the future level of risks connected with the proposals made. However, a number of assumptions have to be made about dates of disbursement and terms of repayment (details are given in the annex) as well as interest¹ and exchange rates.²

The results are shown in Tables 1 to 3 which assess the risk relating to countries inside the Community and countries outside the Community.

The overall figures quoted cover risks of different types; loans to one country in the case of macrofinancial assistance and loans for projects guaranteed by the borrowers in the case of NCI and EIB operations, for example.

The following analysis distinguishes between total risk, the risk in respect of Member States and the risk in respect of non-member countries.

III.A Amount outstanding at 30 June 1997 (Table 1)

The total risk at 30 June 1997 came to ECU 11 720 million as against ECU 11 876 million at 31 December 1996, a fall of ECU 156 million.³

The following table shows the operations which have had an effect on the amount outstanding since the last report.

¹ An average interest rate of 10% is assumed.

² The exchange rate used for loans in currencies other than ecus are those of 30 June 1997.

³ In the case of loans in currencies other than the ecu, part of the change over the past six months is due to exchange rate differences.

Amount outstanding at 31 December 1996	11 876
Loan repayments	
Euratom	-476
NCI	-416
Former Soviet Union	-34.1
EIB	-112.48
Exchange rate differences between ecu and other currencies	-59.62
Loans disbursed	
EIB	+942.2
Amount outstanding at 30 June 1997	11 720

The capital outstanding in respect of operations in the Member States was ECU 4 648 million at 30 June 1997, a fall of 16.46% compared with 31 December 1996.

This fall is mainly due to the repayment of ECU 873 million in Euratom and NCI loans

The amount outstanding from other operations in the Member States has remained stable.

The capital outstanding from non-member countries at 30 June 1997 was ECU 7 072 million, an increase of 12.04% compared with 31 December 1996.

III.B Maximum annual risk borne by the Community budget: operations disbursed at 30 June 1997⁴ (see Table 2)

The total risk, which comes to ECU 3 096 million in 1997, will steadily increase to around ECU 3 635 million in 2000, although the situation in 1999 is special in that there will be no capital repayments for the balance-of-payments loans to the Member States and in that capital repayments on loans to Hungary, the Czech and Slovak Republics and the ECU 290 million loan to Bulgaria end in 1998.

- The risk for 1997 in respect of the Member States comes to ECU 1 429 million. This figure changes in line with the capital repayments (every two years) on balance-of-payment loans to Greece and Italy. The maximum risk is highest in the even years up to 2000 when it will reach ECU 2 739 million.
- The risk for 1997 in respect of non-member countries comes to ECU 1 667 million as the following capital payments fall due:
 - ECU 80 million from Hungary;
 - ECU 127 million from the Czech Republic;
 - ECU 63 million from the Slovak Republic;

⁴ At 30 June 1997, after taking account of repayments in the first half of the year, the residual risk for 1997 in Table 2 is ECU 2 057 million.

- ECU 140 million from Bulgaria;
- ECU 250 million from Algeria;
- ECU 160 million from Israel.
- ECU 143 million from the Republics of the former Soviet Union.
- ECU 205 million from EIB loans.

The amount of capital repayments on borrowing and lending operations will then fall in 1998 and 1999. The risk in respect of non-member countries will thus drop to ECU 1 345 million in 1998 and to ECU 895 million in 1999.

III.C Maximum theoretical annual risk borne by the Community budget⁵ (see Table 3)

This risk comes to ECU 3 196 million in 1997 and will increase regularly until 2000 (except in 1999 when it will total ECU 1 726 million).

- The trend in the maximum risk in respect of the Member States is much the same as in Table 2 up to 2000 when the risk will amount to ECU 2 739 million.
- The risk in respect of non-member countries will rise from ECU 1 768 million in 1997 to ECU 1 445 million in 1999. The risk will increase from 2000 until 2004 when it will reach ECU 3 185 million.

⁵ At 30 June 1997, after taking account of repayments in the first half of the year, the residual risk for 1997 in Table 3 is ECU 2 342 million.

TABLE 1

CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED
(ECU million)

Operation	Authorised ceiling	Capital outstanding 31.12.96	Capital outstanding 30.06.97	Remainder to be disbursed 30.06.97
MEMBER STATES				
A. Balance of payments	14000			
1. Greece		500	500	0
2. Italy		3479	3455	0
B. Others				
3. Euratom	4000	572	120	0
4. NIC and NCI earthquake	6830	748	327	0
5. EIB Mediterranean Spain, Greece, Portugal	1500	265	246	0
MEMBER STATES - TOTAL	26330	5564	4648	0
THIRD COUNTRIES				
A. Financial assistance				
1. Hungary	1050	180	180	0
2. Czech Republic	250	250	250	0
3. Slovak Republic	125	125	125	0
4. Bulgaria	400	400	400	0
5. Romania	580	510	510	70
6. Algeria	600	500	500	100
7. Israel	160	160	160	0
8. Baltic States	220	135	135	85
9. Moldova	60	60	60	0
10. Ukraine	285	185	185	100
11. Belarus	55	30	30	25
12. Former Soviet Union	1250	144	110	0
B. Other				
13. EIB Mediterranean	8672	2092	2541	2197
14. EIB Central and Eastern Europe	8220	1306	1531	3135
15. EIB Asia, Latin America	1925	204	301	411
16. EIB South Africa	675	32	56	125
THIRD COUNTRIES - TOTAL	24527	6312	7072	6247
GRAND TOTAL	50857	11876	11720	6247

ANNEX TO TABLE 1

SITUATION IN RESPECT OF EIB OPERATIONS (30.06.97)

Operations	Credit line authorised	Loans made available minus cancellations	Amounts disbursed	Amounts outstanding at 30.06.97
Mediterranean Member States	1500	1465	1603	246
Third countries, old mandates:				
Mediterranean Protocols	6362	5720	3703	2541
Central and Eastern Europe I	1700	1628	1128	1044
Central and Eastern Europe II	3000	3000	487	486
Asia, Latin America I	750	647	258	250
Asia, Latin America II	275	50	51	51
South Africa	300	176	56	56
Third countries, new mandates(*):				
Mediterranean	2310			
Central and Eastern Europe	3520	75		
Asia, Latin America	900			
South Africa	375			
Total	20992	12761	7285	4674

(*) Council Decision of 14 April 1997

NB: As the loans are disbursed in national currencies, the loan ceiling may be exceeded when the amounts disbursed up to the date of the report are converted into ecus.

TABLE 2

MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET
(Estimate in ECU million based on all operations disbursed at 30.06.97)

	1997	1998	1999	2000	2001	2002	2003	2004	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece		500							500
2. Italy		983		2472					3455
B. Structural loans									
3. Euratom	453	91	15	12					571
4. NCI and NCI EQ	532	49	40	40	71			17	749
5. EIB Med. Old. Prot. Sp. Gr. Port	58	46	41	38	21	23	22	15	263
Capital - subtotal	1042	1669	96	2562	92	23	22	32	5538
INTEREST									
A. Balance of payments									
1. Greece	48	48							95
2. Italy	211	209	156	156					731
B. Structural loans									
3. Euratom	42	10	3	1					55
4. NCI and NCI EQ	63	16	12	10	7	2	2	2	114
5. EIB Med. Old. Prot. Sp. Gr. Port	23	18	14	11	7	6	3	2	84
Interest - subtotal	386	300	185	177	15	7	5	4	1080
MEMBER STATES - TOTAL	1429	1969	281	2739	107	30	27	36	6617
NON-MEMBER COUNTRIES									
CAPITAL									
A. Financial assistance									
6. Hungary	80	100							180
7. Czech Republic	127	123							250
8. Slovak Republic	63	62							125
9. Bulgaria	140	150			70		40		400
10. Romania		185	190	80		55			510
11. Israel	160								160
12. Algeria	250				150	100			500
13. Ex USSR	144								144
14. Baltic States				110		25			135
15. Moldova				5	9	12	12	12	50
16. Ukraine					17	37	37	37	128
17. Belarus					6	6	6	6	24
B. Guarantees									
18. EIB Mediterranean	140	172	195	201	202	199	200	184	1495
19. EIB C+E Eur. I + II	50	85	120	145	149	145	137	135	964
20. EIB Asia Latin America	15	21	26	32	33	34	40	12	212
21. EIB South Africa					36	20			56
Capital - subtotal	1169	898	530	572	672	632	472	386	5333
INTEREST									
A. Financial assistance									
6. Hungary	18	10							28
7. Czech Republic	25	13							38
8. Slovak Republic	13	6							19
9. Bulgaria	40	26	11	11	11	4	4		107
10. Romania	51	51	33	13	6	6			159
11. Israel	16								16
12. Algeria	50	25	25	25	25	10			160
13. Ex USSR	5	0							5
14. Baltic States	14	14	14	14	3	3			59
15. Moldova	6	6	6	6	5	5	3	2	40
16. Ukraine	19	19	19	19	19	17	13	9	132
17. Belarus	3	3	3	3	3	2	2	1	20
B. Guarantees									
18. EIB Mediterranean	140	159	146	133	119	105	92	78	972
19. EIB C+E Eur. I + II	84	95	89	81	72	62	53	44	579
20. EIB Asia Latin America	11	13	12	11	10	9	8	8	83
21. EIB South Africa	5	8	8	8	8	3			42
Interest - subtotal	498	446	365	324	281	226	176	143	2458
NON-MEMBER COUNTRIES - TOTAL	1667	1345	895	896	953	858	647	529	7791
GRAND TOTAL	3096	3314	1176	3635	1060	888	674	565	14409
(Eastern Europe)	880	946	483	485	369	378	307	247	4095
(Other non-member countries)	787	399	413	411	585	480	340	282	3696

TABLE 3
MAXIMUM THEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET
 (Estimation in ECU million based on all operations disbursed, adopted and proposed by the Commission)

