COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION

TO THE BUDGETARY AUTHORITY

ON GUARANTEES COVERED BY THE GENERAL BUDGET -

SITUATION AT 31 DECEMBER 1995

This report describes the situation as regards budget guarantees at 31 December 1995.

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 nine reports to the budgetary authority.

The report is in three parts:

1. Events since the last report, the risk situation and the activation of budget guarantees.

2. Description of operations entered in the budget.

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

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PART ONE: EVENTS SINCE THE REPORT AT 30 JUNE 1995, THE RISK SITUATION AND ACTIVATION OF BUDGET GUARANTEES

I. EVENTS SINCE THE REPORT AT 30 JUNE 1995

I.A. Macrofinancial assistance to Ukraine

As part of an overall aid programme for Ukraine, the Council Decision of 23 October 1995 empowered the Commission, on behalf of the Community, to borrow ECU 200 million for a maximum period of ten years. The proceeds of this operation are to be on-lent to Ukraine in two tranches.
At 31 December 1995 the first tranche had not yet been paid.

I.B. European Investment Bank loans to the Mediterranean countries guaranteed by the general budget

Council Decisions of 30 October 1995 on the conclusion of protocols on financial and technical cooperation between the Community and the Republics of Malta and Cyprus.
Under these protocols, the EIB may commit ECU 30 million and ECU 50 million respectively for a three-year period in the form of loans from its own resources.

II. 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 31 December 1995, giving the minimum level of risk to the Community assuming that there are no early repayments (see Table 2 on page 2 of the statistical annex);

- on a more forward-looking basis, by reference to all the operations decided by the Council or proposed by the Commission in order to estimate the impact on future budgets, giving the maximum risk borne by the Community assuming that the Commission's proposals are accepted (see Table 3 on page 3 of the statistical annex).

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 tables in the annex (pages 1 to 3), which assess the risk relating to countries inside the Community and countries outside the Community.

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

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

II.A. Total risk

II.A.1. Amount outstanding at 31 December 1995 (see Table 1 on page 1 of the statistical annex)

The total risk at 31 December 1995 came to ECU 13 114 million, the same as at 30 June 1995.

II.A.2. Maximum annual risk borne by the community budget: operations disbursed at 31 December 1995 (see Table 2 on page 2 of the statistical annex)

The total risk, which comes to ECU 3 149 million in 1996, will develop as follows:

Year	1997	1998	1999*	2000	2001	2002	2003
Annual risk (ECU million)	3049	3238	994	3481	776	600	360
% change	-3%	+6%	-69%	+250%	-78%	-23%	-40%

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

II.A.3. Maximum theoretical annual risk borne by the community budget (see Table 3 on page 3 of the statistical annex)

This risk comes to ECU 3 500 million in 1996 and will increase regularly until 2000 (except in 1999 when it will total ECU 2 508 million) as follows:

Years	1997	1998	1999	2000	2001	2002	2003
Annual risk (ECU million)	3858	4425	2508	5267	2716	4617	4783
% change	+10%	+15%	-43%	+110%	-48%	+70%	+4%

II.B. Risk in respect of the Member States

II.B.1. Amount outstanding at 31 December 1995 (see Table 1 on page 1 of the statistical annex)

The capital outstanding in respect of operations in the Member States was ECU 7 263 million at 31 December 1995, a fall of 3.7% compared with 30 June 1995.

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

The amount outstanding from the other operations has remained stable.

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II.B.2. Maximum annual risk borne by the Community budget: operations disbursed at 31 December 1995 (see Table 2 on page 2 of the statistical annex)

The risk for 1996 comes to ECU 2 068 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 up to 2000 when it will reach ECU 2 821 million.

II.B.3. Maximum theoretical annual risk borne by the Community budget (see Table 3 on page 3 of the statistical annex)

The trend is much the same as in Table 2 up to 2000 when the risk will amount to ECU 3 215 million. It will fall to ECU 2 370 million in 2002 and ECU 2 196 million in 2003.

II.C. Risk in respect of non-member countries

II.C.1. Amount outstanding at 31 December 1995 (see Table 1 on page 1 of the statistical annex)

The capital outstanding at 31 December 1995 was ECU 5 851 million, an increase of 5% compared with 30 June 1995.

II.C.2. Maximum annual risk borne by the Community budget: operations disbursed at 31 December 1995 (see Table 2 on page 2 of the statistical annex)

The risk for 1996 comes to ECU 1 081 million.

The risk will increase in 1997 to ECU 1 586 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.
- ECU 143 million from the Republics of the former Soviet Union.

Years	1997	1998	1999	2000	2001	2002	2003
Annual risk (ECU million)	1586	1178	695	660	670	570	334

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II.C.3. Maximum theoretical annual risk borne by the Community budget (see Table 3 on page 3 of the statistical annex))

The risk will rise from ECU 1 263 million in 1996 to ECU 2 057 million in 1997.

Years	1997	1998	1999	2000	2001	2002	2003
Annual risk (ECU million)	2057	1942	1817	2053	2269	2247	2587

III. ACTIVATION OF BUDGET GUARANTEES

III.A. EIB loans to non-member countries

On 5 July 1995, the EIB called on the budget guarantee in respect of loans of around ECU 8.6 million to the Republics of former Yugoslavia (the Former Yugoslav Republic of Macedonia - FYROM - and Serbia). The payment was made to the EIB on 11 October 1995.

On 18 October 1995, the EIB again called on the budget guarantee in respect of loans of around ECU 5.2 million to the Republics of former Yugoslavia (FYROM, Serbia and Bosnia-Hercegovina). The payment was made to the EIB on 26 January 1996.

At 31 December 1995 the total amount of debts settled by the Community and not yet repaid by the defaulting debtors came to ECU 68.2 million. These debts were owed by all the Republics of former Yugoslavia with the exception of Slovenia and Croatia, which have no payments overdue.

Of the ECU 68.2 million due but not paid, ECU 28.6 million was entered in the budget in respect of the amount owed from before 1994 and a total of ECU 39.6 million was called in from the Guarantee Fund on 11 January 1995 (ECU 5.3 million), on 30 January 1995 (ECU 14.3 million), on 24 May 1995 (ECU 6.08 million), on 11 October 1995 (ECU 8.6 million) and on 26 January 1996 (ECU 5.2 million).

III.B. BORROWING/LENDING OPERATIONS OR LOAN GUARANTEES FOR NON-MEMBER COUNTRIES

III.B.1. Payments from cash resources

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

III.B.2. Activation of the Guarantee Fund

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

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

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

Country	Date	Amount (principal + interest)
Tajikistan	20.07.95	1 713 431.10
Georgia	20.07.95	2 182 277.63
Georgia	17.10.95	1 471 300.30
Kazakhstan	17.10.95	835 614.83
Georgia	21.11.95	70 931 856.06
Armenia	21.11.95	37 996 507.14
Tajikistan	21.11.95	55 692 660.94
Turkmenistan	21.11.95	45 850 146.11
Total		216 673 794.11

III.B.3. Late repayments

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

Country	Repayment date	Amount (principal + interest)
Kazakhstan	15.11.95	835 614.83

III.B.4. Situation as regards unpaid debts at 31 December 1995

The following amounts had not been paid at 31 December 1995:

Country	Amount (principal + interest)
Tajikistan	63 181 389.89
Georgia	81 306 915.94
Armenia	37 996 507.14
Turkmenistan	45 850 146.11
Total	228 334 959.08

PART TWO: OPERATIONS ALREADY ENTERED IN THE BUDGET

The budgetary authority authorized 29 headings with token entries in the 1995 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

I.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 31 December 1995 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 31 December 1995 the amount outstanding was ECU 1 000 million in loans to Greece and ECU 4 045 million in loans to Italy (Table 1 on page 1 of the statistical annex).

I.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 31 December 1995 the total outstanding was ECU 720 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 on 21 March 1994 (see Part II - Loans raised for non-Community countries).

I.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

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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 31 December 1995 the total outstanding was ECU 1 113 million, 29.11% less than on 31 December 1994.

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 appeared on this list.

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

II.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.

II.B. Programme of borrowings contracted by the Community to provide macrofinancial assistance to the countries of Central and Eastern Europe

II.B.1. Hungary

II.B.1(a) <u>Hungary I</u>

In 1990 the Community granted 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 has not been 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.

Hungary repaid the first tranche of ECU 350 million in full on 20 April 1995.

II.B.1(b) <u>Hungary II</u>

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, the Council decided to grant additional macrofinancial assistance to Hungary in the form of a loan of ECU 180 million under a general G-24 programme of financial assistance.

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 paid on 15 January 1993. It will be repaid in January 1997 and interest, which is at a fixed rate, is payable annually.

At 31 December 1995 the amount outstanding on borrowings for Hungary came to ECU 440 million.

II.B.2. Czech Republic and Slovak Republic

- As part of G-24's overall financial assistance, 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 31 December 1995 the amount outstanding on borrowings for the two republics came to ECU 375 million.

- Slovak Republic

  As part of the new financial assistance to the Slovak Republic, the Commission, on behalf of the Community, was empowered by a Council decision of 22 December 1994 to borrow, in two tranches, ECU 130 million for a period of seven years. The proceeds of this operation were to be on-lent on the same terms to Slovakia.

  This assistance has not been implemented because of the delay in structural reforms in these countries. Furthermore, there has been a distinct improvement in the Slovak Republic's balance of payments and currency reserves since October 1995. The Commission has therefore submitted to the Council a proposal to cancel the medium-term loan authorized by Decision 94/939/EC of 22 October 1994.

II.B.3. Bulgaria

II.B.3(a) <u>Bulgaria I</u>

As part of G-24's overall financial assistance, 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.

II.B.3(b) <u>Bulgaria II</u>

As part of G-24's new aid for 1992 and 1993, the Commission, on behalf of the Community, was empowered to borrow ECU 110 million in two tranches for a maximum period of seven years. The proceeds of this operation were to be on-lent to Bulgaria. Because of delays in the process of economic reform in Bulgaria, implementation of this operation was deferred until December 1994 when the first tranche of ECU 70 million was finally paid. It will be repaid in

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one instalment on 7 December 2001 and the interest, which is at variable rates, is payable half-yearly.

At 31 December 1995 the amount outstanding on borrowings for Bulgaria came to ECU 360 million.

II.B.4. Romania

II.B.4(a) Romania I

As part of G-24's overall financial assistance, 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.

II.B.4(b) Romania II

As part of G-24's new aid, 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.

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.

II.B.4(c) Romania III

As part of G-24's new 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.

The first tranche of ECU 55 million for a term of seven years was paid on 20 November 1995. It will be repaid in one instalment on 20 November 2002, and interest, which is at variable rates, is payable half-yearly.

The second tranche had not yet been paid at 31 December 1995.

At 31 December 1995 the amount outstanding on borrowings for Romania came to ECU 510 million.

II.C. Borrowings contracted by the Community to grant macrofinancial assistance to the new independent States of the former Soviet Union

II.C.1 Medium-term loan of ECU 1 250 million

In December 1991 the Council decided to grant a credit facility of up to ECU 1 250 million for the Soviet Union and 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.

After the Soviet Union broke up, the loan was divided between the various new independent States at the beginning of 1992.

II.C.1(a) <u>Loan contracts signed on the basis of the original breakdown</u>

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;

II.C.1(b) <u>Loan contracts signed on the basis of the amended breakdown</u>

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.

- On 14 September 1994 a contract for ECU 59 million was signed with Uzbekistan.

- On 12 October 1994 a contract for ECU 68 million was signed with Azerbaijan.

II.C.1(c) Utilization of the ECU 1 250 million loan

Loans	Initial breakdown (1992)	Breakdown at 31.12.1995	Actual utilization at 31.12.1995
Armenia a	38	38	37.9
Armenia b		20	19.6
Azerbaijan	68	68	50.3
Belarus	102	100.5	100.5
Georgia a	70	70	69.4
Georgia b		10	9.8
Georgia c		40	34.1
Kazakhstan a	55	25	24.9
Kazakhstan b		0	
Kyrgyzstan	32	23.7	22.7
Moldova	27	27	27.0
Russia a	150	72.9	70.0
Russia b	349	349	299.7
Tajikistan	55	55	54.5
Turkmenistan	45	45	44.9
Ukraine	130	129.8	129.8
Uzbekistan	129	59	58.8
Total	1250	1132.9	1053.9

At 31 December 1995 the amount of loans actually being used came to ECU 1053.9 million.

II.C.1(d) Capital repayment and interest payment dates

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)).
- Azerbaijan and Uzbekistan:
    - interest on 28 March and 28 September
    - capital on 28 September 1997.

At 31 December 1995 Georgia, Armenia, Turkmenistan and Tajikistan had defaulted on principal and interest totalling ECU 228.33 million (see Part One, Section III - Activation of budget guarantees).

II.C.2 Macrofinancial 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 were to be on-lent on the same terms to Moldova.

The first tranche of ECU 25 million was paid to Moldova in December 1994. The loan is to be repaid in five equal annual instalments from the sixth year onwards. The full loan will have been paid by 7 December 2004. The interest, which is at variable rates, is payable half-yearly.

The second tranche of ECU 20 million for a term of 10 years was paid on 8 August 1995. The loan is to be repaid in five equal annual instalments from the sixth year onwards. The full loan will have been paid by 8 August 2005. The interest, which is at variable rates, is payable half-yearly.

At 31 December 1995 the amount outstanding on borrowings for Moldova came to ECU 45 million.

II.C.3 Macrofinancial assistance for Ukraine

As part of the overall aid programme for Ukraine, the Commission, on behalf of the Community, was empowered by the Council Decision of 22 December 1994 to borrow ECU 85 million for a maximum period of ten years. The proceeds of this operation are to be on-lent to Ukraine in one tranche.

The loan was paid in one tranche on 28 December 1995. The loan is to be repaid in five equal annual instalments from the sixth year onwards. The full loan will have been paid by 28 December 2005. The interest, which is at variable rates, is payable half-yearly.

At 31 December 1995 the amount outstanding on borrowings for Ukraine came to ECU 85 million.

II.C.4 Macrofinancial assistance for Belarus

As part of the overall aid programme for Belarus, the Commission, on behalf of the Community, was empowered by a Council decision of 10 April 1995 to borrow up to ECU 75 million for a maximum period of ten years. The proceeds of this operation were to be on-lent in two tranches.

The first tranche of ECU 30 million was paid on 28 December 1995 and is to be repaid in five equal annual instalments from the sixth year onwards. The full loan will have been paid by 28 December 2005. The interest, which is at variable rates, is payable half-yearly.

At 31 December 1995 the amount outstanding on borrowings for Belarus came to ECU 30 million.

II.D. Borrowings contracted by the Community to grant macrofinancial assistance to the Baltic States

As part of the G-24's overall programme of financial assistance 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 were 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 of ECU 50 million 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.

Half of the second tranche, ie. ECU 25 million of the ECU 50 million planned, was paid to Lithuania on 16 August 1995; it is to be repaid in one instalment on 16 August 2002 and interest, which is at a variable rate, is payable half-yearly every 16 February and 16 August.

At 31 December 1995 the amount outstanding on the borrowings for the Baltic States came to ECU 135 million.

II.E. Borrowings contracted by the Community to grant macrofinancial assistance to the Mediterranean countries

II.E.1. Israel

As part of the financial assistance agreed for Israel and the population of the occupied territories, the Commission was empowered in June 1991 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 31 December 1995 the amount outstanding on the borrowings for Israel came to ECU 160 million.

II.E.2. Algeria

In September 1991 the Commission, on behalf of the Community, was empowered to borrow ECU 400 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 Algeria.

A bridging loan was granted on 23 December 1991 to cover the first tranche of ECU 250 million 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.

Payment of the second tranche of ECU 150 million was deferred because of delays in Algeria's economic reform programme and was not made until August 1994 when the process of structural adjustment resumed. The loan is to be repaid in full on 17 August 2001 and interest is payable annually every 17 August.

In December 1994 the Council decided to grant Algeria further macrofinancial assistance. The Commission, on behalf of the Community, was empowered to borrow ECU 200 million for a maximum period of seven years. The proceeds of this operation are to be on-lent to Algeria in two tranches.

The first tranche of ECU 100 million for a term of seven years was paid on 27 November 1995. It is to be repaid in one instalment on 27 November 2002 and interest, which is at a variable rate, is payable half-yearly.

At 31 December 1995 the amount outstanding on the borrowings for Algeria came to ECU 500 million.

III. COMMUNITY GUARANTEE TO NON-COMMUNITY COUNTRIES

III.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 31 December 1995 total ECU 7 862 million, of which ECU 1 500 million is for Spain, Greece and Portugal and ECU 6 362 million for the non-member Mediterranean countries. At 31 December 1995 the total of outstanding loans came to ECU 2 167 million (taking account of the 75% limit), of which ECU 385 million was accounted for by Spain, Greece and Portugal and ECU 1 782 million by the non-member Mediterranean countries.

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. A 75% overall guarantee is provided.

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At 31 December 1995 ECU 1 239 million had been made available; of this total, ECU 98 million had been paid; this figure corresponds to the amount currently outstanding.

