



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMISSION REPORT TO THE BUDGETARY AUTHORITY
ON GUARANTEES COVERED BY THE GENERAL BUDGET -
SITUATION AT 30 JUNE 1998**

This report describes the situation as regards budget guarantees at the date of the report.

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

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

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

The report is in two parts with an annex:

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

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**PART ONE: EVENTS SINCE THE REPORT AT 31 DECEMBER 1997,
THE RISK SITUATION AND ACTIVATION OF BUDGET GUARANTEES**

I. INTRODUCTION : TYPES OF OPERATION

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

I.A Operations with macroeconomic objectives

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

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

I.B Operations with microeconomic objectives

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

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

II. EVENTS SINCE THE REPORT AT 31 DECEMBER 1997

The main events in the first half of 1998 were as follows:

II.A Ukraine

As part of an overall aid programme for Ukraine, on 12 November 1997 the Commission presented a proposal for a Council Decision providing additional macro-financial assistance of ECU 150 million to Ukraine in the form of a loan with a maximum maturity of ten years. The Council had not adopted any formal decision at the time this report was drawn up.

II.B Loans granted by the European Investment Bank for investment projects in the former Yugoslav Republic of Macedonia

On 13 January 1998 the Commission presented a proposal for a Council Decision granting a Community guarantee of 70% in respect of loans for investment projects in the former Yugoslav Republic of Macedonia. This guarantee is limited to a maximum of ECU 150 million in the period up to 31 December 2000. The Council decided to grant a Community guarantee for this loan on 19 May 1998.

This decision brings the total amount of the new mandates conferred on the EIB to ECU 7 255 million. The system of guarantees applicable is set out in the Decision of 14 April 1997 and the rules laid down in the contract of guarantee signed by the Bank and the Commission on 25 and 29 July 1997.

II.C Loans granted by the European Investment Bank for investment projects in Bosnia-Herzegovina

On 18 May 1998 the Commission presented a proposal for a Council Decision granting a Community guarantee in respect of loans for investment projects in Bosnia-Herzegovina. This guarantee is limited to a maximum of ECU 100 million over a period of two years. The Council had not adopted any formal decision at the time this report was drawn up.

III. RISK SITUATION

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

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

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

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

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

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

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

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

III.A Amount outstanding at the date of the report (see Table 1)

The total risk at the date of the report came to ECU 11 821 million as against ECU 12 171 million at 31 December 1997, a fall of 2.9%.³

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

¹ An average interest rate of 10% is assumed for EIB loans. The average interest rate assumed for borrowing and lending operations is 4.4%.

² The exchange rate used for loans in currencies other than the ecu are those of 30 June 1998.

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

| | |
|---|------------|
| Amount outstanding at 31 December 1997 | 12 171.00 |
| Loan repayments | |
| Balance of payments: Greece | -500.00 |
| Euratom | -89.4 |
| NCI | -22.1 |
| Financial assistance | -620.00 |
| Former Soviet Union | -113.31 |
| EIB | -175.00 |
| Exchange rate differences between ecu and other currencies | -28.19 |
| Loans disbursed | |
| Financial assistance | +140.00 |
| EIB | + 1 058.00 |
| Amount outstanding at 30 June 1998 | 11 821.00 |

The capital outstanding in respect of operations in the Member States was ECU 3 861 million at the date of the report, a fall of 14.1% compared with 31 December 1997.

This fall is mainly due to the repayment of ECU 611.5 million in balance of payments loans for Greece and Euratom and NCI loans

The amount outstanding from the balance of payments loan for Italy has remained stable.

The capital outstanding from non-member countries at the date of the report was ECU 7 960 million, an increase of 3.73% compared with 31 December 1997.

III.B Maximum annual risk borne by the Community budget: operations disbursed at the date of the report (see Table 2)⁴

The total annual risk, which comes to ECU 3 289 million in 1998, will increase to around ECU 3 746 million in 2000, although the situation in 1999 is special in that there will be no capital repayments for the balance-of-payments loans to the Member States and in that capital repayments on loans to Hungary, the Czech and Slovak Republics and the ECU 290 million loan to Bulgaria end in 1998.

– The risk for 1998 in respect of the Member States comes to ECU 1 967 million. This figure changes in line with the capital repayments on balance-of-payment loans to

⁴ When repayments during the first half of 1998 are taken into account, the residual risk for 1998 in Table 2 comes to ECU 1 882.5 million at 30 June 1998.

Greece and Italy. The risk will reach ECU 2 734 million in 2000 when Italy's last repayment is due.

- The risk for 1998 in respect of non-member countries comes to ECU 1 323 million as the following capital payments fall due:
 - ECU 100 million from Hungary;
 - ECU 123 million from the Czech Republic;
 - ECU 62 million from the Slovak Republic;
 - ECU 150 million from Bulgaria;
 - ECU 185 million from Romania;
 - ECU 288 million from EIB loans.

From 1999 the amount of capital repayments on borrowing and lending operations will fall. The risk in respect of non-member countries will then average ECU 954 million over the period 1999-2006.⁵

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

This risk comes to ECU 3 403 million in 1998 and will increase to ECU 4 270 million in 2000, before stabilising at an average of ECU 2 536 million between 2001 and 2006. The risk in 1999 will total ECU 1 557 million.

- The trend in the maximum risk in respect of the Member States is much the same as in Table 2 up to 2000 when the risk will amount to ECU 2 734 million.
- The risk in respect of non-member countries will rise from ECU 1 436 million in 1998 to ECU 1 278 million in 1999. The risk will increase by an average of 11% a year from 2000 until 2006.

⁵ When repayments during the first half of 1998 are taken into account, the residual risk for 1998 in Table 3 comes to ECU 1 996.5 million at 30 June 1998.

TABLE 1

CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED
(ECU million)

| Operation | Authorised ceiling | Capital outstanding 31.12.97 | Capital outstanding 30.06.98 | Remainder to be disbursed 30.06.98 |
|---|--------------------|------------------------------|------------------------------|------------------------------------|
| MEMBER STATES | | | | |
| A. Balance of payments | 14000 | | | |
| 1. Greece(*) | | 500 | 0 | 0 |
| 2. Italy | | 3448 | 3447 | 0 |
| B. Others | | | | |
| 3. Euratom | 4000 | 118 | 29 | 0 |
| 4. NIC and NCI earthquake | 6830 | 219 | 195 | 0 |
| 5. EIB Mediterranean Spain, Greece, Portugal. | 1500 | 212 | 191 | 0 |
| MEMBER STATES - TOTAL | 26330 | 4497 | 3861 | 0 |
| THIRD COUNTRIES | | | | |
| A. Financial assistance | | | | |
| 1. Hungary(*) | 180 | 100 | 0 | 0 |
| 2. Czech Republic(*) | 250 | 123 | 0 | 0 |
| 3. Slovak Republic(*) | 125 | 62 | 0 | 0 |
| 4. Bulgaria | 650 | 260 | 235 | 125 |
| 5. Romania | 580 | 580 | 395 | 0 |
| 6. Algeria | 600 | 250 | 250 | 100 |
| 7. FYROM | 40 | 25 | 40 | 0 |
| 8. Baltic States | 220 | 130 | 130 | 85 |
| 9. Moldova | 60 | 60 | 60 | 0 |
| 10. Ukraine | 285 | 285 | 285 | 0 |
| 11. Belarus | 55 | 30 | 30 | 25 |
| 12. Georgia, Armenia | 170 | 0 | 0 | 170 |
| 13. Former Soviet Union (**) | 1250 | 216 | 103 | 0 |
| B. Other | | | | |
| 14. EIB Mediterranean | 8822 | 3150 | 3407 | 2531 |
| 15. EIB Central and Eastern Euro | 8220 | 1919 | 2448 | 3944 |
| 16. EIB Asia, Latin America | 1925 | 385 | 494 | 588 |
| 17. EIB South Africa | 675 | 100 | 83 | 244 |
| THIRD COUNTRIES - TOTAL | 24107 | 7674 | 7960 | 7812 |
| GRAND TOTAL | 50437 | 12171 | 11821 | 7812 |

(*) Loan repaid in full at 30.06.1998.

(**) The ECU 103 million outstanding corresponds to the principal due but not paid at 30.06.1998

ANNEX TO TABLE 1

SITUATION IN RESPECT OF EIB OPERATIONS (30.06.98)

| Operations | Credit line authorised | Loans made available minus cancellations | Amounts disbursed | Amounts outstanding at 30.06.98 |
|----------------------------------|------------------------|--|-------------------|---------------------------------|
| Mediterranean Member States | 1500 | 1465 | 1573 | 191 |
| Third countries, old mandates | | | | |
| Mediterranean Protocols | 6362 | 5850 | 4581 | 3252 |
| Central and Eastern Europe I | 1700 | 1628 | 1286 | 1126 |
| Central and Eastern Europe II | 3000 | 3000 | 908 | 903 |
| Asia, Latin America I | 750 | 657 | 392 | 364 |
| Asia, Latin America II | 153 | 153 | 78 | 78 |
| South Africa | 300 | 300 | 83 | 83 |
| Third countries, new mandates(*) | | | | |
| Mediterranean | 2460 | 1292 | 156 | 156 |
| Central and Eastern Europe | 3520 | 1888 | 419 | 419 |
| Asia, Latin America | 1022 | 265 | 51 | 51 |
| South Africa | 375 | 45 | 0 | 0 |
| Total | 21142 | 16542 | 9527 | 6623 |

(*) Council Decision of 14 April 1997.

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

TABLE 2
MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET
 (Estimate in ECU million based on all operations disbursed at 30.06.98)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | TOTAL |
|--|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|------------|--------------|
| MEMBER STATES | | | | | | | | | | |
| CAPITAL | | | | | | | | | | |
| A. Balance of payments | | | | | | | | | | |
| 1. Greece | 500 | | | | | | | | | 500 |
| 2. Italy | 981 | | 2467 | | | | | | | 3448 |
| B. Structural loans | | | | | | | | | | |
| 3. Euratom | 91 | 15 | 12 | | | | | | | 118 |
| 4. NCI and NCI EQ | 50 | 40 | 40 | 71 | | | 17 | | | 218 |
| 5. EIB Med. Old. Prot. Sp. Gr. Port | 45 | 39 | 37 | 20 | 22 | 21 | 15 | 8 | | 208 |
| Capital - subtotal | 1667 | 95 | 2556 | 92 | 22 | 21 | 32 | 8 | 0 | 4492 |
| INTEREST | | | | | | | | | | |
| A. Balance of payments | | | | | | | | | | |
| 1. Greece | 48 | | | | | | | | | 48 |
| 2. Italy | 209 | 155 | 155 | | | | | | | 519 |
| B. Structural loans | | | | | | | | | | |
| 3. Euratom | 10 | 3 | 1 | | | | | | | 14 |
| 4. NCI and NCI EQ | 16 | 13 | 10 | 7 | 2 | 2 | 2 | | | 51 |
| 5. EIB Med. Old. Prot. Sp. Gr. Port | 18 | 14 | 11 | 7 | 5 | 3 | 2 | 1 | | 61 |
| Interest - subtotal | 300 | 184 | 177 | 14 | 7 | 5 | 4 | 1 | 0 | 693 |
| MEMBER STATES - TOTAL | 1967 | 279 | 2734 | 106 | 30 | 26 | 35 | 8 | 0 | 5185 |
| NON-MEMBER COUNTRIES | | | | | | | | | | |
| CAPITAL | | | | | | | | | | |
| A. Financial assistance | | | | | | | | | | |
| 6. Hungary | 100 | | | | | | | | | 100 |
| 7. Czech Republic | 123 | | | | | | | | | 123 |
| 8. Slovak Republic | 62 | | | | | | | | | 62 |
| 9. Bulgaria | 150 | | | 70 | | 40 | | 31 | 31 | 323 |
| 10. Romania | 185 | 190 | 80 | | | | 70 | | | 580 |
| 11. Algeria | | | | 150 | 100 | | | | | 250 |
| 12. FYROM | | | | | | | | | | 0 |
| 13. Baltic States | 5 | 5 | 95 | | 25 | | | | | 130 |
| 14. Moldova | | | 5 | 9 | 12 | 12 | 12 | 7 | 3 | 60 |
| 15. Ukraine | | | | 17 | 37 | 57 | 57 | 57 | 40 | 265 |
| 16. Belarus | | | | 6 | 6 | 6 | 6 | 6 | | 30 |
| B. Guarantees | | | | | | | | | | |
| 17. EIB Mediterranean | 174 | 187 | 203 | 225 | 247 | 263 | 251 | 244 | 252 | 2046 |
| 18. EIB C+E Eur. | 92 | 142 | 196 | 225 | 234 | 247 | 242 | 224 | 207 | 1808 |
| 19. EIB Asia Latin America | 22 | 28 | 38 | 45 | 51 | 63 | 35 | 37 | 37 | 356 |
| 20. EIB South Africa | | | | 29 | 16 | | | | | 44 |
| Capital - subtotal | 912 | 552 | 617 | 776 | 782 | 688 | 673 | 607 | 570 | 6177 |
| INTEREST | | | | | | | | | | |
| A. Financial assistance | | | | | | | | | | |
| 6. Hungary | 2 | | | | | | | | | 2 |
| 7. Czech Republic | 3 | | | | | | | | | 3 |
| 8. Slovak Republic | 1 | | | | | | | | | 1 |
| 9. Bulgaria | 8 | 10 | 10 | 10 | 7 | 7 | 5 | 5 | 3 | 66 |
| 10. Romania | 22 | 13 | 7 | 5 | 5 | 3 | 3 | | | 58 |
| 11. Algeria | 16 | 15 | 15 | 15 | 4 | | | | | 65 |
| 12. FYROM | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 15 |
| 13. Baltic States | 7 | 7 | 5 | 1 | 1 | | | | | 21 |
| 14. Moldova | 3 | 3 | 3 | 2 | 2 | 1 | 1 | 1 | 1 | 17 |
| 15. Ukraine | 13 | 12 | 12 | 12 | 12 | 10 | 7 | 5 | 3 | 86 |
| 16. Belarus | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | 10 |
| B. Guarantees | | | | | | | | | | |
| 17. EIB Mediterranean | 185 | 185 | 172 | 159 | 145 | 130 | 114 | 99 | 85 | 1274 |
| 18. EIB C+E Eur. | 115 | 145 | 135 | 123 | 110 | 96 | 83 | 69 | 56 | 932 |
| 19. EIB Asia Latin America | 18 | 21 | 20 | 19 | 17 | 16 | 14 | 12 | 11 | 148 |
| 20. EIB South Africa | 15 | 12 | 12 | 12 | 8 | 6 | 6 | 6 | 6 | 81 |
| Interest - subtotal | 410 | 426 | 396 | 362 | 314 | 271 | 235 | 200 | 166 | 2780 |
| NON-MEMBER COUNTRIES - TOTAL | 1323 | 978 | 1013 | 1138 | 1096 | 959 | 908 | 806 | 736 | 8957 |
| GRAND TOTAL | 3289 | 1257 | 3746 | 1244 | 1126 | 986 | 944 | 815 | 736 | 14142 |
| (Eastern Europe) | 892 | 528 | 550 | 483 | 507 | 480 | 487 | 406 | 344 | 4677 |
| (Other non-member countries) | 430 | 450 | 462 | 655 | 589 | 479 | 421 | 400 | 392 | 4279 |