	1997	1998	1999	2000	2001	2002	2003	2004	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece		500							500
2. Italy		983		2472					3455
B. Structural loans									
3. Euratom and NCI	985	140	55	52	71			17	1320
4. EIB Spain, Greece, Portugal	58	46	41	38	21	23	22	15	263
Capital - subtotal	1042	1669	96	2562	92	-23	22	32	5537
INTEREST									
A. Balance of payments									
1. Greece	48	48							95
2. Italy	211	209	156	156					731
B. Structural loans									
3. Euratom and NCI	105	25	15	11	7	2	2	2	169
4. EIB, Spain, Greece, Portugal	-23	18	14	11	7	6	3	2	84
Interest - subtotal	386	300	185	178	15	7	5	4	1080
MEMBER STATES - TOTAL	1428	1969	281	2739	107	30	27	36	6617
THIRD COUNTRIES									
CAPITAL									
A. Financial assistance									
5. Hungary	80	100							180
6. Czech Republic	-127	123							250
7. Slovak Republic	63	62							125
8. Bulgaria	140	150			70		65	50	475
9. Roumania		185	190	80		55		70	580
10. Israel	160								160
11. Algeria	250				150	100		100	600
12. FYROM									
13. Ex-URSS	144								144
14. Baltic States				110		25		85	220
15. Moldova				5	9	12	12	12	50
16. Ukraine					17	37	57	57	168
17. Belarus					6	6	6	6	24
18. Euratom C+E Europe						1	7	16	24
B. Guarantees									
19. EIB Mediterranean	140	172	195	249	309	389	493	547	2494
20. EIB C+E Europe	50	85	120	210	290	385	499	568	2207
21. EIB Asia, Latin America	15	21	26	42	59	79	111	105	458
22. EIB South Africa				3	45	40	38	58	184
Capital - subtotal	1169	898	531	699	955	1129	1288	1674	8343
INTEREST									
A. Financial assistance									
5. Hungary	18	10							28
6. Czech Republic	25	12							37
7. Slovak Republic	13	6							19
8. Bulgaria	40	39	36	36	36	29	29	13	257
9. Romania	55	58	40	21	13	13	7	7	212
10. Israel	16								16
11. Algeria	55	35	35	35	35	20	10	10	235
12. FYROM		3	4	4	4	4	4	4	27
13. Ex-URSS	5								5
14. Baltic States	18	22	22	22	11	11	9	9	124
15. Moldova	6	6	6	6	6	5	3	2	40
16. Ukraine	24	29	29	29	29	27	23	17	205
17. Belarus	3	3	3	3	3	2	2	1	20
18. Euratom C+E Europe	1	6	17	34	54	72	88	101	373
B. Guarantees									
19. EIB Mediterranean	173	252	325	419	497	545	566	541	3318
20. BEI C+E Europe	124	218	318	436	529	576	591	579	3371
21. EIB Asia, Latin America	18	35	54	80	106	124	134	135	686
22. EIB South Africa	6	16	26	43	61	75	86	92	405
Interest - subtotal	599	749	914	1167	1383	1502	1553	1511	9377
THIRD COUNTRIES - TOTAL	1768	1647	1445	1866	2338	2631	2841	3185	17720
GRAND TOTAL	3196	3616	1726	4605	2444	2661	2868	3220	24337
(Eastern Europe)	935	1113	780	991	1072	1255	1399	1593	9137
(other non-member countries)	833	534	665	875	1266	1376	1442	1592	8583

IV. ACTIVATION OF BUDGET GUARANTEES

IV.A Payments from cash resources

The Commission draws on its cash resources under Article 12 of Council Regulation No 1552/89 of 29 May 1989 implementing Decision 88/376/EEC, Euratom on the system of the Communities' own resources to avoid delays and resulting costs in servicing its borrowing operations when a debtor is late in paying.

IV.B Activation of the Guarantee Fund

In the event of late payment by a recipient of a loan granted or guaranteed by the Community, the Guarantee Fund is called on to cover the default within three months of the date on which is payment is due.

Penalty interest for the time between the date on which cash resources are made available and the date of activation of the Fund is drawn from the Fund and repaid to the cash resources.

In the last six months the Fund has been called on to honour guarantees for the following debtor:

Country	Date	Amount (principal + interest)
Georgia (loan of ECU 40 million)	15.04.97	34 894 595.09
Former Yugoslavia	23.05.97	6 292 486.81

IV.C Late repayments

During the period covered by this report, the following non-member countries repaid debts on which they had defaulted and for which the Guarantee Fund had already been activated. The amounts recovered are repaid to the Fund under Article 2 of Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 establishing a Guarantee Fund for external action.

The former Yugoslav Republic of Macedonia (FYROM) repaid ECU 7.6 million of its arrears for which the Fund had already contributed ECU 1.4 million.

Country	Repayment date	Amount (principal + interest)
Armenia	13.2.97	3 680 702.65
Georgia	18.4.97	4 689 948.53
FYROM	29.5.97	1 446 515.51
Total		9 817 166.69

IV.D Situation as regards unpaid debts at 30 June 1997

The following amounts had not been paid at 30 June 1997:

Country	Amount (principal + interest)
Tajikistan	63 181 389.89
Georgia	122 817 507.50
Armenia	53 920 610.55
Former Yugoslavia	87 831 143.77
Total	327 750 651.71

V. ANALYSIS OF THE COMMUNITY'S THEORETICAL LENDING AND GUARANTEE CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES

In practice, the Guarantee Fund and reserve facility limits the Community's lending and guarantee capacity to non-member countries since the appropriations available for provisioning the Fund whenever a new lending decision is adopted (or any annual tranche in the case of guarantees for multiannual operations) are limited by the amount entered for the guarantee reserve in the financial perspective.⁶

At any given time, lending capacity corresponds to the margin remaining in the guarantee reserve. This margin is equal to the difference between the reserve and the estimated amount needed to provision the Guarantee Fund for operations which have already been adopted and which are in preparation.

Table 4 contains an estimate of the Community's lending capacity in respect of non-member countries over the period 1997-99 compatible with the Guarantee Fund mechanism. The method of calculation and references to legal texts are set out in greater detail in the Annex.

On the basis of the decisions adopted by the Council and decisions proposed and in preparation (see Table 4), ECU 307 million is expected to be used from the guarantee reserve in 1997, leaving ECU 22 million available at the end of the year.

The Guarantee Fund could then amount to around ECU 864 million at the end of the year assuming:

- no further defaults requiring activation of the Fund;
- no late repayment of arrears by defaulting countries.

⁶ ECU 300 million at 1992 prices.

If account is taken of the effect on the guarantee reserve of the provisioning of the Fund in respect of loans already decided and loans proposed and in preparation for the period 1997-99, the annual capacity available for loans varies:

- from ECU 146 million to ECU 243 million for loans with a 100% guarantee under the Community budget;
- from ECU 209 million to ECU 347 million for loans with a 70% guarantee (new EIB loans).

VI. RELATIVE SOLIDITY OF THE GUARANTEE FUND

The ratio between the amount in the Fund at the end of 1996 (ECU 538 million) and the maximum annual risk for loans to non-member countries (defined as the total amount falling due) shown for 1997 in Table 3 (ECU 1 768 million) comes to 30%.

The Fund should then correspond to 7.4% of the total amount of guaranteed loans outstanding outside the Community.

TABLE 4

**THE COMMUNITY'S THEORETICAL ESTIMATED LENDING & GUARANTEE CAPACITY
IN RESPECT OF NON-MEMBER COUNTRIES
OVER THE PERIOD 1997-1999**
under the Guarantee Fund mechanism(*)

ECU million	1997	1998	1999
Reserve for loan guarantees to non-member countries (1)	329	338	345
Bases for the calculation of the provisioning of the Guarantee Fund (2)			
- EIB loans			
- Mediterranean (a)	693	744,25	623
- Countries of Central and Eastern Europe (b)	850,5	763	710,5
- Asia, Latin America (c)	60	210	322
- South Africa (d)	125	87,5	105
- EIB loans - Total	1728,5	1804,75	1760,5
- EURATOM loans (e)	0	200	350
- Macro-financial assistance (f)	305	25	0
Provisioning of the Guarantee Fund (3)	307	302	313
Margin remaining in the guarantee reserve (4)	22	36	32
Residual lending capacity (balance of payments loans, EIB loans and Euratom loans) (5)			
- Maximum if used in full for 100% guarantee (e.g. BP loans)	146	243	213
- Maximum if used in full for EIB loans (70% guarantee)	209	347	304

(*) Assuming that the target amount is reached after 1999. For example, if the Fund reaches its target amount at 1 January 1999 and the rate of provisioning is cut to 10% after the review provided for in Article 4 of the Regulation establishing the Fund, the Union's lending capacity in respect of non-member countries would be increased by ECU 106 million a year for loans with a 100% guarantee and by ECU 152 million for loans with a 70% guarantee.

Description of the loans for which the Fund will be provisioned in the period 1997-1999:

- EIB
 - a. Mediterranean:
 - loans decided: 1994-96: ECU 115 million under the Fourth Financial Protocol with Syria 1995-98: ECU 80 million under the Fourth Financial Protocol with Malta and Cyprus.
 - loans proposed or in preparation: 1996-2000: ECU 750 million for financial cooperation with Turkey and ECU 230 million for financial cooperation with Croatia. 1997-2000: ECU 150 million for financial cooperation with the Former Yugoslav Republic of Macedonia (FYROM). 31.1.97- 31.1.2000: ECU 2 310 million for the renewal of the EIB mandate, covered by overall 70% guarantee.
 - b. Central and Eastern Europe
 - loans proposed or in preparation: 31.1.97-31.1.2000: ECU 3 520 million for the renewal of the EIB mandate, covered by overall 70% guarantee.
 - c. Asia and Latin America:
 - loans decided: 1993-1996: ECU 750 million 31.1.97-31.1.2000: ECU 900 million for renewal of the EIB mandate, covered by overall 70% guarantee.
 - d. South Africa:
 - loans decided: mid-1995 to mid-1997: ECU 300 million
 - loans proposed or in preparation: 1.7.97-1.7.2000: ECU 375 million for the renewal of the EIB mandate, covered by overall 70% guarantee
- e. - Euratom
 - loans decided: 1994-1999: ECU 1100 million
- f. - Financial assistance
 - loans decided: 1997: ECU 25 million loan to Belarus cancelled; ECU 130 million loan to Slovakia cancelled. ECU 250 million loan to Bulgaria; ECU 40 million loan to the Former Yugoslav Republic of Macedonia (FYROM).
 - loans proposed or in preparation: 1997: ECU 170 million in loans to the Republics of Georgia, Armenia and Tajikistan.

PART TWO
EVALUATION OF POTENTIAL RISKS: ECONOMIC AND FINANCIAL
SITUATION OF THE NON-MEMBER COUNTRIES BENEFITING FROM THE
MOST IMPORTANT LOAN OPERATIONS

I. INTRODUCTION

The figures given in the previous parts provide information on the quantitative aspects of the risks borne by the general budget. However, these data should be weighted in accordance with aspects relating to the quality of the risk, which depend on the type of operation and the standing of the borrower. Recent events which may influence the portfolio country risk are analysed below.

The country risk evaluation presented in this chapter provides a set of country risk indicators for all countries that have been recipients of macro-financial assistance in Central and Eastern Europe, the NIS and the Mediterranean area, in the form of a full-page table per country. To complement this, textual analysis is provided for those countries where significant new information influencing the risk evaluation has become available since the previous report covering the last six months of 1996. Brief textual analysis is also provided for the countries which have still to repay loans outstanding in the context of the ECU 1250 million commercial credits made available to the then Soviet Union in 1991.

The evaluation in this section does *not* deal with other regions than those mentioned, mainly because Community exposure elsewhere (notably through guarantees of EIB lending) represents only a small fraction of total exposure (less than 3 %) and is also well diversified among countries.

II. CENTRAL AND EAST EUROPEAN COUNTRIES

BULGARIA

Since the last report, Bulgaria's situation has improved. Inflation has been brought under control. The national currency, the lev, recovered some of the value it lost in 1996 and early 1997, before the exchange rate was fixed at 1000 leva per deutschemark under a currency board arrangement which took effect on 1 July. The budget deficit should meet in 1997 the target of 6.2% of GDP agreed with the IMF and has been mainly financed so far through sales of government paper to the commercial banks.