At 31 December 1995, the breakdown of authorizations by country (non-member countries only) was as follows:

	ECU Million Loans authorized
Algeria	640
Cyprus	142
Egypt	802
Israel	215
Jordan	198
Lebanon	222
Malta	85
Morocco	517
Slovenia	150
Syria	323
Tunisia	418
Turkey	90
Yugoslavia[1]	760
Protocols - Total	4 562
Horizontal financial cooperation	1 800
Mediterranean - Total	6 362

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

III.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.

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

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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.

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

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

At 31 December 1995, ECU 3 541 million had been made available in the Central and Eastern European countries but only ECU 952 million had been disbursed.

III.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 Statute and its usual criteria to projects of mutual interest in certain non-member 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 31 December 1995 credit lines of ECU 607 million had been signed but only ECU 149 million had been disbursed.

III.D. Loans granted by the European Investment Bank in South Africa

At its meeting of 1 June 1995 the Council adopted the guidelines proposed by the Commission for the extension of EIB activities to South Africa and asked it to grant loans in accordance with its Statute and its usual criteria to projects of mutual interest in that country.

An overall limit of ECU 300 million has been set for a two-year period which could be extended to two and a half years.

These loans benefit from 100% Community budget guarantees. The Commission presented a proposal for a decision to this effect on 5 December 1994. The formal Council Decision followed on 1 June 1995. The contract of guarantee between the Community and the EIB was signed on 4 October 1995 in Brussels and on 16 October 1995 in Luxembourg.

At 31 December 1995 credit lines of ECU 45 million had been signed but no amounts had been disbursed.

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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.

I.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.

Macrofinancial 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.

I.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, certain non-member countries - developing countries of Asia and Latin America and South Africa).

II. GENERAL ECONOMIC SITUATION OF THE NON-MEMBER COUNTRIES

A. ALGERIA

1. GENERAL ECONOMIC SITUATION

Despite some progress accomplished in the field of stabilization and structural adjustment in both 1994 and 1995, Algeria's general social and economic situation remained difficult. The future pace of economic growth, output recovery, expansion in domestic and foreign investment, structural reforms and the implementation of effective social and labour policies would critically depend upon the on-going democratizatization process, associated with a positive outcome of current civil strife.

In 1994 real GDP increased by a modest 1.1% (which, however, favourably compares with a 2% decline in 1993). According to preliminary estimates, in 1995 real GDP increased by 5.3%.

In 1994/95, Algerian economy witnessed new, relevant inflationary pressures (year-on-year CPI inflation was 34% in April 1995), reflecting the previous implementation of price liberalization policies, associated with subsidy reduction and the dinars' sharp depreciation (40.17%) decided in April 1994. The inflation rate is projected to decline to 10.3% by the end of March 1996.

The overall budget deficit sharply contracted from 8.7% in 1993 to 2.8% in 1995 and it is expected to further decline to 1.3% of GDP in 1996, reflecting higher revenue from indirect taxation and custom duties, the enlargement of the tax base, and further cuts in public wages and salaries, food subsidies, agricultural price support, Treasury's financing of the Industrial Rehabilitation Fund and cash transfer to the poor.

In 1994/1995, the Algerian authorities implemented tight monetary and fiscal policies, in the framework of a policy programme supported by an IMF Stand-by arrangement approved in May 1994, followed by a three-year Extended Financing Facility approved in May 1995. Economic policies also emphasised wage restraint. Market-based instruments for the management of domestic liquidity are being adopted.

These policies were complemented by a large depreciation of the Algerian dinar, the introduction of an exchange rate regime based upon a managed floating mechanism, the strengthening of the external reserve position, price liberalization and subsidy reduction. Imports have been completely liberalized and State import monopolies are being gradually dismantled.

Progress was also made in structural adjustment, in particular, and banking reform. A new Code on Foreign Investment has been approved and a new agency aimed at promoting foreign and domestic private investment has been established.

2. BALANCE OF PAYMENTS

The adoption of import liberalization policies associated with a free access to foreign currency for current account transactions by residents led to a sharp deterioration of

Algeria's current account balance which shifted from a surplus of 1.6% of GDP in 1993 to a deficit of 6.9% in the 1994/1995 programme year. The current account situation is expected to remain precarious with a projected deficit of 5.7% of GDP in 1995/96. While imports have been buoyant, thus contributing to alleviate the scarcity of industrial spare parts, raw materials and basic and intermediate consumption goods, export revenue declined somewhat in both 1994 and during the first quarter of 1995 reflecting the unsatisfactory performance of hydrocarbon exports (both in terms of quantities and prices).The sharp nominal devaluation of the dinar has improved Algerian exports' competitiveness and will encourage export diversification towards new products and new markets.

The overall balance of payments situation in 1995 is estimated to have sharply deteriorated if compared to the previous year, reflecting a growing trade deficit and the" residual" (after Paris and London Club arrangements) servicing of medium-long term external debt .

In this respect, new Paris and London Club reschedulings are envisaged as well as new financing by the IMF, other IFIs, the European Union and other bilaterals (Japan in particular). In 1995, FDI is expected to remain low. By September 1995, the country's foreign currency reserves decreased to US$ 1.9 bn, equivalent to 2 months of imports (against US$ 2.6 bn by end of 1994, or 2,9 months of imports).

3. EXTERNAL DEBT

The amount of external debt (some US$ 33.8 bn as of end of 1995) still represents a heavy burden for Algeria's public finances and balance of payments. Rescheduling arrangements with Paris Club official bilateral creditors were reached in 1994 and 1995. These arrangements are expected to continue in the framework of the IMF three-year policy programme. Algerian authorities reached also an arrangement with commercial creditor banks (London Club) which implies a rescheduling of debt service obligations falling due from March 1, 1994 to December 31, 1997 (US$ 3.2 bn).

The foreign debt/GDP ratio (which was around 78% at end of 1995) is expected to remain relatively stable in the foreseeable future. Debt service/exports ratio (which declined dramatically from 82% in 1993 to around 50% in 1995) is projected to further slim down to about 40% in 1996, reflecting the positive impact of London and Paris Club debt relief arrangements.

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B. BELARUS

1. GENERAL ECONOMIC SITUATION

Owing to conservatism and doubts on the nature of future ties with Russia Belarus went through a period of high uncertainty after it became independent in 1992. The country embarked on reforms after most countries in the region and left the Russian ruble zone only in April 1994. A considerable drop of production (-20%) was recorded in 1994, and in 1995 real GDP is estimated to have declined by 7%. Price increases, owing to central bank unlimited refinancing of the banking system, reached hyper-inflationary levels in 1993 and 1994.

Stringent stabilisation policies were implemented as of early 1995, with a tight control of monetary expansion. As a result, inflation dropped down from 40% per month in January to 3% in August. Market mechanisms for the allocation of central bank credits were introduced. The authorities pursued a flexible interest rates policy aimed at maintaining positive and attractive real interest rates, so as to mobilise ruble deposits within the banking system. The budget deficit, which remained below 2% in 1993 and 1994, is estimated at 3.2% of GDP for 1995.

Progress in the area of structural reforms remains the weak point in Belarus, as the initial steps have been undertaken only recently. Significant price adjustments took place in late 1994 and early 1995 and most prices have now been freed. Most import licences and the surrender requirements on exports have now been abolished. External trade however remains subject to some limitations. The banking sector is burdened with bad loans and remains globally inefficient. Inter-enterprises arrears account for more than 50% of GDP. Privatisation is only at the very initial stage, with enterprises representing only 6% of the total asset value earmarked for privatization having already been privatised. The process of reforms in agriculture has been particularly slow and land privatisation has not yet started.

On 12 September 1995, the IMF board approved the first Stand-By Arrangement with Belarus, to support the country's programme of reforms and external financing needs.

2. BALANCE OF PAYMENTS

The current account was in deficit in 1993 and 1994 (about -10% of GDP). Initial figures for 1995 show a significant growth of exports over the first half of the year. The real appreciation of the ruble, combined with a loss of competitiveness due to the rise in import tariffs, is however expected to hamper export growth over the short term, and a current account deficit of -4% of GDP is still estimated for 1995 and expected in 1996.

Owing to hard currency inflows the capital account was in surplus in the first half of 1995 but, on account of high amortisation needs on the external debt, it is estimated to have again been in deficit in the second half of the year. Hard currency international reserves remain tight, representing only about 1.5 months of imports by end-1995.

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Despite a law on foreign investment enacted in 1992 which ensures the free repatriation of profits, foreign direct investment remains extremely scarce (estimated at only 20 mio dollars in 1995).

The positive real interest rates contributed to stabilise the Belarus ruble in nominal terms and led to a significant appreciation in real terms against the dollar and the Russian ruble in 1995. Under a two digit inflation rate, the present exchange rate would however be difficult to hold without serously damaging the country's competitiveness.

By lifting restrictions on foreign exchange transactions, Belarus progressively moved in 1995 to current account convertibility. By end-1995, however, the authorities gave confusing signals on a reintroduction of limitations on inter-bank hard currency transactions.

3. FOREIGN DEBT

Belarus has abandoned to Russia its relative share of assets and liabilities of the FSU. Thus, the country's only external debts are those contracted after 1 January 1992. The total external debt was estimated at US$ 2.1 bn by end-1995 (i.e. 22% of GDP).

The country's main creditor is Russia, on account of gas arrears which accumulated until end-1994 and which are now subject to a US$ 419 mio ceiling under the current IMF programme, which was however exceeded by end-1995. They are expected to be phased out under a long-term framework currently under discussion between the Russian and Belarus authorities. Debt service increased significantly in 1995 owing to the repayment of German and EC credits, but remained nevertheless moderate (7.6% of exports, without including the settlement of the gas arrears).

C. BULGARIA

1. GENERAL ECONOMIC SITUATION

In 1995, the Bulgarian economy consolidated the recovery which had started in 1994. Real GDP increased by 2.5% and this positive real trend essentially reflected a favourable export performance, despite the steady real appreciation of the lev. In September 1995, the unemployment rate further declined to 11.1% (which favourably compares with a rate of around 13% as of end of 1994).

In 1995, inflation fell to an annual rate of 33%, despite the increase of some administered prices (energy in particular).

Implementing a tight monetary policy in 1995 was made more difficult by large capital inflows which exerted upward pressures on the lev exchange rate. The Bulgarian National Bank (BNB) intervened with a view to preventing a nominal currency appreciation. Official interest rates were cut in order to contain interest-sensitive (short -term) capital inflows. However, despite efforts to keep monetary aggregates under control, the 1995 monetary targets were exceeded. The BNB's room for manoeuvre was also limited by the still huge liquidity requirements of the State budget, ailing banks and loss-making, state-owned enterprises.

A moderately restrictive incomes policy helped the government in its effort to subdue inflation. As regards fiscal policy, in May 1995, the government adopted a new budget law which implied a budget deficit of 5.5% of GDP for 1995. However, preliminary indications suggest that the deficit reached 6.7% of GDP last year, a level virtually unchanged from 1994 (6.6%).

As for sectoral adjustment and reform, achievements in 1995 were mixed. On the negative side, some restrictions on agricultural land sales to private owners and new price controls have been introduced. On the other hand, some administered prices have been increased, action has been taken to reform two ailing banks and a list of more than 1200 state owned enterprises (SOEs) has been prepared in view of their subsequent mass privatization (via issuing vouchers) due to start in March 1996. Some further 200 medium-large SOEs have been selected for privatization (via direct sales) in 1996.

Current policies aimed at coping with financial problems of the banking system do not seem to have produced tangible results yet.

As regards official forecasts for 1996, real GDP is projected to expand by 3%, inflation to decline to 20-25%, the budget deficit is envisaged to contract somewhat to around 5-5.5% and the country's external position (trade and current account, foreign exchange reserves etc.) is expected to improve. However both the inflation target and the projected trade and current account improvements appear to be rather uncertain and probably are unrealistic.

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2. BALANCE OF PAYMENTS

By September 1995, Bulgaria's trade balance recorded a surplus of US$ 300 mio. The country continued to benefit from increased access to EU market, the economic recovery in Western Europe, the resumption of trade with eastern European partners and the positive effects of the real exchange rate adjustments occurred in 1994.

By the same date, current account recorded a small surplus of around SU$ 100 mio. In 1995, FDI gave some signs of expansion (US$ 165 mio against 105 mio in 1994).

By end-October 1995 gross official reserves amounted to US$ 1.8 bn, equivalent to around 3.6 months of imports (which compares to 3 months of imports as of end of 1994).

3. FOREIGN DEBT

The agreement in principle reached in November 1993 with the London Club commercial creditors on a debt and debt service reduction programme (DDSR) was finalized in July 1994. Overall, it is estimated that the agreement reduced Bulgaria's US$ 8.2 bn eligible debt to western commercial banks by around 46%. In April 1994, a third Paris Club debt rescheduling arrangement was reached between Bulgaria and its official creditors, covering all obligations falling due from the previous rescheduling until April 30, 1995.

By restoring Bulgaria's external viability, these debt agreements should help the country attract further FDI and regain access to the international financial markets. At end-1995 the external debt/GDP ratio was 83.0% (against 109.3% in 1994) and the debt service ratio was reduced to 17.5% (18.4% in 1994).

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CENTRAL ASIAN NEWLY INDEPENDENT STATES (NIS)

1. GENERAL ECONOMIC SITUATION

In 1995, Kazakhstan's GDP is estimated to have declined by more than 10 %, but the recovery in industrial production has continued and exports have rebounded. In early October, the budget was nearly balanced. Monetary and credit policies have been geared towards the fight against inflation. As a result, monthly inflation fell to around 2.4 % in September and all IMF program targets under the current Stand-By arrangement were met with large margins. Important progress have been made in the structural transformation of the economy, in particular in liberalizing external trade.

In 1994, Tajikistan's GDP contracted by 12 % and it is tentatively estimated to have declined again in 1995, though at a lower rate than in 1994. The budget deficit (13.8 % of GDP in 1994) should be lower in 1995-96. In 1995, the positive effects of the tight budgetary control were jeopardized by the excessive banking credit, which led to a very sharp acceleration of monthly inflation (70 % in August) and to a continued depreciation of the Tajik ruble. In 1995, simultaneously with the introduction of the Tajik ruble, interest rates were deregulated, restrictions on bank deposits eliminated, bread prices adjusted and foreign trade liberalized.

During 1994, Turkmenistan, which was forced to curtail its gas exports to neighbouring countries because of recurrent non-payments, suffered a 15% contraction in GDP. In 1995, non-payment of gas exports reached critical levels, industrial output fell by 20% (year-on-year) and cotton and grain harvests failed to meet their targets. In 1994, Turkmenistan had an inflation rate of over 2,000%, reflecting a strong expansion of money and credit. Inflation is estimated to have accelerated to around 2.500% in 1995. In 1995, the authorities made strenuous efforts to keep the budget deficit from rising but not enough to alleviate the inflation problems. With regard to the reform process, progress has been very slow.

Uzbekistan's real GDP is estimated to have declined by about 2 % in 1995 and is expected to decline again moderately in 1996. In 1995, the authorities tightened significantly financial policies, and as a result, year-on-year inflation declined from 1.280 % in 1994 to about 250 % in September 1995, and seems to have declined further in the final months of the year. In the first half of 1995, the budget deficit was very low (1 % of GDP), but rose to about 4 % of GDP in late 1995 because of significant increases in public wages and social benefits. This, however, still represents an important improvement with respect to the 1994 deficit (7 % of GDP). The 1996 budget deficit is likely to be limited (4 % of GDP). Despite a large increase in net foreign assets, reserve money and broad money were approximately in line with the programmed levels, reflecting tight domestic credit policies. In the area of structural reform, a fast liberalization of prices and a major liberalization of the foreign exchange system were implemented, while delays were experienced in banking sector reform and in the privatization of medium-and large-scale enterprises.

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2. THE BALANCE OF PAYMENTS

The current account of Kazakhstan is estimated to have recorded a deficit of about US$ 600 mio (3 % of GDP) in 1995. Reflecting a large capital account surplus, gross official reserves increased from US$ 1.2 bn at end-1994 to about 1.7 bn in September 1995. Net official reserves represented 2.7 months of imports in September 1995. Despite a nominal depreciation of 16 % in 1995, the real exchange rate of the tenge vis-à-vis the dollar appreciated by some 20 %, reflecting the higher rate of inflation. Kazakhstan is benefiting from a World Bank Structural Adjustment Loan and from an IMF Stand-By arrangement. A recent comprehensive medium-term economic and financial program could be supported in early 1996 by an arrangement under the IMF's Extended Facility.

Despite an improvement in the terms of trade and a sharp decline in import volume, the current account deficit of Tajikistan remained very high in 1994 (15 % of GDP). Together with a slight deficit of the capital account, this left an overall balance of payments deficit of 16% of GDP and gross official reserves were practically depleted. In 1995, the current account experienced an impressive correction, reflecting the improvement in the terms of trade and a sharp contraction in import volumes. Nevertheless, the external financing needs remain very high since. The current account deficit is expected to reach 9 % of GDP in 1996 because of a deteriorated trade balance and large interest payments falling due. The resulting financing gap is expected to be partly covered by a substantial debt service relief and by IMF and World Bank disbursements. In early 1996, the IMF board could approve a first credit tranche under a new Stand-By arrangement which would require complementary financing from the official donors.

