COMMISSION OF THE EUROPEAN COMMUNITIES

COM(95) 17 final
Brussels, 27.03.1995

REPORT FROM THE COMMISSION

ON GUARANTEES

COVERED BY THE GENERAL BUDGET -

SITUATION AT 30 JUNE 1994

REPORT ON GUARANTEES COVERED BY THE GENERAL BUDGET SITUATION AT 30 JUNE 1994

This report describes the situation as regards budget guarantees at 30 June 1994.

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.

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

The report is in three parts:

1. Description of operations entered in the budget and events since the last report.

2. Situation at 30 June 1994 as regards risks for the budget in future years and guarantees already activated.

3. Assessment of the economic and financial situation of non-Community countries benefiting from the most important operations.

PART ONE: OPERATIONS ALREADY ENTERED IN THE BUDGET

The budgetary authority has authorized 22 headings with token entries in the 1994 budget to cover any payment of guarantees. These headings can be divided into three categories: borrowing and lending within the Community, borrowing and lending outside the Community and guarantees given to financial institutions.

I. BORROWINGS TO BE ON-LENT WITHIN THE COMMUNITY

A. COMMUNITY BORROWING OPERATIONS TO PROVIDE BALANCE-OF-PAYMENTS SUPPORT

The Community is authorized to borrow on the capital markets or from financial institutions and make the sums raised available to Member States experiencing temporary balance-of-payments difficulties.

The outstanding amount of loans granted to Member States for this purpose may not exceed ECU 14 billion in principal.

At 30 June 1994 there was one operation in respect of Greece under the decision of 4 March 1991 and one operation in respect of Italy under the decision of 18 January 1993.

At 30 June 1994 the amount outstanding was ECU 1 000 million in loans to Greece and ECU 4 004.9 million in loans to Italy (Table 1).

B. EURATOM BORROWING OPERATIONS

In 1977 the Commission was empowered to borrow funds to be used to help finance nuclear power stations.

Loans are made to electricity producers and carry the usual guarantee demanded by banks. Recipients are often State-owned companies or companies enjoying a State guarantee.

The maximum amount of borrowings authorized is ECU 4 billion, of which ECU 500 million was authorized by the 1977 decision, ECU 500 million in 1980, ECU 1 billion in 1982, ECU 1 billion in 1985 and ECU 1 billion in 1990. The amount borrowed comes to around ECU 2 900 million, leaving ECU 1 100 million which may still be raised.

At 30 June 1994 the total outstanding was ECU 861.6 million.

On 9 December 1992 the Commission proposed that the balance of borrowings not used in the Member States could be used to finance the improvement of the degree of efficiency and safety of nuclear power stations in the countries of Central and Eastern Europe and in the CIS.

The Council adopted a decision to this effect in the first half of 1994 (see Part II - Loans raised for non-Community countries).

C. BORROWING OPERATIONS FOR THE PROMOTION OF INVESTMENT IN THE COMMUNITY

The Commission was empowered by a Council Decision of 16 October 1978 to borrow funds to be used to promote investment in the Community (New Community Instrument).

The authorized borrowing ceiling was fixed at ECU 1 billion by the Decision of 16 October 1978 and was then raised by ECU 1 billion by the Decision of 15 March 1982. The ceiling was further raised by ECU 3 billion by the Decision of 19 April 1983 and by ECU 750 million by the Decision of 9 March 1987.

The proceeds of the operations are paid out in the form of loans granted by the EIB, acting for the Commission, to finance investment projects which contribute to greater convergence and growing integration and are consistent with the priority Community objectives in the energy, industry and infrastructure sectors, taking account of such factors as the regional impact of the projects and the need to combat unemployment. Support for small businesses was also made a priority objective by the Decision of 26 April 1982.

A Decision of 20 January 1981 also empowered the Community to contract loans in order to provide exceptional aid of ECU 1 billion to the regions of Italy affected by the earthquake of November 1980. A similar decision involving ECU 80 million was adopted on 14 December 1981 for the regions affected by the earthquakes in Greece in February/March 1981.

The maximum amount of borrowings authorized thus comes to ECU 6 830 million.

At 30 June 1994 the total outstanding was ECU 1 880.2 million, 33.16% less than on 30 June 1993.

The risk is spread over a large number of borrowers. In addition, most of the loans are global loans to financial institutions which guarantee repayment of the funds.

Every year the EIB provides the Commission with a list of debtors who, according to its information, risk defaulting in the coming year. So far, no names have been recorded on this list.

II. LOANS RAISED FOR ON-LENDING TO NON-COMMUNITY COUNTRIES

A. EURATOM BORROWINGS FOR CERTAIN NON-COMMUNITY COUNTRIES

On 21 March 1994 the Council decided to amend Decision 77/270/Euratom to authorize the Commission to contract Euratom borrowings in order to contribute to the financing required for improving the degree of safety and efficiency of nuclear power stations in certain non-member countries.

This Decision will allow a considerable proportion of Euratom's available borrowing capacity (some ECU 1 100 million) to be used to finance projects. For these projects to be eligible they must relate to:

- nuclear power stations or installations in the nuclear fuel cycle which are in service, or under construction;

- or to the dismantling of installations which cannot be brought up to standard for technical or economic reasons.

The following non-member countries qualify:

Republic of Bulgaria
Republic of Hungary
Republic of Lithuania
Romania
Republic of Slovenia
Czech Republic
Slovak Republic
Russian Federation
Republic of Armenia
Ukraine

The idea of international financial aid for the closure of the Chernobyl nuclear power plant was entered in the conclusions of both the Corfu European Council of 24 and 25 June 1994 and the G7 summit at Naples on 7 and 8 July 1994.

B. PROGRAMME OF BORROWINGS CONTRACTED BY THE COMMUNITY TO PROVIDE MEDIUM-TERM FINANCIAL ASSISTANCE TO THE COUNTRIES OF CENTRAL AND EASTERN EUROPE

1. HUNGARY

(a) Hungary I

The Community is granting Hungary a medium-term loan of up to ECU 870 million in principal for a maximum of five years. The loan is intended to facilitate the adjustment of the Hungarian economy in a way which will enable it to derive all the benefits of a market–based economy. It is being made available in tranches.

The first tranche of ECU 350 million was paid on 20 April 1990. A second tranche of ECU 260 million was paid on 14 February 1991. The third tranche, which is not to exceed ECU 260 million, was planned for 1992 but was not paid out as Hungary's balance of payments has been more favourable than expected. The tranches will be repaid in one instalment after five years and interest, which is at variable rates, is payable half–yearly.

At 30 June 1994 the amount outstanding on borrowings under this operation came to ECU 610 million.

(b) Hungary II

As the break-up of the Council for Mutual Economic Assistance (Comecon) and the Gulf crisis threatened to compromise the initial encouraging results of the reforms undertaken, it was decided to launch a supplementary borrowing and lending operation for ECU 180 million under an overall ECU 360 million G-24 aid programme.

The first tranche of ECU 100 million was paid on 14 August 1991. It will be repaid in one instalment after seven years, and interest, which is at variable rates, is payable half–yearly. The second tranche of ECU 80 million was due paid on 15 January 1993. It will be repaid in January 1997 and interest, which is at a fixed rate, is payable annually.

At 30 June 1994 the amount oustanding on borrowings under this operation came to ECU 180 million.

2. CZECH REPUBLIC AND SLOVAK REPUBLIC

As part of G–24's total aid of around ECU 750 million, the Commission, on behalf of the Community, was empowered to borrow, in two tranches, ECU 375 million for a period of seven years. The proceeds of this operation were to be on-lent on the same terms to the Czech and Slovak Federal Republic.

The first tranche of ECU 185 million was paid on 14 August 1991. It will be repaid in one instalment after seven years, and interest, which is at variable rates, is payable half–yearly.

The second tranche of ECU 190 million was paid on 2 March 1992 and will be repaid in one instalment after six years.

Following the division of Czechoslovakia into the Czech Republic and the Slovak Republic on 1 January 1993, the Commission proposed that the loan be divided between the two Republics.

Under the Council decision of 24 January 1994, two thirds of the loan - ECU 250 million - will be for the Czech Republic and one third - ECU 125 million - for the Slovak Republic.

At 30 June 1994 the amount outstanding on borrowings for the two republics came to ECU 375 million.

3. BULGARIA

(a) Bulgaria I

As part of G–24's total aid of ECU 580 million, the Commission, on behalf of the Community, was empowered to borrow, in two tranches, ECU 290 million for a period of seven years. The proceeds of this operation were to be on-lent on the same terms to Bulgaria.

The first tranche of ECU 150 million was paid to Bulgaria on 14 August 1991. It will be repaid in one instalment after seven years, and interest, which is at variable rates, is payable half–yearly.

The second tranche of ECU 140 million was paid on 2 March 1992 and will be repaid in one instalment after five years. Interest, which is at variable rates, is payable half-yearly.

At 30 June 1994 the amount outstanding on borrowings for Bulgaria came to ECU 290 million.

(b) Bulgaria II

As part of G–24's total aid of ECU 220 million in 1992 and 1993, the Commission, on behalf of the Community, was empowered to borrow ECU 110 million in two tranches of ECU 70 million and ECU 40 million for a maximum period of seven years. The proceeds of this operation were to be on–lent to Bulgaria.

Since the conditions for Community assistance had not been met by 30 June 1994, neither of the two tranches have yet been paid out.

4. ROMANIA

(a) Romania I

As part of G–24's total aid of ECU 750 million, the Commission, on behalf of the Community, was empowered to borrow ECU 375 million in two tranches for a maximum period of seven years. The proceeds of this operation were to be on-lent on the same terms to Romania.

The first tranche of ECU 190 million for a term of seven years was paid on 22 January 1992. It will be repaid in one instalment on 1 February 1999, and interest, which is at variable rates, is payable half–yearly.

The second tranche of ECU 185 million for a term of six years was paid in April 1992 and will be repaid in one instalment on 18 March 1998. Interest, which is at variable rates, is payable half-yearly.

At 30 June 1994 the amount outstanding on borrowings for Romania came to ECU 455 million.

(b) Romania II

As part of G-24's new aid of ECU 160 million, the Commission, on behalf of the Community, was empowered to borrow ECU 80 million for a maximum period of seven years. The proceeds of this operation were to be on–lent on the same terms to Romania.

In view of its size, the loan was paid out in a single tranche on 26 February 1993. It will be repaid in one instalment on 26 February 2000, and interest is payable half–yearly.

(c) Romania III

As part of G-24's overall macrofinancial aid, the Commission, on behalf of the Community, was empowered by the Council Decision of 20 June 1994 to borrow ECU 125 million in two tranches of ECU 90 million and ECU 35 million for a maximum period of seven years. The proceeds of this operation are to be on-lent on the same terms to Romania.

No tranche had been paid at 30 June 1994.

C. BORROWINGS CONTRACTED BY THE COMMUNITY TO GRANT FINANCIAL ASSISTANCE TO THE REPUBLICS OF THE FORMER SOVIET UNION

- Medium-term loan of ECU 1 250 million

The Commission has proposed a medium-term loan of up to ECU 1 250 million for the Soviet Union and/or its Republics in order to finance imports of agricultural products, foodstuffs and medicines from the Community and Eastern Europe for a maximum period of three years.

Parliament delivered a favourable opinion and the Council adopted its formal decision on 16 December 1991.

At the beginning of 1992 the loan was divided between the various Republics of the former Soviet Union.

1. Loan contracts signed on the basis of the original breakdown

   Most of the loan contracts were signed in the course of 1992:

   - with Armenia (ECU 38 million), Kyrgyzstan (ECU 32 million), Turkmenistan (ECU 45 million) and Moldova (ECU 27 million) on 10 July 1992; the amount for Kyrgyzstan has since been reduced to ECU 23.7 million at the request of the Kyrgyzstan authorities;
   - with Ukraine (ECU 130 million) on 13 July 1992;
   - with Belarus (ECU 102 million), Tajikistan (ECU 55 million) and Georgia (ECU 70 million) on 24 July 1992;
   - with Russia (ECU 150 million) on 9 September 1992;
   - with Russia (ECU 349 million) on 9 December 1992;
   - with Kazakhstan (ECU 25 million) on 15 December 1992;

2. Loan contracts signed on the basis of the amended breakdown

   Some loan contracts were also signed in 1993 after the initial breakdown of the total amount of the loan had been changed:

- on 5 May 1993 two further contracts were signed with Armenia (ECU 20 million) and Georgia (ECU 10 million). The amount represented by these two loans had originally been allocated to Kazakhstan;

- on 6 December 1993 a further loan contract of ECU 40 million was signed with Georgia. This loan was financed by reducing Uzbekistan's allocation.

3. Loan contracts not yet signed

At 30 June 1994 three new loan contracts were in preparation but had still not been signed. The loans are for:

- Kazakhstan (ECU 30 million); the loan will be financed by reducing Uzbekistan's allocation;

- Azerbaijan (ECU 68 million) and Uzbekistan (ECU 59 million); the two countries did not satisfy the conditions for eligibility for this lending operation until late 1993 (Uzbekistan) and early 1994 (Azerbaijan).

4. Utilization of the ECU 1 250 million loan

Republic	Initial breakdown (1992)	Breakdown at 30.6.1994	Actual utilization at 30.6.1994
Armenia a	38	38	37.7
Armenia b		20	19.4
Azerbaijan	68	* 68	
Belarus	102	100.5	100.5
Georgia a	70	70	69.4
Georgia b		10	9.8
Georgia c		40	32.0
Kazakhstan a	55	25	23.8
Kazakhstan b		30	
Kyrgyzstan	32	23.7	22.7
Moldova	27	27	26.9
Russia a	150	150	63.9
Russia b	349	349	298.8
Tajikistan	55	55	54.5
Turkmenistan	45	45	44.9
Ukraine	130	130	129.8
Uzbekistan	129	* 59	
Total	1250	1240.2	934.4

* Contracts not signed at 30.6.1994.

At 30 June 1994 the amount of loans actually being used came to ECU 934.4 million.

5. <u>Capital repayment and interest payment dates</u>

The capital repayment and interest payment dates for this operation vary depending on the date on which the loan contract was signed and the amount of the loan:

- Armenia (ECU 38 million), Belarus, Georgia (ECU 70 million), Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, Russia (ECU 150 million):
  - interest on 20 April and 20 October
  - capital on 20 August 1995 (half on 20 August 1994 and half on 20 August 1995 for Belarus, Ukraine and Russia)

- Armenia (ECU 20 million), Kazakhstan, Russia (ECU 349 million), Georgia (ECU 10 million and ECU 40 million):
  - interest on 15 January and 15 July
  - capital on 15 January 1996 (half on 15 January 1995 and half on 15 January 1996 for Russia and 15 January 1997 for Georgia (ECU 40 million)).

At 30 June 1994 Georgia, Kyrgyzstan and Tajikistan had defaulted on interest of ECU 7.42 million (see Part IV - Activation of guarantees).

- Financial assistance for Moldova

As part of the Community's contribution to the international aid scheme for Moldova, the Commission, on behalf of the Community, was empowered by a decision of 13 June 1994 to borrow ECU 45 million in two tranches for a maximum period of ten years. The proceeds of this operation are to be on-lent on the same terms to Moldova.

This aid will be granted under Moldova's economic reform programme backed by the IMF. A confirmation agreement with the IMF was reached on 17 December 1993.

No tranche had yet been paid at 30 June 1994.

D. BORROWINGS CONTRACTED BY THE COMMUNITY TO GRANT FINANCIAL ASSISTANCE TO THE BALTIC STATES

As part of the G-24's total aid of ECU 440 million for these three countries, the Commission, on behalf of the Community, was empowered to borrow

ECU 220 million for a period of seven years. The proceeds of this operation are to be on–lent on similar terms in two tranches:

- ECU 40 million for Estonia;
- ECU 80 million for Latvia;
- ECU 100 million for Lithuania.