There has been some acceleration of structural reform. Prices of all but a handful of basic foodstuffs have been liberalized. Some large state enterprises have been sold to foreign investors. Although many banks are still the subject of bankruptcy proceedings, the health of those which continue to operate has improved.

The approval by the IMF of a stand-by arrangement in April and the adoption of the currency board arrangement helped to restore some economic confidence and stability. This was reflected in the strong recovery in the level of the central bank's international

reserves, which by mid-year had recovered most of the losses incurred in 1996. Nevertheless, service on foreign debt continues to be substantial, at close to US\$1 billion per year. A manageable external situation remains dependent on a sustained reform effort, which will ensure continued support from the IMF and other international institutions, and encourage larger flows of foreign direct investment.

CZECH REPUBLIC

The overall picture in the Czech Republic has deteriorated since the last report: economic growth has slowed, the budget and trade deficits are both large, and there has been some political instability. This deterioration was reflected in nervousness on the foreign exchange markets about the Czech crown; throughout late April and May, strong downward pressure on the Czech crown developed, and on 27 May forced the Czech National Bank to abandon its currency peg and allow the Czech crown to float.

GDP statistics for the first quarter of 1997 show a slowdown in economic growth: preliminary estimates indicate that year-on-year growth was only 1.5%, compared to 4.4% in 1996. The government is also facing a problem of a growing budget deficit, which in 1996 was kept to a low level only by sharp spending cuts at the end of the year. However, it is the external position which continues to be of the greatest concern: because of a combination of declining exports and increasing imports, the trade deficit, which had reached 11% of GDP in 1996, rose further in the first quarter of 1997.

In April 1997, the government introduced a package of measures aimed at boosting growth and tackling the growing budget and trade deficits. Most notably the measures included budget cuts, limits on public sector wage growth, and the introduction of an import deposit scheme. However, foreign exchange traders remained concerned at the large current account deficit, and nervousness was aggravated by the domestic political uncertainty that followed the announcing of the package. Several weeks of sustained attack on the currency forced the Czech National Bank to abandon its policy of pegging the Czech crown to a basket of the US\$ and the DM, but not before an estimated \$3bn (approximately one quarter) of foreign exchange reserves had been used to defend the currency. The Czech crown will now be subject to a managed float. The abandoning of the pegged exchange rate allowed the currency to depreciate by some 20% against the dollar and over 7% against the DM compared with its levels at the end of 1996. In the weeks after the abandonment of the previous currency regime the currency looked relatively stable, but interest rates remained high. At the beginning of June, the Czech National Bank successfully negotiated a loan to replenish its foreign exchange reserves.

In May, the government announced a further package of economic measures, including further cuts in the state budget for 1997. The government also narrowly won a confidence vote in the Parliament on 11 June. However, it seems that both the political and the economic situation will remain fragile in the short term.

ESTONIA

Estonia's risk assessment continues to be among the best in the region, but new sources of uncertainty associated with the rapid growth of the economy have appeared. The economy is expanding strongly (real GDP growth reached 7.3% on a year-on-year basis

in the fourth quarter of 1996), and inflation has fallen dramatically in recent months (a yearly inflation of 10.8% was registered in May, compared to 26.7% in April 1996). Foreign debt remains small as a proportion of GDP: In April, the country received a BBB- sovereign risk rating from Thomson BankWatch, recently upgraded to BBB+. This is the highest rating given by the agency to a country of the former Soviet Union. Estonia has requested a rating from Moody's, which is expected to be released at the end of the year.

However, there are signs that the economy is close to overheating: in 1996, consumption increased as a percentage of GDP, while investment declined; the trade and current account deficits reached 24.5% and 10.2% of GDP, respectively; foreign investment declined, and banks' borrowings abroad grew very fast, fuelling a strong expansion of domestic credit. These developments are a source of new macroeconomic risks.

LITHUANIA

During the first half of 1997, growth accelerated further while both inflation and unemployment continued to fall. Budget developments appear relatively satisfactory, as new fiscal measures seem to have reversed the downward trend in public revenues. The balance-of-payments situation remains satisfactory, even though imports are rising rapidly as the recovery picks up. The prudent strategy for abandoning the currency board seems to have calmed investors' initial fears about the policy intentions of the new coalition government.

The banking sector continues its slow recovery as the authorities strengthen regulation and take a tougher stance against the weakest banks. Preparations for the privatization of state banks and large telecommunications and transport enterprises continue. In June, the improving macroeconomic situation and the acceleration in structural reforms led Standard & Poor's to award Lithuania an investment grade rating.

ROMANIA

Romania's country risk, while remaining one of eastern Europe's highest, improved during the first half of 1997, as a result of a radical change in course of the country's economic policy. Prices were liberalized, which caused monthly inflation to jump to 30.5% in March. Monthly inflation rates decreased sharply afterwards. At the same time, the authorities allowed a sharp nominal depreciation of the currency, aimed at reversing the deterioration in the external accounts that took place in 1996. Measures to restore public finances and limit inflationary pressures should lead to slower growth of GDP in 1997, estimated at 3-4%, after 4.1% in 1996. Already in the first quarter, the balance of payments improved significantly, with the surplus on the capital account more than compensating for the (shrinking) deficit on the current account. Foreign direct investment has picked up, and residents have repatriated large amounts of hard currencies, indications of restored confidence.

Important advances in structural reforms have been made in 1997. Between February and May, 800 firms were privatized. Reform of agriculture has begun, with effective privatization of a few large loss-making pig and poultry farms. A law on foreign ownership of land has been passed, and amendments to the law on foreign investments

have been introduced, which set clear rules for portfolio investment and profit repatriation. Trade policy has been liberalized, notably by a significant cut in agricultural tariffs.

Although debt ratios worsened in 1996 and are set to deteriorate further in 1997, the central bank was able to increase its foreign exchange reserves from \$850 million in March to \$1.49 billion in May. Romania's new economic programme is strongly supported by the IMF, which approved on 22 April a 13-month, \$430 million new stand-by arrangement; by the World Bank, which approved on 3 June \$550 million of new credits and the release of the \$80 million second tranche of the FESAL loan frozen in 1996; and by the EC, which will reactivate its macro-financial assistance, of which the balance amounts to ECU 70 million. At the end of June, despite the severe contraction of the purchasing power of wages, the government continued to enjoy considerable popular support.

SLOVAKIA

Slovakia's country risk remains moderate, but external balances are deteriorating and foreign debt is increasing rapidly. The fast economic growth - some 7% - registered in 1995 and 1996 has led to an overheating of the economy. Inflation has started to edge up after three years of uninterrupted decline. In response, monetary policy was gradually tightened and became very restrictive in May and June 1997.

Following the sharp deterioration of the current account in 1996 - a deficit of 10% of GDP was registered, compared to a small surplus in 1995 - and the rapid increase of the external debt to finance it, the external situation in the first months of 1997 deteriorated further. Up till the middle of May, the rising trade deficit could be financed without much difficulty, and foreign reserves remained approximately stable compared to the end of 1996. However, as a result of pressure on the currency in the second half of May, reserves dropped by 20%. So far, the National Bank of Slovakia has managed to stabilize the exchange rate close to its central rate. However, this could only be achieved at the cost of a sharp monetary contraction, a loss in foreign reserves, and very high interest rates. Clearly, such a situation cannot be maintained for a prolonged period.

III. NEWLY INDEPENDENT STATES

ARMENIA

GDP growth similar to the 5.8% registered in 1996 is expected for 1997. Annual inflation, which was 5.7% in December 1996, is set to rise to 9.5% this year. Weak tax collection continues to undermine the fiscal position. Armenia's current account deficit, which was around 27% of GDP (16% including official transfers) in 1996, partly because of the blockade imposed on the country in connection with the Nagorno Karabakh issue, is expected to decline to 19.5% in 1997. Over the medium term, however, external sustainability could become a crucial issue. The external debt was estimated at about 30% of GDP at end-1996. Net international reserves are still low (about US\$ 50 million). Progress with structural reform is limited: much remains to be done in large enterprise restructuring and in the banking sector. In June, the IMF

approved the second year (US\$ 47 million) of an ESAF arrangement. Meanwhile, recent armaments purchases and the nomination of a new Prime Minister have raised political tensions, and peace is more fragile than six months ago. In view of both economic and political uncertainties, Armenia remains in the category of high-risk debtors.

AZERBAIJAN

Economic recovery, which appears to have begun in 1996, should accelerate in 1997, with a projected 5% growth in GDP. The annual average inflation rate should decline to some 9 % by the end of 1997, and the budget deficit to 2 % of GDP. The current account deficit, which is expected to decrease to 16 % of GDP in 1997, will continue to be financed by growing foreign direct investment deriving from oil contracts (US\$ 345 million in 1996) and by official assistance. The level of foreign exchange reserves is expected to increase to 3 months' imports in 1997. The external debt was quite low, at about 16 % of GDP, at end-1996, and the debt service comfortable, at 9 % of exports. Azerbaijan has generally adhered very closely to the IMF ESAF programme performance criteria, and structural reforms have accelerated and are broadly on track. However, since May, the arrears in pension payments, as well as the pace of privatization and reform of the banking sector, have been causing concern. These factors, together with the unresolved conflict with Armenia over Nagorno Karabakh, imply that the country risk remains high.

BELARUS

Current economic and political developments in Belarus remain a matter of grave concern. The moderate progress made towards stabilization in the past is in jeopardy. Since the second half of 1996, state interference in the economy has intensified. The positive economic growth officially recorded in 1996 and in the first half of 1997 appears to be mostly the result of state orders, which were financed by cheap credit from the banking system and have led to a major surge of stocks. After a period of relative stability, inflation has accelerated significantly since the last quarter of 1996. Consumer prices increased at an annual average of 65% during the first five months of 1997. The external sector remains particularly fragile. Furthermore, there is a serious lack of progress with structural reforms, especially privatization. The overall risk is high and increasing.

GEORGIA

GDP growth of 9%, close to the 10.5% registered in 1996, is expected for 1997. The budget deficit, which fell to 4.5 % in 1996, is expected to decrease further in 1997, while annual inflation, which fell dramatically to 14 % in 1996, should decrease further to 11 % in 1997. The current account deficit (excluding official transfers) was equivalent to 10.5 % of GDP in 1996, but is expected to narrow in 1997. Foreign direct investment is still low. Foreign exchange reserves (2.6 months' imports in 1996) are expected to remain stable. Since its independence, Georgia has accumulated a foreign debt which amounted to some 30 % of GDP at end-1996, but has reached agreements with most of its creditors, in particular an understanding leading to clearance of its arrears towards the Community. In March 1997, the IMF Board approved a second annual ESAF arrangement (US\$ 76 million). However, in May, it expressed concern about the pace of

privatization, enforcement of tax collection, corruption and the repayment of debt to Turkmenistan. Political difficulties continue: the Abkhazian problem is further than ever from being resolved. The country risk remains high.