In recent years, the inadequate financial policies and the nonpayment for gas deliveries put strong pressure on Turkmenistan's current account. As a result, the Turkmen authorities restricted severely the access to foreign exchange to compress imports. In spite of these measures, the current account on a cash basis weakened further from a deficit of 8 % of GDP in 1993 to a deficit of 14 % of GDP in 1994. In 1995, gas exports have shown an extremely weak performance. Nevertheless, gross official reserves have continued to grow and stand at a very high level (1.2 bn of US$ or 10 months of imports at end-1995). The manat has dropped by 2,500 % in nominal terms in the two years since its introduction in November 1993. The official exchange rate has been kept significantly overvalued with respect to the parallel market rate in order to keep import costs low. There is not an IMF agreement in place but on-going discussions between the authorities and the IMF could lead to an IMF-supported stabilization programme.

In 1995, Uzbekistan's trade balance is estimated to have been balanced and the current account deficit was low (about 2.5 % of GDP). New loan agreements, foreign direct investments and significant unexpected inflows allowed a substantial increase in gross official reserves (of about US$ 500 mio) to US$ 1.8 bn (6 months of imports). In 1996, the current account could deteriorate owing to growing infrastructure investments. The resulting financing gap would be largely filled by purchases from the

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IMF and from the World Bank. In 1995, the exchange rate for the sum depreciated significantly in nominal terms, but appreciated in real terms against the US dollar.

3. FOREIGN DEBT

At end-September 1995, Kazakhstan's stock of external debt was estimated at US$ 3.3 bn (around 19 % of GDP), of which US$ 1.4 bn was owed to Russia, and the external debt service ratio was estimated to represent about 10 % of exports. In 1995, difficulties continued to be experienced with respect to the timely servicing of this debt. However, a recent redefinition of responsibilities among the institutions in charge of debt management should prevent this from recurring. The total amount of arrears has been reduced to US$ 6 mio at end-October 1995.

At end 1995, the external debt of Tajikistan (US$ 800 mio) exceeded the country's GDP, most of it contracted on non-concessional terms with relatively short maturities. Most of it was due to FSU countries. The external payments situation is likely to be very difficult in 1996, when large principal repayments fall due and when grace periods expire on deferred payments.

In 1994, Turkmenistan's total external debt rose sharply to 18 % of GDP, mainly reflecting loans aiming at financing the current account deficit, and debt service represented 23 % of exports. The short-term maturity of most loans is a source of particular concern.

In 1995, Uzbekistan's external debt stock represented slightly more than 15 % of GDP (about US$ 1.3 bn) and debt service slightly more than 15 % of exports. Under the current IMF programmes (SBA and STF), the authorities have committed themselves to observe cumulative quarterly ceilings on the amount of new loans contracted or guaranteed.

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D. THE CZECH REPUBLIC

1. GENERAL ECONOMIC SITUATION

The recovery of the Czech economy that started in 1994 strengthened markedly in 1995, with year-on-year real GDP growth accelerating to 5.2%. This stronger growth is being led by domestic demand, and in particular by investment. Industrial output posted a 12.9% year-on-year increase in November 1995. The unemployment rate, at 2.9% in December 1995, remains very low. Real GDP growth is projected to reach 5-6% in 1996.

Despite the strength of the recovery, CPI inflation declined from 10.2% at end-1994 to 7.9% in November 1995. The Czech National Bank (CNB), however, expects the year's average inflation rate to be about 9.5%, which means that the official target of bringing average inflation below 9% in 1995 is unlikely to be attained. Furthermore, the boom in domestic demand, the destabilising effects of the capital inflow surge on the money supply and the tightness of the labour market (which has contributed to an acceleration of real wage growth to around 7.5% in 1995) will make it difficult for the authorities to meet that target in the coming two years.

Money supply grew by 20.2% in 1995, compared to an original official target of 14-17%. This rapid growth of liquidity reflects the impact of the strong foreign capital inflows, which the CNB has only been able to sterilize partially through open market operations, the increase in the banks' minimum reserve requirements and the transfer of deposits of the National Property Fund from commercial banks to the central bank. Regarding fiscal policy, preliminary figures show that the state budget ended 1995 with a surplus of Kc 8.6 bn (about US$ 331 mn). In December 1995, the Parliament approved a balanced budget for 1996.

As far as structural reform is concerned, the second wave of large-scale voucher privatization was concluded in November 1994. The privatization of the remaining enterprises controlled by the state has gathered momentum in 1995 with the sale of a 27% stake in the country's telephone monopoly SPT, worth US$ 1.32 bn, to a Dutch-Swiss telecommunications consortium, the decision to sell a 49% stake in Czech Refineries, and the announcement by the government of a plan to privatize additional stakes in 53 big state enterprises.

2. THE BALANCE OF PAYMENTS

The current account surplus (2.2% of GDP in 1993) disappeared in 1994 and is expected to turn into a 3.5% of GDP (about US$ 1.5 bn) deficit in 1995. This deterioration in the current account reflects the acceleration of domestic demand, the real appreciation of the Czech crown and trade restrictions introduced by Slovakia. Between January and September 1995, the trade and current account balances reached deficits of, respectively, US$ 2.7 bn and US$ 1 bn.

The current account deficit, however, is being amply financed by a huge inflow of foreign capital. The capital account showed a US$ 6 bn surplus in January-September 1995. This figure includes almost US$ 2 bn in net FDI, US$ 0.7 bn in portfolio investment, US$ 2.1 bn in other long-term capital and US$ 1.2 bn in short-term capital. The record amount of FDI largely reflects the SPT operation. The high inflow of short-term capital, for its part, mostly reflects arbitrage operations to take advantage of the combination of a relatively high differential between domestic and foreign interest rates and the strength of the Czech crown.

The Czech Republic's access to the international capital markets has been reinforced by successive upgradings of its ratings. In August 1995, the London agency IBCA assigned to the Czech Republic an A$^-$ rating; in September 1995, Moody's upgraded the country's rating from Baa2 to Baa1; and, in November 1995, Standard & Poor's upgraded its rating from BBB$^+$ to A. The Czech Republic has, therefore, become one of the few non-developed countries that can boast a "A" level rating. The official integration of the Czech Republic into the OECD as of 21 December 1995 should contribute to a further improvement of the foreign perception of the country.

The surge in capital inflows 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$ 12.9 bn (or about 8 months of imports) in November 1995, up from US$ 6.2 bn at end-1994. In order to offset or restrict part of the capital inflows, the authorities have repaid ahead of schedule all the remaining IMF debts (worth US$ 1.1 bn) and imposed in late June 1995 limits on the total amount of short-term foreign credits Czech banks may take. Also, a new Foreign Exchange Law entered into force on 1 October 1995 making the Czech crown fully convertible for current account transactions (including the immediate termination of the Czech-Slovak clearing system) and providing for a gradual introduction of full capital account convertibility. Finally, the CNB is considering possible options to increase the flexibility of their exchange rate policy, including the widening of the fluctuation band around the D-mark/US$ peg and the revaluation of the central rate. No decision regarding exchange rate policy however is expected to be taken before the June 1996 general elections.

3. FOREIGN DEBT

Mostly reflecting strong foreign borrowing by Czech enterprises and banks, foreign debt has risen substantially since 1993, with the pace of increase accelerating in 1995. Nonetheless, 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$ 15 bn in June 1995, but this still implied a relatively moderate debt/GDP ratio of 31%. The debt service-over-exports ratio, at below 15%, remains low. While projections for 1995 and 1996 point towards a continued increase in the debt and debt service indicators, these ratios are expected to remain at reasonable levels.

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E. ESTONIA

1. GENERAL ECONOMIC SITUATION

After a sharp decline in 1992 and early 1993, the Estonian economy emerged from recession by the end of 1993. GDP grew by 4% in 1994 and probably at a similar rate in 1995. Unemployment, at about 5.4% of the labour force, remains moderate.

Macro-economic stabilisation was to a large extent achieved after the introduction in June 1992 of a currency board arrangement under which the growth of the monetary base is limited by the amount of hard currencies and gold detained by the central bank. A new currency, the Estonian kroon, was introduced at the same time. This proved successful in stabilising the economy: inflation continued to decline in 1995, reaching 29% at year-end compared to 47% at end-1994. Under the currency board arrangement, central bank lending to the state is prohibited, which contributes to budgetary discipline. In 1995 the financial balance was in surplus (0.8% of GDP). Increased government deposits in the banking sector resulted in a slightly lower fiscal balance surplus (0.3% of GDP). The 1996 budget envisages an almost balanced budget.

Estonia has already implemented the bulk of structural reforms leading to a market economy. Prices and foreign trade have been liberalised. The small scale privatisation covering some 1000 small enterprises is now virtually completed. Out of the 500 medium and large scale enterprises, about 100 remain in the state's hands. Land privatisation, which was slow to initiate, is being accelerated. Financial sector reform appears as the most sensitive area. The Bank of Estonia has increased its supervision capacities and reduced its share of assets in the Savings Bank to 25% of the capital. The state also reduced below 10% its minority shareholding in commercial banks. Capital adequacy requirements are being gradually increased.

Estonia maintains liberal foreign investment laws. The Free Trade Agreement with the European Union entered into force on 1 January 1995.

2. THE BALANCE OF PAYMENTS

External trade continued to grow at a high pace, particularly imports (including a large share of investment-related goods) which increased in 1995 by 33% over 1994. Estonia's external trade with the European Union increased markedly after independence. However, it is characterised by a large deficit on the Estonian side. In 1994, the bilateral trade deficit amounted to US$ 1.3 bn, and increased even faster in 1995, when it amounted to US$ 1.2 bn over the first seven months[1]. The overall trade deficit considerably increased to an estimated US$ 620 mio, or 17% of GDP in 1995. The current account also deteriorated sharply, reaching a deficit of about 10% of GDP (excluding official transfers).

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[1] Data between 1994 and 1995 are not strictly comparable. 1995 trade with the EU includes Sweden and Finland, two very significant commercial partners of Estonia.

Under the currency board arrangement, the Estonian kroon is pegged to the DM at a fixed 8 to 1 rate. This has led, given the remaining two digit inflation, to a relative loss of external competitiveness which will have to be assessed against future developments in the external trade.

In March 1995, the IMF approved a new fifteen-month Stand-By arrangement in the amount of SDR 14 mio (US$ 21 mio), but the authorities do not intend to make purchases under it unless the balance of payments weakens unexpectedly. For the third consecutive year, the capital account was in surplus, mainly owing to high inflows of foreign direct investment of about US$ 200 mio (approximately 5.9% of GDP). Official foreign exchange reserves continued to grow and, at US dollars 580 mio at end-1995, covered approximately 3 months of imports.

3. FOREIGN DEBT

Estonia has no legacy of foreign debts from the FSU. In 1995, the stock of external debts increased from US$ 271 mio to an estimated US$ 353 mio level (or 9.9% of GDP). Debt service remained low with a ratio to exports of goods and non-factor services of about 1%.

A substantial part of Estonia's foreign debt is owed to international financial institutions. The IMF has awarded Estonia a US$ 35 mio STF and disbursed US$ 59 mio under the successive Stand-By programmes since 1992.

F. HUNGARY

1. GENERAL ECONOMIC SITUATION

Despite the stabilization measures adopted by the Hungarian government in March 1995, real GDP is estimated to have expanded by about 2% in 1995, only slightly below the 2.9% rate recorded in 1994. Although economic growth decelerated in the second half of 1995, GDP is projected to remain within the 2-3% range in 1996. After reaching a peak of 11.8% in early 1993, the unemployment rate has declined to 10.4% at end-1995.

Largely reflecting the faster devaluation of the forint, the introduction of an 8% import surcharge and the increase in indirect taxes as part of the government's March 1995 "austerity package", inflation worsened significantly in 1995. CPI inflation has risen from 21.2% in December 1994 to 28.5% in December 1995. Wages, however, grew at a relatively moderate pace (19%) in 1995 and, as a result, real wages fell by about 10%. For 1996, the authorities aim at bringing inflation back to around 20%, an ambitious target.

Thanks to higher than expected income from privatization (see below) and from corporate and custom taxes, the central government deficit finished the year significantly below the targets contained in the March 1995 supplementary budget. However, the fiscal performance of social security funds seems to have been worse than programmed and the general government deficit excluding privatization revenues remains high (6% of GDP).

Disagreements within the government coalition that took office in July 1994 initially resulted in a deadlock in the privatization process. Privatization, however, accelerated in the second half of 1995, and particularly at the end of the year. The sale of important parts of the electricity, gas supply, banking and telecommunication and chemical sectors, mostly involving foreign investors, has resulted in privatization revenues of about US$ 3.3 bn, largely exceeding the initial government target.

2. THE BALANCE OF PAYMENTS

After reaching US$ 3.9 bn (9.5% of GDP) in 1994 and further widening in early 1995, the current account deficit responded favourably to the March 1995 package. The current account is estimated to have finished 1995 with a deficit of about US$ 2.3-2.5 bn (about 6% of GDP) and to have been in balance in the final months of the year.

The capital account also strengthened markedly in 1995. The National Bank of Hungary (NBH) continued to place a substantial amount of international bonds in the first half of 1995 (US$ 1.8 bn), resident enterprises and banks borrowed abroad heavily, and FDI is estimated to have increased from US$ 1.2 bn in 1994 to a record of more than US$ 3 bn in 1995. In the fourth quarter of 1995, a significant part of the capital inflows has consisted of short-term arbitrage operations through which investors seek to take advantage of the combination of a high differential between domestic and foreign interest rates and a relatively moderate rate of pre-announced monthly devaluation of the forint within the crawling-peg system.

The surge in capital inflows has not only allowed Hungary to finance its still high current account deficit but has also resulted in a sharp increase in foreign exchange reserves. Official reserves have risen from US$ 6.8 bn at end-1993 to almost US$ 12 bn at end-1995, representing about 12 months of imports.

After more than a year of difficult discussions, the Hungarian authorities reached in December 1995 a preliminary agreement with the IMF on the terms of a 18-month Stand-By arrangement. This arrangement, however, will be of a "precautionary nature", that is, the authorities do not intend to make in principle any purchases under it. In fact, Hungary decided in November 1995 to repay ahead of schedule about US$ 600 mio of IMF debt maturing before end-1998.

As a result of the new foreign exchange law and accompanying regulations that came into effect on 1 January 1996, the Hungarian currency has become fully convertible for current account transactions. In March 1995, the forint was devalued by 8.3% and a crawling peg system was introduced whereby the currency is devalued each month at a pre-announced rate. The monthly rate of devaluation was reduced from 1.9% to 1.3% in the second half of 1995 and again to 1.2% in January 1996. The exchange rate of the forint is defined against a basket of currencies comprising the ECU (70%) and the US dollar (30%).

3. FOREIGN DEBT

With the current account deficit considerably exceeding the net inflow of FDI, both gross and net foreign debt rose rapidly between end-1992 and the third quarter of 1995, and from already high levels. Gross convertible foreign debt increased from US$ 21.5 at end-1992 to US$ 31.7 bn (74.1% of GDP) in November 1995. Net foreign debt, for its part, increased from US$ 13.1 bn to US$ 20.4 bn over the same period. Debt service (including early repayments) has also risen since 1992 and is estimated to have represented about 50% of annual exports in 1995.

On the positive side, the maturity structure of the debt has substantially improved since 1992 and is at present very favourable (medium- and long-term debt accounts for about 90% of total debt). Also, the reduction in the current account deficit and the sharp increase in privatization-related FDI should have resulted in a substantial decline in net foreign debt in the second half of 1995. The NBH has announced that it will use its high reserves to repay some US$ 3 bn in foreign debts (including US$ 1 bn of early repayments) in the first four months of 1996, which should ensure a decline in total gross debt during that period.

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G. ISRAEL

1. GENERAL ECONOMIC SITUATION

According to the first estimates, Israel's economy grew by 6.9 % in 1995, the highest growth rate in 23 years. The acceleration in growth has been fuelled by investment. The peace process also enhanced economic growth, triggering a partial lifting of the Arab boycott against conducting business with Israel. Unemployment fell to an estimated 6.3 % from 7.8 % in 1994. Nevertheless, Israel's economy faces some serious problems, especially on the trade front.

The inflation in 1995 is expected to have reached about 8.0 %, the lowest level in a generation and at the bottom end of the government's initial 8-11 % target. However, the Bank of Israel considers that economic conditions still require a very prudent monetary policy because of strong domestic demand, declining unemployment and the large current account deficit.

Business complained the strong shekel has hurt the exports and widened the current account deficit. However, in the last weeks of the year, the shekel started weakening after talks on budget cuts, likely to be announced in January, which would prompt the central bank to ease up on interest rates.

The government budget deficit increased from 2 % of GDP in 1994 to 3.5 % in 1995, reflecting lower than expected state revenues mainly as a consequence of tax reform and greater than anticipated transfers to the Palestinian Authority. Revenue from privatisation totalled US$ 600 mio in 1995 against a target of US$ 1.5 bn. There is a plan for tradable vouchers to be used to subsidise privatisation investments and increase public support for the privatisation process. This scheme would aim at achieving an equitable distribution of the benefits across the general population, which should contribute to overcome the interference of influential lobbies and the reluctance of some political groups. Moreover, it should contribute to the development of the Israeli capital market.