The first tranches of the loan for Estonia (ECU 20 million) and for Latvia (ECU 40 million) were paid on 31 March 1993. The loans are to be repaid in one instalment on 31 March 2000 and interest, which is at variable rates, is payable half –yearly every 31 March and 30 September.

The first tranche for Lithuania was paid on 27 July 1993; it is to be repaid in one instalment on 27 July 2000 and interest, which is at a fixed rate, is payable annually every 27 July.

At 30 June 1994 the amount outstanding on the borrowings for the Baltic States came to ECU 110 million.

E. BORROWINGS CONTRACTED BY THE COMMUNITY TO GRANT FINANCIAL ASSISTANCE TO THE MEDITERRANEAN COUNTRIES

1. ISRAEL

As part of the financial assistance agreed for Israel and the population of the occupied territories, the Commission was empowered to borrow, on behalf of the Community, ECU 160 million in one tranche for a period of seven years. The proceeds were to be paid out to Israel on the same terms and are accompanied by an interest subsidy of ECU 27.5 million paid from the Community budget.

This operation started on 2 March 1992. The borrowing is to be repaid in full on 15 December 1997.

At 30 June 1994 the amount outstanding on the borrowings for Israel came to ECU 160 million.

2. ALGERIA

The Commission, on behalf of the Community, was empowered to borrow ECU 400 million for a maximum period of seven years in two tranches of ECU 250 million and ECU 150 million. The proceeds of this operation were to be on–lent on the same terms to Algeria.

A bridging loan was granted on 23 December 1991 to cover the first tranche and was repaid from the net proceeds of the borrowing contracted on 14 January 1992 for a period of six years.

The loan is to be repaid in one instalment on 15 December 1997 and interest is payable annually every 15 December.

At 30 June 1994 the amount outstanding on the loans raised for Algeria came to ECU 250 million.[1]

III. COMMUNITY GUARANTEE TO NON-COMMUNITY COUNTRIES

A. EUROPEAN INVESTMENT BANK LOANS TO MEDITERRANEAN COUNTRIES GUARANTEED BY THE GENERAL BUDGET

Under the terms of the Council Decision of 8 March 1977, the Community guarantees loans to be granted by the European Investment Bank as part of the Community's financial commitments towards the Mediterranean countries.

This decision was the basis for the contract of guarantee signed by the European Economic Community and the European Investment Bank on 30 October 1978 in Brussels and 10 November 1978 in Luxembourg introducing a global guarantee of 75% on all credit lines made available for loans in the following countries: Portugal (Financial Protocol, pre-accession aid), Greece, Spain (financial cooperation), Malta, Tunisia, Algeria, Morocco, Turkey, Cyprus, Egypt, Jordan, Syria, Israel, Yugoslavia and Lebanon.

In addition, by way of exception, a 100% guarantee covers loans allocated for emergency aid to Portugal in accordance with the Council Decision of 7 October 1975.

A new extension of the contract of guarantee is established for each new Financial Protocol.

The loans authorized at 30 June 1994 total ECU 7 782 million, of which ECU 1 500 million is for Spain, Greece and Portugal and ECU 6 282 million for the non–member Mediterranean countries. At 30 June 1994 the total of outstanding loans came to ECU 2 161 million (taking account of the 75% limit), of which ECU 527 million was accounted for by Spain, Greece and Portugal and ECU 1 634 million by the non–member Mediterranean countries.

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1 The second tranche was paid on 17 August 1994. The loan is to be repaid in full on 17 August 2001 and interest is payable annually every 17 August.

There is also provision for EIB loans outside these protocols under Council Regulation (EEC) No 1763/92 of 29 June 1992 concerning financial cooperation in respect of all Mediterranean non–member countries.

EIB loans under this operation must not exceed ECU 1 800 million. Overall, a 75% guarantee is provided.

At 30 June 1994 ECU 422 million had been made available; of this total, ECU 5.2 million had been paid; this figure corresponds to the amount currently outstanding.

On 19 July 1993 the Council decided to conclude a new protocol with the Republic of Slovenia in order to finance projects to contribute to the country's economic development through loans totalling ECU 150 million from the EIB's own resources for a period of up to five years with a 75% budget guarantee.

On 24 January 1994 the Council decided to conclude the fourth protocol with Syria in order to finance projects to contribute to the country's economic development through loans totalling ECU 115 million from the EIB's own resources for a period of up to three years with a 75% budget guarantee.

At 30 June 1994, the breakdown of authorizations by country (non–member countries only) was as follows:

	Loans authorized
Algeria	640
Cyprus	92
Egypt	802
Israel	215
Jordan	198
Lebanon	222
Malta	55
Morocco	517
Slovenia	150
Syria[2]	323
Tunisia	418
Turkey	90
Yugoslavia[3]	760
Protocols - Total	4.482
Horizontal financial cooperation	1.800
Mediterranean - Total	6.282

[2] Including ECU 115 million under the fourth protocol authorized in January 1994.

[3] The second protocol with Yugoslavia was suspended when ECU 100 million of credits could still be granted.

The loans are generally for 15 years with 3 to 4-year periods of grace on capital repayments.

B. LOANS GRANTED BY THE EUROPEAN INVESTMENT BANK IN COUNTRIES OF CENTRAL AND EASTERN EUROPE

In response to a call made by the Council on 9 October 1989, the Board of Governors of the European Investment Bank decided on 29 November 1989 to authorize the Bank to provide loans from its own resources to finance investment projects in Hungary and Poland for a total amount not exceeding ECU 1 billion. These loans are granted to finance investment projects which satisfy the Bank's usual requirements for loans from its own resources. The contract of guarantee covering 100% of the lending operations was signed on 24 April 1990 in Brussels and 14 May 1990 in Luxembourg.

On 14 May 1991 the budgetary authority extended this 100% guarantee to loans made in Czechoslovakia, Bulgaria and Romania up to a maximum of ECU 700 million.

The extension of the contract of guarantee was signed on 31 July 1991.

On 23 October 1992 the Commission presented a proposal for a Council Decision extending this 100% Community guarantee to losses incurred by the EIB as a result of loans granted to Estonia, Latvia and Lithuania; this was approved by the budgetary authority in its decision of 15 March 1993.

The overall ceiling on loans which the EIB may grant in these countries was set at ECU 200 million for a period of three years.

On 18 December 1992 the Commission also proposed the extension of this 100% guarantee to losses incurred by the EIB as a result of loans granted in Albania.

On 13 December 1993 the budgetary authority renewed the 100% Community guarantee for a period of three years for loans granted by the EIB in the countries of Central and Eastern Europe (including the Baltic States and Albania) up to a maximum of ECU 3 billion.[4]

The loans are generally long-term: 15 years on average with 3 to 4-year periods of grace on capital repayments.

At 30 June 1994, ECU 1 660 million had been made available in the Central and Eastern European countries but only ECU 393 million had been disbursed.

C. LOANS GRANTED BY THE EUROPEAN INVESTMENT BANK IN NON -MEMBER COUNTRIES

At its meeting of 19 May 1992 the Council (Economic and Financial Affairs) adopted the guidelines proposed by the Commission for the extension of EIB activities outside the Community and asked it to grant loans in accordance with its statutes and its usual criteria to projects of mutual interest in certain non-member

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4 The contract of guarantee was signed on 22 July 1994 in Brussels and on 12 August 1994 in Luxembourg.

countries (the developing countries of Asia and Latin America) with which the Community has concluded cooperation agreements.

An overall limit of ECU 250 million per year has been set for a 3–year period; this ceiling will be reviewed at the end of the period.

These loans benefit from 100% Community budget guarantees. The Commission presented a proposal for a decision to this effect on 3 June 1992. The formal Council Decision followed on 15 February 1993. The contract of guarantee between the Community and the EIB was signed on 4 November 1993 in Brussels and on 17 November 1993 in Luxembourg.

At 30 June 1994 credit lines of ECU 139 million had been signed but no disbursements had taken place.

D. COMMUNITY CREDIT GUARANTEE FOR EXPORTS OF AGRICULTURAL PRODUCTS AND FOODSTUFFS FROM THE COMMUNITY TO THE FORMER SOVIET UNION

The Community has decided to guarantee loans granted to the former Soviet Union by a pool of banks to finance imports of agricultural products and foodstuffs originating in the Community and the countries of Central and Eastern Europe.

The Community guarantee covers 98%, up to a maximum of ECU 500 million, of any losses in principal (around ECU 408 million) and interest (around ECU 92 million).

As the credit line has not been used in full and as the time limit for use has not been extended, the amount guaranteed comes to only ECU 375.5 million in principal and ECU 80.3 million in interest.

The Community will receive a surety commission of 0.67% of the amount guaranteed in consideration for this guarantee. Half of this commission was paid on 26 December 1991 under the terms of the contract. The balance corresponding to the Community guarantee was paid on 28 January 1993.

On 26 November 1991 the terms of the loan and the arrangements for the utilization of the funds were laid down in an exchange of letters between the Commission and the Soviet authorities. On the same day the Community and the banks signed a contract of guarantee.

Following the disappearance of the Soviet Union, it has been decided that the funds will be used by the Russian Republic.

The loan is for three and a half years from the date of signature.

Interest is payable half-yearly and the principal will be repaid in three instalments, 20, 31 and 42 months after the agreement has been signed.

Interest payments up to 30 June 1994:

	Payment due	Actual date of payment
1st	9.9.1992	25.9.1992
2nd	9.3.1993	2.4.1993
3rd	9.9.1993	18.11.1993
4th	9.3.1994	24.3.1994

Capital repayments up to 30 June 1994:

	Payment due	Actual date of payment
1st	26.7.1993	18.11.1993
2nd	26.6.1994[5]	

All the default interest has been paid on late payments up to 9 March 1994.

5 The capital repayment due on 26 June 1994 was made on 14 July 1994 together with the corresponding interest.

PART TWO: 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 1994, giving the minimum level of risk to the Community assuming that there are no early repayments;

- on a more forward-looking basis, by reference to all the operations 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.

For the latter exercise a number of assumptions have to be made about dates of disbursement, terms of repayment, interest and exchange rates; details are given in the annex. However, this method does give some idea about the future level of risks connected with the proposals made.

The results are shown in the attached tables, 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 financial 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.

I. TOTAL RISK

A. AMOUNT OUTSTANDING AT 30 JUNE 1994 (Table 1)

The total risk at 30 June 1994 came to ECU 13 798 million, 4.0% less than at 31 December 1993.

B. MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET: OPERATIONS DISBURSED AT 30 JUNE 1994 (Table 2)

The total risk, which came to ECU 2 780 million in 1994, will develop as follows:

- 1995: 2 856 million (+ 3%)
- 1996: 3 056 million (+ 7%)
- 1997: 2 797 million (- 8.5%)
- 1998: 3 055 million (+ 9%)
- 1999:* 794 million (- 74%)
- 2000: 3 241 million (+ 408%)

* No capital repayments for the balance-of-payments loans to the Member States; capital repayments on loans to Hungary, the Czech and Slovak Republic and Bulgaria end in 1998.

C. MAXIMUM THEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET (Table 3)

This risk comes to ECU 3 035 million in 1994 and will increase regularly as follows until 2000 (except in 1999 when it will total ECU 2 588 million):

- 1995: 3 628 million (+ 19.5%)
- 1996: 4 026 million (+ 11%)
- 1997: 4 221 million (+ 5%)
- 1998: 4 602 million (+ 9%)
- 1999: 2 588 million (- 44%)
- 2000: 7 116 million (+ 275%)

II. RISK IN RESPECT OF THE MEMBER STATES

A. AMOUNT OUTSTANDING AT 30 JUNE 1994 (Table 1)

The amount of capital outstanding in respect of operations in the Member States came to ECU 8 274 million at 30 June 1994, a fall of 7.9% compared with 31 December 1993.

This fall is mainly due to the reduction in outstanding loans to Greece, Euratom and the NCI.

The amount outstanding from the other operations has fallen or remained stable.

B. MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET: OPERATIONS DISBURSED AT 30 JUNE 1994 (Table 2)

The risk for 1994 comes to ECU 1 900 million.

The total maximum annual risk to the Community budget in relation to disbursements (Table 2) 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 leading up to 2000 when it will reach ECU 2 784 million.

C. MAXIMUM THEEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET (Table 3)

The trend is much the same as in Table 2 up to 2000 when the risk will amount to ECU 5 168 million and 2001 when it will amount to ECU 2 201 million.

III. RISK IN RESPECT OF NON-MEMBER COUNTRIES

A. AMOUNT OUTSTANDING AT 30 JUNE 1994 (Table 1)

The amount of capital outstanding at 30 June 1994 came to ECU 5 524 million, an increase of 5% compared with 31 December 1993.

B. MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET: OPERATIONS DISBURSED AT 30 JUNE 1994 (Table 2)

The risk for 1994 comes to ECU 880 million and will increase to ECU 1 654 million in 1995, mainly because two repayments of principal then fall due:

- ECU 350 million from Hungary;
- ECU 553 million from the Republics of the former Soviet Union.

The risk will drop in 1996 to ECU 976 million and increase again in 1997 to ECU 1 327 million as the following payments fall due:

- ECU 80 million from Hungary;
- ECU 127 million from the Czech Republic;
- ECU 63 million from the Slovak Republic;
- ECU 140 million from Bulgaria;
- ECU 250 million from Algeria;
- ECU 160 million from Israel.

At ECU 1 010 million, the risk will be smaller but still at a high level in 1998, but should fall to ECU 502 million in 1999 and ECU 457 million in 2000.

C. MAXIMUM THEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET (Table 3)

The risk will rise from ECU 964 million in 1994 to ECU 2 084 million in 1995; in particular, the Republics of the former Soviet Union are to repay principal of ECU 687 million that year.

The risk will drop to ECU 1 520 million in 1996, rise again to ECU 2 328 million in 1997, ECU 2 128 million in 1998, ECU 1 901 million in 1999, ECU 1 948 million in 2000 and ECU 2 322 million in 2001.

IV. ACTIVATION OF BUDGET GUARANTEES

1. EIB loans to non-member countries

In the first half of 1994, the EIB again called on the budget guarantee in respect of loans of around ECU 6.0 million to the Republics of former Yugoslavia (Bosnia-Hercegovina, Macedonia and Serbia). The payment was made to the EIB on 28 May 1994.

On 21 June 1994, the EIB again called on the budget guarantee in respect of loans of around ECU 8.6 million to the Republics of former Yugoslavia (Macedonia and Serbia). The payment was made to the EIB in late September 1994.

At 30 June the total amount of debts settled by the Community and not yet repaid by the defaulting debtors came to ECU 34.6 million. These debts were owed by all the Republics of former Yugoslavia with the exception of Slovenia and Croatia.

2. The Commission also made payments from 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:

(a) loans granted by a consortium of banks guaranteed by the Community (ECU 500 million)

- payment of interest due from Russia on 9 March 1994 and principal and interest due on 26 June 1994 in respect of a loan granted by a consortium of banks and guaranteed by the Community;

(b) loans granted by the Community to the Republics of the former Soviet Union (ECU 1 250 million)

- payment of interest:

  due from four Republics of the former Soviet Union (Russia, Armenia, Georgia and Kazakhstan) on 15 January 1994 in respect of the borrowing and lending operation of ECU 1 250 million for these Republics,

  due from nine Republics of the former Soviet Union on 20 April 1994 in respect of the same operation.

These payments were eventually made by the debtors concerned, except in the case of three Republics: Tajikistan, Kyrgyzstan and Georgia, which had still not settled their debts on 30 June 1994.