MOLDOVA

Following three years of substantial progress in macroeconomic stabilization, serious problems have appeared in Moldova since the middle of 1996: a widening budget deficit, wage and pension arrears, lack of substantial progress in structural reform, all this in a context of almost continuous output decline. These negative phenomena persisted and even intensified in the first half of 1997. In particular, increasing reliance on external financing has contributed to a steady increase in the country's external debt, which by the end of May 1997 reached 51% of GDP. More than one-third of the debt is short-term, i.e. with maturities below 5 years.

The overall risk deteriorated in the first half of 1997, as it seems that the political will which made for significant progress in the reform effort in the past few years has begun to weaken. Indeed, there are signs which suggest that the process of economic transformation may be slowing down.

TAJIKISTAN

Following the end of the civil war in December 1996 and the signing, in June 1997, of a peace agreement between conflicting parties, economic output is expected to expand by 5 % in 1997, after the sharp decline - 16.7% - registered in 1996. Annual average inflation, which fell dramatically to 65 % in 1996, as a result of tight credit and monetary policies, is expected to decrease only slightly to 50 % in 1997, because of policy shifts following the inclusion of new parties in a coalition government and wage arrears that are due to be paid. The trade balance, which was in surplus (US\$ 75 million or 7 % of GDP) in 1996, is expected to deteriorate slightly in 1997. Foreign exchange reserves, which were very low in December 1996, are expected to increase in 1997, mainly as a result of expected disbursements of external assistance. At the end of 1996, the external debt of Tajikistan was equivalent to the country's GDP. Major creditors, however, agreed to reschedule the debt falling due in 1996. Rescheduling of debt-service payments falling due in 1997 has begun. The liberalization of the foreign exchange market, foreign trade and prices is well advanced. The transformation into joint ventures of all remaining medium-sized and large enterprises is expected by end-year, while the agricultural sector and banking system have begun to be reformed. The conclusion of an IMF agreement is expected in the coming months. The risk assessment remains cautiously optimistic.

UKRAINE

Financial stabilization made further progress in Ukraine in the first half of 1997, mainly because of a decline in the financing needs of the budget deficit, which led to a further reduction in broad money growth and in the inflation rate. The exchange rate has remained stable, and the central bank announced a 10% trading band for the hryvnia in April 1997. Both the current account deficit and the foreign debt remain at manageable levels. The authorities have announced the current account convertibility of the hryvnia, with effect from September 1997. However, structural reform has practically stagnated

in recent months. The 1997 budget and the accompanying package of laws, including a comprehensive tax reform and further deregulation of the economy, have not yet been adopted, and it is becoming increasingly clear that they will be approved only in a revised and diluted form. Real economic performance continues to be disappointing. GDP fell by 8% in the first quarter of 1997, compared to the same period of last year.

The recently signed Friendship Treaty with Russia settles a series of potentially explosive issues relating to the Black Sea fleet. However, since economic stabilization in Ukraine remains fragile because of a significant slow-down in the reform process, the overall assessment is that Ukraine represents a moderate risk.

UZBEKISTAN

GDP growth similar to the 1.6% registered in 1996 is expected for 1997. So far in 1997, the authorities have been implementing a stricter fiscal policy, so that the budget deficit has been kept within the target of 3 % of GDP. However, inflation remains high (5-6 % monthly), real interest rates are negative, while official exchange rates for the som are less and less realistic. In 1996, the current account balance showed a deficit of US\$ 1.0 billion (8 % of GDP), while the gross foreign exchange reserves were still high at US\$ 1.9 billion (4.8 months' imports). The deficit is expected to stabilize or even to decline in 1997. Uzbekistan will continue to finance its deficit mainly through borrowing, although an upturn in foreign investment is expected. The country's external debt, which was US\$ 2.3 bn or 17 % of GDP at the end of 1996, is projected to remain moderate in 1997. With regard to structural reform, draconian foreign exchange controls and import restrictions have been reintroduced. The restructuring of the agricultural sector and of large enterprises is proceeding slowly, while the banking sector is in a poor condition. The IMF stand-by arrangement remains suspended. The risk assessment is still unfavourable.

IV. MEDITERRANEAN COUNTRIES

ALGERIA

Although macro-economic indicators have continued to improve, Algeria's country risk remains high owing to doubts about medium-term economic prospects and the continued difficult security situation.

The macro-economic performance achieved under the IMF-supported programme has recently improved further. Economic growth is projected to accelerate from 4% in 1996 to 4.5% in 1997. Inflation declined from 15.1% in December 1996 (12 months) to 6.9% in April 1997. The current account and fiscal balances remained in surplus during the first quarter of 1997 and are currently projected at 0.3% and 1.3% of GDP, respectively, for the year as a whole. Gross foreign exchange reserves, which doubled to US\$ 4.2 billion in 1996 (4.5 months' imports), increased further to US\$ 5.3 billion at end-March 1997. They are currently projected to reach US\$ 5.5 billion by the end of the year. Algeria's outstanding external debt declined slightly to 74.2% of GDP at end-1996, while the outstanding domestic debt was halved during the period 1993-96 to 22.2% of GDP.

Despite these achievements, the economy remains poorly diversified and particularly vulnerable to the vagaries of world energy prices and weather conditions. Because of limited foreign direct investment and lack of access to international capital markets, a sound balance of payments continues to rely on sizeable concessional external financing from the Bretton Woods institutions, the Paris and London clubs, and other multilateral and bilateral creditors. In addition, the political situation and security problems continue to hinder economic progress, in particular structural reforms and the development of a dynamic private economy. Growing unemployment (estimated at 28.3% in 1996) and mounting social difficulties could also jeopardize the reform momentum.

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I. EXPLANATORY NOTES ON THE SITUATION OF RISKS COVERED BY THE COMMUNITY BUDGET

I.A Tables 1 to 3

The purpose of Tables 1 to 3 is to show the outstanding amount of guarantees and annual repayments of capital and interest in respect of borrowing and lending operations for which the risk is covered by the Community budget. The figures show the maximum possible risk for the Community in respect of these operations and must not be read as meaning that these amounts will actually be drawn from the budget. In the case of Table 3, in particular, it is not certain that all the operations described will actually be disbursed.

I.A.1 Authorised ceiling (Table 1)

This is the aggregate of the maximum amounts of capital authorised (ceilings) for each operation decided by the Council.

In order to relate it to the risk which the budget might have to cover, account should be taken of the following factors which could affect it:

Factor increasing the risk: the interest on the loans must be added to the authorised ceiling

Factors reducing the risk:

- limitation of the guarantee given to the EIB to 75% of the loans signed in the Mediterranean countries;
- limitation of the guarantee given to the EIB to 70% of the loans signed as part of lending operations with certain non-member countries authorised by the Council Decision of 14 April 1997 and a sharing of risk between the Community and the EIB as the budget guarantee covers only political risks in some cases;
- operations already repaid, since the amounts concerned, except in the case of balance of payments support (Member States), are the maximum amount of loans granted and not outstanding amounts authorised;
- the amounts authorised are not necessarily taken up in full.

I.A.2 Capital outstanding (Table 1)

This is the amount of capital still to be repaid on a given date in respect of operations disbursed.

Compared with the previous aggregate, the amount outstanding does not include loans which have not yet been disbursed nor the proportion of disbursed loans which have already been repaid. It may be described as the amount of loans which exist on a given date.

I.A.3 Annual risk (Tables 2 and 3)

Estimated amount of principal and interest due each financial year.

This amount is calculated for:

- a) disbursements alone (Table 2), in which case the capital to be repaid corresponds to the amount outstanding;
- b) disbursements, decisions still awaiting disbursement and Commission proposals still awaiting decisions (Table 3), in which case the capital to be repaid corresponds to the ceiling on loans authorised plus, where applicable, the amounts in respect of operations proposed by the Commission and not yet decided.

I.B Loan operations covered by a budget guarantee

TABLE 6a

Borrowing and lending operations: Member States

Changes in amounts outstanding during six-month period

ECU million

COUNTRY	Decision	Date of decision	Loan term (years)	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.1.97	Operations in six-month period		Amount outstanding at 30.06.97
							Amounts disbursed	Amounts repaid	
GREECE	91/136/EEC	04.03.91	6	(c)	2.200,00	500,00			500,00
				(d)	1.000,00				
				(d)	600,00				
ITALY	93/67/EEC	18.01.93	6	(c)	8.000,00	3.478,57			3.454,50
				(c)	2.000,00				
				(d)	2.000,00				
				(d)	2.000,00				
EURATOM	77/270-271/Euratom	29.03.77	(3)	(c)	4.000,00	572,48		476,00	119,60
				(c)	500,00				
				(c)	500,00				
				(b)(4)	1.000,00				
				(d)(4)	1.000,00				
NCI	78/870/EEC	16.10.78	(3)	(c)	6.830,00	748,11		416,00	327,30
				(c)	1.000,00				
				(c)	1.000,00				
				(c)	80,00				
				(c)	1.000,00				
				(c)	3.000,00				
				(c)	750,00				
TOTAL					21.030,00	5.299,16	0,00	892,00	4.401,40 (5)

(1) Exceptional aid for the reconstruction of areas hit by the earthquake in Italy in 1980.

(2) Exceptional aid for the reconstruction of areas hit by the earthquake in Greece in 1981.

(3) Long-term loans for which the schedule of repayments depend on the dates of disbursement.

(4) By Decision 94/179/Euratom of 21 March 1994 the Council decided to extend Euratom loans to the financing of projects in certain non-member countries.

At 31 December 1996 no loans had yet been granted in non-member countries.

(5) Discrepancy caused by change in the rates of the other currencies against the ecu.

TABLE 5b (1)

Financial assistance to non-member countries

Changes in amounts outstanding during six-month period, broken down by countries and tranche

ECU million

COUNTRY	Decision	Date of decision	Loan term (years)	Expiry date	Loan situation - closed (a) - partly disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.01.97	Operations in six-month period		Amount outstanding at 30.06.97
								Amounts disbursed	Amounts repaid	
HUNGARY I						870,00				
1st tranche	90/83/EEC	22.02.90	5	20.04.95	(a)	350,00				
2nd tranche	90/881/EEC	21.12.90	5	14.02.96	(a)	260,00				
3ème tranche			-		(d)	260,00	0,00			0,00
HUNGARY II						180,00				
1st tranche	91/310/EEC	24.06.91	7	18.03.98	(c)	100,00	100,00			100,00
2nd tranche			5	15.12.97	(c)	80,00	80,00			80,00
CZECH REPUBLIC						250,00				
1st tranche	91/106/EEC	25.02.91	7	18.03.98		123,30	123,30			
2nd tranche			5	15.12.97		126,60	126,60			
SLOVAKIA						125,00				
1st tranche	91/106/EEC	25.02.91	7	18.03.98	(c)	61,60	61,60			185,00
2nd tranche			5	15.12.97	(c)	63,30	63,30			190,00
BULGARIA I						290,00				
1st tranche	91/311/EEC	24.06.91	7	18.03.98	(c)	150,00	150,00			150,00
2nd tranche			5	15.12.97	(c)	140,00	140,00			140,00
BULGARIA II						110,00				
1st tranche	92/511/EEC	19.10.92	7	07.12.2001	(c)	70,00	70,00			70,00
2nd tranche			7	29.08.2003	(c)	40,00	40,00			40,00
ROMANIA I						375,00				
1st tranche	91/384/EEC	22.07.91	7	01.02.99	(c)	190,00	190,00			190,00
2nd tranche			6	18.03.98	(c)	185,00	185,00			185,00
ROMANIA II	92/551/EEC	27.11.92	7	26.02.2000	(c)	80,00	80,00			80,00
ROMANIA III	94/369/EC	20.06.94				125,00				
1st tranche			7	20.11.2002	(c)	55,00	55,00			55,00
2nd tranche			-		(d)	70,00	0,00			0,00
BALTIC STATES						220,00				
ESTONIA	92/542/EEC	23.11.92				40,00				
1st tranche			7	31.03.2000	(c)	20,00	20,00			20,00
2nd tranche			-		(d)	20,00	0,00			0,00

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TABLE 5b (2)

Financial assistance to non-member countries

Changes in amounts outstanding during six-month period, broken down by countries and tranche.