2. THE BALANCE OF PAYMENTS

The estimated deficit in the balance of goods and services, excluding defence imports, jumped to US$ 10.2 bn in 1995 from US$ 7.9 bn in 1994. The current account deficit also worsened sharply. While Israel is still expecting US$ 1 bn in US civilian aid, delayed by the budget crisis in Washington, the Central Bureau of Statistics estimated that without this aid, the current account deficit would total US$ 5.2 bn, or about 6 % of GDP. This represent a sharp rise from US$ 2.5 bn (3 % of GDP) in 1994.

Foreign investment in Israel soared to US$ 1.5 bn in the first nine months of 1995, almost double the figure for the whole year 1994. Foreign direct investment totalled US$ 826 mio, financial investment by foreigners US$ 358 mio and foreigners investment in Israeli shares traded abroad US$ 329 mio, compared respectively with US$ 241, 146, and 242 mio in the same period in 1994.

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Official foreign exchange reserves increased substantially over the last year and reached a satisfying level of US$ 8.2 bn (equivalent to 2.6 months of imports) at the end of 1995.

The Bank of Israel maintains a "crawling peg" exchange rate regime, with an annual rate of crawl (currently set at 6%) and a fluctuation band of 7 percentage points on either side of the central rate.

3. FOREIGN DEBT

Israel's net foreign debt grew to US$ 18.5 bn at end-1995 from US$ 16.5 bn at end-1994. However, as a percentage of GDP, net external liabilities continued to decline, reaching 22 % in 1995 compared to 28.6 % at the beginning of the decade.

In November 1995, the US Administration approved Israel's request to use the whole 1996 financial guarantees, totalling US$ 2 bn, to fund the national budget deficit. Previously, a clause had restricted budget financing to US$ 900 mio, the remaining being used for infrastructure projects, such as water, roads, schools and hospitals.

In November 1995, Moody's awarded the country's debt an A3 rating and in December, Standard and Poor's upgraded Israel's debt to A- from BBB+. Both Moody's and S&P said that these improved ratings reflect an increased political domestic consensus behind fiscal restraint solid enough to ensure that the government debt's burden, estimated at 114 % GDP this year, will continue to trend downwards. Israel's increasingly secure geopolitical position, improving long-term growth prospects, and high per capita GDP (estimated at US$ 15,000 this year, a level similar to that of a number of European countries) also support the upgrade.

In December 1995, Israel issued for the first time international debt without a US government guarantee. The deal, which was finally oversubscribed 3.5 times, is widely seen as indicative of Israel's determination to establish a sovereign presence in the international capital markets ahead of the ending of the US-sponsored guarantee programme in 1998. Other issues without the use of US loan guarantees are planned for the first half of 1996.

H. LATVIA

1. GENERAL ECONOMIC SITUATION

After a sharp output drop in 1992 and 1993, Latvia's overall economic situation had strengthened in 1994 with a 2% growth of GDP. In April 1995, the IMF confirmed its support for the authorities' policies by approving a second Stand-By arrangement for a 13-month period.

In 1995, the budget deficit had initially been programmed to remain at 2% of GDP as in 1994, to be financed mainly by issuing treasury bills. However, Latvia's budget situation deteriorated in early 1995 and the budget deficit rose to 92 mio lats (US$ 184 mio) in 1995, or 4% of GDP. Additionally, a major crisis in the banking sector blew up in April 1995, with the main Latvian commercial bank, Banka Baltija (which alone accounted for 20% of the country's deposits), being declared insolvent. By mid-1995, eight other banks had been declared insolvent.

As a result of the financial crisis, broad money dropped by 10% over the second quarter, which is expected to have had a contractionary effect on the economy (there is a lack of comprehensive figures to assess the real impact of the crisis). However, the high percentage of savings held in cash in foreign currencies dampened its contractionary effect. Unemployment remained stable, standing at about 6.3% by end-1995. The present estimate is that Latvia went through a zero growth over 1995. The Bank of Latvia maintained its conservative monetary policy stance, and inflation thus continued to slow down, falling from 26% in 1994 to about 23% in 1995.

The authorities have adopted a package of measures to address immediate and long term needs of the financial sector, by enhancing prudential regulations and setting up a deposit insurance scheme. Other structural reforms continued in 1995. The Privatisation Agency is now fully operational and 230 additional firms were privatised in 1995. The sale of shares of the Universal Bank, one of the three main public banks, started in the third quarter of the year.

The Free Trade Agreement signed with the European Union came into force on 1 January 1995.

2. THE BALANCE OF PAYMENTS

Imports and exports increased by about 200 mios dollars in 1995, while the shift in the country's trade to the West continued. After a sharp deterioration in 1994, the current account stabilized at about 4% of GDP. This deficit reflects a trade balance deficit of about 8% of GDP partly offset by a surplus in services, mainly in the transport sector.

The authorities have successfully pursued a policy of stable exchange rate with an informal peg to the SDR. Despite speculative attacks, which led to a loss of foreign exchange in the amount of 90 mio US dollars in Spring, the exchange rate of the lats remained in 1995 broadly at its previous level with a two-digit inflation rate. This translated into a real appreciation in the exchange rate. The overall competitiveness of the economy however seems to remain at an acceptable level.

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In order to cover its current account deficit, Latvia is dependent upon private capital inflows, which remained substantial in 1995 in spite of the financial crisis. Thus, the damage of the crisis could be limited and Latvia's reserves position remained relatively strong, with approximately US$ 600 mio net reserves at year-end, which covers almost 5 months of imports.

3. FOREIGN DEBT

Latvia has no legacy of foreign debts from the FSU, and the country's external debt is thus recent. In 1994, the external debt stock increased from US$ 360 mio to about US$ 540 mio, or 12% of GDP. The debt service ratio (debt service on exports), with a 2.6% level, remains very low.

About half of Latvia's foreign debt is owed to the international financial institutions. Latvia owes the IMF 163 mio dollars (95 mio under the 1992 and 1993 Stand-By arrangements, and 68 mio under the 1993-1994 Systemic Transformation Facility). In August 1995, the authorities borrowed the equivalent of US$ 45 mio on the Japanese market, to finance the increasing needs of the budget.

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I. LITHUANIA

1. GENERAL ECONOMIC SITUATION

After four years of recession, Lithuania's economy began to show signs of recovery in 1994, with a 2 % GDP increase. Growth for 1995, despite a drop in GDP in the first quarter of the year, is estimated at roughly 3%. Unemployment, however, is reported to have significantly risen in 1995. It reached about 7% of the labour force at the end of the year, against 4% at end-1994.

Inflation, which had peaked in 1992 at hyper-inflationary levels, slowed down in 1993 and early 1994. On April 1, 1994, a currency board arrangement was introduced under which the growth of the monetary base is kept in line with the increase in the market value of gold and hard currencies detained by the Bank of Lithuania. The reduction in inflation after the introduction of the currency board has been striking: price increases fell substantially in 1994, finishing the year at a rate of 45%. Inflationary pressures however remained in 1995, fuelled by the low foreign exchange rate of the litas, increases of public prices and capital inflows. As a result inflation, with an estimated 35% (year-end), was in 1995 above the authorities' initial 25% target. The fiscal deficit target for 1995 (3.4% of GDP) was broadly met.

Structural reforms have been further implemented. The only items with prices remaining under government control relate to cases of monopolistic situations. Housing and small-scale privatisation are now virtually completed but, owing to delays in the establishment of the Privatisation Agency, large scale privatisation will only effectively start in 1996. The financial sector reform is the most sensitive area. After the enactment of the Central Bank and Commercial Bank laws in early 1995 and the subsequent tightening of prudential regulations, the banking sector went through drastic adjustments in 1995 when 14 small banks out of 28 (however representing only 1.6% of the total banking sector assets) were declared insolvent and will probably in most cases be liquidated. In December two private banks, Litimpeks and Innovative Bank, were also declared insolvent. The authorities are now preparing, with IMF and World Bank support, a new set of measures to consolidate the sector.

On 1 January 1995, the Free Trade Agreement with the European Union entered into force. Lithuania maintains liberal foreign trade and investment laws.

2. THE BALANCE OF PAYMENTS

The share of the west in the country's external trade continues to increase. About 50% of Lithuania's exports were directed to western markets in 1994. In the first half of 1995 exports are reported to have increased by 19.7%, against a stable level of imports. This contributed to stabilise the current account deficit near the level of 1994 (US$ 278 mio, or about 4% of GDP, excluding official transfers).

Under the currency board arrangement the litas is pegged to the US dollar at a rate of 4 to 1. Growing confidence in the currency board, fuelled by the low exchange rate of the litas, translated into growing private capital inflows until end-November. Additionally, significant medium- and long-term borrowings allowed in 1995 for a

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significant capital account surplus, in the amount of about US$ 300 mio. In December however, the declared insolvency of two banks (Litimpeks and Innovative Banks) lead to significant foreign exchange reserves losses, in the amount of US$ 45 mio. At year-end, official reserves were estimated at about US$ 800 mio, or 3.5 months of imports.

In October 1994, the IMF approved an SDR 134.55 mio three-year Extended Facility, of which SDR 51.75 mio (US$ 75 mio) have already been purchased. This should contribute to consolidate the reserves and help finance key energy and investment related imports.

3. FOREIGN DEBT

Lithuania has no legacy from sovereign debts from the FSU. In 1995, the stock of external debts increased by more than 300 mio US$, reaching a level of US$ 860 mio. Despite this sharp increase, this level of debt remains moderate relatively to GDP (14%). The country's debt service over exports ratio also remains low (about 2%). In December 1995, Lithuania borrowed on the private capital market for the first time, in the amount of US$ 60 mio.

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J. MOLDOVA

1. GENERAL ECONOMIC SITUATION

After a 31% decline in 1994, due to severe weather conditions and to the continuing disruptions to output and trade associated with the collapse of central planning, Moldova's GDP is estimated to have grown slightly - around 1% - in 1995. This improvement is partly due to a recovery in the important agricultural sector with the return of normal climatic conditions, but also to a reduction in the rate of decline of industrial production, estimated to have dropped by "only" 10%. The official unemployment rate remains rather low (2%) by end-1995, but a lot of workers are on unpaid leave and the actual unemployment figure may exceed 10%.

After six months of low inflation - with monthly rates below 0.75%, compared to annual inflation of about 800% in 1993 and 120% in 1994 -, inflationary pressures re-emerged in the autumn 1995, owing to strong capital inflows. With an average monthly rate of 3.5% between September and December, inflation reached 24% for the whole year. In the fourth quarter, the central bank tightened the monetary policy, which was reflected in upward pressure on interest rates.

The fiscal deficit is expected to have declined from 8% in 1994 to an estimated 4% in 1995, not far from the 3.5% official target. Only a severe control of expenditures made this reduction possible. Revenue collection remained indeed insufficient and privatisation receipts were far below expectations, because of a lack of domestic capital.

Concerning structural reforms, important measures were initiated in 1995. The privatisation process slowed in early 1995, but gathered momentum after the adoption by Parliament, in March, of the new 1995/96 Privatisation Programme. The government estimates the private sector's share of the economy to have risen to about 2/3 by November 1995 (end of the voucher programme). Important progress was recorded in enterprise restructuring with the liquidation of a series of state enterprises in difficulty and the revision of the bankruptcy legislation.

2. THE BALANCE OF PAYMENTS

The balance of payments remained under severe pressure in the first half of 1995, primarily because of the continued impact of the terms-of-trade shock caused by the increase in imported energy prices to world market levels. In the second half of the year, however, a better-than-expected export performance coupled with an important reduction in imports, principally energy, led to a quasi-equilibrium in the trade balance. Consequently, the current account deficit is projected to have sharply declined from a revised 13% of GDP in 1994 to 3.5% in 1995.

Medium- and long-term loans still represented the main part of capital inflows in 1995. Direct investment remained low. Gross reserves of the central bank had reached some US$ 265 mio by end-1995, or the equivalent of 4.8 months of imports, compared to 3 months at end-1994 and 1.4 months at end-93.

3. FOREIGN DEBT

Moldova agreed to the zero option with the Russian Federation and so has no responsibility for the external debt of the FSU. Foreign debt of the country is estimated to have reached some US$ 650 mio by end 1995 (or around 42 % of GDP), and is owed mainly to Russia, the IMF and the World Bank. Debt service as a percentage of exports is projected to have increased from 2% in 1994 to some 13 % in 1995.

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K. ROMANIA

1. GENERAL ECONOMIC SITUATION

The marked improvement in Romania's economic growth and performance that had started in 1994 continued well into 1995, driven mainly by exports, the resumption in domestic consumption and investment. Real GDP growth accelerated to some 5% (as compared to 3.9% in 1994), owing to a better performance of the agricultural sector and an impressive recovery in industrial output (+ 14% during the first eleven months of 1995).

Also investment recovered fast, expanding during the first nine months of 1995 by 6.3% over the same period of the previous year. Particularly encouraging appears the increase in the private investment (+ 9.3% during the same period). Inflation slowed down from an annual rate of 62% in 1994 to 24.3% by October 1995. In 1995 the budget deficit was 2.8% of GDP. The unemployment rate progressively slowed down from around 11% at end of 1994 to around 9% in October 1995.

The tight monetary, fiscal and income policies implemented in 1994 were somewhat relaxed during the second and third quarter of 1995, reflecting positive achievements with regard to inflation and probably also in view of the parliamentary elections in 1996.

In 1996, real GDP is expected to increase by 4% and investment by 8.8%; unemployment is projected to soar to 11.2%; the budget deficit/GDP ratio will further decrease to 2.2-2.4%; and annual inflation is forecasted to decline to 20%.

Structural reforms are progressing with mixed results. The parliamentary approval of the long-overdue bankruptcy law in March 1995 should now enable the government to speed up closure and liquidation of inefficient enterprises. In 1995, the authorities started the implementation of a mass privatization programme by issuing privatization vouchers. On the basis of current legislation, some 3900 state-owned enterprises are to be sold off. Share dealing will be eased by the establishment of the Stock Exchange on November 20, 1995. Draft legislation dealing with the privatization of banks is currently before parliament.

2. THE BALANCE OF PAYMENTS

The upturn in economic activity witnessed in 1995 led to a sharp rise in imports and this, combined with a slightly lower export growth, resulted in the deterioration of the current account. By September 1995, the current account deficit reached nearly US$ 1 bn, against a deficit of US$ 430 mio recorded in 1994.

The authorities are expressing a growing concern as regards the deterioration of the external position and are considering new and more effective export promotion plans. In this respect, some improvement in trade balance is expected to come from exports of agricultural products, which were liberalized in the second half of 1994. Instruments for export support being considered would include interest rate subsidies and tax breaks. The Romanian Trade Centre for export promotion is due to start its operations at the beginning of 1996. The Association agreement with the EU, facilitating Romania's access to EU market, came into force on 1 February 1995.

As for the capital account, FDI and portfolio investment slowed down to US$ 306 mio in the first ten months on 1995 (against US$ 341 mio in 1994). By mid-1995, the cumulative FDI amounted to a total of US$ 1.4 bn. Official loan disbursements remain the principal source of external finance. In this respect, in December 1995, the IMF approved the extension of the current Stand-By arrangement through April 1997 and decided to augment the amount available under it by SDR 188.5 mio (to SDR 320.5 mio, or about US$ 475 mio). The World Bank's FESAL (US$ 280 mio) could be made available soon.

After an absence of some 15 years, Romania returned to the international capital markets in 1995 with two syndicated loans to the Romanian Central Bank, amounting to US$ 150 mio and US$ 110 mio respectively. The central bank has been authorized to borrow up to US$ 1 bn in 1996 and, as creditworthiness improves, banks and companies may also gain access to the international capital market.

By October 1995, total foreign exchange reserves of the banking system amounted to US$ 2.5 bn, equivalent to 2 months of imports. Slightly more than US$ 695 mio were held with the Central Bank. This was equivalent to 0.6 months of imports.

Presently, Romania has a floating exchange rate regime and an interbank foreign exchange market which has been developed since 1994. In 1995, the leu was put under pressure, reflecting the deterioration of the country's external balance. This eventually led to a further 10% depreciation in the reference exchange rate reported by the National Bank. The difference between the reference rate and exchange rate offered by the private exchange bureaus increased by up to 20% by November 1995, from its normal deviation level of 3-5%, which shows a renewed segmentation in the exchange market.

3. EXTERNAL DEBT

By October 1995, total foreign (medium- and long-term) debt was stabilized at the level of US$ 4.8 bn, or 18.7% of GDP (18.9% in 1994). The external debt service ratio increased to 13% (8.9% in 1994) and is expected to further rise to close to 22% in 1996. Despite this rapid increase, debt and debt service ratios remain relatively manageable.

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L. RUSSIA

1. GENERAL ECONOMIC SITUATION

After several years of sharp recession, output continued to decline in 1995, although at a less sharp pace (-4% of GDP). Industrial production decreased by only 3% over the previous year, against a drop of 24% in 1994. The unemployment rate increased to 8.2% at year-end, compared with 7% by end-1994.