At 30 June 1994 the situation as regards unpaid debts was as follows:

Republics of former Yugoslavia:	ECU 43.2 million (including ECU 28.6 million from before 1994)
Tajikistan:	ECU 4.2 million (including ECU 2 million from before 1994)
Kyrgyzstan:	ECU 0.79 million[6]
Georgia:	ECU 2.6 million

[6] The interest due on 20 April 1994 was paid on 21 July 1994.

PART THREE: CHANGES IN POTENTIAL RISKS

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.

I. TYPES OF OPERATION

The risks to which the above figures relate derive from a variety of operations which can be divided into two categories: operations with macroeconomic objectives and those with microeconomic objectives.

A. OPERATIONS WITH MACROECONOMIC OBJECTIVES

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

Financial assistance operations are similar in nature but are intended for non-member countries.

Finally, this category includes the credit guarantee of ECU 500 million and 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 these two operations depends to a large extent on macroeconomic and political developments in the recipient countries.

B. OPERATIONS WITH MICROECONOMIC OBJECTIVES

These are loans to finance specific 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 State companies or financial institutions and, in addition to the Community guarantee, are covered by the usual guarantees demanded by banks.

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

A. ALGERIA

1. GENERAL ECONOMIC SITUATION

Following the rapid worsening of the internal and external economic situation of Algeria towards the end of 1993, caused by security problems and declining hydrocarbon export prices, the authorities reached a new agreement with the IMF in April 1994 on an economic reform programme. The programme's main objective is to give a new impetus to economic growth while reducing inflation and the fiscal deficit. It comprises a substantial liberalisation of prices, imports and the foreign exchange regime, combined with stringent monetary and fiscal policies.

Substantial price increases and liberalisation measures were implemented in April. At the same time, the Algerian Dinar was devalued from 25 to 36 Dinar per US$. The resulting increase in inflation is expected to slow down gradually. Average inflation for 1994 is expected to remain below 40%. The administrative foreign exchange allocation system has been replaced by a more liberal system whereby banks are allowed to make their own allocation decisions. The resulting increase in imports fuelled industrial and construction activities. GDP growth is forecasted to reach 3% in 1994, following a 1.8% decline in 1993. The overall deficit of the government should decline from an unsustainable 9.2% of GDP in 1993 to no more than 5.7% of GDP in 1994. The recent increase in hydrocarbon export prices is likely to ease the external financial constraints on the economic and financial recovery programme.

2. THE BALANCE OF PAYMENTS

Export revenues, generated almost exclusively by hydrocarbon products, diminished by 10% in 1993 and are projected to remain low in 1994 as world hydrocarbon prices took a dip end 1993 and early 1994. The strict administrative imports regime, established end 1992, has been abandoned in May 1994 and replaced by a more liberal regime. As a result, imports are expected to increase by 20% in 1994, thereby giving a boost to economic growth. The current account will be in deficit, to be financed partly by the rescheduling of external debt service due. In view of the economic and security situation, there were no foreign direct investments in 1993.

The projected increase in the current account deficit will be financed by external debt rescheduling arrangements with the Paris Club and commercial creditors as well as new money from, amongst others, the IMF, the World Bank and the Community. In August 1994, the remaining second tranche (ECU 150 million) of the 1992 Community balance of payments loan was disbursed. A proposal for a further balance of payments loan of up to ECU 200 million in support of the economic reform programme is being considered.

Algeria's foreign reserves position worsened somewhat in 1993 and is expected to remain at around US$ 1.5 billion or 6 weeks of imports throughout most of 1994.

3. FOREIGN DEBT

End 1993, Algeria's foreign debt stock amounted to US$ 24.6 billion, requiring US$ 2.1 billion in interest payments and US$ 7.1 billion in repayments of principal. Nearly three quarters of this debt stock consisted of publicly guaranteed private sector credits. About 13% are bilateral credits, mostly non-concessional.

The downward trend in export revenues, due to decreasing oil prices, undermined Algeria's debt service capacity. By early 1994, the debt service-to-exports ratio had climbed to close to 100% and, for the first time, accumulated arrears exceeded US$ 0.5 billion by March 1994. This created an unsustainable situation. Following the agreement with the IMF on an economic reform programme, the Algerian authorities obtained, in June, an agreement from Paris Club creditors on a rescheduling of bilateral debt. At the same time, the authorities announced their intention to negotiate a debt rescheduling agreement with commercial creditors on similar terms as those of the Paris Club.

As a result of these reschedulings, external debt service due during the programme period with the IMF (May 1994-May 1995) should be reduced by some US$ 4.9 billion or more than 50% compared to scheduled debt service. Algeria should be able to reach external viability again by the end of 1997. Further external financial support, notably from the IMF and through debt reschedulings, will be required over the next three years.

The 1992 Community balance of payments loan (ECU 250 million) is excluded from the rescheduling agreements and debt service on this loan should continue as foreseen.

B. BULGARIA

1. GENERAL ECONOMIC SITUATION

Stabilization and reform in Bulgaria, which had slowed down in 1993, have been making only slow progress since the start of 1994. This was made in the context of the economic programme put in place with the financial support of the IMF under a new stand-by arrangement approved in March 1994. The programme's objectives include restoring domestic and external balances through a tightening of fiscal, incomes and monetary policies, and accelerating the structural transformation process, mainly financial sector reform and privatization.

The implementation of government stabilization policies in the first half of 1994 has been broadly in line with programme targets despite an unprecedented sharp depreciation of the national currency in the first months of the year. The exchange rate crisis fuelled by political uncertainties, delays in mobilizing international financial support and, most importantly, policy slippages during 1993 (the 1993 fiscal deficit is estimated to have reached over 13% of GDP, against 7% a year earlier) culminated in March 1994, when the lev exchange rate dropped from 37 to 65 Leva per US$ (it stabilized later at round 55 Leva per US$). On the side of structural reform, privatization has been accelerated somewhat, a modern bankruptcy law has been adopted by Parliament and a clean-up of a large proportion of non-performing bank loans has been virtually completed.

2. BALANCE OF PAYMENTS

Bulgaria's external financial situation remains weak, although there have been improvements since the start of 1994. Exports in convertible currencies, which had grown in 1992, remained stable in 1993 while imports increased somewhat. Clearly, Bulgaria's export performance was adversely affected by the UN sanctions against Serbia and Montenegro and by a substantial real appreciation of the exchange rate (until the last months of the year). The effects of the UN sanctions and the deteriorating competitiveness were compounded by lack of official external financing following the failure of Bulgaria to secure an arrangement with the IMF. The country remained also cut off from private financing as it did virtually no servicing of the commercial debt inherited from the previous regime. Foreign direct investment remained very low despite a particularly liberal foreign investment law.

During the first half of 1994, the trade account has improved substantially as exports increased by an estimated 13% while the value of imports has fallen by one-fifth. The sharp decline from late 1993 to Spring 1994 in the exchange rate of the lev is likely to explain at least in part the improved trade balance.

3. FOREIGN DEBT

Bulgaria's external debt at the end of 1993 was estimated at some US$ 13 billion. It included over US$ 9 billion owed to some 300 commercial banks, out of which about half was made up of interest arrears and arrears on short-term deposits and letters of credit. In November 1993, almost four years after Bulgaria declared its debt moratorium and following two years of negotiations with the Bank Advisory Committee, an agreement in principle was reached on the parameters of a comprehensive debt and debt service reduction deal (DDSR). The deal expected to improve substantially the country's financial situation in the medium-term was finally closed in end-July 1994.

Under the DDSR operation, a total of US$ 8.3 billion was tendered for the various elements of the debt restructuring package, i.e. debt buy-backs (at about 25% of face value) and long-term securities (discount bonds at 50% of face value, interest reduction bonds and "past due interest bonds"). Overall, it is estimated that the operation will result in a reduction of Bulgaria's commercial debt by some 46-48%. The upfront cost of the deal, which is made up of debt buy-backs, interest down-payments and collateral prepayments on long-term bonds is over US$ 700 million, which corresponds to the Central Bank's present international reserves. The IMF and the World Bank made available specific financing to support the DDSR operation.

Prior to the closure of the London Club debt restructuring, Bulgaria also negotiated a new official debt rescheduling with the Paris Club. The terms of the 1994 Paris Club arrangement are comparable to those obtained in December 1992.

C. THE CZECH REPUBLIC

1. GENERAL ECONOMIC SITUATION

The recession bottomed out in 1993, with real GDP remaining practically unchanged (-0.3%). After increasing from 2.6% at end-1992 to 3.5% at end-1993, the unemployment rate edged down to 3.2% in July-1994. Led by the recovery of the construction and services sectors, the economy is expected to grow by about 2-3% in 1994 and by 3-5% next year.

Following a 8.5% price-jump in January 1993 associated with the introduction of the VAT, inflation came down rapidly, ending 1993 at a year-on-year rate of 18.2%. Inflation remained subdued in the first half of 1994, with the year-on-year rate falling below 10% for the first time since mid-1992. However, the rapid expansion of the money supply (M2), which grew by 8.8% between December 1992 and July 1993, risks reigniting inflationary pressures in the second half of the year.

The rapid growth of M2 reflects the impact of the strong foreign capital inflows, which the Czech National Bank (CNB) has only been able to sterilize partially through open market operations and the increase (effective on 4 August) of the minimum reserve requirements on banks' demand deposits. Regarding fiscal policy, the state budget ended the first half of 1994 with a surplus of Ck 9.7 bn (about US$ 336 mio) and the government is preparing a balanced budget for 1995.

As far as structural reform is concerned, the second wave of large-scale privatization is underway. As was the case in the first wave, almost one third of the assets will be sold through the voucher method. The second wave should be completed by end-1994, by which time 80-90% of the productive capacity of the economy will be in private hands.

2. THE BALANCE OF PAYMENTS

The Czech current account posted in 1993 a surplus of US$ 580 mio (1.8 % of GDP), a good result given the acceleration of domestic demand and imports and the weakness of the country's main export markets. The surplus, however, is expected to start shrinking in the second half of 1994 and disappear or turn into a moderate deficit in 1995, reflecting a continued strengthening of domestic demand and the real appreciation of the currency.

The net inflow of FDI slowed down considerably in 1993 (to US$ 517 mio from US$ 983 mio in 1992) and the first half of 1994 (US$ 275 mio), but the Czech Republic has been experiencing a surge in other capital inflows since the third quarter of 1993. Thus, portfolio investment (mostly equity investment in the Prague Stock Exchange and foreign acquisition of Czech issues of international bonds) reached US$ 1062 mio last year and US$ 530 mio in the first half of 1994. The Czech

Republic's access to the international capital markets has been reinforced by successive upgradings of the country's rating. In June, Moody's upgraded again the Czech Republic's rating (from Baa3 to Baa2), and in July S&P's upgraded its rating from BBB^- to BBB^+.

The combination of a healthy current account and a strong capital inflow has put upward pressure on the nominal exchange rate and has resulted in a rapid growth of official foreign exchange reserves, which stood at US$ 5.6 bn at end August-1994 compared to US$ 0.7 bn at end-1992. In order to stem the upward pressure on the exchange rate the CNB intends to make the crown fully convertible for current account transactions and liberalize capital controls in a phased manner. It has also decided not to withdraw the remaining tranches of the stand-by credit approved by the IMF in March 1993, and to repay ahead of schedule US$ 471 mio owed to the IMF which were originally scheduled for repayment during 1996-99.

3. FOREIGN DEBT

Despite a significant growth of convertible debt in 1993 and the first half of 1994, mostly associated with strong foreign borrowing by Czech companies and municipalities, the Czech Republic continues to enjoy a low foreign debt burden. Total convertible debt increased from US$ 6.9 bn at end-1992 to US$ 8.7 bn at end March-1994, but this still implied a relatively low debt/GDP ratio of 27.7%. At US$ 1.4 bn in 1993, total debt service also remains moderate, having even decreased as a percentage of exports (from 9.1% in 1992 to 8.4%). While projections for 1994 and 1995 point towards an increase in the debt and debt service indicators, they are expected to remain at reasonable levels.

D. ESTONIA

1. GENERAL ECONOMIC SITUATION

Following sharp output contractions in 1991 (-12%) and 1992 (-19%) and a further decline in the first half of 1993, the economic situation in Estonia improved considerably in the second half of 1993 reducing the rate of negative growth to merely 3%. The economic rebound, which is expected to produce a positive growth rate of 4-5% in 1994, reflects the successful implementation of macroeconomic stabilization and structural reforms in Estonia backed by two subsequent IMF stand-by programmes (since mid-1992), the country's reorientation towards Western markets and support from the international community. Despite the reduction in economic activity over the past years, the official unemployment rate has barely risen in the course of 1993 and 1994 and is now at 2%.

Since 1992, the Estonian authorities have been successful in cutting inflation, despite a temporary resurgence of inflation last winter after strong price increases of Russian imports. Apart from the virtual completion of price liberalization by the end of 1992, this achievement is due to the implementation of strict monetary and incomes policies. The central bank is also prohibited from extending credits to the Government, which ran a small budget surplus in 1993, following a somewhat larger surplus in 1992. But the government's net lending operations amounted to some 1.5% of GDP in 1993, which had to be financed almost completely by foreign sources.

Estonia has made continuing progress on structural reform. In 1993 and 1994, Estonia advanced further in the area of privatization, especially for small enterprises of which over 80% have now been sold to private owners. The Estonian Privatization Office was created in 1993 to better coordinate policies towards the enterprise sector, and in 1994 a separate department was established in the Ministry of Economy with responsibility for restructuring state firms before privatization. In some cases the bankruptcy law was applied. Banking supervision was improved. Following the banking crisis of early 1993, the banking system was restructured. The number of commercial banks was reduced to 21, mostly through mergers. The central bank policy of phased increases in minimum capital requirements keeps the pressure on banks to consolidate. Estonia maintained liberal foreign trade and investment laws.

2. THE BALANCE OF PAYMENTS

In 1992, Estonia's current account unexpectedly showed a surplus of US$ 83, largely due to a dynamic expansion of exports of goods to industrialized countries which limited the overall trade deficit to some US$ 63 mio. But in the course of 1993, imports from Western countries picked up sharply, whereas exports to this area slowed down considerably due to increasing domestic demand pressures, diminished opportunities for re-exports of FSU goods and a diversion of exports towards the FSU. This resulted in a trade deficit with the non-FSU area (US$ 107) ten times larger than in 1992. One major reason for the redirection of exports to the West was the sharp real appreciation of the ruble in the course of the second half of 1993, shifting Estonia's trade balance with the FSU from a deficit of US$ 51 mio to a surplus of US$ 15 mio. Estonia's overall trade deficit widened to US$ 142 mio and the current account surplus shrank to US$ 8.5 mio despite an increased surplus in the services account. It is likely that the strengthening of domestic demand and the gradual reduction of the international competitiveness have led to a further deterioration of the current account in 1994.

The capital account surplus observed in 1992 (US$ 120 mio) expanded further in 1993 to US$ 148 mio despite the fact that in 1992 the capital account had benefited exceptionally from the restitution of gold of US$ 140 mio. The main reason for the improvement in 1993 was the sharp increase of foreign direct investment from US$ 58 mio in 1992 to US$ 144 mio which was supported by Estonia's liberal trade, foreign exchange and investment laws and the stability of its currency (pegged to the D-Mark under a currency board system since June 1992). It permitted the Bank of Estonia to accumulate reserves in the order of US$ 200 mio in 1992 and some US$ 157 mio in 1993, to a level equivalent to 4.8 months of goods imports.

Conditions for ongoing capital inflows have remained good in 1994; in August Estonia accepted the obligations of the IMF Article VIII, i.e. basically to refrain from imposing restrictions on the making of payments and transfers for current international transactions.