ECU million

COUNTRY	Decision	Date of decision	Loan term (years)	Expiry date	Loan situation - closed (a) - partly disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.01.97	Operations in six-month period		Amount outstanding at 30.06.97
								Amounts disbursed	Amounts repaid	
LATVIA						80,00				
1st tranche			7	31.03.2000	(c)	40,00	40,00			40,00
2nd tranche			-	-	(d)	40,00	0,00			0,00
LITHUANIA						100,00				
1st tranche			7	27.07.2000	(c)	50,00	50,00			50,00
2nd tranche			7	16.08.2002	(b)	50,00	25,00			25,00
MOLDOVA I	94/346/EC	13.06.94				45,00				
1st tranche			10	07.12.2004	(c)	25,00	25,00			25,00
2nd tranche			10	08.08.2005	(c)	20,00	20,00			20,00
MOLDOVA II	96/242/EC	25.03.96				15,00				
1st tranche			10	30.10.2006	(c)	15,00	15,00			15,00
UKRAINE I	94/940/EC	22.12.94				85,00				
1st tranche			10	28.12.2005	(c)	85,00	85,00			85,00
UKRAINE II	95/442/EC	23.10.95				200,00				
1/2 tranche			10	29.08.2006	(c)		50,00			50,00
1/2 tranche			10	30.10.2006	(c)		50,00			50,00
2nd tranche			-	-	(d)		0,00			0,00
BELARUS	95/132/EC	10.04.95				55,00				
1st tranche			10	28.12.2005	(c)	30,00	30,00			30,00
2nd tranche			-	-	(d)	25,00	0,00			0,00
ALGERIA I	91/510/EEC	23.09.91				400,00				
1st tranche			5	15.12.97	(c)	250,00	250,00			250,00
2nd tranche			7	17.08.2001	(c)	150,00	150,00			150,00
ALGERIA II	94/938/EC	22.12.94				200,00				
1st tranche			7	27.11.202	(c)	100,00	100,00			100,00
2nd tranche			-	-	(d)	100,00	0,00			0,00
ISRAEL	91/408/EEC	22.07.91				160,00				
1st tranche			5	15.12.97	(c)	160,00	160,00			160,00
REPS.OF FORMER USSR	91/658/EEC	16.12.91				1.250,00				
1st tranche			3	28.09.97	-		143,70		34,10	109,60
TOTAL						5.035,00	2.678,50	0,00	34,10	2.644,60

TABLE 6

LOAN GUARANTEES TO EIB

GEOGRAPHICAL AREA	Decision	Date of decision	Rate of guarantee	Loan term (years)	Date of guarantee contract	Amount decided	Loans signed		Amount outstanding	
							at 1.01.97	during six-month period	at 1.01.97	at 30.06.97
MED. financial protocols(1)		8.03.77	75% (2)	15	30.10.78/10.11.78	6062	5325	60	2057	2321
MED. horizontal coop.	R/1762/92/CEE	29.06.92	75% (2)	15	09.11.92/18.11.92	1800	1800	0	301	466
TOTAL MED.						7862	7125 (3)	60 (3)	2357	2787
C and E Europe I	90/62/CEE(4)	12.02.90	100%	15	24.04.90/14.05.90	1000	928	0	615	664
	91/252/CEE(5)	14.05.91	100%	15	19.01.93/04.02.93	700	700		356	380
C and E Europe II	93/696/CE(6)	13.12.93	100%	15	22.07.94/12.08.94	3000	2980	20	335	486
Asia, Latin America I	93/115/CEE	15.02.93	100%	15	04.11.93/17.11.93	750	647	0	204	250
Asia, Latin America II	96/723/CE	12.12.96	100%	15	18.03.97/-	275		50		51
South Africa	95/207/CE	01.06.95	100%	15	04.10.95/16.10.95	300	101	75	32	56
New mandates	97/256/CE(7)	14.04.97	70%	15	25.07.97/29.07.97	7105				
TOTAL						20992	12481	205	3898	4674

(1) Including ECU 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.
By way of exception, a 100% guarantee applies to the emergency aid granted to Portugal in accordance with the Council Decision of 7 October 1975.

(3) The Community has guaranteed ECU 5 379.4 million, of which ECU 141.5 million is covered by a 100% guarantee for Portugal.

(4) Non-member countries: Poland, Hungary.

(5) Non-member countries: Czech Republic and Slovak Republic, Bulgaria, Romania.

(6) Non-member countries: Poland, Hungary, Czech Republic and Slovak Republic, Bulgaria, Romania, Baltic States and Albania.

(7) Non-member countries: Central and Eastern Europe, Mediterranean, Asia and Latin America, South Africa.

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I.C Expected signature and disbursement of EIB loans

The EIB has supplied the figures used for calculation of the assumptions made for drawing up Table 3 (EIB loans to non-member countries from its own resources).

Expected signatures

Mediterranean countries

At 30 June 1997 a total of ECU 190 million was still to be signed in 1997 under current and former mandates (ECU 642 million, less ECU 227 million for the remainder from the first and second protocols with Yugoslavia which will no longer be signed).

It is assumed that all the ECU 225 million under the third and fourth protocols with Syria will be signed in 1998; however, this assumption is very uncertain.

Asia and Latin America

At 30 June 1997 a total of ECU 20 million was still awaiting signature under the first mandate. As the Council decided to grant ECU 275 million on 12 December 1996, the total still to be signed comes to ECU 225 million. The total still to be signed in 1997 therefore comes to ECU 245 million.

South Africa

At 30 June 1997 a total of ECU 124 million was still to be signed in 1997 under the first mandate.

Disbursement forecasts

As regards disbursement of the loans still awaiting signature, it is assumed that nothing will be paid in the year of signature, 10% in the second year, 25% a year between the third and fifth years and 15% in the sixth year.

At 30 June 1997 ECU 5 868 million still had to be disbursed against loans signed at that date. The total breaks down as follows:⁷

Mediterranean	ECU 2 197 million
Central and Eastern Europe	ECU 3 135 million
Asia and Latin America	ECU 411 million
South Africa	ECU 125 million

⁷

Based on a working assumption that 25% of the loan will be disbursed every year for four years and that the average term will be fifteen years with a three-year period of grace.

I.D Payment of the budget guarantee

I.D.1 Borrowing/lending operations

In this type of operation, the Community borrows on the financial market and on-lends the proceeds (at the same rate and for the same term) to Member States (balance of payments), non-member countries (medium-term financial assistance) or firms (NCI, Euratom).

The loan repayments are scheduled to match the repayments of the borrowings due from the Community. If the recipient of the loan is late in making a repayment, the Commission must draw on its resources to repay the borrowing on the due date.

The funds needed to pay the budget guarantee in the event of late payment by the recipient of a loan granted by the Community are raised as follows:

- a) The amount required may be taken provisionally from cash resources in accordance with Article 12 of Council Regulation No 1552/89 of 29 May 1989 implementing Decision 88/376/EEC, Euratom on the system of the Communities' own resources. This method is used so that the Community can immediately repay the borrowing on the date scheduled in the event of late payment by the recipient of the loan.
- b) If the delay extends to three months after the due date, the Commission draws on the Guarantee Fund to cover the default. The funds obtained are used to replenish the Commission's cash resources.
- c) The transfer procedure can be used to provide the budget heading with the appropriations needed to cover the default; any margin available in the guarantee reserve is drawn on first. This method is used when there are insufficient appropriations in the Guarantee Fund and must be authorised in advance by the budgetary authority.
- d) The re-use of amounts repaid by debtors who have defaulted, leading to activation of the Community guarantee, allows payments to be made within a short period of time always providing, of course, that there are recovered funds available.

I.D.2 Guarantees given to third parties

The loan guarantee is in respect of loans granted by a financial institution such as the European Investment Bank (EIB). When the recipient of a guaranteed loan fails to make a payment on the due date, the EIB asks the Community to pay the amounts owed by the defaulter in accordance with the contract of guarantee. The guarantee must be paid within three months of receiving the EIB's request. The EIB administers the loan with all the care required by banking practice and is obliged to demand the payments due after the guarantee has been activated.

Since the entry in force of the Regulation establishing a Guarantee Fund for external action, the provisions of the Agreement between the Community and the EIB on management of the Fund state that, after the EIB calls in the guarantee in the event of a default, the Commission must authorise the Bank to withdraw the corresponding amounts from the Guarantee Fund within three months.

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

II. METHODOLOGICAL NOTE ON THE ANALYSIS OF THE COMMUNITY'S ESTIMATED LENDING CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES OVER THE PERIOD 1997-99 UNDER THE GUARANTEE FUND MECHANISM

II.A Reserve for loan guarantees to non-member countries (1)

As agreed at the Edinburgh European Council, the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure provided for the entry of a reserve for loan guarantees to non-member countries as a provision in the general budget of the European Communities. This reserve is intended to cover the requirements of the Guarantee Fund and, where necessary, activated guarantees exceeding the amount available in the Fund, so that these amounts may be charged to the budget.

The amount of the guarantee reserve is the same as in the financial perspective, viz. ECU 300 million at 1992 prices. The amount in the reserve comes to ECU 329 million in 1997.

The conditions for the entry, use and financing of the guarantee reserve are laid down in the following decisions:

- Council Decision 94/729/EC of 31 October 1994 on budgetary discipline
- Council Regulation (ECSC, EC, Euratom) No 2730/94 of 31 October 1994 amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities
- Council Decision 94/728/EC of 31 October 1994 on the system of the Communities' own resources.

II.B Bases for the calculation of the provisioning of the Guarantee Fund (2)

The bases for the provisioning of the Fund are calculated by applying the appropriate rate of guarantee (70%, 75% or 100%):

- to the loan guarantees authorised by the Council and to the loan guarantees proposed or being prepared by the Commission on the basis of the estimates of loan signatures contained in the financial statements (EIB and Euratom loans);
- to the loans (for financial assistance) authorised by the Council and to the loans proposed or being prepared by the Commission.