Price increases, which had peaked at hyper-inflationary levels in 1992-1993, had remained high in 1994 and until early 1995, with a 18% monthly increase in January. 1995 was a turning point for macro-economic stabilisation. In March, the Duma passed the 1995 budget with a target deficit of 5.5% of GDP (compared with 11% in 1994). In April, the IMF board approved a twelve-month Stand-By arrangement with Russia, initially aiming at a reduction in monthly inflation to 1% by year-end, principally by means of tight monetary policies. The monetary base grew monthly by 7% in the first half of 1995 and by 6% over the second half of the year. The budget deficit, at about 4% of GDP, remained within the 5.5% target. Revenue performance, despite growing tax arrears, improved, whereas expenditure was cut by about 17% in 1994. Inflation, however, declined only slowly down to a 3.2% monthly level in December, down from its high level of the beginning of the year but still well over the initial target. In December, the Parliament approved the 1996 budget which envisages a 3.85% deficit.

Foreign trade, which had been subject to administrative distortions until early 1995, was liberalised. Import exemptions were restricted to a few cases. After the completion of the voucher mass privatisation scheme which, by end-1994, had transferred the ownership of 112,000 enterprises to private hands, privatisation advanced in 1995 at a slower pace than in the previous years.

2. THE BALANCE OF PAYMENTS

After a significant depreciation against the dollar over the first quarter, the rouble stabilised in June well below the level of 5000 roubles per dollar and appreciated in real terms over the remaining of the year. This strong performance of the rouble, a result of the tight monetary policies implemented in the context of the Stand-By arrangement, was encouraged by the high level of interest rates on the treasury bills market and was accompanied by significant hard currency inflows (including the sale of dollars held in cash by residents). In July, in order to cut inflationary expectations, the authorities established an exchange rate corridor between 4,300 r/US$ and 4,900 r/US$ which performed successfully until year-end. In November, a new exchange rate band for the first half of 1996 was announced with a range of 4550 r/US$ to 5150 r/US$.

Owing to increasing export earnings, which showed a 23% growth in dollars over the first three quarters of the year, the trade balance recorded a significant surplus in 1995, estimated US$17.4 bn, compared with US$ 14 bn in 1994. This suggests an initially undervalued level of the rouble which was only partially compensated by this year's appreciation (+ 72% on a year-end basis) in real terms. The current account, at about US$ 6 bn (or 1.5% of GDP), remained in surplus despite a negative balance of services.

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The capital account, burdened with significant amortization payments (about US$ 12 bn) was in deficit in spite of important purchases from the IMF (US$ 5.4 mio). The deferral of private debt payments and a rescheduling in the Paris Club provided exceptional relief in the amount of US$ 24 bn. The foreign exchange reserve position substantially improved. By the end of the year, net international reserves amounted to about US$ 8 bn, or 1.2 months of imports, against only US$ 2.3 bn a year before.

3. FOREIGN DEBT

According to the agreements reached with the New Independent States, Russia is the successor state for the external assets and liabilities of the former Soviet Union. The level of the Russian debt, which includes the capitalisation of accumulated arrears, represents, in a context of recession, an increasing burden for the country. By end-1995, foreign debt, at an estimated US $ 130 bn, represented about 33% of GDP. Most of this debt is owed to official bilaterals (about US$ 80 bn), a substantial part to commercial banks (about US$ 33 bn), and a smaller but rapidly growing part to the international financial institutions. The bulk of Russian debt represents the debt inherited from the FSU (about US dollars 115 bn).

Russia's inability to service its debts has triggered several Paris Club rounds since 1992. On 3 June 1995, Russia reached an agreement with its Paris Club creditors on a new rescheduling for debt maturities falling due in 1995. Subsequently, the total debt service in 1995 amounted to about US$ 17.6 bn (including US$ 5 bn interest payments), or 22% of estimated exports. Paris Club creditors also agreed to start discussions on a wider rescheduling of the Russian debt as soon as an agreement can be reached, in early 1996, on a three-year extended fund facility (EFF). This should allow to bring debt service down to sustainable levels in the coming years. An agreement in principle was also reached in November with London Club creditors on a wide scale restructuring of the private debt. The reconciliation of the exact terms of this agreement with some 600 banks is now taking place with the objective of a final agreement by the end of June 1996.

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M. THE SLOVAK REPUBLIC

1. GENERAL ECONOMIC SITUATION

After growing by 4.8% in 1994, the Slovak economy continued to strengthen in 1995. GDP growth accelerated to 7.4% in January-September (year-on-year) and industrial production rose by 10.1% in November (year-on-year). Domestic demand has replaced net exports as the force driving economic expansion. The unemployment rate is on a downward trend, having declined from 15.2% in January 1995 to 12.8% last November.

Despite this strong growth performance, inflation has continued to decelerate, reaching 7.2% at end-1995, compared to 11.7% at end-1994. Slovakia has thus become one of the few transition countries that can boast a single-digit inflation rate. Real wage growth accelerated to about 5% in 1995 but this, it seems, is being offset to an important extent by productivity gains.

The reduction in inflation has continued to be supported by restrictive macroeconomic policies. Reflecting larger than anticipated revenues from the VAT and income tax, the state budget deficit finished 1995 with a deficit of Sk 8.3 bn, well below the Sk 21 bn deficit that had been programmed. Monetary policy was kept tight in 1995, with broad money expanding by 7.9% in the first 9 months of the year, only slightly above inflation. For 1996, the monetary programme of the National Bank of Slovakia (NBS) targets broad money growth of 13.2%, consistent with a reduction of inflation to 6-7.5% and real GDP growth of 5.8%.

The new government formed in December 1994 decided in June 1995 to cancel the voucher privatization scheme. Instead of shares in state enterprises, the 3.5 mio Slovak citizens that bought vouchers in 1994 have been given 5-year interest-bearing bonds issued by the National Property Fund. Privatization through standard methods (often in the form of direct sales to managers and employees) has gathered momentum since mid-1995 but is being criticized for lack of transparency.

2. THE BALANCE OF PAYMENTS

The balance of payments has experienced a clear improvement since the second quarter of 1994. The current account swung from a deficit of US$ 0.6 bn (5.4% of GDP) in 1993 to surpluses of US$ 0.7 bn (6% of GDP) in 1994 and of US$ 0.4 bn in the first 7 months of 1995. The evolution of the trade balance at the end of the year, however, suggests that the current account surplus may have began to shrink reflecting strong domestic demand.

The capital account has also improved, although net FDI inflows remain low. About US$ 300 mio of official macro-financial assistance (IMF, World Bank's Economic Recovery Loan and Japan Exim Bank) have been disbursed since mid-1994. In addition, the NBS issued in July 1994 a US$ 250 mio bond in the Samurai market, and certain companies and banks have been able to borrow abroad at relatively long maturities. Finally, the tight management of inter-bank liquidity by the NBS, in combination with the perceived stability of the Slovak crown (and, in the first half of

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1995, the expectation of a revaluation against the Czech crown), has led to some short-term capital inflows. Slovakia's access to the international capital markets has been reinforced by the upgrading by Standard & Poor's of its rating from BB^- to BB^+ in April 1995, and by the assignment by Moody's of an investment grade rating (Baa3) in May 1995.

These favourable trends in both the current and the capital account have been translated into a substantial increase in reserves. Official foreign exchange reserves (excluding those obtained from gold swaps) have risen from US$ 416 mio at end-1993 to US$ 2.8 bn in October 1995, or about 3.5 months of imports. Following a 10% devaluation in July 1993, the exchange rate of the crown has been stable against a basket of Western currencies. In July 1994, the number of currencies in the basket was reduced from five to two (the Deutsche mark and the US dollar). In January 1996, the fluctuation band around the central rate was increased from +- 1.5% to +- 3%.

Despite the strengthening of the balance of payments, the Slovak authorities intend to maintain until end-1996 the import surcharge introduced in March 1994. As of October 1995, the Slovak crown was made fully convertible for current account purposes and the bilateral clearing system with the Czech Republic was terminated. The authorities also plan to liberalize some capital flows.

The mid-term review of the IMF stand-by arrangement, initially scheduled for February 1995, has not been completed. In any case, the authorities announced in April 1995 that, in view of the improvement in the balance of payments and reserve position, they did not intend to make any further purchases under this IMF facility.

3. FOREIGN DEBT

Slovakia inherited from the Czechoslovak federation a relatively low external debt. Although debt and debt service ratios have deteriorated since the country's independence, they remain at reasonable levels. The foreign debt/GDP ratio has increased from 25.7% at end-1992 to 33.7% in July 1995. Debt service as a percentage of exports has risen from 3.3% in 1992 to an estimated 9.5% in 1995.

N. TRANSCAUCASIAN REPUBLICS

1. GENERAL ECONOMIC SITUATION

After a sharp decline in 1990-93 (75%), Armenia's GDP recovered in 1994 (+5.4%). This positive growth trend is expected to have continued in 1995 with a 5% estimated increase, due partly to better results in industrial output which grew by 10% in 1994 and by 13% in the first half of 1995.

A tightening of monetary policy succeeded in halting hyperinflation in the second half of 1994. In 1995, inflation is projected to reach about 30%, down from 1900% in 1994, owing to a further tightening of monetary policy and an increase in the supply of agricultural goods. Over the last two years, Armenia has moved from a highly expansionary fiscal policy characterized by extremely large deficits financed by central bank credit to a policy featuring much smaller deficits financed primarily by external sources. The fiscal deficit after grants is estimated to have declined to some 10% of GDP in 1995, from 16% in 1994 and about 50% in 1993. Substantial progress has been made in the area of structural reform, namely in price liberalisation, enterprise restructuring and small-scale privatisation.

In Azerbaijan, the GDP decline - some 20% per year between 1992 and 1994 - continued at a lower rate - 15% - in the first half of 1995 but statistics do not take into consideration the activity of an emerging informal sector, particularly in trade and services. Monetary stability was set as the primary goal of financial policies in 1995 and average monthly inflation fell to 1.5% in the period April-October 1995, compared to a yearly rate of about 1700% in 1994. This was made possible by the fiscal consolidation started in 1995: the compression in expenditures brought the fiscal deficit to an estimated 8% of GDP, down from 11% in 1994, the main part of this deficit being financed by external funds linked to the signature of the oil contract with western companies. Regarding structural reforms, progress has been made with respect to price and trade liberalisation, but much remains to be done in enterprise restructuring and privatisation.

After the sharp decline of Georgia's output between 1990 and 1994 - 70% -, the economy continued in 1995 to face severe bottlenecks, especially arising from energy shortages. There were however signs of recovery in 1995, mainly due to an increase in agriculture output despite a lack of basic inputs and weak property rights. Official unemployment remained rather low (some 4%) in 1995, but a recent informal poll indicated a rate above 11%. Tight financial policies have succeeded in halting hyperinflation (average rate of 2.5% in the first eight months of 1995, compared to 66% in the first nine months of 1994) and in stabilizing the exchange rate of the coupon, replaced by the lari in October 95. The fiscal deficit after grants was reduced to an estimated 7% in 1995, mainly through sharp cuts in expenditures and the monetisation of external food assistance. Revenue performance, however, remains very weak. Several structural reforms have been introduced (price liberalisation, elimination of state order system, privatisation process). Substantial further efforts are however still needed, namely in privatisation, land reform and in the development of an appropriate legal framework for a market-based economy.

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2. THE BALANCE OF PAYMENTS

Reflecting an increase in imports associated with official transfers, Armenia's current account before transfers further deteriorated in dollar terms in the first half of 1995. As a percentage of GDP, however, the deficit decreased from 35% in 1994 to about 25% in the same period. Owing to purchases under IMF programmes and World Bank credits, official reserves increased in 1995 to reach about US$ 100 mio (or 2 months of imports) in November. During the first half of 1995, the exchange rate of the dram remained stable against the dollar, while the real effective exchange rate increased by about 4%, reflecting a depreciation against FSU currencies more than offset by an appreciation against non-FSU currencies.

Much of the recent deterioration in Azerbaijan's current account is due to a sharp decline in the terms of trade (increased import prices from CIS countries to world levels and increased transportation costs, owing to the war situation in neighbouring Chechnya). As a percentage of GDP, the trade and the current balances deteriorated from 7% and 8.5% in 1994 to, respectively, 12.5% and 16.9% in 1995. Important inflows in the capital account were registered in 1995, reflecting the use of the EU loan for import of food and medicine, but also the effects of the signature between the government and a consortium of international oil companies of an oil production sharing contract. These inflows, together with IMF disbursements, led to a strengthening of international reserves which reached some US$ 140 mio - 2 months of imports - by end-June 1995 and were projected to further increase before end-1995. As a result of the tightening of credit policies in early 1995 and the associated increase in interest rates to positive real levels, the exchange rate of the manat against the US dollar remained broadly stable in 1995, following a devaluation of more than 90% in 1994.

Partly reflecting a steep decline in gas consumption, Georgia's trade deficit is estimated to have declined by 28% in the first half of 1995. The current account balance, before transfers, has recorded a pattern similar to the trade balance, with a projected 1995 deficit of US$ 410 mio (some 16% of GDP), down from US$ 450 mio (35% of GDP) in 1994. Official transfers have been a significant source of financing for the current account deficits registered in recent years. The capital account, dominated by official transactions, has moved into deficit since 1994, due to important amounts of amortisation falling due. The resulting deficit in the overall balance of payments was largely financed through the accumulation of arrears, which reflected the near exhaustion of official reserves. These reserves, however, increased sharply in 1995 to reach US$ 165 mio or about 3 months of imports by end-November. This increase was partly due to programmed drawings on IMF credits, but also to the successful introduction of the new currency, the lari. Exchange rate developments in 1995 have been strongly influenced by the interventions of the central bank, which have served to sterilise the impact of credit expansion to central government. This led to a rather stable official exchange rate of the currency and to a substantial appreciation in the real effective exchange rate.

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3. FOREIGN DEBT

The three countries agreed to the zero option with the Russian Federation and so entered the independence with modest external obligations. Since then, the situation sharply deteriorated, as Armenia and Georgia are in arrears on their debt servicing, while Azerbaijan has already negotiated a debt rescheduling.

Armenia's external debt increased rapidly at US$ 310 mio by end-June 95 (some 25% of GDP) and is estimated to have reached about US$ 350 mio by end-95, while total scheduled debt service could reach more than 20% of exports of goods and non-factor services.

Azerbaijan had accumulated by end-1994 a US$ 230 mio external deb and could reach US$ 277 mio (about 15% of GDP) in 1995. In 1995, the country was unable to repay debts arriving to maturity but creditors - Russia, Turkmenistan and Turkey - accepted to reschedule them. The whole debt of the country is now of short or medium-term maturity and is to be repaid between 1996 and 1999.

By the end of 1994, Georgia had accumulated a foreign debt of almost US$ 1 bn (80% of GDP). The bulk of this debt, mainly contracted to finance imports, has now accumulated in arrears. In the first half of 1995, debt service falling due was estimated at about US$ 119 mio (over 50% of exports of goods and non-factor services). Faced with this very heavy debt burden, the Georgian authorities have approached creditors to request financial support designed to help bringing the country's external obligations in line with its very limited debt-servicing capacity.

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O. UKRAINE

1. GENERAL ECONOMIC SITUATION

Following sharp output contractions between 1990 and 1994, GDP decline slowed down markedly in 1995 (average change of -13%, compared to -23% in 1994). Industrial production is estimated to have fallen by some 20% last year, following a 36% reduction in 1994. The official unemployment figure of 0.4% still does not reflect the protracted fall in output; the International Labour Organization estimates that hidden unemployment has reached as much as 20%.

In the first half of 1995, the Ukrainian authorities continued to implement their stabilization policies, first in the context of the IMF Systemic Transformation Facility of October 1994 and then under the IMF stand-by arrangement (SBA) of April 1995. Relatively strict monetary and credit policy led to a rapid deceleration of inflation to a monthly rate of 5% in mid-1995. However, loosening of policies in the summer months prevented a further reduction of inflation in the second half of 1995 to the target rate of 1-2%. On average, inflation fell from 401% by 1994 to 180% in 1995.

The budget deficit on a cash basis was more than cut by half, from 8.6% of GDP in 1994 to 4.1% in 1995. The target deficit rate of 3.3% of GDP was, however, not achieved, mainly because of the Government's decision to extend budget guarantees for Ukrainian gas imports from Russia beyond the agreed deadline of September 1995; this was an important reason for the IMF's decision in December to postpone the completion of the third quarter review under the SBA until the programme is back on track. But the overrun of public expenditures was also due to large wage increases granted to government workers and subsidies to the coal mine sector.

Between fall 1994 and spring 1995, there were considerable reform achievements, in particular the liberalization of prices and the foreign exchange market, as well as a sharp reduction of government procurement in the agricultural sector. However, subsequently the reform dynamics slowed down markedly; in some areas there were even reversals of earlier achievements. Progress was particularly unsatisfactory with regard to privatization, but foreign trade policy was also not sufficiently liberalized so that it continued to impede exports, especially of agricultural products.

2. THE BALANCE OF PAYMENTS

In 1995, Ukraine's balance of payments situation remained tight. The current account deficit stabilized at US$ 1.4 bn (some 4.5% of GDP). The merchandise trade deficit also remained roughly unchanged at US$ 2.1 bn. However, the earlier contraction of trade volumes (in the order of 15% in 1994) was halted. Overall exports expanded moderately (3%), although with respect to the West the expansion was dynamic (15%). Imports from Western countries also increased strongly (some 10%), but overall imports nevertheless contracted somewhat given a strong decline in energy imports.