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

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | TOTAL |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| MEMBER STATES | | | | | | | | | | |
| CAPITAL | | | | | | | | | | |
| A. Balance of payments | | | | | | | | | | |
| 1. Greece | 500 | | | | | | | | | 500 |
| 2. Italy | 981 | | 2467 | | | | | | | 3448 |
| B. Structural loans | | | | | | | | | | |
| 3. Euratom and NCI | 141 | 55 | 52 | 71 | | | 17 | | | 336 |
| 4. EIB Spain, Greece, Portugal | 45 | 39 | 37 | 20 | 22 | 21 | 15 | 8 | | 208 |
| Capital - subtotal | 1667 | 94 | 2557 | 91 | 22 | 21 | 32 | 8 | 0 | 4492 |
| INTEREST | | | | | | | | | | |
| A. Balance of payments | | | | | | | | | | |
| 1. Greece | 48 | | | | | | | | | 48 |
| 2. Italy | 209 | 155 | 155 | | | | | | | 519 |
| B. Structural loans | | | | | | | | | | |
| 3. Euratom and NCI | 26 | 15 | 11 | 7 | 2 | 2 | 2 | | | 65 |
| 4. EIB Spain, Greece, Portugal | 18 | 14 | 11 | 7 | 5 | 3 | 2 | 1 | | 61 |
| Interest - subtotal | 300 | 184 | 177 | 14 | 7 | 5 | 4 | 1 | 0 | 692 |
| MEMBER STATES - TOTAL | 1967 | 279 | 2734 | 106 | 29 | 26 | 36 | 8 | 0 | 5184 |
| THIRD COUNTRIES | | | | | | | | | | |
| CAPITAL | | | | | | | | | | |
| A. Financial assistance | | | | | | | | | | |
| 5. Hungary | 100 | | | | | | | | | 100 |
| 6. Czech Republic | 123 | | | | | | | | | 123 |
| 7. Slovak Republic | 62 | | | | | | | | | 62 |
| 8. Bulgaria | 150 | | | 70 | | 40 | | 63 | 63 | 386 |
| 9. Roumania | 185 | 190 | 80 | | 55 | | 70 | | | 580 |
| 10. Algeria | | | | 150 | 100 | | | | 100 | 350 |
| 11. FYROM | | | | | | | | | | 0 |
| 12. Baltic States | 5 | 5 | 95 | | 25 | | | | | 130 |
| 13. Moldova | | | 5 | 9 | 12 | 12 | 12 | 7 | 3 | 60 |
| 14. Ukraine | | | | 17 | 37 | 57 | 87 | 87 | 70 | 355 |
| 15. Belarus | | | | 6 | 6 | 6 | 6 | 6 | | 30 |
| 16. Georgia | | | | | | | | | | 0 |
| 17. Armenia | | | | | | | | | | 0 |
| 18. Euratom C+E Europe | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 12 | 28 | 43 |
| B. Guarantees | | | | | | | | | | |
| 19. EIB Mediterranean | 174 | 187 | 203 | 275 | 352 | 435 | 501 | 526 | 561 | 3214 |
| 20. EIB C+E Europe | 92 | 142 | 196 | 306 | 400 | 512 | 619 | 635 | 649 | 3551 |
| 21. EIB Asia, Latin America | 22 | 28 | 38 | 57 | 76 | 109 | 107 | 124 | 124 | 685 |
| 22. EIB South Africa | | | | 36 | 33 | 29 | 41 | 46 | 48 | 233 |
| Capital - subtotal | 913 | 552 | 617 | 926 | 1096 | 1200 | 1446 | 1506 | 1646 | 9902 |
| INTEREST | | | | | | | | | | |
| A. Financial assistance | | | | | | | | | | |
| 5. Hungary | 2 | | | | | | | | | 2 |
| 6. Czech Republic | 3 | | | | | | | | | 3 |
| 7. Slovak Republic | 1 | | | | | | | | | 1 |
| 8. Bulgaria | 17 | 21 | 21 | 21 | 18 | 18 | 18 | 17 | 14 | 165 |
| 9. Romania | 22 | 13 | 7 | 5 | 5 | 3 | 3 | | | 58 |
| 10. Algeria | 21 | 15 | 15 | 15 | 8 | 4 | 4 | 4 | 4 | 90 |
| 11. FYROM | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 18 |
| 12. Baltic States | 11 | 7 | 5 | 1 | 1 | | | | | 25 |
| 13. Moldova | 3 | 3 | 3 | 2 | 2 | -1 | 1 | 1 | 1 | 17 |
| 14. Ukraine | 16 | 15 | 15 | 15 | 15 | 13 | 10 | 7 | 4 | 110 |
| 15. Belarus | 3 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | 10 |
| 16. Georgia | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 44 |
| 17. Armenia | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 24 |
| 18. Euratom C+E Europe | | 2 | 11 | 30 | 56 | 81 | 99 | 106 | 105 | 490 |
| B. Guarantees | | | | | | | | | | |
| 19. EIB Mediterranean | 205 | 278 | 338 | 407 | 449 | 452 | 436 | 348 | 329 | 3242 |
| 20. EIB C+E Europe | 166 | 293 | 393 | 500 | 559 | 557 | 534 | 491 | 435 | 3928 |
| 21. EIB Asia, Latin America | 26 | 43 | 62 | 88 | 108 | 119 | 121 | 114 | 104 | 785 |
| 22. EIB South Africa | 18 | 26 | 39 | 50 | 52 | 50 | 45 | 37 | 46 | 363 |
| Interest - subtotal | 523 | 726 | 919 | 1144 | 1283 | 1308 | 1281 | 1135 | 1052 | 9375 |
| THIRD COUNTRIES - TOTAL | 1436 | 1278 | 1536 | 2070 | 2379 | 2508 | 2727 | 2642 | 2698 | 19277 |
| GRAND TOTAL | 3403 | 1557 | 4270 | 2176 | 2408 | 2534 | 2763 | 2650 | 2698 | 24462 |
| (Eastern Europe) | 968 | 699 | 839 | 990 | 1199 | 1308 | 1470 | 1441 | 1380 | 10297 |
| (other non-member countries) | 661 | 338 | 697 | 1080 | 1180 | 1200 | 1257 | 1201 | 1318 | 8980 |

IV. ACTIVATION OF BUDGET GUARANTEES

IV.A Payments from cash resources

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

IV.B Activation of the Guarantee Fund

Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 established a Guarantee Fund for external action. In the event of late payment by a recipient of a loan granted by the Community, the Guarantee Fund is called on to cover the default within three months of the date on which payment is due. If a borrower defaults on an EIB loan guaranteed by the Community budget, the Community will act within three months of receiving a letter from the Bank calling for the guarantee to be activated. The Commission will then authorise the Bank to take the corresponding amounts from the Guarantee Fund.

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

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

| Non-member country | Date | Amount (principal + interest) |
|--------------------|----------|-------------------------------|
| Former Yugoslavia | 06.02.98 | 4 704 085.39 |
| Former Yugoslavia | 22.05.98 | 4 352 236.80 |
| Total | | 9 056 322.19 |

IV.C Late repayments

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

- Georgia has repaid all its arrears of ECU 131 288 737.93.
- Tajikistan has repaid some of its arrears (ECU 3 million), leaving the Community responsible for a default of ECU 70 million.

The late repayments since 1 January 1998 can be broken down as follows:

| Non-member country | Repayment date | Amount (principal + interest + default interest) |
|--------------------|----------------|--|
| Tajikistan | 25.03.98 | 1 291 892.58 |
| Tajikistan | 16.04.98 | 1 726 331.69 |
| Georgia | 02.07.98 | 81 288 737.93 |
| Georgia | 21.07.98 | 50 000 000.00 |
| Total | | 134 306 962.20 |

IV.D Situation as regards unpaid debts at the date of the report⁶

The following amounts had not been paid at 30 June 1998:

| Non-member country | Amount (principal + interest + default interest) |
|--------------------|--|
| Tajikistan | 70 142 185.24 |
| Armenia | 48 510 587.09 |
| Former Yugoslavia | 95 727 036.69 |
| Total | 214 379 809.02 |

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

In practice, the Guarantee Fund and reserve facility limits the Community's lending and guarantee capacity to non-member countries since the appropriations available for provisioning the Fund whenever a new lending decision is adopted (or any annual tranche in the case of guarantees for multiannual operations) are limited by the amount entered for the guarantee reserve in the financial perspective.⁷

⁶ Arrears due from Tajikistan and Armenia from the loan of ECU 1 250 million which the Community granted to the former Soviet Union and its Republics and arrears due on the EIB loan to former Yugoslavia under the Mediterranean protocols.

⁷ ECU 300 million at 1992 prices.

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

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

On the basis of the decisions adopted by the Council and decisions proposed and in preparation (see Table 4), ECU 312.71 million is expected to be used from the guarantee reserve in 1998, leaving ECU 25.29 million available at the end of the year.

Outstanding lending and loan guarantee operations for non-member countries plus unpaid interest due totalled ECU 8 261 million at 30 June 1998.

The ratio between the Fund's resources at 30 June 1998 (1 184) and outstanding capital liabilities within the meaning of the Regulation establishing the Fund was 14.33%, which is higher than the target amount of 10%. The rules state that "if, at the end of a year, the target amount is exceeded, the surplus shall be paid back to a special heading in the statement of revenue in the general budget of the European Communities". The surplus of ECU 66 million established at the end of the 1997 financial year was repaid to the budget in the first half of 1998.

The Guarantee Fund could amount to around ECU 1 405 million at the end of 1998 assuming:

- a transfer of ECU 67.20 million from the guarantee reserve in 1998;
- no further defaults requiring activation of the Fund;
- no late repayment of arrears by defaulting countries;
- revenue of around ECU 33 million on investments from the Fund's assets in the second half of the year.

If account is taken of the effect on the guarantee reserve of the provisioning of the Fund in respect of loans already decided and loans proposed and in preparation for the period 1998-99, the annual capacity available for loans at 30 June 1998 varies:

- from ECU 34 million to ECU 181 million for loans with a 100% guarantee under the Community budget;
- from ECU 48 million to ECU 258 million for loans with a 70% guarantee (in accordance with the contract of guarantee signed between the Commission and the EIB on 25 and 29 July 1997).

The estimates in Table 4 for the provisioning of the Fund in 1999 shows that the remaining lending capacity is severely restricted.

VI. RELATIVE SOLIDITY OF THE GUARANTEE FUND

The ratio between the amount in the Fund at 30 June 1998 (ECU 1 184 million) and the maximum annual risk for loans to non-member countries (defined as the total amount falling due) shown for 1998 in Table 3 (ECU 1 436 million) comes to 82%.

TABLE 4

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

| ECU million | Outturn | Forecast | Forecast |
|---|------------|------------|------------|
| | 31.12.1997 | 1998 | 1999 |
| Reserve for loan guarantees to non-member countries | 329 | 338 | 346 |
| Bases for the calculation of the provisioning of the Guarantee Fund | | | |
| - EIB loans | | | |
| - Mediterranean (a) | 553 | 938,6 | 735,25 |
| - Countries of Central and Eastern Europe (b) | 850,5 | 665,7 | 710,5 |
| - Asia, Latin America (c) | 60 | 190,55 | 322 |
| - South Africa (d) | 125 | 17,5 | 105 |
| - EIB loans - Total | 1588,5 | 1812,35 | 1872,75 |
| - Euratom loans | 0 | 260 | 440 |
| - Macrofinancial assistance | 305 | 170 | 125 |
| Provisioning of the Guarantee Fund | 286 | 313 | 341 |
| Margin remaining in the guarantee reserve | 43 | 25 | 5 |
| Residual lending capacity (balance of payments loans, EIB loans and Euratom loans) | | | |
| - Maximum if used in full for 100% guarantee (e.g. BP loans) | 286 | 181 | 34 |
| - Maximum if used in full for EIB loans (70% guarantee) | 409 | 258 | 48 |

(*) The provisioning rate for 1998 and 1999 is 14%, the Fund having reached its target amount at the end of 1997. (see Council recommendations of 2 December 1996 and 27 January 1997)

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

- EIB

a. Mediterranean:

- loans decided: 1994-96: ECU 115 million under the Fourth Financial Protocol with Syria (overall 75% guarantee). 31.1.1997-31.1.2000: ECU 2 310 million for the renewal of the EIB mandate, covered by overall 70% guarantee. 1998-2000: ECU 150 million for financial cooperation with the Former Yugoslav Republic of Macedonia (FYROM) (overall 70% guarantee).
- loans proposed or in preparation: 1998-2002: ECU 750 million for financial cooperation with Turkey. 1998-2001: ECU 230 million for financial cooperation with Croatia. 1998-2000: ECU 100 million for financial cooperation with Bosnia.

b. Central and Eastern Europe:

- loans decided: 31.1.1997-31.1.2000: ECU 3 520 million for the renewal of the EIB mandate, covered by overall 70% guarantee.

c. Asia and Latin America:

- loans decided: 1993-1996: ECU 750 million. Loans of ECU 54.6 million cancelled. 1996: ECU 275 million (100% guarantee). ECU 122 million still to be signed when the decision of 14.4.1997 was adopted is now covered by the overall 70% guarantee. 31.1.1997-31.1.2000: ECU 900 million for renewal of the EIB mandate, covered by overall 70% guarantee.

d. South Africa:

- loans decided: 1.7.1997-1.7.2000: ECU 375 million for the renewal of the EIB mandate, covered by overall 70% guarantee.