The annex to Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 establishing a Guarantee Fund for external actions, which relates to the arrangements for payments into the Guarantee Fund, states that, in the case of borrowing/lending operations or guarantees to financial bodies under a framework facility spread over a number of years and with a microeconomic and structural purpose, payments into the Fund will be made in annual

tranches calculated on the basis of the annual amounts indicated in the financial statement attached to the Commission proposal, adapted where appropriate in the light of the Council decision.

For other Community borrowing/lending operations, such as loans for the balance of payments of third countries, whether made in one or more than one tranche, payments into the Fund are calculated on the basis of the total amount for the operation decided on by the Council.

The annex to the Regulation establishing the Guarantee Fund states that, as from the second year (in the case of operations spread over a number of years), the amounts to be paid into the Fund will be corrected by the difference recorded on 31 December of the previous year between the estimates that were taken as a basis for the previous payment and the actual figure for the loans signed during that year. Any difference relating to the previous year will give rise to a payment in the following year.

The annex states that, when it starts a payment procedure, the Commission will check the situation with regard to the performance of the operations which were the subject of previous payments and, where the commitment deadlines originally laid down have not been met, will propose that this will be taken into account in calculating the first payment to be made at the start of the following financial year for operations already under way.

In the first half of 1997 the budgetary authority therefore adopted transfer 9/97 so that, as at the start of every financial year, the amounts paid into the Funds could be adjusted and the annual tranche provided for in the financial statements for EIB loans to non-member countries (Central and Eastern Europe, Mediterranean countries, Asia and Latin America and South Africa) could be paid.

II.C Basis for the provisioning of the Fund in the event of a part guarantee

For EIB loans covered by an aggregate 75% guarantee, the Fund is provisioned on the basis of 100% of the annual forecast of signatures up to a level of 75% of the total amount of operations authorised.

The guarantee on the EIB loans authorised by the Council on 14 April 1997 is limited to 70% of the total amount of credits opened. The basis for provisioning is 70% of the annual forecast of signatures.

II.D Provisioning of the Guarantee Fund (3)

The amounts paid into the Fund are obtained by applying the appropriate rate of provisioning (15% or 14%) to the calculation base set out above.

The 15% provisioning rate is applied to loans granted after guarantees under the Fund have been activated and until the amount involved in the default has been repaid to the Fund. Article 5 of the Regulation establishing the Guarantee Fund states, "If, as a result of the activation of guarantees following default, resources in the Fund stand below 75% of the target amount, the rate of provisioning on new operations shall be raised to 15% until the target amount has once more been reached or, if the default occurs before the target amount

is reached, until the amount drawn under the activation of the guarantee has been fully restored". As the amounts drawn under the activation of the guarantee have not been restored, the rate of provisioning applied to the new operations is 15%.

A 14% provisioning rate is applied to the EIB loans granted before defaults were covered by the Fund if the financial statements provide for the signature of part of the loans in 1997. (Pursuant to Articles 2 and 4 of the Regulation establishing the Guarantee Fund, the Fund is endowed by payments from the general budget equivalent to 14% of the capital value of the operations until it reaches the target amount.)

II.E Margin remaining in the guarantee reserve (4)

The margin remaining in the guarantee reserve is equivalent to the difference between the reserve (1) and the heading for the provisioning of the Guarantee Fund (3).

II.F Residual lending capacity (5)

The residual lending capacity is the loan equivalent of the margin left in the reserve, allowing for the guarantee rates in force.

III. TABLES: COUNTRY-RISK INDICATORS

Country-risk indicators				
Country: Bulgaria				
	footnotes	1994	1995	1996 prelim.
Real GDP growth rate (%)		1,8	2,1	-10,9
Industrial production (% change)		7,8	8,6	-8,3
Unemployment (end of period)		12,8	11,6	12,5
Inflation rate (Dec/Dec)		121,9	32,8	310,8
Exchange rate (Leva per USD) (end of period)		66,0	70,7	487,4
General government balance (as % of GDP)		-5,8	-5,7	-11,0
Balance of payments				
Exports of goods and services (bn USD)		5,3	7,0	6,1 (09/96)
Current account balance (% of GDP)		-2,1	-0,5	-0,0 est.
Net inflow of foreign direct investment (m USD)		105	90	115
Official reserves, including gold (end of period)				
bn USD		1,3	1,5	0,8
months' imports of goods and services		3,0	2,8	1,6
External debt				
Convertible currency external debt (bn USD, end of period.)		11,4	10,2	9,7
Convertible debt service (bn USD)		0,9	0,9	1,0
principal		0,5	0,3	0,4
interest		0,5	0,6	0,6
External debt/GDP (%)		119	79	99
External debt/exports of goods and services (%)		220	151	159
Debt service/exports of goods and services (%)		28	14	17
Arrears (on both interest and principal, bn USD)		17,6	none	none
Debt relief agreements and rescheduling		(4)	none	none
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	6,8	7,3	8,1
EU exposure/external debt (%)		4,6	5,7	6,5
EU exposure/exports of goods and services (%)		8,9	7,7	10,3 (09/96)
IMF arrangements				
Type (Date)		SBA/STF (3/94-3/95)	-	SBA (7/96-2/98)
On track		no (5)		no (5)
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
Euro money		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	88 98 (167) (167)	90 90 (187) (181)	99 92 (178) (178)
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	91 95 (135) (135)	93 94 (135) (135)	92 93 (135) (135)
Credit rating	(3)	19.8 20.8	21.9 22.2	23.1 23.5

Footnotes

- (1) (2) (3) See explanatory notes
 (4) London Club DDSR (July) Paris Club rescheduling (April)
 (5) SBA suspended in 09/94 and 09/96

Country-risk indicators				
Country: Czech Republic				
	footnotes	1994	1995	1996
Real GDP growth rate (%)		2,6	4,8	4,4
Industrial production (% change)		2,1	8,7	6,8
Unemployment	(end of period)	3,2	2,9	3,5
Inflation rate	(Dec/Dec)	9,7	7,9	8,6
Exchange rate (CK's per USD)	(end of period)	28,8	26,6	27,1
General government balance (as % of GDP)				
		1,0	0,6	0,0
Balance of payments				
Exports of goods and services (bn USD)		18,9	28,2	29,7
Current account balance (% of GDP)		-0,1	-2,9	-8,6
Net inflow of foreign direct investment (m USD)		749	2526	1388
Official foreign exchange reserves (end of period)				
bn USD		6,2	14,0	12,4
months' imports of goods and services		3,9	5,6	4,4
External debt				
Convertible currency external debt		10,7	16,5	20,4
(bn USD, end of period.)				
Convertible debt service (bn USD)		2,5	2,6	3,8
principal		2,1	2,0	3,0
interest		0,4	0,6	0,8
External debt/GDP (%)		27,9	35,1	39,2
External debt/exports of goods and services (%)		56,6	58,6	68,8
Debt service/exports of goods and services (%)		13,2	9,2	12,8
Arrears (on both interest and principal, m USD)		none	none	none
Debt relief agreements and rescheduling		none	none	none
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	5,2	5,8	7,3
EU exposure/external debt (%)		3,4	2,6	2,8
EU exposure/exports of goods and services (%)		2,5	2,5	1,9
IMF arrangements				
Type		SBA	-	-
(Date)		(3/93-3/94)	-	-
On track		yes (4)	-	-
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa2 (06/94)	Baa1 (09/95)	Baa1
S&P long-term foreign currency rating (end of period)		BBB+ (07/94)	A	A
Euromoney		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking	(2)	40 39	35 41	36 35
(number of countries)		(167) (167)	(187) (181)	(178) (178)
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking	(2)	40 39	33 30	30 29
(number of countries)		(135) (135)	(135) (135)	(135) (135)
Credit rating	(3)	49.7 52.8	55.8 58.4	60.1 62.0

Footnotes

(1) (2) (3) See explanatory notes

(4) All debts to IMF paid ahead of schedule.

Country-risk indicators					
Country: Estonia					
	footnotes	1994	1995	1996	
Real GDP growth rate (%)		-1,8	4,3	4,0	est.
Industrial production (% change)		3,5	1,4	1,1	
Unemployment (end of period)		4,5	4,1	4,3	
Inflation rate (Dec/Dec)		41,7	28,9	14,8	
Exchange rate (Kroons per USD) (end of period)		12,6	11,5	12,4	
General government balance (as % of GDP)					
Financial balance	(4)	2,9	-0,4	-1,5	est.
Fiscal balance	(4)	-1,3	-0,8	-1,6	est.
Balance of payments					
Exports of goods (m USD)		1312	1838	2074	
Current account balance (% of GDP), excl. official transfers		-11,7	-7,4	-12,0	
Net inflow of foreign direct investment (m USD)		214	204	70	
Official foreign exchange reserves (end of period) m USD		447	583	640	est.
months' imports of goods		3,2	2,7	2,4	est.
External debt					
Convertible currency external debt (incl. to IMF) (m USD, end of period)		170,3	246,8	296,5	
Convertible debt service (m USD) principal	(5)	8,1	21,0	51,2	est.
interest + charges to IMF		3,0	6,0	27,5	est.
External debt/GDP (%)		5,1	15,0	23,7	est.
External debt/exports of goods (%)		7,2	7,8	6,4	
Debt service/exports of goods (%)		12,8	15,3	13,5	
Arrears (on both interest and principal, m USD)		0,8	1,1	2,5	est.
Debt relief agreements and rescheduling		none	none	none	
Indicators of EU exposure					
EU exposure/total EU exposure (%)	(1)	0,4	0,5	0,6	
EU exposure/external debt (%)		15,7	16,5	15,6	
EU exposure/exports of goods (%)		2,0	2,2	2,2	
IMF arrangements					
Type (Date)		SBA/STF (10/93-3/95)	SBA (4/95-6/96)	SBA (7/96-8/97)	
On track		yes	yes	yes	
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)		none	none	none (6)	
S&P long-term foreign currency rating (end of period)		none	none	none (6)	
Euromoney		03/94 09/94	03/95 09/95	03/96 09/96	
Position in the ranking (number of countries)	(2)	105 102 (167) (167)	66 76 (187) (181)	73 71 (178) (178)	
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96	
Position in the ranking (number of countries)	(2)	88 86 (135) (135)	79 79 (135) (135)	76 71 (135) (135)	
Credit rating	(3)	20.7 23.6	25.4 26.3	28.9 31.1	

Footnotes

(1) (2) (3) See explanatory notes

(4) Financial balance does not take into account government net lending, whereas fiscal balance does.

(5) Kron figures have been converted using the yearly average exchange rate of the dollar.

In 1996, Estonia repaid in advance some foreign loans.