In the context of the IMF-supported programme, the Ukrainian authorities agreed not to accumulate any more external arrears towards Russia and Turkmenistan. This assurance was also the basis for Russia's agreement in March 1995 to reschedule Ukrainian arrears on gas supplies. However, in the course of 1995, and in particular with the beginning of the heating season, external arrears were accumulated (mostly with Russia). This has played an important role for the suspension of the stand-by arrangement. At the end of 1995, the external arrears stood at US$ 236 mio.

In 1995, external financing was somewhat lower than expected mainly owing to the difficulties in the implementation of the IMF programme. Nevertheless, gross foreign reserves were accumulated to a level corresponding to 1 month of imports.

3. FOREIGN DEBT

In 1995, Ukraine's external debt stock increased from US$ 7.1 bn in 1993 to US$ 8.1 bn. In percent of GDP, this represents a decline from 29% to 24%. The ratio of external debt service to exports of goods and services fell from 12% to 10%. The Ukrainian authorities are presently discussing the possibility of Russia rescheduling some of the recently accumulated Ukrainian debt on gas deliveries.

Statistical annex

TABLE 1

CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED
(ECU million)

Operation	Authorized ceiling	Capital outstanding 30.06.95	Capital outstanding 31.12.95	Remainder to be disbursed 31.12.95
MEMBER STATES				
A. Balance of payments	14000			
1. Greece	2200	1000	1000	1200 1)
2. Italy	8000	4071	4045	4000 2)
B. Others				
3. Euratom	4000	741	720	0
4. NCI and NCI earthquakes	6830	1289	1113	0
5. EIB Mediterranean, Spain, Greece, Port.	1500	439	385	0
MEMBER STATES - TOTAL	26330	7540	7263	5200
THIRD COUNTRIES				
A. Financial assistance				
1. Hungary	1050	440	440	260
2. Czech Republic	250	250	250	0
3. Slovak Republic	255	125	125	130
4. Bulgaria	400	360	360	40
5. Romania	580	455	510	70
6. Algeria	600	400	500	100
7. Israel	160	160	160	0
8. Baltic States	220	110	135	85
9. Moldova	45	25	45	0
10. Ukraine	285		85	200
11.Belarus	75		30	45
12. Former Soviet Union	1250	702	347	18
B. Other				
13. EIB Mediterranean	6362	1756	1782	3647
14. EIB Central & E. Europe I	1700	658	837	844
15. EIB Central & E. Europe II	3000	24	96	2905
16. EIB Asia, Latin America	750	107	149	601
17. EIB South Africa	300			300
THIRD COUNTRIES - TOTAL	17282	5572	5851	9245
GRAND TOTAL	43612	13111	13114	14445

1) No disbursement is planned.
2) The third and fourth tranches had still not been paid at 31.12.95. So far, the Italian Government has not requested payment.

ANNEX TO TABLE 1

SITUATION IN RESPECT OF EIB OPERATIONS (31.12.95)

Operations	Credit line authorized	Loans made available, minus cancellations	Initial disbursement	Amount outstanding at 31.12.1995
EIB Mediterranean, Spain, Greece, Port.	1500	1465	1576	385
Third countries EIB Med.	6362	4972	2715	1782
Central & Eastern Europe I	1700	1647	856	837
Central & Eastern Europe II	3000	1894	96	96
Asia, Latin America	750	607	149	149
South Africa	300	45		

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 31.12.95.

TABLE 2
MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET
(Estimate in ECU million based on all operations disbursed at 31.12.1995)

	1996	1997	1998	1999	2000	2001	2002	2003	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece	500		500						1000
2. Italy	500		1006		2539				4045
B. Structural loans									
3. Euratom	153	444	94	16	13				720
4. NCI and NCI EQ	306	547	91	42	42	71			1100
5. EIB Med. Old. Prot. Sp. Gr. Port	73	72	57	50	45	21	23	21	362
Capital - subtotal	1533	1063	1747	109	2639	92	23	21	7226
INTEREST									
A. Balance of payments									
1. Greece	95	48	48						190
2. Italy	255	215	215	160	160				1005
B. Structural loans									
3. Euratom	57	42	10	3	1				113
4. NCI and NCI EQ	95	69	20	12	10	7	2	2	216
5. EIB Med. Old. Prot. Sp. Gr. Port	33	27	20	15	11	7	5	3	123
Interest - subtotal	535	400	313	190	182	14	7	5	1647
MEMBER STATES - TOTAL	2068	1463	2060	299	2821	106	30	26	8873
NON-MEMBER COUNTRIES									
CAPITAL									
A. Financial assistance									
6. Hungary	260	80	100						440
7. Czech Republic		127	123						250
8. Slovak Republic		63	62						125
9. Bulgaria		140	150			70			360
10. Romania			185	190	80		55		510
11. Israel		160							160
12. Algeria		250				150	100		500
13. Ex USSR	204	143							347
14. Baltic States					110		25		135
15. Moldova					5	9	9	9	32
16. Ukraine						17	17	17	51
17. Belarus						6	6	6	18
B. Guarantees									
18. EIB Mediterranean	134	141	157	162	153	142	134	133	1155
19. EIB C+E Eur. I + II	30	44	63	83	87	87	87	80	560
20. EIB Asia Latin America		12	16	16	18	18	19	6	105
Capital - subtotal	628	1161	856	451	452	499	451	252	4749
INTEREST									
A. Financial assistance									
6. Hungary	26	18	10						54
7. Czech Republic	25	25	12						62
8. Slovak Republic	13	13	6						32
9. Bulgaria	36	36	22	7	7	7			115
10. Romania	51	51	51	33	14	6	6		210
11. Israel	16	16							32
12. Algeria	50	50	25	25	25	25	10		210
13. Ex USSR	14	7							21
14. Baltic States	14	14	14	14	14	3	3		73
15. Moldova	5	5	5	5	5	4	3	2	32
16. Ukraine	9	9	9	9	9	9	7	5	63
17. Belarus	3	3	3	3	3	3	2	2	1
B. Guarantees									
18. EIB Mediterranean	123	114	103	92	81	70	50	40	672
19. EIB C+E Eur. I + II	63	61	57	53	47	41	35	29	385
20. EIB Asia Latin America	6	6	6	6	5	5	4	4	41
Interest - subtotal	453	426	322	244	208	171	119	82	2004
NON-MEMBER COUNTRIES - TOTAL	1081	1586	1178	695	660	670	570	334	6753
GRAND TOTAL	3149	3049	3238	994	3481	776	600	360	15626
(Eastern Europe)	751	837	871	394	378	261	254	151	3876
(Other non-member countries)	330	749	307	300	281	409	316	184	2876

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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)

	1996	1997	1998	1999	2000	2001	2002	2003	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece	500		500						1000
2. Italy	500		1006		2539		2000	2000	8045
B. Structural loans									
3. Euratom + NCI	459	991	185	58	55	71			1820
4. EIB Sp,Gr,Port	73	72	57	50	45	21	23	21	362
Capital - subtotal	1532	1063	1748	108	2639	92	2023	2021	11227
INTEREST									
A. Balance of payments									
1. Greece	95	48	48						190
2. Italy	425	553	638	553	553	340	340	170	3571
B. Structural loans									
3. Euratom + NCI	152	111	30	15	11	7	2	2	329
4. EIB Sp,Gr,Port	33	27	20	15	11	7	5	3	123
Interest - subtotal	705	738	735	583	575	354	347	175	4212
MEMBER STATES - TOTAL	2237	1801	2483	691	3215	447	2370	2196	15439
NON-MEMBER COUNTRIES									
CAPITAL									
A. Financial assistance									
5. Hungary	260	80	100					260	700
6. Czech Republic		127	123						250
7. Slovak Republic		63	62						125
8. Bulgaria		140	150			70		80	440
9. Romania			185	190	80		55	70	580
10. Israel		160							160
11. Algeria		250				150	100	100	600
12. Ex USSR	204	161							365
13. Baltic States					110		25	85	220
14. Moldova					5	9	12	12	38
15. Ukraine						17	37	57	111
16.Belarus						6	11	11	28
17. Euratom, C+E Eur.						13	27	40	80
B. Guarantees									
18. EIB Mediterranean	134	141	157	236	327	420	459	473	2347
19. EIB C+E Eur. I + II	30	44	63	164	269	371	399	393	1733
20. EIB Asia Latin America		12	16	30	48	65	69	69	309
21. EIB South Africa				3	11	19	25	25	83
Capital - subtotal	628	1178	856	623	850	1140	1219	1675	8169
INTEREST									
A. Financial assistance									
5. Hungary	57	44	36	26	26	26	26	26	267
6. Czech Republic	25	25	12						62
7. Slovak Republic	20	26	20	14	13	13	13		118
8. Bulgaria	40	44	30	15	15	15	8	8	175
9. Romania	55	58	58	40	21	13	13	7	263
10. Israel	16	16							32
11. Algeria	55	60	35	35	35	35	20	10	285
12. Ex USSR	14	7							21
13. Baltic States	18	22	22	22	22	11	11	11	139
14. Moldova	5	6	6	6	6	6	5	3	43
15. Ukraine	19	29	29	29	29	29	27	23	211
16.Belarus	5	8	8	8	8	8	7	6	55
17. Euratom, C+E Eur.	10	30	50	70	88	94	91	87	520
B. Guarantees									
18. EIB Mediterranean	168	262	374	447	456	436	408	376	2927
19. EIB C+E Eur. I + II	112	219	337	402	395	361	324	287	2437
20. EIB Asia Latin America	15	33	52	62	61	56	50	45	374
21. EIB South Africa	2	9	18	20	29	28	26	23	155
Interest - subtotal	635	897	1086	1194	1203	1129	1028	912	8083
NON-MEMBER COUNTRIES - TOTAL	1263	2075	1942	1817	2053	2269	2247	2587	16252
GRAND TOTAL	3500	3876	4425	2508	5267	2716	4617	4783	31691
(Eastern Europe)	873	1132	1290	984	1086	1060	1090	1466	8980
(Other non-member countries)	390	943	652	833	967	1209	1157	1121	7272

Country risk indicators

Country: Algeria

	1993	1994	1995 Latest data or estimates (E)
Real GDP growth rate (in %)	-2,0	1,1	5,3
Hydrocarbon production (% change)	-0,6	-2,5	1,5
Inflation ra *(Dec/Dec)*	16,1	34,9	22.2 (E)
Exchange *(end of period)*	24,0	42,9	52.2
Nominal el *(change Q4/Q4) (- = depreciation)*	-7,9	-78,6	-21,7
Real effect *(change Q4/Q4) (- = depreciation)*	12,8	-40,4	-34,5
General government balance (as % of GDP)	-8,7	-4,4	-2,8
Balance of payments			
Exports of G&S (in bn USD)	11,0	9,5	10,5
Current account balance (in % of GDP)	1,6	-6,9	-5,7
Net inflow of foreign direct investment (in mio USD)	0,0	0,0	100,0
Official FX reserves (end of period)			
in bn USD	1,5	2,6	1.9 (Nov.)
in months of imports of G&S	1,9	2,9	2.0 (Nov.)
External debt			
External debt *(in convertible currencies, in bn USD, end of period)*	25,7	29,6	33.8 (E)
medium and long-term (> 1 year)	25,0	28,9	n.a.
short-term (=< 1 year)	0,7	0,7	n.a.
Convertible debt service (in bn USD)	9,1	4.6 (3)	3.8 (3)
principal	7,2	3,2	2.2 (3)
interest	1,9	1,4	1.6 (3)
External debt/GDP (%)	51,8	67,7	78.5 (E)
External debt/exports of G&S (%)	206,8	252,0	264.4 (E)
Debt service/exports of G&S (%)	82,2	48.7 (3)	49,1
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling (bln US$)	No	4,5	4,8
IMF arrangements			
Type/no	No	SBA	SBA
(Date / -)		(5. 94 - 5. 95)	(5. 94 - 5. 95)
On track/off track	-	On-track	EFF (5. 95 - 5. 98) On-track
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of per.)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (1)	68 79	92 96	102 107
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (1)	62 69	75 78	89 91
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (2)	28.2 27.1	26.3 24.6	23.5 22.8

(1) The higher the ranking number, the lower the creditworthiness of the country.
(2) 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.
(3) After rescheduling.

B

Country risk indicators

Country: Belarus

		1993	1994	1995 Latest data or estimates (E)
Real GDP growth rate (in %)		-11,6	-20,0	-7.0 (E)
Industrial production (% change)		-10,0	-35,0	-10.0 (E)
Unemployment rate (end of period)		1,5	2,0	n.a.
Inflation rate	*(Dec/Dec)*	1990	2220	290 (E)
Exchange rate (Rbs per USD)	*(average)*	932	2202	11500
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
General government balance (as % of GDP)		-8,3	-1,7	-3,2
Balance of payments.				
Merchandise exports (in mio USD)		2941	3138	3135 (E)
Current account balance (in % of GDP)		-8,7	-11,4	-4.1 (E)
Net inflow of foreign direct investment (in mio USD)		18	10	20 (E)
Official FX reserves (end of period)				
in mio USD		75,0	108,0	426.0 (E)
in months of imports		0,3	0,3	1,5
External debt				
External debt		964,0	1500,0	2085.0 (E)
(in convertible currencies, in mio USD, end of period)				
medium and long-term (> 1 year)		n.a.	n.a.	n.a.
short-term (=< 1 year)		n.a.	n.a.	n.a.
Convertible debt service (in mio USD)		14,7	197,0	239.0 (E)
principal		n.a.	n.a.	178.0 (E)
interest		n.a.	n.a.	61.0 (E)
External debt/GDP (%)		25,0	20,0	22.0 (E)
External debt/merchandise exports (%)		33,0	48,0	66.0 (E)
Debt service/merchandise exports (%)		0,5	5,7	7.6 (E)
Arrears (on both interest and principal, in bn USD)		n.a.	493	460
Debt rescheduling agreement			with Russia on gas arrears	with Russia on gas arrears
IMF arrangements				
Type/no		STF	STF	SBA
(Date / -)		(08.93 - 8.94)	(01.95)	(07.95 - 06.95)
On track/off track		Off track	See footnote	Off track
(- / Date)		See footnote (3)	(3)	— (4)
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
Euromoney		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (1)		148 139	145 138	135 134
(number of countries)		(169) (170)	(167) (167)	(187) (181)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (1)		100	109 109	112 112
(number of countries)		(127) (133)	(135) (135)	(135) (135)
Credit rating (2)			15.5 15.7	15.2 15.5

(1) The higher the ranking number, the lower the creditworthiness of the country.

(2) 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.

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

(4) The first quarterly review of the programme, scheduled for December 1995, could not be completed.

Country-risk indicators

Country: Bulgaria

		1993	1994	1995 Latest data or estimates (E)	
Real GDP growth rate (in %)		-2,4	1,4	2,5	(E)
Industrial production (% change)		-8,5	4,0	2,8	(E)
Unemployment rate (end of period)		16,3	12,9	11,1	
Inflation rate	*(end of period)*	63,8	121,9	33,0	
Exchange rate (Leva per USD)	*(end of period)*	32,7	66,0	69,8	
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	-33,5	-101,8	-5,7	
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	59,2	n.a.	n.a.	
General government balance (as % of GDP)		-15,7	-6,6	-6,7	(E)
Balance of payments					
Exports of G&S (in bn USD)		3,7	4,2	4,8	(E)
Current account balance (in % of GDP)		-12,8	-0,2	2,2	(E)
Net inflow of foreign direct investment (in mio USD)		40	105	165	(E)
Official reserves, including gold (end of period)					
in bn USD		1,0	1,3	1,8	(Oct)
in months of imports of G&S		2,0	3,0	3,6	(Oct)
External debt					
External debt		12,5	10,4	10,7	(E)
(in convertible currencies, in bn USD, end of period)					
medium and long-term (> 1 year)		7,3	8,9	9,2	(E)
short-term (=< 1 year)		5,2	1,5	1,5	(E)
Convertible debt service (in bn USD)		1,6	1,0	1,1	(E)
principal		1,1	0,5	0,5	(E)
interest		0,5	0,5	0,6	(E)
External debt/GDP (%)		120,5	109,3	83,0	(E)
External debt/exports of G&S (%)		266,5	202,2	159,6	(E)
Debt service/exports of G&S (%)		33,7	18,4	17,5	(E)
Arrears (on both interest and principal, in bn USD)		n.a.	n.a.	0,0	
Debt relief agreements and rescheduling		London Club (roll-overs, and DDSR agreed in principle)	London Club DDSR (July) Paris Club resched. (Apr)	No	
IMF arrangements					
Type/no		-	SBA+STF	-	
(Date / -)		-	(3/94-3/95)	-	
On track/off track		-	SBA suspend.		
(- / Date)		-	in Sep 94		
Indicators of market's perceived creditworthiness					
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated	
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated	
Euromoney		Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (1)		122 125	88 98	90 90	
(number of countries)		(169) (170)	(167) (167)	(187) (181)	
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (1)		91 89	91 95	93 94	
(number of countries)		(127) (133)	(135) (135)	(135) (135)	
Credit rating (2)		18.9 19.5	19.8 20.8	21.9 22.2	

(1) The higher the ranking number, the lower the creditworthiness of the country.
(2) 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.