3. FOREIGN DEBT

In the course of 1993, Estonia's external debt increased from US$ 38 mio to US$ 140 mio (some 7% of GDP). US$ 46 million hereof is due to purchases from the Fund. Debt service stabilized at around $20 mio in 1992 and 1993, with the ratio to exports of goods and non-factor services declining from 3.2% to 1.8%.

E. HUNGARY

1. GENERAL ECONOMIC SITUATION

In spite of a 4% growth in industrial production, real GDP declined by 2.3% in 1993, reflecting a sharp fall in both agricultural output and exports. After a peak in March 1993, the unemployment rate has steadily declined to 11% in August 1994. In 1994 GDP is expected to grow by 1-2% but, with the strengthening of domestic demand being constrained by a weak balance of payments situation, GDP could again stagnate in 1995.

Little progress was made on the inflation front in 1993, with average CPI inflation reaching 22.5%, close to the 1992 level (23%). Increases in indirect taxes and a faster devaluation of the forint will prevent a reduction of end-1994 inflation below 20%.

The new socialist-liberal government announced in August the adoption of a supplementary budget for 1994 designed to keep the consolidated deficit at Ft 330 bn (or about 7%) of GDP, down from the Ft 390 bn deficit that was being forecasted on recent trends. In recent talks with the new government, the IMF has insisted on the need to reduce the budget deficit to about 3% of GDP next year if IMF financing is to resume, but the government's budget guidelines for 1995 point towards a 7-8% deficit.

Regarding the structural reforms, a new bank consolidation scheme was launched in December 1993, involving a two-step recapitalization of the major Hungarian banks through the transfer of state bonds. The new government, however, will probably scale down the scheme and give priority to bank privatization. After a slowdown in 1993, the privatization process almost came to a standstill in the first half of 1994. The new govenment plans to revitalize and revise the privatization strategy.

2. THE BALANCE OF PAYMENTS

Hungary's current account suffered a sharp deterioration in 1993, reaching a deficit of US$ 3.5 bn (almost 10% of GDP). Having amounted to almost US$ 2 bn in the first half of 1994, the current account deficit is projected to again exceed US 3bn this year. The weakness of the current account and speculation against the forint led the authorities to devalue the currency by 8% on 5 August, thus deviating from their policy of small, regular devaluations aimed at stabilizing the real exchange rate.

Despite the very high current account deficit, official foreign exchange reserves expanded rapidly in 1993, reaching US$ 7 bn at the end of the year, up from US$ 4.4 bn at end-1992. This was made possible by a continuing strong net inflow of FDI (which reached a record of US$ 2.3 bn) and by the placement by the National Bank of Hungary (NBH) of US$ 4.5 bn in international bonds in 1993.

Although a further US$ 1.5 bn in international bonds were raised by the NBH in the first half of 1994; lower inflows of FDI and substantial early repayments of external debt have resulted in a decrease in official foreign exchange reserves from a peak of US$ 7.5 bn in January 1994 to US $6.6 bn at end-August 1994.

Hungary has a 15 month, SDR 340 mio stand-by loan agreement with the IMF ending in December 1994. However, reflecting both the comfortable level of official foreign exchange reserves and non-compliance with some of the programme target the government has only withdrawn the first tranche of the stand-by credit. The IMF is currently discussing with the Hungarian authorities on the main elements of an economic programme to be supported by the resumption of IMF lending.

3. FOREIGN DEBT

The result of the international borrowing programme of the NBH has been a rapid growth of gross foreign debt. Gross convertible foreign debt increased from US$ 21.5 bn at end-1992 to US$ 24.6 bn at end-1993 and US$ 26.6 bn at end-June 1994. Reflecting the gap between the current account deficit and net inflows of FDI, net foreign debt has shown a similar increase (from US$ 13.1 bn at end-1992 to US$ 18.1 bn at end-June 1994). The structure of external debt, however, has continued to improve, with the proportion of medium- and long-term debt increasing from 89.8% at end-1992 to 92.4% at end-June 1994.

Total debt service amounted to US$ 4.3 bn in 1993, practically the same level as in 1992. However, with exports estimated to have fallen by 20% last year, debt service increased in percent of merchandise exports from 43.9% to 53.1%. The early repayments made by the NBS have significantly reduced the concentration of repayments expected for 1995 and 1996. Repayments in 1995 and 1996, which would have otherwise reached US$ 3.4 bn and US$ 3.9 bn respectively, are now projected to amount to US$ 3.bn and US$ 3.1 bn.

F. ISRAEL

1. GENERAL ECONOMIC SITUATION

GDP increased by 3.5% only in 1993, the lowest growth rate since 1989. The closure of the Occupied Territories in the second quarter slowed down economic activity, but an increase was registered towards the end of the year, following the peace agreement with the Palestinians. While growth in the early 90s was driven mainly by immigrant inflows, privatisation and deregulation is now creating a basis for more sustainable long-term growth.

The government budget deficit was reduced to 3.6% of GDP, following an acceleration of privatisation and a reduction in the housing programme and other subsidies for immigrants, including unemployment benefits. Budget revenue from privatisation was only US$ 250 million in 1992, which is very small given the importance of state enterprises in the economy. The acceleration of privatisation, announced in August 1993, boosted privatisation revenue to nearly US$ 1 billion by end 1993. For 1994, privatisation revenues are expected to reach US$ 1.5 billion or more than 2% of GDP.

Unemployment continued to fall, from 11.2% end 1992 to 9% end 1993, as the wave of immigration from Eastern Europe and the ex-Soviet Union of the early 1990s came to an end. Recent immigrants were gradually integrated into the economy. The closure of the Occupied Territories in the second quarter facilitated this process as immigrants replaced Palestinian workers.

Inflation accelerated sharply to 16% p.a. in the first quarter of 1993. Monetary policy has been tightened, with an increase in the Central Bank refinancing rate driving up short-term interest rates. By July, inflationary pressures had decreased sufficiently and monetary policy was eased again. At the end of 1993, inflation had slowed down to 11.3% p.a. which is still somewhat above the initial target of 10%.

2. THE BALANCE OF PAYMENTS

Foreign trade was further liberalised in 1993 with the cancellation of a 2% import duty surcharge, a 2% export subsidy and travel taxes, all of which constituted trade restrictions under the GATT rules. The effective unification of the exchange rate took place in July, for the first time in Israel's history. In September, Israel accepted the obligations concerning the convertibility of the shekel for current account transactions under article VIII of the IMF Articles of Agreement. The Central Bank of Israel maintains a "crawling peg" exchange rate system with a target depreciation rate announced by the Central Bank, in line with expected inflation, and a 2% variation allowed around the targeted exchange rate. The announced rate of depreciation was reduced in July from 8% to 6%, in line with the expected slow-down in the inflation rate.

Following the end of the Gulf War, external trade started to pick up again in 1992 and this trend continued in 1993. The increase in exports, estimated at 12% in dollar terms, was a strong driving force for growth in 1993. Industrial exports increased by 18%, of which three quarters went to non-OECD countries. But imports increased equally fast. The current account moved from a small US$ 0.1 billion surplus in 1992 to a US$ 1.2 billion deficit in 1993. Private capital inflows increased as monetary policy was tightened and interest rates increased. Long-term capital inflows grew strongly from a net outflow in 1992 to a US$ 2.2 billion inflow in 1993.

Official foreign exchange reserves reached the satisfactory level of US$ 6.4 billion at end-1993, or the equivalent of 2.4 months of imports.

3. FOREIGN DEBT

The US$ 10 billion credit guarantees obtained from the US government in 1992 have enabled the authorities to draw on medium and long-term credit lines for investment projects. Total external debt increased to US$ 36.1 billion, of which nearly three quarters was public sector debt. The debt service to exports ratio improved slightly as export growth was strong in 1993.

G. LATVIA

1. GENERAL ECONOMIC SITUATION

Following severe output contractions in 1991 (-8.3%) and 1992 (-33.8%), the Latvian economy bottomed out in the course of 1993 in which output contracted by some 12% for the year as a whole. For 1994, a GDP growth in the order of 4-5% is expected. After rising from 2.3% to 5.8% in the course of 1993, the official unemployment rate increased further to 6.4% in August 1994. At the same time, real wages rose by 12% from the first quarter 1993 to the first quarter 1994.

Until Summer 1993, the Latvian authorities succeeded in bringing down inflation significantly; at the end of 1993, the level of consumer prices was 35% higher than one year earlier (compared to 960% in 1992). Apart from the virtual completion of price liberalization by the end of 1992, this was due to the tight stance of monetary policy (since the monetary reform of July 1992), as well as of fiscal and incomes policies. In late 1993 and early 1994, however, inflation rates picked up. The VAT rise of 1 November contributed to this development. But the major cause is likely to have been the intervention of the Bank of Latvia in the foreign exchange market in order to contain the appreciation of the national currency (lats) in response to the substantial capital inflow.

In 1993, the Latvian budget was in surplus (at 1% of GDP; or, if net lending of the Government is taken into account, at 0.6% of GDP). This was not only due to tight budget control, but also to higher profit and value added tax revenues and lower unemployment benefits than previously estimated. Despite substantial increases of pensions and public sector wages on 1 November 1993, the budget was in balance in the first quarter of 1994 (-1% of GDP if net lending is taken into account). For 1994 a deficit of 1.7% of GDP is envisaged (4% of GDP, counting net lending).

Latvia also advanced further in a number of areas of structural reform. In particular, significant progress was made towards restructuring and privatizing the former commercial branches of the Bank of Latvia and towards rehabilitating and eventually privatizing the State Savings Bank. Banking supervision was also strengthened. In addition, progress was made in land restitution and privatization of small-scale enterprises. In February 1994, several privatization laws were adopted and subsequently the Privatization Agency and the State Property Fund were established to supervise, respectively, privatization and those enterprises remaining under state control. This is likely to speed up large-scale privatization.

2. THE BALANCE OF PAYMENTS

Latvia's current account position in 1992 and especially 1993 were considerably better than expected under the first IMF programme. The surplus increased from US$ 21 mio in 1992 to US$ 193 mio in 1993, compared to estimated deficits in the order of US$ 90 mio and US$ 240 mio, respectively. To some extent, there may still be a problem of under-reporting of imports from the former Soviet republics, but the situation also reflects a better than expected performance in the services account and dynamic exports. The reorientation of trade towards Western markets was halted in 1993, with exports to the CIS and Baltics increasing by 8% in volume terms, while expanding 9% to the rest of the world. This reflects on the one hand the very strong real appreciation of the Latvian currency compared to the dollar since July 1992. On the other hand, it is the consequence of a real depreciation of the lat against the rouble since mid-1993 which almost completely reversed the Latvian loss in competitiveness vis-à-vis Russia that had occurred since September 1992. It appears that possibilities for re-export of FSU products (in particular energy) to the West have diminished with these developments. The strengthening of domestic demand and diminished international competitiveness should lead to a deterioration of the current account in 1994.

As a consequence of the strong capital inflow in 1993, the Bank of Latvia accumulated a large amount of reserves (some US$ 356 mio), increasing its gross level to some US$ 518 mio or an equivalent of 5.9 in months of total imports (from 1.8 at the end of 1992).

Since July 1994, Latvia assumes Article VIII status at the IMF; i.e. in particular that it undertakes to refrain from imposing restrictions on the making of payments and transfers for current international transactions.

3. FOREIGN DEBT

Latvia's external debt increased from US$ 65 mio to some US$ 300 mio (about 10% of GDP). Compared to 1992, the debt service fell by one third to US$ 10 mio in 1993, with the ratio to merchandise exports declining from 2% to 1%.

H. LITHUANIA

1. GENERAL ECONOMIC SITUATION

In Lithuania, output contraction seems to have halted at the end of 1993, and the overall GDP decline is estimated at 16% for the whole year, following declines of 13% in 1991 and 38% in 1992. The official unemployment rate rose only moderately in the course of 1993 and reached a mere 1.6% at the end of 1993, above which it did not rise in the first eight months of 1994. However, hidden unemployment is estimated at some 7%.

The Lithuanian authorities have reduced inflation in 1993, even though less rapidly than the other two Baltic States. The increase in consumer prices which reached 1163% at the end of 1992 fell to 189% at end-1993. Strict incomes and fiscal policies throughout the year, combined with a monetary policy that was tightened in Spring 1993, contributed to the strong deceleration of inflation during the Summer. Towards the end of the year, monetary expansion picked up sharply and contributed to a rise of inflation as the central bank intervened in the foreign exchange to prevent a strong appreciation of the litas resulting from capital inflows. Since 1 April 1994, Lithuania has a currency board which ties monetary expansion to the balance of payments.

The Lithuanian authorities managed to keep public expenditures under tight control in 1993 and strengthened revenues through trade reforms and an increase in the general sales tax, such that the budget was for the third year in a row in surplus (1% of GDP). However, if government lending is taken into account, there was a fiscal deficit of 4.6% of GDP, financed through foreign assistance. For 1994, a deficit target of about 1% of GDP has been set, (4.9% accounting for net lending).

Regarding structural reform, Lithuania also continued to progress in a number of areas as foreseen under the IMF stand-by arrangement of October 1993. Privatization advanced further; so far, 90% of small firms have been privatized and nearly 90% of privatizations of residential property by occupants has been completed. There were also additional price liberalization measures, including the abolition of profit margins. Progress in banking reform was relatively slow in 1993. But following the adoption of the currency board, both the central bank and the commercial bank laws are now being discussed in Parliament.

2. THE BALANCE OF PAYMENTS

The current account shifted from a surplus of US$ 62 mio in 1992 (originally a deficit of US$ 160 mio had been expected) into an estimated deficit of US$ 192 mio in 1993 (6.2% of GDP). A major factor contributing to this recent deterioration was Russia's move to world market levels for its energy exports to Lithuania in Fall 1992. The trade balance swung from a US$ 65 mio surplus to a deficit of US$ 267 mio.

The reorientation of trade continued in 1993 and 1994. It is expected that the current account will deteriorate further in 1994 to reach a deficit in the order of US$ 330 mio (some 5% of GDP).

The deterioration of the current account in 1993 was accompanied by a substantial improvement in the capital account from a surplus of US$ 90 mio in 1992 to US$ 313 mio in 1993. Foreign direct investment increased from US$ 10 mio to US$ 23 mio, but remained low in comparison with that of the other two Baltic States. The inflow of official transfers and medium- and long-term loans more than doubled to reach in total some US$ 245 mio in 1993. This capital inflow permitted the central bank to accumulate US$ 304 mio in reserves, bringing the stock up to US$ 410 mio. In terms of months of imports, this signifies a negligible decrease from 2.6 in 1992 to 2.4 in 1993, reflecting the rise in imports.

Since July 1994, Lithuania assumes Article VIII status at the IMF; i.e. in particular that it undertakes to refrain from imposing restrictions on the making of payments and transfers for current international transactions.

3. FOREIGN DEBT

In 1993, Lithuania's external debt stock increased from US$ 99 mio to US$ 345 mio (some 11% of GDP) and the debt service increased from a mere US$ 2 mio in 1992 to US$ 15 mio (0.7% exports of goods and services).

I. OTHER NEWLY INDEPENDENT STATES

1. GENERAL ECONOMIC SITUATION

The situation in the other Newly Independent States (NIS) varies considerably. All the former republics have suffered in 1992-1993 from the weakening of old structures which have not yet been replaced by market-oriented institutions and the collapse of inter-republican trade links. The decline in trade among the former republics (probably 20-30% a year since 1992) has had serious knock-on effects on output. Loose financial policies in many NIS compounded the adverse effects of the external shocks. Inflation remains very high throughout the area, and several states are clearly in hyperinflation.