- Euratom

Loans contracts expected to be signed: ECU 460 million in 1998; ECU 440 million in 1999.

- Macrofinancial assistance

- loans decided: 1997: loans of ECU 25 million to Belarus released and carried forward to 1999; loans of ECU 130 million to Slovakia cancelled. 1998: loans of ECU 100 million to Algeria released in 1998 and carried forward to 1999.
- loans proposed or in preparation: 1998: ECU 150 million in loans to Ukraine. ECU 50 million in loans to Bulgaria. ECU 30 million in loans to Bosnia. ECU 20 million in loans to Albania. ECU 20 million in loans to FYROM.

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

I. INTRODUCTION

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

The country risk evaluation presented in this chapter provides a set of country risk indicators for all countries that have been recipients of macro-financial assistance in Central and Eastern Europe, the NIS and the Mediterranean area, in the form of a full-page table per country. To complement this, textual analysis is provided for those countries where significant new information influencing the risk evaluation has become available since the previous report covering the last six months of 1997. Brief textual analysis is also provided for the countries which have still to repay loans outstanding in the context of the ECU 1250 million commercial credits made available to the then Soviet Union in 1991.

The evaluation in this section does *not* deal with other regions than those mentioned, mainly because Community exposure elsewhere (notably through guarantees of EIB lending) represents only a small fraction of total exposure (less than 3 %) and is also well diversified among countries. The Czech Republic, Hungary and Slovakia will no longer be included in the next report, as these countries repaid their outstanding debts towards the EC in the first half of 1998.

II. CENTRAL AND EAST EUROPEAN COUNTRIES

BULGARIA

Bulgaria's prospects remain positive. The stand-by arrangement reached in Spring 1997 with the International Monetary Fund has been successfully concluded. Discussions on a possible 3-year Extended Fund facility have started. Foreign reserves are more than adequate to cover the central bank's liabilities under the currency board arrangement introduced on 1 July 1997.

The budget deficit for 1998 is set to be around 1.5% of GDP, some 0.5 percentage points smaller than the target in the budget law. This is due to strong revenue performance in the first half of the year and also to lower than expected interest rates, which reflect both successes in macroeconomic stabilisation and depressed demand for credit.

Although structural reforms are advancing, some of the initial momentum built up during 1997 has been lost. The main reasons for this seem to be a lack of administrative capacity, including in the courts, and an unclear framework for reforms. There is also some perception that the authorities are reluctant to relax such hold on the economy that they have through state-owned enterprises. Nonetheless, the Government's willingness to constrain its own freedom of movement, both through the currency board and by the use of international consultants to privatise some 80 large enterprises, provides continued grounds for guarded optimism regarding the overall direction of policy.

Notwithstanding the progress which Bulgaria has made, its external finances are likely to remain somewhat fragile for some years to come: service on foreign debt continues to be substantial, at close to US\$1 billion per year. A sustained reform effort will ensure continued support from the IMF and other international institutions, and attract larger flows of Foreign Direct Investment.

In March 1998, Bulgaria repaid to the Community ECU 150 million representing the second and last tranche of the ECU 290 million first macro-financial assistance granted by the Community to this country. At the end of the reporting period, EC exposure vis-à-vis Bulgaria for macro-financial assistance operation amounted to ECU 235 million.

CZECH REPUBLIC

The situation in the Czech Republic remains unsettled. Economic growth slowed down significantly in 1997, and actually contracted by 0.9% year-on-year in the first quarter of 1998. All significant components of domestic demand contracted year-on-year in this quarter. However exports performed extremely well. Short-term industrial production figures are registering a recovery based primarily on improved export performance.

The slowdown in growth, combined with better export performance on EU markets have resulted in a significant narrowing of the trade and current account deficits. However, movements of the Czech currency continue to be determined by events on the political stage. The elections of June 1998 produced inconclusive results, and, at the time of writing this report, lengthy negotiations were expected on possible coalitions.

In March 1998, the Czech Republic repaid to the Community some ECU 123 million representing the second and last tranche of the ECU 250 million macro-financial assistance granted by the Community to this country. At the end of the reporting period, there is no longer any exposure for macro-financial assistance loans vis-à-vis the Czech Republic.

ESTONIA

Despite recent financial turbulence and problems affecting the banking sector, Estonia's risk assessment continues to be among the best in the region. The economy is expanding very rapidly (real GDP growth reached 11.4% in 1997), productivity is growing strongly, leading to a fall in unit labour costs (by as much as 9% in 1997) and the country's fiscal position has been strengthened (the surplus in 1997 reached 2.1% of

GDP, after a deficit of 1.5% in the previous year). Official foreign debt further declined from 6.8% to 5.4% of GDP in 1997 and gross inflows of Foreign Direct Investment have increased to 5.6% of GDP, contributing to a modernisation of the economy. The country's good economic performance has been acknowledged by a series of favourable sovereign risk ratings. In September 1997, Moody's gave Estonia a Baa1, investment grade, long-term foreign currency rating, and in December, after the financial turbulence on the Estonian and other emerging markets, Standard and Poors' gave Estonia a BBB+ investment-grade rating. Both Moody's and S&P's ratings are the highest given to a country of the former Soviet Union.

In the last quarter of 1997, however, the multiplication of overheating signs and the fast expansion of bank lending, led the authorities to take restrictive measures to reduce external imbalances (the current account deficit reached 12% of GDP in 1997) and preserve the exchange rate commitment. These measures seem to have been fruitful: the amount of loans granted in February was the lowest in 17 months, the M1 money supply has been stable for the past 8 months and growth in import and industrial production has slowed down. Estimated growth in the first quarter of 1998 is lower than in the corresponding period of 1997.

Nevertheless, there are remaining macroeconomic risks linked to the high external imbalances and the volatility on the local and international financial markets. New large capital inflows in 1998 have led to a dramatic improvement in monetary conditions, renewing fears about their consequences on domestic demand and the current account deficit. More significantly, they increase the vulnerability of the country to sudden and unexpected changes in foreign investors' confidence, which may be triggered by completely exogenous factors. Because most of the capital inflows have taken the form of debt-creating instruments, the net debt of Estonian residents increased sharply in 1997. As a result of the difficult situation on the international financial markets and the authorities' measures to cool down the economy, the Estonian stock market fell between the end of August 1997 and early June 1998. Some banks, which were actively involved in trading operations, have suffered important losses and had their ratings cut by international agencies.

As far as EC macro-financial assistance to Estonia is concerned, no movement has been registered during the reporting period. As of end-June 1998, EC exposure vis-à-vis Estonia amounted to ECU 15 million.

FYROM

In 1997, the Former Yugoslav Republic of Macedonia has continued its efforts towards macroeconomic stabilisation on which it had embarked in 1994, following the severe economic crisis of the early 1990s. Due to the fragility of its external position, the country had to devalue the denar by 14% in July 1997, but the government succeeded through the implementation of a tough anti-inflationary programme to keep inflation at 2.7% and the budget deficit at 0.4% of GDP. In close co-operation with the World Bank, the IMF and the EU, the country also continued on the path of structural reform, particularly by adapting its legislation. However, more remains to be done to tackle the country's structural weaknesses and to promote its exports' activities.

While the debt service ratio (debt service as a percentage of exports) could slightly be reduced by 1.6 percentage points to 9.2%, the current account situation is still very fragile, given the important trade deficit (more than 10% of GDP). Due to the (partial) privatisation of some important enterprises, FYROM has been able to attract some \$ 100 million in FDI in the first six months of 1998 which is more than the total amount that had been attracted since the country's independence.

Recent events in Kosovo could negatively impact on the country's stability, including the path of structural reform, especially the sale of privatised enterprises to foreign investors, thereby keeping FYROM dependent on external financial assistance.

In early 1998, the EC disbursed ECU 15 million representing the second and last tranche of the ECU 40 million macro-financial assistance loan decided by the Council in July 1997. At the end of the reporting period, total EC exposure vis-à-vis the FYROM amounted therefore to ECU 40 million.

HUNGARY

Hungary's country risk has steadily declined in the last three years. Yet, the general election of May 1998 resulted in the defeat of the Socialist-Liberal government that had successfully implemented the structural adjustment measures of 1995 and 1996. The defeat of an administration which had acquired a considerable international credibility obviously led to some investors' nervousness. Until the new government is in place and its actual commitment to budgetary and fiscal prudence is assessed, there will be some economic uncertainty and the political risk will be slightly higher than in the past. Nevertheless, the Hungarian economy remains healthy. Growth is accelerating but the current account deficit continues to fall. The evolution of fiscal revenues and expenditures is following the pattern of the previous two years: the general government fiscal target for the year is likely to be met since higher-than-budgeted receipts by the central government are compensating overspending, particularly by the social security funds.

In March 1998, Hungary repaid to the Community ECU 100 million representing the second and last tranche of the ECU 160 million second macro-financial assistance granted by the Community to this country in 1991. At the end of the reporting period, there is no longer any exposure for macro-financial assistance loans vis-à-vis Hungary.

LATVIA

The macroeconomic situation in Latvia remains favourable. Growth accelerated sharply throughout 1997 to reach 6.5% for the full year. Moreover inflation continues to fall – consumer price inflation was down to 5.4% year-on-year in May 1998. Higher growth and more prudent policy has allowed a considerable improvement in the fiscal position leading to a budget surplus for 1997. The withdrawal of the government, as a significant borrower, from the market has allowed an expansion of lending to the private sector, and a fall in interest rates. The trade and current account deficits remain large, but there is little threat to the stability of the currency. Latvia has a relatively low level of official and external debt, so debt servicing should not pose any problems in the coming year.

The main risk factor that has emerged in recent months has been the threat of extensive economic measures by Russia after a deterioration of political relations. Russia is a major trading partner and is an important source of crucial transit business for Latvia.

As far as EC macro-financial assistance to Latvia is concerned, no movement has been registered during the reporting period. As of end-June 1998, EC exposure vis-à-vis Latvia amounted to ECU 40 million.

LITHUANIA

Lithuanian growth accelerated in 1997. Inflation fell to single-digit levels and fiscal consolidation resumed after the slippage of 1996. These positive macroeconomic results were accompanied by a significant worsening of the external account, which was, however, easily financed thanks to continuing and rising capital inflows. These trends are continuing in 1998. The sustainability of current growth trends will depend upon a careful management of macroeconomic policy and further structural reforms. The strategy for the abandonment of the currency board is being implemented smoothly and in a very prudent way. Potentially destabilising plans for the compensation of savings lost in the first years of transition due to inflation have been delayed for the time being.

The strengthening of the banking sector is continuing. In late March, the authorities decided to liquidate the insolvent public-owned State Commercial Bank in accordance with the time limit imposed by the 1997 privatisation law which exempted the SCB from prudential regulation requirements. The local financial market remained rather unperturbed as the liquidation had been widely expected in the last months. Another state-owned Agricultural Bank is slated for privatisation in the second half of the year and the authorities have now committed themselves to the eventual privatisation of the other remaining public bank.

As far as EC macro-financial assistance to Lithuania is concerned, no movement has been registered during the reporting period. As of end-June 1998, EC exposure vis-à-vis Lithuania amounted to ECU 75 million.

ROMANIA

In the first half of 1998, Romania's country risk has deteriorated. Despite the decision to put an end to the directed credits extended by the Central Bank to protected sectors of the economy, as well as many other important decisions taken in early 1997 in the area of price, trade and exchange market liberalisation, the momentum stalled later in the year, damaging both foreign investors' confidence and expectations of a rapid recovery. Economic and legal uncertainty was compounded by political wrangles within the ruling coalition, which led to the resignation of the Prime Minister on 30 March 1998 and the appointment of Radu Vasile as his successor. However, the coalition has continued to give signs of internal dissent.

Romania's economic situation has deteriorated. GDP contracted by 6.6% in 1997, bringing the level of aggregate output to approximately 82% of the 1989 level. Investment fell by more than 15%. Inflation, which reached 151.4% at the end of last

year, has not been tamed, as reflected by the monthly rates recorded at the beginning of this year (4.9% and 7.2% in January and February, respectively). This has prompted the central bank to tighten again its monetary policy, which resulted in higher interest rates and an appreciation of the real exchange rate. Short-term indicators suggest that economic activity has further declined in the first half of 1998. Fiscal policy is also contributing negatively to domestic demand, although there are strong pressures to relax the fiscal stance. This explains in particular why the budget for 1998 was only approved at the end of May.

The external situation is also a cause of concern. The current account deficit in 1997 reached US\$ 2.5 billion (7.1% of GDP), marginally less than in the previous year. The small improvement of the current account reflects in fact a fundamental weakness of the country's export base, which was unable to take advantage of the depreciation of the national currency and the low level of labour costs in 1997. While Foreign Direct Investment (FDI) inflows strongly increased in 1997, the low level of accumulated FDI is an additional factor explaining the lacklustre performance of exports. The negative evolution of the trade accounts in the early months of 1998 (the trade deficit more than doubled in the first quarter on the backdrop of falling exports and higher imports) is also worrying, and might reflect the negative effects of the continuous real appreciation of the national currency.

Macroeconomic difficulties are compounded by the lack of meaningful and dramatic progress in the field of restructuring of the large State-owned banks and enterprises. Large-scale privatisation has stopped despite the new privatisation and investment laws; and financial discipline was deteriorating in the first months of 1998. The new government has clearly reaffirmed its intention to accelerate privatisation and restructure the big "régies autonomes". Some encouraging steps were taken in the first months of 1998, but it is yet too early to assess whether this policy will be successfully implemented over a sufficiently long period of time.