Country-risk indicators

Country: Czech Republic

	1993	1994	1995 Latest data or estimates (E)	
Real GDP growth rate (in %)	-0,9	2,6	5,2	
Industrial production (% change)	-5,4	2,3	12,9	(Nov)
Unemployment (% of labour force) (end of period)	3,5	2,8	2,9	
Inflation rate *(Dec/Dec)*	18,2	10,2	7,9	
Exchange rate (CK's per USD) *(end of period)*	29,9	28,2	26,3	(Oct)
Nominal effective exchange rate *(change, Q4/Q4) (- = depreciation)*	4,2	0,0	n.a.	
Real effective exchange rate *(change, Q4/Q4) (- = depreciation)*	19,3	6,8	n.a.	
General government balance (as % of GDP)	0,5	0,1	0,5	(E)
Balance of payments				
Exports of G&S (in mio USD)	16728	18837	22195	(E)
Current account balance (in % of GDP)	0,5	0,0	-3,5	(E)
Net inflow of foreign direct investment (in mio USD)	542	749	1965	(Jan-Sep)
Official FX reserves (end of period)				
in bn USD	3,9	6,2	12,9	(Nov)
in months of imports of G&S	2,8	4,2	8,0	(Nov)
External debt (end of period)				
External debt *(in convertible currencies, in bn USD, end of period)*	8,5	10,7	15,0	(Jun)
medium and long-term (> 1 year)	6,5	7,8	9,6	(Jun)
short-term (=< 1 year)	2,0	2,9	5,4	(Jun)
Convertible debt service (in bn USD)	1,4	2,5	3,1	(Jun)
principal	0,9	n.a.	n.a.	
interest	0,5	n.a.	n.a.	
External debt/GDP (%)	27,0	29,6	31,0	(Jun)
External debt/exports of G&S (%)	50,8	54,7	67,6	(Jun)
Debt service/exports of G&S (%)	8,4	13,0	14,0	(E)
Arrears (on both interest and principal, in mio USD)	No	No	No	
Debt relief agreements and rescheduling	No	No	No	
IMF arrangements				
Type/no	SBA	SBA	—	
(Date / -)	(3/93-3/94)	(3/93-3/94)		
On track/off track	On-track	On-track		
(- / Date)		All debts to IMF paid ahead of schedule.		
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)	Baa3	Baa2 (Jun)	Baa1 (Sep)	
S&P long-term foreign currency rating (end of period)	BBB	BBB+ (Jul)	A (Nov)	
Euromoney	Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (1)	48 43	40 39	35 41	
(number of countries)	(169) (170)	(167) (167)	(187) (181)	
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (1)	42 40	40 39	33 30	
(number of countries)	(127) (133)	(135) (135)	(135) (135)	
Credit rating (2)	44.6 46.6	49.7 52.8	55.8 58.4	

(1) The higher the ranking number, the lower the creditworthiness of the country.

(2) 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.

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Country-risk indicators

Country: Estonia

	1993	1994	1995 Latest data or estimates (E)
Real GDP growth rate (in %)	-3,5	4,0	4,0 (E)
Industrial production (% change)	-27,0	10,0	n.a.
Unemployment rate (end of period)	1,7	4,0	5,4
Inflation rate *(end of period)*	35,7	41,6	28,0
Exchange rate (Krons per USD) *(end of period)*	13,2	13,0	11,5
Nominal effective exchange rate *(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	-
Real effective exchange rate *(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	25,0
General government balance (as % of GDP)			
Financial balance (1)	1,4	0,9	0,8 (E)
Fiscal balance (1)	-0,7	0,0	0,3 (E)
Balance of payments			
Merchandise exports (in mio USD)	801	1328	1913 (E)
Current account balance (in % of GDP) (excl. official transfers)	-5,7	-9,0	-10,6 (E)
Net inflow of foreign direct investment (in mio USD)	160,0	212,0	190,0 (E)
Official FX reserves (end of period)			
in mio USD	388	447	584 (E)
in months of goods imports	4,0	3,2	2,8 (E)
External debt			
External debt *(in convertible currencies, in mio USD, end of period)*	135,5	271	353 (E)
medium and long-term (> 1 year)	n.a.	n.a.	n.a.
short-term (=< 1 year)	n.a.	n.a.	n.a.
Convertible debt service (in mio USD)	13,5	2,1	23 (E)
principal	n.a.	0	0 (E)
interest	n.a.	2,1	23 (E)
External debt/GDP (%)	8,6	7,7	9,9 (E)
External debt/merchandise exports (%)	17,0	17,1	13,5 (E)
Debt service/merchandise exports (%)	1,7	1,5	1,2 (E)
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling	No	No	No
IMF arrangements			
Type/no	SBA/STF	SBA/STF	SBA—
(Date / -)	(10/93-3/95	(10/93-3/95)	(4/95-4/96)
On track/off track	On track	On track	On-track
(- / Date)			
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	126 122	105 102	66 76
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	81 84	88 86	79 79
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (3)	21.4 20.9	20.7 23.6	25.4 26.3

(1) Financial balance does not take into account government net lending, whereas fiscal balance does.
(2) The higher the ranking number, 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.

Country-risk indicators

Country: Hungary

		1993	1994	1995 Latest data - or estimates (E)	
Real GDP growth rate (in %)		-0,8	2,9	2,0	(E)
Industrial production (% change)		4,0	9,0	6,0	
Unemployment (% of labour force) (end of period)		12,1	10,9	10,4	
Inflation rate	*(Dec/Dec)*	21,1	21,2	28,5	
Exchange rate (forints per USD)	*(end of period)*	100,7	111,0	134,6	(Oct)
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	-3,1	-14,3	-25,4	(Q3)
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	10,2	0,0	-6,4	(Q3)
Consolidated state budget balance (as % of GDP) (GFS definition)		-7,5	-6,1	-3,0	(E)
Balance of payments					
Exports of G+S (in mio USD)		10371	10219	16759	(E)
Current account balance (in % of GDP)		-9,6	-9,5	-6,0	(E)
Net inflow of foreign direct investment (in mio USD)		2328	1100	3300	(E)
Official reserves (end of period)					
in bn USD		6,7	7,0	11,9	
in months of imports of merchandises		7,1	7,4	12,0	
External debt					
External debt *(in convertible currencies, in bn USD, end of period)*		24,6	28,5	31,7	(Nov)
medium and long-term (> 1 year)		22,6	26,1	28,5	(Nov)
short-term (=< 1 year)		2,0	2,4	3,2	(Nov)
Convertible debt service (in bn USD)		4,9	6,2	8,4	(E)
principal (1)		3,3	4,3	n.a.	
interest		1,6	1,9	n.a.	
External debt/GDP (%)		68,0	69,5	74,1	(E)
External debt/Exports of G+S (%)		237,2	278,9	189,2	(E)
Debt service/Exports of G+S (%)		47,4	60,8	50,0	(E)
Arrears (on both interest and principal, in mio USD)		No	No	No	
Debt relief agreements and rescheduling		No	No	No	
IMF arrangements					
Type/no		SBA	SBA	-	
(Date / -)		(9/93-12/94)	First review	-	
On track/off track		On track	uncomple-		
(- / Date)		-	ted		
Indicators of market's perceived creditworthiness					
Moody's long-term foreign currency rating (end of period)		Ba1	Ba1	Ba1	
S&P long-term foreign currency rating (end of period)		BB+	BB+	BB+	
Euromoney		Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (2)		47 46	44 46	50 44	
(number of countries)		(169) (170)	(167) (167)	(187) (181)	
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (2)		43 43	43 44	45 48	
(number of countries)		(127) (133)	(135) (135)	(135) (135)	
Credit rating (3)		44.3 44.8	46.1 46.2	46.4 45.0	

(1) Including early repayments.
(2) The higher the ranking number, 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.

Country risk indicators

Country: Israël

		1993	1994	1995 Latest data or estimates (E)
Real GDP growth rate (in %)		3,5	6,5	6.9 (E)
Industrial production (% change) (at constant 1990 prices)		6,5	7,2	n.a.
Unemployment rate (average)		10,0	7.8	6.3 (E)
Consumer Price Index	*(Dec/Dec)*	11,3	14,5	8.0 (E)
Exchange rate (shekel per USD)	*(end of period)*	2,986	3,018	3,140
Nominal effective exchange rate (vs the US$)	*(change, Q4/Q4) (- = deprec.)*	-6,1	-8,1	-4.0 (E)
Real effective exchange rate (vs the US$)	*(change, Q4/Q4) (- = deprec.)*	1,8	2,4	0.9 (E)
Central government overall deficit (as % of GDP)		-2,5	-2,0	-3.5 (E)
Balance of payments				
Merchandise trade (in bn USD)		14,9	16,5	17.8 (E)
Current account balance (in % of GDP)		-1,8	-3,0	-6.2 (E)
Net inflow of foreign direct investment (in mio USD)		0	406	1,350 (E)
Gross official FX reserves (end of period) (in months of total imports)				
in billions US$		6,382	6,689	8.158 (E)
in months of imports of G&S		2,4	2,5	2.6 (E)
External debt				
External debt (gross external liabilities) *(in bn USD, end of period)*		36,1	40,0	46.8 (E)
medium and long-term (> 1 year)		n.a.	n.a.	n.a.
short-term (=< 1 year)		n.a.	n.a.	n.a.
Debt service (in bn USD)		4,1	4,6	n.a.
principal *		1,9	2,2	n.a.
interest (gross)		2,2	2,4	n.a.
External debt/GDP (%)		55,8	54,2	58.9 (E)
External debt/exports (%)		242,3	226,7	262.9 (E)
Debt service/exports of goods and services (%)		14,0	14,9	13.0 (E)
Arrears (on both interest and principal, in mio USD)		No	No	No
Debt relief agreements and rescheduling		No	No	No
IMF arrangements				
Type/no		No	No	No
(Date / -)		-	-	-
On track/off track		-	-	-
(- / Date)		-	-	-
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	A3
S&P long-term foreign currency rating (end of period)		BBB+	BBB+	A-
Euromoney		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (1)		29 29	30 33	31 31
(number of countries)		(169) (170)	(167) (167)	(187) (181)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (1)		46 46	46 43	43 42
(number of countries)		(127) (133)	(135) (135)	(135) (135)
Credit rating (2)		39.6 40.5	43.4 46.5	47.9 49.2

(1) The higher the ranking number, the lower the creditworthiness of the country.
(2) 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.
* Excludes short-term debt.

Country-risk indicators

Country: Latvia

		1993	1994	1995 Latest data or estimates (E)	
Real GDP growth rate (in %)		-12,0	2,0	0,0	(E)
Industrial production (% change)		-32,6	-2,2	n.a.	
Unemployment (end of period)		5,8	7,0	6,3	
Inflation rate		34,8	26,0	23,0	
Exchange rate (Lats per USD)	*(end of period)*	0,595	0,548	0,512	
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	0,0	
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	20,0	
General government balance (as % of GDP)					
Financial balance (1)		1,0	-1,7	-3,8	(E)
Fiscal balance (1)		0,6	-4,1	-4,4	(E)
Balance of payments					
Exports (in mio USD)		998	951	1204	(E)
Current account balance, excl. official transfers (in % of GDP)		4,6	-4,6	-4,0	(E)
Net inflow of foreign direct investment (in mio USD)		51	155	153	(E)
Official FX reserves (end of period)					
in mio USD		510	620	600	(E)
in months of imports of G&S		5,6	5,5	4,8	(E)
External debt					
External debt *(in convertible currencies, in mio USD, end of period)*		225	359	540	(E)
medium and long-term (> 1 year)		225	359	540	(E)
short-term (=< 1 year)		0	0	0	(E)
Convertible debt service (in mio USD)		20	27	31	(E)
principal		n.a.	20	16	(E)
interest		n.a.	7	15	(E)
External debt/GDP (%)		10,0	10,0	12,0	(E)
External debt/merchandise exports (%)		24,0	38,0	45,0	(E)
Debt service/merchandise exports (%)		2,0	3,0	2,6	(E)
Arrears (on both interest and principal, in mio USD)		No	No	No	
Debt relief agreements and rescheduling		No	No	No	
IMF arrangements					
Type/no		SBA/STF	SBA/STF	SBA—	
(Date / -)		(12/93-3/95	(12/93-3/95)	(4/95-4/96)	
On track/off track (- / Date)		On track	On track	Off-track	
Indicators of market's perceived creditworthiness					
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated	
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated	
Euromoney		Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (2)		133 132	104 125	106 116	
(number of countries)		(169) (170)	(167) (167)	(187) (181)	
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (2)		89 87	94 92	91 89	
(number of countries)		(127) (133)	(135) (135)	(135) (135)	
Credit rating (3)		19.5 20.0	19.6 21.3	22.6 23.4	

(1) Financial balance does not take into account government net lending, whereas fiscal balance does.
(2) The higher the ranking number, 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.

Country-risk indicators

Country: Lithuania

		1993	1994	1995 Latest data or estimates (E)	
Real GDP growth rate (in %)		-16,2	1,5	3,0	**(E)**
Industrial production (% change)		-47,0	1,0	15,0	**(E)**
Unemployment rate (end of period)		1,6	4,0	6,1	
Inflation rate	*(end of period)*	188,6	45	35	
Exchange rate (Litas per USD)	*(end of period; for 1994, fixed as of 1.4.94*	3,9	4,0	4,0	
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	0,0	
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	30,0	
General government balance (as % of GDP)					
Financial balance (1)		0,9	-1,5	-1,5	(E)
Fiscal balance (1)		-4,6	-4,2	-3,4	(E)
Balance of payments					
Exports (in mio USD)		1877	1930	2250	(E)
Current account balance (in % of GDP), without official transfers		-8,3	-4,3	-3,4	(E)
Net inflow of foreign direct investment (in mio USD)		23	60	55	(E)
Official FX reserves (end of period, gross foreign assets)					
in mio USD		410	588	800	
in months of imports of G&S		2,4	2,7	3,5	
External debt					
External debt		345,3	530	860	(E)
(in convertible currencies, in mio USD, end of period)					
medium and long-term (> 1 year)		n.a.	n.a.	n.a.	
short-term (=< 1 year)		n.a.	n.a.	n.a.	
Convertible debt service (in mio USD)		15,0	25,4	43,0	(E)
principal		n.a.	n.a.	38	(E)
interest		n.a.	n.a.	5	(E)
External debt/GDP (%)		11,2	9,7	11,0	(E)
External debt/exports of G&S (%)		16,3	25,0	35,0	(E)
Debt service/exports of G&S (%)		0,7	1,0	2,0	(E)
Arrears (on both interest and principal, in mio USD)		No	No	No	
Debt relief agreements and rescheduling		No	No	No	
IMF arrangements					
Type/no		SBA/STF	STF (10/93-3/94)	—EFF	
(Date / -)		(10/93-3/94)	EFF (10/94-11/97	(10/94-10/97)	
On track/off track		On track	On track	On track	
(- / Date)					
Indicators of market's perceived creditworthiness					
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated	
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated	
Euromoney		Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (2)		134 130	110 121	108 118	
(number of countries)		(169) (170)	(167) (167)	(187) (181)	
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (2)		91 93	97 96	95 90	
(number of countries)		(127) (133)	(135) (135)	(135) (135)	
Credit rating (3)		18.9 19.0	18.4 20.0	21.7 22.9	

(1) Financial balance does not take into account government net lending, whereas fiscal balance does.
(2) The higher the ranking number, 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.

B

Country-risk indicators

Country: Moldova

	1993	1994	1995 Latest data or estimates (E)
Real GDP growth rate (in %)	-8,7	-31,2	1,0 (E)
Industrial production (% change)	-7,2	-30,0	-10,0 (E)
Unemployment (% of labour force) (end of period)	n.a.	1,0	2,0 (E)
Inflation rate *(end of period)*	837	116	24
Exchange rate (leu per USD) *(end of period)*	3,64	4,27	4,50
Nominal effective exchange rate *(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
Real effective exchange rate *(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
General government balance (as % of GDP)	-6,8	-8,1	-4,0 (E)
Balance of payments			
Merchandise exports (in mio USD)	451	617	653 (E)
Current account balance (in % of GDP)	-9,3	-12,9	-3,5 (E)
Net inflow of foreign direct investment (in mio USD)	14,0	23,0	19,7 (E)
Official FX reserves (end of period)			
in mio USD	76,6	178,8	265
in months of imports of merchandises	1,4	3,0	4,8
External debt			
External debt *(in convertible currencies, in mio USD, end of period)*	168,0	343,0	652,0 (E)
medium and long-term (> 1 year)	n.a.	n.a.	n.a.
short-term (=< 1 year)	n.a.	n.a.	n.a.
Convertible debt service (in mio USD)	5,0	12,3	84,9 (E)
principal	n.a.	n.a.	n.a.
interest	n.a.	n.a.	n.a.
External debt/GDP (%)	23,0	26,0	42,0 (E)
External debt/ merchandise exports (%)	37,3	55,6	99,8 (E)
Debt service/ merchandise exports (%)	1,1	2,0	13,0 (E)
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling	No	No	No
IMF arrangements			
Type/no	SBA	SBA	SBA
(Date / -)	(3/93-3/94)	(12/93-3/95)	(3/95-3/96)
On track/off track	On-track	On-track	On-track
(- / Date)			
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (1)	159 160	148 155	157 141
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor			
Position in the ranking (1)	Not rated	Not rated	Not rated
(number of countries)			
Credit rating (2)			

(1) The higher the ranking number, the lower the creditworthiness of the country.
(2) 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.