Far-reaching economic reform has begun in most NIS, and some of them have already made considerable strides in the transition to market-based system while implementing more strict financial policies. Several NIS have received or were about to receive financial support from the IMF: Kyrgyzstan, Moldova, Kazakhstan, Belarus and, in October 1994, Ukraine have concluded financing arrangement with the Fund, and more such arrangements (Georgia, Armenia, and, again, Belarus) were expected to be concluded in late 1994 or early 1995. Also, progress towards comprehensive reforms had been made in Azerbaijan and Uzbekistan.

2. THE BALANCE OF PAYMENTS

The balance of payments situation of the area is extremely weak, with probably the exception of Turkmenistan. This is particularly the case in the short run. Large trade deficits with Russia and Turkmenistan, linked primarily to higher prices for energy and raw materials make the current account position of number of the new states particularly precarious. The financial credibility of most NIS is further aggravated by lack of international reserves.

In a longer term perspective, the new states present rather variable profiles. Some have considerable hard currency earning potential (Kazakhstan, Uzbekistan, Azerbaijan) and industrial capacity. Others are clearly close to developing countries and will therefore strongly depend on external assistance. Armenia, Georgia and Kyrgyzstan have already been made eligible to highly concessional lending.

3. FOREIGN DEBT

The NIS have achieved in 1993 substantial progress in clarifying their position vis-à-vis the question of the foreign debt of the former Soviet Union. Initially (at the end of 1991), the former republics were made jointly and severally responsible for such debt. The Memorandum of Understanding setting forth the principle of joint and several liability was signed on 28 October 1991. The April 1993 Paris Club agreement with Russia was accompanied by a change in legal arrangements on debt servicing within the FSU making in fact Russia the sole actual manager of the debt. Accordingly, the creditors acknowledged that the so-called "zero-option" agreements concluded by Russia with other former republics (by virtue of which Russia takes over the full amount of the ex-Soviet debt, in exchange for the full amount of the ex-Soviet external assets) discharge them of any servicing of such debt.

A number of NIS (notably Ukraine, Belarus and Kazakhstan) have attracted since their independence new credits from the West. However, the bulk of the NIS external debt is owed to Russia and Turkmenistan. This debt results from balances of the ex-republics' Central Banks with the Central Bank of Russia and arrears or energy shipments. In 1993, Russia concluded with all the NIS (with the only exception of Turkmenistan) agreements rescheduling its claims over a period ranging from 1994-1997 (Azerbaijan, Georgia, Moldova) to 2000-2007 (Belarus). More such agreements were expected in 1994 as trade arrears were continuing to build up with the two energy-exporting NIS in 1994.

J. ROMANIA

1. GENERAL ECONOMIC SITUATION

In the course of 1993, the decline in real GDP was reversed. Annual GDP growth reached 1% in 1993 and is expected to remain around that low level throughout 1994 and 1995 due to the slow implementation of reforms in state enterprises. Growth will be fuelled mainly by exports.

The authorities finally agreed on a new programme with the IMF at the end of 1993 and started to implement a stricter monetary policy. As a result, inflation slowed down considerably to 2.6% per month in June 1994 and is likely to be kept at double-digit levels in 1994, down from over 300% end 1993. The increase in interest rates to positive levels in real terms early 1994 contributed to the stabilisation of the Lei at around 1650-1700 Lei/US$ and allowed the unification of official and open market exchange rates into a single market-determined rate. Nominal interest rates at National Bank credit auctions decreased to 92% p.a. by July 1994.

The government budget was more or less in balance in 1993. In 1994, the deficit is expected to remain low around 2.5% of GDP.

The agreement with the IMF gave a new impulse to state enterprise reform. Enterprises with large losses and/or large arrears have been isolated from the financial system and financial recovery plans have been implemented. But there is little progress in the privatisation of large and medium sized enterprises. A new mass privatisation scheme has been announced for the end of 1994. Prudential regulations and stricter control of bank portfolio's have been introduced but little progress has been made with respect to the privatisation of banks.

2. THE BALANCE OF PAYMENTS

The depreciation of the Lei between end-1993 and early-1994 has improved the competitiveness of the Romanian economy. Imports are expected to stabilise at close to the 1993 level as domestic demand remains weak. Exports will grow reflecting increased competitiveness and easier access to markets with the approval of the (Interim) Europe Agreement with the European Union and the granting of Most-Favoured-Nation status in the United States import regime.

The trade balance and current account continued to improve in the first half of 1994. The current account deficit for that period amounted to US$ 166 million only, compared to a US$ 1.6 billion deficit for the whole of 1993. The capital account registered a surplus of more than US$ 700 million (incl. IMF financing facilities) during the first half of 1994, compared to a US$ 1.2 billion surplus for the whole of 1993. The new agreement with the IMF, approved by the Executive Board in May 1994, is likely to trigger a new stream of official aid inflows into Romania. Access to private financial markets is still limited. Direct foreign investment inflows remain very low as large-scale privatisations have not really started yet.

As a result of these favourable balance of payments developments, foreign currency reserves at the National Bank soared from a very low US$ 40 million at end-1993 to over US$ 800 million by mid-1994. Most of this increase is due to a shift from foreign currency deposits to Lei deposits in the commercial banking system, triggered by the strong increase in real interest rates.

3. FOREIGN DEBT

Total external debt increased rapidly from virtually zero in 1989 to US$ 4.4 billion or 16% of GDP end 1993 and debt service accounted in 1993 for 6.2% of current receipts. As foreign investment inflows are unlikely to increase rapidly, official medium and long term loans will remain the principal source of finance for the current account deficit and, consequently, the growth of the debt stock is projected to continue. The external debt service ratio is projected to increase slowly in the next few years.

K. RUSSIA

1. GENERAL ECONOMIC SITUATION

Russia's economic performance, particularly disappointing in 1992 and 1993, remained weak in the beginning of 1994. The fall in output in the first half of the year is reported to -17% (it was -19% in 1992 and -12% in 1993). Industrial production has been contracting even faster (-26% in the first half of 1994) and investment has probably fallen to less than half of its 1989 level. Living standards have declined markedly. Also, progress with putting in place the legislative and institutional framework for a market economy and structural reform has been slow in many respects. In particular, enterprise restructuring has not been implemented at the same pace as privatization of state assets. Indeed, a large share of small enterprises has been privatized and a mass privatization programme was developed; by mid-1994, close to two-thirds of enterprises had been privatized.

In May 1993, agreement was reached between the government and the Central Bank to reduce credit emission, increase interest rates and limit the budget deficit. The measures implemented since then brought down money supply growth, which helped to reduce monthly inflation gradually to less than 10% since March 1994 (and even less than 5% in August). These advances in stabilization allowed the IMF to agree in April to the disbursement of the second US$ 1.5 billion instalment under its Systemic Transformation Facility (the first instalment had been paid in July 1993), and to start discussions on a stand-by programme. Yet, financial conditions remain fragile, as the extreme exchange rate volatility in October 1994 demonstrated; budgetary conditions in particular are a cause for concern.

2. THE BALANCE OF PAYMENTS

Russia's external situation has remained weak since 1992, reflecting the impact of the systemic changes, the disruptions of traditional trade and payments arrangements and domestic macro-economic policies. However, during this period Russia's gross foreign exchange reserves increased to close to US$ 5 billion or about 1 months of imports by October 1994 (they were virtually nil at the end of 1991).

In the period 1992-first half of 1994, official balance of payments support from the West (bilateral trade credits and grants and credit from the International Financial Institutions) approached US$ 30 billion. However, owing to a weaker export performance, a bunching of debt servicing obligations and large recorded or unrecorded capital flight (estimated to some US$ 10 billion, in 1992, probably somewhat less in 1993-1994), this did not prevent either a sharp reduction of imports or a dramatic increase in debt arrears.

3. FOREIGN DEBT

At the end of 1993, total foreign debt of the former Soviet Union approached US$ 84 billion, up from US$ 79 billion a year earlier and US$ 67 billion two years earlier. Out of this amount, more than US$ 70 billion are medium- and long-term liabilities (against US$ 54 billion at the end of 1991). Some 65% of medium- and long-term debt is owed to official creditors (up from 45% at the end of 1991). The Russian debt still remains relatively modest in view of the size of the economy, about one-quarter of GDP. In 1993, total scheduled debt servicing (US$ 20 billion) represented almost 30% of total exports and over 40% of exports outside the FSU.

In December 1991-January 1992, the official and private creditors of the former Soviet Union agreed with the former republics on a deferral of some US$ 7.1 billion (principal repayment obligations on credits extended to the USSR before 1991). The deferral proved, however, insufficient since Russia, the only former Soviet republic to have made any debt servicing in 1992 (the payments were supposed to be made by all the NIS made jointly and severally responsible for the debt), was unable to meet the still substantial obligations. Russia's debt payments in 1992 amounted to only US$ 1.6 billion. As a result, arrears increased dramatically; at the end of 1992, they approached US$ 12 billion.

In early April 1993, a generous debt rescheduling agreement was reached with the Paris Club that reduced the official debt servicing in 1993 by some US$ 15 billion. The agreement was this time concluded with Russia alone, making it the sole actual manager of the ex-Soviet debt: the agreement was well beyond the deferrals agreed previously; it provided for a medium-term deferral of part of moratorium interest. In early June 1994, Russia negotiated a new Paris Club deal. The terms of this new rescheduling covering maturities falling due in 1994 are broadly comparable to those of the 1993 deal.

Also, in July 1993, Russia reached an agreement in principle with the commercial banks on a long-term rescheduling of the ex-Soviet commercial debt (US$ 24-26 billion is owed to some 600 banks). In parallel with progress in the negotiations with the commercial creditors, the price of the Russian debt on the secondary market that had been below 20% at the beginning of 1993, rose gradually (by early December) to some 55%. However, subsequent delays in the final agreement due to unsettled legal issues (only cleared in September 1994) and Russia's failure to make the payment of part of interest arrears due in 1993 (US$ 450 million) led to a new fall of the price in early 1994 to 35%.

L. THE SLOVAK REPUBLIC

1. GENERAL ECONOMIC SITUATION

Slovak GDP declined by 4.1% in 1993, implying the fourth consecutive year of recession. Real activity, however, has been strengthening since the start of 1994. Thus, real GDP grew by 4.4% year-on-year in the first half of 1994 and unemployment seem to have stabilized at around 14.5%. After accelerating in 1993 (to 25.1% in December) as result of increases in indirect taxes and the devaluation of the Slovak crown, inflation has been on a downward trend since the beginning of 1994, with year-on year CPI inflation declining to 13.5% in July.

The reduction of inflation is being supported by tight macroeconomic policies. Net domestic assets fell by 9% in the first half of the year and broad money remained practically unchanged in nominal terms. Regarding fiscal policy, the general government deficit is estimated to have been roughly in balance at end-June. This compares with a general government deficit of 7.5% of GDP in 1993 and is consistent with the government's targets of reducing the deficit to 4% of GDP in 1994 and to 3% of GDP in 1995. These targets are part of the economic programme for 1994/95 agreed with the IMF and supported by a 20-month, SDR 115.8 mio stand-by arrangement, a second purchase (of SDR 64.34 mio) from the Systemic Transformation Facility (STF), and complementary macro-financial assistance from the EU/G-24 in the amount of up to US$ 243 mio.

In the area of structural reform, the privatiztion process was given a new impulse in 1994 with the launching of a second wave of voucher privatization and new measures in the area of banking sector reform. However, the new government emerging from the September 1994 general elections, has yet to clarify its future strategy regarding structural reform.

2. THE BALANCE OF PAYMENTS

Slovakia suffered from a weak balance of payments in 1993. The current account recorded a deficit of 3.9% of GDP, inflows of foreign direct investment continued to be of little significance (US$ 100 mio.) and speculation about a devaluation resulted in a considerable outflow of short-term capital. This was reflected in a very vulnerable foreign exchange reserve position throughout the year, with official reserves never exceeding 1 month of imports.

The programme for 1994/95, however, projects a gradual strengthening of the balance of payments. The current account deficit is expected to decline to 2.5% of GDP this year and remain at a similar level in 1995, disbursements of official loans are expected to reach about US$ 450 mio in both 1994 and 1995, and the support of the international community for the governments's economic programme should facilitate the placement by the National Bank of Slovakia (NBS) of some US$ 500 mio in international bonds in 1994/95. Reflecting these factors, official foreign exchange reserves are targeted to increase to about US$ 1.4 bn (or 2.4 months of imports) by end-1995.

Recent trends in the current account, the capital account and foreign exchange reserves are consistent with these projections. The balance of the clearing account with the Czech Republic, for example, has moved from a large deficit at the beginning of the year to a considerable surplus. Also, in late July the NBS successfully placed a US$ 250 mio bond in the Samurai market. This was facilitated by the assignment by the Japan Bond Research Institute in July of an investment rate rating (BBB). Together with the disbursement of the first tranche of the IMF stand-by and the second purchase from the STF, and a regained confidence in the Slovak currency, all this has resulted in an increase in official foreign exchange reserves from US$ 372 mio at end-February to US$ 1 bn (or 1.8 months of imports) in mid-August. The total reserves of the banking system have risen over the same period from US$ 1.39 bn to US$ 2.27 bn.

Within the IMF programme, the government is committed to lifting by end-1994 the 10% temporary surcharge on consumer imports introduced last March and to make progress towards achieving full current account convertibility so as to reach "Article VIII status" at the IMF by 1 January, 1996.

3. FOREIGN DEBT

Slovakia inherited from the Czechoslovak federation a very low external debt. While external debt and debt service ratios are expected to deteriorate in the coming years, they will remain at relatively low levels. The convertible currency debt to GDP ratio is projected to increase from 30.5% at end-1993 to about 40% at end-1995 and stabilize at 43-45% after 1997. Convertible debt service as a percentage of exports of goods and services, for its part, is expected to increase from 8.9% in 1993 to 11% in 1995 and remain approximately at that level thereafter.