Romania's relations with the International Financial Institutions have also deteriorated in the first half of 1998. In February, the IMF could not reach an agreement on the 1998 budget and made clear that the authorities had to present a coherent package of structural reforms before negotiations could resume. The IMF programme went off-track and expired in May 1998. Negotiations with the IMF on a new agreement will resume in the second half of 1998. Also, because of policy slippage, the World Bank could not disburse the last tranche of its FESAL, despite an extension of the validity period of the loan. The deterioration of economic conditions was reflected by the recent downgrade in the country's sovereign credit rating by Standard and Poor's to B+ from BB-.

In March 1998, Romania repaid to the Community ECU 185 million, out of the ECU 580 million disbursed so far, in the framework of the Community macro-financial assistance to this country. At the end of the reporting period, EC exposure vis-à-vis Romania amounted to ECU 395 million.

SLOVAKIA

Although economic growth remained among the highest in the region and the external trade deficit was lowered from its very high 1996 level, the overall macroeconomic situation worsened considerably in Slovakia in 1997. The government deficit deteriorated significantly, external deficits improved mainly as a result of temporary protective measures and remained unsustainably high, and inflation and unemployment increased again, reversing some of the progress that was made in previous years. The fundamental economic policy problem in Slovakia is that monetary and fiscal policy are not co-ordinated, and that economic restructuring is too slow. To compensate for the lax fiscal policy, the National Bank of Slovakia has been forced to implement a seriously restrictive monetary policy for more than a year now. The resulting high interest rates are harming enterprises and banks, to the extent that the operation of the third largest bank had to be taken over by the Central Bank.

As a result of these developments, Moody's Investors Service has recently downgraded Slovakia's long-term foreign currency rating from Baa3 to Ba1, a speculative grade.

In March 1998, Slovakia repaid to the Community some ECU 62 million representing the second and last tranche of the ECU 125 million macro-financial assistance granted by the Community to this country. At the end of the reporting period, there is no longer any exposure for macro-financial assistance loans vis-à-vis Slovakia.

III. NEWLY INDEPENDENT STATES

ARMENIA

Armenia's GDP increased by 3.1% in 1997, the fourth annual increase in a row, and the trend should continue in 1998. Annual inflation, which rose to 22 % in December 1997, is set to slow down this year. The tax situation is improving, and the budget deficit which was still high at 5.9 % in 1997 is expected to slightly decline in 1998. Armenia's current account deficit, which was around 29 % of GDP in 1997, is expected to fall to about 20 % in 1998. The external debt is high (40-50 % of GDP) and external sustainability is a crucial issue. However, paradoxically, in the same time, net international reserves have increased to reach US\$ 240 million.

The first priorities for Armenia are now to create the conditions to increase exports and to attract FDI. The latter seem to have increased in recent months. In this respect, the special emphasis put by the Armenian Government on the privatisation process and on rehabilitating the energy sector is welcomed. In this context, the IMF is expected to approve in July 1998 the third annual arrangement under the ESAF facility. On the political side, the unresolved conflict with Azerbaijan over Nagorno Karabakh implies that the country risk remains high.

At end-June 1998, no disbursement had yet taken place in the framework of the exceptional macro-financial assistance in favour of Armenia decided by the Council in November 1997. Negotiations were indeed still underway between the Commission services and the Armenian authorities on the conditionality attached to the disbursement

of this assistance which will be mobilized only after full clearance of the country's outstanding due obligations towards the Community (MECU 50).

BELARUS

In 1997 and in the first quarter of 1998 the Belarus economy has had a mixed performance. There has been continued significant real growth of GDP and industrial output but its sustainability is at risk. Inflation was still high in 1997 and accelerated again in the first quarter of 1998. In spite of repeated devaluations, the official exchange rate has been lagging behind the free rate, due to monetary expansion and a widening trade deficit. A currency crisis occurred in March 1998, prompting a wide range of damaging direct controls.

The devaluation of the Belarus rouble free rate, by over 30% in March 1998, has been officially attributed to a malicious speculative attack. However the Belarus rouble is well protected from speculative attacks, and the ultimate causes of the crisis are Belarus trade deficit, excess monetary expansion, as well as inflationary expectations. Trade imbalances and inflationary pressures are being dealt with by Belarus authorities not by means of market policy instruments but by direct controls, which are ineffective, counter-productive, and contrary to Belarus transformation into a market economy.

Unchanged policies are poised to turn growth into recession, accelerate inflation, unleash recurring currency crises. In order to avoid this a swift correction of economic fundamentals is necessary and long overdue, by means of fiscal and monetary policy instruments appropriate to a market economy.

GEORGIA

GDP growth of 10 %, close to the 11 % registered in 1997, is expected for 1998. The budget deficit, which fell to 4.1 % of GDP in 1997; is expected to decrease further to about 2 % in 1998, while annual inflation, which fell to 7.3 % in 1997, should decrease further to 6.5 % in 1998. The current account deficit (excluding official transfers) which was equivalent to 10 % of GDP in 1997, should stabilise in 1998. Foreign direct investment is increasing (US\$ 189 million in 1997), as a result of growing foreign interest in Georgia. Foreign exchange reserves (2.2 months' imports in 1997) are decreasing in relative terms, but are expected to pass beyond US\$ 200 million in 1998. Georgia's foreign debt amounted to some 30 % of GDP at end-1997.

In February and May 1998, the IMF Board postponed a decision on a third annual arrangement under the three year ESAF arrangement, several targets being missed. A new review mission will take place later this year to assess compliance by the Georgian authorities with the remaining prior actions to be taken before a new arrangement is adopted. In the political field, the Abkhazian problem is more acute than six months ago. As a result, the country risk can now be considered as higher.

At end-June 1998, no disbursement had yet taken place in the framework of the exceptional macro-financial assistance in favour of Georgia decided by the Council in November 1997. Negotiations were indeed still underway between the Commission

services and the Georgian authorities on the conditionality attached to the disbursement of this assistance which will be mobilized only after full clearance of the country's outstanding due obligations towards the Community (MECU 130.5).

MOLDAVA

Moldova has made considerable progress towards macroeconomic stabilisation in the past few years. Inflation has been substantially reduced and output began to recover in 1997. The exchange rate of the leu has shown a remarkable stability since May 1995.

However, especially since the second half of 1997, several developments gave cause for serious concern. Fiscal policy was substantially relaxed, with a general government deficit estimated at 6.7% of GDP at the end of the year. The widening budget deficit has put pressure on monetary policy and on the current account, leading to a deficit estimated over 13% of GDP. In addition, increasing reliance on external financing has contributed to a steady increase of the country's external debt, now well above 50% of GDP. Although not particularly high in absolute amount, the debt has been increasing at very rapid pace, almost doubling every year since 1993. Furthermore, the short-term structure of about one third of the debt could prove highly sensitive to perturbances originating on the international financial markets.

On the whole, a deterioration of the country's risk has taken place in 1997 and in the first half of 1998. The risks of an interruption of the transition process should be minimised. This will require improvements in Moldova's fundamentals, especially addressing the lack of structural fiscal reform, and making efforts to reverse the external current account deficit. In particular, structural fiscal reforms should aim at improving the quality, while decreasing the level of expenditure in the social domain, at limiting the access to borrowing and the expenditure capacity of local authorities, and at improving tax collection. Equally important will be to strengthen the supervision of the banking system, and to revive the process of structural reform, especially in agriculture.

TAJIKISTAN

After the signing of the June 1997 peace agreement which formally ended Tajikistan's five-year long civil war, the authorities significantly tightened macroeconomic policies. This permitted the designing of a new stabilisation and reform programme which was supported by an IMF Post Conflict Emergency Assistance of about US\$ 20 million. Due to prudent fiscal and monetary policies pursued under the programme, inflation decelerated significantly (to an average of 1% per month in the first quarter of 1998) and confidence in the domestic currency improved (the nominal exchange rate has remained stable since September 1997). In May 1998, the IMF Staff and the authorities successfully concluded negotiations on an economic programme covering the period 1998-2001, which could be supported by an Enhanced Structural Adjustment Facility of US\$ 102 million. Further fiscal consolidation is a crucial component of the programme as well as establishing export-led growth, especially in light of Tajikistan's high external debt and future debt service obligations (10 to 15% of exports).

Real GDP increased by about 2% in 1997, the first increase since independence, mainly driven by rising cotton production and expanding trade activities. The current account deficit fell marginally to 9% in 1997, compared to 10% in 1996. The gross reserves increased to US\$ 30 million by end-1997 (equivalent to 3 weeks of imports) and further to US\$ 32 million by end-March 1998. In recent months, the Tajik authorities have reached significant external debt rescheduling agreements with Russia, Kazakhstan, Uzbekistan and Turkey. Mainly due to remaining uncertainties in the peace process, the overall risk remains high, but a quite positive trend has been recorded in recent months.

Tajikistan maintains arrears of some MECU 70 towards the Community. Regular financial cooperation with this country will remain, therefore suspended until full clearance of the country's outstanding due obligations.

UKRAINE

The Ukrainian economy shrank for the seventh consecutive year in 1997, but the pace of contraction slowed down (real GDP growth was -3.2% in 1997, compared to -10% in 1996). Inflation was further reduced from 40% in 1996 to 10% in 1997. However, the overall economic situation remains very fragile, mainly due to: (a) delays in the implementation of key structural reforms, which jeopardise stabilisation gains already achieved, and (b) a fiscal loosening associated with a long pre-electoral period (parliamentary elections were held on 29 March and presidential elections are scheduled for October 1999). The increased outlays in the run up to the parliamentary elections led to the overshooting of several targets of the Stand-by arrangement with the IMF which went off-track at the beginning of this year. The IMF Staff has now abandoned the SBA and negotiated a heavily front loaded Extended Fund Facility which could provide Ukraine with approximately \$ 2.5 billion over three years.

The Ukrainian currency has come under considerable pressure both due to the fiscal slippage as well as the Asian currency turmoil which eroded investors' confidence in emerging economies. The central bank has managed to defend the currency from speculative attacks up to now by strongly raising the key interest rates, intervening heavily in both the foreign exchange and T-bill markets and widening and lowering the fluctuation margin of the currency in January 1998. A trade dispute with Russia, which was finally settled at the beginning of 1998, deteriorated the country's current account deficit (3.1% of GDP in 1997 compared to 2.7% in 1996). The maturity structure of Ukraine's external debt has deteriorated in recent months, due to the government's repeated recourse to short-term external borrowing at excessively expensive terms. The country's international reserves increased marginally last year mainly due to higher official transfers and short-term capital imports. No considerable progress was achieved with respect to structural reform in recent months. The overall risk assessment remains unfavourable.

IV. MEDITERRANEAN COUNTRIES

ALGERIA

Although Algeria has established a strong track record of macro-economic stabilisation in the last three years, the country risk remains high owing to the continued difficult domestic security situation and the vulnerable medium term economic prospects. On the political front, following legislative and local elections, the process of institutional reform was completed with the formation of the Upper Chamber of Parliament in December 1997.

Algeria successfully completed the stabilisation and structural reform programme supported by the IMF under the three-year Extended Financing Facility (EFF). GDP growth reached 2.3% in 1997 and is projected at 5.6% in 1998. Inflation averaged 5.7% in 1997, down from 18.6% in 1996, and is currently projected at 5% in 1998. The external current account and fiscal balances registered large surpluses in 1997, equivalent to 6.7% and 2.3% of GDP, respectively. Gross foreign exchange reserves which already doubled to US\$ 4.2 billion in 1996 increased further in 1997 to reach US\$ 8 billion at end-year, covering 9.5 months of imports. As a result of this economic performance, the authorities announced that they would not request a new arrangement following the expiry of the Fund-supported programme in May 1998.

Despite continued structural reforms in the areas of external trade, financial sector, restructuring of public enterprises, and privatisation, the economy remains poorly diversified and particularly vulnerable to the vagaries of world energy prices and weather conditions. The sharp decline in oil prices since the beginning of 1998 has significantly increased the risks for the fiscal and external positions in the medium term. As a result, the external current account surplus is expected to decline. Based on these adverse developments and the continued high, even though declining, external debt indicators, Algeria is not in a favourable position to tap international capital markets in 1998 as originally envisaged. Algeria's balance-of-payment viability will continue to remain vulnerable in the absence of a diversification of the export base and development of a dynamic private economy. A new phase of comprehensive structural reforms is needed to create the conditions for higher sustainable growth in the non-energy sector.

List of abbreviations

| | |
|-------------|---|
| BOP | Balance of payments |
| CCFF | Compensatory and Contingency Financing Facility |
| CEEC | Central and East European Countries |
| DDSR | Debt and Debt Service Restructuring |
| DM | Deutsche Mark |
| EC | European Community |
| ECU | European Currency Unit |
| EFF | Extended Financing Facility |
| EIB | European Investment Bank |
| ESAF | Extended Structural Adjustment Facility |
| EU | European Union |
| FESAL | Financial and Enterprise Sector Adjustment Loan |
| G&S | Goods and Services |
| GDP | Gross Domestic Product |
| IMF | International Monetary Fund |
| MED | Mediterranean countries |
| NIS | Newly Independent States |
| SBA | Stand-By Arrangement |
| STF | Systemic Transformation Facility |
| USD or US\$ | Dollar of the United States of America |

ANNEX

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

I.A Tables 1 to 3

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

I.A.1 Authorised ceiling (Table 1)

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

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

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

Factors reducing the risk:

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

I.A.2 Capital outstanding (Table 1)

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

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

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

Estimated amount of principal and interest due each financial year.

This amount is calculated for:

- a) disbursements alone (Table 2), in which case the capital to be repaid corresponds to the amount outstanding;
- b) disbursements, decisions still awaiting disbursement and Commission proposals still awaiting decisions (Table 3).

In which case the capital to be repaid corresponds to the ceiling on loans authorised plus, where applicable, the amounts in respect of operations proposed by the Commission and not yet decided.