(6) Estonia has asked for a rating

Country-risk indicators				
Country: Hungary				
	footnotes	1994	1995	1996
Real GDP growth rate (%)		2,9	1,5	1,0
Industrial production (% change)		9,0	6,0	2,3
Unemployment (end of period)		10,4	10,4	10,5
Inflation rate (Dec/Dec)		21,2	28,5	19,8
Exchange rate (forints per USD) (end of period)		111,0	139,5	164,0
Consolidated state budget balance (as % of GDP)				
		-6,3	-6,8	-3,3
Balance of payments				
Exports of goods and services (bn USD)		7,6	12,8	14,2
Current account balance (% of GDP)		-9,5	-5,6	-3,2
Net inflow of foreign direct investment (m USD)		1100	4410	1987
Official reserves (end of period)				
bn USD		6,8	12,0	9,7
months' imports of goods		7,2	9,5	6,9
External debt				
Convertible currency external debt (bn USD, end of period)		28,5	31,7	27,6
Convertible debt service (bn USD)		6,2	7,7	7,4
principal, including early repayments		4,3	5,3	5,1
interest		1,9	2,4	2,3
External debt/GDP (%)		68,4	72,3	63,6
External debt/exports of goods and services (%)		267,2	185,9	144,1
Debt service/exports of goods and services (%)		48,7	43,8	44,7
Arrears (on both interest and principal, m USD)		none	none	none
Debt relief agreements and rescheduling		none	none	none
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	16,5	13,0	9,6
EU exposure/external debt (%)		4,0	3,1	2,7
EU exposure/exports of goods and services (%)		11,3	6,6	5,2
IMF arrangements				
Type		SBA		SBA
(Date)		(9/93-12/94)		(3/96-2/98)
On track		no (4)		yes
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba1	Ba1	Baa3
S&P long-term foreign currency rating (end of period)		BB+	BB+	BBB-
Euromoney		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking	(2)	44 46	50 44	44 44
(number of countries)		(167) (167)	(187) (181)	(178) (178)
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking	(2)	43 44	45 48	50 50
(number of countries)		(135) (135)	(135) (135)	(135) (135)
Credit rating	(3)	46.1 46.2	46.4 45.0	43.6 44.7

Footnotes

- (1) (2) (3) See explanatory notes
(4) First review uncompleted.

Country-risk indicators				
Country: Latvia				
	footnotes	1994	1995	1996
Real GDP growth rate (%)		2,0	-1,6	2,8
Industrial production (% change)		-2,2	-6,3	1,4
Unemployment (end of period)		6,5	6,1	7,2
Inflation rate (Dec/Dec)		26,3	23,1	13,0
Exchange rate (Lats per USD) (end of period)		0,55	0,54	0,56
General government balance (as % of GDP)		-4,4	-3,4	-1,9
Balance of payments				
Exports of goods (m USD)		988	1304	1443
Current account balance (% of GDP)		5,5	-0,4	-9,0
Net inflow of foreign direct investment (m USD)		155	165	171
Official foreign exchange reserves (end of period) m USD		545	527	652
months' imports of goods and non-factor services		4,5	2,9	2,9 est.
External debt				
Convertible currency external debt (m USD, end of period)		345	403	409
Convertible debt service (m USD):		50,0	39,0	71,0
principal		n.a.	n.a.	n.a.
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		9,2	9,2	8,2
External debt/exports of goods (%)		34,1	31,4	28,6
Debt service/exports of goods (%)		5,1	3,0	4,9
Arrears (on both interest and principal, m USD)		none	none	none
Debt relief agreements and rescheduling		none	none	none
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	0,7	0,7	0,7
EU exposure/external debt (%)		13,3	12,3	12,4
EU exposure/exports of goods (%)		4,8	4,0	3,5
IMF arrangements				
Type (Date)		SBA/STF (12/93-3/95)	SBA (4/95-4/96)	SBA (5/96-8/97)
On track		yes	no	yes
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		none	none	Baa3 (01/97)
S&P long-term foreign currency rating (end of period)		none	none	BBB (01/97)
Euromoney		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	104 125 (167) (167)	106 116 (187) (181)	89 75 (178) (178)
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	94 92 (135) (135)	91 89 (135) (135)	86 88 (135) (135)
Credit rating	(3)	19.6 21.3	22.6 23.4	24.7 25.7

Footnotes

(1) (2) (3) See explanatory notes

Country-risk indicators				
Country: Lithuania				
	footnotes	1994	1995	1996
Real GDP growth rate (%)		1,0	3,0	3,6
Industrial production (% change)		-6,7	0,8	-1,5
Unemployment (end of period)		3,8	7,3	6,2
Inflation rate (Dec/Dec)		72,2	39,6	13,1
Exchange rate (Litas per USD) (end of period)		4,3	4,0	4,0
General government balance (as % of GDP)				
Financial balance	(4)	-1,5	-1,8	-1,9
Fiscal balance	(4)	-4,2	-3,3	-3,6
Balance of payments				
Exports of goods and services (bn USD)		1,9	2,7	3,3
Current account balance (% of GDP), excl. official transfers		-4,2	-3,2	-2,7
Net inflow of foreign direct investment (m USD)		60	55	152
Official foreign exchange reserves (end of period, gross foreign assets) m USD		587	819	834
months' imports of goods and services		3,1	3,9	2,4
External debt				
Convertible currency external debt (m USD, end of period)		448	757	1076
Convertible debt service (m USD)		19	69	120
principal		n.a.	n.a.	n.a.
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		8,0	13,9	15,6
External debt/exports of goods and services (%)		23,2	34,3	32,7
Debt service/exports of goods and services (%)		1,0	3,1	3,6
Arrears (on both interest and principal, m USD)		none	none	none
Debt relief agreements and rescheduling		none	none	none
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	0,9	1,4	1,4
EU exposure/external debt (%)		13,3	13,9	10,2
EU exposure/exports of goods and services (%)		3,1	4,8	3,3
IMF arrangements				
Type		STF (10/93-3/94)	EFF	EFF
(Date)		EFF (10/94-10/97)	(10/94-10/97)	(10/94-10/97)
On track		yes	yes	yes
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		none	none	Ba2
S&P long-term foreign currency rating (end of period)		none	none	none
Euromoney		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	110 121 (167) (167)	108 118 (187) (181)	85 59 (178) (178)
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	97 96 (135) (135)	95 90 (135) (135)	89 90 (135) (135)
Credit rating	(3)	18.4 20.0	21.7 22.9	23.8 25.3

Footnotes

(1) (2) (3) See explanatory notes

(4) Financial balance does not take into account government net lending, whereas fiscal balance does.

Country-risk indicators				
Country: Romania				
	footnotes	1994	1995	1996
Real GDP growth rate (%)		3,9	7,1	4,1
Industrial production (% change)		3,3	9,4	9,9
Unemployment (end of period)		8,1	8,0	6,3
Inflation rate (Dec/Dec)		61,7	27,8	56,9
Exchange rate (lei per USD) (end of period)		1767	2760	4035
General government balance (as % of GDP)		-2,0	-2,6	-3,9
Balance of payments				
Exports of goods and services (bn USD)		7,2	9,4	9,8
Current account balance (% of GDP)		-1,4	-4,6	-5,8
Net inflow of foreign direct investment (m USD)		341	367	555
Official foreign exchange reserves (end of period) m USD		1596	1523	2099
months' imports of goods and services		2,2	1,9	2,1
External debt				
Convertible currency external debt, incl. short-term debt (bn USD, end of period)		5,5	6,6	8,3
Convertible debt service (m USD)		589	1366	1980
principal		313	1073	1524
interest		276	293	456
External debt/GDP (%)		18,3	18,7	23,5
External debt/exports of goods and services (%)		76,6	73,9	85,0
Debt service/exports of goods and services (%)		15,4	14,5	20,2
Arrears (on both interest and principal, m USD)		none	none	none
Debt relief agreements and rescheduling		none	none	none
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	8,4	10,2	10,2
EU exposure/external debt (%)		10,7	11,5	9,4
EU exposure/exports of goods and services (%)		9,7	10,1	8,0
IMF arrangements				
Type		SBA	SBA	SBA
(Date)		(5/94-12/95)	(5/94-12/95)	(4)
On track		yes	yes	no (5)
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		none	none	Ba3
S&P long-term foreign currency rating (end of period)		none	none	BB-
Euromoney		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	74 77 (167) (167)	68 64 (187) (181)	67 61 (178) (178)
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	76 74 (135) (135)	73 71 (135) (135)	68 72 (135) (135)
Credit rating	(3)	25.4 26.2	28.1 29.7	30.9 31.0

Footnotes

(1) (2) (3) See explanatory notes

(4) The SBA approved in May 1994 was augmented and extended through 1997.

(5) Suspended in March 1996. New SBA approved by IMF Board on 22 April 1997

Country-risk indicators				
Country: Slovak Republic				
	footnotes	1994	1995	1996
Real GDP growth rate (%)		4,9	6,8	6,9
Industrial production (% change)		4,8	8,3	2,5
Unemployment (end of period)		14,8	13,1	12,8
Inflation rate (Dec/Dec)		11,7	7,2	5,4
Exchange rate (SK's per USD) (end of period)		31,3	29,6	31,9
General government balance (as % of GDP)				
		-1,3	0,1	-1,3
Balance of payments				
Exports of goods and services (bn USD)		8,9	11,0	10,9
Current account balance (% of GDP)		4,8	2,3	-10,1
Net inflow of foreign direct investment (m USD)		184	157	189
Official foreign exchange reserves (end of period) m USD		1691	3400	3473
months' imports of goods and services		2,3	4,1	3,4
External debt				
Convertible currency external debt (bn USD, end of period)		4,2	5,7	7,7
Convertible debt service (m USD) principal		766	1390	1444
interest		497	1130	1186
External debt/GDP (%)		269	260	258
External debt/exports of goods and services (%)		30,5	32,9	40,6
Debt service/exports of goods and services (%)		46,9	52,0	70,6
Arrears (on both interest and principal, m USD)		8,6	12,7	13,3
Debt relief agreements and rescheduling		none	none	none
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	2,9	4,1	4,5
EU exposure/external debt (%)		5,3	5,2	4,5
EU exposure/exports of goods and services (%)		2,3	2,8	3,2
IMF arrangements				
Type (Date)		STF (7/93 - 7/94)	SBA (7/94-3/96)	
On track		yes	no (4)	
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		Baa3 (05/94)	Baa3	Baa3
S&P long-term foreign currency rating (end of period)		BB- (02/94)	BB+	BBB-
Euromoney		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	64 66 (167) (167)	53 51 (187) (181)	48 49 (178) (178)
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	59 59 (135) (135)	61 59 (135) (135)	57 53 (135) (135)
Credit rating	(3)	31.6-33.1	33.2 35.7	38.6 41.2

Footnotes

(1) (2) (3) See explanatory notes

(4) The mid-term review of the programme, which had been scheduled for February 1995, was not completed.