II-F-3 Country Risk Indicators
Last update
25/10/94 Country: Algeria

		1991	1992	1993
Real GDP growth rate (in %)		-2,80	2,20	-1,80
Industrial production (% change)		1,00	-2,50	(a)
Unemployment rate (end of period)		20,20	21,90	(a)
Inflation rate (Dec/Dec)		22,80	32,10	20,50
Exchange rate (dinars per USD)	(end of period)	21,39	22,78	24,12
Nominal effective exchange rate	(change Q4/Q4) (- = depreciation)	-50,00	1,00	7,90
Real effective exchange rate	(change Q4/Q4) (- = depreciation)	-39,50	27,00	14,20
General government balance (as % of GDP)		-3,30	-1,30	-9,20
Balance of payments				
Exports of G&S (in bn USD)		13,00	12,15	10,90
Current account balance (in % of GDP)		2,60	1,17	2,50
Net inflow of foreign direct investment (in mio USD)		-90,00	40,00	0,00
Official FX reserves (end of period)				
in bn USD		1,60	1,50	1,50
in months of imports of G&S		2,00	2,00	1,90
External debt				
External debt (in convertible currencies, in bn USD, end of period)		26,96	26,11	24,58
medium and long-term (> 1 year)		26,20	25,00	(a)
short-term (=< 1 year)		1,00	1,20	(a)
Convertible debt service (in bn USD)		9,20	9,10	9,10
principal		6,70	6,80	7,00
interest		2,50	2,30	2,10
External debt/GDP (%)		63,30	58,60	53,40
External debt/exports of G&S (%)		209,40	215,60	225,30
Debt service/exports of G&S (%)		70,50	75,00	83,60
Arrears (on both interest and principal, in mio USD)		(b)	(b)	(b)
Debt relief agreements and rescheduling		(b)	(b)	(b)
IMF arrangements				
Type/no (Date / -)		(d) (6/91-3/92)	(b)	(b)
On track/off track (- / Date)		(e) (f)		
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of per.)		(c)	(c)	(c)
S&P long-term foreign currency rating (end of period)		(c)	(c)	(c)
EIU country risk service (1)				
Score (end of period)		(c)	(c)	(c)
Rating (end of period)		(c)	(c)	(c)
Euromoney				Mar Sep
Position in the ranking (2)		83	66	68 79
(number of countries)		(130)	(169)	(169) (170)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)		47 52	53 57	62 69
(number of countries)		(111) (113)	(119) (126)	(127) (133)
Credit rating (3)		37.9 34.2	33.1 28.9	28.2 27.1

(1) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(2) The higher the score in the ranking, the lower the creditworthiness of the country.
(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(a) n.a.
(b) No
(c) Note rated
(d) SBA
(e) Off-track
(f) Q1 1992

II-F-3 Last update 24/10/94	: Country Risk indicators Country: Bulgaria	
	1992	**1993 (1)**
Real GDP growth rate (in %)	-5,60	-4,20
Industrial production (% change)	-11,00	-9,00
Unemployment rate (end of period)	15,30	16,30
Inflation rate	79,40	63,90
Exchange rate (Leva per USD) (end of period)	24,50	33,32
Nominal effective exchange rat (change, Q4/Q4) (- = depreciation)	-15,74	(Q3/Q3) -3,10
Real effective exchange rate (change, Q4/Q4) (- = depreciation)	43,62	59,17
General government balance (as % of GDP)	-7,40	-13,60
Balance of payments		
Exports of G&S (in bn USD)	4,00	4,00
Current account balance (in % of GDP)	-9,20	-7,90
Net inflow of foreign direct investment (in mio USD)	42,00	55,00
Official FX reserves (end of period)		
in bn USD	1,00	0,70
in months of imports of G&S	2,20	1,50
External debt		
External debt (2)	12,50	12,80
(in convertible currencies, in bn USD, end of period)		
medium and long-term (> 1 year)	(a)	(a)
short-term (=< 1 year)	(a)	(a)
Convertible debt service (in bn USD)	2,00	1,70
principal	1,40	1,10
interest	0,60	0,60
External debt/GDP (%)	144,00	124,00
External debt/exports of G&S (%)	248,00	249,00
Debt service/exports of G&S (%)	39,00	32,00
Arrears (on both interest and principal, in bn USD)	6,05	(a)
Debt relief agreements and rescheduling	(g)	(h)
IMF arrangements		
Type/no	(d)	(b)
(Date / -)	(03/94-03/95)	-
On track/off track	(e)	-
(- / Date)		-
Indicators of market's perceived creditworthiness		
Moody's long-term foreign currency rating (end of period)	(c)	(c)
S&P long-term foreign currency rating (end of period)	(c)	(c)
EIU country risk service (3)		
Score (end of period)	80	80
Rating (end of period)	E	E
Euromoney	Sep	Mar Sep
Position in the ranking (4)	91	122 125
(number of countries)	(169)	(169) (170)
The Institutional Investor	Mar Sep	Mar Sep
Position in the ranking (4)	81 86	91 89
(number of countries)	(119) (126)	(127) (133)
Credit rating (5)	21.1 19.8	18.9 19.5

(1) For some data, preliminary estimates.
(2) Any short-term debt is actually arrears.
(3) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(4) The higher the score in the ranking, the lower the creditworthiness of the country.
(5) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(a) n.a.
(b) No
(c) Note rated
(d) SBA
(e) Off-track
(g) Paris Club (resched.); London Cl. (roll-overs)
(h) London Cl. (roll-overs, and DDSR agreed in principle)

II-F-3 Last update 24/10/94	Country Risk indicators Country: Czech Republic	
	1992	1993
Real GDP growth rate (in %)	-7,10	-0,30
Industrial production (% change)	-10,60	-5,40
Unemployment (% of labour force) (end of period)	3,10	3,50
Inflation rate (Dec/Dec)	12,70	18,20
Exchange rate (CK's per USD) (end of period)	28,90	29,90
Nominal effective exchange rate (change, Q4/Q4) (- = depreciation)	0,98	(Q3/Q3) 3,70
Real effective exchange rate (change, Q4/Q4) (- = depreciation)	9,43	(Q3/Q3) 15,90
General government balance (as % of GDP)	0,40	0,00
Balance of payments		
Exports of G&S (in mio USD)	14800,00	16728,00
Current account balance (in % of GDP)	0,40	1,80
Net inflow of foreign direct investment (in mio USD)	983,00	517,00
Official FX reserves (end of period)		
in bn USD	0,73	3,80
in months of imports of G&S	1,10	2,70
External debt (end of period)		
External debt	6,92	9,00
(in convertible currencies, in bn USD, end of period)		
medium and long-term (> 1 year)	5,12	6,80
short-term (=< 1 year)	1,80	2,20
Convertible debt service (in bn USD)	1,35	1,41
principal	0,83	0,90
interest	0,52	0,51
External debt/GDP (%)	25,36	28,57
External debt/exports of G&S (%)	46,78	53,80
Debt service/exports of G&S (%)	9,12	8,43
Arrears (on both interest and principal, in mio USD)	(b)	(b)
Debt relief agreements and rescheduling	(b)	(b)
IMF arrangements		
Type/no	(d)	(d)
(Date / -)	(4/92-4/93)	(3/93-3/94)
On track/off track	(e1)	(e2)
(- / Date)		
Indicators of market's perceived creditworthiness		
Moody's long-term foreign currency rating (end of period) (1)	Ba1	Baa3
S&P long-term foreign currency rating (end of period)	(c)	BBB-
EIU country risk service (2)		
Score (end of period)	30	25
Rating (end of period)	B	B
Euromoney		Mar - Sep
Position in the ranking (3)	49	48 43
(number of countries)	(169)	(169) (170)
The Institutional Investor (1)	Mar - Sep	Mar - Sep
Position in the ranking (3)	37 39	42 40
(number of countries)	(119) (125)	(127) (133)
Credit rating (4)	47.1 46.1	44.6 46.6

(1) For 1992, rating or position in the ranking assigned to the former CSFR.
(2) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(3) The higher the score in the ranking, the lower the creditworthiness of the country.
(4) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(a) n.a.
(b) No
(c) Note rated
(d) SBA
(e1) On-track but expired with dissolution of CSFR
(e2) On-track

II-F-3 Country Risk indicators
Last update
24/10/94 Country: Estonia

	1992	1993 (1)
Real GDP growth rate (in %)	-19,00	-3,00
Industrial production (% change)	-38,70	-27,00
Unemployment rate (end of period)	2,00	1,70
Inflation rate	953,50	35,70
Exchange rate (Krons per USD) (end of period)	1,71	1,58
Nominal effective exchange rat (change, Q4/Q4) (- = depreciation)	(a)	(a)
Real effective exchange rate (change, Q4/Q4) (- = depreciation)	(a)	(a)
General government balance (as % of GDP)		
Financial balance (2)	0,80	0,20
Fiscal balance (2)	0,50	-1,40
Balance of payments		
Exports of goods (in mio USD)	457,20	802,10
Current account balance (in % of GDP)	7,20	0,40
Net inflow of foreign direct investment (in mio USD)	57,90	144,20
Official FX reserves (end of period)		
in mio USD	195,20	378,70
in months of goods imports	4,50	4,80
External debt		
External debt (in convertible currencies, in bn USD, end of period)	38,10	140,00
medium and long-term (> 1 year)	(a)	(a)
short-term (=< 1 year)	(a)	(a)
Convertible debt service (in mio USD)	20,80	19,80
principal	(a)	(a)
interest	(a)	(a)
External debt/GDP (%)	3,30	7,10
External debt/exports of G&NFS (%)	5,90	12,70
Debt service/exports of G&NFS (%)	3,20	1,80
Arrears (on both interest and principal, in mio USD)	(b)	(b)
Debt relief agreements and rescheduling	(b)	(b)
IMF arrangements		
Type/no	(d1)	(d2)
(Date / -)	(9/92-9/93	(10/93-3/94)
On track/off track	(e)	(e)
(- / Date)		
Indicators of market's perceived creditworthiness		
Moody's long-term foreign currency rating (end of period)	(c)	(c)
S&P long-term foreign currency rating (end of period)	(c)	(c)
EIU country risk service (3)		
Score (end of period)	80	75
Rating (end of period)	E	D
Euromoney	Sep	Mar Sep
Position in the ranking (4)	117	126 122
(number of countries)	(169)	(169) (170)
The Institutional Investor	Mar Sep	Mar Sep
Position in the ranking (4)	68 74	81 84
(number of countries)	(119) (126	(127) (133)
Credit rating (5)	25.7 22.	21.4 20.9

(1) For some data, preliminary estimates.
(2) Financial balance does not take into account government net lending, whereas fiscal balance does.
(3) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(4) The higher the score in the ranking, the lower the creditworthiness of the country.
(5) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(a) n.a.
(b) No
(c) Note rated
(d1) SBA
(d2) SBA/STF
(e) On-track

II-F-3 Last update 24/10/94	Country Risk indicators Country: Hungary		
	1991	**1992**	**1993**
Real GDP growth rate (in %)	-11,90	-4,40	-2,30
Industrial production (% change)	-19,10	-9,80	4,00
Unemployment (% of labour force) (end of period)	8,00	12,30	12,10
Inflation rate	32,20	21,60	21,10
Exchange rate (forints per USD (end of period)	76,78	83,97	100,70
Nominal effective exchange rat (change, Q4/Q4) (- = depreciation)	-13,71	-5,40	-3,10
Real effective exchange rate (change, Q4/Q4) (- = depreciation)	10,49	7,90	10,20
General government balance (as % of GDP) (GFS definition)	-4,32	-6,90	-7,00
Balance of payments			
Merchandise exports (in mio USD)	9258,00	10028,00	8094,00
Current account balance (in % of GDP)	0,80	0,74	-10,00
Net inflow of foreign direct investment (in mio USD)	1474,00	1471,00	2328,00
Official FX reserves (end of period)			
in bn USD	4,00	4,40	7,70
in months of imports of merchandises	5,30	6,10	8,20
External debt			
External debt (in convertible currencies, in bn USD, end of period)	22,66	21,50	24,56
medium and long-term (> 1 year)	20,20	19,30	22,80
short-term (=< 1 year)	2,18	2,29	1,80
Convertible debt service (in bn USD)	4,00	4,40	4,30
principal	2,40	2,80	2,60
interest	1,60	1,60	1,80
External debt/GDP (%)	72,19	60,55	68,03
External debt/ merchandise exports (%)	244,76	214,40	303,43
Debt service/ merchandise exports (%)	43,21	43,88	53,13
Arrears (on both interest and principal, in mio USD)	(b)	(b)	(b)
Debt relief agreements and rescheduling	(b)	(b)	(b)
IMF arrangements			
Type/no	(d1)	(d1)	(d2)
(Date / -)	(2/91-2/94)	(2/91-2/94)	(9/93-12/94)
On track/off track	(e1)	(e2)	(e1)
(- / Date)		(f)	-
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)		Ba1	Ba1
S&P long-term foreign currency rating (end of period)		BB+	BB+
EIU country risk service (1)			
Score (end of period)		40	50
Rating (end of period)		B	C
Euromoney			Mar Sep
Position in the ranking (2)	44	46	47 46
(number of countries)	(130)	(169)	(169) (170)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	41 42	42 43	43 43
(number of countries)	(111) (113)	(119) (126)	(127) (133)
Credit rating (3)	41.1 40.9	41.7 42.3	44.3 44.8

(1) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(2) The higher the score in the ranking, the lower the creditworthiness of the country.
(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(a) n.a.
(b) No
(c) Note rated
(d1) EFF
(d2) SBA
(e1) On-track
(e2) Off-track
(f) Summer

II-F-3 Country Risk indicators
Last update:
25/10/94 Country: Israël

	1991	1992	1993
Real GDP growth rate (in %)	6,20	6,60	3,50
Industrial production (% change) (at constant 1990 prices)	6,70	8,20	6,50
Unemployment rate (average)	10,60	11,20	10,00
Number of Immigrants (in thousands)	176,00	77,00	77,00
Consumer Price Index (Dec/Dec)	18,00	9,40	11,30
Exchange rate (sheqalim per USD) (end of period)	2,28	2,76	2,99
Nominal effective exchange rate (change, Q4/Q4) (- = deprec.)	-9,60	-9,70	-6,10
Real effective exchange rate (change, Q4/Q4) (- = deprec.)	2,90	-4,90	1,80
Central government overall deficit (as % of GDP)	-4,30	-2,40	-3,60
Balance of payments			
Exports (in bn USD)	12,00	13,30	14,90
Current account balance (in % of GDP)	-0,60	0,10	-1,80
Net inflow of foreign direct investment (in mio USD)	-161,00	-340,00	(a)
Gross official FX reserves (end of period) (in months of total imports)			
in billions US$	6,28	5,13	6,38
in months of imports of G&S	2,80	2,20	2,40
External debt			
External debt (gross external liabilities) (in bn USD, end of period)	33,20	33,60	36,10
medium and long-term (> 1 year)	(a)	23,20	(a)
short-term (=< 1 year)	(a)	10,40	(a)
Debt service (in bn USD)	7,00	6,50	6,40
principal	4,60	4,20	4,10
interest (gross)	2,40	2,30	2,30
External debt/GDP (%)	56,80	52,30	55,80
External debt/exports (%)	170,00	155,00	135,00
Debt service/exports of goods and services (%)	38,00	31,00	29,00
Arrears (on both interest and principal, in mio USD)	(b)	(b)	(b)
Debt relief agreements and rescheduling	(b)	(b)	(b)
IMF arrangements			
Type/no	(b)	(d)	(b)
(Date / -)		(3/92-3/93)	
On track/off track		(e)	
(- / Date)		178	
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	(c)	(c)	(c)
S&P long-term foreign currency rating (end of period)	BBB-	BBB-	BBB+
EIU country risk service (1)			
Score (end of period)	(a)	(a)	(a)
Rating (end of period)	(a)	(a)	(a)
Euromoney			Mar Sep
Position in the ranking (2)	38	32	29 29
(number of countries)	(130)	(169)	(169) (170)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	51 51	50 52	46 46
(number of countries)	(111) (113)	(119) (126)	(127) (133)
Credit rating (3)	(34.9) (35.2)	37.1 35.1	39.6 40.5

(1) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk
(2) The higher the score in the ranking, the lower the creditworthiness of the country.
(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(a) n.a.
(b) No
(c) Note rated
(d) CCFF
(e) On-track