I.B Loan operations covered by a budget guarantee

TABLE 5a

Borrowing and lending operations: Member States

Changes in amounts outstanding during six-month period

ECU million

| COUNTRY | Decision | Date of decision | Loan term (years) | Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d) | Amount decided | Amount outstanding at 1.1.98 | Operations in six-month period | | Amount outstanding at 30.06.88 |
|--------------|---|--|-------------------|---|------------------|------------------------------|--------------------------------|----------------|--------------------------------|
| | | | | | | | Amounts disbursed | Amounts repaid | |
| GREECE | 91/136/EEC | 04.03.91 | 6 | (a) | 2.200,00 | 500,00 | | 500,00 | 0,00 |
| | | | - | (d) | 1.000,00 | | | | |
| | | | - | (d) | 600,00 | | | | |
| ITALY | 93/67/EEC | 18.01.93 | 6 | (c) | 8.000,00 | 3.447,80 | | | 3.446,60 |
| | | | 6 | (c) | 2.000,00 | | | | |
| | | | - | (d) | 2.000,00 | | | | |
| | | | - | (d) | 2.000,00 | | | | |
| | | | - | (d) | 2.000,00 | | | | |
| EURATOM | 77/270-271/Euratom 80/29/Euratom 82/170/Euratom 85/537/Euratom 90/212/Euratom | 29.03.77 20.12.79 15.03.82 05.12.85 23.04.90 | (3) | (c) | 4.000,00 | 118,40 | | 89,40 | 28,70 |
| | | | | (c) | 500,00 | | | | |
| | | | | (c) | 500,00 | | | | |
| | | | | (c) | 1.000,00 | | | | |
| | | | | (b)(4) | 1.000,00 | | | | |
| | | | | (d)(4) | 1.000,00 | | | | |
| NCI | 78/870/EEC 81/19/EEC(1) 81/1013/EEC(2) 82/169/EEC 83/200/EEC 87/182/EEC | 16.10.78 20.01.81 14.12.81 15.03.82 19.04.83 09.03.87 | (3) | (c) | 6.830,00 | 218,60 | | 22,10 | 194,80 |
| | | | | (c) | 1.000,00 | | | | |
| | | | | (c) | 1.000,00 | | | | |
| | | | | (c) | 80,00 | | | | |
| | | | | (c) | 1.000,00 | | | | |
| | | | | (c) | 3.000,00 | | | | |
| | | | | (c) | 750,00 | | | | |
| TOTAL | | | | | 21.030,00 | 4.284,80 | 0,00 | 611,60 | 3.670,10 ⁽⁵⁾ |

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

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

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

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

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

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

TABLE 5b (1)

Financial assistance to non-member countries

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

ECU million

| COUNTRY | Decision | Date of decision | Loan term (years) | Expiry date | Loan situation - closed (a) - partly disbursed (b) - disbursed in full (c) - not yet disbursed (d) | Amount decided | Amount outstanding at 1.01.98 | Operations in six-month period | | Amount outstanding at 30.06.98 |
|-----------------------|------------|------------------|-------------------|-------------|--|----------------|-------------------------------|--------------------------------|----------------|--------------------------------|
| | | | | | | | | Amounts disbursed | Amounts repaid | |
| HUNGARY | 91/310/EEC | 24.06.91 | | | | 180,00 | | | | |
| 1st tranche | | | 7 | 18.03.98 | (a) | 100,00 | 100,00 | | 100,00 | 0,00 |
| 2nd tranche | | | 5 | 15.12.97 | (a) | 80,00 | 0,00 | | | |
| CZECH REPUBLIC | 91/106/EEC | 25.02.91 | | | | 250,00 | | | | |
| 1st tranche | | | 7 | 18.03.98 | (a) | 123,30 | 123,30 | | 123,30 | 0,00 |
| 2nd tranche | | | 5 | 15.12.97 | (a) | 126,70 | 0,00 | | | |
| SLOVAKIA | 91/106/EEC | 25.02.91 | | | | 125,00 | | | | |
| 1st tranche | | | 7 | 18.03.98 | (a) | 61,70 | 61,70 | | 61,70 | 0,00 |
| 2nd tranche | | | 5 | 15.12.97 | (a) | 63,30 | 0,00 | | | |
| BULGARIA I | 91/311/EEC | 24.06.91 | | | | 290,00 | | | | |
| 1st tranche | | | 7 | 18.03.98 | (a) | 150,00 | 150,00 | | 150,00 | 0,00 |
| 2nd tranche | | | 5 | 15.12.97 | (a) | 140,00 | 0,00 | | | |
| BULGARIA II | 92/511/EEC | 19.10.92 | | | | 110,00 | | | | |
| 1st tranche | | | 7 | 07.12.2001 | (c) | 70,00 | 70,00 | | | 70,00 |
| 2nd tranche | | | 7 | 29.08.2003 | (c) | 40,00 | 40,00 | | | 40,00 |
| BULGARIA III | 97/472/EC | 22.07.97 | | | | 250,00 | | | | |
| 1st tranche | | | 10 | 10.02.2008 | (c) | 125,00 | | 125,00 | | 125,00 |
| 2nd tranche | | | - | - | (d) | 125,00 | | | | 0,00 |
| ROMANIA I | 91/384/EEC | 22.07.91 | | | | 375,00 | | | | |
| 1st tranche | | | 7 | 01.02.99 | (c) | 190,00 | 190,00 | | | 190,00 |
| 2nd tranche | | | 6 | 18.03.98 | (a) | 185,00 | 185,00 | | 185,00 | 0,00 |
| ROMANIA II | 92/551/EEC | 27.11.92 | | | | 80,00 | | | | |
| 1st tranche | | | 7 | 26.02.2000 | (c) | 80,00 | 80,00 | | | 80,00 |
| ROMANIA III | 94/369/EC | 20.06.94 | | | | 125,00 | | | | |
| 1st tranche | | | 7 | 20.11.2002 | (c) | 55,00 | 55,00 | | | 55,00 |
| 2nd tranche | | | - | - | (c) | 70,00 | 70,00 | | | 70,00 |
| BALTIC STATES | 92/542/EEC | 23.11.92 | | | | 220,00 | | | | |
| ESTONIA | | | | | | 40,00 | | | | |
| 1st tranche | | | 7 | 31.03.2000 | (c) | 20,00 | 15,00 | | | 15,00 |
| 2nd tranche | | | - | - | (d) | 20,00 | 0,00 | | | 0,00 |
| LATVIA | | | | | | 80,00 | | | | |
| 1st tranche | | | 7 | 31.03.2000 | (c) | 40,00 | 40,00 | | | 40,00 |
| 2nd tranche | | | - | - | (d) | 40,00 | 0,00 | | | 0,00 |

TABLE 5b (2)

Financial assistance to non-member countries

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

ECU million

| COUNTRY | Decision | Date of decision | Loan term (years) | Expiry date | Loan situation - closed (a) - partly disbursed (b) - disbursed in full (c) - not yet disbursed (d) | Amount decided | Amount outstanding at 1.01.98 | Operations in six-month period | | Amount outstanding at 30.06.98 |
|------------------------|------------|------------------|-------------------|-------------|--|----------------|-------------------------------|--------------------------------|----------------|--------------------------------|
| | | | | | | | | Amounts disbursed | Amounts repaid | |
| LITHUANIA | | | | | | 100,00 | | | | |
| 1st tranche | | | 7 | 27.07.2000 | (c) | 50,00 | 50,00 | | | 50,00 |
| 2nd tranche | | | 7 | 16.08.2002 | (b) | 50,00 | 25,00 | | | 25,00 |
| MOLDOVA I | 94/346/EC | 13.06.94 | | | | 45,00 | | | | |
| 1st tranche | | | 10 | 07.12.2004 | (c) | 25,00 | 25,00 | | | 25,00 |
| 2nd tranche | | | 10 | 08.08.2005 | (c) | 20,00 | 20,00 | | | 20,00 |
| MOLDOVA II | 96/242/EC | 25.03.96 | 10 | 30.10.2006 | (c) | 15,00 | 15,00 | | | 15,00 |
| UKRAINE I | 94/940/EC | 22.12.94 | 10 | 28.12.2005 | (c) | 85,00 | 85,00 | | | 85,00 |
| UKRAINE II | 95/442/EC | 23.10.95 | | | | 200,00 | | | | |
| 1/2 tranche | | | 10 | 29.08.2006 | (c) | | 50,00 | | | 50,00 |
| 1/2 tranche | | | 10 | 30.10.2006 | (c) | | 50,00 | | | 50,00 |
| 2nd tranche | | | | | (c) | | 100,00 | | | 100,00 |
| BELARUS | 95/132/EC | 10.04.95 | | | | 55,00 | | | | |
| 1st tranche | | | 10 | 28.12.2005 | (c) | 30,00 | 30,00 | | | 30,00 |
| 2nd tranche | | | - | - | (d) | 25,00 | 0,00 | | | 0,00 |
| FYROM | 97/471/EC | 22.07.97 | | | | 40,00 | | | | |
| 1st tranche | | | 15 | 27.09.2012 | (c) | 25,00 | 25,00 | | | 25,00 |
| 2nd tranche | | | - | - | (d) | 15,00 | 0,00 | 15,00 | | 15,00 |
| ALGERIA I | 91/510/EEC | 23.09.91 | | | | 400,00 | | | | |
| 1st tranche | | | 5 | 15.12.97 | (a) | 250,00 | 0,00 | | | |
| 2nd tranche | | | 7 | 17.08.2001 | (c) | 150,00 | 150,00 | | | 150,00 |
| ALGERIA II | 94/938/EC | 22.12.94 | | | | 200,00 | | | | |
| 1st tranche | | | 7 | 27.11.202 | (c) | 100,00 | 100,00 | | | 100,00 |
| 2nd tranche | | | - | - | (d) | 100,00 | 0,00 | | | 0,00 |
| REPS.OF FORMER USSR(*) | 91/658/EEC | 16.12.91 | 3 | 28.09.97 | | 1.250,00 | 216,00 | | 113,31 | 102,69 |
| TOTAL | | | | | | 4.045,00 | 2.121,00 | 140,00 | 733,31 | 1.527,69 |

(*) The ECU 102,69 million outstanding corresponds to the principal due but not paid at 30.06.1998

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TABLE 6

LOAN GUARANTEES TO EIB

| GEOGRAPHICAL AREA | Decision | Date of decision | Rate of guarantee | Loan term (years) | Date of guarantee contract | Amount decided | Loans signed | | Amount outstanding | |
|-------------------------------|----------------------|------------------|-------------------|-------------------|----------------------------|----------------|--------------------|-------------------------|--------------------|-------------|
| | | | | | | | at 1.01.98 | during six-month period | at 1.01.98 | at 30.06.98 |
| MED. financial protocols(1) | | 8.03.77 | 75% (2) | 15 | 30.10.78/10.11.78 | 6062 | 5400 | 115 | 2469 | 2415 |
| MED. horizontal coop. | R/1762/92/CEE | 29.08.92 | 75% (2) | 15 | 09.11.92/18.11.92 | 1800 | 1800 | 0 | 779 | 1027 |
| TOTAL MED. | | | | | | 7862 | 7200 (3) | 115 (3) | 3248 | 3442 |
| C and E Europe I | 90/62/CEE(4) | 12.02.90 | 100% | 15 | 24.04.90/14.05.90 | 1000 | 928 | 0 | 691 | 688 |
| | 91/252/CEE(5) | 14.05.91 | 100% | 15 | 19.01.93/04.02.93 | 700 | 700 | - | 437 | 438 |
| C and E Europe II | 93/696/CE(6) | 13.12.93 | 100% | 15 | 22.07.94/12.08.94 | 3000 | 3000 | - | 761 | 903 |
| Asia, Latin America I | 93/115/CEE | 15.02.93 | 100% | 15 | 04.11.93/17.11.93 | 750 | 657 | 0 | 307 | 364 |
| Asia, Latin America II | 96/723/CE | 12.12.96 | 100% | 15 | 18.03.97/26.03.97 | 153 | 153 | 0 | 78 | 78 |
| Asia, Latin America II | 96/723/CE | 12.12.96 | 70% | 15 | 21.10.97 | 122 | 52 | 0 | 0 | 0 |
| South Africa | 95/207/CE | 01.06.95 | 100% | 15 | 04.10.95/16.10.95 | 300 | 300 | - | 100 | 83 |
| New mandates | 97/256/CE(7) | 14.04.97 | 70% | 15 | 25.07.97/29.07.97 | 7105 | 2563 | 875 | 144 | 626 |
| FYROM | 98/348/CE | 19.05.98 | 70% | 15 | | 150 | | 0 | | |
| TOTAL | | | | | | 21142 | 15553 | 990 | 5765 | 6623 |

(1) Including ECU 1 500 million for Spain, Greece and Portugal.

(2) General guarantee of 75% for all credits made available under lending operations under a guarantee contract signed between the Community and the EIB on 30.10.78 and 10.11.78.

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

(3) The Community has guaranteed ECU 5 435.9 million, of which ECU 141.5 million is covered by a 100% guarantee for Portugal.

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

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

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

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

I.C Expected signature and disbursement of EIB loans

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

Expected signatures

At the date of the report a total of ECU 4 143 million was still to be signed:

| | |
|---|-------------------|
| Mediterranean: former mandates (protocols with Syria and Malta) | ECU 255 million |
| Mediterranean countries: | ECU 1 168 million |
| Central and Eastern Europe: | ECU 1 632 million |
| Asia and Latin America: | ECU 758 million |
| South Africa: | ECU - 330 million |

Disbursement forecasts

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

At the date of the report ECU 7 307 million still had to be disbursed against loans signed at that date. The total breaks down as follows:⁸

| | |
|----------------------------|-------------------|
| Mediterranean | ECU 2 531 million |
| Central and Eastern Europe | ECU 3 944 million |
| Asia and Latin America | ECU 588 million |
| South Africa | ECU 244 million |

I.D Payment of the budget guarantee

I.D.1 Borrowing/lending operations

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

⁸ Based on a working assumption that 25% of the loan will be disbursed every year for four years and that the average term will be fifteen years with a three-year period of grace.

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

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

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

I.D.2 Guarantees given to third parties

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

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

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

II. METHODOLOGICAL NOTE ON THE ANALYSIS OF THE COMMUNITY'S ESTIMATED LENDING CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES OVER THE PERIOD 1997-99 UNDER THE GUARANTEE FUND MECHANISM (TABLE 4)

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

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

The amount of the guarantee reserve is the same as in the financial perspective, viz. ECU 300 million at 1992 prices. The amount in the reserve comes to ECU 338 million in 1998.

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

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

II.B Bases for the calculation of the provisioning of the Guarantee Fund

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

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

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

statement attached to the Commission proposal, adapted where appropriate in the light of the Council decision.