B

Country-risk indicators

Country: Romania

		1993	1994	1995 Latest data or estimates (E)
Real GDP growth rate (in %)		1,3	3,9	5,0 (E)
Industrial production (% change)		7,7	9,9	14,0 (E)
Unemployment rate (end of period)		10,2	11,0	9,0 (E)
Inflation rate	*(Dec/Dec)*	295,5	61,7	24,3 (E)
Exchange rate (lei per USD)	*(end of period)*	1276	1767	2547 (Oct)
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	-56,9	-29,4	n.a.
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	39,7	n.a.	n.a.
General government balance (as % of GDP)		-0,1	-1,0	-2,8 (E)
Balance of payments				
Exports of G&S (in bn USD)		4,9	6,1	7,4 (E)
Current account balance (in % of GDP)		-4,8	-1,8	-4,7 (E)
Net inflow of foreign direct investment (in mio USD)		48	416	306 (E)
Official FX reserves (end of period)				
in mio USD		52	591	695
in months of imports of G&S		0,1	1,1	0,6
External debt				
External debt		4,4	5,5	6,0 (E)
(in convertible currencies, in bn USD, end of period)				
medium and long-term (> 1 year)		3,4	4,5	4,8 (E)
short-term (=< 1 year)		1,0	1,0	1,2 (E)
Convertible debt service (in mio USD)		330	586	653
principal		147	393	428
interest		183	193	225
External debt/GDP (%)		21,4	18,9	18,7 (E)
External debt/exports of G&S (%)		81,0	81,0	80,0 (E)
Debt service/exports of G&S (%)		6,4	8,9	13,0 (E)
Arrears (on both interest and principal, in mio USD)		No	No	No
Debt relief agreements and rescheduling		No	No	No
IMF arrangements				
Type/no		No	SBA/STF	SBA extended
(Date / -)		-	(5/94-12/95)	through 1997
On track/off track		-	On track	and augmented
(- / Date)		-		On Track
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
Euromoney		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (1)		66 75	74 77	68 64
(number of countries)		(169) (170)	(167) (167)	(187) (181)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (1)		73 75	76 74	73 71
(number of countries)		(127) (133)	(135) (135)	(135) (135)
Credit rating (2)		24.2 24.4	25.4 26.2	28.1 29.7

(1) The higher the ranking number, the lower the creditworthiness of the country.
(2) 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.

Country risk indicators

Country: Russia

	1993	1994	1995 Latest data or estimates (E)
Real GDP growth rate (in %)	-12,0	-15,3	-4.2 (E)
Industrial production (% change)	-16,4	-21,0	-3.0 (E)
Unemployment rate (end of period)	5,1	7,1	8,2
Inflation rate *(Dec/Dec)*	840	315	231
Exchange rate (Rbs per U *(end of period)*	1247	3571	4640
Nominal exchange rate *(change, Q4/Q4) (- = depreciation)*	-62,5	n.a.	-30
Real exchange rate (1) *(change, Dec./Dec.) (- = depreciation)*	-66,9	-2,2	72,0
General government balance (as % of GDP)	-7,7	-11,5	-3.9 (E)
Balance of payments			
Exports of G&S (in bn USD)	58	66	81 (E)
Current account balance (in % of GDP)	1,6	-0,4	1.6 (E)
Net inflow of foreign direct investment (in bn USD)	0,7	-0,2	n.a.
Official FX reserves (end of period) (excluding gold) (net figures)			
in mio USD	6,4	2,3	8.1 (E)
in months of imports of G&S	1,3	0,4	1.2 (E)
External debt			
External debt	104,0	119,0	130.0 (E)
(in convertible currencies, in bn USD, end of period)			
medium and long-term (> 1 year)	n.a.	n.a.	n.a.
short-term (=< 1 year)	n.a.	n.a.	n.a.
Convertible debt service (in bn USD)	19.4 (4)	19.6 (5)	17.6 (5)
principal	14.7	15,3	12,3
interest	4,7	4,3	5,3
External debt/GDP (%)	31,0	40,0	33.0 (E)
External debt/exports of G&S (%)	178,0	180,0	160.0 (E)
Debt service/exports of G&S (%) (before rescheduling)	34,0	31,0	22.0 (E)
Arrears (on both interest and principal, in bn USD)	(6)	(6)	(6)
Debt relief agreements and rescheduling	Paris Club (resched.)	Paris Club (resched.)	Paris Club (resched.)
IMF arrangements			
Type/no	STF	STF	SBA
(Date / -)	(07.93 - 07.94)	(07.93 - 07.94)	(04.95 - 04.96)
On track/off track	Off track	Off track	On track
(- / Date)			
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	141 137	138 136	141 142
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	87 92	98 100	97 98
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (3)	20.2 19.0	18,1 18.4	19,5 19.4

(1) Real exchange rate: (USD/rouble rate x US price level) / (Russian price level).
(2) The higher the ranking number, 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.
(4) Before rescheduling.
(5) After rescheduling.
(6) Since 1992, Russia has not been servicing private debts contracted by the FSU.

B

Country-risk indicators

Country: Slovak Republic

	1993	1994	1995 Latest data or estimates (E)	
Real GDP growth rate (in %)	-4,1	4,8	7,4	(Jan-Sep)
Industrial production (% change)	-8,6	7,0	10,1	(Nov)
Unemployment (% of labour force) (end of period)	14,4	14,6	12,8	(Nov)
Inflation rate *(Dec/Dec)*	25,1	11,7	7,2	
Exchange rate (SK's per USD) *(end of period)*	33,2	31,3	29,5	(Sep)
Nominal effective exchange rate *(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.	
Real effective exchange rate *(change, Q4/Q4) (- = depreciation)*	-1,8	2,4	n.a.	
General government balance (as % of GDP)	-7,6	-2,7	-2,5	(E)
Balance of payments				
Exports of G&S (in mio USD)	7568	8983	11000	(E)
Current account balance (in % of GDP)	-5,4	6,0	6,0	(E)
Net inflow of foreign direct investment (in mio USD)	134	184	150	(E)
Official FX reserves (end of period)				
in mio USD	416	1691	2799	(Oct)
in months of imports of G&S	0,6	2,3	3,4	(Oct)
External debt				
External debt *(in convertible currencies, in bn USD, end of period)*	3,4	3,9	4,9	(Jul)
medium and long-term (> 1 year)	2,7	3,2	n.a.	
short-term (=< 1 year)	0,7	0,7	n.a.	
Convertible debt service (in mio USD)	674	791	1045	(E)
principal	490	n.a.	n.a.	
interest	184	n.a.	n.a.	
External debt/GDP (%)	30,8	31,1	33,7	(Jul)
External debt/exports of G&S (%)	44,5	43,4	44,5	(Jul)
Debt service/exports of G&S (%)	8,9	8,8	9,5	
Arrears (on both interest and principal, in mio USD)	No	No	No	
Debt relief agreements and rescheduling	No	No	No	
IMF arrangements				
Type/no	STF	STF	SBA	
(Date / -)	(7/93 - 7/94)	(7/93 - 7/94)	(7/94-3/96) (3)	
On track/off track	On-track	SBA		
(- / Date)		(7/94-3/96)		
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)	Not rated	Baa3 (May)	Baa3	(May)
S&P long-term foreign currency rating (end of period)	Not rated	BB- (Feb)	BB+	(Apr)
Euromoney	Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (1)	56 63	64 66	53 51	
(number of countries)	(169) (170)	(167) (167)	(187) (181)	
The Institutional Investor	Mar - Sep	Mar Sep	Mar Sep	
Position in the ranking (1)	57 57	59 59	61 59	
(number of countries)	(127) (133)	(135) (135)	(135) (135)	
Credit rating (2)	31 30.6	31.6 33.1	33.2 35.7	

(1) The higher the ranking number, the lower the creditworthiness of the country.
(2) 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.
(3) The mid-term review of the programme, which had been scheduled for February 1995, was not completed.

B

Country risk indicators Country: Ukraine			
	1993	1994	1995 Latest data or estimates (E)
Real GDP growth (% change)	-17,1	23,0	-13.0 (E)
Industrial production (% change)	-8,5	-35,6	-20.0 (E)
Unemployment rate (end of period)	0,3	0,3	0.4 (E)
Inflation rate *(Dec/Dec)*	10155	401	180
Exchange rate (Krb per USD) *(end of period)*			
- auction / interbank	12610	108196	179400
- cash	25000	128000	186000
Nominal effective exchange rate *(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
Real effective exchange rate *(change, Q4/Q4) (- = depreciation)*	n.a.	2%	60%
General government balance (as % of GDP)	-10,1	-8,6	-4,1
Balance of payments			
Exports of G&S (in bn USD)	14,4	14,8	15.1 (E)
Current account balance (excl. transfers) (in % of GDP)	-5,9	-6,0	-4.5 (E)
Net inflow of foreign direct investment (in bn USD)	0,2	0,09	0.12 (E)
Gross official FX reserves (end of period) in mio USD	193	646	1100
in months of imports of G&S	0,2	0,5	1
External debt			
External debt *(in convertible currencies, in bn USD, end of period)*	4,1	7,1	8,1
medium and long-term (> 1 year)	n.a.	n.a.	n.a.
short-term (=< 1 year)	n.a.	n.a.	n.a.
Convertible debt service paid (in mio USD)	202	1794	1531
principal	n.a.	n.a.	986
interest	n.a.	n.a.	545
External debt/GDP (%)	12,1	29,2	24.1 (E)
External debt/exports of G&S (%)	28,5	48,0	53.6 (E)
Debt service/exports of G&S (%)	1,3	12,4	10.2 (E)
Arrears (on both interest and principal, in mio USD)	548	2722	236
Debt relief agreements and rescheduling		rescheduling of debt owed to Russia/Turkm.	rescheduling of debt owed to Russia/Turkm.
IMF arrangements			
Type/no	-	STF	SBA
(Date / -)		26 Oct 94	Dec. 1995
On track/off track		On track	Off track
(- / Date)			
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (1)	142 146	149 147	145 138
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (1)	95 96	111 113	109 111
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (2)	18.2 18.2	15.1 14.5	15.5 15.7

(1) The higher the ranking number, the lower the creditworthiness of the country.

(2) 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.

B

EXPLANATORY NOTES

The purpose of the tables 1 to 3 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

I.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.

I.A.1 Borrowing/lending operations

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

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

I.A.2 Guarantees given to third parties

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 receiving the EIB's request. The EIB administers the loan with all the care required by banking practice and is obliged to demand the payments due after the guarantee has been activated.

I.B. Mobilization of funds for guarantee payments

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

I.B.1. Borrowing/lending operations

(a) The amount required may be taken provisionally from cash resources in accordance with Article 12 of the Financial Regulation. This method is used so that the Community can immediately repay the borrowing on the date scheduled in the event of late payment by the recipient of the loan.

(b) If the delay extends to three months after the due date, the Commission draws on the Guarantee Fund to cover the default. The funds obtained are used to replenish the Commission's cash resources.

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(c) 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 in the Guarantee Fund and must be authorized in advance by the budgetary authority.

(d) The re–use of amounts repaid by debtors who have defaulted, leading to activation of the Community guarantee, allows payments to be made within a short period of time always providing, of course, that there are recovered funds available.

I.B.2. Community guarantees for loans from the EIB's own resources

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

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

II. 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 31 December 1995. 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.

II.A. MEMBER STATES

1. <u>Greece</u>: A balance-of-payments loan of ECU 2 200 million has been authorized. ECU 1 000 million of this amount has been 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. <u>Italy</u>: 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 tranches amounting to ECU 2 000 million each and - with the exception of the first tranche - is conditional on the attainment of agreed targets on Italy's public debt and deficit.

   The first two tranches were released in 1993. The Council Decision states that the third and fourth tranches could be released as of 1 February 1994 and 1 February 1995 respectively. The Italian Government has not applied for the payment of these two tranches which it is no longer planned to implement.

3. <u>EIB, Mediterranean, old protocols: Spain, Greece, Portugal</u>: 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.

II.B. Non-member countries

II.B.1 Financial assistance

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II.B.1(a) Hungary I

The amounts of the first two tranches are final and certain. The third tranche of the macrofinancial assistance decided in 1990 will no longer be disbursed since Hungary's balance of payments is more favourable than expected. The first tranche was repaid by Hungary in full on 20 April 1995.

II.B.1(b) Hungary II

ECU 180 million has been granted and paid out in full.

II.B.1(c) 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.

ECU 130 million has been granted to the Slovak Republic in two tranches for a maximum term of seven years (bullet). The Commission has presented to the Council a proposal for a decision cancelling this loan to the Slovak Republic.

II.B.1(d) 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.

II.B.1(e) Bulgaria II

The financial assistance of ECU 110 million over a maximum period of seven years decided in 1992 is being granted in two tranches. The first tranche of ECU 70 million was paid on 7 December 1994. For the second tranche, it is assumed that ECU 40 million could be paid in the second half of 1996.

II.B.1(f) 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.

II.B.1(g) Romania II

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

II.B.1(h) Romania III

This is a seven-year loan of ECU 125 million to be disbursed in two tranches. The first tranche of ECU 55 million was disbursed in November 1995. For the second tranche, it is assumed that ECU 75 million will be paid out in the second half of 1996.

II.B.1(i) Moldova

This is a ten-year loan of ECU 45 million to be disbursed in two tranches. The first tranche of ECU 25 million was disbursed on 7 December 1994. The second tranche of ECU 20 million was paid to Moldova in August 1995.

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II.B.1(j) Ukraine I

ECU 85 million is to be lent in one tranche for a maximum term of ten years. The loan was paid out to Ukraine on 28 December 1995.

II.B.1(k) Ukraine II

ECU 200 million is to be lent in two tranches for a maximum term of ten years. It is assumed that the first tranche of ECU 100 million will be paid out in the second half of 1996 and the second tranche of ECU 100 million in the second half of 1997.

II.B.1(l) Belarus

ECU 75 million is to be lent in two tranches for a maximum term of ten years. The first tranche of ECU 30 million was paid to Belarus in December 1995. For the second tranche, it is assumed that ECU 25 million could be paid in the first half of 1996.

II.B.1(m) Baltic States

The first tranche (ECU 110 million) of a seven-year loan of ECU 220 million was paid in 1993. The second tranches for Estonia and Latvia could be paid in 1996.

Half of the second tranche for Lithuania - i.e. ECU 25 million of the ECU 50 million planned - was paid in August 1995.

It is assumed that the second tranches of ECU 20 million for Estonia and ECU 40 million for Latvia will be paid out in the second half of 1996. The second payment of ECU 25 million for the second tranche to Lithuania is expected to be disbursed in the first half of 1996.

II.B.1(n) Algeria I

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 of ECU 400 million was paid on 17 August 1994.

II.B.1(o) Algeria II:

ECU 200 million has been granted in two tranches for a maximum term of seven years (bullet). The first tranche of ECU 100 million was paid out to Algeria in November 1995. It is assumed that the second tranche of ECU 100 million will be disbursed in the second half of 1996.

II.B.1(p) Israel:

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

II.B.2 Guarantees

II.B.2(a) 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).

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.

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

II.B.2(b) Food aid for the former Soviet Union

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 tranche 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 tranches two years and three years after the start of the period in which the funds may be drawn.

Depending on the type of contract, loans are repaid on 15 January, 20 August or 28 September.

The balance of ECU 13.93 million still to be used at 31 December 1995 was for Azerbaijan.

II.B.2(c) Euratom, countries of Central and Eastern Europe

Of the ECU 1 100 million involved, it is assumed that ECU 200 million will be disbursed in 1996, ECU 200 million in each of the three following years and ECU 150 million in 2000 and 2001.

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

I. 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:

I.A Member States

Balance of payments	14 000[2]
NCI	6 830
Euratom	4 000[3]
EIB; Spain, Greece, Portugal	1 500
Member States - total	26 330

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

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

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I.B. Non-member countries

Hungary I	870
Hungary II	180
Czech Republic	250
Slovak Republic I	125
Slovak Republic II	130
Bulgaria I	290
Bulgaria II	110
Romania I	375
Romania II	80
Romania III	125
Israel	160
Algeria I	400
Algeria II	200
former Soviet Union	1 250
Baltic States	220
Moldova	45
Ukraine	85
Belarus	75
EIB, old protocols	3 032
EIB, Eastern and Central Europe I	1 700
EIB, Eastern and Central Europe II	3 000
EIB, new protocols	1 530
EIB, horizontal financial cooperation	1 800
Other non-member countries	750
South Africa	300
Non-member countries - total	16 674
Grand total	43 004

II. 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.

III. 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.

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