II-F-3 Country Risk indicators
Last update
24/10/94 Country: Latvia

	1992	1993 (1)
Real GDP growth rate (in %)	-33,80	-12,00
Industrial production (% change)	-35,10	-32,60
Unemployment (end of period)	2,30	5,80
Inflation rate	958,10	34,80
Exchange rate (Lats per USD) (end of period)	0,84	0,60
Nominal effective exchange rate (change, Q4/Q4) (- = depreciation)	(a)	(a)
Real effective exchange rate (change, Q4/Q4) (- = depreciation)	(a)	(a)
General government balance (as % of GDP)		
Financial balance (2)	0,00	1,00
Fiscal balance (2)	-0,80	0,60
Balance of payments		
Exports (in mio USD)	831,00	998,00
Current account balance (in % of GDP)	2,00	8,00
Net inflow of foreign direct investment (in mio USD)	43,00	50,00
Official FX reserves (end of period)		
in mio USD	156,00	518,00
in months of imports of G&S	1,80	5,90
External debt		
External debt		
(in convertible currencies, in mio USD, end of period)	65,00	300,00
medium and long-term (> 1 year)	(a)	(a)
short-term (=< 1 year)	(a)	(a)
Convertible debt service (in mio USD)	15,10	10,00
principal	(a)	(a)
interest	(a)	(a)
External debt/GDP (%)	5,00	10,00
External debt/merchandise exports (%)	8,00	24,00
Debt service/merchandise exports (%)	2,00	1,00
Arrears (on both interest and principal, in mio USD)	(b)	(b)
Debt relief agreements and rescheduling	(b)	(b)
IMF arrangements		
Type/no	(d1)	(d2)
(Date / -)	(9/92-9/93)	(12/93-3/95)
On track/off track	(e)	(e)
(- / Date)		
Indicators of market's perceived creditworthiness		
Moody's long-term foreign currency rating (end of period)	(c)	(c)
S&P long-term foreign currency rating (end of period)	(c)	(c)
EIU country risk service (3)		
Score (end of period)	80	75
Rating (end of period)	E	D
Euromoney	Sep	Mar Sep
Position in the ranking (4)	123	133 132
(number of countries)	(169)	(169) (170)
The Institutional Investor	Mar Sep	Mar Sep
Position in the ranking (4)	72 77	89 87
(number of countries)	(119) (126)	(127) (133)
Credit rating (5)	23.9 21.4	19.5 20.0

(1) For some data, preliminary estimates.
(2) Financial balance does not take into account government net lending, whereas fiscal balance does.
(3) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(4) The higher the score in the ranking, the lower the creditworthiness of the country.
(5) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(a) n.a.
(b) No
(c) Note rated
(d1) SBA
(d2) SBA/STF
(e) On-track

II-F-3 Last update 24/10/94	Country Risk indicators Country: Lithuania	
	1992	1993 (1)
Real GDP growth rate (in %)	-37,70	-16,20
Industrial production (% change)	-51,60	-47,00
Unemployment rate (end of period)	1,30	1,60
Inflation rate	1161,10	188,60
Exchange rate (Litas per USD) (end of period)	1,80	3,90
Nominal effective exchange rate (change, Q4/Q4) (- = depreciation)	(a)	(a)
Real effective exchange rate (change, Q4/Q4) (- = depreciation)	(a)	(a)
General government balance (as % of GDP)		
Financial balance (2)	0,60	0,90
Fiscal balance (2)	0,70	-4,60
Balance of payments		
Exports of G&S (in mio USD)	1145,00	1877,00
Current account balance (in % of GDP)	3,40	-6,20
Net inflow of foreign direct investment (in mio USD)	10,00	23,00
Official FX reserves (end of period)		
in mio USD	106,00	410,00
in months of imports of G&S	2,60	2,40
External debt		
External debt (in convertible currencies, in bn USD, end of period)	98,80	345,30
medium and long-term (> 1 year)	(a)	(a)
short-term (=< 1 year)	(a)	(a)
Convertible debt service (in mio USD)	2,00	15,00
principal	(a)	(a)
interest	(a)	(a)
External debt/GDP (%)	5,40	11,20
External debt/exports of G&S (%)	7,80	16,30
Debt service/exports of G&S (%)	0,20	0,70
Arrears (on both interest and principal, in mio USD)	(b)	(b)
Debt relief agreements and rescheduling	(b)	(b)
IMF arrangements		
Type/no	(d1)	(d2)
(Date / -)	(10/92-9/93)	(10/93-3/94)
On track/off track	(e)	(e)
(- / Date)		
Indicators of market's perceived creditworthiness		
Moody's long-term foreign currency rating (end of period)	(c)	(c)
S&P long-term foreign currency rating (end of period)	(c)	(c)
EIU country risk service (3)		
Score (end of period)	80	75
Rating (end of period)	E	D
Euromoney	Sep	Mar Sep
Position in the ranking (4)	118	134 130
(number of countries)	(169)	(169) (170)
The Institutional Investor	Mar Sep	Mar Sep
Position in the ranking (4)	73 80	91 93
(number of countries)	(119) (126)	(127) (133)
Credit rating (5)	23.7 20.7	18.9 19.0

(1) For some data, preliminary estimates.
(2) Financial balance does not take into account government net lending, whereas fiscal balance does.
(3) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(4) The higher the score in the ranking, the lower the creditworthiness of the country.
(5) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(a) n.a.
(b) No
(c) Note rated
d1 SBA
d2 SBA/STF
(e) On-track

II-F-3 Last update 24/10/94	Country Risk indicators Country: Romania		
	1991	1992	1993 (1)
Real GDP growth rate (in %)	-12,90	-13,60	1,00
Industrial production (% change)	-19,60	-22,10	7,70
Unemployment rate (end of period)	6,10	8,40	9,90
Inflation rate (Dec/Dec)	222,80	198,50	295,50
Exchange rate (lei per USD) (end of period)	185,00	460,00	1276,00
Nominal effective exchange rat (change, Q4/Q4) (- = depreciation)	-72,95	-74,63	-56,86
Real effective exchange rate (change, Q4/Q4) (- = depreciation)	-17,08	-24,03	39,70
General government balance (as % of GDP)	0,60	-4,80	-0,10
Balance of payments			
Exports of G&S (in mio USD)	3538,00	4299,00	4882,00
Current account balance (in % of GDP)	-4,48	-8,80	-5,50
Net inflow of foreign direct investment (in mio USD)	37,00	73,00	48,00
Official FX reserves (end of period)			
in mio USD	198,00	93,00	52,00
in months of imports of G&S	0,49	0,20	0,10
External debt			
External debt (in convertible currencies, in bn USD, end of period)	2,10	3,50	4,70
. medium and long-term (> 1 year)	1,10	2,40	3,30
short-term (=< 1 year)	1,00	1,10	1,40
Convertible debt service (in mio USD)		176,00	312,00
principal		85,00	147,00
interest		91,00	165,00
External debt/GDP (%)	7,60	18,10	21,40
External debt/exports of G&S (%)	59,36	95,10	129,60
Debt service/exports of G&S (%)	0,60	4,10	6,40
Arrears (on both interest and principal, in mio USD)	(b)	(b)	(b)
Debt relief agreements and rescheduling	(b)	(b)	(b)
IMF arrangements			
Type/no		(d)	(b)
(Date / -)		(5/92-3/93)	-
On track/off track		(e)	-
(- / Date)		Dec 92	-
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	(c)	(c)	(c)
S&P long-term foreign currency rating (end of period)	(c)	(c)	(c)
EIU country risk service (2)			
Score (end of period)		60	65
Rating (end of period)		D	D
Euromoney			Mar Sep
Position in the ranking (3)	89	72	66 75
(number of countries)	(130)	(169)	(169) (170)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (3)	60 64	69 68	73 75
(number of countries)	(111) (113)	(119) (126)	(127) (133)
Credit rating (4)	27.9 26.7	25.6 24.8	24.2 24.4

(1) For some data, preliminary estimates.
(2) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(3) The higher the score in the ranking, the lower the creditworthiness of the country.
(4) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(a) n.a.
(b) No
(c) Note rated
(d) SBA
(e) Off-track

II-F-3 Country Risk indicators
Last update: 25/10/94
Country: Russia

	1991	1992	1993
Real GDP growth rate (in %)	-12,90	-19,00	-12,00
Industrial production (% change)	-8,20	-18,40	-16,40
Unemployment rate (end of period - ILO definition)	(a)	(a)	5,10
Inflation rate (Dec/Dec)	160,00	2300,00	840,00
Exchange rate (Rbs per USD) (end of period)	169,20	414,50	1247,00
Nominal effective exchange rate (change, Q4/Q4) (- = depreciation)	-63,60	(Q4/Q1) -55,60	-62,50
Real effective exchange rate (change, Q4/Q4) (- = depreciation)	-25,30	(Q4/Q1) 90,00	268,42
General government balance (as % of GDP)	-16,00	-18,80	-8,00
Balance of payments			
Exports of G&S (in bn USD)	(a)	57,00	69,00
Current account balance (in % of GDP)	(a)	-1,20	1,80
Net inflow of foreign direct investment (in bn USD)	-0,10	0,70	0,40
Official FX reserves (end of period) (excluding gold)			
in mio USD	0,00	2,00	3,30
in months of imports of G&S	0,00	0,50	0,90
External debt			
External debt (in convertible currencies, in bn USD, end of period)	67,00	78,70	83,70
medium and long-term (> 1 year)	54,30	65,70	70,60
short-term (=< 1 year)	12,70	13,00	13,10
Convertible debt service (in bn USD)	(a)	15,60	19,60
principal	(a)	10,40	14,70
interest	(a)	5,20	4,90
External debt/GDP (%)	(a)	24,00	26,00
External debt/exports of G&S (%)	131,40	137,00	122,00
Debt service/exports of G&S (%)	(a)	25,00	29,00
Arrears (on both interest and principal, in bn USD)	4,80	11,80	11,00
Debt relief agreements and rescheduling	(b)	(g)	(h)
IMF arrangements			
Type/no (Date / -.)	(b)	1st credit tranche Aug 92	(d) Jul 93
On track/off track (- / Date)			
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	(c)	(c)	(c)
S&P long-term foreign currency rating (end of period)	(c)	(c)	(c)
EIU country risk service (1)			
Score (end of period)	(a)	95	95
Rating (end of period)	(a)	E	E
Euromoney			Mar / Sep
Position in the ranking (2)	(a)	129	149 / 137
(number of countries)	(130)	(169)	(169) / (170)
The Institutional Investor	Mar / Sep	Mar / Sep	Mar / Sep
Position in the ranking (2)	-- / (a)	-- / 73	87 / 92
(number of countries)	-- / (113)	-- / (126)	(127) / (133)
Credit rating (3)	-- / 26.7	-- / 23.6	20.2 / 19.0

(1) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(2) The higher the score in the ranking, the lower the creditworthiness of the country.
(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(a) n.a..
(b) No
(c) Note rated
(d) STF
(g) Paris Club (deferrals); London Club (roll-overs)
(h) Paris Club (resched.); London Club (roll-overs, and resched. agr. in principle)

II-F-3 Country Risk indicators
Last update
24/10/94 Country: Slovak Republic

	1992	1993
Real GDP growth rate (in %)	-7,00	-4,10
Industrial production (% change)	-12,80	-8,60
Unemployment (% of labour force) (end of period)	10,40	14,40
Inflation rate (Dec/Dec)	9,10	25,10
Exchange rate (SK's per USD) (end of period)	28,90	33,20
Nominal effective exchange rate (change, Q4/Q4) (- = depreciation)	0,98	-4,90
Real effective exchange rate (change, Q4/Q4) (- = depreciation)	6,80	16,70
General government balance (as % of GDP)	-13,10	-7,50
Balance of payments		
Exports of G&S (in mio USD)	8219,00	7568,00
Current account balance (in % of GDP)	1,70	-3,90
Net inflow of foreign direct investment (in mio USD)	100,00	134,00
Official FX reserves (end of period)		
in mio USD	356,00	395,00
in months of imports of G&S	0,70	0,90
External debt		
External debt (in convertible currencies, in bn USD, end of period)	2,56	3,37
medium and long-term (> 1 year)	2,14	-
short-term (=< 1 year)	0,42	-
Convertible debt service (in mio USD)	675,00	674,00
principal	415,00	490,00
interest	260,00	184,00
External debt/GDP (%)	25,61	30,50
External debt/exports of G&S (%)	31,16	44,53
Debt service/exports of G&S (%)	8,21	8,91
Arrears (on both interest and principal, in mio USD)	(b)	(b)
Debt relief agreements and rescheduling	(b)	(b)
IMF arrangements		
Type/no	(d1)	(d2)
(Date / -)	(4/92-4/93)	(7/93 -)
On track/off track	(e1)	(e2)
(- / Date)		
Indicators of market's perceived creditworthiness		
Moody's long-term foreign currency rating (end of period) (1)	Ba1	(c)
S&P long-term foreign currency rating (end of period)	(c)	BB-
EIU country risk service (2)		
Score (end of period)	(c)	(c)
Rating (end of period)	(c)	(c)
Euromoney		Mar - Sep
Position in the ranking (3)	58	56 63
(number of countries)	(169)	(169) (170)
The Institutional Investor (1)	Mar - Sep	Mar - Sep
Position in the ranking (3)	37 39	57 57
(number of countries)	(119) (125)	(127) (133)
Credit rating (4)	47.1 46.1	31 30.6

(1) For 1992, rating or position in the ranking assigned to the former CSFR.
(2) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(3) The higher the score in the ranking, the lower the creditworthiness of the country.
(4) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(a) n.a.
(b) No
(c) Note rated
(d1) SBA
(d2) STF
(e1) On-track but expired with dissolution of CSFR
(e2) On-track

TABLE 1

CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS AUTHORISED

Operation	Authorized ceiling	Capital outstanding 31.12.1993	Capital outstanding 30.6.1994	Remainder to be disbursed 30.6.1994	
MEMBER STATES					
A. Balance of payments	14 000				
1. Greece I	1 750	200		0	
2. Greece II	2 200	1 000	1 000	1 200	1)
3. Italy	8 000	3 990	4 005	4 000	2)
B. Other					
4. Euratom	4 000	1 018	862	0	
5. NCI and NCI earthquakes	6 830	2 202	1 1880	0	
6. EIB Mediterranean, Spain, Greece, Port.	1 500	572	527	0	
MEMBER STATES - TOTAL	26 330	8 892	8 274	5 200	
THIRD COUNTRIES		580			
A. Financial assistance	6 317				
1. Hungary	1 050	790	790	260	
2. Czech Republic	250	250	250	0	
3. Slovak Republic	125	125	125	0	
4. Bulgaria	400	290	290	110	
5. Romania	580	455	455	125	
6. Algeria	400	250	250	150	
7. Israel	160	160	160	0	
8. Baltic States	220	110	110	110	
9. Moldova	45			45	
10. Former Soviet Union	1 250	803	934	316	
B. Other					
11. EIB Mediterranean	6 282	1 596	1 634	3 921	
12. EIB Central & Eastern Europe I	1 700	300	390	1 310	
13. EIB Central & Eastern Europe II	3 000		2	2 998	
14. EIB Asia, Latin America	750			750	
15. Guarantee, CIS	500	266	133	0	
THIRD COUNTRIES - TOTAL	16 712	5 395	5 524	10 094	
GRAND TOTAL	43 042	14 377	13 798	15 294	

1 No disbursement is planned.

2 The third and fourth tranches had still not been paid at 30 June 1994. So far, the Italian Government has not requested payment.

ANNEX TO TABLE 1

SITUATION IN RESPECT OF EIB OPERATIONS AT 30 JUNE 1994

Operations	Credit line authorized	Loans made available, minus cancellations	Initial disbursement	Amount outstanding at 30.6.1994
EIB Mediterranean Spain, Greece, Portugal	1 500	1 465	1.614	527
Third countries EIB Med	6 282	3 792	2 361	1 634
Central & Eastern Europe I	1 700	1 650	390	390
Central & Eastern Europe II	3 000	10	2	2
Asia, Latin America	750	139	0	0

NB: The fact that the initial disbursement sometimes exceeds the authorized ceiling is due to differences in the ecu rate between the date on which the contracts were signed and 30 June 1994.