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

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

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

In the first half of 1998, as at the start of every financial year, the budgetary authority therefore adopted transfer 8/98 to correct the amounts paid to the Fund and pay the annual tranches provided for in the financial statements for EIB loans for projects outside the Community (central and Eastern Europe, Mediterranean, Asia and Latin America, South Africa).

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

For EIB loans covered by an aggregate 75% guarantee, the Fund is provisioned on the basis of 75% of the total amount of operations authorised.

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

II.D Provisioning of the Guarantee Fund

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

Pursuant to Articles 2 and 4 of the Regulation establishing the Guarantee Fund, the Fund is endowed by payments from the general budget equivalent to 14% of the capital value of the operations until it reaches the target amount. As the target amount was reached at 31 December 1997, the Commission, in accordance with the Regulation, submitted proposals to review the rate of provisioning. These proposals appear in the comprehensive report on the functioning of the Fund which the Commission drew up in accordance with Article 3 of the Regulation (COM(1998) 168 final of 18 March 1998).

II.E Margin remaining in the guarantee reserve

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

II.F Residual lending capacity

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

III. TABLES: COUNTRY-RISK INDICATORS

| Country-risk indicators | | | | |
|--|-----------|-------------|-------------|-------------|
| Country: Bulgaria | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | 2,1 | -10,9 | -6,9 |
| Industrial production (% change) | | 8,6 | -8,3 | -11,5 (5) |
| Unemployment (end of period) | | 11,6 | 12,5 | 13,7 |
| Inflation rate (Dec/Dec) | | 32,8 | 310,8 | 580 |
| Exchange rate:(Leva per USD) (end of period) | | 71 | 487 | 1792 |
| General government balance (as % of GDP) | | -5,7 | -11,0 | -2,6 |
| Balance of payments | | | | |
| Exports of goods and services (bn USD) | | 7,0 | 6,3 | 6,3 |
| Current account balance (% of GDP) | | -0,5 | 0,8 | 4,4 |
| Net inflow of foreign direct investment (m USD) | | 90 | 109 | 498 |
| Official reserves, including gold (end of period) | | | | |
| bn USD | | 1,5 | 0,8 | 2,5 |
| months' imports of goods and services | | 2,8 | 1,6 | 5,2 |
| External debt | | | | |
| Convertible currency external debt (bn USD, end of period.) | | 10,2 | 9,6 | 9,7 |
| Convertible currency debt service (bn USD) | | 0,9 | 1,0 | 1,1 |
| principal | | 0,3 | 0,4 | 0,6 |
| interest | | 0,6 | 0,6 | 0,5 |
| External debt/GDP (%) | | 79 | 103 | 97 |
| External debt/exports of goods and services (%) | | 151 | 153 | 156 |
| Debt service/exports of goods and services (%) | | 14 | 17 | 14 |
| Arrears (on both interest and principal, bn USD) | | none | none | none |
| Debt relief agreements and rescheduling | | none | none | none |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | 7,3 | 8,1 | 5,7 |
| EU exposure/external debt (%) | | 5,7 | 6,5 | 4,8 |
| EU exposure/exports of goods and services (%) | | 7,7 | 10,0 | 7,4 |
| IMF arrangements | | | | |
| Type | | | SBA | SBA |
| (Date) | | | (7/96-2/98) | (6/97-5/98) |
| On track | | | no (4) | yes |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | none | none | B3 |
| S&P long-term foreign currency rating (end of period) | | none | none | none |
| Euro money | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking | (2) | 90 90 | 99 92 | 111 96 |
| (number of countries) | | (187) (181) | (178) (178) | (179) (180) |
| The Institutional Investor | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking | (2) | 93 94 | 92 93 | 97 99 |
| (number of countries) | | (135) (135) | (135) (135) | (135) (135) |
| Credit rating | (3) | 21.9 22.2 | 23.1 23.5 | 22.5 22.2 |

Footnotes

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

(4) SBA suspended in 09/96.

(5) First nine months of 1997 compared to same period of 1996

| Country-risk indicators | | | | |
|--|-----------|----------------------|----------------------|----------------------|
| Country: Czech Republic | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | 6,4 | 3,7 | 1,0 |
| Industrial production (% change) | | 8,7 | 6,8 | 2,3 |
| Unemployment (end of period) | | 2,9 | 3,5 | 5,2 |
| Inflation rate (Dec/Dec) | | 7,9 | 8,6 | 10,0 |
| Exchange rate (CK's per USD) (end of period) | | 26,6 | 27,1 | 34,4 |
| General government balance (as % of GDP) | | 0,3 | -0,4 | -2,0 |
| Balance of payments | | | | |
| Exports of goods and services (bn USD) | | 28,2 | 29,9 | 29,7 |
| Current account balance (% of GDP) | | -2,7 | -7,6 | -6,1 |
| Net inflow of foreign direct investment (m USD) | | 2526 | 1388 | 1275 |
| Official foreign exchange reserves (end of period) bn USD | | 14,0 | 12,4 | 9,7 |
| months' imports of goods and services | | 6,1 | 4,4 | 3,6 |
| External debt | | | | |
| Convertible currency external debt (bn USD, end of period.) | | 16,5 | 20,8 | 21,4 |
| Convertible currency debt service (bn USD) | | 2,6 | 3,8 | n.a. |
| principal | | 2,0 | 3,0 | n.a. |
| interest | | 0,6 | 0,8 | n.a. |
| External debt/GDP (%) | | 32,6 | 37,0 | 48,4 |
| External debt/exports of goods and services (%) | | 58,6 | 69,6 | 72,1 |
| Debt service/exports of goods and services (%) | | 9,2 | 12,8 | n.a. |
| Arrears (on both interest and principal, m USD) | | none | none | none |
| Debt relief agreements and rescheduling | | none | none | none |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | 5,8 | 7,3 | 5,9 |
| EU exposure/external debt (%) | | 2,6 | 2,7 | 2,2 |
| EU exposure/exports of goods and services (%) | | 2,5 | 1,9 | 1,6 |
| IMF arrangements | | | | |
| Type | | | | |
| (Date) | | | | |
| On track | | | | |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | Baa1 (09/95) | Baa1 | Baa1 |
| S&P long-term foreign currency rating (end of period) | | A | A | A |
| Euromoney | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 35 41 (187) (181) | 36 35 (178) (178) | 37 37 (179) (180) |
| The Institutional Investor | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 33 30 (135) (135) | 30 29 (135) (135) | 28 28 (135) (135) |
| Credit rating | (3) | 55.8 58.4 | 60.1 62.0 | 62.8 63.1 |

Footnotes

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

| Country-risk indicators | | | | |
|--|-----------|-------------------|-------------------|-------------------|
| Country: Estonia | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (in %) | | 4,3 | 4,0 | 11,4 |
| Industrial production (% change) | | -1,4 | 1,1 | 13,4 |
| Unemployment rate (end of period) | | 9,7 | 10,0 | 10,5 |
| Inflation rate (end of period) | | 28,9 | 14,8 | 12,5 |
| Exchange rate (Kroons per USD) (average) | | 11,5 | 12,0 | 13,9 |
| General government balance (as % of GDP) | | -1,2 | -1,5 | 2,1 |
| Balance of payments | | | | |
| Exports of goods (m USD) | | 1840 | 2077 | 2926 |
| Current account balance (in % of GDP), excl. official transfers | | -7,4 | -11,7 | -12,0 |
| Net inflow of foreign direct investment (m USD) | | 199 | 111 | 131 |
| Official foreign exchange reserves (end of period) m USD | | 583 | 640 | 830 |
| months' imports of goods | | 2,7 | 2,4 | 1,9 |
| External debt | | | | |
| Convertible currency external debt (incl. to IMF) (m USD, end of period) | | 268,6 | 295,2 | 246,2 |
| Convertible debt service (m USD) principal | (4) | 21,0 | 51,2 | 51,7 |
| interest +charges to IMF | | 6,0 | 27,5 | 40,1 |
| External debt/GDP (%) | | 15,0 | 23,7 | 11,6 |
| External debt/exports of goods (%) | | 7,5 | 6,8 | 5,4 |
| Debt service/exports of goods (%) | | 14,6 | 14,2 | 8,4 |
| Arrears (on both interest and principal, m USD) | | 1,1 | 2,5 | 1,8 |
| Debt relief agreements and rescheduling | | none | none | none |
| Indicators of EU exposures | | | | |
| EU exposure/total EU exposure (%) | (1) | 0,5 | 0,5 | 0,6 |
| EU exposure/external debt (%) | | 16,5 | 13,8 | 17,5 |
| EU exposure/exports of goods (%) | | 2,2 | 2,0 | 1,5 |
| IMF arrangements | | | | |
| Type (Date) | | SBA (4/95-6/96) | SBA (7/96-8/97) | SBA (11/97-12/98) |
| On track | | yes | yes | yes |
| Indicators of market's perceived creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | none | none | Baa1 |
| S&P long-term foreign currency rating (end of period) | | none | none | BBB+ |
| Euromoney | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 66 76 (187) (181) | 73 71 (178) (178) | 69 63 (179) (180) |
| The Institutional Investor | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 79 79 (135) (135) | 76 71 (135) (135) | 65 63 (135) (135) |
| Credit rating | (3) | 25.4 26.3 | 28.9 31.1 | 33.6 36.9 |

Footnotes

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

(4) Kroon figures have been converted using the yearly average exchange rate of the dollar. In 1996 and 1997, Estonia repaid foreign loans in advance.

| Country-risk indicators | | | | |
|--|-----------|------------------------|----------------------|------------------------|
| Country: FYROM | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | -1,2 | 0,8 | 1,5 |
| Industrial production (% change) | | -10,0 | 3,4 | 0,0 |
| Unemployment (end of period) | | 23,7 | 24,9 | 26,3 |
| Inflation rate (Dec/Dec) | | 8,6 | -0,7 | 2,7 |
| Exchange rate (denar per USD) | | 38,0 | 41,3 | 55,4 |
| General government balance (as % of GDP) | | -1,2 | -0,5 | -0,4 |
| Balance of payments | | | | |
| Exports of goods and services (bn USD) | (4) | 1,2 | 1,1 | 1,2 |
| Current account balance (% of GDP) | (5) | -5,7 | -7,3 | -8,3 |
| Net inflow of foreign direct investment (m USD) | | 13 | 12 | 18 |
| Official reserves, including gold (end of period) | | | | |
| m USD | | 270,0 | 267,0 | 280,0 |
| months' imports of goods and services | | 1,9 | 2,0 | 1,9 |
| External debt | | | | |
| Convertible currency external debt (bn USD, end of period.) | | 1,1 | 1,2 | 1,1 |
| Convertible currency debt service (m USD) | | 141,0 | 124,0 | 117,0 |
| principal | | 84,0 | 70,0 | 47,0 |
| interest | | 57,0 | 54,0 | 69,0 |
| External debt/GDP (%) | | 29,5 | 31,9 | 35,9 |
| External debt/exports of goods and services (%) | | 92,6 | 102,5 | 92,3 |
| Debt service/exports of goods and services (%) | (6) | 10,1 | 10,8 | 9,2 |
| Arrears (on both interest and principal, m USD) | | 66,0 | 34,0 | none |
| Debt relief agreements and rescheduling (m USD) | | 326,0 | 37,0 | 87,0 |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | | | 0,3 |
| EU exposure/external debt (%) | | | | 2,6 |
| EU exposure/exports of goods and services (%) | | | | 2,4 |
| IMF arrangements | | | | |
| Type | | SBA | SBA | ESAF |
| (Date) | | (05/95-04/96) | (05/95-04/96) | (04/97) |
| On track | | yes | yes | yes |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | none | none | none |
| S&P long-term foreign currency rating (end of period) | | none | none | none |
| Euromoney | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 108 118 (187) (181) | 85 59 (178) (178) | 107 151 (179) (180) |
| The Institutional Investor | | | | |
| Position in the ranking (number of countries) | (2) | none | none | none |
| Credit rating | (3) | none | none | none |

Footnotes

- (1) (2) (3) See explanatory notes
(4) Discontinuities in the trade series due to changes in the coverage of trade data, particularly in 1996.
(5) The current account deficit may be overestimated due to unreported remittances.
(6) Debt service excluding IMF; it includes an estimate of debt service due to commercial creditors.

| Country-risk indicators | | | | |
|--|-----------|-------------|-------------|-------------|
| Country: Hungary | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | 1,5 | 1,3 | 4,4 |
| Industrial production (% change) | | 4,6 | 3,4 | 11,1 |
| Unemployment (end of period) | | 10,2 | 9,9 | 8,7 |
| Inflation rate (Dec/Dec) | | 28,3 | 19,8 | 18,4 |
| Exchange rate (forints per USD) (end of period) | | 139,5 | 164,0 | 203,5 |
| Consolidated state budget balance (as % of GDP) | | -6,8 | -3,3 | -4,6 |
| Balance of payments | | | | |
| Exports of goods and services (bn USD) | (4) | 12,8 | 14,2 | 24,5 |
| Current account balance (% of GDP) | | -5,5 | -3,7 | -2,2 |
| Net inflow of foreign direct investment (m USD) | | 4453 | 1987 | 1653 |
| Official reserves (end of period) | | | | |
| bn USD | | 12,0 | 9,7 | 8,4 |
| months' imports of goods | | 9,4 | 7,0 | 4,7 |
| External debt | | | | |
| Convertible currency external debt (bn USD, end of period) | | 31,7 | 27,6 | 23,8 |
| Convertible currency debt service (bn USD) | | 8,4 | 9,7 | 11,3 |
| principal, including early repayments | | 6,0 | 7,4 | 9,0 |
| interest | | 2,4 | 2,3 | 2,3 |
| External debt/GDP (%) | | 70,9 | 61,4 | 52,6 |
| External debt/exports of goods and services (%) | | 185,3 | 143,6 | 96,4 |
| Debt service/exports of goods and services (%) | | 43,6 | 42,0 | 39,5 |
| Arrears (on both interest and principal, m USD) | | none | none | none |
| Debt relief agreements and rescheduling | | none | none | none |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | 13,0 | 9,6 | 8,6 |
| EU exposure/external debt (%) | | 3,1 | 2,7 | 3,0 |
| EU exposure/exports of goods and services (%) | | 6,6 | 5,2 | 2,9 |
| IMF arrangements | | | | |
| Type | | | SBA | SBA |
| (Date) | | | (3/96-2/98) | (3/96-2/98) |
| On track | | | yes | yes |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | Ba1 | Baa3 | Baa3 |
| S&P long-term foreign currency rating (end of period) | | BB+ | BBB- | BBB- |
| Euromoney | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking | (2) | 50 44 | 44 44 | 46 41 |
| (number of countries) | | (187) (181) | (178) (178) | (179) (180) |
| The Institutional Investor | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking | (2) | 45 48 | 50 50 | 48 46 |
| (number of countries) | | (135) (135) | (135) (135) | (135) (135) |
| Credit rating | (3) | 46.4 45.0 | 43.6 44.7 | 47.6 49.7 |