Country-risk indicators				
Country: Belarus				
	footnotes	1994	1995	1996
Real GDP growth rate (%)		-12,6	-10,4	2,6
Industrial production (% change)		-19,9	-11,5	3,3
Unemployment (end of period)		2,1	2,7	3,9
Inflation rate (yearly average)		1960	244	39,3
Exchange rate (Rbs per USD) (average)		10600	11500	15500
General government balance (as % of GDP)		-1,6	-2,3	-1,8
Balance of payments.				
Exports of goods and services (bn USD)		2,5	4,7	5,4
Current account balance (% of GDP)		-12,4	-4,7	-9,1
Net inflow of foreign direct investment (m USD)		10	7	6
Official foreign exchange reserves (end of period) m USD		101,0	377,0	10,0
months' imports of goods and services		0,3	0,7	0,0
External debt				
Convertible currency external debt (bn USD, end of period)		1,3	1,5	1,0
Convertible debt service (m USD) principal		123,0	178,0	163,2
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		25,9	14,7	8,1
External debt/exports of goods and services (%)		47,4	32,7	17,6
Debt service/exports of goods and services (%)		4,3	3,4	3,0
Arrears (on both interest and principal, m USD)		493	460	n.a.
Debt rescheduling agreement		(4)	none	none
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	0,9	0,5	0,5
EU exposure/external debt (%)		4,8	2,6	4,0
EU exposure/exports of goods and services (%)		2,3	0,8	0,7
IMF arrangements				
Type		STF	SBA	SBA
(Date)		(07/93-06/94)	(12/95 - 11/96)	(12/95 - 11/96)
On track		no (5)	no (6)	no (6)
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
Euromoney		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	145 138 (167) (167)	135 134 (187) (181)	128 142 (178) (178)
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	109 109 (135) (135)	112 112 (135) (135)	116 118 (135) (135)
Credit rating	(3)	15.5 15.7	15.2 15.5	14.5 14.6

Footnotes

(1) (2) (3) See explanatory notes.

(4) With Russia for gas arrears

(5) IMF 1993 STF programme went off track in early 1994. However, IMF staff regarded favourably the government programme adopted in Autumn 1994, which was supported with the second STF tranche by end-January 1995.

(6) The first quarterly review of the programme, initially scheduled for December 1995, has never been completed.

Country-risk indicators				
Country: Moldova				
	footnotes	1994	1995	1996
Real GDP growth rate (%)		-30,9	-1,9	-8,0
Industrial production (% change)		-12,0	-6,0	-5,1
Unemployment (end of period)		20,6	24,5	23,4
Inflation rate (yearly average)		116	24	15
Exchange rate (leu per USD) (end of period)		4,27	4,50	4,59
General government balance (as % of GDP)		-5,9	-5,9	-10,0
Balance of payments				
Exports of goods (m USD)		618	739	801
Current account balance (% of GDP)		-12,9	-8,1	-18,8
Net inflow of foreign direct investment (m USD)		11,6	63,7	40,0
Official foreign exchange reserves (end of period) m USD		179	257	315
months' imports of goods		2,9	3,2	4,1
External debt				
Convertible currency external debt (m USD, end of period)		506,2	696,3	818,2
Convertible debt service (m USD) principal		12,3	91,0	n.a.
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		30,0	38,0	57,6
External debt/exports of goods (%)		55,5	91,1	102,1
Debt service/exports of goods (%)		4,0	11,0	n.a.
Arrears (on both interest and principal, m USD)		none	none	none
Debt relief agreements and rescheduling		none	none	none
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	0,9	0,8	1,0
EU exposure/external debt (%)		18,0	8,7	9,3
EU exposure/exports of goods (%)		10,0	7,9	9,5
IMF arrangements				
Type (Date)		SBA (12/93-3/95)	SBA (3/95-3/96)	EFF (5/96-5/99)
On track		yes	yes	yes
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
Euromoney		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	148 155 (167) (167)	157 141 (187) (181)	134 125 (178) (178)
The Institutional Investor				
Position in the ranking (number of countries)		none	none	none
Credit rating		none	none	none

Footnotes

(1) (2) See explanatory notes

Country-risk indicators				
Country: Ukraine				
	footnotes	1994	1995	1996
Real GDP growth (%)		23,0	-11,8	-10,0
Industrial production (% change)		-28,5	-11,7	-5,1
Unemployment (end of period)		0,3	0,6	1,3
Inflation rate (Dec/Dec)		401	182	40
Exchange rate (Krb per USD) (Hrv per USD for 1996)				
- auction / interbank (end of period)		108196	179400	1,9
- cash (end of period)		128000	186000	1,9
General government balance (as % of GDP)		-8,2	-5,0	-3,2
Balance of payments				
Exports of goods and services (bn USD)		14,7	16,4	20,3
Current account balance (excl. transfers) (% of GDP)		-6,0	-5,0	-3,9
Net inflow of foreign direct investment (bn USD)		0,09	0,27	0,52
Gross official foreign exchange reserves m USD		646	1134	1994
weeks' imports of goods and services		2,3	3,7	5,3
External debt				
Convertible currency external debt (bn USD, end of period)		7,2	8,1	9,2
Convertible debt service paid (m USD)		1794	1531	1221
principal		n.a.	986	716
interest		n.a.	545	505
External debt/GDP (%)		29,2	23,3	21,2
External debt/exports of goods and services (%)		48,0	53,6	45,3
Debt service/exports of goods and services (%)		12,1	9,3	6,0
Arrears (on both interest and principal, m USD)		2722	236	n.a.
Debt relief agreements and rescheduling		(4)	(4)	(4)
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	1,6	1,5	3,0
EU exposure/external debt (%)		1,6	1,4	2,6
EU exposure/exports of goods and services (%)		0,8	0,7	1,2
IMF arrangements				
Type		STF	SBA	SBA
(Date)		(04/93-04/95)	(04/95-04/96)	(05/96-02/97)
On track		yes	no (5)	yes
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
Euromoney		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	149 147 (167) (167)	145 138 (187) (181)	136 135 (178) (178)
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking (number of countries)	(2)	111 113 (135) (135)	109 111 (135) (135)	107 111 (135) (135)
Credit rating	(3)	15.1 14.5	15.5 15.7	16.7 16.6

Footnotes

- (1) (2) (3) See explanatory notes
(4) Rescheduling of debt owed to Russia and Turkmenistan.
(5) Suspended in November 1995.

Country-risk indicators				
Country: Algeria				
	footnotes	1994	1995	1996
Real GDP growth rate (%)		-0,9	3,9	4,0
Hydrocarbon production (% change)		-2,5	4,4	6,3
Inflation rate (Dec/Dec)		38,6	21,9	15,1
Exchange rate (dinars per USD) (end of period)		42,9	52,2	56,2
General government balance (as % of GDP)		-4,4	-1,4	3,0
Balance of payments				
Exports of goods and services (bn USD)		8,9	10,3	13,2
Current account balance (% of GDP)		-4,4	-5,3	2,8
Net inflow of foreign direct investment (m USD)		0,0	0,0	0,3
Official foreign exchange reserves bn USD		2,6	2,1	4,2
months' imports of goods and services		2,9	2,1	4,5
External debt				
Convertible currency external debt (bn USD, end of period)		29,5	32,5	33,5
Convertible debt service (bn USD)		8,9	9,4	7,4
principal		7,1	7,1	5,2
interest		1,8	2,3	2,2
External debt/GDP (%)		70,0	78,4	73,3
External debt/exports of goods and services (%)		307,5	297,1	240,1
Debt service/exports of goods and services (%)		48,6	42,5	29,2
Arrears (on both interest and principal, m USD)		none	none	none
Debt relief agreements and rescheduling (bn US\$)		4,5	4,9	3,5
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	9,9	12,2	11,6
EU exposure/external debt (%)		2,4	2,8	2,7
EU exposure/exports of goods and services (%)		7,8	8,9	6,8
IMF arrangements				
Type		SBA	SBA/EFF	EFF/CCFF
(Date)		(5/94 - 5/95)	(5/94 - 5/95)	(5/95 - 5/98)
On track		yes	yes	yes
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of per.)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
Euro money		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking	(2)	92 96	102 107	109 97
(number of countries)		(167) (167)	(187) (181)	(178) (178)
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking	(2)	75 78	89 91	95 95
(number of countries)		(135) (135)	(135) (135)	(135) (135)
Credit rating	(3)	26.3 24.6	23.5 22.8	21.5 22.8

Footnotes

(1) (2) (3) See explanatory notes

Country-risk indicators				
Country: Israel				
	footnotes	1994	1995	1996
Real GDP growth rate (%)		6,8	7,1	4,4
Industrial production (% change)		7,4	8,4	5,4
Unemployment (yearly average)		7,8	6,9	6,7
Consumer Price Index (yearly average)		14,5	8,1	10,6
Exchange rate (shekel per USD) (end of period)		3,01	3,12	3,24
Central government overall deficit (as % of GDP)		-2,3	-4,2	-3,6
Balance of payments				
Exports of goods (bn USD)		16,0	17,9	19,1
Current account balance (% of GDP)		-3,2	-5,6	-5,6
Net inflow of foreign direct investment (bn USD)		0,6	2,0	2,4
Gross official foreign exchange reserves				
bn US\$		6,6	9,1	10,0
months' imports of goods		2,4	2,8	2,8
External debt				
External debt (gross external liabilities) (bn USD, end of period)		41,8	45,1	48,0
Debt service (bn USD)		3,8	4,2	4,5
principal		2,2	2,5	2,8
interest (gross)		1,6	1,7	1,7
External debt/GDP (%)		56,2	53,8	51,1
External debt/exports of goods and services (%)		171,0	165,0	164,0
Debt service/exports of goods and services (%)		15,5	15,4	15,4
Arrears (on both interest and principal, m USD)		none	none	none
Debt relief agreements and rescheduling		none	none	none
Indicators of EU exposure				
EU exposure/total EU exposure (%)	(1)	4,4	4,4	3,9
EU exposure/external debt (%)		0,8	0,7	0,6
EU exposure/exports of goods (%)		1,9	1,7	1,6
IMF arrangements				
Type		none	none	none
(Date)		-	-	-
On track		-	-	-
Indicators of market's perception of creditworthiness				
Moody's long-term foreign currency rating (end of period)		none	A3	A3
S&P long-term foreign currency rating (end of period)		BBB+	A-	A-
Euromoney		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking	(2)	30 33	31 31	33 32
(number of countries)		(167) (167)	(187) (181)	(178) (178)
The Institutional Investor		03/94 09/94	03/95 09/95	03/96 09/96
Position in the ranking	(2)	46 43	43 42	41 40
(number of countries)		(135) (135)	(135) (135)	(135) (135)
Credit rating	(3)	43.4 46.5	47.9 49.2	50.8 52.2

Footnotes

(1) (2) (3) See explanatory notes

Explanatory notes for country-risk indicators

Standard footnotes

- (1) Includes only EIB and BOP loans (outstanding disbursements) to CEEC, NIS and MED
- (2) The higher the ranking number, the lower the creditworthiness of the country.
- (3) Countries are rated on a scale of zero to 100; 100 represents the least chance 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.

Abbreviations and English words used in tables

S&P	Standard and Poor's
CCFF=	Compensatory and Contingency Financing Facility
EFF=	Extended Financing Facility
SBA =	Stand-By Arrangement
STF=	Systemic Transformation Facility
est.=	estimates
n.a. =	not available
prelim.=	preliminary

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