TABLE 2
MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET
(Estimate in ECU million based on all operations disbursed at 30 June 1994)

	1994	1995	1996	1997	1998	1999	2000	2001	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece	200		500		500				1 200
2. Italy			500		996		2 509		4 005
B. Structural loans									
3. Euratom	270	47	153	463	92	16	13		1 053
4. NCI and NCI EQ	656	487	317	534	92	41	41	1	2 170
5. EIB Med. Old. Prot. Sp. Gr. Port.	91	84	78	77	58	51	46	21	505
Capital - subtotal	1 217	618	1 548	1 074	1 738	108	2 608	22	8 933
INTEREST									
A. Balance of payments									
1. Greece	110	95	95	46	46				392
2. Italy	253	253	253	214	214	158	158		1 503
B. Structural loans									
3. Euratom	81	63	58	43	10	3	1		259
4. NCI and NCI EQ	188	131	91	65	17	8	5	2	506
5. EIB Med. Old. Prot. Sp. Gr. Port.	50	42	35	27	21	15	11	7	209
Interest - subtotal	683	584	532	395	307	184	175	9	2 870
MEMBER STATES-TOTAL	1 900	1 202	2 080	1 469	2 045	292	2 784	31	11 803
NON-MEMBER COUNTRIES									
CAPITAL									
A. Financial assistance									
6. Hungary		350	260	80	100				790
7. Czech Republic				127	123				250
8. Slovak Republic				63	62				125
9. Bulgaria				140	150				290
10. Romania					185	190	80		455
11. Israel				160					160
12. Algeria				250					250
13. Ex USSR	147	553	202	32					934
14. Baltic States							110		110
B. Guarantees									
15. EIB Med.	130	140	139	144	149	146	135	122	1 105
16. EIB C+E Eur. I + II	2	13	24	30	36	37	36	35	213
17. Aid, Russia 500m	133	133							266
Capital - subtotal	412	1 188	625	1 026	805	373	361	158	4 948
INTEREST									
A. Financial assistance									
6. Hungary	79	79	44	18	10				230
7. Czech Republic	25	25	25	25	13				113
8. Slovak Republic	13	13	13	13	6				58
9. Bulgaria	29	29	29	29	15				131
10. Romania	46	46	46	46	46	27	8		265
11. Israel	16	16	16	16					64
12. Algeria	25	25	25	25					100
13. Ex USSR	60	72	13	2					147
14. Baltic States	11	11	11	11	11	11	11		77
B. Guarantees									
15. EIB Med.	120	114	103	93	82	71	61	51	696
16. EIB C+E Eur. I + II	21	27	26	24	22	19	17	14	168
17. Aid, Russia 500m	24	9							33
Interest - subtotal	468	466	351	302	205	129	97	66	2 082
NON-MEMBER COUNTRIES-TOTAL	880	1 654	976	1 327	1 010	502	457	223	7 031
GRAND TOTAL	2 780	2 856	3 056	2 797	3 055	794	3 241	255	18334
(Eastern Europe)	590	1 359	693	640	778	284	261	50	4 655
(Other non-member countries)	290	295	283	688	232	218	196	174	2 375

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

	1994	1995	1996	1997	1998	1999	2000	2001	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece	200		500		500				1 200
2. Italy			500		1 000		4 498	2 000	7 998
B. Structural loans									
3. Euratom + NCI	926	534	470	997	184	57	54	1	3 223
4. EIB Sp; Gr. Port	91	84	78	77	58	51	46	21	505
Capital - subtotal	1 217	618	1 548	1 074	1 742	108	4 598	2 022	12926
INTEREST									
A. Balance of payments									
1. Greece	110	95	95	46	46				392
2. Italy	425	595	680	638	638	553	553	170	4 251
B. Structural loans									
3. Euratom + NCI	270	194	149	108	27	11	6	2	767
4. EIB Sp. Gr. Port.	50	42	35	27	21	15	11	7	209
Interest - subtotal	855	926	959	819	732	579	570	179	5 619
MEMBER STATES-TOTAL	2 072	1 544	2 506	1 893	2 474	687	5 168	2 201	18 545
NON-MEMBER COUNTRIES									
CAPITAL									
A. Financial assistance									
5. Hungary		350	260	80	100			260	1 050
6. Czech Republic				127	123				250
7. Slovak Republic				63	62				125
8. Bulgaria				140	150			55	345
9. Romania					185	190	80	65	520
10. Israel				160					160
11. Algeria				250				150	400
12. Ex USSR	147	687	227	189					1 250
13. Baltic States							110	110	220
14. Moldova									
15. Euratom, C+E Eur.						10	23	37	70
B. Guarantees									
16. EIB Med.	130	140	139	191	263	348	400	428	2 039
17. EIB C+E Eur. I + II	2	13	24	71	139	230	303	358	1 141
18. EIB, Asia, Latin America				5	14	28	44	56	147
19. Aid, Russia, Guar. 500m	133	133							266
Capital - subtotal	412	1 323	650	1 276	1 036	807	959	1 520	7 983
INTEREST									
A. Financial assistance									
5. Hungary	79	79	44	44	36	26	26	26	360
6. Czech Republic	25	25	25	25	12				
7. Slovak Republic	13	13	13	13	6				58
8. Bulgaria	29	34	40	40	26	11	11	11	202
9. Romania	45	51	58	58	58	40	21	12	343
10. Israel	16	16	16	16					64
11. Algeria	25	40	40	40	15	15	15	15	205
12. Ex USSR	80	110	42	19					251
13. Baltic States	11	22	22	22	22	22	22	11	154
14. Moldova		2	4	4	4	4	4	4	26
15. Euratom, C+E Eur.	8	25	45	65	85	102	107	103	540
B. Guarantees									
16. EIB Med.	148	210	293	368	409	415	335	213	2 391
17. EIB C+E Eur. I + II	46	114	203	295	361	392	382	347	2 140
18. EIB, Asia, Latin America	3	11	25	43	58	67	66	60	333
19. Aid, Russia, Guar. 500m	24	9							33
Interest - subtotal	552	761	870	1 052	1 092	1 094	989	802	7 100
NON-MEMBER COUNTRIES-TOTAL	964	2 084	1 520	2 328	2 128	1 901	1 948	2 322	15083
GRAND TOTAL	3 035	3 628	4 026	4 221	4 602	2 588	7 116	4 523	33628
(Eastern Europe)	642	1 667	1 007	1 255	1 369	1 027	1 089	1 399	9 344
(Other non-member countries)	322	417	513	1 072	759	874	859	923	5 738

EXPLANATORY NOTES

The purpose of these tables is to show the 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, it is not certain that all the operations described will actually be disbursed. No account has been taken of interest on late payment or any additional costs such as lawyers' fees.

I. TYPES OF OPERATION AND PAYMENT OF THE BUDGET GUARANTEE

A. Types of operation

The risk covered by the Community budget results from two types of operation:

- borrowing/lending operations;
- guarantees given to third parties.

In the first 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 defaults, the Commission must draw on its budgetary resources to repay the borrowing on the due date.

The loan guarantee is in respect of loans granted by a financial institution (EIB or commercial banks in the case of the former Soviet Union). When the recipient of a guaranteed loan fails to make a payment on the due date, the EIB asks the Commission to pay the amounts owed by the defaulter in accordance with the contract of guarantee. The guarantee must be paid within three months of 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.

B. Mobilization of funds

The funds needed to pay the budget guarantee can be raised in three ways:

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 funds available.

- The transfer procedure can be used to provide the budget heading with the appropriations needed to cover the default. This method is used when there are insufficient appropriations for re-use and must be authorized in advance by the budgetary authority.

- The amount required may be taken provisionally from cash resources in accordance with Article 12 of the Financial Regulation. This method is used, in particular, when the Community has so short a deadline for the payment of a guarantee that the budgetary authority has no time to approve a transfer.

This operation is subsequently regularized by means of a transfer or a supplementary and/or amending budget.

II. CALCULATION

Some of the amounts indicated are the result of estimates made on the basis of the following assumptions.

Generally speaking, the exchange rates for loans in currencies other than the ecu are assumed to have been stable since 30 June 1994. However, borrowing and lending operations should not involve exchange risks for the Community. Unless otherwise stated, the average rate of interest is estimated at 10%. This rate is probably a little high for EIB loans, which often attract interest subsidies under the protocols.

A. Member States

1. Greece: A balance-of-payments loan of ECU 2 200 million has been authorized. ECU 1 000 million of this amount will be disbursed in two tranches of ECU 500 million to be repaid in 1996 and 1998 respectively. It is assumed that the remaining ECU 1 200 million will not be disbursed.

2. Italy: The Council decision of 18 January 1993 granted a ECU 8 000 million balance-of-payments loan to Italy. The loan is to be made available in four instalments amounting to ECU 2 000 million each and - with the exception of the first instalment - is conditional on the attainment of agreed targets on Italy's public debt and deficit.

   The first two instalments were released in 1993. Concerning the coming period, the Council Decision states that the third instalment could be released as of 1 February 1994 (but the Italian Government has not yet applied for it). The fourth instalment may be released not earlier than 1 February 1995.

   If the Italian Government decides to apply for the release of the third and fourth instalments and the conditions are deemed to be fulfilled ECU 2 000 million in 1994 and ECU 2 000 million in 1995 will be disbursed to the Italian Republic.

3. EIB, Mediterranean, old protocols: Spain, Greece, Portugal: These are Community guarantees for EIB operations in these countries prior to accession. The amounts are now final, since all the loans authorized have been disbursed.

B. Non-member countries

a. Financial assistance

1. Hungary I: The amounts of the first two tranches are final and certain. The third tranche of the macrofinancial assistance decided in 1990 could be disbursed in 1995.

2. Hungary II: ECU 180 million has been granted and paid out in full.

3. Czech and Slovak Republics: ECU 375 million has been granted in two tranches for a maximum term of seven years (bullet), with a first tranche of ECU 185 million and a second tranche of ECU 190 million for a term of six years.

4. Bulgaria I: ECU 290 million has been granted in two tranches for a maximum term of seven years (bullet), with a first tranche of ECU 150 million for a term of seven years and a second tranche of ECU 140 million for a term of five years.

5. Bulgaria II: The financial assistance of ECU 110 million decided in 1992 has not been disbursed since Bulgaria has failed to meet the necessary conditions. It is assumed that it will be paid in two tranches of ECU 55 million in 1994 and 1995.

6. Romania I: An estimated ECU 375 million in two tranches for a maximum term of seven years (bullet). The first tranche of ECU 190 million was disbursed in 1992 with a term of seven years and the second was disbursed in 1992 with a term of six years.

7. Romania II: The new operation involving ECU 80 million for a maximum term of seven years was disbursed in 1993.

8. Romania III: This is a seven-year loan of ECU 125 million to be disbursed in two tranches. No tranche has been disbursed at 30 June 1994. It is assumed that the first tranche of ECU 65 million will be disbursed in 1994 and the second tranche of ECU 60 million in 1995.

9. Moldova: This is a ten-year loan of ECU 45 million to be disbursed in two tranches. No tranche had been disbursed at 30 June 1994. It is assumed that the first tranche of ECU 25 million will be disbursed in 1994 and the second tranche of ECU 20 million in 1995.

10. Baltic States: The first tranche of a loan of ECU 220 million was paid in 1993. The second should be paid in 1994. The two tranches will be repaid in 2000 and 2001 respectively.

11. Algeria: ECU 400 million has been granted in two tranches of ECU 250 million and ECU 150 million. The first was paid in December 1991 for a term of six years.

    The second tranche should be paid in the second half of 1994 since Algeria now meets the necessary conditions. This tranche may soon be disbursed as a result of Algeria's new economic programme, which has been approved by the IMF.

12. Israel: A loan of ECU 160 million has been paid in full and is repayable in 1997.

b. Guarantees

1. EIB

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).

- Loans not disbursed (Loans not signed and loans signed but not yet disbursed)

  The following table shows the situation as regards loans which have not been disbursed.

Year	1994	1995	1996	TOTAL
Mediterranean countries[7]	2 261[8]	830	830	3 921
Central and Eastern Europe II[9]	762.6	965	1 270	2 997.6
Other non-member countries	250	250	250	750

  In the case of loans not disbursed, we have assumed that an average of 10% of the loan will be disbursed in the year of signature and 30% in each of the three following years.

7 In the absence of a financial statement, all loans still to be committed under the financial protocols for the Mediterranean countries expiring at the end of 1996 have been spread evenly over the period 1994-96.

8 This amount breaks down into ECU 1 431 million in loans to be disbursed under contracts signed before 30 June 1994 and ECU 830 million in loans to be signed and disbursed in 1994.

9 Countries of Central and Eastern Europe: decision of 13 December 1993 concerning a loan of ECU 3 000 million.

It is estimated that the average term will be fifteen years with a three-year period of grace.

2. Food aid for the former Soviet Union

(a) Guarantee

This is a guarantee for a bank loan of ECU 500 million, with principal and interest fully covered by the budget, for a term of three and a half years with three repayments at intervals of eleven months starting from the twentieth month. ECU 375 million has been used.

(b) Borrowing/lending

An operation involving ECU 1 250 million for a maximum term of three years.

This borrowing will be divided between the various Republics of the former Soviet Union. Loans amounting to less than ECU 100 million will be repaid in one instalment three years after the start of the period in which the funds may be drawn. Borrowings exceeding ECU 100 million will be repaid in two instalments two years and three years after the start of the period in which the funds may be drawn.

Depending on the type of contract, there are two periods in which funds may be drawn; one starts on 20 August, the other on 15 January.

The balance still to be used at 30 June 1994 came to ECU 316 million.

3. Euratom, countries of Central and Eastern Europe

Of the ECU 1 100 million involved, it is assumed that ECU 150 million will be disbursed in 1994, ECU 200 million in each of the four following years and ECU 150 million in 1999.

It is assumed that the loans will be for an average term of twenty years with a five-year period of grace.

ANNEX

DEFINITION OF FIGURES USED IN THE REPORT

A. Authorized ceiling

This is the aggregate of the maximum amounts of capital authorized (ceilings) for each operation decided by the Council (see Table 1).

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 authorized ceiling;
- factors reducing the risk;
  - limitation of the guarantee given to the EIB to 75% of the loans signed in the Mediterranean countries;
  - operations already repaid, since the amounts concerned, except in the case of balance of payments support, are the maximum amount of loans granted and not outstanding amounts authorized;
  - the amounts authorized are not necessarily taken up in full.

The breakdown of authorizations is as follows:

<u>Member States</u>

Balance of payments	14 000 [10]
NCI	6 830
Euratom	4 000 [11]
EIB; Spain, Greece, Portugal	1 500
Member States - total	26 330

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10 Authorized amount outstanding: once this figure is reached, further loans may be granted as previous operations are repaid.

11 Including ECU 1 100 million which may be granted to the countries of Eastern Europe and the CIS.

Non-member countries

Hungary I	870
Hungary II	180
Czech Republic	250
Slovak Republic	125
Bulgaria I	290
Bulgaria II	110
Romania I	375
Romania II	80
Romania III	125
Israel	160
Algeria	400
former Soviet Union I	408
former Soviet Union II	1.250
Baltic States	220
Moldova	45
EIB, old protocols	3.032
EIB, Eastern and Central Europe I	1.700
EIB, Eastern and Central Europe II	3.000
EIB, new protocols	1.450
EIB, horizontal cooperation	1.800
Other non-member countries	750
Non-member countries - total	16.620
Grand total	42.950

B. **Capital outstanding**

This is the amount of capital still to be repaid on a given date in respect of operations disbursed (see Table 1).

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.

C. **Annual risk**

Estimated amount of principal and interest due each financial year.

This amount is calculated for:

- disbursements alone (Table 2), in which case the capital to be repaid corresponds to the amount outstanding;

- 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 authorized plus, where applicable, the amounts in respect of operations proposed by the Commission and not yet decided.

[redacted] [redacted] [redacted] [redacted]

ISSN 0254-1475

COM(95) 17 final

DOCUMENTS

EN 01

Catalog number : CB-CO-95-022-EN-C

ISBN 92-77-85133-3

Office for Official Publications of the European Communities

L-2985 Luxembourg