Footnotes

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

(4) For 1995 and 1996, goods only.

| Country-risk indicators | | | | |
|--|-----------|---------------------------------------|-------------------------------------|-------------------------------------|
| Country: Latvia | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | -0,8 | 3,3 | 6,5 |
| Industrial production (% change) | | -6,3 | 1,4 | 6,1 |
| Unemployment (end of period) | | 6,6 | 7,2 | 7,0 |
| Inflation rate (Dec/Dec) | | 23,1 | 13,0 | 7,0 |
| Exchange rate (Lats per USD) (end of period) | | 0,54 | 0,56 | 0,59 |
| General government balance (as % of GDP) | | -3,4 | -1,3 | 1,8 |
| Balance of payments | | | | |
| Exports of goods & services (m USD) | | 2088 | 2613 | 2789 |
| Current account balance (% of GDP) | | -0,4 | -5,5 | -8,0 |
| Net inflow of foreign direct investment (m USD) | | 244 | 379 | 422 |
| Official foreign exchange reserves (end of period) m USD | | 586 | 773 | 821 |
| months' imports of goods and non-factor services | | 3,2 | 3,1 | 2,9 |
| External debt | | | | |
| Convertible currency external debt (m USD, end of period) | | 403 | 409 | 370 |
| Convertible currency debt service (m USD) | | 39,0 | 71,0 | n.a. |
| principal | | n.a. | n.a. | n.a. |
| interest | | n.a. | n.a. | n.a. |
| External debt/GDP (%) | | 9,2 | 8,2 | 6,8 |
| External debt/exports of goods & services | | 19,3 | 8,0 | 15,1 |
| Debt service/exports of goods & services | | 3,0 | 4,9 | n.a. |
| Arrears (on both interest and principal, m USD) | | none | none | none |
| Debt relief agreements and rescheduling | | none | none | none |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | 0,7 | 0,7 | 0,7 |
| EU exposure/external debt (%) | | 12,3 | 12,4 | 15,7 |
| EU exposure/exports of goods (%) | | 4,0 | 1,9 | 2,1 |
| IMF arrangements | | | | |
| Type | | SBA | SBA | SBA |
| (Date) | | (4/95-4/96) | (5/96-8/97) | (9/97-2/99) |
| On track | | no | yes | yes |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | none | none | none |
| S&P long-term foreign currency rating (end of period) | | none | none | BBB |
| Euromoney | | | | |
| Position in the ranking (number of countries) | (2) | 03/95 09/95 106 116 (187) (181) | 03/96 09/96 89 75 (178) (178) | 03/97 09/97 63 59 (179) (180) |
| The Institutional Investor | | | | |
| Position in the ranking (number of countries) | (2) | 03/95 09/95 91 89 (135) (135) | 03/96 09/96 86 88 (135) (135) | 03/97 09/97 79 74 (135) (135) |
| Credit rating | (3) | 22.6 23.4 | 24.7 25.7 | 29.1 32.6 |

Footnotes

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

| Country-risk indicators | | | | |
|--|-----------|---------------|---------------|---------------|
| Country: Lithuania | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | 3,3 | 4,7 | 5,7 |
| Industrial production (% change) | | 5,3 | -3,7 | 0,7 |
| Unemployment (end of period) | | 7,3 | 6,2 | 6,7 |
| Inflation rate (Dec/Dec) | | 35,7 | 13,1 | 8,4 |
| Exchange rate (Litas per USD) (end of period) | | 4,0 | 4,0 | 4,0 |
| General government balance (as % of GDP) | | | | |
| Financial balance | (4) | -1,8 | -2,5 | -1,2 |
| Fiscal balance | (4) | -3,3 | -3,6 | n.a. |
| Balance of payments | | | | |
| Exports of goods and services (bn USD) | | 3,2 | 4,2 | 5,2 |
| Current account balance (% of GDP), excl. official transfers | | -10,2 | -9,2 | -10,3 |
| Net inflow of foreign direct investment (m USD) | | 71 | 153 | 328 |
| Official foreign exchange reserves (end of period, gross foreign assets) m USD | | 819 | 834 | 1063 |
| months' imports of goods and services | | 3,9 | 2,4 | 2,1 |
| External debt | | | | |
| Convertible currency external debt (m USD, end of period) | | 757 | 1076 | 1407 |
| Convertible currency debt service (m USD) | | 69 | 120 | n.a. |
| principal | | n.a. | n.a. | n.a. |
| interest | | n.a. | n.a. | n.a. |
| External debt/GDP (%) | | 13,9 | 15,3 | 15,4 |
| External debt/exports of goods and services (%) | | 34,3 | 32,7 | 27,0 |
| Debt service/exports of goods and services (%) | | 3,1 | 3,6 | n.a. |
| Arrears (on both interest and principal, m USD) | | none | none | none |
| Debt relief agreements and rescheduling | | none | none | none |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | 1,4 | 1,4 | 1,6 |
| EU exposure/external debt (%) | | 13,9 | 10,2 | 9,4 |
| EU exposure/exports of goods and services (%) | | 4,8 | 2,6 | 2,5 |
| IMF arrangements | | | | |
| Type | | EFF | EFF | EFF |
| (Date) | | (10/94-10/97) | (10/94-10/97) | (10/94-10/97) |
| On track | | yes | yes | yes |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | none | Ba2 | Ba1 |
| S&P long-term foreign currency rating (end of period) | | none | none | BBB- |
| Euromoney | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 108 118 | 85 59 | 72 62 |
| | | (187) (181) | (178) (178) | (179) (180) |
| The Institutional Investor | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 95 90 | 89 90 | 85 80 |
| | | (135) (135) | (135) (135) | (135) (135) |
| Credit rating | (3) | 21,7 22,9 | 23,8 25,3 | 27,4 31,1 |

Footnotes

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

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

| Country-risk indicators | | | | |
|---|-----------|-------------------|-------------------|-------------------|
| Country: Romania | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | 7,1 | 4,1 | -6,6 |
| Industrial production (% change) | | 9,4 | 9,9 | -5,9 |
| Unemployment rate (end of period) | | 8,0 | 6,3 | 8,8 |
| Inflation rate (end of period) | | 27,8 | 56,9 | 151,4 |
| Exchange rate (lei per USD) (end of period) | | 2760 | 4035 | 8023 |
| General government balance (as % of GDP) | | -2,6 | -3,9 | -3,7 |
| Balance of payments | | | | |
| Exports of goods (bn USD) | | 7,9 | 8,1 | 8,4 |
| Current account balance (% of GDP) | | -5,0 | -7,2 | -6,7 |
| Net inflow of foreign direct investment (m USD) | | 417 | 263 | 1224 |
| Gross foreign exchange reserves (end of period) m USD | | 1579 | 2103 | 3803 |
| months' imports of goods | | 2,0 | 2,4 | 4,4 |
| External debt | | | | |
| Convertible currency external debt, incl. short-term debt (bn USD, end of period) | | 6,5 | 8,3 | 9,3 |
| Convertible debt service (m USD) | | 1366 | 1527 | 2581,5 |
| principal | | 1073 | 1159 | 2080 |
| interest | | 293 | 368 | 501,5 |
| External debt/GDP (%) | | 17,7 | 23,7 | 26,8 |
| External debt/exports of goods and services (%) | | 68,9 | 86,5 | 94,5 |
| Debt service/exports of goods and services (%) | | 14,5 | 15,8 | 26,2 |
| Arrears (on both interest and principal, m USD) | | none | none | none |
| Debt relief agreements and rescheduling | | none | none | none |
| Indicators of EU exposures | | | | |
| EU exposure/total EU exposure (%) | (1) | 10,2 | 10,2 | 11,0 |
| EU exposure/external debt (%) | | 11,5 | 9,1 | 8,5 |
| EU exposure/exports of goods and services (%) | | 10,1 | 12,5 | 9,4 |
| IMF arrangements | | | | |
| Type | | SBA | SBA | SBA |
| (Date) | | (5/94-12/95) | (4) | (4/97-5/98) |
| On track | | yes | no (5) | no (6) |
| Indicators of market's perceived creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | none | Ba3 | Ba3 |
| S&P long-term foreign currency rating (end of period) | | none | BB- | BB- |
| Eurromoney | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 68 64 (187) (181) | 67 61 (178) (178) | 75 75 (179) (180) |
| The Institutional Investor | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 73 71 (135) (135) | 68 72 (135) (135) | 64 67 (135) (135) |
| Credit rating | (3) | 28.1 29.7 | 30.9 31.0 | 32.7 34.1 |

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

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

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

(6) Cancelled with only two (out of five) tranches disbursed

| Country-risk indicators | | | | |
|--|-----------|-------------------|-------------------|-------------------|
| Country: Slovak Republic | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | 6,9 | 6,6 | 6,5 |
| Industrial production (% change) | | 8,3 | 2,5 | 2,0 |
| Unemployment (end of period) | | 13,1 | 12,8 | 12,5 |
| Inflation rate (Dec/Dec) | | 7,2 | 5,4 | 6,4 |
| Exchange rate (SK's per USD) (end of period) | | 29,6 | 31,9 | 34,8 |
| General government balance (as % of GDP) | | 0,1 | -1,3 | n.a. |
| Balance of payments | | | | |
| Exports of goods and services (bn USD) | | 11,0 | 10,9 | 11,0 |
| Current account balance (% of GDP) | | 2,3 | -10,2 | -6,9 |
| Net inflow of foreign direct investment (m USD) | | 134 | 129 | 150 |
| Official foreign exchange reserves (end of period) m USD | | 3418 | 3473 | 3299 |
| months' imports of goods and services | | 4,1 | 3,4 | 3,2 |
| External debt | | | | |
| Convertible currency external debt (bn USD, end of period) | | 5,7 | 7,7 | 9,8 |
| Convertible currency debt service (m USD) principal | | 1202 | 1365 | n.a. |
| interest | | 813 | 858 | n.a. |
| External debt/GDP (%) | | 389 | 507 | n.a. |
| External debt/exports of goods and services (%) | | 32,9 | 40,6 | 50,3 |
| Debt service/exports of goods and services (%) | | 52,0 | 70,6 | 89,4 |
| Arrears (on both interest and principal, m USD) | | 11,0 | 12,5 | n.a. |
| Debt relief agreements and rescheduling | | none | none | none |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | 4,1 | 4,5 | 4,3 |
| EU exposure/external debt (%) | | 5,2 | 4,5 | 3,6 |
| EU exposure/exports of goods and services (%) | | 2,8 | 3,2 | 3,2 |
| IMF arrangements | | | | |
| Type (Date) | | SBA (7/94-3/96) | | |
| On track | | no (4) | | |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | Baa3 | Baa3 | Baa3 |
| S&P long-term foreign currency rating (end of period) | | BB+ | BBB- | BBB- |
| Euromoney | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 53 51 (187) (181) | 48 49 (178) (178) | 53 54 (179) (180) |
| The Institutional Investor | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 61 59 (135) (135) | 57 53 (135) (135) | 52 52 (135) (135) |
| Credit rating | (3) | 33.2 35.7 | 38.6 41.2 | 43.9 44.8 |

Footnotes

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

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

| Country-risk indicators | | | | |
|--|-----------|------------------------|------------------------|------------------------|
| Country: Armenia | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | 6,9 | 5,8 | 3,1 |
| Industrial production (% change) | | 1,5 | 1,2 | 0,9 |
| Unemployment (end of period) | | 8,1 | 9,7 | 11,0 |
| Inflation rate (Dec/Dec) | | 31,9 | 5,8 | 21,9 |
| Exchange rate (dram per USD) (end of period) | | 402 | 435 | 495 |
| General government balance (as % of GDP) | | -11,1 | -9,3 | -5,9 |
| Balance of payments | | | | |
| Exports of goods and services (m USD) | | 270 | 290 | 239 |
| Current account balance (% of GDP) | | -37,6 | -26,9 | -29,0 |
| Net inflow of foreign direct investment (m USD) | | 19 | 22 | 51 |
| Official foreign exchange reserves (end of period) m USD | | 107 | 168 | 240 |
| months' imports of goods and services | | 1,6 | 2,2 | 2,8 |
| External debt | | | | |
| Convertible currency external debt (m USD, end of period) | | 371 | 614 | 786 |
| Convertible currency debt service (m USD) | | 63,0 | 74,7 | 54,2 |
| principal | | n.a. | n.a. | n.a. |
| interest | | n.a. | n.a. | n.a. |
| External debt/GDP (%) | | 28,8 | 38,0 | 48,3 |
| External debt/exports of goods and services (%) | | 137,4 | 211,7 | 328,9 |
| Debt service/exports of goods and services (%) | | 20,6 | 20,3 | 16,4 |
| Arrears (on both interest and principal, m USD) | | n.a. | n.a. | n.a. |
| Debt relief agreements and rescheduling | | n.a. | n.a. | n.a. |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | | 0,8 | 0,7 |
| EU exposure/external debt (%) | | | 10,3 | 7,2 |
| EU exposure/exports of goods and services (%) | | | 21,9 | 23,7 |
| IMF arrangements | | | | |
| Type | | SBA | ESAF | ESAF |
| (Date) | | (06/95-05/96) | (02/96-01/97) | (07/97-06/98) |
| On track | | yes | yes | yes |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | none | none | none |
| S&P long-term foreign currency rating (end of period) | | none | none | none |
| Euro money | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 140 122 (187) (181) | 150 137 (178) (178) | 141 136 (179) (180) |
| The Institutional Investor | | | | |
| Position in the ranking (number of countries) | (2) | none | none | none |
| Credit rating | (3) | none | none | none |

Footnotes

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

| Country-risk indicators | | | | |
|--|-----------|---------------------|---------------------|---------------------|
| Country: Belarus | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | -10.4 | 2.6 | 10.0 |
| Industrial production (% change) | | -11.5 | 3.2 | 17.6 |
| Unemployment (end of period) | | 2.7 | 3.9 | 2.3 |
| Inflation rate (yearly average) | | 244 | 53.0 | 64.0 |
| Exchange rate (Rbs per USD) (average) | | 11500 | 13400 | 26200 |
| General government balance (as % of GDP) | | -2.8 | -2.0 | -2.1 |
| Balance of payments | | | | |
| Exports of goods and services (bn USD) | | 4.7 | 5.8 | 7.4 |
| Current account balance (% of GDP) | | -5.4 | -3.7 | -6.0 |
| Net inflow of foreign direct investment (m USD) | | 7 | 6 | n.a. |
| Official foreign exchange reserves (end of period) m USD | | 377.0 | 469.2 | 393.7 |
| months' imports of goods and services | | 0.8 | 0.8 | 0.5 |
| External debt | | | | |
| Convertible currency external debt (bn USD, end of period) | | 1.7 | 1.1 | 0.9 |
| Convertible currency debt service (m USD) principal | | 178.0 | 163.2 | 170.4 |
| interest | | n.a. | n.a. | n.a. |
| External debt/GDP (%) | | 16.0 | 7.8 | 6.7 |
| External debt/exports of goods and services (%) | | 35.5 | 18.5 | 12.2 |
| Debt service/exports of goods and services (%) | | 3.8 | 2.8 | 2.3 |
| Arrears (on both interest and principal, m USD) | | 460 | n.a. | n.a. |
| Debt rescheduling agreement | | none | none | none |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | 0.5 | 0.5 | 0.4 |
| EU exposure/external debt (%) | | 2.6 | 3.6 | 3.8 |
| EU exposure/exports of goods and services (%) | | 0.8 | 0.7 | 0.5 |
| IMF arrangements | | | | |
| Type (Date) | | SBA (12/95 - 11/96) | SBA (12/95 - 11/96) | |
| On-track | | no (4) | no (4) | |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | none | none | none |
| S&P long-term foreign currency rating (end of period) | | none | none | none |
| Euromoney | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 135 134 (187) (181) | 128 142 (178) (178) | 154 131 (179) (180) |
| The Institutional Investor | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 112 112 (135) (135) | 116 118 (135) (135) | 118 121 (135) (135) |
| Credit rating | (3) | 15.2 15.5 | 14.5 14.6 | 14.5 14.2 |

Footnotes

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

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

| Country-risk indicators | | | | |
|--|-----------|------------------------|------------------------|------------------------|
| Country: Georgia | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | 2,4 | -11,0 | 11,0 |
| Industrial production (% change) | | -9,8 | 6,7 | 8,1 |
| Unemployment (end of period) | | 3,4 | 2,3 | 2,6 |
| Inflation rate (Dec/Dec) | | 57,4 | 13,7 | 7,3 |
| Exchange rate (lari per USD) (end of period) | | 1,2 | 1,3 | 1,3 |
| General government balance (as % of GDP) | | -5,3 | -4,5 | -4,1 |
| Balance of payments | | | | |
| Exports of goods and services (m USD) | | 358 | 415 | 452 |
| Current account balance (% of GDP) | | -14,0 | -9,0 | -10,0 |
| Net inflow of foreign direct investment (m USD) | | 6 | 54 | 189 |
| Official foreign exchange reserves (end of period) m USD | | 157 | 158 | 173 |
| months' imports of goods and services | | 2,7 | 2,5 | 2,2 |
| External debt | | | | |
| Convertible currency external debt (m USD, end of period) | | 1223 | 1373 | 1565 |
| Convertible currency debt service (m USD) | | 35 | 50 | 53 |
| principal | | n.a. | n.a. | n.a. |
| interest | | n.a. | n.a. | n.a. |
| External debt/GDP (%) | | 42,4 | 30,0 | 29,9 |
| External debt/exports of goods and services (%) | | 3,4 | 3,3 | 3,5 |
| Debt service/exports of goods and services (%) | | 7,3 | 9,8 | 9,2 |
| Arrears (on both interest and principal, m USD) | | n.a. | n.a. | n.a. |
| Debt relief agreements and rescheduling | | n.a. | n.a. | n.a. |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | | 2,1 | 1,8 |
| EU exposure/external debt (%) | | | 12,1 | 9,5 |
| EU exposure/exports of goods and services (%) | | | 39,9 | 32,7 |
| IMF arrangements | | | | |
| Type | | SBA | ESAF | ESAF |
| (Date) | | (06/95-05/96) | (02/96-01/97) | (02/97-03/98) |
| On track | | yes | yes | yes |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | none | none | none |
| S&P long-term foreign currency rating (end of period) | | none | none | none |
| Euromoney | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 166 151 (187) (181) | 153 153 (178) (178) | 173 163 (179) (180) |
| The Institutional Investor | | | | |
| Position in the ranking (number of countries) | (2) | none | none | none |
| Credit rating | (3) | none | none | none |

Footnotes

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

| Country-risk indicators | | | | |
|--|-----------|------------------------|------------------------|------------------------|
| Country: Moldova | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | -1,9 | -8,0 | 1,3 |
| Industrial production (% change) | | -6,0 | -5,1 | -2,3 |
| Unemployment (end of period) | | 1,4 | 1,8 | 1,6 |
| Inflation rate (end of period) | | 23,8 | 15,1 | 11,2 |
| Exchange rate (leu per USD) (end of period) | | 4,50 | 4,60 | 4,62 |
| General government balance (as % of GDP) | | -5,8 | -9,8 | -6,7 |
| Balance of payments | | | | |
| Exports of goods (m USD) | | 739 | 822 | 823 |
| Current account balance (% of GDP) | | -8,0 | -12,9 | -13,0 |
| Net inflow of foreign direct investment (m USD) | | 63,7 | 23,8 | 59,9 |
| Official foreign exchange reserves (end of period) | | | | |
| m USD | | 240 | 314 | 366 |
| months' imports of goods | | 4,3 | 3,4 | 3,7 |
| External debt | | | | |
| Convertible currency external debt (m USD, end of period) | | 671,0 | 821,0 | 1045,0 |
| Convertible currency debt service (m USD) | | 73,9 | 49,3 | 139,9 |
| principal | | n.a. | n.a. | n.a. |
| interest | | n.a. | n.a. | n.a. |
| External debt/GDP (%) | | 47,0 | 50,2 | 55,0 |
| External debt/exports of goods (%) | | 90,8 | 99,9 | 127,0 |
| Debt service/exports of goods (%) | | 10,0 | 6,0 | 17,0 |
| Arrears (on both interest and principal, m USD) | | none | none | none |
| Debt relief agreements and rescheduling | | none | none | none |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | 0,8 | 1,0 | 0,8 |
| EU exposure/external debt (%) | | 8,7 | 9,3 | 6,5 |
| EU exposure/exports of goods (%) | | 7,9 | 9,3 | 8,3 |
| IMF arrangements | | | | |
| Type | | SBA | EFF | EFF |
| (Date) | | (3/95-3/96) | (5/96-5/99) | (5/96-5/99) |
| On track | | yes | yes | no |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | none | none | Ba2 |
| S&P long-term foreign currency rating (end of period) | | none | none | none |
| Euro money | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 157 141 (187) (181) | 134 125 (178) (178) | 113 104 (179) (180) |
| The Institutional Investor | | | | |
| Position in the ranking (number of countries) | | none | none | none |
| Credit rating | (3) | none | none | none |

Footnotes

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

| Country-risk indicators | | | | |
|--|-----------|---------------|---------------|---------------|
| Country: Ukraine | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth (%) | | -11,8 | -10,0 | -3,2 |
| Industrial production (% change) | | -11,7 | -5,1 | -1,6 |
| Unemployment (end of period) | | 0,6 | 1,3 | 2,6 |
| Inflation rate (Dec/Dec) | | 182,0 | 40,0 | 10,1 |
| Exchange rate (Krb per USD for 1995) (Hrv per USD) | | | | |
| - auction / interbank (end of period) | | 179400 | 1,9 | 1,9 |
| - cash (end of period) | | 186000 | 1,9 | 1,9 |
| General government balance (as % of GDP) | | -5,0 | -3,2 | -5,6 |
| Balance of payments | | | | |
| Exports of goods and services (bn USD) | | 16,4 | 20,3 | 20,4 |
| Current account balance (excl. transfers) (% of GDP) | | -5,0 | -2,7 | -3,1 |
| Net inflow of foreign direct investment (bn USD) | | 0,27 | 0,52 | 0,58 |
| Gross official foreign exchange reserves | | | | |
| m USD | | 1134 | 1994 | 2375 |
| weeks' imports of goods and services | | 3,7 | 5,2 | 6,3 |
| External debt | | | | |
| Convertible currency external debt (bn USD, end of period) | | 8,1 | 9,2 | 11,8 |
| Convertible currency debt service (m USD) | | 1531 | 1221 | 1440 |
| principal | | 986 | 716 | 794 |
| interest | | 545 | 505 | 646 |
| External debt/GDP (%) | | 23,3 | 21,2 | 23,8 |
| External debt/exports of goods and services (%) | | 53,6 | 45,3 | 58,1 |
| Debt service/exports of goods and services (%) | | 9,3 | 6,6 | 7,1 |
| Arrears (on both interest and principal, m USD) | | 236 | n.a. | n.a. |
| Debt relief agreements and rescheduling | | (4) | (4) | none |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | 1,5 | 3,0 | 4,0 |
| EU exposure/external debt (%) | | 1,4 | 2,6 | 2,7 |
| EU exposure/exports of goods and services (%) | | 0,7 | 1,2 | 1,6 |
| IMF arrangements | | | | |
| Type | | SBA | SBA | SBA |
| (Date) | | (04/95-04/96) | (05/96-02/97) | (07/97-06/98) |
| On track | | no (5) | yes | yes |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of period) | | none | none | none |
| S&P long-term foreign currency rating (end of period) | | none | none | none |
| Euromoney | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 145 138 | 136 135 | 136 129 |
| The Institutional Investor | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 109 111 | 107 111 | 109 105 |
| Credit rating | (3) | (135) (135) | (135) (135) | (135) (135) |
| | | 15.5 15.7 | 16.7 16.6 | 17.6 19.8 |

Footnotes

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

(4) Rescheduling of debt owed to Russia and Turkmenistan.

(5) Suspended in November 1995.

| Country-risk indicators | | | | |
|---|-----------|---------------------------------|----------------------------------|---------------------------|
| Country: Algeria | | | | |
| | footnotes | 1995 | 1996 | 1997 |
| Real GDP growth rate (%) | | 3,9 | 3,8 | 1,3 |
| Hydrocarbon production (% change) | | 4,4 | 6,3 | 6,0 |
| Inflation rate (Dec/Dec) | | 21,9 | 15,1 | 6,0 |
| Exchange rate (dinars per USD) (end of period) | | 52,2 | 56,2 | 58,0 |
| General government balance (as % of GDP) | | -1,4 | 3,0 | 2,4 |
| Balance of payments | | | | |
| Exports of goods and services (bn USD) | | 10,3 | 13,2 | 13,8 |
| Current account balance (% of GDP) | | -5,4 | 2,7 | 7,3 |
| Net inflow of foreign direct investment (m USD) | | 0 | 270 | 260 |
| Official foreign exchange reserves bn USD | | 2,1 | 4,2 | 8,0 |
| months' imports of goods and services | | 2,1 | 4,5 | 9,4 |
| External debt | | | | |
| Convertible currency external debt (bn USD, end of period) | | 32,5 | 33,5 | 30,0 |
| Convertible currency debt service (bn USD) | | 9,4 | 7,4 | 6,3 |
| principal | | 7,1 | 5,2 | 4,2 |
| interest | | 2,3 | 2,2 | 2,1 |
| External debt/GDP (%) | | 78,6 | 73,4 | 63,4 |
| External debt/exports of goods and services (%) | | 297,1 | 240,1 | 219,5 |
| Debt service/exports of goods and services (%) | | 42,5 | 29,2 | 29,8 |
| Arrears (on both interest and principal, m USD) | | none | none | none |
| Debt relief agreements and rescheduling (bn US\$) | | 4,9 | 3,5 | 2,2 |
| Indicators of EU exposure | | | | |
| EU exposure/total EU exposure (%) | (1) | 12,2 | 11,6 | 7,7 |
| EU exposure/external debt (%) | | 2,8 | 2,7 | 2,1 |
| EU exposure/exports of goods and services (%) | | 8,9 | 6,8 | 4,6 |
| IMF arrangements | | | | |
| Type (Date) On track | | SBA/EFF (5/94 - 5/95) yes | EFF/CCFF (5/95 - 5/98) yes | EFF (5/95-5/98) yes |
| Indicators of market's perception of creditworthiness | | | | |
| Moody's long-term foreign currency rating (end of per.) | | none | none | none |
| S&P long-term foreign currency rating (end of period) | | none | none | none |
| Euromoney | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 102 107 (187) (181) | 109 97 (178) (178) | 102 97 (179) (180) |
| The Institutional Investor | | 03/95 09/95 | 03/96 09/96 | 03/97 09/97 |
| Position in the ranking (number of countries) | (2) | 89 91 (135) (135) | 95 95 (135) (135) | 96 96 (135) (135) |
| Credit rating | (3) | 23,5 22,8 | 21,5 22,8 | 23,2 24,5 |

Footnotes

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

Explanatory notes for country-risk indicators

Standard footnotes

- (1) Includes only EC and EIB loans (outstanding disbursements) to CEEC, NIS and MED
- (2) The higher the ranking number, the lower the creditworthiness of the country.
- (3) Countries are rated on a scale of zero to 100; 100 represents the least chance of default. A given country may improve its rating and still fall in the ranking if the average global rating for all rated countries improves.

Abbreviations and English words used in tables

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

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